

# FINANCIAL ANALYSIS

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# FINANCIAL ANALYSIS

## INTRODUCTION

The Panhandle Area Council is pleased to assist the City of Coeur d'Alene and its Urban Renewal Agency, ignite cda, on a financial analysis of the impact of the City's proposal to de-annex parcels from both its Lake and River Districts. The City proposes to take this action in order to receive a portion of the tax increment that has been diverted to the Agency since 1997 in the Lake District and 2003 in the River District. The City has recognized the need for extra tax revenue for staffing its fourth fire station, scheduled to open in 2016, and the opportunity to reduce property taxes in the county.

## IMPACT ON LOCAL GOVERNMENTS

The action would also potentially impact the budgets of other local governments, including North Idaho College and Kootenai County. Local governments would be allowed to add the amounts shown to their budgets for FY 2016-17, or use the new revenues to lower taxes for their constituents.

A breakdown of the funds to be received, defined as New Construction by the Idaho State Tax Commission:

**TABLE 1  
NEW CONSTRUCTION – BY AGENCY – FY 2016-2017**

Tax Authority	Levy Rate	Tax Change
Coeur d'Alene Bond	0.000044342	\$ 3,418.87
City of Coeur d'Alene	0.005857486	451,623.35
TOTAL – City of Coeur d'Alene		455,042.22
Kootenai County	0.003178062	245,034.64
North Idaho College	0.001098933	84,729.82
Post Falls Highway District	0.000647527	37,828.66
Lakes Highway District	0.000758112	14,162.82
Kootenai County EMS	0.000171693	13,237.88
School District 271	0.000009062	698.71
Total		\$ 850,734.75

Source: Kootenai County Assessor

## **BASIS OF THE ANALYSIS**

The following assumptions have been used to determine the impact on the Agency:

1. The City Council will approve an ordinance no later than July 25, 2016 to de-annex the parcels Identified via the Kootenai County Assessor.
2. The State Tax Commission has determined that properties de-annexed prior to that date are to be included in the New Construction Rolls of each affected agency, and therefore eligible for inclusion in their budgets for FY 2016-17. The discussion of the timing of the receipt of the taxes to local governments from Alan Dornfest of the State Tax Commission can be found in Exhibit A.
3. The Assessed Value of the Net Tax Increment of each District of the Agency, as of January 1, 2016 is as follows:
  - **Lake District:** Value of the increment above the base value on January 1, 1997 is \$373,126,242.
  - **River District:** Value of the increment above the base value on January 1, 2003 is \$194,264,624.
4. The 2015 net increment values may change based on the subsequent tax rolls calculated by the County Assessor. And, although they are certain to change in future years, the analysis assumes the increment values will remain fixed for the life of the Districts, at their current 2015 values.
5. Although they too are certain to change, the Tax Levy Rates as of December 31, 2015 are fixed for the life of the Districts, as stated in Table 1 on Page 1.
6. Although not needed to mitigate the financial impact on the Lake District, some buildings and sites may be declared as surplus and sold, based on their non-depreciated value as of September 30, 2015.
7. The final installment of the Revenue Allocation Bond with Washington Trust Bank, in the amount of \$1,039,260, will be paid from restricted funds in the Debt Reserve Fund established and maintained by the Agency. The balance remaining, estimated at \$310,740, will become unrestricted cash at that time.
8. The Agency will work with Washington Trust Bank to provide further security for the Revenue Allocation Bonds, if required by their covenants, including increasing the Debt Service Reserve or using existing assets as collateral.
9. Operating expenses remain fixed for the life of the Districts, with the exception of salaries and overhead, which increase by 3% annually. The salaries and overhead expenses are split equally between the Districts through 2021, at which time the Lake District closes, and the salaries and benefits are halved.
10. Future projects of the Agency have been included, based on the Agency's projections, and in the timeline set forth by them.
11. Special Project Reserves in the amount of \$3 million in the Lake District and \$5 million in the River District are included. These are funds for grants for public projects not yet requested by local governments or identified by the Agency. The city may also partner with the Agency to fund other requested grant projects, if necessary.

## SUMMARY

Exhibit B details the impact on the Districts, as follows:

1. **Lake District:** With the loss of the current value of the increment since 1997 on the de-annexed parcels, **\$24,077,194**, the Agency will see **\$337,093** less in incremental taxes per year, beginning in 2017. The total over the five remaining years of the District is **\$1,685,465**. Please see Chart 1, Exhibit C.

However, this is partially offset by the new construction in the District, **\$64,863**, and the use of the Debt Service Reserve, **\$1,305,337**, to retire the final installment on the Washington Trust Bank Revenue Allocation Bonds.

Based on the analysis, there will be no impact on the Lake District for current projects or those currently proposed by the Agency.

However, the Agency may be restricted on the amount they can provide for public infrastructure via grants to local governments. As noted, the Agency has set aside \$3 million in the Special Projects Reserve, in addition to \$3.6 million for the Four Corners Project, \$2.5 million for an Education Facility, \$1.85 million for a Parking Structure and \$500,000 for Midtown initiatives.

2. **River District:** With the loss of the current value of the increment since 2003 on the de-annexed parcels, **\$86,688,437**, the Agency will see **\$1,003,337** less in incremental taxes, beginning in 2017. The total over the eleven remaining years of the District is **\$11,036,707**. Please see Chart 2, Exhibit C.

Based on the analysis, there is no financial impact on the River District for currently anticipated projects, despite the fact the de-annexation removes 44% of its increment. However, future grants to local governments, slated at \$12.2 million, would be reduced to \$5 million over 12 years. This is in addition to \$3.5 million for improvements to Seltice Way, \$500,000 for the transit center and \$100,000 for the BNSF property. Another impact is that by reducing the acreage of the District, the ability to amend its boundary to include the Atlas property would be reduced, since it is restricted to being 10% of the size of the District.

## FINAL NOTE:

Coeur d'Alene's urban renewal agency, ignite cda, has in PAC's view done a remarkable job since its inception in 1997. Local critics, including some elected officials, believe its creation has increased taxes because of those being diverted to the Agency. This is simply not the case, as current law does not allow it. We believe de-annexing parcels before the close of a District is an extremely effective way to utilize this valuable tool, and we commend the parties for working together to do so.

**EXHIBIT A**  
**TIMING OF THE RECEIPT OF TAX DOLLARS FROM DE-ANNEXATION**

**From:** Alan Dornfest, Idaho State Tax Commission  
**To:** Mayor Steve Widmyer, City Administrator Jim Hammond  
**Subject:** De-annexation of URD properties

It really depends on when the agency no longer expects to receive money for increment value within the portion of the RAA (Revenue Allocation Area) being de-annexed. Assume, for example that the URA does not need any more money from these properties and expects nothing from 2016 property taxes (ie: the ones paid in December 2016). If the de-annexation ordinance is effective before July 25, the increment value (or at least the growth in this value since 2006) can be counted as new construction for taxing district budgeting purposes for their FY 2017 budgets – fulfilled with 2016 property taxes. That's the best scenario – try to meet the July deadline. There is no way to extend it. If you are not planning to de-annex for this tax cycle, then just move these dates ahead a year. In that case, the cleanest scenario would be to de-annex as of the end of this calendar year.

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