

Tax Increment Finance Policy & Practices that Encourage Smart Growth

The Tax Toolbox: Financing Mechanisms for Encouraging Smart Growth

New Partners for Smart Growth

February 8, 2007

Los Angeles, CA



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About CDFA

- National non-profit dedicated to the advancement of the development finance industry
- Founded in 1982 to represent the interests of the industrial development bond industry
- Over last 20 years, expanded our reach to include multiple areas of development finance
- 200 member organizations and growing
- Quality events and acclaimed research



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Legislative Affairs

- The voice of the development finance industry on Capitol Hill
- Proven track record of passing effective and timely legislation
- May 2006: CDFA succeeds in accelerating an increase in the capital expenditure limit on small issue Industrial Development Bonds (IDBs)
- Connected and respected throughout Washington, DC



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Tax Increment Finance Coalition (TIFC)

- National leader in TIF use, application and regulations
- TIF Resource Library: searchable clearinghouse of information on TIFs
- Overwhelming response from development finance industry: states, municipalities, developers, service providers
- Tax Increment Financing Course: November 1-2, Washington, DC



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Talking TIF

- First created in 1952 in California to act as a catalyst for redevelopment areas
- Quickly spread across the country – 49 states and District of Columbia have enabling legislation (Which state does not?)
- Referred to by a variety of names:
 - TIF - Tax increment financing (most states)
 - TAD - Tax allocation district financing (Georgia)
 - RAD - Revenue allocation district financing (New Jersey)
 - TIRZ - Tax increment reinvestment zones (Texas)



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What is TIF?

- Special authority provided to a local governmental jurisdiction which allows them to allocate specific tax revenues towards the redevelopment, development or renovation of the built environment
- A mechanism used to capture the future tax benefits of real estate improvements to pay the present cost of those improvements



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What is TIF?

- TIF can be used to channel new taxes toward improvements in distressed or underdeveloped areas where development would not otherwise occur.
- TIF uses the increased property or sales taxes that new development generates to finance costs related to development.
 - Public infrastructure, land acquisition, relocation, demolition, utilities, debt service and planning costs



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What else can TIF be use for?

- Sewer expansion and repair
- Storm drainage
- Street construction & expansion
- Water supply
- Park improvements
- Bridge construction & repair
- Curb & sidewalk work
- Environmental remediation
- Traffic control
- Street lighting
- Landscaping
- Property acquisition
- Building acquisition
- Demolition & clearance work
- Parking structures



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Who Controls TIF?

- States authorize enabling legislation
- Local government jurisdictions (city or county) designate districts or project areas
- Development agencies or non-profits implement programs
- Private developers, real estate and financial institutions partner with development agencies



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Two Types of TIF

- Project Based – single project on one or more pieces of land that uses TIF designation only for that project
- District Based – large area of land (district) is targeted and identified for redevelopment. Projects that develop within the district may be eligible to use TIF as source of financing



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Simple Project Based Example

- Existing property generates \$1,000 a year in real estate taxes
- Government designates the property as a "TIF" district
- Tax base is frozen at \$1,000 level
- New project is proposed for site and will in effect raise overall tax base generated to \$1,500 a year once completed
- Developer agrees to make significant investment and seeks TIF funds from govt. for eligible improvements



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Simple Project Based Example cont.

- Government conducts “but if not for” test and agrees to TIF deal and issues tax-exempt bonds to finance proposed improvements
- Bonds are sold generating cash for project construction
- Once project is complete, new assessment is completed on property (\$1,500 in taxes a year as indicated before)
- Frozen base (\$1,000) continues to flow to pre-existing government coffers (city, county, schools, states, etc.)
- Increment (additional \$500) goes towards debt service on the bonds that were issued for the project



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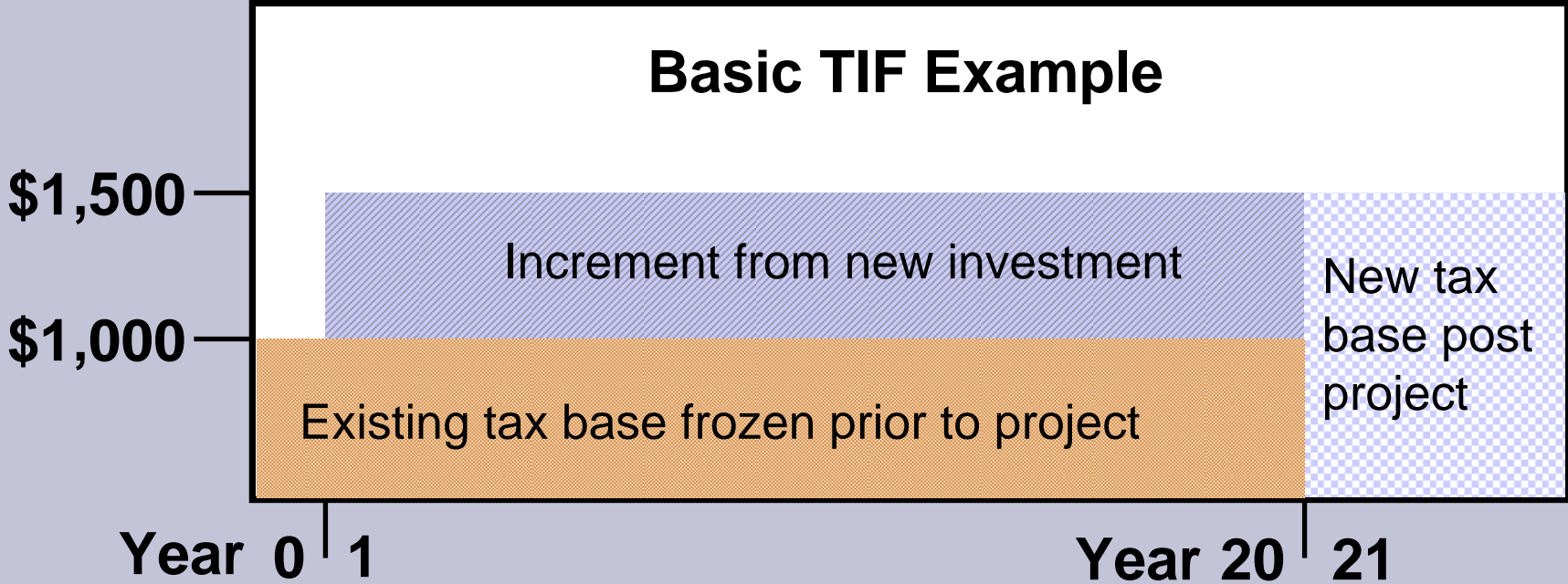
Simple Project Based Example cont.

- Increment is used to pay back bonds over time, anywhere from 10-30 years
- Once bonds are paid off, the property taxes are “unfrozen” and the full tax base generated goes to existing government coffers (city, county, schools, state, etc.)
- **THE KEY** - No new taxes are requested and no existing taxes are used in the financing of the project



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In Other Words...



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Why TIF for Smart Growth?

- TIF was designed to help distressed and blighted areas of the community
- The original intent of TIF was to provide an adequate tool for the reuse and redevelopment of the nation's urban center
- Like many economic development tools, there have been abuses in the TIF industry (urban and suburban TIFs that contribute to sprawl)
- TIF has been used properly in most cases and the redevelopment spirit of TIF is very much alive in most states and communities



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TIF for Urban Smart Growth

- Used effectively, many urban cities are benefiting from the implementation of TIF to revitalize urban centers and encourage investment in blighted areas
 - Drive city-supported investment towards the reuse of existing infrastructure
 - Focus on large-scale projects that encourage transit oriented development and draw people into the urban core
 - Reduce pollution and urban decay by supporting green development and brownfield redevelopment using TIF



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TIF for Suburban Smart Growth

- TIF can be an effective tool for suburban communities that are struggling to curb land consumption but want to remain attractive to business and residents
- Suburbs
 - Invest in what they already have by developing newer, more livable downtowns and multiuse destinations (one stop shopping, getting the most out of the local highway interchange)
 - Target transit oriented developments that link people to places without using cars; also decrease commuter levels
 - Focus TIF on areas of decline rather than building new facilities that simply ignore existing deterioration issues



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TIF for Rural Smart Growth

- How can rural communities benefit from TIF without creating sprawl?
 - Encourage TIF programs that reinvigorate the small town charm and true downtown (façade and streetscape programs)
 - Focus on improving old housing and make it affordable through TIF revenues
 - Turn existing, abandoned industrial sites into useable space – think outside the box



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TIF in Practice

Thousands of examples of TIF being used across the country

Examples

- **Grand Center, St. Louis** – District wide TIF will cover all of Grand Center and outlying areas around the district. TIF dollars will go towards street lighting, and the rehab of Grand Center. Acquisition of several buildings, including: The Woolworth Building and Olive Club Riviera which will be used for the "Grand West Housing" implementation. Renovation of the Medinah Temple as a Mid-Sized Arts Educational and Performance Center.



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TIF in Practice

- **Stapleton, Denver** – Major urban renewal project to turn an old airport into major mixed-use development. Conceived from the start as a sustainable community, Stapleton embraces the ideal of city life: an urban tapestry of diverse and distinctive homes, walkable, tree-lined streets, neighborhood stores, nearby offices, schools and parks everywhere. Technology and public transit connecting residents and workers to downtown and airport. When complete, Stapleton's 4,700 acres will set a new standard for the rebirth of urban America: a new generation of neighborhoods where 30,000 residents and 35,000 workers can call home.



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TIF in Practice

- **Model Block Program, Gainesville** – Uses TIF funds and historic preservation tax credits to restore historic houses to compliment new construction and infill. The goal is to balance new development and gentrification to create a stable environment for existing and new residents.
- **Transformational Projects Incentive Program, Gainesville** – Program that encourages major development in CRA areas. Idea that large urban developments can literally transform these areas into productive pieces of the community. Eligible projects can receive 90% of the tax increment to cover costs over a 30-year period.



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TIF in Practice

- **Creekside, Gahanna, Ohio** – Project focused on revitalizing the suburban downtown by creating a destination point for residents and businesses and on reuse of existing infrastructure and natural resources. Resulted in multi-million dollar project that has enhanced the suburban community, built a true downtown, reinvigorated a blighted area and did not develop a single new project outside of the suburban center.



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TIF Policy & Practice

- The use of TIF ultimately comes down to sound policy and practice at the state and local levels
- States can alter TIF policy through legislative improvements
 - Combining TIF with urban investment programs is a non-aggressive policy consideration
 - Reducing TIF allowances or percentages for certain types of development: less TIF available to new greenfield development, more available for urban redevelopment projects
 - Considering projects where the major focus is transit-oriented; build communities that rely less on auto commuting and more on mass transit



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TIF Policy & Practice cont.

- Locals can alter TIF use through guidelines and use requirements
 - Create strong job creation, housing creation or investment commitment criteria
 - Encourage urban infill, no new surface parking lots and alternatives to addressing congestion issues (parking garages)
 - Provide education to the urban development community, city leaders, financial institutions that government sponsored financing is available for sound urban redevelopment



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TIF Policy & Practice cont.

- “But if not for” ...What does this mean?
- The “but if not for” test is a public policy test for measuring the appropriate need for TIF financing.
- Major part of the community buy-in process
- TIF authorizing agencies should be conducting this test for each project, however, some do not.



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TIF Policy & Practice cont.

- Why is this test important?
 - Provides a rational and justification for approving TIF funding
 - Eliminates the argument that the funding is “corporate welfare”
 - Sets the appropriate amount of TIF funding for the project
 - The project may not require 100% of the TIF funds for debt service and this test will help establish the necessary financing.
 - Allows communities to set public policy goals, program guidelines and establish community buy-in throughout the entire process



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Final Thoughts

- TIF can be a major source of support and justification for smart growth public policy initiatives
- Spirit of TIF is alive and well across the country – many economic developers understand the power of this tool for revitalization of existing infrastructure



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CDFA Research & Resources

- *CDFA Update* monthly e-newsletter
- Online Resource Database
- Online Resource Libraries:
 - Bond Finance
 - Tax Credit Finance
 - Tax Increment Finance



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CDFA Events

- Annual Development Finance Summit – May 22-24, Miami, Florida
- Four training courses:
 - Advanced Bond Finance Course
 - Industry Primer: Development Bond Finance Course
 - Tax Credit Finance Course
 - Tax Increment Finance Course



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