

# Tax Increment Financing

Presented by:

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# Background

- ▣ GOED Director 1997-2003
- ▣ Public Finance 2003– Present
  - Over \$1B in financings
  - Serve as senior advisor to State of SD.
  - Advised / financed 60 + TIF's
  - Large Development Projects
    - ▣ Bell Cheese
    - ▣ CNA
    - ▣ Shuttle Loaders
    - ▣ Affordable Housing

# What is a TIF?

- ▣ A powerful tool that can be used by governmental entities to promote positive economic development

# Acronym's

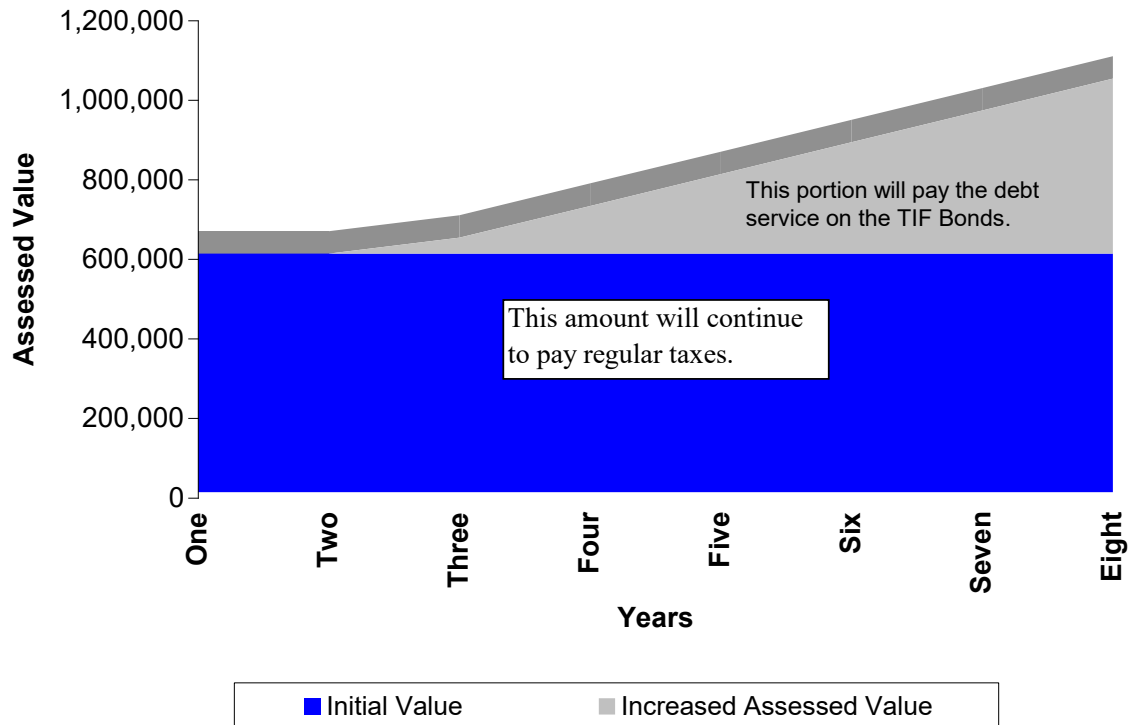
- ▣ TID – Tax Increment District
  - The legal boundaries that are established for the tax increment
  
- ▣ TIF – Tax Increment Financing
  - The financing that results from pledging the tax increments to repay any debt associated with the TID

# 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 or financial challenges

# How Does TIF Work?

## TIF Example



# Steps Involved for Establishing a TID

## 1. Determine Project Feasibility

- ▣ 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

# 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
  - Housing Guidelines
  - 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, etc.

## ▣ Administrative Costs

- Reasonable time spent by municipal employees in connection with the implementation of the project plan

## ▣ Organizational Costs

- Environmental impact / studies / borings

# Example of TIF Costs

<b>KIMBALL TIF ELIGIBLE EXPENSES</b>			
<b>SDCL 11-9-15</b>			
	Actual		TIF Requested
Land	\$ 2,500,000.00		\$ -
Road Improvement	\$ 760,000.00		\$ 760,000.00
Grading of Site	\$ 1,949,081.65		\$ -
Rail Construction	\$ 1,500,820.00		\$ -
County Admin Fee	\$ 100,000.00		\$ 100,000.00
Engineering	\$ 165,000.00		\$ -
Electrical	\$ 1,500,000.00		\$ 1,210,000.00
<b>Total Eligible Costs</b>	<b>\$ 8,474,901.65</b>		<b>\$ 2,070,000.00</b>

# Tax Increment Plan

## 3. Adopt

- City / County formally adopts Tax Increment Plan and Developer's Agreement (if gov't is not the borrower)
- File with State of SD

# Developers Agreement

- ▣ Most important part of a TIF
- ▣ Binding document that spells out the terms and conditions of the TIF
- ▣ If agreement is broken – City /County does not forward TIF payments

# Developers Agreement

- ▣ Typically includes but not limited to
- ▣ Roles and responsibility of Developer
  - Timing of improvements
  - City / County is a conduit for the TIF revenue
  - City / County is not liable for any debt
    - Amount – not to exceed
    - Amortization can not exceed 20 yrs
    - Interest Rate – 0%
    - Termination Date
    - Indemnification of City / County

# Tax Increment Plan

## 4. Implementation

- Project is in developer's name
- Project financing happens
- Establishment of the tax base and rates

# 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 year of creation
- City / County is always in the driver's seat

# Hardest Part of a TIF

## ▣ Debt

- Projections
- Finding a lender
- Understanding that construction is fluid and bumps in the road WILL happen

# Memorandum of Understanding

- Helps manage expectation of those involved
- Can be broad or very specific
  - Revenue sharing
  - Timeline / Milestones
  - Annual Appropriation
- Determines roles and responsibilities
- Technically non-binding, but establishes a road map to achieve the desired outcome.
- Helps developers with their lending institution(s) to secure financing.

# Developer - Negotiations

- Review Projections – Developer puts forth development plan
- Financial commitment from Developer / bank...Trust but Verify
- Projections determine TOTAL REVENUE
- TOTAL REVENUE determines TIF Amount
- Past performance determines future performance