Tax Increment Financing (TIFs)

Financial Services Department

June 25, 2013 – Council Work Session

Agenda

- Tax Increment Financing (TIF) "101"
  - Explanation, History, Legislation
- Austin's TIF Experience
- TIFs and the Tax Rate
- TIF Best Practices, Transparency, Evaluation Criteria
- Recommendations

Economic Development

Many tools available to promote economic development:

- Chapter 380 Agreements
- Tax Increment Financing (TIFs)
- Public Improvement Districts (PIDs)
- Municipal Management Districts (MMDs)
- Municipal Hotel Occupancy Taxes (e.g., Convention Center, Cultural Arts)
- Venue Projects (e.g., Butler Park)
- Tax supported debt
- Density Bonus

This presentation focuses on Tax Increment Financing (TIFs).

Tax Increment Financing (TIF)

- Popular financing tool to encourage economic development within a **defined geographic area or zone**
  - Various Texas Code sections allow reinvestment zones
  - **TIRZ** (Tax Increment Reinvestment Zone) - Texas Tax Code
  - **TIZ** (Transportation Infrastructure Zone) - Texas Transportation Code
- Purpose - set aside property tax revenues due to assessed valuation growth in zone to use for specific purposes in zone
  - Usually public investments that stimulate economic development
- In Texas, a city or county may designate a reinvestment zone

Tax Increment Financing (TIF)

- Value Capture or Increment
  - Future real property tax revenue from zone assessed value growth <u>in excess of</u> zone base assessed value "frozen" at creation

- Use some or all increment to promote new private development in zone, typically by investing in public infrastructure

- When zone's term ends, <u>all</u> real property tax revenue (base plus increment) <u>returns to local government</u> for its general purposes

Captured Assessed Value x Current Tax Rate x Capture Percent
Determines
Increment Revenue deposited in TIF Fund

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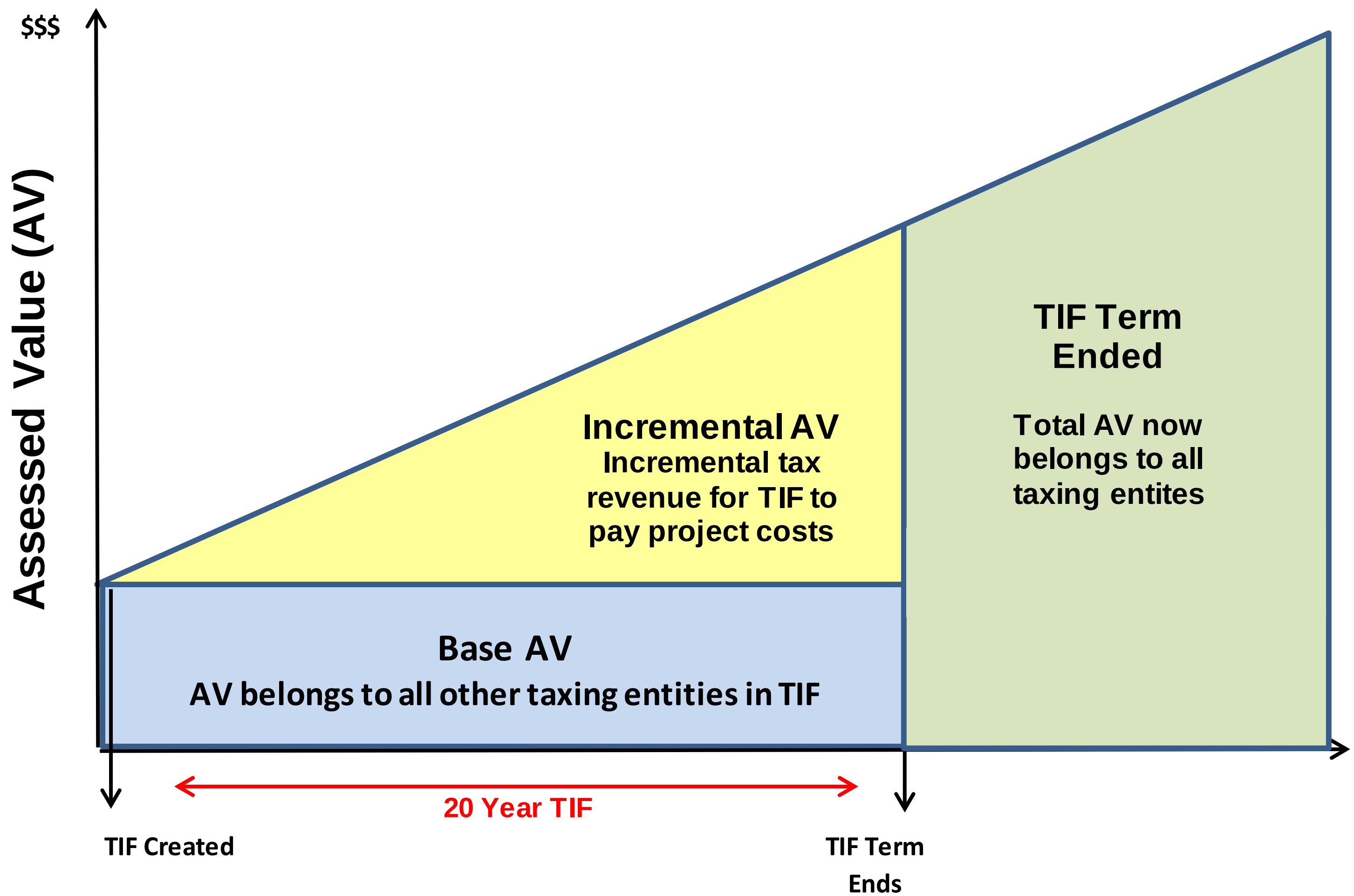
Tax Increment



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Types of TIFs

- "Pay as You Use"
  - Set aside tax increment revenue to pay debt service or up-front to kick start capital projects or for development costs
    - TIF authority issues bonds to finance public infrastructure
    - Developer finances project, then city reimburses (shifts debt risk to developer)
- "Pay as You Go"
  - Set aside tax increment revenue for use when sufficient balance accumulates or until a time driven target is met
  - Can be a slow process depending upon zone development

History of TIF Use

- First used in California in 1952
- After Federal spending cuts in 1970s, TIF use expanded
- By late 1980s, all states except Arizona enacted TIF legislation
  - Initially urban renewal targeted at central city blighted areas
  - Shifted to more general public investment and infrastructure financing to encourage economic development
- California and Illinois use TIFs more than other states

TIF use primarily focused on infrastructure investment.

Texas Enabling Legislation

TAX CODE - TITLE 3. LOCAL TAXATION - SUBTITLE B. SPECIAL PROPERTY TAX PROVISIONS - CHAPTER 311. TAX INCREMENT FINANCING ACT. (Originally adopted 1981; amended 2005.)

- TIF (Tax Increment Financing)
  - Tool for financing public improvements in blighted or underdeveloped areas identified as <u>reinvestment zones</u>
- TIRZ (Tax Increment Reinvestment Zone)
  - No more than 15% of tax base may be in zone
  - City or County authorized to designate
  - Request by landowners' petition (represent at least 50% of proposed TIRZ appraised value)
- Process for zone creation includes public participation
- Requires TIRZ project plan <u>and</u> financing plan
- Authority to pledge tax increment fund as security for bonds
- Powers and duties of TIRZ Board of Directors

TIF/TIRZ - Other Provisions

- Reinvestment zone may <u>not</u> be created if
  - More than 10% of zone total assessed value (AV) is residential, excluding publicly owned property
  - Contains more than 15% of total AV of real property taxable by a city, county or independent school district
- Tax Increment Bonds
  - Cities may issue; Counties may <u>not</u> issue, but TIF participation ok
  - Payable solely from zone's tax increment revenue
  - Normally have debt service coverage requirements
  - Sell at a higher interest rate than city's general obligation debt
- Annual reports by city to other government agencies
  - Each taxing entity that levies property tax in zone
  - State Comptroller

Transportation Infrastructure Zone (TIZ)

Texas Transportation Code - Title 5. Railroads - Subtitle I. Special Districts - Chapter 173. Inter-municipal Commuter Rail Districts - Sec. 173.256. FINANCING OF CERTAIN TRANSPORTATION INFRASTRUCTURE.

- Applies only to local governments (excludes school districts) <u>with</u> district membership <u>and</u> authorization to impose ad valorem taxes on real property
- District may enter interlocal agreement with local government member(s) for financing transportation infrastructure
  - Agreement may establish one or more TIZs
  - TIZ statute does not include public process for creating zone
- TIZ funding used by district for:
  - Local match for right-of-way acquisition in local government's territory <u>or</u>
  - Design, construction, operation, or maintenance of transportation facilities in local government's territory
- TIZ funding may not exceed 30% of captured assessed value

TIFs for Transit

- Use of TIF for transit is growing, but <u>not</u> common
- Identified four states using TIFs to add local funding for transit
  - Illinois, Pennsylvania, Oregon, Georgia
  - TIF used to add local funding as other sources were limited
    - Illinois and Pennsylvania - impact fees for road improvements only
    - Oregon and Georgia - no impact fees for transit
    - Beltline Project (Atlanta, Georgia) – Wide-ranging redevelopment re-using 22-miles of historic railroad corridors circling downtown and connecting 45 neighborhoods
- Identified no TIFs for transit operating & maintenance
- Austin's urban rail financial analysis explored TIF to fund capital needs – will need to update again for next year

City of Austin TIF Policy

- Financial Policy approved in FY 1996
- TIF zones established where revenues will recover public cost of debt with adequate safety margin
- <u>No more than 5% of City's tax base will be in TIF zones</u>
  - To preserve City's tax base and General Fund revenue sources
  - Currently, 1% of assessed valuation in existing TIF zones
- Remainder of policy addresses Capital & Debt Management
  - Covers TIFs and Public Improvement Districts (PIDs)
  - All projects carefully evaluated for credit worthiness
  - Debt service coverage requirement and additional bonds test
  - Use PID/TIF bonds only after considering other options

City of Austin TIFs

	Mueller (TIF #16)	Waller Creek (TIF #17)	Seaholm (TIF #18)
	Redevelop 700 acres of former Airport site	*Construct flood-control tunnel allowing for redevelopment of 28 acres*	*Preserve and redevelop Power Plant historic building and adjacent sites*
Base Year	2004	2007	2008
TIF Duration	Through 2032	Through 2038	Through 2042
Base Assessed Value (AV)	$0	$236.2 million	$0
Current AV (Tax Yr 2012)	$452.2 million	$458.4 million	$0
Projected AV at End of TIF	$1.2 billion	$3.0 billion	$407 million
COA Capture %	100%	100%	100%
Other Entity Participation	n/a	Travis County @ 50%	n/a
Other Participation	Yes / Developer	Yes / Conservancy	Yes / Developer
Estimated Project Cost to be covered by TIF Debt	$50 million	$106 million	$20 million
O&M to be covered by TIF	No	No	No

- TIF #15 provides $100,000 annually for maintenance of Block 2 & 4 per contractual agreement with CSC (Base Year 2000)
- In compliance with City's Financial Policy – currently, 1% of AV in TIF zones
- All TIFs were initiated by the City

Establishing TIFs – Austin's Experience

Mueller TIF #16

- *1996 – 2002*: RMMA Planning & Procurement
- *2002 – 2004:* Selection and execution of MDA
- ***December 2004:*** **TIF #16 & MLGC created**
- *September 2005:* TIF #16 & MLGC board appointed
- *August 2006*: 1st round of TIF bonds issued
- *July 2009*: Final Project Financing Plan in place

- Stakeholder Engagement
- Master Planning
- Zoning

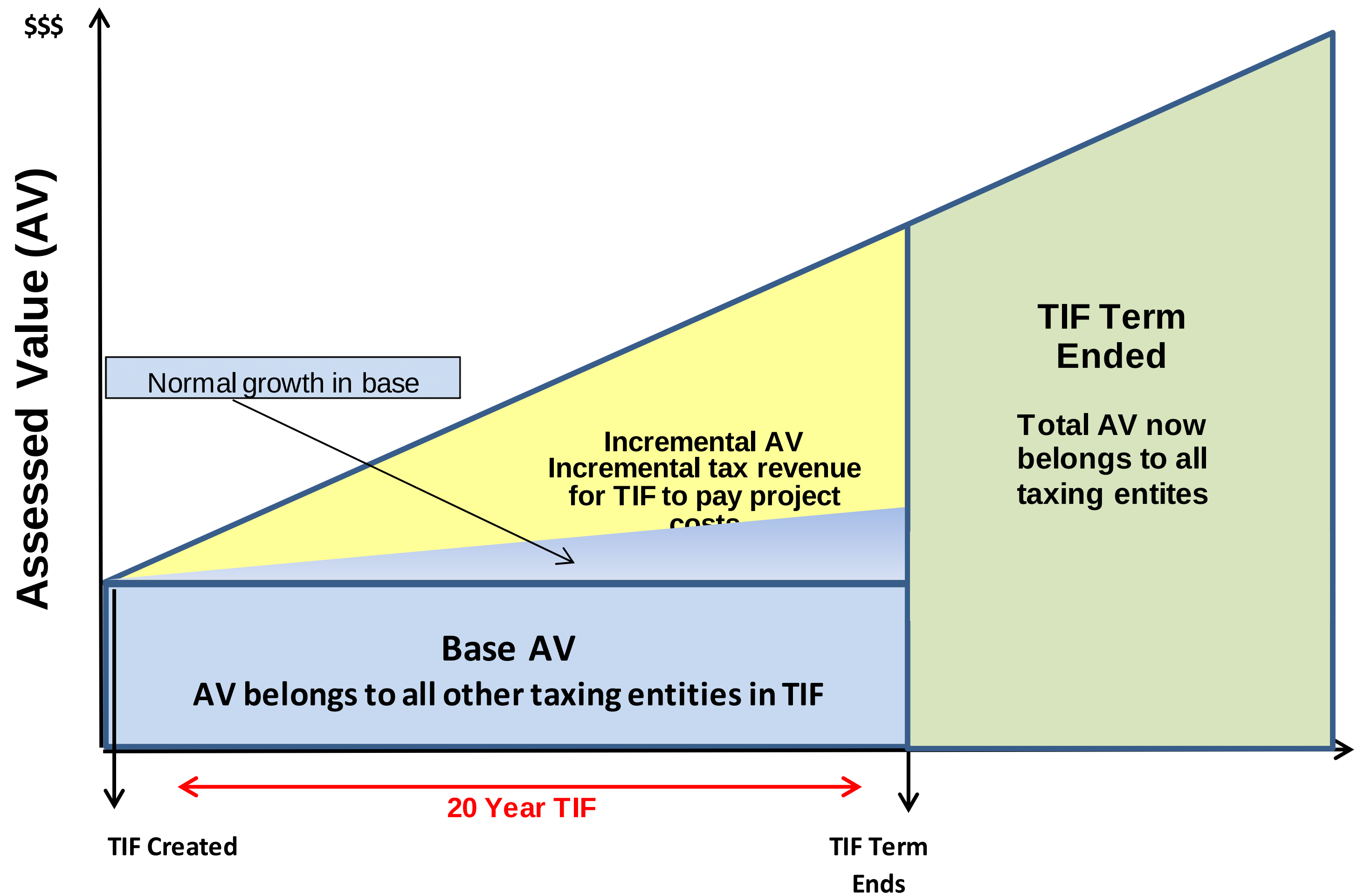
RMMA = Robert Mueller Municipal Airport
MLGC = Mueller Local Government Corporation
MDA = Master Development Agreement
TIF = Tax Increment Financing Zone

TIF “But For” Test

- ***But For*** the TIF subsidy, economic development would not occur at proposed level solely from private investment in the reasonably foreseeable future
- Important safeguard for protecting local revenue sources
- Essential for property values to rise more than typical market driven growth
- Considerations
  - Forecast level and timing of private development does not occur as expected
  - Private developer’s financial capacity may weaken causing failure to produce projected development activity
  - Decline in assessed value – no increment

Tax Increment

TIF Assessed Value (AV) Over Project Life



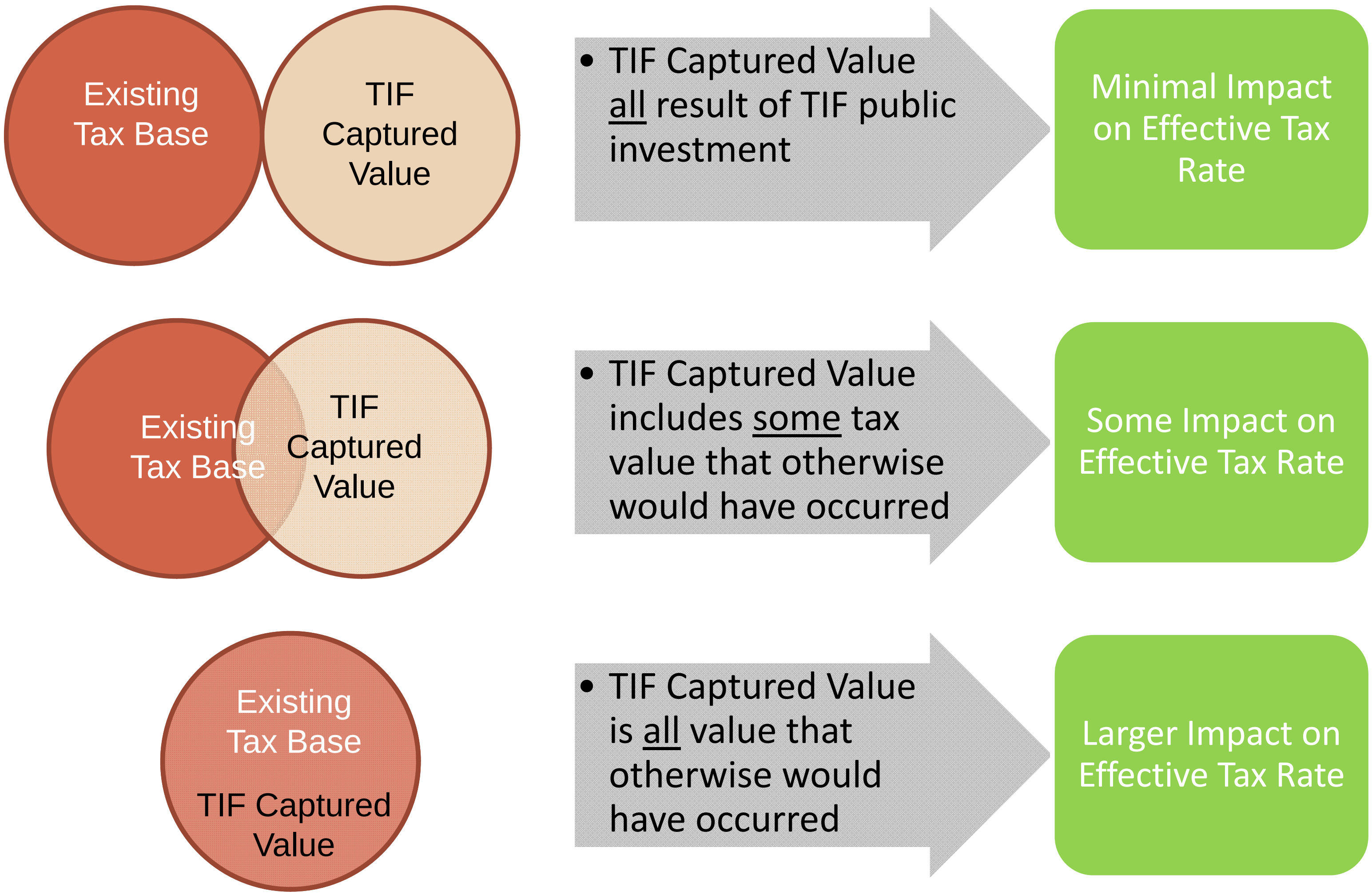
Shows normal or market driven portion of TIF growth versus total including developer's investment

TIFs and the Tax Rate

- State Law requires that assessed valuation (new construction) and tax revenue associated with TIFs, is “backed-out” of tax rate calculation
- Intent - General Fund revenue is “held harmless”
- Result of allowance for “lost” TIF revenue, effective tax rate is higher than otherwise would be without TIF
- Magnitude of tax rate impact depends on size of value capture rate and “but-for” analysis

TIFs and the Tax Rate

<u>"But- For" Scenarios</u>



TIF - Impact & Issues

- TIFs increase effective tax rate – the lower the “but-for” test, the bigger the increase
- Property tax dedicated to TIF is not “free”
  - Dedication of funds that may otherwise have been available to pay for General Fund requirements
  - May be offset by increase in sales tax revenue, utility revenue (and thus, General Fund transfers) due to zone development
  - Participation by other local taxing jurisdictions encouraged, so they help pay for improvements they also benefit from
- May fund projects that should be funded by private sector or other City funds
- Look at all other funding options first before TIF use

Best Practices - GFOA

Government Finance Officers Association (GFOA)
Booklet titled "*Tax Increment Financing*" An Elected Official's Guide (2005)

- Adopt TIF Policy addressing key elements
  - Feasibility studies to evaluate redevelopment and timeline
  - Economic benefit to local economy vs. cost of TIF incentive
  - Fiscal impacts to city and overlapping tax entities
  - Evaluate total impact of all TIFs to tax base

- Other TIF Best Practices
  - TIF development supports city's economic development strategy
  - Public input on TIF development and financing
  - Participation of other taxing entities
  - Ongoing monitoring of development progress, increment revenue, TIF bond requirements

Best Practices - TIF Key Elements

- Target areas in special need of development
  - Projects that fundamentally transform the community
  - Large amount of new land becomes available (e.g., Mueller)
- Use for projects unlikely to occur without public assistance
- Defined time limit when property's tax revenue will once again be available for general public purposes
  - Define in district creation documents or
  - Set by term of bonds
- TIF agreements to include measurable targets for success
- Progress reports on achieving project and development goals

TIFs - Transparency

Use Guidance from Chapter 311 Tax Increment Financing Act

- Preliminary development/financing plans with "But-For" test
- Written Notice of Intent to create reinvestment zone
- Formal presentation by City to other taxing units in zone
- Conduct public hearing on zone creation, then approve ordinance designating area as zone
- City creates and appoints Board of Directors for zone
- Project and financing plans developed by Board and approved by City ordinance
- Overlying taxing units decide upon participation level
- Interlocal Agreements between participating local taxing units
- Notification to Travis County Appraisal District (TCAD)

Criteria to evaluate TIFs

- Investment must provide a public benefit or policy benefit
  - Benefits to distressed area
  - Urban design or historic preservation
  - Public investment in prior five years and five year forecast
  - Affordable housing
  - Transit or Transportation
  - Addition of park/greenbelt and provides for ongoing maintenance
  - Number of new jobs created
- Financial Benefits
  - New property tax revenue
  - Participation of other taxing entities and participation level
  - Strength of overall TIF Financial Plan (operating and capital)
  - Require minimum level of investment in zone (# acres, $$$)

Recommendations

- City Financial Policy to remain in place "as is"
  - No more than 5% of City's tax base will be in TIF zones to preserve City's tax base and General Fund revenue sources
  - Capital & Debt Management criteria provide financial protection

- Continue using process in Tax Code Chapter 311 for TIF and reinvestment zone creation which ensures transparency
  - Written Notice of Intent to create zone
  - Publish Notice and conduct public hearing on zone creation
  - Project and financing plans developed by Board and approved by City ordinance
  - Interlocal Agreements between participating local taxing entities
  - Notification to Travis County Appraisal District (TCAD)

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Recommendations

- For non-City initiated TIFs, develop Application Process
  - Incorporate Best Practices from other Texas cities
  - Create Application Form and establish an Application fee
  - Develop TIF evaluation criteria matrix consistent with city's economic development strategy and its Comprehensive Plan
    - Ensure economic development goals are met
    - Use of TIF is the appropriate incentive tool
    - Consider setting minimum project size (# acres, $$$)

- Development in zones created for transit should be consistent with City's Transit Oriented Development Ordinance
  - May require new or revised TOD ordinances

Recommended TIF Decision Tree

- Is the proposed project consistent with City's economic development and Comprehensive Plan strategy? Is TIF the right economic development tool to consider?
  - No – STOP
  - Yes – proceed to next question
- Is City funding required in order to develop the proposed project?
  - No – STOP
  - Yes – proceed to next question
- Will another taxing jurisdiction participate?
  - Yes – May want to proceed with TIF
  - No – proceed to next question
- Are there benefits to TIF that outweigh costs?
  - Yes – May want to proceed with TIF
  - No – Likely not a good idea or deal terms need strengthening

Summary

- Austin has had a good experience with its existing TIFs
- Each TIF was carefully evaluated while working with other local taxing entities and participating developer(s)
  - Extensive analysis and vetting of financial and feasibility studies
  - Engagement with stakeholders
  - Put significant underutilized properties back on City's tax roll
- Adhere to City Financial Policy and GFOA Best Practices
- Continue using TIFs to support debt for significant public infrastructure investments when appropriate
- Continue to be selective using TIFs due to impact on tax rate
- What has been the City's track record with its existing TIFs?

TIF was the right tool for the right project!

Questions / Discussion