Session No. 1:
VALUE CAPTURE ENABLERS—TIF & TRZ

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TOOL #1—PROPERTY TAX BASED

Taxpayer Pays, Existing Tax Base

Property taxes are the most basic VC tool rooted on real estate market value (*ad valorem*)

- TIF helps to capture organic property value increase within a "TIF District"
- Tax rate unchanged, only incremental tax revenues earmarked for TIF
- TIF earmarks end when investments are paid off
- TIF bonds can be issued upfront backed by future earmarks when threshold reached (e.g. 25% in CA)

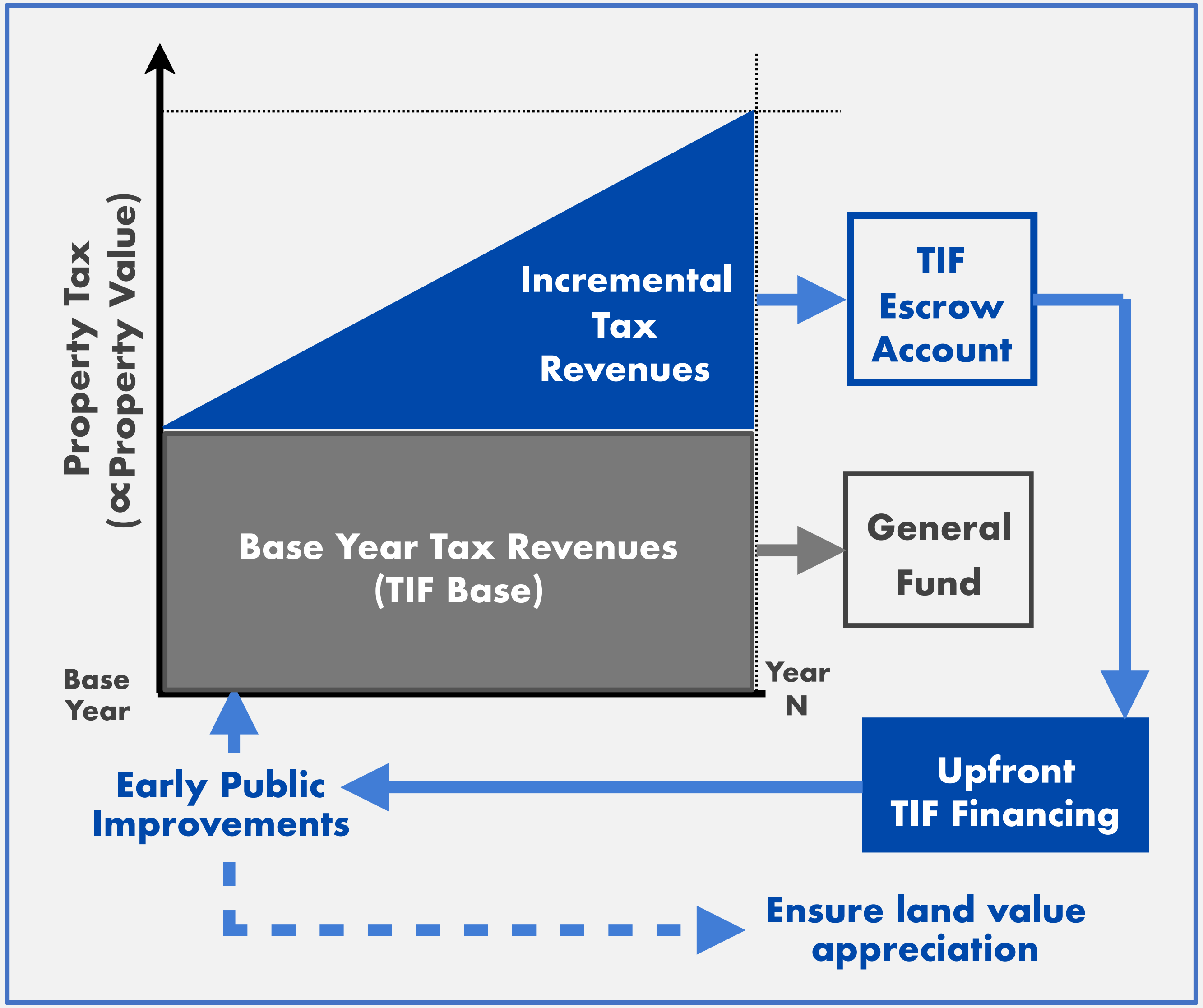
Value capture from property tax is not automatic; Tax Increment Financing (TIF) provides a VC-enabling administrative framework

TIF ENABLES UPFRONT FINANCING

Many "TIF" Variants:

- Transportation Reinvestment Zones (TRZ) (TX)
- Tax Allocation Districts (TAD) (GA)
- Urban Renewal Areas (URA) (OR)

TIF Base can be frozen or follow organic trend line w/o Improvements



TIF OPPORTUNITIES AND ISSUES

- Considered self-financing with no new taxes, less political resistance
- Gained prominence since introduced in the 50s, used and accepted in most states
- Works well for urban redevelopments where most needed
- Can be complex; dependence on expert advisory with own interest in development project
  - ✓ Risk of overextended use; often overleveraged with inflated revenue projections
- Incremental tax revenues not guaranteed—if revenues fall short, taxpayers are beholden to residual liabilities

PROJECT CASE EXAMPLES

1. Tax Increment Financing (TIF) Project Experience— Chicago

2. Transportation Reinvestment Zones (TRZ)— Americas Interchange Project, El Paso Texas

SUGGESTED DISCUSSION TOPICS

1. Yield/Revenue Potential—Amount, Timing, Stability, Flexibility
2. Equity—Financial Responsibility
3. Efficiency—Benefit vs. Cost, Direct Usage-Based
4. Adminstrative Ease
5. Transparency
6. Political/Legal Feasibility

YIELD/REVENUE POTENTIAL

- Substantial but not necessarily predictable
  - ✓ Depends on value dynamics of properties within a given TIF district
- Sensitive to:
  - ✓ Pace of development
  - ✓ Tax base appreciation
  - ✓ Wider real estate market conditions
- Capable of providing larger and less volatile revenue stream as long as assessed values of properties remain below market values

EQUITY

- Existing development carries relatively greater burden than other VC mechanisms
- Potential diversion of tax increments for other special purposes

EFFICIENCY

- **Ability to undertake coordinated planning of transportation improvements with an urban redevelopment plan**
- **Can facilitate high density, transit-oriented developments (TODs)**
- **For interchanges, opportunity to coordinate transportation and land use planning to improve efficiency in resources dedicated to transportation facilities**

ADMINISTRATIVE EASE & TRANSPARENCY

- Most local governments have experience with TIF compared to other VC mechanisms
- Requires technically skilled staff and tend to be procedure-laden
- Reliance on consultants if lack expertise; adds to administrative costs
- Often criticized for being too complicated for most people to understand

POLITICAL/LEGAL FEASIBILITY

- **Less likely to be opposed than new taxes**
- **Opposition can be related to the likelihood that taxes will not keep pace**
- **Gentrification concerns for urban redevelopment projects**