

FUNDAMENTALS OF TAX ALLOCATION DISTRICTS

Presented to 2012 City of Dunwoody Accounting Conference
June 4, 2012

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What is a Tax Allocation District?

- A Tax Allocation District or “TAD” is a tool used to provide tax-exempt financing for infrastructure and other redevelopment costs in blighted, less desirable or underutilized areas.
- Increased property tax revenues resulting from new development are used to finance redevelopment costs, including debt service on revenue bonds.

What Types of Properties or Areas are Eligible* for Inclusion in a TAD?

- A blighted or distressed area with obsolete buildings, deteriorating structures or pervasive poverty.
- A deteriorating area experiencing economic decline with older structures, high vacancy rates, a shortage of affordable housing, or inadequate utility transportation or transit infrastructure.
- An area with deteriorating infrastructure with inadequate parking, roadways, bridges, pedestrian access or public transportation.

Note: These definitions were amended by 2009 H.B. 63

How Does a TAD Work?

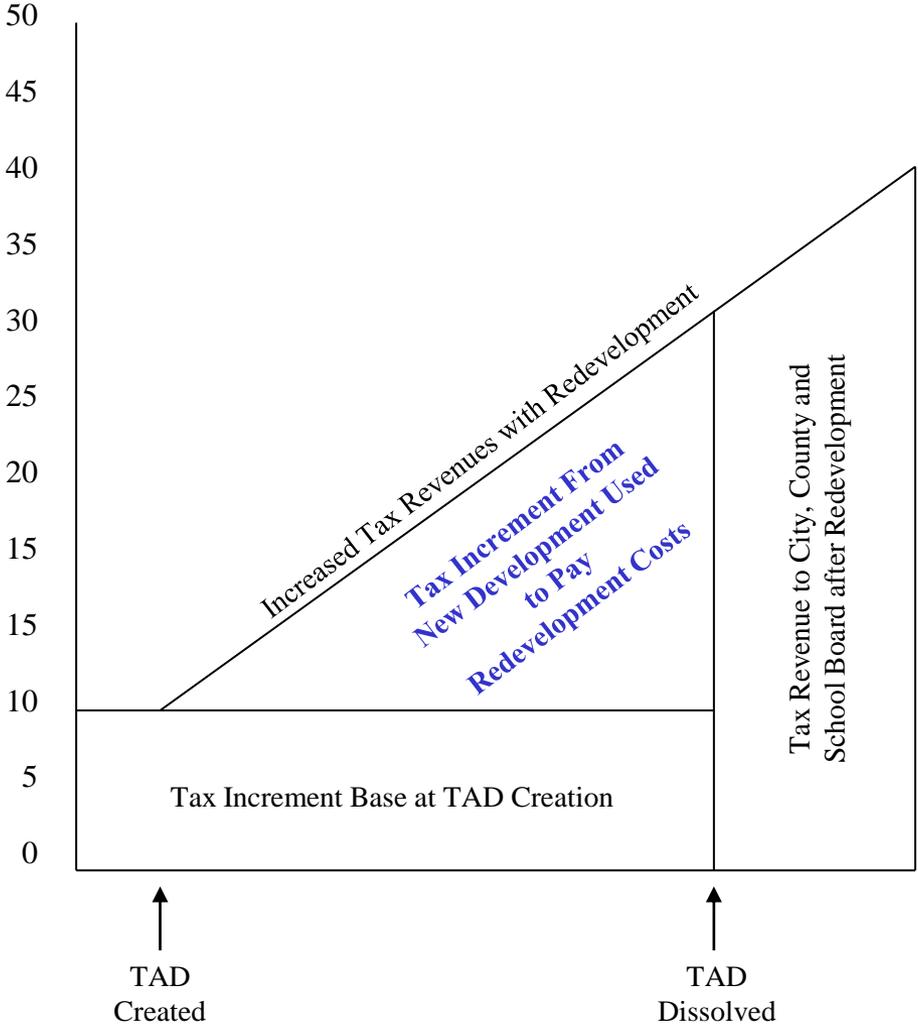
- City designates a redevelopment area and adopts a redevelopment plan.
- County and School Board consent to include their respective increments from the TAD area.
- Base tax digest is established for the TAD.
- Increased property tax revenues resulting from new development are placed into a “special fund” to pay redevelopment costs, including debt service on TAD bonds.
- Local Governments receive full increased tax revenues once bonds are retired.

How is a TAD Created?

- Adopt local bill and hold referendum (one time only).
- Identify eligible area and prepare redevelopment plan.
- Advertise and hold public hearings.
- Adopt redevelopment plan and create TAD. [May designate a redevelopment agency]
- Obtain state certification for base value of digest and set up special fund.
- Obtain County and School Board consent – (School participation reauthorized by 2008 Constitutional Amendment and 2009 re-enactment of Redevelopment Powers Law.)

How is the TAD Increment Created?

Property Tax Revenue
(in millions)



How May the Tax Increment be Used?

- To pay Redevelopment Costs:
 - Capital and soft costs of redevelopment (public or private).
 - Land assembly.
 - Debt service on TAD bonds.
 - Capitalized interest.

How Does a Developer Obtain Reimbursement from TAD Funds?

- Costs must be eligible redevelopment costs.
- Direct reimbursement from increment as it accrues in the Special Fund.
- Reimbursement from proceeds of TAD bonds.
- Terms of reimbursement and scope of work set forth in a Development Agreement.

What are the Advantages of Creating a TAD to Stimulate Redevelopment?

- Not a property tax abatement.
- Not a property tax increase.
- Significant leverage of public and private investment.
- Recognized financing instrument.
- Not a “general obligation” of the City, County, School District, or any other governmental entity.
- No loss of current property tax revenue.

Do Other States Use this Kind of Development Incentive?

- In the 1960s and 1970s, federal and state governments began cutting economic development programs that could be used to revitalize communities.
- Today, all 50 states and Washington, D.C. use some kind of TIF as a popular tool to attract new business, invest in infrastructure improvements, and rebuild blighted areas.
- Illinois has almost 1,000 TIFs – 120 in Chicago alone. The TIF program has been credited with providing the catalyst for the dramatic renaissance of downtown Chicago.
- Portland, Oregon has created ten TIFs, including the Gateway Regional Center, a project that includes transportation improvements, new housing, mixed-use development, and public facilities in a 653-acre area covering three neighborhoods.
- Kansas City, Missouri also has used TIFs successfully both to facilitate site-specific developments and to stimulate development in large blighted areas. The Midtown Market Place project involved demolishing over 140 blighted properties within a 22-acre site and rebuilding a mixed-use development with office, retail, and residential elements.

How Have TADs Been Used By Cities and Counties in Georgia?

- Since passage of the Redevelopment Powers Law in 1985, cities and counties in Georgia have used TADs to stimulate economic redevelopment.
- At least 45 TADs have been created in Georgia from Gainesville to Albany.
- The Redevelopment Plans for all Georgia TADs collectively forecast more than \$18 billion in private investment.

How Have TADs Been Used (continued)?

- Some TADs have been used to finance infrastructure for specific development projects – **Atlantic Station, Camp Creek, Acworth, Clayton County Ellenwood, Princeton Lakes.**
- Other TADs have been created to finance costs for multiple projects in large area – **Westside Atlanta, Eastside Atlanta, Smyrna Atlanta Road Corridor, Marietta City Center South Renaissance, Perry/Bolton Atlanta.**

How is a TAD Bond Issue Structured?

- Scope of project/firm development commitments/construction values and schedule.
- Feasibility, market absorption studies.
- Projected increment.
- Sizing of bond issue/determination of net proceeds.
- Debt coverage ratio and capitalized interest.
- Usually unrated, tax-exempt.
- Conservatively sized.
- TAD Bonds are marketed to sophisticated (institutional) investors.

What Parties, Consultants and Advisers Are Needed for a TAD Bond Issue?

- Bond counsel
- Underwriter and counsel
- Market feasibility consultant
- Fiscal consultant
- Developer and counsel
- City Attorney and Finance Director/Financial Advisor
- Redevelopment Agent
- Trustee

What are the Protections for the Issuers of TAD Bonds?

- 10 percent digest limit on TADs.
- No pledge of general fund revenues.
- Conservative bond structuring.
- Continued growth in TAD area even after bonds are sold.
- Development Agreement