

PRESENTATION

The Finance Officer's Role in Economic Development



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Public Sector Advisors 

Why Should the Finance Officer be Involved in Economic Development?

- Local community vitality
- Diversify tax base
- Political priority
- Involve large expenditures of discretionary public funds
- Credit rating
- Existing TIDs / outstanding bond obligations
- Fun

Public Sector Advisors 1 

Finance Officer Adds Value

- Knowledge of financial process / tools
- Knowledge of community financial condition
- Knowledge of short- / long-term financial impacts
- Conservative perspective - mitigation of risk
- Provide objectivity and full disclosure of risks
- Provide professional discipline
- Contrary to Economic Development Director / Mayor / Administrator
 - Project driven
 - Less risk adverse

Public Sector Advisors 2 

Your Objective is to Participate Positively in the Solution

- **Participate:**
 - Too often: "They bring me the deal when it is about done and I have to point out its shortcomings."
 - "If I was involved at the outset we wouldn't be placed in this situation."
- **Positively:**
 - "As a finance director, I have been culturally and professionally nurtured to say, NO."
 - "This is crazy!"
 - "I am the gatekeeper to the cash."
 - "My job is to fix what my colleagues, the city manager and the economic development staff often mess up."
- **Solution:**
 - "The community is going to do this anyway, whether I think it is a good idea or not, so how do you make it better and reduce your concerns/problems later on?"

How to Get Involved Early On and Throughout

- Know the development process
 - You should be involved at each step
 - Policy development
 - Goal definition
 - Developer recruitment
 - Developer negotiation and agreement
 - Financing and construction
 - Development agreement management
 - Financial performance monitoring

Who Are the Players & Their Roles?

- **Mayor & Governing Body**
 - Plan Commission
 - Community Development Authority
 - Citizen groups
 - Chamber
 - "Save the Downtown"/Anti Big Box
 - "Save the Green Space"
 - Other advisory groups
- **Other Governments**
 - County
 - School districts
 - State - DOR/WisDOT
- **Staff Colleagues**
 - City Manager
 - Economic Development Director
 - Public Works Director/Engineer
 - Assessor
- **Consultants**
 - Financial Advisor
 - Market Analysts
- **Bunch of Lawyers**
 - Yours and theirs, many think they are experts
- **Developer**
 - Wants most of the money

Who Are the Players & Their Roles? *(cont.)*

- What are their roles and motivations?
 - Who do you know the least?
 - 'Save the Downtown'
 - Developer
 - If the community has established a development goal and recruited a developer, then the developer is both your friend and your antagonist
 - The role changes as the process unfolds
- If your goal is to participate early on, what is your relationship with these players?

Finance Officer's Role in Policy Development

- Familiar with fund balance & debt policies
- Economic development often times relates to:
 - Financial incentives
 - Re- or Shared allocation of risk
 - Long-term impacts
 - Impact community's financial condition

Economic Development Policy

- Goals & objectives
 - Target economic development:
 - Where?
 - When?
 - What type?
 - Why?
 - How can you measure success?

Economic Development Policy *(cont.)*

- Financial incentive tools and incentives:
 - What type?
 - When to use/offer?
 - When NOT to use/offer?
 - How much?

Economic Development Policy *(cont.)*

- Evaluation process
 - Submittal requirements and timelines
 - Evaluation activities and responsibilities
 - Evaluation criteria
 - Compliance with goals and objectives
 - Cost/benefit analysis
 - Financial (tax base) and non-financial (job creation)
 - Tax base impacts
 - Impact to existing businesses
 - But-For determination
 - Risk

Economic Development Policy *(cont.)*

- Performance standards
 - Initiation dates
 - Completion deadlines/phasing
 - Expenditure tracking (\$)
 - Taxable value
 - Jobs created and wages
 - Occupancy rates
- Clawback or Linkage agreement provision "triggers"

Economic Development Policy *(cont.)*

- Monitoring and compliance
 - Regular and timely monitoring
 - Assign monitoring roles
 - Document
 - Communicate

Evaluating the Deal

- Developer review:
 - Personal financial statements
 - References - other communities
- Project review:
 - Project Performa
 - Sources & uses
 - Market study
- Compliance with Open Meeting and Freedom of Information Act

Developer Negotiations

- Developer seeking to transfer risk:
 - Revenue risk
 - Public revenue streams
 - Development timing risk
 - Debt risk
 - Debt vs. PAYGO
 - GO vs. revenue
 - Fixed vs. variable
- Developer negotiations - Be at the table any time money, security and timing are mentioned

Long-term Monitoring and Compliance

- Established in development agreement
- Assign monitoring roles and responsibilities
- Milestones:
 - Project initiation
 - Phasing
 - Completion – Clawbacks & linkage agreements
- Establish information request and review systems - annual review before budget cycle

Monitoring and Compliance (cont.)

- Operating budget impacts
- Potential statutory/legislative changes
- TID monitoring
- DOR TID reporting

- Document
- Communicate

GFOA Best Practices

- Role of Finance Director in Economic Development - <http://www.gfoa.org/role-finance-officer-economic-development>
- Evaluating & Managing Economic Development Incentives - <http://www.gfoa.org/evaluating-and-managing-economic-development-incentives>
- Creation, Implementation, & Evaluation of Tax Increment Financing - <http://www.gfoa.org/creation-implementation-and-evaluation-tax-increment-financing>
- Evaluating Data & Financial Assumptions in Development Proposals - <http://www.gfoa.org/evaluating-data-and-financial-assumptions-development-proposals>
- Performance Criteria as a Part of Development Agreements - <http://www.gfoa.org/performance-criteria-part-development-agreements>
- Assessing Risk & Uncertainty in Economic Development Projects - <http://www.gfoa.org/assessing-risk-and-uncertainty-economic-development-projects>
- Monitoring Economic Development Performance - <http://www.gfoa.org/monitoring-economic-development-performance>
- Developing an Economic Development Incentive Policy - <http://www.gfoa.org/developing-economic-development-incentive-policy>

Finance Director's Role in Economic Development



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Overview

- How you know when you are not involved
- TIF policy through 3 project examples
- Additional policy considerations
- Cash flow analysis
- My role
- Links to TIF application and ED Policy

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Top 5 Signs You aren't Involved

1. You find out a TIF was created when you have to pay the DOR the annual TIF fee
2. Your neighbor tells you about a new development that you've never heard of.
3. City Administrator nervously starts a conversation, "If we needed \$X, where might we find it?"
4. You have no idea why the parking lot is packed for a public hearing on a zoning change
5. City Engineer asks you how much is budgeted for a new water main to a development you haven't heard of.

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Econ Development Policy

- Staff Perspective:

“Informed from Experience”

- Council Perspective:

“Better late than never”

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Value Density – Missing Metric

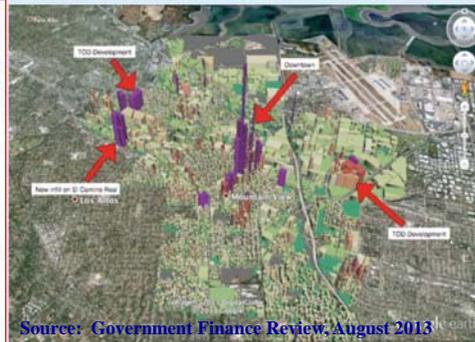


Source: Government Finance Review, August 2013

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Missing Metric - continued

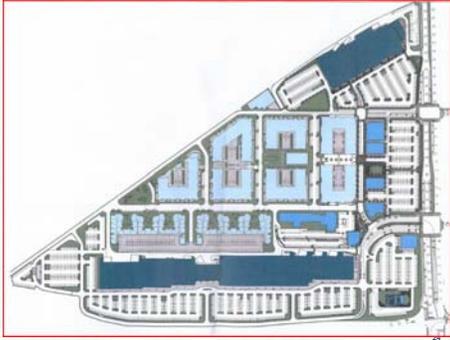
Exhibit 3: 3D Depiction of Land Value per Acre in Mountain View



Source: Government Finance Review, August 2013

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Project 1: Burleigh Triangle



Public Purpose Objectives

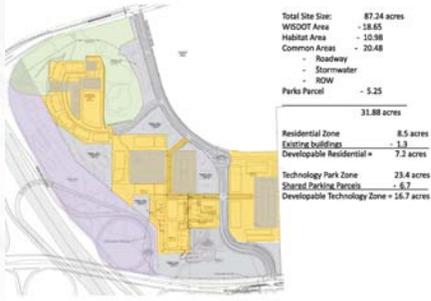
- Removing blight or encouraging (re)development of commercial and industrial areas.
- Enhancing or diversifying the City's economic base and value density.
 - \$20.8 million base value – \$309K per acre
 - \$200 million est. full build out - \$2.9M per acre
- Implementing objectives in the City's comprehensive plan or other plans adopted by the Common Council.
 - 2005 adopted a Master Plan for the site
 - Advocated the development of the site as a mixed-use development comprising "office, retail, and high-rise multi-family residential geared toward professionals, empty nesters, and active retirees

Public Purpose Objectives

- Encouraging additional unsubsidized private (re)development



Project 2 – UWM Innovation Campus



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During Construction



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After Construction



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After Construction



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Public Purpose Objectives

- Retaining local jobs or increasing the number and diversity of jobs that offer stable employment and attractive wages and benefits.
- Positively affecting current and future infrastructure development, including transportation, storm water, sanitary sewer, and water utilities.
- Using architectural and landscaping techniques that will enable the project's components to blend with the natural environment.
- Mitigating project impact on the natural environment.
- Utilizing other LEED-eligible standards.

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Policy Positions

- Developer funded
- Up-front for high-priority projects but funds are last in
- IRR analysis that demonstrates gap as compared to market
 - Environmental
 - Structured Parking
 - \$1 more than Developer needs to do project
- Minimum of 20% equity contribution
- No negative impact on other taxing jurisdiction
- Avoid unfairly subsidizing a market segment
- Look-back and construction savings provisions
- Require PILOT if tax-exempt

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Cash Flow and Sensitivity Analysis

Scenario	Estimated Value	Total Increment	Total Expenses	Additional TF Funding Capacity	Avg Debt Coverage over life of debt	Avg Debt Coverage - first 5 yrs	Years Below 100%	Years to Close TIF
Currently approved projects and expenditures	\$ 50,781,771	\$ 26,874,844	\$ 17,214,713	\$ 9,660,130	152%	122%	-	19
Currently approved projects plus roundabout, parking deck and 140,000 sq. ft of commercial	\$ 71,781,771	\$ 35,860,444	\$ 27,398,728	\$ 8,461,716	124%	98%	3	23
Full Build Out w/1.5 spots per 1000	\$118,875,000	\$ 48,189,830	\$ 2,464,675	\$12,655,003	137%		4	22
Full Build Out w/2.5 spots per 1000	\$118,875,000	\$ 48,189,830	\$ 2,464,675	\$ 2,456,573	103%		10	27

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Project 3: TIF 3/8 overlay



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My Role and Observations

- Mitigate and communicate risk
 - Opportunity Cost
- Leverage development as budget gap strategy
 - Net new construction through value density
 - Aggressively closing TIFs
 - Internal lending from General Fund
- Coordinate 5-year capital budget with development plans
- Work creatively and collaboratively as member of Development Team
 - City Administrator, City Attorney, Development Director, Finance Director
 - Supported by Public Works Director, City Engineer and City Assessor
- Monitor and provide regular TIF updates
 - Include in CAFR
- Interface with Financial Advisor and Bond Counsel
- Appear as if I know as much about development financing as developer

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Links

- Economic Development Policy

[http://wauwatosacitywi.iqm2.com/Citizens/Detail_LegiFile.aspx?ID=2672&highlightTerms=economic development policy](http://wauwatosacitywi.iqm2.com/Citizens/Detail_LegiFile.aspx?ID=2672&highlightTerms=economic%20development%20policy)

- TIF Application
 - Email jruggini@wauwatosana.net

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THE DEVELOPMENT AGREEMENT

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ALAN MARCUVITZ, VON BRIESEN & ROOPER, S.C.

DO'S AND DON'TS

This presentation addresses the Development Agreement ("D.A") "Do's and Don'ts" in the sequence in which they customarily occur.

DO'S AND DON'TS

- Understand that the development deal must drive the D.A., and not the reverse.
- Understand that there is no such thing as a “cookie-cutter” D.A.

DO'S AND DON'TS

- Never try to prepare a new D.A. without the assistance of knowledgeable and experienced legal counsel.
- Bring your legal counsel in early enough in the process so that counsel has a full understanding of the potential development arrangement and can advise on various issues and perhaps also assist in negotiations on a difficult issue.
- Encourage developer to have, and bring to the table knowledgeable and experienced counsel to assist developer

DO'S AND DON'TS

- Understand that the most serious errors that plague D.A.'s are not so much mistakes made in express provisions, but are mistakes made by omission. While earlier D.A.'s are useful to begin the checklist of contents for a new D.A., the checklist cannot be completed without including changes required by law or by experience – yours and your colleagues.

DO'S AND DON'TS

- Prepare the D.A. in a form which allows it to be recorded in its entirety, or with a parallel memo of D.A. which can be recorded. Recording should take place immediately following full execution. Failure to record can cause loss of the protected position enjoyed by the municipality from the language in the D.A.

DO'S AND DON'TS

- Recognize that Developers prefer to insulate other projects and investments from failure of a new project and thus they set up a new business enterprise for each new project. There must be financial strength behind developer commitments of various types. Guarantees are appropriate, but financial statements are needed for each guarantor.

DO'S AND DON'TS

- Be cautious about forms and documents requested by developer's lender(s). Any of these should be reviewed and approved (or disapproved) by counsel. Carelessness here can also cause loss of a protected position.
- Express all commitments and requirements in clear language.

DO'S AND DON'TS

- Minimize or eliminate Pre-development funding. The earliest funding should not be prior to issuance of an occupancy permit. Ideally, the support will be pay-as-you-go. Recognize that developers will reduce projected pay-as-you-go payments to present value during the negotiation process

DO'S AND DON'TS

- Provide differential payment coverage, if guaranteed values are not reflected in future assessments.
- Eliminate any possibility of tax exemption.
- Be sure base value is as low as it should be.
- Be sure there is a complete financial projection.

DO'S AND DON'TS

- Provide for the right to expend net incremental taxes during the life of the TID.
- Do not keep secrets.

PROBLEM SOLVING

WORK OUTS

These challenges can come from a host of causes, the most recent common problem being an inability of developer to execute various plan components, as promised in the D.A., causing failure in the schedule of promised values. The usual alternatives are:

WORK OUTS

1. Enforcement of the D.A.
 - A. Acting on a security instrument.
 - B. Proceeding against a guarantor.

WORK OUTS

- 2. Working out a new plan of development and an amended D.A. with the developer.
- 3. Working out a new plan of development and a new D.A. with a successor developer or purchaser.

Frequently, in addition to the financial issues which require resolution, there are development issues, such as unbuilt facilities and unfinished infrastructure.



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Financing Options

- GO v. Lease Revenue – Term limitations, levy limits, lower rating – higher rate, moral commitment but longer term
- Debt limited to life of TID
- BANS/NANS – don't count against term, increment build up, 2 COI, confirm increment – NANS can be taken out with Bonds to avoid referendum
- STFLS – New revenue bonds
- Permissive Referendum – Cities v. Villages (Look @ Kimberly)
- County Revenue Sharing Agreement – La X & West Salem
- Structure Around TID increment stream
- Private Activity Bond rules
- Taxable v. Tax-exempt

- Describe different types of TIDs, life?

Questions

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