City of DELTA

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A G E N D A

Delta City Council — **March 18, 2014**
Work Session — **5:00 p.m.**

A. Discussion Regarding Possible TABOR Question

B. Utility Transfers

C. Business Development/ Retention Incentives

D. Review the 2014 City Council Action Plan

MEMO

To: City Council
From: Justin Clifton, City Manager
Date: March 18, 2014
Subject: TABOR Ballot Question

Office of the City Manager

Recommendation:

Staff recommends that Council consider the enclosed information regarding a TABOR question.

Background:

The City has numerous revenues that are still restricted by TABOR. As Council is aware, TABOR has a "ratcheting down" effect whereby restricted revenues can only grow by inflation and population growth. This is true even after a recession when revenues are down. This has the impact of keeping restricted revenue tied to their lowest historic levels. The City has had to issue refunds to citizens in past years. Potentially worse, the City would have to refund revenues in future years because the TABOR "ceiling" has been lowered. This could be especially problematic if high growth returns and the City needs to invest dollars in new Community Development staff. The City could be faced with $150K plus in new expenses while also having to return the revenue collected from development.

Cost:

It is difficult to assess total costs. Participation in the election will cost around $8,000. Additionally, the City may produce materials to help clarify the purpose and effect of the ballot question. While the City cannot actively campaign, it can produce informational material.

Alignment With Strategic Planning:

The Council has the primary responsibility for establishing the financial parameters for City operations. Addressing TABOR was identified in the 2013 and 2014 Council planning/ priorities meetings.

Actions To Be Taken if Approved:

Staff will begin making preparations for a November ballot question.

City of Delta TABOR History

Revenues restricted by TABOR:

General Fund			
Other Business Licenses & Permits	Phone, Fax and Copy	Court Fines & Forfeits	Other Revenues
Building Permits	Plan Check Fees	Interest on Investments	Senior Center Utilities
Burial Permits	Abatement	Horse Arena Rental	
Animal Licenses	Animal Control &Shelter Fees	Parks Rental	
Other Business License and Permits	Cemetery Lots	Fort Sale Merchandise	

Rec Center	City Wide	Cemetery/ Service
Interest on Investments	Interest on Investments	Interest on Investments
Advertising	Other Rental	Cemetery Lots
Other Revenues	Contributions for Construction	

2013 Tabor Calculation:

2012 Base	Growth + Inflation	2013 Base	2013 Restricted Revenues	Net
$875,310	3.54%	$906,296	$881,569	($24,727)

History of Refunds:

Year	Refund	Year	Refund
2003	$102,163	**2009**	$0
2004	$146,380	**2010**	$73,711
2005	$89,489	**2011**	$0
2006	$215,975	**2012**	$0
2007	$193,502	**2013**	$0
2008	$0	**2014**	??

MEMO

To: City Council
From: Justin Clifton, City Manager
Date: March 18, 2014
Subject: Utility Transfers

Office of the City Manager

Recommendation:

Staff recommends that Council consider a comprehensive review of current and potential future utility transfers.

Background:

The Council has invested substantial time into solidifying the financial stability of the organization. Key to that discussion is consideration of the use of utility funds to support other governmental services. Although we have made substantial progress in reducing overall utility transfers, continued use combined with increasing costs creates pressure to raise utility rates. Raising the rates impacts our citizens and costs valuable political capital. Not raising rates creates pressure to cut governmental services, which also impacts our citizens and costs valuable political capital.

During the work session staff will use dynamic graphs to model any number of potential scenarios for future utility costs and corresponding rates. This will enable Council to quickly address numerous "what if" questions and immediately see the results to the average rate payer. However, this is only one part of a broader conversation about the City's overall financial stability. The goal of this meeting is to retain enough of the basic information so that when it comes time to develop a complete strategy, we are fully aware of the consequences of every decision. As an example, in isolation future potential utility increases may cause Council enough concern that it is inclined to try and reduce utility transfers. However, avoiding the increases would likely mean raising other revenue or cutting other expenses. If we were to later review those options Council may find them even more unappealing than increasing utility rates. In other words, this is one piece of solving a very complicated and complex problem with no perfect solution. It's the start of making very difficult decision.

MEMO

To: City Council
From: Justin Clifton, City Manager
Date: March 18, 2014
Subject: Incentives

Office of the City Manager

Recommendation:

Staff recommends that Council consider the advantages and disadvantages of using tax incentives as a business recruitment tool to better respond to requests from businesses to provide incentives.

Background:

The tax incentive issue continues to be controversial for local governments. On the one hand, the large number of communities offering incentives creates additional pressure to compete. On the other hand, it's difficult to say whether or not incentives truly make a difference. Spending scarce resources on incentives limits the ability of a local jurisdiction to spend money on other economic development tools.

The enclosed ICMA article captures much of the debate today and includes some results from recent research.

Delta has offered incentives in the past but the Council is not in agreement on whether incentives should be offered and if so, how. It should be noted that the lack of property tax leaves Delta with few options to provide incentives. Common requests for incentives are likely to focus on waiver of fees or construction of infrastructure.

Council should consider some of the following questions in order to help reach resolution on this issue:

1. Do you believe incentives can be "the difference" in a location decision?
2. Are local incentives critical? (we help facilitate access to state dollars, tax credits, grants etc.)
3. Are incentives the best use of economic development dollars? (Compared to business support services, recruitment efforts, infrastructure investment etc.)
4. How do we know the community gets a return on its investment?
5. Should there be a total dollar amount identified for incentives?
6. Do you establish a rigid formula for incentives or negotiate on a case by case basis?
7. Who qualifies?
    - New business?
    - Existing but struggling businesses?

- Existing but potentially leaving businesses?
- Existing but expanding businesses?

8. What criteria are most important?
    - Jobs created?
    - Pay of the jobs created?
    - Total investment made?
    - Tax revenue generated?
    - Development of “key” industries?
    - Commitment to stay or keep jobs for a certain amount of time?
9. Does offering incentives and sometimes saying “no” create a problem where none existed before?
10. How do we monitor and enforce performance or commitments made?

<u>Cost:</u>

The cost of this kind of program is uncertain. Council has discretion on how to establish this program if at all.

<u>Alignment With Strategic Planning:</u>

Economic development is an identified priority in the 2013 and 2014 Council planning/ priorities meetings.

<u>Actions To Be Taken if Approved:</u>

Staff will take whatever additional research, planning, program creation of execution actions as instructed by Council.

ARTICLE

Incentives for Business Attraction and Retention

June 13, 2012

Business attraction and retention strategies often employ incentives to lure new businesses or to keep existing ones in the community. This article discusses types of incentives for attraction and retention in the context of debates about their cost-effectiveness.

Business attraction

While debate rages about the cost-effectiveness of incentives for luring businesses, business attraction with the use of financial and nonfinancial incentives remains popular. Every U.S. state offers recruitment incentives, as do most local communities. Arguments in favor of this approach emphasize the political realities of intercommunity and interstate competition for economic development.

Although many governments rely on inadequate evaluation when deciding which incentives to use and how to use them, some governments have added a new level of sophistication to the incentive process in the form of incentive negotiation strategies. Jurisdictions willing to engage in incentive negotiation recognize that businesses want to obtain the best possible deal and that government must protect itself from bad deals. These governments are starting to take an investment approach to the use of incentives: quantifying the costs and benefits of a given project, calculating an appropriate rate of return and investment level, and strictly maintaining that investment level unless it can be shown that a higher level of investment will pay correspondingly higher benefits.(1)

Most incentives are used either as a marketing mechanism to increase the number of firms that will consider relocating to the jurisdiction or as a tool for completing a deal once one or more prospects have been identified and negotiations are under way.(2) Incentives are most likely to be effective as tools of business attraction when they are targeted to the specific needs of the firms being recruited. (3)

FOREIGN INVESTMENT

Although incentives are used in all types of business attraction deals, perhaps the most extensive use of incentives has come in those deals involving foreign investment. Foreign investment takes a variety of forms: foreign interests take equity positions in firms from another country, foreign investors acquire real estate in that country, and foreign corporations locate operations there. U.S. economic developers especially seek to lure foreign firms. In particular, state and local governments pursue foreign manufacturing operations, especially in the automotive industry, in response to the interest European and Japanese automakers have shown in locating facilities in the United States to reach the large U.S. market more effectively.

Jurisdictions use two major approaches to attract foreign corporations: one is the project approach, involving the pursuit of a particular business; the other creates and markets a business climate that is desirable to firms looking at alternative locations.

The project-oriented model tailors a package of incentives to the deal being pursued. Two well-known cases involving this approach have been Alabama's successful effort to induce Mercedes-Benz to build an automobile plant near Tuscaloosa and the deal that brought the German automobile manufacturer BMW to South Carolina. South Carolina offered a $150 million package, and in return, BMW built a $1.2 billion plant and created three thousand jobs. (4) While most of this kind of business attraction activity takes place at the state level, local communities also get involved. One example is a successful effort by Houston, Texas, to attract a Danish wind turbine manufacturer.

The project-oriented approach has been the most common model, with dozens of cases all over the United States. Many have received considerable press coverage, making them highly visible to the public. The debate in most of these cases has been over the cost-effectiveness of these deals to the public sector. (Is this money well spent, or could it be more appropriately used elsewhere?)

In the business climate–oriented model, the incentives are not tailored to a given firm's needs but are designed to have broad appeal (e.g., lower tax rates, streamlined government permitting processes, quality-of-life amenities, an appropriately trained workforce).

DEBATE OVER INCENTIVES

Public incentives have come under considerable scrutiny, highlighting a rift between those who question the use of incentives as an economic development tool and those who support incentives. Opponents of incentives believe the following:

- Incentives create unnecessary competition among jurisdictions and often amount to zero-sum games.
- Companies should exhibit loyalty to their communities because it is the right thing to do, not because they are receiving incentives.
- Once incentives are extended to private firms, those firms will continue to demand more from government.
- Monies that go to businesses as incentives would be better spent on social, educational, and other programs.
- Firms are rarely held accountable for staying in the community or for generating jobs or other economic development outcomes once they have received incentives.

Proponents of incentives believe the following:

- New businesses generate additional tax revenue that is essential for providing public services; despite tax incentives, the community keeps most of the additional revenue generated.
- Businesses are important members of the community; if businesses remain competitive, the community's efforts for businesses will redound to the community's benefit.
- Incentives to firms amount to a community's investment in its economic future; the return on investment makes the risk worth taking. (5)

The academic literature is divided on the appropriateness of incentives. However, most research tends to show that these divisions are based largely on differences in theoretical perspective, the research method, and the time perspective (short term vs. long term). Studies appear to agree on three key points:

- With few exceptions, incentives will not effectively influence firm location decisions.
- The truly important factors in business location decisions are transportation considerations, labor quality, and markets.
- The best way for government to influence firm location is to create and sustain quality communities. (6)

Another finding is that incentives look better when used as a short-term strategy. It is interesting that more jobs are created by expanding existing businesses in the community than by attracting new businesses from outside the community. (7) A study in Nebraska found that incentives have a positive impact on economic development in counties that are already economically strong but no significant impact in counties that are economically depressed. This study concluded that incentives may be exacerbating economic disparities among localities in that state. (8)

Although economic development professionals now understand that incentives cannot mask a community's long-term deficiencies, the public sector—with a short-term mindset—continues to use incentives for business attraction purposes. Local policy is still heavily influenced by politicians and other laypeople who seek the favorable publicity that comes with luring a major employer to the community. (9) In regions of the United States that feel they must continue to play economic catch-up, these incentives are still used extensively. (10)

Business retention

For many years, business retention as a strategy for job creation clearly has been superior to business attraction. (11) If incentives are used at all, they should be made available to existing firms as well as to new prospects. (12) When prioritizing economic development programs for funding, government should place business retention efforts ahead of business attraction.

A business retention strategy makes sense for a variety of reasons. Any community's existing firms are important assets to its economy. They are the current employers. They also are and have been taxpayers. Business retention requires less speculation than firm attraction. The firm already is located in the community and, as a result, already has developed attachments and loyalties. Firms often will find staying and expanding easier than relocating. Packages designed to induce firms to stay and expand might be viewed as rewards for that loyalty, whereas inducements designed to attract new firms may be perceived by existing firms as implicit signals that they are either taken for granted or perceived to have less value than newcomers.

When a community elects to pursue a business retention strategy, it usually takes several steps:

- First, it makes a complete inventory of all existing businesses.
- Second, it contacts these firms to determine their current situation and their needs. The government prepares a simple and short survey, focused on learning what factors each firm thinks would make it more successful and how the government can help. The government will not unquestioningly provide what existing firms claim to need, but it will analyze the feedback to determine where and how best to use its business retention resources.
- Third, the government initiates an ongoing effort to meet existing firms' short-term needs, and it maintains a pro-business attitude. (13)

Business retention strategies and tactics can take a variety of forms. Financial inducements, including tax incentives, loans, and loan guarantees, constitute one retention strategy. Nonfinancial incentives, also important, can include training targeted at specific labor needs.

A government in the position to do so could provide subsidized R&D assistance or access to public R&D know-how and facilities, for example, at public research universities. Research assistance is particularly useful to small and medium-sized businesses that do not have enough resources to invest in R&D but must innovate to survive. Even some large firms find the costs of ongoing, in-house R&D prohibitive. (14)This particular business retention incentive has proved especially effective in helping build high-tech industry clusters when some firms in the industry already exist in the community. Establishing these existing businesses as solid industry anchors permits the community to use these clusters to its advantage when it promotes itself to new high-tech firms.

Some retention activities include providing adequate, appropriate physical infrastructure (roadways, public transit facilities, water and sewer lines, high-speed communications networks, airport facilities, and speculative industrial buildings) and access to sufficient energy resources (water, electricity, natural gas, and geothermal or other sources of power for operations).

Various economic development issues—such as quality-of-life and environmental concerns, social costs of growth, redistribution issues, and the role of government—also affect business attraction and retention. Although government incentives still can be used as tools in economic development and retention efforts, these contemporary issues bear on many initiatives.

Notes

1 K. McEnroe, "Incentives as a Public Business Investment," *Economic Development Review* 12, no. 4 (1994); Spelman, "Growth, Stability and the Urban Portfolio:" 299–316.

2 Ibid., 12–15.

3 Thomas S. Lyons and Roger E. Hamlin, *Creating an Economic Development Action Plan: A Guide for Development Professionals,* rev. ed. (Westport, Conn.: Praeger, 2003); McEnroe, "Incentives as a Public Business Investment": 12–15.

4 J. Brauer, "Letters to the Editor: Auto Town Blues," *Wall Street Journal*, 27 September 2000, S4; K. E. Thuermer, "The Southeast Picks Up the Pace," *World Trade* 11, no. 9 (1998): 58–63.

5 McEnroe, "Incentives as a Public Business Investment": 12–15.

6 Henry W. Herzog Jr. and Alan M. Schlottmann, "Industrial Location in the United States: Some New Evidence of Public Policy Efficacy," *Survey of Business* 29, no. 1 (1993): 9–16.

7 Ibid.

8 Ernest P. Goss and Joseph M. Phillips, "Do Business Tax Incentives Contribute to a Divergence in Economic Growth?" *Economic Development Quarterly* 13, no. 3 (1999): 217–228.

9 Edward J. Jepson Jr., "Grappling with the Complexity of Economic Development," *Economic Development Review* 12, no. 3 (1994).

10 Michael M. Phillips, "More States Reassess Business Incentives—Pullback Comes Amid Growing Skepticism about

Cost," *Wall Street Journal*, March 20, 1997, A2.

11 Raymond C. Lenzi, "Business Retention and Expansion Programs: A Panoramic View," *Economic Development Review* 9 (1991): 7–12.

12 Henry W. Herzog Jr. and Alan M. Schlottmann, "Industrial Location in the United States: Some New Evidence of Public Policy Efficacy," *Survey of Business* 29, no. 1 (1993): 9–16; A. Macpherson and M. Ziolkowski, "The Role of University-Based Industrial Extension Services in the Business Performance of Small Manufacturing Firms: Case Study Evidence from Western New York," *Entrepreneurship and Regional Development* 17, no. 6 (2005): 431–447.

13 Lenzi, "Business Retention and Expansion Programs": 7–12.

14 Lyons and Hamlin, *Creating an Economic Development Action Plan*, 47.

Excerpted and adapted from Steven G. Koven and Thomas S. Lyons, "Current Approaches to Business Attraction and Retention," chapter 5 in *Economic Development: Strategies for State and Local Practice*, 2d ed. (Washington, D.C.: ICMA Press, 2010. To learn more about this book, or to place an order, visit ICMA's online bookstore (bookstore.icma.org) and search for item no. 43614.

COMMENTS & RATINGS

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Action Planning

Why?: Action planning provides an opportunity to organize thoughts about achieving and maintaining excellence within your department and for you as a leader. Without planning, we tend to focus on daily tasks and workload; reacting to challenges and neglecting to put lessons learned into action.

Purpose:

- To think proactively about end goals; develop strategies and measurements to link means to ends.
- To organize thoughts about organizational, programmatic and personal goals/ strategies
- To have a system for assessment and reassessment
- To have better ways of measuring performance and value

Who?: All employees can benefit from tools for forward thinking and planning. All employees with leadership responsibilities should engage in some form of action planning.

Topic Areas: Plans should include but are not limited to major projects, organizational improvement, new programs and professional development

Format: Broad Goals – Objectives – Strategies – Measurements –Assessment (at year end)

Hint: Does your plan pass the "SMART" test? (**S**pecific, **M**easureable, **A**ggressive yet attainable, **R**esults oriented and **T**ime bound)

2014 City Council Action Plan

Mission:

Preserve and enhance our community through collaborative efforts providing services that improve quality of life

Vision:

An all American city in the heart of Western Colorado with community spirit that fosters economic growth and prosperity to create an attractive and vibrant rural community for residents, businesses and visitors.

Objective #1: Improve Economic Vitality

Strategies:

- Create an environment conducive to business growth by:
  - Supporting what we have through business services and economic gardening efforts
  - Use grants in partnership with DCED to consider a business recruitment strategy
- Consider the use of tax incentives or other financial contribution tools for select businesses
- Develop adequate infrastructure with a focus on internet connectivity
- Focus on "core" infill projects
- Improve relationships and set expectations for:
  - DCED, Region 10, Tourism, History and Recreation groups

Measurable Outcomes:

- Develop and adopt of a clear plan to provide business support services by December 31, 2014
- Solidify whether or not financial contributions will be made for business location/ expansion by June 30, 2014
  - If yes, develop criteria and process for financial contribution decisions by December 31, 2014
- Develop timeline for a construction phase an in-city fiber project through the Region 10 planning grant by December 31, 2014
- Review Land use Code for in-fill incentives by September 30, 2014

Objective #2: Improve Quality of Life

Strategies:

- Consider ways to repair and possibly expand trail system
- Look at mobility and prioritize areas for improvement
- Revisit Comp Plan and identify progress made and next priorities
- Look at addressing panhandling
- Develop basic parks plans that focus on existing large parks
- Consider expanding the murals and public art program

Measurements:

- Identify top priority trails for the 2015 budget by December 15, 2014
- Review and report on Comp Plan by Dec 31, 2014
- Host work session to discuss option for panhandling by Oct 31, 2014

- Identify potential mural location for the 2015 budget by December 15, 2014

Objective #3: Work toward greater financial stability

Strategies:
- Build and maintain healthy reserve balances
- Monitor revenue trends closely—especially sales tax and severance tax/FML
- Consider service level expectations and costs
- Attempt to influence MEAN owners for better utility rates
- De-bruce revenues
- Divest property wherever possible

Measurements:
- Identify targeting reserve balances for each major fund by August 31, 2014
- Report financial health to Council quarterly
- Consider service levels and costs for 2015 budget by Nov 1, 2014
- Outline TABOR ballot questions process by March 31, 2014
- Hold TABOR election in November 2014
- Present/ discuss inventory of City properties by September 30, 2014

Objective #5: Maintain Infrastructure

Strategies:
- Consider utilization of a pavement management software
- Prioritize roads for repair
- Solidify target for total utility transfers
- Plan for storm water utility

Measurements:
- Develop plan for pavement management for the 2015 budget by Dec 15, 2014
- Complete $400K in budgeted road improvements by Nov 1, 2014
- Prioritize road repair in the 2015 budget by Dec 15, 2014
- Discuss a targeted utility transfer by March 31, 2014
- Discuss storm water funding by Oct 1, 2014

Objective #6:   Improve Council processes

Strategies:
- Present more information to Council
- Review important policies periodically
- Discuss agenda items and explain dissenting votes
- Set expectations for Council committees and report back

Measurements:
- Discuss expectations of Council committees by April 31, 2014
- Place committee reports on regular meeting agendas as appropriate throughout the year
- Improve Council self assessment results by February 28, 2015