

Somerville Towne Center – Memorandum of Understanding

For the past 2 years the Borough and Redeveloper of the former Landmark development site, now known as the Somerville Towne Center have been working under a Redevelopers Agreement negotiated in 2004.

As many are aware there has been a continued series of court actions that stopped any work on the project. In each instance the courts have reinforced the Borough's right to redevelop the property and to exercise the condemnation rules under the eminent domain statute.

This is a last resort solution to a problem where one company wishes to stop the development of the property to suit its own commercial gain and create dissent within the borough.

Throughout this period the Borough and Redeveloper have continued to review the situation and try to devise a means where, when the court allows development it can move forward at a quick pace.

To put this project into perspective a number of factors have to be considered, the first being the existing Redevelopers Agreement of 2005. In this document the value of the project was \$68.8 million, and it was estimated that when completed it would generate \$1.6 million in new tax revenue (called the increment) in addition to the \$537,350 then being paid, making the total taxes generated from this redevelopment approximately \$2.1 million a year.

There is to be a parking deck constructed on the location of the South Street parking lot, in the agreement the Redeveloper was to construct this and the Borough would pay for it over time from the "incremental" taxes collected. The same arrangement had been agreed to for the construction of the Davenport Street extension, which will bisect the property connecting Main Street to Veterans Memorial Parkway and ultimately the Landfill project.

In addition the Borough was and remains working on a program known as a Revenue Allocation Plan, this calls for the creation of a Revenue Allocation District (RAD). This program initiated by the State government allows the Borough to use the "incremental" funds generated from a redevelopment area to finance other projects within a RAD or contiguous RAD's. This is very important to understand as it allows the Borough to identify specific projects or program areas and "pledge" some portion of the incremental revenues to these projects. While no single area has been committed to as yet, the considerations have included; pay for the new South Street parking structure, pay for the construction of a new Emergency Services complex, and to help fund some of the infrastructure costs within the Landfill Redevelopment Area. This can be achieved with a RAD, through the use of incremental revenue while not increasing the tax load on residents of the community, which is the ultimate objective of the borough administration.

Since 2004, the cost of construction raw materials has increased significantly, particularly steel and concrete, raising the cost of building the project. Additionally, taxes have increased along with labor and utilities, while rents and real estate prices have not moved with them, in some cases rents and property values have declined. In Somerville the real estate value portion of the situation has not suffered as in surrounding areas, property values remain strong, however rents are not increasing in line with costs and overhead, and this is an issue all commercial property owners are confronting right now.

The Borough was faced with some tough decisions when the Redeveloper presented a proposal requesting an overall 15 year tax abatement program called Payment in Lieu of Taxes (PILOT) to assist offset the increased cost they are faced with today. These programs are not uncommon within the state and have been used to great effect in many municipalities, the issue in Somerville was different in that the original agreement had a short term PILOT for 5 years on the parking deck only; to cover expenses until the Borough started paying for it from incremental revenue.

This situation had the potential to reduce the amount of incremental revenue for 15 years and would have restricted the Borough's ability to "pledge" to projects and stabilize taxes.

The decision could have been to refuse the PILOT, the potential outcome may have been that the redeveloper would then do the minimum refurbishment to the existing buildings and rent them as they are to new tenants. The result would be an unsightly structure with taxes remaining around where they are today, between \$550,000 and \$650,000; or the redeveloper could sell the project to another and we would not see any activity for several more years as new plans were prepared and new negotiations commenced.

The decision opted for by the Borough was to negotiate a revised agreement which would result in the return to the Borough in total revenue and “incremental” revenue similar to the original agreement.

This is where the increase in residential units and commercial space became key, as did the rising tax rate since the original plan. With the increased revenue volume the value of the project is now estimated to be between \$91 and \$98 million. The target was to achieve the same total revenue over the life of the project (25 years) as in the original agreement, this target was \$53 million and included revenue from the parking structure as it was to be owned and operated by the developer, with the borough subsidizing the cost of construction from incremental revenue.

The Memorandum of Understanding returns to the Borough over the life of the project, \$46 million which if you add the revenue of the deck back into the calculation would be \$52.6 million, therefore we achieved our primary objective.

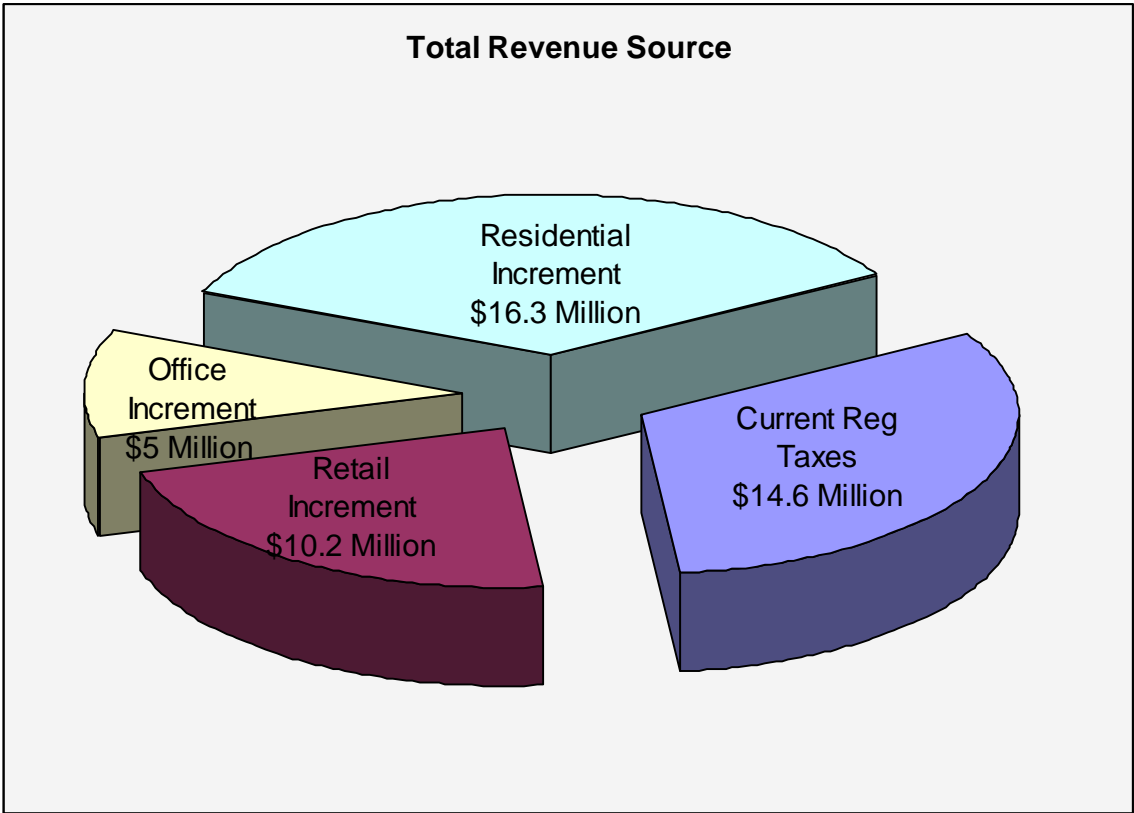
Equally important are a number of changes to the overall agreement, the Davenport Street extension will be built and paid for by the developer, leaving more increment for the Borough. The parking deck will be built, owned and operated by the Borough, with the developer (and other commercial businesses) leasing space from the borough, plus creating additional parking space to be “shared” with residents in the non-business hours. The Redeveloper will purchase the Borough property on South Street for \$250,000 and lease it back to the Borough for \$1.00 per year for 99 years. The Redeveloper will pay a total of \$200,000 development fee to the Borough, an increase from the original \$100,000. The additional funds are anticipated to support the Recreation Department.

It should not be overlooked that this project will inject a significant amount of money into the local economy (in addition to the revenue it generates), increasing business for stores and merchants in town, spurring new business growth and providing more job opportunities for residents.

Estimates are that there will be a minimum of 650 construction jobs generating approximately \$26 million dollars in payroll, some of this will be spent in the borough for meals and other goods and services. At least \$25 to \$30 million will be spent on purchases of raw materials for construction. An estimated 600 new jobs and together with the new residential households will generate upwards of \$31 million in annual personal expenditures, a significant portion of which will be spent within the Borough.

The next few months will be spent finalizing the revised developers agreement and RAD; these documents will detail every aspect of the project and the revenue projections, plus identify the projects and costs of the “pledges” to be made from the RAD.

The chart below illustrates the sources of revenue from this project over the 25 year life, based on the MOU.



As with all redevelopment projects the situation is not static and the Borough being aware of this works very hard to create a plan that will deliver to the community a project that contributes financially and provides the type of stores and services residents can use and be proud to have within their community.