

*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	(\$35,885,396)

Comparison of Taxes

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

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

Quantitative Analysis

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

- 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.