



## **Sector Profile: Tax Increment Financing**

ACA Capital insures bonds of Tax Increment Districts that demonstrate favorable growth in assessed value or the strong potential for future development. Districts should possess a diversified tax base with limited taxpayer concentration. Property tax rates, collections and enforcement should allow tax increment revenues to be available for timely payment of debt service. Strong oversight and management of the district can bring additional strength to the transaction.

### **Key Credit Factors**

In order to make a preliminary determination of insurability ACA Capital will review the Tax Increment District for the following key characteristics:

- 1) Level of historical development as demonstrated by growth in assessed valuation, as well as the expectation for future growth and development
- 2) Size and nature of the project area, including taxpayer diversity
- 3) Property tax procedures, including the establishment of the levy and rate, tax collection and payment enforcement
- 4) Extent and nature of management oversight provided by the sponsoring municipality
- 5) Legal and statutory constraints on the growth in assessed valuation, property tax levies and rates, property tax enforcement, time period over which the increment may be collected, etc.

### **Key Legal and Covenant Provisions**

Typical security and covenant provisions for ACA Capital insured Tax Increment financings include the following:

- Lien of tax increment revenue and a fully funded Debt Service Reserve Fund
- Historical debt service coverage of 1.25 times and pro forma coverage of 1.50 times or greater on Maximum Annual Debt Service

### **Essential Documentation**

The following information is essential for an ACA Capital review on proposed financings:

- Preliminary Official Statement and legal documents prepared for the proposed financing
- Financing plan describing the purpose and size of the proposed offering, Sources and Uses of funds and an estimated debt service schedule
- Five years of audited financial statements for the issuer and project area
- Financial projections with sensitivity analyses, including a feasibility study or consultant's report
- Copy of the local government resolution that created the district
- History of tax base assessed valuation growth, tax collections, tax rates and leading taxpayers
- Tax limitations, tax exemptions, potential legislative changes or litigation that could affect tax rates, levies and collections
- A detailed discussion of tax assessment, billing, collection and appeals practices

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