CITY COUNCIL
BUSINESS AND COMMUNITY AFFAIRS COMMITTEE MINUTES

October 4, 2013

The City Council Business and Community Affairs Committee of the City of Norman, Cleveland County, State of Oklahoma, met at 8:35 a.m. in the Municipal Building Conference Room located at 201 West Gray on the 4th day of October, 2013, and notice and agenda of the meeting were posted in the Municipal Building at 201 West Gray and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT:	Councilmembers Castleberry, Heiple, Williams and Chairman Griffith
ABSENT:	None
OTHERS PRESENT:	Mayor Cindy Rosenthal Councilmember Greg Jungman, Ward Four Ms. Tessa Beder, Norman Chamber of Commerce Mr. Steve Ellis, 633 Reed Avenue Mr. Roger Gallagher, 1522 West Boyd Dr. Carlianne Patrick, Department of Economics, Georgia State University Dr. Cindy Rogers, 633 Reed Avenue Mr. Zheng Wang, University of Oklahoma student Ms. Qi Wang, University of Oklahoma student Mr. Don Wood, Executive Director, Norman Economic Development Coalition
STAFF PRESENT:	Mr. Jeff Bryant, City Attorney Mr. Bob Christian, Permit Manager Ms. Susan Connors, Director of Planning and Community Development Mr. Terry Floyd, Development Coordinator Mr. Anthony Francisco, Director of Finance Mr. Ken Komiske, Director of Utilities Mr. Steve Lewis, City Manager Mr. Shawn O'Leary, Director of Public Works Ms. Kathryn Walker, Assistant City Attorney Ms. Syndi Runyon, Administrative Technician IV

Item 1, being:

PRESENTATION BY DR. CARLIANNE PATRICK ON LOCAL IMPACT ANALYSIS FOR ECONOMIC DEVELOPMENT PROJECTS.

Dr. Cindy Rogers, 633 Reed Avenue, introduced Dr. Carlianne Patrick, Department of Economics, Georgia State University, who was invited to speak to the Business and Community Affairs Committee (BACA), because she has experience in setting up impact analyses for cities.

Dr. Patrick said cities need to think about why they should do an economic impact analysis. She said one of the most important reasons to do this is when a city is working with a company asking for incentives, the city needs to have some way to negotiate with the company on a factual basis and know where to draw the line in the sand. An impact analysis can quantify long-term costs and benefits for ten to twenty years. An impact analysis can also provide communities a mechanism to carry out fiduciary responsibilities and improve transparency of the process to elected officials and taxpayers. Dr. Patrick said she has worked on many economic development projects and runs an impact analysis for each project.

Dr. Patrick highlighted the differences between economic and fiscal impact. She said economic impact includes jobs, payroll, and changes in those types of outcomes, but it does not show what is happening on the local government side. She said communities need an impact analysis to show changes in local government costs and revenues not just for facilities but for new residents that will work at the facility. Generally, 70% of jobs for a large, new project consist of people who are new to the community and those people require schools for their children, water and sewer services, transportation, etc.; however, new people contribute by adding to the tax base through shopping locally. She said an economic impact analysis does not consider whether or not a project will attract other projects or produce traffic congestion, but it can model the cost associated with improvements to handle traffic congestion. The economic analysis will not take into account whether a new firm is going to take existing high skilled labor away from other firms and the impact to those firms. She said when talking about economic impact communities need to think about the direct impact and the multiplier effect, which is all the indirect and induced economic effect. She said multipliers vary substantially by industry and geographic scale so it is very important the multiplier be based on the communities geographic area and the correct industry. She said smaller communities will have smaller multipliers and she has seen bad economic analysis where communities use the wrong multiplier. She said fiscal impact will show the change in local government revenues and expenditures that include additional tax revenues such as property tax, sales tax, and fees charged. It will also look at additional service burdens associated with a project such as infrastructure improvements and factors in the costs of incentives for the project.

Dr. Patrick said when a consultant asks for incentives they have an estimate of benefits of the project, but where that estimate came from may be unclear. She said cities are in a very vulnerable negotiating position if they have nothing with which to compare these estimates and it is in the consultant's best interest to make the benefits as large as possible because they know the incentive package will be "conditioned" on the size of those benefits. She said cities need a fiscal analysis for cost estimates because a consultant has never provided a cost estimate for local governments because it is not in the company's best interest. She said a fiscal impact analysis allows cities to show the return on the public's investment.

Dr. Patrick highlighted program tools available for economic impact analysis that includes IMPLAN, REMI, and RIMSII. She said local universities or economic development firms may have licenses for these programs. She said fiscal impact analysis tools include WebLOCI, FedFIT, and Cost of Community Services Studies. She is most familiar with WebLOCI because that is the program she uses. She said WebLOCI was originally developed by Georgia Tech and they are in the process of transitioning the program to a private consulting firm, Economic Impact Group, because the program is no longer funded with State money. She said the City of Norman can contact the Economic Impact Group if they are interested in training or licensing of the program. She said an annual license fee is based on the size of the community and she thought the cost was $1,500 for the two day training course and first year's license fee. She said setting up the program will take additional Staff time and the most important part of setting up the impact analysis is correctly modeling the community. She said the amount of Staff time needed to set it up will also depend on how well organized the local government's data is. She said once the program is set up, it only needs to be updated annually and the only Staff time needed after that would be inputting project data.

Dr. Patrick said community data that would need to be entered includes property and sales tax rates and base; public utility rate structure, operating costs, and capacity; retail activity; local government budget; demographic information; and economic information. She said the sales tax scale model would need to include surrounding communities because there will be some inflow of shopping from those communities as well as leakage to outside communities. She said retail data activity can be obtained from secondary sources that are publicly available and where to obtain secondary data sources is part of the training process for WebLOCI. She said while public utility rate structures and operating costs are important, capacity is crucial as well. She cited a case in Rio Rancho, New Mexico, where $298 million worth of incentives were offered to INTEL and no one estimated how much water the semiconductor plant would use or how many new children would be attending local schools. As a result the schools are 60% over capacity with no way to fund new schools and because there was not sufficient water, INTEL had to go through the Environmental Protection Agency (EPA) permitting process and build their own wells, which was something the company had not anticipated.

Dr. Patrick provided samples of WebLOCI impact analysis reports. Councilmember Castleberry asked if WebLOCI reports consider incentives or will Staff need to compare the information to incentives and Dr. Patrick said incentives are included in the total expenditures. She said there are three different types of incentives in the analysis model 1) operating incentive, 2) transportation investment incentive, and 3) one time up-front investment incentive. She said a net positive value equals a good return on the public investment while a negative value could require further negotiations or walking away from the table.

Councilmember Castleberry asked Dr. Patrick to talk about the importance of clawbacks and Dr. Patrick said although clawbacks are important, what really matters to companies is the bottom line and what cities have to offer, e.g., Kia located in Georgia because they had a Korean community with Korean grocery stores and Korean churches. She said clawbacks are becoming a standard practice so it does not show lack of faith to ask for clawbacks and she has never known a company to balk on clawbacks, but there have been intense negotiations on the terms of the clawbacks. She said one example would be a reduced lease on land the company builds their facility on with the lease agreement being scaled on job creation and capital investments.

Mayor Rosenthal asked about the differences between WebLOCI and the other programs and Dr. Patrick said the FedFIT is Excel based so it does not have the versatile reporting features of WebLOCI, but the biggest difference is FedFIT has no support system for their program. She said WebLOCI has a support system, which is available when the license is purchased. She said if a city has a particularly challenging incentive package to model, WebLOCI will help with that. Dr. Patrick said Cost of Community Service Studies only give cities the cost side of economic impact, offers no support system, and will not allow much iteractive analysis.

Mayor Rosenthal asked how sensitive these analytical tools are to different tax structures. She said Oklahoma is heavily dependent on sales tax at the municipal level. Ms. Patrick said sales tax would be an operating type of incentive such as exempting companies from sales tax on a host of items. She said the analysis is pretty robust with different structures and she has worked on projects where the community is heavily dependent on sales tax with no problems modeling the project.

Chairman Griffith said in terms of Staff time, what are some variables that would be applied to individual projects and Dr. Patrick said that would vary on the project, but at a minimum, cities would need to know a few things from every project such as specific capital investments broken down between land, buildings, new equipment, etc. She said equipment is taxed differently and depreciates at different rates so the more details the better. She said cities need to know the number of jobs the project will bring in, the wage rates associated with those jobs, and how that is going to scale over time. She said a company may say they can provide 400 jobs, but that does not mean there will be 400 jobs in year one, it means that in year one there may be 50 jobs and the company will build up to 400 jobs over a five year period. She said WebLOCI has a built in savings mechanism to phase projects as they grow in terms of jobs and capital investments.

Chairman Griffith said if the City of Norman is approached by a company that is interested in locating in Norman and are asking for incentives then the accuracy of the information they provide will be key to the incentive package so those variable parameters need to come from the company and be extremely accurate. He asked if there is a way for the City to verify the accuracy of those numbers before negotiations begin and Dr. Patrick said not before negotiations begin, but it is usually not in the company's best interest to oversell the project once negotiations have begun. The company may come in with an overblown number, but if the City has a clawback mechanism then the City is contractually obligating the company to those numbers. Chairman Griffith said clawbacks basically safeguard the community and Dr. Patrick agreed.

Mr. Steve Lewis, City Manager, asked if a fiscal impact analysis would identify additional service burdens such as the cost of education, police, fire, etc. Dr. Patrick said those are all line items in the budget and are all in the analysis. She said the analysis will average costs of police, fire, and other emergency services per person based on current budget figures and provide a capacity constraint as well. She said once capacity constraints are met, additional capital expenditures will need to be modeled separately. She said the program will also estimate costs associated with wear and tear on roadways.

Councilmember Castleberry said most people are familiar with bad projects such as INTEL and asked Dr. Patrick to talk about good projects so the City will have an idea of what they should be doing and what types of incentives were involved in the projects and Dr. Patrick said it depends on the project. She said different companies need different things. She said incentives could include the land lease, tax abatement, and capital expenditures tied into clawbacks. She said are a number of good examples in the Research Triangle in North Carolina. She said part of that has to do with the fact that North Carolina has had a slightly different stamp on incentives over the long term than most of the southern states. North Carolina reduced land in the research park along with sales tax exemptions all tied into clawbacks. She said the facilities are in a cluster, but clustering is not always a good economic development strategy because it was really a big thing for a long time and people did not really understand clustering. She said some cities tended to go after biotech firms and create biotech clusters, but cities need to realize their place in the market because most places in the United States are not a good place for biotech firms so they will never get that cluster. She said starting a cluster based on existing resources is a much better strategy. Clustering can be important if a City is building upon resources or linking with a university in town to build upon university resources to build a cluster.

Councilmember Castleberry asked what types of projects would attract retail to generate sales tax dollars. He said it is probably not good to offer cash incentives and Dr. Patrick agreed and said unless a city has a really strong clawback position it is hard to recover cash and the city would be taking on a tremendous amount of risk with public funds. She said cities could lease land and retain ownership of the land so if the project did not work out the City would retain ownership of the land. She said retail projects are difficult because they depend upon the type of retail so the most important thing to think about is whether or not the retail is going to draw new retail dollars to the community or if all it is going to do is supplant existing retail dollars. She said when analyzing retail projects it is really important to know how much additional retail dollars from outside the community the retail will draw in or how many dollars that are currently leaving the community will be retained. She said more setup work will need to be done on the front end of a retail project and that type of project will need a different type of analysis.

Councilmember Jungman asked if it is common to know what communities you are competing against and is that something you need to know and Dr. Patrick said not early in the process. She said most of the time companies will keep that information pretty close to the vest until they have narrowed the field. She said cities may not even know at the end of negotiations what city they are competing against, but they will usually know the incentive package the other city is offering. She said it is in the company's best interest to put the bids up against each other to start a bidding war. It has become common practice for some of the bigger site selection firms to bring all the communities they are interested in to the table all at once. She said FedEx was one of the pioneers in doing that. She said FedEx will tell communities what they want and then leave the communities to fight it out, which serves an important purpose in uping the bid. She said social media makes it harder and harder for communities to keep secret who they are negotiating with. Councilmember Jungman asked if communities need to know that information and Dr. Patrick said no, who the competition is only matters to the extent that a community is willing to play that bidding game.

Mr. Anthony Francisco, Director of Finance, asked if there are fewer or more projects to be had, in general, and Dr. Patrick said there has been pretty steady deals flowing for as long as she has been doing economic development even though the United States economy took a downturn. She said during the downturn the United States was a very, very cheap place for a lot of foreign companies to do business so domestic projects were replaced with emerging market companies and Asian companies.

Chairman Griffith thanked Dr. Patrick for taking the time to make her presentation and said it was very informative.

Mr. Don Wood, Executive Director, Norman Economic Development Coalition (NEDC), said NEDC does not offer incentives because there are no incentives to offer so there has not been a need to do a model. He said the models NEDC has used in the past have only been output models because NEDC is interested in what the company is going to do for Norman. He said there are incentives available in the University North Park Tax Increment Finance (UNPTIF) District so NEDC purchased Impact Data Source, which is similar to WebLOCI. He said so far the only model NEDC has done is for General Electric (GE) who had shown interest in developing in the UNPTIF and the model depicted a 9.7 year payback.

Items submitted for the record

1. PowerPoint presentation entitled, "Local Impact Analysis for Economic Development Projects," by Dr. Carlianne Patrick, Georgia State University, Business and Community Affairs Committee, dated October 4, 2013
2. Community Economic Development Bulletin – Analyzing the Benefits and Costs of Economic Development Projects

Item 2, being:

DISCUSSION REGARDING ADOPTION OF THE 2009 INTERNATIONAL BUILDING CODE ADOPTED BY THE STATE OF OKLAHOMA.

Ms. Susan Connors, Director of Planning and Community Development, said the State of Oklahoma has adopted the 2009 International Building Code (IBC) as a minimum for all the cities in Oklahoma. The City of Norman adopted the 2009 International Residential Building Code (IRC) with local amendments in May 2012. She said Council will approve or reject the 2009 IBC in October as well as the 2009 International Fire Code (IFC); International Existing Building Code (IEBC); International Fuel Code (IFGC); International Mechanical Code (IMC) International Plumbing Code (IPC); and the 2011 National Electrical Code (NEC) to be used as the minimum code standards.

Ms. Connors summarized the changes the new codes would bring which include enhancements to ambulatory health care facilities; adult care facilities; high rise buildings; greater clarity for the design and construction of community storm shelters; enhances fire protection of certain buildings requiring levels of fire resistant construction; addresses construction of multiple buildings above a parking garage; and requirements for automatic fire protection sprinkling in certain education and mercantile buildings. The IMC, IPC, and IFGC incorporates minimal technical changes primarily to accommodate new equipment technologies and the NEC incorporates minimal changes to address energy management; device wiring expansion for construction;

clarification of grounding electrodes system rules; wiring of Light Emitting Diodes (LED); solar photovoltaic systems; small wind generator electric systems; and emergency power and/or alarm wiring systems.

Ms. Connors summarized the local amendments which are primarily related to drinking fountains and determining when it would be required to have separate toilet facilities for males and females. Other local amendments include definition of a service sink.

Ms. Connors said Staff would like to move the codes forward for adoption on First Reading in the second meeting in October and Second Reading in the first meeting in November.

Councilmember Williams asked how the local amendments on water fountains and restrooms differ from the IBC and Mr. Bob Christian, Permit Manager, said local amendments enlarge the occupant load before separate facilities are required. Currently, fifteen (15) is the general threshold, which would be a 1,500 square foot office building and once you go above the fifteen (15) occupant load the facility must have separate male and female restrooms. He said roughly 50 square feet of a building is taken up by that space so the local amendment gives the building owners the option to provide a single user accessible toilet facility (if there is not a large mix of female and male employees) when the occupant load is fifty (50) persons or less, which maximizes the space. Councilmember Williams asked how this amendment compares to surrounding cities and Mr. Christian Oklahoma City's local amendment enlarges occupancy to seventy-five (75) and they used that for a number of years.

Councilmember Williams asked about service sinks and Mr. Christian said a service sink is typically a mop sink. Mr. Christian said a lot of buildings with carpeted floors do not really have the cleaning needs for a mop sink so this gives owners the liberty to use that space for something different.

Chairman Griffith asked Staff to schedule the code amendments for First Reading on October 22, 2013.

Items submitted for the record

1. Memorandum dated September 26, 2013, from Bob Christian, Permit Manager, through Susan F. Connors, Director of Planning and Community Development, to Business and Community Affairs Committee Members, with Attachment 1, State Code amendments, and Attachment 2, Proposed new local amendments

Item 3, being:

MISCELLANEOUS DISCUSSION.

None

The meeting adjourned at 9:48 a.m.

ATTEST:

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City Clerk

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Mayor