Pennsylvania Tax Increment Financing and Guarantee Program

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  – Permits a community to borrow money through a bond issue to improve a distressed property and to repay the bonds with future tax revenue generated by the improved property
Areas in Need of Redevelopment

TIF can be used where one or more of the following exist:

- Unsafe, unsanitary, inadequate, or overcrowded dwellings
- Inadequate planning of area or excessive land coverage by structures
- Lack of proper light and air and open space
- Defective design and arrangement of buildings
- Faulty street or lot lay-out
- Economically or socially undesirable land uses
TIF Act was created to stimulate employment opportunities to:

- Prevent, arrest and alleviate blighted areas in municipalities
- Increase the tax base
- Improve the general economy of the Commonwealth

TIFs have been primarily utilized by larger municipalities because of the resources and financial savvy necessary to complete the process.
• Formation of a TIF District – typically formed by a municipal authority (the “Authority”).

  – Each local government that levies a property tax within the district (county, municipality or school district) has the option to participate in the TIF and designate the amount of support that it will direct to pay debt service on the TIF Bonds.

• As the Project is completed and the property’s assessed value increases, incremental tax revenue is generated.
• Each taxing body collects all tax revenue and directs the agreed upon incremental tax to the Authority to be used to pay debt service on the TIF Bonds.

• The Authority continues to receive tax increments until 1) the Project has been completed and the debt service on the TIF Bonds has been paid or 2) the duration of the TIF has ended based on the initial designations of TIF support set forth by the participating municipalities.
Typical Uses of TIF Financing

• Capital Costs & Construction

• Site Acquisition and Preparation

• Offset Developer’s costs

• Public Improvements & Infrastructure (including outside of TIF district)

• Environmental Remediation
What Is a “Tax Increment?”

- The tax increment is the difference between the existing tax revenue of a tax parcel (pre-development base tax) and the projected tax revenue of the same tax parcel after development (post-development tax).

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\text{Post-Development Tax} = \text{Pre-development Base Tax} - \text{Tax Increment}
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Distribution of Base Tax is not affected by TIF
TIF Process Overview

1. Authority Proposes a TIF Project & TIF District (i.e., Redevelopment Authority, Municipal Authority, Industrial & Commercial Development Authority, PEDFA)

2. Local Governments that levy property tax designate a representative to work on TIF plan with Authority (i.e., city government, county government and school district)

3. Development of TIF Plan (Feasibility Study, Pro Forma, Plans, TIF District Map, etc.)
TIF Process Overview (Continued)

4. Present Plan to Local Municipality – Public Hearing

5. Municipality Adopts TIF Plan and TIF District by Ordinance or Resolution

6. Other Affected Governments vote to “opt-in” to TIF district or do not participate in TIF project

7. Issuance of TIF Bonds of Authority
The TIF Committee is made up of representatives appointed by each of the participating taxing bodies and the Authority.

The Committee discusses the details of the proposed TIF Plan and represents the interests of each taxing body.
Agreed-Upon Participation

• All three taxing bodies agree to pledge a percentage of tax increment to TIF.

• Determine term for TIF district.

• Determine term for payments.

• Any additional increased tax revenues beyond those projected will be allocated to payment of principal on the TIF debt, reducing the period of participation for each taxing body.
TIF Guarantee

PA Senate Bill 1026, Session of 2004, created the Commonwealth Financing Authority (the “CFA”). The CFA oversees the Tax Increment Financing Guarantee Program (the “TIF Program”), a part of Governor Rendell’s Plan for a New Pennsylvania.

The TIF Guarantee Program - $100 million.

The TIF Program guarantees TIF Bonds.

Individual project TIF guarantees are capped at $5 million.

For many municipalities, the guarantee is the only way to access the capital markets in a cost-effective manner.
TIF Guarantee – Eligibility

- Eligible applicants include any issuer of TIF bonds or other indebtedness. Eligible issuers include all municipal authorities, industrial and commercial development authorities, and redevelopment authorities. PEDFA is also an eligible issuer.
TIF Guarantee – Eligibility

• Eligible projects must:
  – Be a for-profit business
  – Be located within a TIF district and meet all of the requirements of the TIF Act
  – Be for the redevelopment, reuse or revitalization of previously developed land, including previously mined areas, or, for the development of undeveloped land which may be the subject of future development, pursuant to any existing comprehensive municipal plan and is zoned for that development
TIF Guarantee – Eligibility

– Be the intended recipient of the proceeds of the TIF obligations

– Demonstrate its ability to comply with all the requirements of the TIF Act prior to issuance

– Demonstrate that the tax increments to be realized as a result of the TIF project will be sufficient to offset the amount of debt service to be incurred.
TIF Guarantee – Priority Projects

• The TIF Guarantee Program gives priority to projects with the following characteristics:

  – **Location.** The Project is located in an area with a particular need for economic development, evidenced by:

    • high unemployment
    • declining population
    • significant inventory of brownfields and/or vacant housing
    • low-to-moderate household income.
TIF Guarantee – Priority Projects

- **Priority.** The Project is considered a priority investment by a local or regional economic development plan or a county comprehensive plan.

- **Employment.** The Project creates permanent jobs.

- **Community Support.** The Project has evidence of community support, including local governments who pass ordinances supporting the Project and agree to participate in the TIF structure.
TIF Guarantee Application Process

• Upon receiving a complete application, the project will be presented to the CFA board.

• If approved by the CFA Board, a commitment letter will be issued to the applicant.

• If the commitment letter is accepted by the applicant, the CFA will execute a guarantee agreement in favor of the holder or holders of the TIF obligations, containing the terms of the security and circumstances under which the guarantee may be called.
TIF Guarantee Claim Process

- Holders of TIF obligations may file a claim by submitting written notice that actual and anticipated tax collections and other available funds will be insufficient to satisfy debt service requirements by the next debt service payment date. The notice should be provided to the CFA at least 60 days before the relevant debt service payment date and specify the amount of funds required to avoid a default. If payment is made by the CFA, the CFA will be subrogated to the rights and privileges belonging to the holders of the TIF obligations.