Tax-Increment Financing

Partners for Economic Solutions

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What is TIF?

Tax Increment Financing: A Financing Mechanism

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

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

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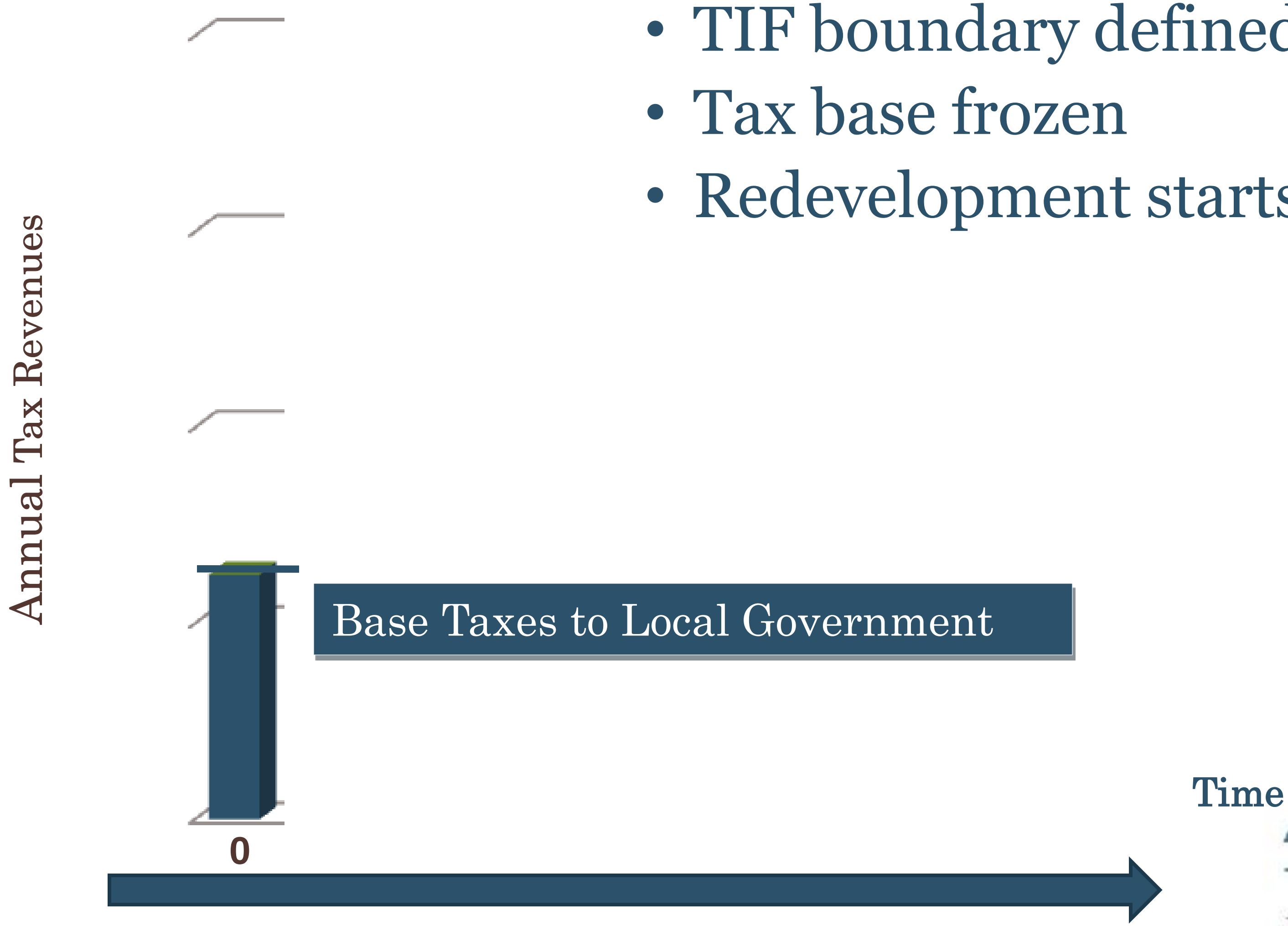
Flow of Revenues

Project Initiated (Year 0)

- TIF boundary defined
- Tax base frozen
- Redevelopment starts



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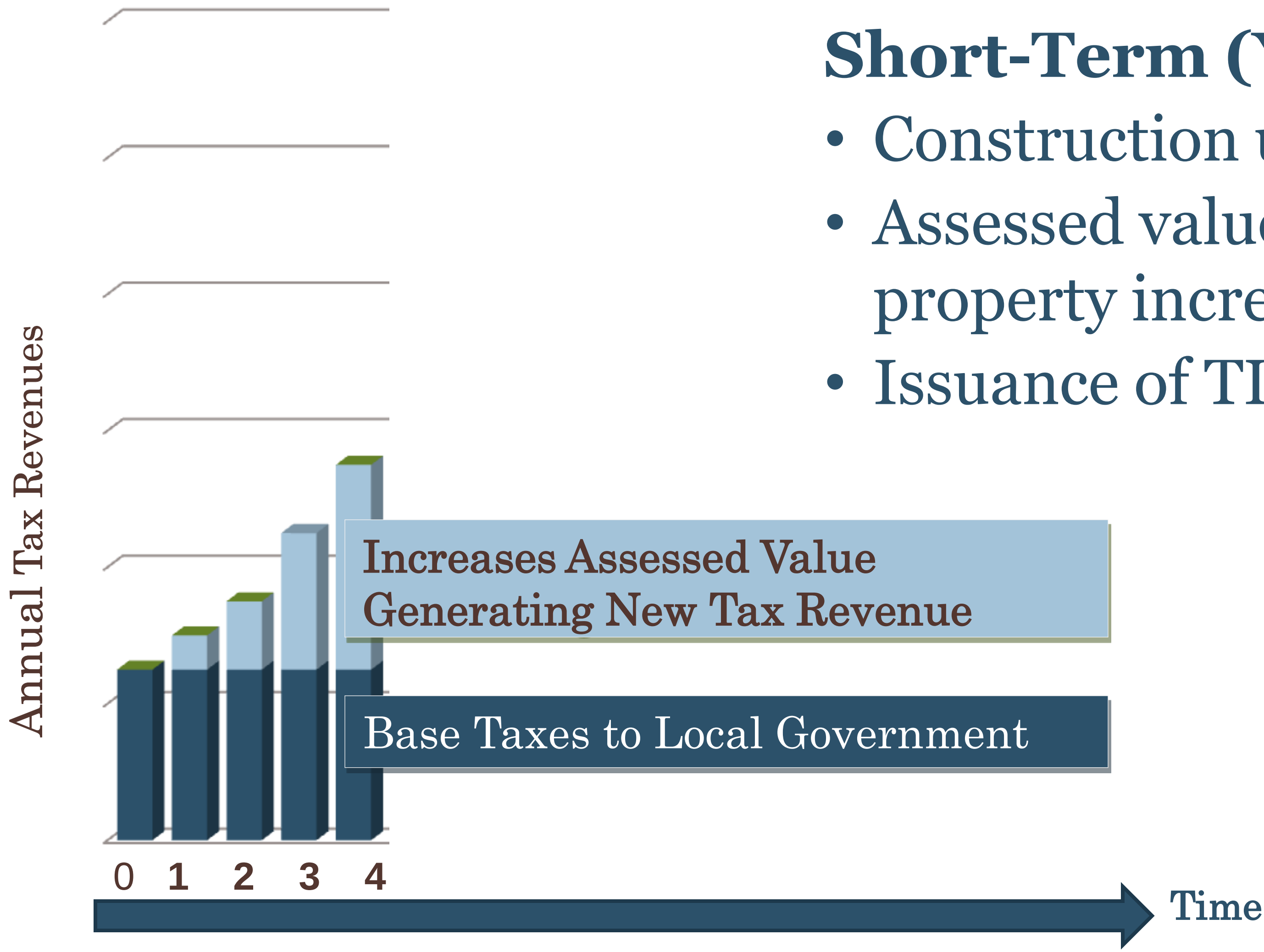
Flow of Revenues



Short-Term (Years 1-4)

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

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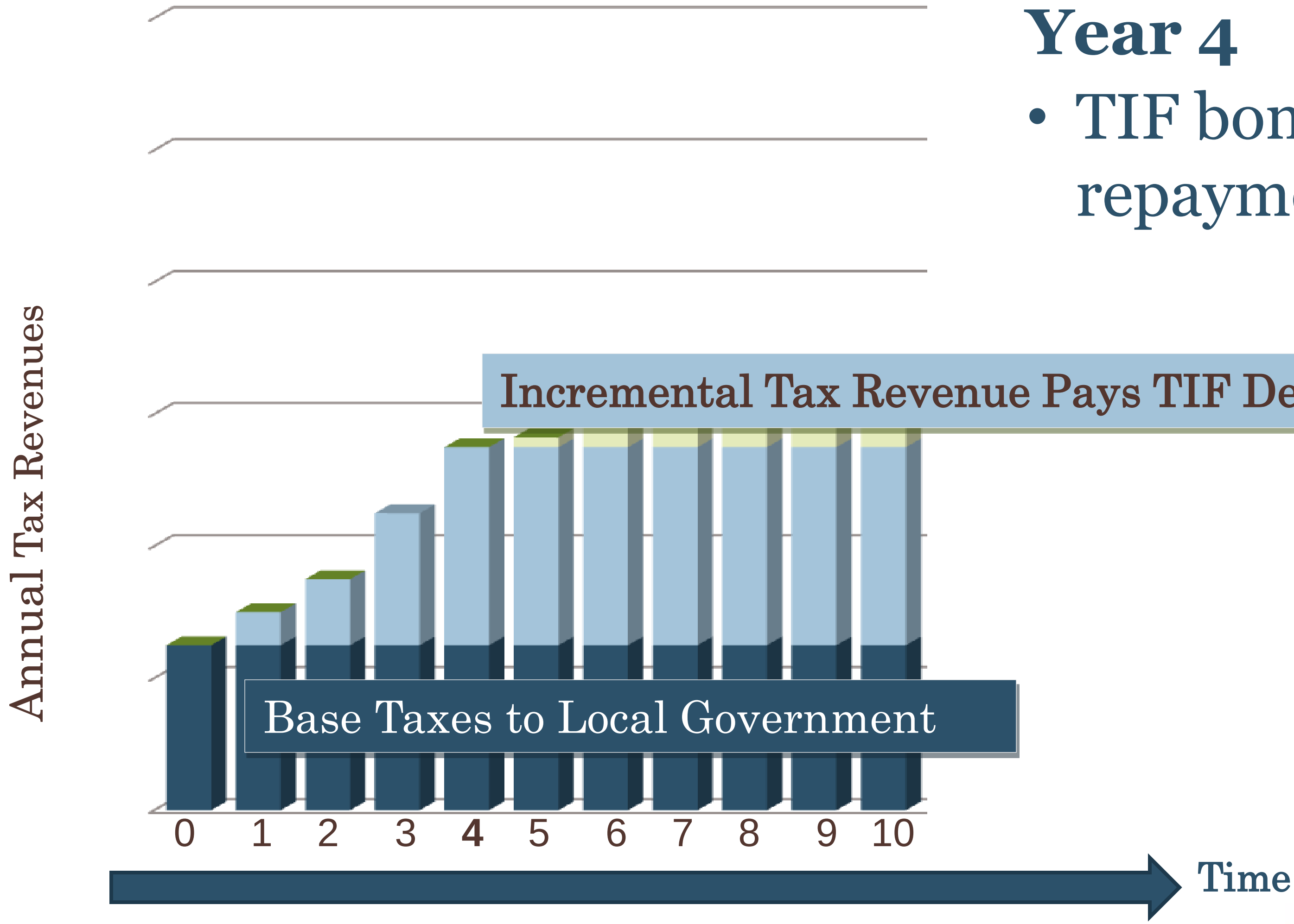
Flow of Revenues



Year 4

- TIF bond repayment begins

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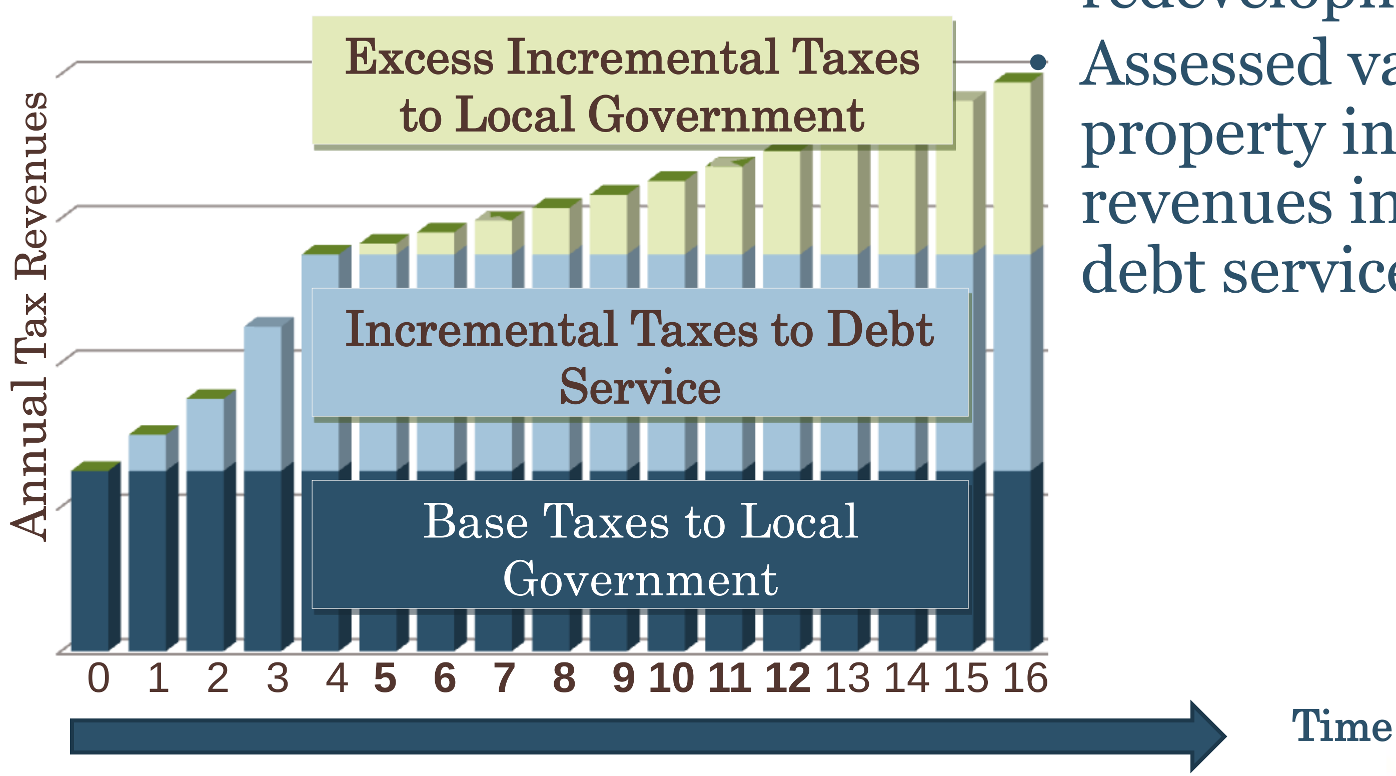
Flow of Revenues



Mid-Term (Years 5-12)

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

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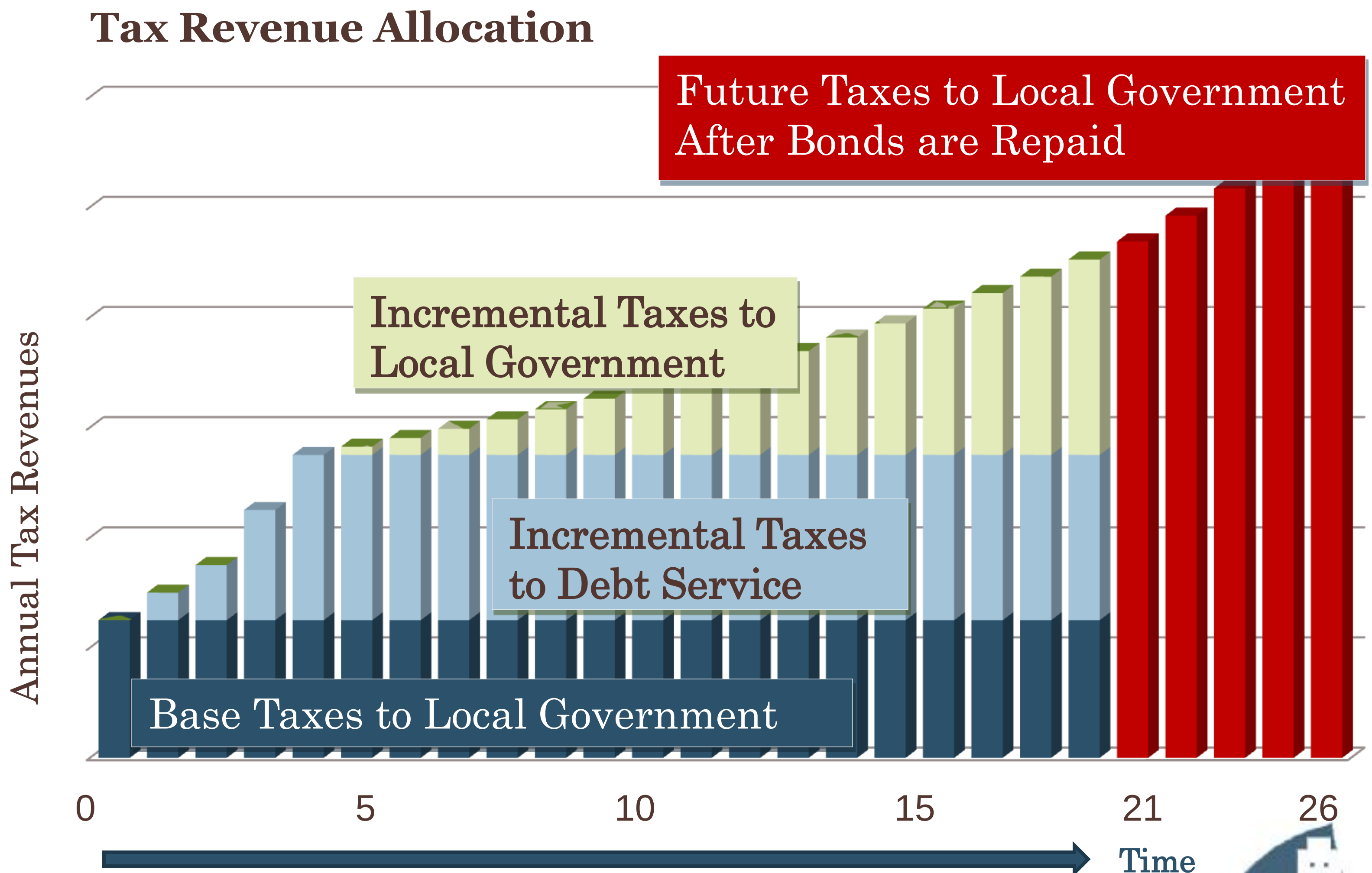
Flow of Revenues



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TIF’s Beginning

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

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What's the Increment?

- Tax rate remains the same
- Property assessment captures new value reflecting new development
- Property owners inside and outside TIF pay same taxes unless there is a revenue shortfall for debt service

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What Taxes are TIF-Eligible in Maryland?

- Real property taxes in all jurisdictions
- Hotel taxes in Prince George's County
- Any local tax in support of designated Transit-Oriented Developments in authorized counties
- A portion or all of the incremental taxes generated

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What Uses are Eligible in Maryland?

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

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Typical TIF Process

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

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

TIF Mechanics

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

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TIF Mechanics

- Redevelopment increases assessed property values
- Future taxes generated by increased "incremental" property values are directed to a dedicated TIF fund account

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TIF Mechanics

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

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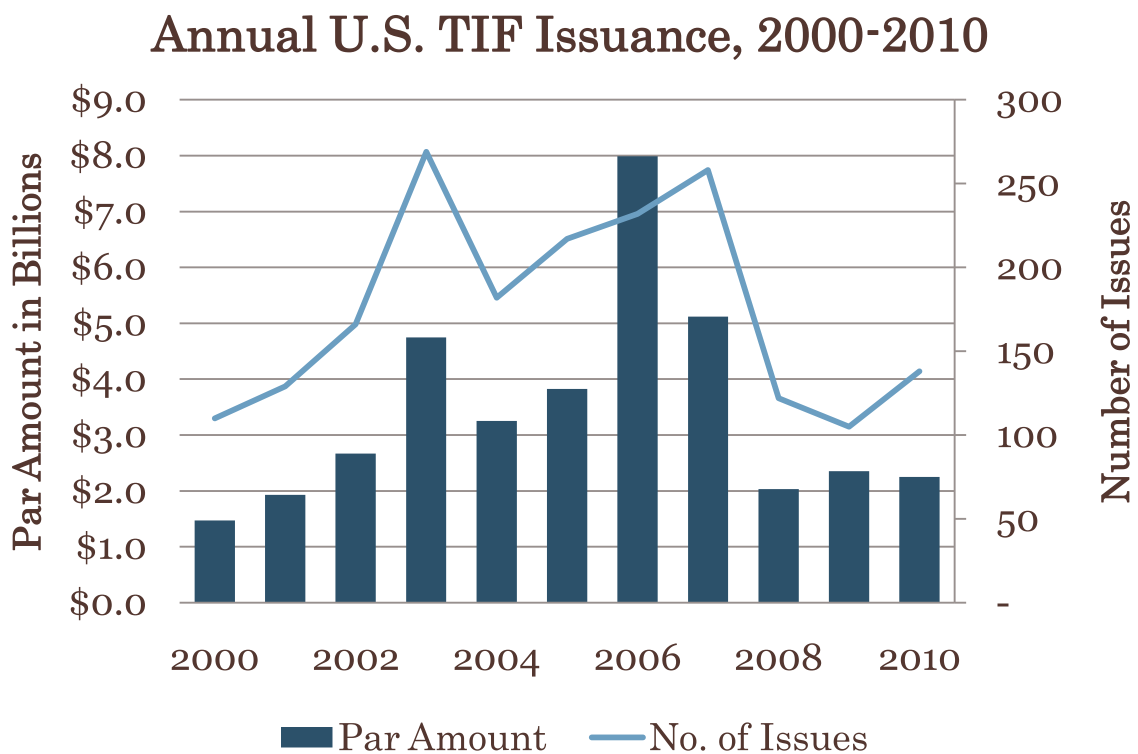
National TIF Experience, 2000-2010

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



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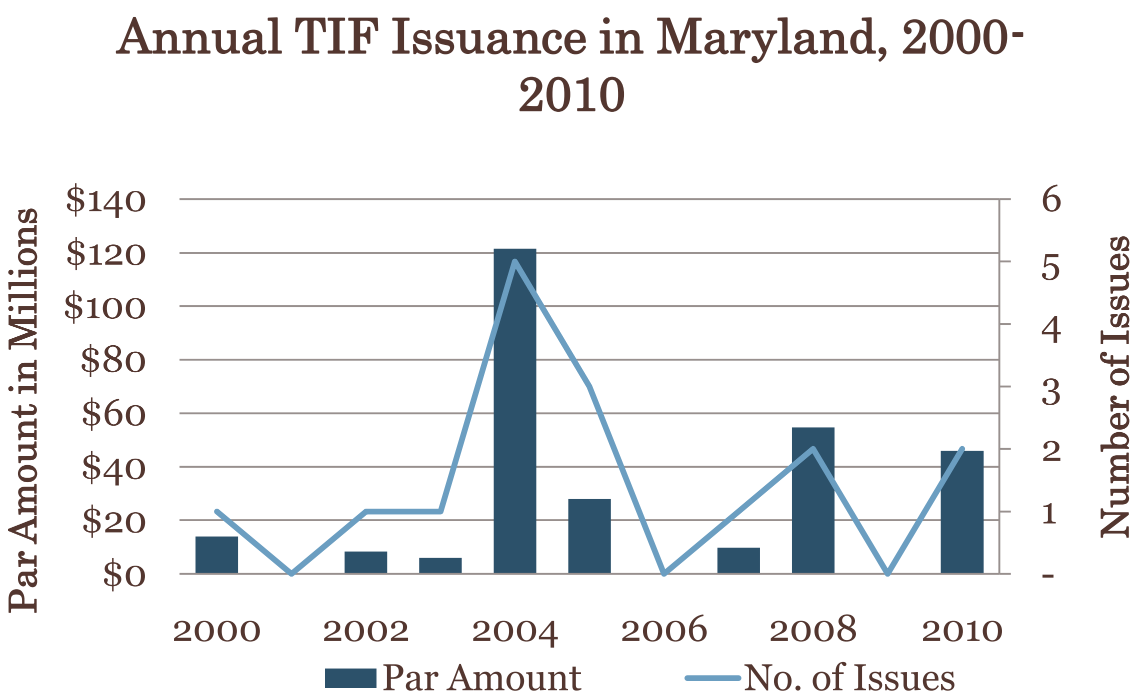
Maryland TIF Experience, 2000-2010

- $273 million in TIF bonds
- 15 bond issues by counties and cities
- One developer-financed TIF



Note: Includes developer-financed TIFs

National Harbor

Bond Issue:
- **$65,000,000 Prince George's County**

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

Developer:
- **The Peterson Companies, LLC**

Use of Proceeds:
- **Public infrastructure**

Security:
- **Tax increment with special tax backup**

Park Place

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

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

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

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

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

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

Credit Enhancement

- To make revenue bonds saleable
- Built-in reserves and debt coverage requirements
- Special Assessment District (SAD)
  - A special tax is assessed on the property equal to the annual debt service
  - TIF revenues are credited against that tax liability
  - If TIF revenues are not sufficient, property owner(s) bear the burden of paying the bond debt service
  - SAD focuses the burden and risk on the developer
- State limited loan guarantees (e.g., Pennsylvania)

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Alternative Approaches

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

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Frequently Asked Questions

How Risky Are TIFs?

- Minimal risk involved in TIF
- Nationally, only one in 400 TIF bond issues defaulted in 2010, representing 0.03 percent of TIF bonds outstanding
- No defaults in Maryland

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How to Mitigate TIF Risk?

- Projected taxes significantly exceed debt service – conservative debt service coverage requirements
- Maryland bonds are typically backed with special assessments on the property
- Focus TIF bonds on projects ready to go with private financing and construction bonds in place

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Does TIF Mean New Taxes?

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

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Does the State Impose TIFs on a Local Government?

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

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Does TIF Shift Revenues from Other Budget Priorities?

- Jurisdiction continues to receive base taxes
- TIF bond can and should be calibrated to provide only as much investment as required
- Project would not otherwise proceed "but for" the TIF investment
  - TIF captures taxes that would not otherwise be generated
- Jurisdiction can devote only a portion of incremental tax revenues to preserve future revenues for other priorities

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

- No government obligation to pay TIF bonds
- Default does not affect the governments' credit ratings
- Some financial advisors are concerned that investors' reaction to a TIF default could taint a jurisdiction's reputation

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Do TIFs Impact the Bond Cap?

- Bond caps limit the government's ability to incur debt
- TIF bonds do not count against bond caps

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TIF's Use?

- TIF can be used to promote State goals
  - Smart growth
  - Transportation improvements
  - Priority projects
  - Affordable housing
- Maryland's 2009 legislation uses TIF to provide TOD incentives
- Other states provide additional incentives that could serve as examples for Maryland

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Kentucky Signature Project Program

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

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Missouri Supplemental Tax Increment Financing Program

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

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Pennsylvania Tax Increment Financing Guarantee Program

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

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California TIF

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

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