

# Welcome

## **CDFA - Tax Increment Finance Coalition Webcast Series: When the TIF Project Goes “Bad”**

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# When the TIF Project Goes “Bad”

**Ken Powell**

**Managing Director  
Stone & Youngberg LLC  
Richmond, VA**



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# When the TIF Project Goes “Bad”

**Keenan Rice**

**President**

**MuniCap**

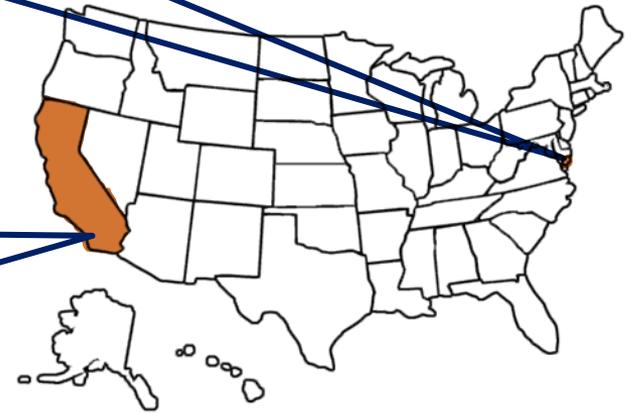
**Columbia, MD**

**Bill Huck**

**Managing Director**

**Stone & Youngberg**

**San Diego, CA**



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## Tax Increment Financing (TIF)

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- TIF Bonds secured primarily by increase in ad valorem taxes
- Also may be secured by other tax revenues such as sales taxes
- Special taxes or special assessments may also secure TIF bonds – typically not related to value



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# National Land-Secured Issuance 2005-2009

## National Land-secured Volume 2005-2009

State	Number of Issues	Par Amount	State	Number of Issues	Par Amount	State	Number of Issues	Par Amount
CA	450	\$5,928,220,749	SC	4	\$99,965,000	IN	8	\$27,000,000
FL	187	\$3,704,692,000	AL	10	\$99,090,000	DE	1	\$17,849,000
CO	98	\$1,004,171,321	NE	51	\$93,102,289	MT	9	\$17,225,500
IL	47	\$630,012,731	MO	7	\$92,885,000	KS	1	\$14,950,000
TX	103	\$447,687,000	OH	53	\$81,724,550	ND	6	\$9,870,000
VA	10	\$358,195,000	MS	4	\$49,270,000	UT	1	\$8,840,000
NV	14	\$330,565,000	NM	4	\$41,675,000	ID	1	\$7,640,000
AZ	32	\$167,044,840	WA	4	\$33,859,930	WI	2	\$3,070,000
MD	7	\$145,760,000	AR	11	\$33,615,000	SD	1	\$1,165,000
LA	6	\$143,300,000	MI	36	\$32,530,000	IA	3	\$1,088,000

Source: Ipreo

The data set is comprised of non-rated, unenhanced, land-secured bonds issued in the U.S. Notes and warrants are excluded, as are bonds secured by revenue pledges other than special assessments/taxes. Land-secured bonds are defined as those issued by a special district which are secured by a lien on the real property in the district, and which are payable from a special assessment or tax levied on such real property within the special district. The data may be incomplete.

## Determining the TIF boundaries

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- Project specific TIFs – only tax revenues from specific development project secure the bonds
- Area wide TIFs – tax revenues from area larger than a specific development project secure the bonds
- TI revenues may already exist when bonds are issued, particularly with area wide TIFs



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## The TIF Project – When Bonds Are Issued

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- Bonds may be issued after development has occurred to generate TI revenues sufficient to support bonds
- Bonds may be issued prior to development having occurred
  - In this case, bonds are typically backed by special taxes or special assessments to cover any shortfalls in TI revenues



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## The Issuer

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- TIF Bonds may be issued by city, county or government controlled issuer (i.e. California and Maryland)
- Bonds in many states are issued by a developer controlled issuer (i.e. Florida)



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## Structuring a TIF Bond

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- State Law – who is the lead?
- Development Plan
- Development Financing
- Projected Revenues – TI Only, special tax, special assessment, backing by locality
- Due Diligence
- Independent Studies – Market Study, Appraisal, Tax Increment Revenue Forecast Report, Rate & Method (if backed by special assessment)



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## When the TIF Project Goes Bad

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- Economic downturn —→ reduced demand for home/land, decrease in sales, store closures, and lower real estate values
- Reduced valuations —→ tax increment declines
- Cash Flow pressures —→ tax delinquencies, bank loan defaults
- Revenues received may not meet debt service
- Obligation may be too burdensome for a project

Result = Bond Default



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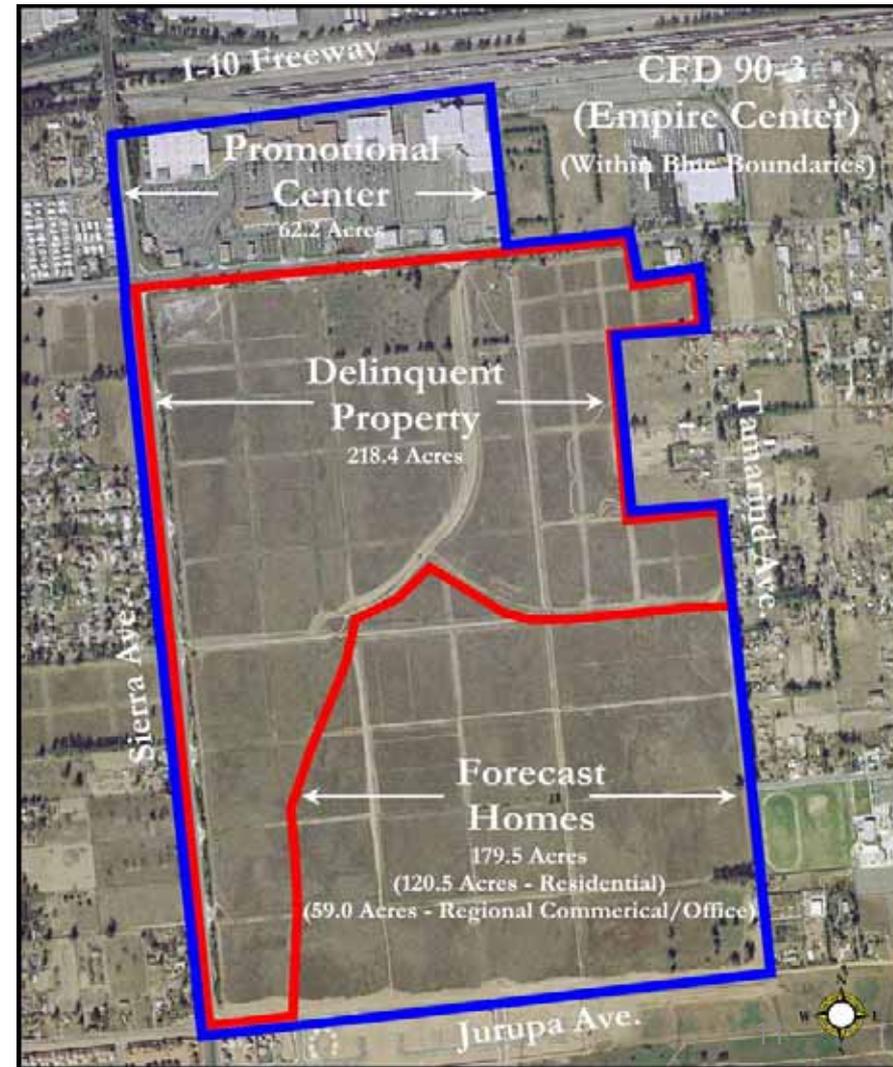


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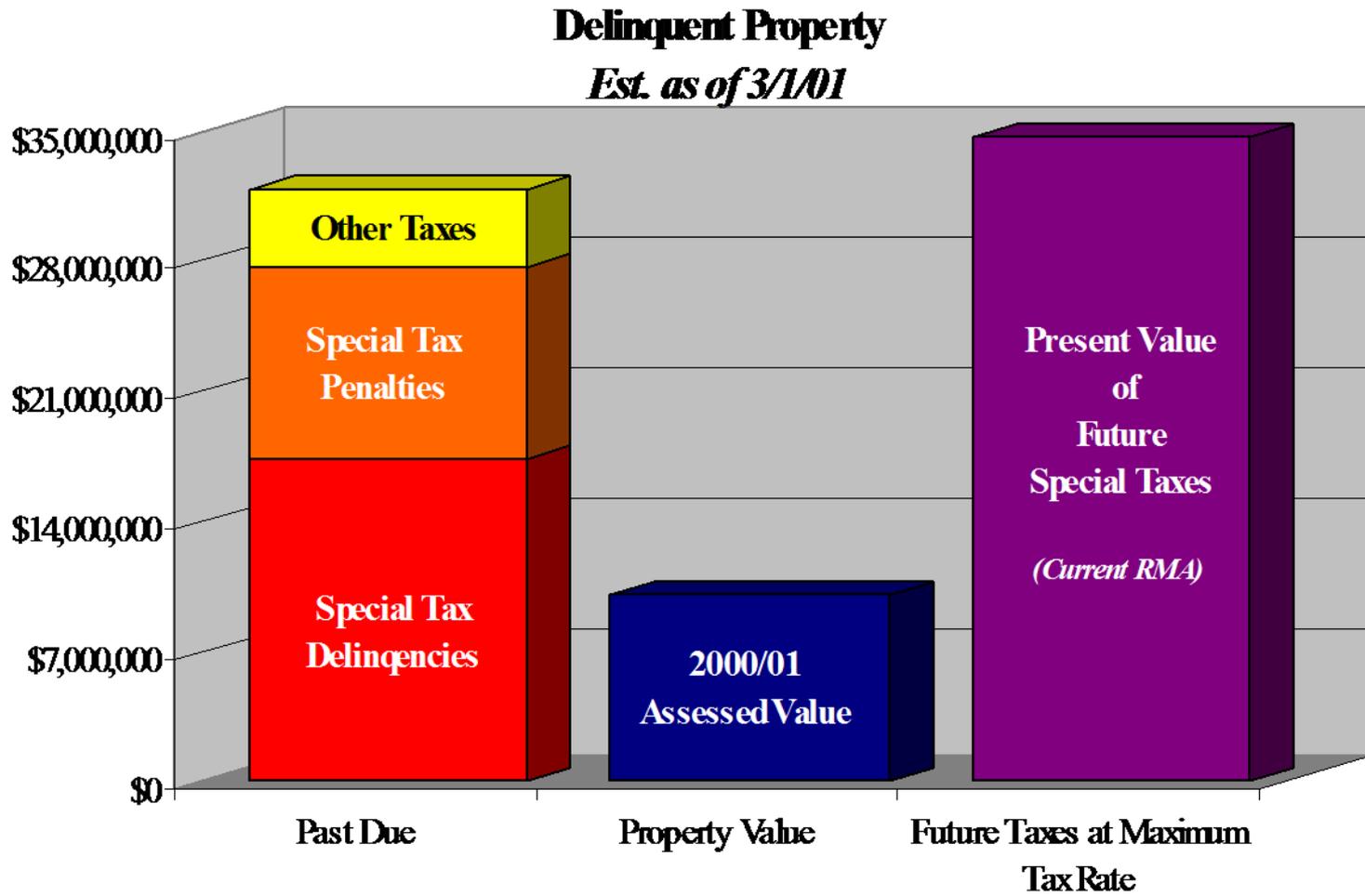
Case Study – Fontana, California  
Community Facilities District 90-3, Empire Center

**Status: Summer of 2000**

- **“Delinquent Property” is Underwater**
  - Tax Delinquent for 6 Years
  - Delinquencies and Penalties Exceed \$28 Million
- **Existing Rate and Method of Taxation Hinders Development**
  - 460 acre site – Mixed Use
  - 3 different owners
- **Requires New Zoning & Entitlements**
- **Environmental Issues**
- **Bond Default: October 1, 2000**



# Tax Liens and Bond Debt Exceed Land Value



## Identifying and Solving Problems

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- Debt exceeds value
- Need to reconcile financial interest and control
  - Those with control (land owners) have lost financial interest
  - Those with remaining financial interest (bondholders, bank) have no control
- Bond control = Land control
- Reduce costs
- Reduce risks



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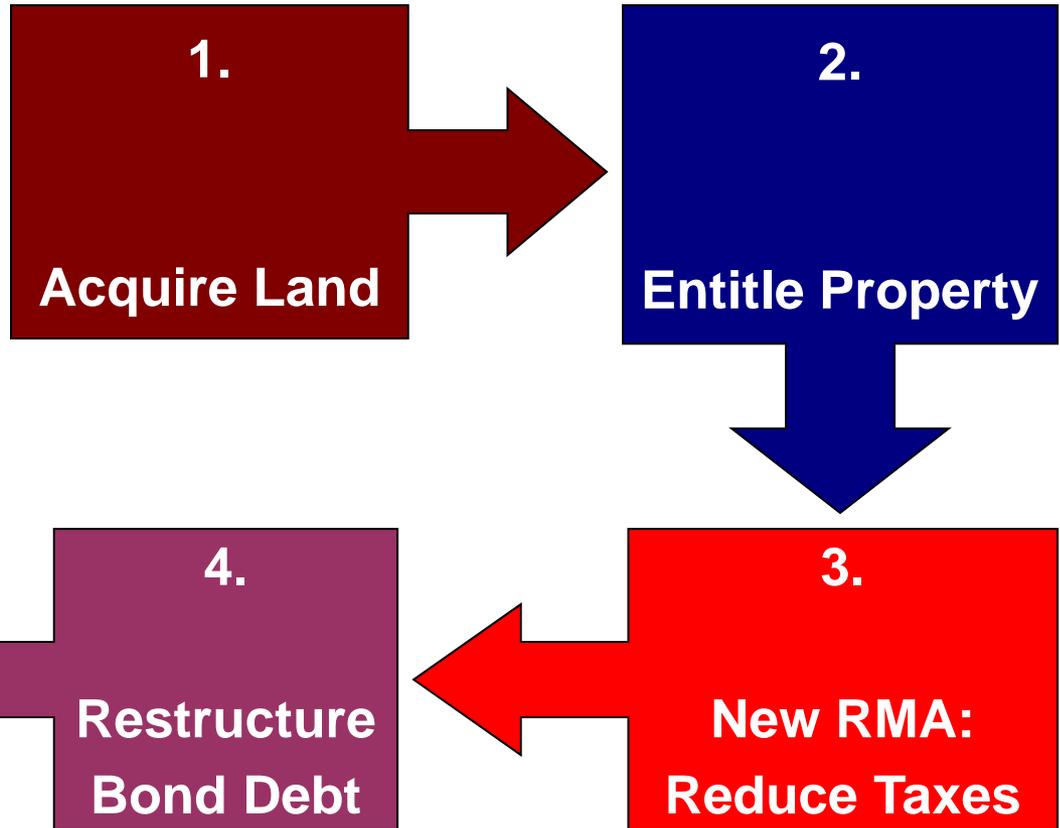
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# Proposed Workout Plan: Succeed with Bond Owners; Not at their Expense

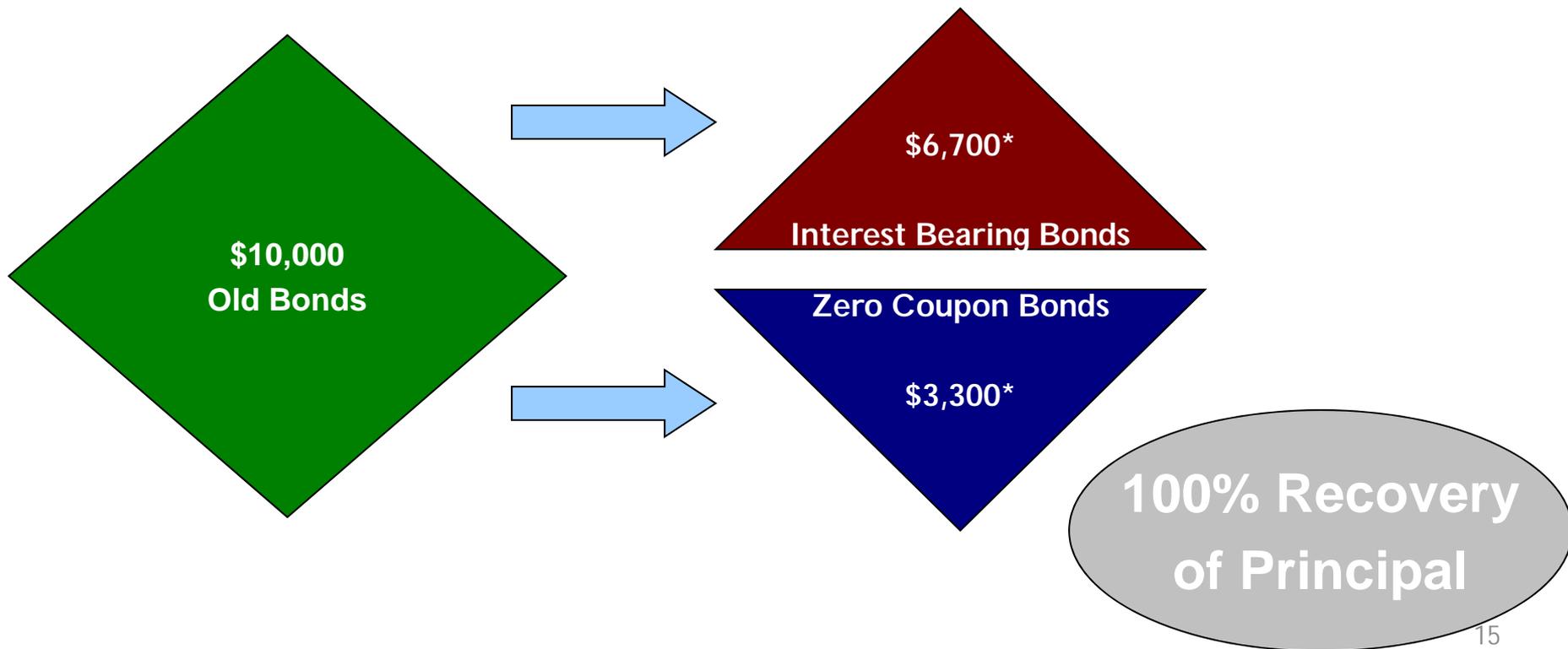


# Proposed Workout Plan Includes: Tax Reduction & Debt Restructuring

## Tax Reduction

- Waive unnecessary delinquency penalties
- Reduce initial/near term tax burden
- Bond owner participation/consent

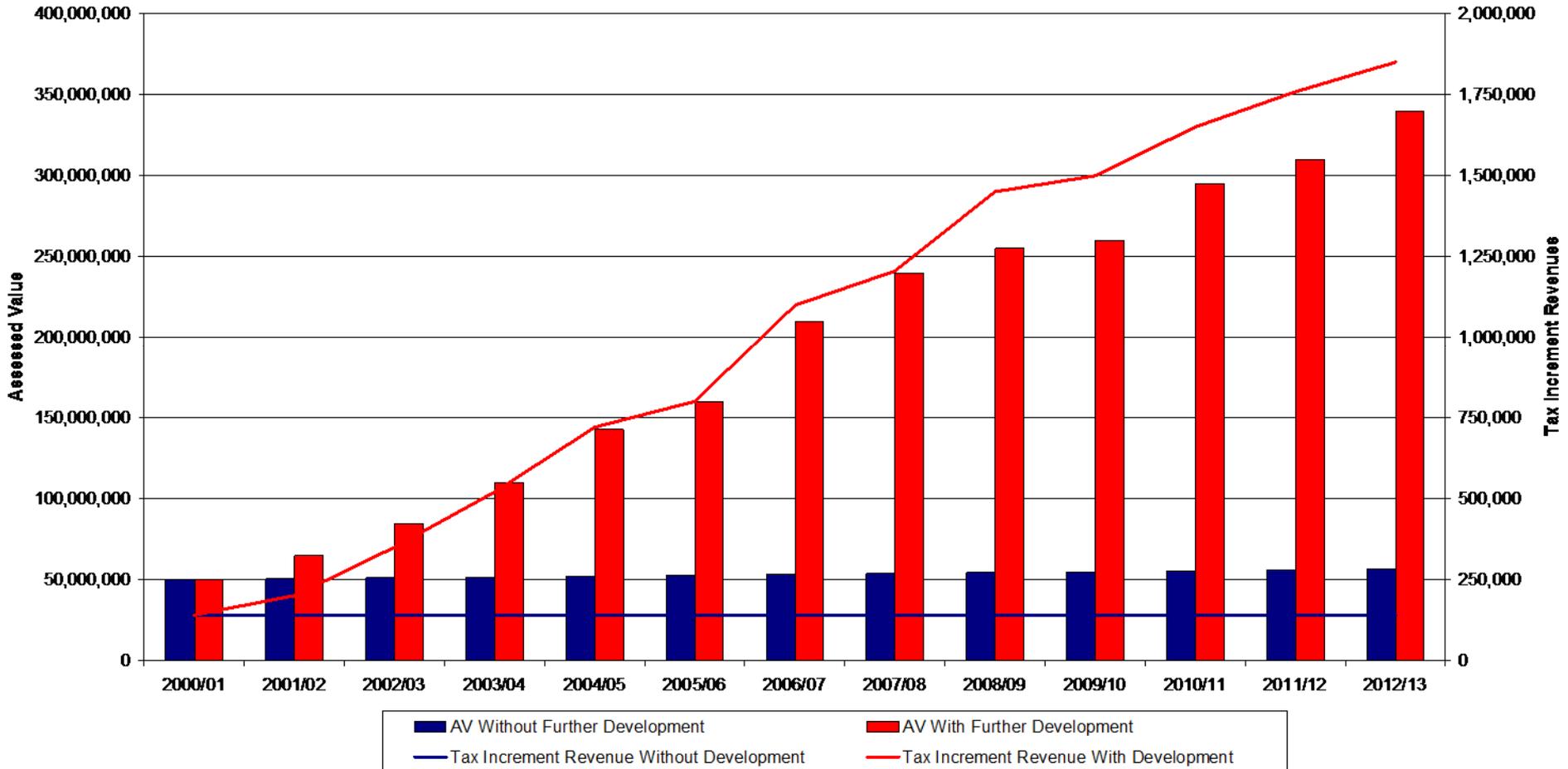
Solicit For Exchange Tender of Old Bonds



# Proposed Workout Plan

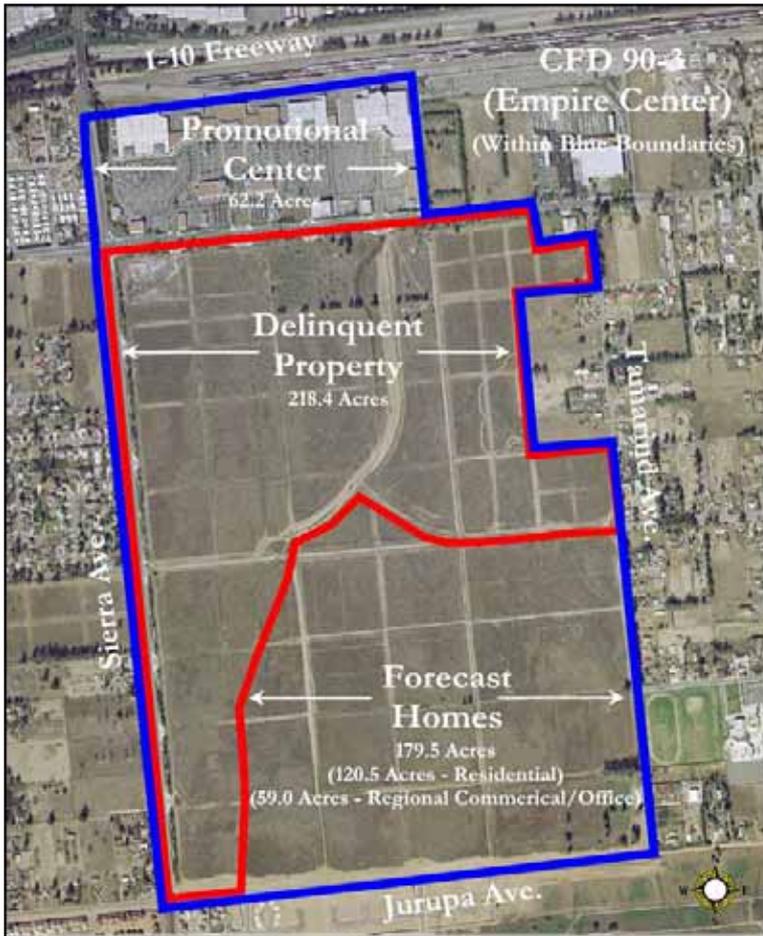
Development Plan:  
 4.4M Sq. Ft.  
 2,500-3,500 Jobs  
 \$174 M Assessed Value

## Empire Center Community Facilities District Value Added Through Development



# Fontana Empire Center – 2001 vs. 2011

2000/01: AV \$50 million



2010/11: AV \$571.3 million



## Lessons Learned

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- **Control is essential; Bond Control = Land Control**
- **Obtaining control requires process: State law, bond docs, negotiation, approvals**
- **Anticipate mid-course changes**
- **Factors for success**
  - **Capital**
  - **Professional skills & experience: real estate, finance, legal, political**
  - **Time – 2+ years to resolve bond default and restart development (depending on State law)**
  - **LEADERSHIP: Newton's First Law (edited by Huck)**
    - ❖ **A defaulted project at rest remains at rest unless consistently forced to resolution**
    - ❖ **A defaulted project *consistently* forced toward resolution will gather momentum and succeed**
  - **Good fortune – the economy must not remain depressed**



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# When the TIF Project Goes “Bad”

## Audience Questions



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# Next Webcast

Thursday, March 31, 2011 @ 1:00pm Eastern

## **CDFA - Tax Increment Finance Coalition Webcast Series: How to Use TIF in a Struggling Economy**

The national economic crisis has placed TIF squarely in the sights of local economic developers as a solution to spurring recovery. This webcast will explore strategies and creative approaches to using TIF to catalyze redevelopment through special assessments, shifting responsibility to land owners, and improving the bond credit rating of TIF deals.



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# Upcoming Events at CDFA

## **Intro Bond Finance Course**

March 10-11, 2011

Washington, DC

## **Advanced Tax Increment Finance WebCourse**

April 5-7, 2011

Daily: 1-5pm (EST)

## **Innovation Finance Course**

May 9-10, 2011

Boston, MA

## **25<sup>th</sup> Annual Development Finance Summit**

May 9-12, 2011

Boston, MA

**Register online at [www.cdfa.net](http://www.cdfa.net)**



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