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## CITY OF CAMBRIDGE

Community Development Department

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To: Affordable Housing Trust  
From: Janet Haines, Housing Development Planner  
Cassie Arnaud, Senior Manager for Housing Development  
Date: March 28, 2024  
Re: Neville Place Funding Increase

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Neville Communities, Inc. (NCI) is requesting an increase of \$3,225,500 in Trust funding to the \$2,445,000 the Trust committed in May 2023 for renovation work at their 71-unit assisted living facility, Neville Place. This would bring total Trust funding for the project to \$5,670,500, or \$99,482 per affordable assisted living unit.

The City, Cambridge Health Alliance, and Cambridge Housing Authority and the Trust formed a partnership to create Neville Place, a 71-unit assisted living facility, and Neville Manor, a 112-bed skilled nursing facility under the parent entity Neville Communities, Inc. with funding from the Trust, the City and DHCD. A City affordability restriction requires fifty-seven (57) of the assisted living units be affordable to households earning up to 80% AMI. Additionally, the CHA provides 30 project-based vouchers to Neville Place to increase the affordability for these units. Representatives from the Cambridge Health Alliance, Cambridge Housing Authority, Cambridge Affordable Housing Trust, and City serve on NCI's board.

Last year, the Trust committed \$2,445,000 to Neville Place to assist with replacement of the roof and various capital projects identified in a five-year Capital Needs Assessment (CNA) prepared in 2021. The other work included replacement of mechanical systems, carpeting, window replacement and upgrades to 6 assisted living units. Approximately 65% of the work was to be undertaken immediately with the remainder to be addressed over 5 years. The approved plan allowed up to \$1,600,000 of the Trust commitment to be disbursed at loan closing, and that the balance of \$845,000 to be disbursed as needed upon meeting specified benchmarks. A condition of closing was to obtain a commitment to refinance the existing mortgage.

The Trust discussed a number of concerns at the time of approval, including potential intermingling of Neville Place's operating capital and reserves with Neville Center, the skilled nursing facility; affordability of the assisted living; ability for low-income Cambridge residents to secure housing at Neville Place; and, underutilization of the project-based vouchers. The commitment conditioned funding on addressing these concerns. A commitment letter was issued but was not executed by Neville.

The Trust funding approval was also subject to other conditions, including formation of a working group to review and update the tenant selection procedures, a commitment to working with relevant agencies on tenant referrals, and creation of a plan to increase utilization of the project-based voucher resources.

- Working Group & Resident Referrals: we have assembled an 11-person working group to review and improve the tenant selection and intake process. CDD staff will participate in and staff the working group. We hope that the working group will begin to meet this spring.
- Project-based voucher utilization: NCI will need to provide an acceptable written plan to reach full project-based voucher utilization. Since the funding was approved, NCI has been working with the CHA with some success. Eighteen of the thirty project-based units are being utilized by voucher-eligible tenants, and CHA has increased project-based rents following NCI's request. Recent financials indicate that the CHA approved rent increases have greatly improved the financial performance.

**Current Request:**

The current request is for \$5,670,500, an increase of \$3,225,500, to complete planned capital repairs over the next 5 years. The bulk of funding increase is attributed to a large increase in the estimated cost for the roof replacement work from the 2023 estimate of \$1,225,000 to a current bid of \$2,973,100. Inflation and expanded scope of work accounts for the balance of the increase in requested funds. Proposed work from the original request includes new windows, new flooring, unit upgrades, replace kitchen equipment, replace HVAC equipment, and repairs to railings, sidewalks, asphalt, etc. While many items show minor cost increases which are expected in the current market, there are a number of items with notable increases. These include:

- Roof work cost more than doubled;
- Window work costs tripled;
- Paving costs tripled;
- Remodeling/unit cost almost doubled;
- Brick repointing work increased from \$7,500 to be undertaken in year 5, to an allowance of \$15,000 per year for 4 years.

The updated CNA also expanded the scope of work, adding in an additional \$712,000 of work. The additional scope includes replacing kitchen equipment and mechanicals which will reach the end of its useful life over the next 5

years, kitchen flooring, and exterior and stairwell doors. These would be typical additions to a new CNA. The additional scope also includes remodeling an additional 9 units over 3 years at \$15,000 plus inflation per unit, for an additional \$200,000 and an allowance of \$230,000 for unit furniture. The expanded scope and pricing in the updated CNA was completed by the facilities and finance team at Senior Living Residences (SLR), the operator of Neville Place. SLR operates 18 independent assisted living facilities across Massachusetts, New Hampshire and Connecticut, and are experienced with capital planning and work in these communities. Staff are continuing to review the submitted materials, but recommend a new 5-10 year Capital Needs Assessment by a third party professional which identifies and prioritizes the capital needs as a planning tool for NCI.

**Conclusion:**

Neville Communities, Inc. still needs to refinance the current mortgages on both the assisted living and the skilled nursing facility, which now mature in May 2024. We understand that in order to commit to refinancing this loan, lenders will require evidence of funding to complete needed capital work on both properties. Neville is presently working to identify options to fund the needed capital work to the skilled nursing facility, Neville Center, while also requesting additional funds from the Trust for work at Neville Place, the assisted living facility.

**Recommendation:**

Given the pressing need to refinance out of their existing mortgages, CDD Staff recommend the Trust consider an approval of an “up to” funding amount in a way that allows the refinancing to move forward and for immediate capital needs be undertaken, while holding funding not immediately needed pending further work to identify, prioritize and approve needed capital work, and address resident selection and operational questions as noted above.

Neville Place’s ability to provide welcoming and comfortable assisted living at significantly less than market rates is an important community benefit. While a number of questions remain, it is clear that the property has been successfully serving low- and moderate-income households in need of assisted living and that efforts should be made to enable this important resource to remain available over the long-term.

In preparing this request and recommendation, we reviewed Neville’s request with Alyson Stein, Jim Stockard, and Bill Tibbs who agreed with our recommendation to bring this request to the Trust and recommend approval.

CDD staff recommends that the Trust review and approve Neville Communities Inc. request for up to \$5,670,500 in Trust permanent financing for Neville Place; subject to the funding conditions approved in 2023 listed below, and modified to include new conditions of the completion of a 5-year CNA, and the annual submission of operating and replacement reserve activity reports, financial and operating reports for Neville Place, and rent rolls and income certification.

This commitment should be made contingent on:

- Formation of working group to review and make recommendations for revisions to the Tenant Selection Plan as described above;
- Commitment to work with CHA, Cambridge Council on Aging and other community partners on resident referrals;
- Plan to reach full project-based voucher utilization acceptable to Staff;
- 20-year operating proforma acceptable to Staff;
- Long term capital needs schedule acceptable to Staff;
- Schedule and budget for immediate capital repairs acceptable to Staff;
- Staff approval of construction plans and specifications;
- Loan to be structured as a Reserve Loan, restricted to Neville Place, to be drawn in accordance with a loan distribution agreement which will allow \$3,350,000 to be disbursed after loan closing for immediate needs and the balance disbursed in accordance with the conditions described more fully below;
- Annual Capital Reserve contribution, restricted to Neville Place, acceptable to Staff, that provides for continued upkeep of property;
- First mortgage financing in an amount and on terms acceptable to Staff;
- Standard terms and conditions, including:
- 57 units are subject to the City's standard affordable housing restriction to be amended or replaced at loan closing;
- 57 units will be restricted to low- and moderate-income households earning at or below 80% of Area median income as defined in the affordable housing restriction;
- Loan term shall be 50 years;
- Loan shall be secured by a second mortgage that is subordinate only to private bank funding;
- Loan will have an interest rate of 3% compounding, or such other rate approved by Staff;
- The loan will be subject to a penalty rate of 8%, applicable upon a violation of the affordable housing restriction;
- All principle and accrued interest will be due and payable at the end of the term; however, the repayment date may be extended for an additional term upon approval by the Trust and extension of the affordability period; and,
- Loan shall be non-recourse.

Up to \$3,350,000, reflecting the estimated cost for immediate capital needs, may be disbursed in accordance with the loan agreement subject to the Trust's standard terms and conditions after loan closing. The balance of the loan commitment, \$2,410,500, will be disbursed in accordance with the loan agreement subject to the following conditions:

- Completion of 5-year CNA by a third party professional accepted by Staff;
- Affirmative Marketing and Tenant Selection Plan acceptable to Staff;
- Review and approval of proposed capital repairs by Staff;
- Review and approval of operating proforma by Staff;
- Compliance with Affordable Housing Restriction.

After Loan closing, the Borrower shall comply with the following requirements:

- Notify Lender's Rehabilitation Specialist of all construction meetings and copy on meeting minutes;
- Copy Lender on all change orders;
- Submit requests for disbursements in requisition form acceptable to Lender;
- Provide demographic information on the race and ethnicity of residents at requested point in time and of applicants on waitlists in a form acceptable to the Lender including a break-down by preference category;
- Provide annual report on all operating and reserve activity;
- Provide annual financial and operating statements for Neville Place; and,
- Provide rent rolls and income certification as requested by Lender.