

REMARKS For April 22, 2015 Housing Committee Meeting

Sullivan Chamber, Cambridge City Hall

5:30 pm – 7:30 pm

Good evening. Tonight, the Housing Committee is meeting to continue the public hearing and the discussion around the incentive zoning study that the City recently completed. The first meeting about this topic was held on March 19, we had a very robust and informative discussion at that time, and I am expecting a continuation of that this evening.

At our meeting in March, the Community Development Department provided an excellent overview of the Nexus Study and the choices that now lay before us. Tonight, the CDD will be working to answer some of the questions that were raised at that March meeting, and we will work to answer other questions that may arise during tonight's discussion.

To begin, I will ask the Community Development Department to quickly review the material we discussed last time, and to present any new information to us. Following that, I will invite my colleagues to ask any questions they may have, and then we shall have public comment. As always, I will ask everyone to be respectful of each other and each other's time. And with that, I will open the floor to the Community Development Department.

Attachment B

Agenda For April 22, 2015 Housing Committee Meeting

Sullivan Chamber, Cambridge City Hall

5:30 pm – 7:30 pm

The Housing Committee will conduct a public hearing to provide an update and continue discussion on the incentive zoning study from the Community Development Department. Please note that there will be a follow-up Housing Committee Meeting on this subject on April 22, 5:30 pm in the Sullivan Chamber.

- I. Opening Remarks from Councilor Simmons**
- II. Remarks From Community Development Department**
- III. Remarks from Housing Committee Members**
- IV. Public Comments**
- V. Councilor Simmons Closing Remarks**
- VI. Meeting Concludes**

UPCOMING SCHEDULED HOUSING-RELATED MEETINGS:

May 11, 5:30 pm: Affordable Housing Roundtable in the Sullivan Chamber

Attachment C

Nexus Study for the Incentive Zoning Ordinance: FAQ

1. What is Incentive Zoning? What is the difference between Incentive Zoning and Inclusionary Zoning?

The Cambridge Incentive Zoning Ordinance was adopted in 1988. It applies to certain non-residential developments and establishes a per square foot rate that is paid to the City to mitigate the impact of new developments on affordable housing. The Inclusionary Zoning Ordinance, adopted in 1998, applies to residential development and establishes a set-aside of units within a residential development that must be affordable to low and moderate income households.

2. What is the Nexus Study?

The Nexus Study for the Incentive Zoning Ordinance, completed by a consultant team led by Karl F. Seidman, recommends updates to the existing incentive requirements. It analyzed and quantified the impact of non-residential development on the demand for affordable low, moderate, and middle-income housing. A housing contribution rate to offset these impacts was recommended. The study also recommended additional updates to the Ordinance.

3. What are the recommendations?

The Nexus Study has recommended an increase in the contribution rate from the current \$4.58 to \$10-\$12 per square foot; expansion of the uses that would be subject to the ordinance; removal of the special permit trigger which currently limits the applicability of the incentive requirements to projects needing certain special permits; elimination of the 2,500 square foot exemption; continuation of the 30,000 square feet building size threshold; maintenance of a uniform housing rate for all uses; and continuation of adjustments to the contribution rate by the Consumer Price Index.

4. How do Cambridge's incentive zoning requirements compare to programs nationally?

Most national programs that require housing contributions from commercial development have the same basic structure of assessing a fee on certain types of commercial developments. Variations may occur in the types of projects the fee applies to – all commercial development, developments over a certain size threshold, only to projects seeking permits for additional density, or projects with certain uses. Most programs allow fees to be regularly adjusted by the Consumer Price Index or a construction cost index. However, these adjustments are not always

made due to local market conditions. Major revisions are undertaken less frequently. Local programs include Boston, Somerville, and Barnstable County.

- 5. Can a jobs linkage fee be required as part of this incentive zoning proposal?** *The nexus study by Karl Seidman examined only the housing needs created by new non-residential development. To consider a jobs linkage fee, another nexus study would need to be undertaken to examine the impact of new non-residential development on employment needs.*

- 6. Can a living wage requirement be adopted for tenants and owners of buildings subject to the incentive zoning ordinance?**

A living wage requirement was not considered in connection with this nexus study. Adoption of such a requirement would require a separate legal analysis and additional study and review.

- 7. Why is the threshold 30,000 square feet? Why not higher or lower?**

Since the inception of the Ordinance, the threshold has been 30,000 square feet. Other standards were considered, such as mirroring the threshold for developments that trigger Project Review Special Permits. However, raising the threshold could exclude large developments from the requirement despite their impact on housing needs. Lowering the threshold could be problematic for substantially smaller developments and would be inconsistent with requirements in nearby communities. It is recommended that the 30,000 square foot threshold remain. It should be noted that the ordinance currently exempts the first 2500 square feet from incentive zoning rates. The study recommends that this exemption be eliminated.

- 8. Will educational and social service non-profits be covered by the ordinance? Can there be an option to exempt certain community-based non-profits?**

The study recommends that incentive zoning be expanded to apply to a number of additional uses, including education and health care. While the ordinance specifies the uses that are subject to the incentive zoning requirements, it cannot exempt specific organizations or types of organizations, such as community-based non-profits. Decisions about exempting certain uses would need to apply to both non-profit and private owners of new non-residential developments; non-profit owners could not be treated differently in the zoning ordinance. It is also worth noting that incentive zoning requirements are triggered for projects of 30,000 square feet or larger. It is unusual for a small, community-based non-profit to undertake a development of this size, and it may be difficult to justify why a particular use should be exempt since such development would impact demand for affordable housing.

9. How often and by what standard should the rate be increased? Should there be automatic adjustments?

Currently, the Affordable Housing Trust can increase the fee annually by the Consumer Price Index (CPI). The study recommends that annual adjustments based on CPI continue. Continuing CPI adjustments by the Affordable Housing Trust will allow for an efficient and predictable means to maintain a system of regular adjustments. In addition, the Affordable Housing Trust has recommended an increase in the base rate of \$1.00 per year for the first three years if the incentive rate is set within the recommended range of \$10 to \$12 per square foot.

10. How often should the ordinance be evaluated?

It is advisable that a review of the ordinance and determination of whether a new study is appropriate take place every three to five years. The Affordable Housing Trust has suggested that the Trust conduct an annual review of the incentive requirements and advise the City Council when they believe a new study is warranted based on the program activity, economic trends, and housing needs.

11. Should the fee be uniform for all uses? Should the fee be uniform throughout Cambridge?

The study recommends that Cambridge adopt a single fee for all uses. While the study considered varying the fee according to different uses, and there is precedent for this in some other communities, it can be complicated and difficult to avoid unintended consequences when uses are treated differently. For instance, a mixed-use building may have a combination of uses interspersed throughout the building, which could change over time.

We recommend a single rate for all of Cambridge. Varying fee requirements in different parts of the city may have unintended consequences on location decisions and discourage development in areas where it is most appropriate or desired. Further, the demand for low-, moderate-, and middle-income housing in Cambridge is similarly impacted by new development, regardless of where it is located in the city.

12. What is the relationship between the incentive fee and the impacts of other public benefit requirements and fees? What are the combined impacts?

The incentive zoning fee is one of several requirements and public benefit expectations, which are often placed on new developments. The combined impact of the incentive contribution with other public benefit requirements is difficult to quantify, since the obligations for each project

can vary greatly and depend on required or negotiated mitigation, public realm improvements and other fees. The combined impact on development feasibility can be significant. The nexus study recommends that the incentive contributions be mandatory and apply more broadly to large non-residential development. If the incentive contribution rate is set too high, it may impact a developer's ability to provide other public benefits and public realm improvements.

13. Does the expansion of uses subject to incentive zoning offset the need for a higher rate?

Both changes will have a big impact. The recommended increase of the rate to \$10-\$12 would almost triple the amount of housing contributions received from developments with uses currently subject to incentive. The proposed expansion of uses is projected to significantly increase the amount of incentive fees collected and would be the most significant change that could be made to the requirements. For instance, between 2004 and 2013, the incentive zoning requirements only applied to roughly 27% of non-residential development. Based on the study's projections, the amount of housing contributions collected could quadruple due to the expansion of uses and applicability to all large non-residential developments regardless of permit needs.

14. If the rate is raised to \$10-\$12, how will housing needs be met, since the study discusses \$24?

Funds generated by the incentive zoning payments are a key source, but are not the only resource for affordable housing development. Other City funds including Community Preservation Act funds and federal grants, such as HOME and CDBG, are used to finance housing development. These funds are used to leverage commitments from other public and private funders to make developments possible. In addition, the inclusionary housing program also requires the creation of new affordable units.

15. The incentive study addresses contributions for new demand on housing from new commercial development. What is being done to address current demand?

Cambridge has a strong network of affordable housing programs and providers. The City, through CDD, addresses current demand for affordable housing through its existing housing programs including the creation of new affordable rental and homeownership housing through development and inclusionary programs, preservation of existing affordable housing, and offering affordable homes and financial assistance to homebuyers. These commitments and programs are in place and address current demand for housing. The new resources generated from the expanded incentive requirements will supplement these strategies and will assist in meeting new demand from new non-residential development.

16. What have been the CPA funding allocations to the Affordable Housing Trust?

Since adoption of CPA in 2001, \$115,000,000 has been allocated to the Affordable Housing Trust, including \$10,000,000 in FY2015.

17. How will an increase in the rate impact development decisions? What will be the impact on retail and restaurants?

Development decisions are based on a variety of factors which vary among individual developers and projects. Cambridge is a desirable location for commercial development given its many amenities and its proximity to MIT, Harvard, and prestigious life sciences and IT companies. However, location is only one of the factors in development decisions. In order to maintain Cambridge's competitive edge in the region, the study's recommendations for changes to the incentive requirements were made in the context of both what is seen regionally, as well as what other requirements are also in place in Cambridge.

As pointed out in the Nexus Study, rents in Cambridge are already above suburban locations, especially in East Cambridge where rents are 70% to 80% above suburban alternatives. An incentive fee of \$24.30 would be a \$19.72 increase over the current rate – a 530%+ increase. It is estimated that if that increase is passed on to tenants, rents would be raised by \$2.29 per square foot, based on a 10-year lease. This increase might be able to be absorbed by large, national companies such as Google and Microsoft. However, rising rents would likely have the most impact on smaller businesses – start-ups, small and emerging companies, restaurants, and retail stores. We have seen how higher rents have pushed out independent businesses in some retail districts. Start-ups and small early stage companies are an essential part of Cambridge's innovation economy. These companies, along with retail and restaurants are part of the character of Cambridge and are integral and critical to the continued desirability and strength of Cambridge.

18. What is the relationship between the incentive fee and development costs?

It is difficult to answer this question precisely. Development costs vary greatly among projects based on many factors, including land costs, construction type, financing costs, building use type, and parking costs. A recent study estimated commercial development costs range from \$329 to \$395 per-square foot; however costs may vary even more broadly among developments that would be subject to the recommended incentive requirements.

19. Did the study consider student housing needs?

The purpose of the study was to evaluate the impact of new commercial development on the need for new affordable housing. It did so by projecting the number of new employees, not students, who would likely demand affordable housing in Cambridge. However, the study recommends that institutional uses be subject to incentive zoning and that non-residential developments built by universities be subject to incentive contribution requirements. Student housing is an important topic but is outside the scope of this study.

Attachment D

RECOMMENDATIONS FOR TONIGHT - I move that we send to the full City Council a recommendation that the City should:

- **Remove the special permit trigger and apply housing contributions to all projects over 30,000 square feet with defined uses**
- **Expand the project definition to add seven uses (Hotel/motel, radio/TV studios, institutional health, education and social services, light industry/wholesale and heavy industry**
- **Set rate at \$12 per square foot, with an increase of \$1 per year over the next three years**
- **We should mandate that the City conduct a new nexus study every three - five years**
- **We should continue the single rate across uses and CPI increases**
- **We should eliminate the 2,500 square foot exemption**
- **We should ask the City to conduct a nexus study regarding tying the living wage ordinance to housing**



Attachment E

Phone 617-253-1988
Fax 617-258-6096
<http://web.mit.edu/govt-relations/www/>

April 22, 2015

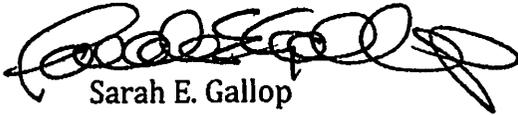
Dear Housing Committee Chair Denise Simmons and Members of the Housing Committee,

On behalf of MIT, I want to thank you for this opportunity to share some additional observations regarding the proposed changes to the City's Incentive Zoning regulations.

- As we have said previously, we support the purpose and objectives of the Incentive Zoning Ordinance and believe that it has served as a vital mechanism in promoting the creation of affordable housing in our community.
- And we agree that re-evaluating the contribution rate to the Affordable Housing Trust is appropriate, since no changes have been made to the Ordinance since 1988.
- The question, then, is about defining the appropriate increase for the unique considerations of our City. We are fortunate that Cambridge really has it all — diverse neighborhoods, a strong municipal framework, a full-cycle innovation economy, and a cutting-edge reputation that continues to attract new companies, employees, and funding. Every decision that we make as a community can impact a part of the whole that makes this City so special, and so successful.
- We have a responsibility to understand the implications of our actions as we try to advance progressive policies — whether they address sustainability, development, zoning, taxation, affordable housing, or other topics. Cambridge is an ecosystem. All the components that make up our vibrant community are linked together, and we need to be mindful of the health of each one as we work to maintain our enviable place in the world.
- In that context, I hope that we can take the time needed to analyze the complex dynamics and factors that must be taken into account as we consider this increase. How do we make sure that we're on the right trajectory to ensure that the affordable housing inventory is sufficient? How do we protect and strengthen the City's vital innovation economy? How do we measure the cumulative impact of policy initiatives on the decision-making processes of potential companies, and therefore on the City's finances? How do we guard against an uneven playing field in the region? What are the practical consequences of including institutional and other uses? What is the impact of decreasing the square footage threshold?

- There are many questions and considerations that should be taken into account, and a variety of approaches to determine the appropriate increase for our City. For example, if you apply the consumer price index to the fee since 1988, today's amount would be \$6.51.
- I wonder if we shouldn't take the time to delve into these questions. Perhaps we could put together an advisory committee of some sort that includes expertise in key areas such as affordable housing, academic planning, urban planning, economics, commercial development, municipal finance, brokerage, innovation, venture capital, or global competitiveness? We could ask the group to examine this topic and all the factors that are unique to the Cambridge ecosystem.
- Here in Cambridge, we're solving some of the world's most intractable problems. We're not just thinking about it — we're doing it. And the reason we can do it is because of the intense nature of collaboration that takes place among the wide breadth of industry that chooses to locate here. And it's because we can move basic research out to the market more quickly than any other innovation hub. And it's because of the active participation of our well-informed and passionate citizenry that pushes us to find solutions on every front. I know we don't want to put obstacles in the path of our collective future.
- Careful analysis is the hallmark of Cambridge public process. It seems to me that our next step should be in that direction.

Thank you,

A handwritten signature in black ink, appearing to read 'Sarah E. Gallop', with a stylized flourish at the end.

Sarah E. Gallop
Co-Director

Lopez, Donna

From: Sarah Kennedy <skennedy@cambridgechamber.org>
Sent: Wednesday, April 22, 2015 4:19 PM
To: Simmons, Denise
Cc: Lopez, Donna; City Council
Subject: Chamber letter to Housing Committee

April 22, 2015

Dear Chairwoman Simmons and members of the Housing Committee,

The Chamber of Commerce would like to express its support for re-evaluating the linkage fee. We acknowledge that it has been quite a few years since the linkage fee has been analyzed for adjustment.

This is an important tool that the City uses to run and expand its array of social service programs, so we support the continued holistic approach to economic development and planning in the city.

Our remaining question about the potential impacts of raising the linkage fee is - do we understand how this may alter housing creation, as well as market rental prices for both commercial and residential units?

Cambridge is poised to continue its growth, with additional units of housing being built, new companies relocating to Cambridge, and existing companies expanding. Both property owners and renters would be greatly impacted, so we expect that the City Council fully understand those complex projections before moving forward.

The Chamber looks forward to being a part of the dialog as this important conversation continues

Sincerely,
Sarah Kennedy
Director of Government Affairs
Cambridge Chamber of Commerce
skennedy@cambridgechamber.org / 617.876.4213

Crane, Paula

From: Alpert, Neal
Sent: Wednesday, April 22, 2015 4:51 PM
To: Crane, Paula
Subject: FW: Incentive Zoning - City Council Committee on Housing

Here's another communication for tonight's Housing Committee meeting, this time from Harvard.

-Neal

Neal Alpert
Office of City Councilor E. Denise Simmons
Cambridge City Hall
795 Massachusetts Avenue
Cambridge, MA, 02139
Tel: 617.349.4277
Fax: 617.349.4287
nalpert@cambridgema.gov

From: Lucey, Thomas J [mailto:thomas_lucey@harvard.edu]
Sent: Wednesday, April 22, 2015 4:50 PM
To: Simmons, Denise
Cc: Alpert, Neal
Subject: Incentive Zoning - City Council Committee on Housing

April 22, 2015

The Honorable Denise E. Simmons
Chair
City Council Committee on Housing

Dear Councilor Simmons,

I regret that I am unable to attend the City Committee on Housing meeting this evening regarding proposed changes to the City of Cambridge's Incentive Zoning provisions.

Harvard University shares the City's commitment to affordable housing and has worked diligently with the City Council and Administration to create and preserve affordable housing units in Cambridge. In recent history, Harvard has successfully worked with the City to create and preserve approximately 725 units of affordable housing through a variety of programs and efforts including a \$20 million revolving loan program (20/20/2000), developing the former Cambridge Electric "Switch House" into 33-home owner units including middle income units, and preserving 25 units at Chapman Arms in Harvard Square.

A look around Cambridge illustrates the many ways that students, faculty, researchers, and funders from around the world intersect to fuel the regional life sciences economy - transforming early stage ideas into groundbreaking companies discovering cures and driving innovation. We are dedicated to playing an important role in the development and growth of this rich, dynamic network.

In terms of potential changes to the Incentive Zoning Ordinance, it is our belief that more study and review is necessary. We have many questions regarding how action on this issue will impact the Cambridge ecosystem:

- How will policy changes in the Incentive Zoning Ordinance impact the entrepreneurial economy? Many of these organizations do not have products in the market and rely on venture capital and federal research grants as their sole source of income.
- Contribution rate increases will result in higher rents. How will these factors influence the choice of location for individual companies given the regional and global competition to host innovation –driven organizations?
- Should academic classroom and research space be subject to the provisions of the ordinance? These spaces advance medical research, develop new technologies, and create community and worldwide benefit from work that is not commercial in nature.

We believe that there are many more questions on this topic. Cambridge has the capacity to gather both academic and industry experts to study this issue in a timely fashion and produce recommendations that will result in additional affordable housing while maintaining a robust, and much envied, local economy.

Thank you for allowing us to participate in this important public dialogue. As always, we remain committed to working with Cambridge City Government and look forward to more discussions on this important topic.

Sincerely,

Thomas J. Lucey

Director of Government & Community Relations
Harvard University
1350 Massachusetts Avenue, Suite 1021
Cambridge, MA 02138
(617) 495-4955



April 22, 2015

Good evening Chairwoman Simmons, members of the City Council, and City Manager Rossi,

My name is Alexandra Lee, executive director of the Kendall Square Association.

Thank you for facilitating this important conversation for the City of Cambridge.

Cambridge's ability to provide housing inventory of all types and for all sectors of the population, particularly for low and middle income families is a key element in the urban fabric that makes Cambridge such a special place. The City's richness stems from this diversity and your willingness to protect it is valued by residents and businesses alike.

Thank you for your leadership in undertaking this report and for taking the necessary time to evaluate its findings. A balanced, perspicacious approach is the legacy that you will leave as you analyze and refine the recommendations of this report. It must be evaluated in context of the multiple efforts now impacting development in Cambridge – including open space and the generation of a significant tax base that is highly valued by residents.

Many members of the KSA have perspectives on this NEXUS study and I believe will be submitting written comments. However, on behalf of the Kendall Square Association, I want to underscore the importance of advancing some of the elements of this report only after much more careful study. This issue is a very complex and multi-faceted one and must be given due consideration in conjunction with other initiatives that are currently being considered within the City as these issues impact economic development.

It would be a missed opportunity to not allow the time required to study these recommendations and analyze the consequences and perhaps unintended consequences of an increase that exceeds by two fold the existing rate. The proposed 30,000 square foot threshold and the broadening of use categories need to be carefully considered specifically in comparison to neighboring cities where development is welcome. Losing the competitive advantage for investment in Cambridge would be a mistake.

The Kendall Square Association is pleased to participate in this important civic dialogue, and it is our hope that you will not advance this to an ordinance without further evaluation.

Thank you.

Attachment I

FROM: Kelly Thompson Clark, 617-876-4217
Cambridge Chamber of Commerce

Chairperson Simmons, Vice Mayor Benzan and Members of the Housing Committee:

I am speaking tonight on behalf of the more than 1,500 members of the Cambridge Chamber of Commerce (CCC), the largest business organization in Cambridge. As an organization we support efforts to improve the community for both residents and the over 5000 business organizations and institutions that operate in Cambridge.

In regard to the Incentive Zoning Ordinance, we acknowledge that it's been over 25 years since the 'linkage fee' has been analyzed for adjustment and think re-evaluating the contribution rate to the Affordable Housing Fund is appropriate.

However, the proposed rate changes would more than double the current rate of \$4.58 per square foot to \$12. This has us very concerned because the impact of these proposed fee increases goes beyond our development activity and raises some questions we all should think about:

- 1) Have the short and long range financial impacts been studied?
- 2) Do we have a sense of how this increase could alter housing creation and the market rental prices for both commercial and residential units?
- 3) What is the potential effect on restaurants, store fronts & retailers? Will it increase their costs enough to necessitate price increases across the board? We all know that when prices go up, somehow, it's passed onto the consumer.

We are incredibly fortunate, Cambridge continues to experience growth that other communities only wish they were experiencing. We see additional housing being built, new companies relocating to Cambridge, and existing companies expanding. Each of those constituencies - both owners and renters - would be impacted greatly by this immense increase.

Finally, I really want to impress upon the committee that we need to stay competitive in order to remain a leading community that engages its emerging and evolving entrepreneurs, businesses and institutions. Our abutting communities and other areas will really start to look attractive if we continue down this road without solid, comprehensive review.

This committee and the City Council should be confident they fully understand these complexities and projections before acting. The Cambridge Chamber supports a holistic approach to economic development and planning, and we welcome the opportunity to take part in this important conversation.

PEACE BE UNTO YOU
HELLO EVERYBODY

Attachment J

HOMELESSNESS:

THE HOMELESSNESS SECTOR AND MOSAIC
REPRESENT THE LOWEST REALM + REGIONS
OF THE AFFORDABLE HOUSING CONTINUUM.
THE NEXUS STUDY DOESN'T SPECIFICALLY
ADDRESS OR CONSIDER THIS. IS
SOCIAL CHANGE FOR THE HOMELESS SECTOR
AND MOSAIC ALSO OUTSIDE THE SCOPE
OF THE NEXUS STUDY, AS STUDENT
HOUSING NEEDS? THANK YOU.

YOURS IN PEACE,

HARSON PASIARD

820 MASSACHUSETTS AVE.