Tax Increment Financing

TIF involves earmarking the new real property and sales taxes generated by business district revitalization to pay for the public and private investments that make that redevelopment possible. A key tool for public/private partnerships, tax increment financing allows the District to pledge future tax revenues – revenues not already committed to meeting citywide operational needs or debt service – to support infrastructure and public space improvements as well as provide incentives to private developers investing in key redevelopment projects.

For each targeted area, the District defines a tax increment district from which incremental revenues are collected and within which tax increment dollars can be spent to support redevelopment. The level of sales taxes and value of real property are "frozen" at the time that the TIF district is formed. This base of current sales taxes and the real property taxes generated by the current property values continues to flow to the General Fund and is not affected by the creation of the TIF district. Once the TIF district is formed, the future increases in sales taxes and the real property taxes generated by the future growth in property values are termed "incremental" taxes. These incremental taxes are directed to a designated TIF revenue fund separate from the District's General Fund. The District can then spend those dollars on approved revitalization efforts within the TIF district or pledge the future revenues to repay revenue bonds issued to finance redevelopment projects. These revenue bonds are secured by only the tax increment revenues and do not represent an obligation on the District's General Fund. Thus, the neighborhood business district redevelopment is self-funding with the revitalization creating higher sales taxes and property values.

TIF as a Revitalization Tool

TIF can fund several alternative and/or complementary strategies to encourage revitalization of the targeted neighborhoods. The District prefers issuance of project based TIF Notes over the issuance of area-wide bonds. This places more responsibility for the success of an applicant project on the development team to complete a successful project with this limited public resource. TIF has been used in other jurisdictions to fund traditional infrastructure improvements. TIF financing could supplement capital budget funding for street reconstruction, streetscape and other public space improvements.

Retail Market Analysis

The retail market analysis focuses on the three primary categories of retail operations with different characteristics, tenant types and requirements – neighborhood goods and services, food and beverages, and general merchandise, apparel, furnishings and other[1]. It excludes auto-related retail and hardware.

Retail Inventory

Field surveys yielded a current inventory of retail spaces for each TIF district. The total amount of retail space in the current supply does not provide the most accurate representation of the existing market. Throughout the District of Columbia, retail establishments are capable of maintaining operations in substandard spaces due to a lack of available alternatives or because limited competition does not necessitate better facilities. As new, better quality retail space is constructed, the substandard space is often replaced or converted to a non-retail use. To account for the conversion of a portion of the existing obsolescent retail space into other uses, a probability percentage is assigned to each class of retail space that estimates the likelihood that retail space currently in the existing retail supply will remain as market conditions improve over the next five to twenty years. The resulting "modified supply" or "true inventory" is the total square footage for each district that is reasonably predicted to sustain a retail use through 2025.

Retail Demand

The market analysis considers expenditures by residents who live in the trade areas from which the businesses will draw the bulk of their customers. The trade area boundaries reflect the locations, nature and marketing strength of competitive retail centers and districts elsewhere in the District and Prince George's County. The analysis also considers spending by employees near their places of work in the TIF districts.

The future potential retail sales are determined by "capture rates", which measure the share of trade area residents' expenditures that are likely to be "captured" by TIF district businesses. The resulting sales projections translate into supportable retail space by use of sales productivity rates (i.e., sales per square foot) and compared to the "modified supply" of existing retail space that is likely to remain in retail use. Future demand is expressed in terms of square feet of additional retail space that could be developed by type of retail and five-year period to 2026.

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[1]Neighborhood Goods and Services includes establishments such as grocery stores, drugstores, florists, specialty food stores, bakeries, delicatessens, dry cleaners, tailors, day spas and similar.

Food and Beverages includes establishments that serve food and alcohol served and consumed outside the home, such as sit-down restaurants, cafes, bars, coffee shops, sandwich shops, "quick-bite" establishments and similar.

GAFO (General Merchandise, Apparel, Furnishings and Other) includes establishments such as clothing stores, furniture stores, bookstores, jewelry stores, stationery stores, gift boutiques, sporting goods stores, and similar.

Opportunity Sites
On a block-by-block basis, properties were evaluated on their suitability for new retail uses, based on the following factors:

- existing or potential assemblages;
- property and improvement configurations susceptible to change;
- improvement configurations susceptible to adaptive reuse;
- existing use constraints;
- accessibility;
- linkages to commercial activities; and
- visibility (from main streets and as enhanced by topographic or urban design features).

Tax Increment Revenue Projections

In keeping with the District's financial policies and obligations to existing bondholders, only 40 percent of the incremental taxes are available for TIF financing. The incremental taxes are those generated by growing assessments above the base year, assumed to be 2009. Nominal tax rates are assumed to remain at $0.85 per $100 of assessed value for residential properties, $1.85 per $100 of assessed value for commercial properties, and $10.00 per $100 of assessed value for unimproved land.

Future sales are projected based on replacement of existing retail space with more modern, efficient and competitive retail space with higher sales per square foot. Sales taxes are assumed to remain at 5.75 percent for general retail goods, excluding food and drugs and 9.0 percent for prepared food and beverage sales, excluding the 1.0-percent sales tax on food and beverages that is pledged to back Washington Convention Center Authority bonds.

The amount of supportable bonds are calculated at five-year intervals based on incremental property and sales taxes. The bonds are assumed to carry a 7.75-percent interest for 20 years with a 1.3 debt coverage ratio and a 7.5-percent cost of issuance. Future reductions in interest rates and debt coverage requirements would increase the amount of supportable bonds.