Frequently Asked Questions about Tax Allocation Districts in Georgia

What is a Tax Allocation District and how does it work?

Georgia's Redevelopment Powers Law was adopted by the general assembly in 1985 and gives local governments (cities and counties) the authority to sell bonds to finance infrastructure and other redevelopment costs within a specially defined area, a tax allocation district or TAD. The bonds are secured by a "tax allocation increment" which is the increase in the property tax revenues resulting from redevelopment activities occurring. As public improvements and private investment take place in a TAD, the taxable value of property increases. The city/county collects those revenues, putting the increase due to the new investment into special fund to pay off bonds or loans that financed the public improvements in the district.

Do I pay a higher tax rate if my property is in a TAD district?

No, the millage rate in a TAD is the same as outside the district. There is no additional assessment charge in TAD like there would be in a CID or special taxing district.

What happens to the property taxes already being collected in the TAD district when it's formed?

The taxes collected by the city, county and school system as of the date the TAD is formed continue to go to those taxing districts over the life of the TAD.

How is it decided which tax increments go into the TAD Special Fund to pay off bonds?

Georgia law allows for ad valorem taxes on real estate, personal property (i.e. business machinery and equipment) and some sales taxes to be pledged as increments to repay TAD bonds. In most cases communities only pledge tax increments on real estate when setting up TADs. As a result, local budgets often continue to receive new revenues from within TADs from personal property value growth, new business licenses, etc.

What happens if redevelopment stimulates new retail sales in a TAD district?

The increased revenue from the portion of local sales taxes collected from new retail sales such SPLOST, and ESPLOST, flows to the local governments and school districts. Some communities in Georgia have pledged LOST proceeds from new retail development to repay TAD bonds, but that is rare.

Where can cities and counties form TAD districts?

The Redevelopment Powers Law limits communities to including a maximum of 10% of the community's Tax Digest in all TADs it creates. When forming a TAD a city or county designates a specific geographic area that has the potential for redevelopment but suffers from blight, or underinvestment, or a lack of infrastructure.

Who is using TADs in Georgia and around the Country?

In Georgia more than 60 counties and cities have had local referendums authorizing the use of tax allocation districts, with additional cities seeking approval of the General Assembly to use these powers this year. Over $500 million in TAD bonds have been issued in the state. TADs are operational in Atlanta (10), Symrna, Gainesville, Acworth, Albany, Macon, Augusta, Savannah, Gwinnett County (5) East Point (2), Marietta, Bulloch County (Statesboro), Clayton County, Duluth and many other Georgia cities and counties. Nationally all 50 states and the District of Columbia have some form of tax increment financing, which we call TADs in Georgia. This is the most widely used redevelopment tool in the nation with a long and successful track record.

What does the TAD referendum authorize?

The Redevelopment Powers Law requires that local communities authorize by referendum the use of tax allocation districts in their communities. Approval of the referendum gives local governments the right to form one or more TADs, but it does not form any districts or grant the incentive to a project or projects.

How is a TAD area created?

If the TAD referendum passes, the local governments are authorized to form one or more TAD districts consistent with the requirements of Georgia's Redevelopment Powers Law. That is accomplished by designating a TAD boundary and preparing a TAD Redevelopment Plan to act as the business plan for the operation of the district. The plan is discussed at two public hearing and then must be approved by a resolution of the local government. Once the resolution is passed, the taxable value in the TAD is "certified" as the base value of the district.

If a City decides to create a TAD, how do the County and/or School District become involved?

Upon approving the creation of a TAD, the local government will typically ask the county and school board review the plan and determine if they want to "consent" to commit their portion of the future property tax increments to the TAD by formal approval of the Redevelopment Plan. The terms of consent are usually spelled out in an intergovernmental agreement between the taxing jurisdictions.

How long does a TAD stay in effect and can it ever be dissolved once it is created?

The length of the TAD is determined by the redevelopment plan and approved in the resolution passed by the local government. In most but not all cases, TADs are initially approved for 30 years so they can be effectively used to secure bond financing. It is typical for intergovernmental agreements between cities, counties and school boards to include provisions for ending the agreement and returning tax increments in the event that expected redevelopment does not take place, bonds are not issued by a designated deadline or bonds are issued but paid off faster than expected. These types of provisions provide flexibility to dissolve TADs prior to the stated termination date if warranted.

How do private developers benefit from TADs?

Creating a TAD allows for future tax revenues generated by a redevelopment project to be used to help pay for some of the costs of building the project. Usually, TAD bonds are used to either pay for public improvements to enhance a project or to help reduce the higher costs and risks of investing within a blighted area. TADs are often used to help pay for demolition of existing buildings, expensive water or sewer upgrades, parking structures, new roads, streetscape improvements or other extra costs that otherwise make private redevelopment financially unfeasible.

How does a developer get access to TAD funds and how are taxpayers protected if the developer doesn't perform?

Once the TAD is created and the consent agreements are in place, the local government can then evaluate applications from private developers who wish to undertake redevelopment projects and access TAD funds to help defray project costs. If a local government agrees to contribute TAD funds to a project, the terms are negotiated in an agreement with the developer. The "development agreement" specifies the obligations and performance requirements of the developer in order to qualify to receive the funds, particularly if bonds are involved. Underwriters of TAD bonds require extensive development agreements to protect bondholders and ensure that projects are completed as proposed. As an added protection, TAD funds are usually released to developers in phased payments over time as construction is completed and the taxable value of the property is increased.

How effective are TADs at leveraging new private investment?

The TAD incentive generally covers between 5% and 12% of total project costs, associated with site preparation, and public infrastructure such as streets, sidewalks, utility improvements and parking decks. A 2007 comprehensive study of TADs in Georgia indicated that there has been $5.80 of private investment for every dollar of TAD investment in a project.

How have TADs been impacted by the Great Recession?

Because of many safeguards built into the structure of the Redevelopment Powers Law and the deliberative nature of how TADs are created and underwritten, there have been no defaults of TADs as a result of the Great Recession.

What would happen to taxpayers if there was a default on a TAD bond?

TADs are revenue bonds and not general obligations of the local government. Therefore taxpayers are not at risk in the unlikely event of a default. Investors who finance TAD bonds understand this and typically charge a higher interest rate than on municipal bonds which are guaranteed by taxpayers.

What is the "Halo Effect" related to TADs?

One of the chief benefits of TADs and tax increment financing in general is the "halo effect" that often results from implementing a successful TAD redevelopment project. The halo effect refers to the increase in investment activity and property tax digest which can occur in an area surrounding and outside of a successful TAD. Halo effects can occur either because new economic activity is attracted to an area where it did not previously exist, or major barriers to private investment (such as vacant blighted buildings) are finally removed. Since people like to invest where other investments are occurring, property values in areas surrounding a successful TAD also tend to increase over time. Surrounding investments and resulting new taxes from the halo effect can partly offset or sometimes exceed the "loss" of tax increments dedicated to the TAD itself. Significant halo effects have been observed in and around TAD projects in Atlanta, East Point, Acworth and other jurisdictions