# City of Cincinnati TIF Policy

## Background

The primary purpose of Tax Increment Financing (TIF) is to provide an incentive for commercial and residential developers to construct projects that will provide economic growth to the City.

Another purpose of this policy is to provide guidance to departments and developers requesting City of Cincinnati TIF for use in economic and/or community development projects. This policy will also serve as a framework from which the City will operate when dealing with the development community as it relates to tax increment financing of economic and community development projects. It will serve to inform the public on the City's use of TIF financing and the requirements and decision making process the City considers important in making its decision to use TIF. Even though this policy is intended to clarify the process, it is not intended to necessarily resolve all the details and complexities of tax increment financing arrangements – that will be analyzed on a case by case basis.

Any such tools providing project assumptions, pro forma operating statement, sources and uses of funds statement and analysis of returns statements are expected to be used in the analysis of a project.

In general, tax increment financing should not be thought of as a developer entitlement, but as a financing option that may be used.

This policy shall be in effect as of December 1, 2006.

## Policy Objectives/Guidelines

1. The proposed project should meet economic and/or community development objectives. Those objectives may include:

   - job creation;
   - public improvements in support of economic and/or community development;
   - increase in tax base;
   - urban redevelopment;
   - creation of homeownership units,
   - rehabilitated housing units;
   - create/support neighborhood retail and commercial opportunities;
   - and removal of slum/blight.

   The sponsoring city department (ie. Economic Development or Community Development) will prepare a justification statement indicating the public purpose and public benefit of the project and the need for public involvement and subsidy. Emphasis will be placed on determining the financial gap in this project and the return on the City's investment in the form of tax revenues generated.

2. TIF must be used for projects in accordance with the applicable State Law and City Municipal Code requirements for every development project. A determination of the applicable TIF statute must be identified. The major ORC sections for TIF financing are typically Chapter 725 and Section 5709.40 or 5709.41. Consideration points may include:

    - Does the use of TIF meet the citys economic and/or community development policy objective(s)?
    - Will the TIF be used for the benefit of the project (ie. "project specific") or to the incentive district?
    - What project(s) will the TIF proceeds fund?
    - Who benefits from the project – the public or private?
    - Is the project consistent with an existing urban renewal and/or blight remediation plan(s)?
    - Is the proposed project is consistent with approved zoning regulations prior to submission, or identifies and resolves any zoning issues?

3. The community receiving TIF financing should send a letter of support to the sponsoring city department indicating their approval of the use of TIF revenues for the proposed development project. Community councils and business district representatives should have had the opportunity to review and comment on the proposed project. This should only be applicable for project specific and incentive district projects seeking TIF.

4. The sponsoring department should receive support from City Council on the merits of the project. At this point, support from City Council and the community should be received before making any commitments to the developer on the use of TIF financing.

5. The economic and/or community development project must be approved by the sponsoring city department in the form of a memo to the Finance Director indicating department sponsorship and support. This is required on both project specific and incentive district projects. Proposed housing projects receiving TIF from the incentive district must be located *within* the district, while proposed public infrastructure projects receiving TIF from the incentive district must *benefit* the district.

6. TIF funding may be used to fill a financial gap in the development project only if the developer is able to prove that if not for TIF financing, the viability of project is at stake and would not materialize. Along those lines, TIF is not an entitlement and therefore should not be used by developers to use to shore up developer profit on the project.

7. To the extent possible, TIF proceeds should not be the first dollars spent on the project. The developer should seek reimbursement from the City in the form of

TIF. This helps to avoid a public commitment of funds whereby a private development does not materialize.

## Financial Considerations

1. Participants:
   - City – applicable departments, bond counsel, financial advisor.
   - Project – developer, community, city council, developer's bond counsel, developer's financing team.
2. Project Costs – it is required that the costs of the project be verified by the City and the Developer. This includes a detailed total project cost estimate inclusive of all hard and soft costs and should be supported by quotes, bids or pending contracts. All developer fees must be clearly identified along with all costs attributable to any individuals or entities related to the developer. The developer must provide an estimate of project value equal to the anticipated true value of the project to be added to the tax duplicate. Estimates of ongoing public maintenance to service the project or to provide maintenance costs of public infrastructure should also be included (eg. police, street cleaning, etc.).
3. The city engineer should complete a cost analysis of the proposed public improvements/project.
4. Pro forma - Analyze the project by reviewing the project proforma (ie. revenues, expenditures and net cash flow of the project). A clear financial need should be presented as a basis for using TIF financing. The funds requested through tax increment financing are intended to be the last source drawn upon for project completion.

   a) Revenues

      - All sources and amounts of funds should be clearly identified including the source(s) and amount of equity to be injected into the project.
      - The developer must provide a detailed analysis of the economic gap created by public infrastructure costs that are extraordinary to the project. A description of efforts to mitigate this gap should be included as additional support for the investment/subsidy request.
      - All rental income streams should be identified along with all lease terms that influence rents; e.g., escalations, reimbursements, and overage provisions.
      - Pre-leased or committed space should be clearly identified by tenant name.
      - The anticipated leasing timeframe for uncommitted space should be included.

b) Expenses

- All normal operating expenses should be identified including real estate taxes, fully assessed, based upon the tax value certification requested above.
- All expenses payable to individuals and entities related to the owner or developer must be clearly identified.
- In addition to normal operating expenses, leasing commissions should be quantified and scheduled based upon terms of payment. Commissions payable to individuals and entities related to the owner or developer must be clearly identified.

c) Net Cash Flows

- Operating statements starting with project completion, stated on the basis of calendar year periods, should be prepared indicating net cash flows from operations and net cash flows after all cash payments; e.g., real estate commissions, for each year until stabilized occupancy is achieved plus two full years thereafter.

d) Risk Analysis

- An analysis of project cash flows including contingency plans if project leasing does not achieve projections and/or if initial cash flows are negative should be detailed indicating sources of support to ensure that all project cash requirements including the service payments to support the request tax increment financing are funded.
- An analysis of returns to the owner(s) of the project must be provided.
- This projection should be for the same period projected by the pro forma operating statements.
- The owner(s) actual cash investment, not imputed equity, should form the basis of the analysis.
- All periodic cash flows should be detailed and must include cash flows form operations plus non-operating cash flows including but not limited to tenant improvements reimbursements in excess of cost, all cash flows to individuals or entities related to the owner(s) in which the owner(s) participate(s), proceeds from refinancing and/or releases of reserves or security deposits which may occur from time-to-time.

e) Excess TIF Revenues

- The application of excess TIF revenues (defined as tax increment revenues after the provision for debt service repayments and school payments) will remitted back to the City. Only the City can decide on alternate uses of excess TIF revenues.

**Debt Issuance Considerations**

1. Issuer - Determine who will issue the TIF bonds (ie. the Port Authority or the City). If issued by the City, the Finance Department will determine whether general obligation or special revenue debt is appropriate and whether the debt will be tax-exempt or taxable. Issues will be structured to minimize the financial risk to the City.
2. TIF Bond Sizing - Determine the TIF debt amount that will supported by incremental TIF revenues during and after project completion.
3. TIF Revenues - Determine the incremental TIF revenues that will be generated from the development project. This incremental revenue will repay the debt issued.
4. Repayment of TIF Debt - Determine the security for the TIF bonds. This could come in the form of Letter of Credit, Bond Insurance, Developer Guarantees, or a dedicated revenue source of the City (rare, and used as a last resort).
5. Debt Service Coverage - Determine the appropriate net revenue (ie. net incremental TIF revenue) to debt service coverage. A starting point should be 1.5x coverage, meaning that net revenues should be 1.5 times greater than debt service. The ability to issue additional bonds will also be based on coverage.
6. Documents - Compilation of the appropriate bond documents.
7. Developer Guarantees - Financial Guarantees of the Developer for the project – will this be in the form of project completion, minimum service payments, etc. A TIF Financing requires a Service Agreement in which the developer will agree to a Minimum Service Payment sufficient to satisfy the debt service including payment of interest during construction. The incremental revenues/Minimum Service Payments will pay for all costs of debt service. The Service Agreement must be approved by City Council. Law and Finance will work with the department to develop the Agreement.
8. Transaction Fees – the City should cap transaction fees. These fees will include bond counsel, financial advisor, underwriters.