



MEMORANDUM

TO: **Trustee Anthony Puccio, Chairperson**
Economic and Community Development Committee

FROM: William J. Heniff, AICP, Director of Community Development *WJH*

MEETING DATE: July 12, 2021

SUBJECT: **Business Retention Economic Incentive Agreement/Policy - Introduction**

Village staff is introducing to the Economic & Community Development Committee (ECDC) a discussion regarding undertaking an effort to supplement our established Economic Policy with a companion Business Retention Economic Incentive Agreement/Policy. This introduction is being made in response to the Lombard Village Board's ongoing Strategic Planning effort to address business retention efforts as well as inquiries made to Village staff regarding retention incentives.

BACKGROUND

From an Economic Development perspective, many municipal retention programs focus upon direct engagement with key business entities to reduce or address private sector business from closing, downsizing or closing. As past ECDC members recall from a 2015 staff presentation, the role of engagement is to establish and build a partnership so that items that could be addressed locally actually are considered or addressed to the greatest extent possible. The "explore all options" and "economic development is whatever the business deems it to be" were the pretexts of some of partner engagement efforts in the recent past. Some of the efforts to the Village may not have direct economic components (e.g., changing parking regulations on a street, providing for easier applications for outside seating, etc.), but they do address a business concern. In other cases, such actions (like the closing of Carson's, Sam's Club not proceeding, etc.), were made completely independent of any Village actions and Lombard incentives would have had no impact or benefit. However, there are cases in which a request is made for consideration of an economic incentive to address changing market competitive conditions, technology changes, or other external forces. The Village can be made aware of the concerns by specific businesses through our business engagement and retention efforts, but the challenge is how to address them prior to a closure when financial requests are sought.

The Village's formal written Economic Incentive Policy (EIP) was adopted in 2015 and amended in 2016. The EIP intent was to provide staff, interested parties and the public with initial direction as to the potential levels of support the Village may favorably consider as part of a formal request. Some of the key components from the Policy are (emphasis added for future discussion purposes):

1. *The Village should only consider an incentive if it will generate **additional sales tax above and beyond existing revenue levels.** Such incentives must also account for any*

*cannibalism of existing business activity within the community. **Offering a sales tax incentive in order to keep an existing business in operation or retain a business, absent an offsetting investment meeting the economic goals of the Village, should not be considered.***

2. ***The Village gets paid first.** Any such agreement shall be set up in such a manner that allows the Village to receive the first dollars generated by a project or up-front capital improvements that are attributable to the project.*
3. *Unless specifically identified in the incentive agreement, any rebates should be established in such a manner that **the Village receives at least one-half of the anticipated additional tax generation attributable to the project** during the life of the agreement. Generally, the only exception to this provision would be if an incentive is offered to rebate a previously constructed capital improvement that was installed prior to and directly associated with the business opening.*
4. *The applicable period in which a sales tax incentive is offered shall generally not exceed **a ten-year period**, unless approved by the Village Board based upon a finding that “but-for” the extended time period(s), the incentive will not satisfy the intent of the agreement. Such occurrences shall also meet the exception provisions of this Policy.*
5. *A project will be more favorably reviewed if the project:*
 - a. *represents significant private-sector financial investment;*
 - b. *promotes a higher and better use of the property as determined by the Village through its adopted plans;*
 - c. *provides a positive fiscal and economic impact to the Village;*
 - d. ***adds new and unique retail business tenants to the Lombard market;***
 - e. *mitigates any potential negative impacts to the surrounding area;*
 - f. *closes an existing leakage in retail sales tax dollars within the Village; and*
 - g. *addresses or minimizes the impacts of consumer expenditure cannibalization from existing businesses and projects in the Village.*

Addressing the highlighted areas can be specifically challenging or even not possible under the EIP parameters as it pertains to business retention incentives.

DISCUSSION

Utilizing our Economic Development partners may provide some opportunities for assistance, but in other cases it may simply be a case in which the Village is informed that a business relocation

is under consideration in another community and they are seeking assistance to help cover costs of modernization or other site improvements that are hoped to keep a business operating at acceptable or requisite levels, but otherwise would not guarantee a large increases in sales volume, property tax increment or employment benefit.

Establishing a Retention Incentive Policy is often a challenge for government officials, as a fair amount of consideration must be undertaken to determine whether such an incentive will actually stabilize or guarantee a businesses long term retention or even existence. But on the positive side, sometimes it is more beneficial to offer an incentive rather than knowingly see a business leave and then having to undertake steps to recruit a new business.

Compounding the challenge for Lombard is its Non-Home Rule Status. Home-rule communities can be quite creative when it comes to offering incentives and many often have the additional resources and funds to creatively address such a concern. However, non-home rule communities are much more limited in scope. The authority through 65 ILCS 5/8-11-20 to offer Sales Tax rebates, a primary source of funding for past redevelopment projects, is limited to properties that have remained vacant for at least one year, with some minor exceptions. As such, the vacancy provision contradicts what the intent of a retention policy would actually be.

To respond to existing and future requests of this nature, staff is in the preliminary stages of exploring the issues and parameters with establishing a Business Retention Agreement/Policy. This effort will require significant engagement with the ECDC, the Finance Department and the Village Board, similarly to what was done with the EIP. Such elements would include:

- Funding Sources – existing and proposed
- Justification touch-points (i.e., why is an incentive needed)
- Levels of financial and capital improvement engagement by property owner/tenant(s)
- Reconciling PAYGO and any additional increment provisions
- Risk Analysis
- Review of impact under stay or go scenarios
- Economic incentive request review by third-party entities (as currently done by KMA)
- Minimum annual sales tax generation/impact

ADDITIONAL RESEARCH

As part of any future policy efforts, staff would also undertake supplemental analyses to determine the scope of and extent of eligible business types that would warrant consideration, considering elements like specific NAICS categories, highest performers, anchors, legacy businesses, and leakage standards. This could include such business types such as vehicle sales establishments, high sales tax generators and business entities located industrial/office parts that also generate high sales tax. Staff would also research incentive structures offered by other municipalities in the area and potentially elsewhere for reference and discussion purposes.

COMMITTEE ACTION REQUESTED

This item is being placed on the July 12, 2021 ECDC agenda for introductory discussion and direction purposes. No specific action is needed at this time, other than offering comment and input at the meeting so issues can be incorporated into a possible future Business Retention Incentive Agreement/Policy.