Council of Development Finance Agencies

Understanding Your TIF Statute

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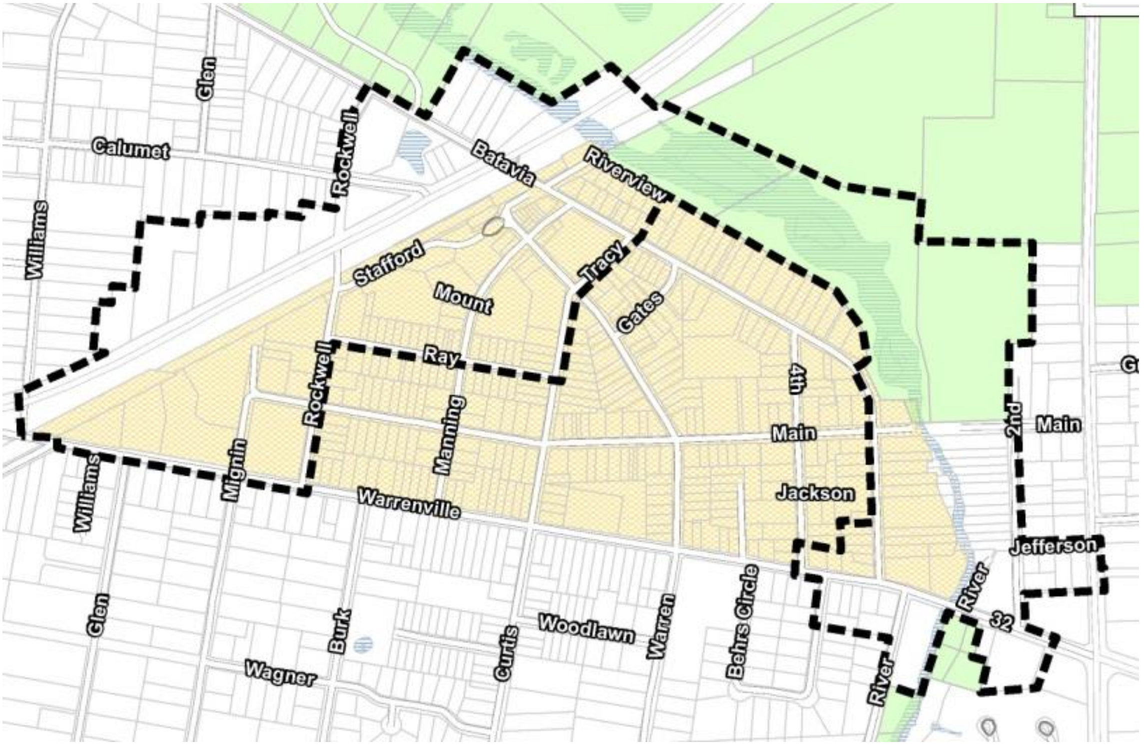
What is TIF?

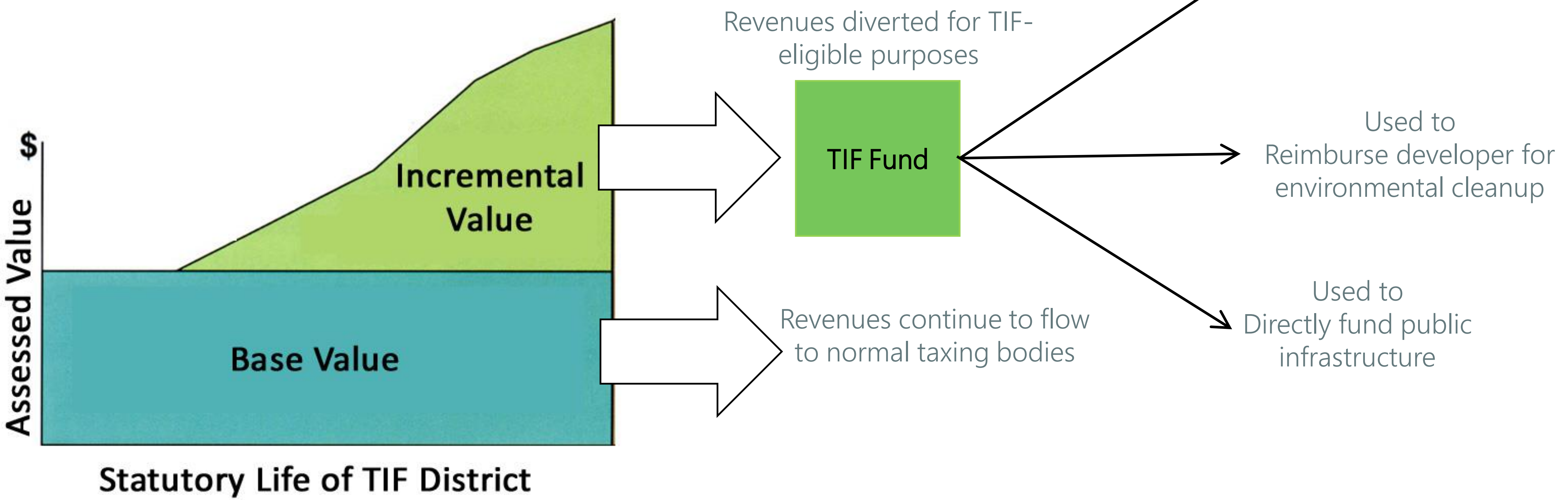
- Area-based, local government-controlled, public/private finance tool
- Authorized by state statutes in 49 states and the District of Columbia
- Captures incremental tax revenues in a defined geographic area for reinvestment in that area
- Flexible, powerful tool to foster high quality development and redevelopment



Sample TIF District Boundary

Basic Structure of TIF

- Most commonly applied to property taxes on real estate
- Some states allow other types of incremental revenues as well



Usually 20+ years depending on state statute/other factors

Key Components of TIF Statutes

- Public purpose of TIF
- Required findings and procedures for designating/amending a TIF district
- Procedures for calculating and capturing the incremental revenues
- Eligible uses of TIF funds
- Available financing structures
- District length and termination conditions
- Relationship between TIF creating agency and other taxing bodies
- Administrative structure/procedures for TIF

Public Purpose of TIF

- Illinois: Initially authorized in 1974; Strong emphasis on eliminating blight and the threat of blight, while fostering private investment.
  - Sample excerpt: "…the decline of these areas impairs the value of private investments and threatens the sound growth and the tax base of taxing districts in such areas, and threatens the health, safety, morals, and welfare of the public"
- Florida: Initially authorized in 1969; purposes include:
  - Blight elimination and slum clearance
  - Revamping of coastal tourist and resort areas
  - Preserving and enhancing tax base
  - Addressing shortages of affordable housing

Public Purpose of TIF, cont.

- Kentucky: Initially authorized in 2000; Essentially concludes that investments that drive increases in property values and/or jobs serve a desirable public purpose.
- Texas: Initially authorized in 1987; Focus is on areas that would not be likely to develop on their own without intervention.
- New Mexico: Initially authorized in 2006: "The purpose…is to create a mechanism…for the purpose of supporting economic development and job creation."

TIF District Designation

- Blight finding is a common component for TIF creation in many states
- Blight finding can be controversial and subject to scrutiny from project opponents and general public
- Example: 3 major paths to designation of a TIF in Illinois:
  - Blighted Area- Improved: Needs 5+ eligibility factors to be present to a meaningful extent and reasonably distributed throughout the proposed TIF area. For example: deterioration of structures, excessive vacancies, obsolescence of structures, etc.
  - Conservation Area- Improved: More than 50% of structures are more than 35 years old, and 3+ eligibility actors are present.
  - Blighted Area- Vacant: 2+ eligibility factors are present. For examples: obsolete platting, overly fragmented ownership of vacant parcels, lack of growth in equalized assessed value, etc.

Sample Eligibility Factors/Constraints – Quantitative

- Real Estate
  - Minimum land area
  - Maximum vacant land as % of total area
  - Maximum % of total municipal assessed value
  - Building age(s)
  - % of the area must be found to be blighted/in need of conservation
  - Time since annexation
  - Tax delinquency
  - Defective title
  - Historic property value growth
- Labor Force/Demographics
  - Unemployment rate
  - Income levels

Sample Eligibility Factors/Constraints – Qualitative

- Deterioration
  - Buildings
  - Site improvements (public and/or private)
- Defective or inadequate street layout
- Faulty lot layout
- Inadequate light, air or open space
- Obsolescence
- Lack of community planning
- Environmental contamination
- Excessive, persistent vacancy
- Endanger public health, safety, welfare- constitutes an economic or social liability

Other Commonly Required Findings

- Lack of Growth (backward-looking)
- "But for" (forward-looking)
- Consistency with Other Policy or Regulations
  - Plans
  - Zoning
- Potential Fiscal Impacts

Other Plan Components and Procedures

- Plan
  - Goals and Objectives/Proposed Projects
  - Land Acquisition Plan
  - Budget
  - Financial Plan or Feasibility Study
  - Estimated Base Value
  - Parcel List
  - Legal Description

- Procedures
  - Mailings
  - Public Notices
  - Hearings

What Revenues can TIF Capture?

- Taxes on Real Property
- Taxes on Personal Property
- Sales tax
- Hotel/restaurant taxes
- Local Occupational Taxes (Payroll and Business License Taxes)
- State sales and income taxes (typically via state-regulated overlay processes)

What Costs Can TIF Pay For?

Core categories most commonly allowable:

- Public infrastructure/facilities
- Site assembly, prep, cleanup (Public or Private)
- Public planning, admin, and other "soft costs" for TIF administration
- Interest and issuance costs on financings that monetize TIF revenues

Other categories sometimes allowable:

- Private buildings (rehab more commonly than new construction)
- Affordable housing construction
- Other activities (e.g. job training, relocation costs)
- Transportation improvements (stations, right of way, etc.)

TIF Capacity Testing

Projected TIF Revenue Stream

			Projected Value Increases Due to Redevelopment and Inflation					TIF Revenues		
			New Value Due To Redevelopment							
TIF Year	Assmt Year	Frozen Base Value of TIF	Projected Value: Planned Project #1	Projected Value: Planned Project #2	Projected Value: Planned Project #3	Value of All Other Parcels (Inflationary Growth)	**Total Value of TIF District Properties**	Incremental Value	Tax Rate [1]	**Collections (95% collection rate, 1 year lag)**
1	2013	*$ 43,110,400*	$ -	$ -	$ -	$ 43,110,400	$ 43,110,400	$ -	*2.45%*	
2	2014	$ 43,110,400	$ -	$ -	$ -	$ 43,972,608	$ 43,972,608	$ 862,208	*2.38%*	$ -
3	2015	$ 43,110,400	$ 322,700	$ 2,295,700	$ -	$ 44,852,060	$ 47,470,460	$ 4,360,060	*2.31%*	$ 19,495
4	2016	$ 43,110,400	$ 3,826,600	$ 1,283,700	$ -	$ 45,749,101	$ 50,859,401	$ 7,749,001	*2.40%*	$ 95,806
5	2017	$ 43,110,400	$ 7,635,291	$ 1,333,600	$ 464,800	$ 46,664,083	$ 56,097,774	$ 12,987,374	*2.51%*	$ 176,898
6	2018	$ 43,110,400	$ 16,850,412	$ 3,033,728	$ 480,556	$ 47,597,365	$ 67,962,061	$ 24,851,661	2.46%	$ 309,067
7	2019	$ 43,110,400	$ 17,187,420	$ 12,523,023	$ 496,627	$ 48,549,312	$ 78,756,383	$ 35,645,983	2.42%	$ 581,827
8	2020	$ 43,110,400	$ 17,531,169	$ 12,773,483	$ 24,498,788	$ 49,520,299	$ 104,323,738	$ 61,213,338	2.39%	$ 821,023
9	2021	$ 43,110,400	$ 17,881,792	$ 13,028,953	$ 36,844,633	$ 50,510,705	$ 118,266,083	$ 75,155,683	2.35%	$ 1,387,068
10	2022	$ 43,110,400	$ 18,239,428	$ 13,289,532	$ 42,279,010	$ 51,520,919	$ 125,328,889	$ 82,218,489	2.31%	$ 1,675,407
11	2023	$ 43,110,400	$ 18,604,216	$ 13,555,323	$ 44,350,800	$ 52,551,337	$ 129,061,676	$ 85,951,276	2.27%	$ 1,803,163
12	2024	$ 43,110,400	$ 18,976,301	$ 13,826,429	$ 45,244,276	$ 53,602,364	$ 131,649,370	$ 88,538,970	2.23%	$ 1,854,490
13	2025	$ 43,110,400	$ 19,355,827	$ 14,102,958	$ 46,155,622	$ 54,674,411	$ 134,288,817	$ 91,178,417	2.20%	$ 1,879,375
14	2026	$ 43,110,400	$ 19,742,943	$ 14,385,017	$ 47,085,194	$ 55,767,899	$ 136,981,054	$ 93,870,654	2.16%	$ 1,904,048
15	2027	$ 43,110,400	$ 20,137,802	$ 14,672,717	$ 48,033,358	$ 56,883,257	$ 139,727,135	$ 96,616,735	2.13%	$ 1,928,513
16	2028	$ 43,110,400	$ 20,540,558	$ 14,966,172	$ 49,000,485	$ 58,020,922	$ 142,528,137	$ 99,417,737	2.09%	$ 1,952,774
17	2029	$ 43,110,400	$ 20,951,369	$ 15,265,495	$ 49,986,955	$ 59,181,341	$ 145,385,160	$ 102,274,760	2.06%	$ 1,976,834
18	2030	$ 43,110,400	$ 21,370,397	$ 15,570,805	$ 50,993,154	$ 60,364,968	$ 148,299,323	$ 105,188,923	2.03%	$ 2,000,698
19	2031	$ 43,110,400	$ 21,797,805	$ 15,882,221	$ 52,019,477	$ 61,572,267	$ 151,271,770	$ 108,161,370	2.00%	$ 2,024,370
20	2032	$ 43,110,400	$ 22,233,761	$ 16,199,866	$ 53,066,326	$ 62,803,712	$ 154,303,665	$ 111,193,265	2.00%	$ 2,055,066
21	2033	$ 43,110,400	$ 22,678,436	$ 16,523,863	$ 54,134,113	$ 64,059,787	$ 157,396,198	$ 114,285,798	2.00%	$ 2,112,672
22	2034	$ 43,110,400	$ 23,132,005	$ 16,854,340	$ 55,223,255	$ 65,340,982	$ 160,550,582	$ 117,440,182	2.00%	$ 2,171,430
23	2035	$ 43,110,400	$ 23,594,645	$ 17,191,427	$ 56,334,180	$ 66,647,802	$ 163,768,054	$ 120,657,654	2.00%	$ 2,231,363
24	2036	$ 43,110,400	$ 24,066,538	$ 17,535,255	$ 57,467,324	$ 67,980,758	$ 167,049,875	$ 123,939,475	2.00%	$ 2,292,495
25	2037	$ 43,110,400	$ 24,547,868	$ 17,885,961	$ 58,626,085	$ 69,340,373	$ 170,400,287	$ 127,289,887	2.00%	$ 2,354,850

Total Revenues, 2010 - 2034 (Not Discounted)		**$ 35,608,734**
Present Value in 2013 Dollars Discounted at [2]	8%	$ 11,372,956
TIF Capacity (Low): 2013 Present Value with Debt	**1.30**	**$ 8,748,428**
Present Value in 2014 Dollars Discounted at [2]	5%	$ 17,780,071
TIF Capacity (High): 2013 Present Value with Debt Coverage Allowance of	**1.20**	**$ 14,816,726**

Proposed TIF Cost Budget

Cost	Time Frame	Projected Cost
Streetscaping	2014-2016	$ 1,450,000
2-Way Street Conversion	2015	$ 2,500,000
Sewer Capacity Upgrades	2015-2017	$ 3,000,000
Land Acquisition	2014	$ 2,000,000
Site Preparation	2015	$ 750,000
Demolition	2015	$ 750,000
Building Rehab	2018-2023	$ 1,100,000
Costs of Professional Services	2014-2023	$ 500,000
Contingency 15%		$ 1,807,500
Total		**$ 13,857,500**

[1] Tax Rate projected based on historical trends and current real estate market climate

[2] Discount Rate approximates the anticipated average cost of funds (interest rate) on TIF-funded borrowings

Simplified Example:
TIF Capacity Testing and Budget

CDFA Advanced TIF Guide

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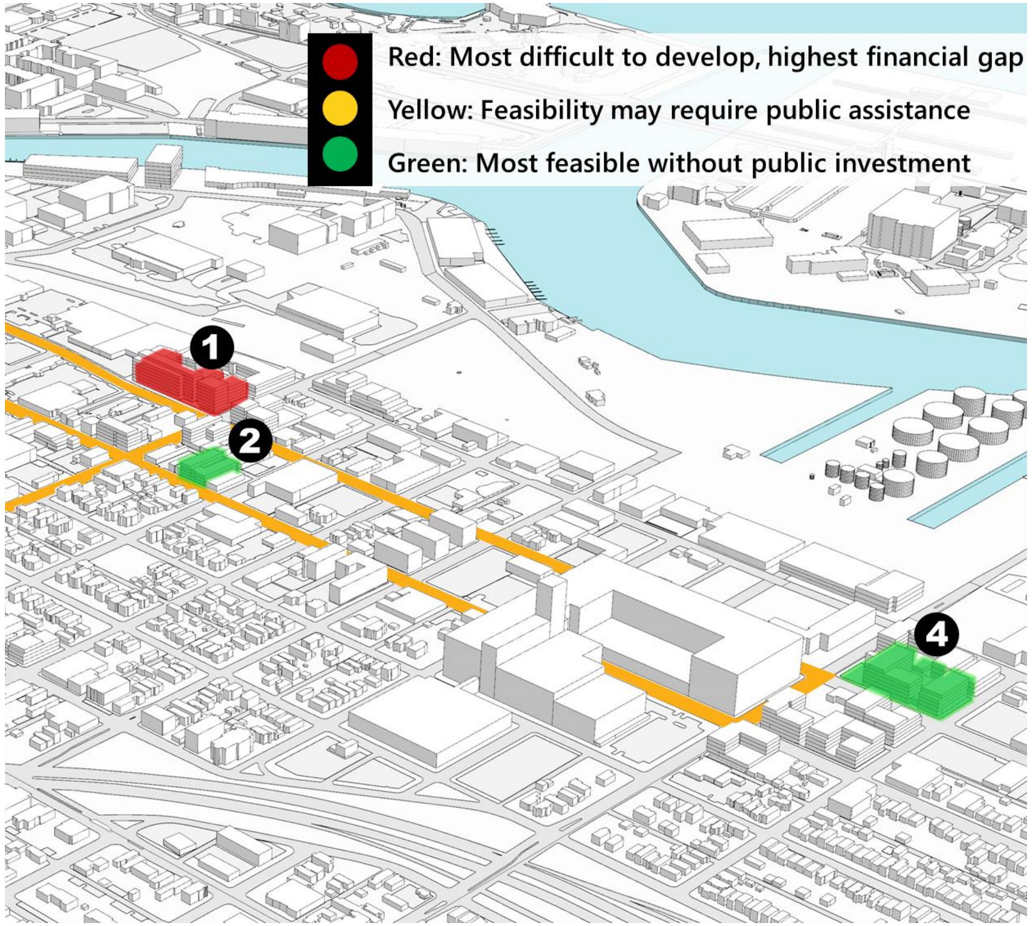
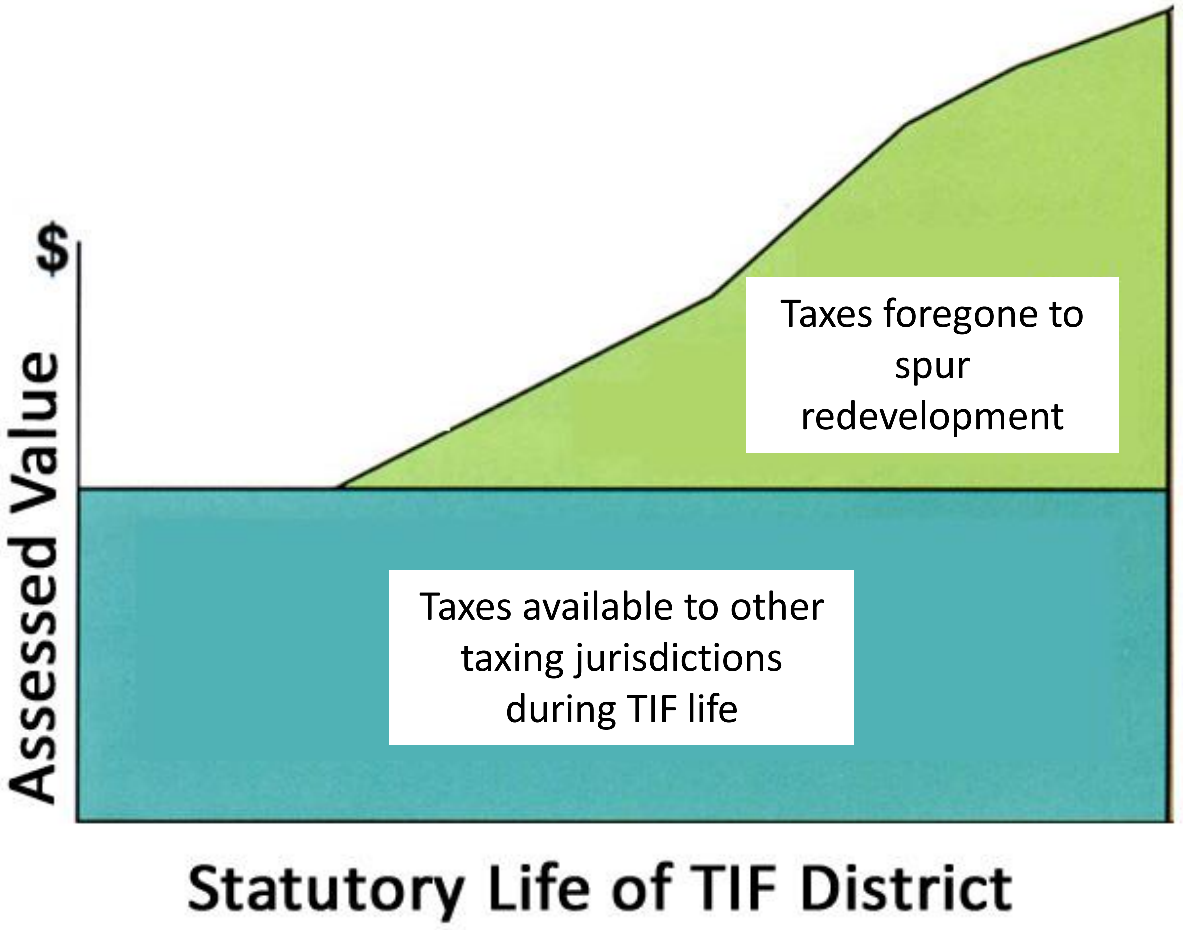
"But For…"

- Concept is explicitly or implicitly present in many TIF statutes
- Generally a finding is needed at the time of district creation
- Best practice: also evaluate on a project-by-project basis after the TIF is created
- Guards against over-subsidizing projects
- Demonstrates that TIF is being used judiciously
- Reduces the appearance of arbitrariness



TIF From the Perspective of Other Taxing Bodies



After TIF Expiration:
All tax base released to normal taxing jurisdictions

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TIF Law and Other Taxing Jurisdictions

- Requirement to engage with affected taxing bodies prior to designation varies depending on state law
  - Some can opt out
  - Some can heighten municipal vote required for adoption
  - Some serve a solely advisory function
  - It is common practice to reach out when considering TIF, regardless of legal requirements
- Negotiation of an interlocal agreement may be needed as part of the TIF adoption process
- Accountability and transparency are key when using TIF

TIF Administration and Governance

- Often administered directly by the municipality who created the TIF, with ongoing public reporting to the other taxing jurisdictions
- Some TIF statutes automatically include an administrative body
  - Example: in Florida, adoption of TIF is inherently linked to creation of a Community Redevelopment Agency
  - In Texas, the TIF creation process includes designation of a 5 to 15 member TIF Board that includes representation from all affected taxing jurisdictions

In Closing...

- Understand and follow the intent of the statute!
- Thoughtful, transparent TIF policy is always a good idea, regardless of the specifics of state law
- Consult CDFA's extensive resources on TIF statutes and case studies at:

https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/tif.html

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