

Title City of St. Charles Economic Incentive Policy  
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### **Sections:**

- Introduction
- Eligible Development
- Financial Assistance Incentive Criteria
- General Policies for the Use of Financial Assistance
- Financial Assistance Structure
- Non-Profit Organizations/Tax Exempt Property
- Application Process and Procedure

## **I. INTRODUCTION**

The purpose of this document is to provide guidance for the City of St. Charles' (the "City") use of financial assistance. These guidelines establish an objective framework to review and evaluate incentive requests. For this evaluation, the City will use the criteria indicated in this policy.

It is imperative to maintain and encourage a strong and positive business climate in the City, but this must be done in tandem with cautious review of the long-term financial implications, as well as potential community-wide impacts. As a matter of policy, the City of St. Charles may consider using financial incentives to assist private developments only in those circumstances in which the proposed private projects show a demonstrated financial gap or where significant amounts of sales tax revenue will be realized.

It is the intention of the City of St. Charles to review requests for financial assistance and revenue sharing on a case-by-case basis. Proposed agreements to share revenue or costs of improvements must be carefully considered on an individual basis and upon the merits of each situation. It is not the intention of the City to use revenue sharing or incentives to relocate points of sale from neighboring communities or to allow such requests to induce a bidding war for City funds.

This policy shall be used as a guide in processing and reviewing applications requesting assistance. The City Council shall have the option of amending or waiving sections of this policy when determined necessary or appropriate. In the case of TIF assistance, the fundamental purpose is to encourage desirable development/redevelopment projects that would not otherwise occur "but for" the assistance provided through TIF.

It is the intent of the City to provide the minimum amount of assistance to make the project viable. The provision of financial assistance is at the sole discretion of the City. The City reserves the right to reject or approve projects on a case-by-case basis, taking into account established policies, specific project criteria, and the demand on City services in relation to the potential benefits to be received from the proposed project. Meeting policy guidelines or other criteria does not guarantee the award of assistance. Furthermore, the approval or denial of one project is not intended to set a precedent for approval or denial of another project. The City's decision to participate in any agreement should be viewed as a contribution that will aid growth and add long-term value to the community.

## **II. ELIGIBLE DEVELOPMENT**

### ELIGIBLE DEVELOPMENT

The City will consider financial assistance for the following types of development:

1. Business development (Attraction, Retention, or Expansion).
2. Housing (Owner Occupied or Rental).
3. Development consistent with approved TIF plans.
4. Development compatible with other redeveloped properties in terms of land use and capital improvements. Under served business segments.

## **III. FINANCIAL ASSISTANCE INCENTIVE CRITERIA**

Two of the following criteria must be met in order for incentive requests to be considered:

1. Attracting, retaining or expanding businesses for the purpose of improving the City's economic base.
  - Documentation of financial projections must be provided by the firm making the request and will serve as the basis for the agreement.
  - Existing sales, property, or transfer sales from existing St. Charles businesses must be accounted for in the projections.
  - Revenue sharing will be predetermined for a fixed period of time, based on a percentage of new revenues generated, and will include a "cap" amount.
  - When applicable, "claw-back" provisions will be utilized. For example, when recipients fail to meet investment, wage, or job creation commitments, they will be required to repay a pro-rated share of the incentive reflecting the level of deficiency as determined prior to the agreement.
2. Desirable businesses that would enhance the vitality of the City.
3. Serve an under-served business segment.
4. Presence of extraordinary development/redevelopment costs such as:
  - Remodeling/demolition
  - Environmental remediation

- Capital purchases
  - Facility expansion
  - Public infrastructure
  - Governmental impositions (road impact fees, storm water retention, road improvements, etc).
5. Proposed increase in employment.
    - Firm has long-term lease for building and/or facility in St. Charles. Long-term is defined as 10 years or more.
    - A minimum of 10 new full time employees.
  6. Enhance the streetscape and pedestrian experience and improve the vitality of the area.
  7. Improving public infrastructure.
  8. Providing a variety of quality housing choices.
  9. Quality of development and overall aesthetics are in excess of the mandated legal requirements and design standards.

#### **IV. GENERAL POLICIES FOR THE USE OF FINANCIAL ASSISTANCE**

1. Financial assistance will not be provided to projects that have the financial feasibility (as determined by the City) to proceed without the benefit of the assistance. Assistance will not be provided solely to broaden a developer's profit margin on the project. Prior to consideration of a financial assistance request, the City will undertake an independent analysis of the project costs to ensure that the request for assistance is necessary.
2. Individuals requesting financial assistance must demonstrate, to the satisfaction of the City, sufficient equity investment in the project. Equity is defined as cash or un-leveraged value in land or prepaid costs attributable to the project.
3. An independent appraiser will determine the fair market value. The developer will be responsible for paying all costs associated with the appraisal.
4. The developer shall provide any market and financial feasibility studies, appraisals, and all information provided to private lenders for the project, as well as any other information or data which the City or its financial consultants may require in order to review the need for financial assistance.
5. Financial assistance will not be used for projects that place extraordinary, unmet demands on City infrastructure or services.
6. The developer shall provide adequate financial guarantees to ensure completion of the project, including, but not limited to, letters of credit, cash escrow, and personal guarantees.
7. The developer must be able to demonstrate to the City's satisfaction an ability to construct, operate, and maintain the proposed project based upon past experience, general reputation, and credit history.

8. All projects are subject to the provisions of Section V (3).
9. The level of financial assistance should be reduced to the lowest possible level in the least amount of time by maximizing the use of private debt and equity financing first.
10. Financial assistance shall not exceed 75% of the projected revenue for the project.
11. Each financial assistance project must demonstrate the probability of economic success. The developer shall initiate this effort by submitting to the City preliminary sales, rental, and other projections and/or pro forma analyses concerning the subject project.
12. Development projects receiving financial assistance may be required to provide a full reimbursement of the City's financial assistance and expenses in the event the project is removed from the City's tax rolls during the period of time that the applicable incentive agreement is in existence. The developer shall sign appropriate legal documents indicating agreement with this mandate.

## **V. FINANCIAL ASSISTANCE STRUCTURE**

1. The City's default position is that financial assistance may be provided by the City on a "pay-as-you-go" note method. In rare instances, the City may consider other forms of assistance. Requests for financing will be considered on a case-by-case basis, if increment or revenue generation is expected to be sufficient to meet initial financing and debt service costs. The developer will be responsible to provide tax bills and any other required information to allow the City to estimate and track the increment produced by the project.
2. The amount of assistance provided to a developer will be limited to the amount necessary to provide the developer a reasonable rate of return on investment in the project and the subject site. A developer's return on equity, return on cost, or internal rate of return will be based on current market conditions, as determined by the City.
3. Projects receiving assistance may be subject to a "claw-back" provision. The claw-back shall mandate a developer to provide the City repayment of financial assistance should the developer not deliver the physical improvements, increase in revenues, increases in employment, or close/cease to operate a project prior to the agreed upon term of the financial incentive agreement.

## **VI. NON-PROFIT ORGANIZATIONS/TAX EXEMPT PROPERTY**

The City may consider financial assistance for projects of non-profit organizations that own tax-exempt property. If TIF assistance is given, the organization's project will need to meet the pertinent goals of the City's applicable TIF plan and demonstrate a positive financial impact on the TIF District.

## VII. APPLICATION PROCESS AND PROCEDURE

1. Pre-Meeting - Prior to the submission of a financial assistance application, the applicant shall meet with staff to discuss (in general terms) the approval process for financial assistance, the type of anticipated financial request, and general characteristics of the proposed project. This will not include any discussion regarding specific terms of any potential incentive agreement. Staff shall provide guidance on the next steps for the applicant to file applications.
2. Application Packet - Applications for financial assistance shall be submitted to the City. An initial fee of \$7,000.00 shall be due upon filing of any Part 1 or Part 2 Application. This fee shall be used to cover the City's legal, administrative, and review costs. In the case of projects that require 3<sup>rd</sup> party outside consultants hired by the City, the applicant will be required to submit an amount equal to the agreed contract provided by the consultant. The applicant shall be required to sign a reimbursement of fees agreement with the City (attached to the application). If an additional amount of money is required to reimburse the City for its related costs, the applicant shall be responsible for such costs. If any portion of the fee is not utilized, the City will refund the remaining amount to the applicant.
  - a. Part 1 Application Purpose: The Part 1 Application is to provide staff and the City Council an opportunity to review the request for financial assistance and preliminary term sheet. This application is for preliminary review only. Any comments, suggestions, or feedback the applicant receives from staff, committees of the whole, or any member of the City Council shall not be construed as an approval or commitment to approve the financial assistance request, and all comments shall be considered non-binding.
    - i. The applicant shall provide sufficient information to the City to prove their business case and to substantiate why the project cannot move forward without financial assistance. This application may be accompanied by, but not limited to the following: preliminary financial commitments from financial institution(s), plans and/or conceptual drawings for the project, background information on the developer, a pro forma analysis, financial statements, preliminary engineers or design professionals costs estimates for any public improvements or construction costs, preliminary estimates for any extraordinary costs such as unsuitable soils, remediation, or similar.
    - ii. Tax Increment District (TIF) and Business District (BD) Assistance Requests. In addition to the information required above, applicants requesting the use of TIF or BD districts shall be required to provide the following information during the Part 1 Application Process:
      - The applicant (at their own expense) shall work with the City to hire an outside consultant to create a preliminary TIF or BD eligibility report to determine if the properties meet the State of Illinois Statutes "but for" criteria

- Preliminary budget for all TIF or BD eligible improvements and substantiation for those line items
- iii. The applicant may be able to forego the Part 1 Application if their request meets all of the following criteria:
- The total financial assistance request is less than \$1,000,000 in total revenues reimbursed
  - The financial assistance shall only be in the form of a pay-as-you-go request
  - Must be considered a single Zoning Lot development
  - Requests for TIF or BD assistance are not eligible to forego the Part 1 Application process
- b. Part 2 Application Purpose - The Part 2 Application is to verify the need for a financial request, to review all relevant information to substantiate that request, and to present the request and final terms of a DRAFT agreement to the City Council for their review. The City Council, at their own discretion, may choose to approve or deny the request based on the terms and conditions presented.
- i. The applicant shall submit the appropriate Part 2 Application that corresponds with their financial assistance request (i.e. property tax reimbursement, sales tax reimbursement, TIF, etc.)
  - ii. The applicant shall provide sufficient information to the City to fully substantiate their request for financial assistance. The application shall be accompanied by but not limited to: financial commitments from financial institution(s), preliminary or final plans architectural elevations, background information on the developer, a pro forma analysis, financial statements, engineer's or professional costs estimates for any public improvements, extraordinary construction costs, unsuitable soils, remediation, or similar expenses. These documents shall form the basis of the amount of financial assistance requested.
3. When requested by the City, at any time in the Part 1 or Part 2 Application Process, the developer shall submit audited financial statements for the last three (3) years. If the audited statements are comparative, only two (2) years are needed. If audited statements are not available, three (3) years of annual financial statements and summary schedules for other projects completed or started within the three (3) year time frame covered by the financial statements must be submitted. The developer must also submit an interim financial statement for the current year. Upon the request of the applicant, the City may permit these documents to be provided directly to the City's financial advisor or legal counsel in order to protect proprietary or confidential information.
4. When requested by the City, at any time in the Part 1 or Part 2 Application Process, the developer shall submit a complete listing (name and address) of all investors in the project. The listing shall also identify each individual's ownership interest.
5. The developer shall comply with all disclosure requirements of the City, under applicable law.

**Footnotes**

(1) **Public benefit** means that a proposed development will result in increased tax revenue, desired additional employment or have an identifiable effect of stimulating further and additional desired economic development which outweighs the proposed incentive to be provided by the City.

(2) **Public Infrastructure** means city owned and maintained water mains, hydrants and other necessary works and appurtenances for providing water service; sanitary sewers or other instrumentalities or appurtenances for providing sanitary sewer service; sidewalks, curbs, gutters, streets, off-street parking lots, culverts, bridges, or viaducts; drains, sewers and appurtenances for providing storm water drainage; traffic signs, signals, lights and lighting; poles, posts, wires, conduits, lamps and other appurtenances providing for street lighting; parks, parkways and recreational paths; and acquisition of any and all property, easements and rights of way which may be necessary to accommodate such improvements. Such term shall not include improvements serving a specific site, e.g., water and sanitary sewer service lines.