

Aerotropolis Zone PILOT Incentive DRAFT

Issue:

The airport area in the City of Memphis is missing opportunities to attract companies that will create jobs. Many of these companies have chosen to locate in Desoto County Mississippi because 1) the property tax structure is more competitive, 2) the property tax incentive process is predictable and more competitive, and 3) there has been space available in modern functional buildings.

Detail:

Since 2008 the following industrial projects have chosen to locate in Desoto County (users removed for confidential reasons but approximate totals below):

Square Footage Occupied	Approximate Investment	Approximate Number of Jobs
7,143,540	\$293,696,960	2,190

While there are companies that have located within the City of Memphis during this time, there is certainly a trend towards choosing Desoto County. There are many factors that go into a company's location selection, but there are two primary reasons that so many companies have chosen Desoto County recently.

1. Property tax structure & incentives: Table 1 includes calculations of property taxes in Memphis, Southaven, and Olive Branch, both with and without incentives. All are shown with the appropriate county taxes as well. Without incentives, taxes on a Memphis building are 43% higher than those on an Olive Branch building.

With incentives, the Memphis building is actually 42% lower than the Olive Branch building *during an incentivized year*. At first glance this appears to work in Memphis' favor, but that has not been the reality. Desoto tends to win projects because:

- a) Tax incentives usually last longer in Desoto County. A standard property tax incentive in Desoto County lasts 10 years. In Memphis, the term of the incentive is determined per a matrix that awards points based on investment, jobs, and other factors. In practice, the incentive term in Memphis is typically 3-7 years. The Desoto incentive is thus more valuable because it lasts longer.
- b) The Desoto county incentive is predictable. Desoto tax incentives have been simple and automatic for many years. Companies are confident relying on the benefit when evaluating their options. In Memphis, the incentive is not predictable, and it can take

2-3 months to find out what the final incentive may be. There is no motivation for a company to endure the process when the best possible outcome is that it is no more attractive than going to Desoto County.

- c) In Memphis there is a financial cost to obtain the incentive. This cost consists of an application fee to the Industrial Development Board and legal fees to engage a consultant (or attorney) to write the application and walk the applicant through the process. Some may argue that the consultant is not necessary, but the process has always been political and somewhat unpredictable, so companies believe they need to hire the expert.

- 2. **Availability of modern buildings:** Whether in the Memphis MSA or elsewhere, most companies do not need to build from scratch; **usually they can find existing buildings to meet their needs. Developers have become comfortable constructing speculative buildings, so there are usually modern options.** Because of the tax issues above, **speculative development in the City of Memphis is not financially feasible.** When a company cannot find space in Memphis, that needs they can easily go to Desoto County, Indianapolis, Louisville or elsewhere. In the Memphis MSA, all of the speculative development has been occurring in Desoto County. **Since 2008, 2.4 million square feet of speculative space has been developed in Desoto County. No speculative space has been developed in the City of Memphis.**

Possible Solution:

The City and County could create a special incentive within a specific zone around the airport. This incentive could be tied to the Aerotropolis initiative. As an example, the zone could be the area south of I-240, west of Getwell Road, north of the state line, and east of I-55.

The incentive will allow real estate developers to apply for and receive a PILOT applicable to buildings that are developed on a speculative, or pre-development basis. To receive a PILOT, the project would have to meet or exceed the following criteria:

1. The project must be within the identified zone.
2. Investment in the building construction must be at least \$3,000,000.
3. The property must be zoned for industrial or office use. The intent is that the incentivized property will be occupied by companies that will hire employees to perform office, manufacturing, light assembly, value-add, distribution or logistics functions.

The incentive could allow the property owner to pay a payment in lieu of taxes for twenty (20) years. The payment in lieu could be calculated so that the owner pays 25% of what the taxes would be if the property was not in the PILOT program. While the 20 year term is longer than most PILOTs in this area, the proposed 25% payment is actually more than is collected under typical PILOTs. In a typical PILOT from the IDB, the owner pays 10% of what otherwise would be owed in the City, and 25% of what would otherwise be owed in the County.

The primary purpose of the incentive is to attract companies that will employ people. A secondary benefit will be an increase in PILOT revenue. As an example, there is a 75 acre land parcel in the proposed zone that has sat undeveloped for several years. Current taxes and projected taxes after development are shown below (all annual).

	Current as Undeveloped	After Development	Difference
City of Memphis	\$4,872	\$129,998	\$125,126
Shelby County	<u>\$6,300</u>	<u>\$168,036</u>	<u>\$161,736</u>
	\$11,172	\$298,034	\$286,862

The proposed Aerotropolis zone incentive is a possible solution. There is no doubt it will stimulate economic development in the zone and help stabilize the area around the airport, and create the incentive needed for developers to build the envelope to house jobs and capital investment. This is an opportunity to create jobs, encourage investment, and increase municipal revenues without any cost to the community.

**Table 1
Property Taxes - Memphis/Shelby County vs. Southaven/Desoto County**

Without Any Incentives															
	SF	Appraisal*	Appraisal Per SF	Assessment Ratio	City Assessment	City Tax Rate	City Tax	County Assessment	County Tax Rate	County Tax	Total Tax	Tax PSF	Property Tax as a % of Appraisal		
													City	County	Total
Memphis Building	400,000	\$ 12,800,000	\$ 32.00	40%	\$ 5,120,000	\$ 3.1100	\$ 159,232	\$ 5,120,000	\$ 4.020	\$ 205,824	\$ 365,056	\$ 0.91	1.24%	1.81%	2.85%
Southaven Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 43.7300	\$ 83,962	\$ 1,920,000	\$ 98.7000	\$ 189,504	\$ 273,466	\$ 0.68	0.86%	1.48%	2.14%
Olive Branch Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 34.5000	\$ 66,240	\$ 1,920,000	\$ 98.7000	\$ 189,504	\$ 255,744	\$ 0.64	0.52%	1.48%	2.00%
Annual Difference: Memphis vs OB											\$ 109,312	\$ 0.27	0.73%	0.13%	0.85%
With Current Property Tax Incentives															
	SF	Appraisal*	Appraisal Per SF	Assessment Ratio	City Assessment	City Tax Rate	City Tax	County Assessment	County Tax Rate	County Tax	Total Tax	Tax PSF	Property Tax as a % of Appraisal		
													City	County	Total
Memphis Building	400,000	\$ 12,800,000	\$ 32.00	40%	\$ 1,985,000	\$ 3.1100	\$ 33,837	\$ 1,760,000	\$ 4.020	\$ 70,752	\$ 104,589	\$ 0.26	0.26%	0.55%	0.82%
Southaven Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 30.7000	\$ 58,944	\$ 1,920,000	\$ 75.1000	\$ 144,192	\$ 203,136	\$ 0.51	0.46%	1.13%	1.59%
Olive Branch Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 18.6700	\$ 35,846	\$ 1,920,000	\$ 75.1000	\$ 144,192	\$ 180,038	\$ 0.45	0.28%	1.13%	1.41%
Annual Difference: Memphis vs OB											\$ (75,450)	\$ (0.19)	-0.02%	-0.57%	-0.59%
With Proposed Aerropolis Zone Incentive															
	SF	Appraisal*	Appraisal Per SF	Assessment Ratio	City Assessment	City Tax Rate	City Tax	County Assessment	County Tax Rate	County Tax	Total Tax	Tax PSF	Property Tax as a % of Appraisal		
													City	County	Total
Memphis Building	400,000	\$ 12,800,000	\$ 32.00	40%	\$ 1,760,000	\$ 3.1100	\$ 54,736	\$ 1,760,000	\$ 4.020	\$ 70,752	\$ 125,488	\$ 0.31	0.43%	0.55%	0.98%
Southaven Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 30.7000	\$ 58,944	\$ 1,920,000	\$ 75.1000	\$ 144,192	\$ 203,136	\$ 0.51	0.46%	1.13%	1.59%
Olive Branch Building	400,000	\$ 12,800,000	\$ 32.00	15%	\$ 1,920,000	\$ 18.6700	\$ 35,846	\$ 1,920,000	\$ 75.1000	\$ 144,192	\$ 180,038	\$ 0.45	0.28%	1.13%	1.41%
Annual Difference: Memphis vs OB											\$ (54,550)	\$ (0.14)	0.15%	-0.57%	-0.43%