

**City of Salem Massachusetts
Executive Session Meeting Minutes**

Board or Committee:	Redevelopment Authority, Executive Session Meeting
Date and Time:	Wednesday, August 12, 2020 at 6:00 PM
Meeting Location:	Zoom Virtual Meeting
SRA Members Present:	Chair Grace Napolitano, Cynthia Nina-Soto, Dean Rubin, Russ Vickers
SRA Members Absent:	David Guarino
Others Present:	Tom Daniel – Director of Planning and Community Development Kathryn Newhall-Smith – Principal Planner Matt Zahler – Development Consultant
Recorder:	Colleen Brewster

Chair Napolitano calls the meeting to order. Roll call was taken.

Executive Session

To discuss the development proposals submitted in response to the Request for Proposals for the redevelopment of real property located at 32-34 Federal Street and 252 Bridge Street, Salem, MA because an open meeting may have a detrimental effect on the negotiating position of the public body.

Rubin: Motion to begin executive session.

Seconded by: Nina Soto. Nina-Soto, Rubin, Vickers, Napolitano. Passes: 4-0.

Chair states that the Open Session will or will not reconvene at the conclusion of the Executive Session.

Executive Session began at 8:25PM.

Mr. Rubin stated that he found the final public comments regarding the proposed development fascinating and they did a nice job of countering the affordable housing component, some points he would have said himself. He remembered Mr. Vickers noting the sale of the Salem Jail wasn't profitable for the City but it was the right decision for the City at the time. Mr. Northcutt's presentation has him thinking about what will bring the greatest return to the City and maybe that's adding more affordable housing. Mr. Vickers added that the Courthouses on their own wouldn't entice development proposals, so the crescent lot was included, but neither developer gave a number worth considering. Mr. Zahler stated that the capitalization of public/private partnership are exactly what Northcutt described with a low land basis, a high contribution from the municipality, and a subsidy. After reviewing the proposals in depth, when it comes to cash flow or a good offer, none of the proposals get us there and only Winn provide a mixed income with more affordable housing which has its positives and negatives. There are challenges and they won't end up making money but perhaps they don't know how to. He also questioned why the Northshore CDC is no longer working with the North River Partnership.

Mr. Daniel suggested a review by the Board of questions to be answered by the development teams. The focus is the adaptive reuse of the Courthouses and the crescent lot was added to help facilitate that. This development opportunity affords them the opportunity to accomplish other City goals, such as affordable housing and the public realm. There is a strong value on access to the court buildings or at least the law

library and the conveyance of the crescent lot did have objectives including jobs, tax base, activity level, and housing. He agreed with Northcutt that, you can fully take on more than one public policy objective at time and, but they need to find the balance.

Mr. Daniel suggested that Winn Development and JHR should present an option that includes the Registry of Deeds like North River Partnership, despite their determining that it wasn't feasible. The SRA and DCAMM need to determine whether it's feasible, as well as whether DCAMM or the Commonwealth approved. Mr. Vickers agreed. Mr. Rubin reiterated that the SRA was asked to try to accommodate the Registry. It could be a chronological issue and they could need less space post pandemic. The remaining two teams should approach the Registry again. Mr. Vickers replied that there is no economic foundation or procurement process for that, and too many uncertainties. Asking the teams to re-approach the Registry tells them the SRA thinks it can be done but we don't have enough information to say that it's feasible. Mr. Zahler added that the letter from North Partnerships didn't seem possible because the public agency needs to agree to it. Chair Napolitano agreed and added that a letter from Mr. O'Brien doesn't mean that the Commonwealth, DCAMM, and Secretary of State have signed off on it or that the funding exists. Ms. Nina-Soto agreed with Mr. Rubin, that it needs to be determined whether the Registry will fit in the building as well as how the sale of Shetland Park will affect the Registry. Their circumstances could be different after the pandemic and now many Registry transactions are done remotely, however, if Register O'Brien wants to be back inside the building the SRA should determine if its feasible post-pandemic. Mr. Vickers noted that the Registry's required square footage was reduced. Mr. Daniel stated that they shouldn't ask the Registry to revise their space requirements. Mr. Zahler noted that the Secretary will provide millions of dollars to this project through credits he will allocate and questioned what the other two teams are underwriting for credits. Getting answers to all the questions will allow for a comprehensive response.

Review of Questions:

Question No. 2: Mr. Zahler stated that the AMI's could be increased or decreased, as Winn's proposal does with a 9% transaction. It may be challenging for North River Partnerships and JHR to do the same without a comprehensive subsidy. Mr. Vickers replied that the question was to prove that they can and only Winn can.

Question No. 6: Mr. Zahler noted that the questions revolving around accessibility need to be met or the development team must seek a waiver unless language in the MOU would allow for a change. The Board agreed to eliminate the question.

Question No. 7: Mr. Rubin suggested eliminating the question on vehicular traffic, since they must make it accessible for vehicular traffic standards. and some have already provided that answer. Mr. Zahler added that an in-depth traffic study will be required of any project going through this process, but it's good to know that some are already thinking about it. The Board agreed that the question should remain.

Question No. 8-2: Mr. Zahler stated that it's too early to ask this question when they are years away from ordering construction material. Mr. Vickers added that Covid-19 could be a blip on the construction timeline and it's not possible to know what the materials costs would that far out. Ms. Nina-Soto noted that although Covid-19 may no longer be around, the real estate market is already seeing cost increases for materials which could affect their budget. They are estimating now but they should take into account the potential change since they created their initial budget, and the prices may not come back down. The Board agreed that the question should remain.

Question No. 2 – I (Page 2): Mr. Zahler stated that the question about historic tax credits doesn't make sense. Chair Napolitano noted that in a building repurposing meeting with DCAMM there was a concern with whether a certain percentage of the building is being used for a public purpose it limits what can be received in historic tax credits. Mr. Daniel replied yes, there is a limit on the square footage for a government use, and the developer would need to go through a complicated "non-qualified" process as well as other challenges. Chair Napolitano replied that proposing Salem State as the primary tenant and the use of historic tax credit inhibits their process.

Question No. 20-I: Mr. Vickers asked about North River Partnership's question on the crescent lot, to expand why they felt a high-rise building was their preferred choice, because he didn't think it was possible. Mr. Rubin replied that the tower was Option A, but they anticipated the selection of Option B. The Board agreed that the question should remain.

Question No. 8 (VIII & IX) (Page 3): Mr. Zahler stated that the lenders will have to bridge the historic tax credit and there will be a cost associated with it, so the question doesn't need to be asked. Mr. Daniel agreed and noted that Winn was explicit that there would be bridge financing but the other two weren't. Mr. Zahler replied that they all will have to, but it doesn't come in until the end and there are multiple rounds if they are seeking other state funding. The federal funding will come up front. The question should be refined to ensure the teams are understanding of the program, how to get the funding allocated, and what that means for their funding. He offered to draft a supplemental question.

Question No 8-IX: Mr. Daniel stated that the tax credit allocation is at \$3.1M and the crescent lot is capped at \$2M but it is being looked at as one project and DHCD may look at it differently. Mr. Zahler replied that they want developers to come with their maximum allowed according to the regulation and they will work with them if they need additional credits if a viable case can be made. The DHCD will think of this as one project not three.

Question No. 3 – II (Page 5): Mr. Zahler noted that Winn will be asked about providing more unit affordability at various AMI levels, but that is already in their pro forma in a comprehensive breakdown. He found one discrepancy. Mr. Daniel suggested eliminating the question.

Question No. 2 – II (Page 5): Mr. Vickers stated that Winn's proposal specifies that their minor partner owns the commercial space interior and Winn owns the residential spaces and all the exterior. Mr. Daniel suggested eliminating the question. Mr. Zahler added it will be hard from a condominium standpoint to divide the building.

Question No. 4-i-v (Page 4): Chair Napolitano suggested asking both developers proposing the MOJ, the same feasibility questions. The Board agreed. Mr. Daniel added that in addition to the MOJ, North River Partnerships also has the Discovery Center and Civic Engagement Center, which may not currently exist as entities.

Question No. 8 (Page 6): Mr. Rubin suggested eliminating the question about the Registry of Deeds. The Board agreed to eliminate the question.

Question No. 9-i (Page 6): Mr. Rubin suggested eliminating the question about public art since it's so early in the process. The Board agreed to eliminate the question.

Question No. 6 – III: Mr. Zahler asked if it would be required under Chapter 91. Mr. Daniel replied that the property doesn't touch the North River and it can't be accessed for the kayak launch that JHR suggested.

Question No. 10 – I: Mr. Zahler noted that laundry, fees, pets, etc. isn't a bad question but they could request that it be broken out.

Mr. Zahler asked if it's confirmed that the North Shore CDC is no longer partnering with the North River Partnership. Ms. Newhall-Smith replied that Mr. Northcutt informed her that he would attend the next SRA meeting and encourage additional affordable housing; Mr. Northcutt told her that Diamond Sinacori wasn't willing to include more affordability so he ended his partnerships with the development team.

Conclusion

Mr. Daniel stated that the questions will be sent out by Ms. Newhall-Smith on Friday giving the teams a month to respond. This will be their opportunity to let the Board know if things have changed for them since they submitted their proposal. They will request that responses be submitted on September 11, 2020, 4 days before the first interview date of Tuesday, September 15, 2020.

The Board agreed the interview should be the developer's opportunity to present their proposals. Mr. Daniel noted that written responses will have been received by then, so if the Board has additional questions this will be the opportunity to receive clarification and ask new questions. Mr. Zahler suggested 30-minute presentation and 45-minutes for questions. Mr. Daniel noted that there will be a public comment component and HSI is interested in this project and may submit something in advance, as well as the Federal Street Neighborhood Association. The preservation restriction protects the historic structures so the comments may be mostly about the new construction at the crescent lot. The Board agreed to allot each development team 1-hour 90-minutes then a 15-minute break between interviews.

Mr. Zahler stated that he's also consulting for the City of Brockton on their development RFP. They wanted his opinion on some of the sites, so he brought in a third-party cost estimator. When looking at the two market-rate housing and the operating income that is still subsidized with tax credits, even with a very low cap rate the evaluation isn't close to the construction costs. Winn's proposal was typical, but they'd still need to get the CPA funding and there is some room for negotiation. As it relates to the market rate numbers the evaluation was off and the operating costs were extremely thin but that's the long-term sustainability of the asset. If they sell it after 5-years and after the historic tax credits has vested, but it didn't look that way for JHR and North River Partnership proposals. Winn was operating at a much higher per unit number and their financial analysis stated that this project must be looked at through a different lens because there is no long-term return with affordable housing. The investment drives the development opportunity.

Mr. Zahler stated that he reviewed the financials of each development team. Winn may have minimal damage from Covid-19, but it certainly won't torpedo their company. North River Partnership and JHR have three or four other development projects operating on thin margins so there are liquidity issues for both. If they make it through a two-five year permitting process, will they still be financially solvent? By eliminating Trinity and Lupoli, you eliminated the entities that could weather a storm financially, and local development teams with a good track record were left, but that generates concerns over whether the project could be constructed. Mr. Vickers asked for the price of a percentage bond and suggested one be added as a requirement. Mr. Zahler replied a percentage of construction costs and is required by the state.

Mr. Daniel suggested a briefing with Mr. Zahler prior to the first interview and after the developer responses have been received. Mr. Zahler suggested two weeks for developer responses to leave sufficient time for him to generate an analysis for the SRA to review prior to the interviews. The Board agreed to hold an executive session meeting after the September 9, 2020 regular meeting.

Mr. Daniel suggested Mr. Zahler also attend the next Affordable Housing Trust meeting on September 1, 2020. The Board agreed. Mr. Zahler noted that his presence will show the AHT that the SRA is thinking about all the options for this development project as will Mr. Daniel explaining how lengthy this process has been for the SRA. Mr. Daniel added that the AHT will be sending a letter to the SRA to understand where this project is in the SRA's process and the opportunities to maximize affordable housing. Mr. Northcutt was partnering with a development team, so he has more knowledge than others on the AHT. Mr. Vickers suggested the SRA set the agenda and present the SRA to them, rather than reviewing the details of the proposal. Mr. Zahler replied that the AHT's tool is to provide a resource to supplement and to create more affordable housing units. Ms. Nina-Soto clarified that the Trust is looking to share their ideas and concerns regarding affordability. Mr. Rubin stated that if their recommendation was for the SRA to start over, we won't do that and the SRA shouldn't be put in the position of having to defend itself. Mr. Zahler suggested hearing their suggestions and showing the SRA's willingness to work with different agencies within the City. Ms. Nina-Soto stated that not going could hinder the SRA's relationship with the AHT and possibly the City Council, but they should be listened to in the same manner the SRA listens to public comment. Delaying a meeting with the AHT until after the interviews means more time is invested asking questions that could have been easily answered by the AHT. The Board agreed to meet with the AHT, and Mr. Daniel will determine if the AHT has specific questions for the SRA. Mr. Daniel stated that many aspects of the proposals are negotiable, including affordable housing. Mr. Zahler noted that there are risks to tax credit deals and the resources could take 3-years to obtain, that risk should be considered, and Winn has been doing these projects for a long time across the country.

Nina-Soto: Motion to end executive session.

Seconded by: Rubin. Nina-Soto, Rubin, Vickers, Napolitano. Passes: 4-0.

Adjournment

Rubin: Motion to adjourn the meeting.

Seconded by: Vickers. Rubin, Nina-Soto, Vickers, Napolitano. Passes 4-0.

Meeting is adjourned at 9:45PM