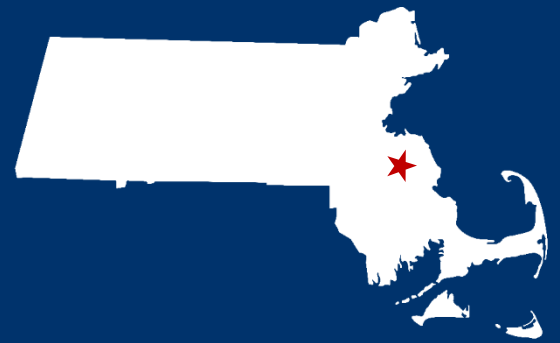


# Case Study: District Improvement Financing City of Brockton

Plymouth County, Massachusetts

2016 Population: 94,813

Median Household Income: \$49,956<sup>1</sup>



This case study is provided for illustrative purposes only to provide an example of a municipality's process and methodology. This performance is no guarantee of similar results.

## The Goal

The City of Brockton (City) experienced 50 years of disinvestment following industrial era decline, similar to other cities across America. After building back its professional capacity with a new city planner, the City wanted to take measures to spur increased private reinvestment in the downtown.

## The Decision

Brockton approached District Improvement Financing (DIF), governed by Mass. Gen. Laws Ch. 40Q (DIF Statute), with a two-pronged plan that included both educating local leaders about the economic development tool, and developing a community-supported vision for improvements and revival in the downtown.

Brockton's efforts to create a Development District<sup>2</sup> (DIF District) and Development Program were led by the Director of Planning and Economic Development for the City, who had previous experience with DIF in another community. The Director was able to gain support from the City's Mayor, Chief Financial Officer, and Assessor by showing how DIF enables a community to pay for public investments out of the DIF District's own new growth.

Communities frequently express two concerns with DIF – its effect on tax rates and on individual properties. The City successfully communicated to the public that DIF was not a new tax. Because the Brockton DIF District is quite large relative to DIF Districts that had been completed in other communities at that time, a large number of residents and businesses in the DIF District benefitted from the outreach by the City. In the formation and implementation of the DIF District, the Assessor plays a key role in providing data and refining the district; and in Brockton, the Assessor specifically worked with the City Council to explain the details of the DIF District and how it would affect their constituents' property. It was made clear that tax rates would not increase as a result of a property's location within a DIF District.

Creating a vision to work towards required a thoughtful approach. The City also needed to consider how it should develop, and then implement, the vision. Brockton had not had a City Planner for eight years and first needed to

### Basics | Downtown Brockton District Improvement Financing Program and Financial Plan

District Adoption | July 2015

Original Assessed Value | \$224,463,117

Acreage | 190.5

Taxable Parcels | 488

DIF Eligible Project Costs | \$31,115,250

Development Program and Financial Plan Adoption | March 2016

<sup>1</sup> Population and Median Household Income from the U.S. Census Bureau, American Community Survey, 2016 ACS 5-Year Estimates.

<sup>2</sup> Capitalized terms not defined herein have the meaning set forth in the DIF Statute.

find a way to re-focus on proactive planning in the City. They were able to work with MassDevelopment to create a vision for downtown, then shaped an action plan of priority projects with community support, and eventually hired a planner.

As the vision and community acceptance proceeded, the City also determined that a separate entity, rather than in-house staff, would be most effective at fulfilling the mission and administering economic development funds. It chose the Brockton Redevelopment Authority, an existing nonprofit organization whose work involves community development and economic revitalization.

This clear vision, list of community-supported projects, and effective administrative entity created the backdrop to form a DIF District. As a result of the carefully planned approach and outreach to community leadership and the public, local approval of the DIF District and Development Program proceeded smoothly.

### The Brockton DIF District

The Brockton DIF District encompasses 673 real estate properties (190 acres), of which 488 are taxable, in Brockton's downtown center.<sup>3</sup> The City chose to include land in a variety of different zoning districts, as well as different types and uses of existing buildings. In addition to fulfilling the mission, this diversity can help spread the risk if any specific use or industry were to suffer a loss in assessed value.

### The Financial Plan

Currently, the Downtown Brockton DIF Program generates about \$350,000 per year in tax increment revenues, all of which is captured to support DIF

projects and is deposited to the DIF Development Program Fund.<sup>4</sup> This is slightly more than had been estimated for the first two years, as they had expected under \$300,000 per year. The City uses an annual appropriation and budgeting process to pay for project costs from the Development Program Fund, and is paying for projects using current revenues and debt.

*Future parking garage in Brockton*



**Pro Tip** | If there are municipally-owned buildings in the DIF District that should be demolished because of disrepair, consider tearing them down before establishing your DIF District and Invested Revenue District (IRD) if the demolition enables the parcel to be re-assessed at a lower value when the DIF District and IRD are established. The lower the assessed value at adoption, the greater the increment that will be captured when the property is redeveloped and the assessed value increases.

### Redevelopment Efforts

Since creating the DIF District, the City's largest project is the development of a 414-space public parking garage.<sup>5</sup> The City's use of DIF demonstrated a commitment to the project that helped leverage the State's infrastructure

<sup>3</sup> Downtown Brockton District Improvement Financial Program and Financial Plan, March 8, 2016

<sup>4</sup> Source: Interview with City of Brockton staff

<sup>5</sup> <https://www.metrosouthchamber.com/chamber-supports-construction-of-new-parking-garage/> (parking garage images from this site)

funds. The City has applied DIF revenues to pre-engineering, brownfield assessment, and drawings to speed up the development process. While the parking garage is not yet complete, “soft” and visible improvements have been made in other areas of the DIF District, including downtown artwork, landscaping, banners, and assisting the farmers’ market.

Brockton understood early on that DIF is a tool that can be complemented by other economic development funding sources. In addition to their DIF District, Brockton also has properties subject to Tax Increment Financing<sup>6</sup> agreements, which the City has used to target very focused businesses (restaurants in their downtown). The City also uses CDBG funding,<sup>7</sup> the MassWorks Infrastructure Program, the Low-Income Housing Tax Credit program (LIHTC), historic tax credits, discretionary tax credits, and City tax-exempt General Obligation bonds. While the City of Brockton has not adopted a specific list of financial incentives to encourage development, DIF represents a step forward in creating a more comprehensive approach to encouraging economic development and private investment. It also provides the City with the most local control since the projects and funding sources are directed by the City.

**Pro Tip |** In Massachusetts, DIF boundaries can be set in advance of the Development Program and the Financial Plan (which describes how a community will pay for projects). To accomplish this, the municipality simultaneously establishes the DIF District and the portion of the DIF District known as the Invested Revenue District (IRD), which will generate tax increment revenues, but holds off on finalizing the full Development Program and the Financial Plan until project plans, project costs, and expected revenues are more complete and can be estimated. This can be an advantage when significant new development is expected, but the costs of the public improvements are not fully known, because it allows for a lower original assessed value based on pre-growth assessments, but still leaves time for the municipality to complete the infrastructure planning. In addition, the municipality will have more information to calculate the percentage of the tax increment it will need to capture in order to fund the projects.

## Results

### *Timeframe*

Establishing the DIF District with boundaries and original assessed value information took about two months, with most of the time spent educating elected officials and the public about DIF and how it could be used. A major effort went toward helping stakeholders understand that the DIF District would not take money away from schools or other City departments.

Formulating the Development Program, included a project list with estimated costs, a capital plan, and revenue estimates, took approximately six months. Identifying the projects and establishing a budget to accomplish them was a significant portion of this effort because all projects to be funded must be in the plan. Brockton’s Development Plan was multi-faceted: in addition to the capital infrastructure, project components included utility improvements, site acquisition and assemblage, and other amenities, requiring a detailed project list. The City also identified and included soft costs for planning, marketing, and related activities to support the DIF District. The City created forecasts for private development to determine the potential contribution of DIF revenues to bond debt service – revenue forecasts are required by the DIF Statute, but the statute does not specify the level of detail

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<sup>6</sup> Tax Increment Financing (TIF), provides financial incentives to private entities who make investments in a property or business. It may be used in a DIF District to further goals of the District but is enabled by a different statute and must be approved by the Economic Assistance Coordinating Council (EACC). The DIF Statute was revised in 2012 and does not currently require approval by the EACC.

<sup>7</sup> CBDG , Community Development Block Grant, is a federal program offered by the U.S. Department of Housing and Urban Development.

[needed in a revenue forecast?]. With a complex plan, and multiple parcels to be redeveloped, the City wanted to make sure this aspect was also thoroughly understood.

### Administration

Administering the DIF has been straightforward for the City of Brockton. They work with a municipal finance consultant to gather and submit assessment records to the Massachusetts Department of Revenue for certification of values. As part of the DIF management process, the Brockton City Council requires staff to report annually what DIF funds they would like to spend on priority projects. The City Council approves or denies the request and has final say on how DIF funds are spent.

### Lessons Learned

As part of this case study, the City of Brockton was asked to reflect on successes and challenges with adopting and managing a DIF District and Development Program, as well as thoughts on how the process could be streamlined. The following were identified:

- The legislation that removed state approval of DIF Districts<sup>8</sup> has enabled more local control but has also created a gap in guidance around development and administration. This may be hindering other Massachusetts communities from participating.
- The City suggested that there could be a state regulation that clarifies the use of DIF Revenues, or the revenues generated by the Tax Increment. Currently some communities may believe that DIF funds can be directly used for any municipal expense,<sup>9</sup> when in fact DIF revenues are *first* used to fund projects identified in the Development Program, and *then* the excess may be swept into the General Fund.
- Certain kinds of prior agreements or programs can reduce the amount of revenues that can be captured. For example, the 40V housing development incentive program includes a mandatory Tax Increment Exclusion of 10% over five years. If located in a DIF District, it would prevent all or some of any increment from that parcel from being directed to the City's Development Program. It is therefore important to carefully consider the combination of programs and incentives and how they will work together, and to incorporate the effects of other development tools in financial estimates.
- Municipalities can benefit from assistance with determining the amount of tax increment to be captured, as it requires careful estimates to balance using DIF revenues to fund projects, with keeping a solid flow to the General Fund. The City suggested that help with technical matters might lead to wider understanding and use of DIF

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<sup>8</sup> 2012 Mass. Ch. 238, AN ACT RELATIVE TO INFRASTRUCTURE INVESTMENT, ENHANCED COMPETITIVENESS AND ECONOMIC GROWTH IN THE COMMONWEALTH.

<sup>9</sup> This comment highlights the importance of ongoing management of the DIF, as the DIF Statute does provide for the release of Tax Increment revenues to the municipality's General Fund. This is accomplished by a formal reduction of the percentage of the Tax Increment that is captured, or by determining each year that there are excess funds in the Development Program Fund, which are not needed for the project obligations and which can then be released.