



Introduction

The City of Johnson City adopted the Downtown Johnson City Redevelopment Plan (the “Initial Plan”) on October 19, 2006 which set forth the use of Tax Increment Financing (TIF) within the designated district (see Exhibit A). Washington County adopted the Initial Plan on March 24, 2008.

The Initial Plan was amended by Redevelopment and Urban Renewal Plan for the Downtown and Other Identified Redevelopment Districts of Johnson City, Tennessee, dated August, 2011 (the “Amended Plan”) (see Exhibit B). The Amended Plan was approved by the City on October 6, 2011 and by the County on August 29, 2011 and September 26, 2011.

The Johnson City Development Authority (JCDA) has been authorized under Tennessee Code Annotated Section 13-20-201 to employ the use of Tax Increment Financing as a financing mechanism within the Amended Plan in order to encourage private development within the district. TIF encourages economic revitalization and assists private development projects in areas where they would not otherwise occur without public sector participation. TIF has been authorized for use in the Downtown Johnson City area to promote the growth and redevelopment of the historic, traditionally urban area.

This document sets forth the policies and procedures by which the JCDA shall evaluate each project. This document will provide any applicant an understanding of the general use and requirements of tax increment financing in the Downtown Johnson City Redevelopment (TIF) District. Because TIF is a discretionary tool designed to encourage economic revitalization, the policies of this document do not create or vest any rights in any person or entity.

Tax Increment Financing (TIF) is a financing tool widely used in the United States to incite economic development without local governments incurring any general fund debt or losing any existing revenue. Tax increment financing is so named because public improvements within the TIF District can be financed by the revenues generated by the increase in the value of the properties that directly result from these improvements in the district.

TIF works in this way: As property values increase, property assessment levels increase. The local government continues receiving the revenues they are currently receiving from the property tax values existing as of the base tax year. However, the tax revenue growth resulting from the increased property values after the base tax year is established can be used for improvement and development projects in that same area. In essence, “what grows here stays here” best describes tax increment financing

districts. This provides assurance that public sector projects will keep pace with private sector investments made to property within the TIF district. As a result, the district begins to grow and improve at a much more effective and efficient rate than without the use of tax increment financing.

Section 1. General Policy

The purpose of these Policies and Procedures is to provide an overview of standards and criteria that will be used by the Johnson City Development Authority's (JCDA) Board of Commissioners in making decisions involving TIF funds. It is of utmost importance that every project proposal is carefully reviewed, and that every recommendation made on the general use of TIF be carefully made. The criteria will assure that approved projects help fulfill the community's overall objectives for economic development and redevelopment and avoid unnecessary subsidies. These Policies and Procedures also provide those interested in applying for TIF dollars a clear understanding of what may or may not be an acceptable use of TIF funding in Johnson City's Downtown TIF District. These criteria shall be used at the discretion of the JCDA and do not guarantee approval of a request for TIF assistance.

Section 2. Statutory Background

Tennessee Code Annotated §13-20-201, et seq., (the "Code") authorizes and outlines specific requirements and uses of tax increment financing for communities across the State of Tennessee. The Code allows for the creation of a TIF district in which all of the incremental property tax revenues generated within such district may be used to finance improvements within such district. Currently, no other taxes other than property tax collections may be used for TIF financing in Tennessee. This provides assurance to the local governing bodies that they will realize immediate benefit from the development of a project through increased sales tax revenues, job creation, business creation and other direct economic factors generated.

Tennessee law contemplates a form of a partnership between a city and its local housing or designated development authority to establish a TIF district. Once the authority is identified, the district is delineated and appropriate public hearings and approvals take place, the base year is then set and incremental taxes resulting from that time forward are re-directed to the authority and dedicated for use in that same district area. The Washington County approval of the Amended Plan also provides for the County to receive the increase in taxes dedicated to debt service and 25% of the annual increment for all properties in the district.

In 2006, the Tennessee General Assembly passed legislation (Public Chapter 999 of Public Acts 2006) authorizing the expanded use of TIF to apply district-wide rather than restricted only to specific projects. As a result, TIF funds are allowed to be generated from all properties designated as a part of an urban renewal plan or redevelopment plan, thus allowing such funds to be used not only for specific projects, but also for general use throughout the TIF district. Therefore, tax increments resulting from property

values that naturally improve as a result of specific projects taking place throughout the district are also collected and available for additional public improvement projects. This legislative change allows the State of Tennessee to remain competitive with other states in regards to the use of TIF, and provides greater flexibility to fully maximize the powers of tax increment financing in improving the overall look and climate of the community.

The TIF program in Johnson City is administered by the Johnson City Development Authority and coordinated closely with the City of Johnson City's various departments and officials. The JCDA is a local development authority created by the Tennessee General Assembly in 1989 for the sole purpose of furthering redevelopment efforts in underutilized areas of Johnson City, including the downtown area. The JCDA has been granted the same powers as a Tennessee housing authority for the purpose of implementing redevelopment districts utilizing tax increment financing (TCA §13-20-202(c)).

It is the policy of the Johnson City Development Authority (JCDA) to consider the judicious use of tax increment financing (TIF) for redevelopment projects within the current redevelopment district. In order to be eligible for TIF, projects must demonstrate substantial and significant public benefit. Eligible projects include public infrastructure and productive reuse of underutilized property (that demonstrate a substantial and significant public benefit by constructing public improvement and/or or by providing assistance to cause the productive reuse of underutilized property.) All projects must be consistent with, and further the objectives of the Amended Plan.

Section 3: Amended Plan Objectives for TIF Projects

The Johnson City Development Authority dedicates tax increment funding to redevelopment and urban renewal projects, within the current redevelopment district, in order to accomplish the following objectives:

1. Eliminate blighted, deteriorating and dilapidated conditions, inappropriate façade treatments, obsolete and substandard buildings and deleterious land uses in the Redevelopment District;
2. Promote development opportunities and incentives for private enterprise which create job opportunities and revitalize commercial, retail, office and residential properties;
3. Expand the property tax base and generation of direct sales tax revenue in order to maximize economic returns for the City of Johnson City and Washington County;
4. Provide for more productive and/or more efficient use of land;
5. Increase the occupancy rate of buildings in the Redevelopment District;
6. Encourage renovation and historic preservation of existing structures in the Redevelopment District;
7. Promote architectural continuity in significant buildings and in new development;
8. Improve parking facilities and traffic circulation in the Redevelopment District;
9. Create and/or enhance viable linkages to the central business district;
10. Improve the quality of life for every citizen in the City of Johnson City and Washington County

11. Enhance the creation of a district that is safe, walkable and conducive to the establishment of public events and retail development.
12. Encourage enhancement of public and educational uses in the downtown area;
13. Maximize the potential for suitable development in areas peripheral to the Redevelopment District;
14. Promote the assemblage of property into larger tracts in order to permit better and more intensive utilization of land;

Section 4: TIF Eligible Projects

As per the provisions of the Section 13-20-202 of the Code and the Amended Plan, incremental tax revenues may be used to finance only the following Project costs:

1. Acquire blighted areas;
2. Acquire other real property for the purpose of removing, preventing or reducing blight, blighting factors or the causes of blight;
3. Acquire real property where the condition of the title, diverse ownership of the real property to be assembled, the street or lot layouts, or other conditions prevent a proper development of the property and where the acquisition of the area by the authority is necessary to carry out the Amended Plan;
4. Acting on its own or through third parties engaged to act on the authority's behalf:
 - a. Clear any areas acquired, including relocation of utility facilities and demolition (in whole or in part) of buildings and improvements thereon and removal or remediation of any environmental contamination;
 - b. Install, construct or reconstruct streets, utilities and site improvements essential to the preparation and development of sites for uses in accordance with the Amended Plan;
 - c. Install, construct or reconstruct parks, public open spaces, public playgrounds, pedestrian ways and parking garages in accordance with the Amended Plan; and
 - d. Pay expenses for relocation, administrative costs, planning and engineering costs and legal expenses associated with exercising the powers granted in this section or with carrying out the Amended Plan;
5. Sell or lease land so acquired for uses in accordance with the Amended Plan;
6. Interior rehabilitation and external modification of identified structures;
7. Accomplish a combination of the foregoing to carry out the Amended Plan.
8. Accomplish any other purposes permitted by the Code.

Section 5: TIF Allocation

The amount of TIF assistance will be determined based upon:

1. the minimum amount required to make the project economically viable,

2. the extent of TIF-eligible elements within the proposed development project, and
3. the ability of the completed project to generate tax increment sufficient to meet the debt service on the TIF loan.

In evaluating tax increment generation, JCDA will project tax increment at a level amount based on the first stabilized year. No assumptions will be made for future increases in the assessed valuation of the property or for possible increases in the tax rate. If the assessed valuation and/or the tax rate does increase at some time in the future, such an increase will be utilized to accelerate the repayment of the TIF loan or to undertake other TIF projects.

In no event shall the total TIF issued for a project exceed 25% of the total project cost. Total project cost shall be that segment of the project, in whole or part, that TIF is requested to assist. Incremental or phased projects are to be set forth and identified in the project agreement and should not generally provide for supplemental TIF assistance (such TIF assistance being predicated on additional project construction) beyond a period greater than twenty-four (24) months following execution of the development agreement. Allocation of Tax Increment Financing will be limited to no more than the maximum incentive of 70% of the increment available to JCDA (after deduction for the County's 25%), unless the project combines three or more of the enhanced criteria and is deemed transformative by the TIF Advisory and JCDA Board.

Section 6: Criteria

The JCDA will use the following criteria in evaluating TIF applications:

1. The TIF applicant must demonstrate that the tax increment financing component is a key element of the financing package and that the project would not otherwise be undertaken in its proposed form without tax increment financing. Evidence to this effect can be satisfied with a project pro forma which demonstrates the financial need for TIF and/or a written statement from the lender or principal funding provider noting the importance and basis therein of TIF to the overall financial package assembled to finance the project.
2. Each TIF application must demonstrate that the applicant possesses the financial and technical ability to successfully complete and operate the project.
3. If the project will involve the issuance of TIF bonds or notes, the TIF applicant must demonstrate that incremental revenues derived from the project will be sufficient to obtain TIF for the project in the amount requested and on commercially reasonable terms.
4. If the project involves development/redevelopment of vacant land, it should conform to the City's plans and programs and serve as a catalyst for further, high quality development or redevelopment.

5. Projects involving redevelopment of existing retail, commercial, housing, office or industrial properties should serve to stabilize areas that are experiencing deterioration, and create development in conformity with the City's current development standards and regulations.

Enhanced Criteria

Projects will be viewed more favorably, and potentially be eligible for a higher allocation of the maximum incentive, if they incorporate a combination of the following attributes:

- Projects in which the applicant contributes equity of at least fifteen percent (15%) of the total cost.
- Projects that create new jobs with wage scales that average 125% of the Johnson City MSA wage average for the applicable retail, service or manufacturing sector.
- Projects that maximize economic returns for the City of Johnson City and Washington County through expansion of the property tax base and generation of direct new sales tax revenue.
- Projects that are considered by the JCDA Board to be transformative in nature.
- Projects for retail, service and commercial use that encourage an inflow of customers from outside the City or that will provide services or fill retail markets that are currently unavailable or in short supply in the Redevelopment District.
- Projects that include renovation and historic preservation of existing structures that will promote a richer cultural environment.
- Projects that improve parking facilities, beyond the expected need of the project and traffic circulation within the district and enhances accessibility from other areas of the City and County.
- Projects that encourage enhanced public and educational uses in the downtown area.
- Projects that maximize the potential for suitable development in areas adjacent (peripheral) to the Redevelopment District.

Section 7: Tax Increment Loan Repayment

Estimates for TIF loans are based on the projected annual tax increment the development will generate once completed and fully assessed for tax purposes. The tax increment based on the first stabilized year must be sufficient to meet loan debt service requirements. JCDA does not project inflationary increases in the tax increment amount for future years.

As TIF loans in the redevelopment district have been repaid, tax increment continues to be generated by the properties which have been pledged. In accordance with state law, uncommitted tax increment may be used for any of four purposes: (1) to fund direct investment in a redevelopment district (such as infrastructure improvements), (2) to pay administrative costs associated with the redevelopment districts and the loan processing, (3) to prepay other tax increment loans or (4) to be pledged toward other loans for projects within the district.

Section 8: Application Details

1. Any development requesting TIF assistance must be located within the Downtown Redevelopment District. The developer must submit a TIF application to the JCDA for the proposed project. Applications requirements include:
 - a. A description of how the proposed project will contribute to the identified goals and planned land use of the redevelopment district.
 - b. Why the project's feasibility depends on an allocation of TIF assistance, including financial backup substantiating how the completed project will generate sufficient tax increment revenue to meet the debt service on the TIF loan.
 - c. A description of how the TIF assistance will be utilized in the project (i.e., eligible uses).
2. If JCDA staff supports the TIF application, JCDA staff and the developer will draft a Development Agreement authorizing the TIF allocation and the conditions of the TIF loan.
3. The Development Agreement will first be submitted to the TIF Advisory Board, who will advise the JCDA Board whether the project complies with the Code and the Amended Plan and is, therefore, qualified to be considered for Tax Increment Financing. The TIF Advisory Board will also determine whether to recommend the Development Agreement, which incorporates the specific terms of the tax increment financing, to the JCDA Board of Commissioners for its approval. The Development Agreement must be approved by both the TIF Advisory Board and the JCDA Board.
4. Following approval of the Development Agreement by the JCDA Board of Commissioners, the developer proceeds with pre-development of the proposed project, including design and construction specifications (which are subject to City of Johnson City's Historic Zoning Commission (if applicable) and the Johnson City Regional Planning Commission) and debt financing for both the construction and TIF loan. It is the developer's responsibility to secure a commitment letter from a lender for the TIF loan on terms JCDA finds acceptable.
5. JCDA prefers that the loan amortization cannot exceed 20 years. It is JCDA policy that one hundred percent of the available tax increment generated by the pledged property be applied to debt service on the loan, which would accelerate repayment of the loan if taxes on the development increase after the initial year of stabilization. If the lender requires a minimum annual loan payment to amortize the loan, the developer must guaranty any shortfall between that annual payment and the actual tax increment generated.
6. Once pre-development activities have been completed, a closing is scheduled for the TIF loan. This closing is often simultaneous with the closing of the construction loan and/or the transfer of the property. At the closing, the JCDA shall receive an administrative fee of 2% to offset expenses incurred in providing the tax increment financing for the project. TIF dollars not disbursed at closing but to be used for future expenses (e.g., demolition and clearance, public infrastructure, parking garages, construction period interest, etc.) may either be placed in an escrow account with the lender or may be drawn as needed.

Section 9. Environmental Report and Title Insurance

The Authority may require the Applicant to provide at its expense a Phase I Environmental Site Assessment Report for the Project that (i) shall be prepared by a recognized person in the health, safety and environmental field that is acceptable to the Authority; (ii) shall bear a date acceptable to the Authority; and (iii) shall disclose no unacceptable conditions to the Authority. All environmental reports requested by the Authority must grant to the Authority the right to rely on such reports.

The Authority may also require that the Applicant obtain at its expense, and deliver to the Authority, a title insurance commitment for the Project described in the Development Agreement.

Section 10. Conflicts of Interest

Each member of the JCDA Board of Commissioners as well as each member of the TIF Advisory Board (“Member”) shall be responsible for disclosing any material interest which he or she may have in or with an Applicant or financing source. Any Member having any material interest in a Project or a financial or family relationship with an Applicant or financing source shall submit to the Authority Counsel a representation of that interest, and Authority Counsel shall advise both the Authority and Member whether the Member needs to recuse himself or herself from consideration of the Application. Such recommendation of Authority Counsel shall be conclusive. If recusal is recommended, the Authority will then consider the Application without participation from the Member or Members who recuse themselves.

To avoid conflicts of interest, a Development Agreement will not be approved if Authority Counsel has a professional legal relationship with the Applicant or source of the financing other than incidental representations in connection with proposed financings of other projects, but the Authority may waive this condition in appropriate circumstances. In the event of a conflict involving Authority Counsel, the Authority will retain special counsel to represent it in connection with the particular Project being considered.

Section 11: Definitions

For purposes of these policies and procedures, the following terms shall have the following meanings:

“Application” means the Application submitted hereunder in the form designated by the Authority and as amended from time to time. The initial form of the Application is attached hereto as Exhibit B.

“District” means the area as defined in the Amended Plan (see Exhibit B).

“Maximum Incentive” means the amount of incentive as determined by JCDA staff and TIF Advisory Board that could be generated by receiving loan proceeds from a twenty year loan at prevailing interest rates using the tax increment of the proposed project as annual payment.

“Governmental Authority” means Washington County, Tennessee, the City of Johnson City, Tennessee, the State of Tennessee, any political subdivision of any of them, and any agency, department, commission, board, bureau or instrumentality of any of them.

“Person” means any individual, sole proprietorship, corporation, limited liability company, association, partnership (general, limited, or limited liability partnership), organization, business, trust, individual and Governmental Authority.

“Project” means a project eligible for tax increment financing under the provisions Section 13-20-202 of the Code and the Amended Plan.

“Project Site” means the real property designated in the Application as the property from which the incremental tax revenues will be generated in order to finance the eligible improvements of the Project.

“Development Agreement” means the Agreement between the Authority and the Applicant (and any guarantor thereof) or similar agreement or contract providing for the terms and implementation of the Redevelopment Project.

“Relocation of utility facilities” includes: Installation, construction, or reconstruct streets, utilities, and site improvements essential to the preparation and development of sites for uses in accordance with the Amended Plan; Install, construct, or reconstruct parks, public open spaces, public playgrounds, pedestrian ways, and parking garages in accordance with the Amended Plan.¹

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