

Tax Increment Financing (TIF)

**“Common Approaches for Facilitating
TIF Public/Private Investments”**

CITY OF KERRVILLE

AUGUST 2018

PURPOSE

- Discuss the concept of Tax Increment Financing (TIF)
- Key Elements of TIF Agreements
- Key Stages for Facilitating New Investment
- Case Studies
- Tasks Necessary to Create a TIRZ
- Questions

A grayscale topographic map background showing contour lines of a mountainous region, with higher elevations on the left and lower elevations on the right.

Tax Increment Financing

TAX INCREMENT REINVESTMENT ZONES (TIRZ)

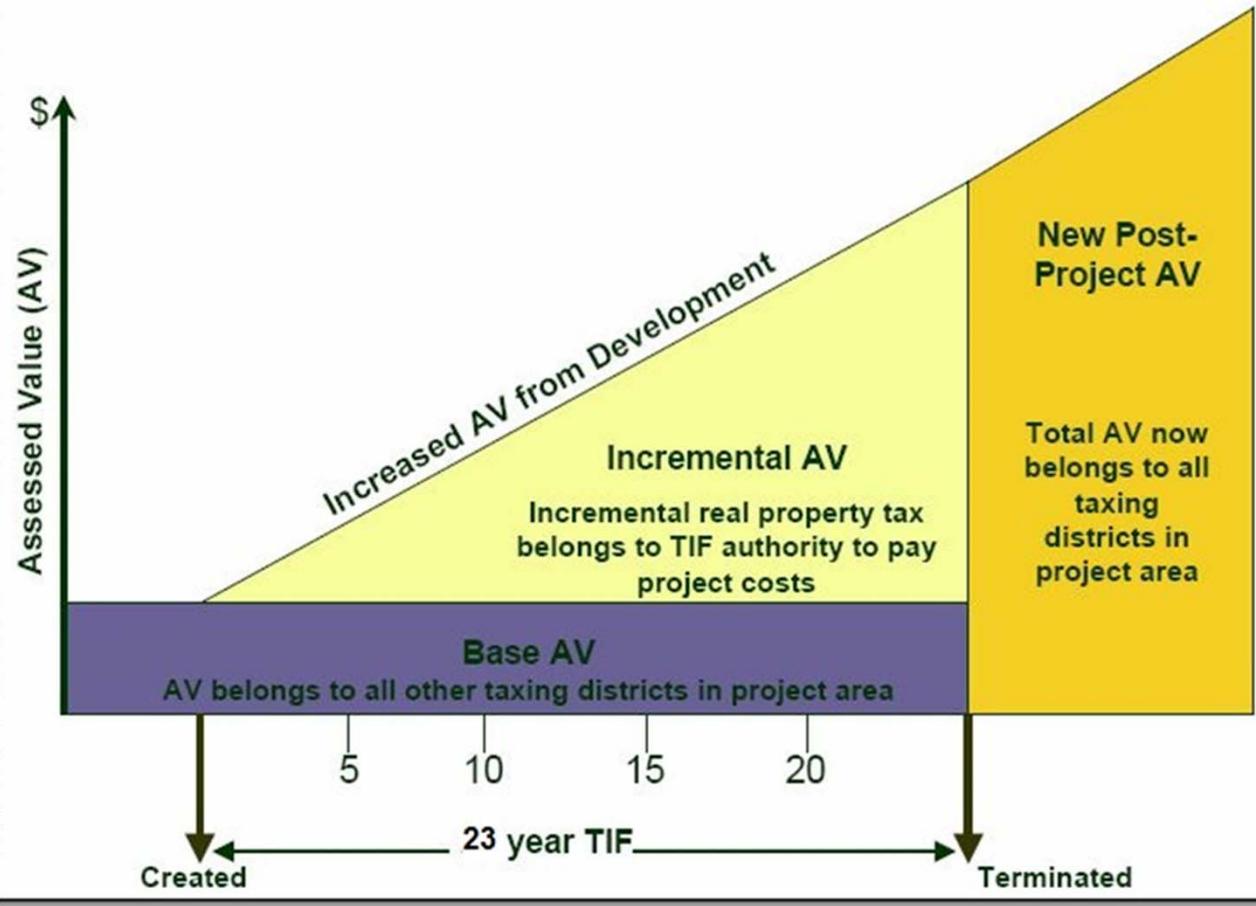
- Tax Increment Financing (TIF) is a tool that incentivizes economic development within a Tax Increment Reinvestment Zone (TIRZ).
- Governed by Tax Code, Chapter 311
- Approximately 313 TIRZs have been created in the state of Texas
- Cities, alone or in partnership with other taxing units, can use this tool to pay for improvements in a zone so it will attract new development, facilitate investment, and bring excitement and energy to a designated area.
- Taxing entities contribute ad valorem taxes received from incremental value increases on property within the TIRZ.
- A TIRZ can pay for:
 - cost of public works;
 - public improvements;
 - economic development programs; or
 - other projects benefiting the zone

TIF CONCEPT

TAX INCREMENT REINVESTMENT ZONES (TIRZ)



TIF Assessed Value (AV) Over Project Life



TIF CONCEPT

- Taxing entity rates are negotiated and can vary (not identical).

TIRZ REVENUES

Two ways to create new tax increment:

1. New construction/investment; and/or
2. Annual appreciation of real property (i.e. “organic growth”)

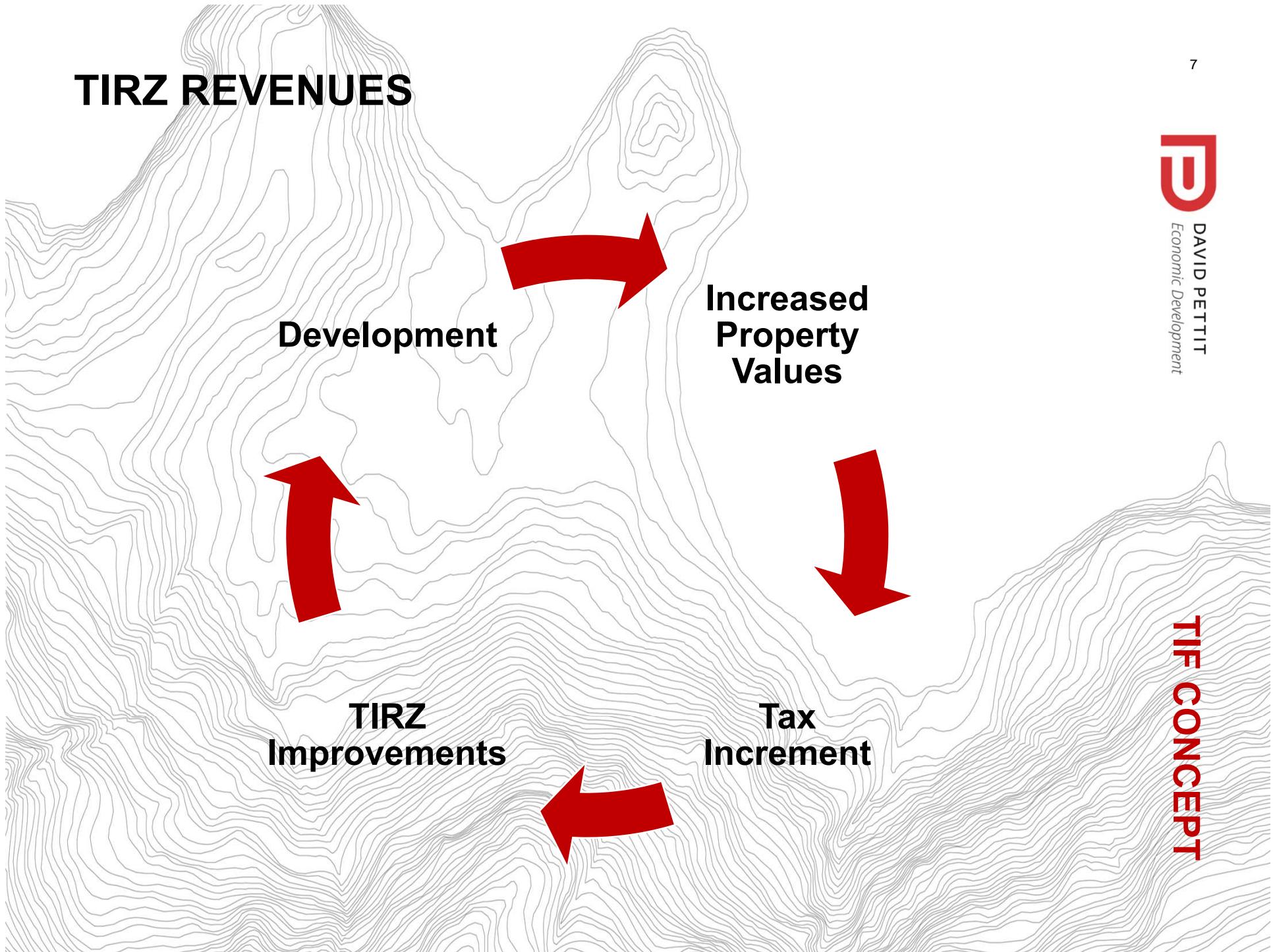
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TIF CONCEPT



WHY CREATE A TIRZ?

- Private development activity expected to occur within a designated area
- Benefits an area at large, rather than being project specific
- Provides a funding source without impacting the current amount of general fund revenues for each participating taxing entity
- Ability to leverage revenues from taxable property within the TIRZ to generate a larger increment
- Attracts potential developers and investment into area that may not otherwise occur
- Demonstrates a commitment to creating a sense of place and identity

TIF CONCEPT

EXAMPLE OF TAX INCREMENT FINANCING

Current Year Property Tax Value	\$300,000
<u>Less Base Year Property Tax Value</u>	<u>\$200,000</u>
=TIF Increment Property Tax Value	\$100,000

<u>Taxing Entity</u>	<u>Tax Rate</u>	<u>Participation Rate</u>	<u>TIF Revenue</u>
City of Kerrville	0.5514	100%	\$551
Kerr County	0.4677	0%	\$0
Kerr County Lateral Records	0.0323	0%	\$0
Kerrville ISD	1.18	0%	\$0
UGRA	0.0235	0%	\$0
HGCD	0.0074	0%	\$0
Total TIF Tax Revenue			\$551

Base Year tax annual revenue to General Funds:

All taxing entities \$4,525

TIF CONCEPT

TIRZ Creation Process

- Chapter 311 outlines the various procedures for creating and amending a TIF. Two main documents:
 1. Creation ordinance; and
 2. TIF Project and Financing Plan
- Creation ordinance establishes four key elements:
 - Boundary;
 - Term;
 - TIF Board; and
 - Preliminary Project and Financing Plan
- Upon TIF creation the Final Project and Financing Plan is approved by the TIF Board and then the City Council by separate ordinance

COMMON QUESTIONS

Is TIF an additional tax burden? No, TIF does not impose a new tax. Instead, it uses improvements to spur development and raise property values within a zone. Then it funnels some of the tax collected on that increase in value into a fund that pays for the improvements.

Which taxing units can participate in TIF? Any taxing unit that collects ad valorem taxes from property in the TIRZ may participate in a TIF project, but only a city or county can initiate a TIF project and create a TIRZ. The governing body of the city or county that creates the TIRZ is responsible for the TIF project.

How many board members are required for a tax increment project? For a normal TIRZ, the board of directors must consist of at least five members and usually does not exceed 15.

Who appoints the board members? The city and the other participating taxing units appoint board members.

COMMON QUESTIONS

How are the project costs paid? The board of directors makes all payments for project costs from the tax increment fund. Project costs can be paid over time as tax increments are collected, or the city can sell tax increment bonds to raise revenue immediately.

Can a city change the boundaries of a TIRZ? Yes, but only if the changed boundaries continue to meet the restrictions for the creation of TIRZ, and only with a public hearing and an ordinance describing the new boundaries.

Can a TIRZ be terminated? Yes. A city that created a TIRZ can terminate it by approving an ordinance that designates a termination date. Termination also occurs when all project costs, tax increment bonds and interest on those bonds, and other obligations have been paid in full.

What happens to money that remains in the fund after a TIRZ is terminated? After all project costs and other obligations have been paid, any money remaining in the fund is disbursed back to the participating taxing units in proportion to each jurisdiction's share of the total tax increments collected.

PUBLIC/PRIVATE PARTNERSHIPS

Infrastructure Improvements

Use of economic development tools in conjunction with planning to foster redevelopment, *typically focusing on infrastructure needs*

Business Creation/Retention

Use of economic development tools to encourage the relocation or retention of *targeted businesses*

Gap Financing

Use of economic development tools to facilitate a fair “rate of return” for *private investment that otherwise would not occur*

TIF CONCEPT

FUNDING THE GAP



Approaches to Facilitating Investment

1. Reduce Costs

- Streetscape, parking garages, and public infrastructure improvements

2. Reduce Expense

- Rebate of tax increment

3. Increase Revenue

- Facade easement/lease
- Program 380 agreements
 - Use of increment to encourage economic development

TIF CONCEPT

COMMON AGREEMENTS

- **Development Agreements**
 - Infrastructure improvements
 - Roads, Streetscape, Water, Sewer, Parks, etc...
 - Environmental remediation
 - Program 380 agreements
- **Lease Agreements**
 - Parking leases
 - Facade leases

TIF EXPENDITURES

The justification for TIF expenditures and agreements essentially fall into two (2) categories:

- Items described as “**project costs**” in the TIF statute, Chapter 311 of the Texas Tax Code; or
- Activities consistent with authority granted by TIF Statute to the use **Program 380** authority.



TIF CONCEPT

TIF PROJECT COSTS

Chapter 311 of the Texas Tax Code

Sec. 311.002. DEFINITIONS. In this chapter:

- (1) "Project costs" means the expenditures made or estimated to be made and monetary obligations incurred or estimated to be incurred by the municipality or county establishing a reinvestment zone that are listed in the project plan as **costs of public works or public improvements in the zone**, plus other costs incidental to those expenditures and obligations.



TIF CONCEPT

PROGRAM 380

Chapter 380 of the Local Government Code

Sec. 380.001. ECONOMIC DEVELOPMENT PROGRAMS.

- (a) The governing body of a municipality may establish and provide for the administration of one or more programs, including **programs for making loans and grants of public money** and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality.



TIF CONCEPT

Key Elements of TIF Agreements

Lessons Learned

PRIORITY OF PAYMENT

- The first TIF project has a priority of payment over those added later (i.e. “first in, first out”)
- Additionally, payment can be tied to either
 - Increment generated from project; or
 - Increment generated from whole TIF.
- In the event of a shortfall in TIF revenue then priority of payment is applied

KEY ELEMENTS

TIME FRAME

- A development agreement with the TIF Board is just one component of making a project work
- An agreement can be fully executed but no actual development and/or increment occur
- Need specific completion date for
 - Issuance of a building permit; and
 - Issuance of a certificate of occupancy
- An agreement with no effective date can hinder priority and subsequent TIF projects moving forward

TAXABLE VALUE

- Typically, private investment ≠ taxable value.
- State law requires appraisal districts to value properties at fair market value.
- This is often difficult given the volume of properties appraisal district must manage and the lack of access to specific data.
- In most cases throughout **the state taxable value can range anywhere between 50% - 90% of fair market value.**
- Best way to determine taxable value is to identify comparable properties for the appraisal district the development will be built.



Key Stages for Facilitating New Investment

KEY STAGES

Project Analysis

Is the project a good candidate for incentives?

Incentive Package

What amount of incentives does the project need?

Payment Method

Who and where does the money come from?

KEY STAGES

PROJECT ANALYSIS

- When considering a developer's proposal for TIF incentives a few key items should be reviewed.
 - **Is the project financially feasible?**
 - The developer should be able to provide a lender commitment letter and an anticipated cash flow from the development
 - **Is there a “gap” hindering the project?**
 - Developer should be able to demonstrate a gap that prevents a “fair rate of return”
 - **Is the project consistent with the goals and objectives of the TIRZ plan?**
 - TIRZ Plan can be amended to add project or expenses not outlined in the TIRZ Plan



KEY STAGES

INCENTIVE PACKAGE

- There are a few different methods for determining the total amount of the incentive package.
 - **Pledge 100% of increment generated by the project for x number of years**
 - Common for initial TIF projects and can be used in conjunction with Program 380 agreements.
 - **Pledge a portion of increment generated by the project for x number of years**
 - Applicable to a wide range of projects and can be used with either TIF or Program 380 agreements
 - **Fund all public improvements and TIF eligible expenses unrelated to increment generated**
 - Funding would be tied to the amount of money spent by the developer on TIF eligible expenses
 - e.g. environmental remediation, utility improvement, streetscape improvements, etc...

KEY STAGES

PAYMENT METHOD

- Funds for payment come from one of two different sources.
- **Site Specific Increment**
 - Funding for a project will be linked directly to the increment that the development produces
 - Site specific increment is probably the most widely used method, because it puts all of the burden on the developer and provides very little risk to the TIRZ.
- **TIRZ Reserve Funds**
 - Funding for a project is not linked directly to the increment it generates, instead money from the entire TIRZ fund is pledged.
 - Generally used for projects that generate a large amount aesthetic improvements, but little if any increased revenue
 - i.e. Public Parks, Streetscape, etc...

A grayscale topographic map background showing contour lines of a mountainous region. The terrain features a prominent peak on the left and a smaller, rounded hill on the right. The contour lines are more densely packed on the steeper slopes.

Case Studies

EXAMPLE COMMUNITIES WITH DOWNTOWN TIRZ

- Bryan (83,260)
- Hidalgo (13,831)
- Belton (20,873)
- Dayton (7,734)
- Denison (23,654)
- Leander (42,761)
- Dripping Springs (3,140)
- Waxahachie (34,345)
- Azle (12,064)
- Celina (8,006)
- Hutto (23,832)

FORT WORTH

- Downtown TIRZ was established in 1995
- Attracts investments by assisting with public infrastructure improvement costs
- Improves transit
- Supports tourism and convention business
- Creates an environment to attract office, retail and residential development



AC Hotel on Main Street in downtown Fort Worth

- \$68.5 million investment
- TIRZ participation = \$4.1 million incentive for the project.



Downtown Parking

- TIRZ participation:
 - \$38 million for parking leases since 1995
 - \$1.5 million to subsidize parking in 2018

CASE STUDY

AMARILLO

- Downtown TIRZ was established in 2006
- Dedicated revenue stream for facilitating new private investment and the improvement of downtown infrastructure
- Property values in the TIRZ increased 50% from 2006 to 2017, from \$139M to almost \$210M



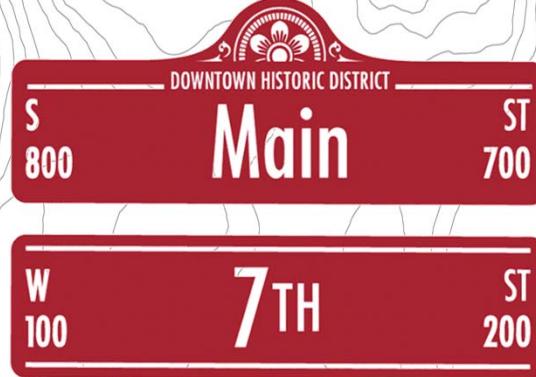
Courtyard by Marriott at the Historic Fisk was the first hotel in downtown Amarillo in decades

- \$12.7 million investment
- 107 rooms
- TIRZ participation:
 - \$1.65 million in property tax rebates over a 20-year period.
 - \$70,000 to pay a portion of the costs of trees, lighting and sidewalk amenities that conform to the city's downtown urban design standards.

CASE STUDY

GEORGETOWN

- Downtown TIRZ was established in 2004
- Valuation more than doubling to \$93M since TIRZ was created
- Created to encourage the development & redevelopment of downtown into a mixed use, pedestrian-oriented environment, consistent with the goals of the City's Downtown Master Plan.



FY2017: City installed 554 new historic district street signs throughout the Old Town and Downtown historic districts

- TIRZ Participation = \$5,000

FY2018: Plaza, sidewalk, parking design work

- Improved access (slopes) and drainage
- Sidewalk access improvements and head in parking
- Transit station moved to library
- Additional parking on Main to be constructed by developer
- TIRZ Participation = \$100,000



Tasks Necessary to Create a TIRZ

NEXT STEPS

COMPLETED:

- **Taxable Value Analysis**
 - Historic taxable value review of similar developments to establish assumptions of future taxable value
 - Develop projections for future land uses, and timing of proposed developments
- **Develop TIRZ Cash Flow Model**
 - Drafted financing cash flow model (and supporting spreadsheets) for a 30-year time period

RECOMMENDATION:

- **Prepare TIRZ Project and Financing Plan**
 - Develop the Finance Plan, Project Plans, and Detailed Description of TIRZ, and other exhibits required for local government review and approval per the state legislative requirements

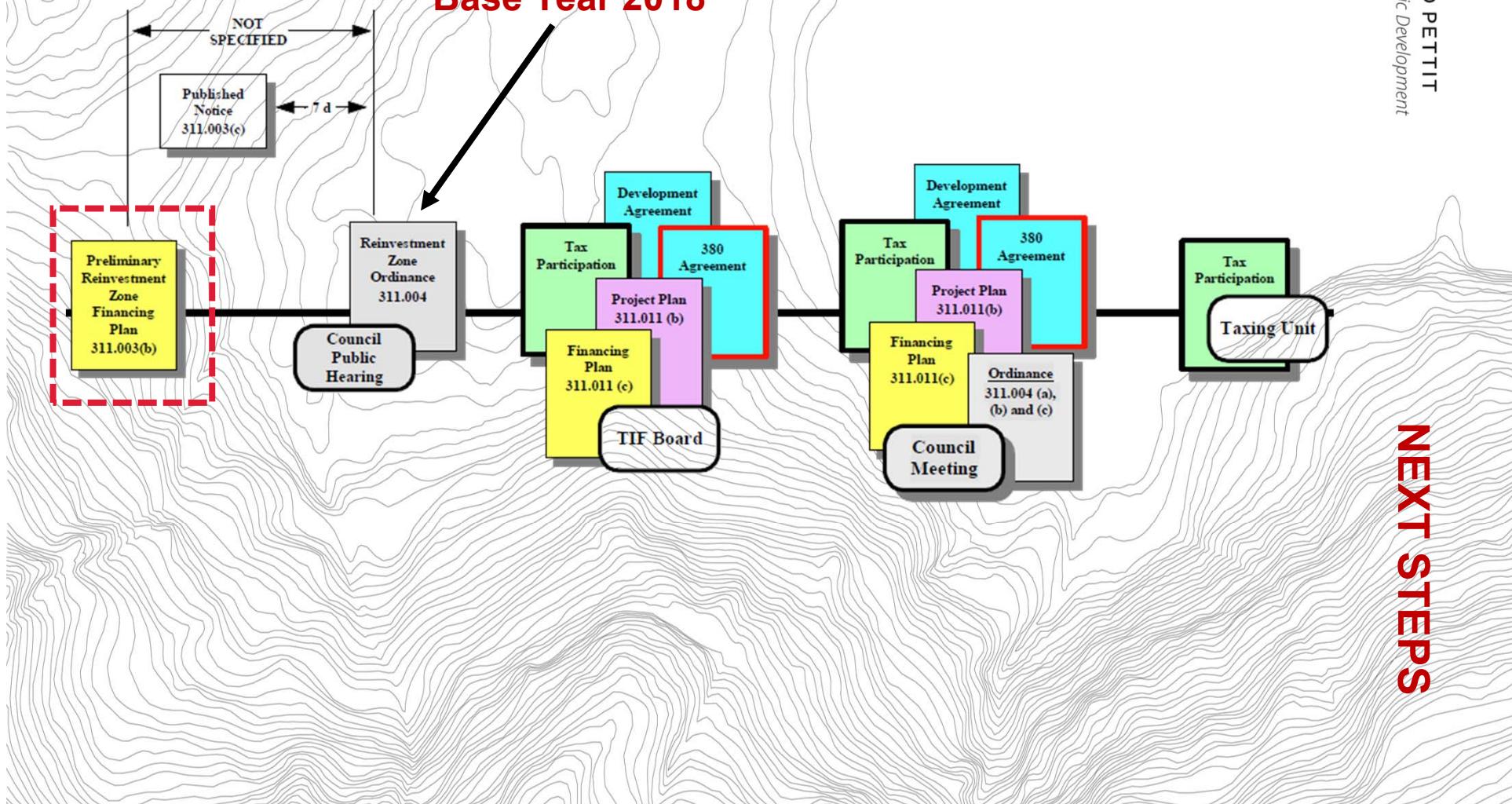
NEXT STEPS

NEXT STEPS

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By end of year to set Base Year 2018

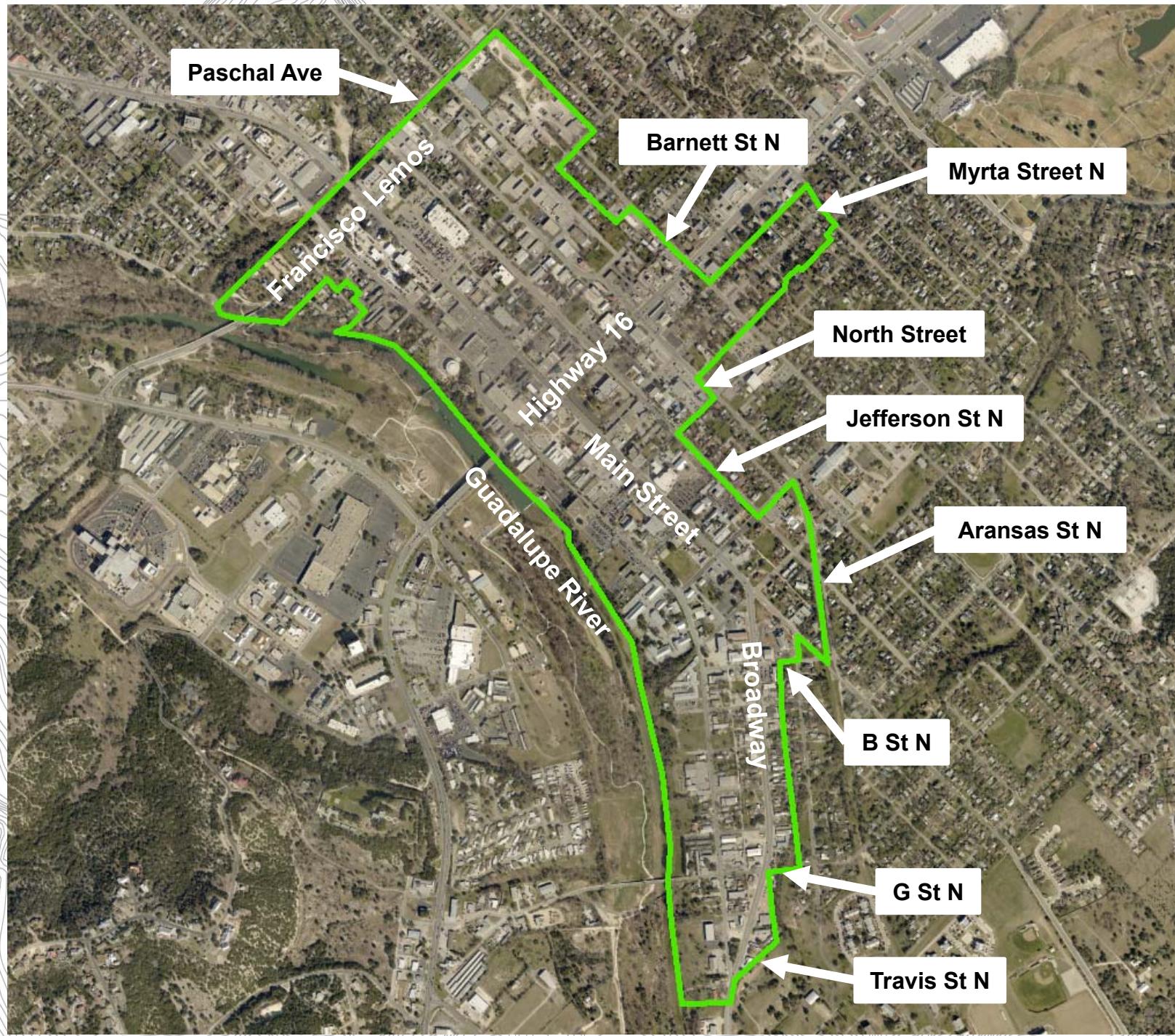


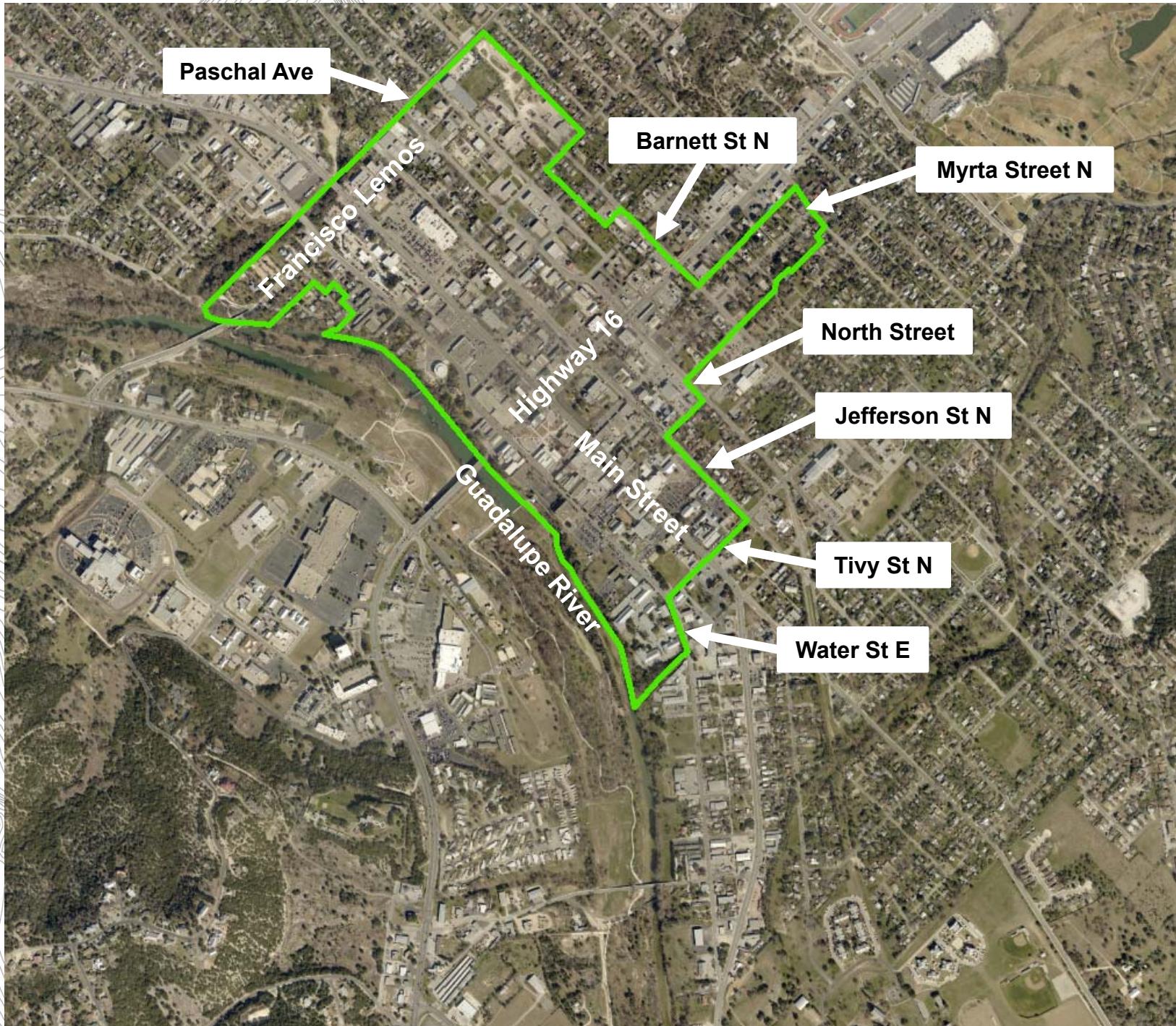
NEXT STEPS

Item	Date
City Council Creation Ordinance 1st Reading & Public Hearing	September 11, 2018
City Council Creation Ordinance 2nd Reading	September 25, 2018
TIF Board Approval of PFP	October 9, 2018
City Council Final PFP 1st Reading	October 9, 2018
City Council Final PFP 2nd Reading	October 23, 2018

NEXT STEPS

SCENARIO I





DEVELOPMENT PROJECTIONS

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	Square Feet	Units	Projected Completion Date	Taxable Value PSF/Unit	Incremental Value	Sales PSF	Total Sales
Years 1-10							
Retail Commercial	7,500		2019	\$125	\$937,500	\$350.00	\$2,625,000
Retail Commercial	9,500		2020	\$125	\$1,187,500	\$350.00	\$3,325,000
Office	12,500		2020	\$125	\$1,562,500	\$0.00	\$0
Residential	54,000	60	2020	\$95,000	\$5,700,000	\$0.00	\$0
Hotel	27,972	84	2020	\$95,000	\$7,980,000	\$0.00	\$0
Residential	13,500	15	2022	\$95,000	\$1,425,000	\$0.00	\$0
Retail Commercial	7,500		2022	\$125	\$937,500	\$350.00	\$2,625,000
Residential	13,500	15	2024	\$95,000	\$1,425,000	\$0.00	\$0
Hotel	19,980	60	2024	\$95,000	\$5,700,000	\$0.00	\$0
Office	12,500		2024	\$125	\$1,562,500	\$0.00	\$0
Residential	36,000	40	2026	\$95,000	\$3,800,000	\$0.00	\$0
Retail Commercial	10,000		2024	\$125	\$1,250,000	\$350.00	\$3,500,000
Office	10,000		2025	\$125	\$1,250,000	\$0.00	\$0
Hotel	19,980	60	2026	\$95,000	\$5,700,000	\$0.00	\$0
Residential	22,500	25	2026	\$95,000	\$2,375,000	\$0.00	\$0
Retail Commercial	7,500		2027	\$125	\$937,500	\$350.00	\$2,625,000
Retail Commercial	10,000		2028	\$125	\$1,250,000	\$350.00	\$3,500,000
Residential	13,500	15	2028	\$95,000	\$1,425,000	\$0.00	\$0
	307,932	374			\$46,405,000		\$18,200,000
Years 11-20							
Residential	13,500	15	2030	\$95,000	\$1,425,000	\$0.00	\$0
Residential	9,000	10	2032	\$95,000	\$950,000	\$0.00	\$0
Office	12,500		2031	\$125	\$1,562,500	\$0.00	\$0
Retail Commercial	7,500		2031	\$125	\$937,500	\$350.00	\$2,625,000
Retail Commercial	10,000		2031	\$125	\$1,250,000	\$350.00	\$3,500,000
Office	10,000		2032	\$125	\$1,250,000	\$0.00	\$0
Retail Commercial	10,000		2034	\$125	\$1,250,000	\$350.00	\$3,500,000
Residential	45,000	50	2034	\$95,000	\$4,750,000	\$0.00	\$0
Hotel	21,645	65	2034	\$95,000	\$6,175,000	\$0.00	\$0
Office	20,000		2035	\$125	\$2,500,000	\$0.00	\$0
Retail Commercial	7,500		2036	\$125	\$937,500	\$350.00	\$2,625,000
Residential	13,500	15	2036	\$95,000	\$1,425,000	\$0.00	\$0
Residential	27,000	30	2038	\$95,000	\$2,850,000	\$0.00	\$0
	207,145	185			\$27,262,500.00		\$12,250,000
Total	515,077	559			\$73,667,500		\$30,450,000

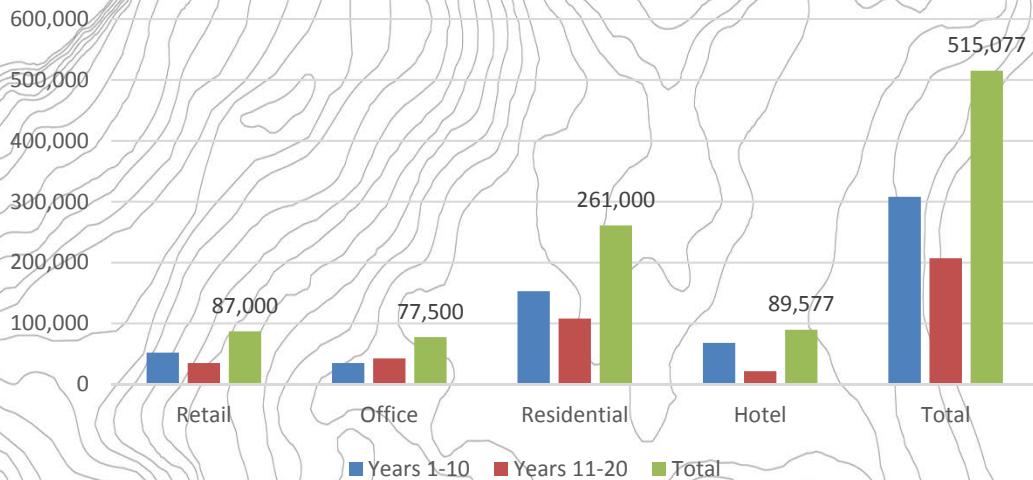


DAVID PETTIT
Economic Development

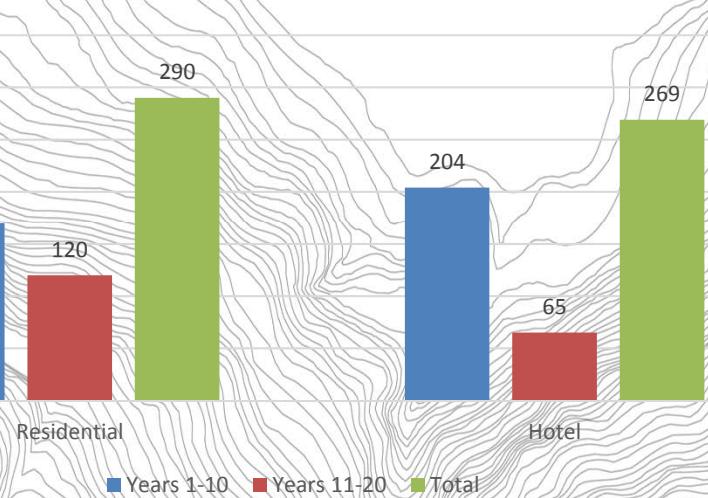
DEVELOPMENT ANALYSIS

DEVELOPMENT PROJECTIONS

Projected Square Feet of Development



Projected Units



CITY PARTICIPATION

To fund public improvements, the City would contribute a percentage (yet to be determined) of its real property **increment** within the boundaries for the following possible projects:

- Water Facilities and Improvements
- Sanitary Sewer Facilities and Improvements
- Storm Water Facilities and Improvements
- Transit/Parking Improvements
- Street and Intersection Improvements
- Open Space, Park and Recreation Facilities and Improvements
- Economic Development Grants
- Administrative Costs

Potential TIRZ Revenue*	50%	75%	100%	
GROSS	\$ 9,637,154	\$ 14,455,730	\$ 19,274,307	100%

*Based on a 30 year term

REVENUE SUMMARY

If the City were to contribute 100%:

Taxing Jurisdictions	Total Taxes Generated	Participation	Net Benefit
City of Kerrville	\$53,365,356	\$19,274,307	\$34,091,049
Other taxing entities*	\$32,988,710	\$0	\$32,988,710
Total	\$86,354,066	\$19,274,307	\$67,079,759

*Other taxing entities may choose to participate, to be determined

Assuming a 30 year term and:

Real Property Tax		Participation	
City of Kerrville	0.55140000	100%	0.55140000
Kerr County	0.46770000	0%	0.00000000
Kerr County Lateral Roads	0.03230000	0%	0.00000000
Kerrville ISD	1.18000000	0%	0.00000000
UGRA	0.02350000	0%	0.00000000
HGCD	0.00740000	0%	0.00000000
	2.26230000		0.55140000

Participation	
Sales Tax Rate	0.02000000
Infaltion Rate	2.00%

Personal Property Tax		Participation	
City of Kerrville	0.55140000	0%	0.00000000
Kerr County	0.46770000	0%	0.00000000
Kerr County Lateral Roads	0.03230000	0%	0.00000000
Kerrville ISD	1.18000000	0%	0.00000000
UGRA	0.02350000	0%	0.00000000
HGCD	0.00740000	0%	0.00000000
	2.26230000		0.00000000



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Economic Development

DEVELOPMENT ANALYSIS

QUESTIONS



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Economic Development

QUESTIONS