

Challenges to TIF-Debt Financing: Orlando Case



- How much can the CRA borrow with the TIF revenue and a 10-year bond
 - Cost of capitalized interest reserve
- What can be done to increase the amount raised with the TIF revenue?
- What credit issues and risks do you see for investors?
- What could be done reduce these risks and strengthen the credit?

Full Increment- 10 Year Debt Term

| Year | Increment to District | Revenue @ 1.40 DSC | Principal Payment | Interest Payment | Total Debt Service | Revenue Shortfall |
|-----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| 1983 | \$751,450 | \$536,750 | \$0 | \$1,527,385 | \$1,527,385 | -\$990,635 |
| 1984 | \$940,500 | \$671,786 | \$0 | \$1,527,385 | \$1,527,385 | -\$855,599 |
| 1985 | \$1,184,650 | \$846,179 | \$0 | \$1,527,385 | \$1,527,385 | -\$681,206 |
| 1986 | \$2,270,500 | \$1,621,786 | \$94,401 | \$1,527,385 | \$1,621,786 | 0 |
| 1987 | \$2,852,850 | \$2,037,750 | \$519,805 | \$1,517,945 | \$2,037,750 | 0 |
| 1988 | \$3,475,100 | \$2,482,214 | \$1,016,250 | \$1,465,964 | \$2,482,214 | 0 |
| 1989 | \$4,258,850 | \$3,042,036 | \$1,677,696 | \$1,364,339 | \$3,042,036 | 0 |
| 1990 | \$6,004,000 | \$4,288,571 | \$3,092,002 | \$1,196,570 | \$4,288,571 | 0 |
| 1991 | \$6,756,400 | \$4,826,000 | \$3,938,630 | \$887,370 | \$4,826,000 | 0 |
| 1992 | \$7,600,000 | \$5,428,571 | \$4,935,065 | \$493,506 | \$5,428,571 | 0 |
| Total | \$36,094,300 | \$25,781,643 | \$15,273,849 | \$13,035,234 | \$28,309,083 | (\$2,527,441) |
| Cap. Interest Reserve | | | (\$2,527,441) | | | |
| Gross Proceeds | | | \$12,746,409 | | | |
| Net after issue costs | | @2.5% | \$12,364,563 | | | |

Full Increment—Extend Term by 3 Years

| Year | Increment | District Increment | @ 1.40 DSC | Principal | Interest | Debt Serv | Shortfall |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| 1983 | \$791,000 | \$751,450 | \$536,750 | \$0 | \$2,476,676 | \$2,476,676 | -\$1,939,926 |
| 1984 | \$990,000 | \$940,500 | \$671,786 | \$0 | \$2,476,676 | \$2,476,676 | -\$1,804,890 |
| 1985 | \$1,247,000 | \$1,184,650 | \$846,179 | \$0 | \$2,476,676 | \$2,476,676 | -\$1,630,497 |
| 1986 | \$2,390,000 | \$2,270,500 | \$1,621,786 | \$0 | \$2,476,676 | \$2,476,676 | -\$854,890 |
| 1987 | \$3,003,000 | \$2,852,850 | \$2,037,750 | \$0 | \$2,476,676 | \$2,476,676 | -\$438,926 |
| 1988 | \$3,658,000 | \$3,475,100 | \$2,482,214 | \$0 | \$2,476,676 | \$2,476,676 | \$0 |
| 1989 | \$4,483,000 | \$4,258,850 | \$3,042,036 | \$565,360 | \$2,476,676 | \$3,042,036 | 0 |
| 1990 | \$6,320,000 | \$6,004,000 | \$4,288,571 | \$1,868,432 | \$2,420,140 | \$4,288,571 | 0 |
| 1991 | \$7,112,000 | \$6,756,400 | \$4,826,000 | \$2,592,704 | \$2,233,296 | \$4,826,000 | 0 |
| 1992 | \$8,000,000 | \$7,600,000 | \$5,428,571 | \$3,454,545 | \$1,974,026 | \$5,428,571 | 0 |
| 1993 | \$8,800,000 | \$8,360,000 | \$5,971,429 | \$4,342,857 | \$1,628,571 | \$5,971,429 | 0 |
| 1994 | \$9,680,000 | \$9,196,000 | \$6,568,571 | \$5,374,286 | \$1,194,286 | \$6,568,571 | 0 |
| 1995 | \$10,648,000 | \$10,115,600 | \$7,225,429 | \$6,568,571 | \$656,857 | \$7,225,429 | 0 |
| Total | \$67,122,000 | \$63,765,900 | \$45,547,071 | \$24,766,755 | \$27,443,905 | \$52,210,660 | (\$6,669,128) |
| Less Capitalized Interest Reserve | | | | (\$6,669,128) | | | |
| Less Transactions Costs @ 2.5% | | | | (\$495,335) | | | |
| Net Proceeds | | | | \$17,602,293 | | | |

More Feasible at Lower Interest Rate (5%)

| Year | Projected Increment | Increment to District (.95) | Revenue @ 1.40 DSC | Principle | Interest | Total Debt Service | Revenue Shortfall |
|-----------------------------------|---------------------|-----------------------------|---------------------|---------------------|--------------------|---------------------|--------------------|
| 1983 | \$791,000 | \$751,450 | \$536,750 | \$0 | \$942,960 | \$942,960 | -\$406,210 |
| 1984 | \$990,000 | \$940,500 | \$671,786 | \$0 | \$942,960 | \$942,960 | -\$271,175 |
| 1985 | \$1,247,000 | \$1,184,650 | \$846,179 | \$0 | \$942,960 | \$942,960 | -\$96,782 |
| 1986 | \$2,390,000 | \$2,270,500 | \$1,621,786 | \$678,825 | \$942,960 | \$1,621,786 | 0 |
| 1987 | \$3,003,000 | \$2,852,850 | \$2,037,750 | \$1,128,731 | \$909,019 | \$2,037,750 | 0 |
| 1988 | \$3,658,000 | \$3,475,100 | \$2,482,214 | \$1,629,632 | \$852,582 | \$2,482,214 | 0 |
| 1989 | \$4,483,000 | \$4,258,850 | \$3,042,036 | \$2,270,935 | \$771,101 | \$3,042,036 | 0 |
| 1990 | \$6,320,000 | \$6,004,000 | \$4,288,571 | \$3,631,017 | \$657,554 | \$4,288,571 | 0 |
| 1991 | \$7,112,000 | \$6,756,400 | \$4,826,000 | \$4,349,997 | \$476,003 | \$4,826,000 | 0 |
| 1992 | \$8,000,000 | \$7,600,000 | \$5,428,571 | \$5,170,068 | \$258,503 | \$5,428,571 | 0 |
| Total | \$37,994,000 | \$36,094,300 | \$25,781,643 | \$18,859,205 | \$7,696,604 | \$26,555,809 | (\$774,167) |
| Less Capitalized Interest Reserve | | | | (\$774,167) | | | |
| Less Transactions Costs @ 2.5% | | | | (\$471,480) | | | |
| Net Proceeds | | | | \$17,613,559 | | | |

Detroit and TIF Authorities



- **Downtown Development Authority**
 - Oldest & most used TIF district: hotel, office, retail, housing projects; parking, transportation, public realm.
 - Sports complexes: Events Center/Detroit Red Wings facility
- **Tax Increment Finance Authority**
 - Financed GM plant, hotel and office building
- **Brownfield Redevelopment Authority**
 - Uses TIF revenue to reimburse developers for environmental remediation and other site development costs; > 200 projects
- **Local Development Finance Authority**
 - Chrysler plant & Wayne State Univ. Tech Town Development
- **Eight Mile Woodward Corridor Improvement**
 - Shopping center at former state fair grounds

DDA TIF District Area

Page 19, "[City of Detroit Downtown Development Authority, Exhibit A to Section 102](#)" from inter-office memo re: Expansion of DDA Downtown District and Amendments to Tax Increment Financing Plan and Development Plan for Development Area No. 1, June 26, 2013 has been removed due to copyright restrictions.

Event Center Project and TIF Financing



| | |
|--------------------------|----------------------|
| TIF Revenue Bonds | \$250 million |
| DDA Cash Investment | \$35 million |
| Concession Revenue Bonds | \$200 million |
| Private operator equity | \$50 million |
| Total | \$535 million |

- Expanded DDA district for Catalyst Development Area
- \$200 million private investment + tax increment
- TIF Bonds: six month debt service reserve and \$10 million capitalized interest reserve
- “The Detroit DDA will covenant not to issue any additional obligations secured by Tax Increment Revenues that are senior or on parity with the Series 2014A Bonds...”

Genesee County Land Bank & TIF District



- Flint, MI: extensive foreclosed & abandoned property
- Reuse required reform of the tax foreclosure process and a way to raise funds to clean-up, assemble and improve abandoned properties
- Three-part financing strategy
 - A land bank to hold and sell properties and use fees and sales proceeds to reuse properties
 - A **scattered site** TIF district to use tax-increment on reused properties to fund other projects
 - County-wide scope to use revenue from stronger suburban market to fund projects in Flint

Assessment Financing



- A fee is assessed on property owners in an area to finance infrastructure or services
- Assessment district includes the beneficiaries of the infrastructure or services funded.
- The district collects the assessment and uses it to either pay the cost of services and/or repay debt issued to fund infrastructure.
- The district may build and maintain what is financed, or it may be a financing entity only.
- Widely used to finance services, facilities and infrastructure: 38,266 special districts (2012 US Census of Governments)
- Illinois, California and Texas are the most active users of special districts with 3,227, 2861 and 2,600, respectively

Assessment Financing



- **Difference from Tax Increment Financing**
 - A new levy is collected vs. using increase in existing taxes
 - New development or tax base growth is not required for an assessment district to be a feasible financing tool
- **Economic Development Uses**
 - Finance infrastructure needed for new development in an area
 - Finance improvements for a specific project
 - Fund services or activities to benefit property owners and/or businesses in a business district (Business Improvement District)
 - Emerging use to finance energy and green infrastructure investments (PACE)

Business Improvement Districts



- Assessment district used to improve & revitalize commercial districts, typically downtowns
- Addresses non-infrastructure needs: public safety, cleaning, beautification, promotion and marketing, special events, business recruitment and retention, transportation.
 - Marketing is the most common BID activity
 - Supplemental security and sanitation are common in large cities
 - Dallas BID funds trolley to transport people from downtown to a nearby neighborhood retail district
 - Dayton funds marketing and business recruitment
- Property owner petition and city approval
- Close to 1,000 U.S. BIDs: California, New York and Wisconsin account for almost half

Business Improvement Districts



- Organizing aspect of BID is critical:
 - Get property owners, merchants, & others to set shared priorities, work together, and fund activities
- Planning, organizing and gaining BID approval can take 1 to 2 years
 - Capacity- and trust-building process
 - Time and effort invested in building a shared vision and commitment should produce long-term benefits
- BIDs fund staff to organize, plan and advocate for the business district and important projects
- Property owner & merchant priorities may differ
 - Property owners emphasize physical improvements
 - Merchants may care more about attracting shoppers
 - Common interests around security, cleanliness.
 - Interests could be represented in separate BIDs

Assessment Districts and Energy Finance



- **Property Assessment Clean Energy Districts (PACE)**
 - Assessment on property used to repay loans for renewable energy and energy efficiency projects
 - Assessment pledge helps raise loan capital
 - ✦ Like a tax collected by local government
 - ✦ Senior lien on property
 - Long-term financing that stays with property
 - Energy savings offset & exceed assessment
 - Potential to access public credit markets

PACE Programs in Many States



- Enabling PACE legislation in 32 states & DC including new Michigan program(June 2016)
- 40 active programs in 15 states
- Commercial programs most common
- Some use subordinate lien for residential
- \$250 million in financing thru June 2016
- California and Connecticut most active account for ~ 2/3rd of financing and projects nationwide
- Emergence of private PACE financing firms

Sonoma County Energy Independence Program



- Property assessment based loans for EE, water conservation and renewable energy
- 7%, 10 or 20 year repayment
- Maximum loan at 10% of property value
- Capitalized with \$60 million from county and water board
- Loans for commercial & residential properties
- 2,341 projects funded for over \$75 million since 2008; 97% residential

CT Green Bank CPACE



- Statewide program for commercial properties
- Municipal opt-in required
- Started with state funding, shifted to private capital sources
- Building owner can use its own lender or a Green Bank approved lender
- 126 projects financed in first 3.5 years
- \$85.9 million in assessment backed loans
- Completed private placement of \$30 million in debt backed by C-PACE loans

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