

Tax Increment Financing (TIF)

**“Common Approaches for Facilitating
TIF Public/Private Investments”**

CITY OF WYLIE

MAY 2022

PURPOSE

- Discuss the concept of Tax Increment Financing (TIF)
- Key Stages for Facilitating New Investment
- Case Studies
- Tasks Necessary to Create a TIRZ
- Questions

The background of the slide is a topographic map with intricate contour lines in a light gray color, creating a textured, mountainous appearance. The lines are more densely packed in some areas, indicating steeper slopes, and more spread out in others, indicating flatter terrain. The overall effect is a complex, organic pattern that fills the entire page.

Tax Increment Financing

Tax Increment Reinvestment Zones (TIRZ)

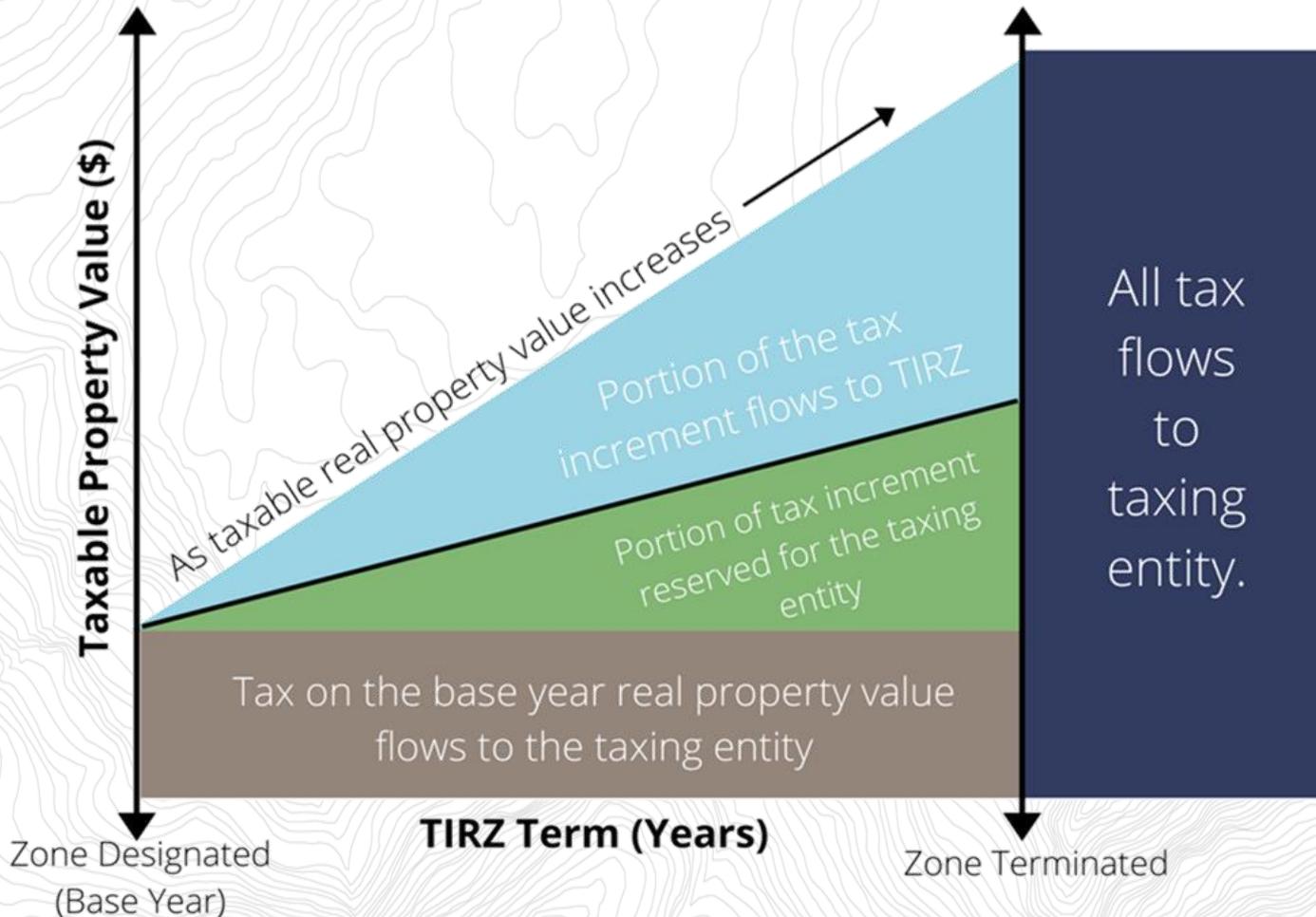
- Tax Increment Financing (TIF) is a tool that incentivizes economic development within a Tax Increment Reinvestment Zone (TIRZ)
- Governed by Tax Code, Chapter 311
- Hundreds of TIRZs have been created in the state of Texas
- Cities, *alone or in partnership with other taxing units*, can use this tool to pay for improvements in a zone so it will attract new development, facilitate investment, and bring excitement and energy to a designated area

Tax Increment Reinvestment Zones (TIRZ)

- Governed by 311 Texas Tax Code
- Incremental ad valorem taxes utilized as financing source
- Taxing entities contribute ad valorem taxes received from incremental value increases on property within the TIRZ.
- A TIRZ can pay for:
 - infrastructure;
 - public improvements;
 - economic development programs; or
 - other projects benefiting the zone

Tax Increment Reinvestment Zones (TIRZ)

- Not a new tax on development
 - Redirects a portion of tax generated from new development within TIRZ



TIRZ REVENUES

Two ways to create new tax increment:

1. New construction/investment; and/or
2. Annual appreciation of real property (i.e. “organic growth”)

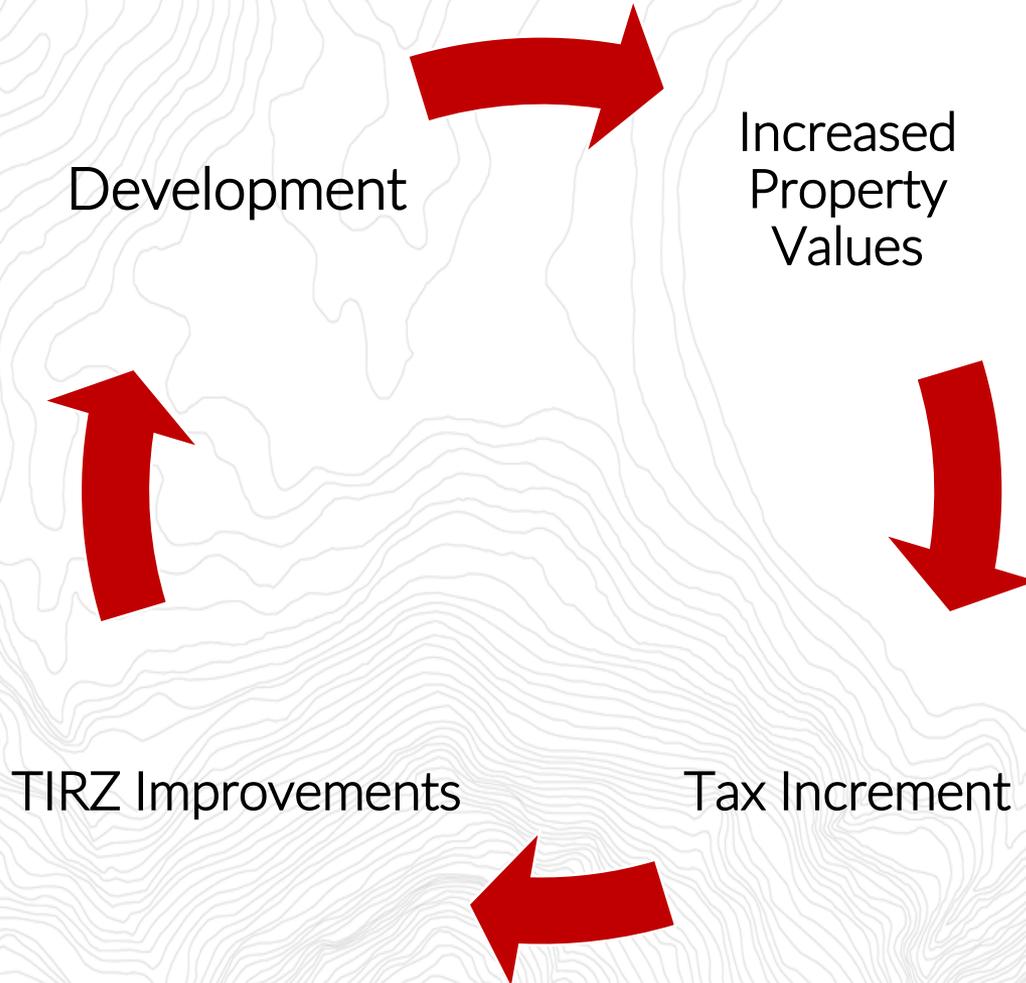
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TIRZ REVENUES



WHY CREATE A TIRZ?

- Private development activity expected to occur within a designated area
- Benefits an area at large, rather than being project specific
- Provides a funding source without impacting the current amount of general fund revenues for each participating taxing entity
- Ability to leverage revenues from taxable property within the TIRZ to generate a larger increment
- Attracts potential developers and investment into area that may not otherwise occur
- Demonstrates a commitment to creating a sense of place and identity

EXAMPLE OF TAX INCREMENT FINANCING

Current Year Property Tax Value	\$300,000
<u>Less Base Year Property Tax Value</u>	<u>\$200,000</u>
=TIF Increment Property Tax Value	\$100,000

<u>Taxing Entity</u>	<u>Tax Rate</u>	<u>Participation Rate</u>	<u>TIF Revenue</u>	<u>General Fund Revenue</u>
City of Wylie	0.643751	75%	\$483	\$161
Collin County	0.168087	0%	\$0	\$168
Collin College	0.081222	0%	\$0	\$81
Wylie ISD	1.459800	0%	\$0	\$1,460
Total	2.35286		\$483	\$2,192

TIRZ Creation Process

- Chapter 311 outlines the various procedures for creating and amending a TIRZ. Two main documents:
 1. Creation ordinance; and
 2. TIRZ Project and Financing Plan
- Creation ordinance establishes five key elements:
 - Boundary;
 - Term;
 - City Participation
 - TIRZ Board; and
 - Preliminary Project and Financing Plan
- Upon TIRZ creation the Final Project and Financing Plan is approved by the TIRZ Board and then the City Council by separate ordinance

COMMON QUESTIONS

Is a TIRZ an additional tax burden? No, a TIRZ does not impose a new tax. Instead, it uses improvements to spur development and raise property values within a zone. Then it directs some of the tax collected on that increase in value into a TIF fund that pays for the improvements.

Which taxing units can participate in a TIRZ? Any taxing unit that collects ad valorem taxes from property in the TIRZ may participate in a TIRZ project, but only a city or county can initiate a TIRZ project and create a TIRZ. The governing body of the city or county that creates the TIRZ is responsible for the TIF project.

How many board members are required for a tax increment project? For a normal TIRZ, the board of directors must consist of at least five members and usually does not exceed 15.

Who appoints the board members? The city and the other participating taxing units appoint board members.

COMMON QUESTIONS

How are the project costs paid? The board of directors makes all payments for project costs from the TIRZ fund. Project costs are be paid over time as tax increments are collected, or the tax increment can be monetized.

Can a city change the boundaries of a TIRZ? Yes, but only if the changed boundaries continue to meet the restrictions for the creation of TIRZ, and only with a public hearing and an ordinance describing the new boundaries.

Can a TIRZ be terminated? Yes. A city that created a TIRZ can terminate it by approving an ordinance that designates a termination date. Termination also occurs when all project costs, tax increment bonds and interest on those bonds, and other obligations have been paid in full.

What happens to money that remains in the fund after a TIRZ is terminated? After all project costs and other obligations have been paid, any money remaining in the fund is disbursed back to the participating taxing units in proportion to each jurisdiction's share of the total tax increments collected.

PUBLIC/PRIVATE PARTNERSHIPS

Infrastructure Improvements

Use of economic development tools in conjunction with planning to foster redevelopment, *typically focusing on infrastructure needs*

Business Creation/Retention

Use of economic development tools to encourage the relocation or retention of *targeted businesses*

Gap Financing

Use of economic development tools to facilitate a fair “rate of return” for *private investment that otherwise would not occur*



TIRZ EXPENDITURES

The justification for TIRZ expenditures and agreements essentially fall into two (2) categories:

- Items described as “**project costs**” in the TIF statute, Chapter 311 of the Texas Tax Code; or
- Activities consistent with authority granted by TIF Statute to the use **Program 380** authority.

TIRZ PROJECT COSTS

Chapter 311 of the Texas Tax Code

Sec. 311.002. DEFINITIONS. In this chapter:

- (1) "Project costs" means the expenditures made or estimated to be made and monetary obligations incurred or estimated to be incurred by the municipality or county establishing a reinvestment zone that are listed in the project plan as **costs of public works or public improvements in the zone**, plus other costs incidental to those expenditures and obligations.

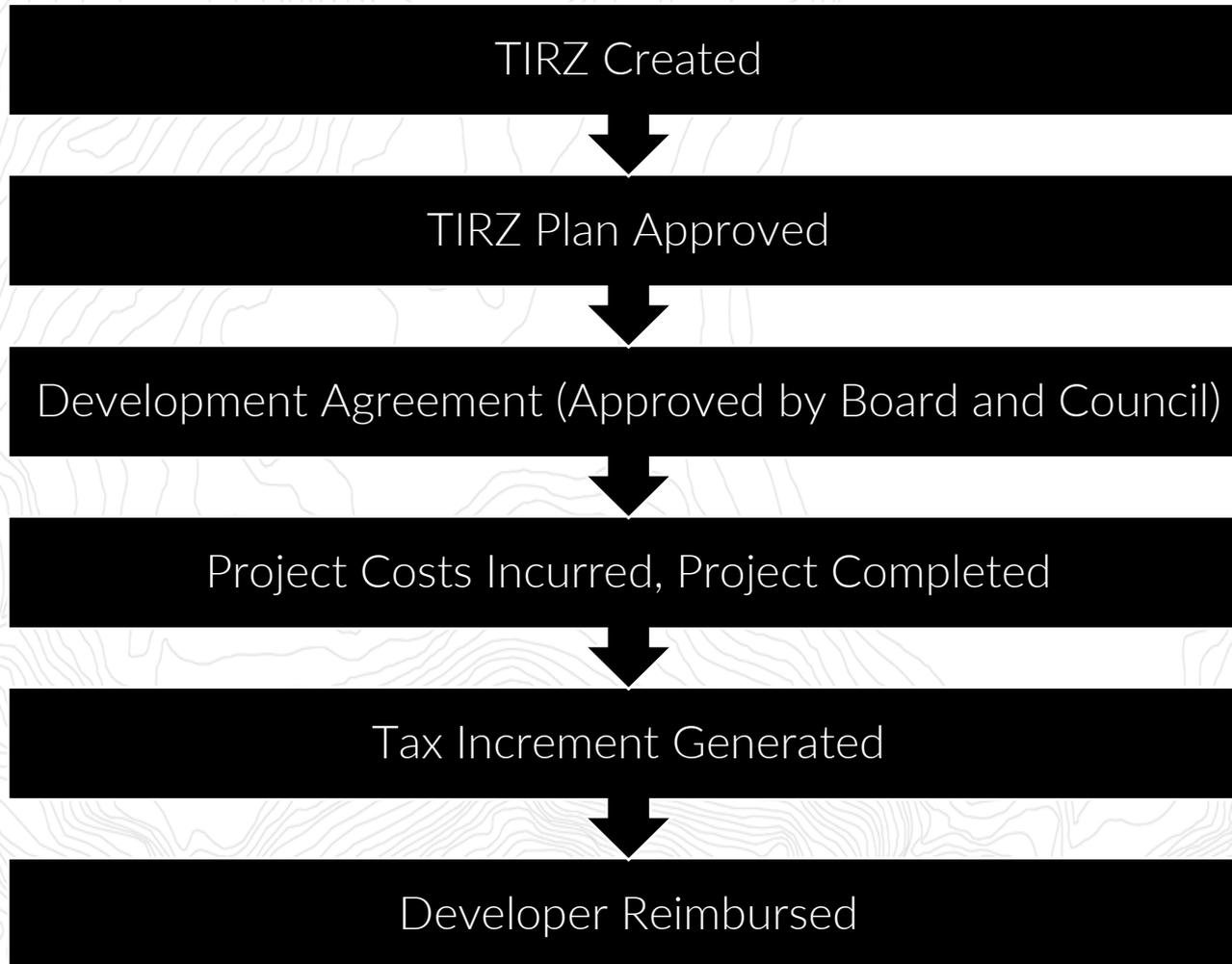
PROGRAM 380

Chapter 380 of the Local Government Code

Sec. 380.001. ECONOMIC DEVELOPMENT PROGRAMS.

- (a) The governing body of a municipality may establish and provide for the administration of one or more programs, including **programs for making loans and grants of public money** and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality.

PROCESS



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Key Stages for Facilitating New Investment

KEY STAGES

Project Analysis

Is the project a good candidate for incentives?

Incentive Package

What amount of incentives does the project need?

Payment Method

Who and where does the money come from?

PROJECT ANALYSIS

- When considering a developer's proposal for TIRZ incentives a few key items should be reviewed.
 - **Is the project financially feasible?**
 - The developer should be able to provide a lender commitment letter and an anticipated cash flow from the development
 - **Is there a "gap" hindering the project?**
 - Developer should be able to demonstrate a gap that prevents a "fair rate of return"
 - **Is the project consistent with the goals and objectives of the TIRZ plan?**
 - TIRZ Plan can be amended to add project or expenses not outlined in the TIRZ Plan

INCENTIVE PACKAGE

- There are a few different methods for determining the total amount of the incentive package.
 - **Pledge 100% of increment generated by the project for x number of years**
 - Common for initial TIRZ projects and can be used in conjunction with Program 380 agreements.
 - **Pledge a portion of increment generated by the project for x number of years**
 - Applicable to a wide range of projects and can be used with either TIF or Program 380 agreements
 - **Fund all public improvements and TIF eligible expenses unrelated to increment generated**
 - Funding would be tied to the amount of money spent by the developer on TIF eligible expenses
 - e.g. environmental remediation, utility improvement, streetscape improvements, etc...



PAYMENT METHOD

- Funds for payment come from one of two different sources.
- **Site Specific Increment**
 - Funding for a project will be linked directly to the increment that the development produces
 - Site specific increment is probably the most widely used method, because it puts all of the burden on the developer and provides very little risk to the TIRZ.
- **TIRZ Reserve Funds**
 - Funding for a project is not linked directly to the increment it generates, instead money from the entire TIRZ fund is pledged.
 - Generally used for projects that generate a large amount aesthetic improvements, but little if any increased revenue
 - i.e. Public Parks, Streetscape, etc...

A background of a topographic map with contour lines in shades of gray, showing a mountainous terrain. The lines are more densely packed in some areas, indicating steeper slopes, and more widely spaced in others, indicating gentler slopes. The overall shape of the terrain is irregular, with several peaks and valleys.

Case Studies

COMMUNITIES WITH TIRZ VARY WIDELY

- Allen (104,627)
- Arlington (394,266)
- Austin (961,855)
- Azle (13,369)
- Celina (30,000)
- Dallas (1.3 million)
- Denison (24,479)
- El Paso (678,815)
- Farmer's Branch (35,991)
- Fort Worth (918,915)
- Frisco (200,509)
- Garland (246,018)
- Grand Prairie (196,100)
- Kaufman (6,797)
- McKinney (195,308)
- Mesquite (150,108)
- Plano (285,494)
- Prosper (30,174)
- Rockwall (47,251)
- Rowlett (62,535)
- San Antonio (1.4 million)
- Stephenville (20,897)
- Waco (138,486)
- Waxahachie (41,140)

FLOWER MOUND

- TIF #1 was created in 2005 to provide for public improvements
 - 1,465 Acres
 - 100% City Participation
 - 85% Denton County Participation
- 2005 Base Value = \$261 Million
- 2020 Value = \$1.3 Billion
- \$48 Million Budget
- FY 2021 Revenue = \$7 million



In 2017, the TIRZ Board recommended the use of TIRZ #1 Funds to pay the annual debt service on the issuance of \$10,900,000 for the Town of Flower Mound Public Library Renovation and Expansion Project.

- Renovation of 25,000 SF Library
- 15,000 expansion, creating additional adult program rooms, quiet reading rooms, study rooms, additional collection space, a multi-purpose room, and more meeting spaces

PLANO

- TIF 4 was created in 2020 to support the redevelopment of Collin Creek Mall
- 75% City Participation
- 36 Years
- \$80 Million Budget
- \$15 million will be used to pay back a loan from the NCTCOG to build a parking garage
- \$24 million to construct a second parking garage on the zone's west side



\$1 billion mixed-use development

- 400,000 square feet of retail space
- 500 single-family homes
- 2,300 multifamily apartment units
- 1.3 million square feet of office space
- 200-room hotel
- An outdoor space will include 8 acres of parkland and more than a mile of trails

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Next Steps to Create a TIRZ

NEXT STEPS

- Review Proposed Boundaries
- Taxable Value Analysis
 - Historic taxable value review of similar developments to establish assumptions of future taxable value
 - Develop projections for future land uses, and timing of proposed developments
- Develop TIRZ Cash Flow Model
 - Draft financing cash flow model (and supporting spreadsheets) for a to be determined time period
- Prepare TIRZ Project and Financing Plan
 - Develop the Project and Financing Plan, and Detailed Description of TIRZ, and other exhibits required for local government review and approval per the state legislative requirements

NEXT STEPS

Item	Date
Engage DPED to initiate process	May/June 2022
DPED work with City Leadership to establish boundaries and development projections	June/July 2022
Preliminary Project and Financing Plan Completed	August 2022
City Council Creation Ordinance Public Hearing	September 2022
TIF Board Approval of PFP	September 2022
City Council Final PFP 1st Reading	September 2022

QUESTIONS

