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City of Providence

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

CHAPTER 1992-51

No. 620 **AN ORDINANCE** TO ADOPT THE MANCHESTER
STREET POWER PLANT TAX INCREMENT PROJECT PLAN,
AS AMENDED.

Approved December 21, 1992

Be it ordained by the City of Providence:

WHEREAS, The Narragansett Electric Company ("NEC") expects to make capital expenditures of approximately \$600,000,000 to repower its Manchester Street Generating Station (the "Facility"); and

WHEREAS, the City of Providence and NEC have entered into a Tax Stabilization Agreement under Section 44-3-9 of the Rhode Island General Laws with respect to property taxes on the Facility during the 10-year period commencing July 1, 1993; and

WHEREAS, pursuant to Section 33.2 of Title 45 of the Rhode Island General Laws (the "Act"), the City wishes to designate the tax increment from NEC's construction of the Facility and certain associated improvements for the benefit of certain projects described in the attached Manchester Street Power Plant Tax Increment Project Plan (the "Project Plan"); and

WHEREAS, the Project plan contemplates interim financing and the issuance of special obligation tax increment financing bonds under Section 45-33.2-6 of the Act ("TIF Bonds"), following separate City Council authorization of any such debt, to finance or refinance projects contained in the Project Plan; and

WHEREAS, the Internal Revenue Service has promulgated regulations (the "Regulations") which require, in order to preserve the tax-exempt status of any TIF Bonds to the maximum possible extent, that the City declare an official intent to reimburse certain expenditures for the projects described in the Project Plan from the proceeds of TIF Bonds, such declaration to be made prior to any such reimbursement expenditures; and

WHEREAS, the most administratively efficient means of handling the technical timing requirement of the Regulations is to designate the appropriate City official to make such official intent declarations;

No.

CHAPTER

AN ORDINANCE

NOW, THEREFORE, be it ordained by the City of Providence:

Section 1. The City Council of the City of Providence hereby adopts the Project Plan based upon its finding that with respect to the projects described in the Project Plan, the facilities, programs and other assistance described therein are needed and the financing of such projects in accordance with the Project Plan is in the public interest.

Section 2. Boyce Spinelli, Director of the Department of Finance is hereby designated as authorized to declare official intent under Section 1.103-18 of the Regulations in connection with reimbursement expenditures made for the projects described in the Project Plan, and to amend such declarations on behalf of the City.

Sectin 3. This ordinance shall take effect immediately upon its passage.

IN CITY COUNCIL

DEC 13 1992

FIRST READING
READ AND PASSED, AS AMENDED

Michael L. Clement CLERK

IN CITY
COUNCIL

DEC 17 1992

SECOND READING
READ AND PASSED

Eugene V. Fargnoli
ACTING PRESIDENT
Michael L. Clement
CLERK

APPROVED

DEC 21 1992

Vincent A. Cianci
MAYOR

MANCHESTER STREET POWER PLANT
TAX INCREMENT PROJECT PLAN

Project Summary

- * Project to be Funded: The Providence Plan Housing Program.
- * Tax Increment Area: The Manchester Street power plant property owned by Narragansett Electric Company, including off-site improvements associated with the repowering of this facility.
- * Total Housing Plan Project Cost: Approximately \$192 million.
- * Tax Increment Financing: Estimated at \$22 million.
- * Designated Agency for Carrying Out Housing Plan: The Providence Plan Housing Corporation.
- * Designated Person for Calculating Increment: Theodore C. Littler, City Assessor for the City of Providence.

Project Description

The Housing Plan will be undertaken by a partnership that includes the City of Providence; the Providence Plan Housing Corporation (PPHC), a newly-formed, non-business corporation; the State of Rhode Island, through the Rhode Island Housing & Mortgage Finance Corporation (R.I. Housing); the United States Government, which provides funds through a variety of housing programs; and a consortium of financial institutions doing business in the City of Providence.

These partners will provide about \$192 million in low-cost financing and other funds, which will be used primarily to improve the housing stock and to improve living conditions in the neighborhoods of the City.

The financing of the Housing Program, including the support of such financing from tax increment revenues, will be accomplished pursuant to the authorization contained in Section 45-33.2 of the Rhode Island General Laws, The Tax Increment Financing Act, as amended (The "Act"). This Project Plan is submitted pursuant to the requirements of the Act.

Tax increment revenues from the Manchester Street project will support, either directly or through the payment of debt service, an estimated \$22 million of the financing for the Housing Program. The tax increment will be created when Narragansett Electric invests an estimated \$600 million in the repowering of

the Manchester Street power plant, which is located at Point and Eddy Streets next to the Providence River. The investment extends to ancillary facilities that are off-site.

In accordance with Section 45-33.2-3 (2) (iii) of the Act, tax increment revenues, including proceeds of any borrowing supported by such revenues, will be used for some or all of the following permitted uses:

- * The issuance of low-cost loans for the purchase of new and existing homes;

- * The renovation of existing homes (including the establishment of a loan-loss reserve that will be security for loans made by financial institutions that participate in the Plan);

- * The acquisition of vacant or abandoned homes for the purpose of financing the renovation of these homes and their sale to owner-occupants;

- * The demolition of vacant or abandoned homes for the purpose of reducing density and clearing structures that cannot be economically rehabilitated;

- * The acquisition of vacant lots for the purpose of promoting the construction of new, affordable homes;

- * And site-preparation associated with the construction of new homes.

The City anticipates using interim financing prior to the issuance of tax increment bonds, and for the administrative expenses of the Providence Plan Housing Corporation and other nonprofit housing corporations that are carrying out the purposes of the Housing Plan.

Until the Housing Plan is put into effect, it cannot be known who will apply for, and receive loans for the purchase or renovation of homes; which vacant or abandoned houses will be acquired for rehabilitation or demolition; or which vacant lots will be purchased for the preparation of sites and the construction of new homes. Therefore, for the purpose of expending some tax increment revenues, as described below, the plan establishes a class of beneficiaries based on income instead of establishing a project area within which revenues will be spent.

Relocation: The Providence Plan Housing Corporation does not anticipate having to relocate any individuals or businesses in carrying out The Housing Program. If such relocation becomes necessary, it will be undertaken in conformance with applicable law.

Comprehensive Plan: In the opinion of Thomas Deller, the City Planner, The Housing Program is consistent with the Comprehensive Plan of the City of Providence.

Need for Housing Program

The Housing Program that will be funded with Tax Increment Financing is needed and is in the public interest.

The Program will address a number of needs:

- * Low-cost financing will be provided for the renovation of the City's housing stock, which is comprised primarily of old, wood-frame structures;

- * Low-cost financing will be provided for the purchase of new or rehabilitated housing by owner-occupants, thereby increasing the percentage of homes that are owner-occupied;

- * More than half of the vacant or abandoned houses in the City will be renovated for owner-occupants or will be demolished;

- * New, low-cost homes will be constructed on vacant lots, thereby increasing owner-occupancy and ridding neighborhoods of vacant lots where illegal dumping takes place.

- * And low-cost financing will give middle-class families incentives to remain in Providence or to move to the City.

Project Area

The Housing Program project area is not within the Manchester Street power plant tax increment area.

Section 45-33.2-3 (3) of the Act permits Housing Program projects to take place in areas that are not designated as "redevelopment areas." Housing Program projects will take place in various locations throughout the City, some of which happen to be within redevelopment areas. The same section of the Act permits tax increment revenues to be spent within a geographically defined project area, or on behalf of a defined group of "beneficiaries." Further, a project may have both a project area and a class of beneficiaries. Program expenditures will be governed by the following:

- * The development of Mandela/Woods (as itemized under "Estimate of Total Project Cost," below) has a project area as approved by the Providence City Council for the Lower South Providence Redevelopment Area. The beneficiaries of tax increment expenditures within this area will be households whose annual income does not exceed 80 percent of the median household income, adjusted for size, for the Providence Primary Metropolitan

Statistical Area (PMSA), except insofar as the regulations of the U.S. Department of Housing and Urban Development (HUD) permit higher income limits.

* The development of new homes on vacant lots (also itemized below) has a project area as approved by the Providence City Council for the Upper South Providence, Lower South Providence, and Federal Hill East Redevelopment Areas. The beneficiaries of tax increment expenditures within this project area will be households whose annual income does not exceed 80 percent of the median household income, adjusted for size, for the Providence PMSA, except where HUD regulations permit higher income limits.

* Remaining components of the Program do not have project areas. In connection with such components, increment expenditures will be used to benefit households whose annual income does not exceed 80 percent of the median household income, adjusted for size, for the Providence PMSA, except where HUD regulations permit higher income limits.

Estimate of Total Project Cost

* Home Improvement Programs

-- Bank-financed loans	\$20.0 million
-- Reserve against bank losses	1.0
-- R.I. Housing/PPHC loans	15.0
-- PPHC loans for elderly	3.0
-- Loans for painting houses	<u>6.0</u>
subtotal	45.0

* Abandoned Housing Program

-- Selective demolition	1.2
-- Acquisition of homes by City	4.5
-- First mortgages for buyers	22.5
-- Second mortgages for buyers	<u>4.5</u>
subtotal	32.7

* New Homes on Vacant Lots

-- Acquisition of lots	1.9
-- First mortgages for buyers	13.75
-- Second mortgages for buyers	3.75
-- Third mortgages for buyers	<u>3.75</u>
subtotal	23.15

* Financing for Home Purchases

-- First mortgages	37.5
-- Second mortgages	<u>7.5</u>
subtotal	45.0

* Development of Mandela/Woods

-- Demolition	3.5
-- Site preparation	1.5
-- First Mortgages	22.0

-- Syndicated tax credits		<u>7.3</u>
	subtotal	34.3
* Sidewalk Repair		2.25
* Interim Financing		1.8
* PPHC Administration (4 years)		6.0
* Grants to other Nonprofits (4 years)		<u>1.75</u>
	TOTAL:	\$192.15 million

Sources of Funds

* R.I. Housing & Mortgage Finance Corp.		\$110.0 million
* Funds Controlled by City		
-- Tax Increment Financing		22.0
-- Federal HOME grants (5 years)		10.5
-- Grants from R.I. Housing		6.0
-- Federal HOPE III grants (4 years)		4.0
-- Federal Nehemiah grant		3.75
-- Federal CDBG funds (4 years)		2.4
-- Federal UDAG funds		1.4
-- Providence Redevelopment Agency		<u>4.8</u>
	subtotal	54.85
* Financial Institutions		20.0
* Private Developer Syndication		<u>7.3</u>
	TOTAL:	\$192.15 million

Note: The contribution from R.I. Housing assumes that existing lending programs of the agency are utilized for this program to the maximum feasible extent. The agency makes decisions whether to lend on a case-by-case basis. In addition, it is possible that private financial institutions will provide a portion of the financing assigned to R.I. Housing by this plan, although there are no agreements for such participation at this time.

Use of Proceeds from Tax Increment Financing

* Home Improvement Loans by PPHC	\$ 7.1 million
* Acquisition of abandoned homes	4.5
* Acquisition of vacant lots	1.9
* Reserve against bank losses	1.0
* Mandela/Woods: Site preparation	1.5

* Administration

Total: $\frac{6.0}{\$22.0 \text{ million}}$

Tax Increment Provisions

* Estimated amount of indebtedness: \$22 million.

* Base Date: December 31, 1991.

* Estimate of annual average tax increment to be generated:
Approximately \$7.5 million annually over a 23-year period.

* Officer responsible for calculating the tax increment:
Theodore C. Littler, Providence City Assessor as of the date of enactment of this ordinance.

* Tax Increment Area: The tax increment area includes the real estate occupied by the Manchester Street power plant, and additional improvements located outside the boundaries of the power plant that are integral to the repowering project of Narragansett Electric Company.

The Manchester Street power plant is located within the following parcels identified in the records of the Tax Assessor of the City as of December 31, 1991 as:

<u>Plat</u>	<u>Lot</u>
22	96, 145, 185
21	312
46	591

The tax increment on these parcels includes investments undertaken by the Narragansett Electric Company and its affiliated companies, as well as the gas line to be constructed on this property by the Algonquin Gas Transmission Company and the gas metering station to be constructed on this property by Algonquin. These gas service improvements will be subject to separate taxation on these plats and lots.

In addition to the improvements on the plats and lots itemized above, the tax incremental area includes property on which are located improvements associated with the repowering project and made by Narragansett Electric that are not located on the above plats and lots. These improvements include:

-- A 14-inch-diameter fuel oil pipeline that runs from the Sprague Oil Terminal at 144 Allens Avenue beneath Henderson Street for a distance of 25 feet until it enters the Manchester Street site.

-- An upgraded well at Narragansett's Olneyville substation that will draw groundwater for power plant use. The existing well

is presently a capped pipe in the ground. Narragansett plans to add a deep-well submersible pump and a below-grade valve pit containing valving and metering equipment.

-- An underground water line that will carry the pumped water from the well at the Olneyville substation to the Manchester Street site (see Attachment 2 for a description of the substation location and the path the water line will take).

-- And an underground power line and conduit that will run underground from the Providence/Johnston border to the Manchester Street site (see Attachment 3 for the routing of this transmission line within the City of Providence).

* Method of Calculation: In the chart that follows below, the estimated tax increment is calculated for each of the following fiscal years of the City:

FY 1993-1995: The 3-year period from approval of this ordinance until the expected date when tax incremental financing bonds will be issued in conformance with this ordinance.

FY 1996: The year during which bonds are expected to be sold.

FY 1997-2016: The 20-year period during which the City expects to appropriate funds set aside under provisions of this ordinance for the purpose of paying debt service on the bonds.

It is assumed that the repowering project commences during the summer of 1992 and is completed sometime in the year before December 31, 1996.

* Uses of Increment: The Act permits the City to deposit as revenues in the General Fund those tax increment revenues that are not needed for the payment of debt service on tax increment financing bonds, or bond anticipation notes or other short-term financing, issued in conformance with the Act, or the provision of any required security in connection with such debt, or the direct funding of any part of the Housing Program.

The City's present intention is to obtain interim financing (from bond anticipation notes or other means) in order to undertake the Housing Program during fiscal 1993 through 1995. Prior to incurring any interim debt in the form of bond anticipation notes, the City Council must approve a separate ordinance authorizing such notes and the bonds in anticipation of which they would be issued. The City will include the cost of interest on such interim financing in the principal amount of the interim financing or arrange to defer interest payments until the time of bond issuance. (The City anticipates that the \$22 million will be fully expended by the Housing Program in fiscal 1996 or possibly 1997.) If the City is successful in obtaining such terms, then there will be no current payments during these years from the tax increment revenues generated by the Manchester Street

repowering project. During these years, therefore, the City would deposit the entire amount of such tax increment revenues in the General Fund. Beginning in fiscal 1996, and each year thereafter until the bonds are paid off, the City expects that debt service on the \$22 million in borrowings will be approximately \$2 million per year. The surpluses that are available after the payment of debt service will be deposited in the General Fund as revenue during the fiscal years for which tax increment bonds are outstanding.

Calculation of Increment: For each year through 2016, the chart compares taxes that would be paid under a "No-Build" and "Build" scenario. The "No-Build" scenario assumes that the repowering project does not take place; the "Build" scenario assumes that the project does take place. The difference in tax yield between the two scenarios is the gross tax increment for each year.

In calculating taxes, the following assumptions were made:

No Build Scenario

1) The value of the specified land remains constant from FY 1993 through FY 2016 at the assessed value as of December 31, 1991: \$8,166,800.

2) The value of the existing power plant buildings remains constant throughout the period at the assessed value as of December 31, 1991: \$4,786,500.

3) There are no tangible taxes paid on the subject property throughout the subject period.

4) The Administration assumes the real estate tax rate will rise annually throughout the period by 3.6 percent, beginning with the actual tax rate of \$28.17 per thousand dollars of assessed valuation as of December 31, 1991. This tax inflator for the future years was chosen because it equals the average annual increase in the actual tax rate for a number of past years -- from FY 1983 through FY 1993 (excluding fiscal 1989, when the tax rate declined significantly as a result of the revaluation of property).

5) Notwithstanding the previous provision, the tax rate declines by 20 percent for FY 1999 and FY 2009, which are years for which state law requires the City of Providence to implement a revaluation of ratable property. The 20-percent deflator represents the Tax Assessor's estimate of a likely approximate decline in the tax rate for these future years.

Build Scenario

1) The tax-rate inflator from FY 1993 through FY 2016, and the tax-rate deflator for the revaluation years FY 1999 and 2009, are the same as provided under 4) and 5) of the No-Build assumptions above. The tangible tax rate, as provided under the

City's classification plan, is equal to approximately 2.4 times the real estate tax rate for a given year.

2) For FY 1993, the taxes paid under the Build scenario are the same as under the No-Build scenario, since the repowering project had not commenced as of December 31, 1991.

3) For the ten-year period from FY 1994 through FY 2003, the taxes paid are the sum of the following:

-- The taxes that Narragansett Electric will pay pursuant to the ten-year Tax Stabilization Ordinance approved by the City Council for the repowering project (see Attachment 1); AND,

-- The taxes that will be paid for the proposed gas line and metering station on the Manchester Street property. Algonquin estimates that the pipeline will be constructed for \$834,000. Based on this estimate, the City Assessor projects that the pipeline will have a tax assessment of \$834,000 MINUS a depreciation factor of 10 percent, equals \$750,600. Algonquin estimates that the metering station will cost \$1.2 million. Based on this estimate, the City Assessor projects the metering station will have an assessed value of \$1.2 million MINUS a depreciation factor of 15 percent, equals \$1.02 million. These Algonquin improvements are expected to be subject to taxation as of fiscal 1996.

4) For the 13-year period from FY 2004 through 2016, the taxes are as follows:

-- The taxes on the subject land are based on an assessment of \$8,166,800, which is presumed to hold constant throughout the period. This assessment is equal to the assessment of December 31, 1991.

-- The taxes on the Narragansett Electric buildings that are part of the repowering project are based on an assessment of \$288.6 million. For the ten-year period from FY 2004 through FY 2013, the assessment is \$288.6 million MINUS a depreciation factor of 30 percent, equals a net assessment after depreciation of \$202.0 million. For the three-year period from FY 2014 through FY 2016, the depreciation factor is 45 percent, yielding a net assessment of \$158.7 million.

-- The taxes on the gas line are based on an assessment of \$834,000. For the ten-year period from FY 2004 through FY 2013, the assessment is \$834,000 MINUS a depreciation factor of 30 percent, equals \$583,800. For the three-year period from FY 2014 through FY 2016, the assessment is \$834,000 MINUS a depreciation factor of 45 percent, equals \$458,700. The taxes on the metering station are based on an assessment of \$1.2 million MINUS depreciation factors that are the same as for the gas pipeline for the specified years. This yields an assessment of \$840,000 for FY 2004 through FY 2013, and \$660,000 for FY 2014 through FY 2016.

-- The tangible taxes on the Narragansett Electric personal property are based on an assessment of \$51.0 million. For the ten-year period from FY 2004 through FY 2013, the assessment is \$51.0 million MINUS a depreciation factor of 30 percent, equals a net assessment after depreciation of \$35.7 million. For the three-year period from FY 2014 through FY 2016, the depreciation factor is 45 percent, yielding a net assessment of \$158.7 million.

5) As required by state law, the amount of the tax increment is reduced by the portion of the levied amount that is appropriated to pay general obligation debt. As of FY 1993, debt service on general obligation debt represents about ten percent of the expected collection of currently levied taxes. What this portion will be in future years depends on many factors, including the amount and timing of any additional general obligation borrowings. For the purposes of this plan, it is presumed that the ten-percent factor holds throughout the projected period.

CALCULATION OF TAX INCREMENT
(based on assumptions itemized above)
In Millions

<u>Fiscal</u>	<u>Projected Taxes Paid</u>		<u>Minus G.O.</u>	<u>Net Tax</u>
	<u>No Build</u>	<u>Build</u>	<u>Debt Factor</u>	<u>Increment</u>
1993	\$.365	.365	N/A	- 0 -
1994	.378	5.25	.487	4.38
1995	.392	7.25	.686	6.17
1996	.406	7.31	.690	6.21
1997	.420	7.31	.689	6.20
1998	.435	7.31	.689	6.20
1999	.348	7.30	.695	6.26
2000	.361	7.80	.744	6.70
2001	.374	7.80	.743	6.69
2002	.387	7.80	.741	6.67
2003	.401	7.80	.740	6.66
2004	.416	9.54	.912	8.21
2005	.431	9.89	.946	8.51
2006	.446	10.24	.979	8.81
2007	.462	10.61	1.02	9.13
2008	.479	11.00	1.05	9.47
2009	.383	9.55	.917	8.25
2010	.397	9.88	.948	8.53
2011	.411	10.24	.983	8.45
2012	.426	10.60	1.02	9.15
2013	.441	10.99	1.06	9.49
2014	.457	8.57	.811	7.30
2015	.474	8.88	.841	7.57
2016	.491	9.20	.871	7.84