

Annual Town Meeting - May 8, 2023
Article 56 - Authorize to Convey Governor Prence Properties for Housing

Finance Committee Vote 6-1-1

On Behalf of the Finance Committee “nay” Vote: Ed Mahoney

I am Ed Mahoney, a member of the Finance Committee. As a committee member I am obligated to analyze the financial implications of town activities and report my findings to you, the taxpayers of Orleans.

As you have heard, the approval of this article is the required first step to seek Requests for Proposal from developers.

My analysis uncovered several financial implications that you should be aware of when making your voting decision. These financial implications are unquantified, yet to be determined, without any limits, or subject to any constraints, and become significant very quickly.

The article empowers the Select Board and Orleans Affordable Housing Trust (I will refer to them as The Town) to convey the Governor Prence Property to the successful developer. This transfer of ownership will most likely return little to no financial benefit to the town. The town has already invested over \$3.0 million of your property tax payments to purchase, maintain, secure, insure and conduct feasibility studies and surveys. Additionally, the town will spend at least \$1.0 million, directly or indirectly, to raze the buildings and clean up the asbestos and other contaminants in the site. Thus the town will give the developer the property that cost you approximately \$4.0 million and get little to no financial benefit in return.

And what might the future hold?? In September 2022, the Governor Prence Planning Committee issued a formal report with recommendations entitled The Town of Orleans Governor Prence Inn Redevelopment Plan.

According to The Report the estimated total cost as of June 2022 to build approximately 70 affordable housing units on the Governor Prence site was \$31.5 million. The Committee estimates the total sources to fund construction, that is mortgage, grants and other items to be \$18.5 million, leaving a \$13.0 million unfunded gap.

The Report mentions the use of the Low Income Housing Tax Credits to close some of the gap. I reviewed the Tax Credit funding source. It would require the developer to have extraordinary access to affordable housing investors with significant federal income tax liabilities and administrative skill to execute and manage the transaction over time.

So we have a construction project that will cost \$31.5 million, funding sources of \$18.5 million and an unfunded exposure of \$13.0 million.

The Report also makes this statement, and I quote:

- “The level of Town subsidy for the development has yet to be determined, but would be commensurate with achievement of overall Town objectives.” (Recommendations 1, page ii)

As you can see, the town will subsidize the project if it meets the town’s objectives. How much of the \$13.0 million gap will the town subsidize with your property tax dollars.?

When the chosen developer submits its plan for the site, the developer will, in all likelihood, require the town to subsidize a portion of the construction costs and fill the unfunded gap. This subsidy is unquantified, without limit or explicit constraints and can be significant.

This article has substantial financial implications that I think you should be aware of. To summarize, the Select Board and Orleans Affordable Housing Trust have invested approximately \$3.0 million to acquire, maintain, secure, insure and study the feasibility of the Governor Pence Property. The town will invest at least another \$1.0 million to raze the buildings and clean the asbestos and contaminants from the site. The conveyance will likely return little to nothing of financial significance to us in return. The developer will require the town to subsidize a portion of the construction costs and fill the unfunded \$13.0 million gap. This subsidy is unquantified, without limit or explicit constraints and can quickly become significant.

Please consider this article holistically. It has a noble objective, but there are financial implications you must weigh as well.

Thank you for your time and attention. I sincerely appreciate each.

“Since the average construction cost for housing unit on the Cape today (June 13, 2022) is about \$350,000, the cost to build a 70 unit (rounded) development would be \$31.5 million. While market rents Orleans run high in relation to renter household incomes, they are not high enough to support a mortgage. Creating a 77-unit rental development on the Governor Pence property would almost certainly require federal Low-Income Housing Tax Credits, because funding from all other available sources, including a first mortgage the rents can support, would still leave a gap of about \$13 million.” (June 13, 2022 page 7)

- “The level of Town subsidy for the development has yet to be determined, but would be commensurate with achievement of overall Town objectives.” (Recommendations 1, page ii)