



# District Improvement Financing (DIF) Guide: *A Guide to using DIF in Massachusetts Towns and Cities*

## About this *DIF Guide*

This *District Improvement Financing (DIF) Guide* has been created to help towns and cities in Massachusetts gain an understanding of District Improvement Financing (DIF) that will enable them to evaluate whether DIF is an appropriate tool for their economic development goals, including understanding what resources and timeframes are required to use it effectively. It provides an overview of the program, describes key components, and identifies steps for planning and implementation. It also includes examples and recommended practices based on the experiences of municipalities that have used DIF.

This *DIF Guide* is the cornerstone of a suite of DIF resources created for MassDevelopment, published at [www.MassDevelopment.com](http://www.MassDevelopment.com). With this *DIF Guide* as a starting point, these resources provide further information, examples, and technical advice about assembling a DIF and shepherding it through to adoption and implementation.

The additional resources include:

- ☑ *Webinar Series*
- ☑ *Case Studies*
- ☑ *Capital Mix Estimator*
- ☑ *DIF Template*
- ☑ *DIF Revenue Estimator*
- ☑ *Frequently Asked Questions*

This *DIF Guide* begins with an overview of how DIF works, including an overview of the legal statute and definitions. This is followed by a “How To” discussion of five essential activities needed to create a DIF, from

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*Communities have successfully used DIF to pay for infrastructure and planning. The City of Somerville used DIF to pay for infrastructure critical to the revitalization of Assembly Square. That success led to the creation of a second DIF for Union Square.*

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planning for development through establishing a timeline and work plan. Appendices provide greater detail on key subjects.

## Why use DIF?

DIF can be integrated with, and can complement, existing economic development efforts. Through DIF a municipality can:

- ✓ Communicate that a district is targeted for growth, and state a community's goals;
- ✓ Establish greater local control by identifying the location and type of development desired;
- ✓ Fund “soft” costs and planning or outreach efforts that may not be suitable for borrowing;
- ✓ Create a written plan for public improvements and estimated economic outcomes; and
- ✓ Continue to use existing tools such as grants and borrowing as part of a broader toolkit.

District Improvement Financing also provides additional flexibility in structuring a financing supported by DIF revenues.

A municipality may structure its debt to match debt service payments with projected cash flows. For example, rather than using a level debt service schedule a municipality could issue bonds that defer principal, capitalize interest, or mirror the forecasted revenue stream with an ascending debt schedule.

In addition, the associated debt from a DIF supported financing may be structured to not count towards a municipality's debt limit. It is critical for a municipality to consult with an independent municipal advisor or bond counsel when contemplating issuing DIF supported debt so that the pros and cons can be weighed, including potential credit rating and short/long-term fiscal impact.

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## Part 1: How DIF Works

Through DIF, a town or a city can establish a funding stream for economic development activities that is linked to, and derived from, the results of economic development.

DIF achieves this by setting up a process through which a municipality can identify and capture tax revenues that result from new private investment in a specific area, such as an expanding business or a new multifamily housing project. These tax revenues are generated by the increase in assessed value that results from the private investment, not from tax rate increases, special assessments, or real estate market factors.

The municipality can then direct this stream of incremental tax revenues toward public improvement and economic development projects, which can range from critical infrastructure needs such as traffic mitigation, to essential supporting activities such as planning studies or workforce training.

**This section provides detail about the legislation that enacted DIF, the tasks required to be undertaken by a community to comply with the legislative requirements, and the defined terms that are used in the legislation and throughout this *DIF Guide*.**

### Legislative Requirements

Massachusetts General Laws Chapter 40Q (the “DIF Statute”) authorizes towns and cities to use DIF. The DIF Statute sets forth activities that must be undertaken, such as identifying tax revenues to be captured, describing projects to be implemented, and designating parcels of property to be included within the DIF District. Municipalities enact local legislation through the ordinary processes

of a City Council, Town Meeting, or Town Council. The DIF Statute does not provide specific language that must be incorporated into local legislation.

The DIF Statute does not set forth specific legislative review or public hearing requirements. A town or city will follow its established legislative rules. If the town or city wishes to amend an element of its DIF, it must follow the same legislative process it used to adopt the original legislation, for example a vote of Town Meeting.

The DIF Statute does not require review and approval by the Economic Assistance Coordinating Council or other state agency, and no reports specific to DIF need to be prepared for or submitted to any state agencies once DIF has been implemented.

### Identifying the Tax Increment and Capturing Tax Revenue

DIF enables communities to identify and capture tax revenues generated by the incremental increases to the assessed value of real property that result from new private investment, such as building or renovation. These increases, the “Tax Increment” as defined by the DIF Statute,<sup>1</sup> may occur on residential or commercial property, but must arise from new private investment. Increases to assessed value as a result of market factors or revaluation are not eligible, and tax revenues generated by these increases may not be captured through the use of DIF.

The Tax Increment is calculated as the difference between the assessed value of the property as of a Base Date<sup>2</sup>, with assessed value as of the Base Date (defined as the Original Assessed Value,<sup>3</sup>) and the assessed value as of each subsequent assessment date for the duration of the DIF. The Base Date will always be the January 1 prior to the adoption of legislation establishing DIF.

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<sup>1</sup> See *Definitions*, below.

<sup>2</sup> “Base date” is the last assessment date of the real property preceding the creation of the district. See *Definitions*, below.

<sup>3</sup> “Original Assessed Value”, is the aggregate assessed value as of the Base Date. see *Definitions*, below.



Identifying the Tax Increment is done through a municipality's normal assessment process and on the same schedule. The calculation and collection of tax revenues also follows the customary procedures for the entire community. DIF governs how to calculate, capture, and spend a designated portion of the tax revenues once they are collected. In this *DIF Guide*, the portion of the tax revenues that is identified and captured through the establishment of DIF is referred to as the "DIF Revenues."<sup>4</sup>

The Tax Increment is cumulative once DIF is established and is always the difference between the Original Assessed Value and the portion of a new assessed value that, through ordinary assessment processes, is attributed to new private investment. If the increase over the Original Assessed Value is \$5 million per year for five years, the Tax Increment grows to \$25 million over that same five year period. All tax revenues generated by the Tax Increment, up to 100%, are eligible for capture through the use of DIF, and each town or city identifies, through the legislation it uses to establish DIF, how much of the revenue will be captured and how it will be used.

The following is a sample timetable based on a community's assessment calendar and fiscal years. Legislation may be adopted at any time of the year and November is shown as an example only.

Note that there will be a lag of at least one year between the adoption of legislation and the availability of revenues. This is a result of the assessment calendar, not of the use of DIF.

1. November 15, 2019: Legislation is adopted to establish DIF, with a Base Date of January 1, 2019 for assessed values. The Original Assessed Value is established as of January 1, 2019.

2. January 1, 2020: Assessed values are determined for each parcel in the community as of this date, although actual new assessed values may not be finalized until later in the year. Increases to assessed value that are attributable to new private investment are identified for the entire community.<sup>5</sup> The Tax Increment is identified.
3. July 1, 2020 – June 30, 2021: First fiscal year in which tax revenues are collected using values established as of January 1, 2020. These are the first tax revenues from which a portion may be identified and captured through the use of DIF, and Fiscal Year 2021 is therefore the first Fiscal Year of the DIF.
4. July 1, 2021 – Duration of the DIF: Assessed values are determined each year and the Tax Increment is recalculated to reflect the cumulative impact of new private investment since the Base Date. Tax revenues generated by the Tax Increment are eligible for capture through the use of DIF.

The revenues generated by the Tax Increment will also increase to the extent permitted by Mass. Gen. Laws Ch. 59 § 21c (f), which governs the total tax levy in a municipality.

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<sup>4</sup> See also *Definitions*, below.

<sup>5</sup> Communities that have accepted Acts of 1989 Ch. 653, Amending Mass. Gen. Laws Ch. 59 § 2A (a), recognize increases to assessed value from new private investment that occur between January 2 and June 30 of each calendar year

as having occurred on January 1 of that same calendar year. A community using DIF will still follow this calendar for recognizing changes to assessed value.

## Components of DIF

The DIF Statute requires that municipalities adopt four components which together enable the activities and benefits of DIF as an economic development tool:

Development District    Invested Revenue District

Development Program    Invested Revenue Development Program

A community may adopt all four components at once, or the Development District may be established first and the other components at later dates through the same legislative process.

The DIF Statute sets forth specific requirements for each component as described below.

### *Development District*

A Development District, (DIF District) is the part of the municipality in which projects will be implemented. The community defines the boundaries and identifies the parcels within the DIF District.

A community may establish multiple DIF Districts, but the aggregate area of all DIF Districts may not exceed 25% of the area of the community. The Assessor must certify the area of each DIF District and confirm compliance with the 25% limit.

Projects that are to be funded with DIF Revenues must be implemented within the DIF District. Exceptions are certain components of water and sewer infrastructure that must be constructed outside of the DIF District because of the design of the system.

A DIF District does not need to be contiguous.

Commercial and residential properties, municipal properties, vacant or undeveloped land, and property owned by tax-exempt entities may all be included in a DIF District.

### *Invested Revenue District*

An Invested Revenue District (IRD), identifies the portion of the DIF District in which the Tax Increment will be calculated and from which DIF Revenues will be generated. It must be either coterminous with the DIF District, having the same boundaries and parcels, or a subset that is wholly within it. No parcels may be included in an IRD if they are not also within the DIF District.

### *Development Program*

A Development Program describes the activities expected to be undertaken within the DIF District. It must describe all of the following<sup>6</sup> *but* if one or more of the activities are not expected, such as displacing and relocating persons, then the Development Program should clearly state that the activity will not be undertaken.

1. A finding, or statement, that the designation of the DIF District is consistent with the requirements of Mass. Gen. Laws Ch. 40Q §2 and “will further the public purpose of encouraging increased residential, industrial, and commercial activity in the Commonwealth.”<sup>7</sup> In essence, this is a statement of the community’s goals.
2. A Financial Plan<sup>8</sup> that describes the costs of the anticipated projects, expected sources of revenue, the amount of indebtedness to be incurred, and anticipated sources of capital;
3. A list of the public facilities to be constructed and any other projects expected to be paid for in whole or in part with DIF Revenues. *If new projects are later identified, the Development*

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<sup>6</sup> See also *Definitions*, below.

<sup>7</sup> Mass. Gen. Laws Ch. 40Q §2 (a)

<sup>8</sup> Ibid.

*Program must be amended. This includes public facilities and other eligible projects.*

4. The use of private property;
5. Plans for the relocation of persons displaced by the development activities;
6. Plans, if any, for the development of housing, both affordable and market rate;
7. The proposed regulations and facilities to improve transportation; and
8. The proposed operation of the district after the improvements are completed;

*Optional: the Development Program may also designate an entity that will administer activities related to the DIF and describe the proposed operation of the DIF.<sup>9</sup>*

9. The duration of the Development Program. This may not exceed 30 years. The 30 year count may begin either at the date of the designation of the DIF District, or at a "Project Stabilization"<sup>10</sup> date defined by the community in the Development Program.

#### *Invested Revenue District Development Program*

An Invested Revenue District Development Program (IRDDP) is required in order to calculate the Tax Increment and then capture the tax revenues from that Tax Increment to be used as DIF Revenues to pay for projects within the DIF District. In essence, it directs the capture

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<sup>9</sup> Mass. Gen. Laws Ch. 40Q §2 (c )(2) "create a department, designate an existing department, board officer, agency, municipal housing or redevelopment authority of the city or town or enter into a contractual agreement with a private entity to administer the activities authorized by this chapter"

<sup>10</sup> The DIF Statute does not define "Project Stabilization" or dictate rules for selecting such a date. See *Definitions*, below, for an explanation of how the term is used in this *DIF Guide*.

and use of tax revenues collected from the IRD. It is required to include:

1. Estimates of the tax revenues to be derived from the IRD;
2. A projection of the tax revenues to be derived from the IRD if no Development Program were to be adopted and implemented (with presumably less new private investment than is expected to occur as a result of the Development Program);
3. Statement of whether any bonds issued as part of the DIF will be General Obligation or Special Obligation Bonds;
4. The percentage, dollar amount, or formula directing the amount of tax revenues collected from the Tax Increment that will be captured to pay for projects in the Development Program; and
5. A statement of the estimated impact of tax increment financing on all taxing jurisdictions in the DIF District.<sup>11</sup>
6. The establishment of a Development Program Fund, which is comprised of two accounts: a Project Cost Account and, if debt is anticipated to be issued, a Development Program Sinking Fund Account.

The DIF Statute requires that DIF Revenues be deposited to the Development Program Fund and establishes the priority of claims upon those revenues.

<sup>11</sup> The DIF Statute does not define "tax increment financing." In its definition of Invested Revenue District it does refer to an Invested Revenue District as [a district] where tax increment financing is used. Therefore for the purposes of this *DIF Guide*, this statement is interpreted to mean that a municipality should state the impact of the IRDDP on the taxing jurisdictions.

Principal and interest on debt, and related costs such as maintaining reserve accounts, must be paid from the Development Program Sinking Fund Account. As long as debt is outstanding to which DIF Revenues are pledged, the Development Program Sinking Fund Account has the senior claim on DIF Revenues.<sup>12</sup>

Costs for constructing or implementing projects are paid from the Project Cost Account.

Balances may be transferred between the Development Program Sinking Fund Account and the Project Cost Account as long as the balances in the Development Program Sinking Fund Account are sufficient to meet its obligations to repay debt.

Excess funds not required by the Development Program Fund may be transferred to the municipality's General Fund.

A graphic illustrating these funds and accounts, and a description of the accounts, is included as Appendix A.

## Definitions

### *Definitions from the DIF Statute<sup>13</sup>*

The following terms have the meanings as defined in Massachusetts General Law Chapter 40Q, Section 1. Capitalization has been added to the statute's defined terms to identify them clearly in the text.

"Base Date", the last assessment date of the real property tax immediately preceding the creation of the district.

"Captured Assessed Value", the valuation amount by which the current assessed value of an invested revenue district exceeds the

original assessed value of the district. If the current assessed value is equal to or less than the original, there is no Captured Assessed Value.

"Development District", a specified area within the corporate limits of a city or town which has been designated as provided in §2 and which is to be developed by the city or town under a Development Program.

"Development Program", a statement of means and objectives designed to improve the quality of life, the physical facilities and structures and the quality of pedestrian and vehicular traffic control and transportation within a development district. Means and objectives designed to increase or improve residential housing, both affordable and market rate, may also be addressed within a district and shall be considered part of a development program. The statement shall include:

- (1) a Financial Plan;
- (2) a complete list of public facilities to be constructed;
- (3) the use of private property;
- (4) plans for the relocation of persons displaced by the development activities;
- (5) plans, if any, for the development of housing, both affordable and market rate;
- (6) the proposed regulations and facilities to improve transportation;
- (7) the proposed operation of the district after the planned capital improvements are completed; and
- (8) the duration of the program which shall not exceed the longer of:  
(i) 30 years from the date of designation of the district; or  
(ii) 30 years from project stabilization, as defined in the development program.

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<sup>12</sup> A municipality may use DIF Revenues to repay a portion of debt service without formally pledging the DIF Revenues to the bonds. In this case the Development Program Sinking Fund Account may have parity with the Project

Cost Account. A municipality should consult its bond counsel on this and other matters relating to debt issuance.

<sup>13</sup> Mass. Gen. Laws Ch. 40Q §1



"Financial Plan", a statement of the costs and sources of revenue required to accomplish the development programs which shall include: (1) cost estimates for the development program; (2) the amount of indebtedness to be incurred; and (3) sources of anticipated capital.

"Invested Revenue District", a type of Development District or portion of a district that uses tax increment financing under §3.

"Invested Revenue District Development Program", a statement which, in addition to the information required for a Development Program, shall also include: (1) estimates of tax revenues to be derived from the Invested Revenue District; (2) a projection of the tax revenues to be derived from the Invested Revenue District in the absence of a Development Program; (3) a statement as to whether the issuance of bonds contemplated pursuant to this chapter shall be general or special obligation bonds; (4) the percentage of the tax increment to be applied to the Development Program and resulting tax increments in each year of the program; and (5) a statement of the estimated impact of tax increment financing on all taxing jurisdictions in which the district is located.

"Original Assessed Value", the aggregate assessed value of the Invested Revenue District as of the Base Date.

"Project", a project to be undertaken in accordance with the development program.

"Project Costs", any expenditure made or estimated to be made or monetary obligations incurred or estimated to be incurred by the city or town which are listed in a project plan as costs of improvements including, but not limited to, public works, acquisition, construction or rehabilitation of land or improvements for sale or lease to residential, commercial or industrial users within a development district plus any costs incidental to those improvements, reduced by any income, special assessments or other revenues, other than tax increments,

received or reasonably expected to be received by the city or town in connection with the implementation of this plan.

(1) "administrative costs", any reasonable charges for the time spent by city or town employees in connection with the implementation of a project plan;

(2) "capital costs", the actual costs of the construction of public works or improvements, new buildings, structures and fixtures; the demolition, alteration, remodeling, repair or reconstruction of existing buildings, structures and fixtures; the acquisition of equipment; and the grading and clearing of land;

(3) "discretionary costs", those payments made by the appropriate body of a city or town that in its discretion are found to be necessary or convenient to the creation of development districts or the implementation of project plans.

(4) "financing costs", including, but not be limited to, all interest paid to holders of evidences of indebtedness issued to pay for project costs and any premium paid over the principal amount of that indebtedness because of the redemption of the obligations before maturity;

(5) "improvement costs", those costs associated with developing new employment opportunities, promoting public events, advertising cultural, educational and commercial activities, providing public safety, establishing and maintaining administrative and managerial support and such other services as are necessary or appropriate to carry out the development program;

(6) "organizational costs", all reasonable costs relating to the conduct of environmental impact and other studies and informing the public about the creation of development districts and the implementation of project plans;

(7) "professional service costs", including, but not limited to, those costs incurred for architectural, planning, engineering and legal advice or services;

(8) "real property assembly costs", any deficit incurred resulting from the sale or lease by the city or town, as lessor, of real or personal property within a development district for consideration which is less than its cost to the city or town;

(9) "relocation costs", all reasonable relocation payments made pursuant to a condemnation;

(10) "training costs", costs associated with providing skills, development and training for employees of businesses within the development district; provided, however, that these costs shall not exceed 20 per cent of the total project costs and shall be designated as training funds within 5 years of the issuance of bonds pursuant to this chapter for the project or the designation of the district, whichever occurs later; and

(11) "water and sewer line costs", which shall include the costs related to the construction or alteration of sewage treatment plants, water treatment plants or other environmental protection devices, storm or sanitary sewer lines, water lines or amenities on streets or the rebuilding or expansion thereto so long as required by the project plan for a development district, whether or not the construction, alteration, rebuilding or expansion is within the development district;

Project costs shall not include the cost of a building or a portion of a building used predominantly for the general conduct of government, such as a city hall, courthouse, jail, police or fire station or other state or local government office buildings.

"Project revenues", receipts of a city or town with respect to a project including, without limitation, tax increments, investment earnings and proceeds of insurance or disposition of property.

"Tax increment", all annual increases in the municipality's limit on total taxes assessed pursuant to subsection (f) of section 21C of Mass. Gen. Laws Ch. 59 that are attributable to parcels within the district for fiscal years with an assessment date later than the base date. The tax increment shall also include the part of increases in the limit on total

taxes assessed allowed pursuant to said subsection (f) of said section 21C of said chapter 59 that are attributable to such increases pursuant to said subsection (f) of said section 21C of said chapter 59 in prior years that were part of the increment in such prior years. In any year that the limit on total taxes assessed pursuant to said section 21C of said chapter 59 is lower than the prior year's limit on total taxes assessed, the tax increment shall be reduced in the same proportion as the limit on total taxes assessed.

#### *Tax Increment and definition for "New Growth"*

The DIF Statute uses the defined term Tax Increment to describe the incremental increases in assessed value that may result from new private investment that improves the property. In practice, assessors often use the term new growth (herein, "New Growth") for the same concept. This *DIF Guide* uses the term New Growth to refer to the increases in assessed value that result from new private investment on a day-to-day basis by towns and cities. New Growth refers to increases in assessed value that result from improvements, *not* from increases in assessed value that result from market factors or revaluation.

Please see also *Levy Limits: A Primer on Proposition 2 1/2*, Massachusetts Department of Revenue Division of Local Services, available online at [www.mass.gov/files/documents/2016/08/oq/levylimits.pdf](http://www.mass.gov/files/documents/2016/08/oq/levylimits.pdf).

#### *Additional Definitions for Terms in this DIF Guide*

"DIF Project" means an eligible Project as defined by the DIF Statute that is intended to be funded in whole or in part through the use of DIF Revenues.

"DIF Revenues" means the portion of the revenue generated by the Tax Increment that is collected as a result of New Growth in the DIF District. These are deposited to the Development Program Fund and used as provided for in the Development Program. DIF Revenues may be all or a portion of the revenues collected from the Tax Increment for any fiscal year. The percentage of the revenue from each year's Tax Increment that becomes DIF Revenues is established by the

Development Program and Invested Revenue District Development Program.

“Pay-as-You-Go” means paying for Project Costs directly from DIF revenues collected, in contrast to using the proceeds of debt to pay such costs.

“Project Stabilization Date” means the date, established by the community in its Development Program, on which the Development Program comes into effect. A Development Program may have a duration of up to 30 years either from the date of the adoption of the DIF District, or 30 years from the Project Stabilization. The DIF Statute does not dictate rules for selecting such a date, only stating that such a date may be defined in the Development Program.<sup>14</sup>

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<sup>14</sup> Mass. Gen. Laws Ch. 40Q § 1 (a) (8).

## Key Facts about DIF

**It can be used by any town or city in Massachusetts**, to:

- Catalyze the creation and implementation of a large, complex project such as revitalizing a downtown;
- Support a highly targeted, single-site project by a developer or an expanding business; or
- Promote a range of projects in between.

**It works by creating a “virtuous cycle” of public and private investment in a targeted area.** New private investment on a property raises the assessed value, increasing the amount of tax revenue collected. Through DIF, the new tax revenues are captured and directed toward public projects that attract and sustain the private investment, creating the virtuous cycle.

It is only tax revenue from the increase in assessed value that is captured; tax revenue from the Original Assessed Value continues to flow to the General Fund.

**A municipality creates a DIF locally**, through its local legislative process: city or town council, or town meeting. No state approvals are required.

DIF funded projects can include public infrastructure such as roads and sewers, land acquisition, engineering and economic development plans, or workforce training.

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*DIF is not a new tax. It dedicates a portion of tax revenues generated by new development to help pay for public projects supporting that new development, such as streetscapes or wastewater treatment.*

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<sup>15</sup> For a complete list, please see the definition of Project Costs in the *Definitions* section, above.

## DIF and Economic Development

DIF can “play well with others.” It can be used alone or with other funding methods, to help a community realize a range of goals, from highly targeted single-site development, to revitalization of commerce in a transportation corridor or a downtown.

While capital projects are often the highest priority for a community when it first considers using DIF, activities that support economic development such as workforce training, promoting public events, advertising cultural, educational and commercial activities, and promoting public safety<sup>15</sup> can also be funded through DIF<sup>16</sup>. Since these costs are not usually eligible for either borrowing or grant funding, DIF can support numerous components of an economic development strategy.

DIF begins with a community’s economic development goals, which inform what is to be accomplished, and how community support may be obtained.

After a visioning or planning process, a community has established “What do we want?” but is often only beginning to understand “How will we get there?” The DIF Guide therefore provides tips and practices from communities that have implemented DIF.

### How DIF Generates and Captures Revenues

DIF enables a city or town to establish a funding stream for economic development activities that is linked to, and derived from, the results of economic development.

DIF sets up a process in which a municipality can **identify and capture tax revenues that result from new private investment in a specific area**, such as an expanding business or a new multifamily housing project. These tax revenues are generated by the increase in assessed

<sup>16</sup> These types of supporting costs are not usually eligible for inclusion in a tax-exempt bond issue and would be paid through Pay-as-You-Go.

value that results from the private investment, not from tax rate increases, special assessments, or real estate market factors.

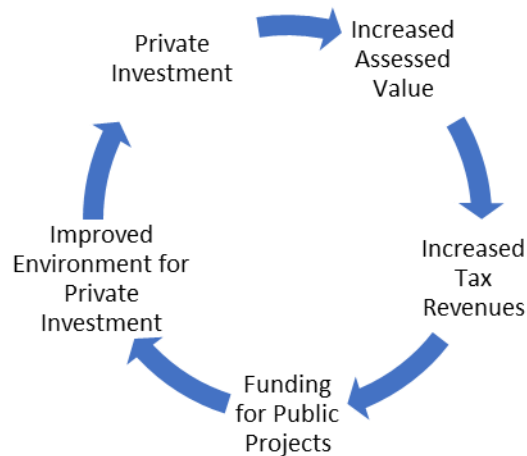
A municipality can then **direct this stream of incremental tax revenues toward public improvement and economic development projects**, which can range from critical infrastructure needs such as traffic mitigation to essential supporting activities such as planning studies or workforce training.

**The public investment drives private investment, which generates tax revenues to fund the public investment.**

*Example – Private Investment Generates DIF Revenue*

A single commercial parcel is currently assessed at \$3 million, in a municipality with a tax rate of \$19.95 per \$1,000 of assessed value. Each year it will contribute \$59,850 to the General Fund, if its value is not adjusted for market conditions and the tax rate does not change.

If the business owner expands, investing \$15 million in new facilities such as buildings and equipment, the parcel is assessed at \$13 million:



the original \$3 million, plus a \$10 million increase. The \$10 million increase is the value of the New Growth.

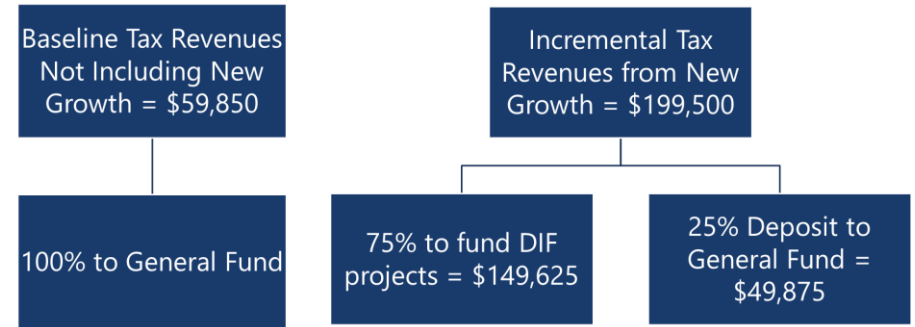
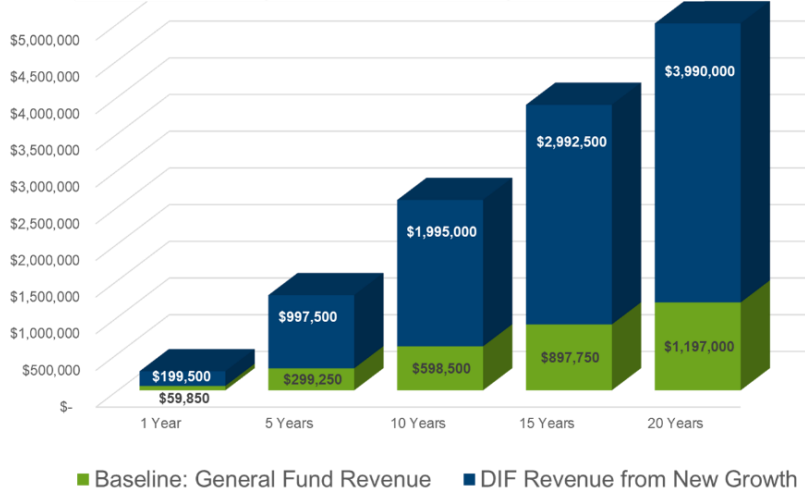
Tax revenues generated by the property will rise from \$59,850 to \$259,350 per year, if there are no tax rate increases or other increases in assessed value.

Parcel Value		Tax Revenue	Use of Tax Revenue
Original Assessed Value	\$3,000,000	\$59,850	General Fund
Assessed Value of New Growth	\$10,000,000	\$199,500	Development Program Fund Accounts
Total Parcel	\$13,000,000	\$259,350	

Over a period of 20 years, the annual tax revenues will provide a cumulative benefit to the General Fund of \$1,197,000, exactly what would happen if no new investment had been made. Because of the investment, and the use of DIF to capture the incremental revenue, after 20 years an additional \$3,990,000 becomes available to support projects in the DIF District. The bar chart below shows how DIF Revenues accumulate over time.



Cumulative Incremental Revenues with and without DIF Development Program and \$10 Million New Growth (Assumes same tax rate)



Each year, the General Fund will receive  $\$59,850 + \$49,875 = \$109,725$ . DIF projects will have available  $\$149,625$ .

*Tips and Practices*

- Deposits to Development Program Fund accounts may earn and retain interest, which can be applied to DIF projects.
- The DIF Statute allows transfers among accounts within a single Development Program Fund, as long as the Development Sinking Fund Account, from which any debt service is paid, can meet its obligations.
- If all obligations have been or can be met, a municipality may transfer money out of the Development Program Fund and into its General Fund. *However* a municipality may retain balances in the Development Program Fund against future expected costs that will be paid on DIF projects.

See also *Appendix A: Flow of Funds* for more detail on the statutory requirements for how DIF Revenues must be managed.

*Example – Tax Revenues for the General Fund and for DIF Projects*

The DIF Statute requires that a municipality state the percentage, formula, or method of determining the portion of incremental tax revenues from New Growth in the IRD that will be captured and deposited to the Development Program Fund. Up to 100% may be captured.

In the graphic at right, “Baseline Tax Revenues” from the IRD are \$59,850, based on the assessed value when DIF was established. This amount flows to the General Fund every year, and increases if the tax rate rises, or with a community-wide revaluation or other market factor.

The only tax revenues that are eligible to flow to DIF projects are from the \$199,500 per year from the New Growth. In this example, the municipality elects to capture 75% for DIF projects and deposit the remaining 25% to the General Fund, each year.

## Part 2: Using DIF in a Community

### I. Have a Plan for Growth

#### Why do this?

**DIF is an implementation tool: how and where to use it comes from a community's needs and goals.**

#### *Planning for Development*

Having an existing vision or strategic plan, either for the entire community or a single site, can jump-start a DIF process. Formal plans may identify areas for growth or targeted businesses to attract, and include specific actions to attract and support development that are eligible for DIF Revenues, such as infrastructure assessments, site readiness, or detailed studies for a targeted industry.

For municipalities that do not have existing plans, it is a good practice to undertake a process to evaluate desired development, critical infrastructure needs, other supporting needs such as studies and plans, and likely community support. The DIF Statute does not require a planning or public outreach process to identify projects, but communities that have a clear vision of what to accomplish have found it easier to build public support.

#### *If We Build It, What Will Come? DIF Market or Feasibility Studies*

Communities exploring the use of DIF should also have an understanding of the potential for new development. Where is the demand? Mixed-use? Commercial? Light industry? Multi-family or single-family housing? A market analysis with real estate information and trends can help to develop an understanding of development potential if a community does not already have this information. This may involve working with a consultant. Aside from ensuring compliance with procurement processes, some additional considerations for hiring a consultant are below:

- Understand the budget;
- Reach out to firms or use mechanisms to otherwise ensure there are multiple bids;
- Write a Request for Proposals (RFP) that is focused on the targeted district or neighborhood and that asks what could be developed there, not just in the community or region generally;
- Ask for a recommendation on whether DIF is likely to be effective in the potential district;
- Communicate a proposed timeline. Ensure there is time to evaluate any recommendation and, if DIF is suitable, to move forward through the local legislative process and assembly of a DIF plan.

A Request for Proposals issued by the Town of Easton is available at [www.MassDevelopment.com](http://www.MassDevelopment.com).

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*To make sure DIF would be effective for the Town of Easton's Five-Corners District, the Town issued an RFP for a feasibility study, including estimates of new development, potential tax revenues, and a market analysis.*

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## II. Understand what DIF Revenues Can Fund

### Why do this?

**Understanding what DIF Revenues can pay for is a critical step in determining how it may fit into a community's economic development goals and capital investment plans.**

### Eligible Projects

The DIF Statute includes definitions of Project Costs, as listed above in the *Definitions* section. Projects generally fall into three categories:

## TYPES OF INVESTMENT

Eligible Public Project Costs



### Capital & Workforce Investment

- Capital costs of public works in the district
- Water and sewer projects necessary for the district even if located outside
- Workforce training
- Financing costs



### Land & Leasing

- Land acquisition
- "Real property assembly" if community incurs a deficit on a sale or lease of property
- Relocation costs for occupants of a condemned parcel



### DIF Creation & Administration

- Community costs to create and administer the DIF
- Professional services and studies including environmental impact, planning
- "Improvement costs" such as public safety, advertising, public events, education, commercial activities

In addition to capital costs, such as water, sewer, or transportation infrastructure projects, DIF Revenues can be used for studies, workforce training, and administration. These spending categories are often essential to major projects but are not always eligible for tax-exempt financing or grants. DIF is therefore an economic development tool that works well with other grants and financing methods; it "plays well with others" because it can fund associated costs that other programs do not, providing revenue for Pay-as-You-Go<sup>17</sup> practices

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<sup>17</sup> Pay-as-You-Go refers to using current revenues to pay current project costs, compared with issuing debt.

DIF does *not* enable direct financial assistance to private entities, such as reduction of taxes, loans, or other subsidies. However, any financial assistance that a town or city may otherwise provide, such as Tax Increment Financing (TIF) as defined by Mass. Gen. Laws Ch. 59, can be used within a DIF District.

### Financing Mechanisms

If a project is eligible, it can be funded directly through Pay-as-You-Go each year, or financed with other sources such as General Obligation or Special Obligation bond proceeds, with DIF revenues used to repay some or all of the debt service and related costs. As with any financing decision, soliciting advice early on from a bond counsel or an independent municipal financial advisor is a best practice.

### Capital Mix

DIF Revenues can be combined with bond proceeds, grants, private contributions such as developer-funded projects, or other funds available to communities. Not all projects in a Development Program need to be eligible for all sources of funds if DIF is used in combination with other sources.

The *Capital Mix Estimator* is a tool created to help explore how different sources of funding can contribute to a project. It includes a five-year timeframe option to help identify gaps between expenditures and anticipated revenues. [www.MassDevelopment.com](http://www.MassDevelopment.com).

### Short Term and Gap Financing

Project Costs may be incurred before DIF Revenues are generated. It takes time for private projects to be completed, and for New Growth to generate DIF Revenues. For large private investment projects, or projects implemented in phases, this timeline may be extended. In

addition, grant funds are often not released until project milestones can be demonstrated.

Short term financing such as bond anticipation notes and capitalized interest may be necessary for a Financial Plan, just as they would be for other major projects. Appendix B includes descriptions of potential financing sources.

*Aerial photo of an area included in the Providence Highway DIF District in the Town of Dedham, showing a mix of commercial, residential, and green space*



### III. Establish a Timeline, Team, and Tasks

#### Why do this?

**Establishing and implementing a DIF requires adherence to local legislative processes, participation from municipal leadership and staff, and coordination of information for creating documents and revenue estimates. Communities successfully using this tool have frequently also undertaken public engagement to build support for the proposed development and public investment. All of these take time, organization, and communication.**

#### The Timeline

The DIF Statute does not establish timeframes, or require public hearings or other specific activities. It does require a vote of the legislative body and, where applicable for any other local legislation, the approval of an executive such as a Mayor.

It is therefore a best practice to frame out a timeline for DIF that reflects other local expectations. In addition to reviewing the local legislative calendar, past experience with development or public investment projects can be a start for planning the time and resources needed to establish DIF. For example:

- How long does it take the community to complete a planning process, for a project or a district?
- What types of outreach are typically used, and over what period? How much detail do elected officials wish to see?
- How many boards and committees are involved?

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<sup>18</sup> As described above in *Definitions*, the Base Date is the date on which assessed values are set, and tax revenues from New Growth after that date can become DIF Revenues. A Base Date is always the January 1 preceding the adoption of the IRD. Because of the assessment calendar, actual values may not be available until Fall of that calendar year. DIF may be adopted using

- What activities have been successful in introducing new ideas in the community, and how long have they taken?
- What proposed DIF projects already have community support?

If there are existing plans and public support for the anticipated new private development and/or public investment, implementing DIF may take only three to four months for a city or town council, four to six months for a town meeting.

If the municipality is just beginning to explore what might be accomplished with DIF, the greatest effort is likely to be around identifying public projects and visioning what new development would be desirable, and feasible. DIF could take a full year, especially if there is a town meeting form of government.

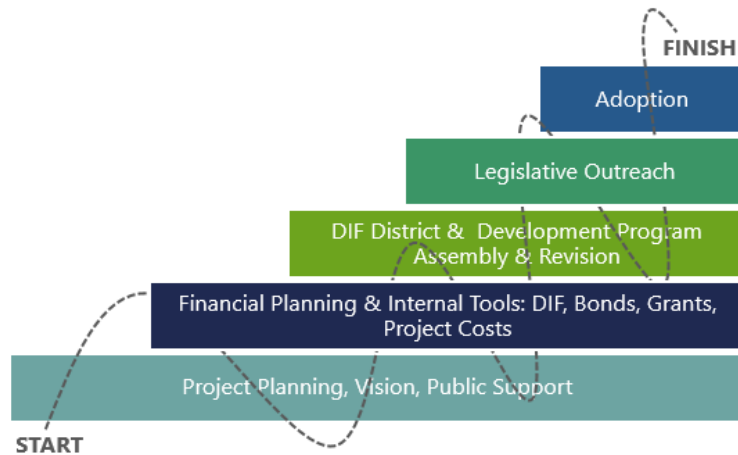
#### *Timeline Tips*

- “Think backwards” from the end goal, pay attention to interim steps, and allocate plenty of time for outreach and document preparation;
- Mark interim dates such as local public notice requirements, first readings, committees, and warrant deadlines;
- Review the local assessment calendar to determine when assessed values *as of the Base Date*<sup>18</sup> will be available. The municipality may need to adopt DIF using estimated values;
- Schedule outreach and education activities so that Selectmen or Council members are familiar with the plans and with DIF *before* they see it included in a warrant or ordinance;

estimated values. The Assessor’s Certification can then be completed and signed when final values are available. Where this is the case, it is a good practice to identify these values clearly as estimates and to indicate the date final values will be ready.



- Determine the date that a DIF report and warrant or ordinance must be provided to the local legislative body, based on local deadlines;
- Allow 4 to 6 weeks for drafting the DIF Report and reviewing revenue estimates. Assume there will be at least two drafts and meetings to review the document with the internal staff and key leadership, such as a Mayor or Town Manager;
- Be prepared to backtrack and revise along the way to ensure public support, tweak the DIF District boundaries, seek an additional funding stream for capital projects, etc. As shown in the graphic below, multiple tasks can proceed simultaneously.



### The Team and the Tasks

Assembling resources and internal and external partners early brings additional knowledge and allows time for the team to become familiar with DIF and the roles they will play as it comes together. Share a timeline early and solicit input on the schedule from the people who will be responsible for providing information, creating documents and financial estimates, and building support.

## CORE TEAM EXPERTISE



Economic Development



Property Assessment



Finance, Treasury, & Tax



Planning, Zoning, Code Enforcement, & Public Works

**Economic Development** staff oversee the preparation and implementation of strategies and visions; and often lead the DIF process, including preparation of legislation and the statutory requirements of DIF.

The **Assessor** or **Board of Assessors** can provide current property values and information about typical or past assessment increases resulting from private investment. This can help estimate future increases in assessed value and therefore the potential Tax Increment.

**Finance and/or Treasury** may directly prepare or provide input on the capital plan and financial plan, including revenue estimates and the Tax Increment from which DIF Revenues may be captured.

The **Department of Public Works and/or Engineering** can provide costs and descriptions for potential DIF projects or solicit advice from outside engineers or consultants as needed.

**Planning and Zoning** staff can advise on whether proposed new development conforms to current zoning, or whether changes should be considered. They can also share information about demand for new development and projects that are planned or underway which, if completed, will contribute to New Growth and therefore generate DIF Revenues.

### *Team Tips*

- Clearly identify leadership for ongoing activities to ensure the work is done on schedule. The group leader should be able to corral resources and manage multiple tasks. Some communities have tapped elected leaders or economic development and planning officials for this role. Others engaged third-parties, but effective local leadership is still needed.
- Determine up front who will perform each task, and with what resources. For staff, match tasks associated with DIF as closely as possible with existing responsibilities or schedules.
- Identify people who work on other community planning and strategy initiatives. For example, if DIF will be used to construct or renovate housing, bring in any staff involved in working with owners, potential residents, etc.
- Identify and reach out to any outside organizations, such as nonprofits, community groups, or highly engaged businesses, who can be invited to contribute. Local residents or businesses may be significantly affected by a project and need an opportunity for input.
- Deploy the team throughout the public engagement and legislative outreach process. Let stakeholders hear from team members with expertise in finance or public works.
- Add elected leaders, including legislative leaders such as Selectmen, to the team for specific activities such as public outreach.

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*The City of Taunton's redevelopment of the formerly state-owned Dever School needed several years, and two successive Mayoral administrations, to be completed. Keeping elected leadership engaged and supportive allowed the project to maintain its momentum. DIF was passed and new private businesses occupying the site are generating tax revenues and creating jobs.*

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### III. Identify a Target District Strategically

#### Why do this?

**DIF can be used for a highly targeted site such as an underused business park, or for a larger area such as a downtown or waterfront. Some communities will have many potential districts, so a process for evaluating a set of districts, the likely private development, and the public projects, can help reveal community priorities and identify areas where DIF is likely to be effective.**

#### Establish a Process for Proposing, Reviewing, and Revising

This is not a statutory requirement, but it is a best practice and has helped communities match their goals with their districts.

Use maps, information about current uses, expected market demand, and evaluations of what infrastructure is available.

- Invite internal and external stakeholders to share perspective on where growth is desired, and what projects (for example traffic mitigation) should be undertaken. Ask how public investment would attract private investment.
- Review a map of the community and identify specific sites (or groups of parcels) that are already experiencing demand for new building, and/or where the community wants to see targeted development.
- Identify parcels that are tax exempt, such as nonprofit facilities, parks or municipal facilities. If there is a concern that the proposed DIF Districts may approach 25% of the municipality's area, these can be excluded to save future capacity.
- Revise and refine. Unless the targeted area is already clearly defined, such as a business park, expect to create two or three drafts for review and discussion.

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*The Towns of Longmeadow and East Longmeadow sought to revitalize a business park that included parcels in both communities. The park's renewal was strategically important for jobs and community growth. They used DIF cooperatively to pay for infrastructure that will encourage new commercial uses.*

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#### Targeting Tips

- Aim for a good fit between the *what* (the potential projects) and the *where* (the proposed DIF District). The projects should have a clear connection to spurring growth in the proposed district.
- The DIF Statute does not require that parcels be contiguous, or connected. The DIF District could focus on a core area, such as a central business district, but also include parcels that may be physically separated.
- While not required by statute, it is a good practice to be able to describe a connection among parcels that (1) makes sense to stakeholders and elected officials, and (2) describes how public projects, such as infrastructure upgrades, will enhance community goals.
- Begin with the highest priority areas or projects and then add in more as discussions advance around the potential for development and public projects.
- Remember that DIF can be used multiple times in a community, as long as the total area in all of DIF Districts is not more than 25% of the town or city. Not everything has to be accomplished within one district.

## IV. Identify Projects and Seek Public Support

### Why do this?

**It is not unusual for legislators, businesses, and residents to be much more interested in the projects than in DIF itself, particularly if major capital improvements are planned. DIF is a tool; more questions are likely to be asked about how it will be used than about how it works.**

**In selecting projects, it is therefore important to think not just about physical needs, but about including projects with public support.**

The DIF Statute does not require that a municipality engage in any activities to build legislative and public support, but this will be important in order for the legislation to pass.

Including a project in the Development Program doesn't authorize spending, and projects that are not fully planned or approved can be included. *A municipality will still need to undertake its typical local spending and capital authorization procedures.*

Education about DIF is important, particularly for municipal leadership, but businesses and residents move very quickly to questions about the projects themselves, just as they would with any major public investment.

It is therefore a good practice to plan a DIF around projects that have existing public support, are already in the planning stages, or that would mitigate a clearly defined problem such as traffic or an underused commercial site.

### *Project Tips*

- Consider including public improvements already planned, and even already authorized. DIF Revenues don't have to pay for all project costs. They can offset betterments, reduce the use

of General Fund money to repay bonds, or contribute to the local share of a multi-jurisdictional project.

- If there is a "headline" project, use it as a centerpiece and then explore what additional, related projects could complement it. For example, a harbor or waterfront infrastructure project could increase tourism, and planning studies are eligible for DIF Revenues.
- Be expansive, and include longer term projects as well as must-have improvements. For a project to be funded with DIF Revenues it must be included in the Development Program. To add projects, the DIF Statute requires amending the Development Program through the same legislative process through which it was adopted.

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*Public outreach may be similar to how other community processes are conducted, such as presentations to boards and committees, mailing and emailing with updates to build momentum, and personal outreach to key individual landowners and businesses.*

*Think broadly about project capital needs: State and Federal representatives may help identify or secure additional funds, including grants.*

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## V. Put it Together

### How is the DIF documented?

**Communities who have already used DIF have prepared diverse forms of documents to communicate their intent and conform to the statutory requirements. The DIF Statute tells municipalities what components to adopt and what detail to include, but stops short of indicating how to put the information together, or even how it should be made publicly available. This can make document creation a challenge.**

One of the resources provided by MassDevelopment is a *DIF Template*, which incorporates the information required by the DIF Statute, and also presents narrative and supporting material telling the reader why the town or city is using DIF and how it is expected to promote the community's goals. The template also includes key information about DIF, such as *How DIF Works* from Part 1 of this *DIF Guide*, for readers who may be less familiar with the tool.

In order to document the DIF, a community must determine the timeframe, prepare the materials required by the DIF Statute, and address legislative adoption. They must also lay out a plan for the ongoing operation and management tasks after adoption. These tasks are all outlined below.

### Duration of the Development Program

There will likely be a lag of at least one year between the adoption of legislation and the availability of revenues. This is a result of the assessment calendar, not of the use of DIF. In Part I of this *DIF Guide*, the section *Components of DIF* presents a sample timetable to help the reader understand how DIF works. This timetable is reproduced here,

followed by a discussion of key factors in determining when to begin the Development Program. A Development Program may be in effect for thirty (30) years (or fewer), but municipalities may "start the clock" at either the date of adoption, or a later Project Stabilization<sup>19</sup> date. Choosing a start date that works with the community's capital plan, particularly if debt is to be issued, is important.

The following is a sample timetable based on a community's assessment calendar and fiscal years. Legislation may be adopted at any time of the year and November is shown as an example only.

1. November 15, 2019: Legislation is adopted to establish DIF, with a Base Date of January 1, 2019 for assessed values. The Original Assessed Value is established as of January 1, 2019.
2. January 1, 2020: Assessed values are determined for each parcel in the community as of this date, although actual new assessed values may not be finalized until later in the year. Increases to assessed value that are attributable to new private investment are identified for the entire community.<sup>20</sup> The Tax Increment is identified.
3. July 1, 2020 – June 30, 2021: First fiscal year in which tax revenues are collected using values established as of January 1, 2020. These are the first tax revenues from which a portion may be identified and captured through the use of DIF, and Fiscal Year 2021 is therefore the first Fiscal Year of the DIF.
4. July 1, 2021 – duration of the DIF: assessed values are determined each year and the Tax Increment is recalculated to reflect the cumulative impact of new private investment since

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<sup>19</sup> See the *Definitions* section, above, for a definition of Project Stabilization.

<sup>20</sup> Communities that have accepted Acts of 1989 Ch. 653, Amending Mass. Gen. Laws Ch. 59 § 2A (a), recognize increases to assessed value from new private investment that occur between January 2 and June 30 of each calendar

year as having occurred on January 1 of that same calendar year. A community using DIF will still follow this calendar for recognizing changes to assessed value.



the Base Date. Tax revenues generated from the Tax Increment are eligible for capture through the use of DIF.

If a community chooses to establish the Development Program as of the date of adoption of the legislation on November 1, 2019, the Development Program must end by October 31, 2049. Because revenues may not begin to be captured until after July 1, 2020, several months to a year may be “lost” from the duration of the Development Program because revenues are not eligible for capture. Similarly, if there is a planned private investment that is expected to provide a significant portion of DIF Revenues, but not for another two or three years, more time is “lost” because DIF Revenues started later.

Choosing a Project Stabilization date instead of the date of legislation allows communities to consider when DIF Revenues will become available, and to establish the Development Program using that date. It is also easier to make tax revenue calculations if the start date is the first day of a fiscal year.

In the example above, the first day of the first fiscal year in which revenues may be collected is July 1, 2020. If this is chosen as the Project Stabilization date, the Development Program can be in effect for thirty (30) full fiscal years, ending June 30, 2050. This ensures that there is no period of time during which the Development Program is “running the clock”, but not able to capture revenue.

When long term debt is to be issued, a later Project Stabilization date may be desirable so that the Development Program is in effect as long as bonds are outstanding. To select the Project Stabilization date, a municipality can identify the last fiscal year of debt service and count backwards. However, this may mean that in the very early years, the IRD does generate incremental tax revenue that could be captured but is not. In practice though, many IRDs are slow to generate DIF Revenues because private investment and recognition of New Growth take time and matching debt service may be a higher priority for the community.

## The DIF Template

A *DIF Template* has been created as part of the MassDevelopment suite of DIF resources to help communities understand and use DIF effectively. The template can be adopted and used by communities for passage of a DIF through their local legislative process. It is available at [www.MassDevelopment.com](http://www.MassDevelopment.com) and incorporates required information about the purpose and effects of the DIF, tables for capital project costs, and revenue estimates. It also outlines parcels to be included, descriptions of the DIF projects, and includes a section delineating the legislative steps undertaken to establish a DIF. The *DIF Template* is designed as a standalone document that includes all of the information required by the DIF Statute.

The *DIF Template* is accompanied by a *DIF Template Instructions Memo* that details how to use and customize the document.

The *DIF Template* is structured to gather and present the information required by the DIF Statute to be included in each of the four components of DIF, including the DIF District, IRD, Development Program, and IRDDP. Completing all of the questions and tables in the *DIF Template* should result in a document that can be incorporated into or appended to local legislation, according to the municipality’s regular legislative practices.

Once the planning activities described in the earlier sections of this *DIF Guide* have been completed, the municipality should have the materials needed for the *DIF Template*. It can be a good practice to begin to use the template early, entering information as it comes in and identifying gaps. The narrative about why the projects are important, for example, can be an early entry, while estimated revenues may be the last piece as constructing those will require more work to be completed first.

To establish a DIF and meet the statutory requirements, a community, through local legislation, must prepare the four components described above in *How DIF Works*. Each of these is included in the *DIF*

*Template*. Each is also listed below, with notes about the information or process.

**Define & Establish a DIF District**, which is a parcel, site, or area of the municipality (set of parcels) where DIF-funded projects will be implemented;

The DIF Statute does not specify how to present information about parcels. In the *DIF Template*, summary information is presented in the document, with room for attachments at the end. For each parcel, a unique identifier, the address, the use, and the assessed value is shown. There is also an indicator if the parcel is in an existing special district that affects tax revenues. The intention is to make it clear which parcels are affected and how they are currently used. The assessed values are totaled later to create estimates of tax revenue.

**Establish an Invested Revenue District (IRD)** to identify the part of the DIF District from which incremental new tax revenues, or DIF Revenues,<sup>21</sup> will be captured. The IRD can encompass the entire DIF District or it can be a set of parcels wholly within it.

For municipalities where the entire DIF District is also the IRD, it is sufficient to note this in the text. A second parcel list would not be necessary. If the IRD does not encompass all of the parcels in the DIF District, the same table can be expanded with a column noting which are in the IRD and which are not. Separate totals will be needed.

*Base Date*: The Base Date is defined by the DIF Statue and will always be the January 1 immediately before creation of the DIF District. On or after the date that the IRD is established,

the Assessor will certify the Original Assessed Value of the taxable parcels in the IRD *as of the Base Date*. New Growth after this Base Date is the New Growth that generates the incremental tax revenue that may be captured as DIF Revenues.

**Adopt a Development Program**,<sup>22</sup> which includes:

1. Statement of Means and Objectives, meaning the plans and goals for the DIF District, describing how the proposed projects will benefit the community and achieve the goals;

This can be a few short sentences or a lengthy description. The *DIF Template* indicates where the text is useful, and enables attachments such as previous plans or reports.

2. Descriptions of the projects to be implemented in support of the economic development goals for the DIF District, including estimated costs;

A table is included in the *DIF Template*, but brief narrative is encouraged to provide more detail and help the reader understand what will actually take place. For example, "sewer cost" might be in the table with an *estimated* cost, but a sentence or two about where and what is useful.

3. Financial, or Capital Plan, identifying sources of funds anticipated to pay for the projects, including but not limited to DIF Revenues, grants, and plans for the use of debt;

This is similar to the project table in the *DIF Template*, but is set up to allow the user to indicate *anticipated* sources of funds. For example, a grant may be pending but the amount unknown, so a check mark in that column is informative. This

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<sup>21</sup> See the *Definitions* section, above, for a definition of DIF Revenues.

<sup>22</sup> See the *Definitions* section, above, for the statutory definition of Development Program.

is a good place to show which projects are expected to be funded with bond proceeds.

The DIF Statute requires that a municipality state whether it will use General Obligation OR Special Obligation bonds. Choose the one most likely to be implemented, even if borrowing is not part of the capital plan. A maximum debt amount is established to satisfy the requirement that the Financial Plan state the amount of indebtedness to be incurred.

See *Appendix B: General Obligation and Special Obligation Bonds* for more information about these forms of debt.

4. Information about how projects in the Development Program will affect the area, such as descriptions of the uses of private property, relocation plans for any displaced persons, or transportation regulations.

The DIF Statute requires that certain impacts, for example on housing, if any, be described. The *DIF Template* includes sample language for each and provides space for additional information where needed.

5. Proposed operation of the district after improvements are completed (required) and the designation of an entity that will be responsible for the operation and management of the DIF District and Development Program (optional) after adoption.

The DIF Statute does not define the requirements or structure of a plan for operating the DIF components. Some communities that have used DIF have managed it with internal staff. The DIF Statute does allow the municipality to designate another entity to manage DIF operations, and, in at least one community, a local development nonprofit has been designated.

The *DIF Template* includes guidance for the creation of an optional DIF Advisory Committee assembled from staff, with

other expertise available. This is optional, but it is a good practice to establish authority for communication and reporting to legislative leaders, and to ensure that critical tasks such as the annual Assessor's Certification, and maintaining the required accounts, are performed.

6. Duration and start of the Development Program, which must be thirty (30) years or fewer, beginning either as of the date of legislative adoption of the DIF District, or the Project Stabilization date chosen by the municipality.

Key factors in determining the start date are discussed above in Section V, in *Duration of the Development Program*. The *DIF Template* cues the user for start and end dates to demonstrate conformance with the thirty-year maximum.

#### **Adopt an Invested Revenue District Development Program (IRDDP)** that describes how DIF revenues will be used. The IRDDP:

1. Estimates revenues and compares expected tax revenues with and without the proposed DIF.

These estimates compare what can be considered a "baseline" or low-growth scenario, with a higher-growth scenario expected because the public investments will encourage New Growth.

The value of New Growth may be estimated based on similar developments in recent years, expectations for new projects, and discussions with the Assessor.

A sample table is shown in the *DIF Template*. It shows the comparison, the estimated amount of incremental

tax revenues available from New Growth in the IRD, and the expected amount to be captured as DIF Revenues.

2. Establishes the method for calculating the incremental revenues that will be captured and designated as DIF Revenues. A municipality may capture up to 100% of the DIF Revenues. If a lower percentage is captured, the remainder flows to the General Fund. A municipality may determine a percentage of revenues, a specific dollar amount, or a formula for calculating the revenues to be captured.

A table is included with the *DIF Template* to show the choice(s) the municipality has made.

3. Establishes a Development Program Fund, a Development Program Sinking Fund Account (if debt is issued), and Project Cost Count. The DIF Statute governs the priority and flow of funds through the accounts that must be established, and how unused DIF revenues may be returned to the General Fund.

The *DIF Template* includes a graphic of the flow of funds and descriptive language.

4. Requires the city or town Assessor to certify the Original Assessed Value of the IRD as of the Base Date, which is last assessment prior to adopting the IRD. Each subsequent year, the Assessor must certify the amount of Tax Increment, or New Growth.<sup>23</sup>

Appended to the *DIF Template* are sample templates for these certifications, that should be reviewed by the Assessor and revised according to each municipality's needs.

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<sup>23</sup> Please see the *Definitions*, above, for the exact statutory definition of Tax Increment, and a discussion of the use of the term New Growth.

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*As companions to this DIF Guide, a series of three Webinars and a DIF Template provide more detail about the requirements for establishing and managing a DIF District.*

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## Prepare and Enact Legislation

The DIF Statute states that "any city or town by vote of its town meeting, town council or city council with the approval of the mayor where required by law may designate development districts within the boundaries of the city or town"<sup>24</sup>, but it does not set forth specific language or the form of the legislation that is required.

The DIF Statute also does not specify public hearings, committee meetings, or other processes through which a municipality might seek public and legislative input prior to a vote on legislation.

### *Tips and Existing Practices*

- Follow the municipality's existing practices: Some municipalities have prepared short legislative items, such as Warrant Articles, that reference a prepared document or report that meets the statutory requirements of the DIF Statute, while others have incorporated portions of such documents or prepared separate descriptive narrative as part of their legislation.
- Solicit a recommendation from a board or committee that usually oversees financial undertakings. Provide a draft for their input and discuss it at a regularly-scheduled board or

<sup>24</sup> Mass. Gen. Laws Ch. 40Q §2(a)

committee meetings a few weeks in advance of the final legislative vote.

- See Part III, *Establish a Timeline, Team, and Tasks*, above, for ideas about public outreach, and plan to discuss DIF and DIF projects with legislators and community stakeholders in order to build support in advance of a vote.
- Expect strong interest in capital projects and spending. While enacting DIF does not authorize spending, the projects frequently attract the most attention.

## Ongoing Management

As described above in the requirements for the Development Program, a municipality must plan for ongoing management and operation after the improvement projects are complete<sup>25</sup>, but is not specific about the tasks or responsibilities, except for requiring an annual certification by the Assessor of the Tax Increment, or incremental increases to assessed values in the IRD.

The DIF Statute also does not require annual reporting to the State or any agencies of the State about the project outcomes or revenue performance of the DIF District, IRD, Development Program, or IRDDP.

As a good practice, communities should maintain oversight and internal reporting activities so that local leaders can evaluate DIF performance. Since DIF can be used multiple times in one municipality,

a successful implementation can lead to further use to the benefit of the community.

The *DIF Template* includes provisions to establish an optional DIF Advisory Committee which can undertake ongoing management tasks, including:

- Required by the DIF Statute The Assessor annually certifies the amount of Tax Increment adjustment to the levy, or New Growth, from parcels in the DIF District.
- Finance or Treasury staff collect tax revenues according to the processes established for the entire municipality. Amounts attributable to the New Growth in the IRD, are identified as DIF Revenues according to the method established in the IRDDP.
- Finance or Treasury staff deposit the DIF Revenues into the Development Program Fund and then into either the Development Sinking Fund Account or the Project Cost Account, or both;<sup>26</sup> and
- DIF Revenues in the Development Program Fund may be drawn down for debt service or to pay Project Costs directly, according to the Financial Plan set forth in the IRDDP.

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*DIF can be very straightforward if there is a large new investment coming to the municipality. The City of Amesbury had a clearly defined private investment and an infrastructure project in a targeted area that enabled the City to tell a clear story about the advantages of DIF. They adopted a DIF District and Development Program in early 2019.*

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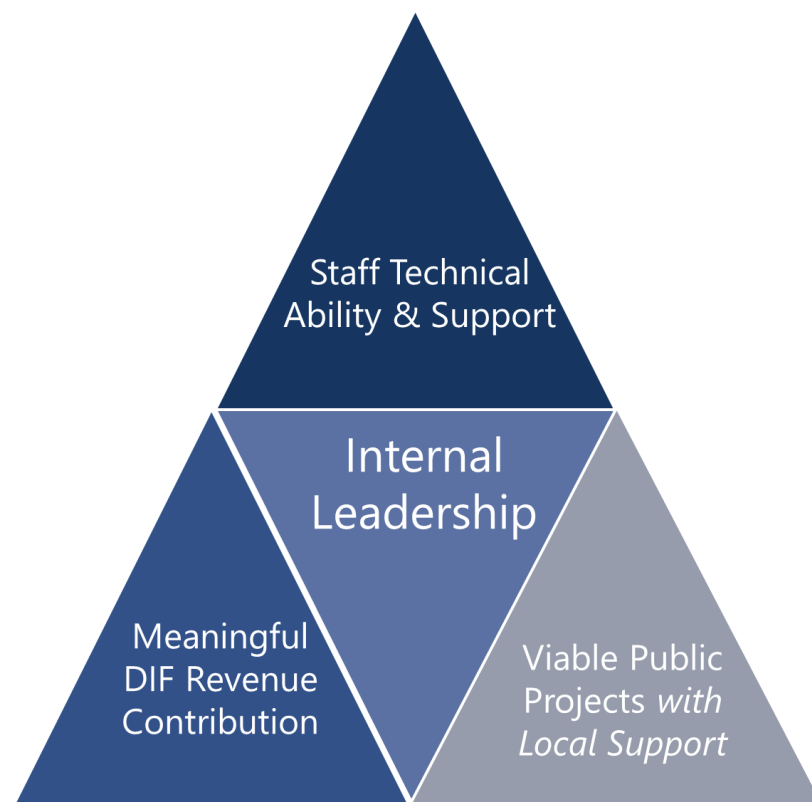
<sup>25</sup> This is the statutory requirement. It is a good practice to have a plan in place when DIF is adopted, to oversee project progress and to report to municipal leadership on DIF performance.

<sup>26</sup> A chart and description of the flow of funds, as required by the DIF Statute, is included as Appendix B.

### *Tips and Existing Practices*

- Match ongoing tasks related to DIF with existing responsibilities to lessen workload. For example, an Assessor evaluates New Growth for all parcels, so identifying New Growth in the DIF may be done using existing spreadsheets or databases.
- Include all of the accounts in the Development Program Fund in the municipality's annual fiscal audit, as would be done with any other enterprise funds or dedicated accounts.
- Track actual New Growth, incremental tax revenues, and DIF Revenues and compare each to the estimates on an annual basis to assess performance.
- Prepare periodic reports for elected leaders on a regular schedule. Information may include the progress of public improvement projects, value of New Growth, information about specific new private investment, and evaluation of how actual DIF Revenues compare to the original estimates.

## Contributors to Success with DIF





**City of Amesbury**  
**City of Brockton**  
**City of Quincy**  
**City of Somerville**  
**City of Springfield**  
**City of Taunton**  
**City of Worcester**  
**Town of Agawam**  
**Town of Athol**  
**Town of Dedham**  
**Town of Easton**  
**Towns of Longmeadow & East Longmeadow,  
cooperatively**  
**Town of Nantucket**

## **Conclusion**

### Determining if DIF is the Right Tool

The intention of this document has been to lay out the DIF planning and adoption process to assist communities in determining whether DIF will work for specific municipal goals. Establishing a DIF District requires staff time, stakeholder input, and attention to detail. Whether to create a DIF is a local decision to weigh against the community's unique set of needs for economic development.

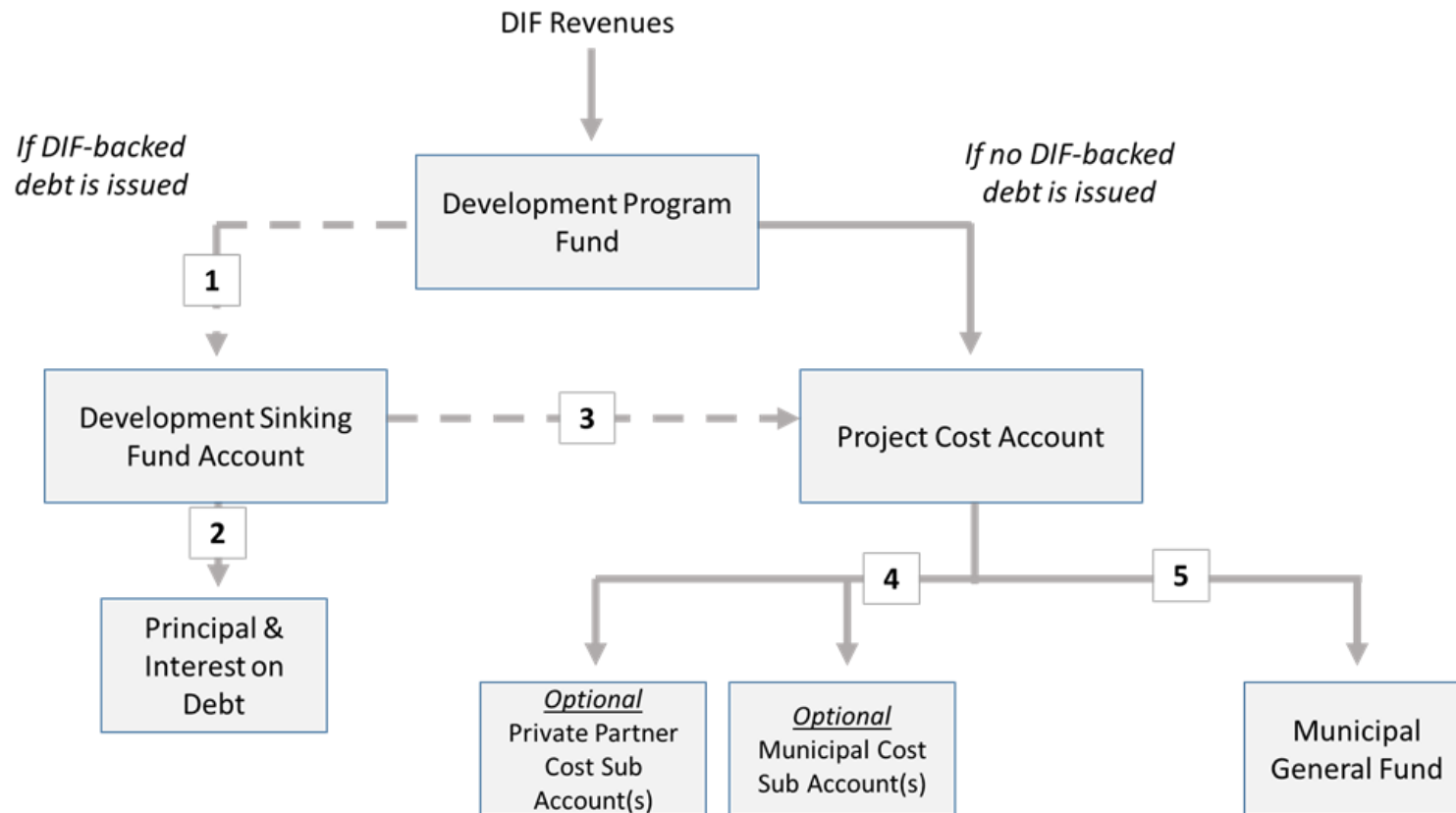
More than a dozen towns and cities are already using DIF, or are in the process of establishing a DIF District and IRD and accompanying Development Program and IRDDP. They include communities large and small from all around the state and have chosen DIF for distinctive and place-specific reasons.

Additional resources about DIF are available at [www.MassDevelopment.com](http://www.MassDevelopment.com).

## Appendix A: Flow of Funds

The Financial Plan establishes a Development Program Fund, a Development Sinking Fund Account, and a Project Cost Account, as required by the DIF Statute. The priority of the deposit of DIF Revenues into the accounts is established by the DIF Statute and is shown in the graphic below and described in the narrative that follows.

The municipality may return to the General Fund any DIF Revenues in excess of the amount estimated to be required to satisfy the obligations of the Development Program Fund and accounts.



*Funds and Accounts Required by the DIF Statute<sup>27</sup>*

*Development Program Fund*

The Development Fund will include (1) a Project Cost Account that is pledged to and charged with the payment of project costs that are outlined in the Financial Plan; and (2) in instances of indebtedness issued by the municipality to finance or refinance Project Costs, and to which DIF Revenues have been pledged as a source of repayment, a Development Sinking Fund Account.

DIF Revenues shall be deposited first to the Development Program Fund and then to the:

*Development Sinking Fund Account*

For as long as any municipal indebtedness to which DIF Revenues are pledged is outstanding, to the Development Sinking Fund Account in amounts sufficient to make payments in the amount of the pledge, on any such debt issued by the municipality to finance or refinance Project Costs, including the following: (ii) payment of the costs of providing or reimbursing any provider of any guarantee, letter of credit, policy of bond insurance or other credit enhancement device used to secure payment of debt service on any such indebtedness; and (iii) funding any required reserve fund, and otherwise to the:

*Project Cost Account*

The Project Cost Account that is pledged to and charged with the payment of project costs as outlined in the Financial Plan.

*Optional Accounts to Facilitate Management and Payment<sup>28</sup>*

The municipality may from time to time establish subaccounts within the Project Cost Account which may consist of (1) one or more Private Partner Cost Sub Accounts (the Private Partner Cost Sub Accounts) pledged to and charged with payment of the costs of payments or

reimbursement consistent with each approved public/private partnership agreement, if any, and (2) one or more Municipal Cost Sub Accounts (the Municipal Cost Sub Accounts) pledged to and charged with the payment of the municipality's project costs. DIF Revenues deposited to the Project Cost Account will be transferred first to the Private Partner Cost Sub Accounts, if any, and then to the Municipal Cost Sub Accounts.

*Private Partner Cost Sub Accounts*

Should the municipality enter into any public/private partnership agreements in which DIF Revenues are made available through a contractual agreement with a private entity, in which that private entity undertakes the implementation of a project in this Development Program, a Private Partner Cost Sub Account will be established by that agreement. Amounts to be paid to the private entity under the agreement will be deposited into the Private Partner Cost Sub Account and payments to the private entity will be made from the Private Partner Cost Sub Account established by that agreement. The municipality's obligation to make a periodic payment under any agreement will only arise to the extent the municipality receives incremental real property tax revenue (the DIF Revenues) from properties in the Invested Revenue District. In any agreement, the municipality shall not obligate itself to make payments without receiving DIF Revenues. Furthermore, according to the terms of any such contracts, the municipality is not obligated to make payments if the private partner does not fulfill its obligations under the contract.

*Municipal Cost Sub Accounts*

Deposits to any Municipal Cost Sub Accounts will be made after the municipality makes contractual payments pursuant

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<sup>27</sup> For exact statutory language see Mass. Gen. Laws Ch. 40Q §3 (1)

<sup>28</sup> The optional accounts are suggested as a good practice and are not required by the DIF Statute.

to any public/private partnership agreements. Expenditures for public facilities, improvements, and programs (i.e., any expenditures of DIF Revenues for purposes other than public/private partnership agreements) will be made by payments from the Municipal Cost Sub Accounts.

#### *General Fund*

The municipality may return to the General Fund DIF Revenues in excess of the amount estimated to be required to satisfy the obligations of the Development Sinking Fund Account.

The municipality may make transfers between Development Program Fund accounts, provided that the transfers do not result in a balance in the Development Sinking Fund Account that is insufficient to cover the annual obligations of that account.

## Appendix B: Bonds and Other Potential Funding Sources

Various forms of borrowing that are available to a municipality are also available when using DIF, such as long term bonds, Bond Anticipation Notes or participation in specialized financing programs.

*It is critical for a municipality to consult with an independent municipal advisor or bond counsel when contemplating issuing DIF supported debt so that the pros and cons can be weighed, including potential credit rating and short/long-term fiscal impact.*

Using DIF Revenues to repay debt can enable greater flexibility when structuring debt, including:

- ✓ Debt service payments can be structured to match projected cash flows, including deferring principal, capitalizing interest, or mirroring the forecasted revenue stream with an ascending debt service schedule.

Bonds issued under Chapter 40Q are not included when determining a community's debt limit. A General Obligation Bond (G.O. Bond) is a debt instrument issued by a state or local government that is payable from General Funds of the issuer. Most G.O. Bonds are said to entail the full faith and credit and taxing power of the issuer.

Communities can issue G.O. Bonds to secure funding for infrastructure projects that are included in a Development Program. DIF Revenues then become available to pay debt service, relieving the General Fund.

It is important to remember that DIF Revenues are not guaranteed, but G.O. Bonds are an obligation of the community regardless of the performance of the DIF. General Fund or other revenues must therefore be used to pay all G.O. Bond obligations if DIF Revenues are not sufficient. Depending on revenue estimates and project costs, it

can be a good practice to communicate that DIF will *contribute to* rather than *pay for* projects.

### *Special Obligation Bonds*

Communities can issue Special Obligation Bonds secured by expected DIF Revenues. Unlike a G.O. Bond, which pledges the full faith and credit of a municipality, the Special Obligation Bonds may be secured solely by DIF Revenues. A Special Obligation Bond may be appropriate when there is a private developer that has a project planned in the area that will utilize the improvements being financed by the Development Program. The Special Obligation Bonds will probably bear a higher interest rate than if the municipality issued G.O. Bonds.

Special Obligation Bonds could also be issued using a special assessment on a developer as the primary security for the bonds, through the Local Infrastructure Development Program, or 23L<sup>29</sup>. A DIF could be established with the associated revenues acting as a "back stop" to the 23L revenues. Or vice-versa, with DIF Revenues being the primary security with special assessments levied on a development in the event of a shortfall.

MassDevelopment is a conduit issuer of Special Obligation Bonds and could provide support in bringing the financing to market.

### *Capitalized Interest*

Capitalized Interest is defined by the Municipal Securities Rulemaking Board as "A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-

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<sup>29</sup> Mass. Gen. Laws Ch. 23L. See also "Bond Financing" at [www.MassDevelopment.com](http://www.MassDevelopment.com).

producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues. Capitalized interest is sometimes referred to as “funded interest.”<sup>30</sup>

Capitalized Interest can be used to improve the match between the timing of DIF Revenues and debt service on a bond issue.

#### *Bond Anticipation Notes (BANs)*

BANs are notes issued by a governmental unit, usually for capital projects, that are repaid from the proceeds of the issuance of long-term bonds. They may be used as interim financing, as for other municipal capital projects.

#### *Infrastructure Investment Incentive Program (I-Cubed)*

St. 2006, c. 293, §§ 5 through 12, as amended creates the I-Cubed Program. The concept behind this financing program is that new state tax revenues generated from the private economic development project will cover the costs of the public infrastructure improvements needed to support the project.

The investment in public infrastructure is financed through bonds issued by MassDevelopment with the debt service on the bonds

payable from contract assistance payments secured by a general obligation pledge of the Commonwealth. A cost and risk sharing agreement is arranged between the Commonwealth, the municipality, and the private developer.

#### *Local Infrastructure Development Program (23-L)*

Pursuant to Mass. Gen. Laws Chap. 23L, this program provides special assessment financing (through MassDevelopment) for public infrastructure improvements. Landowners in the district benefited by the financed public infrastructure improvements pay debt service through special assessments on parcels that stay in place if the property is sold. The program shifts the burden for public infrastructure improvements to the private sector. Landowner consent is required.

#### *State Revolving Fund (SRF) Loan Program*

The Commonwealth of Massachusetts State Revolving Fund (SRF) offers affordable loan options to cities and towns to help protect their clean water and drinking water.

Sources: Municipal Securities Rulemaking Board (MSRB), MassDevelopment, and Commonwealth of Massachusetts Division of Municipal Services

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<sup>30</sup> Municipal Securities Rulemaking Board *Glossary of Municipal Securities Terms*, “Capitalized Interest.” [www.msrb.org/glossary](http://www.msrb.org/glossary)



