

EHLERS
LEADERS IN PUBLIC FINANCE

Economic Development Tools

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Discussion Outline

- Economic Development Tools
 - Tax Increment Financing (TIF)
 - Community Improvement District (CID)
 - Construction Sales Tax Exemption via Industrial Revenue Bonds (IRB)
- How the City Decides Participation in Development
- Current Situation

How TIF Works

- TIF captures and uses **all or a portion** of new (incremental) local taxes created by a project
- Real Property Taxes
 - Diverts up to 100% of new property taxes
 - 20 mills for school finance NOT diverted
 - 1.5 mills for state NOT diverted
- City Sales Tax
 - Diverts up to 100% of City sales tax, utility franchise fees
- All local taxing districts included; duration of up to 20 years per TIF project area

The “Base” and the “Increment”

Base
Property Assessed Value - \$1,000

Total Mill Levy - \$100/\$1000 of Assessed Value

Total Tax Revenue - \$100

Property Tax Increment

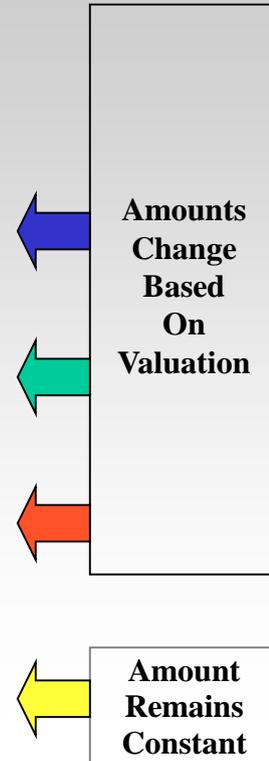
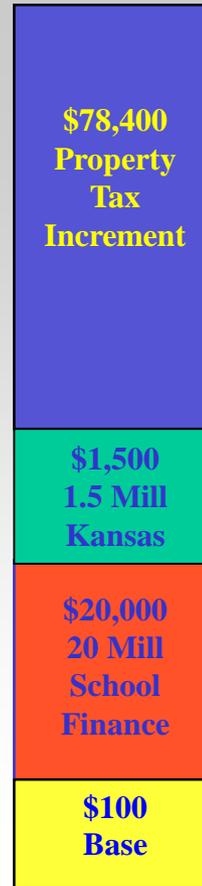
Total Assessed Value After Development - \$1,000,000

Total Mill Levy - \$100/\$1000 of Assessed Value

Total Revenue - \$100,000
 Less Base (100)
 Less 20 Mills (20,000)
 Less 1.5 Mills (1,500)

Total Increment - \$78,400

**\$100
Base**



Effect on School Districts

- Held Harmless at Base Property Tax Level
 - As are County, City, and other jurisdictions
- Receive 20 Mills on Increased Assessed Valuation from Redevelopment Project

Where Can TIF Be Used

- Eligible Areas for TIF Capture and Use:
 - blighted areas (including environmentally contaminated areas and 100-year floodplains)
 - conservation areas and pre-1992 enterprise zones
 - major commercial, entertainment, and tourism areas
 - bioscience development areas
 - intermodal transportation areas

What can TIF Pay For

- Costs necessary to implement the redevelopment project plan, including:
 - Land acquisition and site preparation
 - Public infrastructure
 - Landscaping and parking facilities
 - Other private development costs – but NOT building construction costs
 - Special purposes – e.g. multi-sport athletic complex and museum facilities

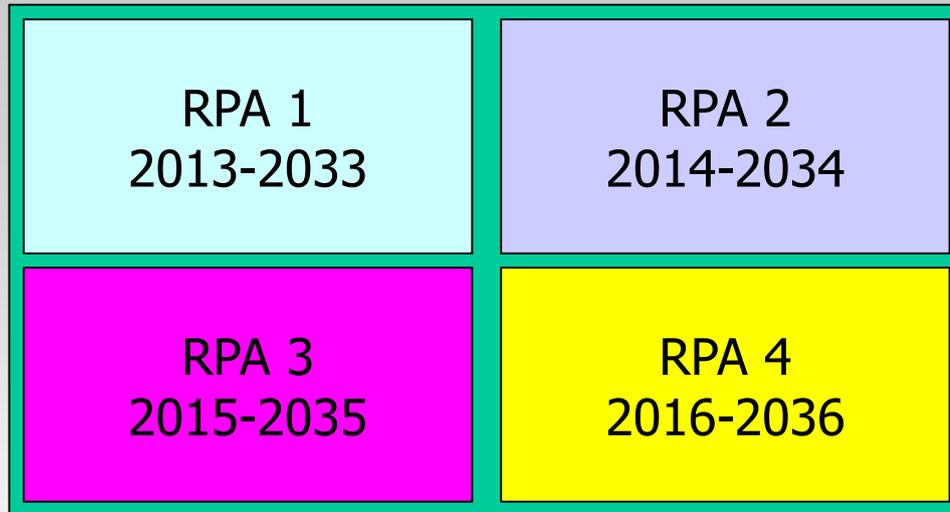
Funding Methods

- Developer Reimbursement (“Pay As You Go”)
 - Developer funds approved TIF costs and is reimbursed as TIF is received
- Bond Financing
 - Special Obligation TIF Revenue Bonds
 - Limited obligation of City
 - Sometimes purchased or guaranteed by developer and re-sold once track record established
 - City CAN provide annual appropriation pledge
 - General Obligation TIF Revenue Bonds
 - Full faith and credit obligation of City
 - Amount that exceeds 3% of the assessed value of the City counts against bonded debt limit

Phase 1: Create TIF District

- Redevelopment District
 - Eligible area in which increment is collected
 - Defined by the City
 - County and School District have right to veto
 - Each Redevelopment District can have multiple Redevelopment Project Areas

Redevelopment Project Areas



Redevelopment District

Phase 2: TIF Plan and Project

- Redevelopment Project Plan
 - Overall blueprint for the assistance of development in a given redevelopment project area
- Redevelopment Project
 - Specific project described in Redevelopment Plan
 - Each Plan can address multiple private development projects, if applicable in that project area

Community Improvement Districts

- Available to any City or County
- Can finance just about anything – public or private development and operating costs
- Easy to form and broad use of funds
- Most costs must be incurred within the CID but can finance necessary infrastructure outside the CID

CID Formation & Financing

- Created by a petition of (1) owners of 55% of land area and (2) owners of 55% of assessed value of land, within the proposed CID
- Can impose special assessments
- Can impose up to a 2% CID sales tax
- May do “pay-as-you-go” CID – bond financing not necessary

Collection of CID Sales Tax

- Collection of CID Sales Tax may occur for 22 years from the date the State Director of Taxation begins collecting the sales tax.
- CID Sales Tax is collected in same manner as other sales taxes.

Effect on Other Taxing Districts

- No impact to current taxing jurisdictions – no diversion of current taxes
- Only new revenues used
- Can be used in conjunction with TIF or STAR Bond District, but Department of Commerce may request pledge of funds on STAR Bonds.

CID Establishment

- Publish Notice of Public Hearing twice in official newspaper
- Certified mail to all property owners in CID
- After Public Hearing, City may pass Ordinance creating CID
- 30 day statute of limitations to protest after publication of Ordinance creating CID

Industrial Revenue Bonds (IRBs)

- Generally used for property tax abatement and/or sales tax exemption on construction material
- Payable from lease payments made by the company to the City
- Cannot be full faith and credit bonds
- Eminent domain prohibited
- Property tax abatement prohibited in TIF Districts

Key Considerations for City Participation

1. Is the City willing to use TIF, CID, and/or other tools to assist private development?
2. If “YES” to #1, what is the appropriate incentive funding target, based on anticipated Developer and City returns on investment?
3. If “YES” to #2, does the incentive funding plan (bonds, pay-go, guarantees, etc.) provide an acceptable balance of City risk and reward?
4. If “NO” to #1, 2, or 3, what are the alternatives and how does the City wish to proceed?

Current Situation

- City Finances
 - Stormwater Bonds
 - Interest Cost Savings from 2014 Refundings
 - S&P “AA” Rating with Stable Outlook (July 2014)
- Gateway Development Agreement