DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

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Informational Guideline Release

Bureau of Municipal Finance Law
Informational Guideline Release (IGR) No. 19-13
December, 2019

Supersedes IGR 94-201 and Inconsistent Prior Written Statements

PROPERTY TAX EXEMPTIONS TO PROMOTE ECONOMIC DEVELOPMENT, AFFORDABLE HOUSING, WORKFORCE HOUSING, AND MANUFACTURING WORKFORCE DEVELOPMENT

G.L. c. 23A, §§ 3A-3F; G.L. c. 40, §§ 59-60A and c. 59, § 5, Clause Fifty-first; G.L. c. 40, § 60B and G.L. c. 59, § 5, Clause Fifty-eighth

This Informational Guideline Release (IGR) informs local officials about property tax exemptions under tax increment financing agreements between municipalities and property owners and special tax assessments. It also explains the standards and procedures that apply to these property tax exemptions.

Topical Index Key:

Exemptions

Distribution:

Assessors
Selectmen/Mayors
City/Town Managers/Exec. Secretaries
Finance Directors
City/Town Councils
Treasurers

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SUMMARY:

These guidelines explain the implementation of property tax exemptions available under the Economic Development Incentive Program (EDIP) and parallel programs to promote affordable housing in urban centers, manufacturing workforce development and construction of middle income housing. They also explain the standards and procedures that apply to these property tax exemptions. For guidance regarding the plans and agreements required to permit these property tax exemptions, cities and towns should consult with their municipal counsel and review the relevant regulations and guidance issued by the agencies with jurisdiction over these programs.

These guidelines are in effect and supersede Informational Guideline Release (IGR) No. 94-201, *Property Tax Exemptions to Promote Economic Development*, and any inconsistent prior written statements or documents.

GUIDELINES:

I. TYPES OF PROPERTY TAX EXEMPTIONS

Five property tax exemptions are available under four different programs. The programs are: (1) the Economic Development Incentive Program (EDIP); (2) the Urban Center Housing Tax Increment Financing Zone; (3) the Manufacturing Workforce Training Tax Increment Financing Plan; and (4) the Workforce Housing Special Tax Assessment Plan. Under each of these programs, property taxes are exempted through either a tax increment financing (TIF) exemption or a special tax assessment (STA).

A. Economic Development Incentive Program (EDIP)

The EDIP provides for two types of local property tax exemptions intended to spur economic development: a TIF exemption and STA. A municipality may grant either exemption to eligible businesses with real estate projects meeting certain conditions, with the approval of the Economic Assistance Coordinating Council (EACC). G.L. c. 23A, § 3E. The EACC has regulatory authority over the EDIP program, including the local TIF and STA exemptions. 402 Code of Massachusetts Regulations (CMR) 2.00.

1. EDIP-STA

The first type of economic development local property tax exemption is the EDIP-STA. G.L. c. 23A, § 3E(c). A municipality may offer an EDIP-STA to an eligible person or entity. The EDIP-STA must be described in a written agreement which must run for at least 5 years but not more than 20 years. The agreement must be approved by the city or town by vote of its town meeting, town council or city council with the mayor's approval where required, and by the EACC before the agreement is valid and enforceable. EACC approval is also required to amend an EDIP-STA agreement.

An EDIP-STA provides for a flexible tax reduction expressed as an exempted percentage of a real estate parcel's total fair cash value over twenty years. The municipality has discretion over the amount of the tax reduction provided it meets the statutorily required minimum tax exemption over the initial five years of the agreement. The minimum EDIP-STA exemption schedule is as follows:

Year	**Minimum Tax Exemption**
1	At least 50% of fair cash value
2	At least 25% of fair cash value
3	At least 25% of fair cash value
4	At least 5% of fair cash value
5	At least 5% of fair cash value
6-20	No minimum

The EDIP-STA agreement may not include a tax exemption for personal property.

2. EDIP-TIF Exemption

The second type of economic development local property tax exemption is an EDIP-TIF exemption. G.L. c. 23A, § 3E(b); G.L. c. 40, § 59; G.L. c. 59, § 5, Clause Fifty-first. EDIP-TIF incentives may be offered by a municipality to an eligible person or entity in an EACC-designated TIF-eligible area.

An EDIP-TIF agreement with an eligible person or entity must be approved by a city or town by vote of its town meeting, town council or city council with the mayor's approval where required. EACC approval of the agreement is also required before the agreement is valid and enforceable. EACC must also approve amendments to an EDIP-TIF agreement.

The EDIP-TIF exemption covers a percentage of the increase in a parcel's fair cash value due to incentivized development, net of inflation, over its base value in the fiscal year before the first fiscal year in which the EDIP-TIF agreement is in effect. The parcel's base value is adjusted to ensure that the exemption applies only to increases in its value that exceed the ordinary inflationary increases in the value of other commercial and industrial properties in the community. The term of the exemption cannot exceed 20 years, and the percentage of the incremental value that is exempt can be up to 100 percent. Both the duration of the exemption and the percentage of increased value that is exempt are fixed by the EDIP-TIF agreement between the municipality and the property owner. In addition, the EDIP-TIF agreement may exempt up to 100 percent of the value of taxable personal property situated on a TIF parcel. Personal property otherwise exempt from local property tax (for example, under G.L. c. 59, § 5, Clause Sixteenth) remains exempt.

B. Urban Center Housing Tax Increment Financing Exemption (UCH-TIF)

A UCH-TIF property tax exemption may be used to promote the development of affordable housing in eligible areas. G.L. c. 40, § 60; G.L. c. 59, § 5, Clause Fifty-first. The UCH-TIF exemption, like the EDIP-TIF exemption, applies to a percentage of the increase in property value brought about by incentivized improvements, over its base value in the fiscal year before the first fiscal year in which the TIF agreement is in effect; adjusted by an inflation factor. However, unlike the EDIP-TIF exemption, under the UCH-TIF exemption, inflation in real estate prices is gauged by reference to other residential properties in the community or by reference to both residential and commercial properties. UCH-TIF agreements can run for up to 20 years. In addition, up to 100% of the value of taxable personal property situated on the parcel may be exempted. Personal property otherwise exempt from local property tax remains exempt (for example, exempt property of corporations or entities treated as corporations under G.L. c. 59, § 5,Clause Sixteenth).

UCH-TIF plans must be approved by a city or town by vote of its town meeting, town council or city council with the mayor's approval where required. The plan must describe the property tax exemption, attach a copy of the form UCH-TIF agreement to be executed with eligible owners under the plan and include a delegation of authority to a particular municipal board or officer to execute individual agreements in accordance with the plan. A UCF-TIF plan must be approved by the Department of Housing and Community Development (DHCD) and is governed by its regulations. See 760 CMR 58. DHCD approval is also required for individual agreements executed by the board or officer authorized to do so under the UCH-TIF plan. Executed and approved individual agreements must be recorded in the registry of deeds or registry district of the land court where the property is located.

C. Manufacturing Workforce Training Tax Increment Financing Exemption (MWT-TIF)

A MWT-TIF property tax exemption may be used to support manufacturing workforce retraining and expansion of manufacturing facilities that have been located in the city or town for not less than two years. G.L. c. 40, § 60A; G.L. c. 59, § 5, Clause Fifty-first. The MWT-TIF exemption operates like the EDIP-TIF exemption described in section I-A-2 above. The MWT-TIF exemption covers a percentage of the increase in a parcel's fair cash value due to incentivized development, net of inflation, over its base value in the fiscal year before the first fiscal year in which the MWT-TIF agreement is in effect. The parcel's base value is adjusted to ensure that the exemption applies only to increases in its value that exceed the ordinary inflationary increases in the value of other commercial and industrial properties in the community. The term of the exemption cannot exceed 20 years and the percentage of the incremental value that is exempt can be up to 100 percent.

Both the duration of the exemption and the percentage of increased value that is exempt are fixed by the MWT-TIF plan and included in the agreement between the municipality and the property owner. Up to 100% of the value of taxable personal property situated on a TIF parcel may also be exempted. Personal property otherwise exempt from local property tax remains exempt (for example, exempt property of corporations or entities treated as corporations under G.L. c. 59, § 5, Clause Sixteenth). The Department of Workforce Development (DWD) and EACC have authority to issue regulations governing MWT-TIFs. See 429 CMR 2.00.

MWT-TIF plans must be approved by a city or town by vote of its town meeting, town council or city council with the mayor's approval where required. The plan must include a description of the property tax exemption, delegate to one board, agency or officer of the city or town the authority to execute agreements with eligible owners under the plan, and include the executed MWT-TIF agreements with eligible owners. The designation of MWT-TIF zones is subject to the approval of DWD. MWT-TIF plans are subject to approval by the EACC. Executed and approved individual agreements must be recorded in the registry of deeds or registry district of the land court where the property is located.

D. Workforce Housing Special Tax Assessment (WH-STA)

Under G.L. c 40, § 60B and G.L. c. 59, § 5, Clause Fifty-eighth, a city or town may adopt a WH-STA plan to encourage and facilitate the increased development of middle income housing. WH-STA plans must be approved by a city or town by vote of its town meeting, town council or city council with the mayor's approval where required. No state level approval is required. A WH-STA plan expires three years after its adoption unless the plan is renewed by the city or town in the same manner the plan was approved. The city or town must promulgate regulations that govern the implementation of such plans.

WH-STA plans may authorize exemptions from property tax for not more than five years for any parcel located in a WH-STA zone and for which an agreement has been executed between the city or town and the owner. WH-STA plans may authorize property tax exemptions for owners of parcels of real estate from taxes corresponding to as much as 100% of fair cash value during two years of construction. The WH-STA plan may also provide for property tax exemptions over a three-year stabilization phase following construction in declining maximum percentages of the fair cash value as shown below. The WH-STA agreement may not include a tax exemption for personal property.

WH-STA Exemption Schedule	
Year	**Maximum Exemption**
1	100% of fair cash value
2	100% of fair cash value
3	75% of fair cash value
4	50% of fair cash value
5	25% of fair cash value

II. IMPLEMENTATION OF EXEMPTIONS

A. Administration of Exemption

1. Individual Tax Exemption Agreements

The owner of each parcel that will receive an exemption must enter into an agreement with the city or town setting out the terms of the exemption applicable to the parcel. See Section I above for requirements for individual tax exemption agreements under each of the five property tax exemptions, including the approval procedure for agreements under each exemption.

An agreement may not establish a payment in lieu of tax (PILOT) or include a schedule of pre-determined tax payments to be made during the term of the agreement. Instead, the agreement must establish exemption percentages which are used by the assessors to calculate the exemption amount during each fiscal year of the agreement. (See Section B below for information on calculating the exemption amount.)

2. Notice of Agreement to Assessing Officers

The board, agency, or officer responsible for executing TIF agreements on behalf of the municipality must forward a copy of each agreement to the assessors, together with a list of the affected parcels. G.L. c. 40, §§ 59(viii), 60(d), and 60A(a)(vi). While sending the assessors a copy of an STA agreement is not required for those agreements to take effect, all agreements and lists of affected parcels should be forwarded to the assessors to ensure timely and proper implementation of the exemption.

3. Effective Dates

The STA or TIF exemption takes effect on July 1 of the fiscal year specified in the agreement, provided all necessary approvals have been given.

4. Ownership Changes

A change in the ownership of a parcel receiving a TIF exemption does not disqualify the parcel from receiving the exemption.

5. Abatements

Property owners claiming an error in the assessment, *i.e.* overvaluation, miscalculation of the exemption, or a failure to apply the exemption, must apply for abatement by the same deadline and follow the same rules that apply to abatements for other parcels.

6. Amendments

EDIP-TIF agreements or STAs approved by the EACC cannot be amended without the approval of the EACC.

7. Recordkeeping

Assessors should maintain a copy of each agreement establishing a TIF or STA exemption, a record of the vote approving the TIF agreement or STA, and a table of the exemption percentages for each fiscal year that the exemption is in effect. In the case of EDIP-TIF, UCH-TIF, and MWF-TIF exemptions, a year-by-year table of the inflation factors for each fiscal year of the TIF agreement should also be kept.

B. Calculation of Exemption

1. Generally

a. Real Estate Valuation and Assessment

For both an STA and TIF exemption, the fair cash value of the property must be determined by the assessors in each year of the agreement. The tax committed by the assessors, however, is based upon the value of the parcel reduced by the exemption amount, rather than upon the parcel's fair cash value. By using the property value reduced by the exemption, no abatement or charge is made against the overlay account as a result of these exemptions. The parcel value reduced by the exemption is also used to calculate the levy class percentages under G.L. c. 40, § 56 and the minimum residential factor under G.L. c. 58, § 1A.

b. Personal Property Valuation and Assessment

(1) TIF Exemptions - Personal property not otherwise exempt from property tax and situated at a parcel receiving a TIF exemption, including that owned by lessees, will be exempt from property tax on the negotiated percentage of its value as provided for in the TIF agreement. G.L. c. 59, § 5, Clause Fifty-first. The TIF exemption does not depend on the ownership of the personal property, e.g., whether owned by an individual, partnership, domestic business corporation, or manufacturing corporation.

(2) STA Exemptions - Personal property is not exempted from property tax under an STA.

2. STA Real Estate Tax Exemptions

To calculate an STA real estate tax exemption, in each year of the agreement the assessors must first determine the fair cash value of the parcel in accordance with usual assessment methods. The exemption percentage for the fiscal year is applied to the fair cash value to yield the exemption amount. The fair cash value is then reduced by the exemption amount. The fair cash value after reduction is the assessed value for the fiscal year. This amount is then multiplied by the tax rate for the fiscal year to yield the amount of tax due. G.L. c. 23A, § 3E(c). G.L. c. 59, § 5, Clause Fifty-eighth. See also Section I-A-1 and Section I-D above. An example of the calculation is shown below.

EXAMPLE - STA Exemption Calculation	
Parcel Fair Cash Value FY	$1,000,000
Exemption Percentage for FY	25%
Exemption Amount FY (Exemption Percentage times Parcel Fair Cash Value FY)	$250,000
Assessed Value (Parcel Fair Cash Value FY minus Exemption Amount FY)	$750,000
Tax is assessed on Assessed Value at FY tax rate	$750,000 x FY tax rate

3. TIF Exemptions

a. Personal Property

To calculate the TIF exemption on personal property situated on the parcel, the assessors apply the exemption percentage specified in the agreement to the fair cash value of all taxable personal property situated on a TIF site on the assessment date. G.L. c. 59, § 5, Clause Fifty-first. See Attachment 1 for a personal property tax exemption calculation example.

b. Real Estate

The TIF exemption on real estate is determined by applying the exemption percentage specified in the agreement to the fair cash value of the real estate less the parcel base value adjusted annually for inflation. This calculation is described in detail below. The value of the EDIP or MWT-TIF exemption is adjusted annually for inflation in the value of commercial and industrial properties in the municipality. The UCH-TIF exemption is adjusted for inflation in the value of residential properties, or residential and commercial properties where the TIF zone includes mixed uses.

(1) Parcel Base Value

To calculate the TIF exemption on the parcel, the assessors start with the base value of the parcel. The base value is the assessed valuation of the parcel in the last fiscal year before the TIF exemption went into effect.

(2) Adjustment Factor

The base value is then multiplied by an adjustment factor, which is the product of the inflation factors for all the years the TIF exemption has been in effect for the parcel.

Each exemption year's inflation factor is a fraction. If the fraction is less than one, then the inflation factor for that fiscal year is one.

Numerator – For EDIP and MWT-TIFs, the numerator of the fraction is the current fiscal year's total assessed value of all commercial and industrial parcels in the municipality that are being assessed at fair cash value (i.e., excluding TIF parcels), minus the part of that year's Proposition 2½ tax base growth adjustment that is attributable to commercial and industrial real estate. For UCH-TIFs, the numerator is (a) the current year's total value of all non-TIF residential parcels, minus residential new growth or (b) if the TIF zone includes mixed use properties, the current year's total value of all non-TIF residential and commercial parcels, minus residential and commercial new growth.

Denominator – For all TIFs, the denominator of the fraction is the total assessed value for the preceding fiscal year of all the parcels included in the numerator.

In determining the numerator and denominator in the subsequent fiscal year, note that the prior year's new growth is included in the total assessed value of the properties for the fiscal year**.**

(3) Exempt and Assessed Value

In each fiscal year of the agreement, the assessors must determine the fair cash value of the parcel for the fiscal year in accordance with usual assessment methods. The fair cash value is then reduced by the base value of the parcel multiplied by the inflation factors for all the years of the exemption up to and including the current fiscal year. The difference is then multiplied by the agreed-upon TIF exemption percentage for that fiscal year to arrive at the exemption amount. The assessed value is the fair cash value of the parcel minus the value of the exemption; tax is assessed upon this amount. G.L. c. 59, § 5, Clause Fifty-first.

EXAMPLE 1 – TIF Real Property Exemption Calculation	
Parcel Fair Cash Value FY	$1,000,000
Adjusted Base Value FY (base value of parcel adjusted by inflation factors to current fiscal year)	minus $100,000
Adjusted Parcel Fair Cash Value FY (Parcel Fair Cash Value less Adjusted Base Value)	$900,000
Exemption Percentage for FY stated in Agreement	100%
Exemption Amount FY (Exemption Percentage times Adjusted Parcel Fair Cash Value FY)	$900,000
Assessed Value FY (Parcel Fair Cash Value FY minus Exemption Amount FY)	$100,000
Tax is assessed on Assessed Value FY at FY tax rate	$100,000 times FY tax rate

EXAMPLE 2 - TIF Real Property Exemption Calculation		
Parcel Fair Cash Value FY		$1,000,000
Adjusted Base Value FY (base value of parcel adjusted by inflation factors to current fiscal year)	minus	$100,000
Adjusted Parcel Fair Cash Value FY (Parcel Fair Cash Value less Adjusted Base Value)		$900,000
Exemption Percentage for FY stated in Agreement		50%
Exemption Amount FY (Exemption Percentage times Adjusted Parcel Fair Cash Value FY)		$450,000
Assessed Value FY (Parcel Fair Cash Value FY minus Exemption Amount FY)		$550,000
Tax is assessed on Assessed Value FY at FY tax rate		$550,000 times FY tax rate

If the exemption percentage is 100%, the assessed value will simply be the base value multiplied by all the inflation factors.

See Attachment 2 for examples how to calculate the TIF real estate tax exemption, including examples how to calculate the adjusted base value.

III. CALCULATION OF TAX BASE GROWTH

Increases in the value of a parcel receiving a special tax assessment or TIF exemption during the exemption period will be treated as tax base growth for the levy limit calculation under G.L. c. 59, § 21C(f) in the year or years when the increased value attributed to the tax base growth first becomes taxable. For tax base growth examples, see Attachment 3. See also the Annual IGR for "Determining Annual Levy Limit Increase for Tax Base Growth."

IV. END OF EXEMPTION

A. Exemption Period

TIF agreements may run for any period up to 20 years, at the election of the municipality. EDIP-STA agreements must run for at least five years, but not more than 20 years. WH-STA agreements may run for a period not to exceed five years.

B. TIF or STA Zone Revocation

A municipality may revoke the designation of an area as a TIF zone for urban center housing or manufacturing workforce training, or for workforce housing STAs at any time. After a revocation, no additional TIF or WH-STA exemptions may be granted in the TIF or STA zone, but the extent and duration of existing TIF and WH-STA exemptions are not affected by the revocation.

C Revocation of EDIP Project Certification by EACC

A revocation of a project's certification by the EACC terminates the EDIP local property tax incentive (STA or TIF) unless the written agreement between the municipality and the taxpayer provides otherwise. The municipality may seek to preserve the EDIP local tax incentive by amending the written agreement with the taxpayer through the same process by which it was approved, subject to EACC approval.

Upon revocation of certification, a municipality may recapture the EDIP tax benefit received by the taxpayer before revocation by making a special assessment on the taxpayer in the tax year that follows the EACC decertification. The omitted assessment procedure is used to commit the recaptured tax, but the time limit for making the assessment does not apply. G.L. c. 59, § 75.

D. Termination of Exemption before End of Exemption Period /Recapture of Tax Benefits

The local property tax incentive (exemption) may be terminated by the municipality before the end of the exemption period described in an agreement if the agreement includes provisions describing what constitutes a default by the taxpayer under the agreement and the remedies of the municipality in the event of such default include termination of the agreement. The municipality may also recapture tax benefits afforded taxpayer under the agreement in the event of such termination if the agreement so provides.

ATTACHMENT 1

CALCULATION OF TIF PERSONAL PROPERTY TAX EXEMPTION

The TIF agreement with the owner of Parcel A includes a 50% personal property tax exemption for the first 10 fiscal years of the agreement (FY1-10) and 25% for the next 10 fiscal years of the agreement (FY11-20).

FY1

Step 1 – Calculate FY1 Exemption Amount

The owner of Parcel A is a business corporation. The assessors determine that the fair cash value of all taxable machinery used in the conduct of business owned by the corporation on the FY1 January 1 assessment date is $250,000, with $100,000 worth of machinery located in a leased site not part of Parcel A and $150,000 located on Parcel A. There is also taxable personal property owned by a lessee and located on Parcel A with a fair cash value on the FY1 January 1 assessment date of $50,000. The assessors determine that the fair cash value of all the taxable personal property located on Parcel A on the FY1 January 1 assessment date is $200,000.

FY1 Fair Cash Value of Taxable Personal Property on Parcel A	FY1 Exemption %	FY1 Exemption Amount
$200,000	50%	= **$100,000**

Step 2 – Calculate FY1 Assessed Valuation

The FY1 **assessed value** of the personal property at Parcel A is the FY1 fair cash value ($200,000) minus the FY1 exemption amount ($100,000) **= $100.000**. Tax is assessed on $100,000 at the FY1 tax rate.

FY11

Step 1 – Calculate FY11 Exemption Amount

The owner of Parcel A has consolidated all its operations within the community to Parcel A. Additionally, the lessee is no longer sited in Parcel A and its personal property has been purchased by the owner of Parcel A. The assessors determine that the fair cash value of all the taxable personal property located on Parcel A on the FY11 January 1 assessment date is $300,000.

FY11 Fair Cash Value of Taxable Personal Property on Parcel A	FY11 Exemption %	FY11 Exemption Amount
$300,000	25%	**= $75,000**

Step 2 – Calculate FY11 Assessed Valuation

The FY11 **assessed value** of the personal property on Parcel A is the FY11 fair cash value ($300,000) minus the FY11 exemption amount ($75,000) **= $225,000**. Tax is assessed on $225,000 at the FY11 tax rate.

ATTACHMENT 2

CALCULATION OF EDIP-TIF OR MWT-TIF REAL ESTATE TAX EXEMPTION

Note: This attachment shows an example of the calculations for an **EDIP-TIF or MWT-TIF** real estate tax exemption. To calculate a **UCH-TIF** exemption, instead of using the numerator shown in each Step 1 below, the Step 1 numerator is (1) the current year's total value of all non-TIF residential parcels, minus residential new growth or (2) if the UCH-TIF zone includes mixed use properties, the current year's total value of all non-TIF residential and commercial parcels, minus residential and commercial new growth. The remainder of the calculation is the same.

EXAMPLE - An EDIP or MWT-TIF plan is adopted by the municipality that gives a 50% TIF real estate tax exemption to the owner of Parcel A for 20 years, starting in FY1. In the FY before the exemption begins (FY0 base year), the assessed valuation of Parcel A was $100,000. Therefore, $100,000 is the base year value.

FY1

Step 1 – Calculate FY1 Inflation Factor

In FY1, there are 10 non-TIF eligible parcels of commercial and industrial (C&I) land in the community with a total valuation of $11,000,000. In the base FY those same 10 parcels had a total valuation of $10,000,000. In FY1, $500,000 of the municipality's Proposition 2½ levy limit due to approved tax base growth is attributable to the C&I classes.

The inflation factor for FY1 is determined by taking the FY1 total value of non-TIF eligible C&I parcels ($11,000,000) minus the FY1 new growth attributed to the C&I class ($500,000) and dividing that amount ($10,500,000) by the base FY0 value of the non-TIF eligible C&I parcels ($10,000,000).

Numerator	**$10,500,000 (**$11,000,000 [FY1 Total Value Non-TIF Eligible C&I Parcels] minus $500,000 [FY1 C&I new growth])	FY1 Inflation Factor = **1.05**
Denominator	**$10,000,000** (FY0 total value of parcels included in the numerator)	

Step 2 – Calculate FY1 Exemption Amount

The owner of the TIF parcel constructs a new building, increasing the parcel's fair cash value for FY1 to $2,000,000. The FY1 exemption amount is determined by reducing the FY1 fair cash value of the parcel ($2,000,000) by the FY1 adjusted base value ($105,000) and multiplying that amount ($1,895,000) by the FY1 exemption percentage (50%) as follows:

FY1 Fair Cash Value	FY1 Adjusted Base Value (Base Value x FY1 Inflation Factor)	FY1 Adjusted Parcel Fair Cash Value	FY1 Exemption %	FY1 Exemption Amount
$2,000,000	**$105,000 (**$100,000 x 1.05)	**$1,895,000**	**50%**	**$947,500**

Step 3 – Calculate FY1 Assessed Valuation

The FY1 assessed value is FY1 fair cash value ($2,000,000) minus the FY1 exemption amount ($947,500) = $1,052,500. Tax is assessed on the $1,052,500 at the FY1 tax rate.

FY1 Fair Cash Value	FY1 Exemption Amount	FY1 Assessed Value
$2,000,000	**$947,500**	**$1,052,500**

FY2

Step 1 – Calculate FY2 Inflation Factor

For FY2, the aggregate value of non-TIF eligible C&I parcels assessed at fair cash value has risen to $12,000,000 and $550,000 of that value increase reflects new growth. The FY2 inflation factor is calculated as follows:

Numerator	**$11,450,000** ($12,000,000 [FY2 Total Value Non-TIF Eligible C&I Parcels] minus $550,000 [FY2 C&I new growth])	FY2 Inflation Factor = **1.04**
Denominator	**$11,000,000** (FY1 total value of parcels included in the numerator)	

Step 2 – Calculate FY2 Exemption Amount

For FY2, the fair cash value of the TIF parcel has risen to $2,100,000. The FY2 exemption amount is determined by reducing the FY2 fair cash value of the parcel ($2,100,000) by the FY2 adjusted base value ($109,200) and multiplying that amount ($1,895,000) by the FY2 exemption percentage (50%) as follows:

FY2 Fair Cash Value	FY2 Adjusted Base Value (Base Value x FY1 x FY2 Inflation Factors)	FY2 Adjusted Fair Cash Value Parcel	FY2 Exemption %	FY2 Exemption Amount
$2,100,000	**$109,200** ($100,000 x 1.05 x 1.04)	**$1,990,800**	**50%**	**$995,400**

Step 3 – Calculate FY2 Assessed Valuation

The FY2 assessed value is FY2 fair cash value ($2,100,000) minus the FY2 exemption amount ($995,400) = $1,104,600. Tax is assessed on the $1,104,600 at the FY2 tax rate.

FY2 Fair Cash Value	FY2 Exemption Amount	FY2 Assessed Value
$2,100,000	**$995,400**	**$1,104,600**

FY3

Step 1 – Calculate FY3 Inflation Factor

For FY3, the aggregate value of non-TIF eligible C&I parcels assessed at fair cash value is $12,500,000 and $140,000 of the increase reflects new growth. The FY3 inflation factor is calculated as follows:

Numerator	**$12,360,000** ($12,500,000 [FY3 Total Value Non-TIF Eligible C&I Parcels] minus **$140,000** [FY3 C&I new growth])	FY3 Inflation Factor = **1.03**
Denominator	**$12,000,000** (FY2 total value of parcels included in the numerator)	

Step 2 – Calculate FY3 Exemption Amount

For FY3, the fair cash value of the TIF parcel has risen to $2,150,000. The FY3 exemption amount is determined by reducing the FY3 fair cash value of the parcel ($2,150,000) by the FY3 adjusted base value ($112,476) and multiplying that amount ($2,037,524) by the FY3 exemption percentage (50%) as follows:

FY3 Fair Cash Value	FY3 Adjusted Base Value (Base Value x FY1 x FY2 x FY3 Inflation Factors)	FY3 Adjusted Fair Cash Value Parcel	FY3 Exemption %	FY3 Exemption Amount
$2,150,000	**$112,476** **(**$100,000 x 1.05 x 1.04 x 1.03)	**$2,037,524**	**50%**	**$1,018,762**

Step 3 – Calculate FY3 Assessed Valuation

The FY3 assessed value is FY3 fair cash value ($2,150,000) minus the FY3 exemption amount ($1,018,762) = $1,131,238. Tax is assessed on the $1,131,238 at the FY3 tax rate.

FY3 Fair Cash Value	FY3 Exemption Amount	FY3 Assessed Value
$2,150,000	**$1,018,762**	**$1,131,238**

ATTACHMENT 3

CALCULATION OF TAX BASE GROWTH FOR PARCEL WITH TIF OR STA EXEMPTIONS

New growth during the term of a TIF or STA agreement is allowed only in the year when the additional value becomes taxable for the first time.

EXAMPLE 1 – TIF

A TIF agreement provides for an exemption of 100% of the increased value for the maximum of 20 years, beginning in FY1. Before the agreement, the parcel's assessed value was $100,000; this is the base value. A $1,000,000 building is added in FY2. From FY1 through FY20, the exemption amount is 100% of the parcel's fair cash value less the adjusted base value, resulting in an assessed value equal to the adjusted base value. Because 100% of the value attributed to the construction was exempt during the TIF, no new growth is added through FY20. After expiration of the TIF agreement in FY21, the fair cash value of the parcel, including improvements added, is $3,000,000. This will also be the assessed value as the exemption period is over. The adjusted base value of the parcel in the last year of the TIF (FY20) was $200,000, so this amount was the assessed value in FY20. Therefore, the new growth to be added to the levy limit in FY21 is the parcel's assessed value in FY21 ($3,000,000) minus the assessed value of the parcel in FY20, the last year of the TIF agreement ($200,000). See below:

FY	Parcel Fair Cash Value	Adjusted Base Value	Exemption Amount	Parcel Assessed Value	New Growth in FY
20	**$2,950,000**	**$200,000**	**$2,750,000** (100% of [Fair Cash Value $2,950,000 minus Adjusted Base Value $200,000])	**$200,000** (Fair Cash Value $2,950,000 minus Exemption Amount $2,750,000)	**0**
21	**$3,000,000**	**N/A**	**N/A**	**$3,000,000**	**$2,800,000** (Parcel Assessed Value $3,000,000 minus Parcel Assessed Value Previous FY $200,000)

EXAMPLE 2 – TIF

In this example, the facts are the same as Example 1 except that the exemption is 100% of the increased value for the first five years of the agreement and 50% for the remainder of the agreement. As shown in the previous example, because the exemption amount is 100%, no new growth is added through FY5. In FY6, when the exemption decreases to 50%, the fair cash value of the parcel is $1,300,000 and the compounded inflation adjustments bring the base value to $110,000. As a result, the exemption amount is $595,000, which is 50% of (the fair cash value of $1,300,000 minus the adjusted base value of $110,000). Therefore the assessed value in FY6 is $705,000, determined by reducing the fair cash value of $1,300,000 by the exemption amount of $595,000. New growth in FY6 is determined by reducing the FY6 assessed value ($705,000) by the assessed value of parcel in previous fiscal year. In this example, the FY5 adjusted base value

($108,000) was the FY5 assessed value because the FY5 exemption amount was 100%. As shown below, the new growth added in FY6 is $597,000.

FY	Parcel Fair Cash Value	Adjusted Base Value	Exemption Amount	Parcel Assessed Value	New Growth in FY
5	**$1,275,000**	**$108,000**	**$1,167,000** (100% of [Fair Cash Value $1,275,000 minus Adjusted Base Value $108,000])	**$108,000** (Fair Cash Value $1,275,000 minus Exemption Amount $1,167,000)	**0**
6	**$1,300,000**	**$110,000**	**$595,000** (50% of [Fair Cash Value $1,300,000 minus Adjusted Base Value $110,000])	**$705,000** (Fair Cash Value $1,300,000 minus Exemption Amount $595,000)	**$597,000** (Parcel Assessed Value $705,000 minus Parcel Assessed Value Previous FY $108,000)

Because no additional value of the improvements is added to the assessed value during the remainder of the agreement (the TIF exemption amount of 50% remains the same for FY6 through FY20), no new growth is added from FY7 through FY20.

In FY 21, after the TIF agreement expires, there is no further exemption and the parcel and improvements are assessed at fair cash value. The FY21 fair cash value (and assessed value) of the parcel, including the value of all improvements, is $3,000,000. The assessed value of the parcel in FY20, the last year of the TIF was the fair cash value of the parcel, less the TIF exemption amount of 50%. The TIF exemption amount in FY20 was 50% of $2,750,000 (the difference between the fair cash value [2,950,000] and the FY20 base value and compounded inflation adjustments [$200,000]), resulting in an exemption of $1,375,000. The FY20 assessed value was the fair cash value of $2,950,000 less the exemption amount of $1,375,000 = $1,575,000. Therefore, the new growth to be added to the levy limit in FY21 is the parcel's assessed value in FY21 ($3,000,000) less the assessed value of the parcel in FY20 ($1,575,000), the last year of the TIF agreement.

FY	Parcel Fair Cash Value	Adjusted Base Value	Exemption Amount	Parcel Assessed Value	New Growth in FY
20	**$2,950,000**	**$200,000**	**$1,375,000** (50% of [Fair Cash Value $2,950,000 minus Adjusted Base Value $200,000])	**$1,575,000** (Fair Cash Value $2,950,000 minus Exemption Amount $1,375,000)	**0**
21	**$3,000,000**	**N/A**	**N/A**	**$3,000,000**	**$ 1,425,000** (Parcel Assessed Value $3,000,000 minus Parcel Assessed Value Previous FY $1,575,000)

EXAMPLE 3 – STA

A five-year STA agreement provides for the exemption schedule below. Note that the exemption percentages must comply with the statutory minimum or maximum exemption amount applicable to the type of exemption, EDIP- or WH-STA exemptions. See Sections I-A-1 and I-D above.

Fiscal Year	Exemption Percentage
FY1	50%
FY2	25%
FY3	25%
FY4	25%
FY5	15%

New growth is calculated as shown in the chart below.

Fiscal Year	Parcel Fair Cash Value	Exemption Amount	Parcel Assessed Value	New Growth in FY
FY0	**$100,000**	**N/A**	**$100,000**	0
FY1	**$1,000,000**	**$500,000** (50%)	**$500,000**	**$400,000** (Parcel Assessed Value FY1 $500,000 minus Parcel Assessed Value Previous Year FY0 $100,000)
FY2	**$1,010,000**	**$252,500** (25%)	**$757,500**	**$257,500** (Parcel Assessed Value FY2 $757,500 minus Parcel Assessed Value Previous Year FY1 $500,000)
FY3	**$1,020,000**	**$255,000** (25%)	**$765,000**	**0** (No growth as exemption amount is same)
FY4	**$1,030,000**	**$257,500** (25%)	**$772,500**	**0** (No growth as exemption amount is same)
FY5	**$1,035,000**	**$155,250** (15%)	**$879,750**	**$107,250** (Parcel Assessed Value FY5 $879,750 minus Parcel Assessed Value Previous Year FY4 $772,500)
FY6	**$1,040,000**	**N/A**	**$1,040,000**	**$160,250** (Parcel Assessed Value FY6 $1,040,000 minus Parcel Assessed Value Previous Year FY5 $879,750)