Being Self-Sufficient, Special Main Street Districts.

Make "Special Districts" Special.

A downtown district, as a legal and geographically specific entity has the opportunity to control its own destiny. Financial independence is the dream. While never being truly independent from the host government and never likely to achieve the power of Robert Moses, a special district can construct self-sufficient systems.

Special districts can establish a financial basis that uses funds of its own creation. Infrastructure and environmental systems can also be designed and built to be mostly self-reliant. Remembering that everything is connected to everything, total independence is not possible, but self-reliance is a reasonable goal.

THE INSTITUTE FOR LOCAL SELF-RELIANCE

This group is mostly about resource management and conservation, not financial sustainability; however, it is good to know such a group exists.

The Institute's mission is to provide innovative strategies, working models and timely information to support environmentally sound and equitable community development.

https://ilsr.org/

Financial Independence.

The "Sources and Uses of Funds".

The city's approach to infill and redevelopment in downtown needs to draw from the financial approach of a development enterprise.

In the spirit of exploring the techniques and approaches used by allied professions, the Sources and Uses Approach employed by accountants and public finance professionals is useful to planners wanting to prepare finance plans for project information. The box below offers one definition; additional education should pay benefits.

What is a Sources and Uses of Cash schedule?

A Sources and Uses of Cash schedule gives a summary of where capital will come from (the "Sources") and what the capital will be spent on (the "Uses") in a corporate finance transaction. When computing their total amounts, the sources and uses accounts should equal each other.

The sources and uses schedule becomes very important and useful when creating a model for situations like Recapitalizations, Restructurings, and Mergers & Acquisitions and commonly used in investment banking.

The guide will teach you all you need to know about a Sources and Uses Schedule and how to build one yourself… an important step in becoming a world-class financial analyst.

Link:
https://corporatefinanceinstitute.com/resources/knowledge/modeling/sources-and-uses-of-cash/

Even though the city has non-financial objectives in addition to its financial needs, the financial deal still needs to work. If there are subsidies or in-kind contributions, these are valuable factors in a pro forma that looks at the sources and uses of funds in order to reach a "bottom line". Project pro formas and Statements of Sources and Uses of Funds are the two critical documents to master.

Uses of Funds.

Anticipate capital improvements, with cost data, in the city's CIP and the downtown district's pro forma financial statement. Typical expenses in the district plan consist of:

1. **Land.** Funds may be used to purchase or lease properties that support the Plan. Public 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. Creation of budgets and accounts specifically designed for the downtown special district can advance the cause of self-sufficiency.
4. **Start-up Business Subsidies.** When a district has no café or deli, the governing board may decide to tailor a rent or other subsidy for the first year of the start-up's operation with diminishing support each year.
5. **Operations and Maintenance.** Funds may be used for O&M purposes to provide start-up services necessary to support capital projects being constructed.

Sources of Funds.

The party gets interesting on the revenue side of the ledger. Finding, evaluating, projecting and exploiting sources of funding is an art. The right brain is fully engaged in the creative process of continuing to perfect traditional sources while exploring possibilities for new sources to supplement, and when necessary, to replace existing sources. Creativity is essential.

Traditional Sources of Municipal Funding.
General funds from cities and counties:

- General ad valorem tax revenues.
- Sales tax receipts.
- Land, buildings or other non-cash assets used to match grants or guarantee loans.
- Special district assessments and taxes:
  - business improvement districts,
  - municipal services taxing units [MSTUs],
  - tax increment revenues,
  - benefit-based assessments like MSBUs.
- Real Estate Transaction Fees:
  - residential,
  - commercial.
- User and Activity Fees:
  - transit, utility, drainage and parking,
  - public facility, park and recreation fees.
- Impact fees for transportation, parks, schools, solid waste and other facilities.
- State and federal improvement grant programs, e.g., FDOT, SHIP, CDBG or FMHA.
- Private equity, public-private partnerships.
- Non-Governmental Organization grants.

"Grantsmanship".
Seeking and winning grant awards is a professional activity. Larger cities have professional staffs focused exclusively on seeking and winning grants. Small cities and towns can find partners at the regional level or in the private sector to assist with this activity.

Debt.
Established revenue streams can be used as the basis for borrowing funds with:

- General revenue bonds backed by the city's general fund, property tax or sales tax base.
- Revenue bonds backed by an income stream such as utility service fees.
- Public-private partnership [P3s] financing based on a city revenue stream.
- Short term financial instruments with local banks for modest sums.
- Leveraged municipal assets, sometimes useful when city or other public assets are available as collateral.

Approaches to the Use of Debt.
Large cities have options not available to small cities; two examples cited below that have some applicability. However, small cities have smaller projects and use smaller amounts of debt.

Voter referendums are easier in small cities in the sense that it is easier to tell the project story to a smaller audience of voters. Smaller debt requirements also bring commercial banks into the picture. Small cities can avoid the expense of bond financing by working with local commercial banks.

Chicago Infrastructure Trust. Chicago, a gigantic city with few parallels to small cities, has established a program that is instructive. The useful idea is that a trust fund has been established to seek out all sources of funding and use them holistically to fund the City's plan.

Silos between funding sources seem to have been eliminated and a variety of creative funding sources have resulted. An article and link are posted on CharacterTowns.org.

RENEWATLANTATSPLOST is a unique program. The transportation special purpose local option sales tax [TSPLOST] proves the point that a precisely specified improvement program complemented with extensive public discussion can win the vote, even in a large city. Voters approved the $250 million to support a general obligation bond issue for infrastructure. An article and link is posted in CharacterTowns.org.

Non-Traditional Sources.
Over the years, several programs have appeared that entice private investment in communities and specifically downtowns.

- **Brownfield Designations.** Chapter 97-277 amends Section 376.84(1) Florida Statutes to read: *"(1) Financial incentives and local incentives for redevelopment may include, but not be limited to: "* provides a wide range of provisions that relieve property developers in properly designated brownfield areas of many permitting and fee obligations including impact fees.

  While the elimination of taxes and fees for development in brownfield areas does not produce direct revenue to the city, it enables development that would not otherwise have occurred. The resulting property taxes, sales taxes, employee incomes and subsequent consumer expenditures inures great benefit to the city, financial and otherwise.

- **New Markets Tax Credits.** The New Markets Tax Credit (NMTC) was established in 2000. Congress authorizes the amount of credit authority, which is then allocated to qualified applications by the Treasury Department. Since 2003, the program has parceled out credits worth nearly $20 billion.

The NMTC has supported over 4,800 projects in all 50 states, the District of Columbia, and Puerto Rico. Some 41 percent of US census tracts qualify for NMTC investments. The credit expired at the end of 2014 but Congress extended the credit retroactively to 2015 and through 2019. The Urban Institute has prepared its 2013 evaluation of the first years of the New Markets program.

- **Opportunity Zones.** Opportunity Zones are a new community development program established by Congress in the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in low-income urban and rural communities nationwide.

  The Opportunity Zones program provides a tax incentive for investors to re-invest their unrealized capital gains into Opportunity Funds that are dedicated to investing into Opportunity Zones designated by the chief executives of every U.S. state and territory.

  Agencies, accountancies, law firms and others are exploring the application of this new program on investments in low income urban and rural areas.

- **Community Reinvestment Act.** Commercial banks have an obligation to invest or facilitate investment in American communities. According to the Office of the Comptroller of the Currency website: "The Community Reinvestment Act (CRA) was enacted in 1977 to prevent redlining and to encourage banks and savings associations (collectively, banks) to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods and individuals.

  "The CRA extended and clarified the long-standing expectation that banks will serve the convenience and needs of their local communities.

  "CRA is designed to encourage banks to help rebuild and revitalize communities through sound lending and good business judgment that benefits the banks and the communities they serve. "Neither the CRA nor its implementing regulations prescribe ratios nor benchmarks regulators must use in the evaluation or application processes."

  Since there are no benchmarks, banks cannot be criticized for not meeting community needs or goals; however, in general, the commercial bank CRAs are under-performing community assets. Link: https://www.occ.treas.gov/topics/community.../fact-sheet-cra-reinvestment-act.pdf

- **Crowdsourcing.** Much has been said and written about crowdsourcing. A great source of funding in the right circumstances. Opportunities for small investors to participate in public projects is both a source of money and a source of pride.

- **Philanthropy.** Giving is an under-appreciated activity. Philanthropy funds many programs and facilities. The cost to the public is usually a name on a building. The nurturing of current and potential philanthropists in the city is an important art of the city's Finance Plan.

- **Support for downtown housing projects.** The city's funding and financing sources can be used to support vision-consistent housing developers and builders.

Conclusions.

1. **Financial Independence.**
   a. State and federal sources of revenue are becoming more unreliable. Traditional sources are becoming unreliable, such as gas tax receipts. Others are diminishing or “capped”, such as property taxes in Florida. State governments are pre-empting local options.
   b. Downtown and main street finance plans anticipate the use of traditional sources while looking for new reliable replacement sources.
   c. Enterprise funds are growing as a percent of budgets that have yet to be pre-empted by higher levels of government or the voters. Use tax increment zones when appropriate.
2. **Layering many sources of funding** is the creative talent needed in a financial officer and a city manager. There is no single source of funding for everything or forever, mix and match.
3. **Building the tax base is back in vogue.** Decades ago, nurturing the tax base was a primary function of city government. Interest in the city’s tax base and employment base is being re-kindled by the economic and legislative constraints placed on traditional sources of funds.
4. **The Main Street District’s Chapter of the City’s Business Plan** may include policies to:
   a. Use debt wisely.
   b. Aggressively support the first investors, the “pioneers”, with vision-consistent infill and redevelopment projects.
   c. Leverage public capital improvement funds with “matches” from private investments using the City’s Business Model for Special Districts.
   d. Develop a cost-revenue model to analyze the financial and community aspects of proposed projects.
5. **Support redevelopment and infill projects with “non-cash” contributions**:
   a. Make public finance tools available for private use to reduce the cost of development for vision-consistent main street projects.
   b. Provide incentives for vision-consistent proposals as matching-funds to private investment; always requiring specific performance and other motivations to sustain long-term investor interest in public/private ventures with the city.
   c. Provide “soft” development services such as grantsmanship, permit assistance, neighborhood meeting organization and agency coordination in support of desirable projects.
6. **Guidelines for partnerships:**
   a. Stay involved during the approval, design, stakeholder coordination activities, construction and post-construction periods.
   b. Pre-establish an unwinding or exit strategy for every partnership, incentive and subsidy.
   c. Establish and maintain a transparent system of accountability to keep downtown stakeholders informed and supportive.