

Tax Increment Financing Study and Formulating Committee

Draft Minutes of Meeting

January 23, 2019

On January 23, 2019, 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 individuals, were present in person:

Charles Robert Bone, Brian Kelsey, Talia Lomax-O’Neal, Bert Mathews, Bob Mendes and Richard Warren. Mr. Mendes chaired the meeting and called it to order. Mr. Warren served as Secretary. Dr. Paulette Coleman was out of town and unable to attend.

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 previous meeting held on January 11, 2019, were unanimously approved on a motion from Ms. O’Neal seconded by Mr. Kelsey. They are now posted to the SharePoint site and marked as “Approved.”

Panel Discussion of What is transit oriented development (“TOD”) and what role should TIF have

Mr. Mendes then introduced the panel for today’s program which he moderated. The panelists included Steve Bland, the CEO of the Metropolitan Transit Authority d/b/a WeGo Transit (“MTA”), and the Regional Transit Authority (“RTA”) which covers the surrounding ten county area, Council Member Nancy VanReece from District 8 in the Northeast corridor which includes part of East Nashville as well as Maplewood in addition to Madison and Dickerson Pile and the growing area above Briley Parkway, and D.J. Wootson of Titus Young Real Estate, who has developed projects on the North side of the city in and around the colleges including a project on Jefferson Street that included TIF.

Mr. Mendes then offered a brief summary of the Committee’s discussions to date of TIF and TOD. Traditionally TIF in Nashville has been in redevelopment districts that are deemed blighted. We have discussed the relatively narrow list of “eligible expenses which are discussed in Mr, Warren’s memo which is in the materials for today’s meeting. TODs have a different standard; they are available for what is defined as “transit deficient areas” and the list of eligible expenses is broader, expressly including affordable housing.

We will start with a “speed round” of questions for the panel.

First of all, how would each of you define transit oriented development?

Mr. Bland noted that he would use a broader definition than the state legislation in Tennessee. We would look at it as relatively dense areas with a relatively high level of Service. Mr. Wootson thinks of it as developments that benefit from the availability of transit, be it housing or retail. CM VanReece agreed with Mr. Wootson’s definition, where transit is easily available. There is a current bottleneck in Madison where there is a high volume of riders but it is not a walkable area. The city is investing in Madison Stations Boulevard which will help this situation.

Mr. Mendes then asked should TIF investments pay for itself in the long run?

CM VanReece says that it depends. Time lines will be different for individual projects. Mr. Wootson asked for clarification for the question and Mr. Mendes said what return should the city expect. Mr. Wootson said that he did not know. Mr. Bland noted that he is not an expert but has seen TIF used for a local match to build a station so he would look at the life of the asset, perhaps twenty years.

Mr. Mathews then asked whether the TIF could be used to build the station. Mr. Mendes asked Mr. Warren for clarification and after reviewing the memorandum that he had prepared he noted that TIF can be used for building a train station, track, etc. Mr. Mathews noted that this is a fairly standard way of financing these projects. Mr. Bland noted that there are usually a variety of sources including impact fees, sale of excess land and other types of revenue. In Donelson and Mt. Juliet, they worked with a developer who has done these types of projects before and is familiar with the Federal Transit Administration requirements. Another area of concern is what the community wants in the way of affordable housing or other development.

Mr. Mendes then posed another question, asking CM VanReece if she was familiar with the financial projections for the Donelson TOD project. She noted that it was multilayer which made it hard to analyze. Mr. Bland said that MTA was not directly involved on the financing side of the project, they were looking more at the catchment data of how far were people likely to come to the Donelson zone. Mr. Mendes noted that Metro Finance was not directly involved in reviewing the financing which mostly came from MDHA.

Mr. Bland explained the difference between MTA which is a Metro entity and the RTA which is a state created agency for a ten county area with the city and county mayors or their designees as the Board.

Mr. Mendes then turned to what he said was one of the criticisms about TOD TIF is it is a real estate play for developers rather than for transit. Mr. Bland said that in other projects that he has been involved in outside Tennessee none of the TIF money went for development but rather for infrastructure, a station enhancement or parking.

Mr. Mendes asked what the TIF would be used for in the Donelson project? Mr. Bland said that the TIF was not part of their calculation which started before the state TOD TIF statute. They were focused on enhancing ridership and future revenue for MTA.

CM VanReece said that it made a big difference to CM Syracuse that the library still happened despite the TOD project failing.

Mr. Bland noted that they have no official position on density but it is a fact that you will have greater ridership in more densely developed areas. Eighty percent of transit riders walked one-half mile or less. 59% walk a quarter mile or less. It helps to have a walkable environment. There are service issues. People will walk further for higher capacity corridors than if it only comes once an hour.

CM VanReece noted that infrastructure is not a sexy word but being able to walk safely and have a good environment around you all involves infrastructure.

Mr. Mendes said that raised another question and asked CM VanReece if you attract development that creates the density that permits better transit options if you run the risk of pricing people out of the neighborhood. She responded that she has the benefit in District 8 of seeing things happen in East Nashville that people in Madison are afraid of. How do you maintain a neighborhood and celebrate what is already there. Can you push development out to the corridors and protect the internal neighborhoods. Madison is huge and very diverse in terms of development. Beyond the train track it will remain suburban neighborhoods. Prices do go up but that is a good thing for a homeowner. You can still get an 1850 square foot house on a quarter acre lot for \$250,000 in Madison.

Mr. Mendes asked if there could be TOD in Madison without an erosion of affordability? CM VanReece says that she thought that it could. She wants to incentivize appropriate infrastructure.

Ms. O'dNeal asked why shouldn't Metro pay for infrastructure rather than use TIF. Mr. Wootson agreed, mentioning his project on Jefferson Street, a 26,000 square foot project out Meharry Medical College's back door. TIF helped him bridge the gap on his financing with the equity that he had raised.

Ms. O'dNeal asked which process is in Metro's best interest. Mr. Bland responded that from his experience in other cities all of these transit projects are unique; "When you have seen one TOD, you have seen one TOD." Mr. Bone said that is the most helpful comment yet. Mr. Bland said that in other places TIF has been used as a source of last resort, or at least later resort. The path of first resort would be the traditional sources which are better understood and are less mysterious. With large projects you have to look everywhere you can to raise the local match to access the federal funds.

Mr. Wootson noted that these are public private partnerships in many instances. It would help to have assistance from Metro on part of that project. CM VanReece thinks it is up to the council member to listen to the community and help determine what is needed.

Mr. Warren referenced the issue raised by Ray Hensler at our last meeting about asking the city to take the utilities underground by his project in the Gulch. The city offered to make some TIF money available for that but required him to extend the utility project all the way to McGavock Street. He would have preferred not to have had to undertake that risk but the Public Works funds were committed at that point so TIF provided an alternative means of financing the project.

Mr. Bone noted another distinction between whether you use public money or TIF is that TIF shifts risk to the developer. Mr. Wootson said that risk is scary for the developer – will there be a shortfall in the tax revenue to repay the loan, cost overruns, etc.

Mr. Mendes said that he is not sure that TIF is the example of last resort if the project is in a redevelopment district. He notes that he voted for the Nashville Yards infrastructure as a direct expenditure because it was in the capital budget. He prefers that structure. He gave an example in SoBro where TIF is a first resort where Metro has refused to pay for infrastructure.

Last question to CM Van Reese, what are the impediments to getting TOD in Madison? She responded that you have to demonstrate the business benefit, small business growth, as well as a community benefit. You want to avoid gentrification of businesses as well as residents. The possibility of including affordable and work force housing in the TOD districts to include mixed income housing. Some existing property owners may not want that.

Same question to Mr. Bland. He replied says lets distinguish between traditional TOD which is happening all over town, denser development as opposed to under the new state legislation. Eight corridors carry 70% of the existing ridership so those are good candidates. From a community perspective, how does it fit with Nashville Next. Then, what do people want. Very few transit agencies administer TIF funds. For high quality, frequent transit, you need density. You can't maintain four units per acre and have frequent service. Those would be very lonely buses.

Mr. Kelsey says that you have to be clear about the policy goal – encourage use of transit or is it about land use, “smart growth” with more density, affordable housing, etc.. Mr. Wootson noted that TIF may come with more headaches than the problems that it solves.

CM VanReece noted our “wagon wheel” city makes the commercial corridors the transit corridors. We want appropriate land use that incentivizes the use of transit. Mr. Bland prefers the term “pedestrian oriented development” to TOD. Noting that he is not an economist or a developer, he observed that if a piece of land is more valuable if you can put more density on it and that does not directly price people out of the market.

Mr. Mendes asked what is the role of government in this process; will supply and demand take care of affordable housing without subsidy. Mr. Bland said that he is not an expert on that.

Mr. Wootson was asked, as a developer, would he want to participate in a TOD with TIF. He responded that TIF brings a lot of restrictions. CM VanReece agreed with this analysis. Mr. Wootson said that there needs to be an additional benefit for the developer to justify the use of TIF.

CM VanReece noted that the \$2.8 million investment in the Madison library and the \$6 MM Madison Station Boulevard complete street is spurring private development as it did on 12 South. Mr. Mendes pushed back and observed that we still have a deficit of 25 to 30 thousand housing units.

Mr. Wootson was asked what the city needs to do to encourage TOD. He responded that it should approach it as a partnership. Infrastructure is needed.

Mr. Mendes than asked if there is a sense of how we as a city should make a decision as to where TIF money should be allocated in the future

CM VanReece said that you should go where you haven't gone before. Mr. Wootson noted that some areas no longer need TIF, and should have stopped five years ago. So you should steer development where you want it to go. There are seven acres on Clarksville Highway that could have a TOD project that he is in discussions with MTA about.

Ms. O'dNeal asked how the city can get its arms around this as a long term strategic policy, what does this look like on a comprehensive basis? CM VanReece said that there are Tier 1 areas in Nashville Next. Ms. O'dNeal noted that new things do comes up that don't fit in a long term plan. Mr. Wootson said that you have to look at it case by case. Ms. O'dNeal does not like being in a reactionary mode.

Mr. Mendes said that if you assume that Metro's payoff is in the long run, how do we decide how much to invest and where it should be? We are now over \$25 million a year in TIF and you need more predictability than one off deals. How do you decide how much to spend and where to spend it?

Mr. Bone says that he thinks of Nashville Next as the strategic plan for the city. Other opportunities outside the plan will have a higher hurdle but may be capable of being justified. City is not looking solely at ROI, it can take a longer perspective for the long term opportunity. Ms. O'dNeal agrees but does not thing that we have not been doing that type of analysis. Mr. Kelsey asked what is the public benefit that justifies the government intervention in the market. For example, should we prioritize transit?

Mr. Mathews asked what is a market intervention to incentivize transit riders? Mr. Bland asked what is the broader strategy.. Tennessee's legislation is different from what he has seen in other states, it tries to make a transit deficient area look like a blighted area. What is the broad city goal, what is the neighborhood goal, then what is the mobility goal. You need to see the intersection of all three areas. A network of neighborhood transit centers is probably a viable place to look for outside the box help such as TIF or some other mechanism. Other areas have focused more on financing transit than spurring ancillary development.

Mr. Mendes asked for final comments.

CM VanReece thanked CM Mendes for his leadership and said that she thinks that this committee has been a good resource for the community and the Council. We need to recognize that no one in District 8 has asked for TIF money. There will be more developers coming up with good ideas looking for ways to reinvest in their communities.

Mr. Wootson wants people to understand what Metro's desired benefit is, is it broader than TIF?

Mr. Bland sees the role of MTA and RTA is planning and delivering transit, identify viable transit markets for community planning and investment, identify the infrastructure needed. Collaborative effort to see what can be funded in a traditional manner and perhaps nontraditional sources.

Discussion of the syllabus for future meetings

The next committee meeting is Friday, February 8, back here again, on affordable housing with a panel composed of Eddie Latimer, Hunter Nelson and Michael Kenner; We will also look at transparency. Mr. Kelsey will moderate with Mr. Bone assisting. March 6 will be the Public Comment session in Council Chamber, which we need to publicize. On February 22 we will begin discussion of recommendations.

Comments received on the Study Group web page

None.

New business

None.

Next Meeting

The next meeting will be on February 8, 2019, at 1 P.M. also in the Peabody Conference Room in Lindsley Hall. The topic will be affordable housing.

There being no further business, the meeting was then adjourned at approximately 3 P.M.

Richard Warren, Secretary