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4350 East West Highway, Suite 950

Bethesda, MD 20814

Phone: 301.907.2900

Fax: 301.907.2906

TO: Doug Foy, President, Serrafix Corp
Joel Rogers, COWS and State Smart Transportation Initiative
Eric Sundquist, State Smart Transportation Initiative

FROM: Bill Bishop, DPF
Sasha Page, IMG Rebel
Waiching Wong, IMG Rebel

DATE: April 12, 2015

RE: Memo 1 - Addressing Green Line Extension (GLX) Project Funding Gap

OVERVIEW AND SUMMARY

Based on our discussion on April 4th, we understand that you would like the IMG Rebel Team to focus on potential value capture strategies to address prospective local government obligations related to closing the anticipated GLX project (Project) funding gap. We understand that the Cities of Cambridge, Medford, and Somerville may be required to identify and commit to a **\$50 to \$75 million (M) funding solution**.

Value capture techniques currently available to local governments within the Commonwealth of Massachusetts may be challenging and problematic to implement. Recently proposed initiatives such as Supplemental Infrastructure Financing for Transportation (SIFT) and Community Benefits District (CBD), on the other hand, may be applicable and highly effective. Initial analyses, based on available data (albeit limited), **suggests that SIFT could be structured to provide much or all of the funds necessary to close the target funding gap**.

OUR UNDERSTANDING OF THE GAP AND CURRENT PROJECT CONTEXT

We understand that \$50 - \$75M local funding target is based on the following assumptions:

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1. Total Project cost will be reduced to ~\$2.3 billion (B), through value engineering and reduction in scope and specifications.
2. Current funding sources are available for ~\$2.0B of Project cost, so that the Project's anticipated capital funding gap is ~\$300M.
3. The Commonwealth may assume some responsibility for funding this gap through various sources.
4. The Cities of Cambridge, Medford, and Somerville would collectively assume responsibility for the balance.
5. That portion of local government funding obligations to be funded through value capture is expected to be on the order of \$50M - \$75M.

There is a tentative deadline of mid-May to establish and adopt a "final" reduced project cost estimate and to incorporate strategies to close the funding gap at state and local levels.

The Team recognizes that the viability and potential of value capture is of particular interest to Somerville and SSTI, and as such, this memo does not directly address immediate options for local contributions such as:

- Issuing additional general obligation (GO) debt
- Reassigning existing capital funding.

However, from Somerville's June 2014 Comprehensive Annual Financial Report (CAFR), it appears that the city has \$84M in outstanding direct GO debt.¹ With a strong rating of Aa2 from Moody's (in 2013), one option that the City could explore **is issuing additional GO debt**. Such debt could be funded from additional citywide taxes or from SIFT revenues (see below).

We understand that Somerville's planning director and mayor are interested in applying value capture and related techniques to fund their contribution. The IMG Rebel Team has worked extensively in this area and believe that value capture is a feasible and equitable technique to pay for transit and other infrastructure.

CONSIDERING VALUE CAPTURE: EXISTING VALUE CAPTURE TECHNIQUES

We have reviewed and evaluated value capture mechanisms currently available to local governments along the GLX corridor (the Corridor). We found that some common and

¹ Somerville residents are also subject to an additional \$371M of "overlapping debt," i.e. debt that Somerville residents pay through water and sewer fees and state taxes to the Massachusetts Water Resources Authority (MWRA) and Massachusetts Bay Transportation Authority (MBTA).

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existing value capture techniques are not as promising for GLX given the maturity and complexity of the real estate in the Corridor. In particular, GLX crosses multiple political and regulatory jurisdictions, has highly fragmented property ownership patterns within Somerville and Cambridge, and the Project is under extreme time constraints under which a value capture strategy must be developed.

A summary of currently available value capture mechanisms is as follows:

- **Business Improvement District (BID)** (Massachusetts General Law Chapter 40O, 1994) allows the levying of fees on properties in the district to fund services and infrastructure improvements benefiting that district. It requires contiguous geographic areas at least 75 percent of which must be zoned or used for commercial, industrial, retail, or mixed-use purposes. Establishment requires 60% of property owners and 51% of assessed value (AV) within district.
- **Infrastructure Development Program (LIPD)** (Chapter 23L, 2012) allows for special taxes to be assessed in a district to pay for infrastructure needs. It is *not* required to be contiguous, and infrastructure may serve any new or existing commercial, retail, industrial, residential, or mixed-use project, but 100 percent of the property owners within the proposed development zone provide written consent to assessment.
- **District Improvement Financing (DIF)** (Massachusetts General Law Chapter 40Q, 2003, CMR 402 3.00, 2004) Bonds can be issued to for land acquisition, site preparation, other public improvements. Bonds are amortized over maximum of 30-years. DIF districts may not comprise more than 25 percent of the total area of the municipality. DIF is Massachusetts' current version of tax-increment financing (TIF). Although we believe that TIF may be a powerful tool and appropriate mechanism to facilitate value capture and close the GLX local funding gap; the requirements of the DIF program combined with the multijurisdictional nature of the Project renders DIF cumbersome in this application.

CONSIDERING VALUE CAPTURE: NEW VALUE CAPTURE TECHNIQUES

We believe that two techniques recently proposed by the Massachusetts legislature may overcome a number challenges related to existing programs identified above:

- Supplemental Infrastructure Financing for Transportation (SIFT)
- Community Benefits District (CBD).

Supplemental Infrastructure Financing for Transportation (SIFT)

One of the most promising opportunities for capturing some part of future value

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creation/realization induced through public infrastructure investment is the Supplemental Infrastructure Financing for Transportation (SIFT), "An Act relative to transportation infrastructure value capture," (House Bill 3877, Chapter 40X). The SIFT program now under consideration has a number of prospective advantages over the existing DIF. Particularly, the fact that it can be **established across the entire transit corridor straddling multiple local jurisdictions**. Specifically SIFT is expected to address:

- "Captured assessed value": the valuation amount by which the current assessed value of all properties within a SIFT district exceeds the original assessed value of such properties within the SIFT district. If the current assessed value is equal to or less than the original, there is no captured assessed value.
- How the Commonwealth may issue a SIFT certificate with respect to any transportation project involving **one or more municipalities**; provided, that a SIFT certificate shall be accompanied by written findings supporting: (i) the determination of eligibility with respect to the municipalities; (ii) the determination of eligibility with respect to the transportation project; (iii) the required term; and (iv) the tax increment to be remitted.

It appears, based on information and estimates provided in the GLX pro-forma dated November 25, 2015, and a variety of "back of the envelope" estimates, that a **GLX corridor-wide cross-jurisdictional tax-increment financing (TIF)**, as contemplated through SIFT, may provide the bulk of local funds required to close the anticipated GLX funding gap.

Our Team will shortly provide a more detailed, "back of the envelope" calculation of estimated present value of assigned tax increment, based on agreed upon key assumptions.

Community Benefits District (CBD)

A second initiative of the Massachusetts legislature currently under review is the Community Benefits District (CBD) (Senate bill 2065, House bill 1445). The CBD is much more flexible for the purposes we are considering as opposed to the existing Business Improvement District option. Specific advantages of the CBD include the following:

- Establishing the CBD will require ownership approval **representing only 40% of total assessed value**, not more than 20% of which may be single ownership (the BID requirement is 60% of property owners representing at least 50% of assessed value);
- Specific authorization for transit finance is proposed. It is also anticipated that

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CBD revenues may fund transit operations and maintenance as well as capital investment;

- CBD district will need only be generally, not strictly, contiguous, with particular significance for the GLX project;
- CBD districts are **not limited (as BIDs are) to areas where 75% of properties are zoned commercial, industrial or mixed-use**. This is particularly important in Somerville which is **predominately residential both in land use patterns and value; and**
- Proposed management and governance of a CBD are anticipated to be much more flexible than a BID.

As value engineering and redesign of GLX continues, MassDOT may identify Project elements that provide particular value or have very strong support/demand for a specific community. Such Project components may be prospects for CBD funding. For instance, this might apply to stations. If the value engineering exercise results in changing the full stations to platforms, the CBD may be used to fund both Somerville's commitments as well as improvements as CBD monies become available over time.

CONCLUSIONS

Currently available value capture techniques may be too difficult to implement given multiple regulatory and tax jurisdictions, highly fragmented and parcelized real property ownership along the corridor, and the urgency of finding a solution within a very compressed timeframe.

Techniques recently proposed by the legislature including Supplemental Infrastructure Financing for Transportation (SIFT) and Community Benefits District (CBD) appear very promising. We would encourage passage of pending state legislation to make these accessible to the Project, since our initial analyses suggests that under a SIFT, value created in part by the Project can be captured and applied to the Project itself.

Depending on the outcome of the discussions with MassDOT, Somerville will at the least need to make a political commitment to fund its \$50-75M share. **It may also need to make a legal one, by issuing debt or take on loans to fund that amount.** In general, while all signs indicate that real estate development along the GLX will be robust once it is built, there is still significant uncertainty and lenders and/or the bond markets may require that Somerville issue GO bonds or a GO pledge to back up their SIFT monies.

ADDITIONAL THOUGHTS

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Our Team believes that exploring the following topics will assist local governments and SSTI with understanding considerations for funding and financing the GLX project. These considerations include value capture and also exploration of funding and financing of specific project elements. As such, our Team proposes the following three memos as follow up to this memo:

1. A follow-up memorandum describing development of a conceptual working model defining a prospective SIFT structure and estimating incremental assessed values, tax revenues, and value capture benefits
2. Memorandum outlining options for funding and financing specific project elements that may be removed from the current GLX scope due to the value engineering process. For example, a discussion on ways to fund and finance station improvements through a combination of CBD, TIFIA, and RRIF
3. A memorandum describing GLX-related strategic economic development opportunities within the corridor.