
Economic Development Fund Policy & Business Retention Economic Incentive Policy

ECONOMIC AND COMMUNITY DEVELOPMENT COMMITTEE

FINANCE COMMITTEE

SEPTEMBER 13, 2021



Background

- Village Board's 2021 Strategic Plan effort identified the need to address business retention
- The existing Village Economic Incentive Policy (EIP), last updated in 2016, did not fully address business retention elements
- EIP would preclude some worthy or necessary projects from being eligible for an incentive

Background

- Without sufficient revenues generated from retail sales tax activity funds, it may adversely affect on the Village delivering core or enhanced services.
- Goal: ensure that existing sales tax revenues, which helps pay for all municipal government services, are maintained or even strengthened in the immediate and possibly longer-term.
- Intrinsic to this discussion is the larger efforts of business retention and even expansion.

Background

Joint meeting to review and consider two Policies pertaining to business retention strategies.

1. A Finance Department summary identifying the Policy establishing the proposed Economic Development Fund.
2. A Business Retention Policy that supplements the existing Economic Incentive Policy (EIP) to address properties and businesses that would not meet the incentive parameters set forth within the EIP, but warrant further consideration to stabilize or retain selected retail sales generating business establishments.

Background – Initial Review

- The draft Policies have been reviewed by Kane McKenna & Associates and their comments were incorporated into the Policy.
- The Village Attorney also reviewed the legal aspects of the Policy and finds that the Economic Development Fund sources as proposed and intended to preclude direct sales tax revenue reimbursements does appear to be acceptable, subject to the provisions of 65 ILCS 5/8-11-20.

Finance Department Summary – Proposed Economic Development Fund

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- Action: Amend Year-End General Fund Reserve Maintenance Policy to add the Economic Development Fund Reserve to the existing Policy
- Creates funding for business retention incentives and transformational projects designated by the Village as key development sites

Finance Department Summary – Proposed Economic Development Fund

- Home-rule communities can be quite creative when it comes to offering incentives. Non-home rule communities like Lombard are much more limited in scope.
- The authority through 65 ILCS 5/8-11-20 to offer Sales Tax rebates, a primary source of funding for past redevelopment projects, is limited to properties that have remained vacant for at least one year, with some minor exceptions.
- The State's vacancy provision contradicts what the intent of a retention policy could actually be.

Finance Department Summary – Proposed Economic Development Fund

Year-End General Fund Reserve Maintenance Policy

Maintain a balanced budget by not relying on one-time large revenues to fund permanent annual expenses.

Finance Department Summary – Proposed Economic Development Fund

The Year-End General Fund Reserve Maintenance Policy states that at the end of each fiscal year, year-end revenues over expenses should be distributed to separate reserves:

1. An Emergency General Fund Reserve should be maintained equal to 5% of the current year's budgeted unassigned expenses in the General Fund.
2. The Village should maintain a "Revenue Stabilization" reserve with a goal of reaching 3.5% of the current year's budgeted unassigned expenses in the General Fund.
3. Remaining funds should be split equally (50/50), between the Building Reserve Fund and the Pension Stabilization Fund, **up to \$700,000 per year per fund. Any funds over \$700,000 per year per fund will flow to the Economic Development Fund Reserve.**

Finance Department Summary – Proposed Economic Development Fund

PROPOSED REVISION TO THE YEAR-END GENERAL FUND RESERVE MAINTENANCE POLICY

The Economic Development Fund Reserve should maintain a fund balance of \$5,000,000.

Note, the Economic Development Fund is also funded with 25% of Hotel/Motel Tax revenue as long as allowed by law. If the fund balance exceeds \$5,000,000, the 25% of Hotel/Motel Tax revenue will stay in the Hotel/Motel Fund. Any excess funds as stated in #3 from the Building/Pension Reserves will flow into the Economic Development Fund.

Finance Department Summary – Proposed Economic Development Fund

Questions on the Economic Development Fund

Business Retention Policy – Program/Policy Need

Business Retention Policy – Program/Policy Need

From an Economic Development perspective, many municipal retention programs focus upon direct engagement with key business entities to address or reduce private sector businesses from relocating, downsizing or closing.

The engagement role establishes partnerships so that items that could be addressed locally are considered to the greatest extent possible.

Business Retention Policy – Program/Policy Need

- The Village's Economic Incentive Policy (EIP) was adopted in 2015 and amended in 2016. The EIP intent provides staff, interested parties and the public with initial direction as to the level of support a request may receive by the Village.
- The EIP structure was to provide incentives for qualifying business entering the Lombard market or expanding their business operations, with additional revenues to be generated through the larger effort.

Business Retention Policy – Program/Policy Need

The existing EIP does not offer provisions pertaining to many business retention and transformative projects:

1. The EIP structure seeks to improve or expand facilities does not sufficiently address existing business situations (i.e., 50% caps on new generated revenue, preservation of all existing sales tax revenue)
2. The EIP does not address transformative projects that do not generate significant or sufficient revenues of their own accord to warrant an incentive.
3. The EIP does not sufficiently address the phrase of “it may be easier to retain a business than find a new one”.

Business Retention Policy – Program/Policy Need

The Business Retention Policy incentives should answer questions pertaining to (checklist):

- Funding Sources – existing and proposed
- Justification touch-points (i.e., why is an incentive needed)
- Levels of financial and capital improvement engagement by property owner/tenant(s)
- Reconciling “pay-as you go” and any additional increment provisions or incentive sources (e.g., TIF or Business District) that may be requested
- Risk analysis
- Review of impact under stay or go scenarios
- Economic incentive request review by third-party entities (as currently done by Kane McKenna & Associates (KMA))
- Minimum annual sales tax generation/impact
- Whether the incentive is for a struggling business or a stabilized or expanding one

Business Retention Policy – Program/Policy Need

Supplemental questions and issues **raised by the ECDC** include:

- Applicants should answer questions pertaining to cannibalism and benefits.
- Any policy review effort should include a review by KMA.
- The Finance Committee and Village Board should review a future policy.
- Claw back provisions should be considered to go along with any “prove-up requirements”.
- Review should also consider past investment in the community, number of years in Lombard and the amount of sales tax generated.
- Quantifiable data should be a part of any request.
- Determination of a government need for and incentive should be vetted and should not be applied toward businesses that are struggling or mismanaged, otherwise the incentive may not result in any material benefit but at a Village cost.

Business Retention Policy - Direct Business Retention Projects

The retention policy parameters help ensure existing business entities to understand the role of the Village and what could be favorably considered.

1. Retention incentives can be considered in such cases that maintain and strengthen retail sales revenues generated by established businesses. A **primary focus shall be the larger sales tax generating entities** defined as those establishments seeking to improve or expand facilities which are among the highest generating retail sales tax entities for a period of at least three years immediately preceding the incentive request.
2. Incentives for retail sales tax generating desired businesses that if they left the Village would result in a substantial market segment leakage within the community, based upon NAICS classifications.
3. Incentives to advance retail sales tax business innovation and technology adaptation to meet anticipated future market demands.

Business Retention Policy - Transformational Projects Advancing Retention Efforts

Transformative businesses may include those that may not generate significant sales tax dollars but may stabilize or strengthen other businesses in close proximity to the establishment.

Business Retention Policy – Goals and Policy Statements

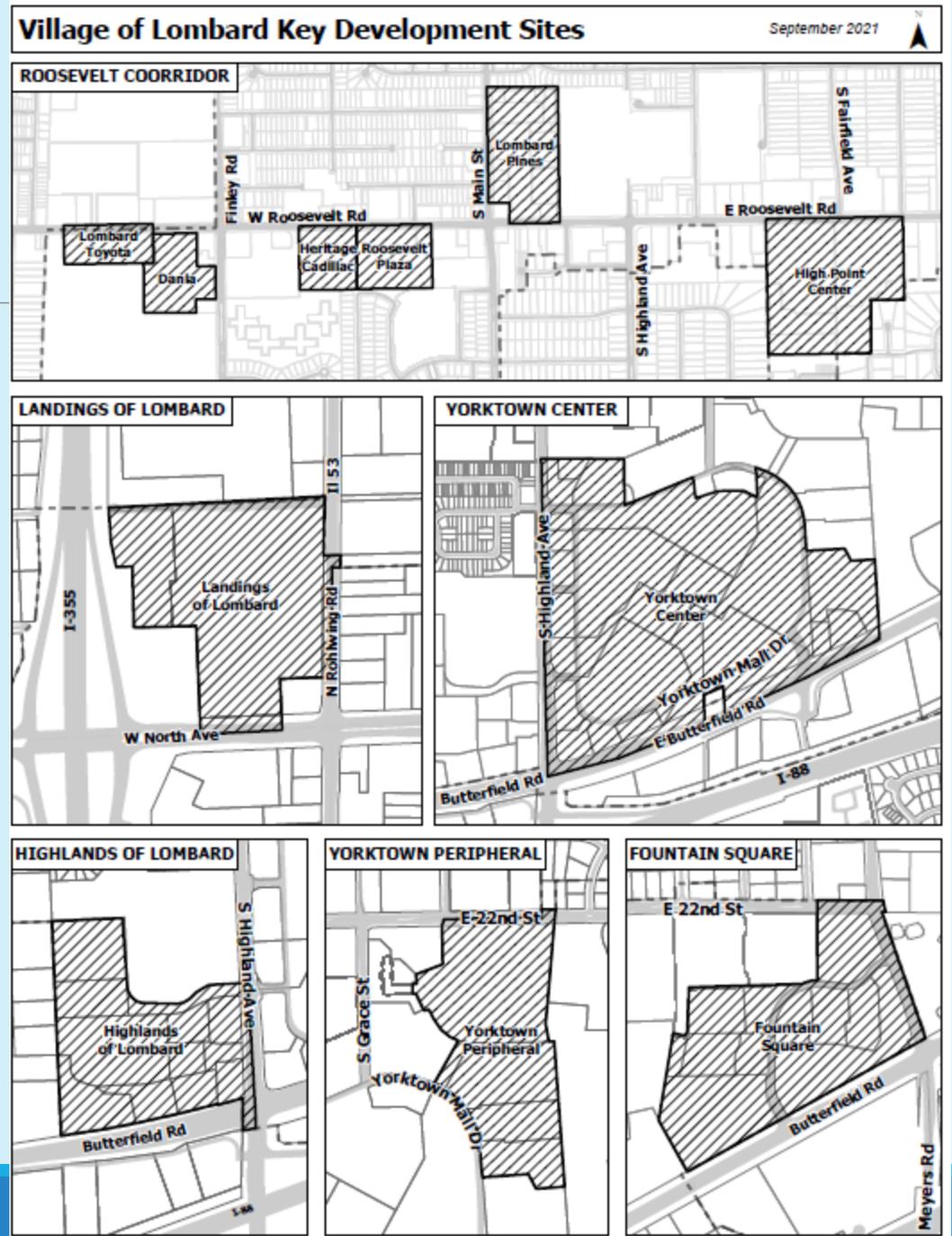
Goal 2 – feedback sought from ECDC and Finance Committee:

2. Eligible businesses must undertake a significant capital investment to improve or expand their facility/business and meet one of the two following categories:

- a) Be located within an identified Key Development Site, as approved by the Village; or
- *Committee members – choose one of the three below:*
 - *Identified as being among the Top 15 retail sales tax generating businesses during one of the preceding three years.*
 - *Having a past track record of generating a minimum of \$100,000 in retail sales tax dollars over the past three years. (22 business currently meet the criteria)*
 - *Having a past track record of generating a minimum of \$250,000 in retail sales tax dollars over the past three years. (10 business currently meet the criteria)*

Key Development Sites

- Yorktown area planned developments
- Roosevelt Road corridor
- Landings of Lombard



Business Retention Policy – Checklist

Questions for Consideration of Retention & Transformational Activities

1. Retain, expand and attract retail sales generating businesses
2. Promote general economic development and business stabilization and growth
3. Municipal revenue sources and identity incentives for specific development opportunities
4. Encourage transformative redevelopment along key commercial corridors
5. Discussion & approaches toward reviewing such requests
6. Transformative Redevelopment / Revitalization Projects
7. In-kind Economic Incentives

Business Retention Policy – Exceptions to the Policy

It is good practice to identify the process for consideration of projects that are deemed to be worthy of an incentive consideration but are not meeting all of the parameters of the overall policy.

In such cases, the policies being modified should be identified and the reasons for the exceptions.

Such exceptions should be disclosed in the evaluation process and in Village Board actions approving the incentive.

Business Retention Policy – Final Items

- Cannot be a direct reimbursement of generated sales tax dollars – alternate metrics must be identified and used
- Retention Policy requests must be thoroughly vetted and are generally not a “one size fits all”
- Still performance-based, metrics must be determined, quantifiable and negotiated
- Capital improvements a component of an incentive
- Incentives are not entitlement or precedent setting
- The concept of “but-for” or “what if” should be still applied
- No commitment for Village to maintain Economic Development Fund Reserve – “no funds, no incentives”

Action Sought, Discussion & Questions

- Staff requests a joint motion recommending that the Village Board approve the proposed revisions to the Year-End General Fund Reserve Maintenance Policy and a Village of Lombard Business Retention Economic Incentive Policy.
- Staff also seeks a recommendation to be included within the motion as to which of three possible business eligibility options is desired (as set forth on Page 9 of the draft Policy).

Business Retention Policy – Goals and Policy Statements

Eligible businesses must undertake a significant capital investment to improve or expand their facility/business and meet one of the two following categories:

- a) Be located within an identified Retail Transformation Zone, as approved by the Village; or
- *Committee members – choose one of the three below:*
 - *Identified as being among the Top 15 retail sales tax generating businesses during one of the preceding three years.*
 - *Having a past track record of generating a minimum of **\$100,000** in retail sales tax dollars over the past three years. (22 business currently meet the criteria)*
 - *Having a past track record of generating a minimum of **\$250,000** in retail sales tax dollars over the past three years. (10 business currently meet the criteria)*