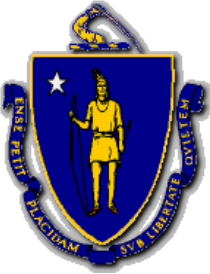


District Improvement Financing

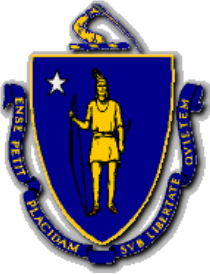
(Chapter 40Q; 402 CMR 3.00)

Program Overview



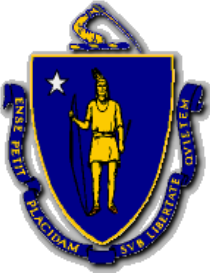
District Improvement Financing Program

- DIF is a municipal financing alternative which is available to all cities and towns in MA without precondition
- Through a public/private partnership, DIF enables municipalities to finance public purpose projects by pledging future incremental taxes resulting from new growth within a designated area to pay for the project
- DIF is a true tax increment financing program (unlike the TIF currently available in the EDIP program) it allocates future new revenues from real estate taxes in a specific area



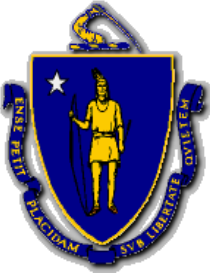
Dispelling the Myths

- DIF is not a new tax
 - is subject to Proposition 2 ½ limits
 - does not increase (or directly decrease) tax rates
 - does not directly increase tax dollars
- DIF does not reduce or redirect current taxes
- DIF is not a state grant or guaranty
- DIF and TIF can work together



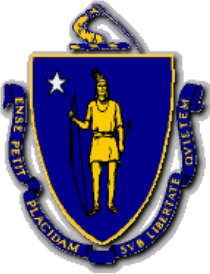
DIF History

- 1952 First DIF deal done in CA
- 1998 48 States & DC have adopted DIF legislation
- 7/03 Gov. Romney signed DIF into law in MA
- 8/04 MA Regulations promulgated
- 9/04 MA DIF Program launched; application released
- 5/05 First MA DIF approved by the State



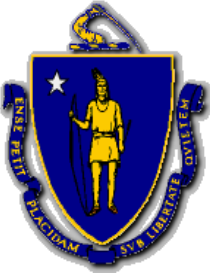
DIF Benefits

- Flexible
- Strengthens the economic base by accelerating economic development
- Strengthens the tax base by holding down property taxes by increasing property values
- Decreases risk - construction and financial
- Increases municipal control over development & developers' certainty over process and outcome

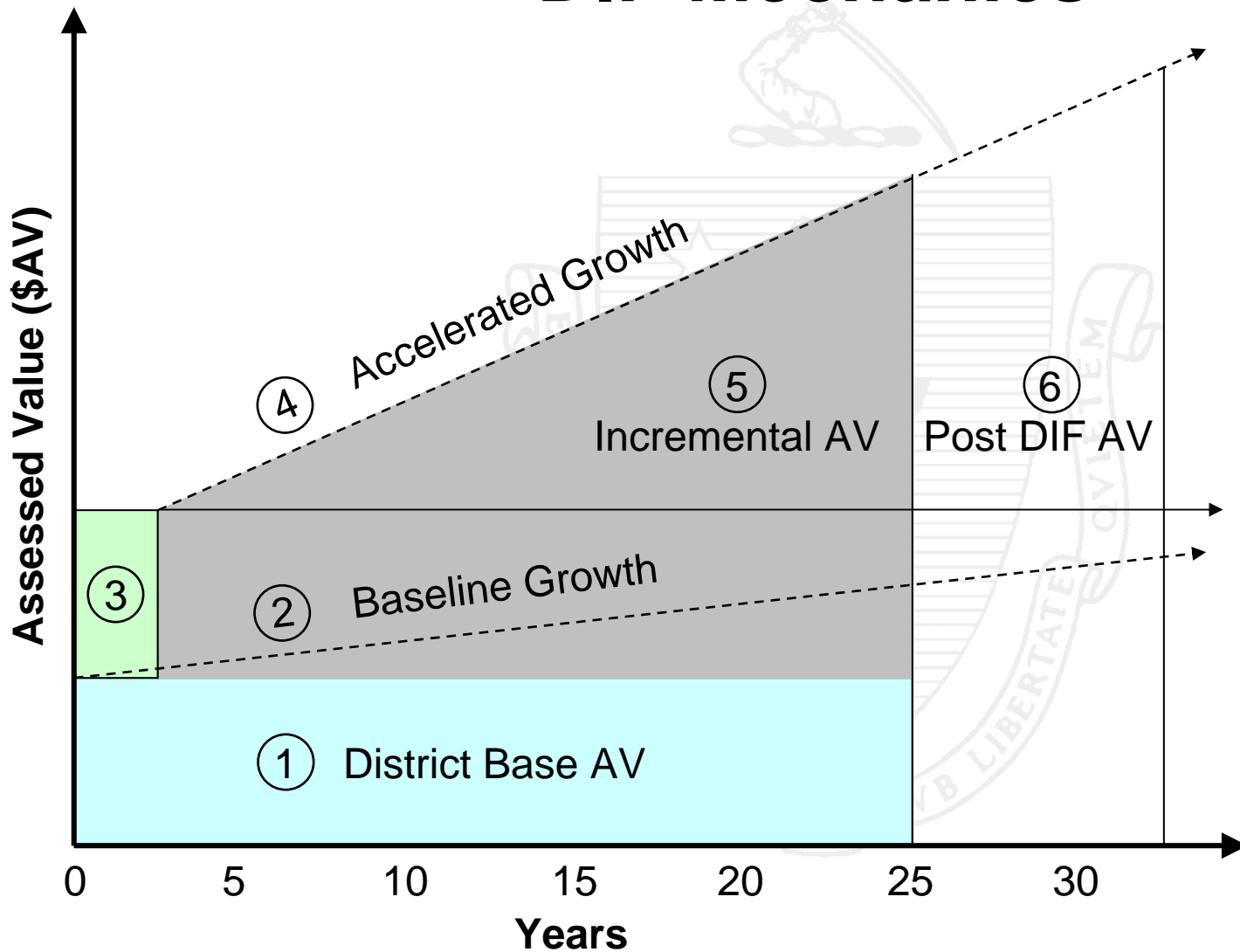


DIF Appropriate When

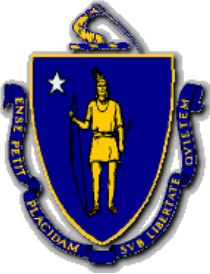
- A project supports a municipal and private objective that wouldn't happen without their cooperation (trigger / but for)
- There is a real or perceived gap in financing
- One is considering alternative financing sources



DIF Mechanics

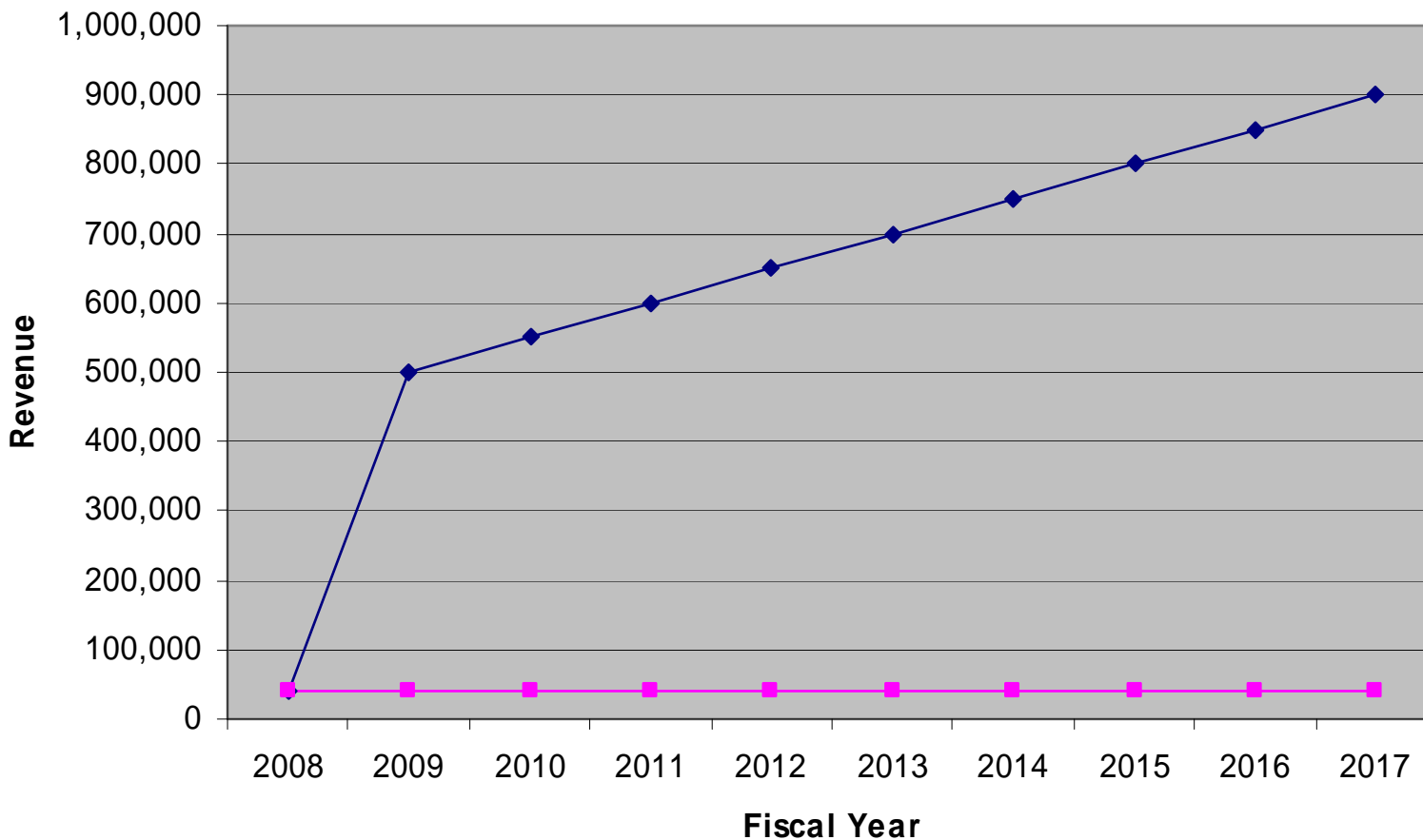


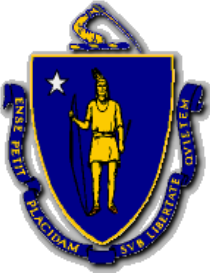
- ① AV at start of DIF Program
- ② Expected AV growth if no investment
- ③ Infrastructure investment
- ④ Accelerated AV growth after investment (*ignores inflation factor*)
- ⑤ Incremental captured value
- ⑥ AV available after DIF Program



MA OFFICE OF BUSINESS DEVELOPMENT

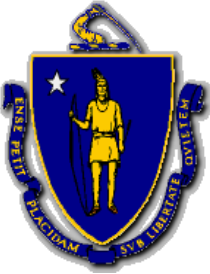
Potential Revenue Impact of DIF





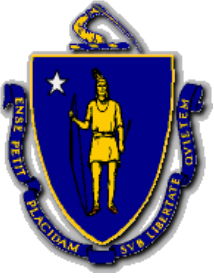
Financing

- Revenue stream must cover
 - Expenses
 - Debt service
 - Reserve funds
- DIF bond repayment
 - Interest can be financed
 - Other project revenues can be used for repayment
 - G.O. enhancement



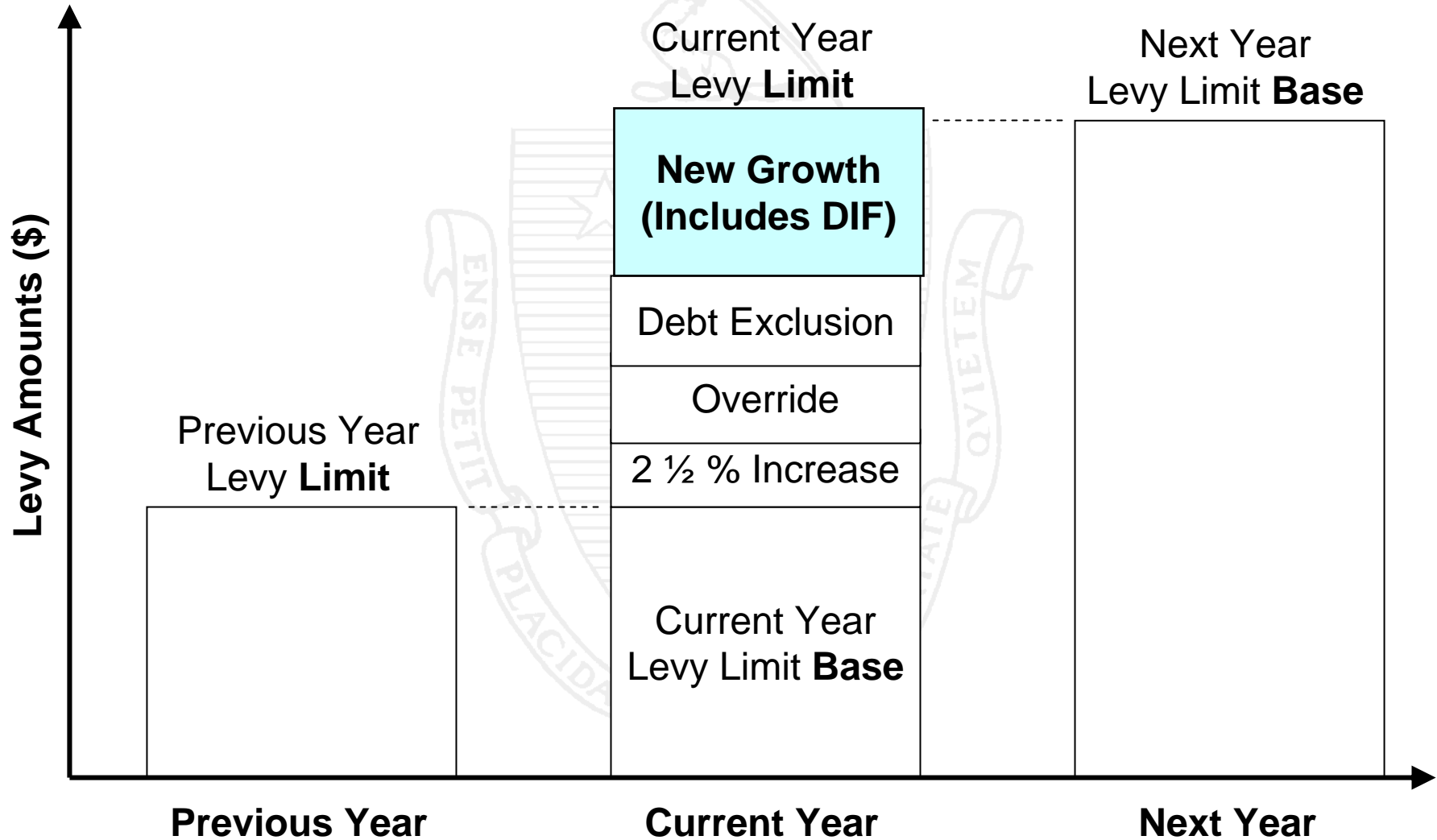
Other Key Facts

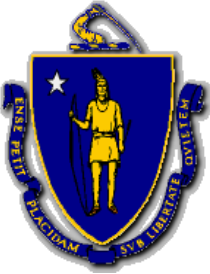
- DIF District may be as small as 1 tax parcel or as large as 25% of the municipality (parcels need not be contiguous)
- DIF does not expand eminent domain powers
- DIF debt is not counted towards the municipal debt limit
- DIF financing can be for up to 30 years (usually 15 – 25 yrs)
- DIF revenues can be combined with other revenue sources
- DIF is not exempt from Proposition 2 1/2 tax levy limits



MA OFFICE OF BUSINESS DEVELOPMENT

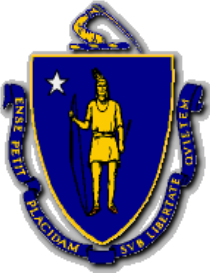
DIF and Proposition 2 1/2





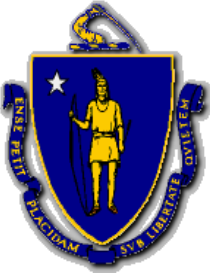
Program Administration

- Municipalities will follow a prescribed application process in order to complete a standard application and secure local approval
- Application Pre-review Team will provide a technical review of each application prior to submission to the full EACC
- EACC will:
 - Review each completed application
 - Approve the DIF project (district and financing)
 - Monitor via annual municipal reports and
 - Enforce Program compliance



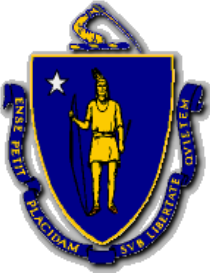
Getting Started

- Identify a clear goal, objective, or create a Master Plan
- Document, document, document
- Confirm trigger and possibly identify private partner(s)
- Preliminarily define district
- Is DIF appropriate? Do “Back of the envelope” calculations.
- Build support
- Designate a responsible public/private entity for the Program



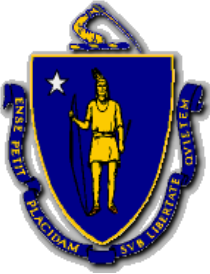
EACC Approval Criteria

- Application is complete
- District(s) do not exceed 25% of the municipality
- District and Program have proper local approvals
- Meets statutory objectives of “*encouraging increased residential, commercial, and industrial activities within the district*” and/or “*improving the quality of life, the physical facilities and structures and the quality of pedestrian and vehicular traffic control and transportation within the development district*”
- Program has a reasonable probability of success



EACC Administration

- Provide a written approval
- Deficiency? EACC will accept reapplication within a specified timeframe if the revised application addresses the deficiency
- Approve all material changes to an approved application using the “Reasonable Person” standard. Material changes include:
 - Non-technical boundary change
 - No impairment of any liability
 - Public purpose
 - Primary usage
 - Probability of success



Municipal Interest

Municipality

Small Town

Large Town

Small City

Large City

Project

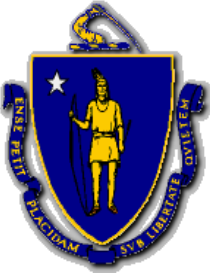
Mill Renovation

Streetscape

2 Block Revitalization

Major Commercial Redevelopment



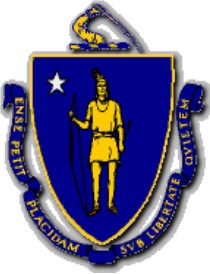


Massachusetts Track Record

As of 04/30/2007

- 4 local approvals (Medway, Quincy, Springfield, Worcester)
- 3 State approvals (Quincy, Springfield, Worcester)

State approvals is for the entire project (district and financing)



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MassDevelopment

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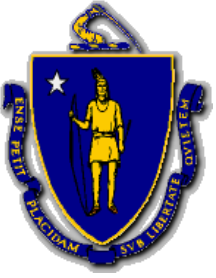
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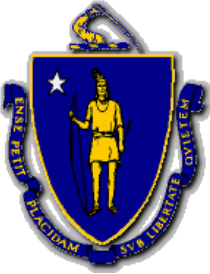


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An Overview of The Massachusetts

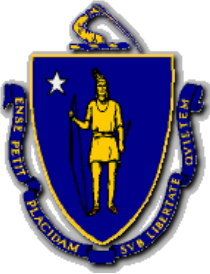
Economic Development Incentive Program (EDIP)

M.G.L. c.40, § 59



EDIP – What is it?

- A highly flexible and locally driven program that has become one of the State's premier Economic Development Tools;
- Best described as a three-way partnership between the state, a municipality and a growing company;
- Participating companies receive favorable state and local tax treatment in exchange for job creation and private investment commitments;
- The EDIP is administered by the Economic Assistance Coordinating Council (EACC), which is a state board comprised of both public and private sector officials.



The EDIP's Core Requirements

1.) **Economic Target Area (ETA):**

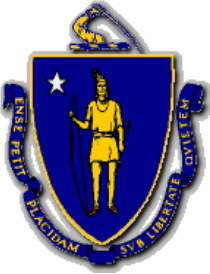
Three or more contiguous census tracts that meet at least one of eleven statutory criteria

2.) **Economic Opportunity Area (EOA):**

One or more tax parcels that meet at least one of five statutory criteria

3.) **Certified Project:**

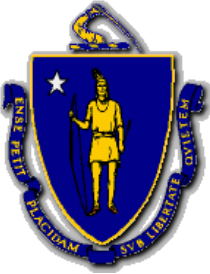
An existing or new company that commits to the creation of at least one net new job to the Commonwealth and a certain level of private investment



ETA Overview

Economic Target Area (ETA): An area of the Commonwealth that is comprised of three or more contiguous census tracts and complies with at least one of the following eleven criteria:

1. Unemployment rate exceeding the Commonwealth's by 25%;
2. 51% of households in a metropolitan area have incomes below 80% of the area's median income;
3. 51% of households in a non-metropolitan area have incomes below 80% of the Commonwealth's median income;
4. Poverty rate which is at least 20% higher than the Commonwealth's;
5. Job loss of two thousand or more;
6. Distress factor greater than one and thirty-three one hundredths;
7. An area owned by a state agency or authority which exceeds fifty acres and has within the past ten years has been used to manufacture or repair maritime vessels and is not currently being developed or used by such an agency or authority;
8. Commercial vacancy rate of 20% or more;
9. A generation facility which has a market value at the time of sale at least 50% less than its current net book value;
10. A facility of at least 1,000,000 sf, which qualifies as an abandoned building;
11. 200 acres that can support 3,000,000 sf of commercial/industrial space to be used for the establishment of a regional technology center.

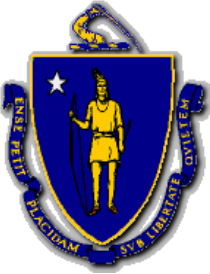


EOA Overview

Economic Opportunity Areas (EOA): must be wholly located within an ETA, comprised of one or more tax parcels, have durations of between five and twenty years, and comply with one or more of the following criteria:

1. Decadent Area: buildings need major repair, negative business conditions, etc;
2. Substandard Area: overcrowding, dilapidation, faulty design, etc;
3. Blighted Open Area: high development costs, 21E issues, ledge presence, etc;
4. Plant closing or permanent layoff of 2,000 or more over previous four years;
5. Area contains a generation facility that was sold at less than 50% of book value

****All EOAs are both locally identified and designated****



EOA Overview (continued)

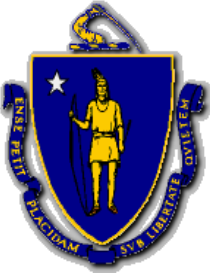
10% Abandoned Building Tax Deduction (10% ABTD): A deduction in an amount equal to 10% of the cost of renovating an abandoned building. (M.G.L 63 § 38O)

To qualify for the 10% ABTD, the building **must** be:

- Located within an EACC approved EOA;
- At least 75% vacant for the previous two years;

The renovation project **does not** have to be:

- An EDIP Certified Project (however - it can be);
- Strictly commercial in nature; housing projects are also eligible.



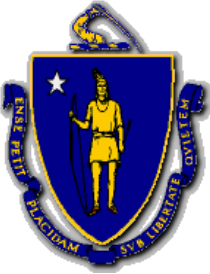
Certified Project Overview

A **Certified Project** is an existing or expanding Massachusetts Company that commits to:

- The creation of at least one net new job to the Commonwealth;
- Significant capital investments at a MA site.

In exchange for their employment and investment commitments, **Certified Projects** become eligible to receive the following state/local tax benefits:

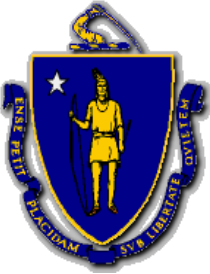
- Local property tax exemptions pursuant to executed TIF/STA Agreements;
- 100% Personal Property Tax Exemption (TIF only);
- 10% Abandoned Building Tax Deduction, if applicable;
- An enhanced Investment Tax Credit of 5%.



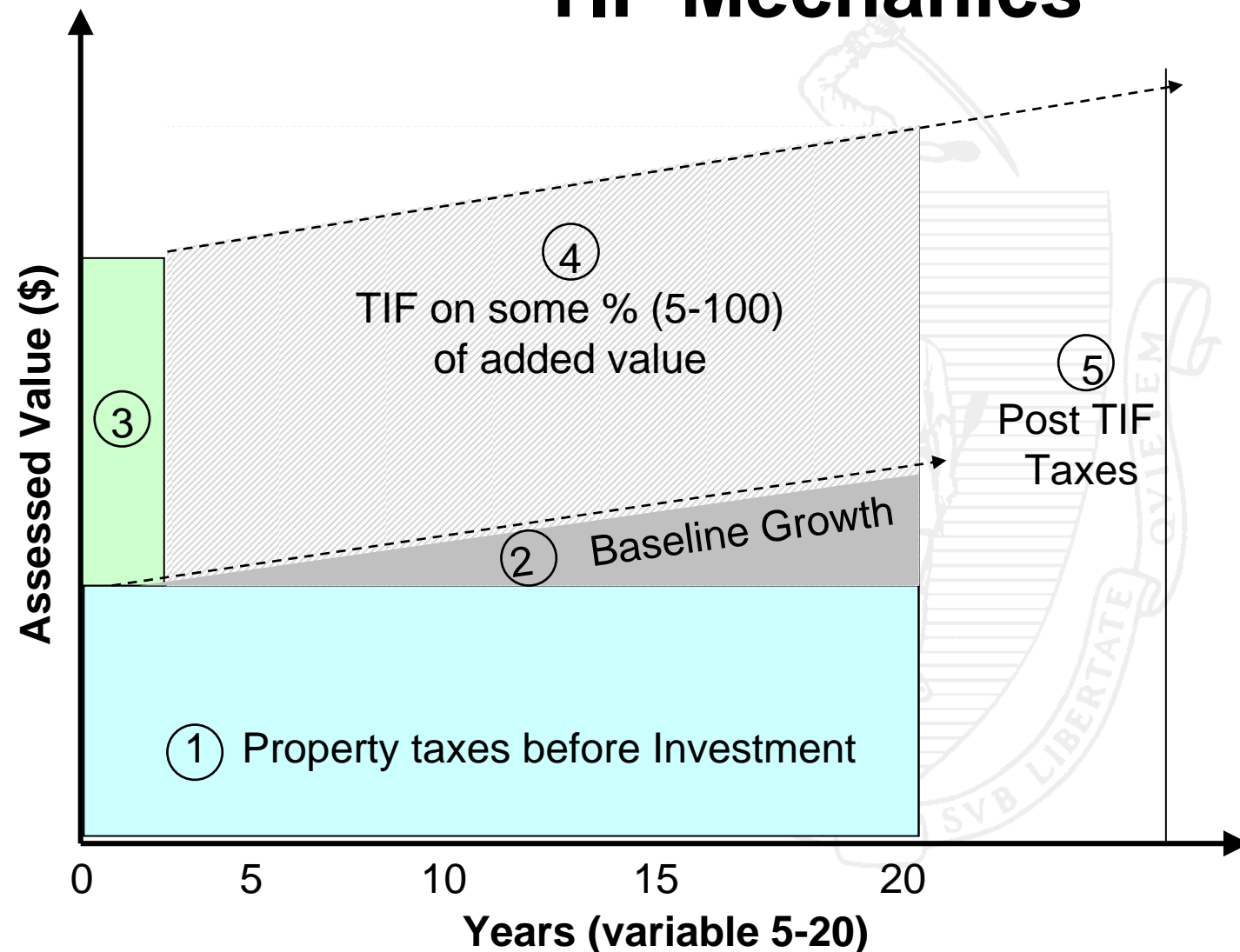
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Local Real Estate Tax Exemption: Tax Increment Financing (TIF)

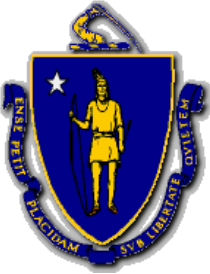
- Negotiated Agreement between business and host municipality;
- 5 year minimum, 20 year maximum or anything in between;
- Business pays full tax rate on the “base value”;
- Exemption from property taxation on all or part of the increased value accrued as a result of development (the “increment”);
- Percentage of exemption may range from 5% to 100%;
- Personal property tax exemption for both existing and new property;
- M.G.L. 40 § 59 governs all TIF Agreements.



TIF Mechanics



- ① Taxes on original valuation
- ② Expected growth in tax, with no investment
- ③ Investment raises property value
- ④ Added value subject to TIF
- ⑤ Taxes available after TIF

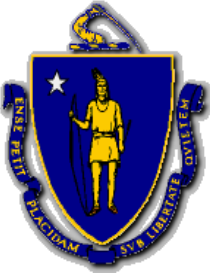


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Local Real Estate Tax Exemption Agreements: Special Tax Assessment (STA)

*STAs apply to entire assessed value of a parcel, not just the increment. Therefore, current as well as future local tax revenues are exempted. Unlike TIF Agreements, no Personal Property Taxes **are not exempted** under an STA Agreement. Per Statute - MGL 23A§3E(3) - STAs have 5-year minimum and 20-year maximum terms and must minimally comply with the following 5-year schedule:*

- | | |
|---------------------------|---|
| <u>Year One:</u> | Business does not pay real estate taxes (non-negotiable); |
| <u>Year Two:</u> | Municipality is authorized to collect up to a MAXIMUM of 25% of the actual assessed value of the entire parcel; |
| <u>Year Three:</u> | Municipality is authorized to collect a MAXIMUM of 50% of the actual assessed value of the entire parcel; |
| <u>Year Four:</u> | Municipality is authorized to collect a MAXIMUM of 75% of the actual assessed value of the entire parcel; |
| <u>Subsequent Years :</u> | Municipality may collect up to parcel's fully assessed value. |



The 5% Economic Opportunity Area Credit (EOAC)

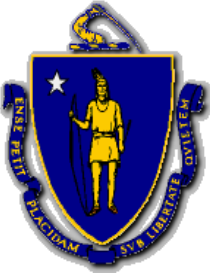
In addition to local tax incentives outlined in an executed TIF or STA Agreement, Certified Projects are also eligible to receive an enhanced State Investment Tax Credit (ITC).

Known as the Economic Opportunity Area Credit or EOAC, this enhanced 5% ITC is taken against qualifying personal and tangible property that:

- Has a useful life of four years or more;*
- Is either owned or secured through an operating lease.*

The EOAC also offers:

- Availability to all industry sectors (not just manufacturing);*
- Available to all commercial entity structures (not just corporations);*
- A 2% value added for MA Manufacturers;*
- Attractive carry forward provisions (10 to 25 years based on project term and tax filing status).*



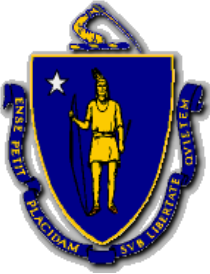
Non-ETA Communities and the EDIP “Exceptional Opportunity Areas”

Pursuant to M.G.L. c.40, § 59, the DBT Director may designate an area of MA as “presenting exceptional opportunities for increased economic development.” By receiving such a designation, the municipality may then negotiate a TIF Agreement with a Company that is either expanding in or relocating to MA.

The proposed project must demonstrate that it will:

- *create a significant influx or growth in business activity;*
- *create a significant number of new jobs and not merely a replacement or relocation of current jobs within the Commonwealth;*
- *create an increased likelihood of economic stability for area.*

An “Exceptional Opportunity Area” designation only entitles a project to the local tax incentives contained within a TIF. No other EDIP incentives are made available.



EDIP – Recap of Elements

Three-way partnership between business, municipality, and state

Business

Certified Project

Job Creation

Property Investment

Accountability

Municipality

The TIF

A local property tax exemption of **5-100%** for period of **5-20** years.

The STA

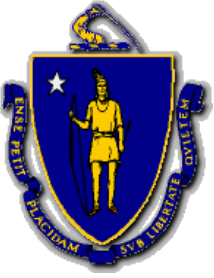
Descending tax abatement to a based on the existing and new property value.

State

EO-ITC & 10% ABTD

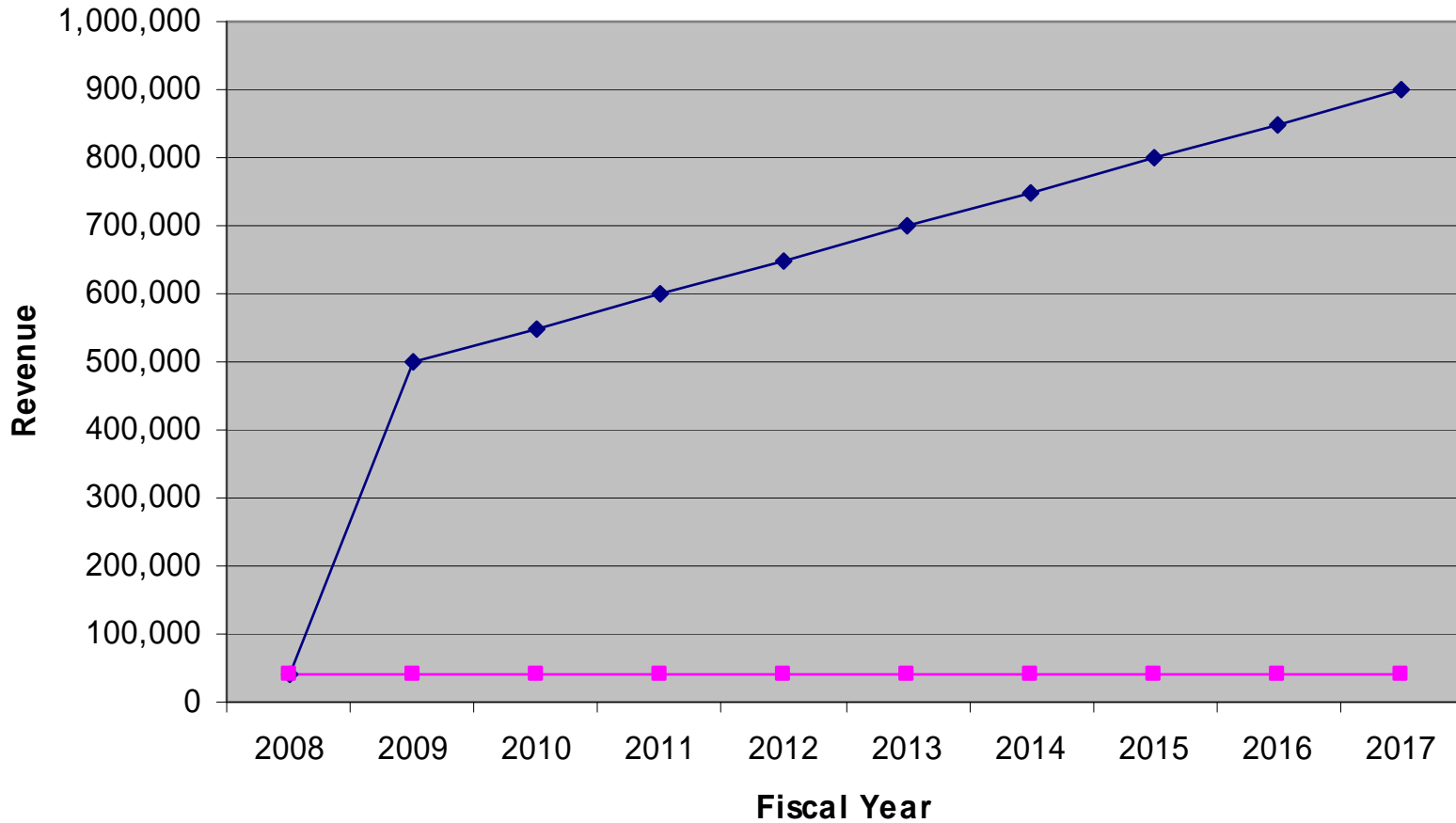
5% - EO-ITC taken on the cost of tangible and depreciable property that has a useful life of four or more years.

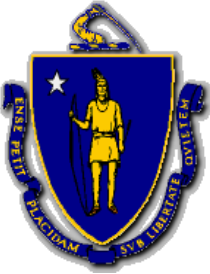
10% - ABTD on buildings that are at least 75% vacant for the previous 2 years



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Potential Revenue Impact of TIF

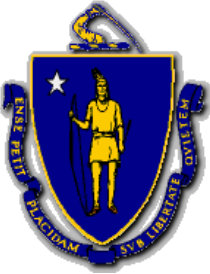




EDIP Statistics Since Program Inception

(as of October 2007)

- Over \$18 Billion in Projected Private Investment
- Over 1,200 EDIP Certified Projects Approved
- Over 65,000 Projected Jobs Created
- Over 109,000 Projected Jobs Retained



MA OFFICE OF BUSINESS DEVELOPMENT

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