

# Alternative tools to Finance Urban Redevelopment

Tax Increment Financing –  
Regulatory issues

AFRICA

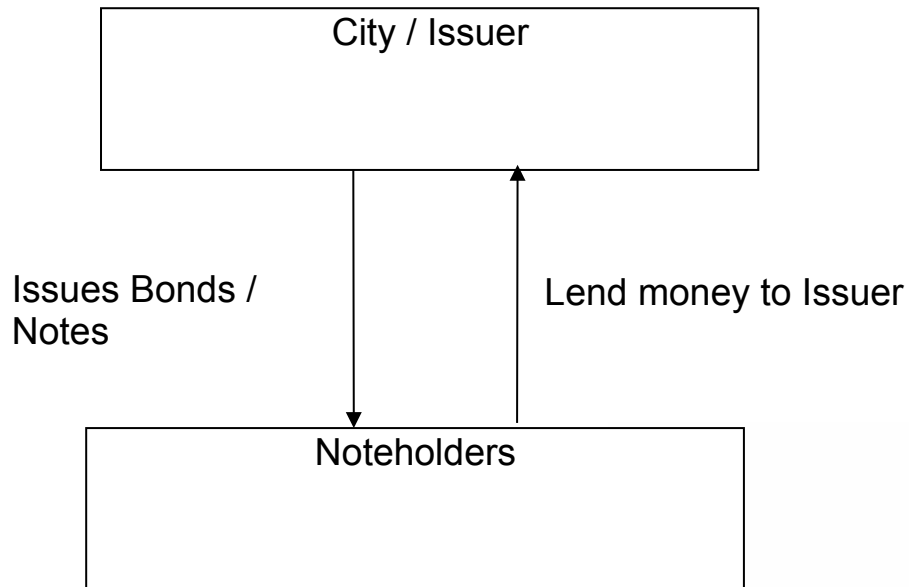
# Municipal TIF bond structures

- ✔ City as issuer of TIF bond
- ✔ Secured by future property rates revenue (tax increment) within a specified district
- ✔ Can be limited recourse debt – bondholders would have recourse only to the specified pool of assets
- ✔ TIF bond would be long-term debt under the MFMA
- ✔ The debt is reflected on the municipality's balance sheet as a liability – unlike in the United States where it is disclosed but doesn't count towards total debt obligations
- ✔ TIF is not provided for specifically in the legislation, but can be accommodated under general debt and security provisions

# Diagrams of possible TIF structures

## 🔪 On-Balance Sheet Structure: Option #1

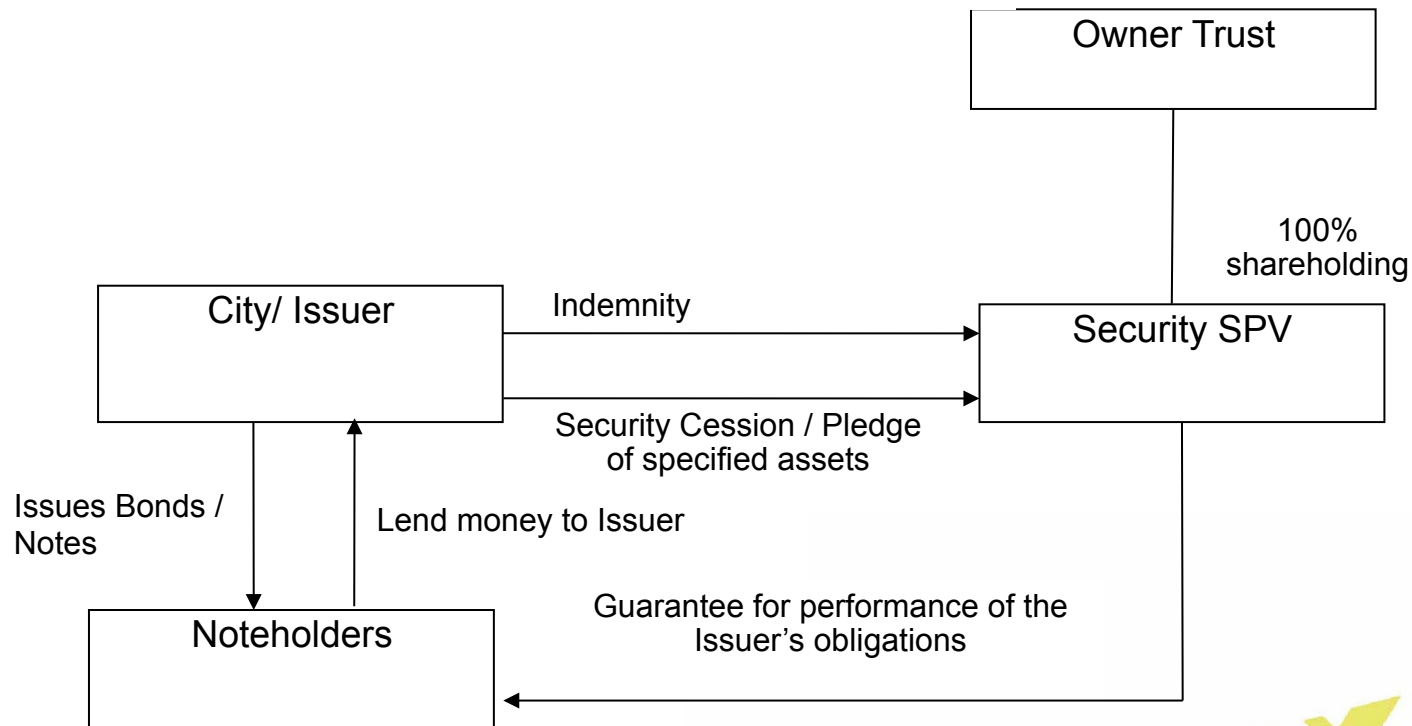
Diagram 1: On-balance-sheet, with no security structure



# Diagrams of possible TIF structures

## 🔪 On-Balance Sheet Structure: Option #2

Diagram 2: On-balance sheet, with security structure



# Regulatory implications of TIF

- ✔ TIF projects – criteria for approval?
- ✔ Involves long-term debt and security contracts - public participation process required
- ✔ Development contract for municipal funding of aspects of TIF project
- ✔ TIF bond proceeds – limits of eligible expenses
- ✔ Timing of municipal contributions - affects risk profile of TIF bond
- ✔ Inter-relationship between municipal decision on TIF bond / funding contribution, municipal planning approvals and TIF district designation

# Other regulatory implications of TIF

## 🍃 TIF district

- Considerations for designation of TIF district
  - 🍃 Designation decision is linked to financial assessment of TIF bond feasibility, which is linked to the specific TIF project/s that are proposed
  - 🍃 Impact of segregation of tax increment, for the TIF district itself but also for general municipal account
  - 🍃 Purely administrative (internal) process, or would public participation process be required?
  - 🍃 Would rates policy amendments be required?
  - 🍃 Dissolution of TIF district at TIF bond expiry

# Other regulatory implications of TIF

- Considerations for TIF implementation
  - ✦ Assessment of base value
  - ✦ How to measure and harness tax increment on a regular basis to maximize benefit / limit risk
  - ✦ Segregation of rates revenue – internal controls and (external) assurance to bondholders
  - ✦ Portion of tax increment pledged to bondholders

## ✦ Legislative reform could facilitate TIF

- Impact of limited recourse TIF bond on balance sheet (i.e. accounting treatment of TIF)
- Criteria and process for approval of TIF projects (MFMA)
- Rates-related aspects (TIF district, collection and allocation of tax increment) (Property Rates Act)

# Alternative structures (off balance sheet)

- ✦ Under current law, in order to achieve off-balance sheet status a municipality would have to enter into a 'true sale' of receivables (permanent disposal of future rates revenue for a specified period)
- ✦ A third party SPV would be the bond issuer
- ✦ All sold receivables become the property of the Issuer SPV, and the Originator (City) loses all its rights and entitlement to the sold receivables
- ✦ The proceeds (purchase price) of the sale of receivables would be used by the municipality to fund TIF projects



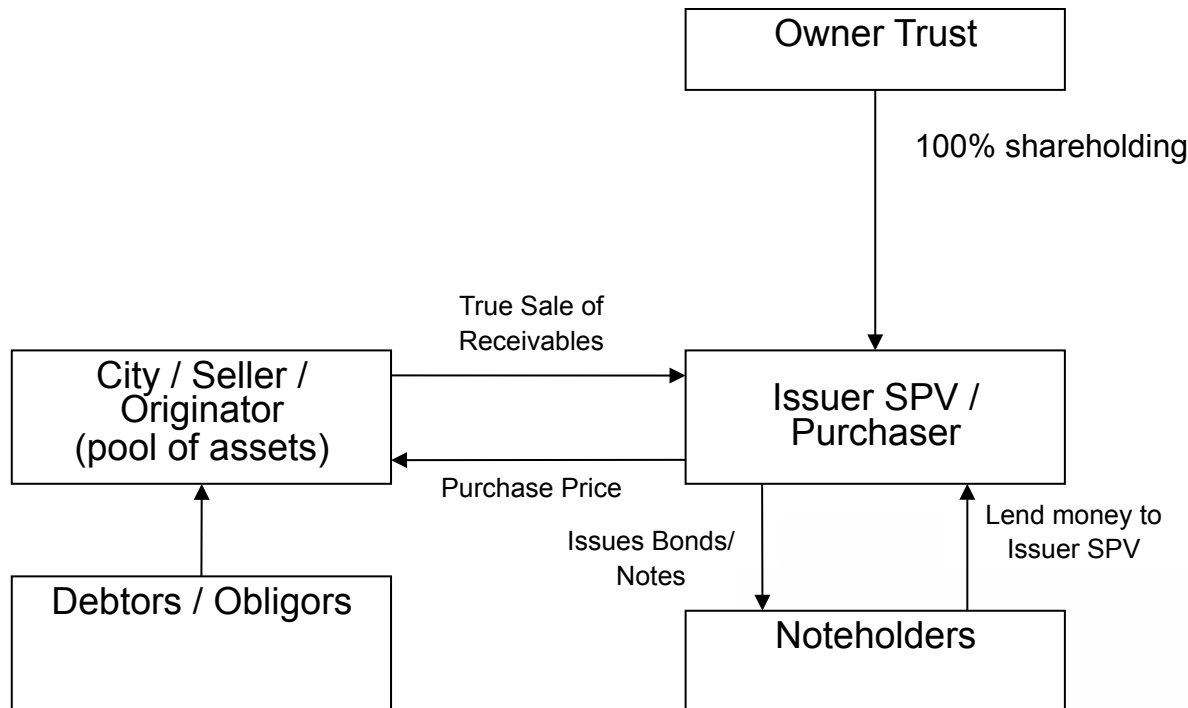
# structure of off-balance sheet obligation

- ✦ An Issuer SPV would have no employees, infrastructure or operations
- ✦ The Originator would typically enter into a servicing agreement with the Issuer SPV, in terms of which the Originator agrees to collect the receivables on behalf of the Issuer SPV at an agreed fee
- ✦ The funds collected on the receivables by the Servicer (municipality) are held in trust on behalf of the Issuer SPV
  - Base value of (owed to the municipality), would be (legally) split from the tax increment (owed to the SPV)
  - Consent of ratepayers would be required for splitting of debt, because of potential prejudice – main legal obstacle to implementation of this option

# diagrams of possible TIF structures

## Off-Balance Sheet Structure:

Diagram 3: Off-balance sheet, no security structure



**Thank you**

