Environmental Law Section Annual Meeting

Innovative Approaches to Financing Large Scale Infrastructure Projects

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Creative Financing of Large Scale Infrastructure

<u>Increment Financing Programs for Development Projects</u>:

A financing mechanism that is used by municipalities to subsidize the cost of development, infrastructure, and affiliated improvements "*capture the future tax benefits of real estate improvements, in order to pay for the present cost of those improvements" (CDFA)*

Designed to channel funding toward improvements in distressed, underdeveloped, or underutilized parts of a jurisdiction where development might otherwise not occur

Increment Financing dedicates tax increments associated with the projected increase in assessed value a redevelopment project would create over the existing value and dedicate that increment toward project costs.

Use of funds public infrastructure (roadways, utilities, parks), sitework, project bonds, brownfields remediation, and capital projects themselves (arenas, commercial, residential buildings, etc.)

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Traditional Increment Financing Mechanisms:

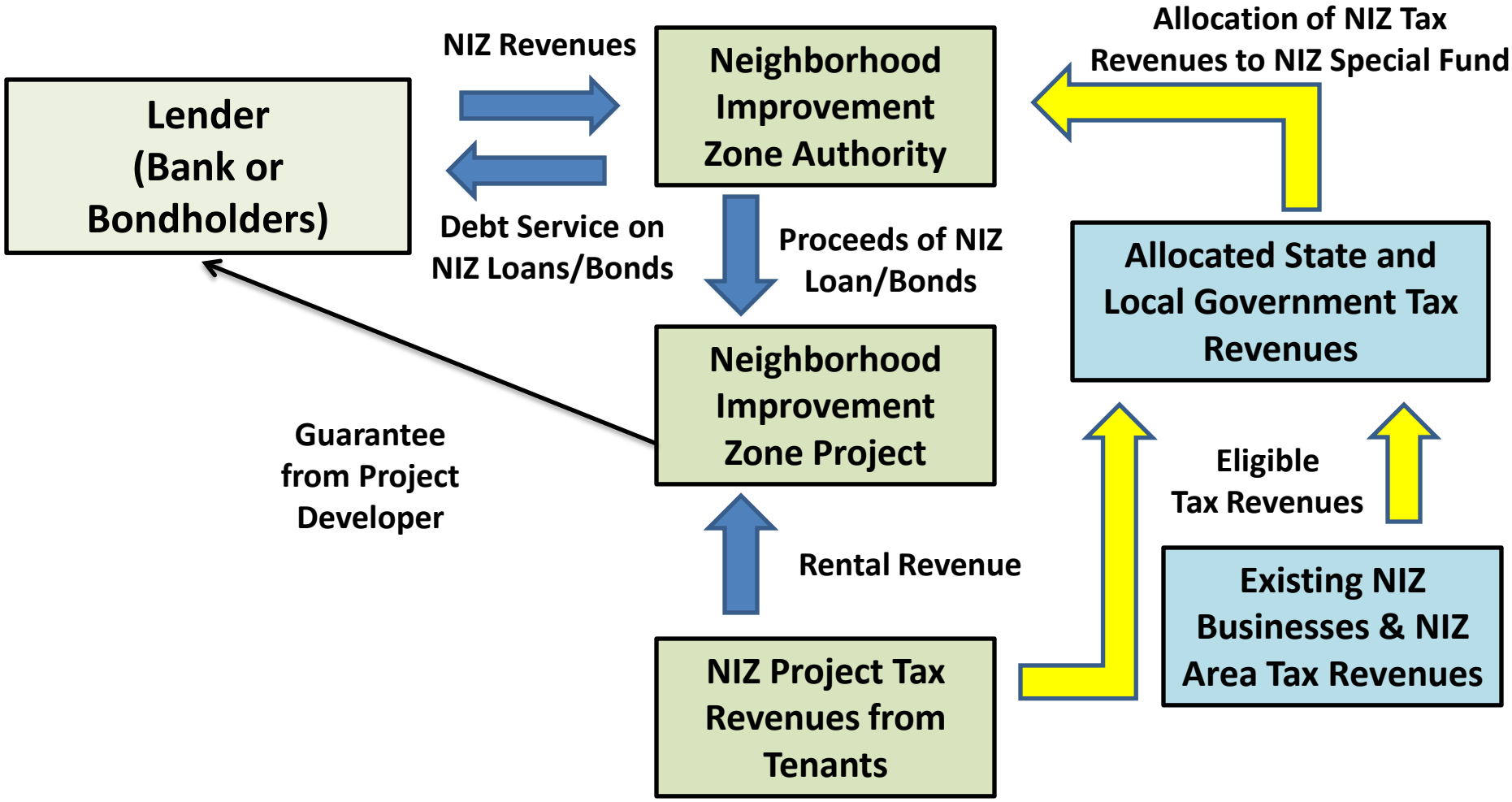
- **Tax Increment Financing (TIF):** channels incremental increase in real property assessed value of a project to fund bonds for infrastructure or other project improvements. TIF bonds are “revenue bonds” whereby repayment of the bonds comes from the projected “tax increment” resulting from the new development

- **PILOT Increment Financing (PIF):** structure allows for the diversion of monies which are otherwise payable to a taxing jurisdiction into a fund that is used either to offset the developer's project costs or to repay project financing

- **District Improvement Financing (DIF):** channels real property tax dollars into targeted redevelopment districts

Pennsylvania's Neighborhood Improvement District (NIZ)

- Neighborhood Improvement Zone (NIZ) program was established by Act 50 of 2009 and Act 26 of 2011, (currently restricted to Allentown, PA) – functions like a TIF on steroids
- Dedicates certain state and local tax revenues generated by new and existing businesses within the NIZ to a special fund administered by a NIZ authority used to finance economic development projects within the NIZ
    - Allocated tax revenues include property tax, state payroll tax, sales tax, cigarette and alcohol taxes, franchise tax, and corporate income tax
- NIZ revenues can be used to pay debt on bonds and loans that are issued for qualifying capital improvements in the zone

- Key features over traditional increment financing mechanisms:
    - not restricted to real property tax - captures all state and local tax revenue
    - uses ***existing and projected tax revenues*** collected within NIZ not merely projected future increment

Operation of the NIZ Structure Flow of Funds