

The Basics of TIF



The Tax Increment Finance Course

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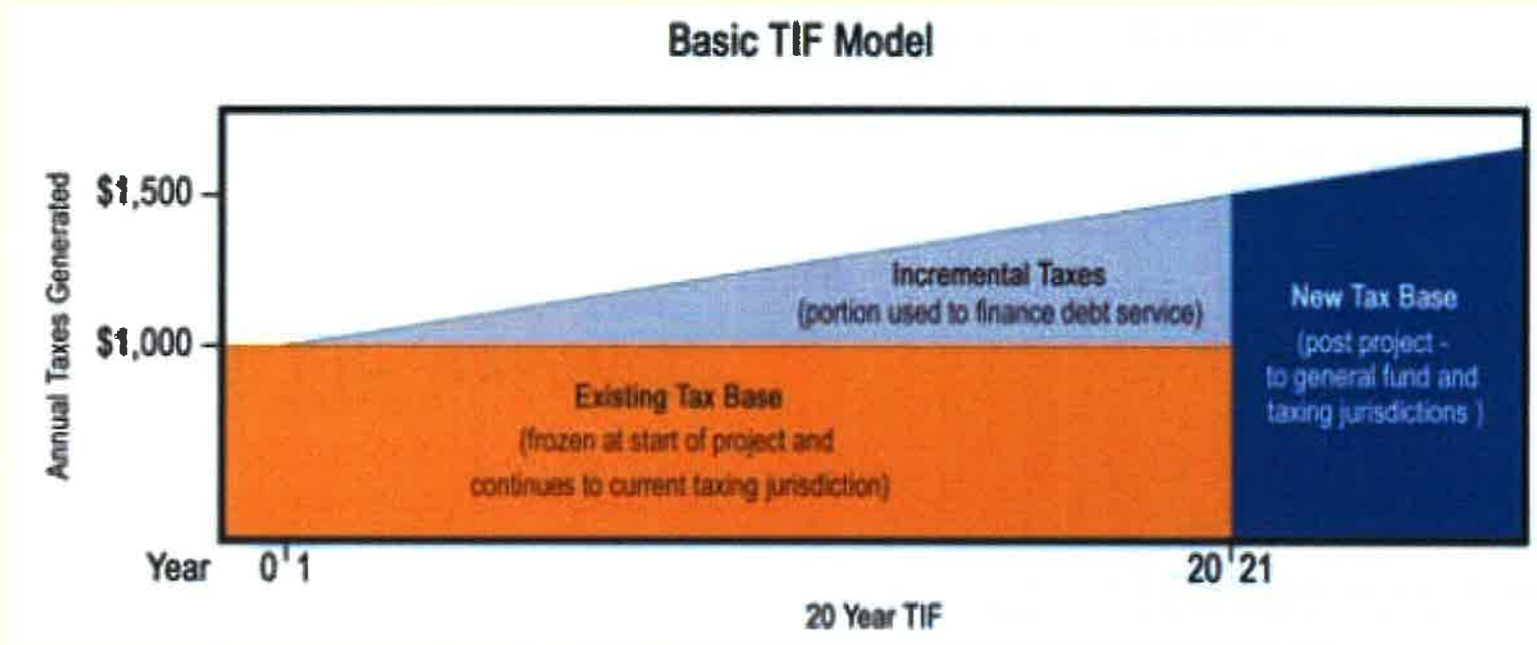
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What is TIF?

- Tax Increment Financing – aka Tax Allocation Districts, Tax Increment Reinvestment Zones, etc.
- TIF allows local governments to invest in infrastructure and other improvements and pay for them by capturing the increase in property taxes (and in some states, other types of incremental taxes) generated by the development.

Preservation of Existing Tax Base; No New Taxes



TIF is a tool...

- ...to implement an economic development plan:
- Target TIF towards:
 - Industrial development
 - Development of low income housing
 - Growth of tourism/convention center
 - Smart Growth
 - Encouraging retail (type of retail?)

Extraordinary Costs of Development

- Blight Elimination
 - Repair/removal of dilapidated structures
 - Repair/removal of deterioration
 - Bringing properties up to code
 - Remedying incompatible/deleterious land uses
- Environmental Clean-Up
 - Brownfields
- Adaptive Reuse
 - Ex: Denver Stapleton Airport, BRAC, Heavy/Manufacturing Facilities

GAP

- At the end of the day, it all comes down to whether or not it's worth the developer's while to undertake the project

Example: Village of CDFA Hills Redevelopment Project

- Project Budget: \$32,882,901*
- Annual NOI: \$ 2,219,596
- Cash on Cost Return: 6.75%
- NEED RETURN OF: 9.00%
- GAP: \$ 8,342,901

How do we fund the gap?

* Includes extraordinary costs of development, due to remediation of blight, that are TIF-eligible.

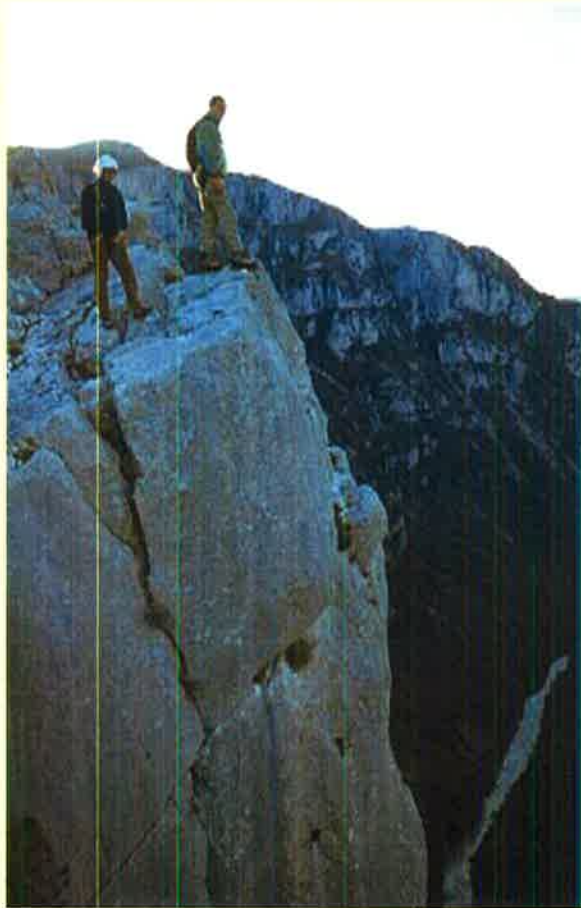
Funding the Gap

- Infusion of public capital into the project
 - Reduction of overall project costs

Economic Development Policy Context

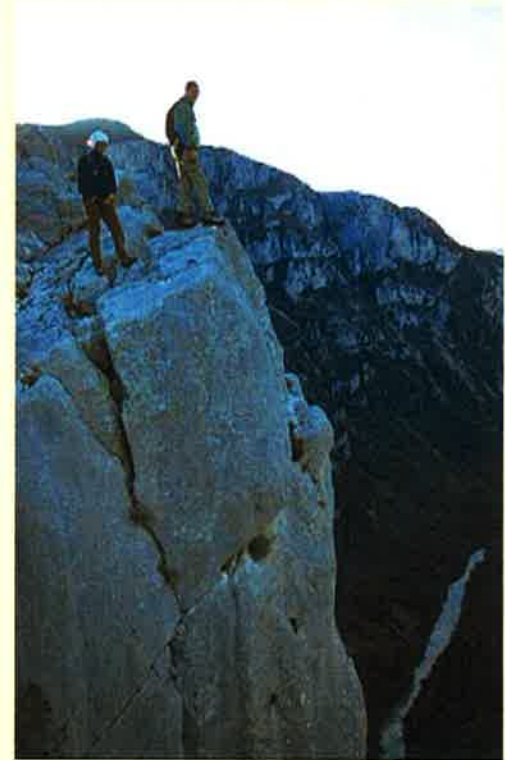
- Project-specific TIFs (committed user)
- District-wide TIFs (ex. Downtown – public parking; convention facilities)
- “If you TIF it they will come” (public infrastructure for new industrial parks)

Who Takes the Risk?



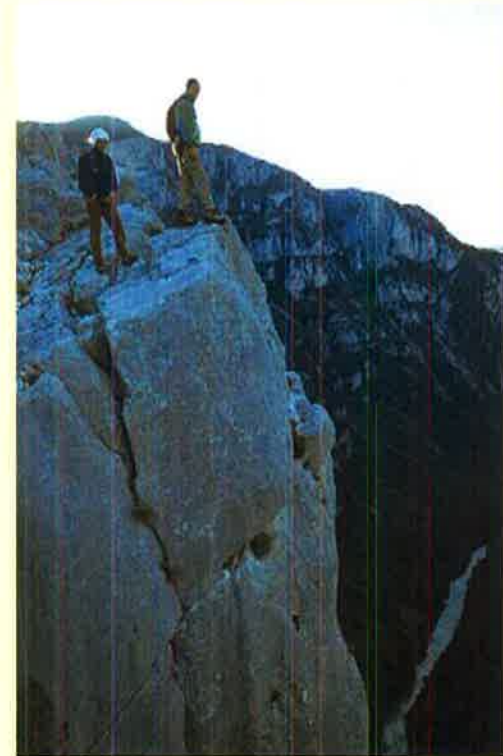
Local Government Perspective

- Timing of assistance
- Level of assistance
- Net benefit to local government/local economy



Developer Perspective

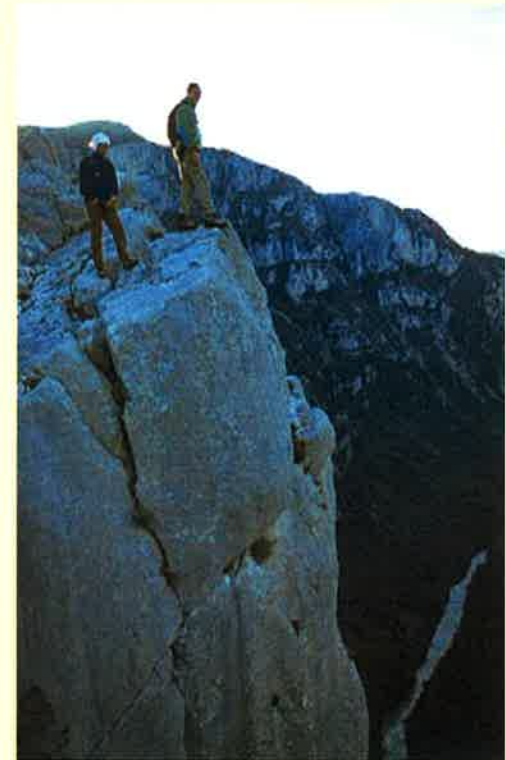
- TIF funds need to cover the extraordinary costs of development
- Developer needs ability to carry the costs until they are reimbursed by TIF increment or TIF bonds



Bondholder Perspective

If bonds are sold:

- Bondholder needs sufficient comfort that bonds will be repaid
- If they buy bonds, at what price?



Financing TIF Improvements

- Incur Debt
- Pay-As-You-Go
- Combination of Debt and Pay-As-You-Go



TIF Notes

- A Tax Increment Revenue Note evidences the right to receive the TIF revenue stream
- Developer-held
- Assignment to third party – typically accredited investors

Bonds

- Long-term bonds may be issued
 - At the commencement of the project
 - Upon meeting hitting certain development milestones, typically described in a redevelopment agreement
- Commonly, bonds are issued to take out previously issued notes



Due Diligence

- Developer experience
- Review of formation documents
- Project status
- Litigation
- The financing plan (public and private)
- The market
- Third-party revenue projections

Bond Creditworthiness

- Diversity of tax base
- Debt service coverage (to cover loss of top generator, tax decline, etc.)
- History of revenues
- Capitalized interest, if needed
- Debt Service Reserve Fund
- Additional Bonds Test

Bond Sale Method

- Private Placement
- Institutional-Only (Limited Public Offering)
- Retail and institutional

Infrastructure

- Public utilities: installation/relocation
- Water/sewer
- Roads/bridges
- Traffic signals/lighting
- R.O.W. acquisition
- Pedways, sidewalks, trails

Site Preparation

- Clearing
- Grading
- Hazardous waste removal/clean-up
- Re-routing of waterways

Construction of Facilities/Amenities (varies by state)

- Police/fire stations
- Other public buildings
- Park/rec facilities
- K-12 facilities
- Parking lots/garages
- Rehab of existing buildings
- Façade improvements
- Streetscape

Taxable or Tax-Exempt?



Tax Increment Finance: Finance Basics

- Viable Projects
- Underwriting Standards
- Distribution

TIF is one finance tool among many, including:

- Assessment Districts
- Brownfields Programs
- Business Improvement Districts (and other special districts)
- CDBG
- State and Local Economic Development Programs
- Economic Development Administration
- Empowerment Zones
- Foreign Trade Zones
- HUD 108
- Local Revenues
- New Markets Tax Credits
- State Level Infrastructure Programs (Various)
- Tax Abatement
- Tax Credits (Economic Development, Training, Historic – Federal and State)
- Transportation Departments (Federal and State)
- USDA Programs (Various)
- US EPA Programs (Various)

Don't Forget: www.cdfa.net "Research and Resources"