

## Funding Public Capital Projects



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Development Finance Toolbox  
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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	LEASE-PURCHASE (Limited Authority)	GIFTS/DONATIONS (CROWD-FUNDING)
		SPECIAL ASSESSMENTS	REVENUE BONDS		REIMBURSEMENT AGREEMENTS
		CRITICAL INFRASTRUCTURE ASSESSMENTS	SPECIAL OBLIGATION BONDS		URBAN REDEVELOPMENT AREAS
			PROJECT DEVELOPMENT FINANCINGS (TIFs)		P3 AGREEMENTS
			URBAN REDEVELOPMENT BORROWINGS		

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

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

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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

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## 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

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Municipal Service Districts (MSDs)	County Service Districts (CSDs)
<ul style="list-style-type: none"> <li>Beach erosion control</li> <li><b>Downtown revitalization</b></li> <li>Urban-area revitalization</li> <li>Transit oriented development</li> <li>Drainage projects</li> <li>Sewage collection and disposal systems (including septic systems)</li> <li>Off-street parking facilities</li> <li>Watershed improvement projects</li> </ul>	<ul style="list-style-type: none"> <li>Beach erosion control</li> <li>Fire protection</li> <li>Recreation</li> <li>Sewage collection and disposal systems (including septic systems)</li> <li>Solid waste collection and disposal systems</li> <li>Water supply and distribution systems</li> <li>Ambulance and rescue</li> <li>Watershed improvement projects</li> <li>Cemeteries</li> </ul>

☒ PUBLIC  
☐ PRIVATE

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Downtown District	Urban Area District
Central downtown area 	<ol style="list-style-type: none"> <li>1. Central business district.</li> <li>2. Concentrations of industrial, retail, wholesale, office</li> <li>3. Major transportation corridor; or</li> <li>4. Major concentration of public or institutional uses</li> </ol>

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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!

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## 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

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## Downtown/Urban Area Districts




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## 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?

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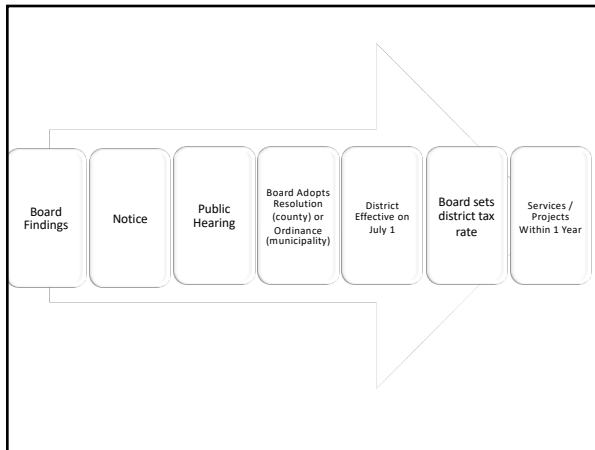
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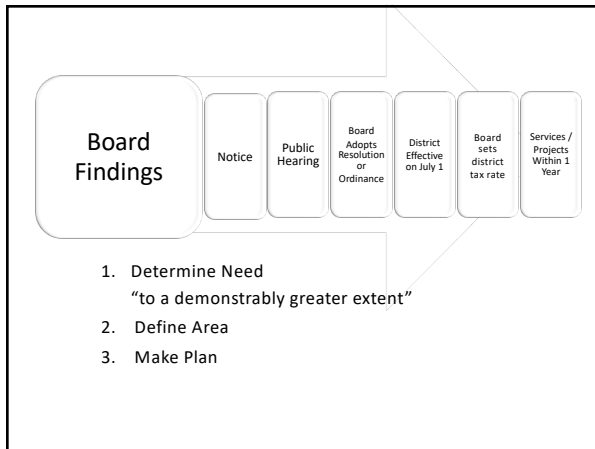
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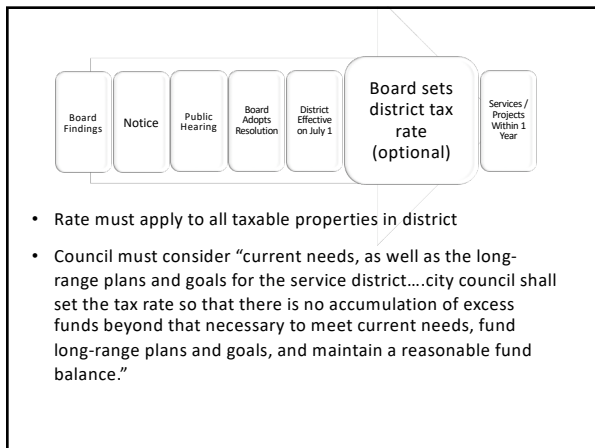
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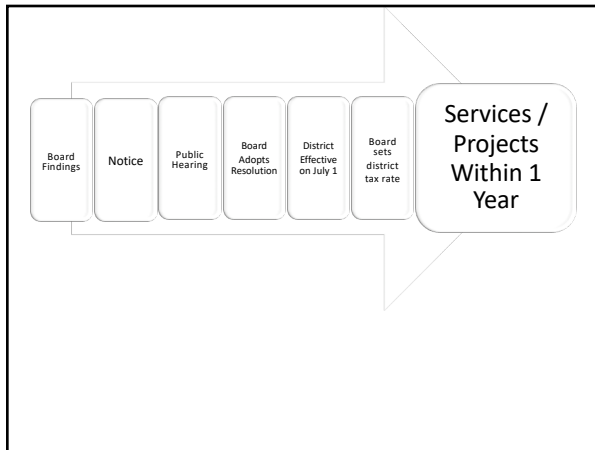
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**Contracts with Private Agencies (Any Private Entity)  
Downtown and Urban Area Districts Only**



- 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

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## Special Assessments

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

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## 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

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## 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

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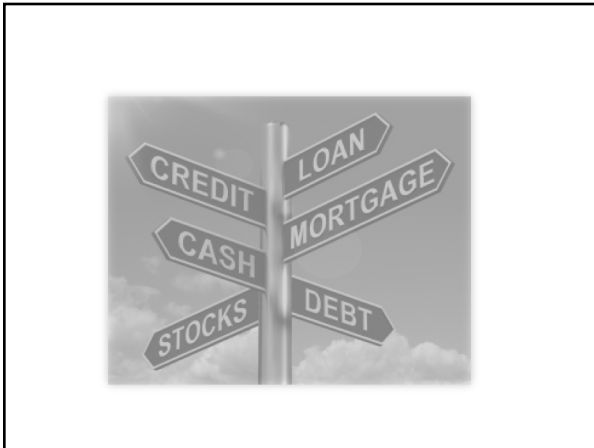
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### Is it a borrowing?

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.



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### 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.



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### 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.




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### 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

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### 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

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### 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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Governmental Borrowings	Private Activity Borrowings
<ul style="list-style-type: none"> <li>Only government directly benefits from financed project</li> <li>Tax Exempt</li> </ul>	<ul style="list-style-type: none"> <li>Proceeds used by one or more private entities</li> <li>Private use or benefit generally exceeds 10% of proceeds</li> <li>NOT Tax Exempt (with certain exceptions)</li> </ul>

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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.

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## Borrowing Money

	General Obligation Bonds	Revenue Bonds	Installment Financings  <i>Synthetic TIFs</i>	Special Obligation Bonds	Project Development Financings
<b>Security</b>	Unlimited taxing power	Revenues from revenue- producing asset or system	Some or all of financed property	Revenues other than unit-levied taxes	Taxes on increased valuation in defined area
<b>Authorized Projects</b>	Most capital projects	Revenue- generating capital projects	Most capital projects	Solid waste, wastewater, water, municipal service district projects only	Specified capital projects
<b>Voter Approval</b>	Usually	No	No	No	No
<b>LGC Approval</b>	Always	Always	Sometimes	Always	Always
<b>Special Limitations</b>	Net Debt Limitation	Feasibility Studies Covenants	Net Debt Limitation	Feasibility Studies Covenants	Enhanced Security

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

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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

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## 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

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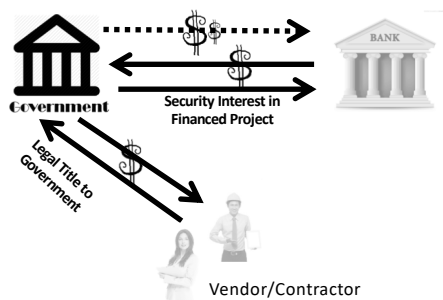
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## Installment Financing




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## 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!**

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## 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) Limited Obligation Bonds (LOBs)

- Unit borrows more than \$10 million (tax-exempt) in calendar year
- Sell loan off to investors
- Complicated borrowing transaction

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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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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	CAPITAL LEASE	GIFTS/DONATIONS (CROWD-FUNDING)
		SPECIAL ASSESSMENTS	REVENUE BONDS	LEASE-PURCHASE (Limited Authority)	REIMBURSEMENT AGREEMENTS
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			PROJECT DEVELOPMENT FINANCINGS		P3 AGREEMENTS
			URBAN REDEVELOPMENT BORROWINGS		

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## 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

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## 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*




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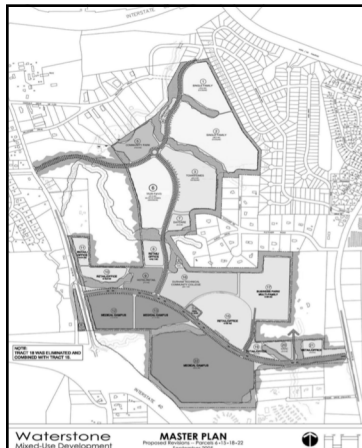
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### Town of Hillsborough

- \$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

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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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### 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

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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

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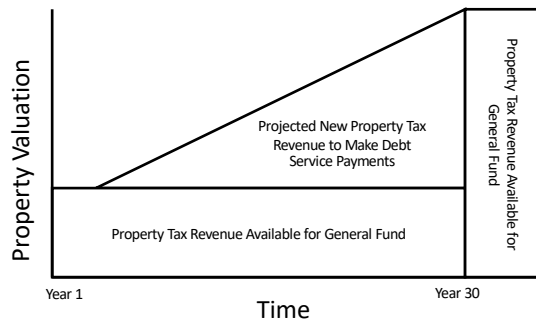
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## Project Development Bonds (TIFs)




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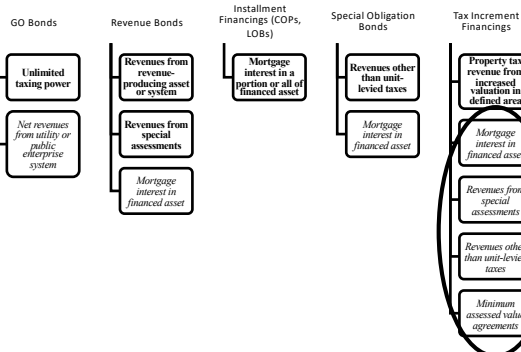
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## Authorized Security




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## Synthetic TIFs



- Marketing Tool
- Installment Financing
- New Growth Generates More General Fund Revenue

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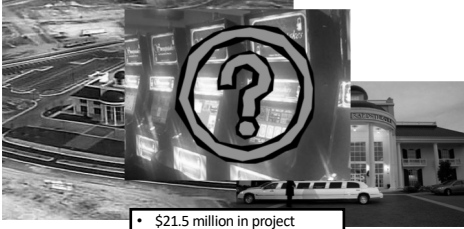
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## Roanoke Rapids, NC



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

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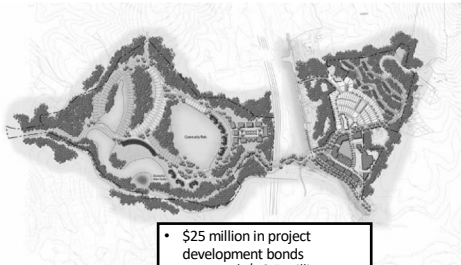
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## Woodfin, NC



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

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## Kannapolis, NC



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

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