

ANALYSIS OF THE FINANCIAL IMPACTS OF THE PROPOSED CORE TO SHORE REINVESTMENT AREA PROJECT PLAN AND SUPPORTING INCREMENT DISTRICTS

I. THE NEED FOR ECONOMIC DEVELOPMENT

Over time, the City of Oklahoma City (“The City”) has undertaken a series of economic development strategies, both for the community as a whole and for the central city in particular. These strategies include the three Metropolitan Area Projects (“MAPS”) initiatives, a program of economic development incentives by the Oklahoma City Economic Development Trust, the approval and implementation of the related urban renewal plans, and the adoption of project plans with supporting tax increment districts as authorized by Oklahoma’s Local Development Act, 62 O.S. § 850, *et seq.* (“Act”).

Taken in combination, these complementary economic development strategies have generated more than \$5 billion of new development and created thousands of jobs. It is the objective of The City to further its economic development successes in other areas that face strong barriers to reinvestment. One such area is the area immediately south of the city’s Central Business District and north of the Oklahoma River.

This area, known as the Core to Shore Reinvestment Area (“Core to Shore”), is blighted and has been subject to The City’s urban renewal efforts. It has recently been subject to the relocation of Interstate 40 and an acquisition initiative for the future construction of a central park funded by sales tax collected through the MAPS program. Future objectives for the area include a new convention center (and accompanying hotel) and infrastructure upgrades to meet the demands imposed by The City’s various development and redevelopment plans. These plans are highlighted by the Core to Shore Plan: A Redevelopment Framework (2008), the Core to Shore Urban Renewal Plan (2011), and the Downtown Development Framework (2015), all of which aim to extend the city’s Central Business District southward to envelop the MAPS central park and the Oklahoma River. By providing public infrastructure and improvements, as well as other forms of support, The City can create the conditions necessary for quality private development of Core to Shore and expand upon its prior economic development successes.

II. HOW TAX INCREMENT FINANCING WORKS

Under the mechanism of tax increment financing, two geographic areas are defined. The first is the project area. This is the area in which project expenditures may be made. The second geographic area is the increment district. This is the area from which the tax increment is generated. The project area and increment district may or may not be co-extensive.

The value of property within an increment district is determined upon the effective date of the increment district. This becomes the base assessed value of property within the increment district. The ad valorem tax revenue generated from this base assessed value of property within the increment district is distributed to a variety of taxing jurisdictions according to prescribed

formulas. Throughout the life of the project, this revenue will continue to flow to the taxing jurisdictions. In the event of a general reassessment of property values within the increment district, the ad valorem tax revenue received by the taxing jurisdictions will be proportionately adjusted. To this extent, the taxing jurisdictions are not affected by the implementation of tax increment financing through ad valorem apportionment.

Once development of the property within the increment district occurs, the market value and (consequently) the assessed value of that property increases. The difference between the ad valorem tax revenue produced by this increased value and that produced by the base assessed value—the incremental increase or increment—is apportioned to an apportionment fund which is used to pay the eligible public costs of the project, either directly or through the issuance of bonds.

The apportionment of ad valorem tax increments continues for a period of up to 25 fiscal years from the date of approval or until all eligible public costs are paid, whichever is less. Once the tax apportionment period expires, the revenue from the increased assessed value of property within the increment district is divided among the taxing jurisdictions, in addition to the revenue from the base assessed value that the taxing entities received throughout the apportionment period.

III. THE PROPOSED PROJECT

The Core to Shore Reinvestment Area's increment districts embrace an area bounded roughly by the southern edge of the city's Central Business District on the north (to include the site of the current Cox Convention Center and 499 West Sheridan), the Producer's Cooperative eastern property line on the east, the Oklahoma River to the south, and Western Avenue to the west.. The Project Plan's listed Project Area is more expansive than this, covering the same area between Western Avenue and Eastern Avenue and between Northwest 13th Street/I-235/Northeast 4th Street and Southeast/west 30th Street that makes up the project area in the Amended and Restated Downtown/MAPS Economic Development Project Plan. The increment districts and the Project Area are both shown in Exhibit A of the Project Plan, which is attached to this Economic Impact Analysis.

The Project Plan seeks to enact a series of six separate ad valorem increment districts, one of which may also be a sales and use tax increment district, to generate multiple active, high-density and high-quality mixed-use urban districts as envisioned by the Core to Shore Plan: Redevelopment Framework adopted by the Oklahoma City Council in 2008. The Project Plan will do so by leveraging private development through development or redevelopment agreements with developers, development financing assistance, assistance with the implementation of MAPS 3 public improvements and projects in the area, and construction of public facilities. Further, the Project Plan aims to provide specific budgeted funding for activities of public educational and service providers in the area to enhance their programs, missions, and services, and will distribute of a portion of increments to those providers as an enhanced revenue stream authorized by Article X, § 6C(B) of the Oklahoma Constitution and Section 853(9) of the Act.

Implementation of the Project Plan is anticipated to result in an increase in investment and development in the area in the range of \$2.25–4.8 billion. Within that range, between \$1.7–

3.6 billion is anticipated to be directly stimulated private investment and development, while between \$550 million–\$1.2 billion is projected to be indirectly stimulated private development. Additionally, between \$800 million–\$1.7 billion is projected in aggregate public and private non-profit development.

The following economic impact analysis is based on the impacts of \$3 billion in directly stimulated private taxable investment. Projects such as those contemplated by the Project Plan have both direct and induced economic benefits. They have design and construction impacts, which are generally one-time impacts, and continued annual impacts after completion. The increment revenues collected from that private investment will fall into one of two categories: (1) directly generated increment from projects receiving financial support from the Project Plan's leverage fund, and (2) indirectly generated (spin-off) increment that does not receive such support. Under the Project Plan's budget, 100% of the directly generated increment is apportioned into the apportionment fund to pay for eligible project costs, but only 25% of the indirectly generated (spin-off) increment is so apportioned. The remaining 75% of the indirectly generated (spin-off) increment will be distributed to affected ad valorem taxing jurisdictions in proportion to the net benefit each jurisdiction would have received in the absence of the increment district (i.e., the proportion of their levied taxes, not including their sinking fund levies, to the entire ad valorem millage rate levied in the area).

IV. IMPACTS AND EFFECTS ON TAXING JURISDICTIONS

a. Impacts within the Increment Districts

Direct increments are increments generated by providing property and/or project funds to directly generate development resulting in tax increments. All other increments are indirect increments. A substantial portion of the indirect increments will be apportioned to public entities in the area in order to achieve project objectives. It is important to note that tax increments have lost their character as ad valorem revenues and instead constitute funds available to implement the project as expressed in the Project Plan.

A 75% apportionment of the indirectly generated (spin-off) increment to the taxing jurisdictions will be provided in proportion to the net benefit which the jurisdictions would ordinarily receive from increased assessed values. This means that sinking fund levies will be disregarded (since they are calculated at a level sufficient to amortize the indebtedness and are not available for other purposes).

The 75% apportionment of the indirectly generated (spin-off) increments from the proposed Core to Shore increment districts acts as a specific revenue source for these public entities (as authorized by the Oklahoma Constitution and the Act) and, since it is a part of the increment, must be disregarded in the calculation of state school aid. The Act specifically provides that, for purposes of calculating state school aid, only the base assessed value shall be used and increases above the base assessed value must be disregarded.

The growth rate in the area has been flat for years. Only 2 new construction building permits were issued in the area over the last 5 years. This is a marked distinction from the still-

meager 6 permits issued between 2005–10 and the 15 permits issued from 2000–15. Conversely, demolition permits have increased tenfold during that same period. In the meanwhile, the total number of new construction permits issued by The City through its entire municipal limits has grown significantly, and that growth has outpaced the slight growth in demolition permits issued by The City, since 2000. However, even if there were pre-existing growth, depending on the existing growth rate in the area, it is clear that even a modest stimulation of development would benefit the involved taxing jurisdictions. The millage levies in place in 2015, not including sinking funds, are as follows:

Oklahoma County	10.35 mills
Oklahoma City-County Health Department (“OCCHD”)	2.59 mills
Metropolitan Library System (“Metro Library”)	5.20 mills
Vo-Tech District No. 22 (“Metro Tech”)	15.45 mills
Independent School District No. 89 (“I-89”)	<u>45.24 mills*</u>
TOTAL	78.83 mills

*The county-wide school levy is treated by the Project Plan as a levy of I-89.

To illustrate the positive net impacts of stimulated indirect (spin-off) growth, one can examine the situation of I-89. Without an increment district and without taking into account offsets in the state school aid formula, I-89 receives \$0.56 out of every ad valorem tax dollar collected within its jurisdiction.¹ However, sinking fund levies are not available for operating purposes (and levies are always calculated to be sufficient to amortize debt), so I-89 only gets \$0.40 out of every tax dollar for operating purposes.² With the proposed Project Plan and increment districts, I-89 will continue to receive \$0.40 out of every tax dollar for operating purposes from values up to the base assessed value, but will receive an apportioned revenue stream at an increased amount above that base assessed value—\$0.43 of every indirectly generated tax dollar.³ (It is important to note that each tax increment dollar apportioned to I-89, specifically, is worth more than 10 times the value of a non-increment dollar due when accounting for state school aid offsets.) Therefore, pursuant to the Project Plan, every indirectly

¹ 64.85 = total I-89 mill levy, including sinking fund and allocated countywide 4-mill
114.5 = total mill levy

64.85/114.5 = 55.7% = I-89’s overall percentage share of tax dollars for all purposes.

² 45.24 = I-89 operating levies (does not include sinking fund but includes allocated countywide 4-mill)
114.5 = total mill levy

45.24/114.5 = 39.51% = I-89’s percentage share of tax dollars for operating purposes.

³ The Project Plan provides that 75% of indirectly generated tax dollars will be distributed to taxing jurisdictions based on their proportionate share of total *operating* levies—not total mill levy—so it excludes sinking fund levies, making I-89’s proportionate share (and that of every other taxing jurisdiction) higher than it would have been in the absence of the proposed Project Plan:

45.24 = I-89 operating levy

78.83 = total operating levies

45.24/78.83 = 57.39% = I-89’s proportionate share of total operating levies

75% of that 57.39% = 43.04% = I-89’s indirectly generated tax percentage.

generated tax dollar will benefit I-89 more than if there were no increment districts in place. The financial benefits escalate accordingly as indirectly stimulated growth exceeds the preexisting growth rate at greater levels.

Similar results are seen when examining impacts to other taxing jurisdictions. Based on current levies, the net impact of stimulated indirect (spin-off) growth on new revenues apportioned to taxing jurisdictions from the Project Plan is demonstrated by the following table (i.e., the increase in revenues to taxing jurisdictions from indirect [spin-off] increment distributions compared to revenues the taxing jurisdictions would have received with pre-existing growth rates and no increment district [and hence no stimulated growth beyond the pre-existing rate]):

CORE TO SHORE INCREMENT DISTRICTS
TABLE OF EFFECT OF INDIRECT (SPINOFF)
INCREMENT DISTRIBUTION FORMULA (100% = COMPLETE OFFSET)

<i>Pre-Existing Growth Rate (without the project)</i>	<i>Stimulated Growth Rate (with the project)</i>	<i>Net Impact (comparative value)</i>
5%	1%	131%
4%	1%	136%
3%	1%	145%
2%	1%	163%
1%	1%	218%
5%	5%	218%
4%	5%	245%
3%	5%	290%
2%	5%	381%
1%	5%	654%
5%	10%	327%
4%	10%	381%
3%	10%	472%
2%	10%	654%
1%	10%	1,198%
5%	15%	436%
4%	15%	517%
3%	15%	654%
2%	15%	926%
1%	15%	1,743%

Under this arrangement, an apportioned tax increment dollar is more valuable than a non-increment district tax dollar. The involved public entities experience a greater benefit from the apportioned tax increments and the 75% of the indirectly generated (spin-off) increment apportioned as a specific revenue source, which may make feasible educational enhancement and the capital financing of school, parking, and other public facilities, which would not otherwise be possible.

b. Induced Impacts Outside the Increment Districts

The induced growth in values outside of increment districts and increased capture rates of new building permits demonstrate greater financial benefits to the taxing jurisdictions, illustrated by the following table for I-89:

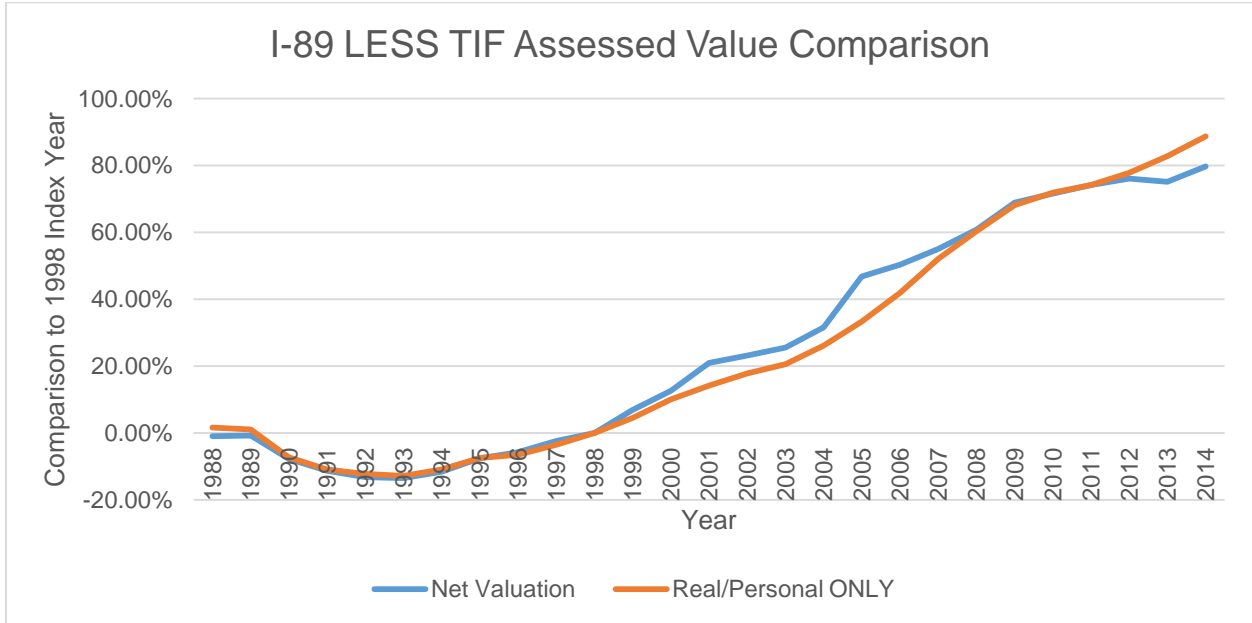
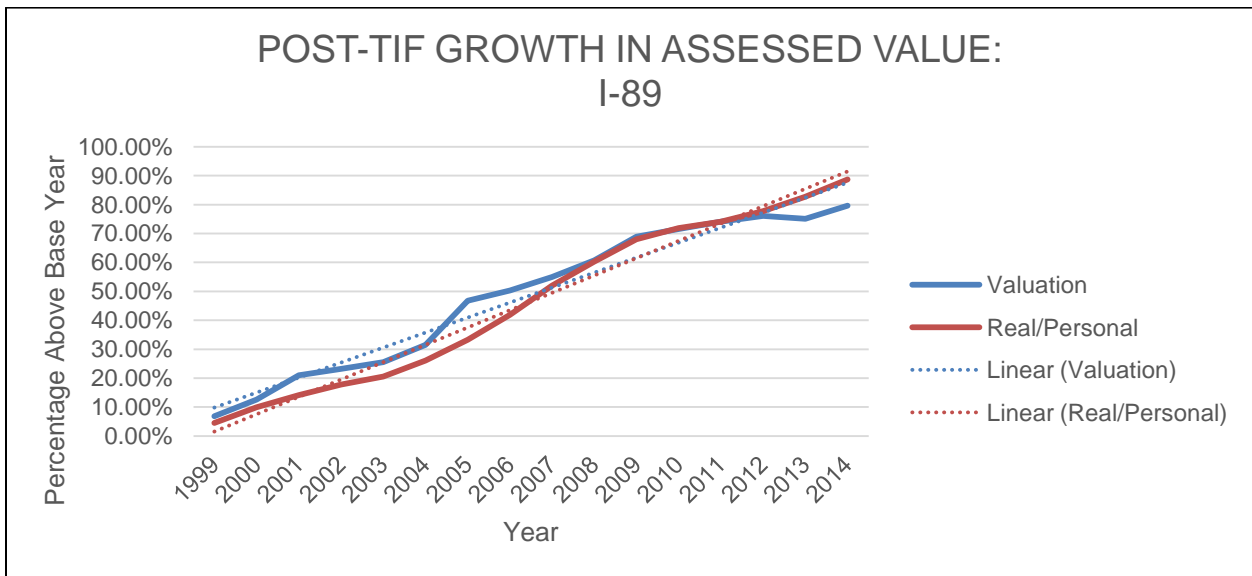
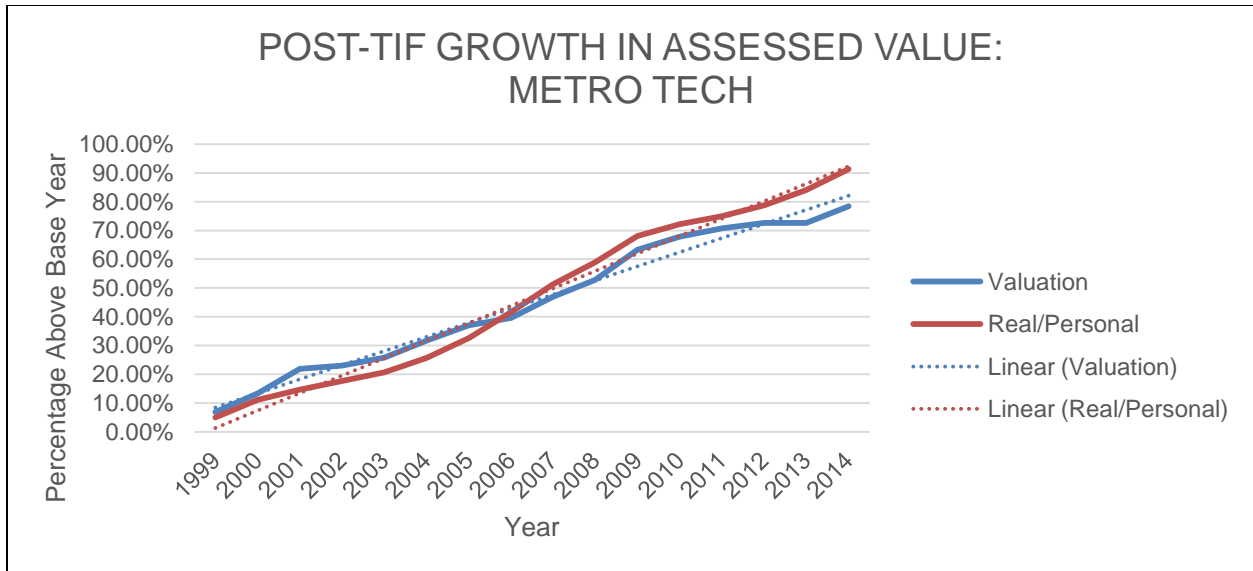


Illustration of Assessed Value Growth in I-89 since 1988.

The following charts demonstrate the growth in assessed values over the last 15 years for I-89 and Metro Tech:





The increases in assessed values in I-89 and Metro Tech are approximately 2.59 times the growth within all of The City’s increment districts. Thus, the beneficial impacts were even greater outside of the increment districts than within. Net new indirect revenues to I-89 now amount to more than \$21 million annually, while net new indirect revenues to Metro Tech now amount to more than \$10 million annually.

c. Specific Effects of \$3.0 Billion Growth

i. I-89

The type of development and redevelopment that is a primary goal of this Project Plan is likely to generate, over time, an increased demand upon services for I-89. Typically, residential redevelopment in a city core appeals to singles and empty-nesters, rather than to families with school-age children. In some cities, the families eventually follow—and Oklahoma City is seeing some of that—but even in these cities, city-core residential development continues to be predominated by residents without school-age children.

If the anticipated residential redevelopment does eventually increase the demand for services upon I-89, the newly-constructed John Rex Elementary School, the specific revenue streams, and additional school development funded in similar fashion will help offset the financial impact of such increase in demand, if any. Stimulation of residential redevelopment of the downtown area is critically linked to the conditions and perception of the inner-city schools that would serve such residential development.

I-89 will experience little or no negative impact as result of the Project Plan because nearly all of the new development within the increment districts will occur only because it is stimulated by public assistance and investment in the area (for example, because of the construction and development of new adjacent public or private facilities). Any potential impacts of the projected nonresidential developments may be more than offset by the public development

assistance funds authorized for allocation to public school development in the area. Additionally, I-89 will have at its disposal its share of the indirect increment distribution.

ii. Oklahoma County

No specific measurable demand for increased services upon Oklahoma County is anticipated to result from this Project.

iii. OCCHD

OCCHD is currently negatively impacted by unemployment and underemployment. New employment can create only positive impacts upon this taxing jurisdiction. Market-rate residential development should have little or no impact upon the services provided.

iv. Metro Library

The Ronald J. Norick Downtown Library facility serves not only downtown, but the entire metropolitan area. The residential redevelopment stimulated by the Project will likely contribute to the most immediate, day-to-day clientele for the Downtown Library, as it is the closest branch.

v. Metro Tech

The nature of the project makes it likely to create some increased demand for training with Metro Tech. Any increased demand for job training occasioned by the Project is likely to be complementary in its impact upon Metro Tech.

d. Summary of Financial Impacts upon the Affected Taxing Jurisdictions

The benefits of the proposed development under this Project Plan will be significant for the taxing jurisdictions located in the Project Area and increment districts, and for the community as a whole. The actual increase in demand for services upon those taxing jurisdictions that the proposed developments represent (if any) is limited, and to the greatest extent possible offset by the public development assistance component of the Project Plan.

The increment districts currently contain a significant number of vacant parcels and an additional (also significant) number of buildings in highly deteriorated condition that could easily become vacant and, at best, generate very little ad valorem tax revenue in their present condition. Portions of the increment districts are currently held in public ownership, contributing nothing to the ad valorem tax revenue of the area.

The current assessed value within the increment districts at the time of Project Plan approval will continue as the basis for allocating the tax revenue to the taxing jurisdictions during the life of the proposed Project. Since funding rates for bonded indebtedness are calculated using the base assessed value within the increment district, repayment of bonded indebtedness is not affected.

Redevelopment of the area was unlikely to occur without public assistance, as the history of the area shows. Concentrated and continuous stimulation of the redevelopment of the area, as contemplated by the Project Plan, will result in a greatly enhanced ad valorem tax base, from which all of the affected taxing jurisdictions will benefit. In addition, the benefits of new employment in the community and the annual tax revenue that it generates will result in additional benefits to the involved taxing jurisdictions.

V. ECONOMIC IMPACTS ON BUSINESS ACTIVITIES

The following analysis is based on an assumed leverage factor of 8, resulting in a projected private investment of \$3 billion, which falls within the range of the estimated new development. Additional construction and development economic impacts directly stimulated by the private development leverage fund from the increment districts are estimated to be as follows:

	<u>Projected Development</u>	<u>Temporary Jobs Supported</u> ⁴	<u>Temporary Payroll Supported</u> ⁵
<i>Residential</i>	\$600,000,000	9,000	\$315,000,000
<i>Hotel/Commercial</i>	\$1,800,000,000	27,000	\$945,000,000
TOTALS	\$2,400,000,000	36,000	\$1,260,000,000

Indirectly stimulated new development is estimated at \$600 million, which will proportionately increase the beneficial impacts and increase the leverage factor.

The continued annual impact of the proposed developments on the community is of greater significance. The City's strategies for economic development (including the use of tax increment financing) has yielded a reported growth of new jobs supported (full-time equivalent employment or FTEs) of 49,579 new jobs over the nine fiscal years from 2006 through 2015, which is an average of 5,509 jobs per year. See Table below:

FISCAL YEAR	Primary Jobs	Average Salary	Annual Payroll	Capital Investment
TOTALS				
FY 06-07	4,743	\$ 42,879.16	\$ 203,375,859.00	\$ 240,793,242.00
FY 07-08	9,792	\$ 42,358.75	\$ 414,776,902.00	\$ 149,665,000.00
FY 08-09	2,258	\$ 37,880.44	\$ 85,534,028.00	\$ 118,952,000.00
FY 09-10	4,336	\$ 40,238.30	\$ 174,473,248.00	\$ 169,596,700.00
FY 10-11	5,780	\$ 73,523.14	\$ 424,963,760.00	\$ 511,073,000.00
FY 11-12	4,139	\$ 56,549.16	\$ 234,056,954.00	\$ 447,727,530.00
FY 12-13	4,045	\$ 41,826.84	\$ 169,189,574.00	\$ 344,894,800.00
FY 13-14	7,170	\$ 45,355.97	\$ 325,202,322.00	\$ 431,185,000.00
FY 14-15	7,316	\$ 60,402.53	\$ 441,904,893.00	\$ 1,096,586,000.00
Total	49,579	\$ 49,889.62	\$ 2,473,477,540.00	\$ 3,510,473,272.00

⁴ 1,000 FTEs / \$100 million; 1.5 Impact Multiplier.

⁵ Average wage of supported job – \$35,000.

Isolating the specific impacts of the proposed increment districts is not possible, but through correlation of demands for residential and commercial space within the area, a meaningful calculation of effects on business activities is possible. Residential and commercial developments reflect corresponding growth in economic demands for a spectrum of business activities in the retail, commercial, technical, and office categories.

I-89 captured 0% growth in ad valorem valuation in the decade or so preceding the year 2000. Over the following 15 year period, I-89 has been capturing 12% of Oklahoma City's residential growth, of which 40% has been new residential development downtown and in the urban core. For purposes of this analysis, 50% of the demand for residential units in the urban core, including the Core to Shore area, is assumed to be the result of primary new jobs created or supported. Accordingly, the following estimates of continuing economic impacts within the Project Area is assumed to be 50% of 12% of the annual new jobs created or supported. Thus, the continuing and cumulative economic impacts of the developments stimulated by the private development leverage fund are estimated to be as follows:

	<u>Projected Development</u>	<u>New Population</u> ⁶	<u>Annual Household Income</u> ⁷	<u>Annual Ad Valorem Revenue</u>
<i>Residential</i>	\$600,000,000	10,500	\$525,000,000	\$6,600,000

	<u>Projected Development</u>	<u>Permanent Jobs Supported</u> ⁸	<u>Permanent Payroll Supported</u> ⁹	<u>Annual Ad Valorem Revenue</u>
<i>Commercial</i>	\$1,800,000,000	22,311	\$1,115,550,000	\$19,800,000
• <i>Induced</i>	n/a	44,622	\$2,231,100,000	n/a
TOTAL JOBS & PAYROLL =		66,933	\$3,346,650,000	

VI. CONCLUSION

Clearly, the projected developments will have a very positive long-term benefit for the community and for the State of Oklahoma. Correspondingly, adverse impacts to result from the Project for the taxing jurisdictions within the Project Area are limited. The anticipated impact of this development on the provision of governmental services is balanced by the public development assistance component of the Project Plan, which permits affected taxing jurisdictions to bring forward development proposals to offset any such impact. Thus, the burden of providing governmental services will be minimized.

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⁶ Occupancy – 1.75 persons / unit.

⁷ Average salary – \$50,000.

⁸ 6% of Oklahoma City job growth – 22.5 years; 2.0 Impact Multiplier for induced jobs.

⁹ Average salary of job supported – \$50,000.

ATTACHMENT: PROJECT PLAN'S EXHIBIT A

PROJECT AREA AND INCREMENT DISTRICT MAP

