

Community Development Finance Strategies: Tax Increment Development Districts

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What is Tax Increment Financing (“TIF”)?

- ✓ A financial tool widely used by municipalities to promote economic development and redevelopment
- ✓ *Base revenues* - This is the amount available before the TIF district is established
- ✓ *Incremental revenues* - These new revenues in excess of the base revenues are generated by development projects - mostly used by municipalities

- ✓ Funds can only be used for public infra-structure purposes such as water and sewer costs, water rights acquisition for the municipality, street and signaling costs
- ✓ All improvements are dedicated to the municipality to achieve tax exempt interest rates
- ✓ All improvements must be built to municipality standards & specifications
- ✓ Generally cannot be used for private activities

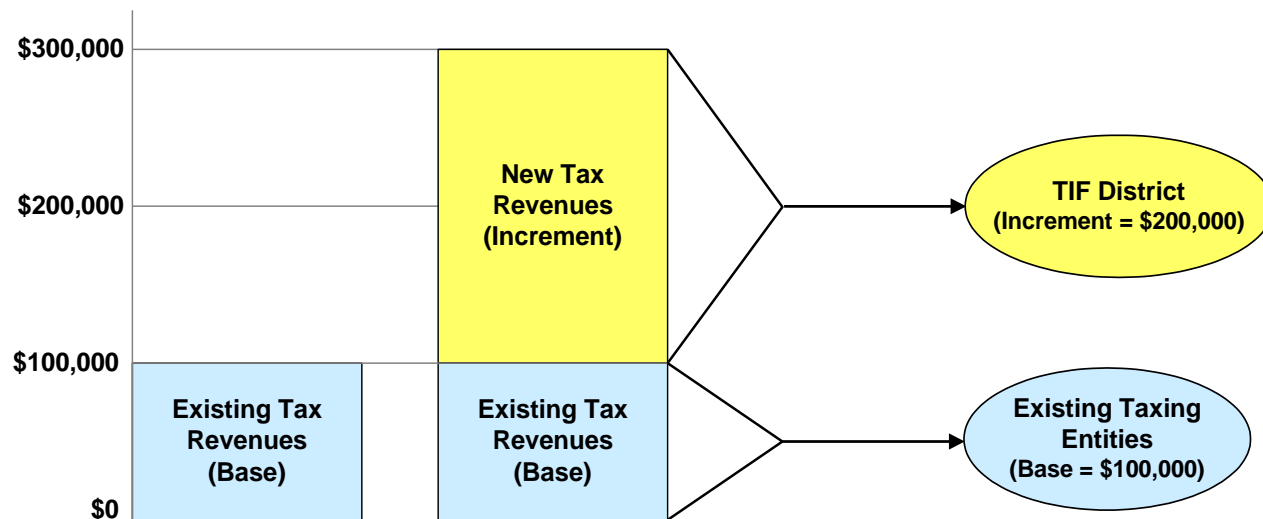
- ✓ Today, it helps municipalities achieve a variety of economic development goals, including job creation, growth in property values, and protection of the local tax base.
- ✓ Suburban municipalities even use tax increment financing today to spur development in previously undevelopable or under developed areas.
- ✓ Municipality governments cite the most common goals for a TIF project to be: (1) attraction of new business, (2) downtown redevelopment, and (3) retention or expansion of existing businesses.

Why has the use of TIF become more widespread, nationally?

- ✓ Every state but 1 has given local governments authority to establish TIF districts
- ✓ Coincided with the reduction in federal funding for municipal economic development over the past twenty years (CDBG)
- ✓ A way to generate new gross receipts & property taxes

How does TIF differ from other economic development financing tools?

- ✓ No new taxes created & no tax increases
- ✓ Self Financing: no reliance on guarantees or pledges of existing revenues
- ✓ Local Control: not dependent on federal or state funding
- ✓ Flexibility in project activities



What is the general process for establishing a TIF District?

- ✓ Phase 1: Determine project feasibility
- ✓ Phase 2: Create Tax Increment Development Plan
- ✓ Phase 3: Adopt Plan & form District
- ✓ Phase 4: Issue bonds to finance new public infrastructure
- ✓ Phase 5: Evaluate and terminate when bonds are retired

Who comprises the TIF management team?

- ✓ District is a political subdivision of the State with the powers the statutes & municipality give it
- ✓ Municipality Council can sit as TIF Board
- ✓ A municipality official or contracted professionals monitor TIF performance and ensures compliance with development agreement
- ✓ Governments issuing TIF bonds rely on the standard set of advisors for a bond issue - financial advisor, underwriter, bond counsel

How is stakeholder participation incorporated into the TIF process?

- ✓ The normal municipality ordinance process or a specific ordinance process is used, requiring advance disclosures to the public of TIF plans, financing arrangements, and proposed geographic boundaries
- ✓ Municipality will adopt a Tax Increment District Application Policy
- ✓ Follow-up education meeting on issues about what should be in this policy

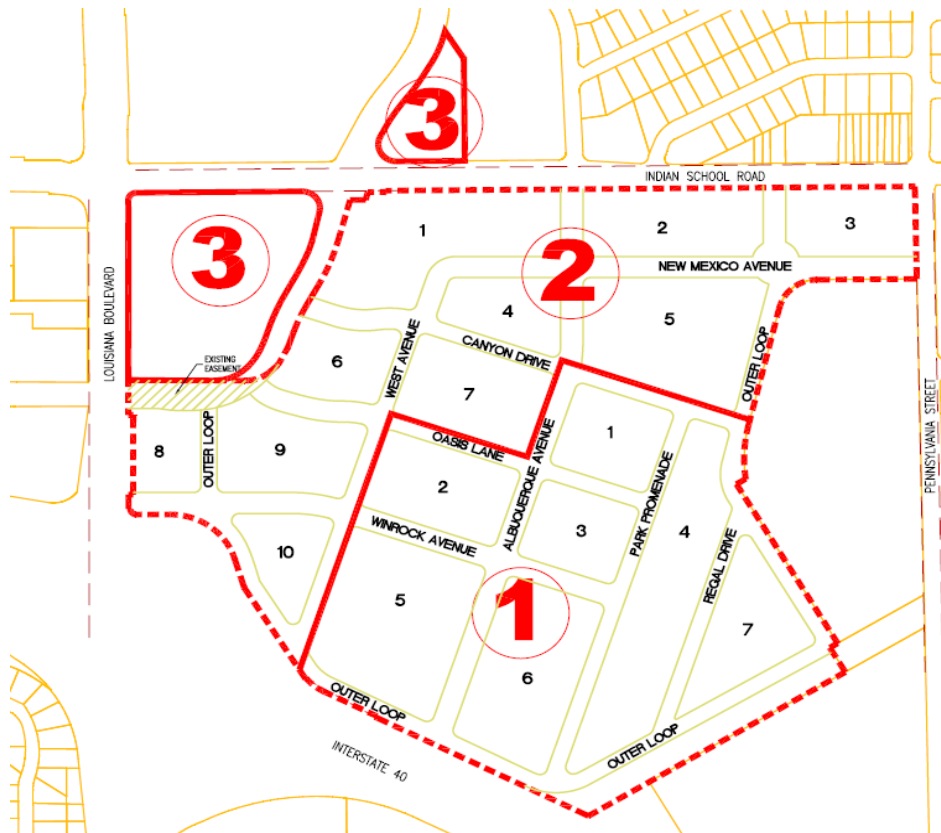
- ✓ A TIF District is formed; separate political subdivision
- ✓ Revenue Bond: pledge of up to 75% of new property and gross receipts taxes from the TIF District only
- ✓ No pledge of any other revenues of the municipality
- ✓ No general obligation of the municipality
- ✓ No liability of the municipality
- ✓ Any debt issued is an obligation of the TIF district only
- ✓ Debt counts as overlapping debt

- ✓ Required of the developer by state law
- ✓ Study done by third party to determine financial viability of project
- ✓ Also a financing study is done by bond underwriter
- ✓ Discussion of possible tax receipts

| | |
|-----------------------|--|
| Term: | 25 years |
| Rating: | Undeveloped districts are non-rated unless supported by a Letter of Credit provided by the developer |
| Type: | Fixed rate, variable rate possible if supported by a Letter of Credit |
| Capitalized Interest: | Financed from bond proceeds for construction period plus 6 months (limited to a maximum of 3 years) |
| Cost of Issuance: | Approaches 6% of bond proceeds |
| Size: | Size of borrowing influenced by a number of factors: <ol style="list-style-type: none">1. Projected GO and GRT revenue streams2. Experience of developer3. Product quality (retail development/residential development)4. Pace of development and absorptions |
| Liens: | Same as general property tax and gross receipts tax liens |

Winrock / Quorum Town Center Redevelopment Project

Tax Increment Development Districts Infrastructure



- 5 public parking structures
- Over 9 acres of open space, public plazas, parks and pedestrian paths
- Sanitary sewer, storm drain and retention facilities
- Public roadways, streets, curbs, gutters and traffic signals
- Reclaimed water system
- Bus platform and transit facility
- Installation of new water lines and fire protection
- Estimate total public infrastructure cost of \$155 MM

Direct Impacts of Construction Activity

- TIDD 1: \$190.5 million
 - TIDD 2: \$326.6 million
 - TIDD 3: \$98.5 million
- } Total = \$615.6 million

Economic Impact of Construction (2009 to 2016)

- Output (Economic Activity): \$1.2 billion¹
- Impact of Wages: \$403 million²
- Impact of Wages and Corporate Earnings: \$663 million

Total Construction Employment (2009-2016)

- Direct Employment: 6,679 jobs
- Indirect/Induced Employment: 6,086 jobs

¹ Includes direct, indirect, and induced economic impacts from the \$615.6 million in direct construction activity

² Indicates the portion of total estimated Output paid as wages to employees

Note: All data from "Economic Development and Impact Analysis," August 29, 2008, Economic & Planning Systems

Annual Stabilized Permanent Employment

- Direct Employment: 4,952 jobs
- Indirect/Induced Employment: 3,309 jobs

Annual Impacts of Wages from Employment

- Direct Impact: \$101 million/year
- Indirect/Induced: \$79 million/year

Stabilized Annual Direct Resident Spending

- Taxable retail spending: \$9.7 million
- Assumes an average income of \$62,000 and 33 percent of income spent on retail categories

Economic Impact of Stabilized Annual Resident Spending

- Output: \$17.2 million/year
- Impact of Wages: \$5.4 million/year
- Impact of Wages and Corporate Earnings: \$10.6 million/year

Resident Spending Impacts in the State of New Mexico

- ✓ The Winrock / Quorum Town Center Re-Development Project is a “reimbursement development” meaning that substantially all improvements will have been completed prior to issuing debt backed by tax increment revenue.
- ✓ Winrock Partners LLC will provide upfront financing for TIDD1 and TIDD2 for the public infrastructure and bonds will be issued after completion of the public infrastructure and at or near stabilization of the project.
- ✓ Hunt Development Group will provide upfront financing for TIDD3 for the public infrastructure and bonds will be issued after substantial completion of public infrastructure.
- ✓ The anticipated timing and sources and uses of funds is as follows:

| | State GRT 57% | | City GRT 70% | | City Prop. Tax 75% | | County GRT 67% | | County Prop. Tax 50% | | |
|-----------------------------------|---------------------|--------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|-------------------|-------------------------|--|--|
| | TIDD 1 | | | | | | | | | | |
| Year of Issuance | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | Total (TIDD 1) | | | |
| Sources | | | | | | | | | | | |
| Par Amount (Long Term Debt) | \$51,347,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$51,347,000 | | | |
| Par Amount (Sponge Bonds) | 21,777,645 | 2,314,987 | 2,326,683 | 2,327,963 | 2,328,013 | 2,327,158 | 2,324,723 | 35,727,172 | | | |
| Total Sources | \$73,124,645 | \$2,314,987 | \$2,326,683 | \$2,327,963 | \$2,328,013 | \$2,327,158 | 2,324,723 | 87,074,172 | | | |
| Uses | | | | | | | | | | | |
| Infrastructure Costs ¹ | \$66,790,818 | \$2,264,987 | \$2,276,683 | \$2,277,963 | \$2,278,013 | \$2,277,158 | \$2,274,723 | \$80,440,345 | | | |
| Debt Service Reserve Fund | 4,259,690 | - | - | - | - | - | - | 4,259,690 | | | |
| Cost of Issuance | 2,074,136 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 2,374,136 | | | |
| Total Uses | \$73,124,645 | \$2,314,987 | \$2,326,683 | \$2,327,963 | \$2,328,013 | \$2,327,158 | \$2,324,723 | 87,074,172 | | | |

| | TIDD 2 | | | | TIDD 3 | | | | | |
|-----------------------------------|---------------------|--------------------|--------------------|-------------------|----------------------|---------------------|----------------------|-----------------------|----------------------|----------------------|
| Year of Issuance | FY 2020 | FY 2021 | FY 2022 | Total (TIDD 2) | FY 2010 | FY 2011 | Total (TIDD 3) | Total (TIDD 1, 2 & 3) | Total Winrock | Total Quorum |
| Sources | | | | | | | | | | |
| Bond Proceeds | \$36,575,000 | - | - | \$36,575,000 | \$19,600,000 | \$6,080,693 | \$25,680,693 | \$113,602,693 | \$87,922,000 | \$25,680,693 |
| Other Sources (Sponge Bonds) | 21,662,282 | 1,733,301 | 1,341,000 | 24,736,583 | - | - | - | 60,463,755 | 60,463,755 | - |
| Total Sources | \$50,014,612 | 1,733,301 | 1,341,000 | 61,311,583 | \$ 19,600,000 | \$ 6,080,693 | \$ 25,680,693 | \$174,066,448 | \$148,385,755 | \$ 25,680,693 |
| Uses | | | | | | | | | | |
| Infrastructure Costs ¹ | \$53,174,882 | \$1,683,301 | \$1,291,000 | \$56,149,183 | \$16,421,227 | \$5,898,273 | \$22,319,499 | \$158,909,027 | \$136,589,528 | \$22,319,499 |
| Debt Service Reserve Fund | 3,287,575 | - | - | 3,287,575 | 1,518,400 | - | 1,518,400 | 9,065,665 | 7,547,265 | 1,518,400 |
| Capitalized Interest | - | - | - | - | 570,417 | - | 570,417 | 570,417 | - | 570,417 |
| Cost of Issuance | 1,774,825 | 50,000 | 50,000 | 1,874,825 | 1,089,956 | 182,421 | 1,272,377 | 5,521,339 | 4,248,962 | 1,272,377 |
| Total Uses | \$50,014,612 | \$1,733,301 | \$1,341,000 | 61,311,583 | \$19,600,000 | \$6,080,693 | \$25,680,693 | \$174,066,448 | \$148,385,755 | \$25,680,693 |

¹ Includes Capitalized Construction Interest

Source: RBC Capital and Economic & Planning Systems



Mesa Del Sol

- Development provides no net cost
- Development is tax neutral
- The bonds are purchased by Forrest City for initial sale
- TIF bonds are sold as the tax base develops

Timing of Development

| | Par Amount | | Completion | Residential | | | | Commercial / Mix Use | |
|--------------|-----------------------|-----------------------|------------|--------------|----------------|--------------|----------------|----------------------|----------------|
| | Issued | Bonds Proceeds | | Acres | % of Acreage | Units | % of Units | Sq. Ft. Developed | % of Total |
| District 1 | \$ 110,050,000 | \$ 85,000,000 | 2007-2010 | 226 | 14.08% | 1,243 | 15.39% | 2,025,596 | 32.41% |
| District 2 | 109,055,000 | 85,000,000 | 2011-2013 | 500 | 31.15% | 2,000 | 24.76% | 837,500 | 13.40% |
| District 3 | 77,355,000 | 70,000,000 | 2014-2016 | 290 | 18.07% | 1,595 | 19.75% | 1,568,750 | 25.10% |
| District 4 | 76,490,000 | 70,000,000 | 2017-2019 | 329 | 20.50% | 1,809 | 22.40% | 983,750 | 15.74% |
| District 5 | 76,155,000 | 70,000,000 | 2020-2021 | 260 | 16.20% | 1,430 | 17.70% | 833,750 | 13.34% |
| Total | \$ 449,105,000 | \$ 380,000,000 | | 1,605 | 100.00% | 8,077 | 100.00% | 6,249,346 | 100.00% |

- Tax base keeps up with overlapping debt load
- City/County keeps 25% of the new TIF revenues
- City/County debt service is not subject to TIF
- Bonding capacity increases
- Gross receipts tax base increases

