

What is Tax Increment Financing?

- Tax Increment Financing (TIF) is a means for generating and leveraging new public funds for the financing of public infrastructure improvements in order to attract private investment that results in new real property tax value and public benefits.
- Best understood by comparing TIF development with normal development process.

Normal Development Process

- Developer pays for and constructs public infrastructure improvements (roads, utilities, sidewalks, etc.) in accordance with Howard County standards.
- County accepts the public infrastructure improvements from the developer and maintains them.
- Developer recoups costs of designing and constructing public improvements with the proceeds realized from the sale of the developed parcels.

TIF Development Process

- County issues TIF bonds to pay for and construct public infrastructure improvements (roads, utilities, sidewalks, etc.) in accordance with Howard County standards.
- County pays for the public infrastructure using the tax increment resulting from the increase in the real property tax value of the development site made possible by the subsequent improvements.

Why Does Government Pay the Cost of the Public Improvement?

- TIF is only used to encourage development:
 - that furthers a government goal or policy; and
 - where "but for" the County's participation in the project it would not otherwise be possible.

Examples of Government Goals

- Encourage development in specific geographic areas or market sectors.
 - Smart growth initiatives.
 - Fulfillment of The Downtown Columbia Plan
- Urban Renewal (redevelop and revitalize a blighted area).
 - Location and/or nature of the proposed development may not attract investor or market interest.
- Transit-Oriented Development initiatives.

How Does TIF Financing Work?

- Important to understand “Tax Increment”

What is the Tax Increment?

**Baseline
(Existing)
Assessed Value**

**Increase from
Assessed Value
Resulting from
Development**

**New Assessed Value
After Development**

**Tax Increment = Increase in Real Property Taxes Value
Resulting from the Public Improvement**

Tax Increment

**Property Taxes on
Baseline
(Existing)
Assessed Value**

**Property Taxes on
Assessed Value
After Development**

Sample Calculation of Tax Increment

Increase in Assessed
Value After Development
= \$100,000
Tax Increment = \$1,014

Baseline
(pre-improvement)
Assessed Value:
\$200,000
Property Taxes due on
Baseline Assessed Value
= \$2,028

Assessed Value
After Development =
\$300,000
Property Taxes on
Assessed Value After
Improvement = \$3,042

How is Tax Increment Applied?

- County issues debt to fund construction of public infrastructure improvement.
- Revenues from Tax Increment dedicated to pay debt service (principal and interest) on debt.
- TIF Debt is a Special Obligation of the County – not a “full faith and credit pledge” General Obligation.
- The TIF debt is backed by creation of a companion Special Taxing District and the Special Tax is imposed in any year where the tax increment is insufficient to meet the County’s debt service obligations.

Howard County TIF Guidelines

- The proposed public infrastructure improvements must further 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.
- The proposed private development is consistent with the County's General Plan, and the Howard County Zoning and Subdivision Regulations.
- The developer requesting tax increment financing has a significant investment at risk in the development relative to the amount of the County's investment to be funded through the TIF.

Howard County TIF Guidelines

(continued)

- The public and private development will yield a public benefit to residents outside of the TIF district.
- The proposed private development would not be economically feasible "but for" the establishment of a TIF district and participation by the County; and the financial assistance resulting from the TIF financing is limited to the amount required to make the development feasible.
- The proposed private development will be economically viable throughout the term of the bonds issued to finance the public infrastructure.

Howard County TIF Guidelines

(continued)

- The proposed improvements must result in a sufficient increase in property tax revenues to pay the debt for those public improvement as well as the cost of new services that may come about as a result of the overall development project.
- The issuance of bonds or other obligations incurred to finance the public infrastructure can not have an adverse impact on the County's credit rating.

"But For" Test

- The proposed private development would not be economically feasible "but for" the participation by the County; and
- The financial assistance resulting from the financing is limited to the amount required to make the development feasible.

Implementing the "But For Test"

- County evaluates estimated cost of public improvement.
 - County requires market studies, pro forma statements, and other information to conduct a comprehensive cost analysis.
- Includes a "True-up" provision:
 - County and Developer agree on what is a reasonable profit to the developer.
 - Profit in excess of the agreed upon profit is shared with the County. The County may use these funds to pay down the debt service, or for any governmental purpose.
 - Insures that Tax Increment does not result in a windfall profit to the developer.

State Tax Increment Financing Act

Tax Increment Financing Act – Sections 12-201 through 2-213, Economic Development Article, Maryland Annotated Code

- Authorizes the creation of a "Development District"
- Limits use of Tax Increment funding to costs associated with construction of a public improvement.
 - Maryland is more conservative than other states in this regard.
- Requires State Department of Assessments and Taxation to certify the "original assessable base" within the district.

Permitted Uses of TIF Financing

*Tax Increment Financing Act – Sections 12-201 - 2-213,
Economic Development Article , Maryland Annotated Code*

- Land acquisition costs
- Site removal
- Surveys and Studies
- Installation of utilities, construction of parks and playgrounds, and other necessary improvements including streets and roads
- Construction of buildings used for government purposes
- Reserves or capitalized interest
- Payment of debt service of the principal and interest on any debt incurred by a County for the above purposes.

County's TIF Guidelines and Application Requirements

- Guidelines set forth criteria by which County will evaluate TIF applications
- Application requires submittal of information designed to ensure that the TIF will function properly and achieve goals.
- Council has passed legislation establishing fee structure for evaluation of TIF proposals and any subsequent activities required to implement the TIF.

Local Legislative Actions Required - TIF

- Establish the boundaries of TIF District
- Authorize creation of Special Fund for deposit of tax increment
- Authorize issuance of Bonds
- Establish Special Taxing District
- Approve any multi-year financial agreements or leases

Local Legislative Actions Required - Special Taxing District

- Adopt legislation establishing the geographical boundaries of the Special Taxing District
- Adopt legislation setting the rate of the special tax assessed within the District

Integrating TIF with Special Taxing District

- Special taxes are only imposed in years where the tax increment is insufficient to fully cover the cost of debt service.
- Different from a TIF Because:
 - Provides additional tax to fund debt for public improvement
 - Requires percentage of property owners to consent
 - Onus remains on developer/owner to fund improvement

Integrating TIF with Special Taxing District (continued)

- Similar to a TIF:
 - Authorized by Special Taxing District Act –Sections 21-501 through 21-516, Local Government Article, Maryland Annotated Code
 - Additional tax applies only within geographical district
 - Primarily limited to funding public improvements
 - Authorizes County to establish special fund for Tax District revenues.