WHAT IS TIF?

- TIF is *tax increment financing*
- Flexible tool, one of few
- Only used in urban renewal area
- Property tax base is frozen
PROCESS TO ADOPT URBAN RENEWAL PLAN/TIF DISTRICT

• What we are proposing
• Why it is important and what it will do
• Introduce to the public and taxing entities
• Board and commission review
• Council public hearing
The “frozen” base assessment of a property is $100,000. After project is completed, the taxable value is $150,000.

<table>
<thead>
<tr>
<th>Yr.</th>
<th>Taxable Value</th>
<th>Prop. Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$100,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>2</td>
<td>$150,000</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

- The tax increment valuation is $50,000 (new assessment minus the frozen assessment or $150k-$100k).
- The new tax increment revenue of $1,600 is available for use within the designated urban renewal area.
- Protected levies - $400 is additional revenue for protected tax levies (including City, County, Schools).
WHO GETS THE MONEY?

$4,000 in property tax revenues from the frozen valuations goes to:

- 38% of tax levy: DSM Public Schools
- 35% of tax levy: City
- 15% of tax levy: Polk County
- 12% of tax levy: DMACC, DART, Broadlawns, SSMID, State

By state law, the city can use new revenue ($1,600) on projects in the specific TIF area
WHO GETS THE MONEY PART 2

• While the City can use the entire increment for either capital projects or economic development projects, City of Des Moines’ policy is to return or release 25% of new property tax revenue of combined total of all TIF districts back to taxing entities.
• In FY 17/18, the City of DSM will return/release about 50% of the eligible TIF back to these jurisdictions.
LENGTH OF A TIF DISTRICT?

• Slum/blight: Unlimited
• Economic Development for Housing: 10 YR
• Economic Development Non-Housing: Up to 20YR
• When a TIF district ends, the full tax base including the increment, becomes available to all taxing entities for their use.
Assessed Value $

New Development/ Increased Assessments
these new tax revenues go to the City

Frozen Tax Base
all taxing jurisdictions get property
tax revenue from the frozen base

Year 1
TIF Created

Year 10
Beaverdale TIF Ends

Post TIF-
All revenues
go to all
taxing
jurisdictions
WHEN DOES A TIF DISTRICT NOT WORK?

• A TIF district can go “upside-down” if the tax base goes below the frozen level.
• This can happen if buildings are demolished, when properties receive tax exemptions, or property tax assessments are successfully challenged, which then reduces the property tax assessment.
WHERE ARE TIF DISTRICTS?
WHAT IS TIF USED FOR IN DES MOINES?

City Capital Improvement Projects (CIP)

• Streets
  • Repair
  • New construction
• Utilities
• Public facilities
• Parking system
• Bridges
• Civic and recreational
WHAT IS TIF USED FOR IN DES MOINES?

Economic Development Projects

- Development is intended to follow identified Citywide goals for community revitalization
- Increase taxable valuation
- Retain jobs and grow employment base
- Address slum and blight, vacancy, deterioration
- Negotiated between City and developer, focus on gap financing
- Demonstrated difference in new value/taxes
At the start

The city or a private developer proposes a TIF district in an area needing an economic boost. When the district opens, the value of the property is "frozen" for taxing purposes. The city, schools and others will continue to collect taxes based on that value.

Open and growing

Next, construction begins and the value of the property grows, generating increases in taxes. For up to 27 years, the extra tax money is pumped into the district — sometimes for roads and sidewalks, often as a direct subsidy to help pay the developer's costs. The city often borrows money for the district, and repays the loans with the increased taxes.

Finally, the city stops sending money into the district. The full, higher tax base is available to the city, schools and others with taxing authority.

Developer
"I'll build housing and stores in this blighted area. But it's risky; my lenders are nervous and your lower-cost housing law is killing my bottom line. I need financial help."

Negotiation and renegotiation

City leaders
"This project is just what we need to turn that worn-down neighborhood around. Maybe we'll bend our rules a bit. But we want some money back if you make a windfall."

City staff
"We've done our math — we should give them half their request."

Property seller
"I'm jacking up my price because the developer will get TIF and pass the cost to the city."

Supporter
"Finally they are fixing up this dump. New neighbors, stores and streets. Everyone wins."

Critics
"Why should I pay for cops and other stuff you need? That area would improve anyway. It's developer welfare!"

Another developer
"You're helping that project. I want the same deal over here."

SOURCE: Slate Journal
research by Dean Mosiman
JASON KLEIN - Slate Journal
Des Moines TIF Policy
KEY POINTS OF TIF POLICY

• Sustain, develop, and expand the City of Des Moines’ economic base by leveraging private investment for development
• Provide a mechanism for essential public improvements within specific targeted areas.
• Align with Strategic Plan and Plan DSM
• Judicious use of TIF for development projects demonstrating substantial and significant public benefit over time
• Thorough and detailed evaluation and public process for economic development projects
Goals and Objectives

• Reduce blight
• Stabilize tax base
• Retain and grow employment
• Provide for public improvements
• Encourage and assist economic investment
• Rehabilitation and revitalization
General Policies

• Urban renewal plan sets key goals for the district and serves as the roadmap
• City return on investment must be shown
• Analysis 5 years before expiration of district by Finance/OED; identify goals achieved
• Minimum 25% of increment released annually
• All TIF recommendations exceeding 15 years or 75% of projected TIF revenue must be reviewed by Debt Review Committee
• Project generated TIF is first preference
Example analysis for ED project w/ TIF

701 Walnut - EMC Project Projections

<table>
<thead>
<tr>
<th>Type</th>
<th>Class</th>
<th>Kind</th>
<th>Land</th>
<th>Bldg</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Value</td>
<td>Commercial</td>
<td>Full</td>
<td>$1,125,500</td>
<td>$0</td>
<td>$1,125,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Taxes Received without project*</th>
<th>Estimated Taxes Received with project*</th>
<th>Estimated Incentive Paid</th>
<th>Estimated Net Taxes Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUM 10 Years</td>
<td>$527,724</td>
<td>$7,743,470</td>
<td>$6,550,057</td>
<td>$1,193,413</td>
</tr>
<tr>
<td>SUM 20 Years</td>
<td>$1,140,094</td>
<td>$20,062,931</td>
<td>$13,243,117</td>
<td>$6,819,814</td>
</tr>
<tr>
<td>SUM 30 Years</td>
<td>$1,850,689</td>
<td>$34,358,435</td>
<td>$13,243,117</td>
<td>$21,115,318</td>
</tr>
</tbody>
</table>

*Taxes received estimates used the following assumptions:

**Inflation Assumptions:**
- 1% Non Re-Assessment Years
- 2% Re-Assessment Years

**Building Assumptions**
- 8 # of stories
- 16000 SF / story
- 128000 Total SF
- 175 Assessment / SF Office
- $22,400,000  Total Assessment (Building)
PROJECT EXAMPLES

• East Village
• Western Gateway
• Beaverdale
• Southridge
• Merle Hay
• SE Ag Park
• Guthrie Avenue
East Village Study Block

2001  $1.6M assessed valuation
      blight, underutilization
2017  $20.8M assessed valuation
      active uses, higher density

E. Locust
E. Grand
E. 4th Ave.
E. 5th St.
E. 4th St.
Guthrie Avenue
Business Park
Guthrie Avenue Business Park
Summary

- TIF is a critical tool for the City of Des Moines
- Variety of urban redevelopment conditions
- Rigor and many levels of planning and analysis are utilized
- History of tax base growth citywide using TIF
- Numerous public input opportunities occur
- Open and transparent processes
Next Steps:

• Edit presentation for Council member’s use
• Monthly project updates for Council members
• Incorporate long-term fiscal impact analysis in Council communications
• Continued Council review of preliminary terms and final development agreements
Questions?