Mayor's Economic Advisory Commission Meeting Minutes

December 9, 2014 7:00pm

Springville City Civic Center Multi-Purpose Room

Consideration and direction related to the offering of incentives to new businesses.

Mayor's Economic Advisory Commission Meeting Minutes

October 14, 2014 7:00pm

Springville City Civic Center Multi-Purpose Room

Time: 7:07 p.m.

Committee Members in Attendance

Councilman Craig Conover, Chair Mike Snelson, Dan Bott, Elizabeth Elder, Rick Salisbury, Alan Shurtliff

Staff in Attendance

City Administrator Troy Fitzgerald, City Operations Manager Rod Oldroyd, Deputy City Recorder Jennifer Grigg

Committee Members Absent

Mayor Wilford Clyde, Bob Johnson, Kevin Jennings, Kristian Kallaker, Ruth Morrison, Clair Anderson and Shirlene Jordan

Call to Order

Chair Mike Snelson brought the meeting to order at 7:08 p.m.

Approval of Minutes

Chair Mike Snelson acknowledged the minutes of the July 8, 2014 meeting and everyone received them and requested no changes. Councilman Craig Conover seconded the approval. Because of Veteran's Day the next meeting will be in December.

City Update

Operations Manager Rod Oldroyd stated that the Spanish Fork Wal*Mart will open in February, and the projected drop in our sales tax is 14%-20%. Administrator Fitzgerald reported the construction on 400 South near 750 West is a professional building associated with the Stonehenge Development.

Liz Elder commented that Lehi lists their goals and economic plan for the community on their website as a view of themselves based on the future. Administrator Fitzgerald said the purpose of these past months is to develop an economic plan, the vision of Springville in the future.

Presentation

City Administrator Fitzgerald's presentation covered property tax versus sales tax to increase revenue for the City. How aggressively does Springville want to be with incentives is a difficult question. Is it fair to give incentives when not every business gets the same incentives? Is it fair to provide incentives to a direct competitor? Do zoning and area uses incentivize development? At the expense of long-established businesses, do we offer incentives to new businesses? Is it worth the loss in revenues to the City.

Using a Property Tax notice for a Brookside Residential property, City Administrator Fitzgerald illustrated the details on the notice, which is often misunderstood.

In theory, the City gets the same amount from property tax every year. Residents ask 'Why do my taxes change every year?' The property tax rate in Springville has only gone up once, which was the General Obligation Bond on the Springville City Library.

Wal*Mart was assessed less property tax this year, but the city gets the same amount every year. Wal*Mart, assessed at an increased market value of 15.2, up from 14.8 million, but their taxes went down from $205,000 to $201,000

Truth in Taxation gives more information to citizens and gives the city the right to vote for increases through hearings to change the property tax. Small inflationary property tax rate increases based on inflation are easier to explain to the public. Through public hearings, the city council can explain and debate reasoning behind smaller tax rate increases. Often Truth in Taxation elected officials are defeated in the next election. Explaining tax increases to citizens is complicated. Smaller, inflation based raise are easier to explain.
Even though Wal*Mart pays an average of $200,000 in sales tax per year, as a $15 million property, they only pay $31,000 in property tax. Nestle is the largest employer in Springville, but the property, valued at $23 million, only brought the city $47,000 in property tax. Wal*Mart pays Springville city much more revenue than Nestle through sales tax.

Utah is the hottest job market in the country. More jobs and businesses are not necessary for Springville City to increase revenue. The job market north of Springville is huge with high paying jobs available. Springville City needs to pursue retail to increase sales tax revenue.

Switching gears to sales tax, Administrator Fitzgerald showed a chart with Springville Sales Tax over the years. Revenue has not reached the 2008 peak until this year, due to the recession. Springville is on track to see a 4% growth. January and February are the biggest months for collecting sales tax.

The highest sales tax revenue producers in Springville are
1. Wal*Mart
2. Ream's
3. Springville Utilities

At the next meeting the commission will determine recommendations to give the Council concerning policy on incentives to attract business to Springville.

Final Comments

Chairman Snelson will send out reminders. Chairman Snelson adjourned the meeting at 8:03pm. Adjourn by consent.

S T A F F   R E P O R T

DATE: December 4, 2014

TO: Honorable Mayor and Members of the Economic Advisory Commission

FROM: Troy K. Fitzgerald, City Administrator

SUBJECT: **ECONOMIC DEVELOPMENT INCENTIVES**

Comment [LL1]: This is the date the staff report is written. Enter the date of the meeting in the footer on page one and two, after you have drafted the memo.

Comment [LL2]: This is the person who is making the recommendation and did the staff work. If you are the staff person to a body such as a Commission or Committee making the recommendation, use the name of the body here.

Comment [LL3]: This is a brief description of the topic.

BACKGROUND:

Comment [LL4]: This section is used if the reader needs to be brought up to the present time. Tell why this item is on the agenda, what has happened in the past and what the commission, committee, or staff has done up to this point in time.

The Economic Advisory Commission has been charged by the Springville City Council to advise the Mayor and Council on goals and objectives that further economic development within the City and to recommend financial incentives and/or financing methods that will foster economic development within the City. In order to accomplish these tasks, the Commission has been working towards the creation of an Economic Development Plan. The first chapter in this plan will be a chapter on potential incentives.

In determining a recommendation on the City's strategy for incentives, the Commission should consider a wide range of factors. In addition to the forthcoming discussion on available incentives, the Commission should consider the economic impacts of incentives on existing businesses that have already located in the city as well as the economic impacts to future revenues of the city.

The challenge of incentives is to encourage development while allowing existing businesses to remain competitive and to give incentives in line with the benefit to the community. Communities throughout the country take wildly divergent approaches to the question of incentives. Some communities actively work against big box development. Others will pay millions of dollars for big box development. Still other communities focus on job creation and providing incentives to manufacturing/industrial uses only. Since resources are always limited, what is the best way to encourage development within our community?

DISCUSSION:

Comment [LL5]: This is the primary section where the main discussion and analysis of the subject material is presented. For longer staff reports, break down this section into subheadings that the reader can easily understand the material presented.

The discussion on incentives will include the types of incentives available, what businesses bring to the community, facts to consider with incentives and arguments against giving incentives.

I. Available Incentives

In the State of Utah, local governments have a limited palette of incentives that may be offered to potential developments. The state has a number of incentive programs that are focused on job creation. The city does not control any aspect of this process. At the local level, incentives can be lumped into four broad categories: tax rebates, infrastructure, fee waivers and loans.

A. **Tax Rebates**

Historically, the State of Utah allowed tax rebates through “Redevelopment” projects. In the past several years, traditional redevelopment projects have been replaced in the state code with a variety of projects which allow tax rebates to be offered to developers. These are now called Economic Development Areas, Urban Renewals Areas, and Community Development Areas.

All of these programs effectively do the same thing. They allow property tax increment to be shifted back to the development area to encourage development. In some cases, sales tax revenues can also be used to the benefit of the developer.

Increment is defined as the difference between the property tax generated on the property after development and the tax generated before the development. Increment can include taxes to other government agencies (e.g. the school district,) if they agree to the plan.

Tax rebate plans or areas are expensive to create and incur ongoing costs to the city associated with the plan. To establish such an area will initially cost $20,000 - $40,000. Ongoing costs will impact the city as well. Reports must be filed at the County and State level. Separate budgeting and auditing occur on the plan area.

Springville currently has one existing Redevelopment Area (RDA) and one existing Community Development Area (CDA.) The RDA comprises 100 acres west of I-15 between exit 260 and 261. The CDA is located on both sides of 1750 West between 400 South and Center Street.

In both of these cases, the City Council currently has the authority to authorize tax rebates to potential development. There is a plan in place in both cases, but there is no existing policy on how to award incentives in these existing areas.

As the Commission considers recommendations on these incentives the cost to set-up and administer the program must be considered. If the development generates $10,000 in annual tax revenues, does it make sense to spend $30,000 up front and an additional $5,000 per year in administrative costs to incentivize this type of development?

B. **Infrastructure**

The City has full control over its own capital improvement programs. Each year, the City spends millions of dollars on roads, water pipes and power lines. Generally, the City more spends more operational dollars on maintenance and replacement than on new construction. The city does spend significant dollars on expanding utilities due to new growth. Most of these dollars come from impact fees charged to new development.

This becomes a critical point to consider on incentives. The City can choose how to spend rate revenue and general fund dollars to install infrastructure to benefit the community and even a specific development. The city cannot do this with impact fees in the same way. Impact fees are tightly controlled by state law. The collection and expenditure of impact fees is closely monitored by state agencies and developers.

Without going through a number of lengthy examples the simplest way to approach the discussion is that the City can assist with the installation of infrastructure (streets, sidewalks, power lines, storm drain, etc.) that would normally be paid by the developer.[1] This assistance will come from operational revenues of the city (e.g. general tax revenues, water fees.) This will always come at the expense of other needed projects.

The largest incentive of the past 15 years was given to a developer on the 1750 West corridor. The City agreed to pay $1,000,000 towards the development of 1750 West. The developer did not have to pay for this cost that would normally have been carried by the developer. The developer used this incentive in turn to reduce the amount of money it needed to receive from Wal*Mart for the 20 acres Wal*Mart purchased. The developer then made money on housing units (Camelot) and additional retail development to the north of Wal*Mart.

Spanish Fork used a combination of infrastructure, fee waivers and tax rebates to lure Costco. Lehi installed infrastructure as part of the deal to land Cabellas. This is perhaps the most commonly used form of incentive in Utah.

C. **Fee Waivers**

Retail developers often ask for fee waivers. Building and development fees can often be very costly. In a similar vein to the infrastructure discussion, impact fees cannot be waived without consequence. The impact fee fund must be made whole with dollars from a source that the Council has complete discretion over.

As with everything, there is a lot of complexity here. A recent development – the South Valley Professional Plaza built a shell building on 400 South. The building permit totaled just over $97,000 dollars. Additional permits were issued for tenant finishes. Of the $97,000, only about

[1] When a development comes to town, the developer must install all improvements necessary to serve that particular development at their cost. This includes roads and utilities. The city must pay for upsizing of the infrastructure, if necessary. The City can also pay for some infrastructure that is planned and scheduled through the impact fee process.

$12,000 dollars were charged for plan reviews and building permit fees. The remaining $85,000 was in various impact fees.

In order to “waive” the impact fees the City must spend real dollars to pay the impact fees for the developer. It is true that these are dollars going from one city pocket to another city pocket, but the use of the impact fee dollars become very restricted.

If the City were to use only the dollars it had complete control over ($12,000) for an incentive, it can be pretty negligible. The development highlighted here probably had $200,000+ in land purchase costs, $2,000,000+ in construction costs (for a shell!) and about $100,000 in City fees. A $12,000 rebate would equate to 0.52% of their costs. When was the last time you were motivated by the following sign: SALE 0.5% off!?

D. **LOANS**

Large cities in Utah and other states often offer various low interest loans to encourage development in their cities. These are rarely used for retail development. They also require a lot of city resources to manage the program. Money must be set aside to loan to businesses. Staff must create loan programs and manage them. Staff has to collect on the loans and foreclose when businesses fail.

Provo and Salt Lake City have such programs. If the Commission wants to consider this farther, we can collect additional information. In general, I don’t think that Springville has sufficient resources to start such a program at the current time.

II. <u>What Businesses Bring to Springville?</u>

Businesses come to Springville to make money. As a city, we engage in activities that we hope will cause business to locate in Springville. These include, encouraging smart development that leads to higher income residents, simplifying the development process, keeping utility fees and impact fees low and trying to maintain a small-town feel.

On the commercial/retail side, businesses come to make money. A dentist may feel that the community is underserved. A restaurant may feel that there is a lack of what he or she may provide. Businesses often locate as a result of a detailed economic analysis of the area.

A functioning city must have an appropriate mix of all types of business and residential uses. When jobs are created, a home is built soon thereafter. Once the homes are built, retail and service establishments locate in the area to serve the people in the homes. Thus, much economic development activity is focused on creating jobs.

Springville has a lot of jobs being created in the area. We are in the number 2 state in the country for job growth. With jobs being created, we have people locating in Springville. Springville is still in the top 10 cities for growth in Utah, which is still one of the fastest growing states. Nerd Wallet had Springville as the 6th fastest growing City in Utah in 2014 when looking at population growth, job growth and income growth. Provo was 2nd, Lehi 7th and Spanish Fork 9th. These factors should all be accounted for in any policy recommendation.

Businesses looking to make money come to Springville regularly. Most of these businesses locate here without incentives. In a broad generalization, houses cost the City money, industry just about breaks even and retail stores are 'profitable' for the city. This is on the basis of tax revenues. A home will generate $200-400 in property tax for the City. This house will use more services than it generates. Of course, the industry needs workers and retail needs shoppers. Both workers and shoppers live in houses, so again, you need all of them to function. Here is a general view of what various businesses generate for the city:

Business	Property Tax	Sales Tax	Ave. Total
Small manufacturer	$1-2,000	$0	$1,500
Large Manufacturer	$10-30,000	$0	$20,000
Professional Office	$1-5,000	$0	$2,500
Bank	$1-$3,000	$0	$2,000
Convenience Store	$.5-$2,000	$5-15,000	$8,000
Fast Food/Pizza	$.5-$2,000	$5-15,000	$8,000
Sit down restaurant	$1-3,000	$7-15,000	$13,000
Main Street Retailer	$1-5,000	$5-20,000	$25,000
Mid–size Box (none)	$2-10,000	$30-50,000	$46,000
Grocery Store	$5-$15,000	$100-150,000	$130,000
Big Box (non-Wal*Mart -none)	$10-30,000	$150-250,000	$215,000

III. Facts to Consider

As you consider incentives here are a variety of facts to weigh in coming up with an incentive policy:

- Springville City's portion of property tax is roughly 20% of total property taxes. If the city can convince all property tax entities to allow their property taxes to be used in increment for CDA or EDA, the city could generate revenues to incentivize development at about five times the amounts shown in the table above.
- 100 feet of collector road costs $30,000-$50,000 depending upon the width of the road. This is the road ONLY. Underground utilities cost another $100 - $300 per FOOT per PIPE. Pipes could include water, sewer, storm drain, secondary water and power.
- Springville City's sales tax has been growing at about twice the state average. The reason for this is a combination of new business and above average population growth. Both are factors in the state formula for distribution of sales tax.

- Businesses pay more than homes in property tax. Homes get a 35% REDUCTION in their property tax valuation.
- As stated above, retail businesses provide more tax revenue to the City than they cost. However, there are costs of service. For example, public safety responds to Wal*Mart more than 200 times per year. Additional roads result in more plowing costs and maintenance costs. While no formal policy was set, previous councils have always looked to receive substantially more in taxes than they are giving away in incentives. Generally, Councils have discussed netting at least 50% of the tax revenues to the benefit of the city.

IV. <u>What are the arguments against incentives?</u>

The subject of government incentives has received more and more scrutiny in recent years. As government budgets tightened, questions were asked about the value of some programs to give money to business as opposed to education or transportation. In many cases, the value of the incentives to the government was never explored.

The *New York Times* reported:

For local governments, incentives have become the cost of doing business with almost every business. The Times found that the awards go to companies big and small, those gushing in profits and those sinking in losses, American companies and foreign companies, and every industry imaginable.

Workers are a vital ingredient in any business, yet companies and government officials increasingly view the creation of jobs as an expense that should be subsidized by taxpayers, private consultants and local officials said.

Even big retailers and hotels, whose business depends on being in specific locations, bargain for incentives as if they can move anywhere.

. . .

[T]he giveaways are adding up to a gigantic bill for taxpayers.

A Times investigation has examined and tallied thousands of local incentives granted nationwide and has found that states, counties and cities are giving up more than $80 billion each year to companies. The beneficiaries come from virtually every corner of the corporate world, encompassing oil and coal conglomerates, technology and entertainment companies, banks and big-box retail chains.

The cost of the awards is certainly far higher. A full accounting, The Times discovered, is not possible because the incentives are granted by thousands of government agencies and officials, and many do not know the value of all their awards. Nor do they know if the money was worth it because they rarely track how many jobs are created. Even where officials do track incentives, they acknowledge that it is impossible to know whether the jobs would have been created without the aid.

"How can you even talk about rationalizing what you're doing when you don't even know what you're doing?" said Timothy J. Bartik, a senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich.

http://www.nytimes.com/2012/12/02/us/how-local-taxpayers-bankroll-corporations.html?pagewanted=all

Even the United States Government has begun to ask questions about incentives. The Federal Reserve issued a report exploring incentives:

The use of refined approaches and better data sets has improved researchers' ability to evaluate the effectiveness of specific incentive programs. But fundamental concerns remain, and some researchers have begun to write off economic development incentives as ineffective or inefficient for a host of reasons. Several arguments underlie their conclusions:

- The magnitude of any economic development incentive is generally too small to have a more-than marginal influence on the behavior of the typical new, relocating, or expanding firm. As a result, public resources flow to firms that do not produce any economic benefits for the area.
- Incentives are distortionary, that is, they misallocate private resources by leading firms to move to or expand in suboptimal places.
- Incentives crowd out government spending on public goods.
- The provision of incentives is a zero-sum game: gains in any one location will be offset by losses in other locations.

http://www.federalreserve.gov/pubs/Bulletin/2008/articles/econdevelopment/default.htm

For local governments, the most powerful reason not to offer significant incentives to outside developers may be its own businesses. Any marketing student knows that current customers are the best and least costly opportunity for growth and profits. Should Springville offer incentives to Lowe's or Home Depot to compete against Sunroc? What benefit does Springville see in this scenario? Often, the City is simply paying to trade tax dollars from one business to the next.

Spanish Fork paid millions of dollars to Costco. Costco obviously impacted ShopKo and K-Mart. In a surprise to City leaders, Costco also significantly impacted local *convenience* stores. As consumers bought cheap Costco gasoline, they weren't buying soda and cookies from convenience stores.

The chart below shows some key economic figures between Springville and Spanish Fork over the last two years:

City	Sales 2012	Sales 2013	Sales[2] 2014	% Inc 13-14	% Inc 12-14	Per Capita 2014
Springville	$3.655M	$4.186M	$4.562M	8.81%	24.8%	$12.18
Spanish Fork	$4.043M	$4.983M	$5.281M	6.20%	30.6%	$11.90
SF(After Incent)[3]	$4.043M	$4.134M	$4.562M	10.0%[4]	12.8%	$10.29

To highlight some key figures, after incentives, Spanish Fork and Springville will have virtually identical sales tax revenues in calendar 2014. Spanish Fork is 20% larger than Springville in population.

PROCESS:

The Commission should discuss the merits of incentives and give direction to staff for the creation of draft policies and an explanatory chapter in the Economic Development Plan.

Troy Fitzgerald

Troy K. Fitzgerald
City Administrator

Attachments

cc:

Comment [LL6]: Don't forget to copy those affected by the action. As an example, if a resident raised the issue that is being responded to, they should receive a copy.

Also, don't forget to change the date in the footer, to the meeting date, on both the first and second page of your memo. The second page change updates following pages automatically.

[2] December Sales Estimated
[3] Includes Sales Tax and Utility Payments ONLY. Estimated using 90% of Wal*Mart utilities and Costco sales estimates.
[4] Most of this growth is due to part of the Spanish Fork Incentive Package expiring mid-year.