

Session No. 2:

SPECIAL TAXES AND FEES

FHWA EDC-5 VCIT IDOT PEER EXCHANGE

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Julie Kim

Senior Fellow, Stanford Global Projects Center

VC SME Consultant, Volpe Center

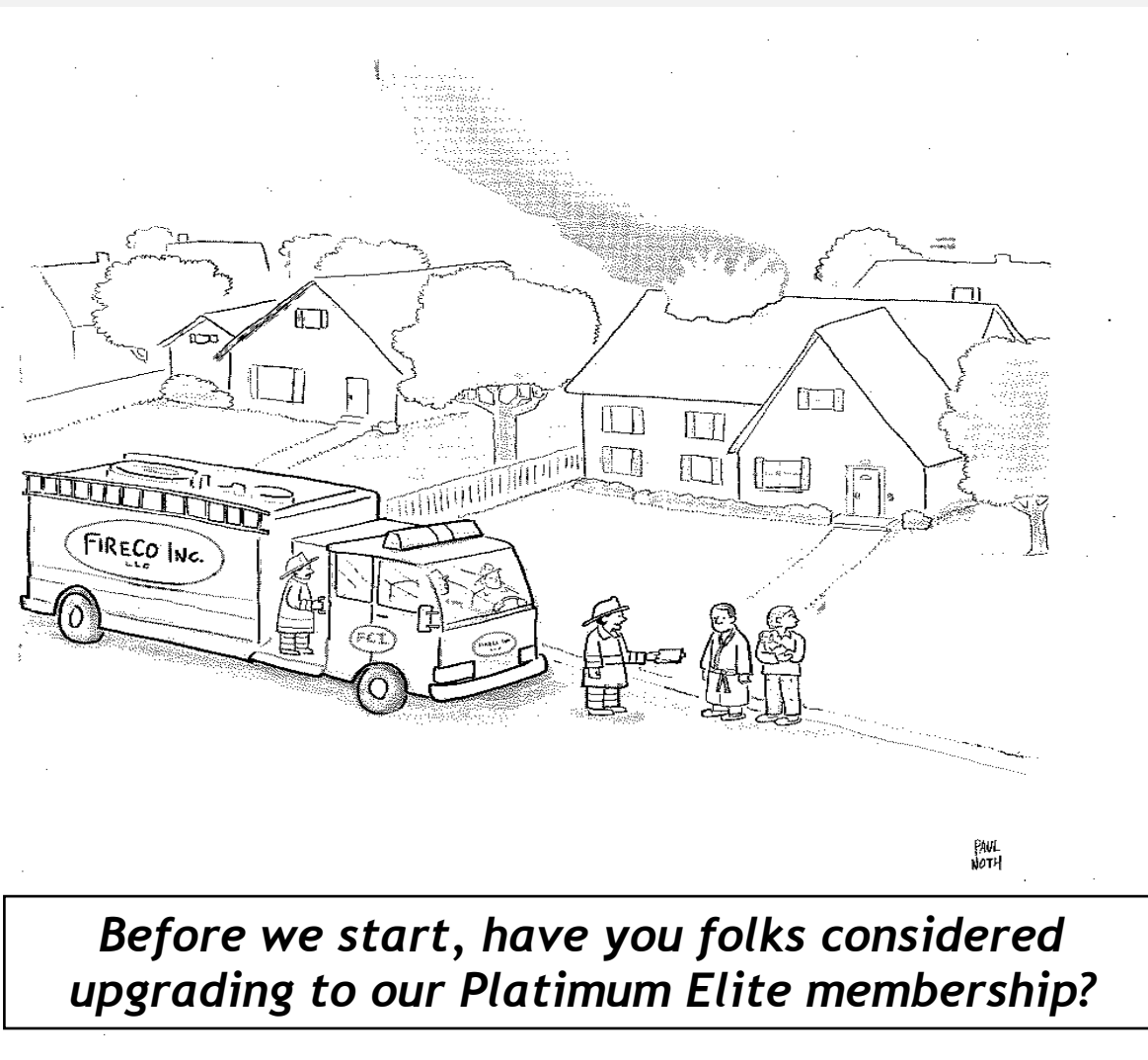
juliekim@Stanford.edu

TOOL #2—SPECIAL/BENEFITS ASSESSMENTS

Property/Business Owner Pays

Oldest land-secured financing dating back to Medieval Europe

- Public improvements paid by property/business owners/tenants who benefit directly
- Represents new tax surcharge (*non ad valorem*) within “special assessment (SA) districts” over a specific period
- Used for capital improvements (construction and O&M) and/or public service (e.g., police and fire protection)



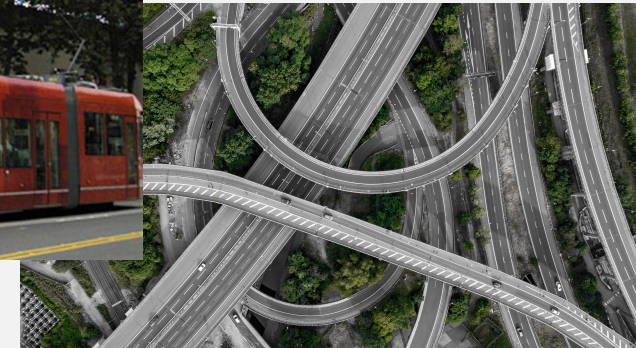
MANY VARIATIONS IN SA DISTRICTS

Local Community/Business Based

- Business/Community/Local Improvement Districts (BID/CID/LID)
- Special Service Areas (SSA) (IL)
- Community Facility “Mello-Roos” Districts (CFD) (CA)

Transportation/Transit Specific

- Transportation Improvement or Development Districts (TID/TDD)
- Local Options Transportation Taxes (LOTT)
- Sales Tax Districts (Transit, TODs)
- Transportation Utility Fees (Maintenance)



SA OPPORTUNITIES AND ISSUES

“Unique, Measurable, and Direct”

Most common and robust VC tool for transportation sector but no standards in assessing the surcharge

- **Courts have leaned towards more restrictions (e.g., 2/3 voter approval, tougher public hearing/notification processes)**
- **More rigor required in differentiating special vs. general benefits**
 - ✓ **“Special” and direct (e.g., streets, sidewalks, storm drains, sewers, utilities)**
 - ✓ **“General” and community-wide (e.g., arterial streets, parks, schools, libraries)**
- **In general, benefits assessed must be “unique, measurable, and direct” and the burden of proof resides with the local governments**

3 Assessment Components: Cost, Benefits, Affordability

PROJECT CASE EXAMPLE

- **Transportation Improvement District (TID)—
Route 28 Corridor Improvement, Fairfax
County, VA**

SUGGESTED DISCUSSION TOPICS

- 1. Yield/Revenue Potential—Amount, Timing, Stability, Flexibility**
- 2. Equity—Financial Responsibility**
- 3. Efficiency—Benefit vs. Cost, Direct Usage-Based**
- 4. Administrative Ease**
- 5. Transparency**
- 6. Political/Legal Feasibility**

YIELD/REVENUE POTENTIAL & EQUITY

- **Revenue risks much lower compared to TIF/TRZ**
- **Needs are determined as an outcome of the district formation and planning processes**
- **Additional revenues can be raised as needed and approved by residents and tenants**
- **Perception/expectation of equity is a necessary condition for organizing a district**

EFFICIENCY

- **District formation is a signal of expected net efficiency gains**
- **Time, effort, resources are needed to organize, maintain, and administer districts**
- **Inherent risk associated with the payment time frame**
 - ✓ **Short timeframe creates yield hardship while long timeframe creates risk of involving staff unfamiliar with the district purpose and formation process**

ADMINISTRATIVE EASE & TRANSPARENCY

- **Requires technically skilled staff; tend to be procedure-laden**
- **Reliance on consultants if lack internal expertise; adds to administrative costs**
- **District functions are transparent to members but less transparent to the general public**

POLITICAL/LEGAL FEASIBILITY

- **Would require local ordinances covering district formation**
- **Given administrative costs, districts tend to include limited number of members and functions tend to focus on small scale commitments**
- **Improvements districts can also be organized around larger projects if potential gains are substantial, apparent, and there is an equitable means to assign liability**