

POLICY GUIDELINES FOR TAX INCREMENT FINANCING (TIF) AREAS

Funding infrastructure is a significant challenge to the smart and managed growth of Frederick County. The purpose of designating Tax Increment Financing (TIF) Areas is to provide another tool for the Board of County Commissioners to finance public infrastructure in commercial projects. TIF Areas are located on land zoned commercial/industrial (GC, GI, LI, ORI, MXD, MM or equivalent zoning in municipalities) that is within ½ mile of a major or minor arterial or expressway or within a municipality (see attached map). It is intended that TIFs would be used as part of an overall funding package for projects that benefit citizens and add significant income and property tax revenues to Frederick County.

These Guidelines have been prepared for the purpose of evaluating the feasibility of TIF as a mechanism to fund public infrastructure improvements in connection with private developer projects. The authority to make legislative findings and determinations necessary for a particular project is vested solely in the Board of County Commissioners of Frederick County (BOCC). A TIF is not a right under Maryland or Frederick County law and meeting any guidelines set forth herein shall not create a right or entitlement for applicant(s).

General Guidelines

Because tax increment financing districts are essentially a dedicated funding technique utilizing general fund revenues for funding capital projects, the financial tests utilized are tied to the existing County debt affordability guidelines. However, because the purpose of creating a district is to generate economic development which will enhance County revenues beyond the debt service requirements, and because County property tax revenues beyond the increment generated within the district are not pledged to support the debt, the County's debt affordability guidelines will take into consideration the distinction between general County debt and tax increment debt.

These guidelines relate to specific developer proposed projects. Any proposed development project that intends to utilize tax increment financing must be in concert with the County's Comprehensive Plan and provide significant new permanent employment opportunities with family-supporting wages for the County's citizens. The proposed improvements to be financed shall be public infrastructure improvements that should not solely benefit the specific development project, but be an enhancement with public benefits beyond the particular development. Preference will be given to projects with primarily off site public infrastructure improvements. Preference will be given to projects without any residential component. The administrative costs of any proposed developer project shall be borne by the developer and an upfront deposit to cover County expenses for evaluation of any application will be required.

Development Project Proposal

Any development project that intends to utilize a TIF to finance public improvements must be able to demonstrate that the incremental real property tax revenues generated by the development project will be sufficient to pay the principal and interest of any debt issue according to the proposed debt service schedule of the debt offering. The proposed development project should also

demonstrate an ability to generate additional County property tax revenues in excess of any debt service requirements of the TIF by at least 50% such that no more than 50% of incremental taxes are required to pay debt service. The developer must also demonstrate that the project is economically feasible, and has a high likelihood of being successful.

Application for Tax Increment Financing

Application for Tax Increment Financing should be made to the Director of the Office of Economic Development (OED). An application form is available from the Office of Economic Development. The project will be evaluated by the Finance Director, OED Director, the Director of Public Works, the Planning Director and the County Manager as well as other appropriate professionals.. This review team will recommend approval, denial or revised terms of the TIF.

The Application form, which is attached to these guidelines, will require: a detailed description of the entire project including zoning, ownership and current and planned land use; detailed project schedule; regulatory approvals needed; a detailed description of the public improvements to be funded by the TIF; demonstrated economic feasibility of the project including projected net new jobs and wages; and a reasonable estimate that incremental property tax revenues will be sufficient to cover principal and interest on any debt issue and generate excess property tax revenues over the debt service by at least 50%.

An initial application fee of \$2,500 is submitted with the application and an additional \$7,500 fee will be required if the project is approved for TIF financing.

Due Diligence

A due diligence investigation performed by the County or its agents must confirm information regarding the developer's demonstrated ability to complete the project as well as the property owners, and the prospective occupants of the project. The investigation shall also include a review of the developer's and property owner's financial resources to sustain the project.

Credit Enhancement

A development project that is selected to utilize tax increment financing to build necessary public improvements shall utilize a credit enhancement mechanism for the debt issued in order to protect the County's taxpayers and fiscal reputation. The credit enhancement provided can take the form of a third party guaranty satisfactory to the County, a special taxing district legally tied and coincident to the development project which is generating the need for the public improvements, a letter of credit, posting of satisfactory collateral, bond insurance, or other credit enhancement vehicle that is satisfactory to the County.

Issue Limitations

Because tax increment financings are to be self-supporting and offer the further protection of a credit enhancement mechanism, the impact of tax increment financings on the County's overall debt affordability is mitigated. Accordingly, the County's debt affordability guidelines should take into account these mitigating factors of tax increment financings, when they are included in the County's overall debt affordability determination. However, TIFs do not require the full faith and credit of County.

In total, the outstanding debt represented by tax increment financings should not be greater than 0.5% of the County's assessable base, nor represents more than 15% of the outstanding tax supported debt. The annual debt service on tax increment financing should represent no more than 0.75% of the total of general fund operating revenue and tax increment district revenue. Maturities of tax increment debt shall be limited to no more than 30 years and the average life of any individual issue shall be no longer than 60% of its longest maturity.

The County's established maximum total debt ratio guidelines for County's general obligations, tax increment obligations, and special taxing district obligations are as follows:

GF Debt Service/GF Revenue = 8.6%
GF Debt/Assessed Value = 1.56%
GF Debt/GF Revenue = 82.6%
Total Debt Service/GF Revenue = 17.2%

The source of these debt ratios is the County's Debt Affordability model. The Debt Affordability model is subject to periodic reviews and can change over time. The debt ratios in this policy are therefore subject to the debt ratios as determined by the County's Debt Affordability model.

Administration and Review

These policy guidelines shall be reviewed annually during the preparation of the annual budget. A set-up fee and the annual administration fee may be revised and applied as appropriate.

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