

STAR BOND COMMITTEE
ABILENE PUBLIC LIBRARY, 209 NW FOURTH STREET
January 11, 2016 - 6:00 pm

1. **Call to Order**

2. **Roll Call:** ___ Campbell ___ Geiger ___ Holm ___ Manning ___ Meyer ___ Miller
 ___ Moore ___ Rindels ___ Sanders ___ Sleichter ___ Waite ___ Williams ___ Williamson

ITEMS FOR ACTION:

3. **Approval of Agenda for January 11, 2016**
4. **Selection of Committee Chair**
5. **Selection of Committee Vice-Chair**
6. **Discussion and Approval of Next Meeting Date**

PRESENTATIONS: *(No action to be taken)*

7. **STAR Bond Committee Responsibilities**
8. **STAR Bond Overview**

ADJOURNMENT:

9. **Meeting Adjournment**

TO: City Commission
FROM: David Dillner, City Manager
SUBJ: Potential STAR Bond Project
DATE: October 16, 2015

The State of Kansas provides an opportunity for cities to capture the state's portion of sales tax receipts in addition to other local taxes for the payment of STAR bond project costs on projects that meet certain criteria and that have a major impact on economic development, particularly with respect to tourism. All projects must be approved by the Secretary of Commerce.

STAR bonds have been used as a financing tool for such projects as the Kansas Speedway/Village West in Kansas City, Kansas, the Heartland Park Racetrack in Topeka, the Kansas Underground Salt Museum in Hutchinson, and the Flint Hills Discovery Museum in Manhattan. Salina is in the process of developing a STAR bond project that will encompass an athletic fieldhouse and a car museum. Dodge City has also submitted an application for a STAR bond project for a revitalization of the Boot Hill Museum and surrounding area.

The concept of using STAR bonds is not new to Abilene. In 2004, the City looked at doing a STAR bond project to revitalize Old Abilene Town. This project did not move forward for various reasons.

The idea for another STAR bond project came from representatives of the Eisenhower Foundation in recent months. The Eisenhower Foundation is in the process of planning a major renovation to the Eisenhower Museum that is estimated to cost upwards of \$10 million. In conversations with the Kansas Department of Commerce, it is likely that most of the Eisenhower Foundation's project will not be eligible for STAR bond financing because exhibits are not an eligible project cost.

Even so, the Department of Commerce seems very open to the idea of a STAR bond project in Abilene as a way to leverage the investments planned by the Eisenhower Foundation. The Eisenhower Presidential Library, Museum, and Boyhood Home is considered a significant state and national attraction, and generates approximately 180,000 visitors each year. In addition, the remaining four members of the Five Star District provides additional tourism opportunities to further leverage with a STAR bond project.

One idea for an attraction of state and regional significance that could be considered for a STAR bond project is a National Chisholm Trail Museum that would complement the historical fact that Abilene is the terminus of the Chisholm Trail. The National Park Service is in the process of reviewing the feasibility of designating the Chisholm Trail and the Great Western Trail as National Historic Trails. A national museum that preserves the story of these great cowboy trails could be a great addition to Abilene. Another attraction may be equally enticing to visitors and a committee should be formed to research potential options for a significant tourism attraction to use STAR bonds if the City Commission desires to move forward.

A STAR bond project can be used to finance the development of a tourism attraction of state and regional significance. The revenue may also be used to finance related public improvements and some qualified private investments. There is also the potential to capture additional revenue if a Tax Increment Finance (TIF) District and Community Improvement District (CID) is overlaid over the STAR District. These two programs allow a City to capture the incremental increase in property taxes (TIF) and the increase in sales tax (CID) within the defined districts. If a hotel is also developed within the district, transient guest taxes may be included in the revenue to finance a STAR bond project. The districts may be organized so only new revenue is used to finance the projects.

The process for establishing a STAR bond project is relatively straightforward; the City must establish the geographic boundaries of the district and then prepare a project plan. Both of these exhibits are submitted to the Department of Commerce for review and approval.

The more detailed process is as follows:

1. Give notice and conduct a public hearing to consider the establishment of a STAR bond project district to include:
 - a. description of the proposed boundaries of the STAR bond project district; and
 - b. description of the STAR bond project district plan.
2. The city submits the proposed STAR bond project district to the secretary for a determination that the district is an eligible area.
3. Upon the conclusion of the public hearing and a finding by the secretary that the proposed project district is an eligible area, the governing body passes an ordinance that makes findings that the STAR bond project district proposed to be developed is a STAR bond project as defined by state law; contains a STAR bond project district plan that identifies all of the proposed STAR bond project areas and identifies in a general manner all of the buildings and facilities that are proposed to be constructed or improved in each STAR bond project area; and contains the legal description of the STAR bond project district and may establish the STAR bond project district.
4. Following the passing of said ordinance, the City prepares a feasibility study that provides information on the feasibility that the project will generate sufficient revenues to repay any bonds issued to finance the project.
5. The City conducts another public hearing on the project plan, and is required to provide notice to both the County and School District.
6. The governing body adopts an ordinance adopting the project plan. Following adoption, the project must commence work within two years, and the entire project must be completed within twenty years of adoption.

The STAR bond process provides an opportunity for the City to take a proactive approach to developing a tourism attraction to complement the existing Five Star District. Some improvements to the Five Star District may also be eligible for STAR bond financing depending on the scope of the proposed improvements.

The City Commission should discuss its interest in moving forward with a potential STAR bond project. The City Manager recommends establishing a steering committee to provide a recommendation on a possible attraction(s) that may be developed or improved with STAR bond proceeds. The committee could also facilitate a discussion about the STAR bond district boundaries and the improvements that would be desirable for inclusion in the project scope. All recommendations are subject to review by the Department of Commerce.

TO: City Commission
FROM: David Dillner, City Manager
SUBJ: STAR Bond Project
DATE: October 30, 2015

Sales Tax Revenue (STAR) Bonds provide Kansas municipalities the opportunity to issue bonds to finance the development of major commercial, entertainment and tourism areas and to use the sales tax revenue generated by the development to pay off the bonds.

STAR Bonds are meant to be a strategic economic development tool. In order to be considered a major commercial entertainment and tourism area, a proposed project must be capable of being characterized as a statewide and regional destination. Projects should include high quality, innovative entertainment and tourism attractions, as well as contain unique features that will increase tourism, generate significant positive economic impacts and be capable of sustainable development over time.

There is a multi-step process involving the State, municipalities and developers before STAR Bonds are approved. Those include, but are not limited to:

- A City identifying potential STAR Bond district boundaries.
- The local governing body setting public hearings to discuss creating the STAR Bonds district.
- The Secretary of Commerce approving the potential district.
- The local governing body holding public hearings and adopting ordinances to actually create the district.
- Feasibility studies completed and delivered to the City.
- Project planning prepared and delivered to the City.
- The local planning commission reviewing the project.
- The local governing body setting and holding public hearings to adopt the project plan.
- The local governing body adopting the project plan.
- The Secretary of Commerce approving the project plan.
- Bond documents developed.
- STAR Bonds issued for project.
- Project begins.

STAR Bonds would allow the City to capture the state's portion of sales tax on all retail transactions occurring within the designated STAR Bond district boundaries. Presently, the City's sales tax rate is 9.1% with 6.5% going to the State of Kansas. If a STAR Bond project is developed in Abilene, the City would be able to capture the 6.5% of sales tax that would otherwise go to the State and use it to assist with the financing of eligible projects to include the development of a new tourism destination or the potential renovation of an existing tourism destination or destinations. The funds could also be used for eligible public improvements that would enhance the district and the community.

STAR Bond projects may also be "married" with tax increment financing (TIF) and community improvement districts (CID) to allow additional revenue to be collected from the incremental increase in property taxes within the district and from a district-specific sales tax collected in addition to the general sales tax.

If the City Commission desires to move forward with exploring the feasibility of a STAR Bond project, the City Manager recommends appointing an ad hoc committee to prepare a recommendation for a potential STAR Bond district(s) and to recommend to the City Commission a scope for a STAR Bond project(s).

RESOLUTION NO. 121415-1

A RESOLUTION ESTABLISHING AN AD HOC COMMITTEE TO MAKE CERTAIN RECOMMENDATIONS CONCERNING A STAR BOND PROJECT FOR THE CITY OF ABILENE, KANSAS

WHEREAS, Article 8 of Chapter 1 of the City Code of the City of Abilene establishes certain appointed boards and commissions and provides for the creation of ad hoc committees as may be necessary to assist the governing body of the City of Abilene, Kansas;

WHEREAS, the governing body desires to review and consider recommendations for a potential Sales Tax and Revenue (STAR) Bond Project to facilitate and enhance tourism-related opportunities in the City; and

WHEREAS, pursuant to Section 1-814 of the City Code, the City Commission desires to establish an ad hoc committee to make recommendations concerning a potential STAR Bond Project for the City.

WHEREAS, serving on appointed boards and commissions provides members of the public to serve their community in a unique and appreciated manner.

NOW, THEREFORE BE IT RESOLVED, by the City Commission of the City of Abilene, as follows:

SECTION ONE. Ad Hoc Committee: STAR Bond Committee. That the governing body hereby establishes an ad hoc committee, to be known as the STAR Bond Committee ("Committee"), to make certain recommendations for the governing body's consideration on the following matters: a) whether to pursue a STAR Bond Project in partnership with the State of Kansas; b) recommendation on the geographic boundaries of the STAR Bond Project; and c) recommendations on a Project scope to be studied further for inclusion in a potential STAR Bond Project application to the State of Kansas.

SECTION TWO. Appointments: STAR Bond Committee. That the following appointments are made to an ad hoc committee for the purposes outlined herein: Brian Williams, Tim Holm, Ann Manning, Jennifer Waite, Lorraine McClain, Deb Sanders, Meredith Sleichter, Kristine Meyer, Todd Moore, Tony Geiger, Diane Miller, Rick Williamson, and Kyle Campbell.

SECTION THREE. Public Information. All meetings of the Committee shall be conducted in conformance with the Kansas Open Meetings Act, and all information created by or on behalf of the Committee shall be made available to the general public on the City's website. Agendas for Committee meetings will be published in advance of meetings, and meeting minutes will be maintained for the public record. The City Manager shall be responsible for ensuring that the provisions of this Section are fulfilled.

SECTION FOUR. Budget. The Committee shall not have any budgetary authority, and does not have any funds appropriated to facilitate its purpose. The City Commission may appropriate such funds as may be necessary for the Committee to fulfill its responsibilities as it may deem appropriate provided sufficient funds are available.

SECTION FIVE. Effective Date. That the effects of this Resolution shall be in full force after its approval by the governing body.

PASSED AND APPROVED by the Governing Body of the City of Abilene, Kansas this 14th day of December, 2015.



CITY OF ABILENE, KANSAS

By: *Dennis P. Weishaar*
Dennis P. Weishaar, Mayor

ATTEST:

Penny Soukup CMC

Penny Soukup, CMC
City Clerk

***Kansas Tax Increment Financing (TIF)
And
Sales Tax and Revenue (STAR)***

January 2006

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Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.

1 Introduction

In its most common form, Tax Increment Financing (TIF) uses the increased property taxes generated by real estate development within a tax increment financing district to pay for certain eligible costs associated with the development. The value that is “captured” (that is, the increase in property value over the value in the year the TIF district was established) generates property tax increment. The incremental taxes are used to subsidize eligible project costs such as land acquisition, demolition, public and site improvements, and related consulting and administrative costs. The value of the property prior to development (the base or “non-captured” portion) continues to generate property taxes which are distributed to all appropriate taxing jurisdictions.

In Kansas, TIF districts may also capture city sales taxes and city franchise fees generated within a TIF district. This variation is less commonly used than property tax increment, but may provide a significant funding resource with which to supplement “regular” property TIF.

Justification for the use of tax increment financing solely with the “But For” test. A simple way to express this test is to ask whether the development or redevelopment would occur “but for” a tax increment subsidy. Critics of TIF often claim that the development would have occurred anyway, and that local officials are not rigorously applying this test. They argue that city overuse of TIF comes at the expense of the tax base of the county, school district, and other taxing jurisdictions. Supporters of TIF counter that while there have been limited abuses, this financing tool has helped to reshape and revitalize many communities. They argue that, in addition to assisting core development and redevelopment, residual growth outside of the established TIF districts provides a direct benefit to all taxing jurisdictions.

The purpose of this document is to outline the basic concepts and mechanics of tax increment financing within Kansas’ statutory guidelines and parameters. This report outlines the standard TIF participants, mechanics, documents, and process, a discussion of benefits and costs, and policy questions associated with the use of TIF. It is intended to be read as a thorough but limited introduction to a somewhat complicated subject. The complete Tax Increment Financing Act can be found in Kansas Statutes Annotated, Sections 12-1770 to 12-1780d.

Springsted Incorporated has a proven track record in working with communities in the use of tax increment financing as an economic development and redevelopment tool. Please contact us if you need further information or would like to discuss in more detail the concepts contained in this report.

2 Participants

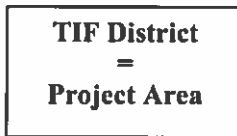
PARTICIPANTS	
City	Landowner/Developer
Elected Officials	Landowner or Developer
Advisory Commissions	Attorney
City Staff	
Fiscal Consultant: Springsted	
Bond Counsel	

OTHER GOVERNMENTAL JURISDICTIONS	
TIF District	Project
County	Federal Government
School District	State Government
Other Taxing Jurisdictions	County Government
	Other Municipalities Bordering Project Area

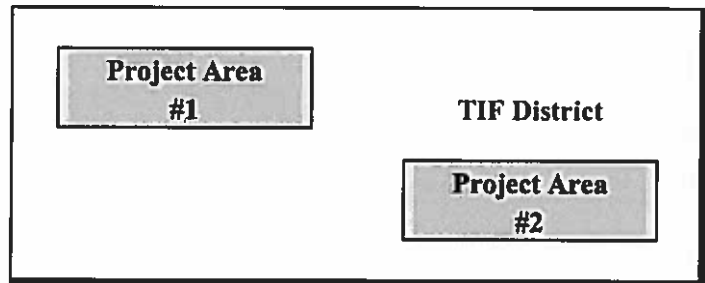
3 The Mechanics

Redevelopment TIF District and Redevelopment Project Area

- A. Financial difference between the two
 - Redevelopment TIF District - Area from which TIF funds are generated
 - Redevelopment Project Area - Area in which TIF funds can be spent
- B. Geographical difference between the two
 - TIF District and Project Area can be the same, or



- TIF District can be larger than the Project Area



Redevelopment District

Eligible redevelopment districts are blighted areas, conservation areas, enterprise zones (see restriction below), a major tourism area, or buildings designated as historical theaters. The establishment or modification of a redevelopment district must be approved prior to establishment of a redevelopment project.

- A. "Blighted Area" means an area where a majority of the following factors exist, inhibiting sound development and growth:
- Deteriorated structures
 - Defective street layouts
 - Unsanitary or unsafe conditions
 - Deterioration of site improvement
 - Diversity of ownership
 - Tax or special assessment delinquency
 - Defective or unusual conditions of title
 - Improper subdivision
 - Conditions endangering life or property by fire and other causes
 - Economic obsolescence
 - Has been identified as being environmentally contaminated and requires investigation, remediation, or similar action,
 - A majority of the property is within a 100-year floodplain; or
 - Has previously been found by resolution to be a slum or blighted area.
- B. "Conservation Area" means an area comprising 15% or less of a city's land area, in which at least 50% of the structures are 35 years old or older. The area is not yet blighted but is at risk due to a combination of at least two of the following factors:
- Deteriorating and/or obsolete structures
 - Illegal use of individual structures
 - Structures below minimum code standards
 - Building abandonment or excessive vacancies
 - Overcrowding of structures
 - Inadequate utilities and infrastructure
- C. Enterprise zones designated prior to July 1, 1992 (KSA 12-17,110, prior to its repeal).
- D. "Major tourism area" refers specifically to the Kansas City auto race track complex, with no less than \$100,000,000 of capital improvements.

- E. "Historic theater" means a theater constructed prior to 1940 which is operated by a nonprofit corporation and is eligible to be on the Kansas Register of Historic Places or is a member of the Kansas Historic Theatre Association.

Note: During the establishment process for redevelopment districts, the county or school district may veto the inclusion of any privately owned parcel subject to ad valorem taxes. Springsted recommends that cities seeking to establish new districts discuss their goals and rationales with the applicable county and school district early in the process, to minimize inter-jurisdictional veto threats.

Examples of TIF Eligible Project Costs

- Property acquisition (condemnation through eminent domain requires 2/3 vote of governing body)
- Site preparation including utility relocation
- Relocation assistance
- Sanitary and storm sewers and lift stations, drainage conduits, channels and levees, and river walk facilities
- Underground utilities: gas, electric, water
- Street light fixtures, connection and facilities
- Parking facilities
- Sidewalks and pedestrian ways
- Drives and driveway approaches located within public right-of-way
- Plazas, arcades, landscaping, fountains, benches, similar amenities
- Street grading, paving, graveling, macadamizing, curbing, guttering and surfacing
- All necessary related expenses to redevelop and finance the redevelopment project

Ineligible: Building construction or other improvements owned by or leased to a developer

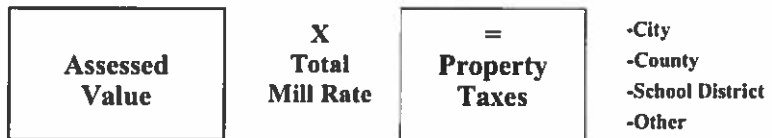
Property Tax Increment

A. Prior to forming the TIF district

- Appraised Value (Market Value) of properties in the proposed TIF district is translated into "Assessed Value" through statutory classifications



- "Assessed Value" times "Total Mill Rate" equals property taxes



B. When a TIF district is established

- The existing assessed value is given the term "Base Year Assessed Value" (BYAV).
- Property taxes generated by the BYAV of the TIF district continue to go to each individual taxing jurisdiction.

C. New development occurs within the TIF district

- New market value is added to the existing appraised value.

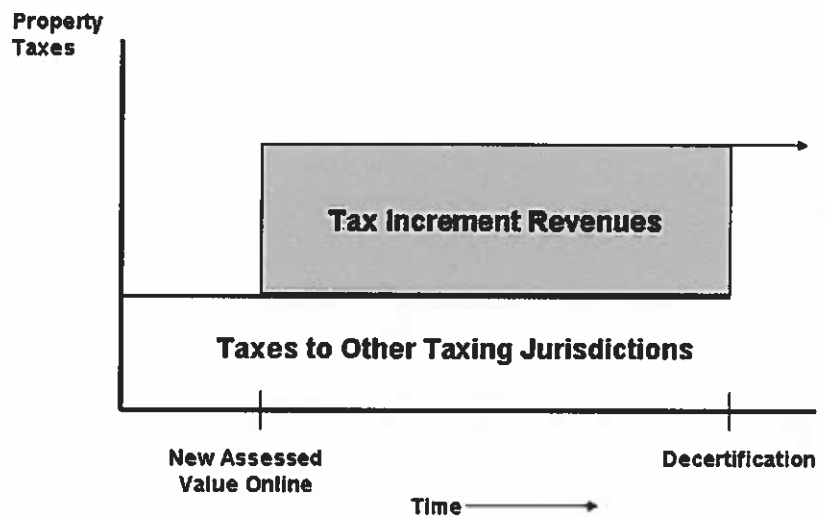
Total Appraised Value	Total Net Assessed Value		Total Property Taxes
Increase in Appraised Value	Increase in Assessed Value	X	TIF-Eligible Mill Rate = Tax Increment Revenue
Base Year Appraised Value	Base Year Assessed Value	X	Total Mill Rate = Taxes to Other Taxing Jurisdiction

- TIF-Eligible Mill Rate excludes 1.5 mill state levy and 20 mill general education levy that is part of school district levy.
- Although rarely done, cities may choose to exclude portions of the remaining TIF-eligible mill rate; for example, a portion of the county or school district rate.

D. Tax increment revenue is generated by the increase in Assessed Value.

➤ Term of collection

- ◆ Tax increment may be collected and spent for eligible project costs for 20 years from the date of approval of the project plan. Projects must be established no more than 20 years after creation of the district.
- ◆ Multiple projects may be established within a TIF district.
- ◆ Most tax increment bonds have a maximum term of 20 years.



Sales Tax Increment

- A. A portion or all of the revenue received by a city from sales taxes either city-wide or from taxpayers doing business within the city's redevelopment district and occupied by a redevelopment project may be captured.
- B. Pledged sales taxes may be used for payment of special obligation bonds or full faith and credit tax increment bonds.

Franchise Tax Increment

- A. A portion or all increased revenue received by the city from franchise fees collected from utilities and other businesses using public right-of-way within the redevelopment district.
- B. Franchise tax increment may be used for payment of special obligation bonds or full faith and credit tax increment bonds

Sales Tax and Revenue (STAR) Bonds - Major Tourism Areas, Historic Theaters, Special Bond Projects, Major Motorsports Complex

- Class of districts eligible to receive revenue received from any transient guest tax and state, county and city sales and use taxes which are collected from taxpayers doing business within that portion of the city's redevelopment district. All STAR bond projects are subject to the review and approval of the Kansas Secretary of Commerce. Included in this class are:
 - Special Bond Projects -
 - Projects of regional significance with at least \$50 million in capital investment and \$50 million in projected gross annual sales revenue; OR
 - A project located outside of a metropolitan statistical area approved by the Secretary of Commerce after a determination that the district is located within an eligible area and the project would be of regional or statewide importance.
 - Historic Theaters – A district containing a theater constructed prior to 1940 which was constructed for the purpose of staging motion pictures, vaudeville shows or operas. The theater must be operated by a nonprofit corporation and have been designated by the state historic preservation officer as eligible to be on the Kansas Register of Historic Places or is a member of the Kansas Historic Theatre Association.
 - Major Tourism Areas – By definition, the Kansas Speedway and Village West development in Kansas City.

- Major Motorsports Complex – By definition, the Heartland Park racetrack in Topeka.

Unique attributes of these redevelopment districts include:

- An extensive feasibility study and marketing study are required. In addition to concluding that the project is economically feasible, the study must show that:
 - The project promotes, stimulates and develops the general and economic welfare of the state.
 - The project does not relocate a business from one part of the state to another.
 - There will not be a substantial negative impact upon businesses in the project market area or that the project will cause default on special obligation bonds issues for another special bond project.
- Special bond projects financed with STAR bonds use 100% of local sales taxes collected in the district, not just state sales, except for amounts committed by prior election of the voters or pledged toward repayment of previously issued bonds.
- The maximum maturity of STAR bonds is 20 years and the developer must commence work within 2 years of adoption of the project plan.
- Special bond projects cannot include gambling establishments.
- Bond proceeds cannot be used to finance personal property.
- Compensation for eminent domain for special bond projects is 125% of assessed valuation.
- The city must submit a report describing the status of the project to the Secretary of Commerce by October 1 of each year.
- Cities may create special bond projects within the corporate boundaries of the city, partially outside of the boundaries of the city, or wholly outside the city. Projects wholly outside the city require approval by the board of county commissioners.
- Cities owning buildings or structures constructed within major tourism, historic theater or special bond projects may engage a private entity to manage the building or structure.
- The state will not pay the debt service on STAR bonds in the event of a default by the city.
- Statutory provisions establishing special bond projects sunset July 1, 2007.

Financing of Project Costs

Bond Financing

- In some cases, a city will find it necessary to fund project costs prior to development occurring. In such circumstances, a city

may issue special obligation or general obligation tax increment bonds to finance project costs. Special obligation bonds are repaid from tax increment income, revenues derived from redevelopment activities, or private sources. General obligation bonds pledge the full faith and credit of the city in addition to project revenues.

- General obligation bonds are subject to reverse referendum protest petition. If within 60 days following date of public hearing a protest petition is signed by 3% of qualified voters, bonds may not be issued until majority of voters approve the issuance at an election. The failure of voters to approve general obligation bonds does not prevent city from issuing special obligation bonds.
- City receives tax increment revenues over a period of years and uses them to pay debt service on the bonds.
- Tax increment bonds may be repaid with:
 - ◆ Tax increment revenues
 - ◆ Other pledged revenues
 - ◆ G.O. bonds: City-wide property tax levy
- Financial limits on the city's ability to fund project costs are dictated by the amount and duration of the tax increment revenues available.

Pay-As-You-Go Financing

- In some cases the developer will pay all costs upfront and be reimbursed for eligible project costs over a period of time. This approach is generally referred to as “pay-as-you-go” financing.
 - ◆ Reimbursements are made from tax increment revenues.
 - ◆ If development does not occur or does not reach the levels forecasted, increment is lower and fewer funds are available for reimbursement.
 - ◆ This approach is preferable in that it significantly reduces city liability and risk but it may not be feasible in projects with substantial extraordinary costs or a developer with limited resources.

Taxable Versus Tax-Exempt Financing

Interest earned on TIF bonds is taxable if project meets both of the following federally imposed tests -

- A. **“Private Business Use Test”** - Are more than 10% of the expenditures made for a private purpose?
 - Types of expenditures for improvements available to every resident: streets, sewer, water
 - Types of expenditures benefiting private parties, such as landowners/developers: land acquisition, soil corrections, site preparation

- B. ***“Private Security Interest Test”*** - Are more than 10% of the payments of taxes and/or debt service guaranteed by the landowner/developer?
- A contract or guarantee requiring the landowner/developer to make tax payments and/or fund debt service shortfalls trigger the private security interest test.
 - Minimum assessment agreements trigger the private security interest test.

4 The Documents

Redevelopment District Plan

- This document establishes overall guidelines for the district boundaries and the type and level of improvements to be constructed or acquired.
- This document does not establish the redevelopment project area but does identify the proposed project area(s) and the anticipated buildings, facilities, and improvements to be developed.

Redevelopment Project Plan or Project Plan

- This document establishes the boundaries of the project area, the expenditures and financing limitations.
- The project plan must include:
 - ◆ Summary of feasibility study (see below).
 - ◆ Description and map of project area.
 - ◆ Relocation assistance plan (if applicable).
 - ◆ Description of buildings and facilities proposed to be constructed or improved.
 - ◆ Other information deemed necessary to advise public.
 - ◆ Reference to the district plan.

Financial Feasibility Study

- Analysis which demonstrates that:
 - ◆ Economic benefits of the project exceed the costs.
 - ◆ Tax increment and other available revenues exceed the project costs.

Development Agreement

- A. This document is a contract between the city and the developer stipulating the obligations of each party. The Development Agreement usually requires the developer to:
 - Construct a development within a certain time frame with a specified minimum size and market value.
 - Provide guarantees ensuring the timely completion of the development, and may require prompt payment of property taxes and debt service shortfalls
 - The Development Agreement may require the city to construct public improvements and/or purchase land associated with the new development according to an agreed upon schedule using the expected tax increment revenue.
- B. Financial terms of the project are detailed. Often these terms will dictate whether bonds are tax-exempt or taxable.
- C. Many cities currently require a Development Agreement on all new developments.

5 Process for Establishment

In order to establish a redevelopment district and project area, two specific processes must be followed. These processes may occur concurrently.

- City may establish a Redevelopment (TIF) District by:
 - ◆ Passing a resolution of intent calling for a public hearing on the District Plan within 30 to 70 days. The resolution details the boundaries of the district and describes, in general terms, the plan for redevelopment of the area.
 - ◆ Publishing notice of the public hearing in the official city newspaper and sending notices to the county, school district and individuals or businesses owning property within the proposed district.
 - ◆ Holding public hearing at which:
 - City staff presents the proposed plan;
 - Comments are received from the general public.
 - ◆ After the public hearing, passing an ordinance which details the findings and establishes the Redevelopment District (simple majority vote required).
 - ◆ The applicable county or school district may veto creation of the District within 30 days after the public hearing.
- City may establish a Project Area by:
 - ◆ Passing a resolution of intent and providing notice of the public hearing exactly as required for the District Plan. If it is the city's intention to issue general obligation tax increment bonds, the resolution must state so.
 - ◆ Preparing a Project Plan, which must include:
 - Summary of feasibility study
 - Reference to the District Plan
 - Map of proposed project area
 - Relocation assistance plan (if applicable)
 - Details of new development
 - ◆ A Planning Commission finding that the Project Plan is consistent with the comprehensive general plan for city development.
 - ◆ Holding a public hearing on the Project Plan.
 - ◆ After public hearing, adopting the Project Plan by ordinance through (at least) a 2/3 majority of the city governing body.

6 Benefits and Costs

City's Perspective

A. Benefits

- Method for addressing areas not likely to be improved due to blight, contamination, or flooding. Since blight may include economic obsolescence, TIF is a good tool to promote redevelopment of a city core over greenfield development.
- Allows city to realize new development that would not occur without the use of TIF (the “But For” test). May also promote development that might not occur until some time in the future (e.g. higher density, shopping and entertainment venues).
- City may realize broader economic gains of new development in terms of employment, tax base enhancement and secondary spin-off effects.
- City may facilitate development of needed public infrastructure by coordinating a TIF project with more general improvements.
- City may have better control over the nature, design and/or aesthetic qualities of the development.
- City may be able to fund administrative and/or community development costs with revenue from the TIF district.

B. Costs

- City may assume the risk that property taxes might not be paid and/or changes in property tax laws might cause tax increments to fall short of scheduled debt service payments. City may pledge to use other funds or general property tax levies to pay debt service. (Note: Public risk may be mitigated through developer guarantees, other security provisions in development agreements.)
- City and other taxing jurisdictions (county, school district, etc.) must wait until TIF district is terminated until the new development becomes part of the general tax base.
- Policy Questions: Does the city wish to participate in private development? A project may not come to fruition even after significant time, effort and money has been expended.

Landowner(s) Perspective

A. Benefits

- Development can proceed because TIF provides a funding source for public improvements where no other viable funding source exists.

- Without TIF, the developer absorbs the full costs of:
 - ◆ Special assessments for public improvements, and/or
 - ◆ Hard costs of land acquisition and site preparation.
- With TIF, these costs are funded in whole or in part by increment revenues and the developer pays only its property taxes, which are the same whether TIF exists or not.
- Engages the city as a partner in the development, creating a vested interest in the project's success.

B. Costs

- TIF consideration and establishment approvals may increase the time and expense of development
- Developer may be required to provide financial guarantees securing taxes and/or debt service on TIF bonds (if applicable).
- Greater city monitoring of scope, quality and timing of new development.

7 Policy Questions

“But For” Test: Would Development Occur Without TIF Assistance?

- The statutory required feasibility study must show that project benefits will exceed project costs and that there will be sufficient income to pay expenditures, including debt. Springsted recommends that cities also evaluate:
 - Project feasibility;
 - The developer’s financial and managerial capacity to perform; and
 - The appropriate level of public funding. Under a needs based analysis, the developer’s business plan is analyzed to determine the level of assistance necessary to make the project feasible and return a reasonable profit to the developer given the relative risk of the undertaking.
- Critics of TIF state that most developments would occur anyway and the city is simply giving funds to a private party. The city should consider whether the same or similar project would occur without TIF or whether a less desirable development would take its place.
- Counties and school districts are particularly interested in this question because they will not realize any of the TIF district’s enhancement to their general tax base until after the district is terminated.

TIF District and Project Area

As noted earlier, a TIF district can be the same size as one project area, or be sized to encompass several project areas. Questions to consider when establishing the TIF district and project area(s) are;

- Does the city intend to use TIF funds beyond the parcels from which most TIF revenue will be generated?
- Does the city envision numerous project areas created over time within a single TIF district?
- Does the city have other improvement projects in adjoining areas for which funding can be augmented with TIF?
- Does the proposed district meet statutory requirements?

Level of Assistance

- A. How much funding does the city wish to commit to the project?
 - Demonstration by private parties of need for level of TIF assistance requested.
- B. Mandatory imposed limitations
 - Statutory duration of the TIF district and project area.
- C. Discretionary imposed limitations
 - Term of TIF district may be shorter than maximum permitted
 - Percentage of property tax, sales tax and/or franchise tax increment allocated to project may be less than 100%
 - Nature of expenditures
 - ◆ Do they lead to taxability and higher interest rates, therefore yielding lower net bond proceeds?
 - Pace of development
 - ◆ How soon will development occur? Does this affect how much TIF the city wishes to allocate?

City Security Guarantees

- A. TIF bonds may be sold as special or general obligation bonds. General obligation TIF bonds require that, if increment revenue is not sufficient to pay debt service at any time over the life of the bonds, then the city is ultimately required to levy city-wide property taxes to repay the bonds.
- B. How can this occur?
 - New development is constructed over a longer time frame and/or to a lesser market value than was represented to the city at the time of approval;
 - Property owners don't pay their taxes on time;
 - Property owners pay their taxes on time, but tax rates are reduced or assessed valuations fall. Therefore, actual property tax payments are less than the scheduled debt service.
- C. How does the city protect itself?
 - Minimum assessment agreement stipulating the market value of new development and schedule of completion.
 - Withholding bond proceeds or delaying construction of public improvement until all or a portion of new development is completed.
 - Liquidity guarantees (letters of credit) provided by the developer ensuring timely payment of property taxes or adequate funds for required debt service.

- Pay-as-you-go: No debt is issued. The developer finances its own improvements and is reimbursed over time by the city from the actual collection of increment revenue.
- Sale of the bonds to the developer, developer's bank or other party affiliated with the developer.
- Once a district is created, indices (such as assessed valuation or sales tax proceeds) should be monitored on a regular basis to assure the project is performing as anticipated. Frequent review will allow proactive measures to be taken should problems arise.
- The appropriate combination of security measures will depend on the level of risk the city perceives itself to be exposed to.

City Administrative Costs

The establishment of a TIF district and the negotiation of a thorough development agreement requires substantial time commitments by city staff and its consultants. A large portion of that time is expended prior to the signing of the development agreement and before actual construction of the new development. Furthermore, additional city staff time is needed to monitor and report on the performance of the TIF district over its life. Cities are permitted to reimburse themselves for administrative costs.

The city should consider two relevant policy questions:

- Does the city wish to receive a guarantee of its costs from the developer for the period from inception of the TIF process until signing of the Development Agreement? Upfront escrow funds or other guarantees protect the city in the event that the project terminates during the negotiation phase.
- What is the appropriate level of administrative cost reimbursement?