

# THE WEST FARGO INDUSTRIAL PARK

## BUTLER PROPERTIES INC.

### Tax Increment Financing

A Developer's Agreement was reached between the City of West Fargo and Butler Properties Inc. to create a Tax Increment Financing (TIF) District that encompasses farmland and other lots owned by Butler Properties plus additional lots and land (owned by others) adjacent to the Industrial Park. The TIF District provides an alternative method of financing the costs of constructing the infrastructure necessary to support new commercial development. The essence of the TIF is when property owners pay their real estate taxes, the amount paid is also used as a credit towards the annual special assessment installments.

Suppose a vacant lot valued at \$10,000 has an annual tax burden of \$225 and annual specials of \$2,000. The creation of the TIF freezes that value and all taxes paid on that amount continue to go into the City's general fund as usual. Construction of a building adding \$100,000 to the value of the property would create an additional \$2,250 tax burden resulting in a total tax bill of \$2,475. Upon payment, the City Manager allocates \$225 as before to the general fund, \$2,000 to the specials installment, and then uses the balance (\$250) to reduce the principle of the bond that originally funded the new infrastructure. The intent is that as more and more lots are improved the increased taxes accelerate the bond repayment, after which all of the tax revenue will go into the City's general fund. The \$2,475 payment of property tax is an annual expense deduction for the property owner's business.

Now suppose that on that same lot an owner constructs a building that only adds \$30,000 of value. The additional taxes are \$675 and his total tax bill is \$900. The City Manager allocates \$225 to the general fund, credits \$675 towards the special assessment (\$2,000) and then invoices the property owner an additional \$1,375 to cover the balance of the specials. The \$900 tax bill is an expense deduction but the owner is only allowed to deduct the interest portion of the specials from his business income. This scenario does not help accelerate the bond repayment and is one of the reasons there are building size requirements and construction timing stipulations within the Protective Covenants.

The creation of a TIF District precludes other methods that the City might normally use to attract new construction (such as property tax exemptions) for so long as the funding bonds exist. Ideally, as the Industrial Park becomes more completely developed the bond repayment will accelerate to the point that property owners may still be able to take advantage of remaining years of tax exemptions. There is an additional raw land value calculation to be considered as the Park ages due to this partial availability of additional incentive programs.