



City of Somerville, Massachusetts
Office of the City Auditor
Katjana Ballantyne
Mayor

To: Finance Committee Members

From: Ed Bean, Finance Director

Date: January 21, 2023

Re: Council Order 22-1798 – “*That the Administration update this Council on efforts to use District Improvement Financing to capture new tax growth, specifically for new affordable housing*”.

DIF enables municipalities to pay for public works and infrastructure necessary to attract growth by pledging the future incremental tax revenue resulting from growth within a designated area to the municipality’s year-to-year development initiatives or pledged to service bond financing obligations.

The tax increment pays for public infrastructure. The statute and regulations note a number of public infrastructure uses including water, sewer, streets, transportation infrastructure, land acquisition, relocation costs, construction or rehabilitation of land, among others.

To that end, the public infrastructure improvements may incentivize a developer to locate in the DIF District and provide new affordable housing. This is the approach at the Clarendon Hill project. The public money is supporting the public infrastructure.

The tax increment cannot directly subsidize a developer in an effort to build new affordable housing. The increment finances the public infrastructure that supports the DIF District.

In contrast, the Urban Center Housing Tax Increment Financing Exemption (UCH-TIF), as codified in M.G.L. Chapter 40, Section 60, is designed to promote the development of affordable housing in eligible areas. The statute provides a direct property tax exemption to the developer of affordable housing within certain parameters. This is the approach contemplated in the development proposal at the old Star Market site.

I hope this clarifies.