



CITY OF SOMERVILLE, MASSACHUSETTS
MAYOR'S OFFICE OF STRATEGIC PLANNING & COMMUNITY DEVELOPMENT

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MEMO

To: Somerville City Council

From: Rachel Nadkarni, Acting Director, Economic Development Division
Alexis Turgeon, Housing Development Manager, Housing Division

Cc: Tom Galligani, Acting Executive Director

Date: February 8, 2022

RE: 23-0110: Requesting approval of the Urban Center Housing Tax Increment Financing (UCH-TIF) Zone, Plan, and Form of Agreement for Winter Hill.

This memo is intended to provide an overview of the Urban Center Housing – Tax Increment Financing materials that will be the subject of a public hearing at the City Council's Finance Committee on February 21, 2023. As an early step, staff presented the Urban Center Housing – Tax Increment Financing (UCH-TIF) tool to the City Council on December 8, 2022 and gathered valuable feedback that informed staff as they prepared the City's first UCH-TIF Plan, Zone, and Agreement for an area in Winter Hill.

Attached you will find three items for your review and consideration:

- Appendix A: The draft UCH-TIF Zone & Plan
- Appendix B: The draft negotiated Agreement to be signed between the City of Somerville and 299 Broadway Property Owner LLC (an entity of which Mark Development and Beacon Communities are members)
- Appendix C: Report from Barry Abramson of Abramson & Associates in association with Beverly Gallo, Peregrine Urban Initiatives, regarding financial analysis completed to inform the UCH-TIF Agreement between the City of Somerville and 299 Broadway Property Owner LLC

Background Information

UCH-TIF is a tool to fill the gap in financing for projects that produce significant affordable housing in commercial areas. This tool is administered by the Department of Housing and Community Development (DHCD) and allows communities to contribute local financial support in the form of an exemption on the real estate taxes that would be generated from the increase in value on the property between its current state and its post-development state (the increment).

UCH-TIF can only be used in commercial districts on projects that are primarily residential in use. Projects using UCH-TIF must meet a minimum affordability threshold set by DHCD. To use the tool, a municipality must get DHCD approval of an UCH-TIF Zone, Plan, form of Agreement, and negotiated Agreements.

The Winter Hill UCH-TIF Zone & Plan

The proposed Winter Hill UCH-TIF Zone follows the limits of the Winter Hill Urban Renewal Plan Area – encompassing four properties at the intersection of Temple and Broadway, the largest of which is the former Star Market building at 299 Broadway.

UCH-TIF would support the redevelopment at 299 Broadway into 288 units of housing, including 132 units of affordable housing (the “Project”). UCH-TIF could also be used to support affordable housing on the Sewall Street lot that is being transferred to the City or on the corner properties (313 Broadway and 9 Temple St) in the future through separate Agreements.

The UCH-TIF Zone and Plan describe these properties in detail and includes a number of appendices outlining the development potential and context of these sites, particularly in the context of the Winter Hill Urban Renewal Plan. The first 30 pages are the Zone and Plan and the following 250+ pages are appendices.

Parties involved in 299 Broadway Development and the UCH-TIF

The following parties are involved in building this project and making the provision of UCH-TIF possible.

- 299 Broadway Property Owner LLC (Development Partners): The Project consists of two buildings which will be developed by 299 Broadway Property Owner LLC, which is a partnership between Mark Development and Beacon Communities
 - o Mark Development: Mark Development LLC, based in Newton MA, is the market rate development partner that will have long term ownership of the building closer to Grant

Street (Building B). Mark Development's specialty is in building mixed use projects with retail and housing.

- Beacon Communities: Beacon Communities, based in Boston MA, will have long term ownership of the building closer to Temple Street (Building A). Beacon Communities specializes in affordable housing projects. In this project Beacon Communities has a minority stake partner - Rise Together. Rise Together is a minority-owned real estate development business that focuses on creating long lasting growth through equitable development.
- City of Somerville: The City of Somerville would be granting the tax increment financing for the Project at 299 Broadway.
- Department of Housing and Community Development (DHCD): DHCD manages the UCH-TIF program and will review and approve the UCH-TIF Zone, Plan, form of Agreement, and negotiated Agreements.

The Draft Negotiated UCH-TIF Agreement

The draft negotiated Agreement describes the terms of the tax increment financing that will be offered to 299 Broadway Property Owner LLC by the City of Somerville. A few of the terms are still being negotiated, namely ones that are subject to DHCD's near complete pre-review of how these terms comply with program requirements. Once these last terms are finalized, a revised draft will be circulated to the City Council via email and become part of the meeting materials. Like the Zone and Plan, much of the negotiated Agreement outlines the details of the Project. Staff would like to draw the City Council's attention to a few key sections of the agreement.

Terms of the Tax Exemption

The most important of these is the exact terms of the tax exemption that will be offered, which is described in Section 6 of the Agreement, beginning on page 6. As was described in the December 8, 2022 discussion, current market conditions indicate that the project may need the full extent of the possible tax exemption allowable through the UCH-TIF Program (a 100% exemption of the incremental taxes for a period of 20 years) to be financially feasible. To confirm the necessity of the maximum tax exemption, staff brought in Barry Abramson and Beverly Gallo to conduct a preliminary analysis of the development team's pro-forma. Full text of the report from Mr. Abramson and Ms. Gallo can be found in Appendix C.

Abramson and Gallo confirmed that, given current market conditions and the relatively preliminary stage at which project assumptions have been developed, the assumptions in the pro-forma were within a range of reasonableness for this stage in the development process. They also found that it is also

possible that subsidy in addition to UCH-TIF may be necessary to make the project financially feasible. The project is an estimated 18 months from groundbreaking, meaning that the project financing at this point is cushioned with a conservative view of how construction costs, financing terms, and other factors will change in the interim. Typical of both city construction projects and private sector projects, it is expected that the amount of cushion, or contingency, will diminish the closer to construction the cost estimate is done since assumptions will be able to be estimated with greater confidence.

Based on Mr. Abramson and Ms. Gallo's report, staff feel confident that the full tax increment exemption could put the project in striking distance of closing the funding gap to deliver the high percentage of affordable housing and other public benefits in this Project. Macroeconomic signals in early February also offer cause for optimism that key factors such as interest rates and construction pricing will stabilize before the project is actually closing on financing and beginning construction in 18 months. Still, now is a time to be conservative and prepare ourselves that the Project may need the full tax increment over 20 years and, possibly, additional local financial support.

Renegotiation at the Time of Construction

Section 6.4 on page 7 of the draft agreement outlines that the terms of the tax exemption will be revisited and finalized prior to the project receiving the first vertical building permit. This will be the opportunity for the City's economic consultants to do a deeper dive into the project's pro-forma, as many of the numbers that are currently assumptions will become clear. In the conservative view, this point will tell us exactly how much more financial support the project needs. In an optimistic view, this will show if the tax increment financing terms can be modified because the full amount is no longer needed. Any updates to the terms of the Agreement will be reviewed by the City Council and DHCD at that time.

At the December meeting, the City Council laid out several ideas about how to proceed if, at the renegotiation point, the maximum tax exemption is no longer necessary. The ideas included:

- Continuing to allow the maximum exemption with conditions as to how the funds that are not critical to project financing are spent, including:
 - Using that additional funding to ensure a portion of construction roles are filled with local and/or union labor; and/or
 - Investment in deeper levels of affordability or additional affordable units
- Reducing the tax increment financing exemption percentage to restore funding to the general fund
- Creating a profit-sharing model that would involve periodic audits of the operations during the 20-year period so that if the revenue from the project rises beyond a certain level or rate of return, any profits above the returns outlined in the negotiated Agreement are returned to the City to offset excess funds from the tax increment financing.

Because the project is in a preliminary stage relative to the financing, these ideas are recorded here to guide future negotiations, rather than incorporated into the draft Agreement that will be signed at this point. There are currently too many variables that will determine the extent to which these ideas can be incorporated and the specific terms that would be set need real values in order to be written up as actionable terms. As the renegotiation point approaches, staff will work with the City Council to investigate any and all of the ideas developed and determine if it is possible to incorporate them into the negotiation of revised terms.

Process for Approval

The steps involved in approving Urban Center Housing – Tax Increment Financing for an area are specified by DHCD and include the following:

1. DHCD Pre-reviews
 - a. DHCD staff preview each part of the UCH-TIF Application – the UCH-TIF Zone, Plan, form of Agreement, and negotiated Agreements - in order to check for completeness and compliance with the program requirements.
2. City Council Approvals
 - a. City Council must approve:
 - i. A designated UCH-TIF Zone, setting the limits on where UCH-TIF is applicable
 - ii. An UCH-TIF Plan, describing the area and the plans for its redevelopment
 - iii. Negotiated Agreements
 - b. In the approval process, there must be a public hearing, with 2 public notices published within each of two successive weeks
3. The Mayor then executes the negotiated Agreement
4. DHCD reviews and approves all of the items listed above as a final step

A public hearing is scheduled to be held at Finance Committee on Tuesday, February 21, 2023. This memo and the attached materials are shared with the City Council and public two weeks prior to the public hearing in accordance with DHCD standards. Staff encourage the City Council and members of the public to submit questions as they arise so that staff can provide more detailed answers during the public hearing.

Questions, as well as written comments from the public to be included in the record should be sent to Kim Wells, kwells@somervillema.gov, with copies to Rachel Nadkarni, rnadkarni@somervillema.gov, and Alexis Turgeon, aturgeon@somervillema.gov.