

**Open Work Session
RISE Zone Designation
April 17, 2018**

Mrs. Laura Soper, Director of Business Development, City of Salisbury, Mrs. Alison Pulcher, Deputy City Administrator, City of Salisbury, and Mr. Dave Ryan, Executive Director of Salisbury-Wicomico Economic Development, came before Council. Mrs. Soper said the City has partnered with Salisbury University in pursuing a RISE Zone designation for the corridor stretching from Salisbury University to Downtown Salisbury. She said the aim of this program is to spur economic development and community revitalization in this specified area. She said it requires a partnership with an institute of higher learning, in this case, Salisbury University, an application to the Maryland Department of Commerce for said institution to become a qualified institution, and, finally, an application for the RISE Zone to become designated. She said Salisbury University submitted and received their qualified institution designation in April 2017. She said, to the extent provided, the tax credit they are looking at is a five-year credit proposed as 80 percent in the first taxable year following the calendar year in which the property initially becomes qualified, and 80 percent in the second through fifth taxable years. She said this credit is allocated by the Department on the non-residential piece of any qualified properties. She said, for the purposes of the income tax credit, the business entity is treated as being located in an Enterprise Zone and qualified to receive the same income tax credit as provided by that designation. She said, while it creates this tax credit, it also creates the ability to grant a TIF to developers making capital improvements in the zone. She said, unlike other TIFs, it has a little more leeway, and the proceeds can be used to fund public infrastructure, as well as private improvements as they relate to the RISE Zone. She said the City is looking at about 129.9 acres, as Council can see on the map, and it extends from the northern border of Salisbury University all the way to just right outside downtown.

Mr. Joe Holloway asked Mrs. Soper to explain, just to make sure he is correct, what a TIF is, to which Mrs. Soper responded, it is a Tax Increment Finance area. Mr. Joe Holloway said he knows what the initials mean but he would like her to explain how it works in this situation, to which Mrs. Soper responded, it takes any incremental increases in the taxes, sets them aside in a bond proceed, and the City can use those funds to fund public infrastructure and private improvements. Mr. Joe Holloway asked who makes up the difference, as far as the taxes go, that would normally go into the general fund. Mrs. Soper asked for clarification. Mr. Joe Holloway then said the taxes are not paid into the general fund, to which Mrs. Soper responded, that is correct. She then said the base amount of taxes would still come to the City and County. She said the incremental increase would go to the general fund to repay the bond, and then, once that bond is paid off, the City and County would then receive the entire amount of those taxes. Mr. Joe Holloway asked how much of the 129 acres falls into the commercial part of this, to which Mrs. Soper responded, it is not all commercial, but it is largely commercial. She said it is the stretch where the hospital is and down to the University. Mrs. Pulcher said, as an example, for the old mall, the onus fell to the developer, so it did not end up costing the City or the County in a negative way. She said it was actually used in the State's Models and Guidelines for what a TIF is and how it works. She said the old mall and the Beaglin Park developments were actually both TIF projects. Mr. Ryan said he believes the RISE Zone would allow for a tax increment financing project, so it is almost like enabling legislation, and it broadens the use of those proceeds from the issuance of the bond. He said he does not believe it is automatic and, if there was a tax increment finance project that would take place within this district, it would have to come back to the City, and if they chose to come to the County then they would do it at that particular time. Mrs. Pulcher added, this is an enabling step.

Mr. Kilmer said his question is, the City is going to pursue this, but does the City need the County to pursue it too? He then said he knows the County has their own tax structure, but does the City need the County for this, or can the City do it on their own? He then asked if there is an ask for the County, to which Mrs. Soper responded, the ask is not much. She said she thinks a partnership between the City and County would be very helpful. She said she does not think it is a requirement of applying for the RISE Zone, to which Mr. Ryan clarified, it is not a requirement. He then said much of that acreage is already in the Enterprise Zone, which is a ten-year property tax credit, and a ten-year income tax credit per new job. He said he believes it would enlarge that district with just the RISE Zone portion. He said he thinks they tried to match the 80 percent discount on improvements in property values to what the Enterprise Zone is offering, but, other than that small parcel, he would think someone would really choose the Enterprise Zone. Mrs. Soper said this would be mutually beneficial. Mr. Ryan said this would add a little more advantage, a little more benefit, and a little more capabilities than what the Enterprise Zone offers. He said that was his question exactly when they first started pursuing this. Mrs. Pulcher said the City entered into the Enterprise Zone designation with the County as well, so she thinks, in an effort of continuity of cooperation, the City is seeking the County's agreement.

Mr. Taylor said he would like to add one thing. He then said he has looked through the State Code and the COMAR regulations on RISE Zones, and, in this case, as he understands it, the City is applying with Salisbury University. He said the only thing that he thinks would directly affect the County would be if they want to grant the same property tax credit as the City does, and they would have to pass a Resolution to do that. He said, if they do not want to do that, then they do not have to pass a Resolution.

Mr. Kilmer said, if the City does this, the businesses in this zone will have all of those benefits, but then the County could potentially offer additional property tax benefits on top of what the City is already doing. Mrs. Soper said most of the businesses actually have access to these credits already through the Enterprise Zone, so the RISE Zone, again, has the ability of a more flexible TIF area. Mr. Ryan said, to answer Mr. Kilmer's question, if the County chose not to participate, then they would not get the County's tax credit, but they would still get the City's.

Mr. Taylor said he thinks it would have to be done on a zone-wide basis. He said, in other words, he does not believe under the regulations they can do it on a property parcel by parcel basis. He said the County would have to say they are in for the entire 129 acres or they are not, to which Mrs. Pulcher responded, it would be a partnership on the application as a whole, and not by parcel. Mr. Cannon said he is not quite sure, but a TIF in itself is usually just to allow for the benefit of public infrastructure, whereas this sounds like it goes one step further where it allows for tenant improvements. He said that is a little unusual for a TIF, to which Mr. Ryan responded, it is a little unusual for a TIF project. He said it does broaden the use of those proceeds, though that could be used not just for a governmental purpose, but a private sector purpose, and there are far too many hypotheticals to even get into, frankly, but it would be on a project by project basis that he thinks they would have to come back and revisit. Mrs. Soper said the caveat being, in the regulations, the projects have to support the designation of the RISE Zone and the purpose of the RISE Zone. She said that is something that the Maryland Department of Commerce would probably have leeway over, and, obviously, City and County would as well. Mr. Cannon said he thought that a TIF always was just sort of allowed for a waiver of these taxes to allow the developer to then invest in infrastructure. He then asked if what they are saying is that the money is still collected, but it is put into a separate fund, to which Mrs. Soper responded, that is how she understands it. She said the increase and assessment of taxes gets put in a separate pot to repay bond proceeds. Mr. Ryan said it is a special fund, but they are getting into a tax increment finance as

opposed to a RISE Zone, but, yes, they would issue the bonds, the proceeds would be used to fund eligible expenses, repayments would go into a special fund, and the special fund would be used to retire the bonds. He said, after the amortization of those bonds, they would then be back to normal taxation. He said this is not presenting that, but is saying this allows a broadened use of the TIF program, but with a specific project, they would have to come back. He said if a public agency wanted to build a facility and then lease out to the private sector, for instance, and they wanted to use a tax increment finance procedure, they would have to come back. Mrs. Pulcher said the RISE Zone is a project-based application. She said they are leaving it more open-ended. She said the Mayor specifically mentioned medical education facilities to tie Salisbury University and Peninsula Regional Medical Center together along that corridor, but he did not want to specifically identify a project. She said he wanted to establish the relationship, and make the application on a broader end. Mr. Cannon said he was wondering why the State chose to link this towards this particular institution. He then asked what the strategy is with that, to which Mrs. Soper responded, the State probably sees value in those qualified institutions of higher learning, and she knows Baltimore has used the same program for research laboratories and sought the designation. She said it is very much linked to the assets that universities have to offer, and the project they can spur from the designation. Mr. Cannon said they are trying to encourage businesses that would be sort of helping with Salisbury University, to which Mr. Ryan responded, or vice versa. He clarified, to enhance that collaboration of what is going on at campuses across Maryland, and what is going on in other parts of the City. Mr. Kilmer asked if any business that locates in the zone from the point of passage receive these credits, or would the City pick and choose the businesses, to which Mrs. Soper responded, the business would have to apply for them, and they would have to meet the qualifications. She said, in this case, if they wanted the property tax credit, they would have to invest \$50,000 or more into their property. She said, if they wanted the income credit, they would have to hire two or more full-time employees, and then they would have to apply. She said, again, these applications would come in front of both Councils. Mr. Ryan said he believes it is nonresidential, so commercial and industrial properties, and they would have to do something to get the credit. Mrs. Pulcher said it is the assessed value of the improvements. Mr. Kilmer asked if each credit application would be approved by the Bodies, and not just approved automatically, to which Mrs. Soper responded, yes. She said it is very similar to Enterprise Zone whereas she receives an application from a business, it goes in front of City Council first, and then it comes in front of County Council. Mr. Kilmer said a fast food restaurant could technically qualify, so it does not have to be related to the college or medical. He said there are a lot of businesses in those corridors because the corridor has been growing. He said those businesses that would potentially invest anyway would kind of receive a break. He said it is kind of gravy on top of what they are already doing. Mrs. Soper said that is where the Enterprise Zone falls in. She said, since there is an overlay, she would likely encourage those businesses to go after Enterprise Zone because the City and County receive the 50 percent reimbursement on those, and they receive a ten-year credit instead of the five. She said, in that case, without overlap, most would probably go after the Enterprise Zone. She said Enterprise Zone, unless it is ground-up development, is kind of nominal. She said they do not see a huge credit because it is only on the change in assessment for property taxes, so it is kind of small potatoes when they actually look at it.

Mr. Dodd asked if the City has had a Public Hearing on this, to which Mrs. Pulcher responded, yes. Mr. Dodd said he is just curious if they have had any feedback or input from the citizens, to which Mrs. Soper responded, nobody spoke at the Public Hearing. Mr. Dodd asked if they have heard from anyone since then, to which Mrs. Soper responded, no.

Mr. Cannon asked how they defined the boundaries of the map, to which Mrs. Soper responded, it is contiguous with the University and downtown, so they saw a good area of growth. She said she thinks

that is an area to keep their eye on. She said the Mayor has his eyes on seeing growth and development in that area, and it is specifically targeted in the Route 13 Corridor Study. She said it is broken into two separate areas, and the connection is in the hospital area. She said that was really the best place they looked at to put this Zone. Mr. Cannon said his question is similar to what Councilman Dodd was asking in that it really was not proposed to the public as an open forum as far as the City getting ready to prepare a RISE Zone, and ask where the public would like it and where they think the most beneficial areas might be. He said he was surprised it did not go further east. He said it looks to him like it does not cover both sides of Eastern Shore Drive, to which Mrs. Pulcher responded, it has to be contiguous to the University. Mr. Cannon said none of it really looks contiguous to the University, to which Mrs. Soper responded, it does butt right up to it on the north side. She said the TTC is just outside the southern border of it. Mr. Cannon said the east and west zones are not going to be contiguous to the University. He said, again, he was just surprised it did not go a little further over to Eastern Shore Drive because there is a lot of business potential on Eastern Shore Drive. Mrs. Soper said, again, that focus was on Route 13, and some of the beautification efforts the City is working on for that. Mr. Dodd said it goes to the western side of Route 13. Mr. Cannon said there are very few vacant properties, to which Mrs. Pulcher responded, the first was on Route 13 itself, so it would not have been clear to Eastern Shore Drive along that corridor. Mr. Cannon said there are a limited number of properties along that one corridor, and he thinks they have much more potential on Eastern Shore Drive, especially on the west side of Eastern Shore Drive for expansion. Mr. Dodd said he would like to see that area developed. He said there is a lot of potential, and they used to have the parade route there. Mr. Cannon said that is just his personal opinion, as he was not sure how this was developed.

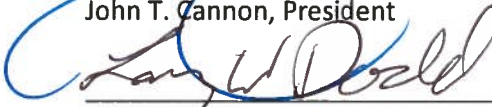
Mr. Hall said he is pretty naïve, but, from what he understands, this program is a five-year program and then the taxes are repaid. He then asked, if he sells his property in four and a half years, and somebody comes in with the same proposal and wants to be involved in this program, what incentive is there to collect these previous four and a half years of taxes, or is there any oversight, to which Mrs. Soper responded, the property taxes are given to the property tax owner and it is on a yearly basis. Mr. Hall said he understands that, and after a certain period of time they are paying back incrementally, to which Mrs. Soper responded, it is only on the change in assessment. Mr. Hall said his question is, who does the diligence to see that they are collected, to which Mrs. Soper responded, it is phased in. Mr. Hall said maybe there are a lot of people who are looking at this oversight and saying they do not want to forget this, to which Mr. Ryan responded, he thinks it is very similar to the Enterprise Zone. Mr. Hall asked if it works, to which Mr. Ryan responded, it has worked since 1982 with the Enterprise Zone. He said, after the credit runs out, it then goes to full taxation. He said the tax bill is a discounted rate, and if they do not pay that they have other issues.

Mr. Taylor said he would like to add one thing to Mr. Kilmer's question. He then said, on the State regulations, the application that is going to be turned in by the City and Salisbury University has to designate certain industry groups they are focusing on. He said he thinks, although, again, he is not certain because they are talking about Maryland State gobbly gook, it means that within those industry groups they can get the benefits. He said, for example, if it were to be scientific research and development, and the hospital sold the vacant lot they own where the Daily Times used to be to build another Dollar General, that would probably, he thinks, not qualify for it if they did not have grocery and fast food stores as one of the targeted industries. Mrs. Pulcher said they are mission identified in the RISE Zone. Mr. Taylor said he thinks there is some ability to direct it towards certain things. Mrs. Pulcher said she is pretty sure Burger King would not qualify for the RISE Zone unless they really wanted to stretch their business mission.

Mr. Cannon asked if there is anything else Mrs. Soper needs from the County as a whole, to which Mrs. Soper responded, she thinks the next step would be to have a Public Hearing from County Council, and they need two weeks to advertise that, so, if it is okay with Council, she would propose a May 15 Public Hearing to give them time. Mr. Cannon asked for a consensus to go forward with this, to which Mr. Hall, Mr. Matt Holloway, Mr. Davis, and Mr. Joe Holloway agreed. Mr. Dodd said he has to digest it more, but he can go along with Council. Mr. Kilmer said he is not committing to voting yes on this yet. Mr. Cannon said they have a majority. Mr. Taylor asked if it would be helpful to have the application so Council can see exactly what is being applied for. Mr. Cannon asked Mrs. Soper to send a copy of that to Mrs. Hurley. Mr. Dodd asked if Mrs. Soper could also send guidelines, to which Mrs. Soper responded, she can also send that. There was no further discussion.



John T. Cannon, President



Larry W. Dodd, Vice President, District 3



Ernest F. Davis, District 1



Marc Kilmer, District 2



John B. Hall, District 4



Joe Holloway, District 5



Matt Holloway, At-Large



Laura Hurley, Council Administrator