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

Name	Other Name	Date
130 Westminster Street Associates, LLC	The Arcade	12/31/2012
122 Fountain St LLC	Sportsman Inn	4/20/2012
Hecht Development		4/15/2012
Institute for Non-Violence		4/9/2012
Providence Capital, LLC		3/30/2012
Biltmore Hotel		3/15/2012
50 Agnes, LLC		1/1/2012
Music House, LLC	Fete	1/1/2012
Roger Williams Brewery, LLC		1/1/2012
Empire LaSalle, LLC	Hasbro	12/31/2011
Victory Square		7/18/2011
Butcher Block Mill, LLC		1/1/2011
Capital Cove LLC		3/8/2010
Mercantile Block		11/16/2009
Arts Recreation		4/16/2007
Conley's Wharf (RI State Pier)		1/8/2007
Milhaus LLC	Steelyard	1/8/2007
60 Valley St LLC		9/26/2006
65 Pavillion LLC		8/1/2005
Sampalis Realty		8/1/2005
Pearl St LLC		6/25/2004
160 Niantic Ave Morvco Realty LLC		5/27/2004

Name	Other Name	Date
Promenade Building Assoc, LLC	Foundry	5/17/2004
Rising Mills Project		5/17/2004
Intercontinental Fund IV F/K/A Capital Hill Properties		1/16/2004
South Providence Development Corp		1/16/2004
Gtech		7/15/2003
Masonic Hotel Developer LLC		7/15/2003
Eagle Square ProjectSEE NOTE		2/14/2003
Abingdon at Westminster Crossing		11/22/2002
Monahasset Mills LLC		11/22/2002
Peerless Keen Partners		11/22/2002
Promenade Building Assoc, LLC	Foundry	11/22/2002
100 Wayland Ave.		11/8/2002
Harrisburg Assoc.LLC and Lerner Assoc.LLC		11/8/2002
Steelwood (Palmer Building)		4/25/2002
Two Ninety Two Pocasset Ave LLC		3/4/2002
Alice Building		12/28/2001
903 Condo's formerly JPI		12/21/2001
Mashpug Associates LLC		11/9/2001
Stanley Weiss Assoc.		11/9/2001
J and H Realty LLC		5/10/2001
Olneyville Housing Corporation	Paragon Mills	
Wildcat		3/23/2005

Ord	TSA Name
1990-5	Parcel 8 (American Express)
1990	Jake Kaplan, Ltd. (Resolution) 1/24/1990
1992-28	Narragansett Electric Co.
1994-32	Providence Place Mall
1994-34	OAR Tool & Die, Inc.
1995-22	Providence Place Project
1995-24	Laurelmead Nursing Center, LLC- RI Industrial Facilities
1996-1	Providence Place Mall
1996-8	Jutras Woodworking, Inc.
1996-53	Vargas Manufacturing Corp. (Armburst)
1996-54	Village at Elmhurst, Roger Williams Realty Corp.
1997-18	Prov. Port, Inc
1997-32	Foundary Associates on Behalf of Inso Corporation
1997-67	Kilguss Realty Co., LLC - Excell Manufacturing- RI Insdustrial Facilities
1997-68	Bake Us, Inc. - Pastry Gourmet- Cannoli LLC
1997-77	Venda Ravioli, Inc
1998-9	Elliot Group on Behalf of Su-Elle Company
1998-11	Village at Elmhurst, Roger Williams Realty Corp.
1998-18	Smith Building-Smith Keen Partners
1998-19	Fletcher Building
1998-31	Downcity Cinema
1998-32	AAA Southern New England
1998-38	Union Station Plaza Assoc. L. P.
1998-54	Union Station Plaza Assoc. L. P., as Amended
1999-3	Rawcliffe Corporation
1999-4	RDW Group Inc
1999-5	Mendez Real Estate on behalf of Pena Providence Corporation for 863 Broad Street
1999-6	Manchester Street Power Plant Tax Increment Project Plan, As Amended

Ord	TSA Name
1999-16	W.A./R.E.I. Hotel LLC., as Amended
1999-41	Gateway Eight, L.P on behalf of Boston Financial Data Services
1999-42	Bank Rhode Isalnd - Granoff Realty
2000-12	244 Broad St., LLC (Miss Fannie's)
2001-1	Tax Stabilization for Industrial Property (Downcity Tax District)
2001-3	Beacon Ten Park Row, LLC- Capitol Properties
2001-19	J and H Realty LLC
2001-20	Tax Stabilization for Industrial and Residential Property
2001-33	Mashpaug Associates
2001-37	Stanley Weiss Associates
2001-54	Kinsley Harris,LLC/on behalf of Jefferson at Providnce Place
2001-55	Alice Building, LLC
2002	Artist Group
2002-4	292 Pocasset Ave- Robert LaMoia
2002-7	Mill Ordinance
2002-10	Chalkstone Realty LLC
2002-13	100 Fountain Street
2002	Emanon Associates - Resolution - Illuminate Providence
2002	Civic Center Parking Associates - Resolution - Illuminate Providence
2002	Michelle Lancellotti - Resolution - Illuminate Providence
2002-40	Harrisburg Assoc.LLC and Lerner Assoc.LLC
2002-41	100 Wayland Ave.- Kenneth Dulgarian
2002-42	Stanley Weiss Assoc., LLC
2002-43	Promenade Associates,LLC
2002-44	Peerless/ Keen Partners
2002-45	Abingdon at Westminster Crossing Condominium Assc.LLC
2002-46	Monohassett Mills, LLC
2003	Rhode Island Community Foundation - Resolution - Illuminate Providence

Ord	TSA Name
2003-21	Stanley Weiss Assoc., LLC
2003-38	Masonic Hotel Developer, LLC- on behalf of Masonic Temple
2003-39	GTECH Corporate Headquarters
2003-52	Kinsley Harris,LLC on behalf of Jefferson at Providence Place (JPI)
2003-56	Manchester Street Station
2003-57	Tockwotton Home
2003-61	166 Valley Street LLC on behalf of The Rising Sun Mills Project
2004-2	17-21 Gordon Avenue
2004-3	Capitol Hill Properties, LLC, with respect to Assessor's Plat 19, Lot 102
2004-16	One Reservoir Avenue
2004-19	Promenade Building Assoc. LLC
2004-20	Stanley Weiss Assoc., LLC
2004-21	Abaqus,Inc.
2004-25	Morvco Realty, LLC
2004-30	Pearl Street Mill Project (Harold's Furniture)/ Armory Revival Co.
2004	Anthony F. Demings d/b/a Brooklyn Coffee & Tea House - Resolution - Illuminate Providence
2005-17	Capitol Cove LLC
2005-21	Wild Cat Equities, Inc.
2005-22	Capitol Hill Properties, LLC, Intercontinental Fund IV Waterplace, LLC with respect to Assesor's Plat 19, Lot 102
2005-38	Prov.Port, Inc.
2005-39	65 Pavillion LLC9with respect to Assesor's plat 54, Lot 155)
2005-40	Samplais Realty, LLC (with respect to Assessor's Plat 20, Lot 176)
2006	American Locomotive
2006-11	Cathedral Sqaure
2006-44	60 Valley St. LLC- Pending
2007-17	Milhaus LLC
2011	Victory Plating

Municipal Agreements are empowered by State Legislation

- The power to tax is one granted to the Rhode Island General Assembly by the Rhode Island Constitution, Article VI, Section 2.
- For emphasis, Article XIII, Section 5 on Home Rule states:

  Nothing contained in this article shall be deemed to grant to any city or town the power to levy, assess and collect taxes or to borrow money, except as authorized by the general assembly.

The Grant of Authority: R.I.G.L. § 44-3-9

EXEMPTION OR STABILIZING OF TAXES ON PROPERTY USED FOR MANUFACTURING, COMMERCIAL OR RESIDENTIAL PURPOSES:

(a)(1) Except as provided in this section, **the electors of any city or town** qualified to vote on a proposition to appropriate money or impose a tax when legally assembled, **may vote to authorize the city or town council, for a period not exceeding twenty (20) years**, and subject to the conditions as provided in this section, **to exempt from payment, in whole or in part, real and personal property which has undergone environmental remediation, is historically preserved, or is used for affordable housing, manufacturing, commercial, or residential purposes, or to determine a stabilized amount of taxes to be paid on account of the property, notwithstanding the valuation of the property or the rate of tax; provided,** that after public hearings, at least ten (10) days' notice of which shall be given in a newspaper having a general circulation in the city or town, **the city or town council determines that:**

R.I.G.L. § 44-3-9
Requisite Findings

(i) Granting of the exemption or stabilization will inure to the benefit of the city or town by reason of:

(A) The willingness of the manufacturing or commercial concern to locate in the city or town, or of individuals to reside in such an area; or

(B) The willingness of a manufacturing firm to expand facilities with an increase in employment or the willingness of a commercial or manufacturing concern to retain or expand its facility in the city or town and not substantially reduce its work force in the city or town; or

(C) An improvement of the physical plant of the city or town which will result in a long-term economic benefit to the city or town and state; or

(D) An improvement which converts or makes available land or facility that would otherwise be not developable or difficult to develop without substantial environmental remediation; or

(ii) Granting of the exemption or stabilization of taxes will inure to the benefit of the city or town by reason of the willingness of a manufacturing or commercial or residential firm or property owner to construct new or to replace, reconstruct, convert, expand, retain or remodel existing buildings, facilities, machinery, or equipment with modern buildings, facilities, fixtures, machinery, or equipment resulting in an increase or maintenance in plant, residential housing or commercial building investment by the firm or property owned in the city or town;

No poaching: R.I.G.L. § 44-3-9

(2) Provided that should the city or town council make the determination in subparagraph (1)(i)(B) of this subsection, any exemption or stabilization may be granted as to new buildings, fixtures, machinery, or equipment for new buildings, firms or expansions, and may be granted as to existing buildings, fixtures, machinery and equipment for existing employers in the city or town.

(b) Cities shall have the same authority as is granted to towns except that authority granted to the qualified electors of a town and to town councils shall be exercised in the case of a city by the city council.

(c) For purposes of this section, "property used for commercial purposes" means any building or structures used essentially for offices or commercial enterprises.

(d) Except as provided in this section, property, the payment of taxes on which has been so exempted or which is subject to the payment of a stabilized amount of taxes, shall not, during the period for which the exemption or stabilization of the amount of taxes is granted, be further liable to taxation by the city or town in which the property is located so long as the property is used for the manufacturing or commercial, or residential purposes for which the exemption or stabilized amount of taxes was made.

(e) Notwithstanding any vote of the qualified electors of a town and findings of a town council or of any vote and findings by a city council, the property shall be assessed for and shall pay that portion of the tax, if any, assessed by the city or town in which the real or personal property is located, for the purpose of paying the indebtedness of the city or town and the indebtedness of the state or any political subdivision of the state to the extent assessed upon or apportioned to the city or town, and the interest on the indebtedness, and for appropriation to any sinking fund of the city or town, which portion of the tax shall be paid in full, and the taxes so assessed and collected shall be kept in a separate account and used only for that purpose.

(f) Nothing in this section shall be deemed to permit the exemption or stabilization provided in this section for any manufacturing or commercial concern relocating from one city or town within the state of Rhode Island to another.

Translating Authority into Practice:

Sec. 21-161. - Eligible property.

The provisions of this article shall apply to **industrial property** which is defined to mean buildings, structures, and other improvements thereto, the primary purpose and use of which is the manufacture of goods and materials. "Industrial property" shall include facilities related to a manufacturing operation including but not limited to office, engineering, research and development, warehousing or parts distribution facilities, but shall not include land.

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 (i)(5) bars applications including a hotel or a parking garage with over 100 spaces, unless approved by the City Council.

YEAR"	TSA Name	Project Name
2012	Empire Lasalle, LLC	"Hasbro"
2012	HM Ventures I, LLC	"Sportsman Inn" a/k/a "The Dean"
2012	Butcher Block Mill, LLC	
2012	130 Westminster Street Associates, LLC	"The Arcade"
2012	Music House, LLC	"Fete"
2012	50 Agnes, LLC	
2012	Olneyville Housing Corporation	"Paragon Mills"
2012	Sharpe Building Associates, LLC	"The Foundry"
2012	Providence Capital, LLC	"Providence G"
2012	Hecht Development	
2012	Roger Williams Brewery, LLC	
2012	The Biltmore	

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 Council committee meetings, and two formal passages of an enabling ordinance, is swift.
- The structure 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
547,552.95	57,202.60
22,002.23	11,431.35
214,461.98	32,557.35
110,665.28	23,867.20
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 problematic? 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.

FEZECO CONSTRUCTION
10/02/2013

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;

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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. Convene 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

10/02/2013

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?

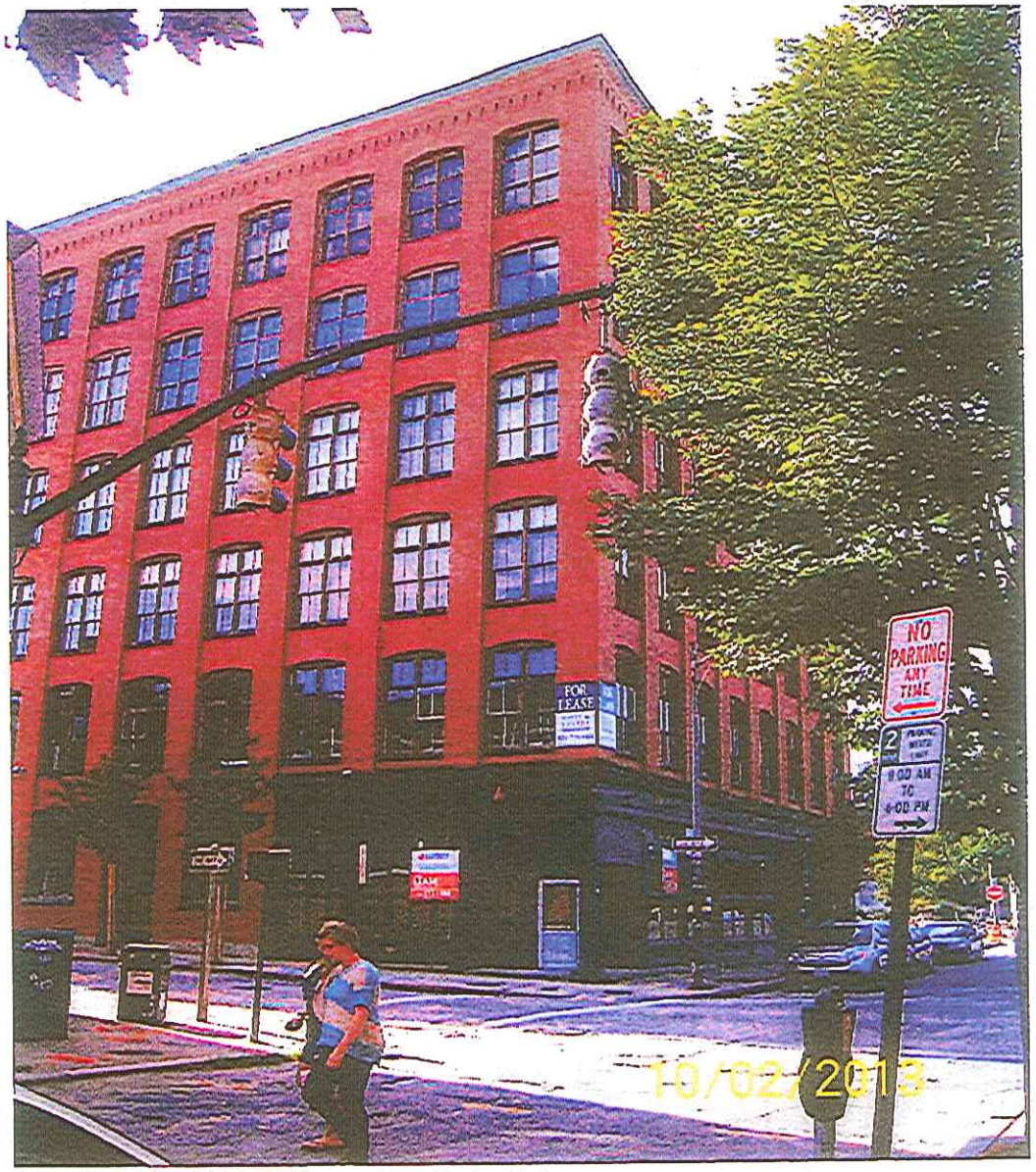
10/02/2013

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?

Betaspring:

- No obvious progress since TSA signed
- Meeting in November to discuss status
- 400 custom windows alone will meet 50% threshold



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.

What goes in this space?

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