Federal Highway Administration Webinar on Value Capture Techniques: Municipal Bonds and Debt

Webinar Date: April 14, 2021

Answers to Questions Posed During the Webinar

Are there methodologies to project the potential revenue from a tax-increment financing (TIF) district or a special assessment district (SAD)?

Yes, projected economic activity is required as part of disclosures on any bond issue. Often, an independent third-party market study and appraisal are conducted to estimate TIF revenues, as well as the projected sources of revenue to cover special assessments.

Using sales tax was briefly mentioned and was said to be different than using county tax areas. Can you briefly explain the difference?

A county tax is a broad sales tax covering the entire county and is often used to fund transit systems. These taxes are generally enacted through ballot measures. Bonds issued using these revenues are usually rated highly because of the broad and stable tax base supporting the funding of bond project. A narrow sales tax district, like the Kansas City streetcar project, only covers a few square miles and has much more risk associated with the income. The number of businesses involved is much smaller than in an entire county.

How are the assessments in a SAD determined? Who is typically doing the analysis, and how much flexibility is there in terms of what the assessment can be levied on? Does it skew more towards sidewalks and street improvements, and other direct/measurable benefits?

The assessment is usually determined by discovering how much residents and business are willing to pay in city, county, and school district taxes, adding the assessment on top of those tax burdens. The financial advisor for the municipality and the financial staff of the developer involved analyze the tax burdens in conjunction with the expected build-out of the project. The assessment fee must be used for public structures only, which is why street improvements, landscaping, and public parks are often what the special assessment district funds.

For the Georgia case study, was the form of the taxing district finished prior to completion of the developer agreement and provision of entitlements? Did the city initiate the creation of the districts? Does the city have policies or practices that have them consider and pursue value capture financings prior to, or as part of, the entitlement process?

In a typical situation, these districts should be created concurrently with the rest of the entitlement process. Once the entitlements have been obtained from a community, it is hard to go back afterward and ask for more financing assistance.

In the Georgia case, the basic concept of a tax allocation district was agreed to early in the entitlement process. As the projects continued towards the financial process, it became evident that additional financing mechanisms needed to be put in place. The special services district was added in the month before the bond close. All parties on this project agreed that it could not be financed without that special services district. The SAD was created in a short timeframe and fortunately, that flexibility exists in Doraville, and Georgia in general, to do that.

Can these instruments be used for transportation improvements where new development is not occurring?

Generally, these projects are associated with new development with a growing asset base and an expectation that the new transportation project will generate new development. For special assessments, they are based on the existing property and tax base, so it does not have to necessarily be tied to new development. TIF usually goes along with new development, because it is capturing the incremental value above the base tax base, which would not necessarily increase without the new development.

How is the pandemic impacting other TIF projects? Are shortfalls occurring?

TIF revenues have declined for certain land uses, but there has not been a reduction in assessed values of properties during the pandemic, which have kept TIF values steady.

Is there a minimum cost to use bonds for a project?

There is no hard number; it depends on the State and the scope and administrative costs of the project. Some ranges start at $7 million, while others can go as low as $2.5 million.

Were there certain limits on how soon a TIF district could be designated?

It depends on State enabling legislation for TIF. The two most common limits are: 1) as soon as the TIF enabling legislation is enacted, or 2) within one year of the TIF legislation being formally enacted.