

# Clarendon Hill Development Program

M.G.L. Chapter 40Q requires the following information be included in a development program proposal:

## 1. Financial Plan

Defined by M.G.L. Chapter 40Q, as “a statement of the costs and sources of revenue required to accomplish the development programs which shall include:

- (1) cost estimates for the development program;
- (2) the amount of indebtedness to be incurred; and
- (3) sources of anticipated capital.”

Tables 1 and 2 summarize this information.

**Table 1. Clarendon Hill Infrastructure Projects: Estimated Project Costs & Funding Sources**

Project Name	Type of Work	Project Cost Estimate	Funding Sources			
			Grant	Sewer Enterprise	Water Enterprise	General Fund
Powder House Blvd/Alewife Brook Parkway Reconstruction	Streetscape Water Sewer	\$4,900,000	\$4,900,000			
Clarendon Hills Redevelopment	Demolition Streetscape Water Sewer	\$10,000,000				\$10,000,000
<b>Total</b>		<b>\$14,900,000</b>	<b>\$4,900,000</b>			<b>\$10,000,000</b>

**Table 2. Clarendon Hill Infrastructure Projects: Estimated Borrowing Costs & Funding Sources**

Project Name	Type of Work	Borrowing Cost Estimate	Funding Sources		
			Sewer Enterprise	Water Enterprise	General Fund
Powder House Blvd/Alewife Brook Parkway Reconstruction	Streetscape Water Sewer				
Clarendon Hills Redevelopment	Demolition Streetscape Water Sewer	\$15,160,000			\$15,160,000
<b>Total</b>		<b>\$15,160,000</b>			<b>\$15,160,000</b>

The \$14,900,000 infrastructure program outlined in Sections 2 and 3 of this plan will be funded by two sources of funds. The public infrastructure will be funded by a \$4.9M Commonwealth of Massachusetts MassWorks Grant. The DIF-eligible site infrastructure will be funded by \$10,000,000 in General Obligation borrowing. This approach assumes the City borrows \$10,000,000 in 3 different tranches--\$4,000,000 in FY22; \$3,000,000 in FY23; and \$3,000,000 in FY24. It also assumes that the City utilizes the full flexibility of the DIF tool and borrows over 30 years with 5-year Bond Anticipation Notes (BAN) attached to each tranche – the total debt service would equal \$15,160,000.

The DIF Program will be administered by the Somerville Tax Assessor in concert with the Finance Director. All parcels located within the DIF District will be identified in the assessor's property database and the annual increment over the 2021 base will be calculated on an annual basis. DIF related expenditures will be made for eligible costs that may include program administration, planning services, direct funding of public infrastructure improvements and debt service on DIF bonds issued by the City for major infrastructure projects that serve the DIF District. All remaining DIF revenues not used for servicing debt or administering the DIF will flow to the General Fund.

## **2. A complete list of public facilities to be constructed**

As part of the Clarendon Hill Development, significant infrastructure work is required on the part of the City to ensure the project's success. This includes three elements:

- **Reconstruction of the intersection at Alewife Brook Parkway and Powder House Blvd:** The City will eliminate the traffic circle at Alewife Brook Parkway and Powder House Boulevard and replace it with a signalized T-intersection. This improvement will enable improved safety throughout the neighborhood and improved access and traffic circulation to the site.
- **Reconstruction and realignment of sewer and stormwater utilities onto the public right of way along Powder House Blvd:** The City will upgrade all City-owned utilities connected to the site including sewer, water and drainage. The project will divert runoff through a new comprehensive drainage and infiltration system, and as part of the improvements, portions of an active 12" sanitary sewer trunk line, and an 18" storm drain line will be relocated to avoid conflicts with the proposed buildings.
- **Reconstruction of Powder House Blvd between North Street and Alewife Brook Parkway**

The work is anticipated to cost \$4.9M and will be funded entirely from a Commonwealth of Massachusetts MassWorks grant already awarded to the City. All this work will take place within the boundaries of the Clarendon Hill DIF District.

### 3. The use of private property

Private development will occur on public property owned by the Somerville Housing Authority (SHA). The SHA has signed a 99-year land lease with the development team, made up of Redgate and Preservation of Affordable Housing (POAH). The development team will construct 591 new residential units will be built to replace the existing 216 affordable units on site, with a mix of 295 market rate and 296 affordable units, a net increase of 80 affordable units. The project will be built over two phases and include a mix of mid-rise apartments and townhomes. See Figure 1 for the approved plan and Table 3 for program details.

**Figure 1. Approved Development Plan**



The development team will implement several project elements eligible to be funded by DIF revenue, and include:

- **Demolition:** The team will implement a phased demolition of the existing residential apartments owned and managed by the SHA to clear the site for the new buildings
- **Earthwork and Construction of Internal Roadways:** The site will be graded and new publicly accessible roadways will be constructed within the project site. These roads will meet City roadway standards
- **Water and Sewer Infrastructure:** New water and sewer infrastructure will be installed under the internal roadways and connect to the new, public infrastructure.

This work is anticipated to cost approximately \$10M.

**Table 3. Proposed Development Program Details**

Project	Total Commercial SF	Office/Lab SF	Retail Building SF	Total Residential SF	Market Rate Residential Units	IZ Affordable Residential Units
Clarendon Hill	0	0	0	664,875	295	296
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>664,875</b>	<b>295</b>	<b>296</b>

**4. Plans for the relocation of persons displaced by the development activities**

M.G.L. Chapter 79A and 760 CMR 27.00 require that assistance and benefits be provided to residents and businesses who are displaced because of a real estate acquisition by a public entity, or a private entity using public funds, regardless of whether the real property is acquired by eminent domain or negotiated sale.

The redevelopment plan requires the relocation of the current households living at the Clarendon Hill site. Due to planned vacancies, the occupancy at the 216-apartment property has been reduced to roughly 165 households. The development team and the SHA negotiated an agreement with the residents of Clarendon Hill that grants them certain rights and services to be provided before, during, and after the relocation period. The SHA, working through the development team, will contract with a relocation specialist to implement the moves. Relocation activities will happen in phases to minimize disruption to the households. As part of the agreed upon procedures, no resident will pay more for rent than they are currently paying. The relocation plan includes support for school stability for children in the Somerville Public School system.

**5. Plans, if any, for the development of housing, both affordable and market rate**

The project will be constructed in two phases. Phase 1 will include the demolition of six of the nine existing buildings and the construction of Building A/B and Building E for a total of 499 new rental units, approximately 41% of which will be affordable. Phase 2 will include the demolition of the three remaining buildings (which will remain inhabited during Phase 1) and the construction of Building D, all five series of row houses, the central civic space, the remainder of Thoroughfare 1, and the entirety of Thoroughfare 3. At the end of Phase 2, there will be a total of 591 rental units, approximately 51% of which will be affordable.

Of the 591 newly constructed units, 216 will be replacement public housing, 16 will be affordable to households making at or less than 80% AMI, and 64 will be affordable to households making at or less than 110% AMI. The remaining 295 units (approximately 49% of the total units) will be market rate rental units. Approximately seven percent of all affordable housing units will be 3-bedroom units to accommodate larger households and families.

**6. The proposed regulations and facilities to improve transportation**

The project includes the reconstruction of a major neighborhood intersection located at Powder House Blvd and Alewife Brook Parkway, a notoriously unpredictable intersection. This work, along with associated improvements to Powder House Blvd and the project site will improve pedestrian and vehicular safety dramatically.

**7. The proposed operation of the district after the planned capital improvements are completed**

The planned capital improvements on publicly owned land, including the streetscape, traffic improvements, sewer and stormwater infrastructure will be operated by the City of Somerville. The internal infrastructure developed a part of the redevelopment project will be maintained by the developer or its successor entity.

**8. The duration of the program which shall not exceed the longer of: (i) 30 years from the date of designation of the district; or (ii) 30 years from project stabilization, as defined in the development program**

The duration of the program will be 30 years from the date of designation of the District.

## **Invested Revenue District Development Program**

The District will be an invested revenue district, which allows – but does not require – the City to retain all or part of the captured increment of the district for the purpose of financing our proposed infrastructure program.

M.G.L. Chapter 40Q requires the following information be included in a proposal for an invested revenue district development program:

**1. Estimates of tax revenue to be derived from the invested revenue district**

See Table 4 below.

**2. A projection of the tax revenues to be derived from the invested revenue district in the absence of a development program**

See Table 4 below.

**3. A statement as to whether the issuance of bonds contemplated pursuant to this chapter (40Q) shall be general or special obligation bonds**

The bonds issued to fund the infrastructure projects discussed above will be general obligation bonds.

**4. The percentage of the tax increment to be applied to the development program and resulting tax increments in each year of the program**

The captured increment will flow to the General Fund. It will be used as needed to pay the debt service for any infrastructure project components that must be paid out of the General Fund.

**5. The statement of the estimated impact of tax increment financing on all taxing jurisdictions in which the district is located**

The use of tax increment financing through the Clarendon Hill DIF will not impact any other taxing jurisdictions.

**Table 4. Projected Taxes Generated & Captured Increment in Clarendon Hill Development District with and without Development Program**

Year	With Development Program				Without Development Program		
	Commercial Taxes Generated	Residential Taxes Generated	Total Taxes Generated	Captured Increment in Tax Dollars	Commercial Taxes Generated	Residential Taxes Generated	Total Taxes Generated
2021	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2022	\$0	\$332,878	\$332,878	\$316,234	\$0	\$0	\$0
2023	\$0	\$665,757	\$665,757	\$632,469	\$0	\$0	\$0
2024	\$0	\$1,026,713	\$1,026,713	\$975,377	\$0	\$0	\$0
2025	\$0	\$1,074,763	\$1,074,763	\$1,021,025	\$0	\$0	\$0
2026	\$0	\$1,123,213	\$1,123,213	\$1,067,053	\$0	\$0	\$0
2027	\$0	\$1,145,678	\$1,145,678	\$1,088,394	\$0	\$0	\$0
2028	\$0	\$1,168,591	\$1,168,591	\$1,110,162	\$0	\$0	\$0
2029	\$0	\$1,191,963	\$1,191,963	\$1,132,365	\$0	\$0	\$0
2030	\$0	\$1,215,802	\$1,215,802	\$1,155,012	\$0	\$0	\$0
2031	\$0	\$1,240,118	\$1,240,118	\$1,178,112	\$0	\$0	\$0
2032	\$0	\$1,264,921	\$1,264,921	\$1,201,675	\$0	\$0	\$0
2033	\$0	\$1,290,219	\$1,290,219	\$1,225,708	\$0	\$0	\$0
2034	\$0	\$1,316,023	\$1,316,023	\$1,250,222	\$0	\$0	\$0
2035	\$0	\$1,342,344	\$1,342,344	\$1,275,227	\$0	\$0	\$0
2036	\$0	\$1,369,191	\$1,369,191	\$1,300,731	\$0	\$0	\$0
2037	\$0	\$1,396,574	\$1,396,574	\$1,326,746	\$0	\$0	\$0
2038	\$0	\$1,424,506	\$1,424,506	\$1,353,281	\$0	\$0	\$0
2039	\$0	\$1,452,996	\$1,452,996	\$1,380,346	\$0	\$0	\$0
2040	\$0	\$1,482,056	\$1,482,056	\$1,407,953	\$0	\$0	\$0
2041	\$0	\$1,511,697	\$1,511,697	\$1,436,112	\$0	\$0	\$0
2042	\$0	\$1,541,931	\$1,541,931	\$1,464,835	\$0	\$0	\$0
2043	\$0	\$1,572,770	\$1,572,770	\$1,494,131	\$0	\$0	\$0
2044	\$0	\$1,604,225	\$1,604,225	\$1,524,014	\$0	\$0	\$0
2045	\$0	\$1,636,310	\$1,636,310	\$1,554,494	\$0	\$0	\$0
2046	\$0	\$1,669,036	\$1,669,036	\$1,585,584	\$0	\$0	\$0
2047	\$0	\$1,702,417	\$1,702,417	\$1,617,296	\$0	\$0	\$0
2048	\$0	\$1,736,465	\$1,736,465	\$1,649,642	\$0	\$0	\$0
2049	\$0	\$1,771,194	\$1,771,194	\$1,682,634	\$0	\$0	\$0
2050	\$0	\$1,806,618	\$1,806,618	\$1,716,287	\$0	\$0	\$0
2051	\$0	\$1,842,750	\$1,842,750	\$1,750,613	\$0	\$0	\$0
<b>Total</b>	<b>\$0</b>	<b>\$40,919,719</b>	<b>\$40,919,719</b>	<b>\$38,873,733</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **Appendix**

### **RKG's Role in the DIF Analysis**

Somerville intends to establish a District Improvement Financing (DIF) geography for the Clarendon Hill Development project in 2021. The intention is to utilize incremental tax revenue from the DIF District for the development of public infrastructure that will help catalyze private development in Clarendon Hill which have been identified for growth. RKG Associates Inc. (RKG) developed a financial model that includes all potential/proposed real estate parcels in the DIF using data from the Somerville Assessor's database. The DIF model enables RKG to various alternative scenarios based on the urban development program proposed by the City and forecast the estimated incremental DIF revenue from each. The model allows the user to enter various development scenario inputs based on projects that are planned or discussed, and then generate a time-series forecast of assessment values for all potential developments and calculate the aggregate DIF revenue contribution available for eligible costs, including bond financing. The model uses the base year of 2021 from which tax increment is gained.

### **Methodology**

Inherent complexity exists within any model attempting to predict future assessment values. Several key assumptions are needed to generate the estimated future assessment values, particularly for projects that are not fully planned or that result from the general urban design efforts of the City's Planning department. The model's methodology is relatively straight forward: start with the proposed number of residential units, along with their construction timeline, apply an assessment factor to determine potential value, and then integrate the new development (and associated DIF revenues based on applicable property tax rates) into a financial statement. Within the basic methodological framework, a few key elements are used to ensure the appropriate development values and revenues are reflected. These include an inflation adjustment, estimated development assessment values, and the removal of underlying parcel values so as not to double count the existing assessment within the future new development.

### **Inflation Adjustment**

In a time-series analysis, inflation is an element that must be accounted for, and as such the model has a built-in inflation factor that is modifiable. The default inflation factor is an annual rate of 2 percent. This estimate is based on the general understanding that assessment values tend to rise over the course of time and reflects the long term increase in value in the entire city. The base year (2021) assessment value is not inflated when determining the aggregate tax increment.

### **Estimated Development Assessment Values**

To calculate the estimated assessment values that are used in the model; RKG obtained assessment factors for affordable and market-rate apartments and townhomes from the City's Assessor. The model applies the requisite assessment factors which are then forward inflated to match the year of proposed developments. Based on whether a development is activated within the model, the estimated



assessment values then populate the financial model. These are then multiplied by the latest year’s tax rates to generate the estimated tax revenues and summed over the entire DIF District.

**Table 5. Housing Unit Assessment Factor Assumptions**

Unit Type	Assessment Value
Market Rate Apartments	\$300,000
50% AMI Affordable	\$26,500
80% AMI Affordable	\$50,750
110% AMI Affordable	\$75,000

### **Future Development Basis Adjustment**

The most complex part of the model involves adjusting the future development assessment values by the future base assessment value of the existing (undeveloped) parcel. This process requires calculating the estimated assessment value of a parcel on which new development would occur in the future. Then calculating the future value of the same undeveloped parcel utilizing the general inflation factor. Once the future underlying parcel basis is determined and matched to the appropriate future project year; the existing parcel basis is subtracted from the estimated new project value so that double counting does not occur. Since the existing property is currently tax-exempt, the entire future assessed value is considered as DIF-eligible.

### **Municipal Factors**

The incremental tax revenues are calculated on a parcel by parcel basis using the inflated assessment values multiplied by the current (2021) tax rate. Although future tax rates will change, they cannot be predicted since they are based on the then current tax levy – what the city needs to raise from property taxes to meet its budget. Using the current tax rate is the accepted standard practice for tax increment financing.

### **Capture Rate**

As a conservative assumption, RKG assumed that the City will capture 95% of the tax increment in the District. This ensures that there is an allowance for delinquent tax payments.