Tax Increment Financing

Department of Finance
Bureau of Treasury Management
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What is a TIF?

• Tax Increment Financing (TIF) is a financing tool that capture and uses increased property tax revenues from new development within a defined geographic area to fund public infrastructure.

• Tax Increment represent the taxes collected on the new assessed value within the development district. Revenues generated from properties within the TIF districts are split into two components:
  ❖ Base Revenues
  ❖ Incremental Revenues
Base Revenues

• This is the amount available before the TIF district is established.

• They are shared amongst a mix of local government jurisdictions that have the power to assess property taxes: schools, cities, counties, and special districts.
Incremental Revenues

- These are new revenues in excess of the base revenue that are generated by development projects.
- These monies are allocated to the TIF project.
- Tax rate remains the same inside the development area as other City property, unless there is a revenue shortfall for debt service.
Incremental Revenues

- Incremental Revenues represented by the triangular area are the dollars allocated to the TIF Project.
TIF Mechanics Summary

• Typically TIF bond proceeds are pledged to fund public City-owned improvements.
• Bonds are not backed by the City’s full faith and credit.
• TIF revenues not needed for debt service on the bonds go to the general fund.
• When the bonds are repaid, all TIF revenues revert to the general fund as part of normal tax collections.
Why does the City use TIF?

• To encourage development of certain projects that are desirable and in the public interest.
• By capturing future incremental revenue the City is able to undertake economic development activities or provide subsidies that otherwise might not be possible.
• Mechanism used to combat blight or deterioration within city districts or neighborhoods.
• Assist in achieving economic development goals including job creation, growth in property values, and protection of local tax base.
What types of projects are tax increment financing used for?

- The resources are used to prepare land for development or redevelopment.
- TIF revenues are used to underwrite certain public infrastructure such as sidewalk replacement, curb and gutter installation.
TIF Process

• Authority to issue TIF Bonds is established under Article II, Section 62 of the Baltimore City Charter

• Pursuant to Article II Section 62A, bonds should be secured by a special tax levied in the development district.
City’s TIF Process

• Step 1:
  ❖ Coordinating agency develops, evaluates, and approved the TIF proposal. (Baltimore Development Corporation, or Department of Housing and Community Development).
  ❖ Coordinating agency works with the City’s bond counsel, TIF financial advisor and Department of Finance.
City’s TIF Process - continued

• Step II: Coordinating agency is responsible for the following:
  ❖ Proposing the amount of the TIF and confirming the project requires the assistance.
  ❖ Ensuring the TIF will advance the City’s land use, economic development and public improvement goals.
  ❖ Confirming TIF proposal is consistent with criteria set forth in the City’s TIF polices.
  ❖ Assist with preparing submission package to the submitted to Board of Finance. (TIF Application)
Formal Plan

• Determine the legal boundaries of the TIF.
• Evaluate TIF will support public policy, such as elimination of blight or promote economic development.
• Estimate project timeline and costs.
• Establish the base assessed value and base revenue.
• Project incremental assessed value and incremental revenue.
• “But for” test: economic growth would not occur in absence of TIF-related subsidy.
Step III: Concept approval of the TIF proposal by the Board of Finance.

- The Board of Finance is responsible to ensure the TIF proposal is consistent with the City’s TIF policies.
- The Board of Finance consists of five members: the Mayor, Comptroller, and three member appointed by the Mayor and confirmed by City Council.
- They are authorized to determine all matters pertaining to the issuance and sale of certificates of indebtedness.

Preparation of legislation follow concept approval.
City’s TIF Process - continued

• Step IV: Presentation of TIF legislation to the Board of Finance.
  ❖ The legislation establishes:
    ❖ Special Tax District
    ❖ Development District
    ❖ Bond Issuance Authorization
Special Tax Ordinance

- Special Tax Ordinance
  - Authorizes establishment of a “special taxing district” and a special fund into which the special taxes levied in the special taxing district are deposited for the purpose of providing financing, refinancing, or reimbursement for the cost of infrastructure improvements.
  - Authorizes the City to borrow money by issuing and selling Bonds, for the purpose of providing financing, refinancing, or reimbursement for the cost of the infrastructure improvements.
  - Authorizes the City to use the special tax revenues to pay or reimburse the City for debt service which the City is obligated to pay or has paid.
Development District

• Authorizes the establishment of a development district within Baltimore City.

• Authorizes the establishment of a special tax increment fund for that development district for the purpose of providing funds for the costs of the infrastructure improvements and related costs.
Bond Ordinance

• Authorizes the issuance of special obligation bonds and the pledge, subject to appropriation to the payment of debt service.
• Authorizes the maximum aggregate principal amount for the purpose of financing infrastructure improvements and related costs.
• Authorizes the Board of Finance to structure and approve the financing.
Legislation Process

• Ordinances are submitted to the City Council by the sponsoring agency.
• Ordinances (Bills) submitted by a Council member for introduction to the City Council.
• Council President assigns the bill to Taxation, Finance and Economic Development Committee.
• Public Hearings are held.
• If TIF is approved, documents are submitted to the Board of Finance authorizing the bond issuance.
City’s TIF Process - continued

• Step V: Approval of TIF legislation by City Council and Mayor.
City’s TIF Process - continued

• Step VI: Submission of documents for issuance of bonds to the Board of Finance.
  ❖ This submission must include the results of due diligence adequate to allow an evaluation of risk.
  ❖ Board of Estimates may also be required to approve various contracts.
Baltimore City TIF Projects

• *Completed Projects*
  - Belvedere Square
  - Clipper Mill
  - Strathdale Manor
  - Harborview
  - North Locust Point
  - Mondawmin Mall
Baltimore City TIF Projects - continued

• *Projects in Progress*
  - East Baltimore Development Initiative
  - Harbor Point
  - Poppleton Centre West
  - Port Covington (*Pending*)