

Tax Incentives and Smart Growth: Creative Connections of "Tried and True" Development Tools

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About CDFA

- National non-profit association representing the development finance industry.
- Provide education, advocacy, research, networking and leadership.
- Training Institute – Bond Finance (2), Tax Increment Finance (2), Tax Credit, Revolving Loan Fund Finance, Innovation Finance and Fundamentals of ED Finance Course.



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About CDFA

- Research – Produce annual State-By-State studies for Bond Volume Cap and Tax Increment Finance Statute changes.
- Resources – Over 5000 resources online through our Bond, TIF, Tax Credit and RLF libraries.
- Advocacy – Active partner with Congress and Administration and had 3 items in the 2009 stimulus bill.



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Understanding Development Finance & How Tax Treatments Can Impact Smart Growth



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What is Development Finance?

- Development finance is the efforts of local communities to support, encourage and catalyze economic growth through public/private investment in physical development, redevelopment, business and industry.
- It is the act of contributing to a project/deal that causes that project/deal to materialize in a manner that benefits the long term health of the community.



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What is Development Finance?

- Development finance requires programs and solutions to challenges that the local environment creates.
- Economic developers are the bridge between government and business and often direct the vision of a sound financing toolbox.
- Regional smart growth can be encouraged through partnership, cooperation and mutually advantageous programming centered on finance.



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What Does DF Include?

- Debt, equity, credits, liabilities, remediation, guarantees, collateral, credit enhancement, venture/seed capital, early stage, workforce, technical assistance, planning, short-term, long-term, incentives, gap, etc.
- Proactive approaches that leverage public resources to solve the needs of business, industry, developers and investors.

What DF *Does Not* Include

- Free handouts and unabashed subsidies
- Creating a competitive environment
- Duplicative assistance
- Poor due diligence and transparency
- Poor oversight and performance measures
- Irrational responses to immediate challenges

Why is DF Important?

- Businesses need working capital and the ability to invest in themselves.
- Developers need assistance to achieve an acceptable ROI.
- Communities need infrastructure and amenities.
- Citizens need opportunities for advancement – jobs, small business, education, etc.
- Regions need economic prosperity.



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Trends in DF Tool Use

- 50% of finance agencies issue bonds
- 41% act as conduit bond issuers
- 50% provide direct loans
- 27% provide loan guarantees (collateral support)
- 39% provide grants
- 62% provide technical assistance



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Despite these Trends

- 50% of all finance agencies allocate less than 20% of their actual budget to directly financing development.
- Few communities focus on finance and tax treatments as a way to guide smart growth efforts.



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2006 Tool Use Trends

- **Industrial Development Bonds (IDBs):**
Only 27% of agencies frequently use with 50% rarely or never using.
- **Tax Increment Finance:**
Nearly 40% of finance agencies do not use TIF (49 states have TIF capabilities).
- **Tax Credits:**
Less than 5% of finance agencies frequently employ the use of state & federal tax credit programs.



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So What is Happening Here?

- Why are agencies ignoring tried and true tax-exempt bond financing tools for addressing existing manufacturing development?
- Why are economic developers ignoring targeting financing tools such as TIF for addressing smart growth strategies and sustainability?



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So What is Happening Here?

- Why are tax credits programs so underutilized?
Tax credits abound – NMTC, brownfields, historic, LIHTC, hundreds of replicable state programs.
- Why the disconnect between applying finance tools to the goals of sustainability and smart growth?



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A Few Answers

- Complexity of financing programs
- Nature of locally controlled, political economic development efforts
- Lack of focus on financing strengths within community
- Little dedication to education and capacity building



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In the End...

- All economic development comes down to access to capital for a project or deal.
- Nearly all projects and deals hinge on the ability to leverage inexpensive sources of financing.
- As they say...cash is king, money makes the world go around and show me the money!
- So lets figure out how to connect finance with the goals of smart growth!



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Connecting the Dots

- Smart growth leaders should work to building local and regional financing capacity to serve and impact smart growth efforts.
- This is an investment in programs and resources that harness the full development finance spectrum of a community's financial resources and is a dedication to public/private partnerships.



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Why this Approach?

- Wide variety of programs already exist to help with both general and targeted smart growth and financing needs
- Partnership development is a theme of this approach. More parties can be involved – banks, thrifts, educational providers, investors, angels, developers, planning authorities, bond counsel, trustees, special authorities, CDFIs, CDCs, EDOs, MPOs, RPOs, etc.
- Diversity is very important in development finance efforts and can be a difference maker in the implementation of a smart growth strategy.



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Smart Growth:

Targeted Financing Tools



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Targeted Financing Tools

- Represent fastest growing area of development finance.
- Goal of targeted tools is to catalyze investment and transform the real estate values of a geographic area.
- Two general categories:
 - 1. Special assessment district financing**
 - 2. Tax increment financing**
- These two categories often overlap and work in conjunction with each other as a layered financing mechanisms.



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Special Assessment District Financing

- Mechanism by which business, industry, commercial districts and governments generate funds by applying special tax assessments on geographic areas.

- Two general structures:
 1. Business and Neighborhood Districts
 - Self assessment
 - BID, SID, NID, etc.

 2. Government Districts
 - Sometimes self-assessed, often govt. created
 - SSD, SAD, CFD, CDD, TID



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Special Assessment District Financing

- Business and Neighborhood Districts help to support a variety of services:
 - security and safety patrols
 - snow removal
 - promotions, marketing and events
 - graffiti removal
 - beautification and cleanliness programs
 - economic development



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Special Assessment District Financing

- Government Districts target very specific projects and services:
 - infrastructure such as roads, sewers, tolls
 - transit development
 - community amenities such as schools and public facilities
 - often used in conjunction with TIF



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Tax Increment Financing

- Second and most common targeted form of financing.
- First created in 1952 in California to act as a catalyst for redevelopment areas and smart growth.
- Quickly spread across the country – 49 states and District of Columbia have enabling legislation.
- Referred to by a variety of names:
 - TIF - Tax increment financing (most states)
 - TAD - Tax allocation district financing (GA)
 - TIRZ - Tax increment reinvestment zones (TX)

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 specific improvements.

What is TIF?

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

Who Controls TIF?

- States authorize enabling legislation.
- Local governmental jurisdictions (city or county) designate districts or project areas.
- Development agencies or other entities implement the program.
- 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 only for that project – usually backed by bond issuance or loan mechanisms.
- District Based – Large area of land is targeted and identified for redevelopment. Projects that develop within the district may be eligible to use TIF as source of financing or as property values increase, increment can be used for loan programs.

Two Common Types of Financing

- Up Front – Paying for improvements through bonding and lending directly to project once vertical development is complete.
- Pay-As-You-Go – Creating district, collecting increment and paying for improvements as the increment accrues.

Simple Project Based Example

Using Up-Front Method of Financing:

- 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.

Simple Project Based Example

- New project is proposed for the site and will in effect raise overall tax base generated to \$1,500 (and rising) a year once completed.
- Developer agrees to make significant investment and seeks TIF funds from govt. for eligible public improvements.

Simple Project Based Example

- Government conducts “but for” test and agrees to TIF deal and issues tax-exempt bonds to finance proposed improvements.
- Bonds are sold generating cash for the project (several options on actual financing mechanism).
- Once project is complete, new assessment is completed on property (\$1,500 in taxes a year as indicated before).



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Simple Project Based Example

- Frozen base (\$1,000) continues to flow to pre-existing coffers (city, county, schools, state, etc.).
- Increment (additional \$500 plus) goes towards debt service on the bonds that were issued for the project.



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Simple Project Based Example

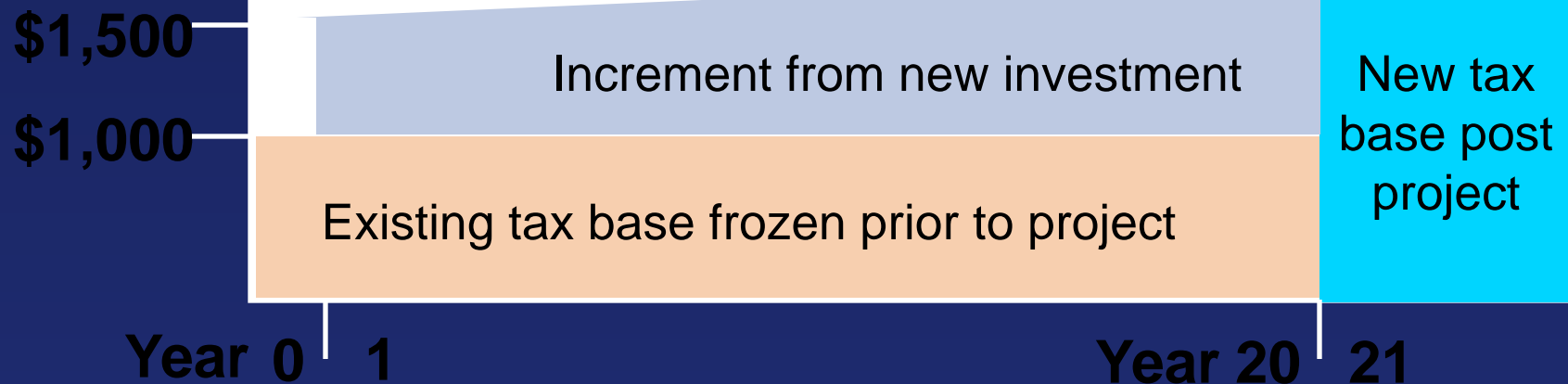
- Increment is used to pay back bonds over time, anywhere from 10-40 years.
- Once bonds are paid off, the property taxes are “unfrozen” and the full tax base generated goes to existing coffers (city, county, schools, state, etc.).
- **THE KEY** - No new taxes are requested and no existing taxes are used in the financing of the project.



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In Other Words

Basic TIF Example



Why TIF?

- The original intent of TIF was to provide an adequate tool for the reuse and redevelopment of the nation's urban center and to eliminate blight and to encourage smart growth efforts.
- TIF generally has focused on industrial development, commercial/office development and in some states retail development. Mixed-use projects have become particularly popular.



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Why TIF?

- Like many economic development tools, there have been abuses in the TIF industry (urban and suburban TIFs that contribute to sprawl and inner city decline).
- However, TIF has been used properly in most cases and used effectively this tool can be a driver of smart growth policy in your community.



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TIF for Urban Smart Growth

- 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.
 - 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
 - Focus TIF on areas of decline rather than building new facilities that ignore existing deterioration issues

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 – Missouri

- **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 – Colorado

- **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 – Florida

- **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 – Ohio

- **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 downtown core.



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TIF Policy & Practice for Smart Growth

- The use of TIF ultimately comes down to sound policy and practice at the state and local levels
- States can alter TIF policy to impact smart growth 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 for Smart Growth

- 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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Targeted Tool Resources

- CDFA Resources:
 - Tax Increment Finance Resource Library
 - TIF State-by-State Resource Center
 - Intro Tax Increment Finance Training Course
 - Tax Increment Finance Best Practices Reference Guide (free online download)
 - Advanced TIF Course
 - Advanced TIF Reference Guide (for sale on website)



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CDFA Research & Resources

- CDFA website: www.cdfa.net
- Development Finance Review Weekly e-newsletter
- Online Resource Database
- Online Resource Libraries:
 - Bond Finance
 - Tax Credit Finance
 - Tax Increment Finance
 - Revolving Loan Funds

Tax Increment Finance
Best Practices Reference Guide



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