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CORPORATE PARTNER SPOTLIGHT

As part of the new "Friends of ILCMA" Corporate Partnership Program, partners at the highest level get the opportunity to submit a one-page written promotional piece in the ILCMA newsletter.

Let's Make a Deal: Thoughts on Public-Private Partnerships for Development in the New Economy

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There are signs that the economy is recovering, if slowly, and property owners, developers, and lenders are beginning to try to find ways to "work-out" their problems. This includes finishing projects, re-programming developments with different uses, and in some cases starting new projects with uses for which there is a market, such as rental housing. There are some, albeit limited, signs of life in commercial and retail projects. Auto dealers are moving around. Industrial and distribution projects can be driven by operational considerations more than real estate market conditions. Municipalities are again being asked to create various forms of public-private partnerships for development. The requests can be substantial, but the need to restore growth, capture tax revenues, and show the electorate that the officials and management of the community are pro-active leaders are all compelling. In such a climate, how do you make deals that are good for the community and will result in successful development?

There are several key elements to sound decisions including:

- Community Goals
- Project Quality and Feasibility
- Benefits and Costs of the Proposed Project
- Need for Assistance
- Maximizing Public Benefit and Managing Risk

Community Goals. In times of economic stress, it is tempting to pursue any project that will bring a positive short-term financial gain such as a big-box retailer or industrial concern. However, in the long run, most communities' fiscal balance includes a healthy measure of residential value (up to 80% of tax base even in a "balanced" community). Commercial, industrial or other projects that are incompatible with community goals and the quality of the environment can undermine the attractiveness of the community and its character and in the long run may hurt more than help.

Project Quality and Feasibility. No amount of public help can rescue a project that does not meet the quality standards of the marketplace, does not fit the site properly, is not well supported in the market, and is not economically feasible (albeit perhaps with a little help). Is this the kind of project people in your community will want to frequent, live in, and use? What is causing the economic stress requiring assistance? Beyond a certain level, public tools cannot overcome project detriments and issues. Does the project fit well with the market in the next few years? For example, the condominium and storefront retail markets remain challenged while there is good demand for market-rate residential rental units due to the demographics of the region.

Benefits and Costs of the Proposed Project. Are there realistic estimates of the benefits – direct benefits of property and sales tax – from the project? There are many factors in property assessments that make it important to carefully evaluate likely taxes – and not just in Cook County – particularly for commercial uses. Taxes need to be benchmarked against comparable projects. Sales projections need to be validated with industry data or financial statements. Are there direct costs of providing infrastructure and/or carefully analyzed, school costs? Even senior housing projects can have costs that should be considered and quantified. The net fiscal benefit is the upper limit of what should be considered as assistance in most cases.

Need for Assistance. Why does the project need help? Is there a competitive location in another community (or state)? Are there identifiable extraordinary costs that need to be addressed such as land assembly, demolition, or environmental remediation? Is the market a little soft for a desired project resulting in a financing gap? Are there financing issues such that there is a hole in the "capital stack" even though the project has adequate projected cash flow (and hence a need for a loan instead of a grant)? Have all private sources been maximized before considering public tools?

Maximizing Public Benefits and Managing Risk. The tools available to help facilitate these projects include TIF, Business Districts, Special Service Areas, Sales Tax Rebates, and New Markets Tax Credits in selected areas. A few communities also offer tax abatements. The state has programs particularly focused on attracting and retaining jobs. How we use these tools is important. TIF revenues can be lent to a project, not just granted as reimbursement for eligible costs. Sales Tax Sharing can be focused on extraordinary costs – the same need tests as for TIF – rather than being used simply as an incentive. Retailers in the metro area pick sites where the market is. The market may be in multiple adjacent municipalities who could share the sales taxes among themselves rather than with the developer. There also need to be performance requirements, assistance stops and "claw-backs" if developers do not perform or "go dark," and profit sharing to share in success in some cases.

Evaluating deals in this way may be more time consuming, but it helps ensure that the public receives the benefits it seeks in entering true public-private partnerships for development.

For further information you may find the following links helpful:
http://www.cdfa.net

http://www.friedmanco.com/Real%20Estate%20Issues%201995.pdf