



Tax Incentive Policy

Sturbridge Policy for Special Tax Assessment (STA) & Tax Increment Financing (TIF) Projects under the Commonwealth's Economic Development Incentives Program (EDIP)

The Town of Sturbridge supports the growth and development of new and established businesses in our community. The Town has several tools to encourage economic development, but one of its most powerful is the Tax Incentive. This is an authority that is granted through Massachusetts General Law (M.G.L.) Chapter 40, Section 59 and allows the Town to provide tax incentives through property tax abatements for projects that meet certain criteria.

Below are the policies adopted by the Sturbridge Board of Selectmen regarding tax incentive projects on **08/05/2019**.

Definitions

EACC – Economic Assistance Coordinating Council: A State organization made up of members from the public and private sectors who review all EDIP applications for the Commonwealth.

EDIP – Economic Development Incentive Program: The State's tax incentive program that includes local only incentives.

EDTC – Economic Development and Tourism Coordinator: The EDTC oversees economic development and tourism related initiatives in Sturbridge. The EDTC is the lead local staff contact for Sturbridge regarding State/local incentive projects.

LIRC – Local Incentive Review Committee: This committee reviews all incentive applications in Sturbridge and provides recommendations to the Board of Selectmen. If the project is supported by the Board the LIRC will negotiate with the applicant, on behalf of the Board of Selectmen, to develop an incentive schedule for the consideration of the Board and the voters at Town Meeting. It is made up of the Town Administrator, Town Planner, Town Assessor, Economic Development and Tourism Coordinator and one member of the Board of Selectmen appointed on a case by case basis from among its membership.

MOBD – Massachusetts Office of Business Development: The office at the State level tasked with overseeing the Economic Development Incentive Program. They are part of the Office of Housing and Economic Development. Any applicant will work with the Regional Director of MOBD based out of Worcester.

Tax Credit Programs – State Issued

The Commonwealth of Massachusetts has developed a tax incentive program through the Massachusetts Office of Business Development (MOBD). According to their website, "[t]he Economic Development Incentive Program (EDIP) is a tax incentive program designed to foster job creation and stimulate business growth throughout the Commonwealth. Participating companies may receive State and local tax

incentives in exchange for job creation, manufacturing job retention and provide investment commitments.” The EDIP is offered for five (5) types of projects:

1. Expansion Projects (EP)
2. Enhanced Expansion Projects (EEP)
3. Manufacturing Retention & Job Growth Projects (MRP)
4. Job Creation Projects (JCP)
5. Local Only Incentive Projects (see next section)

The first four credits are issued for taxes that a business would pay to the Commonwealth. Therefore the review for those credits is done by MOBD and the EACC. For more information on the EDIP and for information on eligibility please contact either the MOBD Regional Director or the EDTC in Sturbridge.

Tax Incentive Programs – Local Options

The fifth credit option offered through the EDIP is designed for the municipality to manage and oversee. Under M.G.L., Chapter 40, Section 59 municipalities are allowed to enter into tax agreements, known as Local Only Incentive Projects, with existing or prospective businesses making a significant investment in the community. Please note that a business can seek both State and local credits concurrently, however this does not change the local process or local considerations on the matter. The issuance of these local incentives lies at the discretion of the municipality, though the EACC holds final approval over any incentive issued by a municipality. A local only incentive applies *only* to the property taxes paid to the municipality. These agreements come in two forms: 1) Special Tax Assessment or STA, and (2) Tax Increment Financing or TIF.

Special Tax Assessments:

An STA exempts a percentage of the entire assessed value of the parcel. The agreement is made for a period of no less than five (5) years and no more than twenty years (20). Unlike a TIF agreement, no Personal Property Taxes may be exempted under a STA agreement. There is a strict formula for how the assessment must be issued during those first five (5) years.

<i>Year of Agreement</i>	<i>Tax Assessment</i>
Year 1	Not less than 50% of total property taxes exempted
Year 2	Not less than 25% of total property taxes exempted
Year 3	Not less than 25% of total property taxes exempted
Year 4	Not less than 5% of total property taxes exempted
Year 5 – onward (as negotiated)	Not less than 5% of total property taxes exempted

The abatement percentage is negotiated between the Town and the applicant. The exemption amount in the first five years can be greater than the numbers above, but cannot be less than them. The total yearly totals for taxes owed by the applicant will be determined by the Town Assessor based on the percentages negotiated.

Tax Increment Financing:

A TIF provides a business with a tax abatement on the property tax for a given parcel. The abatement is *only for the difference in valuation between the pre-investment and the post-investment in valuation*. The business is expected to pay the full amount of the pre-investment property tax valuation as that amount is not covered under the TIF agreement. The abatement can range in percentage from as little as five (5) percent up to one-hundred (100) percent of the

valuation and can last for no less than five (5) years and no more than twenty (20) years. Over the course of the TIF, the percentage of the tax abatement decreases from its highest amount and the applicant will be required to pay more of the full valuation. At the termination of the TIF, the business is responsible for the full amount of the valuation.

To determine a given year's tax obligation for an organization receiving a TIF, the Sturbridge Assessor will calculate the TIF exemption based on a number of factors.¹ The Assessor will first establish the assessed value of the property in the year prior to the enactment of the TIF exemption. Following this, there is an exact formula that the Assessor will use to determine the proper amount to tax in a given year. The formula for determining the exemption amount in a given year is as follows:

$$\text{Market Value} - (\text{Base Value} * \text{Inflation Rate}) * \text{Exemption \%} = \text{Exemption Amount}$$

This provides the amount that is exempted by the TIF. That amount is then subtracted from that year's valuation. The base valuation is the amount that the parcel in question was valued at *before* the tax exemptions are enacted. The exemption percentage is based upon the negotiated rate between the Town and the business operator. The inflation rate is a combination of a number of factors seen in the fractional formula below:

$$\frac{(\text{Current fiscal year total assessed value of all commercial/industrial properties at their full and fair cash value, minus other TIF parcels}) - (\text{Current year's Proposition 2 1/2 Tax base growth adjustment attributed to commercial/industrial real estate})}{\text{Prior fiscal years assessed value of parcels listed in numerator}}$$

Prior fiscal years assessed value of parcels listed in numerator

Furthermore, yearly inflation rates are multiplied together each year the TIF is active. For example: year three's inflation rate is the product of years one, two and three's inflation rates.

Only the Town's Assessor can determine a given year's tax figures for parcels that are covered by a TIF.

Regardless of which approach is chosen, the business will be required to provide yearly reports on their project to the Town and the State. The information to be provided in those annual reports shall be detailed in any negotiated agreement with the town.

Sturbridge Incentive Preference

The Town of Sturbridge will offer either an incentive to qualified applicants who meet all State and local requirements and only to projects where the issuance of an incentive will be to the benefit of Sturbridge. Of the two types, Sturbridge's incentive preference is to support TIF projects over STA projects; however the Town will consider all applications equally.

¹ The formula used by the Sturbridge Assessor comes from the Commonwealth of Massachusetts, Department of Revenue, Division of Local Services, Property Tax Bureau." Informational Guideline Release No. 94-201." Published February, 1994. The information detailed above comes from this document.

Criteria for Projects Seeking Local Tax Incentives

For all incentive projects, the Town follows all rules and regulations set forth under the Commonwealth's incentive program. In addition to those, the Town has decided to develop additional criteria for consideration in its review of all potential Tax incentive projects. The Town's will favor incentive applications that meet the following criteria. Note: these are listed below in no particular order:

- The project supports the creation of permanent or part-time employment opportunities that are new to the community. [Please note that the Town does not count construction jobs related to the project build in the total as those jobs are temporary.]
- The project is, at the time of the application's submission, not currently attempting to obtain a building permit.²
- The project has the potential to increase the revenues collected through the Town's Hotel and Motel Tax and/or Meals Tax.
- The project is located on one of the Town's priority development sites.
- Applicant highlights their demonstrated need for the local aid associated with the project.
- The project would occupy a previously vacant building or parcel that had been over seventy-five (75) percent vacant for at least two (2) years.
- The project encourages the types of business growth that are detailed in the Town's most recent iteration of its Master Plan.
- The proposed investment/reinvestment has the potential to increase the number of visitors to Sturbridge.
- The proposed project provides other demonstrated benefits to the Town not listed above.

The Town does understand that each project is unique and must be examined on its own merits. Furthermore the Town recognizes that not every project will be able to meet all of the above criteria based on the nature of the business. As such the Board of Selectmen shall use their judgement in the review of an incentive application against the above criteria as they deem appropriate.

Approval Process

The approval of a tax incentive project requires the review and approval of both local and State officials. Below is a general timeline for the approval of a local only incentive project. Please note that each application is unique and therefore may deviate from what is listed below.

- Applicant meets with the EDTC to discuss the project and associated requirements. If state credits are being sought, the applicant should also speak with the MOBD Regional Director as well.

² Please see the next section "Approval Process" for more details regarding this criterion.

- Applicant submits to the MOBD Regional Director, the EDTC, the Town Administrator and the Board of Selectmen a Letter of Intent stating their interest to apply for State and Local credits under the Economic Development Incentive Program (EDIP).
- Applicant completes the Sturbridge Local Tax Incentive Application and submits to the LIRC.
- The LIRC reviews the application and drafts a recommendation to the Board of Selectmen concerning the project. In order for the LIRC to rule either in the affirmative or negative, a *majority of its membership* must concur on the opinion. The LIRC will report to the Board their recommended course of action and the reasoning for their decision.
- The applicant presents their project to the Board of Selectmen and answers questions related to the project. Selectmen will vote to support or reject the project. *If rejected there is no appeal.* The BoS then authorizes the LIRC to negotiate a draft agreement with the applicant for consideration on the next available Town Meeting Warrant Article.
- Applicant submits the State's EDIP Application to the MOBD Regional Director (mailed or emailed directly) and to the Town, care of the EDTC. They may also apply for State credits at this time.
- Applicant negotiates with LIRC for the local incentive abatement percentages and duration.
- The project and the negotiated agreement goes before the Board of Selectmen and Finance Committee for review. Said committees will then vote to support or oppose the project on the Town Meeting Warrant Article.
- Project is placed on next available Town Meeting Warrant Article.
- Project goes before Sturbridge voters at Town Meeting who vote to support or reject the project. *If rejected there is no appeal.*
- Applicant and Town attend the quarterly EACC meeting. EACC reviews and votes to support or reject the project. *If rejected there is no appeal.*
- Applicant provides yearly updates to EACC and Town regarding the project for the duration of the tax incentive.

In general, the application should take approximately four (4) to six (6) months from the initial application to approval by the EACC. However it is strongly recommended that any TIF be timed to include a Town Meeting as local voter approval is required to receive approval from the EACC.³

Finally the application should be submitted at the beginning of the permitting process. The Town will not review projects that have or are attempting to receive a building permit.⁴ It is imperative that business

³ Please note that the only guaranteed Town Meeting is held in the first Monday in June. Historically others do occur throughout the year (commonly in fall), however there is nothing stating that a Special Town Meeting will occur.

owners who are interested in receiving a tax incentive speak with the EDTC as soon as possible in order to begin the process in a timely manner.

Unique Cases

The Board of Selectmen recognizes and encourages the uniqueness of businesses. In that vein it recognizes that not all tax incentive applications are identical and therefore may exercise its judgement in their use and application of the above policy as they deem appropriate. In those specific cases the Board of Selectmen shall still follow the spirit of this policy.

Project Support and Guidance

The Town of Sturbridge is here to assist new and existing businesses navigate State and local financing options. For general assistance on these projects, please consult with the Town's Economic Development and Tourism Coordinator. They can provide information and answer specific questions related to your application. It is *strongly* encouraged that prior to submitting a Letter of Intent an applicant has a meeting with the EDTC and the Regional Director for MOBD to discuss the project.

⁴ A building permit can only be received after all other Town permitting has been approved. Therefore if an application is at any stage prior to building permit, they may apply for a TIF.