

# City of Sandpoint

---

## Feasibility Study For The Downtown Sandpoint Redevelopment Area (Chapter 11, Revenue Allocation Plan)

October 2005

Study prepared by *John Austin*, Pan Handle Area Council, *Stephen Drinkard*, City of Sandpoint Planning Department and *Dana Wetzel* of Wetzel & Wetzel PLLC.

Printed: October 24, 2005

# Tax Allocation Financing Feasibility Study For The Sandpoint Downtown Urban Renewal Area

## Table of Contents

Executive Summary .....	1
Methodology .....	1
Redevelopment Planning Area .....	3
Existing Conditions .....	3
Parcels .....	3
Planned Development and Infrastructure Extensions .....	3
Baseline Build-out Potential.....	3
Development Acreage and Timing Projection.....	3
Private Sector Investment Potential .....	4
Property Tax Generation.....	4
Tax Allocation Project Projection.....	5
Urban Renewal District Improvements.....	5
Projection Assumptions .....	5
Levy Rates .....	5
Coverage Ratio .....	5
Personal Property Investment.....	6
School Payments .....	6
Determination of the Timing of the Required Incremental Tax Base .....	6
Improvement Financing .....	6
Fiscal Impact on Taxing Districts .....	6
Limits on Budget Increases .....	8
Levy Rate Reduction .....	9
Feasibility of Tax Increment Financing of Improvements .....	9
Conclusion.....	9

# Appendices

1. Area Tax Valuation by Parcel.
2. Development Projections for Downtown Revenue Allocation Area.
3. Baseline Property Tax Generations, 2005 to 2015.
4. Debt Service Schedule, Margins and Discounts.
5. Taxing Districts Projections.

# Tax Allocation Feasibility Study For The Sandpoint Downtown Redevelopment Area

## Executive Summary

The use of the Tax Allocation Financing Provision in the proposed Sandpoint Downtown Redevelopment Area Urban Renewal District is feasible under the existing taxing laws. Financing of the listed projects is projected by increment received through tax increment financing.

The investments listed here are in major part the result of expected or publicly proposed development in the Downtown Revenue Allocation Area, an investment expected to total \$148,030,000 over ten years. Increment received has been reduced in this schedule to ensure the viability of the tax increment financing. In other words, the Sandpoint Urban Renewal Agency Board (SURA) is attempting to be very conservative in its projection of paying off a bond used to construct the projects in this RAA.

Moreover, SURA also expects the bond to be paid off readily and sooner than the projections herein because: There is a possibility that "external funding" will increase and thus quickly diminish the bond debt; that is, Idaho Department of Transportation, once the Sand Creek Highway 95 Byway is begun, will give to the City of Sandpoint what is known as "reversion dollars," up to \$5,000,000, to repair the former path of Highway 95 through the Downtown core and the Revenue Allocation Area. These reversion dollars are at this time speculative, but there is a statewide precedent.

The dollar amount of improvements for the total Revenue Allocation Area is estimated to be \$7,290,420.

## Methodology

Revenue (or tax) allocation financing is a method of capturing tax revenue within an urban renewal area to be used to construct public improvement projects in the urban renewal area.

As part of an urban renewal plan, a revenue allocation financing provision is drafted, reviewed and following public notice and testimony, if found appropriate by the City Council, is approved. Within the urban renewal area, following City Council approval, a revenue allocation area is created and a base assessment roll is established which is equal to the assessment rolls for all classes of taxable property as of January 1st of the year the revenue allocation plan is adopted; in this case, 2005.

As new investment increases, the assessed valuation within the revenue allocation area increases, and this increase in tax revenues is used to pay off bonds issued to construct public improvements within the urban renewal area. By using captured tax revenue from revenue

allocation areas to finance bonds for public improvements, local taxing districts can fast-track public improvements in these areas. During the time that the bonds for the public improvements remain outstanding, all of increased tax revenue within the urban renewal area is dedicated to paying off the bonds. As a result, until the bonds are retired, the local taxing districts receive only the tax revenue from the area that was in effect prior to the time that the revenue allocation plan was approved.

While the bonds remain outstanding all budgeting practices of the local taxing districts remain intact, only a taxing district's ability to levy on the increased market valuation of the property within the urban renewal area is affected. The budgets/expenditures for local taxing districts are unaffected. In order to support the budget/expenditure for local taxing districts, property located outside of the urban renewal area may, under certain conditions, have a higher tax rate during the time that the bonds remain outstanding. However, the valuation of the property outside of the urban renewal area will also increase during the time that the bonds remain outstanding and this growth may absorb the increase in budget/expenditures that the taxing districts may experience during this time. Since the budget/expenditure for each taxing district is spread out over a substantially larger area than just the urban renewal area the tax increase (if any) for the property located outside of the urban renewal area would be very small.

To determine the feasibility of a tax increment financing provision for improving the Sandpoint Downtown Revenue Allocation Area, the first task requires listing all properties within the proposed revenue allocation area by parcel number. Then, for each parcel within the taxing area, market value of each parcel, including any exemptions for the property are listed to complete an inventory of the properties. In this case, the City Finance Officer, Shannon Syth, has compiled the base line for this Downtown RAA with help from the Bonner County Assessor's office and the State Tax Commission. Documentation of this compilation will be available in the City Clerk's office.

Once the inventory is complete, a baseline projection of tax revenues is created. This projection is based on the projected build out of the Downtown Revenue Allocation Area, as provided by the John H. Corn, Principal, Corn & Associates. (See Appendix 2)

Next, a projection of tax revenue is prepared assuming that a tax allocation provision is approved. This projection assumes a "freeze" on the amount of revenue each taxing district (except for the Lake Pend Oreille School District) will receive from the valuation of property within the revenue allocation area while the bonds are being paid. The projection also shows the tax valuation increases that will be available to the local taxing districts when the bonds are paid and the entire tax revenue amount from the increase valuation within the revenue allocation area is available to the local taxing districts. The projection is based in part on an estimate of how much time the increment would be required to in place to ensure that the bonds are repaid from a positive cash flow from the urban renewal area. Of course, if new investment in the area occurs above the growth anticipated in the projection, the length of time required to create sufficient revenue for a positive cash flow decreases proportionate to the amount of new investment.

Determination of feasibility will be made by the City of Sandpoint City Council through their action to either approve or disapprove the urban renewal plan and the tax allocation provision. As required in this determination a statement of feasibility has been prepared which indicated whether a tax allocation provision is financially feasible. That statement affirms that the tax allocation provision is financially feasible.

# Redevelopment Planning Area

## *Existing Conditions*

### **Parcels**

The Bonner County Assessor has identified the parcels within the downtown revenue allocation area. The value of each parcel constitutes the basis of the total property tax revenue the taxing districts will receive during the project build out. This “frozen “ value is \$11,000,00. The State Tax Commission has not, at the time of this writing, validated this value. However, this value was verified by the City of Sandpoint Finance Officer to be very conservative, meaning that the final value should be less.

By statute, this value cannot be more than ten percent of the total value of all property within the city. The total valuation of property within the city as of January 1, 2005 is \$570,157,378. Therefore, the statutory requirement is met. (Sources of numbers: Bonner County Assessor, State Tax Commission and City Finance Officer, Shannon Syth. Documentation is available in the City Clerk’s Office.)

### ***Planned Public Infrastructure Development***

As described fully in chapter 3 of this RAA Plan , development within the urban renewal area includes improvements to the downtown core streets, sidewalks, storm water system, and city parking lot. The increased valuation resulting from the public investments and consequent private investment in the urban renewal area will provide the tax revenue necessary to pay bonds issued to finance the public infrastructure improvements made in the urban renewal area.

### ***Baseline Build-out Potential***

#### **Development Build-Out by Acreage and Timing Projection**

A projection of the anticipated development build-out in the revenue allocation area is set forth below including an estimate of when the build-out is expected to be completed for taxation valuation purposes. The chart represents an overview of the likely future development of the Downtown Revenue Allocation Area. It is, however, a *projection* of the build-out. Because development involves several properties and different developers and because not all of the developers have publicly outlined at this time their respective build-out schedules, SURA has therefore estimated yearly construction values. By the time Bond Counsel is secured, SURA will have more definitive build-out schedules. The following table shows the timing projection by year.

**TABLE 1  
DOWNTOWN REVENUE ALLOCATION AREA  
PRIVATE SECTOR INVESTMENT GROWTH, 2005 TO 2015**

<b>Year</b>	<b>Values</b>
<b>2005</b>	
<b>2006</b>	<b>\$14,803,000</b>
<b>2007</b>	<b>\$14,803,000</b>
<b>2008</b>	<b>\$14,803,000</b>

2009	\$14,803,000
2010	\$14,803,000
2011	\$14,803,000
2012	\$14,803,000
2013	\$14,803,000
2014	\$14,803,000
2015	\$14,803,000
<b>TOTAL</b>	<b>\$148,030,000</b>

Source: John Corn SURA

### Private Sector Investment Potential

A projection of private sector investment (and market value) has been prepared for the build-out of the redevelopment area. (See Appendix 2)

Current property owners/developers who anticipate development in the urban renewal area are confident that the build out projection is reliable, and even conservative in nature. In the unlikely event that the projections are not achieved, the amount of debt financing for the public improvement projects can be reduced, and the property owner/developer can work with the Urban Renewal Agency to find alternate funding methods.

### Property Tax Generation

As investment occurs in the Sandpoint Redevelopment Area, additional taxes will be generated. The following Table 2 shows a summary of the tax generation anticipated at normal growth rates within the redevelopment area. It is anticipated that, as new infrastructure investment occurs in the area, the development rate, and tax generation, will increase

**TABLE 2**  
**SANDPOINT DOWNTOWN REDEVELOPMENT AREA**  
**PROPERTY TAX GENERATION, 2002 TO 2015**

Year	Total
2005	
2006	186,015
2007	375,127
2008	567,430
2009	763,019
2010	961,993
2011	1,164,453
2012	1,370,504
2013	1,580,253
2014	1,793,812
2015	2,011,294
<b>TOTAL</b>	<b>10,773,900</b>

Source: SURA

## Tax Allocation Project Projection

The projection, Table 4 on page 7, is based on the projected growth rates described in the section above. Because these are projections, unanticipated changes in the area or economic growth rates can accelerate or slow the estimates. However, the estimates are based upon the best available projections from the landowners and potential developers within the urban renewal area and historical information from the records of the City of Sandpoint.

### ***Urban Renewal District Improvements***

Improvements are thoroughly described in Chapter 3 of this Urban Renewal Plan. These improvements include curbs and gutters, sidewalks, streets, water, storm water systems, drainage, street trees and city parking lot re-configurations.

### ***Projection Assumptions***

Several assumptions have been made regarding the future. These assumptions are described in the following paragraphs.

### **Levy Rates**

It is assumed that levy rates for all taxing districts affected by the Tax Allocation District will remain constant. These rates are shown in the following table.

**TABLE 3  
LEVY RATES**

<b>Taxing Entity</b>	<b>Rate Per \$1,000</b>
<i>Bonner County</i>	<i>.003283557</i>
<i>City of Sandpoint</i>	<i>.005158276</i>
<i>Independent Highway District</i>	<i>.000967524</i>
<i>Bonner County Road and Bridge</i>	<i>.001196408</i>
<i>East Bonner Library District</i>	<i>.000691550</i>
<i>Lake Pend Oreille School District</i>	<i>.004432936</i>
<i>Bonner County Ambulance</i>	<i>.000400535</i>
<i>Pend Oreille Hospital District</i>	<i>.000227287</i>
<b>Total</b>	<b>.016358073</b>

Source Bonner County Clerk

### **Coverage Ratio**

The coverage ratio applied to the Sandpoint Urban Renewal Project's Tax Increment Revenues is 115%. Application of a coverage ratio greater than 100% has the effect of reducing the projected amount of revenue that can be applied to serving the bonds. Coverage ratios are applied to create a margin of safety should tax revenues fall short of expectations. In this projection, actual revenue collected is used in the year following the year it was collected. In

this way, actual revenue is accounted for and not the amount available for debt service due to the coverage ratio.

### **Personal Property Investment**

No value is added for personal property (equipment, fixtures, etc.). This property is also taxed and is subject to the tax increment but has been omitted from the projections to provide an added measure of margin.

### **School Payments**

Tax law assigns a percentage of new tax increment revenues to the school districts. For our projection the amount will be whatever is allowed by statute of the total market value of the tax allocation area.

### ***Determination of the Timing of the Required Incremental Tax Base***

As development occurs within the Downtown Revenue Allocation Area, additional investment will add incremental tax revenues. Based on the Idaho Economic Forecast's growth assumptions, there will be sufficient increment added to the redevelopment area by the year 2005. Since taxes are not collected until the following year, the tax required to pay for bonds will be available in January 2007. Table 4 on the following page shows this anticipated growth and the amount of incremental taxes expected.

### ***Improvement Financing***

The interest rates established for the repayment of the bonds will be according to the municipal bond market standards at the time the bonds are issued. This project anticipates an interest rate of 4.5%.



## **Fiscal Impact on Taxing Districts**

As part of this Revenue Allocation Plan the Sandpoint Urban Renewal Agency is required by Idaho Code 50-2905 to prepare a “fiscal impact statement showing the impact of the revenue allocation area, both until and after the bonds are repaid, upon all taxing districts levying taxes upon property on the revenue allocation area.” Those taxing districts here are: Bonner County, Independent Highway District, Bonner County Road and Bridge, Bonner County Ambulance, East Bonner Library District, Lake Pend Oreille School District Pend Oreille Hospital District and the city of Sandpoint itself.

As stated before, during the time that bonds are outstanding in a revenue allocation area the tax valuation base that taxing districts can levy against is frozen at the valuation base in effect the year that the revenue allocation plan is adopted. During the time that the bonds remain outstanding all taxing districts still levy taxes on property in the urban renewal area, but the valuation of the property is frozen at the valuation base set on the year the revenue allocation plan was adopted. A revenue allocation area and an urban renewal plan do not affect a taxing district’s authority to levy taxes so taxing districts enjoy the same ability to increase revenue through taxes before, during and following the establishment of a revenue allocation area. An urban renewal plan and revenue allocation area have no fiscal affect upon taxing districts.

An urban renewal plan and revenue allocation area only effect how a taxing district levies taxes. Because the base valuation within the revenue allocation area is frozen at a base amount, the increase in tax levies for taxing districts that might have been partially absorbed from increase valuation in the revenue allocation area must be distributed to property outside of the urban renewal area. If growth and increase valuation in property outside the revenue allocation area is not sufficient to absorb tax increases from taxing districts, the property outside the urban renewal area may experience a small increase in the taxes paid to taxing districts. The financial status of taxing districts; however is not affected.

In conclusion, there is no fiscal impact on taxing districts during the time that an revenue allocation plan and urban renewal plan is in effect. There is a possibility to increase available revenue to the taxing districts in the future if the taxing districts chose to uses increase valuation in the urban renewal area to levy and collect forgone taxes.

### ***Limits on Budget Increases***

Statutorily, taxing districts are limited in how much their annual budgets can be increased and, as a result, how much revenue call be raised through taxes. This statutory limit applies even though a taxing district may have experienced a substantial increase in the tax base. This limitation on receipt of additional revenue is partially mitigated by the collection of “Foregone Taxes”; taxes which the taxing district has a right to collect but has not collected. These taxes, which would normally be collected during the tax increment-financing period, may be collected after the bonds have been paid, assuming the law remains the same. The amount of foregone taxes for any given year can be obtained by requesting the *Dollar Certification of Budget Request to Board of County Commissions L-2*, for the year in question.

Taxing districts can recover foregone taxes at any point. However, it is more reasonable to collect foregone taxes if the district has a sufficient source of assessed value to produce tax revenues. The Urban Renewal Project can create these sources of additional tax revenue.

### ***Levy Rate Calculation***

Idaho State law limits the increase in budgets of each taxing district. To be conservative in our assumptions, we have anticipated that taxing districts will set higher annual levy rates because of the use of foregone taxes and new construction within each taxing district. This has resulted in a projection of a 3% levy increase for each taxing district except the Lake Pend Oreille School District.

## **Feasibility of Tax Increment Financing of Improvements**

As a result of this analysis, the feasibility of using the Tax Allocation Financing Provision for improvements within the Sandpoint Redevelopment Area are positive given the assumptions included in this report. The conservative growth assumptions that have been applied to calculate the increased valuation from private development within the urban renewal area establish that there will be sufficient increase in tax revenue from the urban renewal area to pay for the public improvements made in the urban renewal area.

There is no financial impact on taxing districts during the time that the urban renewal plan and revenue allocation area are in effect.. The future impact on the ability of taxing districts to increase tax revenue; however, is likely to be positive. While there is a limit on the increase in budgets of the taxing districts, forgone taxes can be used to increase district activity to accommodate the new growth.

## **Conclusion**

The City of Sandpoint is facing increasing pressure to raise revenue to finance public improvements that support economic growth and development of new and better paying jobs in the community. The old and often deteriorating infrastructure in certain commercial and industrial areas of town only adds to the pressure faced by the City. Urban renewal planning provides an opportunity to address current deteriorated infrastructure and plan for the future expansion requirements within specified areas.

With the availability of the Tax Increment Financing provision in the City of Sandpoint, the tax revenue generated within a specified area can be captured and used to pay for public improvements that are constructed in the area. This targeted public investment in infrastructure can enhance economic growth of the community and provide a positive financial outlook for the future of the residents of the City of Sandpoint. The Sandpoint Downtown Urban Renewal Area is a good candidate for use of revenue allocation financing to build public infrastructure improvements in the downtown area.

## Appendix 1

### **TAX VALUATION BY PARCEL**

---

Because of the size of parcel listings for this RAA, parcels will not be listed herein. Rather, the parcel listings are available for review in the City Clerk's office of the City of Sandpoint.

## Appendix 2

### DEVELOPMENT PROJECTIONS FOR DOWNTOWN REVENUE ALLOCATION AREA

[Source: John H. Corn, Principal Corn & Associates PO Box 1986 Sandpoint, ID 83864 (208) 255-4446]

PROJECT	LOCATION	TYPE	LAND/BLD SIZE	C/ALC	Millions	MIN END VALUE (000,000)
Fosters Crossing- PHI	NW corner Cedar & Fifth	Condo/ restaurant	8 Dus	8 x 350,000 + (4500* + restaur(100))		3.25
5th Ave Office	SW corner Oak & Fifth	Office	6,000 sf	could be more if undergnd pkgng.6000x1m net x 14 cap		0.84
5th Ave UP sites	W of Fifth Alder - Larch	mxm use	62,932 SF	9-11,000sf x 4: retail 10,000x14 + res		3.16
	W of Fifth Alder - Larch	mxm use	35,659 SF	PROPORTIONATE	57%	1.80
	W of Fifth Alder - Larch	mxm use	29,991 SF	PROPORTIONATE	48%	1.52
Seasons		RES-CONDO	165 Dus	Seasons' Projection of "Retail Value." 20Mil in 2006; balance over next 4 years		128.00
Panhandle St Bank	Harold's site	Office	35,000 sf	125x200+10,000@ \$12/sf capped @ 14. Proj. 2007		5.88
Waterfront Prop Condos	adj to Powerhouse	Condos	63,000 sf 11 DUs	sf land, if 3 story, incl 20 spaces for visitors/customers @325K		3.58
<b>Downtown Revenue Allocation Area Total</b>						<b>148.03</b>

## Appendix 3

### BASELINE PROPERTY TAX GENERATION, 2005 TO 2015

Year	Total
2005	186,015
2006	375,127
2007	567,430
2008	763,019
2009	961,993
2010	1,164,453
2011	1,370,504
2012	1,580,253
2013	1,793,812
2014	2,011,294
2015	10,773,900
<b>TOTAL</b>	

# Appendix 4

## DEBT SERVICE SCHEDULE, MARGINS AND DISCOUNTS

2005	0	0	0
2006	0	0	0
2007	2,500,000	2,500,000	310,915
2008	2,500,000	2,500,000	310,915
2009	5,000,000	5,000,000	621,830
2010	7,000,000	7,000,000	870,563
2011	7,000,000	7,000,000	870,563
2012	7,000,000	7,000,000	870,563
2013	7,000,000	7,000,000	870,563
2014	7,000,000	7,000,000	870,563
2015	7,000,000	7,000,000	2,746,656
<b>TOTAL</b>			<b>8,343,130</b>

Loan Amounts	\$2,500,000 to \$7,000,000
Interest Rate	4.5%
Term (Years)	10
Present Value Discount	3%
Debt Service Margin	15%
Balloon Payment	In Year 7 of 10 on \$7.0 million Bond

**TAXING DISTRICT PROJECTIONS**

---

**Tax Increment Available for Districts after Bond Retirement**

	Year	2015
Tax Increment Available for Districts		2,613,729
TIF Revenue Projection By District		
Lake Pend Oreille School District		656,075
Bonner County		563,482
Independent Highway District		166,034
City of Sandpoint		763,580
Bonner County Road and Bridge		238,004
East Bonner Library District		100,735
Pend Oreille Hospital District		45,200
Bonner County Ambulance		80,639
Total		<u>2,613,729</u>

Note: This additional tax revenue may not be available without the Tax Increment Financing Project. This projection assumes the bonds are retired as soon as funds are available in 2015.