PILOT Program Review

Prepared by PGAV PLANNERS

Prepared for Downtown Memphis Commission

Table of Contents

Introduction

The following report includes review and analysis of the Downtown Memphis Commission's (DMC) Payment in Lieu of Taxes (PILOT) Program. This review seeks to answer four questions:

1 *Is the PILOT program delivering the desired results of growing the tax base and helping projects happen that couldn't otherwise occur?*

2 *Is the PILOT program helping to build the right development in the right place?*

3 *Can the but-for test be formalized to provide clearer guidelines for financial analysis to aid staff review and create a more predictable process for developers?*

4 *Are there any other policy changes that should be considered to maximize the public benefit of this vital economic development tool?*

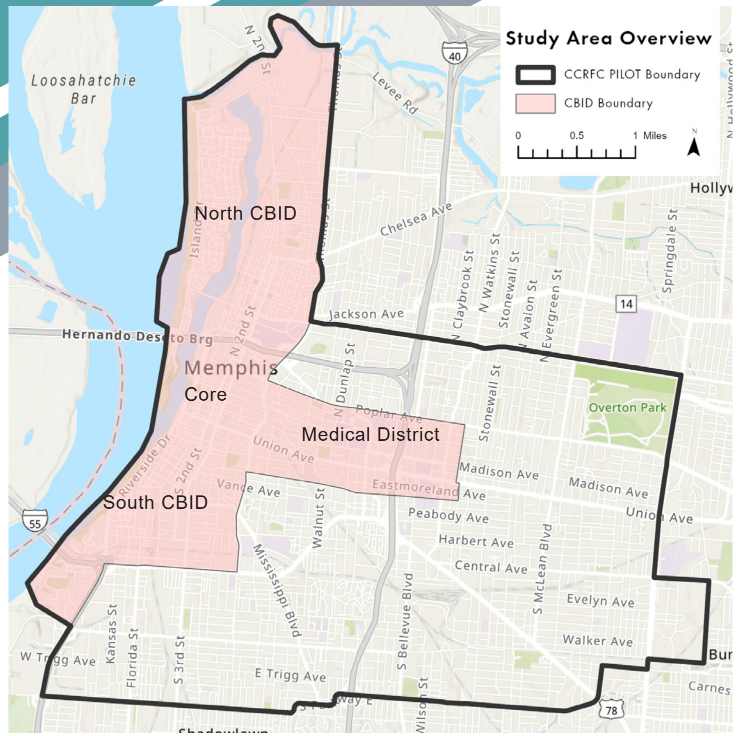
The DMC operates development incentive programs focused on the Downtown area of Memphis. These programs are operated in and around the Central Business Improvement District (CBID). Commercial properties within the CBID pay a special assessment that funds the DMC's efforts to support development and increase vitality in the area. The PILOT Program is administered by the City Center Revenue Finance Corporation (CCRFC), which is staffed by the DMC.

The study area encompasses the area where the CCRFC PILOT Program may be used, as shown on the map to the right. This study area includes the CBID as well as the areas within the historic Parkway System.

This study incorporated information gathered from stakeholder engagement, data analysis, and review of policy best practices. Stakeholders and focus groups provided initial feedback going into the study, and a second series of sessions discussed key findings from the policy review. This report organizes the findings into five categories: engagement summary, existing conditions, impact analysis, policy review, and recommendations.

WHAT IS THE PILOT PROGRAM?

The DMC PILOT program enables a temporary and partial freeze of property taxes for a development project involving new construction or substantial renovation that would not be possible without assistance. In exchange, PILOT payments are made by the project owner to the DMC that are equivalent to the pre-development tax assessment plus 25% of the post-development increase in assessed value. PILOT terms are limited to a maximum of 15 years with the length based on a grading system using DMC priorities. To be eligible, a project must not be feasible but-for the PILOT assistance and the physical improvements must be at least 60% of the total project costs.



Engagement Summary

Engaging with the Memphis community was an important part of this evaluation and planning process. Engagement included stakeholder interviews and focus groups with a variety of participants holding different perspectives and levels of interaction with the existing PILOT program. These stakeholders included developers, bankers, contractors, municipal and county representatives, DMC staff, and current CCRFC Board Members. Stakeholders were first engaged to seek feedback and opinions on the past use of PILOTS in Downtown Memphis and where this program could be improved. A second session then sought feedback on findings from the policy review and proposed recommendations. A variety of themes emerged from these discussions. The following is a summary of the feedback heard during stakeholder interviews.

Strong DMC Staff Guidance

Every stakeholder group spoke to the transparent, user-friendly, and educated staff that are involved with the process. In particular, developers, bankers, and CCRFC Board Members valued the expertise of DMC staff and felt that their guidance and review of projects was transparent and unbiased.

Complexity of Application review

While many of the stakeholders felt that the staff review and analysis of PILOT applications is thorough, some expressed a desire to better understand the context and comparison of proposals through additional clarity on evaluation metrics and the format in which developers submit project information.

The diversity of projects in terms of size, location, and risk levels makes it hard to use the same review method across the board. Additional complications arise from the potential variability of the preliminary assumptions and projections used in a project's application. Some stakeholders were interested in the DMC using the same metrics as banks and funders to assess the potential viability of a development. A system to evaluate these projects that allowed for the diversity of scale and utilizes the metrics used by funders could add clarity and standardization for developers.

Importance and Challenges of Data Collection

Several stakeholders mentioned the importance of a standardized process for data collection to allow for continuous review of program impact. Many suggested increasing data collection from PILOT recipients to an annual basis in order to allow DMC staff to assess how projects are measuring up to key metrics used to approve the projects. Developers expressed concerns related to the potential burden of reporting requirements. Since projects must currently report financial metrics to lenders, the DMC could request the same data points in a similar format to reduce the potential burden on applicants and developers.

Supporting MWBEs & Smaller Developers

There is a clear desire from all stakeholders to support minority developers in securing PILOTs for future projects. Several stakeholders mentioned the challenge of ensuring compliance with commitments to MWBE partnerships made in a project's application. For example, some developers indicate a minority partner in their PILOT application, but by the time the project begins, those partners no longer involved. Similarly, many stakeholders spoke about the desire to support small and mid-size developers in their use of PILOTs for projects Downtown.

Stakeholders suggested that the DMC could support MWBE and smaller developers through an intentional commitment to supporting and encouraging these projects and developers, as well as the modification of application scoring criteria to benefit, rather than penalize, smaller projects. Stakeholders also mentioned the benefit of encouraging MWBE and smaller developers to partner with larger developers.

Focus on Downtown Vibrancy

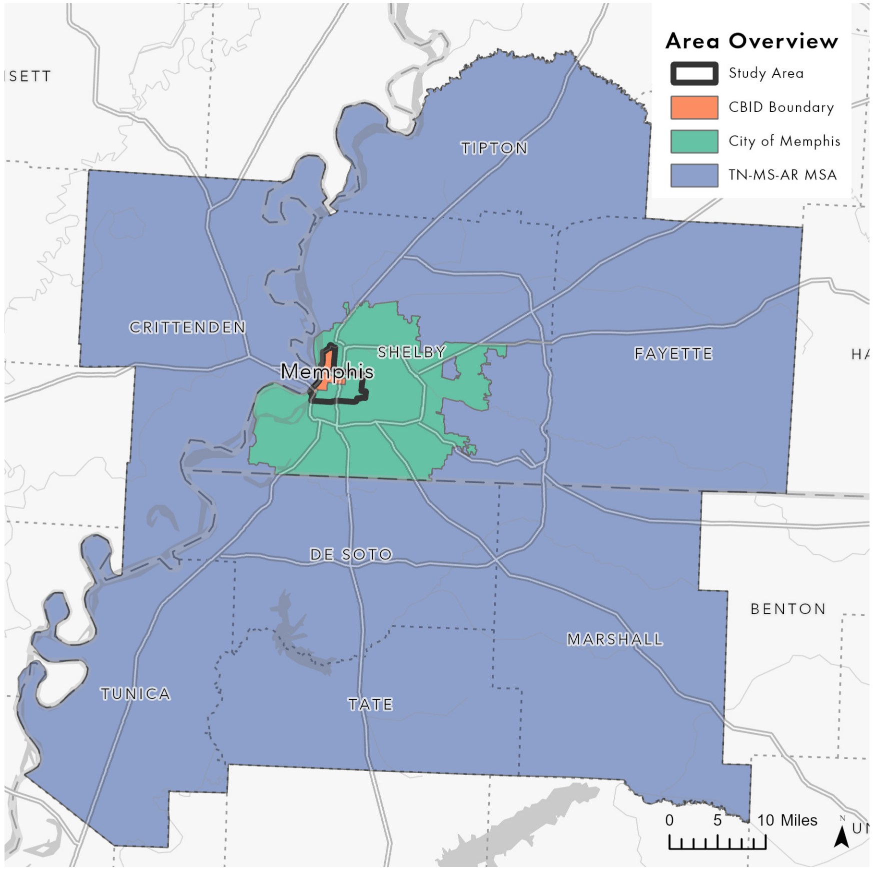
All stakeholder groups agreed that the focus of the PILOT program should be to increase the vibrancy of Downtown. This was most often referenced when thinking about three specific items: more business, more residents, and increased spending. PILOTs were mentioned as a way to bring more businesses Downtown by supporting old building retrofits for new uses, particularly as business and office needs are changing. Many stakeholders spoke about vibrancy coming primarily through the addition of new residents in Downtown and expressed a desire for an increase in homeownership opportunities, diversity of housing types, and attention on workforce housing in addition to affordable housing. A variety of stakeholders mentioned increasing retail options, such as groceries or pharmacies, as a way to increase spending opportunities in Downtown and further support the increase in residents and businesses.

Additional Messaging

Board members, community stakeholders, and developers spoke about the need for new messaging about the PILOT Program. Stakeholders expressed support for the program but lacked clarity as to the program's impact to date. Several stakeholders said that the vast majority of people in Memphis do not know what the program is and therefore cannot speak to its value. All participants expressed a shared desire to create a best-in-class incentive program in Memphis that would inspire other peer cities to follow their lead.

Existing Conditions

This review establishes the existing conditions and recent trends related to the people living and working in the study area, such as population, housing, income, and employment. The study area is located in the City of Memphis and Shelby County. The CBID covers a portion of the study area and is centered over the Downtown area. To understand the context of the study area, the demographic review also looks at demographics in the CBID, CCRFC boundary, City of Memphis, and the Tennessee-Mississippi-Arkansas Metropolitan Statistical Area (Memphis MSA).



Population in the overall study area decreased by 3% from 2000 to 2021. During the same time period, there was significant population growth in the CBID area, at 27%. Projected population growth for the study area anticipates the 2026 population exceeding the 2000 population. The estimated annual growth rate for the study area is greater than the growth rate of Memphis and the Memphis MSA. The estimated annual growth rate for the CBID is the highest at 2.9%.

Household income in the study area is expected to grow at a higher rate than the other areas, surpassing the median household income in Memphis by 2026. This is a positive trend for potential job growth and spending power.

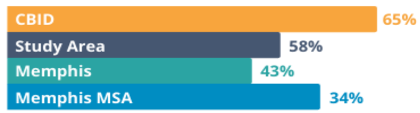
The anticipated growth creates a demand for additional housing units in the study area. Given the smaller average household sizes in the study area and the CBID, these areas are estimated to need a greater number of housing units relative to additional residents than the City of Memphis or the Memphis MSA.

The study area had the second highest median home value in 2021, but also the lowest 2021 median household income of the areas studied. This is an indictor of lack of affordable and workforce housing options. The CBID has the highest rate of renter-occupied housing along with the lowest housing unit vacancy rate (6%), and the highest median home value. Again, this is an indicator of a stressed housing market for owner and rental options.

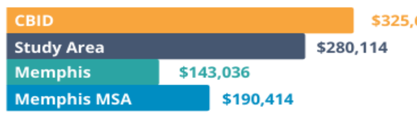
	CBID	CCRFC PILOT Study Area	City of Memphis	Memphis MSA
Median Household Income				
2021 Median Household Income	$48,305	$40,118	$41,714	$54,419
2026 Median Household Income (Est.)	$58,364	$49,178	$48,310	$60,705
2010 - 2026 Estimated Annual Increase	3.9%	4.2%	3.0%	2.2%
Population Totals				
2021 Population	23,551	69,074	654,055	1,374,115
2026 Population (Est.)	27,157	73,733	658,301	1,401,877
Population Change				
Annual Pop Growth Rate 2000 - 2021	1.3%	-0.2%	-0.3%	0.7%
Annual Pop Growth Rate (Est.) 2021 - 2026	2.9%	1.3%	0.1%	0.4%
Household Size				
2020 Household Size	1.63	1.95	2.51	2.62
Households with Children	14%	20%	33%	37%
Housing Units Needed				
Est. Additional Residents by 2026	3,606	4,659	4,246	27,762
Housing Units Needed	2,212	2,389	1,692	10,596

Source: U.S. Census, ESRI (2021)

Renter Occupied Housing 2021



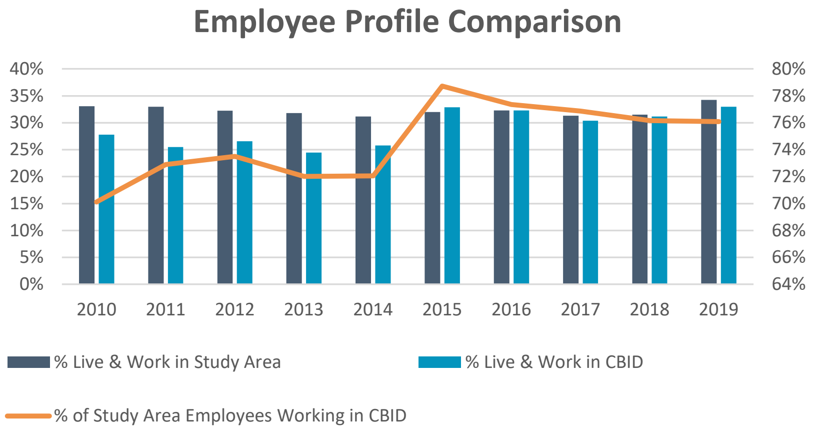
Median Home Value 2021

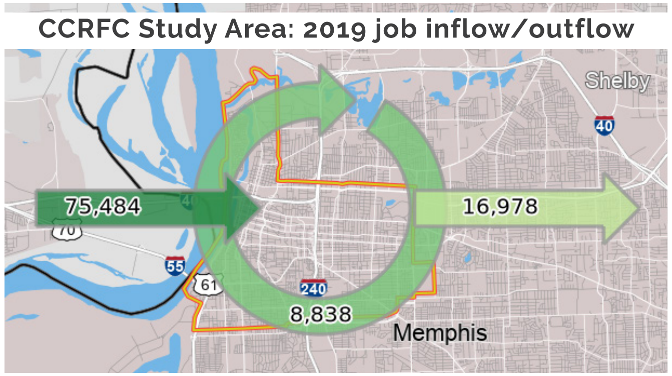


The majority of people employed within the study area live outside of the area. From 2010 to 2019, the total number of people employed within the study area has been relatively steady. The CBID's average annual employment growth rate of 1.5% is higher than the study area's employment growth rate of 0.6%.

In 2015, there was a decrease in the number of employees working in the CBID and in the study area, however, in 2019, the number of employees rebounded to exceed 2010 levels. In 2015, the percent of people living and working in the CBID increased from just over 25% to just under 35%. During this time, there was also a significant increase in the percent of employees in the study area working within the CBID, from 72% to 79%. These are important trends that indicate a shift in people returning to live and work in the Downtown area.

From 2011 to 2019, all areas experienced a declining unemployment rate. There was a sharp increase in the unemployment rate in 2020, returning to 2011 levels. This increase can be attributed to employment issued faced across the country as a result of the Covid-19 pandemic. The 2020 data showed labor force is continuing to grow along with the unemployment rate.



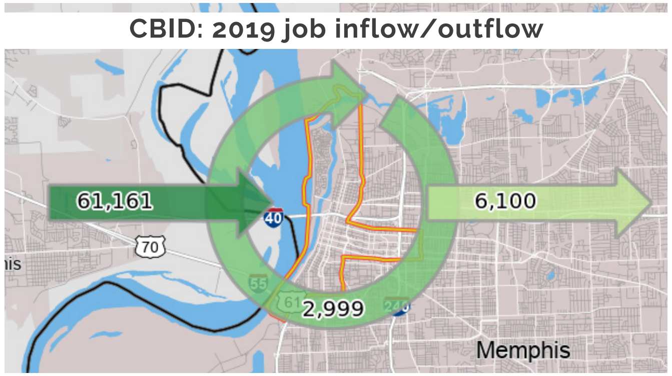


Employed & live in the selected area

Employed in selected area & live outside

Live in selected area & employed outside

Note: overlay arrows do not indicated directionality of worker flow between home and employment locations



The inflow/outflow maps above are from the US Census Bureau's OnTheMap platform.

Impact Analysis

Overall goals of the PILOT Program include to strengthen the Downtown development market and to support the right development happening in the right places. The PILOT Program helps make developments feasible by providing financial incentives for a specific development on a specific property. This incentive has a direct impact on the property that receives a PILOT, as well as indirect impacts on surrounding properties and neighborhoods.

The geographic analysis seeks to identify trends and patterns related to the location, type, and impacts of the PILOT program. Four of the key performance indicators reviewed were investment activity, PILOT program activity, other DMC incentive activity, and blight remediation activity.

Key Performance Indicators

PILOT PROGRAM ACTIVITY

covers markers of the PILOT Program including the location and value of approved CCRFC PILOTs.

Inputs: number of PILOTs, value of PILOT payments, value of taxes abated, appraised property value

PILOT PAYMENTS

The value of payments for each active PILOT was determined based on DMC records. The City and County bill and receive payments similar to other standard taxes.

APPRAISED VALUE

The appraised value of property was determined based on City and County records. Appraised value was analyzed in the areas as a whole and within a 0.05 mile buffer around PILOT properties.

INVESTMENT ACTIVITY

covers markers of investment and construction. This category reviews where and when investment occurred and the resulting generation of public revenue.

Inputs: number/value of building permits, real property taxes paid, appraised property value

BUILDING PERMITS

The attributes of building permits by type and year were reviewed to identify patterns of construction activity in the study area. Demolition permits were not included in the review as they are not always associated with new development. The number of building permits as well as the value of building permits was used during review.

OTHER DMC INCENTIVE ACTIVITY

covers the use of other DMC grants and loans funded by the collection of PILOT fees.

Inputs: number of other DMC grants/ loans, value of other DMC grants/ loans

DMC LOANS & GRANTS

The location and value of other incentive programs operated by the DMC were analyzed including the Development Loan, Storefront Improvement Grant, General Grant, Retail Forgivable Loan, Garage Funding, and the Office Grant. The value of other DMC incentives represents investment by the DMC in the Downtown area.

BLIGHT REMEDIATION ACTIVITY

covers impact on blight indicators.

Inputs: blight related service calls, properties remediated by DMC incentives, number of blighted properties

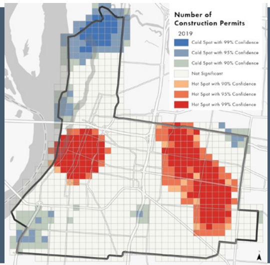
SERVICE CALLS

The location and number of blight-related service calls were used to track blight remediation. Service call data was obtained from the City of Memphis using the 311 call iTracker.

BLIGHT SURVEY

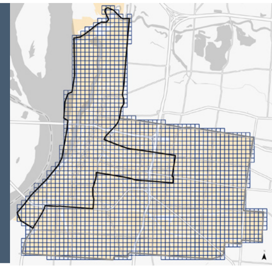
Data from the surveys conducted in 2018 and 2020 was reviewed to identify areas and patterns of blight reduction. While the surveys did not cover every parcel within the CBID, the majority of the area was surveyed.

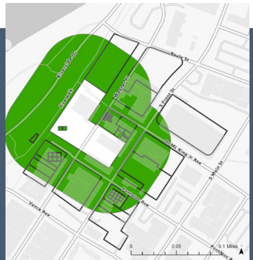
Mapping Methods



Cluster maps were created using ESRI Geographic Information System software to identify hot and cold concentration areas of the key performance indicators. The Getis-Ord Gi* statistic identifies clusters of high values and low values. For the cluster maps, hot spots are areas of statistically significant clusters of values and cold spots are areas of statistically significant clusters of low values. For example, the red area on the construction permits map represents a hot spot or concentration of construction permits, while the blue area represents a cold spot or concentration of no construction permits. The cluster maps were completed for the full study time frame as well as individual years.

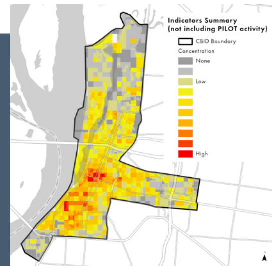
In addition to cluster maps, data were aggregated into a **grid index** to support analysis of various data types and scales. A grid index using boxes measuring 0.1 miles x 0.1 miles was overlaid on the study area. The boxes were used to summarize the data within each square to support the comparison of zones within the study area. The values associated with parcels split by grid squares were divided proportionately based on the area of the parcel in each grid square. The resulting maps are similar in appearance to the cluster maps; however, they do not represent statistically significant clusters.





Data were reviewed at three scales, the full study area, the CBID, and within a **0.05 mile buffer** around a PILOT property. The 0.05 mile buffer represents roughly one block around each PILOT property. The buffer was established from all property lines. Any parcel falling within the buffer zone was included in full. Parcels were not divided in this analysis as they were for the grid index analysis.

The **impact summary maps** highlight positive concentrations of each key performance indicator. A scoring matrix was created for each indicator to analyze the different input datasets, with each input scored from -1 to 2 based on the potential impact. For example, investment activity evaluated change in appraised value across the study area. For the summary analysis, areas with increased appraised value over time were given a high value, while areas with decreased appraised value over time were given a negative value. This process also allows for the comparison of indicators without the true numeric value of an indicator skewing the results. For example, there could be a concentration of 4 permits in one grid square and a MWBE spending value of $1 million. The true value of 4 is significantly less than 1 million. The assigned analysis value allows the weight of a permit count to have a proportional impact to the weight of an MWBE spending value. The input scores were combined and summarized for each key performance indicator using the grid index method.



Impact Summary

Purpose

The potential impact of the PILOT Program can be measured in many ways. One way is to identify potential impacts of PILOT projects on the surrounding community by highlighting connections between PILOT activity and other positive activity. This impact analysis focused on four key performance indicators, PILOT Program Activity, Investment Activity, Other DMC Incentive Activity, and Blight Remediation Activity. A more in-depth analysis of each key performance indicator and the associated inputs is featured on following pages. Census Impacts were also included in the review to provide metrics of change over time within the area.

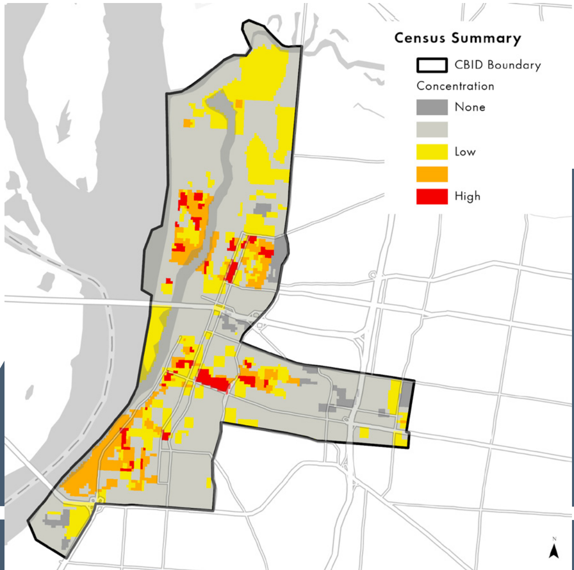
Evaluation and comparison of the key performance indicators seeks to answer three questions:

1. Where are there concentrations of positive activity within the CBID?

   Review of census data, investment activity, other incentive activity, and blight remediation activity provide insight into the spatial distribution of positive indicators.

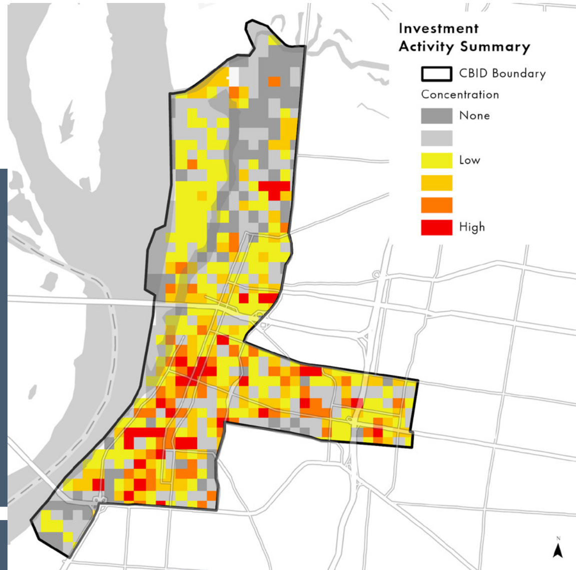
2. Where are there concentrations of PILOT program activities?

   Review of PILOT program data for the locations, project types, and payments provide insight into the spatial distribution of PILOT activity.



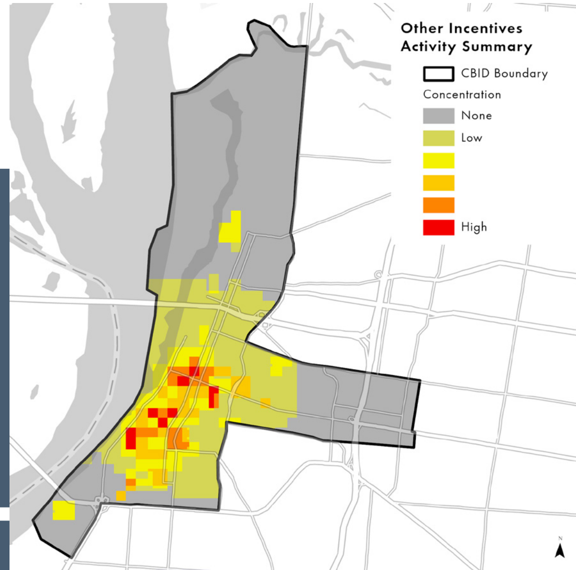
Census Impacts

Census data was used to represent demographic and neighborhood changes over the study period. Higher values were given to Census Block Groups with increased population, decreased vacancy rates, increased housing units, decreased unemployment rates, and increased household income.



Investment Activity & Blight

Investment Activity represents other physical development and investment not directly related to PILOT projects. For the summary the Blight Remediation Activity inputs were included in this map. Higher values were given to areas with increased appraised property values, concentrations of construction permits, decreased blight, and concentrations of public investment.

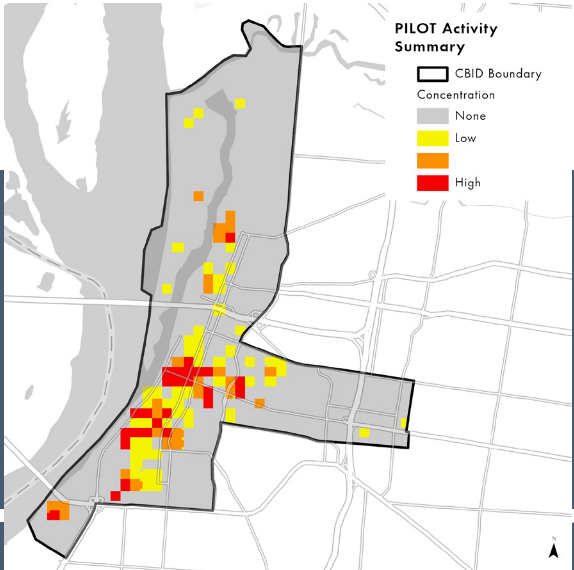


Other Incentives

Higher value was given to locations of other DMC incentives, projects with a higher ratio of MWBE spending to project costs, and projects that remediated vacant or blighted properties.

3. Are there area overlaps for the concentration of positive activity and PILOT activity?

Comparing the different spatial analyses identifies potential activity correlation between PILOT projects and positive impacts.



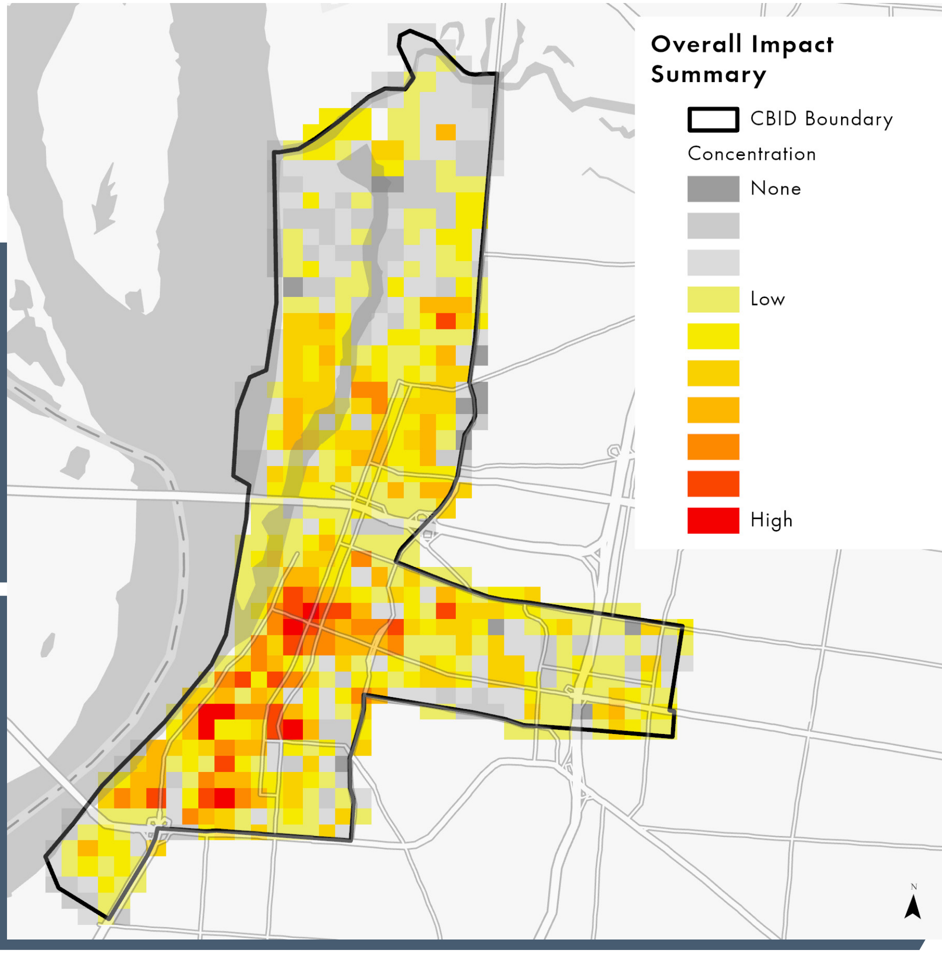
PILOT Activity

The heat map for PILOT activity highlights areas experiencing more investment related to PILOTs than others, with a high potential for positive impacts. Higher value was given to locations of PILOTs, PILOTs with large differences between payments and no-build taxes generated, and PILOTs with higher percentages of MWBE spending.

Overall Impact Summary

Review of the three maps on page 9, (Census Impacts, Investment Activity & Blight Remediation, and Other Incentives) together reveals concentrations of positive activities within the CBID. The areas of highest indicator concentration are located in the Downtown Core, which is also where the concentration of PILOT activity indicators are. This shows some correlation between positive impacts and locations where PILOTs have been used.

The Overall Impact Map highlights areas with a combination of PILOT activity, investments, other DMC incentive projects, blight reduction, and positive demographic changes. The highest values on the overall impact map represent the highest concentrations of values. The Overall Impact Map shows impact potential but does not address causation or statistical correlation.



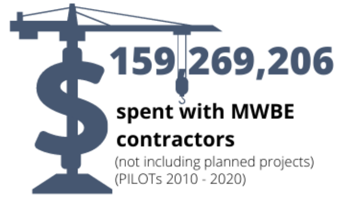
PILOT Activity

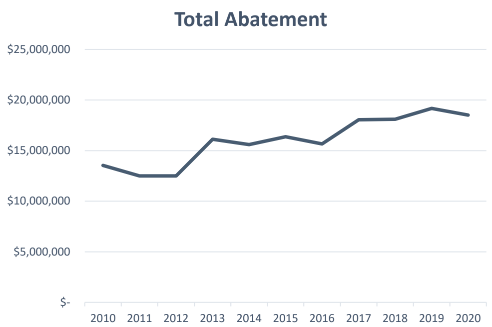
Overview

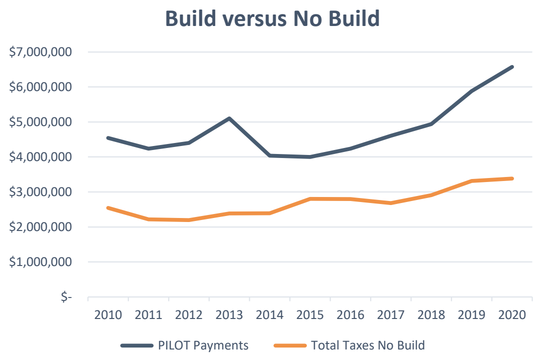
The total value of abated taxes has been slightly increasing over the study period. While some natural increase in abatement value over time is expected due to inflation and project cost increases, there are other contributions.

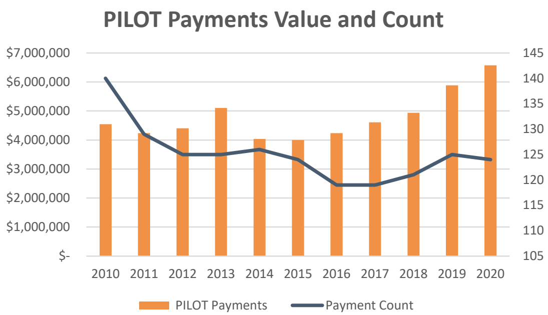
During the same time period, there has been an increase in payment amounts and a decrease in number of PILOT payments received each year. This means that the overall value of PILOT projects is increasing.

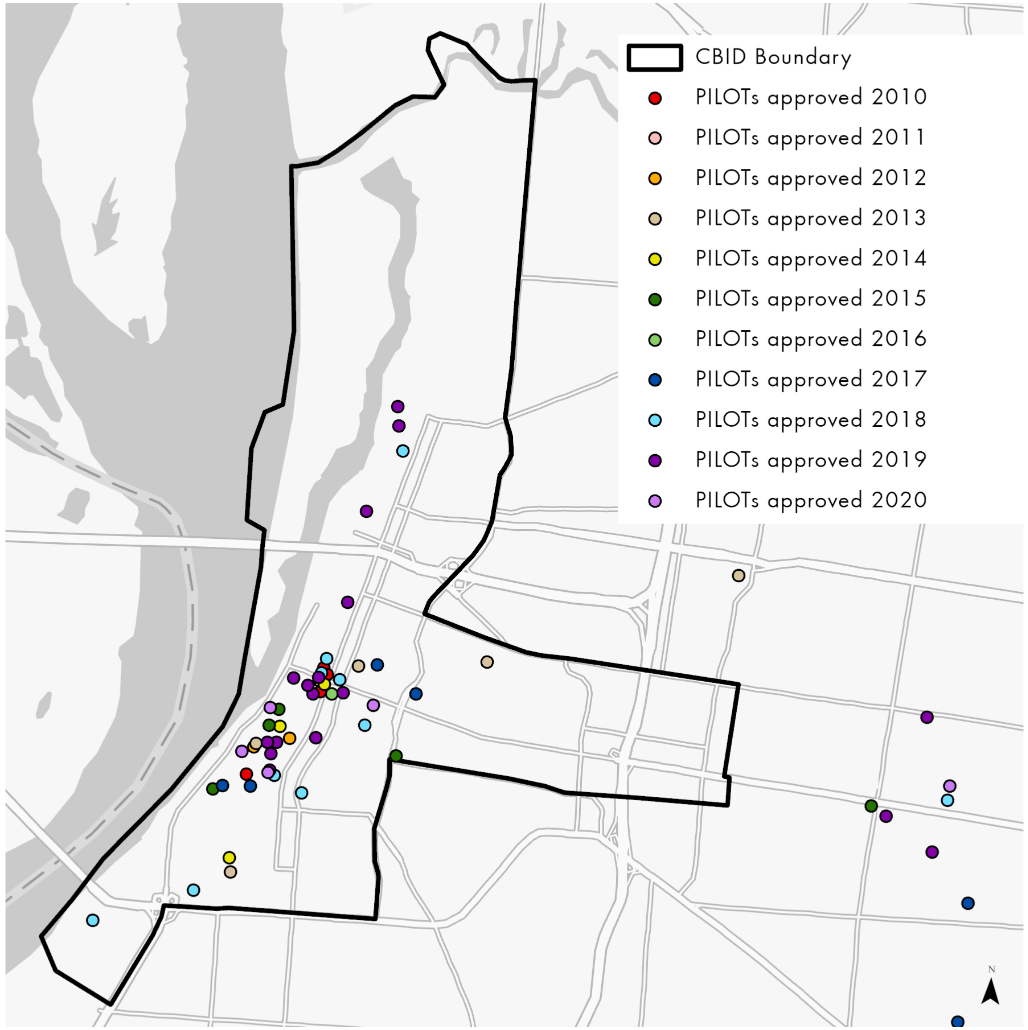
Review of the build versus no build analysis shows a growing gap between the value of PILOT payments and the pre-development taxes. After the expiration of the PILOT, the City and County will see an even greater increase in taxes received. Cumulatively in 2020, PILOT payments were approximately $3 million more than the taxes due if the project did not happen.









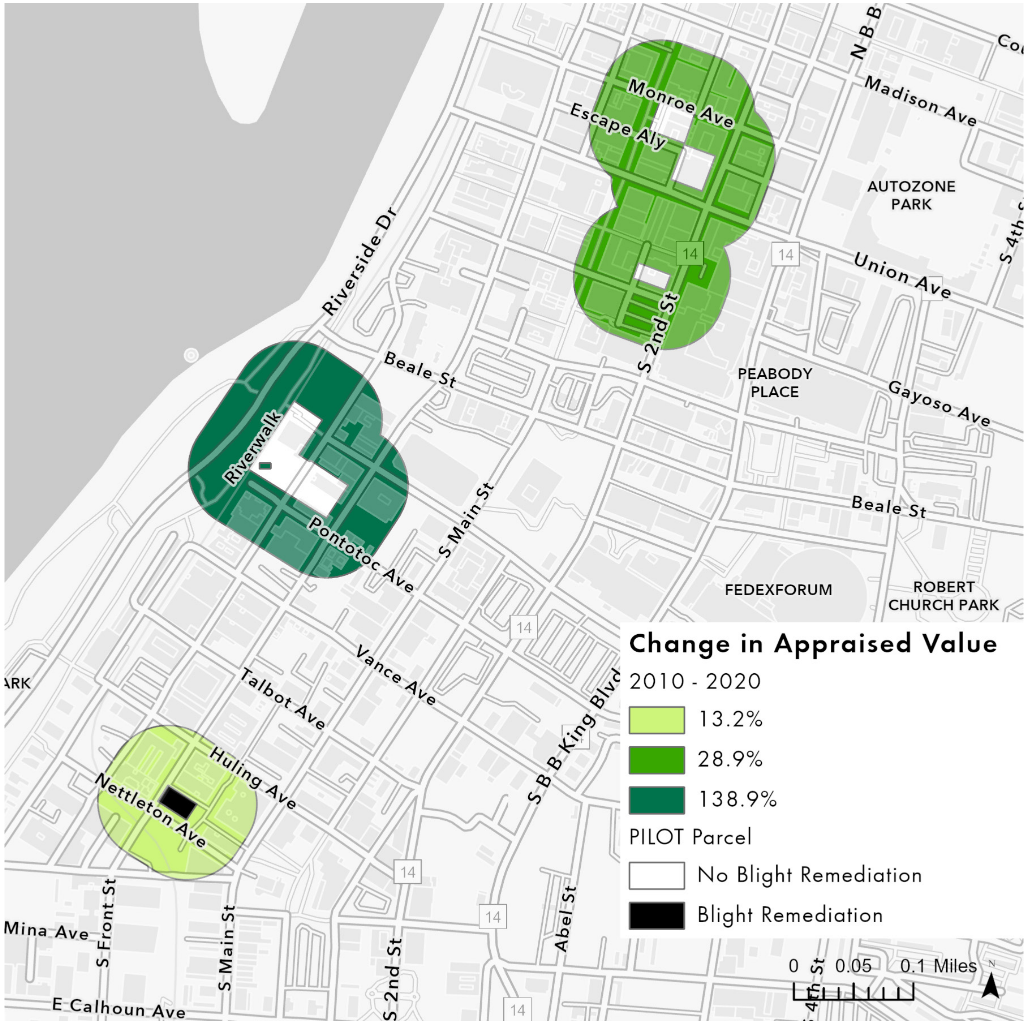


Buffer Analysis

The change in appraised value over time was reviewed for properties within 0.05 miles of PILOT property. The results show property within a buffer area was more likely to increase in value than decrease in value. The average annual change in appraised value within the buffer areas was 17.5%. Review of appraised value based on the year since PILOT approval did not reveal a significant pattern, as shown by the graph to the right. The amount of increase was also varied when including the property condition prior to development.

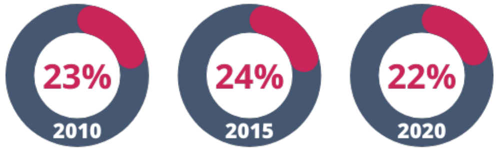
Change in Appraised Value in Buffer - by PILOT Property Condition

	PILOT Approval Year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
No Remediation	7%	11%	9%	31%	16%	20%	19%	19%	23%	15%	36%
Blight Remediation	3%	-	51%	11%	-	16%	-	27%	16%	3%	2%

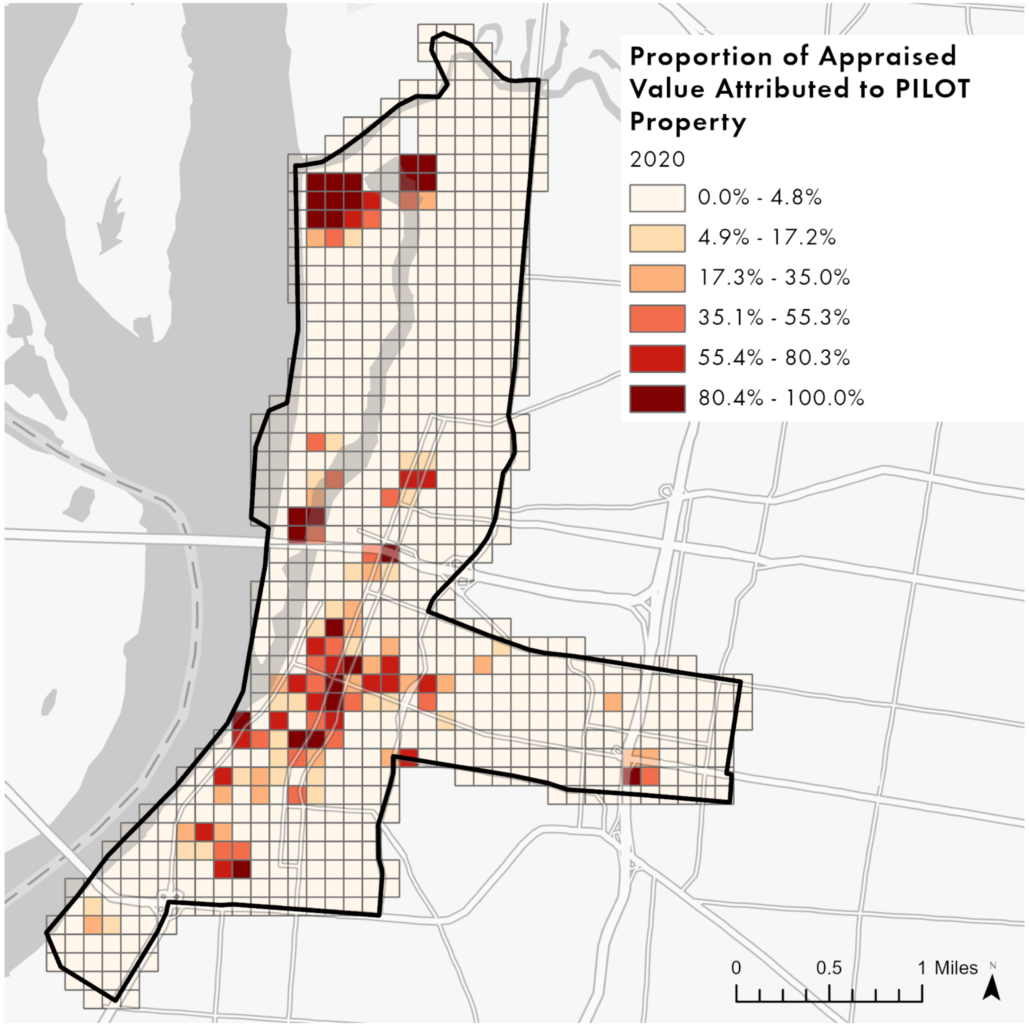


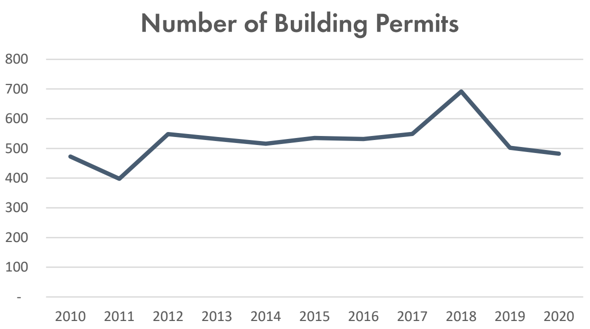
Appraised Value Analysis

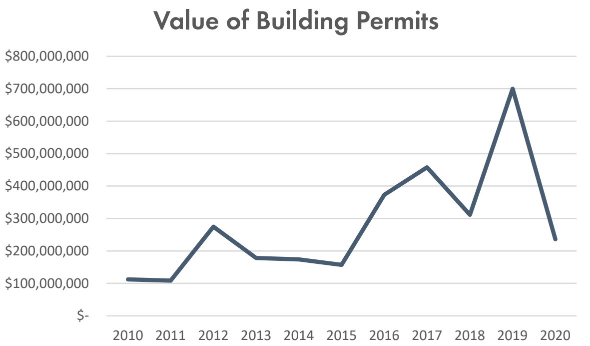
The proportion of appraised value attributed to PILOT properties is higher in the Downtown Core area of the CBID. The Downtown Core is also a concentration of PILOT properties. Since 2010, PILOT properties have made up an average of 22% of the total appraised value in the CBID.

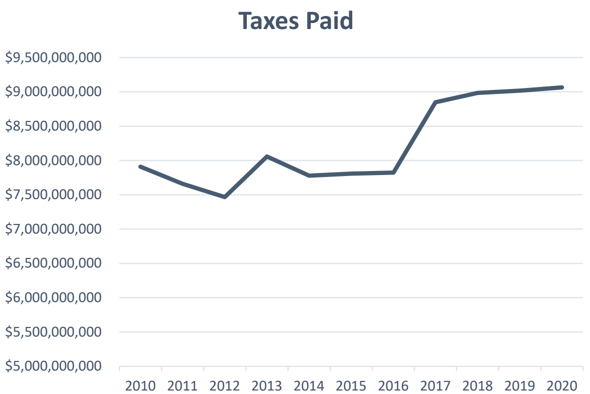


Proportion of CBID appraised value in PILOTs









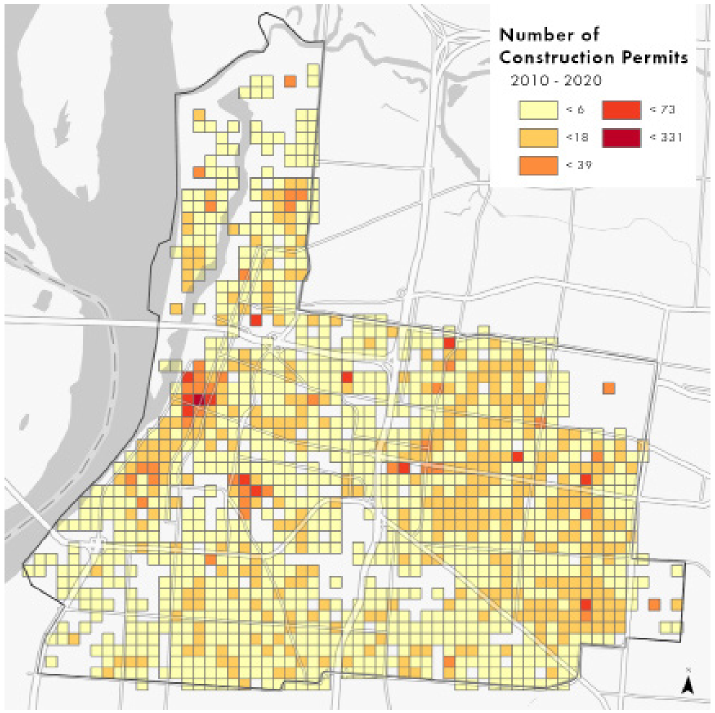
Overview

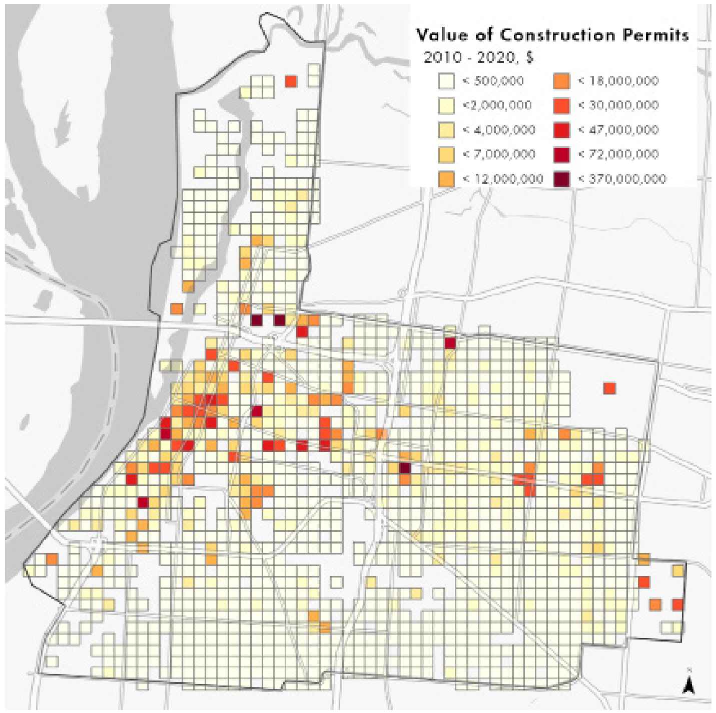
While the number of building permits issued each year of the study period has remained relatively constant, aside from the spike in 2018, the value of building permits has seen changes. In 2019 there was a significant spike in the value of building permits, followed by a significant drop in 2020. This drop is likely due in part to impacts of Covid-19 on the construction industry and substantial increases in construction costs.

The two maps below display the grid index aggregation for the number of permits as well as the value of permits. These maps identify areas of higher and lower value over time, however, they do not identify statistically significant clusters. There are some identifiable similarities, such as the cluster hot spots, on next page, being located in similar areas to the high value grids on the index maps.

The amount of taxes paid is generally trending up. The amount of property taxes paid is directly related to the value of property. The index map of change in appraised value from 2010 to 2020, next page, shows a pattern of increased appraised value. In particular, the CBID has experienced growth in appraised value from 2010 to 2020, and other areas of larger growth include or are located near PILOT properties and clusters of construction permits. While there have been changes in the tax rates over the study period, the combination of increased taxes paid and increased appraised value is a positive sign for the area.

Reviews of the index maps, cluster maps, and graphs reveal some key findings. While the number of building permits issued overtime is relatively stable in the area, they appear to be geographically clustered within the study area.

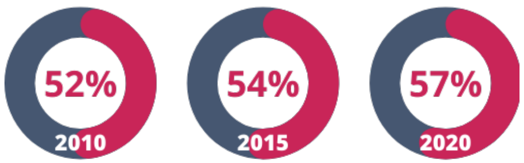




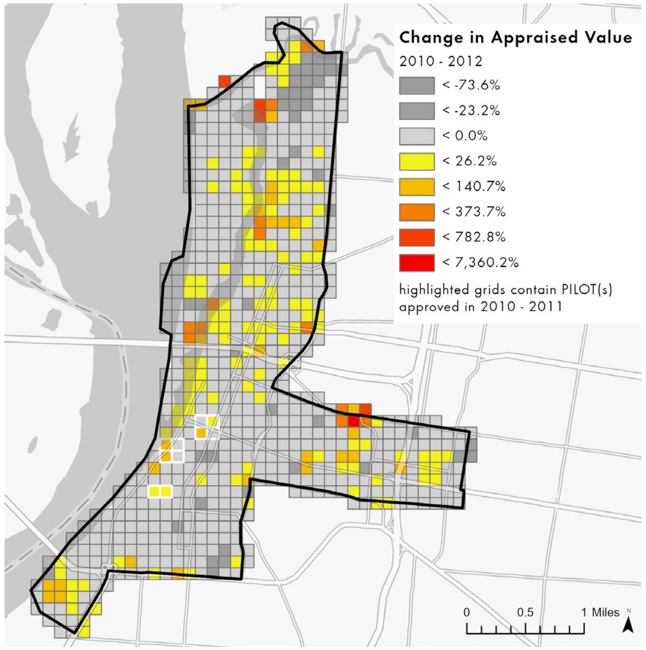
Appraised Value Analysis

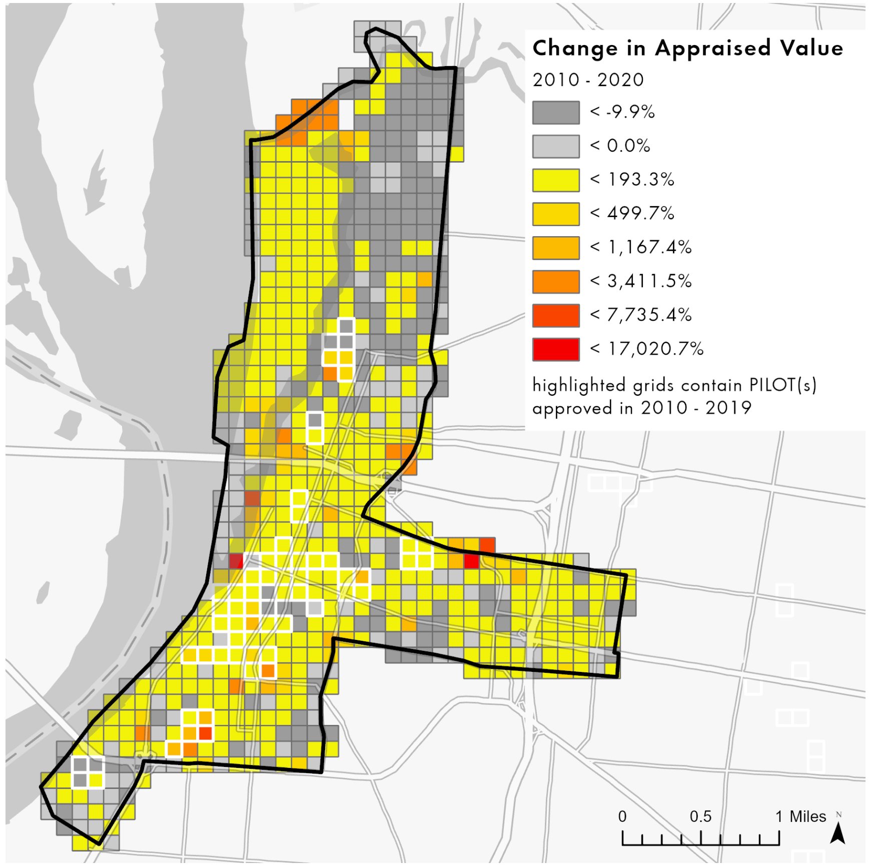
The appraised value in the CBID has increased from 2010 to 2020. As identified by the index maps, the majority of the area surrounding and including a PILOT project saw an increase in value, especially multiple years after PILOT approval. The northeast area of the CBID does not contain any PILOT projects and saw a decrease in appraised value from 2010 to 2020.

CBID Appraised Value



Proportion of study area appraised value in CBID

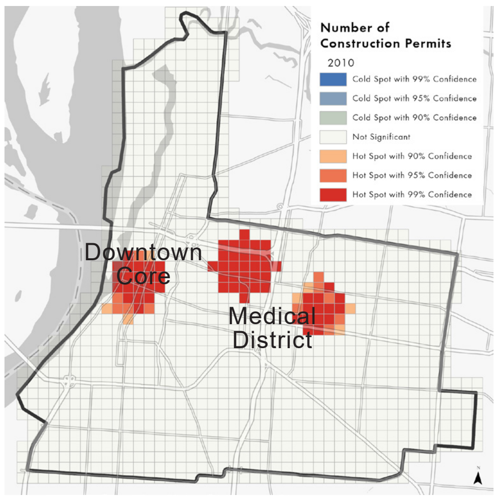


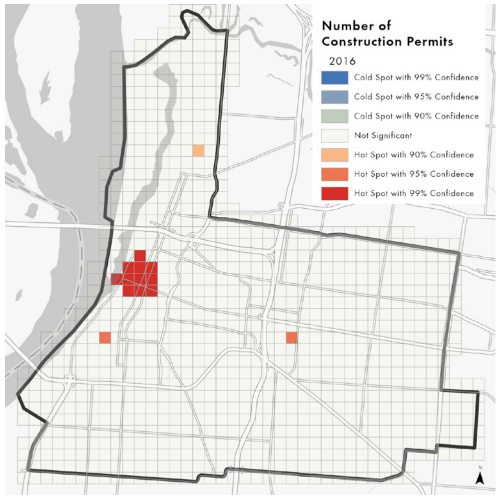


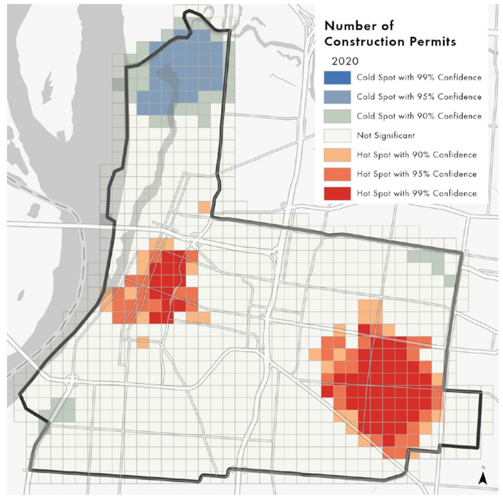
Cluster Analysis

Cluster maps display significant geographic changes over time. Hot spots represent statistically significant clusters of construction permits. There is a hot spot located roughly over the Downtown Core in all years reviewed; however, the diameter of the hot spot is different each year.

While the downtown core consistently sees development over time, other regions of the study area experience more sporadic development activity. For example, in 2020 a cold spot is evident in the northern area of the boundary and a large hot spot appears around Midtown.







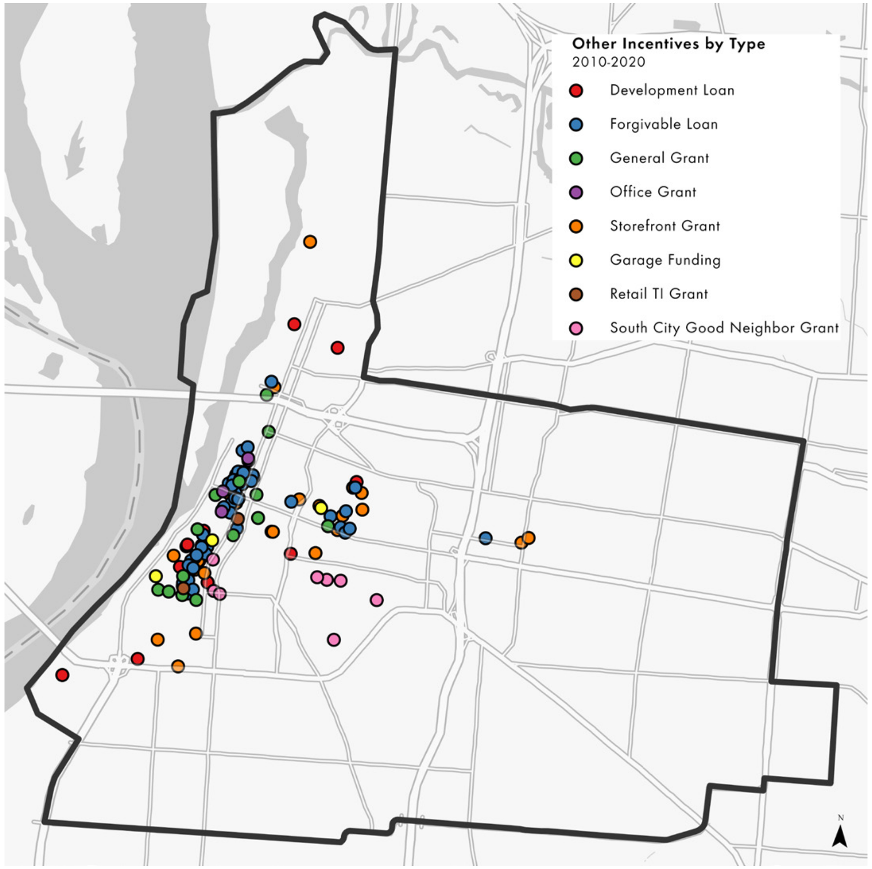
Other DMC Incentive Activity

Overview

The other incentives administered by the DMC result in additional benefit to the neighborhood surrounding PILOT properties because another source of funding is made available to projects in the area. With the exception of the South City Good Neighbor Grant, all of the other incentives administered by the DMC must be located within the CBID. This restriction is clearly depicted in the location maps.

The number of incentives approved in 2020 is significantly higher than previous years. The increase in 2020 consists mostly of Forgivable Loans distributed to assist businesses during the Covid-19 pandemic. The majority of the projects receiving loan and grant funding through the programs reviewed were renovations. These projects also directly impact the DMC's goals for reducing blight and strengthening the Downtown market, but are typically smaller projects that would not qualify for a PILOT.

Project costs have been increasing over the study period, with minimal increase in the total loan/grant amount. Prior to 2020, the gap between the project costs and incentive amount was growing since the low point in 2013. This gap means that projects likely require additional funding sources in order to be implemented and highlights the importance of these DMC funding sources to support projects in Downtown amid growing costs. The pattern is different in 2020, where the number of incentives distributed was higher, but the total value of incentives did not increase. The significant drop in total project costs is likely due to the Covid-19 assistance loans not being used for construction projects.



Total Number of Incentives by Type 2010-2020

Development Loan	31
Forgiveable Loan	62
General Grant	16
Office Grant	4
Storefront Grant	67
Garage Funding	5
Retail TI Grant	3
South City Good Neighbor Grant	8

Key Metrics for Other Incentives (2010 - 2020)

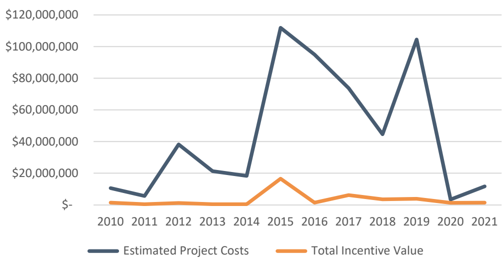
$7,145,937 spent with MWBE contractors.

44% of incentives awarded to MWBE developers and business owners.

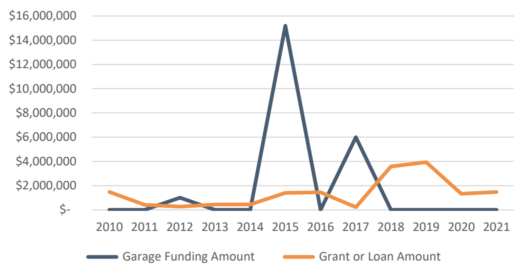
40 emergency COVID-19 assistance grants distributed to businesses in 2020.

9 blighted buildings restored.

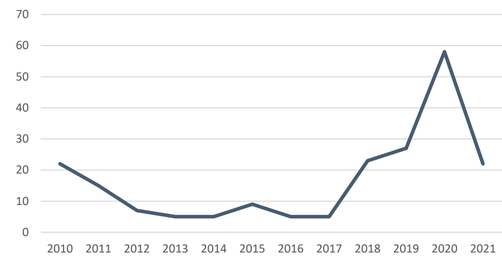
Project Cost and Incentive Comparison



Incentive Value



Total Incentive Count



*In 2020, 40 COVID-19 assistance grants were distributed.

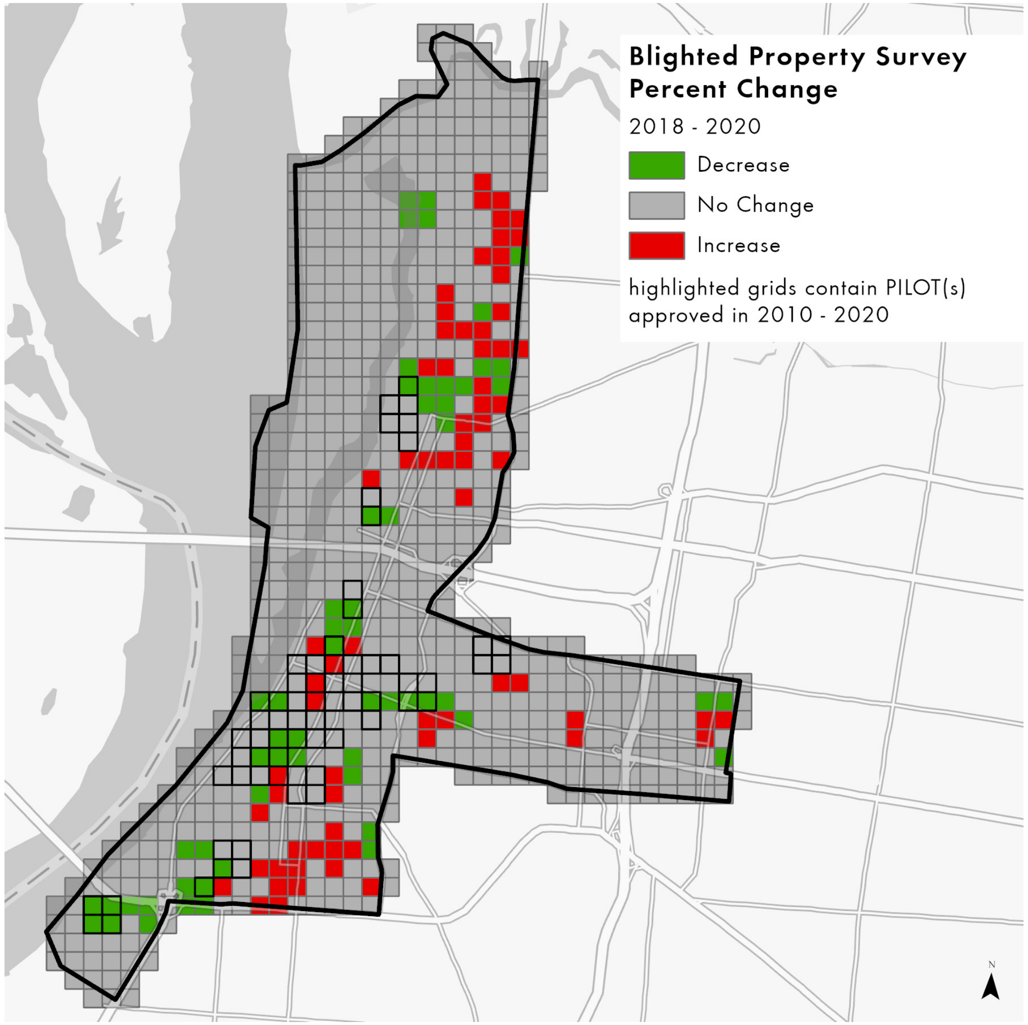
Blight Remediation Activity

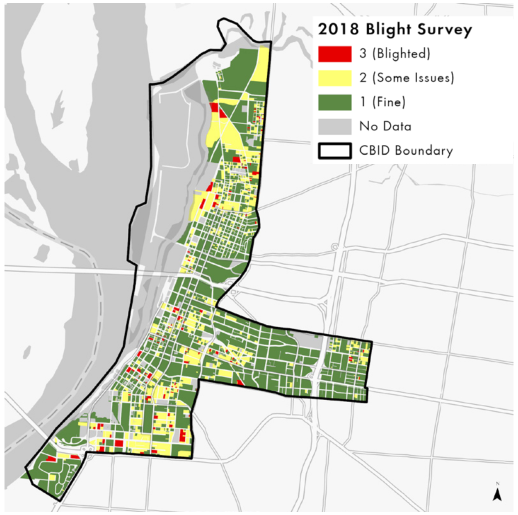
Overview

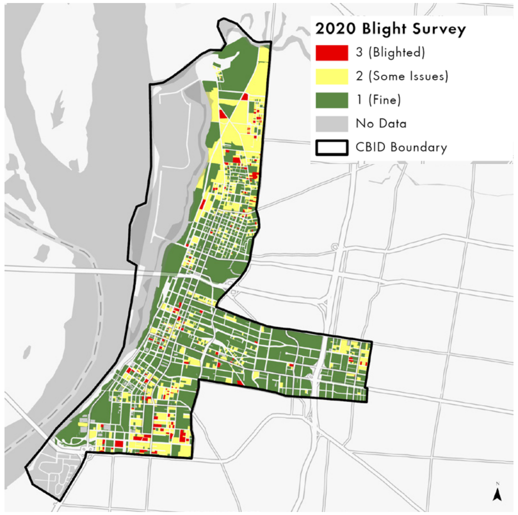
The DMC conducted an area inventory in 2018 and 2020 to identify blighted and vacant property within the CBID. Results of the blight survey show a decrease in blighted property within the CBID from 2018 to 2020. Review of blight survey data in relation to PILOT properties, revealed a positive trend. Areas directly surrounding and including PILOT properties had no change or a decrease in the percentage of blighted properties.

Some of the decrease in blight is due to renovation or redevelopment of blighted and vacant property. Between 2010 and 2020, 44% of PILOT projects involved remediation of blighted property. Other DMC incentives supported blight remediation but at a smaller scale. Many of the projects supported by other incentives are smaller renovations. Redevelopment of blighted property often carries a larger financial burden, supporting the need for PILOT assistance for major renovation projects.

The 311 Call iTracker includes all service calls and complaints in the City of Memphis. All calls not related to blight were removed from the list. Blight-related calls were determined using the state statute definitions for blight including items dangerous to health and safety. Cluster map analysis of the service call locations shows that the call hotspots are located along the southern border of Downtown. The cluster map for 2010 through 2012 shows multiple coldspots. These cold spots disappear in later years, meaning there is no longer a statistically significant absence of calls in those areas. Service call data patterns do have some deficiencies because they rely on people calling in complaints and individuals and neighborhoods have different habits of reporting.







Impact Conclusion

Is the PILOT program delivering the desired results of growing the tax base and helping projects happen that couldn't otherwise occur?

Is the PILOT program helping to build the right development in the right place?

Two of the four questions at the heart of this PILOT program review can be addressed with results of the impact analysis. Based on review of appraised value trends, project costs, and PILOT data, the PILOT program is positively impacting the tax base and helping to close financing gaps for projects. Understanding if the right development is happening in the right place is a harder question to answer concretely with data. Overall, the potential impacts of PILOT projects are positive on surrounding areas.

The PILOT program has displayed an upward trend in the amount of PILOT payments and value. There is a positive correlation between increases in appraised value and the location of PILOT projects. While there is not a specific number of years after a PILOT is approved when the surrounding appraised values increase, the positive trend overtime is established. Appraised value within a 0.05 mile buffer around PILOT property increased at an average annual rate of 17.5%. Total appraised value in the CBID and the study area increased at an average annual rate of 3.1%. This means that on average, property surrounding a PILOT approved between 2010 and 2020 increased in value at a higher rate than average change in value in the CBID or study area.

From 2010 to 2020, completed PILOT projects have amounted to $6.5 million in project costs. Another $3.8 million of project costs is under construction from PILOTs approved during the study period. From 2010 to 2020, the total appraised value of the study area increased by $1.5 billion. It is a positive sign that the appraised value within the CBID has increased by a higher number than the project costs of the PILOT projects.

The positive PILOT trend can be correlated with the increased value and number of other DMC grants and loans, which are funded by PILOT fees. These grants and loans are dispersed within the target area for which they can be used.

Construction costs are continuing to increase across the nation. The percent of project costs that are covered by the DMC loans and grants has decreased overtime, despite the overall amount of incentive distributed increasing. This relationship highlights the need for loan and grant programs to help close gaps in smaller projects and support projects not able to secure other sources of funding.

The PILOT Program and other incentive programs strive to support renovation and remediation of vacant and blighted property. While there are still concentrations of vacant and blighted property within the study area and the CBID, there has been an overall decrease in blighted property since 2010.

Cluster maps identify statistically significant data concentrations or lack of concentrations. The majority of hot spot clusters observed were centered on the Downtown Core area. This can be expected due to the location restrictions for the programs reviewed, however, they represent statically significant concentrations. With a goal of the PILOT Program and the DMC being to stabilize Downtown, the existence of hot spot clusters observed in this review is a positive sign. The PILOT Program is being used to address property in the target areas. This also supports a connection between high-value, high-tax generating areas of Downtown and the location of PILOT properties. There was not a strong connection between the hot spots for blight characteristics and PILOT properties. This can be viewed in both a positive and negative light. As a positive, the PILOT projects are not surrounded by high concentrations of blight conditions. On the negative side, the PILOT projects are not having a direct impact on reducing blight conditions in the areas of highest concentration.

Policy Overview

The purpose of the policy review is to understand national program and policy best practices in order to determine ways in which the DMC may adjust their existing PILOT program to meet certain objectives, such as (1) maximizing public benefit, (2) providing greater predictability for developers and lenders, and (3) aiding staff in administering the PILOT program. The research review explored PILOT programs and similarly functioning tax abatement programs in order to determine a series of recommendations on how to design and administer a successful PILOT program. The research validates some of the current approaches the DMC utilizes while also presenting opportunities for modifications that would ensure DMC staff can most effectively accomplish the organization's goals.

The recommendations are divided into four key principles: (1) Ensure proper eligibility for PILOT program; (2) Determine appropriate project award; (3) Provide transparency of program function and impact; and (4) Increase accountability for award recipients. Each principle is broken down into objectives which are accompanied by best practice outcomes, examples from other abatement programs, and relevant features of the existing PILOT program.

Best Practice Policy Principles:

1. ENSURE PROPER ELIGIBILITY FOR PILOT PROGRAM.
- 1.1 Require projects to align with the goals of the PILOT program
- 1.2 Standardize the requirements for the demonstration of financial need
- 1.3 Reduce costs to the city, county, and residents by evaluating the fiscal impacts of projects

2. DETERMINE APPROPRIATE PROJECT AWARD.
- 2.1 Modify existing PILOT program structure to most effectively meet program goals
- 2.2 Utilize a scorecard to establish award for each project

3. PROVIDE TRANSPARENCY OF PROGRAM FUNCTION AND IMPACT.
- 3.1 Increase program approachability through sharing of process, eligibility, and evaluation metrics
- 3.2 Perform regular impact reporting to increase public understanding

4. INCREASE ACCOUNTABILITY FOR AWARD RECIPIENTS.
- 4.1 Regularly track and evaluate individual PILOT recipients
- 4.2 Establish a clear process for enforcing PILOT requirements

Principle 1: Ensure proper eligibility for PILOT program

Objective 1.1 Require projects to align with the goals of the PILOT program

Overview

The first step in determining a project's eligibility for a PILOT program should involve ensuring that the project aligns with the goals of the program. Incentives should not be utilized just to encourage development, but rather to encourage the right type of development. PILOT program goals should be clearly articulated and in alignment with the goals of the DMC as a whole. These goals should be cohesive with local and regional plans and goals and incorporate feedback from the community.

Program goals cannot effectively guide program administration without the use of indicators that can measure how a project aligns with and meets program goals. Indicators can be seen as requirements for participation in the PILOT program. These indicators can be quantitative or qualitative, but they must be specific enough to evaluate projects consistently over time.

Projects under consideration for a PILOT should meet certain pre-defined baseline requirements for the goal indicators. These baseline values for the goal indicators should remain consistent or have a formula for change over time, in order to allow developers to predict a project's eligibility.

DMC Considerations

The DMC strives to develop and strengthen Downtown Memphis's role as an economic, cultural, and governmental core and measures its success through the number of people living, working, and engaging in Downtown and increases in Downtown commercial property values. However, these goals are not directly incorporated into project eligibility requirements. With some modifications, these goals can be utilized as eligibility requirements for the PILOT program ensuring projects better align with the DMC's mission. The published goals of the DMC are more general than some of the existing grading metrics used to determine PILOT lengths. The general goals can be formatted into initial yes/no eligibility criteria that can also be used as indicators for tracking impacts of the program. As discussed further under other recommendations, tracking program impacts is a way to measure the success of the program in achieving the goals of the DMC and CCRFC.

The current PILOT program requires residential projects with 51 or more units to comply with the DMC's affordable housing policy. Affordable housing should be factored into the stated program goals, and the language in the application and PILOT agreements will need to be altered to more effectively ensure this goal is met. Additionally, the DMC should create a document that details the affordable housing requirements for developers to reference for more information.

A project's alignment with CCRFC goals is currently assessed using the CCRFC Priorities criteria for determining the length of a PILOT. The PILOT length and award should be tied more to a project's financial need, as outlined under Principle 2. The CCRFC goals should be modified to act more as initial "gate keepers" to establish eligibility of a project for PILOT review in order to better promote development that aligns with program goals. One way of achieving this shift is to add to the existing eligibility requirements.

Proposed goals are listed below based on review of existing documents identifying goals and priorities. Prior to implementation of revised goals and eligibility criteria, the DMC and CCRFC should complete a review of existing goals and priorities and make updates as necessary.

1.1 Best Practice Outcomes:

1. List of clear and specific program goals.
2. List of metrics that serve as indicators for the program goals.
3. List of baseline requirements that establish project eligibility based on alignment with the program goals.

Potential goals based on review of existing PILOT documents:

1. Increase commercial property values in Downtown.
2. Increase the number of people living, working, and engaging in Downtown.
3. Encourage investment and development in economically distressed areas.
4. Encourage restoration of historic or contributing buildings and places.
5. Promote sustainable design.
6. Incorporate community based initiatives and design.
7. Ensure residential development includes units affordable to the workforce.

Objective 1.2 — Standardize the requirements for the demonstration of financial need

Overview

A standard method of evaluating a project's eligibility for a financial incentive is to determine whether the proposed project could be reasonably expected to occur without the incentive (the so called "but-for" test). Such tests consider a number of different factors of the project, such as costs, location, and public improvements. While a version of the project may be able to proceed without the incentive, an incentive could allow a project to include additional features, such as affordable housing units. As a result, the but-for test for the PILOT program needs to clearly define criteria, based on the goals of the program, that indicate a financial need for the incentive.

Determination of financial need requires review of a variety of factors. Many of the metrics included in a pro forma or financial analysis are estimates based on assumptions and market understandings. This means there is a level of variation expected. Using multiple metrics for financial analysis results in a more clear prediction and understanding of assumptions.

The range of project sizes and types that can be developed under a PILOT also leads to a range of targets for the financial analysis. Standardizing the metrics used allows for better comparison of projects overtime and will result in a more uniform database as data is collected.

DMC Considerations

The current process for DMC staff review of proposed projects looks at important financial elements of a project; however, the review could be strengthened by including more standardization in the information gathered as well as formalizing target metrics. A fillable spreadsheet or standardized pro forma would allow staff to collect and review additional information about proposed projects, as well as ensure the accuracy of the developer's assumptions. The pro forma will demonstrate the project's proposed financial performance which would then be evaluated to determine the project's need for an incentive.

Detroit Economic Growth Corporation Underwriting Guidelines

The Detroit Economic Growth Corporation provides a detailed list of underwriting guidelines for developments seeking tax incentives. Guidelines are presented based on two different types of projects: real estate projects or business development and attraction projects. The guidelines cover evaluation criteria and strategic impacts and requirements.

1. Project is financially and economically viable
    - Ability to secure all sources of financing
    - Positive cash flow with market-based debt service coverage ratio
    - No financial gaps exist after tax incentive underwriting
    - Acquisition costs do not exceed fair market value or recent appraisal
    - Rental rates, expenses, debt terms, and other financial assumptions are aligned with current market trends
    - Non-deferred developer fee not to exceed 5% and related party fees not to exceed 8%

2.

2. Project demonstrates financial need
    - Abatement reduces gap caused by additional costs specific to project location and market
    - Project's returns are reasonable to support the term of the abatement and attract investment
    - Provisions of abatement makes a meaningful impact on a project's performance, as indicated by an increase greater than or equal to 1% or a material difference in cash flow
3. Project involves substantial investment
    - For existing structures, applicant must demonstrate that substantial rehabilitation is necessary and will occur
    - Documentation of financing may be requested
4. Recommendation of term
    - Requests with returns outside of current market trends may have shorter abatement terms recommended
    - Projects must demonstrate the full term of the abatement results in a substantial impact on the project returns, e.g. greater than 50 basis points
5. Final review
    - Exceptions may be granted based on certain conditions such as project size or use of federally regulated affordable housing funds
    - Supporting documentation may be required for assumptions outside of current market trends

Key Elements of Financial Analysis

As previously outlined, a variety of financial metrics should be reviewed for a more wholistic analysis. Metrics will help DMC staff understand how a project might function to start, outline the potential financial future of the project, and provide insight into how the developer has formed and structured the project. Key metrics that should be included in the analysis are outlined on the following pages with potential targets for project analysis.

Debt-Service Coverage Ratio

Debt-service coverage ratio (DCR) can provide a look into financial stability of a project over time and can also serve as an initial check of the appropriateness of a project's financial parameters. The current DCR target of 1.25 is appropriate for a stabilized project, but looking at the projected DCRs over a 10-year period to determine when the project meets the target DCR will provide additional understanding of a project's financial need. Taking about three to four years to reach stabilization is a sign that the project needs the PILOT to be feasible. If a project takes too long to stabilize, such as more than six years, then the project either has a risk of not being feasible even with the PILOT or the assumptions used by the developer may be flawed. If a project reaches stabilization in years one or two, the project may not need the PILOT to be feasible.

Cash Flow, Return on Equity, & Internal Rate of Return

Reviewing cash flow, return on equity (ROE), and internal rate of return (IRR) can add to the understanding of a project's viability. DMC staff currently reviews cash flow and ROE in a similar manner to the DCR analysis just described. Review of IRR should be added to provide a more holistic analysis. If a project does not reach positive cash flow or maintains a low ROE (around 1%), then the project would be considered risky and likely needs more support than just the PILOT to be feasible. If a development is projected to require one to two years to reach comfortable cash flow, or ROE, the project might not really need a PILOT. The IRR that makes a project feasible can vary based on the type of project and the comfort level of the developer. A common minimum IRR is 10%, however, the desired IRR for developers and/or investors is often higher for projects with more risk. IRR calculations will require an understanding of standard cap rates for different building uses and market conditions.

Cap Rate

The capitalization rate or "cap rate" is an indication of the annual rate of return a buyer of income-producing real estate is comfortable receiving. The cap rate may vary across asset classes and across the country. Currently, multi-family properties in the United States transact at an average cap rate of approximately 5.5%, while office properties average cap rates of approximately 7%.

Cap rates are also important for IRR calculations, which rely on an assumption of the property's sale value. Ensuring that applicants are using a standard cap rate that is reasonable for the market and property type allows the DMC to better compare the project's financial projections to similar projects and verify the financial need for a PILOT.

Residual Land Value Analysis

For more complex projects including a mixture of uses or possibly for self-financed projects another analysis option is a residual land value analysis. Residual land value is calculated by subtracting from the total estimated value of a development all costs associated with development including any profit from selling the property but excluding the cost of the land. The amount left over is the residual land value. A positive residual land value indicates that the project is feasible. A low (i.e. below market) or negative residual land value indicates that the project is likely not feasible without assistance via an incentive mechanism. The residual land value analysis is helpful when reviewing projects on land that has been owned by the developer for a longer period of time before the development is proposed. It can also be helpful in understanding if the property was overpaid for.

Assumptions

In addition to reviewing the output financial performance metrics outlined above, it is important to check the assumptions used to generate the pro forma. DMC staff currently use internal tracking systems through their database of past projects to help assess whether a project's assumptions are reasonable. Assumptions that are important to review include tax assumptions, construction costs, proposed rents, and occupancy rates.

Tax assumptions include tax rates, assessment values, and post development value. A functioning relationship with the assessor's office is important to understanding tax assumptions. Communication with the assessor's office to understand how developments, especially properties subject to a PILOT, are tracked and valued over time is necessary to properly estimate how a property will be valued during the PILOT term and upon expiration.

Summary

DMC staff currently use a formula for predicting post development taxes. These equations should be regularly updated based on input from the assessor's office and review of past projects. At a minimum, the equations should be updated after each reassessment year.

Post development value of renovations = base value + 60% of construction costs

Post development value of new construction = base value + 80% of construction costs

Understanding current market conditions of a project are key to measuring the feasibility of a project. The market absorption rates are useful for speculative projects to see how construction of commercial space or residential units will fit into the current supply and demand of a market. The potential absorption is also tied to the estimated rent rates, sale values, and occupancy rates. For markets that the DMC is familiar with, a market analysis may not be necessary to check project assumptions. However, staff should require that a developer provides a market study as part of the application package for projects when additional information about the market conditions are needed. This requirement can be added to the PILOT application as an item required at the discretion of staff.

The same analysis factors can be used for owner-occupied projects. The pro forma should be completed as if the project was for lease. If the project is healthy with below market rents or if the returns are significantly higher than reasonable with market rents, then a PILOT is likely not necessary to support the project.

The goal of the financial analysis and but-for test is to determine the financial gap of the project that needs to be covered for the project to move forward. Below are some of the metrics that can be reviewed to establish financial need. The target ranges for the metrics are wide to accommodate the variety of project size, type, and characteristics. These ranges can be narrowed as staff evaluates patterns overtime. To be more specific, the ranges will likely need to be associated with project types or sizes.

1. Project stabilization: target years 3 - 5
2. Debt-service coverage ratio: target 1.0 - 1.4, ideally 1.25
3. Cash flow: positive by year 3
4. Return on equity: above 1%
5. Internal rate of return: target 5% - 20%
6. Cap rates: multi-family average 5.5%, office average 7%
7. Residual land value analysis: below market value or negative
8. Tax assumptions
9. Construction costs
10. Rent rates
11. Occupancy rates
12. Absorption rates
13. Soft costs and hard costs
14. Revenue projections

1.2 Best Practice Outcomes

1. Create a template pro forma to standardize the evaluation of a project's financial characteristics and need for assistance.
2. Define baseline eligibility requirements from the financial analysis.
3. Utilize third-party market studies to validate information in financial analyses.

Objective 1.3 — Reduce costs to city, county, and residents by evaluating the fiscal impacts of projects

Overview

Projects eligible for the PILOT program should provide greater public benefits (e.g., higher tax revenue than amounts prior to development and the achievement of DMC/CCRFC goals enumerated earlier in this report) than its costs. It is crucial that projects are evaluated to determine their short-term and long-term impacts on city services, infrastructure, and quality of life. Any project that indicates higher costs than public benefits should not be eligible for the PILOT program. Fiscal impact analyses can be utilized to determine the net impact on all or some proposed projects. Net impacts are calculated by evaluating the jurisdictional up-front and ongoing costs alongside the predicted revenue generated by the development, subtracting any revenue forgone through the incentive. External analyses should be employed when a project type is particularly complex or unique, stretching the capacity of DMC staff to perform an internal evaluation. To reduce the financial burden of these reviews, costs could be built into the PILOT program fees.

DMC Considerations

Fiscal impact analyses are not currently required as part of the application for a PILOT. The addition of this as a requirement for projects above a particular size threshold would help outline the costs and benefits of larger projects developed with PILOT assistance. In the end, DMC staff should have discretion on requiring a fiscal impact analysis as part of an application.

The DMC should ensure that the following items are evaluated as part of the fiscal analysis for a proposed development:

1. Increases in cost from new demand for public services such as utilities, public safety, and education systems.
2. Additional city or county costs due to infrastructure construction, improvements, and/or maintenance.

1.3 Best Practices Outcomes

1. Understand increases in costs to the city and county resulting from projects
2. Understand potential consequences for residents and employees
3. Determine project criteria that would require a third-party fiscal impact analysis

Austin, TX Fiscal Analysis Strategy

The Economic Development Department in Austin, TX conducts fiscal analyses of proposed projects utilizing the web-based fiscal impact software LOCI. This software is designed to project local government revenues and expenditures and gauge the impact of incentives on those projections.

Staff utilizes data provided by project applicants as inputs in LOCI to estimate city revenues (such as taxes or utility fees) and expenses (such as public safety, utility operations, or parks and recreation) that result from the project.

A 2015 report states that since implementing the use of LOCI in 2010, the 7 approved incentive agreements have an estimated total return on investment of 225%, with the City standing to profit $29.5 million.

Principle 2: Determine appropriate PILOT award

Objective 2.1 Modify existing PILOT program structure to most effectively meet program goals

Overview

Review of incentive program applications can range from strictly prescriptive to guided negotiation. Prescriptive structures are typically more predictable because the metrics needed to receive an award are pre-determined and published. Guided negotiation structures typically rely more on the applicant to provide proof of a level of need.

There are a number of different structures for tax abatement and PILOT programs that can alter the way in which the program is utilized. The key features of a PILOT program are the length of the PILOT and the amount of the PILOT. Most standard tax abatement programs have a term length of 10-15 years; however, some programs have introduced shorter time periods or renewal options tailored to program goals. The amount of a PILOT can be determined a number of ways, but common strategies include caps on the gross amounts of taxes abated, a minimum PILOT amount calculated based on fiscal costs, or step-down abatements that decrease the property value eligible for abatement over the length of the abatement. It is crucial that modifications to the PILOT program structure consider how those factors will help the program better align with the DMC's goals.

Options for Implementation

1. Abatement Renewal Process
2. Gradual Step-Down of Abatement Amount
3. Caps on Abatements
4. Reallocation of a Portion of Abated Taxes

Option 1: Abatement Renewal Process

Abatement renewal is a strategy that would require PILOT recipients to renew their PILOT at certain times throughout the term of the PILOT. This renewal requirement can introduce the opportunity for modifications to the PILOT based on the project's financial stability and compliance with the terms of the initial agreement.

Pros:

- Introduces an additional form of accountability for projects.
- Protects public investment from projects that no longer need the abatement, or those which are not furthering the goals of the DMC as had been initially expected.

Cons:

- Even if modifications or termination of abatement are rare, lenders may consider the term of the abatement to conclude at the time of the first renewal.
- Increases the management efforts of the DMC and staff because they will need to process renewal requests at the same time as other project reviews. Renewal reviews will also be time sensitive as they would impact the management of existing developments.

Pittsburgh, PA Hybrid Program

The City of Pittsburgh, PA has two options for their tax abatement program. Their standard abatement, 3 year term with an annual cap of $175,000, is the default abatement for anyone who meets the eligibility criteria. The enhanced abatement, 10 year term with an annual cap of $250,000, is offered if the project fits additional pre-defined criteria, such as geographic location or a project that provides affordable housing units.

Option 2: Gradual Step-Down of Abatement

This approach involves establishing a schedule by which the percent of the property value eligible for abatement decreases over the term of the abatement. This can be a steady decrease over time, or it can occur as the project approaches the end of its abatement term.

Pros:

- Reduces the overall amount of uncollected tax revenue over the term of the abatement
- Enables the project to ease into full property tax payment to ensure greater financial stability. The step-down allows developments to prepare for the end of abatement and creates more predictability for how developments will be valued after PILOT expiration

Cons:

- Lenders may be less comfortable with this type of abatement
- Sometimes results in greater lengths of PILOTs to cover a financial gap

Example Step-Down Schedules

Richmond, Virginia	Atlanta, Georgia
Years 1-7: 100%	Years 1-5: 100%
Year 8: 75%	Years 6 & 7: 80%
Year 9: 50%	Year 8: 60%
Year 10: 25%	Year 9: 40%
	Year 10: 20%

Option 3: Abatement Caps

This strategy involves establishing a maximum amount of property taxes that may be abated for a project. This maximum amount or "cap" could be calculated as a flat dollar amount of abated tax revenue, or as the assessed value of a property eligible for tax abatement. Additionally, abatement caps can be formed as a maximum percent of abated tax revenue a project can obtain, with the actual amount of abatement determined based on a project's established financial need.

Pros:

- This strategy can be formulated to encourage certain types or scales of development. Using value caps is one way to target small projects because the abatement may constitute a larger percentage of the total costs for a small project compared to a larger project
- Maximum abatement percentages ensure that projects are awarded abatements based on their financial need
- Implementing caps will likely receive public and political support

Cons:

- The caps will need to be calculated in a way that avoids unintentionally stifling development. If a cap is set too low, then the PILOT program would no longer be as helpful to the larger projects that operate on a different scale financially.
- Caps on value or revenue will need to be adjusted regularly for inflation and market shifts
- Utilizing a maximum abatement percent would be less predictable for developers prior to beginning the PILOT application and review process

Cleveland, OH Recommendations for Abatement Caps

A 2020 study on tax abatements in Cleveland, OH recommended capping the assessment value eligible for abatement of new construction single-family home at $300,000. This cap meant that a home valued, for example, at $400,000 could receive abatement on $300,000 of value, but the additional $100,000 would still be subject to property tax. The motive behind recommending the creation of this cap was to discourage the disproportionate distribution of tax incentives to the most expensive homes, and instead encourage the construction of homes valued at or below $300,000. The study found that 99% of Cleveland homes sold between 2017 and 2018 valued at less than $300,000, while 23% of tax abated homes sold for more than $300,000. Stakeholder engagement found reasonable support in creating some form of incentive cap.

Option 4: Reallocation of Abated Taxes

This method involves reallocating a portion of the property taxes that would otherwise be abated to a specified fund designated for public improvements that would benefit both the public and the project itself. This could be implemented for the entire duration of the PILOT period or be triggered by a certain event or time.

Pros:

- This strategy can allow for targeted investments for purposes important to the community, such as infrastructure improvements, that may otherwise not be prioritized.
- During annual review of PILOTs, demonstration of financial stability, including higher than anticipated cash flow or ROE, could trigger a contribution to this fund, providing additional public benefit when PILOT projects exceed financial expectations

Cons:

- Determining the baseline for triggering allocations to this fund could be difficult.
- Requires additional capacity to create and utilize the fund.

Cincinnati, OH Reallocation Program

Cincinnati, OH established a program in 2014 called the Voluntary Tax Incentive Contribution Agreement (VTICA) which allowed applicants for property tax abatements in certain geographies to opt into contributing an amount equivalent to at least 7.5% of their abated property taxes to a fund operated by a third-party non-profit for the construction of a downtown Streetcar. The intention of the program was to reallocate a portion of abated taxes to an infrastructure improvement that would benefit the applicant as well as the surrounding community. In 2015, City Council adopted additional incentives for projects opting into the VTICA program, including an extension of up to seven years of the abatement term for contributions of 15%. VTICA was later expanded to include the entire city, with VTICA funds going either to the Streetcar fund or affordable housing and other neighborhood projects, depending on the project's geography.

DMC Considerations

The structure of the abatement program should be designed to achieve the DMC's goals for the program. Currently, the goals of the PILOT program are incorporated into a grading system that determines the number of years for which a project may be eligible, while the amount of abatement is fixed at 75%, with PILOT payments based on the property's pre-development value plus 25% of the post-development value. This system has strengths and weaknesses. The current qualification criteria are skewed toward awarding longer PILOT terms to bigger projects, since the grading system primarily ties term length to the size and total costs of a project. As a result, smaller infill projects which could just as effectively meet some of the DMC's goals would be awarded PILOTs that do not provide the necessary financial support needed for the project to be feasible. In some cases, this prevents small projects from even applying for a PILOT in the first place. The current system does do a good job, however, of encouraging developers to include at least one, and usually multiple, of the "CCRFC Priorities" to be eligible for the desired length of PILOT. Additionally, the current PILOT program structure does not tie the amount of the abatement to a project's financial need.

Ultimately, the determination of award amount and length should be more strongly associated with the financial need of the project, and additional incentives could be incorporated that reinforce other priorities that are not used as program eligibility criteria. The DMC and CCRFC should examine the pros and cons of the different program structures outlined on the previous pages to determine what single or hybrid structure will most effectively allow them to accomplish their goals.

Discussions with developers and lenders highlighted the importance of a minimum 10-year PILOT term in order to align with common loan terms. A stepdown approach is one way to still allow a PILOT to reach a 10-year term, but with a reduced abatement amount in alignment with a project's financial need. Engagement discussions also highlighted the oftentimes harsh transition to full payment of taxes when a PILOT expires. Phasing the award down as the PILOT ends creates a gradual transition to being fully taxable, allowing owners to better adjust. In order to create greater predictability and transparency, a fixed stepdown schedule would need to be published and available prior to applying for a PILOT.

Feedback from staff and stakeholder engagement showed a desire to make the PILOT program more approachable for smaller and emerging developers. By tying the length of a PILOT to financial need rather than project size or development costs, the PILOT program will be better able to encourage, support, and mitigate the risks of smaller development projects.

The implementation of a tax incentive contribution fund that reallocates a portion of abated taxes is one way to capture additional funding to be spent on public benefit projects within the Downtown area. It can achieve similar results to a community benefits agreement without the negotiation required for each project. It is also a way to potentially capture funds from a development that has significantly exceeded financial expectations. Since a project's financial need is based on pre-development estimates, it is possible that a project could be more successful than anticipated, possibly even to the extent that they would not have been awarded a PILOT had these returns been the ones included in the application. However, the potential for project returns to exceed initial predictions is part of why developers take on the risk of the investment, and the complete removal of higher returns could deter future developments. The reallocation program could be established to capture a predetermined percentage of the abatement for the life of the PILOT, a percentage of abatement after a number of years, a percentage of the abatement if a project is determined to be more successful than originally anticipated, or some combination. The program could be structured such that all PILOT recipients provide pre-determined contributions, or it could be something that developers opt into.

Discussions with DMC staff, CCRFC board members, and focus groups guided the creation of a list of factors helpful to determining appropriate award structures moving forward. Similar to the pros and cons listed under the different program structure options listed on the previous pages, these factors can be used to consider how the different program structures align with DMC and CCRFC priorities. When evaluating structures using these factors, it is important to remember that prior to the determination of a project's term and abatement amount, the project will have already been screened for eligibility based on its alignment with program goals, financial need for the incentive, and ability to succeed following the expiration of the PILOT.

Factors for Evaluating Award Structures

1. Desire for transparency and predictability from lenders and developers
2. Ability to consistently apply structure by staff
3. Avoid undue burdens on staff and applicants
4. Increase program accessibility for smaller developers and projects
5. Align project need with the length/amount of award granted

2.1 Best Practice Outcomes

1. Define the minimum and maximum length of PILOT awards
2. Determine the amount of the PILOT award

Objective 2.2 Utilize a scorecard to establish award for each project

Overview

The use of a scorecard is a direct implementation of establishing metrics for PILOT award (Recommendation 2.1) and supporting transparency of process and review (Principle 3). The scorecard can outline the review process for determining how a project aligns with the program goals, and how the project fits into the award matrix. A scorecard can be especially helpful when a combination of award structures is used based on different project criteria.

DMC Considerations

The CCRFC currently uses a published PILOT grading system to establish the PILOT length for which a project is eligible based on three categories: project use, project cost, and project elements under the CCRFC priorities. The current grading system establishes a maximum length but does not ensure that a PILOT will be granted for that length. Projects are typically capped at a 15-year PILOT, even if it grades for a longer term. The final length may also reflect a developer's request, staff discretion, and perceived financial need.

Based on the but-for criteria and award structure established, the grading system should be updated to identify the new criteria. The evaluation system should be well outlined, easy to understand, and easy to apply to projects. This is important to ensuring consistency over time, as staff and CCRFC board members may change.

2.2 Best Practice Outcomes

1. Determine which components of PILOT award are variable.
2. Determine criteria used to evaluate award.
3. Create a scorecard or matrix to determine award amount.

Principle 3: Provide transparency of program function

Objective 3.1 Increase program approachability through sharing of process, eligibility, and evaluation metrics

Overview

Transparency of the function of the PILOT program is crucial to ensure that developers understand how the process works, eligibility criteria, and what possible types of incentives they could receive. Providing detailed information as to the application process, the timeline with which an application must be submitted and when a decision will be made, will allow developers that are less familiar with the PILOT program, such as smaller developers or businesses, to be able to utilize the program. Additionally, clear details regarding project eligibility can lessen the amount of staff time taken up by ineligible project applicants.

DMC Considerations

The existing PILOT application provides a good overview of the program, process, and review criteria. This application document only requires updates based on new eligibility criteria and project information requirements.

As mentioned in objective 1.1, the DMC's affordable housing policy should be detailed in an additional document available online for PILOT applicants to view. This document should detail the requirements for the developer under that policy, as well as all reporting requirements and consequences for noncompliance.

The publication of the pro forma template and clear instructions as to how to fill it out can allow developers of all levels of experience to submit the necessary financial information and understand how their project will be evaluated.

3.1 Best Practice Outcomes

1. Provide clear and easily accessible information on the application and review process
2. Specify eligibility criteria
3. Indicate how awards can vary and what factors into the award determination

Michigan Economic Development Corporation

The Michigan Economic Development Corporation (MEDC) has a standard excel pro forma model used by applicants for their community development tools, resources, and incentives. The pro forma template allows MEDC to gather detailed information regarding the development costs, operating revenue, operating expenses, project cash flow, and sources of funding.

The spreadsheet is designed for ease of use, with built-in formulas, and highlighted cells for data input. In addition to instructions included in the excel template, there is also an accompanying PDF which provides greater detail on instructions for utilizing the excel template.

The use of a standard pro forma allows for easier and more consistent analysis of project financial stability and need, as the required metrics for evaluations are automatically calculated based on the developer's inputs. Additionally, any assumptions, such as vacancy rate or rates of growth in revenue or expenses over time, can be standardized across applicants to ensure the calculations align with the DMC's understanding of the Memphis market.

Objective 3.2 Perform regular impact reporting to increase public understanding

Overview

Given that the PILOT program is designed to forego potential tax revenue, it is crucial that the results of the program are available to the public, as well as to governing bodies involved in or affected by the program. Transparent reporting processes can ensure the program is achieving the desired results and offer the opportunity to modify program structure when components are determined to be ineffective or inefficient. These reporting practices can also help gain and/or maintain public support for the incentive program, as evidence of its impacts can be visualized over time. Reports should select data points for evaluation based on program goals and factors that went into the determination of project eligibility and award amount. These analyses should allow for comparison of program results over time through consistent data gathering and analysis techniques, such as: measuring all relevant data points each reporting period, presenting the data in a consistent format or template, and indicating if a data point was gathered from a different source or calculated differently than in previous reports.

DMC Considerations

The DMC currently collects a variety of information related to PILOT projects and publishes some of the information on its website. The website is well-organized and allows the public to search for information and data in a variety of ways. Currently, the published information related to PILOTs is mostly oriented toward sharing characteristics of the projects, such as location, cost, phase, and use. The website also hosts a data dashboard that includes annual reports on DMC initiatives and tracks economic indicators such as median household income, median home value, per capita income, and job summaries. There is an opportunity to incorporate additional PILOT impact metrics into the data dashboard to make this information accessible to the public and allow the tracking of trends of time. This data should be regularly updated throughout the year as new PILOT projects occur.

In addition to including more PILOT information on the data dashboard, DMC should complete a larger review of PILOT practices every other year to update the impact analysis and review how well the program structure is accomplishing its goals. Some of the other program reports and evaluations completed by the DMC are also done every other year, such as the CBID-wide blight survey. The PILOT review could be conducted on alternate years to the blight survey in order to incorporate the blight data as part of its impact analysis.

3.2 Best Practice Outcomes

1. Establish a baseline of the current economic status of the PILOT program's geography
2. Project future economic growth without any intervention with the PILOT program
3. Set a baseline of the existing PILOT program's impact
4. Create a template for project evaluations to ensure consistency for tracking over time
5. Specify what data is needed to evaluate the program impact, including data sources and frequency of data collection
6. Determine a schedule with which to publish regular reports and data on the program

Principle 4: Increase accountability for PILOT recipients

Objective 4.1 Regularly track and evaluate individual PILOT recipients

Overview

All PILOT recipients should be expected to regularly report specific data points for the DMC to collect and analyze, both to understand individual project compliance with the DMC's expectations, and to be aggregated for public reporting. These data points should include information that factored into the receipt of the award, such as project rents, employment numbers, or cash flow. These data points should be determined once the eligibility and award amount metrics are standardized. All reporting requirements, including a list of required data and the timeline for data submissions, should be specified in the PILOT lease and clearly communicated to the PILOT recipient to ensure they are aware of, and committed to, these expectations.

DMC Considerations

The DMC currently collects the majority of the project information during the initial application and review process. Certain project information may be updated or added during the construction phases, such as documented MWBE spending. However, there is not currently a requirement for annual reporting of operations or financial data that would allow the DMC to measure how a project's performance compares to its pre-development estimates included in the PILOT application. This information could help the DMC understand how developments progress through the years of the PILOT program, as well as contribute to a better understanding of market conditions.

Tracking of information should not create an increased burden on DMC staff or on developers. Most PILOT projects are required to perform annual reporting for lending agencies. The same information gathered could be reported to the DMC for tracking. Additionally, information regarding occupancy and rent rates, particularly for required affordable housing units, should be included. A standard reporting template can also decrease potential burden from reporting requirements.

The affordable housing requirement is currently the largest item that needs annual evaluation of project compliance. Standard reporting for compliance with rent restrictions and occupancy requirements involve the annual submission of income certifications and recertifications for all tenants of the designated units. Additionally, property owners or managers should submit annual summaries of the affordable units to the DMC that include details such as the number units by number of bedrooms and square footage and the corresponding household income limit and rent.

Documentation provided as part of the initial agreement should also include language that allows the DMC to collect additional information as needed to verify the affordable housing requirements are being met. Sample language could be:

> *The DMC has the authority to request any and all additional documentation it deems necessary to verify the information provided by the Owner.*

The DMC has the discretion to determine what information it reviews annually, but all data should be collected annually and held by the DMC and the property owner for the duration of the PILOT agreement.

4.1 Best Practice Outcomes

1. Ensure PILOT recipients are aware of all data reporting requirements and commit to providing accurate and timely data updates
2. Create a list of data points needed from every project and the frequency with which they must report that data
3. Create a template for projects to utilize for data reporting
4. Verify data provided from projects during the application stage and post-award

Objective 4.2 Establish a clear process for enforcing PILOT requirements

Overview

One common concern about tax incentive programs is the possibility that a project may receive a tax incentive but then not follow through with the commitments that had allowed them to be eligible for the award in the first place. While there are several different options for holding developers accountable to their public commitments, the most crucial strategy is to some form of a review process that evaluates each project's compliance with the expectations and requirements of its award agreement. The review process should occur on a fixed schedule and include some form of safeguard that enables the termination or modification of an incentive if the recipient is unable to remedy any compliance problems identified during the review process.

DMC Considerations

in order to hold PILOT recipients accountable to the commitments made when they were awarded a PILOT, the DMC will need to determine what agreement violations merit termination or modification of a PILOT award, and the language of future PILOT leases should be altered to reflect these requirements. For example, any violations to the affordable housing requirements should result in PILOT termination, while a significant increase in project cash flow relative to projections in the application could result in a modified PILOT that allocates additional project return to a tax incentive allocation fund, as discussed in Principle 2.

4.2 Best Practice Outcomes

1. Design a review process that evaluates how a project meets the expectations and requirements of the initial award agreement, including alignment with program goals and continued financial need for PILOT
2. Determine a timeline for frequency of project review
3. Determine the person(s) responsible for this review process
4. Outline clear consequences and possible remedies for projects that are found to be out of compliance with any policies

Ohio Tax Incentive Review Council

The state of Ohio mandates that all municipalities granting tax exemptions form a Tax Incentive Review Council (TIRC). The TIRC has a minimum of four members and meets annually to evaluate all tax exemption agreements, as well as any audits or performance reports performed related to those agreements. The council evaluates the individual projects to determine compliance with the initial agreement, factoring in the context of the current market and the specifics of that particular business or use. The TIRC then provides a recommendation to the municipality as to whether the original agreement should be continued, modified, or canceled. Proposed modifications to an agreement could be an adjustment as to the percentage of value abated or modifications to targeted metrics, such as number of new full-time employees, to better align with current market conditions. Upon receiving a recommendation from the TIRC, the municipality's legislative board then determines if they will accept, reject, or modify the recommendation.

In 2018, the City of Columbus received recommendations from the TIRC on 65 projects receiving some form of tax incentive and recommended that one agreement be amended and one dissolved. Two additional projects did not report their progress, and TIRC recommended a 60-day notice to fully report all requested project information otherwise the agreement would be dissolved.

Recommendations

The analysis of the current design and impact of the PILOT program in combination with the seven key objectives drawn from best practices in tax incentive design, provides insight into the best path forward for the DMC to meet their objectives. The DMC wants their PILOT program to maximize public benefit, provide greater predictability for developers and lenders, and be more accessible to smaller developers and projects, while avoiding undue burden on staff and applicants. With these goals in mind, the following sections outline a recommended program structure, the necessary implementation steps, and an alternative approach based on feedback from DMC staff.

Best Practice Policy Principles:

1. ENSURE PROPER ELIGIBILITY FOR PILOT PROGRAM.

1.1 Require projects to align with the goals of the PILOT program
1.2 Standardize the requirements for the demonstration of financial need
1.3 Reduce costs to the city, county, and residents by evaluating the fiscal impacts of projects

2. DETERMINE APPROPRIATE PROJECT AWARD.

2.1 Modify existing PILOT program structure to most effectively meet program goals
2.2 Utilize a scorecard to establish award for each project

3. PROVIDE TRANSPARENCY OF PROGRAM FUNCTION AND IMPACT.

3.1 Increase program approachability through sharing of process, eligibility, and evaluation metrics
3.2 Perform regular impact reporting to increase public understanding

4. INCREASE ACCOUNTABILITY FOR AWARD RECIPIENTS.

4.1 Regularly track and evaluate individual PILOT recipients
4.2 Establish a clear process for enforcing PILOT requirements

Recommended Program Structure

Structure Overview

The recommended program structure based on national best practices and factors that are important to the DMC and stakeholders consists of the following elements:

1. Eligibility for a PILOT is based on:
    a. Alignment with the program's goals
    b. Demonstration of financial need
    c. Demonstration that the project will remain successful once the PILOT term is complete
2. PILOT term and abatement amount are determined based on financial analysis but restricted by:
    a. Cap on the maximum percent of abated taxes a project can receive at 75%
    b. After year 9, a gradual stepdown in the cap every two years at a rate of 5% or 10%. A stepdown of 10% is used unless a project incorporates additional element from a specified list of bonus criteria
    c. Minimum PILOT term of 10 years and maximum of 15 years
3. Program function and impact are transparent through the following actions:
    a. Online publication of detailed and clear information regarding application process, eligibility criteria, and evaluation metrics
    b. Publication of additional metrics and analyses on the DMC dashboard
4. Accountability is increased by:
    a. Annual reporting from PILOT recipients
    b. Internal review of the PILOT program's impact every two years

Additional Information

In this structure, the term and abatement amount are capped and each project's award would be based on the project's financial need. The term would be restricted to between 10 and 15 years, and the abatement amount would begin to stepdown starting in year 9.

The stepdown rate of the abatement cap after year 9 would be 10% unless the project meets additional pre-defined criteria that would make it eligible for a 5% step down rate. This would ensure that projects with a greater award amount are implementing additional goals of the program.

If a project requires a term of less than 10 years at the maximum abatement level to be financially viable, the percentage of abated taxes would be reduced to ensure a PILOT term of 10 years to satisfy lenders, while also ensuring that the project does not receive more abatement than financially necessary

Additionally, a developer could opt for a longer PILOT term with reduced abatement levels to ease the project into full payment of property taxes, as long as the net tax incentive to the project remains the same.

Further discussion will need to occur among staff to determine the process with which they plan to evaluate projects to determine the term and amount of the PILOT. The use of a sensitivity analysis that modifies the abatement terms and amount would be the most effective way to strategically evaluate how a given abatement would impact the project's financial projections. The design and assumptions for the sensitivity analysis can be selected at the same time as the standardized pro forma is developed.

Evaluation Criteria

Under this program structure, the DMC would evaluate all PILOT applicants by asking the following questions:

1. Does the project meet all eligibility criteria?
2. Does the project demonstrate financial need for the PILOT?
3. Does the project demonstrate an ability to succeed after the PILOT term is complete?
4. What abatement term and amount will provide the project with sufficient financial support to proceed?

Alternative Program Structure

Structure Overview

Upon discussing the recommended PILOT program structure that emerged from national best practices, the DMC noted a few areas of the structure that they wished to modify to prioritize certain goals that they had for the updated program structure. The following structure is an alternative that DMC staff proposed that places greater emphasis on improving the predictability of the award amounts for developers and lenders. Most of the elements outlined below are the same as the recommended structure, but the primary modification is element two.

1. Eligibility for a PILOT is based on:
    a. Alignment with the program's goals
    b. Demonstration of financial need
    c. Demonstration that the project will remain successful once the PILOT term is complete
2. PILOT award can take two forms:
    a. Standard PILOT: an abatement of 75% of increased property tax for a 10-year term
    b. Enhanced PILOT: an abatement of 75% of increased property tax for a 15-year term
3. Program function and impact are transparent through the following actions:
    a. Online publication of detailed and clear information regarding application process, eligibility criteria, and evaluation metrics
    b. Publication of additional metrics and analyses on the DMC dashboard
4. Accountability is increased by:
    a. Annual reporting from PILOT recipients
    b. Internal review of the PILOT program's impact every two years

Additional Information

In this scenario, a project could receive only two possible PILOTs: a standard or enhanced PILOT, with the difference being the term length. In order to qualify for the additional five years provided by the enhanced PILOT, a project would need to meet a set of additional criteria. These criteria would need to be carefully crafted and specific enough to ensure that the enhanced PILOT does not become the "standard" PILOT. In other words, the enhanced abatement should be utilized only for select projects that truly align with the program's desired goals.

In contrast to the recommended program structure, this version does not utilize financial need to determine the amount or term of the award. Instead, it provides simplicity and transparency for developers and lenders, as they would know what their abatement would look like prior to applying. However, this could result in projects receiving abatements that are more or less than they really need. This structure also provides an opportunity for the DMC to encourage a more specific type of project that they see as valuable to Downtown without discouraging other projects.

Evaluation Criteria

Under this program structure, the DMC would evaluate all PILOT applicants by asking the following questions:

1. Does the project meet all eligibility criteria?
2. Does the project demonstrate financial need for the PILOT?
3. Does the project demonstrate an ability to succeed after the PILOT term is complete?
4. Does the project qualify for an enhanced PILOT?

Step 1: Update PILOT Program Goals

Currently the goals of the DMC and CCRFC are spread throughout the PILOT program as both eligibility criteria and criteria used to determine the length of the PILOT. The PILOT program should be designed such that the eligibility criteria mirror the goals of the PILOT program in order to ensure that projects that receive PILOTS are truly the types of projects that the DMC believes are best for Downtown. Prior to shifting their goals to eligibility criteria, the DMC and the CCRFC will need to evaluate what their key goals and priorities are for the PILOT program and create a clear set of program goals that are specific enough to identify the types of projects that they want to support through this program.

PILOT program goals can cover a variety of topics, such as:

1. Economic Growth
2. Sustainable Design
3. Affordable Housing
4. Geographic Location
5. Historic Preservation
6. Public Improvements

The DMC and the CCRFC will need to first evaluate which topics are most important to them, create goals out of specific elements of those topics, and then create evaluation criteria to determine whether a project aligns with those goals.

Step 2: Update Affordable Housing Policy

The DMC's current affordable housing policy does not align with best practices for promoting and requiring affordable housing in residential projects. For example, the current policy only requires that the units be occupied by households of particular income levels, but does not require that the unit rents be set such that they ensure the household is not paying more than 30% of their income on rent, leaving these households rent burdened. Additionally, the policy should ensure that the size, design, appearance and location within the building are no different than market-rate units.

The existing policy should be evaluated and modified to ensure that it achieves the goal of the policy. The DMC will need to determine what projects must adhere to the affordable housing policy, what levels of affordability should be required, as well as establish compliance reporting structures.

The following language could be included in the updated affordable housing policy:

1. Units must be rent restricted such that no residents in these units shall spend more than 30% of household income on rent.
2. Unit mix of affordable units must be proportionate to the unit mix of market rate units.
3. Affordable units must be similar in construction and appearance to market rate units.
4. Affordable units must be interspersed among market rate units.

Step 3: Update Dashboard

The Downtown Memphis website contains a significant amount of information related to Downtown and DMC work. The "Current Projects Database" page features a map of project locations and a table with project details. This feature conveys project information in an understandable way and should be referenced often to the public with questions.

The website also features a "Downtown Data Room" with reports, studies, and data available for review by the public. The "Data Dashboard" is especially helpful with annual reporting economic development metrics tracked overtime. The annual report provides information and data on a variety of DMC programs including PILOTs. The economic performance indicators includes a series of graphs showing indicators overtime and projecting future trends. Similar mapping for PILOT indicators or characteristics would be helpful to convey trends in another way that does not require a person to go through the annual report. PILOT indicators could include many of the same indicators reviewed under the PILOT Impact section of this report.

1. PILOT payments value compared to count
2. Build versus no build scenario
3. Total abatement
4. PILOTs granted compared to expired
5. Development types
6. MWBE spending

Step 4: Modify Financial Evaluation Process

A project's eligibility for a PILOT should be based both on its financial need for the PILOT to proceed and on its ability to be financially stable and feasible once the term of the PILOT expires. In order to better understand a project's financial projections, a holistic approach will need to be taken that looks at the following elements:

1. Debt Coverage Ratio
2. Return on Equity
3. Internal Rate of Return
4. Cash Flow
5. Cap Rates
6. Project Costs
7. Residual Land Value Analysis
8. Other Assumptions

The DMC will need to evaluate if they want to establish criteria for these elements that must be met by every project or by projects of different uses, or if they will evaluate projects individually while taking into consideration each of the above items. Additional detail regarding the importance of these metrics and how to evaluate them were provided in the overview of best practices.

The use of a standard pro forma can aid in the evaluation of projects by standardizing the format in which financial analyses are presented and the ways in which some of the above metrics are calculated. This standardization will ensure that these evaluation metrics can then be comparable across projects as they are based on the same set of assumptions. The DMC will need to refine what they want their standard pro forma to encompass and look like, based on samples from similar programs.

The DMC should also establish guidelines for their use of market studies and fiscal impact analyses. The DMC could contract third party market analyses annually or at certain periods to create a complete picture of market conditions and the assumptions that should be used in financial analyses. Alternatively, the DMC could establish criteria for projects that would trigger a requirement for them to submit a certified market study, such as projects of certain sizes or uses. Regarding the fiscal impact analysis, The DMC should collaborate with other Memphis organizations issuing incentives, municipal services, and the county tax assessor to determine the best way to evaluate the potential costs a project could have to the city and county.

Step 5: Establish Updated Structure for PILOT Term and Amount

The DMC will need to evaluate what PILOT structure is best suited for accomplishing their desired goals and most feasible for staff to implement. The recommended and alternative structures detailed above are two scenarios that will likely be most effective, but other options are possible and are detailed in the discussion of best practices. Once the preferred term length(s) an abatement amounts are selected, the DMC will then need to evaluate what steps it will need to take to implement that particular structure.

Step 6: Define Annual Reporting Requirements for PILOT Recipients

The DMC should incorporate an annual reporting requirement for all PILOT recipients throughout the PILOT term. This reporting will help the DMC to understand the impact that the PILOT has on projects and the validity of the DMC and applicant assumptions during the application process. At this time, there is no current recommendation to use this reporting to modify the PILOTs. Rather, this data can help inform future modifications to the PILOT program and help improve the accuracy of the assumptions used in the financial analysis of proposed projects. Some of the data can also be included on the updated DMC Dashboard.

In order to determine which data points to collect from applicants, the DMC should consider the following:

1. What data can help the DMC evaluate if the PILOT program is accomplishing its goals?
2. What data points will inform the evaluation methods or assumptions of similar projects applying for the PILOT?
3. What data will the public want to know about PILOT projects?
4. What data points are specific to certain project uses (residential, retail, etc) and which items will be required from all projects?
5. What data should the DMC collect after construction completion?
6. What data should the DMC collect during stabilized operations?
7. What data should the DMC collect after the PILOT term is complete?

Below are some possible data points, though the list is not exhaustive:

1. Occupancy rates
2. Market rents per square foot (commercial) or by unit size/type (residential)
3. Operating costs
4. Property appraisal values
5. Construction costs
6. Loan interest rates
7. Debt coverage ratio
8. Cash flow

Step 7: Refine Program Review Practices

The DMC should plan to establish a regular process of reviewing the PILOT program every two years. This will allow for a continued evaluation of the program's success and struggles, that can then inform next steps for the program's evolution. The PILOT program will need to continually adapt to changes in the Downtown market, construction costs, consumer preferences, among others. Depending on how drastically some factors change over time, The DMC may need to reevaluate program goals and consider what program structures may better fit those new goals. Taking the time now to determine a timeline for program evaluation and review topics, the DMC and the PILOT program can anticipate and adapt more efficiently and effectively.

Step 8: Review PILOT Dissolution Clause

The DMC currently includes in all of its contracts a clause to allow for the dissolution of a PILOT under circumstances. This clause should be evaluated to ensure that it continues to align with the goals of the program, and to understand what items should, or will, trigger the termination of a PILOT. At this time, these modifications will not likely result in higher rates of PILOT termination, but rather will ensure that the DMC does still have the capability to terminate a PILOT if the rare need to do so were to occur.

Conclusion

Is the PILOT program delivering the desired result of growing the tax base and helping projects happen that couldn't otherwise occur?

Based on the Impact Analysis, the PILOT program is contributing to a growing tax base in Downtown and is helping to close financial gaps for developments. The analysis has found increased appraised value for property around PILOT projects and an overall trend of increased value within the CBID.

Is the PILOT program helping to build the right development in the right place?

A goal of the PILOT program is to support remediation of vacant and blighted property. A significant number of PILOT projects are located on vacant or blighted property, which leads to a more immediate impact on the neighborhood. With some modification to the eligibility criteria, the PILOT program can become a more direct tool for implementing goals of the Downtown Master Plan and Memphis 3.0 Plan by helping to facilitate developments and investment as recommended in the plans.

Can the but-for test be formalized to provide clearer guidelines for financial analysis to aid staff review and create a more predictable process for developers?

A formalized pro-forma along with analysis of additional financial metrics will help to more formally align financial need with PILOT eligibility and award. It will take steps and time to develop a more specific target for different financial metrics, however, a baseline of ranges is proposed to begin.

Are there any other policy changes that should be considered to maximize the public benefit of this vital economic development tool?

The recommendations and steps for implementation are organized under four best practice principles for PILOT programs. Each principle is broken into objectives to provide additional guidance on applying the principle.

1. Ensure proper eligibility for PILOT program.
2. Determine appropriate project award.
3. Provide transparency of program function and impact.
4. Increase accountability for award recipients.

Next Steps

This report provides analysis and recommendations related to four review questions. The report is intended to provide guidance to the DMC staff and CCRFC as future policy and procedure decisions are made. This report should be reviewed by the DMC staff and CCRFC then used as a platform for drafting of specific changes.