

Financing Redevelopment

Using Public Finance Tools for Vision-Consistent Development

VISION.

The city's vision of being a pleasant and prosperous place to live includes redevelopment of its blighted, marginal and otherwise unproductive places. Cities use special districts to enable property owners to make decisions about the future of their area, including new taxes and fees for district improvements.

THE MAIN TOOL: A COMPREHENSIVE LONG-RANGE FINANCE PLAN.

A Comprehensive Long-Range Finance Plan for a Special District is an essential tool used to activate the district redevelopment plan. This encourages and engages new investment in a specifically defined geographic district of the city. The preparation of the *Finance Plan* is guided by the district's master plan that identifies critical improvements necessary to entice new investment in the district.

The Finance Plan finds and organizes funding and financing for infrastructure and other improvements needed to support private infill and redevelopment investments. *The Finance Plan* must be comprehensive; it must cover all relevant issues necessary to enable new investment. *The Finance Plan* must also be long-term; it must use a multi-decade time horizon to entice investment in enduring assets.

At the end of the day, for sustained redevelopment success, the district must have as a single vision. The vision must drive the district using a unified decision-making process, a comprehensive scope of interests, a long-term view and a viable financial model.

ORGANIZING FOR REDEVELOPMENT.

1. The first step of redevelopment planning.

Once someone has a dream of redeveloping an area of town needing new life, the dreamer has to find others who share the dream, or vision. Creation of a leadership council, or steering committee, is the first step. This group of like-minded people becomes the genesis for what follows. One of the early decisions of the steering committee is to define the area being considered for redevelopment.

2. Purpose of the redevelopment district and district board.

The district redevelopment plan is the work product of a district board that has grown out of the initial steering committee. The role of the district's board of directors is to prepare a master plan for development, identify and mobilize resources to fund infrastructure improvements, establish development standards and stimulate further economic development that grows jobs, incomes, property values and investment opportunities. The board also represents the many, and probably diverse, set of stakeholders.

3. The importance of an early definition of the district boundary.

The geographic extent of the district is important. Certain properties and people need to be in the district. Certain streets, natural features and neighborhood boundaries play a role in drawing the line describing a district that has economic and social cohesion.

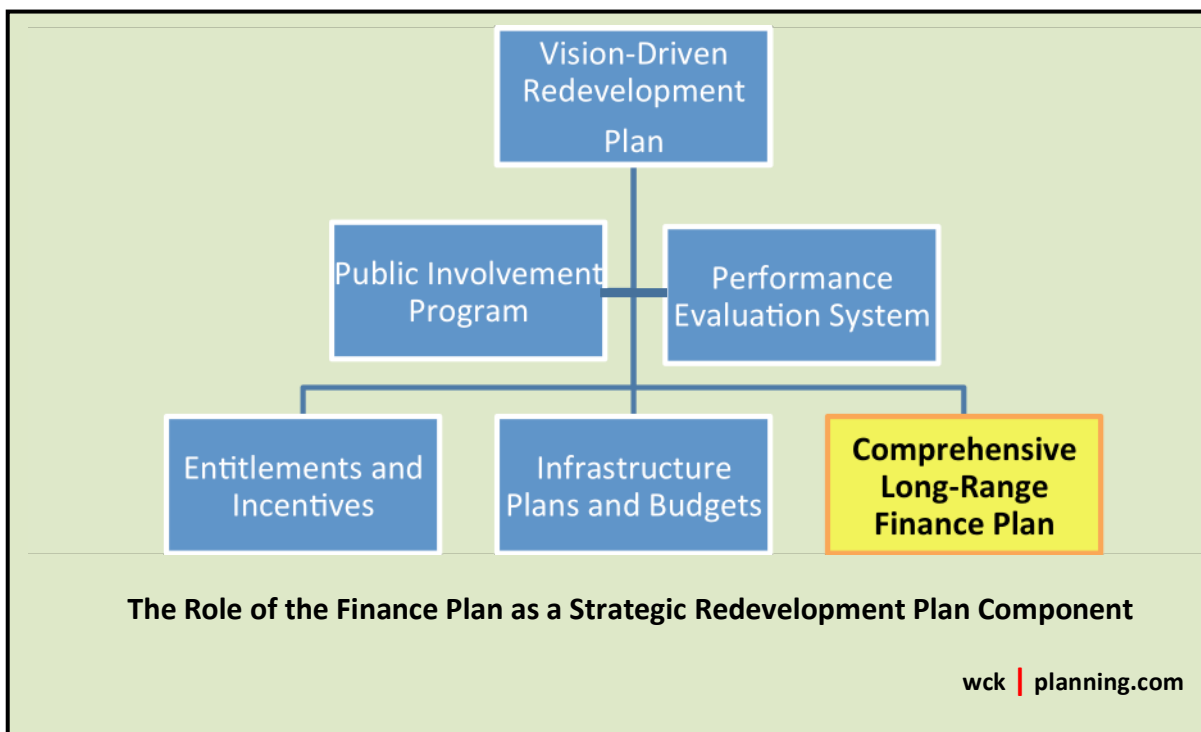
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4. Role of the district redevelopment plan.

The steering committee, usually with the help of the city, initiates a vision-driven planning process. The resulting district redevelopment plan is essentially a future land use, circulation and open space plan derived from extensive conversations with property owners, business owners and residents in the district and public officials from the host city. Existing conditions are important to recognize: some to be saved, some to be enhanced, some to be removed.

The vision-driven redevelopment plan for the district directs: the entitlements granted to properties in the district; the incentive programs; the infrastructure improvements; and the financial model to be used to fund and finance capital and operating budgets.



5. Purpose of *The Comprehensive Long-Range Finance Plan*.

The Finance Plan is designed to organize and leverage the district's financial resources to achieve the planned results. *The Finance Plan* translates development plans into constructed improvements associated with funding sources. The basic idea is to leverage the funds generated within the district to attract additional outside funds which create new values then used to generate more investment.

6. A hypothetical financing approach for a special district.

One approach to financing special districts is to first complete the redevelopment master plan in compliance with the community redevelopment regulations. Then ask the property owners to approve a tax using the neighborhood improvement district [NID] or similar program that actually imposes a tax and generates new money. Once the NID tax is in place, then enact a tax increment finance program to match the NID tax program.

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The Character Town Redevelopment Process

Purpose. One of the priorities of most small cities and towns is to find and enable private developers to undertake vision-consistent projects in and near downtown. The process for enticing downtown private investment and development requires the active participation of the city with an organized process.

Process.

- 1. Use the vision-strategy-action continuum.**
 - a. Create or affirm the consensus vision for the city and its downtown or special district.
 - b. Prepare a strategy for realizing the vision.
 - c. Take actions as directed by the strategic plan.
- 2. The Vision.**
 - a. Describe the consensus vision in words and pictures.
 - The words are the foundation for standards.
 - The pictures convey the emotion behind the words.
 - b. The existing condition is the foundation; preserving historic and natural resources is important.
 - c. Consider a “build-out” scenario; when the district is redeveloped, what will it look and feel like?
- 3. The Strategy.**
 - a. Create an organization to promote downtown development.
 - b. Re-use or re-cycle all existing sub-standard and vacant lands and buildings.
 - c. Anticipate and support vision-consistent private infill and redevelopment projects with entitlements, infrastructure and the use of the city’s financial tools.
 - d. Consider the market; search for investors and developers with successful track records.
- 4. Actions.**
 - a. Inventory vacant, marginal and under-utilized land and buildings:
 - Determine the suitability of public lands and buildings for private development.
 - Identify owners of private vacant lands and marginal buildings to pursue a partnership to find a private developer.
 - Study the market and identify “catalyst” projects that respond to market demand.
 - Enforce building and related codes for all public and private lands and buildings, vacant and marginal, to create an inventory of potential infill and redevelopment sites and buildings.
 - b. Amend the city’s entitlement ordinances to enable private developers to achieve the city’s vision: future land use designations, zoning, development standards and design guidelines.
 - c. Provide the necessary infrastructure or be prepared to provide it with developer support if necessary, including utilities, master stormwater and parking systems, and broadband internet.
 - d. Create funding mechanisms consistent with the comprehensive long range finance plan:
 - Establish a Neighborhood Improvement District [NID] as the first step with property owner approval to tax themselves for specific downtown infill or redevelopment purposes.
 - Then provide access to the city’s financial tool, not its money; such as community redevelopment agencies [CRA], tax increment programs or local financial institution lending.
 - e. Issue *Requests for Proposals* for the most promising projects to qualified developers.
 - Start with qualifying prospective developers based on the town’s vision.
 - Construct an open RFP process that give the qualified developers a fair chance to present their plan for how the city and the investor are both rewarded for a successful project.

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THE REDEVELOPMENT DISTRICT COMPREHENSIVE LONG-RANGE FINANCE PLAN.

An early step in the redevelopment process, once an organization has been established for a defined geographic area, is serious consideration given to the sources of funds to be used in the district redevelopment venture. Preparation of the *Finance Plan* starts concurrent with the preparation of the Master Redevelopment Plan to ensure that funding and implementation are inherent parts of the redevelopment plan with its land use entitlements, infrastructure programs and development standards.

1. Existing conditions.

- **Stakeholder Input.** The first step in the process is to develop a deep understanding of the existing resources and liabilities of the district. This step includes finding people who care about the future of the area. Without the effective participation of stakeholders, the redevelopment dream is not realistic.
- **District Scan.** The traditional environmental scan for an area identifies existing assets including residences, businesses, properties and infrastructure. An integral part of any redevelopment plan involves the use, reuse, recycling and leveraging of these assets. Walking the district is important. Bicycles also work. An intimate, visceral knowledge of the people, businesses and properties in the district will pay big benefits when the planning and deciding comes around.

2. Socio-economic characteristics of the district.

- **Residents**
 - € Population by age
 - € Housing by type and price
- **Businesses**
 - € Jobs and wages
 - € Sales tax receipts
 - € Occupational licenses and fees
- **Land Parcels and Buildings**
 - € Size, shape, location
 - € Taxable values
- **Infrastructure, Location and Conditions**
 - € Water, sewer, electric, gas
 - € Stormwater systems
 - € Streets, sidewalks and parking

Example Analysis of Sizes and Numbers of Properties Typical District		
Parcel Size [ac.]	# of Parcels	Percent [%]
Less than 0.5		
0.5 – 1.0		
1.0 – 2.0		
2.0 – 3.0		
Over 3.0		
Total		

Source: City GIS Department

3. Entitlements. Mixed-use land use and zoning designations are the goal. Unique conditions may require alternatives, but in urban districts preparing for infill and redevelopment, the use is not as important as the form and location of the buildings.

Example Existing Property Values of the District Typical District	
Total Assessed Value	\$x,xxx,xxx.xx
Total Building Value	
Total Taxable Value	
Sales Tax Receipts	
District Values and Revenues as a % of the City	

Source: Property Appraiser

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Form-based codes are a useful approach to encouraging vision-consistent results through site planning building locations, height, buffers and connections. Each site requires a unique solution.

4. **Incentives.** Many cities and special districts have incentives for general or special purpose redevelopment. An inventory of district incentive programs is useful.
5. **Active Organizations.** The community and the city usually have a plethora of public, institutional and private boards, committees and organizations associated with different areas of town. Find the ones that are in and around the district. Determine which ones can contribute to the successful redevelopment of the district and enlist their support.
6. **Active Grant-Related Designations.** Most cities are aggressive in seeking designations for various districts in the town. The district should be in as many designated areas as possible, such as enterprise zones, brownfield areas, business improvement districts, Main Street areas, design districts and overlay zones. Find designations that affect the district and fully use any incentives, tax breaks, grants and other resources available from these programs.
7. **Principles for the Finance Plan.** The principles underlying the *Comprehensive Long-Range Finance Plan* are focus actions to create a strong infrastructure system that is adequately funded, equitably assessed to beneficiaries, encouraging to partnerships and enticing to private investors:
 - **Adequately Fund Quality Infrastructure to Support Economic Development.** *The Finance Plan* provides a system to adequately fund infrastructure.
 - **Equitably Share the Costs and Benefits among all Stakeholders.** The principle that guides the district redevelopment plan is that each stakeholder pays an equitable share of the costs based on benefits received.
 - **Promote Partnerships.** The magnitude and complexity of the necessary infrastructure improvements is such that many parties need to be involved with funding, permitting, operating and maintaining the system. Partnerships between the many parties are critical.
 - **Encourage and Support Private, Institutional and Public Investment.** Investment in residences, businesses, buildings, infrastructure and services is essential to create a pleasant and prosperous district. The intent of the district redevelopment plan and the *Finance Plan* is to create an atmosphere that encourages and rewards positive actions by private investors leading to redevelopment, new investment, new jobs and new tax receipts.

THE PRO FORMA “SOURCES AND USES OF FUNDS” WORKSHEET FOR THE CITY.

The discussion of sources and uses of funds can be reduced to a spreadsheet. Private developers use a pro forma income statement like a daily shopping list to continually evaluate the impact of changing projected costs, delivery schedules and projected revenues in order to calculate expected rates of return. The district *Finance Plan* can use the same tool:

1. **Prepare detailed line-item costs** over the years of spending with anticipated escalations.
2. **Project detailed line-item revenues** by product or development type to determine cash receipts for each future year.
3. **Monitor changes** in cost and revenue assumptions.

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4. **Calculate the difference** between costs and revenues to determine a picture of future financial viability over the forecast period.

USES OF FUNDS.

The use of funds is driven by the district redevelopment plan and its infrastructure program as expressed in the district’s portion of the city’s Capital Improvements Plan [CIP]. A typical CIP forecasts capital needs for infrastructure for five years based on preliminary engineering or architectural plans. It identifies costs, timing and the sources of funding.

The infrastructure improvement program in the CIP and the accompanying entitlements system supports and incentivizes redevelopment that implements the district plan year by year. The role of the *Finance Plan* is to use the CIP as the foundation for determining specifically the sources and uses of money for improvements for the next five years; and then for the long-term, typically twenty to fifty years. This long-term view is essential in order to deal with capital assets that have functional lives of 50+ years, bonds with terms running 30 to 40 years, and land leases that may approach 99 years.

Improvements, with cost data, in the CIP are reported in the district’s pro forma financial statement discussed below. Typical expenses that support the district redevelopment plan generally consist of:

1. **Land.** Funds may be used to purchase or lease properties that support the Plan. Land and buildings can also serve as the “local match” for many grant and loan programs.
2. **Buildings.** Funds may be used to purchase, lease or rehabilitate buildings. Facade grants are often used by community redevelopment agencies.
3. **Infrastructure.** Funds for capital improvements such as master stormwater systems, parking lots, sidewalks, transit shelters and parks are examples of how the funds may be used.
4. **Operations and Maintenance.** Funds may be used for O&M purposes to provide start-up services necessary to support capital projects being constructed.

Example Capital Improvement Needs Hypothetical Development District							
Improvement	Total Cost	Fiscal Years					Source of Funding
		2014	2015	2016	2017	2018	
Parking Lot	\$10,000	--	--	5,000	5,000	--	Business Partner
Wayfinding	4,000	1,000	1,000	1,000	1,000	--	State Grant
Sidewalks	50,000	--	20,000	--	--	30,000	Fed. Public Safety Grant
Facade Grants	10,000	2,000	2,000	2,000	2,000	2,000	CRA/TIF, NID
Other Sources							
Total	\$74,000	3,000	23,000	8,000	8,000	32,000	

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SOURCES OF FUNDING AND FINANCING.

Funding and financing are different; funding is money, financing is leveraging money through debt, match or other means. There are different entities and sources for each of the two activities. The funding mission of the district's *Finance Plan* in the example above is to find \$74,000. If there is a single source that can fund any and all district projects, enjoy the rest of your day. If, like most districts, funding is an on-going challenge, the task becomes piecing together small amounts of money from a variety of sources; hence the exercise to create a perpetual "Sources of Funds" program.

Absent finding sources to fund the total amount, the district may use the equity it has generated from the first year or two of incremental tax revenues, say \$7,400, and borrow the rest. Future CRA revenue streams are becoming fungible assets that are bondable. Borrowing is good as long as one remembers that it must be paid back, with interest; so a revenue source must be found that can repay the debt over the term of the loan.

Today, general funds are less plentiful than in prior periods. State and federal sources are drying up. New sources of funding need to be found. User fee supplements, private-public partnerships and privatizations are methods in current favor. Private/Public Partnerships are growing. Private funding for buildings is traditional; but due to the diminution in public funding, private entities have been partnering with cities to build public facilities. Pressures on the city's general fund will continue to mount; other sources must be found from a variety of entities and sources, such as:

1. Funding Entities.

The parties that will participate in funding infrastructure in the district may include governments and institutions that already operate facilities in the district. The list below can be used to construct a table of funding agencies and the amount of money they offer.

- General purpose governments; cities and counties,
- Utility commissions and special authorities,
- Foundations and institutions with grants, matching programs and partnerships,
- State government grants and program allocations, e.g. transportation, historic preservation, pollution control,
- Private enterprises needing public facilities to proceed with projects, in-kind resource providers,
- Federal government agency grants and program allocations, e.g.:
 - € The U.S. Department of Transportation, the Federal Transit Administration and the Federal Railway Administration,
 - € The U.S. Department of Housing and Urban Development,
 - € The Environmental Protection Agency,
- Private enterprises interested in buying revenue streams from public facilities or participating in other public-private partnership [P3] arrangements.

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2. Funding Sources and Types of Equity.

Revenue sources available for infrastructure from public funding entities include, at least:

- General funds from cities and counties:
 - € general ad valorem tax revenues,
 - € sale tax receipts.
- Land, buildings or other non-cash equity used to match or guarantee grants and loans.
- Special district assessments and taxes:
 - € business improvement districts and municipal services taxing units [MSTUs],
 - € tax increment revenues, and
 - € benefit-based assessment fees such as municipal services benefit units [MSBU].
- User fees:
 - € transit rider fees, others such as utility fees, and
 - € park and recreation fees.
- Impact fees for transportation, parks, schools, solid waste and other fees.
- Service fees:
 - € master stormwater and parking systems, and
 - € utility fees such as consumption-based fees or renew/replace funds.
- State and federal improvement grant program, e.g., FDOT, SHIP, or FMHA.
- Private, quasi-public sources:
 - € sale or lease of property,
 - € right-of-way and other donations or dedications, and
 - € private equity, public-private partnerships and NGO grants.

3. Financing Entities.

The funding entities usually have financing programs. The use of public lands and other assets as equity in public-private partnership or other financing arrangement has many advantages; and, in most jurisdictions, public land is not effectively used as a financial asset. Programs to evaluate the productivity of city-owned lands can yield financial benefits.

4. Financing Sources.

- Loans from cities and counties are rare; but the use of public finance tools is available to help leverage district funds. Municipal bonds, industrial revenue bonds and similar instruments used to provide superior terms to private financing are temporarily out of favor. In the low interest rate environment of the early 21st century, this tool is not productive. As interest rates increase, this tool may be revived.
- Impact fee credits can entice private entities to finance infrastructure improvements with capacities in excess of the private entity's needs and have the city repay that entity through future impact fee credits. Future impact fee credits are monies foregone by the city rather than actually spent. Impact fee credits can create a lot of infrastructure.
- State and Federal improvement loan programs are more available than grant programs, usually with favorable terms along with private, quasi-public loans and bonds.

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5. “Grantsmanship”.

Seeking and winning grant awards are a professional activity. Larger cities and redevelopment agencies have departments focused on seeking and winning grants. Long-term relationships and sympathy with the funding agent’s mission are important.

6. Leveraging.

Obtaining grants, partnering with other agencies and matching in-kind services to receive actual dollars are a few of the many ways to leverage local funds to raise additional monies.

SMALL AREA REVENUE SOURCE ANALYSIS.

The city-wide Revenue Source Analysis approach, previously discussed, can be applied to every special district. The annual results from this analysis will become an important metric in the district’s performance management system. A “heat map” of the properties generating revenues can identify the properties to consider as places to invest infrastructure and tailor entitlements.

An analysis of the sources of revenue can be used to direct new investments in infrastructure that will accelerate redevelopment in certain parts of the district. Poor revenue generating areas can be examined to determine their future potential.

CONCLUSIONS.

1. Aggressively pursue infill and redevelopment opportunities consistent with the town’s vision.

Developers, investors and property owners interested in new infill projects or redevelopment projects are valuable resources generally deserving of the city’s support through financial and administrative assistance, but only if their improvements are consistent with the vision of the city.

2. Leverage public capital improvements to support private economic development objectives consistent with the town’s vision; monitor effectiveness of the public dollars used for private business.

3. Develop a sophisticated interactive, fine-grained data base that tracks entitlements with development and enables an analysis of how and where the district makes its money.

4. The City Business Model approach applies to special districts, including a district Revenue Source Analysis that searches for non-traditional revenue sources.

5. Calculate the financial and community benefits of the proposed district to the city at an early stage and make a go/no-go decision based on this analysis.

6. Prepare the district for redevelopment by providing suitable entitlements and infrastructure that incentivize the desired uses and intensities in the redevelopment district along with development standards and design guidelines that will result in development that instills community pride.

7. Establish an unwinding or exit strategy for every partnership, incentive and subsidy.

8. Establish and maintain a system of accountability that is transparent and real-time to ensure that the public can see the connection between the *Finance Plan* and the community’s vision.

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9. Consider:

- **Making public finance tools available for private use** to reduce the cost of development to private developers with vision-consistent projects.
- **Providing incentives for vision-consistent proposals as matching-funds to private investment,** require specific performance and other motivations to sustain investor interest in the venture.
- **Providing the soft services of development** such as permit assistance, grantsmanship, neighborhood meeting organization and agency coordination in support of desirable projects.

10. Stay involved during the approval, neighborhood coordination, design, construction and post-construction periods.