

## TAX INCREMENT FINANCING

### WHAT ARE TIFs? HOW DO THEY WORK?

- The Tax Increment Financing Act of 1990 (amended 1992) permits Industrial Development Authorities or Redevelopment Authorities to administer a TIF project in accordance with the affected local taxing bodies.
- 49 states and the District of Columbia have TIF legislation but the requirements vary
- The process starts with a local authority working with a private development in need of assistance with excessive costs for necessary improvements to support the project.
- In most cases, the assistance involves funding mandated public infrastructure improvements.
- TIF is a financing mechanism, NOT a tax abatement program. The property owner will pay ALL of their property taxes from day one.
- The process involved in developing a Tax Increment Financing Plan is listed below:
  1. The Authority makes presentations to the three taxing bodies requesting that they designate a representative to serve on a TIF Committee to assist the Authority in developing a Tax Increment Financing Plan.
  2. The Plan must include a description of the project and the impact on the municipal tax base.
  3. Upon completion of the TIF Plan, the Authority presents the Plan to the taxing bodies, the School District and the County, and requests their decision to participate in the Plan.
  4. The Township holds a public hearing on the TIF Plan and designates or approves the area as a TIF District by an ordinance. This is the stage that the Smithfield Tax increment Financing District has reached.

### EXAMPLE

- **TIF DISTRICT BEFORE DEVELOPMENT GENERATES REAL ESTATE TAXES OF** **\$20,000**
- **AT DEVELOPMENT COMPLETION THE DISTRICT GENERATES TAXES OF** **\$300,000**
- **THE TAX INCREMENT IS BASED ON SUBTRACTING THE BASE FROM THE INCREMENT** **+\$280,000**
- **THE TAXING BODIES AGREE TO ALLOCATE 80% OF THE INCREMENT TO THE AUTHORITY** **\$224,000**
- **THE AUTHORITY BORROWS \$3,000,000 AND REPAYS THE AUTHORITY'S OBLIGATIONS WITH THE \$224,000 RECEIVED EACH YEAR**
- **THE TAXING BODIES RETAIN THE \$20,000 TAX BASE AND 20% OF THE TAX INCREMENT (\$56,000) FOR TOTAL TAXES RETAINED OF \$76,000 VERSUS THE ORIGINAL \$20,000.**

## HOW IS THE TIF DEBT GUARANTEED?

- Recourse from the holder of the TIF Debt, in the event of default, will be limited to the funds available through the tax increment financing.
- **The School District, Township and County will have no liability in the event of default.**
- **No full faith and credit guarantee will be provided by any of the taxing bodies.**

## SMITHFIELD TIF PROJECT OVERVIEW

LOCATION: I-80 at exit 309 and US 209, bounded also by Pa. Route 447

CONSISTS OF: 91.24 acres  
Planned Development- 236 apartments and  
Approximately 323,000 Square Feet of commercial uses

CURRENT REAL ESTATE TAXES GENERATED FROM THE TIF DISTRICT

\$111,440 for 91.24 acres (the tax increment base)

PUBLIC INFRASTRUCTURE DEFICIENCIES

- PennDOT requires that SR 209 be widened from two lanes to five lanes within the TIF district and for areas beyond the TIF district.
- PennDOT requires improvements to PA Route 447 and a new connector road is required from 209 to 447
- Signals and a major storm drainage system are needed

PUBLIC INFRASTRUCTURE BUDGET

- \$6,000,000 in tax increment debt will be provided from the TIF district and used to provide funds for public improvements.
- \$5,199,563 in four different grants have been approved through applications by the Monroe County Industrial Development Authority.

DUE TO BUDGETARY CONSTRAINTS, FUNDS FROM FEDERAL AND STATE AGENCIES ARE NOT AVAILABLE TO PAY FOR ANY ADDITIONAL FUNDING OTHER THAN THE \$5,199,563 LISTED ABOVE. TIF FUNDS AND GRANTS ARE NOT EXPECTED TO COVER THE ENTIRE COSTS OF THE PUBLIC IMPROVEMENTS.

## SMITHFIELD TIF DISTRICT SUMMARY

- TO ASSIST IN UPGRADING PUBLIC INFRASTRUCTURE
  - Reconstructing SR 209
  - Improvements to PA Route 447
  - Construction of a loop road connecting SR 209 and PA Route 447
  - Construction of a major storm drainage system
  
- TO INDUCE PRIVATE DEVELOPMENT
  - Significant investment in new buildings in this 91.24 acre project
  - Creation of an estimated 977 jobs.
  
- ALLOCATION OF THE TAX INCREMENT
  - The tax increment applies only to planning areas 1A, 1B and 2A. **All other planning areas within the TIF district, 2B, 2C, 2D, and 2E will not allocate any real estate tax revenues to TIF Financing.**
  
  - The tax increment allocation for 1A, 1B and 2A is 79.5% for the first ten years and 22.5% for years 11 through 20.
  
- OTHER ECONOMIC BENEFITS GENERATED BY THE TIF DISTRICT
  - local services tax, EIT tax and transfer tax are not part of the TIF District
  
  - one time roll back of conservation district requires taxes of \$40,533 to the County, \$341,784 to the School District and \$7,630 to the Township.
  
  - total tax increment funds estimated to be generated back to the three taxing bodies over the 20 year term of the TIF District is estimated in excess of \$16,000,000