Tax Increment Financing 101
“TIF”
An Important Tool for Project Finance

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Executive Summary

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- <u>Purpose:</u>

  To capture projected increase in property tax revenue created by development and use increase to pay project costs.

Executive Summary

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- <u>Eligible Projects</u>
  - Infrastructure (water & sewer)
  - Land Acquisition
  - New Buildings
  - Renovation of Existing Buildings
  - Roads
  - Landscaping and Street Lighting
  - Other Capital Costs

How Did We Get TIF?

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- Amendment One - passed in 2002
  - Constitutional amendment approved by the voters
  - Enabling legislation enacted in 2002

How Did We Get TIF?

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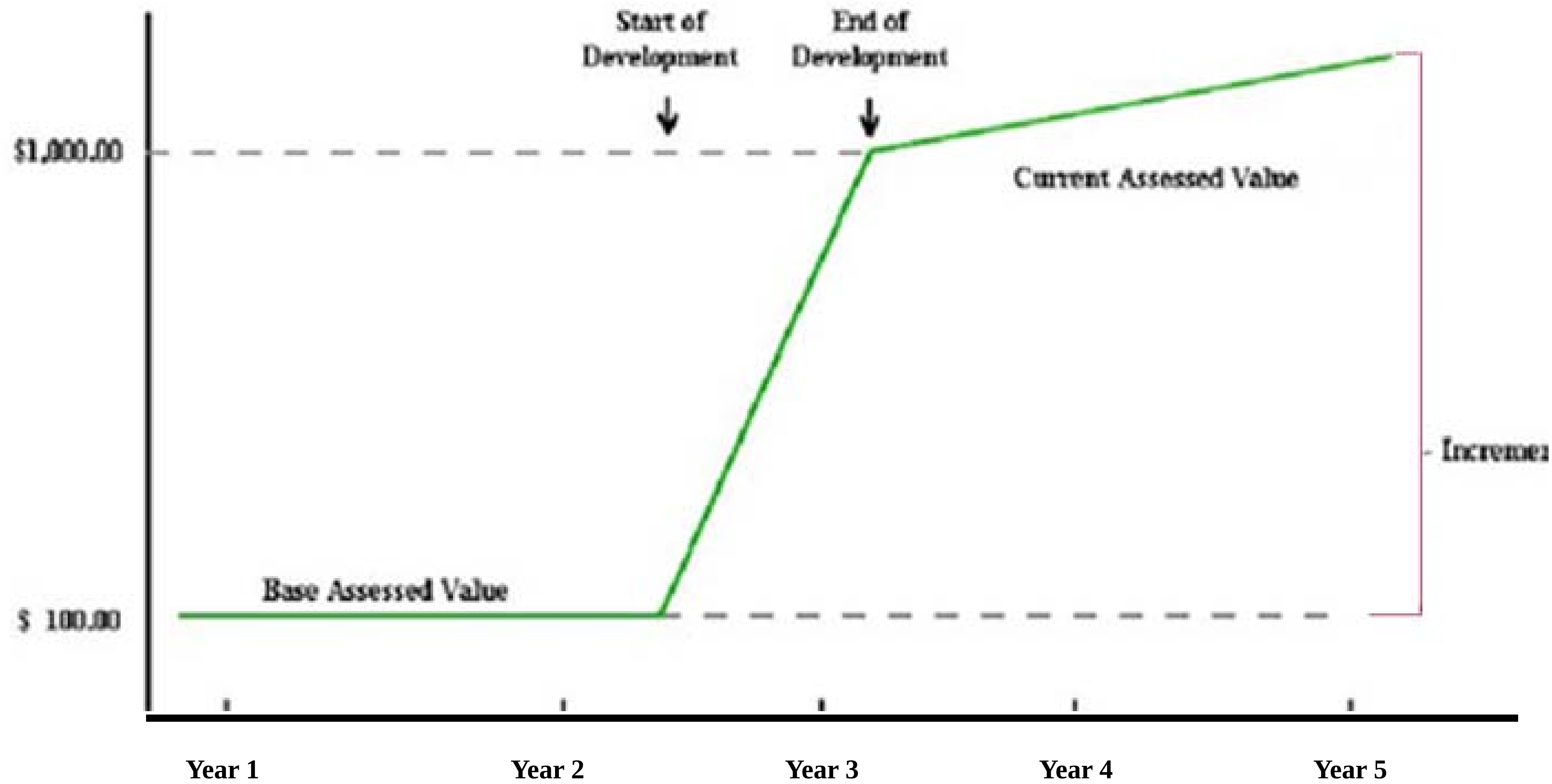
- 2004 Amendments to Legislation
  - Clean-up
  - Exclusion of personal motor vehicles from personal property
  - Clarification of creation of District without project
  - Conflict of interest provisions
  - Publication requirement changes

How Does TIF Work?



How Does TIF Work?

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Theory

- <u>TIF</u>

  Captures the projected increase in property tax revenue (real and personal) to be created by developing an area and uses that increase to assist in paying for Projects.

How Does TIF Work?

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- Benefits of TIF
  - Captures tax increase to benefit local project.
  - Broad statutory authorization.
  - “Scalpel vs. Sledgehammer”
  - Public policy protections:
    - Prevailing Wage
    - Competitive Bid
    - West Virginia Jobs Act
    - Public hearing and notice requirements
  - Local control

How Does TIF Work?

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- Use of TIF in other States
  - Station Square in Pittsburgh
  - Large manufacturing facilities
  - Sports Complexes
  - Water and sewer lines
  - Downtown revitalization

TIF Bonds & Other Obligations

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- Investment Banker
  - Prepare financial and increment projections.
  - Assist in preparation of WVDO application.
  - Paid from proceeds of TIF Bonds.

TIF Bonds & Other Obligations

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- Tax-Exempt vs. Taxable
  - Tax-exempt - lower borrowing cost.
  - Determined by type of project and security/guarantees.
  - Generally, “naked” TIF ok for tax-exempt.
  - Must be considered early in structuring the deal.

TIF Bonds & Other Obligations

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- Purchase of Bonds by Developer
  - Bonds for Project issued by County or City but purchased initially by Developer
  - May reduce interest rate on debt as early development risk taken on by the Developer.
  - Developer may sell bonds later once Project is "proven“ and interest rate reduced.
  - May also reduce security requirements, e.g. coverage, personal guarantees.
  - Work is identical to a publicly sold bond issue.

TIF Limitations

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- Statutory Requirements
  - Specific process
  - Government approvals
  - Notice and public hearing requirements
  - Prevailing wage
  - Competitive bidding
  - Local labor preference
  - Development Office approval
  - FOIA accessibility

TIF Limitations

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- Practical Constraints
  - Timing
  - Complexity
  - Cost
  - Low property taxes result in low yield
  - Public perception (not reality)
  - Learning curve

Likely Candidates for TIF Projects

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- Attributes of Good TIF Projects:
  - Several unrelated private taxpayers
  - Large increase in assessed value
  - Immediate demonstrable increment
  - Experienced developer and professional team

Likely Candidates for TIF Projects

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- Attributes of Less Desirable TIF Projects:
  - One, or several related, private taxpayers
  - Development due to state agency or not-for-profit
  - Little increase in assessed value
  - Speculative, or slow to develop, increment
  - Inexperienced developer and professional team
  - Politically difficult projects

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Thank You!