

# Residential Financing: Tax Increment Financing (TIF)

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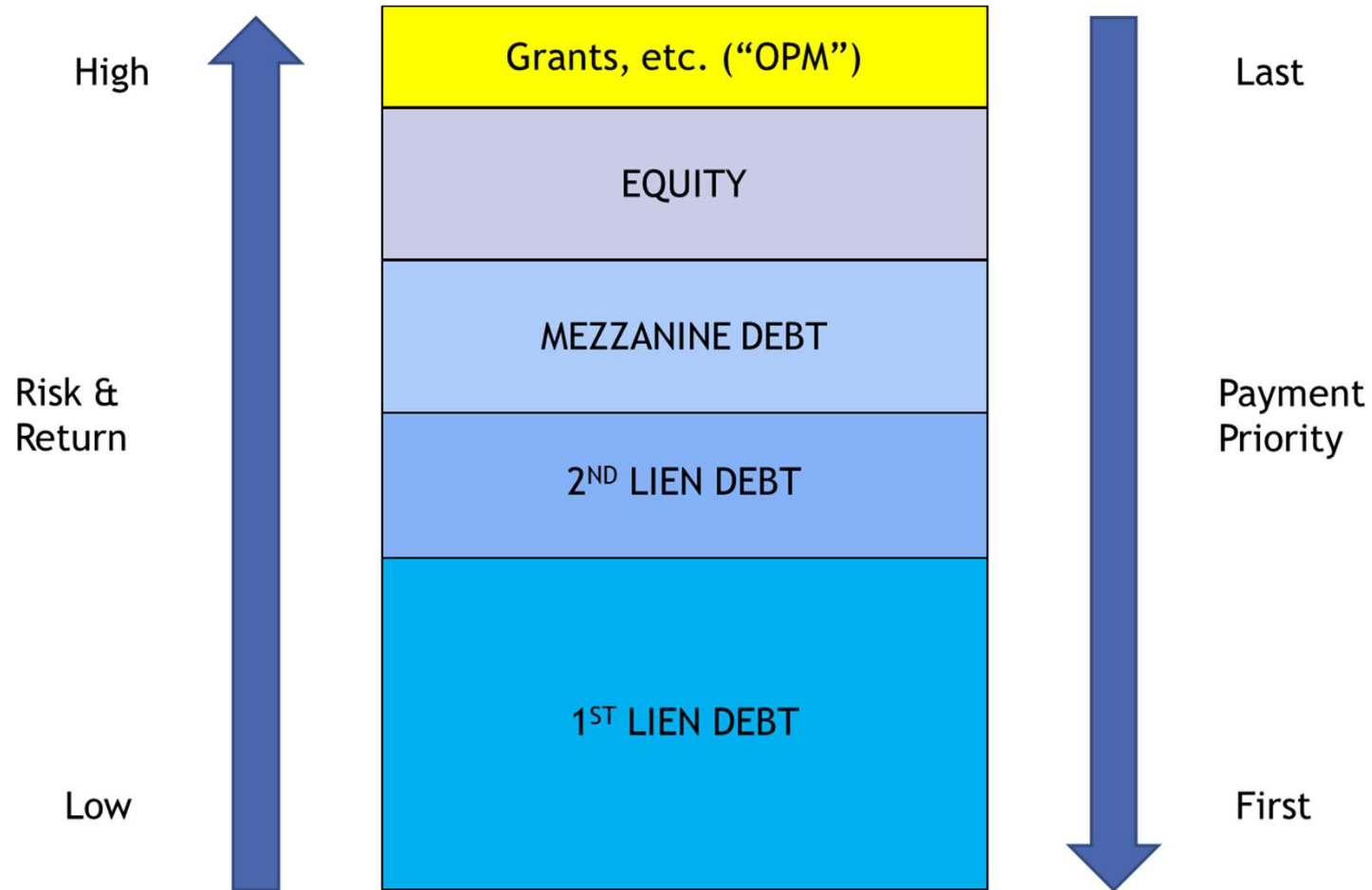


# Public Financing Strategies

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- What forms of public investment are available to get residential development projects to “pencil out?”
- What is a project’s *capital stack*?
  - Sources & Uses of Funds table
    - Other Peoples’ Money (OPM)
    - Which tools are employed by my community?
    - How do public sector incentives factor?
- Deploying TIF for residential financing
  - Payments in-lieu of taxes (PILOTs) = TIF revenue

# Capital Stack



Source: P. Finley & E. Metzler, *TIF and the Project's "Capital Stack"*, CDFA, Advanced Tax Increment Finance Course, November, 6th 2019

# **Tax Increment Financing (TIF)**

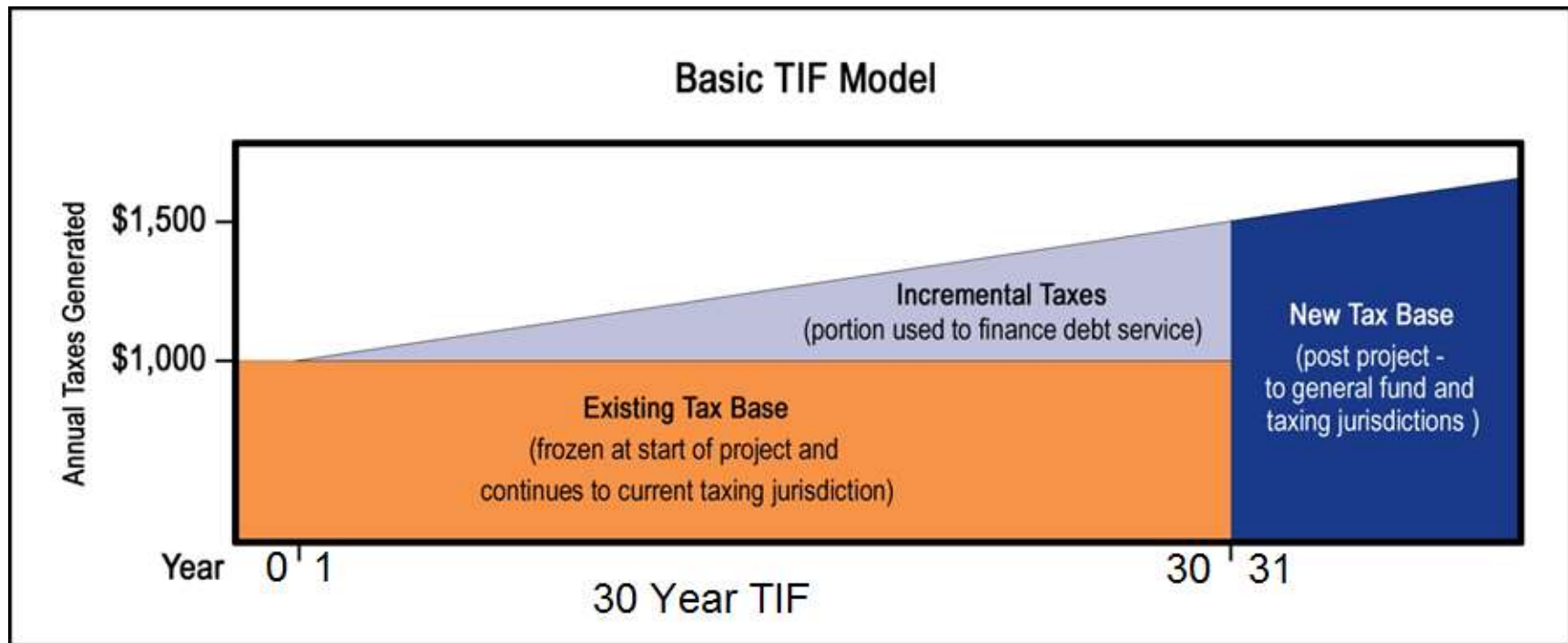
- Counties, municipalities & townships can create TIF structures
- Redirect taxes up to 100% of improvement value, for up to 30 (45\*) years
- There's a trick: Taxes exempted and PILOTs levied in one fell swoop
  - PILOTs paid in the same amount, and collected, distributed and enforced, in the same manner, as real property taxes
  - Service payments are collected into a segregated fund (think escrow)
  - Issue bonds repaid from PILOTs

\* Municipalities may extend, by +15 years, the exemption period of incentive district TIFs that were approved prior to January 2006

# Use of TIF PILOTS

- *Public Infrastructure Improvements* (defined to include, but not be limited to):
  - Public roads and highways
  - Water and sewer lines
  - Continued maintenance of those public roads and highways and water and sewer lines
  - Environmental remediation
  - Land acquisition, including acquisition in aid of industry, commerce, distribution, or research
  - Demolition, including demolition on private property when determined to be necessary for economic development purposes
  - Stormwater and flood remediation projects, including such projects on private property when determined to be necessary for public health, safety, and welfare
  - Gas, electric, and communications service facilities, including the provision of gas or electric service facilities owned by nongovernmental entities when such improvements are determined to be necessary for economic development purposes
  - Public waterways through improvements that allow for greater public access
  - Off-street parking facilities, including those in which all or a portion of the parking spaces are reserved for specific uses when determined to be necessary for economic development purposes
- Sometimes can be used to pay for private improvements

# TIF, Visually



\* "Tax Increment Finance Best Practices Reference Guide" (CDFA and ICSC), page 2.

## Residential TIFs

Incentive district TIF applies to all parcels within a geographic district

- $\leq 300$  contiguous acres
  - Exhibit  $\geq 1$  characteristic(s) of economic distress, as listed in R.C. 5709.40(A)(5)
- No more than 25% of value of property in jurisdiction
- Public hearing required
- Public improvements must *benefit or serve* district
- Allow real property owners to opt-out unless their property is within an overlay (square or rectangle)
- Most often used for developments that include single-family housing



# TIF Creation Process

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- Legislative authority passes ordinance or resolution
  - Parameters set forth in the authorizing legislation:
    - Exemption rate & duration (term)
- Determines base year as of January 1
- Identify TIF boundaries and parcels
- Notice must be given to school districts
- Exemption application (Form DTE 24) filed with OTAX

## Permissible TIF Exemption Percentage

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- Up to 75% without the consent of the affected city, local, or exempted village school district
- Up to 100% with consent
  - Note:
    - Counties and school districts have the right to object to municipal corporation and township incentive district TIFs, *if the exemption is over 75%*
    - Townships and school districts have the right to object to county incentive district TIFs, *if the exemption is over 75%*

## Permissible TIF Term (duration)

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- Up to 10 years without the consent of affected city, local, or exempted village school district
- Up to 30 years with consent
  - Note:
    - Counties and school districts have the right to object to municipal corporation and township incentive district TIFs, *if the term exceeds 10 years*
    - Townships and school districts have the right to object to county incentive district TIFs, *if the term exceeds 10 years*
  - *Exception:* Municipal TIF with 100% school district “make-whole” payment may be for 30 years and 100% exemption without school consent (still must give notice)

## Rights of School Districts, Townships and Counties

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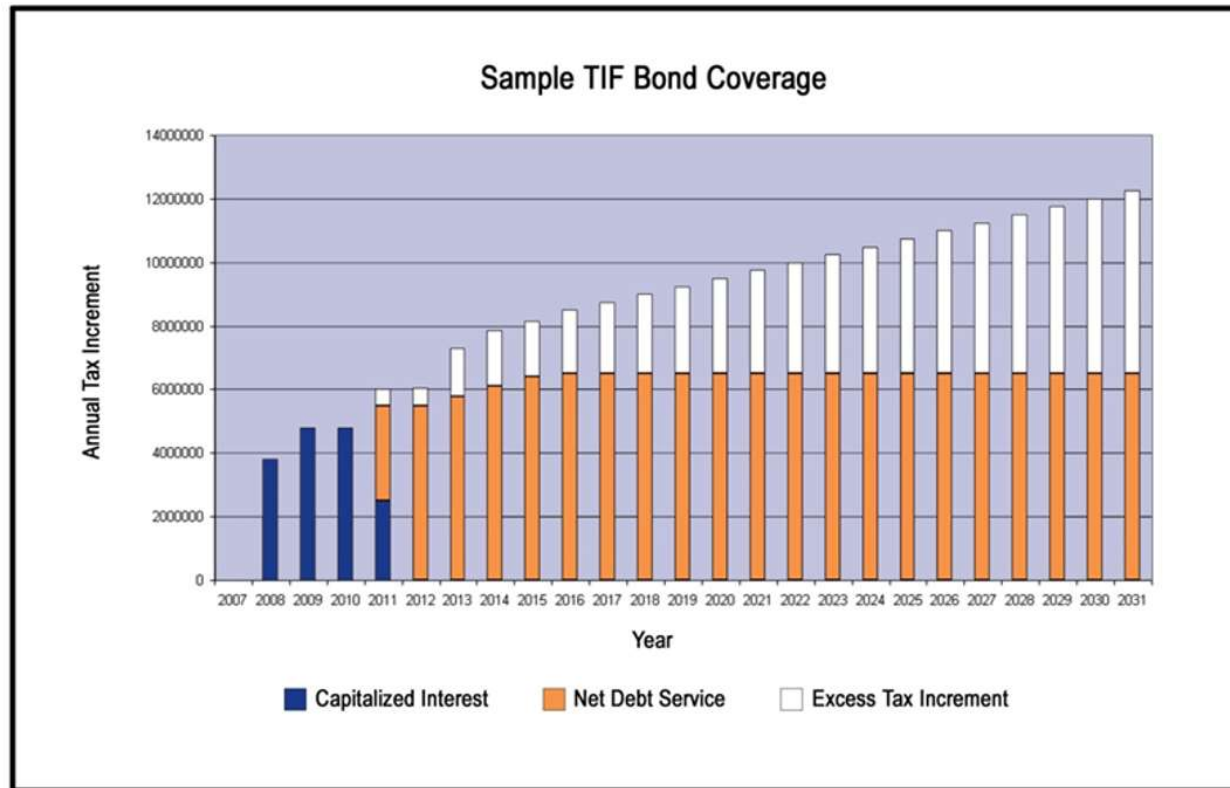
- Along with consent is ability to negotiate compensation
- Maximum compensation for city, local, and exempted village school districts and joint vocational school districts:
  - Amount that would have been paid *but for* TIF (“non-school” or “make-whole” TIF)
- Maximum compensation for county or township
  - Amount that would have been paid *but for* TIF (only applies to incentive district TIFs)

## Leveraging TIF

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- Bond Financing
  - Challenges based on speculative revenue stream
  - Could be tax-exempt
- Pay-as-you-Go Financing
  - Developer responsible for financing and providing necessary security to lender
  - Harder to do tax-exempt financing

# Leveraging TIF



\* "Tax Increment Finance Best Practices Reference Guide" (CDFA and ICSC), page 29.

## Benefits of TIF

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- Not a new tax – redirection of tax paid in normal course
- Can be utilized with tax-exempt bonds
- Can be coupled with direct tax incentives
- Generally strong collection enforceability – lien status

## Challenges with TIF


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- Dependent on development – hard to leverage
  - Can be addressed by combining with assessment tools
- Controversial when TIF “takes” money away from other local government entities



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