

# Case Study: District Improvement Financing City of Somerville

Middlesex County, Massachusetts

2016 Population: 77,507

Median Household Income: \$78,673<sup>1</sup>



This case study is provided for illustrative purposes only to provide an example of a municipality's process and methodology. This performance is no guarantee of similar results.

The City of Somerville (City) has implemented two District Improvement Financing (DIF) projects. The first, the Assembly Square DIF, was adopted in December of 2010. The second, the Union Square DIF, was adopted in December of 2017 after the statute governing DIF, Mass. Gen Laws Ch. 40Q (DIF Statute), had been amended to streamline requirements. Both DIF projects are described here.

## Assembly Square

### The Goal

A new MBTA Orange Line "T" Station unlocked redevelopment potential for a major industrial and commercial area in the eastern portion of the City of Somerville. Buses had served residents and businesses, but the T Station provided a direct link to central Boston and the Downtown Crossing T Station, and the City wanted to capitalize on this redevelopment potential. At the same time, the MBTA was looking for evidence of a strong local commitment to revitalization as an important factor for their own investment.

### The Process

Redevelopment of Somerville's Assembly Square neighborhood had been in the planning stages since the early 2000s, but both local and general economic factors slowed the process. The project finally began coming together when a seasoned developer approached the City about using DIF, and Somerville saw the potential of an economic development tool it had not used before.

Many people from the community, the state, and the private sector had a part to play in the project's development, both in solidifying a vision and in gathering funding from multiple sources over several years. A key goal was for the project to be market feasible, with housing, retail, restaurant, and other uses economically viable for a private developer without direct financial incentives from the City. The City focused its public investment in the project on mobility and environmental infrastructure goals, such as intersections, shared pathways, and storm water conduits. This supported market

### Basics | Assembly Square DIF

District Adoption | December 2010

Original Assessed Value | 9,643,200  
Commercial, \$26,544,582 Residential

Acreage | 66.5 acres

DIF Eligible Project Costs | \$25 million  
publicly-funded infrastructure

### Basics | Union Square DIF

District Adoption | December 2017

Original Assessed Value | \$51,718,900

Acreage | 26.96

DIF Eligible Project Costs | \$141.5 million,  
estimated

Total acres of both DIF Districts | 93.46  
(2,693.73 total = 3.47% of City)

<sup>1</sup> Population and Median Household Income from the U.S. Census Bureau, American Community Survey, 2016 ACS 5-Year Estimates.

feasibility for the private investment by improving the neighborhood's function and appearance for businesses, residents, and visitors.

**Pro Tip |** The developer of Assembly Row approached the City of Somerville with an existing understanding of how DIF could be used. With knowledge of DIF as an economic development tool, a community can evaluate this type of proposal more readily. It may also choose to talk proactively with developers about DIF, as well as other tools, and find the best fit for the community.

## The Projects

Construction began in 2011, and the Assembly Square T Station opened in September of 2014.

Two major projects were funded through the DIF program: improvements to Assembly Square Drive, including intersections and stormwater, and infrastructure to facilitate mixed-use development, including a shared use pathway. These projects totaled approximately \$71 million, and revenues from the DIF District were initially expected to contribute \$25 million over time. Significant other sources of capital, including grants and other debt, were also used, as described below in the *Financial Plan and Results* section.

Assembly Row, a 45-acre privately funded development within the Assembly Square DIF District, is now generating tax increment revenue from the creation of 1,000 residential units, a six-acre riverfront park, a 160-room hotel, more than 20 new retail stores, and about 2 million square feet of office space.<sup>2</sup> This development is supported by the new network of roadways and storm water conduits included in a DIF plan.

## Financial Plan and Results

Assembly Row DIF used a comprehensive capital mix that included grants and debt for a public capital investment of more than \$70 million. Sources included:

- American Recovery and Reinvestment Act (grant)
- ASQ Multi-Modal Congressional Earmark (grant)
- Massachusetts Housing and Economic Development Growth District Initiative (grant)
- I-Cubed (debt)
- City of Somerville General Obligation District Improvement Bonds (debt)

The City also enabled the use of annual revenues generated through DIF to support project costs not covered by grants or included in a bond issue. This is a feature of DIF that sets it apart from a standard General Obligation bond issue for a capital project. Since bonds are issued under strict Federal rules that govern project costs and amortizations, "soft" costs, unexpected expenses, and closely related costs are often not eligible to be paid with bond proceeds. DIF revenues can be used for a broad array of costs, as described in the DIF Statute.

On May 17, 2012 the City issued \$15.75 million of General Obligation District Improvement Financing Bonds. The bonds are tax exempt, were rated an investment-grade Aa2 by Moody's Investor's Service, Inc., and have a final maturity of 2042. The City notes in its bond offering document that the debt is supported by its full taxing power. Somerville can use revenues from the DIF to pay debt service on bonds issued to support DIF projects, but if those revenues are insufficient it will use funds from taxes levied on all taxable parcels in the City. By reducing the risk of non-payment if DIF revenues are below estimates, this creates greater security for the bondholders.

As of May 2018, the City reported that this DIF District is generating revenues that are more than sufficient to cover debt service on the bonds.

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<sup>2</sup> <http://www.assemblyrow.com/about>

By the end of the DIF program in 2040, the District is expected to have generated an estimated \$79 million in tax revenue, of which approximately \$73 million is now anticipated to be captured for projects in the District, higher than initial estimates.

*Assembly Square Links*  
[www.assemblyrow.com](http://www.assemblyrow.com)

## Union Square

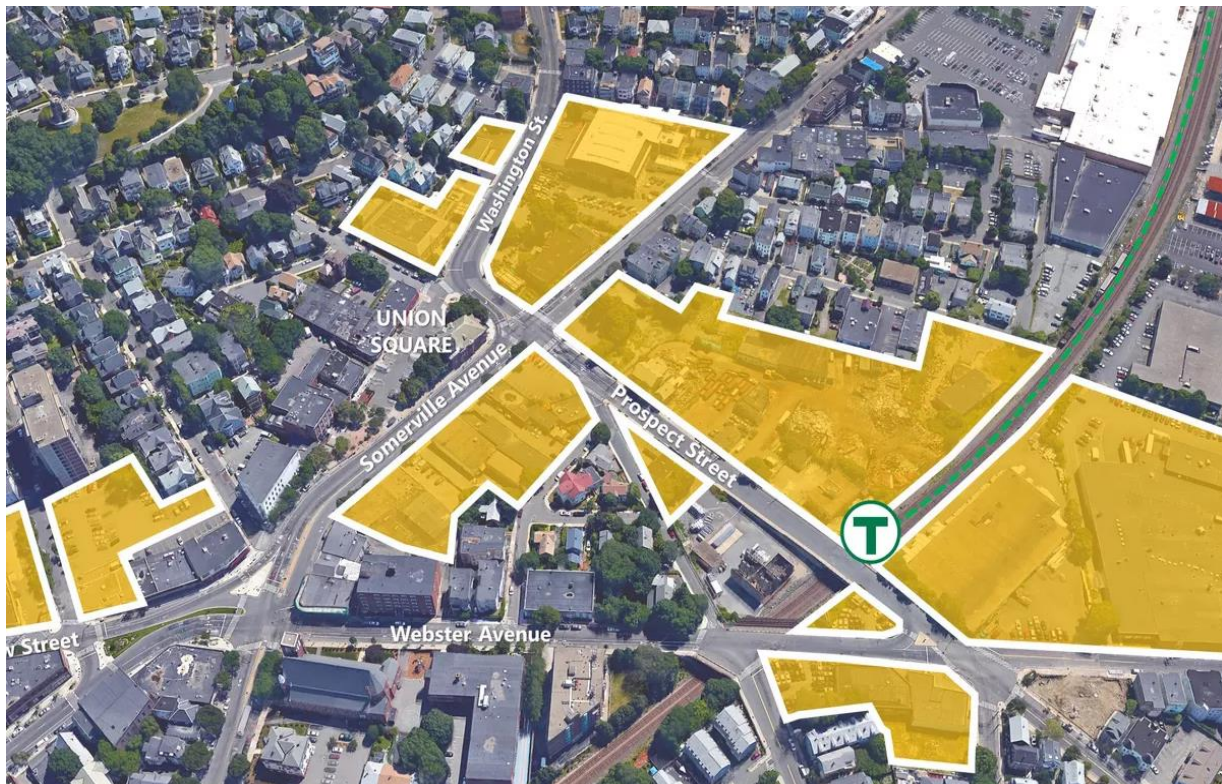
Somerville created a second DIF District in another area of the City. The City approved Union Square as a DIF District in December of 2017.

### The Goal

Like the Assembly Square DIF District, public transportation was an essential component and motivating factor in the approval of the Union Square DIF District. The MBTA had been planning an extension of its Green Line Service into Union Square, which is under construction as of April, 2019. This station will improve public transit in the southern and eastern portions of the City by adding a second form of public transit that complements the existing bus service but, because it is underground, does not increase vehicle traffic in the streets.

The City wanted to capitalize on the redevelopment potential created by significant transportation improvements by capturing and directing expected new tax revenues toward locally-funded public projects that would complement the major investments by the MBTA. The public infrastructure and private development would also fit within "Somervision," the City-wide comprehensive master plan adopted in 2012.

*Union Square District*



## The Process

The City's process began in 2012, five years before the City adopted the DIF District, with the creation of SomerVision and the adoption of the USQ (Union Square) Revitalization Plan by the Board of Alderman. As shown in the timeline to the right, the next steps were land acquisition, which was conducted through the Somerville Redevelopment Authority, a nationwide search for a master developer partner, and the designation of Union Square Station Associates, LLC (US2) as that partner. With these major components in place, the City was able to refine its vision for the neighborhood while it worked with the state and the MBTA to identify needed infrastructure improvements and sources of funding.

At the neighborhood level, the Union Square community wanted a plan that reflected their values and vision for the future. In addition to SomerVision, the City had conducted a number of other community-centered neighborhood plans, including in Gilman Square and Lowell Station area, and sought to create a similar plan for Union Square. The resulting Union Square Neighborhood Plan called for a mixed-use, dense, and less car-centric downtown. This plan that US2, the developer, embraced was instrumental not only in educating the public about DIF, but also in creating an opportunity to discuss values and vision for the area. In May of 2017, the City adopted new form-based zoning regulations in-line with this plan.<sup>3</sup> In all, a solid effort of planning, outreach, and education contributed to Somerville's approval of the Union Square DIF District.

The Union Square vision includes all public infrastructure and combines facilities needed for residential, commercial, and retail with a major sewer upgrade that benefits nearly one-third of city residents. This combination of urban revitalization with addressing a long-standing infrastructure issue was the driving force behind building public and political support. The Union Square plan called for a major neighborhood transformation in a part of the City that had traditionally been less dense and relatively quiet.

Public outreach was therefore a major component of the Union Square project. While labor-intensive, it presented the opportunity to communicate with constituents and address dissenting views. Even though the Assembly Square DIF District had outperformed expectations, and the Union Square DIF District was expected to be stronger financially, there was skepticism about the tool as well as the transformative nature of the overall project. Among other methods, the City used a dedicated web page to publish plans and presentations about the DIF.

In addition to public outreach, the City dedicated resources to promote internal staff understanding and support for the project. This included keeping the Board of Aldermen, the finance team, and the data analytics team on board and invested in the process.

**Pro Tip** | DIF can work very well to implement economic development plans, but it doesn't replace them. For both Assembly Square and Union Square, having an overarching plan for the district was a powerful factor in gaining support from the public and elected leadership. In addition, one successful DIF District, like Assembly Square, does not necessarily create public acceptance for another, so communication and outreach is essential for every program.

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<sup>3</sup> <http://www.principle.us/neighborhood-plan-union-square-somerville/>

## USQ Timeline

2012 - SomerVision Comprehensive Master Plan

2013 - Land Acquisition

2014 - US2 Designated Master Developer

2015 - Union Square Neighborhood Plan

2016 - \$13.5 m MassWorks Grant

2017 - Federal Approval of MBTA's Green Line Extension

2017 - DIF District and Development Program Adopted

2018 - Utility and Streetscape Work Begins, Green Line Extension Breaks Ground, and Phase Design and Site Plan Review for Commercial Uses Begin

2019 - Expected Groundbreaking on Commercial Building Projects



## The Projects

The Union Square DIF District and Development Program will support a major urban revitalization effort that is a partnership between the City and the private developer, Union Square Station Associates, LLC. It includes major public infrastructure investments by the City, including water and sewer projects, that will benefit the entire city when complete. Private development is planned to include 2.7 million square feet of commercial space for office/lab, retail, and hotel, with another 1.7 million square feet of residential rental space, of which 20% is expected to be Inclusionary Zoning Affordable Residential units, in response to very high housing costs in the Boston area. The private developer did not receive direct financial assistance from the City as part of this plan.

## Financial Plan and Results

The Union Square Development Program anticipates more than \$141 million of public investment in infrastructure projects, with local costs offset by approximately \$13 million of grant funding for water and sewer. The remaining \$128 million of costs are anticipated to be financed with municipal debt, issued over time. The City expects to continue to seek grant funding.

The DIF District began generating tax increment revenues for the fiscal year ending June 30, 2018, and financial performance is not yet available to be measured.

### *Union Square Links:*

<https://discoverusq.com/>

<http://rasdevelopment.com/usq>

<https://www.somervillema.gov/usqdif>

## Lessons Learned

As part of this case study, the City of Somerville was asked to reflect on successes and challenges with adopting and managing a DIF District and Development Program. The following were identified:

- Have a vision to develop using DIF – DIF is a funding tool but doesn't tell a municipality what to do with the funding.
- An ambitious program can be enacted, but matching planning and outreach efforts to the scope and reach of the project can build public support.
- Communities should keep the channels of communication open even after adoption. Internal community stakeholders in economic development, finance, and treasury are critical to the formation of a DIF District, but also have a role in implementation and monitoring.
- Third-party perspectives can add value.
  - MassDevelopment provided support and insight into the experiences of other communities, and also advised on as a land financing.
  - A private consultant was engaged to manage the creation of the DIF District and Development Program, including creating materials to educate local leadership and community stakeholders.

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