Tax Increment Financing

Presented by:

Sam Sharp
Managing Director
D.A. Davidson & Co.

Dee Wisor
Attorney
Butler Snow LLP

D|A|DAVIDSON
D.A. Davidson & Co. member SIPC

BUTLER | SNOW

Tax Increment Financing

Key Points in Negotiating URA Agreement

- What are the goals for the project and who shares those goals?
  - Remediation of dilapidated or unsafe conditions
  - Increased tax generation
  - Job creation
  - Infrastructure
  - Support desired land use
- Which revenue streams can be considered?
  - Incremental City Sales/Use/Lodging Tax through URA
  - All incremental property tax through URA
  - County Sales Tax through annual appropriation agreement (less valuable b/c of appropriation risk)
  - Project specific property tax through special district or GID
  - Project specific Public Improvement Fee (PIF) similar to sales tax

Tax Increment Financing

Key Points in Negotiating URA Agreement

- Bond Market Looks to Eliminate Legal Risks
  - To be financed efficiently, the pledged revenues must not be subject to modification while the bonds are outstanding and the sharing agreements must be clear and binding on the parties
- Coverage
  - Will taxing entities take distribution of revenues after debt service is paid.
- Timing
  - To attract a particular development, it may be necessary to move quickly.

Tax Increment Financing

Key Considerations in Debt Structure

- Who is the issuer of the debt?
  - Special District-TABOR compliance not difficult except timing of elections
  - Urban Renewal Authority-TABOR exempt
- How much subsidy is needed?
  - Determine a reasonable market return for the proposed project (likely using experienced consultant) and require developer to demonstrate the amount of subsidy required to achieve a market return.
- Who takes the risk of project revenues from commencement to stabilization?
  - Developer – likely to discount the value of the TIF significantly in the event they are asked to keep the stream for reimbursement
  - Bondholder – riskier investment requires higher rates and more revenue sharing
  - City/County – Loan to URA or recourse. Lowers the TIF sharing required but can expose the general fund.
  - Sometimes moral obligation from City/County.

Tax Increment Financing

Key Considerations in Debt Structure

- Debt Structure
  - Maturity – 25 year max (potential bank loan with balloon maturity in 5-7 yrs)
  - Debt service coverage – 1.25-1.75x projected coverage
  - Interest Rate – 3%-12% depending on risk and tax-exemption
- Bond Investors
  - Institutional Investors early in a project where there is more risk
  - Bank Loans in a less risky project
  - Broader bond market including individuals once a project is stabilized