

CITY OF SALISBURY
WORK SESSION (VIA ZOOM MEETING)
AUGUST 17, 2020

Public Officials Present

Council President John “Jack” R. Heath
Councilwoman Angela M. Blake
Councilwoman April Jackson

Council Vice President Muir Boda
Councilwoman Michele Gregory

Public Officials Absent

Mayor Jacob R. Day

In Attendance

City Administrator Julia Glanz, Infrastructure & Development (DID) Director Amanda Pollack, Finance Director Keith Cordrey, Housing & Community Development (HCDD) Director Ron Strickler, Lindsey Rader, Esq. of Funk & Bolton, P.A. and Emily Metzler of MUNICAP, Inc., City Attorney Mark Tilghman, City Clerk Kimberly Nichols, and interested citizens.

On August 17, 2020 the Salisbury City Council convened in a Work Session at 4:46 p.m. via Zoom immediately following the adjournment of the Special Meeting. The following is a synopsis of the topics discussed:

Donation of residential property located at 300 Delaware Avenue

HCDD Ron Strickler reported the City was approached by G.N.I. Properties, Inc. last fall about donating 300 Delaware Avenue to the City. Originally, the project required the City to pay for the appraisal and closing costs but since then G.N.I. Properties, Inc. had the appraisal done on their own. The City would just have to pay closing costs. Rather than demolishing the structure on the site as originally discussed, Mr. Strickler thought that the property could be sold with a contingent rehabilitation plan in place and would aim for a single family home.

Council reached unanimous consensus to advance the donation to legislative agenda.

ESIMBA MOU for new mountain bike trails

DID Director Amanda Pollack reported on the MOU with the Eastern Shore Chapter of International Mountain Bicycling Association. The City had entered into MOUs previously with ESIMBA, and the current MOU was for additional mountain biking trails within the Naylor Mill Forsest Complex. The new trails would extend along the Rail Trail section Phase 7B, which was undergoing final design. The purpose of the MOU was to delineate the responsibility of ESIMBA and the City. ESIMBA would design the trails, obtain the permits and approvals for construction of the trails, supervise volunteers during construction and maintain the trails. The City would review the design and implementation plans, encourage police patrols of the trails, authorize ESIMBA to have informational displays about the trails, and acknowledge that ESIMBA built and maintains the

trails. Present on the Zoom Meeting were Alex McRae, BPAC member and Will White, City Transportation Specialist.

Mr. McRae reported the trails were not just for mountain bikers alone, as runners were encouraged to use the trails.

Ms. Gregory asked about ADA accessibility, and Ms. Pollack said that because of the wooded area, they would not be smooth surfaced nor ADA accessible.

Council reached unanimous consensus to advance the MOU to legislative agenda.

Comprehensive Connection Charge Code changes

Ms. Pollack explained the Comprehensive Connection Charge Code changes was a continuation of the last few Work Sessions, resulting in the formal code changes previously discussed to change the way the City assessed Capacity Fees and central system line fees (per recommendations of the 2018 Water & Sewer Rate Study) and to make the fees more equity based. The current Capacity Fees were \$3,533 per EDU (in effect since 2013). Based on the equity calculations, the consultants proposed the maximum Connection Fee to be \$9,746 per EDU with no central system line fee. Ms. Pollack did not recommend implementing the full fee at this time, but increasing it over time.

The ordinance provided for the new fee recommendation of a 5% increase over the existing Capacity Fees since the new Connection Fees included the Central System Line Fees. The new rates would be a Connection Fee of \$3,710 per EDU and 38% of the full equity buy-in amount. Ms. Pollack recommended annual increases until full equity buy-in was achieved, as it was unrealistic to implement the increase all at once. The other ordinance presented would adopt the fee schedule.

Council reached unanimous consensus to advance the legislation to legislative agenda.

TIF discussion for “Old Mall” property (Civic Avenue)

Finance Director Keith Cordrey reported Lindsey Rader, Esq., Funk & Bolton, P.A. and Emily Metzler, MUNICAP, Inc., Senior Vice President were present in the Zoom meeting and making a presentation on TIFs. The presentation is attached and made part of the minutes.

Ms. Rader explained the overview of TIFs was being made because it had been quite some time since the City was involved in such a transaction. Mr. Cordrey recommended further evaluation of the opportunity, and if Council chose to move forward, developers would be investing a substantial amount of funds. When they discussed TIFs again, and if the Council chose for any reason to not continue with the TIF, the developer’s money would be lost. Although the City would still be in the process of evaluating the TIF, a significant amount of money would be spent by the developers. The introduction presented today would be the beginning of further discussions.

Ms. Rader explained the way the transactions were done since the Recession. Once the developer approached the issuer, the issuer typically asked the developer to pay for the issuer’s professionals. If the Council decided they wanted to further explore it, the developer would agree to pay for Municap’s services, Funk & Bolton’s services, and likely Mr. Tilghman’s services on a monthly

basis going forward. The agreements would clearly indicate that the City was the client although the developer paid the fees. Funk & Bolton's draft agreement clearly indicated that while the developer paid the fees, that the City taking any steps, such as if the City looked at the projections and agreed to get the development district created, it would not obligate the City to actually issue the bonds. The City would not be obligated to issue the bonds, no matter how many steps they took in the process, until the City actually issued the bonds. No funds would be made available for the infrastructure improvements until the bonds were issued. The developers would be taking a risk at and putting funds out for the City's professionals because these were time consuming transactions. The developer would be asked to take the risk that the City may not ultimately issue the bonds.

Ms. Glanz said that Administration was interested in seeing certain projects move forward with the possibility of TIFs, if the Council had interest.

Council reached unanimous consensus to proceed to the next step.

Council Remarks

Ms. Glanz stated that constituents had until the end of September to complete the Census.

Mr. Boda said the Census was key, and asked everyone to support their local businesses and restaurants.

Ms. Jackson said to stay healthy, social distance, wear masks and be safe.


Ms. Blake reminded everyone to donate blood if they were healthy.

Ms. Gregory reiterated what Ms. Jackson said, which was to wear their masks and be safe.

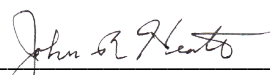
President Heath said that everyone needed to register in the Census because the amount of funds the City received depended on the population. If anyone had not responded to the Census, he implored them to do so as soon as possible. He also encouraged everyone to give blood, if possible.

Adjournment

With no further business to discuss, the Work Session adjourned at 6:09 p.m.



City Clerk



Council President

TIFs AND SPECIAL TAXING DISTRICTS



National Harbor, Prince George's County, MD

MUNICAP, INC.
— PUBLIC FINANCE —

F&B FUNK & BOLTON
— ATTORNEYS AT LAW —

PRESENTATION OUTLINE

I. TIF

- How TIFs Work
- Considerations Regarding TIF and Special Tax Financing
- TIF/Special Tax Process
- Pros and Cons of TIF

II. Special Tax Back – Up

- TIF/Special Tax Expenditures
- TIF and Special Taxing District Policies and Considerations

III. Next Steps

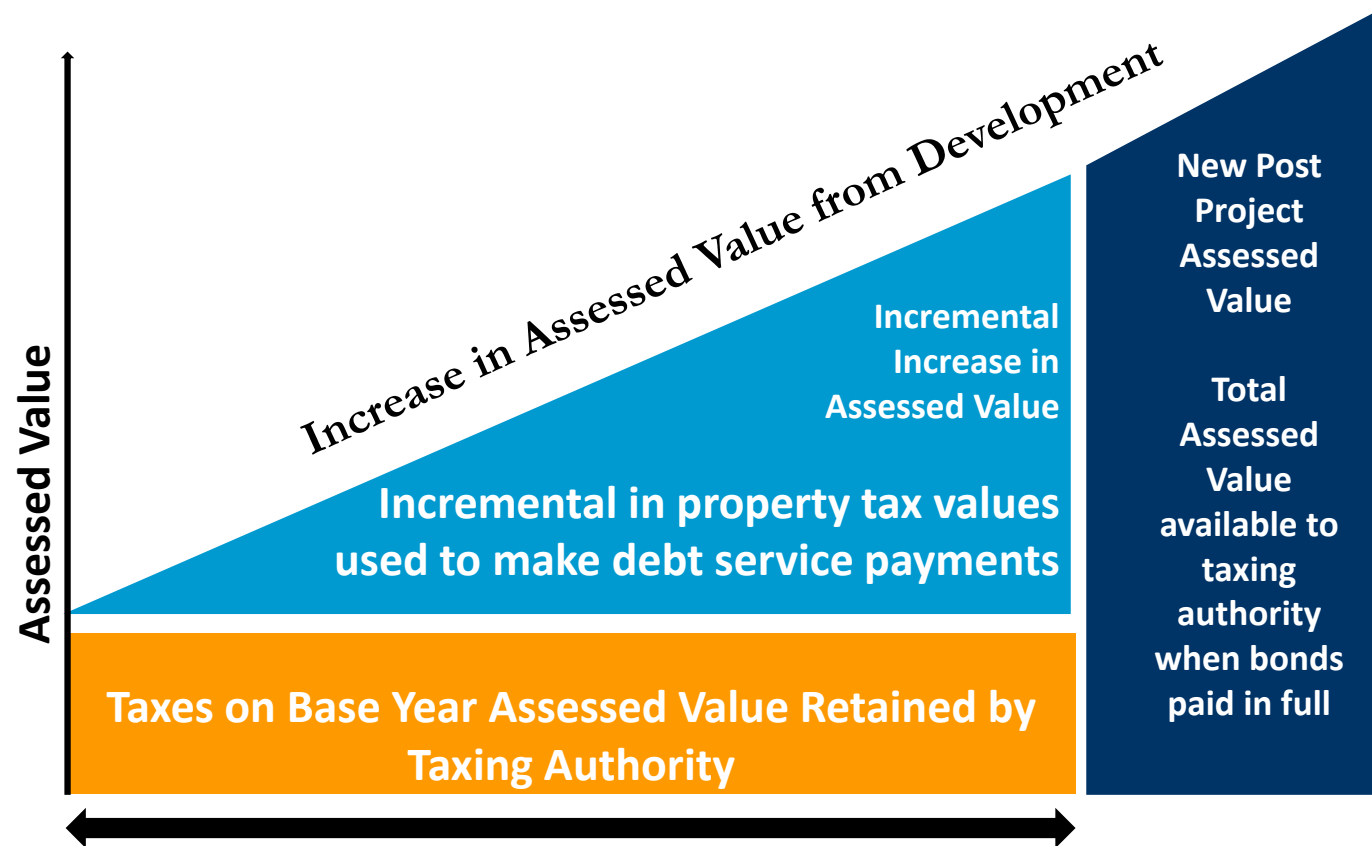
IV. Sample TIF Projects

V. Experiences with TIFs and Special Tax Financing in Maryland

VI. Questions?

HOW TIFs WORK

- Base value set at assessed value as of January 1 of calendar year preceding District formation
- Development increases assessed value
- Higher assessed value results in additional real property tax revenues
 - These revenues are the tax increment revenues
- Revenues pledged can go beyond incremental real property tax revenues including sales, meals, and hotel tax revenues

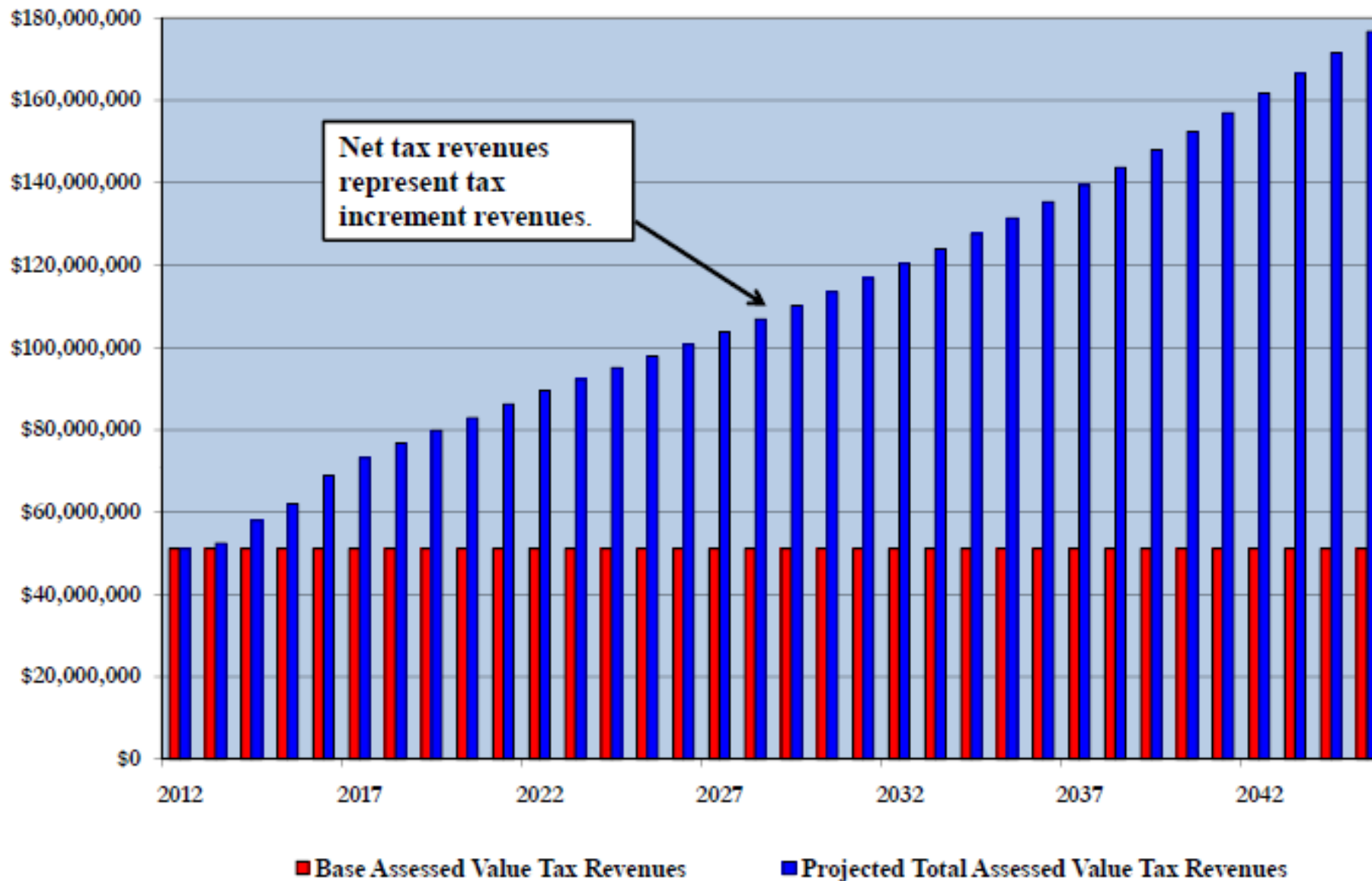


HOW TIFs WORK, CONTINUED

- Jurisdiction commits to use revenue bond proceeds to fund infrastructure improvements that support and encourage desired development
- No tax effect on properties outside of the tax increment finance district

HOW TIFs WORK, CONTINUED

Incremental Revenues



CONSIDERATIONS REGARDING TIF AND ST FINANCING

- Tax increment financing (TIF): real property tax revenues attributable to the increase in assessable base of real property in a designated area over the original assessable base of such real property are captured and segregated. This represents a diversion of money that normally flows to the General Fund. No additional taxes are levied in connection with a tax increment financing.
- Special taxing district financing (ST): special taxes are levied on property in a designated area in addition to general ad valorem real property taxes. Special taxes may be levied on an ad valorem or a non-ad valorem (“special tax”) basis.
- Common practice: issue revenue bonds as hybrid TIF/ST bonds in order to provide special tax back-up. If incremental tax revenues are expected to be insufficient in any bond year, special taxes are imposed on the properties within the district in order to provide additional debt service coverage.
- Issuer needs to consider how it will pay for increased costs of services (e.g., fire, police, road maintenance) related to the development.

CONSIDERATIONS REGARDING TIF AND ST FINANCING, CONTINUED

- TIF or ST bond proceeds are not loaned to developers. The obligation to pay the normal real property ad valorem taxes from which the incremental tax revenues are derived and to pay the special taxes runs with the land. If property owners fail to pay the applicable taxes their properties are subject to foreclosure.
- Issuance of hybrid TIF/ST bonds requires compliance with “lowest common denominators” of both statutes. For example, the TIF statute allows a 40-year maturity but the ST statute allows only a 30-year maturity. The ST statute allows certain legislative approvals to be made by resolution when an ordinance is required for certain legislative approvals with respect to TIF bonds. The capitalized interest period is limited by the ST statute.

TIF/SPECIAL TAX PROCESS

Phase I: Preparing a Plan of Finance

- Financial analysis and revenue projections to support appropriate bond sizing
 - Evaluate constraints to size public financing
- Assist with preparation of fiscal and economic impact analyses, if needed
- Assist with preparing application for public incentives

Phase II: Governmental Approval

- Participate in staff meetings and responding to questions
- Assist with preparation of special tax methodology
- Draft necessary legal documentation creating the district, authorizing the issuance of bonds, and levying the special taxes
- Prepare presentation materials and attend public meetings, as requested

Phase III: Implementation of Financing

- Preparation of revenue/marketing research study needed for key stakeholders
- Assist with due diligence related to the bonds
- Assist with documentation related to financing
- Issue bonds and raise capital

Phase IV: District Management

PROS OF TIF

- Can help stimulate development in an area that has been otherwise difficult to develop, resulting in an increase in the real property tax base.
- A method of financing desired infrastructure improvements that does not require the issuer to issue general obligation bonds backed by its full faith and credit pledge.
- If development occurs as projected, excess incremental tax revenues may be released to the General Fund in accordance with bond document tests after debt service coverage tests are met and administrative costs are covered, and any such released revenues may be used by the issuer for any legal purpose, including purposes unrelated to the development.

CONS OF TIF

- Typically increased costs of services related to development (e.g., fire, police, road maintenance) may be paid for from taxes realized from the developed properties; because incremental tax revenues are pledged to the bonds, such increased tax revenues will not be available for such purpose (unless excess incremental tax revenues meet bond document release tests).
- Tax increment projections are not a guarantee of the incremental tax revenues to be realized, but a reasonable estimate based on information available at the time the projections are developed. However, if projections are not realized, the issuer is NOT obligated to use its other funds to cover deficiencies in debt service.
- 100% of the realized incremental tax revenues must be deposited in the special TIF fund and can be released for use for other purposes only in accordance with the bond document release tests. Accordingly, if the actual incremental tax revenues are sufficient only to cover debt service and administrative costs in each fiscal year, the issuer will not receive real property tax revenues attributable to the increase in assessed value until the bonds have been fully paid.
- If an issuer planned to issue bank-qualified general obligation bonds in the calendar year in question, the size of any TIF/ST issue may prevent the issuer from issuing bank-qualified bonds in that calendar year.

TIF/SPECIAL TAX EXPENDITURES

➤ Public improvements

- Parks
- Utilities
- Roads
- Parking

➤ Acquire property

➤ Site removal

➤ Surveys and studies

➤ Relocate businesses and residents

➤ Construct buildings for governmental use

➤ Principal and interest

➤ Reserves or capitalized interest

➤ Necessary expenses to issue TIF/ST bonds

TIF & SPECIAL TAXING DISTRICT POLICIES AND CONSIDERATIONS

- 1. Is public assistance appropriate for this project?**
 - That is, does the project merit public assistance?
 - Does it implement an adopted public goal?
- 2. “But For” test**
 - Quantitative and qualitative evaluation (not required by statute, but good practice)
- 3. How much assistance is appropriate?**
- 4. What is the sponsoring government agency receiving in return for the TIF/ST? (TIF/ST is both a financial and land use development tool.)**

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

5. What is the amount of private investment (is the public adequately leveraging private investment)?
6. Are sufficient surplus tax revenues projected to cover costs of public services required for a project?
7. Is the proposed TIF economically efficient (i.e., more tax revenues or benefits than the no TIF alternative)?
8. Are there clear linkages between the properties in the TIF/ST area, the financed improvements, and the TIF/ST plan?
9. What are the risks associated with the TIF/ST plan and have the risks been addressed?
10. Will the public support the TIF/ST?

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

11. Has issuer developed/should issuer develop policies regarding use of TIF and ST financing?
12. What is developer's track record, experience, financial condition?
13. Ad valorem special taxes must satisfy Maryland Constitution uniformity requirement; non-ad valorem special taxes need not be uniform - only need a reasonable basis for apportionment

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

14. Bonds DO count against annual calendar year calculation for bank-qualified bonds (current bank-qualification limit: \$10 million)
15. Need whole tax accounts to be included in district
16. Municipal corporations: Is agreement with county needed regarding collection of special taxes?
17. For tax-exempt bonds, must comply with tax code's reimbursement regulations

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

18. For tax-exempt bonds, financed improvements must be “owned” (for tax code purposes) by a governmental entity - developer may hold title during construction period
19. Who builds infrastructure improvements - issuer or developer?
20. Is compliance with issuer’s procurement/public works provisions necessary?
21. If developer builds improvements, what are mechanics for transferring/safeguards for ensuring transfer of ownership to governmental entity?

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

22. **Mechanics for releasing bond proceeds from construction fund:**
 - In stages or after particular improvement completed?
 - Require lien waivers?
 - Hire separate construction consultant to sign off on draws?
23. **Hire administrator to ensure incremental tax revenues are correctly calculated, special taxes properly calculated/billed/collected or to ensure special tax revenues captured, and to provide ongoing continuing disclosure**
24. **Put sunset date in legislation creating districts and authorizing bond issuance?**
25. **For revenue-producing improvements, consider pledging gross or net revenues as well**

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

26. Do TIF or ST Districts bonds count against any statutory debt limit? It depends on how the debt limit is written.
27. For TIF bonds, consider how issuer's homestead tax credit is applied – the percentage cap can impact how quickly incremental tax revenues increase for TIF bonds when development in district is residential
28. Consider requiring a profit-sharing arrangement in which revenue-sharing is implemented after the developer/owner meets a specified revenue target

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

29. Factors that influence method of sale:

- ability to obtain investment grade rating
- size of issue
- status of proposed development, approvals and commitments at time of bond sale
- applicability of continuing disclosure requirements

30. What bond document tests must be met to allow release of moneys to issuer from TIF special fund? (no moneys may be released unless debt service is covered for the fiscal year in question)

TIF/ST POLICIES AND CONSIDERATIONS, CONTINUED

31. Will governing body allow chief executive to approve pricing details? (if not, can impact timing of pricing)
32. Will bonds be offered to sophisticated investors or placed with the developer or a related entity or a bank? (lower issuance costs for developer/bank placement)
33. Consider whether less time-consuming/less expensive to issue general obligation bonds if issuer not subject to debt capacity limitations

NEXT STEPS

- **Prepare financial analysis**
 - Estimate incremental tax revenues
 - Size financing
 - Evaluate constraints for proposed structure
- **Return to Council with proposal and receive consent**
- **Prepare special tax methodology and necessary legislation**
- **Government approvals**

SAMPLE TIF AND SPECIAL TAX PROJECTS

Anne Arundel County – Arundel Mills

- Issued \$30,350,000 in bonds
- TIF backed by special taxes

Prince George's County – Hampton Park

- Issued over \$6.6 billion in bonds
- Pledged real property tax increment revenues, county hotel tax revenues, special hotel occupancy tax revenues, and back-up special tax revenues

Prince George's County – National Harbor

- Issuance of approximately \$200 million in bonds
- TIF backed by special taxes
- Pledged real property and hotel tax revenues

Howard County – Downtown Columbia

- Issued \$48,225,000 in tax exempt bonds
- TIF backed by special taxes



EXPERIENCE WITH TIFs AND ST FINANCING IN MARYLAND

TIFs AND SPECIAL TAXING DISTRICTS

Project

Village South at Waugh Chapel
Arundel Mills
National Business Park
Owings Mills Town Center
Park Place
Port Covington
Tide Point
Harbor Point
Clipper Mill
Charles Village
Strathdale Manor
Belvedere Square
Harborview
Johns Hopkins Technology Park
North Locust Point
Monocacy Boulevard
Laurel Town Center

Issuer

Anne Arundel County
Anne Arundel County
Anne Arundel County
Baltimore County
City of Annapolis
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Baltimore
City of Frederick
City of Laurel

Project

Northeast Collector
Beechtree Estates
Annapolis Junction
Downtown Columbia
Hampton Park
National Harbor
Greenbelt Metro Station
Calvert Tract

Issuer

City of Salisbury
Harford County
Howard County
Howard County
Prince George's County
Prince George's County
Prince George's County
Prince George's County



***Note: District of Columbia frequently uses TIF as a financing tool.**

CONTACTS:

QUESTIONS?

MUNICAP, INC.
— PUBLIC FINANCE —

EMILY METZLER

MUNICAP, INC.

SENIOR VICE PRESIDENT

443.539.4112

EMILY.METZLER@MUNICAP.COM



F&B **FUNK & BOLTON**
ATTORNEYS AT LAW

LINDSEY A. RADER, ESQ.

FUNK & BOLTON, P.A.

ATTORNEY

410.659.7758

LRADER@FBLAW.COM

