

# Economic Development Solutions for Local Government



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**NACo**

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# Introduction

In recent years, the United States has seen a very diverse economic recession that has left many county governments pressed by budget cuts and an increased demand for services. At the same time, urban decay and blight continues to be a growing problem for many aging communities. County governments are now finding themselves without the resources necessary to foster economic development. However, financial problems hit every county differently- some counties have struggled with fiscal difficulties for decades while other counties may have never seen a recession until just recently. This brief is designed to provide economic solutions for either of these circumstances. Although it may seem that versatile and successful fiscal solutions may be disappearing, there are still a number great opportunities for local governments to take advantage of. Utilizing a number of economic development options such as Tax Incremental Financing (TIF), Conduit Bonds (such as Industrial Development Bonds – or IDB's), and Business Improvement District's (BID's), local officials can implement programs that will create a strong revenue stream and a dependable business district. These types of economic development tools are not only a great opportunity for struggling communities, but they are also suitable for prosperous economies as well.



# Tool 1: Tax Incremental Financing

## What is Tax Incremental Financing (TIF)?

Tax Increment Finance (TIF) is currently being used across the country as the most popular and successful plan for economic development projects.

In 1952, officials in California used Tax Incremental Financing (TIF) for the first time when they created special business districts which had a potential return on investment. Since then, 49 states including the District of Columbia and the Virgin Islands have passed legislation for the implementation of Tax Increment Financing. A successful and popular tool for county economic development, TIF is designed to finance local investment projects ranging from infrastructure to land acquisition to other improvements in parks, schools, and libraries. Once these districts are defined and financed, the local government takes advantage of the increase in property tax revenues. In a small number of governments including California, these property tax revenues can be used at discretion for any project inside or outside of TIF district border lines. However, it is generally a best practice- and is typically even required by state law - for TIF property tax revenues to be used on projects within the TIF districts. A benefit of Tax Incremental Financing is that it can be implemented on a wide array of projects in nearly any type of municipality. It is commonly used in counties with large urban cities such as Cook County and Los Angeles County, but can also be successfully implemented counties with small villages such as Androscoggin County in Maine. Regardless of population size, TIF districts can be as small as a few acres or as large as many square miles.

## How does Tax Increment Financing work?

### Eligibility

In every state except Arizona, legislation has been created that gives structured implementation guidelines for TIF development projects. While legislation varies slightly from state to state, general guidelines are relatively straight-forward. In general, Tax Increment Finance projects must satisfy a few common requirements in order to be both legally accountable and economically promising. The guideline emphasized by most states is the presence of blight within a proposed district. The area defined as a TIF district must be experiencing some degree of urban decay, and the TIF project must be aimed toward eliminating this blight. In most states, TIF legislation defines blight and the degree it must reach before a TIF district would be ideal. Typically, blight can be attributed to an area that experiences a high degree of dilapidation, faulty structures, failure to meet code, unsuitable land use, or if there is the presence of environmental waste. While states define blight using various other factors, these five aspects of blight are generally the most frequent ones noted in TIF districts.





## Best Practices - Tax Increment Finance Cook County, IL

In Cook County, IL, Tax Increment Financing has had a long and successful history. One example is the Marshfield Plaza project within the city limits of Chicago, which has recently entered its final stages of redevelopment. Up until the late 1990's, the area of Marshfield Plaza was home to a large industrial building. However, the building became vacant in the year 2000, leaving a large eye sore for the public to bear. The building and its surrounding area was becoming a deleterious aspect of the local economy, as the area became a danger zone associated with blight and dilapidation. In response, the city of Chicago and Cook County allocated TIF funds from other districts within the city to finance a TIF redevelopment project at Marshfield Plaza. After \$26.6 million in TIF funds were directed towards the project, the image of the area transformed from a struggling economy into a prosperous neighborhood. The project provided 1,200 construction jobs during the redevelopment phase. Once construction was completed in March, 2012, the 454,000 square foot complex boasted over 700 permanent jobs. Aside from the growth of positive employment statistics, the new area will also increase tax revenue. Prior to the formation of this TIF district, the county gathered virtually no revenue from the vacant lot. Today, Marshfield Plaza provides the county with a dependable tax base constructed around permanent jobs and affordable retail.

### Implementation

The first major step in creating a Tax Increment Finance project is to identify and establish the geographic boundaries of the development district. TIF districts can and have been easily implemented in both large cities and small villages.

The second step in TIF implementation is to perform an accurate assessment of land property values within the TIF boundaries. The county should then do a thorough examination of the current tax revenue that the district produces, which will identify goals for the new tax base in the post-TIF environment. Careful consideration of tax rates should be taken during this period as the defined tax rate and property value dynamic will set the stage for the success or failure of the TIF district.

The next phase of the TIF process involves raising finances for the redevelopment of the district. During this stage, the County must engage the community to invest in the district. This step requires issuing redevelopment bonds to the local constituency for investment. Since the life of TIF districts can be anywhere from one to four decades, bonds will be issued respective to the longevity of the district. In addition to issuing bonds, the County must create partnerships with private and public stakeholders. Private stakeholders will see the TIF district as a profitable revenue stream, while public entities such as school districts and transportation authorities will see the redevelopment project as a great way to increase the quality and breadth of services available to the public. The most successful method of achieving public and private partnerships is to market TIF as an easily understood and transparent tool that creates a profitable living community.

# Tool 2: Conduit Bonds

## What are conduit bonds?

Conduit bonds are a type of municipal investment sold by the local government. Under this type of arrangement, revenue from the bond is directed towards a private entity that will use the money to finance a project that benefits the community in some way. This type of bond can be beneficial to government agencies as it allows them to increase the breadth and quality of services provided to residents without the liability, red tape, and complications involved with the construction of new government-funded projects. Conduit bond projects can range anywhere from the construction of a small, single-use project to the large-scale expansion of a hospital, school, or commercial zone. In recent years, the use of conduit bonds for airport and retail expansion has become a very popular option.

## Benefits of Conduit Bonds

The decision to issue a conduit bond can include many different factors that benefit all parties involved in the process.

### Tax Exemption

When a government agency issues a conduit bond, they may have the option of declaring the bond to be tax-exempt. Since tax-exempt conduit bonds can help investors save money on their tax returns, the arrangement can be very beneficial and attractive for the government, private businesses, and for the bond-buying investors. However, tax exempt bonds can be controversial as the exemption may end up benefiting private interests much more than public interests.

### Default Liability

In light of recent economic problems, the risk of default on certain types of bonds is becoming a growing concern. While the default rates of conduit bonds are typically low, the rules and regulations associated with conduit bond default generally benefit the governmental issuer. Typically, the government is not responsible in the event of a default. However, in cases where the government is responsible for the default risk, the government may have to raise taxes or cut funding in order to prevent bond default for unsuccessful projects.



**Your Responsibilities**  
as a **Conduit Issuer** of  
**Tax-Exempt Bonds**

Publication 5005 (4-2012) Catalog Number 59471F Department of the Treasury Internal Revenue Service [www.irs.gov](http://www.irs.gov)

For more information on tax-exempt  
bond status, please visit:

[www.irs.gov/pub/irs-pdf/p5005.pdf](http://www.irs.gov/pub/irs-pdf/p5005.pdf)

# Industrial Development Bonds (IDB)

## What is an Industrial Development Bond?

An industrial development bond (IDB) is a type of conduit bond that can be tax-exempt and is designed to entice a private entity to expand or construct a facility. These types of bonds are extremely advantageous for local economies as they create jobs and increase manufacturing rates. At the same time, businesses find them to be appealing as they provide the company with a low-interest financing option for purchasing land, building a facility, and creating more products. Industrial Development Bonds are regulated by some federal laws, but state laws regarding

the financing option may vary across the country. In general, the following rules apply:

- If land will be purchased with IDB revenue, the company may only use up to 25% of bond proceeds for land acquisition.
- The borrower generally must be a manufacturing company using the bond revenue to construct a manufacturing facility.
- 95% or more of the bond revenue must be used for qualifying costs (construction, property acquisition, etc)
- Bond maturity generally cannot exceed 120% in comparison to the economic length of the financed revenue
- In most states, IDB's can only be issued up to \$10 million. The capital expenditures on behalf of the company cannot exceed \$20 million under most circumstances.

## Best Practices - Conduit Bonds

### General Technology Corp, Bernalillo County, NM

In the late 1990's, the General Technology Corporation sought to expand its manufacturing capabilities. However, mortgage rates at the time were simply too high for expansion to be a viable option for a small manufacturing business. At the same time, Bernalillo County, NM began to encourage the use of Industrial Development Bonds to entice companies such as the General Technology Corporation to expand in the area. In 1998, the manufacturer secured a \$4.1 million tax-exempt bond with the local government that allowed them to build a 71,000 square foot manufacturing facility on seven acres of purchased land. To protect the bond investors, the General Technology Corporation received a letter of credit from Bank of America. Additionally, bond investors benefited from the tax-exempt status of the bond, which allowed their return on investment to be kept entirely. Within the first two years, the General Technology Corporation created thirty new permanent jobs, increasing their workforce by twenty-five percent. Aside from making the company more efficient, these jobs were extremely beneficial to the community and local economy. Typically, creating jobs comes at a high expense for a company. However, with the use of Industrial Development Bonds, the General Technology Corporation was able to pay a mere 3.3 percent interest rate on their new facility, giving both the company and the community a wide array of labor and fiscal advantages.



- Most importantly, any project financed by Industrial Development Bonds must benefit the public by providing secure and reliable jobs.
- In California and other states, there are strict credit requirements. Generally, the company receiving bond funds must be given a credit rating that correlates to the bond amount of at least an “A-” from Standard & Poor’s or an “A3” from Moody’s Investors Service. Some states such as Arkansas, Ohio, and Maine have created their own credit enhancement programs for IDB’s.

## How do Industrial Development Bonds work?

Industrial Development Bonds are a type of financing that encourages companies to expand or relocate their business, with the goal of increasing industrial revenue and reducing unemployment. IDB’s are essentially a loan to a company to be used for the construction of a facility. Generally, the local government will issue an IDB bond, but does not actually make the loan. The company is responsible for determining who will purchase the bond, and the group which buys the bond makes the actual loan. In states that have legislation regarding IDB’s, the local government owns the title to the IDB project or facility for

up to 20 years. During this time, the government will lease the property to the company, creating a beneficial scenario where the property is mostly tax-exempt. At the end of the 20-year lease period, the company will have paid back the bond and will assume possession of the title to the property.

Industrial Development Bonds can be an extremely valuable asset in the county toolbox for economic development. This type of financing has been widely successful, as it creates jobs and stimulates the economy throughout every stage of its implementation. In a time when many manufacturing companies are beginning to move to Mexico, China, or South America, Industrial Development Bonds provide corporations with a big incentive to stay in the United States. Recent history shows the harrowing effects that the relocation of a manufacturer to a foreign country can have on a local economy. In the 1950’s, Mahoning County, OH was one of the most prosperous in the country. However, with the loss of the steel industry, the economy was decimated, leading to high unemployment rates, state intervention, and widespread foreclosure. Today, counties like Mahoning are using conduit bond financing to both recover from their losses and to prevent future complications.

# Tool 3: Business Improvement Districts (BID's)

While there are many tools that local government can implement to encourage economic development, the best plans are ones that require cooperation among property and business owners. One such type of economic development tool is a Business Improvement District, or BID. Designed to control tough economic crises, this type of arrangement has played a vital role in the economic survival of many neighborhoods. Originating in the 1960's Toronto economic playbook, Business Improvement Districts are now being established in many areas across the United States, Europe, and South Africa. Today, more than 1,000 business improvement districts exist in the counties across the United States, serving their respective neighborhoods as a successful and cooperative venture.



## How do Business Improvement Districts work?

The cornerstone of any business improvement district is the level of cooperation involved among the various entities. BID's require - and are most successful - when there is a high level of cooperation and financing from private entities, local government, and property owners. These three actors work together under a shared management system to create a more welcoming and livable community within their respective neighborhood. Business improvement districts are often started by local businesses but can also be initially launched by the government. Regardless of origin, successful business improvement districts have at least one member on their boards of directors who is affiliated with the local government leadership in some way.

In a business improvement district, properties are assessed through an initial valuation. Using this information, the BID development team will, when approved to do so, issue a recurring fee (which in this circumstance is essentially a tax), that will pay for the budget of the BID. Business improvement districts use this money to provide a more appealing environment for business development within the neighborhood. Many BID's focus on security, bringing in closed-circuit television, security guards, and ample lighting for safe night-time activities. Another big aspect of any BID budget is marketing. The BID management team will market the neighborhood through mixed media and numerous activities. Many business improvement districts partner with businesses to put on free events such as festivals, movie screenings, and workshops within the district. Other improvements that BID's make in a neighborhood include street-scaping, supplementary bus systems, business incentive packages, and building maintenance. Many

of these improvements can be acquired through grants, making BID's a very versatile development tool. The ultimate goal of these improvements in a BID is to give an incentive for other businesses to "open up shop" within the district. Business improvement districts are designed to increase local business productivity and vitality while creating a safe environment for consumers.

## Advantages of Business Improvement Districts

Business improvement districts have proven to be a life-saving measure for many areas that were once filled with blight and economic downturn. While no economic development project can be completely perfect, business improvement districts have a number of advantages that make them a strong and promising mechanism for economic prosperity.

One benefit of business improvement districts is their adaptability. While BID's are popular in major urban areas, they can be implemented in rural areas as well. Any area with some degree of a business district, such as a village main street, can establish a business improvement district. However, BID's are most successful in areas where there is a high degree of business. If there are more businesses in the neighborhood, that means that the BID will have a greater

budget, and therefore the development team will be able to pay for more improvements. Aside from business districts, BID's are versatile enough to be implemented in industrial areas as well, where foot traffic consumerism is not a concern. In these districts, assessment revenues pay for improvements that give an incentive for industrial development. These business improvement districts usually focus on security, infrastructure, parking, and landscaping.

The biggest and most important benefit of a business improvement district is the positive development of the local economy. Before a neighborhood is declared an official BID, the area might be too dangerous or too run-down for consumers to frequent. Although there may be a few business owners who try as hard as they can to entice customers into the area, the neighborhood itself may lack adequate street lighting, policing, and signage. Additionally, consumers may stay away from the area because of dirty sidewalks plagued with crime and homelessness. A BID seeks to not only remove these examples of blight, but to improve the neighborhood beyond what would be the standard solution to the problem. A district that creates a safe night time environment will entice many late-night restaurants, bars, and theatres to locate their businesses in the neighborhood. These businesses will not only create a large number of both construction and service jobs in the area, but they will also increase property values, thus providing a strong property tax base for the local government.



*Downtown Blowing Rock, NC. Photo by: Todd Bush Photography, [www.bushphoto.com](http://www.bushphoto.com).*



While business improvement districts may greatly increase local revenue, it is important to note that economic development from BID's come at a low risk for the individual business owner. Under a BID system, local businesses establish a cost-sharing formula that diffuses the investment responsibility among the entire neighborhood. Because of the diffusion of investment responsibility, each business that pays into the system will not lose as much as they would have through an individual investment on property improvement if the BID were to fail. For example, a business owner in an economically depressed neighborhood might consider investing their own money into outdoor

lighting, security, and maintenance of the area around their store in an effort to increase consumer traffic. However, this investment would be very costly for the business owner and may not increase profits. Under a BID system, all the business owners in the neighborhood essentially split the cost of outdoor lighting, security, and maintenance for the entire district. This way, each business owner pays much less than they would have on their own and get a district-wide improvement. The benefit of this program is that each business works together through a minimal, combined investment to see a large, public profit.

## Best Practices - BID's

### Hackettstown BID, Warren County, NJ

While the advent of business improvement district has secured a great deal of benefits for metropolitan areas, it is important to note that their versatility allows for their concept to be applied to even the smallest of villages, such as Hackettstown, NJ. For a town with a population of under 10,000 people, the Hackettstown BID has not only maximized on economic potential, but it has also created a welcoming and enjoyable living community. While this BID was not designed to overcome issues such as crime and filth, it has created and sustained a restoration of "main street", bringing residents into the district to shop, live, eat, and relax. Prior to the creation of the Hackettstown BID, the town lived in the shadow of nearby manufacturing plants, thus, it had an undervalued local business community and virtually no expression of culture on main street. However, with the introduction of the business improvement district, Hackettstown became a sought-after village associated with festivals, family-owned businesses, free events, and a promising future. Improvements created by the BID have made Hackettstown and Warren County a nationally-known place to live. In 2005, the village was ranked among the top 100 places to live in the United States. These types of rankings may drive up property values, creating a higher tax revenue stream for the county while also attracting more people to the area. Additionally, the BID has highlighted the success of the local Centenary College through a public lecture series, bringing academics from across the country together. One successful tool this BID has implemented is their popular "BID Bucks" program. This program is essentially a gift certificate program that gives residents an incentive to shop within the district. Overall, the Hackettstown BID has been a great success, and will continue to deliver results for the county.



# Conclusion & Summary

After years of economic instability, county governments have been desperately searching for the “cure-all” economic development program of the century. However, while many development tools may bring great economic changes to a region, no plan is perfect for every situation. Each economic plan has its weaknesses and may not take into consideration all potential scenarios. For example, Tax Incremental Financing may be a great way to increase property tax revenues, but it does not account for unforeseen future circumstances that may negatively affect the return on investment. However, TIF is extremely beneficial in that it seeks to create a dependable and resilient economic community that provides valuable services for residents across the county. Regardless of what positive benefits any economic development plan might bring, it is important that leaders in county government evaluate every scenario of a proposed plan. This brief has described and evaluated the benefits of three popular economic development tools:

## 1) Tax Incremental Financing (TIF)

- TIF districts are established to diminish blight within an area. Public and private investments are made to improve local buildings, infrastructure, and venues. The construction and improvement of the area leads to an increase in property values, and thus an increase in property tax revenue. Over time, property tax revenue should create a return on investment.

## 2) Conduit Bonds / Industrial Development Bonds

- A municipal investment sold by the government. Revenue from bond proceeds are directed towards a private entity for the construction of a facility. Private entity pays back the bond after a set amount of time with special tax and interest incentives. Designed to entice industrial or commercial development within a region, creating both temporary and permanent jobs.

## 3) Business Improvement Districts (BID)

- A cooperative development project among property owners within a business district. Property and business owners agree to pay a fee that pays for local improvements. Improvements are designed to increase the appeal and safety of the neighborhood in an attempt to increase business vitality. This project can be started and spearheaded by government officials.



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