Tax Increment Financing (TIF) Recommendations

*Observation #1*

We are lacking a “common set of facts” about how TIF has been used in Nashville and what the impacts have been, which detracts from the quality of public debate about it.

*Recommendations*

* Create an interactive map on Nashville.gov or MDHA’s website to show where redevelopment districts and TIF funded projects are located. Include brief descriptions of TIF projects, loan and tax revenue details, public benefits, etc.
* Create a “TIF 101” section on Nashville.gov or MDHA’s website. Include versions of the study materials from the TIF committee’s work, such as flow-of-funds diagram, application process, and memo summarizing state and local statutes.

*Observation #2*

Enhanced opportunities for public review of proposed TIF projects will strengthen confidence in how the tool is applied to achieve Nashville’s economic development objectives. Public comment opportunity for a redevelopment district as a whole does not appear to be sufficient to achieve the desired result.

*Recommendations*

* Improve the methodology for estimating and communicating the amount of TIF capacity needed to achieve the objectives of a redevelopment district. Contract with an independent third-party, such as the Greater Nashville Regional Council (GNRC) or a local university, to help with this task when a new district is created or an existing district plan is amended.
* For TIF loans exceeding a certain amount ($3 million?) contract with the third-party to complete a fiscal impact analysis. Make the results publicly available on Nashville.gov or MDHA’s website and allow for public comment at an open meeting in advance of taking action on the project.

*Observation #3*

In Nashville, TIF projects typically use all of the increment generated for loan payments until the debt is retired and the full value of the development returns to the tax roll. But cities take different approaches to determining that allocation depending on factors such as size or term of a loan, project location, and scope or scale of public benefits. In Chattanooga, for example, the Industrial Development Board (IDB) “generally” allocates a maximum of 75% of the incremental tax revenue for TIF loans with terms of ten years or less and 60% for loans with longer terms. Obviously, changing the allocation impacts the time required to pay off debt so there is a tradeoff associated with each viable project: To what extent is it important for the municipality to share in the incremental tax revenue immediately versus foregoing that revenue in favor of retiring the debt sooner and therefore returning full value to the tax rolls?

From the [MDHA TIF Policy](http://www.nashville-mdha.org/wp-content/uploads/2015/02/tif-policy.pdf):

“It is MDHA policy that one hundred percent of the tax increment generated by the pledged property be applied to debt service on the loan, which would accelerate repayment of the loan if taxes on the development increase after the initial year of stabilization.” (p. 17)

*Recommendations*

* Identify the advantages and disadvantages of capping the percentage of increment that can be used for TIF loans in Nashville. Should there be a policy with targets like Chattanooga or should the tradeoff mentioned above be navigated on a case-by-case basis? Would contracting with an independent third-party for a fiscal impact analysis, as suggested in Observation #2, result in a higher quality debate about how the tradeoff should be navigated and resolved?
* As part of this discussion, if targets are adopted, investigate the feasibility of creating a policy that makes greater shares of the increment available for smaller and/or M/WBE projects as a strategy for achieving inclusive economic development objectives.