

*Downtown Columbia  
Summary of the “But-For” Analysis*



## *Meaning of the “But For” Test*

The idea of the “but for” test is that the County should provide a TIF only if a project of significance cannot be developed “but for” the TIF.

▶ That is, “but for” the County’s contribution to the costs of public improvements, the project would not be feasible.

There is a corollary to the “but for” test that the County contribution to public improvements should not exceed the amount necessary to make the project feasible.

## *Why is Public Investment Required to Make a Project Feasible?*

- Private investment in an amount estimated at \$617,550,860 is required for the development of Downtown Columbia in the TIF district.
- If this investment will not earn a reasonable return, consistent with the market, it will not be invested. It will be invested somewhere else where it will earn a market return.
- Tax increment financing could potentially increase the rate of return to a level that would incentivize a developer to proceed with developing the project in a manner that meets the requirements of the Downtown Columbia Plan.

## *How is “But For” Test Determined?*

There is both a quantitative and qualitative analysis:

- Qualitative analysis evaluates what is different about this project that requires public investment when many other projects do not.
- The quantitative analysis evaluates the developer’s pro forma to determine the rate of return with and without a TIF.
  - *Costs, including public infrastructure, income, and return, specifically appropriate for the risk, are evaluated for reasonableness.*
  - *Both no-TIF and TIF scenarios are prepared.*

# *Qualitative Analysis*

- Urban levels of density require extensive structured parking
- Structured parking is much more expensive than surface parking
- High density development adds value to the land
- The value added to the land by higher density is less than the additional costs of structured parking
- As a result, the costs are not paid for by the additional development

# Structured Parking Analysis

Density/Structured Parking Cost Analysis	Parking	
	Surface	Structured
Acres	10	10
FAR	1.03	3.30
Building Square Footage	448,530	1,435,560
Parking Ratio (per 1,000 SF)	4	4
Parking spaces	1,794	5,742
Cost per Space	\$5,000	\$15,000
Cost of Parking	\$8,970,000	\$86,130,000
Land Value per FAR SF	\$35	\$35
Building Square Footage	<u>448,530</u>	<u>1,435,560</u>
Land Value	\$15,698,567	\$50,244,604
Less: Parking Costs	<u>(\$8,970,000)</u>	<u>(\$86,130,000)</u>
Net Land Value	\$6,728,567	<b>(\$35,885,396)</b>

# *Comparison of Taxes*

- Higher density development produces greater tax revenues, allowing County to provide public parking

<b>Property Taxes from Parking Analysis</b>	<b>Parking</b>	
	<b>Surface</b>	<b>Structured</b>
<b>Property Value per SF</b>	<b>\$225</b>	<b>\$225</b>
<b>Building SF</b>	<b>445,530</b>	<b>1,435,560</b>
<b>Total Value</b>	<b>\$100,919,250</b>	<b>\$323,001,000</b>
<b>Property Tax Rate</b>	<b>1%</b>	<b>1%</b>
<b>Annual Property Taxes</b>	<b>\$1,009,192</b>	<b>\$3,230,010</b>

# *Quantitative Analysis*

<b>Phase I Assumption</b>	<b>Phase I “But For” Analysis</b>	
	<b>No-TIF</b>	<b>With TIF</b>
<b>Estimated Net Operating Income</b>	<b>\$33,054,376</b>	<b>\$33,054,376</b>
<b>Estimated Costs of Development</b>	<b>\$617,550,860</b>	<b>\$556,519,742</b>
<b>Estimated Rate of Return</b>	<b>5.35%</b>	<b>5.94%</b>
<b>Market Return</b>	<b>6.5%</b>	<b>6.5%</b>

- Without a TIF, the rate of return is too low to justify the required investment.
- Development as proposed by the Downtown Columbia Plan will not likely occur in the foreseeable future without a TIF.