Tax Increment Districts

Presented by
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Dougherty and Company

Tax Increment Financing

• Overview
• By the Numbers
• Cities having less dollars
• Developers
• Counties becoming less understanding
Background

- GOED – 1996 to 2003
  - Director of Business Recruitment / Retention
- Investment Banker 2003 to today
  - Over $1B in Financing
    - City / School / County / State of SD / Private Development
- Lead Architect
  - State of South Dakota AAA Rating
    - Fitch / S&P / Moody’s
- Worked on multiple housing developments

What is a TIF?

- A disagreement between newlyweds
- A powerful tool that can be used by governmental entities to promote positive economic development
Acronym’s

• TID – Tax Increment District
  • The legal boundaries that are established for the tax increment

• TIF – Tax Increment Financing
  • The financing that results from pledging the tax increments to repay any debt associated with the TID

Why would you establish a TID?

• To encourage the redevelopment or development of deteriorated or blighted areas

• To stimulate economic development by assisting projects that face public infrastructure obstacles
How Does TIF Work?

TIF Example

- Initial Value
- Increased Assessed Value

This portion will pay the debt service on the TIF Bonds.

This amount will continue to pay regular taxes.

How Does TIF Work?

- Economic Benefits
- But – For Test
- What amount can the TIF sustain
- Who will be the borrower
- How will the TIF be classified by the State of SD

Steps Involved for Establishing a TID

1. Determine Project Feasibility
Determine Project Feasibility

• Will this TID raise my taxes?

• Will the School lose money from the State Aid Formula?

Local Impact

- The School’s General Fund and Taxpayers are held harmless if the TID is classified as:
  - Economic Development
  - 2010 change in law
  - Workforce Housing
  - Industrial
Steps Involved for Establishing a TID

2. Tax Increment Plan

- Business Plan
  - Who / What / Where / When / Why
- What are the proposed improvements
- What are the estimated expenditures
- Amount TIF can not exceed

Allowable Project Costs – Smell Test

- Capital Costs
  - Construction of PUBLIC works or improvements
    - Road, water, sewer, electrical
    - Clearing or grading of land
  - Financing Costs
    - Interest Expense
  - Real Property Assembly Costs
    - Actual cost of the acquisition of real or personal property
Allowable Project Costs

• Professional Services
  • Financial Advisor, Attorney, Engineer, Developer Fee etc.

• Administrative Costs
  • Reasonable time spent by municipal employees in connection with the implementation of the project plan

• Organizational Costs
  • Environmental impact / studies / borings

Developers Agreement

• Most important part of a TIF

• Binding document that spells out the terms and conditions of the TIF

• If agreement is broken – County / City does not forward TIF payments
Developers Agreement

• Typically includes but not limited to
  • Roles and responsibility of Developer
    • Timing of improvements
    • Gov’t is a conduit for the TIF revenue
    • Gov’t is not liable for any debt
      • Amount – not to exceed
      • Amortization can not exceed 20 yrs
      • Interest Rate – 0%
      • Termination Date
      • Indemnification of Govt

TIF expires when??

• Debt
  • If there is no debt / then there is no TIF

• Stated time in Developers Agreement
  • 10 or 15 or 20 years –etc...
  • State Law does not allow a TIF to extend 20 years past the date of creation
  • County is in the drivers seat at all times
Hardest Part of a TIF

• Debt
  • Projections
  • Finding a lender
  • Finding the “right’ Developer

TID’s 2000-2017

• Total Base Value of TID’s in SD
  • $491,998,278
• Total Increment of all TID’s
  • $1,246,727,846
• Approximately 173 in existence
• 137 have been dissolved
Workforce Housing

• Change in law in 2010 opened up the doors for WFH
  • Classification of Economic Development

• Actual change to recognize WFH came in 2016

• Homes must have a selling point less than 1st Time Home Buyers

• Multi-Family must be 80% of LMI of area
Workforce Housing Communities

- Madison – 3
- Harrisburg – 4
- Brookings – 2
  - Volga – 3
  - Coleman – 1
- Whitewood - 2
- Lennox – soon to be
  - Yankton
  - Spearfish
  - Mitchell

Why are they so popular

- Limited resources for city / county
- Cities live and die by sales tax
- County formula is still “frozen” by the property tax freeze
- Allows a City / County to be a partner with the Developer
Misunderstandings of a TIF

- It is one big handout
- Helping the rich get richer
- Schools are losing money
- Counties are losing money
- Cities are losing money
- Hard to lose what you never had
- BUT FOR TEST!!!

Constraints on Developers

- 2008 Financial Crisis
- Leverage is an ugly word
- More Equity...little green bills in a large brown bag...no substitute for cash
- Rising infrastructure costs
- Banks do not look at what can go right, but rather what could go wrong
What do you call....

- A non-pushy developer who doesn’t ask for the sky?

The World of the Developer

- There is a lot of cash on the “sidelines”
  - 2008-2010 was not that long ago
  - Stock market is the competition
  - Developers must deliver a 10% or greater return
- Competition for “Varsity” Developer’s
- Incentives are necessary
  - TIF
  - Sales Tax rebates
  - Special Assessments
  - Reduce building permit fee’s
### Current Project 36 Unit
**Total Cost $4+M**

| Note Date: 06/01/20 | Current Valuation: $50,000 |
| Note Rate: 5.50% | Developed Valuation: $2,750,000 |
| Proceeds: $525,000 | Increment Value: $2,700,000 |
| Reserve Fund: $0 | Percent of Value: 90.00% |
| Cap Interest: $43,312 | Adjusted Valuation: $2,430,000 |
| Fee's: 0% | Mill Levy: 0.19 |
| Net Proceeds: $481,688 | # of Units: $36 |

### TIF Revenue
- Maximum Value of TIF: $525,000
- Semi Annual Revenue: $23,085

### Revenue generated for 1st year
- 100%
- Semi Annual Revenue: $23,085

### Maximum Value of TIF
- $854,145.00

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### NOTE AMORTIZATION

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**DOUGHERTY & COMPANY LLC**

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**11/1/19**
Amortization - Assumptions

- Assumptions include
  - Constant interest rate that does not change
  - No legislative changes to the mill levy
  - The property does not decrease in valuation

Partnering with a Developer

- Offset “other” infrastructure costs
- Developer’s can generally construct projects at a much lower cost than a city
- Use the TIF as a tool to make this happen.
Partnering with a Developer

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The Right Developer

- Will be a little creative
- Will be a visionary
- Will take flexibility from the governing body and developer
- Will have bumps in the road
- Nothing is ever black and white
  - This is hard for a City / County to understand
- Adjustments / modifications to the Developer Agreement will and must happen.
TIF’s at the end of the day

• Popularity / Demand growing
• Abuse will / has been happening
• Currently self policing
  • Discussion of a TID approval committee at state level
• Schools are becoming more active in the process
• Counties want a seat at the table