

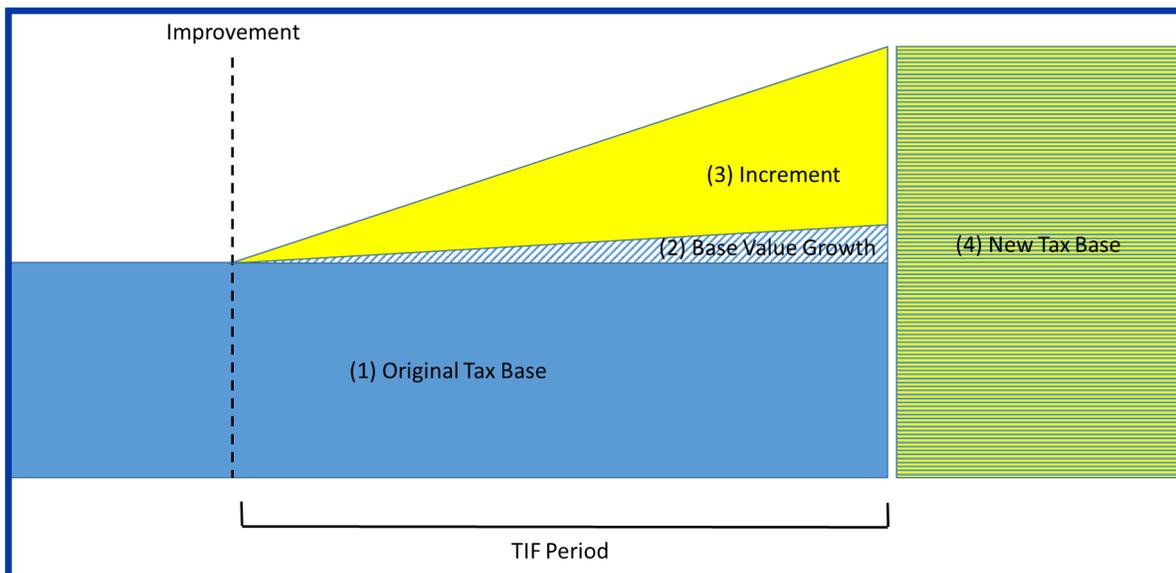


Cities are centers for both population and commerce and are rightly concerned with retaining and attracting private employers to expand the tax base, create jobs, and raise the overall standard of living. It is sometimes challenging, however, to convince businesses to invest in urban districts with low-income populations and distressed or blighted areas. In Massachusetts, municipalities have limited tools to entice businesses to locate and expand in a struggling market. The most frequently used mechanism is the Economic Development Incentive Program (EDIP) and its tax increment financing (TIF) initiative, which offers a property owner or business relief from taxes generated by new investment and increased property value.

Worcester currently has 18 active TIFs. Over the years, the City has used TIFs to both retain current businesses (e.g., Polar Beverages, Unum) as well as attract new business to Worcester (e.g., BASF/Abbott Labs, Imperial Distributors). Supporters of TIFs claim they benefit both developers and communities: businesses receive financial incentives to locate and expand while municipalities experience growth in underutilized areas and an increase in the overall tax base. Critics claim that TIFs cost cities and their taxpayers needed revenue, benefit new businesses over existing businesses, and inappropriately select winners and losers in the private sector. What role should TIFs play in Worcester's economic development efforts?

TIFs—A Primer

Tax increment financing (M.G.L. ch.40 §59) was first authorized in 1993 under the Commonwealth's Economic Development Incentive Program to help distressed communities (or Economic Target Areas) attract development to underutilized areas. As a result of subsequent amendments, most recently in 2014, TIFs are now available to all Massachusetts cities and towns as an economic development tool. A TIF has two requirements—investment in property and investment in people. To qualify for a TIF, a proposal must add real value to a property and result in the creation of new, permanent jobs. The TIF agreement allows a municipality to provide a redeveloper or owner of a property an exemption on new property taxes generated by investment in the property for a period between five and 20 years. As indicated on the graphic below, an entity receiving a TIF exemption is still responsible for 100% of the property tax on the original base value of the property prior to investment (1). This amount can even increase as the original base value increases over time (2). The tax exemption only applies to new or incremental property taxes generated by the value of the improvements (3). When the TIF expires, the property reverts to full taxation on both the base and the increment (4). The exemption percentage may vary from year to year, although it often begins with a significant exemption (e.g., 100% or full exemption of all new incremental property tax) that diminishes over the TIF period.



A development project must meet certain criteria to be eligible for a TIF. Under the legislative language, the EDIP is designed to “provide incentives that stimulate job creation and investment of private capital and to promote economic growth and expand economic opportunity to all areas of the Commonwealth” (M.G.L. ch.23A §3A). To be eligible for local and state tax relief, the project must create new jobs—full or part-time—and must represent new commercial or industrial activity in Massachusetts. When a developer applies for a municipal TIF, they may also apply for a state investment tax credit (ITC) under the EDIP. To be eligible for the ITC, the project must generate 25% of its sales outside of Massachusetts.

TIFs begin at the municipal level. The City’s Executive Office of Economic Development (EOED) invites a developer of a potentially eligible project to submit a letter of intent outlining the proposal. Following confirmation of eligibility with the Massachusetts Office of Business Development, the EOED and the developer negotiate a tax relief program based on the scale and impact of the proposed project. The developer then submits a Certified Project application, the formal TIF application, which is submitted to City Council and the Commonwealth’s Economic Assistance Coordinating Council for approval. Once approved, the City and the developer execute a TIF agreement holding the parties accountable for the project components, the financial investment, the job creation, and the municipal tax relief. Thereafter, the TIF recipient must file an annual report with the Commonwealth and the City that includes the project’s status of investment (i.e., construction) and employment, and the use of state and local tax credits. If a developer or owner fails to meet the terms of the agreement, the TIF can be rescinded and any tax benefits recaptured.

Worcester’s Tax Increment Financing Process and Timeline	
Steps in Process	Timeline
Applicant meets informally with City’s Executive Office of Economic Development—Business and Community Development Division (EOED) to discuss proposed project	Applicant Driven
Applicant submits letter of intent to EOED	Approximately 21 Days
Applicant, EOED, and Massachusetts Office of Business Development (MOBD) Regional Director meet to discuss proposed project	
EOED and MOBD determine project eligibility	
Applicant submits a Certified Project application and other required documents to EOED	Applicant Driven
EOED, through City Manager, recommends Certified Project application and accompanying EDIP documents to City Council for approval	Approximately 14 Days from Receipt of Complete Application
City Council refers application to its Committee on Economic Development for recommendation	Approximately 60 Days
Applicant meets with the Worcester Jobs Fund Committee	
Applicant appears before City Council’s Economic Development Committee in a public hearing	
City Council receives Economic Development Committee recommendation and votes to approve or deny application	
Approved applicants appears before Massachusetts Economic Assistance Coordinating Council (EACC) for final approval	Next Scheduled EACC Quarterly Meeting

Source: City of Worcester

TIFs in the City of Worcester

Since 1995, Worcester has negotiated a total of 62 TIF agreements. Worcester currently has 18 active TIFs, with projected creation of 888 jobs, \$265 million of private investment, and an increased tax base of more than \$153 million. The length of active TIFs is between 7 and 20 years. The average exemption is 48% on the tax increment, or added tax value. In three cases—Unum, Saint Vincent, and the new AC Marriott under construction at CitySquare—the TIF is formula-based so that it fluctuates in order to guarantee a certain tax payment—or tax target—on the increment each year.

In one unique example, the City Council designated certain parcels within the South Worcester Industrial Park (SWIP) for pre-approved exemptions—ensuring that potential developers were aware of the available incentive prior to investment, depending on the size of the development and the number of jobs created.

South Worcester Industrial Park (SWIP) Exemption Schedule			
Building Size (SF)	Jobs Created or Retained*	Exemption %	Length
5,000 - 9,999	10 or less	40%	10 years
	11 - 15		15 years
	16 or more		20 years
10,000 - 14,999	15 or less	50%	10 years
	16-20		15 years
	21 or more		20 years
15,000 - 19,999	20 or less	60%	10 years
	21 - 25		15 years
	26 or more		20 years
20,000 - 24,999	25 or less	70%	10 years
	26 - 30		15 years
	31 or more		20 years
25,000 or more	30 or less	80%	10 years
	31 - 35		15 years
	36 or more		20 years

Source: SWIP Economic Development Plan 2014. *Jobs must be created within five years.

City of Worcester Active TIF Agreements (As of January 1, 2017)									
								Rounded Nearest Thousand	
Company	Start Date	Length	End of TIF	Jobs to be Created	Expected Private Investment	Incremental Value	Avg. Exemption % on Increment	Est. Total Value of TIF Incentive	Est. Total Taxes Paid Over TIF Term
Fargo Management / Hilton Garden	7/1/2004	20	6/30/2024	100	\$20,000,000	\$9,000,000.00	50%	\$2,641,000	\$3,380,000
IBS Commodities, Inc.	7/1/2007	20	6/30/2027	5	\$795,000	\$535,400	40%	\$108,000	\$268,000
184 Main Street Associates	7/1/2009	10	6/30/2019	1	\$3,600,000	\$994,200	50%	\$130,000	\$299,000
Saint Gobain Performance Plastics	7/1/2009	15	6/30/2024	41	\$31,800,000	\$5,277,800	62%	\$303,000	\$1,539,000
Beechwood Hotel	7/1/2010	10	6/30/2020	16	\$7,025,000	\$2,211,600	45%	\$286,000	\$1,866,000
Unum	7/1/2010	15	6/30/2025	50	\$25,000,000	\$29,500,000	Tax target	Tax target	\$1,356,000
180 Main Street Associates	7/1/2011	10	6/30/2021	1	\$3,500,000	\$3,318,100	50%	\$552,000	\$779,000
50 Prescott Street, LLC	7/1/2011	16	6/30/2027	20	\$22,000,000	\$17,750,000	47%	\$4,430,000	\$4,577,000
Saint Vincent (Cancer Center)	7/1/2013	15	6/30/2028	22	\$22,000,000	\$13,000,000	Tax target	Tax target	\$3,237,000
New Garden Park (20 Franklin)	7/1/2014	20	6/30/2034	46	\$32,000,000	\$4,755,000	50%	\$1,643,000	\$4,074,000
Dennison Lubricants / Oilzum	7/1/2014	7	6/30/2021	20	\$4,200,000	\$2,000,000	40%	\$181,000	\$615,000
Oasis at Dodge Park / KMRN Investment	7/1/2014	12	6/30/2026	78	\$14,690,000	\$11,000,000	40%	\$1,916,000	\$3,206,000
SXC Prescott Street Hotel, LLC	7/1/2015	7	6/30/2022	30	\$10,175,000	\$10,000,000	35%	\$806,000	\$1,650,000
Worcester Trumbull Street Hotel, LLC	7/1/2017	10	6/30/2027	90	\$36,000,000	\$19,000,000	Tax target	\$2,912,000	\$4,000,000
150 Blackstone River Road, LLC	7/1/2017	15	6/30/2032	300	\$26,000,000	\$21,210,000	44%	\$5,457,000	\$12,437,000
O&S Realty, LLC / Absolute Machinery	7/1/2017	10	6/30/2027	6	\$750,000	\$358,500	50%	\$63,720	\$425,100
Chacharone Properties, LLC - 65 Armory	7/1/2017	15	6/30/2032	12	\$600,000	\$445,800	40%	\$108,655	\$247,800
Chacharone Properties - Table Talk	7/1/2017	20	6/30/2037	50	\$4,600,000	\$3,218,200	80%	\$2,235,000	\$742,000
TOTAL				888	\$264,745,000	\$153,574,600			\$44,654,800

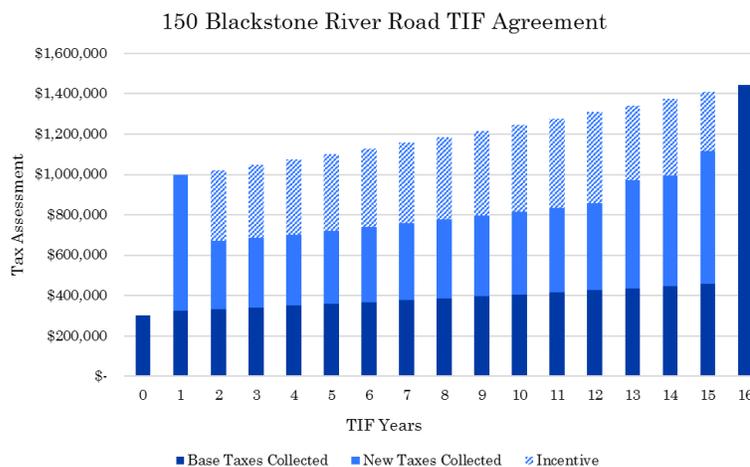
Source: City of Worcester Executive Office of Economic Development. Please note that these numbers may differ slightly from numbers provided to the Worcester City Council on January 17, 2017 by the City Auditor.

In May 2016, the Worcester City Council adopted new guidelines for local TIFs that set goals in job creation, wages, and residency. The new guidelines direct the City Manager to limit TIFs to projects that will create “permanent, full-time livable wage jobs for Worcester residents,” with a goal that in 2016 and 2017 jobs pay at least 125% of the state minimum wage and beginning in 2018 jobs pay the greater of 125% of the state minimum wage or \$15.00 hour. The policy also requires that 100% of the newly created positions will be made available to (but not obligated to) residents of Worcester. The City reserves the right to require that these jobs be filled by 10% minorities, 5% women, and 15% low-moderate income individuals. TIF recipients must use best efforts to purchase supplies, material, and services from vendors located in Worcester and hire a minimum of 50% of contractors and sub-contractors from within 30-mile radius of the project. These contractors and sub-contractors are further required to use best efforts to achieve a workforce in each trade that is 50% Worcester residents, 10% minorities, and 5% women.

150 Blackstone River Road—A TIF at Work

150 Blackstone River Road, located in Quinsigamond Village, was an underutilized 632,000 square foot warehouse. Valued at \$10,240,000, the City received \$347,968.79 in property taxes in 2016. The property owner proposed a \$26 million redevelopment of the property, the retainage of 30 full-time jobs, and the creation of 300 full-time jobs over five years. The investment was projected to increase the assessed value of the property to \$31,450,400. The City Administration negotiated and the City Council approved a 15-year TIF in which the City would receive an annual tax on the base value of approximately \$325,000, and at least 50% of the new taxes resulting from the increased investment and assessment. Over the 15 years, the City expects to receive \$12.4 million in tax revenue from the property—an increase of \$6.6 million over its original tax condition. Upon completion of the TIF, the property will pay an estimated \$1.4 million annually in property taxes. As a result of the redevelopment of the property, the owner was able to attract Imperial Distributors from Auburn into Worcester, consolidating operations and housing approximately 340 employees. The state will contribute tax credits of more than \$157,000.

Developer	150 Blackstone River Road, LLC
Original Value	\$10,240,000
New Value	\$31,450,400
Job Commitment	300 New 30 Retained
TIF Years	15
Tax Relief Schedule	Year 1: 0% Years 2-12: 50% of Increment Years 13-14: 40% of Increment Year 15: 30% of Increment
Estimated Annual Taxes Collected Before TIF	\$325,000
Estimated Annual Taxes Collected Upon Completion of TIF	\$1,410,036
Estimated Total Taxes Collected During TIF	\$12,400,000



The Bureau's View

TIFs are important, yet they remain controversial. The use of any kind of public tax incentive should rightfully be scrutinized. Tax incentives may pit communities against one another and benefit some properties and businesses over others. Strategically applied, however, TIFs offer unique benefits without the direct outlay of local funds.

TIFs are authorized under the Commonwealth's Economic Development Incentive Program. An incentive is not intended to subsidize an action, but to encourage an action. TIF applicants should not demonstrate financial need, but instead confirm an ability and willingness to accomplish the City's goals for a proposed redevelopment project. As in the SWIP example, the TIF can serve as an indicator of the City's support for certain types of investment in key locations. TIFs can effectively harness private investment to support public redevelopment efforts. The weakness of the TIF program is the link between real estate and jobs. Most urban developers are real estate investors, not long-term business concerns or major employers. City officials struggle to use the TIF to reposition underutilized buildings in the market due to the program's requirement that the recipient must commit to the creation of permanent new jobs. Gateway City investors looking to refurbish older buildings are challenged to find tenants with the vision and the patience to wait up to 18 months as permits are secured and renovations completed. Developers, and their financial partners, often move forward at risk of decertification and potential repayment if the market proves incapable of absorbing new space in the necessary amount of time.

The City's new TIF policy, with its focus on the creation of "permanent, full-time, livable wage jobs for Worcester residents," therefore places significant burdens on the TIF program that can ultimately limit its effectiveness. The TIF policy outlines 27 obligations a developer must meet to be eligible for a TIF, some of which are already legally required but some of which are obligations the City itself does not meet (e.g., local hiring preferences, local vendor preferences, living wage requirements). The policy requires that a developer demonstrate *need* for a TIF, and additionally treats TIF obligations as compensation for local government *costs*. Yet if the underlying premise is that a developer will not move forward without an incentive—a premise that has rarely proven false—any incremental taxes gained from a TIF project are new taxes and any foregone taxes are simply taxes not yet realized. The focus on costs is limiting. In reality, unless government itself expands as a result of a TIF project, TIFs do not shift government costs from one property owner to another since TIF values, and not total values, are included in the calculation of the City's annual tax base. The incentive simply does not appear on the City's budget or books.

Unless the City wishes to provide its own funds for economic development initiatives (or implement a tax rate favorable to commercial growth), TIFs—and the authority to defer revenues rather than expend resources—are the best alternative. They are a low-impact way to improve Worcester's economic competitiveness and increase its reputation as a business-friendly environment. Yet TIFs can be improved. As in the case of SWIP, the City should work proactively to identify TIF-priority projects *before* developers are interested and use the incentive to guide private investment toward the accomplishment of public goals for targeted development sites.

Bureau Brief

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