




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 

DATE: September 23, 2010

SUBJECT: An Order approving the creation of a Somerville DIF Development District and a Somerville 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 early 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.

Comments from the public hearing held on Wednesday, September 15th are being transcribed and will be provided to the BOA along with any written comments as soon as the written comment period closes.

What is DIF

DIF is not a new tax. DIF is not a special assessment.

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. In Somerville, the District Improvement Financing District (DIF) and Invested Revenue District (IRD) are co-terminus. Jointly, they are referred to as 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 within the City 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.

The need for DIF

In a few short years, Somerville will be home to at least 6 new rapid transit stations when taking into account the Green Line Extension (GLX) and the Orange Line Station at Assembly Square. This investment in rail infrastructure has the potential to transform Somerville for the better as 85% of residents will live within a ½ mile radius of rapid transit where only 15% of residents live so close today. In addition to providing improved access for residents, the transit investment will open up land for millions of square feet of new development opportunity.

However, several significant hurdles will need to be addressed before the full development potential of the city can be realized. These hurdles include very aged infrastructure (over 100 years old in many locations), small and irregularly shaped parcels held by an array of property owners, extensive areas of brownfields, little or no vacant land, and a series of underutilized properties and an existing mix of businesses that are becoming increasingly obsolete. Somerville has experienced the negative impacts of its undersized infrastructure during the July 10, 2010 flood in Union Square and parts of East Somerville. The private sector which is cautious of investing its monies, especially in the current economic environment, will want some assurances that these issues will be addressed.

District Improvement Financing (DIF) provides Somerville with an important tool to ensure that the infrastructure improvements are made and catalyst sites are developed. By adopting a DIF boundary and a financing plan, the City is committing to reinvest the growth in property tax

generated by the DIF District within the district over the next 30 years. Not only can this commitment leverage other public dollars, such as grant funds, but as seen in cities across the U.S., it can stimulate the private sector to also invest in the area. Over time, as the DIF district moves forwards, its benefits will be seen in the improved infrastructure, new buildings, increased and improved open space, and the many new workers going to lunch and hopefully enjoying music and other programming in the community gathering places within the DIF.

District Description

The Somerville DIF contains approximately 450 acres of contiguous mixed use land between Porter Square and Sullivan Square in southeastern Somerville. The district encompasses several recognized neighborhoods including Union Square, Inner Belt, Brickbottom, Twin City Plaza, Boynton Yards, Ames Campus and Wilson Square. The district is bookended by rail transit with the MBTA Red Line stop at Porter Square on its western edge and the Orange Line stop at Sullivan Square on its eastern edge and will contain two stations within its borders – Union Square and Washington Street/Brickbottom when the Green Line Extension is complete. It is served by the three major corridors of Somerville Avenue, Washington Street and McGrath Highway/Route 28 and is adjacent a northbound exit off of Interstate 93.

The DIF district includes the areas of Somerville, outside of Assembly Square, most recognized as being opportune for future commercial development aside. Inner Belt, Brickbottom, Boynton Yards, parts of Union Square and Somerville Avenue were once home to vibrant commercial operations employing thousands. Over time, these areas have experienced declines as rail access was eliminated. Today, even though these areas are located near the most economically vibrant municipalities in New England, they are characterized by predominantly low rise structures with limited employment opportunities – with some exceptions – that underutilize the urban core land upon which they are located. As rapid transit service is increased in Somerville, these areas are prime for more intensive development, provided that the current challenges are addressed.

Specifically, the district faces challenges of inadequate infrastructure, inefficient transportation networks, inadequate availability of open space, underutilized commercial and industrial property, outmoded industry mix, limited housing options and unmet service needs. Somerville's goals are to address these shortcomings across the entire DIF district. However, it is important to recognize that within the DIF district boundaries, several sub-districts exist that have their own existing urban character and planning and infrastructure needs. The six (6) identified sub districts are Somerville Avenue – West, Somerville Avenue – Central, Union Square, Boynton Yards, McGrath / Brickbottom, and Inner Belt.

What are the DIF goals?

Somerville has developed eight (8) goals that will guide activities within the DIF District. These are:

- Ensure the provision of adequate infrastructure (e.g., sewer, drainage, water, communications, electricity, gas, telecommunications and roadways) to support growth anticipated throughout the district.

- Strengthen the multi-modal transportation network so that it accommodates anticipated traffic demand while being accessible, inviting and safe for pedestrians, bicyclists, and transit riders.
- Create an inviting urban streetscape and public realm that improves connectivity and promotes a strong sense of community through physical improvements, events and programming.
- Catalyze development and promote land transformation of underutilized parcels through site preparation and development activities such as brownfield remediation, property acquisition, new construction, and thoughtful restoration of existing buildings, as appropriate, in a manner respectful of the area's historic character.
- Focus on business development activities that produce a vibrant urban environment with an emphasis on daytime foot traffic and a complimentary mix of industries and job types.
- Maintain a diversity of housing options while increasing the overall supply of affordable units.
- Provide a range of services to residents that will improve health, offer educational opportunities and training for low and moderate income persons, increase ADA accessibility, and benefit the young and old.
- Develop processes and regulations that promote active community engagement, ensure transparency in government, and encourage private interests to be stewards of the public good.

Somerville's DIF goals are building blocks designed to stimulate the local economy and capitalize on the impending transit investment that will bring six new stations to Somerville. By breaking down the tasks needed to prepare for transit into manageable components – e.g., infrastructure, catalyst projects, affordable housing, etc. – they can each be planned for, managed, and tracked in a systematic manner. A plan such as the DIF plan and the citywide comprehensive plan, which is presently being drafted, will help the DIF Administrators make thoughtful decisions about how to deploy resources to make the goals into reality.

Increment Calculation

The method proposed in the draft DIF Plan to estimate annual tax increment utilizes a consistent growth rate across the entire district (e.g., average growth approach), as opposed to a methodology that evaluated each property individual and determined when it would be developed (e.g., project specific approach).

The *project specific approach* would derive tax estimates based on hypothetical assessed values of specific buildings according to their expected use and build out and aggregate the building values of the entire district. As the Somerville DIF includes over 1,000 parcels and numerous sites with limitless potential build out scenarios, this approach would require too many simplifying assumptions. Additionally, recommendations from financial officers of other cities using comparable programs spoke to the perils of forecasts that operate at the project (instead of the district-wide) level. In contrast, the *average growth approach* acknowledges that property owners make individual decisions about when to invest in their properties, however, when aggregated at the district level and when certain factors are taken into account, such as

construction of the Green Line Extension, cautious area wide growth factors can be reasonably accurate.

Another important factor considered in developing the projected growth rate was the history of assessed value in Somerville. Analysis of data has found that property value has grown over the past twenty years an average of 4.6% per year (1990 to 2010), including new growth and price appreciation. As noted below, the growth rates included in the proposed DIF District are conservatively less than the citywide history prior to the opening of the Green Line Stations in Union Square and on Washington Street. For a period subsequent, a more aggressive rate is used, but will then be reduced back to 4% as time passes.

PROJECTED TAX INCREMENT			
Somerville DIF District			
Plan Year	Fiscal Year	Growth Rate	Increment
1 (6 mos.)	2011	2.5%	\$167,000
2	2012	4.0%	\$541,000
3	2013	4.0%	\$1,163,000
4	2014	5.0%	\$1,823,000
5	2015	5.0%	\$2,694,000
10	2020	4.0%	\$8,071,000
15	2025	4.0%	\$14,039,000
20	2030	4.0%	\$21,927,000
25	2035	4.0%	\$31,041,000
30	2040	4.0%	\$42,682,000
Total			\$510,909,000

Governance

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

The Mayor's Office of Strategic Planning and Community Development is recommended to serve as Program Manager and is thereby is authorized by the Administrator to execute Program objectives as approved in the five-year budget. The Program Manager is also authorized to negotiate, on behalf of the City, Development Agreements with third parties that advance Program Goals.

The Program Manager may, as described in the Program and appropriated in the budget, may provide Grant of financial assistance to eligible private parties. Grants made in excess of \$50,000 will require the approval of the Administrator.

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. The City held its Public Hearing on Wednesday, September 15, 2010 at the Argenziano School. A legal ad noticing the hearing was printed in the Boston Herald on September 1, 2010. The City also mailed the notice to every property tax payer of record within the District boundaries as required by law. The meeting was recorded on video tape by the communications department and was 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 the adopted Application to EACC. The public comment period will be open until 12 Noon, Wednesday, September 29, 2010. All comments will be submitted to the Board of Aldermen at their regularly scheduled meeting on Thursday, October 7, 2010.

Early Projects for Implementation

In the early years of the DIF, the City proposes to use the captured increment to complete several transportation, infrastructure, and land use studies that will provide a road map for future capital investments. First priority is to complete engineering drawings for Union Square improvements conceptualized in the Union Square Transportation and Streetscape Study and Design currently underway. Study, design and engineering work will follow in Boynton Yards, McGrath / Brickbottom and Inner Belt.

The first capital projects are expected in 2013 as the Union Square project being their phased implementation. These projects will include:

Webster Avenue and Webster Avenue Viaduct Reconstruction and Streetscape: Webster Street will be reconstructed from its intersection with Washington Street/Somerville Avenue to Prospect Street. The viaduct over the MBTA Fitchburg line is to be reconstructed by MassHighway to support truck traffic.

Prospect Street and Prospect Street Viaduct Reconstruction and Streetscape: As the main access to the new Union Square Green Line station, Prospect Street will be widened and reconstructed from Washington Street to Webster Avenue. Included in this work are improvements to the

streetscape and underground utilities. Additional right of way will be required to construct this project.

Washington Street Reconstruction and Streetscape: Washington Street will be reconstructed from the Fitchburg Rail right of way to McGrath Highway. New separated sewer and stormwater lines will be constructed on the western approach of Washington Street and connect into those coming from Somerville Avenue. The Washington Street stormwater line will be of a sufficient size as to accommodate the eventual connection of the proposed Beacon Street storm drain. Included in this work are improvements to the streetscape and other underground utilities.

Somerville Avenue Reconstruction and Streetscape: Somerville Avenue will be reconstructed from its intersection with Washington Street and Webster Avenue through Union Square Plaza to McGrath Highway. A new separated storm drain with increased capacity will extend from the current vault at Stone Avenue to the MWRD conduit at Medford and Poplar Streets to reduce the threat of flooding in Union Square. Included in this work is the separation of the combined sewer, improved pedestrian amenities, and improvements to other underground utilities.

Union Square Plaza: A new 34,000 square foot plaza will be constructed south of Washington Street. The plaza will include landscaping, streetscape improvements and an east bound Somerville Avenue Woonerf. Other amenities, such as a performance space, public art, or a play structure, will be planned as part of a community process.

Union Square East Parking Structure: Construction of a public parking facility on the east side of Union Square will provide improved parking resources for that side of the square. Land acquisition will be required for this project.

Conclusion

The arrival of the Green Line provides a once in a life time chance for Somerville to improve the quality of life for current and future residents and end the unsustainable dependence on residential property taxes to fund the general operations of government. With other federal and state funds drying up, the City of Somerville cannot afford to sit still and waste this opportunity. It must define its own future and leverage its resources, in the form of incremental growth, to fund the much needed infrastructure and open space improvements that will make Somerville a great place to live, work, and play.

Recommendation

It is recommended that the Board of Alderman adopt the Order establishing the DIF Development District, DIF Development Program, Invested Revenue District and Invested Revenue District Development Program.

Attachments

- DIF Order
- Application to the EACC

- DIF Statute M.G. L. c 40Q
- DIF Regulations 402 CMR 3.00