To: Transportation Finance Panel
From: Eric Weinstein, Department of Revenue Services
Re: Tax Increment Financing in Connecticut
Date: July 29, 2015

Land Value Capture and Tax Incremental Financing

Land Value Capture is a concept where municipal and state governments are able to capture portions of new economic activity and increases in property values resulting from a development. If a municipality or state invested in a new train station, for example, that government could set up a mechanism to collect additional tax revenues from the newly generated economic activity surrounding the station.

Common forms of Land Value Capture include impact fees, benefit assessments, special taxing districts, and tax increments. In a Tax Increment Financing (TIF) project in Connecticut, the state will enter into an agreement with a private entity to create a development with a portion of the financing coming through the issuance of TIF bonds. The tax increment, the difference between the tax revenue stream before a project compared to after a project's completion, is used to first pay down the bonded debt. The value capture of a TIF is the portion of incremental tax revenue that exceeds the debt service.

I. Tax Increment Financing In Connecticut

Tax Increment Financing projects in Connecticut utilize new streams of tax revenue to finance the project's debt. State Statute provides that TIF projects are able to utilize the revenue streams from two different categories of tax:

A. Property Tax
B. Sales, Admissions, Cabaret[1], Dues, and Hotel Taxes

As mentioned above, the incremental revenue stream generated from a TIF project first goes towards paying down the bonded debt. Any revenues generated in excess of the debt obligations are considered additional revenue for the municipality in the case of property taxes and additional revenue for the state for TIF projects associated with the Sales and Use, Hotel, Admissions and Dues Taxes. Regardless of the type of tax, a TIF development has the ability to increase property values, create jobs, and attract other future developments.

Successful TIF projects will generate a sustainable tax revenue stream that yields a profit over the debt obligations. A coverage ratio, the ratio of incremental tax revenue that exceed the debt obligation compared to the debt obligation, is a method of judging the success of a TIF project. A larger coverage ratio means that a project is generating larger incremental tax revenues in proportion to their outstanding debt.

Tax Increment Financing may not be right for all developments. First, the TIF financing process is lengthy which may thin the pool of interested developers and ultimately add cost to the project's bottom line. Second, some projects may fail to meet expectations in terms of tax revenue and either

[1] The Cabaret Tax was repealed effective July 1, 1999.

take in less than anticipated incremental revenues, or too little in revenues to cover the bond expenses. Third, there is also potential for adverse economic development impacts. A developer may have implemented the project without special financing or may have even created the project in a different location.

Conn. Gen. Stat. §32-285 further describes the Tax Incremental Financing Program and outlines the process that a municipality and project are subject to for approval of state bonding for TIF projects. Connecticut law currently allows tax increment financing programs for projects in the following areas:

A. Redevelopment (Conn. Gen. Stat. §8-124 et seq.)
B. Urban Renewal (Conn. Gen. Stat. §8-140 – 8-145 et seq.)
C. Municipal Development (Conn. Gen. Stat. §8-186 et seq.)
D. Information Technology[2] (Conn. Gen. Stat. §32-23zz)
E. Remediation[3] (Conn. Gen. Stat. §32-23zz)

Connecticut Innovations (CI) reviews all applications for projects seeking TIF funding. Once CI determines an application's eligibility, they will contract an outside firm to prepare a financial assessment on the viability of the project. CI will use the study to create a revenue impact statement to present to their board for approval. Projects involving the Sales and Use, Hotel, Admissions and Dues Taxes must be presented to the Finance, Revenue, and Bonding and the Commerce committees for approval and is given back to CI with any changes. Property Tax TIF applications are not subject to this last step.

All applications will go back to the board of CI for approval of the issuance of the TIF bonds. CI will then take the matter to the State Bond Commission. Once the State Bond Commission approves the TIF bonds, the State Treasurer will issue the details of the bond offering to CI. The final step requires the CI board to approve the details of the bond offering.

II. New Legislation to Establish Tax Increment Financing Districts

An Act Establishing Tax Increment Financing Districts, P.A. 15-57, will allow municipalities to create their own tax increment districts whose funding will be through the Property Tax. Effective October 1, 2015, P.A. 15-57 allows municipalities to create and approve districts, finance projects in their districts, implement benefit assessments on improvements, and also defines transit-oriented development.

The law outlines the three types of properties that are eligible to become a tax increment district. While the current law identifies *projects*, P.A. 15-57 will identify *districts*. Properties in the districts must be:

A. "Substandard, insanitary, deteriorated, deteriorating, or blighted," or
B. "In need or rehabilitation, redevelopment or conservation work," or
C. "Suitable for industrial, commercial, residential, mixed-use or retail sales, downtown development or transit-oriented development."

[2] As defined in Conn. Gen. Stat. §32-23d(dd)
[3] As defined in Conn. Gen. Stat. §32-23d(ff)

The law also authorizes municipalities to issue "bonds and other obligations of the municipality" to finance improvements and developments in a district. This differs from the current law where CI is responsible for issuing bonds.

Additionally, P.A. 15-57 authorizes municipalities to levy benefit assessments. The benefit assessments would allow the municipality to finance construction, improvements, repairs, and rehabilitations within a TIF district by levying an additional assessment on the properties within the district.

Lastly, P.A. 15-57 expands eligible developments to include transit-oriented developments (TOD) in addition to industrial, commercial, residential, mixed or retail use, and downtown developments. The definition of TOD allows projects to finance improvements to areas that are within "one-half mile or walking distance of a transit facility."

III. Projects in Connecticut[4, 5]

- **"The Meadows" Music Theatre, Hartford (1994)** – Now the Xfinity Theater, the Meadows was a $22 million project that began in 1994. The project was financed with a total of $9.885 million in TIF funding through the Sales and Use and Admissions Taxes. The project's complete funding including two non-TIF general obligation bonds issued by the Connecticut Development Authority (now CI) and additional private equity. Bonds were refunded in 2004. The project's remaining bonded debt as of 2010 was $6.175 million for 2010 with bonds maturing in 2025.
- **Oakdale Theatre, Wallingford (1995)** – The Oakdale Theater underwent a $20 million expansion beginning in 1995 when $9.9 million in TIF bonds were issued, backed by the venue's Sales and Use and Admissions Taxes. The remaining funding came from private sources in a combination of mortgage proceeds and equity. The bonds were refunded in 2004. The project had $2.85 million of bonded debt remaining as of 2011 with the bonds maturing this coming December.
- **Lake Compounce, Bristol (1997)** – Lake Compounce began a $40 million project to build additional attractions in the park. The project was leveraged with $18 million in TIF financing utilizing the Sales and Use and Admissions Taxes. The remaining funding for the project was a mix of other public funds and multiple sources of private funds. The project was completed in May 2000. Lake Compounce's bonds were refunded in 2004. The project's remaining debt as of 2010 was about $7.345 million with bonds maturing in 2017.
- **Cabela's, East Hartford (2006)** – The Cabela's project at Rentschler Field in East Hartford was issued $9.825 million in TIF financing through the Sales and Use Taxes. The remaining portion of the $50.5 million project was funded privately through owner's equity. As of 2011, the project's remaining bonded debt was $6.915 million.
- **Steelpointe Harbor Development, Bridgeport (2013)** – The City of Bridgeport's Steelpointe Harbor Development includes the construction of a Bass Pro Shops. The Bass Pro Shops portion of the development is estimated to cost $68.5 million. Of that, the State Legislature approved a $22 million state Sales Tax TIF in 2013. The entire project is estimated to cost no less than $800

[4] All project data courtesy of Connecticut Innovations, Inc.
[5] The projects provided are a selection: the list does not cover all TIF projects in Connecticut.

million and includes mixed-use developments with more retail, commercial space, hotel and meeting space, residential units and marina developments.

Brownfields TIF Projects

- **North Haven Commons – Brownfield, North Haven (2010)** – 23 acres on the former site of a scrap yard were remediated in North Haven and developed into a 200,000 square foot development with national chain eateries and big-box retail. A 15 year TIF bond of $2.3 million was issued for the project.
- **Killingly Commons – Brownfield, Killingly (2008)** – 85 acres on the former site of a glass production plant were remediated in Killingly for development of a 520,000 square foot retail center. Like North Haven Commons, Killingly Commons is anchored by national big-box stores and has tenancy from numerous national and local retail chains and restaurants. A 15 year TIF bond of $1.5 million was issued for the development.
- **Hudson Baylor Corporation – Brownfield, South Windsor (2004)** – Hudson Baylor Corporation, a recycling company that has since been acquired by ReCommunity, secured a $470,000 15 year TIF bond for a Brownfield redevelopment in South Windsor. Hudson Baylor remediated 27 acres and built a resource recovery facility.

IV. Case Study: Chicago's TIF Program[6]

The City of Chicago administers a large TIF program to support economic development and incent investment into business expansion, job growth and job training, and quality of life for the city's residents. Chicago's TIF program functions under state and county law and guidelines and is targeted at properties that are currently or will soon be considered blighted. Chicago's TIF program functions through the designation of TIF districts. TIF districts are eligible for many types of redevelopment for both land and capital infrastructure as well as remediation and redevelopment of blighted and vacant properties.

TIF districts last for 23 year terms, but have the ability to be extended for up to 35 years. Once the term expires, the incremental tax revenue is distributed to Chicago's taxing authorities. During the lifetime of the project, the incremental revenue can be used to fund ongoing redevelopment projects within the district, pay down TIF bond debt for upfront costs, be reinvested into job training, or even be used as a "pay-as-you-go" method for other individual projects within the district.

For the 2014 tax year, there were a total of 147 active TIF districts in the City of Chicago resulting in almost $372 million of TIF revenue. The TIF program began in Chicago in 1984 and had a modest yet steady growth in terms of projects and revenues until the early 2000's when the program experienced accelerated growth. At the program's height, it collected more than $500 million in TIF revenue in the 2006 tax year and maintained 162 programs during the 2011 tax year.

[6] Data from the City of Chicago and the Cook County Clerk's Office.