

MEMORANDUM

September 25, 2009

To: Redevelopment Commission

From: City Manager

Re: TIF Districts and Boundary Street Master Plan.

The City Finance Officers and I met with City Bond Counsel the week of September 14th to discuss, amongst other things, the issue of TIF I, II, and the financing mechanisms for Boundary Street and the Waterfront Park Financing.

As part of our discussion, we reviewed the current status of TIF I and TIF II as well as the current financial health of the City (http://www.cityofbeaufort.org/client_resources/finance/cafr%202009.pdf). With this review in hand, we discussed the current status of the TIF's, commonly known as the "Downtown TIF" (TIF I) and "the Gateway TIF" (TIF II). Below is an analysis of the current status of the TIF's to include current liabilities:

			TIF 1	TIF 2
FUND BALANCE & 6/30/09			\$ 1,336,210	\$ 2,014,619
ANNUAL INCOME			\$ 570,000	\$ 1,400,000
ANNUAL DEBT SERVICE ON BONDS				
TIF 1	EXP			
SERIES A	2012		\$ 89,900	
SERIES B	2012		\$ 164,000	
		TOTAL	\$ 253,900	
TIF 2				
SERIES A	2017			\$ 356,000
SERIES B	2017			\$ 210,000
		TOTAL		\$ 566,000
ANNUAL DEBT SERVICE OF WF PARK				
LEASE A	2020		\$ 311,000	
LEASE B	2020		\$ 152,000	
		TOTAL	\$ 463,000	
OUTSTANDING LIABILITES 6/30/09				
TIFF 1				
SERIES A			\$ 256,000	
SERIES B			\$ 441,000	
		TOTAL	\$ 697,000	
TIF 2				
SERIES A				\$ 2,317,000
SERIES B				\$ 1,429,000
		TOTAL		\$ 3,746,000
WF Park				
Lease A			\$ 2,750,000	
Lease B			\$ 1,310,000	
		TOTAL	\$ 4,060,000	

TIF Participation Breakdown: Participation in the TIF is optional for all three governmental taxing units, in this case, the City, the County, and the School District. The current TIF's (Downtown and Gateway) have the following breakdowns:

TIF II	56% Schools	\$784,000
	22% County	\$308,000
	22% City	<u>\$308,000</u>
		\$1,400,000
TIF I	56% School	\$250,000
	22% County	\$125,000
	22% City	<u>\$125,000</u>
		\$570,000

TIF Reconciliation and the Redevelopment Plan: The Redevelopment Plan for Boundary Street outlines the capital investment of the district. While this plan actually calls for an additional TIF (Boundary Street Redevelopment Plan, April 9, 2007, p. 9), it also discusses the use of overages in TIF II to be applied to the capital requirements of the District.

The overages referred to in TIF II have been reconciled between the City and the County at the end of FY 2008, and are not overages to the extent that the Redevelopment Plan so indicates on page 7. The impression that the TIF II was “over-performing” in the hot real estate market of 2004-2006 was simply a mis-allocation of tax receipts between the TIF II fund and the General Funds of the City, County, and School District.

In the City's FY 2008 Comprehensive Annual Finance Report, Management discloses this reconciliation in the Changes to Net Assets Section of Management Discussion and Analysis as follows: “ *Property taxes levied for specific purposes, which represents taxes collected for properties located within the City's two tax incentive districts (TIFs) decreased \$822,007. The decrease is due to adjustments to tax maps that correctly located properties either within or outside of the TIF districts. This relocation of properties resulted in the City foregoing a portion of the current year property tax revenue in these special districts to adjust for overpayments received in the nine preceding years. As of June 30, 2008 the City remained liable for \$18,540 for property taxes received in error from the City's two TIF districts.*”

Because of the proper accounting now found in the City Financials, we can see the need to extend the current TIF's to the life of the asset to properly capitalize the Boundary Street District as it applies to the life and cost of the assets. Secondly, to add another TIF and BID to the mix within the Boundary Street District, makes sense that this time following a reassessment.

Status of the Current TIF's, Downtown and Gateway, as of September 30, 2009

TIF I- "The Downtown TIF:" The Downtown TIF expires in 2012. It has been used for various capital projects to include Port Republic Street, Pigeon Point Park, and the walkway across the Woods Bridge. City Council has also used the proceeds to make some payments on the leaseback payment for the Waterfront Park leaseback. The Waterfront park lease back, of \$4,060,000 still has 12 years of payment left. TIF I has an outstanding balance of \$679,000 as of June 30, 2009 on current bonds.

Staff is desirous of refinancing the current debt for the park and melding it into TIF I. In order to do this, we will need to extend the current TIF I for another 15 years, to coincide with the current and potential refinancing terms. Secondly, it will be important for the County and School District to stay in the mix with regards to funds in and that will be an issue for City Council to advocate.

The upside to this TIF extension is that the debt service for the park is dedicated without impairing other revenue streams that are needed by the City for ongoing operations. It is also an appropriate use of current taxing streams that keeps the city from raising millage rates for this debt service.

TIF II- "The Gateway TIF:" The Gateway TIF expires in 2017. The current revenues service bonds with residual debt of \$3,746,000. The borrowings have been used to pay for a portion of the municipal complex. While there is a fund balance in this fund currently, the intended uses include the Boundary Street Master Plan and specifically the current phase I of the Boundary Street roadway projects. The current penny sales tax monies

As in TIF I, staff is desirous of extending the life of this TIF for another 15 years. The purpose of this extension would be to create a capital account for the balance of the Boundary Street roadway project. In order to fulfill the public infrastructure in the Boundary Street Master Plan and to leverage the \$22m currently on the table for the first phase of the roadwork, it is imperative to create additional funding sources to make for complete capital projects. The extension of the TIF does this without raising property taxes. The investment of the public infrastructure encourages growth within the district.

As in the first TIF, it is important for the County and School District to stay for the totality of the projects as the ability to bond more is possible. While we recommend that the City do these extensions, the best impact is if the school and county stay in place on this matter. Again, this is an issue for City Council to advocate strongly on.

Adding a New TIF

TIF III and a Business Improvement District: We discussed with Bond Counsel, the issue of raising additional funds within this district. The Redevelopment Plan recommended an additional, yet smaller TIF district, to be within the confines of the

Redevelopment District itself. Bond Counsel agreed that this was not only possible but recommended. Additionally, Bond Counsel has recommended that this TIF can be placed on top of another existing TIF (in this case, TIF II).

The addition of a TIF district does not add taxes to a property owner; it simply divides up the incremental increase in value of the property and taxes paid to be applied to capital investments in the district. While it is recommended that the County and School District stay in with us in TIF III, as with the other TIF's, they can choose to "opt out." This will depend upon Councils ability to negotiate with the County and the School District to stay in the TIF agreements as well as to join in with the City on TIF III.

Recommended Actions moving forward:

Staff would recommend the following actions by the Redevelopment Commission:

1. Approve a motion of support to extend the life of TIF I, the Downtown TIF, for a period not to exceed 15 years, which is in addition to the current life of TIF I. In addition, this support also asks the City Council to ask for the full participation of the County and School District to "stay in" this TIF for the additional 15 year period.
2. Approve a motion of support to extend the life of TIF II, the Gateway TIF, for a period not to exceed 15 years, which is in addition to the current life of TIF II. In addition, this support also asks the City Council to ask for the full participation of the County and School District to "stay in" this TIF for the additional 15 year period.
3. Approve a motion of support for the creation of a new TIF, TIF III, "the Boundary Street TIF," for a period of 30 years. That City Staff, to include Bond Counsel, be charged with preparing the necessary legal and financial documents necessary for this action, and, that the City Council ask for the full participation of the County and School District to "stay in" this TIF.
4. That the committee of Redevelopment Commission be hereby charged to continue its exploration of and development of a Business Improvement District to complement the newly created TIF III.