

The Tiff About TIFs

“The Opportunities, Mechanics, and Challenges of Tax Increment Financing in Canadian Cities”

SPEAKERS

Adam Found, C.D. Howe Institute

Murtaza Haider, Ryerson University

Larry Hummel, International Property Tax Institute

MODERATOR

Paul Sanderson, International Property Tax Institute

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Moderator's Remarks

Paul Sanderson JP LLB (Hons) FRICS FIRRV
President
International Property Tax Institute



Moderator's Remarks

- Firstly, I would like to briefly tell you a bit about my organisation - IPTI - for those who may not be familiar with it
- Then I would like to say a few introductory words about TIFs
- Then I will hand over to our three eminent speakers
- Following their presentations, I will ask our speakers a few questions and then open it up for any further questions and discussion about the issues



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About IPTI

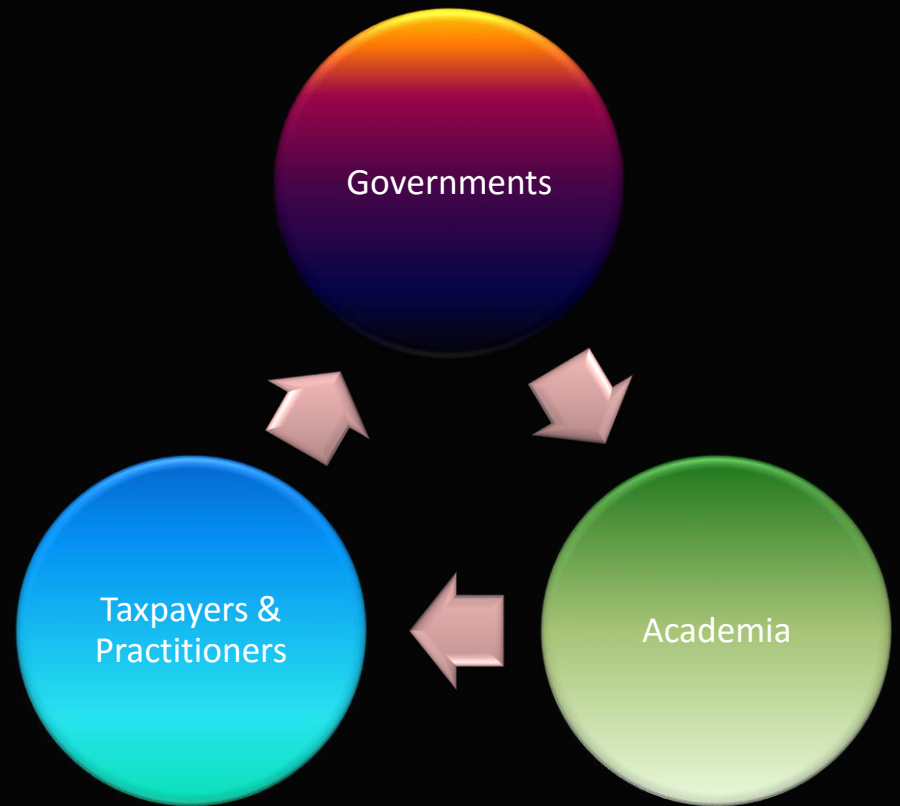


The International Property Tax Institute (IPTI) is an independent, not-for-profit organization formed by industry experts from around the world to promote and foster property taxation and assessment ideals on an international scale



IPTI's Mission

“To provide impartial, objective expert advice in the area of property tax systems and promote the concept that these systems should be fair and equitable and meet the needs of all stakeholders, i.e. governments, taxpayers, practitioners and academics.”



What Does IPTI Do?

- Education and training: courses, conferences, workshops, seminars, webinars, etc.
- E-learning: a wide range of topics available
- Research, consulting and advisory services
- Publications:
 - Journal of Property Tax Assessment & Administration (published jointly with the IAAO)
 - IPTI Xtracts: news extracts about property tax from around the world
 - IPTIpedia: online international property tax & assessment database
- Membership services
- For more information: www.ipti.org



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The Tiff About TIFs

- I will leave it to our three very experienced speakers to flesh out the details about TIFs and why they appear to be creating a few “tiffs” in some parts of the world
- All I would like to add at this point is that I regularly monitor what is happening in relation to property tax systems around the world, and there is no shortage of recent articles and controversy about TIFs
- So let’s move on



Our Eminent Speakers

- **Larry Hummel:** International Property Tax Institute, Director of Assessment Services
- **Adam Found:** C.D. Howe Institute, Author of *“Tapping the Land: Tax Increment Financing of Infrastructure”*
- **Murtaza Haider:** Ryerson University, Author of *“Can Tax Increment Financing Support Transportation Infrastructure Investment?”*



Measuring uplift: the assessor's perspective

Larry Hummel MIMA FRICS
Director, Assessment Services
International Property Tax Institute



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Agenda

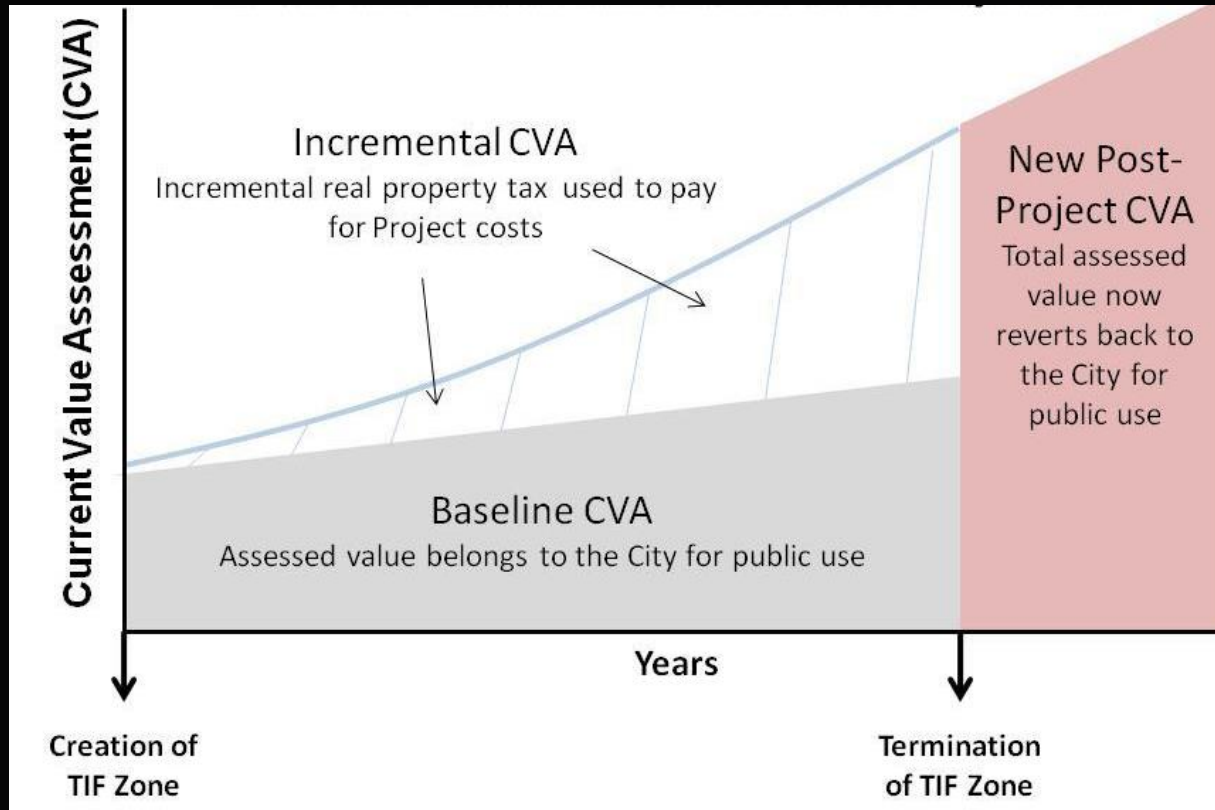
- What is a TIF and its objectives?
- How is incremental value measured?
 - Growth
 - Appreciation or value uplift
- Valuation issues
 - Highest and Best Use (HBU) vs Current Use
 - Pricing development sites
- Timing issues
- Downtown North York example
- Conclusions

TIF Objectives

- Provide stable and predictable funding for public infrastructure investment
 - Assumes public investment will stimulate higher future property tax revenues from future private development and property appreciation or value uplift
 - The anticipated future tax increase or increment is allocated in advance to secure the financing, usually in the form of a TIF bond
 - Once the debt is retired, the entire TIF tax base is available for city use

TIF CVA Over Project Life

Derived from "Can Tax Increment Financing Support Transportation Infrastructure Investment?" IMFG No. 25, 2016 p. 4



Measuring Incremental Value

- Two components
 - Growth
 - Appreciation/Uplift
- Measuring development growth
 - Straightforward
 - Additional CVA from new construction, additions and renovations easily measured
 - For newly completed buildings, taxes commence on the increased value (base year) upon occupation
 - For properties under development, the degree of completion is assessed at year end for taxation in the following year

Measuring Incremental Value

- Allocation of development growth attributable to infrastructure
 - More subjective
 - Historical growth for TIF district?
 - Historical or actual city-wide growth?
- Measuring market or value uplift
 - Straightforward
 - Every four years, the assessment base is updated to reflect current market and increase in CVA phased in over the next four years

Measuring Incremental Value

- Allocation of market appreciation or uplift attributable to infrastructure
 - More subjective
 - Historical appreciation for TIF district?
 - Historical or actual city-wide appreciation?

Valuation Issues

HBU vs Current Use

- Unless the Minister directs otherwise, all property is valued based on HBU
- HBU of a property is a requirement for all market value appraisals of land
 - Assumes rational economic behaviour
- For most property, current use = HBU

Valuation Issues

HBU vs Current Use

- Viable existing businesses classified and taxed on current use while valued and taxed on HBU (predominantly residential use)
- Some lands still protected by tax capping provisions.

Valuation Issues

Pricing Development Sites

- Potential uses - occupy, rent or redevelop site
 - Business owner occupant - what are the costs and benefits of operating out of a specific location versus alternate locations?
 - Rental property investor - what income and rate of return can be achieved from leasing the property?
 - Developer - what is the likelihood of receiving an acceptable rate of return on a development investment?
- Best evidence is an open market, arms-length sale near the valuation date

Valuation Issues

Pricing Development Sites

- Easy when there are sales
- Difficult when no sales
- Land banking
 - Few or no sales near the valuation date
- Onus on assessor to prove HBU
 - Legally permissible
 - Physically possible
 - Financial feasibility
 - Maximally productive use

Valuation Issues

Pricing Development Sites

- What can be built?
 - Office, retail, residential, hotel, etc.
 - F.A.R. Analysis
- Financial/Market feasibility
 - Historical and future supply/demand factors
 - Population growth, employment, and family unit formation and size
 - Rents, vacancies and sale prices
 - Availability of capital
 - Future interest rates

Valuation Issues

Pricing Development Sites

- Financial/Market feasibility
 - End unit pricing – sale prices and rents
 - Cost to develop
 - Hard costs – site preparation, construction etc.
 - Soft costs – fees, permits, financing, holding costs, i.e. taxes, insurance, security, marketing, and contingency
 - Time, risk and reward (profit)
 - Land acquisition price predicated on the above considerations

Timing Issues

- Time to develop
 - Five to seven years typical for a single, mixed-use high rise development
 - Large sites may require several phases
 - Full build out may take 30 to 50 years
 - Real estate boom-bust cycle
 - Change in market tastes/demand

Timing Issues

- Time lag between valuation date and tax roll
 - one year
- Four year cycle and phase-in
 - Growth captured immediately while uplift is not fully realized until the completion of the cycle or the four year phase-in

Downtown North York Example

50 years in the making

- 1974 Finch subway station opens
- Building blocks in place by late 70s
- Development took off in the 80s
- 1987 North York Centre subway station opens
- 1990s recession stalled development
- 2002 Sheppard subway completed
- 2016 approx. 70% of plan area developed

Downtown North York Example

Downtown North York then and now

Office net rent psf.

- 1988
 - Typical range \$15 - \$22
- Today according to Colliers – Aug 2016
 - Average rent \$18.65
- Condo sale price psf.
 - 1988
 - \$150 to \$250 psf.
 - Today
 - \$400 to \$600 psf.

Conclusions

- Simple to track growth and appreciation
- Difficult to allocate growth and uplift between base and increment
- Assessment base year and cycle lag
- HBU analysis complex
- Real estate boom/bust cycle
- Very long time frame
- Occam's Razor – law of parsimony – among competing hypothesis, the one with the fewest assumptions should be selected

Modeling uplift: mechanics and challenges

Adam Found, Ph.D., PLE
Metropolitan Policy Fellow
C.D. Howe Institute



The Challenges of Infrastructure Investment

- Municipalities face enormous infrastructure investment challenges.
 - Grants from senior governments represent only a small portion of infrastructure investment needs.
- The use of general revenue taxes to finance infrastructure must be weighed against the negative effects they impose on the economy (e.g. deter investment).
- TIF provides a means to raise additional property tax revenue without increasing general tax rates.
 - However, the structure of the TIF scheme greatly influences TIF's advantages and revenue-generation capacity.

What is Tax Increment Financing (TIF)?

- It is the augmentation of the property tax system to finance infrastructure with revenue in the form of “tax increments” that arise because of that infrastructure.
- Tax increments arise due to infrastructure-induced increases in the assessment base.
- Debenture for infrastructure is serviced and retired over time with annual TIF payments generated within a designated TIF district.



Infrastructure-Induced Land Value

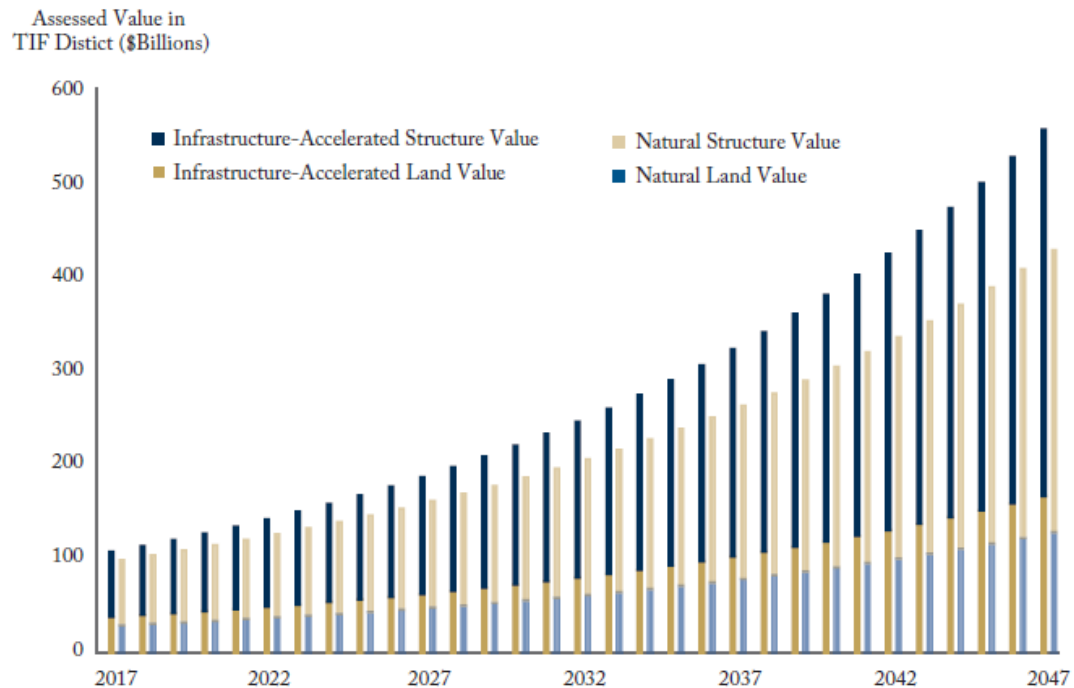
- Infrastructure, such as mass transit, often confers localized benefits to proximate land.
- Localized benefits are capitalized into proximate land (not structure) values, giving rise to “uplift”.
- Uplift is incremental land value (e.g. 35% increase) attributable to the infrastructure, and represents a windfall gain to landowners.

Infrastructure-Induced Development

- Infrastructure also accelerates and intensifies development of land receiving uplift.
- Incremental development attributable to the infrastructure is referred to as “accelerated growth”.
- Infrastructure affects the location and quantity of development, but not the value of structures as proximity is tied to land only.

Infrastructure-Induced Growth in Property Value

Figure 1: Land and Structure Assessment in a Hypothetical TIF District - Natural vs. Infrastructure-Accelerated Value



General TIF Process

- Firstly, the municipality:
 - Emplaces the infrastructure.
 - Issues a debenture for a fixed time horizon (e.g. 30 years) to pay for the infrastructure.
 - Designates the TIF district.
 - Estimates natural assessed value in the TIF district over the debenture horizon.
 - This is the assessed value that would have prevailed in absence of the infrastructure.

General TIF Process (Cont.)

- Secondly, each year the municipality:
 - Records actual assessed value in the TIF district.
 - Determines induced assessed value for both uplift and accelerated growth.
 - Equal to actual assessed value less estimated natural assessed value.
 - Sets tax rate(s) for the TIF district and collects revenue from induced incremental assessment.
 - Diverts TIF revenue to a TIF fund to service the debenture until it is retired.

Two General Types of TIF

- Blended: TIF is applied to infrastructure-induced property assessment (appreciation and development) and at the general tax rate.
- Uplift: TIF is applied only to uplift at a special supplemental tax rate, which is equivalent to land value capture (LVC).

Pros and Cons of Blended TIF

- Pros include:
 - Familiar and simple application of TIF within a conventional property tax system.
- Cons include:
 - Heavy reliance on development materializing as predicted.
 - Risk of fiscal imbalance.
 - Diversion of development-related tax increments away from meeting new development's demands on municipal services.
 - Risk of intra-municipal redistribution of development.
 - Inequitable allocation of infrastructure costs based on the benefit principle.

Pros and Cons of Uplift TIF (LVC)

- Pros include:
 - Economic efficiency (i.e. does not distort investment).
 - No increases in general property taxation.
 - Relatively greater revenue generation capacity.
 - Equitable allocation of infrastructure costs based on the benefit principle.
- Cons include:
 - Requires legislative / regulatory amendments to the Municipal Act.
 - Management of supplemental or special tax rates.
 - Political opposition to area-specific uplift taxation

How Might TIF Apply to SmartTrack?

- Consider a hypothetical condo site.

Variable Description	Variable Value		
	Natural Growth	SmartTrack	
		Accelerated Growth	Incremental Growth
Structure Share of Property Value	0.75	0.75-	
Gross Floor Area (GFA) (ft ²)	300,000	380,000	80,000
Dwelling Units / Storey	10	10-	
GFA / Unit (ft ²)	1,000	1,000-	
Storeys	30	38	8
Dwelling Units	300	380	80
Land Value	\$30,000,000	\$42,000,000	\$12,000,000
Structure Value	\$90,000,000	\$126,000,000	\$36,000,000
Property Value	\$120,000,000	\$168,000,000	\$48,000,000
Land Value / ft ² of GFA	\$100	\$110	\$10
Structure Value / ft ² of GFA	\$300	\$330	\$30
Property Value / ft ² of GFA	\$400	\$440	\$40
Dwelling Unit Value	\$400,000	\$440,000	\$40,000
Dwelling Unit Value Uplift (%)	0.00%	10.00%-	

Conclusions

- While TIF is an innovative revenue tool, its viability and effectiveness depend heavily on how it is applied.
- Blended TIF might provide sufficient revenue, but:
 - Relies heavily on development materializing as expected.
 - Risks fiscal imbalance as development-related tax increments are diverted from general revenue.
- Uplift TIF (i.e. LVC) may be preferred as it results in:
 - Maintenance of fiscal balance.
 - Access to otherwise inaccessible property tax revenue.
 - Lower-than-otherwise general property tax rates, regardless of how development materializes.

Review of uplift: insight from hindsight

Murtaza Haider

Associate Professor

Ted Rogers School of Management, Ryerson University



IMFG PAPERS ON
MUNICIPAL FINANCE AND GOVERNANCE

No. 25 • 2016

Can Tax Increment
Financing Support
Transportation
Infrastructure Investment?

Murtaza Haider and Liam Donaldson
Institute on Municipal Finance and Governance

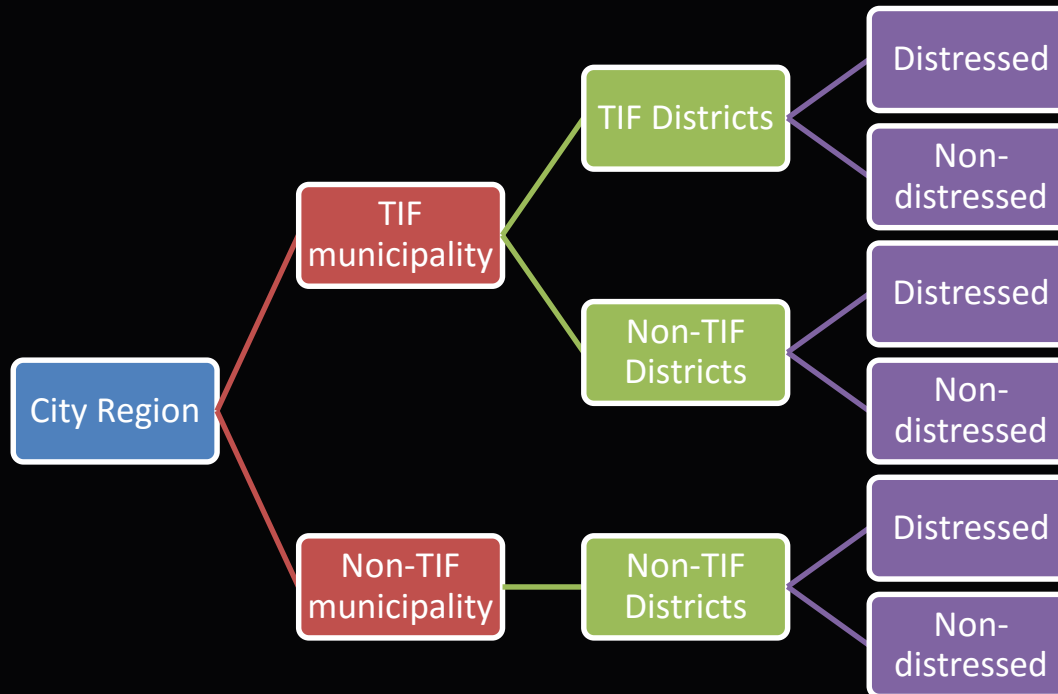
To TIF or Not to TIF

- Our Paper accomplished the following:
 - Reviewed academic literature
 - Reviewed case studies
 - Reviewed development along Sheppard Corridor
- Questions that motivated us
 - How have TIFs been used?
 - TIF: Does the size matter?
 - The size and scope of TIFs in practice
 - What we learnt from the Hudson Yards project
 - TIF or No TIF: We need more transit in the GTHA

Tax Increment Financing - Practice

- What types of infrastructure/developments have been funded by TIF?
 - Commercial, Industrial, Residential, Mixed-Use
- What TIF impacts have been evaluated?
 - Change in property values
 - Change in employment creation
 - The potential for new tax revenue
- Additional concerns
 - Gentrifying or pushing the poor out?
 - But-For test
 - Selecting the site: What the Heck-man?

Site selection biases



The Tiff about TIF

Things to consider

- TIF can relocate development to TID
 - It could be a zero sum game
- TIF may leave less funds for other services
- TIF impacts are not always positive
- Sample selection bias
- Economic cycles affect outcomes

Sheppard East



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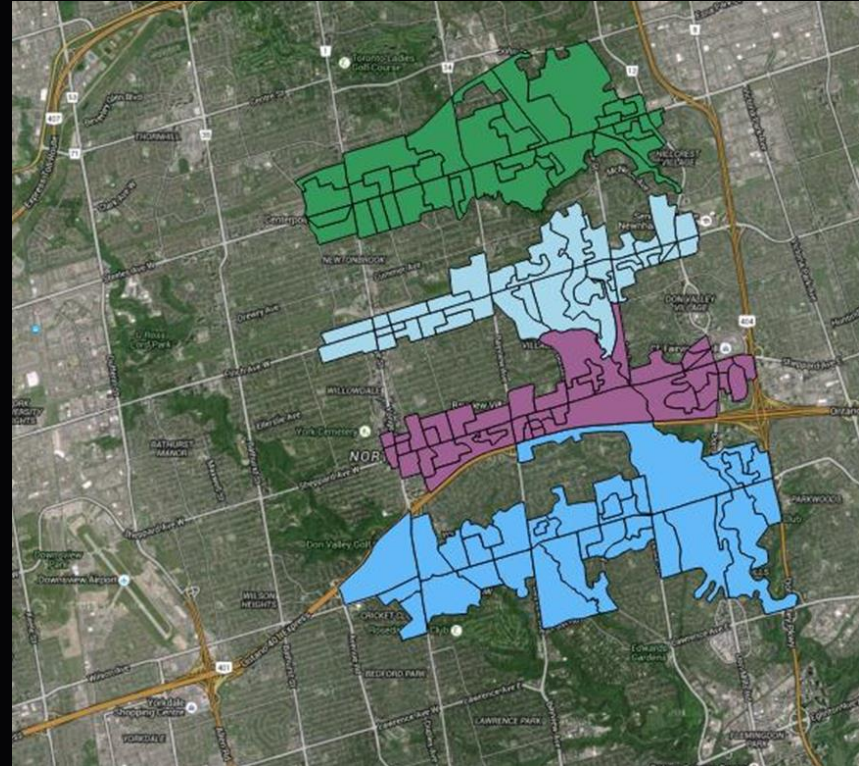
Sheppard East

- What can we learn from the development potential of a subway for residential development?
- Sheppard East is the only relevant project
 - Potential for redevelopment is often higher around subways than around Heavy Regional Rail
 - Greater willingness for high-density developments
- What changed in the corridor? (treated)
- What happened to similar corridors? (controls)

Study Area

» EAs approximating neighbourhoods

- Treated: Sheppard East
- Controls:
 - Steeles
 - Finch
 - York Mills



Sheppard East – Time line

Year	Developments
Sixties and seventies	Conversations about building more transit in the area date back to the sixties. With increasing political opposition towards constructing highways and sustained population growth, calls for developing more public transit options gain traction and eventually materialize into formalized plans by the eighties.
1985	<ol style="list-style-type: none"> 1. TTC delivered "Network 2011" Transit Plan to Metro Toronto (\$2.7 billion project including Downtown Relief Line, Eglinton West, and \$1 billion for Sheppard extending to Victoria Park) 2. Provincial Liberals Won Elections
1986	Metro Council Approved Plan (Province to pay 75% of cost)
1990	<ol style="list-style-type: none"> 1. Liberals Announced \$6.2 billion "Let's Move" Transit Plan for GTA, adding new components to Network 2011 2. But Sheppard is deprioritized because of high cost projections 3. NDP wins elections
1992	Sheppard Subway Environment Assessment published as part of original Let's Move initiative
1993	NDP announces new Transit Plan: Rapid Transit Expansion Program . Sheppard is now included and made a priority along with Eglinton West.
1994	Groundbreaking of Sheppard Subway
1995	<ol style="list-style-type: none"> 1. Conservatives win elections 2. Construction of Sheppard continues but other projects are cancelled. Any plans for Sheppard extension beyond Don Mills are also cancelled.
1996	Sheppard Subway officially shortened to Don Mills
2002	Construction completed at approximately \$1 billion (2002 dollars, 5.4 km of track)
2007	Transit City Released - Light Rail proposed for Sheppard East
2010	Mayor Ford cancels plan

Demographics & Housing

2011 data				
Study Area	Sheppard	Finch	Steeles	York Mills
Dissemination Areas	39	36	37	33
Total Population	35,399	33,733	23,878	21,483
Population Average (DA)	845	937	645	632
Distance to CBD (km)	12.8	14.9	16.9	10.8
Total Private Households	15,266	14,037	8,604	7,895
Private Household Average (DA)	382	390	233	232
Average Household Income (Average for DAs)	86,429	99,738	135,770	250,089
% employed (Average for DAs)	89	92	91	91
% Dwellings by Period of Construction 1981 to 1990	16	10	15	8
% Dwellings by Period of Construction 1991 to 2000	5	10	4	7
% Dwellings by Period of Construction 2001 to 2005	10	8	2	5
% Dwellings by Period of Construction 2006 to 2011	12	7	1	3
% owner (Average for DAs)	56	79	82	80
% renter (Average for DAs)	42	21	18	17
% visible minority (Average for DAs)	58	68	59	40
% immigrants (Average for DAs)	58	64	58	45

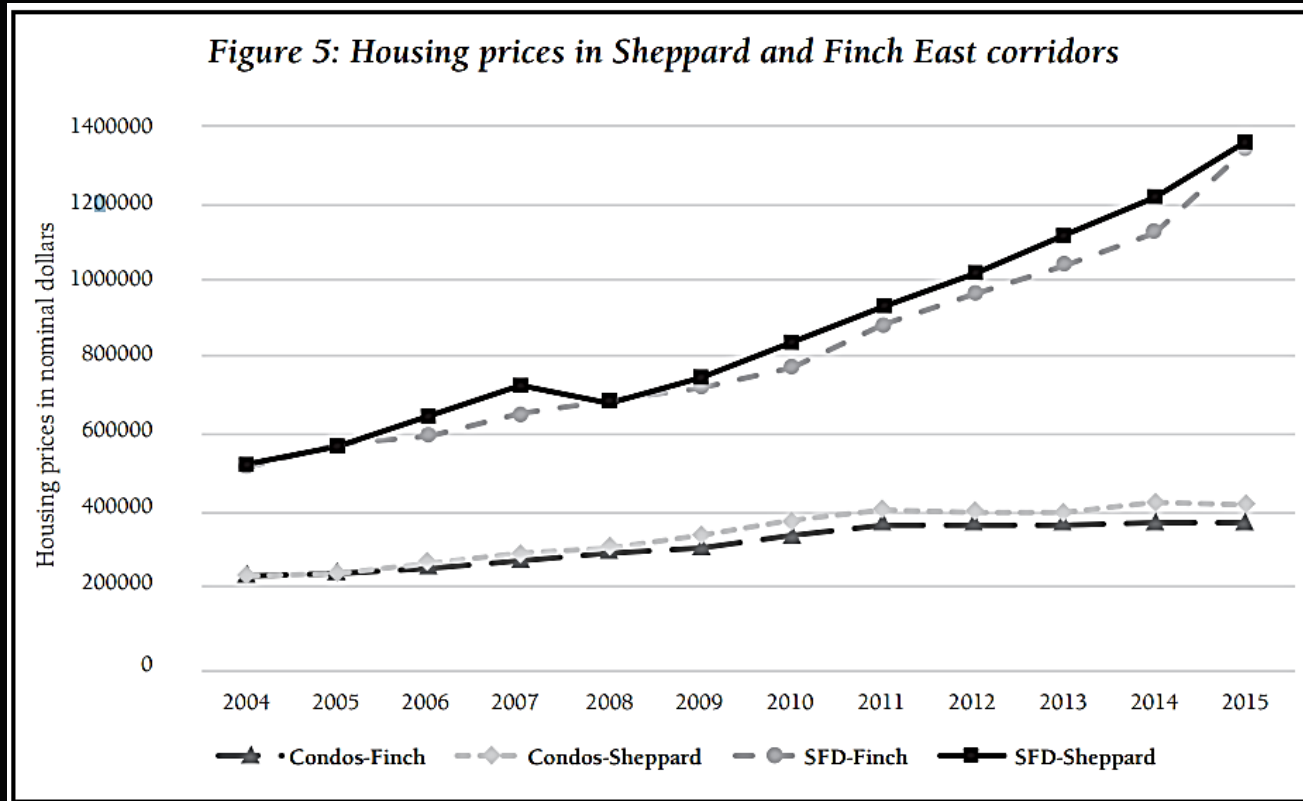
Housing Types, 2011

Study Area	Sheppard	Finch	Steeles	York Mills
Total dwellings by Type	15266	14037	8604	7895
Single family detached	15.0	18.6	48.8	56.8
Semi detached	0.9	1.9	3.4	2.7
Row houses	9.8	8.6	9.3	7.8
Apartment - 5 plus floors	68.6	64.9	27.3	25.3
Apartments 1 to 4 floors	4.6	4.3	6.6	5.5
Apartment - Duplexes	1.0	1.6	4.6	1.7

Housing Prices in Sheppard & Finch



Housing Prices in Sheppard & Finch

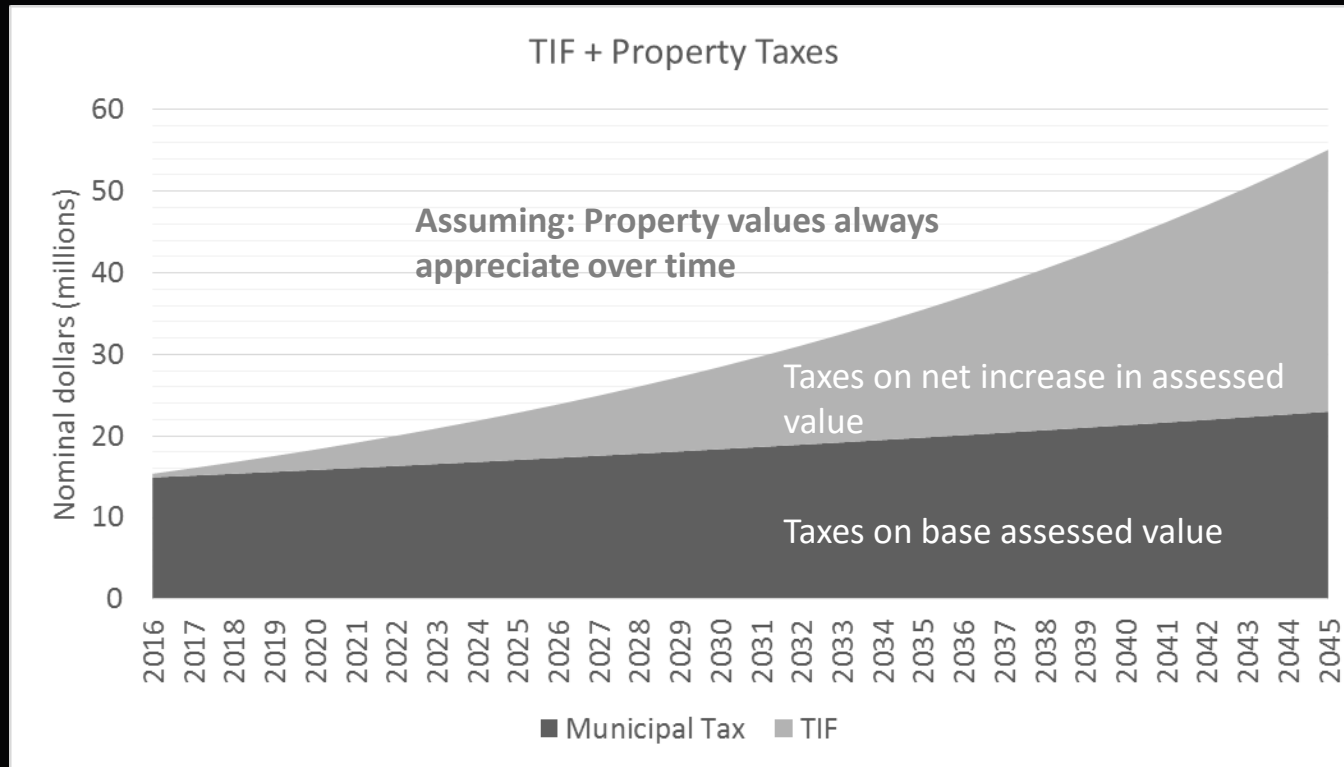


TIF model: inputs

Sheppard East Corridor

Total housing units		15,266
Build since 2001		3,358
Average price, Oct. 2015, TREB C14	\$	735,417
Total value (millions)	\$	2,470
Increase in stock per year		0%
Increase in prices		4.50%
Property tax rate		0.70%
Assessed value Ratio		0.85

TIF model: outputs



Lessons from Sheppard East

- Significant increase in residential construction in the corridor
- Did the subway cause it?
- If property taxes remain frozen at \$14 million from 2016 onwards, who will subsidize the services in the corridor?
- What if the price appreciation is slower?
- TIF is serviced by renters or owners
- The appreciation in land values accrued to land owners

How big a TIF?



Size of TIFs

Tax Increment Financing District (TID)	Location	Date Established	Size (Acres)	Total TIF Bonds Issued	Length of TIF
Arundel Mills Mall (Route 100 TID)	Hanover, Maryland	November, 1999	394	\$28,000,000	10 years
Beltline Tax Allocation District	Atlanta, Georgia	2005	6,500	\$1,660,000,000	25 years
Burlington Waterfront	Burlington, Vermont	January, 1996		\$16,810,350	20 years
Downtown Berlin	Berlin, Wisconsin	September, 2008	21.3	\$14,589,661	27 years
East Village	Calgary, Alberta	Spring, 2007	49	\$357,000,000	N/A
Interstate Corridor	Portland, Oregon	August, 2000	3990	\$335,000,000	20 years
Investors Group Field	Winnipeg, Manitoba	June, 2013	2 properties	\$75,000,000	25 years
Lewiston Wal-Mart Distribution Centre	Lewiston, Maine	January, 2002	13	\$5,800,000	25 years
North Macadam	Portland, Oregon	June, 1999	402	\$288,562,000	20 years
Parole Town Centre	Annapolis, Maryland	December, 1999	1,500	\$8,300,000	10 years
River District	Portland, Oregon	June, 1998	351	\$224,780,350	20 years
Sullivan Centre	Chicago, Illinois	2000	2.35	\$24,400,000	10 years
The Sports, Hospitality and Entertainment District	Winnipeg, Manitoba	April, 2012	11 blocks in Downtown Winnipeg	\$25,000,000	5 years
UWnipeg Commons Housing Complex	Winnipeg, Manitoba	February, 2015	1 property designated	\$2,550,000	15 years
Hudson Yards	New York City, New York	2005	28	\$2,400,000,000	30 years

Hudson Yards: Background

- 2005: Mayor and NYC City Council approved the redevelopment plan for the Hudson Yards Financing District:
 - 28 acre mixed-use development in Midtown Manhattan
- Hudson Yards will include over 17 million square feet of residential and commercial space, with over 100 shops and restaurants and approximately 5,000 residences. 14 of the 28 acres will be dedicated public open space. Hudson Yards will also include a luxury hotel and a public school.
- The City used payments in lieu of taxes (PILOT) financing.
- Hudson Yards Infrastructure Corporation (HYIC) was created to finance property acquisition and infrastructure improvements, including extension of the No. 7 subway line.
- On December 21, 2006 HYIC issued \$2 billion in bonds.
- On October 19, 2011, HYIC issued another \$1 billion in bonds.



Hudson Yards: Risks

- The risks inherent in TIF are **cost overruns or revenue shortfalls**. Hudson Yards is experiencing both.
- In 2004, the subway extension was estimated at \$2 billion. By 2013, the estimated cost increased to \$2.4 billion.
- NYC normally pays 5% of subway construction costs. However, to proceed with the Hudson Yards plan, the City agreed to pay 100%.
- Issuing bonds through HYIC rather than through *general obligation bonds* has cost an additional \$1.32 billion.
- The recession in 2007 delayed construction and affected real estate growth needed to generate revenues.
- The NYC Independent Budget Office (IBO) reported that between 2006 and 2012, revenues were 40% less than projected:
\$170 million revenue out of a projected \$283 million
- The City contributed an **additional \$374 million** to the project over that period.

Smart Track: \$2.5b



SmartTrack Funding

- “To fund the SmartTrack line, Tax Increment Financing revenue will be leveraged over 30 years as development activity and assessed values increase along a new transit route.
- “It is estimated that \$2.5 billion in present value dollars can be raised over that time.
- “All revenue estimates are based only on projected new office development in three precincts within the following districts along the SmartTrack line: the Central Core; the East Don Lands site; and Liberty Village.
- “Tax Increment Financing revenue will likely prove higher than \$2.5 billion once development near other stations and residential development are added.”



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Final thoughts

Dollars and Cents

- SmartTrack costs are preliminary
 - Costs could be much higher or lower
- Raising \$2.7b in TIF could be a challenge
- No precedent for such size and scope
- Will LVC be part of the equation?

Transit Planning

- Does Toronto need more transit? YES!
- Will SmartTrack help improve transit ridership by being the best use of scarce public dollars?
- If yes, it should be seen independent of how much TIF/LVC can generate



Moderated Discussion

SPEAKERS

Adam Found, C.D. Howe Institute

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