Infrastructure Financing Programs

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MassDevelopment
Build. Create. Innovate.

Massachusetts Development Finance Agency

- Self-supported quasi-public finance and development agency.
- Promotes capital investment and economic development in Massachusetts by providing financing and development solutions.
- Formed in 1998 under Chapter 23G (Massachusetts General Laws) by the merger of Massachusetts Industrial Finance Agency and Government Land Bank. Merged with Mass HEFA in 2010.
- Primary tools
    - Tax-exempt and taxable bonds (97 issues totaling $2.2 billion in 2012)
    - Loans and guarantees (52 transactions totaling $45.3 million in FY 2012)
    - Real estate planning and development services

Tax-Exempt Bonds

- MassDevelopment is a conduit issuer of tax-exempt bonds. This is an incentive offered by the Commonwealth to encourage capital investment by lowering borrowing costs for:
    - Public Infrastructure
    - Small manufacturing facilities
    - 501(c)3 nonprofits including colleges, hospitals and medical centers, human service providers, museums, etc.
    - Waste disposal & recycling
    - Affordable rental housing

- Issued as public bond issues, private placements or bank direct purchases.

- Interest rate 1.0% to 2.0% lower than conventional loans, roughly a 30% savings

Infrastructure Bond Financing Programs

- Local Infrastructure Development Program
- Infrastructure Investment Incentives Act (“I-Cubed”)
- District Improvement Financing (“DIF”)

All programs set a district and pay for public infrastructure through a tax. How a district is set and what taxes are used will depend on the program.

Districts can have non-contiguous properties.

All three programs can be used independently or in combination to meet a project’s financing needs.

What Public Infrastructure can be funded through these tax-exempt bond programs?

- Roadways and intersections
- Water & waste water facilities and related lines.
- Transportation facilities such as train stations, bus depots, etc.
- Seawalls, docks, wharves, bridges, culverts, tunnels
- Streetscape, sidewalks, electric lines, street lights
- Parks, playgrounds and recreational facilities
- Parking garages
- Brownfield mitigation
- Soft and financing costs.
- Varies slightly by program

- **Infrastructure can be in or in support of the district. It must be owned or conveyed to a public entity to be eligible.**

Local Infrastructure Development Program

- General legislation was signed on August 7, 2012 as Chapter 23L.
- New legislation allows a property owner to finance public infrastructure through the tax-exempt bond market.
- 100% of the property owner(s) establish a development zone. The district can contain non-contiguous properties.
- Development zone needs to be approved by the municipality's governing body and an approved petition filed with the Commonwealth.
- Debt service paid through a special infrastructure assessment on the property. These assessments work like a betterment and can travel with the property, if it is sold.
- Credit on bonds is **based on the property owner** and/or credit enhancement.
- Tax-exempt bonds and/or notes can then be issued by MassDevelopment.

Local Infrastructure Development Program

- Property owner(s) file a Petition with the municipality that sets a Development Zone and defines an Improvement Plan.
- Municipality required to have local public hearings on the Petition within 120 days.
- Planning Board approves in writing.
- Within 90 days after the hearing, the municipal governing board must act.
- Upon approval of the petition, notice of approval will be filed with the municipality, MassDevelopment and the Secretary of the Commonwealth. Upon such filing, the development zone is deemed established and the improvement plan is deemed approved.
- Once approved, financing process commences.

Local Infrastructure Development Program

- Allows the developer access to low tax-exempt rates.
- Financing tool that can be used in conjunction with a project's traditional financing . It can be used to infuse extra dollars into a project to make it viable.
- Can be a negotiating tool for municipalities.
- Flexible financing terms of up to 25 year for bonds.
- In cases of default, debt follows traditional tax lien process and can not be accelerated.
- Debt travels with the property. Allows developer to sell the property with the special assessments.
- Can be used with other infrastructure financing programs such as I-Cubed or DIF.

Infrastructure Investment Incentives Act (“I-Cubed”)

- Act referred to as I^3 or I-Cubed. I-Cubed legislation passed as Chapter 293 of the Acts of 2006 as amended by Chapter 129 of the Acts of 2008 and Chapter 238 of the Acts of 2012.
- Regulations located on www.mass.gov and access the link on the Commonwealth’s Administration and Finance (A&F) Office’s home page.
- Developer(s) submits an application for a District to the Commonwealth showing the project will include major public infrastructure and generate additional revenue to the Commonwealth.
- Commonwealth will approve the application and agree to pay debt service on a bond financing issued by MassDevelopment used to fund the public infrastructure.
- Program promotes public infrastructure improvements to support certified economic development projects. Credit **based upon the State’s General Obligation pledge**.

Infrastructure Investment Incentives Act (“I-Cubed”)

- Program with $325 million state-wide maximum.
- Maximum of 3 projects per community and no community can use more than 31% of the funds.
- Infrastructure financing applications to the Commonwealth must be between $10 and $50 million. Can be applied for in stages.
- Main qualifier is that the project has to have more net new state tax revenue than what the Commonwealth would pay as debt service on a bond. Types of revenues include:
    1. Payroll Taxes
    2. Sales Taxes
    3. Hotel Taxes
    4. Business Taxes
    5. Construction Wage and Sales Taxes
- Project must be approved and certified by the Commonwealth after a rigorous review process by a consultant and the Department of Revenue including projected coverage of debt service by net new tax revenues of 1.5x.
- Application is approved in 2 stages by the Commonwealth and requires Town Meeting or City Council approval.

District Improvement Financing ("DIF")

- MGL Chapter 40Q "District Improvement Financing" passed in 2003 and amended in 2011 and 2012. Program called TIF in other states.
- Municipality sets a district and sets a base property tax assessments. The District uses incremental property tax to fund infrastructure for the District. It can either use the taxes as collected "pay as you go" or to borrow.
- If borrowing, district or municipality issue debt based on incremental taxes from new growth that would not happen without infrastructure investment.
- Bonds issued by municipality or MassDevelopment and may require credit support from the municipality or the developer. Credit **based upon incremental property taxes** within district.

District Improvement Financing “DIF”

- Municipality sets district and holds local public hearings and obtains local approvals. Requires Town meeting or City Council approval.
- District approval has 2 parts; a setting of baseline assessments and a financing plan.
- Municipality can set a district without the financing plan if a municipality wishes to obtain recognition of a district to set the tax level. It never has to approve a financing plan if it elects “pay as you go”. If borrowing, a financial plan can be approved at the same time or subsequently.
- Borrowing is not included in municipalities’ debt limits.
- Municipality has flexibility to segregate debt service from general funds and employ debt structures that would not otherwise be available as financing terms are negotiable.
- No new taxes are levied because of the District and the DIF does not reduce or redirect current property tax revenues.

MassDevelopment Contacts:

Rebecca Sullivan, First Vice President

MassDevelopment

160 Federal Street

Boston, MA 02110

617-330-2068

rsullivan@massdevelopment.com