

WASTEWATER INFRASTRUCTURE TASKFORCE

Alternative Financing Tools

COMMUNITY DEVELOPMENT DISTRICTS

Community Development Districts (CDD) are quasi-government agencies focusing on a specified district boundary. A CDD infrastructure implementation by providing maintenance/operation and construction of capital improvements for a number of public services (i.e. sewer, water, utilities, transportation and/or parks). The district would also have taxing authority to pay for proposed capital improvements, which may or may not require a public vote. CDDs are similar in function to that of Transportation Benefit Districts (TBD). TBDs are currently authorized in Washington state, but limited only to transportation improvements.

Pros

- ✘ Allows for focus to be on projects within a particular boundary. Taxes relate to those receiving benefit.
- ✘ Revenue allows a greater number and sizes of projects to be completed concurrently.
- ✘ Public vote limits political issues with tax/fee increase.

Cons

- ✘ If no public vote is held, a possible negative public opinion could affect future efforts.
- ✘ Will take longer to make revenue available and will need to bond projects. This will constitute general indebtedness.
- ✘ Unknown outcome of public vote.

TAX-EXEMPT MUNICIPAL LEASE FINANCING

This infrastructure funding opportunity allows a jurisdiction to rent, with the option of purchase on a specific capital project. Under a lease-purchase arrangement, the government agency leases the asset (and reserves the right to walk away from the transaction without penalty if it does not have sufficient funds to appropriate for the lease in subsequent years). The agency receives a credit for each lease payment so that, at the end of the lease term, the municipality acquires full ownership of the asset. If the municipality terminates the lease prior to the end of the term, the municipality does not get any credit for those lease payments.

Pros

- ✘ Private investment funds upfront costs of infrastructure
- ✘ Generally, not considered outstanding debt for bond ratings.

Cons

- ✘ Typically only used for fire protection or law enforcement facilities.
- ✘ Interest for public agency can be higher than other mechanisms
- ✘ Standard leases typically give the leasing entity authority to assign its interest in the lease.

TAX INCREMENT FINANCING

Tax Increment Financing is a tool to use future gains in taxes (i.e. real estate excise tax, sales tax, property tax, etc.) to finance capital improvements. Tax Increment Financing dedicates that increased revenue to finance debt issued to pay for the project. For example, when a public project such as a road, sewer or water is constructed, there is an increase in the value of surrounding area and often new private investment. This increased value and investment creates more taxable property, which increases tax revenues. Currently, Washington state only allows Tax Increment Financing through the use of Community Economic Revitalization Board (CERB) Local Infrastructure Finance Tool (LIFT) or a state identified increment area (only one currently designated in the entire state). The Washington state legislature approved the LIFT program in 2006 as a form of tax-increment financing. This mechanism allows jurisdictions to receive a rebate up to \$1M of their sales tax revenue previously obligated to the state for future infrastructure projects.

Pros

- ✘ Local flexibility on proposed projects. Public improvements are created without the use of existing property taxes and a means for a local solution for economic development.
- ✘ Does not require direct assessment of affected properties.
- ✘ Projected new revenue pays for improvements not existing and limited sources.

Cons

- ✘ It may be very difficult to implement in communities where there is a lack of good relations with the various districts and agencies levying taxes.
- ✘ May not produce enough revenue to fund meaningful infrastructure improvements.
- ✘ In contrast to other states, Washington's statutes provide that bonds issued under this program will constitute general indebtedness.
- ✘ The type of public improvements that can be funded is limited.