Essential Information For Downtown Revitalization
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Perspectives

Sharing downtown growth: tax incentives and community benefits

By Gary Ferguson

In many communities across the United States, downtown projects frequently find themselves with funding gaps that need to be overcome to proceed. These gaps are often the result of significant differentials in project costs, expenses, and revenues between suburban, greenfield locations, and core center city sites.

Such has been the case in Ithaca, NY (pop. 29,290), a small yet very cosmopolitan college community in upstate New York with a vibrant downtown but a growing suburban periphery. Seeking a financial gap-filling tool, downtown, city, and county leaders crafted a "Density Tax Abatement Program" in 2001. This program is administered by the Tompkins County Industrial Development Agency (IDA).

The Density Program sought to provide tax abatement and other incentives to projects that were (a) located within a designated urban target area and (b) met threshold criteria for being dense urban projects. The target area consisted of downtown and other center city areas that had historically not received substantial private investment. The primary incentive was a 10-year stepped tax abatement on all city, county, and school district property taxes. Incentives were not provided as of right. Each applicant had to demonstrate "but for" fiscal need, supported by an independent financial analysis.

During the program's first five years, the IDA approved five projects, four in downtown Ithaca. The four downtown projects alone generated $62 million of private investment, leveraged another $26 million of public investments, and created 803 downtown jobs. The amount of tax abatement incentives given to these projects was $8,175,620. Since the tax abatements are stepped, these projects generate property taxes for the community during the 10-year abatement period. These same projects will return $7,881,008 in new local property during the abatement period.

What's more, the four downtown projects represented a dramatic economic surge for downtown Ithaca at a time when suburban retail and office growth was accelerating and challenging downtown. Included in these projects were new luxury housing, new market-rate housing, a downtown hotel, two new downtown office buildings, a downtown cinema complex, and new retail space.

Community benefits create additional costs

The Density Program had a five-year sunset provision. A key aspect of the renewal discussion has focused on community benefit. A number of community activists and legislators have sought to append key community social issues onto the incentive program. Their argument is straightforward: If a project receives public assistance, it should give back to the community in some tangible way.

Among the list of issues under consideration at this time are the following.

• Green buildings: projects should demonstrate steps to save energy and promote sustainability through LEED (Leadership in Energy and Environmental Design) eligibility, certification, or some other tangible method.

• Local labor: Projects should commit to hiring local labor for construction.

• Wage rates: Construction jobs as well as permanent jobs should be at living wage levels or higher.

• Minority contracting: A significant portion of the project should be earmarked for minority contractors.

• Union labor: A significant portion of the project should be earmarked for union labor.

• Affordable housing: There should be a tangible commitment to provide affordable housing units in a project.

While each of these items represent important community needs, most also create additional costs for projects. Community benefit requirements could actually increase the funding gap projects seek to close. For example, if a developer approaches the IDA with a $1 million gap, he/she wants to leave with no gap. It is possible for a developer to fill their initial gap but then be asked to find another $500,000 in increased costs to cover community benefit concerns.

Community benefit negotiations have occurred in a number of larger cities. These markets tend to be robust and project gaps are unusual or non-existent. Requests for community benefit contributions presume there is ample surplus revenue or profit to be shared with the community. In smaller cities where project gaps remain, there is a limit to the largess that a developer can extend and still undertake the project. Often there is a distrust of developers and a sense that they have additional project dollars to earmark to the community.

Potential solutions in less robust markets

There are solutions to this apparent divergence of opinions. One method involves readjustment of the abatement over time. The Tompkins County IDA created a special plan for one density project that eliminated the demonstrable need requirement, and instead provided a “look back” provision. After three years, project tax returns will be evaluated. If the project’s rate of return exceeds an acceptable range, the amount of abatement for the following year will be decreased. Should the rate fall below the acceptable range, the abatement amount could actually increase to a pre-set capped limit.

A second solution is to increase the amount of incentives provided if costly community benefits are addressed. Since the provision of affordable housing is a costly action, there could be a corresponding increased abatement allowance extended to projects that offer affordable housing.

Finally, there are other incentive-based policies for encouraging community benefits. For example, in return for providing a percentage of affordable units, a project might receive more density either through a height variance or floor area (FAR) allowance. In some communities, the same organization that administers the tax incentive programs also administers zoning. In Ithaca, developers must go to the County for tax abatements and the City for zoning, creating jurisdictional hurdles to overcome for this option.

The Ithaca experience suggests two important points. First, communities can successfully target tax incentive programs to their downtowns that are important and powerful tools for revitalization. Second, community benefit considerations that are part of any incentive programs should be crafted in ways that will allow projects to proceed and not act as fiscal barriers.

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