

Downtown Economics

Ideas for Increasing Vitality in Community Business Districts

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by
SAA



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Downtown Financing Options

Summary of a Presentation
by Kristen Fish*

Economic incentives are often necessary to stimulate the type of development and reinvestment a downtown needs. From traditional to unusual tools and sources, communities are experimenting with new economic development tools for their central commercial districts. This article summarizes a presentation by economic development professional, Kristen Fish, and explores a variety of options for development financing.

Usual Funding Sources

There are many common options for financing downtown redevelopment projects. Tax Incremental Financing (TIF) is a public financing method that uses future increases in tax value to subsidize current projects. TIF is a popular tool and can be implemented in different forms such as bonded (debt paid by levy) and pay-as-you-go. Uses for TIF include downtown infrastructure, blight elimination, developer incentives, administration, and marketing.

The Community Development Block Grant (CDBG) program provides an annual federal appropriation to state and local governments to address a wide range of community development needs. CDBG loans are available to entitlement communities, those over 50,000 in population or with access through the Wisconsin Economic Development Corporation. Example CDBG projects include commercial or rental rehabilitation loan programs, façade improvement programs, and other economic development activities.

Other common federal sources include the New Market Tax Credits, Low Income Housing Tax Credits (Section 42 credits), Historic tax credits, and Department of Natural Resources Environmental Improvement funds.

Some funding sources may be well known, but not commonly used for a number of reasons. Examples include municipal general levy funds, private sector cash and loans, foundation grants, Community Development Authority (CDA) revenue bonds, Business Improvement District (BID) funds, Transportation Economic Assistance (TEA) grants, or partnerships with local banks. CDA revenue bonds, for instance, could be used for acquisition of blighted properties. TEA grants from the Department of Transportation can provide assistance for streetscape work. Many Main Street Programs partner with local banks to capitalize on local investments and low interest rates.

Some sources may not be utilized for various reasons, such as a community bias against debt obligations or against public involvement in real estate. However, not acting could cause further detriment to an area; inaction can allow blight to spread and further decrease property tax values. Creative combinations of different funding sources can help balance risks associated with any singular source.

Unusual Funding Sources

Uncommon funding sources can make downtown projects more feasible. Funding can come from unusual sources such as a 1031 exchange, tax deed (Wisconsin State Statutes Chapter 75), use of existing assets (leveraging municipal property) or from private property donation. A 1031 exchange, for example, could be applied in the sale of one qualified property and the acquisition of another.

In Merrill, WI, the City used the tax deed approach as a funding source by acquiring a blighted building on a delinquent tax deed from the County. The City's Redevelopment Authority paid for architectural renderings from TIF funding and approved the renovation. The City sold the building back to the private-sector and the tax rolls with an increased base value.

Assembling a Deal

After funding sources are identified, a deal can be assembled. Site control is a critical component. Partners could work with the property owner or acquire the building through tax deed, condemnation, or donation. In order to foster building owner buy-in to realize the revitalization potential, involved parties can work with architects for full-color, professional renderings. To get the project moving, a builder team can be assembled including masons, brick cleaners, and repairers. Construction estimates can be secured. While building owners might be initially reluctant and weary of project costs, these preparation steps can help building owners realize the project's potential.

Next, analyze the cash flow, sources and uses for the project. In many instances, a building rehabilitation project's budget falls short of what is needed. For example, if a project needs an additional \$100,000 after bank financing, consider where the additional funding could come from. It could come from historic rehabilitation tax credits, through a local government or foundation grant, or from an additional building owner. Another option is to work with a second loan source to augment loans made by a primary lender. Options could include any combination of loans, grants, forgivable loans, tax credits, or TIF that come from public or private sources. In any case, partners should not shy away from complicated deals to fill in the gaps.

Viral Effects of Successful Projects

Often, successful downtown rehabilitation projects have a viral effect on nearby building owners. Many communities have found that after a building renovation is completed, nearby owners will be less reluctant to take on a similar projects of their own. In Wausau, the City assembled a variety of funding sources to undertake a façade rehabilitation program. After ten completed projects, many new businesses occupied the adjacent storefronts including restaurants and niche businesses. Clearly, when redevelopment is held to a high standard, success breeds success.

Summary

A variety of tools are available for downtown projects. Financing strategies should be customized to fit specific needs. Parties involved should identify sources, set high design standards, and consider partnerships with local banks, municipalities, and state and regional economic development partners. In the end, a motivated catalyst and connector for these partnerships can help a community achieve successful results in downtown economic development.

Kristen Fish presented this content for the Revitalizing Wisconsin's Downtowns Webinar Series, recorded January 17, 2013. This series is sponsored by the UW-Extension Center for Community and Economic Development (CCED), Wisconsin Economic Development Corporation (WEDC), and Wisconsin Downtown Action Council.

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