



Tax Increment Financing

Presentation to the
City of East Providence City Council

October 5, 2010

Chevron Land and Development, MuniCap, Village on the Waterfront LLC

Village on the Waterfront

Concept Plan



- 600 + Townhomes/Condos
- 40,000 Square Feet
Town Square - Retail / Office
- Public Access Marina
- Public Access Park
- Bike Trail Extended
- Waterfront Drive Extended
- Improved Veterans
Memorial Parkway Access

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Background

- **1909-1983:** Gulf Oil operated the site
 - The site included a terminal which included the receipt, storage and distribution of refined petroleum products
- **1984:** Chevron USA Products Company acquired Gulf Oil
- **1986:** Cumberland Farms purchased the site
 - During this time, the 27+ storage tanks on-site were removed
- **1996:** Chevron USA Products Company re-purchased the site
- **2004:** East Providence Zoning Code amended as “Article IX, Waterfront Special Development Districts”

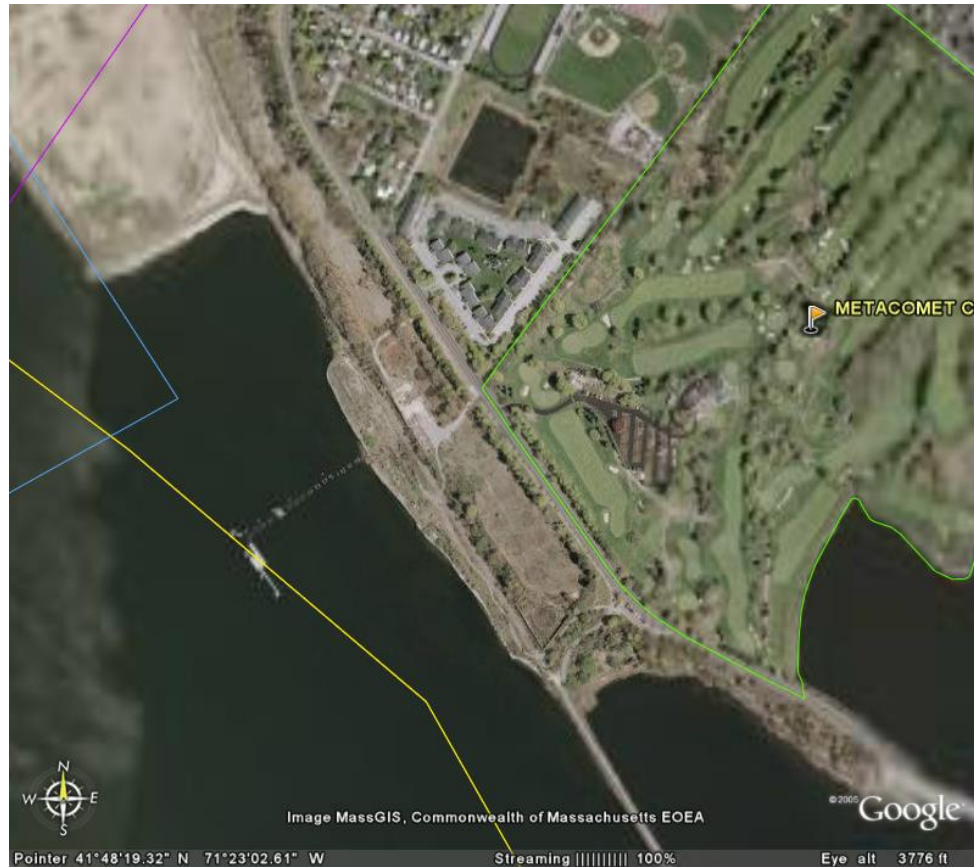
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Background

- **2008:** Chevron and Village on the Waterfront, LLC met with the City of East Providence Design Review Board
- **2009:** Chevron and Village on the Waterfront, LLC submitted TIF Application to City of East Providence and received project approval from the Waterfront Commission
- **2010:** Chevron and Village on the Waterfront, LLC are seeking State approvals for related permits
- **2010:** Chevron and Village on the Waterfront, LLC need TIF approval in order to progress with the proposed Village on the Waterfront Development

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Aerial View



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River View



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Waterfront Rendering



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Aerial Site Plan



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Property Type Site Plan



What are TIFs?

A self-financing tool available to local governments to:

- Redevelop urban renewal areas
- Encourage economic development
- Rebuild public infrastructure
- Change the character of existing land use in strategic locations

How TIFs Work

- Base value set at current assessed value
- Development increases assessed value
- Higher assessed value results in additional real property tax revenues
 - These revenues are the tax increment revenues
- City commits to reinvest a portion of the increase in real property tax revenues to encourage desired development
- Levy of a betterment fee to secure developer minimum tax agreement to cover debt service
- No tax affect on properties outside of the tax increment finance area

Experience with TIFs in U.S.

- First used in the early 1950's
- TIF bonds were issued in 28 states in 2005 and 2006
- Total issuance of TIF bonds in 2005 and 2006 were \$5.1 billion
- Has spread throughout the country because it is a self-financing redevelopment tool

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Project Challenges

- Includes large area in which public improvements need to be financed
- Brownfield site
- High density construction costs
 - City zoning permits only this type of development
- Coastal features costs (CRMC issues)
- Soil conditions
 - On-site needs special construction techniques, including Deep Dynamic Compaction (DDC)

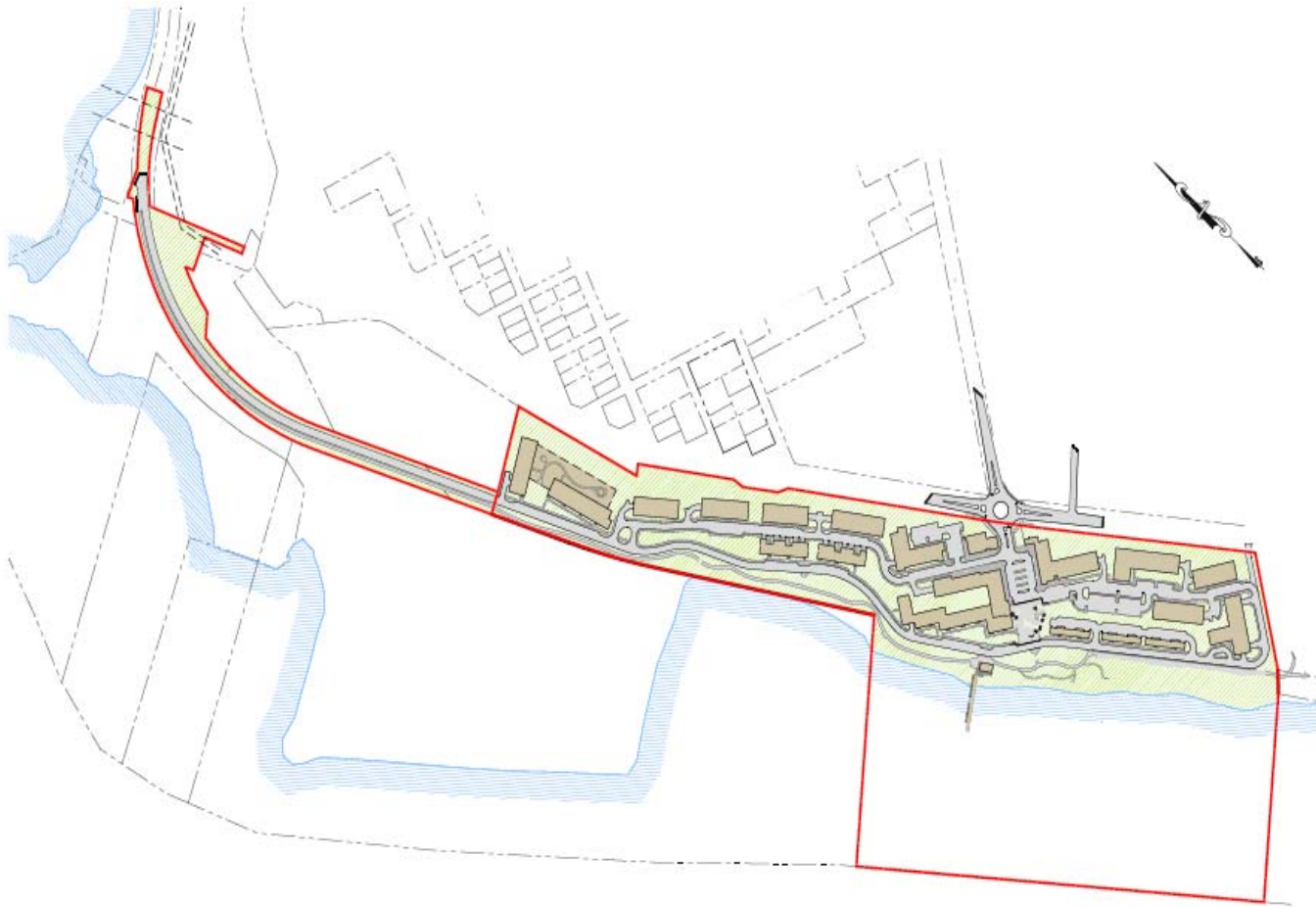
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Site Elevation



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Public Improvement Map



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Total Investment

Percent of Total Project Financed by TIF

Estimated project costs at full build-out	\$167,365,353
TIF financed public improvements	\$ 14,970,000
Percent of total project financed	8.94%
Private dollar for each TIF dollar	10.18

Percent of Infrastructure Financed by TIF

Estimated infrastructure costs	\$23,372,195
TIF financed public improvements	\$14,970,000
Percent of total infrastructure financed	64.05%

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Public Improvements Financed by TIF Bonds

Item	Total Amount
<i>Hard Costs:</i>	
Extending and providing new road and utilities from Veterans Memorial Parkway to existing Waterfront Drive	\$ 8,600,000
Waterfront Drive	4,225,000
Fishing pier and waterfront park	2,100,000
<i>Sub-total hard costs</i>	\$ 14,925,000
<i>Soft Costs:</i>	
Engineering design (8%)	\$ 1,193,587
General conditions (10%)	1,492,500
Contingency (10%)	1,761,109
<i>Sub-total soft costs</i>	\$ 4,447,195
Total public improvement costs	\$ 19,372,195
Less: other sources of funds	\$ (4,402,195)
Total public improvements financed by TIF bonds	\$ 14,970,000

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Public Benefits

- Provides a public park
- Provides a public fishing pier
- Provides a public mooring dock
- Provides a kayak rental shop
- Provides public and residential parking
- Provides a retail center
- Following LEED certification guidelines for energy efficiency and green building
- Provides view corridors throughout the site from Veterans Memorial Drive
- Provides 10% of the units as affordable units

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Public Benefits

- Redevelops waterfront property that has been closed to the public for decades
- Remediates a brownfield site
- Upgrades and preserves habitat areas along the waterfront
- Constructs Waterfront Drive
 - Over 1.75 miles of roadway that runs parallel to Veterans Memorial Parkway
- Constructs a round-about at Lyon Avenue and Veterans Memorial Parkway
- Upgrades and extends City sewer line
- Extends City water line
- Extends existing bike path along Waterfront Drive
- Generates nearly 100 permanent jobs and 2,000 construction jobs

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Phase One Work

Performance Based – Work Completed and 50% Tax Increment Produced before Reimbursement

- Majority of remediation completed
- Off site City water line extended and looped within the site
- City sewer line replaced for half of site
- Waterfront Drive will be brought to grade for construction
- Gas and electric brought to site and looped
- Forty Thousand Feet of commercial completed
- 125 Units of residential completed

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Bond Structure

- **Total Bond Proceeds:** \$17,694,000
 - Includes the total public improvements financed by the bonds in addition to costs of issuance, underwriter's discount, and costs to fund the debt service reserve fund
- **Bond Structure:**
 - Bonds have a term of 25 years
 - Bonds initially placed in escrow
 - **No interest will be due or accrue on bonds while in escrow**
- **Release Provisions:**
 - Released from escrow upon completion of construction of the related public improvements
 - At least 50% debt service coverage
 - Betterment fees secure balance of debt service
 - Value of property subject to betterment fees of at least three times greater than debt secured by fees

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Bond Structure

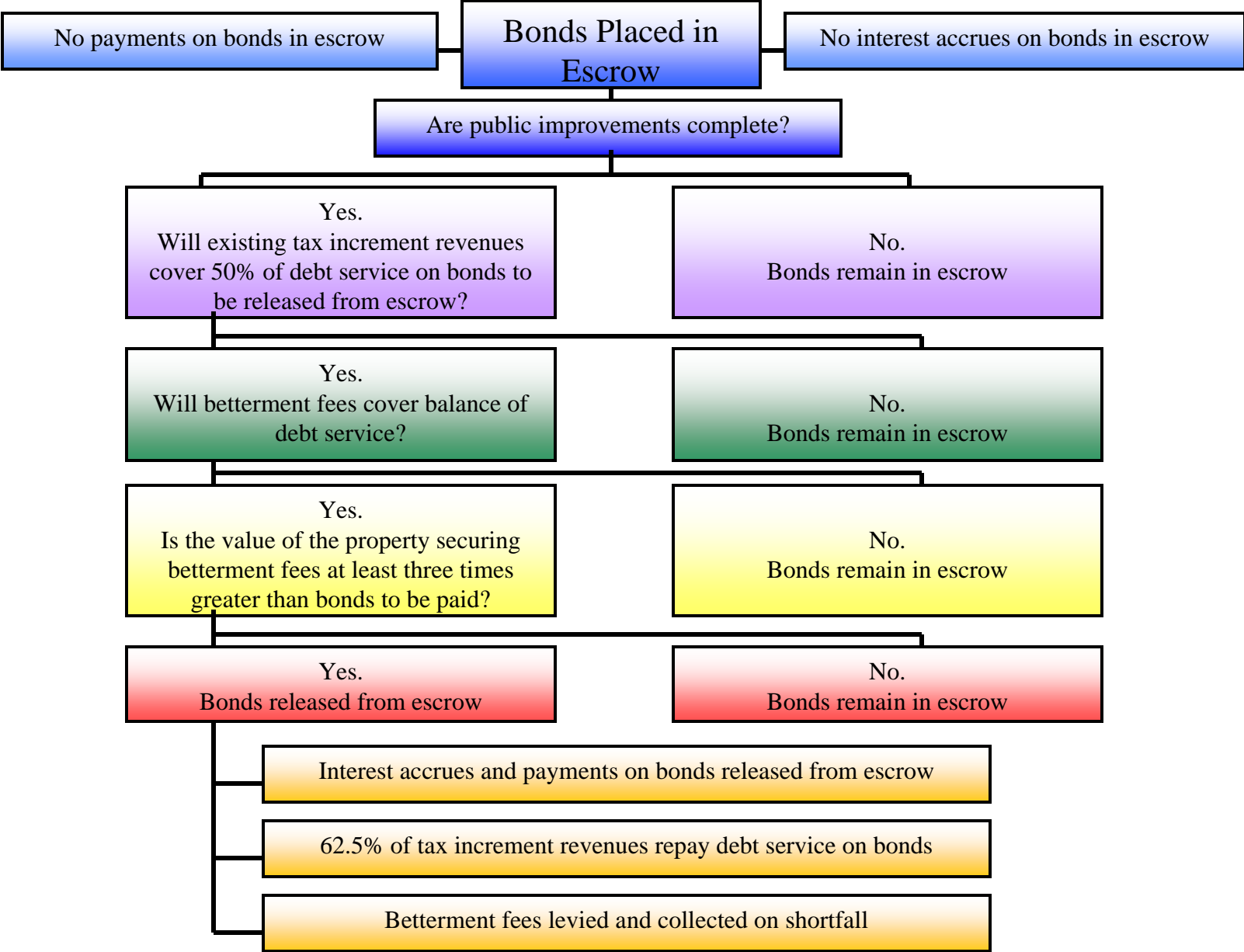
- ***Bond Security:***

- 62.5% of real property tax revenues pledged to the repayment of debt service on the bonds
- Betterment fees, which are only collected when there are insufficient tax increment revenues for the repayment of debt service

- ***Threshold:*** Debt service shall be set such that it does not exceed 50% of the tax increment revenues after build-out (betterment fees on property owned by the developer can be set to be prepaid to ensure this end)

- ***City Obligations:*** The City will have no obligation for the repayment of any financing for the bonds other than the 62.5% of the tax increment produced by the property in the TIF District

Bond Structure Flow Chart



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Betterment Fees

- Betterment fees are a form of a minimum tax guarantee from the developer
- Betterment fees are collected only when the developer does not produce enough tax increment revenues to repay the bonds
- Betterment fees generate the revenue necessary to make up the shortfall in the event that not enough tax increment revenues are produced
- Betterment fees are imposed on all of the property in the District, but only in the District

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Betterment Fees (continued)

- Each parcel receives a credit against the betterment fees in the amount of the tax increment revenues produced by that parcel
- Parcels that are developed produce sufficient tax increment revenues to cover the betterment fee obligation on these parcels
- Parcels that are undeveloped (parcels owned by the developer) do not produce sufficient tax increment revenues to cover the betterment obligations on these parcels
- As a result, the developer pays the betterment fees, not homeowners
- An example of a TIF backed by betterment fees is the Village of Mount Hope Bay TIF in Tiverton, Rhode Island
- At Mount Hope Bay, betterment fees have been paid by the developer, but have never been collected from homeowners

City TIF Bond Perceived Risks

- Developer does not complete public improvements
- Development does not generate sufficient tax increment revenue to repay bonds
- Project is not successful
- Developer fails to pay property taxes and betterment fees
- Developer decides not to pursue project
- If any of the above occur, bonds will not be released and there will be no financial burden to the City

Mitigation of Risks

- Bonds not released from escrow until improvements are complete
- Release of bonds also requires sufficient development to support at least half of bonds released from escrow
- Debt service on bonds backed by betterment fees, which will cover any shortfalls in the payment of debt service (betterment fees are secured by developer's property)
- Property can be foreclosed on if taxes and betterment fees not paid, and property must be worth at least three times more than bonds
- Assignment of bonds to another developer is subject to city consent
- Bonds are to be sold to sophisticated investors who understand the risks and that the city is not backing the bonds

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Net Fiscal Impact to City of East Providence

	<u>33 Years</u>
One-time tax revenues	\$ 3,591,382
Real property remaining surplus	\$ 9,677,325
Real property tax revenue (37.5%)	\$ 31,332,887
Personal property tax revenues	\$ 1,023,068
Motor vehicle tax revenues	\$ 428,591
Meal tax revenues	\$ 574,544
<u>Additional city revenue</u>	<u>\$ 8,558,144</u>
City of East Providence revenues	\$ 55,185,942
<u>City of East Providence expenditures</u>	<u>(\$31,823,087)</u>
Net fiscal impact	\$ 23,362,855

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Tax Increment Financing

- Only a portion of the increase in tax revenues produced by the Village on the Waterfront project will go to the TIF (with the balance going to the City)
- No existing City tax revenues will go to the TIF
- No tax revenues from outside of the Village on the Waterfront project will go to the TIF

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Tax Increment Revenue

- *Current tax revenue generated on the Village on the Waterfront property:*
 - Fiscal Year 2010-2011: \$58,185
- *Estimated Village on the Waterfront future tax increment revenue at full build-out:*
 - Fiscal Year 2021-2022: \$2,715,636



Questions and Answers