

# Tax Increment Financing Policy

May 20, 2021



City of  
New Braunfels

# Agenda

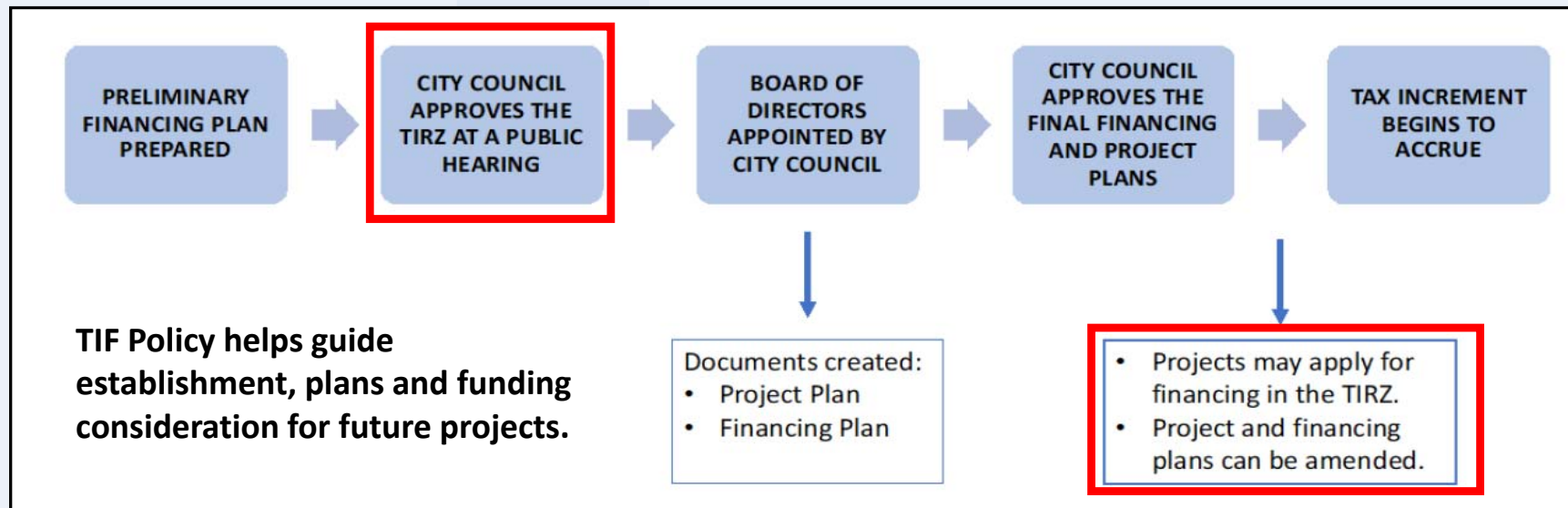
- TIF background and process
- Common Uses of TIF
- Purpose of a Policy
- Policy Highlights

# Tax Increment Financing (TIF)

- TIF is a tool that allows taxing units to utilize the incremental tax revenues to pay for improvements in a particular area
  - Chapter 311, Property Tax Code
- First TIF in California in 1952. Now 48 states allow them.
- Legal mechanism in Texas is referred to as **Tax Increment Reinvestment Zones (TIRZ)**
- Historically viewed as a blight remediation tool to mitigate development risks
- Benefits of TIF as a tool is to ultimately offset the costs of needed public infrastructure to attract additional private investment
- Can be initiated by a taxing entity or private actor

# Tax Increment Financing (TIF)- Process

- City or property owners petition for creation of the TIF
- Governing body prepares a reinvestment zone preliminary project and financing plan
- Public hearing by governing body and designation of reinvestment zone
- Preparation of final project and financing plan
- Contribution to the tax increment fund by other taxing entities



# Common Uses of TIF with Private Development

- Financing **public infrastructure/improvements**
- Funding **extraordinary costs**
- Subsidizing a proposed project that is “**above market,” non-market driven or helping to establish an unproven market**
- Obtaining **higher quality development**
- Incentivizing to **attract or retain investment** in a strategic area
- Achieve **public policy** goals

# TIF- Three Main Types of Criticism

- Development/tax revenues would have occurred/been realized anyway
  - Originated to mitigate blighted areas but have been used to accelerate development in areas where it would likely occur anyway
  - Value increases through normal appreciation often captured in the TIF
- Diverts tax revenue from needed services
  - provision of public services brought about by increased development not accounted for and needs to be funded from elsewhere in the budget
- Exacerbates issues of property value increases and gentrification
  - As TIFs attract investment, real estate values increase, and gentrification occurs



# TIF Program and Policy Considerations

- TIF should focus on capturing desired real estate projects with infrastructure support or gap financing
- Four primary conditions:
  - The project should **contribute to public policy goals**
  - Project is **economically feasible** and has a reasonable chance of success
  - Project would not proceed as desired **‘but for’** the assistance
  - Project **pays for itself through generated revenues or justifies the investment with economic and/or community impacts**
- Undertaken with developers with an established track record, financial capacity and known financial partners
- In most instances, shift risk to the private sector through reimbursement mechanisms after completion

# Establishing the Need for TIF Assistance

## The “But For” Approach:

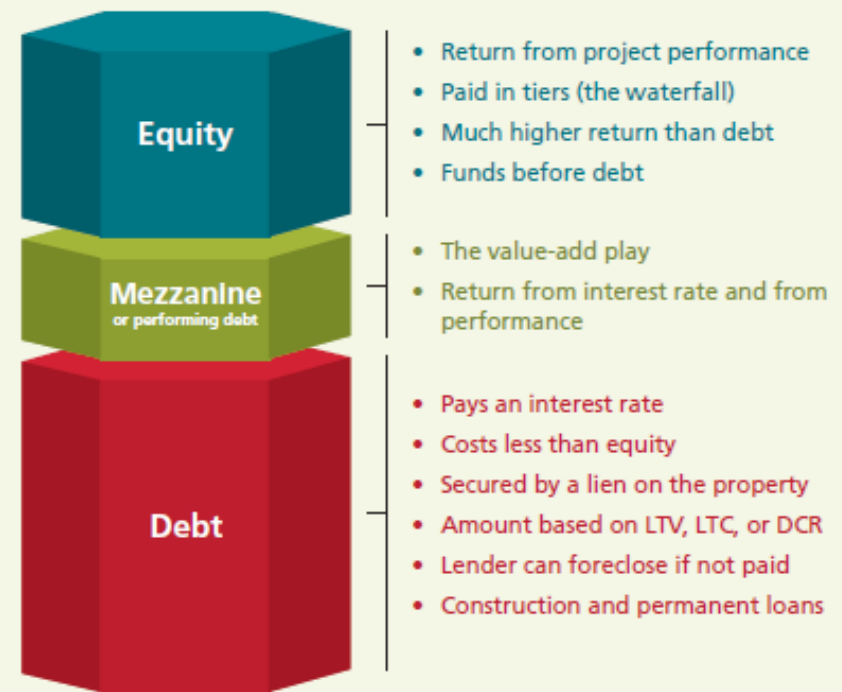
Real estate investment levels are a function of value and not of cost

Establish a “financing gap” – shortfall between a project’s cost and its market value under current conditions

Understand the project’s economics and returns

Attraction of capital to a project is a function an assessment of its overall financial feasibility

### The Capital Stack

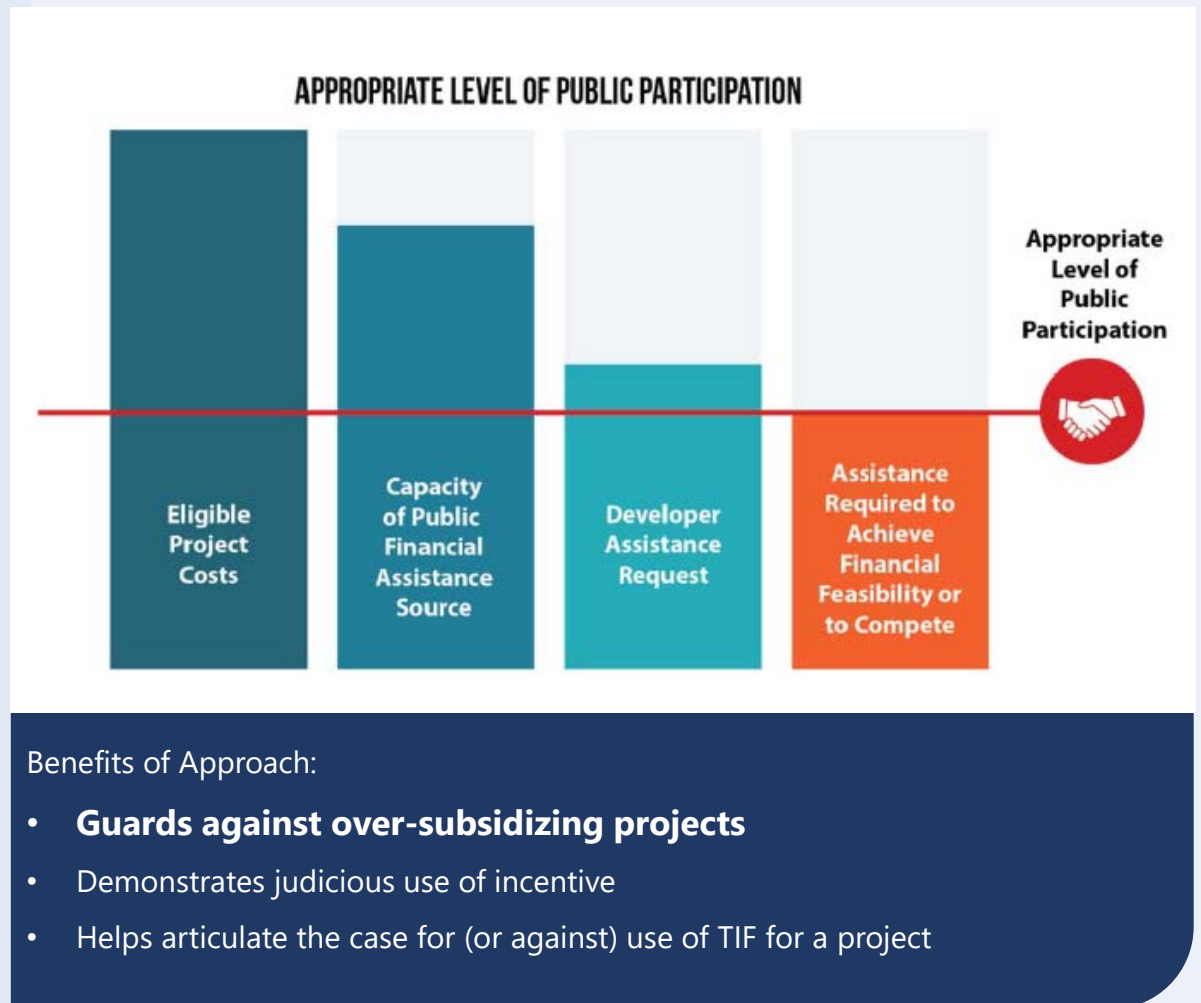


Source: Charles A. Long Properties LLC.



# Determining Level of Need

- Evaluation of project in accordance with underwriting/due diligence requirements
- Establishes level of assistance required to achieve financial feasibility
- Amount of assistance required to achieve the rate of return for the project to be financially feasible

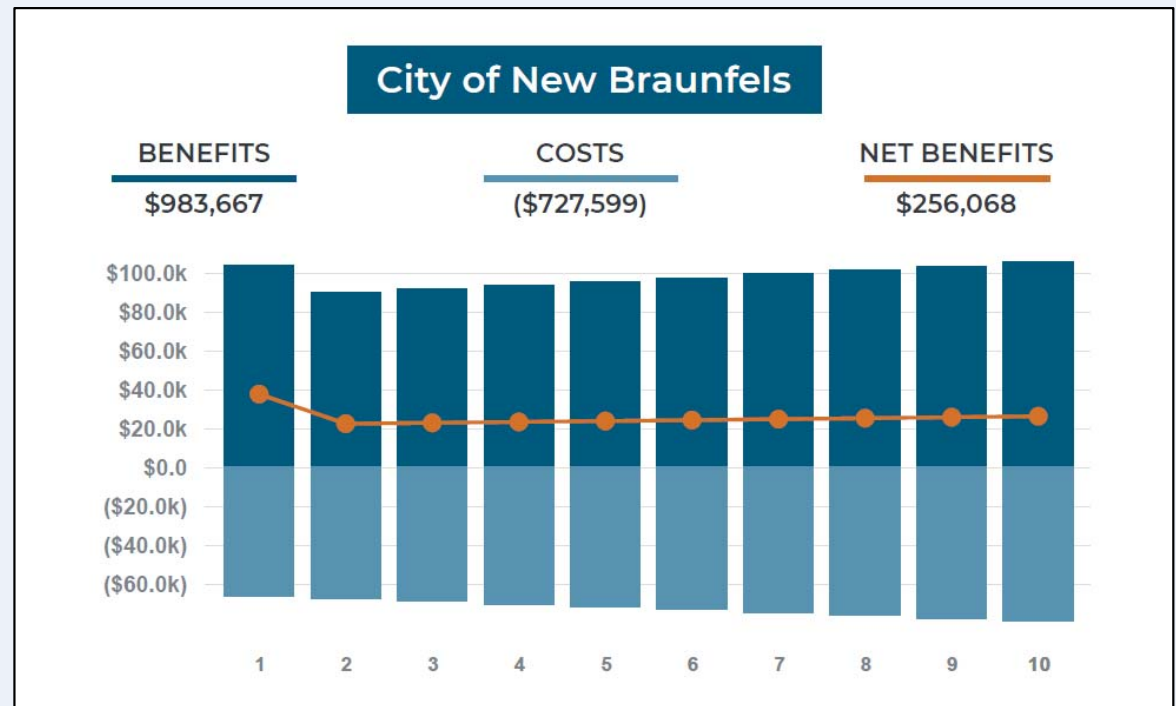


# Types of Information Requested in Application

- Development proformas
- Development budgets
- Lender and equity term sheets
- Market analysis
- Financial statements
- Ownership interests

# Fiscal Impact Analysis

- Establishes the revenues and costs of the project to the taxing entities
- Helps determine whether the project will pay for itself through increased revenues
- Some benefits may not be directly quantifiable



# Population and Neighborhood Impacts

- TIF projects can exacerbate property value increases, compounding existing affordability issues and displacing residents
- Public policy can help avoid displacement and harness the increased values in area to power an area's revitalization
- Proactive planning to foster a mixed-income neighborhood can mitigate these impacts to residents
- Other policy tools such as Neighborhood Empowerment Zones (NEZ) can help cities provide tax and other incentives to achieve community and economic development goals in a particular area
  - Chapter 378 of Texas LGC
- Other community development objectives such as public spaces, parks and trails can also be pursued

# Policy Overview

- Purpose Statement
- Public Benefits
- Other Policy Considerations
- General Policy
- TIRZ Administration
- Interlocal Cooperation
- Qualifying Expenditures
- Application and Submittal Requirements

# QUESTIONS?

