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Tax Allocation Districts: How They Work

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Tax Allocation Districts: How They Work

David L. Sjoquist

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Note: many of these slides were developed by Carolyn Bourdeaux.



ANDREW YOUNG SCHOOL
OF POLICY STUDIES

Overview

- Background
- What is a Tax Allocation District (TAD)?
- Benefits, costs, and risks
- Tactics to hedge against risks

Background

- First used in California in 1952
- Georgia's Redevelopment Powers Law passed in 1985
- First TAD financing in Georgia in 1998
- Law amended in 2004 to give increased flexibility
- Number of TAD districts in existence:
 - 9 in 2002*
 - 26 in 2007*
 - 64 in 2013

*Livable Communities Coalition: Survey and Analysis of Tax Allocation Districts (TADS) in Georgia, Bleakly Advisory Group, 2007

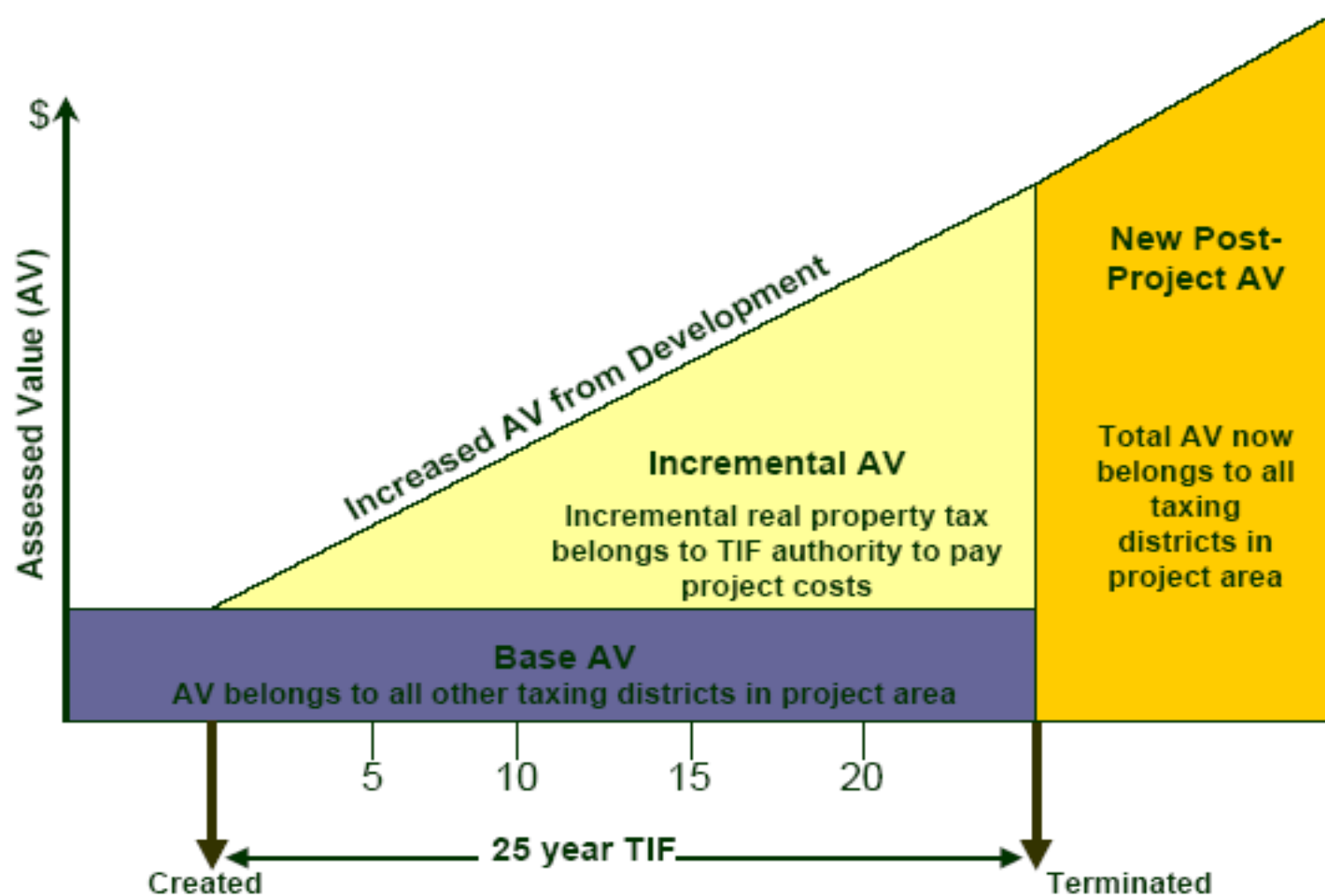
Legislative findings and purpose

It is found and declared that **economically and socially depressed areas exist** within counties and municipalities of this state and that these areas contribute to or cause unemployment, limit the tax resources of counties and municipalities, and create a greater demand for governmental services and, in general, have a deleterious effect upon the public health, safety, morals, and welfare. It is, therefore, in the public interest that **such areas be redeveloped to the maximum extent practicable** to improve economic and social conditions therein in order to abate or eliminate such deleterious effects. To encourage such redevelopment, it is essential that the counties and municipalities of this state **have additional powers** to form a more effective partnership with private enterprise to overcome economic limitations that have previously impeded or prohibited redevelopment of such areas. It is the purpose of this chapter, therefore, to **grant such additional powers** to the counties and municipalities of this state, and it is the intention of the General Assembly that this chapter be liberally construed to carry out such purpose.

What is a TAD/TIF?

- Tax allocation districts capture incremental property tax revenue increases in a specified geographic area.
- The anticipated or actual incremental increases are then used to finance activities to promote economic development.
- The economic development in turn should stimulate increased growth in tax revenues.
- The most significant financing innovation is the use of anticipated revenue increases to back debt.
- Generally, the tax increment is the total from all overlapping jurisdictions.

Exhibit 1. TIF Assessed Value (AV) Over Project Life



Source: Craig Johnson. 2002. Tax Increment Financing. Boston, MA: National Association of Realtors. p. 5.

		TAD Period Assessed Value			Post-TAD Period Assessed Value
<u>Jurisdiction</u>	Tax Rate per \$1000 AV	\$ 1,000,000 Base Year	\$ 1,100,000 Base Year +1	\$ 1,200,000 Base Year +2	\$ 1,500,000 Base Year +3
Initiating Juris	\$10.50	\$ 10,500	\$ 11,550	\$ 12,600	\$ 15,750
Participating Juris 1	\$9.00	\$ 9,000	\$ 9,900	\$ 10,800	\$ 13,500
Participating Juris 2	\$21.25	\$ 21,250	\$ 23,375	\$ 25,500	\$ 31,875
Participating Juris 3	\$5.00	\$ 5,000	\$ 5,500	\$ 6,000	\$ 7,500
Total	\$45.75				
Base year revenues		\$ 45,750	\$ 45,750	\$ 45,750	\$ 68,625
Incremental tax revenue		\$ -	\$ 4,575	\$ 9,150	\$ -
Total		\$ 45,750	\$ 50,325	\$ 54,900	\$ 68,625

Example: Atlantic Station

AV per acre:

\$44,833 for the TAD vs \$236,402 for the City

Annual Percentage Increase:

65.4% for the TAD vs. 8.2% for the City

Public Expenditure: \$253.1 million (through March 2007)

Private Investment: \$1,603.3 million

Source: *Livable Communities Coalition: Survey and Analysis of Tax Allocation Districts (TADS) in Georgia, Bleakly Advisory Group, 2007

Have to prepare a redevelopment plan.

It must contain:

- Boundaries of the TAD
- A “but for” finding
- Proposed uses of real property post-TAD
- Describe the redevelopment projects, their cost, and method of funding
- Describe any expected relocation payments
- A statement of conformity to existing plans and ordinances.
- Estimated base assessed value and the estimated assessed valuation after redevelopment

Benefits

- Economic development can “pay for itself”
 - Localities leverage *anticipated revenues* from redevelopment to stimulate growth
- Debt does not count against local debt ceiling and does not have to be backed by full faith and credit
- Allows overlapping jurisdictions to pool resources
- Allows access to redevelopment powers, such as eminent domain
- Tool to promote growth in areas that otherwise would not redevelop

Costs

1. Initial investment in infrastructure or other activities to support economic development
2. Increased demand for public sector services from growth
Particularly an issue for school districts.
3. “Opportunity cost” of public services that could have been provided with the revenues diverted to economic development
Note: Additional revenues might not be available without economic development investment from TAD
4. Problems of gentrification and equity in application of TAD

Assume: AV of \$500 million and tax rate of 10 mills

Year	Rev (No TAD; No growth in AV)	Rev (No TAD; 3% growth in AV)	Rev (TAD; 10% growth in AV)
1	\$5.0 million	\$5.00 million	\$5.00 million
2	\$5.0 million	\$5.15 million	\$5.50 million
3	\$5.0 million	\$5.41 million	\$6.05 million
4	\$5.0 million	\$5.57 million	\$6.66 million
5	\$5.0 million	\$5.74 million	\$7.32 million

Risks

1. Benefits from investment fail to materialize:
Private sector partners renege on agreement
2. Insufficient revenues to cover debt obligations
3. Insufficient revenues to cover the increases in demand for public services
4. Long term erosion of tax base
5. Public sector bears unnecessary burden of costs of development (i.e., private sector receives unearned windfall)
6. Displacement of low and moderate income families

Tactics to Hedge Against Risks

1. Benefits fail to materialize

- Rigorous assessments of feasibility of project
- Ensure private sector involvement
- Structure public-private agreements appropriately (share risk with private sector)
 - Require up front private sector investment
 - Equity kickers
 - Pre-negotiate benefits with penalties for not delivering
 - Audit and evaluate

2. Insufficient revenues to cover debt obligations

- Use other revenue streams to back TAD debt
 - Sales tax increments
 - Property tax revenues
- Expand size of the TAD to encompass high growth areas
- Regular reassessments to capture appreciation in value of property

[Note: These may conflict with measures to prevent erosion of tax base.]

3 & 4. Insufficient revenues to cover demand for public services; erosion of tax base

- Conduct analysis that includes fiscal impact of project on public services
- Special provisions to reimburse school districts
- Guard against TADs becoming a long term drain on local fiscal resources
 - Recapture excess incremental revenues coming from a TAD
 - Set time limits on TADs
 - Bound the area of TADs
- Place TAD in overall local planning frame work
 - Create “economic development budget” that accounts for accumulated development initiatives

5. Public sector bears unnecessary costs and risks

- Establish need for development in area: “but for” the TAD development would not occur
 - finding of blight
 - significant environmental damage
- Establish important public purpose that would otherwise not be served by private sector
- Review path of growth and redevelopment
 - Midtown v. Atlantic Steel
- Cost-benefits analysis

6. Displacement of low and moderate income families

- Finding of blight important
- Require low-moderate income housing to be protected/developed in TAD
- Protect existing home owners