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TAX INCREMENT FINANCING (TIF)

Tax Increment Financing (TIF) is a financing option that uses expected future gains in state or municipal property taxes from a development or redevelopment project to finance improvements that will create those gains. It has been used as a community development tool for decades. TIF is offered by jurisdictions to attract private capital to boost local economies and attract unique, innovative projects.

TIF is a great source of gap financing, which can increase the financial feasibility of projects. It has been used in various sectors including retail, commercial, residential, and mixed-use development. For a retailer, TIF would help improve the returns on sustainability components of a major retrofit or new construction, such as the addition of solar PV panels or the construction of an efficient prototype.

Why should you use it?

- Your company wants to build a new store or rehab an existing store.
- Your company needs gap financing to increase the viability of a project.

Who has used it in the past?

TIF has been used as a community development tool for decades in various sectors including retail, commercial, residential, and mixed-use development.

In 2003, a Target Retail Center in Millville, New Jersey, which occupies 125,000 square-feet of retail space used TIF. With total development costs of $13 million, the city agreed to provide $1 million toward the cost of infrastructure improvements. Target incurred the costs, and the city reimbursed the $1 million. Additionally, the city agreed to a 15-year tax abatement, with payments in lieu of taxes being paid on the basis of two percent of project cost.

Other retailers that have recently used TIF are Shoprite, Kohl's, Dick's Sporting Goods, Circuit City, Lane Bryant, Starbucks, Target, Macy's, and JC Penney.

What are the advantages?

- **New Construction and Major Rehabs** – TIF can be used to finance costs associated with building new infrastructure or rehabbing existing infrastructure, including energy conservation and other sustainability measures.
- **Not New to the Retail Sector** – Many retailers have already taken advantage of TIF.
- **Community Development Yields Positive Press** – Being a part of a larger community development project can bring positive press and improve the company's image.

What are the downsides?

- The TIF process can be time consuming (more than a year), as deals require cooperation from multiple entities (including local government) and often require customized terms or subsidies.
- A single retailer's influence can be diluted because many players are involved in developing the terms of the deal.
- The developer often secures other sources of financing, which could result in debt for retailers that do not have the upfront capital.
- Projects are confined to TIF districts, so it cannot be used for portfolio-wide initiatives.

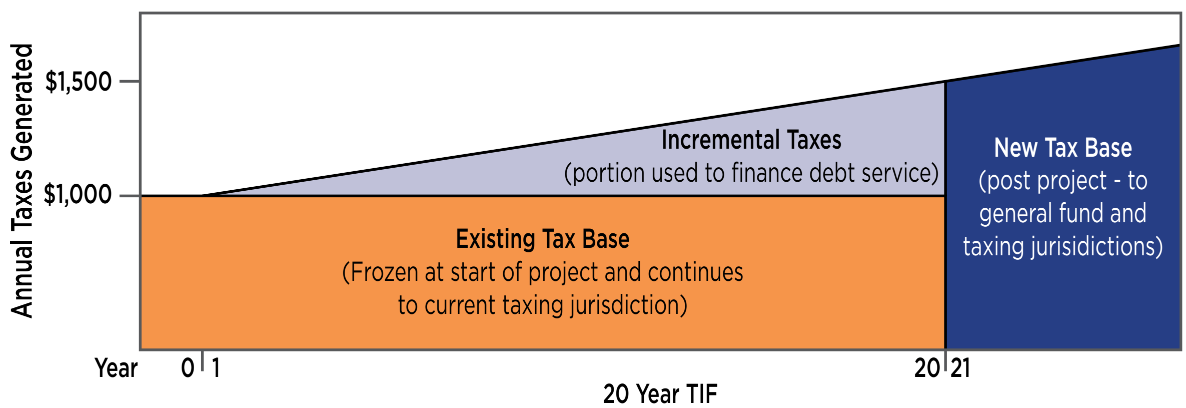
Better Buildings® U.S. DEPARTMENT OF ENERGY

This resource was completed with support from the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Better Buildings Initiative to highlight innovative proven energy solutions from market leaders in the Retail sector. Find more ideas at the Better Buildings Solution Center at betterbuildingssolutioncenter.energy.gov

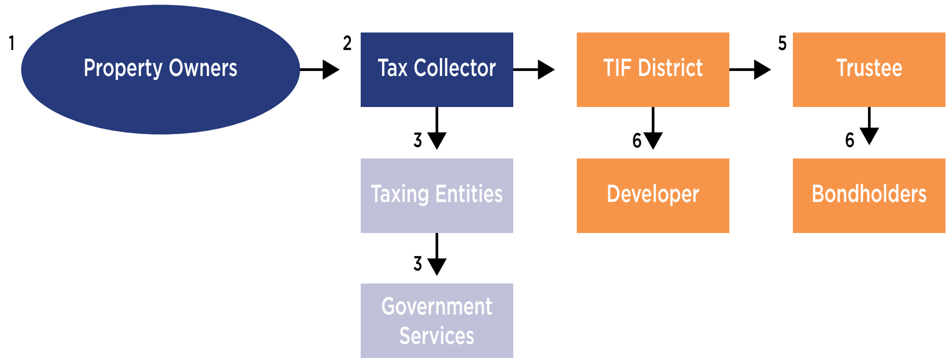
Who should you talk to next?

- Talk to your internal finance team to learn about the company's history and comfort with community development projects and tax abatements.
- Reach out to local TIF district officials to learn more about potential projects in your area (49 states and the District of Columbia have enabled TIF through legislation).
- Refer to the Tax Increment Finance Best Practices Reference Guide and the Council of Development Finance Agencies for more information.

Basic TIF Model



Flow of Funds in a Typical TIF Transaction



1. A TIF disctrict is formed and development occurs in the district.
2. Property taxes are levied and collected in the same manner as "non-TIF" property taxes.
3. The base year (i.e., the taxes that were generated at the time the TIF disctrict was adopted) accrue to the benefit of the taxing jurisdictions.
4. The increase in taxes above the base amount (i.e., incremental taxes) accrues to the benefit of the TIF disctrict for any permissible use.
5. Once bonds are isseud, the incremental property taxes in an amount equal to debt service flow to the trustree for payment to bondholders.
6. Annual tax increment not needed for debt service flows to either the redevelopment authority or the developer per the provisions of the development agreement.

Source: TIF Best Practices Reference Guide, CDFA and ICSC, 2007

TIF IN THE MARKET

Tax Increment Financing (TIF) is a financing option that uses expected future gains in state or municipal property taxes from a development or redevelopment project to finance improvements that will create those gains. It has been used as a community development tool for decades. TIF is offered by jurisdictions to attract private capital to boost local economies and attract unique, innovative projects.

TIF is a great source of gap financing, which can increase the feasibility of projects. Gap financing is a secondary source of capital for a large project (a bank loan or mortgage is typically the primary source) that can be used to finance energy efficiency improvements. TIF has been used by many retailers including Shoprite, Kohl's, Dick's Sporting Goods, Circuit City, Lane Bryant, Starbucks, Target, Macy's, and JC Penney.

In 2003, the city of Millville, New Jersey designated 821 acres as a TIF district. This designation spurred development including the Goodmill Shopping Center and a Target Retail Center. The Goodmill Shopping Center is a 500,000 square-foot facility whose tenants include ShopRite, Kohls, Starbucks, and others. The development cost for this project was $55 million.

A Target Retail Center, which occupies 125,000 square-feet of retail space, is connected with the Goodmill Shopping Center but under separate ownership. Development costs for Target were $13 million.

The New Jersey Economic Development Authority (NJEDA) supported the Goodmill Shopping Center project and provided critical financing. NJEDA committed $22.5 million in New Markets Tax Credit funding, which made the project feasible. The City also agreed to provide $1.5 million toward the costs incurred by it for infrastructure improvements necessary for the site and facilities construction. As part of the agreement, Goodmill incurred the costs and was reimbursed by the city. The city provided an additional financial incentive: a five-year tax abatement, with payments in lieu of taxes increasing by 20 percent annually. Similarly, with Target, the city agreed to provide $1 million toward the cost of infrastructure improvements. Target incurred the costs, and the city reimbursed the $1 million. Additionally, the city agreed to a 15-year tax abatement, with payments in lieu of taxes being paid on the basis of two percent of project cost.

In sum, TIF should be viewed primarily as a financing mechanism for large individual projects with community development at the core. Although sustainability has not been the focus of TIF in the past, it would be appropriate to include as part of a TIF project. For more information on TIF and additional case studies see the Tax Increment Finance Best Practices Reference Guide.

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