FAIRFAX COUNTY
VIRGINIA

Public Investment in Support of Private Development; Economic Development Tools including Tax Increment Financing (TIF)

Economic Initiatives Committee
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Meeting Purpose

Board Briefing on economic development tool

- In 2011, the County adopted an ordinance establishing the Mosaic Community Development Authority (CDA), which sold bonds to pay for public infrastructure, with the debt service being paid for through Tax Increment Financing (TIF)
- Immediately following that, there were numerous inquiries as to potential new CDAs/TIFs; none of which were pursued
- Recently, there have been new inquiries

History

- July 21, 2008 - County adopted 16 Principles of Public Investment to Support Commercial Revitalization to guide decision making
- September 8, 2008 - County enabled itself to establish Community Development Authorities (CDA) as required by Code of Virginia
- April 27, 2009 - County adopted ordinance establishing Mosaic CDA
  - Amended CDA ordinance on April 6, 2011, to levy special assessments
- June 2011, the Mosaic CDA issued $65,650,000 of bonds
- September 20, 2020 - Board adopts Economic Incentive Program (EIP) – another form of public support of private development which, provides a potential 10-year tax abatement for properties located in certain designated areas of the County

Community Development Authority (CDA) Overview

- CDAs are special development authorities authorized by state statute (1993, Virginia Code Sections 15.2-5152 – 15.2-5159) and created by a host locality
  - Facilitate development and redevelopment projects by providing for public infrastructure within a defined area
  - Qualify for tax-exempt bond financing under IRS code for public facility use
  - No direct burden to the larger community or tax base
- CDAs used across the Commonwealth
  - Cities of Chesapeake, Hampton, Newport News, Portsmouth, Richmond and Williamsburg
  - Fairfax, Arlington, Stafford, Prince William, Henrico, and York Counties

Revenue Sources to Repay CDA Bonds

- TIF (Tax Increment Financing)
  - Locality can agree to pay all or a portion of incremental tax revenues (e.g., real estate tax, personal property tax, local sales tax, meals tax, TOT tax, etc.)
  - Typically, in Virginia, this is accomplished as "TIF by Agreement"
- Special Assessment
  - Not to exceed cost of improvements
  - Treated on a priority basis with real estate taxes
  - Determined by third party independent consultant via rate & method
- Special Tax
  - Existing local property taxes still apply in the district
  - Maximum legislated rate is 25 cents per $100 of AV unless all property owners agree to a higher rate
- Combination of the above

TIF v. EIP

TIF	EIP
Initiated by petition to the Board from at least 51% of landowners, although best practice in Virginia is to have all of the landowners join in the petition	Initiated by application to the Board
Targeted to catalytic projects in conformance with Comprehensive Plan	Targeted to catalytic projects in conformance with Comprehensive Plan
Must meet "but for" test; open financial records	Demonstrate economic development
Increment between pre-development real estate tax and post development real estate tax primary source to pay debt service on bonds	Increment between pre-development real estate tax and post development real estate tax used to incentivize development
Use of TIF for bond debt service typically extends to 20 years or more	Tax abatement limited to maximum of 10 years

16 Principles for Public Investment to Support Commercial Revitalization

1. The redevelopment site or area must be located within an area of the county that is of **strategic importance to achieving the county's revitalization goals.**

2. The use of public funds shall be directed toward select **"Pioneer Projects"** that result in area-wide benefits. Pioneer Projects include single projects that will have a **catalytic effect on the revitalization** of an area; projects on more than one site that collectively result in such benefits; or area-wide public improvements (such as replacement of utilities) that have broad area benefits.

3. Projects for which public funds are used shall be **consistent with the county's Comprehensive Plan** and Zoning Ordinance.

16 Principles (continued)

4. The public purpose and the financial and other **benefits** from all publicly funded improvements shall be clearly defined, and, based upon the nature of the benefit, **measurable.**

5. Public funding mechanisms shall **only be used for public facilities** (e.g., fund, plan, construct, and/or maintain those infrastructure improvements as authorized by Virginia law and as specified by the Board of Supervisors in the establishment of any Community Development Authority (CDA) or other entity) to facilitate development, and/or to mitigate the impact of development. Such public facilities include, but are not limited to, roads, transit, utilities, streetscape improvements, public parks and open spaces, bicycle and pedestrian improvements, cultural facilities and parking garages.

16 Principles (continued)

6. There shall be **no negative impact on the county's bond rating.**
7. There shall be **sufficient debt capacity available** for the portion of the public investment that is identified as the county's responsibility.
8. The project must pose **no direct or indirect liability to the county.** The developer (or development entity such as a CDA) shall provide the type and level of surety that is acceptable to the county to protect the county from actions or inactions of the developer or development entity.
9. Each proposal for public funding shall include **detailed information on the financial feasibility** of the development project with which the public funding request is associated and an analysis of the contribution of the development to the county's goals as set forth in the Comprehensive Plan.

16 Principles (continued)

10. A development entity such as a CDA which includes a self-tax is the preferred funding method; Tax Increment Financing (TIF) in conjunction with such an entity and self tax may be utilized as a funding mechanism if it is **demonstrated that a sufficient rate of return to encourage private investment is not otherwise available to the developer.**

11. Any CDA that is established shall be structured to **assume the risk of any deficiency in TIF revenues** if they prove to be insufficient to pay debt service.

12. The maximum period of repayment for TIF **debt service should not exceed 20 years.**

16 Principles (continued)

13. The county shall strive to achieve a **reasonable return on investment** from any of its assets that may be utilized, such as county owned land or use of its lower cost of borrowing. Such return may be financial and/or achievement of county goals that further revitalization, redevelopment and/ or investment.

14. The county expects to achieve **tangible and intangible benefits** to include such things as achievement of the goals and objectives of the Comprehensive Plan. In exchange for its financial participation, the county expects to establish performance measures for the project on such things as the specific character and intensity of development in addition to any other recommendations in the Comprehensive Plan necessary to achieve the public objectives.

16 Principles (continued)

15. If a **TIF is to fund required shortfalls and to incentivize revitalization,** under certain circumstances, the CDA shall remain in existence beyond the repayment on the initial obligations and shall **repay a portion of, or all of, the incremental tax loss** to the county's General Fund.

16. Developers will be required to **grant full access to all accounting records,** project pro formas and any other required financial information for any project involving a financial partnership with the county.

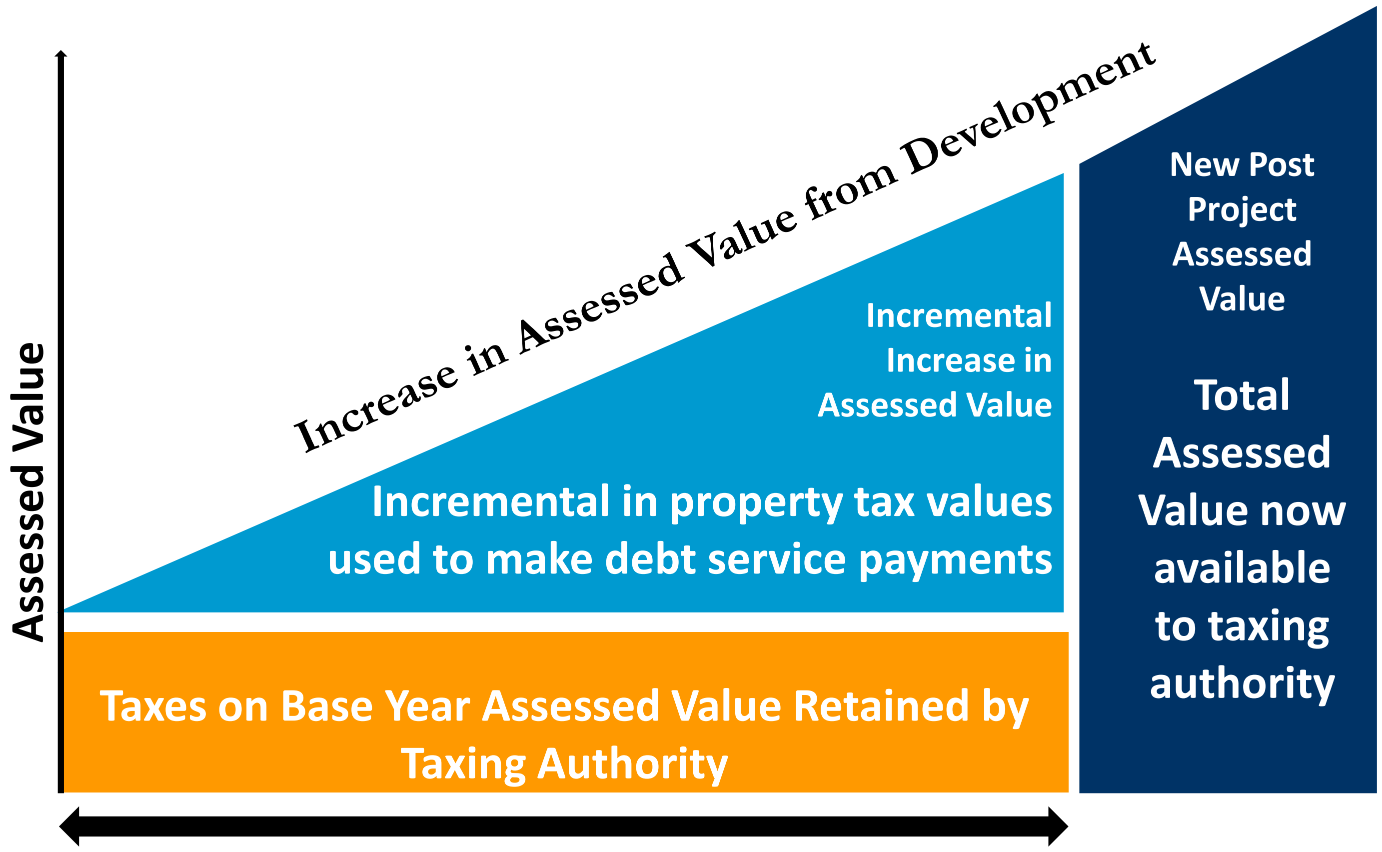
Tax Increment Financing – How Does it Work?

- Tax increment financing tool captures the increase in taxes from new development within a defined geographical area, known as a development district

- Within a development district there are base revenues and incremental revenues

Tax Increment Financing – How Does it Work?

- Base value set at current assessed value
- Development increases assessed value
- Higher assessed value results in additional real property tax revenues
    - These are the tax increment revenues



Tax Increment Financing – How Does it Work?

- Municipality can use a portion or all of the incremental real property tax revenues to enable the desired development

- Incremental tax revenues are used to pay debt service on revenue bonds issued to fund public infrastructure

- The proceeds of these bonds facilitate the new development, which in turn produces increased tax revenues

Experience with TIFs in U.S.

- First used in the early 1950s
- Used throughout the country as a self-financing redevelopment tool
- Single project, start-up TIF financings are speculative; typically funded with non-investment grade rated bonds
- TIF statistics for the United States:*
  - TIF bonds were issued in 40 states (including DC) between 2010 and 2019
  - Annual TIF bonds issued each year typically up to $5 billion
- TIFs involve significant economic and reputational risk; not every TIF is successful

**Source: Stifel, Nicolaus.*

Why Use Tax Increment Financing?

- For projects with special public merit
  - Important projects
  - Key locations
  - Significant public benefit
- For desired projects that would not happen with private sector acting alone (the "but for" test)
- When public sector contribution should be performance based - that is, developer has to deliver on its promises to receive public funds
- When a cost/benefit analysis results in other financial benefits to the jurisdiction

TIF is an Implementation Tool

Used to help accomplish goals of a local government

- Land use goals
  - Transit-oriented development
  - Affordable housing
- Economic development goals
  - Support targeted industries
  - Facilitate development that produces significant jobs or positive tax revenues (e.g., National Harbor)
- Equity goals
  - Encourage development in relatively disadvantaged areas
- Public infrastructure goals

Pros and Cons of TIF

Pros	Cons
Enables debt for construction of infrastructure that is non-recourse to the County – i.e., not GO bonds	Forecasted TIF revenue is speculative; back up revenue source (i.e., special assessment) is needed to support bond issue
Can advance important projects that further implementation of the Comprehensive plan and that will produce new tax revenues	Long term commitment of incremental real estate tax revenue
Infrastructure costs are paid by those who benefit the most (i.e., within the defined district)	Typically sold as speculative / noninvestment grade bonds, translates to high debt service. Investors want to be compensated for risk
Infrastructure often can be financed in advance of or concurrent with vertical development and in a uniform manner, rather than a "piecemeal" approach that could hinder development	Significant costs of issuance above and beyond a traditional County bond financing – consultants, bond counsel, financial advisors, underwriters

Mosaic CDA and TIF

- Only CDA / TIF in the County
- Located in a former industrial area, which primarily consisted of a former movie theater and surface parking lot
- Now includes 1,116 residential units (1,004 rental), approximately 580,000 square feet of commercial space, and a 148-room Hyatt House hotel
- Assessed value of the property prior to redevelopment - $38,271,740
- Current assessed value - $663,560,710
- AV increase - $625,288,970 (1,734%)
- Annual property taxes before redevelopment - $409,508
- Most recent property taxes - $7,564,592

Mosaic TIF and CDA

- Real property tax increment revenues at Mosaic have exceeded projections every year
- The Mosaic TIF has been successful due to:
  - Developer qualifications and financial resources necessary to make the project successful
  - Significant investment by the developer in the project and the public infrastructure (the bonds financed approximately one-third of the infrastructure for the project)
  - Conservative structure of the financial plan
- The bonds were additionally backed by special assessments to ensure the Mosaic District's performance in producing tax increment revenues
  - Because revenues have exceeded the financial plan, it has not been necessary to collect special assessments in any year

Refunding of Mosaic Bonds

- The bonds issued in 2011 were higher risk and unrated
- The 2021 bonds for the Mosaic CDA were refunded in December 2020
- The refunding bonds received an investment grade rating of A2
- The rating was possible as a result of the conservative and careful financial plan for the 2011 bonds
- The refunding resulted in savings to the County with a net present value of $24,198,699

16 Principles in Action: Due Diligence

The Board's 16 principles are operationalized with a thorough due diligence and structuring process, consistent with County's financial risk tolerance level.

Financial Risks	• Are contingency funds readily available, aside from County's contributed sources, to address the unexpected and bridge any gaps? • What level of stress testing can financial plan withstand?
Development Risks	• What are implications of changes in timing and type of planned development for financial feasibility? • What is the prior experience and financial strength of the developer team?
Legal Risks	• Do proposed structures and approaches observe established practices that strengthen the financial plan in the eyes of lenders and investors?

Key Takeaways

- The goal is to protect the County and its strong reputation in the capital markets and implement successful projects

- The 16 Principles are a solid foundation for promoting transparency and identifying & mitigating risks, especially if TIF is contemplated

- When implemented, the 16 Principles support the long-term success of TIF-backed financial plans

Thank You!

Questions/Discussion