



AGENDA ITEM #: #19-108
COUNCIL MTG. OF: September 17, 2019
FROM: Dave Caron, Town Administrator
OFFERED BY: Administration
PREPARED BY: Administration
SUBJECT: Derry Commercial/Industrial Property Tax Exemption Program

STAFF REPORT
Public Hearing 10-1-19

INTRODUCTION:

To determine whether the Council should provide an additional incentive for commercial/industrial development in Derry.

TOWN ADMINISTRATOR COMMENTS

Please see comments within this staff report.

BACKGROUND

The Town Council has maintained as one of its primary goals the enhancement of economic development opportunities in the community. Currently, the Town offers a Downtown Derry Revitalization Tax Relief, which provides relief from taxes on the renovated portion of an existing structure within the Downtown area for a period of five years (or more under certain circumstances). The Town also sponsors a Façade Improvement Program which the Council recently extended to all properties within the Derry Commerce Corridor TIF District. The Façade Improvement Program is a matching grant for work on facades and demolition of eligible properties.

The Town further maintains two TIF Districts – although these programs do not provide direct tax exemptions to eligible properties, they do redirect new tax revenues into a specific fund dedicated to public improvements and programs within the TIF Districts, thus accelerating the appreciation of property values in those areas.

This new program was historically known as the “Coos County Bill” as its origins lie in a program specifically targeting development in New Hampshire’s northernmost County. The Legislature later expanded the program statewide and, more recently, enabled the Town Council to make decisions on applications received on a case-by-case basis, as opposed to a blanket approval for all eligible properties.

Listed below is a chart outlining the requirements and benefits of the TIF Districts, the Downtown Program and the recommended provisions of the Commercial/Industrial property relief program:

Town of Derry Economic Development Incentive Programs			
	Tax Increment Financing District	Downtown Revitalization Tax Relief	Comm/Ind Property Tax Exemption**
Eligibility	All new or increased values within District to TIF Fund	Qualifying Structure - Rehab of existing structure of at least 15% of value or \$75K, whichever is less	New, rehabilitated, or replacement commercial/industrial value
Application	Within Districts as Designated by Town Council	Specific Corridor (generally "Downtown", Crystal Ave, portion of Birch)	Town-Wide
Benefit	No tax break - taxes from new captured value used for District improvements to enhance property values and commerce	All property value on qualifying structure may be exempted from property taxation for a finite period	A portion of assessed value may be exempted from property taxation for a finite period
Application of benefit	"Captured" portion to TIF Fund; original value to general tax base	Entire Tax Rate	On Town and Local School Tax Rates only
Replacement Structure?	Yes	Yes - certain conditions	Yes
Public Benefit Test?	N/A	Yes	Yes
Maximum amount of exemption	N/A	100% of new value	50% of new value
Duration of exemption	N/A	Qualifying Structure - 5 years; at Council's determination - residential housing +2; workforce housing +4; nationally registered historic places +4	10 years
Duration of program	Contingent upon satisfaction of goals in development and financing plans	Until rescinded	5 years; exemptions in place continue
Eligibility within TIF District	Yes	Council determination	Council determination
** Council will be considering these terms and conditions			

DISCUSSION

The goal of the program is to provide additional incentives to attract more commercial/industrial development to Derry. Currently, the value of commercial/industrial property in Derry is \$445M, which is approximately 13.8% of the Town's total taxable assessment (prior to exemptions) of \$3.211B.

During the past four fiscal years, the estimated construction value of commercial/industrial permits was \$35.6MM, which is 25.4% of the total estimated construction activity in Derry during that time (\$140.1M). This overall upward trend in total is promising however, the percentage in FY18 & FY19 was 14.7% and 18%, respectively, compared to 34% in FY 17 and 35.7% in FY 16.

Bev Donovan recently shared an article regarding retail space which showed that Derry has the lowest retail vacancy rate in the State at 5.5%, which is almost half of the State's average (https://www.unionleader.com/news/business/whats_working/rethinking-retail-shopping-meets-entertainment/article_fa30d002-8800-582d-bc88-825d1d90fc92.html). While a low vacancy rate is preferable, it also points to the need for more retail/commercial space.

As the Council considers this program, there are parameters established by the State Legislature:

- 1) The amount of property tax exemption may not exceed 50% of the assessment on the improvements;
- 2) The duration of the period cannot exceed 10 years;
- 3) The exemption applies to the town and local school rate only, not the State school rate or the County rate. (Currently, the total of the town and local school rates comprise 88.5% of the overall tax rate of \$26.03);
- 4) The program would need to be reauthorized every five years, or the program would terminate (exemptions granted during a previous period shall be honored).

The Council would need to determine:

- 1) The public benefit generated for each application it considers;
- 2) The amount of the exemption for each application it considers;
- 3) The duration of the exemption for each application it considers;
- 4) At the time of ordinance adoption, the geographical area in which the program would apply (designating the entire community is allowed under the statute).

FISCAL IMPACT

It is difficult to estimate with precision the fiscal impact associated with this Ordinance. Passage would result in some delay with the assessment and collection of all new assessed valuation as determined by the percentage exemption and duration of the program. However, by its design, the program will attract new development which otherwise may not have located, constructed or expanded in Derry.

RECOMMENDED ACTION BY COUNCIL & MOTION

Act upon Ordinance #2019-010 (please see Ordinance)

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