Interim Policy Guidelines for DEVELOPMENT INCENTIVES

LISTENING SESSION #2

June 13, 2017

Prepared by the St. Louis Development Corporation
WELCOME!

Joseph Roddy
Alderman 17th Ward
Chairman Housing, Urban Development, and Zoning (HUDZ)

IF YOU WOULD LIKE TO SPEAK DURING THE OPEN COMMENT SESSION (AT THE END OF THIS PRESENTATION), YOU MUST SIGN UP!!!
Agenda

What do we hope to accomplish tonight with you?

Introduction
Joe Roddy

Background & Work-to-Date
Interim Policy Guidelines
Otis Williams

Next Steps & Open Comment
Introduction

Why incentives?

Why we need consensus on guidelines?

What we hope to accomplish?

What is the process / timing?
Questions that we need to ask ourselves about incentives...

- **What types of projects do we want to incentivize?**
  (residential, retail, office, mixed-use, industrial, etc.)

- **What should be the goal(s) of our incentive programs?**
  (density, employment, transit-oriented development, environmental, design, profitability, affordability, stabilization, blight removal, etc.)

- **How much incentive is appropriate?**
  (cost of construction approach, competitive advantage approach, etc.)
Next Steps: Today Forward

- June 2, 2017 – First Reading of the Resolution (COMPLETED!)
- June 8, 2017 – Listening Session: Meeting #1 (TONIGHT!)
- June 13, 2017 – Listening Session: Meeting #2
- June 14-21 – Compile public feedback into Summary Document
- June 21 – Public Hearing for Pending Tax Abatement & TIF Legislation
- June 28 – St. Louis Public Schools (SLPS) Performance Measures
- July 5 – Community Development Administration (CDA) Performance Measures

INTERIM POLICY GUIDELINES WILL BE IN EFFECT UNTIL THE COMPLETION OF A CITY-WIDE PLAN!
Introduction

Where have we been?

- 28 Wards / 28 Alderwomen & Aldermen / 28 Policies?
- We have been slowly ratcheting back on levels of tax abatement in improving areas (i.e. 10 years to 5 years to 0 years) throughout the City;
- We are using the 2015 PFM Study (which provided comprehensive review of the incentive system) and key recommendations moving; and
- We (the HUDZ Committee) are working with SLDC to get the policies right.

And where are we going?

- We are working with the Mayor’s Office to secure funds for a city-wide plan;
- We are working on interim policy guidelines for TIF & Tax Abatement; and
- We are asking that you give us your thoughts tonight!
OVERVIEW & BACKGROUND

Otis Williams / Executive Director of SLDC
St. Louis Development Corporation (SLDC)

Growing investments and creating jobs in the city of St. Louis by enhancing the value of real estate while enabling the sustainability and success of neighborhoods.

- Targeted Redevelopment
- Innovative Reuse of Properties
- Neighborhood / Commercial Support and Development
- Minority and Women-Owned Business Enterprise (M/WBE) Inclusion and Support
What is Redevelopment?

Focused investment in **blighted and underutilized areas** intended to **increase jobs, economic activity, and workforce diversity**.

- Remove **vacancy & blight**
- Encourage **diversity & equity**
- Improve **public infrastructure**
- Encourage **walkability & bikability**
- Improve **accessibility & circulation**
- Increase **population density & businesses**
- Enhance **land productivity**
- Increase **economic potential**
- Increase **taxes & city revenues**
- Leverage **funding sources**
List of Development Incentive Programs

- **Real Estate Tax Abatement (CH 353, CH 100, CH 99)**
- **Tax Increment Financing (TIF)**
- Special Tax Districts (CID & TDD)
- Enhanced Enterprise Zone Tax Abatement
- Commercial District Program (Façade Grants)
- Set the PACE St. Louis
- St. Louis Brownfields Program
- Sales Tax Exemption (Manufacturing Machinery & Equipment)
- Missouri Brownfield Tax Credit Program
- Historic Tax Credits
- Low Income Housing Tax Credits (LIHTC)
- New Markets Tax Credits (NMTC)
MYTH VS FACT

Myth: The City funds these projects from the general fund.  
Fact: The City does not take / lose any moneys out of the general revenue fund to support these projects.

Myth: The City provides funds to these developers up front.  
Fact: SLDC does not provide any project financing. The project generates revenue for financing and new revenues for the City.

Myth: Developers are lining up to complete projects in the City.  
Fact: Developers are attracted to areas of the City where they can expect a return on investment (i.e. central corridor and downtown).

Myth: We do not incentivize projects in north and south City.  
Fact: We cannot incentivize projects that don’t exist (and we do incentivize most every project that we can in these areas.)
**Tax Abatement**

Tax abatement **freezes property assessments at their current level** for a set period of time, so that the property owner does not have to pay additional taxes on their property improvements until the set timeline expires.

### 100K IMPROVEMENTS TO A SINGLE-FAMILY HOME

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<th></th>
<th>Property Tax Collected</th>
<th>Tax Revenue - 5 Yr Tax Abatement - Residence</th>
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<tr>
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<td>No Project</td>
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<tr>
<td>1 $</td>
<td>369 $</td>
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<td>404 $</td>
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<td><strong>3,864 $</strong></td>
<td><strong>8,942 $</strong></td>
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Tax Increment Financing (TIF)

TIF diverts future tax revenue increases from a defined area or district toward an economic development project or public improvement project in the community. The increased economic activity by the project helps finance the project.

$25M MIXED-USE BLDG ON VACANT LOT

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<th>Year</th>
<th>Property Tax</th>
<th>Sales Tax</th>
<th>Earnings Tax</th>
<th>Property Tax</th>
<th>Sales Tax</th>
<th>Earnings Tax</th>
<th>Total New Revenue</th>
<th>Incentive Value</th>
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20 Year Revenue to the City = $16,484

20 Year Revenue to the City = $2,335,110
Why does the City need these tools?

- **Create Value / Focus Interest**
  (We need to attract and focus private investment with public funds – i.e. the carrot)

- **Overcome Construction Costs Relative to Rental Rates**
  (Rental rates are substantially lower than comparable cities and the county)

- **Combat Regional Competition**
  (i.e. Centene $75 M in public incentives, as an example. We must compete in this marketplace.)
Construction Costs VS Rental Rates

Construction Cost Per Square Foot

Office Rents Per Square Foot

- County
- City

- Downtown STL
- Clayton
- CWE
- West County

All Office
Class A Office
What work has been done to date?

- **Completed City Economic Development Incentives Study (by PFM)**
  (2015 PFM Study, including recommended adjustments and considerations)

- **Hired Full-Time Financial Analyst / Reviewer for Major Projects**
  (2015, to review all projects > $1M)

- **Developed a Financial Model for Reviewing Major Projects**
  (2015+, including detailed cost-benefit and value analysis for projects > $1M)

- **Completed the Comprehensive Economic Development Strategy (CEDS) with SLEDIP**
  (2016, submitted to the EDA for approval on December 16, 2016 – Regional Framework)

- **Developing Additional Reviews & Testing Review Process for Major Projects**
  (2016+, including comprehensive architecture / urban design for projects > $1M)

- **Developing Tracking Database for Incentives (with Comptroller & Assessor)**
  (2017+, to meet GASB Requirements & collect data for FOIA)

- **Prepared Draft Interim Guidelines for this Meeting (with Mayor’s Office)**
  (2017+, to be approved by Mayor, Comptroller & Board of Alderman / HUDZ)
2015 City Economic Development Incentives Study (by PFM): Key Recommendations

1) Establish a formal framework for reporting and analyzing incentives data. **DATABASE DEVELOPMENT IN PROCESS!**
2) Build greater quantitative measures into the application scoring process. **FINANCIAL MODEL DEVELOPED & CURRENTLY IN TESTING!**
3) Require additional reporting from incentive recipients. **IN DISCUSSIONS!**
4) Develop a formal tax incentive related to the earnings tax. **IN DISCUSSIONS!**
5) Focus incentive use around a City-wide plan for development. **FOCUSING ON FINDING FUNDS AND BUILDING SUPPORT!**

WE ARE IMPLEMENTING THE KEY RECOMMENDATIONS!
Comprehensive Review:

Core | Architecture Review
- Existing Conditions & Level of Blight
- Proposed Concept, Uses & Program
- Project Experience, Innovation & Originality
- Sustainability Systems & Impacts
- Typology, Character, Detailing & Fenestration
- Signage, Lighting & Specialties

Urban Design Review
- Building Placement & Build-Out
- Building Height & Bulk
- Building Frontage & Articulation
- Land Use & Unit Mix
- Access, Circulation & Parking
- Exterior Spaces & Public Improvements

Economic / Financial Review
- Pro-Forma Analysis
- Economic Value
- Tax Revenue Comparison Analysis
- Return on Investment for the City (increase in net revenues)
- Developer Return on Investment
- Tax Increment Study
- Substitution Effect
Comprehensive Review: Financials

- **“But-for” Test**
  - Calculate the developer’s rate of return and compare it to market rates.

- **Cost-Benefit Test**
  - Estimates gross new tax revenue expected annually for a 30 year period.
  - Subtracts out revenue lost to the incentive and revenue lost to substitution.
  - Contrasts the net revenue to the annual costs on a per acre basis to determine the city’s return on investment.
  - Provides an objective score for the project based on how the project’s return to the city compares to city financial sustainability targets.
Future: City-Wide Plan...

• It is very important to the City of St. Louis that we reach this goal;
• The process must be open, transparent, and inclusive of all stakeholders;
• The plan must be comprehensive and community-driven;
• The strategies must build on our assets and strengths; and
• And supportive policy must reflect consensus approach to incentives; but
• Today we are working to secure funds to complete a city-wide plan.

AS WE SEEK FUNDING AND GEAR UP, WE NEED INTERIM GUIDELINES!
INTERIM POLICY GUIDELINES

GROUND RULES:

1. PLEASE MARK YOUR LEVEL OF AGREEMENT OR DISAGREEMENT;
2. PLEASE ADD SPECIFIC COMMENTS TO THE HANDOUTS; AND
3. PLEASE MAKE SURE WE GET YOUR FORM BACK FOR OUR RECORD!
INTERIM GUIDELINES

1. Comprehensive Project Review
2. No new general fund appropriation backing or bottom half contributions
3. No new hotel sales tax rebate
4. No new sales tax generated by Proposition 1 will be captured by TIF
5. No new tax increases will be captured by TIF
6. Sales and earnings taxes to be returned to City’s General Revenue Fund
7. Property taxes to be returned to the taxing districts
8. CID / TDD will be encouraged to reduce TIF and tax abatement
9. TIF assistance will be guided by the Market Value Analysis (MVA)
10. Tax abatement length and % will be based on the Market Value Analysis (MVA)
11. Implementation of Community Benefits Agreements (CBA’s) on all catalytic projects

MARK YOUR HANDOUTS!
INTERIM GUIDELINES DETAIL

1. **Comprehensive Project Review**
   Any project with development costs over one million ($1,000,000) dollars will be subject to a comprehensive project review. This will involve a detailed review of: (a) the architecture, (b) urban design, and (c) financial characteristics of the project, and will require applicants to schedule a pre-application meeting to be held a minimum of fifteen days ahead of applying for the incentive, and provide a full application and all materials necessary to complete the full review a minimum of thirty (30) days prior to the applicable board or commission meeting.

2. **No new general fund appropriation backing or bottom half contributions**
   Having only used this concept sparingly in the past, the City will not approve any appropriation from the general fund or bottom half contributions during the interim period.

3. **No new hotel sales tax rebate**
   City will no longer contractually agree to contribute sales tax from hotel room sales to a TIF project.

4. **No new sales tax generated by Proposition 1 will be captured by TIF**
   City will encourage the new Economic Development Sales Tax Board NOT to recommend capture of these sales taxes.
5. **No new tax increases will be captured by TIF**
Per state statute, the **City will not approve any TIF after August 28, 2014 which captures a new tax increase.**

6. **Sales and earnings taxes to be returned to City’s General Revenue Fund**
A to-be-determined (on a project-by-project basis) **percentage of property taxes are to be passed back to the City’s General Revenue Fund** to account for the substitution effect and/or jobs and sales relocated from within the City.

7. **Property taxes to be returned to the taxing districts**
A to-be-determined percentage (on a project-by-project basis) of **property taxes are to be passed back to the taxing districts** to account for the substitution effect and/or jobs and sales relocated from within the City.

8. **CID / TDD will be encouraged to reduce TIF and tax abatement**
City will **encourage CID / TDD’s that reduce the TIF and Tax Abatement requests**; but, only approve CID / TDD projects that include public improvements (i.e. parks, shared parking facilities, streetscape improvements, etc. - TBD).
MARKET VALUE ANALYSIS (MVA)

This Residential Market Analysis was produced by The Reinvestment Fund (TRF) in partnership with The Cloudburst Group and the Department of Housing and Urban Development (HUD) and the City of St. Louis. The Residential Market Analysis was calculated for all of the City’s 360 Census block groups and a color coding was assigned to the housing market type exhibited by each block group as shown on the map below. This TRF product, a map and database, is typically named the Market Value Analysis (MVA).
9. **TIF assistance will be guided by the Market Value Analysis (MVA)**
   Except for exceptional projects or low income housing tax credit projects, the **City will cap TIF lower (i.e. 10% of Total Development Cost) in MVA categories “A”—“C” and higher (i.e. 20% of TDC) in MVA categories “G”—“I”**. This ties the project’s maximum incentive to the health of the market location. If it is strong, the project should be able to command high rents and require less incentive.

10. **Tax abatement length and % will be based on the Market Value Analysis (MVA)**
    Except for exceptional projects or low income housing tax credit projects, the **City will cap tax abatement in MVA categories “A”—“C” with a maximum length of 5 years and maximum amount of 75%**.

11. **Implementation of Community Benefits Agreements (CBA’s) on all catalytic projects**
    Projects with **development costs >$50M will be encouraged to execute a CBA**. A comprehensive CBA policy will be developed with community stakeholders.
NEXT STEPS & OPEN COMMENT
Next Steps: Today Forward

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INTERIM POLICY GUIDELINES WILL BE IN EFFECT UNTIL THE COMPLETION OF A CITY-WIDE PLAN!
OPEN COMMENT SESSION

GROUND RULES:

1. **MUST HAVE SIGNED UP TO SPEAK.**
2. **NO MORE THAN 2 MINUTES PER PERSON.**
3. **SPECIFIC COMMENTS ON INTERIM GUIDELINES MUST BE WRITTEN ON THE COMMENT SHEET FOR INCLUSION IN SUMMARY.**
4. **PLEASE BE RESPECTFUL OF ALL ATTENDEES.**
WEBLINK


OR MAIL TO:
ST LOUIS DEVELOPMENT CORPORATION
1520 MARKET STREET SUITE 2000; ST. LOUIS, MO 63103