

How to Improve Odds of Success in Municipal Economic Development

Advanced Municipal Elected Officials Institute
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What is Municipal Economic Development?

A municipality's economic development objectives are to

- Create jobs
- Stimulate the local economy by encouraging new business activities or expansion of existing business activities
- Increase tax base



Why Do We Want Municipal Economic Development?

Business activities result in an infusion of

- Construction capital
- The inflow of money from the purchase of goods and services
- Increased jobs and payroll dollars circulating in the local economy
- An expanded tax and fee base to fund community services



What Motivates Business Location Decisions?

- Businesses look for a location that offers
- Strategic business advantages relative to its peers
 - High quality of life for its owner(s) and employees
 - The lowest possible financial exposure

A business wants to use or put at risk as little of its own money as possible to expand business activity and maximize potential profits



Where Do Businesses Locate?

- Location decisions are made to maximize resources/advantages while minimizing risks/costs
- Economic development activity naturally migrates to locations with know and visible strategic advantages
 - Profitable markets
 - Areas of high disposable income
 - Advantageous natural resources and climate
- Not all communities naturally attract economic development activity



Where Do Businesses Locate?

- Population, geographic location and household income significant factors
- Need to be realistic, in some communities, no level of incentives will be sufficient to mitigate risks to an acceptable level to attract significant development
- In these communities opportunities will be limited



What is the Role of Local Government in Economic Development?

Answer varies based on political philosophy

- **Balanced philosophy**
 - Local government's role is to use public/private resources to enhance the natural assets and resources in such a manner as to create an environment that attracts private sector investment and expanded economic activity
 - This is what each of you are asked to do as municipal elected officials



What is the Role of Local Government in Economic Development?

- Communities that lack natural strategic advantages pose a larger risk for investors
- Must lower or mitigate risks to an acceptable level through investment in infrastructure and government incentives
- Ultimate goal is to create an environment conducive to private sector investment



Setting the Table for Private Investment

Leadership and policy role of city council and development groups is to set the table for economic development

- Code enforcement
- Beautification/physical improvements
 - Streetscape improvements
 - Street and sidewalk improvements
 - Lighting
 - Landscaping
 - Way finding signage
- Catalytic Projects



Partnerships

- Unlikely any single individual or group, can be successful operating independently
- Local partnerships need to exist before business prospect identified
- Public and private partners need to share understanding of importance of municipal economic development



Partnerships

- Success requires effective and sustained partnerships
- Partners must be willing to commit to:
 - develop a long-term strategy and
 - Implement plans to achieve common goals
- Partners must be
 - Committed
 - Persistent
 - Creative



Funding Economic Development

- Two focus areas:
 - Code enforcement
 - Public Infrastructure
 - Beautification/physical improvements
 - Streetscape improvements
 - Street and sidewalk improvements
 - Lighting
 - Landscaping
 - Way finding signage
 - Culture and recreation



Funding Economic Development

- Business Incentives can come in many forms
 - Upfront
 - After performance standards met
- Security mechanisms should accompany upfront incentives to
 - ensure developer performance and
 - collateralize the public incentive investment



Funding Public Infrastructure

What is Public Infrastructure?

- Tangible items owned by or used the public
- Items that contribute to quality of life by enhancing public services and/or aesthetics

- Examples
 - Roads
 - Streetscape
 - Public parking
 - Cultural arts facilities
 - Recreation facilities
 - Water/sewer improvements
 - Industrial Parks



Funding Public Infrastructure

Tax Increment Financing

- Captures growth in post development tax base to pay for improvements
- Counties and school districts can negotiate level and duration of participation or opt out of participating
- Secondary pledge of revenue required if debt issued



Funding Public Infrastructure

Multi-County Business Park Designation

- Revenue used to finance public infrastructure or improvements
- Bonds may be issued and debt is serviced by special source of funds, such as FILOT payments, generated by the development project(s)
- Can only be implemented by county council
- In a municipality, county council needs city council's concurrence



Funding Public Infrastructure

Local Hospitality and Accommodations Fee

- Imposed on hotel room sales and sales of prepared food and beverages
- Proceeds must be used for tourism-related purposes as defined in state law
- LH&A fees may be pledged to service revenue bond debt



Funding Public Infrastructure

Local Hospitality and Accommodations Fee

- Up to 50 percent of funds may be used for operating and maintaining tourism-related facilities and operations directly attendant to those facilities including
 - Police
 - Fire protection
 - Emergency medical services
 - Emergency preparedness operations



Funding Public Infrastructure

Municipal Improvement District

- Allows a group of property owners in a defined area to share in the cost of infrastructure improvements or services in that area by agreeing to allow a special assessment to be applied to their property
- Typical method is linear foot assessment
- Revenue may be pledged to service debt
- Often imposed by developer prior to sale of developed properties



Funding Public Infrastructure

“C” Fund Grant program

- Funded from state gas tax proceeds
- Awarded by County Transportation Committee
- Eligibility criteria for “C” fund awards established by local CTC
- Excellent source of revenue for constructing and maintaining transportation projects including streetscapes



Funding Public Infrastructure

Transportation Alternative Program

- Federal funding source for projects designed to improve the cultural, historic and environmental aspects of transportation infrastructure
- Formerly called ISTEPA and TEA-21
- Administered by SC DOT
- Units of local government eligible for funding



Funding Public Infrastructure

- Eligible activities include
 - Pedestrian facilities
 - Bicycle facilities
 - Streetscaping projects
- A 20 percent local match is required
- Applications are accepted year round
http://www.scdot.org/getting/community_bikepedfacilitiesafety.aspx



Funding Public Infrastructure

- Community Development Block Grant
- Provides grants to units of local government in areas of the state that do not directly receive their own funding from HUD (entitlement communities)
 - Third priority - obstacles to economic competitiveness. Eligible activities include downtown streetscape infrastructure where there is significant business activity and substantial prior investments. Projects must include a plan for retail/small business support.



Funding Public Infrastructure

Community Infrastructure

Application Requests due: March 14, 2014 at 5:00 p.m.
 Applications due: April 14, 2014 at 5:00 p.m.

Community Enrichment and Neighborhood Revitalization

Application Requests due: August 15, 2014 at 5:00 p.m.
 Applications due: September 15, 2014 at 5:00 p.m.



Business / Developer Incentives

Major forms of incentives

- Tax credits
 - Income tax credits
 - Federal
 - State
 - Property tax credits
- Fee in lieu of taxes
- Loans
- Grants



What is a Tax Credit?

Credits vs. Deductions
A Credit Offsets Tax Liability Dollar for Dollar

	<u>Deduction</u>	<u>Credit</u>
Income	\$100	\$100
Less: Deductions	(20)	-
Taxable Income	80	100
Gross tax Due @ 35%	28	35
Less: Credits	-	(20)
Net Tax Due @ 35%	28	15



Developer Financing Tools

20 Percent Federal Historic Rehabilitation Tax Credit

- Federal income tax credit equal to 20 percent of eligible rehabilitation costs
- Eligible buildings
 - Listed individually in the National Register of Historic Places or
 - Contributing to a National Register historic district



Developer Financing Tools

- Eligible use: income-producing use (such as offices, stores or rental housing)
- Expenditure requirements: Costs must exceed the adjusted basis of the building
- Review of work: The National Park Service must certify that the rehabilitation meets the Secretary of the Interior's *Standards for Rehabilitation*. Review begins with the State Historic Preservation Office



Developer Financing Tools

Example of calculating the adjusted basis for a recently purchased building

\$ 100,000 (purchase price)
 - 20,000 (value of land)

\$ 80,000 (adjusted basis)

In this example, the rehabilitation expenses would have to exceed \$80,000 to be considered "substantial."



Developer Financing Tools

Example of calculating the adjusted basis for a building that has been owned for a long time

\$ 80,000 (purchase price)
 - 20,000 (value of land)
 +20,000 (capital improvements)
 - 40,000 (depreciation)

\$ 40,000 (adjusted basis)

In this example, the rehabilitation expenses would have to exceed \$40,000 to be considered "substantial."



Developer Financing Tools

10 Percent State Historic Rehabilitation Tax Credit

- Owners of historic buildings in South Carolina who meet the requirements for the 20 Percent Federal Historic Rehabilitation Tax Credit may also qualify for a state income tax credit
- Successfully completing the federal application process qualifies them for the state credit



Developer Financing Tools

10 Percent Federal Rehabilitation Tax Credit

Availability: The rehabilitation of buildings placed in service before 1936 that are not individually listed in the National Register or contributing buildings in a National Register historic district



Developer Financing Tools

- Eligible use: Applies to buildings rehabilitated for nonresidential uses
- Expenditure requirements: Costs must exceed the adjusted basis of the building
- Review of work: State Historic Preservation Office or National Park Service review is not required



Textile Mill Credit

Tax Incentives for Rehabilitating Textile Mill Buildings

- Provides tax incentives to encourage the renovation and redevelopment of abandoned textile mill sites
- Two forms of 25 percent credit available
 - Credit against local property taxes or
 - State income tax credit



Textile Mill Credit

- Sites must be designed for use or been used as a textile manufacturing facility or uses ancillary to it
- At least 80 percent of the site must be abandoned, continually closed to business or otherwise nonoperational for a period of at least one year



Abandoned Building Credit

- Newest incentive tool. Adopted in 2013
- “Abandoned building” defined as a building with at least 66 percent of the space which has been closed continuously to business or otherwise nonoperational for income producing purposes for a period of at least five years



Abandoned Building Credit

- Credit equals 25 percent of the actual expenses for rehabilitating, demolishing, renovating or redeveloping the building site
- Minimum investment threshold between \$75,000 to \$250,000 based on population
- Building owner at time of abandonment not eligible for credit



Abandoned Building Credit

- Two credit options
 - State income tax
 - Local property tax
- To claim state credit, a Notice of Intent to Rehabilitate must be filed with the Department of Revenue before incurring renovation expenses
- Actual expenses must fall within 80 to 125 percent of estimate in NOI



Abandoned Building Credit

- Maximum credit 125 percent of rehab estimate in NOI
- Annual maximum credit 50 percent of income tax liability
- Maximum total credit \$500,000 abandoned building site
- No state approval required
- Credit claimed on state income tax return
- Unused credit may be carried over for a five-year period on income taxes



Abandoned Building Credit

To claim local credit, a Notice of Intent to Rehabilitate must be filed with the city or county in which the project is located before incurring renovation expenses

- This local government must, by resolution, approve the project's eligibility and proposed expenses by a positive majority vote
- The local government receiving Notice of Intent must notify other local government of its intent to grant credit 45 days in advance of required public hearing



Abandoned Building Credit

- The other local governments (county and schools) may object to participation during the 45-day period
- Failure to object during 45-day period is considered consented to the project
- Maximum credit: 75 percent of annual property tax liability
- Unused credit may be carried over for an eight year period for property taxes



Combining and Transferring Credits

- The federal 20 percent and state 10 percent Historic Rehabilitation Credits may be combined with either the retail, textile or abandoned building credits
- ABRA credit cannot be combined with the Textiles Communities Revitalization tax credit or the Retail Facilities Revitalization tax credit
- Maximum credit: 55 percent in some cases



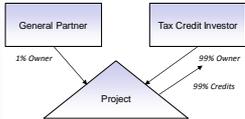
Combining and Transferring Credits

- Most tax credits may be syndicated and legally transferred to another taxpayer to generate capital for the developer
- The tax credit investors pay anywhere from 50 cents to 90 cents on the dollar for the tax credits
- Syndication and rehabilitation standards complicated. Benefits of credits must be worth cost.



How Tax Credits Deliver Capital

Sample Structure



- Federal tax credits not sold, but passed to investors through partnerships
- Require structuring with partnerships and equity contributions
- Generally, partnership agreements contemplate exit of tax credit investor after compliance period



Multi-County Business Park

- MCBP similar to MCIP concept used by counties as industrial development tool
- MCBP designation allows payment of fee in lieu of taxes
- Fee allows flexibility
- Can be used to directly assist developer as long as the expenditure meets public purpose test



Developer Financing Tools

Old Library, Florence



Developer Financing Tools

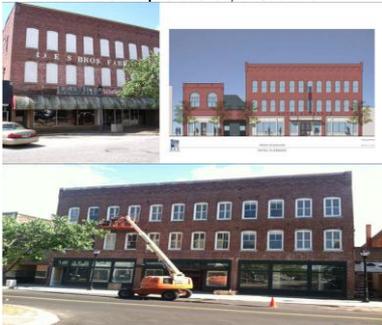
Old Library, Florence

- 1925 county library with 1970s addition
- Removed addition and returned building to original appearance
- 24,000 sf. leased by Turner Padgett law firm
- \$5 million project
 - More than \$1 million in tax credits
 - Largest commercial investment in downtown Florence in 50 years



Developer Financing Tools

Boutique Hotel, Florence



Locally Designed Incentives

Four Point Public Purpose Test

1. What is the intended ultimate goal or benefit to the public?
2. Are public parties or private parties the primary beneficiaries?
3. Is the benefit to the public speculative?
4. What is the probability that the public interest will be ultimately served and to what degree?



Locally Designed Incentives

- “Public funds” must be used for “public purposes” which have a high probability of resulting in public benefit equal to or exceeding the value of the public funds invested.
- There must be “a reasonable relationship between the public purpose to be achieved and the means chosen to effectuate that purpose...”



Small Business Support

Spartanburg Main Street Challenge

- The Main Street Challenge matches winning businesses with participating downtown property owners.
- Each winner receives \$12,000 in funds from the City to be used for rental assistance for their first year of operations, along with approximately \$8,000 in in-kind support and services from local businesses and sponsors.



Small Business Support

Spartanburg Main Street Challenge

- In return, each winning business signs a three-year lease with a property owner and must open for business in downtown Spartanburg no later than Nov. 1, 2014, in time for the holiday retail season.
- 2012 Winners
 - The Local Hiker - hiking and camping outfitter
 - Haute Mama - maternity and nursing clothing and specialty items
 - Motte & Sons Bootlegging Co- micro-distillery



Summary

- Businesses invest where they can make money and minimize risk
- If natural advantages do not exist, public infrastructure investment and incentives may be necessary
- Partnerships essential
- Knowing the infrastructure and incentive program options important first step



Summary

- Communicating value of incentives to partners, real estate community, perspective developers equally essential
- This type of economic development requires knowledge, creativity and determination
- Partnerships invaluable



How to Improve Success in Municipal Economic Development

- Determination, creativity and persistence required
- Questions?