Economic Development Incentive Program (EDIP)

2014 Municipal Outreach

Massachusetts Office of Business Development

November 12, 2014

Agenda

- Introductions
- Massachusetts Office of Business Development (MOBD)
- Top Level Overview of 2014 Economic Development Bill
- EDIP Basics
- EDIP Changes Resulting from Economic Development Bill
- What Happens to TIF/STA when Certified Project Status is revoked?
- Fiscal Year 2014 EDIP Annual Report
- Wrap-up and Questions
- Appendix

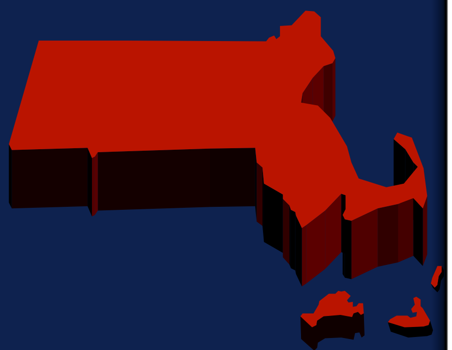
Massachusetts Office of Business Development

Mission

- Facilitate access to resources
- Promote job growth and retention
- Stimulate private investment
- **Help businesses thrive in Massachusetts**
  - **Administer EDIP**

Regions

- Berkshires
- Cape and Islands
- Central
- Greater Boston
- Metro West
- Northeast
- Pioneer Valley
- Southeast



Resources

- Financing
- Workforce Training
- Tax Incentives
- International Trade
- Industry Expertise
- Permitting
- Business Consultation

EDIP Basics

- Eligibility requirement: **“significant out-of-state sales”**
  - EACC decided **25%** was the threshold
  - These are the projects that “drive” economic development
- **Four types of projects** (EP, EEP, MRP, JCP) that can receive Investment Tax Credits
  - Now called **EDIPC** (Economic Development Investment Program Credit)
- Also new: <u>Local Incentive Only</u> projects are allowed:
  - **TIF-Only**
  - **STA-Only**
  - Both still need EACC approval

Types of EDIP Projects

Expansion Projects (EP)

- **Location:** Anywhere in Commonwealth of Massachusetts
- **Job Creation**: New job creation and retention for at least 5 years
- **Municipal Involvement**: Requires municipal approval and a local tax exemption (either "TIF" or "STA")
- **Out of State Sales**: Must generate substantial sales outside MA to be considered for EDIP state tax credit

Enhanced Expansion Projects (EEP)

- **Location:** Anywhere in Commonwealth of Massachusetts
- **Job Creation**: At least 100 new jobs to be created in 2 years and retained for at least 5 years
- **Municipal Involvement**: Not required
- **Budget Considerations**: $5 million annual award cap
- **Out of State Sales**: Must generate substantial sales outside MA

Manufacturing Retention & Job Growth Projects (MRP)

- **Location:** Gateway Municipalities
- **Job Creation**: At least 25 new manufacturing jobs to be created or at least 50 existing manufacturing jobs to be retained – for at least 5 years
- **Municipal Involvement**: Requires municipal approval
- **Budget Considerations**: $10 million annual award cap
- **Out of State Sales:** Must generate substantial sales outside MA

Local Incentives Only

- **Job Creation**: Encouraged
- **Municipal Involvement**:

TIF-Only

-5 to 20 Years

-1% to 100% [min. avg. 5%]

STA-Only

-Typically 5 years

-100% 75% 50% 25% 0%

- **Out of State Sales**: Does NOT have to generate substantial outside of state sales.

*If structure has been vacant for at least 24 months, may be eligible for 10% Abandoned Building Renovation Deduction, however, must be located in an approved EOA prior to any renovation taking place.

Results Since Reforms

Since January 2010:

14,416 Jobs Created

40,911 Jobs Retained

$5.5 Billion Private Investment

Economic Development Bill Overview

- **"An Act Promoting Economic Growth Across the Commonwealth" signed into law in August 2014**

- <u>Most relevant to businesses and municipalities</u>:
  - **Middle Skills Job Training Grant Fund** – Commonwealth Corp. - Vo-Tech & community college grants – advanced manufacturing, hospitality worker training
  - **Gateway Cities Transformational Development Fund** - MassDevelopment - will boost coordinated redevelopment in Gateway Cities creating critical mass of activities and encouraging private development
  - **Expanded Housing Development Incentive Program (HDIP) -** DHCD - Increases budget by $5M for next 4 years and removes 50-unit per development cap
  - **Additional Funding for Brownfields Redevelopment Fund** - MassDevelopment - providing loans and grants for environmental site assessments and cleanup.

Economic Development Bill Overview

- Most relevant to businesses and municipalities: (continued)
  - **Workforce Competitiveness Trust Fund** - Commonwealth Corp. - meet the current demands in industry sectors with critical vacancies, with a particular focus on low-income and low-skilled workers.
  - **Smaller Business Association of New England Grant Program** - SBANE - a competitive grant program to avert layoffs at manufacturing companies through technical assistance and management consulting.
  - **Capital Access Program (CAP)** – BDC Capital Corp. - designed to help small businesses throughout the Commonwealth obtain loans from participating banks.
  - **Brownfields Redevelopment Access to Capital (BRAC)** – BDC Capital - low-cost environment insurance
  - **R&D Tax Credit** – modifies the credit formula to align with the federal tax code
  - **Working Cities Challenge** - builds on a new program by the Federal Reserve Bank of Boston. Requires matching private sector contributions to support grants and technical assistance for MA cities to transform and strengthen local economies.

Economic Development Bill Overview

- Most relevant to businesses and municipalities: (continued)
  - **Massachusetts Computing Attainment Network (MassCAN)** – MTC - establish computer science education in public schools aimed at strengthening the growth and vitality of the technology industry.
  - **International Tourism Marketing** – MOTT - funding supports an aggressive international tourism marketing campaign.
  - **Funding for Innovation Institute, Internships and Mentoring** – MTC - provides grants to qualifying high tech companies to hire interns. Also to connect early-stage start-ups, and small businesses with experienced business enterprises and capital financing.
  - **Additional Funding for MassVentures** - funding early-stage, high-growth Massachusetts startups as they move from concept to commercialization.
  - **I-Cubed** - provides innovative financing for infrastructure. Increases the total financing allowed under the program and the number of allowed projects within any community to eight.

EDIP Reforms & Fixes from the Acts of 2014

Changes to the EDIP:

- Removes the requirement that EDIP certified projects be located in an Economic Target Area (ETA)
  - 67% of MA municipalities are ETAs (Regional Technology Centers)
  - Projects in Gateway Cities will continue to get special treatment
- Removes the requirement that EDIP certified projects or TIF/STA be located in an Economic Opportunity Area (EOA)
  - EOAs had a 20 year time limit and many were beginning to expire
  - Some entire communities were approved as EOAs when program began (1994)
  - Municipalities complained about burdensome paperwork
  - Must still go to Town Meeting/City Council meeting for vote and to EACC Board for approval
  - **Note: For a company to access the 10% Abandoned Building Renovation Deduction the property still MUST be in an EOA prior to any work starting**
- City or Town determines if a company expansion is significant to its economic development

EDIP Reforms & Fixes from the Acts of 2014

Changes to the EDIP:

- Creates a new category of project eligible for EDIP incentives:

  Job Creation Projects (JCP)

  - Create at least 100 new jobs over a two year period.
  - Tax credit of up to $1,000 per job created, or up to $5,000 per job created in a Gateway
  - Award cannot exceed $1 million
  - Help projects where private investment does not increase assessed value of property

- The process for awarding TIF benefits has been simplified for municipalities, as the adoption of "TIF plans" and designation "TIF Zones" are no longer required.

- The Act alters the language pertaining to special tax incentives, with the intent of allowing municipalities the flexibility to enter into special tax assessments even if the project does not qualify to be designated as a certified project.

EDIP Project Types Today (Effective July 1, 2014)

Job Creation Projects (JCP)

- **Job Creation**: At least 100 new jobs to be created in 2 years and retained for at least 5 years
- **Investment**: Investment is not substantial or does not increase the base assessed value of the property
- **Municipal Involvement**: Requires municipal support
- **Budget Considerations**: $2.5 million annual award cap initially
- **Out of State Sales:** Must generate substantial sales outside MA

Innovation Economy Job Creation Challenge

- 4th Quarter 2014 – Pilot Program
- Targeting companies in the technology sector – primarily "digital"
- 100 jobs by December 31, 2015
- Approved at December 17, 2014 EACC meeting
- $1,000/job non-Gateway, $5,000/job Gateway
- $250,000 cap non-Gateway, $500,000 cap Gateway
- Broader rollout to follow in the future

*If structure has been vacant for at least 24 months, may be eligible for 10% Abandoned Building Renovation Deduction, however, must be located in an approved EOA prior to any renovation taking place.

Economic Development Incentive Program

Things that did not change:

- **25% out-of-state sales** are required for a project to receive tax credits from the Commonwealth
- TIF-Only or STA-Only projects eligibility determined by the municipality
  - Not an entitlement
  - Negotiations of TIF or STA are between company & municipality (not MOBD)
- EACC Meetings are Quarterly
  - March and September – Worcester
  - June and December – Boston
- Timing is an issue:
  - Company should not be in the new building or be far along in the project before Town Meeting or City Council vote or EACC approval
  - If it is far along there is a possibility the Commonwealth will not award tax credits
- Enhanced Expansion Projects (EEP) awarded judiciously
  - More likely to be a JCP vs. an EEP
- In a Manufacturing Retention Project (MRP) refundable credits are not a given

EDIP Compliance & Project Revocation

What constitutes compliance?

Program					
Old Program:	100% Jobs Retained	+	Minimum 50% Jobs Created by Year	=	Project Compliance for FY
New Program: Expansion Projects (EP) & Local Incentive Only Projects:	100% Jobs Retained	+	Minimum 50% Jobs Created by Year	=	Project Compliance for CY
Manufacturing Retention Projects (MRP) & Enhanced Expansion (EEP)	100% Jobs Retained	+	Minimum 90% Jobs Created by Year	=	Project Compliance for CY

TIF/STA Policy Upon Project Decertification

Decertification/revocation of a Certified Project **will result in the termination of a TIF or STA agreement project if**:

- The terms of the agreement expressly provide for termination of the agreement upon the revocation, or
- As a result of the revocation, the project no longer fulfills the terms and conditions of the municipal action

A TIF/STA agreement may remain in place after the EACC revokes a project's certification, if:

- the agreement does not expressly provide for its termination upon the revocation of the project certification,
- *and* the continuation of the agreement is consistent with the original municipal authorization

What happens next?

- MOBD will inform municipality and company if project is out-of compliance
  - The company is offered a hearing, or can ask for voluntary project revocation
  - If a project is decertified, MOBD informs both community and company
- If a TIF agreement will terminate as a result of project certification, the municipality may permit the continuation of the tax increment financing by **amending the TIF agreement**
- The community should:
  - (1) notify the EACC (within 60 days) that it will amend the TIF agreement;
  - (2) duly authorize the amendment, including a vote of town meeting, town council, or city council with the approval of the mayor, as required by law; and
  - (3) submit the fully executed amendment to the EACC for approval by the EACC within a year (12 months) of decertification.
- The EACC shall allow the municipality to levy taxes on the de-certified project in accordance with the original TIF agreement until the date of the EACC's approval of the amended TIF agreement (for one year)

Municipal Action Plan

- If the municipality determines the **TIF agreement does not expressly provide for its termination** upon the revocation of the project certification,
- *and* the continuation of the **TIF agreement is consistent with the original municipal authorization**,
- **Town Counsel must send letter to EACC Board** stating the <u>TIF as written and approved meets these conditions</u>
- EACC Board will take this under consideration
- In most cases likely EACC board will agree with the municipality and TIF may stay in place

Some Thoughts on Drafting TIFs

- Don’t just copy TIFs used and approved in pre-2010 EDIP projects
  - TIF exemptions operate on a fiscal year basis
  - Post-2010 projects evaluated on a calendar year basis
  - Annual reporting is done on a calendar year
- Clearly articulate the economic benefits the project contributes to the municipality
  - Discuss acceptable job creation levels
- On Town Warrants may wish to give authority to BOS, Finance Committee, City/Town Manager or Mayor to negotiate and enter into TIF Agreement
  - If certified project status changes more flexibility to municipality
- Or, put in TIF agreement a job creation number at a level acceptable to municipality in case all jobs expected to be created are not created.
- May wish to add clawback if specific metrics are not met

Fiscal Year 2014 EDIP Projects

Granite TELECOMMUNICATIONS

Advance Welding

SanDisk®

menck windows

Dennison LUBRICANTS, INC.

KENNAMETAL®

De Tech Detector Technology, Inc.

KLEARVU CORPORATION

MESTEK, INC.

ASAHI/AMERICA®

Cumberland FARMS

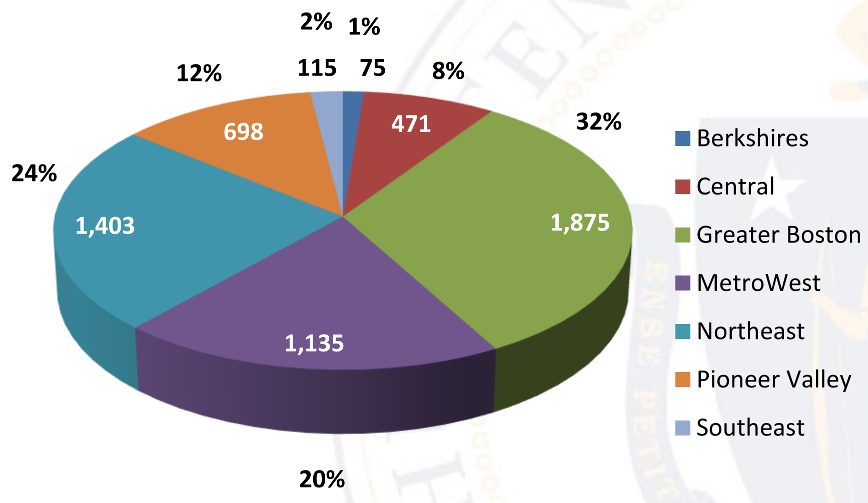
BERKSHIRE MOUNTAIN DISTILLERS, INC.

Fiscal Year 2014 EDIP Projects

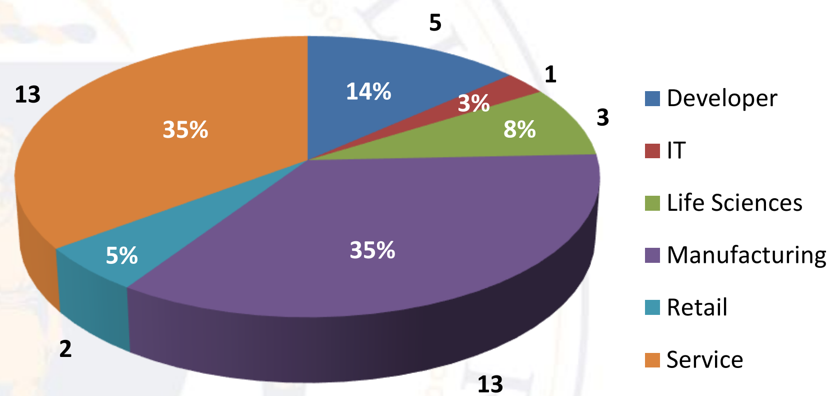
37	• Projects Approved
2,534	• Jobs to be Created
3,244	• Jobs to be Retained
$963 million	• Private Investment

Fiscal Year 2014 EDIP Projects

Job Impact* by Region



Projects by Industry



*Job Impact is Jobs Created and Jobs Retained

Fiscal Year 2014 EDIP Projects

20 projects located in **Gateway Cities**

54%

25 projects **Small Businesses** < 250 employees

68%

13 projects were **Manufacturers**

35%

Wrap up and Questions

Thank you

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Visit:

www.mass.gov/mobd
www.mass.gov/hed/edip
www.mass.gov/hed/jobgrowth

More EDIP Basics

Key Program Definitions

Gateway City

- Population greater than 35,000
- Median household income below the State's average
- Educational attainment rate below the State's average

Manufacturing

- Substantially transforming raw or finished materials into a product possessing anew name, nature and adapted to a new use

Substantial Sales

- On an annual basis, at least 25% of a controlling business' products or services generated at the facility are sold to customers located outside of the Commonwealth*

Middle Tier Community

- Median household income below the State's average
- Educational attainment rate below the State's average

* Municipalities may support businesses that don't generate substantial sales outside of MA with a TIF or STA only project.

Tax Increment Financing (TIF) Mechanics

Tax Increment Financing (TIF) is a negotiated Agreement between business and host municipality. The percentage exemption applies to the incremental increase of accessed value of the parcel. The agreement may contain exemptions on personal property tax (not required to). Per M.G.L. 40 § 59:

– TIFs have a 5 year minimum, 20 year maximum or anything in between;

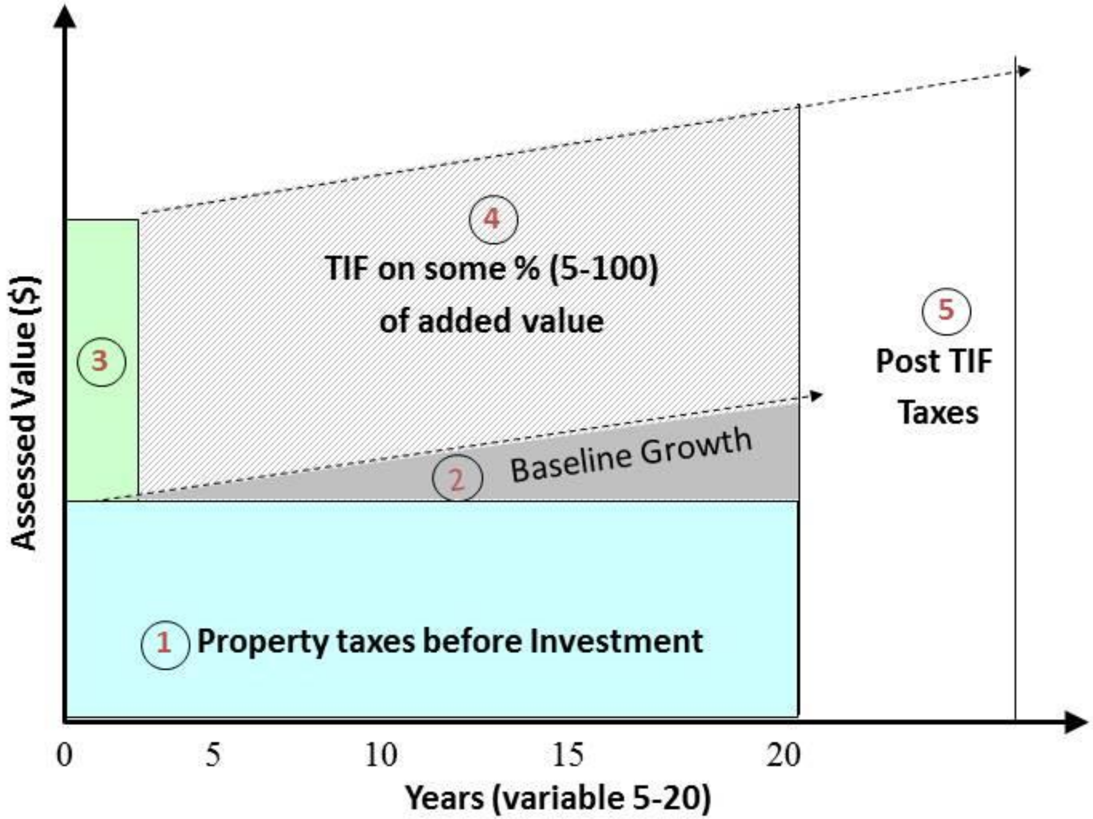
– Business pays full tax rate on the "base value";

– Exemption from property taxation on all or part of the increased value accrued as a result of development (the "increment");

– Percentage of exemption (for incremental real and personal property tax value) may range from 5% to 100%;

Tax Increment Financing (TIF) Mechanics

Tax Increment Financing (TIF) Agreement Mechanics



1. Taxes on original property valuation
2. Expected growth in tax, with no investment
3. Amount investment raises property value
4. Added value subject to TIF Agreement Exemption
5. Company pays taxes on full assessed value of property upon TIF expiration

Special Tax Assessment (STA) Mechanics

STAs are a negotiated Agreement between business and host municipality. STAs apply to entire assessed value of a parcel, not just the increment. Therefore, current as well as future local tax revenues are exempted. Unlike TIF Agreements, no Personal Property Taxes may be exempted under an STA Agreement. Per Statute - MGL 23A§3E(3) - STAs have 5-year minimum and 20-year maximum terms and must minimally comply with the following 5-year schedule:

Year One:	Business does not pay real estate taxes (non-negotiable); 100% property tax exemption for company
Year Two:	Municipality is authorized to collect up to a MAXIMUM of 25% of the actual assessed value of the entire parcel; at least a 75% property tax exemption for the company
Year Three:	Municipality is authorized to collect a MAXIMUM of 50% of the actual assessed value of the entire parcel; at least a 50% property tax exemption for the company
Year Four:	Municipality is authorized to collect a MAXIMUM of 75% of the actual assessed value of the entire parcel; at least a 25% property tax exemption for the company
Subsequent Years:	Municipality may collect up to parcel's fully assessed value.

Annual Reporting Process

"Old Program"
Projects Approved Prior to 2010

3rd Week in August: Fiscal Year Annual Reports sent to company contact via Email.

Last week in September: Company deadline for report submittal.

October-December: Massachusetts Office of Business Development review & as needed company outreach.

December-February: Certified Recommendation of Decertification Notices sent to Company & Municipality. As requested, company hearings held.

March Economic Assistance Coordinating Council (EACC) Meeting: Projects are recommended for Decertification for Council vote. Company & Municipality sent Notification of the decision.

"New Program"
Projects Approved Jan. 1, 2010-Present

1st Week in January: Calendar Year Annual Reports sent to company contact via Email.

First week in February: Company deadline for report submittal.

March-April: Massachusetts Office of Business Development review & as needed company outreach.

April-May: Certified Recommendation of Decertification Notices sent to Company & Municipality. As requested, company hearings held.

June Economic Assistance Coordinating Council (EACC) Meeting: Projects are recommended for Decertification for Council vote. Company & Municipality sent Notification of the decision.

EDIP Annual Reporting Portal

- **One centralized system for all EDIP Reports (New & Old Program) http://mobd.force.com/**

- **The portal features a two-way interface with MOBD's CRM database, Salesforce.com**
  - Key metrics from project applications are being pulled into the portal (and annual reporting form)
  - Annual Reporting data is being deposited into Salesforce.com
  - Archiving Function: Ability to generate a distributable report from data stored in CRM

- **Designed to Streamline Annual Reporting Process for the companies, municipalities and MOBD**
  - **Company:** Aim to make a consistent, easy to understand and user-friendly form that eliminated points of inefficiency.
  - **Municipality:** Municipalities gain a central depository in which they have direct and instant access to the annual company reports within their boundaries, which will enable greater oversight of local incentives.