Economic Incentive Program White Paper

Prepared for:
City of Fargo

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Prepared by:

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Executive Summary

TischlerBise has taken a multifaceted approach to examine Fargo's current economic development incentives and provide policy recommendations for the City to continue supporting local business development while also preserving public dollars. The white paper includes a survey of academic research regarding local development incentives, survey of comparable cities, case studies of successful and failed programs, and our industry leading experience in development impact analysis and municipal finance.

Currently, the City offers a comprehensive portfolio of development incentives. There have been years of success encouraging suburban growth with the special assessment districts and a complete transformation of downtown that was facilitated largely by the City's Renaissance Zone, PILOT programs, and other TIFs and incentives. Specifically, in the Renaissance Zone, over the past 20 years the total assessed value has gone up by $349 million, more than twice as fast as inflation and faster than the appreciation of the city's housing market. However, there are still nearly 30 sites that have been identified in the Renaissance Zone that could be potential candidates for redevelopment and, conservatively, would add another million square feet of new development.

Academic research and case studies provide a number of different possibilities; however, every city's culture and values are different and development incentives need to match. For example, in Paducah, KY there is a long history of cultural heritage, trade, and artists. To encourage the purchase and renovation of decaying homes in a blighted area, Paducah established an incentive program encouraging artists to move to Paducah and create live/work studios. There was natural synergy between the existing residents, the history of the town, and the program's applicants. With that said, there are a few general keys to success highlighted in research:

- Target industries with a high job multiplier
- Target exporters of products and services
- Target certain areas of a community

Found through research, direct tax incentives tend to have a higher cost than programs that provide business services, especially to small- and medium-size businesses. There are a variety of actions a locality can undertake to encourage business and remove barriers. This includes events for entrepreneurs, business incubators, job training, and assistance in the development review process. Success will come from understanding the current needs for local businesses.

When examined from different perspectives, Fargo has been very successful strategically implementing a variety of incentive programs and has one of the most comprehensive toolkits to encourage development. Fargo's economic and planning policies have encouraged significant single family and multifamily development; rejuvenated the downtown; and have battled against blighting neighborhoods. However, there are still unmet economic and housing goals for the downtown and progress needed in other Core Neighborhoods. Additionally, TischlerBise did not find significant evidence that residential and commercial growth will continue in the future at the same pace without incentives. However, evaluation of public subsidies to private business is a prudent policy and indicative of Fargo's balance and level-headed decision making. To preserve the positive momentum of growth in Fargo while being stewards of the taxpayers' dollars TischlerBise does not recommend a total overhaul of the City's policies. Rather, TischlerBise recommends a few adjustments be made. Below is a summary, but a further explanation can be found in the body of this report.

- **Limitations to incentive packages.** Businesses tend to be shortsighted when forecasting revenues, so current incentive packages should be shortened from a maximum of 20 years to better reflect the business decision process. Also, Fargo should target industries that have a high job multiplier or will generate significant retail sales. In both cases, additional revenue will be generated to the City's budget allowing for a portion of the incentive package to be mitigated.

- **Removal of the new residential housing exemption.** Although a benefit to residents of new construction, the benefit is quite small relative to overall housing costs, so it does not appear to influence the buyer's decision, while limiting the City revenues. The exemption is available in neighboring communities, but the strength of Fargo's market will outweigh the value of the tax incentive to new home buyers.

- **Explore new parking opportunities, land banking, and waterfront development programs.** Previous parking structure projects have provided necessary space for office, commercial, and residential growth while freeing up surface parking for redevelopment. Downtown parking was reaching capacity before the covid-19 pandemic and as the downtown continues to grow its full-time residential population and commercial development the City should explore any opportunities that would bring further parking into the downtown. Land banking and waterfront development would be new to the City and require further analysis to understand its impact. However, a third-party land trust has just formed in the Fargo area and these policies can be a low-risk approach to providing affordable housing in blighted neighborhoods. Additionally, other communities have had tremendous success developing and commercializing their waterfront, providing a potential playbook for Fargo. Large capital funding is necessary, but state, federal, and private investments have a history of cooperation towards the goal of waterfront development.

Lastly, following this white paper, TischlerBise will be developing and implementing an economic impact model for the City. The model will be available to staff to understand the direct, indirect (spin-off) and induced economic impacts, such as jobs, and retail sales from proposed developments applying for development incentives. This model will provide a framework from which the City can begin to measure the economic return on its investment.

Fargo Economic Incentives

The City of Fargo has been taking advantage of several different incentive programs to encourage a wide variety of development for decades. Such programs existed nationally well before being introduced in Fargo. However, the City has been a trailblazer in the State of North Dakota. Incentive programs foster a pro-business environment and have the ability to shape a community's economic future. By many accounts, Fargo's incentive programs have assisted residents and local businesses. Nevertheless, economic incentive programs do not always end in success stories and are ripe for political controversies at the cost of public tax dollars. Furthermore, incentives may be perceived as the public subsidizing private business development, especially if the growth is thought to occur without being incentivized. With that said, it is important for communities to periodically evaluate their incentive programs to understand the effectiveness and if incentives are still necessary for economic development.

The following chapter provides a summary of incentives that the City of Fargo currently has in its toolbox. It should be noted that regional, state, or federal incentive programs are not included in this report. The chapter will also provide a deeper dive into the City's Renaissance Zone program.

Current City Incentives

Much of the following summary has been made available by the City in the recently adopted *Economic Development Incentive Polices & Guidelines Report (December 2021)* and the *Fargo Renaissance Zone Development Plan (2020)*.

Residential New Housing Exemption

This exemption promotes the construction of dwelling units thereby encouraging the volume of employment, enhancing living conditions, and increasing the tax base.

Summary of guidelines:

- This exemption allows for a two-year exemption of up to $150,000 in value on newly constructed residential dwellings, duplexes, townhomes, and condominiums,
- Exemptions are available to builders, as well as the initial owners after the builder.

Remodeling Exemption

This exemption provides an incentive to property owners to invest private capital in order to remodel and rehabilitate buildings and structures to prevent the properties from decay. It is at the discretion of the City Commission to grant this exemption to properties. The exemption encourages investment of private capital to improve properties to encourage the production of wealth, improve the volume of employment, enhance living conditions, and increase the property tax base.

Summary of guidelines:

- The five-year remodeling exemption is available to all commercial properties and residential buildings that are at least 25 years old,

- This provides for an exemption of buildings' increased values improved by means of renovation, remodeling, alteration, or additions,
- It does not apply to the replacement of one building with another.

New or Expanding Business Exemption/PILOT

The purpose of this policy is to establish the City's position relating to the use of business property tax exemptions and Payment in Lieu of Taxes (PILOT) in support of creating new primary sector jobs. The fundamental purpose is to create primary sector jobs that will expand the economy and diversify the existing economic base.

Summary of guidelines:

- A point system is be used as a guide in evaluating primary sector projects for possible incentive programs. A total of 120 points is required for recommended approval. There is a multi-point evaluation: project type, jobs created (initial year), jobs created (Year 3), hourly salaries, local competition, company safety experience rating, value of proposed building, and startup firms.

Lower Income Rental Housing PILOT

The purpose is to encourage housing developers to build housing to meet the needs of very low-income households. "Lower-Income Housing" is defined a housing for "low-income households" as defined by the U.S. Department of Housing and Urban Development, with rents not to exceed 30 percent of household income. Incentives may be for 1-20 years and for 100 percent of new buildings and substantial rehabilitation improvements.

Summary of guidelines:

- Lower income apartments are those where the developer is required to rent to lower income households at below market rent

Core Neighborhood Housing PILOT

The purpose is to encourage desirable development or redevelopment that would not otherwise occur but for the assistance. The City will consider using PILOT to assist private housing development projects to achieve affordable housing, remove blighted areas in core neighborhoods, to offset increased cost of redevelopment, and other environmental concerns. For projects without affordable housing, the maximum PILOT incentive will be a 100 percent exemption for the first five years and a 50 percent exemption for an additional five years. For projects with affordable housing, the maximum PILOT incentive will be a 100 percent exemption for a maximum of 20 years. The value of the PILOT is limited to the extraordinary costs of development.

Summary of guidelines:

- Developer must provide at least 10 percent of total capital costs as developer's equity in the project,
- Financial plans of the project will be reviewed by the City financial consultant to determine the feasibility and level of public assistance that is appropriate,

- The project must be consistent with the City's Comprehensive Plan, the Core Neighborhood Land Use Plan, and the Land Development Code.

Downtown Housing PILOT

The purpose is to encourage housing developers to build new housing downtown to create new opportunities to live downtown, bring new customers for downtown businesses, create a safer downtown with increased numbers of people downtown, and use existing infrastructure as alternative to continued apartment development on the edge of the city.

Summary of guidelines:

- Years 1-5 – 100 percent exempt on the increased value of the improvements,
- Years 6-15 – The percentage exempt will be based on a financial review and "but for" test. The amount exempt will be no more than 90 percent of the improved value,
- If market rate apartments include at least 10 percent of the housing to be what the City considers “affordable,” the City may approve up to a 100 percent exemption based on a financial review and “but for” test for up to 20 years.

Tax Increment Financing (TIF)

The intent is to encourage desirable development or redevelopment of brownfield sites, slum areas, or a blighted area that would not otherwise occur but for the assistance provided through TIF. This may be provided in one of three ways: a tax exemption, the issuance of a promissory note to the project applicant, the issuance of bonds to be paid by the City from tax increment proceeds.

Summary of guidelines:

- The City has established multiple objectives that should be met to qualify for TIF. Since there are different types of developments, the objectives for each of the development types are different. The four types of anticipated projects include:
    - Housing,
    - Commercial or industrial,
    - Downtown,
    - Mixed use (commercial and housing in same development).

Renaissance Zone Incentives

The Renaissance Zone Program encourages private investment to rehabilitate or redevelop Downtown Fargo through the use of property tax, state income tax, and historic preservation & renovation tax credit incentives. The Fargo Renaissance Zone Authority administers these incentives, but all are subject to Fargo City Commission approval.

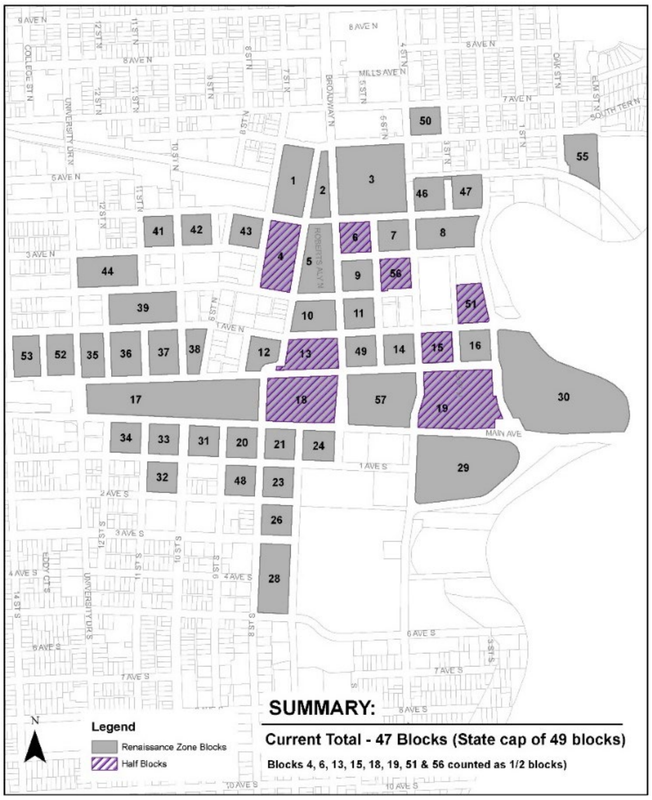
Summary of guidelines:

- Developments must be within the eligible targeted areas of the Renaissance Zone boundary,
- Minimum investment thresholds based on project type,
- Incorporate urban design that encourages street activation and historic preservation,

- Financial summary shall be submitted concurrent with application and shall document costs and the anticipated total capital investment.

Enabled in 1999 by the North Dakota Legislature, the Fargo Renaissance Zone has gone through several iterations, including expansion and modification of the boundary eight times. Through 2019, there have been 242 projects approved with the majority coming from residential purchases, commercial/mixed use rehabilitation, and tenant leases. There have been substantial new construction projects as well. The figure below illustrates the current boundaries and city blocks that are included in the Renaissance Zone.

Figure 1. Current City of Fargo Renaissance Zone[1]



Along with the incentives under the Renaissance Zone program the City has taken steps to further promote the downtown. According to City staff three other initiatives helped attract businesses downtown.

- Broadway Street was improved with road improvements, new streetscape, and building façade upgrades.
- The City constructed three parking structures allowing for other surface parking to be redevelopment without the worry of parking capacity.
- Zoning ordinances were adjusted to allow for less bureaucracy and a quicker business development timeline.

These strategies made the downtown physically and economically attractive for development. Importantly, the three parking structures expanded the capacity for more downtown employment and commercial spending. The additional parking also freed up surface parking lots to be developed. Cumulatively, the assessed value of the Renaissance Zone boundary has risen from $197 million to $546 million ($349 million increase). On average, this is a 5.23 percent increase annually. However, the increase in value is partially a product of inflation. Based on the Bureau of Labor Statistics Consumer Price Index (CPI), inflation from 1999 to 2019 averaged an annual increase of 2.15 percent. Thus, the assessed value of the Renaissance Zone has increased by nearly double the rate of inflation.

[1] City of Fargo.

Furthermore, the housing market in Fargo has been consistently strong and competitive. When the Renaissance Zone is compared to the housing market, we find that the average annual increase in assessed value in the Renaissance Zone is five percent higher than the average annual increase in median housing value in Fargo.[2] Although this is a simplified comparison of the two different property markets, it indicates that the Zone's success of promoting higher property values has been just as good, if not slightly better, than the City's housing market.

However, a component of the incentive program is property tax exemptions. The incentive package made available to redevelopment is examined on a case-by-case basis and span multiple years. As of 2021, there is $137 million in property value exemptions, or about 40 percent of the value increase since 1999. These exemptions will eventually be added to the City's tax roll based on each development's incentive package, but, until then, this represents property that is not contributing to the City's property tax revenue.

The Renaissance Zone accomplishes more than purely increasing property values. By all accounts, the past decade of effort has completely changed the public perception of downtown Fargo. Feeling safe and excited by the atmosphere, residents now spend their evenings and weekends enjoying the new shopping and entertainment, while visitors have amenities once reserved for larger cities. The quality-of-life improvements help keep the young talent studying in Fargo and attracts outside professionals. Additionally, much needed housing has been constructed downtown with the Renaissance Zone program and other incentive programs, establishing a unique and attractive urban market to Fargo.

With that said, the City has identified 16 surface parking lots and 12 redevelopment sites/buildings in the Renaissance Zone as potential future candidates for the program. The surface parking lots total 160,000 square feet which could be developed into multilevel buildings and the existing buildings total 830,000 square feet of floor area. This is a potential of over a million square feet of redevelopment downtown of undeveloped or underutilized properties. Along with providing tax base value, redevelopments have the potential to expand upon the new lifestyle experiences in the downtown and address goals that have not yet been accomplished among those being more downtown housing. Although there has already been progress in increasing the housing mix downtown, following the Downtown InFocus Plan, the City has a goal of at least 1,000 more households downtown.

Importantly, the City of Fargo collects a one-cent sales tax for infrastructure capital improvements that has benefitted from the commercial development that has occurred downtown. Sales tax revenue generation from a specific development comes in a number of forms. The most significant being if the development is a retailer. In this case, it is safe to assume that one percent of the retailer sales will be sales tax revenue to the City. When new jobs are generated, the new household income provides new retail sales tax to the City as well. This is especially true for high income earners with substantial disposable income. Furthermore, there are indirect retail sales from economic growth. These indirect sales occur when the spin-off jobs bring further spending to the economy and the business-related industries expand

[2] U.S. Census American Community Survey, 2000 and 2019 mean value of owner-occupied home estimates.

to support the new development. If the retail spending is significant enough, sales tax from the new development will be able to mitigate property tax incentives. However, this is only understood on a case-by-case analysis with sophisticated modeling. As part of TischlerBise's scope of work, an economic impact model will be constructed for the City of Fargo which will provide estimated direct, indirect (spin-off), construction phase spending, and induced economic impacts, along with estimates of retail sales.

Special Assessment Financing for Infrastructure

The City of Fargo, along with other jurisdictions in the Fargo-Moorhead region, use special assessment districts to finance new infrastructure to support growth. Traditionally, this is implemented in new subdivisions where new roads and utilities are required before homes can be constructed. Although not titled or entirely perceived as an incentive, the financing tool is a unique and successful program that shifts infrastructure cost from the developer to the future homeowners through a property assessment. However, the City of Fargo absorbs the risk since the infrastructure costs are fronted by the City when bonds are issued. The City recoups its costs when the new homeowners pay their annual property assessment. In communities without special assessments, local infrastructure costs and risk are generally the responsibility of the developer with the costs being recouped when the homes are sold. The special assessment districts do not function in the traditional sense of a tax incentive, but do provide a unique benefit to development. For that reason, they are included in the white paper.

There are four general stages of the special assessment. First, the development is proposed with an infrastructure plan included. If accepted, the City determines which infrastructure costs are directly benefitting the new residents of the development and which costs are benefitting citywide demand. The special assessment district is established along with locally benefitting projects being constructed and funded through a city-issued bond. Lastly, the bond is paid back by the future homeowner's annual property assessments.

Incentives by Comparable Cities

The figure below provides a list of local incentive programs by comparable cities. From eight comparable cities, tax increment financing (TIF), tax abatements, and land banking are the most common programs. Schaumburg provides a unique small business grant to eligible firms, while Bentonville is still building its incentive policies. However, based on the survey of the websites for each locality, the City of Fargo has a more comprehensive and thoughtful approach to economic incentives relative to its comparables.

Not listed in Figure 2 are the county, regional, and state programs available to development and businesses. Non-local programs do contribute to the profile which businesses consider when making location decisions. However, some non-local programs (such as income tax incentives) are not applicable to the City of Fargo and should only be considered at the respective governmental authority.

Figure 2. Economic Development Incentive Programs in Comparable Cities

Locality	Local Incentive Programs*	2020 Census Population
Bentonville, AR	City is currently exploring incentive options	54,164
Des Moines, IA	TIF, Tax Abatements, Land Banking	214,133
Edmond, OK	Permit Waivers, Façade/Infrastructure/ Payroll Reimbursement	94,428
Fort Collins, CO	TIF	169,810
Lee's Summit, MO	TIF, Tax Abatements, Land Banking	101,108
Lincoln, NE	TIF, Land Banking	291,082
Olathe, KS	TIF, Land Banking, Neighborhood Revitalization	141,290
Schaumburg, IL	Small Business Grants, TIF	78,723

Source: information listed is from the locality and economic development organization's website.
*Note: only the local incentive programs are listed. County, regional, and state programs are not included.

Survey of Academic Research

There is a long history of academic research and analysis regarding public economic development incentives. Although it is important to understand past successes and failures, programs should be evaluated within its own context. General conventions may not be applicable in specific instances, but the following summary will help Fargo construct its best practices when examining current and future incentive programs.

- Although there have been mixed results from case study analysis and meta-analysis, there is a rough consensus that local tax incentives have a positive impact. However, when local incentive programs nationally are analyzed cumulatively, those impacts have generally been observed to be "minor at best."[3]

- With that said, there are several elements a community can implement in their incentive program to ensure a more successful future:
    - Target industries with a high job multiplier. In these cases, the direct jobs created by the new business have a high spill-over effect which then supports other jobs. For example, high paying jobs will bring new spending to the local economy or the presence of a business attracting other associated businesses.[4] [5]
    - Target exporters of products and services. Companies that sell their products to external markets will inject new dollars to the local economy compared to being a direct competitor to an already existing local firm. For example, a business providing a service that is already being provided in the community will merely be cannibalizing the market.[6]
    - Target certain areas of a community. Property tax incentives are most successful in areas with high unemployment, low income, and/or under-utilized infrastructure. In these cases, there is a potential for immediate increases to household incomes and the locality will have to invest less in infrastructure improvements.[4]

- A leader in the field, Timothy Bartik, recommends that for an incentive package to be beneficial to the community there should be a limit between $10,000 to $20,000 in incentive funding per new job created. Additionally, Bartik considers most firms to be myopic and focused more on

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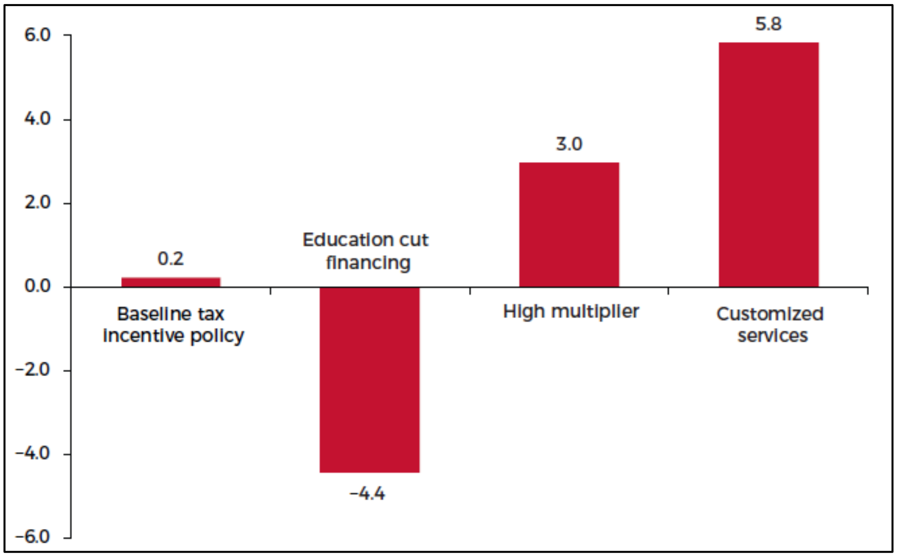
[3] Fisher and Peters. "The Failures of Economic Development Incentives." *Journal of the American Planning Association*. Vol. 70. No. 1. Winter 2004.
[4] Bartik, Timothy J. 2018. "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/tr18-034.
[5] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1.
[6] Pew Charitable Trusts. "What Factors Influence the Effectiveness of Business Incentives?" April 2019.

short-term gains, so an incentive program should not be very lengthy and restricted to just a few years.[7]

Figure 3. How Four Different Incentive Policies Affect State Residents: Percentage Effects on Per Capita Income[8]



- Bartik constructed an academic economic impact model to understand hypothetical incentive scenarios' effect on long-term (80 years) impact on the local household income. A few of the results are shown in Figure 3. When a baseline tax incentive program is compared to different incentive policies, several alternatives create a much greater benefit to the community's prosperity. Additionally, there is tremendous negative impact when education funding is cut to fund the incentive package.[9] Specifically, the baseline created a 0.2 percent increase to income per capita. While education funding cut to finance the incentive program resulted a -4.4 percent impact to income, targeting high multiplier industries resulted a 3.0 percent increase to income, and customized services instead of tax incentives resulted a 5.8 percent increase to income.

- The Bartik analysis highlights the success of tax alternative programs. Localities providing business services can help reduce barriers that are restricting the success of local firms. This is especially the case for small to medium business.[10] These services come in many forms, but for example, the locality can provide custom job training, be a labor market intermediary, provide regulatory assistance, or establish an incubator.[11]

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[7] Timothy, Bartik. Interview with Richard Florida. "How Cities and States Can Stop the Incentive Madness." Bloomberg CityLab. November 12, 2019.
[8] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1.
[9] Bartik, Timothy J. 2018. "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/tr18-034.
[10] Pew Charitable Trusts. "What Factors Influence the Effectiveness of Business Incentives?" April 2019.
[11] Kenyon, Langley, Paquin. "Rethinking Property Tax Incentives for Business." Lincoln Institute of Land Policy. 2012.

- Custom job training has been found to be 10-25 times more effective in creating jobs than tax incentives.[11] For example, in manufacturing-intense communities, tax incentives had an annual cost of $16,000 per job created while custom job training incentive had an annual cost of $3,000 per job created.[12]
- From Bartik, credible studies found that average sized tax incentives have ultimately only been the deciding factor in one-fifth of business location decisions.[13]
- Although positive impacts have been observed from tax incentive programs, the practice has been found to have limitations on tipping the scale when attracting businesses. One reason is the magnitude of tax abatements compared to other business expenses. For example, the wage costs for manufacturing firms average about 11 times the value of its property tax bill. For that reason, the local salaries have more of an influence than tax incentives when a firm is making location decisions.[14] There are a multitude other location decision factors such as state/federal incentive programs, location within trade routes, connectivity to metropolitan areas, and the local ecosystem of industry and innovation.

[12] Berkaw and Desai. "Wooing Companies to Move: Are Business Incentives Worth the Cost?" Entrepreneurship Issue Brief, January 2012, Ewing Marion Kauffman Foundation, Kansas City.
[13] Bartik, Timothy J. 2018. "Improving Economic Development Incentives." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2018-1
[14] Fisher and Peters. "The Failures of Economic Development Incentives." *Journal of the American Planning Association*. Vol. 70. No. 1. Winter 2004.

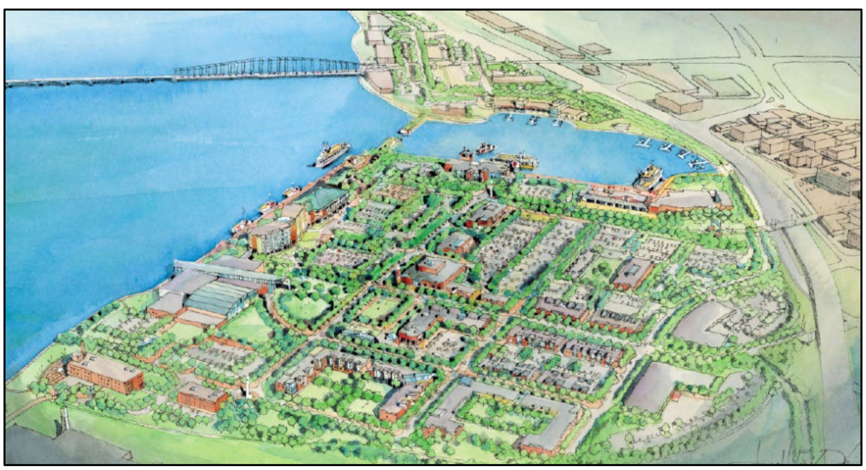
Case Studies

The City of Fargo has been promoting economic development for decades. To support discussions around reviewing the current incentive programs and future policies in Fargo, the following chapter provides two case studies of successful incentive programs and a third case study of a program gone wrong.

Riverfront Development – Dubuque, Iowa

By 1990, the City of Dubuque had turned its back on its Mississippi River waterfront. Although adjacent to the downtown, a history of heavy industrial uses had led to brownfields with environmental issues, underutilized properties, and shuttered businesses.[15] The first step to addressing the riverfront's economic future, and the future of the city at-large, was the *Vision 2000 Long-Range Comprehensive Plan.* The comprehensive plan included elements of connecting it residents physically and psychologically with the river. Following that initiative, a partnership including the City, Dubuque County Historical Society, Greater Dubuque Development Corporation, and others produced the *Port of Dubuque Master Plan*. The Master Plan was a culmination of a ten-month community planning and design effort including a variety of committee, public, and stakeholder participation. The final design was a "Central Green" concept that would resemble a downtown pattern of interconnected streets, a high degree of development flexibility, and able to leverage current and upcoming investments.[16]

Figure 4. Port of Dubuque Master Plan Illustration of North Port[17]



Critically, funding surpassed initial goals. The America's River project initially had a fundraising goal of $25 million for revitalization of the North Port area, but that was eclipsed with a $40 million State of Iowa Vision grant. The US Environmental Protection Agency (EPA) also contributed under its brownfield revitalization program to assess and mitigate the environmental concerns. Overall, the America's River project generated $188 million in revitalization funding coalescing into five landmark achievements: the Mississippi Riverwalk, the

[15] US EPA. February 2021. *The Brownfields Broadcast: Brownfields Program Helps Dubuque, IA Leverage Investment, Reinvigorate Community*. October 2021. https://www.epa.gov/brownfields/brownfields-broadcast-brownfields-program-helps-dubuque-ia-leverage-investment.
[16] URS Corporation, Leland Consulting Group, EDG, Ltd. *Port of Dubuque Master Plan.* March 2002.
[17] Ibid.

National Mississippi River Museum and Aquarium, the Grand River Center, the Grand Harbor Resort, and the Star Brewery. All of which are celebrating historical, environmental, educational, and recreational majesty of the Mississippi River and attracting a million tourists a year.[18]

Along with State and Federal incentive programs, developments in the Port were eligible for tax incremental financing (TIF), property tax exemptions, façade grants, design grants, and land acquisition discounts. Since the inception, $400 million in public and private investment has gone towards the riverfront. Presently, the original tax exemptions have sunsetted, now contributing to the City's coffers.[19]

The success of the America's River project has been followed up by two other phases that included expanding the trail system along the water, a performing arts center, and restoration of a river tributary to a park and flood mitigation system. The economic and social benefits have expanded beyond the riverfront as well to an adjacent neighborhood, the Historic Millwork District, an old warehouse core that has been revitalized into a mixed-use neighborhood, attracting a thousand new residents and new businesses including IBM, bringing a thousand new jobs. Progress continues in the North Port riverfront as well. A recently approved mixed-use development will be bringing in much needed housing and was made possible by the City of Dubuque's TIF agreement and land acquisition grant.[20]

The riverfront development has brought important educational, cultural, and economic drivers to Dubuque that would not have occurred without the efforts and investments from both the public and private communities. North Port transformed the city's inward and outward identity by engaging in economic initiative and in turn the quality of life of residents benefited. Ultimately, the City has accomplished its goal from decades ago, reconnecting its residents to the river.[21]

Targeting Talent – Paducah, Kentucky

Direct payments and other financial support have grown in popularity. There is an increasing number of municipalities using cash and other promotions to incentive talent to relocate. Incentivizing talented workers, especially remote workers that make more the local median income, helps drive the local economy and rejuvenate neighborhoods. In Paducah, Kentucky that was exactly the intent of the Artist Relocation Program.

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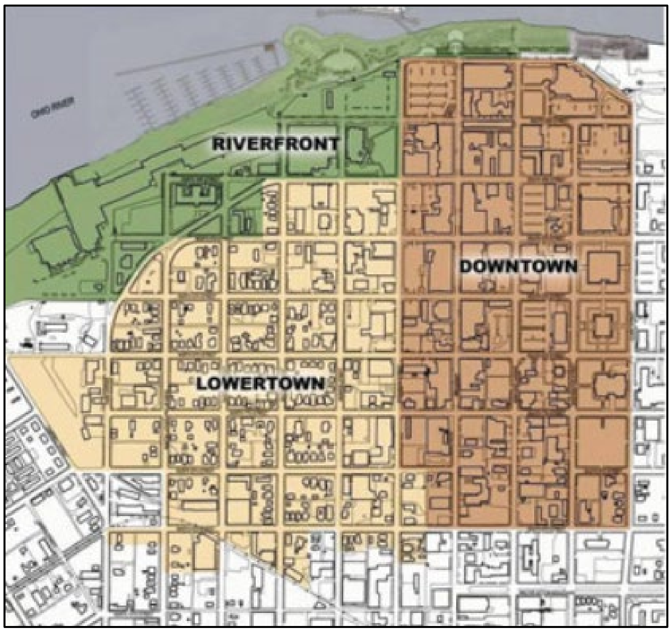
[18] City of Dubuque. *Dubuque History*. October 2021. https://www.cityofdubuque.org/1060/History.
[19] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places.* May 2015.
[20] Allison Wong. October 2019. Proposed Port of Dubuque development hopes to attract young professionals. *KCRG. https://www.kcrg.com/content/news/Proposed-Port-of-Dubuque-development-hopes-to-attract-young-professionals-562480841.html.*
[21] US EPA. October 2020. *Redevelopment Goals in Dubuque, Iowa, Come Alive by Strengthening Central Neighborhoods*. October 2021. https://www.epa.gov/ia/redevelopment-goals-dubuque-iowa-come-alive-strengthening-central-neighborhoods.

Paducah sits along the Ohio River, centrally located near five states. Historically, the city's location has been advantageous for a trade center. In 2000, there were about 26,000 residents[22] and the downtown had an outsized art and cultural presence with the William Clark Market House Museum, Market House Theater, and National Quilt Museum which drew 40,000 visitors a year.[23] However, while the downtown was thriving an adjacent neighborhood, Lowertown, was struggling and by 2002 it was considered to be in an overall blighted state with dilapidated buildings, high poverty, and high crime.[24] Figure 5 is an illustration of Paducah's downtown and Lowertown.

Figure 5. Paducah Renaissance Area Master Plan Map[25]



In 2002, Lowertown was at a crossroads and that is when the City introduced the Artist Relocation Program. Under the program, the City created a land trust which purchased 55 vacant or foreclosed buildings. Those lots were then sold to eligible artists, who met certain application requirements like a business plan, for as low as $1 with the promise that they would renovate the home. Critically important, special affordable financing options were made available by Paducah Bank which allowed investors to borrow more than the assessed value of the lot. There were reimbursements for architectural and professional services and marketing campaigns funded by Paducah. The City also made changes to its ordinances to allow for the new residents to live and work in the same residents creating an irresistible live/work environment. Maintenance and improvements were made to the roads, street lighting, and vacant lots to create a safer neighborhood as well.

In the first five years of the program, the City spent about $3 million while there was a total of $35 million in private investment, attracting more than one hundred artists.[26] By 2010, 234 new businesses were started in the art district, 119 buildings were renovated, vacancy rate fell from 70 to 14 percent, and

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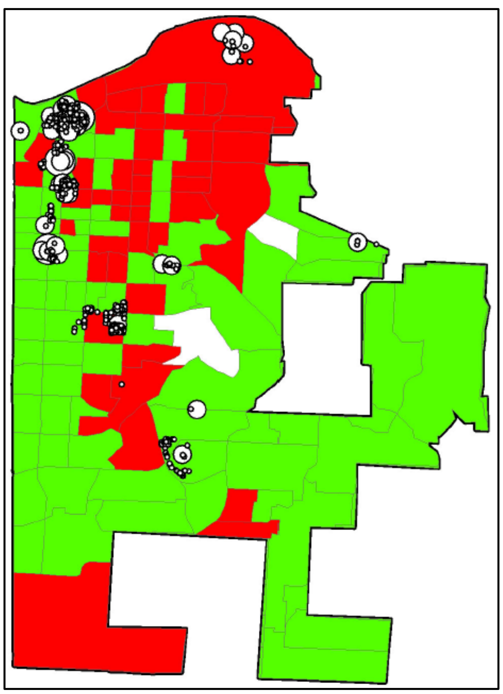
[22] US Decennial Census, 2000.
[23] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places.* May 2015.
[24] CityVisions Associates, AECOM, ConsultEcon, HNTB. *Renaissance Area Master Plan (RAMP), Paducah, Kentucky*. December 2011.
[25] Ibid.
[26] US EPA. *How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places*. May 2015.

Paducah won the Great American Main Street Award by the National Trust for Historic Preservation. The arts and culture industry draws more than 400,000 annual event attendees, generating $200 million in tourism income, $39.9 million in local economic activity, $3.6 million in local and state revenue.[27] And finally in 2013, the City of Paducah was recognized by UNESCO as the world's seventh City of Crafts and Folk Art, making it a member of the UNESCO Creative Cities Network. In an NPR interview, a Paducah city planner attributes all the success to the Artist Relocation Program.[28]

Tax Increment Financing (TIF) Misused and Unguided – Kansas City & St. Louis

Tax increment financing (TIF) ultimately targets site specific capital improvements with new property tax revenue from that same development. Arguably, TIFs can have a snowball effect when increased property values are in turn used to improve infrastructure that will further increase values. This cycle can have spill-over effects to adjacent properties and neighborhoods as well. When implemented appropriately, rejuvenating development, which would not have occurred without the program, can be successful in blighted areas. However, without proper guardrails and oversight a TIF may result in public subsidies going towards development projects that benefit already successful and wealthy neighborhoods. This was observed in both Kansas City and St. Louis.

Figure 6. Kansas City Census Tracts and TIF Location[29]



A 2014 study, completed by the Show-Me Institute, examined the location of TIFs in Kansas City.[30] The analysis produced the map illustrated in Figure 6. Kansas City census tracts in Jackson County are highlighted either red for 30 percent of more residents in poverty or green for less than 30 percent of residents in poverty. Layered on top of the census tracts is the location and value of TIFs. It was found that $34.5 million of public subsidy went to impoverished areas, while $276 million of public subsidy went to affluent areas. Or eight times the value of TIFs went to affluent areas. The study further highlighted a case where the City redirected $42 million for an existing Kansas City company to build a new headquarters immediately next to its existing headquarters, a project that has very little benefit to the surrounding community.

[27] Main Street America. Great American Main Street Award. Paducah, Kentucky. 2010.
[28] Noah Adams. August 2013. *In Paducah, Artists Create Something From Nothing.* NPR. https://www.npr.org/2013/08/09/210130790/in-paducah-artists-create-something-from-nothing
[29] Tuohey and Rathbone. *Urban Neglect: Kansas City's Misuse of Tax Increment Financing*. November 2014. Show-Me Institute.
[30] Ibid.

A similar analysis and outcome were found in St. Louis. In 2017, the Show-Me Institute found that $57 million of public TIF spending went to impoverished areas while $207 million of public TIF spending went to affluent areas. Or over three times the value of spending went to affluent areas compared to impoverished areas.[31] Additionally, the study found that 7,572 jobs were attributed to the TIFs, resulting in $35,000 in subsidies per job, at best.

The St. Louis analysis continued by examining the prevalence of poverty and found that there was an overall increase in poverty throughout city and often in areas in which TIFs had been applied. Although poverty is influenced by a myriad of factors, the study found it hard to make an argument that TIFs in St. Louis are having a net positive impact at addressing prosperity for all residents. Lastly, the study highlighted a luxury apartment building that was provided a $10 million TIF, but it was unclear to the author how the project was in the public's best interest.

There were three resounding recommendations from the studies on how the cities should adjust their tax increment financing program. First, in both cities the "but-for" test is completed by the applicant. The "but-for" examines to what extent the project needs public assistance and is intended to demonstrate that but for assistance the project would not move forward. There is an obvious conflict when the applicant is supposed to be demonstrating an objective assessment of the needed assistance. Both studies recommended that a third party be responsible for the but-for evaluations. Secondly, there needs to be a more rigorous standard used to qualify projects. Projects that received public assistances under the TIF need to be in blighted areas and demonstrate that they will be an overwhelming benefit to the neighborhood. Lastly, there is a need for more accurate reporting of the jobs and other benefits produced by TIF projects. Without measurable indicators, there is no understanding of the success of the project and program. Additionally, the results of the reporting would be the first step in implementing a "clawback," where if the project fails to deliver the promised economic impact the developer would be forced to pay back a portion or all the TIF benefits.

[31] Tuohey, Highsmith, and Tuttle. *Tax-Increment Financing in Saint Louis*. September 2017. Show-Me Institute.

Recommendations

The following are recommendations regarding the future of economic development incentives in Fargo. The recommendations are based on the survey of impacts from the current incentive programs, analysis of available future development, review of academic research, understanding of successes and failures in other jurisdictions, and TischlerBise's industry-leading experience in local economic development analysis and local revenue strategies. Furthermore, the TischlerBise economic impact model developed for the City will provide empirical analysis and understanding of economic impacts of specific development proposals including spin-off job generation and sales tax revenue to the City.

Arguably, Fargo has been very successful strategically implementing a variety of incentive programs and has one of the most comprehensive toolkits to encourage development and redevelopment. Empirically and aesthetically, the downtown has been transformed by redevelopment which would not have occurred at such a quick pace without City incentives. Similarly, there has been consistent suburban growth that have been supported by its incentives and financing strategies. While further examination is needed for a few of the following recommendations, the following should be affirmation that with just a few adjustments, the City of Fargo will continue promoting a sustainable development incentive environment.

- TischlerBise recommends that the City continue with its special assessment district financing tool. Although the City takes over the risk of the infrastructure costs between the time of construction and when property assessments are collected. The financing tool allows for a more comprehensive approach to infrastructure construction and, importantly, more homes are able to be constructed by local developers and home builders since the oversized cost burden of infrastructure is shifted with the bond issuance. Additionally, the City has been strategically financing the accrued debt and able to mitigate some of the risk with revenue from interest rate margins.

- To address housing needs and goals, TischlerBise recommends continuing the PILOT housing programs and the Renaissance Zone. Housing is a crucial need for a thriving downtown and a policy goal for the City. Although not as severe as in other cities, it is important for Fargo to incentivize affordable/attainable/workforce housing to head off a housing crisis. Downtown housing programs should focus on dense multifamily projects to maximum housing buildout as well. Along with providing support to housing projects, the Renaissance Zone has been able to turn the course of Fargo's commercial and entertainment downtown. TischlerBise has not found substantial evidence that the previous development would have occurred without the City's incentives nor substantial evidence that positive redevelopment will occur without City incentives.

- Furthermore, the development proposal "but for" tests are being conducted by a third party and as along as the third party has no interest in the proposal the City should continue this policy.

- With that said, TischlerBise recommends adjusting the maximum length of City incentive programs. As highlighted by leading researchers, a typical business is more concerned with short-term profitability and plans operations around a short-term forecast. While a long-term incentive package (i.e., 15-20 years) is providing a subsidy to a development project which has proven to be successful. TischlerBise did not examine specific past incentive packages, but ultimately, shorter timeframes will benefit the City's bottom line. However, since the nature of development varies, maximums should be based on the type of project. For example, job creation projects could be limited to ten years, while on the other hand, if there is a project that addresses other community goals that require long term incentives to be successful (i.e., affordable housing) extending maximums would be justified.

- Furthermore, TischlerBise recommends the City include a requirement that eligible candidates for the Renaissance Zone and other programs be targeted industries which have high multiplier effects (i.e., generate a high number of spin-off jobs) and/or generate a high level of retail sales. In both cases, the targeted industry will generate additional revenue to the City which will help offset the incentive package. In some cases, the additional revenue, especially through new retail sales tax, will completely offset the incentive package and the development will be an immediate net positive to the City's bottom line. Such requirements could be implemented with the economic impact model that is being programmed by TischlerBise and will be presented to City Commission following this white paper.

- TischlerBise recommends that the City removes the 2-year new residential construction exemption. Although there is a slight benefit to residents, the lesser property tax (only the City's portion) is overshadowed by the overall housing cost and mortgage for a new home; thus, the exemption is most likely not an important element in the buyer's considerations. Fargo would be the first city in the metro area to remove this exemption. However, the City is already supporting new residential construction through its financing of subdivision infrastructure, so removing the 2-year property tax exemption on new housing would not alter the perception of City priorities.

- TischlerBise recommends furthering the City's focus on job training and business services. Proven through academic research and case studies, a locality providing business services to small to medium size businesses lowers obstacles for the business while being a relative low-cost program to the locality. Fargo is already supporting entrepreneurs and small businesses through the regional economic development organization and business events. However, the City could further its policies by tackling the issues businesses are facing post the covid-19 pandemic. For example, the City could invest in a job training and employment intermediary office to support local businesses looking to hire and expand.

- The City of Fargo should continue to monitor the need for parking downtown. An important factor in the past growth downtown was new parking structures and before the covid-19 pandemic parking was reaching capacity. Although, at least in the short-term, employment trends may favor remote working, the downtown continues to expand its full-time residential population and commercial attraction. Development of parking structures requires long-term planning so the City should continue its strategic planning and explore any opportunities that would bring more parking to the downtown.

- Developing river boardwalks and parks has been successful for many communities across the country. Waterfronts present a natural asset to cities which can bring cultural, recreation, and entertainment benefits to its residents. Additionally, Fargo has an untapped commercial and economic resources in the Red River. Although there has been tremendous development when a city capitalizes its waterfront, there is a need for substantial funding to mitigate environmental issues and construct infrastructure. While there are flooding concerns and a mitigation program is being currently examined, TischlerBise recommends that Fargo explores in detail the economic potential of the Red River. There are a number of different limitations such as land capacity and funding availability (i.e., regional, state, and federal) that need to be understood, but there could very well be cooperation between the flood mitigation initiative and economic development. For example, coordination with the City of Moorhead could amplifying efforts.
- This year the Cass Clay Community Land Trust is anticipating adding the first homes to its portfolio. This is the only land trust in the Fargo area and aims to support affordable housing by providing the land and other financial support to eligible homeowners. Land trusts generally target areas that have a history of disinvestment and have deteriorating or vacant lots. TischlerBise recommends that the City of Fargo take a proactive role in the land trust, or develop its own, to address blighting areas and support its Core Neighborhoods. If strategically planned, leveraging publicly held, developable land can be a particularly low-risk program for blighted neighborhoods since the land trust keeps ownership of a stable, or in some cases appreciating asset, and can set standards for redevelopment.

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