EQUITABLE COMMUNITY DEVELOPMENT

USING FEDERAL FINANCIAL TOOLS IN SUPPORT OF LOCAL SUCCESS

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Cover photo:

Carrfour Supportive Housing CEO Stephanie Berman-Eisenberg cuts the ribbon at the grand opening of Harvard House, an affordable housing community in North Miami Beach, Florida.

(Photo courtesy of Wikimedia Commons).

INTRODUCTION

Any site reuse effort must address a number of financing gaps linked to past uses or perceptions. Strategies focusing on areas that may be historically low-income or economically disadvantaged often face additional financing hurdles that can foil efforts to assemble a complete package. These gaps typically involve capital shortages for three activities specific to site reclamation. The first activity is defining a credible market strategy that will provide a path for sufficient reuse activity (and revenue) to address early-stage project needs, such as site preparation and possible site assessment. Next, parties should define a site revitalization plan that enhances the prospects for new economic growth while maintaining critical elements of the community fabric. Finally, it is important to actually implement the components of this plan in a timely and complete manner.

Just because a program does not define "equitable development" as an objective does not mean that it cannot be used for such purposes.

In addition to these types of costs, typical financing costs for conventional sites may be elevated for sites in environmental justice communities. Developers almost invariably have to pledge a higher rate of return to their investors or lenders to persuade them to assume the higher perceived risk associated with the project. Extra underwriting costs also can add significantly to the costs of loan processing and review procedures. And lenders usually require developers to have at least 25 percent equity in the project to make sure that the borrower has sufficient capital at risk. Thus, ensuring equitable development can be a daunting goal in many communities.

The goal of this document is to help community leaders understand basic public sector financing tools, their objectives and criteria, what they can do—and suggest ways in which community development proponents can help to make them fit their own neighborhood project needs. Brief case examples of how these financial tools were used for specific projects are woven throughout this report and provide examples of successful implementation. These tools can be very valuable and workable, but may not be obvious, and often have to be driven by community leaders. It is important to remember that just because a program does not define "equitable development" as an objective does not mean that it cannot be used for such purposes. Equitable development advocates can often channel these various tools for their desired end uses that also meet other program goals, typically linked to creating jobs, reversing blight, or addressing economic distress.

WHAT THESE TOOL TYPES ARE, AND HOW THEY CAN SUPPORT EQUITABLE COMMUNITY DEVELOPMENT

Proponents of community-level equitable development need to know the distinctions between tool types: what elements of development they are intended to address; what types of projects they are most suited for; which ones have the best track record; and the potential to leverage other investment in ways that meet a community's vision for what it would like to be. As equitable community development continues to grow, these types of markets have become more of a focus, and community development advocates have become more creative in piecing project financing together. In response, the public sector has deployed various types of tools that have played a critical role in project financing. For example, the public sector has provided resources to jumpstart the site assessment and cleanup process, addressed various costs needed to prepare sites and make properties more economically competitive, and offered "gap financing" to plug financing pro forma holes not easily filled by traditional capital sources. Each type of tool has a specific purpose and can play a distinct role in advancing the overall financing and redevelopment package at a range of brownfields properties. Typically, projects integrate a number of funding sources from several programs—leverage is a key aspect of equitable development finance. To best package and deploy these tools, and to most effectively use them to attract the types of investments that are needed, equitable community development advocates need to understand these distinctions. The most common of these tool types applicable to equitable development include the following: grants, tax incentives, loans (including revolving loan funds (RLFs)), and loan guarantees.

***GRANTS**—The direct provision of funding to an eligible recipient (public or private) for an intended use. In a community development context, targeted grants can provide vital up-front resources to pay for necessary activities such as site assessment, cleanup, demolition, or property preparation.*

Photo courtesy of EPA

Grants are available for a wide range of purposes.

Grants are available for a wide range of purposes, and they can cover many facets of a development project or an effort aimed at reversing abandonment and blight. Grants are rarely provided directly to private developers or other private parties that may be carrying out a development project. Typically, grants are made to (or passed through) public or non-profit partners who work with the private parties to bring a project to fruition. This may add time or an extra layer of bureaucracy to the effort, but also brings opportunities to community-based organizations that might qualify for grant funding. In addition, grant resources are finite and subject to the whims of appropriators. In times of high demand or tight budgets, they may not be reliable sources of funding. On the other hand, the key advantage of grants is that they can bring immediate cash into the front end of the project. Grants can pay for critical, early stage project activities.

Grants generally take one of two forms: block or formula grants, in which funds are distributed to states or local governments according to a statutory formula, or project grants for specific activities or services (such as housing or small business development). In the case of the former, community-based partners have to work with the eligible recipient of the grant funds to secure help. For project grants, community entities may be eligible to apply directly. Grants may provide full funding, partial funding (with additional contributions or matching funds required), or take the form of "forgivable loans." The latter mechanism often is used to channel financing to private sector entities. Developers are provided with loans, which need not be repaid if they meet specified project performance criteria (such as generating a certain number of jobs, adding certain amounts of open space, cleaning properties near schools or other "sensitive need" facilities, etc.). Depending on the specific program, terms can be structured to flexibly meet any type of need—community planning and outreach, early-stage site assessment, advantageous start-up business financing, demolition, supportive infrastructure, etc.

Although virtually no federal grant programs are targeted specifically to "equitable development," developers, development agencies, and community-based organizations (CBOs) have used more than a dozen different economic and community development grant programs—offered by U.S. Department of Housing and Urban Development (HUD), U.S. Department of Agriculture (USDA), U.S. Economic Development Administration (EDA), and others—to meet various redevelopment needs in ways that also promote equitable development goals.

***TAX INCENTIVES**—tax exemptions, credits, and deductions are used to encourage redevelopment and channel capital investment through the use of taxation policies. In a community revitalization context, reduced, rebated, or offset tax levies can allow taxpayers to ultimately use the savings for the types of redevelopment purposes—such as structural rehabilitation, investment in affordable housing or "new markets" activities in distressed areas, and general site preparation—that can support equitable development objectives.*

Tax incentives can take three forms: exemptions, credits, and deductions. An exemption provides a release from taxation. Credits provide dollar-for-dollar reductions in taxes owed. Deductions allow certain costs or expenses to be subtracted from income over one year (expensing), or over more than one year (depreciation).

Tax incentives can take three forms: exemptions, credits, and deductions.

Tax incentives can be structured to flexibly meet a range of public sector goals—redevelopment of certain types of projects (e.g., affordable housing), in certain community areas (e.g., historic districts), or with specific public benefits (e.g., bringing grocery stores or health clinics to underserved areas). Around the country, redevelopment advocates promote the use of all types of tax incentives to achieve these different benefits. The downside is that tax incentives do not bring immediate cash into the front-end of the project. In addition, since most CBOs or redevelopment entities operate as non-profits, they generally are not able to take advantage of tax incentives; they must either find a private sector partner able to use them, or they will need to structure projects in a way that allows them to transfer or sell tax incentives if they are to be of value.

***LOANS**—A range of private, non-profit/quasi-public, and public sector agencies and institutions lend money for specific real estate acquisition, construction, and improvement activities, including site redevelopment projects. Public-private financing partnerships are often the key to equitable development success in many communities.*

At the federal level, USDA, HUD, and the Small Business Administration (SBA) make some development loan resources available (although in most cases, these agencies deliver more assistance via loan guarantees). Some loans are made available through partnerships with private banks, as well as economic development agencies, authorities, or corporations. Loan programs do not necessarily target the specific financing needs of projects focusing on equitable development. It is up to the developer or entity spearheading the project to identify a viable public or private loan source and structure the loan application to meet specific project needs. CBOs and their partner organizations have played an essential facilitator or "matchmaking" role in many communities, linking program resources to equitable development needs. This role has

At the federal level, loan resources are available through partnerships with private banks, as well as economic development agencies, authorities, or corporations.

proven especially critical for efforts that involve small business start-ups or site assessment, cleanup, and preparation to "shovel ready" status. Private financing for these activities remains incredibly difficult to secure, especially in the current credit climate.

REVOLVING LOAN FUNDS (RLFs)*—Pools of capital from which individual project loans are made. RLFs can be pulled together from a wide range of public- and private-sector sources, including: appropriated capitalization, bank donations (for example, to help lenders meet Community Reinvestment Act requirements), state/local Community Development Block Grant (CDBG) allocations or program income, earmarked fees or fines, or foundation/philanthropic donations. Depending on the requirements of the capitalization sources, RLFs can be designed to target any type of project, in any defined area, and promote any desired community development outcome.*

States, communities, and non-profits such as community development corporations (CDCs) can structure RLFs (often capitalized with federal funds) to meet a variety of goals. They can provide loans from the pool for defined purposes (such as small retail development or environmental cleanup), in targeted areas (such as those suffering from abandonment), or to achieve certain goals (such as blight removal or job creation). Depending on authorizing statutes or governing policies, RLF managers may have enormous flexibility to define eligibility or performance standards, loan terms, and other criteria. This flexibility can be important to ensuring the successful financing of projects that promote equitable development.

Photo courtesy of VA State Parks / Sikimedia Commons

Revolving Loan Funds can meet a variety of goals.

LOAN GUARANTEES*—In a public program context, loan guarantees are agreements to repay all (or most typically, most) of a private loan made by a lender in the event that the borrower is unable to repay. Guarantees can expedite capital availability and minimize risks by bringing comfort to lenders, because the guaranteed portion of the loan is not subject to default. Some federal SBA guarantees are targeted to micro, minority, and women-owned businesses—often, the focus of equitable development activities in specific communities.*

Some federally-capitalized RLFs focus on equitable development; for example, EPA's brownfields RLF program looks at proposals that focus on "equitable development outcomes…when intentional strategies are put in place to ensure that low-income and minority communities not only participate in, but benefit from, decisions that shape their neighborhoods and regions." Philanthropies may also use this tool to focus on equitable development. For example, the San Francisco-based Low Income Investment Fund (LIIF), through its RLF, provides acquisition, construction, and term financing for affordable homes, schools, and other community facilities serving low-income facilities. Recent loan funds have focused on projects that are part of equitable transit-oriented developments.

Loan guarantees can help philanthropies focus on equitable development.

Typically for most RLFs, as loans are repaid, the money goes back into the fund and is recycled to make new loans. The downside to any RLF mechanism is that there may be insufficient capital to sustain a loan stream after the initial flurry of activity; if new capitalization is not secured, then the fund must replenish itself based on repayments—which often are small and accumulate only over an extended period of time.

Loan guarantees are an alternate source of funding for private-sector borrowers who are not eligible to receive financing through other public programs. SBA offers more guarantees than any other agency—more than $7.5 billion for community development corporation-assisted projects this year alone—although HUD and USDA also deploy this tool. Loan guarantees are somewhat easier to negotiate than pure equity investments because the entity guaranteeing the loan never turns over any of its own funds, unless the company does not perform as projected.

In an equitable development context, loan guarantees can provide critical comfort to lenders concerned about the impact of collateral devaluation (for example, due to surprise contamination) or the possibility of competing resource needs (such as for unanticipated site preparation or initial working capital costs) affecting a borrower's ability to repay. At the same time, it is important to remember that start-up businesses or site/facility redevelopers seeking to secure guarantees, distressed area or not, must still present credit-worthy loan application packages to their banks, and must still meet underwriting criteria.

EPA CLEANUP GRANTS AND RLF GRANTS AND LOANS

ROBERTSON MILLS—TAUNTON, MA

Photo courtesy of EPA

- 6.5-acre, century-old former Robertson yarn mill; vacant 10 years
- Economically distressed neighborhood; local CDBG target area
  - *Nearly 1/3 of city's population*
  - *51% low income households*
  - *13.5% poverty rate*
- EPA grants facilitated key first step — site cleanup demonstrated viability of local interest in redevelopment
  - *$52,000 EPA cleanup grant to non-profit Weir Corporation*
  - *EPA RLF support — $148,000 sub-grant, $140,000 loan*
- Set the stage for preparation of site for Low-Income Housing Tax Credits (LIHTC)-supported residential development
  - *64 affordable housing units*
  - *Near public transportation, recreation*
  - *18,000 sq. ft. commercial space*
- Leverage—$15 million local/state/private investment
  - *EPA cleanup and RLF funding*
  - *Approximately $750,000 in historic rehabilitation tax credits*
- Other funding partners include:
  - *Mass Development*
  - *Massachusetts Dept. of Housing and Community Development*
  - *Massachusetts Housing Partnership*
  - *MASS Housing*
  - *Community Economic Development Assistance Corporation (CEDAC)*
  - *Bank Of America*
  - *Bristol County Savings Bank*

HOW PUBLIC FINANCING TOOLS CAN ENHANCE THE INVESTMENT CLIMATE TO SUPPORT EQUITABLE DEVELOPMENT IN COMMUNITIES

The most successful community development and revitalization efforts recognize private lender and developer concerns and perceived risks. The extent to which equitable development proponents can understand and overcome these risks will enhance their efforts to get the types of investment activity they would like to encourage. To this end, equitable development strategies can be made stronger—and can more effectively deploy the various tools available, especially those noted below—if they aim to help private parties better manage risks by meeting at least one of the following objectives:

- Ensuring a minimum return: Communities can work with federal agencies to connect developers and lenders/investors with incentives such as loan guarantees or companion loans that ensure a minimum return. This can make projects more financially attractive, and also induce the developer to include elements that may be more in line with a community vision for revitalization. They also can offer support, such as environmental insurance, that limits the borrower's exposure to unforeseen problems that affect the value of collateral or the borrower's ability to pay.
- Reducing the borrower's cost of financing: Local leaders can work with community-based entities and others to subsidize the interest costs on project loans (for example, with tax-exempt financing or tax credits, or low-interest loans), as a way to attract capital into areas that might be perceived as more risky to invest in. Community-driven interests can also reduce loan underwriting and documentation costs by offering loan packaging assistance or technical support that might be available through CDCs, university centers, and other local institutions. In some cases, local governments can partner with CBOs and others to help cut borrowing costs by partnering with site users to prepare records and help maintain institutional controls.
- Offering terms or incentives to ease the borrower's financial situation: Tools like tax abatements, tax credits, or grace periods can improve the project's cash flow and make the project numbers work. CBOs and equitable development advocates may be able to facilitate connections between prospective developers and the entities offering these tools, which can be helpful in mixed-use project scenarios that include open space, or in areas where start-up costs might be higher. Similarly, training and technical assistance services can offset project costs and reduce a site developer's need for cash.
- Offering assistance or information that provides investor and lender comfort: Community organizations, working in partnership with universities or even federal labs, may be able to facilitate connections to performance data for new technologies, institutional controls, or other tools that can help transfer or manage risk, which could increase the investor's and lender's comfort level with a specific project.

Community development success is built on partnerships, with financing tools and strategies representing a crucial component of these efforts. Like any development activity, equitable development efforts can span the range of real estate uses—commercial, industrial, recreational, residential, and others. Over many years, the federal government has developed a range of financing tools (grants, loan and loan guarantee programs, tax incentives, equity investment, etc.) designed to encourage private sector participation in economic and community development. In recent years, many of these tools have been used to stimulate investment in the disadvantaged and emerging community markets. Each tool has a specific purpose and can play a distinct role in advancing the overall financing and redevelopment package at a range of sites, and for a variety of new uses. The applicability and value of these financing tools

has ebbed and flowed as development needs and requirements changed, and this is certainly true in the current volatile economic climate. These tools are constantly evolving to take advantage of emerging opportunities, and to address problematic development situations.

These tools, which can be enormously valuable in promoting equitable development in communities, are only as good as the priorities and values of the local entity that is using them. Any tool, no matter how useful, will not help if the community has not defined a vision that encourages equitable development results. At the same time, it is important to remember that just because one of the tools described above does not directly focus on equitable development does not mean that it cannot be applied for such purposes. Equitable development advocates can often take advantage of these various tools, leveraging or packaging them to meet their own intended end uses.

HUD'S STATE/SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT

VISITOR CENTER—ROSALIA, WA

- Locally driven public-private partnerships can stimulate innovative site financing in small communities
- 1923 vintage Texaco gas station in downtown Rosalia, WA (pop. 600)
- Abandoned 21 years; Underground Storage Tank (UST) issues
- Site vision as focus of "heritage tourism" main street revitalization strategy
- Converted to "gateway" retail, craft/farmers market, visitor center for nearby Steptoe Nat'l Battlefield, National Forest
- Public financing sources include:
  - *$54,000 WA Dept. of Ecology grant*
  - *$45,000 Whitman County small cities CDBG grant*
- Partner donations include:
  - *Development grant sharing from surrounding counties*
  - *Rosalia Lions Club*
  - *Rosalia "Gifted Grannies"—quilts for auction*
  - *Retired Texaco Executives Association—furnishings and memorabilia*
  - *Pro bono legal, remedial services*
  - *Utility incentive rates*
  - *Community sweat equity*
  - *Dept. of Corrections—commemorative license plates*

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FINDING THE BEST RELATIONS IN THE "FEDERAL FAMILY" — FINANCING PROGRAMS AND TAX INCENTIVES, AND HOW THEY CAN PROMOTE EQUITABLE DEVELOPMENT INVESTMENT

More than two dozen federal programs from agencies such as EPA, HUD, EDA, and others, have and could support equitable development investment and projects consistent with a community's vision for its future, including grants, loans, loan guarantees, and tax incentives (such as the low-income housing and historic rehabilitation tax credits). Once equitable development advocates understand the context and goals, implementation, and intended results of these programs, they can be in a better position to fit their own project within the mission of these programs.

HISTORIC REHABILITATION TAX CREDITS

AMERICAN CAN COMPANY—NEW ORLEANS, LA

- Abandoned canning facility and warehouse on 6.6 acres
- Converted to 268 new apartments (20% affordable), plus 20,000 sq. ft. of retail
- $42.9 million project cost; financing included:
  - *$5 million HUD Section 108 loan*
  - *$1 million city economic development loan*
  - *$29 million Low Income Housing Tax Credit allocation*
  - *Equity infusion from sale of approximately $7.8 million in historic rehabilitation tax credits*

Photo courtesy of Wikimedia Commons

EPA's three basic brownfields grant programs described below can fill critical financing needs and play an important role in moving projects in previously developed, often abandoned areas where concerns over possible legacy contamination impede lending opportunities. Given their basic mission of supporting site assessment and cleanup leading to reuse, EPA's brownfields programs address the critical first stages of the redevelopment process, and can be used to set the stage for equitable development once sites are evaluated and cleanup takes place. Data analysis performed by EPA's brownfields office shows that the brownfields program has served low- and moderate-income persons, resulting in additional equitable development language being included in the most recent grant guidelines.

Assessment grants, which provide up to $200,000 for site investigations to determine what contamination might be present and to conduct planning and community outreach related to the brownfields properties, will provide critical information and data for communities seeking to prioritize and position properties for new investment. **Cleanup grants** provide up to $200,000 (with a 20 percent cost share typically required) to carry out remediation at sites owned by the recipient, which helps make them "shovel ready" and more attractive for new uses. Finally, EPA's program to provide up to $1 million in capitalization for **cleanup RLFs** can bring additional sources of funding to address cleanup concerns that are very difficult to address in the private capital markets. RLFs can help communities, often working in partnership with private developers, to overcome initial financial hurdles through several financing mechanisms: low- or no-interest loans, bridge loans, discounted loans, and "sub-grants" to deal with key pre-development costs.

In addition, EPA's Clean Water State Revolving Fund has great potential to support equitable development projects (as part of necessary infrastructure preparation), but is not often used for this purpose. Each year, every state receives additional capital for these RLFs, which is used to make low or no-interest loans for terms of up to

20 years for projects with water quality impacts—including those that deal with ameliorating groundwater contamination. Project priorities are set by the states, within broad EPA guidelines, and a range of redevelopment projects with a water connection can access these state funds if the state allows. State clean water RLFs can cover the costs of activities such as excavation and disposal of underground storage tanks, capping of wells, disposal of contaminated soil or sediments, and environmental assessments—activities that can fit well within the framework of many local site reuse projects. Each state determines who may use its revolving fund resources. EPA allows communities, municipalities, individuals, citizen groups, and non-profit organizations to be loan recipients.

HUD's **CDBG program** provides direct grants to "entitlement" cities (those with more than 50,000 residents) and urban counties (those with more than 250,000 residents). Recipients have considerable flexibility in designing local grant or loan programs that meet one of three broad criteria: helping low- and moderate-income people, addressing slums and blight conditions, and addressing urgent community needs. CBOs and community leaders need to work with their local government recipients to ensure that their desired projects are included in a city's HUD plan, and to access these resources. HUD addresses the needs of small jurisdictions through CDBG monies provided to the states. State allocations are then competitively re-distributed to small cities and towns. Community leaders will need to work with their county or town jurisdictions to secure some of these resources for projects they would like to pursue.

Municipalities of all sizes can use CDBG to provide critical gap financing needed to carry out essential site prioritization, and planning and assessment activities, as well as to support site preparation, demolition, and redevelopment needs. Many of these activities, especially at the neighborhood level, tend to be very difficult to finance with private funds. CDBG, CBOs, non-profits, and development authorities must work with their municipal or state recipient agencies to define projects and access these funds.

CDBG has proven to be a key tool in meeting a range of equitable development project needs, including in neighborhoods facing eroding economic conditions located in distressed areas that clearly meet CDBG's mission to help low- and moderate-income people or eliminate slums and blight. For a number of entities seeking to revitalize previously used sites for

HUD'S COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

CHEVY PLACE—ROCHESTER, NY

- 2.2-acre former auto dealership, gas station, and service garage site, vacated in 1990
- UST, gasoline, oil, and other contamination deterred developers
- $10.6 million total investment
- Role of HUD/CDBG—Critical gap financing; used for site assessment, partial 1st phase cleanup (including tank removal)
- Developer funded 2nd phase of cleanup
- City $2.35 million redevelopment loan from CDBG-capitalized pool
- Now—77 new apartment units; renovated art deco former showroom into Spot Coffee house with 20 jobs

Photo courtsy of the City of Rochester

new community uses, a key HUD policy clarification related to brownfields has proven helpful. HUD, in its 2006 final CDBG rule, clarified how brownfields activities fit within CDBG eligibility and national objective regulations. That rule expanded CDBG's "slums and blight" national objective to include "known and suspected contamination, as well as economic disinvestment." It also broadened the definition of clearance to include "remediation of known or suspected environmental contamination." Finally, the rule includes the abatement of asbestos and lead-based paint as eligible rehabilitation activities, which is of considerable help to community leaders and residents who want to transform abandoned housing or commercial brownfields properties into productive new uses as part of equitable redevelopment strategies.

The **EDA's public works program** helps finance infrastructure construction, expansion or upgrades, and site preparation activities needed for economic development to occur. EDA targets its investments to attract private capital investment by supporting the "back-end" or real estate development/reuse elements of brownfields transactions. EDA's **economic adjustment program** offers grants to local governments and non-profits in communities and regions suffering from severe economic distress in order to help them design and carry out strategies (such as planning, infrastructure construction, or RLF capitalization) that can support equitable development goals. For both programs, eligible applicants include cities, other recognized jurisdictions, and non-profit organizations acting in cooperation with a political subdivision.

EDA's goal is market-based community economic development. In practice, this often involves revitalizing unproductive real estate to beneficial new uses. Like other federal programs, while EDA does not cite "equitable development" in its project criteria, it does seek to foster capital investment and job creation—key goals of many equitable development strategies. The unemployment criteria in EDA's project selection policy may work to the advantage of distressed communities seeking resources for revitalization. Traditionally, more than half of all EDA resources go to small towns and rural areas that often have few alternatives when trying to finance community revitalization projects.

The USDA's rural development programs provide a range of support to small towns (with some exceptions, typically those with 20,000 or fewer residents) needing help to stimulate business and economic development. **Community facility loans and grants** can support development activities that include industrial park sites or access ways, as well as critical service and safety institutions such as hospitals. **Business and industry loans** are available

NEW MARKETS TAX CREDITS

TIP TOP APARTMENTS—OMAHA, NE

- Ford Motor factory (1916-36), bobby pin and curler manufacturer; abandoned in 1986, center of blighted area
- Developer concerns re: financing gaps stemming from rehab of brownfields into affordable housing
- New Markets Tax Credits were key—$12 million allocation instrumental in attracting private capital from US Bank needed to close the $24.5 million deal
- Today—96 moderately priced apartments, ground floor commercial space with 138 jobs
- Development is spurring significant additional private investment in surrounding area

Photo courtesy of Patrick Hawks / Wikimedia Commons

to public, non-profit, or private organizations to improve the "economic and environmental climate in rural communities." The **intermediary re-lending** program loans money to non-profit corporations and public agencies to capitalize locally-managed RLFs that re-lend it to companies to finance business facilities. Rural development grants, offered through the Rural Business Enterprise Grant and Rural Business Opportunity Grant programs, provide operating capital and finance to emerging private business and industry. Related training, planning, and coordination activities are also eligible.

Few towns have made the direct connection between equitable development and USDA, but it can work, and in fact, USDA can serve as a vital financing resource for redevelopment. For example, a former sewing machine factory in Delaware was converted into housing, and an abandoned electric power station in Nebraska was retrofitted as a small business incubator with the help of USDA's rural development programs. Most USDA development programs can support planning for redevelopment or revitalization, as well as for site clearance or preparation. This support includes rehabilitation or improvement of sites or structures, which are key activities in many equitable development projects.

Most **SBA** assistance takes the form of loan guarantees. The key program of interest to CBOs and other entities interested in equitable development is known as the **Section 504 Certified Development Company (CDC/504) program.** Section 504 loan guarantees are delivered either directly or through local economic development agencies or community-based corporations. While SBA retains much of the broad decision making authority, specific projects are locally determined and driven. SBA can prove especially helpful to new or small firms that usually lack access to affordable capital from conventional sources.

The CDC/504 loan program is a long-term financing tool, designed to encourage economic development within a community. It accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. A Certified Development Company is a private, nonprofit corporation that is set up to contribute to economic development within its community. Certified Development Companies work with SBA and private sector lenders to provide financing to small businesses, which accomplishes the goal of community economic development. Typically, a CDC/504 project includes: a loan secured

EPA CLEANUP GRANTS

EPA CLEANUP GRANT—HOUSTON, TX

- Former Jefferson Davis hospital for indigents, built 1924
- Last use as county storage facility, abandoned in 1980s
  - *Leaking UST, paint & asbestos*
- $200,000 EPA cleanup grant helped Avenue Community Development Corp. prepare site for affordable artist live/work space
  - *34 unit Elder St. Artist Lofts anchor emerging arts district*
  - *Occupancy later opened to the community at large*
- Leverage—$6.3 million in redevelopment investment; public sources include:
  - *City of Houston*
  - *Harris County*
  - *Texas Dept. of Housing and Community Development*

Photo courtesy of Steve Hudson Photography

from a private sector lender with a senior lien covering up to 50 percent of the project cost, a loan secured from a Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the project cost, and an "equity injection" contribution from the borrower of at least 10 percent of the project cost. Many communities have used CDBG funds to meet the equity requirement. Proceeds from 504 loans must be used for fixed asset projects, such as: land or building acquisition, improvements (including street improvements, utilities, and landscaping), the construction of new facilities or modernizing, renovating or converting existing facilities, and the purchase of long-term machinery and equipment.

The maximum SBA debenture is $1.5 million when meeting the job creation criteria or a community development goal. Generally, a benefitting business must create or retain one job for every $65,000 provided by the SBA, except for small manufacturers which have a $100,000 job creation or retention goal. The maximum SBA debenture is $2 million when meeting a public policy goal such as: business district revitalization, expansion of minority business development, and expansion of small business concerns owned and controlled by veterans and women. The maximum debenture for small manufacturers is $4 million.

SBA also operates its basic **Section 7(a) loan guarantee program**, its largest effort, which typically focuses on projects needing $100,000 or less in financing. Most of the 7(a) program has been delegated to certified private lenders, who determine recipients (within broad SBA guidelines) and service the loans.

Tax incentives. Three federal tax credits are good candidates for integrating into equitable development projects, as part of financing packages to spur investment (depending on the project type, nature and needs of private project partners, and site end use). These include historic rehabilitation tax credits, New Markets tax credits, and low-income housing tax credits.

Tax incentives bring a number of advantages to efforts focusing on equitable development outcomes. They can increase a project's internal rate of return due to the operational cash offsets they provide. This may make the project more attractive to potential private partners, and help attract investment capital. Tax incentives can also ease a borrower's cash flow by freeing up cash ordinarily needed for tax payments, allowing it to be used for other purposes (such as training or providing community amenities). In addition, some tax credits—notably, low-income housing and historic rehabilitation tax credits—can be sold to raise up-front cash or syndicated to attract additional investment. Both of these strategies can help meet critical site preparation and property development activities not otherwise easily financed.

Finally, tax credits are more reliable as an incentive because most of them are not subject to a competitive public award process. If a project (or developer) meets the criteria, the credit is secured. The downside of many tax incentives is that if no income or profit is realized, there is no tax to offset and the credit has little immediate value. Even if the incentive carries forward to subsequent tax years, the near-term prospect of a tax credit does little to help with cash flow needs. In addition, non-profits that are not subject to taxes generally cannot take advantage of (or transfer) the benefits of these incentives. To use them most advantageously, non-profits typically partner with for-profit entities, and structure the projects so that the for-profit can take advantage of the tax savings.

Historic Rehabilitation Tax Credits. Developers and property owners can claim a 20 percent historic rehabilitation tax credit against costs incurred as part of any project designated as a certified rehabilitation by a state's historic preservation officer (SHPO). The 20 percent credit is available for properties rehabilitated for income-producing commercial, industrial, agricultural, or rental residential purposes, but it is not available for properties used exclusively as the owner's private residence. The credit may be taken for any relevant rehabilitation expenditure, including asbestos or lead-paint removals done in a way that is historically sensitive to the structure. In addition, a 10 percent credit is available for rehabilitation performed on non-historic older buildings predating 1936. These rehabs need not be certified by the SHPO to receive the credit.

Numerous states have their own state historic rehabilitation tax credits of up to 25 percent. Some have aggressively marketed a tandem state-federal

credit partnership as a powerful incentive to restore and reuse former mill sites, schools, and other properties for new community uses.

A few downsides need to be taken into consideration. Historic rehabilitation tax credits are subject to recapture (for up to five years, at 20 percent per year) if the property is disposed of, or converted to non-income producing purposes. They are only available if the rehab investment is greater than $5,000, or the adjusted basis of property. The latter condition requires a large expenditure on a big project, which may not be feasible.

New Market Tax Credits (NMTC). The New Markets tax credit program gives taxpayers a 39 percent income tax credit (over seven years) for making equity investments in designated Community Development Entities (CDEs), which use those investments, in turn, for projects in low-income communities. This makes NMTCs well suited for communities that wish to promote investment in and reuse of abandoned properties. CDEs use their allocations to make loans or investments in "qualified businesses" and development activities such as: for-profit and non-profit businesses; homeownership projects; community facilities, such as health or child care; and charter schools.

Although many NMTC projects have taken the shape of traditional development projects (i.e., office buildings, retail centers), the New Markets program has substantial potential to support equitable development efforts, given its own eligibility criteria and location-related targets. This is a sizable program: $3.5 billion was allocated in June, 2014, to 87 CDEs headquartered in 32 states; more than $30 billion has been awarded since 2002. The main challenge is an informational one: even though they often deal with distressed properties in depressed areas, few CDEs have made the connection to equitable development interests. An example of one who has is Capital Impact Partners; they will focus on financing health facilities, healthy food projects, and elder care developments in Detroit and southeast Michigan.

Low-Income Housing Tax Credits. The LIHTC program is an indirect federal subsidy used to finance the development of affordable rental housing for low-income households. Credits are allocated to states based on population, and states award them to those undertaking affordable housing projects. Developers then sell these credits to investors to raise capital (or equity) for projects, which reduces the debt that the developer would otherwise have to borrow. This results in more affordable rents. Investors receive a dollar-for-dollar credit against their tax liability each year over a 10-year period.

Because use of LIHTCs guarantees a definable minimum return on investment, they have proven to be an attractive incentive for developers seeking to build mixed-income or affordable housing. In fact, according to some experts, affordable housing financed in conjunction with LIHTCs is the only construction going on right now in some communities. However, a key concern that has arisen is that the credits are losing value on the secondary market in the current economic climate, making them less valuable to those needing up-front capital to proceed. This could make residential developments with higher site preparation costs, less attractive.

LOW-INCOME HOUSING TAX CREDITS

MIFFLIN MILLS—LEBANON, PA

- PA's first affordable "rent-to-own" townhouse community
- Former vacant, blighted city block near downtown
- Energy efficient construction, designed to blend into existing residential neighborhood
- 20 low-income units, completed Nov. 2009
- $1.5 million in low-income housing tax credits key part of financing package needed to attract investors to rent-to-own (with 15-year escrows) project structure

Photo courtesy of Lebanon County Housing and Redevelopment

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