TIF

Tax Increment Financing

Update 2018

What is Tax Increment Financing?

- A method of reallocating property taxes resulting from an increase in taxable valuation
- The increment is the change between the former value and the new value
- The only significant source of funds for cities to use for Economic Development incentives

Tax Rates in FY 17

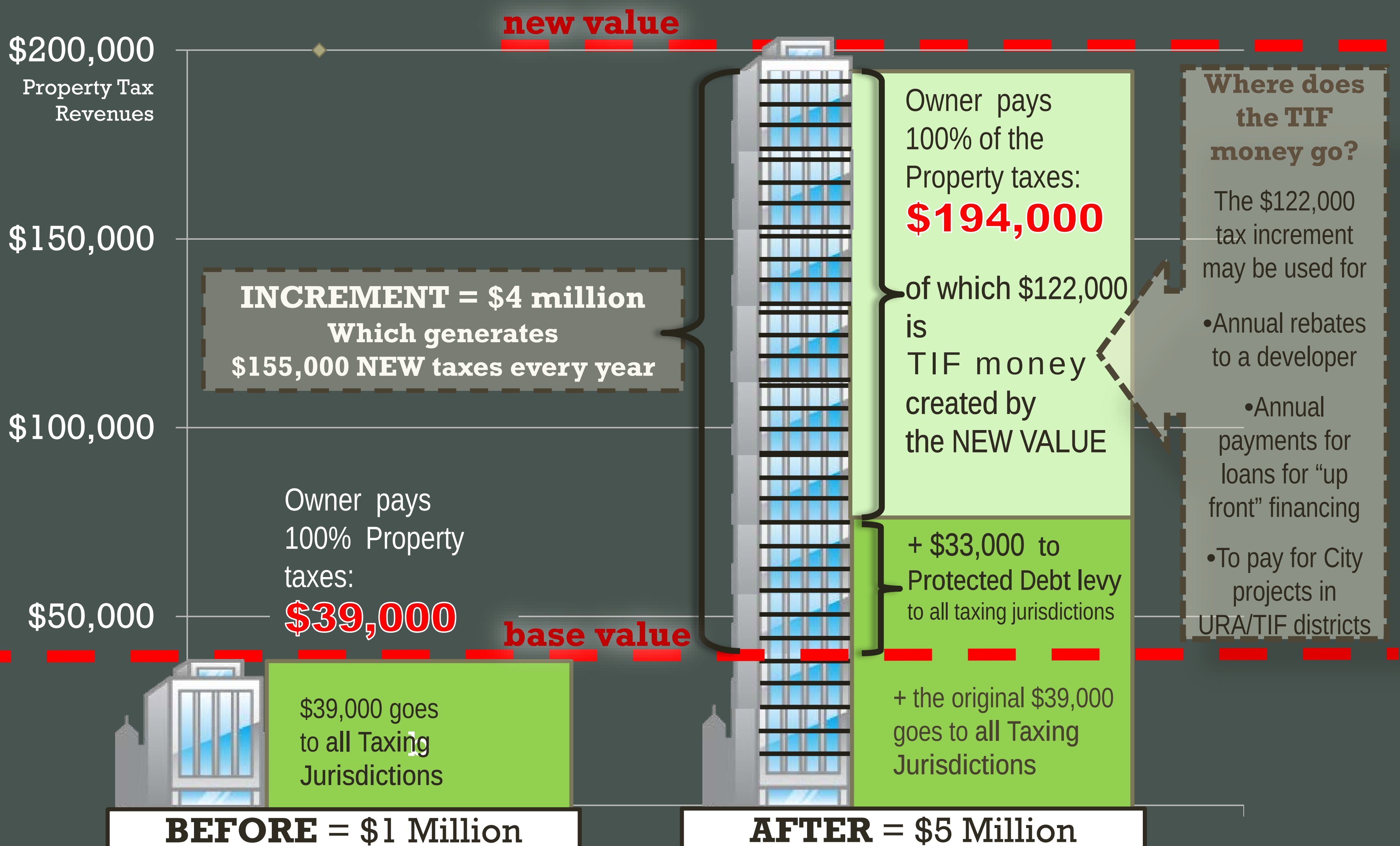
All levies are determined annually…

- **Consolidated levy** = each taxing entity's request of tax payers
- **Protected Debt levy** = the debt portion of each taxing entity's request of tax payers
- **TIF levy** = the remainder

Consolidated levy (fy17)	$38.74 per $1,000
-Protected Debt levy (fy17)	-$8.33 per $1,000
TIF levy (fy17)	$30.41 per $1,000

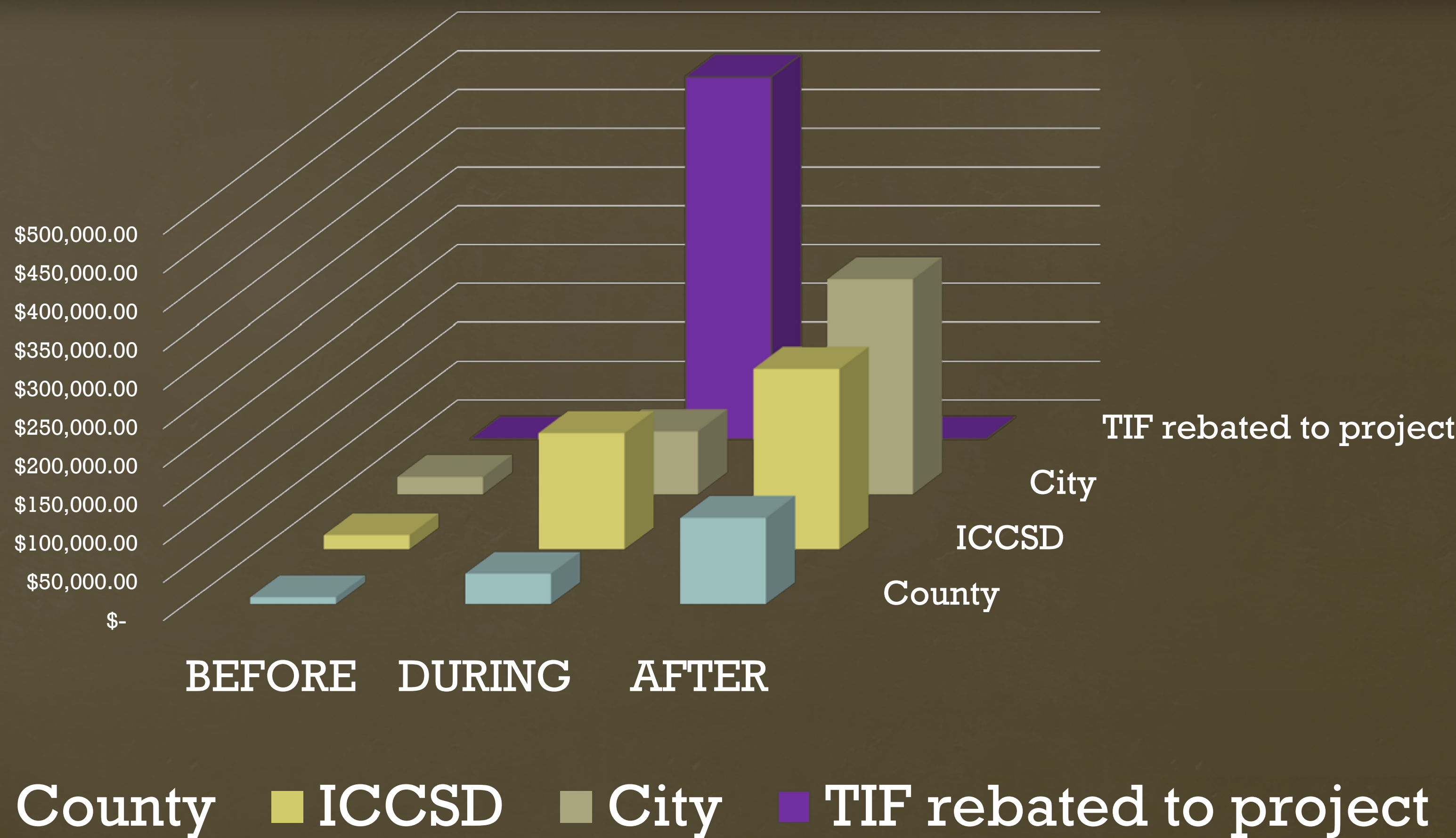
How TIF works

(it's all about the increment and there is no TIF if there is no new value)



Hieronymus Square: A real example

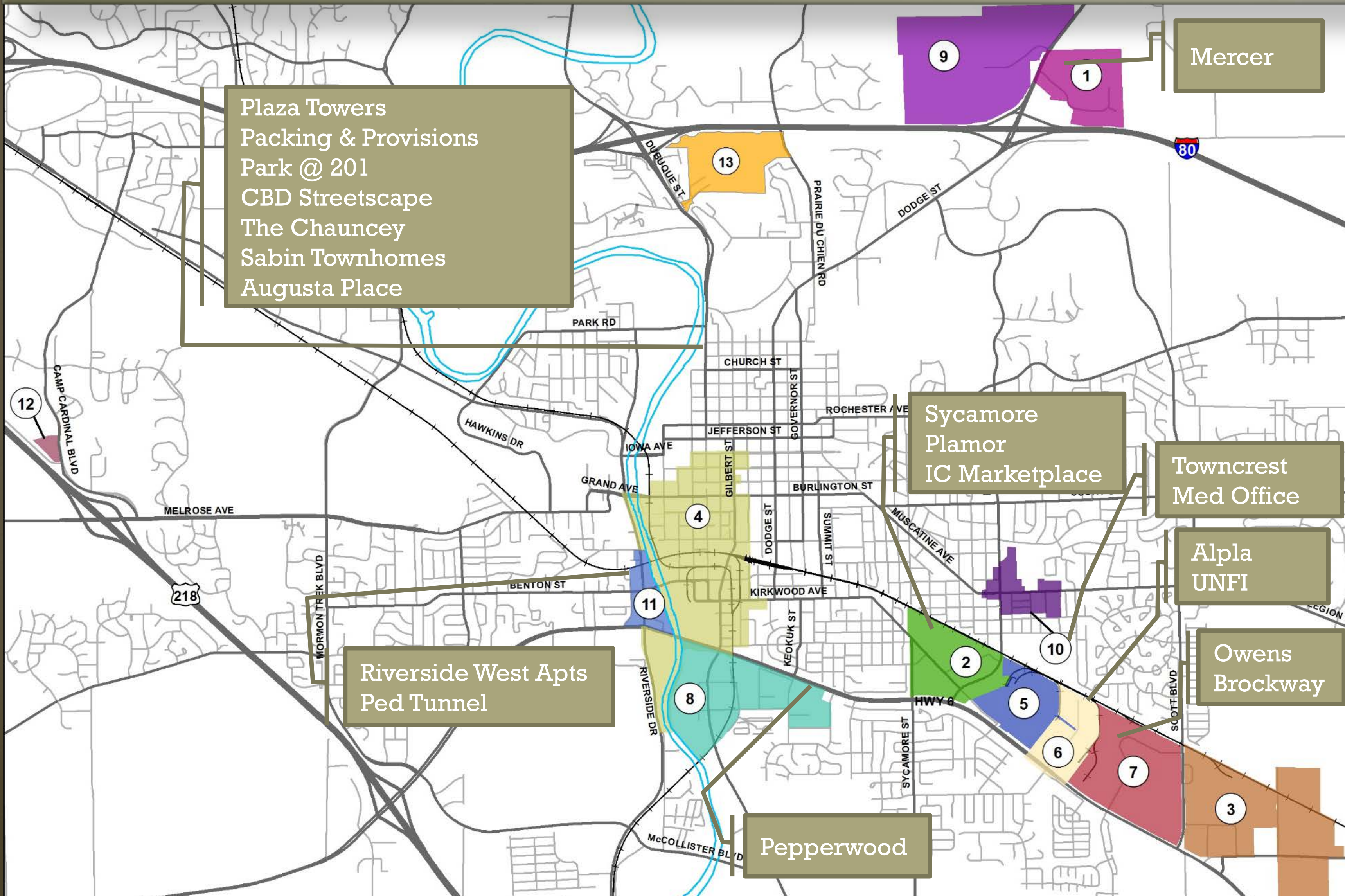
Where property taxes go the year before, the years during, and the year after TIF



Tax Increment Financing Policies

- **Sustainability** – New construction must be LEED silver certified with at least 8 points awarded from Energy Performance category
- **Downtown building heights and character** – must fulfill vision of the Downtown and Riverfront Crossings Plan
- **Historic Preservation** – projects may be eligible for TIF; those demolishing historic buildings are not
- **Affordable Housing** – any TIF project with any housing must provide at least 15% of the units as affordable to tenants at or < 60% AMI
- **Economic Justice** – fairness to workers on TIF projects
- **Quality Jobs** – when incentivizing companies based on job creation, jobs shall be high quality jobs
- **Other public interests** shall be considered for TIF such as arts and cultural facilities, historic preservation and public improvements serving as a catalyst for Economic Development

Urban Renewal Projects in Iowa City



TIF Project examples

Park @ 201

Base value:	$ 569,520
2015 value:	$ 10,160,280
New value:	$ 9,590,760

$2.5 million TIF
3 Floors Class A Office space
First floor retail
MetaCommunications
Number of Jobs: 60+

Medical Office Building, Towncrest

Base value: $ 885,880
<u>2015 value: $ 2,454,570</u>
New value: $ 1,568,690

$625,000 TIF
$325,000 Towncrest Catalyst
Retained 2 Medical Offices

before

Alpla of Iowa, Inc.

Base value: $ 3,594,340
<u>2015 value: $ 16,676,470</u>
New value: $ 13,082,130

Number of Jobs: 200+
Payroll : $6 million+ (est.)

...and others

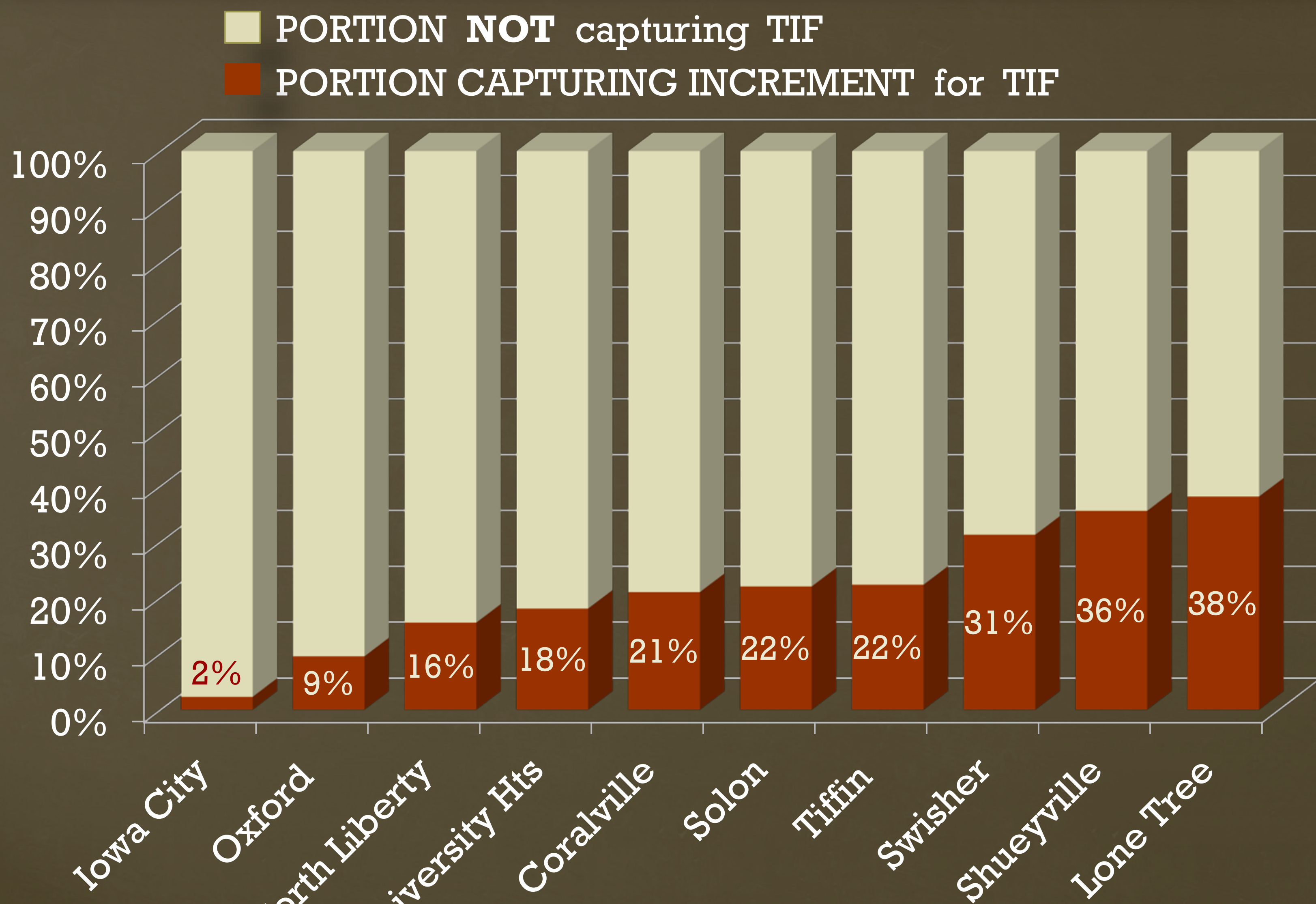

STE
VEN
VAIL
FILM SCENE
CINEMA & CAFE
WWW.ICFILMSCENE.ORG
velvet
coat


Lucky's Market
FRESH PRODUCE


NATURAL FOODS

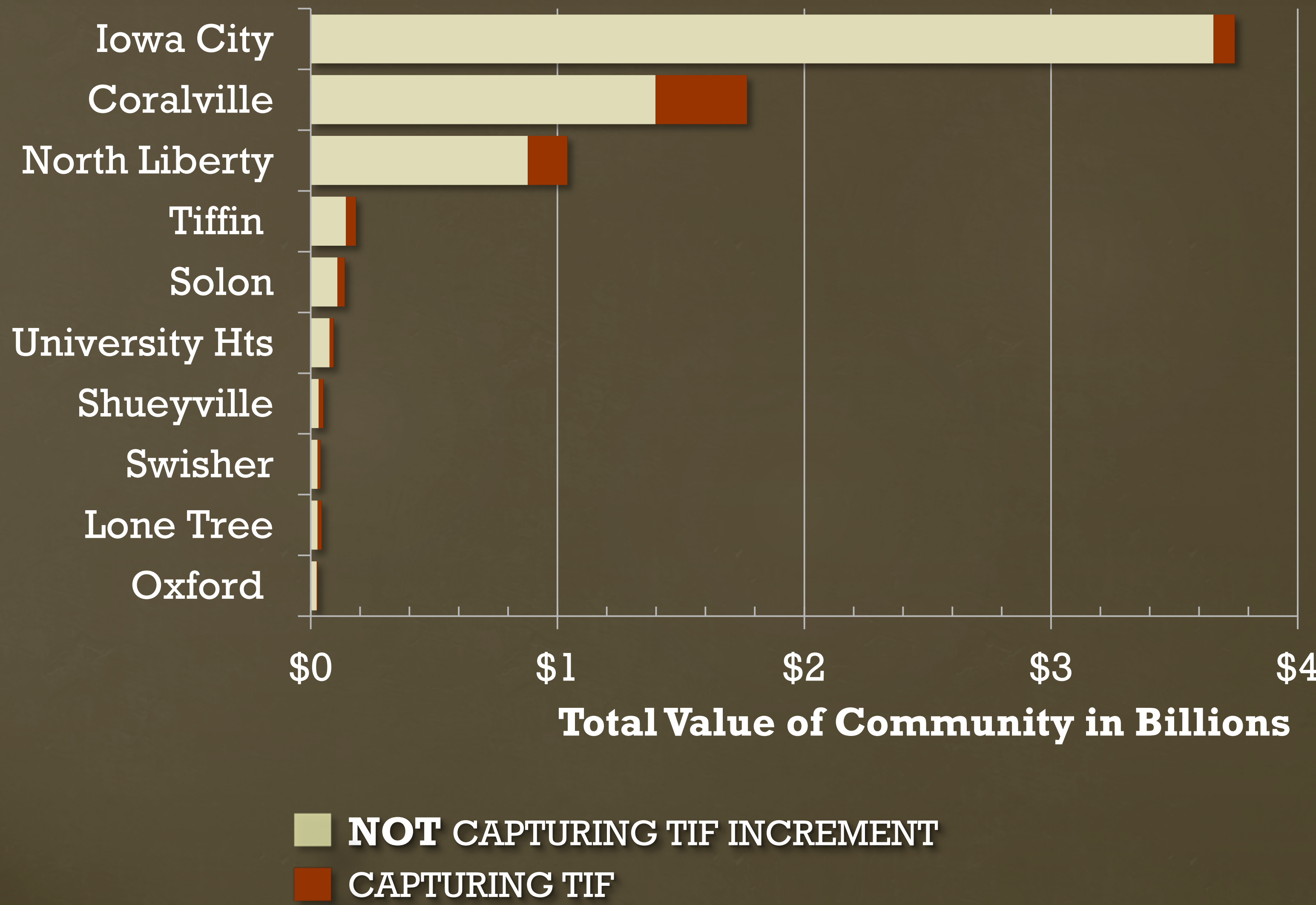
Tax Increment Financing in Johnson County

Percent of Each Town's Valuation Captured in TIF



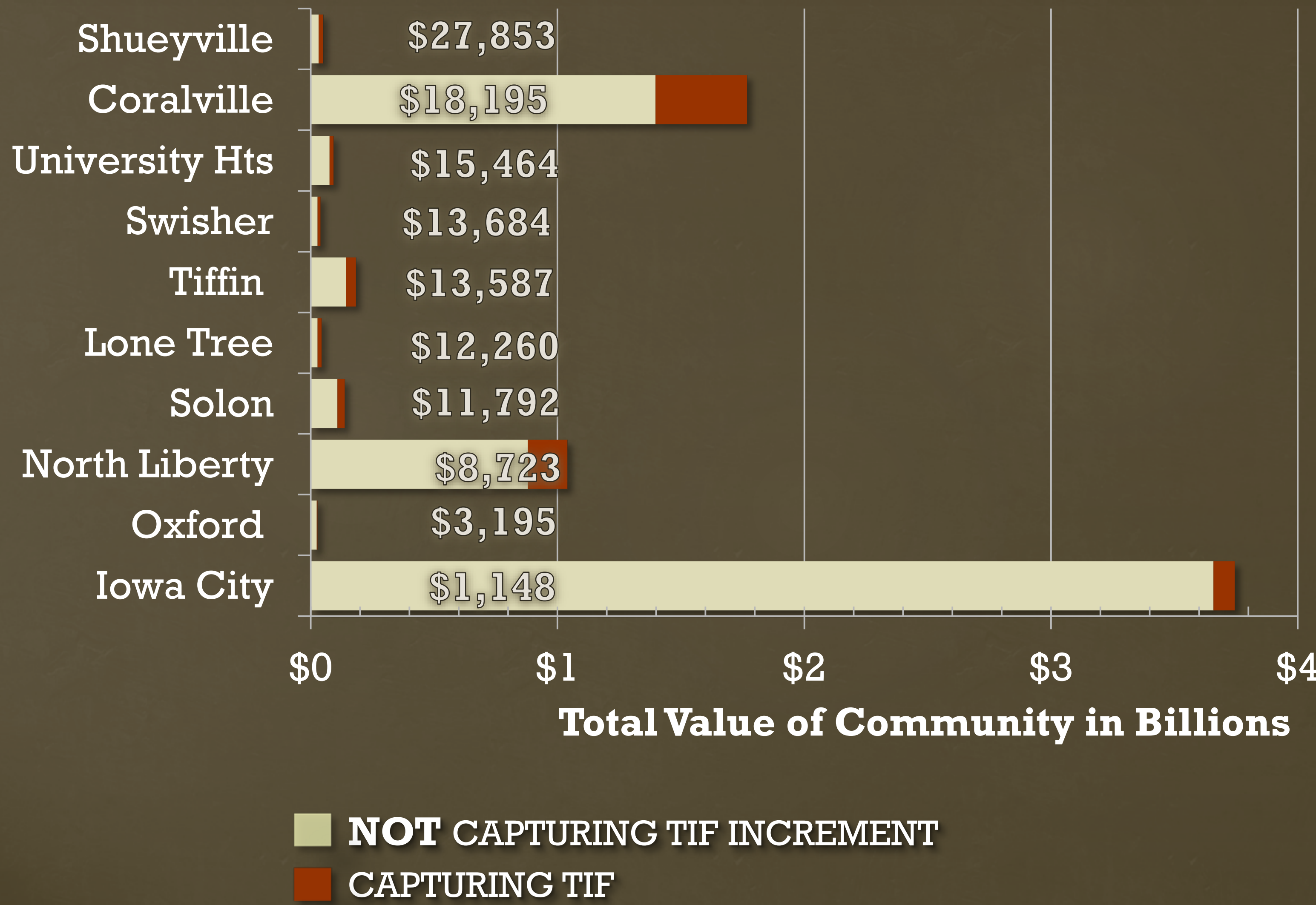
Jan. 1, 2017 valuation year; FY 2018/2019

Total Town Value, TIF Increment



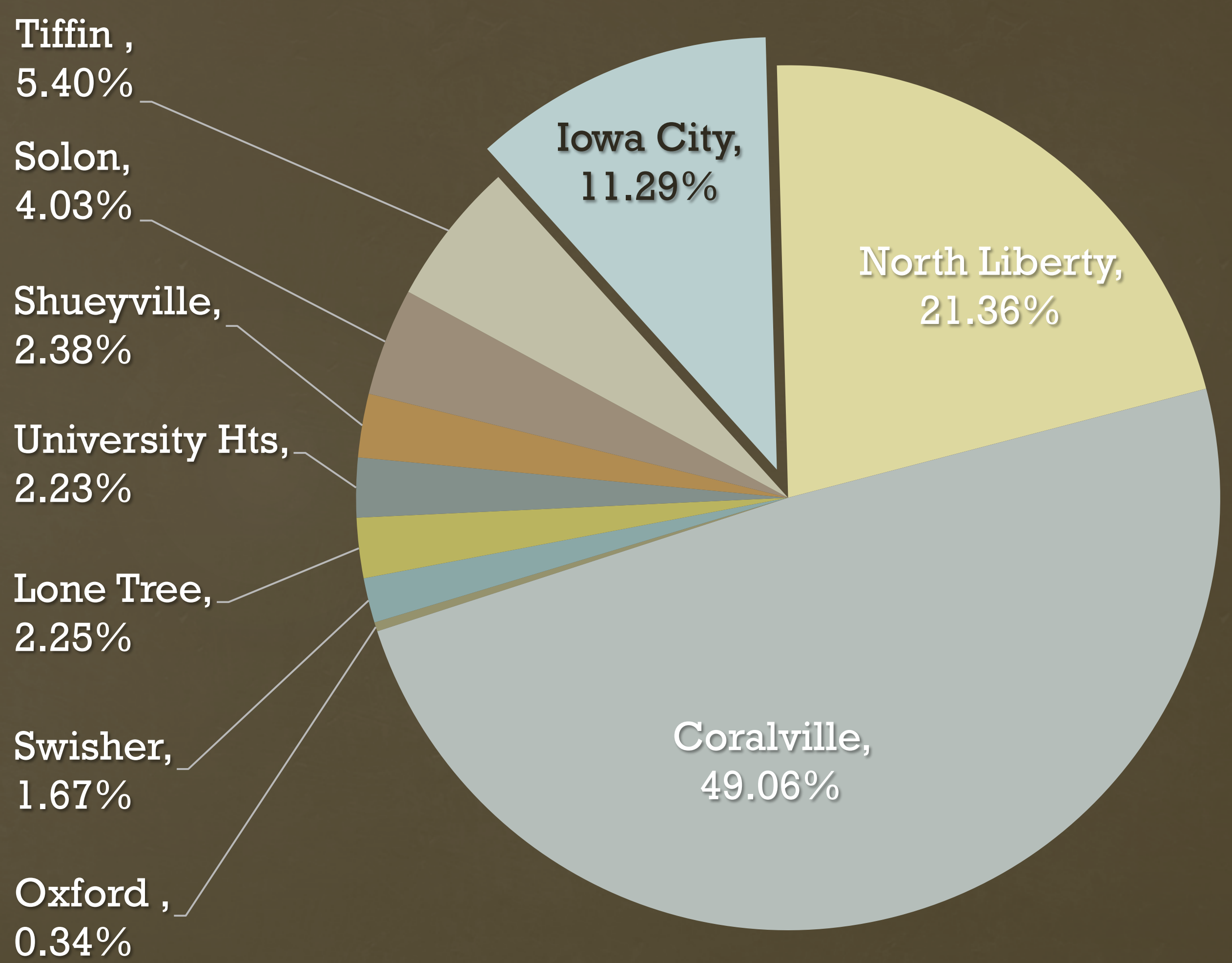
Jan. 1, 2017 valuation year; FY 2018/2019

Total Town Value, TIF Increment, TIF per capita



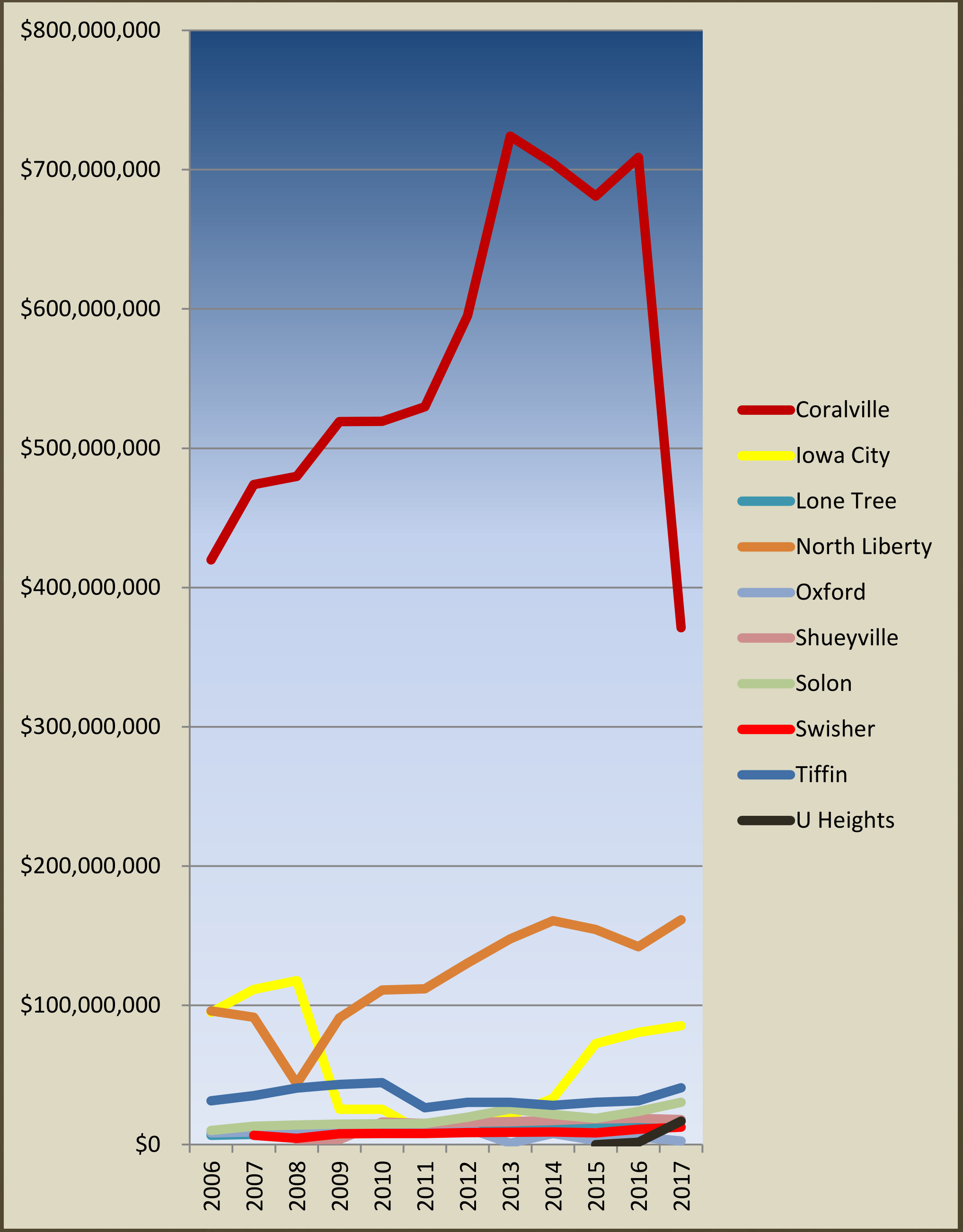
Jan. 1, 2017 valuation year; FY 2018/2019

Johnson County's TIF Pie – who has how much?



Jan. 1, 2017 valuation year; FY 2018/2019

TIF in use over time



Financial Analysis

What is the financial gap?

	Total Project Costs *
-	Permanent Debt (maximized)
-	Condo sales (comm or residential)
-	Equity (sized to a market return)
=	Financing Gap

* Are Project Costs reasonable?

	Acquisition Cost
+	Renovation/Construction Cost
+	Fees (arch/engineer/developer)
=	Project Cost

Due diligence:
Ensure that all costs, prices, debt, income and expense projections are reasonable.

Are Operating Assumptions reasonable?

	Gross Rent
+	Tenant Contributions
=	Gross Income
=	Vacancy contingency
=	Effective Gross Rent
-	Operating Expenses
=	Net Operating Income **(NOI)**
-	Debt Service 1
-	Debt Service 2
=	Cash Flow

Financial Analysis

How Fair Market Value (FMV) is determined

FMV = $\dfrac{\text{Net Operating Income } \mathbf{(NOI)}}{\text{Capitalization Rate}}$

Example: $\dfrac{\mathbf{NOI}}{\text{Cap rate}} = \dfrac{\$20{,}000}{.105} = \$190{,}500$

Due diligence:
Ensure that cap rate is reasonable. Use market cap rate as a guide.

Cap rate expresses "For every $X of income at Y price, I expect this rate of return"

How Permanent Debt is determined:

Lender's underwriting criteria is influenced by cap rate and applied to projected value using:

- Loan to Value Ratio
- Debt Coverage Ratio
- Capitalization Rate
- Interest Rate
- Term

Due diligence:
Ensure that developer attracts the maximum loan size possible based on value of project. City will not fill gap where loan can be larger.

Financial Analysis

Finally, are Returns to the Developer Fair?

Due diligence:
Ensure that returns do not unduly enrich developer. Adjust developer's debt or equity to control.

Cash on Cash Return:

$$\frac{\text{Cash Flow}}{\text{Equity invested}} = \frac{\text{Money out of a project}}{\text{Money in the project}} = \frac{\text{Cash Flow (out)}}{\text{Equity (in)}}$$

IRR (Internal Rate of Return):

This measure combines all benefits of owning real estate, including cash flow and taxes and converts to a single rate of return.

IRR is the discount rate at which the present value of a stream of income equals the equity investment.