



To: CCRFC Board of Directors – Policy Committee
From: CCRFC Staff
Date: June 4, 2018
Re: Downtown Development Incentives, Programs and Policies

Another Tool in our Toolbox

Background: Recently, we have had several developers inquire about additional assistance beyond a PILOT in order to assist with street improvements, utilities relocation or improvements, parking and other infrastructure. As a result, the developers often look to the City of Memphis to fund such improvements from its Capital Improvement Program (CIP) or general budget. An allocation from these budgets is not usually available. Therefore, the staff has researched other ways to provide assistance to these projects.

Tax Increment Financing is a public financing method that is used as a subsidy for redevelopment, infrastructure, and other community-improvement projects. A TIF essentially allocates a portion of the new, additional property taxes generated by a development over a limited period of time to pay for public infrastructure and encourage investment within the site. Any increased tax revenues collected as a result of an increase in property values are deposited into the TIF fund and can be used by the city to improve site infrastructure. With a TIF, the project would pay taxes at the normal rate, and a substantial portion of the increase in taxes as a result of the project would be used to pay back debt incurred to fund the front-end costs. A site-specific TIF and PILOT cannot be used together on the same project.

TIF vs PILOT

- A PILOT benefits a project by reducing annual operating costs via a partial property tax abatement. TIFs are attractive to developers who have more need in the area of up front infrastructure than in ongoing operating costs.
- A TIF is often used in cases of blighted and under-utilized property.
- TIF transactions can be effective as “off balance sheet” financing of components of public infrastructure because TIF bonds are not included in the municipality’s general debt obligations. The structure of these transactions allows the municipality to utilize new incremental revenue streams to accelerate funding of municipal improvements that it otherwise could not afford at the time.
- TIFs are often viewed favorably by the public because the tax revenue is invested in public items such as sidewalks and streetscapes rather than subsidizing a project in order for it to obtain financing or meet investor requirements in order for the project to move forward (but-for test).
- A TIF can often minimize the City’s investment from current taxes and other revenues. The return is based on future tax generated by the project. The City receives newly developed land or renovated buildings with public infrastructure without any immediate investment of capital. Therefore, the City’s return on investment is higher than investing in a site with current capital.
- A TIF may not be appropriate for every project and developers may continue to choose to apply for a PILOT.

Why CCRFC?

- The ability to issue and administer a TIF is part of the state chartered duties afforded CCRFC.
- CCRFC will provide site-specific TIFs only within the CCRFC boundary. EDGE does do site-specific TIFs but will focus outside the CCRFC boundary or in cases of industrial use projects. With the recent legislative change to allow the use of PILOTs in all of Shelby County, each board can focus on its geographical area. CCRFC and the DMC are downtown experts and we need to have all tools available for use to encourage development that would not otherwise occur.
- The CRA handles TIF districts. These districts allow for taxes from one project to benefit an entire neighborhood or another project in the district.
 - As a pre-requisite for creating a Community Redevelopment Plan under the *Community Redevelopment Act of 1998* (State Statute, included in the document), there must be findings of the presence of a) slum, b) blight, or c) a lack of affordable or elderly housing within the proposed Redevelopment Area. The Statute defines each of these terms explicitly, however in simple terms, “blight” is the general condition that inhibits private sector investment (a “wet blanket” of poor conditions, low property values, or lack of adequate infrastructure that the private sector finds unable to overcome on its town), and “slum” is a prevalence of dilapidated, unsafe, and unkempt property.
 - Source: <http://www.smartcitymemphis.com/2012/12/questions-and-answers-about-the-downtown-tif/>

Proposed Program and Policy Modifications:

Staff recommends adding the Site Specific Tax Increment Financing program to our menu of incentives as defined in the draft Application. The Application includes policies and procedures which mirror the CCRFC PILOT Program policies and procedures and priorities but offer the incentive in a different manner.