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To TIF or Not to TIF

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Coordinator, Research and Technical Assistance
Council of Development Finance Agencies
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Panelists

Jonathan Glover, *Moderator*

Vice President, Corporate Trust
The Bank of New York Mellon

Fran Rood

Senior Vice President
SB Friedman

John Kovari

Associate Professor
University of Wisconsin-La Crosse

Dave Misky

Assistant Executive Director
City of Milwaukee

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Jonathan Glover

Vice President, Corporate Trust
The Bank of New York Mellon

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John Kovari

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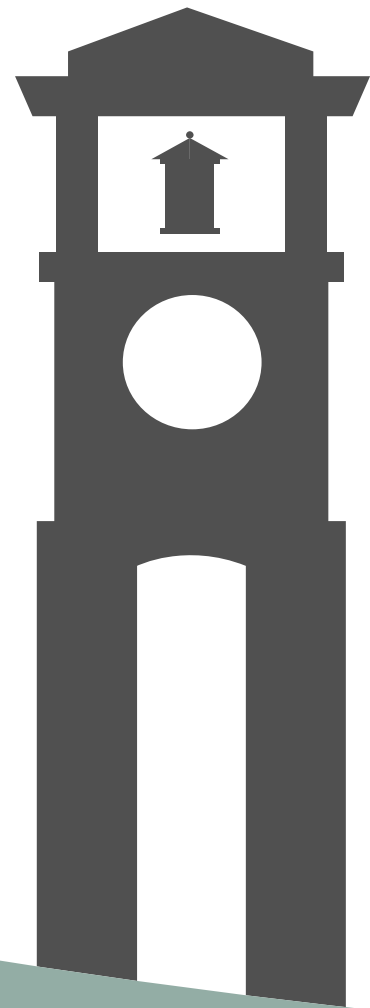
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To TIF or Not to TIF? And How to Determine TIF Assistance Levels

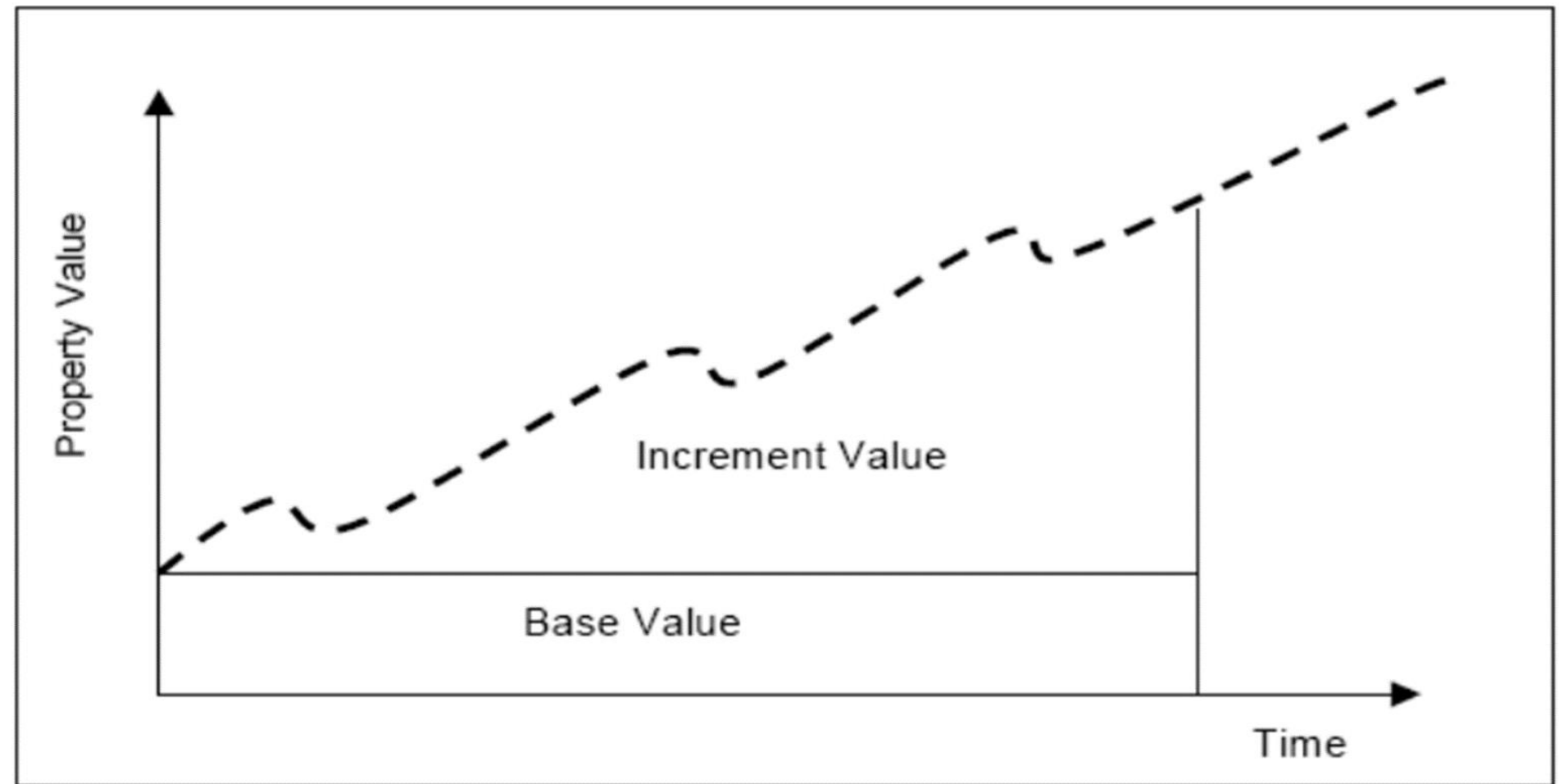


John Kovari, PhD
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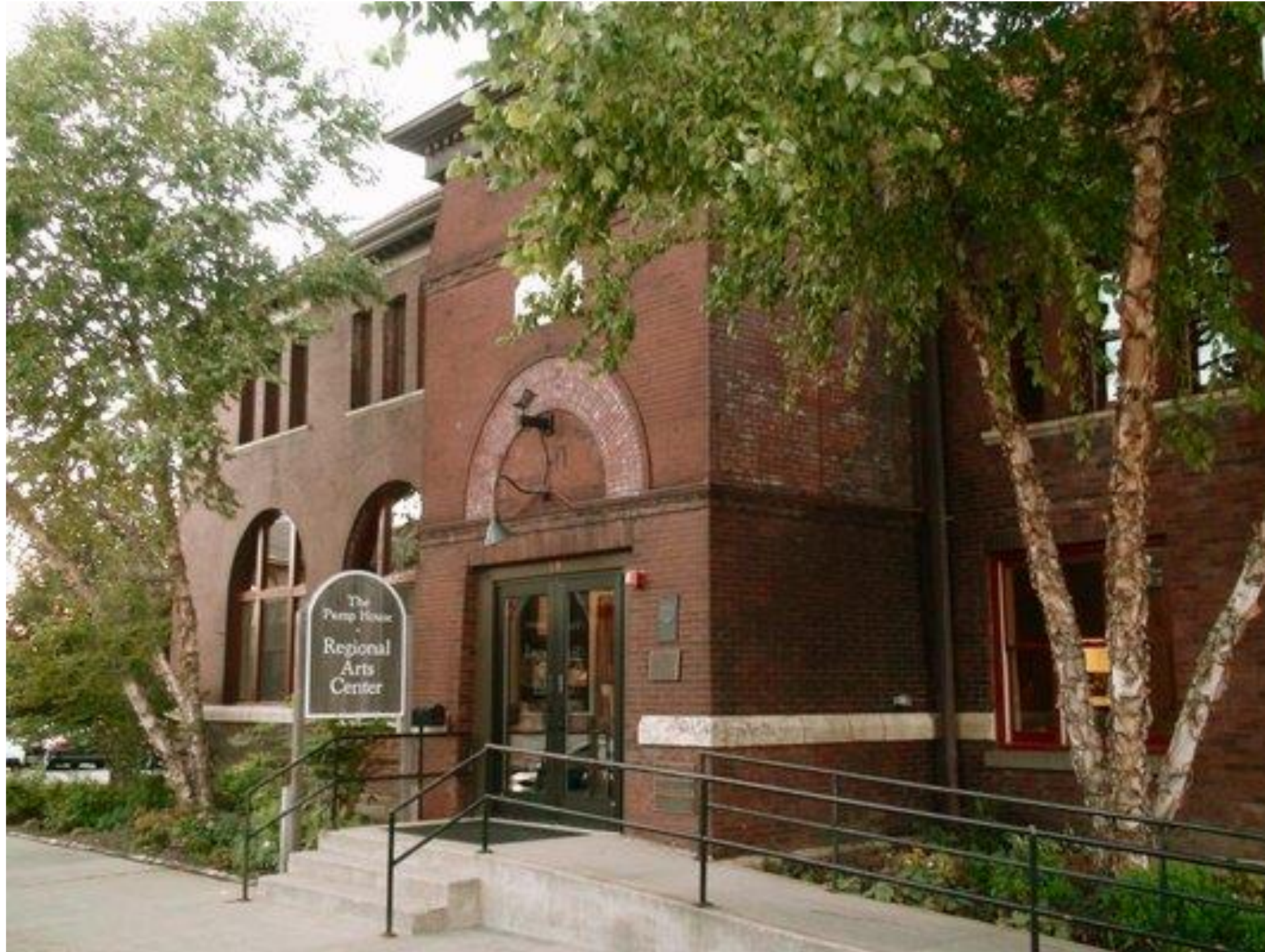


The Basics

- TIF is local govt assistance to promote economic (re)development
 - Future prop taxes pay off investment
- Goal = raise prop value



TID #5 (Marriott) in La Crosse, WI



- \$1.6m city investment
- Base prop value of \$894,800 in 1992
 - Over \$8.5 million dollars in 2012 (857% increase in total property value)



TID # 6 (Juneau Highlands) in West Allis, WI

- Created in 2004 to remediate vacant Juneau Highlands brownfield site, previously used as carbide gas manufacturing plant
- Base value in 2004 = \$1.3 million
 - Fell to \$762,000 by 2016
 - Structure demo on site, part of a \$4 million environmental cleanup/redevelopment effort.
- Basically, TID #6 has not generated any tax increment as of 2019
 - West Allis instead utilized roughly \$3m in general property tax levy to sustain GO bond debt service



State Variations

- Lots of variation across the 50 states
 - Revenues
 - Usually property tax, but 19 states also allow sales, income, or other tax revenue
 - Lifespan & Types of Districts
 - Anywhere from 8 years (MN), 15 years in NE & MT, to 50 years in CT
 - Some limits on land use and how TIDs can spend
 - From transit to industrial to environmental
 - “Blight” & “But For” requirements
 - Half of states have these
 - Value Limits
 - ¼ of states limit when locals can create a new TIF
 - WI = 12% value limit

❖ Reasonable safeguards can be used to limit TIF stress



TIF Literature

- Negative & Positive Effects
- TIF Fiscal Health
 - “pre-implementation planning”
- Begs the question:
 - How to determine the appropriate level of TIF support that wouldn't violate spirit of “but for” requirement?
- Objective measures still unclear (research is developing)



TIF Analysis Workbook

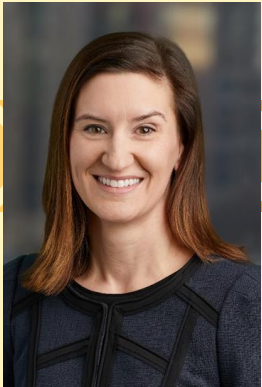
- Four major steps:
 - TIF Feasibility Analysis
 - NPV
 - Cash Flow Analysis
 - IRR
 - Leverage Analysis
 - DCR, Cap Rate, LTV
 - Project Cost Analysis
 - Income and hard/soft cost verification
- Note, all these are moving pieces



Final Thoughts

- ❖ Basic rule of thumb is limit TID spending to no more than 10% of new value created
- Limit age of TIDs
 - Risk increases with long lifespans b/c uncertainty compounds
- Use conservative cash flow projects
 - Stress tests
- Most distressed TIDs are small, speculative deals
- Proper gap analysis – discounting, IRR, DCR, cost analysis
- Build in risk-mitigating alternative financing
 - e.g. PAYGO/reverse TIF, clawbacks, guarantees





Fran Rood

Senior Vice President
SB Friedman
Chicago, IL

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CDFA BNY Mellon Development Finance Webcast Series

Fran Lefor Rood, AICP | SB Friedman Development Advisors

March 17, 2020



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- Our projects run the spectrum from vision to deal
 - We specialize in public-private real estate finance
- Our mission is to guide and enable our clients to create high-quality places through the practice of real estate economics, development finance and urban planning



Four Necessary Conditions for Providing TIF Assistance

1
Project contributes to
important public
policy goals

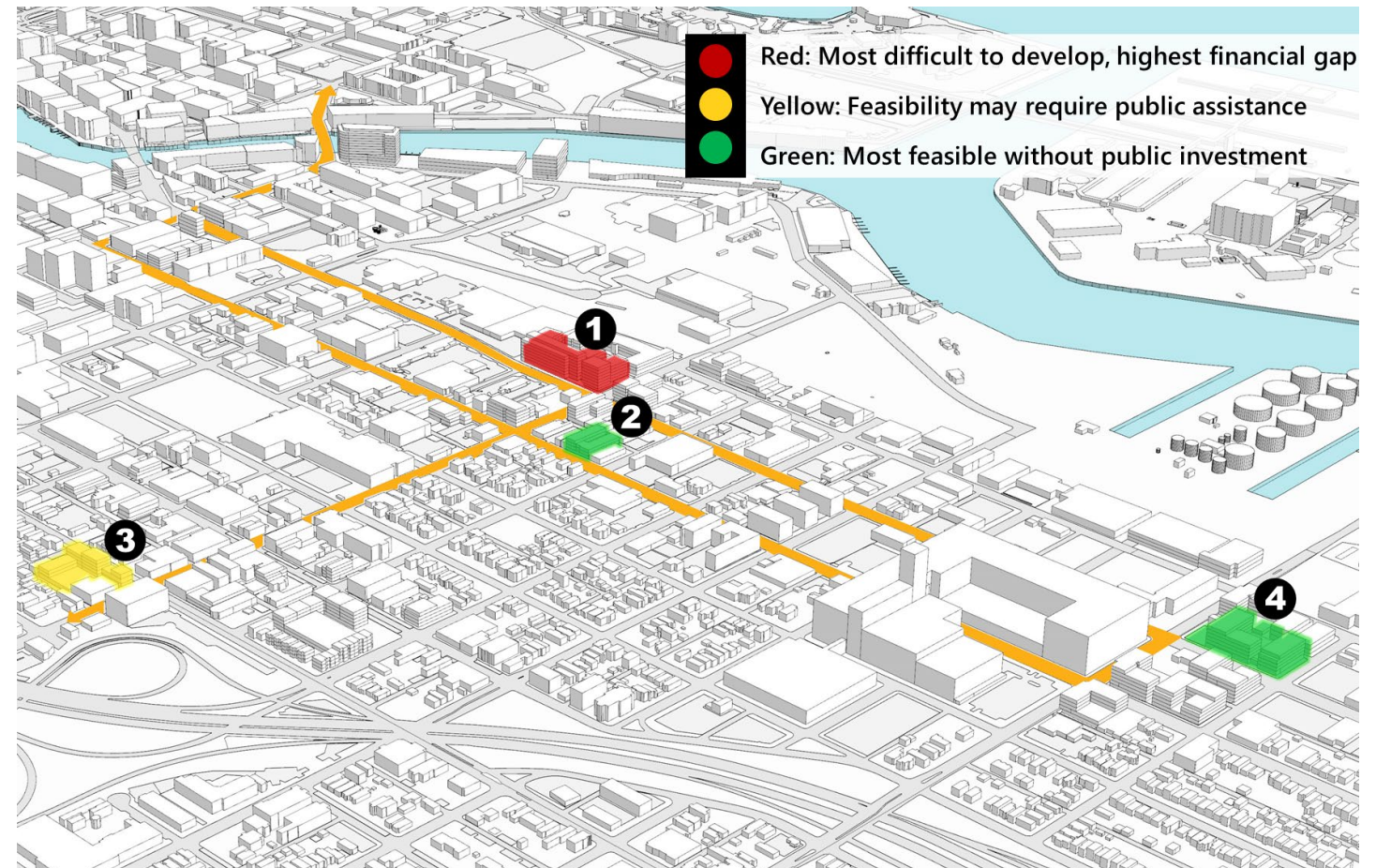
2
Project is
economically feasible
with assistance

3
Project would not
proceed as desired
'but for' the assistance

4
Project pays for itself
through generated revenues
or economic impacts

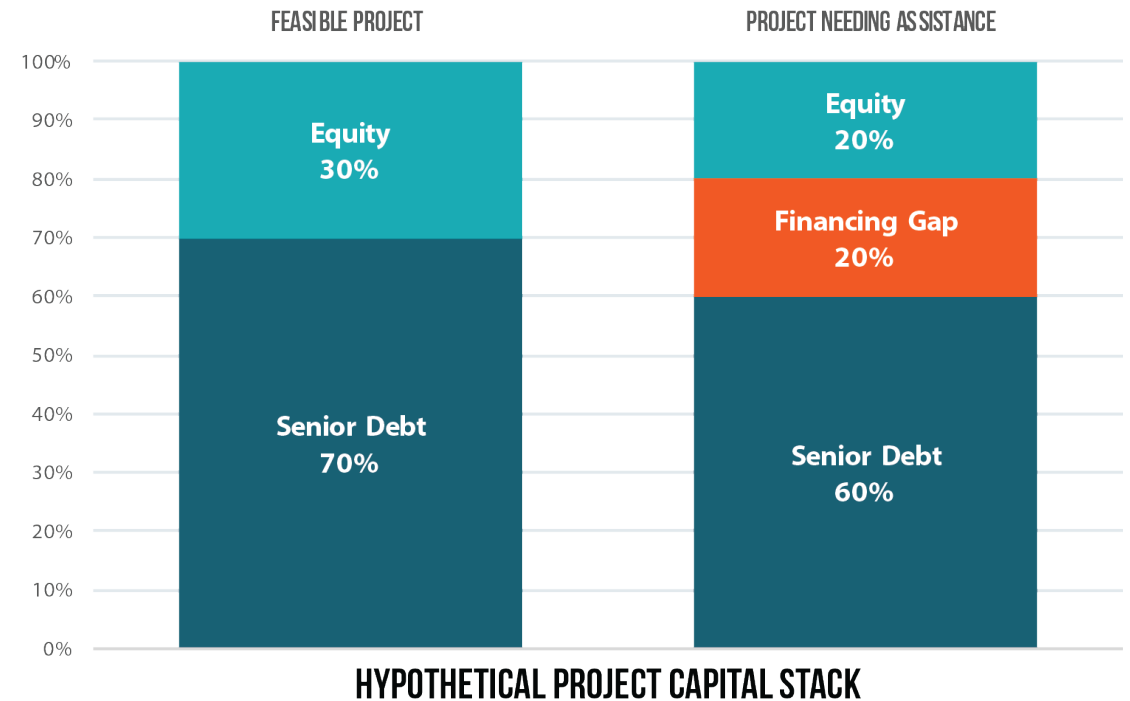
Primary Means to Evaluate Need for TIF Assistance

- Financing gap to achieve reasonable rates of return
- Truly extraordinary costs
- Providing public improvements
- Incremental cost of locating at proposed site/to compete with alternative site



Financial Gap/“But-For” Approach

- Demonstrates that TIF is being used judiciously
- Reduces the appearance of arbitrariness
- Helps articulate the case for (or against) TIF for a specific project
- Helps define & clarify the problem TIF is trying to solve
 - Can improve deal structure



What is the Developer's Capacity to Undertake the Project?

- Who are you working with?
- Do they have a plan?
- How real is the project?
- Do they have a track record of success (or failure)?
- What is their financial and organizational capacity?



What is the Developer's Request for Assistance?

- Conduct an **up-front dialogue** with developer
 - What is the specific request for assistance?
 - Why is the assistance needed?
 - What is driving timing (e.g., land purchase contract)?
- Is **project ready for review** process?
Or will it be “more ready” when other milestones are hit?
- **Establish a formal application & review process**
 - Transparent to developers & public
 - Consistent data request & process
 - Fee schedule/expectation (developer covers costs of analysis)



Underwriting Analysis: Key Parameters

Substantiate/benchmark all revenues, hard & soft costs, land value, private debt & equity terms

- Project budget
 - Land acquisition
 - Site work
 - Construction costs
 - Soft costs
 - Developer fee
- Operating assumptions
 - Rents/sales prices
 - Absorption/lease-up
 - Operating expenses
 - Property taxes
- Financing assumptions
 - Debt parameters
 - Equity parameters
 - Other special tools (e.g., tax credits)
- Returns on Cost/Equity

Evaluate whether project assumptions fall within typical ranges

If they don't, why not?

Underwriting Analysis: Common Issues

- Excessive land acquisition costs
- Flaws in development program or design
- Overly conservative pro forma assumptions
- Underdeveloped concept

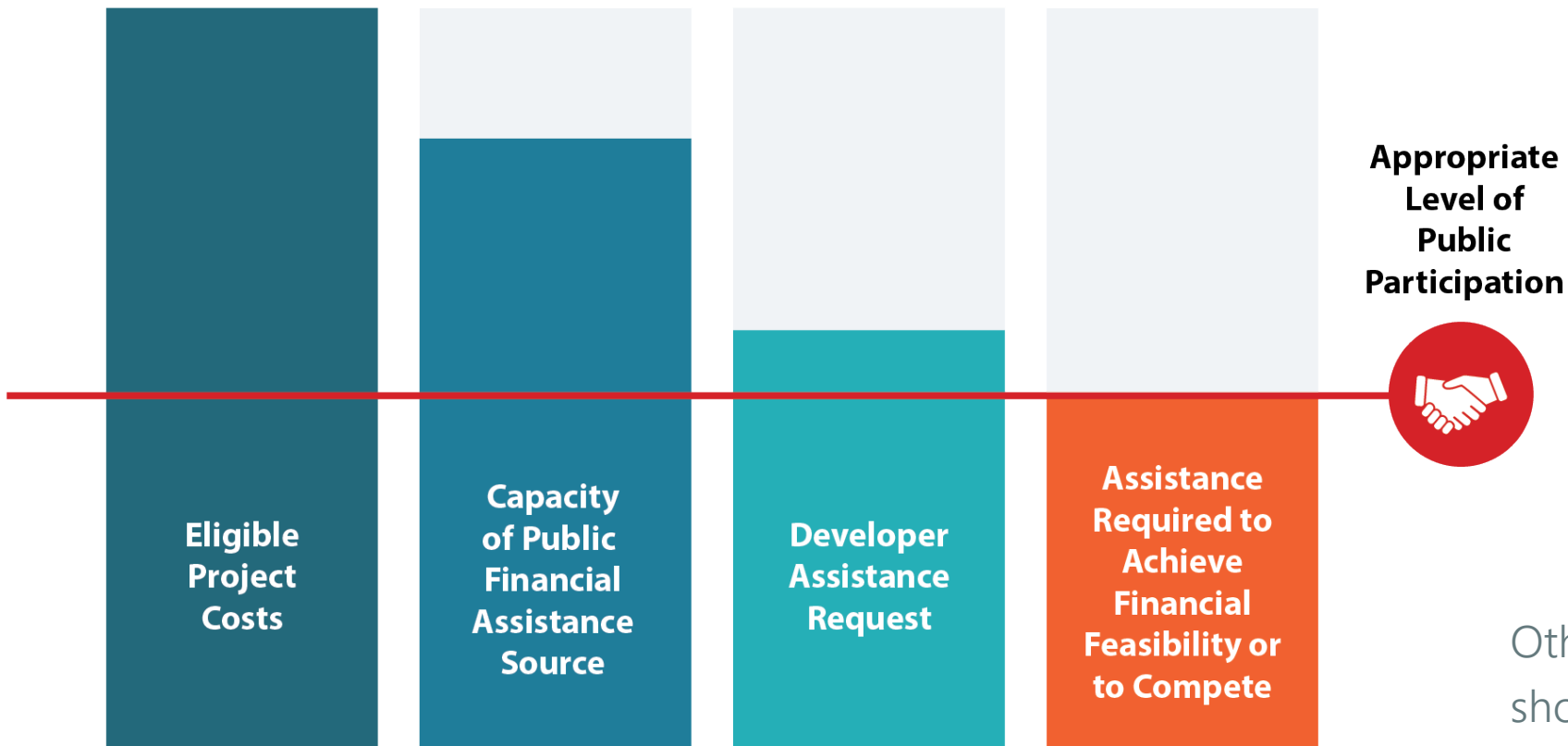
Municipality should be prepared to walk away if the deal truly doesn't make sense

Underwriting Analysis: Sanity Checking the Gap

- Extraordinary costs
 - (e.g., major environmental or site issue)
- Public infrastructure included in private project
- Establishing a new market
- Availability of private financing
- Publicly desired features that can't be supported by project
 - Structured parking
 - Higher quality development
 - Mix of uses



Underwriting Analysis: Determine Appropriate Level of Assistance



Other metrics can be considered, but shouldn't be used to size deal

- % of project increment
- % of project cost
- \$ amount per job attracted /retained

Project Gap is Not Only Consideration

- Underwriting analysis identifies public assistance needed to achieve financial feasibility
- Policy considerations inform whether the public assistance meets community goals



TIF can be a Vital Tool to Achieve Community Goals

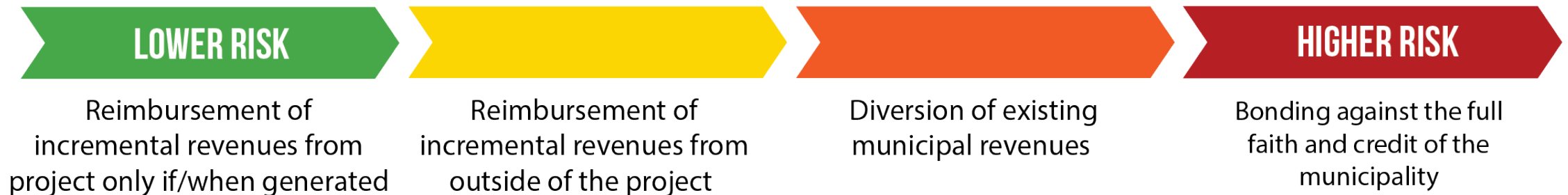


TIF can be a Vital Tool to Achieve Community Goals



Right Size and Structure a Fair Deal

- Underwriting provides understanding of what is driving need for assistance
- Public sector should not carry primary risk
 - Developer has skin in the game
 - Private debt is maximized
 - Structure is efficient and lowest risk to public sector





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To TIF or Not to TIF

City of Milwaukee, Wisconsin

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Redevelopment Authority of the City of Milwaukee

- Independent public corporate body created by state statute in 1958
- Governed by 7 member board
- Appointed by Mayor; Approved by Council
- Mission

“...eliminate blighting conditions that inhibit neighborhood reinvestment, to foster and promote business expansion and job creation, and to facilitate new business and housing development.”

Redevelopment Authority of the City of Milwaukee

- Tools for Economic Development
 - Acquisition and disposition of property
 - Preparation and implementation of redevelopment plans
 - Issuance of Bonds
 - Creative roles in tax credit deals
 - Approval of Tax Incremental Financing Districts

Why Use TIF?

- Encourage Development
- Eliminate Blight
- Address Environmental Issues
- Adaptive Reuse
- Finance Infrastructure

Two Categories of Public Infrastructure Improvements

- Generic Public Improvements
 - Roads, bridges, sidewalks
 - Utility extensions (water, sewer, electric, gas, telecommunications)
- On-site Public Improvements
 - Environmental Remediation
 - Parking facilities
 - Landscaping
 - Storm water management

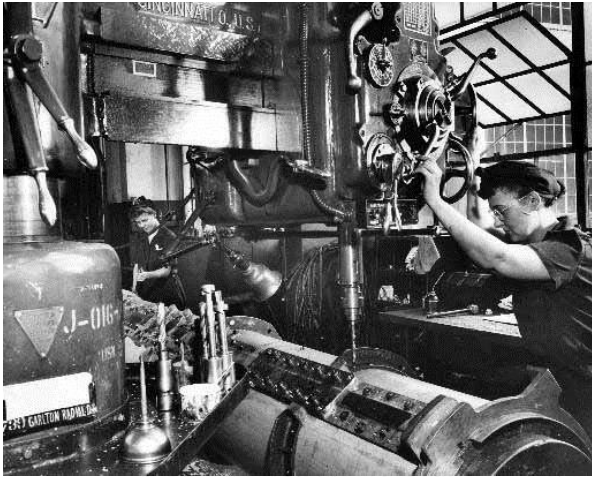
City of Milwaukee TIF Facts

- * TIF District No. 1, Menomonee River Valley created May 1976
- * TIF District No. 103, Komatsu created in 2019
- * 52 TIDs are currently open; 44 have been closed out to date
 - * 1 District dissolved in 2018 resulted in \$2.8 million in new tax base (Since first TID - \$1.3 Billion of incremental value)
 - * 1 District was amended in 2018 that would include all street-paving projects within ½-mile of the district's boundary

City of Milwaukee TIF Facts

- Milwaukee's average payback is 18 years with a statutory limit of 27 years
- In 2017, Milwaukee had 52 active districts with \$1.8 billion of total incremental property value in all the districts
- This represents 6.38% of the City's 2018 property value of \$26.5 billion
- Outstanding debt service of \$239 million

History of Milwaukee



Industrial TIF Examples: Menomonee Valley Industrial Center and Community Park – TID #53

- TIF, Grants, Loans, and Tax Credits/Incentives...
 - Project Overview
 - \$28.6 million
 - \$16.2 MM Tax Incremental Financing (TIF) District with three amendments
 - Grants - Nineteen grants
 - Loans – Two loans
 - Tax Credits and Incentives

Menomonee Valley Industrial Center and Community Park – TID #53



Menomonee Valley Industrial Center and Community Park – TID #53



Century City in Milwaukee – TID #74



PROPERTY LAYOUT

FORMER TOWER AUTOMOTIVE FACILITY
MILWAUKEE, WISCONSIN

Century City in Milwaukee – TID #74

- Redevelopment Plan, TIF, Grants, Loans, and Tax Credits/Incentives...
 - Project Overview
 - \$40.2 million
 - \$15.6MM Tax Incremental Financing (TIF)
 - \$10.2MM Federal and State Grants
 - \$10.0MM City Capital Funds
 - \$4.4MM New Market Tax Credits

AO Smith/Tower Automotive - 2009



Century City -2017



Mixed Use TIF Examples:

North End – TID #48

- Brownfield – Former Pfister & Vogel Tannery
- TIF used on 2 market rate housing developments in the downtown during recession of 2007-08



IKON - TID #98



IKON - TID #98



IKON - TID #98



IKON - TID #98



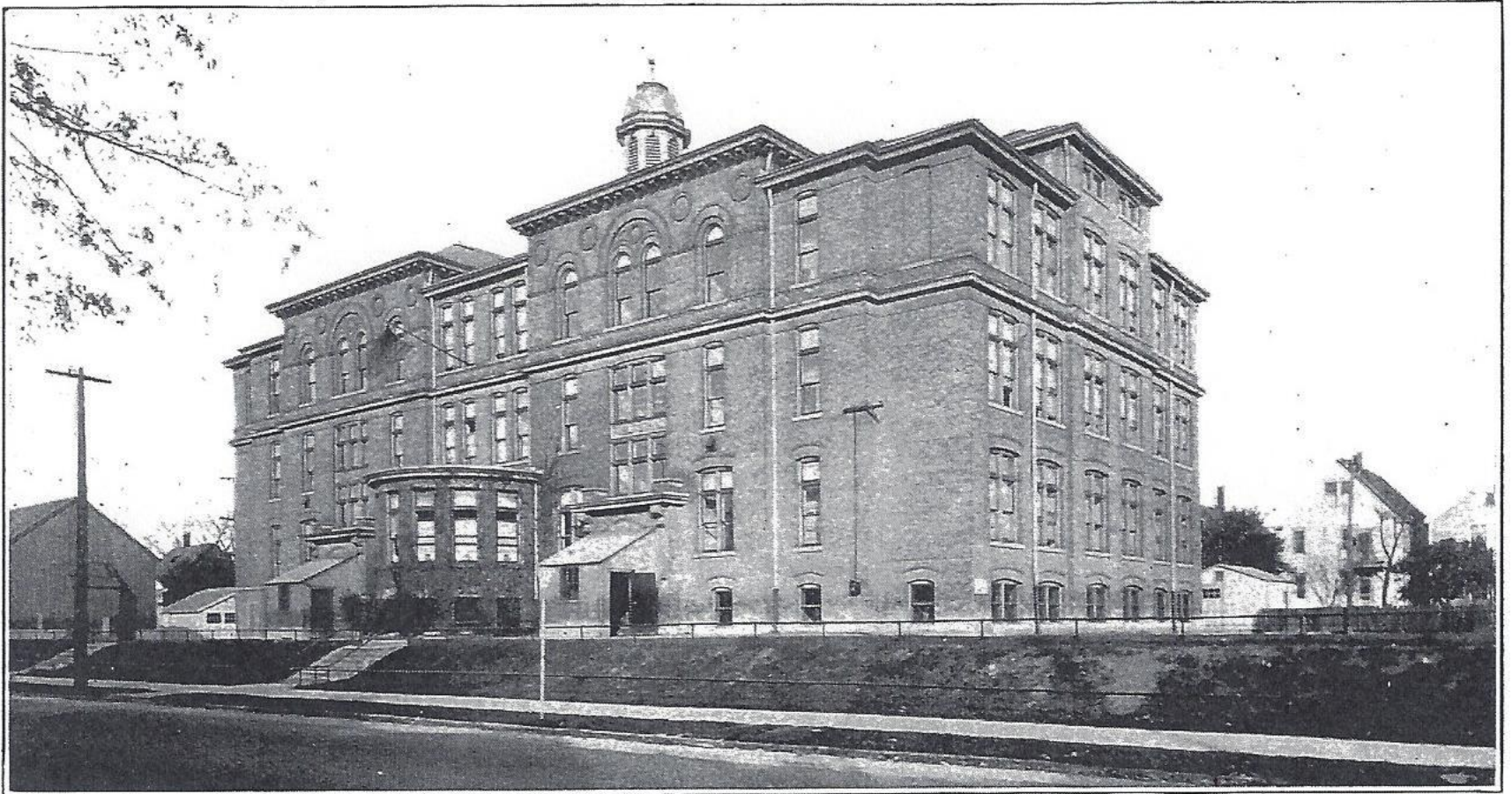
IKON - TID #98

- Up to a \$9,000,000 loan to the Developer
 - \$4m already approved, additional \$5m is drawn last
 - Flat payments (includes taxes and principal), 0% interest
 - Years 1-2: No payments during construction
 - Year 3: \$250,000 (taxes and principal)
 - Years 4-5: \$500,000 (taxes and principal)
 - Years 6-20: \$850,000 (taxes and principal)
- City receives a mortgage on the property
- Human Resources Agreement: 25% SBE and 40% RPP

IKON - TID #98

Original Loan to Developer	\$4,000,000
Amend No. 1 Loan to Developer	\$5,000,000
Public Infrastructure Improvements	\$500,000
Commercial Corridor Programs	\$500,000
Administration (\$7,500 x 15 years)	\$112,500
TOTAL	\$10,112,500

Residential TIF Example: Phillis Wheatley School - TID #103



Phillis Wheatley School - TID #103



Phillis Wheatley School - TID #103

- Adaptive Reuse of historic structure (former Phillis Wheatley School) and renovation to historic standards
- New construction of adjacent residential building
- \$19.4 million investment
- 82 housing units, mix of 1, 2, and 3 BR units
- Range of income targeting and rents, including 67 affordable units and 15 market rate units, with rents ranging from \$370-\$1,125
- Development Team – Led by Royal Capital, LLC

Phillis Wheatley School - TID #103

- TID contribution of up to \$1,050,000
- Developer financed
- 5.5% interest, 20 year term
- SBE – 25%, RPP – 40%
- Facade easement



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