Innovative TIF Case Studies: A City CFO's View

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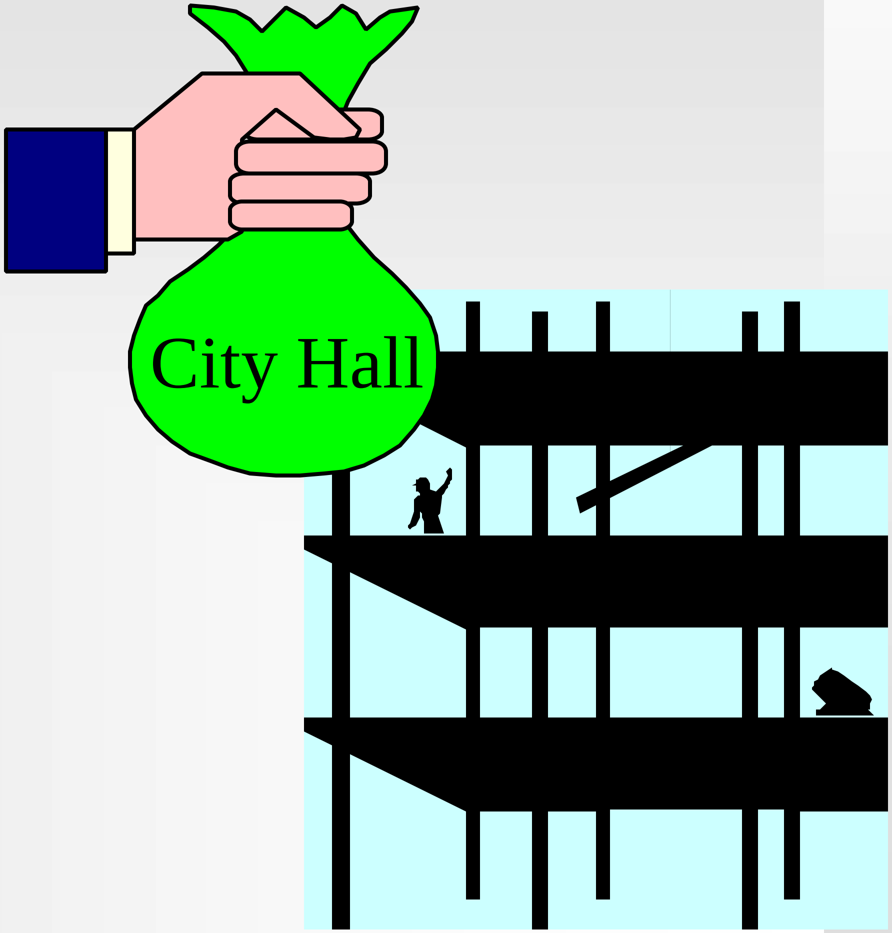
Why should the Finance Officer be involved??

- Provides financial expertise, “taxpayer” view
- Can help establish TIF-ED policies
- Promotes “due diligence” for TIF feasibility test
- Enables “plain language” disclosure b/4 & after approval

Why should government assist in economic development projects???

1) Meet key strategic local development goals
2) Level the "playing field"
3) "Gap" Financing



Why should government get involved??

1) ***Meet key strategic local development goals***

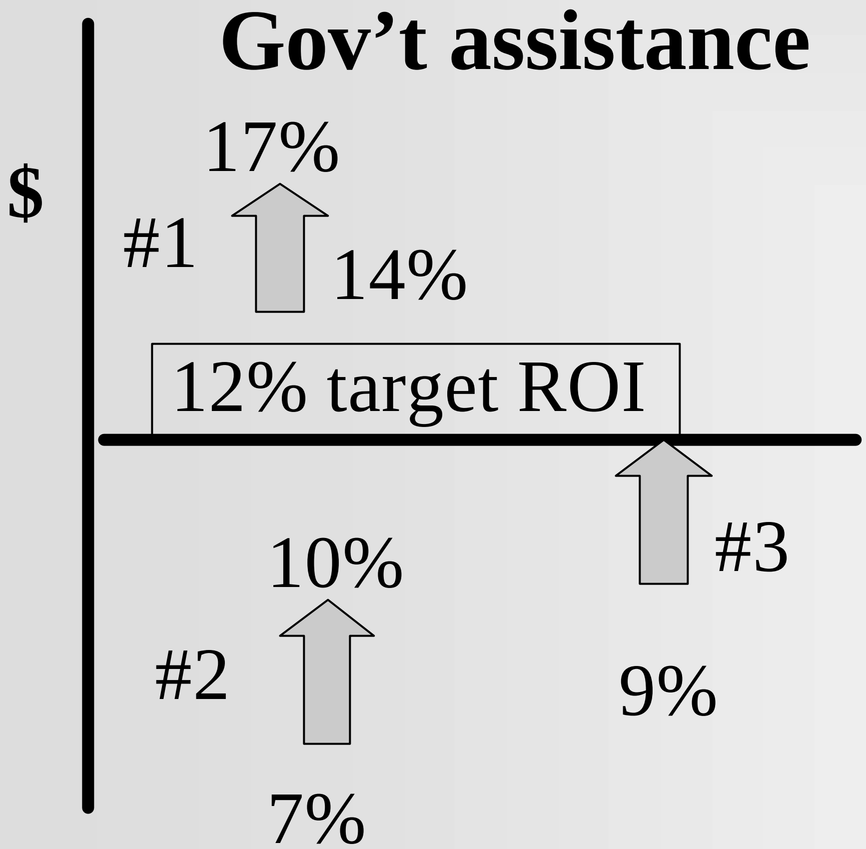
- **Implies an active gov't development role w/area specific master plans, RFPs, etc.)**
- **Focus on a specific development objective**
- **Lead area turnaround**

2) ***Level the "Playing Field"***

- **Aims at removing marginal competitive disadvantage**
- **Example: gov't covers "extraordinary" development costs**

Why should government get involved??

3) <u>Close the Financing Gap</u>



#1: No need for assistance

#2: Assistance too little to attract private investment; project may be too weak

#3: Assistance appropriate to attract private investment

Two major CFO questions

1) Is the proposed project likely to be successful?

2) What level of government assistance is needed to enable the project to proceed?

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1) Is the proposed project likely to be successful?

2) What level of government assistance is needed to enable the Project to Proceed?

1) Is the proposed project likely to be successful?

1A) Will the Project be completed as proposed?

- **Sufficient Construction Budget??**
- **Firm Private Financing Commitments??**
- **Executed Development Agreement?**

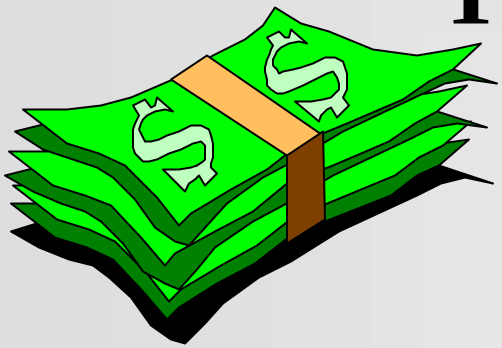
1) Is the proposed project likely to be successful?

1B) Will the Project produce sufficient taxpayer benefits?

- **Direct Dollar Benefits**
- **Indirect Dollar & Non-Dollar Benefits & Costs**
- **Timing-Risks Critical**

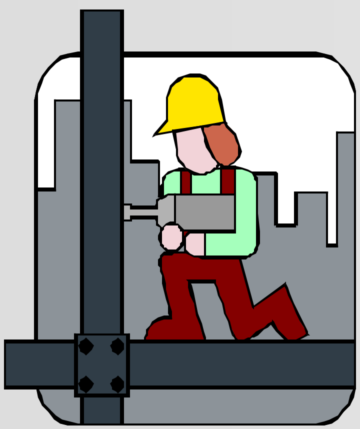
1) Is the proposed project likely to be successful?

Taxpayer Benefits - two types



- ***Direct dollar benefits***

  Tax Revenues,
  Loan Repayments



- ***Indirect dollar and non-dollar benefits***

  Jobs, Quality of Life Factors

Two major CFO questions

1) Is the proposed project likely to be successful?

2) What level of government assistance is needed to enable the project to proceed?

2) What level of Government (Gap) assistance is needed?

- **Proposed Private Debt a maximum?**
  - **Examine cashlows-coverage, “LTV”**
- **Proposed Private Equity a maximum?**
  - **Substantial private capital at risk?**
  - **Realistic return on investment?**
- **Can gov’t be co-investor? (participate on the upside?)**

What TIF assistance can a Government provide?

- **Infrastructure (water, sewer, streets, streetscaping, etc.)**
- **Government grants/loans to project**
- **Government equity participation**
- **"Developer Loans" - Loans <u>FROM</u> Company (Repayment by govt secured only by future TIF revenues)**

Example #1 Business Park

- *City Initiates Development*

1. City - acquires site, does streets, utilities, performs site grading. Finances with debt.
2. Developer buys site.
3. Developer subdivides, sells parcels. Receives net sales revenue from site over 3-5 years.
4. City receives TIF $ over 15-20 years.

Example #1 Business Park

- City *Pricing Strategy* for project site -
  - $1??
  - Write down price?
  - Recover all costs?
- City an Equity Partner?

Example #2:Mixed Residential-Commercial Project

- ***Private Financing Gap Exists & Area market strength uncertain***
  - ✓**City Provides GRANT to fill “gap”, OR**
  - ✓**City Provides Subordinated Mortgage LOAN to fill gap, OR**
  - ✓**City provides LOAN as above PLUS City receives X% of CASH flow after debt service on both private & City Loans**

Example #2:Mixed Residential-Commercial Project

- **Public subsidy depends on**
  - **Market conditions**
  - **"*Scrubbed*" project budget, investor cash -flow projection**
- **Investor "Open Books" a must!**
- **Industry Standards may be of Use**

Example #3 Assisting Light Industrial Development-Profit Guarantees

North Avenue Commerce Center (1994-1998)

- City assembles land, constructs public improvements ($1.8 million)
- City provides 9% before tax profit guarantee for first four years. ($0.8 million)
- Developer to construct, own and lease building 130,000 sqft. ($3.3 million)

Example #3 Assisting Light Industrial Development-Profit Guarantees

North Avenue Commerce Center (1994-1998)

- Focus is job creation – never came close to job targets
- No claw-backs.
- A profit guarantee may have been a ***disincentive*** to lease up.

Financing Gap: Process for analyzing the need for proposed government assistance

1. Analyze market & indirect impacts
2. Review development cost budget (all sources & uses)
3. Analyze project cash flows
4. Private debt and equity financing
5. Return on equity
6. Estimate “gap” and need for government financial assist (apply policy guidelines)

Concluding Comments

- **Focus on "Life Cycle"** cash flows: 10-25 Yrs
- Credible **Feasibility Study**
- **Evidence** of sufficient **private equity** & **loan commitments**
- **Term Sheet** followed by **Development Agreement**

Concluding Comments

- ***Track Actual Results*** against goals
- ***Include & enforce "clawbacks" to reclaim gov't assistance when performance lacking***
- Promote ***written policy guidelines*** for government financial assistance to development
- Establish a ***formal process*** for consideration of development projects & ***formal contracts***

Concluding Comment

- TIF a great ***real estate development*** tool.
- TIF not always the most suitable ***economic development*** vehicle.