office memorandum

DATE: August 30, 2018

TO: Honorable Trustees of the Norman Tax Increment Finance Authority
Honorable Mayor and City Council Members

FROM: Anthony Francisco, NTIFA Treasurer/Finance Director

SUBJECT: Re-Apportionment of UNP TIF Sales Tax Options

At the August 16, 2018 Council Finance Committee meeting, discussion was held related to the possible change of sales tax apportionment rates or methodology for the University North Park Tax Increment District (UNP TIF; City of Norman TIF #2). The current methods of apportionment of sales and property taxes to the UNP TIF Fund were established in the UNP TIF Project Plan (Ordinance 0506-66, adopted May 23, 2006). By this methodology, sixty percent (60%) of the general purpose sales tax generated within the UNP development is deposited to the UNP TIF Fund and forty percent (40%) is deposited to the General Fund and Capital Fund. This amount is adjusted by Transfer Adjustments and by the Average Annualized Growth Rate Factor, as discussed in the Project Plan. After these adjustments, $4,000,783 was apportioned to the UNP TIF Fund in fiscal year 2017-2018. As illustrated below, approximately $25,081,627 in authorized project costs remain outstanding:

Category of Authorization	Amount of Authorization	Expenditures to Date	Remaining Authorization
Traffic/Roadway	$11,550,000	$11,120,848	$429,152
Rock Creek Overpass*	$5,212,000	$5,142,323	$69,677
Legacy Park Art/Landscape*	$10,963,000	$8,155,849	$2,807,151
Initial Project Activities	$1,750,000	$1,050,287	$699,713
Cultural Facilities	$8,750,000	$0	$8,750,000
Lifestyle Center Costs	$8,250,000	$0	$8,250,000
Economic Dev Costs	$8,250,000	$4,174,066	$4,075,934
TOTAL	**$54,725,000**	**$29,643,373**	**$25,081,627**

* At the time the Rock Creek Overpass was completed, most of the remaining authorized funds were transferred to the Legacy Park construction project.

As the Norman Tax Increment Finance Authority (NTIFA) Trustees/Council are aware, the outstanding NTIFA Tax Apportionment Notes, Series 2013 will be paid off by September 1, 2018. After this indebtedness is paid off, the Council will have much more flexibility to decide whether to propose changes to the UNP TIF sales tax apportionment rate or to make other changes to the Project Plan. Approximately $10,718,202 will remain on hand to pay for authorized UNP TIF project expenses after the 2013 NTIFA Notes are paid off.

The August Finance Committee discussion related to the re-apportionment of sales tax to the UNP TIF Fund centered on several factors:

- The impact of the continued sales tax apportionment on the City's General Fund;
- The market feasibility and desirability for the completion of the remaining authorized UNP TIF projects;
- The legal commitments or obligations of the City and the UNP developers to finish certain authorized UNP TIF projects;
- The impact of ending the property tax apportionment on Norman Public Schools and other property taxing jurisdictions participating in the UNP TIF;
- The method of sales tax apportionment – fixed amount or percentage of collections;
- The amount of time that would be required to generate sufficient funds to pay for the remaining authorized UNP TIF projects, based on varying project authorizations and apportionment rates.

Based on these factors, we will attempt to examine ten (10) options for the future of the UNP TIF sales tax apportionment that present themselves from the Finance Committee discussion:

1. Do Nothing – Maintain remaining project authorizations and tax apportionment methods;
2. Maintain remaining project authorizations, but reduce sales tax apportionment rate to five percent (5%);
3. Maintain remaining project authorizations, but reduce sales tax apportionment rate to ten percent (10%);
4. Maintain remaining project authorizations, but reduce sales tax apportionments to a fixed dollar amount;
5. Eliminate authorization for the Lifestyle Center Costs project;
6. Eliminate authorization for the Cultural Center Costs project;
7. Eliminate authorization for both the Cultural Center and Lifestyle Center Cost projects;
8. End the UNP TIF by elimination of project authorizations to an amount less than the apportioned tax funds on hand;
9. Proceed with Council recommendation to utilize authorized Cultural Center funding for a Senior Center within the UNP Project Area;
10. Expand UNP TIF Project Authorization by adding an additional project for a Senior Citizen's Center.

Sales Tax Re-Apportionment Options for UNP TIF

Option 1 – Do Nothing

Based on this option, all of the currently authorized projects would remain at their current funding levels. Based on current apportionment rates and funds on hand, sufficient funds would be generated to pay for all authorized projects in approximately 2.5 years (at the end of calendar year 2020). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations. The General Fund and Capital Fund would benefit from the full apportionment of general purpose sales taxes collected in University North Park. All of the authorized UNP TIF projects could proceed on a pay-as-you-go basis. The developer would have the same obligations to qualify for project incentives or to avoid penalty payments that exist today. At the time that the property tax apportionment ends, the property taxing jurisdictions would receive the full apportionment of their levied property taxes and the Norman Public Schools would lose the benefit of the State Equalization multiplier.

Option 2 – Reduce Sales Tax Apportionment from 60% to 5%

Based on this option, all of the currently authorized projects would remain at their current funding levels. The Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to reduce the sales tax apportionment to five percent of the sales taxes collected in University North Park, that would remain the same each year. The amount of apportioned taxes would increase (or decline) with the amount of taxes collected in UNP. It is assumed that the Transfer Adjustment and Average Annualized Growth Rate Factors would be removed from the apportionment methodology.

Based on current apportionment rates, sufficient funds would be generated to pay for all authorized projects in approximately ten years (at the end of calendar year 2028). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations. The annual apportionment of sales tax would be reduced from approximately $4,000,000 per year to approximately $400,000 per year (the General Fund and Capital Fund would benefit from approximately $3,600,000 in additional annual sales tax revenues).

Based on the slower tax apportionment rate, some of the authorized projects may not be able to proceed on desired schedules without the issuance of debt. The developer would have the same obligations to qualify for project incentives or to avoid penalty payments that exist today. At the time that the property tax apportionment ends, the property taxing jurisdictions would receive the full apportionment of their levied property taxes and the Norman Public Schools would lose the benefit of the State Equalization multiplier.

Option 3 – Reduce Sales Tax Apportionment from 60% to 10%

Based on this option, all of the currently authorized projects would remain at their current funding levels. The Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to reduce the sales tax apportionment to ten percent of the sales taxes collected in University North Park, that would remain the same each year. The amount of apportioned taxes would increase (or decline) with the amount of taxes collected in UNP. It is assumed that the Transfer Adjustment and Average Annualized Growth Rate Factors would be removed from the apportionment methodology.

Based on current apportionment rates and funds on hand, sufficient funds would be generated to pay for all authorized projects in approximately nine years (at the end of calendar year 2027). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations. The annual apportionment of sales tax would be reduced from approximately $4,000,000 per year to approximately $800,000 per year (the General Fund and Capital Fund would benefit from approximately $3,200,000 in additional annual sales tax revenues).

Based on the slower tax apportionment rate, some of the authorized projects may not be able to proceed on desired schedules without the issuance of debt. The developer would have the same obligations to qualify for project incentives or to avoid penalty payments for non-performance that exist today. At the time that the property tax apportionment ends, the property taxing jurisdictions would receive the full apportionment of their levied property taxes and the Norman Public Schools would lose the benefit of the State Equalization multiplier.

Option 4 – Reduce Sales Tax Apportionment from 60% to a Fixed Amount

Based on this option, all of the currently authorized projects would remain at their current funding levels. The Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to reduce the sales tax apportionment to a fixed amount that would remain the same each year. It is assumed that the Transfer Adjustment and Average Annualized Growth Rate Factors would be removed from the apportionment methodology.

Based on current apportionment rates, sufficient funds would be generated to pay for all authorized projects in approximately nine years (at the end of calendar year 2027). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations. The annual apportionment of sales tax would be reduced from approximately $4,000,000 per year to the amount designated by the Council (the General Fund and Capital Fund would benefit in the approximate amount of the difference between $4,000,000 and the reduced amount in additional annual sales tax revenues).

Based on the slower tax apportionment rate, some of the authorized projects may not be able to proceed on desired schedules without the issuance of debt. The developer would have the same obligations to qualify for project incentives or to avoid penalty payments for non-performance that exist today. At the time that the property tax apportionment ends, the property taxing jurisdictions would receive the full apportionment of their levied property taxes and the Norman Public Schools would lose the benefit of the State Equalization multiplier.

Consequences of Eliminating Project Authorizations

Options 5 through 8 involve the elimination of some currently-authorized University North Park Tax Increment Finance District projects. The full consequences of eliminating currently-authorized UNP TIF projects would have to be examined more fully upon a Council direction to proceed with eliminating them and a determination of which project authorizations to eliminate. But generally speaking, the following factors would have to be considered:

The level of contractual obligation to carry out the project. Various Development Agreements have been made between the City of Norman, the Norman Tax Increment Finance Authority and various developer entities to complete projects. The City is generally required to at least consider the granting of authorized incentives if the developer meets certain development standards. Likewise, the developer is required to deliver a regional draw retail center, or repay the previous investments that the TIF has made into the UNP development (the "clawback" provisions). There could be complicated legal negotiations involved in eliminating these obligations on both sides, and these negotiations should be completed before the project authorizations are eliminated.

Economic Development "Revolving Funds". At the time that the Norman Economic Development Coalition purchased the tracts of land that now form the University North Park Corporate Centre, it was assumed that the investments made by the NEDC and the City/NTIFA in purchasing the land and providing public infrastructure (streets, waterlines, sewer lines, drainage facilities, etc.) would be repaid upon the re-sale of tracts of land for private development. The NEDC would use the proceeds of these land sales to repay their indebtedness they entered into to purchase the land and install the supporting infrastructure, and then to provide for further economic development incentives. The nature of these NEDC debt issuances and the NTIFA's involvement in them would have to be examined before the Economic Development Incentive portions of the UNP TIF Project Plan could be eliminated.

UNP Business Improvement District (B.I.D.). Although the B.I.D. receives funding from the UNP TIF, The UNP Business Improvement District is authorized separately from the UNP TIF. It is assumed that the B.I.D. will continue to exist after the UNP TIF tax apportionments end. The obligation of the UNP TIF is only to provide the remaining $150,000 of the $900,000 in Assistance to Development Financing that was obligated to the B.I.D. in Development Agreement Three, but the City's interest in maintaining Legacy Park would remain. The relationship between the City and the B.I.D. would have to be re-examined at the point that the UNP TIF ends.

Intersection Improvements at Robinson/I-35 Frontage/Crossroads Boulevard. The City has an ongoing project to make intersection improvements on Robinson Street west of I-35. The project is currently in final engineering design phases, with water lines and some other utilities having already been relocated. UNP TIF funding from available cash on hand for this high-priority project would need to be set aside at the time that sales tax and/or property tax apportionments cease.

Option 5 – Eliminate Lifestyle Center Costs Project Authorization

Based on this option, the Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to eliminate the $8,250,000 in project authorization for Lifestyle Center Costs. Total remaining project authorization would be reduced from approximately $25,081,627 to approximately $16,831,627. Based on current apportionment rates and funds on hand, sufficient funds would be generated to pay for all remaining authorized projects in approximately one year (at the end of calendar year 2019). At this point, the Council could end the apportionment of sales and property taxes, while having met all remaining contractual obligations.

The stated objective of constructing the regional draw retail center of the scope and design envisioned for University North Park would be more difficult to achieve without the available source of set-aside financial incentives. Contractual negotiations with the UNP developers would have to be completed regarding the City's obligation to consider providing TIF incentives for qualifying retail projects and the developer's penalties for non-performance of constructing the regional draw retail center.

Option 6 – Eliminate Cultural Center Costs Project Authorization

Based on this option, the Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to eliminate the $8,750,000 in project authorization for Cultural Center Costs. Total remaining project authorization would be reduced from approximately $25,081,627 to approximately $16,331,627. Based on current apportionment rates and funds on hand, sufficient funds would be generated to pay for all remaining authorized projects in approximately nine months (at the end of fiscal year 2019). At this point, the Council could end the apportionment of sales and property taxes, while having met all remaining contractual obligations.

The stated objective of constructing the regional draw cultural center of the scope and design envisioned for University North Park would be more difficult to achieve without the available source of set-aside financial incentives. The Council's recommended option of using the authorized Cultural Center Costs to fund a Senior Citizen's Center within the UNP Project Area (see Option 9 below) would be eliminated.

Option 7 – Eliminate Lifestyle Center and Cultural Center Costs Authorizations

Based on this option, the Project Plan Ordinance would be amended (upon recommendation from the Statutory Taxing Jurisdiction Review Committee and Council approval) to eliminate both the $8,750,000 in project authorization for Cultural Center Costs and the $8,250,000 in project authorization for Lifestyle Center Costs. Total remaining project authorization would be reduced from approximately $25,081,627 to approximately $8,081,627. Sufficient funds would be currently on hand to fund all of the remaining authorized projects, and the Council could act simultaneously to end the apportionment of sales and property taxes.

The stated objective of constructing the regional draw retail center and cultural center of the scope and design envisioned for University North Park would be more difficult to achieve without the available source of set-aside financial incentives. Contractual negotiations with the UNP developers would have to be completed regarding the City's obligation to consider providing TIF incentives for qualifying retail projects and the developer's penalties for non-performance of constructing the regional draw retail center. The Council's recommended option of using the authorized Cultural Center Costs to fund a Senior Citizen's Center within the UNP Project Area (see Option 9 below) would also be eliminated.

While the sales tax and property tax apportionments could be ended, the University North Park TIF could continue until the remaining authorized projects are completed.

Option 8 – End the Apportionment of Sales Tax and Property Tax by Eliminating or Reducing Other Project Authorizations

The Finance Committee's discussion of the elimination of authorized UNP TIF projects was limited to the Lifestyle and Cultural Center Costs. But it should be noted that the reduction or elimination of other remaining project authorizations could also be considered, whether separately or in combination with one or both of the incentive projects discussed. The consequences of these potential project reductions or eliminations would be considered upon the direction of Council to explore them further.

Option 9 – Use the Cultural Center Costs Authorization for Construction of a Senior Citizen Recreation/Cultural Center

The Council's recommendation in Resolution R-1718-98, to use the authorized UNP TIF funding for a Cultural Center to build a Senior Citizen's Recreation/Cultural Center in the UNP TIF District Project Area could be considered further. While the Council recommendation was not approved by the UNP TIF Citizen's Oversight Committee or the convened Statutory Taxing Jurisdiction Review Committee, the Council, by 2/3 vote (at least 6 affirmative votes), could approve the proposed amendment to the Project Plan anyway. Based on current apportionment rates, sufficient funds would be on hand or apportioned during the project's construction period to allow the project to proceed without the issuance of debt. Assuming the funds currently on hand and no other changes to sales tax or property tax apportionment rates or project authorizations, sufficient funds would be generated to pay for all authorized projects in approximately 2.5 years (at the end of calendar year 2020). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations.

Option 10 – Add an Additional Project Authorization for a Senior Center in the UNP TIF Project Area

The recommendation of the UNP TIF Citizen's Oversight Committee and the convened Statutory Taxing Jurisdiction Review Committee, to add an additional Senior Center project, could be implemented by simple majority Council vote to amend the Project Plan. The amount of the additional project was not specified by the Statutory Committee, but assuming the $8,750,000 figure is used and assuming all other project authorizations are maintained, and current tax apportionment rates and funds on hand, sufficient funds would be generated to pay for all authorized projects in approximately four years (at the end of fiscal year 2022). At this point, the Council could end the apportionment of sales and property taxes, while having met all contractual obligations.

Summary

We have attempted to analyze the potential changes to the University North Park Tax Increment Finance District discussed at the August 16th Council Finance Committee meeting as a basis for Council's discussion and direction. It should be noted that combinations of these options could be considered. Upon direction from the Council/NTIFA, staff will work to refine the chosen Option(s), begin any required contractual negotiations with the UNP developers or other parties, prepare any required resolutions and/or ordinances, and to implement the direction on the Council's desired schedule.