



CITY OF SOMERVILLE, MASSACHUSETTS
Office of Strategic Planning and Community Development
JOSEPH A. CURTATONE, MAYOR

Office of the Executive Director

MEMORANDUM

TO: Joseph A. Curtatone, Mayor

FROM: Monica R. Lamboy, Executive Director *ML*

DATE: October 28, 2010

SUBJECT: An Order approving the creation of an Assembly Row DIF Development District and an Assembly Row DIF Development Program pursuant to M.G.L. c. 40Q and 402 CMR 3.00 et seq

The Office of Strategic Planning and Community Development (OSPCD) respectfully requests that you forward to the Board of Aldermen (BOA) for their review and approval the Commonwealth of Massachusetts Economic Assistance Coordinating Council's (EACC) application for approval of a District Improvement Financing (DIF) Development District and DIF Development Program, together with the attached draft Order of Approval which is required in connection with the submission of the application to the EACC.

This report outlines what District Improvement Financing (DIF) and Invested Revenue District (IRD) are, the need for DIF, description of the district, DIF goals, increment calculation, governance, public process, and implementation projects for implementation. Attached to this report is the proposed DIF application that, upon approval by the BOA, will be sent to the state Economic Assistance Coordinating Council (EACC) which is responsible for approving DIF programs in Massachusetts.

A public hearing is required to be held in part of the DIF process. Comments from the public hearing shall be transcribed and provided to the BOA along with any written comments upon the close of the written comment period.

What is DIF

DIF is a tool used by municipalities in 49 states over the past 30 years to finance infrastructure investments and incentivize private development in an era where state and federal funding for such projects has dwindled. It provides municipalities with the opportunity to capture the

incremental growth in tax revenue generated by new investment and background growth within a specified boundary and invest those funds back into projects within the district to advance the goals of the plan.

Massachusetts General Law Chapter 40Q establishes the requirements and procedures by which a municipality can apply to the Massachusetts Economic Assistance Coordinating Council for designation of a targeted geographic area as a District Improvement Finance Development District and a District Improvement Financing Development Program to promote and support development. An Invested Revenue District is a Development District or portion of a Development District that uses tax increment financing to advance plans in the Invested Revenue District Development Program. The Assembly Row District Improvement Financing District (DIF) and Assembly Row Invested Revenue District (IRD) are co-terminus. Jointly, they are referred to as the Assembly Row DIF.

When a DIF plan is adopted, the parcels within the DIF are identified and their current assessed value is 'locked' as the DIF base from which future increment is measured. Over time, as a result of new construction or rehabilitation, new growth occurs and properties are provided a new assessed value based on the value of the improvements. At the same, market forces separately result in changes to the assessed value of property. Each year, the total assessed value within the DIF will be compared with the base and the difference in value will be determined. After that, the current citywide tax rates will be applied to the difference in assessed valuation. This amount will then be captured so that it may then be reinvested in DIF projects.

What is the need for the Assembly Row DIF?

As is well recognized, completion of the Orange Line Station is a critical linchpin to development in Assembly Square. Design of the MTBA Orange Line Station in Assembly Square is approaching 100% engineering design and is expected to be ready for bid by early 2011. Currently, estimates are that \$50 million is required to build the station including two head houses. To date, FRIT has committed \$15 million toward the station, the State has indicated its commitment to funding the \$10 million for the second head house, and the Federal government has allocated \$2 million of the \$25 million to date from the earmark. Unfortunately, Congress has failed to appropriate the balance of the promised earmark and there is no expectation that action will be taken in the foreseeable future. This has generated a \$23 million project shortfall.

To help close this gap, Mayor Curtatone submitted a letter to the Department of Transportation (MassDOT) in October 2010 requesting that the \$5 million "Assembly Square multi-modal" federal earmark be applied to the station (FRIT's existing station contribution will be credited toward the required \$1.69 million in match funds). If approved, the gap will be reduced to \$18 million.

Additionally, the State Legislature passed a special act in August that extended the time limit for existing permits across the state. Under the Somerville Zoning Ordinance, all special permits must be acted upon within two years of approval or a one year extension must be granted. Absent this, a permit would be expired. The act of the State Legislature indicated that any

permit issued between August 2008 and August 2010 would be automatically an additional two years beyond the date they would otherwise have expired. IKEA was issued a new special permit in August 2009 (shortly before their previous 2-year permit expired) which would under the SZO expire if not exercised by August 2011. Under the new legislation, the permit is automatically extended until August 2013.

To our understanding, IKEA is still interested in developing a new store in Assembly Square but with the new legislation they are under no obligation to break ground until 2013. This has the potential to extend the time before I-Cubed dollars becomes available for infrastructure, since all of the first “Tranche” and a sizeable portion of the second tranche of I-Cubed funding was predicated on the State revenues generated by the IKEA store. These funds were designed to reimburse FRIT for certain Phase I public infrastructure expenses (Assembly Square Drive and associated off-site traffic mitigation), thereby providing resources to begin the second phase of public infrastructure (i.e., Assembly Row’s “mixed-use” roadway network and associated utilities and streetscapes). Without these funds, FRIT’s pro forma specific to Assembly Row no longer works and the project is positioned for significant delay.

The Commonwealth is united with Somerville in seeking ways to continue progress in Assembly Square and is presently identifying resources to fill the gap in station funding and they are looking toward the City for a meaningful financial contribution to the assist in the funding of public infrastructure Assembly Square.

After vetting many possible financing scenarios, District Improvement Financing (DIF) in Assembly Square was found to provide Somerville the most financing flexibility while providing assurance that required infrastructure would be installed in a timely manner. By adopting a DIF boundary and a financing plan, the City is showing its committing to reinvest some of the growth in property tax back into the district to facilitate the start of construction.

The Assembly Row DIF District is different from the proposed Somerville DIF District in Union Square in a number of dimensions. First, it is very tightly drawn to facilitate the funding of specific infrastructure components that have already been designed. In the Somerville DIF, resources are needed to prepare engineering design of needed infrastructure. Second, the Assembly Square District already has benefit of a master developer that has been performing predevelopment activities for a number of years. In the Somerville DIF, it is highly unlikely that any developer can acquire sufficient parcels to serve as a master developer. In both proposed districts, the intent is to utilize the DIF funds to leverage other resources for public infrastructure. In the case of the Assembly Row DIF, the State is preparing its additional financial contribution and is seeking a commitment from the City as well.

Perhaps the most significant reason why DIF is the appropriate mechanism for investment in Assembly Row is the flexibility granted to DIF General Obligation (GO) Bonds that is not available for City General Obligation Bonds. Per State law, City GO bonds must be paid back with a fixed annual payment plan, while DIF bonds could defer principle payments or have a repayment plan that does not consist of equal annual payments. Given that the development on the three DIF blocks will occur over time, this flexibility in repayment is essential.

District Description

The proposed Assembly Row DIF District Boundary will capture three development blocks (Block 1, 3, and 4 in the master plan), Assembly Square Drive and associated intersections, the internal street network within the Assembly Row project, and an easement area over DCR property where a new storm water pipe and outfall will be constructed. The total land area is 38 acres, but only approximately 7.63 acres will ultimately remain in private ownership; the balance is either already under the ownership of public agencies (Commonwealth and City of Somerville) or will be dedicated to the City upon completion. The Parcels comprising the Assembly Square DIF Development Program are described below in the section “Development Program”. The development projects approved for the three development blocks in the Preliminary Master Plan include 190 units with ground floor retail and associated structured parking (Block 1), 225 units with ground floor retail and associated structured parking (Block 4), and multi-screen cinema and hotel with ground floor retail and associated structured parking (Block 3). A map of the proposed district is attached (see attachment I).

Development Program

The Assembly Row DIF Development Program will help convert underutilized former industrial, commercial and railroad parcels, most of which are brownfields, into a vibrant mixed-use transit orientated development project. The public infrastructure projects included in the proposed DIF Development Program include:

1. Improvements to and land costs of Assembly Square Drive and associated intersections;
2. Improvements to and land costs of a new network of streets, including sidewalks and public utilities within the Assembly Row mixed-use development site; and,
3. New storm water outfall travelling under the extended Foley Street (currently owned by FRIT but to be accepted by the City) and through State MBTA and DCR right-of-way, terminating at the Mystic River.

All public infrastructures within the DIF District in private or municipal right-of-way will be constructed by MassHighway or the Developer and subsequently dedicated to the City. Each of these infrastructure components will be purchased by the City upon certification that they were built in accordance of City approved plans and specifications.

Financial Plan

Tabulation of the potential tax increment within the proposed DIF district has been based upon the actual parameters approved by the Planning Board in the revised Preliminary Master Plan. OSPCD staff has worked with the Assessing Department to determine assessed value after full occupancy and then calculated the value of each structure at intermediate points during the construction cycle.

Governance

It is recommended that the Somerville Board of Aldermen, with the Mayor presiding, serve as the Administrator of the Assembly Row DIF and Assembly Row IRD. The Administrator is required to conduct all meeting in compliance with the open meeting statutes of the Commonwealth.

After receiving the Mayor's budget, the Administrator will annually approve a five-year (5) budget consisting of a detailed one year budget making appropriations and authorizing line item expenditures of captured increment to pay for all debt service, program personnel services, and operating expenditures. The five-year (5) budget shall include projections for revenues and expenditures for years 2-5, but the funds will not be appropriated and expenditures will not be authorized for these years. After receiving the Mayor's request, the Administrator shall be responsible for reallocating increment in excess of project expenses for municipal purpose as appropriate.

The City Auditor shall maintain the appropriate accounts and financial records to provide the Administrator with an accurate and up to date accounting of program costs and expenditures.

Each year, the City's outside auditor shall review all DIF and IRD related expenditures and report to the Administrator their findings.

Public Process

DIF statute and regulations require that the City of Somerville hold a Public Hearing and allow for written public comment before the Application is submitted to the Economic Assistance Coordinating Council (EACC) for formal approval. A public hearing is being scheduled and will be recorded on video tape by the communications department and transcribed by a professional stenographer. A copy of the transcription will be submitted to the Board of Alderman when it becomes available and will be included with an adopted Application to EACC. All written and verbal comments will be submitted to the Board of Aldermen prior to action on the proposed DIF District. Once the DIF plan is approved, staff will be in regular communication with the DIF Administrator regarding progress within the DIF and various actions that need to be taken.

Recommendation


It is recommended that the Board of Alderman:


- Adopt the Order establishing the Assembly Row DIF Development District, Assembly Row DIF Development Program, Assembly Row Invested Revenue District and the Assembly Row Invested Revenue District Development Program.


Attachments

1. Map of proposed District boundaries
2. Proposed Assembly Row DIF Plan

Map 2: Proposed District Boundary
 Assembly Row DIF District

 DIF Boundary

 Existing Tax Parcels

 Existing Road Right-of-Way

0 250 500 Feet

