# DOWNTOWN AREA ECONOMIC DEVELOPMENT PROJECT PLAN AND SUPPORTING INCREMENT DISTRICTS, CITY OF TULSA

# FINANCIAL IMPACTS REPORT


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# ANALYSIS OF THE FINANCIAL IMPACTS OF THE PROPOSED DOWNTOWN AREA ECONOMIC DEVELOPMENT PROJECT PLAN AND SUPPORTING INCREMENT DISTRICTS

## I. THE NEED FOR ECONOMIC DEVELOPMENT

Over time, the City of Tulsa ("City") has undertaken a series of economic development strategies, both for the community as a whole and for the central city in particular. These strategies include the various urban renewal plans, economic development incentives such as the Downtown Development and Redevelopment Fund, and the adoption of Tax Incentive District No. 1 as authorized by Oklahoma's Local Development Act, 62 O.S. § 850, *et seq.* ("Act").

The City wishes to further its economic successes within the City's Inner Dispersal Loop and an area immediately adjacent to the northeast. This area includes most of Downtown Tulsa, as well as parts of several cultural districts, which had long been blighted until relatively recent interest and efforts for transformation. However, despite the renewed interest, Downtown Tulsa still has experienced significantly slower growth and encounters more legal and financial obstacles to redevelopment than other parts of the City. Over the 15-year period between 2000 and 2015, the residential population within the Inner Dispersal Loop declined 4.22%.

In 2010, the City adopted a Downtown Area Master Plan for the area. Prior to the adoption of that plan, the City's redevelopment efforts downtown had been adopted and administered in somewhat piecemeal fashion focused on individual subdistricts. The Downtown Area Master Plan aims to coordinate and expand those efforts to completely revitalize downtown, connect downtown to Tulsa's River Parks system, and initiate a transit system centered on downtown.

The Downtown Area Master Plan recommends capital projects to improve access, gateways to showcase the area as a destination, and urban design criteria to support high quality, contextual development and placemaking. Increased residential opportunities are desired to create a robust and active environment for downtown. Transportation improvements such as streetscaping, parking structures and transit facilities are needed to support a more densely developed downtown. Visual and physical connections between Downtown and the Arkansas River are important to tie together the City's most recognizable assets and activity areas. By providing public infrastructure and improvements, as well as other forms of support, the City can create the conditions necessary for quality private development of the area and expand upon its prior economic development successes.

## II. HOW TAX INCREMENT FINANCING WORKS

Under the mechanism of tax increment financing, two geographic areas are defined. The first is the "project area." A project area is the area in which project expenditures may be made. The second geographic area is the increment district. This is the area from which the tax increment is generated. The project area and increment district(s) may or may not be co-extensive.

The value of property within an increment district is determined upon the effective date of the increment district. This becomes the base assessed value of property within the increment district. The ad valorem tax revenue generated from this base assessed value of property within the increment district is distributed to a variety of taxing jurisdictions according to prescribed formulas. Throughout the life of the project, this revenue will continue to flow to the taxing jurisdictions. In the event of a general reassessment of property values within the increment district, the ad valorem tax revenue received by the taxing jurisdictions will be proportionately adjusted. To this extent, the taxing jurisdictions are not affected by the implementation of tax increment financing through ad valorem apportionment.

Once development of the property within the increment district occurs, the market value and (consequently) the assessed value of that property increases. The difference between the ad valorem tax revenue produced by this increased value and that produced by the base assessed value—the incremental increase or increment—is apportioned to an apportionment fund which is used to pay the eligible public costs of the project, either directly or through the issuance of bonds.

The apportionment of ad valorem tax increments continues for a period of up to 25 fiscal years from the date the increment district commences or until all eligible public costs are paid, whichever is less. Once the tax apportionment period expires, the revenue from the increased assessed value of property within the increment district is divided among the taxing jurisdictions according to their proportional levies, in addition to the revenue from the base assessed value that the taxing entities received throughout the apportionment period.

## III. THE PROPOSED PROJECT

The Downtown Area Economic Development Project Plan and Supporting Increment Districts, City of Tulsa ("Project Plan") is a financing tool necessary for the successful implementation of the City's vision in the Downtown Area Master Plan. This is a project plan as defined under the Oklahoma Local Development Act, 62 O.S. § 850, *et seq.* ("Act"). This Project Plan focuses on an area consisting of approximately 958 acres at the heart of the City, including several cultural districts: the Arts District (formerly Brady Arts District), Greenwood, Blue Dome, East Village, Oil Capital / CBD, Deco, and Gunboat Park. Historic Rt. 66, "America's Main Street," also traverses the area.

The Project Plan seeks to provide an economic structure and tax increment funding mechanism authorized by the Act for a substantial portion of the local public investment necessary to provide the public improvements recommended by the Downtown Area Master Plan and to generate additional private investment throughout the Project Area. Public investments are planned for: approved public infrastructure, development financing assistance, and support for public education. The Project Plan also authorizes a revenue sharing formula to support the Tulsa Public Schools (Independent School District No. I-1, "TPS"). Funding for these public investments will be generated primarily by the implementation of eight ad valorem increment districts, five of which are also sales and use tax increment districts, all of which will begin within the next ten years.

Implementation of the Project Plan is anticipated to result in an increase in investment and development in the area in the range of $800 million to $1 billion over approximately thirty years. The following economic impact analysis is based on the impacts of $850 million in stimulated private taxable investment. Projects such as those contemplated by the Project Plan have both direct and induced economic benefits. They have design and construction impacts, which are generally one-time impacts, and continued annual impacts after completion.

## IV. IMPACTS AND EFFECTS ON TAXING JURISDICTIONS

### A. Overall Financial Impacts on Affected Taxing Jurisdictions

A majority of increment generated from the increment districts will be apportioned to pay authorized project costs. However, ten percent (10%) of the ad valorem increment generated from seven of the increment districts—proposed Increment Districts A, C, D, E, F, G, and H, as defined in the Project Plan—will be apportioned directly to TPS on an ongoing basis as a specific revenue source for that entity. The benefits of the proposed development under this Project will be significant for the taxing jurisdictions located in the Project Area and increment districts, and for the community as a whole. The actual increase in demand for services upon those taxing jurisdictions is expected to be limited, and to the greatest extent possible offset by the public development assistance component of the Project Plan.

The increment districts currently contain a significant number of vacant parcels and an additional (also significant) number of buildings in highly deteriorated condition that generate very little ad valorem tax revenue in their present condition and could easily become vacant. Portions of the increment districts are currently held in public ownership, contributing nothing to the ad valorem tax revenue of the area.

The current assessed value within each increment district as of its commencement date will continue as the basis for allocating the tax revenue to the taxing jurisdictions during the life of the proposed Project. Since funding rates for bonded indebtedness are calculated using the base assessed value within the increment district, repayment of bonded indebtedness is not affected.

Redevelopment of the area is unlikely to occur without public assistance, as the history of the area shows. Concentrated and continuous stimulation of the redevelopment of the area, as contemplated by the Project Plan, will result in a greatly enhanced ad valorem tax base, from which all of the affected taxing jurisdictions will benefit. In addition, the benefits of new employment in the community and the annual tax revenue that it generates will result in additional benefits to the involved taxing jurisdictions.

### B. Specific Effects of $850 Million Private Growth

#### 1. Tulsa Public Schools

The type of development and redevelopment that is a primary goal of this Project is likely to generate, over time, a slightly increased demand upon services for TPS. Typically, residential redevelopment in a city core appeals to singles and empty-nesters, rather than to families with school-age children. In some cities, the families eventually follow—and Tulsa has seen some of that—but even in these cities, city-core residential development continues to be predominated by residents without school-age children.

If the anticipated residential redevelopment does eventually increase the demand for services upon the public schools, the 10% specific revenue stream will help offset the financial impact of such increase in demand, if any. To illustrate fully the positive net impacts of 10% distribution to TPS, the state school aid formula must be accounted for. Without an increment district and without taking into account offsets in the state school aid formula, TPS currently receives approximately $0.55 out of every ad valorem tax dollar collected within its jurisdiction.[1] However, sinking fund levies are not available for operating

[1] 74.27 = total TPS mill levy, including sinking fund and allocated countywide 4-mill;
134.25 = total mill levy;

purposes (and levies are always calculated to be sufficient to amortize debt), so TPS only gets approximately $0.34 out of every tax dollar for operating purposes.[2] When taking into account offsets in state school funding, the net benefit TPS receives from every ad valorem tax dollar collected decreases further to $0.05.[3] With the proposed Project and increment districts, TPS will continue to receive $0.34 ($0.05 net of school aid offsets) out of every tax dollar for operating purposes from values up to the base assessed value, but will receive an apportioned revenue stream from taxes generated above that amount—$0.10 of every tax increment dollar from seven of the proposed TIF districts. Each tax increment dollar apportioned to TPS, specifically, is worth two times the value of a non-increment dollar derived through ordinary ad valorem processes when accounting for state school aid offsets. Specific revenue sources under a TIF Project Plan consist of project funds to be used for purposes of the Project Plan and are appropriately classified as gifts, grants, or donations, depending on whether those funds are given for purposes of capital or noncapital expenditures, and are not subject to offset in the state school aid formula.[4]

| | **Amount Collected** | **TPS Operational Share** | |
|---|---|---|---|
| | | *TPS Operational Share* | *TPS Operational Share Net of School Aid Offsets* |
| ***Ad Valorem*** | $100 | $34 | $5 |
| ***Increment Revenue*** | $100 | $10 | $10 |

The residential portion of development may generate, over time, a small increase in demand for services from Tulsa Public Schools, although the type of residential development will likely be more in demand by non-child households. Residential development in a mixed-use, medium density environment often appeals to a younger and near-retirement demographic.

TPS should experience a positive fiscal impact from the project. During the effective lives of the Increment Districts, the 10% specific revenue stream should provide TPS with non-offset revenue averaging $92,000 annually in the near term and up to $1.8 million annually over the long term.

Stimulation of residential redevelopment of the downtown area is critically linked to the conditions and perception of the inner-city schools that would serve such residential development. As illustrated above, TPS will experience little or no negative impact as result of the Project because nearly all of the new development within the increment districts will occur only because it is stimulated by public assistance and investment in the area (for example, because of the construction and development of new adjacent public or private facilities) and because TPS will benefit from the 10% specific revenue stream.

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74.30/134.25 = 55.32% = TPS's overall percentage share of tax dollars for all purposes.

[2] 45.20 = TPS operating levies (does not include sinking fund but includes countywide 4-mill);
134.25 = total mill levy;
45.20/134.25 = 33.67% = TPS's percentage share of tax dollars for operating purposes.

[3] By offsetting TPS's 15.45-mill certification of need levy and 75% of the countywide 4-mill levy in its Foundation Aid calculation, and a theoretical 20-mill levy in its Salary Incentive Aid calculation, the state school aid formula effectively offsets 85% of TPS's operating levies, with the end result that TPS's net effective operating mill levy is only 6.75 mills, which is only 5% of the total 2016 mill levy of 134.25 mills.

[4] *See* 62 O.S. § 864; 70 O.S. § 1-117(G), (H).

2. Tulsa County

No specific measurable demand for increased services upon Tulsa County is anticipated to result from this project.

3. Tulsa County Health Department

The Tulsa County Health Department is positively affected by new employment that the project will generate. The promotion of the Project Area as a highly walkable district will support public health initiatives, and substantial new employment is anticipated, as discussed in Section V herein.

4. Tulsa City-County Library

The Central Library facility serves not only downtown, but the entire metropolitan area. The residential portion of the mixed-use developments will likely contribute to the most immediate, day-to-day clientele for this facility. The proposed commercial portion of the developments will likely not contribute to immediate, day-to-day clientele for the Library system.

5. Tulsa Technology Centers

The nature of the project makes it likely to create some increased demand for educational services and training by Tulsa Technology Center. Any increased demand for services and job training occasioned by the project is likely to be complementary in its impact upon Tulsa Tech.

6. Tulsa Community College

The residential portion of the mixed-use development may generate increased demand for educational services from Tulsa Community College, but the commercial portion will be unlikely to generate any increased demand upon services for Tulsa Community College.

## V. IMPACTS ON BUSINESS ACTIVITIES

Construction and development economic impacts stimulated by the private and public development within the Increment District are estimated to be as follows:

| | |
|---|---|
| PROJECTED DEVELOPMENT: | $ 850,000,000 |
| TEMPORARY JOBS SUPPORTED[5]: | 12,750 |
| TEMPORARY PAYROLL SUPPORTED[6]: | $ 492,481,500 |

The continued annual impact of the proposed development on the community is of greater significance. Isolating the specific impacts of the Increment Districts are not possible, but through correlation of anticipated demands for residential and commercial space within the Increment Districts, a meaningful calculation of effects on business activities is possible. Residential and Commercial developments reflect corresponding growth in economic demands for a spectrum of business activities in the retail, commercial, technical, industrial and office categories. The continuing and cumulative economic impacts stimulated by the new development are estimated to be as follows:

[5] 1,000 FTEs/$100 million total investment; 1.5 impact multiplier.

[6] Average wage of supported job = $18.57/hour ($38,626/year).

| | | |
|---|---|---|
| PROJECTED DEVELOPMENT: | $ | 850,000,000 |
| NEW POPULATION[7]: | | 2,625 |
| ANNUAL HOUSEHOLD INCOME[8]: | $ | 123,388,125 |
| PERMANENT JOBS SUPPORTED[9]: | | 2,550 |
| ANNUAL AD VALOREM REVENUE[10]: | $ | 11,411,250 |

## VI. CONCLUSION

The projected project will have a positive long-term financial benefit for the Tulsa community, affected taxing jurisdictions, and business activities. Correspondingly, no appreciable adverse impact is likely to result from the project for the taxing jurisdictions or business activities within the Project Area. The impact of anticipated development on the provision of governmental services is balanced by the public improvements and infrastructure component in the Project Plan, which addresses public costs associated with the project and minimizes the burden of providing additional government services.

[7] 1,500 new residential units; average 1.75 residents/unit.
[8] Median Household Income = $47,005.
[9] 250 FTEs/$100 million nonresidential investment; 40% nonresidential investment; 3.0 impact multiplier. This calculation may be significantly higher in the event a large employment-generating business is recruited into the area.
[10] Mill Levy = 134.25.