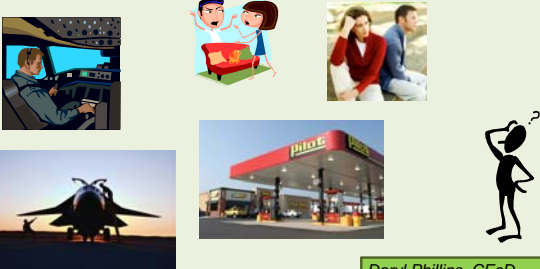


What are PILOTs, TIFs and other IDB tools?

PILOTs and TIFs?



Daryl Phillips, CEcD
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What are PILOTs, TIFs and other IDB tools?

PILOTs and TIFs?

Payment In Lieu Of Tax → PILOT

Tax Increment Financing → TIF


Incentive and financing tools that can be used by IDCs to make a deal happen

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What is an IDB and what can they do?
(in Tennessee)

REFRESHER

The Tennessee Constitution requires “all property real, personal or mixed shall be subject to taxation...”



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What is an IDB and what can they do?
(in Tennessee)

REFRESHER

To legally lure private corporations with tax abatements without violating the Tennessee Constitution, which requires "all property real, personal or mixed shall be subject to taxation..."

So, cities and counties in Tennessee cannot grant tax abatements to non-exempt entities

(persons, corporations, etc.)





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What is an IDB and what can they do?
(in Tennessee)

REFRESHER

But, as an exempt corporation, IDB's property is exempt from taxation and an IDB may enter into a PILOT or TIF



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a PILOT

Payment In Lieu Of Tax → PILOT

- The PILOT abates all or a portion of the property tax normally due on the property. The payment in the PILOT usually starts at zero and escalates during the term of the PILOT.

For Example:

- Years 1 and 2: Payment in lieu of tax = 0% of tax normally assessed
- Years 3 and 4: Payment in lieu of tax = 25% of tax normally assessed
- Years 5 and 6: Payment in lieu of tax = 50% of tax normally assessed
- Years 7 and 8: Payment in lieu of tax = 75% of tax normally assessed
- Years 9 and on: Payment in lieu of tax = 100% of tax normally assessed

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a PILOT

The most oversimplified example

XYZ, Inc. needs a manufacturing facility. Anytown wants them to locate their facility and jobs in their town. XYZ, Inc. specifies they need a \$1 million facility. In order to incentivize XYX, Inc. to locate to Anytown, the IDB agrees to abate 100% of the property taxes for the first 5 years and 50% of the property taxes for the next 5 years. The building is built, IDB of Anytown owns it and finances it at a great deal, 0% interest for 10 years. IDB of Anytown leases the building to XYZ, Inc. for \$100,000 per year for 10 years. After 10 years, the building is paid off, XYZ, Inc. owns the building for a nominal price (remember, an IDB can sell, exchange or give away property) and XYZ, Inc. begins to pay property tax as any established corporate citizen of Anytown would.

Everyone lives happily ever after.

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a PILOT

Unfortunately, neither life, nor economic development is simple..



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What are PILOTs, TIFs and other IDB tools?

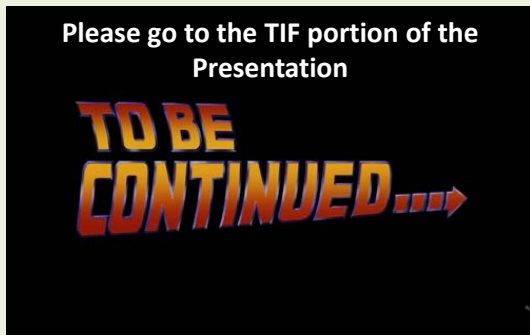
Brief Overview of a PILOT

Some complications beyond the scope of this elementary overview:

- Leasehold value taxable, but can be mitigated
- Lender requires company equity
- New or existing secured loan
- Sale of company, security required (property held by IDB not considered collateral)
- Expansion of facility
- Keeping ownership of equipment straight
- Developer owned projects (how to pass incentives to targeted company)
- Cooperation between city and county
- Less tax revenue for education
- Determining appropriate payment/time of PILOT (20 year max)
- Public perception of picking winners and losers

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What are PILOTs, TIFs and other IDB tools?

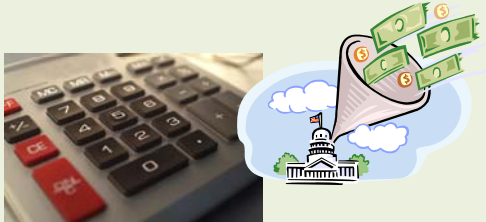


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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF

Tax Increment Financing → TIF



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF

Tax Increment Financing → TIF

- IDB adopts Economic Impact Plan, must be approved by governing bodies of affected municipalities
- Finances Projects (IDB doesn't have to own)
- Bonds repaid from the increase in property tax (the increment) tied to the Project
- The justification is that the 'increment' is new money (that wouldn't have been seen without the Project) and does not reduce current tax collections
- Project is financed with the incremental increase in tax collections associated with the project

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Economic Impact Plan

- The Plan specifies the Economic Impact Area:
 - The Economic Impact Area must be located in the municipality that created the IDB
 - Identifies the boundaries of the Economic Impact Area
 - Economic Impact Area must include "an industrial park within the meaning of (T.C.A.) § 13-16-202, or a project that is either owned by the corporation or with respect to which the corporation has loaned or will loan funds or has otherwise provided or will provide financial assistance. In addition to such industrial park or project, the area that is the subject of the economic impact plan may also include such other properties that the corporation determines will be directly improved or benefited due to the undertaking of the industrial park or project."

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Economic Impact Plan

- The Plan discusses the expected benefits to the community from the development of the Economic Impact Area specified in the Plan
- The Plan must limit the allocation of the tax increment to no more than 30 years



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Economic Impact Plan

Allocation of Property Tax - Base and Increment

- That portion of taxes that is equal to the amount of taxes payable with respect to the property in the Economic Impact Area for the year preceding the adoption of the Plan ("**Base Tax Amount**") and it is allocated to the municipality levying the property tax, not to exceed the taxes actually imposed.
- The excess of the property taxes imposed over the Base Tax Amount is allocated to the IDB. (the "**Tax Increment**").

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Economic Impact Plan

Approval by IDB and Municipality

- IDB must give 2 week public notice and hold public meeting before presenting Plan to municipality
- Governing body of the municipality that created the IDB must approve the Plan
- Any other municipalities who would collect property taxes in the Economic Impact Area must approve Plan
- Taxes allocated to the IDB typically are applied to debt service or other obligations to pay the cost of the project
- The IDB is authorized to pledge the tax increment revenue stream to secure the payment of the bonds.

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Brief Overview of a TIF The Economic Impact Plan

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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Oversimplified Example of a TIF

A large sporting goods megastore, Carp & Crow Shop, is looking for a location. Anytown believes Carp & Crow Shop would bring good jobs and positively impact an intersection on the edge of town that has no development. IDB of Anytown offers to develop Parcel 1 if Carp & Crow Shop will locate there. In order to finance the development, the IDB uses Tax Increment Financing, a TIF. The IDB creates an Economic Impact Plan, has a public hearing, everyone loves it, the IDB approves it and the Anytown council approves it. **This is how it works:**



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Oversimplified Example of a TIF

This is how it works:

The project is on Parcel 1.
The IDB creates the Economic Impact Area within the orange boundaries.
Before the plan is approved, all parcels are agricultural fields and forest. The tax revenue before The Plan is approved totals \$200,000 per year (the Base Tax Amount.)



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Oversimplified Example of a TIF

Everyone expects that with the Carp & Crow Shop store in operation, other retail, gas stations, restaurants, etc. will flock to the intersection. All the property in the Economic Impact Area will become commercial (taxed at a higher rate), the land appraisals will increase and the improvements (buildings etc.) will increase the tax base.



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What are PILOTs, TIFs and other IDB tools?

Brief Overview of a TIF The Oversimplified Example of a TIF

After the Project is implemented, the tax collected will be \$700,000 for the total Economic Impact Area. Anytown keeps \$200,000 (the Base Tax Amount) and \$500,000 (the Increment) goes to the IDB to pay off the bonds to finance the Project. The IDB pays off the bonds that financed the project well within 30 years. Carp & Crow Shop sells a lot of stuff. Anytown has more jobs and larger sales and property tax collections. The IDB does more projects.

Everyone lived happily ever after.



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What are PILOTs, TIFs and other IDB tools?

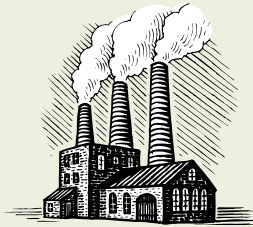
Please go to the Industrial Revenue Bonds portion of the Presentation

TO BE CONTINUED...

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds



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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

Industrial Revenue Bonds are used to incentivize building or expansion of industrial facilities, including land, buildings and equipment in the United States. Industrial Revenue Bonds are authorized by the U.S. Congress and the State of Tennessee is allotted a certain total dollar amount of Industrial Revenue Bonds each fiscal year. The limit issued in a given year on behalf of any one company is \$10,000,000.

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

How Industrial Revenue Bonds work:

The IDB issues a letter of Inducement to the company before any financial commitments are made on the project. The letter states the IDB will issue Industrial Revenue Bonds if the company will pursue the project in its municipality. The company negotiates with its preferred lender as it would for conventional financing.

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

How Industrial Revenue Bonds work:

The creditworthiness of the transaction and the borrower are considered as they would be for a normal loan (the full faith and credit of the local government are NOT involved in the transaction – that would be a general obligation bond.) Instead of drafting conventional mortgages, however, Industrial Revenue Bonds are issued and purchased by the lender.

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

How Industrial Revenue Bonds work:

The advantage of Industrial Revenue Bonds is that the lender is not required to pay federal income tax on the interest earned on them. Thus, the lender is typically willing to negotiate a lower rate of interest on the transaction than would otherwise be the case. A savings of 2% or more could be realized.

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

How Industrial Revenue Bonds work:

Not all lenders are in a tax position to benefit from holding Industrial Revenue Bonds, so some shopping around may be necessary.

There are a lot of additional paperwork and legal fees necessary for issuing Industrial Revenue Bonds as opposed to the closing costs for a conventional loan.

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What are PILOTs, TIFs and other IDB tools?

Industrial Revenue Bonds

How Industrial Revenue Bonds work:

Usually, the extra costs of issuing Industrial Revenue Bonds are not justified unless the deal around \$1 million or more.

With Industrial Revenue Bonds, an IDB can own the project and also enter into a PILOT agreement with the company.

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What are PILOTs, TIFs and other IDB tools?

In Conclusion:

IDBs can use PILOTs, TIFs and IRBs in bringing economic development to their community. It all takes a lot of collaboration and cooperation for success.

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What are PILOTs, TIFs and other IDB tools?

In Conclusion:

PILOTs, TIFs and other incentives are complicated and need the expertise of economic development professionals and legal counsel.

Economic development needs informed, involved IDBs and community governing bodies and I hope this presentation has advanced your knowledge.

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What are PILOTs, TIFs and other IDB tools?



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