



Memorandum

To: Lebanon Downtown TIF Study Committee
From: Russ Thibeault
Date: January 22 2018
RE: TIF Illustrative Financial Feasibility

I have run several scenarios examining Downtown TIF financial feasibility. We will discuss these at our meeting Thursday at 1:00 pm.

The first analysis poses the question: if we received a private investment proposal, how much public investment would be supported by the TIF revenues? These scenarios are straight-forward, which makes them relatively easy to grasp. They do not fully account for Incremental revenues, however, in that they do not reflect appreciation in existing properties or the impact of inflation over time on the tax rate and cost of construction. They provide a somewhat crude sense of the relationship between a private investment (bird in the hand) and the amount of public investment it could support in the first year after completion, all other things being equal. For the sake of comparison, Emerson Place has just over 210,000 finished square feet.

The results are:

Illustrative Debt Service Capacity Scenarios			
	Scenario A	Scenario B	Scenario C
New Construction (SF)	50,000	200,000	200,000
Value per Square Foot	\$ 100	\$ 100	\$ 100
Total Increment	\$ 5,000,000	\$ 20,000,000	\$ 20,000,000
Tax Rate (100%)	\$ 29.08	\$ 29.08	\$ 29.08
TIF Portion of Tax Rate	100%	50%	100%
Incremental Revenues	\$ 145,400	\$ 290,800	\$ 581,600
Annual Debt Service (Prin+Interest)	6.5%	6.5%	6.5%
Supportable Bond	\$ 2,237,000	\$ 4,474,000	\$ 8,948,000

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For example, if a 200,000 square foot private investment was proposed at a valuation of \$100 per square foot, and if Lebanon devoted 50% of the incremental revenues to a bond issue, increased taxes from that private investment (in and of itself) would support payments on a bond of \$4,474,000, other things being equal. If, instead, the city allocated all of the incremental revenues to the TIF funding, debt service on a bond of \$8,948,000 would be supported. In both cases incremental revenues would rise over time as property values within the district rose, as additional investments occurred and as the tax rate rose. Those additional revenues, over and above what is needed for debt service, could be reserved within the TIF district, could fund additional public improvements or could be returned to the City and school district

In fact, TIF financing is more complicated than this simple straight-forward calculation. Over time the rising value of existing properties, the impact of general inflation and increases in the tax rate are also captured within a TIF district. Therefore, I have modeled the impact of a TIF under varying scenarios over a presumed \$5,000,000 bond issue with a 20 year bond. The calculations for the first five years of one scenario are illustrated on the following page.

The summary of the scenarios I have run are as follows:

ASSUMPTIONS				
New Investment	Scenario 1	Scenario 2	Scenario 2	Scenario 3
Annual Square Feet Added	5,000	5,000	10,000	20,000
Assessment Increment/SF	\$ 100	\$ 100	\$ 100	\$ 100
Annual New Investment	\$ 500,000	\$ 500,000	\$ 1,000,000	\$ 2,000,000
% of Tax Rate Assigned to TIF	75.0%	50.0%	75.0%	75.0%
Annual Increase in Tax Rate	2.0%	2.0%	2.0%	2.0%
Annual Rate of Increase in Assessed Value of Current Properties	2.0%	2.0%	2.0%	2.0%
Annual Financing Constant (Principal+Interest)	6.5%	6.5%	6.5%	6.5%
2017 Tax Rate				
City	\$ 10.70	\$ 10.70	\$ 10.70	\$ 10.70
County	\$ 1.94	\$ 1.94	\$ 1.94	\$ 1.94
Local School	\$ 14.06	\$ 14.06	\$ 14.06	\$ 14.06
State School	\$ 2.38	\$ 2.38	\$ 2.38	\$ 2.38
Total	\$ 29.08	\$ 29.08	\$ 29.08	\$ 29.08
SUPPORTABLE INVESTMENT				
Net Revenues Over Life of 20 Year Bond*	\$ 19,259,000	\$ 10,646,000	\$ 23,185,000	\$ 31,042,000
Breakeven Year (\$5,000,000 Bond)	2022	2024	2022	2021
* After deducting debt service: 3% interest, 20 year term				

Each of these scenarios generates sufficient increment to pay back a \$5 million bond over the life of the bond. The payback is quicker and the supportable bond rises, as higher levels of private investment are presumed and as the portion of the tax rate allocated to the TIF district increases.

These observations are consistent with the experience of the case study communities.

My sense is that these calculations confirm that a downtown TIF is financially feasible, should the City elect to pursue this device. It is more transparently viable if the City awaits a “Bird in Hand”.

ASSUMPTIONS						
New Investment						
Annual Square Feet Added		10,000				
Assessment Increment/SF	\$	100				
New Investment	\$	1,000,000				
Annual Cost Increase New Investment		2%				
Annual Rate of Increase in Assessed Value of Current Properties						
		2.0%				
Annual Financing Constant (Principal+Interest)						
		6.5%				
2017 Tax Rate						
City	\$	10.70				
County	\$	1.94				
Local School	\$	14.06				
State School	\$	2.38				
Total	\$	29.08				
% of Tax Rate Assigned to TIF		75.0%				
Annual Increase in Tax Rate		2.0%				
Incremental Revenues						
	2018	2019	2020	2021	2022	2023
Beginning TIF District Taxable Value*	\$ 90,392,000	\$ 90,392,000	\$ 93,199,800	\$ 96,083,800	\$ 99,045,500	\$ 102,087,400
Annual Increase in Assessed Value: Current Properties	\$ -	\$ 1,807,800	\$ 1,864,000	\$ 1,921,700	\$ 1,980,900	\$ 2,041,700
New Investment		\$ 1,000,000	\$ 1,020,000	\$ 1,040,000	\$ 1,061,000	\$ 1,082,000
Ending Assessed Value	\$ 90,392,000	\$ 93,199,800	\$ 96,083,800	\$ 99,045,500	\$ 102,087,400	\$ 105,211,100
Tax Rate	\$ 21.81	\$ 22.25	\$ 22.69	\$ 23.14	\$ 23.61	\$ 24.08
Taxes Generated at 2015 Rate	\$ 1,971,000	\$ 2,073,000	\$ 2,180,000	\$ 2,292,000	\$ 2,410,000	\$ 2,533,000
Change in Taxes From 2015	\$ -	\$ 102,000	\$ 209,000	\$ 321,000	\$ 439,000	\$ 562,000
Investment Supportable		\$ 1,569,000	\$ 3,215,000	\$ 4,938,000	\$ 6,754,000	\$ 8,646,000
*						
Debt Service Capacity						
Debt Service Schedule	2018	2019	2020	2021	2022	2023
Interest Rate		3.0%	3.0%	3.0%	3.0%	3.0%
Term (Years)		20				
Beginning Principal Balance		\$ 5,000,000	\$ 4,750,000	\$ 4,500,000	\$ 4,250,000	\$ 4,000,000
Annual Interest		\$ 150,000	\$ 142,500	\$ 135,000	\$ 127,500	\$ 120,000
Annual Principal		\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Total Debt Service		\$ 400,000	\$ 392,500	\$ 385,000	\$ 377,500	\$ 370,000
Year End Balance		\$ 4,750,000	\$ 4,500,000	\$ 4,250,000	\$ 4,000,000	\$ 3,750,000
TIF Revenues		\$ 102,000	\$ 209,000	\$ 321,000	\$ 439,000	\$ 562,000
Annual Debt Service		\$ (400,000)	\$ (392,500)	\$ (385,000)	\$ (377,500)	\$ (370,000)
Surplus (Deficit)		\$ (298,000)	\$ (183,500)	\$ (64,000)	\$ 61,500	\$ 192,000
Total Surplus (Deficit) Over Life of the Bond		\$ 23,185,000				