

Tax Increment Financing Study and Formulating Committee

Approved Minutes of Meeting

December 20, 2018

On December 20, 2018, the Tax Increment Financing Study and Formulating Committee (the “Committee”) held a meeting in the Peabody Conference Room on the first floor of Lindsley Hall, 730 2nd Avenue, in Nashville, Tennessee. The meeting began at 1:00 P.M. The following members of the Committee were present in person:

Charles Robert Bone, Dr. Paulette Coleman, Brian Kelsey, Talia Lomax-O’Neal, Bert Mathews, and Bob Mendes. Mr. Mendes chaired the meeting and called it to order. Richard Warren was out of town and unable to attend the meeting but subsequently reviewed the video of it and prepared these minutes.

The meeting was open to the public and there were several other people in attendance. The meeting was recorded on video and made available following the meeting on Channel 3 and the Metro YouTube channel.

Agenda

An agenda for the meeting was posted on the Committee’s SharePoint site in advance of the meeting.

Approval of Minutes

The minutes of the meeting of December 7 were not yet ready so this item was deferred to the next meeting.

Discussion of the economic and fiscal impacts of TIF in Nashville

The first portion of this discussion focused on the impact of TIF on Metro’s budget and was led by Metro Finance Director Talia Lomax-O’Neal. Ms. O’Neal began by leading the committee through a discussion of the spreadsheet that she had prepared on this topic which is available on the committee’s SharePoint site. It identifies the history of the impact of TIF on the Metro budget going back twenty years. It compares the growth of TIF to total property taxes collected. She acknowledged that there may be some data points that are missing from this analysis.

On the left side of the spreadsheet is an analysis of the six funds into which property taxes flow. On the right side are the property tax revenues for those same funds. She then compared the increase in the actual TIF funds flowing to MDHA from one fiscal year compared to the next and noted that it is a significantly higher percentage than the increase in overall tax revenue. Ms. O’Neal noted that they currently do not track increases on individual parcels which limits the ability to draw conclusions from this data.

Dr. Coleman then asked if it would be helpful to have the metric of increases by individual parcel available and Ms. O’Neal responded that this is the direction in which the Finance Department wants to proceed.

On the second page she noted the comparison over this twenty year period of the overall budget growth. In years in which there is no increase in the tax rate, growth is usually only about 2%. As noted in the chart, the years with larger percentage increases were years in which the tax rate was increased as detailed in the footnotes.

This led to a discussion among the committee members. Ms. O'dNeal reiterated that there is not currently enough information to do a detailed analysis of the impact of TIF on Metro property taxes. Joe Cain responded that MDHA does have data on the individual parcels that receive TIF but this is over 3,000 parcels of land and are difficult to analyze.

Mr. Mendes noted that between fiscal 2015 and 2018 TIF goes from \$17 million to \$27 million and asked if Finance has good visibility about future increases. Ms. O'dNeal said that they do not have good visibility but noted that Mr. Cain has offered to provide more assistance on that in the future.

Mr. Bone asked if the Assessor needed to be involved in that process. Ms. O'dNeal responded that the Trustee is involved to some extent. Mr. Cain said that MDHA does not always have good information on when the property will come on the tax rolls, either partially or fully. Bringing the Assessor into this conversation would help since they value the property and then the Trustee sends the bills. All of these people need to be at the table. Ms. O'dNeal noted that the numbers have grown larger so there is more impact.

Mr. Mendes noted that there are complaints from school advocates about the impact of TIF. Ms. O'dNeal gave an example that in FY 2018 the school allocation grew 3% and TIF grew 12% which they believe has a significant impact on their budget. Mr. Bone then raised a question about whether the TIF funds should be booked as an expense. Noting that the total school funds over the twenty year period is \$4.4 billion while TIF was \$72.7 million, he observed that we do not have data on whether the schools would have collected the full \$4.4 billion but for the increased taxes generated from TIF projects. Ms. O'dNeal confirmed that we do not have that data in a useable form. Mr. Mathews also noted that it does not capture, for example, the additional sales tax generated by a hotel or peripheral development generated by TIF projects. He also suggested that MDHA can work with the Assessor's office and provide estimates to Finance. Mr. Cain responded that it is easy to do that for the current year but is more difficult to project further out but they are working on improving that. Mr. Mendes suggested that as the TIF numbers have grown there needs to be an institutional bias in favor of a conservative estimate. Mr. Mendes then noted that if transit oriented development districts (TODs) are created in the future, that will drive this number higher.

Mr. Mendes noted that there are two additional documents on the portal. One is a memo from Mr. Cain on data that MDHA pulled together on a TOD project last summer. It was prepared internally at MDHA without input from Finance. Dr. Coleman stressed that we need better metrics and processes and asked if this process would benefit from the use of outside experts. Mr. Kelsey confirmed that there are process improvements that can be made before we get into a deep analysis of the financial information as that is a very complicated task. Mr. Mendes noted that this is a much more critical inquiry if there is a district wide TIF rather than parcel by parcel.

The other document is a presentation that Mr. Mendes prepared on the impact on property values. He noted that the previous discussion made the point that we do not have all of the information that we need to do a good financial analysis.

He then turned to examples of rationales to support the case for TIF and which cases deserve support. There is no consensus on the goals for TIF and a need to figure out who makes these decisions and how we make that process more transparent. Would the project not occur without TIF or would it be better with TIF (produce more tax revenue, include affordable housing, etc.).

Another question is does TIF “raise all of the boats.” Mr. Mendes walked through the Donelson TOD as an example looking at MDHA’s projections of future property values and questioned some of the assumptions on which those projections were based. Other examples raised questions of projections of future growth rates in property values and whether the growth resulted from the availability of TIF in redevelopment districts. He also noted that since 2005 the tax rate has been changed only once as opposed to earlier years when there were regular increases in taxes and this has to be factored into the calculations. If you make relatively minor changes in the assumptions it can make a significant difference in the valuations. He then noted several open questions for further analysis.

Mr. Kelsey said that he thinks that this sensitivity analysis of how changes in the assumptions impact the end result is an important part of the process. Dr. Coleman stressed the need for a process and a policy, stressing that this committee’s final report must have recommendations not just questions. Mr. Mendes stated that he is keeping a list of topics that have surfaced in our discussions so far that could be added to the public facing website. Ms. O’Neal suggested that might be best for Phase II after we complete the education phase. Dr. Coleman suggested that we continue to have a question for every meeting.

Mr. Kelsey read three public comments that he had received and agreed to send them to appropriate committee member for responses.

Next Meeting

The next meeting will include a banker who makes TIF loans, a developer who has received TIF and a developer who was turned down for TIF and the format will be a panel discussion moderated by Mr. Mendes. That meeting will be on January 11, 2019, at 1 P.M. also in the Peabody Conference Room in Lindsley Hall.

There will also be a meeting on January 23 and there was a discussion of what the topic should be for that meeting. Mr. Kelsey suggested topics that include housing affordability, TOD and other topics. Dr. Coleman noted that the public does not understand the restrictions on the use of TIF for affordable housing. The committee members then discussed various options for future programs. It was agreed that a panel could include Eddie Latimer, someone from Elmington Capital, and a smaller developer, perhaps a nonprofit developer. We also need to explore a public comment option beginning in February.

There being no further business, the meeting was then adjourned at approximately 2:20 P.M.

Richard Warren

Richard Warren, Secretary