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## **Milwaukee's Renewal Community Allocations Plan for the Commercial Revitalization Deduction**

The purpose of the *Allocation Plan* is to set forth the process and criteria under which specific economic development projects will be selected to receive allocations of Commercial Revitalization Deductions (CRD), a Federal tax incentive available in an area of Milwaukee designated as a Renewal Community. The US Department of Housing and Urban Development (HUD) named this area a Renewal Community in January 2002. The designation will last from January 1, 2002 through December 31, 2009.

In accordance with the requirements of the Community Renewal Act of 2000, this *Allocation Plan* describes the application and allocation decision-making process. The Redevelopment Authority of the City of Milwaukee actively involved residents and non-profit groups within Milwaukee's Renewal Community to devise this plan. In several community forums, the Redevelopment Authority sought input on selection criteria for allocations. These forums included: the Community Development Summit – where more than 100 community partners attended breakout sessions covering the CRD; meeting of community organizers of CDBG funded agencies; and input from members of the RC Coordinating Committee and RC Community Planning Team.

### **Background on the Renewal Community**

As part of the Community Renewal Act of 2000, Congress authorized the HUD to designate up to 40 communities as "Renewal Communities (RC)" – a status that gives targeted communities exclusive access tax incentives created to spur economic development and job growth. In fall 2001, the City of Milwaukee's Department of City Development entered this national competition, in partnership with dozens of community partners and the State of Wisconsin.

When Congress set the rules for the competition, it indicated that the areas designated would be based on 1990 Census information; only Census tracts that met minimum 1990 poverty and unemployment rates could only be nominated. The City of Milwaukee and its partners nominated 53 census tracts in Milwaukee that qualified under these rules.

In January 2002, the HUD named Milwaukee as one of the 40 communities designated as an RC. The geographic area now known as the Milwaukee RC is home to more than 120,000 residents and hundreds of businesses. Businesses currently located within Milwaukee's RC or considering an RC location now have access to special tax incentives that aim to spur economic development and job growth. The package of tax incentives accompanying the designation includes wage credits for businesses hiring RC residents, capital gains exclusions, increased Section 179 Deduction, and the Commercial Revitalization Deduction – the tax incentive associated with this *Allocations Plan*. The designation will last through December 31, 2009.

## **Summary of the Commercial Revitalization Deduction**

The Commercial Revitalization Deduction (CRD) is one of the tax incentives offered with the RC designation where businesses that construct or rehabilitate commercial property in RCs can deduct a portion of the costs of acquisition and rehabilitation over a shorter period of time than permitted under standard depreciation rules. The incentive is a deduction from income before calculating Federal income tax liability, and provides a way to lower taxable income.

Over the seven-year designation period, each RC will have \$12 million in CRDs available each year, with a maximum of \$10 million for any one project. RCs cannot carry over deductions that have not been allocated within a given year during the designation period.

The project must receive an allocation from the Commercial Revitalization Agency, an entity that is authorized by the State to administer the allocation of this incentive. In Milwaukee, this entity is the Redevelopment Authority of the City of Milwaukee (RACM).

A full description of the CRD can be found in IRS Publication 954 and in Section 1400I of the Internal Revenue Code. Briefly, these Federal guidelines govern the CRD:

- The CRD allows a taxpayer who constructs or substantially rehabilitates a commercial building located in RC to treat "qualified revitalization expenses" by either:
  - ⇒ Deducting half of those expenses for the tax year the building is placed in service (and depreciating the remaining expenses over 39 years); or
  - ⇒ Amortizing all those expenses ratably over a 120-month period beginning with the month the building is placed in service.
- To use the CRD, the taxpayer must receive an allocation from RACM no later than December 31 of the calendar year that the building is placed in service.
- The maximum CRD on any one project is \$10 million.
- Substantial rehabilitation means that, within a 24-month period, rehabilitation expenditures exceed the greater of the adjusted basis of the building (and its structural components) or \$5,000. For the purposes of determining whether a building has been substantially rehabilitated, rehabilitation expenditures do not include enlarging a building. If the substantial rehabilitation test is met (without taking into account the costs of expansion), the cost of expanding the building could qualify.
- Building acquisition costs can be included when taking the CRD, but only to extent that the acquisition cost does not exceed 30% of the aggregate commercial revitalization expenditures.
- The CRD is only available for non residential projects and is only available for tax paying entities and is not an incentive for not-for-profit development.

## CRD Allocations Process

The Redevelopment Authority of the City of Milwaukee (RACM) will oversee the allocations of CRDs in Milwaukee's RC, in partnership with the City of Milwaukee Department of City Development (DCD). RACM's board is comprised of two alderman and five business and community representatives and meets on the third Thursday of each month. Prior to RACM board action on any CRD request, the application must go through the following steps:

**Step One: Business submits project to be considered for CRD.**

RACM will accept and review applications on a rolling basis. A copy of the application is attached. Applications must be submitted to Bob Trimmier at the Department of City Development, 809 North Broadway, Milwaukee, WI 53202.

**Step Two: RACM / DCD staff determines if project meets CRD threshold criteria.**

A project must meet certain threshold requirements. For those projects not meeting these threshold requirements, the applicant will not proceed to the next step of the allocations process – however RACM/STAFF will arrange for applicants to receive technical assistance from DCD, Milwaukee Economic Development Corporation or through its non-profit and private sector partners.

**Step Three: CRD Review Committee reviews application and makes recommendation based on Allocation Plan criteria.**

For the purposes of allocating CRD in Milwaukee's RC, the City of Milwaukee and the State of Wisconsin established the CRD Review Committee. This committee will consist of seven members including: a representative from the Department of City Development/RACM, a representative from the State of Wisconsin, a representative from Milwaukee County, and four representatives from private and non-profit sector partners – two named by the City of Milwaukee and two named by the State of Wisconsin.

The CRD Review Committee will meet on an as needed basis to review CRD applications that have met the threshold requirements and make recommendations on CRD allocations based on extent that the project fulfills the evaluation criteria. The CRD committee will use consensus decision-making. In the event consensus cannot be reached a majority vote shall determine the committee's recommendation.

**Step Four: RACM board votes to approve or deny allocation.**

RACM board receives CRD Review Committee recommendation and takes final action on approval or denial of CRD allocation. The board has aldermanic, business and community representation and meets on the second Thursday of each month.

**Step Five: RACM notifies applicant in writing of application status.**

RACM/DCD staff will notify the applicant of application status. For those approved, the signed RACM resolution will serve as the documentation to support the CRD claim when filing a tax return.

**Step Six: Business submits project updates as request to RACM/DCD.**

## Criteria for Allocation

### *Threshold Requirements*

A project must meet the following basic threshold requirements:

1. The project must meet the Federal criteria indicated in Section 1400I of the Internal Revenue Code. This includes the following:
  - The project must be located within Milwaukee's RC
  - The CRD is limited to commercial projects (not residential rental projects).
  - Applicants must be taxpaying entities. Non-profits, churches and the like cannot utilize this deduction.
  - Projects must be new construction or substantial rehabilitation placed in service after rehabilitation.
2. The project must meet a readiness to proceed threshold in order to ensure that the CRD allocation will be used in a timely way. Projects will be evaluated on both permitting and funding readiness. Indicators of readiness could include:
  - Evidence that project financing is in place to fund new construction or substantial rehabilitation;
  - Approved plans or building permit issued by City of Milwaukee in hand;
  - Signed leases for commercial rental space;
  - Market feasibility of the project,
  - The capacity of the applicant to undertake the project, and/or
  - The overall financial health of the applicant.
3. The project is in compliance with current City of Milwaukee neighborhood and redevelopment plans.
4. The proposed project presents no negative impact on the Renewal Community.
5. All project partners, both individuals and entities, must be current on City of Milwaukee property taxes.

### *CRD Allocations Criteria*

In addition to evaluating whether a project meets the threshold requirements, RACM will weigh the following criteria when determining CRD allocation:

- Extent to which of new jobs are created and the level of wages paid
- Extent to which jobs are retained and the level of wages paid
- Extent the applicant and/or tenants offer benefits to employees
- Extent that project increases the tax base
- Extent the project could act as a catalyst to other development
- Extent the project eliminates blight and/or replaces a brownfield with a productive use
- Extent to which ownership is local
- Condition of other properties owned by applicant
- Extent of job training for employees at all levels, including entry level
- Extent the company uses local suppliers and recycles money within the community

- Extent project expands Milwaukee's "high-tech" sector and/or business represents one a cluster identified in the Technology Zone application.
- Extent the project and its applicant represents a business cluster of the Initiative for a Competitive Inner City
- Priority will be given to those projects that are likely to be placed in service within that calendar year.

And finally, RACM will consider the level the project is receiving other public assistance (i.e.: tax exempt financing, community development tax credits, tech zone tax credits, MEDC financing, TIF, grants and the like). Those projects demanding too much public assistance would be looked upon less favorably.

### **Required Reporting for Projects Awarded CRD Allocation**

Businesses that receive an award for a CRD allocation must project updates to RACM/DCD as requested. Should any of the status of any of the threshold requirements change prior to placing a building in service (ie: the project loosing its financing commitments), the applicants must notify RACM/DCD immediately. Placed in service occurs when a business receives an occupancy permit and closes out it's construction permits.

### **Policy to Rescind Allocation**

RACM reserves the right to rescind an allocation if a project is not placed in service within the calendar the allocation is made. RACM will review the application in the following years allocation and consider the likelihood of the project going forward at that time.

Rationale: As previously mentioned in this document, the Federal regulation requires that, in order to take advantage of the CRD, the taxpayer must receive an allocation from RACM no later than December 31 of the calendar year that the building is placed in service. Priority will be given to those projects that will be placed in service within that calendar year.

### **Tax Reporting Responsibilities of CRD Recipients**

Determining a project's the qualified expenditures and interpreting the law pertaining to the CRD is the responsibility of the business and applicant. The role of the RACM/DCD, as it relates to the CRD, is only to make the allocation. Businesses should consult their tax preparer or the IRS for official guidance.