MEMORANDUM

To: The Honorable Donald J. Trump, President of the United States
United States Senate Committee on Environment and Public Works
United States House Committee on Transportation and Infrastructure

From: Toby Rittner, President & CEO
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Re: Credit assistance for TIF bonds

Tax increment financing (TIF) is the most popular form of public finance in the U.S. for economic development projects. The term 'tax increment financing' refers to a credit arrangement whereby a state or local government pledges future tax revenues generated within a defined area or district created by law or ordinance, to the payment of debt service on a credit instrument issued by a state or local government or agency. The credit instrument used, otherwise known as TIF bonds, or tax increment finance bonds, is a type of revenue bond secured by the incremental revenue generated within the boundaries of a tax increment finance district.

Like other revenue bonds, TIF bonds are sold on a negotiated basis, where the local government engages an underwriter to structure, market, price, and sell the bonds. However unlike municipal bonds, which are rated based on a city's financial stability, tax base, etc. TIF bond ratings are often tied to highly variable metrics like local neighborhood economic trends and taxpayer diversity. The variance in local economic trends raises the cost of issuance to development districts, and, consequently, increases the price of the bonds and lowers demand. Low demand for TIF bonds ultimately slows project development and undermines potential area economic growth.

To overcome the challenge of issuing TIF bonds, we advocate the creation of a federal bond credit enhancement program for bonds secured with revenue generated by a qualified TIF district. The credit enhancement program would build upon existing credit assistance products authorized under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program through the Department of Transportation. It could provide credit assistance (guarantees or a letter of credit) for qualified projects of regional and national significance, perhaps that achieve particular policy ends.

For the purposes of this program, a qualified TIF district could be a duly created development district, authorized by a state or local government to issue TIF bonds. Bonds secured by revenue from a qualified TIF district, which must meet a minimum issuance total of $25 million, would be eligible for a federal guarantee of up to 100 percent of the total bond issuance. To further incentivize socially favorable projects, a list of criteria should be established that if met, would allow a project to receive the highest guarantee level on issued bonds. Possible TIF district criteria for the maximum guarantee level could include:

- Contains enhanced public transportation services.
- Located within a designated Opportunity Zone or HUBZone.
- Located in an MSA with an unemployment rate of at least 20 percent higher than the national average.
- Development on a brownfield site.

- Location within ½ mile radius of, and with direct access to, a federal or interstate highway.
- Enrollment in voluntary environmental cleanup or remediation actions.
- Usage of public-private workforce training programs that serve high unemployment areas.

A federal credit enhancement program designed to support qualified TIF bonds would lower the borrowing costs for eligible projects around the country, thus spurring economic development and job creation in struggling, disinvested areas. Also, from a legislative perspective, federal credit enhancement programs require no cash from the federal government, and the final legislative score would simply be the projected default rate – 0.9% according to a 2014 study.[i] The combination of low costs to the federal government and major economic benefits make a federal credit enhancement program a win-win proposition. CDFA strongly recommends that members of Congress consider introducing legislation that would establish guarantee authorization for TIF bonds.

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[i] Betnun, Nathan S. "Development District Bond Financings: The Good and the Bad." Municipal Finance Journal 35, no. 1 (2014): 45-60.