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 in excess of 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, all real property tax revenue (base plus increment) returns to local government for its general purposes

Captured Assessed Value $\times$ Current Tax Rate $\times$ Capture Percent

Determines

Increment Revenue deposited in TIF Fund
Tax Increment

Assessed Value (AV)

TIF Created

20 Year TIF

TIF Term Ends

 Incremental AV
Incremental tax revenue for TIF to pay project costs

Base AV
AV belongs to all other taxing entities in TIF

TIF Term Ended
Total AV now belongs to all taxing entities
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


- TIF (Tax Increment Financing)
  - Tool for financing public improvements in blighted or underdeveloped areas identified as reinvestment zones

- 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 and 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 **not** 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 **not** 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) with district membership and 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 or
  - 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 **not** 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
- **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
  - 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

<table>
<thead>
<tr>
<th></th>
<th>Mueller (TIF #16)</th>
<th>Waller Creek (TIF #17)</th>
<th>Seaholm (TIF #18)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Year</strong></td>
<td>2004</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td><strong>TIF Duration</strong></td>
<td>Through 2032</td>
<td>Through 2038</td>
<td>Through 2042</td>
</tr>
<tr>
<td><strong>Base Assessed Value (AV)</strong></td>
<td>$0</td>
<td>$236.2 million</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Current AV (Tax Yr 2012)</strong></td>
<td>$452.2 million</td>
<td>$458.4 million</td>
<td>$0</td>
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<tr>
<td><strong>Projected AV at End of TIF</strong></td>
<td>$1.2 billion</td>
<td>$3.0 billion</td>
<td>$407 million</td>
</tr>
<tr>
<td><strong>COA Capture %</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Other Entity Participation</strong></td>
<td>n/a</td>
<td>Travis County @ 50%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Other Participation</strong></td>
<td>Yes / Developer</td>
<td>Yes / Conservancy</td>
<td>Yes / Developer</td>
</tr>
<tr>
<td><strong>Estimated Project Cost to be covered by TIF Debt</strong></td>
<td>$50 million</td>
<td>$106 million</td>
<td>$20 million</td>
</tr>
<tr>
<td><strong>O&amp;M to be covered by TIF</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

- 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

"But-For" Scenarios

- **Existing Tax Base**
  - TIF Captured Value

- **Minimal Impact on Effective Tax Rate**
  - TIF Captured Value is all result of TIF public investment

- **Some Impact on Effective Tax Rate**
  - TIF Captured Value includes some tax value that otherwise would have occurred

- **Larger Impact on Effective Tax Rate**
  - TIF Captured Value is all value that otherwise would have occurred
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)

• 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)
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