

TENNESSEE GOVERNMENT FINANCE OFFICERS ASSOCIATION 2022 FALL CONFERENCE

September 21, 2022

Economic Development, TIFs and PILOTs

BASS
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SIMS

OVERVIEW OF TOPICS TO BE COVERED

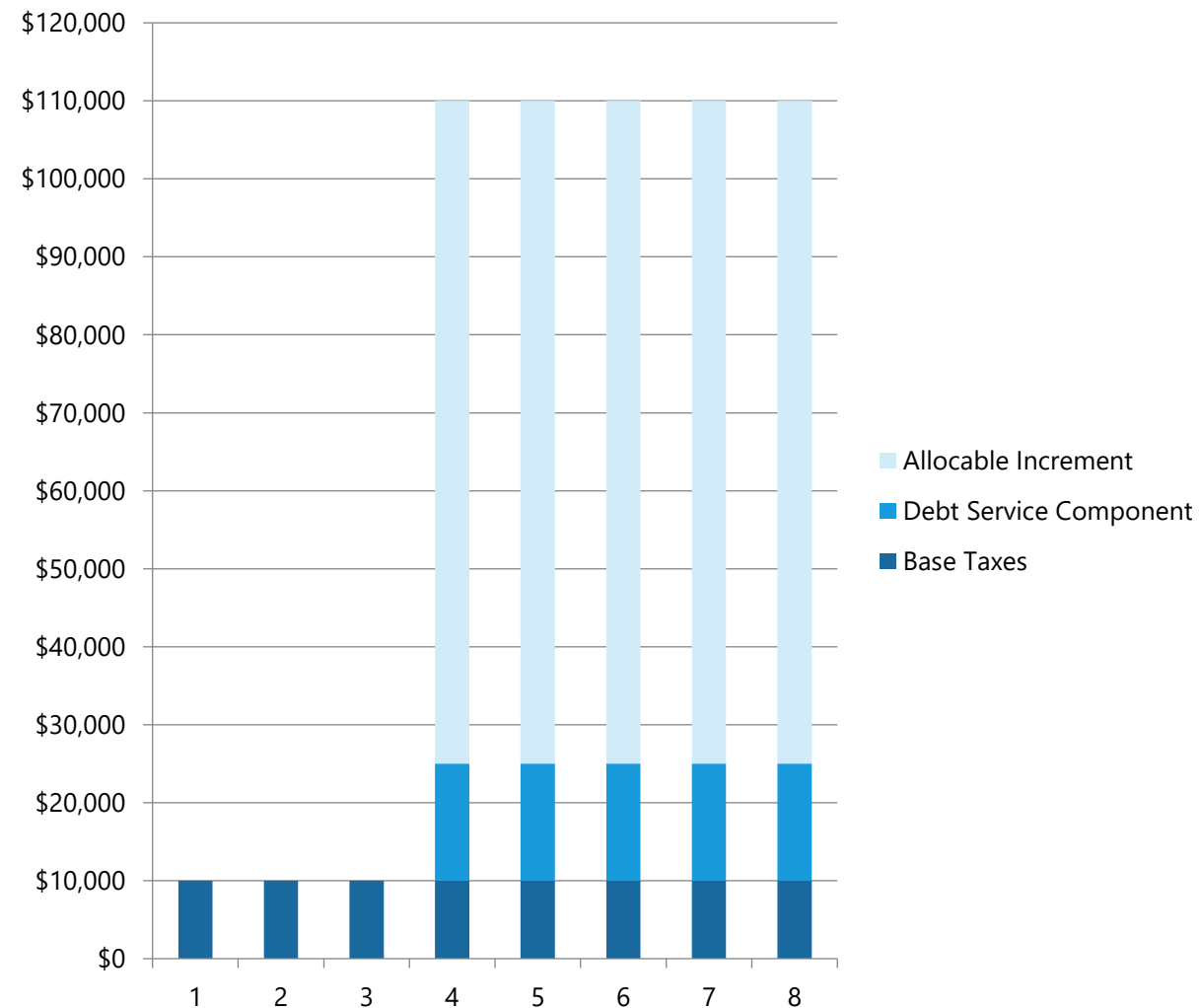
- ◆ Quick PILOT/TIF Overview
- ◆ TIF/PILOT Evaluation Process and Clawbacks
- ◆ Relationship of Multiple Taxing Agencies and Incentives
- ◆ TIFs vs. PILOTs/Pros and Cons
- ◆ Affordable Housing and Incentives
- ◆ Incentives and the Certified Tax Rate
- ◆ TIFs for Phased Projects and Residential Projects
- ◆ Direct Economic Incentives
- ◆ Tax-Exempt Status of TIFs
- ◆ State's Role with Local Incentives

PILOT/TIF OVERVIEW

- ❖ Structuring Tax Abatement (PILOTs) in Tennessee
 - ▶ IDBs/Health Ed Boards/Housing Authorities
 - ▶ Sale/Leaseback Structure
- ❖ Structuring Tax Increment Financing in Tennessee
 - ▶ IDBs/Housing Authorities
 - ▶ Financings versus Reimbursement Alternatives

BASIC TIF MATH

Base Taxes	\$10,000
Taxes after completion	\$110,000
Debt service component (assumed 15%)	\$15,000
Increment allocated to TIF	\$85,000



TIF/PILOT EVALUATION PROCESS AND CLAWBACKS

- ❖ Process for evaluating local incentives
 - ▶ When is “but for” test relevant?
 - ▶ Implementing the “but for” test
- ❖ Implementing Clawbacks
 - ▶ Factors to be considered
 - ▶ Methodology

RELATIONSHIP OF MULTIPLE TAXING AGENCIES

◆ PILOTS

- ▶ Delegation requirement
- ▶ When are multiple approvals required?

◆ TIF

- ▶ Required governmental approvals
- ▶ Reconciling competing priorities among taxing agencies

TIFS AND PILOTS/PROS AND CONS

◆ PILOTS

- ▶ No taxable income to private party
- ▶ Difficult to monetize PILOT benefit

◆ TIFs

- ▶ Monetization of TIF is easier (particularly upon completion)
- ▶ Risk of taxable income to developer

AFFORDABLE HOUSING AND INCENTIVES

- ◆ LIHTC Transactions and PILOTs
 - ▶ Need for PILOT
 - ▶ Delegation Issues
- ◆ Requiring affordable housing set asides as a condition of an incentive

INCENTIVES AND CERTIFIED TAX RATE

- ◆ Properties under PILOT are excluded from calculation
- ◆ Properties under TIF may be excluded from calculation
 - ▶ Exclusion may benefit taxing entity if significant TIFs will end in year after equalization
 - ▶ Otherwise inclusion of TIF properties appears to not make a significant difference

TIFS FOR PHASED PROJECTS AND SINGLE-FAMILY RESIDENTIAL PROJECTS

◆ Phased projects

- ▶ Tax increment allocation can be “triggered” for parcels as they develop
- ▶ Taxing entities may want to provide time limit on “triggering”

◆ Single-Family Residential Projects

- ▶ A single-family development is not generally a “project” that can support an IDB TIF
- ▶ A TIF may be useful to finance sewer extensions to a single-family residential project
- ▶ Single-family residential may also be part of a larger mixed-use project

DIRECT ECONOMIC INCENTIVES

- ◆ Direct grants of city/county funds to a private entity are not generally a public purpose
- ◆ Cities/counties can make direct grants and loans (not from bond proceeds) to IDBs to facilitate economic development

TAX-EXEMPT STATUS OF TIFS

- ❖ A TIF can generally be tax-exempt if it is payable only from incremental tax revenues (with no private guaranties)
- ❖ City/counties should be careful that a tax-exempt TIF does not adversely affect bank-qualified (“BQ”) status

STATE'S ROLE WITH LOCAL INCENTIVES

- ◆ State approval is required for certain PILOTs that exceed 20 years
- ◆ State approval is required for certain TIFs that exceed 20 years and/or that pay the cost of privately owned property (other than parking, stormwater improvements and utilities)

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