Discussion Of “Tax Increment Financing and Economic Development:” A Practitioner’s View

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Findings Consistent with Other Research

- Predicts positive impacts on property value; marginal on employment
- Other studies mixed results with key notes on transfer effects and failure to produce uniformly superior property value or job growth
- TIF is Blight Remediation tool derived from body of urban renewal and linked to condemnation law/health, safety, general welfare base (with variations for greenfields; other economic development)
- Blight remediation and economic development not synonymous
- Eligibility criteria may include absolute or relative decline or stagnation of value growth
- Not clear how studies account for relative improvement or reversal/reduction of decline
- Intersects with real estate economics to work on margin of project feasibility

Practical Use of Tool Differs from Theory

- In practice, even when inflationary value is included, TIF use focuses on capturing desired real estate projects with infrastructure support or gap financing
- Tactical tool to protect and enhance tax base in competitive municipal landscape
- Provides capital for infrastructure
- Used for all land uses: residential, commercial, industrial, hospitality, etc., so measures of success diverse
- TIF co-invests with private development/focus public to support desired private projects
- Works where it taps and enhances private real estate markets that produce value
- Limited effectiveness in severely depressed areas – wrong tool
- What are "Best Practices" for TIF?

Six Necessary Conditions for Providing TIF Assistance

1. Project contributes to important public policy goals
2. Project is economically feasible with assistance
3. Project would not proceed as desired 'but for' the assistance
4. Project pays for itself through generated revenues or justifies the investment via economic/community impacts
5. Undertaken with developers with an established track record, financial capacity and usually known financial partners
6. Shifts risk to the private sector by such mechanisms as reimbursement after completion and only with revenues as available, or other protections

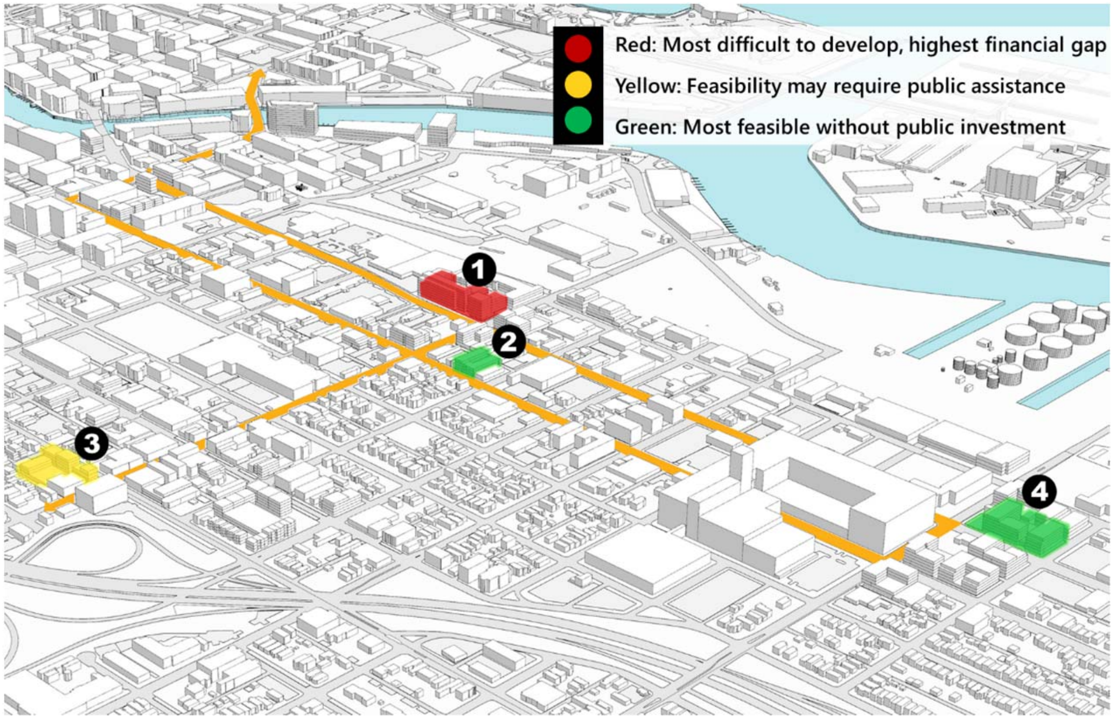
Common Uses of TIF in Conjunction with Private Development

- Financing **public infrastructure/improvements**
- Funding **extraordinary costs**
- Subsidizing a proposed project that is **"above market," non-market driven, or helping to establish an unproven market**
- Obtaining **higher-quality development** than the market will generate on its own
- Incentivizing to **attract or retain investment** in a strategic area
- Background growth or portion/surplus used programmatically or for other districts

Primary Means to Evaluate Need for TIF Assistance

Amount of assistance sized to:

- Allow the project to achieve **reasonable risk-adjusted rates of return**
- Amount readily explained by **extraordinary costs** in project budget
- Cost of providing **true public improvements** that are necessary for project but also benefit the broader community
- Offset the **incremental cost of locating** at proposed site as compared to alternative site



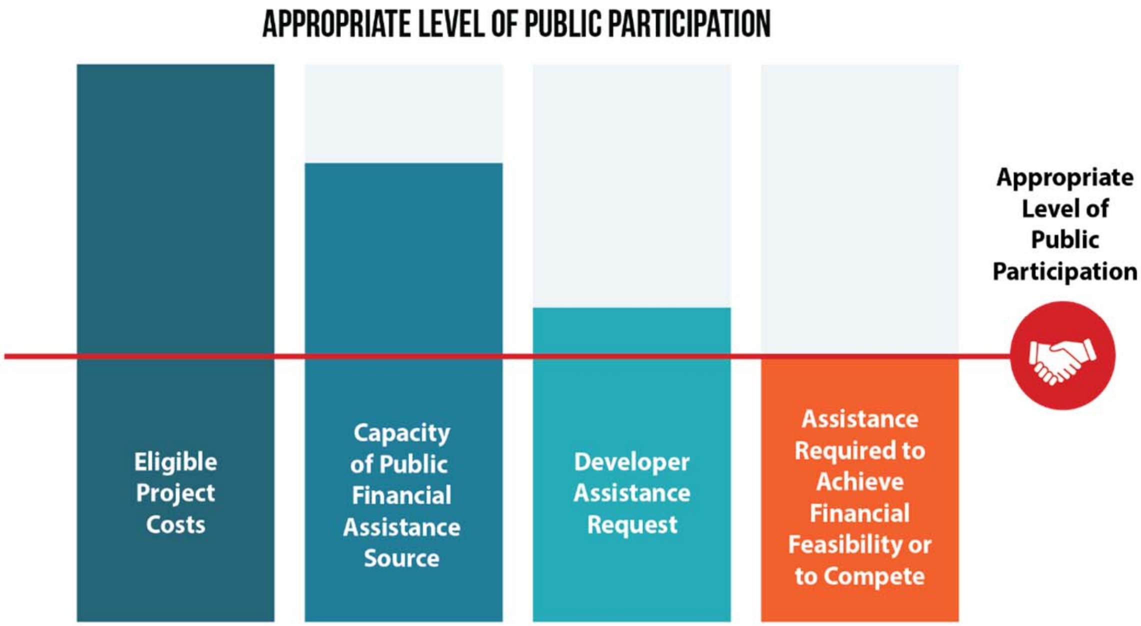
“But-for” Approach: Financial Gap Analysis and/or Competitive Analysis

- **Benefits**
  - Guards against over-subsidizing projects
  - Demonstrates that TIF is being used judiciously
  - Reduces the appearance of arbitrariness
  - Helps articulate the case for (or against) TIF for a specific project
  - Helps define & clarify the problem TIF is trying to solve
- **Tools**
  - Analysis of real estate pro forma and returns
  - Competitive site location analysis

Charles A. Long, Fmr. Manager and Developer: “Do the Hard Work, Deal by Deal, Competently”

Appropriate Level of Assistance

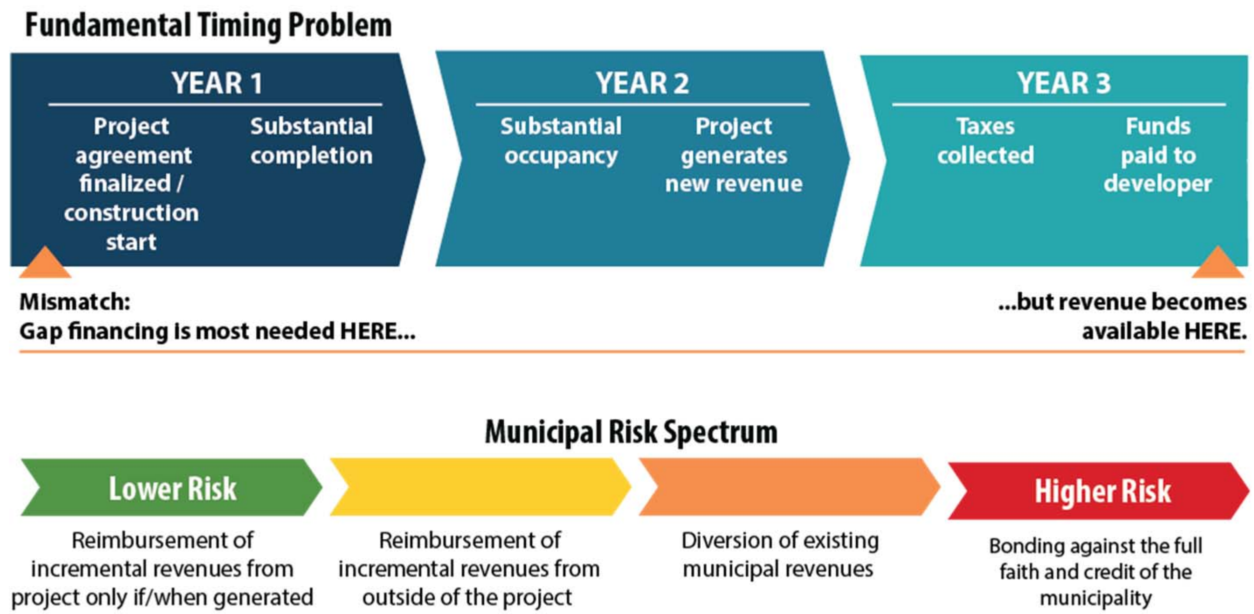
- **Assistance required to achieve financial feasibility**
- Other evaluation metrics (secondary to the "but for" analysis):
  - Subsidy as % of project increment
  - Subsidy as % of project cost (public funds "leverage" private)
  - $ amount per job attracted/retained



Fund the Gap: Understanding Public Sector Timing and Risk

Monetizing

- Pay-As-You-Go
- Monetizing Future Revenues from Project Itself
- Developer Notes
- Special Revenue Bonds/Land Secured Bonds
- Backing Bonds with Other Revenue Pledges
- Loan Instead of a Grant
- Trigger & Take-Out Bonds



Source: SB Friedman Development Advisors

Public Policy Implications

1. Seek other tools for severe distress and true economic development, e. g. New Markets Tax Credits; philanthropy
2. Authorize "Linked TIF" – Stronger areas linked to severely distressed areas
3. Require planning and goal setting precede designation and deals
4. Coordinate with other tools like Opportunity Zones
5. Set underwriting/due diligence requirements:
    1. "But for…." analysis
    2. Developer capacity
    3. Risk mitigation in public finance
6. Establish accountable decision-making: ultimate approval by elected officials



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