



Introduction to District Improvement Financing (DIF)

*Financing infrastructure for today's needs and
tomorrow's development*

City Staff & RKG Associates
October 11, 2017

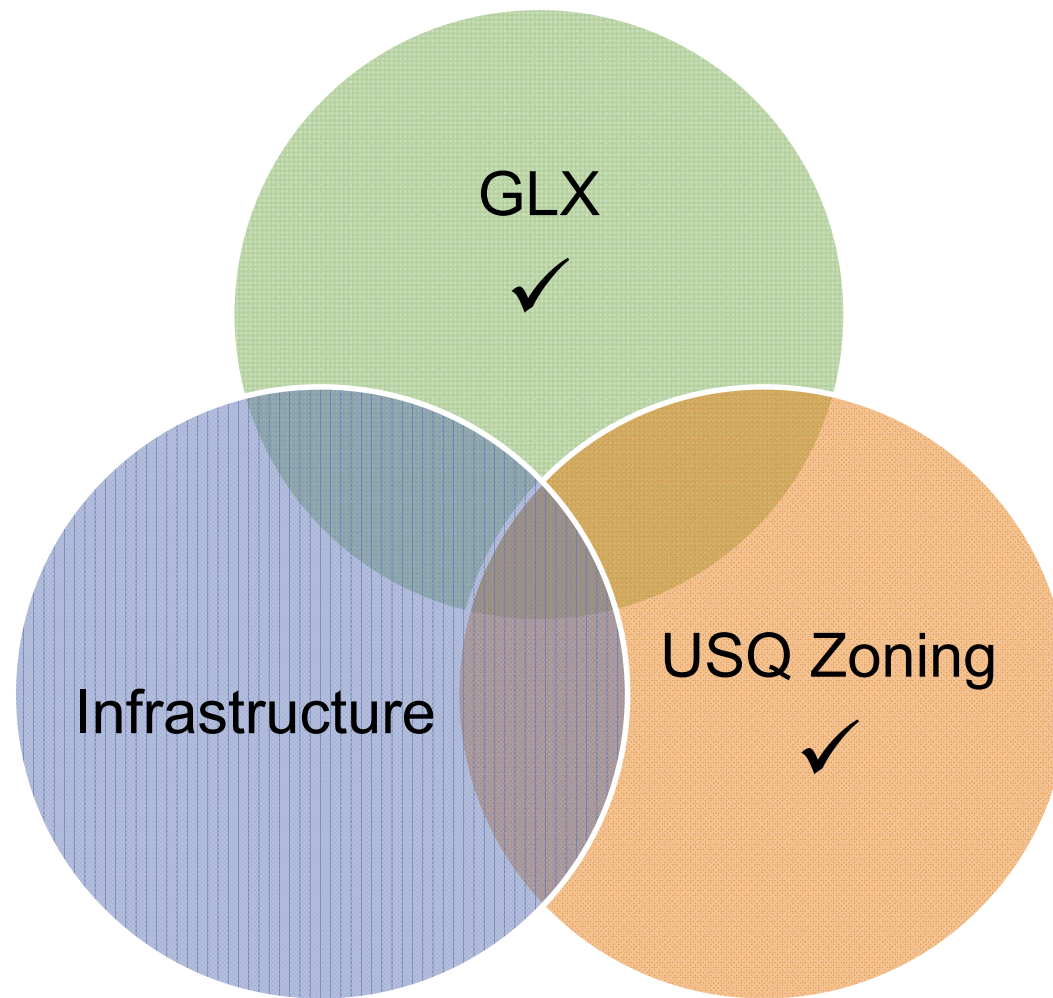
Agenda

1. Introduction (Mayor)
2. Proposed Infrastructure Program (City Staff)
3. DIF: *An Important Financial Tool* (RKG)
4. Proposed USQ DIF (City Staff)
5. DIF Financial Analysis (RKG)
6. Next Steps (City Staff)

Why we're here

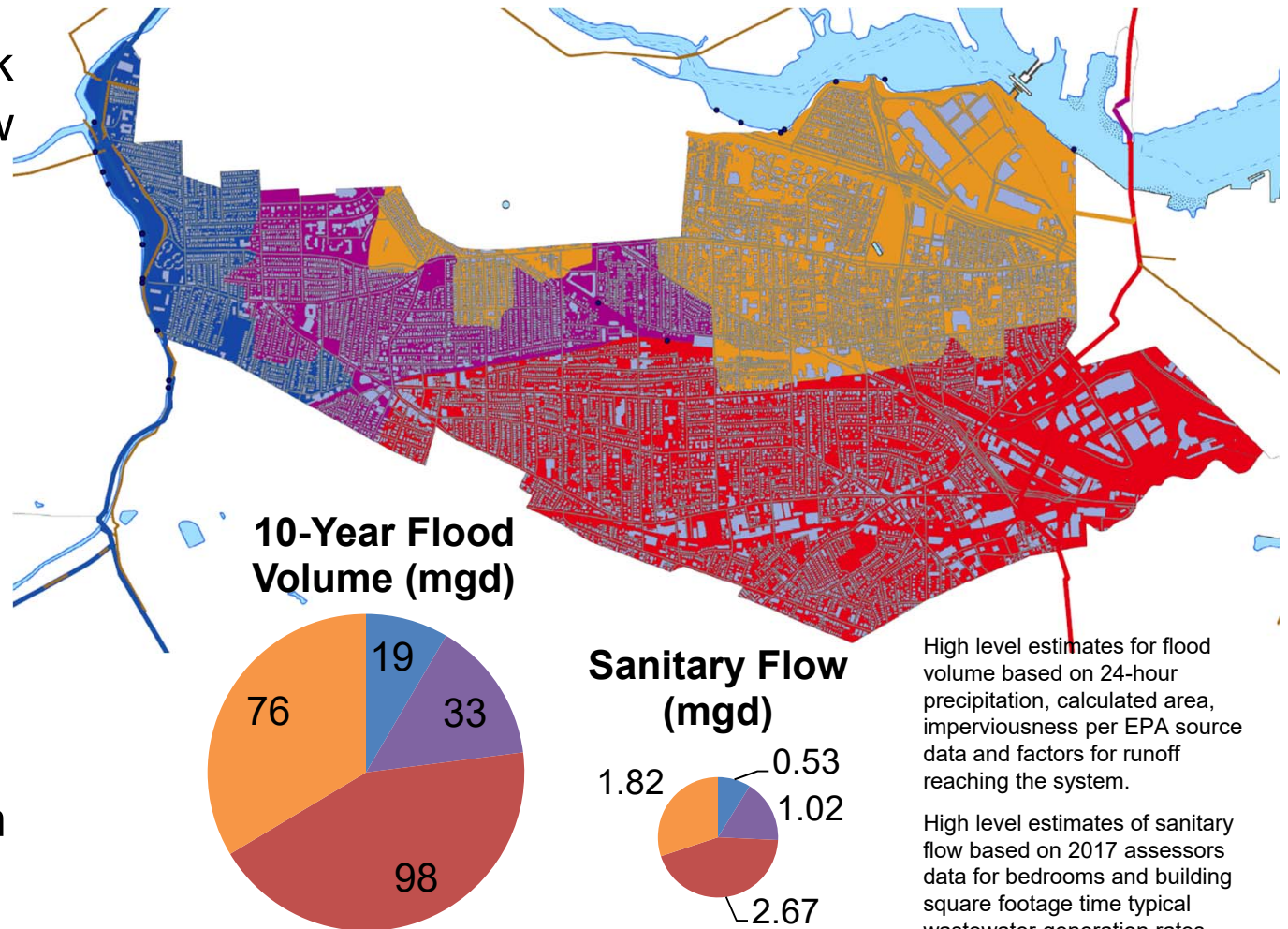
- We're seeking BOA approval for:
 1. Funding for significant infrastructure in and around USQ
 2. A key financial tool for this work: District Improvement Financing (DIF)
- Tonight we will present an overview and high-level financial analysis of the infrastructure work and the DIF
- At a future meeting we will present an in-depth financial analysis

*Infrastructure is the final
piece of the puzzle*

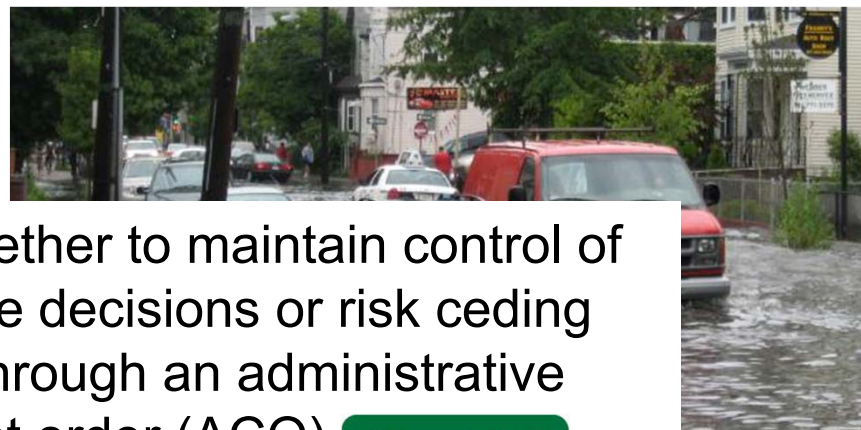


Union Square is our greatest infrastructure challenge

- City's pipe network moves 60% of flow through Union Square
- Connects to 140-year-old MWRA pipe shared with neighboring cities
- Storm flows many times larger than sanitary
- Pipes overloaded during intense rain



We have to solve this challenge to serve our neighborhoods



It's our decision whether to maintain control of these infrastructure decisions or risk ceding control to DEP through an administrative consent order (ACO)

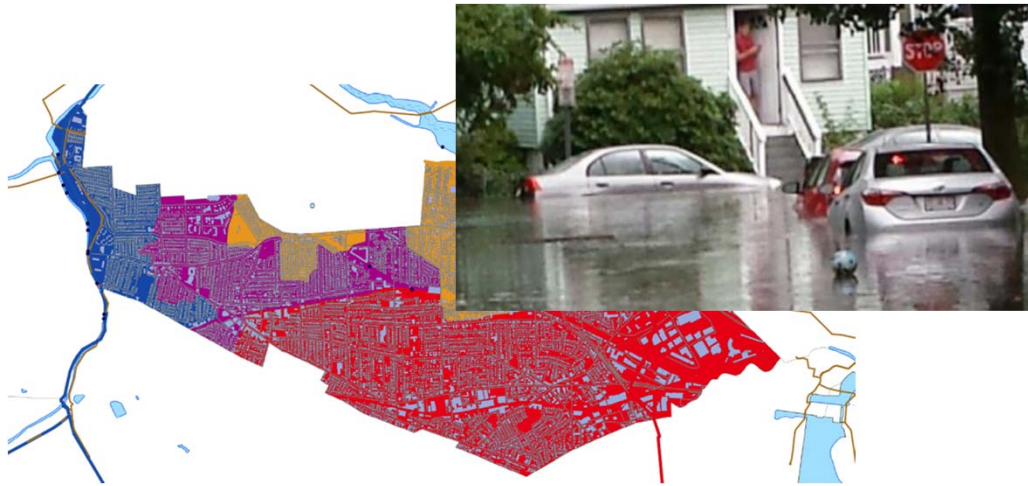


The same infrastructure also unlocks development in Union Square

- Provides 0.5 million gallons of sewer capacity for new buildings
- Enables developers to remove 2.0 million gallons of stormwater from our stressed system



Without infrastructure investment, we risk:



Public health and safety
of our residents, potential administrative
consent order



Our ability to afford GLX
debt service payments

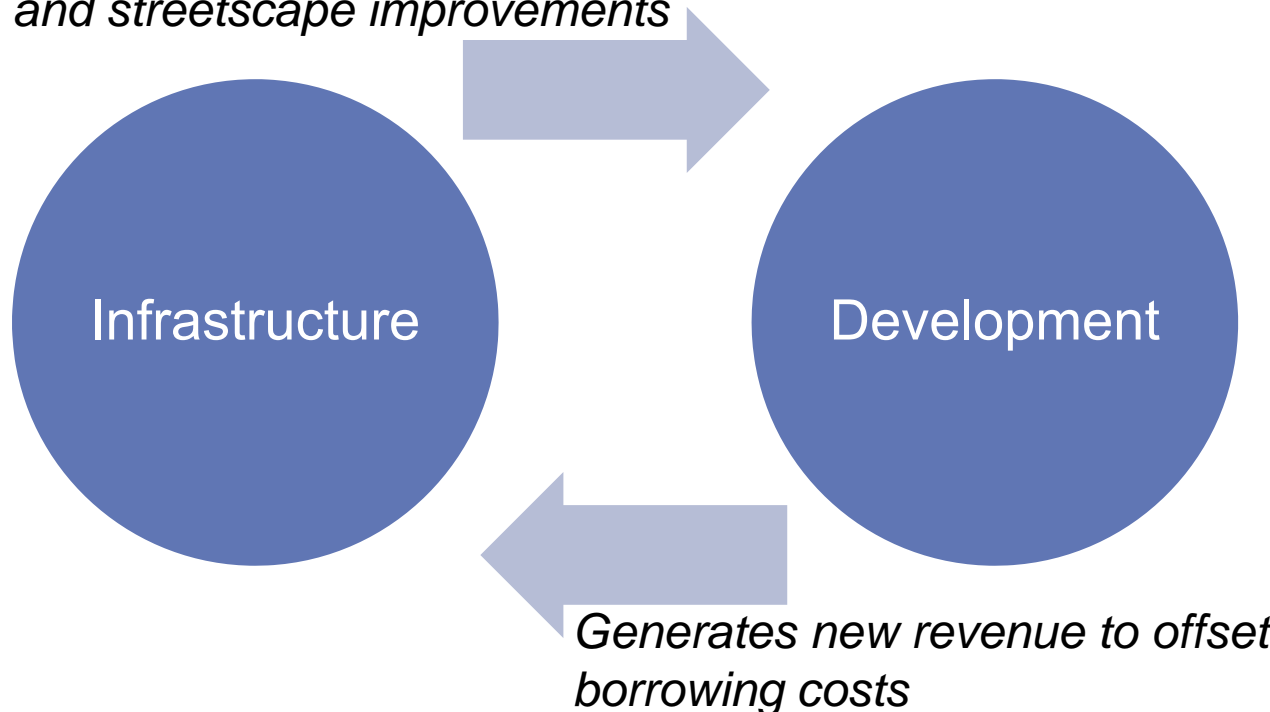


The USQ our community planned for

DIF is an infrastructure financing tool

- DIF = **D**istrict **I**mprovement **F**inancing
- DIF fundamentals
 1. Infrastructure unlocks development, bringing in new tax revenue to offset borrowing costs

*Unlocks development through utility
and streetscape improvements*



DIF is an infrastructure financing tool

2. DIF makes infrastructure affordable in the short term through better borrowing terms

By shifting significant borrowing costs out 3 years, it aligns debt service payments with anticipated development tax revenue

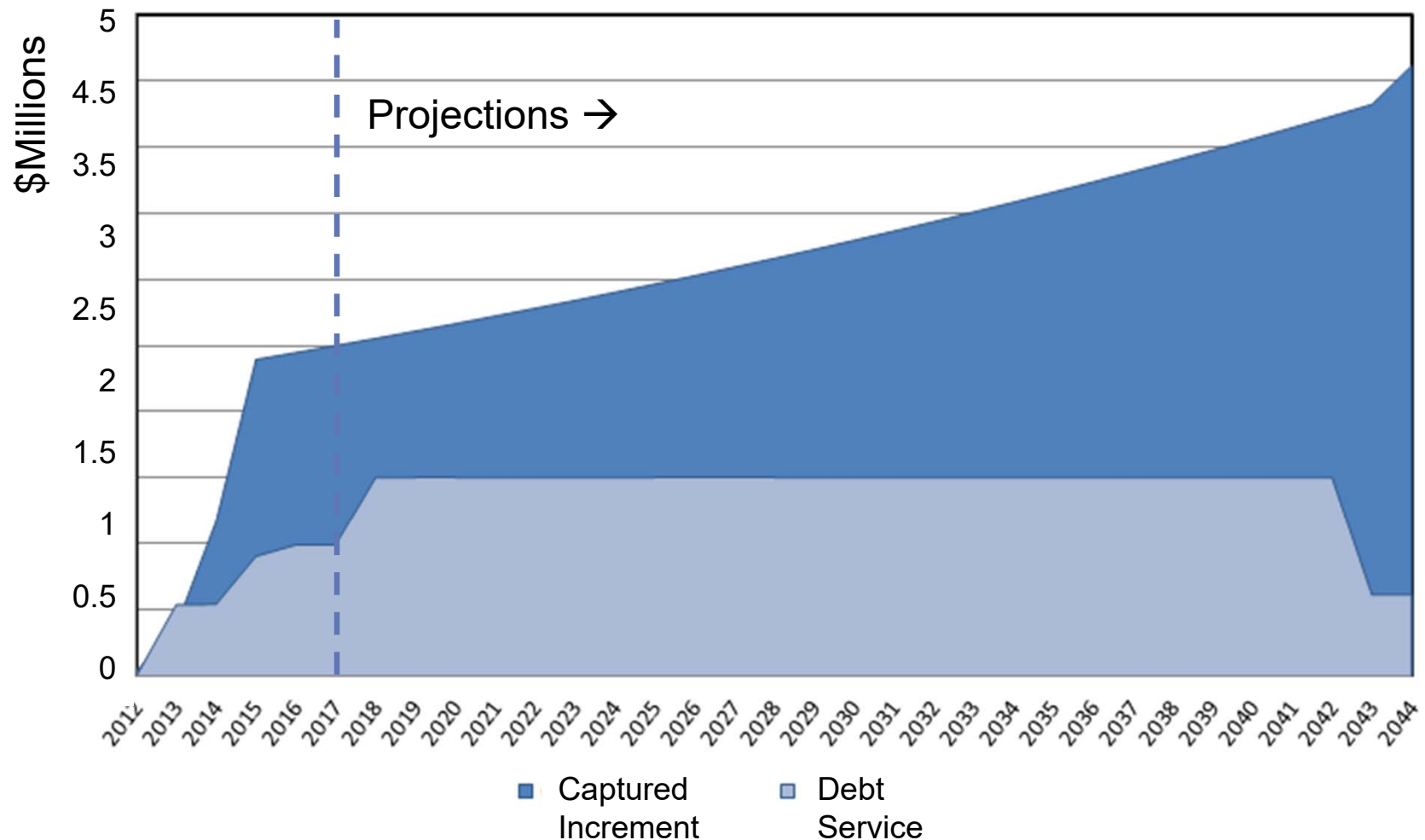
Year	1	2	3	4	5	6+
Debt service without DIF	BAN payment	BAN payment	Principal + Interest	Principal + Interest	Principal + Interest	Principal + Interest
Debt service with DIF	BAN payment	BAN payment	BAN payment	BAN payment	BAN payment	Principal + Interest

Debt service without DIF is nearly twice as much during this period as debt service with DIF

Bond Anticipation Note (BAN): short-term, interest-only security, typically with very low interest rate

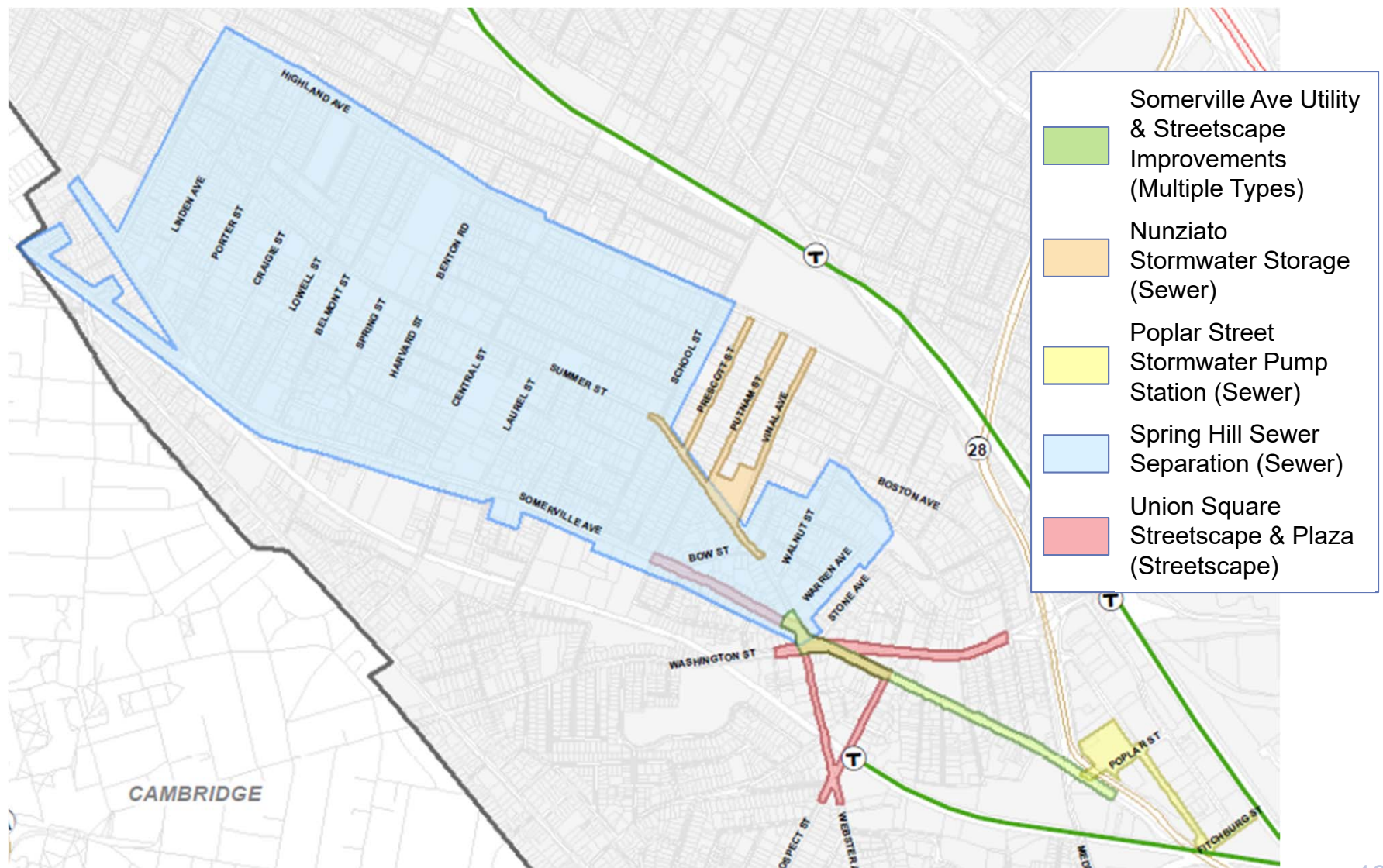
The Assembly Square DIF is working

Assembly Square DIF Revenue vs. Debt Service



Proposed Infrastructure Program

USQ Infrastructure Projects



Somerville Ave. Utility & Streetscape Improvements

Formerly known as Union Square Phase 1

Purpose	Scope	Estimated Construction Timeline	Estimated Cost	Anticipated Funding Sources
Provide flood hazard relief and improve water and sewer service for 60% of City	Dramatic upgrades to water, sewer, and streetscape infrastructure from Union Square to McGrath Highway, including construction of 800,000 gallon box culvert	FY18-FY21	\$63M	\$13M MassWorks Grant \$4M Water Enterprise \$32.5M Sewer Enterprise \$13.5M General Fund Potential for additional grant funding

Nunziato Stormwater Storage

Purpose	Scope	Estimated Construction Timeline	Estimated Cost	Anticipated Funding Sources
Provide flood hazard relief through stormwater storage	Construction of 1.6 million gallon stormwater tank (The non-DIF component of the project will rehabilitate the park and athletic field).	FY18-FY20	\$14.5M	\$14.5M Sewer Enterprise Potential for grant funding

Poplar Street Stormwater Pump Station

Formerly known as Redbridge

Purpose	Scope	Estimated Construction Timeline	Estimated Cost	Anticipated Funding Sources
Remove up to 50 million gallons per day of stormwater from our sewer system by allowing runoff to flow to Charles River	Connection of Somerville Ave. stormwater system to new pump station	FY19-FY20	\$19.5M	\$19.5M Sewer Enterprise Potential for grant funding
Expand sewer system capacity and improve service; provide flood hazard relief	Connection of pump station to MBTA drain that connects to Charles River			

Spring Hill Sewer Separation

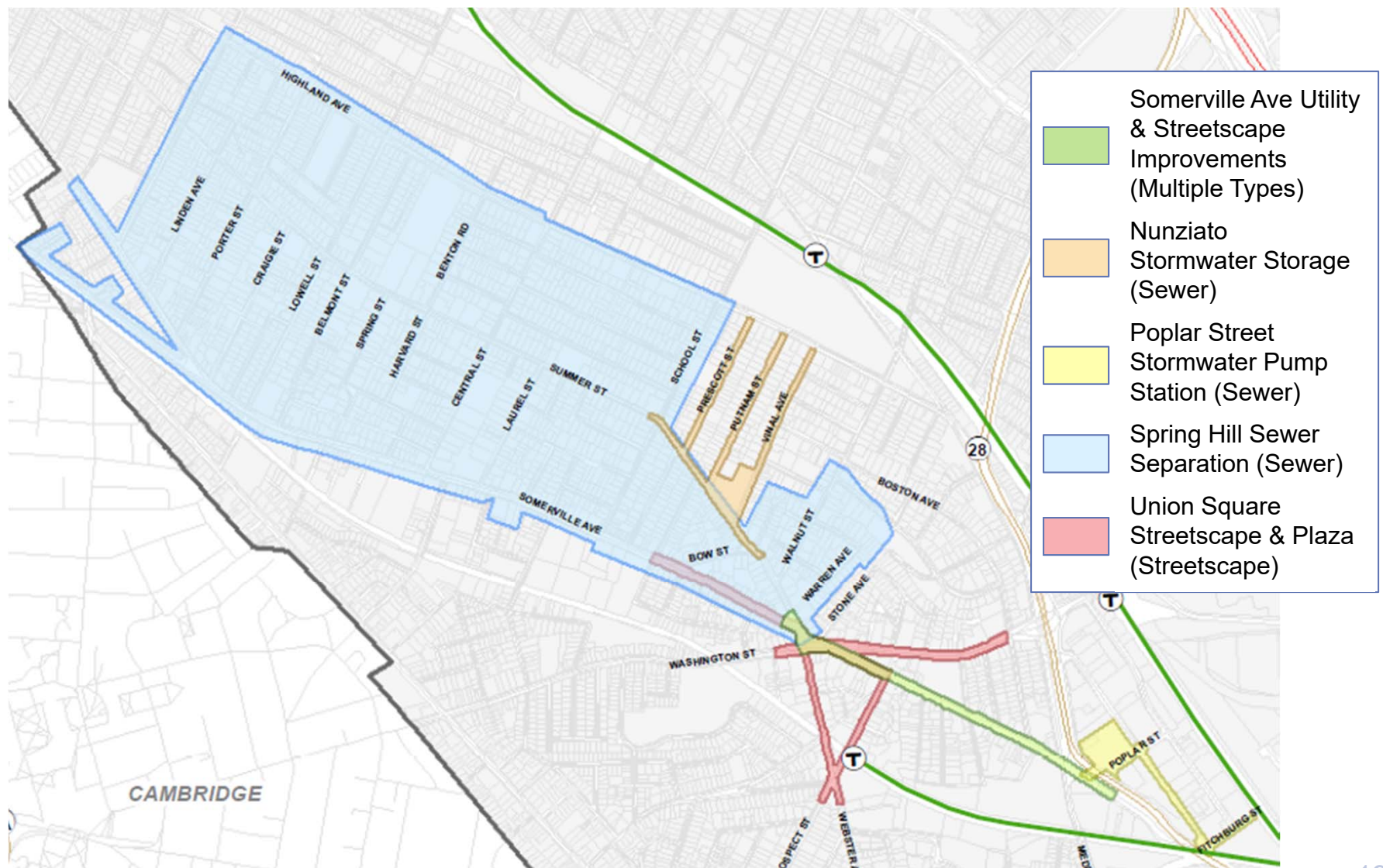
Purpose	Scope	Estimated Construction Timeline	Estimated Cost	Anticipated Funding Sources
Separate sewer pipes that connect to Somerville Ave. drain in order to fully realize benefits of Somerville Ave., Nunziato, and Poplar Street projects	Targeted sewer separation throughout Spring Hill	FY20-FY21	\$13M	\$13M Sewer Enterprise Potential for grant funding

Union Square Streetscape and Plaza Improvements

Formerly known as Union Square Phase 2

Purpose	Scope	Estimated Construction Timeline	Estimated Cost	Anticipated Funding Sources
Improve traffic and create safe spaces for walking, cycling, and gathering in Union Square	Reconstruction of the plaza Streetscape improvements on Somerville Ave., Bow St. Prospect St., Webster Ave., and lower Washington St.	FY20-FY24	\$31.5M	\$31.5M General Fund Potential for grant funding Developer contributions

USQ Infrastructure Projects



USQ Infrastructure Projects

Estimated Costs and Sources

Project	Estimated Cost	Estimated Sources			
		Grant Funding	Sewer Enterprise	Water Enterprise	General Fund
Somerville Ave. Utility & Streetscape Improvements	\$63M	\$13M	\$32.5M	\$4M	\$13.5M
Nunziato Stormwater Storage	\$14.5M		\$14.5M		
Poplar St. Stormwater Pump Station	\$19.5M		\$19.5M		
Spring Hill Sewer Separation	\$13M		\$13M		
USQ Streetscape & Plaza Improvements	\$31.5M				\$31.5M
Total	\$141.5M	\$13M	\$79.5M	\$4M	\$45M

This is conservative and does not reflect potential grant opportunities, expected developer contributions, use of reserves, or sale of assets.

DIF

An Important Financial Tool

RKG Associates

- Economic consulting and planning firm
- 35 years of experience
- Work on both large and small scale projects
- Previous track record working with City of Somerville
 - Green Line Extension Value Capture Study
 - Inclusionary Zoning Analysis

What is **District Improvement Financing (DIF)**?

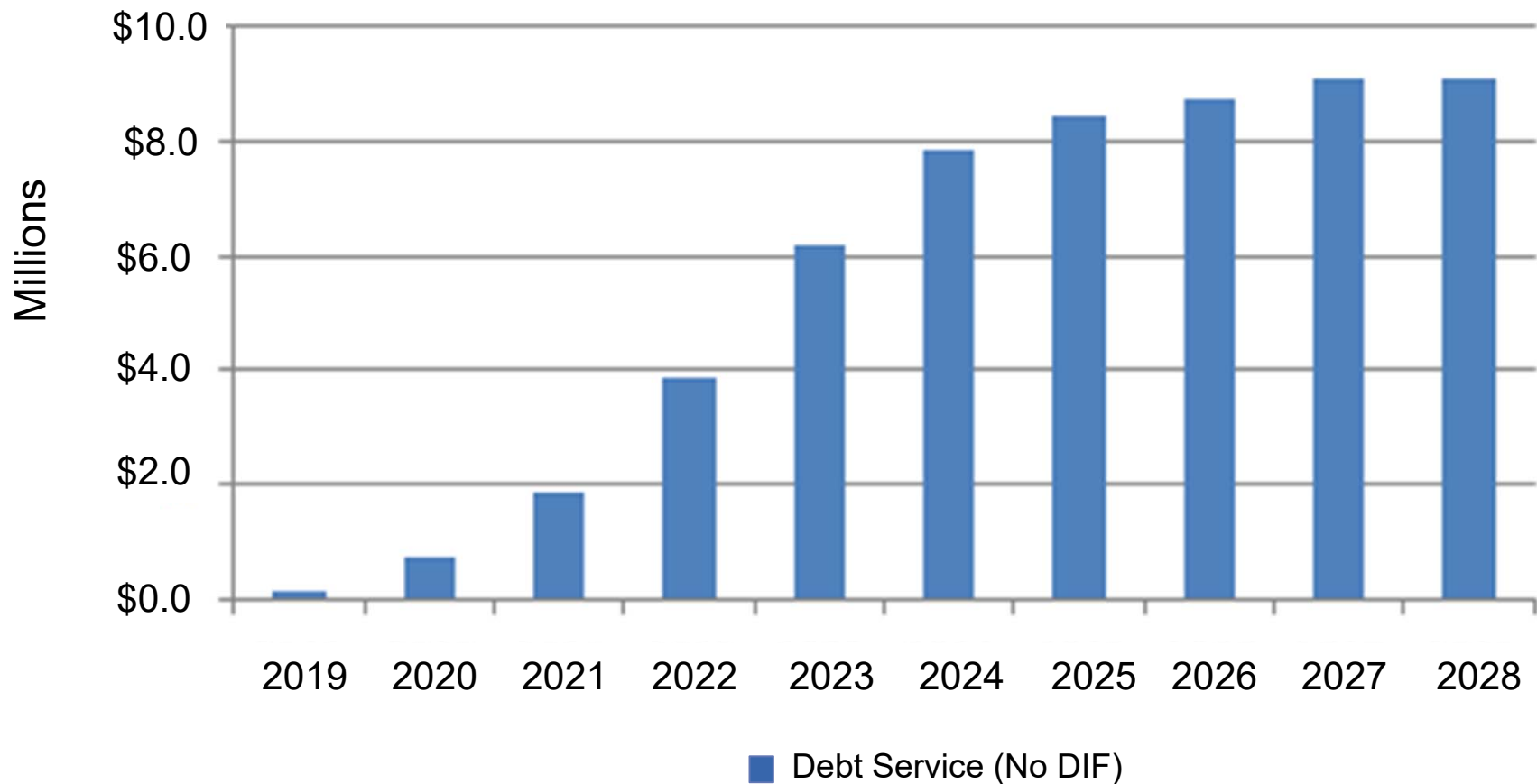
- Economic tool used across the U.S.
- Provided under Mass General Law 40Q, which was authorized in 2004
- Approved DIFs in Massachusetts include Worcester, Quincy, Springfield, Brockton, and Somerville
- Local authorities have power to establish DIFs

What does DIF do?

- Enhances how the City can finance infrastructure improvements
- Aligns infrastructure investment with planned growth areas, supporting real estate development
- Allows the City to borrow short term at a very low interest rate for 5 years instead of 2 years, aligning debt service payments with anticipated future revenue increases

Debt Service Payment Schedule*

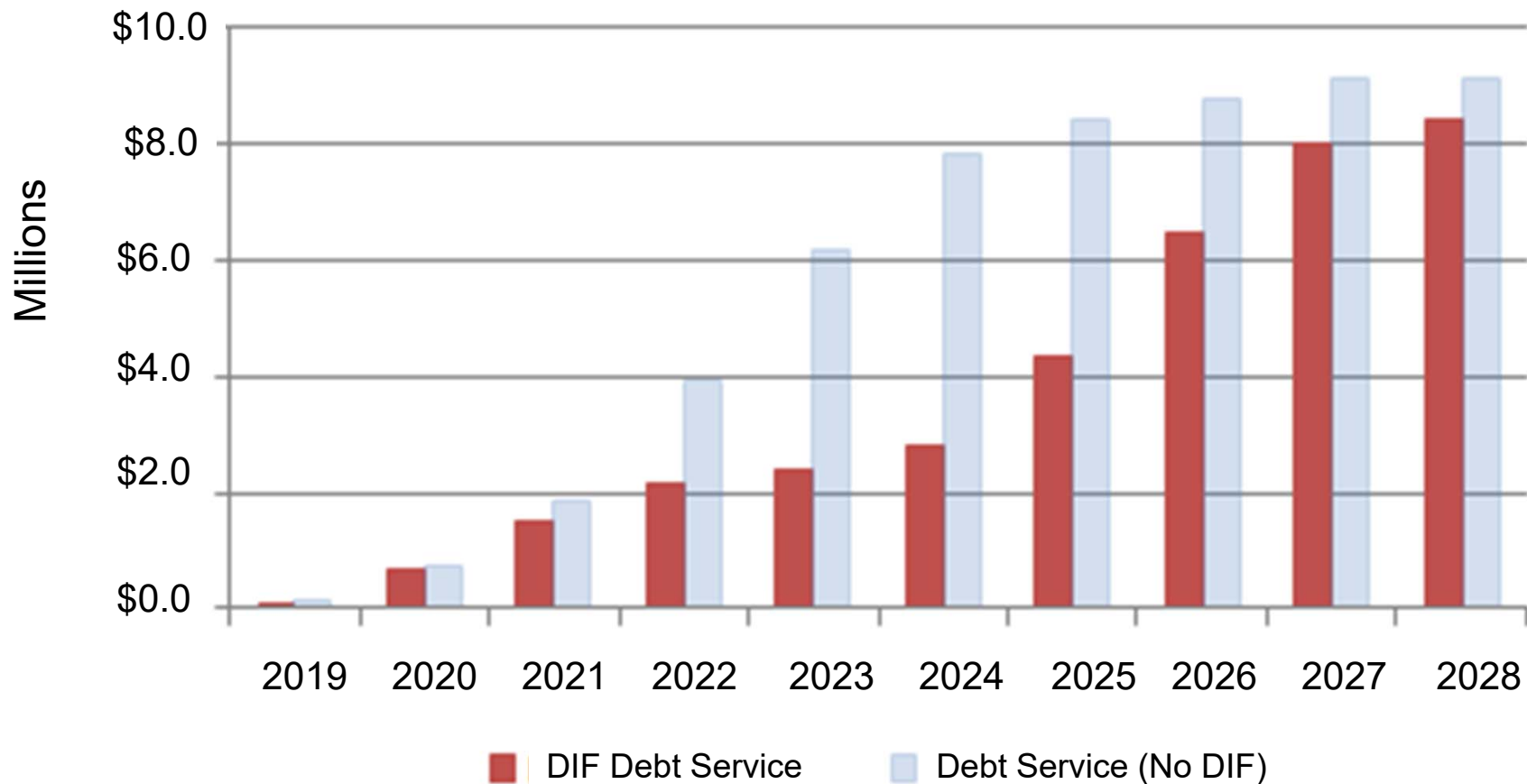
Without DIF



*First ten years of payments shown.

Debt Service Payment Schedule*

With DIF



*First ten years of payments shown.

DIF Procedural Basics

- Two components

1. Development district

A specified area within a city or town that is to be developed by the municipality under a development program.

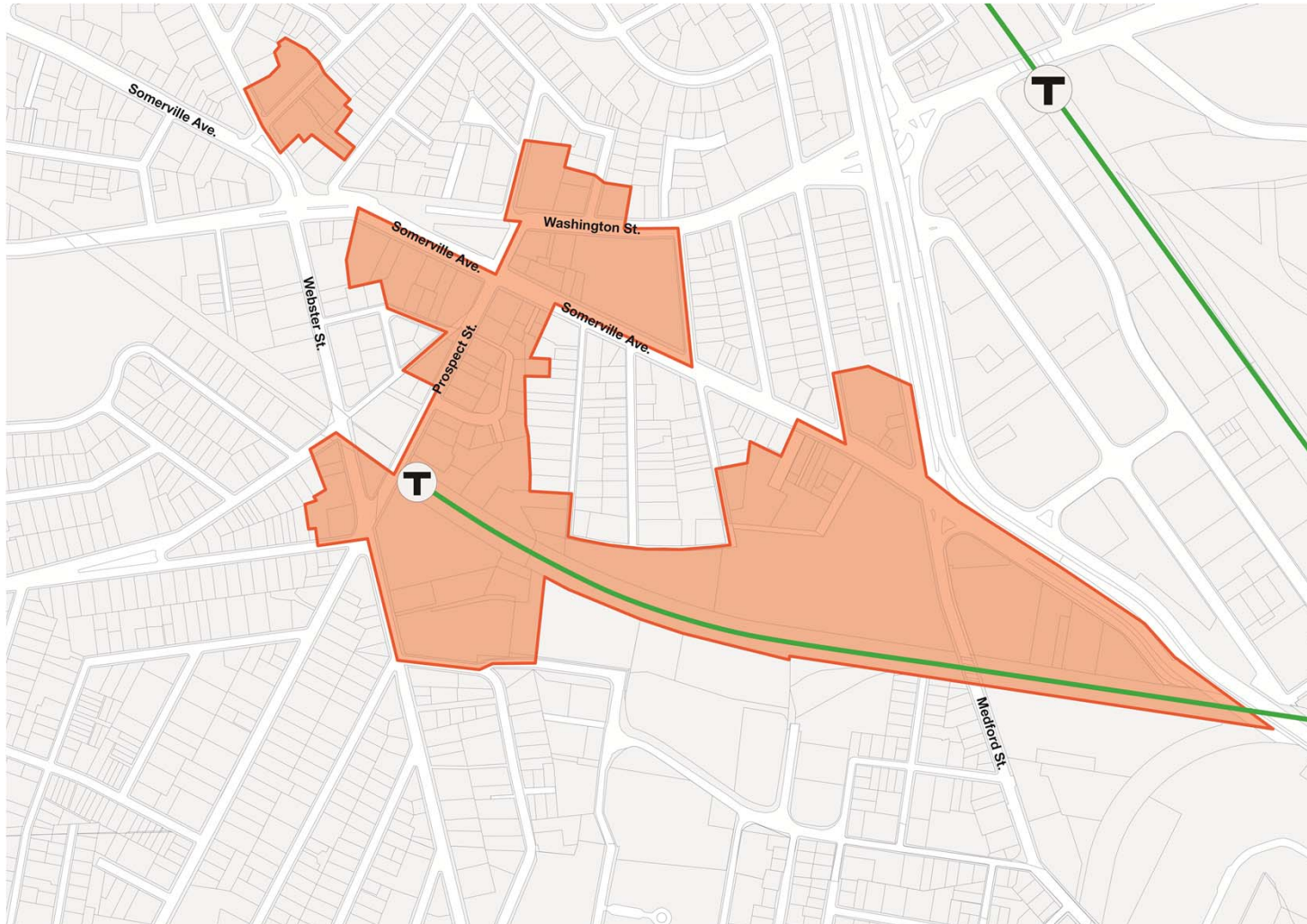
2. Development program, including financial plan

A statement of means and objectives that is designed to improve the quality of life, physical facilities and structures, and the quality of pedestrian and vehicular traffic control and transportation within a development district.

- Administration submits proposed development district and development program to BOA for approval
- Administration submits infrastructure bond authorization requests to BOA for approval

Proposed USQ DIF

Proposed USQ Development District



Defining the USQ DIF District

Considerations

1. Planning work

Where have we done significant planning work in the transformative neighborhoods near USQ?

2. Nexus between planned USQ infrastructure projects & development:

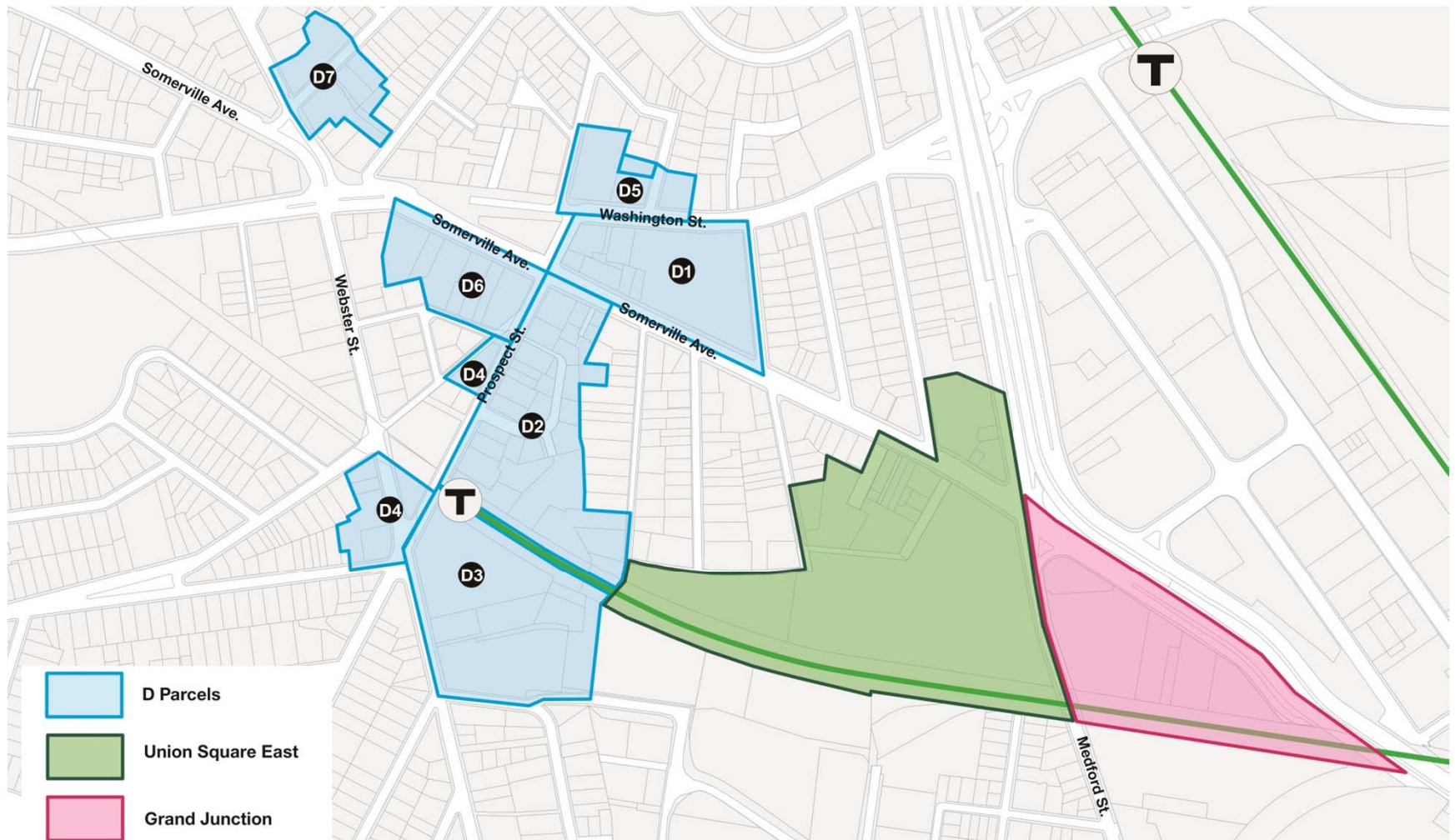
Which transformative neighborhoods are unlocked by our planned infrastructure investments?

Defining the USQ DIF District

	Somerville by Design neighborhood planning work	Planned infrastructure improvements unlock development
D Parcels	✓	✓
Grand Junction*	✓	✓
Union Square East	✓	✓

** The area of Grand Junction in proposed DIF district is only a portion of the Grand Junction neighborhood*

Development Areas within the DIF District

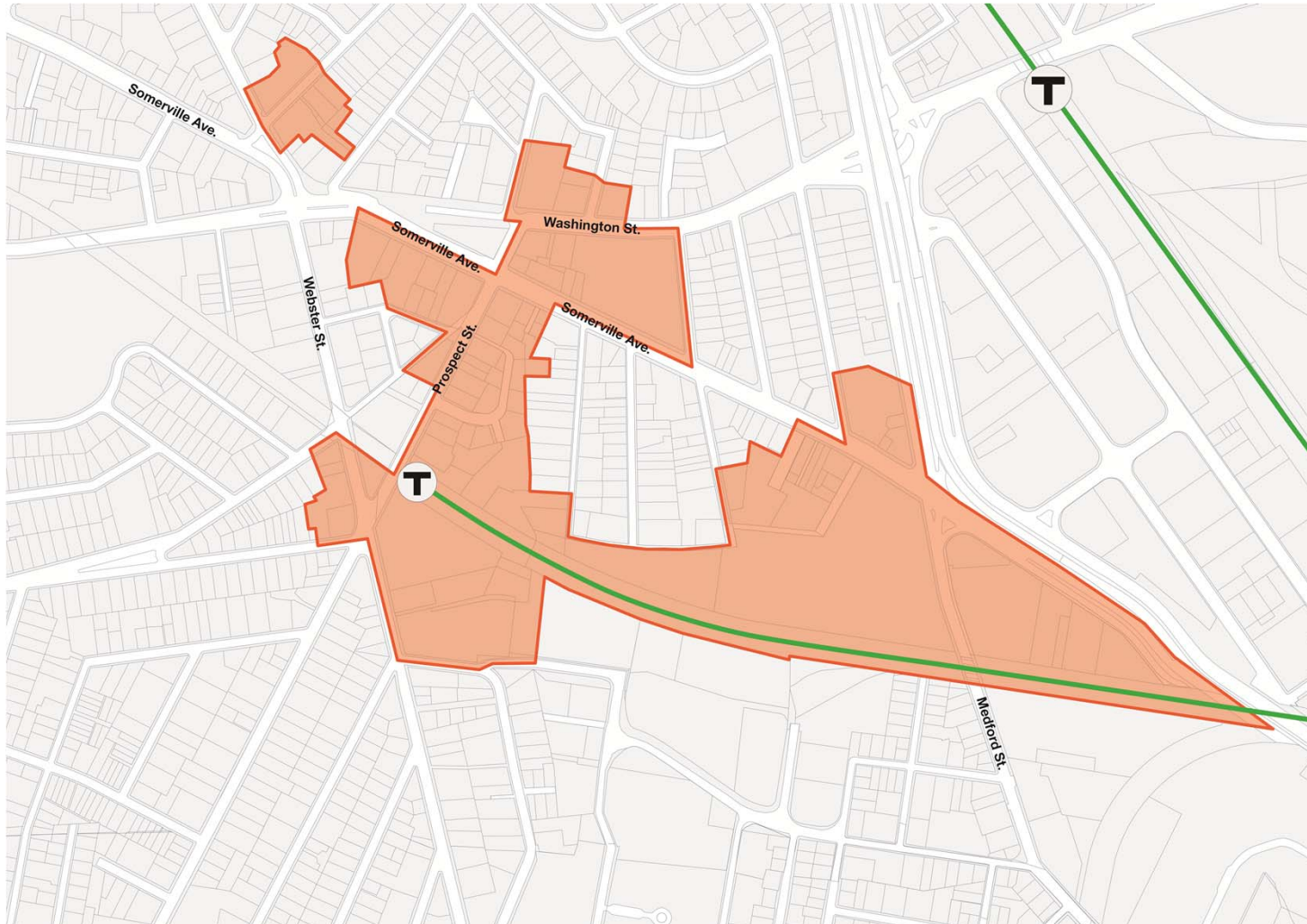


USQ DIF Private Development Program

The Union Square Neighborhood Plan calls for...

	D Parcels	Union Square East	Grand Junction	Total
Total Development (SF)	2,268,025	1,796,740	392,863	4,457,628
Residential Development (SF)	923,175	636,742	163,091	1,723,008
Housing Units – Market	631	453	124	1,208
Housing Units – Inclusionary	158	113	31	302
Total Commercial Development (SF)	1,344,850	1,159,998	229,772	2,734,620
Office/Lab (SF)	1,097,400	987,726	201,039	2,286,165
Retail (SF)	164,450	172,273	28,733	365,456
Hotel (SF)	83,000	-	-	83,000
Hotel (Rooms)	175	-	-	175

Proposed USQ Development District

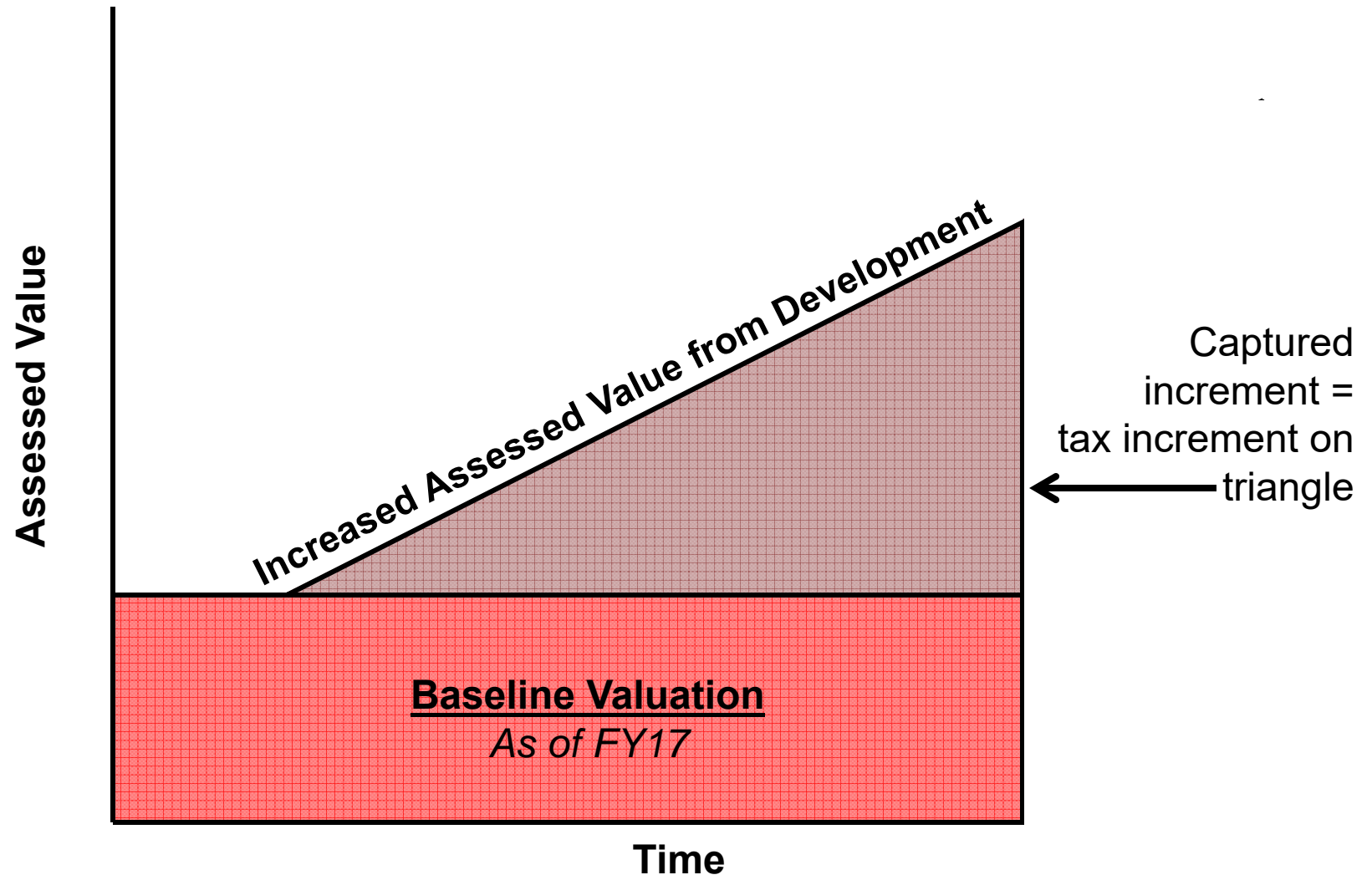


DIF Financial Analysis

Captured Increment Methodology

- RKG tasked with calculating captured increment for DIF district parcels
- Captured increment = tax increment on projected property valuation minus baseline valuation
 - Established base property values for DIF district parcels using 2017 assessed valuations
 - Developed model to project future valuation increases based on private development program
 - Calculated tax increment on the difference
- Ran multiple scenarios with different economic assumptions

DIF Captured Increment Visualized

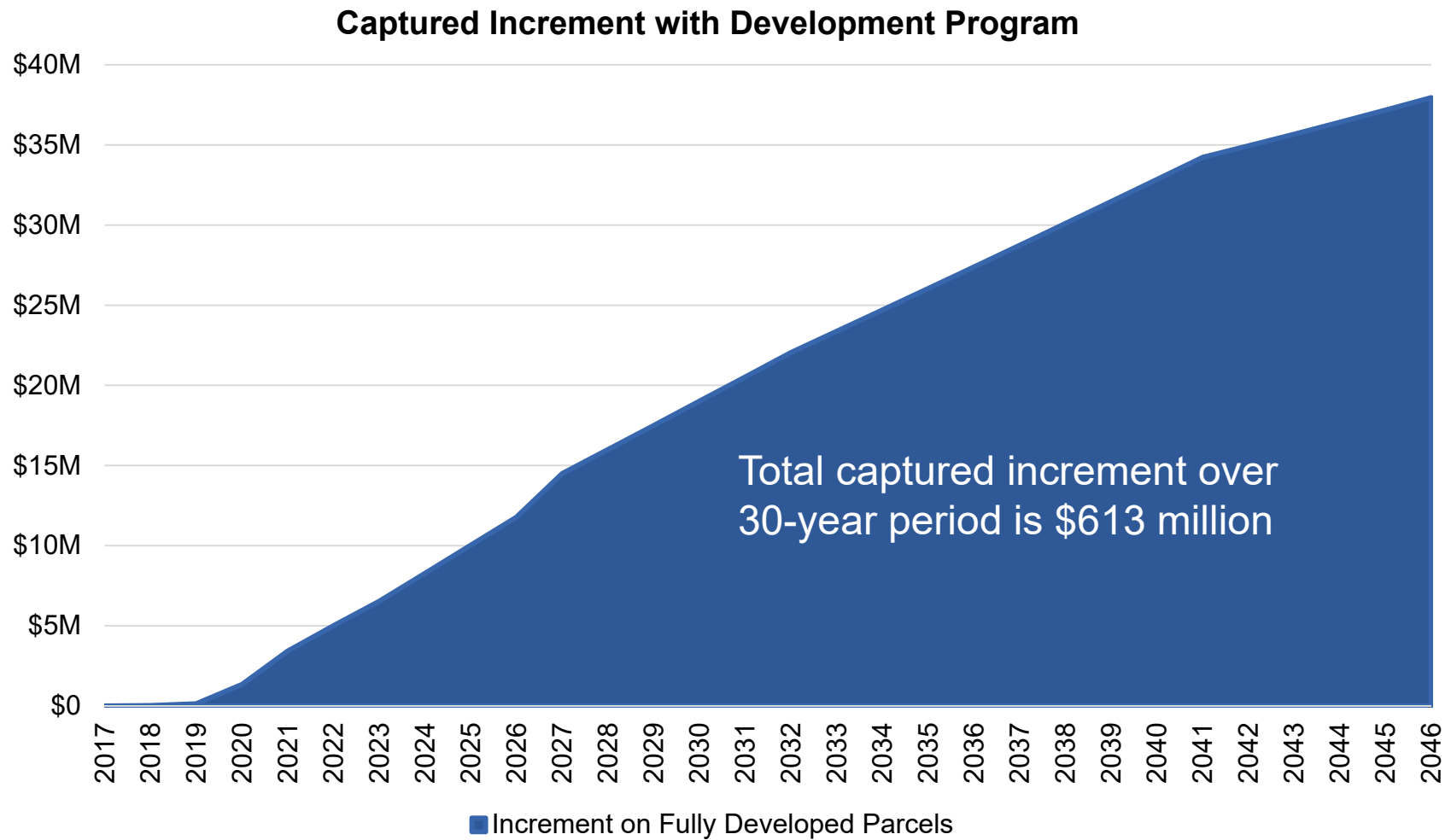


DIF Model

Key Assumptions

- Model is built at the individual parcel level using 2017 valuations from the Assessor's database
- Increases in valuation based on
 - Proposed development program
 - Current rates for commercial and office uses (\$/SF), condominiums, apartments and hotel keys (\$/unit), inflated over time
- All valuations are inflated at a very conservative rate, 2% per year
 - Average annual change in is 3.6%

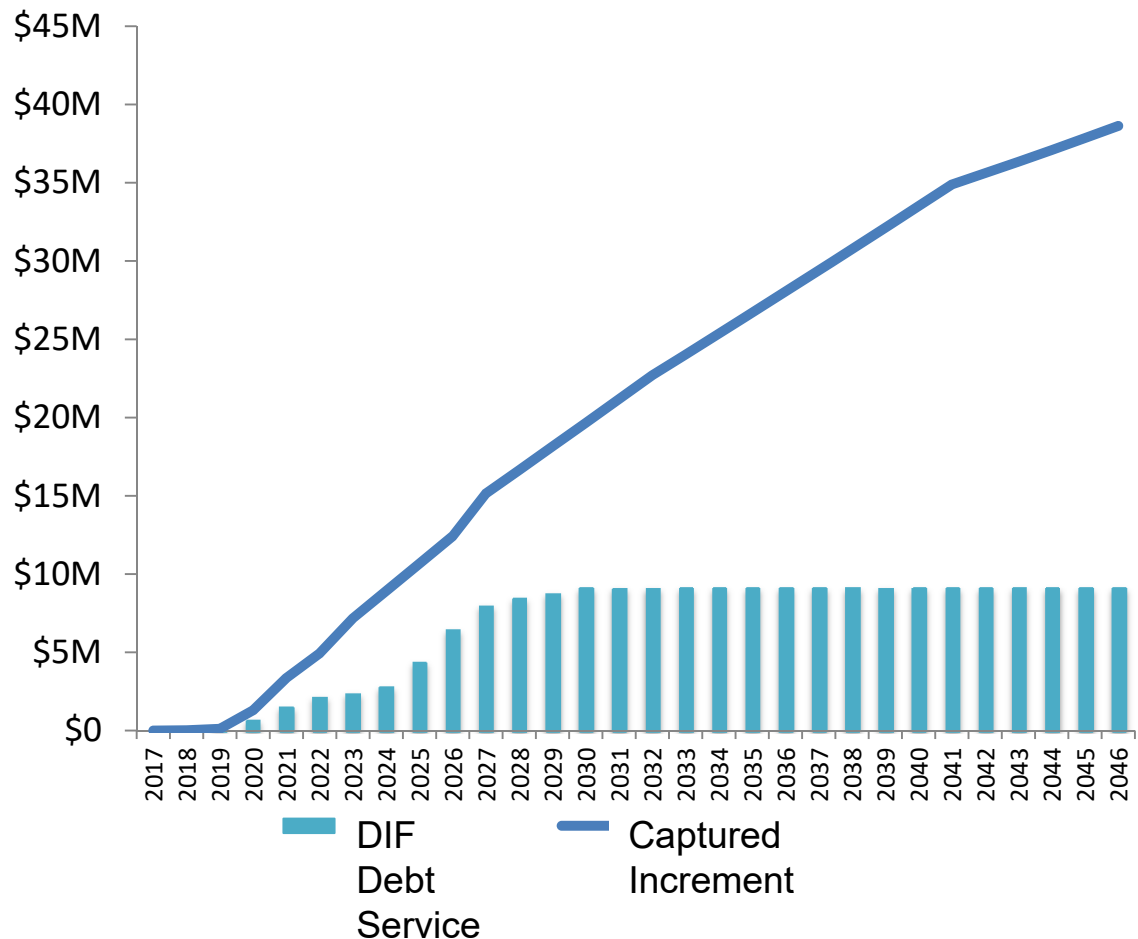
Captured Increment Projection



Captured Increment vs. Debt Service

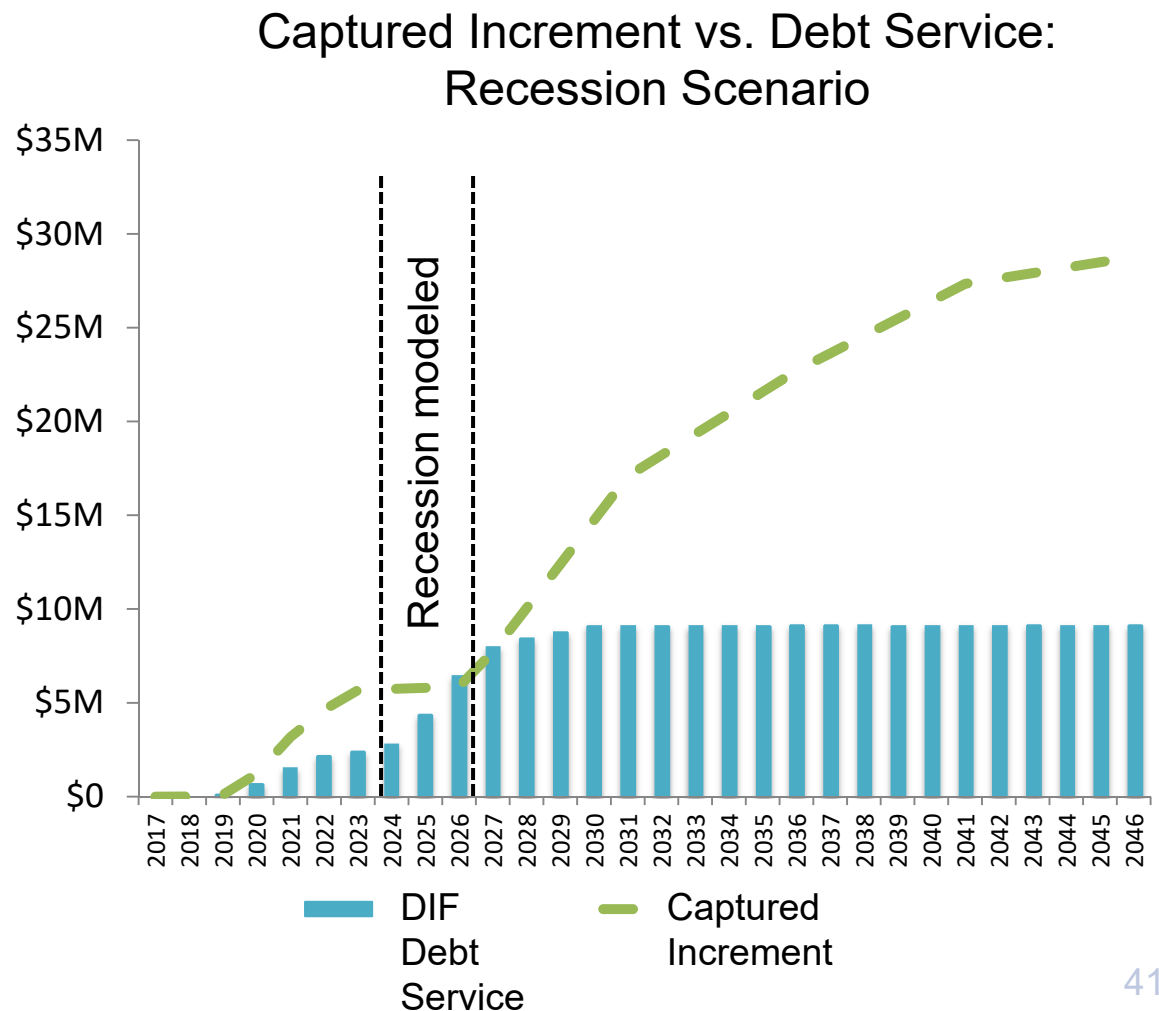
- Total captured increment over 30-year period is 2.5 times more than total DIF debt service payments
- Captured increment is greater than debt service in every year except FY19

Captured Increment vs. Debt Service



Captured Increment vs. Debt Service: *Recession Scenario*

- Total captured increment over 30-year period is 1.9 times greater than total DIF debt service payments
- Only years in which debt service exceeds captured increment are FY19, FY26 & FY27



Next Steps

- 10/12: Full BOA meeting – submission of DIF district and bond authorization request for Somerville Ave. Utility & Streetscape Improvements
- 10/25: Finance Committee scheduled – staff will be prepared for in-depth financial presentation on impact of infrastructure investment and DIF on General Fund and Water & Sewer Enterprise Funds
- 10/26: Full BOA meeting – submission of DIF development program