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The NYSEDC is leading an effort to expand TIF program



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Industrial Development Agencies are just one important tool that communities have to attract investment and jobs by private employers. Often, IDAs partner with other programs to provide financial, technical, or workforce assistance to an expanding business.

As the legislative session winds down, the New York State Economic Development Council is leading an effort to expand New York's Tax Increment Financing program. New York has allowed tax increment financing since 1984, when voters approved a constitutional amendment. However, the legislature and governor prohibited the use of school real property taxes in the enacting statute, thereby rendering the program not viable for development purposes. The legislation that has been introduced by Senator Catherine Young and Assemblyman Robin Schimminger would address this shortcoming in the program and give New York's municipalities an important tool for redeveloping blighted areas. Importantly, this legislation would allow IDAs to finance projects in a TIF district, thereby providing the TIF program with additional leverage.

Tax increment financing (TIF) is an economic development tool that municipalities can use to stimulate private investment and development in targeted areas by capturing the increased tax revenue generated by the private development itself and using the tax revenues to pay for public improvements and infrastructure necessary to enable development.

The TIF concept is predicated on the idea that from a blighted, underused parcel attended by dilapidated houses and vacant commercial buildings found in older neighborhoods of older cities, economically feasible commercial and residential activity can be born. In this respect, the governmental proceedings which bring TIF to life resemble urban renewal law. The TIF area is both the subject of the contemplated redevelopment and the source of a stream of revenues which will pay for the debt service on the new debt (i.e., TIF bonds), the proceeds of which will be applied, usually with other sources of funds, to improve the blighted parcel.

TIF is a "bootstrapping" type of economic development tool that enables a municipality to use the expected future benefits of a development or redevelopment (i.e. the increased real estate tax revenue or sales or utility tax revenue) to pay for specified current expenditures to aid financing of a desired development or redevelopment project. The municipality establishes a TIF area, with specified boundaries and duration, and dedicates the increase in specified taxes from the area from the establishment date forward (the "tax increment") to the support of one or more development and/or redevelopment projects, usually within the TIF area.

The municipality issues bonds to obtain funds which enable it to pay for certain initial costs of the projects(s). As an alternative, the municipality and the developer can agree that the developer will pay for the costs initially and be reimbursed by the municipality over time as tax increment is produced. If this alternative is used, the municipality's obligation to reimburse the developer usually is evidenced by a promissory note, which may or may not be interest-bearing.

Generally, each year after the redevelopment is complete, until the TIF area terminates, the municipality uses the incremental tax revenue to amortize the debt. After the TIF area terminates or the debt is paid, whichever occurs first, the municipality and other taxing districts reap the benefits of the increased tax revenue, a larger tax base and, presumably, the increased economic activity arising from the development (jobs, sales tax, etc.) of the once blighted area.

Tax Increment Financing can be used to:

1. Aid municipalities in combating or preventing blight by enabling a municipality to incur or reimburse a developer for many of the redevelopment project costs that would normally fall upon the developer.
2. Aid developers in constructing projects by shifting the burden of all or part of certain construction costs onto a municipality.
3. Aid the general public by redeveloping depressed areas, thereby improving the community and its economy without the necessity of raising property taxes.

The Schimminger/Young legislation would remedy a major defect in New York's TIF program, and would provide municipalities with a major new tool with which to redevelop blighted areas. Used in combination with IDAs and other economic development programs, such as New York's Brownfield Cleanup Program (BCP), TIF could prove to be an important driver of future economic growth throughout New York State.

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