

TIF TALKS.5



Please note: The following are potential strategies that communities can consider to maximize the impact of their tax increment districts. These ideas are based on our extensive experiences as economic development professionals in creating and implementing dozens of TID's throughout Wisconsin and the Midwest. We are not offering legal advice or municipal financial advice as defined in securities and Exchange Rule 15Ba1-1. Prior to taking any specific action relative to any of these strategies, communities should consult with their legal counsel and/or financial advisor to ensure compliance with all applicable laws and regulations.

SESSION 5:

"Structuring the Optimal TIF Deal: A Q&A"

The following Q&A should help you determine and when and how to use TIF to reach your community's development goals.

Q: When should I create a TID?

Answer: Ideally, when you get the first project. When development isn't happening where and when you want it to, TIF can be used to jumpstart things. But as a general rule, you should start a TID once you have a development project in hand to ensure there will be increment generated throughout the district's life.

Q: How do I know if a TID is needed?

Answer: When you can answer 'yes' to the "BUT FOR" test, which is, "*BUT FOR TIF, we won't get what we need for the community or when we need it.*" Obviously, this starts with knowing what your community needs. This typically stems from a Comprehensive Plan or an area plan (such as a downtown, commercial corridor or business park).

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Q: How do I determine if TIF assistance for a developer is appropriate?

Answer: Ask yourself the following questions. If the answer to any of them is yes, then TIF assistance may be warranted.

- Is this a project that works for my community? Is it part of my existing and agreed to vision and plan? Does it grow the job base, build needed housing, or provide other community benefits?
- Is there an extraordinary cost associated with the project? For example, does the site need to be assembled, do buildings need to be demolished, is there contamination that needs to be remediated, is supporting infrastructure like road and utility improvements required?
- Is there a financial gap to be filled to make the project financially viable for the developer? Is the developer's rate of return without TIF so low that it will not go forward without assistance?

Q: How do I determine how much assistance should be provided to the developer?

Answer: The developer should provide detailed financial information demonstrating the extent of TIF needed to achieve an acceptable return on investment (ROI). This includes a full proforma of all sources and uses for constructing the project as well as a multi-year (at least 10) cash flow projection. The ROI with and without assistance can then be benchmarked against those typically achieved in your market for that type of project.

Q: What are the pros and cons of using a "Pay as You Go" (PAYGO or developer-funded) deal structure?

Answer: A primary *benefit* with a PAYGO deal is that the risk falls entirely to the developer.

A *downside* to a PAYGO deal is that the developer typically will need to borrow the agreed upon amount of funds from a bank to use toward project construction.

In any event, it's critical that you review a TIF deal with your financial advisor and/or attorney before entering into a development agreement.

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Q: What are the pros and cons of using an “Upfront” or community-funded TIF deal structure?

Answer: Upfront deal also starts with a development agreement. Under this arrangement, the community typically borrows the needed funds and provides them to the developer in the form of a grant to offset project construction costs. Tax increment is used to make the debt payments.

- Ensure that any funds provided upfront are, in fact, used to construct the project and that the project will be fully completed.
- Ensure that sufficient funds will be available to pay back your loan in the event increment from the project falls short of your projections.
- ***Again, any TIF deal needs to be fully vetted with your financial advisor and/or attorney before signing entering into a development agreement.***

Have other questions about how to work your TID? Talks to us!

Contact **Scott Harrington** at Vandewalle & Associates to discuss TIF implementation or other TIF services at sharrington@vandewalle.com.

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