

**Town of Cary  
Authority and Alternatives  
Development Finance**

**Triangle Community Coalition**

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# Agenda

- **Development Environment**
- **NC Tax Increment Financing (TIF), “dirt” & “Synthetic” TIF**
  - **Eligible purpose**
  - **Town of Cary perspective**
- **Case study on debt capacity**
- **Alternative development assistance**

# Development Environment

- Approach to development support evolving
  - » Focus on Downtown
- Economic development
  - **Staff contacts: [first.last@townofcary.org](mailto:first.last@townofcary.org)**
    - Ed Gawf, Downtown Development Manager 462-3870
    - Scott Fogleman, Budget Director 462-3911
    - Jeff Ulma, Planning Director 319-4580
  - **Cary Chamber of Commerce**
    - Sandy Jordan 319-4281
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# North Carolina Debt Authority

- **North Carolina TIF statutes are restrictive compared to some other state authorities and include safeguards to address TIF critic concerns**
  - “But for”
  - County approval
  - LGC involvement
- **Special Assessment bonds are unrated and rely on a security interest in land (“dirt” bonds), authority expires in 2013**
- **Alternative debt authority using non voted asset backed debt or GO bonds**

# Eligible Government Purposes

- **Streets and sidewalks**
- **Arts and civic, not sports**
- **Public transportation and parking**
- **Water and Sewer**
- **Stormwater**
- **Industrial development**
- **Historic preservation**
- **Downtown redevelopment projects**
- **Low income housing**
- **7 years of interest expense, debt service and debt issuance costs**

# Synthetic TIF

- **Use traditional debt financing such as voter approved GO bonds or non-voted asset backed debt**
  - ❖ **Economic analysis to evaluate and match projected incremental revenue to justify funding**
  - ❖ **AAA bond ratings of the Town result in lower interest rates**
  - ❖ **Development is not tied legally to the Town's financing**
  - ❖ **Wake County policy allows County participation in municipal synthetic financings**

# **Synthetic TIF in North Carolina**

- **City of Charlotte Synthetic TIF Program**
  - ❖ **11 projects, some County participation**
  - ❖ **FY 11 debt service obligation \$2.064 million**
  - ❖ **FY 11 estimated tax increment revenue \$2.293 million**
  - ❖ **Five year projected positive margin of \$6.4 million**
  - ❖ **Total TIF commitment not to exceed \$103.58 million**
  - ❖ **Total anticipated private investment \$3.6 billion**

# Other Development Debt in NC

- **Other Synthetic TIF in NC**
  - ❖ **Mecklenburg Co/Town of Huntersville**
    - Developer agreement to fund shortfall in taxes if any
  - ❖ **Wake County has not participated in any financings to date**
- **No SAD bonds in NC**

# TIF Debt Cost Comparisons

- Credit rating, if any, of TIF bonds is markedly lower resulting in higher interest rates

## ❖ TIF rates

- 3.65 % > installment purchase
- 3.90 % > general obligation bonds

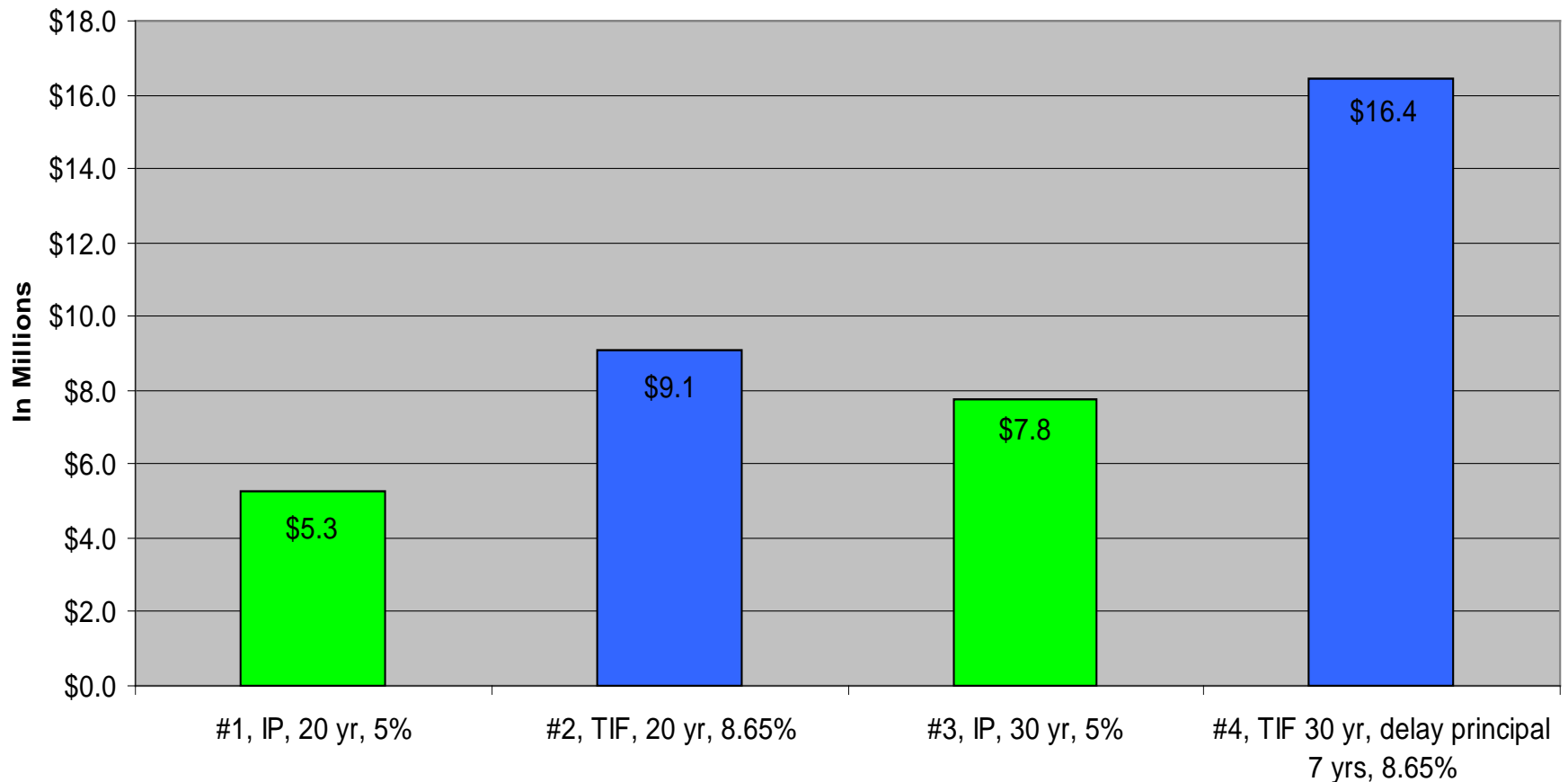
## ❖ Example on \$10 Million

- Total interest cost
- Key years of peak debt service, Year 1 vs Year 8

Scenarios	Year 1	Year 8	Total Interest
#1, IP, 20 yr, 5%	500,000	325,000	5,250,000
#2, TIF, 20 yr, 8.65%	865,000	562,250	9,082,500
#3, IP, 30 yr, 5%	500,000	383,333	7,750,000
#4, TIF 30 yr, delay principal 7 yrs, 8.65%	865,000	865,000	16,435,000

# Range of Impact \$10 Million

Comparison of Total Interest Expense  
TIF vs Synthetic TIF, 20 Years vs 30 Years  
In Millions



# Arboretum Case Study

- **Arboretum incremental tax value \$45 M on new buildings**
- **Arboretum incremental tax revenue \$148K @33¢**
- **Would support \$124 K in debt service  
+ 20% safety factor**
- **Supports \$.9 to \$1.49 million in capital for public project**

## Financing Alternatives

#1, IP, 20 yr, 5%	\$ 1.24 M
#2, TIF, 20 yr, 8.65%	\$ 0.90 M
#3, IP, 30 yr, 5%	\$ 1.49 M
#4, TIF 30 yr, delay principal 7 yrs, 8.65%	\$ 0.95 M

# Alternative Development Assistance

- **Developer pays all up front development costs and contracts for a cash grant based on the amount of incremental tax revenue generated by the project**
- **Cash appropriations to fund public projects**

# Conclusions

- Yes, we can use TIF or SAD
  - “But for” with TIF
- Synthetic TIF available to TOC and less expensive
- Alternatives through developer agreements
- Continue to evaluate projects on a case by case basis for participation and funding mechanisms
  - **Call us please!**