TAX INCREMENT FINANCING
UNRESOLVED ISSUES

This document addresses issues related to two proposals involving tax increment financing currently under consideration by the Columbia City Council. In some instances, the issues involved are expressed in the form of questions that should be addressed before formal approval occurs. In other instances, concerns are simply presented as issues that should be considered in advance of the adoption of either proposal.

OVERVIEW

Some of the key issues addressed in this document are summarized as follows:

- The original purpose of the TIF program was to provide a funding mechanism for public infrastructure improvements that would ENABLE private companies to invest in ongoing economic activity in specific communities. In effect, it relieved companies from the need to invest in what was considered to be "offsite improvements". Job creation, increased economic activity in depressed areas and improvements to public safety were often the desired by-products of such investment.

- Over the years the application of the TIF program has changed significantly, and now allows TIF funds to be used for purposes that are almost entirely private in nature.

- The projects submitted for consideration at this time dedicate 95%+ of TIF funds to internal construction costs, including on-site construction costs, legal and professional fees, demolition of existing structures and the costs associated with the issuance of the bonds that would finance this project.

- Both the Tiger Hotel project and the 10th and Locust project will result in the creation of businesses that will cannibalize existing retail revenues, or that can be expected to compete with established businesses. The new projects will be subsidized at a rate of 20% of project costs. The existing businesses may experience declining revenues, but will not be eligible for a similar subsidy and may experience INCREASING rates of property taxation if located in the vicinity of the new projects.

- There is an obvious and inherently unfair nature to the existing proposal.

- In addition, revenues that would ordinarily be directed to the Columbia Public Schools and other taxing jurisdictions will be diverted to use by these proposed projects, without recourse, for a period of up to 23 years.

- The assumption that is made regarding the adoption of these proposals is that no significant development will occur in the downtown area within the next 23 years; that the developers of these properties have no other recourse or potential to make these projects feasible without public intervention; and that property values will decline in the downtown area without this specific intervention. None of those assumptions are demonstrated or documented by any submissions from the developers who have proposed these programs or by the City of Columbia.

- Alternative structuring of both proposals is possible, but has not been expressed in public testimony regarding these projects to date. Details regarding the specific proposals follow.

TIGER HOTEL ISSUES

$4.5 million property acquisition cost

The total estimated cost for the Tiger Hotel project is $8,925,000 or roughly $9 million dollars.

According to the applicant's proposal: "The Project site consists of a single parcel ***currently owned by the Applicant.****" The application further states in various sections that: "A new corporate entity created by the Developers" will own the property, although in other sections of the proposal it is indicated that the project will be owned by Tiger Columns, LLC, the entity which currently owns the property.*

It would appear that this element of the proposal has been created in an effort to 1) increase the total project cost through a paper transaction, thereby qualifying the Tiger Hotel project for additional public funds; 2) refinance the existing debt on the Tiger Hotel with the required equity downstroke for the new loan being provided through a public entity; and 3) absolve the existing owners of completion of the original project which has already received other public subsidies through historic preservation programs – but which was never completed.

Half of the total project cost ($4.5 million) is for property acquisition, even though the owners already own the property. The $4.5 million "acquisition cost" artificially inflates the total project cost, which allows the developer to clawback a larger amount of TIF funds. TIF funds cannot exceed 20% of the total project cost – so the higher the estimated project cost – the higher the amount of TIF funds that can be claimed.

Under the current proposal the project is eligible for $1,750,000 in TIF proceeds.

If property acquisition were not included in the total cost for renovation, reconstruction and fees would be approximately $4.5 million, in which case the project would only be eligible for $900,00 in total TIF disbursements.

Use of funds

The following figures are cited in the application for TIF funding for the Tiger Hotel project:

Uses of TIF assistance:

a. Property Acquisition	$ -0-
b. Building Construction	1,350,000
c. Site Work	235,000
d. Architectural/ Engineering Fees	100,000
e. Legal/other Professional Fees	100,000
Total	$ 1,785,000

Public TIF funds are used for virtually no public infrastructure improvements such as roads, utilities or lighting other than those utilities and services that are located on or exclusively serve the Tiger Hotel.

In fact, in one section of the report entitled, "Tiger Hotel Redevelopment Area Eligibility Study", the report makes a clear determination that public infrastructure in this area is ALREADY adequate to support this project.

"K. INADEQUATE UTILITIES.
FINDING: Due to the nature and location of the Redevelopment Area, this eligibility factor does not influence the Redevelopment Area."

Comparative Building Cost

"In total, according to the Gastinger Study, the Tiger redevelopment is planned to cost approximately $82,224 per guest room..."

That number is equivalent to the approximate cost estimate for each new construction Habitat for Humanity home or similar affordable housing program home in this market.

As is mentioned later in this document, typical per room costs for new hotel construction range from $40,000 to $60,000 for hotels similar to the Courtyard by Marriott or other "suite" type hotels. Analysts for the applicant predict that at completion, the new Tiger Hotel should be considered to be a 3 to 3.5 star hotel, with amenities similar to that of the Courtyard by Marriott.

"But For" Argument

In order to be eligible for TIF program funding, it must be demonstrated that the project could not go forward without the financial intervention of TIF public funds. The Applicant's application contains the following citation:

> *"The extraordinary costs to revitalize and redevelop property within the Redevelopment Area make the redevelopment economically infeasible under current market conditions." – Development Dynamics Report*

It is interesting to note that a project of similar scope and cost was recently completed in the Central West End of St. Louis without the use of TIF funds at a total project cost of approximately $10 million., Two additional hotels of similar nature being initiated by the same developer.

> (See article from St. Louis Business Journal, "Roberts Cos. Opens Hotel Indigo in Central West End".)

In a separate section of the Applicant's report, it is indicated that WITHOUT TIF funding, the proposed project would suffer from an insufficient internal rate of return on investment.

> *"The IRR without TIF assistance (6.807%) results in this project not being feasible. As noted above, the costs utilized to calculate this IRR do not take into account debt service or borrowing costs. At present the ownership group estimates that it will borrow a portion of the development costs and incur a cost of capital at a rate of approximately 6.75%. The resulting 0.057% return above that cost of funds is insufficient to justify the risk, time, and outlay of funds that will be required to complete the project.*
>
> *The IRR with TIF assistance of 9.273%, while not a great return, results in this project's economic feasibility. This return - even when taking into account the debt service or borrowing costs - is feasible. The Owners would accept this IRR when considering the risk they are exposing themselves to, and in order to revitalize a treasured part of downtown Columbia." – Exhibit A – Financial Feasibility Information and Internal Rate of Return Analysis*

The use of TIF funding, however, is not the only way in which the rate of return can be improved. Lower lending rates (which are suggested as a possibility elsewhere in the report, reduced site construction costs and a lower land acquisition cost could significantly change the financial feasibility picture of this project without affecting the scale of the project. Remember, the report indicates that after completion, this hotel is likely to be rated as a 3 to 3.5 star hotel, with amenities similar in nature to those provided by the Courtyard by Marriott. Casual information from other hotel management sources indicates that such a level of construction may be accomplished for an expenditure ranging from $40,000 to $60,000 per room.

It should also be noted that the hotel property, which is already owned by the Applicant is in essence being resold and refinanced at a rate different than the existing note.

A quick analysis indicates that for every $725,000 in cost savings that can be achieved in the up-front construction and property acquisition costs, the Applicant can achieve an additional percentage point in terms of rate of return.

Under the current application, the rate of return is already at a breakeven or a positive level (6.807%). Considering the fact that this project has already received tax breaks for this project in terms of historic preservation funds and that few if any public infrastructure plans are contemplated, and that the project creates few, if any good long term job opportunities, the primary responsibility for making necessary financial adjustments to achieve a greater rate of return should fall on the Developer and not on the City or other taxing jurisdictions such as the school district.

Job Creation
In the extensive report generated by the Applicant, there is no enumeration of potential job creation, numbers of jobs by sector or average typical wages paid for this type of service enterprise.

It can be noted, however, that jobs created by the hotel, food and catering businesses are frequently among the lowest paid job categories, often paying at or minimally above minimum wage.

A report created by the Missouri Economic Research and Information Center identifies the 25 lowest paying job categories in the state of Missouri. At least 12 of the types of jobs typical for hotel and food operations appear in that list of bottom 25 occupations. The average wage for the 25 lowest paying occupations was $16,445 per year according to the report.

(See "Lowest Paying Jobs" chart produced by the Missouri Economic Research and Information Center)

Project Guarantees

There are no guarantees that this project will be completed on the scale and within the set of expectations created by the Applicant's report.

From Development Dynamics Report:

"It is not the intent of Table 1 or this Plan to restrict the City or the Developer to the cost amounts or cost items as outlined. However, such costs will be restricted to those specified in Section 99.805(14) of the TIP Act. During the life of the Area, Plan and Project, other costs may be incurred or adjustments may be made within and among the line items specified, if necessary to accomplish the program objectives of the Redevelopment Plan."

Additionally, there appears to be no prohibition against the quick sale of this property to a third party, or the conversion of this hotel into an apartment or condominium complex, therefore changing the revenue stream scenario envisioned in this request.

ISSUES APPLICABLE TO BOTH PROJECTS

Cannibalized Market

In the case of the Tiger Hotel, an extensive report prepared in conjunction with this application by PKF Consulting compared the Tiger Hotel project to 9 other hotel properties within the City of Columbia.

The results of the study indicated that while some new room nights will be created by the renovation of this hotel property (primarily on those nights when all hotel rooms sellout due to special events and limited overall market capacity) – most of the room nights sold by the renovated Tiger will come at the expense of other hotel properties in Columbia.

Specifically, 50 nights a year, the Columbia hotel market is considered to be saturated, so additional capacity could be accommodated and recaptured with the new property. Unfortunately, that means that 315 nights a year, the hotel industry in Columbia will compete against each other for those same room nights. Only the Tiger Hotel, however, will have the benefit of a 20% public subsidy to enter the market. The study indicates that the Tiger Hotel will more likely than not be able to capture market share from its primary competitors, namely the Stoney Creek Inn, the Courtyard by Marriott, the Hampton Inn and others. Its primary draw would come from corporate travelers – not leisure or tourism stays.

This scenario does not indicate that the Tiger itself would be a primary "tourist attraction", and further indicates that the "new" sales tax revenues realized may be significantly accounted for through cannibalized sales.

In the case of the 10th and Locust project, plans submitted by the developer call for the creation of new retail on the first floor of the multi-story structure, including the creation of a downtown grocery store facility.

The 10th and Locust property is located immediately adjacent to an existing market/convenience store at 10th and Hitt. The new store will benefit from a 20% overall project subsidy, dedicated on-street parking and completely new construction. The existing store will receive no public benefits, will be forced to compete with a subsidized operation, and can be expected to actually LOSE market share and revenues in some product categories.

The applicants proposal for TIF funding makes no accommodation for this potential market cannibalization, but does request that 50% of the incremental sales taxes generated by the new project be available for use in the TIF funding scenario.

Effect on the Downtown Real Estate Market

It is impossible to accurately predict the nature and growth of the downtown real estate market over the course of the nest 20 years. It is possible, however, that the following aspects could occur with the introduction of the TIF funding proposals currently on the table.

- *May result in the over valuation of existing properties, potentially raising valuations for nearby properties, while potentially cannibalizing the existing revenue stream of those retail operations*
- *Assumes that the "no development" scenario is likely to continue for the next 20 years, even though the downtown area is the only developed retail area adjacent to the University of Missouri and is the potential site of other growth stimulating projects. Introduction of the TIF plan has actually created a "wait and see" attitude among other developers and could artificially retard or discourage additional large scale development in the area.*
- *Allows subsidized projects to directly compete with non-subsidized projects already in the planning stages*
- *The internal paper sale of the Tiger Hotel property prevents outside buyers from bidding on or purchasing and renovating the Tiger Hotel on the same scale without public assistance.*

The Flexibility of Funding Issue

- *Artificially redirects tax revenues to specific private projects, despite the fact that the projects themselves will increase the burden on downtown public infrastructure and do not contemplate expenditures on public infrastructure improvement.*

- *Restricts funding to other taxing entities such as the school district for up to 23 years due to the assumption that the downtown area will remain a "no build" zone for that same period of time without the TIF program.*

Parking

Both proposed projects make minimal accommodations for on-site parking, despite the fact that both will substantially increase demand for both short term and long term parking in the downtown area.

In the case of the Tiger Hotel proposal, no on-site parking is contemplated despite the fact that 62 guest rooms will be put into operation. The proposal indicates that the hotel intends to lease spaces in the city-owned parking garage immediately east of the hotel.

The problem with this scenario lies in the fact that in order to accommodate this request, the city will need to displace other downtown patrons who currently lease parking spaces – or alternatively provide exclusive use of hourly parking spaces to the hotel. It is reported that there already exists a backlog of requests for monthly parking leases in this garage. To grant the hotel preferential treatment in this regard defeats the purpose of enhancing the downtown experience for all patrons and workers.

In the case of the 10th and Locust project, only a handful of on-site parking spaces are planned in a covered drive-through portion of the structure, despite the fact that the construction of 60 new apartment dwellings are proposed, along with additional retail and office space.

Current plans again contemplate the use of the adjacent city-owned parking garage to accommodate most of the residential long-term parking needs. What is more troublesome, however, is a proposal by the developer of the 10th and Locust project to acquire an existing city-owned surface parking lot and build over that property, thereby eliminating approximately 20 existing parking spaces. The proposal then requests that the city restripe 10th Street and Locust Street, creating 21 new on-street angle-in parking spaces and provide them for exclusive use by patrons of the first-floor retail establishments in that building.

This proposal does not reduce surface parking, it shifts it to the street and gives one business significant preferential treatment over nearby competitors or other patrons of the downtown area.

CONCLUSION

This is the first time that the city has entertained the idea of tax increment financing for private projects in the downtown area. It is apparent that these proposals are complex and based more on estimates and projections than on verifiable facts and figures. It is also apparent that many questions remain regarding the potential unintended consequences that could occur as the result of the implementation of a tax increment financing plan at this time.

Some of the major issues deal with the affect that city intervention may have on the private real estate and retail markets in the downtown area. Some deal with issues related to public policy, such as the redirection of public tax funds from one taxing jurisdiction for use by another or the preferential use of public facilities and resources for individual private projects.

All of these issues, however share a common concern about fairness.

It is not fair to subsidize one group of private investors at the expense of others, particularly when city funds are being employed. It is not fair to displace or compete with existing businesses by providing exclusive city-owned resources to the newest private competitors. It is not fair to diminish the potential resources of the public education system in order to promote a private development that may be struggling financially.

City manager Bill Watkins wrote in the July 10 edition of the Columbia Business Times that:

> "For every point about fairness, another point can be made about its unfairness. We all need to make the best use of the tools we have now to solve current problems. We also need to realize that the rules of the game change often in life and that the tools will change and evolve accordingly."

If that is the case, we need to realize that the tools that have currently been proposed have not been used in this community before. Their proposed use has left many with an abundance of unanswered questions. If we are to make the "best use of the tools we have now", then we should analyze not only the benefits of any proposals offered, but anticipate the pitfalls each may present, as well.

We have not come to that point yet. The questions and issues raised in this document need to be further explored and addressed before a final proposal is accepted. We hope this document can serve as a guidepost in the creation of a fair and equitable decision.

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Roberts Cos. opens Hotel Indigo in Central West End

St. Louis Business Journal

The Roberts brothers have opened Hotel Indigo St. Louis Central West End following a $10 million renovation of the historic former **Bel Air West Motel**, which first opened in 1958 as the city's first motel.

The Central West End property is the first of three Hotel Indigos that **Roberts Cos.** has planned for St. Louis.

The 127-room boutique hotel features 1,100 square feet of meeting space and was recently included on the **National Register of Historic Places** by the **National Park Service**.

"We've had our eye on this hotel for several years now," said Steven Roberts, president of the Roberts Cos., in a statement. "The structure showed so much promise, and we were thrilled when the opportunity came to restore it to its former glory while adding a new, chic brand to the market."

Roberts Hotels Group, a subsidiary of The Roberts Cos., owns both the Hotel Indigo St. Louis Central West End and the downtown property currently in the pipeline. The Roberts Cos. is owned by Michael and Steven Roberts, two brothers ranked among the country's most successful black businessmen.

The Hotel Indigo St. Louis Central West End is owned and managed by **Roberts Hotel Management Group** under a license agreement with **InterContinental Hotels Group**, the world's largest hotel group by number of rooms.

Lowest Paying Occupations

The major SOC group of Food Preparation and Serving Related Occupations accounted for 11 of Missouri's 25 lowest paying occupations. Further, this SOC group contains six of the seven lowest paying occupations and nine of the 15 lowest paying occupations in Missouri.

The table for the 25 lowest paying occupations accounted for 361,110 total jobs or 13.4 percent of all Missouri occupations. The average annual wage for these 25 occupations was $16,445.

Of the occupations listed in this chart, at least 12 represent jobs typically associated with the hotel, food and catering business.

Missouri's 25 Lowest Paying Occupations

Occupation Title	MO Annual Average Wage	National Average Wage
Gaming dealers	$14,340	$17,010
Dining room and cafeteria attendants and bartender helpers	$15,230	$16,320
Combined food preparation and serving workers, including fast food	$15,280	$15,930
Dishwashers	$15,330	$16,190
Cooks, fast food	$15,500	$15,960
Waiters and waitresses	$15,560	$17,190
Hosts and hostesses, restaurant, lounge, and coffee shop	$15,740	$16,860
Motion picture projectionists	$16,000	$20,180
Counter attendants, cafeteria, food concession, and coffee shop	$16,110	$16,950
Lifeguards, ski patrol, and other recreational protective service workers	$16,140	$18,410
Food servers, nonrestaurant	$16,700	$19,710
Parking lot attendants	$16,990	$18,450
Cashiers	$17,050	$17,930
Food preparation workers	$17,250	$18,480
Ushers, lobby attendants, and ticket takers	$17,300	$17,500
Amusement and recreation attendants	$17,310	$17,530
Child care workers	$17,340	$18,820
Maids and housekeeping cleaners	$17,380	$18,700
Personal and home care aides	$17,470	$18,180
Hotel, motel, and resort desk clerks	$17,640	$19,480
Cooks, short order	$17,770	$18,710
Crossing guards	$17,890	$22,270
Home health aides	$17,910	$20,100
Bartenders	$17,910	$18,540
Laundry and dry-cleaning workers	$18,220	$18,890

Source: Missouri Economic Research and Information Center