Tax Increment Finance…
The Basics

presented to

Council of Development Finance Agencies

First Southwest Company

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Questions to to be Addressed

- ***What is a Tax Increment Finance and what can it achieve?***
- ***How does it operate in the State of Florida?***
- ***What are some features of TIF bonds?***
- ***What are some credit considerations for TIF debt issuance?***
- ***What are some useful sources of information?***

What is Tax Increment Finance (TIF)?

- TIF is a flexible and popular tool to fund economic development and provide public infrastructure in targeted and defined geographic areas.
- Enabling legislation developed by State of California in 1952 and now 49 States and the District of Columbia have statutes that permit its use.
- One must look to the enabling legislation in each State to determine tax incremental revenues are created and how they may be used.
- Targeted and defined geographic areas that generate and benefit from TIF have different names, e.g., Tax Allocation Districts (TADs), Tax Increment Reinvestment Zones (TIRZs), Community Redevelopment Areas (CRAs), etc.

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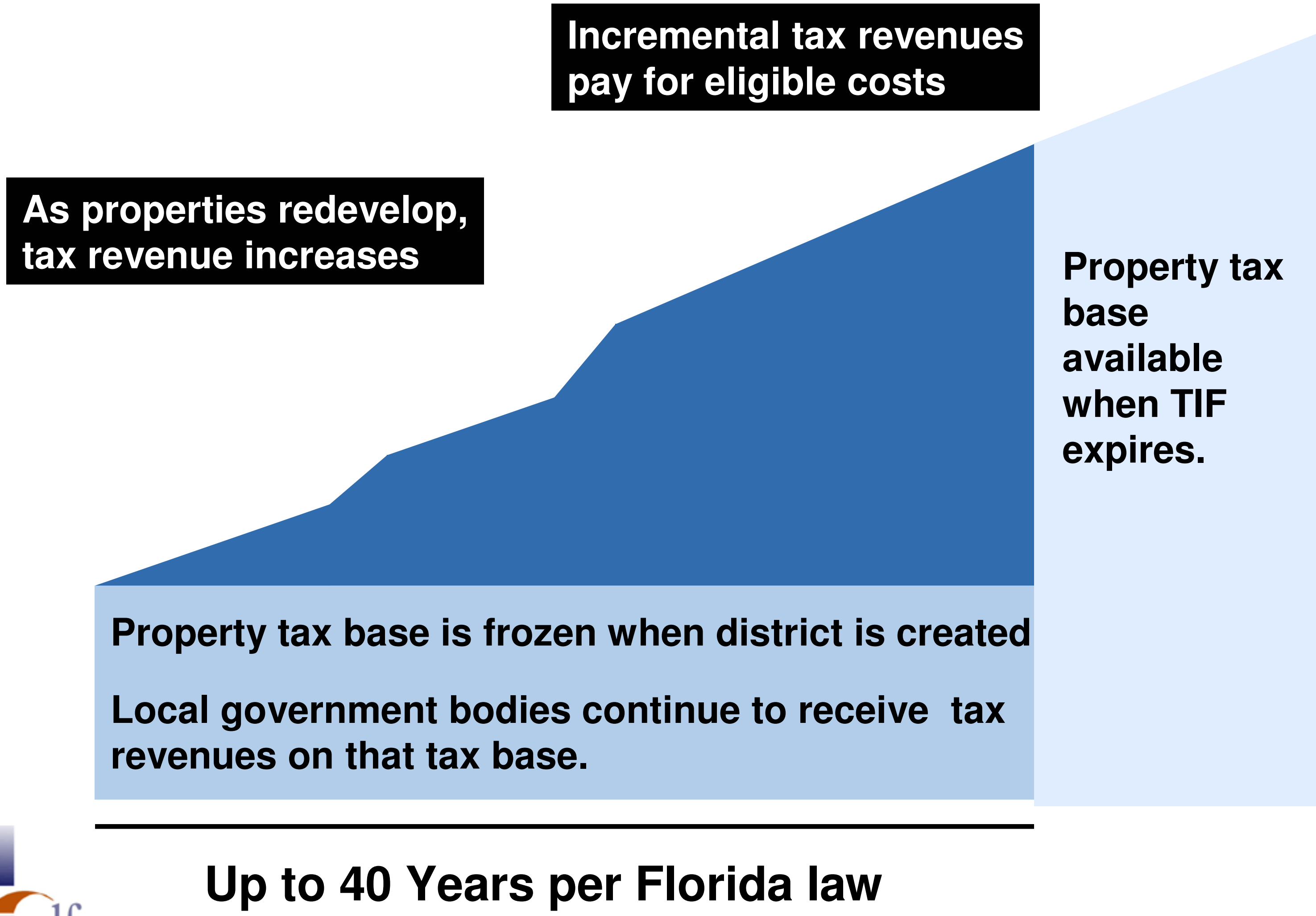
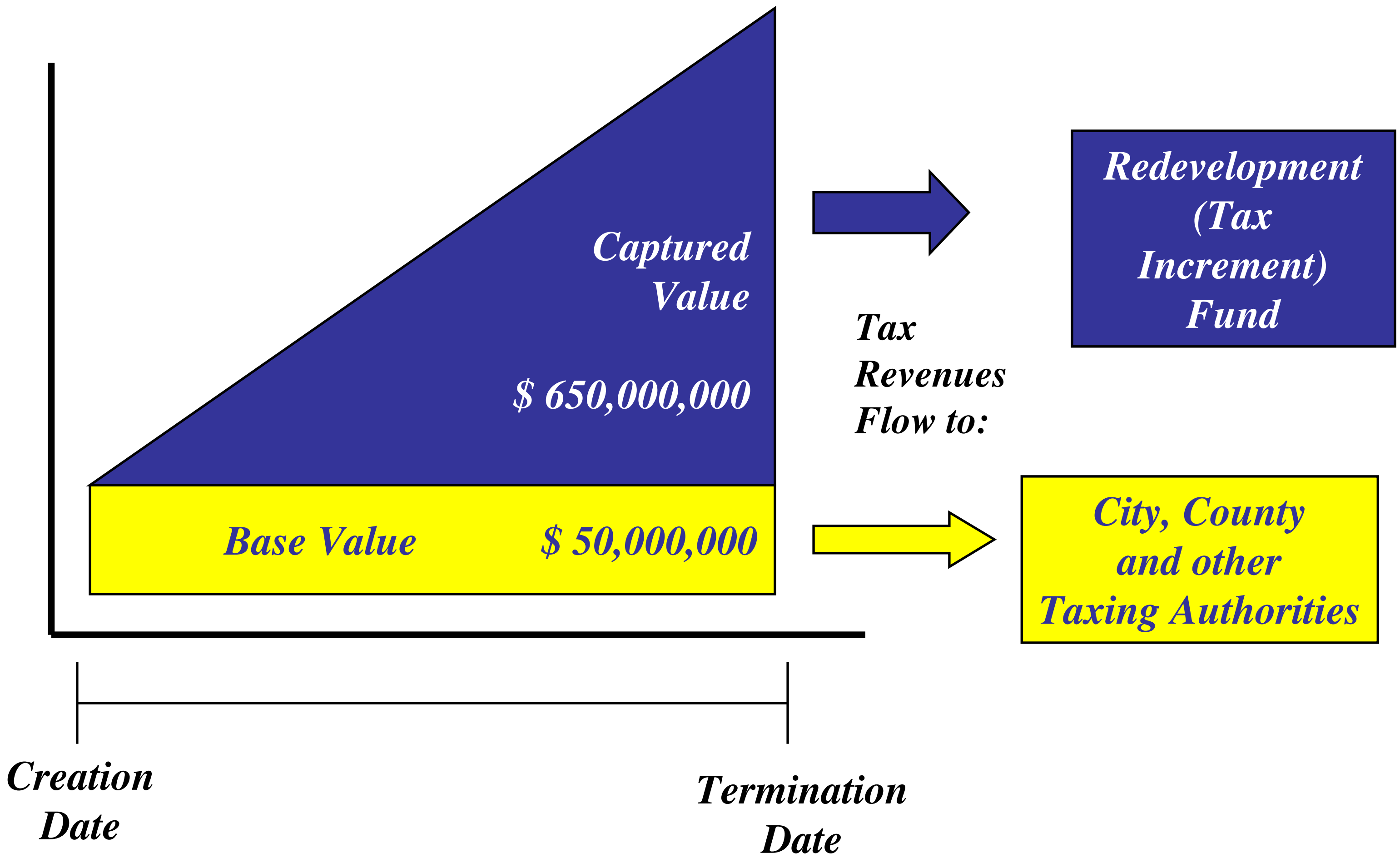
Basic TIF Model



Tax Increment Financing (TIF)



How does TIF work in Florida?

The TIF Process per Florida's Enabling Legislation

- Chapter 163 Part III of the Florida Statutes specifies the creation and use of tax incremental funds and the powers conferred to Community Redevelopment Authorities.
- Basic Procedural Steps
  - Finding of Necessity by the governing body
  - Creation of a Community Redevelopment Agency (CRA)
  - Development and adoption of a Redevelopment Plan
  - Creation of a Redevelopment Trust Fund

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Who is the Governing Body?

- For counties with home rule charters, the powers are exercised exclusively by the county. However, the county may delegate, via resolution, any portion of the powers under this part within a municipal boundary to the governing authority of such municipality.
- The power conferred upon counties, which have no home rule charters, shall not be exercised within the boundaries of a municipality unless the municipality consents by resolution.
- Prior to the adoption of a community redevelopment plan by a municipality in a non-home rule charter county, a formal 'resolution' process is established whereby the county may advance competing policy goals and plans for the public funds the county would be required to deposit into the community redevelopment fund under the proposed community redevelopment plan.

Home Rule Charters

Home rule powers conferred to Florida counties by Article VIII, Section 1(f), of the Florida Constitution (1968),and by Section 125.01, Florida Statutes.

- Alachua - 1987
- Brevard – 1994
- Broward – 1975
- Charlotte – 1986
- Clay – 1991
- Columbia – 2002
- Duval – 1967
- Hillsborough – 1983
- Lee – 1996
- Leon - 2002
- Miami-Dade – 1957
- Orange – 1987
- Osceola – 1992
- Palm Beach – 1985
- Pinellas – 1980
- Polk – 1998
- Sarasota – 1971
- Seminole – 1989
- Volusia - 1971

Finding of Necessity by the Governing Body

- In order to exercise the powers of a CRA (community redevelopment agency), a county or municipality must by resolution, ***supported by data and analysis***, make a legislative funding stating that:
  - One or more ***slum or blighted areas***, or one or more areas in which there is a ***shortage of affordable housing*** for residents of low or moderate income, exist in such county or municipality; ***and***
  - The rehabilitation, conservation, and/or redevelopment thereof or the development of affordable housing is necessary in the interest of public health, safety, morals, or welfare of the residents of such county or municipality.

What is a Slum Area?

- Slum area means an area having physical or economic conditions conducive to disease, infant mortality, juvenile delinquency, poverty or crime because of buildings or improvements which are impaired by reason of dilapidation, deterioration, age, or obsolescence and exhibiting one or more of the following:
  - Inadequate provision for ventilation, light, air, sanitation, or open space;
  - High density of population and overcrowding
  - The existence of conditions that endanger life or property by fire or other causes.

What is a Blighted Area?

- Blighted area means an area in which there are a substantial number of deteriorated or deteriorating structures which are leading to economic distress or endangered life or property and in which at least two (2) of fourteen (14) enumerated factors are present. Some of these factors are:
  - Predominance of defective or inadequate street layout, parking facilities, roadways, bridges or public transportation facilities;
  - Aggregate assessed values of real property have failed to appreciate over the 5 years prior to the finding;
  - Faulty lot layout in relation to size, accessibility and usefulness
  - Falling lease rates for office, commercial and industrial or higher commercial and residential vacancy rates as compared to other areas; and
  - Governmentally owned property with adverse environmental conditions.

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Redevelopment Powers

Section 163.370 F.S. lists substantial powers for redevelopment within CRAs, some of these are:

- Enter any property for surveys, appraisals, etc
- Acquire any property voluntarily
- Mortgage, pledge or dispose any real property
- Enter into any contract to carry out plan
- To borrow money/accept grants
- Make relocation payment
- Dispose of real property at a value determined to be in best public interest in furtherance of plan
- Zone or rezone or waive building regulation

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Limitations to Powers

- Eminent domain cannot be used to prevent or eliminate slum or blight
- Cannot construct governmental buildings unless all taxing authorities agree or is part of community policing innovation
- Cannot replace planned or scheduled publicly owned capital improvements
- Cannot fund general governmental operating expenses unrelated to planning and carrying out redevelopment plan

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Creation of a Community Redevelopment Agency

- Governing body may create, via ordinance, a community redevelopment agency (CRA) – a public body corporate and politic to carry out the redevelopment powers granted by Chapter 163 Part III

- A Board of Commissioners having not fewer than five or more than nine members will need to be appointed. The governing body may serve as the CRA Board but in that capacity they are serving as a legal entity, separate, distinct, and independent from the governing body.

Community Redevelopment Plan

- A county, city, or CRA or any other person may develop a community redevelopment plan and submit it to the CRA for consideration
- The plan shall:
  - Conform to the comprehensive plan of the city or county
  - Be sufficiently detailed to indicate proposed land acquisitions, demolitions and removal of structures, redevelopment, improvements, zoning changes, land uses, maximum densities etc.
  - Provide for affordable housing or discuss why not addressed
  - May provide for community policing innovations
  - Provide information on ten (10) other elements including legal descriptions, projected costs of redevelopment, anticipated debt issuances, timeframes, etc.

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Creation of Redevelopment Trust Fund

- Governing body, via ordinance, creates a Redevelopment Trust Fund to receive tax increments from taxing authorities and to expend such increments in furtherance of the redevelopment plan.
- The amounts received annually, from each taxing authority, over the life of the CRA equals:
  - In home rule counties between 50%-95% and in non-home rule counties 95% of the difference between:
    - Ad valorem revenues levied each year within the CRA (excluding debt service millage) and
    - The ad valorem revenues that would have been generated by the use of the current year millage rates (excluding debt service) on the Base Year tax roll related to the CRA
- Base Year tax roll is set January 1st prior to Trust Fund creation
- Taxing authorities must remit tax increments by Jan. 1st of each year

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Taxing Authorities

Any governmental body that levies ad valorem taxes in the redevelopment area except:

- School districts
- Special districts that levy taxes in more than one county
- A special district whose sole source of revenues is ad valorem revenues
- Library district
- Neighborhood improvement district created under Safe Neighborhoods Act
- A metropolitan transportation authority
- A water management district

Hypothetical Stages of CRA Development

	Stage 1 Early Years	Stage 2 Intermediate Years	Stage 3 Later Years
Size of Yearly Increment	Low	Medium	High
Typical Financing Options	Governmental Advances	Bond Anticipation Notes	TIF Revenue Bonds
	Developer Advances	Tax Anticipation Notes	Pay-as-you go projects
	Short Term Bank Loans or Lines of Credit - interest only	TIF Revenue Bonds	
	Pay-as-you go projects	Pay-as-you go projects	
Credit Enhancement	Guarantees from someone else e.g.. governing body providing secondary pledge	Secondary Pledge until tax increment is a strong credit	Stand alone credit with strong revenue coverage

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Typical TIF Bond Features

- Debt Service Reserve equal to the lesser of:
  - 100% Maximum Annual Debt Service
  - 125% of average annual debt service
  - 10% par amount of bonds
- Revenue Coverage requirement of 1.25x to 2.00x
- Excess reserves until District is credit strong
- Secondary pledge of revenues until credit strong

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Credit Considerations

- Size and diversity of the redevelopment area
- Assessment and collection practices
- Volatility Assessment
- Management plans
- Legal consideration regarding debt structure

Midtown Redevelopment Authority Case Study

First Southwest has served the **Midtown Redevelopment Authority** as financial advisor since its inaugural issue in 1998. The plan of finance for Midtown has evolved along with Midtown's phenomenal growth.

Background:

Midtown is a tax increment zone that was created by the City of Houston to encourage redevelopment of the 770 acre, inner city neighborhood between Houston's downtown and sizeable medical center. Midtown was created for a 30-year period and is 10 years into its project plan. Since 1997 this area has added 2,497 apartment units, 910 townhouses, 624,000 square feet of refurbished office space, 359,000 square feet of commercial and retail space, seven service stations, nine retail shopping centers, one 1,400-space parking garage, 18 single family low/moderate income homes, 60 public assisted housing units, 40,000 square feet of performing arts revitalization, and 27,000 square feet of new restaurant space. Other improvements include three cultural arts museums and a 30,000-square foot community park.

Midtown Redevelopment Authority Case Study (cont.)

Midtown's finance plan evolved from a developer mode, to a bond-financed general infrastructure mode, to a "pay-as-you-go" mode. Development was stimulated initially by the simultaneous execution of developer agreements with four large apartment developers. Pursuant to these agreements developers installed certain public infrastructure including water and sewer lines, streets and enhanced streetscape. These advances bore interest and were secured by the tax increment generated by each specific project. Midtown issued bonds to take out the developer agreements soon after the start of project construction. The initial bonds were non-rated and publicly sold in 1998. Midtown's next issue was in 2001 and included some developer projects and a growing list of projects targeted by Midtown's board.

Midtown Redevelopment Authority Case Study (cont.)

By its third issue, Midtown had experienced sufficient growth that its additional bonds test of 1.25 times historical coverage allowed them to finance mostly projects of its own choosing such as parks, streets and street lights. The 2001 and 2003 issues received underlying ratings of Baa2/BBB and were insured by "AA"-rated Radian insurance. Midtown's most recent issue in 2005 was upgraded to Baa1/A- and was insured by "AAA"-rated AMBAC. This was the result of the continued strong growth in Midtown ($678 million of incremental growth in 10 years) and by tightening the additional bonds test to 1.40 times coverage. Given that Midtown expects to finish its life in a "pay-as-you-go" mode, a tightening of the additional bonds test was a natural concession for it to make.

Good Sources of Information

- CDFA – Check out its Tax Increment Finance Best Practices Reference Guide
- State specific Redevelopment Associations
- Local CRAs
- Municipal Bond Counsels
- Qualified Finance Advisors

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