A GUIDE for LOCAL INCENTIVE POLICIES

redevelopment ready communities®

Once your community has an economic development strategy in place, it is very likely going to find that it will need to use local economic development incentives as tools to turn that vision into reality. This RRC Best Practice helps communities put the framework in place to identify those tools and make it clear to potential development partners what is on the table for discussion.

ECONOMIC DEVELOPMENT INCENTIVES

5.2 Incentives Policies

Having clear economic development incentive policies creates predictability and assists communities in making the most efficient use of limited local resources when supporting proposed development projects.

CRITERIA: The community has adopted policies to guide economic development incentives.	
ESSENTIALS EXPECTATIONS	**CERTIFIED EXPECTATIONS**
N/A	☐ The community has adopted and/or reviewed formal policies for key economic development incentives within the past five years. ☐ The policies and corresponding application materials are available online.

WHAT IS AN ECONOMIC DEVELOPMENT INCENTIVE?

"Economic development incentives" are financial and nonfinancial support to help promote real estate projects and business growth. They can take very different forms based on a community's resources, political composition, past experiences, and economic development partners. They commonly range from discounted land costs or fees to abatements and loans.

It is important to acknowledge that the use of financial incentives has generated much debate; however, incentives are an important mechanism that can support inclusive local economic growth and help developers to "fill gaps" in the capital stack caused by development impediments that raise costs. What do we mean by that?

QUICK PRIMER ON CAPITAL STACK GAPS

At its core, any development project is a complex mathematical equation balancing costs with projected revenue.

ADDITIONAL INFORMATION

Want to learn more about development financing? Check out this planning webcast for a deeper dive.

MEDC'S PRO FORMA 101

A pro forma analysis is a set of assumptions and calculations that projects the financial return that a proposed real estate development is likely to create.

It begins by describing the proposed project in quantifiable terms. Moving through the spreadsheet, the user estimates revenues that are likely to be obtained, the costs that will have to be incurred, and the net financial return that the developer expects to achieve on their given project.

The pro forma assists in better project understanding by storing and displaying all project financial information in one place providing the user with an appreciation for the push and pull of costs and income, time and risk, and how changing one factor can affect a whole domino chain of other factors.

Check out the MEDC's "Pro Forma 101 Materials"

**Planning for Local Economic Development, Leigh and Blakely, 2013*

With higher construction costs, debt service obligations are commensurately higher due to needs for additional upfront capital. To make up for these increased costs, a developer may increase projected revenue by attempting to raise rental rates above what the market currently supports. However, the market will ultimately dictate a ceiling on rates, regardless of what revenue projections might say. This is where incentives can help. For instance, property tax abatements can help reduce annual operating expenses, which frees up cash flow available to support debt service obligations and meet required return thresholds. In this way, incentives play a supporting role in financing procurement, maintaining affordability for end users, and accessing important state funding.

WHY IS IT IMPORTANT TO HAVE ESTABLISHED INCENTIVE POLICIES?

Incentives play a supporting role in financing procurement, maintaining affordability for end users, and leveraging other funding tools. Incentivizing development projects serves to expand the tax base, increase property values, add amenities that improve the quality of life and provide long-term benefits to the community, and advance other important public policy goals. Larger projects that are awarded the incentives can also have a ripple effect in the community's development, generating smaller projects nearby. These spin-off projects give the tax incentives a better return on investment because they are generating additional revenues through economic activity (taxes, consumer spending, etc.)

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Now that we have established what incentives are and why are they are important, take a few moments to think about your community and answer the following questions. If you don't know the answer, consider meeting with someone in your community who might have that institutional knowledge:

1. What incentives has your community used?
2. What were the outcomes?
3. Was there transparency around the process?
4. Have there been any experimentation or discussion with fee waivers as incentives?

Hint: This should be the first step when beginning to create your local incentive policies.

TYPES OF INCENTIVES

As mentioned before, no two communities have the same mix of incentives. This guide is not intended to serve as a deep dive on everything you could include locally. But we do want you to have a general understanding of what might apply so you can then have more specific local conversations about your incentive toolbox. In general, incentives can be broken down into the following categories:

- Tax abatements
- Reduced or waived fees
- Public infrastructure upgrades
- Reduced land cost
- Façade programs
- Fast-track permitting
- Density bonuses

TAX ABATEMENTS

One of the most common incentives, tax abatements, can come in many forms. Industrial tax abatements, which are not the focus of this guide, can be direct reductions in taxes for a certain period, while more complex tools such as tax increment financing (TIF) can refund taxes paid on new, increased property value for certain eligible expenses.

When it comes to non-industrial projects, there are four main abatement/TIF tools to be aware of:

1. **Obsolete Property Rehabilitation Act (OPRA) exemption:** No, that famous Oprah didn't create this tool, but it can make a community feel like it won a new car when used to foster a catalytic new development. Different than brownfield, this tool essentially freezes the taxable value of a property for up to 12 years, thus reducing those early year operating costs which can make or break a project. This tool is limited in use to only qualified local units of government as defined within PA 146 of 2000. For more information, click here.

2. **Neighborhood Enterprise Zone (NEZ):** Established via PA 147 of 1992, a Neighborhood Enterprise Zone allows a community to reduce taxes on a property for up to 15 years to promote revitalization of established zones within the community. It can be used for rehabilitation or new development. Like OPRA, this tool is limited to qualified local units of government as defined within PA 146 of 2000. For more information, click here.
3. **Payment in lieu of taxes (PILOT):** A PILOT is an investment incentive negotiated between a tax authority and a developer to establish agreed upon payment each year instead of the typical property taxes. Housing development PILOTs are most often multi-year agreements with payments based on a percentage of net collected rents. For more information, visit this page from the Community Housing Network. The Michigan State Housing Development Authority (MSHDA) has also provided a model ordinance to help make this tool available.
4. **Brownfield TIF:** Authorized under PA 381 of 1996, this tool allows the community to authorize reimbursement of eligible expenses for developing on a previously developed site that is no longer in use or has environmental conditions. The purpose here is to help bring the cost of redeveloping a site in line with the cost of developing a "green field" site which instead would likely require new infrastructure and costs to the community. Local brownfield TIFs can be pared with a state brownfield ask from either MEDC or EGLE (or both). For more information, click here.

Tax Increment Financing (TIF)

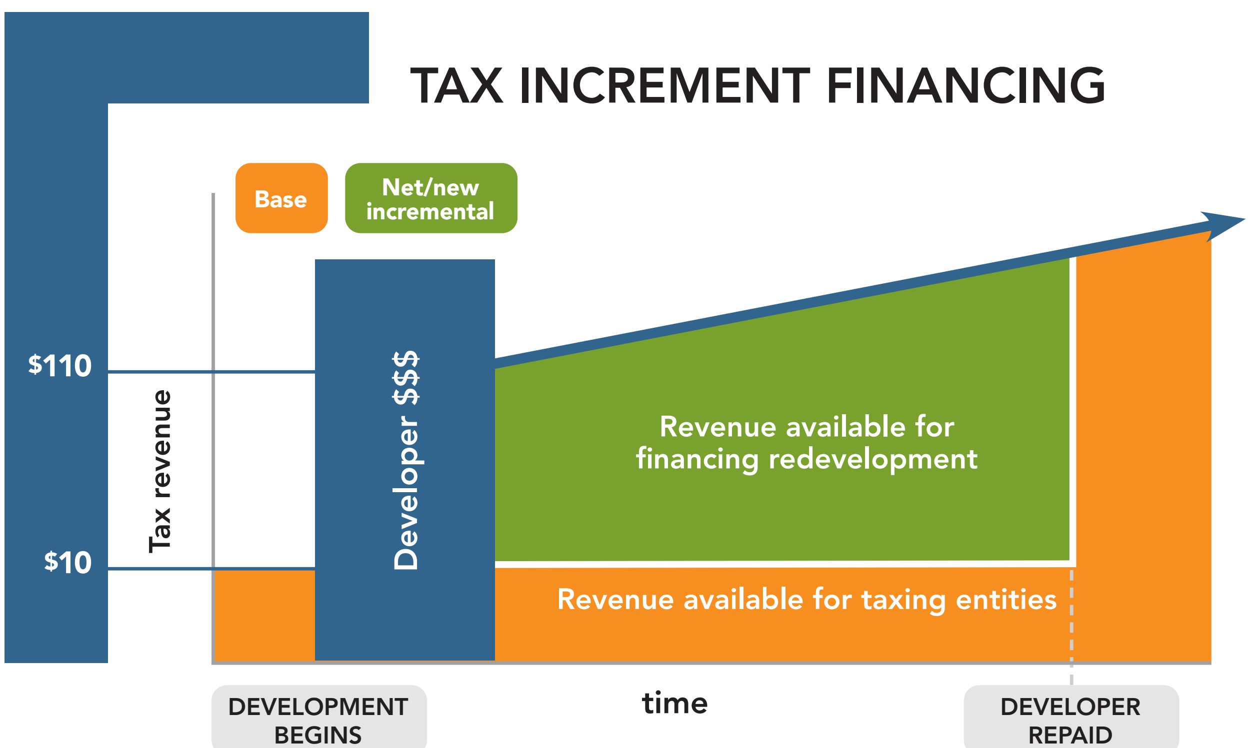
TIF is a very common tool used to fund brownfield projects and certain organizations like downtown development authorities (DDAs). But it can be a complex concept to wrap your mind around. Check out the resources below for more information if you're curious.

MDA: Tax Increment Financing

Public Act 57 of 2018

Video: "TIF Lessons from Detroit"

HOW IT WORKS



REDUCED/WAIVED FEES

Development review fees will rarely make or break a large project, but they can make a difference when small-scale development is proposed, whether that be rehabilitation, infill, or additions to increase density. Having a policy in place to reduce or waive fees for projects in priority areas or identified community-driven projects is an easy way for the community to show some buy-in without breaking the bank.

Fees that could be included:

1. Site plan review fees
2. Building permit or inspection fees
3. Required landscaping bonds
4. Water/sewer connection fees
5. Special meeting or public hearing fees
6. Other local fees

For more information on reduced or waived fees for qualifying projects, click here.

PUBLIC INFRASTRUCTURE UPGRADES

Enhancements like expanded water/sewer capacity, redesigned or new roads, increased pedestrian infrastructure and more can all be examples of municipal infrastructure upgrades that are partnered with a development project, as an incentive/contribution. The most common pitfall to avoid is to simply say "yes" to any request for new public infrastructure since all infrastructure has long term costs for the community. Make sure any investments you do, align with those plans to keep your community on track.

Rightsizing Investment

It's easy to get excited about a new potential development and to want to help out by building new public infrastructure. But as Michigan is learning first-hand, it's very possible to overbuild and be stuck with major legacy costs which outweigh the investment benefit. Don't be afraid to do cost/benefit analysis before making such investments. A nonprofit called Strong Towns is a great resource for more on this concept.

REDUCED LAND COSTS

One of the most common questions RRC gets is whether priority sites must be publicly owned land. And while the answer is "no," there are benefits to working with publicly owned land. One major benefit is the ability to work in reduced land costs to help a project's cash flow. The community has the ability to set the price of the property and may sell or transfer ownership at a favorable rate. Or it could lease the land for a long period of time at a reduced cost.

This is one area where your community's charter or other laws may have an impact, so before you dive too far into this, have a conversation with your local attorney to understand any local considerations. For example, some existing local laws will not allow a community to sell below market price. But if your community has the flexibility, this can be a powerful tool.

FAÇADE IMPROVEMENT GRANTS/LOANS

A very common tool deployed by downtown development authorities (DDA) (and some corridor improvement authorities, too!) is to offer grants or interest-free loans for façade improvements. By co-investing with building owners on these physical improvements, everyone can benefit from increased property values and a more vibrant downtown/corridor.

There is no one "right" way to do this, but if your community does not already have a façade program and is looking to start one, check out some of the examples below.

East Lansing
Ishpeming
Almont
Wayland

FAST TRACK PERMITTING

Time is money when it comes to building. Jurisdictions can help reduce the cost by expediting permitting approvals for projects in priority areas. Expedited permitting helps in two ways—it can lower the costs of holding land in advance of construction and it can help inject greater certainty into the development process, which can in turn lower the cost of financing.

Most communities already issue approvals within a month or two so this may not make sense in those scenarios but for communities with more complex processes, expedited permitting can be a game changer.

Pre-approvals

Related to this is to have pre-approved development plans (i.e., "pattern book") which developers can simply apply some customization to (with certain parameters) and receive quick internal approval versus the traditional development process route. This is an idea receiving more attention lately around housing in particular.

DENSITY BONUSES

A density bonus is an incentive-based tool that permits developers to increase the maximum allowable development on a property in exchange for helping the community achieve public policy goals such as affordable housing or public space activation. This is commonly found in large communities, but it is not unheard of in smaller communities. In fact, one Michigan-based example can be found in Section 10.3.3 of Ontonagon's zoning ordinance.

For more general information on density bonuses, check out this short document from the Center for Land Use Education.

DEVELOPING POLICIES

It is one thing to have tools in the toolbox and another to be communicating those tools in a clear manner. While development incentives can be negotiated, the community should also have clearly identified parameters and processes for doing so. For example, if a community is not willing to entertain a brownfield plan, then the developer should know that upfront.

The 10 steps for developing a policy are:

1. **Document existing incentives**
   Do some research on your municipality. See what incentives the municipality has used in the past and what the outcomes were. Find out if you already have economic development incentives and applications.

2. **Review economic development strategy, master plan, and local goals**
   It is highly likely that your community's adopted plans have some recommendations on the economic development incentives that would be a good fit and where they would be best used. Make a list of these incentives and begin researching them to get an idea of which ones would be most appropriate for your community.

3. **Brainstorm appropriate local incentives that align with local economic development, community development, and equity goals**
   It is possible that you've been inspired by this guide and want to develop incentive policies around incentives outlined in this guide that haven't been specifically mentioned in your local plans. Look at the goals from your locally adopted plans and then research the types on incentives you think would be a good fit for community priorities.

4. **Get preliminary approval from the governing body**
   Take your research and begin drafting incentive policies. Create a presentation around economic development incentives and the appropriate ones for your community and provide this information to your governing body. You'll want to work in close partnership with your municipal administrator to make this happen, and you may want to have several working and information sessions around incentives. Educating your governing body is the first step here and getting a feel for what they are interested in is essential. You'll want to strongly tie any incentives back to your adopted plans and goals and make the connection very clear.

5. **Create incentive policies and applications**
   Now that you have a feel for the direction the governing body wishes to go in, you can begin creating your incentive policies and applications. Please review the "What Should go in a Policy" section, below, to determine what should go into an incentive policy and do a review of other incentive policies and applications. No need to reinvent the wheel when you can borrow from the best.

6. **Get formal council approval of incentive program/policies**
   Municipal incentive policies will need to be adopted by the governing body. Work with your local municipal manager and clerk to facilitate adoption.

7. **Put incentive policy/program information and application(s) on the website**
   Transparent processes and expectations can help potential applicants—especially small and under resourced applicants—better navigate the process. The is no evidence to suggest that published incentive policies increase incentive use, as long as local governments retain discretion over incentive approvals. Having transparent processes and policies one the website can also help demystify the process for local residents and avoid the appearance of any impropriety. Transparency in the process is an RRC guiding principal and will save you time in the long run.

8. **Pair incentives with priority redevelopment areas/sites**
   There may be a specific site in your municipality that is challenging to develop, but one of your newly created incentives could help get the project moving. Match incentives to priority redevelopment sites and use the incentives as a municipal contribution toward the project. Sometimes a municipality will be asked to contribute to make a project feasible. It may be better

to contribute the incentive toward a project, to get the property producing tax revenue again, than let it sit in its current state.

9. Market redevelopment sites and incentives
Take your priority redevelopment sites that you've just matched with your shiny new incentives and create a property information package. Market the site and its potential incentives on your website. Send your site to potential local or regional developers. Talk to the site's owners to see if they would be interested in being a development partner. Show them what they could do to the site and what incentives may be available to them. Check out the "Redevelopment Ready Sites Guide" and "Property Information Package Template" from the website.

10. Approve projects and increase the tax base
Hopefully this guide and your new incentives will help take challenging properties and get them back on the tax roll. The whole reason your municipality is contributing incentives to projects is for long term economic sustainability. It may be worth reviewing incentives and community goals with your planning commission and governing body before a project comes in for approval, so that the applicant doesn't spend a bunch of time and money, only for the project to die at the final approval stage. This can be done through a robust training process, review of the master plan and economic development strategy goals and implementation, or periodic presentations.

Want a more detailed guide on influencing policy development? Click here.

WHAT SHOULD GO IN A POLICY?

The Government Finance Officers Association recommends that jurisdictions create a policy on the appropriate parameters for use of economic development incentives. An economic development incentive policy needs to be specific enough to establish clear boundaries but not overly restrictive in order to allow for flexibility and discretion to ensure that the policy serves the best interest of a jurisdiction. As such, a policy should avoid specific details for assessing project proposals but rather focus on broader decision-making criteria and processes. Furthermore, jurisdictions should also develop and adopt detailed procedures that complement the policy and provide guidance on the administrative implementation of economic development incentives.

To learn more about the GFOA's "Best Practices for Establishing an Economic Development Incentive Policy," click here.

When developing policies, consider including the following to paint a complete picture:

- Purpose
- Scope
- Brief incentive description
- Policy/request evaluation standards
- Effective date
- Definitions
- Checklists of documents required for applications
- Review process information
- Incentive agreement form (application)
- Information summary and affidavit of fees
- Program review: when were the policy's adopted and when will they be reviewed and updated

Examples
Remember, RRC never leaves you hanging!
Check out the RRC library for some examples from other communities. Some top picks include:

Orion Township
Kalamazoo
Swartz Creek
Ferndale

RESOURCES

Here are some additional resources and examples of incentives and programs from around the county. Not all of these examples will apply to your community, but its good to get an idea of what other places are doing in order to find something that works for your community.

City of San Antonio: The Center City Development Office (CCDO) utilizes a variety of incentive programs to promote growth and development in targeted areas of the city, specifically in the underserved residential and commercial real estate markets within the center city. San Antonio concentrates on revitalizing targeted sectors and alleviating challenges to development by providing incentives that meet the development and revitalization goals of the city. San Antonio utilizes fee waivers, loan funds, a brownfield program, and real property tax rebates.

Inclusionary housing incentives by Grounded Network Solutions: This website provides more detailed information about density bonuses, expedited processing, fee waivers, parking reductions, and tax abatements as incentives.

County of Monterey, Calif.: The director of planning may waive application and appeal fees for discretionary permit applications for a variety of projects. The website includes a list of applicable projects, fee waiver procedures, and the fee waiver request form.

The Alliance, "Equitable Development Principles & Scorecard:" The Alliance partnered with Twin Cities, Minn., community leaders to create the "Equitable Development Principles and Scorecard," which helps communities ensure that the principles and practices of equitable development, environmental justice, and affordability are available to all residents. Equitable economic development practices require evidence that policies and programs work to prioritize community based financial intelligence, sustainable wealth creation, and high quality job opportunities that prevent unwanted displacement of residents and small businesses from low-income communities and communities of color.

Floridahousing.org:
An overview of commonly used affordable housing incentives in Florida.

Detroit Economic Growth Corporation:
"Tax Incentive How-to Guide"

City of Loveland, Colo.: Incentive policy

Rowlett, Texas: "Policy Statement for Economic Development Incentives"

Chicago Metropolitan Agency for Planning:
Improving local development incentives.
Lots of standard practices and best practices around incentives.

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