Infrastructure Financing Programs (DIF)

Massachusetts Municipal Association

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MassDevelopment

Way to grow.

Infrastructure Needs in Massachusetts*

- Approximately 10% of bridges are classified as Structurally Deficient and require major rehabilitation or replacement.
- Highway system includes 9,500 lane miles of roadway, 5,000 bridges, 65 lane miles of tunnels, and 1,500 traffic signals, much of which is approaching or has surpassed its useful life.
- Fifth largest mass transit system in the nation. Oldest subway system in the nation and its infrastructure is difficult and expensive to maintain. Backlog of approximately $3 billion of projects.
- $10.2 billion funding gap for drinking water, $11.2 billion gap for clean water (i.e. wastewater) projects, and potential $18 billion gap to address stormwater concerns and comply with proposed federal stormwater regulations for the Commonwealth over the next 20 years.

*American Society of Civil Engineers' 2013 Report Card on America's Infrastructure

Why is Infrastructure Financing Important?

- Advance economic development or redevelopment projects that otherwise may not move forward in today's economy, often earlier and at a higher level.
- Attract economic development prospects by having infrastructure financing plan in place.
- Preserve and strengthen tax base.
- Job creation, enhanced transportation services, better housing supply, etc.
- Achieve desired / statutory economic development goals.

Economic Development

Massachusetts Development Finance Agency

- Self-supported quasi-public finance and development agency.
- Promotes capital investment and economic development in Massachusetts by providing financing and development solutions.
- Formed in 1998 under Chapter 23G (Massachusetts General Laws) by the merger of Massachusetts Industrial Finance Agency and Government Land Bank. Merged with Mass HEFA in 2010.
- Primary tools
  - Tax-exempt and taxable bonds (94 issues totaling $2.8 billion in 2014)
  - Loans and guarantees (75 transactions totaling $56.4 million in FY 2014)
  - Real estate planning and development services

Infrastructure Bond Financing Programs

- Infrastructure Investment Incentives Act (“I-Cubed”)
- Local Infrastructure Development Program
- **District Improvement Financing (“DIF”)**

All programs create a district and pay for public infrastructure through a tax. How a district is set and what taxes are used will depend on the program.

All three programs can be used independently or in combination to meet a project’s financing needs.

Programs allow for issuance tax-exempt bonds to fund infrastructure.

What Types of Public Infrastructure Can Be Funded?

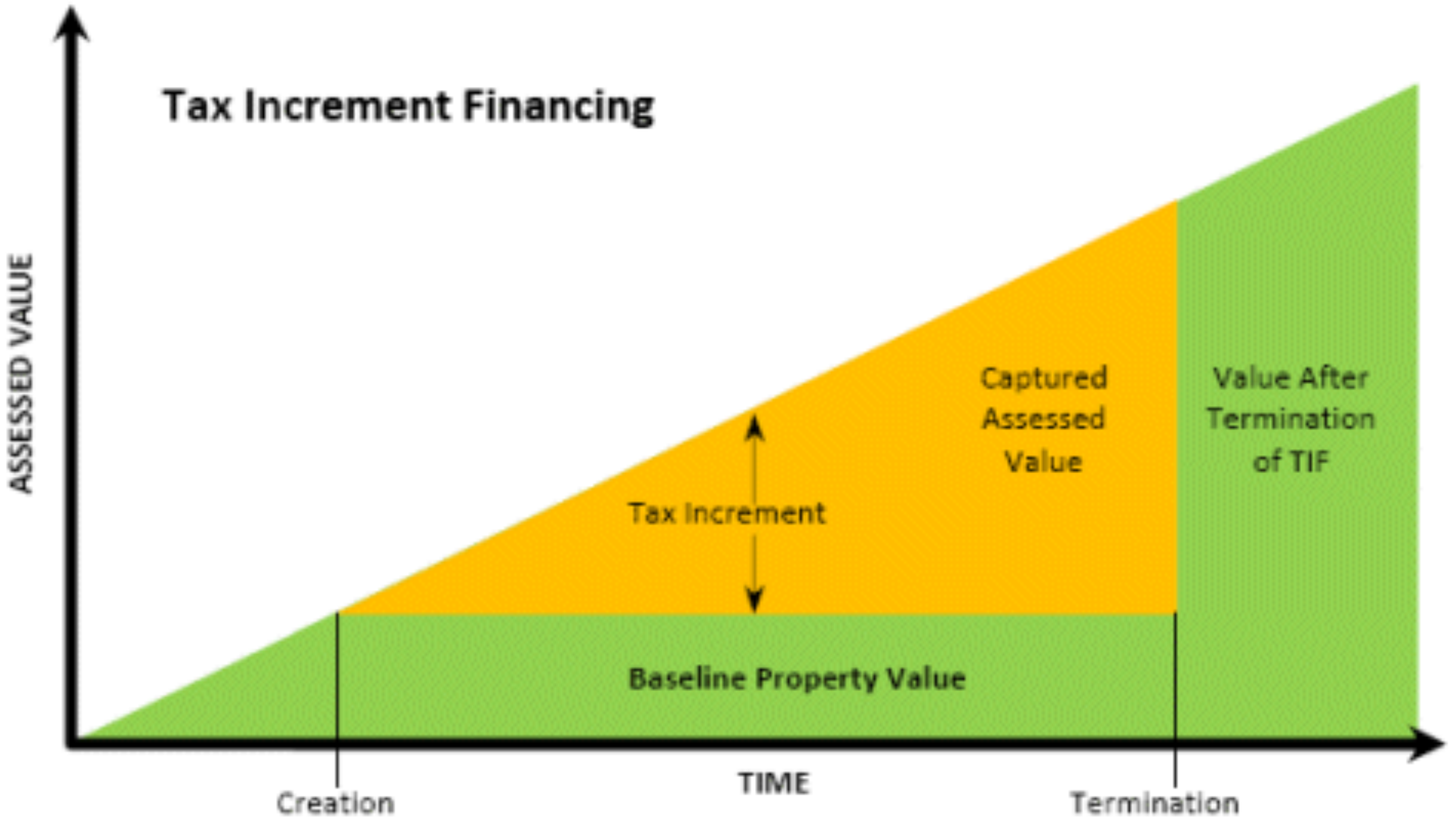
- Roadways and intersections
- Water & waste water facilities and related lines
- Transportation facilities such as train stations, bus depots, etc.
- Seawalls, docks, wharves, bridges, culverts, tunnels
- Streetscape, sidewalks, electric lines, street lights
- Parks, playgrounds and recreational facilities
- Parking garages
- Brownfield mitigation
- Soft and financing costs (engineering, architectural, etc.)
- Varies slightly by program

- **Infrastructure must benefit the district and must be owned or conveyed to a public entity to be eligible.**

District Improvement Financing ("DIF")

- MGL Chapter 40Q "District Improvement Financing" passed in 2003 and amended in 2011 and 2012. Program called TIF (Tax Increment Financing) in other states.
- Using future taxes to pay for current improvements.
- Municipality creates District and agrees to dedicate incremental property taxes to fund public infrastructure benefitting the District.
- If borrowing, District or municipality issues debt based on incremental taxes from new growth that would not happen at same level or timetable without infrastructure investment.
- Credit based upon the incremental property taxes within the District.
- Newer Districts may initially require credit support from the municipality or the developer to issue bonds.

District Improvement Financing (“DIF”)



District Improvement Financing ("DIF")

Setting up a District

- Municipality creates DIF plan to establish a District. They hold local public hearings and obtain local approvals. Must be approved by Town meeting or City Council .
- District approval has 2 parts; setting baseline assessed value and financing plan.
- Municipality creates a District without the financing plan if a municipality wishes to obtain recognition of a district to set the tax level. It never has to approve a financing plan if it elects "pay as you go". If borrowing, a financial plan can be approved at the same time or subsequently.
- Commonwealth approval no longer required.

District Improvement Financing ("DIF")

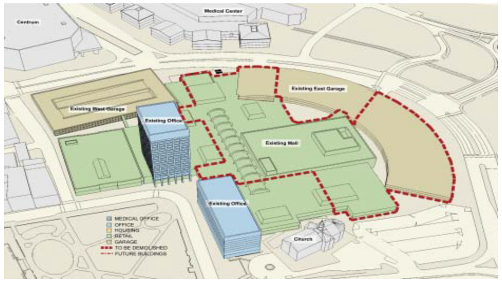
Benefits

- Targeted / strategic economic development goals can be achieved.
- Preserve and strengthen the tax base.
- Municipality has flexibility to segregate debt service from general funds and employ debt structures that would not otherwise be available as financing terms are negotiable.
- Borrowing not included in municipalities debt limits.
- No new taxes are levied because of the District and the DIF does not reduce or redirect current property tax revenues.

DIF -- Examples

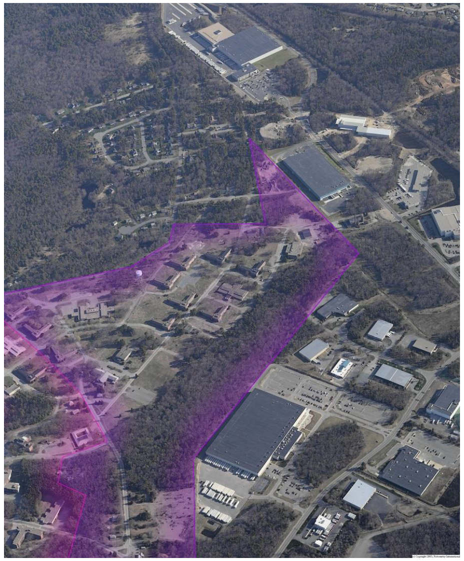
- City of Quincy – Issued notes for downtown Main Street revitalization including 50 acre mixed-use development with shopping, housing, entertainment and commercial space. Emphasis on parking, walkability and multi-modal development.

- City of Worcester - Issued bonds to revitalize the City's downtown including tear down and redevelopment of outdated mall into mixed-use urban project.



DIF -- Examples

- City of Somerville – Issued bonds in combination with I-Cubed for Assembly Row project that involved redevelopment of 67 acre industrial site in to mixed-use urban, transit-oriented neighborhood.



- City of Taunton – District encompassing industrial park and the old state hospital site. State hospital to be demolished and land converted into an extension of industrial park. Bonds to be issued for demolition, remediation and road improvements.

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