Managing Economic Development in Times of Fiscal Uncertainty

Business Location Decision-Making and Incentives Practices

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Emerging Economic Sectors

- Info Tech
- R & D
- Alternate Energy
- Finance – CBOE / Board of Trade
- Insurance
Emerging Economic Sectors, Cont’d

- Headquarters
- Design -- AEP
- Management Consulting
- Distribution
- Re-Shoring of Manufacturing
- Food Processing
Do Our State and Communities Attract or Repel Development?

21st Century Economy
- Dynamic Core City
- High Quality of Life
- Top Flight Educational Choices
- Career Diversity for Two-Career Households
- Excellent Services and Health Care
- Recreational Facilities and Programs
- Extensive and Quality Public Transit
- Moderate Cost of Living
- Low Personal Taxes Compared to New York and California
- Dense Fiber
- Air Connections to Everywhere

Global Capital of Mid-Continent

Traditional Economy
- Business Taxes and Workers Comp Impact Location Choices
- State Fiscal Instability a Concern For Plant Location/Investment
- Flat Income Tax – Below Certain Level, Neighbors More Attractive
- Highway Congestion/Journey To Work Issues
- School Quality Issues
- Skill Gaps
- Higher Property Values and Property Taxes Than Indiana

Not the Place We Once Were for Basic Manufacturing and Processing Industries?
Can We Make Our State Work for Both?

State Roles

- Business Climate Including Tax Competitiveness
- Personal Tax Comparability and Fairness
- Education – Higher and Lower
- High-Level Infrastructure
- Financial Stability (e.g., pensions)
- Incentives (like EDGE)

Local/Regional Roles

- Q-o-L and Services – the Community and Land Product
- Aligning Assets with Opportunities/Trends
- Provide Appropriate Development Framework
- Financing Development and Redevelopment
- On The Deal-Making Front Line

Do We Need a Commission on the Future of the Illinois Economy?

Making Good Decisions and Deals on the Front Line Crucial to Development!
What Are (Some of) the Tools?

- TIF, SSA and Sales Tax Sharing Continue On
- Business Districts Increasingly Popular
  - Additional Sales Tax
  - Hotel Tax for Non-Tourism Uses
  - Specific Uses of Funds Including New Construction
- NMTC – Selected Locations
  - Renewed for 2012 and 2013
  - Commercial, Industrial, Community Facilities, Mixed Use
- EB-5
  - Foreign Investment in Exchange for Green Card
  - Debt or Equity Source in Layered Deals
- LIHTC
- Others
The Next Wave of “Asks”

- Infrastructure/Value Capture
  - Elgin-O’Hare
  - IL 53/120

- Recovering (?) Real Estate
  - Distressed Shopping Centers
    - Market and Location Weakness
    - Internet Sales Impacts
    - Stormwater/Floodplain Compliance
  - Vacant Sites – Fringe
  - Infill Sites – Often Challenged
  - Planned Condo Turned Rental
    - Millennials
    - Empty Nesters
    - Seniors

- Opportunities to Be Proactive
Deal Making: Best Practices for Public-Private Partnerships at Any Time

- Achieves Key Community Goals
- Project is Market and Financially Feasible (with assistance)
- Community Benefits
- Cost-Effective Fiscally
- Gap/Need (But for…)
  - Extraordinary Costs
  - Public Quality Upgrades
- Appropriate Risk Sharing – How Much Public Sector Risk?
  - Lack of Balance Sheet
  - Complicated Deals
  - Timing and Forms/Guarantees for Public Funds
The Gap Analysis/“But For” Approach

- Evaluates How Much Assistance Is Needed to Make the Project Financially Feasible
- Guards against Over-Subsidizing Projects
- Demonstrates to Other Taxing Districts That Tools Are Being Judiciously Used
- Reduces the Appearance of Arbitrariness
- Helps Articulate the Case for (or against) TIF to Elected Officials
- Helps Define and Clarify the Problem TIF Is Trying to Solve (Can Improve Deal Structure for All Parties)
- Uses Detailed Project Analysis of Market and Financial Feasibility to Evaluate Gap (But FOIA Issues Being Raised by Some)
How Much Help?

- Primary Ways to Determine:
  - Financing Gap in Order to Achieve Reasonable Rates of Return
  - Amount Readily Explained by Extraordinary Costs
  - Cost of Providing True Public Improvements
  - Incentive Deal: Incremental Cost of Locating at Proposed Site or to Compete with Alternative Site

- Other Factors Often Considered (but not recommended as primary decision-making tool):
  - Subsidy as % of Project Increment
  - Subsidy as % of Project Cost (public funds “leverage” private)
  - $ Amount per Job Attracted/Retained
Conclusions

- Both Our 21st Century and Traditional Economy Are Needed to Sustain Our Population
- Different Policies and Types of Projects for Each
- State and Local Roles Differ – Localities on the Front Line
- Deal-Making Fundamentals More Critical than Ever
  - What Are Public Benefits and Goals Achieved?
  - What Is the True Need of the Project?
- Can Other Districts Benefit/Be Protected?
- What Structure Gets It Done, But Limits Public Risk?
Development Advisors to the Public and Private Sectors

- Real Estate Economics
- Public-Private Partnerships
- Developer Solicitation
- Development Management
- Public Financing
- Area Plans & Implementation
- Fiscal & Economic Impact

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