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MEMORANDUM

TO: Kevin J. Murphy, City Manager 

FROM: Diane N. Tradd, Assistant City Manager/DPD Director

SUBJECT: COUNCIL MOTION OF 9/12/17 BY COUNCILOR SAMARAS
REQUEST CITY MANAGER PROVIDE A REPORT DETAILING THE EFFECTS OF TAX
INCREMENT FINANCING AGREEMENTS (TIFs) ON ECONOMIC DEVELOPMENT IN LOWELL

This memorandum addresses the benefits of using Tax Increment Financing (TIF) Agreements as part of our economic development strategy.

Background

In 1994 Lowell was designated, by the Commonwealth of Massachusetts, as an Economic Target Area and 16 Economic Opportunity Areas were established and approved by the City Council. Lowell's designation as an ETA allowed companies locating or expanding in Lowell to benefit from the State's Economic Development Incentive Program (EDIP), a tax incentive program designed to stimulate business growth and foster the creation of new jobs.

Under the EDIP program the City of Lowell may offer companies choosing to locate or expand in the City with a Tax Increment Financing Agreement for a fixed period of time. A TIF agreement is a negotiated agreement for a certified project between a company and the municipality that exempts new property taxes as a result of new development and job creation as an incentive to make the project possible. The TIF exemption only impacts the incremental value on the real estate as a result of the private investment. The baseline taxes due on the Certified Project's occupied space continues to be paid in full throughout the proposed term of the agreement, as does a percentage of the new tax growth each year. A TIF agreement qualifies eligible companies for additional financial assistance in the form of tax credits awarded directly by the Commonwealth.

Few cities have utilized this program more often and with more success than Lowell has. Historically, the City Council has been very supportive of the program, unanimously approving all TIF proposals presented to them. To date, more than 30 projects have been approved as Certified Projects under the EDIP Program, representing more than \$400M in private investment in Lowell.

Current Program

Recently the State changed the EDIP eligibility requirements, lifting restrictions on which communities could offer incentives under the state program. As a result *all* cities and towns in the Commonwealth may offer companies a TIF agreement. This change means that Lowell has to be more creative in the value of incentives we offer companies who may also be entertaining a TIF from a competitive community.

For many companies money is tight and grants are scarce. Having resources like TIFs are essential to incentivizing investment in private commercial areas in cities like Lowell where issues like contamination cleanup or significant facility upgrades are needed to modernize buildings to meet the needs of today's companies. Tools like TIFs are especially helpful in gateway communities that need to stay competitive with suburban neighbors where "ready to build" greenfields are more readily available.

Since 2015 the City awarded TIF agreements to the following companies. Combined these companies are investing more than \$280M in their properties and plan to create/retain more than 2,400 jobs. As a result of these investments the property values for these six locations are expected to increase by a combined \$142,488,409 and the City can expect to generate more than \$15.7M in new tax revenue.

Project Name	Address	TIF Duration (Yrs.)	Total Private Investment	Increase in Property Value due to TIF (\$)	Total # Retained + Created (proposed)	Total New Revenue to City Due to TIF (over full period of TIF)
Kronos	900 Chelmsford St	12	\$ 54,000,000	\$ 21,879,393	1,706	\$ 2,041,656
MACOM	100 Chelmsford St	10	\$ 14,000,000	\$ 7,164,230	420	\$ 986,163
Markley Group	2 Prince Ave	20	\$ 200,000,000	\$ 109,610,233	100	\$ 12,000,000
Metrigraphics	1001 Pawtucket St	10	\$ 5,500,000	\$ 473,766	105	\$ 111,472
Plenus Group, Inc.	101 Phoenix Ave	10	\$ 4,600,000	\$ 2,955,352	30	\$ 513,987
Somerset Industries	137 Phoenix Ave	10	\$ 2,500,000	\$ 405,435	58	\$ 49,100
Totals:			\$ 280,600,000	\$ 142,488,409	2,419	\$ 15,702,378

Benefits of the TIF Agreement

Since 2000 Lowell has seen significant redevelopment of both its commercial and residential properties, due in part to the diverse local, state, and federal resources that have incentivized private investment. Despite these early successes, Lowell, like many gateway communities, is still faced with blighted, distressed, or simply underutilized areas. Many of these sites contain abandoned or contaminated facilities, while others are characterized by dilapidated infrastructure and commercial operations that simply are not economically viable. These areas often see a decrease in assessed property values with a corresponding decrease in municipal revenue. At the same time, they pose a drain upon municipal services. Often, it is difficult to attract private investment to these areas.

TIF Agreements provide a direct upfront benefit to a private company in the form of tax relief. The money saved on taxes helps pay the project's construction costs. Depending on the size and location of the project, companies utilizing TIF benefits can also often access other state financial incentives such as Investment Tax Credits, Abandoned Building Tax Deductions and Research and Development Tax Credits. While considerable planning is required upfront to generate the TIF Agreement, the payoff in both increased future tax revenues and benefits to the economic vitality of the City can be great.

Under the EDIP Program, TIF Agreements also require some level of job creation or retention. Lowell's TIF Agreements include language requiring companies to work with UMass Lowell, Middlesex Community College, and the Career Center of Lowell to ensure that new jobs created by the company are made available to qualified Lowell residents. When considering the use of a TIF Agreement consideration is given to the type of jobs that will be created, with an emphasis on attracting high paying jobs that will help increase the income of Lowell households.

Finally TIF Agreements encourage true economic partnerships between developers and municipalities. DPD has found that the negotiation process to develop the TIF Agreement builds and strengthens relationships between the City and the private property owner and company.

When to consider TIFs

In considering whether to offer a TIF agreement DPD takes several issues into consideration including the following:

- Is the Massachusetts Office of Business Development working with the company to secure state tax credits? If so a TIF Agreement with a municipality is required. In this case MOBD works closely with DPD to ensure that the company is one the City wants to retain or attract.
- What challenges, if any, impact the redevelopment of the property where the company plans to locate?
- What level of investment and job creation/retention is planned for the project? And what types of jobs will be provided? Part of the City's economic development strategy is to attract diverse jobs that offer high wages to help raise the income levels of Lowell residents.

Unlike other communities, DPD does not consider TIFs for small scale retail or restaurants, reserving this tool instead for companies that plan to generate significant number of jobs that will be available to Lowell residents and to projects that will have a positive impact on the City's overall economy.

Both the State and DPD monitor Certified Projects to ensure that they stay in compliance with the terms of the TIF Agreement and that they meet the promised job creation/retention goals. Lowell is one of few communities in the State that includes a clawback provision in its agreements, requiring companies to pay back the value of the tax incentives they received if they fail to meet the goals outlined in the agreement. The agreements also require them to join the Middlesex 3 Coalition to help strengthen the group's regional efforts to promote economic development opportunities along the Rt. 3 corridor.