Appendix 5: Financing

For more information, contact Jacob.Sesker at jacob.sesker@mncppc-mc.org

Staff presented the following four documents to the Planning Board as part of their worksessions following the public hearing:

- February 19, 2009 Memorandum
- February 19, 2009 Staff Report
- May 7, 2009 Memorandum
- June 4, 2009 Amendment to May 7, 2009 Memorandum, per Planning Board (Attachment D)

February 19, 2009 Memorandum

Agenda Item # 6
February 19, 2009

Montgomery County Planning Department
The Maryland-National Capital Park and Planning Commission

February 12, 2009

COVER MEMORANDUM

TO: Montgomery County Planning Board

VIA: Piera Weiss, Master Planner (Vision Division) PW
Dan Hardy, Chief (Move Division) and Acting Chief (Explore Division) DKH

FROM: Jacob Sesker, Planner Coordinator (Explore/Research) JNS

SUBJECT: Cover Memo-White Flint Financing

STAFF RECOMMENDATION

Review Staff analysis.

BACKGROUND AND CONTEXT

The attached memo contains the technical analysis of the financing mechanism described in the White Flint Sector Plan. Specifically, the attached memo examines the extent to which public sector gap financing could be required to pay for "District" infrastructure inside the Sector Plan area.

Throughout the past year, Staff has discussed with the Board a number of specific implementation tools that might be appropriate for application in the White Flint Sector Plan. Among the tools discussed were specific financing and administrative mechanisms.

In general, financing and administrative mechanisms were suggested because of the significant costs of infrastructure and the practical need for greater certainty in infrastructure programming. The Planning Board directed Staff to pursue an ambitious approach, which includes an Authority with dedicated streams of funding and which has the powers necessary to improve the certainty that all necessary infrastructure projects will be delivered when needed.

The "District" Financing Mechanism

The financing mechanism supported by the Board has been called a "District" financing mechanism, because it works by capturing private and public revenues generated by the new development within the Sector Plan area, or "District." This concept is consistent with the current best practices in transit area reinvestment and redevelopment.

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It is assumed that the "District" will fund the construction or reconstruction[1] of the following facilities, as set forth in the Sector Plan:

- Rockville Pike ($66M)
- Metrorail Station north entrance ($25M)
- MARC station and supporting access ($13M)
- Circulator shuttles ($5M)
- Local streets not required for site access and design ($62M)

Those projects will be funded through a combination of private and public funds. The sources of those funds will include:

- Transportation impact taxes charged to new residential development
- Transportation impact taxes charged to new commercial development, if necessary
- A special tax/assessment of up to 10% above the current overall real property tax (ad valorem) of all new and existing commercial uses/development
- Public financing (through TIF financing or GO bonds) to cover financing gaps

The attached Technical Memorandum represents Staff's analysis of the performance of the financing mechanism. This analysis is intended to provide the Board with additional information regarding the costs to the public sector of providing gap financing for the "District" infrastructure program.

A Note on Administration and Financing

The administrative mechanism—to the extent that it can be separated from the financing mechanism—is not the subject of this analysis or this work session. The administrative mechanism supported by the Planning Board would have powers greater than any currently existing urban districts in Montgomery County. Reflecting the Planning Board's position, the Sector Plan recommends the creation of the White Flint Redevelopment Implementation Authority, which would be endowed with broad powers and carefully defined responsibilities, as set forth in the Sector Plan itself.

The purpose of the Authority is to facilitate the orderly implementation of the Sector Plan by delivering meaningful chunks of infrastructure when that infrastructure is needed. The administrative mechanism plays an important role in advancing the infrastructure staging plan. Because the planned improvements to Rockville Pike must occur after a more robust street network is constructed, the administrative mechanism that is ultimately adopted should be able to deliver that robust street network in a timely fashion.

[1] Estimates do not include the cost of right-of-way acquisition.

SUMMARY OF FINANCING MECHANISM ISSUES

1) *Should new residential development make a payment to the District that is equivalent to the current transportation impact tax for residential development?*

Staff's analysis (see attached Technical Memorandum) indicates that a residential impact tax (or equivalent) payment to the District would meet approximately 7% of the total cost of the District transportation projects. The residential impact tax payment would contribute a greater portion of the total project costs to the extent that development takes advantage of the Alternative Review Procedure, for which higher impact taxes and a TDM monitoring program can replace the LATR and PAMR tests for transportation system adequacy. Under the proposed implementation authority scheme, however, the LATR and PAMR tests would be replaced by the pro-rata mechanisms described in this memorandum, so that no property owner would have an incentive to use the Alternative Review Procedure.

Staff continues to recommend that new residential development make payments to the District. These payments will help to ensure that new development (as opposed to existing uses) and residential development (as opposed to commercial development) contribute to the costs of new infrastructure. By making these payments to the District, rather than to the County, these revenues can reduce the borrowing risk associated with Stage 2 and Stage 3 infrastructure. Staff acknowledges that by directing those payments to the District, the County might lose some potential impact tax revenue. However, the magnitude of that loss is unclear given the current crediting system.

Staff continues to recommend that those payments be in an amount equivalent to the current transportation impact tax. Staff believes that this is the best approach given concerns about housing affordability on the one hand, and the potential effect of "crediting" on the other hand ("crediting" refers to the credits against the impact tax payments given for required traffic mitigation measures).

2) *Should the current transportation impact tax (or equivalent) payment by new commercial development be eliminated or reduced for the White Flint Sector Plan?*

Staff's analysis (see attached Technical Memorandum) indicates that the majority of the costs of District transportation infrastructure would be borne by new and existing commercial uses. The 10% special assessment on all new and existing commercial uses would result in significantly greater revenue than the current transportation impact tax on new commercial development. One reason for this is that the Sector Plan adds more residential capacity than commercial capacity, but the current development is predominantly commercial.

Staff continues to recommend elimination (or at least reduction) of the current transportation impact tax on new commercial development. Staff assumes that it will be politically difficult to impose a special assessment or other additional costs for commercial property owners if that

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imposed cost is in addition to the existing transportation impact taxes. Additionally, a special assessment on all new and existing commercial uses might serve to incentivize redevelopment; to simultaneously charge impact taxes on new commercial development might substantially reduce the incentive effect of the special assessment.

3) *Should the private portion of District financing come from a special tax/assessment on all new and existing commercial uses?*

Staff's analysis indicates that the special tax/assessment on commercial uses will generate substantially more revenue than would be generated by the current impact tax payments charged to new commercial development. The analysis shows that the financing mechanism relies upon the special assessment for more than 60% of the cost of District infrastructure.

The Sector Plan recommends replacing one-time payments by new development (impact taxes) with a special tax/assessment on all new and existing commercial uses. This special tax/assessment generates recurring payments which provide annual revenues. Those revenues represent a dedicated stream of revenues against which the District can borrow.

4) *Should the special tax/assessment on all new and existing commercial uses be established at a rate equal to 10% above and beyond the current overall ad valorem real property tax bill?*

Reducing the special assessment to less than 10% on top of the overall ad valorem real property tax would increase the size of the financing gap to be filled by public sector. If establishing the special assessment as an ad valorem charge implicates charter limit issues, other solutions could be appropriate. However, any such alternative should generate a similar level of revenue and represent a similarly equitable distribution of costs.

5) *Should incremental public sector revenues be used to fill the financing gap?*

Staff analysis indicates that the cost of the master planned transportation infrastructure will likely exceed the ability of the private sector to pay. To the extent that burden falls on new development through impact taxes or exactions, the cost would stymie new development. To the extent that burden falls on existing uses, the result would be a significant increase in the tax bills of going concerns. Assuming that infrastructure costs cannot be reduced, a logical alternative to placing the burden solely on the private sector would be to provide public sector gap financing. The new development will generate a substantial tax increment, a portion of which could be applied to close the financing gap.

ISSUES FOR FUTURE CONSIDERATION

Staff has received testimony from interested stakeholders as well as other information from Staff's continuing engagement with the Executive Branch. This new information has raised the following concerns:

- The relative effectiveness of the proposed administrative mechanism when compared to existing implementation tools
- The assumptions regarding ROW acquisition costs for District transportation projects may understate costs to both the public sector and the District
- The need for greater detail which party will build the facilities funded by the District financing mechanism
- The issue of whether the MARC station and Metro station improvements should be funded by the District
- T effect on the financing mechanism of any changes to the transportation network, land use (density and mix), and administrative mechanism.

All issues raised by testimony—including those outlined above—will be addressed by Staff in future work sessions.

NOTE: EXECUTIVE TESTIMONY AND INTER-AGENCY IMPLEMENTATION DISCUSSIONS

The written testimony submitted by the County Executive expresses fundamental concerns regarding the proposed administrative mechanism. The Executive feels that existing structures would achieve the Sector Plan's objectives.

Staff began the process of engaging the Executive Branch in spring 2008. To date, a number of meetings have been held to discuss issues related to implementation of the Sector Plan. Staff continues to work with the Executive Branch in an effort to better understand the Executive's concerns.

NOTE: ECONOMIC ANALYSIS PRESENTED BY THE DEVELOPMENT COLLABORATIVE

Efforts by a group of property owners in the White Flint Sector Plan area (the Development Collaborative[2]) culminated in the production of a report, which was entitled "White Flint Sector Plan: Financial Analysis, Economic Benefits & Infrastructure Financing". That report was not submitted as public testimony, but in November that report was distributed to the Planning

[2] The "Development Collaborative" includes Federal Realty Investment Trust, The JBG Companies, Lerner Enterprises, The Tower Companies, Combined Properties, and The Holladay Corporation

Board, as well as members of both the legislative and executive branches of government. That report addressed three separate issues:

- "Economic benefits of development within the White Flint Sector Plan area to Montgomery County"
- "Public-private financing strategy for critical transportation improvements"
- "Economic viability of development in the context of the TMX-zone and White Flint Sector Plan requirements"

Staff's Technical Memorandum addresses only the second of these three issues, and in no way is intended to either rebut or endorse that analysis.

In its report, the Development Collaborative argues that while the benefits of redevelopment in White Flint are substantial, Montgomery County's zones, policies and regulations—and certain aspects of the Draft Sector Plan—will render much of the redevelopment infeasible. The Development Collaborative lists eighteen changes to the Draft Sector Plan, County policies, and County regulations that, in its estimation, improve the viability of redevelopment.

Of the eighteen suggested changes, only three pertain uniquely/specifically to the Draft Sector Plan (a more flexible mix of uses, allow above grade parking subject to reasonable design guidelines, and substantial changes to the transfer of density proposal aspect of the Sector Plan's zoning capacity). The remaining suggested changes address issues that are beyond the purview of the master plan process, and which would be typically addressed in discussions regarding regulatory process, the annual growth policy, affordable housing policy, and parking policy.

Agenda Item # 6
February 19, 2009

MONTGOMERY COUNTY PLANNING DEPARTMENT
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

February 12, 2009

TECHNICAL MEMORANDUM

TO: Montgomery County Planning Board

CC: Piera Weiss, Master Planner (Vision Division) PW

VIA: Dan Hardy, Chief (Move Division), Acting Chief (Explore Division) DKH

FROM: Jacob Sesker, Planner Coordinator (Explore/Research) JNS

SUBJECT: Technical Memo-White Flint Financing

1.0 INTRODUCTION

This memorandum contains Staff's technical analysis of the financing mechanism proposed in the White Flint Sector Plan. The memorandum includes the following information:

- Section 1 includes a discussion of the background of this analysis and a summary of findings.
- Section 2 includes an explanation of the assumptions used to establish a build-out of the development program and an analysis of the various revenues generated by that build-out.
- Section 3 (and Appendix A) describes the transportation system cost estimates.
- Section 4 provides an analysis of the proposed financing mechanism, while Appendix B demonstrates the sensitivity of the proposed mechanism to some alternative assumptions.

1.1 BACKGROUND

The most recent Planning Board discussions dealing with financing and administration took place on the following dates:

- September 11, 2008
- October 30, 2008

On September 11, 2008, Staff sought guidance from the Planning Board with respect to a series of issues. In that session, the Board expressed to Staff its support for the following financing principles, taken from Staff's September 11th cover memorandum:

- "Find ways to capture as much of the impact tax and general fund tax revenue as possible for projects within the district that will resolve short-term mobility issues, including possibly creating one or more districts, expanding the Metro Station Policy Area boundary and supporting changes to the Annual Growth Policy in 2009 that would capture impact taxes paid within a metro station policy area for use only on capital projects within the Metro Station Policy Area."

- "Find ways to leverage future private sector revenues to decrease the up-front burden of impact taxes, thereby freeing up more private capital for investment in income/revenue producing uses, including possible road club or special tax/assessments applied to all new and existing commercial uses in lieu of impact taxes on commercial development."

- "Find ways to leverage future general fund tax revenues to pay for reconstructing Rockville Pike and undergrounding utilities along the Pike to create a better street-level environment and improved pedestrian and bicycle mobility that benefit all property owners within the district, including using Tax Increment Financing (TIF) or TIF-like mechanisms."

On October 30th, Staff came back to the Planning Board with a more detailed discussion of the issues associated with the implementation of the Sector Plan and a description of proposed financing and administration mechanisms. At that time, the Planning Board directed Staff to return with a quantitative analysis of the financing mechanism following the public hearing.

The financing mechanism would pay for a subset of all master planned transportation facilities. The financing mechanism proposed, often referred to as a "District" financing mechanism would receive funds from multiple sources. Those sources would include:

1) Transportation impact taxes (or equivalents) charged to new residential development[1]
2) Transportation impact taxes charged to new commercial development, if necessary[2]
3) A special tax/assessment of up to 10% on the value of all new and existing commercial uses/development[3]
4) Public financing (through TIF financing or GO bonds) to cover financing gaps[4]

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[1] Impact fees or taxes are not ad valorem, and thus have the advantage of not being subject to limitations on increasing property taxes.
[2] It is envisioned that the commercial impact taxes would be eliminated.
[3] In some other jurisdictions, "Transportation Improvement Districts" (TIDs) have been used to finance major roadway improvements. Generally, TIDs are funded through a special assessment on affected properties. TIDs were profiled as a "best practice" in a recent report by the Office of Legislative Oversight (Report Number 2009-6, Transportation Demand Management Implementation, Funding, and Governance, pp. 48-49).
[4] The idea of capturing and reinvesting a portion of the incremental taxes generated by new, transit-oriented development, is becoming increasingly popular. For example, a continuing education training session offered by the American Institute of Certified Planners ("Transit District Investment") discusses Pennsylvania's approach to capturing and reinvesting incremental revenues.

The proposed financing mechanism does not contemplate any increased tax burden on residential development. Rather, the increased burden would fall entirely on commercial development. This concession is consistent with the County's housing affordability goals, especially in transit-served locations, and is consistent with the Sector Plan objective to add residential density.

1.2 CAVEATS

- This analysis assumes an even pace of development until build-out. The nation's economy is in an economic downturn that will likely be both long and severe. It is difficult at this stage to speculate on the extent to which this economic downturn will affect future development activity in Montgomery County.
- This analysis does not include the cost of acquiring rights-of-way for District infrastructure projects. It is assumed that all ROW is dedicated or acquired using other sources of funds. While the Sector Plan recommends that the Authority have power of eminent domain, the cost of wielding that power (by the Authority or by the public sector) is not a part of this analysis.
- This report does not include an analysis of the ongoing (operation and maintenance) costs of any Sector Plan facilities, nor does it address the capital costs of non-transportation facilities (e.g. urban library, fire substation, etc.).
- This is not an omnibus "economic issues" report, but is instead an analysis of the performance of the proposed financing mechanism under specified assumptions. This report does not include analysis of development feasibility, or analysis of realistic short-term or mid-term absorption rates. Similarly, this report does not contain economic analysis of the impact of the Sector Plan recommendations on certain geographic or interest-based communities. Additionally, this analysis does not contain an analysis of the costs of the County's exactions, or the extent to which existing exactions have been internalized in land values.

1.3 SUMMARY OF FINDINGS

Residential impact tax equivalent payments

Capturing residential impact taxes for capital projects within the District is a current best practice in transit area redevelopment and reinvestment. In the White Flint Sector Plan, those captured impact taxes (or equivalents) would be directed to pay for District projects rather than public sector projects. Overall, the impact taxes pay for roughly 7% of the total cost of District infrastructure.

Elimination of commercial impact taxes

The premise for eliminating or reducing the commercial impact taxes is that a special tax/assessment of 10% would generate more revenue than the transportation impact taxes charged at current rates. It is assumed that it would be difficult to impose an increase in taxes, or expect a voluntary increase, without offering a reduction or elimination of the impact taxes. The analysis shows the special tax/assessment will generate many times more revenue than would be generated by the impact tax.

Special tax/assessment

Charging a special tax/assessment on all new and existing commercial uses in White Flint equal to 10% (ad valorem) above current property tax rates could pay for roughly 63% of the District transportation infrastructure. Those revenues would represent a dedicated source of revenues against which the District could borrow. Though ad valorem is an equitable manner to distribute the tax incidence, other methods capable of generating comparable revenues would be acceptable.

Public sector gap financing

To finance the "District" infrastructure entirely with private money would result in a substantial increase in taxes/assessments or impact taxes. Assuming that those alternatives are too onerous, gap financing will be necessary to advance the staging plan. Given the current list of District projects, the public sector would need to provide gap financing to cover 30% of the cost of District infrastructure.

2.0 BUILD-OUT, ASSESSMENTS, AND REVENUES

Staff has presented to the Planning Board a staging capacity build-out density of nearly 30 million square feet. That total includes residential and non-residential uses. The build-out density is not equal to the total zoning capacity of the Sector Plan, but rather the total staging capacity of the Sector Plan. The splits between uses were determined in part by a desire to achieve greater potential density.

Residential

- Existing: 2,259 dwelling units
- Pipeline: 2,220 dwelling units
- Net New: 9,800 dwelling units

Non-residential

- Existing: 5.5 million square feet
- Pipeline: 1.79 million square feet
- Net New: 5.69 million square feet

The density numbers above (dwelling units and commercial square feet) ultimately drive the revenue assumptions and the subsequent analysis of the proposed financing mechanism.

2.1 BUILD-OUT

As presented, the Sector Plan will be "built out" when the net new development reaches the plan's transportation capacity.

The following table represents the net new development by use under the transportation capacity of the Sector Plan as currently proposed.

Table 1: New development, net of existing and pipeline (by use)

TOTAL NET NEW DEVELOPMENT	
Dwelling Units	9,800
Office	2,831,746
Retail	1,887,830
Industrial	317,058
Other	0
Hotel	653,366

For purposes of this analysis, it is assumed that build-out of net new development occurs over a 30-year development timeline. The following additional assumptions were made in creating the build-out scenario:

- Pipeline development (residential and non-residential) is spread evenly over years 1 through 5.
- No pipeline development (residential and non-residential) is redeveloped during the 30 year build-out horizon.
- Net new development is spread evenly across years 6 through 30 for all uses. Put differently, 1/25th of all net new development for each use comes on line in each of those years.
- No existing residential development is redeveloped.
- All existing non-residential is redeveloped, with that redevelopment spread evenly over the 30-year build-out horizon. Put differently, 1/30th of all existing non-residential development is replaced every year (one square foot for one square foot) with new, higher value development.

Table 2: Cumulative residential units, by year

TOTAL RESIDENTIAL DEVELOPMENT ON THE GROUND (UNITS)				
Year	Existing	Pipeline	New	Total
0	2,259	-	-	2,259
1	2,259	444	-	2,703
2	2,259	888	-	3,147
3	2,259	1,332	-	3,591
4	2,259	1,776	-	4,035
5	2,259	2,220	-	4,479
6	2,259	2,220	392	4,871
7	2,259	2,220	784	5,263
8	2,259	2,220	1,176	5,655
9	2,259	2,220	1,568	6,047
10	2,259	2,220	1,960	6,439
11	2,259	2,220	2,352	6,831
12	2,259	2,220	2,744	7,223
13	2,259	2,220	3,136	7,615
14	2,259	2,220	3,528	8,007
15	2,259	2,220	3,920	8,399
16	2,259	2,220	4,312	8,791
17	2,259	2,220	4,704	9,183
18	2,259	2,220	5,096	9,575
19	2,259	2,220	5,488	9,967
20	2,259	2,220	5,880	10,359
21	2,259	2,220	6,272	10,751
22	2,259	2,220	6,664	11,143
23	2,259	2,220	7,056	11,535
24	2,259	2,220	7,448	11,927
25	2,259	2,220	7,840	12,319
26	2,259	2,220	8,232	12,711
27	2,259	2,220	8,624	13,103
28	2,259	2,220	9,016	13,495
29	2,259	2,220	9,408	13,887
30	2,259	2,220	9,800	14,279

For purposes of this analysis it is assumed that in thirty years there will be 14,279 residential units within the boundaries of the White Flint Sector Plan. All pipeline development is spread evenly over the first five years, with all net new development spread evenly over the remaining twenty-five years.

Table 3: Cumulative non-residential square feet, by year

TOTAL NON-RESIDENTIAL DEVELOPMENT ON THE GROUND (SQUARE FEET)					
Year	Existing	Pipeline	Net New	Replacement New	Total
0	*5,500,000*	-	-	-	*5,500,000*
1	5,316,667	358,000	-	183,333	5,858,000
2	5,133,333	716,000	-	366,667	6,216,000
3	4,950,000	1,074,000	-	550,000	6,574,000
4	4,766,667	1,432,000	-	733,333	6,932,000
5	4,583,333	1,790,000	-	916,667	7,290,000
6	4,400,000	1,790,000	227,600	1,100,000	7,517,600
7	4,216,667	1,790,000	455,200	1,283,333	7,745,200
8	4,033,333	1,790,000	682,800	1,466,667	7,972,800
9	3,850,000	1,790,000	910,400	1,650,000	8,200,400
10	3,666,667	1,790,000	1,138,000	1,833,333	8,428,000
11	3,483,333	1,790,000	1,365,600	2,016,667	8,655,600
12	3,300,000	1,790,000	1,593,200	2,200,000	8,883,200
13	3,116,667	1,790,000	1,820,800	2,383,333	9,110,800
14	2,933,333	1,790,000	2,048,400	2,566,667	9,338,400
15	2,750,000	1,790,000	2,276,000	2,750,000	9,566,000
16	2,566,667	1,790,000	2,503,600	2,933,333	9,793,600
17	2,383,333	1,790,000	2,731,200	3,116,667	10,021,200
18	2,200,000	1,790,000	2,958,800	3,300,000	10,248,800
19	2,016,667	1,790,000	3,186,400	3,483,333	10,476,400
20	1,833,333	1,790,000	3,414,000	3,666,667	10,704,000
21	1,650,000	1,790,000	3,641,600	3,850,000	10,931,600
22	1,466,667	1,790,000	3,869,200	4,033,333	11,159,200
23	1,283,333	1,790,000	4,096,800	4,216,667	11,386,800
24	1,100,000	1,790,000	4,324,400	4,400,000	11,614,400
25	916,667	1,790,000	4,552,000	4,583,333	11,842,000
26	733,333	1,790,000	4,779,600	4,766,667	12,069,600
27	550,000	1,790,000	5,007,200	4,950,000	12,297,200
28	366,667	1,790,000	5,234,800	5,133,333	12,524,800
29	183,333	1,790,000	5,462,400	5,316,667	12,752,400
30	-	1,790,000	5,690,000	5,500,000	12,980,000

With non-residential development, all existing space is redeveloped over the course of the 30-year development timeline, with that redevelopment occurring at an even pace. As with net new residential, net new non-residential begins to come on line in the sixth year, with $1/25^{th}$ of all net new development coming on-line in each year thereafter. It is assumed that in thirty years there will be a total of 12,980,000 total square feet of non-residential (i.e. commercial) use.

2.2 ASSESSMENT VALUE OF BUILD-OUT

The next step in Staff's analysis was to translate build-out into assessment values over time. Assessments occur every three years. During the first three year cycle after construction, assessments are based on development costs of the improvements. When the next cycle begins, the improvements are assessed based on market value.

Table 4: Development cost and market value assumptions[5]

Development Cost and Market Value (Per Square Foot), by Use		
	Development Cost	Market Value
Residential	$300.00	$500.00
Office	$300.00	$425.00
Retail	$275.00	$400.00
Industrial	$100.00	$150.00
Hotel	$300.00	$425.00

Table 4 shows assessed values are shown at two levels—development cost and market value. Assessment of real property is based on development cost during the first 3-year tax assessment cycle and at market value thereafter. For this reason, over time the assessments (on a per square foot basis) are likely to be much closer to the market value assessments. In the remainder of this analysis, it is assumed that all development is assessed at market value.

The following assumptions were used in calculating the assessment and revenue implications of build out:

- All assessments in this analysis are assumed to be at market value.
- All non-residential uses develop evenly (i.e. $1/25^{th}$ of each use develops in Years 6 through 30).
- The weighted average market value of all non-residential uses is $401.38.
- All numbers hereafter are expressed in 2008$, and there is no inflation of costs or values assumed.

[5] The development cost and market value assumptions are based upon reasonable expectations of the market for new development under the White Flint plan. In general these figures are above the values of existing space within the metro area. New development will be of a high quality, will support an ample public benefits package, and will place White Flint among the premier locations in the region. Even still, some of these assumptions are well below the assumptions put forth by the Developer's Collaborative; for example, the Developer's Collaborative assumes retail market values of $600 per square foot, which is 50% above Staff's assumed market value.

Table 5: New residential assessments

Assessed Value of New Residential Development			
Year	Pipeline	Net New	Total
0	$0	$0	$0
1	$266,400,000	$0	$266,400,000
2	$532,800,000	$0	$532,800,000
3	$799,200,000	$0	$799,200,000
4	$1,065,600,000	$0	$1,065,600,000
5	$1,332,000,000	$0	$1,332,000,000
6	$1,332,000,000	$235,200,000	$1,567,200,000
7	$1,332,000,000	$470,400,000	$1,802,400,000
8	$1,332,000,000	$705,600,000	$2,037,600,000
9	$1,332,000,000	$940,800,000	$2,272,800,000
10	$1,332,000,000	$1,176,000,000	$2,508,000,000
11	$1,332,000,000	$1,411,200,000	$2,743,200,000
12	$1,332,000,000	$1,646,400,000	$2,978,400,000
13	$1,332,000,000	$1,881,600,000	$3,213,600,000
14	$1,332,000,000	$2,116,800,000	$3,448,800,000
15	$1,332,000,000	$2,352,000,000	$3,684,000,000
16	$1,332,000,000	$2,587,200,000	$3,919,200,000
17	$1,332,000,000	$2,822,400,000	$4,154,400,000
18	$1,332,000,000	$3,057,600,000	$4,389,600,000
19	$1,332,000,000	$3,292,800,000	$4,624,800,000
20	$1,332,000,000	$3,528,000,000	$4,860,000,000
21	$1,332,000,000	$3,763,200,000	$5,095,200,000
22	$1,332,000,000	$3,998,400,000	$5,330,400,000
23	$1,332,000,000	$4,233,600,000	$5,565,600,000
24	$1,332,000,000	$4,468,800,000	$5,800,800,000
25	$1,332,000,000	$4,704,000,000	$6,036,000,000
26	$1,332,000,000	$4,939,200,000	$6,271,200,000
27	$1,332,000,000	$5,174,400,000	$6,506,400,000
28	$1,332,000,000	$5,409,600,000	$6,741,600,000
29	$1,332,000,000	$5,644,800,000	$6,976,800,000
30	$1,332,000,000	$5,880,000,000	$7,212,000,000

At build-out, assessments of new residential development will be roughly $7.2 billion (in 2008$). This figure represents only assessments of new residential improvements, and does not include any increase in the assessed value of residential land or of existing residential improvements.[6]

[6] While the value of residential land and existing residential units may both increase over the build-out horizon, that increase is not a part of this analysis.

Table 6: New non-residential assessments

Assessed Value of Non-Residential Space				
Year	Pipeline	Net New	Replacement New	Total
0	$0	$0	$0	$0
1	$143,694,739	$0	$23,170,024	$166,864,763
2	$287,389,477	$0	$46,340,049	$333,729,526
3	$431,084,216	$0	$69,510,073	$500,594,289
4	$574,778,955	$0	$92,680,098	$667,459,053
5	$718,473,693	$0	$115,850,122	$834,323,816
6	$662,366,979	$91,354,532	$139,020,147	$892,741,658
7	$662,366,979	$182,709,064	$162,190,171	$1,007,266,215
8	$662,366,979	$274,063,597	$185,360,196	$1,121,790,771
9	$662,366,979	$365,418,129	$208,530,220	$1,236,315,328
10	$662,366,979	$456,772,661	$231,700,245	$1,350,839,885
11	$662,366,979	$548,127,193	$254,870,269	$1,465,364,441
12	$662,366,979	$639,481,725	$278,040,294	$1,579,888,998
13	$662,366,979	$730,836,257	$301,210,318	$1,694,413,555
14	$662,366,979	$822,190,790	$324,380,342	$1,808,938,111
15	$662,366,979	$913,545,322	$347,550,367	$1,923,462,668
16	$662,366,979	$1,004,899,854	$370,720,391	$2,037,987,225
17	$662,366,979	$1,096,254,386	$393,890,416	$2,152,511,781
18	$662,366,979	$1,187,608,918	$417,060,440	$2,267,036,338
19	$662,366,979	$1,278,963,451	$440,230,465	$2,381,560,895
20	$662,366,979	$1,370,317,983	$463,400,489	$2,496,085,451
21	$662,366,979	$1,461,672,515	$486,570,514	$2,610,610,008
22	$662,366,979	$1,553,027,047	$509,740,538	$2,725,134,565
23	$662,366,979	$1,644,381,579	$532,910,563	$2,839,659,121
24	$662,366,979	$1,735,736,112	$556,080,587	$2,954,183,678
25	$662,366,979	$1,827,090,644	$579,250,612	$3,068,708,234
26	$662,366,979	$1,918,445,176	$602,420,636	$3,183,232,791
27	$662,366,979	$2,009,799,708	$625,590,660	$3,297,757,348
28	$662,366,979	$2,101,154,240	$648,760,685	$3,412,281,904
29	$662,366,979	$2,192,508,772	$671,930,709	$3,526,806,461
30	$662,366,979	$2,283,863,305	$695,100,734	$3,641,331,018

Table 6 shows values of non-residential development. The table includes pipeline development, net new development, and increases in value based on redevelopment of existing space into higher value new space. Together these tables indicate that there will be additional residential value of $7.2 billion at build-out, and total new commercial value is of $3.6 billion. At build-out, the plan will generate roughly $10.8 billion (2008$) in new assessed improvement value.

2.3 REVENUE IMPLICATIONS OF BUILD-OUT

Staff applied the FY09 overall countywide property tax rate of $0.978 per $100 of assessed value, and the FY09 General Fund tax rate of $0.74 per $100 of assessed value.

Table 7: Overall property tax revenue from new residential

Net New Overall Property Tax Revenue From Residential			
Year	Pipeline	Net New	Total
0	$0	$0	$0
1	$2,605,392	$0	$2,605,392
2	$5,210,784	$0	$5,210,784
3	$7,816,176	$0	$7,816,176
4	$10,421,568	$0	$10,421,568
5	$13,026,960	$0	$13,026,960
6	$13,026,960	$2,300,256	$15,327,216
7	$13,026,960	$4,600,512	$17,627,472
8	$13,026,960	$6,900,768	$19,927,728
9	$13,026,960	$9,201,024	$22,227,984
10	$13,026,960	$11,501,280	$24,528,240
11	$13,026,960	$13,801,536	$26,828,496
12	$13,026,960	$16,101,792	$29,128,752
13	$13,026,960	$18,402,048	$31,429,008
14	$13,026,960	$20,702,304	$33,729,264
15	$13,026,960	$23,002,560	$36,029,520
16	$13,026,960	$25,302,816	$38,329,776
17	$13,026,960	$27,603,072	$40,630,032
18	$13,026,960	$29,903,328	$42,930,288
19	$13,026,960	$32,203,584	$45,230,544
20	$13,026,960	$34,503,840	$47,530,800
21	$13,026,960	$36,804,096	$49,831,056
22	$13,026,960	$39,104,352	$52,131,312
23	$13,026,960	$41,404,608	$54,431,568
24	$13,026,960	$43,704,864	$56,731,824
25	$13,026,960	$46,005,120	$59,032,080
26	$13,026,960	$48,305,376	$61,332,336
27	$13,026,960	$50,605,632	$63,632,592
28	$13,026,960	$52,905,888	$65,932,848
29	$13,026,960	$55,206,144	$68,233,104
30	$13,026,960	$57,506,400	$70,533,360
Total			*$1,112,338,080*

Table 8: Overall property tax revenues from new commercial development

Net New Overall Property Tax Revenue From Non-Residential					
Year	Existing	Pipeline	Net New	Replacement New	Total
0	$14,792,250[7]	$0	$0	$0	$0
1	$14,299,175	$1,405,335	$0	$226,603	$1,631,937
2	$13,806,100	$2,810,669	$0	$453,206	$3,263,875
3	$13,313,025	$4,216,004	$0	$679,809	$4,895,812
4	$12,819,950	$5,621,338	$0	$906,411	$6,527,750
5	$12,326,875	$7,026,673	$0	$1,133,014	$8,159,687
6	$11,833,800	$6,477,949	$893,447	$1,359,617	$8,731,013
7	$11,340,725	$6,477,949	$1,786,895	$1,586,220	$9,851,064
8	$10,847,650	$6,477,949	$2,680,342	$1,812,823	$10,971,114
9	$10,354,575	$6,477,949	$3,573,789	$2,039,426	$12,091,164
10	$9,861,500	$6,477,949	$4,467,237	$2,266,028	$13,211,214
11	$9,368,425	$6,477,949	$5,360,684	$2,492,631	$14,331,264
12	$8,875,350	$6,477,949	$6,254,131	$2,719,234	$15,451,314
13	$8,382,275	$6,477,949	$7,147,579	$2,945,837	$16,571,365
14	$7,889,200	$6,477,949	$8,041,026	$3,172,440	$17,691,415
15	$7,396,125	$6,477,949	$8,934,473	$3,399,043	$18,811,465
16	$6,903,050	$6,477,949	$9,827,921	$3,625,645	$19,931,515
17	$6,409,975	$6,477,949	$10,721,368	$3,852,248	$21,051,565
18	$5,916,900	$6,477,949	$11,614,815	$4,078,851	$22,171,615
19	$5,423,825	$6,477,949	$12,508,263	$4,305,454	$23,291,666
20	$4,930,750	$6,477,949	$13,401,710	$4,532,057	$24,411,716
21	$4,437,675	$6,477,949	$14,295,157	$4,758,660	$25,531,766
22	$3,944,600	$6,477,949	$15,188,605	$4,985,262	$26,651,816
23	$3,451,525	$6,477,949	$16,082,052	$5,211,865	$27,771,866
24	$2,958,450	$6,477,949	$16,975,499	$5,438,468	$28,891,916
25	$2,465,375	$6,477,949	$17,868,946	$5,665,071	$30,011,967
26	$1,972,300	$6,477,949	$18,762,394	$5,891,674	$31,132,017
27	$1,479,225	$6,477,949	$19,655,841	$6,118,277	$32,252,067
28	$986,150	$6,477,949	$20,549,288	$6,344,879	$33,372,117
29	$493,075	$6,477,949	$21,442,736	$6,571,482	$34,492,167
30	$0	$6,477,949	$22,336,183	$6,798,085	$35,612,217
Total					*$578,769,445*

[7] Existing assessed value in this case is derived by multiplying the estimated total square feet of non-residential in the Sector Plan (5,500,000) by $275 per square foot. The $275 figure is based on a review of the assessment value of improvements for most non-residential parcel file data for the Sector Plan area. This method was used in order to smooth out data discrepancies pertaining to both the total number of commercial square feet and the total value of commercial improvements.

Taken together, these numbers indicate roughly $1.7 billion (2008$) over 30 years in overall property taxes from the assessment of new improvements.[8]

Of course, overall property tax revenue includes funds designated for specific purposes. Only a portion of overall revenues are available to pay for infrastructure. The portion that is available is the portion of overall revenues that go to the General Fund. The revenues to the General Fund represent roughly ¾ of the overall property tax revenues.

[8] This is not the same as incremental revenues, which will be addressed later. These figures are improvements only and do not include land assessments, which are assumed to remain constant.

Table 9: General Fund property tax revenues, residential development

Net New General Fund Property Tax Revenue From Residential			
Year	Pipeline	Net New	Total
0	$0	$0	$0
1	$1,971,360	$0	$1,971,360
2	$3,942,720	$0	$3,942,720
3	$5,914,080	$0	$5,914,080
4	$7,885,440	$0	$7,885,440
5	$9,856,800	$0	$9,856,800
6	$9,856,800	$1,740,480	$11,597,280
7	$9,856,800	$3,480,960	$13,337,760
8	$9,856,800	$5,221,440	$15,078,240
9	$9,856,800	$6,961,920	$16,818,720
10	$9,856,800	$8,702,400	$18,559,200
11	$9,856,800	$10,442,880	$20,299,680
12	$9,856,800	$12,183,360	$22,040,160
13	$9,856,800	$13,923,840	$23,780,640
14	$9,856,800	$15,664,320	$25,521,120
15	$9,856,800	$17,404,800	$27,261,600
16	$9,856,800	$19,145,280	$29,002,080
17	$9,856,800	$20,885,760	$30,742,560
18	$9,856,800	$22,626,240	$32,483,040
19	$9,856,800	$24,366,720	$34,223,520
20	$9,856,800	$26,107,200	$35,964,000
21	$9,856,800	$27,847,680	$37,704,480
22	$9,856,800	$29,588,160	$39,444,960
23	$9,856,800	$31,328,640	$41,185,440
24	$9,856,800	$33,069,120	$42,925,920
25	$9,856,800	$34,809,600	$44,666,400
26	$9,856,800	$36,550,080	$46,406,880
27	$9,856,800	$38,290,560	$48,147,360
28	$9,856,800	$40,031,040	$49,887,840
29	$9,856,800	$41,771,520	$51,628,320
30	$9,856,800	$43,512,000	$53,368,800
Total			*$841,646,400*

New residential development will generate roughly $840 million (2008$) in General Fund revenues over the 30 year build-out horizon.

Table 10: General Fund property tax revenues, non-residential development

Net New General Fund Property Tax Revenue From Non-Residential					
Year	Existing	Pipeline	Net New	Replacement New	Total
0	$ 11,192,500	$ -	$ -	$ -	$ -
1	$ 10,819,417	$ 1,063,341	$ -	$ 171,458	$ 1,234,799
2	$ 10,446,333	$ 2,126,682	$ -	$ 342,916	$ 2,469,598
3	$ 10,073,250	$ 3,190,023	$ -	$ 514,375	$ 3,704,398
4	$ 9,700,167	$ 4,253,364	$ -	$ 685,833	$ 4,939,197
5	$ 9,327,083	$ 5,316,705	$ -	$ 857,291	$ 6,173,996
6	$ 8,954,000	$ 4,901,516	$ 676,024	$ 1,028,749	$ 6,606,288
7	$ 8,580,917	$ 4,901,516	$ 1,352,047	$ 1,200,207	$ 7,453,770
8	$ 8,207,833	$ 4,901,516	$ 2,028,071	$ 1,371,665	$ 8,301,252
9	$ 7,834,750	$ 4,901,516	$ 2,704,094	$ 1,543,124	$ 9,148,733
10	$ 7,461,667	$ 4,901,516	$ 3,380,118	$ 1,714,582	$ 9,996,215
11	$ 7,088,583	$ 4,901,516	$ 4,056,141	$ 1,886,040	$ 10,843,697
12	$ 6,715,500	$ 4,901,516	$ 4,732,165	$ 2,057,498	$ 11,691,179
13	$ 6,342,417	$ 4,901,516	$ 5,408,188	$ 2,228,956	$ 12,538,660
14	$ 5,969,333	$ 4,901,516	$ 6,084,212	$ 2,400,415	$ 13,386,142
15	$ 5,596,250	$ 4,901,516	$ 6,760,235	$ 2,571,873	$ 14,233,624
16	$ 5,223,167	$ 4,901,516	$ 7,436,259	$ 2,743,331	$ 15,081,105
17	$ 4,850,083	$ 4,901,516	$ 8,112,282	$ 2,914,789	$ 15,928,587
18	$ 4,477,000	$ 4,901,516	$ 8,788,306	$ 3,086,247	$ 16,776,069
19	$ 4,103,917	$ 4,901,516	$ 9,464,330	$ 3,257,705	$ 17,623,551
20	$ 3,730,833	$ 4,901,516	$ 10,140,353	$ 3,429,164	$ 18,471,032
21	$ 3,357,750	$ 4,901,516	$ 10,816,377	$ 3,600,622	$ 19,318,514
22	$ 2,984,667	$ 4,901,516	$ 11,492,400	$ 3,772,080	$ 20,165,996
23	$ 2,611,583	$ 4,901,516	$ 12,168,424	$ 3,943,538	$ 21,013,477
24	$ 2,238,500	$ 4,901,516	$ 12,844,447	$ 4,114,996	$ 21,860,959
25	$ 1,865,417	$ 4,901,516	$ 13,520,471	$ 4,286,455	$ 22,708,441
26	$ 1,492,333	$ 4,901,516	$ 14,196,494	$ 4,457,913	$ 23,555,923
27	$ 1,119,250	$ 4,901,516	$ 14,872,518	$ 4,629,371	$ 24,403,404
28	$ 746,167	$ 4,901,516	$ 15,548,541	$ 4,800,829	$ 25,250,886
29	$ 373,083	$ 4,901,516	$ 16,224,565	$ 4,972,287	$ 26,098,368
30	$ -	$ 4,901,516	$ 16,900,588	$ 5,143,745	$ 26,945,850
Total					*$437,923,711*

Non-residential development could generate roughly $440 million (2008$) in General Fund revenue. Total General Fund revenues from all residential and non-residential improvements would be roughly $1.3 billion over the 30-year build-out horizon.

2.4 ANALYSIS OF INCREMENTAL REVENUES

In determining the incremental revenues generated by the new development, a critical step is making a determination of baseline property tax revenues. Staff calculated the tax increment on assessed improvements only, and assumed that land values will remain at current levels.[9]

In estimating total current revenues, Staff made the following assumptions in an effort to in order to address inconsistencies in the parcel file data:

- Based on a review of parcel file data of existing commercial properties within the Sector Plan, an average assessed value of $275 per improved square foot was assumed for all existing commercial development
- Based on a review of existing parcel (condo) file data, an average assessed value of $235 per improved square foot was applied to existing residential development
- It was assumed that there are 5,500,000 square feet of existing non-residential uses
- It was assumed that there are 2,259 residential units at an average of 1,200 square feet per unit
- It was assumed that all square feet of residential and non-residential uses are taxable

Table 11: Estimated existing property tax revenues, improvements, by use

	Improvements-Overall Prop Tax Revenue	Improvements-General Fund Prop Tax Revenues
Commercial Existing Assessment	$ 14,792,250	$ 11,192,500
Residential Existing Assessment	$ 6,230,232	$ 4,714,081
Total Existing Assessment	*$ 21,022,482*	*$ 15,906,581*

The total General Fund revenue from existing improvements ("baseline") is approximately $16 million per annum. The current assessments are predominantly commercial, reflecting the existing land use patterns within the Sector Plan boundary.

The tables that follow illustrate the General Fund portion of the incremental ad valorem property taxes. In each year, the incremental property taxes are the taxes above the baseline property taxes. Looking at incremental revenues is different than looking at the revenues generated by new development because incremental revenues include the difference between the revenue generated by each square foot of existing commercial at its current assessed value and its assessed value after redevelopment.

[9] For purposes of this analysis, Staff is not addressing the question of whether the assessed value of land will increase following the adoption of the Sector Plan.

Table 12: Baseline and incremental revenues

Incremental General Fund Revenues					
Yr	GF Revenue All Existing Assessments	GF Revenue-All New Assessments	GF Revenue-All New & Existing	Annual Incremental GF Revenues	Cumulative Incremental GF Revenues
0	**$15,906,581**				
1	$15,533,498	$3,206,159	$18,739,657	$2,833,076	$2,833,076
2	$15,160,415	$6,412,318	$21,572,733	$5,666,152	$8,499,228
3	$14,787,331	$9,618,478	$24,405,809	$8,499,228	$16,998,455
4	$14,414,248	$12,824,637	$27,238,885	$11,332,304	$28,330,759
5	$14,041,165	$16,030,796	$30,071,961	$14,165,380	$42,496,139
6	$13,668,081	$18,203,568	$31,871,649	$15,965,068	$58,461,207
7	$13,294,998	$20,791,530	$34,086,528	$18,179,947	$76,641,154
8	$12,921,915	$23,379,492	$36,301,406	$20,394,825	$97,035,979
9	$12,548,831	$25,967,453	$38,516,285	$22,609,703	$119,645,682
10	$12,175,748	$28,555,415	$40,731,163	$24,824,582	$144,470,264
11	$11,802,665	$31,143,377	$42,946,041	$27,039,460	$171,509,724
12	$11,429,581	$33,731,339	$45,160,920	$29,254,339	$200,764,063
13	$11,056,498	$36,319,300	$47,375,798	$31,469,217	$232,233,280
14	$10,683,415	$38,907,262	$49,590,677	$33,684,095	$265,917,375
15	$10,310,331	$41,495,224	$51,805,555	$35,898,974	$301,816,349
16	$9,937,248	$44,083,185	$54,020,433	$38,113,852	$339,930,201
17	$9,564,165	$46,671,147	$56,235,312	$40,328,731	$380,258,931
18	$9,191,081	$49,259,109	$58,450,190	$42,543,609	$422,802,540
19	$8,817,998	$51,847,071	$60,665,068	$44,758,487	$467,561,028
20	$8,444,915	$54,435,032	$62,879,947	$46,973,366	$514,534,393
21	$8,071,831	$57,022,994	$65,094,825	$49,188,244	$563,722,637
22	$7,698,748	$59,610,956	$67,309,704	$51,403,122	$615,125,760
23	$7,325,665	$62,198,917	$69,524,582	$53,618,001	$668,743,761
24	$6,952,581	$64,786,879	$71,739,460	$55,832,879	$724,576,640
25	$6,579,498	$67,374,841	$73,954,339	$58,047,758	$782,624,397
26	$6,206,415	$69,962,803	$76,169,217	$60,262,636	$842,887,033
27	$5,833,331	$72,550,764	$78,384,096	$62,477,514	$905,364,548
28	$5,460,248	$75,138,726	$80,598,974	$64,692,393	$970,056,941
29	$5,087,165	$77,726,688	$82,813,852	$66,907,271	$1,036,964,212
30	$4,714,081	$80,314,650	$85,028,731	$69,122,150	$1,106,086,361

The annual increment above baseline revenues would rise to $69 million. Over the thirty year build-out horizon, the cumulative incremental revenues could rise to $1.1 billion, i.e. the total General Fund revenues over thirty years could be up to $1.1 billion above the cumulative General Fund revenues over that same time period if current revenues remained unchanged.

3.0 MASTER PLAN TRANSPORTATION INFRASTRUCTURE COSTS

Staff currently estimates total master planned transportation capital costs of $319,050,000. Some of that money is associated with projects for which funds are already committed or proposed (e.g. State costs associated with the Montrose Parkway interchange, and local funds associated with Chapman and Citadel Avenues).

For purposes of this analysis, it was assumed that the financing mechanism would finance all of the costs categorized as "district" costs (see Table 1, below, and Appendix A). The $171,250,000 in "district" infrastructure projects would be financed by a combination of public and private revenues.

Table 13: Summary of transportation infrastructure costs (2008$)

Transportation Infrastructure Costs, by stage					
	State	Local	Private	District	TOTAL
Total Transportation Network Elements					
Stage One	$47,200,000	$20,100,000	$7,500,000	$54,000,000	$128,800,000
Stage Two	$20,000,000	$0	$43,750,000	$35,750,000	$99,500,000
Stage Three	$0	$0	$9,250,000	$81,500,000	$90,750,000
TOTAL	$67,200,000	$20,100,000	$60,500,000	**$171,250,000**	$319,050,000

In later discussions of the financing mechanism, costs will come to include the cost of borrowing. It is assumed for purposes of this analysis that borrowing will occur only as necessary, and that the infrastructure bonds will be issued at 5% over 20 years.

4.0 "DISTRICT" FINANCING MECHANISM

The "District" financing mechanism receives funding from multiple sources. Together these sources would cover the cost of all master-planned infrastructure identified in the Sector Plan which is not assumed to be a pure "state" or "local" cost. Those sources are:

1) Residential transportation impact taxes (or equivalent)
2) 10% ad valorem special assessment on new and existing commercial uses (including both improvements and land)
3) Public sector gap financing from incremental revenues

The three funding sources would work together in the following manner:

- *Residential impact taxes* accumulate during each stage of development and are then applied to reduce necessary borrowing in the subsequent bond issuance. It is assumed that residential impact taxes from pipeline development will not be available to supplement the revenues. It is assumed that the impact taxes are $2420 per dwelling unit (i.e. that no developments opt to use the Alternative Review Procedure).
- *Special Assessment revenues* are collected beginning in Year 1. The Special Assessments in the years before the first bond is issued accumulate; subsequently, those revenues are used to reduce the required amount of the first bond. In the year the bond is issued is a bondable income stream, i.e. it is assumed that the Special Assessment in subsequent years will not be less than the Special Assessment in the year the bond is issued. Any excess Special Assessment accumulates and reduces the amount of the subsequent bond.
- *Public sector gap financing* is assumed to cover the remaining gap between the necessary bond payments and the bondable revenue stream from special assessments.

It is assumed that a set portion of the General Fund increment in each year could be directed towards the District. In each year, some of that amount would be applied to the current bond obligations, while the remainder would accumulate. Accumulated incremental revenues would then be applied to reduce the amount of borrowing necessary in the subsequent infrastructure phase.

Obviously, there are alternative ways to structure the incremental revenue portion of the financing mechanism. For example, the incremental revenue captured in each year could simply be the amount of incremental revenue necessary to close the financing gap in that year. This alternative is easy to model, but lacks predictability.

4.1 THE NEED FOR PUBLIC-PRIVATE FINANCING

Impact tax revenues alone fall far short of generating sufficient revenue to match the costs of infrastructure in the White Flint Sector Plan.

Table 14: Total Transportation Impact Tax Potential

Total Transportation Impact Tax Revenue Potential			
Use	D/U or Square Feet	Impact Tax Rate	Impact Tax Revenue
Dwelling Units	9,800	$2,420	$23,716,000
Office	2,831,746	$4.85	$13,733,966
Retail	1,887,830	$4.34	$8,193,184
Industrial	317,058	$2.43	$770,451
Other	0		$0
Hotel	653,366	$2.43	$1,587,680
Total			*$48,001,281*

At current rates, the total transportation impact tax potential would not generate sufficient revenue to pay for either Rockville Pike or for the various mobility projects that have been designated as District projects.

Alternatively, if all infrastructure designated as District infrastructure were to be financed using special assessments (no captured impact taxes or incremental tax revenues), the assessment rate would be significantly higher. Holding the other assumptions in this analysis constant, the rate would need to be set at 25%, i.e. a 25% increase in the property tax bill for all commercial properties within the Sector Plan.

4.2 A NOTE ON INFRASTRUCTURE STAGING

The infrastructure staging plan calls for three stages. For purposes of this analysis it is assumed that the first two infrastructure stages are eight years long, and that the third is nine years. With the five year period for pipeline development, this results in a build-out horizon of thirty years.

These assumptions do not line up perfectly with the plan, which assumes infrastructure phases set by metered development (i.e. the next stage of infrastructure is funded when a certain number of residential units and non-residential square feet have been developed). However, it does approximate the Sector Plan's staging mechanism while avoiding the complexity of partial years.

4.3 PIPELINE DEVELOPMENT AND ITS RELATIONSHIP TO THE FINANCING MECHANISM

The development pipeline for the White Flint Sector Plan Area includes substantial approved-but-not-completed development.

- *Residential pipeline: 2,220 dwelling units*
- *Non-residential pipeline: 1.79 million square feet*

It is assumed that all pipeline development occurs, and build-out of the pipeline is spread evenly over years one through five. It is not assumed that impact taxes from pipeline development can be applied to pay for "District" transportation projects. In every other way, however, pipeline development is treated the same way that new development is treated through each of the Sector Plan's defined "stages."

The 10% special assessment on commercial uses applies to all existing and new commercial, and thus also applies to pipeline development. Special assessments on pipeline development accumulate in years the first five years and are then applied to reduce the amount of borrowing necessary to pay for Stage One infrastructure.

As with later development and redevelopment, a portion of the General Fund increment generated by pipeline development is captured and accumulates to reduce necessary borrowing for Stage One infrastructure bonds.

4.4 FINANCING MECHANISM: STAGE ONE INFRASTRUCTURE BOND

The first bond is issued on the basis of the Year 5 special assessment and tax increment and repayment would begin in Year 6. The bond has a repayment period of 20 years and an interest rate of 5%. The total "District" obligation under the Stage 1 master plan transportation infrastructure cost is $54,000,000.

When the accumulated tax increment (10%[10] of the increment from Years 1 through 5) and accumulated assessment (10% special assessment from Years 1 to 5) are applied, the amount to borrow is reduced. [11]

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[10] 10% is the portion of the increment necessary to cover the financing gaps for all three stages of infrastructure, assuming that there is a point in time at which all three bonds will be in repayment.

[11] Of course, we could also apply any residential impact taxes that will be paid on pipeline projects to reduce the amount needed to borrow, but to do this would involve distinguishing between pipeline projects that have already gone to building permit and those that have not.

- $54,000,000 in "District" master planned transportation infrastructure
- Less the $11,427,169 accumulated special assessment on commercial uses[12],
- Less $4,249,614 from accumulated 10% of general fund tax increment
- Equals $38,323,218
- At 5% over 20 years equals $58,442,907 in principal and interest
- Equals level annual payment of $2,922,145

In Year 6, repayment begins with the first of 20 annual payments in the amount of $2,922,145. The security for those annual payments would be current levels of revenue (bondable streams of income). Put differently, it is assumed that beginning in Year 6 our income will never fall below Year 5 levels.

The Year 5 special assessment is $2,513,206, so that is the amount that is "bondable." That leaves the remainder to be paid for by the captured General Fund tax increment.

- $2,922,145 level annual payment
- Less $2,513,206 from special assessment
- Equals $408,939 gap to be filled by tax increment

The annual GF tax increment that year is $14,165,380. Only $408,939, or 2.89% of the total Year 5 annual increment, is needed to cover the Stage 1 bond payments.

[12] The 10% special assessment applies to all commercial uses. The special assessment is applied to commercial improvements and land. Based on a review of parcel file data, it is assumed that the total annual (overall) property tax revenue from commercial land is roughly $4.6 million, 10% of which comes to $464,550.

Table 15: Stage One financing mechanism

Year	Special Assessment Revenue	Accumulated Special Assessment	Annual Net GF Increment	Captured Net GF Increment	Accumulated Captured Net GF Increment	Infrastructure Cost	Infrastructure Cost Less Accumulated Special Assessment and Captured Increment	Stage 1 balance (w/ interest @ 5% over 20 years)	Portion of Stage 1 bond from special assessment	Portion of Stage 1 bond from captured increment	Remaining Balance Stage 1 Bonds
0	$1,943,775										
1	$2,057,661	$2,057,661	$2,833,076	$283,308	$283,308						
2	$2,171,547	$4,229,209	$5,666,152	$566,615	$849,923						
3	$2,285,434	$6,514,642	$8,499,228	$849,923	$1,699,846						
4	$2,399,320	$8,913,962	$11,332,304	$1,133,230	$2,833,076						
5	**$2,513,206**	**$11,427,169**	$14,165,380	$1,416,538	**$4,249,614**	$54,000,000	**$38,323,218**	**$58,442,907**			
6	$2,521,031		$15,965,068	$1,596,507					**$2,513,206**	$408,939	$55,520,761
7	$2,583,729		$18,179,947	$1,817,995					$2,513,206	$408,939	$52,598,616
8	$2,646,426		$20,394,825	$2,039,483					$2,513,206	$408,939	$49,676,471
9	$2,709,124		$22,609,703	$2,260,970					$2,513,206	$408,939	$46,754,325
10	$2,771,821		$24,824,582	$2,482,458					$2,513,206	$408,939	$43,832,180
11	$2,834,519		$27,039,460	$2,703,946					$2,513,206	$408,939	$40,910,035
12	$2,897,216		$29,254,339	$2,925,434					$2,513,206	$408,939	$37,987,889
13	$2,959,914		$31,469,217	$3,146,922					$2,513,206	$408,939	$35,065,744
14	$3,022,611		$33,684,095	$3,368,410					$2,513,206	$408,939	$32,143,599
15	$3,085,309		$35,898,974	$3,589,897					$2,513,206	$408,939	$29,221,453
16	$3,148,007		$38,113,852	$3,811,385					$2,513,206	$408,939	$26,299,308
17	$3,210,704		$40,328,731	$4,032,873					$2,513,206	$408,939	$23,377,163
18	$3,273,402		$42,543,609	$4,254,361					$2,513,206	$408,939	$20,455,017
19	$3,336,099		$44,758,487	$4,475,849					$2,513,206	$408,939	$17,532,872
20	$3,398,797		$46,973,366	$4,697,337					$2,513,206	$408,939	$14,610,727
21	$3,461,494		$49,188,244	$4,918,824					$2,513,206	$408,939	$11,688,581
22	$3,524,192		$51,403,122	$5,140,312					$2,513,206	$408,939	$8,766,436
23	$3,586,889		$53,618,001	$5,361,800					$2,513,206	$408,939	$5,844,291
24	$3,649,587		$55,832,879	$5,583,288					$2,513,206	$408,939	$2,922,145
25	$3,712,284		$58,047,758	$5,804,776					$2,513,206	$408,939	$0

4.5 FINANCING MECHANISM: STAGE TWO INFRASTRUCTURE BOND

Once the Stage 1 infrastructure bonds have been issued, any special assessment revenues in excess of the Year 5 revenues ($2,513,206) will accumulate and ultimately will be applied to reduce the necessary borrowing for Stage 2 infrastructure. Incremental General Fund revenues will also accumulate (difference between 10% of General Fund increment and the $408,939 required to close the Stage 1 financing gap). In addition, residential impact taxes paid by Stage 1 development will accumulate and be applied to reduce the borrowing required for Stage 2.

The total cost of the District's obligations for Stage 2 master plan transportation infrastructure is $35,750,000. This amount will be reduced by the amount of the accumulated Stage 1 impact taxes, as well as the accumulated 10% commercial special assessment and the accumulated 10% General Fund tax increment.

- $35,750,000 in total "District" master planned transportation infrastructure
- Less Stage 1 accumulated residential impact tax equivalency of $7,589,120[13]
- Less accumulated special assessment of $1,818,132
- Less accumulated 10% GF increment of $15,702,201
- Equals $10,640,547
- At 5% over 20 years is $16,226,835 in principal and interest
- Equals level annual payment of $811,342

In Year 14, repayment of the Stage 2 bond begins with the first of 20 annual payments in the amount of $811,342. The total Year 13 special assessment is $2,959,914. Of that amount, the first $2,513,206 is dedicated to paying off the Stage 1 bond. As such, the bondable special assessment revenue stream for Stage 2 is only $446,708. That leaves the remaining $364,634 to be filled by public sector gap financing.

- $811,342 in level payment
- Less $446,708 bondable from 10% special assessment on commercial
- Equals $364,634 gap to be filled by tax increment

The $364,634 for Stage 2 bonds is 2.11% of the Year 13 General Fund increment ($17,303,837). An additional portion of the captured 10% tax increment is applied to the continuing obligations on Stage 1 bonds, with the remainder accumulating to reduce Stage 3 borrowing.

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[13] Total impact tax revenue is calculated on the basis of units at a particular point in time, rather than based on the 3,000 units in the staging plan. This was done to eliminate the need to go build the model using months rather than just years. The staging plan described in the Sector Plan is modified for the purposes of this analysis. For example, Stage 1 in the staging plan ends when 3,000 dwelling units and 2.0 million square feet of non-residential uses have been built. For purposes of this analysis, Stage 2 begins in the first full year after the 3,000th unit is built.

Table 16: Stage Two financing mechanism

Year	Special Assessment Revenue	Special Assessment Dedicated to Stage 1 Bonds	Amount Available for Stage 2	Special Assessment Dedicated to Stage 2 Bonds	Excess Accumulated Special Assessment	Accumulated Impact Tax Revenue	Annual Net GF Increment	Captured Net GF Increment	Accumulated Captured Net GF Increment	Infrastructure Cost	Infrastructure Cost Less Accumulated Revenues	Portion of Stage 2 bond from special assessment	Portion of Stage 2 bond from captured increment	Remaining Balance Stage 2 Bonds @ 5% over 20 years
13	$2,959,914	$2,513,206	**$446,708**	$0	**$1,818,132**	**$7,589,120**			**$15,702,201**	$35,750,000	**$10,640,547**			**$16,226,835**
14	$3,022,611	$2,513,206		**$446,708**	$62,698		$33,684,095	$3,368,410				$446,708	$364,634	$15,415,493
15	$3,085,309	$2,513,206		$446,708	$125,395		$35,898,974	$3,589,897				$446,708	$364,634	$14,604,151
16	$3,148,007	$2,513,206		$446,708	$188,093		$38,113,852	$3,811,385				$446,708	$364,634	$13,792,810
17	$3,210,704	$2,513,206		$446,708	$250,790		$40,328,731	$4,032,873				$446,708	$364,634	$12,981,468
18	$3,273,402	$2,513,206		$446,708	$313,488		$42,543,609	$4,254,361				$446,708	$364,634	$12,170,126
19	$3,336,099	$2,513,206		$446,708	$376,185		$44,758,487	$4,475,849				$446,708	$364,634	$11,358,784
20	$3,398,797	$2,513,206		$446,708	$438,883		$46,973,366	$4,697,337				$446,708	$364,634	$10,547,443
21	$3,461,494	$2,513,206		$446,708	$501,580		$49,188,244	$4,918,824				$446,708	$364,634	$9,736,101
22	$3,524,192	$2,513,206		$446,708	$564,278		$51,403,122	$5,140,312				$446,708	$364,634	$8,924,759
23	$3,586,889	$2,513,206		$446,708	$626,975		$53,618,001	$5,361,800				$446,708	$364,634	$8,113,417
24	$3,649,587	$2,513,206		$446,708	$689,673		$55,832,879	$5,583,288				$446,708	$364,634	$7,302,076
25	$3,712,284	$2,513,206		$446,708	$752,370		$58,047,758	$5,804,776				$446,708	$364,634	$6,490,734
26	$3,774,982	$0		$446,708	$3,328,274		$60,262,636	$6,026,264				$446,708	$364,634	$5,679,392
27	$3,837,679	$0		$446,708	$3,390,971		$62,477,514	$6,247,751				$446,708	$364,634	$4,868,050
28	$3,900,377	$0		$446,708	$3,453,669		$64,692,393	$6,469,239				$446,708	$364,634	$4,056,709
29	$3,963,074	$0		$446,708	$3,516,366		$66,907,271	$6,690,727				$446,708	$364,634	$3,245,367
30	$4,025,772	$0		$446,708	$3,579,064		$69,122,150	$6,912,215				$446,708	$364,634	$2,434,025
31	$4,025,772	$0		$446,708	$3,579,064		$69,122,150	$6,912,215				$446,708	$364,634	$1,622,683
32	$4,025,772	$0		$446,708	$3,579,064		$69,122,150	$6,912,215				$446,708	$364,634	$811,342
33	$4,025,772	$0		$446,708	$3,579,064		$69,122,150	$6,912,215				$446,708	$364,634	$0

4.6 FINANCING MECHANISM: STAGE THREE INFRASTRUCTURE BOND

Once the Stage 2 infrastructure bonds have been issued, any special assessment revenues in excess of those necessary to cover the private portion of the Stage 1 and Stage 2 bonds will accumulate and ultimately will be applied to reduce the necessary borrowing for Stage 3 infrastructure. Incremental General Fund revenues will also accumulate (difference between 10% of General Fund increment and the continuing gap finance obligations for Stage 1 and Stage 2 infrastructure) to reduce necessary borrowing. Residential impact taxes paid by Stage 2 development will accumulate and be applied to reduce the borrowing required for Stage 3.

The total cost of the District's obligations for Stage 3 master plan transportation infrastructure is $81,500,000. This amount will be reduced by the amount of the accumulated Stage 2 impact taxes, as well as the accumulated 10% commercial special assessment and the accumulated 10% General Fund tax increment.

- $81,500,000 in total "District" master planned transportation infrastructure
- Less Stage 2 accumulated residential impact tax equivalency of $7,589,120
- Less accumulated special assessment of $2,257,111
- Less accumulated 10% GF increment of $29,877,423
- Equals $41,776,347
- At 5% over 20 years is $63,708,929 in principal and interest
- Equals level annual payment of $3,185,466

Starting in Year 22, repayment of the Stage 3 bond begins with the first of 20 annual payments in the amount of $3,185,466. The total Year 21 special assessment is $3,461,494. Of that amount, the first $2,513,206 is dedicated to paying off the Stage 1 bond, with $446,708 dedicated to paying off the Stage 2 bond. As such, the remaining bondable special assessment revenue stream for Stage 3 is only $501,580. That leaves a gap of $2,683,866 to be filled by public sector gap financing.

- $3,185,466 in level payment
- Less $501,580 bondable from 10% special assessment on commercial
- Equals $2,683,866 gap to be filled by tax increment

The public obligation of $2,683,866 for Stage 3 bonds is 7.70% of the Year 21 General Fund increment ($34,869,073). No excess increment accumulates in Stage 3. It is further assumed that excess special assessments in Stage 3 are applied to repay the public sector for the Stage 3 gap financing. It is assumed that Stage 3 impact taxes are no longer captured by the District, but instead accrue to the County.

Table 17: Stage Three financing mechanism

Year	Special Assessment Revenue	Special Assessment Dedicated to Stage 1 Bonds	Special Assessment Dedicated to Stage 2 Bonds	Amount Available for Stage 3	Excess Accumulated Special Assessment	Accumulated Impact Tax Revenue	Annual Net GF Increment	Captured Net GF Increment	Accumulated Captured Net GF Increment	Infrastructure Cost	Infrastructure Cost Less Accumulated Revenues	Portion of Stage 3 bond from special assessment	Portion of Stage 3 bond from captured increment	Remaining Balance Stage 3 Bonds @ 5% over 20 years
21	$3,461,494	$2,513,206	$446,708	$501,580	$2,257,111	$7,589,120			$29,877,423	$81,500,000	$41,776,347			$63,708,929
22	$3,524,192	$2,513,206	$446,708		$62,698		$51,403,122	$5,140,312				$501,580	$2,683,866	$60,523,482
23	$3,586,889	$2,513,206	$446,708		$180,267		$53,618,001	$5,361,800				$501,580	$2,683,866	$57,338,036
24	$3,649,587	$2,513,206	$446,708		$242,965		$55,832,879	$5,583,288				$501,580	$2,683,866	$54,152,590
25	$3,712,284	$2,513,206	$446,708		$305,662		$58,047,758	$5,804,776				$501,580	$2,683,866	$50,967,143
26	$3,774,982	$0	$446,708		$2,881,566		$60,262,636	$6,026,264				$501,580	$2,683,866	$47,781,697
27	$3,837,679	$0	$446,708		$2,944,264		$62,477,514	$6,247,751				$501,580	$2,683,866	$44,596,250
28	$3,900,377	$0	$446,708		$3,006,961		$64,692,393	$6,469,239				$501,580	$2,683,866	$41,410,804
29	$3,963,074	$0	$446,708		$3,069,659		$66,907,271	$6,690,727				$501,580	$2,683,866	$38,225,357
30	$4,025,772	$0	$446,708		$3,132,356		$69,122,150	$6,912,215				$501,580	$2,683,866	$35,039,911
31	$4,025,772	$0	$446,708		$3,132,356		$69,122,150	$6,912,215				$501,580	$2,683,866	$31,854,464
32	$4,025,772	$0	$446,708		$3,132,356		$69,122,150	$6,912,215				$501,580	$2,683,866	$28,669,018
33	$4,025,772	$0	$446,708		$3,132,356		$69,122,150	$6,912,215				$501,580	$2,683,866	$25,483,572
34	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$22,298,125
35	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$19,112,679
36	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$15,927,232
37	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$12,741,786
38	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$9,556,339
39	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$6,370,893
40	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$3,185,446
41	$4,025,772	$0	$0		$3,579,064		$69,122,150	$6,912,215				$501,580	$2,683,866	$0

Table 16 shows that Stage 3 bonds are largely financed by the public sector. In fact, the private sector would pay only $10,031,603 in Stage 3 compared to the public sector's $53,677,326. However, by continuing to assess the special assessment on commercial uses, much of the public sector's Stage 3 obligations (not including the accumulated excess tax increment) could be repaid.

Assuming, as this analysis does, that private development continues in Stage 3, at the end of the repayment period for the Stage 3 bonds, all of the public sector's Stage 3 bond payments would have been repaid through excess special assessments.

Even assuming (worst case scenario) that no new development occurs in Stage 3, excess accumulated revenues could repay the public sector for all but $8,794,918 of the gap financing paid during the life of the Stage 3 bond. This is the case because the full repayment of Stage 1 and Stage 2 bonds will occur, freeing up all remaining special assessment revenues to be applied to repay the public sector for Stage 3 gap financing.

Table 18: Stage Three repayment of gap financing

Year	Special Assessment Revenue	Special Assessment Dedicated to Stage 1 Bonds	Special Assessment Dedicated to Stage 2 Bonds	Amount Available for Stage 3	Excess Accumulated Special Assessment	Portion of Stage 3 bond from special assessment	Portion of Stage 3 bond from captured increment	Remaining Balance Stage 3 Bonds @ 5% over 20 years	Repayment from Excess Accumulated Special Assessment	Total Stage 3 Public Sector Obligation
21	$3,461,494	$2,513,206	$446,708	**$501,580**	$2,257,111			**$63,708,929**		**$53,677,326**
22	$3,524,192	$2,513,206	$446,708		$62,698	**$501,580**	$2,683,866	$60,523,482	-$62,698	$53,614,629
23	$3,586,889	$2,513,206	$446,708		$180,267	$501,580	$2,683,866	$57,338,036	-$180,267	$53,434,361
24	$3,649,587	$2,513,206	$446,708		$242,965	$501,580	$2,683,866	$54,152,590	-$242,965	$53,191,396
25	$3,712,284	$2,513,206	$446,708		$305,662	$501,580	$2,683,866	$50,967,143	-$305,662	$52,885,734
26	$3,774,982	$0	$446,708		$2,881,566	$501,580	$2,683,866	$47,781,697	-$2,881,566	$50,004,168
27	$3,837,679	$0	$446,708		$2,944,264	$501,580	$2,683,866	$44,596,250	-$2,944,264	$47,059,904
28	$3,900,377	$0	$446,708		$3,006,961	$501,580	$2,683,866	$41,410,804	-$3,006,961	$44,052,943
29	$3,963,074	$0	$446,708		$3,069,659	$501,580	$2,683,866	$38,225,357	-$3,069,659	$40,983,284
30	$4,025,772	$0	$446,708		$3,132,356	$501,580	$2,683,866	$35,039,911	-$3,132,356	$37,850,928
31	$4,025,772	$0	$446,708		$3,132,356	$501,580	$2,683,866	$31,854,464	-$3,132,356	$34,718,572
32	$4,025,772	$0	$446,708		$3,132,356	$501,580	$2,683,866	$28,669,018	-$3,132,356	$31,586,216
33	$4,025,772	$0	$446,708		$3,132,356	$501,580	$2,683,866	$25,483,572	-$3,132,356	$28,453,860
34	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$22,298,125	-$3,579,064	$24,874,796
35	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$19,112,679	-$3,579,064	$21,295,732
36	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$15,927,232	-$3,579,064	$17,716,668
37	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$12,741,786	-$3,579,064	$14,137,604
38	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$9,556,339	-$3,579,064	$10,558,540
39	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$6,370,893	-$3,579,064	$6,979,476
40	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$3,185,446	-$3,579,064	$3,400,412
41	$4,025,772	$0	$0		$3,579,064	$501,580	$2,683,866	$0	-$3,579,064	**-$178,652**

Table 19: Stage Three repayment of gap financing, special assessment revenues frozen

Year	Special Assessment Revenue	Special Assessment Dedicated to Stage 1 Bonds	Special Assessment Dedicated to Stage 2 Bonds	Amount Available for Stage 3	Excess Accumulated Special Assessment	Portion of Stage 3 bond from special assessment	Portion of Stage 3 bond from captured increment	Remaining Balance Stage 3 Bonds @ 5% over 20 years	Repayment from Excess Accumulated Special Assessment	Total Stage 3 Public Sector Obligation
21	$3,461,494	$2,513,206	$446,708	**$501,580**	$2,257,111			**$63,708,929**		**$53,677,326**
22	$3,461,494	$2,513,206	$446,708		$54,872	**$501,580**	$2,683,866	$60,523,482	-$54,872	$53,622,454
23	$3,461,494	$2,513,206	$446,708		$54,872	$501,580	$2,683,866	$57,338,036	-$54,872	$53,567,582
24	$3,461,494	$2,513,206	$446,708		$54,872	$501,580	$2,683,866	$54,152,590	-$54,872	$53,512,709
25	$3,461,494	$2,513,206	$446,708		$54,872	$501,580	$2,683,866	$50,967,143	-$54,872	$53,457,837
26	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$47,781,697	-$2,568,079	$50,889,758
27	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$44,596,250	-$2,568,079	$48,321,680
28	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$41,410,804	-$2,568,079	$45,753,601
29	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$38,225,357	-$2,568,079	$43,185,523
30	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$35,039,911	-$2,568,079	$40,617,444
31	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$31,854,464	-$2,568,079	$38,049,365
32	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$28,669,018	-$2,568,079	$35,481,287
33	$3,461,494	$0	$446,708		$2,568,079	$501,580	$2,683,866	$25,483,572	-$2,568,079	$32,913,208
34	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$22,298,125	-$3,014,786	$29,898,422
35	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$19,112,679	-$3,014,786	$26,883,636
36	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$15,927,232	-$3,014,786	$23,868,849
37	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$12,741,786	-$3,014,786	$20,854,063
38	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$9,556,339	-$3,014,786	$17,839,277
39	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$6,370,893	-$3,014,786	$14,824,490
40	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$3,185,446	-$3,014,786	$11,809,704
41	$3,461,494	$0	$0		$3,014,786	$501,580	$2,683,866	$0	-$3,014,786	**$8,794,918**

4.7 ASSESSING THE PUBLIC AND PRIVATE OBLIGATIONS UNDER THE PROPOSED FINANCING MECHANISM

The total costs of each stage are dependent upon the District's total infrastructure bill in the stage, and upon the availability of accumulated revenues to reduce the required borrowing.

Table 21: "District" infrastructure finance, by stage by source

Infrastructure Financing, by Stage and by Source				
	Stage 1	Stage 2	Stage 3	**Total**
Impact Tax	$0	$7,589,120	$7,589,120	**$15,178,240**
Accumulated 10% Special Assessment	$11,427,169	$1,818,132	$2,257,111	
Special Assessment for Bond Payment	$50,264,124	$8,934,155	$10,031,603	
Accumulated Special Assessment Repayment Adjustment	$0	$0	$53,855,979	
Total Special Assessment	$61,691,292	$10,752,287	$66,144,692	**$138,588,271**
Accumulated 10% Tax Increment	$4,249,614	$15,702,201	$29,877,423	
Tax Increment for Bond Payment	$8,178,783	$7,292,680	$53,677,326	
Tax Increment Repayment Adjustment	$0	$0	-$53,855,979	
Total Tax Increment	$12,428,397	$22,994,880	$29,698,770	**$65,122,048**
Total	**$74,119,689**	**$41,336,287**	**$103,432,582**	**$218,888,559**

Including when interest and prepayment through accumulated revenues are both included, the total costs to the District are $218,888,559. The financing mechanism described in the Sector Plan and analyzed in this memorandum would place most of the burden of the cost of "District" infrastructure on the private sector (via special assessments).

Figure 1: Proportional breakdown of district financing, by source

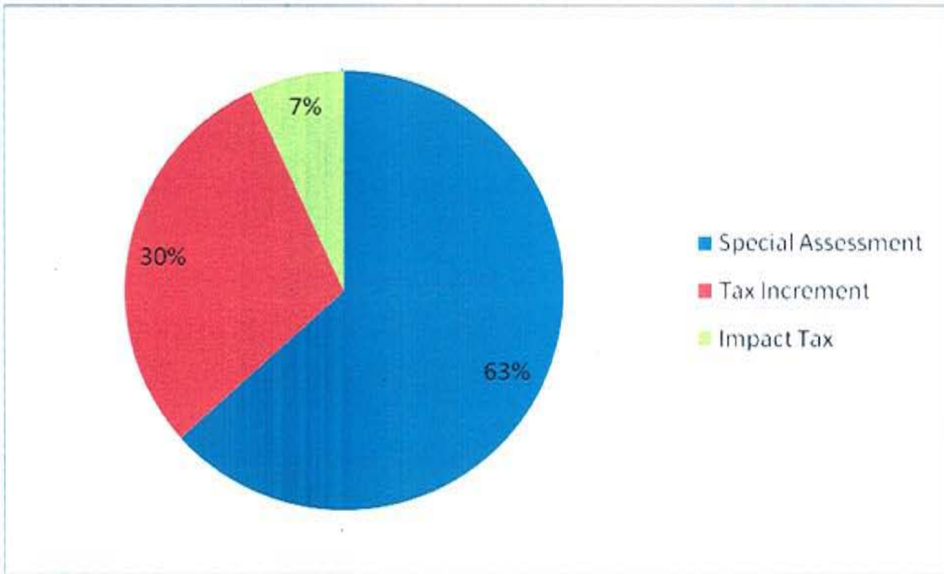
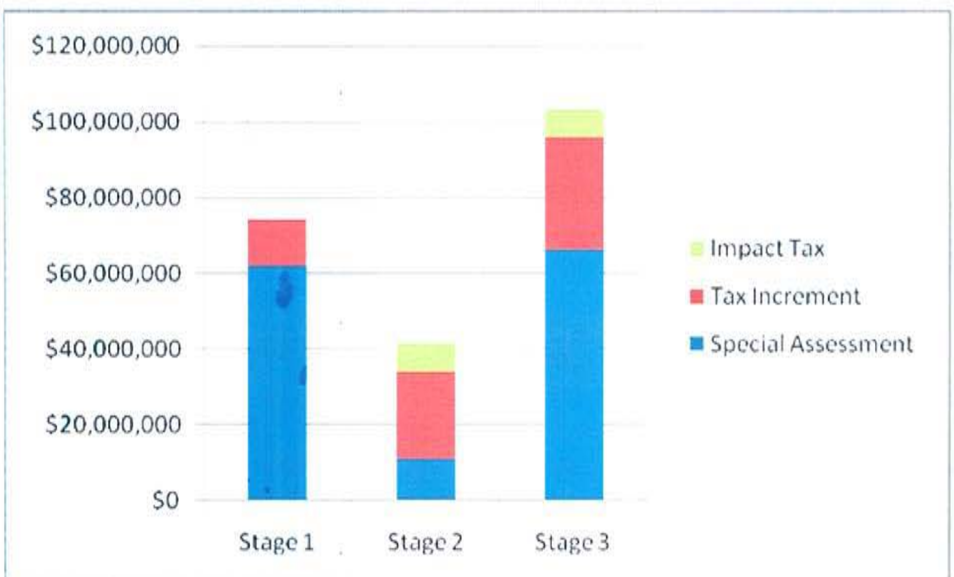


Figure 2: Financing by source and by stage



33

Public sector gap financing would play a relatively small role in the first stage of development, which is largely funded by the special assessments on existing and pipeline commercial development. In the second stage, the public sector could bear more than two-thirds of the total burden for "District" infrastructure. In the third stage, public sector gap financing would be critical; however, most of the public sector burden in the third stage could be repaid by excess "accumulated" special assessments generated in Stage 3 once the bonds for the first two stages have been retired.

The special assessment, including excess special assessment in Stage 3, covers 63% of the cost of "District" infrastructure, while captured tax increment covers only 30%. Captured residential impact taxes cover the remaining 7% of the District's obligations.

Overall, the total public sector burden for gap financing ($65,122,048) is roughly equal to the cost of the Rockville Pike improvements (without right-of-way acquisition costs), which is estimated to be roughly $66 million. In essence, the effect of the financing mechanism is to take the financing gap created by the cost of the Rockville Pike improvements and spread that cost over all three stages of infrastructure development.

5.0 CONCLUSION

The proposed financing mechanism—as described generally in the Sector Plan and in greater detail in this memorandum—successfully pays for all district infrastructure projects if 10% of the total incremental General Fund revenues are captured by the District. Roughly two-thirds of the total cost of District infrastructure is borne by the private sector, with the remainder paid for by public sector gap financing.

The financing mechanism has three sources of revenue, each of which has unique characteristics.

- *Special assessment revenues* are most important in the first and last stage. In the first stage, the special assessments on existing and pipeline development allow the mechanism to pay for new infrastructure that could accelerate additional private development. In the last stage, the special assessment revenues could serve either to cover much of the cost of infrastructure or to repay the public sector for its contributions to the third stage of infrastructure projects. Because the special assessment draws revenue from existing uses it is also the most stable and reliable of the three.

- *Captured General Fund tax increment* is critical to the success of Stages 2 and 3. The tax increment is more dependent upon new development than is the special assessment revenue.

- *Captured residential impact taxes* reduce the risk in Stage 2 and Stage 3. This revenue is important because residential impact taxes in Stages 1 and 2 must occur in order for the staging mechanism to advance. While impact taxes are by far the smallest of the three sources of revenue, they do play an important role in that they reduce the amount of necessary borrowing.

Other potential structures of the financing mechanism may effectively achieve the objectives of the Sector Plan. Of those alternatives, the ones most likely to succeed will bear substantial similarity to the financing mechanism described in this memorandum.

APPENDIX A: TRANSPORTATION COSTS (EXCERPT)

The White Flint Sector Plan proposes the establishment of the White Flint Redevelopment Implementation Authority, an innovative implementation program designed to accomplish two objectives:

- Ensure that the infrastructure required for the Plan is affordable and apportioned equitably among public and private stakeholders
- Manage infrastructure prioritization and delivery to avoid "lumpy" infrastructure delivery typical of the development review exaction process

Exhibit 7 summarizes the transportation infrastructure costs by Sector Plan stage and expected responsibility. The capital cost estimates reflect the following assumptions:

- State projects include the Montrose Parkway interchange and the extension of Montrose Parkway east to the CSX tracks (Phase II of the SHA project for Rockville Pike / Montrose Road interchange improvements). The $20M estimated cost for the latter improvement is symbolic as there are no proposals to construct the roadway up to, but not across, the CSX tracks.
- Local projects include the portions of Nebel Street Extended (north of Randolph Road), Chapman Avenue, and Citadel Avenue already in the County's implementation program.
- Private projects include those portions of the public street system described in Table 5 of the Public Hearing Draft Plan that are in control of individual property owners and would be required for internal site access and design (such as Mid Pike Plaza, North Bethesda Town Center, and White Flint Mall).
- District projects are those assumed to be the responsibility of the White Flint Redevelopment Implementation Authority, including the construction or reconstruction of:
    - Rockville Pike ($66M),
    - Metrorail Station north entrance ($25M)
    - MARC station and supporting access ($13M)
    - Circulator shuttles ($5M)
    - Local streets not required for site access and design ($62M)
- Right-of-way costs are not included in the cost estimates. New streets in the network are located where redevelopment is expected to occur so that, in a typical development process, right-of-way dedication would generally be expected, with density calculated from the gross tract area prior to dedication. The White Flint Redevelopment Implementation Authority will have two options for addressing right-of-way acquisition:
    - establish an infrastructure delivery process by which right-of-way is acquired from its members without fee simple acquisition at a cost to the public sector, or
    - revision of financing schema to include right-of-way acquisition costs.
- Roadway capital costs are based on the following unit costs:

o $50M per mile for Rockville Pike reconstruction based on cost estimates for similar portions of New York Avenue in Washington DC and US 1 in College Park, MD.

o $25M per mile for local roadway construction, based on the County's four-lane Nebel Street Extended project (CIP project 500401) at $26M per mile and two-lane Citadel Avenue (CIP project 500310) at $24M per mile

Transportation Infrastructure Costs, by mode and by stage, ($millions)					
	State	Local	Private	District	TOTAL
Public Transit Elements					
Stage One	$ -	$ -	$ -	$ 26.50	$ 26.50
Stage Two	$ -	$ -	$ -	$ 3.00	$ 3.00
Stage Three	$ -	$ -	$ -	$ 13.00	$ 13.00
TOTAL	$ -	$ -	$ -	$ 42.50	$ 42.50
Streets and Bikeways					
Stage One	$ 47.20	$ 20.10	$ 7.50	$ 27.50	$ 102.30
Stage Two	$ 20.00	$ -	$ 43.75	$ 32.75	$ 96.50
Stage Three	$ -	$ -	$ 9.25	$ 68.50	$ 77.75
TOTAL	$ 67.20	$ 20.10	$ 60.50	$ 128.75	$ 276.55
Total Transportation Network Elements					
Stage One	$ 47.20	$ 20.10	$ 7.50	$ 54.00	$ 128.80
Stage Two	$ 20.00	$ -	$ 43.75	$ 35.75	$ 99.50
Stage Three	$ -	$ -	$ 9.25	$ 81.50	$ 90.75
TOTAL	$ 67.20	$ 20.10	$ 60.50	$ 171.25	$ 319.05

APPENDIX B: ANALYSIS OF SELECTED ALTERNATIVES

Alternative 1: No impact taxes captured by District

In this alternative, transportation impact taxes generated by new development within the Sector Plan are not captured and applied to District infrastructure projects. This revenue would instead be available to fund public sector improvements under the rules established in the most recent Growth Policy. However, by removing these revenues from the District, the financing gap for the District is increased. That would result in higher public sector gap financing obligations, increased costs to the private sector, or delays moving through the staging plan.

Table B1: Infrastructure financing, by stage and by source, for Alternative 1

Infrastructure Financing, by Stage and by Source	Stage 1	Stage 2	Stage 3	Total
Impact Tax	$0	$0	$0	**$0**
Accumulated 10% Special Assessment	$11,427,169	$1,818,132	$2,257,111	
Special Assessment for Bond Payment	$50,264,124	$8,934,155	$10,031,603	
Accumulated Special Assessment Repayment Adjustment	$0	$0	$53,855,979	
Total Special Assessment	$61,691,292	$10,752,287	$66,144,692	**$138,588,271**
Accumulated 10% Tax Increment	$4,249,614	$15,702,201	$29,877,423	
Tax Increment for Bond Payment	$8,178,783	$18,866,088	$65,250,734	
Tax Increment Repayment Adjustment	$0	$0	-$53,855,979	
Total Tax Increment	$12,428,397	$34,568,288	$41,272,178	**$88,268,864**
Total	**$74,119,689**	**$45,320,575**	**$107,416,870**	**$226,857,135**

Table B2: Stage 1 comparison of proposed financing mechanism to Alternative 1

	Stage 1	
Revenue Source	Proposed	Alternative 1
Impact Tax Revenue	$0	$0
Special Tax/Assessment Revenue	$61,691,292	$61,691,292
Tax Increment Applied to Cover Gap	$12,428,397	$12,428,397
Total	$74,119,689	$74,119,689

Table B3: Stage 2 comparison of proposed financing mechanism to Alternative 1

	Stage 2	
Revenue Source	Proposed	Alternative 1
Impact Tax Revenue	$7,589,120	$0
Special Tax/Assessment Revenue	$10,752,287	$10,752,287
Tax Increment Applied to Cover Gap	$22,994,880	$34,568,288
Total	$41,336,287	$45,320,575

In this instance, the District loses revenue ($7,589,120) from the residential impact tax equivalent. That money is not necessarily gained by the public sector, due to crediting allowed under the current system. The lost revenue translates into an increase in the financing gap from $23 million to $34.6 million. If that gap is to be filled by the public sector, it could end up being less costly to allow the District to capture the impact tax revenues (though all figures here are in 2008$).

Table B4: Stage 3 comparison of proposed financing mechanism to Alternative 1

	Stage 3	
Revenue Source	Proposed	Alternative 1
Impact Tax Revenue	$7,589,120	$0
Special Tax/Assessment Revenue	$66,144,692	$66,144,692
Tax Increment Applied to Cover Gap	$29,698,770	$41,272,178
Total	$103,432,582	$107,416,870

Again, the loss of revenue from the residential impact tax equivalent payment increases the financing gap, and thus potentially increases the cost to the public sector.

Table B5: Total (all stages) comparison of proposed financing mechanism to Alternative 1

	Total	
Revenue Source	Proposed	Alternative 1
Impact Tax Revenue	$15,178,240	$0
Special Tax/Assessment Revenue	$138,588,271	$138,588,271
Tax Increment Applied to Cover Gap	$65,122,048	$88,268,864
Total	$218,888,559	$226,857,135

Alternative 1 results in an increase in the size of the financing gap from $65.1 million to $88.3 million, as well as an increase in the overall cost of District infrastructure.

Additional variations on this alternative include replacing the District's revenue from residential impact taxes with other private money, either through the exaction process or through a higher special tax/assessment on commercial uses.

Alternative 2: Reduce special tax/assessment from 10% to 5%

Alternative 2a: Difference made up by capturing commercial transportation impact taxes

In this alternative, it is assumed that all new and existing commercial uses pay a special tax/assessment of 5% above their ad valorem real property tax bill. It is further assumed that new commercial development makes a payment to the District that is equivalent to the current transportation impact tax rates for commercial development in a metro station policy area. The revenues from commercial impact taxes were calculated by deriving a weighted average rate for commercial development by use. The total impact tax at build-out was spread evenly over 25 years.

Table B6: Infrastructure financing, by stage and by source, for Alternative 2a

Infrastructure Financing, by Stage and by Source	Stage 1	Stage 2	Stage 3	**Total**
Impact Tax	$0	$15,360,410	$15,360,410	**$30,720,820**
Accumulated 5% Special Assessment	$5,713,584	$909,066	$1,128,555	
Special Assessment for Bond Payment	$25,132,062	$4,467,078	$5,015,801	
Accumulated Special Assessment Repayment Adjustment	$0	$0	$26,927,989	
Total Special Assessment	$30,845,646	$5,376,143	$33,072,346	**$69,294,136**
Accumulated 15% Tax Increment	$6,374,421	$12,947,079	$34,209,912	
Tax Increment for Bond Payment	$38,783,730	$5,496,426	$41,955,912	
Tax Increment Repayment Adjustment	$0	$0	-$26,927,989	
Total Tax Increment	$45,158,151	$18,443,505	$49,237,834	**$112,839,491**
Total	**$76,003,797**	**$39,180,059**	**$97,670,590**	**$212,854,446**

This alternative results in a significant shift away from private financing of District infrastructure. If the increased gap is to be met by the public sector, the required public sector financing will be significantly higher than under the proposed financing mechanism.

Table B7: Stage 1 comparison of proposed financing mechanism to Alternative 2a

	Stage 1	
Revenue Source	Proposed	Alternative 2a
Impact Tax Revenue	$0	$0
Special Tax/Assessment Revenue	$61,691,292	$30,845,646
Tax Increment Applied to Cover Gap	$12,428,397	$45,158,151
Total	$74,119,689	$76,003,797

In Stage 1, Alternative 2a reduces the revenues from the special tax/assessment from $61.7 million to $30.8 million. The financing gap increases substantially, and the required portion of the general fund increment increases from 10% to 15%. The financing gap increases from $12.4 million to $45.2 million.

Table B8: Stage 2 comparison of proposed financing mechanism to Alternative 2a

	Stage 2	
Revenue Source	Proposed	Alternative 2a
Impact Tax Revenue	$7,592,359	$15,360,410
Special Tax/Assessment Revenue	$10,752,287	$5,376,143
Tax Increment Applied to Cover Gap	$22,994,880	$18,443,505
Total	$41,339,527	$39,180,059

In Stage 2, Alternative 2a performs similarly to the proposed financing mechanism. Commercial impact taxes paid by Stage 1 commercial development adds to the residential impact taxes, and together those impact taxes are applied to reduce the required borrowing for Stage 2 infrastructure. Revenues from the special tax/assessment on new and existing commercial uses drops, however the total commercial burden actually increases in this variation.

Table B9: Stage 3 comparison of proposed financing mechanism to Alternative 2a

	Stage 3	
Revenue Source	Proposed	Alternative 2a
Impact Tax Revenue	$7,592,359	$15,360,410
Special Tax/Assessment Revenue	$66,144,692	$33,072,346
Tax Increment Applied to Cover Gap	$29,698,770	$49,237,834
Total	$103,435,821	$97,670,590

Alternative 2a results in a significant shift from private to public financing for Stage 3 infrastructure. The gap is increased from $29.7 million to $49.2 million.

Table B10: Total (all stages) comparison of proposed financing mechanism to Alternative 2a

	Total	
Revenue Source	Proposed	Variation 2a
Impact Tax Revenue	$15,184,718	$30,720,820
Special Tax/Assessment Revenue	$138,588,271	$69,294,136
Tax Increment Applied to Cover Gap	$65,122,048	$112,839,491
Total	$218,895,037	$212,854,446

Though Alternative 2a results in a small decrease in the overall cost (because the accumulation of 15% of the general fund tax increment reduces borrowing), the total public sector burden increases from $65.1 to $112.8 million. Capturing commercial impact taxes and cutting in half the special tax/assessment results in a substantially greater financing gap.

Alternative 2b: Difference made up by increased public sector gap financing

As in the previous alternative, 2b requires that 15% of the general fund increment is captured in order to cover the Stage 1 bonds, and the special tax/assessment has been reduced from 10% to 5% above the ad valorem real property tax for all new and existing commercial uses. Unlike the previous variation, the District does not charge and capture transportation impact tax equivalent payments to new commercial development.

Table B11: Infrastructure financing, by stage and by source, for Alternative 2b

Infrastructure Financing, by Stage and by Source	Stage 1	Stage 2	Stage 3	**Total**
Impact Tax	$0	$7,589,120	$7,589,120	**$15,178,240**
Accumulated 5% Special Assessment	$5,713,584	$909,066	$1,128,555	
Special Assessment for Bond Payment	$25,132,062	$4,467,078	$5,015,801	
Accumulated Special Assessment Repayment Adjustment	$0	$0	$26,927,989	
Total Special Assessment	$30,845,646	$5,376,143	$33,072,346	**$69,294,136**
Accumulated 15% Tax Increment	$6,374,421	$12,947,079	$34,209,912	
Tax Increment for Bond Payment	$38,783,730	$17,347,643	$53,807,129	
Tax Increment Repayment Adjustment	$0	$0	-$26,927,989	
Total Tax Increment	$45,158,151	$30,294,722	$61,089,051	**$136,541,925**
Total	**$76,003,797**	**$43,259,986**	**$101,750,517**	**$221,014,300**

Reducing the special tax/assessment without any increases in revenue from other sources obviously results in a substantial shift away from private sector financing.

Table B12: Stage 1 comparison of proposed financing mechanism to Alternative 2b

	Stage 1	
Revenue Source	Proposed	Alternative 2b
Impact Tax Revenue	$0	$0
Special Tax/Assessment Revenue	$61,691,292	$30,845,646
Tax Increment Applied to Cover Gap	$12,428,397	$45,158,151
Total	$74,119,689	$76,003,797

As in Alternative 2a, the increased financing gap requires an increase in the portion of incremental general fund revenues captured by the District from 10% to 15%. This is necessary because a reduced special tax/assessment and 10% of the increment are not sufficient to cover the bond payments on Stage 1 infrastructure.

Table B13: Stage 2 comparison of proposed financing mechanism to Alternative 2b

	Stage 2	
Revenue Source	Proposed	Alternative 2b
Impact Tax Revenue	$7,589,120	$7,589,120
Special Tax/Assessment Revenue	$10,752,287	$5,376,143
Tax Increment Applied to Cover Gap	$22,994,880	$30,294,722
Total	$41,336,287	$43,259,986

The reduction in special tax/assessment rates results in an increase in the financing gap from $23 million to $30.3 million.

Table B14: Stage 3 comparison of proposed financing mechanism to Alternative 2b

	Stage 3	
Revenue Source	Proposed	Alternative 2b
Impact Tax Revenue	$7,589,120	$7,589,120
Special Tax/Assessment Revenue	$66,144,692	$33,072,346
Tax Increment Applied to Cover Gap	$29,698,770	$61,089,051
Total	$103,432,582	$101,750,517

The financing gap in Stage 3 increases from $29.7 million to $61.1 million.

Table B15: Total (all stages) comparison of proposed financing mechanism to Alternative 2b

	Total	
Revenue Source	Proposed	Alternative 2b
Impact Tax Revenue	$15,178,240	$15,178,240
Special Tax/Assessment Revenue	$138,588,271	$69,294,136
Tax Increment Applied to Cover Gap	$65,122,048	$136,541,925
Total	$218,888,559	$221,014,300

Overall, reducing the special tax/assessment rate from 10% to 5% above the overall ad valorem real property taxes results in a doubling of the financing gap for District infrastructure (from $65.1 million to $136.5 million).

MCPB
Item #5a
5/7/09

MONTGOMERY COUNTY PLANNING DEPARTMENT
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

May 1, 2009

MEMORANDUM

TO: Montgomery County Planning Board

VIA: Glenn Kreger, Acting Chief, Vision Division GK

FROM: Jacob Sesker, Planner Coordinator, Vision Division (301.650.5619) JS

SUBJECT: Worksession #10: White Flint Sector Plan – Status of Implementation

STAFF RECOMMENDATION: Discuss and provide direction to staff.

PURPOSE OF THIS WORK SESSION

This work session has three purposes:

(1) To review the January 12 public hearing testimony related to the implementation sections of the Draft Sector Plan,
(2) To discuss various legal and public policy considerations affecting the financing and administration sections of the Sector Plan, and
(3) To consider potential changes to the implementation sections of the Sector Plan in light of the new information that has been presented to staff through testimony and subsequent discussions with Executive Branch staff.

This review and discussion will inform staff's efforts to revise the Draft Plan and present those revisions to the Planning Board on June 4, 2009.

SUMMARY

The testimony submitted by the County Executive, and subsequent discussions with the County Executive and officials from various Executive Branch agencies, indicated significant opposition to many implementation elements of the Draft Sector Plan. This memo presents the Planning Board with new information that staff has learned through those discussions, and discusses potential changes to the Sector Plan that would be consistent with that information.

This memo addresses the following topics:

1. Background: Testimony Submitted by County Executive
2. Progress Since Public Hearing
3. Issue Summary and Staff Response
    A. Legal Considerations
    B. Policy Considerations
    C. Cost Considerations
    D. Administrative Considerations
4. Note: Charter Review Commission

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1. BACKGROUND: TESTIMONY SUBMITTED BY COUNTY EXECUTIVE

Most of the testimony addressing the financing mechanism submitted by non-public sector participants could be characterized as favorable. However, the Executive Branch raised a number of significant concerns. The details of those concerns are paraphrased below:

- Financing: The specific mechanism recommended in the plan implicates various legal concerns, and is unnecessary given existing tools. Reserving a portion of the tax increment also implicates policy concerns. The County should not create a closed system, thereby isolating an area of prosperity. The incremental revenue generated by development in White Flint should be available to support spending in other, less successful areas of the County.

- Administration: The proposed administrative mechanism is redundant and unnecessary. The administrative mechanism might also be less accountable than current/existing structures. Decisions about raising and spending money should be made as part of established budget and CIP processes.

2. PROGRESS SINCE PUBLIC HEARING

In the period following the public hearing, staff has met frequently with representatives from the Office of the County Executive and various Executive Branch agencies. The purpose of those meetings has been threefold: to discuss in greater detail the Executive Branch's concerns regarding the Sector Plan generally, to discuss specifically the Executive Branch's concerns as they relate to the administration and financing portions of the Plan, and to learn from the implementing agencies valuable information regarding the implementation of master plans.

Through those meetings staff has developed a more detailed understanding of the implementing tools available in the County today. Synthesizing all of this new information, staff believes that the County Executive and implementing agencies would generally support a Sector Plan that calls for the creation of a Regional Services Center, an Urban Service District, a redevelopment office or similar entity, a special assessment district, and one or more development districts.

- A Regional Services Center would provide White Flint with a representative in the County Executive's cabinet capable of advocating for the White Flint Sector Plan and advancing the implementation of the Sector Plan.

- The Urban Service District[1] would provide targeted services beyond those normally provided by County government. Examples of such services include landscaping, maintenance, marketing, programming, way-finding, and operation of a bus circulator.

[1] The urban service district (similar to the model of the Bethesda Urban Partnership) could receive funding from a number of sources including ad valorem taxes, transfers from the County's general fund, and private contributions. The challenge would be how to fund the Urban Service District without revenues from a Parking Lot District. This is because the amount of revenue that can be generated by the Special Taxes is limited by the Section 305 of the Charter (the "Charter limit," which will be discussed in greater detail below).

- A redevelopment office (or similar Executive Branch entity) would provide specific redevelopment expertise to an area facing a significant redevelopment challenges. A redevelopment office could also help by providing an interface between developers and County agencies regulating development, utilities, State Highways, WMATA, and other affected common carriers and public sector entities.[2]

- A special assessment district could be created by the Council simultaneous to the Sectional Map Amendment. The special assessment district could be coterminous with the Sector Plan boundary and could include all properties within that boundary. The properties within the district could be assessed a share of the cost of certain infrastructure projects proportional to the special benefit received.

- One or more development districts should be created, as necessary. This could be done such that as properties develop they are no longer subject to the special benefit assessment and are instead part of a development district.

Staff's work with the Executive Branch has been productive, and the meetings have become more productive as they have progressed. The Executive Branch has expressed heightened interest in the success of the White Flint Sector Plan. That having been said, some Sector Plan recommendations remain stumbling blocks. As an example, the Executive Branch still opposes the use of Tax Increment Financing or, alternatively, any pre-commitment of a portion of incremental tax revenues.

3. ISSUE SUMMARY AND STAFF RESPONSE

Testimony and subsequent discussions with public sector and private sector stakeholders have raised numerous issues with respect to the implementation recommendations. Staff has divided those issues into the following broad categories:

A. Legal considerations
B. Policy considerations
C. Cost considerations
D. Administrative considerations

Following staff's summary of each of those broad considerations, staff will provide a brief response and recommendations, as appropriate.

A. Legal Considerations

The Draft Sector Plan states: "Levy an annual special assessment or special tax of not more than 10% of the total ad valorem real property tax bill, which would then be applied to all commercial uses within the Sector Plan boundary…" As explained below, this language contemplates a property tax that would implicate Charter limit issues and may violate current Maryland law.

[2] This approach worked successfully in the Silver Spring urban renewal area.

An area of particular focus in our conversations with the Executive is the legality of the financing mechanism described in the Draft Sector Plan and in staff's memorandum dated February 19. While there are a number of legal issues that have been raised by the Executive Branch, the most significant ones are the following:

- A tax that is ad valorem is a property tax
- A property tax implicates the County's Section 305 charter limits[3]
- A property tax, under state law, must be applied equally to residential and non-residential uses[4]

Staff Response and Recommendations

Staff assumes the following:

- A goal of the Sector Plan is an implementable Sector Plan,
- The uncertainty and delay associated with making changes to County law would be acceptable, so long as those changes do not require the agreement of nine Council members, and
- The greater uncertainty and delay associated with changes to State law would be unacceptable.

Logically, those assumptions leave the following possible alternatives:

- Levy the special tax equally on residential and commercial uses and confront the Charter limit issues, or
- Fund a portion of the infrastructure using existing infrastructure finance tools that do not implicate the Charter limit, including:
    - Excise tax
    - Development Districts
    - Special Assessments

Staff will address each of those options in turn.

Levy the special ad valorem tax equally on residential and commercial uses and confront the Charter limit issues. To levy an ad valorem special tax on both commercial and residential uses would be a departure from the principles that have been stated throughout this process. Furthermore, an ad valorem tax would implicate the Charter limit. In essence, in order to be able to raise any significant sums of money using an ad valorem tax, the agreement of nine Council members would be required; alternatively, the County would need to make changes to the Charter limit.[5]

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[3] Section 305 of the Charter generally limits the growth of property tax revenue in any year to the rate of inflation unless nine Council members agree to exceed it. There are a number of special districts that apply a further *ad valorem* property tax to limited geographic areas, including four parking districts, three urban districts, and two noise abatement districts. Although this type of ad valorem tax is charged only to the residents and/or businesses within specified/limited geographic areas, these revenues are counted against the countywide tax limitation.

[4] Article 15 of the Constitution applies to property tax. Article 15 provides some limitation on the authority of the County to tax and requires that the tax must be for public purpose and must be equal and uniform and according to actual value within each class or subclass of land. This is construed as meaning that a property tax should have uniformity of assessment and tax rate.

[5] The Charter Review Commission is currently exploring possible changes that would allow for more revenue to be generated by Special Taxing Districts representing defined geographic areas. Council staff has proposed such changes, and the County Executive is on record as opposing those changes.

Levy an excise tax. Levying an excise tax (a form of tax that is not ad valorem) is one way to raise revenues without implicating the charter limit. One example of an excise tax is a development impact tax.[6] Among the issues related to excise taxes are the following:

- Whether a taxable event must occur (e.g. development)
- Whether that taxable event lends itself to creating a bondable stream of revenue (e.g. a steady and predictable deferred payment of the impact tax)
- Whether it is practically/administratively feasible to collect an impact tax when payment has been deferred (e.g. establish lien priorities, method of collection, etc.)

To take an example, an impact tax on development has a clear taxable event (development). It may be possible to create an impact tax for the White Flint Sector Plan that would apply only to commercial uses[7] and which could be paid/deferred over a period of years, rather than all at once.

Create one or more development districts. Development districts are a tool that was created to finance private infrastructure (using public sector interest rates) and to spread the cost of infrastructure over a period of years. Development districts raise a number of other issues (see below). One issue not raised by development districts is the charter limit—development district taxes/charges are specifically exempted from the Section 305 charter limits.

Development districts raise the issue of consent. Though development, district proceedings can be initiated by the Council or by petition of the landowners, the legislation is interpreted to require consent of the affected landowners regardless of who initiates the development district. In order for a development district to be created around a certain boundary, 80% of the owners by identity and by value must consent to be taxed. As such, this tool is most useful in areas where consent is easily achieved.

Development districts are to be applied only to properties that are not "fully developed." Most if not all of the properties in White Flint could be considered "fully developed".[8] As such, financing a portion of the infrastructure needs using development districts would require changes to the "fully developed" requirement and/or definition in the development district legislation. For example, if all properties within the boundary of a development district were "fully developed," then all properties would be exempt from the development district tax or charge. While the development district could be repaid later when these properties redevelop more intensively, until that time there would be no predictable or bondable stream of revenue.

[6] Impact taxes are specifically authorized in Section 52-17 of the County Code.
[7] An advantage of excise taxes relative to ad valorem taxes is that there appears to be no State law requirement to apply the same rate to both residential and non-residential land uses.
[8] Section 14-5 (c) states that "any development district...should largely, if not entirely, consist of undeveloped or underdeveloped land." Further, Section 14-10 (b) that "(1) any property which is fully developed before the development district is created is exempt from any special assessment, special tax, fee, or charge imposed under this Chapter; and (2) the owner of any property exempt from payment under paragraph 1 which is later developed more intensively and benefits from any development capacity attributable to infrastructure improvements financed by the district must pay any tax, fee, or charge that it would have otherwise paid under this Chapter."

Create one or more special assessment districts. Special assessments can be imposed by the County where an infrastructure improvement bestows special benefits on a select group of properties. The assessment charged is proportional to the benefit received. While conceptually different from a tax, it is not clear whether a charge to property owners receiving a special benefit is considered a property tax for purposes of the Charter limit. A special assessment district could collect revenue from properties that are already fully developed.

- ➢ The Draft Sector Plan should not contain recommendations which violate Maryland law.
- ➢ By creating one or more special assessment districts and one or more development districts, the County could avoid the Charter limit, collect revenues from both new and existing development, and spread the cost of private infrastructure over a period of years and among those who benefit from the infrastructure.
- ➢ Excise taxes could be used to fund a portion of the infrastructure costs as well, e.g. a development impact tax charged to residential uses.
- ➢ While the public sector, as landowner (e.g. of the Conference Center), could participate in a development district or special assessment district, doing so may not close the infrastructure financing gaps identified in earlier analyses.

B. Policy Considerations

The County Executive's testimony states:

> "The proposed plan proposes that increases in the tax base be reserved at least in part for the infrastructure for the White Flint planning area. This raises significant policy considerations that are a major departure from County budget and financing strategies relative to determinations about projects competing for general fund support. The dedication of general funds will create an undesirable precedent of isolating areas of economic prosperity. Historically, general tax funds from these areas have also benefitted economic development and infrastructure improvements in less prosperous areas. This is an area of the plan that simply needs more thought and work."

In addition, it has been the fiscal policy of the County to eschew Tax Increment Financing.[9] Though TIF is available to jurisdictions in Maryland, it has not been used in Montgomery County. In discussions with the Department of Finance, staff has learned that the County feels that it should not borrow money at a higher rate of interest using TIF bonds than it would be able to get for issuing general obligation bonds.

The Executive fundamentally disagrees with the proposal in the Sector Plan to capture a portion (staff's report of February 19 estimated that portion at 10%) of the incremental general fund tax revenues and direct that incremental revenue to infrastructure investments.

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[9] Tax Increment Financing is a tool that is often used, with varied success, to finance infrastructure in redevelopment areas. Though the tool is available in Maryland, it is not used in Montgomery County. Staff has written more about Tax Increment Financing in past memoranda. A description of TIF can be found in Attachment D.

Staff Response and Recommendations
Whether or not TIF is used to implement the White Flint Sector Plan, general funds will be necessary in order to pay for the infrastructure included in this Plan. Given that fact, in many respects the question becomes how to balance the public sector's desire for flexibility to allocate general fund resources through the budget CIP process and the private sector's desire to have some certainty with regard to the timing and pace of public sector contributions from the general fund.

- Staff created a financial model of an infrastructure financing mechanism; that mechanism was deemed necessary in part because of the extraordinary cost of road improvements in the Sector Plan area, which were driven by the extraordinary cost of the improvements to Rockville Pike. The Rockville Pike improvements would extend throughout the Sector Plan area, as well as beyond the boundary of the Sector Plan area. It would be reasonable to expect the public sector to pay a substantial portion of the cost of the Rockville Pike improvements.
- TIF would be an appropriate tool for funding the public sector's share of the costs of improvements to Rockville Pike, though the public sector may choose to pay for the Rockville Pike improvements using traditional financing tools.

For additional details regarding TIF, see Attachment D.

C. Cost Considerations

In meetings occurring after the Public Hearing, the Executive Branch[10] has communicated its concerns regarding the infrastructure cost assumptions made by staff in the transportation technical appendix and in staff's financial analysis of the proposed financing mechanism (as presented to the Board as a staff report on February 19, 2009). The Executive is concerned that staff <u>understated</u> the cost of infrastructure and <u>overstated</u> the feasibility of financing the Sector Plan's implementation. In particular, the Executive Branch is concerned that the Sector Plan and February 19 staff report fail to account for the cost of right-of-way acquisition that would fall to the public sector wherever rights-of-way are not dedicated as a condition of subdivision/redevelopment.[11]

Staff Response and Recommendations
Staff's February 19 memorandum did not address the cost of acquiring rights-of-way. Based on a detailed review of the Sector Plan area and all presentations by property owners during the land use work sessions, staff believes that the County will need to acquire the following:

- Land for the Civic Green
- Land for the realignment of the five-legged intersection at Old Georgetown Road and Executive Boulevard
- Land for the Main Street

[10] The Executive Branch is required by law to submit to the Council a fiscal analysis of every master plan approved by the Planning Board.
[11] The County Executive is also concerned about the cost of public parking (constructing and/or acquiring land for parking lots). These concerns will be addressed as a part of the transportation work sessions.

Staff's earlier analysis (see February 19 memo) estimated a total financing gap over the three stages of roughly \$65 million, not including any right-of-way acquisition or parking.[12] Staff estimated the cost of the Rockville Pike improvements in Stage 3 at \$66 million.

- Land for the Civic Green could be paid for out of the proposed Amenity Fund or ALARF.
- There may also be opportunities to site the Civic Green on land acquired for road rights-of-way, or to swap abandoned land or remainders of parcels acquired for ROW for an appropriate parcel. All land for the Stage 1 rights-of-way (i.e. excluding any cost of Rockville Pike ROW) and the Civic Green could likely be acquired for \$15 million to \$30 million (approximately 150,000 square feet at \$100 to \$200 per dirt square foot).
- Staff's February 19 memorandum estimated the financing gap, and consequently the public sector obligation for roadway improvements, at \$65 million. Based on new information, staff would now estimate that cost at \$80 million to \$95 million (\$65 million to close the financing gap plus \$15 million to \$30 million in Stage 1 land acquisition).
- Public sector financing could be directed to Rockville Pike improvements and/or to improvements close to the Conference Center site.

D. Administrative Considerations

The County Executive notes that there are mechanisms authorized by existing law that can achieve many of the goals of the Sector Plan. The Executive notes that Parking Lot Districts and Urban Service Districts are tools that are available to achieve some of the objectives of the Sector Plan.

The Executive also expressed concern that decisions regarding taxation and budgeting belong in established public processes and agencies, and has expressed concern that the proposed Authority would lack accountability.

Staff Response and Recommendations
Staff recognizes that existing structures, along with ample public investments, have played a significant role in the successful redevelopment of the Silver Spring CBD. Staff also recognizes that existing County structures, and partnerships with the private sector, have played a significant role in the success of the Bethesda CBD.

Parking Lot Districts are a valuable source of revenues for funding the activities of Urban Service Districts; however, Parking Lot Districts require public ownership of land. In the absence of Parking Lot District revenues, an Urban Service District would rely on funding from a special tax (minimal, and subject to the charter limit), transfers from the general fund, and other private or public contributions.

Urban Service Districts and Regional Services Centers have established relationships with Executive Branch agencies and established protocols for addressing the particular needs of local urban areas. Urban Service Districts typically provide "clean and safe" programs (provide greater levels of public safety and cleanliness, way-finding, event programming, etc.) and are generally not involved in building infrastructure, programming infrastructure, or funding infrastructure. Bethesda Urban District services are provided by the Bethesda Urban

[12] Parking will be addressed in a future transportation work session.

Partnership, Inc., a County-established Urban District Corporation, under contract with the Bethesda-Chevy Chase Regional Services Center. The Silver Spring and Wheaton Urban Districts are managed by Regional Service Center employees.

A redevelopment office or similar Executive Branch entity could work with the Regional Services Center and Urban Services District.

- The White Flint Sector Plan area should be administered by existing Executive Branch structures. Those structures include a Regional Services Center, an Urban Service District, and a redevelopment office.
- In the absence of a Parking Lot District as a source of revenue, the operation of these entities would depend heavily on transfers from the general fund.

4. NOTE: CHARTER REVIEW COMMISSION

The Constitution of Maryland, Article XI-A, enables counties to adopt charters to establish local governments. Montgomery County has chosen this form of government. Montgomery County's charter serves a role similar to that of a constitution because it establishes the duties and responsibilities, and limitations on power for the different branches of government.

Charter Section 509 requires the quadrennial appointment of an eleven-member, bipartisan Commission to study the Charter and make recommendations on potential Charter amendments. The Charter Review Commission researches and evaluates Charter issues raised by the Executive, Council members, other government officials, and the public. Since July 2007, the Charter Review Commission has studied a variety of issues that could result in Charter amendments. One such issue, raised by Council staff and some Council members, is whether certain special taxing districts should be excluded from the Charter's limitation that property tax revenue should not increase faster than the rate of inflation.

The Charter Review Commission is currently considering possible changes that would increase the amount of revenue that could be raised in special taxing districts, so long as those districts are limited geographic areas. The County Executive opposes changes to the Charter limits.

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Attachments

A. Public Hearing Draft, Selected Portions, Implementation Chapter
B. Testimony of the County Executive on the Public Hearing Draft White Flint Sector Plan
C. Acquisition and Abandonment
D. Tax Increment Financing (TIF)
E. Tyson's Corner
F. Development District Act

cc: Piera Weiss, Master Planner

ATTACHMENT A: PUBLIC HEARING DRAFT, SELECTED PORTIONS, IMPLEMENTATION CHAPTER

Administration

This Plan recommends an administrative structure, the White Flint Redevelopment Implementation Authority, to oversee the orderly implementation of the public infrastructure and other aspects of the White Flint Sector Plan. The Authority would have broad and carefully defined powers, as well as numerous responsibilities. These powers and responsibilities would be greater than currently authorized for entities such as the Bethesda Urban Partnership. The Authority would be similar to a municipality in that it would perform a number of varied functions.

Creating the White Flint Redevelopment Implementation Authority will require enabling legislation and amendments to existing legislation at both the County and State level.

At a minimum, the Authority should be authorized to perform the following functions:

- Hire or contract for administrative, legal, and accounting staff.
- Contract with architects, engineers and other technical professionals for the purpose of designing or coordinating projects deemed necessary for successful master plan implementation.
- Enter into contracts to purchase, sell, or lease real property and personal property.
- Collect revenues from taxes and assessments, make any necessary disbursements, and issue bonds as necessary for successful master plan implementation.
- Sue or be sued, and file any necessary legal actions (including eminent domain).
- Prepare a capital program designating facilities to be constructed, estimated costs of each facility, and prioritize those facilities consistent with the goals of the Plan.
- Enter into contracts, agreements, or memoranda of understanding for the construction of capital facilities.
- Participate in the ongoing affairs of the Sector Plan area, including maintenance, security and branding/marketing efforts.

In addition to those powers, the Authority would possess certain responsibilities. The responsibilities of the Authority should include:

- Maintain accurate records of revenues and expenditures, including an annual audit of its operations and accounts.
- Prepare an annual operating report, to be transmitted along with the annual audit, to the Planning Board for review and then to the County Council.
- Prepare an annual report of development activity and traffic congestion levels to transmit to the Planning Board and the County Council.
- Establish a protocol for receiving public input, including open hearings and work sessions.

- Review and comment on project plans and other pertinent actions that come before the Planning Board.
- Governance by a board with representatives from a broad group of stakeholders and County agencies.
- Establish a protocol for determining which infrastructure projects should be funded in each stage of development, as established in this Plan, as well as a protocol for changing the infrastructure staging to reflect emerging realities.
- Establish a protocol for determining that enough development has occurred to merit the issuance of bonds for the next stage of infrastructure projects.

Some portion of the revenues from the Parking Lot District, recommended in the Staging Plan, could be made available to support the transportation-related capital and operating budget of the Authority.

Financing

Successful implementation of the White Flint Sector Plan will require substantial public and private investment in infrastructure and other public facilities, as well as timely delivery of key infrastructure. In White Flint, as elsewhere, the public and private sectors will share the costs of the necessary infrastructure and facilities. Certain capital costs may be financed entirely by the private sector, others may be financed entirely by the public sector, and others still may be financed by the public and private sectors together.

Excessive reliance on piecemeal private sector delivery of capital facilities can result in haphazard, "Swiss-cheese" development patterns. Excessive dependence on public sector capital improvement programming can often result in infrastructure delivery that is slowed by politics or bonding capacity, and which favors projects that add lane capacity over those that improve aesthetic qualities of place. As such, finding the proper balance between public and private sector financing and delivery of infrastructure can prove critical to successful implementation of complex redevelopment plans.

Montgomery County has a number of tools available to close financing gaps for needed capital improvements; those tools work either by channeling private-sector capital into public projects or by reinvesting revenues generated by development in White Flint to improvements within White Flint. Impact taxes and adequate public facilities payments are two significant mechanisms the County uses to direct private money to finance capital facilities. These tools allow government to recoup costs associated with growth at the time that new development occurs.

However, other tools may be more appropriate in situations in which timeliness of delivery is an important consideration, when the cost of the project is disproportionate to the benefit for any individual property owner, and when the class of property owners receiving benefit is large. Examples of effective tools include:

- Tax-Increment Financing (TIF) Districts
- Special Taxing Districts and Special Assessment Districts

Using any one of these financing mechanisms, or a combination of these financing mechanisms, the County could create a mechanism capable of repaying bonds issued to pay for certain infrastructure/public facility projects.

The following principles were established to guide the development of the financing mechanism:

- *Value capture*: To the extent possible, capture impact taxes paid by development in the district to spend on projects within the district. To the extent possible, capture a portion of the incremental property tax revenue to spend on projects within the district.
- *Leverage future private sector revenues*: To the extent possible, allow future private sector revenues to pay for current projects. Eliminate, reduce or phase-out transportation impact taxes on commercial uses, and replace the impact taxes with a special assessment on commercial uses that can be used to meet the financial obligations of the district, including retiring the debt issued to pay for "district" infrastructure costs.
- *Leverage future public sector revenues:* To the extent necessary, leverage future incremental property tax revenues to cover a portion of the cost of up-front mobility projects that are necessary precursors of the planned improvements to Rockville Pike.

Those principles are reflected in the following implementation strategy:

- Expand the Metro Station Policy Area boundary to be coterminous with the Sector Plan boundary. Within the Sector Plan boundary, all non-exempted transportation impact fees on new development will be captured and applied to pay down debt on bonds issued for designated public infrastructure and facilities projects within the Sector Plan.
- Fund the district through a special assessment or special tax. Levy an annual special assessment or special tax of not more than 10 percent of the total ad valorem real property tax bill, which would be applied to all commercial uses within the Sector Plan boundary from such time as the first bond is issued to finance designated public infrastructure and facilities projects and continuing until such time as the last bond financing a capital project designated in the Sector Plan is retired.
- In order to create a transportation network capable of accommodating the future disruption to mobility along Rockville Pike resulting from the Rockville Pike improvement projects, the County should contribute to the financing of key up-front mobility projects. County participation should be in the form of General Obligation debt to be paid out of the County's General Fund and supported by the net new revenue generated by the White Flint redevelopment; alternatively, Tax-Increment Financing would be an appropriate tool to meet the public sector's share of the cost of district projects.

ATTACHMENT B:

TESTIMONY OF THE COUNTY EXECUTIVE

ON THE

PUBLIC HEARING DRAFT WHITE FLINT SECTOR

January 12, 2009

Good evening. I am Diane Schwartz Jones with the Office of the County Executive. Thank you for this opportunity to provide the County Executive's comments on the Public Hearing Draft for the White Flint Sector Plan. The staff draft is a significant effort that proposes a bold vision premised on a new, responsible approach to development that is cognizant of the environment and the need for sustainability and that focuses denser development around mass transit. The draft plan also has as a key theme the "taming" of Rockville Pike into a pedestrian friendly, inviting boulevard. The County Executive generally supports the vision and objectives of the draft plan, but believes it needs more work.

Some of the plan recommendations are a significant departure from existing County policy on financing and administration, growth policy, and transportation policy. Without taking away from the vision and objectives expressed throughout the draft plan, these departures need to be fleshed out, and in some cases, modified.

The Executive's major concerns are addressed in this testimony. We are also providing Planning Board Staff with more detailed. The draft plan has many important concepts to embrace, but as always, the "devil is in the details." We look forward to continuing to work with the Planning Board and your staff as you advance the vision for the White Flint Sector Plan and work through the details of the plan.

Financing and Administration

A key concern that we have raised with the Planning Board Staff is the recommendation in the draft plan that a Redevelopment Implementation Authority be created that would essentially have many of the functions of both the Executive and Legislative branches of government. Such an authority is unnecessary, redundant, expensive, and would lack electoral accountability. The plan proposes an authority that would have broad powers to collect taxes, issue bonds, condemn property, make determinations as to which projects should be built, enter into contracts to design and build projects, purchase and sell property, and participate in the "ongoing affairs" of the White Flint Planning area for maintenance, security and marketing, etc. Such duplication of powers is unnecessary and the County Executive does not support the creation of an autonomous development authority to implement this master plan. Decisions on taxation, budgeting, and capital project development belong within the established public processes and agencies. The objectives cited as the reason for the creation of a separate authority can be accomplished through many existing tools that we have used in other areas of the County such as through a parking lot district and/or an urban district. We also have tools for financing that bears greater analysis.

The Executive supports focusing development contributions to pay for local infrastructure, however, the draft plan raises serious policy concerns and lacks detail about the assumptions of the public/private funding split. The proposed plan proposes that increases in the tax base be reserved at least in part for the infrastructure for the White Flint planning area. This raises significant policy considerations that are a major departure from County budget and financing strategies relative to determinations about projects competing for general fund support. The dedication of general funds will create an undesirable precedent of isolating areas of economic prosperity. Historically, general tax funds from these areas have also benefitted economic development and infrastructure improvements in less prosperous areas. This is an area of the plan that simply needs more thought and work. There are tools under existing County law to fund infrastructure. We should explore these tools. If we determine that changes may be useful we can pursue any such change. This in particular is an area in which collaborative work between the Executive Branch and the Planning Board will be very helpful. Your staff has begun to engage us on this topic and we look forward to continuing to work with your staff and the community to plan for how the infrastructure can be funded.

Transportation and Growth Policy

We agree with the objective of the proposed plan to focus development around metro, however, this also is an area that needs more work and analysis to determine how to accomplish this objective. In order to achieve the significant density increases proposed in the draft plan, the metro and transit system needs to be able to accommodate the ridership that will be generated. The Department of Transportation has identified reservations about the ability of the transportation infrastructure to support actual congestion generated by the recommended levels of new development projected for White Flint. Previously, transportation capacity was measured by trip generation and Critical Lane Volume. This plan sets a goal for a transit-focused, multi-modal mobility system to support a bustling urban center. The draft plan moves away from capacity-focused principles which have been used to link growth with public facilities in Montgomery County.

The plan proposes that LATR standards can be met with a proposed expansion of the Metro Station Policy Area boundaries to the entire Plan area. This action will serve to set higher levels of acceptable congestion at intersections which will enable developments to pass LATR review with less mitigation. The Executive is concerned that this approach will lead to congestion in the White Flint area that exceeds levels currently allowed in the area. Even with the higher threshold of acceptable congestion, the Plan assumes that two intersections -- MD 355 and Old Georgetown Road, and Old Georgetown Road and Executive Boulevard -- will fail LATR.

Policy Area Mobility Review, or PAMR, standards for automobile congestion should not be lowered. Such a change would provide unacceptable automobile congestion in transit-oriented areas. Buses need to travel along these streets with the cars in order to support transit use. The Draft Plan rests on the assumption that the current PAMR Standards can be changed and lowered for the White Flint Plan, this is contrary to the 2007 Growth Policy.

The Executive supports the creation of a new public facility review procedure applicable to all development in the White Flint Sector Plan Area if it is based on an end-state that achieves balance between land use and transportation.

Parking

The Plan appears to show the need for 9,000 new parking spaces, at an estimated cost of approximately $360 million, excluding land. Although the Plan refers to a number of public facilities to be constructed and defines their size and location, there is only one location, other than on-street meters, identified for a possible parking garage/PLD facility. Greater specificity is needed regarding the location of parking in the Plan.

Montgomery County Aquatic Center/Wall Park

In order for the Montgomery County Aquatic Center to continue existing operations it requires direct convenient access and a minimum of 250 parking spaces. Expansion of Aquatic Center would require a greater commitment to both access and parking. Relocating parking for the Aquatic Center to an adjacent parcel may be a challenge as the plan identifies this same parcel as a possible school site. It seems difficult at best to locate a large parking structure and a school on the same parcel – a parcel which may also be potentially encumbered by SHA intersection improvements/realignments as a part of future work on the Montrose/Randolph/355 interchanges.

Civic Green

The Conference Center site was originally acquired with Federal transit funds. Use of this site must be for transit oriented development. For this reason, we recommend that the Civic Green be located on the east side of Rockville Pike rather than the west side. This would enhance making the White Flint Metro a truly dense, mixed-use development for Montgomery County.

Regional Services Center/Express Library

We think it would be beneficial for the Plan to recognize and address the need for offices for urban/business district staff. This could be accomplished though the establishment of a satellite regional services center under the management of the

Bethesda-Chevy Chase Regional Services Center. Such a facility could also include public meeting space and offices for the North Bethesda TMD. We recommend that the proposed express library be included as a street front component of this facility located adjacent to a relocated Civic Green or in the North Bethesda Town Center. Our preference is that any public meeting space be located as described earlier rather than with the Express Library.

In conclusion, the County Executive supports the approach the Planning Board staff has proposed for the vision for White Flint and the design principles aimed at achieving sustainability. We do not support creating an authority as laid out in the draft plan and we urge the Planning Board to have staff do more work on the plan with our staff before it is finalized. This will enable infrastructure, staging and transportation concerns to be better addressed resulting in a more sustainable long range vision for White Flint. We will provide more detailed comments to your staff and we look forward to working with you and your staff on this important plan.

Thank you for the opportunity to share our views.

ATTACHMENT C: ACQUISITION AND ABANDONMENT

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ATTACHMENT D: TAX INCREMENT FINANCING (TIF)

Introduction

In a TIF, property tax revenues derived from the *increase* in assessed values due to appreciation and/or new development are used to pay off bonds issued for improvements in the TIF District. At the time the District is created, a baseline of revenues is established. Revenue above that baseline accrues to the District and is applied to the debt payments.

TIF assists the jurisdiction to unlock the development potential of targeted areas without having infrastructure development directly tied to whether or not a particular development moves forward. TIF also allows a greater share of the private money chasing profits in a targeted market to be directed to development of taxable uses, often decreasing to some extent the amount of private capital spent on infrastructure projects.

Recent TIF districts in the region have been backed by Special Assessment districts. In the event that the TIF district does not meet projected revenues, all property owners within the district are assessed a share of the shortfall.

Purpose of TIF

Many state and local government officials believe that without government participation in the development or redevelopment of urban areas, real estate developers and investors are more willing to invest in "Green field" sites, where land costs are lower, public facility capacity is less encumbered by existing development, and infrastructure investments are less likely to be expensive retrofits.

Under certain circumstances, TIF can serve as an effective tool for jurisdictions seeking to fund economic development of targeted geographic areas, especially those that contain "Brownfield" or "Grayfield" sites. Similarly, state and local officials in jurisdictions around the nation recognize that TIF can be a valuable tool in suburban transit-oriented development (TOD) projects as a way of meeting the high costs of retrofitting aging and suburban infrastructure.

TIF in Maryland

The Maryland Tax Increment Financing Act authorizes most Maryland counties and municipalities to use TIF for the purposes of financing certain development/redevelopment projects. See the Maryland TIF Act, Article 41 of the Annotated Code of Maryland, Sections 14-201 through 14-214.

Under the TIF Act, authorized governmental bodies may issue TIF bonds for the purpose of financing development or infrastructure to support development. The first step in that process requires the government to create a TIF District (see Article 41, §14-206) and a special fund (see

Article 41, §§14-207 and 14-208). The TIF bonds issued are then payable from the special fund which holds the incremental tax payments associated with the TIF District.

Under the TIF Act, neither a finding of "blight" nor a "but for" analysis is required as a precondition to the establishment a TIF District. The Act simply states that "the governing body of the issuer shall designate by resolution a contiguous area within its jurisdiction as a 'development district'." Maryland law then grants "the governing body of any county or municipality [the authority to] adopt a resolution creating a special fund….with respect to a development district."

While the fact that no finding of "blight" is necessary or "but for" analysis is required is an indication that TIF law in Maryland is relatively liberal, Maryland TIF law is limited in the range of revenues that can be captured by a TIF district. Jurisdictions in Maryland, unlike jurisdictions in some other states, cannot capture incremental sales tax revenues within a TIF district.

TIF Financing Terms

TIF bonds are unsecured, revenue bonds. In their purest form, they are backed by a projection of the District's tax revenues. The full faith and credit of a jurisdiction is not necessarily at risk when a TIF bond is issued. While all of these factors contribute to TIF bonds' flexibility, they also contribute to risk. When underwriters feel that the risk associated with using TIF is too high, then any of a number of conceptually similar financing tools may be more appropriate.

TIF Boundaries

In theory, TIF boundaries should be drawn narrowly enough to allow the whole district to benefit from TIF investments. However, bond placement agencies often prefer to see TIF Districts that are large and diverse, thereby reducing the risk of default. However, larger districts raise questions as to why the TIF District is so large as to include areas that receive little or no benefit from the new development. Districts that are too large also can create political and inter-jurisdictional problems.

Smaller and more narrowly drawn TIF districts usually require higher debt coverage ratios (i.e. a lower percentage of net operating income can be used for debt payment because the small TIF district is perceived to be riskier). For example, a project that will generate an annual tax increment of $1 million might have a large TIF district boundary and a debt coverage ratio of 1.25 (i.e. $800,000 available each year for principal and interest); the same project with a more narrowly drawn TIF district boundary might have a debt coverage ratio of 1.67 (i.e. $600,000 available each year for principal and interest).

<u>**ATTACHMENT E: TYSON'S CORNER**</u>

Fairfax County is in the process of amending its comprehensive plan in order to address the redevelopment of the area designated as Tyson's Corner Urban Center. According to the Draft Plan, "Successful implementation will require: commitment to the vision and Guiding Planning Principles; committed leadership; dedicated professional staff[13] at the County and other agencies; loyal, hard-working citizen participants; and a private sector willing to work together to seize new opportunities and learn new development and building techniques."

The Chapter broadly outlines an implementation strategy which includes detailed planning, an implementation entity, funding strategies, public-private partnerships, private-private partnerships, a regulatory framework, and phasing of private and public improvements. Of particular interest are the recommendations addressing the implementation entity and the recommendations addressing funding strategies.

The implementation entity is conceived as a "keeper of the vision," and is to be established by the Board of Supervisors (equivalent to the County Council). The entity will work "in conjunction with, and supplemental to" the Fairfax County structure. "It is intended that the implementation entity work in conjunction with Fairfax County by recommending infrastructure to support development, requesting capital improvements, and being part of the budgeting process."

The entity would work with the County and the State to develop urban standards for improvements to the public realm, develop design guidelines, changes to the Zoning Ordinance, changes to standards of adequacy for public facilities, research and develop a list of priority infrastructure and amenity projects, participate in the zoning process through design review, and monitor and review plans. In addition, the plan states that the entity could plan and implement initiatives affecting: schools, parks, libraries, transportation enhancements such as bus circulators, improved streetscapes, infrastructure, enhanced public safety, maintenance of common areas, litter and graffiti control, and cultural and recreational activities and facilities. Finally, the plan recommends that the entity "raise and expend funds for all types of improvements and initiatives to be carried out by the implementation entity."

With respect to funding, the Draft Plan accepts the premise that existing public and private funding mechanisms will not be able to meet the substantial cost of the infrastructure and amenities outlined in the Plan. The Draft includes a list of mechanisms that could be used, but does not match up funding mechanisms with specific projects or groups of projects.

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[13] In the case of the revitalization of Silver Spring, Montgomery County designated individuals in key departments to work on an Executive Branch task force.

ATTACHMENT F: DEVELOPMENT DISTRICT ACT

Chapter 14. Development Districts.

§ 14-17. Disclosure; notices.

§ 14-18. Construction of chapter.

Article I. General Provisions.

Sec. 14-1. Short Title.

This Chapter may be referred to as the Montgomery County Development District Act. (1994 L.M.C., ch. 12, § 1.)

Sec. 14-2. Purposes.

(a) The purposes of this Chapter are to:

(1) authorize the County to provide financing, refinancing or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas of the County of high priority for new development or redevelopment by creating development districts in which special assessments, special taxes, or both, may be levied;

(2) authorize the issuance of bonds or other obligations of the County that are payable from special assessments or special taxes collected, in a development district;

(3) specify the procedures to be followed in creating a development district, issuing bonds, and assessing and enforcing the collection of special assessments or special taxes in such a district; and

(4) provide for the tax-exempt nature and form of the bonds.

(b) Development districts would be especially useful in achieving these purposes where:

(1) an approved master plan recommends significant development in a specific area of the County;

(2) the infrastructure needs necessary to serve that development include extensive and long-term facilities; and

(3) the real estate market and the availability of land will permit significant development within the life of a development district. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

*Editor's note—2008 L.M.C., ch. 34, took effect on January 26, 2009.

2008 L.M.C., ch. 34, § 3, states: Applicability; interpretation.

(a) Any amendment to County Code Chapter 14 made in Section 1 of this Act applies to any action taken after this Act take effect.

(b) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not alter or affect any Council resolution adopted, or other action taken with respect to a development district, before this Act takes effect.

(c) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not indicate that the previous version of a provision amended by Section 1 of this Act should be interpreted differently from the same provision as amended by Section 1 of this Act.

(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-3. Definitions.

In this Chapter the following words have the following meanings:

Adequate Public Facility means any infrastructure improvement required by the Planning Board as a condition of approving a preliminary plan of subdivision under Section 50-35(k) or identified in the County Growth Policy as necessary for adequate public facilities approval in a development district.

Additional Public Facility Capacity means the provision of an infrastructure improvement not fully funded in the first 4 years of the County's then-applicable Capital Improvement Program.

Administrative Expense means any expense incurred by any County department or office in connection with the administration or funding of a development district, including:

(1) any expense directly related to levying and collecting any special tax, special assessment, fee, or charge under this Chapter;

(2) any expense of complying with any arbitrage rebate requirement or disclosure requirement under federal or state law;

(3) an allocable share of the salary of any County employee who is primarily responsible for the administration or funding of a development district;

(4) an allocable share of County administrative overhead related to the administration and funding of a development district; and

(5) the fees and expenses of any fiscal agent employed by the County in connection with development district bonds.

Bond means a special obligation or revenue bond, note, or similar instrument issued under this Chapter or any other law if the indebtedness evidenced thereby will be repaid from revenue generated by special assessments, special taxes, fees, or charges levied under this Chapter in a development district.

Cost means the aggregate dollar cost of:

(1) building, rebuilding, or renovating any infrastructure improvement, and acquiring any land, structure, real or personal property, right, right-of-way, franchise, easement, or interest;

(2) machinery and equipment, including machinery and equipment needed to expand or enhance services in a development district;

(3) financing charges and interest before and during construction and, if the Executive finds it advisable, for a limited period after completing construction; interest and reserves for principal and interest, including costs of municipal bond insurance and any other financial guaranty, costs of issuance, and administrative expenses;

(4) extensions, enlargements, additions, or improvements;

(5) architectural, engineering, financial, and legal services;

(6) plans, specifications, studies, surveys, and estimates of costs or revenues;

(7) expenses necessary or incident to deciding whether to proceed with a district or any infrastructure improvement; and

(8) any other expense necessary or incident to building, acquiring, or financing any infrastructure improvement.

Development includes redevelopment of underdeveloped land.

Development District means a special taxing district created for the purposes listed in Section 14-2 and, if a resolution adopted under Section 14-9 creates one or more subdistricts in a development district, each subdistrict.

Infrastructure Improvement means a school, police station, fire station, library, civic or government center, storm drainage system, sewer, water system, road, bridge, culvert, tunnel, street, transit facility or system, parking lot or facility, sidewalk, lighting, park, recreational facility, or any similar public facility, and the land where it is or will be located.

Owner means a person or entity with legal title to property, or a contract purchaser of a property.

Special Assessment means a levy on property which is assessed in relation to any special benefit received from the construction of one or more infrastructure improvements to support development in a development district.

Special Benefit means any advantage or betterment accruing to real property as the direct result of any infrastructure improvement. The allocation of any additional public facility capacity to a development project is a special benefit.

Special Fund means an independent account in which special assessment, special tax, fee, or charge payments received for a development district are deposited and, if a resolution adopted under Section 14-9 creates one or more subaccounts in a special fund, each subaccount.

Special Tax means a property or excise tax levied in a development district, not based on any special benefit received, to pay for one or more infrastructure improvements to support development in that district. (1994 L.M.C., ch. 12, § 1; 2004 L.M.C., ch. 2; § 2; 2008 L.M.C., ch. 34, § 1.)

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(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-4. Powers of County.

In addition to any power granted under any other law, the County may, subject to applicable state law and this Chapter:

(a) create one or more development districts;

(b) levy special assessments, special taxes, fees, or charges, in any development district; and

(c) issue bonds and other obligations payable from special assessments, special taxes, fees, or charges, levied in any development district. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Article II. Creating a Development District.

Sec. 14-5. Location.

Any development district:

(a) must be located entirely in the County, but may include land in any municipality;

(b) need not consist of a contiguous geographic area unless otherwise required by State law;

(c) should largely, if not entirely, consist of undeveloped or underdeveloped land; and

(d) may be used to finance an infrastructure improvement located outside the district if the improvement is located in the County and related to the development or use of land in that development district. (1994 L.M.C., ch. 12, § 1.)

Sec. 14-6. First Council Resolution.

(a) If a petition to create a development district signed by at least 80 percent of the owners of real property and the owners of at least 80 percent in value of the real property, as shown by the most recent assessment records available from the State Department of Assessments and Taxation or any successor agency on the date the petition is filed, located in a proposed development district, is filed with the Council, the Council must hold a public hearing after at least 15 days notice in two newspapers of general circulation in the County. The petition must specify the boundaries of the proposed district and list the maximum number of housing units and the maximum nonresidential space that the signing property owners intend to build in the district.

(b) Alternatively, the Council, on request of the Executive or on its own motion, may hold a public hearing after giving notice as required in subsection (a). The notice must:

(1) specify the proposed boundaries of the proposed district, and

(2) list the maximum number of housing units and the maximum nonresidential space expected to be built in the district.

(c) After holding a hearing under subsection (a), the Council, by resolution approved by the Executive, may declare its intent to create a development district consisting of a specified geographic area. In the resolution the Council must explain why intensive development of and public investment in that area during the term of the district will benefit the public interest.

(d) If the Executive disapproves a resolution adopted under this Section within 10 days after it is adopted and the Council readopts it by a vote of six Councilmembers, or if the Executive does not act within 10 days after the Council adopts it, the resolution takes effect.

(e) For the purposes of this Section, multiple owners of a single parcel of real property must be treated as one owner and a single owner of multiple parcels must be treated as one owner.

(f) The adoption of a resolution under this Section does not:

(1) obligate the Council to create a development district;

(2) confer any contract, property, or other right on any person; or

(3) limit a district to the area described in the resolution.

(g) After the Council has adopted a resolution under Section 14-6, the Executive may require any applicant for provisional adequate public facilities approval under Section 14-7 to pay one or more filing fees or provide other financial assurances, in amounts and installments set by Executive regulation, to cover all costs of:

(1) Executive review of the proposed district;

(2) preparation of the fiscal report required under Section 14-8; and

(3) preparation of any bond issue or other financing after the district is created. (1994 L.M.C., ch. 12, § 1; 1996 L.M.C., ch. 1, § 1; 2008 L.M.C., ch. 34, § 1.)

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2008 L.M.C., ch. 34, § 3, states: Applicability; interpretation.

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(b) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not alter or affect any Council resolution adopted, or other action taken with respect to a development district, before this Act takes effect.

(c) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not indicate that the previous version of a provision amended by Section 1 of this Act should be interpreted differently from the same provision as amended by Section 1 of this Act.

(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-7. Planning Board Review; Compliance with Adequate Public Facilities and Annual Growth Policy Requirements.

(a) After the Council has adopted a resolution under Section 14-6, one or more owners of land located in the proposed district may submit an application for provisional adequate public facilities approval, covering the entire proposed district, to the Planning Board. The application must:

(1) explain how each development located in the proposed district will comply with all applicable zoning and subdivision requirements, including any action necessary under Section 50-35(k);

(2) identify any infrastructure improvement necessary to satisfy the Growth Policy's adequate public facilities requirements for a development district; and

(3) estimate the cost to provide each such improvement.

(b) Within 180 days after receiving an application under subsection (a) and all information needed to review that application, the Board must jointly review for compliance with Section 50-35(k) and the Growth Policy all developments located in the proposed district as if they were one development. The Board may extend the deadline in this subsection for another 90 days, by notifying each applicant and the Executive and Council, if delays beyond the Board's control require more time to conduct the required review. The Council at any time may waive any applicable deadline under this Section if the public interest so requires. In its review, the Board must apply all otherwise applicable standards and procedures. The Board may conditionally approve an application if it finds that the proposed district will meet all requirements under Section 50-35(k) and any added requirements which apply to a district under the Growth Policy. The Board may condition its approval on, among other things, the creation and funding of the district and the building of no more than the maximum number of housing units and the maximum nonresidential space listed in the petition filed under Section 14-6 or any later amendment to the petition.

(c) In the aggregate, the applications approved must commit the applicants to produce (through the funding of the proposed development district or otherwise) the infrastructure improvements needed to meet the applicants' adequate public facility requirements in the proposed district and any added requirements which apply to an applicant under the Growth Policy. In its approval, the Board must list those infrastructure improvements.

(d) An applicant may withdraw a development from a district before the district is created under Section 14-9(c). An applicant must not withdraw a development after the district is created. If an applicant withdraws a development before the district is created, the applicant's provisional adequate public facility approval is cancelled. If any withdrawal would significantly impair the ability of the proposed district to finance the required infrastructure improvements, the Planning Board may modify or cancel any approval under subsection (b) and may attach new conditions to any previous approval.

(e) (1) After a development district is created and the financing of all required infrastructure improvements is arranged, any development located in the district has for all purposes satisfied:

(A) the adequate public facility requirements of Section 50-35(k);

(B) any added requirements which apply to a district under the Growth Policy; and

(C) any other requirement to provide infrastructure improvements which the County adopts within 12 years after the district is created.

(2) This subsection does not relieve any taxpayer from paying a generally applicable County tax, assessment, fee, or charge.

(f) The County may reserve for its own use or transfer to other owners through regular development approval processes, or as otherwise provided by law, any additional public facility capacity attributable to improvements financed by the district which exceeds the capacity required for developments in the district. (1994 L.M.C., ch. 12, § 1; 2004 L.M.C., ch. 2, § 2; 2008 L.M.C., ch. 34, § 1.)

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(b) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not alter or affect any Council resolution adopted, or other action taken with respect to a development district, before this Act takes effect.

(c) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not indicate that the previous version of a provision amended by Section 1 of this Act should be interpreted differently from the same provision as amended by Section 1 of this Act.

(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-8. Executive Fiscal Report.

(a) After the Planning Board has acted under Section 14-7(b) and within 180 days after the Executive has received all information necessary to review the application, the Executive, after consulting the Superintendent of Schools with respect to school facilities and the Washington Suburban Sanitary Commission with respect to water and sewer facilities, must submit a report estimating:

(1) the cost of each infrastructure improvement listed by the Planning Board under Section 14-7(c) or recommended by the Executive under subsection (b); and

(2) (A) the amount of revenue needed annually to finance all infrastructure improvements funded, fully or partly, by a district; and

(B) the rate for each tax, assessment, fee, or charge available to the district that would produce the necessary revenue.

The Executive should compare these estimates to those submitted by the applicants under Section 14-7(a). The Executive may extend the 180-day deadline in this subsection for another 90 days, by notifying the Council, if delays beyond the Executive's control require more time to produce the required report. The Council at any time may waive any applicable deadline under this subsection if the public interest so requires.

(b) In this report the Executive should also recommend whether to create a district, its boundaries if one is created, whether any subdistricts should be created in the district and, if so, their boundaries, which infrastructure improvements the district should fully or partly fund, and alternative financing or revenue-raising measures. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-9. Second Council Resolution.

(a) The Council must hold a public hearing on the final resolution to create a development district not earlier than 45 days after the Planning Board has acted on all applications filed under Section 14-7 for that district.

(b) (1) The Council must give notice of the hearing by:

(A) advertisement in at least two newspapers of general circulation in the County at least 21 days before the hearing; and

(B) first-class mail to the record owner of each property located in the proposed district at the address shown on the most recent tax assessment records available 30 days before the hearing from the State Department of Assessments and Taxation or any successor agency. The Council must retain sufficient proof that each required notice was mailed. However, the failure of any property owner to receive notice by mail does not invalidate the adoption of a resolution under this Section or any later action by the Council or Executive.

(2) Each notice mailed under this subsection must include:

(A) a copy of the proposed resolution to create a district; and

(B) an estimated rate for any tax, assessment, fee, or charge proposed to fund infrastructure improvements for the district, or, if the estimated rate cannot reasonably be determined, a description of how the rate will be set.

(c) If the Council intends to use special obligation debt to finance the district, and the district was initiated by the Council under subsection 14-6(b), before the Council adopts a resolution under this Section the Council must receive a petition to create a development district signed by at least 80 percent of the owners of real property and the owners of at least 80 percent in value of the real property, as shown on the latest tax assessment records available from the State Department of Assessments and Taxation or any successor agency, located in the proposed district.

(d) If the district to be approved under this Section would extend beyond the specified geographic area approved under Section 14-6(c), before the Council adopts a resolution under this Section the Council must also receive a petition to create the district signed by at least 80 percent of the owners of the real property and the owners of at least 80 percent in value of the real property located in the area added to the district, as shown on the latest tax assessment records available from the State Department of Assessments and Taxation or any successor agency.

(e) After the public hearing, the Council by resolution approved by the Executive may create a development district. If the Executive disapproves a resolution within 10 days after it is adopted and the Council readopts it by a vote of six Councilmembers, or if the Executive does not act within 10 days after the Council adopts it, the resolution takes effect.

(f) A resolution adopted under this Section must:

(1) define the development district by specifying its boundaries and listing the tax account number of each property in the district;

(2) list each infrastructure improvement that will be financed by the development district, the estimated completion date and cost of that improvement, and the share of that cost which the County or another government agency will pay;

(3) create, and specify the amount or percentage of, a contingency account for unexpected cost overruns; and

(4) create a special fund for the development district.

(g) A resolution adopted under this Section may also require that a building permit must not be issued for any listed development (or part of a development) in the district until the earlier of:

(1) the date a specific infrastructure improvement begins construction; or

(2) a specific date.

(h) An infrastructure improvement financed by a development district may include any infrastructure required by the Planning Board as a condition of project, preliminary, or site plan approval.

(i) A district may finance an infrastructure improvement which primarily serves residents or occupants of only one development or subdivision only if:

(1) the improvement also provides added transportation capacity, enhanced public services, or other significant public benefits to residents or occupants of one or more other developments or subdivisions; or

(2) (A) either the Planning Board or the Executive recommends that the district finance that improvement; and

(B) the Council concludes that the public interest justifies the district financing that improvement.

(j) The Council may amend a resolution adopted under this Section after giving notice as required by subsection (b), including notice by mail to each property owner in the district. If the Executive disapproves an amended resolution within 10 days after it is adopted and the Council readopts it by a vote of 6 Councilmembers, or if the Executive does not act within 10 days after the Council adopts it, the amended resolution takes effect.

(k) A resolution adopted under this Section may create one or more subdistricts in a development district if the petition to create the development district filed under Section 14-6 was signed by at least 80 percent of the owners of real property and the owners of at least 80 percent in value of the real property located in the proposed subdistrict. All special taxes, assessments, fees, or charges levied on the properties located in any subdistrict must be dedicated to a subaccount of the special fund and used to fund the construction of specified infrastructure improvements in or which benefit the district. If any subdistrict is created, the resolution adopted under this Section must:

(1) specify the boundaries of each subdistrict;

(2) list the tax account number of each property in the subdistrict;

(3) list the amount of each infrastructure improvement to be financed by special taxes, assessments, fees, or charges applicable in the subdistrict; and

(4) create designated subaccounts in the special fund.

(l) The adoption of a resolution under this Section does not:

(1) obligate the County to finance any infrastructure improvement or levy any tax, assessment, fee, or charge in the development district; or

(2) confer any contract, property or other right on any person. (1994 L.M.C., ch. 12, § 1; 1996 L.M.C., ch. 1, § 1; 2008 L.M.C., ch. 34, § 1.)

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(a) Any amendment to County Code Chapter 14 made in Section 1 of this Act applies to any action taken after this Act take effect.

(b) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not alter or affect any Council resolution adopted, or other action taken with respect to a development district, before this Act takes effect.

(c) Any amendment to County Code Chapter 14 made in Section 1 of this Act does not indicate that the previous version of a provision amended by Section 1 of this Act should be interpreted differently from the same provision as amended by Section 1 of this Act.

(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Article III. Financing a Development District.

Sec. 14-10. Special Taxes and Assessments.

(a) A resolution adopted under Section 14-9 must also authorize the imposition of a special assessment, special tax, fee, or charge, or any combination of them, in the development district at a rate designed to provide adequate revenues to:

(1) pay the principal of, interest on, and redemption premium, if any, on the bonds;

(2) replenish any debt service reserve fund;

(3) pay the cost of any approved infrastructure improvement, or reimburse the County for the cost of any approved infrastructure improvement paid from other County funds;

(4) pay directly the cost of any approved infrastructure improvement built or funded other than by the County; and

(5) pay the administrative expenses of the development district.

The resolution may reserve the Council's authority to adjust any rate schedule.

(b) The resolution must provide, except when clearly inconsistent with state law, that:

(1) any property which is fully developed before the development district is created is exempt from any special assessment, special tax, fee, or charge imposed under this Chapter; and

(2) the owner of any property exempt from payment under paragraph (1) which is later developed more intensively and benefits from any development capacity attributable to infrastructure improvements financed by the district must pay any tax, fee, or charge that it would have otherwise paid under this Chapter.

Under paragraph (1), "fully developed" property does not include any property developed after the Council adopted a resolution under Section 14-6 by any property owner who signed a petition under subsection 14-6(a) or that owner's successor in interest, and any such property is not exempt from any special assessment, special tax, fee, or charge imposed under this Chapter.

(c) A special assessment or special tax must:

(1) be levied and collected in the same manner, for the same period or periods, and with the same date or dates of finality as otherwise provided by law; and

(2) end when all bonds issued for the district have been paid in full and the County has been fully paid for each infrastructure improvement built or funded by the County.

(d) The special assessments, special taxes, fees, or charges authorized under subsection (a) must be payable as otherwise provided by law or (if state and County law are silent) as provided in the resolution adopted under Section 14-9. Any special assessment, special tax, fee, or charge must not be levied until each infrastructure improvement to be financed or refinanced has been approved in the County capital improvements program.

(e) The resolution may establish procedures for the prepayment of any special tax, special assessment, fee, or charge levied in the district. The resolution also must, subject to modification by a resolution adopted under Section 14-13:

(1) specify (to the extent not already controlled by state or County law) the basis of and any exemptions from any special assessment, special tax, fee, or charge;

(2) set a maximum special assessment, special tax, fee, or charge applicable to each individual property in the district; and

(3) prohibit any increase in, or extension of the term of, the maximum special assessment, special tax, fee, or charge applicable to any individual property because of any delinquency or default by any other taxpayer.

(f) (1) A taxpayer who did not sign a petition under Section 14-6(a), and that taxpayer's successor in interest, may defer any special ad valorem tax on real property imposed to support that debt until the Planning Board approves a plan of subdivision or resubdivision for that taxpayer's property, or, if no subdivision plan is necessary, until the first building permit is issued for any building on the affected property.

(2) The Director of Finance and the taxpayer may agree on a payment schedule.

(3) The taxpayer must pay interest on any deferred tax at the rate set by law for unpaid real property taxes during each year that taxes are deferred. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Sec. 14-11. Special Fund.

(a) The resolution creating a special fund under Section 14-9 must:

(1) pledge to the special fund the proceeds of any special assessment, special tax, fee, or charge levied under Section 14-10; and

(2) require that proceeds from any special tax, special assessment, fee, or charge be paid into the special fund.

(b) When any bonds authorized by this Chapter with respect to a development district are outstanding, the County has not been reimbursed for the cost of any infrastructure improvement funded or reimbursed by the County, or the cost of any infrastructure improvement to be paid by the County directly from special assessments or special taxes have not been paid, funds in the special fund must be used in any fiscal year to pay the principal of, interest on, and redemption premium, if any, on the bonds, to pay or reimburse the County for infrastructure improvements, to pay administrative expenses, and to replenish any debt service reserve fund established with respect to the bonds.

(c) After the bonds authorized by this Chapter with respect to a development district are fully paid, the County has been reimbursed for the cost of any infrastructure improvement funded or reimbursed by the County, and the cost of any infrastructure improvement to be paid by the County directly from special assessments or special taxes has been paid, further special assessments, special taxes, fees, or charges must not be levied and the district terminates by operation of law. If the Council so determines, any balance in the special fund must be paid to the general fund of the County. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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(d) Any notice or disclosure requirement in Section 14-17, as amended by Section 1 of this Act, applies to any sale contract signed, and any sales material or advertisement for sale disseminated, after this Act takes effect in any development district created, and in any proposed development district for which the Council adopted a resolution under Section 14-6, after January 1, 2001.

Article IV. Issuing Debt.

Sec. 14-12. Bonds-Payment, Sinking Funds, Reserve Funds, Pledges and Other Financial Guaranties, Proceeds.

(a) If the resolution adopted under Section 14-13 so provides, the Executive must take all necessary actions to issue bonds under this Chapter, subject to the usual and customary requirements and procedures for issuance of special district bonds.

(b) Bonds must be payable from the special fund required under Section 14-11 and any other assets or revenues of the district pledged toward their payment.

(c) If the resolution adopted under Section 14-9(c) provides for the issuance of bonds, the resolution may authorize the Executive to:

(1) establish sinking funds and debt service reserve funds;

(2) pledge other assets in and revenues from the district towards the payment of the principal and interest; or

(3) arrange for insurance or any other financial guaranty of the bonds.

(d) All proceeds received from any bonds issued must be applied solely towards:

(1) costs of the infrastructure improvements listed in the resolution adopted under Section 14-9(f)(2);

(2) costs of issuing bonds; and

(3) payment of the principal and interest on loans, money advances, or indebtedness incurred by the County for any purpose stated in this Chapter. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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Sec. 14-13. Resolution; Investment of Special Fund or Sinking Fund; Tax Exemption.

(a) In order to issue bonds, the Council must adopt a resolution that:

(1) describes the infrastructure improvements to be financed and states that the County has complied with the procedures in this Chapter;

(2) specifies the maximum principal amount of bonds to be issued;

(3) covenants to levy special taxes, special assessments, or both, at a rate and amount sufficient in each year when any bonds are outstanding to:

(A) provide for the payment of the principal of and interest on the bonds, and the redemption premium, if any, on the bonds;

(B) replenish any debt service reserve fund established with respect to the bonds; and

(C) enforce the collection of all special assessments and special taxes as provided in Section 52-36, et seq., of the County Code and Section 14-808, et seq., of the Tax Property Article of the Maryland Code, or other applicable law; and

(4) specifies (to the extent not already controlled by state or County law) the basis of any special assessment, special tax, fee, or charge in a development district, and any exemptions from a special assessment or special tax subject to any change in law that does not materially impair the district's ability to pay principal and interest and maintain adequate debt service reserves;

(5) declares that:

(A) the construction of the infrastructure improvements financed by the bonds:

(i) creates a public benefit, and special benefits, if applicable, to the properties assessed in the development district; and

(ii) serves a public purpose; and

(B) the projected special assessment, special tax, fee, or charge revenue will be sufficient to retire the bonds, taking into account the value of land in the district; and

(6) (A) prohibits acceleration of assessments or taxes because of any bond default;

(B) sets a maximum special assessment, special tax, fee, or charge applicable to each individual property in a development district; and

(C) prohibits any increase in, or extension of the term of, the maximum special assessment, special tax, fee, or charge applicable to any individual property because of any delinquency or default by any other taxpayer.

(b) To the extent not otherwise required by state law, the resolution may specify, or may authorize the Executive by executive order to specify as needed:

(1) the actual principal amount of the bonds to be issued;

(2) the actual rate or rates of interest for the bonds;

(3) how and on what terms the bonds must be sold;

(4) how, when, and where interest on the bonds must be paid;

(5) when the bonds may be executed, issued, and delivered;

(6) the form and tenor of the bonds, and the denominations in which the bonds may be issued;

(7) how, when, and where the principal of the bonds must be paid within the limits in this Section;

(8) how any or all of the bonds may be called for redemption before their stated maturity dates; or

(9) any other provision not inconsistent with law that is necessary or desirable to finance an infrastructure improvement.

(c) The special fund and any sinking fund or reserve fund established by the County to provide for the payment of the principal of or interest on any bonds issued by the County under this Chapter may be invested by the County fiscal officer having custody of the fund in the manner prescribed under Article 95, Section 22 of the Maryland Code. Any fiscal officer having custody of the proceeds of the sale of any such bonds may invest the proceeds, pending their expenditure, as prescribed under Article 95, Section 22.

(d) To the extent provided in State law, the principal amount of the bonds, the interest payable on the bonds, their transfer, and any income derived from the transfer, including any profit made in the sale or transfer of the bonds, must be exempt from County taxation of any kind.

(e) The adoption of a resolution under this Section does not:

(1) obligate the County to issue bonds; or

(2) confer any contract, property, or other right on any person. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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Sec. 14-14. Form, terms and conditions of bonds.

(a) Any bond may be in bearer form or in coupon form or may be registrable as to principal alone or as to both principal and interest. Each bond is a security as defined in Section 8-102 of the Commercial Law Article of the Maryland Code, whether or not it is either one of a class or series or by its terms is divisible into a class or series of instruments.

(b) Each bond must be signed manually or in facsimile by the County Executive, and the seal of the County must be affixed to the bonds and attested by the Clerk of the Council. If any officer whose signature or countersignature appears on the coupons ceases to hold that office before the bonds are delivered, the officer's signature or countersignature is nevertheless valid and sufficient for all purposes as if the officer had remained in office until delivery.

(c) Each bond must mature not later than 30 years after issuance.

(d) All bonds must be sold in the manner, either at public or private sale, and upon the terms as the County Executive directs. Any contract to acquire property may provide that payment must be made in bonds. Any bond issued under this Chapter is not subject to Article 31, Sections 10 and 11 of the Maryland Code. (1994 L.M.C., ch. 12, § 1; 2006 L.M.C., ch. 33, § 1.)

Sec. 14-15. Credit of County not Pledged.

(a) Any bond issued under this Chapter is not an indebtedness of the County within the meaning of Section 312 of the Charter.

(b) Any bond issued under this Chapter must not pledge the full faith and credit of the County and must state that the full faith and credit of the County is not pledged to pay its principal, interest, or premium, if any. (1994 L.M.C., ch. 12, § 1.)

Article V. Miscellaneous Provisions.

Sec. 14-16. Administration of district; Termination.

(a) The Executive must administer each district, prepare bond issues, collect taxes and revenues, and oversee construction of infrastructure improvements. Chapter 11B does not apply to:

(1) financing, acquiring, or building any infrastructure improvement under this Chapter; or

(2) retaining consultants or other professional services in connection with financing any infrastructure improvement or administering any development district.

(b) Construction of each infrastructure improvement listed in the resolution creating a district must begin promptly when bond proceeds or other funds are available unless:

(1) the approved Capital Improvements Program provides otherwise; or

(2) the improvement is being or has already been built.

(c) (1) The County may contract with the Revenue Authority or another public agency or a private party, including any owner of property in a development district, to construct or reimburse the cost of any infrastructure improvement when significant cost or time savings have resulted or are likely to result. In a contract under this subsection, the County may reimburse the cost of an infrastructure improvement as it is being built or after construction is complete.

(2) However, any reimbursement of construction costs under this subsection must not exceed the lowest of:

(A) the unencumbered appropriation available for that item;

(B) the actual construction cost of the item; or

(C) a fair and reasonable price developed under a cost/price analysis method used by the Office of Procurement.

(d) If the County has not issued any bonds for a district created under this Chapter, or if all bonds issued to finance a district have been repaid, the County has been reimbursed for the cost of any infrastructure improvement funded or reimbursed by the County, and the cost of any infrastructure improvement to be paid by the County directly from special assessments or special taxes has been paid, the Council may terminate the district by resolution approved by the Executive. If the Executive disapproves a resolution within 10 days after it is adopted and the Council readopts it by a vote of 6 Councilmembers, or if the Executive does not act within 10 days after the Council adopts it, the resolution takes effect. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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Sec. 14-17. Disclosure; notices.

(a) A seller of real property located in a development district or proposed development district (as defined in subsection (f) must disclose to any buyer during the life of any development district created under this Chapter:

(1) the amount of any special assessment, special tax, fee, or charge which the buyer must pay; or

(2) if that amount cannot readily be determined, a method of calculating the amount in sufficient detail to enable the buyer to estimate the maximum amount the buyer will pay currently and during the life of the district.

This disclosure must be made in any sale or lot reservation contract.

(b) The seller of any property located in a development district or proposed development district (as defined in subsection (f)) must specify in any advertisement, sales brochure, sign, or other sales material that the seller creates or authorizes, that:

(1) the property is or would be located in a development district; and

(2) any potential buyer should ask the seller about the additional taxes and other charges for which a property owner in the district may be liable.

Each sales office and model home in a new housing development located in a development district or proposed development district (as defined in subsection (f)) must prominently display at least one sign that contains the information required under this subsection. The information required under this subsection need not be included in a printed advertisement that is smaller than 16 square inches, or on the initial screen of an internet listing as long as the information appears elsewhere on that listing.

(c) A notice in a contract of sale or similar document which prominently contains the heading "Notice of Special Tax or Assessment" and substantially conforms to the following text complies with subsection (a):

Each year the buyer of this property must pay a special assessment or special tax imposed under Chapter 14 of the Montgomery County Code, in addition to all other taxes and assessments that are due. As of (date of this contract), the special assessment or special tax on this property amounts to or will not exceed (dollar amount in arabic numbers) each year. As of (date of each scheduled or expected increase), the assessment or tax is scheduled to increase to (amount of each scheduled or expected increase). For further information on this assessment or tax, the buyer can contact the County Department of Finance at (current telephone number).

If an increase in any special assessment, special tax, fee, or charge is likely to occur in the forseeable future but the timing or amount of the increase is not certain when the contract is signed, the notice must also expressly disclose that fact.

(d) Promptly after the Council adopts a resolution under Section 14-9, the Director of Finance must record among the land records of the County at the cost of the development district a declaration encumbering all real property located in the district and designating that property as subject to a development district. The declaration must terminate when the Director records a release stating that all bonds are fully repaid, the County has been reimbursed for the cost of any infrastructure improvement funded or reimbursed by the County, the cost of any infrastructure improvement to be paid by the County directly from special assessments or special taxes has been paid, and all other obligations of the County relating to the district have been satisfied. While the declaration is in effect, each deed to any real property located in the district must contain a notice that:

(1) the property is located in a development district; and

(2) a declaration filed in the County land records encumbers the property.

(e) The Director of Finance must indicate on the real estate tax bill for each property in a development district the amount of any special assessment or special tax imposed on the property.

(f) Any notice or other information that this Section requires a seller to provide for a property located in a development district must also be provided if a development district has not been created but the property is located in an area proposed to be included in a development district by a petition filed under Section 14-6.

(g) Any contract which does not disclose all information required by this Section is voidable at the option of the buyer before the date of settlement.

(h) In addition to any other applicable remedy or penalty, any person who does not comply with this Section is liable for any damages sustained by a buyer or potential buyer because of that person's failure to provide any required notice or information. However, a seller or the seller's agent is not liable for an incorrect estimate of the amount of any tax, assessment, fee, or charge disclosed under this Section if the seller relied in good faith on a method approved or recommended by the County to estimate that amount.

(i) The Office of Consumer Protection must enforce this Section as if it were part of Chapter 11. (1994 L.M.C., ch. 12, § 1; 2008 L.M.C., ch. 34, § 1.)

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Sec. 14-18. Construction of Chapter.

(a) This Chapter is necessary for the welfare of the County and its residents and must be liberally construed to achieve the purposes stated in Section 14-2.

(b) The powers granted under this Chapter supplement any power conferred by any other law and do not restrict any other power of County government. (1994 L.M.C., ch. 12, § 1.)

June 4 Amendment to May 7, 2009 Memorandum, per Planning Board

ATTACHMENT D: TAX INCREMENT FINANCING (TIF)

Introduction

In a TIF, property tax revenues derived from the increase in assessed val¬ues due to appreciation and/or new development are used to pay off bonds issued for improvements in the TIF District. At the time the TIF District is created, a baseline of revenues is established. Some or all of the revenue above that baseline accrues to the TIF District and is applied to the debt payments.

Purpose of TIF

In the absence of government participation in the development or redevelopment of urban areas, real estate developers and investors are more willing to invest in simpler, “Green field” sites. In “Green field” sites land costs are generally lower, redevelopment requires less land assemblage, public facility capacity is less encumbered by existing development, and infrastructure investments are less likely to involve expensive retrofits.

Under certain circumstances, TIF can serve as an effective tool for jurisdic¬tions seeking to fund redevelopment of targeted geographic areas, espe¬cially those that contain “Brownfield” or “Grayfield” sites. As such, state and local officials in jurisdictions around the nation recognize that TIF can be a valuable tool in suburban transit-oriented development (TOD) projects as a way of meeting the high costs of retrofitting aging or obsolete suburban infrastructure.

TIF in Maryland

The Maryland Tax Increment Financing Act authorizes most Maryland coun¬ties and municipalities to use TIF for the purposes of financing certain develop¬ment/redevelopment projects. See Title 12, Subtitle 2 of the Economic Development Article of the Maryland Code, Sections 12-201 through 12-213.

In Maryland, authorized local governments may issue TIF bonds for the purpose of financing development or infrastructure to support development. The first step in that process requires the government to create a TIF District and a special fund. The TIF bonds issued are then payable from the special fund which holds the incre¬mental tax payments associated with the TIF District.

TIF Financing Terms

TIF bonds are unsecured, revenue bonds. In their purest form, they are backed by a projection of the District’s tax revenues. The full faith and credit of a jurisdiction is not necessarily at risk when a TIF bond is issued. As such, TIF bonds are riskier than general obligation bonds. When underwriters feel that the risk associated with using TIF is too high, then any of a number of conceptually similar financing tools may be more appropriate.

Recent TIF Districts in Maryland have been “backed” by Special Assessment districts. In these cases, a Special Assessment District is created that has the same boundaries as the TIF District. In the event that the TIF District does not meet projected revenues, property owners within the TIF District are assessed a share of the shortfall.

In order to reduce risk, bond placement agencies often prefer to see TIF Districts that are large and diverse, thereby reducing the risk of default. Larger districts raise questions as to why the TIF District is so large as to include areas that receive little benefit from the new development.

Smaller and more narrowly drawn TIF Districts usually require higher debt coverage ratios (i.e. a lower percentage of net operating income can be used for debt payment because the small TIF district is perceived to be riskier). For example, a project that will generate an annual tax increment of $1 million might have a large TIF District boundary and a debt coverage ratio of 1.25 (i.e. $800,000 available each year for principal and interest); the same project with a more narrowly drawn TIF District boundary might have a debt coverage ratio of 1.67 (i.e. $600,000 available each year for principal and interest).