

An Economic Forecast of Assessment Values in the Proposed Bentonville TIF District

Produced for the City of Bentonville, Arkansas



Center for Business and Economic Research
Reynolds Center Building 217
Sam M. Walton College of Business
1 University of Arkansas
Fayetteville, Arkansas 72701-1201
(479) 575-4151
Contacts: Dr. Jeffery T. Collins, Director
Ms. Kathy Deck, Associate Director
July 2006

Table of Contents

Table of Contents	ii
List of Tables	ii
List of Figures	ii
Introduction.....	1
Data Description	2
Methodology	3
Results.....	4
Concluding Comments.....	7

List of Tables

Table 1: Summary Statistics for Parcels in the Bentonville TIF District	3
Table 2: 2005 City of Bentonville Millage Breakdown.....	4
Table 3: Bentonville TIF District Revenue Estimates at 14.0 Available Mills	5
Table 4: Bentonville TIF District Revenue Estimates at 11.4 Available Mills	6

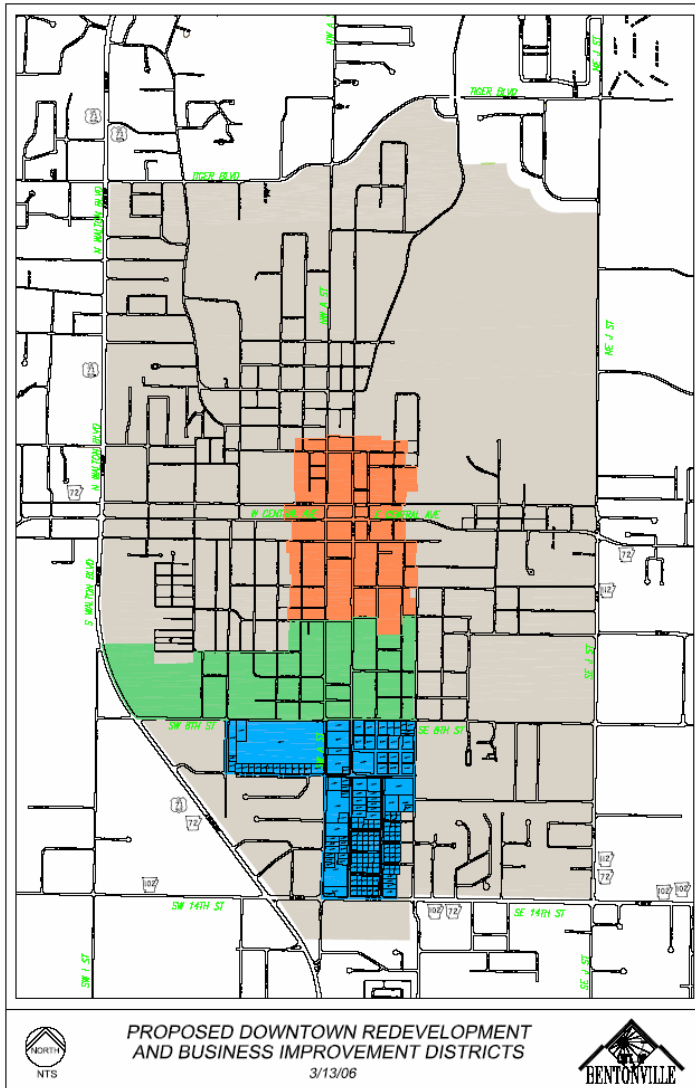
List of Figures

Figure 1: Proposed Bentonville TIF District	1
---	---

Introduction

The purpose of this study is to identify the distribution of parcel types contained within the proposed Bentonville Tax Increment Financing (TIF) district and to estimate the cash flows that will accrue to the TIF district over its lifetime. About 2.8 square miles or more than 1,700 acres lie within the central Bentonville district, which encompasses 2,691 parcels. The Bentonville City Council approved creating a district in the city’s downtown area in 2005. The grey shaded area in Figure 1 shows the proposed boundaries of the Bentonville TIF District. The formation of the Bentonville TIF district was motivated by the desire to finance infrastructure that is necessary for development to continue to grow in the commercial downtown area. The TIF district will give the city the ability to accomplish goals stated in the Master Plan, such as building downtown parking garages, creating “gateways” to the city, implementing a trolley system, providing more trails and sidewalks, and attracting higher density housing.

Figure 1: Proposed Bentonville TIF District



Data Description

Researchers at the Center for Business and Economic Research (CBER) in the Sam M. Walton College of Business at the University of Arkansas were asked to project the revenues that tax increment financing will provide for the city of Bentonville. The first step involved obtaining historical and current information from the office of the Benton County Assessor (via Apprentice Information Systems) about the set of parcels that comprise the proposed Bentonville TIF district. These data were acquired from staff members at the city of Bentonville. This information included the identification of and 2001-2005 assessed valuation numbers for the 2,691 parcels included in the delineated Bentonville TIF district.

The data show that in the year 2005, 1,953 (72.6 percent) of the parcels in the Bentonville TIF district were classified as Residential Improved, 312 (11.6 percent) of the parcels were classified as Commercial Improved, 138 (5.1 percent) of the parcels were exempt from property taxes (either as local, state, or federal government properties, public services, or churches), 258 (9.6 percent) of the parcels were a mix of vacant commercial and residential properties, 10 (0.4 percent) of the parcels were commercial for industrial usages, and the remaining 20 (0.8 percent) parcels are agricultural lands, public service, and miscellaneous usages. A total of 2,546 (94.6 percent) of the identified parcels had non-zero assessment values in 2005.

In 2005, the total assessed value of the parcels in the Bentonville TIF district was \$63,662,840 (see Table 1). The average annual growth rate of the assessed value was 13.3 percent on a parcel-by-parcel basis from 2002 to 2005, while the median assessment growth rate was 2.8 percent from 2002 to 2005. The total assessed value was split between residential and commercial parcels almost equally, with residential parcels having a total assessed value of \$31,764,830 and commercial parcels a total assessed value of \$31,849,770 in 2005 (other types of properties accounted for the remaining \$48,240). The average yearly growth rate of the assessed value for residential parcels was 4.8 percent and for commercial parcels 26.4 percent from 2002 to 2005, while the median assessment growth rate was 1.9 for residential and 3.6 percent for commercial parcels during the same time period.

Of the 2,546 parcels with nonzero assessed values in 2005, 269 parcels had average annual assessment growth rates of more than the overall average of 8.1 percent (among those nonzero properties), 1,804 had assessed values that grew between 0 percent and 8.1 percent, 457 properties had assessed values that had an average annual growth rate of 0.0 percent, and 160 parcels had assessment growth rates of less than 0.0 percent.

The above data reflect several characteristics that are worth noting. There are two striking features of the summary statistics that appear in Table 1. First is the consistent discrepancy between the average annual growth rates and the median annual growth rates. This is explained by some rules that govern property tax assessments in Arkansas. Barring new improvements to a property, for property tax purposes, the growth rate of

assessed value of commercial properties is capped at 10.0 percent annually and the growth rate of assessed value of (homestead) residential properties is capped at 5 percent annually. Indeed for residential homeowners above the age of 65, the annual assessment growth rate is capped at 0.0 percent until the property is sold to new owners, at which point the full market value is assessed. New improvements to both residential and commercial properties are initially assessed at full market value and then become subject to the caps noted above. Hence, the averages are pushed upwards by the very high growth rates that are associated with new improvements, while the median growth rates are less sensitive to the effects of the new improvements.

The second notable feature of the summary statistics is the variability of the average growth rates, year to year, from 2002 to 2005. For example, the assessed value of all commercial properties increased by only 8.7 percent from 2002 to 2003, but increased by 63.6 percent from 2004 to 2005. This variability is caused by two things. First, the quantity of newly improved parcels will vary year to year and cause differences. Second, in Benton County, parcels are normally only assessed every three years. This means that the assessed value of a property may remain constant for two years only to have a “jump” to market value or the appropriate cap in the third year. In Benton County, assessments were done in 2002 and 2005 and the data reflect this.

Table 1: Summary Statistics for Parcels in the Bentonville TIF District

Parcels	Number of Parcels	2005 Assessed Value	2002-2003 Growth Rate	2003-2004 Growth Rate	2004-2005 Growth Rate	2002-2005 Growth Rate
Residential	2,171	\$31,764,830	Average: 1.2%	2.9%	10.6%	4.8%
			Median: 0.0%	0.0%	5.0%	1.9%
Commercial	362	\$31,849,770	Average: 8.7%	15.1%	63.6%	27.0%
			Median: 2.4%	0.0%	10.0%	3.6%
Exempt	138	\$0	N/A	N/A	N/A	N/A
Other	20	\$48,240	N/A	N/A	N/A	N/A
All Parcels	2,691	\$63,662,840	Average: 5.5%	7.2%	28.7%	13.3%
			Median: 0.0%	0.0%	5.0%	2.8%

Methodology

Based on all of the previous information, CBER researchers have developed a plausible revenue scenario for the Bentonville TIF district. Using the three available years of assessment growth rates, the value of each parcel was projected into the future. In order to be appropriately conservative, the average individual parcel value growth rate from 2002 to 2005 was used, unless it exceeded the appropriate cap in which case either 5.0 percent or 10.0 percent was applied. This methodology necessarily underestimates the effects that new improvements will have on the total assessment value of the TIF district

properties because the projected revenue estimates do not capture the growth in assessments that will result from new construction.

The projected assessment values for each individual parcel are aggregated to determine the total projected assessment value for the TIF district for each year. Because the parcels with relatively high historical growth rates continue to have those growth rates applied to them, the effect compounds over the life of the TIF district. This implies that the overall growth rate in assessed values in the district will grow over time.

In order to calculate the increment that will be available to the TIF district, the 2005 “frozen” assessment of \$63,662,840 is subtracted from the projected total assessment value. That increment is then subject to the millage rate available to the TIF district. Table 2 presents the breakdown in millage rates for the city of Bentonville for the year 2005. Although the total millage rate is 54.8, those mills that are levied by the Bentonville School District are unlikely to be available for use by the TIF district (the exact amount available is still uncertain due to pending lawsuits in other jurisdictions). Taking out those mills devoted to the school district leaves 14.0 mills potentially available to the TIF district. It is also unknown whether the mills devoted to Northwest Arkansas Community College (NWACC) would be available to the TIF district. If those 2.6 mills are subtracted, 11.4 mills remain.

Table 2: 2005 City of Bentonville Millage Breakdown

Taxing Authority	Millage
Bentonville School District	40.8 mills (27.0—M & O, 13.8 Debt Service)
Benton County	6.0 mills
City of Bentonville	5.4 mills
Northwest Arkansas Community College	2.6 mills
Total	54.8 mills

Results

Tables 3 and 4 shows estimates of what the increment would be in each year for Bentonville TIF district. The total increment over 25 years is projected to be \$1.8 billion. In Table 3, a millage rate of 14.0 is applied to the increment to illustrate what the yield to a TIF district would be with the inclusion of the millage levied for NWACC. The total yield under this scenario is \$25.4 million. That yield is also discounted back for expected 3.0 percent annual inflation for a present value calculation, showing a current dollar yield estimate of \$14.9 million. In Table 4, a millage rate of 11.4 is applied to show the same scenario without the NWACC millage. The total available yield over a 25 year TIF district life is \$20.7 million, while the present value of that amount is just over \$12.1 million under these assumptions.

Table 3: Bentonville TIF District Revenue Estimates at 14.0 Available Mills

Weighted Estimates by Property Taxation Classification					
Total Available Increment: \$1,815,586,544					
Total Available Yield at Millage of 14.0: \$25,418,212					
Net Present Value of Total Available Yield: \$14,883,660					
Year	2006	2007	2008	2009	2010
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$66,295,692	\$69,159,363	\$72,262,475	\$75,618,650	\$79,244,956
Assessment Growth Rate	4.1%	4.3%	4.5%	4.6%	4.8%
Increment	\$2,632,852	\$5,496,523	\$8,599,635	\$11,955,810	\$15,582,116
Available Yield	\$36,860	\$76,951	\$120,395	\$167,381	\$218,150
PV of Available Yield	\$35,786	\$72,534	\$110,178	\$148,716	\$188,178
Year	2011	2012	2013	2014	2015
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$83,161,332	\$87,390,408	\$91,957,496	\$96,890,684	\$102,220,990
Assessment Growth Rate	4.9%	5.1%	5.2%	5.4%	5.5%
Increment	\$19,498,492	\$23,727,568	\$28,294,656	\$33,227,844	\$38,558,150
Available Yield	\$272,979	\$332,186	\$396,125	\$465,190	\$539,814
PV of Available Yield	\$228,616	\$270,098	\$312,705	\$356,529	\$401,672
Year	2016	2017	2018	2019	2020
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$107,982,566	\$114,212,942	\$120,953,309	\$128,248,839	\$136,149,040
Assessment Growth Rate	5.6%	5.8%	5.9%	6.0%	6.2%
Increment	\$44,319,726	\$50,550,102	\$57,290,469	\$64,585,999	\$72,486,200
Available Yield	\$620,476	\$707,701	\$802,067	\$904,204	\$1,014,807
PV of Available Yield	\$448,245	\$496,368	\$546,168	\$597,785	\$651,366
Year	2021	2022	2023	2024	2025
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$144,708,162	\$153,985,631	\$164,046,541	\$174,962,187	\$186,810,656
Assessment Growth Rate	6.3%	6.4%	6.5%	6.7%	6.8%
Increment	\$81,045,322	\$90,322,791	\$100,383,701	\$111,299,347	\$123,147,816
Available Yield	\$1,134,635	\$1,264,519	\$1,405,372	\$1,558,191	\$1,724,069
PV of Available Yield	\$707,067	\$765,055	\$825,508	\$888,614	\$954,575
Year	2026	2027	2028	2029	2030
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$199,677,481	\$213,656,347	\$228,849,881	\$245,370,510	\$263,341,406
Assessment Growth Rate	6.9%	7.0%	7.1%	7.2%	7.3%
Increment	\$136,014,641	\$149,993,507	\$165,187,041	\$181,707,670	\$199,678,566
Available Yield	\$1,904,205	\$2,099,909	\$2,312,619	\$2,543,907	\$2,795,500
PV of Available Yield	\$1,023,604	\$1,095,927	\$1,171,785	\$1,251,434	\$1,335,146

Table 4: Bentonville TIF District Revenue Estimates at 11.4 Available Mills

Weighted Estimates by Property Taxation Classification					
Total Available Increment: \$1,815,586,544					
Total Available Yield at Millage of 11.4: \$20,697,687					
Net Present Value of Total Available Yield: \$12,119,551					
Year	2006	2007	2008	2009	2010
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$66,295,692	\$69,159,363	\$72,262,475	\$75,618,650	\$79,244,956
Assessment Growth Rate	4.1%	4.3%	4.5%	4.6%	4.8%
Increment	\$2,632,852	\$5,496,523	\$8,599,635	\$11,955,810	\$15,582,116
Available Yield	\$30,015	\$62,660	\$98,036	\$136,296	\$177,636
PV of Available Yield	\$29,140	\$59,063	\$89,717	\$121,097	\$153,230
Year	2011	2012	2013	2014	2015
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$83,161,332	\$87,390,408	\$91,957,496	\$96,890,684	\$102,220,990
Assessment Growth Rate	4.9%	5.1%	5.2%	5.4%	5.5%
Increment	\$19,498,492	\$23,727,568	\$28,294,656	\$33,227,844	\$38,558,150
Available Yield	\$222,283	\$270,494	\$322,559	\$378,797	\$439,563
PV of Available Yield	\$186,158	\$219,937	\$254,631	\$290,317	\$327,076
Year	2016	2017	2018	2019	2020
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$107,982,566	\$114,212,942	\$120,953,309	\$128,248,839	\$136,149,040
Assessment Growth Rate	5.6%	5.8%	5.9%	6.0%	6.2%
Increment	\$44,319,726	\$50,550,102	\$57,290,469	\$64,585,999	\$72,486,200
Available Yield	\$505,245	\$576,271	\$653,111	\$736,280	\$826,343
PV of Available Yield	\$365,000	\$404,185	\$444,737	\$486,768	\$530,398
Year	2021	2022	2023	2024	2025
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$144,708,162	\$153,985,631	\$164,046,541	\$174,962,187	\$186,810,656
Assessment Growth Rate	6.3%	6.4%	6.5%	6.7%	6.8%
Increment	\$81,045,322	\$90,322,791	\$100,383,701	\$111,299,347	\$123,147,816
Available Yield	\$923,917	\$1,029,680	\$1,144,374	\$1,268,813	\$1,403,885
PV of Available Yield	\$575,754	\$622,973	\$672,199	\$723,586	\$777,297
Year	2026	2027	2028	2029	2030
Frozen Assessment	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840	\$63,662,840
Total Assessment	\$199,677,481	\$213,656,347	\$228,849,881	\$245,370,510	\$263,341,406
Assessment Growth Rate	6.9%	7.0%	7.1%	7.2%	7.3%
Increment	\$136,014,641	\$149,993,507	\$165,187,041	\$181,707,670	\$199,678,566
Available Yield	\$1,550,567	\$1,709,926	\$1,883,132	\$2,071,467	\$2,276,336
PV of Available Yield	\$833,506	\$892,398	\$954,168	\$1,019,025	\$1,087,191

Concluding Comments

This report shows projections of average assessed value growth rates that are lower than some of those that have been experienced in the past four years for the parcels in the Bentonville TIF district. Much of the growth in property value resulted from new construction in the area, as the growth in the values of existing parcels is capped by statute. It seems unlikely that such large increases in assessment values are likely to continue unabated throughout the 25 year lifespan of the TIF district without significant additional investments in the infrastructure of the Northwest Arkansas region. Therefore, while the estimates shown may understate the growth in aggregate district parcel values in the early years of the TIF, they provide a conservative baseline for the revenue stream that the TIF district is likely to produce.

The estimates are sensitive to a variety of factors, not excluding market forces and changes to the assessment system in Benton County. In particular, in years where the overall growth rate of properties in Benton County exceeds the 10.0 percent level, there may be millage rollbacks, such that the millage rate used for these calculations may be reduced. Such a scenario would directly impact the projections shown above.