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Overview of Certain Economic Development Incentives and Processes

Presented by:
GILMORE & BELL, P.C.

211 North Broadway, Suite 2350
St. Louis, Missouri 63102
Phone: 314-436-1000

Mark D. Grimm
mgrimm@gillmorebell.com

Economic Development Toolbox

➤ **Tools Commonly Used for Downtown Redevelopment**

- Tax Increment Financing
- MODESA
- MODESA “Light”
- Chapter 353 Urban Redevelopment Corporations

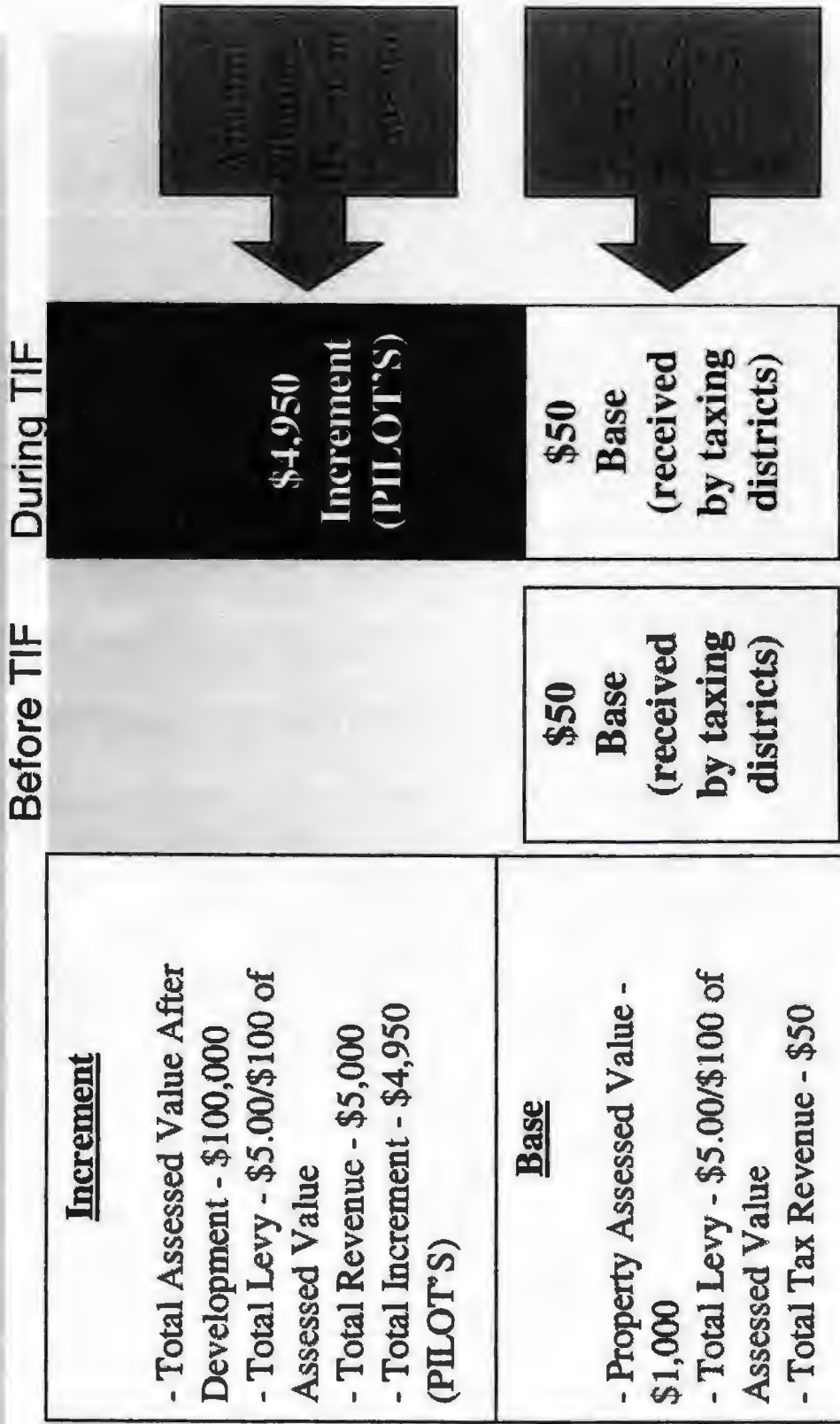
➤ **Other Available Tools**

- Sales Tax Rebate Agreements
- Transportation Development Districts
- Community Improvement Districts
- Neighborhood Improvement Districts
- Chapter 100 Property Tax Abatement

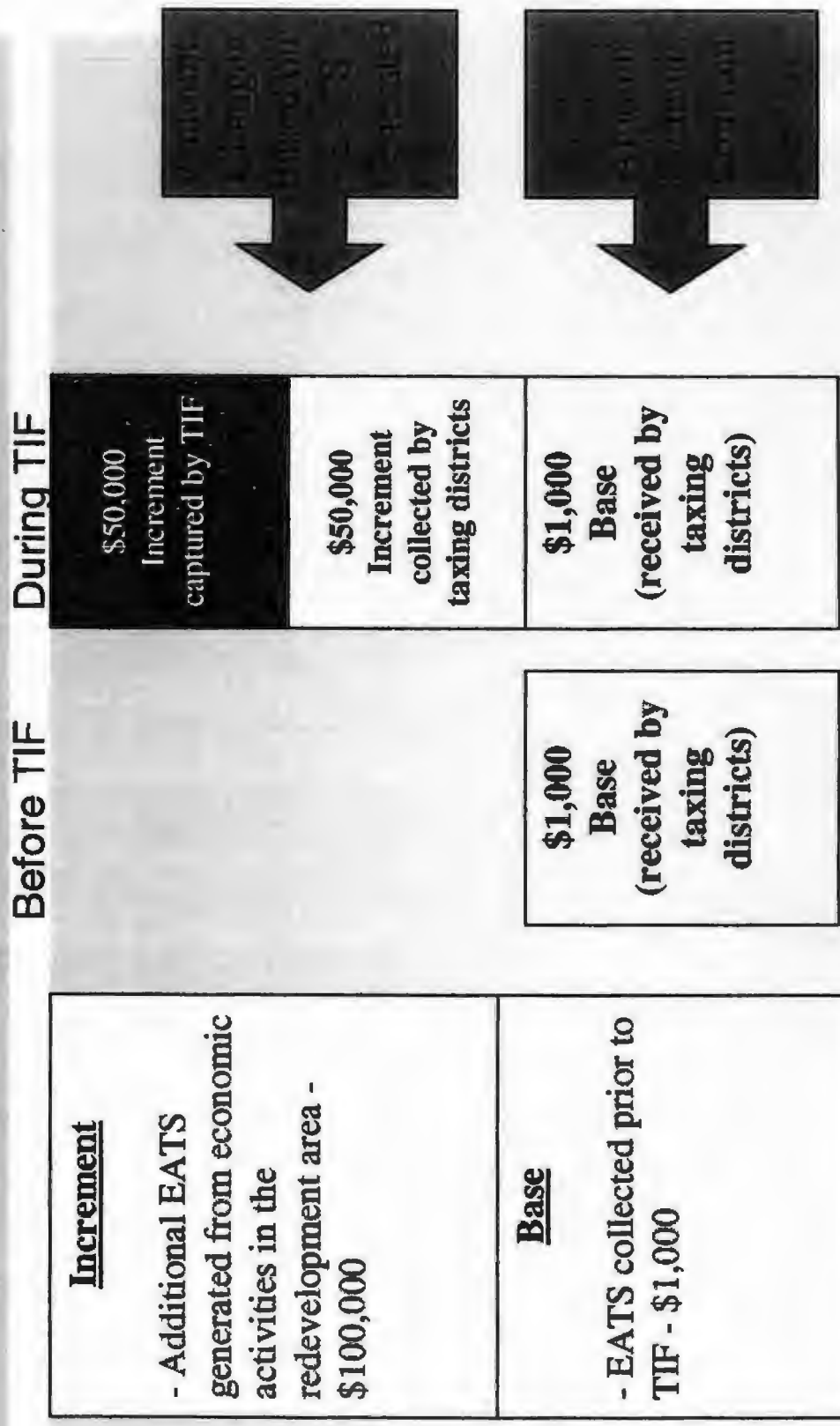
Tax Increment Financing (TIF)

- The Basics
 - The “base” and the “increment”
 - 100% of incremental PILOTS
 - 50% of incremental EATS
 - Blight or conservation area finding
- “But-for” affidavit of developer

The Base and the Increment (PILOTS)



The Base and the Increment (EATS)

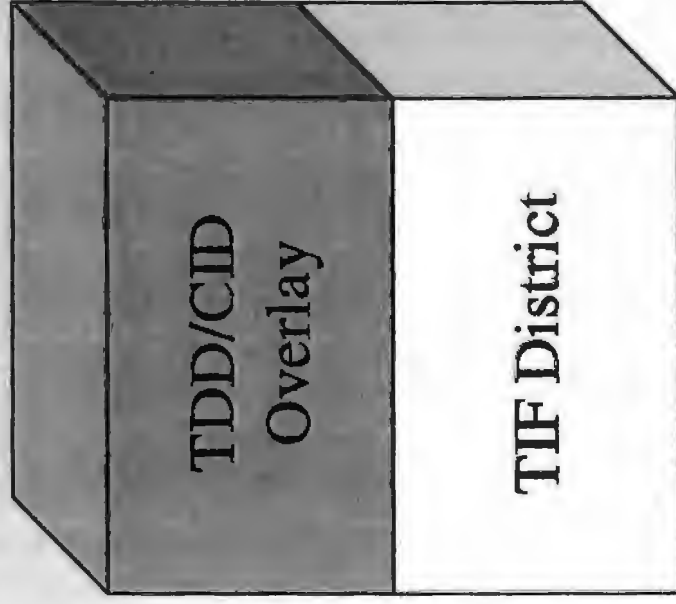


Creating a TIF District

- Form a TIF Commission
- Prepare a Redevelopment Plan and Cost-Benefit Analysis
- TIF Commission holds a public hearing (give notice)
- TIF Commission makes findings required by TIF Act and gives its recommendation to the City Council
- City Council considers ordinance approving TIF
- City and Developer negotiate a Redevelopment Agreement



TIF/TDD or CID Combination



Advantages

- Additional Revenues Captured
- Revenues Captured are not from Existing Taxing Districts
- Captured Portion Not Limited to Transportation or CID Purposes

MODESA: The Basics

- Intended to finance public infrastructure improvements for “major initiative” development projects in Missouri’s downtowns
- Portion of the new local and state taxes from the project are diverted to pay project costs
- Requires approval by the State (DED/MDFB)
- Similar to local and state tax increment financing with several key differences

Implementing MODESA

- Local Process
 - City creates Downtown Economic Stimulus Authority (DESA)
 - Prepare a Development Plan and Cost-Benefit Analysis
 - DESA holds a public hearing (give notice)
 - DESA makes findings and gives recommendation to City Council
 - City Council passes ordinance approving MODESA financing contingent upon state approval
- State Process
 - City files application
 - DED and MDFB review application and supporting materials
 - Key to DED/MDFB approval: net state economic impact

Available State Funding

- Up to 50% of new state sales tax (up to 1.5%*) created by the project
- Up to 50% of the new state income tax created by the project
- Combination of each

MODESA ‘Light’

- Also known as the “Downtown Revitalization Preservation Program”
- Designed to be easier application process than MODESA
- Similar in some ways to MODESA:
 - Area must be “blighted area” or “conservation area”
 - Area located in the “Central Business District”
 - Public improvements related to “Major Initiatives”

MODESA ‘Light’

- Municipality must commit 50% of incremental general sales tax
- County may opt out
- 1.5% state sales tax may be captured (no income tax option)
- Other taxing district taxes are not captured
- Must have plan, public hearing and submit application to DED

What we all want: State Funding

State TIF	MODESA	MODESA "Light"
Limited to blighted areas located in a federal empowerment zone, state enterprise zone, urban core or central business district. CBD is not defined.	Limited to blighted or conservation areas in a central business district. CBD is defined as the area at or near the historic core locally known as the "downtown."	Limited to blighted or conservation areas in a central business district. CBD is defined as the area at or near the historic core locally known as the "downtown"
Area must contain one or more buildings at least 50 years old	At least 50% of the area's buildings must be 35 years of age or older.	At least 50% of the area's buildings must be 35 years of age or older.
Area must be suffering from a declining population or property valuation over a 20-year period.	Declining population and property valuation is a consideration.	Declining population and property valuation is a consideration.
No limitation on median annual income for city.	Median annual income for city must be at or below \$62,000.	Median annual income for city must be at or below \$62,000
State TIF requires that a project be named in the state appropriation for the program.	No such requirement – simply a general appropriation out of the fund.	No such requirement – simply a general appropriation out of the fund.

State TIF	MODESA	MODESA 'Light
Total amount limited to \$32 million annually.	Total amount limited to \$108 million annually.	Total amount limited to \$15 million annually.
To receive State TIF, the project must use 100% of local PILOTS and 50% of local EATS.	To receive state financing, the project must use 100% of local PILOTS and 50% of local EATS, although contributions to the project from private not-for-profits can be substituted on a dollar for dollar basis and other local financing can be substituted on a dollar for dollar basis.	To receive state financing, the project must use 50% of local sales tax increment.
State TIF requires the applicant to choose the state increment sought – either up to 50% of the state general revenue sales tax increment OR up to 50% of the state income tax increment.	Allows for greater flexibility - up to 50% of the state general revenue sales tax increment OR up to 50% of the state income tax increment OR a combination of both.	Up to 50% of the state general revenue sales tax increment
Limited to 15 years absent approval by DED and the Office of Administration for a greater time period, not to exceed 23 years.	Limited to 15 years absent approval by DED and MDFB for a greater time period, not to exceed 25 years.	Not to exceed 25 years.

Chapter 353 (URC)

- First redevelopment statute – enacted in 1945
- Authorizes property tax abatement in a “blighted area”
 - 100% abatement for 10 years over value of land exclusive of improvements
 - 100% abatement for additional 15 years on total improved value
 - No personal property abatement
 - Can also have “payments in lieu of taxes”
- Requires redevelopment plan and “blight” finding

Chapter 353 (continued)

➤ Process:

- Pass ordinance establishing procedures for public hearing
- Negotiate terms of tax abatement
- Distribute notice of hearing and impact analysis to taxing districts
- Hold public hearing
- Pass ordinance finding existence of “blight” and approving the redevelopment plan
- Pass ordinance approving the redevelopment agreement

➤ Cities that have used 353 corporations recently:

- St. Louis
- Kansas City
- Cape Girardeau
- Lee’s Summit
- Independence
- Springfield
- St. Charles

TIF vs. MODESA vs. 353

	TIF	MODESA	353
<i>Revenue Sources</i>	•Incremental PILOTS •Incremental EATS	•Incremental PILOTS •Incremental EATS •New State Revenues (Income/Sales Taxes)	•Savings from abated property taxes
<i>Maximum Term</i>	•23 Years	•25 Years	•25 years
<i>Area Restrictions</i>	•Blighted/Conservation Area	•Blighted/Conservation Area •Central Business District •Qualified Area by Income (less than \$62,000)	•Blighted Area
<i>Eligible Projects</i>	•Any Redevelopment Project	•“Major Initiatives”	•Any Redevelopment Project
<i>Eligible Costs</i>	•Reasonable or necessary costs related to the Redevelopment Project	•Local Revenues – reasonable costs in furtherance of the Development Plan •State Revenues – costs related to public improvements	•N/A

Public Finance Basics

- Tax Redirection (TIF example) • Tax Abatement
 - Developer fronts all redevelopment costs
 - Certain taxes are captured by the TIF
 - City issues Developer TIF Notes to reimburse certain costs, payable solely from TIF Revenues (per Redevelopment Agreement)
 - The Developer is only reimbursed to the extent of TIF Revenues
 - The City will not be liable if TIF Revenues come up short
- Taxes on property are abated
- Developer uses tax savings to fund the development
- Redevelopment Agreement links tax abatement to Developer responsibilities (cure blight, create jobs, etc)

Quick Reference Guide for Major Programs		PROGRAM									
		BUILD	Chpt 353	CID	IDBs (Chpt 99/100)	LCRA	MoDESA	NID	PIEA	TOD	TIF
COMMON USE	Retail Projects		✓	✓			✓			✓	✓
	Industrial/Office Projects	✓	✓	✓	✓	✓	✓		✓	✓	✓
	Residential Projects		✓	✓			✓	✓		✓	✓
	Redevelopment Projects (Bright)	✓	✓	✓		✓	✓		✓		✓
	Public Services			✓						✓	✓
BENEFIT	Infrastructure Financing	✓		✓	✓	✓	✓	✓		✓	✓
	Tax Exempt Bond Financing			✓	✓	✓	✓	✓	✓	✓	✓
	Eminent Domain		✓			✓			✓	✓	✓
	Job Creation	✓			✓						
	Tax Credits	✓									
	Tax Abatement		✓		✓	✓					
REVENUE SOURCE	Sales Tax (New)			✓						✓	
	Sales Tax (Increment)										✓
	Property Tax (New)			✓						✓	
	Property Tax (Increment)		✓								✓
	State Tax (Increment)						✓				✓
	Assessments			✓				✓		✓	
AUTHORIZATION	Judicial Act										
	MDFB	✓									
	DED	✓									
	Redevelopment or Non-Profit Corp.		✓								
	Municipal Board/Commission		✓	✓							
COMPLIMENTARY USE	BUILD										
	Chpt 353			✓							
	CID		✓				✓				
	IDBs (Chpt 99/100)										
	LCRA										
	MoDESA			✓							
	NID		✓				✓				
	PIEA										
	TDD		✓	✓			✓				
	TIF			✓							



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-Questions?