

Economic Development Commission

Development Financing Policy and Procedures

Purpose

The objective of this policy is to establish procedures for Washington County in considering applications for development financing used for economic development and redevelopment purposes.

Section One: Introduction

Development financing is a tool used to foster development and pay for infrastructure and other public improvements within a specified development area. In Maryland, these districts are most often created as either Tax Increment or Special Development Districts.

The benefits of development financing transactions include the following:

- Development projects are intended to attract significant new jobs, business, and investment to the community, and or to retain jobs and businesses, that otherwise would be missed or lost without the investment made possible through development financing.
- Provides financing for developing industry niches and opening new markets for non-existent services.
- Development transactions may contribute to the redevelopment of blighted and under-utilized property.
- Development financing is intended to support development which would not occur if tax exempt financing of public improvement projects did not occur.
- Support the goals and objectives of the County Commissioners economic development, land use and other related policies.
- Development financing supports the development of public infrastructure/public improvements, in a designated area.
- Development districts can be effective as off balance sheet financing components of public infrastructure such as utilities, roads, and related items.
- Encourage funding of public infrastructure and or other public improvements that are paid for from revenues generated in the benefited development area. The revenues in the form of taxes, fees and or charges levied in the development area are sufficient to pay for any debt public infrastructure incurred, annually and over the life of the financed portion of the project.
- No County-wide taxes are intended to be levied in support of development district public improvements
- Development bonds do not have an impact on the County's credit rating.

- Development bonds are not general obligations of the County. The structure of these transactions allows the County to utilize the new revenue streams to accelerate funding of County improvements, enabling the County to undertake public improvement projects that it otherwise could not afford at the time.
- Property tax base growth from associated properties often increases and thereby produces even greater benefit for the County.
- Development district financing can provide a method by which certain environmental projects such as Brownfield's, green building developments and other environmentally desirable projects can be undertaken.
- Development financing may provide financing opportunities for affordable housing.

Development financing districts are primarily for economic development projects that provide improvements to public infrastructure in blighted or under-utilized areas in Washington County as designated by the Washington County Commissioners (Board) and other municipal corporations. The County Commissioners and other municipal representatives are the ones not only vested with the final authority to approve development financing districts, but also are in the best position to determine the relative priorities of the proposed infrastructure improvements and the related community benefits from a public policy standpoint. The board and or their designees' will administer and implement the County's development financing program and its policies and procedures.

Determining whether or not the County wishes to support the creation of development (special assessment and or tax increment) districts may be predicated upon the benefit realized from these districts, the type of district proposed and the economic benefit against the cost. The creation of a District or project is intended to generate economic development within the County. From this activity it is expected that there will be a public benefit. Public benefit is defined as the maintenance and/or increase in employment, expansion of the tax base and the creation of collateral revenues and quality of life benefits for County residents.

The owners of the benefited property, often times a developer, seeks tax exempt bond financing in order to pay for construction of projects, such as roadways, bridges, curbing, lighting, storm water drainage and related items benefiting the area. Depending on the type of district requested to be created, debt service on those bonds are payable from either a separate fee, special property tax assessment, charge and or a portion of the property tax assessment levied on the developing property.

In order for tax exempt financing to occur that benefits a designated area, approval by the County Commissioners for the creation of the district and issuance of bonds must occur. Bonds issued by the County for the sole benefit of the district and supported solely from the revenues realized by the district are treated the same as other non-County obligations. In that the County acts as a conduit issuer, the bonds are non-recourse to the County, they are limited obligation bonds, and do not carry the County's pledge of its own full faith and credit and unlimited taxing power. The bonds of the district are not counted in any manner against County debt limits, debt ratios or issuance authority.

Section Two: Tax Increment District (“TID”)

Tax Increment Districts function by pledging property tax increments gained (over the pre-development year-“the baseline”) as a result of the new development valuation created within or from a specific project or area. It is this increment in property tax that is pledged to the debt that is authorized and issued in support of the public projects constructed in the district by the private sector.

Districts whose debt service on its bonds are payable from the rise in property taxes generated from the rise in the property value assessment are called Tax Increment Financing Bonds also known as TIF bonds. The taxes levied within the border of the district are no different then the taxes charged outside of the district.

The County continues to collect the tax revenues that it traditionally received from the area prior to its creation as a district, but the tax increment earned from the enhanced value of the real estate is used to pay debt service on the TIF bonds that were issued for the construction of public improvements within and or apply to projects outside of the district boundaries but are constructed in support of the district and associated costs on the district. Taxes collected annually that are in excess of the debt service amount and other expenses then flow to the County general fund.

Section Three: Special Development District (SDD)

A Special Development District differs from a Tax Increment District in that the financial support of an SDD comes from the imposition of additional taxes, fees and charge’s rather than taxes realized from the incremental rise in property value and therefore in property taxes. A voluntary action is required by the benefited owners of the property, in the form of a vote, specifically instituting the imposition of taxes, fees and charges on themselves. SDDs are generally formed prior to beginning of development of an area when there is often only one or a small number of owners/developers of the property area. Subsequent owners of property when they purchase the property are bound contractually to continue to pay the additional taxes, fees and charges. It is these additional charges that pay the debt service on the bonds issued for the public purpose infrastructure built in the district.

Section Four: Debt Structure

The pace and value of the development and assessable base over a period cannot be determined exactly and therefore the amount of tax revenues realized is not predictable. Accordingly, bond issues for district projects are structured very differently from the County’s general obligation bonds. County general obligation bonds are generally issued with a final maturity twenty years from the date of issue with debt service occurring in equal amounts annually during the period. This can be done because the County can estimate quite accurately the minimum amount of revenues it will receive annually and can construct a budget that provides for the funding of debt service and all other expenditures. Additionally, the County carefully crafts and put in place reserves to offset unanticipated loss of revenues and/or rise in expenditures and provide for financial flexibility and prudent financial management.

A district has a limited ability to do the same. Accordingly, debt amortization of district bonds reflects essentially a worse case scenario of tax collection over a period not to exceed 30 years. In the first 5-10 years the value of the property and tax collections is assumed to grow slowly and from time to time.

District bond financing structure generally includes a capitalized interest component (monies are borrowed to pay interest on the bonds for a period of 1-2 years), and or an additional interest only period and thereafter a small and slightly increasing amount is paid on principal on the bonds throughout the amortization period with the bulk of the bonds coming due in the later years.

The size of the bond issue will be dependent on the amount of capitalized interest needed, project cost amount, funding of a debt service reserve approximately equal to the annual debt service, cost of issuance, underwriter discount and the cost of administration of the district. Subsequent annual costs associated with the district are paid for from annual taxes collected.

The proceeds of the TIF and or SDD Bonds may be used to finance:

1. The cost of purchasing, condemning, or otherwise acquiring land or other property, or an interest in them, in the designated development district area or as necessary for a right-of-way or other easement to or from the development district area.
2. Site removal, surveys and studies.
3. Relocation of businesses or residents.
4. Installation of utilities, construction of parks and playgrounds and other necessary improvements including streets and roads to, from, or within the development district, parking, lighting, and other facilities.
5. Construction or rehabilitation of buildings provided that such buildings are to be devoted to a governmental use or purpose.
6. Reserves and capitalized interest on the bonds.
7. Necessary costs of issuing the bonds.
8. Payment of the principal and interest on loans, money advanced or indebtedness incurred by the County for any of the purposes set out above.

The proceeds of the bonds may also be utilized for site preparation within the development district, surveys and studies concerning matters within the district and financing costs.

The successful application of this type of financing is intended to enhance project viability by reducing financing costs.

SDD/TIF Bonds may be issued as “tax-exempt” or “taxable” bonds. The qualification of the bonds as “tax-exempt” involves a complicated analysis, which will include the review of, among other things, ownership issues, the amount of private use of the facilities constructed, and the nature of the improvements and any additional sources of payment of the debt service on the bonds.

District financing therefore provides an opportunity to leverage limited public financing of required public purpose infrastructure and site preparation in order to maintain and attract private investment and not utilize County general obligation debt for this limited purpose.

Section Five: Legal Framework

In addition to defining the size of the district with the approval of the governmental jurisdiction within which it resides come other requirements. These other requirements make it somewhat different while at the same time similar to traditional governmental entities. To receive services or have infrastructure built requires that they (owners and residents) petition for these specific services and approve the imposition of additional taxes, fees and or charges. To succeed requires the approval (vote) of generally no less than 75% and often 80% of the owners and or residents of the defined/benefited area.

The special benefit to be received within a Special Tax District can differ from District to District. It can be a service such as additional street protection and cleaning, recreation facilities, water and sewer, parking, garbage collection etc.; often, to acquire that service,

These taxes and charges are in addition to those that exist through out the entire County.

Section Six: Purpose

In order for the County to ascertain whether it wishes to support the creation of a Tax Increment District and or Special Development District and related Financing Project, certain evaluation criteria or standards need to be met.

The essence of what the County wishes to learn by going through this effort is in identifying the “value” that the County will receive in going forward with a project, district and financing, the substance of the proposer and their commitment to the undertaking.

Section Seven: Project Eligibility, Goals and Objectives

The proposed project must meet the County’s standards for district financing. In addition to meeting mission criteria, outlined below are the potential goals and objectives for TIF/SDD eligible projects.

(a) Economic Feasibility – SDD and or TIF financing will only be used on projects where the economic feasibility of the financing of the project by this method can be demonstrated, and there are no other appropriate funding sources. The project must be one that would be unlikely to move forward “but for” the district financing assistance and should exhibit a high ratio of private to public investment ratio (preferably 10 to 1 or better). An economic analysis must be conducted by the County, or its representatives to determine the percentage of incremental tax revenues that may be earmarked for debt service, operations or maintenance of a project.

(b) Fiscal Impact – Projects should generate a significant increase in the County’s real property tax base and/or provide collateral tax benefits to the County. Collateral tax benefits include business, personal property, personal income, utility and other County excise taxes plus State taxes where applicable. The analysis shall focus on incremental and sustainable increases to the County’s tax revenues.

(c) Target Areas – Priority shall be given to those projects that develop or improve areas that have been designated by the County as Enterprise Zones, neighborhoods with areas of blight, under-utilized or vacant buildings, Brownfield’s and adaptive reuse of older commercial and industrial buildings.

(d) Job Creation and Retention – Priority shall be given to those projects that create new permanent jobs, or retain current jobs. Projects shall complement the County’s economic development initiatives for targeted industries, such as technology, health care, manufacturing, tourism, etc, with a strong emphasis on creating job opportunities for County residents.

(e) Developer Equity – Each project must evidence substantial private resources (debt and equity) for the development. In general, the developer of a project must contribute equity to the project in terms of cash, land, buildings or other forms of equity. The equity as a percentage of the total project costs should adhere to generally accepted or prevailing standards used by underwriters or lenders for commercial transactions. The SDD/TIF assistance shall not be a substitute for developer equity.

(f) Bond Repayment – The County intends to keep the maturity of District Bonds as short as possible depending on the development project’s contribution toward County goals and public purpose. The term of the District Bonds will closely relate to the useful life of the improvements financed by the District Bonds. Proposals should allow for repayment of District Bonds in the minimum amount of time and to the maximum extent possible, allow for the recapture of the public investment, including public expenditures (if any). The proposer should provide an explanation of how long it will take until the County will realize tax increases/benefits due to the project. The proposer should provide supporting financial proforma on the project that shows when the County will recapture the incremental improvements in property and other taxes from the development.

(g) Debt Limit Guidelines – To insure that the total of the tax increment projects approved by the County together with other County debt do not adversely impact the County’s credit ratings.

(h) Public Improvements – All improvements should be directly associated with the project development to be financed by the district financing.

Section Eight: Information Required for Evaluating Project Requests for District Financing

In order for the County to review projects for District financing such projects must meet certain goals and objectives of the County as indicated above. The Project developer is to provide the following information:

(a) General Project Description – In narrative form, describe the project and clearly state how the project meets the County’s eligibility requirements. Include all information critical to the success of the project. State why the County’s assistance is needed, include a statement that the project developer/owner has not received a County real estate tax reduction at this site and that such a reduction has not and will not be applied for if District assistance is awarded to the

project. Describe the development, including uses (i.e. residential, retail, commercial) the density of each use.

(b) Development Team – Architect, construction manager, project operator, and any other significant team participants. Summarize developer’s experience with similar projects. Provide management and board of director resumes (if applicable)

(c) Development Profile - Information on the number of square feet to be demolished and constructed, the number and square footage of units, parking, and the number of construction phases; evaluation of site constraints; time constraints that affect the project.

Project Information (other)–

1. Environmental Audit.
2. Cost Estimates- Contractor Bids/Construction Cost Estimates.
3. Equipment Schedule – include type, function and age of equipment to be purchased and equipment quotes.
4. Cost Quotes.
5. Financing Commitments.
6. Describe the public infrastructure which is proposed to be financed district and or non district financing support. If project is staged please provide sufficient information to assess how financing and project development proceed.
7. Appraisal of Improved Real Estate.
8. Identify the area of the proposed Development by address and Tax Map parcel.
9. Numbers include a map outlining the proposed district.
10. Current assessments for land and improvements for each parcel.
11. What is current zoning of property? Will new zoning or other approvals be needed?
12. What County or State approvals are needed?
13. Is public sewer or water available to the development area now?
14. Describe why the Development is not economically feasible without development of a district and why financing is required to make the project

development feasible. Include alternative forms of financing schedules/options versus Development financing.

15. Provide full financing and project costs thru all stages of development and estimate of revenues in support of financing.

16. Market study.

(d) Project and Developer Corporate, Personal and Project Financial Information – provide evidence that the developer of the project/development area has sufficient resources to complete the undertaking.

1. Audited financial statements (or tax returns if audited statements are unavailable) 5 years.
2. Current Year Interim Financial Statements
3. Financial Statement projections 5 years
4. Personal Financial Statements of Principals 5 years (if applicable)
5. Current Year Personal Tax Returns of Principals (if applicable)
6. Sources and Uses of funds, including financial commitment from lenders, construction financing, permanent financing, and any governmental financing, the type and terms of the obligations and application to construction, equipment, furnishings and detailed development costs.

(e) Additional Information

Financial Impact – (Tax –exempt financed)

1. Expansion of Tax Base Projections – Provide projections for each of the taxes affected by a TIF and or SDD, for the duration of the proposed projects to be financed.
2. Other fees and revenues generated by the project annually.
3. Amount of private investment leveraged for each dollar of public financing.
4. Amount of private investment per dollar of financing.
5. Number of employees who are County residents.
6. Payroll – average hourly and yearly earnings by resident and non-resident and group (if applicable).

7. Anticipated job growth, by type and by schedule.

Financial Impact – (Developer financed)

1. Expansion of Tax Base Projections – Provide projections for each of the taxes affected by the development of an area where no tax-exempt financing of infrastructure is provided, for the duration of the proposed projects.
2. Other fees and revenues generated by the project annually
3. Amount of private investment leveraged for each dollar of public financing.
4. Amount of private investment per dollar of financing, and
5. Number of employees who are County residents
6. Payroll – average hourly and yearly earnings by resident and non-resident and group (if applicable)
7. Anticipated job growth, by type and by schedule

Internal Rate of Return

The County may require an analysis to be provided that provides an annual internal rate of return. Such a return on equity should assume a five and ten-year holding period. In the early part of the project, debt and or operations and maintenance account for uses of monies. Therefore, at what time will the project see a return? When and how much of a return is often determined by the type and amount of outside financing occurs and quite naturally, if the developer's own monies are invested into the project. There should be two sets: (a) one set without County assistance, (b) one set with County assistance. The County may wish to determine a profitability requirement and revenue sharing program.

Other

1. Will development qualify for County, State, or Federal tax credits?
2. Describe any affordable housing components of the development?
3. Describe any environmental hazards or contamination on the property?
4. Provide any additional information which supports how the project/development area will benefit the County.

Section Nine: Fees Paid

To the County, the applicant agrees to pay all costs incurred by the County associated with processing the application, including without limitation, cost of consultants' review of financial data, outside legal counsel, and administrative expenses of the County in the review and ongoing support of the development project.

To the County

Initial Application Fee - 5% or \$5,000 which ever is less

Annual Administration Fee – .5% of the annual increment

Excise Fees – fees and charges are subject to change

Other Fees – all fees and expenses related to the TIF or SDD

Financing Estimate

Structuring Fee – to be determined

Other Fees – to be determine

Financing Fee – to be determined

Appendix A

Development Financing Application

DEVELOPMENT FINANCING APPLICATION

Please return the completed application and supporting documentation to:

The Department of Economic Development of Washington County, Maryland
100 West Washington Street
Room 103
Hagerstown, Maryland 21740
240-313-2280

Section One: Applicant Information

1. Name of Applicant: _____

2. Business Name and Address: _____

State of Organization: _____

3. Contact Person: _____

Phone Number: _____

Fax Number: _____

E-mail Address: _____

4. Website: _____

5. Type of Business Entity:

Sole Proprietorship

Limited Partnership

For-Profit Corporation

General Partnership

Limited Liability Company

Nonprofit Corporation

6. Provide the street address of the property to be developed below:

7. Provide a legal description of the project site and a description of the leased premise if applicable.

8. Currently, does the Applicant own or lease the property?(Check one)

- Own Lease Neither

9. At project completion, who will occupy (operate business on) the site?

Section Two: Project Description

1. Indicate total amount of Development Financing Assistance: \$ _____

2. Number of years Development Financing Assistance is requested: _____
(maximum policy term is 30 years)

3. Has any other government assistance been provided to the applicant or the property?
(Check one) Yes No

If yes, describe the type, source, and amount of assistance provided:

	<u>Type</u>	<u>Source</u>	<u>Amount</u>
a.	_____	_____	\$ _____
b.	_____	_____	\$ _____
c.	_____	_____	\$ _____
d.	_____	_____	\$ _____
e.	_____	_____	\$ _____

4. Project Narrative: Write a brief description of the project. Be as specific as possible about timing, Scope of work, type of construction and financing. Attach or insert additional information if necessary.

5. Land Area (in square feet or acres): _____ acres _____ Square foot

Zoning Classification (by parcel): _____

<u>Use of Funds:</u>	<u>Amount</u>	<u>Percent</u>
Land Acquisition	_____	_____ %
Site Development	_____	_____ %
Public Improvements	_____	_____ %
Building Costs (Hard)	_____	_____ %
Soft Costs	_____	_____ %
Total	\$ _____	_____ %

Source of Funds:

Owner's Equity	_____	_____ %
Construction Loan	_____	_____ %
Seller Financing	_____	_____ %
Development Financing	_____	_____ %
Other	_____	_____ %
Total	_____	_____ %

7. When will construction start (Month/Year)? _____

8. When will construction be completed (Month/Year)? _____

9. Please list what public improvement(s) are eligible for Development Financing and estimated cost:

<u>Category A</u>	<u>Estimated Cost</u>	<u>Category A</u>	<u>Estimated Cost</u>
Street, Curbs, Gutters	\$ _____	Paving/Driveways	\$ _____
Water lines	\$ _____	Flood Control	\$ _____
Sanitary Sewer lines	\$ _____	Mass/Public Transit	\$ _____
Storm Drainage Facilities	\$ _____	Culverts, Manholes	\$ _____
Ramps/Roads/Bridges	\$ _____	Off Street Parking	\$ _____
Retaining Walls/Tunnels	\$ _____	Landscaping/Fencing	\$ _____
Artificial Lighting	\$ _____	Site Work/Grading	\$ _____
Traffic Signals	\$ _____	Walkways	\$ _____
Sidewalks	\$ _____	Signage	\$ _____
		Total Category A	\$ _____
<u>Category B</u>		<u>Category B</u>	
Electrical Services	\$ _____	Telecom Service	\$ _____
Utility Infrastructure	\$ _____	Utility Relocation	\$ _____
Utility Under grounding	\$ _____	Other Items	\$ _____
		Total Category B	\$ _____

Other (provide a detailed description and breakdown of costs):

9. Development Team. Please list the business name, contact person, address, work, and fax numbers, and e-mail address for the members of the Development Team:

Contractor: _____

Architect/Engineers: _____

Financial: _____

Project Manager: _____

Construction Manager: _____

Development Consultant: _____

Section Three: Supplemental Information

Note to Applicant – All exhibits from the checklist must be complete before Economic Development staff will submit your request for Development Financing for initial consideration by the EDC Commission.

1. Submit the following as Exhibits to the application that will include the information set forth in the following checklist:

Exhibit A – Development Financing Application Affidavit

Exhibit B – History of Development Entity

Exhibit C – Concept Plan and Rendering or Site Plan

Exhibit D – List and Breakdown of Sources and Uses of Funds to undertake project

Checklist

Exhibit A – Development Financing Application Affidavit (*submitted for preliminary qualification*):

- Developer will pay Development Financing Policy Fee of \$ _____
- Developer will list and specify all eligible Development costs
- Developer and/or lead financing entity will sign and affidavit that the project would not be financially feasible, it were not for the Development Financing
- Developer will acknowledge the maximum tax rebate available for the project

Exhibit B – Declaration of Development Team and Disclosure of Principals and Entity, including:

- History of the Development Entity
- Resumes of all principals and key individuals
- Organizational structure of the development entity

Exhibit C – Description of Narrative of the Development Project, including:

- Copies of Project contracts and /or memoranda of understanding
- Detailed performance/construction schedule
- Concept plan and rendering
- Copies of deeds, lease, and option contracts
- Photographs of property
- Tax bills, surveys, maps of the plan area

Exhibit D – Project Funding and Financial Information, including:

- List and breakdown of Sources and uses of funds to undertake project
- Detailed projections of development revenues by parcel for the term of the requested financing
- Pro-forma statement for five years
- Current financial statements for 2 years; newly formed most recent month-end
- Current banking relationships
- Performance bond references
- Evidence of bonding capacity

Section Four: Signature

I, the undersigned, affirm that the project descriptions, numerical and financial estimates and all other information I have provided in the application are true and complete to the best of my knowledge. I have read and understood the requirements described in the application, including the Development Financing policy of the Washington County Commissioners of Washington County, Maryland. Furthermore, I certify that I am authorized to initiate the Development Financing application process on behalf of the applicant and the project described.

Signed: _____ Date: _____

Title: _____

Appendix C
Affidavit to Application

AFFIDAVIT
TO
APPLICATION

I, _____ being first duly sworn, depose and state under penalty of perjury as follows:

1. I am a corporate officer, managing member, general partner or sole proprietor of _____

(“Applicant”), a company duly organized in the State of _____ as a _____ (Corporation/LLC/Sole Proprietorship/General Partnership). The applicant submits this application requesting development financing for the project located at _____ (“Site”). The applicant represents that this application and all information furnished in support of the application for the purpose of obtaining financial assistance under the Washington county Commissioners of Washington County, Maryland are true and complete to the best of the applicant’s knowledge and belief.

2. Applicant hereby acknowledges and declares that it will comply with the following submittal requirements for development financing assistance from the Washington County Commissioners of Washington County, Maryland.

- i. Applicant will list and specify all cost of qualified improvements to public infrastructure for development financing;
- ii. Applicant will acknowledge the maximum development financing reimbursement available for the project;
- iii. Applicant will pay a development financing application fee of \$5,000 to the Economic Development Commission at the time of application
- iv. Applicant will be required to pay the Washington County Commissioners an administration fee of .5% which will be charged annually on the tax bill.

3. Applicant acknowledges and declares that no other reasonable means of financing the public improvements proposed to be financed with development financing are available, because of one or more of the following reason(s) as checked by the applicant:

- The project, including the public improvement, if financed by applicant through cash on hand or through debt financing from a private lender, would not result in a reasonable rate of return to the applicant; or
- Applicant would not undertake the full set of improvements contemplated in the application through resources reasonably available to the applicant.

4. The undersigned applicant hereby agrees that the applicant shall at all times indemnify and hold harmless the Washington County Commissioners, its employees, elected officials, and consultants against all losses, costs, damages, expenses (including reasonable attorney fees), and liabilities of any nature directly or indirectly resulting from, arising out of or relating to the acceptance, consideration, approval or disapproval of this application for development financing assistance.

DATED this _____ day of _____, _____

Signature

Title

Signed and sworn to before me this _____ day of _____, _____

Notary Public

My commission expires: _____

Appendix C

General Process

General Process for Establishing Development Financing

