

CITY COUNCIL CONFERENCE MINUTES

October 10, 2017

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:00 p.m. in the Municipal Building Conference Room on the 10th day of October, 2017, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

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| PRESENT: | Councilmembers Allison, Bierman, Castleberry, Clark, Karjala, Wilson, Mayor Miller |
| ABSENT: | Councilmember Hickman |
| TARDY: | Councilmember Holman (5:11 p.m.) |

Item 1, being:

PRESENTATION AND RECOMMENDATIONS FROM THE CENTER FOR ECONOMIC DEVELOPMENT LAW REGARDING THE PROPOSED ENTERTAINMENT DISTRICT LOCATED IN THE UNIVERSITY NORTH PARK DEVELOPMENT.

Mayor Miller said on September 19, 2017, Council reviewed the CallisonRTKL (RTKL) University North Park Master Development Plan (UNPMDP), which was authorized by Council in December 2015, and was a joint effort between the University of Oklahoma (OU) Foundation and the City of Norman. The proposed master plan by RTKL recommended an entertainment venue along with a great deal of diversified housing, office space, and light industrial spaces. She introduced Mr. Dan Batchelor, Center for Economic Development Law (CEDL), who will be presenting financial information regarding the existing University North Park Tax Increment Finance District (UNPTIF) located in the south half of the UNP as well as possible financial impacts of developing the north half.

Mr. Batchelor said CEDL helped the City create the UNPTIF District in 2006 and worked with the City on other tax increment districts. He said Norman is a very fortunate community that has a wide range of choices about the quality of its future and there are vast numbers of communities in Oklahoma that do not have that range of choices even though those choices may not be easy. He said Council's choices regarding the UNP will have some bearing on what happens in core Norman and will have a significant relationship to the proposed Center City Project that is under consideration. Tonight he hopes to provide Council some partial insight into the financial parameters and choices of the RTKL Master Plan for UNP and it is important to remember that the financial tools used in connection with implementing community strategies and, particularly economic development strategies, are neither good or bad in and of themselves, it is a question of how those tools are used. He said tax increment financing is simply a tool and how that tool is used is what counts.

Mr. Batchelor said CEDL has been taking a close look at the financial aspects of the development program in the UNP and the added potential of development if Council chooses to implement the broader plan presented by RTKL. He said RTKL's plan is to create a 21st Century lifestyle residential community in the north half for the creation of a mixed-use entertainment district that is proposed to attract, nourish, and support high-tech, high quality businesses. In preparing the finance analysis, CEDL kept in mind that these choices are not simple and have consequences that reflect Norman's values.

Mr. Batchelor said the RTKL Master Plan for the north half of the UNP recommends the creation of a regional attraction with an entertainment district and performance arena. It will also encourage economic development through the creation of quality non-retail employment generated by high-tech businesses. He said CEDL will be recommending some interim front-end financing provisions to assist in the challenging implementation of the Center City Project because the infrastructure costs for that project is quite expensive and will need financing from other sources in addition to the ad valorem tax increment assessment to be generated to make that work.

Mayor Miller reminded everyone that a Committee consisting of representatives from each taxing jurisdiction as well as three members of the public met for the first time yesterday afternoon to begin discussion on the creation of a Center City TIF.

Mr. Batchelor said a key factor of the UNP Master Plan proposal will include provisions for a long term financial partnership with Norman Public Schools and other affected taxing jurisdictions that would be involved. He said economic development does not work without quality education and if the City does not nourish a partnership with the school system then economic efforts will be severely hampered.

CEDL began their financial calculations at ground zero and looked at what kind of ad valorem revenues would have been and could be generated in the future with and without a project plan nourished by a TIF in the south and north areas. At the time of the adoption of the UNPTIF in 2006, it was CEDL's opinion that a significant amount of retail development could occur in the area without a project plan and without a TIF; however, CEDL did tell Council that if they adopted the project plan they could significantly increase the amount of retail in the area as well as the rate of its development.

Mr. Batchelor highlighted projections of what could be happen with and without TIF No. 2 and TIF No. 4 (TIF No. 3 tentatively being the Center City TIF) for the north half of the UNP.

Councilmember Castleberry asked if the TIF formula ratio will be 50/50 or 100% and Mr. Batchelor said CEDL will recommend a different formula for the allocation of ad valorem revenue. He said in speaking with Norman Public Schools (NPS), CEDL discovered the school's financial situation becomes more difficult as the legislature decreases State appropriations. One of the ways the City is already helping NPS is through the distribution of a portion of the tax increment revenues from the UNP. He said this is particularly significant because if the money distributed to NPS were only ad valorem dollars without TIF funds, it would be chargeable revenue to the school, which means it would reduce the amount of the school's State aid. When ad valorem revenues increase, the effective financial benefit for every six dollars of operating revenue is a loss of five dollars in State school aid. He said NPS is currently receiving over \$600,000 per year from the UNPTIF, which is about three times the amount they would receive if there was not a TIF. One of the objectives of pursuing another TIF would be to continue to nourish NPS and increase that nourishment for as long as possible. Another recommendation will be to adjust the distribution formula of the ad valorem tax increments to all the taxing jurisdictions so there will be a steadily increasing distribution through the year 2031 resulting in a reliable long term revenue stream that can be depended upon for operating costs or capital financing.

Mr. Batchelor highlighted existing and future estimated project costs as follows:

Authorization in 2008 Amended Project Plan

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| • Traffic, Roads, Legacy Park, Engineering | \$29,475,000 |
| • Cultural Facilities | \$ 8,750,000 |
| • Lifestyle Center | \$ 8,250,000 |
| • Economic Development | <u>\$ 8,250,000</u> |
| | \$54,725,000 |

New Authorized in 2017 Proposed Amended Project Plan

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| • Phase II Infrastructure | \$ 5,500,000 |
| • Assistance in Development Financing | \$ 8,250,000 |
| • Regional Attraction – Arena and Contingency | \$71,500,000 |
| • Economic Development | <u>\$ 5,500,000</u> |
| | \$90,750,000 |

Councilmember Allison asked if Expo Center funding is included in these estimates for a regional attraction or will the City be using money currently proposed for a Cultural Facility and Mr. Batchelor said Council will have flexibility and CEDL welcomes their feedback in finalizing a draft for Council’s consideration. Mr. Batchelor said these are generalized estimates at this point because this is a strategic plan not a budgetary allocation and CEDL is trying to find a reasonable authorization for what could be needed. Any implementation of the plan would require Council approval.

Mayor Miller asked what was included in the section labeled “Assistance in Development Financing” and Mr. Batchelor this is a category authorized by the Oklahoma Constitution and Local Development Act that allows a variety of assistance options for projects that are difficult to finance, which is basically another financing development tool. In terms of the community’s economic development efforts, CEDL believes that category should be a part of the City’s arsenal. Councilmember Bierman asked how the Assistance in Development Financing would be used under the scenario of this project plan and Mr. Batchelor said it could be a loan or grant to help a high-tech company with start-up costs who would not be able to afford to locate in the area but has the potential to bring a hundred or more premium jobs to Norman. Councilmember Castleberry said this is an available tool, but the City would not be required to use that tool.

Mr. Batchelor highlighted key financing objectives to include an immediate revenue increase to the General Fund by increasing the allocation in the present TIF from 40% to 50% and carrying that through to the plan with a new TIF; strengthening the regional draw objective of the 2006 Plan specifically by the creation of the mixed-use entertainment district; providing interim financing for Center City to help with initial infrastructure costs; strengthening economic development strategies to attract high quality, high-tech 21st Century non-retail businesses and employers; and stabilizing ad valorem revenue to NPS and other taxing jurisdictions.

Mayor Miller asked if it is legal to move TIF funds from one TIF to another and Mr. Batchelor said yes, if the City authorizes that in the project plan, the City would have a legal tool to loan money to the CCTIF on terms approved by Council. He said it would basically be a loan that would have to be paid back.

Mr. Batchelor highlighted projected sales tax net revenue to the City with and without UNPTIF No. 2 as well as projected net sales tax revenue with and without UNPTIF No. 4. He said with UNPTIF No. 2 an estimated \$134 million in net sales tax revenue is projected for the City and \$91 million without UNPTIF No. 2. An estimated \$26 million in net sales tax revenue is projected with UNPTIF No. 4 and \$1 to \$2 million without UNPTIF No. 4.

Mayor Miller asked for an example of the type of information CEDL used to obtain its baseline numbers and Mr. Batchelor said the original projection was the City would have substantial retail development basically in the south half of the UNP. If the City had not accepted the project plan or created the UNPTIF the City would still have gained a Target Store with retail development around it, but in order for the full area to develop, the City would have had to make substantial traffic improvements and would not have been able to attract Embassy Suites to the area, would not have been able to construct Legacy Park, would not have the connection to Rock Creek Road across I-35, etc., all of which have augmented development ability and rate of development in the area. He said the City was handicapped in its ambition for a Lifestyle Center due to the recession in 2008 and 2009, as well as the changing economics of the traditional retail business.

Councilmember Castleberry said it appears CEDL made the assumption that OU Foundation, which has sold one piece of land in the last thirty years, would sell all of this land to a private developer and Mr. Batchelor said CEDL did make that assumption. Mr. Batchelor said based on CEDL's judgement and experience as well as the substantial amount of improvements needed, 30% to 40% of potential development without the support of the City was a reasonable baseline. He said all of the retail that will generate sales tax in the north area will come from development around the fringes; however, a regional mixed-use entertainment district will generate significant retail activity in entire area. He said the projected development in the north half consists of residential and non-retail businesses.

Mr. Batchelor said CEDL is recommending a 50/50 split, but if the City does not approve an entertainment district there will not be much in the way of sales tax revenue to be generated. He said net sales tax revenue to the City becomes extremely significant with a regional mixed-use entertainment district with a TIF.

Councilmember Bierman said without a TIF there will be no arena or entertainment district so what accounts for the increase in net sales revenue to the City without the UNPTIF No. 4 and Mr. Batchelor said there will be some retail development around the periphery of the north half so there will be a modest amount of retail.

Councilmember Allison said if an arena is built, there will be economic impact outside of the UNPTIF, correct? Mr. Batchelor said absolutely, when there is economic development at a given location it will create other economic impacts throughout the larger community. How great those impacts are depends in part on the nature of the activity, i.e., when a City creates high quality jobs it has now created the highest economic impact multiplier that can be brought to a community. The highest form of economic impact arises from visitors and that is why an entertainment attraction is being proposed. He said the dollars visitors spend do not require as much local support and do not generate additional demand for City services, schools, Health Department, County, etc.

Mr. Batchelor said it is difficult to predict the exact multiplier of a good project. When the Supreme Court voted to allow TIF's for economic development, many of the taxing jurisdictions believed they would lose revenue, but decided to take a chance. In looking back, the ad valorem growth for Oklahoma City outside of the TIF has been growing annually at the rate of 5% for a total of 80% over a fifteen year period. He said the multipliers are real if the cities do positive developments, nourish the core, and nourish the opportunity to create a new in-town community. He said if a community can stay with its strategy, the results will be more positive.

Councilmember Clark asked about the timeline on this master plan because a Strategic Economic Plan is underway and she would like to know how this project fits into that. She feels the City is jumping around a lot and would rather see the City focus on a stormwater utility and Senior Center because that is what she was elected to speak for. She sees the value in this project, but Council has other priorities at this time. Mayor Miller said the timeline is however long it takes Council to make a decision and an outline of the Strategic Economic Plan will not be ready until early February 2018. Councilmember Clark said she would like to see how this project fits into the Strategic Economic Plan before making further decisions regarding the north half of the UNP Master Plan. Mayor Miller said the OU Foundation would like to see it move forward as quickly as possible. She understands this item seems to be moving quickly; however, the City has been in a partnership with the OU Foundation on the UNP since 2006, so this discussion has been ongoing. She said in 2015, Council requested a Master Plan for the north half of the UNP and it would have been easier if that Master Plan had been presented earlier this year, but that did not happen and OU Foundation is requesting that Council consider the Master Plan as well as a partnership that includes a TIF. Councilmember Clark said it would be helpful to have some historical context because some Councilmembers are newer and do not know the history of the UNP. Councilmember Allison said discussion originally began because there were disconnected sidewalks in the UNP and it has blossomed into a Master Plan to ensure infrastructure is better connected. He said this is no different than any developer requesting Council's approval for a development and this is the OU Foundation's project, not the City's.

Mr. Batchelor said TIF No. 2 and TIF No. 4 revenue benefits to the City are estimated to be \$404 million in net sales tax revenue, \$138 million in net sales tax revenue to the project, and \$125 million in net ad valorem to the project. He said without TIF No. 2 and TIF No. 4, the estimated net sales tax revenue to the City is \$196 million, a net difference of \$471 million.

Mr. Batchelor said in CEDL's view, implementing the project moving forward should include a regional mixed-use entertainment district; fostering an urban lifestyle residential community; creating quality non-retail employment opportunities; significantly enhancing the tax base; and generating positive benefits throughout the Norman community.

Councilmember Castleberry asked if CEDL is assuming any type of cannibalization in their projections and Mr. Batchelor said all CEDL is assuming is a 50/50 split (50% to the project and 50% to the City) on a new TIF. In respect to the existing TIF, CEDL based the numbers going forward on an increase in the allocation to the General Fund from 40% to 50%. It is CEDL's opinion that cannibalization of existing businesses is quite unlikely with the entertainment district and it certainly is not going to have an offering of the traditional retail business to the extent of the south half. The north half will be focused on dining and entertainment venues that attract non-retail businesses.

Councilmember Clark asked if Council is to assume the project will not happen without a TIF and Mayor Miller said it is her understanding the OU Foundation believes they cannot develop this project without a TIF. Mr. Batchelor said CEDL's projections assume a new TIF would be necessary to pay a significant portion of the cost of an arena with the balance financed by other sources.

Councilmember Wilson would like to see the cannibalization numbers from UNPTIF No. 2 because anyone can see that businesses have moved to the UNP from other locations in Norman. She asked what would happen if the Norman Music Festival changed locations from Main Street to the UNP, would the City have cannibalized Downtown Norman.

Councilmember Bierman asked who CEDL represents in these negotiations, the City or OU Foundation and Mr. Batchelor said the City. Councilmember Bierman said CEDL is estimating \$125 million in ad valorem increases over the life of the TIFs, which would cover all of the projected costs for TIF No. 4, so why not just create an ad valorem TIF? Why include sales tax if the projected ad valorem revenues would cover project costs and the sales tax could be used in the General Fund for the City's many needs? Mr. Batchelor said every taxing jurisdiction at the table asks the same question, but if this type of project is going to work it has to work as a community effort wherein every taxing jurisdiction participates and if everyone does not participate the project may not work at all. He said the most effective strategies are those that involve the broadest participation of the community where everyone places revenues at risk for a combined future benefit and no one sees that benefit more clearly than NPS.

Councilmember Holman said the City is restricted to sales tax whereas the County can use sales tax and property tax and NPS receives property tax as well as State funding. As far as the Center City TIF, there is very little retail in that area. He said sales tax is a taxing mechanism that impacts lower income citizens more than others and lower income citizens would be less likely to visit the UNPTIF even though they would be helping to pay for it.

Councilmember Karjala said there have been public concerns about TIFs and asked if this could be put on a ballot for a vote of the people through a bond. Mayor Miller said that could be a possibility and there is a strong public perception regarding TIFs, but Council's job is to look at the fiscal impact of the TIF. She is neutral on TIFs, but Council needs to decide if this would be a good economic development tool for the City and community. Will this put the City in a better financial position? She said Council should consider the perception of the people that have bad feelings about TIFs, but Council's decision has to be about financial impact.

Councilmember Allison said a lot of the controversy regarding the north half Master Plan is the arena and Council cannot forget that this project is not just about an arena. This TIF would be about residential development and quality jobs so there are more economic pieces involved, but so far only one business has been attracted to that location. He said the City will need other mechanisms in order to fill those spots and the City does not currently have any mechanisms to do that.

Councilmember Wilson said she is interested in the job growth, but has concerns about attracting a company that cannot build its own facility. She said the City would be taking a pretty big risk and Mr. Batchelor said that is a valid concern but the fascinating statistic is that most new jobs created in this country are created by new and small enterprises, not big corporate organizations that are currently downsizing. He said there are risks with new enterprises, but some succeed and if the City does not nourish some of those the City will not obtain those quality jobs. If the City takes a risk on young, bright entrepreneurs with great ideas some of those businesses will succeed and there is a world of difference between creating new quality employment opportunities with young start-ups versus big corporations. He said there are ways of vetting these choices and Council may not want a new start-up company located in the area, but Council could choose growing young business that has a good chance of growing into a successful business. Mayor Miller said she has mixed feeling about what kind of economic incentives are used to attract businesses and communities that Norman compares itself too use different kinds of economic incentives, which include TIF's. She said Norman is basically in competition with other communities and the smaller businesses coming out of incubators have to have some type of help getting started.

Councilmember Bierman agreed with Councilmember Allison that this project is larger than just an arena, but \$71.5 million of the \$90.75 million being requested is going towards the arena. If the City was talking about \$19.25 million towards infrastructure and economic development incentives that might be a different animal, but this is a huge amount of money to throw into a regional attraction. She would really like to know what other comparable cities that have large arenas within striking distance of a large metropolitan area have done. She would also like to know what the developer or potential owner(s) of the arena are willing to put into the financial picture. Mr. Batchelor said everything within a strategic plan is subject to implementation by a development agreement and Council would not take any steps without knowing all the answers to these questions and having all the contributions and support of other parties.

Councilmember Clark said she would love to see less housing close to I-35, more greenspace, more trails, and accessibility. She is receiving questions about the arena, such as who is the anchor tenant and how long will the tenant be in ownership? Mr. Batchelor said Council is simply being updated about the possibilities of authorizing these things so there will not be answers to those questions yet.

Mayor Miller said some Councilmembers would like to have a Study Session or Conference to update them on the historical perspective of the original UNPTIF and Councilmember Allison said he would rather have that information provided in a memo rather than hold a meeting because Council could be meeting on other issues. Councilmember Castleberry said he would like that information to be provided on the City's website for public review as well.

Mayor Miller said a meeting could be scheduled for Councilmembers that would like to review the historical information and talk about that versus holding a Study Session or Conference. She said it would be an open meeting, but not require the attendance of Councilmembers already familiar with the history.

Items submitted for the record

1. PowerPoint presentation entitled, "University North Park Proposed Project Plan Amendment," by Center for Economic Development Law

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The meeting was adjourned at 6:28 p.m.

ATTEST:

City Clerk

Mayor Pro Tem