

District Improvement Financing (DIF)

Frequently Asked Questions

Key Facts about District Improvement Financing (DIF)

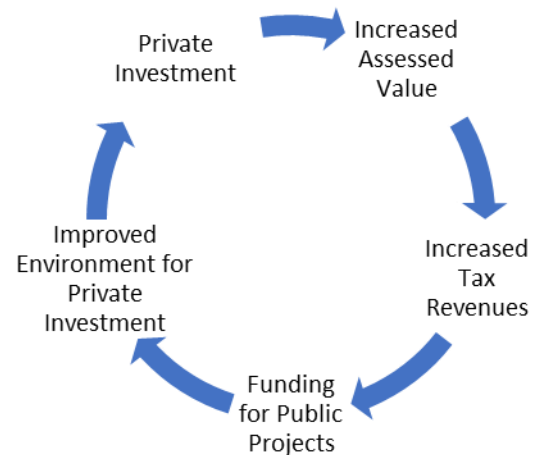
DIF can be used by any town or city in Massachusetts, to:

- 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 (or a percentage of them) are captured and directed to pay the costs of public projects that attract and sustain the private investment, creating the virtuous cycle. These new revenues can be referred to as DIF Revenues.



Municipalities enact DIF locally, through the usual city or town council, or town meeting, legislative process. No state approvals are required. Four components are required, which work together to define *where* activity will take place, and *what* will be accomplished:

Development District (DIF District)

Where projects will be implemented.

Invested Revenue District

Which part of the DIF District will generate new tax revenues from new investment (can be all or a portion of the DIF District).

Development Program

What projects will be implemented and how, including oversight and management.

Invested Revenue Development Program

Financial plan outlining revenue estimates, how much revenue to capture, and other details.

Why use DIF?

DIF can be integrated with, and can complement, existing economic development efforts.

DIF lets a community establish an expected funding stream for economic development projects, and adds value by enabling other economic development activities. It “plays well with others” and a municipality does not have to choose between DIF and other tools such as issuing General Obligation bonds. With DIF a municipality can:

Effectively engage with community stakeholders, potential businesses, and developers

- ✓ Communicate that a district is targeted for growth, and state community goals;
- ✓ Establish greater local control by identifying an area where development is encouraged, and identify the types of development that are most desired; and
- ✓ Communicate and promote information about site readiness.

Package multiple funding sources

- ✓ Fund “soft” costs and planning or outreach efforts that may not be suitable for borrowing;
- ✓ Begin a virtuous cycle of public investment that attracts private investment;
- ✓ Continue to use existing financing methods such as grants and borrowing; and
- ✓ Create a written plan that lays out the community’s plans and objectives.

Gain greater flexibility in structuring a debt financing if it is supported by DIF Revenues

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.

General Questions

What is the purpose of DIF?

DIF is a local funding tool that ties economic development efforts and outcomes together. It can provide funding for economic development, municipal planning and public infrastructure, and activities that promote economic growth and jobs. DIF captures some of the benefits of economic growth – property tax revenues from the new activity – and dedicates them to the projects that support growth.

What can it pay for?

Many municipal purposes including infrastructure such as sidewalks and roads, buildings and renovations, and “soft” costs for planning, studies, workforce training, and activities that support economic development and growth. Many types of soft costs are not typically eligible for inclusion in a bond issue, making DIF Revenues through “Pay-as-You-Go,”¹ a valuable source of funds.

Does DIF authorize spending or borrowing?

No. Any spending or borrowing that is supported by DIF Revenues must still be approved through local legislative processes. DIF can be adopted *before* spending or borrowing is fully approved, and then used to support approved projects or debt service.

Is it a new tax? Or a tax rate increase?

Neither. Properties in a DIF District pay the same tax rates as other properties, and establishing a DIF District and Development Program does not increase the tax rates.

Who can use DIF?

Towns and cities across Massachusetts. It does not require special designations such as low income or blighted neighborhoods. DIF can only be used by municipalities – if a private entity, such as a developer or business, is interested in financing, they should reach out to MassDevelopment or the community to explore other options.

Where does the money come from if it's not a new tax or a tax rate increase?

It comes from property tax revenues generated by new private investment, such as a business expansion or a new building. This investment increases the assessed value of the property but not the tax rate. Tax revenue *just from that increase in assessed value* is captured by DIF and can be used to support planned projects. Tax revenue from the existing assessed value, before the investment, continues to flow to the municipality's General Fund for usual municipal purposes.

¹ “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.

What is a Tax Increment?

The Tax Increment is the difference in the *value* of a property, as a result of new private investment that increases the assessed value, creating new growth. The Tax Increment is essentially the value of new growth on that property and does not include increases resulting from inflation, revaluation, or market factors. DIF captures the tax revenue generated by the Tax Increment.

How is this different from Mass. Gen. Laws Section 23L?

Mass. Gen. Laws Section 23L can be used by municipalities for economic development. Like DIF, Section 23L creates a district, but under Section 23L additional taxes, or special assessments, are imposed on parcels in that district to pay for public projects. DIF does not create any additional taxes or special assessments.

Section 23L remains a useful tool for many communities, and information from MassDevelopment about how it can help accomplish a municipality's goals can be found here:

www.massdevelopment.com/what-we-offer/financing/bond-financing/#tax-exempt-bonds

Does DIF take money from the General Fund?

The General Fund continues to receive the tax revenues it received before because the assessed value of each parcel prior to the use of DIF keeps generating tax revenue that goes to that fund. It is only tax revenue from the *increase* in assessed value that may be captured and used for DIF and for the specified life of the DIF. Captured revenue will not be available to pay for public services provided to the District.

At the end of the DIF term, all property tax revenues go to the General Fund. See the *DIF Guide* and *Webinar: DIF 101* for an example.

My target area already has a special assessment – can I still use DIF?

Yes. The implementation of DIF does not affect existing special assessments, and does not prohibit adopting one in the future.

What about Tax Increment Financing (TIF)?

TIF creates tax incentives for private entities, something that DIF does not do. TIF and DIF can be used together, and have been in some communities. Forecasted revenues must take into account any reduced amounts resulting from the TIF, or any other tax reduction agreement. The DIF Statute does not set forth a formula or method of managing or negotiating a TIF within a DIF District.

What about Proposition 2 ½?

Using DIF does not affect calculations for Proposition 2 ½ and will not prevent a municipality from complying. DIF relies on new growth, which increases the levy limit. It does not require increases to tax rates.

Under Proposition 2 ½ a community must remain below its levy ceiling in order to recognize new growth. At this time, approximately 99% of towns and cities in Massachusetts are below their levy ceiling and can recognize all new growth. However, a declining or very slow growing real estate market can cause a community to approach its levy ceiling, which can mean that not all new growth can be recognized, impairing the effectiveness of DIF. A municipality can check its status at the [DLS Municipal Databank](#)², or contact the state's Division of Local Services (DLS) for additional guidance.

Using DIF in Practice

What role does the state play?

None. It's all local.

The MassDevelopment Real Estate Services Division (617-330-2072) and the Division of Local Services at the Department of Revenue (617-626-2300) both have expertise with District Improvement Financing, and remain a resource for questions and guidance.

Can I still use other funding sources or incentive programs?

Yes. DIF "plays well with others," meaning that it can be used together with grants, bonds, and other funding sources. A DIF District can be used in combination with a Business Improvement District, other special assessment districts, Tax Increment Financing, or with Federal Opportunity Zones. DIF would not change how a municipality implemented or managed any of these other tools.

For detailed information, please see the *DIF Guide* and the *Capital Mix Estimator* online tool at www.MassDevelopment.com.

How much of the new tax revenue should I capture?

A municipality may capture up to 100% of the revenues. There is no "best" amount to capture, as each community adopting DIF has different needs and plans. Communities can choose to capture a percent, create a custom schedule, or design a formula, for example to match anticipated debt service payments.

Different scenarios can be explored using the *DIF Estimator* at www.MassDevelopment.com.

What about gap financing? I understand it will take at least a year for increases in assessed value to generate DIF Revenue.

Interim funding methods already available can be effective. For example, communities using DIF have issued Bond Anticipation Notes, or BANs, for interim financing so they may begin

² www.mass.gov/municipal-databank-data-analytics-including-cherry-sheets

construction. For smaller amounts such as soft costs, other municipalities have used interfund transfers and then reimbursed or replenished accounts when DIF Revenues are available.

It can take longer to realize significant revenue from larger private investment projects, especially those developed in phases, making gap financing even more important.

MassDevelopment can provide guidance on interim and bridge financing through its regional representatives. www.massdevelopment.com/who-we-are/regional-teams/

See also the *DIF Guide* at www.MassDevelopment.com.

Where can a municipality use this tool? Is it limited to certain neighborhoods or zoning?

DIF can be used in any type of area: commercial, industrial, residential, mixed-use. It is not limited to special designations for resident income, environmental damage, or economic distress. In addition, a DIF District can encompass multiple uses and does not have to be strictly commercial or strictly residential. The parcels in a DIF District do not need to be contiguous.

A municipality can use this tool more than once, creating multiple DIF Districts, but the total area of all DIF Districts combined may not exceed 25% of the area of the municipality.

Can I modify the DIF District boundaries later, or add projects?

Yes, by going through the same legislative process used to create the original DIF District and Development Program.

How long does it take to plan for and adopt?

Like any other municipal project, the time to implement DIF depends on multiple factors. The most important are the local legislative timeline, and how far along the upfront planning process is for projects that would be implemented in the DIF District. For example, a twice-yearly Town Meeting governance structure adds time, as it would for any legislation. Having an existing strategic plan to implement, or project on a single site, reduces the time needed.

The *DIF Guide* includes a section on timelines and schedules. In addition, educating and engaging elected officials, local businesses and residents, and other community stakeholders can be done throughout the process, and these efforts help move the DIF forward efficiently by building support and understanding.

What does the Assessor need to do as part of the DIF process?

The Assessor (1) provides and certifies the assessed value of each parcel to be included in the DIF District when it is formed, and (2) annually certifies the assessed value of any new growth as a result of improvements for that year, such as a new or expanding business on a parcel in the DIF District. The increased assessed value from this new growth generates the revenues for DIF projects.

Do I need special accounts or accounting?

Yes. The DIF Statute requires that a Development Program Fund be established. DIF Revenues may not be comingled with General Fund Revenues. The *DIF Guide* includes a chart and detailed descriptions of the funds and accounts.

Can DIF pay for the costs to create it?

Yes. Project costs may include both the costs of using city or town employees, and the costs of engaging professional services. It is important to understand that this type of cost can be eligible for DIF funds but would use current DIF Revenues and not be included in a bond issue.

Who else has used DIF?

Read the *Case Studies* for the experiences of the City of Somerville, City of Brockton, and City of Taunton, and see the *DIF Guide* for a list of other communities across the state.