

# DISTRICT IMPROVEMENT FINANCING & TAX INCREMENT FINANCING



*The X in Springfield*

## **What are the objectives of a District Improvement Financing and Tax Increment Financing?**

To encourage investment/reinvestment in downtown village and urban core areas; improve urban streetscapes and infrastructure to further economic development. District Improvement Financing (DIF) and Tax Increment Financing (TIF) are economic tools that promote redevelopment by use of public/private partnerships. TIF offers tax breaks to developers, while DIF channels tax dollars into targeted redevelopment districts.

## **Why do we need District Improvement Financing and Tax Increment Financing?**

Many municipalities in the Pioneer Valley Region as well as throughout Massachusetts are faced with blighted, distressed, or simply underutilized areas. Many of these sites contain abandoned or contaminated facilities, while others are characterized by dilapidated infrastructure and commercial operations that simply are not economically viable. These areas often see a decrease in assessed property values with a corresponding decrease in municipal revenue. At the same time, they pose a drain upon municipal services. Often, it is difficult to attract private investment to these areas.

DIF and TIF provide opportunities to redevelop areas in ways which can lead to increased property values, increased tax revenue, improved infrastructure, enhanced transportation services, increased housing supply, new jobs and an overall improvement in quality of life for the inhabitants of the city or town.

## **How does District Improvement Financing and Tax Increment Financing work?**

A city or town wishing to utilize DIF must first designate a development district and a corresponding development program. The district and program must then be certified by the State Economic Assistance Coordinating Council (EACC). A development district may be as small as one parcel or may comprise up to 25% of a town or city's land. A district can be in effect for a maximum of 30 years. Each district must have a unique development program which spells out the goals of the district and the means to achieve them.

Under TIF state enabling legislation, landowners may be granted property tax exemptions of up to 100% of the tax increment. A municipality may enter into a TIF Agreement with a landowner for a maximum term of 20 years. The legislation also authorizes TIFs for housing in urban centers. A city or town must initiate a TIF by a vote of its governing body approving the TIF Plan.

## EXAMPLES FROM OUTSIDE THE PIONEER VALLEY

*At this time, there are no examples of DIF or TIF in the Pioneer Valley region. However, outside the region the Massachusetts Office of Energy and Environmental Affairs highlighted three DIF/TIF case studies in their Massachusetts Smart Growth Toolkit. This toolkit was prepared by the Horsley Witten Group under contract to the Massachusetts Executive Office of Energy and the Environmental Affairs (EOEEA).*



*Star Corporation, Leominster*

*Source: MA Smart Growth Toolkit*

### **Leominster, MA - Star Container Corporation (TIF District)**

The City of Leominster entered into a Tax Increment Financing Agreement with Star Container Corporation to encourage Star Container's expansion plans for its packaging facility. The expansion consisted of an additional 54,000 square feet of floor area and the purchase of additional corrugated box manufacturing equipment. The TIF Agreement had an eight year term, and provided for a front loaded sliding scale of exemptions from taxation of the tax increment as follows:

Year 1	100%	of the increment
Year 2	90%	of the increment
Year 3	75%	of the increment
Year 4	60%	of the increment
Year 5	45%	of the increment
Year 6	30%	of the increment
Year 7	15%	of the increment
Year 8	0%	of the increment

Star Container invested approximately 6.2 million dollars into the facility and equipment. The Agreement provided for the creation of 25 new full time manufacturing and managerial jobs. 150 existing jobs were retained by ensuring the facility stayed at the existing site. At the end of the TIF period, the City will gain approximately \$23,000 annually in additional property taxes.

Leominster uses TIF agreements only for manufacturing businesses. This is compatible with the needs of the city, which historically has had a manufacturing base in the plastics industry. Star Container distributes its packaging to many local and regional firms. The focus on manufacturing has the effect of creating jobs, which pay higher than the minimum wage, bringing a greater economic benefit to the area. The shorter term TIF is also geared towards manufacturing, and is tied to the equipment life.

**For additional case studies on DIF/TIF, please see the [Massachusetts Smart Growth Toolkit](#) developed by the Executive Office of Energy and Environmental Affairs**

[MODEL TAX AGREEMENT \(EOEEA\)](#)