



CITY OF WASHINGTON, ILLINOIS

Committee of the Whole Agenda Communication

Meeting Date: April 11, 2022

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Agenda Item: Final Draft TIF Guidelines/Scoring Matrix

Explanation: There has been prior discussions on the revision of the TIF guidelines and the establishment of a scoring matrix to be used to quantify the utilization of TIF (or other) funds towards incentivizing private redevelopment projects. Attached is final draft of the TIF guidelines and scoring matrix. As previously indicated, the goal of revising the guidelines and using a scoring model is to articulate the prioritized building uses, renovations, and their impact on the city and to eliminate as much subjectivity as possible in the deployment of City funds.

Fiscal Impact: The goal of both the scoring model and a revision to the TIF guidelines is to strategically allocate TIF resources to those desired projects while also making the process as explainable to all parties as possible. This would ideally make for a smooth process in utilizing any funds over the next 11+ years of the Square TIF district. The following guidelines are recommended as discussed at multiple prior meetings:

- Establish a maximum TIF contribution of \$50,000 for non-Major Catalyst projects depending on how well the project scores within the model. Projects that score in the top category would be eligible to receive a 40% subsidy for eligible exterior costs and a 20% subsidy for eligible interior costs.
- Institute a separate category that is exclusive to those larger, catalytic redevelopment projects that may have a greater impact on the Square and could warrant a more substantial TIF project contribution. A minimum private investment of \$500,000 must be made in order to qualify within the Major Catalyst category.
- Typically have a minimum of two payments based on the building's occupancy. Payments should be front-loaded with as much as 75% paid within 60 days of the project completion to provide some immediate financial reimbursement but to offer some protection to the TIF Fund should the building be vacant within a year of the finish of the redevelopment and/or its occupancy. The actual number of payments and subsidy percentage for each can be memorialized within the redevelopment agreement based on each specific project.
- Only require the application of prevailing wage on a case-by-case basis by the City Council. This can add around 30% to the cost and negate any TIF assistance.
- Place a maximum TIF contribution of \$50,000 over a five-year period for a single building or property in order to allow for the funds to be spread on a more equitable basis and to not have multiple conflicting projects. This would not apply for those that would not be within the Major Catalyst category and the Council would have more discretion in applying incentives towards private redevelopment projects that may have a more significant impact.

The matrix would establish a sliding scale TIF assistance cap of 40% for eligible exterior improvements and 20% for qualified interior modifications. The point total would establish a recommended not-to-exceed TIF contribution. The scoring model does not have to solely be limited to the use of TIF funds and can be deployed should general funds be considered for financial assistance.

CivicServ is creating a digital TIF application as part of its scope of services. Along with the guidelines, it will be placed on a portal that will be linked to the City website. The applicant would provide two estimates for each the eligible improvements are part of the proposed project as well as a summary of each.

Action Requested: Final Council feedback prior to the adoption of the guidelines and scoring matrix. If there are no major suggested changes, staff would like to schedule its approval as a resolution at the April 18 Council meeting.

Tax Increment Financing Redevelopment Incentive Program Guidelines

Adopted [Month Day], 2022

BACKGROUND AND CONCEPT

Tax increment financing ("TIF") is a method for financing economic development and redevelopment in Illinois municipalities. The primary purpose of TIF is to eliminate economic and physical decline by designating certain redevelopment districts.

When a TIF district is established, the most recent total equalized assessed valuation ("EAV") for the district is determined. This is known as the "base EAV." As the TIF district is developed, its total EAV will grow. That portion attributable to the increase in EAV, known as the "tax increment," is placed in a special fund (a "TIF Fund") and is spent for redevelopment purposes as outlined in the TIF district's respective redevelopment plan, as adopted by the municipality's corporate authorities.

The success of a TIF district is dependent upon increasing the EAV over the base EAV through redevelopment. Establishing a TIF district does not decrease tax revenues collected by any taxing district; nor does TIF impose special assessments or raise the overall tax rate in the district. Taxes collected on the base EAV continue to be distributed to the municipalities, schools, libraries, and other authorities in the same manner as prior to the establishment of the TIF district. Only taxes generated above the base EAV are available for TIF projects.

Overall, the purpose of a TIF district is to provide a funding mechanism to assist with business redevelopment projects and public infrastructure improvements, which help the municipality as a whole.

LOCAL OBJECTIVES

In 1986, the City of Washington (the "City"), acting pursuant to the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1 *et seq.*, as amended from time to time (the "TIF Act"), established and adopted the Downtown Square Redevelopment Plan and Project (the "Plan") for the Downtown Square Redevelopment Project Area (the "Area") and established tax increment allocation financing for the Area pursuant to Ordinance Nos. 1511-1514 (the "Downtown Square TIF"). The Downtown Square TIF is set to expire on December 21, 2033. The Downtown Square TIF is generally located around the City's downtown square, as set forth in its newly established boundaries. Some of the goals and objectives as specified in the Plan, as amended, are summarized as follows:

1. An improved quality of life in the Area and the City.
2. An environment within the Area that will contribute more positively to the health, safety and general welfare of the City and preserve or enhance the value of properties in and adjacent to the Area.
3. An increased sales tax base for the City and an increased property tax base for other local governments having jurisdiction overlapping the Area.
4. A strengthened economy of the City and the larger community.
5. An improved physical condition of the Area and the City.
6. Arrest the spread of blighting factors and to preserve and enhance the value of properties adjacent to the Area as well as the value of existing and proposed development within the Area.
7. Encourage a high-quality appearance of buildings, rights-of-way, and open spaces and further encourage high standards of design.
8. Strengthen the economic well-being of the Area and the City by increasing business activity, the tax base, and job opportunities.

TYPES OF ASSISTANCE

TIF assistance is often in the form of a grant or subsidy, typically paid in multiple reimbursements of at least 10 percent of the TIF-eligible expenses. Other project components can increase the share of the TIF-eligible expenses. Assistance may also be given in the form of a loan, interest write-down or reimbursement, or tax sharing.

TIF ELIGIBLE EXPENSES

TIF assistance requests must be for eligible expenses:

- Funding is provided solely for eligible expenses, as set forth in the TIF Act, incurred after approval of a private redevelopment agreement by the City Council.
- Eligible expenses for development projects can include relocation, demolition, site preparation, property assembly, and reconstruction.
- Eligible expenses for redevelopment projects can include rehabilitation and restoration.

Examples of ELIGIBLE expenses:

- Structural renovations
- Americans with Disabilities Act upgrades
- Major heating, ventilation, and air conditioning ("HVAC"), plumbing, and electrical improvements
- Historic preservation/period façade improvements
- Door and window replacements
- Awning replacements
- Major flooring improvements
- Interior painting and finishing if it is part of new drywall or brick installation

Examples of INELIGIBLE expenses:

- Routine maintenance
- Minor repairs
- Minor HVAC, plumbing, and electrical improvements
- Limited remodeling
- Dividing walls and doorways
- Business supplies and equipment
- Signage
- Fixtures and furnishings
- Interior painting and finishing if it is not part of drywall or brick installation

The eligible expenses listed above can directly influence the property's EAV, which creates TIF funding for other projects, and makes the buildings more inviting to visitors to the Area. The ineligible expenses are considered general property upkeep or business components that typically do not affect the EAV.

OTHER TIF GUIDELINES

The City has established the following additional guidelines when considering TIF assistance requests:

- Adequate funds must be available in the Area's TIF Fund.
- All projects must be consistent with the goals and objectives set forth in the Plan.
- The applicant/developer must pay all applicable real estate taxes and other taxes, as applicable.
- The estimated eligible project expenses must total at least \$5,000.
- Reimbursements will generally be given over a period of two (2) years or more as set forth in the redevelopment agreement.
- The applicant/developer must be an equal opportunity employer and contractor.
- The applicant/developer may be required to pay prevailing wage as part of a redevelopment agreement.
- Applicants/developers must submit at least two quotes for all TIF-eligible project components.
- The City's TIF scoring matrix, a copy of which is attached hereto as Exhibit A, is used to provide objective criteria for City staff and the City Council to estimate the impact of TIF project and provide a recommended not-to-exceed TIF contribution.

- A redevelopment project where the developer's investment exceeds \$500,000 is a "Major Catalyst Project." For a non-Major Catalyst Project for any individual building or property, the maximum TIF contribution is \$50,000 within a five-year period.

PROCEDURE FOR APPLYING FOR TIF ASSISTANCE

1. Submit a completed application with all necessary attachments and documentation to the City's Planning and Development Department.
2. The applicant/developer's request will be considered at a subsequent Finance and Personnel Committee (the "Committee") meeting, which typically meets the third Monday of every month at 5:00 pm at Five Points Washington. The applicant/developer's attendance is encouraged and more than one meeting may be necessary, as determined by the Committee.
3. The Committee will review the proposal by applying the above guidelines and Plan. The Committee will vote whether to recommend to the City Council a specific level of TIF assistance.
4. The City Attorney will prepare a draft redevelopment agreement for the applicant/developer's review and approval. Additional information or documentation may be necessary for the agreement.
5. Once the agreement is finalized, City staff will prepare an ordinance for adoption, which requires two readings by the City Council for approval, unless the second meeting is waived by the City Council. The City Council typically meets the first and third Monday of every month. The applicant/developer's attendance at the City Council meetings is encouraged.

IMPORTANT NOTE

These guidelines are solely intended to provide a summary of the City's administration of the Downtown Square TIF. The guidelines are not binding on the City and the City enjoys discretion in the administration of the TIF, as permitted by the TIF Act and the Plan. The implementation of these guidelines may vary from time to time. Any questions regarding the guidelines shall be directed to Jon Oliphant, Planning & Development Director at (309) 444-1135 or via email correspondence at joliphant@ci.washington.il.us.

This Guideline System will be used by City employees in drafting a development agreement for a specific project. It will also allow citizens, property owners, and developers to look at the decision-making process transparently.

The City's TIF scoring matrix is used to provide objective criteria for City staff and the City Council to estimate the impact of the TIF project and provide a recommended not-to-exceed TIF contribution.

Following outlines the categories for which a project is scored:

Eligibility

Is the developer contributing at least 60% of the required capital to complete the project?

Would this project continue without TIF assistance?

Is the applicant in good standing with the City/State/IRS?

Is there a commitment to occupy for at least two years?

Fiscal Impact – Category is 35% of the Overall Score

How much new or additional annual sales tax revenue could be collected as a result of this project? Please submit a business plan showing projected revenue and/or reports from other owned or operated establishments - (50% of Category)

- Answer Option (<\$5k) - Scoring Weight: 0%
- Answer Option (\$5k - \$20k) - Scoring Weight: 25%
- Answer Option (\$21k - \$50k) - Scoring Weight: 50%
- Answer Option (\$50k+) - Scoring Weight: 100%

Total investment % pledged from the developer's private funding sources - (33.33% of Category)

- Answer Option (65%) - Scoring Weight: 100%
- Answer Option (51% - 65%) - Scoring Weight: 50%
- Answer Option (<50%) - Scoring Weight: 0%

Total investment dollars invested by the developer - (16.67% of Category)

- Answer Option (\$100k +) - Scoring Weight: 100%
- Answer Option (\$50k - \$99k) - Scoring Weight: 70%
- Answer Option (\$25k - \$50k) - Scoring Weight: 40%
- Answer Option (<\$25k) - Scoring Weight: 10%

Total investment dollars invested by the developer - Major Catalyst Projects

- Answer Option (\$1M+) - Scoring Weight: 100%
- Answer Option (\$751k - \$999k) - Scoring Weight: 60%
- Answer Option (\$500k - \$750k) - Scoring Weight: 20%

Economic Impact – Category is **35%** of the Overall Score

Exterior Improvements: - (33.33% of Category)

- New/Restored Façade or Structural Improvements - Scoring Weight: 100%
- ADA Accessibility - Scoring Weight: 50%
- Awnings or Signage - Scoring Weight: 20%
- Windows/Doors - Scoring Weight: 20%
- Roof Replacement - Scoring Weight: 15%
- Painting - Scoring Weight: 10%

How many new jobs will be created as a result of the investment? - (26.67% of Category)

- 0 - 1 FTE - Scoring Weight: 0%
- 2 - 3 FTE - Scoring Weight: 25%
- 4 - 5 FTE - Scoring Weight: 50%
- 6+ FTE - Scoring Weight: 100%

Interior Improvements: - (20% of Category)

- Plumbing/Electrical/HVAC - Scoring Weight: 100%
- Floor Plan Restoration & Buildout - Scoring Weight: 100%
- Flooring - Scoring Weight: 10%

How many existing competitors are there to this business within the city limits? - (13.33% of Category)

- No Competitors - Scoring Weight: 100%
- 1-3 Competitors - Scoring Weight: 50%
- 4+ Competitors - Scoring Weight: 0%

Is the applicant subject to the payment of property tax? - (6.67% of Category)

- Yes - Scoring Weight: 100%
- No - Scoring Weight: 0%

Risk Safety Scoring – Category is **20%** of the overall score

What is the anticipated return on investment of the proposed TIF subsidy amount compared to the projected annual property tax increment and sales tax generation? - (100% of Category)

- Answer Option (0 - 3 years) - Scoring Weight: 100%
- Answer Option (4 - 5 years) - Scoring Weight: 50%
- Answer Option (6 - 7 years) - Scoring Weight: 35%
- Answer Option (8 - 9 years) - Scoring Weight: 20%
- Answer Option (10+ years) - Scoring Weight: 0%

Social Impact – Category is **10%** of the overall score

Will this proposed project offer more retail or restaurant opportunities on nights and weekends? - (66.67% of Category)

- Answer Option (Yes or N/A) – Scoring Weight: 100%
- Answer Option (No) – Scoring Weight: 0%

Is this business locally owned or operated by someone within the 61571 zip code? - (33.33% of Category)

- Answer Option (Yes) - Scoring Weight: 100%
- Answer Option (No) - Scoring Weight: 0%

These scores are weighted within each section, and then each section is weighted against the total score. Some questions are able to add additional weighted scoring from being able to address multiple options or factors.