Tax-Increment Financing

Partners for Economic Solutions

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What is TIF?

Tax Increment Financing

Financing public improvements when there are no other public or private funds to finance it

Tax	Not a new tax or increased tax
Increment	Additional tax revenues created by increase in assessed values from redevelopment
Financing	Issuing non-recourse bonds, not backed by jurisdiction's full faith and credit, for new public improvements and other specified uses
	Using incremental taxes to repay bonds

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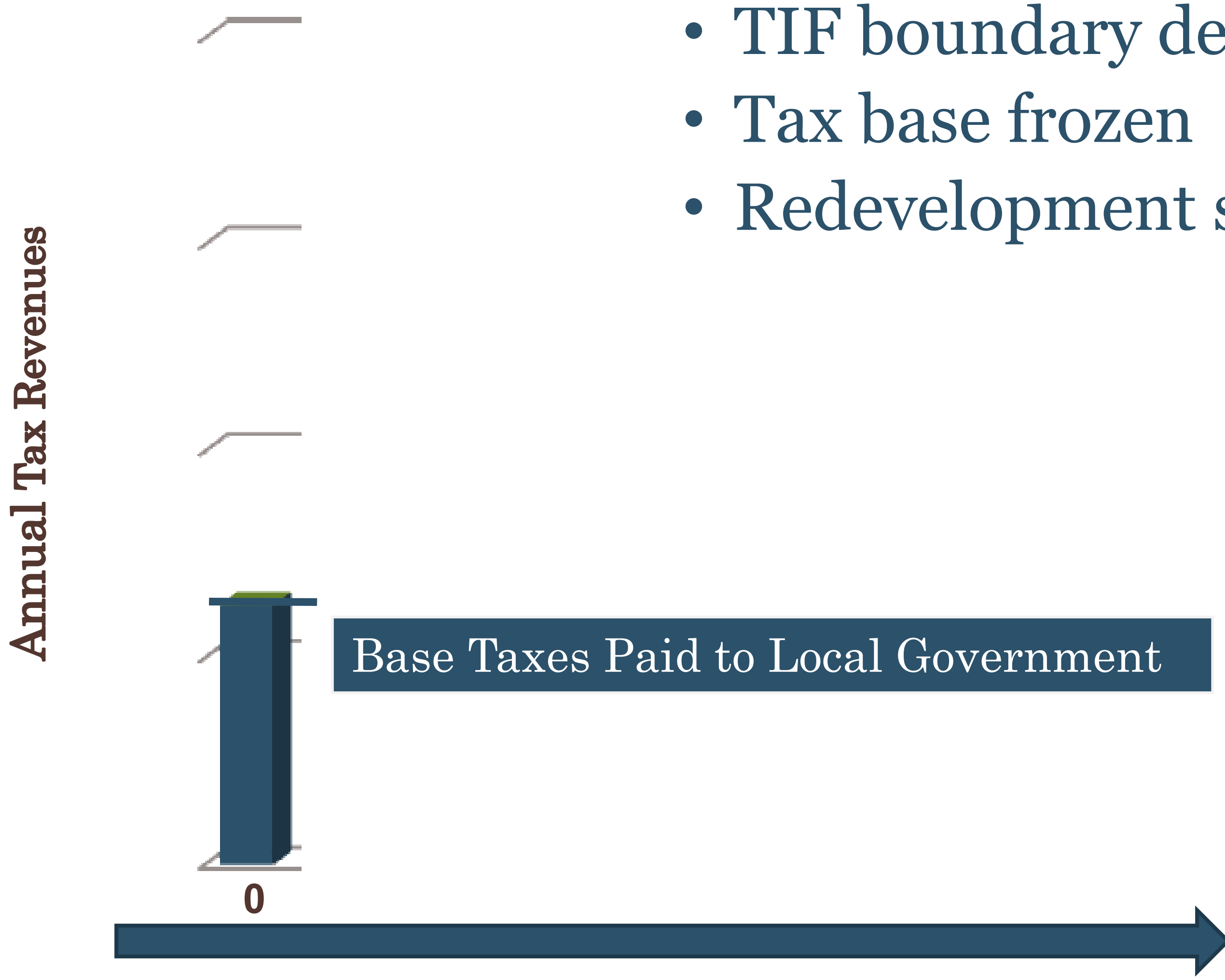
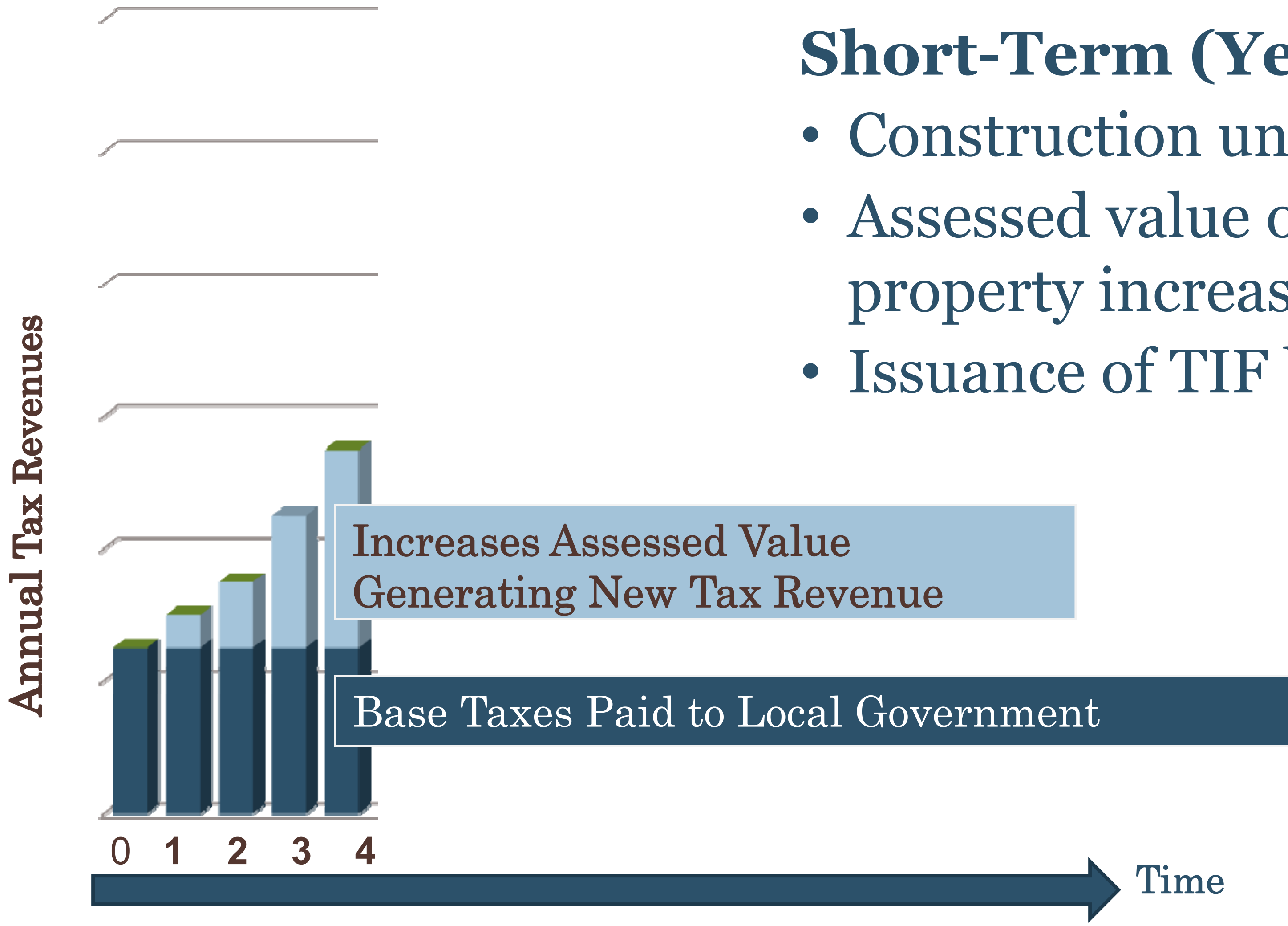
Flow of Revenues

Project Initiated (Year 0)

- TIF boundary defined
- Tax base frozen
- Redevelopment starts



Flow of Revenues



Short-Term (Years 1-4)

- Construction underway
- Assessed value of property increases
- Issuance of TIF bonds

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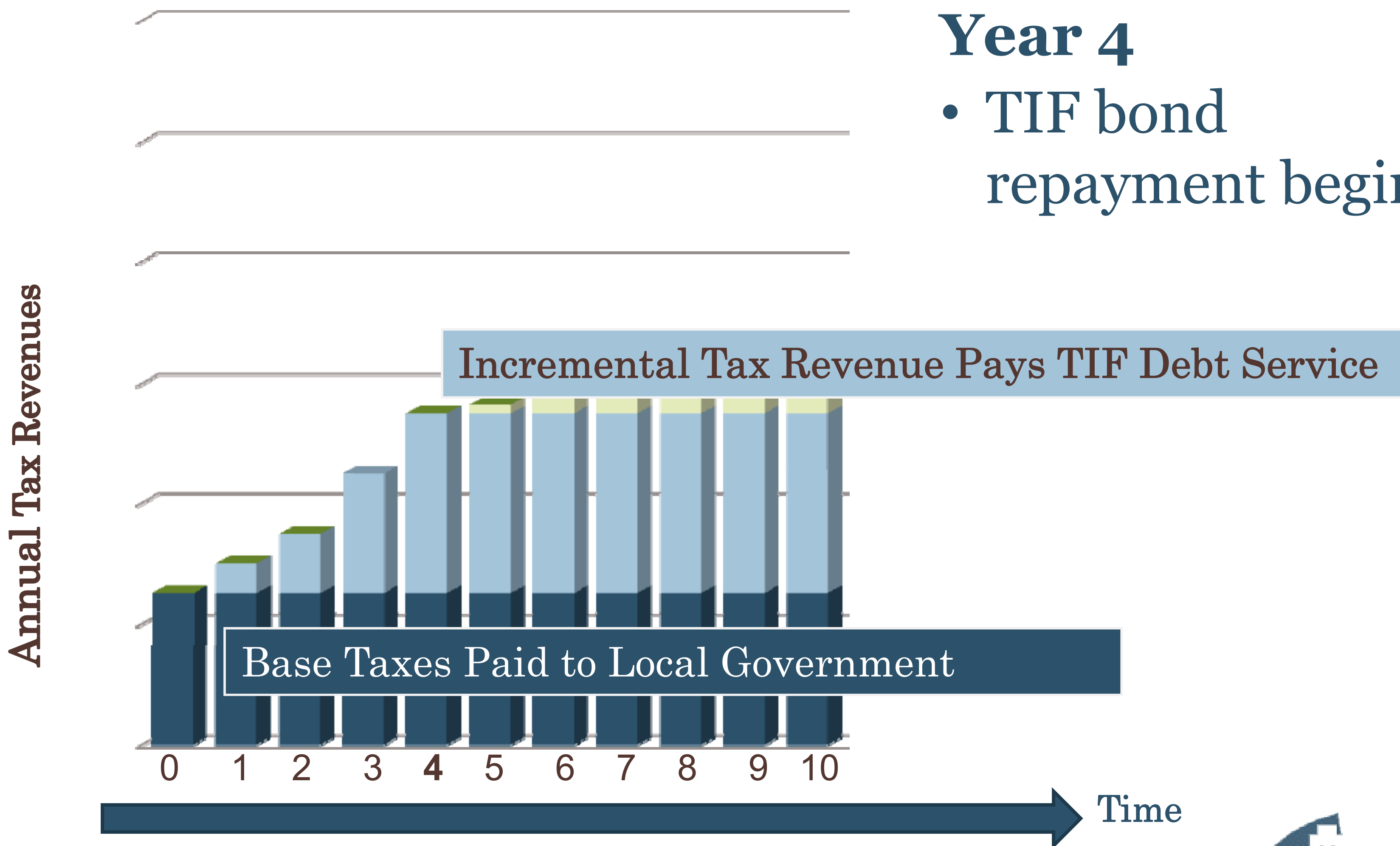
Flow of Revenues



Year 4

- TIF bond repayment begins

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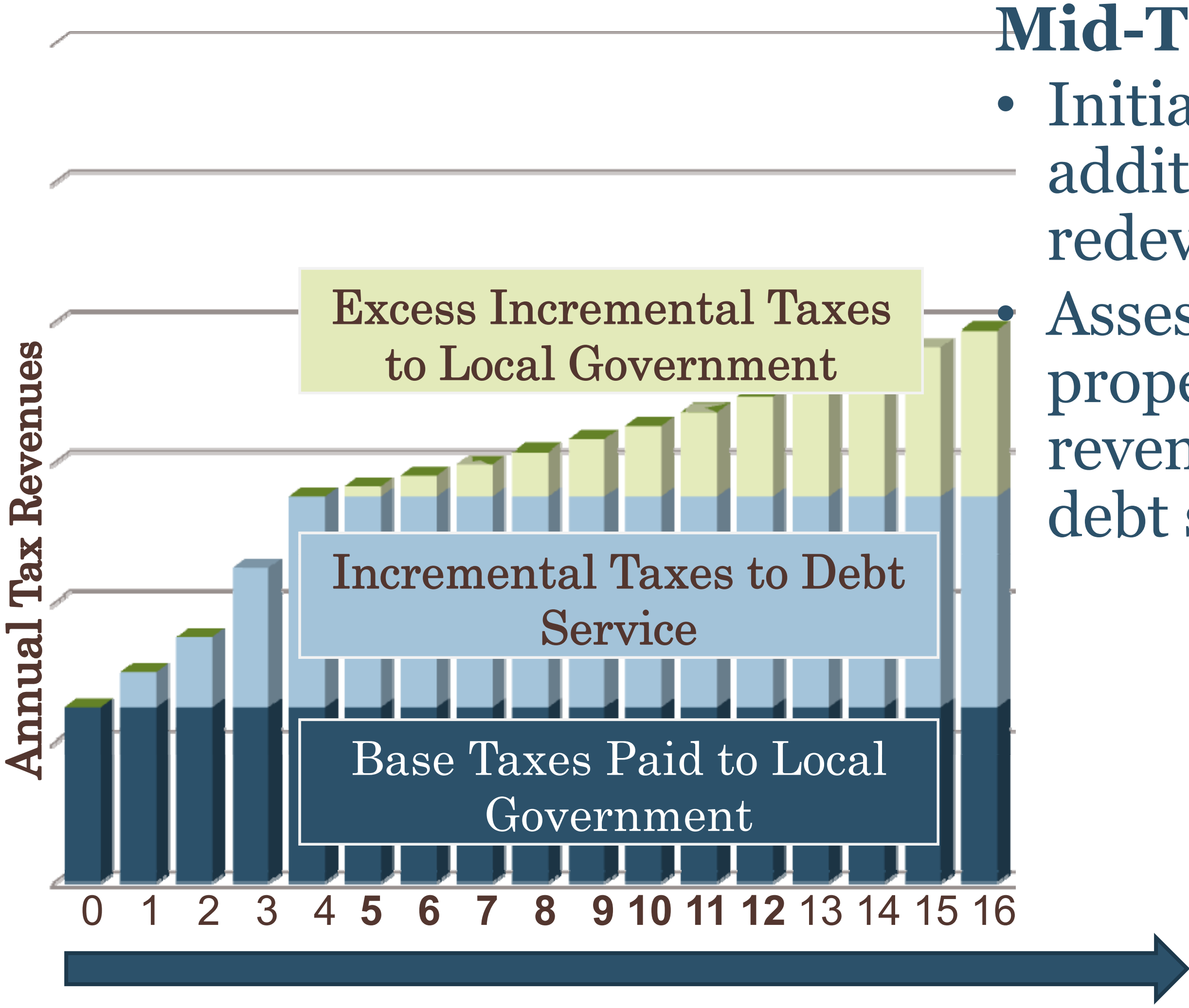
Flow of Revenues



Mid-Term (Years 5-12)

- Initial investment spurs additional redevelopment
- Assessed value of property increases TIF revenues in excess of debt service needs

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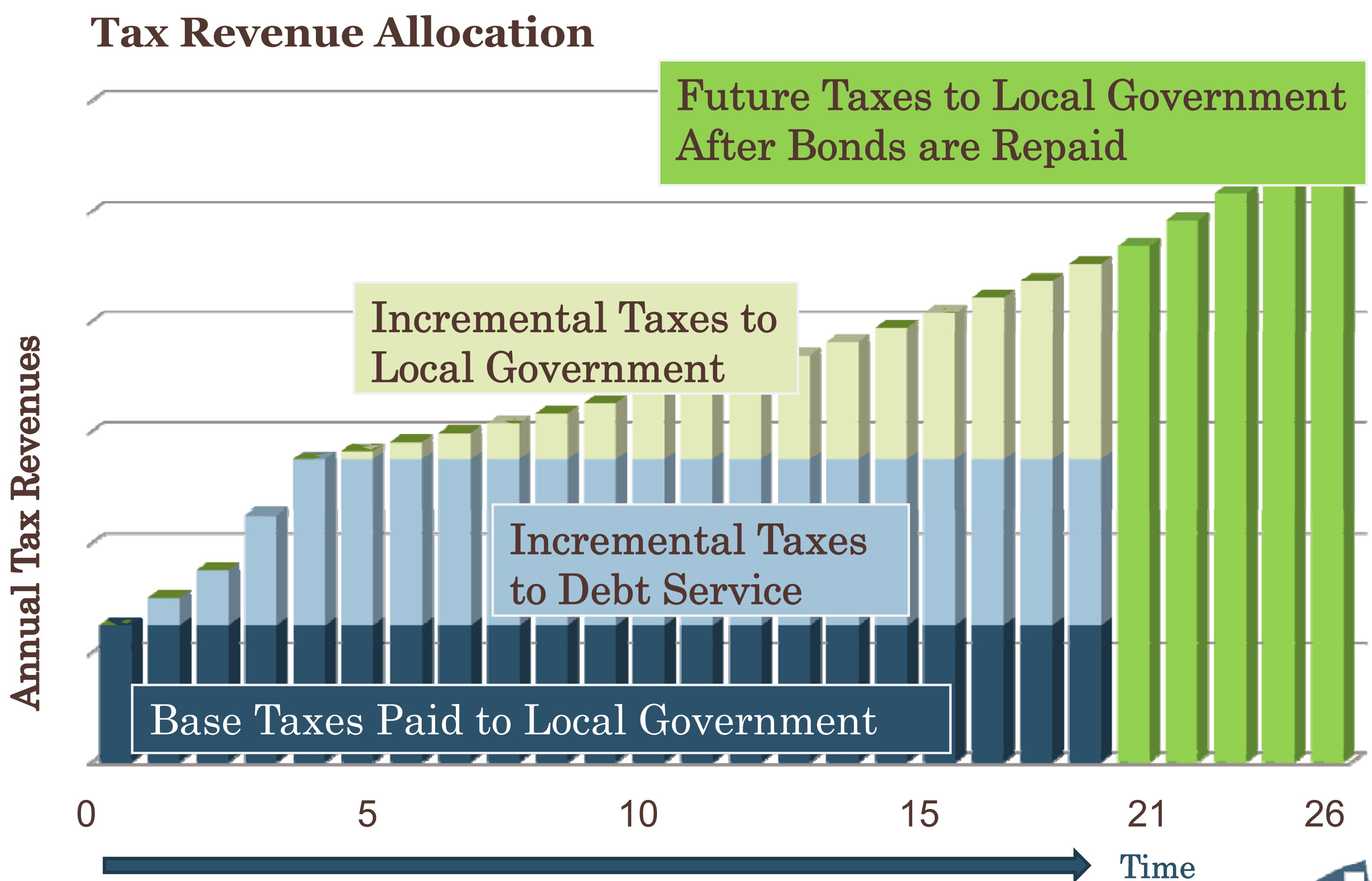
Flow of Revenues



The Beginning of TIFs

- Authorized by State statute
  - 49 states and the District of Columbia
- Implemented by local government at its discretion
- Details vary state to state
  - Taxes devoted
  - Eligible uses

What's the Increment?

- Tax rate remains the same
- Property assessment increases because of new development
- Property owners inside and outside TIF area pay same tax rate unless there is a revenue shortfall for debt service

What Taxes are TIF-Eligible in Maryland?

- Local real property taxes in all jurisdictions
- Hotel taxes in Prince George's County
- Any local tax in support of designated Transit-Oriented Developments in authorized counties

*Jurisdiction determines whether a portion or all of the incremental taxes go to pay TIF bonds

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What Uses are Eligible in Maryland?

- Infrastructure – roads, utilities, lighting, parks, etc.
- Government buildings
- Public parking garages
- Land acquisition, site removal, relocation
- Convention, conference and visitors centers in Prince George's County
- Capital and operating costs of infrastructure supporting Transit-Oriented Development (TOD) in certain counties
- Affordable housing in the City of Baltimore

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Typical TIF Process

1. Define TIF District
2. Establish base assessed value
3. Specify funded improvements
4. Issue non-recourse bonds
5. Make public purpose improvements
6. Development increases values
7. Incremental revenues to special fund
8. Bonds repaid & all taxes go to jurisdiction

*Process is initiated by the local jurisdiction, subject to local government approvals.

TIF Mechanics

- Jurisdiction defines the project or district where taxes will be collected and TIF revenues spent
- Maryland uses "project" TIFs almost exclusively
- Base value of existing property is established and "frozen"
  - Jurisdiction continues to receive same revenues generated by the existing assessed property value

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TIF Mechanics

- Redevelopment increases assessed property values
- Future tax revenues generated by increased "incremental" property values are directed to a dedicated TIF fund account
- TIF fund account repays bond holders

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TIF Mechanics

- TIF bond proceeds pledged to fund specified improvements
- Typically revenue bonds are issued following Wall Street review
- Bonds are not backed by government full faith and credit
- TIF revenues not needed for debt service on bonds go to the jurisdiction
- When the bonds are repaid, TIF revenues revert to the jurisdiction as part of regular taxes

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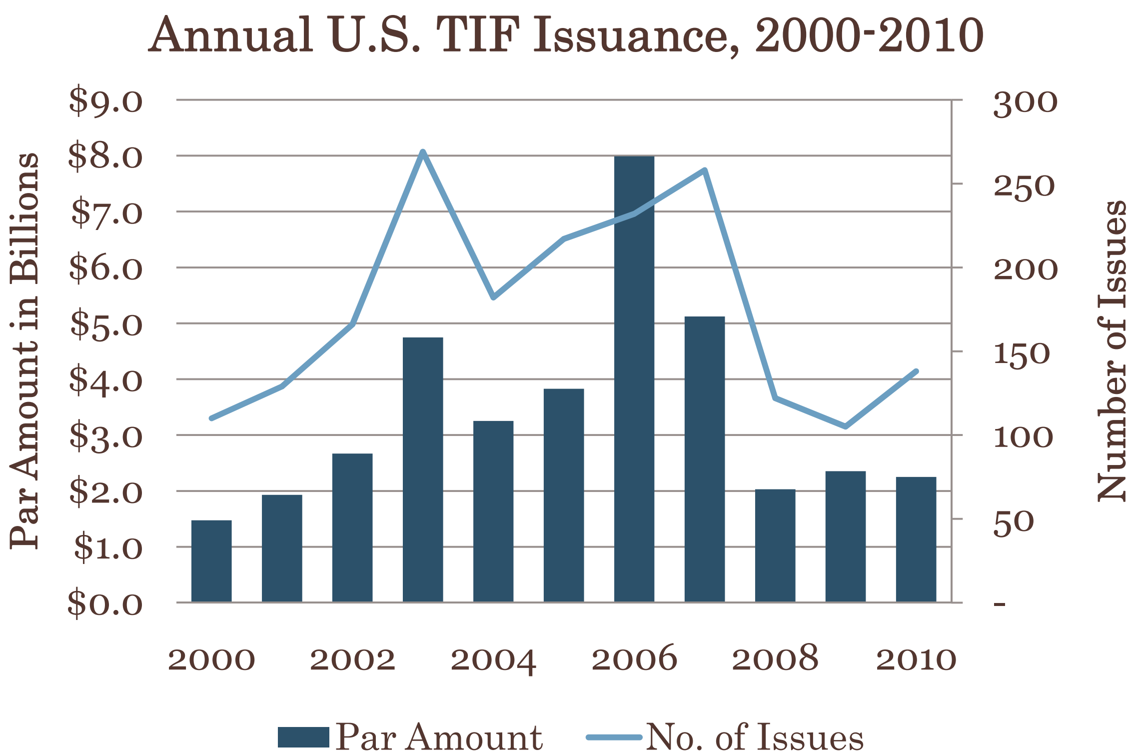
National TIF Experience, 2000-2010

- 49 states and DC have TIF statutes
- Nationally, TIF bonds were issued in 40 states
  - $37.6 billion issued 2000-2010
  - $2.25 billion issued in 2010
- Default rate: 0.03% in 2010



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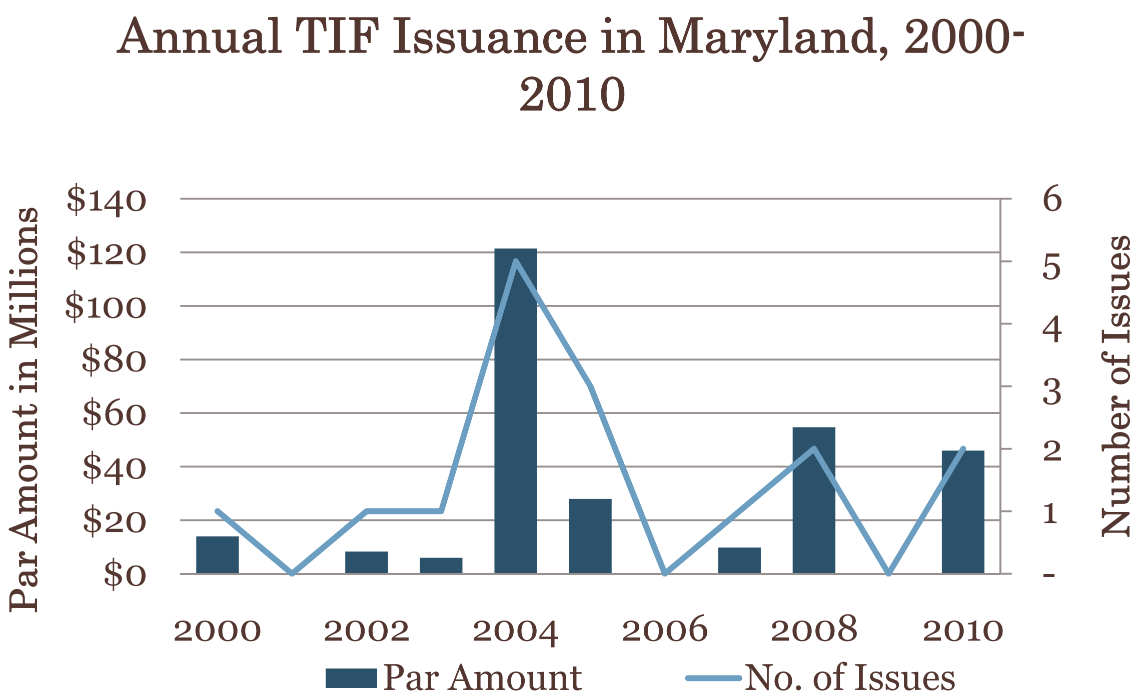
Maryland TIF Experience, 2000-2010

- $273 million in TIF bonds
- 15 bond issues by counties and cities
- Includes one developer-financed TIF
- Default rate: 0%



Note: Includes developer-financed TIFs

Credit Enhancement

- To make revenue bonds marketable to investors
- To improve the borrowing costs
- Built-in reserves and debt coverage requirements
- Backup repayment source such as special taxes
  - A special tax is assessed on the property equal to the annual debt service
  - TIF revenues are credited against that tax liability
  - If TIF revenues are not sufficient, property owner(s) bear the burden of paying the bond debt service
  - Special taxes put the burden and risk on the developer
- State limited loan guarantees (e.g., Pennsylvania)

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Alternative TIF Approaches

- Developer funds the improvements and is repaid through annual incremental tax revenues
- Pay-as-you-go funding of improvements from current incremental tax revenues without bond issuance

Frequently Asked Questions

How Risky Are TIFs?

- Nationally, only five in approximately 2,000 (0.3 percent) TIF bond issues were in default as of December 31, 2010
- No defaults in Maryland

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How to Mitigate TIF Risk?

- Structure debt service coverage conservatively – such that incremental revenues significantly exceed debt service
- Require backup special taxes on the property
- Focus TIF bonds on projects ready to go with private financing and construction bonds in place

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Does TIF Mean New Taxes?

- No new taxes are levied
- Property owners pay no higher taxes unless incremental tax revenues are insufficient to service debt
- With a backup special tax, the project's property owner pays additional taxes to cover any shortfall in bond debt service

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Is This a Tax Break for the Developer?

- Property owner continues to pay all taxes
- Property owner may pay higher taxes if the TIF bond is backed with a special tax

What is the State's Role?

- State provides enabling authority
- Use of TIF is solely at local government's discretion
- Follows local TIF policies
- Negotiations are between the developer and local government

Does TIF Shift Revenues from Other Budget Priorities?

- Jurisdiction continues to receive tax revenue from original base
- TIF bond can and should be calibrated to provide only as much investment as required
- Project would not otherwise proceed “but for” the TIF investment
  - TIF captures taxes that would not otherwise be generated
- Jurisdiction can elect to restrict the share of incremental tax revenues to TIF so as to preserve future revenues for other priorities

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Do TIF Bonds Put the Local Jurisdiction and State at Risk?

- No government obligation to pay TIF bonds
  - Local or state government can guarantee
- Default does not affect the governments' credit ratings
- While some jurisdictions are concerned that investors' reaction to a TIF default could taint their reputation, investors and rating agencies have no expectation that government will pay

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Do TIFs Impact the Bond Cap?

- Bond caps limit a local government's ability to incur debt
- TIF bonds do not count against most jurisdictions' legislated bond caps

TIF's Use?

- TIF can be used to promote policy goals, such as:
  - Smart growth
  - Transportation improvements
  - Community revitalization
  - Affordable housing
- Maryland's 2009 legislation authorizes use of TIF for TOD incentives

TIF Programs in Other States

Kentucky Signature Project Program

- Goal: To support major projects ($200+ million) to generate net positive economic and fiscal benefits
- TIF incentives
  - Up to 80% of State real property, income, limited liability entity and sales taxes can be TIF-eligible
  - Moral obligation backing of bonds authorized for selected projects but not yet used

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TIF Programs in Other States

Missouri Supplemental Tax Increment Financing Program

- Goal: Support projects in blighted redevelopment areas where population and/or property values have declined over last 20 years
- TIF incentives
  - Up to 50% of State incremental sales taxes or 50% of State income taxes may be devoted where there is a gap between local TIF revenues and project development cost

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TIF Programs in Other States

Pennsylvania Tax Increment Financing Guarantee Program

- Goal: Enhance the local TIF programs and improve access to capital by reducing investor risk
  - State guarantees for local TIF bonds
  - Up to $5 million per project
- Priority given to redevelopment projects in economically distressed areas or unutilized sites in an urban or core community

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TIF Programs in Other States

California TIF

- Goal: Support development of affordable housing
- TIF policies
  - 20% of bond proceeds are devoted to funding affordable housing

TIF Policy Ideas to Support Smart Growth – "Transformative Projects"

- Transformative projects
  - Meet strict criteria for promoting smart growth, sustainable and equitable development, AND
  - Generate positive "net new" economic and fiscal benefits to the State
- Consider State support
  - "Moral obligation" or guarantee
  - Pledge of certain State revenues
  - State matching of local TIF contributions
  - Application of the BRAC principle (State matches local TIF contributions)

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TIF Policy Ideas to Support Smart Growth

- Impose place-based limitations on infrastructure TIFs
  - Limit to such areas as distressed areas, TOD areas, historic preservation areas or enterprise zones
  - Perhaps prohibit use in greenfields or farms

TIF Policy Ideas to Support Smart Growth

Option	Outcome
Allow operations and maintenance of public infrastructure as an allowable expense in TOD areas	TOD area development
Provide simplified pay-as-you-go options	Development of smaller projects
Allow expenditures related to building/ rehabilitating affordable housing	Affordable and mixed-income housing
Allow land acquisition, demolition, site development and infill development expenditures	Revitalized communities

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TIF Policy Ideas to Support Smart Growth

Option	Outcome
Allow publicly owned sites to use "$0" as the base	Redevelopment of non-performing, publicly-owned sites
Allow the base to be adjusted downward to account for cleanup costs	Reclamation of brownfields
Clarify eligibility of remediation and site preparation expenditures	Reclamation of brownfields
Create a statutory "opt out" mechanism to convert property tax credits to TIF	Enterprise zone, brownfields and preservation projects

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National Harbor

Bond Issue:
- $65,000,000 Prince George's County, 2004
- $210,000,000 total TIF

Development:
- 7.3 million sf of development
- $2 billion total development cost
- Gaylord National Hotel and Convention Center
- Hotels
- Waterfront condos
- Offices
- Retail stores and nightspots
- Marina
- National Children's Museum

Developer:
- The Peterson Companies, LLC

Use of Proceeds:
- Public infrastructure

Security:
- Tax increment with special tax backup

East Baltimore Research Park

Bond Issue:
- $65,000,000 City of Baltimore, 2008 & 2009
- Purchased by Annie E. Casey Foundation

Development:
- $1.8 billion rebuilding of 88 acres
- 1.1 million sf Science + Technology Park
- 2,100 mixed-income rental and for-sale housing units
- 400,000 sf office and retail
- Pre-K-8 public school
- Maryland Public Health Laboratory
- Johns Hopkins University graduate student housing
- Parking

Developer:
- East Baltimore Development, Inc., the Forest City-New East Baltimore Partnership

Use of Proceeds:
- Public infrastructure
- Acquisition, demolition, relocation

Park Place

Bond Issue: ▪**$25,000,000 City of Annapolis, 2005**

Location: ▪**Westgate Circle, near downtown Annapolis**

Development:
- **Westin 225-room luxury hotel**
- **5-story, Class "A" office building**
- **166 unit residential condominium**

Use of Proceeds:
- **Public parking garage**

Primary Security:
- **Incremental City and County taxes**
- **Parking net operating income**
- **Backup special tax**

Special Features:
- **Unique layering of security to keep special tax risk on developers and off of homebuyers**

Mondawmin Mall

Bond Issue:	▪ **$15,000,000, 2008** ▪ **Developer purchase**
Location:	▪ **West Baltimore**
Development:	▪ **Renovation of 50-year-old urban shopping center** ▪ **Addition of Target department store and a new Shopper's Food Warehouse**
Use of Proceeds:	▪ **Redevelopment expenses**
Primary Security:	▪ **Incremental City taxes**