

**Tax Increment Finance (TIF)
Guidelines
City of Newburyport, MA**

I. Background: The Economic Development Incentive Program (EDIP) and TIFs

a) Under M.G.L. 23 A, Massachusetts municipalities designated as Economic Target Areas (ETAs) may participate in the Economic Development Incentive Program (EDIP). As a designated ETA, Newburyport can offer commercial or industrial property owners a Tax Increment Finance (TIF) agreement in support of projects which add assessed value to properties and create net new jobs for Massachusetts. In total, four benefits are potentially available to participating investment projects:

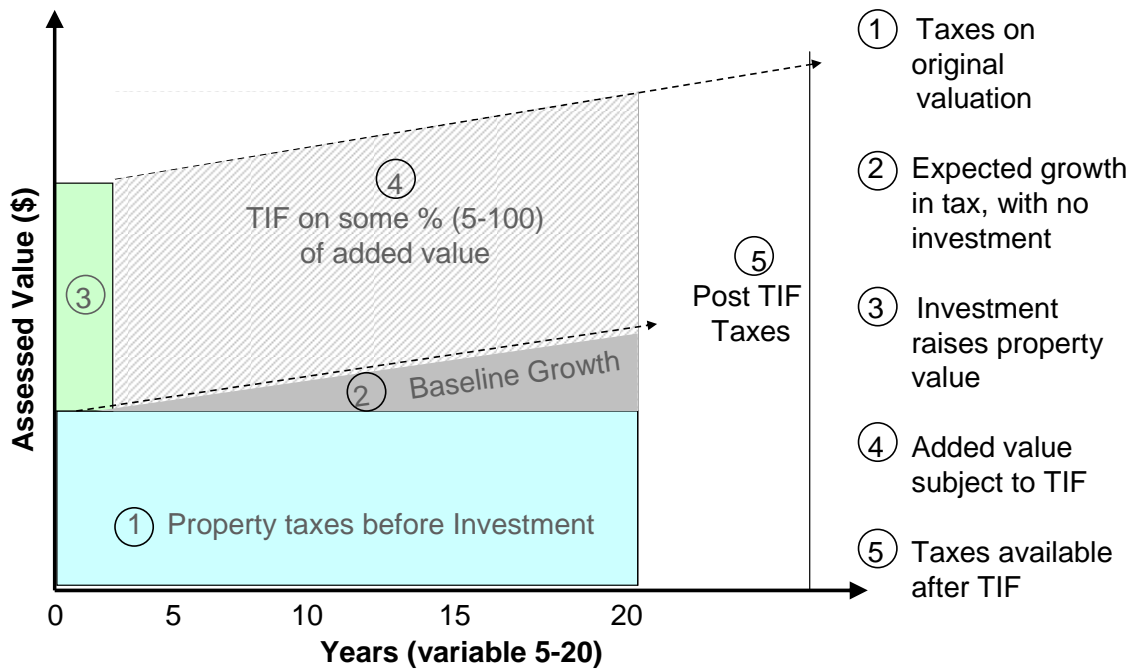
1. A TIF provides an exemption on property taxes on the *value added* to the property by the participating business. The exemption can be from 5-100% on added assessed value (AV) for a period of 5-20 years.
2. In addition, under a TIF agreement an exemption of 100% of the value of any personal property is provided to the business (note: this exemption is already in place for all Massachusetts manufacturers and R&D facilities).
3. A business participating in the EDIP also receives a state Investment Tax Credit (ITC) of 5% from the Commonwealth (note: all manufacturers in Massachusetts receive a 3% ITC. Through EDIP participation, manufacturers receive an additional 2% ITC).
4. Through the EDIP, an Abandoned Building Renovation Deduction may also be available. Businesses can deduct up to 10% of the costs incurred in renovating buildings that have been 75% vacant for two or more years.

- 187 of 351 Massachusetts municipalities are Economic Target Areas (ETAs).
- Over 1,000 projects have participated in the EDIP program since it began in 1994.

b) How does a TIF work?

Municipalities which offer TIF agreements with property owners are providing an exemption on ONLY the value added to a property through an investment by the property owner. In a TIF agreement, the municipality receives all property tax revenue from the property as assessed before the new investment (see 1 below). In addition, the municipality receives additional revenue based on a determined baseline growth factor - like an inflation factor - on the assessed value before investment, projected over the term of the TIF agreement (2). The TIF exemption is based only on the added assessed value after the investment is made (3) and can be an exemption of 5-100% for a period of 5-20 years (4). The exemption percentages can vary by year in the TIF agreement. When the TIF term is completed, the municipality receives property tax revenue based on the full assessed value of the property (5).

TIF Mechanics



c) Accountability

It is the responsibility of the participating “Certified Project” (the business entity making the investment and creating the jobs) to report on an annual basis to both the municipality and the Commonwealth its progress in meeting the requirements of its TIF agreement. As of November, 2006, Newburyport’s five active TIF projects have all reported as required on an annual basis. Each is currently meeting projected goals in investment and job retention and creation.

II. Purpose of the EDIP Program and Guidelines for Newburyport

a) Purpose

The EDIP is intended to provide municipalities a tool in leveraging investment and job creation projects to take place in their communities. The statute focuses on driving investment to difficult-to-develop or -redevelop sites, vacant sites or buildings, and sub-standard buildings or areas. In practical application, the EDIP has been used to support development and redevelopment projects in locations ranging from single store locations in downtowns to disinvested neighborhoods to business and industrial parks and even to “green fields”. In the end, the statute is so broadly written and can be so broadly interpreted that it rests with each participating municipality to determine its own guidelines in use of the program to its benefit.

b) Guidelines for Newburyport

Program Goals

1. Raise Property Tax Revenue from Commercial/Industrial properties

In 2006, residential property tax payments accounted for 86% of the property tax revenue in the City, as opposed to just 14% for commercial/residential. As future new development of commercial/industrial properties is likely to be very limited, the City must look to the redevelopment of existing commercial/industrial properties in order to generate additional property commercial/industrial property tax revenue to ease the burden of residential property tax payers.

2. Focus on Redevelopment of Aging, Vacant, or Sub-Standard Commercial/Industrial Properties and Brownfields Sites.

While deferring to the merits of the historical preservation of historic buildings and sites as appropriate, as a general rule Newburyport supports the use of the EDIP program in leveraging investments in commercial/industrial buildings that are approaching or have reached obsolescence, that have been 75% or more vacant for two or more years, or have become sub-standard buildings. In addition, the program can be used to support the

redevelopment of parcels that are brownfields sites, which must be remediated to acceptable levels in order to support viable commercial/industrial uses. The existence of such conditions in buildings or sites limits property valuation and property tax revenue generation for the City.

3. Stimulating Job Creation

The EDIP program can be used to support projects that will result in the creation of new jobs for Newburyport and the Commonwealth. Priority will be given to projects that are likely to generate employment opportunities for Newburyport residents and those in the greater Newburyport area.

4. Target High Concentration and Growth Industries

The Newburyport Economic Development Office will identify area growth industries. Identified growth industries will be identified through location quotient and shift/share analysis. Growth industries are those which have high industry concentrations in the region and are gaining in share of the national industry.

5. Meet the Objectives of Sustainable Development

Newburyport embraces sustainable development and can give priority consideration to projects that include sustainable elements. These objectives are presented as Smart Growth Principles by the Massachusetts Office of Commonwealth Development (see www.mass.gov/ocd). Sustainable projects are those which include one or more of the following elements: redevelopment versus greenfield development, transit-oriented development, support sustainable businesses (e.g. renewable energy, energy efficiency, etc.), conserve natural resources, restore or enhance open space.

6. Meet Identified Community Needs

The City may, from time to time, identify specific needs that a new EDIP project may fill. For example, the City may target a particular area for redevelopment and identify a particular use for a site (e.g. hotel, office building, R&D building) or requirement for a site (e.g. provision of protected open space or extension or repair of city infrastructure – roads, water, sewer, drainage, etc.). The EDIP can be used in support of projects that will meet such identified community needs.

Scoring Criteria

Important Notice to Prospective Projects

This scoring system is intended to help guide Newburyport officials in setting negotiation parameter for prospective EDIP projects in Newburyport. By statute and practice, the Newburyport City Council decides whether or not EDIP project proposals are suitable for City approval. While this scoring system provides a guide to determine a possible range for TIF exemptions, it does not restrict the authority of the City Council to reduce or increase exemptions or to deny proposed projects entirely.

1. Raise Property Tax Revenue

Commercial/Industrial

Increases AV by 10-24%	15 pts.
Increases AV by 25-39%	20 pts
Increases AV by 40-59%	30 pts
Increases AV >60%	50 pts
Increases AV >90%	60 pts
Increases AV >100%	80 pts

Retail <5,000 square feet

Increases AV by 10-24%	20 pts
Increases AV by 25-49%	30 pts
Increases AV by >50%	40 pts
Increases AV by >100%	50 pts

2. Redevelopment and Expansion

10 k -30 k s.f.	Building renovation	20 pts	Expansion	30 pts	Rebuild	40 pts
31 k -60 k s.f.	Building renovation	30 pts	Expansion	40 pts	Rebuild	60 pts
>61 k s.f.	Building renovation	40 pts	Expansion	50 pts	Rebuild	80 pts
>100 k s.f.	Building renovation	50 pts	Expansion	60 pts	Rebuild	100 pts
Brownfields redevelopment, environmental remediation required (points not available to polluting entity or related entity, e.g. mirror image company or new owner of polluting entity):						
	Site requires remediation at cost of >\$1 Million					75 pts
	Site requires remediation at cost of >\$500,000 - \$1 M					60 pts
	Site requires remediation at cost of \$100,000-\$500,000					45 pts
	Site requires remediation at cost below \$100,000					20 pts

3. Job Creation

1-10 new jobs*	10 pts
11-24 new jobs	20 pts
25-49 new jobs	30 pts
50-74 new jobs	40 pts
>75 new jobs	60 pts
>100 new jobs	70 pts
0.5 bonus pts for each new job over 150% of area median per capita income (\$52,108)	

4. Target Growth Industries

Growth industries and high concentration industries identified are presented in Addendum A. **Growth industries** have been determined as industries with high concentration and growing share of the national industry. **High concentration industries** presented below are those which have higher concentration in Essex County than the national concentration. High concentration indicates a competitive advantage for that industry in the area, speaking to a skilled workforce and expertise in that industry. However, the industries listed below, while having high concentrations, have nonetheless *lost* in share of the national industry in the period studied (2000-2004). The future viability of these industries in the area, therefore, is more open to conjecture.

Growth Industries (High concentration, Gaining industry share)	
Pharmaceutical mfg.	60 pts
Advanced instrumentation, controls mfg.	60 pts
Plastics and allied products mfg	60 pts
Medical device and supplies mfg	60 pts
Industrial machine mfg.	50 pts
Professional, scientific, and technical services	50 pts
Financial transactions processing, clearinghouse services	40 pts
Graphic and other specialized design services	30 pts.
Savings institutions	30 pts.

High Concentration Industries	
Electrical equipment mfg.	30 pts
Aerospace mfg.	30 pts
Communications Equipment mfg.	25 pts
Semiconductors and related mfg.	25 pts
Bakeries and food process mfg.	20 pts
Fabricated metal products mfg.	20 pts
Misc. store retailers	20 pts
Office furniture & millwork	15 pts
Printing and publishing	15 pts
Amusement and Recreational	15 pts
All Other	5 pts

Identified Target Industries	
Accommodations	40 pts

5. Sustainable Development Objectives

Project is in renewable energy industry products mfg.	60 pts
Project uses in-house renewable energy (PV, fuel cells, water, wind)	60 pts
Project uses Transfer of Development Rights for Open Space preservation	50 pts
Project is part of Transit-Oriented Development	50 pts
Project includes historic preservation elements	50 pts
Project uses energy efficient systems in expansion	30 pts
Project is located in green field	-10 pts

6. Project meets community need

Development privately funds public infrastructure	10 pts per \$100,000 cost
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III. Rating Guide for TIF Determination for Potential Projects

<u>Score</u>	TIF Range
>300	Maximum TIFs, with exemptions as high as 100% for no more than 5 years, with descending exemptions thereafter. Terms as long as 20 years.
200-299	High-Moderate TIF terms, with exemptions as high as 75% for no more than 5 years, with descending exemptions thereafter. Terms as long as 20 years.
150-199	Mid-Moderate TIF terms, with exemptions as high a 50% for no more than 5 years, with descending exemptions thereafter. Terms as long as 15 years.
100-149	Moderate TIF terms, with exemptions as high as 35% for no more than 5 years, with descending exemptions thereafter. Terms as long as 15 years.

75-99	Limited TIF terms, with exemptions as high as 20% for no more than 3 years, with descending exemptions thereafter. Terms as long as 10 years.
50-74	Minimal TIF terms, with exemptions from 5-10% for terms of 5-10 years.
<50	Not applicable

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Public Notification Process

When a prospective TIF project enters discussions with the City's designated economic development officer, the economic development officer will seek to adhere to the following process guideline.

1. The economic development officer will use discretion in proposing the use of a TIF at all times. Projects should, at least, meet the minimal scoring requirements for a project, as outlined above.
2. Upon entering a TIF negotiation with a prospective project, the economic development officer will inform the Mayor and the City Council. At no time will the economic development officer be required to identify the prospective project, beyond a general description. Confidentiality is often a requisite in any negotiation, as public revelations of prospective property buyers or lessees may adversely effect property purchase or lease negotiations.
3. Upon completion of a negotiated TIF agreement with a prospect project, the economic development officer will forward all documents: proposed TIF Agreement, Economic Opportunity Area Application (if necessary), and TIF Zone Plan (if necessary) to the City Council. With the submission, the economic development director will inform the Council of any pertinent project timelines that may be applicable.
4. The economic development officer will be available to each Committee and the full City Council for any meetings on the subject TIF project.