

Delivering on SomerVision: **GLX**

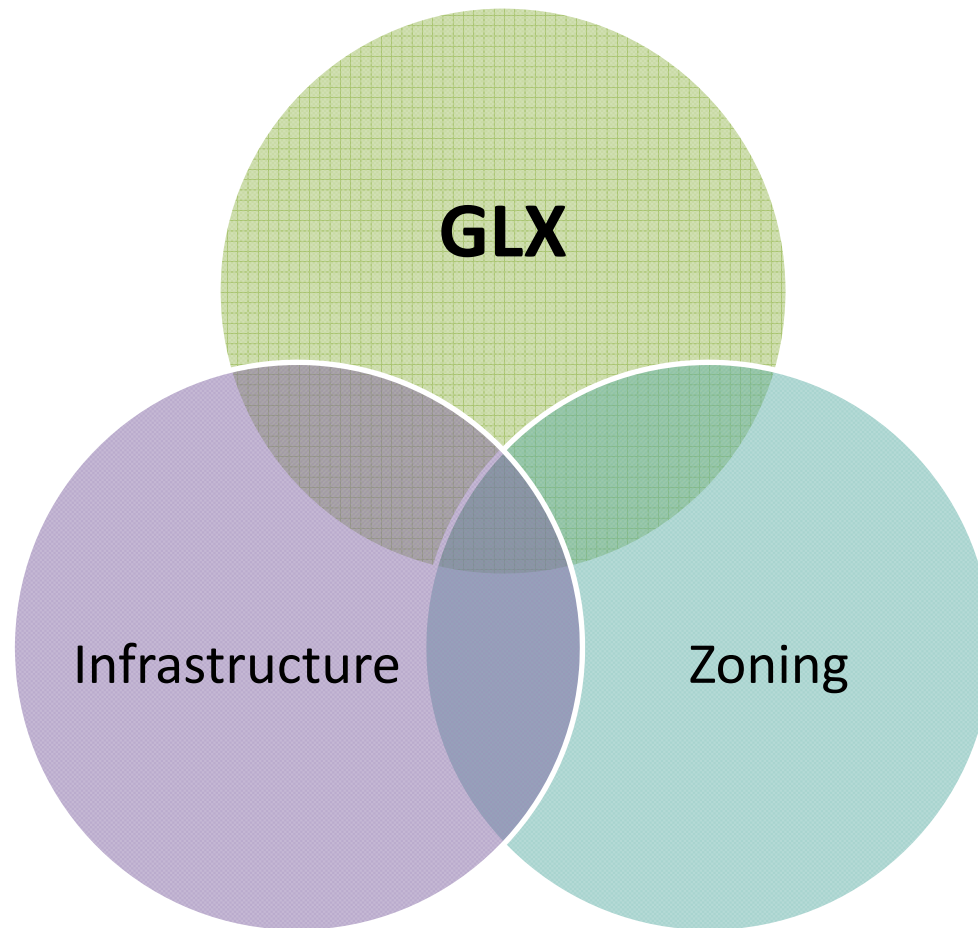
Mayor Joseph A. Curtatone
November 17, 2016

Agenda

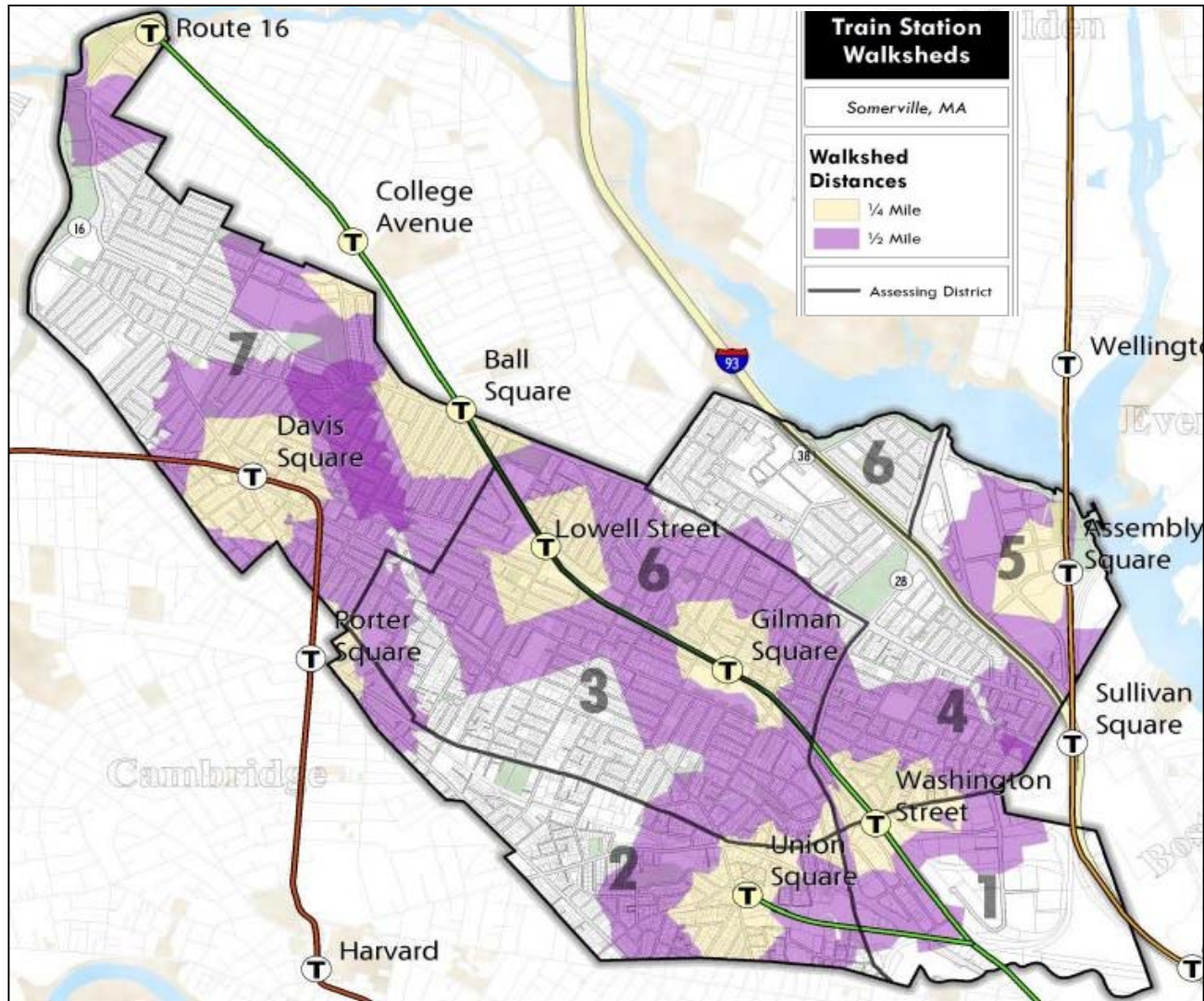
1. Why we're here
2. What's in front of you
3. How GLX affects our financial outlook
4. Timeline & next steps

1. Why we're here

Delivering on SomerVision: 3 key commitments



We've been fighting for the GLX for decades



GLX

Fiscal sustainability

- Grows tax base: additional \$261 million in property tax revenue over 30 years (updated)
- Shifts tax burden to commercial sector

Social equity

- Expands rapid transit access to 85% of Somerville
- Creates jobs & improves access to employment opportunities
- Creates affordable housing
- Reduces residential share of tax burden

Public health and safety

- Environmental justice: reduces daily vehicle miles traveled by over 25,000 → reduces air pollutants caused by vehicle emissions
- Mitigates flood hazard

Environmental sustainability

- Reduces daily vehicle miles traveled by over 25,000 → reduces GHG emissions
- Reduces climate change vulnerability

Project funding gap

- In 2015, MassDOT discovered that the cost of the GLX had grown to almost \$3 billion.
- After value engineering, the estimated project cost was reduced to \$2.3 billion.
- The state, however, had only secured funding in the amount of \$2.15 billion.
- The state made clear that it could not continue the project without municipal contributions.
- In May, the City submitted a letter to MassDOT committing to seek approval from the Board of Aldermen to provide \$50 million to help cover the project funding gap.

2. What's in front of you

Six items

- a. Project Participation Agreement
- b. Home Rule petition
- c. Appropriation language
- d. Side letter agreements (3)

a. Project Participation Agreement (PPA)

- Establishes
 - Terms for the City to contribute \$50 million to help fill the project funding gap for the GLX
 - Scenarios under which the City will be reimbursed for some or all of its contribution
- Subject to approval by the BOA
- Executed by Mayor Curtatone, MassDOT Secretary Pollack, and MBTA Acting General Manager Shortsleeve

a. PPA: the Trust

- MassDOT will create the Green Line Extension Project Somerville Participation Expendable Trust (the “Trust”) to hold funds contributed by the City
- The Trust will ensure our contribution is only spent on the GLX project

a. PPA: payment schedule

- Assuming construction starts by March 1, 2018, the City will pay 5 equal installments of \$10m:
 - March 1, 2018
 - November 1, 2019
 - November 1, 2020
 - November 1, 2021
 - November 1, 2022

a. PPA: delayed project payment schedule

- If the start of construction occurs between March 1, 2018 and June 30, 2018: the City's first contribution is due 30 days after the start of construction, and each annual payment is due one year thereafter
- If the start of construction occurs after June 30, 2018, the City's first contribution is due November 1, 2018, and each annual payment is due one year thereafter

a. PPA: alternative funding mechanism

- **If the state does not approve enabling legislation by December 31, 2017:**
 - The state will borrow \$50 million
 - The City will repay the state's principal and interest costs through 30 annual payments of \$3,069,000, to be paid on March 1 of each year beginning in 2018

a. PPA: consequence of failure to pay

- **If the City fails to make a scheduled payment within 90 days of the due date:**
 - The State will reduce the City's Local Aid by no more than \$3 million per year per missed payment until the contribution is satisfied
 - Excludes Chapter 70 funding for schools

a. PPA: reimbursement scenario 1

- **If the total project cost is less than \$2.3 billion at project closeout**
 - Any savings flow to Somerville and Cambridge up to their respective contribution amounts
 - 2/3 of the savings flow to Somerville and 1/3 to Cambridge

a. PPA: reimbursement scenario 2

- **If the project is canceled before construction starts OR construction starts (triggering the City's obligation to pay) but the MBTA does not begin service on the line within 10 years of the start of construction:**
 - All City contributions will be reimbursed within 6 months

b. Home Rule petition

- Would enable the City to borrow to contribute to the GLX project
 - Under state law, municipalities are not allowed to borrow to contribute to state projects
- Would afford the City more favorable borrowing terms
- Subject to approval by the BOA, the State Legislature, and the Governor

b. Home Rule petition: favorable borrowing terms

- Purpose: to better align debt payments with expected increased revenue generated from development associated with the project
- Allows the City the flexibility to borrow short term for up to 10 years & long term for 30 years
 - Standard borrowing terms allow the City to borrow short term for only 2 years. The City is then required to pay principal for the length of the borrowing term.

c. Appropriation language

- Authorizes the City to borrow and appropriate \$50 million to the GLX project
 - Subject to state approval of enabling legislation
- Subject to approval by 2/3 vote of the BOA

d. Side letter agreements: scope

- Establishes the essential terms of an Amended and Restated MOU to be executed by the City, MassDOT, and MBTA regarding the GLX
 - Allows us to update two previous agreements dated April 10, 2015 and July 26, 2012
 - MBTA agrees to reimburse the City for completing certain traffic and pedestrian improvements
 - City agrees to grant easements on certain City-owned property and to road closures to facilitate construction
- Parties aim to complete MOU by December 23, 2016

d. Side letter agreements: policy

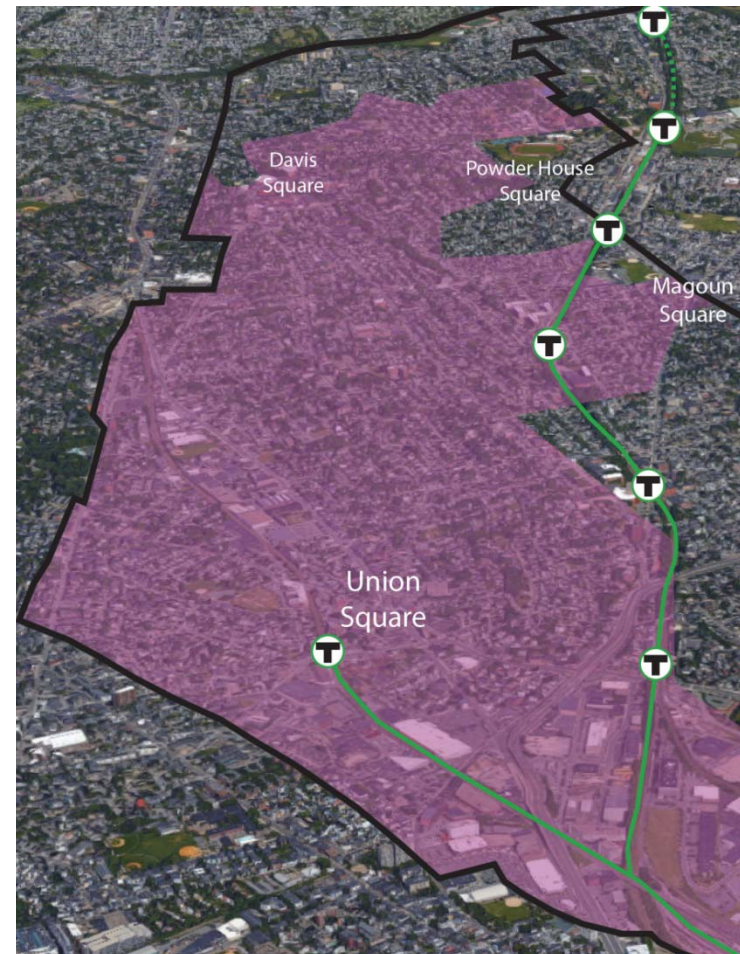
- Conveys MassDOT Secretary Pollack's:
 - Support of enabling legislation
 - Continued support of statewide policy regarding municipal contributions to state infrastructure projects

d. Side letter agreements: Drainage Interconnection Agreement letter

- Establishes the essential terms of an agreement allowing Somerville to connect to stormwater drainage facilities constructed as part of the GLX
- Parties aim to formalize Interconnection Agreement by March 1, 2017

d. Side letter agreements: Drainage Interconnection Agreement letter

- The benefits of this agreement cannot be understated.
- MWRA currently allows the City to send stormwater flows to Deer Island, but this is not a safe or sustainable solution. We need a viable outfall for separated storm drainage.
- The GLX drainage system creates an exceptional opportunity to address this need.
- Alternatives would be exponentially more expensive and disruptive.



d. Side letter agreements: Drainage Interconnection Agreement letter

The bottom line: our legacy flooding issues will not be solved unless we find a viable outfall for our stormwater. The Interconnection Agreement provides an extraordinary opportunity to address this need.



3. How GLX affects our financial outlook

Capital & infrastructure project categorization

Recurring	Underway	Critical	Unscheduled
Streets & sidewalks	Somerville High School**	GLX	Other major building projects
ADA ramps, sidewalks, & signals	West Branch Library	USQ utility* and streetscape	Major field & park improvements
Building improvements (including ADA)	Winter Hill schoolyard & field	New public safety building	Other major infrastructure projects* (Winter Hill, Davis Square, etc.)
Benches & barrels	Building Assessment II	E3 relocation	Redbridge connection* (Interconnection Agreement)
Vehicle replacement	Nunziato stormwater* and field		Boynton infrastructure*
Street trees			
Water & sewer improvements*	*All or a portion of these projects will be paid for through the Water & Sewer Enterprise Funds; **Debt exclusion		

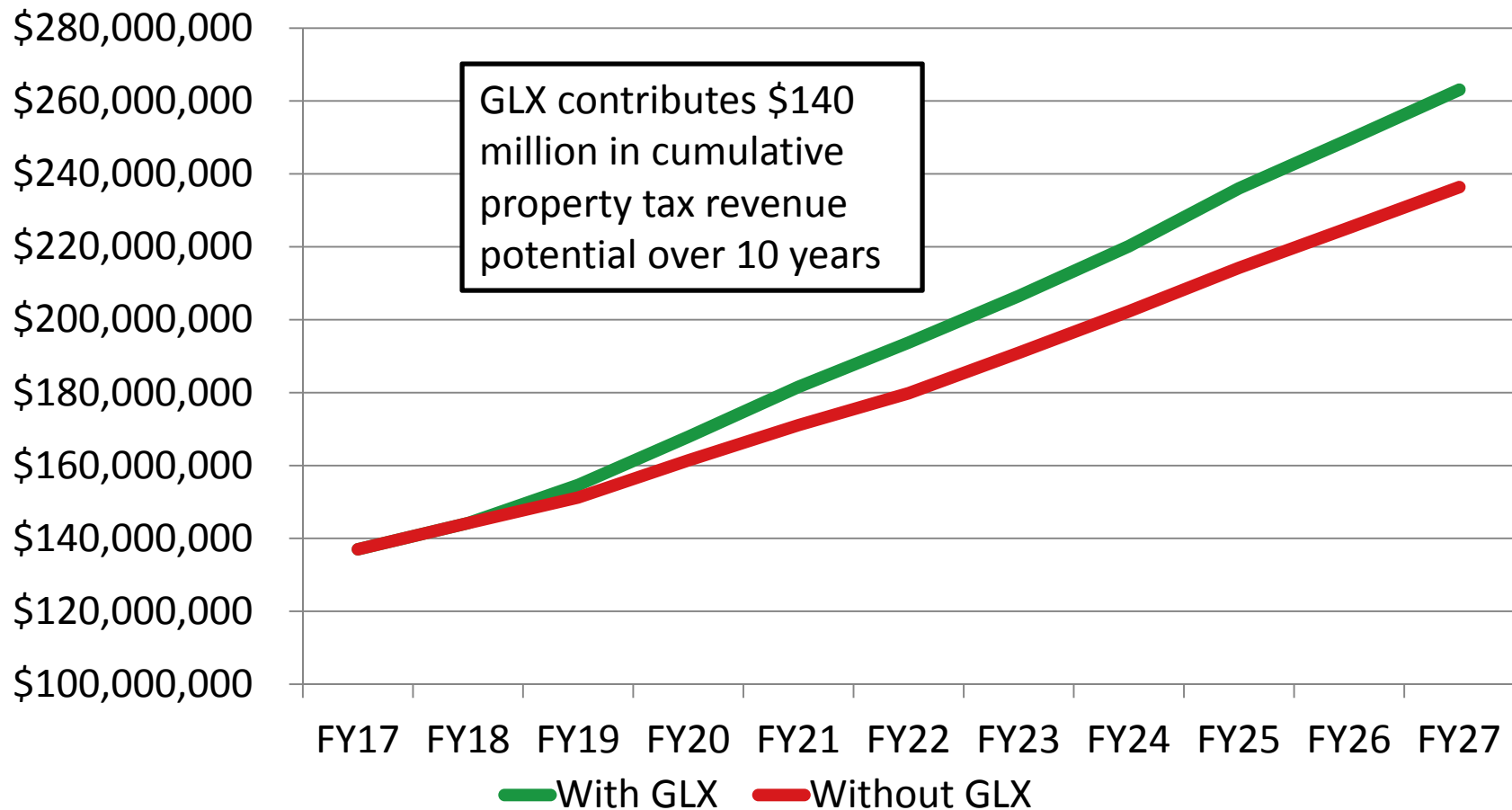
Long-range forecast scenarios

Scenario	Description	Recurring Investments	Underway Projects	GLX & Other Critical Investments	USQ DIF Borrowing	Developer Contributions (Estimated)
1a	With GLX & no mitigation	Yes	Yes	All	No	No
1b	GLX & USQ DIF	Yes	Yes	All	Yes	No
1c	GLX & USQ DIF + developer contributions	Yes	Yes	All	Yes	Yes
2	Without GLX	Yes	Yes	USQ utility only	No	No

Financial model key assumptions

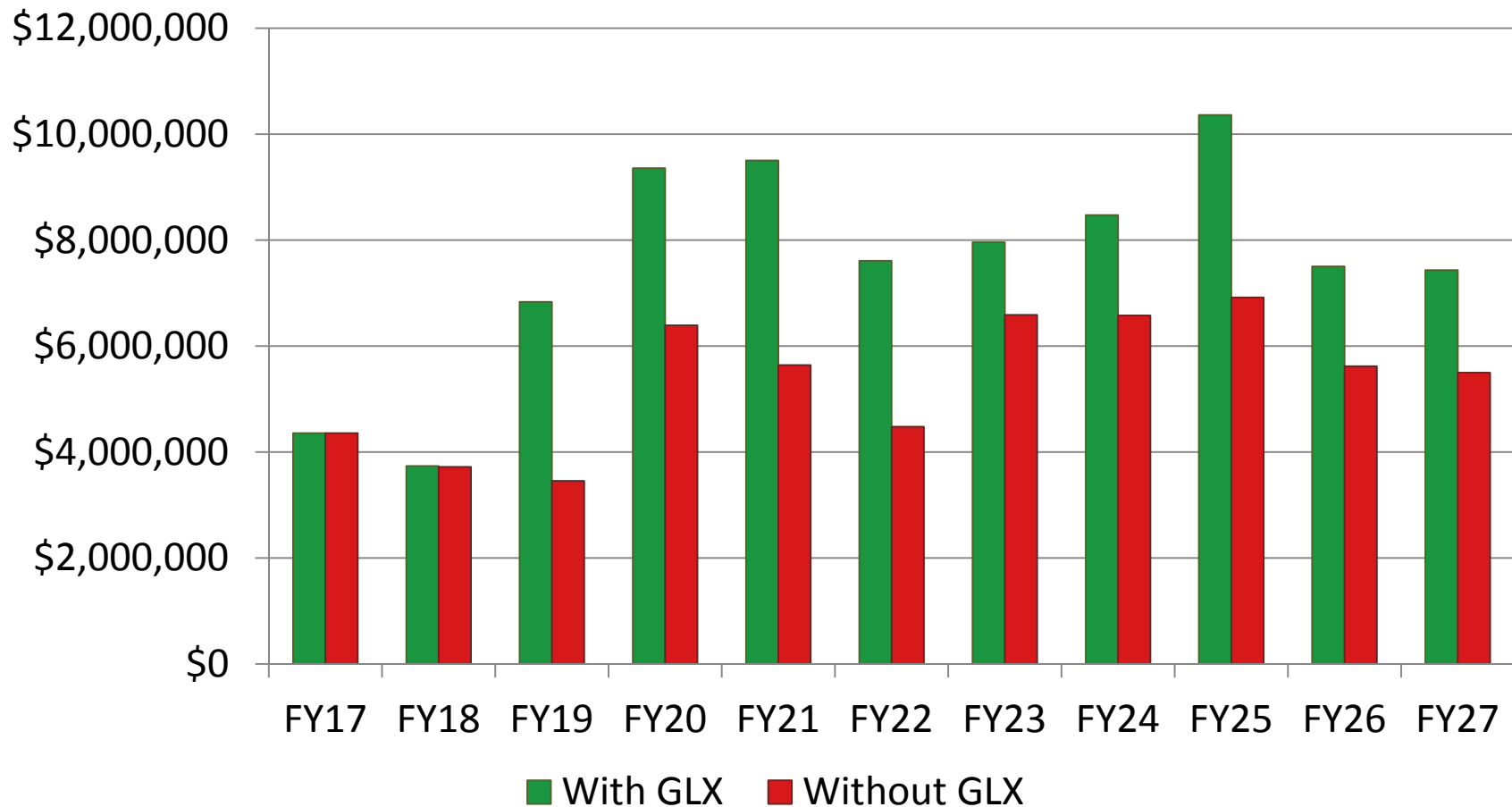
- Revenue projections assume:
 - Flat valuation increase based on 20-year average (3% per year)
 - + Additional 1% valuation increase in GLX walksheds
 - Known anticipated development
 - Going to the levy limit every year
- Cost projections assume:
 - For the GLX, borrowing short term for 5 years and long term for 30 years
 - 5% interest rate for all long-term borrowing

Projected annual property tax revenue



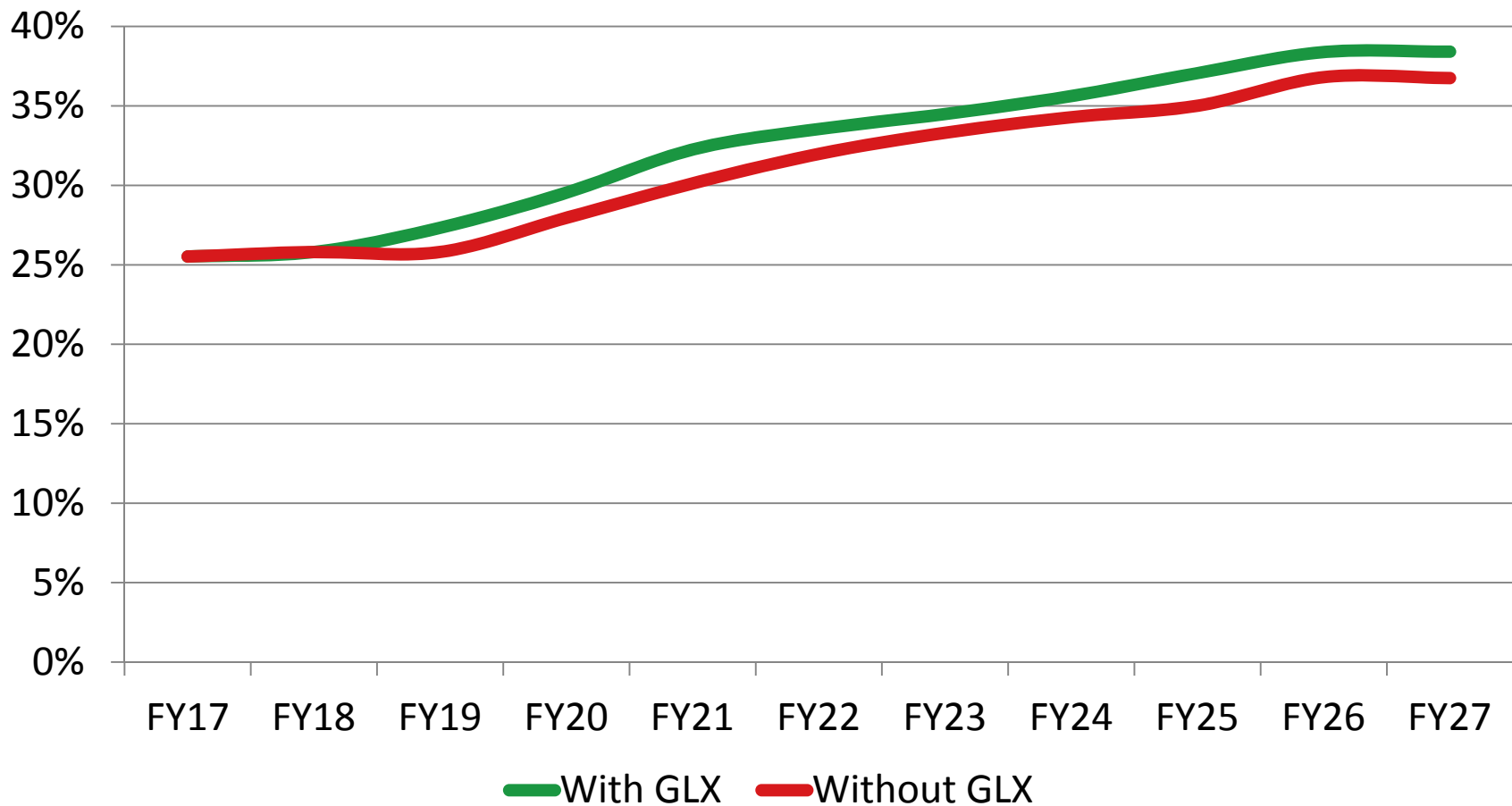
Projected annual new growth

\$24M additional new growth over 10 years with GLX

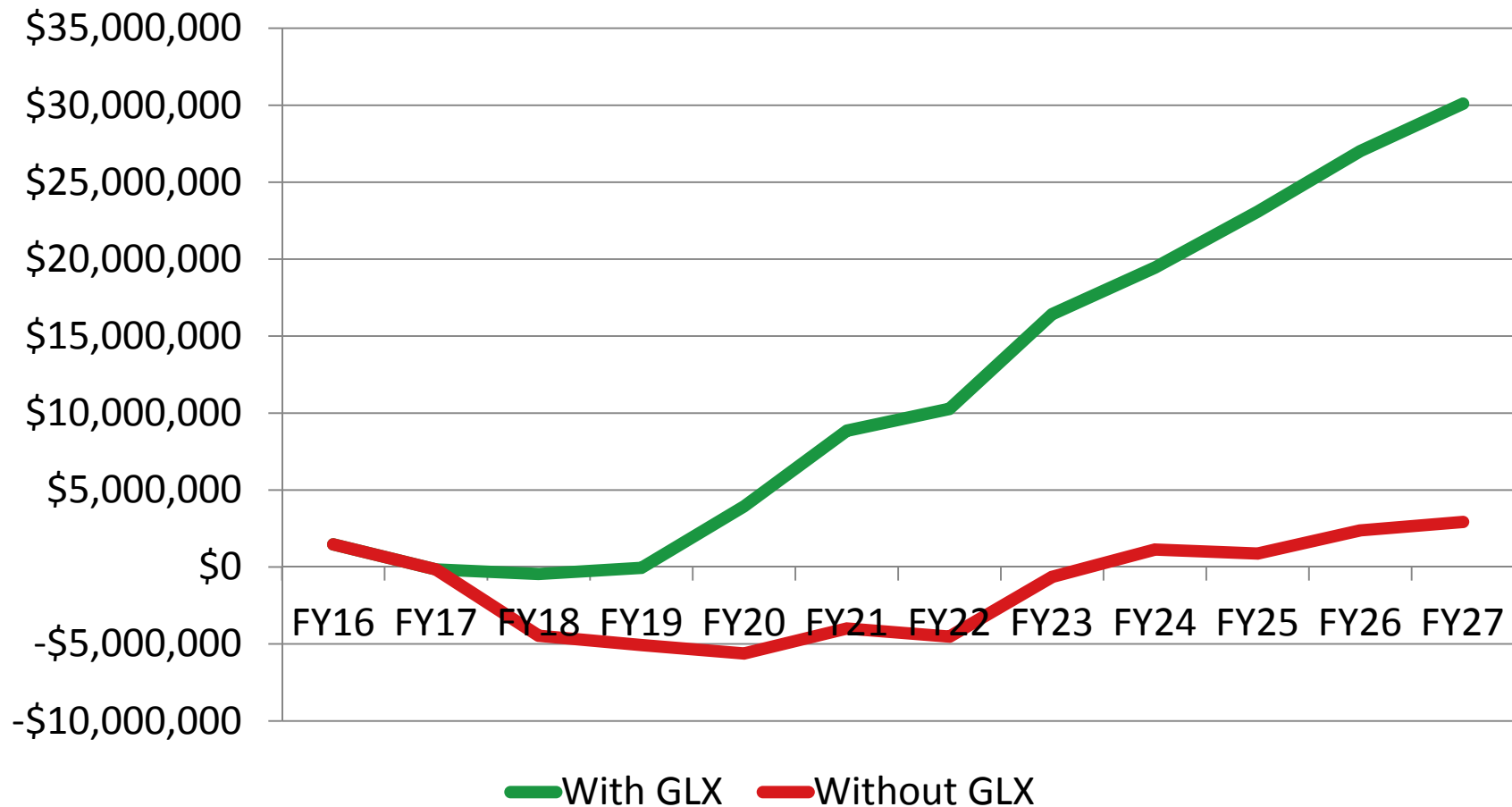


Commercial property tax share

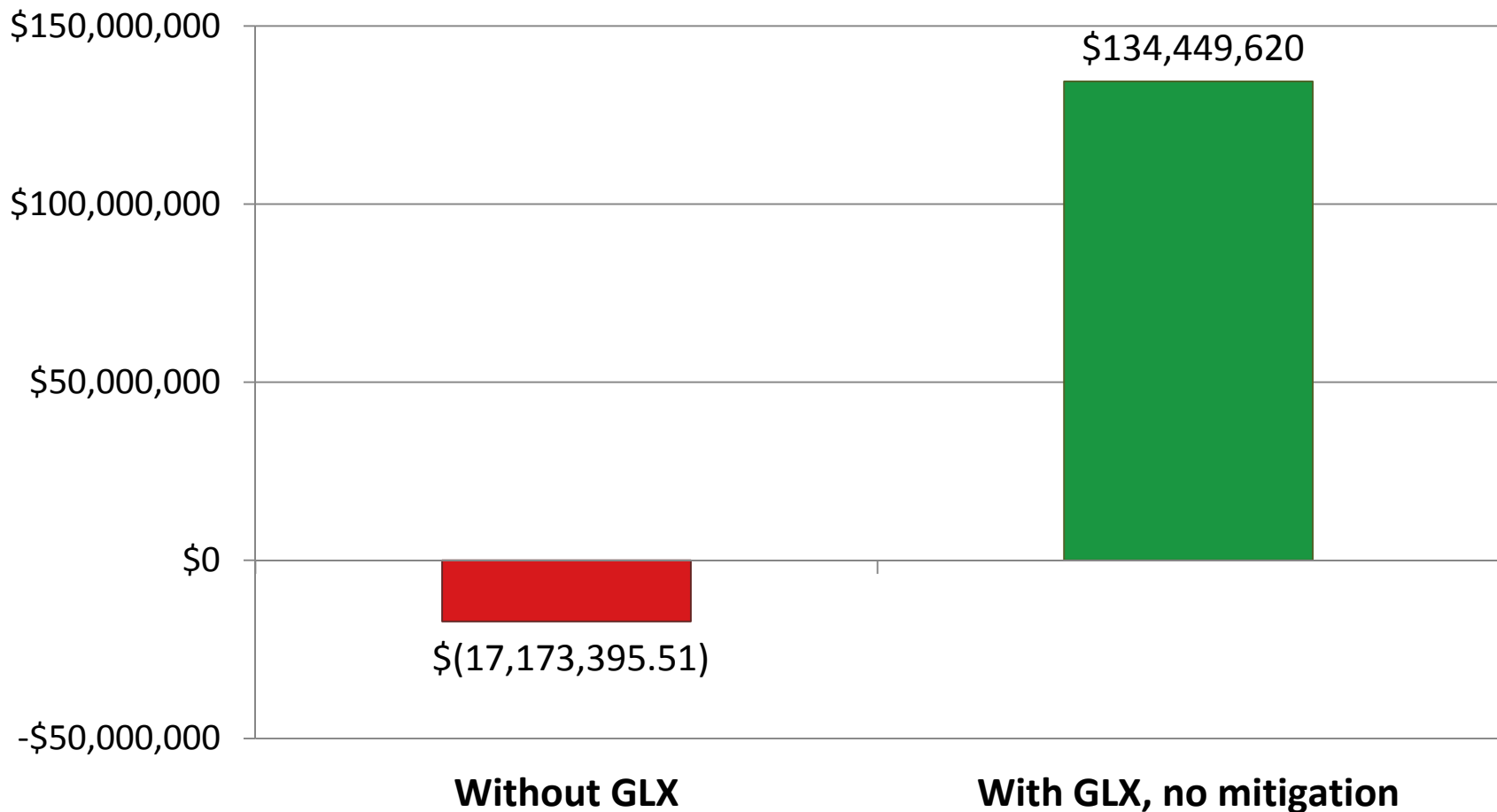
\$78M additional commercial property tax over 10 years with GLX



Annual operating budget surplus or deficit



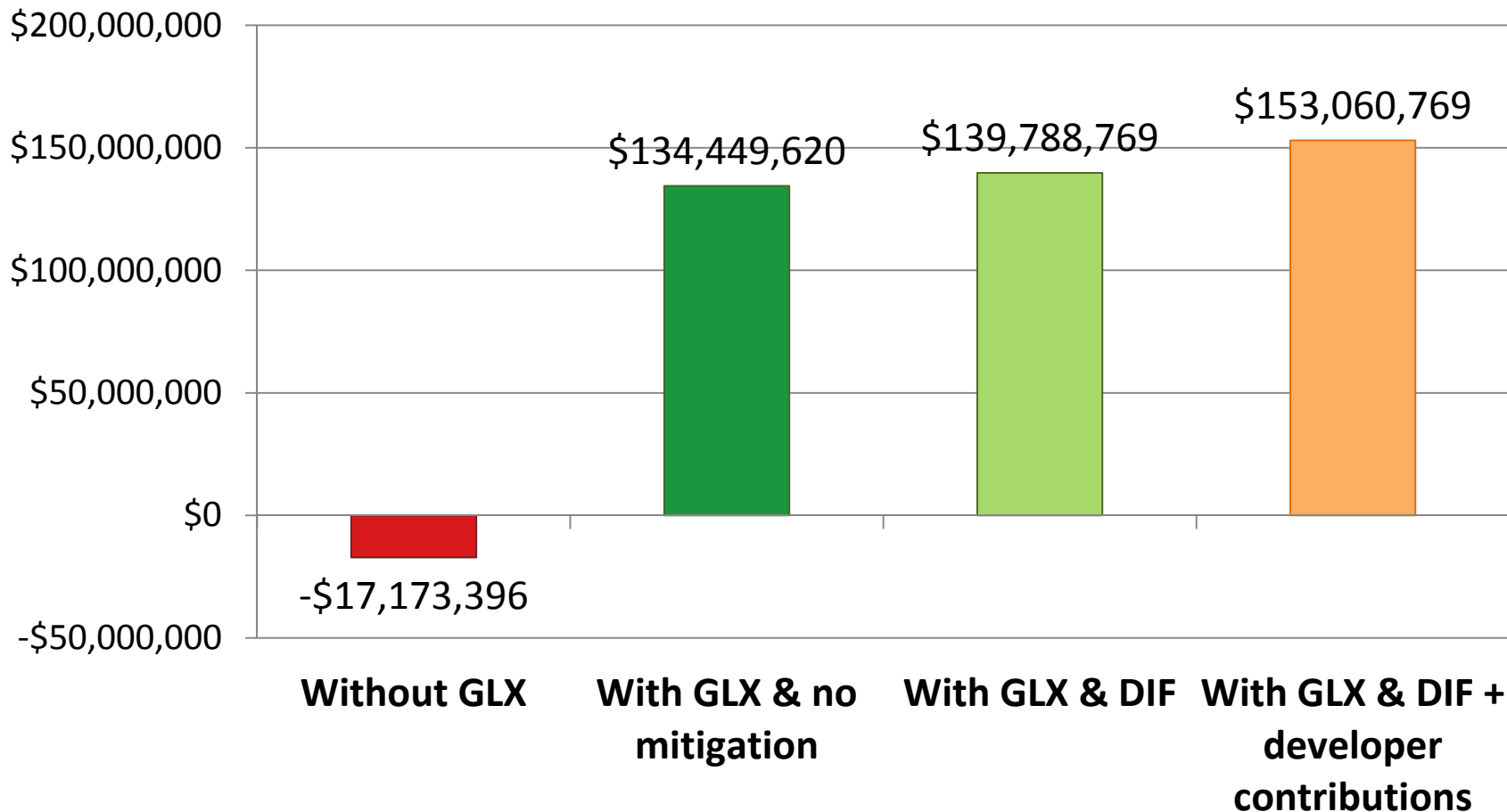
Cumulative operating budget surplus FY17-FY27



Mitigation opportunities

- Several critical items are not reflected in these numbers but could dramatically improve our financial outlook
 - A USQ DIF
 - Developer contributions
 - Sale of USQ assets
 - Additional grants, including MassWorks
 - Public-private partnerships

Cumulative operating budget surplus FY17-FY27



Bottom line projections

- While the City will take on more debt with GLX and other critical projects, these investments will pay off:
 - Pie expands by \$140 million over 10 years (\$261 million over 30 years according to a study commissioned by MAPC)
 - Generate \$134 million in cumulative budget surplus over 10 years with no mitigation

Financial return on GLX

- This budget surplus GLX gives us greater capacity to:
 - Invest in other identified community needs and priorities
 - Slow the growth in taxes
 - Mitigate SHS debt service

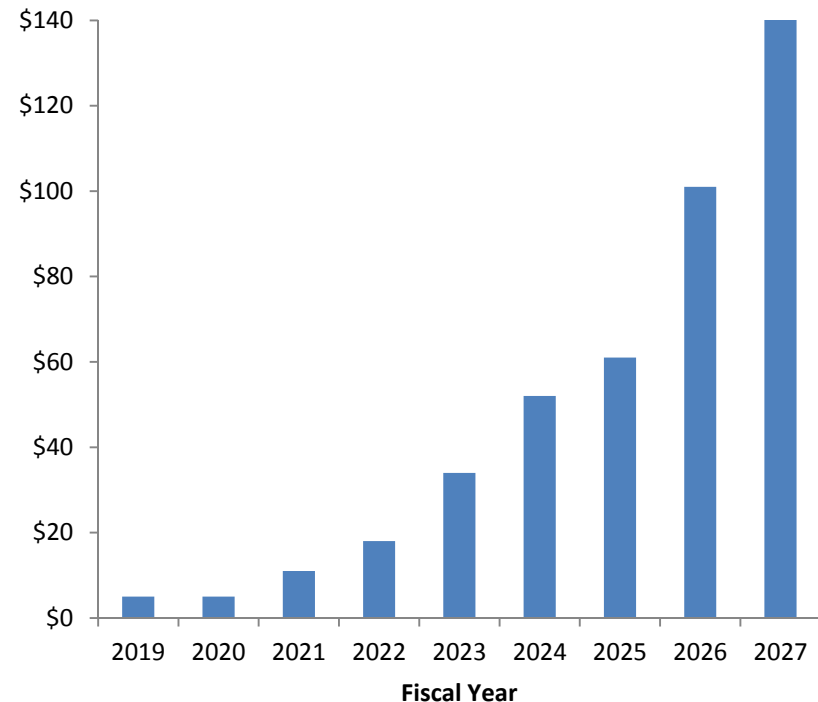
What this means for taxes

- Bonding \$50 million for the GLX will not in itself increase taxes
- This may seem counterintuitive, but it comes down to the fact that we have to pay for the GLX within our budget and the taxes that support it
- Our ability to increase our budget is limited by Prop 2 ½ plus new growth
- We have to think about how the GLX fits within our budget, rather than how the GLX increases our budget.
- This requires making prudent financial decisions and tradeoffs in the short term which will yield long-term payoffs.

What this means for taxpayers

- In response to requests for information on the cost of the GLX for taxpayers:
 - With interest, the GLX will cost the City \$103 million over 35 years
 - This translates to \$5 of the tax bill for an average two-family household in FY19, \$34 in FY23, and \$141 in FY27
 - Analysis is based on conservative assumptions and does not reflect mitigating factors such as developer contributions

Share of Tax Bill Devoted to GLX Debt Service, Average Two-Family with No Mitigation

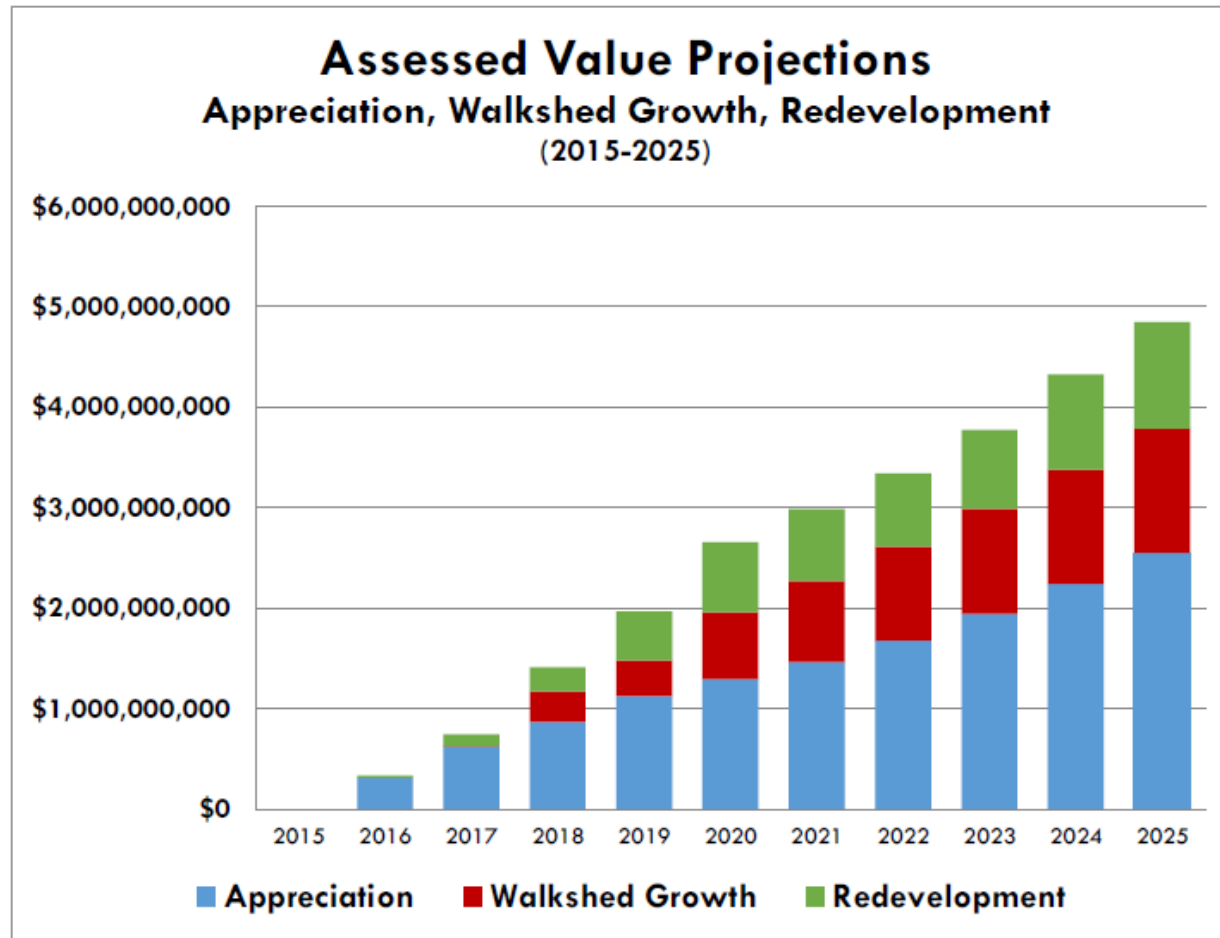


Source: City of Somerville Finance Office analysis

Remember...

- Our interest rates will likely be lower. We're currently borrowing at just over 3%.
 - If we borrow at 4%, the total cost of the GLX will be \$92 million rather than \$103 million.
- We are aiming to capture half of our GLX contribution from developers.

Nest egg growth



Source: RKG, Green Line Assessment Study, 2016, Figure 1-1.

New CIP framework

- All of the scenarios we discussed above assumed continued investment in our recurring and underway capital and infrastructure projects.
- For the unscheduled projects – which are identified community needs and priorities – the City will determine on an annual basis which to pursue based on excess budget capacity and appropriate timing.
- We will establish a CIP Advisory Committee to provide citywide input on our annual capital & infrastructure investments.

GLX updated timeline

Date	Action
September 2016	MassDOT Board/FMCB approves initiation of procurement process; Cambridge City Council votes to approve local financing
October 2016	Phase 1 of MassDOT procurement process (LOI) begins; MassDOT hiring project team
November 2016	Administration submits bond authorization request (with full presentation); BOA deliberation
December 2016	BOA deliberation and vote (by 12/8) MassDOT initiates phase 2 of procurement process (RFQ)
Spring 2017	MassDOT initiates phase 3 of procurement process (RFP)
Late 2017 – early 2018	MassDOT selects construction team
Spring 2018	MassDOT issues Notice to Proceed (NTP); construction begins
2022	All stations complete

Next steps

11/17/16 update

- GLX
 - Administration submits RKG GLX report to BOA (10/27/16). Complete
 - Administration ~~presents on GLX &~~ submits Project Participation Agreement, bond authorization, home rule petition, and side letter agreements to BOA (11/10/16). Complete
 - Administration presents on GLX (11/17/16)
 - BOA votes on GLX bond authorization and home rule petition (MassDOT requiring this vote by 12/8/16)

Next steps, cont'd

- Zoning
 - USQ
 - Administration presents on USQ zoning; public hearing (10/18/16)
Complete
 - BOA deliberation on USQ zoning
 - Overhaul
 - Administration releases public review draft of zoning overhaul
(**dependent on USQ zoning schedule**)
 - Administration submits zoning overhaul to BOA (**dependent on USQ zoning schedule**)
- DIF
 - Administration submits request for DIF consultant (10/27/16).
Complete; request in Finance
 - Administration submits DIF materials to BOA, presents on DIF, and holds public hearing (**early 2017**)
 - BOA deliberation on USQ DIF

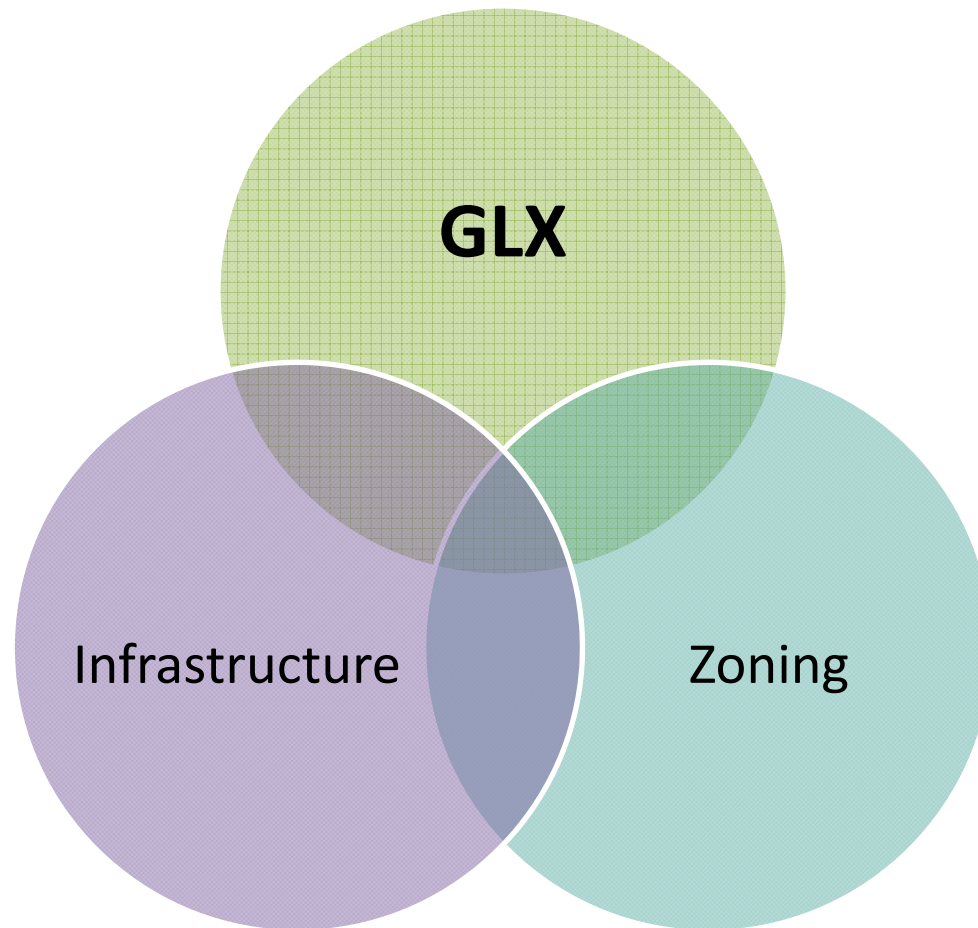
Next steps, cont'd

- Infrastructure
 - Administration presents on USQ utility work & submits bond authorization request (early 2017)
 - BOA deliberation on USQ utility bond authorization request
- SHS
 - MSBA Board votes on SHS (2/15/17)
 - Administration submits bond authorization request (2/23/17)
 - BOA deliberation on SHS bond authorization request
- Capital Investment Plan
 - Administration submits complete list of underway, recurring, critical, and unscheduled projects (November 2016)
 - Form CIP Advisory Committee (early 2017)

What we covered tonight

1. Why we're here
2. What's in front of you
3. How GLX affects our financial outlook
4. Timeline & next steps

Delivering on SomerVision: 3 key commitments



Ideal timeline

Calendar Year	2016			2017						2018				2019			
	Oct	Nov	Dec	Jan	Feb	Mar	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GLX	RKG study submission	PPA, appropriation language, and home rule petition request & BOA deliberation								1st annual payment					2nd annual payment		
	MassDOT procurement process										Construction (through 2022)						
USQ infrastructure (phase 1)					Bond authorization request & BOA deliberation		Bid; construction (through 2019)										
DIF	Consultant request & BOA deliberation		Analysis & application		DIF request; public hearing; BOA deliberation; MOBD review												
USQ zoning	Public hearing	BOA deliberation															
Zoning overhaul	Dependent on USQ zoning schedule																
SHS		Ballot vote			MSBA Board vote; bond authorization request; BOA deliberation					Construction (through 2022)							
CIP		Capital & infrastructure project list submission		CIP Advisory Committee formation													