**Funding Public Capital Projects**

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Development Finance Toolbox  
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<tr>
<th>CURRENT YEAR GENERAL FUND REVENUES</th>
<th>SAVINGS</th>
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<th>BORROWING MONEY</th>
<th>LEASES</th>
<th>GRANTS AND PARTNERSHIPS</th>
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<td>URBAN REDEVELOPMENT AREAS</td>
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<tr>
<td>PROJECT DEVELOPMENT FINANCING (TIF)</td>
<td>P3 AGREEMENTS</td>
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<tr>
<td>URBAN REDEVELOPMENT BORROWINGS</td>
<td></td>
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</table>

Legal Authority?  
Cost?  
Scope / Timing?  
Leveraging external resources?  
Administrative burdens?  
Debt policies?  
Equity / Fairness?  
Beneficiaries?  
Burden on general resources?
**General Resources**

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<tr>
<th>General Revenues</th>
<th>Targeted Revenues</th>
<th>New Revenues</th>
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<td>General Revenues</td>
<td>User Fees</td>
<td>Critical Infrastructure Assessments</td>
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<tr>
<td>Savings</td>
<td>Special Taxing Districts</td>
<td>Project Development Financings (or TIFs)</td>
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<tr>
<td>General Obligation Bonds</td>
<td>Special Assessments</td>
<td>Synthetic TIFs</td>
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<tr>
<td>Installment Financings</td>
<td>Revenue Bonds</td>
<td>Special Obligation Bonds</td>
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**Agenda**

- Special Taxing Districts
- Special Assessments
- General Obligation Bonds
- Revenue Bonds
- Critical Infrastructure Assessments
- Special Obligation Bonds
- Installment Financings
- Project Development Financings (TIFs)
- Synthetic TIFs

**Special Taxing Districts**

Additional property tax assessed in defined area within municipality or county, to fund specific projects and/or services that benefit the properties in the defined area.
### Municipal Service Districts (MSDs)
- Beach erosion control
- Downtown revitalization
- Urban-area revitalization
- Transit oriented development
- Drainage projects
- Sewage collection and disposal systems (including septic systems)
- Off-street parking facilities
- Watershed improvement projects

### County Service Districts (CSDs)
- Beach erosion control
- Fire protection
- Recreation
- Sewage collection and disposal systems (including septic systems)
- Solid waste collection and disposal systems
- Water supply and distribution systems
- Ambulance and rescue
- Watershed improvement projects
- Cemeteries

### Downtown District
- Central downtown area

### Urban Area District
1. Central business district.
2. Concentrations of industrial, retail, wholesale, office
3. Major transportation corridor; or
4. Major concentration of public or institutional uses

Downtown/Urban Area Revitalization is…

...improvements, services, functions, promotions, and developmental activities intended to further the public health, safety, welfare, convenience, and economic well-being of the central city or downtown area.....

....and that do not violate the NC Constitution!
NC Constitution

- Public Purpose Clause
  - Expenditure of all public funds must be for the benefit of the unit’s citizens generally, and not solely for the direct benefit of a person or private entity

- No Exclusive Privileges Clause
  - No person or private entity may receive exclusive benefits from the government, except in consideration of public services

- No Loan or Aid of Credit
  - A local government may not indemnify or otherwise guarantee the debts / obligations of a private entity

Downtown/Urban Area Districts

May a Municipality….

- use money allocated to a downtown MSD to hire a consulting company to analyze how the municipality should better market itself?
- use money allocated to a downtown MSD to purchase blighted land adjacent to the district in order to improve entrance into downtown?
- use money allocated to a downtown MSD to pay water and sewer connection fees on behalf of properties in MSD?
- use money allocated to a downtown MSD to fund grants to downtown business owners to retrofit buildings to make them ADA compliant (add ramps to front, add elevators, widen hallways, etc.)?
- use money allocated to a downtown MSD to pay cash incentive to a private company to locate to the municipality’s downtown?
1. Determine Need “to a demonstrably greater extent”
2. Define Area
3. Make Plan

• Rate must apply to all taxable properties in district
• Council must consider “current needs, as well as the long-range plans and goals for the service district....city council shall set the tax rate so that there is no accumulation of excess funds beyond that necessary to meet current needs, fund long-range plans and goals, and maintain a reasonable fund balance.”
Board Agenda
Notice
Public Hearing
Board Adoption Resolution
District Effective on July 1
Board sets district tax rate

Services / Projects Within 1 Year

Contracts with Private Agencies (Any Private Entity)
Downtown and Urban Area Districts Only

- Solicit input from residents and property owners
- Use bid process to select contracting party
- Hold public hearing
- Detail specific projects/services in contract
- Limit contract to ≤ 5 years
- Require at least yearly accounting from private entity

Think of a special district like a cult. It can take your money and you may not even be aware you’re in one.”
— John Oliver, March 6, 2016

Last Week Tonight with John Oliver: Special Districts
Special Assessments
Charges levied against property to pay for public improvements that benefit that property

Special Assessments

**Counties**
- Water systems
- Wastewater/septic systems
- Beach erosion and flood and hurricane protection
- Watershed improvement, drainage, water resources development
- Subdivision streets*
- Subdivision street lights and lighting

**Municipalities**
- Streets
- Sidewalks in any public street
- Water systems
- Wastewater/septic systems
- Stormwater and drainage systems
- Beach erosion and flood and hurricane protection

Special Assessment 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
Is it a borrowing?

County issues revenue bonds to fund an expansion of its water system to new development. The bonds will be repaid over 20 years, at 2.4% interest.

Yes

Is it a borrowing?

Property owner wants to sell property to town at less than fair market value. Property owner will treat a portion of the transaction as a donation to the town. In order for the property owner to maximize his tax benefit, he asks the town to make payments for the property over 3 years.

Yes
Is it a borrowing?

A village enters into a ten-year contract to lease a building that it will use to house its recreation department. Under the terms of the lease, the village will pay $750,000 per year for full use of the facility and a private developer (the lessor) will maintain the building and conduct all repair work during the lease period. At the end of the ten year period, the village gets legal title to the building.

Yes

Is it a borrowing?

Private developer reviews county data and projections for sqft and intake to provide county with a design for building that would fit its needs. Developer builds and funds construction of the building. County enters into a long term lease agreement (25+ years). The County does not own the building and there is no provision for the county to even have the option to buy the property at the end of the lease period. All facility maintenance and building upkeep and improvements would still be taken care of by developer for the life of the lease. The lease payments over the life of the lease cover the full costs of construction.

probably

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

Leases
- Lease-Purchase Agreements
Authorized Borrowing Structures
1. Local Government Bond Act (G.S. 159, Art. 4)
2. Revenue Bond Act (G.S. 159, Art. 5)
3. Special Obligation Bonds (G.S. 159I)
4. Installment Financings (G.S. 160A-20)
5. Project Development Financing Act (G.S. 159, Art. 6)
6. Urban Redevelopment Area Borrowings (G.S. 160A-512(8))
7. Borrowings from State or Federal Government (G.S. 160A-17.1)

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<tr>
<th>Governmental Borrowings</th>
<th>Private Activity Borrowings</th>
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<tbody>
<tr>
<td>• Only government directly benefits from financed project</td>
<td>• Proceeds used by one or more private entities</td>
</tr>
<tr>
<td>• Tax Exempt</td>
<td>• Private use or benefit generally exceeds 10% of proceeds</td>
</tr>
<tr>
<td></td>
<td>• NOT Tax Exempt (with certain exceptions)</td>
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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.
### Borrowing Money

<table>
<thead>
<tr>
<th>Security</th>
<th>General Obligation Bonds</th>
<th>Revenue Bonds</th>
<th>Installment Financings</th>
<th>Special Obligation Bonds</th>
<th>Project Development Financings</th>
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<td>Unlimited taxing power</td>
<td>Revenues from revenue-producing asset or system</td>
<td>Revenues other than unit-levied taxes</td>
<td>Some or all of financial property</td>
<td>Specified capital projects</td>
<td>None on increased valuation as defined area</td>
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<tr>
<th>Authorized Projects</th>
<th>Most capital projects</th>
<th>Revenue-generating capital projects</th>
<th>Most capital projects</th>
<th>Solid waste, wastewater, water, municipal service district projects only</th>
<th>Specified capital projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voter Approval</td>
<td>Usually</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>LGC Approval</td>
<td>Always</td>
<td>Always</td>
<td>Sometimes</td>
<td>Always</td>
<td>Always</td>
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<tr>
<td>Special Limitations</td>
<td>Net Debt Limitation</td>
<td>Feasibility</td>
<td>Net Debt Limitation</td>
<td>Feasibility</td>
<td>Enhanced Security</td>
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### 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
  - Except refunding bonds and 2/3 bonds
- Local Government Commission approval always required
- Net debt limitation
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 Financing

Is it a Proper Installment Financing?

Private developer constructs a new building. Needing additional space for its library, city leases the new building from developer for a period of 20 years. During the lease, the developer is responsible for all maintenance of the building. At the end of the lease term, city takes title to the building. The lease payments are subject to yearly appropriations by the city’s governing board.

No!
Installment Financings

**Simple Installment Financings**
- Unit borrows no more than $10 million (tax-exempt) in calendar year (bank qualified)
- Borrow directly from vendor, bank, or lending institution
- Simple borrowing transaction

**Certificates of Participation (COPs)**
- Unit borrows more than $10 million (tax-exempt) in calendar year
- Sell loan off to investors
- Complicated borrowing transaction

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
Critical Infrastructure Assessments

- Substitute for impact fees
- Developer gets public improvements now but delays most of payment until properties are developed and sold
- Unit borrows money to front costs of project and makes debt payments from assessment revenue

Critical Infrastructure Assessments

- Expansive Statutory Purposes
- Petition Requirement
- Detailed statutory procedures
- Unit may pledge assessment revenue as security for loan to front project cost
- Unit may impose assessment based on estimated costs
- Assessments may be paid in up to 25 yearly installments
- Currently Expires July 2020

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
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

Municipal Service Districts (MSDs)

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

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
Project Development Bonds (TIFs)

- Projected New Property Tax Revenue to Make Debt Service Payments
- Property Tax Revenue Available for General Fund

Authorized Security

- GO Bonds
  - Unlimited taxing power
- Revenue Bonds
  - Revenues from revenue-producing asset or system
- Mortgage interest in financed asset
- Installment Financings (COPs, LOBs)
  - Mortgage interest in a portion or all of financed asset
- Special Obligation Bonds
  - Revenues other than unit-levied taxes
- Mortgage interest in financed asset
- Tax Increment Financings
  - Property tax revenue from increased valuation in defined area
  - Mortgage interest in financed asset
  - Revenues from special assessments

Synthetic TIFs

- Marketing Tool
- Installment Financing
- New Growth Generates More General Fund Revenue
Roanoke Rapids, NC

- $21.5 million in project development bonds
- Enhanced security: lease payments, local sales and use tax pledge, initial letter of credit

Woodfin, NC

- $25 million in project development bonds approved, $12.5 million issued
- Minimum property valuation assessment agreement

Kannapolis, NC

- $95 million in project development bonds approved – none issued
- Synthetic TIF instead (installment financing)
- Enhanced Security: Personal guarantee by David Murdock