

# A Guidebook of Massachusetts' Public Financing Programs for Infrastructure Investment



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# CHAPTER 1 INTRODUCTION

## PLANNING AHEAD FOR GROWTH

Massachusetts' cities, towns, and regions have the potential to develop new and existing industries that expand the state's competitive advantage. Home to established and burgeoning industries, world class institutions for higher education and health care, and a growing green energy industry, Massachusetts harbors a competitive advantage matched by few. However, the state's potential for growth relies on having the tools in place to support new infrastructure, which will pave the way for future economic development.

Since 2007, the Administration in partnership with local communities has been planning ahead for job and housing growth. To facilitate growth and strengthen regional partnerships, the Patrick-Murray Administration has taken steps to implement a state vision, which focuses on supporting high-quality employment, housing and targeted investment.

The Administration's planning ahead for growth strategy involves four critical elements:

- **IDENTIFY** promising places for growth that not only have community support, but are also consistent with regional considerations and with the Commonwealth's Sustainable Development Principles;
- **CREATE** prompt and predictable zoning and permitting in those places (both state and local);
- **INVEST** in public infrastructure needed to support that growth; and
- **MARKET** those places to businesses and developers interested in locating and growing in the Commonwealth

Given the current market realities, the Administration recognizes that cities and towns operate within tight budgets and at times, are unable to access state and federal resources that are needed to address unmet infrastructure needs. Recognizing this, the Administration has taken steps to provide communities with a set of additional tools that can supplement finite funding sources.

The Business Improvement Districts (BID), District Improvement Financing (DIF), Infrastructure Investment Incentive Program (I-CUBED) and the Local Infrastructure Development Program are four programs available to all cities and towns of the state that provide communities and developers with an alternative set of tools in order to establish a funding mechanism to support their economic development plans. The Administration endorses these tools and encourages communities to utilize these tools to address unmet public improvement and infrastructure needs that will enable communities to retain and attract business activity and enhance the quality of life for their residents.

In summary, BID, DIF, I-CUBED and the Local Infrastructure Development Program are programs designed to promote new investment in targeted areas where infrastructure, community assets, and transit opportunities are operational. These targeted funding programs aim to renew

the vitality, livability, and sustainability of the area by empowering municipalities with the means to finance infrastructure improvements through an array of financing mechanisms, such as assessments, bond issuance, and tax increment financing.

## **EMPOWERING MUNICIPALITIES**

Strategies to sustain and improve the economic vibrancy of communities have been a primary focus of elected officials, community planners, and business leaders in the Commonwealth of Massachusetts. A range of strategies and policy initiatives has been developed in an effort to support economic development and foster community revitalization through targeted infrastructure investments. Programs, such as Chapter 43D Expedited Local Permitting, provide opportunities for municipalities to eliminate inefficiencies and support a streamlined and predictable local permitting process. Another program is the MassWorks Infrastructure Program, which provides grants for publicly owned infrastructure including, but not limited to sewers, utility extensions, streets, parking facilities, site preparation, demolition, and water treatment systems to support housing development, transportation improvements, and community revitalization.

Municipalities throughout the state are faced with a myriad of challenges. While the specifics vary by community, the challenges are common. For instances, some communities have outdated or inadequate infrastructure to support even the most highly embraced development projects. For other communities, state and federal discretionary grant resources are not enough to address unmet infrastructure needs. The Administration recognizes the challenges that confront cities and towns and have taken steps to provide an alternative set of financing tools to empower cities and towns move economic development projects forward.

In the following chapters, BID, DIF, I-CUBED and the newly created Local Infrastructure Development Program will be explained. Each chapter will provide an overview of the program; how the program is formed, managed, and financed; and the approval process of each program. Last, Appendix A contains a program matrix.

## **TAX REVENUE FINANCING**

State and local governments are responsible for providing an array of services: education, roads and bridges, public safety, a social safety net, and public health. To pay for these services, cities and towns of the state depend on tax system composed of many distinct types of taxes.

Massachusetts' revenue system is structured using a variety of state and local taxes: 1) property taxes which cities and towns collect to pay for municipal services; 2) state personal income tax; 3) general sales tax; 4) excise taxes on specific goods, such as gasoline or tobacco; and 5) the corporate income tax.

At the local level, the property tax is the principal tax levied by local governments in Massachusetts and is the largest source of revenue. In Massachusetts, Proposition 2<sup>1/2</sup> limits the

total amount that a jurisdiction may collect each year through the property tax and limits the growth rate of property tax levies for all cities and towns throughout the State.<sup>1</sup> The property revenues generated are used to pay for, but are not limited to, education, public safety, and infrastructure improvements.

Moreover, cities and towns may generate additional revenues through assessment levies. The Business Improvement Districts (BID), District Improvement Financing (DIF), Infrastructure Investment Incentive Program (I-CUBED) and the Local Infrastructure Development Program are four programs that provide cities and towns with a locally controlled mechanism to finance infrastructure and beautification improvements in a particular area of the municipality. These programs allow municipalities to use increased revenues realized through new development and neighborhood improvements and/or new revenue realized through assessment levies on property owners with a specified district to implement improvements that will help the entire district without relying solely on traditional infrastructure funding sources such as Chapter 90, MassWorks or TIP funds. Utilizing the funds raised from the assessment fees, cities and towns will be able to finance infrastructure improvements within the district through bond issuance and debt financing. Each program discussed in the subsequent chapters will expound on the financing methods and the community benefits.

## **PURPOSE OF THE GUIDEBOOK**

While it is the intent of this guidebook to promote a clear understanding of the public financing resources available to communities for infrastructure investment, it is not intended to be prescriptive or provide specific legal advice. The sole objective is to provide community leaders, developers, building owners and business owners a working knowledge of the process of implementing and utilizing tax financing programs that support neighborhood revitalization and to allow communities and businesses to evaluate which program best fits their needs and goals. This guidebook is designed to supplement, not replace, the assistance you will receive from the Executive Office of Housing and Economic Development (EOHED), the Executive Office for Administration and Finance (ANF), MassDevelopment, or related consultant.

There are many programs that support neighborhood revitalization. The programs discussed in this guidebook form the core of Massachusetts revitalization programs that involve the participation of both the public and private sector and are funded through a public/private finance mechanism.

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<sup>1</sup> *Understanding Our Tax System: A Primer for Active Citizens*. Massachusetts Budget and Policy Center. Updated December 2010, found here [http://massbudget.org/report\\_window.php?loc=Tax\\_Primer\\_83110.html](http://massbudget.org/report_window.php?loc=Tax_Primer_83110.html)



## **CHAPTER 2**

# **BUSINESS IMPROVEMENT DISTRICTS: AN OVERVIEW**

### **2.1 WHAT IS A BUSINESS IMPROVEMENT DISTRICT?**

The first BID in the United States was established in 1975 and was known as the Downtown Development District of New Orleans. In 2011, the International Downtown Association, Business Improvement District: Census and National Survey, reported that there were more than one thousand business improvement districts in the United States, and more than 1,500 worldwide.

In Massachusetts, BIDs are an emerging form of publicly approved districts that allow business and property owners to levy an assessment fee on property owners within the district in order to fund additional public services and improvements (Hoyt and Gopal-Agge, 2007). The assessment is levied only on property within the district and expended within the district for a range of services and programs, such as sanitation, marketing, maintenance and public safety. This stable, local management structure provides a funding source for the revitalization and long term maintenance of a city or town center district.

A BID creates a way for property owners to pool their resources to fund and coordinate improvements and supplemental services in commercial areas with the ultimate goal of promoting business and cultural activity and enhancing property values. BIDs have a proven track record of success.

In 1994, the BID Program was established by the Massachusetts General Law Chapter 400.

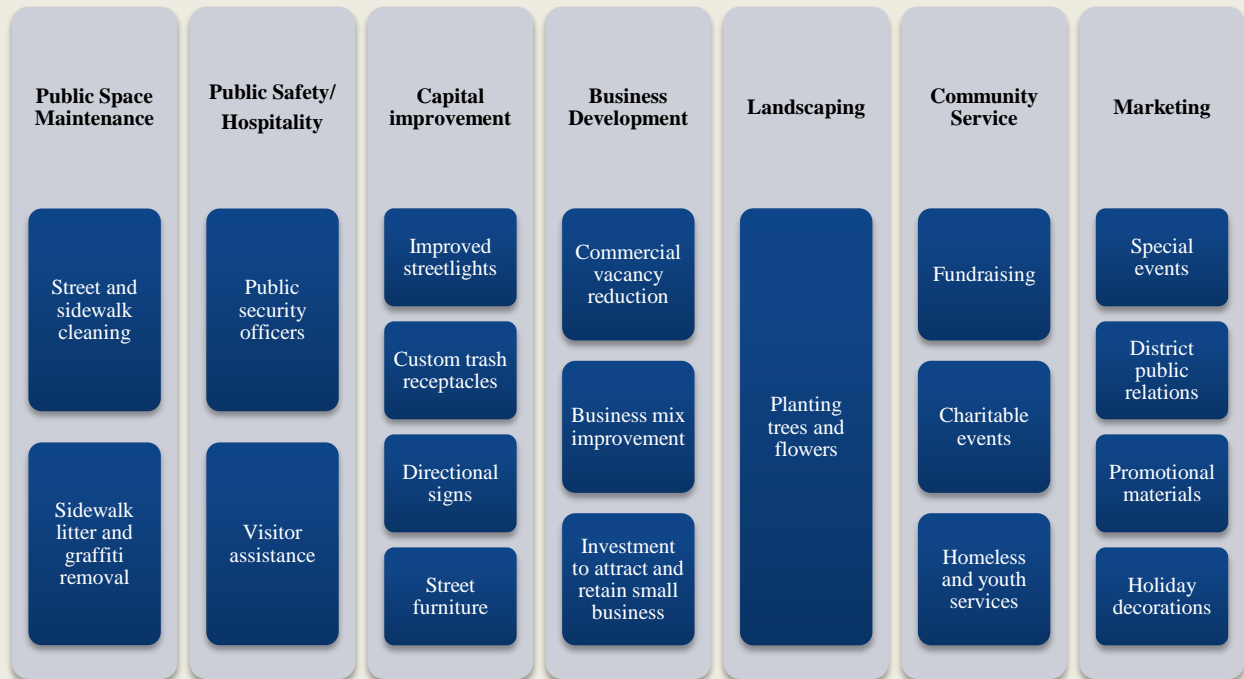
### **2.2 WHY CREATE A BUSINESS IMPROVEMENT DISTRICT?**

- ❖ Create a cleaner, safer, and more attractive business district
- ❖ Create a steady and reliable source of funding for supplemental services and programs
- ❖ Be able to respond quickly to the changing needs of the business community
- ❖ Build potential to increase property values, improve sales, and decrease the number of vacant properties
- ❖ Help the district to compete with nearby retail and business centers

### **2.3 WHAT ARE THE BENEFITS OF DEVELOPING A BUSINESS IMPROVEMENT DISTRICT?**

BIDs deliver a range of services over and above baseline services provided by the municipality and invest in long-term economic development of their Districts. BID services can include:

**Figure 1: The Services Provided By Business Improvement Districts**



Once initiated, under M.G.L Chapter 40O, the BID will have a pre-determined set of rights and powers. In addition to the activities listed in Figure 1, other powers include managing parking, leasing, owning, or acquiring real property.

## 2.4 HOW IS A BUSINESS IMPROVEMENT DISTRICT FORMED?

Throughout the United States, BIDs are authorized by state-enabling legislation that delineates the rules and regulations that govern the district. In 1994, Massachusetts launched the BID program, and in 1998 Springfield was the first municipality to establish a BID.

In Massachusetts, a BID may be formed in any community. A BID is established through a local petition and public hearing process. There are two key requirements in order to successfully implement a BID. First, the proposed District must be a contiguous geographic area with at least 75 percent of the area zoned or used for commercial, industrial, retail, or mixed-use. In addition, the petition must also include delineation of the BID boundaries, a proposed improvement plan, a budget and an assessment fee structure strategy.

As of 2012, there are seven BID sites in Massachusetts.

- ❖ Amherst,
- ❖ Boston,
- ❖ Hyannis,
- ❖ Northampton,
- ❖ Springfield,
- ❖ Taunton,
- ❖ Westfield

## **2.5 HOW IS A BUSINESS IMPROVEMENT DISTRICT MANAGED?**

A Board of Directors, designated by the members of the District, governs each BID. The Board of Directors may include commercial owners or tenants, and/or residents. The Board of Directors has a fiduciary responsibility to the BID members. This said, the municipality may establish rules and regulations governing the BID Board of Directors. Furthermore, the Board of Directors may elect to designate a management entity to administer the BID on a day-to-day basis and ensure the implementation of the Improvement Plan.

## **2.6 HOW ARE THE SERVICES AND PROGRAMS WITHIN THE BUSINESS IMPROVEMENT DISTRICT FINANCED?**

A BID assessment is a fee that each property owner within the District pays to support BID operations. All property owners within the BID are assessed a fee in addition to their real property taxes to fund the supplemental services and programs. The collector-treasurer of the municipality collects the fee and distributes it to the management entity designated by the BID. Although the fee amount is established for each BID individually, it cannot exceed an annual one-half of one percent (.005) of the total participating members' assessed property value. For example, for every \$5 million in assessed valuation of participating property owners within the district, the BID can generate a maximum of \$25,000. However, through its improvement plan, the BID does have the option to limit or cap this maximum annual fee derived from individual properties or the total annual revenue generated by the BID.

## Figure 2: The Formula for Calculating the Business Improvement District Fee

The BID fee is determined by a formula using any one or a combination of the following:

different levels for varying classifications of real property;

benefit zones;

assessed valuations;

square footage;

street frontage; or

any other formula which meets the objectives of the BID.

All real property located within the proposed BID area will be considered in the fee formula for the supplemental services and programs as outlined in the improvement plan. However, the municipality may exempt certain properties from the assessment fee. These properties include owner-occupied residential, agricultural and tax exempt properties, such as schools and places of worship.

## **2.7 STEPS TO FORMING A BUSINESS IMPROVEMENT DISTRICT IN YOUR COMMUNITY**

Establishing a BID in your community will require coordination, collaboration, and commitment. Forming a BID requires a high level of consensus, political corporation and property owner support to be successful. This can be time consuming but the time committed in the beginning will pay dividends during the approval process.

### **ESTABLISHING A BID REQUIRES FOUR STEPS**

This guide is designed to lead you through the steps of BID formation: Test the Feasibility; Create a BID Improvement Plan; Conduct The Petition Process; and Initiate Operations. For further guidance, please refer to [\*A Guide to Establishing a BID in Massachusetts.\*](#)

#### **STEP ONE: TEST FOR FEASIBILITY**

The first phase requires serious consideration of the feasibility of creating a BID in your community.

1. Determine whether or not to form a BID
2. Contact your municipal governing body
3. Form a steering committee
4. Hold an initial steering committee meeting
5. Develop a database of property owners and commercial tenants
6. Conduct a needs assessment survey
7. Draft a district plan

#### **STEP TWO: CREATE THE BID IMPROVEMENT PLAN**

The second phase is planning, which involves local outreach and preparation of the BID Improvement Plan.

8. Send out informational mailings, contact newspapers and radio stations to raise awareness and encourage engagement from property owners and community residents.
9. Hold community forums, property owner meetings and focus groups to identify needs and priority programs to be included in the Improvement Plan.
10. Create the BID Improvement Plan through the consensus that was built. The BID Improvement Plan contains a detailed description of the proposed BID including boundaries, operations plan, budget, fee structure, management, memorandum of understanding with the municipality and other required information.

#### **STEP THREE: CONDUCT THE PETITION PROCESS**

Once the stakeholders are satisfied with the BID Improvement Plan, it is appropriate for the District with the strong support of the local community to initiate the petition process.

11. At this point, the BID Improvement Plan is incorporated into a petition and property owner signatures are attached. The petition must include signatures representing 60 percent of the real property owners and 51 percent of the assessed valuation of the district. The submission of the petition to the municipality is the formal launch of the

local legislative approval process.

12. The petition and signatures are presented to the municipality and a request for a public meeting is made. The municipality will hold a public hearing and vote to approve the BID petition within the MGL c. 40O statutory requirements.
13. After the petition is approved by the municipality, all property owners are considered members of the BID.

**STEP FOUR: INITIATE OPERATIONS**

Once the formal approval process is complete, the BID is officially established and enters its fourth or operational phase. Now, the BID membership, through the Board of Directors, has the full authority to manage or delegate management of the BID based on the enabling legislation.

## **CHAPTER 3**

# **DISTRICT IMPROVEMENT FINANCING: AN OVERVIEW**

### **3.1 WHAT IS DISTRICT IMPROVEMENT FINANCING?**

In August 2003, the District Improvement Financing (DIF) Program was established by the Massachusetts General Law Chapter 40Q. The accompanying regulations, CMR 402 3.00, were promulgated in August 2004.

The District Improvement Financing Program (DIF) is a locally driven public financing alternative available to all cities and towns in the Commonwealth. The DIF program enables municipalities to finance public works and infrastructure projects in a designated area by “capturing” the increase in property tax revenues, or tax increment, derived from new housing, commercial or industrial activity in the designated area and applying the revenues towards the municipality’s development program.

A tax increment is the difference between the beginning assessed value of the targeted property in its dilapidated state and the assessed value going forward in time, as the planned improvements take shape. The tax increment, calculated by the local Assessor, is the tax on the added value of new construction, rehabilitation or new equipment or machinery. Using DIF, municipalities can pledge all or a portion of tax increments to fund district improvements over time.

A DIF is a municipal financing vehicle. DIF enables municipalities to pay for the public works and infrastructure necessary to attract growth by pledging the future incremental tax revenue resulting from growth within a designated area to the municipalities year-to-year development initiatives or pledged to service bond financing obligations. DIF is not a tax abatement tool or a new tax. Additionally, DIF does not increase future taxes, and does not reduce or redirect current property taxes.

Property owners in the designated district do not pay additional fees; rather, a portion of the real estate taxes from the new development goes to a dedicated fund to pay the bond obligations necessary to finance major public works projects. Thus, the DIF supports important revitalization projects without increasing taxes to the general public.

### **3.2 WHY IMPLEMENT DISTRICT IMPROVEMENT FINANCING?**

Among the various initiatives at the local level, DIF empowers municipalities to independently shape their community. DIF encourages and supports municipality’s ability to aggressively develop business districts and other special locales economically and socially, yet in a manner that ensures sound fiscal health.

DIF provides municipalities with an innovative tool to target districts or specific projects for redevelopment. By allowing significant flexibility in planning for the district's housing and commercial needs, municipalities have the ability to initiate and finance their redevelopment plans in response to changing needs and priorities of property owners and residents.

### **3.3 WHAT ARE THE BENEFITS OF DISTRICT IMPROVEMENT FINANCING?**

When implemented properly, there are numerous benefits from district improvement financing. All cities and towns are eligible to utilize this financing alternative without qualifying as blighted, substandard, or economically impaired. First and foremost, the municipal investment is designed to stimulate private investment, which in turn increases the taxable value of property and generates the incremental taxes. The incremental taxes generated and captured are pledged to finance development projects and/or pay bond obligations.

Moreover, DIF is a flexible financing tool that empowers municipalities to promote quality of life for residents, while assisting their private partners in accomplishing their development goals. The benefits generated by the tool do not depend on new taxes or redirect or reduce current property tax revenues. DIF allows developers to take advantage of flexible financing terms and debt structure. For instance, it is not uncommon for municipalities and developers to arrange for lower payments during the early stages of construction and longer terms of financing in an effort to reduce the burden on municipalities and developers early in construction.

It is important to note that as long as there is sufficient revenue generated from the assessments the municipality is under no obligation to pay the debt obligation. The bonds issued according to the terms of DIF are outside the municipality's bond cap. Thus, DIF is a tool that can further a municipalities development goals without placing undue hardship on taxpayers or city budgets.

### **3.4 HOW IS DISTRICT IMPROVEMENT FINANCING INITIATED?**

Through a public process, a municipality defines a development district and documents a development program describing how DIF will encourage increased commercial, industrial, and/or residential activity within the district. The municipality must also detail the public improvements (the development plan), financing plans, and community benefits.

### **3.5 HOW IS DISTRICT IMPROVEMENT FINANCING MANAGED?**

DIF enables municipalities to propose and implement a development district and program. The development program will name the municipality and the private developer(s) initiating and proposing the implementation of district improvement financing development and the program. With the approval of the DIF application, the municipality in coordination with the private developers will establish the original base valuation of the properties within the development district, collect the tax increment, issue municipal bonds and monitor the district program.



### **3.6 WHAT IS THE FUNDING SOURCE FOR DISTRICT IMPROVEMENT FINANCING?**

After DIF approval and prior to the start of development, municipalities can designate a particular development district as an “invested revenue district” and a development program within such district as an “invested revenue district development program.” The municipality will conduct a baseline valuation of properties in the redevelopment area, which will establish the “original assessed value” prior to the implementation of the development plan. The revenue generated above the original assessed value is the tax increment.

With the tax increment, municipalities undertaking development programs within an invested revenue district may finance the development programs by issuing general obligation or revenue bonds, which are to be repaid by some or all of the program revenues, including revenues generated from special assessments and/or the captured tax increment. Annually new valuation is conducted and tax receipts in excess of the original valuation are “captured” to pay for the public improvement costs and debt obligations. The incremental revenue can directly pay for the planned municipal improvements, or the funds can be estimated and pledged in advance towards the repayment of the municipal bonds.

A bond is issued to pay for land acquisition, site preparation, or public improvements, depending on the needs of the proposed development project as outlined in the development plan. The bonds are amortized over 30 years or shorter, and debt service mold to the tax revenues collected in the DIF District. It is important to note that the existing tax base continues to fund other municipality obligations, but does not fund the district improvement or the debt services.

When a development program for an invested revenue district is adopted, the city or town adopts a statement of the percentage of captured assessed value to be retained in accordance with the development program. A municipality can choose to pledge all or a portion of the tax increment (as well as other revenues) towards repayment of the bonds that it issues. If a city or town elects to retain all or a percentage of the captured assessed value, then the city or town must establish a development program fund that consists of a development sinking fund account. This fund pays the principal and interest on any notes, bonds or other indebtedness, as well as the project costs.

### **3.7 STEPS TO IMPLEMENT DISTRICT IMPROVEMENT FINANCING**

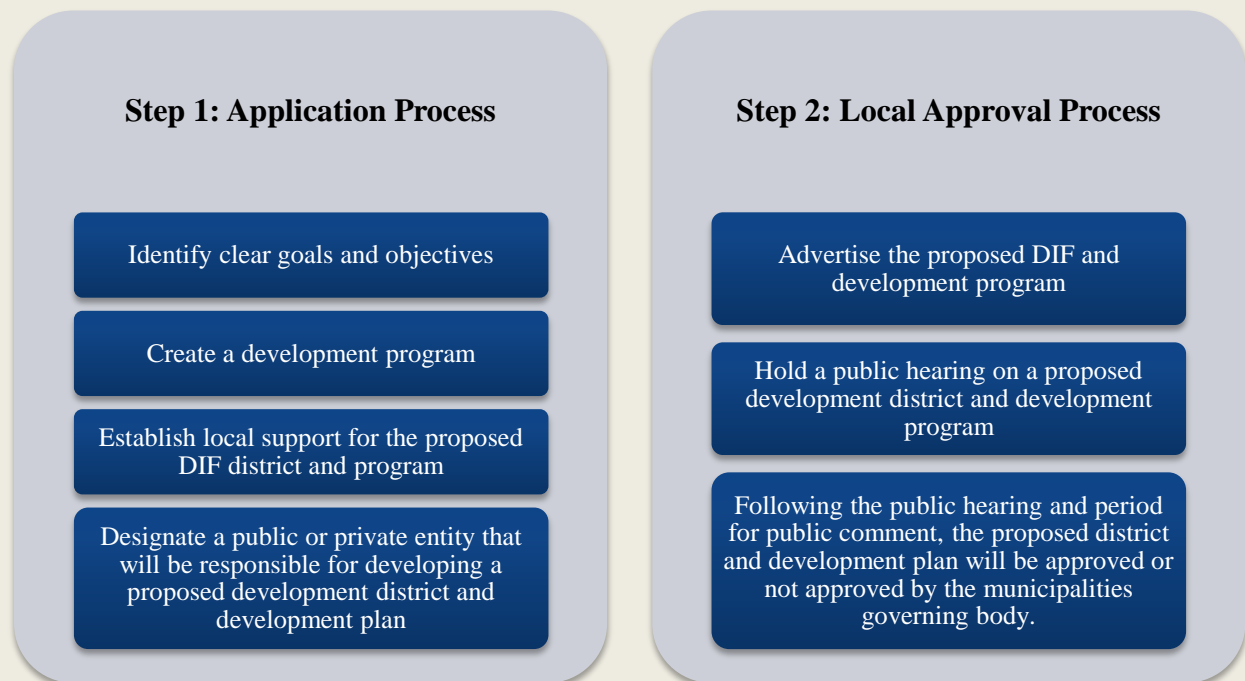
Under the program, a municipality may propose a specific “development program” that it intends to undertake within an identified “development district.” The development districts within a municipality may not together comprise more than 25 percent of the total area of the municipality. Finally, the municipality must approve each development district and development program.

## APPROVAL PROCESS

Municipalities applying to implement DIF in their community must craft a development program. Within the development plan, a municipality must design a public or private entity that will be responsible for developing a proposed development district and development program.

After a development district and plan is proposed, a public hearing on a proposed development district and development program must be held. Following the public hearing and period for public comment, the program must be adopted at the same time as the district, as part of the district adoption proceedings or, if at a different time, in the same manner as adoption of the district.

Once the local municipal body reviews and approves the project plan, the development project may begin as approved. There can be no variation from the approved project plans; however, change can be achieved after following a specific process, which involves review and approval by the municipality.



## **CHAPTER 4**

# **INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM: AN OVERVIEW**

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### **4.1 WHAT IS THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM?**

On August 1, 2008, Governor Patrick signed the amended Infrastructure Investment Incentive (I-Cubed) program legislation into law authorizing a total investment of up to \$250 million for public infrastructure improvements to support certified economic development projects. In July 2012, the funding for the program was amended by Chapter 238 Section 61 of the Acts of 2012, which increased the Program cap to \$325 million.

All cities and towns throughout the Commonwealth are eligible to apply. The proposed Economic Development District may be one or several parcels owned by a developer, and the economic development project must be completed within or in support of a district. In addition, a municipality may not have more than three economic development district proposals utilizing I-Cubed financing and no more than 31 percent of the funding available under I-Cubed.

### **4.2 WHY SHOULD A COMMUNITY APPLY FOR THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM?**

The Infrastructure Investment Incentive Program is an innovative bond funded program designed to generate private investment and economic growth. By forming a partnership between the Executive Office for Administration and Finance, Department of Revenue, MassDevelopment, Executive Office of Housing and Economic Development, the municipality and the developer(s), the program enables municipalities and developers to carry out large scale development projects that can catalyze private investment and stimulate the Commonwealth's economy.

### **4.3 WHAT ARE THE BENEFITS OF THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM?**

I-Cubed legislation authorizes up to a total of \$325 million to be invested in public infrastructure improvements to support a maximum of three certified projects per municipality. The funding provided by I-Cubed enables cities and towns to invest in public infrastructure. For example, Somerville, Massachusetts was awarded I-Cubed to fund the cost of traffic mitigation, design and construction of a roadway network and streetscapes. The funds provided under I-Cubed were essential to address the public infrastructure needs associated with the Assembly Row development.

#### **4.4 HOW CAN A COMMUNITY APPLY FOR THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM?**

In order to qualify for funding, a project must be certified. The municipality, the Secretary of Administration and Finance, and MassDevelopment must approve an Economic Development Project as a "certified project" before applying for funding. The certification process consists of a Preliminary Economic Development Proposal and a Final Economic Development Proposal. These proposals are reviewed by the state agencies involved in the I-Cubed process as well as reviewed by an independent consultant hired by ANF. Once the Final Economic Development Proposal is approved and the project is certified, the public infrastructure improvements for a Certified Economic Development Project will be financed with bonds issued by MassDevelopment. The debt service on the MassDevelopment bonds will be payable from the Commonwealth contract assistance payments secured by a general obligation pledge of the Commonwealth.

#### **4.5 HOW IS THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM FINANCED?**

Infrastructure assessments and bonds are issued by MassDevelopment to finance the economic development plan. A Municipal Liquidity Reserve is required for each assessment parcel. During construction of the project, the municipality may levy assessments on the developer's property within the economic development district in order to reimburse the Commonwealth for the debt service cost. The developer may agree to allow the municipality to assess the property to reimburse it for the amount of any shortfall payment it makes to the Commonwealth, or make other arrangements to account for cases of revenue shortfall.

Once a commercial component of a certified economic development project is occupied and generating tax revenue, the debt service on the bonds related to the commercial component will be payable by the Commonwealth. It is important to note that project tax revenues are reported and reviewed by DOR on an annual basis. If the tax revenues are insufficient to cover the related debt service on the bonds, the municipality has the right to assess property owners in order to reimburse the Commonwealth for the amount of the shortfall. Also, if previously agreed to, the municipality, in turn, can look to the developer through the special assessments in an effort to make the necessary payment to the Commonwealth.

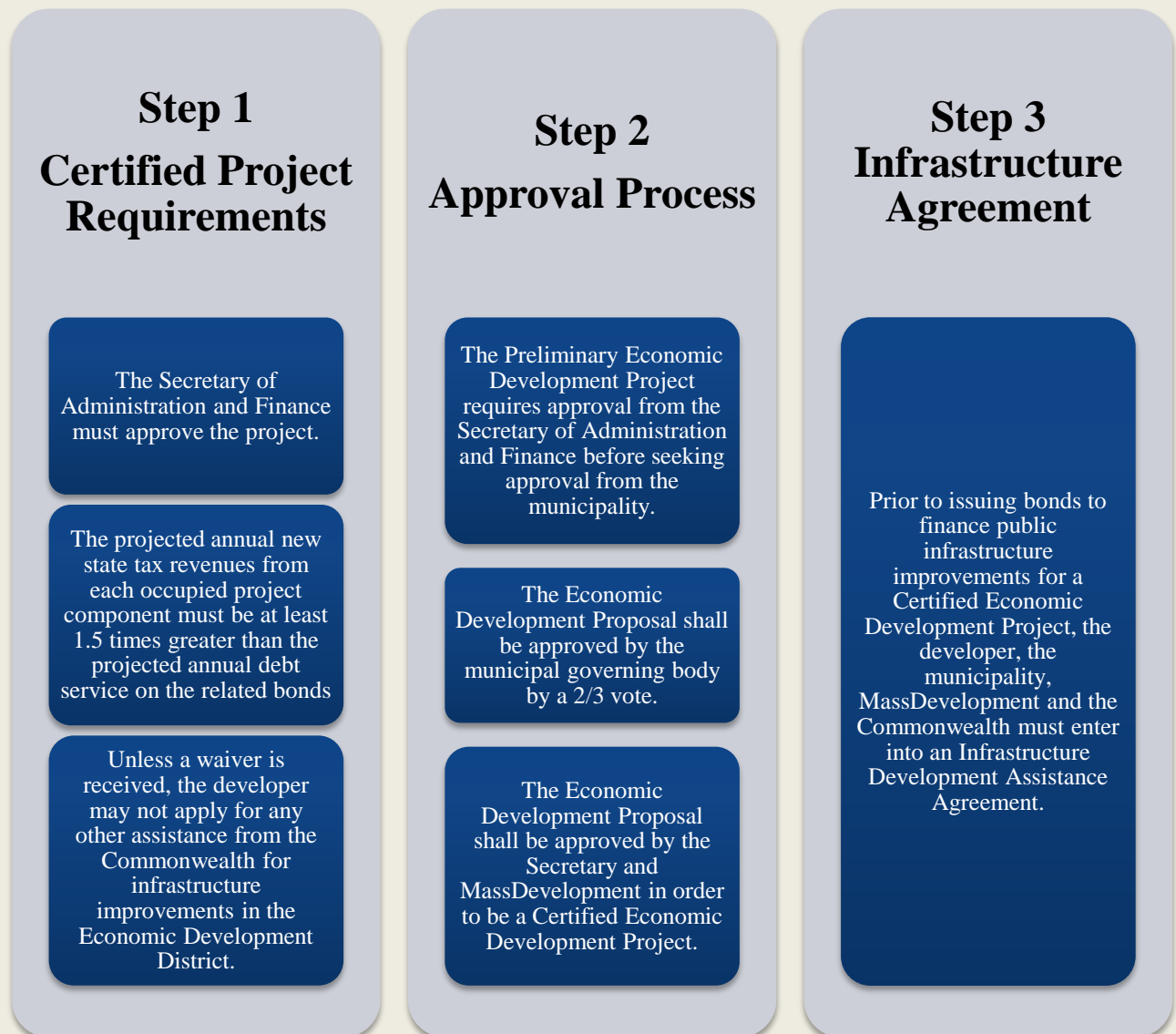
#### **4.6 WHAT IS AN INFRASTRUCTURE DEVELOPMENT ASSISTANCE AGREEMENT?**

Prior to issuing bonds to finance public infrastructure improvements for a certified economic development project, the developer, the municipality, MassDevelopment and the Commonwealth must enter into an Infrastructure Development Assistance Agreement. The agreement must set forth the terms of the financing and construction of the public infrastructure improvements, including: the developer's responsibility for constructing the public infrastructure improvements;

utilizing a competitive procurement process for selection of the contractor; complying with certain employment laws and anti-discrimination provisions; and conveying the completed public infrastructure improvements to the municipality or other public entity.

In addition, the municipality is obligated to establish and fund a Municipal Liquidity Reserve for each project component equal to two times the related maximum annual debt service on the bonds. The Commonwealth has the right to draw on the liquidity reserve in the event tax revenues are insufficient to cover debt service costs on the related bonds. The municipality may have the developer help fulfill this obligation.

#### **4.7 STEPS TO APPLY FOR THE INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM**



## **CERTIFIED PROJECT REQUIREMENTS**

- The Secretary must determine that the economic development project would not happen or would not achieve the contemplated level of development, jobs or other economic activity without the public infrastructure improvements financed under I-Cubed.
- The cost of the public infrastructure improvements financed under I-Cubed may not exceed \$50 million and may not be less than \$10 million.
- The projected annual new state tax revenues from each occupied project component must be at least 1.5 times greater than the projected annual debt service on the related bonds (construction-related tax revenues may be taken into account for purposes of meeting coverage in excess of one times debt service)
- *A municipality may have up to three economic development projects financed with I-Cubed.*
- The developer may not receive public assistance under certain programs (i.e., tax increment financing (unless the designation as a TIF zone was before January 1, 2009), tax credit awarded for an economic development incentive program, a community development action grant, a public works economic development program grant), and the developer may not apply for any other assistance from the Commonwealth for infrastructure improvements in the Economic Development District after the effective date of the regulations.
  - *However, if a developer seeks additional public assistance, a waiver must be submitted to the Secretary of Administration and Finance.*
- The Economic Development Project must be consistent with the Commonwealth's sustainable development principles.

## **APPROVAL PROCESS**

1. Determination that the Preliminary Economic Development Proposal is complete by ANF and other reviewers
2. Independent consultant analysis of Preliminary Economic Development Proposal
3. The Preliminary Economic Development Proposal requires approval from the Secretary before seeking approval from municipality.
4. The Economic Development Proposal shall be approved by the municipal governing body by a 2/3 vote.
5. The Economic Development Proposal shall be approved by the Secretary and MassDevelopment in order to be a Certified Economic Development Project.
6. Infrastructure Development Assistance Agreement shall be entered between Secretary, the municipality, MassDevelopment, and the developer.

## **CHAPTER 5**

### **NEW LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM: AN OVERVIEW**

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#### **5.1 WHAT IS THE LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM?**

On August 7, 2012 Governor Patrick signed into law the Local Infrastructure Development Program. The enabling law, Chapter 23L, empowers municipalities and developers to finance infrastructure investment necessary to support economic development. By leveraging revenue from private sources, the program funds infrastructure projects for homeowners and commercial properties drawing upon local or state credit to finance the project.

The Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds secured by infrastructure assessments.

#### **5.2 WHY CREATE A LOCAL INFRASTRUCTURE DEVELOPMENT ZONE?**

Difficult economic times have created a host of problems for cities and towns across the Commonwealth. Escalating infrastructure costs and declining municipal budgets simply do not enable community leaders, planners and developers to address the needs of new development prospects. Because of these fiscal challenges, many communities are limited in their ability to pursue unmet dreams of a renewed downtown, business park, or commercial enterprise that attracts businesses, residents and visitors.

With the new Local Infrastructure Development Program, all cities and towns across the Commonwealth are empowered to finance infrastructure projects that address local infrastructure needs by leveraging private investment. Depending on the improvement plan, an infrastructure assessment may be levied on real estate within the development zone. The municipality can defray the cost of the improvement plan by partnering with property owners and business tenants to apply the collected assessment fees to revitalize downtowns and commercial corridors.

#### **5.3 WHAT ARE THE BENEFITS OF CREATING A LOCAL INFRASTRUCTURE DEVELOPMENT ZONE?**

The Local Infrastructure Development Program enables developers in partnership with municipalities to set forth a proposal for a development zone and an improvement plan that outlines the revitalization strategy that includes, but is not limited to, the boundaries of the development zone, the services and programs provided, cost estimates for financing the improvements, the method and structure of the infrastructure assessments, and a statement that the municipality will not pay for the infrastructure assessments. The developer completes the improvement plan and application for designation of a development zone.

#### **5.4 HOW IS A LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM FORMED?**

The developer or municipality may designate a single parcel or several parcels for redevelopment. The proposed development zone is not required to be a contiguous area, and the infrastructure development project may serve to improve any new or existing commercial, retail, industrial, residential, or mixed-use project.

Through a local petition and approval process, a municipality is empowered to implement a local infrastructure development zone and an improvement plan if 100 percent of the property owners within the proposed development zone provide written consent to participate. Because the program requires 100 percent participation and the basis of the program being an agreed upon assessment of property, it is most likely that a Local Infrastructure Development Zone will be initiated by a single developer working in partnership with a municipality. The establishment of a development zone shall be initiated by the filling of a petition signed by all individuals owning real estate within the proposed development zone. The petition must include:

1. a legal description of the boundaries of the proposed development zone;
2. the written consent to establish the development zone;
3. the name of the proposed development zone;
4. a map of the proposed development zone;
5. the estimated timetable for construction of the improvements;
6. estimates of any other private or public funding sources;
7. the improvement plan for the proposed development zone; and
8. the procedure by which the municipality will be reimbursed for any costs incurred by establishing the development zone.

#### **5.5 HOW IS A LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM MANAGED?**

The “public facilities owner” is defined as the municipality, the Commonwealth, or any other political subdivision, agency, or public authority of the Commonwealth identified in the improvement plan as an owner of the improvements outlined in the improvement plan. The public facilities owner will have the powers and rights necessary to implement the development zone and improvement plan.

#### **5.6 HOW IS A LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM FINANCED?**

In accordance with the improvement plan, the assessing party, as determined by the municipality, may fix, collect, revise, and abate infrastructure assessments to defray the cost of maintenance, operating, and administering the improvement plan. An infrastructure assessment is imposed on the real estate, lease holdings or other interests located in the development zone. All real estate within the development zone owned by the Commonwealth, agency or public authority will be exempt from infrastructure or special assessments charged by the assessing party.



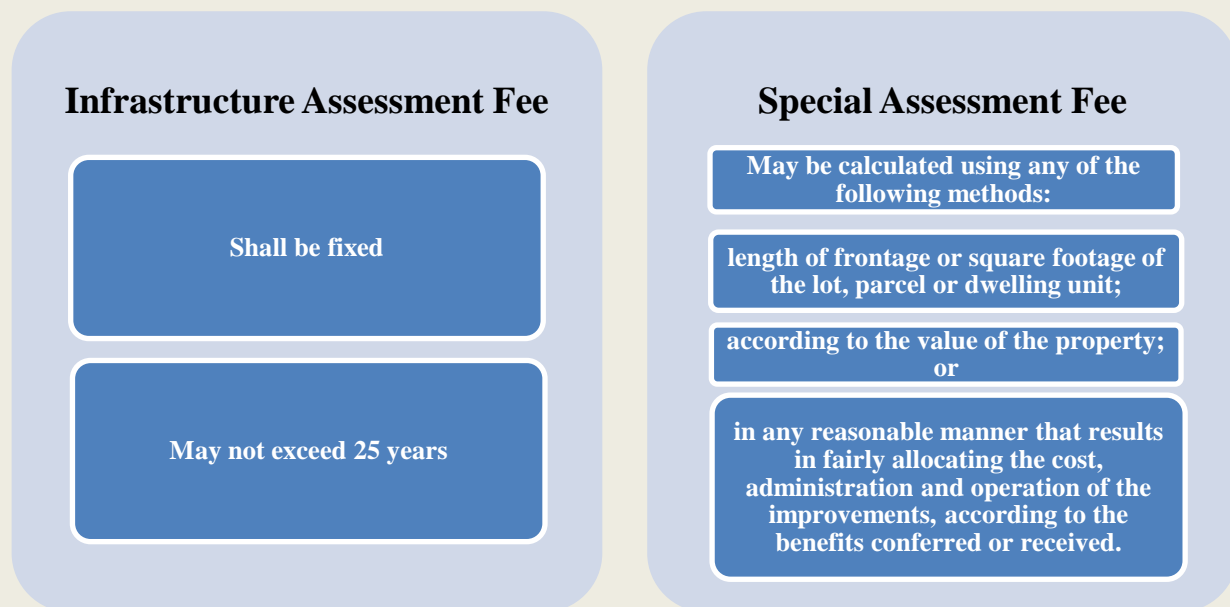
The infrastructure assessments established by the assessing party shall be fixed and must provide revenues to pay for the administrative expenses of the assessing party and MassDevelopment; to pay the principal and interest on bonds; to create and maintain reasonable reserves; and to pay for the development project.

An alternative to the infrastructure assessment, the assessing party may levy a special assessment on real estate, lease holdings, or other interests within the development zone. The assessing party may calculate the method and structure of the special assessment by fairly allocating the costs of the improvements depending on the size or value of the property or in any reasonable manner that distributes the cost fairly. It is important to note that the method and structure of the assessment fees must be outlined in the improvement plan and must be agreed by 100 percent of the property owners in the proposed development zone.

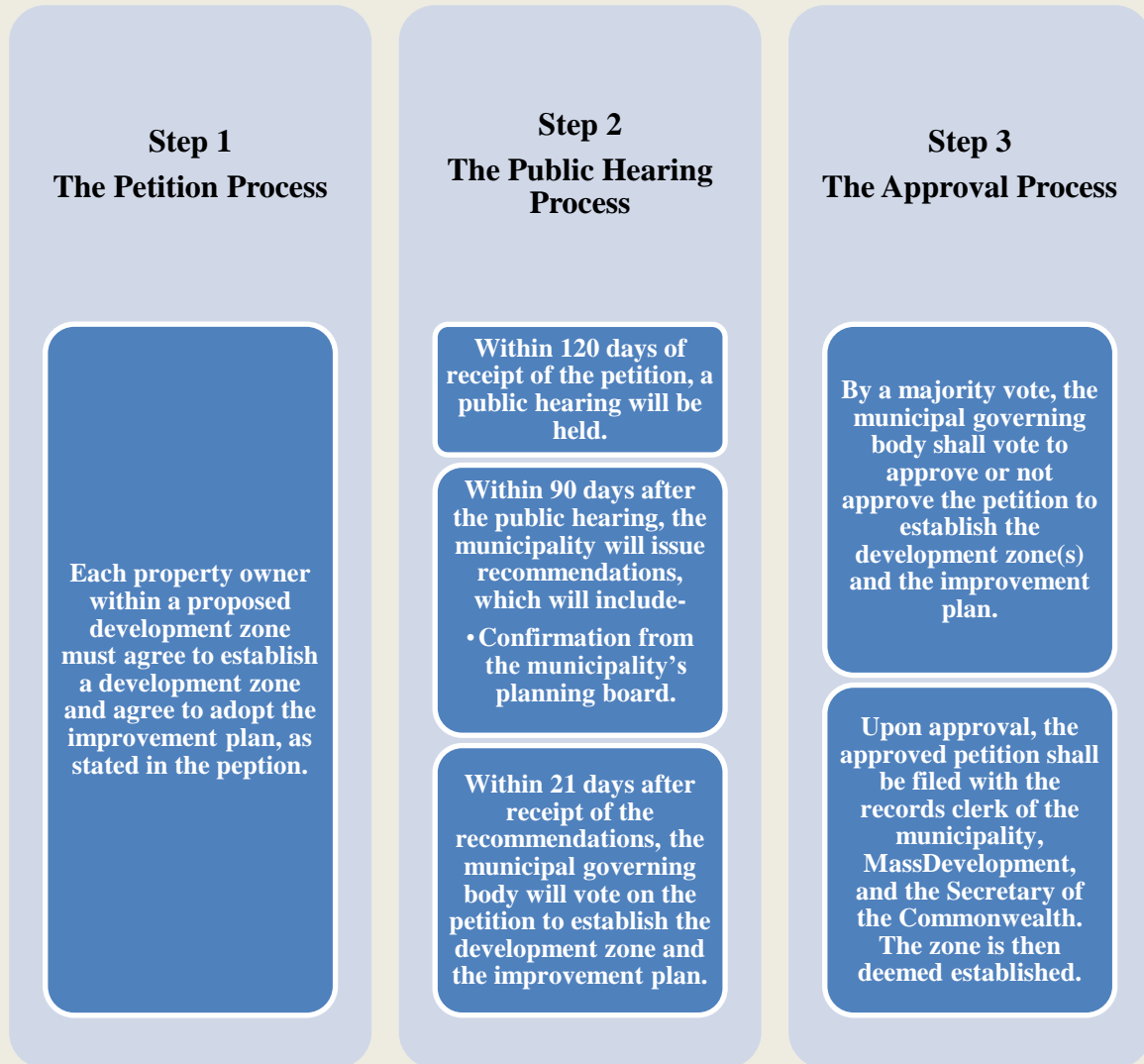
The municipality will partner with MassDevelopment to issue bonds paid solely from the funds and revenues generated from the infrastructure assessments. The bonds issued must mature within 25 years from the date issued.

In addition, MassDevelopment is authorized to issue bonds secured by infrastructure assessments according to the terms of Chapter 40Q, District Improvement Financing (DIF). With the approval of the municipal governing body, MassDevelopment may issue bonds in the place of municipal bonds. In order for MassDevelopment to issue bonds in the place of municipal bonds, the city or town must fulfill all the requirements under Chapter 40Q that is required of the municipality. The requirements include the establishment of an invested revenue district development program and the determination by the municipality of the percentage of the captured assessed value. The final step is the delineation of the rights and responsibilities of the municipality, MassDevelopment and the assessing party under the terms of the DIF requirements and limitations.

**Figure 3: The Structure of the Infrastructure and Special Assessment Fee**



## 5.7 STEPS TO IMPLEMENT LOCAL INFRASTRUCTURE DEVELOPMENT PROGRAM IN YOUR COMMUNITY



## CHAPTER 6 CASE STUDIES

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### 6.1 BUSINESS IMPROVEMENT DISTRICTS

#### **CASE STUDY: *DOWNTOWN CROSSING, BOSTON, MASSACHUSETTS***

Nestled in the heart of Boston, the Downtown Boston Business Improvement District (the Boston BID) is a destination for residents, customers and visitors. Spanning 34 blocks and extending across four neighborhoods, the district has nearly 230,000 pedestrians walk through the area daily, which makes the downtown neighborhood one of the densest areas, not only in the City, but in New England.

In 2009 in partnership with Mayor Menino and the City Council, the Downtown Boston Business Improvement District (the Boston BID) was formed. The Boston BID represents over 500 commercial properties from local independent retailers to major corporations and collectively, accounts for 1.3 million square feet of retail space.

Each property owner, in the district, pays an assessment fee or a fee for service, which is based on each property's value. Utilizing the assessment fees collected within the district, the Boston BID is empowered to fund additional services and programs that the City is unable to provide.

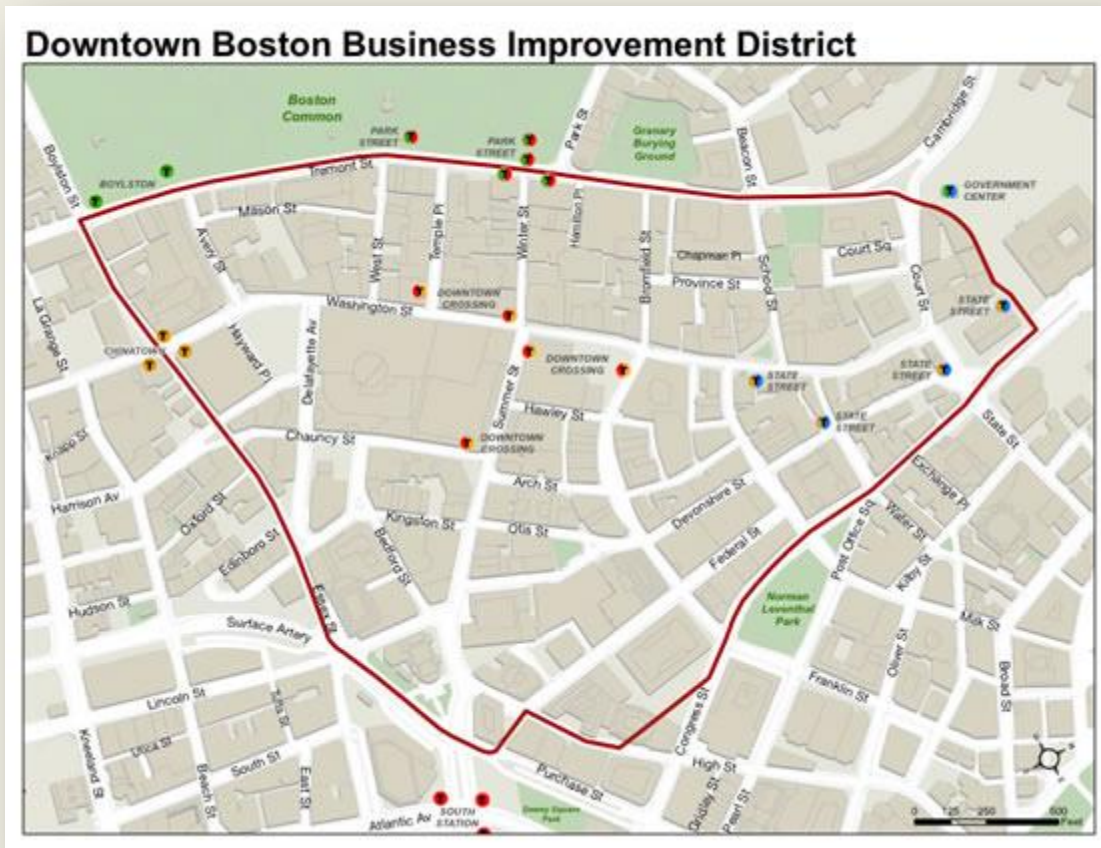
Operating under a \$2.9 million budget, the Boston BID focuses on creating a clean, safe, and vibrant environment for residents and visitors. One of the key initiatives orchestrated by the Boston BID is the summer series of programs, such as the Summer Street: Music, Markets & More program, which provides outdoor shopping, zumba classes, and a live concert series throughout the summer. Another focus of the Boston BID is to support property owners, brokers, leasing agents and business to recruit and retain tenants, retailers, employers, and customers to the area. By fostering relationships, property owners and business tenants initiate a locally driven effort to cultivate and improve business activity, to enhance property values and to attract private investment to the area.

In addition, the fees collected from assessment fees fund a full-time staff. The Boston BID property members elect a board of directors representing property owners, retailers, and residents that monitor the BID's management, operation, programs, and budgetary decisions. At the direction of the board of directors, a team is hired to implement the vision and plan of the BID. The Boston BID staff is composed of eight members, including the president, BID Clean & Hospitality operating manager, membership coordinator, bookkeeper, communication coordinator, finance manager, planner and project manager, and Marketplace & Pedestrian Zone operating manager.

The Boston BID is a collaborative effort between commercial building owners, in partnership with the City, to address the needs and priorities within the district in an effort to creatively and innovatively renew and revitalize the area.

For more information and a listing of events, please refer to the [Downtown Boston Business Improvement District](#) website.

**Figure 4: The Boundaries of the Downtown Boston Business Improvement District**



## **6.2 DISTRICT IMPROVEMENT FINANCING**

### **CASE STUDY: *CITY SQUARE, WORCESTER, MASSACHUSETTS***

The City of Worcester is the second largest city in the Commonwealth of Massachusetts with approximately 181,000 residents. Forty-four miles West of Boston, Worcester is the home to 9 colleges and universities, including the University of Massachusetts Medical School, Worcester Polytechnic Institute, College of the Holy Cross, Clark University, and the Massachusetts College of Pharmacy and Health Sciences University. Over 40 percent of all jobs in the city are in the education and medical fields and over 36 percent of residents between the ages of 25 and 34 have a bachelors or post-graduate degree.

The CitySquare project is one of the largest single public-private development project outside of Boston in Massachusetts history. The 21-acre mixed-use development will transform the physical form and image of the heart of downtown Worcester.

Formerly known as the Worcester Fashion Common Outlet Mall, Worcester's CitySquare is a 21-acre development site in the central business district. The site was identified as the catalyst project for revitalization of the downtown, which was struggling with high business vacancies and disinvestment. The vision for the new CitySquare is to demolish the economically obsolete retail center, and replace it with a vibrant mixed-used urban district which reconnects the downtown core.

Municipal leaders, business owners and residents collaborated to construct an improvement plan for City Square that was financially feasible and reasonable for the City to undertake. The plan envisions approximately 2.1 million square feet in gross building area of office, residential, retail and entertainment uses within a newly created street grid. The new street grid entails the construction of Mercantile Street, which will provide a direct connection from Major Taylor Boulevard to Front Street and the extension of Front Street to the Union Station Intermodal Complex. Once cut off from vehicular or pedestrian traffic, the construction of Front Street will promote a more integrated city center for vehicular traffic and pedestrians.

Furthermore, key components of the vision for Worcester's CitySquare include approximately 400 units of new housing, a business-class hotel, upgraded parking structures, upgraded retail sites, and the construction of commercial buildings. The undertaking of such a development plan took years of planning and financing from several sources.

One form of public financing that the City applied to support the CitySquare project was District Improvement Financing (DIF). After applying for DIF, the City received approval by the Commonwealth's Economic Assistance Coordinating Council (EACC) on August 4, 2005. It is important to note that EACC approval is no longer a requirement for DIF approval in a municipality. With DIF approval and prior to the start of construction, the City designated a development district for CitySquare as an invested revenue district. The City conducted a baseline valuation of properties in the invested revenue district and established an original assessed value prior to the implementation of the development plan. The revenue generated by

the City above the original assessed value, known as the tax increment, enabled the City to issue DIF bonds totaling approximately nearly \$7 million.

With proximity to Worcester's City Hall, Worcester Common, Massachusetts College of Pharmacy and Health Sciences University, Worcester Public Library, the DCU Center, Union Station, Worcester Regional Courthouse, Saint Vincent Hospital, Mechanics Hall and The Hanover Theater for the Performing Arts and commuter rail access, CitySquare's planned combination of office, medical, retail, residential and park-like spaces will support economic growth in the City and surrounding business community and urban neighborhoods, while bringing a new excitement to downtown Worcester.

## **6.3 INFRASTRUCTURE INVESTMENT INCENTIVE PROGRAM**

### ***CASE STUDY: ASSEMBLY ROW, SOMERVILLE, MASSACHUSETTS***

Sitting along the Mystic River, Assembly Square is a 145 –acre district located in Somerville, Massachusetts. Somerville is the home to approximately 78,000 residents and abuts the City of Boston on its south eastern border. The closure of the Ford Motor assembly plant and several industrial businesses marks when the area began to struggle with disinvestment.

In 1980, the City of Somerville declared the Assembly Square District blighted, substandard, and decadent and adopted a 20-year urban renewal plan. The cornerstone of the urban renewal plan was the construction of a new retail mall known as the “Assembly Square Marketplace” which resulted from the repurposing of the former auto assembly plant

After stalled redevelopment plans and changing administrations, the City renewed its commitment to the redevelopment of a portion of the vacant and underutilized district now known as the Assembly Row site.

One of the largest public funding sources is the Infrastructure Investment Incentive program (I-Cubed). Assembly Square is the first project to be awarded I-Cubed funding. The I-Cubed program granted bond funding in the amount of \$58 million for the Assembly Square Project, which represents 43percent of the total public funds awarded to the project.

The Assembly Row project promises to significantly expand the state and the City’s tax base and create public benefits, such as new waterfront parks, open spaces, and bike and pedestrian paths. The project is forecasted to generate \$16 million in annual municipal tax revenue and \$24 million in annual state tax revenue. In addition, the development expects to generate an estimated 9,700 permanent jobs, 10,300 construction jobs, while retaining 590 existing permanent jobs.

## CHAPTER 7 CONCLUSION

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Targeting and layering scarce public resources over time to a select area is critical to transforming a community into a vibrant place with new economic opportunity and enhanced quality of life. Massachusetts' public financing programs for infrastructure investment focus on empowering cities and towns throughout the Commonwealth, partnering with the private sector to envision, shape, and finance infrastructure and public works projects that revitalize downtowns, renovate business corridors and repair streets, highways, and bridges. By forming partnerships with the Commonwealth and MassDevelopment, municipalities can address unique community needs in a collaborative and innovative manner. Programs such as BID, DIF, I-Cubed and the Local Infrastructure Development Program are four core revitalization programs that allow cities and towns throughout the Commonwealth to support new economic growth in their communities by investing in and upgrading public amenities.



# CHAPTER 8 RESOURCES

## APPENDIX A: PUBLIC FINANCING PROGRAM MATRIX

