MEMORANDUM

TO: William "Bill" Ware, Chairperson
Economic and Community Development Committee

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

DATE: October 6, 2010

SUBJECT: **Retail Grant Program Assessment**

At the September 1, 2010 ECDC meeting, staff introduced several proposed revisions to the Downtown Retail Business Grant (DRBG) program for the committee's consideration. The purpose of this memo is to provide the committee with a review of their comments and offer some additional options for the committee to consider prior to making a final recommendation. Also attached is draft memo that was prepared by one of the Village planning consultants outlining some suggestions for improvements to the grant program. Although this memo is still in a draft format, some of their suggestions have been incorporated into our latest recommendations.

PROPOSED OPTIONS

At the last meeting, staff introduced six (6) revisions to the DRBG program for the committee to consider. The following is a summary of the comments generated by the members along with some additional considerations from staff.

1. **Performance Based Reimbursement for 50% of the grant amount approved**- At the last meeting, staff suggested that the DRBG program should consider a performance based reimbursement for 50% of the grant amount approved. The reimbursement would be based on the Village's share of sales tax generated by that business, but the funds would be drawn out of the respective TIF account. With a performance based reimbursement, the better the business does, the quicker they are reimbursed. Furthermore, it provides some protection for the Village in the event a business was to fail within one year.

   ECDC Comments
   - Several members suggested that the reimbursement years be capped.
   - Most members supported the performance based reimbursement.
   - All members agreed that the grant should require some type of property owner investment/involvement and tied specifically to improvements to their building.
   - A few members expressed a concern about losing our competitive advantage to attract businesses to the downtown with upfront "seed money", especially for highly desirable businesses such as restaurants.

Summary and recommendation for option 1
Based on the comments generated by the committee, staff would like the committee to consider the following revisions:

- Revise the DRBG program to a 50% performance based reimbursement, as previously outlined for all retail establishments.
- Create a provision which allows restaurants the ability to receive the full grant amount upfront, after improvements are completed.
- Cap the years for reimbursement to no more than five (5) years.
- To ensure that the property owner is a partner in the grant, staff recommends that a maximum 5 year lien be placed on the property to cover the up front grant approved (first 50%). 20% of the grant money provided up front could be forgiven for every year that the business is open. By requiring the lien, this could help ensure that the landlord will try and do everything possible to help their tenant succeed. In the event that a business were to close within that first 5 years, staff would recommend a 1 year grace period to allow the landlord to find another tenant to fill the space. Once the space has been filled with a new tenant (retail or service), the remaining years left on the lien would be forgiven for every year that business remains open. However, staff recommends that the new business should not be eligible for any remaining reimbursement years.
- Once a property receives a DRBG, it can not apply for another DRBG for five (5) years, unless it is for a restaurant.

2. **Service Businesses**- At the last meeting, staff recommended that substantial retail component shall be redefined to be 25% of the floor area ***open to the public*** **AND** 25% gross revenue. In addition staff recommended that service businesses with a retail component can only receive reimbursement for eligible expenses for improvements in the retail area only. Lastly, staff recommended that 100% of the grant should be a performance based reimbursement based on the actual sales tax they generate, as outlined above in #1 above.

ECDC Comments
- Most members supported the 100% performance based reimbursement for service businesses, especially if there is no property owner investment. They also strongly encouraged that the business owners provide specific sales tax data.
- A few members wanted to explore creating a service only business grant (i.e. Vocational School).

Summary and recommendation for option 2
Based on the comments generated by the committee, staff would like the committee to consider the following revisions:
- Revise the definition of substantial retail component to be 25% of the floor area ***open to the public*** **AND** 25% gross revenue.
- All service businesses with a substantial retail component can only receive grant money for their eligible expenses through a performance based reimbursement.
- Cap the years for reimbursement to no more than five (5) years.
- Because of the performance based reimbursement, no lien should be required.

3. **Village Board Approval**- Staff recommended that the Village Board approve all grant requests, regardless of the dollar amount.

ECDC Comments

- The committee unanimously supported this option.

Summary and recommendation for option 3

- Staff will include revise the program to reflect this option.

4. **Clarifying Business Expansion**- At the last meeting, staff raised a concern that existing service businesses could just add a retail area meeting the minimum requirements in order to receive a grant. While limiting the eligible expenses to the retail area will help to address this concern, staff recommended that a minimum investment of $10,000 in total improvements also be provided. Furthermore, if it is for an expansion of new retail for an existing service business, the **total floor area** for the new retail component shall be at least 25% of the total leasable area for that business.

ECDC Comments

- The committee unanimously supported this option, provided that the building owner/landlord are involved.

Summary and recommendation for option 4

- Staff will revise the program to reflect this option. It should be noted that since staff is recommending a 100% performance based reimbursement for all service businesses with a substantial retail component, it is not necessary to require landlord involvement. Landlord will now be incentivized to attract tenants that provide some type of retail.
- All expansions must meet both the 25% area and the 25% gross revenue requirements.
- Expanding businesses should also provide financial statements for the past 3 years demonstrating revenue from both retail and service activities

5. **Business Plan**-Staff recommended that all new business owners utilize the services of the College of DuPage's Small Business Development Center (SBDC) prior to receiving grant approval.

ECDC Comments

- The committee unanimously supported this option. They also said recommended that it be a requirement, unless waived by the Village.

Summary and recommendation for option 5

- Staff will revise the program to reflect this recommendation.

6. **Staff Review**- Staff recommended adding a provision which allows the Director of Community Development to not allow requests to be heard before the ECDC until all items outlined in the criteria are met and a complete application has been submitted. A checklist would be provided to applicants. A statement could be added that allows the Director of Community Development to waive certain items if deemed unnecessary.

   ECDC Comments
   - The committee unanimously supported this option.

   Summary and recommendation for option 6
   - Staff will revise the program to reflect this recommendation.

Action Requested
Staff requests that the Economic and Community Development Committee review their comments and staff recommendations. Staff will then make any necessary changes to the program policy guide and bring it back to the ECDC for a formal recommendation to the Village Board.

Memorandum

The Village of Lombard's existing downtown incentive programs are currently undergoing reconsideration to enhance their future contribution to downtown's success. To assist the Village, BDI conducted a brief review of several incentive programs with criteria or attributes potentially relevant for downtown Lombard. These programs include those in St. Charles, Elmhurst, Crystal Lake, DeKalb, Champaign, and Libertyville. These incentive programs were specifically developed to address each community's unique downtown issues. All either are or were funded by downtown TIFs. It should be noted that Libertyville's program no longer exists but was viewed locally and nationally as successful. Like Lombard, each community offered or offers two to four companion incentive programs.

In organizing their incentive programs, each community has structured their incentives to address their downtown properties, desired tenancies, and fiscal limitations. These programs also had six types of criteria to ensure incentive applicant success:

- Property owner involvement. All of the reviewed programs required, at a minimum, that the property owner and tenant formally agree to the terms of the incentive. If the incentive was a loan, a typical applicant was the property owner, and a lien against the property was required. In DeKalb and Libertyville, the terms for forgivable loans (DeKalb) and repayable term loans (Libertyville) were less than those of Lombard. Typical forgiveness and repayment terms were 5 or 7 years. Elmhurst's façade improvement program indicates that only property owners are eligible to apply.
- Real estate funding versus business owner funding. Each of these incentives primarily supported improvements to building exteriors and certain interior improvements to assist current and any future tenants. These initial physical improvements were intended to spur additional re-investment by downtown's property owners over time. To ensure that local incentives are accessible to these multiple property owners, Crystal Lake required that owners wait for five years between incentive applications for the same properties. Champaign has a prescribed maximum incentive amount for any one property within a five-year period. Rear façade improvements were also included in many of these programs to address rear entrances and rear parking lots. St. Charles is one example that actively promoted rear façade work.
- Tenant choice. Related to the above bullet point, these incentive programs were primarily geared to attracting knowledgeable business owners that understand downtown, its investment economics, and its markets. They were intended to support economically viable businesses. With the exception of Elmhurst, none of the reviewed incentive programs included a rent reimbursement as an eligible grant expense.

Elmhurst's grant program lists rent reimbursement among several eligible expenses but also lists working capital as an ineligible expense. Crystal Lake's programs specifically exclude any operating expenses.

- Due diligence. Although requirements vary by community and specific program, all of the reviewed incentive programs required much more extensive financial data from incentive applicants than the data requested in the Lombard programs. In addition to a formal application, applications require the submission of current personal financial statements, 1-3 years of federal tax returns and/or business financial statements, 1-3 years of personal tax returns, a borrower history, detailed estimates of how funds would be used, applicant contributions to the project and where deposited, commitment letters from other project funders, lease agreements, property mortgage and tax data, trust data (if relevant), evidence of insurance, and evidence that the applicant has no outstanding obligations with the municipality. If the applicant is a start-up business, a fully developed business plan prepared in advance, completion of new business owner courses, and evidence of sufficient capital to support operations for a certain time period were also among the requirements. While some programs required more extensive financial data than others, this information helps identify the best applicants, enables an understanding of the project and financial risk factors, and helps municipal staff make good recommendations to local officials (or to reject marginal applications).
- Matches, reimbursements and recourse. All of the reviewed incentive programs required a match by the applicant. The lowest match was 40% by St. Charles in one of its four programs; the remaining matches were 50%. Most programs reimburse the applicant at project conclusion after ongoing monitoring and local regulatory and code inspections. Champaign permits an interim disbursement via an escrow account with agreed upon support documentation indicating the project's progress. Grant programs were always structured as reimbursements. Incentive applicants are expected to repay any loans, with recourse specified in the incentive agreements.
- Approaches to TIF use. The Libertyville loan pool was a unique incentive example. TIF funds were used by the Village to buy-down the borrower's rate throughout the 7-year loan life. Loans were actually made by seven local banks participating in the pool. The banks jointly made loan pool approvals, and applicants selected their preferred bank as part of the process. The Village delegated design review to the Main Street organization's Design Committee. Two grants programs, for signs and architectural renderings, were the remaining parts of the overall program. (These programs were in place until TIF funds were reallocated for a larger downtown project. Conversations have started to re-introduce the program. It should also be noted that this program never experienced any loan default.) In the Champaign program, TIF funds have been used to incent certain uses, such as liquor licenses for restaurants. Their staff evaluation and recommendation process awards points to each application which is used to determine the grant percentage up to 50% participation. Currently, additional points are awarded in considering certain kinds of projects or uses in their two TIF areas.

Overall, these criteria reinforce what are fundamentally financial transactions using TIF funds. The size and scope of the incentives are structured to ensure the kinds of improvements needed to strengthen each downtown's evolving market position and ongoing revitalization. The emphasis on obtaining and sustaining successful tenants not only serves to improve downtown's economics, but it provides a competitive advantage for ongoing recruitment. Sales tax generation was not noted as a criterion for any of the incentives examined. Given the limited square footage in most downtowns, the potential for new sales tax generation is limited. The emphasis on specific, or priority, uses intended to foster vitality was more predominant. Elmhurst and Crystal Lake were two examples. Several of the incentive programs offer incentives up to $100,000, subject to more stringent evaluation. For Lombard, larger potential projects, using a lower percentage of TIF contribution, done in partnership with engaged downtown property owners could attract certain uses or serve as catalysts. Ultimately, successful incentive programs balance the needs of downtown's key public and private partners by focusing on what can work in achieving the vision for downtown.

DRBG Program Summary

Explanation of eligibility & program requirements

What is covered under the program?

- **Eligible expenses**
  - Capital improvements (restrooms, fire sprinklers)
  - Signage
  - Moving expenses
  - Professional, architectural, engineering, & Village permit fees
  - First 3 months rent
- **Ineligible expenses**
  - Non-capital improvements (flooring, paint)
  - Equipment specific to the business (refrigerator, cash register, furnishings)
  - Day-to-day operational costs (utilities, taxes)
  - Products/merchandise

Performance-Based Reimbursements

- Grant funds paid annually
  - Business will be reimbursed 100% of sales tax generated by business for first 5 years (capped)
  - Submittal of documentation to Village must still occur within 12 months of DRBG approval
- Available for:
  - Retail businesses (other than fast-food restaurants): 50% of grant award (up to $10,000)
  - Service businesses w/ ≥25% retail: 100% of grant award (up to $20,000)
- No lien required

Startup Reimbursements

- Grant funds paid immediately upon completion of work & submittal of documentation to Village
- Available for:
  - Fast-food restaurants: 100% of grant award (up to $20,000)
  - Other retail businesses: 50% of grant award (up to $10,000)
- Lien placed upon property for 5 years
  - 20% of lien forgiven annually
  - If DRBG recipient closes within 5-year lien period, property owner shall have 365 days to reoccupy the tenant space with a retail tenant to avoid repayment of remaining lien amount

Submittal requirements for all DRBG applications

- **Prior to ECDC consideration**
  - Completed application form signed by applicant and property owner
  - Interior & exterior building plans (including signage)
  - Cost estimates
  - Business plan reviewed by COD SBDC

- **Prior to disbursement**
  - 3 contractor bids
  - Proof of ownership or minimum 3-year lease
  - Completed Illinois sales tax release form
  - Membership in Lombard Town Centre
  - Submit all receipts, paid invoices, and waivers of lien within 12 months of DRBG approval

Business Type	Fast-Food Restaurant	Other Retail	Service w/ ≥25% Retail	Service w/ <25% Retail
Property Eligibility	All tenant spaces eligible, regardless of past DRBG awards	May not apply for DRBG if tenant space has received a DRBG within the past 5 years	May not apply for DRBG if tenant space has received a DRBG within the past 5 years	Not eligible
Maximum Grant Award	$20,000	$20,000 total	$20,000	Not available
Startup Reimbursement	Up to $20,000 (100% of grant amount)	Up to $10,000 (50% of grant amount)	Not available	Not available
Lien Requirement	Upfront reimbursement amount forgiven over 5 years	Upfront reimbursement amount forgiven over 5 years	Not applicable	Not applicable
Performance-Based Reimbursement	Not applicable	Up to $10,000 (50% of grant amount)	Up to $20,000 (100% of grant amount)	Not available