RESOLUTION No. 104 COMMITTEE SUBSTITUTE AS AMENDED, FLOOR SUBSTITUTE

Establishing and adopting the "Recommended Abatement Map for Residential Projects Under $1 Million" and Endorsing the Financial Incentive Analysis Model for commercial projects and residential projects greater than $1 million, both developed by the St. Louis Development Corporation

WHEREAS, in October 2017 the Board of Aldermen of the City of St. Louis ("Board") adopted Resolution 33AA calling on the St. Louis Development Corporation ("SLDC") to establish interim incentive guidelines to be in effect until completion of a City-Wide Economic Development Plan with updates anticipated in September 2018; and

WHEREAS, the City of St. Louis ("City") utilizes a number of incentives to spur private investment for real estate development and encourage the retention, relocation, and development of business in the City; and

WHEREAS, in recent years, a robust city-wide conversation commenced, revolving around the purpose and effectiveness of real estate incentives, best practices for their allocation, and efforts to quantify the review process; and

WHEREAS, since October 2017 SLDC staff has developed a map to guide recommendations for tax abatement of residential projects under $1 million based on an index comprised of nine equity-based metrics, including median home values (8% of index), percent vacant residential units (5% of index), median household income in the past 12 months (25% of index) and median gross rent (15% of index) all at the Census Block Group level, and median home value per room (2% of index) and percent change in household income (5% of index), both at the Census Tract level, with all the foregoing information coming from the most recently available U.S. Census Bureau American Community Survey, 5-Year survey, and then further includes the Number of Home Mortgages per 1,000 population (10% of index), the Average Mortgage Amount per Home (15% of index), and the Total Mortgage Dollars issued divided by all Owner Occupied Units (15% of index) all at the Census Tract level, with this information all coming from the Consumer Financial Protection Bureau; and

WHEREAS, for all commercial projects and residential projects greater than $1 million, a Financial Incentive Analysis Model ("Model") has been created to measure the extent to which a project (1) meets or exceeds the financial goals of the City while (2) providing a reasonable return to the developer; and

WHEREAS, SLDC developed the Recommended Abatement Map for Residential Projects under $ 1 Million ("Map") (Exhibit "A") with consultation from members of the Board of Aldermen, developers and public interest groups. The Map uses data from the US Census and the Consumer Financial Protection Bureau to quantify neighborhood condition and mortgage activity. Key factors include household income, home value, vacancy, rent, and Home Mortgage Disclosure Act data, all from the past five years and collected at the census block group or census tract level; and

WHEREAS, it is acknowledged that the abatement recommendations found in the Map may not accurately reflect the current economic conditions of a given block or property at the time an abatement is requested. Though the Map will be annually updated by SLDC on December 1st of each year, the data informing the map lags current market conditions by up to two years. In addition, there exists geographic limitations of census and home mortgage data, which is only available at the Census Tract and Census Block Group levels. Considering the foregoing, the following process (listed as item #2 under Tax Abatement Projects, below), is established to *guide and limit* exceptions from the recommendations of the Map.

NOW THEREFORE, BE IT RESOLVED by the Board of Aldermen of the City of St. Louis, as follows: The Map and the Model are hereby acknowledged and endorsed. SLDC and the HUDZ Committee review of incentivized projects will refer to these tools as part of their review process, and SLDC will maintain and update the underlying data that comprise these tools, at least once annually. The Board also acknowledges that with any updates to either the Map or the Model, these two tools will continue to satisfy the following objectives, as they do in their original iterations. Further, the Board updates, clarifies and reinforces the following tenants from Resolution 33AA.

TAX INCREMENT FINANCING ("TIF") and TAX ABATEMENT PROJECTS

1. **Comprehensive Project Review:** Any tax abatement project with development costs over one million (1,000,000) dollars and all TIF projects 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 with SLDC staff and to submit their completed application no later than 20 days prior to the date of the Land Clearance for Redevelopment Authority (LCRA) Board or TIF Commission meeting where said application will be considered for approval. To be considered complete, an application must include all materials necessary for review, including a plan to address Ordinance # 70767 and the Mayor's Executive Orders # 28 and # 47, may be as amended and supplemented (as applicable).

   Related to this, SLDC will work on developing a mechanism for reviewing the economic and racial equity impact from projects, which shall be included in future project reports to the Board once it is developed.

2. **Commercial projects and residential projects greater than $1 million:** All applications for commercial and residential projects greater than $1 million shall be evaluated based on the Model to ensure that the project (1) meets or exceeds the financial goals of the City while (2) provides a reasonable return to the developer.

   Meets or Exceeds the Financial Goals of the City
   To evaluate whether a project is meeting the financial goals of the City, the Model compares the project's potential to generate tax revenue per square foot of land area to properties of similar use within the same neighborhood. A project that generates higher than average tax revenue for its neighborhood (and use) and is able to fund the City's estimated funding liabilities is viewed favorably.

   SLDC has estimated the amount of property, sales, earnings and payroll tax generated per square foot of land in the City. The Model further differentiates the tax value per square foot of land based on its location (neighborhood/ZIP Code), its land use (designated by the Strategic Land Use Plan), and its tax assessment (commercial, residential, or exempt as determined by the Assessor).

   SLDC has also estimated both the current and unfunded infrastructure liabilities of the City. Using this estimate, the Model determines how much tax revenue needs to be generated by a property (per square foot of land area) in order to fund its infrastructure liabilities. A project receiving development incentives should meet or exceed the funding liabilities assigned to the property

   Provides a Reasonable Return to The Developer
   The developer's rate of return should be adequate to attract investment in the project from lenders and equity investors, but not offer returns in excess of market expectations.

To evaluate a project's need for incentive the rate of return for a project with incentives is compared to a project's return absent the incentives. The rate of return for a project is determined by project costs (construction costs, soft costs, financing costs, etc.), project sources (permanent loan, developer equity, tax credits, etc.), operations (rents and expenses), and potential sale (value of the property at future sale). All of this information is provided to SLDC by the developer and evaluated against comparable projects and market expectations to ensure it is reasonable for a project of its type and location.

A reasonable return falls within the range of returns for similar projects in the St. Louis market. The range of returns is provided by the Real Estate Research Corp. (RERC), a widely used industry indicator determined by a monthly survey of market expectations from real estate developers, investors and financial institutions.

More generally, the Model is designed to encourage residential and commercial density and the reuse of underutilized properties. The Model encourages the highest and best use of a parcel(s) for tax revenue generation and more efficient uses of city resources. The Model also sets incentive thresholds scaled to the strength of a neighborhood.

3. **Community Improvement District / Transportation Improvement District ("CID/TDD") will be encouraged to reduce TIF and Tax Abatement:** The use of CID / TDDs will be encouraged in order to satisfy one of two different priorities: 1) the reduction in the use of TIF or Tax Abatement requests and 2) to help fund public improvements that promote the strategic development of the neighborhood, particularly those improvements which are in accordance with an established neighborhood plan. Outside of these two priorities, the use of CID / TDDs will require that the developer demonstrate that "but for" the CID / TDD that the project could not happen, and that the funds for the CID / TDD are at least partially allocated for the funding of public improvements (e.g. parks, shared parking facilities, streetscape improvements, etc.) or public services (e.g. public safety).

TIF PROJECTS

1. **Implementation of Community Benefits Agreements ("CBA's") on catalytic projects:** Future projects in the City will be guided by pending legislation regarding CBA's, which is currently being developed in collaboration with community stakeholders by the Board. For now, this resolution's purpose with respect to CBA's is to memorialize the intent of the City to develop a CBA policy, and to encourage the execution of CBA's on catalytic (or major) projects which are likely to have significant impacts in their respective neighborhoods in ways that may alter the existing fabric of the neighborhood (such as the displacement of existing residents or businesses). In addition, as mentioned below, the use of CBAs is hereby encouraged by way of making the existence of an executed CBA as a point of consideration in determining the incentive that a project might receive.

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 prior to the completion of a City-Wide Economic Development Plan.

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

4. **No sales tax generated by Proposition 1 will be captured:** 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:** Per state statute that went into effect August 28, 2014, the City will not approve any TIF which captures a new tax increase.

6. **Sales and earnings taxes from existing companies relocating within the City will not be capturable by TIF to protect the City's General Revenue Fund:** When a TIF project includes the relocation of a sales tax generating entity within the City, the existing level of sales taxes generated at the original location will not be eligible for capture by the TIF at the new location. If relocated sales tax generating tenants are known before approval of the TIF, the taxes from their original locations will be excluded from capture by the TIF. If tenants are unknown at the time of TIF application, then SLDC and the developer will work jointly to estimate an agreed upon percentage of projected sales, earnings and payroll taxes to be counted as part of the TIF base.

   Earnings taxes from existing companies within the City relocating to a TIF project area will not be automatically excluded from capture by the TIF, but will be reviewed on a project by project basis. Any such project that results in a projected net revenue to the City that is negative, or which is below estimates for the City's costs of servicing the property will be subject to a reduction in the incentive amount, beginning with the portion of incentive generated by relocated earnings, followed by the incentive generated by substituted sales taxes, until the project shows positive net revenues to the City to cover the appropriate levels of the City's costs, according to SLDC's analysis.

7. **Future projects will be required to report on-going data through annual surveys:** Developers of TIF projects will be required to provide annual updates to SLDC on specified metrics including payrolls and sales of tenants, and developer income and cash flow statements for each project incentivized, rent rolls of tenants including information about the tenants last known address prior to locating in the development, and more. These requirements will be codified within all future redevelopment agreements and will be tied to fines and penalties for non-compliance.

   SLDC will review the results of these annual reports and compare them to the original applications, specifically, looking to see 1) if job creation projections were met, 2) if rents per square foot were in line with original projections, 3) if developer NOI is in line with original projections, and 4) if tenant mix and baseline estimates adjusted for relocated companies is in line with original projections. If this review process reveals significant, broad-based discrepancies between projections and reality, particularly with regard to back-testing the "but for" analysis for the project and relocation of existing tenants within the City, then SLDC will utilize this data to not only improve future projections, but may take into consideration the possibility of initiating a claw back policy, if necessary.

TAX ABATEMENT PROJECTS

1. **Commercial projects and residential projects greater than $1 million:** All applications for commercial and residential projects greater than $1 million shall be evaluated based on the Model to ensure that the project (1) meets or exceeds the financial goals of the City while (2) provides a reasonable return to the developer.

2. Residential projects less than $1 million: All applications for residential projects less than $1 million shall be evaluated based on the Map. The Map is based on an index comprised of nine-equity based metrics, as outlined above. The factors are combined, weighted, indexed and compared to the St. Louis Metropolitan Statistical Area. Census block groups determined to be significantly below the regional benchmark (**~~30~~ 35%** or lower) are recommended to receive substantial abatement (up to 10 years at 100% plus an additional 15 years at 50%).

Census block groups that are competitive with the regional benchmark (100% or higher) are recommended to receive no abatement. Within this range various levels of abatement are recommended.

Developer and Aldermen requests for abatements in excess of the Tax Abatement Map's recommendations shall be considered by the LCRA Board following the completion of an evaluation, more specifically described below, to be generated by SLDC. Evaluations concerning increases to the Map's abatement recommendations may be initiated at the request of the sponsoring Alderman, the developer or SLDC. Evaluations recommending abatements in amounts less than that recommend in the Map may be initiated at the request of the Alderman of the ward in which the project is located, the developer, or by SLDC. The evaluation shall include an analysis of the following:

- Comparable sales on the subject block and immediately adjacent blocks, to include comparisons of; total sale price, days on market, and price per square foot.
- The number and percentage of vacant lots and or buildings and/or problem properties on the subject block and the immediately adjacent blocks.
- The number and percentage of building permits on the subject block and the immediately adjacent blocks.

The data resulting from the above analysis shall be compared with the data informing the recommendations found on the Map and/or against comparable regional or national metrics.

SLDC shall complete evaluations within forty-five (45) days of their receiving the request for additional tax abatement.

The following project types, to be documented in the evaluation, shall receive recommendations for an exception:

- Income restricted housing ("affordable housing")
- Structures certified as historic pursuant to the federal historic tax credit process
- Developments certified LEED Silver or above
- Any residential property acquired from the City of St. Louis, including, without limitation, LRA, CDA, and SLDC residential properties.

Upon completion of the evaluation, the conclusions shall be shared with the alderperson of the ward and the applicant. Then the conclusions shall be included in a resolution to be considered by the LCRA Board. If approved by the LCRA Board, the LCRA resolution, including the basis for the exceptions to the Map, shall be attached as an exhibit to the Board Bill to be introduced into the Board of Aldermen approving the redevelopment plan for the project area.

3. **Tax Abatement Cap:** No tax abatement will be available for appraised value in excess of 90 percent of the Fannie Mae Conforming Loan Limit per residential unit (the Cap). Since the Assessor does not have a Cap mechanism in place, the authorized abatement percentage will be adjusted downward to offset the appraised value exceeding the Cap. At project completion, the appraised value of the project will be determined by the SLDC staff based on the affidavit submitted by the developer, inspection of the property, actual sale price of the property (if available) and comparable sales in the neighborhood. The abatement percentage authorized and submitted to the Assessor along with the affidavit at project completion will remain in place for the term of the abatement, and will not be modified based on subsequent changes in the property value over the term of the abatement.

4. **Tax Abatement for Properties with Recently Demolished Improvements:** In those cases where a building on the subject property has been demolished within three years immediately prior to the submission of an application for abatement, the SLDC shall adjust the abatement percentage to ensure that the pre-demolition tax value of the property is retained by the taxing districts.

Introduced on the 14th day of September 2018 by

Honorable Joseph Roddy, Alderwoman 17th Ward

Adopted this the 26th day of October, 2018 as attested by:

Louis Galli	Lewis E. Reed
Clerk Board of Aldermen	President, Board of Aldermen