

POLICY GUIDE

Northeast Tax Increment Finance (TIF) District
(Increment District No. 9, City of Oklahoma City)

This Policy Guide outlines the goals and objectives of the Northeast Tax Increment Financing District (Oklahoma City TIF #9) and details how TIF funds will be allocated for various types of public, private, and non-profit investments.¹

1.0 Introduction

1.1 Overview of TIF and the Northeast TIF District

The City of Oklahoma City (City) established the Northeast TIF District (Increment District No. 9, City of Oklahoma City, hereinafter “TIF #9”) in 2015 with the intention to spur economic development along three core commercial corridors: (1) NE 23rd Street; (2) Martin Luther King, Jr. Avenue; and (3) Kelley Avenue. Specific boundaries are included in the appendix.

A Tax Increment Financing (TIF) District allows the City, by and through a designated entity such as the Oklahoma City Economic Development Trust (OCEDT), to support public, private and non-profit projects using incremental growth in property and/or sales taxes generated by increases in net assessed value. Property value growth is typically generated through investment in building and property rehabilitation or new construction. In a TIF District, the growth in taxes – the “increment” – is allocated to a special fund to be used for the purposes of economic development, in a manner consistent with Oklahoma law. Generally, TIF funds are used either to provide financial assistance to real estate development projects that meet the goals of the district, or on various types of physical improvements like public facilities and infrastructure.

The Northeast TIF Project Plan outlines the following core objectives for the district:

- The stimulation of investment in commercial property along primary corridors;
- Leveraging new and enhanced retail and shopping opportunities within the Northeast community;
- Assisting the creation of high-quality multi-family housing;
- Upgrading infrastructure (roads, sidewalks, utilities) within targeted corridors and neighborhoods.

1.2 Eligibility for TIF Assistance

There are three types of projects that qualify for TIF funding assistance within the Northeast TIF District:

- 1) **Increment Generating Real Estate Projects** - the construction or rehabilitation of real estate projects that generate tax increment as a result of investment. Projects eligible for assistance

¹ While compliance with the Policy Guide is expected, approval by the City Council of The City of Oklahoma City and/or by the Oklahoma City Economic Development Trust of an economic development related agreement, contract, memorandum of understanding containing deviations that are not in full compliance with the provisions of the Policy Guide shall be deemed an approved waiver of those portions of the policy.

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include: (1) retail and restaurant projects; (2) commercial office and hotel projects; and (3) multi-family housing projects.

- 2) **Non Increment Generating Real Estate Projects** – projects undertaken by the public sector, educational and health institutions, and other not-for-profit entities that do not generate tax increment, but are determined to have a substantive quality of life impact within the TIF District.
- 3) **Physical Improvement Projects** – to the extent allowed under Oklahoma law, existing buildings, streets, and properties in need of repair or enhancement but which do not anticipate substantial investment or tax increment generation, examples include: building exteriors, signs, sidewalks, parking lots, streetscape elements (lighting, benches, pavers, etc.), utilities, and similar components.

2.0 Increment Generating Real Estate Projects

TIF funds will be available to support eligible real estate development or redevelopment projects. These include the rehabilitation or construction of buildings for commercial or multi-family (multi-unit) residential purposes. Funds are allocated through tax increment via ad valorem (property) taxes, and/or sales taxes.

Eligibility for TIF funding for private real estate projects is determined by a combination of financial need and impact to the larger commercial corridor or neighborhood. *Funding amounts are limited based on the amount of incremental taxes generated by a project.* For example, if a proposed project's value upon completion is \$5 million, it will generate approximately \$60,000 in annual property taxes. If the property currently pays \$10,000 in annual property taxes, then a maximum of \$50,000 in annual increment is available to be used by that project, assuming the project has determined a sufficient amount of financial need.

In addition to the financial eligibility described above, The City has placed the following preferences for investment on commercial projects in this Increment District. Projects applying for this category should include at least one of the following criteria:

- 1) Add new commercial businesses generating retail type sales to the northeast area;
- 2) Renovate existing buildings or commercial centers;
- 3) Include businesses that are seeking expansion of their current facilities;
- 4) Generate notable net job creation (50+ jobs) within district boundaries.

2.1 Provision of TIF Funds

The City and/or OCEDT will provide assistance in development finance in one of three ways, to be determined on a case-by-case basis.

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1) Installment Incentive

This method allocates a contractual payment of TIF funds annually over a fixed period of time. *During the initial stage of the TIF District – approximately 5 years - this will be the only method of funding allocation.*

Example: a project may be eligible for \$1 million in TIF assistance, to be paid out in \$100,000 installments over a 10 year period – assuming that the completed project’s incremental taxes support this amount. Projects are expected to pay taxes annually, but will receive back a portion corresponding to the tax increment actually generated and the amount of the installment loan negotiated. Real estate developers can use the TIF assistance in two ways: assistance in annual cash flow, or an annual pledge to secure additional financing or equity investment using the promise of installment payments to secure that assistance.

2) Gap Incentive

An allocation may be approved for an amount of funding to the project that provides a layer of funding to fill the gap in-between debt and equity. This will be provided upon completion of the construction of the project.

Example: a project is determined to be eligible for \$1 million based on the amount of increment expected. The \$1 million will be provided in a lump sum as a Gap Incentive upon construction. Developers are expected to secure bridge financing until the TIF amount is provided.

3) Interest Bearing Loans

TIF loans will be considered when projects require financial assistance to get started, but have the ability to pay back the loan over a period of time.

Example: \$1 million is loaned to a project over a 10 year period at a 5% interest rate. This would yield total payments back to the TIF District of approximately \$1.6 million. Loans would be expected to be amortized over 5-10 year periods, but may be longer at the discretion of the City.

IMPORTANT NOTES

- The Northeast TIF District was established in 2015. The District will not start accumulating funds for allocation within the district until new development occurs. This places limitations on the use of funds in the short-term. Until a sufficient amount of funding is collected within the district, only option #1 – Installment Incentives – are possible.
- Neither OCEDT or The City anticipate incurring debt to support development projects within the Northeast TIF District. This includes TIF-backed bond financing, bank financing or similar instruments. Applicants who seek to monetize future TIF payments will need to secure their own financing.

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2.2 Guidelines for Property and Sales Tax Assistance

The City can provide funds to OCEDT leveraged from incremental tax increases from both Property Tax and Sales Tax to assist Real Estate Projects. Projects may be eligible for one or both based on the policy guidelines below.

Property Tax Assistance (Ad Valorem Taxes)

Real Estate Projects seeking TIF assistance from property tax increment must adhere to the following policy guidelines:

- Developers or investors must demonstrate that projects are difficult, but possible with the assistance of TIF funds. The City will consider making a TIF allocation based both on financial need and projected generation of taxes.
- Projects located in the increment district are only eligible for amounts supported by their projected incremental taxes. Projects are not automatically eligible for all the increment they generate.
- Since the City will consider allocating funding based on a projected incremental increase in property taxes, a project will be asked to pay a fixed amount of taxes and/or a payment in lieu of taxes for a time to be negotiated.
- An allocation comprising the sum of incremental taxes over 15 years will be a typical benchmark for maximum financial assistance. For example, a project generating \$100,000 in incremental taxes annually may be eligible for assistance up to \$1,500,000. Longer terms may be granted based on the scale and impact of investment and on the lifespan of the district at the time the project allocation is negotiated.
- Eligible projects located within the project area but outside of the increment area will be evaluated primarily on financial need. Due to the inability to contribute to district increment, these projects are only eligible for grants or loans (see section 2.1) and only when enough funds are available in the district to make such an allocation.

Sales Tax Assistance

Real Estate Projects seeking TIF assistance from sales tax increment must adhere to the following policy guidelines:

- Developers or investors must demonstrate that projects are difficult, but possible with the assistance of TIF funds. The City will consider making a TIF allocation based both on financial need and projected generation of taxes.
- Only the installment incentive option is available to allocate assistance from Sales Tax.
- Only projects with retail components above 25,000 square feet are eligible for sales tax increment finance assistance.

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- 10 years is the maximum time frame for sales tax based TIF assistance. For example, a project that generates \$50,000 in sales tax increment annually will be eligible for no more than \$500,000 in TIF assistance ($\$50,000 * 10 \text{ years} = \$500,000$). A 15-year application of sales tax increment will be considered for projects of sufficient scale and impact to be regarded as generating significant levels of services and/or spin-off investment within and adjacent to the increment district.
- Projects are only eligible for the undedicated portion of sales tax from the City, which is 2%.
- The City will consider making an allocation of incremental sales tax funds based on an estimated amount of net new sales tax generation within the TIF district. This is to prevent the application of TIF incentives to projects that do not generate new sales tax revenue to the City and instead capture existing spending and sales tax generation from businesses already within city limits. Given this scenario, the City has chosen to apply “multipliers” to total sales tax generation to accommodate expected sales tax growth from certain types of businesses, targeted specifically for this TIF district. For “anchor” businesses such as grocery stores, pharmacies, and other retail establishments that generally exceed 10,000 square feet or can be determined to be a primary destination within a shopping center, a multiplier of 50% will be applied to recognize the lack of such establishments within the project areas. For smaller businesses that are stand-alone or combined with multiple tenants in the same building – typically between 500 and 4,000 square feet, the multiplier will be 30%.
- A Sales Tax allocation is considered a developer-at-risk proposition, meaning that the allocation of funding from sales tax generated by the completed project will be limited to the actual amount of sales tax increment actually generated by a project, regardless of what the estimated amount was when the TIF allocation is originally negotiated. Therefore, it is necessary for developers to estimate sales tax generation as accurately as possible or risk receiving a lower amount of incentive funding than allocated for the project. Notwithstanding that a larger allocation may initially be approved by The City, the sales tax based incentive will be subject to the amount of sales tax increment generated by the project.

3.0 Non Increment Generated Real Estate Projects

The City has budgeted TIF funds for non-increment generating Real Estate Projects. These projects are those built by the public sector, non-profit organizations, or other types of properties that do not pay property taxes due to their ownership.

3.1 Eligibility

To the extent allowed under Oklahoma law, these funds are intended to be targeted towards projects that are constructed or rehabilitated to provide services either to the general public or to specialized needs population as defined by the City’s Consolidated Plan. The City’s Consolidated Plan defines “special

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needs” as the homeless, seniors over age 62, persons with permanent disabilities, victims of domestic violence, abused children, and children aging out of the foster care system.

Examples of eligible projects (representative but not all-inclusive): Educational facilities, health clinics, nursing homes, daycare facilities, half-way houses and shelters, community centers, and employment offices.

Excluded projects include: Government Offices, Facilities for Churches or Places of Worship dedicated primarily to parishioners.

3.2 Funding

Since Non Increment Generating Projects do not contribute to growth in TIF Funds, available funding will rely on the timing and size of increment generating real estate projects within the increment district. Accordingly, there is no guarantee of when or how much funding will be available for either public or private/non-profit improvement categories.

4.0 Physical Improvement Projects

TIF #9 includes a budget allocation for **physical improvement** projects which can be used for both business and infrastructure enhancements made by either the public, private or non-profit sectors. Project allocations cannot be made unless sufficient funds are available in the TIF district. The City of Oklahoma City will determine when to allocate funding for this purpose.

There are two primary project categories:

- 1) **Public Sector Improvement Projects** – typically infrastructure improvements like streets, streetscape, utilities, sidewalks, etc. These projects will typically exist within The City’s right of way, easements, or property.
- 2) **Private/Non Profit Sector Projects** – to the extent allowed under Oklahoma law, building and site improvements/enhancements made on privately owned property.

4.1 Public Sector Improvement Category

This category involves site and infrastructure improvements in or on City owned right of way, easements, and property. Improvements will typically be for sidewalks, ADA accessibility, lighting, stormwater improvements, utility enhancements, landscaping, and other streetscape components. In order for these projects to be done in a timely and cost-efficient manner, the City may require cooperation / partnerships with private land owners that result in improvements being made on private property. The City will typically bid and manage these projects.

Projects may be selected based on a number of factors, including identified need through the Comprehensive Plan, Capital Improvement Plan or any additional local small area plans, emergencies, or

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opportunities to leverage private investment through strategic enhancement of publicly owned property or infrastructure.

4.2 Private/Non-Profit Category

There are two types of projects that may qualify under this category:

- 1) Business Related Improvements. These items are intended to enhance the commercial activities and general appearance of a particular business or building. Enhancements must produce a tangible improvement to the building or site and not just routine maintenance.

Eligible Improvements: awnings, entrance doors, windows, window treatments, painting, signage, exterior lighting, storefront renovations, fencing, patio dining enhancements, signs, roof repair.

Non-Eligible Improvements: Improvements made to the interior of the building, tuckpointing (other than spot tuckpointing which is necessary for work in the visible improvement of the façade of the building), gutters, downspouts.

- 2) Site & Infrastructure Improvements. These items are intended to enhance the surroundings of a particular business in order to improve the accessibility and attractiveness of a commercial property.

Eligible Improvements: parking lots, sidewalks, ADA accessibility, lighting, stormwater improvements, utility enhancements, landscaping, bike racks, streetscape furniture, trashcans.

Non-Eligible Improvements: street improvements (in-between curbs), unless approved and/or implemented in conjunction with the City.

4.3 Funding

Available funding will rely on the timing and size of increment generating real estate projects within the increment district. Accordingly, there is no guarantee of when or how much funding will be available for either public or private/non-profit improvement categories.

When the City has determined there is enough increment available for the Private/Non-Profit improvement category it will issue a Request for Projects (RFP) to solicit eligible projects. These funds will be allocated in amounts between \$1,000 and \$50,000. These are one-time incentives that will be paid upon completion of the improvements. Applicants must provide a 10% match, meaning for a project equal to \$10,000, the TIF fund will provide \$9,000 and the Applicant will provide \$1,000.

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4.4 Eligibility for Private/Non Profit Improvements

Applicants must be eligible to receive Physical Improvement incentives, as defined below. Applicants can include property owners, business owners, and real estate developers.

Eligibility Checklist:

- 1) Eligible projects must be those that seek to make improvements to existing buildings or properties, funding is not available for new construction projects.
- 2) The building or property must be located within the target funding area (see map).
- 3) The property must have a building that is capable of being rehabilitated for a viable economic use- vacant lots are not eligible. Funds are not available to secure a property for compliance with property laws.
- 4) The project must fall into one of the eligible categories; Business Related Improvements or Site & Infrastructure Improvements (Section 4.2).
- 5) Projects must be submitted with at least two (2) cost estimates for the work to be performed.

5.0 Sales Tax Calculation Formula

Calculation of Sales Tax Distribution to Increment District

The sales tax increment is a portion of the City's non-dedicated sales tax that is reasonably and rationally attributable to investment and development within the Increment District. The sales tax increment shall be the following: 100% of the City's two percent (2%) non-dedicated sales tax revenues generated from all projects undertaken pursuant to a development or redevelopment agreement, which obligates the developer to implement certain development in return for public assistance and/or land provided by the City or a public trust whose sole beneficiary is the City or by the Oklahoma City Urban Renewal Authority ("Assisted Projects"). All other sales taxes generated by the district shall not be apportioned but will be collected and retained in the General Fund of the City.

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APPENDIX: Northeast Renaissance TIF Project Area and Increment Area

