

Somerville Linkage Nexus Study: Summary and Recommendations

City Council Land Use Committee/
Joint Session with Planning Board
May 18, 2023

Study Context

- Somerville established housing linkage fees in 1990 and jobs linkage in 2017
 - Provides funding to address impacts of large development projects
- Jobs linkage applies to non-residential development projects over 15,000 SF
- Housing linkage applies to non-residential project over 30,000SF
- Current rates are: \$11.23 per square foot (PSF) for housing & \$2.75 PSF for jobs*
- A nexus study was commissioned to set new rates, review policy options and ensure that rates meet legal “rational nexus” and “proportionality” tests

*These are the rates in effect when the study was conducted. They have since been adjusted for inflation based on the CPI.

CITY OF SOMERVILLE
ORDINANCE NO. 2023-
IN CITY COUNCIL: _____, 2023

AN ORDINANCE AMENDING ARTICLE 12 OF THE SOMERVILLE ZONING ORDINANCE TO MODIFY THE AFFORDABLE HOUSING LINKAGE FEE AND THE TIMING OF THE PAYMENTS OF THE LINKAGE FEE.

WHEREAS, an established body of law supports a municipality's right to require monetary or other contributions in connection with commercial and/or residential development, including conditioning a development permit upon such payments or contributions when a "reasonable relationship" can be demonstrated between the required fee and the government's legitimate purpose;

AND WHEREAS, developing and preserving affordable housing for low- and moderate-income households, constitutes a legitimate government purpose, as indicated by authorizing state legislation;

AND WHEREAS, Somerville established and codified a housing linkage policy in 1990, and amended it in 2013 and in 2017 each amendment based on the results of a Nexus Study Commissioned by the City;

AND WHEREAS, a Nexus Study commissioned by the City and completed in 2022 by a qualified consultant recommended that the City simplify and update the City's linkage policies by revising the affordable housing linkage fee project size threshold exemption and linkage fee payment schedule to match those of the jobs linkage,

AND WHEREAS, the consultant further recommended that the City maintain its jobs fee rate at \$2.75 and that doubling the current affordable housing linkage fee of \$11.23 to \$22.46 was warranted based upon the financial analysis conducted in the reports and that a fee increase of \$11.23 is unlikely to impact Somerville's competitiveness in either attracting development investment or tenants.

AND WHEREAS, establishing a graduated linkage fee for in which projects with at least 15,000 square feet (SF) pay 50% of the full housing linkage fee for SF between 15,000 and 30,000 and pay the full housing fee on the amount of SF above 30,000 was also warranted by the financial analysis.

NOW THEREFORE, be it ordained the City Council, in session assembled, that Article 12 of the Somerville Zoning Ordinance is amended as follows

Additions are underlined, subtractions are crossed out

Nexus Study Scope and Analysis

- Forecast 10-year development subject to linkage, tenant industries and jobs
- Estimate impact of new jobs on affordable housing demand, funding gap needed to building housing to meet demand, and maximum housing fee to fill funding gap
- Estimate occupational demand for entry-level and middle-skill jobs at new development, funding gap to provide education & job training for resident access to jobs and maximum jobs fee to fill funding gap
- Assess impact of fee increase options on development economics and Somerville's economic competitiveness
- Review potential policy changes
- Recommend new linkage fees and other policy changes

Jobs Linkage Analysis

- Demand from new jobs by occupation estimated from MA occupational distribution
 - Focus on jobs not requiring a college degree
 - Goal of 30% of new jobs for Somerville residents
- Existing education/training supply estimated
 - Interviews, Boston PIC & Mass Hire directories, national college database, Somerville Public Schools
 - Data & assumptions for graduation, placement, Somerville resident rates
 - Assume 42.50% of supply goes to jobs at new development
- Exaction fee based on cost to address supply gap for new jobs plus
 - ABE/ESOL services, career advancement training, training stipend

Projected Occupied Space by Industry And Employment

Industry	Square Feet	SF/Employee	Number of Employees
Life science	1,540,000	450	3,422
Computer systems design	110,000	300	367
Software	110,000	300	367
Other Information Services	110,000	300	367
Management & technical consulting	165,000	300	550
Management of companes	165,000	300	550
Ground floor retail	88,000		
Restaurant	53000	120	442
Clothing Stores	8,000	675	12
Food and beverage stores	10,000	500	20
Daycare	6,000	500	12
Bank branches	5,000	500	10
Medical offices	6,000	300	20
Hotel	70,000	2,000	35
Total	2,358,000		6,174

Jobs Linkage: Skills Training Gap & Cost by Sector

30% Resident Employment

Sector	Ten-Year Training Positions Needed	Existing Training Supply - Low	Existing Training Supply - High	Gap-Low Supply	Gap: High Supply*	Funding Gap at Low Supply	Funding Gap at High Supply
Life Science	87	10	50	77	37	\$1,463,000	\$703,000
Information Technology	67	70	110	0	0	\$0	\$0
Health Care	9	0	60	9	0	\$80,229	\$0
Hotel/Restaurants	127	51	57	76	70	\$440,800	\$406,000
Office/Admin/Other	261	26	30	235	231	\$1,339,500	\$1,316,700
Total	551	157	307	397	338	\$3,323,529	\$2,425,700
*Gap is zero for IT & health care since training supply exceeds needed training							

Jobs Linkage: Summary Results: 30% Resident Employment

Type of Service	High Training Supply Estimate	Low Training Supply Estimate
Skills Training	\$2,425,700	\$3,323,529
ABE/ESOL	\$360,000	\$504,000
Career Advancement	\$598,980	\$598,980
Total	\$3,384,680	\$4,426,509
PSF Linkage Fee	\$1.41	\$1.84
Training Stipend	\$1,396,640.00	\$1,484,800
Total with Stipend	\$4,781,320.00	\$5,911,309
PSF Fee with Stipend	\$1.99	\$2.46
Current Fee	\$2.75	\$2.75

Housing Demand

- New jobs (6,174) adjusted for 14.4% demanding housing in Somerville, earnings by occupation, household size and number of workers/household

Total Housing Demand By Household Size and Income Level						
	1 person HHD	2 Person HHD	3 Person HHD	4 or More HHD	Total	Percent by Income
Low Income	34	27	10	11	82	22.3%
Moderate Income	23	4	13	31	71	19.3%
Middle Income	51	97	33	33	214	58.3%
Total	108	128	56	75	367	100.0%

TDC for Rental and Ownership Housing

- Cost of housing production based on sources and uses of recent completed projects in MHP portfolio FY16 to FY21, and for most current construction costs for projects in the City of Boston under construction and in applications for city funding
- 282 rental units @ \$564,000 per unit
- 85 ownership units @ \$620,000 per unit
- Total Development Cost = \$213 million

Calculation of Financing Gap per SF of New Non-residential Development

- Financing gap for ownership units is 49.7% of TDC or \$25 million
- Financing gap for rental units is higher at 64.5% of TDC or \$103 million
- Total Financing Gap - \$128 million, or 60% of TDC
- Total Commercial SF – 2.6 million (subject to change)
- Total Non-Exempt SF under current policy - 2.2 million
- Per SF Financing Gap for new Commercial Development - \$58.28

Housing Linkage Scenarios

- Total financing gap - \$58.28
- Current linkage fee represents 19% of the financing gap
- Increasing fee would increase city funds available to support a larger share of project costs, which are rapidly increasing

	Linkage Fee Scenarios, Percent to Total / Full Financing Gap	Linkage Fee Amounts, per Square Foot
Total Financing Gap		\$58.28
Illustrative Percentages of Financing Gap that would be Supported by Linkage Fees		
11% local share of TDC per MHP Projects	18.2%	\$10.62
Current Linkage Fee	19.3%	\$11.27
\$5 fee increase	26.8%	\$15.62
\$10 fee increase	36.5%	\$21.27
\$20 fee increase	53.7%	\$31.27
Full Financing Gap	100.0%	\$58.28

Source: City of Somerville; Karl F. Seidman Consulting Services; and ConsultEcon, Inc.

Competitive Impact of Potential Fee Increases

- Maximum \$47.88 fee increase, **if fully passed on as higher rent**, would impair Somerville's position with two key competing life science location, potentially impacting tenant location decisions
 - Would increase Somerville lab rents by 5%
 - Eliminate Somerville's rent advantage over Watertown
 - Make Somerville more costly than West Cambridge
- Smaller fee increases of \$20 or less will allow Somerville to maintain a lower rent vis-à-vis Watertown and remain close to West Cambridge.

Impact of Fee Increase Options on Lab Developer Returns

- Somerville developers reported target returns of 6.5% to 7.5%
- Maximum \$47.78 fee increase lowers returns for high-cost lab projects below developer requirements and could make some projects infeasible
 - Estimated developer returns drop by .19 percentage points, from 6.37% at current fee to 6.18 % with high development costs (1300 PSF)
 - Estimated returns drop by .27 percent points, from 7.53% to 7.26%, with lower development costs (\$1100 PSF).
- Fee increases of \$20 or less reduce developer returns by less than .12 percentage point and are unlikely to impact lab development feasibility

Potential Linkage Policy & Administrative Changes

- Lowering the project threshold for housing linkage fees to 10,000 SF, 15,000 SF or 20,000 SF;
- Altering the 30,000 SF exemption for the housing linkage fee;
- Establishing a graduated housing linkage fee rate;
- Synchronizing the differing payment schedules for the jobs and housing linkage fees

Recommended Policy Changes and Fee Levels

- Lower housing linkage project size threshold & exemption to 15,000 SF to match those for jobs linkage
- Change housing linkage fee payment schedule to match jobs fee schedule
 - Two equal payments at building permit date & certificate of occupancy date
- Graduated housing linkage fees:
 - projects pay 50% of the full housing linkage fee for SF between 15,000 and 30,000 and pay the full housing fee on the amount of SF above 30,000
- Increase housing linkage fee to \$22.46 PSF
- Keep jobs linkage fee at \$2.75 PSF