Economic Development Tools for Municipalities

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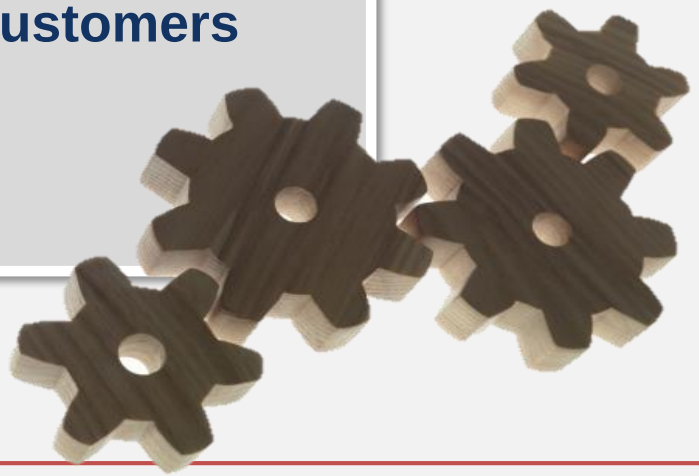
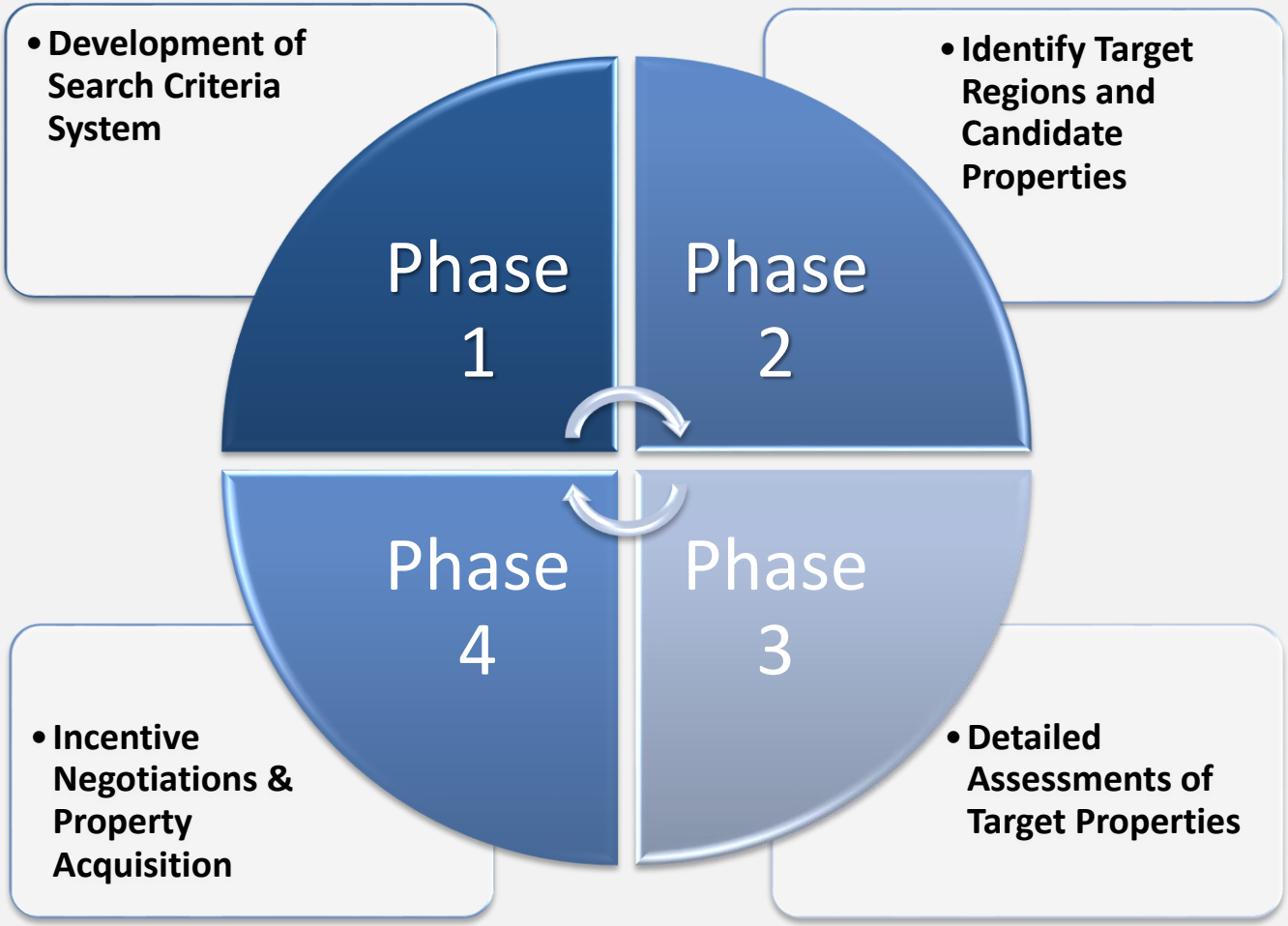
Typical Factors Businesses Consider When Locating to a Community

- **Adequate Labor Pool**
- **Utility Infrastructure Analysis (availability, capacity, cost, reliability)**
- **Transportation Infrastructure Analysis**
- **Taxes - Incentives**
- **Proximity to Vendors, Suppliers, Customers Management**
- **Quality of Life**



Typical 4-Phase Site Selection Process



Position yourself as a Target Region

- **Target Regions are identified before a municipality is contacted**
  - Perception is important
    - Open to Economic Development
    - Business Friendly Municipality
    - Efficient Government
  - Economic development tools in place and ready for development to bridge gaps between competing locations.

Why Use Economic Development Tools?

- Incentivize private investment
- Increase the Tax base
- Create Jobs
- Invest in Public works
- Enhance Property Values
- Do this by attracting or retaining business and spurring private investment

Considerations

- Location where the business is or will be located;
- Type of business;
- Wages it pays employees;
- Overall Economic Impact to the Community (Impact Study is helpful)

Examples of applying those Considerations

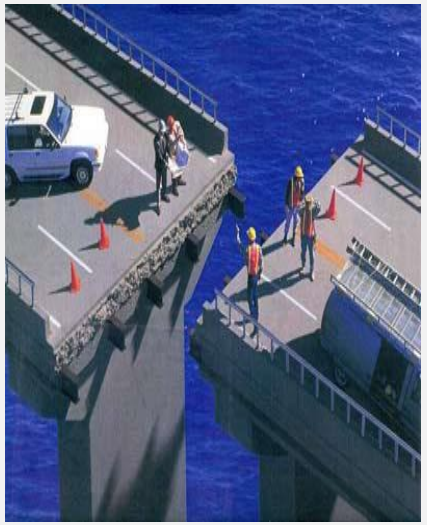
- Is the business reliant upon your citizens as a nearly exclusive customer base?
  - Grocery, Drug Store, Gas Station
- What are the other site options of this business?
  - Within vs adjacent to your community
  - Another State or Internationally
- Will you receive benefit from it locating in a nearby municipality?
- Does the institution provide a needed service for your citizens? – School or Hospital

Comparing Incentive Packages

- Normalize options from different states
  - Free land
  - Tax Incentives
  - Tax Rates
  - State Tax Refunds vs Tax Credits
- Illustrates importance of being ready to offer and not having to negotiate and go through a public process.
- Illinois DCEO

Economic Tools to Bridge the GAP *(Stackable)*

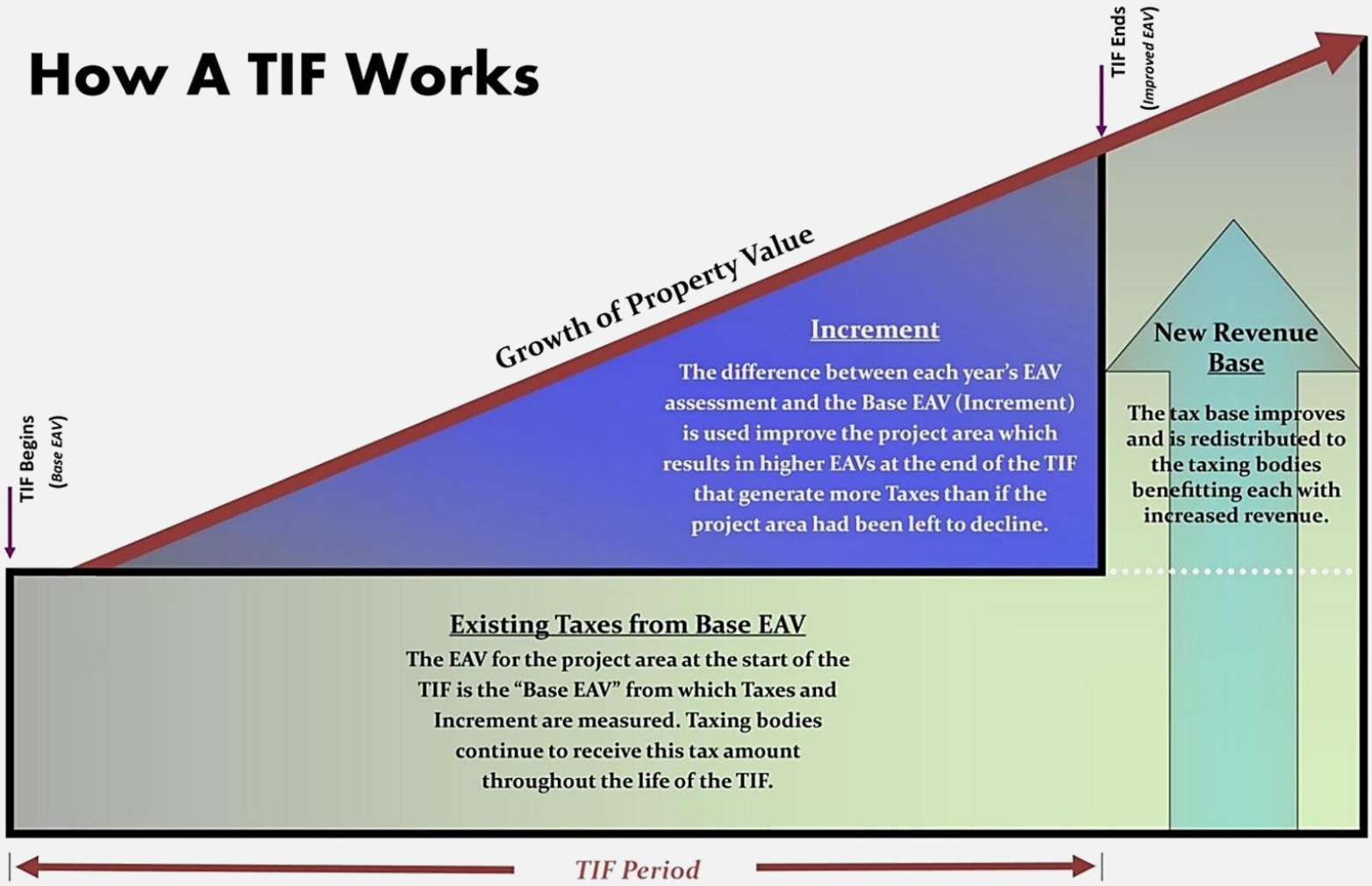
- Tax Increment Finance Districts (TIF)
- Special Service Area (SSA)
- Business Development Districts (BDD)
- Sales Tax Rebate Agreements (ROT)
- Real Estate Tax Abatements
- Grants



Tax Increment Financing (TIF) - 65 ILCS 5/11-74.4

- Used to promote economic development
- Captures Real Estate Taxes attributable to increases in Property Values from the Base Year of the TIF
- Funds are limited to certain eligible costs for private as well as public improvements.

Tax Increment Finance Districts (TIF) – P.I.N. by P.I.N.



TIF Eligibility Criteria

- The eligibility criteria to find the existence of a 'blighted area' are set forth in the TIF Act:
  - **Improved Land:** 65 ILCS 5/11-74.4-3(a)(1): Requires at least 5 of 13 listed factors to be present
  - **Conservation Area (Improved Land):** 65 ILCS 5/11-74.4-3(b): 50% of structures are at least 35 years old. Requires at least 3 of 13 factors to be present
  - **Vacant Land:** 65 ILCS 5/11-74.4-3(a)(2); Requires at least 2 of 6 listed factors to be present
  - **Vacant Land (Alternative method):** 65 ILCS 5/11-74.4-4-3(a)(3): Requires at least 1 of 6 listed factors to be present

Examples of Blighting Criteria - Improved & Conservation Area

- Dilapidation
- Deterioration
- Excessive building vacancy
- Presence of structures below minimum code standards
- Inadequate utilities
- Declining EAV's in last 3 of 5 calendar years

Examples of Blighting Criteria – Vacant 2 of 6

- Declining EAV for 3 of 5 prior years
- Obsolete platting of vacant (odd shapes)
- Diversity of Owners impeding assembly
- Delinquent taxes or subject to tax sales
- Certain Environmental Costs incurred
- Deterioration of structures in neighboring areas adjacent to the vacant land

Examples of Blighting Criteria – Vacant 1 of 5

- Unused quarries or strip mine ponds
- Unused Rail or Rail ROW
- Subject to Chronic Flooding or Surface Water Discharging from all or part of the area contributing to flooding
- Unused or Illegal Disposal Site
- Qualified as blighted improved immediately before becoming vacant

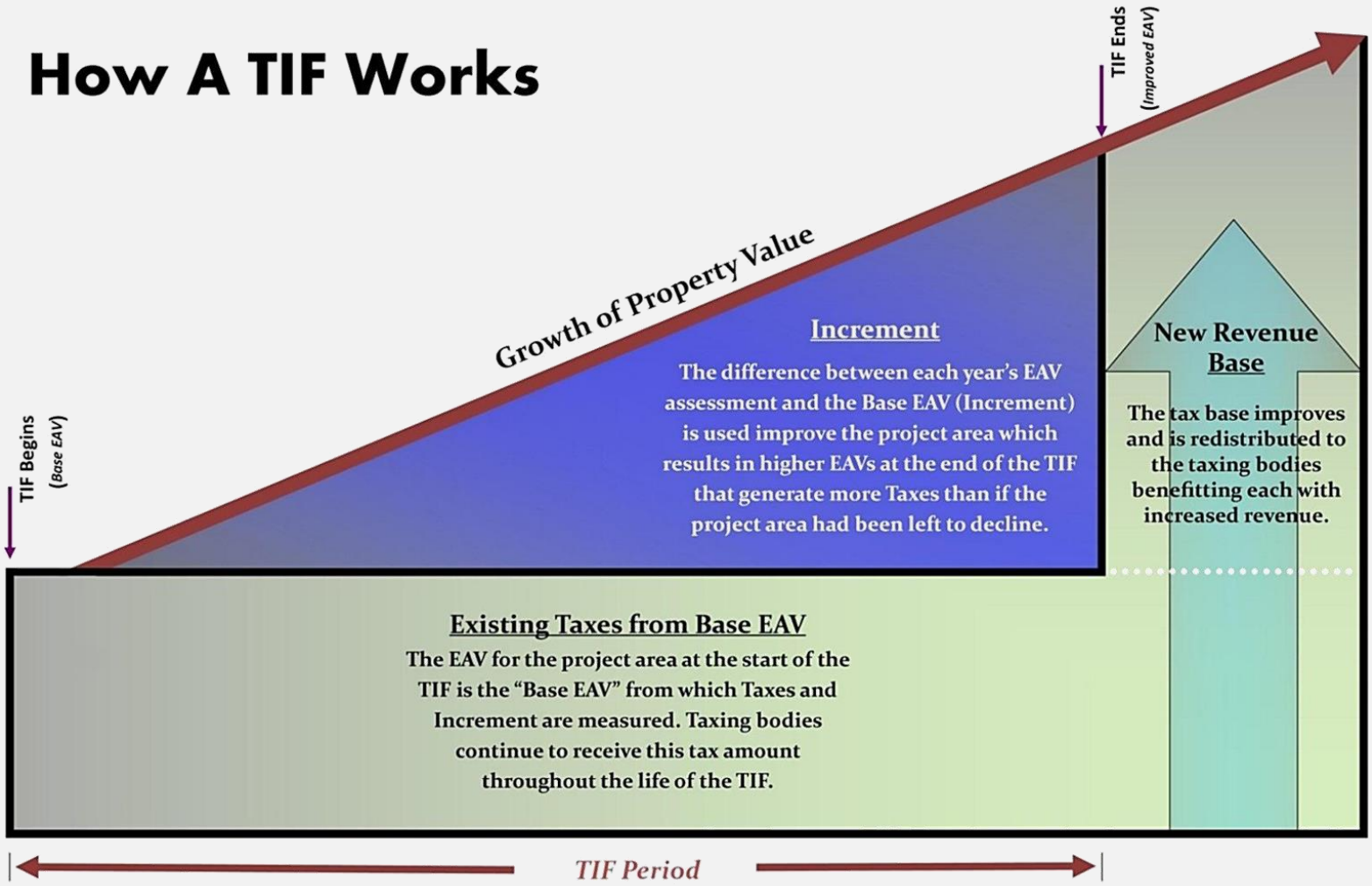
TIF Formation

- Requires initial publication (Newspaper and Mailing)
- Participation by affected taxing bodies through an *advisory* JRB
- Public Hearing
- Enactment of enabling ordinances
- Typically requires at least 90-120 days to form without a housing impact study

Common Objectors & Objections

- Taxing Bodies – typically School Districts
  - Schools typically make-up approx two-thirds of the total tax bill.
- Objections Based upon
  - Disbelief relating to the "But-For"
  - Lack of information regarding use and effectiveness of TIF
  - Utilization of TIF to primarily fund infrastructure projects or public improvement
  - Lack of Transparency
  - Lack of understanding the School District State Aid Formula

Tax Increment Finance Districts (TIF)



Common Uses for TIF

- Property acquisition, demolition and site preparation
- Public works or improvements
- Job training, relocation expenses
- Marketing of sites within the TIF District
- Costs relating to the administration of the TIF
- Studies, surveys and plans
- Rehabilitation or renovation of existing public or private buildings
- Professional services (architectural, engineering, legal, and financial planning)

Example of New Business, Good Jobs, Opposition

- Manufacturer new to area
- Hundreds of new jobs
- School opposed as did some residents

- How:
  - Organize Supporters
  - Explain School Funding Formula
  - Offer some compromise

When TIF may not be enough

- Property Values are below the base EAV
- Property Values will not increase, even after improvements
- Cash needed up front
  - Present Value Incentive
  - Infrastructure Requirements
- Leverage with SSA, BDD, Sales Tax Rebate, Tax Abatement or Grants

SSA – What is it?

- Added Tax
- A special service area may be formed to provide "special governmental services" to a specified area ("Special Service Area"), which services are *in addition* to those services provided generally throughout the municipality
  - The additional services must fall within the definition of 'Special Services' set forth in 35 ILCS 200-27-5;
  - The SSA must be a contiguous area
  - Only properties which benefit from the Special Services may be included in the SSA

SSA – Why Use It?

- Developer Owns Property
  - Pre-recession or purchased from lender really cheap.
- Developer needs Infrastructure (roads, water, sewer, etc)
- Developer has little cash, other than equity in land

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SSA - Common Uses

- Construction & Maintenance of Public Infrastructure
  - Roadways
  - Sewer/Water
  - Sidewalks
  - Added Police Protection
  - Public Parking Facilities
  - Pedestrian Paths

SSA Formation Requirements

- Proposing Ordinance sets the time & date for public hearing
- 60 day waiting period for a public hearing
- Notice & Publication (not less than 15 days prior to hearing)
- Notice by Mailing not less than 10 days prior to the public hearing (when deposited in mail).
  - Mailing required to “the person in whose name the general taxes for the last preceding year were paid on each property lying within the SSA.” 35 ILCS 200/27-30.

SSA Formation Requirements

  - ***Best Practice Tip***: Mail to taxpayer of record for preceding year and owner of property to avoid insufficient notice claims
    - Case law says failure to notify proper parties can result in removal of that property from SSA boundaries
  - Proposed amount of tax levy for the initial year for which taxes will be levied must be included in notice
- Public Hearing
- 60 day waiting period for objectors
- Create SSA by Ordinance & File Ordinance as appropriate.

SSA – How it works

- Local government determines how to spread cost of special services among properties within the SSA
  - *Ad valorem taxes*: Taxes may be assessed against each property in proportion to its equalized assessed value
  - *Special Tax Roll*: Special tax may be levied "on any other basis that provides a rational relationship between the amount of tax levied against each property… and the service rendered."
    - Acreage, square footage or application of an equal assessment against all properties in the SSA

SSA – How it works

- SSA tax will be extended by the County Clerk on property tax bill, collected and paid to local government

- If taxes are delinquent, they will go up for tax sale and the SSA tax will be paid along with the purchased property taxes.

Example of Spreading the Assessment

Ad Valorem Example:

Improvement Cost: $100,000

10 Homes, each valued at $100,000

→ **Result:** Each homeowner would pay $10,000

Rational Basis Example:

Improvement Cost: $100,000

Property "A" receives 30% of the benefit based on location, other 9 Property Owners receive equal shares of the benefit.

→ **Result:** Property "A" homeowner pays $30,000, others pay $7,777

SSA Opposition

Potential opposition would come from land owners and electors residing in SSA

- Written petition signed by 51% of electors residing in the SSA and 51% of owners of record of land in the SSA can block formation
- Primary concern is the ability to organize to defeat process

General argument may be that improvements do not benefit SSA properties alone and should be paid from the General Fund

Frequently Asked Questions

- What is the security for the Bonds?
  - The Bonds are secured by the special tax and all funds and accounts established under the Trust Indenture including a debt service reserve fund equal to 10% of the par amount of Bonds and capitalized interest for a period not to exceed three years.

Frequently Asked Questions

- How will the Developer draw the proceeds?
  - The Developer will submit draw requests to the Municipality who, with the approval of the Municipality's engineer, will submit a requisition to the Bond Trustee for payment.
  - In addition, the draws can be run through a title company to clear lien waivers in the event the Municipality's engineer does not want to have this responsibility. The Bond proceeds are held in trust for the Municipality with the Bond Trustee.

Frequently Asked Questions

- Who is responsible for the special tax?
  - The property owner of record is responsible for the payment of the special tax.
  - Any subsequent purchaser assumes the liability.
  - In addition, the maximum tax liability is recorded as a lien on the property.

Frequently Asked Questions

- What if the Developer defaults on construction?
  - If the Developer defaults on its obligation under the Developer Agreement, the Municipality can freeze any further draws of Bond proceeds until a solution is agreed upon.
  - Levy still exists
  - If in conjunction with a TIF RDA, require that the RDA is terminated and increment will be retained by the City.

SSA with TIF Benefits

- SSA used to provide liquidity at onset to fund infrastructure.
- TIF Increment paid through RDA should be used to repay the SSA Obligation
- Stop Gap Funding until Increment became matured
- Risk on Developer if Increment does not materialize

Business Development District – What is it?

- Once BDD formed, the municipality may impose:
  - Retailer's Occupation Tax (may not exceed 1%) and Service Occupation Tax (may not exceed 1%);
    - Levied and collected by the Department of Revenue
  - Could also adopt Hotel Operators' Occupation Tax (may not exceed 1%)
    - Levied and collected by the municipality
  - Levied in 0.25% increments.

Business Development District – What is it?

- The following are exempt from BDD taxation:
  - Food for human consumption that is to be consumed off the premises where it is sold (other than alcoholic beverages, soft drinks, and food that has been prepared for immediate consumption), prescription and nonprescription medicines, drugs, medical appliances, modifications to a motor vehicle for the purpose of rendering it usable by a disabled person, and insulin, urine testing materials, syringes, and needles used by diabetics, for human use.
  - Proceeds of renting, leasing or letting to permanent residents of a hotel

BDD Eligibility Criteria

- The eligibility criteria to find the existence of a ‘blighted area’ are set forth in the Business District Development and Redevelopment Act

  – See 65 ILCS 5/11-74.3-5 (much easier than TIF)

BDD Eligibility Criteria - 65 ILCS 5/11-74.3-5

"Blighted Area" means an area that is a blighted area which, by reason of the predominance of defective, non-existent, or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire or other causes, or any combination of those factors, retards the provision of housing accommodations or constitutes an economic or social liability, an economic underutilization of the area, or a menace to the public health, safety, morals, or welfare.

BDD Eligibility Criteria

- "But-For Test" - Adoption ordinance must make findings that the BDD has not been subject to growth an development and would not reasonably be anticipated to develop but for the BDD

BDD Formation

- Requires two (2) initial newspaper publications
- Public Hearing
- Can be formed in as little as 2 months
  - If changes are made to Business District Plan during the public hearing or any time prior to adoption of the Business District Plan, additional publications and/or public hearing may be required

BDD Opposition

- Businesses in the proposed BDD will typically be the only ones supportive or opposed to a BDD
  - Noting that owners/businesses within the BDD have no rights to block formation, but will be heard at public hearing

- Businesses' main concerns are typically that the increased tax rate will deter business and put them at a competitive disadvantage. But given the items excluded from the BDD, this is minor.

Best Practices

- Be prepared to demonstrate why the selected economic develop tool is necessary for the area
  - Show compounding effects of blighted conditions
    - Demonstrate how vacancy increased in blighted areas while other vacancies did not increase as fast
    - Increase in unemployment
    - Historical lack of interest to develop blighted areas absent incentive
    - Loss in potential sales tax revenues

Best Practices (continued)

- Work to obtain local business leader support in advance
  - Contact local business associations and make presentations
  - Build a coalition
- Prepare a plan in advance to address potential concerns about borrowing/bonding
  - Pay as you go model
- Prepare financial model to illustrate declining EAV's in blighted area compared to remainder of community
- Launch informational campaign –
  - Web sites advertising past successes BDD tools
- Create a Matching Grant Program for sharing BDD

Sales Tax Rebate Agreements - ROT

- 65 ILCS 5/8-11-20

- May rebate a portion of ROT Tax share a portion of Sales tax over finite period of time

Sales Tax Rebate Agreements – Eligibility

- If Vacant:
  1. Vacant for 1 year; or
  2. Building was demolished within last year and that the building would have qualified by meeting the developed property criteria prior to demolished
- If Building exists on site:
  1. Doesn't comply with codes; or
  2. Underutilized (partially unoccupied) for a period of at least 1 year

Sales Tax Rebate Agreements – Eligibility

And all of these requirements:

- Project is expected to create/retain jobs
- Further development of adjacent areas
- But-For Test
- Developer is creditworthy
- Strengthen commercial sector of municipality
- Enhance tax base
- Best interest of municipality

Abatement of Real Estate Taxes for Commercial or Industrial Real Estate

- Majority vote of governing authority
- Abatement shall not exceed 10 years and the aggregate amount of abated taxes for all taxing districts combined shall not exceed $4 Million
- If 500 acres or 225 acres of a High Impact Business – 20 years with aggregate limit of $12 Million

Solutions Recap: District Overlay

- A Business Development District allows for an added sales tax to be used for redevelopment – paid by consumer.
- A Special Service Area levies an additional property tax on the property within the district to be used for improvements benefitting the entire district – paid by owner.

Solutions Recap: District Overlay

- By using a combination of structures you can achieve the following:
  - Create of a **larger pool of funds** to work with;
  - Establish a **backup financing method** in case one of the methods does not generate enough funding;
  - Create a mechanism to pay for costs that **might not be eligible for reimbursement** under a particular financing structure.

Illinois DCEO will help

- Tax Credits
- Job Training Grants
- Infrastructure Improvement Grants

- http://www.illinois.gov/dceo/ExpandRelocate/Incentives/Pages/default.aspxPIP

Example: Development of Vacant Land with TIF, SSA and State Grant

- State Grants will be used for Roadways (Est 40%)
- Owner has requested an SSA to pay for Roadways (Est 60%)
- TIF will be used to make SSA bond payment
- Allows the developer to leverage Grants
- Cash for construction also provided from SSA and used as the match for the State Grant

Remember the Goal

- Incentivize private investment
- Increase the Tax base
- Create Jobs
- Invest in Public Works
- Enhance Property Values

Questions?