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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Brief Description
One of the implementation methods currently employed by cities across the United States for for redevelopment, possibly encompassing revitalization or preservation, are the Revenue or Tax Allocation Districts (**RAD/TAD**).[1] A popular definition of such districts is 'a **defined area where tax monies gathered above a certain threshold for a certain period of time** (25 years) can be **used directly for eligible improvements**'.[2]

This is actually an elaboration of the older and better-known tool of Tax Increment Financing (**TIF**), which is based on the idea that public investment in an area will increase property value, and generate additional tax revenue that would **not have occurred otherwise[3]**. Tax Increment Financing is designed to channel **funding toward improvements in distressed or underdeveloped areas**, thus contributing to the economic vitality of cities. To do this, the **future tax benefits** of real estate improvements in a designated area are captured to pay the **present cost** of investment for those improvements. The main form of financing is through **bonds**, and other similar obligations, which are backed by new taxes and/or revenues that result from the development.

The **RAD** tool, sometimes used synonymously with **TIF**, **expands** it by permitting municipalities to use **other revenue sources** beside tax increments. The major ones include sales tax, parking fees, payments in lieu of taxes (PILOTs), special assessments, and pledge of special assessment and/or payments in lieu of taxes[4].

Used since the 1950's beginning in California, TIF became popular in the 1960s and 1970s, when federal and state governments began cutting back economic development programs that could be used to revitalize communities. Today, 49 states have enacted TIF legislation with the exception of Arizona[5], and its widespread use is especially known in Illinois, Oregon, Missouri and North Carolina. Some of the more recent legislation and its subsequent implementation can be found online for Georgia and New Jersey, where the new laws passed are described both as TIF and RAD.

Sponsoring Entities and Administration
From the history of use of TIF and RAD, it is understood to **begin operation at the state level**, whereby states pass **enabling legislation** to be implemented by the local governments in their jurisdiction. Some examples of these laws are the 1977 Real Property Tax Increment Allocation Redevelopment Act (Section 11-74.4-7) of Illinois, the 1985 Section 36-44-5 of the Georgia Code and the 2002 Redevelopment Area Bond Financing Law (N.J.S.A. 40A:2-1) and Revenue Allocation District Financing Act (N.J.S.A. 40A:12A-64) of New Jersey.

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1 For the purpose of practicality in this paper, they will be referred to mostly as RADs.
2 Wikipedia. Retrieved February 27, 2007. http://en.wikipedia.org/wiki/Tax_allocation_district.
3 NJ Office of Smart Growth. Retrieved February 27, 2007.
http://www.nj.gov/dca/osg/docs/annualreport021505.pdf
4 NJ Office of Smart Growth. *ibid*.
5 New Jersey Future. Retrieved February 27, 2007.
http://www.njfuture.org/index.cfm?ctn=9t45e1o30v9g&emn=5u92y86g2h42&fuseaction=user.item&ThisItem=542

The **local implementation** of such legislation has been enthusiastically embraced by municipalities. There are over 400 TIFs in Illinois, with 120 in Chicago alone. In Georgia, where more cities and counties are beginning to use RADs, a total of 17 have been created in the metro Atlanta region, such as Westside, Hollowell – M.L. King, Stadium Neighborhoods, and the City of Marietta[6]. The New Jersey Local Finance Board adopted regulations for establishing RADs in 2005, to be implemented in coordination with the Office of Smart Growth and other state agencies[7]; many municipalities responded by drafting redevelopment plans, such as Milville[8], Fanwood[9] and Maplewood[10]. The role of **state-level development agencies** also emerges at this point, as entrepreneurial state agencies such as the New Jersey Economic Development Authority (NJEDA) take the lead by assisting municipalities in encouraging revenue-generating development. However, **city agencies** ultimately play the weightier role, initiating the processes of designating redevelopment areas, and preparing redevelopment plan and projects.

Qualifications and Beneficiaries

Although stipulations vary from state to state and from plan to plan, some conditions are invariably sought in eligible areas. First among these is the **'but for' test**, meaning that it must be proven that there would not be private investment 'but for' the establishment of a RAD. Secondly, a state of **'blight'** must usually be visible, through underperformance in terms of social-economic vitality, high vacancy rates, low income and education levels, and low housing prices in the area[11].

Beside eligible areas, redevelopment **plans** are also subject to detailed criteria. Plans submitted to the Local Finance Board in New Jersey must **identify eligible project**s, include estimated **costs** and construction schedules, describe bonding procedures and explain the assessment of **impacts**, among other criteria. [12] In the Chicago North Loop plan, the plan states goals and activities including **land assemblage**, **preservation** of significant buildings and **redevelopment agreements**.[13]

The **types of projects** funded with RAD designation can include purchasing, leasing, condemnation, or **acquisition** of **land**; **demolition**, new **construction** or **rehabilitation** of buildings; public facilities and **infrastructure**; creation of affordable **housing** (eg. popularly, conversions of sites to single-family homes) and **mixed-use** neighborhood sections; **relocation** of displaced persons and businesses affected by the plans; and **soft costs** for planning, engineering, design, appraisals, financing, administration and the like.

Various **temporal and financial limitations** are also set, such as a maximum 15% of the city's total taxable property being within the redevelopment areas in New Jersey[14], and limits

[6] Marietta Redevelopment Corporation. Retrieved February 27, 2007. http://www.mariettaga.gov/committees/mrc/whatistad.aspx.
[7] NJ Office of Smart Growth. *ibid*.
[8] New Jersey Future. *ibid*.
[9] Redevelopment Plan For Downtown Fanwood, Block 64. Retrieved February 27, 2007. http://www.visitfanwood.com/redevelopment/RedevelopmentPlanWithAcceptedChanges.pdf.
[10] Economic Development Action Plan submitted to the Township of Maplewood, NJ. Retrieved February 27, 2007. http://www.danth.com/pdf/maplewood.pdf.
[11] City of Chicago. (1984). *North Loop Tax Increment Redevelopment Area – Redevelopment Plan and Project.* City of Chicago. p.10.; Tax Allocation District Redevelopment Plan for the Stadium Neighborhoods Tax Allocation District. Retrieved February 27, 2007. http://www.atlantaga.gov/client_resources/government/planning/tad/stadiumreporttadredevelopmentplan-final.pdf
[12] Montclair Redevelopment Plan. Retrieved February 27, 2007. http://www.to.montclair.nj.us/planningdept/Glenridge_Redev.pdf
[13] City of Chicago. (1984). p. 14.
[14] New Jersey Brownfields Redevelopment Resource Kit. Retrieved February 27, 2007. http://www.nj.gov/dca/osg/docs/brownfieldsresourcekit.pdf.

on the terms of bonds such as 35 years[15] in New Jersey and 23 years in Chicago[16] (interestingly, these terms are set to end on March 1, 2007, and a follow-up of what is happening in Chicago now might be interesting).

Application – How It Works
A typical sequence of steps for using the RAD tool begins with the establishment by a municipality of a **revenue allocation/ redevelopment plan** and a **revenue/ tax allocation district**. After review of the submissions, the plans and their financial instruments are **approved**, often followed by a **redevelopment agreement** between the municipality and developer. This is then followed by the **issuance of bonds** by a district agent (a municipality, county, regional development authority, etc.) and a **loan** being granted to the redeveloper. The main principle regarding taxes involves the municipality **freezing the existing tax base** for continuing normal operations, **while capturing any new tax increases/increments** (in proportions up to 100 percent) to be used for redevelopment work. For ensuring commitment to the projects, the City may permit the use of guarantees, deposits and other **securities** by private developers[17]. Payments are made over a period of time to coincide with debt service payments on the bonds.[18] Any amount of revenue generated that is in **excess** of that allocated to municipal investments are **distributed** to the taxing districts within the revenue allocation areas, thus enabling an even benefit throughout these areas.

Appraisal of RAD/TAD vis a vis Preservation and Development
From a general perspective, the RAD/TAD appears as a **very development-friendly** tool. It is commended for its many advantages in implementation. It provides **greater incentives** for redevelopment where **private capital investment** is otherwise deterred; gives municipalities more **flexibility in the financing** of local redevelopment projects; presents an alternative to municipal bonds, thus **reducing the risk to municipalities** by putting the **burden of upfront financing onto the developer**; **creates the tax base** needed to provide neighborhood services **without adding the burden** of high residential tax rates or affecting taxes for underlying real estate.

RAD/TAD is also cited as a powerful tool, and the only way to ensure **effective public-private partnershi**p to facilitate the resurgence of areas, by encouraging new substantial private investment[19]. On the other hand, the **legislation** defining RAD procedures is often **complicated**, which may necessitate an expert agency guiding its implementation. Some more criticism of RAD/TAD can be derived from the **scrutiny of TIF practices**, which are claimed to be open to **misuse**, eg. for encouraging sprawl, gentrification and development in areas not passing the 'but for' test of real need. A particular criticism cited refers to the volatile nature of sales-tax (stated earlier to be a novelty added by RADs to earlier TIF practices), compared to property tax.[20] The bottom line in this scrutiny seems to be that the family of TIF and RAD/TAD tools is indeed **merely a tool** that needs **wise application** for appropriate results.

From the viewpoint of **historic preservation**, the literature on RADs leaves the impression that local governments **do not use** this financing tool **particularly for preservation**, but rather for downtown and neighborhood revitalization in general, with an emphasis on residential, commercial/ mixed-use or infrastructure development. Certain issue areas that **overlap** with historic preservation, such as **Smart Growth** and **Brownfield** redevelopment, are popular themes found in RAD applications, which can provide an easier transition into

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[15] New Jersey Brownfields: A Smart Growth Opportunity. Retrieved February 27, 2007. http://www.njnaiop.org/publications/BrownfieldsReport.pdf
[16] City of Chicago. (1984). p. 25.
[17] City of Chicago. (1984). p. 23.
[18] New Jersey Brownfields: A Smart Growth Opportunity. *ibid.*
[19] City of Chicago. (1984). p. 23.
[20] Krohe, James, Jr. (2007). 'At the Tipping Point'. in *Planning*, March 2007, pp.20-25.

preservation. In many plans, **preservation-related stipulations** are included, or the areas in question have certain historic features, or preservation is one of the goals listed under the main purpose; however, preservation **does not explicitly emerge** as the main focus of the plans. This said, some more **direct references** to preservation are observed in cases such as the Atlanta Mableton Preservation and Improvement Plan.[21]

Although the extent and manner that historic preservation is connected to RAD practices seems ambiguous, there is still **considerable potential** for the application of the tool for preservation ends, for instance by **rephrasing plan regulations** to bring more emphasis on historic resources. The main condition for this is **accepting profitable development** as a target to **catalyze** the actual **financial resources** for rehabilitation/ preservation. This might not be as bad a concession as some may feel, because the only realistic way for preservation concerns to take an **equal seating on the table** of urban politics may be through such a combination of preservation and development interests on a community level. To be more ambitious, the criticisms of misuse placed on RAD or TIF applications could be addressed by the possible **constraining effects** of preservation to keep these applications in check against over-development.

[21] Historic Mableton Preservation and Improvement Plan. Retrieved February 27, 2007. http://economic.cobbcountyga.gov/mableton/index.htm.