

COULD YOU USE £50M FOR SPORT AND LEISURE OR REGENERATION?

In the United States of America extensive use is made of municipal bonds to raise capital for investment. For illustration, Alaska sold \$68 million in revenue bonds in April. The bonds, issued to finance construction of two fish hatcheries, will be repaid with revenue from fishing licenses. Alaska plans to build two fish hatcheries in Anchorage to replace two older facilities and build another one in Fairbanks so as to maintain the release of 7 million fish annually from its hatchery programme. Their objective is to improve fishing opportunities, reduce pressure on wild stocks and provide diversity for the angling public. Alaska residents are paying a \$9 surcharge on their \$15 annual sport fishing licence, while the surcharge for non residents is between \$9 and \$45 depending on the length of their licence. The surcharge is expected to fully cover debt service and has achieved ratings of A Standard and Peer's and Filch Ratings. Licence sales are increasing and if this continues then the state will be able to repay the bonds early.

The fish bonds were priced to yield 3.6% for 2007 maturities to 4.85% for 2026 maturities, callable after 5 years with Merrill Lynch & Co as the lead underwriter. So, new sport and leisure facilities are provided, borrowing costs are at a reasonable rate, capital needs are user-financed and there is no cost to the tax payer.

In the first quarter of this year bond sales by state totalled \$69 billion, this was a slow quarter! In the same quarter in 2005 bond sales by state totalled \$98 billion.

There are two main categories of municipal bonds in the US:-

- General Obligation Bonds – secured by the pledge of local taxation.
- Revenue Bonds – non guaranteed and rely on future income from the project being used to meet the cost of the debt.

The Alaska fish hatchery is a good example of the use to which a revenue bond can be put. On a recent 2 day visit to Chicago a small CIPFA delegation visited the Glen Redevelopment Project which has used a different type of bond, the General Obligation Bond, to redevelop 1100 acres of land formerly used as Glenview Naval Air Base. A new small town is being developed with its own commercial retail and sports and leisure facilities to service a comprehensive mixed housing development.

The source of revenue this time is different. "Tax Increment Financing" (TIF) allows the extra property tax revenue generated by the new construction within a designated area to be deposited in a special fund that is then used to pay for public improvements within the designated

area. Once the cost of the redevelopment is met and associated debt repaid, the "ring fencing" of the additional property taxes is removed and the property taxes can be spent anywhere in the local authority's area. The TIF district usually lasts around 20 to 25 years. In the United States system the main disadvantage of designating an area as a TIF district is that the school corporations will not automatically get a share of the additional property tax, but nor will they suffer any loss. The positive benefits of a TIF are flexibility in funding sources for the local authority, public improvements can be created without increasing property taxes to existing tax payers and there is a local solution available for funding economic development in an environment where federal and state support is diminishing.

Do you see any parallels with your local situation?

How do the mechanics of TIF work?

When a TIF district is created the county auditor certifies the current tax capacity of the properties, as "the original tax capacity". As the property in the district increases in value, the increases above the "original tax capacity" are captured and are known as the "captured tax capacity". The county auditor also certifies an "original tax rate" – that is the total tax rate that applies in the district.

The "Tax Increment" for the district is determined by multiplying the original tax rate by the captured tax capacity. This amounts broadly to the increases in taxes that has occurred as a result of development.

How is the TIF used in the United States?

TIF has traditionally been used to fund:

- Urban renewal.
- Affordable housing.
- Cleaning up pollution.
- Public infrastructure projects such as roads, sewers, pavements and similar improvements.

In Fitch Ratings UK credit analysis of Transport for London (March 2004), mention is made that Tax Increment Financing could be used to fund one of Transport for London's flagship projects, the Crossrail Project, but that changes in legislation would be required. Nevertheless, local authorities do issue bonds. In April 2005, Birmingham City Council proceeded with a £215 million bond issue to refinance old NEC debt and replace it with new City Council bonds. The new bonds are listed on the London Stock Exchange and the deal provides funds to redevelop and refurbish the

National Exhibition Centre, one of the UK's leading exhibition and conference venues. What else could we be using them for?

Laura Rowley
Director of Resources
Shropshire County Council
and
Chair of CIPFA's Education Panel