

## TIF 102: Development Incentives vs Community Goals

League of Wisconsin Municipalities  
2018 Annual Conference

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## Daniel J Lindstrom, AICP

- Vierbicher Planning and Community Development Team Lead.
- 12 Years of private and municipal development experience, specializing in:
  - Tax Increment Financing and Developer Agreement Assistance
  - Financing assistance applications/review
  - Future Planning and Visioning
  - Planning and Zoning development applications/review
  - Economic Development planning
  - Housing studies

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## Overview of Discussion

- Tax Incremental Financing History and Basics
- TIF as Part of Greater Economic Development Efforts
- Assistance Packages - "But For" and Required Findings
- Evaluation of TIF Assistance Request
- Case Study - Village of Shorewood Hills, WI
- Important Considerations when Reviewing Municipal Funding Assistance Requests
- Municipal Funding Assistance Best Practices

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## Tax Incremental Financing History and Basics

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## History of Tax Incremental Financing

- TIF = Tax Increment Financing
- TID = Tax Increment District
- First Authorized in 1975, Wis. 66.1105
- TIF Law has been amended many times over the years

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## What is TIF?

A municipal financing tool to accomplish specific **community development objectives**:

- promote industrial development
- promote mixed-use development
- eliminate blighted areas
- rehabilitate deteriorating areas



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## What is TIF?

### Public / Private Partnership

- Partnership of taxing entities to promote development
- Public and private sectors work together to stimulate economic growth

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## Why TIF Was Created

- Federal funding decreased for community development programs
- Allows cities & villages to work with private sector to stimulate economic growth
- Eliminated inequitable situation that discouraged development
  - \* Cities & villages bore the cost of development, but all taxing entities shared the benefit.

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## Summary of Districts in Wisconsin

Currently 1,261 active TIDs in Wisconsin, in 425 communities (April 23, 2018)

- 329 Mixed-use districts
- 305 Industrial districts
- 305 Blight elimination districts
- 161 Rehab and conservation districts
- 130 Created before 1995 (no district type)
- 15 Environmental remediation
- 12 Special Legislation
- 4 Town districts
- 84 Distressed districts
- 16 Severely distressed districts

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## TIF Basics

### Important TIF Definitions

- **Base Value:** The equalized value of real and personal property in a TID when created.
- **Property Value Increment:** The difference between the base value and the current value.
- **Tax Increment:** Taxes levied by the overlying taxing jurisdictions on the value between the base value and the current value in the TID.

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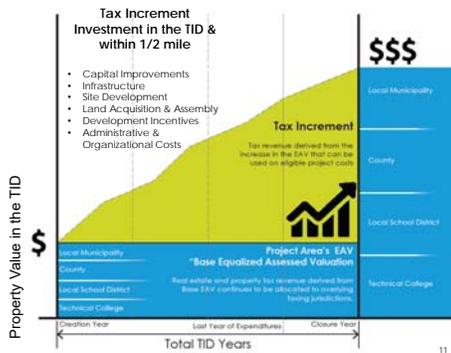
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## TIF Basics - Structure



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## TIF Basics

### I. UNDERUTILIZED PROPERTY



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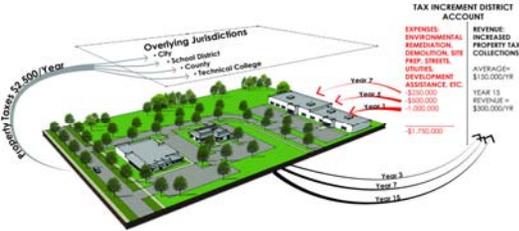
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# TIF Basics

## II. INFRASTRUCTURE & IMPROVEMENTS



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# TIF Basics

## III. TAX INCREMENT DISTRICT DISSOLVES



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## TIF as Part of Greater Economic Development Efforts

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## Performance Measuring – IEDC’s Survey

- Over 30 percent of Economic Development Organization (EDOs) do not measure performance regularly
- Over 50 percent of local (municipal-level) EDOs do not track performance.
- Approximately 20 to 30 percent of county and regional EDOs do not track performance.
- Non-trackers are more prevalent among smaller communities.



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## Performance Measuring – IEDC’s Survey

- The existence of an organizational strategic plan is a key determining factor in whether an organization measures performance.
  - Over 80 percent of organizations that track performance have a strategic plan.
  - Almost 70 percent of these plans include guidelines for measuring performance.
  - A strategic plan provides the framework for overall performance measurement and sometimes even specifies certain metrics to be used.



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## Performance Measuring – IEDC’s Survey

- Largest trouble in metrics? - measuring Jobs
  - Jobs created vs Jobs shifted
  - Ramp up time can impact ROI payback
  - Relies on a companies willingness to release salary and job numbers (for companies not under an agreement)
  - Ambiguous estimate vs actual creation



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## Traditional Economic Development Results

- Economic development is different in every community, but municipal economic development efforts should result in any combination of:
  - Tax base growth
  - Additional community jobs or income
  - Increased aesthetic appeal
  - Business retention in the community
  - Business growth in a community
  - Community self-sufficiency
  - Productive use of land and resources



The end result should always be a better quality of life

How to study a project based on the benefits to the a communities greater economic development?

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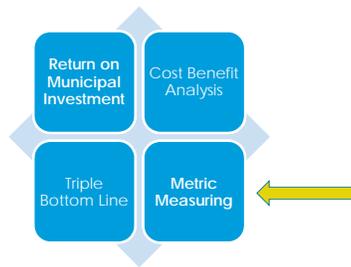
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## Economic Analysis Methods



Choose the correct analysis for your needs

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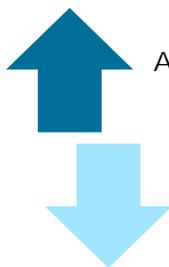
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## Return on Municipal Investment (ROI)



### Advantage

ROI may be appropriate for an investment in a property where a financial return is expected. It is clear and measureable approach that is easy to sell to community leaders.

### Disadvantage

Don't be too narrow - economic development programs typically are not expected to always provide a direct financial return to the local government. Most communities expect their economic development programs to have an impact on economic conditions - not provide a directly measurable qualitative fiscal return.

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## Cost Benefit Analysis

### Advantage

Allows a community to place weights to different categories of benefits. More complex than a simple ROI, but allows a community to weight priorities when making ED decisions.

### Disadvantage

"With greater flexibility comes greater complexity"  
There is a larger probability that a community could assume or apply multipliers inappropriately resulting in an overstating of anticipated community benefits and anticipated ripple effects.

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## Triple Bottom Line (old adage – different approach)

### Advantage

Allows a community to review each opportunity as part of a larger community context. Not every project must reach the triple bottom line, but contribute to the goal of increasing the vibrancy of a community.

### Disadvantage

Contingent on many projects to ensure there is a balance of People, Planet, Profit. Too many projects of one of one type makes the holistic approach to economic development out of balance.

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## Metric Measuring

### Advantage

Allows a community to review each opportunity as part of ongoing and evolving strategic measuring plan. The strategic plan gives the local community a guide that can withstand scrutiny and staff turnover.

### Disadvantage

Data collection is key to a successful program. Lack of accurate and timely data makes measuring burdensome. Limited resources and staff in smaller communities also makes metric measuring difficult. Therefore, communities must start small.

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## Metric Measuring - Plan of Action

- Establish a strategic economic development plan
  - Review past work
  - Identify community goals and strategies
  - Identify community champions to lead individual efforts
  - Conduct a simple economic overview and analysis
  - Collect public input
  - Conduct SWOT (or similar) analysis
  - Conduct regional industry analysis
  - Create action plan and performance metric measures

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## Metric Measuring - Plan of Action

- Start small and understand the staff and resource limitations
  - You don't need to spend \$\$\$\$ to create a fancy document.
- Establish the topic or topics that best fit the community goals.  
(Examples)
  - Business Retention
  - Business Attraction
  - Business Creation
  - Real Estate Development
  - Sustainable Development & Green Jobs
  - Quality of Life
  - Tourism
  - Housing

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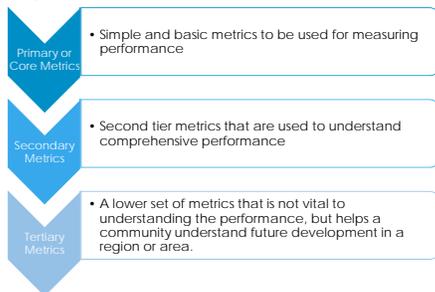
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## Plan of Action

### • Development of metrics



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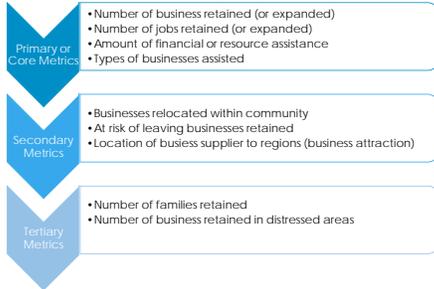
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## Plan of Action

### • Example: Business Retention & Expansion



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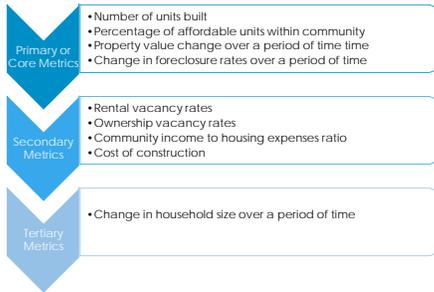
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## Plan of Action

### • Example: Housing



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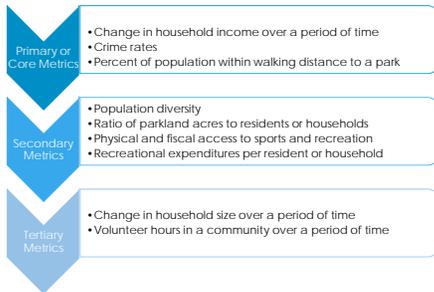
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## Plan of Action

### • Example: Quality of Life



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Assistance Packages:  
"But For" and Required Findings

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Required Findings and Tests

- Does it meet a Community Metric?
- Does it conform to the Municipality's Guiding Plans?
- "But For" analysis
  - Gap in Financing/Extraordinary Costs
  - Without assistance, development in the TIF or Business District is not possible.
  - This same analysis applies to specific development proposals
- Determine the best deal structure



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Primary TIF Deal Structures

1. Pay-As-You-Go
  - a) Annual reimbursement from incremental revenues starting at project completion
2. Up-Front Payment or Reimbursement "Cash Grant"
  - a) One-time, lump sum payment to Developer from existing funds in TIF project plan and funds.



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## Primary TIF Deal Structures (con't)

3. Monetizing Future TIF Revenues from Project Increment
  - a) TIF Note issued to Developer, incentivizing them to put more equity into project up-front
  - b) Note to lender, serving as additional security and allowing more debt to be secured
4. Bonds (Revenue Commitments) – Cash Grant
  - a) District-wide Bonds using existing TIF cash flow (later TID years)
  - b) General obligation
  - c) Sales tax or other municipal revenue sources



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## Evaluation of TIF Assistance Request

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## 1. Pre-Application Questions/Meeting

- "But For" - is public financial assistance necessary to make the project feasible?
- If so, what form of public assistance is appropriate and how much is too much?
  - I.e. What is the reasonable rate of return for a developer?
  - How does the change in the tax law impact their form of a request

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## 2. Conduct a Pro Forma Analysis

- Municipal Review of project's financial strength and review Developer's estimates of:
  - Hard Costs (Land/Construction)
  - Soft Costs
  - Construction Financing
  - Long Term Financing and Debt
- 10 Year Cash Flow Projection with Sale in Year 10.
- Evaluate multiple benchmarks such as Cash-on-Cash Annual Return and Internal Rate of Return (IRR) to quantify assistance required and recommend limits.
- Review Developer's experience with similar projects, markets, and financial capacity to successfully deliver the project.

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## 3. Conduct Gap Analysis & Identify Eligible Costs

- Municipality and Developer agree to a benchmark for the project (example targeted benchmark IRR of 15%).
  - If IRR > 15% then no assistance required
  - If IRR < 15% then assistance required, quantify the gap in the proforma analysis

## 4. Identify Revenue Source(s) for Assistance

- Prepare incremental property tax projections.

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Year	0	1	2	3	4	5	6	7	8	9	10
Hard Costs	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Soft Costs	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Construction Financing	0	0	0	0	0	0	0	0	0	0	0
Long Term Financing and Debt	0	0	0	0	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0	0	0	0	0
IRR	1.00%										

Developer has over the past 10 years of 2017 (not within investment) that annual average IRRs and completed 10 recent year trends. Developer determined an anticipated average IRR for a similar size project is 15.15%.

\$1,750,000 investment and an average benchmark of 15%

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## 6. Development Agreement (DA)

- Creates the terms of the entire execution of the project.
- Include section that describes the pro forma review that took place to arrive at the level of assistance.
  - Target IRR
  - Direct payment of eligible costs or TIF Note with payments based on incremental taxes.
- This analysis is based on the project assumptions.
- Include the analysis as an exhibit to the agreement.

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## 7. Incorporate a "Look Back" Provision (IF NECESSARY)

- Purpose is to review the Developer's pro forma with actual information following project completion and stabilization ("2<sup>nd</sup> IRR Review" – 5, 10, 15 year look back).
- Define in DA when the project is deemed complete.
- If in the DA, Municipality has right to request documents related to the development deemed necessary to complete the 2<sup>nd</sup> IRR Review.

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## Case Study Village of Shorewood Hills

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## Village Location



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## Village Location



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## Village Goals for Redevelopment

- Increase the housing cycle opportunity for residents in the Village (rental to ownership and ownership to rental).
- Increase housing diversity in the community.
- Increase affordable housing in the community (1, 2, and 3 bedrooms).
- Complete missing links in the pedestrian and bicycle network.

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## More Project Considerations

- 2008 – Existing Land Use



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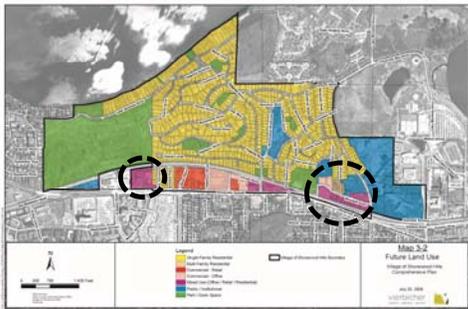
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## More Project Considerations

- 2008 – Comprehensive Plans Future Land Use



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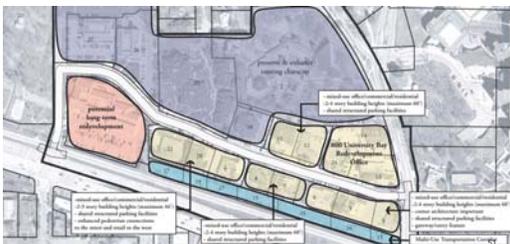
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## Case Study–Village of Shorewood Hills

- Public Workshops
- 2008-2010 Tax Increment Districts and Area Master Plans



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## Case Study–Village of Shorewood Hills

- Public Workshops
- 2008-2010 Tax Increment Districts and Area Master Plans




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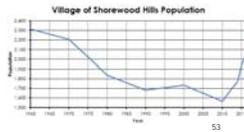
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## Case Study–Village of Shorewood Hills

- 2012 Working with HUD to understand the housing make up of the community.
- Village created a plan to increase affordable housing in the community when WHEDA and other program assistance was not available.
- 2014 Award from HUD for furthering fair housing in the community.




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## Case Study–Village of Shorewood Hills

- 2011-2013: Mixed Use and Affordable Housing Development (TID No. 3) "Arbor Crossing"
  - Project Goals
    - Redevelopment of site
    - Mixed-use
    - Bike path improvements
    - Affordable housing
    - Stormwater Improvements
    - Structured parking
  - Development Incentive
    - Cash Grant for affordable housing




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## Case Study–Village of Shorewood Hills

- 2012-2014 - Mixed Use and Market Rate Development (TID No. 4)  
"Lodge at Walnut Grove"
- Project Goals
  - Redevelopment of underutilized site
  - Mixed-use site
  - Bike path improvements
  - Structured parking
- Development Incentive
  - Cash Grant and PAYGO



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## Case Study–Village of Shorewood Hills

- 2014-2016 - Mixed Use and Affordable Housing Development (TID No. 3)  
"700 University Bay Drive"
- Project Goals
  - Redevelopment of site
  - Mixed-use
  - Bike path improvements
  - Affordable housing
  - Structured parking
- Development Incentive
  - PAYGO



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## Case Study–Village of Shorewood Hills

- 2015-2017 - Mixed Use and Market Rate Development (TID No. 3) –  
"The Boulevard"
- Project Goals
  - Redevelopment of site
  - Mixed-use
  - Shared parking
  - Structured parking
- Development Incentive
  - PAYGO
  - Claw Back Provisions



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## Case Study–Village of Shorewood Hills

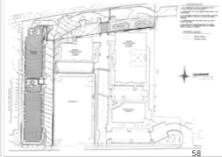
- 2015-2017 –Market Rate and Affordable Housing Development (TID No. 5)  
“Lodge at Walnut Grove – Phase 2”

- Project Goals

- Redevelopment of site
- Mixed-use
- Bike path improvements
- Affordable housing
- Structured parking

- Development Incentive

- PAYGO



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## Case Study–Village of Shorewood Hills

- Increase in estimated population from 1,573 in 2013 to approximately 2,350 by build-out completion
- 390 New MF Units and commercial space
- Closer to target of more affordable units in the community

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## Important Considerations when Reviewing Municipal Funding Assistance Requests

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## Other Project Considerations

- Political
  - Understand the experiences of your elected officials & municipal staff
  - Know the hot issues
  - Know the general development climate/ receptiveness to potential projects
- Economic
  - How much does the developer need to shoot for?
  - How much is increment is available & what is left for other developments or other municipal projects?

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## Other Project Considerations

- Market
  - Position in economic cycle? national-regional-local
  - Know the interest rates, cap rates, other terms for the area (not national)
  - Review assumed costs- land, construction, labor, etc.
- Presenting the Deal to the Public
  - Properly categorizing and classifying eligible vs. Extraordinary costs
  - Public benefits as "trade offs"
  - Communicating with the community

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## Municipal Funding Assistance Best Practices

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## Municipal Funding Assistance Best Practices

- Create Economic Development Strategy
  - Incentives should only be used when there is a measureable net benefit to the community and exceed public costs.
  - Start small and establish a strategic incentive plan that identifies baseline measuring metrics
- Target specific industries or priority to those that:
  - Export products and bring in new dollars
  - Create more spin-off economic impacts in the community
  - Offer additional benefits to the community (greenspace, quality buildings, etc)
- Incentives should improve the quality of life for residents

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## Municipal Funding Assistance Best Practices

- More efficient to retain existing local businesses and assist local businesses to expand than to recruit a business from outside the community
- Think outside the box on a community-changing deal
- The shorter the payback period, the better the deal is for the community
- IMPACT OF NEW TAX LAW FOR DEVELOPERS (12-22-17)

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Open Discussion

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