

Our Region Our Plan



MEMO TO: Larry Hargett, Chairman, Our Region Our Plan Regional Land Use Planning Committee
Our Region Our Plan Technical Committee
BCDCOG Staff

FROM: HNTB and Gateway Planning Group

DATE: May 20, 2011

RE: Value Capture Framework for OurRegion OurPlan

OurRegion OurPlan will provide both a physical and fiscal framework for the vitality of the BCDCOG Region. Extensive community input and comprehensive reviews of a plethora of related plans are providing a baseline for the development of scenarios for growth and preservation. Those scenarios range from the likely growth patterns from current trends to strategically influenced growth patterns based on considerations of sustainable neighborhoods, preservation, economic development opportunities and multimodal transportation. This memo provides an overview of the general fiscal capacity of the BCD Region and potential tools to facilitate value capture in order to realize the particular scenario selected as the preferred growth strategy for the BCDCOG Region.

What is Value Capture?

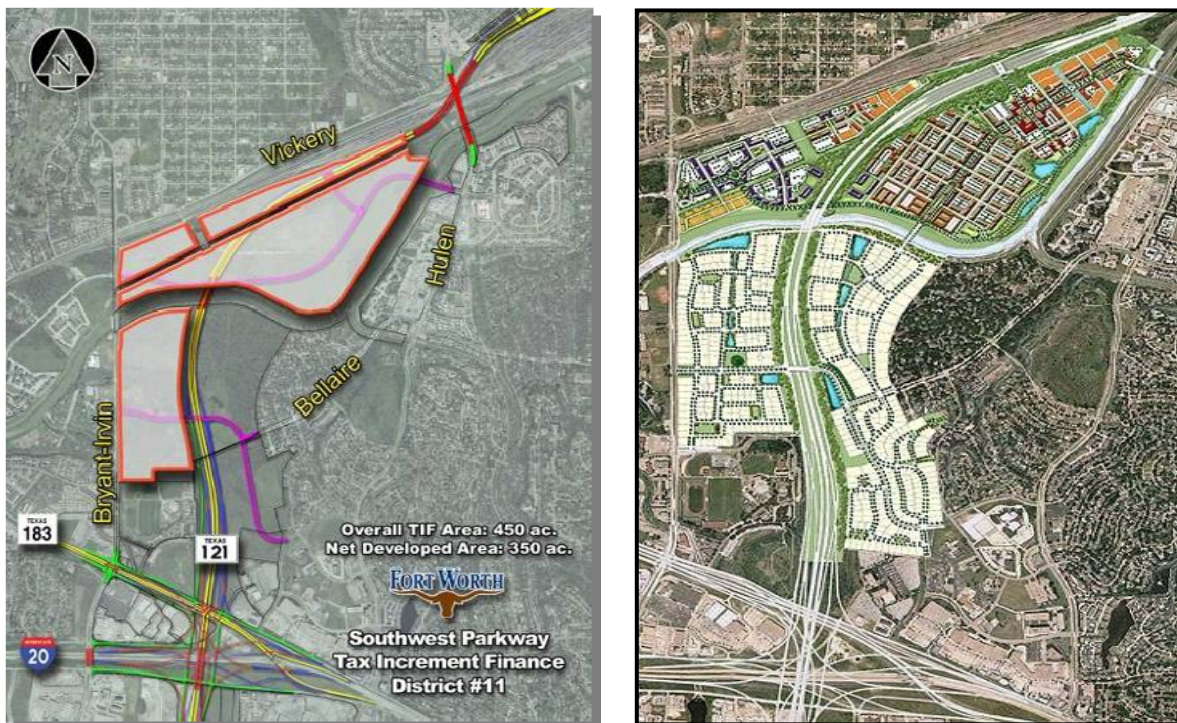
Value capture is a concept for funding infrastructure improvements that capitalizes on the added value to an area as a result of improvements made to its infrastructure. It recognizes that with each infrastructure investment—typically transportation—some marginal improvement or marginal decline occurs in the value of the surrounding land and development. This change in value can be due to a change in access, noise, aesthetics, safety, reliability or other transportation impact. When the impact is a positive one and there is a resulting (or anticipated) increase in the value of land in the area surrounding the improvement, the added value can be harnessed or “captured” to provide financial support for the improvement itself or for other improvements that need to be made to further support the area or development.

Consider, for example, a rail station or highway interchange project, the primary purpose of which is to provide service to an area. However, the project also results in an increase in property values due to improved access, reliability and safety, and also makes the area more attractive for development. This results in a private sector response in real estate investment. The development directly benefits from the transportation improvement, and could be used to help pay for the transportation improvement by tapping the increased assessed value due to the increased value of land.

The enhanced and expanded tax base that results from the integration of transportation improvements can be captured in a variety of ways. Rather than new revenues flowing into the general fund of the municipality or county, they can be set aside to help finance the transportation improvement. Some

common tools for this type of value capture are Tax Increment Financing (TIF) Districts, Public Improvement Districts and Public-Private Development Agreements.

For example, the illustrations below depict a TIF District created for the City of Fort Worth (left diagram) to harness the increased tax base from an urban village designed around a future toll road¹. The toll road was redesigned to be context sensitive so that it would support value capture in the surrounding development and so that the tax revenues from the TIF District would repay a portion of the bonds issued by the city to cover \$60 million of the city's \$120 million portion of the cost of the toll road. Thus the coordinated design and planning of the tollroad and surrounding urban village create a context for increased property tax revenues that will provide a sustainable revenue stream to repay bonds issued to construct the roadway that is more supportive of the local community vision for growth in central Fort Worth.



In another project, HNTB demonstrated how value capture can support a fixed guideway transit service, for the City of Santa Ana, California.² The preliminary study recommended establishing a benefit assessment district – a targeted value capture technique that would assess properties directly benefiting from the transit improvement. The area of benefit was determined to be the area within a ¼ mile zone on either side of the proposed fixed corridor route. Three scenarios for the benefit assessment district implementation illustrated the potential for value capture, estimating that up to 50% of the \$145 million capital costs for construction of one segment and 50% of the annual total system operating costs could be funded through targeted value capture techniques.

¹ The urban village was designed by LRK while the TIF District was established in 2004 with assistance from Prime Strategies / Gateway Planning Group.

² The Santa Ana Fixed Guideway Value Capture Assessment was conducted in 2011 by HNTB for the City of Santa Ana, California.

Value capture mechanisms can also provide direct incentives to a developer that is willing to design and construct a project that provides a more sustainable development pattern or other outcome consistent with the preferred scenario. By incentivizing the desired outcomes for a developer or operator, there is potential for a greater sustained tax base or other benefit arising from the characteristics of the resulting development.

A value capture strategy will not dictate the type or size of growth for the BCDCOG region. Instead, it identifies the existing and potential value capture mechanisms that could support the preferred scenario if capital improvements, budgeting and select revenues are synergized in the context of the regional plan. The ability of the BCDCOG Region to realize a vision for sustainable development and growth will require the most efficient harnessing of current fiscal capacity; but it also will require reforms both at the local and state levels for any meaningful plan implementation to be realized. The realization of a bold vision for growth calls for a robust capacity to match directly local tax and fee revenues with the particular investments needed for a sustainable future. This memo provides the initial framework to do so.

Currently authorized in state and federal law, the following tools can serve as direct value capture mechanisms:

- Tax Increment Financing (TIF) supporting local projects
- Improvement Districts to support local projects

Some of the indirect tools include local accommodation and hospitality taxes. In addition, impact fees and other fees could be targeted to better focus infrastructure for new development as an indirect incentive for developers to advance projects consistent with the preferred scenario of the Regional Plan.

The later part of this memo describes these direct and indirect tools as well as several others that can provide indirect value capture to implement the preferred scenario recommended and selected for OurRegion OurPlan. However, in order to provide context for these tools, a brief overview of the state and local revenue system is provided first.

Overview of State and Local Revenue Structure (potential indirect value capture)

The potential for value capture must be understood in the context of the increasing fiscal pressures on local government under the revenue system established by the State of South Carolina. In a study entitled *Historical Development of South Carolina's State and Local Revenue System* (Hite and Steirer 2005), the declining capacity of local government was described as follows:

“Until 1920 all levels of government in the state relied almost completely on taxation of personal and real property. By 1951, South Carolina made changes in its revenue system that produced its current state tax structure of fees and excise taxes, personal and corporate income taxes, and a sales and use tax. By the 1940s the property tax became the main source of support for county and municipal governments and school districts.

The influence of social, political, and economic changes in South Carolina on the evolution of the revenue system are placed in historical context. From 1920 to 1990 a series of independent tax study commissions and studies provided

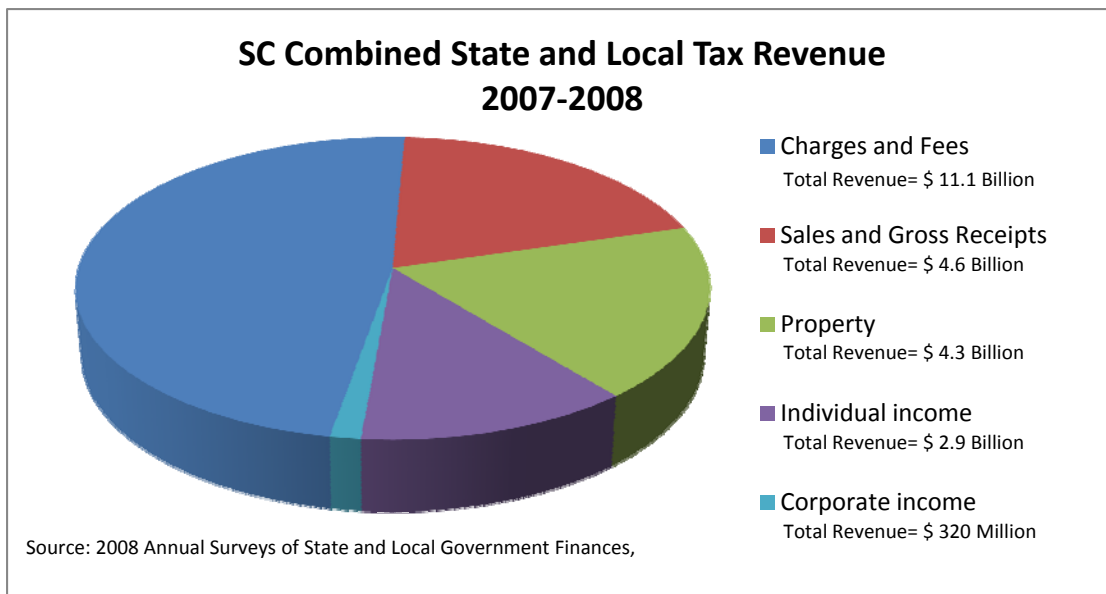
guidance and recommendations to policymakers. These groups provided the kind of in-depth information that was needed to help the General Assembly to produce a system that today is characterized as equitable and balanced -- an income tax and sales and use tax at the state level and the property tax at the local level.

However, South Carolina's revenue system is under stress today. The revenue structure has been significantly altered in the past 20 years in response to various interest groups seeking tax relief from income taxes and property taxes....

The legislature approved an accommodations tax in 1984, and the local option sales tax was made available for adoption by local option in 1990. Local hospitality taxes, local accommodations taxes, and special purpose local sales taxes have been added as local revenue options in the last decade.

After court rulings that said municipalities could enact hospitality fees and other taxes without state approval, the General Assembly in the Fiscal Authority Act of 1997 limited local revenue sources to those approved by the legislature and put other limitations on local government's powers to raise revenue. “

As a result of the current taxing structure, among other factors, South Carolina is in the third year of negative revenue growth (2009-2010). The South Carolina's Board of Economic Advisors (BEA) has cut revenue estimates seven times in the last 18 months. South Carolina now relies on the sales and personal income taxes and fees for a preponderance of state revenue. This is challenging as state sales tax revenue has decreased due to an increase in the number of sales tax exemptions; a shift from products to services, few of which are taxed; shifts in sales to the Internet; and because personal income tax collections have lagged behind growth. (*Understanding Accommodations and Hospitality Taxes*, Municipal Association of South Carolina 2010)



As indicated in the chart on the previous page, the main contributors to local government revenue in South Carolina are, in order of their level of contribution, fees and charges, the general sales and use tax, property tax, individual income, and the corporate income tax.

Noting which sources may be a candidate for value capture, the major revenue sources are structured as follows:

Personal Income Tax

The individual income tax is a primary instrument to raise revenue for the South Carolina system, which provides no opportunities for value capture.

Corporate Income Tax

The corporate income tax is a relatively small revenue source, providing no potential for value capture.

Fees and Charges

The largest and fastest growing revenue source for governments in South Carolina is charges and fees, which includes licenses, permits and service charges, also referred to as impact fees. The largest contributor to fees and charges collected by the state of South Carolina are hospital charges. The other major contributing fees and charges collected by the state and local governments are sewage, sea and Inland port facility usage solid waste management fees. These fees offer no opportunity for value capture.

Impact fee refers to a payment of money imposed as a condition of development approval assessed as a proportionate share of the cost of system improvements needed to serve the people utilizing the improvements (SC Code 6-1-920). Impact fees play an important role in helping local jurisdictions regulate and fund growth. Below is a list of impact fees levied by the local jurisdictions in the BCDCOG region. In addition to impact fees, jurisdictions may negotiate with developers for donations to fund an improvement or a portion of a project. This is typically done as part of the entitlement process when a developer is seeking concessions, waivers from regulations or project requirements or entitlements beyond what may be permitted.

Jurisdiction	Impact Fees	Negotiated Donations Used
Berkeley	Water (\$475) & sewer (\$1,250); Transportation-Yes (Ordinance 06-11-75)	Yes
Charleston	City of Charleston (water & sewer) and City of Mt. Pleasant (fire, police, sewer); Transportation-No	Yes
Dorchester	Transportation-Yes (in Development w/ Council-2 nd reading approved) and School District Fees	Yes

Neither of these sources provides a direct opportunity for targeted value capture; although, they do provide an opportunity for the respective local jurisdictions to strategically raise capital for the infrastructure called for in the preferred scenario.

General Sales (and Use Tax)

The statewide general sales and use tax rate is 6%. South Carolina counties, upon local referendum, are authorized to impose various local option taxes in addition to the 6% sales tax imposed by the state. These include the local option sales tax, capital projects sales tax and a transportation tax, accommodations tax and hospitality tax. Voters in all three counties in the BCDCOG region have approved the imposition of an additional 1% local sales tax to support transportation as well as property tax relief. See the approved local option taxes below county by county.

Jurisdiction	Local Accommodations Tax- % Imposed	Local Hospitality Tax - % Imposed	Sales Tax/Toll for Transportation - % Imposed	Local-Option Sales Tax - % for Property Tax Rollback
Berkeley	Entire County 2%	Monks Corner 2%	Yes - 1 % (passed 11/4/08)	Yes - 100%
Charleston	Entire county area - 2%; City of Charleston - 2% (4% total); Mt. Pleasant - 1% (3% Total); Kiawah Island - 1% (3% Total); Isle of Palms - 1% (3% Total); Folly Beach - 1% (3% Total)	City of Charleston - 1%; 2% if alcohol served in the establishment; North Charleston - 1%; 2 % if alcohol served in the establishment; Mt. Pleasant - 2%	Yes - ½ cent (passed 11/2/04)	Yes - 100%
Dorchester	Entire county area - 2%; Summerville - 1% (3% total)	No	Yes - 1% (passed 11/04)	No

Table 1-Local Option Taxes, SC Association of Counties

As with the impact fees, direct value capture opportunities are not feasible with sales and use taxes; however, the local jurisdictions can target investments in public venues, transportation infrastructure and other eligible projects consistent with the preferred scenario and negotiate incentives with developers to leverage improvements.

Excise Tax

Some services and goods that are not covered by the general sales tax are subject to a separate excise tax, such as the taxes on fuel, alcohol, tobacco products, utilities, admissions/amusements, accommodations and hospitality. Each year revenues are transferred to the County Transportation Fund from gasoline taxes collected by the state. The County Transportation Funds are then programmed and spent on projects decided upon by the County Transportation Committees (CTC) formed in each county with 25% required for state highways spending. Although also not providing a direct value

capture opportunity, the County Transportation Funds do provide opportunities to invest these funds into infrastructure supporting the preferred scenarios.

State Accommodations Tax

The state accommodations tax, passed in 1984, levied a 2 percent tax on the rental of rooms within the state (SC Code 6-4-10, SC Code 12-36-920). The law defined travel and tourism as "the action and activities of people taking trips outside their home communities for any purpose, except daily commuting to and from work." The Act set up three tiers of counties that dictate expenditures and ensures all counties receive a minimum distribution amount. The table below establishes the payments and receipts of the tax by respective county (including the redistribution amounts indicated in the second column that Charleston County must pay to other counties because of the size of the county's tax capture).

South Carolina 2% Accommodations Tax Revenue Distribution, Full Fiscal Year 2009-2010						
Local Government Entity	DOR* Collections less 2% to SCATR* and less DOR/TERC* Admn Fees	Total Withheld for Distribution to Other Counties	Amount Distributed to Other Counties	Amount Returned by Treasurer's Office	Amount Received from Other Counties (Supplement)	YTD Amount Received
BERKELEY COUNTY AREA	\$354,140.45	\$0.00	\$0.00	\$0.00	\$41,634.00	\$395,774.45
CHARLESTON COUNTY AREA	\$8,426,765.20	\$1,605,352.69	\$766,676.32	\$838,676.37	\$0.00	\$7,660,088.88
DORCHESTER COUNTY AREA	\$103,045.53	\$0.00	\$0.00	\$0.00	\$41,634.00	\$144,679.53
*DOR (Department of Revenue)						
*SCATR (South Carolina Association of Tourism Regions)						
*TERC (Tourism Expenditure Review Committee)						

Again, these taxes do not provide a direct value capture opportunity; but they can be directed into a key tourism related project that will provide momentum for the implementation of the preferred scenario. Some of the eligible projects include:

- Construction, maintenance, and operation of facilities for civic and cultural activities, including construction and maintenance of access and other nearby roads and utilities for the facilities
- Control and repair of waterfront erosion
- Operation of visitor information centers

Local Accommodations Tax and Local Hospitality Tax

As part of the Local Government Fiscal Authority Act of 1997, the General Assembly authorized both the Local Accommodations Tax (SC Code 6-1-500) and the Local Hospitality Tax (SC Code 6-1-700). Municipal or county councils can impose the taxes by ordinance. The local entity, not the state, is responsible for collecting the revenue.

Local Accommodations Tax

The local accommodations tax is levied on the rental or charges for accommodations. The cumulative rate may not exceed 3 percent. If the municipality has not already imposed a 3 percent local accommodations tax, the county may impose a tax up to 1.5 percent without consent of the municipal council. To go beyond 1.5 percent within the municipal limits, the county must receive the municipal council's consent by resolution.

The Council must use the revenue exclusively for the following relevant purposes:

- Tourism-related buildings including, but not limited to, civic centers, coliseums, and aquariums
- Tourism-related cultural, recreational, or historic facilities
- Beach access, beach re-nourishment, or other tourism-related lands and water access
- Highways, roads, streets, and bridges providing access to tourist destinations
- Water and wastewater infrastructure to serve tourism-related demand

Local Hospitality Tax

A county or municipality may impose a hospitality tax on the sales of prepared meals and beverages. The cumulative total of the tax may not exceed 2 percent. A county may impose a 1 percent hospitality tax within the municipal limits, without the municipal council's consent if the municipality has not already imposed the maximum 2 percent. The municipal council must consent, by resolution, for the county to impose a local hospitality tax more than 1 percent within the municipal limits.

The Council must use the revenue generated by the local hospitality tax exclusively for the following relevant purposes:

- Tourism-related buildings including, but not limited to, civic centers, coliseums and aquariums
- Tourism-related cultural, recreational or historic facilities
- Beach access, beach re-nourishment or other tourism related lands and water access highways, roads, streets and bridges providing access to tourist destinations
- Water and wastewater infrastructure to serve tourism-related demand

Berkeley and Dorchester Counties do not collect a hospitality tax however revenue from the state accommodations tax indicates that tourism related revenue is feasible within the two counties and should be considered as a possible source to support infrastructure, which can be targeted through the preferred scenario.

Local Option Transportation Tax

In August 2008, Berkeley County Council approved a resolution to levy and impose one percent sales and use tax, subject to a voter referendum, with the proceeds to be used for transportation projects. In November 2008, the voters of Berkeley County approved this referendum, and the new tax became effective May 1, 2009. The one-cent sales tax includes a seven year sunset clause, at which time voters will again be given an opportunity to keep or revoke the tax. The County issued a \$27.4 million General Obligation Bond Anticipation Note in May 2009 to provide resources for various transportation projects. This note matures in May 2010 and is anticipated to be repaid with proceeds from the sale of long-term General Obligation Bonds.

Collection of a half percent sales tax approved by voter referendum began in Charleston County in May 2005. The referendum authorized funding for transportation related projects, mass transit, and greenbelts. The transportation portion will include road construction and maintenance projects, as well as a \$3.0 million annual payment for the Arthur Ravenel, Jr. Bridge. Funding designated for mass transit will be used to partially fund the existing operations of the local regional and rural bus systems. The overall tax is expected to bring in \$1.3 billion over approximately 25 years. In an effort to be fiscally

responsible, the County is borrowing funds to purchase land and build roads now in anticipation of future increases in land and construction costs. Administration of the tax and the accelerated projects will continue to have a significant effect upon the County's operations.

The Dorchester County Sales Tax Transportation Authority will continue to complete the 22 projects approved by Dorchester County voters in the November 2004 One-Cent Sales Tax Referendum. In order to partially fund these projects, the county issued \$125 Million in bonds, which will be repaid by sales tax collections. Many of the projects have been completed and several more are under construction. Phase 1 of the U.S. Highway 78 project, which received a \$1 million in ARRA funds, is underway and Phase 1 of the Old Fort Road project is under construction. Additionally, Phase 1 of the Dorchester Road project from Trolley Road to Orangeburg Road is scheduled to begin construction in September 2010, and Phase 1 of the Bacons Bridge Road 7 project is scheduled to begin construction in the spring of 2011. The remaining projects are in different phases of design, permitting and right-of-way acquisition.

Property Tax

Property taxes are based on the application of millage rates to assessed value. The table below illustrates the total amount of assessed property, base millage rate, value and millage cap for each county and provides a ranking in comparison to the 43 other counties in South Carolina.

Tax Data	Berkeley County		Charleston County		Dorchester County	
	<i>Value</i>	<i>Rank</i>	<i>Value</i>	<i>Rank</i>	<i>Value</i>	<i>Rank</i>
Assessed Property 2008	\$700,054,161	9	\$2,935,123,692	1	\$487,551,524	13
County Base Millage Rate 2009	0.05	43	0.0544	42	0.0768	33
Value of One Mil 2009	\$594,000	10	\$2,702,398	1	\$488,072	13
Millage Cap FY11	2.3%	3	1.6%	10	2.0%	6

Source: South Carolina Association of Counties,
 Accessed 2 October 2010. <http://www.sccounties.org/counties/county-statistics.aspx>

Assessment Caps

In 2006, South Carolina's General Assembly passed Section 6-1-320(B), a companion bill to Act 388 (the sales tax for property tax swap), which imposed assessment caps on real taxable property.

Reassessments occur every five years with a cap of 15 percent between assessments. The legislation created assessment caps, millage caps for local governments and property tax relief for homeowners from taxes for school operations. The millage cap is intended to protect homeowners from dramatic property tax increases due to rapidly appreciating markets. During assessment periods, millage rates are adjusted downward to account for increases in property values in an attempt to make the assessment periods tax neutral while protecting property owners.

The following example demonstrates the effect of the caps on a \$200,000 home with varying rates of appreciation.

Property Tax Assessment at Year 5
Assuming Varied Rates of Appreciation & No Change in Millage Rate
on a \$200,000.00 Owner Occupied Residence in BCDCOG Region

	<u>10%</u> <u>Appreciation</u>	<u>15%</u> <u>Appreciation</u>	<u>20%</u> <u>Appreciation</u>
APPRAISED VALUE	\$216,486.43	\$225,101.76	\$233,971.71
ASSESSED VALUE (ASSESSED VALUE IS 4% OF APPRAISED VALUE FOR OWNER OCCUPIED RESIDENCE)	\$8659.45	\$9004.07	\$9358.86
COMBINED MILLAGE <i>(FOR CITY OF CHARLESTON AND COUNTYWIDE)</i>	0.2601	0.2601	0.2601
TOTAL PROPERTY TAX BEFORE EXEMPTIONS	\$2,252.32	\$2,341.96	\$2,434.24
CHARLESTON COUNTY TAX CREDIT:	\$153.71	\$159.82	\$166.12
COUNTY TAX CREDIT x TAXABLE APPRAISED VALUE (.00071 x 200,000)			
CITY OF CHARLESTON TAX CREDIT:	\$153.71	\$159.82	\$166.12
COUNTY TAX CREDIT x TAXABLE APPRAISED VALUE (.00071 x 200,000)			
*PROPERTY TAX RELIEF (PTR)	\$854.69	\$888.70	\$923.72
ASSESSED VALUE ÷ PTR MILLAGE (8,000 x .0987)			
TOTAL TAX	\$1,090.23	\$1,133.61	\$1,178.28
SOLID WASTE RECYCLING AND DISPOSAL FEE (+)	\$99.00	\$99.00	\$99.00
** SOLID WASTE RECYCLING AND DISPOSAL FEE (CREDIT)	\$25.00	\$25.00	\$25.00
TOTAL AMOUNT DUE	\$1,164.23	\$1,207.61	\$1,252.28
Difference at 15% Cap			\$44.67

***PROPERTY TAX RELIEF: HOMEOWNERS RECEIVE PROPERTY TAX RELIEF ON SCHOOL BOARD OPERATING TAX FOR THEIR LEGAL RESIDENCE.**

Example:

\$8,000 (Assessed Value)

x .0987 (School Board Operating Millage)

\$789.50 (Property Tax Relief)

**** SOLID WASTE RECYCLING AND DISPOSAL FEE CREDIT FOR TAX YEAR 2010 ONLY**

Model Adapted from Property Tax Calculation Sample, Charleston County Auditor Office

Points of Sale Reassessment—an Exception to the Cap

South Carolina allows for an assessment cap exception. This exception is known as point of sale reassessment, or just point of sale. When property is sold, it is assessed at the new market value with no cap on the increase. This exception is critical to maintaining a meaningful tax base to fund the necessary infrastructure for growing communities as real estate is purchased and sold.³

Although subject to caps, property taxes provide a significant value capture opportunity through Tax Increment Financing (TIF), which is described in detail below. One of the concerns raised about TIF, however, is that it diverts revenues away from the general fund of the local government. However, TIF is no different than any other incentive or investment into a targeted opportunity. The key is that the incentive policy and strategy should provide greater long term value, both for the public sector as a whole and the particular project supported by the initiative including the general fund from which the revenues were diverted.

An Example of Return on Investment from Targeted Value Capture

CRAIG RANCH NEIGHBORHOODS

- A – McCutchin Tract
- B – Cooper Clinic and Aerobic Center
- C – Craig Ranch North
- D – The Settlement
- E – CooperLife
- F – TPC at Craig Ranch
- G – Craig Ranch West
- H – Town Center
- I – Craig Ranch Employment Center
- J – Craig Ranch East
- K – Craig Ranch Northeast
- L – Alma Sports Medicine Complex



As part of a strategy to attract long term employment in the context of sustainable regional development, the McKinney Economic Development Corporation facilitated the creation of the 5,000-acre Regional Employment Center (REC) in McKinney, Texas on behalf of the local Economic Development Corporation and the City. After the development of a regional master plan for the REC a key development emerged, Craig Ranch. Providing a range of housing, employment, sports and

³ House Bill (H. 3272) was introduced in the 2009 legislative session to eliminate the point of sale provision and to apply the 15 percent assessment cap to property transfers. The Bill was not passed but will likely be reintroduced to the Legislature in the 2011-2012 Session.

entertainment in a walkable urban environment, Craig Ranch has become an urban center in the fast growing suburban growth corridor 30 miles north of Dallas.

In order to support the regional vision of the REC, the City opted to provide incentives for critical infrastructure through a series of fee waivers and select tax rebates. This value capture strategy was based on the policy that targeted incentives would eventually result in jobs and more efficient growth patterns through sustainable neighborhood development. After eight years of development, the tax base has increased by over \$500 million in assessed value including \$167 million in commercial development; the return on the public investment through the value capture strategy is \$50 assessed value for every \$1 invested in tax incentives for the project; and more than 3000 jobs have been created in Craig Ranch. (Insight Research 2010)

RATIO OF NEW TAX BASE VALUE IN CRAIG RANCH TO THE CITY OF MCKINNEY'S INVESTMENTS

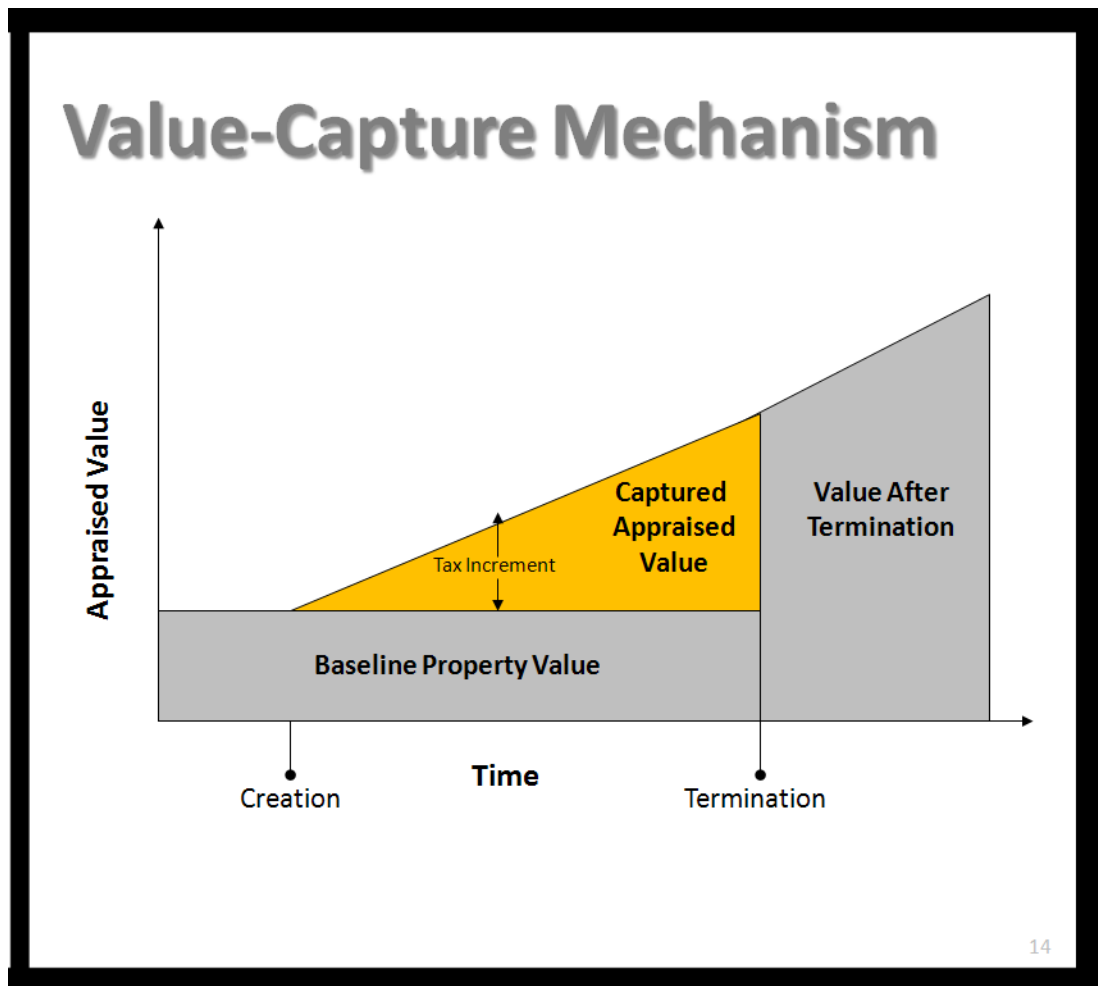
Year	Cumulative Assessed Value	Cumulative Incentive Value	Annual Ratio
2003	\$8,099,222	\$3,883,366	\$2.09
2004	\$67,878,064	\$10,152,716	\$6.69
2005	\$127,628,372	\$10,152,716	\$12.57
2006	\$256,105,833	\$10,152,716	\$25.23
2007	\$441,547,098	\$10,652,716	\$41.45
2008	\$505,220,548	\$11,252,716	\$44.90
2009	\$570,410,484	\$11,252,716	\$50.69

Craig Ranch simply demonstrates that targeted value capture incentives, when married with a comprehensively planned initiative, can grow and sustain the tax base far greater than the cost of the tax incentive provided.

Key Value Capture Opportunities

Tax Increment Financing

The South Carolina legislature empowered cities to create Tax Increment Financing (TIF) districts in 1984; counties were given TIF authority in 1999. Instead of flowing into the general fund of a local taxing jurisdiction, a TIF district captures the tax revenues for a period of years generated from the increased taxable value of the assessed property within the district for investments in that district. After the temporal expiration of the TIF district, all future tax revenues from the increased value of the property flow back into the general fund of each participating taxing jurisdiction. Several TIF districts have already been created in the BCD Region.



The TIF revenues are measured (usually) by the millage rates of all the overlapping taxing districts. Since 1999, the consent of the overlapping taxing districts is required in order to include their portion of millage in the TIF revenues. In other words, without the consent of the overlapping taxing districts, only the millage of the local government creating the TIF district can be used to generate TIF revenues.

Eligible tax revenue sources that can be captured in the TIF include:

- Property tax
- Payments in lieu of taxes (PILOTs)
- Utility revenues
- Assessments
- Redevelopment project revenues

An example of a TIF District revenue calculation is set forth below:

Tax Increments Generated over a TIF District's 23-Year Lifespan						
Year	1	5	10	15	20	23
Total EAV of parcels within TIF district	\$45,060,000	\$55,073,605	\$66,042,149	\$78,807,119	\$94,958,979	\$108,879,965
Base EAV	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000
Incremental EAV	\$60,000	\$10,073,605	\$21,042,149	\$33,807,119	\$49,958,979	\$63,879,965
Consolidated property tax rate	8%	8%	7%	8%	5%	8%
TIF increment	\$4,800	\$805,888	\$1,472,950	\$2,704,570	\$2,497,949	\$5,110,397
Compensation to School District # X	\$0	\$187,500	\$187,500	\$187,500	\$187,500	\$187,500
Net TIF increment	\$4,800	\$618,388	\$1,285,450	\$2,517,070	\$2,310,449	\$4,922,897
Cumulative TIF increment	\$4,800	\$1,421,923	\$6,777,912	\$16,379,994	\$28,545,339	\$38,715,863

Adapted from Weber & Goddeeris, Tax Increment Financing: Process and Planning Issues

Financing options are flexible according to state statutes. State law authorizes bonds and allows for special assessments; subject to separate overlaid assessment provisions outlined SC Code 12-37. Pay as you go and short-term tax anticipation notes are other common practice methods for financing infrastructure investments within TIF districts. Bond financing requires a sponsoring public agency to issue public bonds. Bond debt is paid off through the collection of future increment-generated tax revenue. This approach places the risk of performance of the TIF district on the public sector. Under a “pay as you go” or “reimbursement” approach, the developer pays for the infrastructure subject to the incentive and is reimbursed by the local jurisdiction as increment generated tax revenues are collected by the district. This approach places the risk of the performance of the TIF district on the developer. The reimbursement approach is often difficult in TIF districts with a large number of small landowners who cannot collectively raise enough capital to facilitate any meaningful infrastructure investment. Accordingly, TIFs for redevelopment areas not controlled by a single landowner typically require the issuance of public bonds to finance the targeted infrastructure for the project.

In terms of the types of investments that could support the implementation of the preferred scenario, the following types of projects could be funded through a TIF:

- Bike lanes and trails
- Curb & sidewalk work
- Drainage facilities
- Environmental remediation
- Force mains
- Land acquisition & relocation
- Park improvements
- Parking structures

- Pathways that facilitate intermodal transportation
- Pedestrian bridge systems that link commercial centers to transit systems
- Public buildings
- Publicly owned & maintained utilities
- Street construction & expansion, traffic signals & related equipment

In addition to value capture, TIFs allow a jurisdiction to negotiate with developers for desirable project additions such as the inclusion of affordable housing or greater public amenities, etc. in speculative or “hot” development areas. More generally, TIFs provide local jurisdictions the flexibility to enter into partnerships with developers to undertake the type of development that better fits the vision of the community and ultimately the regional preference for growth over time.

Municipal Improvement Districts

Improvement districts allow for the special assessment of additional revenues over the current property tax for a particular location in which a district is created. Improvement districts also allow for the issuance of debt for investments in infrastructure for the benefit of the district.

The state allows for the creation of Municipal Improvement Districts for investments in a wide range of infrastructure including malls, parkways, parks, recreation facilities, athletic facilities, pedestrian facilities, parking facilities, parking garages, and underground parking facilities. Taken in the aggregate, infrastructure may be designated by the governing body as a 'system' of related projects. Also, the governing body of a municipality, after due investigation and study, may determine that improvements located outside the boundaries of an improvement district confer a benefit upon property inside an improvement district or are necessary to make improvements within the improvement district effective for the benefit of property inside the improvement district.

This authority confers broad powers to create assessments and to issue bonds for a broad range of improvements, including those outside the boundary of the district that benefit the district. The preferred scenario for OurRegion OurPlan will rely on sustainable neighborhoods as a key component, regardless of which scenario is chosen as the preferred approach. The levying of assessments to support such neighborhoods will be a critical tool for the implementation of a scenario.

Residential Improvement District Act

Similar to the Municipal Improvement Districts, the state allows for the creation of Residential Improvement Districts that enable special assessments against assessed property values and the issuance of public bonds to pay for public infrastructure improvements. Like the Municipal Improvement District, things incidental to an improvement including, but not limited to, planning, engineering, and acquisition of necessary easements and land may be eligible for expenditures.

A Potential Value Capture Opportunity—Sustainable Development Policy for CHATS

CHATS, the Region’s Metropolitan Planning Organization (MPO), is chartered by the United States Government to “encourage and promote the safe and efficient management, operation, and development of surface transportation systems that will serve the mobility needs of people and freight and foster economic growth and development... [and to] encourage the continued improvement and evolution of the metropolitan and statewide transportation planning processes.” (23 U.S.C. § 134(a)) A significant proportion of federal transportation funds sent to each state are allocated through the MPO. The MPO prepares a long range transportation plan (LRTP) every 5 years, and then a Transportation Improvement Program (TIP) to implement the long range plan by allocating funds to specific transportation expenditures including highways, streets, sidewalks, plazas, streetscapes, etc.

Typically, most projects are selected through a prioritization based on the Region’s travel demand model, focusing on mitigation of future congestion. Some MPOs have begun to allocate some of their federal funding through competitive programs to encourage sustainable development. For example, the North Central Texas Council of Governments (NCTCOG) has made some federal Surface Transportation Program Multimodal funds, Congestion Air Quality Mitigation funds and general gas tax funds available to local communities and partnering developers for transportation projects that promote sustainable neighborhood development patterns and transit. A street, transit or pedestrian improvement project will receive priority within the funding allocation if it is demonstrated that the project funding will promote infill development, access to transit, local zoning reforms (i.e., form-based codes) in support of walkable urbanism or reinvestment in downtowns/neighborhood centers.

Such a policy would allow for CHATS prioritization of and funding for projects and communities that are utilizing strategies consistent with the vision of OurRegion OurPlan. BCDCOG could then allow value capture mechanisms to be used as the local match for a transportation project, if it is consistent with implementation of the preferred scenario for Our Region Our Plan.

Conclusion – Value Capture Framework

Limited direct value capture mechanisms, including Tax Increment Financing (TIF) and improvement districts, exist under current state law. In addition to TIFs and improvement districts, this memo identified other additional sources of revenue that can be harnessed for value capture through local policy such as dedicating accommodations/hospitality taxes or local transportation taxes to projects that advance the Regional Plan. A synopsis is provided below.

Value Capture Type	Direct	Indirect
Impact Fees		X
Local Accommodations Tax		X
Local Hospitality Tax		X
Property Tax		X
Tax Increment Financing (TIF)	X	
Municipal and Residential Improvement Districts	X	

There is no current legislation pending that proposes to expand potential direct or indirect value capture opportunities. However, potential opportunities will be identified as part of the scenarios assessment for the Regional Plan in addition to making recommendations on potential targeted investments to support the preferred scenario.