FINANCIAL POLICIES

4. Tax Increment Financing (TIF) Policy

   a. Tax Increment Financing zones should be established where revenues will recover the public cost of debt with adequate safety margin.

   b. No more than 5% of the City's tax base will be in Tax Increment Financing zones.

   Capital and Debt Management

   c. All Public Improvement District (PID) and TIF proposals, even "pay-as-you-go" projects, will be evaluated for service impact. A five-year fiscal note must accompany any request to establish a PID or TIF including repayment terms of any interfund borrowing.

   d. All approved PID or TIF debt issuances supported by a district's revenues are subject to the following criteria:

      i. Coverage Tests - The project should provide for revenues, net of overlapping taxes, of 1.25 times maximum annual debt service requirement. The issuance of TIF bonds may be considered prior to achieving coverage ratio of 1.25 if a developer or property owner provides a credit enhancement such as a letter of credit or bond insurance from a AAA rated financial institution for the entire amount of the debt issue.

      ii. In the event that there are insufficient TIF increment revenues to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit-enhancer would be the sole liability of the developer or its affiliates.

      iii. In the event that there are changes in the rating of the financial institution providing credit enhancement, then that institution shall be replaced with a AAA rated financial institution within 90 days; and in the event that no replacement of a AAA rated institution is provided, no further TIF bonds in advance of the 1.25 coverage ratio will be provided for any additional TIF projects undertaken by the developer or its affiliates.

      iv. Additional Bonds Test - The project should include an additional bonds test parallel to the coverage test.

      v. Reserve Fund - The project should include a debt service reserve fund equal to the maximum annual debt service requirements.

      vi. Limitations on Amount of PID/TIF Bonds - The total amount of PID/TIF indebtedness will be included and managed as part of the City's overlapping debt and the total amount of PID/TIF debt outstanding should generally not exceed 20% of the City's outstanding general obligation indebtedness.

      vii. PID bonds should be limited to those projects which can demonstrate the ability to support the debt either through its own revenues or another pledge source other than ad valorem taxes. PID/TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.

FINANCIAL POLICIES

e. All approved PID or TIF debt issuances must mature on or before the termination date of the respective PID or TIF district, and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the Plan's projected date by which all district expenses would be paid, including repayment of bonds.

f. The City will not propose the issuance of any unrated, high-yield PID/TIF bond that could be labeled a "high risk bond" except for small (less than $5 million) private placements coordinated with the City's Financial Advisor.

   All projects must be carefully evaluated for credit worthiness and meet the criteria above whether or not a credit rating is obtained.

g. The City should use PID/TIF bonds only when other options have been considered.

Staff Recommended Revised Financial Policy

FINANCIAL POLICIES

Tax Increment Financing (TIF) Policy

1. TIFs may be established only when it is determined that:

   a. Revenues derived from the TIF, when combined with other available source(s) of funds, will be sufficient to recover the public cost of debt with adequate safety margin;

   b. Improvements in the TIF will provide a special benefit to the City; and

   c. The project/finance plan includes participation by the private sector and/or other taxing entities.

2. The aggregate of all TIF zones will not exceed 10% of the City's total tax base.

3. Prior to the creation of a TIF zone, the City will conduct a rigorous "but-for" analysis demonstrating that development or redevelopment within the zone would not occur solely through private investment in the reasonably foreseeable future and that improvements in the zone will significantly enhance the value of all taxable real property in the zone above that which could reasonably be expected to occur without the investment of public funds.

4. Any housing development that is part of a TIF project plan must provide for at least 20% of the units to be affordable to households earning at or below 60% of median family income for rental housing and 80% of the median family income for ownership housing for at least the duration of the TIF project plan.

5. Bonds issued to fund TIF development are subject to the following criteria:

   a. Coverage Tests - The project should provide for estimated annual proforma revenues that will achieve adequate coverage for the related debt service, as determined by City staff and the City's Financial Advisor.

   b. Additional Bonds Test - The project should include an additional bonds test parallel to the coverage test.

   c. Reserve Fund - The project should include a debt service reserve fund equal to the maximum annual debt service requirements.

FINANCIAL POLICIES

d. TIF bonds should be limited to those projects which can demonstrate the ability to support the debt either through its own revenues or another pledged revenue source other than ad valorem taxes. TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.

e. All approved TIF debt issuances must mature on or before the termination date of the respective TIF district, and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the Plan's projected date by which all district expenses would be paid, including repayment of bonds.

6. All TIF proposals, even "pay-as-you-go" projects will be evaluatied for service impact. A five-year fiscal note must accompany any request to establish a TIF, including repayment of any interfund borrowing.

7. The total amount combined PID and TIF debt outstanding should not exceed 20% of the City's total outstanding general obligation indebtedness.

8. All TIF projects must be carefully evaluated for credit worthiness, potential risk, and must meet the criteria above whether or not a credit rating is obtained. The City is under no obligation to issue any TIF bonds even if the above criteria has been met.

9. The City should use TIF bonds only after other options have been considered.