

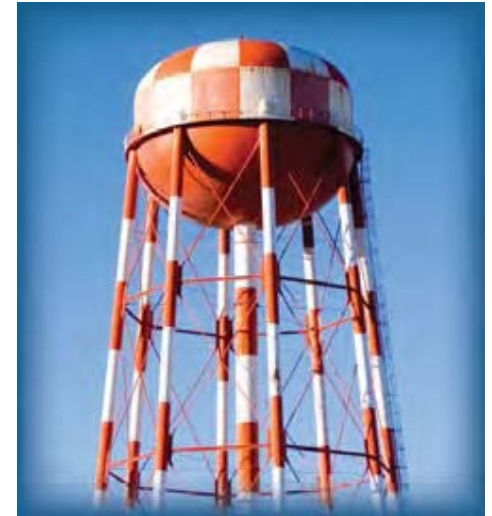
# **Public Infrastructure: New Tools, New Opportunities**

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## Overview

- Introduction
- Infrastructure Crisis
- Defining Public Private Partnerships
- Special Assessment Districts and Project Development Financing
- Challenges
- Implementation Strategies



## Introduction

We have come upon hard times. Not only are individuals having personal economic troubles, but our governments, at all levels, are slashing budgets. People are being laid off and public works projects are being postponed or canceled.

Our lack of infrastructure investment-building roads and public buildings and financing schools and research-may soon come back to haunt us. Without adequate infrastructure, our nation's ability to get back on its feet will be hampered. We will not be able to compete in the global economy...Yet, in these hard times, it is also clear that new income taxes, to finance these projects, would be unpopular and would most likely be rejected. It is imperative that we look with fresh eyes at the various means available to finance public works projects.

-Marc N. Melnick, 25 Urb. Law 539, 1993

## Infrastructure Crisis

- \$312 billion per year and 2.4% of GDP since 1980
- \$1.7 trillion deficit (ASCE)
  - 26% of bridges structurally deficient or obsolete
  - Class I track mileage 229,530 route miles in 1922 dropped to 99,250 route miles in 2000
  - Nearly 30% of 82,642 dams classified as hazardous
  - \$461 billion backlog road/highway maintenance



## Infrastructure Crisis (continued)

# American Recovery & Reinvestment Act

- \$787 billion in stimulus funding
- 1/3 aid to states, 1/3 tax cuts, 1/3 infrastructure
  - \$80 billion in core infrastructure investment
  - \$29.5 billion in government facilities and fleets
  - \$27.5 billion in highways and bridges
  - \$8 billion in intercity rail (high speed rail priority)
  - \$80 billion = 4.76% of \$1.7 trillion



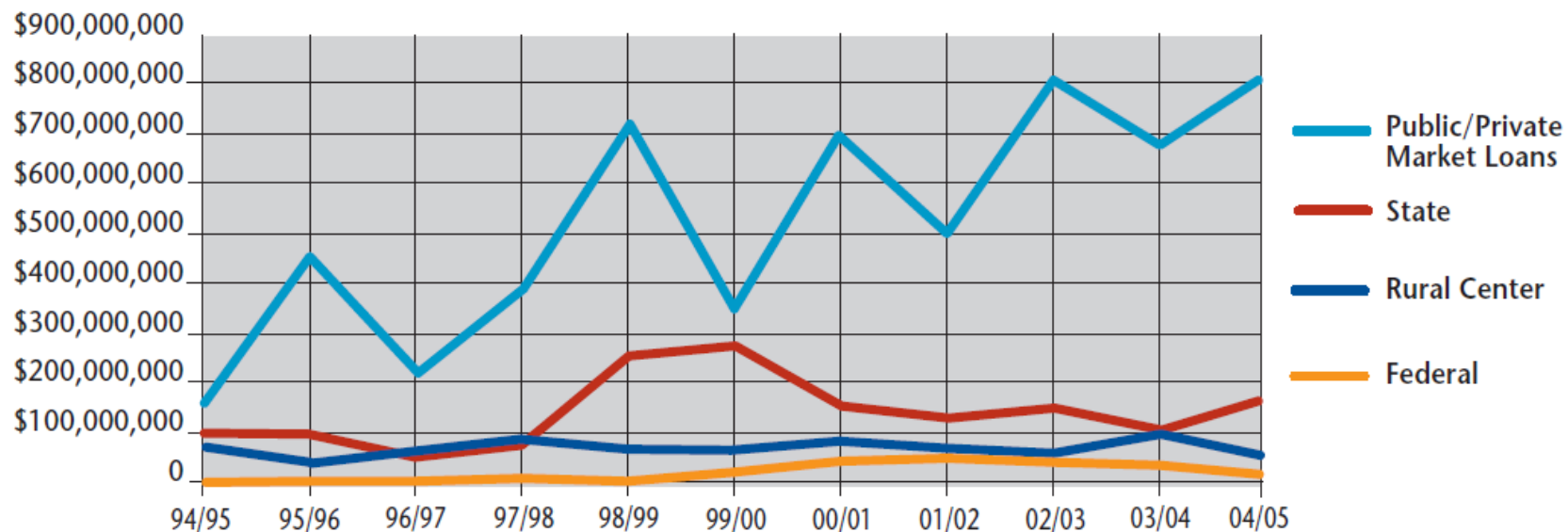
## Infrastructure Crisis (continued)

### North Carolina infrastructure deficit

- 2005 population of 8.7 m. going to 12.5 m. by 2030 – 43% growth to 7<sup>th</sup> largest state in U.S.
- NC ranked 2<sup>nd</sup> in total state maintained road mileage but 49<sup>th</sup> in spending per lane mile
- \$65 billion needed by 2030 for transport. system
- User pay model outmoded with fuel efficient vehicles, volatile fuel prices and consumption flat
- Arrival of toll roads, local option funding, VMT (?)

## Infrastructure Crisis (continued)

North Carolina Water and Sewer Funding  
by Administering Agent  
1995-2005



<http://www.ncruralcenter.org/water2030/index.html>

### Rural/Urban Usage and Capital Needs

	Urban	Rural
Number of Counties	15	85
Population served by water system (2004)	3.2 million	2.6 million
Annual Water Use	180 billion gallons	164 billion gallons
Population served by sewer system (2004)	2.9 million	1.5 million
Annual Wastewater Flow	151 billion gallons	104 billion gallons
Capital Needs		
Water	\$4.2 billion	\$3.4 billion
Sewer	\$3.0 billion	\$4.6 billion
Total	\$7.2 billion	\$8.0 billion

<http://www.ncruralcenter.org/water2030/index.html>

## Public Private Partnerships

- Definition: Private entity taking ownership or concession stake in public project with responsibility and financial liability for construction and operation
- More broadly: Strategies to foster economic development through the use of tax-exempt and other public finance programs and vehicles (bonds, tax credits, PDF, SAD, revolving loan funds)
- Private investment predicated on public investment and vice versa (captured in agreement)

## Historical Context of SAD's

- NY was the first state to have a SAD
- By early 1900's, Los Angeles, Kansas City, Portland and Oakland derived nearly 20% of their revenue from SAD's
- Traditionally used for sidewalks, street paving, and water/sewer
- Now, more suburban metropolitan areas are using SAD's to revitalize downtowns, and provide more amenities in suburban fringes like parks and open space
- In 2008, North Carolina authorized SAD's for constructing certain types of infrastructure
  - SB97 ratified on August 6 broadened the types of projects for which SAD's may be used
  - Relaxed public bidding requirement

## SAD Overview

- SAD's are initiated by a petition of at least a majority of owners constituting 66% of the assessed value of the proposed district and created by a Town, City or County to finance public improvements benefiting the district
- SAD's are perceived more like user fees than a tax because there is a direct linkage between cost and benefit received
- Allocation of assessment does not have to be uniform among all property owners within the district
- SAD bonds are non rated, land secured debt often referred to as "dirt bonds"

## **SAD Overview**

**(continued)**

- Debt service on the bonds is paid by the owners of benefited property within the SAD over a period of up to 30 years
- Bondholders look to the underlying value of the land as security for the bonds
- Up to two years of capitalized interest can be funded from bond proceeds. During the capitalized interest period, no debt service payments are made by owners of property within the SAD
- A reserve account is funded from bond proceeds. The reserve fund can be used by local government to ensure timely payments to bondholders in the case of delinquent installments

## SAD Overview (continued)

- The cost of district formation and issuance of bonds is payable from bond proceeds
- All administrative expenses related to the SAD are included in the assessment installments paid by property owners within the SAD. Therefore, the SAD is fiscally neutral to the Town
- Prior to the issuance of bonds, a market study will be performed
- Prior to the issuance of bonds, an appraisal will be performed
- Municipality is not responsible for the debt of the SAD

## Impact of SADs on Local Governments

- No obligation to repay SAD bonds under any circumstances
- The SAD is fiscally neutral to issuing government
- Potential up-front funding of facilities accelerates absorption and tax collections by local government



## Historical Context of PDF's

- 1952 California – reduction in federal spending
- PDF's restricted to areas with “blight”
- Blight = “dilapidation, obsolescence, overcrowding”
- Expansion to enterprise zones (retain business)
- 1970s expansion to economic development
- In 2004, North Carolina 49<sup>th</sup> state authorized to use PDF's

## PDF Overview

- Means of creating a revenue stream to finance public infrastructure
- When a district is created, a base property valuation is established
  - This base value is used for general tax revenue purposes
- New public investment is then made, creating “new value”
  - This “incremental” increase in assessed value issued to finance bonds used for additional public improvements.

## PDF Overview (continued)

- Define Development Financing District
  - Total land area may not exceed 5% of the total land area of the local government and no more than 20% retail outside the CBD
  - Property must be comprised of either:
    - Blighted, deteriorating or underdeveloped;
    - Appropriate for rehabilitation or conservation activities; or
    - Appropriate for economic development of the community

## PDF Overview (continued)

- Establish a Development Financing Plan
- Apply to Local Government Commission
- Determination of Incremental Valuation
  - Owners may agree to a “Voluntary Minimum Assessed Value”
    - Minimizes risk that no “increment” will be created
- Revenue Increment Fund
  - Used to finance bonds or pay for new infrastructure

## PDF Overview (continued)

- Local Government Commission Guidelines for Approval of a Project
  - Debt issuance is necessary to secure new economic development for district
  - The forecasted private development would not likely occur without the public project being financed
  - The proposed project is feasible
  - The local government's debt management policies and procedures are good

## PDF Overview (continued)

- Examples in North Carolina:
  - \$21,500,000 in financing approved for entertainment complex in Roanoke Rapids
  - \$25,000,000 (plus cost of issuance) in public infrastructure financing approved for the mixed use development of a former Brownfield site in the Town of Woodfin (Buncombe County)
    - First series of Woodfin bonds issued 8/2008 (\$12,960,000)
  - \$95,000 in public infrastructure financing approved for Phase 1 of the North Carolina Research Campus in Kannapolis (No bonds yet offered for sale)

## Synthetic TIF

- N.C.G.S. 158-7.1, local government is authorized to make appropriations for purpose of increasing business prospects of locale
- Funded by property taxes and allocation of other revenues
- Use to assemble property, construct buildings, extend utilities and water, and other purposes
- Public hearing

## Utilizing SAD's and PDF's

- Recent legislative Changes (SB-97)
- May be used for:
  - Renewable energy (only SAD's)
  - Many uses authorized for General Obligation Bonds
 

<ul style="list-style-type: none"> <li>▪ airport facilities</li> <li>▪ auditoriums, arenas, stadiums, civic centers</li> <li>▪ art galleries and museums</li> <li>▪ parking facilities</li> <li>▪ sanitary sewer systems</li> <li>▪ storm sewers and flood control facilities</li> <li>▪ water systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ public transpiration facilities</li> <li>▪ industrial parks</li> <li>▪ community college facilities</li> <li>▪ school facilities</li> <li>▪ low or moderate income housing</li> <li>▪ electric systems, gas systems</li> <li>▪ streets and sidewalks</li> </ul>
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- Any purpose for which a municipal service district may be established in N.C.G.S. 160A-536



## PDF's and SAD's are not mutually exclusive

- Combination of financing techniques can be used
  - PDF
  - SAD
  - Land contribution
  - Grants
  - Traditional bank financing



## SAD's Are More Politically Palatable Under Circumstances

- District Property is owned or controlled by few owners
- Traditionally viewed more like a user fee
- Typically used in smaller geographic areas for discrete projects



## PDF's Face More Barriers to Implementation

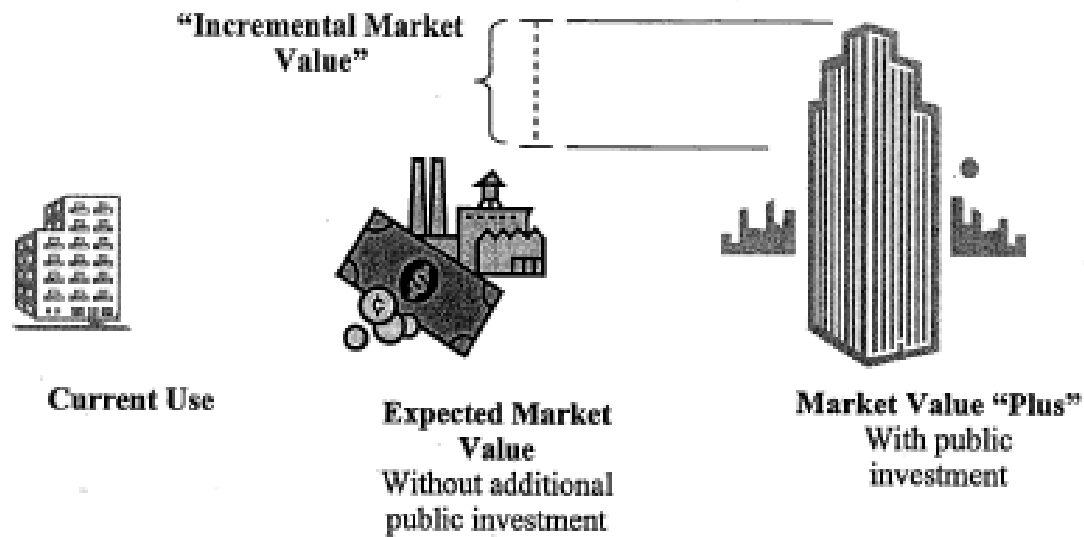
- Process complexity
- Project scale
- Negative perception
- County notification
- Lack of education/staff/resources
- Financial (COPs vs. Synthetic PDF vs. PDF)
  - Source: D. Shawn Purvis, "Tax Increment Financing in North Carolina: Great Expectations, Limited Use"

## Wake County Policy

- Purposes:
  - 1) spur development or redevelopment in undeveloped or underdeveloped areas; and
  - 2) provide incentives for different development patterns than market currently provides
- Must meet County econ. development objective:
  - Increase non-residential % of tax base
  - Increase per capita/median family incomes
  - Increase number of jobs paying > 120% avg. wage



## Wake County Calculation



## City of Raleigh “Tax Increment Financing” Policy

- Blighted sites in areas of the City where development or redevelopment is not occurring, nor is either likely to occur within two years
- 10% of any residential units must be affordable
- Infrastructure must be publicly owned
- “Subsidy” cannot extend beyond 20 years
- Public funding to be repaid if agreed upon development does not occur



## Criteria for New Start Funding

- Cost Effectiveness
- Economic Development Effects
- Transit Supportive Land use
- Acceptable degree of local financial commitment, including stable funding source to construct, maintain and operate the transit system

## Keys to Implementation

- Detailed business plan
- Clear revenue stream
- Understand process and be prepared to educate
  
- "All politics is local"
- Frame issue at intersection of infrastructure and economic development
  - additional tool for infrastructure financing (e.g., transit)
  - corporate recruiting
  - major infrastructure in CIP (e.g., water reuse line or interchange)
  - cost savings (demand vs. supply – spending constant at 2.4% GDP)



## Implementation (continued)

- City of Charlotte model
  - Detailed project plan
  - Independent review to demonstrate "but for"
  - Sustainability Index (e.g., Smart Growth Initiative, financial need, risk/return)
  - Map (e.g., growth areas, distressed areas, transit)



# Questions??



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