PLAN 640
Preservation, Planning, and Real Estate Development
Course Project – Part I: Financial Incentives/Tools for Integrating Preservation Within (Re)Development

Revenue/Tax Allocation Districts (RAD/TAD)

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History and Brief Description of RAD / TADs

“A defined area where tax monies gathered above a certain threshold for a certain period of time can be used directly for eligible improvements”

Based on concept of tax increment financing (**TIF**)

Idea that public investment in an area will increase property value, and generate additional tax revenue that would **not have occurred otherwise**

Designed to **channel funding toward improvements in distressed or underdeveloped areas**; **captures future tax benefits of real estate improvements** in a designated area **to pay present cost** of improvements; contributes to economic vitality of cities

1960s-70s, federal and state governments began cutting back economic development programs that could be used to revitalize communities. TIF has since become popular. TIF used since the 1950s; 49 states authorized with TIF legislation (exception Arizona). Widespread use in Illinois, Oregon, Missouri

History and Brief Description of RAD / TADs

Main form of financing: **bonds**, backed by new taxes and/or revenues that result from the development, or other obligations

RAD/TAD expands TIF by permitting municipalities to use **other revenue sources** beside tax increments: sales tax, parking fees or payments in lieu of taxes (PILOTs); special assessments; pledge of special assessment and/or payments in lieu of taxes

Sponsoring Entities and Administration

State-level enabling legislation

Illinois: 1977, Real Property Tax Increment Allocation Redevelopment Act

Georgia: 1985, Georgia Code

New Jersey: 2002, Redevelopment Area Bond Financing Law and Revenue Allocation District Financing Act

Local implementation of legislation

IL: 400 TIFs, 120 in Chicago

NJ: 2005, Local Finance Board. The Office of Smart Growth coordinated with other state agencies. Many municipalities responded with plans (Milville, Fanwood, Maplewood, etc)

GA: Westside, Hollowell - M.L. King, Stadium, Marietta

State-level development agencies

NJ Economic Development Authority (NJEDA)

City agencies – initiating redevelopment area designation, redevelopment plans and projects

Beneficiary Projects and Parties

Conditions of eligible areas

‘But for’ test: ‘but for’ the establishment of a RAD there would not be private investment

‘Blight’; underperformance in terms of social-economic vitality; high vacancy; low-income and education levels; low housing prices

Projects funded

Purchasing, leasing, condemnation, or acquisition of land;

Relocation of displaced persons / businesses

Demolition; new construction or rehabilitation

Public facilities and infrastructure

Affordable housing; conversions to single-family homes

Mixed-use neighborhoods

Soft costs for planning, engineering, financing, administration etc

Time and financial ratio limits

NJ: up to 15% of total taxable property within redevelopment area; 35-year maximum term of bonds

Chicago: 23-year term of bonds (1984-2007)

Application – How It Works

Establishment by municipality of **revenue allocation / redevelopment plan** and **revenue allocation district**

NJ: Local Finance Board. Plans must identify eligible projects, estimated costs, construction schedule, bonding, assessment of impacts, etc
Chicago: plan includes land assemblage; preservation of significant buildings; redevelopment agreements

Approval of plan and of financial instrument

NJ: Municipality and Local Finance Board

Redevelopment **Agreement** between municipality and developer

Issuance of bonds and loan to redeveloper - district agent (municipality, a county, regional development authority etc) issues bonds

Application – How It Works

Existing tax base is frozen for continuing normal operations

Any **new tax increases/increments captured** (up to 100 percent) and used by municipality for redevelopment work

City may permit use of guarantees, deposits and other **security** by private developers

Payments made over a period of time to coincide with debt service payments on bonds

Excess revenue distributed to taxing districts within RAD

RAD/TAD vis a vis Preservation

Not particularly used for preservation, but rather for downtown and neighborhood revitalization in general – residential, commercial, infrastructure development

NJ's Smart Growth initiative, Brownfields

Some applications for preservation observed

Chicago North Loop; Atlanta Beltline; Atlanta Historic Mableton Preservation And Improvement Plan

Considerable potential for preservation, but on condition of profitable development to catalyse rehabilitation / preservation financing

RAD/TAD vis a vis Development

Very friendly tool for development

Provides greater incentives for redevelopment where private capital investment is otherwise deterred

Gives municipalities more flexibility in the financing of local redevelopment projects
Alternative to municipal bonds, reducing the risk to municipality by putting burden of upfront financing onto developer

Creating tax base needed to provide neighborhood services without the burden of high residential tax rates

Taxes for underlying real estate are not affected.

Success and Efficacy

Commended as powerful tool, cited as **only way to ensure effective public-private partnership** to facilitate resurgence of areas by encouraging new substantial private investment

Legislation is complicated