m&g

USER GUIDE FOR MARYLAND SUSTAINABLE COMMUNITY REVITALIZATION

MODELS & GUIDELINES

MANAGING MARYLAND'S GROWTH

TAX INCREMENT FINANCING

29

← You may use Acrobat Bookmarks to conveniently navigate this publication

m&g

USER GUIDE FOR MARYLAND SUSTAINABLE COMMUNITY REVITALIZATION

MODELS & GUIDELINES

MANAGING MARYLAND'S GROWTH

TAX INCREMENT FINANCING

29

State of Maryland

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Maryland Department of Planning

Richard E. Hall, AICP
Secretary

Amanda Stakem Conn, Esq.
Deputy Secretary

Maryland Department of Planning
301 West Preston Street, Suite 1101
Baltimore, Maryland 21201
Tel: 410.767.4500 Toll Free: 1.877.767.6272
TTY users: Maryland Relay
Planning.Maryland.gov

Models & Guidelines, Volume 29, *TIF: User Guide for Maryland Sustainable Community Revitalization*

October 2013 Publication No. 2013-006

Prepared by the Maryland Department of Planning and Maryland Economic Development Corporation. MDP contributing staff: Valerie Berton, John Coleman, Mark Goldstein, Alfred Sundara and David Whitaker. MEDCO contributing staff: Jeff Wilke. State agency contributing staff: John Papagni, DHCD; Marty Baker, MDOT; and Timothy Doyle, DBED. Proofreaders were Jenny King, Richard Josephson and Daniel Rosen. The principal author and editor was Chuck Boyd.

We thank the many individuals who provided ideas or directed us to particular programs, organizations, websites, reports and articles. Thank you to the peer reviewers who contributed their time and expertise in the development of this document: Todd Dolbin, Director, Baltimore Development Corporation; Richard Griffin, Economic Director, City of Frederick; John Hammond, Budget Officer, Anne Arundel County; C. Scott Dempwolf, Director, UMD-Morgan State Center for Economic Development; Jon Laria, Chair, Maryland Sustainable Growth Commission, and Abby Ferretti, Principal, Partners for Economic Solutions.

Table of Contents

Chapter 1: Introduction and Purpose

"Few will have the greatness to bend history itself; but each of us can work to change a small portion of events, and in the total of all those acts will be written the history of this generation."
(Robert F Kennedy, University of Cape Town - South Africa, 1966)

In this era of limited public spending following the national economic downturn, it is becoming increasingly difficult to address the infrastructure needs of existing communities and attract quality development projects that further local goals.

Among the funding alternatives available to local governments is Tax Increment Financing (TIF), a method that allows a local government to use the increase in property tax receipts from new development to pay for public improvements that promote economic development in the area. In 2013, the Maryland General Assembly passed its most recent law to enhance the ability of local governments to use TIF, this time targeting revitalization in strategic areas.

The Council of Development Financing Agencies, a national association, reports, "Tax Increment Finance (TIF) is the most popular form of public finance today for economic development projects."[1] Even though TIF has been used by local governments throughout the country for over 50 years, with 49 states adopting locally controlled TIF enabling legislation, this form of public finance often is not fully understood by the general public. Elected officials have difficulty describing to their electorate why a TIF is being proposed and what can be funded. These factors can lead to public anxiety and uninformed decisions driven by suspicion rather than facts.

The purpose of this Models and Guidelines document is to help the general public, elected officials, and community development advocates understand through case studies and best practices, how TIF works and that it can spur redevelopment. It is important to note that this document is intended to provide general information and expert advice should be sought when considering TIF for a specific project or community.

Since 1980, state law has enabled Maryland municipalities and counties to use TIF to finance the development of industrial, commercial or residential areas. (Baltimore City received the enabling legislation in 2000.) Over those years, Maryland has seen moderate use of TIF compared to other states.

According to a 2011 report from Partners for Economic Solutions, Maryland ranked 16th of 40 states nationally in the number of TIF bond series issued (15) between 2000 and 2010 for a total par value of $273 million. During that same period, California ranked first in the nation in TIF bonds issued (1,108), totaling over $23.6 billion, which accounted for approximately 60 percent of the TIF bond activity nationwide.

Two Baltimore projects benefited from TIF. Left: Johns Hopkins University redeveloped a Baltimore city block and Mondawmin Mall was renovated in west Baltimore (right).

In fact, one of the key findings in the January 2010 report from the Revitalization Incentives Workgroup to the *Task Force on the Future for Growth and Development in Maryland* was "The State's revitalization incentives alone are not sufficient to encourage major levels of private investment in older communities with weaker markets and higher regulatory barriers. Financing tools that can leverage transformative levels of private investment—such as the New Markets Tax Credit program, Community Development Financial Institutions and **Tax Increment Financing** (emphasis added) — are needed."

After learning that Maryland has not used TIF as much as other states to facilitate economic development, the Maryland Sustainable Growth Commission looked into this issue to determine whether Maryland's TIF enabling legislation could be more effective in promoting economic development in the neediest communities. The Commission evaluated best practices in other states and impediments to TIF utilization in Maryland, and recommended a series of improvements that were incorporated into proposed legislation.

During the 2013 session of the Maryland General Assembly, the *Sustainable Communities – Designation and Financing Law* was passed to enhance local TIF authority to promote revitalization in designated Sustainable Communities.

As defined in the Sustainable Communities Act of 2010, Sustainable Communities are places where public and private investments achieve "development of a healthy local economy; protection and appreciation of historical and cultural resources; a mix of land uses; affordable and sustainable housing and employment options; and growth and development practices that protect the environment and conserve air, water and energy resources, encourage walkability and recreational opportunities, and where available, create access to transit."

An overview of TIF fundamentals applicable to all states is presented in Chapter 2, answering:

- What is Tax Increment Financing?
- Where is TIF typically used and for what purpose?
- How do TIFs work, and are they effective?
- What are the positive and negative consequences of TIF?

The subject of TIF can be complicated, like other areas of high finance. Chapter 2 covers the topic from a general perspective, providing a basic understanding of TIF and issues to consider before pursuing TIF as economic development financing alternative, and is not a substitute for the expert advice of financial and legal professionals.

A state's use of TIF seems to be significantly influenced by the economic development activities permitted for funding under the state's TIF law and what other alternative local government financing tools may be available. For example, California's TIF dominance reflects its jurisdictions' long TIF history and the many limitations (e.g., Proposition 13) on local revenue sources. In California, the TIF laws changed in 2012, and due to statewide financial problems, local governments there are no longer able to fund redevelopment agency projects using TIF bonds. This will severely curtail future TIF bond issuances in California. Therefore, it is important to look closely how each state's legislation has structured its application of the TIF tool. No two states are exactly alike; each state's TIF legislation has been tuned to the economic development priorities and financing limitations of that state.

Partners for Economic Solutions, Stone & Youngberg, LLC, and STV, Inc., Introduction to Tax Increment Financing, prepared for Maryland Sustainable Growth Commission, March 2011.

Chapter 3 explains the broadened set of eligible TIF uses now available to local governments with a Sustainable Community designation, as a result of the *Sustainable Communities – Designation and Financing Law.* Chapter 3 highlights TIF provisions in Maryland laws that enable local jurisdictions to use this financial tool in ways unique to Maryland. This chapter also will present perceived impediments to using TIF in the state and the potential to overcome them.

Once a local government official or the public understands what a TIF is and what it can and cannot do, it is important to also understand the steps necessary to establish and execute a TIF. Chapter 4 lays out a five-step process. This chapter also identifies impediments and opportunities experienced by some Maryland TIF projects at different stages of the process.

Access to the Maryland Economic Development Corporation (MEDCO) for Sustainable Communities is one of the major improvements to Maryland's TIF laws resulting from the *Sustainable Communities – Designation and Financing Law.* Chapter 5 highlights the financial assistance and consulting services that MEDCO can provide a local government, particularly TIF transaction services.

Using TIF to jumpstart redevelopment efforts in your community is not simple or quick, and it is best to learn from the experiences of others who have tackled and conquered the challenges. Chapter 6 presents six case studies of communities throughout Maryland that have successfully used a TIF to promote economic development. While most of Maryland's TIFs are project-based, this chapter also will explore the redevelopment opportunities that area-based TIFs can provide a community. Additionally, this chapter offers suggestions on local TIF Policy Guidelines and highlights some Maryland best practices.

Chapter 7 answers frequently asked questions about TIF, while the appendices provide references used in this document, recommended reading and other best practice examples.

Sustainable Communities

Sustainable Communities seek to conserve resources; provide green spaces and parks for recreation and agriculture; offer many options for transportation; use natural and cultural resources wisely for future generations and consider the social and economic needs of all residents.

Governor O'Malley signed into law the Sustainable Communities Act of 2010 to enhance the future of growth, development and sustainability in Maryland. This law established the "Sustainable Communities" geographic designation to strengthen reinvestment and revitalization in Maryland's older communities. The Sustainable Communities law enhanced an existing rehabilitation tax credit into the Sustainable Communities Tax Credit Program. It also simplified the framework for designated revitalization target areas.

The Department of Housing and Community Development (DHCD) administers three programs Sustainable Communities that require Sustainable Communities designation as a threshold to apply for funds. Other state programs provide additional incentives or consideration for projects located in designated Sustainable Communities. For a complete list of benefits associated with Sustainable Communities designation, see the appendix on Sustainable Communities Benefits.

For more information about the Sustainable Communities Program and the designation process, visit DHCD's Sustainable Communities website: http://www.mdhousing.org/website/Programs/dn/Default.aspx.

Endnotes

[1] Council of Development Finance Agencies and International Council of Shopping Centers, ***Tax Increment Finance: Best Practices Reference Guide*** 1 (2007), available at http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=TIFGuide.

Chapter 2 - Basics of Tax Increment Financing

Before delving into how to use tax increment financing to address your local economic development/ redevelopment issues, let's go over the fundamentals.

What is Tax Increment Financing?

Tax increment financing (TIF) is a public finance method that allows a local government to borrow against the future increased value of property to make public improvements. Local governments often have to upgrade public infrastructure or make other public improvements to encourage redevelopment or support economic development. Combined with private investment, such improvements can increase the assessed value of private properties, thus leading to increased property tax revenue. The "increment" refers to the increase in future property tax payments over what the properties generate now. This increase – the increment – can be dedicated to paying off TIF borrowing, which usually occurs in the form of bonds. Once TIF bonds are paid off, property taxes will accrue directly to the locality's general revenues.

TIF does not take away from existing general revenues. It does not involve or utilize a new tax or a tax surcharge; it is simply the incremental increase in the existing taxes paid when a parcel is appraised at a higher value to account for the new project built on the site.

TIF can be a politically appealing public financing tool because it does not require the local government to increase the jurisdiction-wide tax rate to pay for public improvements in a specific area. Instead, the TIF is designed to ultimately bring more money into the local government's treasury by raising the value of the property that is taxed. Higher property values mean more property tax revenue for the jurisdiction. However, depending on the TIF activity, repayment of the debt may not be for several years. Therefore, general fund increases could be several years off; although the TIF project may have spillover effects of additional discretionary revenues coming to the local government.

While TIFs have a lengthy history in the United States, they are receiving more scrutiny as localities issue larger TIF bonds. Critics of TIF claim that sometimes a TIF is used even when private development would occur without the public assistance. TIF detractors argue that TIF shifts the financial burden to the public and enhances the profit of the private developer. To address this criticism, many local governments require a determination that "but for" the TIF, the project would not occur. This evaluation of prospective TIF projects is intended to avoid providing more subsidy than is needed. Chapter 4 has a more in-depth discussion of the "but for" evaluation of TIF implementation. Other critics of TIF also note that if increased development requires additional public services beyond what is financed by the TIF, property owners throughout the jurisdiction have to make up the difference through higher taxes. TIF advocates point out that additional public service requirements would be needed with or without TIF as a result of the proposed development. TIF simply provides a mechanism for the project to support all or part of those costs.

It is important to acknowledge that TIF is not without risk. Unlike general obligation bonds, if future property taxes prove insufficient to meet the debt service requirements of the TIF bond, the bond issuer is not obligated to use make up the deficient and bond payments will not be made. TIFs, like revenue bonds, do not guarantee repayment to bondholders based on the general credit or taxing power of the government. To mitigate this heightened risk, credit enhancements and other guarantees, discussed in greater detail in Chapter 4, are often part of a TIF bond package.

Where is TIF typically used and for what purpose?

Tax increment financing originated in California in 1952 as a method of raising the local match required for federal urban renewal programs. Early on, TIF was closely associated with urban renewal of depressed central city areas that needed significant public investments to stimulate revitalization. During the early years of TIF use, state legislatures required a jurisdiction to declare the TIF district (also known as the development district) "blighted" before a TIF district could be created and bonds issued.

As federal urban renewal programs began to wane and local governments started to look for other sources of public funding, the application of TIF expanded. Some states changed their enabling legislation to broaden the role of TIF from just revitalizing deteriorated areas to promoting economic development without the requirement of combating blight. According to a 2003 report on the anti-poverty intention of TIF legislation, most states included in their original TIF enabling legislation blight criteria; however, 16 states changed their TIF laws to permit the use of TIF funding in non-blighted areas and for non-redevelopment economic development activities.[1]

Maryland did not restrict the use of TIF from the outset. Maryland's original Tax Increment Finance Act, adopted in 1980, enabled counties and municipalities to issue TIF bonds "for the purpose of financing development of an industrial, commercial or residential area."[2] There was no requirement that a TIF be used to fund public infrastructure associated with redevelopment. In fact, 12 of the 25 TIF projects in Maryland that had bonds close between 2000 and 2010 were "greenfield" economic development projects, while nine of the remaining thirteen TIF projects were redevelopment projects located in Baltimore City.[3] The purpose of the enhanced TIF authorization in the 2013 Maryland law was to attract more private investment and promote revitalization in declining neighborhoods.

Regardless of where TIF-funded activities occur, the money is typically linked to public improvements, although each state may define or limit local government TIF spending differently. TIF is generally used to pay for improvements such as land acquisition, demolition, utilities and planning costs, and other improvements.

Some of the typical projects funded by TIF include:

- streetscape and roadway improvements
- public building renovations and new construction
- flood control and stormwater management initiatives
- water and sewer improvements
- parking lots and garages
- neighborhood parks
- sidewalks and street tree plantings

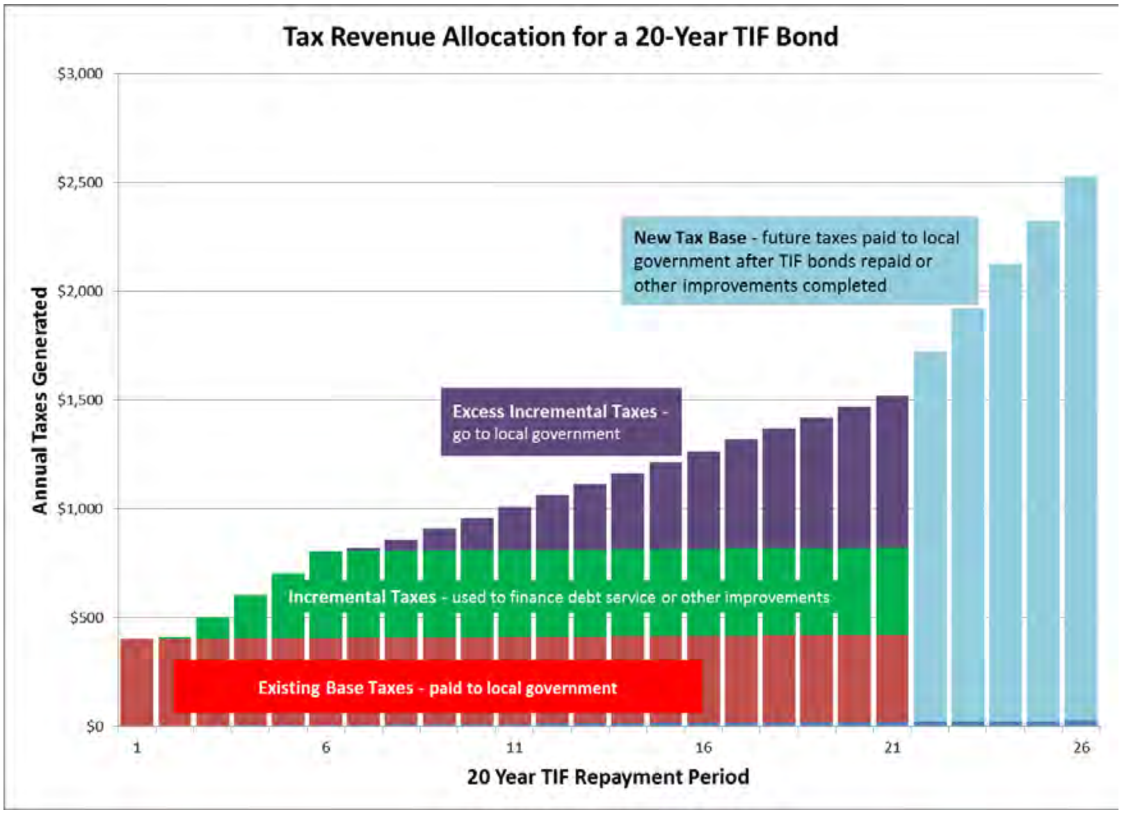
With increased private investment, property values stabilize and begin to appreciate, which ultimately enhances the community. Additionally, the investment in the TIF district creates construction jobs, improves the business environment, and promotes long-term employment opportunities. These improved economic conditions generate increases in other revenues, such as income, sales or hotel taxes, which are not necessarily subject to the TIF. With the repayment of the TIF bond, the increased tax base in the TIF district can help support the costs of the services for the entire community.

How do TIFs work? Are they effective?

A TIF does not involve or use a new tax or a tax surcharge. The same tax rate exists before and after a TIF district is created, and the same rate applies inside and outside the TIF district. Furthermore, the local government and other taxing authorities continue to receive the same level of tax revenues that they did prior to establishment of the TIF district. The initial level of tax revenue, in this respect, is not being diverted from the general fund to the TIF district. The base assessed value of property within the TIF district is established when the TIF district is created. The property taxes from that base assessed value continue to go to the respective taxing authorities to pay for general services. Only the increase in a property's assessed value above the base assessed value goes to pay debt service on the TIF bonds. Clearly, if not for the TIF-funded public improvements, property values typically would not increase significantly and new tax revenues would not be collected. It is this incremental increase in the taxes collected, when a parcel is appraised at a higher value due to the new project built on the site, which finances the public improvements. Presumably, the project would not have been built unless the TIF funded improvements occurred. In fact, there are many cases where a project cannot proceed unless millions of dollars of infrastructure – road and sidewalk improvements, parking garages, and water and sewer lines – are first put into place. A TIF bond allows a local government to finance construction of needed public infrastructure up front while using the new tax increment in the future to pay back the bond debt (See Figure 1).

To create a TIF district, a jurisdiction must specify the geographic area of the district and establish the base value of the properties within it. (This process is described in more detail in Chapter 4.) If the TIF is successful, the increased tax revenues cover the debt service on the TIF bonds, and if there are excess tax revenues after making bond payments, those revenues go to the local government. Once the TIF has expired, all of the overlapping taxing jurisdictions will experience increased tax revenue.

Figure 1



TIF can be a flexible financing tool that enables a local government to pay for needed public improvements, and transactions can be structured so that TIF bonds do not go against the local government's direct debt cap, and without having the issued debt guaranteed by the local government. Therefore, a TIF may not directly affect the jurisdiction's ability to borrow money for other projects, and a default of a TIF bond does not necessarily require the local government to pay back the debt. While not implying that defaulting on a TIF bond would not have negative consequences on a local government's future borrowing, the TIF bondholders bear the risk as clearly presented in bond offering statements.

Without a doubt, TIF bondholders expect to be paid back and will require significant assurances of repayment – recognizing that the local government itself is not guaranteeing the payment. Credit enhancements, such as special taxing districts, are often used by local governments as backstop guarantees for payment of TIF bonds. In fact, securing the needed investor guarantees is one of the most difficult aspects of making TIF possible. The challenges of credit enhancements in Maryland are discussed in detail in Chapter 3.

Sustainability, Maryland: TIF Made Simple Scenario

The City of Sustainability, Maryland has its downtown designated as a Sustainable Community. A portion of the downtown, which includes an abandoned department store and former high school, now vacant, is severely blighted. City planners prepared a redevelopment plan for the area, identifying infrastructure improvements and impediments to redevelopment. Among the issues:

- water and sewer lines have to be upgraded
- local roads and streetscapes need reconstructed
- The old high school is on the National Register of Historic Places, but it has deteriorated and has asbestos throughout building.

The redevelopment plan recommends converting the abandoned department store to a mixed income residential development with retail on the first floor, while adaptively reusing the high school as a high-tech business incubator–office complex. The redevelopment plan has been vetted with the local community and elected officials, and received strong support. The local business and development community endorsed the plan, but feel a public-private partnership will be needed for the redevelopment plan to become a reality.

Having pursued other economic development projects previously, the City of Sustainability had adopted several years earlier a Tax Increment Financing (TIF) policy that conditioned use of future tax revenues for targeted public improvements. To implement this redevelopment plan, the planners recommend using tax increment financing (TIF) to reconstruct the public infrastructure. As a designated Sustainable Community, the city can use TIF to assist in the historic rehabilitation and brownfield remediation. City officials found a developer who wanted to undertake the development project, but only if he could partner with the city on public improvements, which would benefit not only the immediate project, but also the surrounding 10-block downtown (the TIF District). Those public improvements and the eligible rehabilitation/remediation, was estimated to cost $25 million. The City's Budget Officer analyzed the potential use of TIF and determined that without any intervention, the property values in the area would remain flat or possibly go down. But if the public and private investments were to take place, the property values of the TIF district were forecast to go from $14 million to $475 million in 10 years. Analyzing the projected TIF revenues and the debt service on a 25-year TIF bond determined that the TIF district would be able to pay for the needed improvements. After paying off the TIF bonds, the city's general fund would receive the additional tax revenue from the redevelopment area.

The city and developer are now working through the formal designation process and confirming the details. The local community has been informed on the status of the redevelopment project through an extensive outreach/communication effort. The city, developer and local community have established standing workgroup that routinely monitors the TIF district's progress and makes recommendations to the city regarding future redevelopment activities in the area.

Even critics of TIF acknowledge that, when used properly, TIF can promote enduring growth and stronger communities. Yet, academic research analyzing the effectiveness of TIF returns mixed results. Most researchers acknowledge the positive impacts of TIF, resulting in increased property values and development activity within the TIF district. However, the evidence on the overall benefit from TIF to the community as a whole is not as apparent. As highlighted in Chapter 6, Maryland offers a number of success stories that demonstrate how TIF was instrumental in spurring revitalization and economic development.

What are the positive and negative consequences of TIF?

The following advantages and disadvantages/limitations to TIFs concern economic development, fiscal impact, and local government policies.

Economic Development Considerations

Advantages

- The most obvious advantage TIF offers is the significant capital investment that can be leveraged to make a project economically feasible.
- TIF can be an attractive economic development tool because it does not decrease current tax revenues and offers the promise of a larger revenue base in the future without increasing tax rates.
- Projects that are funded using TIF bonds have an improved chance of success because the bond market will closely scrutinize the economic feasibility of the project before investing.[4]
- TIF is usually part of a more complex investment strategy, particularly for larger projects. In those instances, the local investment tends to be a fraction of what the private development is contributing, but can provide the critical gap financing to make the project economically feasible. A study of TIF projects across 14 Texas cities found that, on average, public money accounted for just 13 percent of project costs.[5] Similarly, in Chicago, the city generally limited its TIF subsidy to 20 percent of project costs, although the public share varied according to the type of project.[6]
- TIF offers local governments a very flexible economic development tool that can potentially be used to address various economic concerns in a community.

Disadvantages/Limitations

- Depending upon the project and associated needs, TIF may not be the most appropriate or effective economic development incentive a local government could use. For some projects, there may not be a need for public improvements. A project may require tax relief, such as tax abatements or payment in lieu of taxes, for it to proceed.
- Initially, TIF offers a local government an array of potential public improvement options to fund. However, once TIF bonds have been issued, it is hard to change development plans because of the obligations to the bond holders.
- TIF's primary purpose is to increase the tax base to pay off bonds. The secondary purpose may be job creation or other quality of life benefits. However, those purposes could conflict with one another. For example, a TIF-funded project, such as a new local road and water/sewer improvements, could attract private investment for a new regional distribution center. While the distribution center would raise property values sufficiently to pay off the TIF bonds, it tends to have lower employment levels than other uses, such as a shopping center or office park. A local government should consider the relationship of TIF-funded investment with the potential jobs generated.

- TIFs are increasingly being used at the edges of developed areas to fund sprawl development, resulting in the need to finance even more public infrastructure farther out. A local government needs to critically evaluate whether TIF should be used for "greenfield" development. Richard Briffault's study of TIFs cited public policy studies in Missouri, where they found that TIFs are used primarily in suburban areas in St. Louis and in the most affluent areas of Kansas City.[7] Paul Byrne's study of TIF activity in the Chicago metropolitan area found that most TIFs were used in older, poorer areas; however, a significant percentage (25 percent) of the TIF districts were located in more affluent areas.[8] To limit the use of TIF for "greenfield" development, local governments should consider using "but-for" criteria or a blight eligibility standard as part of the TIF project assessment.
- Due to the significant upfront administrative costs of bonds, TIF may not be a viable economic development tool to address smaller public infrastructure needs.

Fiscal Impact Considerations

Advantages

- The local government does not lose or divert existing tax revenues when a TIF district is established. Assuming the cost of public services not covered by the TIF public improvements remain constant, the same level of tax revenues will be available for services throughout the time the TIF bonds are being repaid.
- The cost of providing public infrastructure is financed by taxes generated from the new development rather than being subsidized by other parts of the jurisdiction.

Local governments are closely scrutinizing whether a project will increase property values and broaden the tax base when compared to additional demand for local services.

- TIF bonds can be structured as non-recourse financings, which are not guaranteed by the local government. When structured properly, TIF bonds do not count directly against the jurisdiction's bonded indebtedness, and a default of a TIF bond does not require the local government to pay back the debt. The investor in a TIF bond bears the risk.
- TIF is considered a relatively safe public financing strategy. Nationally, only five in approximately 2,000 TIF bonds issued defaulted in 2010, one of the toughest years for assessed property values. Their total value of $8.4 million represented only 0.03 percent of the $32.4 billion value of all TIF bonds outstanding in December 2010. No Maryland bonds have gone into default. Wall Street tends to have relatively strict underwriting requirements for selling bonds, and bond investors usually demand extra layers of assurance in the form of backup revenues sources to cover the debt service if there is any shortfall from the incremental tax increases.[9]
- Today, the public has a heightened awareness of the fiscal impact of TIF-funded projects.The anticipated public benefits and estimated infrastructure costs are usually well documented. Given the increasing size of TIF-funded projects, local governments are closely scrutinizing whether a project will increase property values and broaden the tax base when compared to additional demand for local services that may result from the project.
- Once the project is complete and bonds are retired, the full tax base and revenues become available to the local government.

Disadvantages/Limitations

> TIF should not be considered a "magic bullet" that suddenly solves the ills of a community and miraculously draws investment to a blighted neighborhood. TIFs can be an effective tool to address isolated economic development challenges. However, from an area wide perspective with most TIFs, citizens must wait several years or more before they see substantial amounts of revenue going to redevelopment. However, with patience and hard work, reinvestment can take place.

- In certain financing structures, no increase in tax revenue associated with the TIF district is realized until the bonds have been retired, unless TIF revenues exceed the debt service payments.
- TIF bonds are typically more expensive than general obligation bonds because of the higher risk and the fact that the local government may not guarantee payment.
- TIF has the potential of being overused or misused. If TIF is overused, the resulting growth will increase demand for public services that are not paid for by the TIF district in the short term because all new tax revenues are committed to debt service. In such instances, to maintain the level of service, the jurisdiction may have to raise taxes on everyone. Furthermore, without some limits (by area or length of time to capture the increment), TIF can extend indefinitely and never return tax benefits to the community. This was one of the criticisms of California's overuse of TIF. A local government should be cautious about how long TIF should remain in place. Additionally, the local government needs to seriously consider whether a project warrants TIF assistance, and if a project would occur without TIF. A strong "but for" analysis should take place to ensure TIF is not overused.

TIF TERMS

Area-Based TIF is a district designed to fund public improvements for a broader area. Area-based TIFs can be appropriate when major public investments serve as a catalyst for redevelopment in an area with multiple parcels under different ownership.

Bond Caps limit the amount of a jurisdiction's indebtedness. TIF and other revenue bonds do not count toward the bond caps in most jurisdictions. Baltimore, however, has adopted a policy that "the City's total tax-supported debt burden, including outstanding TIF debt, should remain below four percent of the City's estimated actual value of property …."

Brownfield refers to real property that may contain a hazardous substance, pollutant, or contaminant that could inhibit the expansion, redevelopment or reuse of property. A brownfield is often land previously used for industrial purposes or some commercial uses that may be contaminated by low concentrations of hazardous waste or pollution and has the potential to be reused once it is remediated.

"But For" test asks whether the development have occurred without the expenditure of public TIF funds? If "yes," the public interest is not served by using TIF funds. If the answer is "no," TIF funding may be justified. Unfortunately, the concept is not as easy to put into practice. In many instances, local governments have drafted relatively flexible "but for" provisions that are vague and difficult to objectively confirm.

Debt Cap is the limit on the sum of the total bonded long-term debt and any short-term debt issued by the local government. Direct debt may be incurred in the issuer's name or assumed through the annexation of territory or consolidation with another governmental unit.

Further discussion of the "but for" assessment process can be found in Chapter 4.

- Since TIF attracts new development, there is a potential for growth that would be naturally expected in the community to be redirected to the TIF district. The non-TIF areas may not get the private investment or increased property values that would be normally expected. This may result in less tax revenue from the non-TIF areas.
- There are no guarantees that TIF-funded public investments will attract private development or that the incremental tax increase will be sufficient to retire the TIF bonds. While TIF bond defaults are rare and no Maryland bonds have gone into default[10], shortfalls in projected revenues are more common. A study of Kansas City, Missouri, TIF districts by the city's auditor found that actual TIF revenues accounted for 23 percent of projected revenues in the approved TIF plans, and nearly 50 percent of the TIF plans did not meet 50 percent of their projected revenue streams.[11] A revenue shortfall can occur for a variety of reasons; an overall decline in local economy and project build-out delays are two of the most common. In the case of St. Petersburg, Florida's Bayboro Harbor TIF district (established in 1988), the actual 1998 taxable property value for the district was $20.7 million––about 60 percent less than the projection made at the start of project, and about 25 percent less than its pre-TIF value of $28.1 million. [12] Revenue projections need to be tempered in the reality of market conditions, and at the same time TIF bonds should have sufficient debt coverage to weather market volatility.

Local Government Policy Considerations

Advantages

- Property owners within a TIF district pay the same property tax rate as other property owners in the jurisdiction. Current tax rates do not have to go up to pay for needed infrastructure in the TIF district.

Debt Service is the money is required for a particular time period to cover the repayment of interest and principal on a debt. Debt service is often calculated on a yearly basis.

General Obligation Bond is a debt instrument issued by states and local governments to raise funds for public purposes, such as public works projects. A general obligation bond is backed by a pledge to use legally available resources, including tax revenues, to repay bond holders. This means that the jurisdiction commits its full resources to paying bondholders, including general taxation, as well as the ability to raise more funds through credit or its taxing authority.

Greenfield development is vacant land that has not been previously develop and possibly used for agriculture or is forested. "Greenfield" development is often associated with development at the urban edge or sprawl development that requires new public infrastructure.

"**Pay-as-you-go"** funding of capital improvements means the project is fully funded at the time of construction with current revenues and no interest costs or debt is used to pay for the project.

Project Based TIF is a TIF district that focuses on a particular property or properties needing public improvements, which typically serve as the impetus for the redevelopment of a larger area.

- In most cases and in most states, no public referendum is required for bonds issued for a TIF project.[13]
- Use of TIF is a local decision. While state government must give local governments the authority to use TIF as a public infrastructure financing option, and state legislatures may prescribe the general purpose of TIF and the types of activities that can be funded, the local government has tremendous flexibility over how TIF is used. In general, decisions about whether to create a TIF district, its boundaries, what kinds of infrastructure to finance, what types of private investments to pursue, what projects to fund, or whether to issue debt or to rely on pay-as-you-go financing are all made by local government officials, with little or no oversight by other levels of government. There is no federal role in TIF outside the federal tax code that governs what can be financed on a tax-exempt basis. State law sets out basic rules governing the creation of a local TIF program, but few states require approval for local TIF actions and, in some, approval is required only when officials plan to use state sales tax to help finance.[14]

- A TIF program provides local governments with a strategic economic development incentive that can be used to target new businesses.

TIF Bond refers to a revenue bond, note, or other similar financial instrument issued by a local government or authorized agency to fund public improvements. TIF Bonds are typically financially structured on a non-recourse, project-specific basis, so that the sources of repayment for any bonds are limited to the revenues and assets pledged by a specific project and do not include any assets of the issuer. TIF Bonds can be structured so that the governmental entity is also not responsible for the repayment of TIF bonds.

TIF Debt Coverage Ratio (DCR) is ratio of projected TIF revenue divided by debt service on the public improvements. The DCR is used in banking to determine if a TIF district is likely to generate sufficient income through incremental tax revenues to cover the expense of a debt on the public improvements. A DCR less than “1” means there is insufficient funds to cover the expected debt. A TIF project that bankers require the DCR to over but close to “1” indicates a greater confidence tax revenues will be sufficient to cover the debt. A TIF project that bankers require the DCR to be closer to “2” indicates bondholders want a greater cushion of projected incremental tax revenues to fund the project because the TIF revenues are not predictable.

TIF District, also known as the TIF development district, or development district, is the area where the TIF public improvements are constructed and designates the properties that will contribute the incremental increased tax revenues toward paying off the debt associated with the public improvements.

Disadvantages/Limitations

- TIF is a more complex public financing option for local governments compared to pay-go or general obligation (GO) bonds. TIF bonds are usually more expensive than GO bonds. To prepare the land planning, financial analysis, and legal documents, TIF requires a local government to have experienced staff or access to financial and legal professionals. Communities with greater financial sophistication tend to use TIFs; communities with fewer resources and limited staff are less likely to them.
- Depending on the state's parameters for using TIF, citizens have opportunities to participate in the overall redevelopment planning efforts. However, citizens tend to have little say in how TIF is used in a project.[15] This is somewhat understandable given the financial complexity of TIF projects. Nonetheless, local governments should be as transparent as possible in the development of the TIF project and provide ongoing public oversight.
- Inter-jurisdictional conflicts may occur with TIFs, particularly in states where a municipality captures new tax revenues that would normally go to another taxing authority, such as a school district. For municipalities in some states, TIF is far more attractive than other alternative funding options because it permits the capture and use of tax revenue for municipal economic development projects that would normally go to another taxing authority, such as a school district. In Maryland, municipalities need to get county approval if county property tax revenues are to be part of the TIF and associated bonds.

Endnotes

[1] Straying from Good Intentions: How States are Weakening Enterprise Zone and Tax Increment Financing Program, Good Jobs First, August 2003.

[2] Laws of Maryland, Chapter 498 (House Bill 1888), formerly Article 41, Section 266-II-3, 1980.

[3] Report on Tax Increment Financing to the Maryland Sustainable Partners for Economic Solutions, March 2011.

[4] John E. Greuling, "Tax Increment Financing: A Downtown Development Tool, Economic Development Review," Vol. 5 Issue 1, pp. 23-28, Winter 1987.

[5] Enid Arvidson, Rod Hissong, and Richard L. Cole, "Tax Increment Financing in Texas: Survey and Assessment," Chapter 10 in Johnson and Man, eds, Tax Increment Financing and Economic Development, State University of New York Press, pp. 155-, 170, 2001).

[6] Neighborhood Capital Budget Group, "Chicago's TIF Encyclopedia: The First Comprehensive Report on the State of Tax Increment Financing in Chicago," p. 16 (1999), online at http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=NCBGTIFEncyclopedia.html

[7] Richard Briffault, The Most Popular Tool: Tax Increment Financing and the Political Economy of Local Government, The University of Chicago Law Review, 77, 65-95, 2010.

[8] Paul Byrne, Determinants of Property Value Growth for Tax Increment Financing Districts, University of Illinois at Urbana-Champaign, Champaign, IL, January 2002.

[9] Partners for Economic Solutions, "Introduction to Tax Increment Financing," prepared for Maryland Sustainable Growth Commission, March 2011.

[10] Partners for Economic Solutions.2011.

[11] Michael P. Kelsay, *Uneven Patchwork: Tax Increment Financing in Kansas City*. Study commissioned by the Kansas City Area Chapter of ReclaimDemocracy.org, January 2007.

[12] New York City Independent Budget Office, *Learning from Experience: A Primer on Tax Increment Financing*, Fiscal Brief, September 2002.

[13] John E. Greuling, 1987.

[14] Richard Briffault, 2010.

[15] John E. Greuling, 1987.

Chapter 3: TIFs in Maryland

Enabling Legislation for Basic TIFs

The Maryland Tax Increment Financing Act, enacted in 1980, authorizes Maryland counties and municipalities, except for Baltimore City, to use TIF for the purposes of financing certain development/redevelopment projects.[1] Baltimore City was granted similar TIF enabling authority in 2000.[2] Under this authority, local governments may issue TIF bonds to finance development or infrastructure to support development. The first step in that process requires the government to create a TIF "development district" and a "special fund." The TIF development district is the area where the TIF public improvements are constructed and designates the properties that will contribute the incremental increased tax revenues toward paying off the debt associated with the public improvements. The "special fund" is created to receive the incremental tax revenue payments from properties within the tax district. The special fund is considered a "sinking fund," meaning the accrued tax revenues go to pay off the TIF bonds or otherwise used as directed in the transaction documents.

National Harbor in Prince George's County benefited from TIF financing.

Maryland TIF law authorizes counties and municipalities to issue bonds to "finance development of industrial, commercial or residential areas." Maryland TIF bonds have a maximum maturity of no later than 40 years after the date of issue. Maryland's general TIF enabling law is place-neutral and does not restrict use to redevelopment areas/activities. Therefore, TIF could be used either for "greenfield development" or redevelopment in Maryland. However, Maryland's TIF Act does include additional listing of purposes for TIF bonds in Prince George's County and municipalities to encourage redevelopment.

The Maryland TIF Act is both more permissive and restrictive than TIF statues in other states.[3] Under the Act, neither a finding of "blight" nor a "but for" analysis is required as a precondition to the establishment of a TIF District. About 20 states require a finding that new development would not take place in the TIF district ''but for'' government intervention.[4] In Maryland, until the passage of the 2013 Sustainable Communities – Designation and Financing law, tax increments were limited to ad valorem real property tax. Now, designated Sustainable Communities may also pledge alternative local tax revenues toward TIF districts. However, unlike other states Maryland does not allow increments of additional sales tax revenue to be captured by the TIF district.

Several Maryland local governments have used the general provisions of the TIF Act to help support projects, including Baltimore City, Anne Arundel County, and Prince George's County, among others. Prince George's County has been granted specific authority to use TIF in association with costs of convention centers. Baltimore City's TIF authorization allows for subsidies to create affordable housing and for the redevelopment of abandoned and distressed properties.

Enhanced TIFs for BRAC Zones, Designated TODs, State Hospital Redevelopments and Sustainable Communities

Maryland jurisdictions have not used TIF nearly as often as states like California, Missouri, Indiana, and Illinois for economic development and redevelopment purposes. To improve its economic development effectiveness, Maryland legislative initiatives in 2008, 2009, 2011 and 2013 have enhanced and expanded the capabilities of TIF targeted toward promoting smart growth.

Tax Increment Financing Enhancements for BRAC Zones

Responding to the federal base realignment and closure (BRAC) process, the Maryland General Assembly in 2008 enacted Chapter 338 (SB 206), the BRAC Community Enhancement Act that authorized the creation of BRAC Revitalization and Community Enhancement Zones to accommodate growth resulting from base closures and transfers. The state Department of Business and Economic Development (DBED) is responsible for designating the zones and administering the Revitalization and Incentive Zone program. The BRAC zones are intended to focus growth in Priority Funding Areas (PFAs); provide local governments with financial assistance for public infrastructure; and align other state resources and programs to local governments and businesses for a coordinated effort to achieve smart growth in the BRAC zones.

A BRAC Zone Designation enables a local jurisdiction to receive:

- payment of 100 percent of state real property tax increment on qualified properties; and
- an additional state funded payment equal to 50 percent of the local jurisdiction's real property tax increment on qualified properties.

One of the BRAC zones, the Savage Towne Centre in Howard County, has identified the need for a 704-space parking structure, which will be funded through the issuance of $17 million in TIF bonds.

Revitalization and Incentive Zone program funds can be used to: 1) pay for infrastructure improvements in the BRAC zone; or 2) repay bonds, including TIF bonds, issued for infrastructure improvements in the BRAC zone. In addition, the local jurisdiction and business entities receive priority consideration for financing assistance for projects or operations from various state agencies. These benefits are available for the 10-year life of the zone from the date the first property in the BRAC zone becomes a qualified property. The BRAC zone funding is in addition to the typical repayment of TIF bonds from property tax increases in the TIF district.

In 2012, according to a report from DBED's Office of Finance Programs on the BRAC Revitalization and Incentive Zone Program, there were seven designated BRAC zones, five established in 2008 and two recognized in 2009. One of the BRAC zones, the Savage Towne Centre in Howard County, has identified the need for a 704-space parking structure, which will be funded through the issuance of $17 million in TIF bonds. The total amount of disbursement to political subdivisions under the BRAC zone program from FY 2010 to FY 2013 is $922,828.81.[5]

Tax Increment Financing Enhancements for Designated Transit–Oriented Development

With the support of the 2008 General Assembly, Governor Martin O'Malley signed into law legislation designed to encourage the creation of Transit-Oriented Development (TOD) in Maryland. Chapter 123 of the 2008 Maryland Laws (HB 373) affirmed that, "It is in the interest of the State to support local governments as they exercise their land use authority to develop around planned transit stations in a manner that improves the efficiency and effectiveness of planned transit systems." The legislation, which defines TOD to be a "transportation purpose," authorizes the Maryland Department of Transportation (MDOT) to use departmental resources, including land, funds, and personnel, to support "designated" TOD projects.

The 2009 Tax Increment Financing and Special Taxing Districts – Transit-Oriented Development Law gives designated TOD local governments more flexibility and opportunity to use TIF and special taxing district bonds to finance TOD infrastructure, including capital costs and infrastructure operations and maintenance costs. The law allows local governments with a designated TOD to pledge alternative local tax revenues generated within or attributed to the TIF district to the development district's special fund. The law also authorizes the use of Maryland Economic Development Corporation (MEDCO) bonds for TIF and special taxing districts, allowing designated TOD local governments to use MEDCO's bonding authority to fund TOD-related infrastructure improvements rather than issuing their own bonds (See Chapter 5). In one scenario, MEDCO could own and operate TOD facilities, like a parking garage, and have the TIF district and special taxing district funding ensure payment of the operating and maintenance costs during the early phases when cash flow may be limited. The funds collected could be used to cover not only the debt service on the MEDCO bonds, but also the shortfall in operating expenses.

> Created in 1984, the Maryland Economic Development Corporation (MEDCO) is charged with assisting in the expansion, modernization and retention of Maryland businesses as well as attracting new businesses to the state. MEDCO owns and manages properties and, upon request, assists local jurisdictions with project financing.

By June 2012, Maryland had designated 15 TODs for priority state support; three are considering TIF as part of their financing packages. The Savage Towne Centre in Howard County, a designated TOD site as well as a BRAC zone, intends to fund a 704-space parking structure by issuing $17 million in TIF bonds. Baltimore County approved $135 million in TIF funding for infrastructure improvements around the metro center in Owings Mills.6 The Odenton MARC station in Anne Arundel County, a designated TOD site and BRAC zone, is considering using TIF to help fund needed infrastructure for a mixed use development project that includes 75,000 square feet of retail space, a hotel, 570 apartment and condominium units, 250 townhomes and two commuter parking garages.[7]

Tax Increment Financing Enhancements for Designated State Hospital Redevelopments

In 2011, the Tax Increment Financing and Special Taxing Districts – State Hospital Redevelopment Law enabled counties and municipalities with designated state hospital redevelopments to have enhanced TIF authority, similar to designated TOD sites, to finance associated public improvements and pledge alternative local tax revenues generated within or attributed to the TIF district's special fund. Several state hospitals have closed in recent years, including the Crownsville Hospital Center in Anne Arundel County (2004), Rosewood Center in Baltimore County (2009), and the Walter P. Carter Center in Baltimore (2010). In February 2010, the Upper Shore Community Mental Health Center in Kent County closed, although other services continue to be offered by tenants in the building in which the hospital was located. In addition, Spring Grove Hospital Center in Baltimore County recently reduced capacity at its complex.[8]

To take advantage of this expanded TIF authority, the Governor's Smart Growth Subcabinet, in collaboration with local governments, designates State Hospital Redevelopment sites. As with designated TOD sites, MEDCO is authorized to support the local government's efforts to redevelop a designated state hospital by issuing TIF bonds to pay for public infrastructure. If state hospital redevelopment projects are able to secure more favorable financing through MEDCO, counties and municipalities may realize some savings for the cost of debt issuance, although to date, no jurisdiction has used this enhanced TIF authority.

The city of Frostburg, a sustainable community, redeveloped a commercial site with help from a TIF.

Tax Increment Financing Enhancements for Sustainable Communities

The 2013 *Sustainable Communities – Designation and Financing Law* enhances local TIF authority to promote revitalization in designated Sustainable Communities. The law not only enables MEDCO to support local governments with designated Sustainable Communities by issuing bonds to finance public improvements, but it also expands the permitted use of TIF beyond traditional public infrastructure. The law broadened the set of eligible uses of TIF in Sustainable Communities to include historic preservation or rehabilitation; environmental remediation; demolition and site preparation; parking lots, facilities or structures of any type, public or private; highways; schools; and affordable or mixed-income housing. Similar to designated TODs, local governments with Sustainable Communities may also pledge alternative local tax revenues generated within or attributed to the TIF district to its associated special fund.

The Sustainable Communities effort offers a comprehensive package of resources for designated communities. Sustainable Communities include designated TOD and BRAC Zones, as well as other locally identified places. To participate, municipal and county governments are asked to identify local areas in need of revitalization and create a comprehensive revitalization strategy to guide investment to increase economic, transportation and housing choices, and improve environmental quality and health outcomes. Sustainable Community designation encourages interagency and cross-governmental collaboration, aligning state and local resources to address the needs of Maryland communities.

TIF Practical Considerations

Once vacant land is developed – projects that bring a large, quick return in TIF district revenues – then it becomes more difficult to squeeze out incremental tax revenue gains through in-fill development or rehabilitation of existing buildings.

For a TIF district to create substantial new revenue, the value of the property has to grow relatively quickly in the years following TIF approval.

Challenges to Implementing TIFs in Maryland

While jurisdictions throughout the country may experience difficulties in trying to use TIF, local governments have to overcome a few hurdles unique to Maryland.

TIF Bonds only

Maryland's Tax Increment Financing Act directs the financing of public improvements exclusively through the use of bonds, as can be seen throughout the Act:

§ 12-203. Development district designation

(a) In general. -- *Before issuing bonds*, the governing body of the political subdivision shall…

§ 12-204. Bonds – Authorized

(a) In general. -- Notwithstanding any limitation of law, *an issuer may issue bonds* from time to time to finance the development of an industrial, commercial, or residential area.

§ 12-205. Conditions of issuance.

(a) In general. -- A bond:

§ 12-206. Payment of bonds

(a) In general. -- *Bonds shall be payable* from the special fund established under § 12-208 of this subtitle.

§ 12-207. Application of proceeds

(a) In general. -- *Bond proceeds* may be used only…

Using bonds to fund public infrastructure tends to favor Maryland counties and larger municipalities. Smaller jurisdictions may be reluctant to issue TIF bonds, since bond financings are inherently complex and require a team of finance specialists including a financial advisor, bond counsel, trustee, and underwriters. Because of the unique financing structure of TIF bonds, they are typically stand-alone issuances and are more expensive than general obligation bonds or financing through a bond pool. (A bond pool, which is often preferred by smaller jurisdictions, serves as a financial intermediary between the municipal bond market and local governments needing capital financing. The potential advantages of a bond pool are lower costs of issuance due to economies of scale, more favorable interest rates, less staff time required, and greater market access. Bond pools typically are not an option for TIF bonds.)

Using bonds to fund public infrastructure tends to favor larger communities. Shown here is Columbia in Howard County.

It should be noted that the reference to "bonds" as defined in Tax Increment Financing Act means "a revenue bond, note, or other similar instrument issued in accordance with this subtitle." Therefore, there are other financing options in cases where the bond market is unwilling to provide financing, such as the project developer purchasing the debt obligations or private investors. This is discussed in greater detail in Chapter 6, under "Developer Funding."

Since Maryland's TIF law does not explicitly address other financing alternatives, such as "pay-as-you-go" that allows a government to save money for a specific project, smaller jurisdictions have shied away from TIF in the past. However, the opportunity for Sustainable Communities of any size to work with MEDCO to issue bonds may remove this impediment. As discussed in under “area-based TIFs” in Chapter 6, some jurisdictions have used forms of “pay-as-you-go” TIF to fund public infrastructure improvements.

Combining “pay-as-you-go” financing with TIF might seem contradictory, since TIF depends on increased property values to generate increased tax revenues (In other words, if you don’t make the public improvements up front, how can you attract private investment, increase property values?) However, in other states, such as Florida, the tax increment revenues can be used immediately, saved for a particular project, or can be bonded to maximize the funds available. Florida Community Redevelopment agencies are required to prepare redevelopment plans for the area before TIF can be used. Often the redevelopment plan is a multifaceted strategic plan that includes capital and operating program initiatives. As such, property value increases are not as dependent on major public improvements. This alternative way to use TIF allows smaller jurisdictions to incrementally implement a redevelopment plan for their community, and to scale projects or programs to the financial resources available and local staffing capabilities.

TIF bond financing is complex and requires a team of finance specialists including a financial advisor, bond counsel, trustee, and underwriters.

Credit Enhancements

TIF financing only works if the private lenders are confident they will be repaid. TIF bonds are revenue bonds backed by a projection of the development district’s tax revenues. The full faith and credit of a jurisdiction is not necessarily at risk when a TIF bond is issued. As such, TIF bonds are riskier to lenders than general obligation bonds. When underwriters feel that the risk associated with using TIF is too high, additional credit enhancements may be necessary to make the bonds attractive enough for investors and to get a reasonable interest rate.

The lead developer may have to guarantee payment on the TIF bond’s debt service as part of the TIF-project negotiations.

Recent TIF districts in Maryland have been backed by special taxing districts. In the event that the TIF district does not meet projected revenues, property owners within the special taxing district, created with the same boundaries as the TIF district, are assessed a share of the shortfall. Maryland’s “special taxing district” law requires approval from two-thirds of the property owners, in both number and property value. The two-third property owner approval requirement makes creating large special taxing districts extremely difficult, which works against area-based TIFs and has led to almost every special taxing district in Maryland supporting a project-specific TIF. In those cases, a small group of property owners agrees to be responsible for any shortfall in tax increment revenues to pay the annual debt service. Special taxes can be structured to cover shortfalls in the property tax increment, but they can also be levied in fixed or variable amounts to fund other costs of a project. Additionally, risk can be mitigated through the establishment of reserve funds, by pledging additional revenue streams or by providing some type of guarantee.

A special taxing district is not legislatively mandated, but has become a practical necessity to get favorable interest rates on TIF bonds. As an alternative way to reduce risk, bonding authorities often prefer to see area-based TIF districts that are large and diverse, thereby reducing the risk of default. However, larger development districts may raise questions about including areas that receive little benefit from the new development, or whether the private investment would occur with or without TIF funding.

Almost all TIF bonds are structured to require significant reserves and high ratios of anticipated revenues to annual debt service (i.e., debt coverage ratios). However, smaller and more narrowly drawn TIF districts usually require higher debt coverage ratios because the smaller district will tend to not appreciate in value as much compared to a larger district for a given public improvement. Hence, the smaller district is perceived to be riskier. For example, a project that is projected to generate an annual tax increment of $1 million might have a large TIF district boundary and a debt coverage ratio of 1.25 (e.g. enabling $800,000 to be available each year for principal and interest); the same project with a more narrowly drawn TIF district boundary might have a debt coverage ratio of 1.67 (e.g. enabling only $600,000 to be available each year for principal and interest). [Available Principal & Interest = Tax Revenue / Debt Coverage]

TIF has funded parks, parking structures and road improvements.

Endnotes

[1] See Title 12, Subtitle 2 of the Economic Development Article of the Maryland Code, Sections 12-201 through 12-213.

[2] See Charter of Baltimore City, Sections 62 and 62A.

[3] Report on Tax Increment Financing to the Maryland Sustainable Growth Commission, Partners for Economic Solutions, March 2011.

[4] Joan M. Youngman, TIF at a Turning Point: Defining Debt Down, Tax Analysts – Special Report, 2011.

[5] Maryland Department of Business and Economic Development, Office of Finance Programs, BRAC Revitalization and Incentive Zone Program (BRAC ZONE) for Calendar Year 2012.

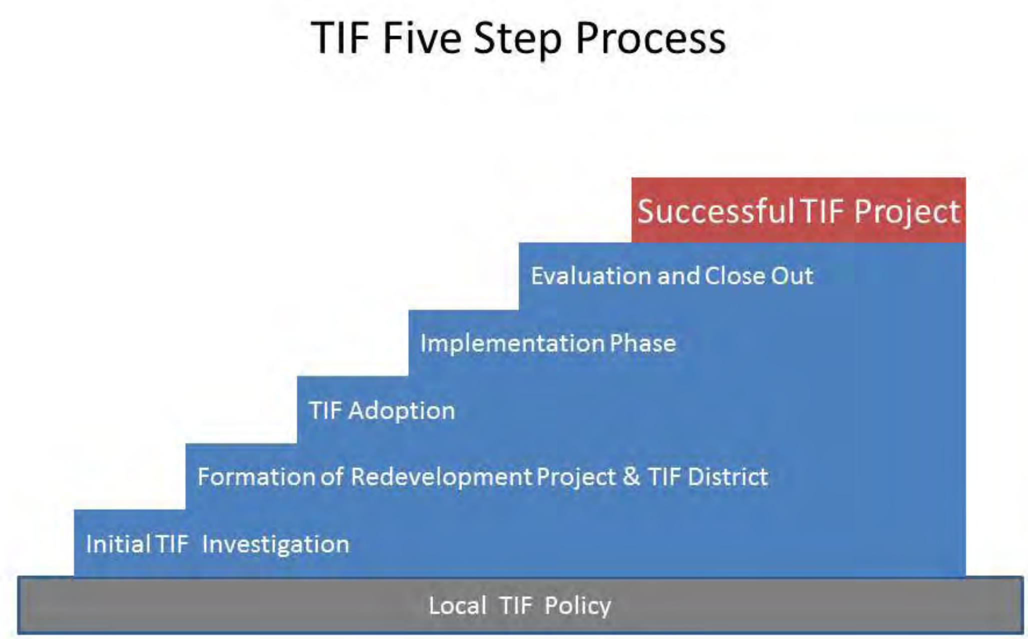
[6] Partners for Economic Solutions, Introduction to Tax Increment Financing, prepared for Maryland Sustainable Growth Commission, March 2011.

[7] MDOT Office of Real Estate website, Odenton Marc Station (MMC# 04-8015) webpage, 2013.

[8] Maryland Department of Legislative Services, Fiscal and Policy Note for House Bill 1161, Maryland General Assembly, 2010 Session.

Chapter 4: TIF Process; Identifying Tips and Pitfalls

All TIFs generally follow the same process – going from plan feasibility – to project formulation – to project adoption – to implementation – and finally to project close-out. However, before seriously pursing a TIF project, a local government should establish a local TIF policy that sets the ground rules for which projects may qualify for tax increment financing and explains how applications are to be reviewed. A local government is encouraged to establish its TIF policy before even considering a specific project or improvement, to minimize any biases that might occur if a particular location were being considered for funding.



Local TIF Policy

The Government Finance Officers Association (GFOA) recommends that a local government closely examine if the TIF district will further the local government's economic development objectives. To accomplish this, a TIF policy should be adopted that includes statements regarding when a TIF district is appropriate, including its relationship to an overall development/redevelopment plan. Grounded in the state's enabling authority, the TIF policy should provide flexibility for the local governing body and a deliberative and transparent review process that addresses the following issues:[1]

- **Consistency with local plans.** The TIF policy should ensure that proposed TIF project will be consistent with and further the local comprehensive plan, redevelopment plans and economic development strategies.
- **Sufficiently compact TIF Area.** The TIF policy should evaluate the size of proposed TIF districts to ensure that they correspond with the local redevelopment effort, while adhering to siting criteria established by state law. A local government may want to establish a maximum percentage of the jurisdiction's assessable base that can be included in a TIF district.
- **Documented project need.** The TIF policy can require feasibility studies to substantiate the need for growth and private investment in the area, and a determination of whether redevelopment could take place within an acceptable timeframe and without economic assistance from the local government (i.e., "but for" the TIF assistance, significant reinvestment would not be possible). The TIF

policy may want to address the requirement for feasibility studies that evaluate debt limits, consider any impact on the taxing authority's credit ratings and determine if the project meets redevelopment objectives, as well as evaluate the project's ability to repay debt if revenue declines.

- **Documented project benefit.** The TIF policy should mandate that the TIF project have clearly recognizable economic benefits for the local economy. The policy could require a fiscal impact assessment of the local government and services affected by the TIF project or a cost-benefit analysis to determine the appropriate level of TIF incentives.

- **Impact on non-TIF areas and services.** The TIF policy should consider the impact of the TIF on non-TIF areas and the need for increased general government operations, which may not receive additional revenues. The policy could require an evaluation of the total impact of all TIF districts to the tax base, as well as an evaluation of how proposed TIF projects, particularly residential redevelopments, affect the demand for school services, i.e., increased capital and operating expenses, compared to projected revenues and the service capacity in non-TIF areas.

The TIF policy services as the foundation for all TIF activities for the community and should include statements regarding when a TIF district is appropriate, particularly in relationship to an overall redevelopment plan.

- **Shared risk and responsibility.** The TIF policy could establish a maximum acceptable level of local government risk. The policy could require a TIF project to assess the risk shared between the local government and the private developer(s). The policy may also stipulate that the responsibilities of all parties must be clearly documented in a development agreement.

- **Other options.** The TIF policy could mandate that the TIF project also explore alternative financing options that could achieve the same or better outcomes.

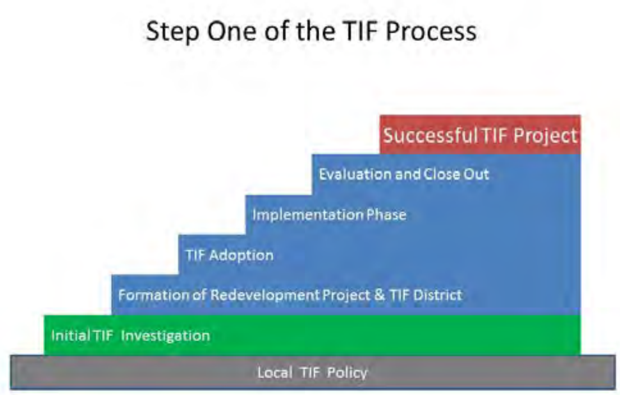
- **Community concerns.** Some jurisdictions require as part of the TIF policy that a project using TIF funding provide certain community benefits, such as affordable housing, jobs or a community gathering space. If the local jurisdiction expects TIF funded projects to address certain community concerns then these issues should be stipulated in the TIF policy.

While not funded using TIF, the Carroll Creek Park in Frederick is a good example of public improvement spurring private sector investment. According to the city's Economic Development Department, when completed, development surrounding the park is expected to generate more than 1,500 new jobs and more than $2.5 million in city and county property tax revenue annually.

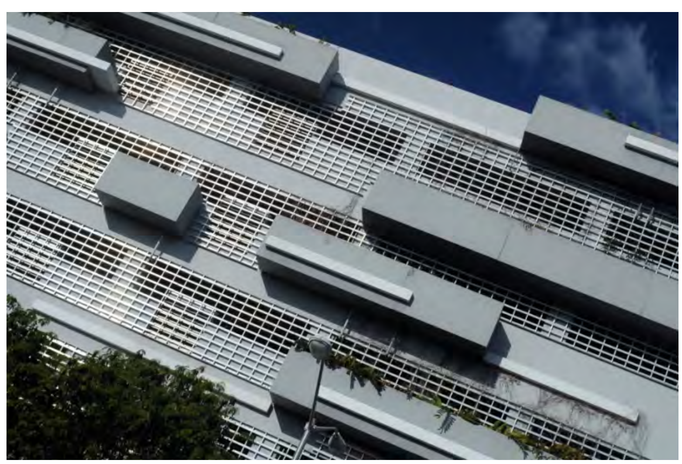
Establishing a local TIF policy provides predictability for prospective project investors and builds trust and support with the public that the decision-making process is transparent. It also should demonstrate that the TIF is selectively applied, the qualification process is rigorous, and TIF, when used, is in the best interest of the community. Chapter 6 presents examples of TIF policies used by Maryland jurisdictions.

Initial TIF Investigation

Exploring the feasibility of TIF for an area should come well before a specific TIF-funded development is considered. This initial stage of the TIF process is usually initiated by the public sector, although it may begin with a private developer seeking a public-private partnership to redevelop a site. During this early stage, the local planning department or redevelopment authority will conduct outreach meetings with the community, meet with local businesses and interest groups, and prepare redevelopment strategies with local planning and elected officials—with the expressed intent of creating a redevelopment plan for the area. As part of this initial TIF assessment, several factors need to be considered and determinations made about them:



- **Area eligibility.** If state law requires a determination of blighted conditions, document that the characteristics of the area satisfy the requirements.
- **Needs assessment.** Identify community needs, particularly capital improvements.
- **Public-Private Partnerships.** Identify property owners and private investors interested in redevelopment opportunities in the area.
- **Economic benefits.** Quantify the economic benefits to the area as a result of the redevelopment effort, particularly in terms of tax revenues.
- **Financial feasibility.** Determine the financial feasibility of the TIF project based on the improved economic conditions expected versus the cost of needed public improvements to the area.

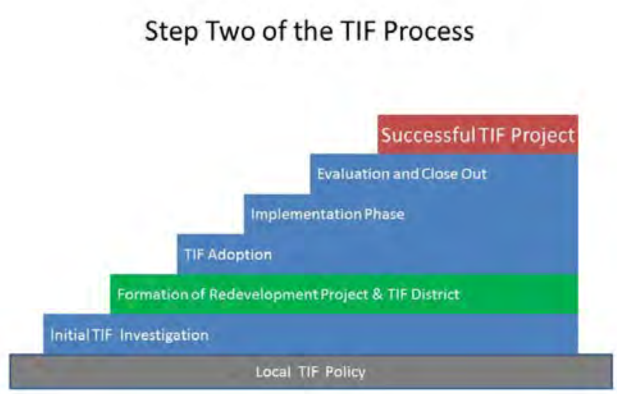


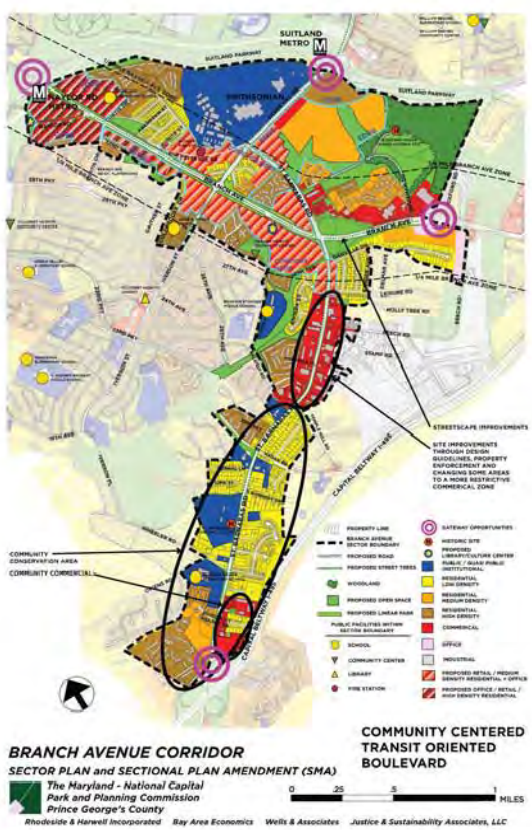
Courtesy George Kousoulas

This initial TIF assessment can take place without a specific project/developer, and would allow a community to publicly discuss the merits of using TIF to stimulate redevelopment in the area. Starting this discussion early with all affected taxing authorities and taxpayers will increase public confidence in the project, enhance local official accountability with community stakeholders, and increase the likelihood of project success. With the public and elected officials supporting a TIF-funded redevelopment effort, economic development professionals can more effectively market the area to prospective investors. Once interested investors/developers have been identified, the redevelopment plan can be refined into a specific redevelopment project. The initial TIF assessments will need to be reconfirmed as the project is formulated, and should be openly shared with the general public.

Forming a Redevelopment Project and TIF District

With a developer on board, the redevelopment plan needs to be refined to match the specific range of uses and scale of the redevelopment project. This stage of the process brings together the two basic aspects of TIF, land development planning and project financing. A clearly articulated redevelopment project serves many purposes, but primarily it is a planning tool that sets forth the project objectives and timetable for implementation. The redevelopment project also serves as the focal point for communicating with stakeholders, especially the taxpayers in the community. The redevelopment project should be consistent with the redevelopment plan and the community's comprehensive plan.





TIF district boundaries should further the development strategies established in the local comprehensive plan and sector plans,

Delineating the TIF District

TIF land planning begins with determining the appropriate geographical boundaries of the TIF district. In other words: What properties will be immediately affected by or receive benefits from the TIF-funded public improvements? This is not an easy area to delineate, because the benefit area typically is much larger than the public improvement construction area. For example, the actual redevelopment project may occupy six square blocks downtown, while the TIF district includes the entire downtown business district of 50 square blocks, because the public improvements address a particular impediment to private investment for all business district properties.

The debate on delineating the TIF district can be locally controversial depending on the size and properties included. TIF districts should not be drawn merely to capture the assessed property values of surrounding areas. If surrounding areas do not receive an economic benefit from the TIF project, then they should not be included in the TIF district. On the other hand, if the benefits of the TIF project "spill over" to the surrounding community, as they will with most large public works projects, then the surrounding areas should bear some of the cost of the improvements. Additionally, the edge of the TIF district typically is the most stable and the first area to rebound from improvements to the TIF district. It is extremely important to delineate the TIF boundary and include those properties that have benefited by the appreciated values to help support the funding of TIF improvements.

TIF districts vary in size but are generally only a small fraction of the entire jurisdiction. However, the cumulative impact of TIF on real estate markets, particularly non-residential real estate markets can be very important, because a large fraction of new development tends to locate in TIF districts. Some states limit the TIF district size to ensure not too much of the jurisdiction's property value is included. For example, Wisconsin TIF law prohibits a municipality from creating a new TIF district if 12 percent or more of the total assessed value of the community is already with a TIF district. A 2011 study of Wisconsin municipalities noted that 21 percent of the communities studied, using 2003 data, had reached this threshold.[2] Wisconsin also regulates use of TIF for greenfield development by requiring a proposed TIF district to limit the amount of vacant land to no more than 25% of the TIF area.

Local governments also need to consider the impact of the TIF district on the rest of the jurisdiction. TIF can be an effective economic development tool, but it is not without cost. Overuse of TIF can effectively freeze much of the tax base of a jurisdiction in the short term, while the tax increment is used to pay off the bonds. At the same time, TIFs can attract development that increases service demands (e.g., education, traffic and congestion, police and fire protection). A potential TIF should also be evaluated on how well it serves local land-use needs and the net economic benefits that it generates for the jurisdiction.

The Maryland Department of Planning (MDP) offers a number of tools that local governments can use to help delineate the TIF district.

Tools to Help Define Local TIF Areas

It is important to have a thorough understanding of the underlying socioeconomic, demographic and real estate characteristics of the area intended to benefit from the TIF. The following outlines available tools and resources that can help in obtaining information.

Real Estate

Data on assessed value of individual land parcels and improvements and other real estate characteristics are available from the Maryland Department of Planning's MdProperty View product. MdProperty View is a geographic information system (GIS) product that is designed to work with ESRI's ArcGIS software. Most counties in Maryland already have the MdProperty View product. Besides assessed values on individual parcels, other data items include ownership information, year built, lot size, zoning, structure type, land use type, last sale date and price paid. Note that only currently assessed values are available in the latest MdProperty View product for a particular jurisdiction. Previous years' assessments have to be obtained from previous years' MdProperty View products.

Find at http://planning.maryland.gov/OurProducts/PropertyMapProducts/PropertyMapProducts.shtml

Also included in the MdProperty View database are residential sales (geocoded to the parcel) from 2002 to the latest year available. This data includes the type of unit, trade date and consideration, as well as owner and seller.

Geographic boundary layers included in MdProperty View that can be added on top of the parcel points are tax maps, priority funding areas (PFAs), floodplains, protected lands, public water and sewer service areas, enterprise zones, census geographies (tracts, block groups and blocks) and zip codes.

More information on MdProperty View can be found at: http://planning.maryland.gov/OurProducts/PropertyMapProducts/PropertyMapProducts.shtml

Demographics

There are two potential sources of small-area demographic data: the 2010 Census and the American Community Survey. Population by age, race and gender (along with a few other characteristics) from the 2010 Census are the product of a complete count and are considered more accurate than the data from the American Community Survey (ACS). ACS data for small areas of under 20,000 are from a relatively small survey taken over a period of five years and can come with considerable margins of error. Census 2010 data is also available for even smaller geographies than census tracts to define a particular TIF area, including block groups and blocks.

Besides demographic data, additional data items from the 2010 Census are housing units, households, tenure (owner/renter) and residential vacancy rates.

Decennial Census data can be found on the MDP web site at http://census.maryland.gov/home.shtml and the U.S. Census Bureau's American Fact Finder at http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml

Socioeconomic

Almost all other socioeconomic data besides basic population counts, number of households, tenure (i.e., owner/renter) and vacancy rates must be obtained from the American Community Survey. Data that describe the relevant characteristics of the resident population—median household income, poverty, educational attainment, disability, ability to speak English, mode of transportation to work, unemployment rate, number of vehicles available per household, median home value, owner and renter costs etc.—are available down to the census tract or zip code level.

Note that overall population characteristics (total population, age, race, gender, etc.) are available from the American Community Survey as well as from the 2010 Census; as the more accurate Census 2010 results become out of date, consult the American Community Survey for this information.

Jobs by Place of Work and Commuting

For sub-county areas, one potential source of data on jobs by place of work is the U.S. Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) program. The "On the Map" application on the LEHD website allows the user to draw a boundary on a map and obtain the number of jobs by type located within the boundary. In addition, options include deriving where the residents who live in the designated area work, and alternatively, where the workers live who work in the designated area. Other characteristics of workers are also available, including monthly earnings, age, race, gender and educational attainment. See http://lehd.ces.census.gov/ .

American Community Survey

The ACS is a survey conducted by the U.S. Census Bureau designed to replace the socioeconomic data that used to be reported by the decennial census long-form, which ended with the 2000 Census. The advantage of the ACS over the decennial census long form is that it will be more up to date since it is a continuous monthly survey as opposed to a once-in-a-decade survey. The disadvantage of the ACS is that the sample size of the survey is smaller than the one-in-six household decennial census long-form survey; for small areas data, must be accumulated over multiple years to yield "period estimates" rather than an estimate for a single point in time. There also can be significant margins or error associated with the ACS estimates because of the relatively small sample size, which should be taken into account when evaluating the data.

ACS data releases are for one-, three- and five-year periods depending on the population of the area. For those areas with a population 65,000 or more, annual ACS data is available (in Maryland that would be for 16 out of the 24 jurisdictions and seven places). For areas with a population of 20,000 or more, three-year ACS estimates are available (e.g., 2009-2011). Three-year estimates are available for the 23 counties and Baltimore as well as for 50 Census Designated places (unincorporated places that are defined areas, such as Columbia or Towson) and 11 municipalities. Five-year estimates are available for all census-defined geographies (including those in which one- and/or one- and three-year estimates are available) down to the zip code and census tract level. The five-year small area estimates probably will be most useful for evaluating potential TIF areas.

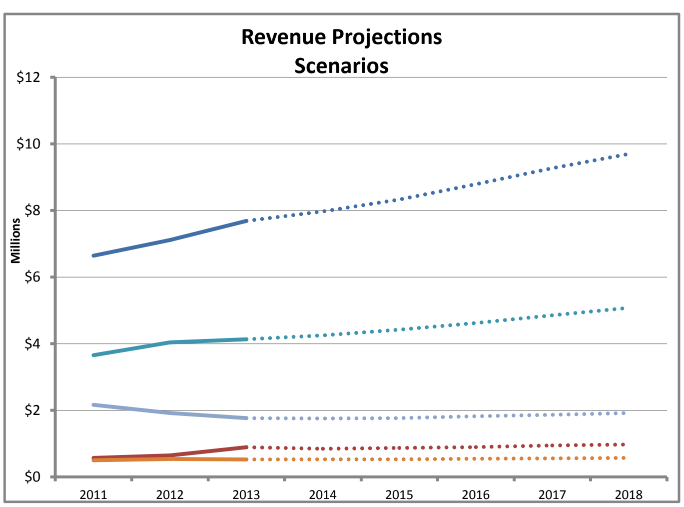
Establishing the base assessable value

Once the TIF district boundary is determined, the values of development district properties are aggregated to establish the assessable base of the TIF district. The TIF increment at any particular time is the taxes generated by the total value of property tax assessments within the borders of the TIF district minus the original assessable base. In Maryland, the Supervisor of Assessments determines the original assessable base of all real property subject to taxation in a TIF development district as of January 1 of the year preceding the effective date of the resolution creating the development district. The original assessable base of the TIF district is considered "frozen" throughout the time the TIF district is in place. Local taxing authorities will continue to receive tax revenue using the original assessable base times the tax rate. Any increase in the assessable base of the TIF district multiplied by the local tax rate will generate the tax revenue increment that goes into a special fund for TIF district improvements.

A Sustainable Community local government can recognize the diminished property values of a "brownfields" site that requires environmental mitigation.

Baltimore diminished property values of a "brownfields" redevelopment project, a strategy that now can be replicated in other parts of Maryland as result of enhancements for Sustainable Community TIF.

With the passage of the Sustainable Communities – Designation and Financing legislation (HB 613), the governing body may, as part of the resolution establishing the TIF development district, "determine the original base [value] of a brownfields site in a Sustainable Community." This enables a local government to recognize the diminished property values of a "brownfields" site requiring environmental mitigation. Without considering the mitigation costs in the original base assessment, a TIF district with a brownfields site faces an even greater disadvantage in attracting private sector development. HB 613 also includes in the list of enhanced TIF-funded activities "environmental remediation, demolition, and site preparation."



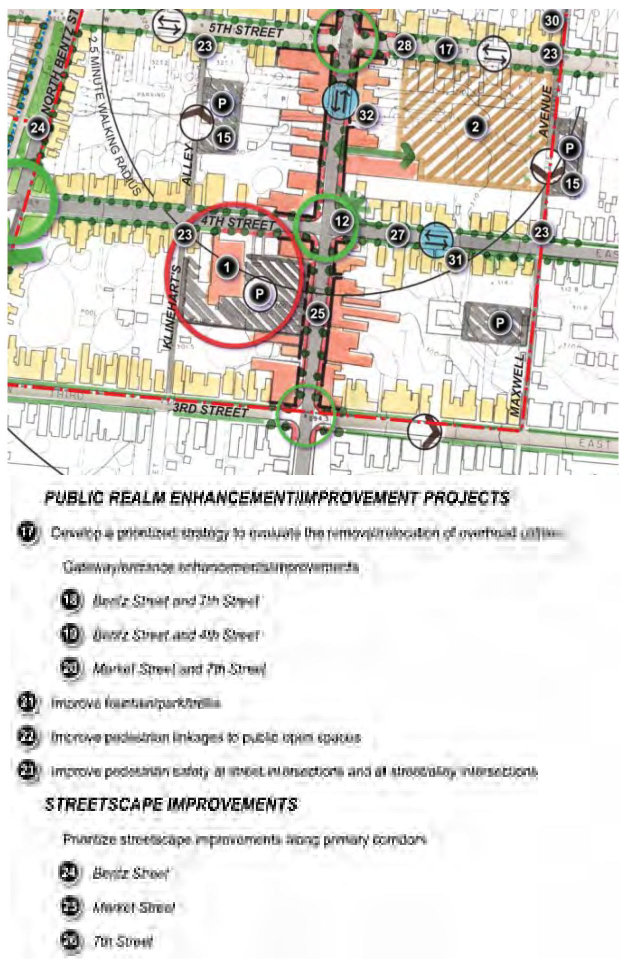
Financial experts will project revenues under a number of different scenarios to determine the likely cash flow from a TIF project.

TIF Increment Revenue Projections

A critical step in the formation of the redevelopment project is projecting the revenue increment anticipated over the life of the TIF district. Revenue projections determine the level of public improvements that can be supported by the TIF district. A local government should seek the advice of a financial expert experienced in TIF cash flow analysis to project incremental tax revenues and expected debt service.

Preparation of the TIF revenue projections requires extensive analysis of the local real estate market and property assessments. Depending upon the TIF redevelopment project and the level of uncertainty in future development, financial professionals will often present a range of scenarios based on different build-out options and project phasing. Forecasting future revenues also requires a series of assumptions about changes to the assessable tax base over time. Typically, financial experts will take the original assessable base and apply different growth rates based on the historical appreciation in property values within the TIF district and the jurisdiction as whole.

The financial professionals may use other revenue projection methods that compare property value increases in other parts of the jurisdiction or in other communities that have experienced similar redevelopment efforts. They may also estimate property value increases based on the proposed private developments. Since these proposed private developments have specific mix of uses and number of dwelling units and square footage, fairly accurate estimates of future property values can be determined. Based on when these private developments are built and the resulting increased assessable base, the financial professional can project future TIF revenues. The underlying analysis and associated assumptions should be open to public review because the tax increment revenue projections are used not only to calculate the tax increment available for public improvements, but they often become part of the public justification for the TIF redevelopment project itself.



Neighborhood Plans provide a general inventory of needed public improvements that can be funded as part of a TIF project.

Determining TIF-funded improvements

The public improvements identified in the redevelopment plan tend to lack engineering detail. Additionally, the specific infrastructure demands of the private developers may not have been factored into the redevelopment plan or its estimates of improvement costs. Therefore, the redevelopment project should be accompanied by detailed cost estimates based on engineering studies. This step can minimize unexpected cost overruns or re-scoping of the public improvements planned for the TIF district due to insufficient funds. If the redevelopment project co-mingles public and private improvements, it is important that there be a clear understanding of which portions of the improvements are to be public versus private, since each may have very different design standards and construction costs.

In some communities, the developer is expected to finance the construction of the public asset, and TIF funding is used for the long term financing, reimbursing the developer, once the public improvement is fully constructed and inspected. Since Maryland TIF law does not address this issue, it is recommended that local TIF policy address up front the design standards expected for all TIF funded improvements and whether the developer is to advance fund all public improvement costs.

Project Financing

Once the redevelopment project has well-defined costs estimates and revenue projections, a financial feasibility study can be performed to determine the method of financing the project and the expected cash flow to pay off the public improvements. During this phase, the local government will likely negotiate with the private developers interested in the TIF district to determine what role and level of support the developers can provide toward financing the redevelopment project. Development agreements are often prepared to document responsibilities and commitments made during these negotiations. Legal and financial professionals familiar with tax increment financing are essential during this part of the project formulation.

"But for" the TIF the project would not happen

> The "but for" test is a fairly straightforward concept – would the development have occurred without the expenditure of public TIF funds? If no, TIF funding may be justified.

The "but for" test is a fairly straightforward concept – would the development have occurred without the expenditure of public TIF funds? If the answer is "yes," then the public interest is not served by using TIF funds. If the answer is "no," then TIF funding may be justified. However, making a definitive determination is not easy and often highly debated. The levels of risk and profitability that factor into the private developer's decision-making may not be fully known. So, even if it is widely accepted that public funding is needed for the project, there still may be a question of how much TIF funding is needed.

Many states require projects to satisfy some form of "but for" hurdle prior to project approval, but the hurdles are usually low and not uniformly applied. Kansas City, Missouri, uses the following categories of "but-for" determination when considering TIF:

(1) the project has unusual/extraordinary costs that made the project financially unfeasible in the marketplace,

(2) the project required significant public infrastructure investment to remedy existing inadequate conditions,

(3) the project required significant infrastructure investment to construct adequate capacity to support the program,

(4) the project required parcel assembly and/ or relocation costs,

(5) all of the above, and

(6) other.

Missouri, like many other states, requires that TIF only be used to subsidize economic development that would not occur but for the subsidy. Unfortunately, most local governments have drafted flexible "but for" provisions that are vague and difficult to objectively confirm. One way to minimize the difficulty is to target TIF projects in areas such as Sustainable Communities, which are struggling and need revitalization.

Evaluating the Merits of the Project

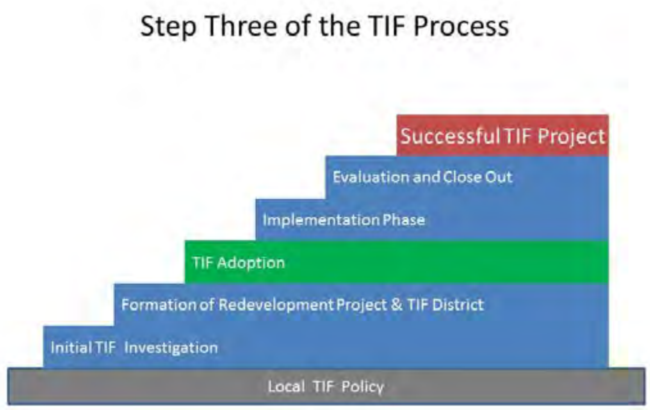
Once the fact finding and project scoping are completed, the overall merits of the redevelopment project should be evaluated to determine if the community should pursue it. The Government Finance Officers Association recommends that financial professionals evaluate the impact of the TIF district on the operations of other taxing authorities and present these findings during the public review of the project. Some jurisdictions at this stage conduct a cost-benefit analysis to determine if the public investment is justified in terms of expected employment, affordable housing, community benefits and revitalization. This information, along with other findings such as a determination of whether the area is "blighted" and if the project satisfies the "but for" test—, should be presented to the local governing body and the general public for consideration before the TIF adoption phase.

If TIF bonds are being considered, special provisions for debt coverage and other legal requirements should be evaluated. The debt service structure should be based upon the availability of TIF revenue or other funds and credit support offered by the local government. Revenue volatility should also be considered as part of the project review, because it may impact cash flow and the ability to finance improvements during the early stages of the TIF district. To protect against future shortfalls, conservative assumptions should be used and reserve funds established when creating a debt service structure. Factoring these considerations into the TIF project evaluation process will improve its success, enabling it to become fully operational and providing time for the required increment to come on line to pay debt service.

By the culmination of the project formulation stage, local government officials and the participating private developers should have fleshed out the actual details of the redevelopment project. Taxpayers should have sufficient information on the scale, scope and cost of the project, as well as the timeline for its completion. If the project is to be financed by debt, then debt financing policies should also be put in place, especially the amount of debt authorized to be issued, limitations on the amount of outstanding debt, and maximum allowable debt service payments. If the TIF project intends to use revenue bonds, it should be bond-market tested. Potential investors should have a good sense of the viability of the project itself, not simply the financial viability of the issuing government.

The redevelopment project should have addressed other special features relevant to the local government's TIF policy, such as environmental protections, affordable housing requirements, and quality-of-life neighborhood impact statements. These issues are often factored into the redevelopment project and are part of the negotiations with the private development partners. Draft developer agreements are often prepared for consideration during the TIF adoption, documenting the public-private understandings and commitments associated with the redevelopment project.

TIF Adoption



Before the redevelopment project and the proposed TIF district come before the governing body for approval, the public should have ample opportunity to be informed of the proposal and help adjust it, if necessary, to meet their concerns. During the adoption phase, the redevelopment project may be subject to a number of public hearings, depending upon state and local law. Under Maryland law, the TIF development district is to be designated by resolution; therefore, the local governing body must comply with its public participation and notice requirements before approving the TIF district. Maryland law also requires a similar resolution by a municipality if the county TIF district is overlapping all or part of the municipality. Once the TIF district is established, Maryland law requires the governing body to adopt an ordinance to issue TIF bonds. With the exception of a TIF ordinance that pledges the full faith and credit of the local government to the payment of principal and interest on a bond, TIF-funded projects in Maryland are not subject to referendum.

The public debate on the TIF redevelopment project should be well defined and understood long before the public hearings. It is incumbent upon the local planning department or redevelopment authority to have been actively engaging the public throughout the redevelopment planning process. Local interest groups and community leaders have to be involved and supportive for the redevelopment project to be successfully implemented. Opponents of the redevelopment project should be contacted and their concerns addressed as much as possible; early and continuous engagement of the community and its leaders is a key ingredient that cannot be overlooked. Elected leaders also need to be informed throughout the public participation process about the issues raised and what efforts are being taken to address those concerns. Open communication and access to information about the redevelopment project is essential to successful adoption and implementation.

The local government may want to consider developing a communication plan as the redevelopment plan/project progresses. Since the public cannot always be privy to negotiations with developers, an education effort will need to occur early on to inform the community about what information will be disclosed as the project develops, what material will be available at the time of TIF district adoption or bond issuance, and what information cannot be publically disclosed due to private negotiations. The process for creating and adopting the redevelopment project should be as transparent as possible. If the public is aware before getting to the project approval phase that certain components of the redevelopment project may not be fully disclosed due to proprietary reasons, then residents and interest groups will have greater confidence that elected officials are acting in the community's best interest.

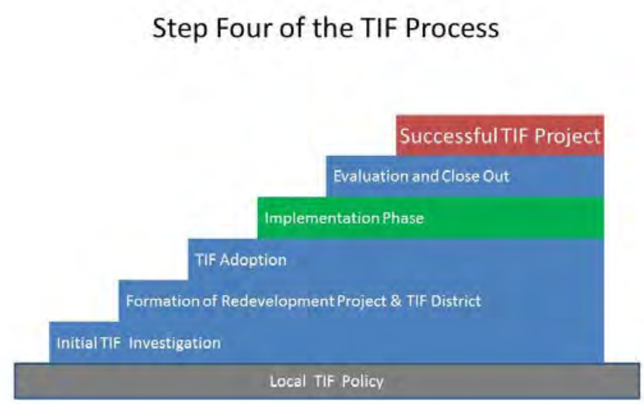
The American Planning Association has published a useful *Planners' Communications Guide: Strategies, Examples, and Tools for Everyday Practice*, which is available to APA members and contains helpful tips on how to provide effective public participation throughout the redevelopment plan/project process. Two examples of effective communication plans contained in this guide that are relevant to getting TIF districts are:

> 10.3.5 - Example, bond referendum information campaign plan: Pembroke Pines, Florida, Bond Referendum Communications Plan, pp.10.47-10.51
>
> 10.3.6 - Example, transit/land-use plan and funding communications plan: Communications plan for Charlotte-Mecklenburg, North Carolina, 2025 Plan and Funding Strategy, pp. 10.52-10.58.

In preparing a communication plan for a TIF project, consider the following approach:

- **Define goals**. This could be a short-term goal of getting the local elected officials to approve the TIF project, or it could be a longer-term goal of informing the community and building support for the TIF and associated redevelopment efforts. By establishing goals, you establish the scope and timeframe of your communications plan, as well as identify resources needed to carry it out, e.g. personnel and funding.
- **Determine the objectives needed to accomplish goals**: How do you intend to achieve the goal(s)? Objectives in a communications plan identify milestones, such as securing the local planning commission recommendation or receiving support from interest groups or the chamber of commerce. These milestones determine "prongs" of attack that will be used to get the TIF district adopted. At this stage of the communication plan, you should identify key decision-makers and actions to help achieve the goal of a successfully adopted TIF district.
- **Research the TIF project and the redevelopment area.** Find out what you can about the TIF project, the redevelopment area, the community and local interest groups. What are the public perceptions about the project and the area? Does the general public have a good understanding of the TIF project? What is the level of community activism? What forms of communication typically are used to inform people in the area? What key audiences need to be reached?
- **Identify the campaign message(s).** Explain why the elected officials or the community should support the TIF project. The messages should be concise and convincing.
- **Determine communications channels**. How will you communication the message to the public — traditional print media, TV, social media, fliers, etc.?
- **Campaign budget and timeline.** How much money do you have to communicate your message, and how much time do you have? Knowing the campaign budget as soon as possible is critical to developing an effective communications plan. Equally important is developing a schedule, as the frequency and channels will depend on how much time you have.

Implementation



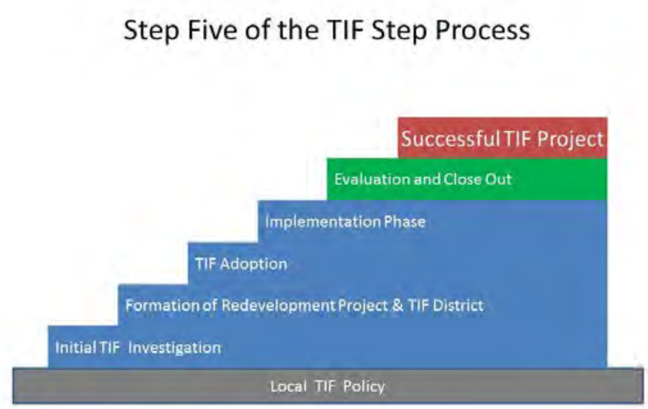
Once approved by the local government, the redevelopment project moves into the Implementation Phase, where the public improvements are constructed and the public debt is issued to pay for construction. Because each project is unique, there is no specific sequence of actions for land development and project finance. Since TIF projects tend to be large, multi-year undertakings, the local government will need to establish rigorous construction and financial management systems to track capital improvement expenditures, incremental TIF revenues, debt service and cash flow.

Typically, revenue bonds are issued by authorization of the local jurisdiction and backed by TIF revenues. In Maryland, bonds supporting TOD and Sustainable Communities can be issued by the Maryland Economic Development Corporation (MEDCO) on behalf of the jurisdiction. These are non-recourse bonds, meaning that the bond purchasers have no legal right to be paid by the jurisdiction if the designated revenues are not sufficient to cover the bond payments. Since Wall Street firms underwrite these bonds, the bond marketing process tends to result in built-in protections and/or reserves being part of the bond sale to assure repayment.

Reporting annually on all facets of the redevelopment project is important to sound management and continued public support of the TIF project. To keep elected officials and the public informed, the reports should contain detailed information on capital improvement expenditures, incremental tax revenues and private development occurring in the TIF district during the past year. The reports should show if the increase in assessed value from development will generate enough revenue to pay development costs, administer the project, and service the debt. If TIF district revenues exceed debt service, the local government should consult its TIF policy and determine if reserve funds should be created to cover subsequent debt service shortfall, or returned to the general fund or other taxing authorities.

Operation of the TIF district is not over until the final bond is paid off. The local government must remain an active participant in the marketing and promotion of the TIF district throughout the duration of the bonds. TIF financing and public improvements alone will not ensure success of the redevelopment project. The local government may need to target other federal, state and local resources to attract private investment to the area. At a minimum, the local government needs to have a sustained marketing campaign to promote the TIF district.

Evaluation and Close-out



Finally, the last stage in the TIF process is the evaluation and close-out of the TIF project. Once project construction is complete and the project has an operational history, it is important to periodically evaluate the expected versus actual results. This periodic review every two to three years should evaluate the actual performance as compared to projected performance for items such as tax base, jobs created, and the impact of shifting economic development from non-TIF areas to TIF areas. Adjustments in local policies and programs may be appropriate based on the findings and recommendations from this periodic review.

Another important aspect is the end date of the TIF. Depending on state law, some TIF districts can become "perpetual" quasi-government entities. This should be avoided, and the TIF district should be closed out when the objectives of the redevelopment plan have been met. In Maryland, the maximum term for a TIF bond is 40 years, but local jurisdictions may limit this time period further. As long as debt is outstanding, most TIF districts can exist and collect revenue. However, when all bonds are repaid, the TIF revenue reverts to the jurisdiction and respective taxing authorities.

Endnotes

[1] Government Finance Officers Association, "Recommended Practice: Tax Increment Financing as a Fiscal Tool - 2006 (DEBT and CEDCP)," (February 2006),

[2] *Do Tax Increment Finance Districts Stimulate Growth in Real Estate Values?* American Real Estate and Urban Economics Association, 2011.

Chapter 5: Maryland Economic Development Corporation Services

Overview

Created in 1984 by an act of the Maryland General Assembly, Maryland Economic Development Corporation (MEDCO) functions under the provisions of Title 10, Subtitle 1 of the Economic Development Article of the Annotated Code of Maryland and is charged to:

- help relieve unemployment;
- encourage the increase of business activity and commerce and a balanced economy;
- help retain and attract business activity and commerce through the development, expansion, and/or modernization of facilities;
- promote economic development; and
- promote the health, safety, right of gainful employment and welfare of Maryland residents.

MEDCO issued non-recourse revenue bonds on behalf of Acadia Todds Lane, LLC to acquire a Baltimore County property, construct improvements to an existing industrial building and acquire some of the building furnishings.

MEDCO operates and exercises its corporate powers throughout Maryland, assisting governmental units and state and local economic development agencies to contribute to the expansion, modernization, and retention of business enterprises and the attraction of new business to the state.

In fulfilling its legislative purpose, MEDCO owns and leases certain properties and makes loans and sells bonds to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects and cooperates with workforce investment boards, private industry councils, and representatives of labor and governmental agencies in maximizing new economic opportunities in Maryland.

MEDCO structures its financings on a non-recourse, project-specific basis, so that the sources of repayment for any bonds are limited to the revenues and assets pledged by a specific project and do not include any assets of MEDCO. When MEDCO partners with state and local agencies, the transactions can be structured so the governmental entity is not responsible for the repayment of MEDCO-issued bonds. Most of MEDCO's bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name; however, MEDCO can also issue bonds for its own account to finance the development and construction of assets that it will own and operate or lease to another governmental entity.

In this University of Maryland-College Park Energy Project, MEDCO leased existing utility systems serving the campus and contracted for renovations and expansion. Tax-exempt bonds were issued to finance the improvements, which include new gas turbines for increased electric generation.

MEDCO has completed more than 250 transactions throughout the state in the following areas:

Higher Education

To modernize and increase capacity/efficiency of the Department of Health and Mental Hygiene, tax-exempt bonds were issued to finance a new public health laboratory.

Maryland's public institutions of higher education work with MEDCO on a number of projects, ranging from the financing, development, acquisition and ownership of student housing facilities, academic buildings and infrastructure projects. MEDCO gives the universities and colleges flexibility in financing projects important to the continuing education needs of Maryland's citizens.

Government

MEDCO works with state government agencies and local government to create advantageous ownership and financial structures for many of Maryland's infrastructure projects. This provides agencies with flexibility and expediency on infrastructure projects and creates savings for Maryland's taxpayers. MEDCO has developed and owned a wide variety of governmental projects including headquarter buildings, parking garages and specialized facilities (laboratory, airport, etc.)

Business Incubators

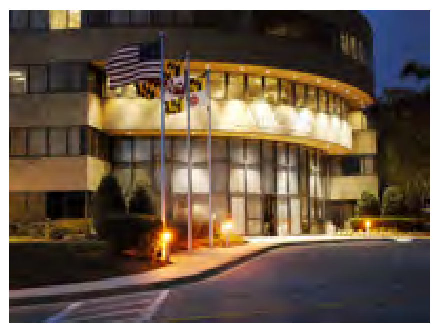
Maryland's continued technological changes afford opportunities to expand productive employment and expand the state's economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Nonprofit

MEDCO's provides nonprofit organizations with financial assistance through the issuance of our tax-exempt bonds. MEDCO then loans the proceeds of the bonds to the nonprofit to finance capital projects.

Manufacturing

MEDCO assists qualifying manufacturing businesses with financing equipment and acquisitions of facilities that help add and retain manufacturing jobs in Maryland.



The bwtech@UMBC Incubator and Accelerator is a nationally recognized life science and technology business incubation program that is home to bioscience and technology companies. It is managed by the university and owned by MEDCO.

Tourism

MEDCO is helping to expand the geographic scope of Maryland's tourism economy, drawing tourists to areas not frequently visited. New resorts made possible by MEDCO help create jobs, provide opportunities for local merchants, and create awareness among Marylanders and people throughout the mid-Atlantic.

One Maryland

The One Maryland Program, funded by the Department of Business and Economic Development, provides economic development assistance to economically distressed jurisdictions. MEDCO-assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

Advisory Capacity

MEDCO, primarily through its executive director, promotes economic development and helps maximize economic opportunities by serving in board memberships and advisory positions throughout the state.

TIF Transaction Services

Bond Issuance

MEDCO is an experienced issuer of taxable and tax-exempt bonds in the state that is well respected within the bond investment community. As a statewide issuer, MEDCO is able to issue in any jurisdiction and can also issue for projects that span multiple jurisdictions. MEDCO has a streamlined issuance process that allows projects to quickly move forward and has staffing in place to handle up front due diligence and structuring, assembly of deal team, obtaining necessary approvals and authorization, holding public hearings (if required), preparation of transactional documents, and post-issuance continuing disclosure and compliance obligations.

Development

In certain situations, MEDCO can undertake various roles to facilitate the development of a project. MEDCO has the expertise on staff to assist with any aspect of a development including among other things: soliciting proposals for feasibility and market studies, soliciting and evaluating developer financial and technical proposals, negotiating development terms and transactional documents, and monitoring construction progress. MEDCO also can serve as developer and contract directly with a general contractor to construct facilities.

Ownership

MEDCO can also add value to a transaction by assuming direct ownership of public assets on behalf of governmental entities. In such situations, MEDCO will issue TIF bonds to finance the construction of public improvements and will own the improvements for the period of time the TIF debt is outstanding (or longer if desirable). When MEDCO ownership is no longer needed, the improvements can be transferred to the governmental entity or another entity, if preferred. MEDCO typically leases owned assets to a governmental entity or contracts with a third-party to undertake day-to-day management and operations. This structure eliminates the risks of property ownership from a governmental entity and reduces the amount resources a governmental entity needs to spend overseeing operations.

MEDCO purchased a former two-story Cambridge department in from the Dorchester County Commissioners using a $1 million loan from the Maryland Industrial and Commercial Redevelopment Fund program of DBED. MEDCO leases it to Chesapeake College as an adult education and industrial training center. MEDCO's purchase completed more than two years of state and local development efforts to convert a large empty structure in the downtown and stimulate job creation.

Chapter 6: TIF Best Practices & Maryland Case Studies

Having presented the mechanics of the TIF process and provided a few suggestions on how to more effectively administer a TIF district in Chapters 1 through 4, it is now important to understand how communities have applied TIFs and learn from their experiences. Researchers have studied TIFs from around the country, critiquing their failures and successes. The following identified best practices have particular relevance to TIFs in Maryland.

Toby Rittner, writing for the Federal Bank of San Francisco, attributes unsuccessful TIF districts to external project forces of insufficient awareness/transparency and internal project conditions such as inadequate financial support or planning. For successful TIF districts, Rittner advocates attention to both internal and external factors and recommends the following when pursuing a TIF:

> Unsuccessful TIF districts can be traced back to external project forces of insufficient awareness/transparency and internal project conditions such as inadequate financial support or planning.

Ensure the TIF is sound public policy. TIF projects must go beyond simply meeting the statutory eligibility requirements and be clearly perceived as a benefit to the community. After considering the financial assistance and other redevelopment stimulus, does the community believe the project is worthy?

Make certain all aspects of the project are viable. Closely evaluate the experience and financial history of the developer at the beginning of the process. Establish early in the negotiations between the jurisdiction and the developer when and if the TIF funding is needed. As part of the evaluation process, determine whether the development project has a strong likelihood of having an enduring presence in the community for years to come.

Continued community support for the project is essential. An ongoing coalition of stakeholders and supporters needs to monitor and advocate for the project, including neighborhood groups, business leaders, and elected officials. A plan for communicating the importance of the project, as well as information on how the project will be financed, should be developed and executed.

An assessment of Evanston, Illinois's experience with TIFs yields these recommendations:

- Align TIF plans with the city's overall economic development plan;
- Use TIF to catalyze rather than create market demand;
- Define a clear and objective TIF approval process;
- Leverage competitive market forces;
- Use TIF resources to benefit the broader community;
- Shift risk to the private sector;
- Implement metrics to monitor performance; and
- Create an advisory board of community stakeholders.

The Government Finance Officers Association (GFOA) identified in its booklet, *Tax Increment Financing: An Elected Official's Guide* (2005), the following best practices. Adopt a TIF policy addressing key elements that:

- Use feasibility studies to evaluate redevelopment and timeline;
- Evaluate economic benefit to local economy vs. cost of TIF incentive;
- Consider the fiscal overlapping tax entities impacts to city; and
- Evaluate total impact of all TIFs to tax base.

Other TIF Best Practices to consider:

- Use TIF development to support the city's economic development strategy;
- Encourage public input in the TIF development and financing process;
- Include the participation of other taxing entities; and
- Maintain an ongoing monitoring of development progress in the TIF district.

The City of Austin Financial Department identified these TIF best practices to consider:

- Target areas in special need of development, particularly projects that fundamentally transform the community;
- Demonstrate a clear and convincing "but for" result to show that the project would not occur without TIF assistance;
- Impose a deadline for when the property's tax revenue will once again be available for the general fund. This can be done when the TIF district is established or when bonds are issued;
- Include measureable targets for success in TIF agreements;
- Publish periodic progress reports on achieving project and development goals

Communities putting TIF into practice have two alternatives: "project" TIFs or "area" TIFs. Project-based TIFs focus on a particular property or properties that need public improvement, which typically serve as the impetus for the redevelopment of a larger area. Area-based TIFs tend to fund public improvements for a broader area, with no specific development being a critical component of the overall redevelopment effort. Almost all Maryland TIF bond issues have tended to be project-based TIFs, where the TIF investment is linked to a specific proposed development and negotiated with the project's developer. Focusing on a specific project minimizes the complexity and the number of parties involved and provides a clear nexus between the TIF investment and the resulting redevelopment. It also allows for the introduction of provisions that restrict any potential tax burden to the property or properties that benefit from the TIF. The following is a closer look at project-based TIFs in Maryland.

Project-based TIFs

The 2011 report to the Maryland Sustainable Growth Commission, Introduction to Tax Increment Financing, shows that 19 of the 23 TIF bonds closed in Maryland between 2000 and 2010 were for project-based TIFs (see Table 1). During this same period, nine additional TIF development districts were approved, all project-based, but no TIF bonds were issued (see Table 2).

Table 1: Maryland Project-based TIF Activity

Issuer	Name	Bond Purchaser	Bond Issuance Date	TIF Amt	Incremental Assessed Value	Tax Increment Revenues	Debt Service Coverage	Backup Credit Enhancement	Special Tax Payment	Developer	Land Use Typology	Development	Development Status	Infrastructure Financed	Other Public Purpose
Bond Closed 2000 to 2010															
Annapolis	Park Place	Public	2005	$25,000,000	$195,000,000	$2,057,000	140%	Special tax	$0	Jerome J. Parks	Mixed use	225-room hotel 276K sf office 166-unit residential condos	Complete	City parking garage	Urban Redevelopment
Anne Arundel	Parole Town Center	Public	2002	$8,300,000	$928,000,000	$8,350,000	794%	None	Not Applicable	Broad Area-Multiple developers	Mixed use; primarily retail		Complete	On-ramps and underpass to ease congestion in Parole area near Annapolis	Redevelopment Economic Development Ease congestion
Anne Arundel	National Business Park North	Public	2010	$30,000,000	$411,000,000 projected	$3,614,000 projected	168% projected	Special tax	$4,740,000 projected	COPT	Office park	1,600,000 sf office 200,000 sf retail 200,000 sf residential	Under construction	BRAC Related Roads and sewers	BRAC support
Anne Arundel	Village South at Waugh Chapel	Public	2010	$16,000,000	$183,000,000 projected	$1,732,000 projected	130% projected	Special tax	$400,000 projected	Greenberg Gibbons	Mixed use	640,000 sf retail 125,000 sf office 380 dwelling units	Under construction	Roads and sewers	Environmental Remediation
Anne Arundel	Arundel Mills	Public	1999 & 2004	$28,000,000	$532,000,000	$4,685,000	213%	Special tax	$0	Mills Corporation	Retail	2 million sf retail	Complete		Economic Development
Anne Arundel	National Business Park	Public	2000 & 2004	$14,000,000	$541,091,630	$4,762,000	412%	Special tax	$0	COPT	Office park	2,600,000 sf office	Complete	Roads and sewers	Economic Development
Baltimore City	Belvedere Square	Private Placement	2003	$2,000,000		-	-	Special tax	$96,000	Struever, Ewing & Mannekin	Retail (renovation)	110,000 sf retail	Complete		Commercial redevelopment/ Historic Preservation
Baltimore City	Clipper Mill	Public	2004	$7,877,000	$40,000,000	$545,000	103%	Special tax	$85,000	Struever	Mixed use	275 dwelling units 500,000 sf	Complete		Urban Redevelopment/TOD
Baltimore City	North Locust Point	Public	2005	$2,977,000	$49,500,000	$406,000	195%	Special tax	$0	Struever	Residential		Complete	Extend Key Highway	Urban Redevelopment
Baltimore City	Mondawmin Mall	Developer	2008	$15,000,000	$68,000,000 projected			None	Not Applicable	General Growth Properties	Retail (renovation)	500,000 sf	Complete		Redevelopment of distressed property
Baltimore City	Strathdale Manor	Public	2003	$5,968,000	$43,000,000	$635,000	145%	Special tax	$0	Struever	Residential	170 for-sale houses	Complete		Neighborhood Redevelopment/Affordable e housing
Baltimore City	Harborview Lot #2	Public	2003	$7,479,000	$49,000,000	$841,000	132%	Special tax	$0	HV & Legacy Harrison	Residential	88 for-sale waterfront townhouses	Complete		Urban redevelopment
Frederick City	Monocacy Boulevard	Bank	2001							Broad area				Extend Monocacy Boulevard	Economic Development
Frostburg	Route 36 Development District	Bank	2008	$250,000	$3,460,000				Not Applicable		Retail/Commercial	Rite Aid Pharmacy; Dental office building	Complete		Economic Development
Laurel	Centre at Laurel	Developer	2004	$2,500,000				None	Not Applicable	Petrie Ross	Retail	137,000 sf shopping center	Complete		Neighborhood Redevelopment
Prince George's	National Harbor	Public	2004	$65,000,000	$498,685,000	$4,787,000	141%	Special tax	$0	Peterson Companies	Mixed use	Additional 1,300 hotel rooms 500,000 sf retail 300,000 sf office 2,500 resort residential units	Largely Complete		Economic Development
Prince George's	National Harbor	Developer	2005 & 2008	$145,000,000				None	Not Applicable	Gaylord	Hotel/ convention center	Gaylord hotel with 2,000 Rooms; 400,000 sf convention center	Complete		Economic Development

Table 1: Maryland Project-based TIF Activity

Issuer	Name	Bond Purchaser	Bond Issuance Date	TIF Amt	Incremental Assessed Value	Tax Increment Revenues	Debt Service Coverage	Backup Credit Enhancement	Special Tax Payment	Developer	Land Use Typology	Development	Development Status	Infrastructure Financed	Other Public Purpose
Bond Closed 2000 to 2010															
Salisbury	Village at Aydelotte Farm	Public	2007	$9,800,000				Special tax	$390,000	East Fields	Residential	673 residential units	Road Complete; homes under construction		Connector road between downtown & Route 50
Salisbury	Village at Salisbury Lake	Developer	2007	$15,000,000				None	Not Applicable	Chesapeake Realty Ventures	Mixed use	Planned mixed use	Site cleared, on hold		Redevelopment of distressed property

Table 2: Maryland Project-based TIF Activity

Issuer	Name	TIF Amt	Incremental Assessed Value	Tax Increment Revenues	Debt Service Coverage	Developer	Land Use Typology	Development	Development Status	Other Public Purpose
TIF Approved -No Bonds Issued										
Baltimore City	Harbor Point	$155,000,000	$750,000,000 Projected			H&S	Mixed Use	835,000 sf office 616 dwelling units 73K sf retail 530 hotel keys	One building complete	Environmental remediation
Baltimore City	Westport Waterfront	$160,000,000	$1.4 billion projected			Turner Development	Mixed Use/TOD/ BRAC	2,000 dwelling units 600,000 sq. ft. commercial (office, retail, hotel) space	Site preparation near completion	BRAC zone
Baltimore Co	Owings Mills Metro station	$135,000,000	$1 billion projected			David S. Brown	Mixed use/TOD	Offices: 1.2 Million sf Residential: 495 DU Retail: 300,000 sf Library: 40,000 sf Hotel: 250 Rooms Parking: 11,000 spaces	Planned	
Charles	Swan Point	$26,000,000				Brookfield	Residential	1,500 dwelling units Hotel	Planned	
Harford	Beechtree	$14,000,000	$265,000,000 projected	$2,474,000 projected	219% projected	Clark Turner	Residential	768 residential units	Initial homes complete	BRAC support
Howard	Savage Town Center	$14,000,000	$175,000,000 projected			Petrie Ross	Mixed use/TOD	300 dwelling units 320,000 sf retail and office 150 room hotel	Planned	
Laurel	Laurel Mall					Samara Capital			Planned	BRAC zone
Prince George's	Greenbelt Metro station	$65,000,000	$2 billion projected			GB Development	Mixed use/TOD	2.5 million SF commercial space 2,200 dwelling units	Planned	
Prince George's	Largo Metro Center									

Developer Funding

One of the advantages of project-based TIFs is that the primary developer of the project may be able to help finance the initial construction.

Developer funding is used extensively in Chicago for TIF revenues to repay costs incurred and financed by the developer. In such cases, the developer uses his or her own money or borrowing capacity to fund the improvements. The jurisdiction enters into a contract to make payments to the developer from incremental tax revenues to repay the specified costs.

This approach has the advantage of eliminating the cost of bond issuance and ensuring that the developer remains liable for cost overruns and/or TIF revenue shortfalls. The Gaylord Hotel portion of the National Harbor issue in Prince George's County, a City of Laurel issue related to infrastructure for a small shopping center, a $15 million Baltimore City issue for renovation of Mondawmin Mall, and a small issue for the redevelopment of a mall in Salisbury were structured as notes to the developer on a private placement basis.

Maryland Project-based TIF Case Studies

Some of the best practices in TIF can be seen in the following Maryland projects:

- Mondawmin Mall (Baltimore)
- Park Place Mixed-Use Development (Annapolis)
- Frankford Estates (Baltimore)
- Route 36 Strip Mall (Frostburg)

Mondawmin Mall (Baltimore)

Project Overview

Location Baltimore City **Development Type** Project-based **TIF Financing** $15 million bond issued at 5.6% with 9/1/2039 maturity date $12 million in net bond proceeds used for demolition, site preparation and utilities **Credit Enhancement** One Maryland **Public Improvements** Utilities, public infrastructure, roads **Project Description** A redevelopment of a retail shopping center consisting of a 127,000 square foot Target, a 67,000 square foot Shoppers Food grocery store; two pad sites for sit-down restaurants or banks; a new 20,000 square foot "junior anchor," and renovations of the existing mall **Contacts** Leon Pinkett, Baltimore Development Corporation: 410-837-9305, lpinkett@baltimoredevelopment.com

The Mondawmin Mall opened in 1956 on 46 acres that, prior to the construction of the mall, was the largest undeveloped tract within three miles of the center of Baltimore. The first major enclosed retail facility built in the residential center of a major city, Mondawmin Mall was for a time, the area's premier shopping destination.

By the late l970s, however, the mall was facing a 17-percent vacancy rate. Mondawmin Mall's decline was associated with the aging structure itself as well as with escalating blight and crime occurring in surrounding neighborhoods. In 1981, the Rouse Company undertook extensive renovations. Coupled with public investment in the area, including the construction of the Baltimore Metro subway line through the Mondawmin community and the development of new Maryland Motor Vehicle Administration and the U.S. Social Security Administration field offices on parcels adjacent to the mall, the renovation spurred growth in the community and restored vibrancy to the mall.

Since the early l980s, the mall, generally, realized solid sales. It had nearly 500,000 square feet of specialty retail, a supermarket, restaurants and services. Its prime location -- at the crossroads of three major thoroughfares and the public transportations system, including eight bus stops and a neighborhood shuttle – provided an advantage. Nonetheless, the aging mall was perceived as unattractive, out of date and unwelcoming. In April 2004, General Growth Properties, Inc. (GGP) acquired the Rouse Company and, subsequently, announced plans to undertake a $70 million redevelopment of Mondawmin Mall with three specific goals:

- Create an aesthetically exciting shopping center experience, including extensive and exterior renovations, along with new mall entrances, lighting, flooring, restrooms, and exterior landscaping;
- Re-position and upgrade anchor stores to include a full-service supermarket and department store, as well as new restaurants and "junior" boxes; and
- Increase the presence of small national retailers.

The redevelopment at Mondawmin Mall coincided with substantial recent public and private investment in the community. In 1999, the Maryland Department of Planning (MDP) received a Federal Highway Administration grant to identify opportunities to improve the connections between the Mondawmin Transit Center and the community it serves. Subsequent investment included $300 million for new facilities at nearby Coppin State University and a large-scale public/private effort to revitalize Reservoir Hill.

General Growth Properties, Inc. was the second largest regional mall real estate investment trust, owning, developing, operating, and/or managing shopping malls in 44 states. In 2005, GGP had ownership interests in and/or management responsibility for more than 200 regional shopping malls totaling more than 200 million square feet of retail space. GGP also is the largest third-party manager for owners of regional malls.

Current Plan

The redevelopment of the site included:

- A 127,000-square-foot Target, Baltimore's first, anchoring the west end of the project, which benefits from high visibility from Liberty Heights Avenue
- A 67,200-square-foot Shoppers Food Warehouse grocery store on the east end, visible from the intersection of Gwynns Falls Parkway and the end of Liberty Heights Avenue
- Opportunity for one "junior box" retailer, approximately 15,000-20,700 square feet
- Opportunities for two full-service restaurants, ranging in size from 4,700-7,000 square feet
- Improvements and enhancements to the existing mall including:
    - Enhanced general lighting in common areas
    - New hand railings
    - Lighter and brighter floors
    - New and expanded restrooms
    - Continued enhancement of site lighting

- Store front renovations as leases roll over
- Upgraded mall entrances
- New exterior and interior landscaping
- New vertical transportation
- Improvement and appearance of sprinkler, duct and HVAC systems.

Financing Package

“But For” Analysis:

Baltimore Development Corporation (BDC) staff hired MuniCap, Inc., an Ellicott City-based firm specializing in TIF and financial analysis, to help evaluate GGP's request. GGP initially requested a total public subsidy of $19.8 million. However, based on the projected development, BDC proposed (Table 3) the following funds:

Table 3: BDC Proposed Public Assistance for Mondawmin Mall Project

Public Sources	Total
TIF bonds	$9 million
City Funds (BDC Bond, MVR, other)	$2 million
DBED One Maryland program	$3.6 million
Total Public Assistance	**$14.6 million**

The estimated tax increment is projected to support $9 million in TIF bonds. The gross TIF assistance (issuance fees, reserves and capitalized interest) would be limited to approximately $11.8 million.

The total public assistance is $14.6 million, which still leaves a $5.2 million gap from GGP’s initial request of $19.8 million. That gap could be closed by value engineering, additional net proceeds from the TIF (if GGP purchases the bonds) or additional developer equity (which would further suppress the developer returns). Without public sector financing, the project as envisioned would not have generated an adequate return on investment and cash-on-cash return to attract private investment. Table 4 illustrates the projected returns to the developer with and without public assistance.

Table 4: Mondawmin Mall Project - Comparison of Developer Returns

	No Public Assistance	Public Assistance
Hard costs	$42,084,232	$42,084,232
Additional interest carry	$891,000	$0
Soft costs	$8,496,246	$8,496,246
Total costs	**$51,471,478**	**$50,580,478**
Public Sources	$0	$14,600,000
Gap	$0	$5,200,000
Total public sources	**$0**	**$19,800,000**
Private Sources		
Land sale to Target	$6,000,000	$6,000,000
Developer contribution	$45,471,478	$24,780,478
Total private sources	**$51,471,478**	**$30,780,4787**
Return Measurement		
IRR	1.97%	6.83%
Cash-on-cash year 1	2.56%	4.69%
Cash-on-cash year 2	2.98%	5.47%
Cash-on-cash year 3	2.98%	5.48%

Based on preliminary conservative assumptions of the potential incremental tax revenues, the total TIF bond proceeds would be $11,355,000 (with issuance costs, capitalized interest, and reserves), as described in Table 5 below. According to MuniCap, Inc. as the analysis progressed, the capacity of gross TIF proceeds could grow as high as $13 million; however, the final amount is a function of whether and how much GGP would be willing to stipulate as a minimum incremental real estate tax payment.

Table 5: Source and Use of TIF Funds on Mondawmin Mall Project

Source of funds		
Total bond proceeds	$11,355,000	96.9%
Interest earned in the improvement fund	$364,406	3.2%
Total sources of funds	$11,719,406	100.0%
Total uses of funds:		
Public improvements	$9,000,000	76.8%
Issuance costs	$340,650	3.0%
Capitalized interest	$1,243,630	10.6%
Reserve fund	$1,135,500	9.7%
Rounding	(373)	0.0%
Total uses of funds	**$11,719,406**	**100.0%**

On a city investment of $11,355,000 (TIF) and $2 million (other city funds), the city's Internal Rate of Return (IRR) was an estimated 7.47 percent. In addition, the revitalization of Mondawmin Mall would continue to strengthen a historic community. As envisioned, the new Mondawmin Mall would be a "destination" retail center for the greater Baltimore area and serve as a gathering spot for the local community. The regional appeal of the shopping center would strengthen the surrounding communities and broaden their appeal to prospective homebuyers. BDC staff believed the city will benefit from rising property values and tax assessments of nearby commercial and residential properties.

Summary of Returns

Based on the preliminary and conservative tax increment assumptions, staff recommended approval of the $11.355 million TIF and $2 million infrastructure grant from other city funds. The summary of returns is below:

- 30-year city Internal Rate of Return of 7.47 percent
- 30-year city Net Present Value (using a 6 percent discount rate) of $3,564,484
- $629,480 in city taxes collected during construction from recordation taxes, permits and other fees
- 400 full-time equivalent new retail and restaurant jobs, with 200 (50%) estimated to be city residents, at an average salary of $20,120
- 655 construction jobs (assumes one-year duration), with an average salary of $52,969.

Outcome/Results

The Mondawmin Mall TIF was essential in the renovations made to the city's oldest shopping center and surrounding properties. This project helped revitalize a declining mall that was in desperate need of improvements and attract more visitors and shoppers to the Liberty Heights community of Baltimore.

As a result of the TIF, over 900 jobs were created, nearly 650 of them to Baltimore residents. The average salary of the mall employees increased and generated over $280,000 in income taxes and $650,000 in real estate taxes for the city annually. By generating over $930,000 annually, the TIF is expected to be paid off within 16 years.

Since the renovations were completed in 2008, the Mondawmin Mall retail revitalization has attracted more visitors, has become a major shopping hub for the Baltimore community, and has helped meet the increasing need for retail in the city.

Lessons Learned

The Mondawmin TIF was one of the first commercial TIFs located outside Baltimore's downtown. Initially, the TIF was met with skepticism, since it was the first retail revitalization located far from the Inner Harbor or the central business district.

In the end, the demand for a revitalized shopping center and potential returns to the city showed that a non-downtown TIF could be very successful. Since then, Baltimore officials have begun considering TIF projects in all parts of the city, pursuing other opportunities that will bring the same positive impact.

Park Place (Annapolis)

Project Overview

The Park Place development is located at the northeast corner of Taylor and West Streets in Annapolis. A goal of this project was to extend revitalization efforts that were occurring along the city's West Street corridor. The Park Place project includes a residential building with 208 condominiums, a 225-room Westin Hotel, a 145,000-square-foot office building, 60,000 square feet of retail shops and a 1,500-car parking garage. Park Place was designed to enhance the surrounding street level activity and, along with a performance arts center, serve as a magnet for private investment for this portion of West Street. From an economic growth perspective, the development was expected to create 1,323 new jobs in Annapolis. The first stage of the 12.1-acre Park Place project was completed in 2008.

Location
Annapolis, Anne Arundel County

Development Type
Project-based

TIF Financing
$25 million

Credit Enhancement
Special Tax District

Public Improvements
1,500-car public garage

Mixed use project, including a full-service hotel, two office buildings, residential condominiums, public garage, a site for a performance hall and a clock tower structure

Contacts
Bruce Miller, Finance Director,
City of Annapolis, (410) 263-7952
finance@annapolis.gov

Jon Arason, Director of Planning & Zoning, City of Annapolis
(410) 263-7961

Financing Package

Realizing that private financing could not cover the cost of structured parking, the city agreed to use TIF to finance the garage, marking a first for the city in this type of public-private venture. As part of this arrangement, the city was provided partial ownership in the parking garage. Working with the development team, in 2005 Anne Arundel County and the City of Annapolis jointly issued $25 million in tax exempt, special obligation bonds. Approximately 47% of the bonds were sold by Anne Arundel County; and approximately 53% were sold by the City of Annapolis.

The bonds will be repaid by the increased tax increment on property taxes and by garage revenues. The bonds were backed by a special tax district that requires that the property owners be assessed a special tax levy if/when revenues are not sufficient to cover the debt service of the bonds. The bonds also included a debt service reserve that provided debt service payments through July 1, 2007.

Outcome/Results

Although the national and local real estate markets experienced a severe downturn in 2008 and have not fully recovered, the Park Place condominiums are fully sold and only nominal vacancy in commercial and retail space remain. Thus far, the revenues have exceeded debt service since 2008, as outlined below.

Year	2008	2009	2010	2011	2012	2013
Ratio of Total Revenues to Annual Debt Service	1:08	1:6	1:56	1:50	1:14	1:35

The highly successful Park Place development became the central feature in the redevelopment and revitalization of Annapolis's West Street, particularly in the area of the Taylor Avenue circle. The Park Place project added a walkable element in this formerly auto-dominated section of the city and has spurred further redevelopment and business creation along the West Street corridor.

Lessons Learned

Among the lessons that city officials took away from the Park Place development is to exercise some caution when considering bonded indebtedness for a particular development project. After approval of the TIF, the original developer sold the Park Place project. The sale, combined with the economic downturn in 2008, created a level of apprehension within the city as to whether the project would eventually be built out or whether the city and county would be left with the debt obligation. Ultimately, the project resumed and revenues have exceeded debt service on the TIF bonds.

Frankford Estates / Strathdale Manor (Baltimore)

Project Overview

Strathdale Manor was a proposed housing development on approximately 18 acres in East Baltimore. Formerly the site of the Strathdale Manor/Sarril Apartments, a multi-family housing complex built in the 1960s that was plagued by mismanagement problems, the Baltimore City Department of Housing and Community Development (HCD) took control of the site in the 5900 block of Frankford Avenue, between Sinclair Lane and Interstate 895 in 1997 after the State of Maryland and the city foreclosed on the property. In 2002, the city demolished the apartments.

After a Request for Proposals to solicit proposals for a low-density, owner-occupied residential development in 1999, HCD awarded an Exclusive Negotiating Privilege (ENP) to a joint venture of Struever Rouse Homes and Doracon Contracting Inc. The developers had proposed to build 170 market-rate, single-family residential units, including 54 townhouses, 54 semi-detached homes and 62 detached homes ranging in price from $91,000 to $122,000. The project, Frankford Estates, included off-street parking, a pool, a community center and common space.

Location
Baltimore City

Development Type
Project-based

TIF Financing
$5,958,000 bond issued at 7% with 07/01/33 maturity date.

$3.9 million in net bond proceeds used for roads, sidewalks and utilities.

Credit Enhancement
Special Tax District

Public Improvements
Public Roads, Sidewalks, Utilities

Project Description:
170 market-rate, single-family residential units, including 54 townhouses, 54 semi-detached homes and 62 detached homes, ranging in price from $91,000 to $122,000.

Contacts
Kim Clark, Baltimore Development Corporation: 410-837-9305, kclark@baltimoredevelopment.com

Financing Package

- Strathdale Manor was established as a TIF Development District and a Special Taxing District under Ordinances 03-540 and 03-541, each passed by the City Council and approved by the Mayor in May 2003. The TIF and Special Taxing Districts are restricted to the Strathdale Manor project.
- The city approved issuance of TIF bonds not to exceed $6 million for public infrastructure.
- A total of $3.9 million from the TIF bonds went to construction and renovation of roads, alleys – including paving and the installation of curbs, gutters and sidewalks – and the installation of water mains, sanitary sewer and storm drainage systems. The estimated cost of the public improvements was $5.8 million. The remainder of the $6 million gross TIF bond

proceeds were used to fund reserve accounts, capitalized interest and issuance costs. No city funds were used for the construction of the houses.

"But For" Analysis

- Without the TIF, the average cost per house would be $146,500, or more than $33,500 over the average base price of $113,000 per unit. TIF bond proceeds were used to finance site infrastructure costs that accounted for an estimated $27,900 per unit. (It should be noted that the TIF bond does not cover 100% of those costs.)
- The TIF enabled city officials to invest $3.9 million with the future tax dollars collected from the project, without using current funds to pay for public streets or public utilities.
- The city does not bear any default risk if the incremental tax collections are insufficient to service the bond debt service.

Outcome/Results

The Frankford Estates TIF helped build much-needed market rate housing in the city. The TIF contributed approximately $6 million to build over 170 starter homes and nearly $4 million to roads, sidewalks, and utility construction. The owner-occupied households pay $780,000 in taxes annually, which is projected to pay off the TIF in about eight years.

One of the largest single-family projects undertaken by the city, Frankford Estates fulfilled a need for housing that helped retain families in Baltimore.

Lessons Learned

The success of Frankford Estates has shown there is a need for middle-class single family homes in Baltimore. The city lacked market-rate housing for middle class families and this TIF allowed the city to meet that demand. Frankford Estates has contributed nearly $800,000 a year in property taxes, demonstrating that residential TIF projects can be extremely beneficial for the city.

Route 36 Project (Frostburg)

Project Overview

Location City of Frostburg, Allegany County
Development Type Project-based
TIF Financing $250,000
Credit Enhancement None
Public Improvements Stormwater management facility
New commercial development, including Rite Aid pharmacy, Algar Credit Union, and a dental clinic
Contacts John Kirby, Frostburg City Administrator (301) 689-6000 x25

The Route 36 Tax Increment Financing District was set up for a retail development project that Allegany Coal & Land, the owners and developers of the site, proposed to the city planning commission and council. The site, located within the City of Frostburg's Priority Funding Area on the southeast corner of the intersection of US 40 and MD 36, will accommodate 25,000 sq. ft. of retail and office in the first phase, with the possibility of future pad sites for additional commercial uses.

With no new retail development for nearly 40 years, Frostburg was actively seeking additional commercial development within the municipal boundaries. However, due to the lack of developable properties in commercially designated areas, there are a limited number of sites available for large retail uses in Frostburg.

Allegany Coal & Land approached the city for help in financing the construction of a state-required stormwater management facility for the Route 36 site. An infill greenfield development, the site is located near existing commercial uses at the intersection of two major roads and was designated in the city comprehensive plan for commercial development to meet the demand for retail in the city.

The cost of the public infrastructure required for the site was a key factor as to whether the development would become a reality. At the request of Allegany Coal & Land, the city examined different funding options for the stormwater facility and decided that tax increment revenues from this development would be sufficient to pay for the public improvement. The stormwater management facility, owned and operated by the city, was designed and built to accommodate stormwater from the Allegany Coal & Land development and the adjacent property.

The stormwater management facility cost $250,000 to construct and was funded through a TIF bond

Financing Package

The stormwater management facility cost $250,000 to construct and was funded through a TIF bond. The total assessed value of the Route 36 commercial properties as of 2011 was $3.97 million, resulting in a net increase in the assessed value of the $3,115,000. Applying the city and county tax rates results in a total of $46,321.22 of new tax revenue annually coming to the TIF district in 2010 ($29,183.68 tax increment from Allegany County and $17,137.54 tax increment from Frostburg).

TIF Process

The Route 36 TIF development district was established in 2007 through resolutions of the City of Frostburg and Allegany County. Frostburg issued the $250,000 TIF bond for the stormwater management facility and administers bond payments. TIF revenues from both Frostburg and Allegany County go to pay off the TIF bonds, which were issued at a 4.99% interest rate with a 10-year maturity.

Timeline

May 2005: City of Frostburg Mayor and Council approve a Tax Increment Financing District for the Route 36 TIF Project.

2006: Allegany Coal & Land requests assistance from the City of Frostburg to fund a stormwater management facility.

November 2007: Allegany County Commissioners pass a resolution to become a partner with the City of Frostburg in the Route 36 TIF project.

2008: Issuance of $250,000 in TIF bonds.

May 2010: The Route 36 TIF district received a higher tax increment return than initially projected. This prompted a discussion by the Frostburg Mayor and Council to use the fund balance in the Rt. 36 TIF account to pre-pay principal on the debt.

The TIF bond obligation is expected to be fully paid off in 2018.

Outcome/Results

For the past few decades, Frostburg sought to bring additional retail development to the city. This TIF- funded stormwater management project enabled a local company to successfully develop a commercial property on the east end of town. There was limited risk to the city in the issuance of this TIF since the tax revenue from the commercial operation is high enough to fulfill the bond obligation. Since 2008, the city has been approached for other TIF proposals for residential development, but opted not to pursue these due to vagaries in the residential construction market.

Lessons Learned

With a high demand for commercial development in the city, this $250,000 TIF-funded project posed little risk to Frostburg. The city has received greater TIF revenues than initially projected from the development, and the developer was able to meet required state stormwater management obligations.

Frostburg leaders used a TIF-funded stormwater management project to encourage retail development on the east end of town.

Frostburg Administrator John Kirby noted that the city tried to attract commercial developers in the past to the area with little success. In this case, the TIF enabled Frostburg to work with the developer to construct public improvements that benefited the developer and surrounding properties, facilitated quick repayment of the public debt from the district's increased tax revenues, and increased the city's overall tax base.

While the Route 36 TIF has been a success, the same cannot be said for other types of TIF proposals considered by Frostburg. TIF proposals for residential developments within the city are still considered too risky since demand is not nearly as high for residential development as it is for commercial development. City Administrator John Kirby noted that this could change since Frostburg is now witnessing an increase in non-student based population.

Area-based TIFs

An area-based TIF defines a larger area that includes multiple properties that would benefit from TIF-supported investment and generate incremental tax revenues as a result. Area-based TIFs can be appropriate when major public investments serve as a catalyst for further redevelopment in an area with multiple parcels under different ownership.

The East Baltimore Revitalization Initiative, which has TIF support, is considered one of the largest urban redevelopment efforts in the United States and biggest ever in Baltimore. The plan envisions acquiring and demolishing hundreds of homes in the Middle East neighborhood, relocating several hundred households, and creating a renewed 88-acre community featuring research facilities for life sciences and biotechnology, retail development, and market-rate housing. This project, managed by East Baltimore Development Incorporated (EBDI), has engaged a broad partnership that includes the federal government, the State of Maryland, the City of Baltimore, the Annie E. Casey Foundation, Johns Hopkins Institutions, The Harry and Jeanette Weinberg Foundation, the Atlantic Philanthropies, community representatives and others. TIF financing is part of a multi-faceted investment strategy. The completed revitalization effort is projected to generate $1.8 billion of public/private investment in the community over 20 years, with $650 million invested to date.

While not commonly used in Maryland, area-based TIFs are often used in other states. Florida has TIF enabling legislation that requires a Community Development Agency to prepare a Community Redevelopment Plan to address the needs of the targeted area before the TIF district can be established and TIF funds collected. Georgia has granted local governments an authority similar to TIF, called "tax allocation district" (TAD), to sell bonds to finance infrastructure and other redevelopment costs within a specifically defined area (or TAD). Atlanta creates TADs that encompass multiple blocks of underutilized and blighted properties in different parts of the city. The incremental tax revenues generated from the increase in value of existing nearby buildings help to provide greater security for new TAD bonds.

Redevelopment of an obsolete mall in Ohio into the Shops at Worthington Place used a "pay-as-you-go" model of TIF.

An area TIF is intended to promote both physical and social changes in a community. In fact, the best TIF projects are public-private partnerships in the truest sense, where developers and investors receive incentive payments only if the project is successful. This concept is exemplified best in area-based TIFs that use a "pay-as-you-go" approach where private investment is rewarded and the area as a whole benefits rather than just a few property owners. The community pays for its share of the financed infrastructure and receives proportionate benefit. The "pay-as-you-go" model is used throughout the country and allows communities to continue to invest in infrastructure while limiting potential risk from project challenges.

For example, the Shops at Worthington Place in Worthington, Ohio, is a nontraditional redevelopment of an obsolete mall that is using a "pay-as-you-go" model. Over the course of the next 20 years, as the developer makes improvements to the mall, the city reimburses the developer for qualified infrastructure improvements. The City of Worthington only pays as estimated tax revenue projections are achieved, making this arrangement a true win-win project for the city and the developer. The project has achieved early success and has spurred a second, new project adjacent to the mall, catalyzed by the initial investments from the developer and the city.

Maryland has just a few examples of area-based TIFs to highlight and only one TIF that could be considered pay-as-you-go (i.e., Baltimore City's Charles Village) (see Table 6). However, with the passage of HB 613, Maryland's TIF enabling authority has been broadened to facilitate revitalization in Sustainable Communities—which tends to have an area-wide focus. Baltimore City's Charles Village/Olmsted TIF, established in 2004 (Ordinance No. 04-849), authorized up to $9.9 million in TIF bonds for public parking facilities and public infrastructure improvements relating to the development of residential condominiums, public parking and retail space. No bonds were issued; however, $2 million in "pay-as-you-go" funding was used for streetscape improvements in the TIF district, according the Baltimore Development Corporation report to the Baltimore City Council on TIF projects in the City.

The TIF funded streetscape improvements along St. Paul Street in the Charles Village Area of Baltimore City has helped revitalize this corridor.

Table 6: Maryland Area-based TIF Activity

Issuer	Name	Bond Purchaser	Bond Issuance Date	TIF Amt	Incremental Assessed Value	Tax Increment Revenues	Debt Service Coverage	Backup Credit Enhancement	Special Tax Payment	Developer	Land Use Typology	Development	Development Status	Infrastructure Financed	Other Public Purpose
Bond Closed 2000 to 2010															
Anne Arundel	Nursery Rd	Public	2004	$2,600,000	$523,000,000	$4,704,000	2703%	None	Not Applicable	St. John's Properties	Office/ R&D/ Industrial	Business Park	Complete		Economic Development
Baltimore City	West Baltimore	HUD	2004	$13,250,000	Not Available	Not Available	Not Available	None	Not Applicable	Baltimore Development Corporation	Mixed use/ light industrial/ light manufacturing	Redevelopment of Rosemont and Carroll/Camden industrial areas		Site assemblage & redevelopment	Urban Redevelopment
Baltimore City	East Baltimore Research Park/ EBDI	Public	2008 & 2009	$65,000,000	$62,800,000	$1,425,000	155%	Special tax	$0	EBDI	Mixed use - Bio-tech, office, residential	1.1 million sq. ft. life sciences technology space 2,100 mixed-income rental/for-sale dwelling units	Under construction		Neighborhood redevelopment/ Biotech development/ Affordable housing
Baltimore City	Charles Village/ Olmsted	Pay-go	Not Applicable	$9,900,000	$83,000,000	$1,975,000	Not Applicable	None	Not Applicable	Struever	Mixed use	175 du 60,000 sf retail	On hold	Streetscape	Neighborhood revitalization

Anne Arundel County has had a somewhat similar “pay-as-you-go” TIF project for improvements on West Nursery Road. The TIF development district was established in 1984 with an original base assessment of $68 million. TIF bonds were not initially needed for improvements in the development district, so annually any tax increment revenues collected were turned back to the general fund. When public improvements were needed in 2004, the tax base, resulting from the construction of several hotels serving the BWI area, had increased to a point that the incremental tax revenues generated by the Nursery Road development district far exceeded the projected annual debt service. In 2004, $2.58 million in TIF bonds were issued with an interest rate of 2 percent to 4.7 percent and with maturity in 2029. The debt service for 2013 was $175,000, but the total tax increment for the Nursery Road TIF district that year was over $5 million.

The TIF pay-as-you-go option may become more attractive because of the high cost and difficult terms demanded by the bond market. Pay-as-you-go TIFs are ideally suited for cleanup of modestly contaminated brownfield sites: the developer simply fronts the cost of remediation and then is paid back over time through a portion of the tax increment. Wisconsin outlines how this can work for “brownfields” in its “Environmental Remediation TIF” program.

The following Maryland area-based TIFs are highlighted for their best practices in TIF:

- Anne Arundel County – Parole Town Center Redevelopment Project
- White Flint Sector Plan Special Taxing District

Wisconsin’s Environmental Remediation Tax Incremental Financing (ERTIF) is an innovative program to address brownfields and environmental expenses which can be recovered through the increase in property values.

Parole Town Center Redevelopment (Anne Arundel County)

Project Overview

Built in the 1960s, Parole Plaza functioned as one of the first major retail outlets of its kind in Anne Arundel County. But by the 1990s, it was largely vacant. Its last tenant, Sears, left in 2002.

Parole is one of the three designated Town Centers in Anne Arundel County. The Parole Town Center growth management area (PGMA) was created in 1990 to help direct and manage future development there. The area encompasses approximately 1,500 acres, with the old Parole Plaza shopping center and the Annapolis Mall considered its core. The PGMA extends from Riva Road to MD 450 to Bestgate Road and south along MD 2. An Urban Design Plan adopted for the PGMA in 1994 helps direct the type and intensity of development by recommending preferred uses and identifying design guidelines. The plan's major goals are to encourage connections between subareas, a greater variety of activities, including more residential uses, and better overall design.

Location
Anne Arundel County

Development Type
Area-based

TIF Financing
$8.3 million

Credit Enhancement
None

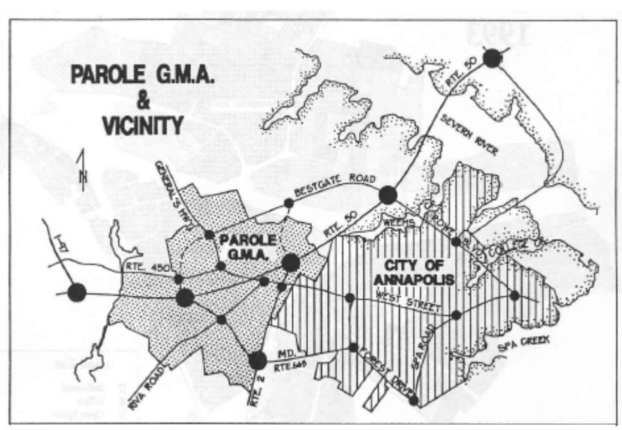
Public Improvements
Various transportation improvements

Redevelopment of a former shopping center site into a mixed-use retail, office and residential town center

Contacts
John Hammond, Budget Officer
(410) 971-0528

George Cardwell, Administrator – Transportation Planning
(410) 222-7432

The Parole Town Center TIF Development District was created in December 1999. The development district is situated just outside the City of Annapolis. The district is primarily commercial in nature, with an assessed value of approximately $845 million as of January 2002. With the development of other major shopping venues in the 1980s elsewhere in the Development District, Parole Plaza became a less desirable shopping destination and began to falter.



1994 Urban Design Plan adopted for the PGMA.

Financing Package

The Parole Town Center TIF obligation was intended solely for transportation improvements associated with the shopping center redevelopment project. In July 2002, Anne Arundel County sold $8,300,000 in TIF bonds exclusively repaid from TIF revenues to fund a portion of the county's required contribution to the State of Maryland to construct transportation improvements within the district. All transportation improvements were completed as of 2012. These included:

- Lane widening at Forest Drive;
- Lane widening at Riva Road;

- Additional lanes on Rt. 2/Solomon's Island Road;
- Sidewalk improvements in the project area; and
- Traffic signals at designated intersections.

Outcome/Results

The county considers the renamed Annapolis Towne Centre at Parole to be a successful TIF. The project transformed the aging Parole Plaza Shopping Center into a 2.1 million square foot, mixed-use development that includes a grand boulevard lined with 675,000 square feet of multi-level retail space, 92,000 square feet of office space, 900 residential units and a 200-room hotel on 33 acres. It incorporates traditional neighborhood design principles and is intended to encourage pedestrian access and creation of a walking environment.

New multi-family housing at Annapolis Towne Centre

The public improvements have supported other revitalization efforts in Parole, including a new intermodal transit facility in Parole Plaza, and a 250 unit/12-story residential tower at the core of Parole Plaza, a Wal-Mart, a grocery store, and smaller shops to replace the existing retail square footage on the site. A public plaza and a future 324,000 square foot, 16-story office tower that will share parking with the intermodal transit facility.

Lessons Learned

Anne Arundel County administrators and staff consider this TIF project to be successful because there was a general consensus among both elected officials and the public that the Parole Plaza property should be redeveloped and that a mixed-use town center-oriented development was the best use for the site. Staff also notes that this redevelopment project involved a small number of property owners, considered a plus since an abundance of property owners can make it difficult to reach a consensus about a project and coordinate the process.

Previously an aging, underutilized shopping area, the new Annapolis Towne Centre offers a vibrant mix of uses.

White Flint Sector Plan Special Taxing District (Montgomery County)

Note: Tax Increment Financing was initially considered to implement the White Flint Sector Plan; however, the Montgomery County Council was able to fund and construct the same set of transportation improvements through use of a Special Taxing District.

Location
North Bethesda, Montgomery County

Development Type
Area-based, using the approved sector plan

Financing
Special Taxing District

Public Improvements
Area-wide transportation improvements

Mixed-use, transit-oriented development redeveloping aging strip centers and auto-oriented developments

Contacts
Jacob Sesker
Senior legislative analyst
Montgomery County Council
(240) 777-7942

Project Overview

The five projects underway in White Flint represent one of the most innovative transit oriented development/redevelopment projects in Maryland. The Montgomery County Council, which in 2010 unanimously approved the White Flint Sector Plan, set the stage for what many hope will become the standard for future development in the Washington, D.C. suburbs.

The White Flint Sector Plan seeks to transform the auto-oriented strip of Rockville Pike into a walkable urban boulevard and urban center of residences and businesses. The plan created the impetus with new mixed-use zoning for five large properties.

The White Flint area is bounded by Rockville Pike and Montrose and Randolph Roads in North Bethesda. Under the sector plan, 9,800 new residences and 5.49 million square feet of commercial space would be added to an area populated by 18,720 people and with 5.69 million square feet of commercial space. It is expected that the new growth could bring as much as $6.8 billion in revenues over 40 years to Montgomery County.

To finance transportation improvements in White Flint the County Council opted to use a Special Taxing District comprising a portion of the White Flint Sector Plan area. The White Flint Special Tax was a collaborative revenue source that permitted Montgomery County to issue bonds financed by ad valorem taxes to fund the building of transportation infrastructure needed to complete the White Flint Sector Plan. The special tax is expected to generate more than $200 million to help pay for White Flint's renovation. For the tax year beginning on July 1, 2011, the rate of the White Flint Special Taxing District special tax is estimated to be $0.0103 per $100 of assessed value. (The Council set the actual Special Taxing District tax rate when it set other property tax rates in May

North Bethesda Center is one of five flagship projects clustered along Rockville Pike in White Flint.

2011.) Existing residential properties are excluded from the tax district. The plan couples the property tax with the issuance of bonds to offset the burden of $826.8 million in infrastructure projects.

While TIF financing was considered, the Montgomery County Council and staff decided that a special taxing district more fully filled the specific transportation infrastructure needs of the White Flint Sector Plan. The Council and staff concluded that the taxing district structure provided more flexibility to the county than that offered through issuance of a TIF bond package. Also, there was more familiarity with use of a special taxing district than with a TIF package, which at that time had not been used in Montgomery County.

Project Scope and Costs

The Montgomery County Council policy was to implement the Sector Plan and the Capital Improvements Program for the area by funding:

- Construction of Market Street from Old Georgetown Road to Woodglen Road, including a bike lane;
- Realignment of Executive Boulevard from Marinelli Road to MD 187 ($24.8 million);
- The redesign of Rockville Pike ($7.7 million); and
- Up to $15 million for other items assigned in Plan stages 1 & 2.

Rendering of Rockville Pike

Addressing the existing traffic patterns and managing future traffic congestion are central to the success of the White Flint sector plan. By building the proposed street grid and improving and enhancing access to transit, the road network will provide an alternative for through traffic on Rockville Pike and diffuse traffic through the area. Along with the special taxing district, the Montgomery County Council adopted a specified list of transportation investments, which included anticipated costs and the structure of a bond issuance package.

Timeline

March 2010:The Montgomery County Council adopts the White Flint Sector Plan, a long range vision for transforming strip malls into a pedestrian-friendly, transit-oriented mixed-use urban setting.

October 2010: The Montgomery County Council approves the White Flint Sector Plan Implementation Strategy and Infrastructure Improvement List to achieve the investments described in the White Flint Sector Plan.

November 2010: The County Council enacts Bill 50-10, creating the White Flint Special Taxing District to raise revenue to fund transportation improvements. The special taxing district is intended to provide reliable and consistent revenue greater than from transportation impact taxes and tax increment financing bonds. Bill 50-10 outlines the terms in which bonds are to be issued and sold; how any or all bonds may be called for redemption before their stated maturity dates; the nature and size of a debt service reserve fund; financial guarantees; and the rate in which ad valorem taxes will be assessed against all assessable real and personal property in the district. The Special Taxing District created under Bill 50-10 expires 30 days after the costs of all transportation infrastructure improvements identified under a Council resolution and all bonds and cash advances have been paid in full.

Outcome/Results

White Flint Special Taxing District:

- $127.5 million over several phases and approximately 14 years ;
- Special taxing district with no TIF revenues;
- County contributes funds toward improvements; and
- Maximum special tax limited to 10% of the total tax rate for the district.

The developers are expected to pay $51.7 million in the first stage of the plan, including infrastructure projects such as road construction. All together, the contributions from the developers at White Flint represent 29.8 percent of total funding.

Lessons Learned

Montgomery County examined various methods to finance the transportation improvements called for in the White Flint Sector Plan. There was a decision not to pursue a TIF funding option because county officials wanted more flexibility than would be allowed under the TIF.

Redevelopment of the White Flint Mall into a mix of residential and commercial uses will radically change the character of the community.

The White Flint Partnership, comprised of the five major landowners, worked extensively with the community. The public outreach phase of the project resulted in significant community support that was considered crucial to the success of the White Flint Sector Plan and also with adoption of the Special Taxing District.

Based on the success of the White Flint Special Taxing District, Montgomery County is considering use of a special taxing district mechanism to finance infrastructure investments for other sector plans under development in the eastern part of the county.

Local Government TIF Guidelines

Throughout the discussion of TIFs, the importance of a well-articulated TIF policy has been reiterated time and again. This section will highlight some of the best practices in TIF policies:

- The Government Finance Officers Association (GFOA) recommends that local governments evaluate whether tax increment financing districts may assist the local government in its economic development plans. A TIF policy should be adopted by the local governing body that includes statements regarding when a TIF district is appropriate, including its relationship to an overall development/redevelopment plan. The policy may be based only on enabling statutes but should provide flexibility for the local governing body. The policy should also address the following steps to evaluate whether a TIF district should be created. [1]

> A local government should adopt a TIF policy that evaluates whether a TIF district furthers the economic development plans of the community.

    - Management should identify the blighted area or area identified for potential development or redevelopment to determine whether a proposed district meets the criteria under applicable state law and the priorities established by the governing body. TIF districts may vary in size, depending on the applicable state laws and local government objectives.
    - Feasibility studies, which include an evaluation and review to determine whether redevelopment could take place within an acceptable timeframe, without economic assistance from the local government (e.g. "but for" the TIF assistance, the development would not be possible). The feasibility studies should also include an evaluation of debt limits, impact on the taxing entity's credit ratings, ability to meet the proposed TIF plan objectives and ability to mitigate potential risks to local agencies, including the inability to repay debt in the event of revenue declines.
    - The economic benefit to the local economy, the fiscal impacts to the affected government(s) and overlapping tax entities, such as school districts, and the economic cost of TIF district incentives should be analyzed and subjected to various sensitivity analyses.
    - An evaluation should be performed on the risk to general government operations when the TIF-related revenue growth is no longer available, including an evaluation of the total impact of all TIF districts to the tax base.
    - The risk sharing between local government and the private developer(s) for the TIF project should be documented in a development agreement that clearly states each party's responsibilities.
    - An alternative analysis should be prepared to evaluate pay-as-you-go financing and/or debt financing options that the TIF district would support.
- If management believes a TIF district is warranted, the following should be done, in addition to compliance with state and local laws:
    - A thorough development or redevelopment plan should be prepared with project(s) identified and an estimate of the incremental increase in real estate valuation created by the proposed project(s).
    - Public input should be obtained on the TIF plan and adjustments made accordingly, including public hearings if required or desired.
    - Appropriate approval should be obtained from the legislative/governing body.

- Periodic review of the TIF district should be undertaken to determine if the TIF plan is functioning as intended. This periodic review should include measures of actual performance as compared to projected performance. Measurements could include items such as actual versus projected tax base, jobs created, and the potential impact of shifting economic development from non-TIF areas to TIF areas.
- Steps should be taken to ensure that the TIF will not adversely affect the operations of other taxing entities.
- If TIF bonds are issued, special provisions for coverage, feasibility studies and other legal requirements should be evaluated. The related debt service structure should be based upon the availability of TIF district revenues or other monetary sources. Consideration should also be given to the use of additional credit support by the local government.
- If tax-increment supported debt is considered to fund projects at the inception of the TIF district, revenue volatility should also be estimated. Conservative assumptions should be used, and reserve funds established, when establishing a debt service structure to protect against future shortfalls. This will allow for the projects to be developed, become operational and provide sufficient time for the required increment to come on line to pay debt service.

The National Association of Counties published the following "Sample Policy on the Use of Tax Increment Financing" in its Issue Brief*, Tax Increment Financing: An Alternative Economic Development Financing Technique* in 2000, which can be found in Appendix B of this document.

TIF has been used in Maryland communities, such as the Villages at Aydelotte Farm in Salisbury, to build needed roads and bike paths that connect the new development with existing neighborhoods.

David Swenson, a community economics researcher from Iowa State University, boiled down his recommendations on TIF reform in Iowa, as follows. These are particularly appropriate for establishing a TIF policy.

Sunshine. Provide as much disclosure of agreements and reporting of TIF activities as possible.

Clear and Compelling Need. Require a clear statement of the public purposes to be achieved in the TIF district, and require proof that the aided development would not have occurred in the area or region "but-for" the assistance of the local government.

Oversight. Limit the area of a city or the fraction of its total tax base that can be contained within a TIF district; enumerate allowable uses of TIF funding to prevent diversion of TIF revenues into subsidizing city or county general fund obligations; allow TIFs to be used solely for actual debt, either short- or longer-term bonding, not tax rebate obligations to businesses; and establish and enforce reasonable sunset periods for urban renewal and for economic development TIFs.[2]

See Appendix B for the adopted TIF policies for Baltimore City and Howard and Frederick counties.

Endnotes

[1] Government Finance Officers Association (GFOA), "Tax Increment Financing" An Elected Official's Guide, Chicago, Il., 2005,

[2] David Swenson, "Tax increment Financing in Iowa: Background, Research, and Recommendations," Presentation to the House Ways and Means Subcommittee, Iowa State University, February 2012

Chapter 7: Frequently Asked Questions

The following frequently asked and answered questions have been excerpted from various other reports on TIFs, many of which are from reports prepared for the Maryland Sustainable Growth Commission by Partners for Economic Solutions, Stone & Youngberg, LLC, and STV, Inc.

What is tax increment financing (TIF)?

It is a tool for financing public improvements when there are no other public or private funds to finance it.

TAX	It is not a new tax or increased tax
INCREMENT	Additional tax revenues created by increase in assessed values from redevelopment.
FINANCING	Issuing non-recourse bonds that do not have to be backed by jurisdiction's full faith and credit, for new public improvements and other specified uses. Using incremental taxes to repay bonds.

Tax Increment Financing is generally used as an economic development tool to finance improvements needed for a project to move forward. A TIF is a bond that is used to fund public improvements (e.g. roads, garages, parks) and that is repaid or paid out of the increased local real estate tax revenues (the "tax increment") generated by the creation of the project. For example, a state-owned parking lot generates zero real estate taxes for a local government. However, if ownership of the parking lot is transferred from the State to a developer through a sale or long-term lease of the property, then the property becomes taxable and generates a new stream of tax revenues (the "tax increment"). If the project is large, with many new housing units and significant office and retail space, then it can generate a substantial new tax increment.

Metro Centre at Owings Mills transit oriented development, a public-private partnership, partially funded by TIF, contains the county's largest library branch. The Community College of Baltimore County shares the six-story, 120,000 square foot building, built to meet LEED Silver green building standards.

It is important to note that a TIF does not involve or utilize a new tax or a tax surcharge; it is simply the incremental increase in the existing taxes paid when a parcel is appraised at a higher value to account for the new project built on the site. In many cases, a project cannot proceed unless millions of dollars of infrastructure are first put into place. A TIF bond allows the local government to finance construction of the needed public infrastructure up front while using the new tax increment in the future to pay back the bond debt. It is a flexible tool that is beneficial to local governments because it is not credited toward the local government's direct debt cap and it is not guaranteed by the local government. Therefore, a TIF does not directly affect the locality's ability to borrow money for other projects, and a default of a TIF bond does not require the local government to pay back the debt. The investor in a TIF bond bears the risk. Finally, TIFs are used only when a project would not proceed without it (this is called the "but for" test). Because TIFs are funded with a tax increment that would not have existed "but for" the TIF and the resulting project, they do not divert existing or even potential tax revenue from the locality's general fund.

How risky are TIFs?

A TIF does not directly affect the locality's ability to borrow money for other projects and a default of a TIF bond does not require the local government to pay back the debt. The investor in a TIF bond bears the risk.

Nationally, only five in approximately 2,000 TIF bond issues defaulted in 2010, one of the toughest years for assessed property values. The total value of default TIF bonds ($8.4 million) represented only 0.03 percent of the $32.4 billion value of all TIF bonds outstanding in December 2010. No Maryland TIF bonds have gone into default. The strict Wall Street underwriting required to sell the bonds to investors adds an extra layer of assurance that the backup revenues will be sufficient to meet any shortfall.

How can jurisdictions mitigate risk?

Under conservative debt coverage requirements, projected tax revenues significantly exceed debt service payments. Maryland TIF bonds are typically backed with special taxes on the property as a backstop guarantee, which make the property owner/developer responsible for making up any revenue shortfall. Additionally, risk can be mitigated through the establishment of reserve funds, by pledging additional revenue streams or by providing some type of guarantee. TIF bonds should focus on projects ready to go with private financing and construction bonds in place.

Does TIF mean new taxes?

No new taxes are levied; rather, TIF earmarks tax revenues collected at the current tax rates. Property owners pay no higher tax rate than owners of comparable properties unless the TIF bond is backed with a special tax. In that case, the property owner/developer would be responsible for paying the difference between the annual debt service and the actual TIF revenues generated.

Is this a tax break for the property owner/developer?

No. The property owner continues to pay all taxes. The developer/property owner(s) may pay higher taxes if the TIF bond is backed with a special tax.

What is the State's role?

The State provides enabling authority. Use of TIF is solely at the local government's discretion. The jurisdiction negotiates an agreement with the developer under the guidance of its own local TIF policies.

Do TIFs divert tax revenue from other government priorities?

The jurisdiction continues to receive tax revenue from the original base. TIF bonds can and should be calibrated to provide only as much investment as required. Based on local policies, the project would not otherwise proceed "but for" the TIF investment. TIF captures taxes that would not otherwise be generated. The jurisdiction can elect to restrict the share of incremental tax revenues to dedicate towards repayment of TIF bonds so as to preserve future revenues for other priorities.

The jurisdiction continues to receive tax revenues from the original base property value throughout the life of the TIF district. A key protection against diversion from other budget priorities is to authorize TIF in situations where development would not otherwise occur. When the costs of redevelopment exceed the private investment that can be justified by future returns and/or when the risks are too high to attract sufficient private investment, TIF funding allows development that would not otherwise occur. TIF then captures tax revenues that would not otherwise be generated for the jurisdiction.

In the process of generating new development and jobs, the TIF-induced development can actually increase the total revenues available to the jurisdiction. Over the life of the TIF, significant revenues flow to the jurisdiction from income taxes, hotel and entertainment/amusement taxes, permit fees and other fees, which may not part of the TIF tax revenues. At repayment of the TIF bonds, all of the TIF revenues come to the jurisdiction as part of regular taxes.

The size of TIF bonds can and should be calibrated carefully to provide only as much investment as is required. Jurisdictions also have the option to earmark only a portion of incremental tax revenues so as to preserve future revenues for other priorities.

Do TIF bonds put the State or local government at risk?

There is no government obligation to pay TIF bonds, unless local or state government elects to provide guarantees to improve bond marketability and reduce borrowing costs. Bond default does not affect the governments' credit ratings. While some financial advisors are concerned that investors' reaction to a TIF default could taint jurisdiction's reputation, investors and rating agencies have no expectation that government will pay.

Do TIF bonds affect the bond cap and prevent issuance of other capital bonds, or affect a jurisdiction’s General Obligation bond rating?

Local governments considering TIF should get advice from their financial advisors and auditors, as appropriate, on the balance sheet/debt capacity/credit impact of a proposed TIF structure.

Bond caps limit the amount of indebtedness a jurisdiction can incur. TIF and other revenue bonds do not count toward the bond caps in most jurisdictions. Baltimore City, however, has adopted a policy that the City’s total tax-supported debt burden, including outstanding TIF debt, should remain below four percent of the City’s estimated actual value of property as established by Moody’s.

In the 2011 Maryland Sustainable Growth Commission report from Stone & Youngberg noted that total bonded indebtedness is one of several factors considered by Standard & Poor’s (S&P), Moody’s and Fitch in establishing a jurisdiction’s bond rating, which affects the jurisdiction’s borrowing costs. All three rating agencies take a common-sense approach to their issuance of new credit ratings and to their review of existing ratings. Rather than be tied to any specific ratios or preoccupied with overlapping debt, they each look at debt levels in the context of economic development and the meeting of capital needs. Most importantly, the rating agencies look at the most important factors that affect the jurisdiction’s ability to meet its future obligations: the jurisdiction’s economy. They each determine ratings in a much broader context than the simple focus on debt ratios.

Does a TIF give a business / development an unfair competitive advantage at the expense of tax payers?

The developer/property owner pays all the taxes that owners of comparable properties pay. However, the public improvements that enhance access and/or the surrounding environment do provide some competitive advantages, particularly in the case of retail developments. Some states address this issue by limiting TIF use for retail projects to cases where they address blight, are located in economically distressed areas or are a small part of a mixed-use development.

What does the term transit-oriented development mean?

The term "transit-oriented development" or "TOD" generally refers to real estate development within walking distance of a transit station that is designed to increase transit ridership and reduce reliance on automobiles. To achieve these goals, TODs tend to be dense developments that include a mix of commercial, retail and housing uses assembled in a way that is pedestrian and bike friendly. By bringing mixed-uses together around transit stations, TOD enables citizens to live, work and play within an easy walk to transit. In sum, the development is "oriented" toward the transit station and transit ridership.

Finally, TOD is considered an important component of any "smart growth" strategy because it aims to reduce sprawl, environmental impacts and car use.

What is the Maryland Economic Development Corporation (MEDCO) and what role does it play in TOD?

MEDCO was created by State statute and is both a corporation and an instrument of the State. Its mission includes promoting economic growth and development throughout Maryland as well as assisting other governmental entities in developing real estate. It has been granted a number of powers by statute, including the ability to issue both taxable and tax-exempt bonds to support the financing of projects.

MEDCO can provide "conduit" financing for projects, meaning that it does not provide its own funding to repay the bonds that it issues and instead sells the bonds into the private investor market. MEDCO bonds can be structured to be repaid from various types of dedicated revenue sources, including parking fees, special taxes, project revenues and other sources. Currently, MEDCO can issue TIF bonds for a "designated" TOD project, Sustainable Community, and in Baltimore City. Finally, MEDCO bonds are non-recourse, meaning that they are not guaranteed by the State, local government or other governmental entity. Therefore, they do not pose direct financial risk to governments or jurisdictions.

Southwest Airline Terminal/BWI Airport Expansion: Working with the Maryland Aviation Authority of MDOT, MEDCO issued bonds and financed the MAA household expansion and renovation of the Thurgood Marshall Baltimore Washington International Airport to accommodate both expanded airline operations of Southwest Airlines and special airport expansion. MEDCO has seen the project through its initial financing in 2003 to its opening

MEDCO has the potential to play an important role in TOD projects in Maryland. At the request of a State or local governmental entity, MEDCO will consider providing conduit financing or can finance and own a garage or other public improvement at a TOD and then lease it either to a public or private operator.

It is worth noting that there are other public and private sources of bond or debt financing for TOD projects. For example, a range of local governments, State agencies, and authorities such as the Maryland Transportation Authority can issue certain types of bonds for particular projects and the private sector can provide private bond financing for projects as well. Therefore, MEDCO represents one financing option among several for any particular project.

What is a "Sustainable Community?"

Sustainable Communities, as defined in the Sustainable Communities Act of 2010, are places where public and private investments achieve "development of a healthy local economy; protection and appreciation of historical and cultural resources; a mix of land uses; affordable and sustainable housing, and employment options; and growth and development practices that protect the environment and conserve air, water and energy resources, encourage walkability and recreational opportunities, and where available, create access to transit." Sustainable Communities across the state include BRAC sites and the Maryland Department of Transportation (MDOT)-designated TOD districts, which are automatically designated as Sustainable Communities under the Act.

What does it mean to be a “designated” TOD in Maryland?

As part of its Smart, Green and Growing strategy, the O’Malley Administration sponsored legislation during the 2008 session to facilitate the creation of TOD. The legislation, Section 7-101(m) of the Transportation Article, defines TOD to be a “transportation purpose,” thus authorizing MDOT to use departmental resources, including land, funds and personnel, to support designated TOD projects. The designation provides several potential tools, described below, to help projects advance.

Essentially, designated TOD projects are deemed to be good examples of TOD that have strong local support and that can succeed with a reasonable amount of State assistance.

What are the characteristics of a good candidate for TOD Designation?

Although it is difficult to anticipate all the characteristics of a good TOD candidate, the following are important:

Located within ½ mile of a transit station (this is required by the law);

Demonstrates the potential to significantly increase transit ridership and reduce car usage;

Includes a significant-sized parcel of developable land;

Has appropriate density for the locality and site;

Includes a mix of uses, including housing, retail and commercial office;

Is located and designed in such a way to improve access to the transit station and is pedestrian and bicycle friendly;

Incorporates substantial green design features;

Includes a State role that is important for the success of the project (including, in some cases, the use of State property); and Is feasible in the following ways:

- There is a market for rental or purchase of the development components (i.e. housing units, office space, and retail);
- The project is financeable by the private markets without excessive subsidy by government;
- There is committed local government support for the project;
- There has been substantial local community input into the project or plan; and
- There is a reasonable means for funding necessary infrastructure.

What is a Special Taxing District?

A special taxing district is an area established by local government ordinance for the purpose of financing projects, systems, facilities, programs or activities of special benefit to the district, through an ad valorem tax levied on real and/or personal property located within the special district. In Maryland, the special taxing district is the most common credit enhancement used for TIF projects, which typically coincides with the TIF development district boundaries. Special tax districts, in Maryland, require approval of two-thirds of property owners.

- Which types of expenditures are covered under TIF financing?
- Infrastructure –roads, utilities, lighting, parks, etc.;
- Government buildings;
- Public parking garages;
- Land acquisition, site removal and relocation;
- Convention, conference and visitors centers in Prince George’s County;
- Capital and operating costs of infrastructure supporting TOD in MDOT-designated TOD sites;
- Affordable housing in the City of Baltimore; and
- Historic preservation or rehabilitation; environmental remediation; demolition and site preparation; parking lots, facilities or structures of any type, public or private; highways; schools; and affordable or mixed- income housing in a designated

TIF has funded parks, parking structures and road improvements.

Sustainable Community.

Appendix A: Resources

The following references were used in preparing this Models and Guidelines document:

American Planning Association, Planners' Communications Guide: Strategies, Examples, and Tools for Everyday Practice, June 2006.

John E. Anderson, "Tax Increment Financing: Municipal Adoption and Growth," National Tax Journal, Vol. 43, No, 2, 1990, pp 155-163.

Anne Arundel County Budget Department, 2013 Approved Budget, 2012; Official Statement on $154,080,000 Anne Arundel County General Obligation Bonds, Series 2013, June 2013.

Enid Arvidson, Rod Hissong, and Richard L. Cole, "Tax Increment Financing in Texas: Survey and Assessment," Chapter 10 in Johnson and Man, eds, Tax Increment Financing and Economic Development, State University of New York Press, pp. 155-, 170, 2001)..

City of Austin Financial Department, "Tax Increment Financing (TIFs)," County Work Session presentation, June 25, 2013, from Council of Development Finance Agencies website.

Baltimore Development Corporation, "Tax Increment Financing (TIFs)," Appendix A, Baltimore City Council 2011.

Charter of Baltimore City, Sections 62 and 62A.

Richard Briffault, The Most Popular Tool: Tax Increment Financing and the Political Economy of Local Government, The University of Chicago Law Review, 77, 65-95 , 2010.

Paul Byrne, Determinants of Property Value Growth for Tax Increment Financing Districts, University of Illinois at Urbana-Champaign, Champaign, IL, January 2002.

Council of Development Finance Agencies and International Council of Shopping Centers, Tax Increment Finance: Best Practices Reference Guide (2007),), available at http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=TIFGuide.

Richard Dye and David Merriman, "Tax Increment Financing: A Tool for Local Economic Development," Lincoln Institute of Land Policy: Land Lines, Vol. 18, No. 1, June 2006.

Good Jobs First, "Straying from Good Intentions: How States are Weakening Enterprise Zone and Tax Increment Financing Program," Good Jobs First, August 2003.

Government Finance Officers Association (GFOA), Booklet titled "Tax Increment Financing: An Elected Official's Guide," Chicago, IL, 2005.

Government Finance Officers Association, "Recommended Practice: Tax Increment Financing as a Fiscal Tool, (DEBT and CEDCP)," February 2006.

John E. Greuling, "Tax Increment Financing: A Downtown Development Tool," Economic Development Review; Vol. 5 Issue 1, pp. 23-28, Winter 1987.

Kellogg School of Management at Northwestern, An Assessment of Tax Increment Financing as a Tool for Economic Development:, A Report Commissioned by the City of Evanston, 2012.

Michael P. Kelsay, Uneven Patchwork: Tax Increment Financing in Kansas City, Study commissioned by the Kansas City Area Chapter of ReclaimDemocracy.org, January 2007

Laws of Maryland, Chapter 498 (House Bill 1888), Article 41, Section 266-II-3, 1980.

Man, J. and M. Rosentraub. 1998. "Tax Increment Financing: Municipal Adoption and Effects on Property Value Growth." Public Finance Review 26: 523–547.

Maryland Code, Title 12, Subtitle 2 of the Economic Development Article, Sections 12-201 through 12-213.

Maryland Department of Business and Economic Development, Office of Finance Programs, BRAC Revitalization and Incentive Zone Program (BRAC ZONE) for Calendar Year 2012

Maryland Department of Housing & Community Development's Sustainable Communities website: http://www.mdhousing.org/website/Programs/dn/Default.aspx.

Maryland Department of Legislative Services, Fiscal and Policy Note for House Bill 1161, Maryland General Assembly, 2010 Session.

Maryland Department of Transportation, Office of Real Estate website, Odenton Marc Station (MMC# 04-8015) webpage, 2013.

Maryland Economic Development Corporation, Annual Activities Report & Audited Annual Financials, Fiscal Year Ending: June 30, 2012, Baltimore MD, 2013.

David Merriman, Mark Skidmore, and Russ D. Kashian, "Do Tax Increment Finance Districts Stimulate Growth in Real Estate Values?", Real Estate Economics, Vol.39, No. 2: pp. 221–250, 2011.

National Association of Counties, Tax Increment Financing: An Alternative Economic Development Financing Technique, Issue Brief, Presidential Initiative Task Force on Economic Development, Washington, DC., January 2000

Neighborhood Capital Budget Group, "Chicago's TIF Encyclopedia: The First Comprehensive Report on the State of Tax Increment Financing in Chicago," p. 16 (1999), online at http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=NCBGTIFEncyclopedia.html

New York City Independent Budget Office, Learning from Experience: A Primer on Tax Increment Financing, Fiscal Brief, September 2002.

Partners for Economic Solutions, Stone & Youngberg, LLC, and STV, Inc., Introduction to Tax Increment Financing, prepared for Maryland Sustainable Growth Commission, March 2011.

Evans Paull, Tax Increment Financing and Smart Growth: Policy Options For Maryland, Redevelopment Economics, prepared for Maryland Sustainable Growth Commission, March 2011.

Toby Rittner, "Tax Increment Finance: A Success-Driven Tool for Catalyzing Economic Development and Social Transformation," Federal Reserve Bank of San Francisco, Community Development Investment Review: Pay for Successful Financing, Vol. 9., Issue 1, pp. 131-134, 2013.

David Swenson, "Tax increment Financing in Iowa: Background, Research, and Recommendations," Presentation to the House Ways and Means Subcommittee, Iowa State University, February 2012.

Joan M. Youngman, "TIF at a Turning Point: Defining Debt Down," Tax Analysts – Special Report, 2011.

Other Suggested TIF Readings

City of Baltimore, "Report of the Task Force on Baltimore City Public/Private Development Financing Efforts," October 2011

City of Dallas, Office of Economic Development, "The TOD TIF District Project Plan and Reinvestment Zone Financing Plan," April 14, 2010, Amended November 10, 2010.

Richard A. Epstein, "How to Undermine Tax Increment Financing: The Lessons of City of Chicago v ProLogis," The University of Chicago Law Review, vol. 77, pp: 121-140, 2010.

Sherri Farris and John Horbas, “Creation vs. Capture: Evaluating the True Costs of Tax Increment Financing,” Journal of Property Tax Assessment & Administration, V6, I4, pp. 5-28, 2009.

S.B. Friedman & Company, “Tax Increment Financing,” S.B Friedman Development Advisors, Chicago IL, found at www.sbfriedman.com website, August 2013.

Front Range Economic Strategy Center, “Part I: What Do TIF Subsidies Cost Denver?: The Increasing Scale of TIF and Its Budget Impacts,” from Are We Getting Our Money’s Worth? Tax-Increment Financing and Urban Redevelopment in Denver series,” Denver CO, 2005.

Lori Healey and John F. McCormick, “Urban Revitalization and Tax Increment Financing in Chicago,” Government Finance Review, pp. 27-30, December 1999.

Maureen Hellwig, ed., Looking into Tax Increment Financing, PRAGmatics: The Journal of Community-based Research, Chicago IL, Summer 2002.

Craig L. Johnson and Robinson & Cole LLP, “Tax Increment Financing (TIF),” prepared for National Association of Realtors, November 2002.

James Krohe Jr, “At the Tipping Point: Has tax increment become too much a good thing?,” Planning, American Planning Association, pp. 20-25, March 2007.

Maryland PIRG Foundation, Tax-Increment Financing: The Need for Increased Transparency and Accountability in Local Economic Development Subsidies, Fall 2011

Stuart Meck, FAIC ed., Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change, American Planning Association, pp. 14-51 to 14-62, January 2002

John R. Orrick, Jr, “Tax Increment Financing Districts and Special Taxing Districts: Tools for Infrastructure Finance," The Real Estate Finance Journal, pp. 56-61, Spring 2006.

Douglass P. Selby and Claire Hunter, Tax Increment Financing: How Public-Private Partnerships Are Financing Urban Redevelopment, Real Estate Finance, Aspen Publishers Inc., pp. 3-7, August 2004.

Brent C. Smith, “If You Promise to Build It, Will They Come? The Interaction between Local Economic Development Policy and the Real Estate Market: Evidence from Tax Increment Finance Districts,” Real Estate Economics, V37, pp. 2009-234, 2009.

STV Incorporated, “Tax Increment Financing Applications Financing For Operation & Maintenance of Public Facilities Related To Transit-Oriented Development,” report for Maryland Department of Transportation, Baltimore MD, January 26, 2010.

Appendix B: Sample Policies on Use of Tax Increment Financing

NACO Sample Policy on Use of Tax Increment Financing

National Association of Counties, Tax Increment Financing: An Alternative Economic Development Financing Technique, Issue Brief, Presidential Initiative Task Force on Economic Development, Washington, DC., January 2000.

WHEREAS, the County finds it in the best interest of the public to establish certain policies and guidelines for the consideration of proposals that may be presented to the County by private developers requesting Tax Increment Financing ("TIF") assistance; and,

WHEREAS, by adopting this policy the County has determined that the use of TIF should be reserved for projects which further an important and clearly definable public interest of the County, and the County desires to restrict those projects which are eligible for TIF assistance to projects which further such a purpose; and,

WHEREAS, by adopting this policy the County intends to set forth a flexible framework for evaluating private Applications for TIF assistance; and,

WHEREAS, the use of TIF by the County is important to the County because many areas of the County are in need of public improvements that would foster economic development and redevelopment and TIF represents an important tool for encouraging the development of projects the County finds and determines are desirable and in the public interest; and,

WHEREAS, all prospective TIF projects must be carefully evaluated by the County because the character of tax revenues generated by different developments can vary widely, and in most cases will impact other taxing jurisdictions in the area; and,

WHEREAS, the County desires to use TIF for those projects which demonstrate the highest public benefit by eliminating blight, financing desirable public improvements, strengthening the employment and economic base, increasing property values, reducing poverty, creating economic stability, upgrading older neighborhoods, facilitating economic self-sufficiency, and implementing the Comprehensive Plan and economic development strategy of the County; and,

WHEREAS, the staff of the County is to pursue discussions about this policy with other taxing jurisdictions impacted by TIF in the County; and,

WHEREAS, each private TIF Application submitted to the County will be evaluated on its own merits, and an evaluation of the proposal will be performed by County staff; and,

WHEREAS, all projects must demonstrate financial and economic reasons such that they would not otherwise go forward and be viable, but for conditions of blight, extenuating circumstances which exist in the site, location, or other factors related to the development.

Now, Therefore, Be It Resolved By the County Commission, As Follows:

Section 1. That the Tax Increment Financing (TIF) Policies and Guidelines for Application and Application Procedures are hereby adopted as fully set out herein and the County Manager is hereby authorized to implement the following procedures and to make such additional changes and clarifications that shall be deemed advisable and in the best interest of the County:

A. General Policy.

1. It is the policy of the County to consider the judicious use of TIF for those projects which demonstrate a substantial and significant public benefit by constructing public improvements in support of developments that will, by creating new jobs and retaining existing employment; eliminate blight, strengthen the employment and economic base of the County, increase property values and tax revenues, reduce poverty, create economic stability, upgrade older neighborhoods, facilitate economic self-sufficiency, and

implement the Comprehensive Plan and economic development strategy of the County.

2. Care will be exercised in the use of TIF to thoroughly evaluate each project to ensure that the benefits which will accrue from the approval of the agreement are appropriate for the costs which will result, and that they are equitable to the County as a whole.

B. Policy Guidelines. The following criteria are to be used by the County's staff to evaluate TIF Applications:

1. TIF Applications will not be considered for new residential development projects.
2. Each TIF Application must demonstrate that "but for" the use of TIF, the project is not feasible and would not be completed without the proposed TIF assistance.
3. All TIF Applications requesting the issuance of bonds or notes will be required to demonstrate that the payments in-lieu of taxes and/or the economic activity taxes expected to be generated will be sufficient to provide a debt coverage factor of at least 1.25 times the projected debt service on any tax increment bonds or notes. This limitation shall not apply to infrastructure projects which involve the redevelopment of existing structures or the assembly and clearance of land upon which existing structures are located.
4. The total amount of TIF assistance for project costs for industrial, manufacturing, office, retail, commercial, and existing residential TIF Applications should not exceed fifteen percent (15%) of the total project costs. This limitation shall not apply to infrastructure projects which involve the redevelopment of existing structures or the assembly and clearance of land upon which existing structures are located.
5. TIF will generally be reserved for projects which do not qualify for alternative methods of financing, or where TIF assistance is deemed by the County to be the preferred method of economic development incentive.
6. Each TIF Application must include evidence that the applicant:

   (a) Has the financial ability to complete and operate the project.

   (b) Will be liable for, or contribute equity of at least fifteen percent (15%) of the total cost of the project or provide a performance bond for the completion of the project. Projects with equity contributions from the developer in excess of fifteen percent (15%) will be viewed more favorably.

   (c) Has thoroughly explored alternative financing methods.
7. The County will maintain a retainage account until each project is completed or satisfies other performance standards.
8. TIF Applications for new or expanded industrial, manufacturing and office projects will be viewed more favorably than retail and service commercial projects. TIF projects which create jobs with wages that exceed the community average will be encouraged. Industrial, manufacturing and office developments will be given more consideration than warehouse type uses based upon the projected employment per square foot. Additional consideration will be given to projects in excess of twenty million dollars ($20,000,000) or, the development of vacant property in areas where the project will be the initial development, if it is believed that the project will serve as a catalyst for further high quality development.

9. TIF Applications for retail and service commercial projects should be limited to those projects that encourage an inflow of customers from outside the County or will provide services or fill retail markets that are currently unavailable or in short supply in the County. Additional consideration will be given to projects in excess of twenty million dollars ($20,000,000) or the development of vacant property in areas where the project will be the initial development, if it is believed that the project will serve as a catalyst for further high quality development.
10. TIF Applications for the redevelopment of existing residential neighborhoods, commercial and industrial areas will be viewed favorably. Projects to stabilize current residential neighborhoods, commercial, and industrial areas that have or will likely experience deterioration will be favored.
11. The projected term of the TIF will be a factor, with shorter terms being viewed more favorably than longer terms. TIF Applications which provide for a complete payout in less than twelve (12) years will be preferred.
12. All TIF Applications must clearly comply with the requirements of the TIF Statute.
13. All approved projects must comply with prevailing wage and hour requirements for public works projects, as set forth in state statute for all portions of the project receiving TIF assistance. Work to be covered by TIF funds will be identified in the application.
14. TIF Applications that include the establishment of business areas, or the redevelopment of existing business areas, should include information as to the business type of the major tenants of the TIF area. In addition, a thorough market analysis should be completed which identifies: (1) the population areas that will be drawn from; and, (2) the businesses of similar types which would be competing with the TIF area businesses.
15. Notwithstanding the foregoing, TIF Applications which do not meet any of the above-reference criteria will be viewed favorably by the County if the Application clearly demonstrates that the project is of vital interest to the County and will significantly assist the County in the elimination of blight, financing desirable public improvements, strengthening the employment and economic base of the County, increasing property values, reducing poverty, creating economic stability, upgrading older neighborhoods, and facilitating economic self-sufficiency.

C. Accountability. TIF Applications are expected to include the following:

1. If the TIF Application is being recommended based upon job creation criteria, language will be included in the Plan which stipulates that the County's obligation to the developer may be reduced if satisfactory evidence is not shown that the indicated number, and quality of jobs have been generated.
2. If businesses are to be relocated from other areas of the County, sufficient justification will be included to indicate why this relocation should be considered. If existing businesses are to be relocated to the TIF area, the base year activity for purposes of determining the tax increment for the real property tax will be the last twelve month period at the businesses' current location, immediately preceding the relocation.

D. Method of Financing. TIF Applications may request that TIF assistance be provided in the one of two forms:

1. Special Obligation Bond or Note Financing.

2. Direct Reimbursement to the Applicant. In deciding which method of financing to use, the prevailing factor in making the determination will be total costs and the security for the bonds. The County will not guarantee the special obligation bonds or notes; however, credit enhancement on any bonds or notes will be viewed favorably. The decision as to what method of financing will be left solely to the County. (The County Charter may require that all bonds be sold at competitive sale.)

E. Certain Economic Activity Taxes. (Only local option sales taxes will be considered for purposes of the tax increment derived from TIF economic activity taxes.) Economic activity taxes shall not include utility franchise taxes collected either from private utilities or as payments in-lieu of taxes from publicly owned utilities to the extent such exclusion is permitted by law.

F. Term. The maximum period for which a TIF can be used is established by the TIF Statute at twenty-three (23) years.

Section 2. That all other Resolutions or parts of Resolutions in conflict herewith are hereby repealed.

City of Baltimore's Tax Increment Financing Policy and Project Submission Requirements

Part I: Tax Increment Financing Policy

I. Introduction and Purpose

Tax Increment Financing (TIF) is an important and useful tool available to Baltimore City to encourage development of certain projects that are desirable and in the public interest, and that would not occur without assistance from the City. The Board of Finance of Baltimore City ("Board of Finance") considers it essential that this mechanism be implemented consistent with the City's land use and economic development goals, and in order to encourage development that would otherwise not occur but for the City's participation in the financing structure ("but for" test).

The Board of Finance shall consider a TIF for projects with a significant public purpose and benefit, i.e., City-sponsored projects, or, otherwise, for developer-sponsored projects when the project:

(1) Is consistent with the City charter and the TIF Enabling Act;

(2) Includes a significant developer/private sector contribution to the project;

(3) Has approval of the coordinating agency Project Review Committee, or other such Oversight Board (if applicable);

(4) Advances the City's strategic land use, economic development and public improvement goals;

(5) Is not feasible and would not be completed (within a reasonable time frame) without the proposed TIF assistance ("but for" test) and assistance is limited to the amount required to make the project feasible;

(6) Satisfies economic and risk requirements;

(7) Will create positive tax revenues to the City, taking into consideration the costs of public services to be provided to the new development and the tax increment revenues that will be required to repay the bonds.

City-sponsored projects will be defined by their size and scope, i.e., large public purpose projects. City-sponsored projects are further defined as projects where the City controls or will acquire the property for the project, and where the City issues the Request for Proposals to select the developer for the project. The evaluation process for City-sponsored projects will be separate from the evaluation process to be used for developer-sponsored projects. The merits of such projects shall be decided on a case-by-case basis.

Because there is a potential that TIF projects may defer potential gains in general fund revenues, the Board of Finance will proceed with caution when reviewing TIF proposals. City agencies and departments are strongly encouraged to contact the Bureau of Treasury Management as early as possible in the project development process. The Board of Finance considers it to be the sole responsibility of the coordinating agency to brief Treasury Management on details of the TIF proposal well in advance of a formal submission to the Board of Finance. The Board of Finance shall not consider, and the Clerk to the Board of Finance shall not submit to the Board of Finance, TIF proposals that do not adequately address the requirements of this policy. TIF is not a right under the City charter, and these guidelines do not create any right or entitlement in connection with an application for a TIF.

The Board of Finance reserves the right, at its sole discretion, to amend or waive certain provisions in these guidelines, when it is determined to be in the best interest of the City.

II. Legal Framework

The City's authority to issue TIF Bonds is established under Article II, Section 62 of the Baltimore City Charter (1996 edition) (the "Enabling Act"). The Enabling Act itemizes the eligible uses of TIF Bond proceeds and states that TIF Bonds shall be approved by an ordinance of the City Council. The ordinance shall describe the basic terms of the TIF Bonds or will provide that such terms are to be specified in a resolution of the City's Board of Finance. The City may also, acting through the Board of Finance, issue bonds to refund outstanding TIF Bonds.

In most cases, the City will require that the TIF Bonds also be secured by a special tax levied in the development district, pursuant to Article II Section 62A of the Baltimore City Charter (1996 edition). The establishment of a special taxing district ensures that if the anticipated benefit to be derived by proposed development does not occur, such that the tax increment revenues are not sufficient to pay debt service on the TIF Bonds, the City will levy a special tax on the property owners in the district (i.e., the developer) to make up any shortfall. A special tax requires the approval of 2/3 of the property owners, in both number and property value, within the special tax district.

In accordance with Article VII, Sections 19-21, of the Baltimore City Charter (1996 edition), the Members of the Board of Finance are the financial advisors to the Mayor and City Council of Baltimore. The Board of Finance is comprised of the Mayor, who serves as President, the Comptroller, and three persons appointed by the Mayor pursuant to the City Charter. As the City's financial advisor, the Board of Finance is responsible for approving all TIF proposals prior to consideration by the City Council or the Board of Estimates.

III. TIF Description

In general, TIF Bonds are special obligations of the City secured by the incremental increase in property taxes resulting from the proposed improvement. The City utilizes this financing option by designating within its borders a TIF district. The base property valuation (assessable base) is then established and certified, and the property taxes from that assessable base continue to be collected and used for general governmental purposes. As the assessed valuation within the district increases, the taxes derived from the increased valuation (tax increment) pay debt service on the bonds used to fund TIF project costs within the district. When the TIF debt is repaid, the district is dissolved and the taxes collected from the increased assessed valuation flow directly to the City's general fund.

Under the Enabling Act, the date of the determination of the assessable base for the calculation of the tax increment is January 1 of the calendar year prior to the year in which the City adopts an Ordinance establishing the development district. For example, if an Ordinance is adopted in March of 2008, the assessable base will be determined as of January 1, 2007. Payment by the City to the holders of the TIF bonds is contingent upon appropriation by the City Council of tax increment revenues sufficient to cover the amounts due each year.

TIF functions by pledging property tax increments gained as a result of new development within the tax increment district. The City continues to collect the tax revenues that it had historically received from the district, but the incremental taxes collected from the enhanced value of the real estate is used to pay debt service on the TIF Bonds.

Under the Enabling Act, the proceeds of the TIF Bonds may be used to finance:

1. The cost of purchasing, condemning, or otherwise acquiring land or other property, or an interest in them, in the designated development district area or as necessary for a right-of-way or other easement to or from the development district area;
2. Site removal;
3. Surveys and studies;
4. Relocation of businesses or residents;

5. Installation of utilities, construction of parks and playgrounds and other necessary improvements including streets and roads to, from, or within the development district, parking, lighting and other facilities;
6. Construction or rehabilitation of buildings provided that such buildings (i) are to be devoted to a governmental use or purpose, (ii) are abandoned property, (iii) are distressed property, or (iv) will provide units of affordable housing;
7. Reserves and capitalized interest on the bonds;
8. Necessary costs of issuing the bonds;
9. Structured and surface parking facilities that are: (i) publicly owned; or (ii) privately owned but serve a public purpose; and
10. Payment of the principal and interest on loans, money advanced or indebtedness incurred by the Mayor and City Council of Baltimore for any of the purposes set out above.

TIF Bonds may be issued as "tax-exempt" or "taxable" obligations. The qualification of the bonds as "tax-exempt" involves an analysis that will include the review of, among other things, ownership, amount of private use of the facilities constructed, nature of the improvements, and any additional sources of payment of the debt service on the TIF Bonds.

IV. Considerations for New Tax Increment Financing Projects

The City regularly issues general obligation debt to finance important public improvements required by the City. An important purpose of this policy is to ensure that TIF projects, when added to other tax supported debt, do not negatively impact the City's general debt ratings. This shall require a consistent implementation of this policy. Elements of the TIF Policy of particular importance to this purpose are (i) use of TIF to advance the City's land use, economic development, and public improvement goals, (ii) preparation of a fiscal impact analysis that confirms the project produces sufficient tax revenues over and above repayment of the TIF bonds to cover the costs of public services required for the project, and (iii) ensuring the "but for" test is met and that assistance is limited to a reasonable amount that makes the project feasible.

TIF debt is considered by the rating agencies as debt of the City, and included in the calculation of the City's tax supported debt burden. Moody's Investor Service has established guidelines for a city's debt burden as measured by the ratio of total tax supported debt to the estimated actual value of taxable property of the jurisdiction. In general, a city's total tax supported debt burden, including outstanding TIF debt, should remain below 4% of the estimated actual value of the taxable property of the jurisdiction. It is the intention of this policy that the City's total tax supported debt burden, including outstanding TIF debt, should remain below 4% of the City's estimated actual value of property as established by Moody's.

In addition, the City shall use its best efforts to pursue other funding programs or financial arrangements with developmental agencies that, particularly for large projects, minimize the overall aggregate level of the City's TIF debt.

V. Limited Size TIF projects

Certain TIF applications may be for projects of a scale that require a minor amount of participation by the City. The Board of Finance recognizes, that however worthy such projects may be, there are inherent risks associated with smaller projects. These risks include a lower probability of increment tax growth and resultant debt repayment from the tax increment, and the greater likelihood of higher interest rates from investors based on their assessment of risk. Smaller projects are also more likely to have a higher cost of issuance as a percentage of total project cost.

The Board of Finance recognizes that in such circumstances, it may be prudent for the City to issue a bond or note to the developer rather than to sell TIF bonds to investors as a means of providing project funding. Bonds issued by the City to the developer do not provide an up-front cash contribution by the City, but can be used to offset the future tax liability of the development by providing annual redemption of serial bonds based on the incremental tax revenues generated by the project.

The Board of Finance recommends this approach for TIF projects of $10,000,000 and less.

VI. Third Party Fees

Each TIF applicant shall be required to execute a letter of intent with the City's bond counsel and financial advisor to include the scope of work and fees associated with the development of the TIF application before any legal or financial work has commenced. The applicant shall assume all risk for the full payment all third party fees for the TIF development to include legal review/document preparation, financial analysis and financial projections. While certain of the fees may be reimbursed from bond proceeds, they shall be due and payable by the applicant in the event the project does not secure the required City approvals or in the event bonds are not sold.

VII. Conclusion

Tax increment revenues are an important funding source for infrastructure improvements that can advance development in targeted areas of the City. It is the intention of the Board of Finance to use TIF as one of the incentive tools to encourage revitalization of Baltimore City. The Board of Finance shall exercise caution in the evaluation of each TIF proposal ensuring that the benefits of the project are appropriate for the risks and costs of the project, and that they are equitable and in the best interest of the City.

Part II: Project Submission Requirements

Approval of tax increment financing projects by the Board of Finance will be a four-step process.

Step 1:

The first step will consist of the development of the TIF plan and proposal by the appropriate City coordinating agency, such as the Baltimore Development Corporation or the Department of Housing and Community Development. The coordinating agency will be responsible for the following:

1. proposing the amount of TIF assistance, confirming the project requires this assistance (the "but for" test);
2. ensuring the proposed TIF will advance the City's strategic land use, economic development and public improvement goals;
3. satisfies the criteria for TIF debt set forth in Section I of these policies;
4. preparing other analysis and documentation to be submitted to the Board of Finance for step two.

The coordinating agency may, and is encouraged to, consult with the City's financial advisor and bond counsel for this stage of development; however, these agencies shall be responsible for any costs incurred by these firms during this step.

Step 2:

The second step consists of presentation of the proposed TIF to the Board of Finance for conceptual approval. The Board of Finance shall be responsible for ensuring that TIF requests comply with these policies. The information required for this presentation is described below. The purpose of this step is for the Board of Finance to confirm that the proposed TIF will be consistent with the City's policies regarding TIFs early in the process before significant City efforts are expended preparing legislation and moving the TIF forward.

Step 3:

The third step shall be presenting the proposed legislative package creating the TIF (and related special taxing district) to the Board of Finance for approval. This step will require the proposal legislation to be submitted to the Board of Finance with any appropriate update on the information submitted in the second step. The coordinating agency shall be responsible for scheduling and obtaining approval of the required legislation from the Board of Estimates, and the City Council as required.

Step 4:

The fourth step shall be the submission for approval of documents authorizing the proposed issuance of bonds to the Board of Finance. A substantially complete offering document, trust indenture, and funding agreement should be submitted to the Board of Finance for this step, along with any updates of the information presented in the second step that is not included in the offering document. If not included in the offering document, financial projections shall be provided showing bonds issued or debt incurred, projected assessed value and tax increment revenues, and debt service coverage. City- sponsored projects should demonstrate a strong public purpose; while developer-sponsored projects should demonstrate that incremental revenues will provide a minimum of 1.25x annual debt service coverage (not including special tax revenues) unless the Board approves an exception. Financial projections shall normally include two scenarios, including the expected scenario and a sensitivity scenario.

Information should be provided either in the offering document or separately to allow a risk assessment. This information should include a description of the risks associated with the project and how these risks are mitigated.

<u>Board of Finance TIF Submission Requirements for Step 2</u>

The Board of Finance shall be responsible for ensuring that TIF requests comply with these policies. The criteria a TIF project request must satisfy are identified in Part I of this policy, and specifically, Section I. Board of Finance review of a TIF proposal should occur early in the proposal before significant resources are spent preparing legislation. This review is the second step in the TIF approval process, following the preparation of the TIF proposal by the coordinating agency. The information to be submitted to the Board of Finance for it to confirm a proposed TIF is in compliance with the City's TIF policies, shall be as follows:

I. <u>Transmittal Letter</u>: Each TIF request shall include a transmittal letter from the development agency head formally requesting the Board of Finance consider and conceptually approve the application. This letter should also include other pertinent information such as the amount of the TIF bond, approvals of internal review committees, the Mayor, and the Department of Planning if appropriate.

II. <u>Approval of the Coordinating Agency Board (if applicable)</u>: Provide evidence of approval of a request for a TIF for the project by the coordinating agency internal project review board or other such oversight committee. The approval shall include a description of the project and the public purpose being served by the TIF, and that the board is satisfied other funding sources are not available (the project would not occur "but for" the TIF funding).

III. <u>Development Team</u>:

1. Name of applicant/developer/owner, construction manager, project manager, operator (lender and any other significant team participants);
2. Background information on each of the above;
3. Summarize developer's experience with similar projects.

IV. Project Information:

1. Describe the project, including the location, size, phases, and proposed land uses.
2. Describe existing property uses and any required demolition and relocation.
3. Provide information and evaluation of any site constraints.
4. Identify any environmental issues or constraints. Each project must comply with applicable requirements of local, state and federal environmental laws and regulations.
5. Provide a schedule and describe any time constraints that affect the project.
6. Identify any permits and other governmental approvals required for the development of the property.
7. Provide evidence of site control. This should include a detailed list of all addresses in the district. If the project is located on a scattered site the address list should be broken down by parcel.
8. Provide a preliminary sources and uses of funds for the project.
9. Identify whether the project is expected to receive any other public assistance. Other forms of public assistance should be taken into consideration in the amount of TIF assistance provide to ensure that the total assistance provided does not exceed the assistance required and justified.
10. Provide letters of intent to provide financing for all construction and permanent funding sources (loans, grants and equity) associated with the project. At a minimum, letters of intent must be specific to the project and detailed concerning terms and conditions.
11. Include detailed maps of the TIF and special taxing districts, and graphic depictions of the finished project.
12. Other information critical to the success of the project.

V. City Charter and TIF Enabling Act: Provide information to show the proposed TIF will be consistent with the City charter and the TIF Enabling Act.

VI. Inclusionary Housing: City Council ordinance 07-474, stipulates housing development projects receiving TIF funding be subject to the Department of Housing and Community Development Inclusionary Housing Rules. Prior to Board of Finance approval the developer shall coordinate with Department of Housing and Community Development the implementation of this requirement. The inclusionary housing shall be incorporated into the project fiscal analysis (item XIII below).

VII. Private Sector Contribution: Identify the public assistance as a percentage of total development costs and a comparison to other development projects of similar scope and magnitude whenever possible. All development proposals should seek to maximize the amount of private investment per dollar of public assistance. Each project must evidence substantial private resources (debt and/or equity) for the development (evidence will be required prior to the Phase II approval). In general, the Board of Finance recommends that developer-sponsored projects have an 8:1 to 12:1 ratio of non-City funding sources to City funding sources. Ratios of lower than 8:1 represent project participation levels by the City that may be unacceptable to the Board of Finance; while ratios of greater than 12:1 call into question the need for the City to be a meaningful participant. The non-City contribution may be in terms of cash, land, buildings or other equivalent forms. This analysis shall also include an expected rate of return for the developer and City.

VIII. Advances the City's Land Use, Economic Development and Public Improvement Goals: Each TIF proposal shall be submitted to the Department of Planning for review and consistency with the City's economic development and public improvement objectives. A letter from the Department of Planning evidencing their approval is recommended. The coordinating agency should specify how the project is consistent with the City's economic development and public improvement objectives.

IX. But For Test: The coordinating agency shall provide an explanation of why the TIF is needed to make the project feasible—why the project would not occur "but for" the TIF funding. The intent is to prevent TIF funds from being used in place of available private financing, grants, or other non-tax supported funding sources. The Board of Finance will also need assurance that the TIF is not unnecessarily subsidizing a private enterprise. Evidence shall also be provided showing that the TIF assistance provided is limited to the assistance required to make the project feasible. Detailed reasoning will be required.

Examples of justification that may be used by the coordinating agencies includes the following:

- Persistent lack of development at the project site;
- Unusual development costs;
- Lack of private funds for the project;
- Lack of other forms of public assistance;
- A projected pro-forma indicating that the projected return on investment (without the TIF assistance) is below a market rate of return.

X. Public Benefit: Describe the project's public purpose benefit. The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to, employment benefits (number of jobs retained or created, percentage of jobs held by City residents, wage and salary information, etc.), tax base benefits (estimated market value of new development, new property taxes generated, etc.), housing benefits (number of new rental or ownership units, number of affordable units, etc.), and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation. This description should also address whether these impacts are being shifted from other locations in the City or would be provided by other projects without TIF assistance.

TIF dollars are a finite resource and each proposed TIF will be required to compete with other TIF proposals. The public purpose benefit description should demonstrate that the proposed TIF compares well on a cost benefit basis to other TIF projects approved and contemplated by the City.

XI. Positive Tax Revenues: A summary fiscal impact analysis shall be provided that demonstrates the project will create positive tax revenues to the City, taking into consideration the costs of public services to be provided to the new development, and the tax increment revenues that will be required to repay the bonds. Projects that do not show a positive fiscal impact shall require a demonstration of extraordinary public purpose to be approved. It is recommended this analysis be completed by the City's TIF advisor or other such qualified consultant, and shall be at the expenses of the coordinating agency.

XII. Risk to the City: A detailed discussion of the risks associated with the TIF project as it pertains to the City's participation. Risks may include (but are not limited to) interest rate and market risk. For example, a new housing project may be required to sell a certain number of units within a particular time frame in order to generate the increment to pay debt service on the TIF bonds. If the developer does not sell the required number of units, revenues may not be sufficient to pay debt service. Additionally, if interest rates rise to a certain level, the cost of the debt may exceed the project's ability to repay.

XIII. Project Fiscal Analysis: It is expected that the coordinating development agency shall conduct a financial review of the project prior to recommending it to Board of Finance. This review is expected to include a formal written analysis of financial feasibility of the project. The report shall provide projections that demonstrate quantitatively the project development can in fact support the requested TIF debt. Subject matter to be included are; debt service projections, project absorption assumptions, projection of market value, projection of net incremental property taxes and projected payment of debt service. It is recommended that this report be completed by the City's TIF advisor or other such qualified consultant, at the expenses of the coordinating agency.

Since every project is unique, additional evaluation criteria may become necessary for either phase and will be determined on a case-by-case basis.

Alternatively, some of the information described above may not be applicable to every TIF. Treasury Management shall be responsible for reviewing information submitted to the Board of Finance by the coordinating agency, ensuring the information is complete, and formalizing a recommendation to the Board of Finance. The coordinating agency should submit information to Treasury Management with sufficient time for it to be reviewed prior to being forwarded to the Board of Finance, and with sufficient time for the Board of Finance to review the information prior to any expected action.

Frederick County, Maryland Policy Guidelines for Tax Increment Financing (TIF) Districts

Purpose:

These guidelines are intended to establish the considerations that the County will use in its decision-making process in reviewing proposals for tax increment financing (TIF) to fund public infrastructure. These guidelines have been prepared for the purpose of (1) evaluating the feasibility of a TIF as a mechanism to fund public infrastructure improvements in connection with private development projects, and (2) to determine whether the private development and public improvements within the TIF district will meet the County's economic development, land use, and other strategic goals.

Background:

Funding infrastructure is a significant challenge to the smart and managed growth of Frederick County. State law (Annotated Code of Maryland, Economic Development Article, §12-201 *et seq*.) ("Tax Increment Financing Act") authorizes the creation of tax increment financing (TIF) districts as a means to finance infrastructure in connection with private development. The purpose of designating TIF districts is to provide another tool for local governments to finance public infrastructure benefiting commercial and certain residential projects and the general public so as to generate economic development which will enhance County revenues beyond the debt service requirements.

Under the TIF process, special obligation debt is issued by the County to provide funding for the infrastructure improvements benefiting the TIF district. The incremental real property tax revenues are pledged to the repayment of the special obligation debt. Theoretically, there will be incremental real property taxes created because the assessed value of the TIF district properties increases as a result of the new infrastructure and resulting development. Because only the incremental tax revenue is pledged to repay the debt service, the TIF structure allows the County to continue to receive the tax revenues that existed prior to the private development and to receive the entire increase in revenues after the debt has been repaid. Ideally, during the period the debt is being repaid there will also be additional incremental revenue (that is not pledged to the repayment of the debt) that will be available to provide for the cost of public services required for the project. The key to the success of the TIF is to have sufficient incremental property tax revenue created to pay the debt service on the special obligation debt. It is intended that TIFs will be used as part of an overall funding package for projects that benefit citizens and add significant income and property tax revenues to Frederick County.

Guidelines:

In order to assure that TIF financing at a proposed location will accomplish its stated benefits, the TIF review committee will evaluate an application to establish a TIF district utilizing these guidelines prior to any required action of the County's governing body pursuant to the Tax Increment Financing Act. The County reserves the right, in its sole discretion, to amend or waive these guidelines when such waiver would further the County's goals for establishment of the TIF.

A TIF application, in a form determined by the Director of Finance, will be evaluated based on the following factors:

1. The proposed public improvements shall meet all requirements of the Tax Increment Financing Act.
2. The TIF district will be coterminous with a community development authority formed under the provisions of Section 2-7-175 of the Frederick County Code (the "CDA Act"), so as to ensure that special taxes can be assessed to repay the bonds or other obligations incurred, if TIF revenues are insufficient.
3. The public improvements shall meet all the applicable requirements of the TIF Act and the CDA Act.

4. Commercial TIF districts are located on land zoned commercial/industrial, planned unit development (PUD) or mixed use development (MXD), (or equivalent zoning in municipalities) that is within a half mile of major or minor arterial routes, expressways or within a municipality. TIF districts that are primarily residential do not have the constraints of being near an arterial route or expressway.
5. Any proposed development project that intends to utilize a TIF must comply with the County's Comprehensive Plan and all County planning and zoning regulations, including satisfying Adequate Public Facilities Ordinance (APFO) requirements.
6. With the exception of PUDs, the proposed development must provide significant new permanent employment opportunities with family-supporting wages for the County's citizens.
7. The proposed public improvements to be financed shall be public infrastructure improvements that should not solely benefit the specific development project, but be an enhancement with public benefits beyond the particular development. (This requirement will be particularly relevant for primarily residential developments.)
8. The private development will also yield a public benefit to residents outside of the TIF district.
9. The proposed private development would not be economically feasible but for the establishment of a TIF district, and the financial assistance resulting from the TIF financing is limited to the amount required to make the development feasible (i.e. TIF financing is not eligible for any costs the Applicant can afford on its own merits);
10. The applicant has the burden to demonstrate that the total incremental property tax revenues generated by the development will exceed the anticipated annual debt service on the bonds issued to finance the public infrastructure.
11. The applicant has the burden to demonstrate that the total incremental tax revenues will offset the fiscal burden placed on the County to provide annual on-going services to the new development (such as law enforcement and fire protection).
    To meet the requirements of #10 and #11 above the proposed development project must therefore be projected to generate incremental County property taxes at or exceeding 150% of the anticipated debt service of the TIF debt.
12. The issuance of the bonds to fund the infrastructure must not adversely affect the County's credit rating.
13. Preference may be given to projects with primarily off site public infrastructure improvements.
14. The County's administrative costs of any proposed developer project shall be borne by the applicant. An upfront deposit to cover County expenses for evaluation of any application will be required from the applicant including the expense of the County's advisors and consultants relative to the review of the application and issuance of the bonds. The applicant will be required to advance fund the costs incurred by the County's financial advisor and bond counsel. These costs may be repaid to the applicant through the bond proceeds. In the event the bonds are not issued, the costs incurred by the County's financial advisor and bond counsel will not be reimbursed to the applicant.
15. The applicant must demonstrate that the project is economically feasible, and has a high likelihood of being successful throughout the term of the debt proposed to be issued to finance the public infrastructure.

16. The applicant must have a significant investment at risk in the development relative to the amount of County investment in the public infrastructure funded through the term of the TIF.
17. The applicant must understand that the authority to make legislative findings and determinations necessary for a particular project is vested solely in the Board of County Commissioners (BOCC) or future County Council and County Executive. A TIF is not a right under Maryland State or Frederick County law and meeting any guidelines set forth herein shall not create a right or entitlement for the applicant. In this regard, applicants are advised that the County will give first priority in all respects to its ongoing capital improvements program financings. Such priority may result, in certain circumstances, in delaying the issuance of, or altering the terms of, bonds issued to finance TIF infrastructure
18. The applicant and developer are required to provide performance and payment guarantees and credit enhancements for the public infrastructure improvements to be financed with TIF bond proceeds in accordance with the County's policies for all County owned public improvements. These protective measures are to ensure that the development is completed on a timely basis within cost estimates used to determine the amount of bonds to be issued, that work meets quality standards and that subcontractors are paid according to their contracts with the applicant/developer.
19. Debt Limitations:
    a. The maximum amount of debt that can be issued is the amount to fund the public infrastructure together with a required debt reserve fund, issue costs, and capitalized interest (no private development costs can be funded with TIF debt).
    b. The maximum amount of debt that can be issued is an amount whose debt service does not exceed two-thirds of the projected incremental revenues.
    c. The TIF debt must have an amortization schedule of no more than 30 years
    d. The average life of any individual issue shall be no longer than 60% of its longest maturity. This prevents the issue from having a majority of its bond due near or at the end of the issue.
20. The County must perform a due diligence investigation to confirm information regarding the developer's demonstrated ability to complete the project as well as the ability of the property to generate incremental tax revenues to pay the debt service on the bonds. The investigation must also include a review of the developer's and property owner's financial resources to sustain the project. The project will be evaluated by the TIF review committee. The committee members include the County Manager, the Finance Director, the Financial Services Manager, the County Attorney, the Manager of the Department of Business Development and Retention (DBDR), the Director of Public Works Division, and the Director of Community Development Division, or equivalent positions, as well as their designees and other appropriate staff and consultants. This review team will recommend approval, denial or revised terms of the TIF to the BOCC or future County Council and County Executive.
21. The applicant must complete an application in its entirety.

Application for Tax Increment Financing:

An application for Tax Increment Financing is available from the Director of Finance and on the County's web site at www.frederickcountymd.gov. The application must be submitted to the Director of Finance.

The application form, which is attached to these guidelines, will require: a detailed description of the entire project including zoning, ownership and current and planned land use; detailed project schedule; regulatory approvals needed; a detailed description of the public improvements to be funded by the TIF; demonstrated economic feasibility of the project including projected net new jobs and wages; and a reasonable estimate that incremental property tax revenues will be sufficient to cover principal and interest on any debt issue and generate excess property tax revenues over the debt service by at least 50%.

An initial application fee of $10,000 is to be submitted with the application and an additional $30,000 fee will be required if the project is approved for TIF financing. In addition, the applicant should expect to forward fund resources to pay for the County's Bond Counsel and Financial Advisor (FA) during the application process up to and including the issuance of bonds. These funds can be reimbursed to the applicant out of the "Cost of Issuance" portion of the bond proceeds when the bonds are issued. In the event the bonds are not issued, the applicant will not be reimbursed for these expenses of the County's Bond Counsel and FA. These funds can be more than $200,000 depending on the extent of the work required by Bond Counsel and FA.

The application must be submitted to:

Frederick County Government
Attn: Director of Finance
12 East Church Street
Frederick, MD 21701

Howard County, Maryland Tax Increment Financing Guidelines

Purpose. The purpose of these guidelines is to set forth the considerations that the appropriate departments in the Executive branch will use to guide decision-making in reviewing proposals for tax increment financing to fund public infrastructures.

Background. State law (the "Tax Increment Financing Act") authorizes the creation of tax increment financing (or "TIF") "districts" as a means of financing public infrastructure in connection with private development which furthers county-wide goals and policies. A TIF accomplishes this by pledging the increased property tax revenues (the "Tax Increment") resulting from the private development to pay for the bonds or other financing used to fund the public infrastructure. The TIF structure allows the County to continue to receive the tax revenues existing prior to the private development, to receive the entire increase in tax revenues from the private development after the bonds or other obligations are paid, and to fund the infrastructure without having to increase county-wide tax rates or other revenues. One key to the success of a TIF is that the Tax Increment will generally be sufficient to finance the public infrastructure. These guidelines have been prepared for the purpose of (1) evaluating the feasibility of a TIF as a mechanism to fund public improvements in connection with private development projects, and (2) to determine whether the private development and public improvements within the TIF District will meet the County's economic development, land use, and other strategic goals.

Guidelines. In order to assure that TIF financing at a proposed location will accomplish its stated benefits, the County Administration will evaluate an application to establish a TIF District utilizing these guidelines, prior to any required action of the County's governing body pursuant to State law (Md. Code Ann., Art. 41, Title 14, Subtitle 2). The ability to utilize TIF financing is not a right or entitlement established by Maryland law or these guidelines. The County reserves the right, in its sole discretion, to amend or waive these guidelines when such waiver would further the County's goals for establishment of the TIF. A TIF application, in a form determined by the Director of Finance, will be evaluated to determine the extent to which:

1. the proposed public improvements meet all requirements of the Tax Increment Financing Act;
2. the establishment of a special tax assessment district is desirable to supplement the Tax Increment to ensure repayment of the bonds or other obligations incurred, and the public improvements meet all the applicable requirements of State law for the establishment of a special taxing district;
3. the proposed public infrastructure furthers the goals and policies set forth in the County's General Plan, and goals and policies established in other plans adopted by the County Council or other County agencies;
4. the proposed private development is consistent with the County's General Plan, the HowardCounty Zoning and Subdivision Regulations;
5. the developer requesting TIF financing has a significant investment at risk in the development relative to the amount of County investment in the public infrastructure funded through the TIF;
6. the public and private development will yield a public benefit to residents outside of the TIF District;
7. the proposed private development would not be economically feasible but for the establishment of a TIF District, and the financial assistance resulting from the TIF financing is limited to the amount required to make the development feasible;
8. the proposed private development will be economically viable throughout the term of the bonds issued (or other obligations incurred) to finance the public infrastructure;

9. the total incremental tax revenues (from all sources) generated by the development exceed the annual debt service on the bonds issued to finance the public infrastructure to the extent needed to offset the fiscal burden placed on the County to provide services to the new development (such as the cost of new students in the school system); and
10. the issuance of bonds or other obligations incurred to finance the public infrastructure will not have an adverse impact on the County's credit rating.

Document1
2007

Appendix C: Sustainable Communities Benefits

Location within a designated Sustainable Community is a threshold requirement for the Community Legacy and Neighborhood BusinessWorks programs as well as the new Strategic Demolition and Smart Growth Impact Fund. Other programs provide additional incentives or benefits for projects located in a Sustainable Community.

Community Legacy Program

Community Legacy provides local governments and community development organizations with funding for essential projects aimed at strengthening communities through activities such as business retention and attraction, encouraging homeownership and commercial revitalization.

Neighborhood BusinessWorks Program

Loan program provides gap financing, e.g. subordinate financing, to new or expanding small businesses and nonprofit organizations in Sustainable Communities throughout the State.

Strategic Demolition and Smart Growth Impact Fund

The Strategic Demolition and Smart Growth Impact Project Fund (the Fund) provides grants and loans to counties and municipalities for predevelopment activity including demolition and land assembly in for housing and revitalization projects. The Fund enables public and private investment towards the reuse of vacant and underutilized sites.

MDOT Sidewalk Retrofit Program

This program helps finance the construction and replacement of sidewalks along state highways.The program covers 50 percent of the cost for approved projects. For projects located in a Sustainable Community, the program covers 100 percent of the cost.

DBED Job Creation Tax Credit

Enhanced incentives are provided in Sustainable Communities. The maximum tax credit rises from $1,000 to $1500 per employee. The threshold to qualify drops from 60 to 25 jobs created.

Sustainable Communities Tax Credit (*formerly the Maryland Heritage Structure Rehabilitation Tax Credit*)

The Sustainable Communities Act of 2010 expanded the credit (10% commercial credit) to include qualified rehabilitated (non-historic) structures in Sustainable Communities beginning in fiscal 2012. Non-historic structures will be eligible for 10% of the appropriated amount in a fiscal year.

Maryland Bikeways Program

Supports projects that maximize bicycle access and fill missing links in the state's bike system. Additional points awarded in application evaluation for projects located in a designated Sustainable Community. Sustainable Communities are also considered a "priority investment area" under the bikeways program and projects may be eligible for reduced matching requirements.

MDOT Community Safety and Enhancement Program

Administered by the Maryland State Highway Administrations, this program provides funding for transportation improvements along state highways that support planned or on-going revitalization efforts. Improvements typically include pedestrian and vehicular safety, intersection capacity/operations, sidewalks, roadway reconstruction or resurfacing, drainage repair/upgrade and landscaping. Projects must be in a Priority Funding Area and communities designated as a Sustainable Community are given preference.

Sustainable Communities Application Submission

Per the Sustainable Communities Act of 2010, all former Community Legacy Areas and Designated Neighborhoods received interim Sustainable Communities designation. The interim Sustainable Communities designation will expire on December 31, 2013, unless an application is submitted for continued Sustainable Communities designation. Local governments that are interested in continuing their designation are strongly encouraged to apply now.

Sustainable Community applications can be submitted at any time by a local government applicant, but will be reviewed in rounds.

For more information, please contact John Papagni, (410) 209-5807 or Mary Kendall. (410) 209-5810 or visit www.mdhousing.org/Website/Programs/dn/Default.aspx

Martin O'Malley, Governor
Anthony G. Brown, Lt. Governor

Maryland
Department
MDP
of Planning

Richard Eberhart Hall, AICP, Secretary
Amanda Stakem Conn, Esq., Deputy Secretary