

Taxing Body Relations and TIF Deal Gap Analysis

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Goal: Better Relations with Overlapping Taxing Bodies

- ▶ Municipalities have economic development responsibility & thus TIF power
- ▶ Some taxing bodies are concerned about municipalities use of TIF as an ED tool

One major taxing body concern

- ▶ Taxing districts only benefit from TIF if the “but for” test is met

30 year Projection	Scenario 1: No TIF + No Redevelopment	Scenario 2: No TIF; Redevelopment Occurs Anyway	Scenario 3: TIF + Redevelopment
Total Taxes Collected- on School District Portion of Tax Rate	\$6.6 MM	\$18.2 MM	\$18.2MM
School District Tax Revenues	\$6.6 MM	\$18.2 MM	\$9.2MM
Present Value of School District Revenues (@ 5%)	<u>\$ 3.1 MM</u>	<u>\$8.3 MM</u>	<u>\$3.6 MM</u>

Solution

Deal specific “But For” underwriting using a gap analysis

- ▶ Only required at TIF designation
- ▶ Underwriting each TIF deal can help build support

What's in a gap analysis?

- ▶ Check pro forma math and cash flows
- ▶ Independent construction cost review
- ▶ Review project debt capacity
- ▶ Check land cost
- ▶ Benchmark “top line” revenue sources
- ▶ Benchmark soft costs, developer fees
- ▶ Estimate profit and rates of return

	Scenario 1	Scenario 2
TDC	\$10 MM	\$10 MM
Equity	\$3 MM	\$4 MM
Profit	\$0.5 MM	\$0.5 MM
Return on equity	17%	12.5%

Why perform gap analyses?

- ▶ Controls precedent setting
- ▶ Helps explain need
- ▶ Consistency/fairness
- ▶ Can save money
- ▶ Helps define structure of TIF assistance

What will a gap analysis explain?

Potential reasons a deal can't happen without assistance.

- ▶ Public costs
- ▶ Extraordinary private costs
- ▶ “Pure gap”
 - ▶ Better reasons
 - ▶ Worse reasons

Impact on taxing body relations

- ▶ Brings daylight & rigor to TIF assistance process
- ▶ Can help articulate policy goals being served & public benefits of project

Conclusions

- ▶ Taxing bodies have legitimate concerns
- ▶ Gap analyses can help address those concerns & can have other benefits



- ▶ Real Estate Economics
- ▶ Public-Private Partnerships
- ▶ Developer Solicitation
- ▶ Development Management
- ▶ Public Financing
- ▶ Area Plans & Implementation
- ▶ Fiscal & Economic Impact

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