

**Targeted Tools: Assessment Districts
and Tax Increment Finance –
*Preparing a TIF Plan & Evaluating
Feasibility***

David Saikia

Senior Vice President

MUNICAP, INC.

Tax Increment Financing Process

1. Project conception
2. **Preparation of TIF plan**
3. Governmental approvals
4. Implementation
5. Monitoring and feedback

Preparation of the TIF Plan

Constraints to TIF Plan

- Development project
- Legal authority
- Financial markets
- Public policy

Primary Public Policy Issues

1. Is public assistance appropriate for this project?
2. “But For” test
 - Financial analysis
 - Application of judgment
 - Do current conditions impair proposed development?
 - Is there some other reason the market acting alone will not produce the development?
3. How much assistance is appropriate?
4. What is the sponsoring government agency receiving in return for the TIF? (TIF is both a financial and land use development tool.)
5. What is the amount of private investment (is the public investment adequately leveraging private investment)?

Primary Public Policy Issues

(continued)

6. Will there be sufficient surplus tax revenues to cover costs of public services required for the project?
7. Is the proposed TIF economically efficient (i.e., more tax revenues or benefits than the No-TIF alternative)?
8. Are there clear linkages between the properties in the TIF area and the TIF plan?
9. What are the risks associated with the TIF plan and have the risks been addressed?

2 Questions That Define Deal Structure from a Feasibility Standpoint

- How much?
- When?

What Revenue Streams Are Available to Pay Debt Service?

- Can include:
 - Incremental real property taxes
 - Special assessments and special taxes
 - Sales taxes (LOST revenues)
 - Local income tax
 - Miscellaneous local taxes
 - BPOL (business license taxes)
 - Transient room tax
 - Entertainment tax
 - Personal property tax
 - Additional self-imposed taxes

Challenges in projecting future revenue streams

- Market values vs. assessed values
 - Valuation and assessment practices
 - Credits, exemptions, appeals, and collection losses
 - Historic trends vs. current market conditions
- Assessment and taxation timelines
- Intergovernmental agreements and legal interpretations
- Method of tax distribution and tractability
 - Personal property, income tax, and sales tax issues
 - “Equalization”

Challenges in Allocating Special Assessments

- Must be fair, equitable, and defensible
- Must be transparent and disclosed
- Must not be prohibitively onerous
- Set forth in a “Rate & Method of Apportionment”

Once Revenue Stream Has Been Defined, How Much and When?

- Provided appropriateness and need have been established, sizing must:
 - Minimize risk
 - Provide a net fiscal gain to the public entity issuing the bonds
 - Provide a worthwhile return to the developer

Once Revenue Stream Has Been Defined, How Much and When? (cont.)

- Fundamental timing issues:
 - Has the base value been certified?
 - Have other governmental approval processes been navigated?
 - Are there potential political issues?
 - What is the projected absorption?
 - How to structure around lean increment during the construction phase?

Giving Investors Comfort

- Transparent methodology
- Local expertise
- Review by local assessors
- Thorough discussion of risks and safeguards
- Internal scrutiny exceeds market requirements