Tax Incremental Financing Analysis

Winston Group Hampton Inn Norwich Project

DECEMBER 17 2013

Contents

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City of Norwich
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With technical assistance from:
Norwich Community Development Corporation

Issued December 16 2013
Amended December 17, 2013 – See page 22 for details

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Web links actives as of 12.12.2013

VIEW THE REPORT HERE:
norwichct.org/Archive.aspx?ADID=300

Introduction

Purpose of this Report

On November 18, 2013 the City Council adopted the following resolution:

NOW THEREFORE BE IT RESOLVED BY THE COUNCIL OF THE CITY OF NORWICH that City Manager Alan H. Bergren and Comptroller Josh Pothier be and hereby are authorized and directed, with the assistance of the Corporation Counsel and Attorney Joseph Fasi the process to review and consider the use of tax incremental financing for this project ["Winston Group," or "Winston Hospitality" – referenced earlier in the resolution findings], and by which it would be implemented, the necessary requirements and steps for implementation and to consider any indirect benefits to the City of Norwich which may be offered in connection with such project including, but not limited to, a focus on hiring Norwich residents, the making available of facilities to Norwich organizations and the entering into agreements with vendors to support Norwich businesses. A report will be given to the City Council for the December 16, 2013 city council meeting, to evaluate further development action and planning.

This report has been prepared in response to the approved resolution.

City Resolution

The City Resolution regarding this report can be found in the November 18, 2013 Journal of the City Council

norwichct.org/AgendaCenter/ViewFile/Minutes/11182013-1590

Report Design

This report has been designed and laid out in three sections:

1. **PROJECT BACKGROUND** - Background information about the project
2. **HOW TIFS WORK** - Information about TIFs and how TIFs are implemented
3. **PROJECT ASSESSMENT** - Factors for consideration to use TIF for the Winston Hospitality hotel project

PROJECT BACKGROUND	HOW TIFS WORK	PROJECT ASSESSMENT

Background Information

In September 2006 PRA Norwich received approval from the City of Norwich Commission on the City Plan to construct a 74,000 square foot 113-room Hampton Inn (Hilton Hotel brand). Construction began in 2007 and ceased in 2009. The property was abandoned in 2010, and foreclosure proceeds commenced (see sidebar).

CT Norwich, LLC (“CTN”), an affiliate of Winston Hospitality, Inc. (see sidebar), owns the property located at 154 Salem Turnpike (Connecticut Route 82) in Norwich. They acquired the property in May 2013, when they secured a Certificate of Foreclosure. It is estimated that about $350,000 worth of vandalism has occurred on the property including theft of copper pipes, wire, transformers and other materials.

CTN has invested over $3 million, including $2,750,000 in property acquisition. They plan to invest another $10.146 million in the property to complete the project. Since the time of acquisition, market conditions have eroded:

- lower room rental rates **+** higher regional vacancy **=** lower hotel income; **plus**
- higher development cost **=** unreasonable low return for developers; **results in**
- lack of willinessness for financiers due to additional risk and exposure.

The Request

Winston Hospitality is seeking a Tax Increment Financing (TIF) agreement from the City of Norwich in the amount of $2.8 million ($140,000 per year for 20 years), which would provide an estimated $1.3 million in upfront capital for their project (representing 9% of the total investment – see Sources of Funds on Page 5).

Tax Increment Financing is permitting in Connecticut and the tool is only authorized after a Municipal Development Plan process has been completed. This process is described in detail on page 12. To proceed to the MDP process, first the City Council will need to determine whether it is appropriate use the TIF for this project.

The TIF will not be authorized until the MDP process has been completed, and the completion of the MDP process requires City Council approval. Authorization to begin the MDP process does not bind the City Council to approve the TIF.

Most MDPs are approved and implemented by a public agency. Implementation often involves the issuance of municipal bonds, which adds debt to the community and impacts future borrowing capacity. Winston Hospitality is proposing to privately issue the bonds (securitized by the TIF revenue stream), which will transfer this debt onto their balance sheet. As such, the City will have no direct obligation for debt repayment, nor should it impact the City’s bond rating, or borrowing capacity.

Ultimately, these aspects will have to be independently confirmed prior to approval of the TIF program.

Planned Norwich hotel faces foreclosure

The property, at 154 Salem Turnpike, was to be a 113-room Hampton Inn & Suites Hotel, but was not completed. The Bank of Smithtown, N.Y., moved to foreclose on the site in 2010, filing papers against PRA Development and Management of Philadelphia and 10 contractors and suppliers that worked on the site. Court documents filed with the Norwich city clerk showed the action centered on a $10.7 million mortgage dated July 2007.

norwichbulletin.com

About Winston Hospitality, aka Winston Group

Winston Hospitality, of Raleigh, North Carolina, currently manages 4 hotel properties and 1,013 rooms with 4 hotels and an additional 1,402 rooms in development and planned to come online in the third quarter of 2014.

Company leadership has been involved in the management of 43 hotels and 2,000+ employees, with revenues exceeding 170 million.

winstonhospitality.com

WINSTON HOSPITALITY INC.

Potential Utility Revenue

HOTEL	SIZE[1]	ELECTRIC[2]	GAS[2]	WATER[2]	TOTALS
Marriott	58,148	2.83	0.42	0.47	3.72
Holiday Inn	95,846	2.40	0.49	0.24	3.13
Comfort Inn	68,391	2.39	0.32	0.36	3.07
Totals	222,385	7.62	1.23	1.07	9.92
Average	74,128	2.54	0.41	0.36	3.31

ANNUAL VALUE		ELECTRIC	GAS	WATER	TOTAL
Winston Hotel	74,233	$188,552[3]	$30,436	$26,400	**$245,387**
NPU Portion	90%	169,697	27,392	23,760	**$220,848**
City Portion	10%	18,855	3,044	2,640	**$24,539**

VALUE OVER 20 YRS @ CURRENT PRICING					
		ELECTRIC	GAS	WATER	TOTAL
NPU Portion	90%	$3,393,933	$547,840	$475,195	**$4,416,967**
City Portion	10%	$377,104	$60,871	$52,799	**$490,774**
TOTAL	100%	$3,771,037	$608,711	$527,994	**$4,907,741**

NOTES: 1 Size in square feet of building; 2 Revenue rate per square foot; 3 average revenue rate

Potential Property Tax Revenue

ANNUAL VALUE	AS BUILT[1]	COMPLETED	WITH TIF[2]
Winston Hotel	$23,233	$170,157	$30,157

NOTES: 1 the As-Built condition is likely to continue to depreciate in value, and could be eliminated from the grand list if the building is demolished; 2 Year 1 City tax revenue, which is projected to increase over the term of the 20 year TIF program.

Potential City Revenue

VALUE OVER 20 YRS @ CURRENT VALUES			
	AS BUILT[1]	COMPLETED	WITH TIF[2]
Utility Revenue	$0	$490,774	$490,774
Tax Revenue	$464,660	$3,403,140	$603,140
TOTAL	**$464,660**	**$3,893,914**	**$1,093,914**

NOTE: The 20-year projection does not include adjustments due to fluctuations in market value over time.

The Hotel Industry

There are four hotel market demand segments:

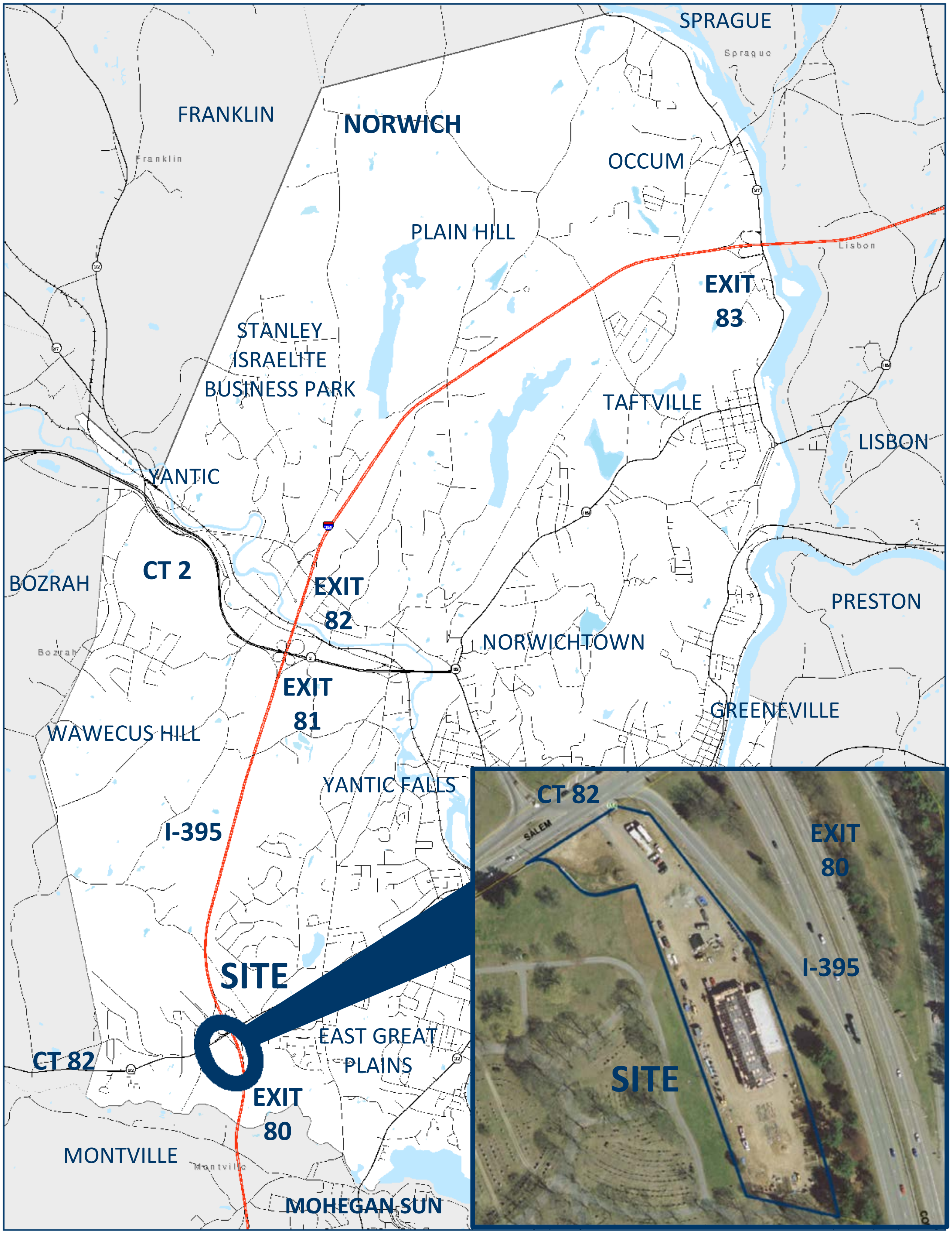
Commercial
- Monday through Thursday.
- Business travel.
- Drivers - Corporate, government, airlines.
- High brand loyalty.
- Rate discounts / incentives.

Extended Stay
- Typically 10-14 nights.
- Designed with key features for extended stay (e.g., kitchens, larger rooms).
- Drivers- Primarily corporate
- Some spin-off leisure demand.

Group and Meeting Activities
- Numerous / large conference facilities
- Drivers - Corporate groups with 10 or more members.
- Typically week days.
- Social, Military, Ethnic, Religious, Fraternal, and Educational groups (SMERFE) "off peak" times.
- Impacted financially by fluctuating economic conditions as corporations see these expenses as expendable.

Leisure / Wholesale
- Strongest demand Friday-Saturday, holidays and summer months.
- demand from leisure travelers visiting or passing through the area en route to other destinations.
- Non-essential travel cost impacts demand in this segment.
- Heavily subject to effects of the economy.
- In Norwich / SECT, gaming, concerts, and other large draws help the market once the casino hotels fill up.
- Internet sales of room nights impact segment price and profitability.

Location

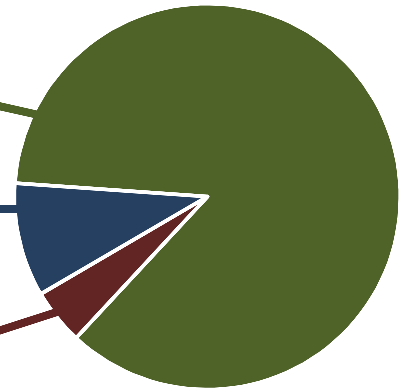

SPRAGUE
Sprague
FRANKLIN
Franklin
NORWICH
OCCUM
PLAIN HILL
Lisbon
EXIT
83
STANLEY
ISRAELITE
BUSINESS PARK
TAFTVILLE
LISBON
YANTIC
CT 2
BOZRAH
EXIT
82
PRESTON
Bozrah
NORWICHTOWN
EXIT
81
GREENEVILLE
WAWECUS HILL
YANTIC FALLS
CT 82
SALEM
EXIT
80
I-395
I-395
SITE
SITE
EAST GREAT
PLAINS
CT 82
EXIT
80
MONTVILLE
Montville
MOHEGAN SUN

Funding

SOURCES OF FUNDS

This project uses multiple sources of funds to provide capital for the project. Eighty-six percent of the project will be funded and financed by Winston Hospitality, and they are seeking 14% in public assistance from both the state (about 5%) and the City (about 9%).

SOURCES	$	%	
Developer Equity (Private)	$5,756,000	43%	86% Private Investment
Commercial Loan (Private)	$5,756,000	43%	
TIF Bond Proceeds[1] (City-enabled)	$1,278,000	9%	9% City Assistance
DECD Loan[2] (State)	$300,000	2%	5% State Assistance
DECD Grant (State)	$100,000	1%	
Sales Tax Exemption (State)	$225,000	2%	
TOTAL[3]	**$13,416,000**	**100%**	

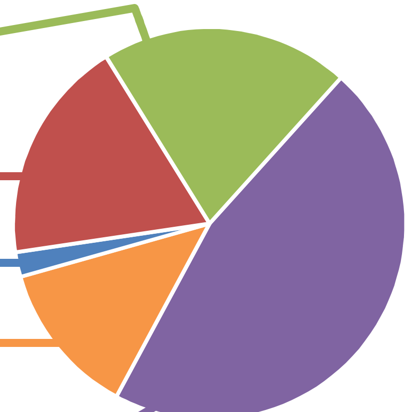


NOTES: 1 estimated value based on 9.5% bond interest rate; 2 may be partially forgivable; 3 may not add up due to rounding (total project value is $13,415,490)

USES OF FUNDS

The proceeds of the capital campaign will be used for five distinct tasks, as identified below.

USES	$	%
Property Acquisition	$2,750,000	21%
Other Costs	$2,481,000	18%
Operating System	$273,000	2%
FF&E (Fixtures, Furnishing and Equipment)	$1,714,000	13%
Construction	$6,198,000	46%
TOTAL	**$13,416,000**	**100%**



NOTE: numbers may not add up due to rounding

Tax Increment Financing is an Economic Development Incentive (EDI) utilized in 49 states.

Nationally, TIFs are adopted for one of the following reasons:

- market failure (e.g., lack of demand)
- blighted area
- bidding war among nearby communities

Debt – arrangement where a borrower pays back money over time, often with interest.

Equity –

- A stock or other ownership interest.
- On a company's balance sheet, the amount of the funds contributed by the owners plus retained earnings / losses.
- In real estate, the difference between the current market value of the property and the amount the owner still owes (loan).

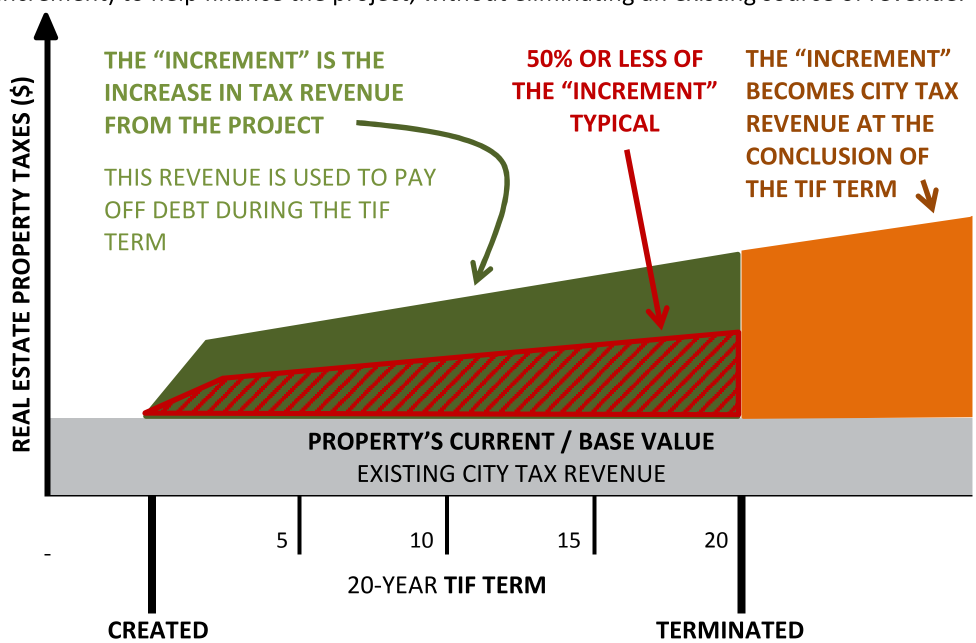
investopedia.com

Tax Increment Financing, the Basics

What is it?

Tax Increment Financing (TIF) is an economic development funding mechanism. The purpose of using a TIF is to generate economic development activity that would not have occurred without the incentives of the program. TIFs often compensate for poor market conditions (e.g., blight, disinvestment, distressed conditions). It most frequently is used to fund project components that would otherwise be a public obligation (e.g., road improvements, utilities) or to overcome extraordinary site conditions (e.g., environmental contamination / brownfields).

Tax Increment Financing utilizes the net new or incremental taxes created when vacant or underutilized property is redeveloped. It then uses those increased revenues (i.e., the increment) to help finance the project, without eliminating an existing source of revenue.



TIF programs typically use 50%, or less, of increment to support investment in the TIF program.

When is it used?

There are three ways that TIF projects are implemented:

PAY AS YOU GO	PUBLIC BOND FINANCING	PRIVATE LEVERAGED DEBT
A government agency designates a development area and dedicates the annual increase in property tax revenue from that area to fund public improvements there. Key Elements: • works in areas where property values and, consequently, tax revenues are going up; • allows the agency to finance improvements without issuing bonds and incurring debt; • can take time to build up the funds needed to fund major improvements; and • frequently used in TIF Districts (see sidebar on page 10)	A government agency adopts a plan to redevelop a designated area; issues tax-exempt bonds; uses the proceeds to acquire, clear, improve and assemble land parcels; and repays the bonds with the incremental property tax revenue the redeveloped area generates. Key Elements: • tax-exempt bonds bear a lower interest rate than other forms of financing; and • agency's ability to repay the bonds depends on whether improvements generate enough incremental tax revenue to repay the bonds on schedule.	A developer proposes to construct a new facility or rehabilitate an existing one with private dollars. The municipality designates the property a development area and agrees channel some or all of the incremental revenue back to the private developer to repay specified development costs. Key Elements: • is "performance-based," meaning that the developer receives the revenue only if he or she completes the work; • saves the municipality the expense of issuing bonds; and • eliminates the risk that the improvements may not generate enough revenue to repay the bonds

Adapted from Connecticut Office of Legislative Research's Tax Increment Financing report

Benefits of TIFs

- Provides development incentives requiring no tax increases. Properties are assessed and taxed the same way as in non-TIF areas. The only change is that during the life of the TIF, property tax revenues are distributed differently with some portion of the incremental increase in tax revenue going to finance redevelopment expenditures within the TIF area and the balance going to the government agency.
- Increases property values. If successful, TIF redevelopment projects cause property values to increase thus broadening the tax base and benefitting property tax payers.
- Induces private investment and development. Government agencies can utilize TIF funds to offset relocation costs, development costs, and improve needed infrastructure to facilitate redevelopment.
- Creates jobs, job retention and supports training programs. Increased development, redevelopment and relocation mean a greater demand for workforce, and often times a higher skilled or higher educated workforce. Redevelopment also impacts areas outside of the TIF enabling other businesses to grow and prosper as well.
- It can be locally controlled. Municipal officials are responsible for determining the best utilization of TIF funds (not the state or federal government).
- For TIF Districts (see sidebar on page 10), incremental revenue is reinvested in the TIF district. TIF funds are only utilized within the TIF district as a means to encourage the redevelopment of the area.

The "But For" Test

Development involves risk for the developer and financial partners. As a reward for taking the risk, developers expect a rate of return on the project (profit). Even when profit is expected from a project, the return may not be large enough to make the risk worth taking.

TIFs can alter the profit picture by shifting some of the costs of the development from the developer to the taxpayer. For example, a site may require expensive environmental clean-remediation. A municipality can clean up the site, pay for it with the TIF, and the cost, and risk, is not borne by the developer.

Why would a municipality want to take on expenses and risks in order to increase the profits of a private developer?

Well, the basis of TIF is that there may be some projects the municipality finds desirable, but that aren't profitable enough for private developers.

If a proposed development will happen without TIF, then TIF should not be used because it would cost taxpayers more than it should for the growth that results. But, if TIF can be used to encourage a development that wouldn't otherwise happen, the tax base can be increased, thereby limiting the growing tax burden. The "but for" test is critical to this distinction; that is what makes it so important. Finding "but for" means that the City believes that the development will not happen without some assistance.

They are endorsing the use of tax dollars to help bring growth that otherwise would not occur.

Adapted from Wisconsin Department of Revenue: revenue.wi.gov/pubs/slf/tif/5-1.pdf

OLR Reports

The Office of Legislative Research (OLR) is the Connecticut General Assembly's nonpartisan research arm. OLR staffs all non-fiscal Legislative committees; write reports annually for legislators and committees; analyze bills; summarize public acts; prepare reports summarizing acts affecting particular occupations, industries, and segments of the population; summarize major acts passed each session; and perform other services for the Legislature.

All URLs listed below, start with **cgs.ct.gov/**

2000 Report:
2000/rpt/2000-R-0379.htm

2001 Report:
2001/rpt/2001-R-0737.htm

2011 Report:
2011/rpt/2011-R-0105.htm

Risks of TIFs

- Frozen tax value cannot support services over time. The TIF project freezes the amount of the revenue that the City will receive over the life of the TIF project. If costs exceed the revenue generated, this could be a hardship for other property taxpayers.
- Risk that underlying project does not succeed.
- Adverse economic impact on competing businesses which did not receive a City subsidy.
- Project would have moved forward without the subsidy.

TIFs in Connecticut

TIFs have been used in Connecticut. The Connecticut Office of Legislative Research (OLR) has prepared several reports (see sidebar) regarding Tax Increment Financing. Some of the State's TIF projects have utilized sales tax revenue to repay the bond, while others have utilized a municipal property (real estate) tax revenue.

The Meadows Music Theatre, Hartford – The $22.0 million project was financed in 1994 with $9.9 million in TIF funding, a $7.7 million construction loan from the Connecticut Development Authority, and $4.4 million in private equity. Between 1999 and 2008 the state received more incremental tax revenue than the amount of debt service it paid.

Lake Compounce Theme Park, Bristol – The $40.0 million project was financed in 1997 with $18.0 million in TIF funding, $17.3 million in private capital, and $4.7 million in private loans. Between 1999 and 2004 the state received less incremental tax revenue than the amount of debt service it paid. Between 2005 and 2008 the state received more incremental tax revenue than the amount of debt service it paid.

Daticon Project, Norwich – In 2001, the Connecticut Development Authority bonded $1 million supported by Norwich's incremental real estate property tax revenues towards the construction of Daticon's headquarters and call center in the Industrial Park. This property was later foreclosed upon, purchased by a non-profit, and removed from the tax rolls.

Harbor Point Development, Stamford - In 2010, the Harbor Point Infrastructure Improvement District, as created by the City of Stamford, issued $145 million of revenue bonds supported by incremental property taxes and special assessment revenues to finance roads, stormwater, sanitary sewer, sidewalk, landscaping, street lighting, traffic signals, wetlands filling, environmental capping, parks, and land acquisition in a 66-acre mixed-use development site.

Steel Point Development, Bridgeport – In September 2013, the State Bonding Commission approved a $22 million state Sales Tax TIF and $9 million grant-in-aid funding to finance construction and infrastructure improvements for Bass Pro Shops. The total project cost is estimated at $68.5 million.

How is the Tax Increment Calculated?

To calculate the increment you start by determining the current property value (assessed – see sidebar). For this project, the Assessed Value is currently $840,000. At the current mill rate (27.59 per $1,000 of Assessed Value) the tax revenue is $23,175. Next, determine what the completed project (final value) will be. In this case, the project is anticipated to be valued at $6.3 million.

Subtract the current value, then identify an increment of $5.46 million. Apply the tax rate, and the total additional tax revenue from this project is estimated to be $150,641.

	CURRENT / BASE VALUE			FINAL VALUE		
	Assessed Value	x Mill Rate	**Property Tax Revenue**	**Assessed Value**	x Mill Rate	**Property Tax Revenue**
PROPERTY VALUE (Less Base Value)	$840,000	0.02759	$23,175	$6,300,000	0.02759	$173,817
INCREMENT	$0		$0	$5,460,000		**$150,641**

NOTE: Market value of land and improvements reflects $1.2 million (as reflected in WHI appraisal dated 1.18.13). Assessed value is 70% of that figure ($840,000). 2013 Mill Rate: 27.59

Assessed Value

The value placed on property by the city assessor to determine property tax due.

How does this differ from Appraised Value?

Appraisals are done by an appraiser to determine value using recent sales of similar properties. Assessed value and appraised value are usually not the same as the appraised value takes a snapshot in time and will be impacted by market activity.

General TIF Policies

Most jurisdictions that utilize Tax Incremental Financing have developed policies that describe the conditions for which the TIF program will be offered as an economic development incentive.

Norwich does not have a TIF policy.

It is reasonable to assume that this tool will be requested for other projects in the future, as there are few economic development tools available. If Norwich is considering using this tool for the current proposal, perhaps additional effort should be made to develop a policy, and then to test how the current proposal complies with the city's desired condition, risk tolerance and other factors.

A Tax Increment Financing policy should include:

- Development objectives
- Guidelines in the use of TIF
- Economic analysis & risk assessment process
- Evaluation criteria

Types of TIF Programs

TIF programs can be either Project-based, where it involves one, or two sites in a discrete project, or a district / area involving multiple sites and projects (see the Geography of TIFs sidebar).

TIFs tend to be used to redevelop an area. The nuance between new development (greenfield) versus redevelopment (e.g., grayfield or worse, brownfield) development, is lacking in the TIF literature.

TIF Policy Considerations

Norwich should consider adopting objectives to direct how and when Tax Increment Financing may be used as an economic development tool. The following bullets describe areas that could be part of this policy consideration, to provide direction to city / agency staff and potential developers, to satisfy city objectives.

POTENTIAL OBJECTIVES MAY INCLUDE:

- Expanding the Norwich economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed;
- Attracting and expand new and existing services, developments and employers in order to position Norwich and the region to compete in the economy of the 21st Century;
- Increasing the City's property tax base and maintain its diversity;
- Cleaning contaminated land to provide sites for uses that achieve City redevelopment objectives;
- Eliminating blighting influences throughout the City;
- Supporting neighborhood retail services, commercial corridors and employment nodes / hubs; and
- Supporting redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the waterfront, historic neighborhoods and historic structures.

The Geography of TIF

There are two ways that TIF programs have been situated within a municipality: (1) as a TIF Project and (2) as a TIF District.

TIF PROJECT

A TIF Project is likely to involve a single property, or development project that has a defined beginning and end as part of the project's implementation schedule.

TIF DISTRICT

A TIF District is a tool that is used to entice new development into a targeted area or neighborhood. It can be open-ended, in that investment is made in the district, and individual site developments happen over time.

Ultimately TIFs can be handled with administrative, legal, financial and other relatively fixed costs. Therefore smaller projects tend to not fare well with TIF as a funding source. TIFs can be either project based (e.g., a single property, multiple properties combined as part of a single development) or district based (e.g., multiple properties developed separately over time, targeted neighborhoods or areas)

TIF Implementation Process

Overview

The process to implement a TIF has several different steps, that depend on how the TIF is being designed (i.e., TIF Project or TIF District), who is leading the process (i.e., City or State agency) and who will place the Bonds (i.e., City, State, or Developer). This report identifies the process for a TIF Project, led by the City, with bonds placed by the Developer.

The Process for a Developer-Led TIF Placement

OVERALL PROCESS

City Approval	The first step is for the City of Norwich to develop, and then approve, a Municipal Development Plan (MDP) for this project
Developer-led Placement	If the MDP is approved by the City, the developer will then need to lead an effort to secure private funding in the bond market
Construction	Once the developer has secured private bond financing they will be able of completing the TIF deal
TIF Management	After the project is complete, there will be a need to administer the TIF revenues

CGS Chapter 132

The City of Norwich can only utilize economic development tools that have been authorized by state law (Connecticut General Statutes). Chapter 132 is the tool that enables communities to create a Municipal Development Plan (MDP) and offering a Tax Increment Financing package.

cga.ct.gov/2011/pub/chap132.htm

OVERRALL PROCESS

City Approval → Developer-led Placement → Construction → TIF Management

City Approval Tasks – Municipal Development Plan (MDP)

Development Agent Appointment

- City Council Vote

Draft MDP Program Plan

- Define Draft Plan
- Publish Draft Plan
- File with City Clerk
- Mail letters to City Planning
- Mail letter to Regional Planning
- Mail letter to DECD regarding draft
- Mail letter to SECTER
- Mail letter to RDA
- Post on websites

Commission on City Plan Review

- Get on COCP Agenda / submit draft
- Meet with COCP / Vote
- Publish legal notice of COCP decision

Public Hearing

- 35-Day comment period
- Publish legal notice(s)
- File Notice in Clerk's Office
- Conduct Public Hearing
- Final Program Plan

NCDC Adoption

- NCDC board meeting
- NCDC Vote
- Publish legal notice of NCDC decision

City Council Adoption

- Get On City Council agenda
- On City Council agenda
- Meet with City Council / Vote
- Publish legal notice of City decision
- Notify DECD Commissioner of decision

Notice to Proceed to Winston Hospitality

NOTE: A Gantt Chart with the specific dates that each task will be accomplished will be submitted as part of the first stage of the project, if the City Council agrees to proceed with the TIF program process.

Developer-led Placement Tasks

If the MDP is approved by the City of Norwich, the developer will be responsible to find a bond purchaser in the private market. The City of Norwich does not have a role in the placement / sale of the bond, other than to document TIF securitization of the bond.

Construction Tasks

If the MDP is approved, and the developer is able to secure private investment in the bond, then the construction process will commence. The City of Norwich does not have a role in the financial aspects of the construction process. City participation will include code compliance inspections and assistance with utility installation and activation. These are standard roles for the City.

TIF Management Tasks

Once the Construction process has been completed, the short-term construction loan will be converted into a long-term structured loan. The TIF-supported bond will then be activated. The Developer will receive funds from the city after the project has been completed, and after tax payments have been made.

If a project is in arrears (owes back taxes), no disbursement can be made by the City.

Agreement Considerations

In addition to the standard considerations in the TIF policy, we may want to include language that is enforceable and measurable to ensure that:

- That a developer utilizes Norwich contractors for a defined percentage of the construction work.
- A defined percentage of the dollar value of the construction payroll is for Norwich residents (zip codes 06360, 06380, and 06389) during the TIF term.
- That the developer, or its subsidiary, retains ownership and management of the project during the TIF term.
- Projects cross-promote Norwich attractions, when appropriate.
- A statement that the under-performance of tax collection is covered by the developer, or its subsidiary.

OVERRALL PROCESS

If the Municipal Development Plan is approved, the developer will be responsible for placing the bond and, completing construction of the hotel.

City Approval

↓

Developer-led Placement

↓

Construction

↓

TIF Management

Project-related Assessment

The property owner of the Hotel, Winston Hospitality, has asked for the City of Norwich to consider supporting a Tax Increment Financing approach to help them complete the project. The City has several options when confronted with a request such as this, and this alternatives analysis and assessment is intended to provide clarity regarding the options that exist.

Project Challenges

This property has several challenges, which have resulted in the need to ask for City assistance:

PROPERTY SIZE	This is a small hotel, which limits the ability to spread costs across the project.
OVERALL CONDITION	The property has been vacant for several years, with minimal maintenance, vandalism and theft, which catches up to a building. In addition, initial construction quality left much to be desired, and some installed elements, such as windows along the Interstate, will have to be replaced for soundproofing.
MARKET CONDITIONS	The lodging market is at a low right now within the region, which makes this project challenging to complete.

Who Benefits?

Before the City Council decides what to do with this TIF project proposal, they need to see how using this tool might impact that various components of the "community."

	PRO	CON
CITY	• Activate a vacant property • Tax and utility revenue • New business / jobs	• Deferred tax revenue • Low paying jobs • New hotel is not an identified need • Demand for additional services (e.g., emergency response)
DEVELOPER	• Additional equity • Ability to finance the deal • Ability to make a profit	• Have to place financing in the private marketplace
MARKET	• Additional regional marketing efforts • Higher quality / brand diversity	• New / more competition • Soft market does not have capacity for competition

	PRO	CON
RESIDENTS	• New business / jobs • Additional lodging choices for guests	• Deferred tax revenue • Low paying jobs • Subsidize additional service demand (e.g., emergency response)
STATE	• New business / jobs	• Low paying jobs • New hotel is not an identified need • No net gain in hotel tax revenue

Overall Options

This report is an alternatives analysis (see sidebar) of the City's options for the Winston Hospitality Hotel Project. The City has several options available for how to address this project, as depicted below:

DO NOTHING	TIF PROGRAM		OTHER PROGRAM
Laissez-faire	Extent	Timing	Explore Other Options

Each option has elements that are favorable (pro) and negative (con) as to why they should be the chosen solution. The following pages evaluate the various options, and scenarios that could be utilized to address the challenges presented by Winston Hospitality Project.

We have also taken the time to present our proposal for how to proceed, as a concluding element of this report.

Ultimately, the final decision rests with the City Council.

DO NOTHING	TIF PROGRAM		OTHER PROGRAM
Laissez-faire	Extent	Timing	Explore Other Options

“Laissez-faire” Option

Overview

A “Laissez-faire” / Status Quo option exists in every alternatives assessment. In this case, the project is privately-owned and there is no “need” for the City to act, as it is not a city asset that requires oversight and management, and the owner is currently engaged in trying to bring the property into productive use (i.e., not an abandoned building, not in property tax arrears).

There is an opportunity cost (see sidebar) of having a large building that is vacant and in a decaying condition. The opportunity cost includes lost tax and utility revenue and the loss of property values due to the vacant / blighted condition of the building (see impact of blight sidebar) due to market perception. Vacant buildings send a poor message about the health and vitality of a community, especially when these buildings are located at a gateway to the community. This leads to disinvestment and adversely impacts the demand-driven economic development efforts of various city agencies.

A non-functioning asset, in a blighted condition, adversely impacts the value and market potential for adjacent properties, driving negative values even more towards the negative. None of these values have been calculated at this time.

Pros

- No City action required.
- No chance to create market imbalance for other area lodging operations.
- If the property is completed by the property owner, the City gains 100% of the proceeds.

Cons

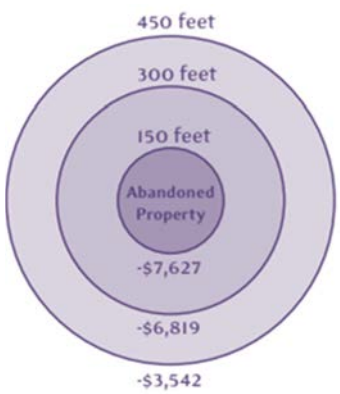
- Project may be frozen for an extended period of time due to market conditions, or never get completed.
- Project may not achieve full revenue productivity for the city (e.g., property taxes, personal property taxes and utilities).
- Project may impact community perception as a “poor investment decision” or “the City cannot get its act together” because of vacant and unmanaged appearance.
- Property may be demolished, resulting in an elimination of almost all tax revenue.
- Blighted building is an “eyesore.”

Opportunity Cost

The benefits that are forgone in order to pursue, or as a result of, an alternative action / scenario.

Impact of Blight

In a 2001 Study by Temple University in Philadelphia, researchers found that vacant properties had a negative value on adjacent properties, leading to more disinvestment (i.e., it becomes contagious). The following graphic depicts the impact of property values based on proximity to vacant buildings:



astro.temple.edu/~ashlay/blight.pdf

Laissez-faire

Free market solution without government intervention.

DO NOTHING	TIF PROGRAM		OTHER PROGRAM
Laissez-faire	**Extent**	**Timing**	Explore Other Options

TIF Program Option

Overview

If a TIF is the correct tool there are two things to consider before advancing. First, what is the extent of the program, should it be a TIF Project, or a TIF District, as discussed on page 10. Second, what is the timing of the process, particularly whether the City should act now, or develop a TIF policy first. In this project, Winston Hospitality has repeatedly mentioned that this is time sensitive.

Extent Determination

OPTIONS

TIF PROJECT	TIF DISTRICT
• Is the project area large enough to be meaningful? • Does the project provide sufficient public benefit?	• Are other improvements needed in the neighborhood, that would warrant establishment of the TIF District? • Could this project spur / leverage other development in the neighborhood?

Timing Determination

The TIF Options relate to the process and timing for using the tool, (1) whether the tool is used immediately ("Act Now"), as requested by the developer, or (2) that the City develop a policy first, and then determine whether this project complies with that policy. Policy considerations are discussed on page 10.

OPTIONS

ACT NOW	DEVELOP POLICY FIRST
• Is timing a critical factor for the City to consider? • Should the City get involved in TIFs?	• When should TIFs be used? • How do you prevent a "free for all"? • How do you ensure that public trust is maintained?

Pros

- Fix highly visible blighted property.
- City will receive some increase in revenues from personal property taxes and utilities.
- Create jobs during construction phase and normal hotel operations.
- Hotel activity may have multiplier effect by spurring activity at golf courses, ice rink, local restaurants, Dodd Stadium, gas stations.
- TIF District can provide area-wide resources that may not otherwise be achievable.
- Can generate value on hard-to-develop property.
- No debt impact on local government.
- Shifts some risk to developer (when bond is assigned to developer.

Cons

- Opportunity cost (see sidebar on page 16) of the property being developed without pledging 20 years of real estate tax revenue.
- Fairness issue with existing hotels and other Norwich businesses.
- Failure to perform in the marketplace.
- Potential that this effort is used as a precedence for other projects.
- Public perception makes it an easy target for critics.
- Very complex financing with limited pool of investors.
- Expensive compared to other forms of financing.
- Can take a lot of time to develop, especially if it is a TIF District.

Is this the Right Project?

There are several serious questions that the City Council and public will need to ask now, as part of the development of a policy, or as part of the Municipal Development Plan (MDP) process, if this project proceeds to the next step.

Is this a bailout? Some people have classified this proposal as a business bail-out. Winston Hospitality made a business decision to acquire the hotel, knowing the market conditions and having some appreciation of the risks related to the foreclosure proceeding.

Is this business sustainable? There is concern that adding lodging into a competitive market, with grave uncertainty about future demand from the principal industry (e.g., gaming and tourism) in this region. There are numerous news reports about downsizing of the two gaming operations, and new competition that is being introduced outside of this marketplace (i.e., Massachusetts). There is also concern that a hotel situated immediately adjacent to a cemetery and Interstate 395 will not perform well in the marketplace. That given a choice, consumers will chose other locations.

A final concern in this category involves the promoted hotel brand / “flag” within the Hilton group (i.e., Hampton Inn). Can the hotel meet brand performance requirements for the term of the TIF deal? How is property valuation impacted by a reduction in national branding, if the brand is lost?

Is this a precedent? Precedence and fairness (equal treatment) are two fundamental aspects of public policy. There are, at least, two tests that should be answered: does the project more benefit the developer or the public? And would the city provide a similar deal for other projects that have equal / equivalent conditions?

Does this create an unequal competitive advantage in the marketplace? If this project receives a government subsidy, how will this TIF program impact other hotel operators? Is the market strong enough to absorb 113 additional rooms?

What are the reasons that the City should subsidize this development? Has the developer provided a compelling reason to support this project through future tax revenues?

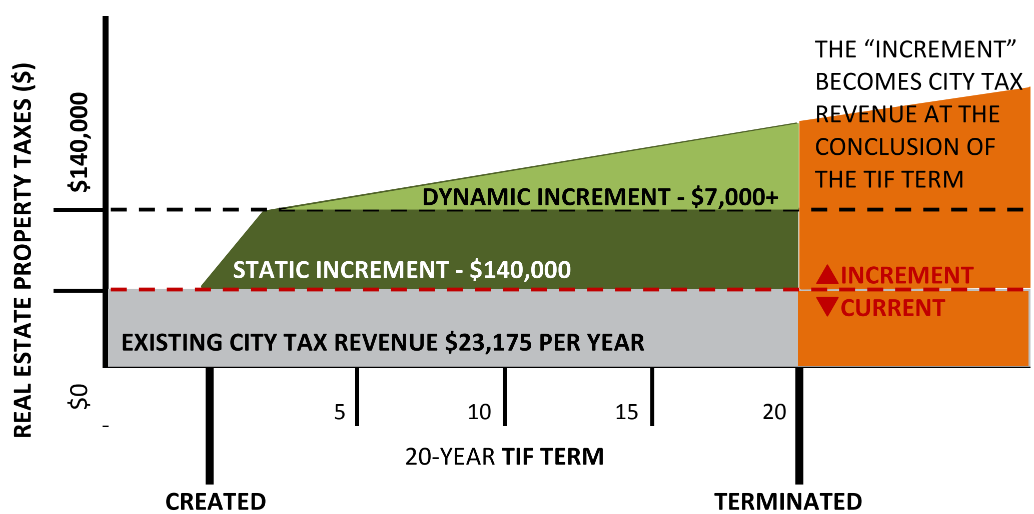
The Numbers

As discussed on page 9 (How is the Tax Increment Calculated?), and reinforced in the chart below, the initial tax increment is anticipated to be $150,641.

	CURRENT / BASE VALUE			FINAL VALUE		
	Assessed Value	x Mill Rate	**Property Tax Revenue**	**Assessed Value**	x Mill Rate	**Property Tax Revenue**
PROPERTY VALUE (Less Base Value)	$840,000	0.02759	$23,175	$6,300,000	0.02759	$173,817
INITIAL INCREMENT	$0		$0	$5,460,000		**$150,641**

NOTE: Market value of land and improvements reflects $1.3 million (as reflected in WHI appraisal dated 1.18.13). Assessed value is 70% of that figure ($840,000). 2013 Mill Rate: 27.59

Winston is proposing to utilize $140,000 (95%) of the increment as part of their project via the TIF. This would be considered a static increment (see sidebar), and once committed would be the limit of the City's commitment of tax revenue. The static increment allocation to Winston Hospitality is projected to decrease from 95% of the new collected tax revenue (static increment) to about 80% over the TIF term, provided the property can meet the projected Tax Revenue Performance (see sidebar).



There is likely to be a dynamic increment (see sidebar) as well, that will fluctuate with market conditions, revaluation and inflation. Those are both shown in the chart above.

Static Increment

The portion of the increment that is assigned to pay of the TIF bond. This number will not change during the TIF term.

Dynamic Increment

The portion of the increment that is subject to fluctuate during the TIF term.

For this project, the dynamic increment is anticipated to increase to over $31,000 / year at the end of the TIF term. The dynamic increment will be City tax revenue.

Tax Revenue Performance

Factors that influence the tax revenue performance (and the Dynamic Increment) include:

- Value of personal property
- Depreciation of personal property
- Inflation
- Adjustments in the Mill Rate and tax collection
- Changes in property value (during revaluation)
- Appeals of the city's assessment

If the hotel performs poorly, the Dynamic Increment could be $0. If the Static Increment cannot be satisfied due to poor market conditions and property value, then the property owner will be required to pay any shortages from under-realized tax collection (property is not generating sufficient tax revenue to cover the TIF bond). See Agreement Considerations on page 13.

DO NOTHING	TIF PROGRAM		OTHER PROGRAM
Laissez-faire	Extent	Timing	**Explore Other Options**

Other Options

During this process, NCDC and others evaluated other options that could deliver some level of participation from the City of Norwich. While these options were not attractive to the developer, and do not enable completion of the project per their figures, they remain "on the table" as an alternative solution for this project.

Potential Incentives / Assistance

PROGRAM	INCENTIVE / ASSISTANCE	POTENTIAL AMOUNT
Assessment Deferral	Real Estate Tax Savings	$675,000
Building Permit Waiver	Fee Savings	$70,000
Utility Connection Fee Waiver	Fee Savings	$130,000
Sales Tax Exemption	Fee Savings	$225,000
TOTAL		**$1,100,000**

During conversations with Winston Hospitality, they have has repeatedly identified that these options would be insufficient for their project. While this may not work for Winston Hospitality, it is still an option for the City to offer.

Pros

- Shorter term incentives.
- Does not create precedent.
- More efficient than a TIF (i.e., TIFs have high interest costs).
- Diverse funding sources.

Cons

- May be less than the Developer requires, which could lead to further delay, or indefinitely stall the project.
- Cannot be monetized upfront (reduction in cost rather than a source of revenue).

Council Decision

The City Council needs to determine how it would like to proceed. We believe that the decision is one of the following options:

LEAST AGGRESSIVE

CHOOSE ONE

1. **Laissez-faire / Do Nothing:** Let the market address the problem over time
2. **Create a TIF Policy**: Step back from this request for a moment and evaluate how and when the City should utilize this tool; then invite potential projects to submit requests to use the tool (ongoing process)
3. **Explore Other Options:** Take additional time to work with .the developer and explore other options. Note, this has been ongoing for almost a year
4. **Create a TIF District:** Create a TIF District, and include the Winston Hospitality property within the District.
5. **Create a TIF Project:** Proceed with the project as requested by Winston Hospitality, without the development of a policy

MOST AGGRESSIVE

Frequently Asked Questions

What happens if the Incremental Value is not maintained during the TIF Term?
The TIF is being introduced to the private marketplace by the developer. The only commit the City is making is to provide an amount of funds, not to exceed “x,” provided the Base Tax has been paid. Any shortages will be the responsibility of the property owner.

If the property is deemed a public safety risk, what would it cost to demolish the building?
We estimate it would cost $700,000 to demolish the structure.

Would a default on a TIF bond affect the City’s general obligation bond rating?
A default on the sort of TIF that Winston is proposing will not affect our bond rating.

Why should the City help the Developer?
This report is intended to advance local knowledge regarding issues with this property, how the City might help, and whether a Tax Increment Financing program would work.

Report Amendments

12.16.2013 Report Issued

12.17.2013 Correct made to utility and tax revenue table on page 3. Total value added to the 20 year utility revenue table.

Resources

In addition to links and reference made in the body of the report, the following resources where utilized:

"Meadows Music Theatre and the Lake Compounce Theme Park: Comparison of Annual Tax Revenue and Debt Service Payments on Tax Incremental Financing Bonds." 7/29/2010. Connecticut State Office of Fiscal Analysis.
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"Recommended Practices: Effective Tax Increment Finance Program Management." 2008. Council of Development Finance Agencies.
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"State Bond Commission Approves $22 million financing package for Steel Point development." 9/27/2013. City of Bridgeport, CT website.
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Bordonaro, Greg. "State mulls expanding TIF model financing." 4/2/2012. *Hartford Business Journal*.
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articles.courant.com/2011-12-15/news/hc-op-condon-harbor-point-1215-20111215_1_economic-development-director-harbor-point-housing-boom

Raphael, Peter, Freeburg, Chuck, Granchalek, Aleks, and Sprunger, Brent. "Tax Increment Financing: A Guide to Funding Development-Related Improvements." 2007. William Blair.
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Rappa, John. "Tax Increment Financing." 3/4/ 2011. Connecticut State Office of Fiscal Analysis.
cga.ct.gov/2011/rpt/2011-R-0105.htm

Wilcox, David A. and Versel, David E. "Economics Research Associates Issue Paper: Review of Best Practices for Tax-Increment Financing in the United States." 10/12/1999 pp. 1-25.

Market Segmentation: article #6583 "Identifying Where Hotel Demand Comes From"
By Stefania D'Antonio, 9/25/2013
hvs.com