HilltopSecurities
A Hilltop Holdings Company.

Jason Hughes

Managing Director

1201 Elm Street

Suite 3500

Dallas, Texas 75270

214.953.8707

jason.hughes@hilltopsecurities.com

2018 GFOAT Spring Institute

Economic Development Administration

April 16, 2018

Tax Increment Financing (TIF) or Tax Increment Reinvestment Zone (TIRZ)

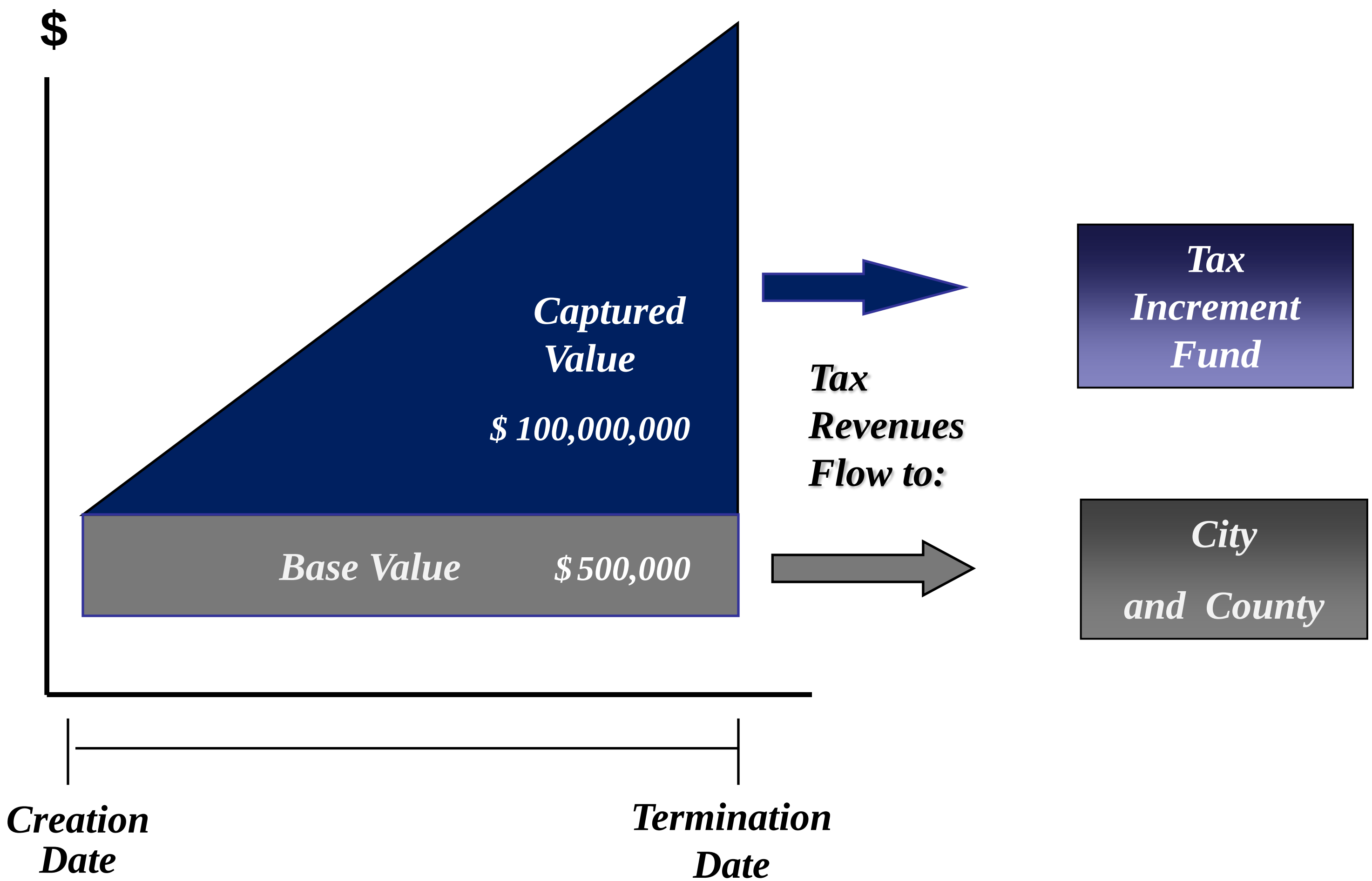
- Defined reinvestment zone within a City
- Created by Council action
- Goal is to provide infrastructure improvements to the reinvestment zone
- Base value is established upon creation
  - Any incremental increase in value, the captured value, may be taxed to reimburse for infrastructure or to repay any debt or obligation of the zone.

Tax Increment Financing (TIF) or Tax Increment Reinvestment Zone (TIRZ)

- What can be funded from the TIF?
  - Acquire and/or renovate deteriorated, blighted or under-developed areas.
  - Acquire and/or construct public works, including utilities, streets, water and sewer facilities, pedestrian malls, parks, flood and drainage facilities, educational facilities, or parking facilities.

- Who can participate?
  - Any overlapping taxing jurisdictions.

Tax Increment Financing (TIF) or Tax Increment Reinvestment Zone (TIRZ)



Administrative Responsibilities with a TIF/TIRZ

- Approval of a Development Agreement
- Selection of consultants
- Develop preliminary finance plan and project plan
- Public hearing
- Creation of the TIF/TIRZ
- Collection and allocation of revenues
- Issuance of debt, if any

Public Improvement Districts ("PID")

- Defined area within a city or its extraterritorial jurisdiction
- Created by the governing body of a city or county
- Used to promote higher quality or special public improvements and services in a development
- Ability to levy an assessment on a lot
  - Capital and maintenance (or service) assessments
  - Normally included on an ad valorem property tax bill
  - Unlike property taxes, PID assessment/lien can be prepaid at anytime
  - Subordinate to governmental ad valorem taxes
- Fund water, sewer, drainage, roads, public safety, parks, libraries and other development enhancements

Public Improvement Districts (“PID”)

- Goal is to limit repayment for special benefits to the PID
  - Unlike TIFs, PIDs are empowered to levy assessments against property within their boundaries without regard to growth in actual assessed valuations.
  - For example, a PID may assess a charge of $100 per lot in a proposed residential development. The owner of the lot must pay the lot assessment whether the lot remains vacant or if a $1 million home is built on it.

- Service and Assessment Plan (“SAP”) is required
  - Indicates project plan, maintenance and administration plan, allocates and levies assessments based on benefit and capital funding process and timing.

- City or county may issue debt for the PID
  - Debt is repaid by the levy of assessments against all property within the district.
  - Does not pledge or encumber any City funds.

Important PID Concepts

- **Tax stack**
  - PID assessment is converted to a tax rate equivalent and added to all overlapping taxes
  - Important to remember that the tax stack is a metric <u>at a point in time</u>

Example:

City	$ 0.6500
School	1.4000
County	0.2500
Community College	0.1500
PID Assessment	0.6000
	$ 3.0500

- **Value to lien ratio**
  - Normally try to target 3 to 1
  - Example: Value of land is $30 million, maximum bond issuance of $10 million

Important PID Concepts

- Value proposition
  - What is the City getting in return?
- Due diligence on the Developer
- Reimbursement bonds versus “dirt” bonds
- Bond structure
- Affordability of development
- Significant long-term commitment
- Significant involvement by the City

Administrative Responsibilities with a PID

- Approval of a Development Agreement
- Creation
- Selection of consultants
- Levy of assessments
- Issuance of debt
- Collection of assessments for bondholder payments
- SEC reporting
- IRS – tax exemption
- Foreclosure on property for non payment, if necessary