

**St. Louis County Municipal League
Municipal Official Training Academy**

**Funding Municipal
Improvements and Economic
Development**

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Overview

I. Revenue Sources

A. Taxing

B. Non-traditional Municipal Revenue Sources

C. Special Districts

D. Tax Rebate and Abatement

II. Financing Techniques

III. Administration of Special Purpose Entities

I. REVENUE SOURCES

I. REVENUE SOURCES

A. Taxing

Taxes



▶ Sales Taxes

- General Sales Tax (\$0.01, \$0.00875, or \$0.005)
(§§94.500 - 550 RSMo.)
- Fire Protection Sales Tax (\$0.0025) (§321.242 RSMo.)
- Stormwater & Parks Sales Tax (\$0.005) (§§644.032-033 RSMo.)
- Capital Improvements Sales Tax (\$0.005) (§94.890 RSMo.)
- Transportation Sales Tax (\$0.005) (§§94.700-755 RSMo.)

Taxes

(Cont'd)

- ▶ Use Tax (§§144.757-761 RSMo.)
- ▶ Ad Valorem Property Taxes
 - General (\$1.00/\$100 AV) (various)
 - Parks (\$0.20/\$100 AV) (§90.010 RSMo.)
 - Recreation (\$0.20/\$100 AV) (§67.755 RSMo.)
 - Health/Hospital/Museum (\$0.20/\$100 AV) (various)
 - Library (§§182.140-301 RSMo.)
- ▶ Hotel/Motel Tax (§67.1000 RSMo.)
- ▶ Liquor License Taxes (§311.220 RSMo.)
- ▶ Business and Occupation License Taxes (various)
- ▶ Motor Vehicle License Tax (§301.340 RSMo.)

**See Handout A*

I. REVENUE SOURCES

B. Non-traditional Municipal Revenue

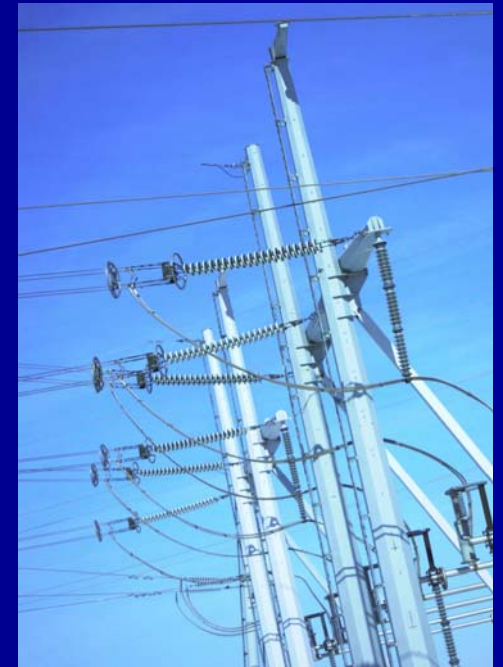
CITY AS LANDLORD

- ▶ Right to reasonable rent
- ▶ Examples
 - ❖ ROW rent - “grandfathered” cities (SB369-§§ 67.1830-1846)
 - ❖ Cell phone antennas (rent or tax)
 - ❖ Cable revenue (up to 5% gross)
 - ❖ Business leases
 - ❖ Fee for accepting dedication of property
 - ❖ Donations – tax exempt benefits to donor



CITY AS SERVICE PROVIDER

- ▶ “User” fees for services (water, sewer, electric, park rentals, etc.)
 - ❖ Must bear reasonable relationship to service or good provided
- ▶ Fee may be greater than cost of providing service or good
- ▶ Transferring fee revenue to other funds is permissible



I. REVENUE SOURCES

C. Special Districts

Tax Increment Financing (“TIF”) (**§ 99.800-865 RSMo.**)

- ❖ Captures 50% of new “incremental” sales/100% of new real “incremental” property taxes
- ❖ “Capture” includes/affects all taxing districts
- ❖ Funds major improvements including some private property; uses revenue bonds
- ❖ Requires “blight” determination, “but for” test
- ❖ Likely use: Major development-related capital projects

Community Improvement Districts (“CID”) (§ 67.1401-1571 RSMo.)



- ❖ Separate Political Subdivision or corporate entity governed by a Board of Directors (*5 members minimum*)
- ❖ Levies Property Taxes, Special Assessments, Sales Tax in addition to/independent of other local levies
- ❖ Contiguous Area
- ❖ Created by petition of property owners
- ❖ What “Public Improvements” are Authorized:
 - Wide Variety of Improvements/Services
 - Must Be Undertaken within District boundaries

Transportation Development Districts (“TDD”) (§ 238.200-275 RSMo.)



❖ What a “TDD” is:

- Separate Political Subdivision governed by a Board of Directors (*5 minimum*)
- Levies Property Taxes, Special Assessments, Sales Tax in addition to/independent of other local levies
- Formed by petition of all property owners or city or 50 registered voters

❖ What “Projects” are Authorized:

- Transportation-Related Improvements/Services, subject to City or MHTC approval, as applicable
- Can Be Undertaken outside District boundaries

Neighborhood Improvement Districts (“NID”)

(§ 67.453-475 RSMo.)

- ❖ Special Assessment Area Initiated by Owner Petition (2/3 of proposed land area) or by City
 - Funds “*Public Improvements*”
 - Levies special assessments on “benefited properties” based on share of improvement costs
- ❖ City issues limited General Obligation Bonds
- ❖ Likely use: Neighborhood infrastructure
- ❖ “Creative” use: public facilities – G.O. Bond rates w/out voter requirements (any revenue stream)



I. REVENUE SOURCES

D. Tax Rebate and Abatement

Sales Tax Rebate (§ 71.220 RSMo.)



▶ Share or Rebate City Sales Tax Only

- Established through a “cooperation agreement” with private parties
- Provides “pay as you go” (or in combination with other devices) bond/note financed improvements
- Limited to City sales tax levies only
- Likely use: Individual property infrastructure, improvements; business retention

Real Property Tax Abatement (“353”) (Chapter 353 RSMo.)

- ❖ Affects all taxing jurisdictions
- ❖ Provides for maximum 25-year abatement
- ❖ Likely use: new or existing development improvement incentive
- ❖ Trigger: Redevelopment Corp. “becomes owner”
 - Requires: “Blight” and Redevelopment Plan/Tax Impact Analysis

Chapter 100 Bonds (§ 100.010-200 RSMo.)

- ❖ Tax abatement via “public ownership,” which extends to **Personal Property and Equipment**
- ❖ City owns and leases back benefited Property; issues taxable bonds secured by lease payments
- ❖ City’s ownership renders property tax exempt for duration of bonds
- ❖ Typically used for **Major Industrial Development Projects** involving extensive equipment costs



Choosing the Right Tool

▶ When to Use What-Some ‘Rules of Thumb’



❖ TIF:

 Big \$\$\$ Projects

 Broad cost eligibility

 “**Blight**” finding required

 “Other People’s Money”

 Procedurally Cumbersome

Choosing the Right Tool

❖ CID:



Avoids “Blight”



Ease of implementation



Less controversial



Distant Improvements



Control and governance issues



Choosing the Right Tool

❖ TDD:



Avoids “Blight”



Less controversial



Improvements outside district



Requires Court Action



Control and governance issues



Improvements categories limited



Choosing the Right Tool



❖ NID:

 Cheapest Financing

 Creates No New Revenues

❖ Ch. 100 Bonds:

 High Proportion of Equipment

 High Documentation Costs

❖ Tax Abatement:

 Simple/Flexible

 Requires “Pay As You Go”

Tips on Using Revenue Techniques with Developers

- ▶ Initial Funding Agreements (*Handout B*)
- ▶ Development Agreements
 - ❖ What Should the Public Pay For?
 - Public Infrastructure and Improvements
 - Project “Enhancements”
 - Cost Control: Avoid the Two Development “Black Holes”
 - ❖ How Much is Too Much?
 - Ratio of Public to Private Capital Investment
 - ❖ “Claw-Backs” & Other Performance Guarantees

II. FINANCING TECHNIQUES

Notes vs. Bonds

▶ Developer Notes

- ❖ Developer advances initial capital requirements
- ❖ May be pledged as security to third party lender
- ❖ Typically term limited, “Super Sinker”

▶ Privately Placed Notes

- ❖ Held by a bank or other designated noteholder
- ❖ No offering documents required
- ❖ Fewer post issuance compliance activities required
- ❖ Accredited investor (“Big Boy”) required

Notes vs. Bonds

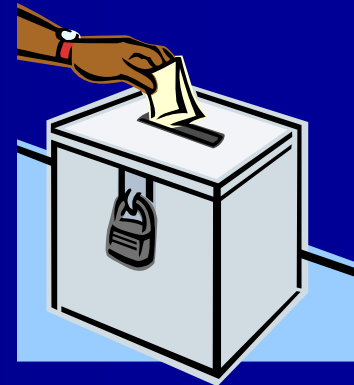
▶ Bonds

- ❖ Require established revenue stream for repayment
- ❖ Bonds sold to the public, placed with lending bank
- ❖ Preferable as independent, up-front capital source
- ❖ Issuing Authority (not inherent)
 - Express Statutory Authority
 - Charter/Home Rule Power
 - Conduit Financings (“constituted authorities;” “63-20” nonprofit corporations)

**See Handout C*

General Obligation Bonds

- ▶ May be issued for any municipal purpose authorized by law
- ▶ Pros:
 - ❖ Best interest rate
- ▶ Cons:
 - ❖ Must get voter approval
 - ❖ Backed by City's general fund and taxing authority
 - ❖ Subject to City's debt limitations (Art. VI, Section 26 Mo. Const.)



Limited General Obligation Bonds (NID Bonds)

- ▶ Backed by the full faith and credit of the municipality, but not the taxing authority
- ▶ Pros
 - ❖ Cheap financing with no voter approval required
- ▶ Cons
 - ❖ If default, can go after any unencumbered City funds

Revenue Bonds

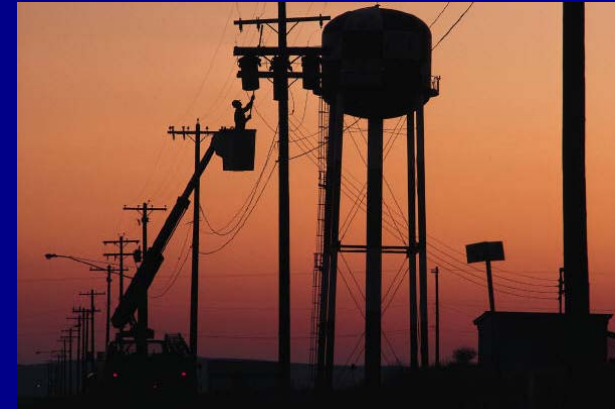
- ▶ Bonds are paid by a designated revenue stream
- ▶ Pros:
 - ❖ If default, no resort to general fund or taxing authority
- ▶ Cons:
 - ❖ Interest rates are generally higher

CID/TDD/TIF Bonds

- ▶ Bonds can be issued to fund the improvements permitted by the corresponding statutes
- ▶ Bonds are paid by the revenue created/“captured” by imposition of the special district

Leasehold Revenue Bonds

- ▶ Issued through a conduit entity; property is transferred to the entity and debt service satisfied through “rentals” paid by city, subject to annual appropriation
- ▶ Pros
 - ❖ Do not count toward debt limitations
 - ❖ Voter approval not required
- ▶ Cons
 - ❖ Property is subject to Deed of Trust, so may be foreclosed upon and sold in event of city default



Certificates of Participation

- ▶ Subject property is leased to a Trustee and the leased back to the City
- ▶ City makes lease payments to holders of Certificates
- ▶ Pros
 - ❖ Do not count toward debt limitations
 - ❖ Voter approval is not required
- ▶ Cons
 - ❖ Less security for bondholders because leased property cannot be sold upon default

Tax Anticipation Notes/ Revenue Anticipation Notes

- ▶ Short-term (1 year) indebtedness that may be issued in an amount not exceeding in any year the income and revenue for such year plus unencumbered balances; often used as bridge financing
- ▶ Pros
 - ❖ Quick; low documentation costs
- ▶ Cons
 - ❖ Not for long-term financing; must be paid or refunded in the short-term

Bond Financing: Tips and Definitions



- ▶ Refunding and Advance Refunding
Check the “call” provisions!
- ▶ The Role of the “FA” (Financial Advisor)
- ▶ Selecting the Underwriter

**III. SPECIAL
PURPOSE ENTITIES:
ANNUAL
ADMINISTRATION**

Issues Applicable to All Entities

▶ Sunshine Law

- ❖ Must appoint a Custodian of Records
- ❖ Notice Requirements

▶ Annual Meeting

- ❖ Electing Directors/Officers
- ❖ Annual Report Requirements
- ❖ Ratifying Prior Acts (*Handout D*)

▶ Insurance (for separate political subdivisions)

**See Handouts E and F for checklist of specific requirements.*

Ongoing Administration of Special Districts & Corporations: CIDs

- ▶ Annual report filed with the State Auditor
(political subdivision CIDs only)
 - ❖ Four (4) months after fiscal year end if unaudited or
six (6) months after fiscal year end if audited
- ▶ Annual report filed with the Missouri
Department of Economic Development (all
CIDs)
 - ❖ Within one hundred twenty (120) days after fiscal
year end

Ongoing Administration of Special Districts & Corporations: CIDs (cont'd.)

- ▶ Budget presented to governing body of municipality
 - ❖ Due between ninety (90) and one hundred eighty days (180) prior to beginning of fiscal year
- ▶ Budget approved by District Board
 - ❖ Due thirty (30) days prior to beginning of fiscal year
- ▶ Annual meeting held by District Board
 - ❖ Due thirty (30) days prior to beginning of fiscal year
- ▶ Note: Must have same fiscal year as City

Ongoing Administration of Special Districts & Corporations: TDDs

- ▶ Annual report filed with the State Auditor
 - ❖ Four (4) months after fiscal year end if unaudited or six (6) months after fiscal year end if audited
- ▶ Budget approved by District Board
 - ❖ Due prior to beginning of fiscal year
- ▶ Annual meeting
 - ❖ As determined by Bylaws

Ongoing Administration of Special Districts & Corporations: IDAs

- ▶ Annual registration report filed with the Missouri Secretary of State
 - ❖ Due date based on date of initial incorporation
- ▶ Annual Activity Report filed with the Missouri Department of Economic Development on previous year's bond issuances
 - ❖ January 31

Ongoing Administration: Nonprofits & Other Corporations

- ▶ Annual registration report filed with the Missouri Secretary of State
 - ❖ Due date based on date of initial incorporation
- ▶ Missouri Corporate Franchise Tax Return Form 1120 (does not need to be filed by nonprofit corporations)
 - ❖ Fifteenth (15th) day of fourth (4th) month after beginning of fiscal year
- ▶ Federal Tax Filings

Questions and Answers

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