



DIF 201: DISTRICT IMPROVEMENT FINANCING FINANCIAL PLAN

GOAL OF THIS WEBINAR

Provide communities with an understanding of the Financial Plan component of a DIF District and Development Program:

Identify what information must and should be included in a Financial Plan report; and

Share recommendations for creating estimates, capturing revenues, and preparing for contingencies.



SYLLABUS


1. DIF District and Development Program Review
2. Review of DIF 101 and DIF 102 Success Factors
3. The Financial Plan
4. Tips and Recommendations
5. Questions

REVIEW – DIF DEFINED

“DIF” means District Improvement Financing

- Massachusetts General Laws Chapter 40Q
- Amended allow local approval without state review
- Enables communities to pledge future tax revenues from a designated area to planned economic development projects
- Multiple DIF projects are allowed but the area of all DIF Districts combined cannot exceed 25% of community area
- Maximum term is 30 years

REVIEW - HOW DIF PAYS FOR ECONOMIC DEVELOPMENT



Communicates that a district is targeted for growth, and states a community's goals

Attracts new private investment by improving the district with infrastructure, and initiatives such as workforce training

Captures new tax revenues from the New Growth and makes them available to fund the projects that drive growth

SUCCESS FACTORS

Local support is critical

The approval process can be time consuming, but don't overlook public engagement

Understand the role and framework of the DIF Report

Use it as a communication tool for important audiences

Let the projects drive

A good fit among what you're planning and where, and the expected outcomes, is key

Create your Report as you go

Expect to update and revise – don't wait for complete information

THE FINANCIAL PLAN

PURPOSE OF THE FINANCIAL PLAN

Goal:

Present a clear statement of *estimated* project costs, anticipated sources of capital, estimated tax increment revenues to be generated and captured, and effects on other taxing jurisdictions

It:

- *Must* meet statutory requirements for content
- *Should* be readily understood by elected officials & stakeholders
- *Should* lay out how tax increment revenues will be handled and how DIF performance will be measured over time

DIF
DISTRICT
&
INVESTED
REVENUE
DISTRICT (IRD)

Each District Establishes the “Where”

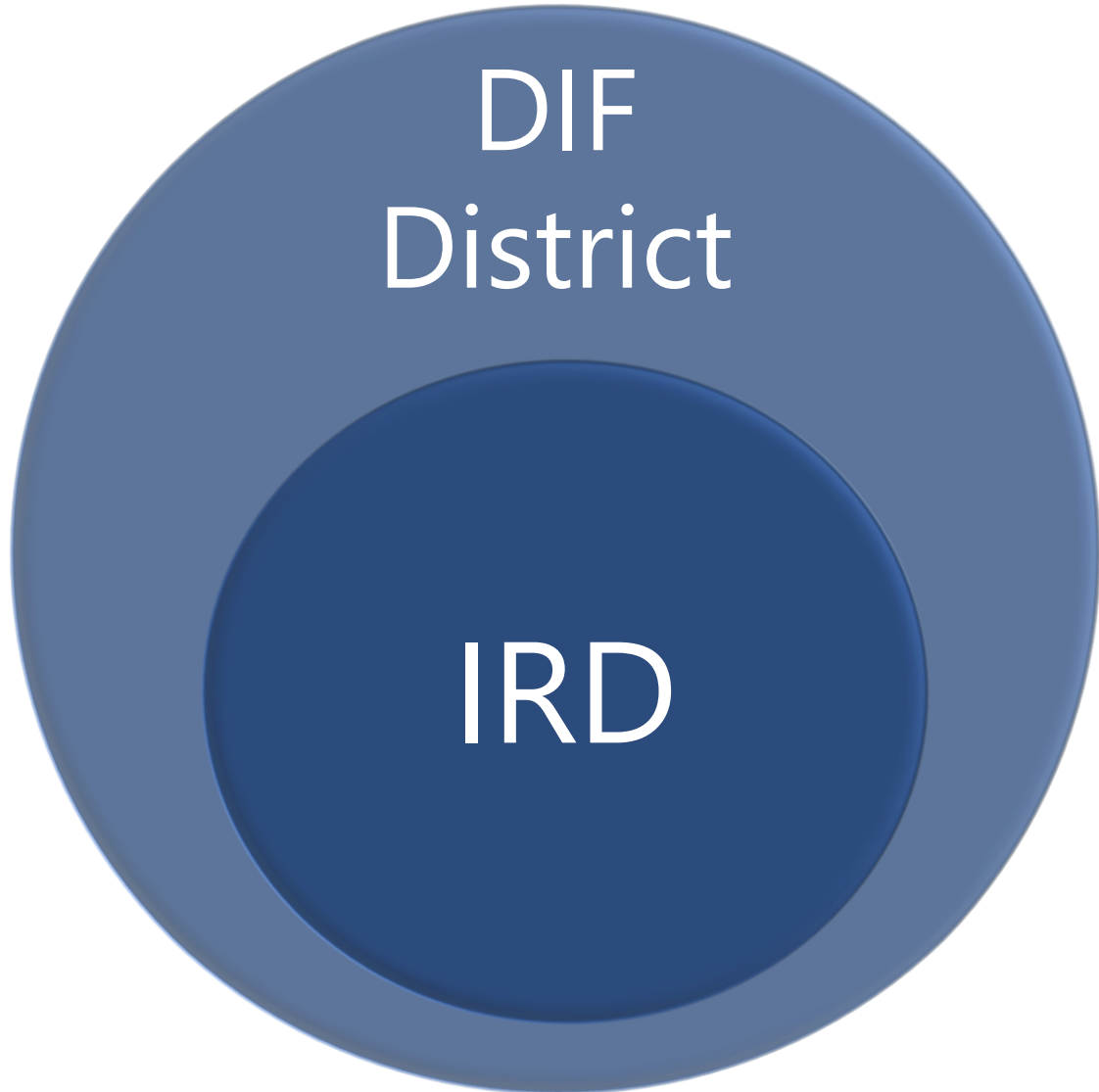
- **DIF District = where projects will be implemented**
- **IRD = where the Tax Increment will be captured to fund DIF District projects**
- **IRD does not need to include entire DIF District but must be *within* it**

DEVELOPMENT
PROGRAM
&
INVESTED
REVENUE
DISTRICT
DEVELOPMENT
PROGRAM
(IRDDP)

What you're doing and how you're paying

- **Development Program lays out the plan to create projects in the DIF District = goals, projects, broad financial plan, operation & maintenance**
- **IRDDP adds a more detailed financial plan, with revenue estimates, debt expectations, & impacts on other jurisdictions (if any)**
- **IRDDP should be a *component* of your Development Program**

REVENUE...



AND PLANNING



REQUIRED



Invested
Revenue
District

FINANCIAL PLAN ELEMENTS

- Boundaries and parcels that will have Tax Increment revenue captured based on New Growth
- Can be the entire DIF District or a smaller portion
- Must have Original Assessed Value as of Base Date certified by the assessor
 - Base Date defined as the last assessment date prior to the creation of the IRD

Tip: The IRD can be established with the DIF District in advance of the Development Program & Financial Plan to capture more New Growth.

REQUIRED



Capital Plan

FINANCIAL PLAN ELEMENTS

- Cost estimates for projects in the Development Program
- Amount and type of indebtedness to be incurred that will have DIF Revenues dedicated toward repayment: General Obligation or Special Obligation Bonds
- Other anticipated sources of capital such as grants, pay-as-you-go

Tip: These elements are required by statute. How you present them affects stakeholder understanding.

SAMPLE SOURCES OF CAPITAL

Non-local taxpayers



IRD Parcels with New Growth and Tax Increment



All taxpayers or ratepayers in municipality



Project Name	Type of Work	Cost Estimate	Grant	DIF Pay as You Go	Bond Proceeds (DIF Revenue + G.O.)	General or Enterprise Fund
Washington St. Rebuild	Roadway	\$8,500,000	\$1,200,000	\$0	\$7,300,000	\$0
Washington Streetscape	Streetscape	\$1,500,000	\$100,000	\$1,000,000	\$0	\$400,000
Storm-water Storage	Sewer	\$5,500,000	\$500,000		\$5,000,000	Sewer as needed
Public Safety	Public Safety	\$750,000	\$0	\$750,000	\$0	General as needed
		\$16,250,000	\$1,800,000	\$1,750,000	\$12,300,000	\$400,000

REQUIRED



Estimated tax revenues

FINANCIAL PLAN ELEMENTS

- Estimated tax revenues to be derived from the IRD
- Projection of tax revenues that would be derived from the IRD if no Development Program were implemented
- Statement of the percentage of the tax increment revenue to be captured – can be a specific percentage (e.g. 75%) or a formula for determining the percentage
- Statement of the estimated impact on all taxing jurisdictions in the district

Tip: Your actual project costs and DIF revenues may require adjustments to your captured percentage.

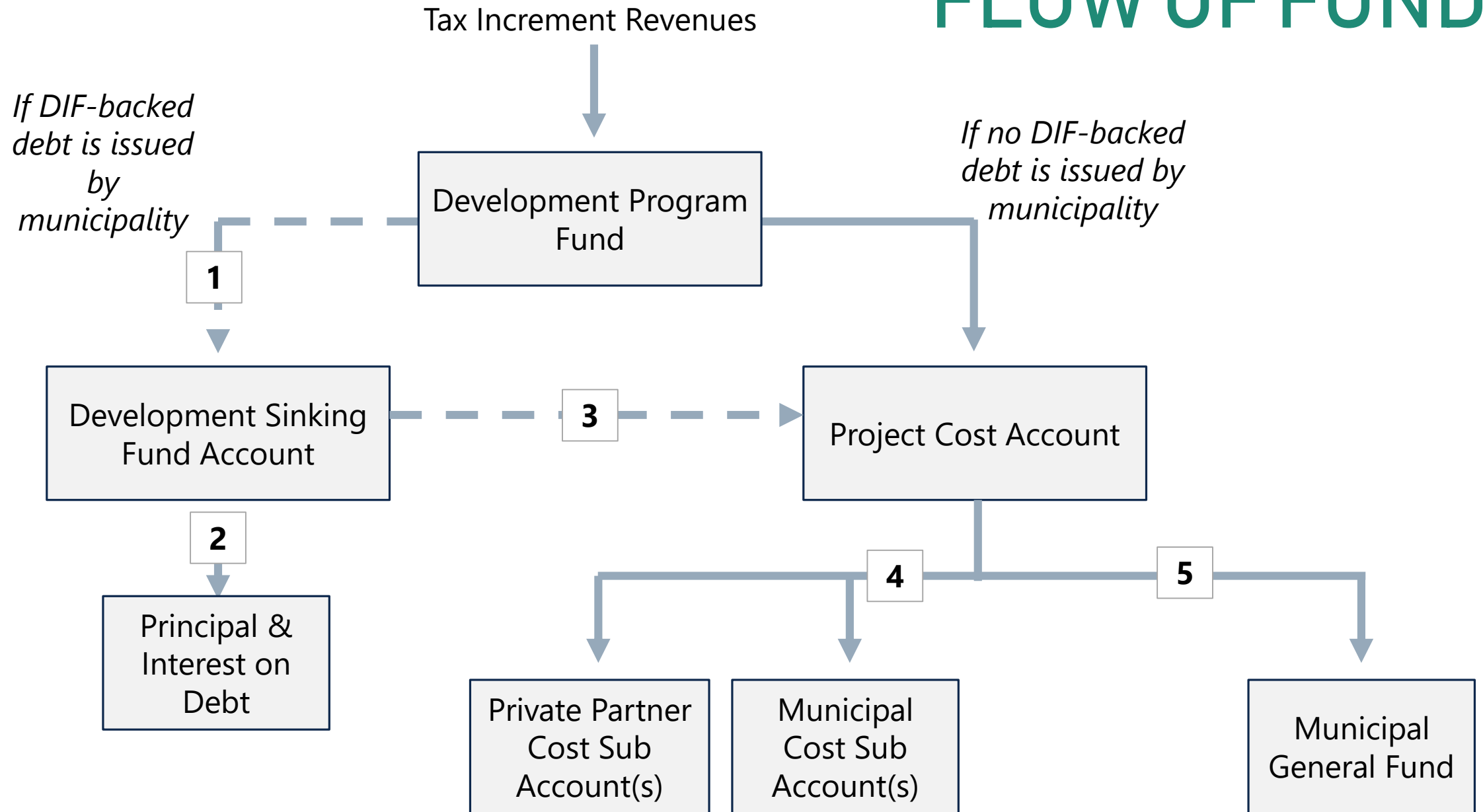


Management of Funds

FINANCIAL PLAN ELEMENTS

- DIF Statute lays out a flow of funds for Tax Increment Revenues (DIF Revenues) – include it to tell readers about the priority of claims on DIF Revenue
- DIF Advisory Committee or ongoing management team should have the necessary expertise to calculate revenue and manage accounts – describe members and processes
- Annually – DIF Statute *requires* that the assessor certify the amount of New Growth and the Tax Increment
- Annually – DIF Statute *requires* that excess revenue be returned to the General Fund. You define “excess.”

FLOW OF FUNDS



TIPS AND RECOMMENDATIONS

KNOW YOUR AUDIENCE

- ☑ The Financial Plan tells how you are going to pay for your Development Program

It's not just tables of numbers – mix text and tables in the body and put large schedules, such as anticipated tax revenues with and without DIF, in an attachment

- ☑ Your report will be read by elected officials, residents, businesses, potential investors in new or expanded businesses, and by potential bond buyers if you issue debt

Satisfy the statutory requirements but make sure you include the additional information these stakeholders will need to support – and invest in – your Development Program

QUESTIONS TO EXPECT

Will properties in the DIF be taxed at a higher rate?

No – DIF does not change tax rates and it is not a new tax or special assessment.

If a property's assessed value rises because of New Growth, it will have a higher tax bill because the property is now more valuable.

Will tax rates need to grow to compensate for revenue lost to DIF?

No – DIF only captures tax revenues *you didn't have before*.

Existing tax revenue is not "lost" to DIF and still flows to the General Fund.

TAILOR YOUR CAPTURED INCREMENT

- ☑ Estimate annual aggregate project costs
- ☑ Subtract outside sources such as grants that do not require local funds
- ☑ Estimate the *expected assessed value* of New Growth – *not the investment amount*
- ☑ Project the annual DIF Revenues assuming 100% is captured for projects
- ☑ Subtract the captured DIF Revenues from your projected needs. Are there excess revenues or is there a funding gap? Adjust your captured percentage.
- ☑ NOTE: Amendments to your Development Program and Financial Plan must be adopted using the same method as the original plans.
If you know amending the plans will be challenging, consider using a formula.

SAMPLE CAPTURE EXERCISE 1

Assessed Value of New Growth: \$25,000,000

Tax Rate: 25.00

New Growth doesn't support annual project costs → identify additional sources of funds

Fiscal Year	Project Costs	Grant Receipts	Local Need (Costs – Receipts)	Tax Increment Revenues at 100%	Excess/ (Gap)	Capture %
2019	\$500,000	\$500,000	\$0	\$625,000	\$625,000	100%
2020	\$1,000,000	\$750,000	\$250,000	\$625,000	\$375,000	100%
2021	\$1,000,000	\$550,000	\$450,000	\$625,000	\$175,000	100%
2022	\$1,000,000	\$0	\$1,000,000	\$625,000	(\$375,000)	100%
2023	\$1,000,000	\$0	\$1,000,000	\$625,000	(\$375,000)	100%
Totals	\$4,500,000	\$1,800,000	\$2,700,000	\$3,125,000	\$425,000	

SAMPLE CAPTURE EXERCISE 2

Assessed Value of New Growth: \$50,000,000

Tax Rate: 25.00

New Growth generates excess revenue in early years → retain or release?

Fiscal Year	Project Costs	Grant Receipts	Local Need (Costs – Receipts)	Tax Increment Revenues at 100%	Excess/ (Gap)	Tailored Capture % to Reduce Excess
2019	\$500,000	\$500,000	\$0	\$ 1,250,000	\$1,250,000	0%
2020	\$1,000,000	\$750,000	\$250,000	\$ 1,250,000	\$1,000,000	20%
2021	\$1,000,000	\$550,000	\$450,000	\$ 1,250,000	\$800,000	36%
2022	\$1,000,000	\$0	\$1,000,000	\$ 1,250,000	\$250,000	80%
2023	\$1,000,000	\$0	\$1,000,000	\$ 1,250,000	\$250,000	80%
Totals	\$4,500,000	\$1,800,000	\$2,700,000	\$6,250,000	\$3,550,000	

ESTABLISH CONTINGENCIES

- ☑ Continue to apply for grants or seek private investor contributions

If you don't need all of the Tax Increment Revenue in any year, you release the excess to the General Fund without needing to adjust your captured percentage or amend your plan

- ☑ Include written plans for what you expect to do if Tax Increment Revenues are lower than expected

If you'll make up gaps with the General Fund or Enterprise Funds (e.g. sewer) then say so. If you're uncomfortable stating that contingency, consider whether the project is a good fit for DIF. Is it too large, too costly, or benefitting too few properties to earn community-wide support?

ADDITIONAL RESOURCES

DIF Guide

Handbook to help communities understand DIF, make sound decisions about its use, and establish a DIF

Model Report

Customizable report for communities that meets statutory requirements and is designed to be informative and readable

Estimator Tools & FAQs

- DIF Revenue Estimator
- Capital Mix Estimator/Workbook
- Frequently Asked Questions

Case Studies

- City of Somerville
- City of Taunton
- City of Brockton

THANK YOU