Understanding TIF Reform

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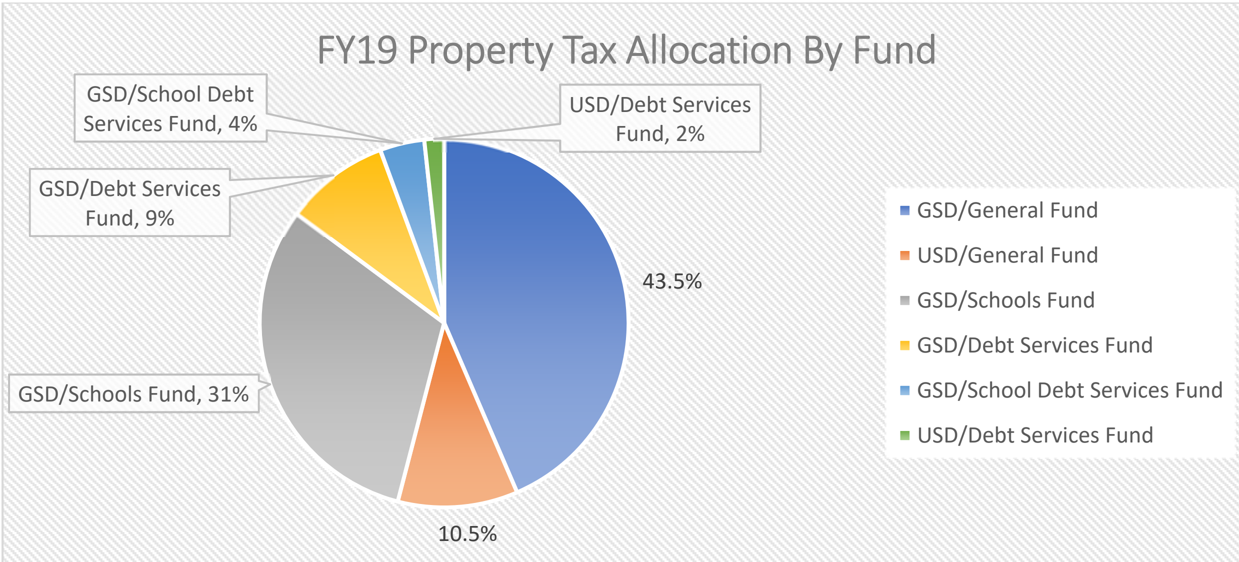
How does tax increment financing, or TIF, work?

For all existing MDHA redevelopment districts that provide TIF loans, these are the basic steps:

1. A developer applies for TIF with MDHA.
2. MDHA evaluates and decides whether to provide the financing.
3. If approved, MDHA borrows money from a bank[1].
4. MDHA gives the developer the borrowed money at closing.
    a. At closing, MDHA and Metro make a note of what the pre-development property taxes are for the property.
    b. Any post-closing increase in the amount of property taxes for the development is called the "tax increment."
5. The developer builds the project and pays the full amount of all assessed property taxes to Metro. There is no property tax discount at any time. The developer pays both the pre-development baseline property taxes and the tax increment for any increases after closing.
6. Metro collects the full amount of the property taxes just like it would for any other property in Nashville.
7. Metro allocates all of the collected property taxes to its various "Funds" just like it would for any other property tax revenue in Nashville.
    a. These Funds include the GSD/General Fund, the USD/General Fund, the GSD/Schools Fund, and three "Debt Services Funds."
    b. The three Debt Services Funds are the GSD/Debt Services Fund, the GSD/School Debt Services Fund, and the USD/Debt Services Fund.
    c. On the next page, the chart shows the percentages of property taxes that Metro allocated to each of these Funds for FY2019:

[1] To quickly answer some frequently asked questions about these loans: When MDHA borrows money, it is non-recourse. This means that neither MDHA nor Metro can ever be made to pay any money except the tax increment from the TIF loan property. Typically, the lenders from whom MDHA borrows money will require the developer to provide a guaranty ensuring payment if the project does not create enough tax increment to pay the loan.



8. Once Metro collects the property revenue for a TIF property and allocates the revenue to the various Funds, Metro then needs to collect the tax increment back from each of the Funds so that the tax increment can be delivered to MDHA.
    a. For example, if the tax increment for a TIF property were $1,000, then using the chart above, 43.5% (or $435) gets allocated to the GSD/General Fund in Step 7 above.
    b. In this Step 8, Metro takes that $435 that it just allocated to the GSD/General Fund and transfers it to MDHA.
    c. For all TIF loans made before April 6, 2016, this same process would happen for each of the six Funds shown in the chart above. The transfers to MDHA from all six Funds would equal $1,000. This is how MDHA physically receives the full tax increment from a property for TIF loans made before April 6, 2016.
9. Once MDHA receives all of the tax increment dollars from the various Funds, then MDHA keeps about 3.5% of the money for itself as an administrative fee, and uses the rest of the tax increment to pay the loans it made in Step 3 above.

How did the 2016 TIF reform (BL2016-157) change this process?

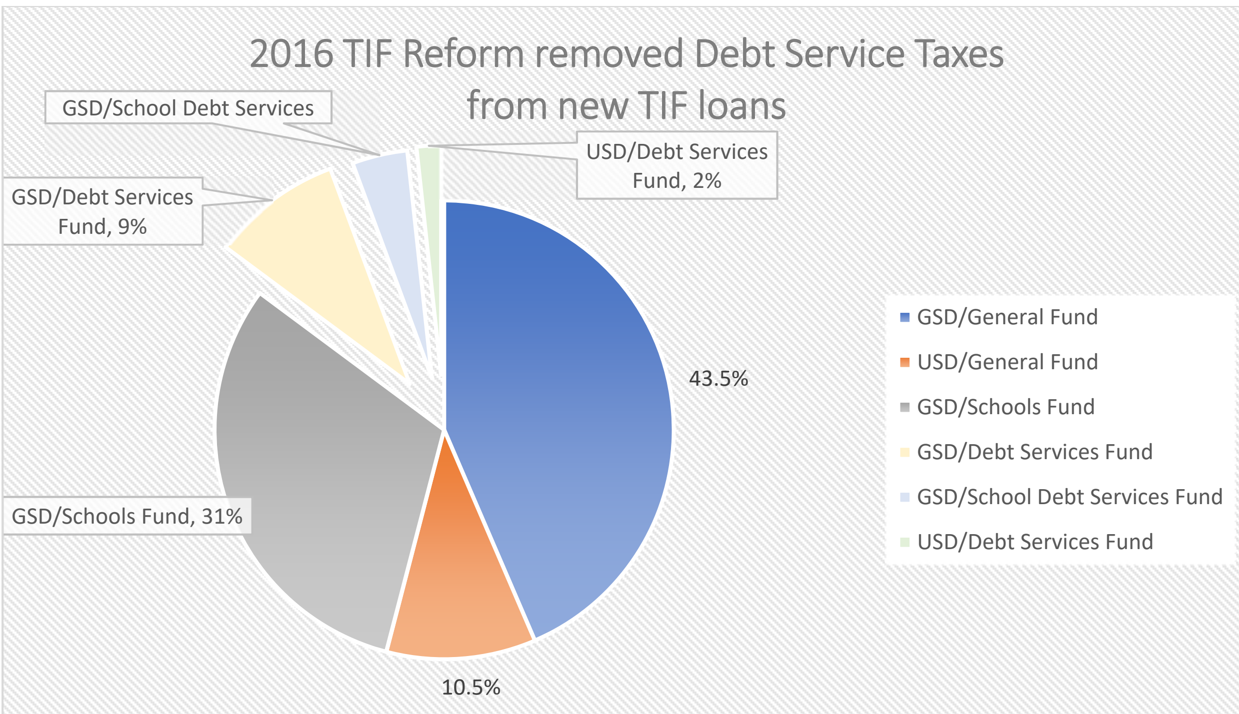
In 2016, the Metro Council passed a law that applied only to new TIF loans made after the effective date of the bill (which was April 6, 2016). For new TIF loans made after that date, Metro keeps the "debt services taxes" and does not send that money to MDHA.

Under the 2016 bill, the "debt services taxes" are the portion of property taxes that get allocated to the three Debt Services Funds. Again, there are three of these –

they are the GSD/Debt Services Fund, the GSD/School Debt Services Fund, and the USD/Debt Services Fund.

In the FY2019 Metro budget, these three Debt Service Funds received approximately 15% of all property tax revenue. So for new TIF loans made after the 2016 TIF reform, Metro keeps this 15% of the tax increment to pay for its own long term debt service and the remaining 85% of the tax increment goes to MDHA to pay for the MDHA's new TIF loans.

This chart shows the 15% of property taxes being retained by Metro instead of being diverted to MDHA to pay for TIF loans:



What has been the impact of the 2016 TIF reform?

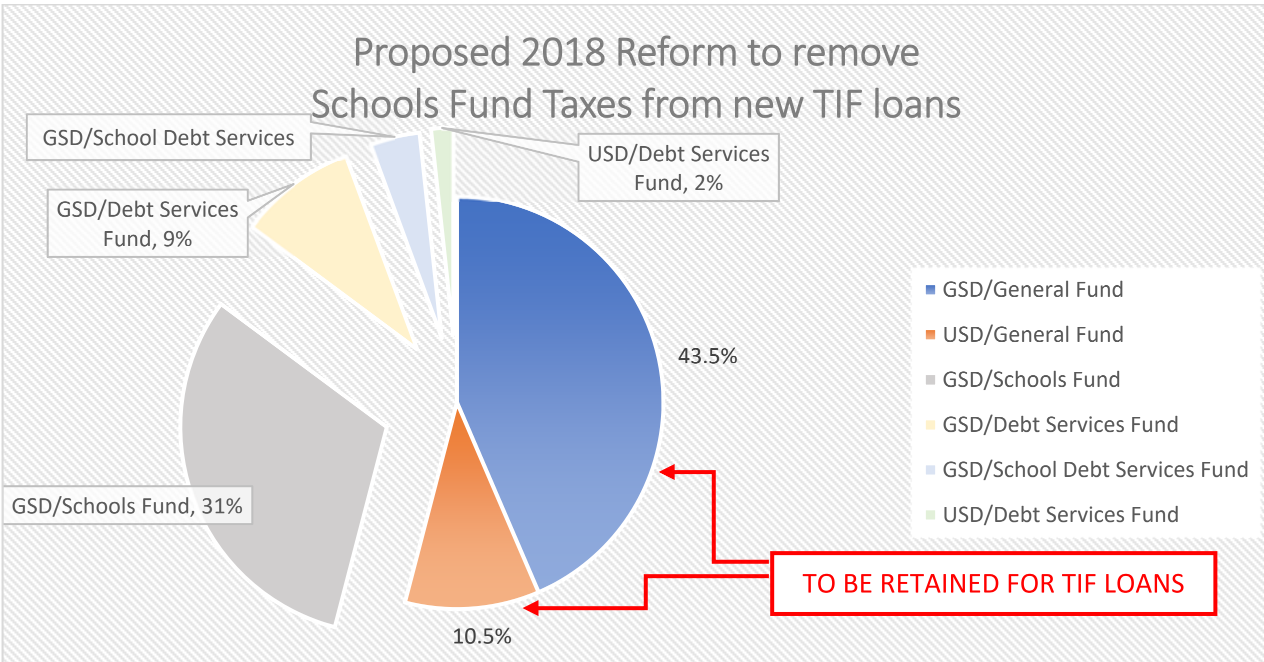
The good news is that Nashville has stopped diverting debt service taxes collected from new loan TIF properties into development loans. There are no reported negative impacts from the 2016 TIF reform. Development in Nashville continues to be robust. Unemployment rates are at historic lows.

How would the new BL2018-1319 change the process?

The 2016 reform bill allowed Metro to retain debt service taxes from new TIF loan properties instead of diverting that revenue to MDHA to pay development loans. BL2018-1319 would expand on this principle and allow Metro to also retain the Schools Fund taxes.

In the FY2019 budget, Metro allocated approximately 31% of collected property taxes to the Schools Fund. If BL2018-1319 were to pass, new TIF loans would leave both the debt services taxes (about 15% of the tax increment) and the schools taxes (about 31% of the tax increment) for Metro. The rest of the tax increment would still be delivered to MDHA to make payments on the TIF loans.

This chart shows the portion that would be retained by Metro for new TIF loans if BL2018-1319 were to pass:



Why is this additional 2018 TIF reform a good idea?

The 2016 reform bill had 25 co-sponsors and passed unanimously on 3rd reading. Now Metro doesn't have to worry about new TIF loans cutting into Metro's ability to pay its long term debt. There has been no negative impact.

The proposed 2018 reform bill expands the concept. Budgets reflect values and priorities. Our children are our future and funding schools must be our first priority. Nashville's economy and growth are in strong shape. Nashville does not need to divert more Schools Fund taxes into development loans to succeed as a city.