A meeting of the Beaufort Redevelopment Commission was held on April 7, 2011 at 5:00 p.m. in the Beaufort Municipal Complex, City Hall Planning Conference Room, 1911 Boundary Street. In attendance were Chairman Jon Verity and Commissioners Mike McNally, Martin Goodman, Ed Barnhart, Keith Waldrop, Mike McFee, Wendy Zara, and Henrietta Goode and Scott Dadson, City Manager and Shirley Hughes, Assistant City Manager and CFO.

Commissioner Pat Kase was absent.

In accordance with South Carolina Code of Laws, 1976, Section 30-4-80(d), as amended, all local media were duly notified of the time, date, place, and agenda of this meeting.

CALL TO ORDER

The meeting was called to order at 5:00 p.m. by the chairman.

REVIEW OF MINUTES

Commissioner Goodman made a motion, seconded by Commissioner Barnhart, to approve the minutes of the February 10 and 11, 2011 retreat and the March 3, 2011 meeting. Commissioner Barnhart noted for the record that a highlighted comment attributed to him in the retreat minutes was correct. Commissioner McFee noted that on page 4 of the March 3, 2011 minutes, Seth Harry's name was incorrectly spelled Seth Herring. **The motion passed unanimously.**

REPORTS

Finance Committee

Commissioner Zara said the numbers are still not in on what the Redevelopment Commission will obtain from parking revenues and the budget adjustments that will need to be made as a consequence of decreased revenues. The committee has discussed working with the Lowcountry Housing Trust. The Lowcountry Housing Trust board "won't let them hook up with anyone for less than $100,000 + $30,000," but it can cover all of Beaufort County.

She said the committee is in discussion with developers about potential partnerships. Commissioner Zara showed a King Street housing project as a sample of affordable housing development financing possibilities. It's an existing historic house that's been rehabbed, and a developer is proposing putting 3 new houses on the lot. They sent this to Lowcountry Housing Trust for suggestions. They would be unlikely to receive money from other sources than the Lowcountry Housing Trust, owing to their higher than permissible percentage of median income.

Commercial Committee

Commissioner Goodman said the committee had discussed incentives, and Commissioner Barnhart is in charge of that. They want to see what alternative incentives are in other communities, i.e., tax incentives, job tax incentives, etc. The incentive package now is for business license and property tax credits, most of which is geared toward residential. The committee has also discussed projects they're working on with various clients.

Commissioner Goodman is still heading up the City Hall project. They met with Gary Kubic to discuss what the county's use of the building might be. They're looking to tie in the old school district building, the City Hall, and possibly the old jail site into a redevelopment package. In addition, Commissioner Goodman and Ms. Hughes had done a walk-through that day at City Hall with potential interested clients.

Residential Committee

Commissioner McNally said the committee has been meeting regularly with the Finance Committee. He is optimistic about the last couple of months' activity with architects, builders, owners, etc. There are various projects in the works, and the committees are facilitating involvement with the Lowcountry Housing Trust, leading then to banks for bridge funding, etc.

In regard to the pilot project on Duke Street, Commissioner McNally said they're trying to pair it up with the right city lot as a package for builders to bid on as an RFP. The building requires structural stability to be of any value, so they want to pair it with a vacant lot contributed by the city. Commissioner McNally defined the risk to the city that would occur in such a deal.

Chairman Verity praised the Lawrence Group and their work on the Sector 1 charettes.

DISCUSSION

Burnie Maybank made a presentation on incentives and state laws for redevelopment. He began by distributing packets and explaining their contents to the committee.

April Lucas said cities should look at bringing economic development to their downtowns. The more municipalities are involved in economic development, the better. Incentives include things like tax breaks, below-market financing, a grant or other remuneration, free land, etc. She said her presentation, "Creating Cool Cities," is a survey or overview of a complicated topic.

Attracting business to downtown requires investment in the quality of life, Ms. Lucas said. Leadership and cooperation are essential tools, as are funding improvements, streetscaping, lighting, and marketing; incentives should be used as deal sweeteners and problem-solving tools.

Tools include:

Special Source Revenue Bonds or Credits – Counties tend to use this more than municipalities, Ms. Lucas said, but cities can offer these credits as well as counties. She called these "a backdoor TIF" to reduce taxes or provide infrastructure for the project to attract business to the community. Revenue bonds can be issued, backed by this incremental tax, and money borrowed, or if the developer funds those things up front, they can be allowed to claim a credit against their property taxes. The city can control its own millage, but if they provide a discount that also requires county or school district cooperation, they have to have the county's cooperation, as they're in the driver's seat. Liability of the municipality is limited to the portion of FILOT payments pledged. It is not a general obligation bond. The revenue can be pledged from one project or a group of projects. The money is used to issue bonds to pay for things like roadwork. The bonds are usually purchased by a local bank or sometimes by a developer or builder coming in. Mr. Maybank provided an example of a mall developer whose bank underwrote the bond like a traditional mortgage.

Ms. Lucas said “very little has been tapped into in the cap.” There’s little competition now, she added. There are fewer private activity bonds because of the poor economy. Special Source Bonds are closer to a market rate, she said. If it’s used for publically owned infrastructure, it will be a below-market rate, but if it’s loaned to a private company to buy the land for the project, it’s less likely to be tax exempt.

Special Source Bonds’ proceeds can “be used for just about anything”; ideally it’s for infrastructure that serves the issuer, but the costs of special source improvements include improved or unimproved real estate used in manufacturing or commercial enterprises in order to enhance the economic development of the issuer.

Ms. Lucas said the Special Source Bonds program is frequently used to pay for land and buildings. Sometimes the amount of the bond or credit is denominated by the cost of the land. A portion is pledged until the amount is paid off. The money has to be allocated for qualified costs.

<u>Municipal Special Source Programs</u>
Many have utilized these to control millage rates and make themselves more attractive or to attract annexation or downtown revitalization. The Town of Hartsville issued bonds for street- and landscaping. They went into the building code to make commercial properties more attractive in terms of design. They went to the county and told them that any business that comes in automatically gets a 15% discount on their tax bill if they were in the defined area. They had a Wal-Mart outside the city limits that was going to close and build a super-center. Hartsville provided incentives to get them into the redevelopment district instead of moving out of the city. She also provided examples of enticements used in Spartanburg and Greenwood. In Spartanburg, for example, they told investors that if they were in the city limits, and the city thought they met their redevelopment program criteria, it would offer a credit against the city millage. Mr. Maybank said if it’s in city limits, the city has to consent to it.

Mr. Maybank briefly discussed the differences among TIFs – tax neutral to the property owner; MIDs – a voluntary increase in taxes; and a Special Source Credit – a reduction in property taxes. All take incremental tax revenue and redistribute it. The developer gets a dollar for dollar decrease in property taxes with a Special Source Credit. It has to be approved by the city and the county. A TIF has to be approved by the city, county, and school district. Most TIFs do not work unless all 3 entities consent to it. A Special Source Credit can work if just a city applies it to its millage.

Commissioner Goodman asked how long the 15% tax credit lasts to get Wal-Mart in Hartsville, he asked. Ms. Lucas said it’s flexible and related to the time it takes to pay it back. Ms. Lucas said the typical deal is 10 years, which is a common lease term. On a Special Source Credit, the county can encumber the school district. Mr. Dadson said of the 3 TIFs Beaufort has, 2 involve all 3 entities, and one has only the city involved. Ms. Lucas said “it’s a lot easier if you start with a developer who’s ready and willing to enter the deal.”

Other sources of funding:

- General Obligation Bonds – pledge full faith and credit of the town. There are limits as to how much can be pledged. Most communities reserve this for essential services. They can’t be used for private purposes; usually they have public bid requirements. For all these reasons, it’s a last resort for downtown redevelopment.

- Revenue Bonds – The revenue stream is pledged to repay bonds; no taxing power is pledged.

- Tax Increment Financing (TIF) – When this is done, particularly if it’s the first financing for a development, it’s frequently required to have a back-up revenue stream.

- Special Assessment Financing in Municipal Improvement District (MID) – Special assessments on properties in MID can be used to secure bonds. Mr. Maybank said Main Street Columbia is in a MID. The assessment provides increased police services, beautification, etc. The payment doesn’t go into the General Fund. Ms. Lucas described a financing deal that combined some of these methods into a package, e.g., $35-$38 million for redevelopment of an Air Force base into market and office portions of a mixed use development.

- Special Tax District Financing – A special tax district can be set up to pay for public facilities through taxes levied within the district. The city can levy additional millage in the district as a general obligation. Ms. Lucas said this has its own limitations.

- Federal Tax Code Provisions Applicable To Tax Exempt Bond Financing – The federal government exempts interest earned on tax exempt bonds from income tax. If public infrastructure is provided, there’s not a problem, but funding privately-owned facilities falls into a special category, such as industrial development bonds, hazardous waste disposal bonds, etc.

- Federal grants

- Section 108 financing – Community Development Block Grants from the state or city are pledged to secure repayment of the loan. These are usually administered at the Department of Commerce.

- Appropriations for roads and interchanges

- Set-aside funds

- Rural infrastructure funds

- Admission taxes rebated to community to promote tourism projects – Mr. Maybank elaborated on this method; Ms. Lucas said there's more information in the larger package given to the commission.

- State and local government grants

- Utility grants – Ms. Lucas said this isn't a lot of money, but is good to remember. Mr. Maybank said the credit can't be used to defray their own infrastructure, so it's "free money." An eligible project is typically a manufacturing facility, tourism, or R&D that is an eligible project and eligible expenditures. It can be semi-private, such as a wastewater facility. The utility gets a dollar-for-dollar tax credit.

- Business license fees – The city gets revenue, but if the fee ordinance isn't set up to accommodate the business the city is trying to recruit, that's a problem, Ms. Lucas said.

- Community development corporations

- Venture capital funds – Some seek out South Carolina sources, Ms. Lucas said, and should be linked to.

- New market tax credit financing – Mr. Dadson said he's not aware if Beaufort is eligible. Ms. Lucas went on to explain how these work.

- State highway interchange / highway set-aside funds

TAX INCENTIVES (as opposed to funding sources)

- Fee in lieu of property taxes – These are typically approved at the county level, Ms. Lucas said. The county can grant a reduction in the assessment ratio; millage rates can be locked in for the life of the deal. She said this is what "put South Carolina on the map," after a capital intensive project moved to Georgia.

- Multi-county industrial or business park – This is authorized by the state constitution, and is highly legalistic, but underpins the Special Source Credit and allows control over all the millage.

- Income/payroll tax credits – "Tons of these are on the books," Ms. Lucas said, many that are industry-specific.

- Retail facility revitalization credits – Mr. Maybank said if a developer is going to renovate / develop a blighted, closed Big Box, they can get a tax credit from the city or county or a property tax credit from the state as a reimbursement to the developer. The stores have to be a certain size – 40, 000 square feet – and it has to have been closed for at least a year, he said. Ms. Lucas said there may be bills out there to modify the size of the projects. Mr. Maybank said that city council has the ability to reduce it to 15,000 square feet. He offered a few other specifics of the deal.

- Brownfield clean-up credits

- Rehabilitated historic property – This hasn't worked in South Carolina, Mr. Maybank said, so legislation was passed last year to improve it. The theory is that if a $2 million historic property is bought, and $4 million is spent to renovate it, tax is paid on the $2 million, not the $4 million. Chairman Verity asked if it could be a district instead of a building, and Ms. Lucas referred to some federal credits that would apply.

JM asked about the barriers to the film industry for economic development. He wanted to know what needed to happen to make filming easier and more lucrative in South Carolina. Mr. Maybank said the incentives are lucrative, but there's only "Army Wives" now. The South Carolina law states that a proviso only lasts a year. It's never been moved to permanent law. The proviso was struck as out of order last year, he said, but they did it anyway. Also, the statute is that it's to be used exclusively for filmmaking, but the PRT can now grab whatever money is available. The state also decided that filmmaking wasn't a good return on the dollar; the film commissioner was laid off, and they no longer recruit film. Neighboring states have greatly increased their incentives.

Structuring considerations

Credit issues
- Back-up pledges from public sources
- Private guarantees from a credit-worthy entity
- Reserves
- Developer commitments

Control issues

Who's really driving the deal has to be determined, and the responsibility and funding liability must be allocated accordingly. Public financing entails public access and control, and responsibility for design and construction.

Political considerations

There will be many discussions and a cost-benefit analysis needs to be in place, Ms. Lucas said.

Scheduling

Tax revenues lag far behind creating substantial increase in borrowing for capitalized interest. A TIF or MID requires the establishment of a district, which requires certain things that take time; the bond deal is the second step; the lead time required needs to be considered. A Special

Source Credit could be 60-90 days, then how long it takes to go through the ordinance process and then go to market. A TIF or MID process can stretch out beyond a year.

Land Use Planning
A development agreement for the real estate needs to be developed to both sides' satisfaction.

Ms. Lucas suggested that the Redevelopment Commission consider what types of projects it wants to do to determine what funding sources they might need.

Ms. Lucas said Columbia's downtown Main Street area has been struggling. They have an art museum, a movie theater, etc. They "have things going on, but it's spotty." They wanted to attract Mast General Stores as a destination, so they recruited them with a deal to pay the interest on a loan for ten years and other smaller incentives. Water and sewer is a typical back-up pledge, Ms. Lucas said.

EXECUTIVE SESSION
On motion of Commissioner Zara, seconded by Commissioner Goodman, the Redevelopment Commission voted to move into Executive Session pursuant to Title 30, Chapter 4, Section 70(a)(2) of the South Carolina Code of Laws for receipt of legal advice. The motion was approved unanimously.

Commissioner Zara, seconded by Commissioner Barnhart, made a motion to come out of Executive Session and resume the regular meeting. The motion was approved unanimously.

Commissioner Zara made a motion, seconded by Commissioner McNally, to approve a resolution on setting a fair compensation. The motion was approved unanimously.

ADJOURNMENT
There being no further business to come before the commission, Commissioner Zara made a motion to adjourn, second by Commissioner Goodman. The motion passed unanimously and the meeting was adjourned at 6:58 pm.

ATTEST: ___________________________________
IVETTE BURGESS, CITY CLERK