

Tax Stabilization in Providence

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- ### Today's Agenda
- State enabling legislation and municipal tax agreements
 - Various types of tax stabilization agreements in Providence
 - The recent spate of \$0.35 SF agreements
 - Issues with compliance
 - The future of stabilization
 - Work of the Task Force

Currently Active TSA's

Entity Name	City	Effective Date	Entity Name	City	Effective Date
100 Westminster Street Associates, LLC	Providence	12/11/2011	Providence Building Assoc. LLC	Providence	8/17/2002
122 Exchange Street LLC	Providence	4/20/2011	St. Joe Mill, LLC	Providence	5/17/2002
Health Development		4/15/2011	International Fund IV R/A Capital Hill Providence		1/28/2001
1400 Old St. John's Place		4/8/2011	South Providence Development Corp		1/18/2001
Providence Capital LLC		3/10/2011	Stark		7/11/2001
Wilton Hotel		3/18/2011	Ursula Wood Development LLC		7/18/2001
50 Azusa, LLC	Fair	1/1/2011	Ursula Square Properties, LLC		2/1/2001
Ursula House, LLC	Fair	1/1/2011	Ursula Square AT 1000 State St. Providence		11/21/2000
Edward Williams Square, LLC	Fair	1/1/2011	Ursula Square, LLC		11/21/2000
Procter & Gamble, LLC	Fair	1/1/2011	Procter & Gamble, LLC		11/21/2000
Procter & Gamble		7/18/2011	Providence Building Assoc. LLC	Providence	11/21/2000
Ursula House, LLC		1/1/2011	100 Westcott Ave.		11/19/2000
Procter & Gamble, LLC		3/19/2011	Northway Assoc. LLC and Lerner Assoc. LLC		11/19/2000
Providence Square		11/18/2008	Providence Building Assoc. LLC		11/21/2000
Procter & Gamble		4/14/2007	Providence Building Assoc. LLC		11/21/2000
Procter & Gamble (St. John's Place)		1/18/2007	100 Westcott Ave.		11/19/2000
Ursula House, LLC	Providence	1/18/2007	Northway Assoc. LLC and Lerner Assoc. LLC		11/19/2000
100 Valley St. LLC		9/28/2006	Providence Building Assoc. LLC		11/21/2000
100 Valley St. LLC		9/28/2006	Providence Building Assoc. LLC		11/21/2000
Procter & Gamble		8/1/2002	Providence Building Assoc. LLC		11/21/2000
Procter & Gamble		4/28/2002	Providence Building Assoc. LLC		11/21/2000
100 North Main Street Assoc. LLC		3/27/2002	Providence Building Assoc. LLC		11/21/2000

Expanding the Scope

Section 21-169.

(b) *Eligible property.* The provisions of this article shall apply to **commercial, industrial or residential property**, which is defined to mean land, buildings, structures, and other improvements thereto, and personal property located therein or thereon or employed in connection therewith (but excluding inventory held for sale in the ordinary course) used essentially for offices, commercial or industrial enterprises or residential use, but shall not include unimproved or vacant land.

How it works

- (1) There shall be no change in assessment during the period of construction provided such construction is completed within a reasonable period of time.
- (2) For the first year in which the commercial, industrial or residential property is subject to abatement hereunder, the abatement shall be no greater than ninety (90) per cent of the assessed valuation of the property attributable to new construction.
- (3) In subsequent years the abatement shall be to the extent of the percentage set forth in the following schedule.

Stabilization Table

Year	Amount of Exemption
1	90
2	80
3	70
4	60
5	50
6	40
7	30
8	20
9	10
10	0

And if you qualify?

Based upon an abatement schedule to which the tax assessor agrees, the Providence City Council passes an ordinance reflecting the terms, and generally including provisions related to sale (especially to a tax-exempt entity), community hiring, MBE/WBE and apprenticeship considerations, and reporting and monitoring.

Further expansion, with a twist

Section 21-171. Downcity tax district.

(b) *Eligible property.* Eligible properties shall be taxable properties located within the area bounded by Dorrance, Pine, Empire and Sabin Streets within the city; and shall have been more than fifty (50) per cent vacant as of December 31, 1999 or, although more than fifty (50) per cent occupied, shall be eligible if certified by the city building inspector as in need of substantial rehabilitation.

And now for something completely different

Section 21-170 (a): It is the purpose of this section to encourage the installation of exterior lighting in the city, for public streets as well as for private property, that will enhance architectural and landscape features, compliment the city's historic character, improve the overall visual quality of the city, and provide adequate illumination for both vehicles and pedestrians, while minimizing glare, providing uniform lighting color and intensity, maintaining a safe environment, and facilitating a regular maintenance program.

"Designated Properties"

(b) *Eligible property.* Eligible properties shall be properties designated on the landmark list as part of the mill restoration program and in the arts and entertainment district in the city as approved by the city council and shall be eligible if certified by the city building inspector as in need of substantial rehabilitation. "Substantial rehabilitation" shall mean rehabilitation that adheres to the applicable building and fire codes, extends to all occupiable floors of the building, and equals at least fifty (50) percent of the current replacement value of the structure, as certified by the city building inspector. Upon enactment, property taxes levied on eligible properties as of December 31, 2000 shall reflect the adopted tax considerations. Owners of eligible properties are required to begin renovations by December 31, 2005 in order to qualify for continued tax considerations.

A new and generous era?

On January 29, 2011, the City Council enacted Section 21-235, "Property Taxes for Designated Historic Properties."

Eligible properties would pay a tax levy of the lower of 35 cents per square foot, or the tax assessed on December 31, 2010.

Taxes would be fixed at that rate for the twelve-year duration of the stabilization period.

Eligible properties

Subsection (c) lists five categories of eligible properties:

- Any building listed on the Providence Industrial and Commercial Buildings District
- A local historic district
- The Jewelry Manufacturing District
- A national historic district
- The arts and entertainment district

Ten...or maybe more...

Subsection (l) of the new provision limits the number of applications to ten projects.
 Subsection (l)(5) bars applications including a hotel or a parking garage with over 100 spaces, unless approved by the City Council.

Year	Company Name	Project Name
2013	Ernst & Young, LLC	"Dirigo"
2013	HM Ventures & LLC	"Sportsman Inn" aka "The Bean"
2012	Brother, Mack MBE, LLC	
2012	188 Westchester Street Associates, LLC	"The Arcade"
2012	Mulla House, LLC	"Feta"
2012	SO Arroyo, LLC	
2012	Quincyville Housing Corporation	"Paragon MBE"
2012	Pharos Building Associates, LLC	"The Foundry"
2012	Providence Capital, LLC	"Providence 0"
2012	Height Development	
2012	Roger Wilford Brown, LLC	
2012	The Minors	

A totally different process

- No City Council approval – the only ordinance passed is the original grant of authority for the ten properties
- Applications are made to tax assessor, and must list the measures to comply with First Source and WBE/MBE ordinances
- Review is provided by the city collector and the directors of planning and development and inspections and standards

Save time and money!

- The new process, which eliminates the need for time-consuming public hearings, Council committee meetings, and two formal passages of an enabling ordinance, is swift.
- The process is also extremely cost-effective for developers. Here are a few examples of the pre- and post-stabilization tax obligations:

Comparative Taxes

Before Section 21-235	After Section 21-235
547,557.95	57,202.60
22,002.23	11,481.35
214,461.98	32,557.35
110,665.28	28,867.20
21,421.58	16,806.65
17,555.48	6,152.30
31,208.10	16,742.25

What are the components of the new tax stabilization agreements?

- Timelines
- Tax-Exempts
- MBE/WBE
- First Source
- Apprenticeships
- Clawbacks

Issues with Compliance

- First and most basic: Have they paid the correct amounts? On time?
- Only cursory attention paid to monitoring and enforcement in earlier TSAs
- Explicit compliance requirements in more recent agreements
- But who monitors? What is the process for working to rectify shortfalls in compliance? Who, if anyone, has authority to revise obligations? What happens if compliance is impossible? When and how are draconian remedies like revocation initiated?

TSA Involvement – DOPD

DOPD engages with TSAs to achieve employment-related goals. Temporary and permanent employment are approached through two different methods.

To address construction-related goals of each TSA, DOPD contracts with Building Futures, which provides project monitoring, technical assistance to obligated employers and preparatory services for residents.

Some key reasons for this approach include:

1. Real Property Improvements for TSA projects create temporary employment opportunities in construction – but the First Source system doesn't mesh well with temp. construction employment;
2. Building Futures operates the only construction pre-apprenticeship training program approved by the State Apprenticeship Council and RI DLT, with many successful placements of our residents.
3. Additionally, Building Futures has a well established system of project-based monitoring and technical assistance on both private and public sector construction projects that achieve project goals.

TSA Involvement – DOPD

Building Futures follows a standardized process to help TSA recipients achieve project goals and comply with the terms of the TSA:

1. Attends/convenes a planning meeting with the TSA recipient, their prime contractor and DOPD representatives prior to commencement of the awarded scope, to review protocols and expectations;
2. Operates the construction-reporting process, provides technical assistance to contractors as needed, receives and reviews all subcontractor reports on a monthly basis;
3. Attends periodic construction progress meetings as needed and as requested by the recipient, or their prime contractor as designee for the recipient, throughout the project;
4. Advises the City on reporting compliance and provides current performance summaries by project (by contractor upon request) and analyzes data received to ensure best faith efforts are undertaken;
5. Facilitates the placement of Providence residents, as needed, for any new non-supervisory positions created during the construction process, as per First Source;

TSA Involvement – DOPD

6. Reviews and advises the City on any contractor's request for adjustments in the apprentice utilization requirements received during the performance of the awarded scope (when applicable);

7. Provides the City a summary analysis upon the completion of the specific project scope of work, with the new FY14 report format, data will include:

- Utilization of registered apprentices in aggregate and by trade;
- Demographics of the workforce of the project in aggregate, including the trades personnel employed and their residency, gender and ethnicity;
- Performance towards project goals by individual contractors/subcontractors;
- Percentage of labor hours performed by Women and Minority Business Enterprises;
- An opinion on the satisfactory/non-satisfactory performance related to the construction goals of the TSA to inform enforcement efforts of the City.

TSA Involvement – DOPD

DOPD engages the permanent employment requirements of TSAs through the Office of First Source. The process with TSA recipients is as follows:

1. Conveys an initial 'relationship building' meeting used to:

- Introduce First Source, its purpose/goals, and to inform the TSA recipient of requirements for compliance with First Source and the benefits of having a quality staffing resource at no cost available to them.
- Learn more about the business/organization receiving the TSA. Get a sense of current/future hiring needs and the skills, education, previous experience and "fit" requirements for their employment openings.
- Establish a point person(s) from the business/organization receiving the TSA who will be responsible for First Source. Varies for each company - human resources staff, operations director, hiring manager etc.
- Review First Source quarterly hiring activity report requirements, due dates, submission process, etc.

TSA Involvement – DOPD

2. Next, a USER ID and Password is assigned by the First Source Office to the business/organization which provides access to the First Source web-based system after which a training is held on the First Source web-based system. Training includes how to post/close out job openings and review Providence resident job seeker candidate (s) who have completed the registration process and identified positions of interest.

3. Quarterly, covered employers submit a First Source hiring activity report. Results are compiled, analyzed and posted onto the First Source webpage. Report includes total openings in the quarter, number of openings that were filled/left unfilled, # of Providence resident hires made and their demographics, and the # of non-Providence resident hires made.

4. First Source Office also facilitates the placement of qualified Providence residents into open positions with covered employers, through a) ongoing communication with a network of employment and training organizations who receive the First Source 'Job Alert' - a communication tool distributed electronically notifying the network of the new First Source job openings and b) being out-stationed at Network RI engaging Providence resident job seekers and assisting them one-on-one with the First Source registration process.

Recent compliance concerns

Roger Williams Brewery

- Investigation and report by Andrew Cortes document noncompliance with First Source, WBE/MBE, apprenticeship
- RWB offered opportunity to submit plan to demonstrate how compliance could be achieved
- Meanwhile, RWB deficit in payment of taxes owed
- Initial compliance letter sent 10/22/13
- TSA revoked as of 11/18/13, revised tax bills sent for two previous years

Further compliance concerns

- Music House
 - Rehabilitation complete and certificate of occupancy granted
 - No effort to comply with First Source or WBE/MBE requirements
 - Should there be a process by which a CO is withheld until an entity demonstrates compliance with (a) 50% standard and (b) construction-phase obligations?
 - What kind of remedy is appropriate if compliance is impossible because construction has already been completed?

Interesting compliance issues

- 95 Chestnut Street, a/k/a BetaSpring business incubator
 - Business model assumes facility will ultimately be completely occupied by start-ups fostered in the BetaSpring incubator
 - Most start-ups have no employees other than the young inventor/innovator/entrepreneur
 - How should First Source apply in this instance?

Emerging models for TSAs

The Administration has begun to utilize a new format for tax stabilization agreements, with the following major components:

- Up to 36 months' construction period, when tax remains static (typically at land value)
- Thereafter, ten year stabilization where each year brings the project closer to full taxation, i.e. Year 1, taxation of 11.11% of full assessed value; Year 2, taxation of 22.22% of full assessed value, etc.

Emerging models, continued

- Can also impose a set amount of tax for early years to assure City of a minimum tax recovery on property
- Generally, Year 10 is taxed at 95% of full assessed value
- This enables actual taxable amount to incorporate both statistical and actual revaluations, so City does not sacrifice increases in value

Policy Questions

In order to encourage economic development, what percentage of the City's total revenue stream can we afford to devote to tax stabilization or tax increment financing?

Does it behoove us to determine an amount, and then ration TSAs and TIFs in such a way as to maximize the economic benefit to the City?

The Work of the Task Force

On August 2, 2012, a group composed of representatives from Finance, Tax Assessor, Tax Collector, Planning, and Law began to meet weekly to discuss a range of tax issues.

The discussions and information-sharing over the past sixteen months have generated numerous positive changes in the various departments, and have set us on the road to recapturing a great deal of lost revenue.

Some Task Force Initiatives

Review of TSA details at several levels

- Applications (estimate of actual construction costs)
- Permits (validation of actual expenditures/comparison with estimate)
- Payment of appropriate taxes
- Compliance with Ordinance and agreements

Identifying ROUGHLY \$3MM in revenue!

Tax Exemption Categories

Establish schedule for review of all exemption categories:

- 2013: Recertification of all "8% law" recipients
- 2013: Recertification of all Nursing Homes
- 2014: Planned recertification of all charitable and non-profit institutions

System Upgrades

- Creation of a tax stabilization data base, which includes the applications, agreements, permits from Inspections & Standards, photographs, use data (where available), and compliance information
- Re-coding of GOVERN to reflect PRA and TRA properties
- Clarification of departmental roles and communication issues

...and in process

ProvPort

- Lot configuration
- Taxation of lessees and tangibles
- Profit-sharing agreement

Eagle Square Tax Increment Financing

- Base tax allocation
- Calculation of tax increment
- Contribution to PRA
