Keplinger, Juaness

From: Chad Johnson <cjohnson@afscmelocal1733.org>
Sent: Wednesday, November 21, 2012 4:16 PM
To: Keplinger, Juaness
Cc: Strickland, Jim
Subject: Chad Johnson's Draft recommendations

Juaness,

Here are My draft recommendations. Have a happy Thanksgiving!

Incentive recommendations

1 Implementing a "faster process for a reduced time and amount of incentive". For a faster process a higher incentive that decreases over time ex. 5 year incentive that starts at 100% , then decreases to 0%

2 Public meetings and incentives must be given by public officials

3 Do not discount schools
Portions of taxes, or assign elected school board commissioners to administer an determine the schools rate reduction

4. Reduce the amount of the reduction and use a portion of those collection for force force development and small and medium business incubators

5. Change the requirement for businesses to sign over property in exchange for a shorter incentive timeframe

6. All incentives must be judged based on the cost of increased services to the developed area

7. Tie the time horizon of an incentive to the average lifespan of the industry so that we are not subsidizing companies with brief life cycles

8. Assess property based on usage , i.e. if a developer remediate an old empty warehouse, the tax rate would not increase until that property was leased/rented or used, calculate based on usage.

9. Seek methodology to find the true impacts of business relocation through the commuter survey and other metrics to determine effectiveness

10. Establish a true regional development organization

11. As part of the incentive application , require the site consultancy identity and contract with the relocating company and any conflicts of interest

12. Review the properties that claim non-profit status for a reassessment of property taxes

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TO: Councilman Jim Strickland and Councilwoman Wanda Halbert, Co-Chairs, City Council Incentive Review Committee

FROM: Reid Dulberger, President

CC: Al Bright, Chairman

DATE: November 26, 2012

RE: **Recommendations to the City Council Incentive Review Committee**

We appreciate your leadership in examining this important topic. Per your request for recommendations:

1. Proposed changes will have the most impact if they include both City and County taxes. Therefore, any proposed changes to the PILOT program should be coordinated with Shelby County Government.

2. While the Committee heard from a variety of interested parties, evaluation of the PILOT program would benefit from even broader participation. For example, there are multiple law firms with extensive PILOT expertise whose input could be valuable, just as there are multiple real estate brokers with extensive experience working with (particularly industrial) prospects comparing opportunities in various states. In addition, past PILOT recipients may provide valuable insight into program management and structure. Other economic development organizations active within the City would be another source to consider. EDGE should be tasked to solicit this input.

3. The Committee heard suggestions on several occasions that the existing EDGE PILOT program be simplified or streamlined – an idea worth further consideration. There are a number of ways this might be accomplished, including changes to the current targeting provisions, special incentives, and PILOT scoring systems. If enacted these types of changes could fundamentally impact the program; evaluations should include a full analysis of the impact.

4. Conversely, EDGE has also received recommendations to expand certain program provisions. Examples include additional consideration for investments in targeted areas, or those that promote energy efficiency and/or other components of environmental sustainability. Clearly defined program goals will help. It is also worth considering if one all-inclusive program with multiple goals, options and targets – as in the current program -- is preferable to several individual programs which may be smaller/simpler.

5. Changes to the PILOT scoring system that result in shorter and/or less generous PILOTs for most recipients have also been suggested. This should be evaluated in light of the community's competitive position, as well as the need for additional local tax revenue. Suggestions to couple a reduced benefit with a streamlined structure deserve additional study.

Reid Dulberger
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6. Councilman Conrad's proposal for a PILOT to encourage the development of speculative industrial buildings was well received by the Committee and should be further vetted with industrial real estate developers. Depending on the structure this might require an entirely new program.

7. Similarly, though not explicitly discussed by the Committee, the use of PILOTs to encourage smaller scale commercial or retail development in targeted inner-City neighborhoods has been a topic of discussion in other forums. Like the speculative industrial building proposal this type of PILOT might also focus primarily on capital investment and not job creation -- and require a separate program. Reduced fees and a streamlined approach would benefit this initiative.

8. EDGE is committed to providing much greater public access to PILOT program information and documentation. The Economic Development, Tourism & Technology Committee of City Council might consider quarterly updates on the progress of this initiative.

Again, we appreciate your leadership on this important issue and look forward to working with you to improve the PILOT program.

Incentive Study Committee - Recommendations
Presented by Jim Strickland
November 26, 2012

Factual Findings-

1. Unfortunately, other cities and states offer substantial financial incentives to attract and retain businesses. As an example, Nashville is about to offer $66 million in incentives to retain HCA, who is promising 1,750 new jobs and two new office towers.

2. Contrary to the arguments made in Tennessee that the lack of income tax makes it easier to attract businesses, neighboring states are using the income tax to incentivize businesses to move to their states. In Mississippi, state government will often pay a transplanting company the income taxes paid by its own employees as an incentive to move to the state.

3. A PILOT is a Payment-In-Lieu-Of-Tax. It effectively freezes the property tax on a piece of property before improvements are made, which if made would increase the property value and, otherwise, the amount of property taxes owed. The taxes collected under a PILOT are the same as if a PILOT is not offered and the business does not move to Memphis and improve the property.

   As an example, a commercial piece of abandoned property in Memphis valued at $100,000 would yield $2,820 in city and county property taxes. If an out-of-town company wanted to come to Memphis and build a factory on this property, it could increase its value to $10 million and normally increase the taxes to $282,000. Under a PILOT, the company would be enticed to Memphis by freezing the taxes at $2,820 for several years. The average PILOT is for 7 years. In this example, if the PILOT is for 7 years, the company pays real estate taxes of $2,820 for seven years and $282,000 per year beginning in the eighth year. "The figures used as taxes owed may be wrong, but are only used as an example."

4. In Memphis, the number of years of a PILOT is determined by several factors: the number of jobs to be created, the amount of wages and benefits to be paid to its employees, the amount of any capital investment in buildings or personal property, and the location in the county.

5. Each year, every company receiving a PILOT in Shelby County must file a report on its job creation, wages and benefits, and capital investment. Approximately 10 of these businesses are audited by local government to verify the information reported. If a company is not performing as promised, the length of the PILOT can be shortened.

Recommendations-

<u>General</u>

1. In order to compete with other cities, Memphis and Shelby County need to continue to offer financial incentives to attract and retain businesses and jobs.

2. EDGE, City Council and County Commission should adopt the Austerity Mantra: "At a time when governments must make difficult budget decisions, spending to create jobs should be transparent, fair, and effective."

Transperancy and Public Input

3. EDGE should place all its reports on-line, including minutes of its meetings, applications, analysis and recommendations of its staff on applications, reports made by companies receiving PILOTS, and audits of the companies receiving PILOTS. EDGE's website should have an easy-to-use search engine. For any awards granted, the on-line disclosure should include the company name; project address; duration; formula dollar value; and job, wage and benefit, and capital improvement commitments.

4. EDGE should publish an annual report detailing its actions on new applications and audits on current PILOTs. The report should clearly show how each company has delivered on their promises to create jobs, etc.

5. EDGE should report to the Memphis City Council and Shelby County Commission each year to review its annual report.

6. EDGE should set a minimum time, such as 30 days, between the time an application for a PILOT is made and the board vote. This would allow time for public input.

7. EDGE staff's and board members' email addresses and the time and place of all EDGE board meetings should be clearly shown on its website.

8. Time should be dedicated at EDGE board meetings for public comment. For instance, the City Council allows members of the public to speak for up to 2 minutes at its meetings.

Process

9. The reporting process for companies receiving PILOTs should be simplified.

10. Every company with a PILOT should be audited at least once every three years.

11. Within the next three months, EDGE should thoroughly review the matrix used to grant PILOTs and report to the City Council and County Commission on its findings and any recommended changes.

12. Within three months, EDGE should develop rules and procedures to apply PILOTs to spec builders, including any caps on the number of years or the number of spec properties with a PILOT.

13. State unemployment insurance records should be obtained yearly on each company receiving a PILOT and should be compared to each company's annual report to verify information on number of jobs and amount of wages.

Public Schools

14. Within 3 months, EDGE should recommend policy changes so that school funding is given priority and is exempt to some extent.

15. A member of the Unified School Board, or a representative, should serve as an ex officio member of the EDGE board, similar to the City Council and County Commission.

GREATER MEMPHIS CHAMBER

TO: **COUNCILWOMAN WANDA HALBERT**
COUNCILMAN JIM STRICKLAND

FROM: **MARK HERBISON, SR. V. P.**
ECONOMIC DEVELOPMENT

DEXTER MULLER, SR. V. P.
COMMUNITY DEVELOPMENT

DATE: **JULY 26, 2012**

SUBJECT: PILOT RECOMMENDATIONS

We appreciate the work of your committee and your willingness to consider recommendations we have for the incentive programs of the City and County. The following are a number of the specific recommendations and we are also prepared to address any other recommendations received from other participants at the upcoming meeting.

Tax Increment Financing
This approach to incentivize new development has been widely used in other parts of Tennessee but very rarely in Memphis. We believe that this tool should be offered as an alternative to the PILOT program and details to be worked out through the EDGE board and staff. Generally this would involve the potential for a (20) year bond issue and the benefits of the incentive should be calibrated to the benefits received in some manner.

Small Business
Economic development professionals recognize that small businesses create the majority of new jobs in a community. Our program is currently structured so that the standard is sometimes prohibitive for small businesses. The jobs, capital investment threshold, and fees should be restructured to enable small businesses to take advantage of the PILOT program. The creation of (5) jobs and investment of $100,000 could be minimum thresholds to qualify. The small business' decision of whether to apply should be based upon the benefit received compared to the costs.

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Empowerment Zones

There are significant deteriorated areas of Memphis that will require a coordinated intentional strategy to stimulate new development. Portions of North and South Memphis have large areas of vacant industrial properties that are not generating any revenues for the local government or MLGW, although significant investments have been made in infrastructure and public services.

The core city has not been able to attract significant new investment in certain of these areas and a more aggressive incentive should be developed. The PILOT is just one component of the overall redevelopment strategy that should be developed, but since it is being addressed now it should be enhanced significantly.

For the relatively few number of Empowerment Zones, the PILOT incentive calculated through the matrix should be doubled up to the (15) year maximum for qualifying developments in the zone. The EDGE, Chamber, and Housing and Community Development can assist in the designation of the zones and establishment of specific criteria for this enhanced level of incentive. It should also be combined with a more comprehensive "Core City Program".

Diversity Program

The diversity program should be an incentive and not punitive, meaning that the incentive should be provided on the back end of the PILOT after determining if the company delivers the desired benefits. Additionally, a couple of features that should be confirmed include the following:

- Local and mbe/wbe suppliers with valid contracts should all be considered to the first, second and third levels.
- PILOT benefits should be provided for both of the desired outcomes of hiring from the Identified Labor Pool as well as local contracting. A company should be incentivized to produce either desired outcome, and not be penalized if they are not able to produce benefits in both categories.
- A company earning (15) years based upon the merits of the jobs and investment, and wages, should be able to extend benefits beyond (15) years for producing results in the diversity program.

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Cap on PILOTs

With the exception noted above, the current cap of (15) years is acceptable. For major projects requiring supplemental incentives to be competitive, investments in infrastructure at the state and local level can typically make up the difference.

Incentive for New Construction

While there is clearly an advantage of having an inventory of new facilities being constructed in the community, providing an incentive to construct a new facility while it is waiting to be leased can inadvertently provide a competitive disadvantage to an older existing building that is also vacant. The older facility would have the extra carrying cost for the taxes while the new facility would not. This concept needs further analysis to ensure it is not creating an inequitable situation for older vacant buildings.

Reporting

The current requirement of quarterly reporting is unnecessary and should be no more than twice per year. This allows time to produce results and is coordinated with the typical time frame for taking any action on less than full performance.