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October 14, 2009

REPORT OF THE COMMITTEE ON FINANCE
MEETING AS A COMMITTEE OF THE WHOLE

The Committee on Finance convened on October 14, 2009, as a Committee of the Whole with Chairman Maryann Heuston presiding and Committee Members Aldermen Bruce Desmond, Rebekah Gewirtz, Sean O'Donovan, Walter Pero, John Connolly, William Roche, Dennis Sullivan, Thomas Taylor and William White also present and voting. Also present were Administrative Assistants Janice Delory and Matt Dias, Treasurer Elizabeth Craviero, Executive Director of Strategic Planning and Community Development Monica Lamboy, Steve Azar and Rob May from SPCD, City Solicitor John Gannon, Anne Thomas from the Law Department, Jim Shea from Choate, Hall & Stewart, Acting City Assessor Marc Levey, Cinder McNerney from First Southwest, Greg Mennis from the Executive Office of Administration and Finance, Don Briggs from Federal Realty Investment Trust (FRIT), Chief Financial Officer Ed Bean and interested members of the public.

The committee met to continue the public hearing, commenced on September 16, 2009, regarding an Economic Development Proposal to finance certain Public Infrastructure Improvements in Assembly Square through tax-exempt bonds issued by the Massachusetts Development Finance Agency under the Infrastructure Investment Incentive (I-Cubed) program. Simply put, this program allows the state to issue bonds to finance public infrastructure for large economic development projects and to cover the associated debt service through future new state tax revenues generated by the project.

FRIT has estimated that the Assembly Square project will generate \$24 million in annual tax revenue for the City of Somerville, \$16.7 million in annual gross state tax revenue, create 18,000 construction jobs and provide 20,000 permanent jobs. Sources of funding for the Assembly Square public/private partnership are as follows:

- \$25 million in Federal Transportation funds,
- \$15 million in Federal Stimulus funds,
- \$ 2 million in Growth District initiative funds,
- \$50 million in I-Cubed funds and
- \$1.2 billion in private investment funds.

Ms. Lamboy reviewed the actions taken to date and told the members that that the process is now at the point where action by the Board of Aldermen is needed. The city now needs to review and approve the following four items before the state can issue the final certificate:

- The final Economic Development Proposal,
- Zoning changes,
- The municipal liquidity reserve and

- Property acquisition.

Economic Development Proposal:

Ms. Lamboy reviewed some changes that were made to the prior Economic Development Proposal and told the members that the bond split has been determined to be \$20 million for the first bond, (currently under review by the BOA), and \$30 million for the second. At the request of the State Office of Administration and Finance, all reference to the Marketplace has been removed. The project phasing/construction schedule has been updated by pushing the dates out about one year. The \$40 million cost for the MBTA Orange Line station was removed from the proposal because it is not subject to I-Cube funding but Ms. Lamboy assured the members that the station is still included in the project. Ms. Lamboy said that the funds to be received from IKEA were sufficient to cover 100% of the debt service on the first bond and part of the debt service on the second. The proposal now includes a new source of revenue being generated by new utility services.

There was a discussion of some of the terminology used and an explanation of how and when a component is occupied. A building or parcel does not necessarily need to be 100% full and/or operational to be considered occupied. For example, a residential building that houses five commercial businesses, each having the same amount of square footage, could have five separate components. Since residential units are not included in the program, the number of units owned or rented doesn't come into play. If in this example, two of the five commercial businesses are operational, the parcel could be considered to be 40% occupied and those two businesses would be considered 100% occupied and therefore each would be assessed and responsible for new state tax revenue equal to their percentage share of the debt service. Mr. Briggs said that since assessments are factored at 1.5, a property only needs to be 66% occupied to cover the assessment. In the case of IKEA, revenue won't be generated until the store opens, therefore, when the store does open it will be considered 100% occupied.

Zoning changes:

Ms. Lamboy said that some components would require additional zoning permits, but no zoning changes are needed.

Municipal Liquidity Reserve:

The reserve will be an irrevocable, direct pay Letter of Credit from FRIT to the city equal to two years of principal plus interest payments. The city will establish a segregated fund, or custodial account, for accounting purposes. Funds from any collection action will be deposited in the fund to replenish the reserve. The city is allowed to withdraw reasonable fees from the reserve fund which would need to be replaced.

Property Acquisition:

The city must have control over the parcels involved for the program to move forward, so several permanent easements have been granted to accomplish this. There are some temporary easements that have not yet been approved, but these are not needed for the I-Cube program. Those temporary easements are, however, needed to secure the federal stimulus funds.

Ms. Lamboy told the members that Somerville has the only active project moving through the I-Cube process so the city isn't in a race with other communities to secure funding, but she noted that the urgency comes with getting the construction started. Mr. Briggs pointed out that at the present time, bond rates are low, so it is in everyone's best interest to move forward. Alderman White asked about a rescission

agreement and Ms. Thomas said there is language ready to be presented to the Board of Aldermen for approval, however the Board has the authority to rescind whenever it wants to.

Infrastructure Development Assistance Agreement (IDAA):

Mr. Shea told the members that he has been involved in the Assembly Square project for six years and that he has been watching the development of the I-Cube program. He said that Assembly Square is uniquely suited for this type of financing and that there really isn't much competition for the funds. Mr. Shea explained that the IDAA is the key document in the process. It is a four party agreement among the Secretary of Administration and Finance, the Massachusetts Development Finance Agency, the City of Somerville and the developer. The state issues the bonds with the IDAA as a side agreement, absolving the city from liability. In its simplest terms, the state pays now for a promise of future revenue and the developer pays the debt service during the construction period and until the parcel is occupied, (as explained above). When the parcels are occupied, each will be assessed a charge in proportion to the new state tax revenues expected. The city collects the revenue and turns it over to the state as reimbursement for the debt service payments. If the revenues fall short of expectations, the IDAA protects the city by allowing the city to levy assessments. The first step is to assess the property owner a surcharge to cover the shortfall. Should a shortfall still exist, the IDAA could ultimately leading to a taking of the property, an event considered highly unlikely, given the expected value of the parcel. The state will evaluate data yearly and determine if a shortfall exists after all surplus funds are allocated to cover said shortfalls.

Discussion:

The first phase of the project is IKEA and there are no problems with this. The complexity of the project is in the second phase, so the greater the cushion the city has from the first phase, the less risk to city in the second and it is expected that IKEA will generate a surplus of revenue. Before the state will grant the second bond phase, it will be sure that it is being underwritten by projected tax revenues. Although FRIT and not IKEA, is a signer of the IDAA, there is a separate agreement between FRIT and IKEA that upon the agreed to land swap, IKEA will assume the liability outlined in the agreement..

Chairman Heuston requested that the final version of the IDAA be submitted to the committee by October 20th if the Board of Aldermen is to vote on it at its October 22nd meeting. The committee also requested that a copy of the Act referenced in the IDAA be provided to the committee. (Note: this document was provided at the conclusion of this meeting.) Ms. Thomas will prepare the necessary orders for the Board of Aldermen's action.

Mr. Dave Dahlbacka from the Mystic View Task Force spoke in favor of the proposal and said that it would help move the project forward in a big way and he acknowledged that the city would be taking on an obligation. Mr. Dahlbacka also spoke about the need for a second head house to anchor the area and told the members that the estimated cost for this is unknown. Chairman Heuston asked Ms. Lamboy to take this notion and see if it could be incorporate into the city's plans and report to the committee at its next meeting on October 20th. Alderman White asked that the following questions be answered:

- what is the rationale for a single head house,
- what are the benefits of having a second head house,
- where would it be located and
- could it be added later and at what cost?

Stephen Mackey, from the Somerville Chamber of Commerce, also spoke in favor of the proposal and said that it was his hope that it prevail.

There were no speakers against the proposal. The Public Hearing was closed.

Chairman Heuston told those present that discussion on this matter would continue at the next meeting of the committee on October 20th.

No papers were acted on.

Alderman Maryann Heuston, Chairman
Committee on Finance