

Funding Capital Projects



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What Is a Capital Project?



“A large-scale project entailing major expenditure.”

CURRENT REVENUES	SAVINGS	SPECIAL LEVIES	BORROWING MONEY	LEASES	GRANTS AND PARTNERSHIPS
CURRENT YEAR GENERAL FUND REVENUES	FUND BALANCE	USER FEES	GENERAL OBLIGATION BONDS	TRUE LEASE	GRANTS
CURRENT YEAR ENTERPRISE FUND REVENUES	CAPITAL RESERVE FUND	SPECIAL TAXING DISTRICTS	INSTALLMENT FINANCINGS Synthetic TIFs	LEASE PURCHASE (Limited Authority)	GIFTS/DONATIONS (CROWD-FUNDING)
		SPECIAL ASSESSMENTS	REVENUE BONDS Critical Infrastructure Assessment Bonds		REIMBURSEMENT AGREEMENTS
		CRITICAL INFRASTRUCTURE ASSESSMENTS	SPECIAL OBLIGATION BONDS		URBAN REDEVELOPMENT AREAS
			PROJECT DEVELOPMENT FINANCINGS (TIFs)		P3 AGREEMENTS
			URBAN REDEVELOPMENT STATE/FEDERAL GOV'T		

Current Revenues



Revenues unit receives in current fiscal year

Savings



Accumulating money over time

Savings

Fund Balance	Capital Reserve Fund
<ul style="list-style-type: none">• Can be used for capital or operating expenses• No legal limit on amount, but certain moneys may be restricted in use• LGC recommends FB of at least 8 percent of total general fund expenditures• No process needed to establish	<ul style="list-style-type: none">• Dedicated to capital expenses only (forever), but board may change type of capital expenditure at any time• No legal limit on amount, but certain moneys may be restricted in use• Requires statutory process to create/maintain/modify

Establishing CRF



Board adopts Resolution or Ordinance that states:

1. *The purposes for which the fund is being created.*
A board may accumulate moneys for multiple capital projects within a single capital reserve fund, but it must list each project separately.
2. *The approximate periods of time during which the moneys will be accumulated for each purpose.*
A board must provide a rough estimate of when moneys will be expended from the capital reserve fund for each capital project.
3. *The approximate amounts to be accumulated for each purpose.*
A board must provide a rough estimate of the total amounts it intends to save for each capital project.
After initial appropriation, to add new money to capital reserve fund, board must make the appropriation specifically to the CRF.
4. *The sources from which moneys for each purpose will be derived.*
A board must indicate the revenue sources it intends to allocate to the capital reserve fund to finance each project (e.g. property tax proceeds, utility fees, local sales and use tax proceeds, grant proceeds, etc.).

Establishing Capital Reserve Fund

True or False.

A local government's governing board may establish a Capital Reserve Fund to save \$ for unknown future capital expenses.



Capital Reserve Fund

ORDINANCE (ADOPTED IN 2017)

Water Tower replacement at Smith Street

2. Total estimated cost: \$760,000
3. Expected to be completed in 2021
4. Expected to be funded by water fees (\$300,000); property taxes (\$100,000); and a state water fund grant (\$360,000)
 - 2017 Appropriation: \$50,000 (from Water Fund); \$25,000 (from General Fund)

Library Annex project

2. Total estimated cost: \$1.4 million
3. Expected to be completed in 2026
4. Expected to be funded with property taxes (\$1.4 million)
 - 2017 Appropriation: \$250,000 (from General Fund)

Capital Reserve Fund

ORDINANCE (as amended 2018)

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 - 2018 Appropriation: \$75,000 (from Water Fund); \$20,000 (from General Fund)

Library Annex project

2. Total estimated cost: \$1.4 million
3. Expected to be completed in 2026
4. Expected to be funded with property taxes (\$1.4 million)
 - 2017 Appropriation: \$250,000 (from General Fund)

Special Levies




What are the pros and cons of using the “benefit principle” to fund capital projects?



General Resources	Targeted Revenues	New Revenues
Current (General) Revenues	User Fees	Critical Infrastructure Assessments
Savings	Special Taxing Districts	Project Development Financings (or TIFs)
General Obligation Bonds	Special Assessments	Synthetic TIFs
Installment Financings	Revenue Bonds	
	Special Obligation Bonds	

SPECIAL ASSESSMENTS

Special Assessments



Charges levied against property to pay for public improvements that benefit that property

- Lien on the property
- Collection remedies same as for property taxes

Special Assessments

<p>Counties</p> <ul style="list-style-type: none"> • Water systems • Wastewater/septic systems • Beach erosion and flood and hurricane protection • Watershed improvement, drainage, water resources development • Subdivision streets (to bring up to DOT standards)* • Subdivision street lights and lighting* 	<p>Municipalities</p> <ul style="list-style-type: none"> • Streets* • Sidewalks in any public street* • Water systems • Wastewater/septic systems • Stormwater and drainage systems • Beach erosion and flood and hurricane protection
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Special Assessments Process



1. *(Government receives petition)*
2. Unit determines scope and cost of project
3. Board adopts preliminary assessment resolution
4. Unit publishes notice
5. Board holds public hearing
6. Board adopts final assessment resolution
7. **Unit completes project**
8. Unit prepares preliminary assessment roll
9. Unit publishes notice of assessment roll
10. Board holds public hearing
11. Board confirms assessment roll – assessments become lien on property assessed
12. Property owners make assessment payments

SPECIAL TAXING DISTRICTS



- “No class of property shall be taxed except by uniform rule, and every classification shall be made by general law uniformly applicable in every county, city and town, and other unit of local government.”
 - NC Const. Art. V, Sect. 2(2)
- “[T]he General Assembly may enact general laws authorizing the governing body of any county, city, or town to define territorial areas and to levy taxes within those areas, in addition to those levied throughout the county, city, or town, in order to finance, provide, or maintain services, facilities, and functions in addition to or to a greater extent than those financed, provided, or maintained for the entire county, city, or town.”
 - NC Const. Art. V, Section 2(4)

Special Taxing Districts

- Additional property taxes levied on properties within defined area to fund specific projects or services that benefit the properties
 - District tax levied on general property tax rate
 - District tax rate must be uniform throughout district
 - District tax proceeds must be segregated and used only for authorized district projects and services



Special Taxing Districts: Service Districts

Counties (CSDs)

- Beach erosion control
- Fire protection
- Recreation
- Sewage collection and disposal systems
- Solid waste collection and disposal systems
- Water supply and distribution systems
- Ambulance and rescue
- Watershed improvement projects
- Cemeteries



Municipalities (MSDs)


- Beach erosion control
- Downtown revitalization
- Urban-area revitalization
- Transit oriented development
- Drainage projects
- Sewage collection and disposal systems
- Off-street parking facilities
- Watershed improvement projects



BORROWING MONEY




Borrow:




“to obtain or receive (something, such as **money**) on **loan** for temporary use, intending to give it, or something equivalent or identical, back to the lender. to adopt (ideas, words, etc) from another source; appropriate. (not standard) to lend.”

Why Borrow?




- Don't have enough \$
- Opportunity costs
- Leverage future revenue streams
- Intergenerational equity

Borrowing Money



Issuing Debt

- General Obligation Bonds
- Special Obligation Bonds
- Revenue Bonds
- Project Development Bonds (TIF Bonds)
- Bond Anticipation Notes



Financings

- Installment Financings
- Deeds of Trust
- Certificates of Participation (COPs)
- Limited Obligation Bonds (LOBs)
- Synthetic TIFs
- Financing Agreements


Leases

- Lease-Purchase Agreements
- Other Capital Leases(?)

Borrowing Types in NC

- General Obligation Bonds
- Installment Financings (COPs / LOBs)
- Revenue Bonds
- Special Obligation Bonds
- Project Development Bonds (aka TIF Bonds)

Security



What the lender can require the borrower to do or require the borrower to give up if the borrower does not repay the loan.

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General Obligation Bonds	Revenue Bonds	Project Development Financings (or TIFs)
Installment Financings	Special Obligation Bonds	Synthetic TIFs
		Critical Infrastructure Assessment Bonds

General Obligation (G.O.) Bonds

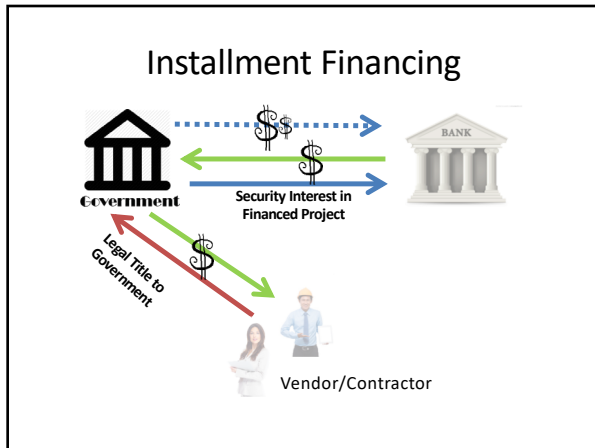


- Pledge of “full faith and credit”
- Can fund almost all capital projects (G.S. 159-48)
- Voter referendum almost always required
- LGC approval always required

Installment Financings






- Pledge of financed asset
- Can legally fund any capital project
- Voter approval never required
- Local Government Commission approval sometimes required
- Net Debt Limit
- Nonappropriation clause



Installment Financings

Simple Installment Financings	Certificates of Participation (COPs) Limited Obligation Bonds (LOBs)
<ul style="list-style-type: none"> Unit borrows no more than \$10 million (tax-exempt) in calendar year (bank qualified) 	<ul style="list-style-type: none"> Unit borrows more than \$10 million (tax-exempt) in calendar year

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Revenue Bonds



- Pledge of revenue from revenue generating asset or system
- Can only fund revenue-generating capital projects (G.S. 158-81)
- Voter approval never required
- Local Government Commission approval always required
- Covenants



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Special Obligation (S.O.) Bonds



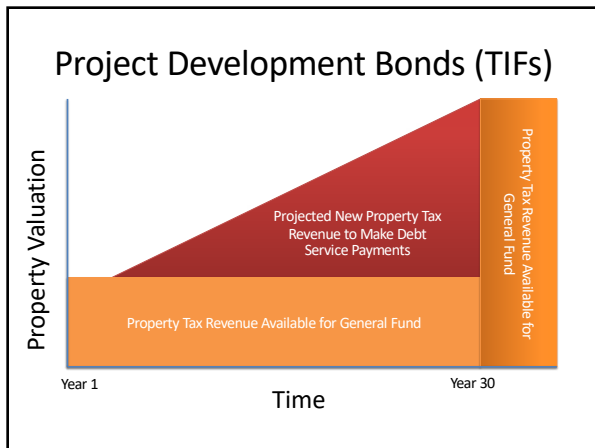
- Pledge any unrestricted revenues except unit-levied taxes
- Can only fund landfills, water/sewer projects, and MSD projects
- Voter approval never required
- Local Government Commission approval always required
- Covenants

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Project Development Financings (TIFs)



- Pledge of increased property tax revenue from new private development
- Can fund certain capital projects
- Voter approval never required
- Local Government Commission approval always required
- Enhanced security usually required
- 5% limitation



General Resources	Targeted Revenues	New Revenues
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Critical Infrastructure Assessments



- Unit receives petition signed by majority of owners representing at least 66% of value of property
- Unit borrows money to fund project and pledges assessments as security for loan
- Unit levies assessments based on estimated costs
- Unit completes project
- Assessments paid in up to 25 yearly installments
- Payments expected to be made primarily by eventual property owners (not developer)

Town of Hillsborough

- \$4.63 million at 7.75% for 10 year term
- Funds will be used to establish parks and open space, construct and improve water, wastewater and drainage facilities, construct and improve streets, roads, and rights-of-way in the assessment district
- Assessments totaled \$6.2 million on properties with 210 acre area, with payments over 10.5 years

Waterstone Mixed-Use Development MASTER PLAN Project # 15044-18-001-110-18-02

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Knowledge Check

- True or **False**: You always need voter approval to borrow money.
- True or **False**: The security for a loan is what the unit will use to repay the loan.
- True or **False**: An installment financing is less risky to the investor than a general obligation bond.
