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Economic Development Division

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TO: Economic Development Committee Subcommittee on TIF
FR: Aaron Olver, Director
RE: TIF Policy Practices in other Communities with a focus on jobs and affordable housing
DT: October 26, 2012

I. OVERVIEW

At the last EDC subcommittee on TIF meeting, the committee asked for additional research on the practices of other communities, especially with regard to affordable housing and jobs. This memo summarizes the results of my initial research. It does not address underwriting or deal structure issues.

II. ADOPTION OF TIF POLICY

In 2009, the City of La Crosse did a study that found only four of thirteen Wisconsin communities surveyed had a formal TIF Policy. Communities surveyed included: Eau Claire, Wausau, Racine, Kenosha, Fond du Lac, Sheboygan, Janesville, Oshkosh, Appleton, Waukesha, Green Bay, Madison and Milwaukee.

In 2007, the Economic Development Division surveyed twenty Wisconsin communities for the previous TIF Policy effort and found that four had adopted TIF Policies.

In surveying communities nationally, I found examples of TIF policies from a variety of cities including:

- Rapid City, SD
- Prior Lake, MN
- Hugo, MN
- Minneapolis, MN
- Newburyport, MA
- Hartford, CT
- Blue Springs, MO
- Chicago, IL
- Cincinnati, OH
- Portland, ME
- San Antonio, TX

Interestingly, many of the large cities did not have adopted TIF policies or guidelines that I could find. While TIF Policies are by no means rare, they may be the exception rather than the rule.

III. TREATMENT OF GOALS

The adopted TIF policies I reviewed, often contained a broad set of goals or objectives the municipality hoped to address with TIF. However, most of these policies did not go on to detail specific policy to address topics such as jobs or affordable housing. Cincinnati, for example, outlines a number of "policy objectives/guidelines" including job creation, creation of

homeownership units, and rehabilitated jousting units, but goes on to state that evaluation will be based on the tax revenue generated. Examples of broad goal statements are excerpted below.

Example from Rapid City, SD

Purpose of TIF. The City of Rapid City recognizes the following purposes for the use of Tax Increment Financing:

1. To encourage the redevelopment of deteriorated, or otherwise blighted real property in Rapid City through the investment of public funds;
2. To stimulate economic development in the community by assisting projects that promote the long term economic vitality of the community;
3. To stimulate increased private investment in areas that would have otherwise remained undeveloped or under-developed and which will, in the long term, provide a significant source of additional tax revenues to all taxing entities; or
4. To stimulate the construction of safe and affordable housing units for low and moderate income residents of the community and expand the general housing stock in the community.

Example from Prior Lake, MN

PROGRAM GOALS

This program exists to achieve the following goals:

1. To promote commercial, industrial and residential development under special circumstances that would otherwise not occur.
1. To increase and diversify the long-term tax base of the City in order to ensure the ability of the City to provide adequate services for it's residents while lessening reliance on the residential property tax.
2. To improve the City's economic vitality through the creation and expansion of employment opportunities.
3. To remove blight and encourage redevelopment in the commercial and industrial areas of the City in order to encourage high levels of property maintenance and private reinvestment in those areas.
4. To assure that projects are constructed and maintained at a level of quality consistent with the goals of the City of Prior Lake.
5. To retain local jobs, increase the local job base and provide economic diversity in that job base.
6. To assist in achieving other goals contained in adopted public policies as may be adopted by the City Council from time to time, including without limitation, quality design and construction, energy conservation and reductions in the capital and operating costs of government.
7. To provide high density housing as part of a mixed use development which includes retail and office uses, in select areas in the C-3 zoning district and other areas as may be deemed appropriate by the City Council.
8. To provide TIF assistance, consistent with the TIF Policy, Business Subsidy Policy, Comprehensive Plan and Zoning Ordinance of the City, to eligible companies planning to build TIF eligible businesses in the Deerfield Industrial Park and other areas zoned Industrial.

Example from Minneapolis, MN

II. Development Objectives

The City uses tax increment financing to accomplish these major objectives:

- A. Expand the Minneapolis economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.
- B. Attract and expand new and existing services, developments and employers in order to position Minneapolis and the region to compete in the economy of the 21st century.
- C. Increase the city's property tax base and maintain its diversity. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.
- D. Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.
- E. Eliminate blighting influences throughout the city.
- F. Support neighborhood retail services, commercial corridors and employment hubs.
- G. Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.

While I think that developing specific policy for individual policy goals has great merit as an approach, I found few examples of communities that treat projects differently depending on their parameters. Here's one example I did find that starts in this direction from Hugo, MN:

Example from Hugo, MN

- a. To be eligible for TIF, a project shall result in:
 - i. For Economic Development TIF Districts, new construction of a minimum of 15,000 square feet;
 - ii. For Economic Development TIF Districts, the minimum creation of one new or retained full time job per \$100,000 of TIF provided;
 - iii. For Redevelopment TIF Districts, a minimum value increase of 3 times the current year assessed value;

IV. AFFORDABLE HOUSING AND JOB CREATION POLICY MECHANISMS

Policy Mechanism: Set-Aside for Affordable Housing

Some communities set aside a portion of TIF-generated revenues for investment in affordable housing. Portland, Oregon, for example sets aside 30% of revenue (in aggregate across districts) for affordable housing that targets individuals at up to 100% of the median income. (Madison currently has a 10% set-aside where applicable).

Policy Mechanism: Limit on Investment Per Job

Some communities adopt specific mechanisms to address topics such as jobs. Chicago, for example, sets a limit on how much TIF will be provided per job. Other communities, however, have moved away from providing TIF based on jobs all together (La Crosse is considering this step.)

Example from Chicago, IL

6. Public investment per job created or retained

In addition to the factors noted above, the amount of TIF and other public assistance available for a project is subject to being evaluated in terms of jobs created or retained. The City will review the cost of the City's total investment with a goal of limiting such investment not to exceed:

- \$10,000 per job created or retained if the project is outside the Central Business District; or
- \$5,000 per job created or retained within the Central Business District.

These limits will always be evaluated within the context of any Special Merit consideration which might warrant a higher City investment.

Example from Prior Lake, MN

For projects in an Economic Development District, a maximum of **\$50,000** of public money will be invested for each full-time equivalent position created or retained.

Policy Mechanism: Specific Incentives for Job Creation

Some communities explicitly use TIF as an incentive for job creation, even without new construction taking place.

Example from Janesville, WI

The leasing of manufacturing or distribution center space along with accompanying job creation or retention

The City of Janesville has utilized tax increment financing to provide incentives to companies that lease existing buildings and create jobs for Janesville area residents. The Janesville City Council has approved an incentive policy equal to \$1.00 for each square foot of building leased. For example, if 100,000 sf is leased, the incentive would be a minimum of a \$100,000 forgivable loan amortized at 4.0% over 10 years. Depending on the average salaries of the new or retained jobs, this amount may be higher pending approval of the Janesville City Council. The loan proceeds can be used for working capital purposes at the Janesville location.

The annual debt service would be linked to the company's job levels. Let's assume that the company creates 50 new jobs. For each year that company employs an average of 50 or more full time workers, the City would forgive that year's debt service payment. If employment fell to an average of say 40 jobs, then the City would forgive 80% of the debt service payment and the company would need to repay the remaining 20% for that year. If the company continued to 150 or more employ workers over the 10 year life of the TIF loan, then the loan can be forgiven and in essence has become a grant.

Policy Mechanism: Address Multiple Objectives

Some communities require that a project addresses more than one of their targeted public purposes.

Example from Hugo, MN

e. The project shall serve at least *two* of the following public purposes:

- Creation of jobs with livable wages and benefits.
- Increase of tax base.

- Enhancement or diversification of the city's economic base.
- Industrial development that will spur additional private investment in the area.
- The project contributes to the fulfillment of the City's development or redevelopment objectives.
- Removal of blight or the rehabilitation of a high profile or priority downtown site.

Policy Mechanism: Carrots tied to Policy Goals

Communities often take factors such as jobs or affordable housing into account when deciding how much TIF to provide. Chicago outlines factors that can result in an additional level of subsidy.

Example from Chicago, IL

Special Merit Consideration

Additional consideration as to the level of subsidy provided by the City will be given to projects that address one or more of the following:

1. The project meets an economic development priority for the City
2. Vacant and abandoned sites
3. The provision of services otherwise unavailable in an area (e.g., grocery stores), or providing services in more than one community area
4. Responses to specific City requests (RFPs or negotiated sales)
5. Historic/landmark buildings or locations
6. Particularly significant strategic impact in a neighborhood (e.g., a high-visibility commercial corner)
7. Creation or retention of a significant number and/or quality of jobs
8. A not-for-profit that provides important public services that offset City or other government expenditures
9. Retention or attraction of a national or regional corporate headquarters or a significant operation center
10. Development of affordable housing.
11. Difficult site conditions requiring geotechnical work or environmental remediation.
12. Additional consideration for a developer or retail business that chooses to develop in multiple underserved communities simultaneously.
13. Consideration for exemplary sustainable business practices or innovative approaches to "green" building design and reduction of energy consumption.
14. Projects that may not provide a major direct impact, but will have a substantial impact by generating indirect jobs or increasing tax revenues.

Chicago also recognizes that affordable housing may require an additional subsidy (emphasis added):

Example from Chicago, IL

7. Affordable Housing

One of the City's major policy goals is to create and retain affordable housing throughout Chicago's neighborhoods to serve households earning less than the median income. This goal should be addressed in any project where housing is a component.

The City recognizes that *affordable housing projects are difficult to finance initially* and may present long-term viability challenges due to the nature of the product; *therefore projects with such a component may receive a larger proportion of public assistance to total project cost than other types of projects.*

Newburyport, MA has a complicated scoring system they use to determine the amount of TIF provided to projects based on how well the project meets their policy objectives:

Example from Newburyport, MA

Scoring Criteria

Important Notice to Prospective Projects

This scoring system is intended to help guide Newburyport officials in setting negotiation parameter for prospective EDIP projects in Newburyport. By statute and practice, the Newburyport City Council decides whether or not EDIP project proposals are suitable for City approval. While this scoring system provides a guide to determine a possible range for TIF exemptions, it does not restrict the authority of the City Council to reduce or increase exemptions or to deny proposed projects entirely.

1. Raise Property Tax Revenue

Commercial/Industrial

Increases AV by 10-24%	15 pts.
Increases AV by 25-39%	20 pts
Increases AV by 40-59%	30 pts
Increases AV >60%	50 pts
Increases AV >90%	60 pts
Increases AV >100%	80 pts

Retail <5,000 square feet

Increases AV by 10-24%	20 pts
Increases AV by 25-49%	30 pts
Increases AV by >50%	40 pts
Increases AV by >100%	50 pts

2. Redevelopment and Expansion

10 k -30 k s.f	Building renovation	20 pts	Expansion	30 pts	Rebuild	40 pts
31 k -60 k s.f.	Building renovation	30 pts	Expansion	40 pts	Rebuild	60 pts
>61 k s.f.	Building renovation	40 pts	Expansion	50 pts	Rebuild	80 pts
>100 k s.f.	Building renovation	50 pts	Expansion	60 pts	Rebuild	100 pts

Brownfields redevelopment, environmental remediation required (points not available to polluting entity or related entity, e.g. mirror image company or new owner of polluting entity):

Site requires remediation at cost of >\$1 Million	75 pts
Site requires remediation at cost of >\$500,000 - \$1 M	60 pts
Site requires remediation at cost of \$100,000-\$500,000	45 pts
Site requires remediation at cost below \$100,000	20 pts

3. Job Creation

1-10 new jobs*	10 pts
11-24 new jobs	20 pts
25-49 new jobs	30 pts
50-74 new jobs	40 pts
>75 new jobs	60 pts
>100 new jobs	70 pts

0.5 bonus pts for each new job over 150% of area median per capita income (\$52,108)

4. Target Growth Industries

Growth industries and high concentration industries identified are presented in Addendum A. **Growth industries** have been determined as industries with high concentration and growing share of the national industry. **High concentration industries** presented below are those which have higher concentration in Essex County than the national concentration. High concentration indicates a competitive advantage for that industry in the area, speaking to a skilled workforce and expertise in that industry. However, the industries listed below, while having high concentrations, have nonetheless *lost* in share of the national industry in the period studied (2000-2004). The future viability of these industries in the area, therefore, is more open to conjecture.

Growth Industries

(High concentration, Gaining industry share)

Pharmaceutical mfg.	60 pts
Advanced instrumentation, controls mfg.	60 pts
Plastics and allied products mfg	60 pts
Medical device and supplies mfg	60 pts
Industrial machine mfg.	50 pts
Professional, scientific, and technical services	50 pts
Financial transactions processing, clearinghouse services	40 pts
Graphic and other specialized design services	30 pts.
Savings institutions	30 pts.

High Concentration Industries

Electrical equipment mfg.	30 pts
Aerospace mfg.	30 pts
Communications Equipment mfg.	25 pts
Semiconductors and related mfg.	25 pts
Bakeries and food process mfg.	20 pts
Fabricated metal products mfg.	20 pts
Misc. store retailers	20 pts
Office furniture & millwork	15 pts
Printing and publishing	15 pts
Amusement and Recreational	15 pts
All Other	5 pts

Identified Target Industries

Accommodations	40 pts
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5. Sustainable Development Objectives

Project is in renewable energy industry products mfg.	60 pts
Project uses in-house renewable energy (PV, fuel cells, water, wind)	60 pts
Project uses Transfer of Development Rights for Open Space preservation	50 pts
Project is part of Transit-Oriented Development	50 pts
Project includes historic preservation elements	50 pts
Project uses energy efficient systems in expansion	30 pts
Project is located in green field	-10 pts

6. Project meets community need

Development privately funds public infrastructure 10 pts per \$100,000 cost

III. Rating Guide for TIF Determination for Potential Projects

<u>Score</u>	<u>TIF Range</u>
>300 Maximum	TIFs, with exemptions as high as 100% for no more than 5 years, with descending exemptions thereafter. Terms as long as 20 years.
200-299 High-Moderate	TIF terms, with exemptions as high as 75% for no more than 5 years, with descending exemptions thereafter. Terms as long as 20 years.
150-199 Mid-Moderate	TIF terms, with exemptions as high a 50% for no more than 5 years, with descending exemptions thereafter. Terms as long as 15 years.
100-149 Moderate	TIF terms, with exemptions as high as 35% for no more than 5 years, with descending exemptions thereafter. Terms as long as 15 years.
75-99 Limited	TIF terms, with exemptions as high as 20% for no more than 3 years, with descending exemptions thereafter. Terms as long as 10 years.
50-74 Minimal	TIF terms, with exemptions from 5-10% for terms of 5-10 years.
<50	Not applicable

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V. ADDITIONAL READING

Many of the TIF Policies I reviewed are not posted online in a publicly accessible place. Our Division can make copies of additional policies available to committee members if you are interested in reviewing them. Here are some policies available online:

Allegheny County TIF Policy

http://economic.alleghenycounty.us/documents/economic_dev/TIF%20Guidelines%20&%20Project%20Review%20Form.pdf

Appleton TIF Guidelines

http://www.appleton.org/i/d/community_development/Business%20Enhancement%20Grant%20Program_Council%20Approved%207-07-10.pdf

Chicago TIF Guidelines

http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/plans/Policy_Guidelines_March_2012.pdf

Lincoln TIF Policy

<http://lincoln.ne.gov/city/urban/redev/pdf/tifpolicy.pdf>

Portland Links to Affordable Housing Set-Aside Policy Documents

<http://www.portlandonline.com/auditor/index.cfm?a=155330&c=31334>

San Antonio TIF Policy

http://www.sanantonio.gov/planning/TIF/PDFs/08%20TIF%20Manual%20Council_FINAL%202-5-09.pdf

