

# ENHANCING PROJECT PROFITABILITY USING TIRZ PUBLIC FINANCING

Central Texas Commercial Association of Realtors  
April 30, 2019

# Discussion Agenda

- Why Use a Public Financing Mechanism?
- Economic Development Incentive Programs
  - Tax Increment Reinvestment Zones (TIRZ)/Public Improvement Districts (PID)
    - TIRZ Advantages and Disadvantages
    - Available Tools to Work with TIRZ
    - Benefits from Combining Tools
    - Benefits of Using Special Assessment Districts
    - Project Example - Co-Op District – Hutto, Texas
  - Economic Development Corporations
  - Property Tax Abatement Programs
- Compare and Contrast Options

# TIRZ Advantages and Disadvantages

- Advantages:
  - Rewards economic value created
  - No extra burden on property owners
  - Offers either annual cash flows or monetization opportunities
- Disadvantages
  - No funding in advance of construction absent additional credit enhancement
  - Funding dependent upon future value
  - Perception that it is a giveaway to developers

# Why Use a Public Financing Mechanism

- Public-Private Partnership
  - Reduces overall costs
- Banks dislike lending for infrastructure
  - Long term exposure
- Cost of equity is expensive
  - Increases project risk

# Available Tools to Work with TIRZ

- Public Improvement Districts
  - Fixed Assessments
- Special Tax Districts
  - Ad Valorem Taxes
  - Sales Taxes
- Revenue Bonds
  - Economic Development Corporations
  - Hotel Occupancy Tax Bonds

# Benefits to Combining TIRZ with Other Tools

- Transfers Economic Risk
- Offers Opportunity to Generate Funds Earlier in Development Cycle
- Accelerates Economic Development Benefits
- Lowers Economic Risk by Reducing High Cost Equity

# Public Improvement Districts

- Economic development tool created to finance the construction of public improvements
- Facilitates attracting private investment to finance public improvements by replacing funding traditionally provided by counties and cities at no cost or risk to the jurisdiction
- Provides for ultimate control by jurisdiction
- All costs are responsibility of District, not other residents of jurisdiction
- Districts are not separate political subdivisions
- Investors will buy bonds, including prior to construction, backed by assessments given defined revenue stream

# Managing Risk Allocation

- Non-recourse to the Developer and City/County
- Construction bonds conservatively underwritten (market standard 3:1 value to lien)
- Assessment lien (superior to mortgage) on the land
- No pledge needed for City/County to credit enhance bonds
- No reduction in City/County bonding capacity
- Only benefitted property owners pay assessment
- Magnitude of assessment fairly constant for property owner even if taxable value increases
- Assessment does not increase as value increases



# Alignment of Interests

- The development area requiring the infrastructure pays for the infrastructure
- Within the development area, only those that benefit from the improvements pay for the improvements
- The more a property owner benefits, the more the property owner pays
- The real estate is what benefits.
- Payments run with the land, not with the property owner.
- Long-term infrastructure is financed through long-term fix-rate financing
- Up-front funds can be available to construct the upfront infrastructure

# Combining TIRZ with Public Improvement Districts

- Two Typical Options
  - Separate funding streams generating larger pool of money over time
  - Dedicate TIRZ funds to pay PID Special Assessments thereby increasing bonding capacity of PIDs and/or lowering pass through to property owners
- Choice of option typically depends on project nature and property ownership structure

# Co-Op District – Hutto, TX



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# Co-Op District – Hutto, TX Development Program

- **699,000 Square Feet of Commercial Development:**
  - **City Hall** – 40,000 square feet
  - **Hotel:** 140 rooms
  - **Multi-Family Units:** 200 units
  - **Entertainment/Restaurant/Theater/Office:** 251,300 square feet

# Co-Op District – Hutto, TX

## Projected Economic Benefits

- Estimated Value at Buildout - \$111.4 million
- Ad Valorem Tax Revenues (35 years) - \$82.0 million
- Sales Tax Revenues (35 years) - \$47.0 million
  
- **INFRASTRUCTURE REQUIREMENTS - \$13.0 million**

# Co-Op District – Hutto, TX

## Financing Program

- **Tax Increment Reinvestment Zones:**
  - City – 60% of Incremental Ad Valorem Taxes – 35 years
  - County – 50% of Incremental AD Valorem Taxes – 20 years (Maximum - \$5.5 million)
  - EDC – 50% of Incremental Sales Taxes – 30 years
  - All TIRZ Revenue used to offset PID Assessments
- **Public Improvement District**
  - Maximum Funding - \$17.4 million



# Co-Op District – Hutto, TX

## Financing to Date

- **Contract Revenue Bonds:**

- \$17.4 Million Gross Bond Amount
- \$13.0 Million Net Proceeds
- Issued December 2018
- Average Interest Rate – 6.25%

# For Additional Information

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