National Federation of Municipal Analysts

Recommended Best Practices in Disclosure for Tax Increment Supported Debt

The National Federation of Municipal Analysts (NFMA) is an organization of nearly 1,000 members, primarily research analysts, who evaluate credit and other risks of municipal securities. These individuals represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, and rating agencies.

One of the main initiatives of the NFMA is to promote timely and complete disclosure of the financial and operating information needed to assess the credit quality and risk of a municipal debt issue. The NFMA's efforts have ranged from global disclosure-related issues to more detailed, sector-specific work. For further information on the NFMA's continuing work in the area of disclosure, please see the "Disclosure Guidelines" and "Position Statements" on the NFMA's web site at www.nfma.org.

In order to develop our Recommended Best Practices in Disclosure, diverse groups of NFMA analysts worked with non-analyst professionals in each sector to develop "best practices" guidelines for certain market sectors. These Recommended Best Practices are descriptions of the specific information needed to help analysts do their jobs. The NFMA believes that the best practice in disclosure will always be the one that provides a steady flow of timely information from borrowers to the entire market. Initial drafts of our Recommended Best Practices in Disclosure were widely circulated, and an industry comment period was used to seek input from interested parties. Subsequent to the comment period, the papers were revised. For certain sectors, Comment and Response papers were drafted; these papers are available on the NFMA web site, providing additional information on the comments received.

The following is the most recent version of the Recommended Best Practices in Disclosure for this sector. This document is not intended to supplant the amendments to SEC Rule 15c2-12, but to be used in conjunction with the guidance provided in those amendments. It is important to note that the NFMA's disclosure efforts are a continuing process. These guidelines are not static documents, and will be revisited and changed as market conditions warrant. We encourage interested parties to submit comments at any time to lgood@nfma.org, so that they can be considered in the development of future versions of these Recommended Best Practices in Disclosure.

The NFMA Recommended Best Practices in Disclosure are not intended to be "one size fits all" recommendations, and all the information requested may not apply to every transaction in the sector. We encourage the providers of information to indicate when a specific item requested in the Recommended Best Practices is not applicable to a specific transaction.

Introduction

The following Recommended Best Practices in Disclosure for Tax Increment Supported Debt apply to issuers of varying size and complexity. The guidelines are applicable to debt that is repaid from tax increment revenues, primarily property tax revenues, as well as sales tax revenues where applicable. The recommendations are not intended to be applied to general obligation, appropriation-backed or land-secured debt for which other guidelines exist. Other debt structures which utilize property tax or sales tax as pledged revenues are also outside the scope of this document. In addition, many municipalities have a dual pledge of tax increments and their general obligation pledge. This disclosure document seeks to cover only those situations where the primary credit quality consists of tax increment revenues alone.

This document was prepared by a committee consisting of members representing rating agencies, buy side investors, a bond insurer, an underwriter, a financial advisor, a bond counsel, a disclosure consultant, and issuers of tax increment debt from various areas of the country.

Tax Increment Financing

Tax increment financing, sometimes also called tax allocation financing, is an increasingly popular tool designed to pay for municipal improvements from the tax revenues captured from the economic growth of an area. The tax revenues captured may consist of increased property or sales taxes.

Tax increment financing captures growth in tax revenue by first delineating the boundaries of a project area. Existing tax revenues within the project area continue to be collected as before and distributed to the same overlapping taxing entities at their normal tax rates. The existing property valuation or level of sales taxes at the time of formation of the project area is called the "base" valuation. Sales or property taxes that are received in the project area on property in excess of the base valuation, taxed at the same rate as the base valuation, are re-allocated to a fund pledged to bondholders and called tax increment revenues. Both tax rates and property valuations can vary from year to year and may be outside of the bond issuer's control, particularly as underlying taxing entities may set their individual tax rates independently.

In some cases, reimbursements from other levels of government related to property taxation may also be pledged to bondholders. For example, when California exempted business inventories from taxation, the state distributed an amount of revenues for a number of fiscal years that was equivalent to the tax loss to local redevelopment agencies collecting the tax increment revenues. Conversely, state law may exempt a particular tax levy from tax increment collection. As an example, again in California, new tax levies by underlying taxing entities for general obligation bonds are not included in tax increment collections. In other cases, the bond issuing entity may also agree to share or "pass-through" tax increment revenues to one or more underlying taxing entities.

A majority of states authorize the use of and authorize the issuance of debt using tax increment revenues. However, local governments located in California have issued the bulk of outstanding tax increment debt.

Recommended Best Practices

******* *Footnotes indicate disclosure items for on-going surveillance. Only the most recent year's data will be needed for on-going disclosure.*

I. Description of Project and Plan

A. **Project Area Description:** General description of the project area including the city in which the project is located and the geographic location of both the city and the project area. The description should include a map of the project area and a breakout of the boundaries of any sub-project areas that have different expiration dates and base years.

B. **Project Area Characteristics:** General description of the project area plan such as the date of establishment and expiration date, and physical characteristics of the project area (i.e. downtown commercial, single family residential, vacant, etc.) as well as total project area acreage.

C. **Project Area Land Utilization:** Breakdown of project area usage by commercial, industrial, residential, and vacant acreage and by assessed valuation for the current year.

D. **Economic Information:** City economic information, including market values, population, income levels, and major employers.

II. General Revenue Base

A. **Pledged Revenues**

- **Pledged Revenue Description:** Description of property tax increment revenues pledged for repayment of debt service including any revenues excluded from the pledge due to statutory deductions such as California's low and moderate income housing set-aside. The description should also include, as applicable, sources other than property taxes such as revenues in lieu of taxes, state reimbursements, state utility tax subventions, sales tax increment, etc.

- **Pledged Project Area Formation:** Year of formation of the project area or portion of the project area from which the pledged revenues are generated.

- **Tax Sharing Agreements Description:** Agreements that impact the amount of tax increment revenues available for debt service resulting from allocations of project area property taxes or payments of tax increment back to underlying taxing entities, if any, including the entities involved and the formulas used to calculate the allocation or payment of tax increment (and in particular, disclosure of tax sharing agreements in which the percentage of tax increment allocated or paid to the underlying entity increases in future years). If tax sharing agreements exist, their description should include the percentage of tax shared both in the current year, and the percentage in future years. Statutory tax sharing payments should also be disclosed when redevelopment plans are amended, and a new base year is established and underlying entities receive a percentage of revenue generated from growth in the amended areas. The description of the tax sharing agreements should also indicate those agreements that are subordinate to debt service payments and the impact of each agreement on the project area's cumulative tax increment revenue cap. The combined effect of tax sharing agreements on revenues should also be laid out in a tabular format with columns for using current tax increment revenues, and for combined prior lien tax sharing deductions, projected in each future year.

- **Project Area Base Year Value Adjustments:** Description of statutory provisions that allow or require changes in the project area base year valuation used in the determination of tax increment revenues such as inflation or appraisal adjustments. The description should indicate if base year valuation adjustments, if any, are dependent on the fluctuating value of individual properties existing when the base valuation was originally determined or on fixed dollar amounts.

- **Authorization to Collect Pledged Revenues and Incur Debt:** Description of the expiration date of the project area, the last year to collect tax increment revenues, and the last year authorized to issue debt.

- **Limits to the Collection of Pledged Revenues:** Description of annual or cumulative caps of tax increment revenues such as those required for most California project areas. For those applicable project areas, the description should include the amount of revenue, subject to the cap, collected to date.

- **Tax Increment Cap Monitoring:** For those project areas subject to a tax increment cap, covenants to monitor the amount of annual and cumulative tax increment revenues and remaining authorization under the cap should be described. The amount of funds, if any, which have been or are anticipated to be set-aside or allocated to an escrow account to meet debt service obligations when tax increment revenues exceed the cap, should also be provided.

B. Property Tax Increment

- **Project Area Valuation:** Five years (or for the life of the project area, whichever is shorter) of historical project area total assessed value. *******

- **Project Area Valuation by Assessment Classification:** Percentage of total current year project area valuation, used to calculate property tax increment, in major classifications. (i.e., secured vs. unsecured property, or real vs. personal property). Description should include separate line items for exemptions, as well as abatements and in lieu of taxes, if any.

- **Project Area Incremental Value:** Base year and resultant incremental value used to calculate property tax increment. Adjustments, if any, to the base year value should be described. *******

- **Project Area Tax Rates:** Five years (or for the life of the project area, whichever is shorter) of average project area tax rates, including a breakdown of tax rates attributable to each underlying taxing entity (A breakdown of the basic 1% tax rate is not necessary in California). *******

- **Project Area Property Tax Increment Levy and Tax Collections:** Five years (or for the life of the project area, whichever is shorter) of historical project area property tax increment levies and actual revenue receipts should be disclosed. (Non-recurring revenues sources such as supplemental property taxes in California should, if included, should be distinguished from property tax revenues generated from reported project area valuations). *******

- **Collection and Allocation of Property Tax Increment Revenues:** Method of allocating property tax revenues including the expected distribution of annual receipts, adjustments for delinquent property taxes, property tax collection fees, and the allocation of property taxes collections between the project area and the underlying taxing entities. If the property tax official responsible for property tax distribution allocates 100 per cent of the property tax levy under a special formula (e.g., California's "Teeter" plan; a delinquent tax note fund; etc.), a description of the conditions required for the special formula to be in place, such as maintenance of high levels of project area collections, should be described. The length of time between periods of property re-valuation, if any, should be disclosed.

- **Property Tax Foreclosure Procedures:** General description of the timing of foreclosure of property tax delinquent properties and tax proceeds received from a foreclosure sale.

- **Largest Property Taxpayers:** The top ten project area property taxpayers and their individual assessed valuations, including valuations by major classification (secured and unsecured, or real and personal property). Property use should also be provided for each of the top ten taxpayers. *******

- **New Construction:** Summary of major expected new construction projects, totaling 5 percent or more of project area valuation, with their current status (i.e., building permits approved, etc.), their projected market value, and expected completion dates. The summary does not require confidential information relating to pending developer agreements to be disclosed. *****

- **Project Area Property Tax Appeals:** The amount of project area property tax appeals currently outstanding, description of major taxpayers with appeals individually within that year equal to 1 percent or more of project area assessed valuation. History of appeals and amounts refunded over the previous five years. If tax appeal resolutions are forecasted, the figures and assumptions used in the forecast should also be disclosed. What is the timeline for the appeals process? *****

- **Property Tax Valuation/Revenue Rebates:** Description of any adjustments to project area property tax valuation or revenues due to assessed valuation reductions, adjustments, or tax rebates, if any, and their schedule for rolling off.

C. Sales Tax Increment (If Pledged)

- **Project Area Sales Tax Revenues:** Five years (or for the life of the project area, whichever is shorter) of historical sales tax collections. *****

- **Collection and Allocation of Sales Tax Revenues:** Method of allocating sales tax revenues including the expected distribution of annual receipts, adjustments for sales tax collection fees, and the allocation of sales taxes collections between the project area and the other entities eligible to receive sales tax revenues. Recent changes in sales tax rates should also be disclosed.

- **Largest Sales Taxpayers:** Top ten sales tax generators. Generators may be listed by dollars generated and type of retailer, without listing the name of the generator, if confidentiality laws prohibit attribution to individual retailers. *****

- **New Construction:** Major expected retail sales tax generators under development that would produce 5 percent or more of pledged sales tax revenues. *****

III. Debt/Legal Features

A. Summary of the Indenture/Bond Resolution: The summary of the legal covenants should include:

- A description of the flow of funds listing the order in which funds created under the indenture/resolution are to be paid.

- A description of the debt service reserve, if any. The description should include the required amount of the debt service reserve, whether it is funded initially at bond closing or built up over time, and how it is funded. The summary should disclose if the debt service reserve can be funded by alternatives to cash funding (e.g. by a guaranteed investment contract, surety bond, etc.). If variable rate debt is allowed, it should be clear what interest rate or other assumptions are used in calculating the debt service reserve requirement.

- A description of any covenants limiting the sale of additional parity bonds. The additional bonds test summary should clearly disclose the revenues used for the test and, if it includes an allowance for estimated future revenues, a disclosure of the method of estimation to be used. The additional bonds test should also clearly delineate whether parity variable rate debt is allowed, and what interest rate assumption is used for it when calculating the additional parity bonds test. If senior lien debt is permitted, a summary of the additional bonds test for senior lien debt should also be disclosed.

- Some bond transactions use an escrow holding account to pay for a portion of tax increment bonds' debt service, with the holding account liquidated to the extent bonds not fully supported by the escrow fund can be covered from tax increment revenues by a certain coverage multiple. This coverage multiple is often called 'the escrow release test'. If there is an escrow holding account, the escrow release test should be disclosed in the same manner as the additional bonds test above. Also disclosed should be the investments and investment restrictions on the investments in the escrow fund. Is there a debt service reserve deposit when an escrow fund is drawn down? What types of deposits to the debt service reserve are required?

- If there is an escrow account, it should be a matter of on-going disclosure as to how much debt has been released under the escrow release test. *******

B. Investments

- A description of the manner in which the investments of pledged funds are restricted, if any.

C. Litigation

- Significant on-going litigation and previous legal settlements that affect the collection of tax increment: Significant litigation implies litigation that could change revenues by 1 percent or more. *******

D. Debt

- **The Debt for the Pledged Project Area:** This should be listed by principal outstanding amount for each bond series. Variable rate debt, SWAPS, and debt derivative structures should be identified, as well as subordinate public bonds or notes. Parity city loans should be disclosed, but not subordinate city loans <u>or</u>

subordinate developer agreements. California issuers should also disclose when low and moderate income housing set-aside revenues interact between separately secured housing and non-housing set-aside debt.

- **Debt Service Schedule:** A parity and senior lien debt service schedule should be given for all combined parity and senior lien debt.

- **Planned Future Debt:** The planned issuance of future parity or senior lien debt should be disclosed. *****

E. Legislative Impacts

- **State Legislation:** Significant state legislation that might sunset or curb future tax increment collection. Significant pending voter initiatives should be disclosed.

IV. Reports/Audits

A. Audits: A copy of the most recent redevelopment agency should be included as an appendix of the official statement, and released as an on-going surveillance item. The redevelopment agency audit should specifically breakout pledged project area tax increment revenues and expenses, and not include only a summary for all combined project areas of a redevelopment agency together. ***

B. Consultant's Report: If there is a consultant's report, it should be included in the disclosure document. It is strongly recommended for new debt sales that there be an independent consultant's report, except where the quality and integrity of the information can be met in a substantially similar way.

C. City General Fund Financial Summary: It is to be clearly stated and emphasized in bold or upper case type if the city's government activities fund is not pledged, and that no other moneys or assets of the city are pledged other than tax increment revenues. However, even when the city's general fund is not pledged, it is still of interest to tax increment bond analysts that the city is not in poor financial health. Thus, disclosure of city general fund information is desired at least to the extent of a numerical summary of the most recent year's general fund revenues, expenses, and fund balances.

Appendix A

NFMA Recommended Guidelines on Operating Data

Tax Increment Supported Debt

The Appendix contains *NFMA Recommended Guidelines on Operating Data for Tax Increment Supported Debt* and is provided as an addendum to the *NFMA Recommended Best Practices in Disclosure for Tax Increment Supported Debt ("RBP").* These guidelines serve to summarize and conveniently tabulate certain key utilization statistics, operating data, and supplemental financial information set forth in the RBP for use in both primary and secondary market disclosure. This Appendix is not intended to be a "one size fits all" solution for providing this data consistent with the RBP. Issuers or obligors are encouraged to modify and supplement this Appendix in accordance with their own disclosure requirements and information profile. **To obtain more complete disclosure guidelines, issuers and obligors are urged to consult the *NFMA Recommended Best Practices in Disclosure Guidelines for Tax Increment Supported Debt.***

NFMA Recommended Guidelines on Operating Data

Tax Increment Bonds

Part 1: Operating Data

Issuer Name			
Financial Officer Contact			
Telephone No.	( )		
Fiscal Year End			
Website URL *(if available)*	http://www.		
	Last Three Fiscal Years		
Historical Figures	FYE	FYE	FYE
Secured Assessed Value			
Unsecured Assessed Value			
Total Assessed Value			
Base Assessed Value			
Tax Rate			
Tax Increment Levy			
Pledged Revenue Deductions			
Tax Collection fee			
Low-moderate income hsg set-aside *			
Net Tax Increment Pledged			
** if project area is in California*			
Demographic Statistics	Actual Tax Increment Received	Most Recent AV of Largest Taxpayers	
Taxpayer 1			
Taxpayer 2			
Taxpayer 3			
Taxpayer 4			
Taxpayer 5			

NFMA Recommended Guidelines on Operating Data

Tax Increment Bonds

Part 2: Supplemental Financial Information

Supplemental Tax Information	Fiscal year		
	FYE	FYE	FYE
• Amount of Pending Tax Assessment Appeals			
• Estimated General Size and Description of Expected Major New Development in the Next Two Years			
• Significant Recent Development in the Last Year			
• Additional Bonding Plans			