East Ridge Border Region District Incentives

The Border Region District:

- The State established 2012 as the "base year," or benchmark, for sales tax generation and calculation purposes.
- The City may incentivize new development or redevelopment inside the Border Region District and be reimbursed by the State.
- If the new development provides an increase in state sales tax revenues over the base year, the State will give back 75% of its share of the increase to the City as a means of repaying the incentive provided.
- The state sales tax rate is 7%. After taking various factors into account, the State determined that it will provide 4.125% back to the City.
- The annual state "disbursement" is intended to cover the repayment of "eligible costs" as described in the legislation. Those costs are defined quite broadly and include costs related to acquisition, demolition, construction, etc.
- Reimbursement of eligible costs will continue until the year 2042, unless all eligible costs are repaid prior to that time.

The Process:

- A property owner/developer may approach the city with a proposal for incentives via the Border Region legislation.
- The mayor or city manager would be the most appropriate person with whom to start the discussion.
- The city has the ability to approve or deny the provision of incentives for a development project.
- The amount of incentives to be provided is also at the discretion of the city and must be approved by a majority of the city council at an open meeting.
- The city's Industrial Development Board must also approve the incentive agreement, as the IDB is the mechanism through which incentives are distributed.

Example:

Assume a specific property generated $0 in state sales tax revenues in 2012. The City may choose to enter into an incentive agreement with the owner/developer in order to spur new development on that property – development that will generate sales tax revenues. The crux of that incentive may be to allow the property owner to be reimbursed for the purchase price of the property. The City would then provide to the owner/developer annual payments from the state's sales tax increase that will be generated by the new development.

More specifically, let's further assume that purchase price was $2 million. If the new development enjoys annual sales of $10 million, it would generate $700,000 in new annual sales tax revenue to the State. The State will give $412,500 of the $700,000 total to the City to pay toward the incentive. If annual sales continue in the same manner in subsequent years, the $2 million incentive could be completely repaid in approximately 5 years.

FINANCIAL PROFORMA

The following financial information/data is needed by the City in order to determine the incremental growth in border region taxes (retail), local option sales taxes, and property taxes that would be generated by this project:

- Sales Tax projections covering 20 years for each retail establishment located on the property from the time of its opening for business.
- A listing of hard and soft costs associated with the building project; including the purchase price of the land.
- An appraisal summary of the new structure (usually from the bank).

Once the aforementioned financial information/data is received by the City Manager's Office numbers can be crunched to define the incremental growth in dollars. Thereafter, the parties can discuss the figures and decide upon a financial assistance figure. A term sheet and a non binding letter of intent would then be drafted by the City's legal consultant. Upon agreement by both the City and the applicant (property owner, developer, etc.), the project would proceed before the Industrial Development Board (IDB) for consideration for approval; and thereafter, the East Ridge City Council for consideration for approval. Lastly, a development agreement would be negotiated between the applicant and the IDB.

NOTE: Financial assistance is available to retail businesses only since they generate sales tax. There shall be no financial assistance granted to service type businesses.

Attachments: Non-binding letter of intent
Term Sheet