

**A Brief Overview of Tax Increment Financing (TIF):
a Primer and a Caution
by Friends of Harford, June 1, 2015**

TIF Summary.

Tax Increment Financing (TIF) is public financing to support private projects desirable to Harford that cannot attract developers without government support. TIFs should be used to offset a developer's added costs to renovate or redevelop, since this saves taxpayers' money in the long run by preserving property values in the area.

When government expects its public to significantly benefit from a TIF project, it can agree to finance a bond for the developer; it pays for the developer's bond by forgoing up to 30 years of increased property tax revenue from his project. Property taxes from the development pay the TIF bondholders instead of paying for County schools, roads, police, etc. Thus a TIF saves money for the developer (and those who buy his properties) by increasing the burden on other Harford taxpayers.

*A TIF has been granted twice here in Harford County: once for a housing development at Beechtree Estates and once for the James Run Mixed Office project. In both cases, the TIF was given to build on undeveloped land. **Friends of Harford** objects, believing TIFs are for redevelopment and should not be used to give an unfair advantage to one developer over those who pay these costs out of their own pockets. We fail to see how either of these projects offer enough benefit to the public to justify the amount of property tax being given up.*

We are writing this article in anticipation that the TIF issue will arise again for the James Run LLC or a new project, to alert businesses to the unfair competition and to inform taxpayers of the adverse impacts.

What is TIF?

Tax Increment Financing (TIF) is a means of **public financing** to help fund private property development or redevelopment projects. In general TIF is intended to encourage projects desirable to the jurisdiction that cannot attract developers without monetary incentives, primarily for redevelopment of economically challenged areas. TIF is a legitimate tool authorized in all or nearly all states, including Maryland, although rules for its use vary.

TIF should not be used to develop previously undeveloped land.

How does it work?

By employing TIF, a local government issues municipal bonds in the name of the project and dedicates future property tax revenue from the proposed project to pay all interest and return of principal to the debt holders of those bonds. The **local government is not further liable for the bonds beyond the dedicated property tax revenue stream**; the developer is responsible. A project failure may, however, negatively impact the county's bond ratings.

The TIF funding is intended for use on public purpose portions of the project, usually road improvements, water and sewer, utilities, parks, etc, both inside and outside of the project's borders. These things are legitimately the developer's responsibility to pay for and accomplish and usually become part of the purchase or rental costs of those moving into the project area. For example, a home purchaser would see it as an invisible part of the cost of his home purchase price, usually added to his mortgage payments. Under TIF, those costs become essentially free to the developer because they will be paid out of the annual property tax stream of the ultimate property owners.

Developer's view:

From the developer's perspective, he will generally receive funding at a lower interest rate than he could get commercially for the portion of his project funded by TIF. In today's market, it may mean the viability of his project. If the project is successful, this money is **free to the developer**, since it is paid by tenants/residents out of their property taxes. If the project is not successful, then the developer is responsible for any shortfall.

New property owner's view:

From a new resident's perspective, his house purchase price could be slightly lower because the house price doesn't include paying for work funded by the TIF. Since a resident's property tax is generally no higher under TIF, the facilities funded by TIF are **free to the resident**. Technically, his property taxes pay the TIF bonds first, and any excess goes to pay for services for which the rest of our county residents pay property tax. Thus, most of the county services paid by property tax is free to him for the life of the TIF bonds. However, any shortfall in property tax set aside will require an additional special tax on TIF property owners.

Government's view:

From the local government's perspective, a properly designed TIF trades off (gives up) the taxes from the property improvements created by the development and only receives taxes on the pre-development basis of the property. Ultimately, return of the annual property tax stream will occur after the loan is paid off (frequently after up to 30 years for muni-bonds). Any property tax revenue not needed for debt service is returned to the government accounts. The government may see increased income tax revenue associated with the completed project (e.g., income tax from new county residents or new retail stores attracted to the newly developed site). The hope is that the property improves quality of life in the project zone.

Who pays for a TIF?

The government pays for TIF by giving up property tax revenue, which means

All County residents outside the TIF area pay.

When is TIF appropriate?

Some citizens might feel TIF is never appropriate. Others with more community spirit might feel it has limited use as an incentive to redevelop older or outdated sections of our community: projects designed to revitalize a community area to enhance its livability or its capability to produce revenue. Most people would agree that it should not be used to develop raw land or

provide an economic advantage to one developer over others.

TIF is NOT appropriate to provide economic advantage to a developer

Applying TIF in Harford.

A continuing argument by County officials and other TIF proponents in our county executive and legislative branches was that the TIFs would be accomplished at **no taxpayer expense**. This is directly contradicted by the auditor's analysis attached to the bills, both of which passed into law. As explained in the general material above, **a TIF transfers the project's property taxes from Harford's general fund to the TIF bondholders for the life of the bonds**. This money is no longer available to the county to pay for normal services such as parks, police, safety, road maintenance, snow removal, schools, teachers salaries, etc. Therefore, the remainder of taxpayers must make up for the lost revenue in their property taxes. In other words, either county services will be cut or other taxpayers will pay more.

Again: Who pays for a TIF?
The government pays for TIF by giving up property tax revenue, which means
All County residents outside the TIF area pay.

Harford County has used the authority granted by Maryland law to employ TIF for two projects as of this date. Each use of TIF apparently required passage by the County Council of both a new Legislative Bill and a Resolution specific to the project.

Beechtree Estates (now Beech Creek)

First came Beechtree Estates in 2010, now called Beech Creek. The Council doesn't appear to have really understood TIF at that time. Many of them believed and reiterated the position that this cost nothing to the local citizens and government, since that is what they were told at the time by County officials. Six of the seven councilmembers voted for it.

[Bill 10-10 As Amended Tax Increment Financing/Special Taxing District-Beechtree Estates Resolution No. 014-10 Tax Increment Financing/Development District](#)

*"PROJECT: Beechtree TIF Improvements TAX INCREMENT FINANCING
COUNCIL DISTRICT: MULTIPLE LOCATION: Various T113101
PROJECT DESCRIPTION / JUSTIFICATION:*

This project is to finance the construction of public infrastructure and improvements necessary to support the Beechtree Estates Project, which infrastructure will include, without limitation, on-site as well as off-site public infrastructure improvements including but not limited to roads and sidewalks, signalization improvements, water, sewer and stormwater management facilities and other improvements, all servicing or enabling the development of the Beechtree Estates Project." (Harford County Proposed Fiscal 2016 Capital Budget)

The TIF subsidized the developer to build houses on a former golf course. This is not redevelopment – building on a golf course is no different than building on any other big, empty property. Meanwhile, this project is competing against similar unsubsidized projects by

developers who are paying their own way. *Harford's proposed fiscal year 2016 budget shows debt requirements for TIFs is \$1,050,000 (all interest payments). This will be charged against the property tax set-aside from Beech Creek.*

References:

- http://articles.baltimoresun.com/2010-03-24/business/bal-bz.hancock24mar24_1_friends-in-high-places-tax-increment-financing-clark-turner
- http://articles.baltimoresun.com/2010-03-16/news/bal-md.ha.beechtree16mar16_1_tif-real-estate-developer-county-council
- <http://www.daggerpress.com/2010/03/31/bruce-theres-no-free-lunch-and-beechtrees-lunch-will-be-paid-for-by-harford-taxpayers/>

James Run

Second came the James Run project in 2012, again on undeveloped land, on property zoned Mixed Office (MO). The MO was legislated for office buildings with retail and "lodging houses" **in support of the office complexes**. Instead, the developer has no active plan for office buildings in Harford's saturated market. There is already an impressive new office building on Rte 22 in Aberdeen that is essentially abandoned, never occupied. Real competition comes from the Aberdeen Proving Ground (APG) GATE complex on federal land, untaxable by the county, which also has significant unoccupied space. Further, APG GATE has plans to expand. No wonder James Run will not build office buildings in the **Mixed Office** district.

[Bill No. 12-35 As Amended James Run TIF](#)
[Resolution No. 25-12 As Amended James Run TIF](#)

"PROJECT: James Run TIF Improvements TAX INCREMENT FINANCING

COUNCIL DISTRICT: MULTIPLE LOCATION: T143201

PROJECT DESCRIPTION / JUSTIFICATION:

This project is to finance the construction of public infrastructure and improvements necessary to support the James Run project. The infrastructure will include on-site and off-site public improvements including but not limited to roads and sidewalks, signalization improvements, water, sewer, and stormwater management facilities and other improvements that service or enable the development of the James Run project." (Harford County Proposed Fiscal 2016 Capital Budget)

Not only was the James Run project approved even though we believe it did not meet the criteria for the MO district, but the developer requested TIF support, and he got it! This project had considerable back door pressure from "Annapolis" as mentioned by a councilman in a Council meeting. In spite of the pressure, three councilmen voted against TIF funding, two of whom spoke at the council session, providing sound arguments against it. The remaining four declared that "it will create jobs" and approved the TIF. We wonder how many full-time people will be employed by these "lodging house"/apartments in exchange for the \$45,000,000 TIF bond subsidy from Harford taxpayers.

References:

- <http://www.friendsofharford.com/jamestif.pdf>
- <http://www.harfordcountymd.gov/Auditor/Documents/785.pdf>
- <http://www.baltimoresun.com/news/maryland/harford/belair/ph-ag-james-run-1123-20121120,0,1232307.story>
- <http://i95business.com/2013/06/vision-reality/>

- <http://www.daggerpress.com/2012/10/08/mallamo-can-harford-county-afford-another-no-risk-sure-thing-with-tif-for-james-run-corporate-campus/>

James Run- Continued

The developer did not request nor receive the TIF bond funding within one year from the resolution passing, Nov 20, 2012, as required by Resolution 25-12, nor had he requested or received a one year extension, as allowed by the resolution. Resolution 25-12 "*has expired and shall be of no further force and effect*". As there were strong arm tactics used to get Resolution 25-12 passed, assume this TIF Resolution will resurface. When it does, ***Friends of Harford*** will again oppose it strongly and ask you to help us defeat it.

Conclusion.

A TIF, as originally intended, can help reenergize older, less prosperous communities by providing government incentives for developers to undertake a higher risk project. However, a TIF provided for a project to open undeveloped land is contrary to fair competition and creates an unfair burden on taxpayers. ***Friends of Harford*** believes that neither Harford County TIF meets the criteria for a fair and impartial use of county revenue under Maryland TIF guidelines.

A TIF on undeveloped land

- **places a hefty burden on all other taxpayers**
- **creates unfair, noncompetitive government-sponsored projects**