City of Fort Bragg

416 N Franklin Street
Fort Bragg, CA 95437
Phone: (707) 961-2823
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Meeting Agenda

Special City Council

THE FORT BRAGG CITY COUNCIL MEETS CONCURRENTLY AS THE FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1 AND THE FORT BRAGG REDEVELOPMENT SUCCESSOR AGENCY

Monday, March 1, 2021	**6:00 PM**	**Via Video Conference**

Special Meeting

CALL TO ORDER

ROLL CALL

PLEASE TAKE NOTICE

DUE TO THE PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDERS N-25-20 AND N-29-20 WHICH SUSPEND CERTAIN REQUIREMENTS OF THE BROWN ACT, AND THE ORDER OF THE HEALTH OFFICER OF THE COUNTY OF MENDOCINO TO SHELTER IN PLACE TO MINIMIZE THE SPREAD OF COVID-19, CITY COUNCIL MEMBERS AND STAFF WILL BE PARTICIPATING BY VIDEO CONFERENCE IN THE SPECIAL CITY COUNCIL MEETING OF MONDAY, MARCH 1, 2021.

In compliance with the Shelter-in-Place Orders of the County and State, the Town Hall Council Chamber will be closed to the public. The meeting will be live-streamed on the City's website at https://city.fortbragg.com/ and on Channel 3. Public Comment regarding matters on the agenda may be made in any of the following ways: (1) By joining the Zoom video conference and using the Raise Hand feature during Public Comment, or (2) By emailing comments to Sarah McCormick, smccormick@fortbragg.com, or (3) By delivering written comments through the drop-box for utility payments to the right of the front door at City Hall, 416 N. Franklin Street.

We appreciate your patience and willingness to protect the health and wellness of our community and staff. If you have any questions regarding this meeting, please contact the City Clerk at (707) 961-1694 or jlemos@fortbragg.com.

ZOOM WEBINAR INVITATION

You are invited to a Zoom webinar.
When: Mar 1, 2021 06:00 PM Pacific Time (US and Canada)
Topic: Special City Council Meeting

Please click the link below to join the webinar:
https://zoom.us/j/99046783296
Or iPhone one-tap :
US: +16699009128,,99046783296# or +12532158782,,99046783296#
Or Telephone:
Dial(for higher quality, dial a number based on your current location):
US: +1 669 900 9128 or +1 253 215 8782 or +1 346 248 7799 or +1 301 715 8592 or +1 312 626 6799 or +1 646 558 8656
Webinar ID: 990 4678 3296

International numbers available: https://zoom.us/u/acWre9vBZS

TO SPEAK DURING PUBLIC COMMENT PORTIONS OF THE AGENDA VIA ZOOM, PLEASE JOIN THE MEETING AND USE THE RAISE HAND FEATURE WHEN THE MAYOR OR ACTING MAYOR CALLS FOR PUBLIC COMMENT ON THE ITEM YOU WISH TO ADDRESS.

1. CONDUCT OF BUSINESS

1A. 21-080 Special Session of the Fort Bragg City Council to Consider and Discuss Economic Development

Attachments: Day 1 Agenda
March 1st PPT
Att 1 - Economic Development: A Definition and Model for Investment
Att 2 - Public Private Partnerships: From Principles to Practices
Att 3 - City of Fort Bragg Economic & Housing Incentives Manual
Att 4 - How Small Towns and Cities Can Use Local Assets to Rebuild Economie
Public Comment 1A

ADJOURNMENT

STATE OF CALIFORNIA)
)ss.
COUNTY OF MENDOCINO)

I declare, under penalty of perjury, that I am employed by the City of Fort Bragg and that I caused this agenda to be posted in the City Hall notice case on February 25, 2021.

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June Lemos, CMC
City Clerk

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- *Such documents are also available on the City of Fort Bragg's website at https://city.fortbragg.com subject to staff's ability to post the documents before the meeting.*

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This notice is in compliance with the Americans with Disabilities Act (28 CFR, 35.102-35.104 ADA Title II).

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Text File

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Agenda Date: 3/1/2021 **Version:** 1 **Status:** Business

In Control: Special City Council **File Type:** Staff Report

Agenda Number: 1A.

Special Session of the Fort Bragg City Council to Consider and Discuss Economic Development
Two special sessions - scheduled for 6:00 PM on Monday, March 1st and Monday, March 15th, 2021- are dedicated to the topic of economic development. Vice Mayor Morsell-Haye initiated these meetings in an effort to create a common knowledge base and frame of reference to facilitate decision making related to this important topic. Morsell-Haye reached out to Paul Garza, Board Chair of West Business Development Center to present; Mr. Garza retired to Fort Bragg in 2013, after a career of 40 years in economic development. His desire for Fort Bragg's economy to thrive and willingness to donate his time and share his expertise with the community is much appreciated.

CITY COUNCIL ECONOMIC DEVELOPMENT SESSION

DAY 1: Monday, March 1, 2021
"The Big Picture"

I. Economic Development: What is it?
   A. Defining Economic Development
   B. Economic Development vs. Economic Growth

II. Economic Development Tools: The Four "I"s
   A. Infrastructure
      1. Housing
      2. Water
      3. Broadband
   B. Investment
      1. Public/Private Partnerships
         a. CDBG, USDA, EDA, FEMA Grants
         b. Tax Sharing Agreements
      2. Supporting Entrepreneurship
         a. Central Business District
   C. Innovation
      1. Small Businesses
      2. Entrepreneurs
   D. Intelligence
      1. Mendocino College
      2. Noyo Center for Marine Science

References:

- "Economic Development – A Definition and Model for Investment", Feldman, Maryann; Hadjimichael, Theodora; Kemeny, Tom; Lanahan, Laura May 2014 (Funded by the US Department of Commerce, Economic Development Administration)
- "Public Private Partnerships: From Principles to Practices", Friedman, Stephen B. ed., Urban Land Institute, 2016
- "City of Fort Bragg Economic and Housing Development Incentives Manual", January 29, 2020
- "How Small Towns and Cities Can Use Local Assets to Rebuild Their Economies: Lessons from Successful Places", Johnson, Nora; Kackar, Adhir; Kramer, Melissa, US Environmental Protection Agency, EPA 231-R-15-002, May 2015

BUILDING PROSPERITY FOR FORT BRAGG

2

ECONOMIC DEVELOPMENT – WHAT IS IT?

PAUL GARZA, JR.

CHAIR, BOARD OF DIRECTORS, WEST BUSINESS DEVELOPMENT CENTER

West BUSINESS DEVELOPMENT CENTER

Helping our community grow, one small business at a time

3 ECONOMIC DEVELOPMENT

- Economic development is the conscious adoption and execution of strategies formed through government policy and public/private partnerships to create economic growth through qualitative improvements, especially job and wage growth.

4 DEVELOPMENT VS. GROWTH

Growth is a process of becoming larger or longer or more numerous or more important, mostly a physical change;

Development is a process in which something transforms into a different stage or improves, it may be physical, social or psychological.

5 DEVELOPMENT VS. GROWTH

- ECONOMIC GROWTH

  A measure of the value of output of goods and services within a time period

- ECONOMIC DEVELOPMENT

  A measure of the welfare of humans in a society

6 DEVELOPMENT VS. GROWTH

ECONOMIC DEVELOPMENT

- Increased wages, career advancement and working conditions (living-wage jobs)
- Requires increased education
- Long-term investments, higher long-term growth
- Innovation/entrepreneurship
- Balanced policies: environment, communities, health
- Community prosperity
- Primacy on local resources

ECONOMIC GROWTH

- Jobs
- Little or no education/training required
- Short-term transactions
- Typically, negative impact on social structures and community services/assets
- Profit
- Opportunity

7 ECONOMIC DEVELOPMENT

- Quality Improvement
- New Goods and Services
- Risk Mitigation
- Innovation and Entrepreneurship
- Positioning for higher growth
- Primacy given to improvement of local/legacy resources

8 ECONOMIC DEVELOPMENT

- Long-term Investment
  - New Ideas
  - Knowledge Transfer
  - Infrastructure
- Depends on cooperation between the public sector and private enterprise
- Requires collective action and large scale, long horizon investment
- Focused upon wages, job growth, career advancement and working conditions
- Cooperation rather than adversarial relationships
- Government is a partner or actor, but not the prime mover.

9

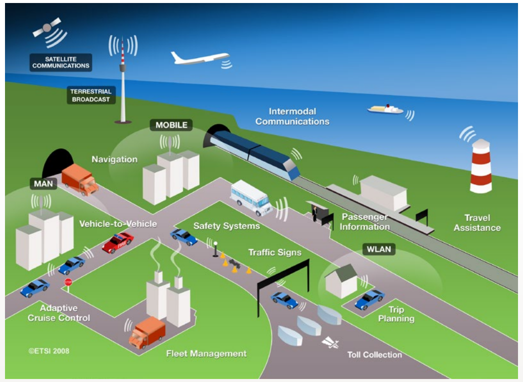
ECONOMIC DEVELOPMENT – TOOLS

10 THE FOUR I'S

- INFRASTRUCTURE – Land use policy, transportation systems, buildings, housing, hospitals, schools, energy, water, connectivity etc.
- INVESTMENT - Capital infusion (loans, venture funds), government grants, development bonds, dedicated taxes/special assessments, etc.
- INTELLIGENCE - Workforce development, education, recruitment of high skilled individuals (ex. Remote workers, H1B visas), business attraction, etc.
- INNOVATION - Entrepreneurship, small business development, technology transfer, value-added products, etc.

INFRASTRUCTURE . . . Sets the table

12


SATELLITE COMMUNICATIONS
TERRESTRIAL BROADCAST
MOBILE
Intermodal Communications
Navigation
MAN
Vehicle-to-Vehicle
Safety Systems
Passenger Information
Travel Assistance
Traffic Signs
WLAN
Adaptive Cruise Control
Trip Planning
©ETSI 2008
Fleet Management
Toll Collection


EMERGENCY
Emergency Patient Parking
Main Entrance
Physician Parking

13 INFRASTRUCTURE INITIATIVES - Broadband

- Considered a barrier to economic development in our City and County
- Consider possibility for a City-owned Broadband Utility?
- Investment in long-term infrastructure
- Affordable higher speed connectivity
- Potential for strategic educational, development and growth partnerships
- Secures services for reliable future

14 INFRASTRUCTURE INITIATIVES - Water

- Strengthen the City's water resources
- Additional storage to rely on during dryer summer and fall months
- Small reclamation projects to increase water supply
- Desalinization plant
- Expand water supply and water pressures to the north end of town to assist with development
- Revise the City's water emergency Ordinance for better response

15 INFRASTRUCTURE INITIATIVES – Housing

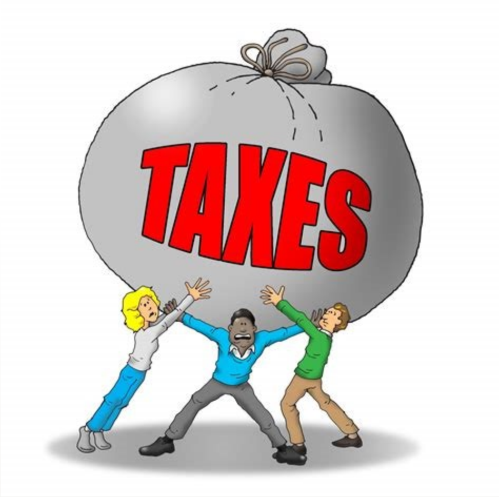
- Encourage property owners to construct ADUs
- Attract Affordable Housing Developers
- Attract Multi-Unit Housing Developers
- Create Homeownership Opportunities for Workforce
- Continue to Prohibit Vacation Rentals (except where allowed in CBD)
- Work with area non-profits to create housing for persons with special housing needs

16 INVESTMENT . . . Enables/accelerates development

17


LOAN
APPLICATION
APPROVED
Personal Information
PUBLIC
12345 MAIN STREET
Services needed
UNDER REVIEW
UNDER REVIEW
SUBJECT
REVIEW


GRANTS


TAXES


Development Bonds


VENTURE CAPITAL
A BEGINNER'S GUIDE TO VENTURE CAPITAL & VENTURE CAPITALISTS
FEEDOUGH

18

19

PUBLIC/PRIVATE PARTNERSHIPS

- Creative alliance between a government entity and private and/or non-profit developers to achieve a common, mutually beneficial purpose
- Citizens and neighborhood groups are stakeholders
- Others stakeholders and/or partners often include:
  - Community-based organizations
  - Education
  - Health care providers

20 PUBLIC/PRIVATE PARTNERSHIPS

- Prepare properly for public/private partnerships
- Create a shared vision
- Understand your partners and key players
- Be clear on the risks and rewards for all parties
- Establish a clear and rational decision-making process
- Make sure all parties do their homework
- Secure consistent and coordinated leadership
- Communicate early and often
- Negotiate a fair deal structure
- Build trust as a core value

21 PUBLIC/PRIVATE PARTNERSHIPS – Challenges

PUBLIC SECTOR

- Understanding private capital criteria and return requirements
- Lack of public support for public subsidies
- Validating market and cost assumptions
- Determining a fair rate to return to private sector
- Understanding risk of loss in pre-development
- Unreasonable performance schedule
- Selecting developer based on 'pretty pictures' instead of performance

PRIVATE SECTOR

- Determining rate of return
- Negotiations: too much hard-bargaining vs. building trust
- Lack of understanding of public financing & investment constraints
- Validating 'fairness' of the deal to public sector
- Sharing proprietary information
- Understanding of the need to create community ownership
- Commitment to working with community groups

22 INVESTMENT INITIATIVES – Tax Sharing Agreements

- Transient Occupancy Tax (TOT) Tax Sharing Agreements provide an opportunity to drive development or redevelopment
- Means to encourage reinvestment in Fort Bragg
- Incremental growth in tax base is split with investor

23 INVESTMENT INITIATIVES – Central Business District

- Visit Fort Bragg Campaign
- Water/Sewer Capacity Fee Deferral/Forgiveness Program
- Small business loans through CDBG
- Bollards, Crosswalks & Pedestrian Paths
- Directory & Directional Signage
- Public Amenities such as, Restrooms, Wi-Fi, Public Seating
- Public Art, Walking Tours, Special Events
- Business Improvement District, Mills Act
- Code Enforcement to abate chronic nuisances

24 INVESTMENT INITIATIVES – Grants

- CDBG, USDA, EDA, FEMA and State/Local grant opportunities
- Seek funds on behalf of an organization
- Endorse applications of organizations
- Partnerships to attract matching funds
- City sponsored grant funds

25 INTELLIGENCE . . . Provides knowledge & skills necessary to manifest development

26

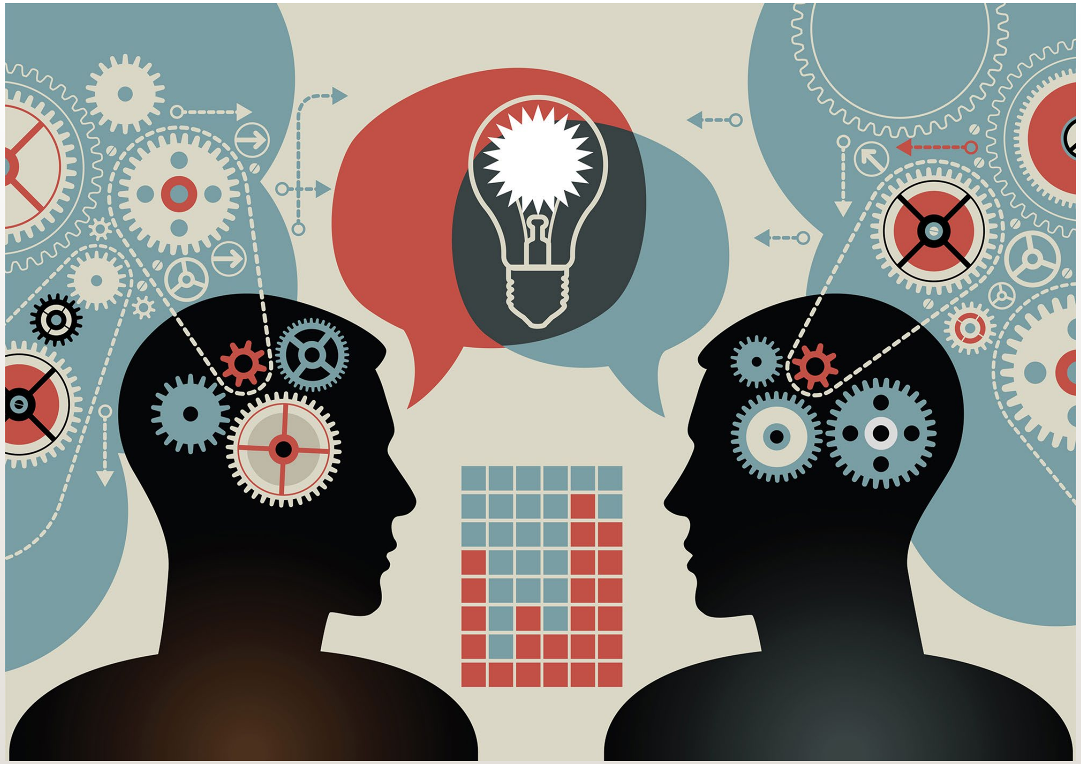
27 INTELLIGENCE INITIATIVES

- Underdeveloped relationship with Mendocino College
- Develop relationships with other higher education institutions
- Other educational opportunities within K-12
- Technical training
- Adventist Health recruitment and training programs

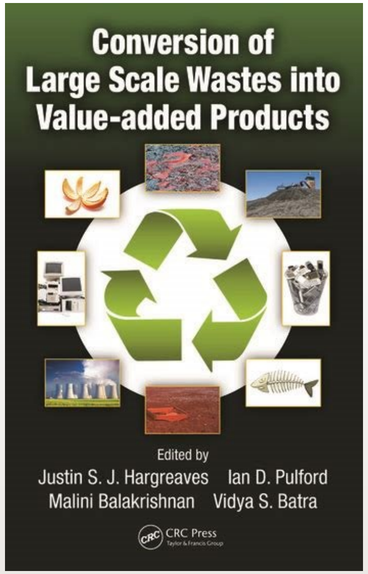
28 INTELLIGENCE INITIATIVES – Noyo Center for Marine Sciences

- Activate partnership to realize potential
- Scientific Research Extension and/or University Collaboration
- Aquaculture Industry Partnership
- Community Outreach & Educational Opportunities

29 INNOVATION . . . Change that leads to new development



30



West
BUSINESS
DEVELOPMENT
CENTER

31 INNOVATION INITIATIVES

- Small businesses
- Entrepreneurs

32

END – MARCH 1

See you on Monday, March 15th at 6:00 PM

Economic Development: A Definition and Model for Investment

Maryann Feldman*
Theodora Hadjimichael**
Tom Kemeny^
Lauren Lanahan****

Abstract: Despite significant public resources devoted to promoting innovation and entrepreneurship there is little agreement about how to measure outcomes towards achieving the larger objectives of economic development. This paper starts by defining economic development and then considers the role of government, arguing that public policy should focus on building capacities that are beyond the ability of the market to provide. This shifts the debate towards a neutral role of government as a builder of capacities that enable economic agents, individuals, firms or communities to realize their potential.

Acknowledgements: We would like to acknowledge funding from the Economic Development Administration of the U.S. Department of Commerce. This work has benefitted from discussions with Andrew Reamer, Kari Nelson, Burt Barnow and Hal Wolman from the George Washington Institute for Public Policy. Our UNC colleagues Alex Graddy-Reed and Nichola Lowe deserve special mention. Input from EDA's Office of Regional Affairs and Performance and National Programs Division, in particular, Bryan Borlik, and Thomas Guevara, Samantha Schasberger and Hillary Sherman, and participants at the EDA regional directors meeting have been instrumental in defining this project. Comments are appreciated from Pontus Braunerhjelm, Joe Cortright, Joshua Drucker, Irwin Feller, Ed Feser, Jon Fjeld, Janet Hammer, Victor W. Hwang, Julia Lane, Mark Partridge, Ken Poole, Karl Seidman, Roland Stephan, Scott Stern, Michael Storper, Alfred Watkins, Howard Wial, and David Wolfe [May 28, 2014]

Key words: economic development, innovation, entrepreneurship, capacity building, government

JEL codes: R11, R12, O32, O33

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Material prosperity and high quality of life are universal goals for democratic governments. However, the precise way to best achieve these goals is the subject of considerable debate. For example, the neoclassical synthesis argues for active government to incentivize and support private sector activity, while the Austrian School advocates for the primacy of the market, with government responding only to external threats in a limited night watchman role. More recently, in the face of the most painful recession of the post-war period, the policy agenda has become dominated by austerity and other macroeconomic considerations, as well as a myopic obsession with near-term economic growth. Yet, there is also widespread recognition that longer-term growth relies on innovation, entrepreneurship and production – decidedly microeconomic concerns. Unfortunately, although these topics have gained currency, they remain only one element in a chaotic and divisive policy debate on the role of government in the economy.

The policy debate is further confused because economic development is often conflated with the more easily measured economic growth. To define a role for government in the economy, however, it is crucial that we distinguish between these concepts. We currently lack a clear and shared understanding of what we mean when we talk about economic development. While economic growth is simply an increase in aggregate output, economic development is concerned with quality improvements, the introduction of new goods and services, risk mitigation and the dynamics of innovation and entrepreneurship. Economic development is about positioning the economy on a higher growth trajectory. Of the two, economic development is less uniquely a function of market forces; it is the product of long-term investments in the generation of new ideas, knowledge transfer, and infrastructure, and it depends on functioning social and economic institutions and on cooperation between the public sector and private enterprise. Economic development requires collective action and large-scale, long-horizon investment. Economic development addresses the fundamental conditions necessary for the microeconomic functioning of the economy. It is within the purview of government.

Though it is certainly possible to have growth without development in the short or even medium-term, economic development creates the conditions that enable long-run economic growth. Jobs are a main concern of policy: for growth what matters is the number of jobs while for economic development the focus is wages, career advancement opportunities, and working conditions. Economic development depends on education so that workers can more fully participate in the economy, social and cultural patterns of behavior that encourage initiative and engagement, and co-operation rather than adversarial relationship between government and business. Economic development requires balance: increased education requires complementary efforts to support a sophisticated economy that will provide jobs. Focusing on education without supporting the development of industry creates a brain drain as skilled labor migrates to opportunity (Beine, Docquier & Rapoport, 2001). This has been true for over 70 years in the developing world and is repeated in lagging regions in the developed world everywhere. Cities and regions are growing rapidly because they are where jobs can be found. With the same logic, public investments in research will not yield the anticipated benefits if there are no companies around with the vision and capabilities to translate that research into desired goods and services. Markets function effectively for short-term transactions but lack incentives to foster basic capacity to participate in the economy.

For too long, economic development has been associated with lagging regions and poverty eradication, often with an international focus (Massey, 1988). Yet the concept of economic development is increasingly relevant in advanced economies. All regions are vulnerable to economic restructuring and need to consider how to adapt to the changing economy. Places once prosperous have been humbled by international competition and struggle to redefine themselves (Feldman & Lanahan, 2010). Even places currently doing well realize their economic base could quickly evaporate, leaving them insecure about future prospects. Continual restructuring is now the new norm and the universal concern is how to best secure an economic future. The concept of economic development is now relevant to the full range of nations, places and communities.

With so much at stake there is a need to clearly define economic development and consider its underlying logic. Based on a review of the literature, we define economic development as the development of capacities that expand economic actors' capabilities. These actors may be individuals, firms, or industries. While actors have different perceived potential, it is difficult to predict the next new idea or to understand how genius may arise. In contrast to a resource-based economy, where location was constrained to natural endowments, a modern, knowledge-based economy depends on capacity that is constructed over time. Many successful regional economies developed because of historical accidents, yet fortune favors the prepared: the ability to benefit from serendipity relies on underlying capabilities (Feldman & Francis

2003). Advantage is due to capacity investments that yield a long-term return. In the absence of any clear bets, the best strategy is to enable as many individuals to fully participate in society. New examples of economic development include infrastructure projects that now extend to the digital realm to include the creation and use of knowledge, or the support of education and literacy in a time when the labor force usually requires a bachelor's degree with the expectation of continued lifetime education and training. The private sector can then leverage these capabilities to create economic growth, which ultimately enhances the wellbeing of individuals, communities and society. Of course, the distribution of spoils in the modern knowledge economy is notoriously unequal (Rosen, 1981). The difficulty in advancing the public interest is to find balance that scaffolds economic transactions while not over regulating, and provides support and incentives without discouraging initiative.

In defining economic development, it is impossible not to discuss the role of government. Government, most simply, is a vehicle for collective action: the agent for whom the principal is the citizens and the businesses within its borders. While business aims to maximize profit or shareholder value, government is the vehicle for accomplishing the common good. Government is the only entity that has the mandate to promote the wellbeing and prosperity of the nation and the economic clout to keep the economy on course. Government is the economic entity that is best positioned to make long run investments. The Reagan-Thatcher agenda to reduce government has dominated public discourse for over 30 years. Yet there is no counter argument on the appropriate role of government to take its place. Only the most committed Libertarians recognize no limits for the role of the market in society, while even the most entrenched believer in free-markets recognize that government was the only entity capable of saving the financial sector from collapse in the last recession. Government has been important to the American economy from Alexander Hamilton's tariffs on manufacturing imports to John Kennedy's space race and DARPA's investment in the early Internet. The rest of the world is trying to copy and replicate the policies that made the American economy the envy of the world while America fails to recognize and fortify our success.

Defining Economic Development

Economic development is simultaneously a concept, an activity and a professional practice. Not only is economic development a popular topic of discussion, it is also an activity for which there are high expectations, and significant investments of public money. Perhaps the only agreement currently is that economic development is difficult to define. Nevertheless defining economic development is a necessary prerequisite to move discussion towards objective policy discussion and robust measurement.

The first step in defining economic development is distinguishing it from the concept of economic growth. Economic growth has a strong theoretical grounding and is easily quantified as an increase in aggregate output. In theorizing economic growth, David Ricardo (1819), and later Robert Solow (1956) and many others conceptualize an economy as a machine that produces economic output as a function of inputs such as labor, land, and equipment. Growth occurs when output increases. Output can increase either when we add more inputs or use technology or innovation in order to enhance the efficiency with which we transform inputs into outputs. In part because of this straightforwardness, economic growth, with its emphasis on increases in population, employment or total output dominates the debate, despite the fact that increases in any or all of these could be associated with both improvements and/or declines in prosperity and quality of life. The consensus is that development is a fuzzier and more far-reaching idea. Nobel laureate Robert Lucas (1988:13) notes, “we think of (economic) growth and (economic) development as distinct fields, with growth theory defined as those aspects of economic growth we have some understanding of, and development defined as those we don't.”

Our preoccupation with growth is an often-discussed problem. For a private firm, growth in sales and profits is a measure of market success. However, taken to the extreme, publicly traded companies that succumb to the pressure to constantly better their last quarter’s earnings often disregard long-term strategic opportunities. Places that are fast growing benefit from an increased tax base, but congestion leads to higher costs of services, which can outweigh the benefits of growth. Unfortunately promoting all and any growth is too often an easy victory to win at the expense of longer-term goals and objectives. Indeed, many of our conceptual tools may not be quite up to the task of economic development. Douglas North (1984) argues that neoclassical economics’ focus on short-run optimal resource allocation is simply not well suited to the dynamic, long-term orientation that defines the process of economic development.

If economic development is not the same as economic growth, then what exactly is it? Amartya Sen’s (1999) international work considers economic development to be the strengthening of autonomy and substantive freedoms, which allow individuals to fully participate in economic life. Hence, economic development occurs when individual agents have the opportunity to develop the capacities that allow them to actively engage and contribute to the economy. In the aggregate, this should lower transaction costs and increase social mobility. Rather than being reduced to a static factor in a production process, individuals become the agents of change in the process of economic development: they have the freedom to realize their potential. The greater the number of individuals able to participate in the economy and the society, the greater the opportunity for new ideas to circulate and be put into action. Economic development is measured by rising real per capita income, Gini coefficients and other measures of the distribution of income and wealth as well as indicators of quality of life, that range from life expectancy to crime statistics to environmental quality. From this standpoint, economic development differs from growth in terms of a focus on a broader set of metrics. Although Sen's work was rooted in the context of some of the world's poorest countries, this definition and criteria are equally relevant to the range of regional economies.

This conceptualization sharpens the contrast between growth and development. Indeed, examples abound of national economies that have experienced significant increases in economic output, due to either population growth or large-scale resource extraction, with little broad-based improvement in individuals' quality of life and ability to realize human potential. There are numerous countries in sub-Saharan Africa, Central and South American and Oceania that provide examples of growth without development (Acemoglu et al. 2002; De Soto, 2000; Moyo, 2009). On the basis of a host of indicators these economies can be said to be growing in ways such as the presence of highly educated professional elites, skilled workers, and high officials in international NGOs, and substantial support from foreign aid. National income will grow, coupled with notable investments made by the public sector. Despite these indicators, as the Overseas Development Institute (2009) highlights, little progress has been made on health outcomes such as infant mortality, morbidity rates and life expectancy. Moreover, these nations suffer from significant income inequality and limited educational attainment, especially among women and immigrants, and growing polarization (Wolfson 1997). Despite international aid many countries are unable to provide adequate medical, social, and educational institutions that enable the entire population to thrive. With insufficient support for economic development, longer-term outcomes that lead to broad-based improvements in quality of life and wide spread prosperity remain inaccessible. Keefer and Knack (2001:146) find evidence that income inequality and polarization – what we associate with the lack of economic development fosters an environment of uncertainty. This erodes the enforcement of property and contractual rights that, "affect growth directly, by influencing the choice of production process and the efficiency with which production is carried out, and indirectly by reducing incentives to invest." The lack of economic development erodes capacities and penalizes future economic growth. Of course, economic growth provides slack resources that may either be appropriated by rent-seeking elites or invested in economic development to provide the basis for future economic growth. When long-run prosperity rests not on resource extraction but on the ongoing production of ideas, investments in economic development become even more essential as a precursor to growth.

Defining development in this way, and contrasting it with growth gives sense to the outcomes of economic development. Equally important are the specific capacities germane to the process of economic development. Economic development, according to Joseph Schumpeter (1961), involves transferring capital from established methods of production to new, innovative, productivity-enhancing methods. Schumpeter's conceptualization was focused on understanding the origins of the business cycle and the conditions that gave rise to new opportunities that propelled the economy forward to a higher economic growth trajectory. Schumpeter discusses the emergence of systems of complementary capabilities that develop around key radical innovations to create economic growth. For example, economic development that occurred with the industrial revolution as the means of production changed in the textiles industry. This generated a variety of social and economic effects that then extended to other complementary sectors, and diffused throughout the economy. During the industrial revolution, the factory became the unit of production, moving people off farms and into cities and required clocks and accounting systems to regulate working hours. The result was a sustained increase in the standard of living, albeit not without certain adjustment costs.

In Schumpeter's view, economic development entails a fundamental transformation of an economy. This includes altering the industrial structure, the educational and occupational characteristics of the population, and indeed the entire social and institutional fabric. While growth is measured by putting more people to work within an existing economic framework, economic development is aimed at changing that framework so that people work more productively, and the economy shifts toward higher-value activities. Thus, while economic growth can be measured quarterly, realizing gains in economic development may take decades or generations.

Schumpeter's attention to innovation and entrepreneurship proved ahead of its time; these concerns now lie center stage in policy discussions about economic development. Entrepreneurs are the agents of change in an economy and the source of increased productivity – those actors who recognize opportunity and garner resources to create value. Innovation and entrepreneurship are two sides of the same coin: Entrepreneurs identify opportunity and innovate, while innovation is the commercial realization of value from a new idea or invention from an entrepreneur. Innovation may result in new products introduced to the market, new production processes or new organizational forms. While radical new breakthrough advances hold our imagination, there are many more mundane industries and incremental forms of innovation that are within reach and that rely on different types of knowledge. Successful firms often arise in unusual locations, serving unanticipated customer needs in unexpected ways.

Seen from this point of view, economic development that fosters innovation and entrepreneurship is the long-term solution to current concerns over the long-term decline in productivity that seems to have afflicted the U.S. Since 1973, growth in productivity has been lagging compared to historic rates, except for periods leading up to economic bubbles. Roger Gordon (2010) argues that current productivity rates represent the slowest growth in the measured American standard of living over any two-decade interval recorded since the inauguration of George Washington, while Tyler Cowen (2011) describes the last several decades as "the Great Stagnation." There is clear cause for concern. Macroeconomic policy has not been able to engineer a solution. Understanding the microeconomic foundations of innovation and economic development offers perhaps the best, and maybe the only, policy prescription.

Despite the pervasive image of the lone inventor or the brilliant solo entrepreneur, innovation is a social activity that requires a mix of individuals with different skills to collaborate to create value. Rather than distributed uniformly through time and across geographic space, innovation tends to cluster both temporally and spatially. This creates cycles of boom and bust, causing disruption for people who move to follow opportunity, as well as the many who remain. One of the reasons why regions, and in particular, cities, have moved to the center of attention is that inventors heavily rely on local information or knowledge in generating novel products or processes. When an industrial activity dominates a landscape, the factors of production become tailored and result in increasing returns. These factors of production include specialized skilled labor, which is often referred to as *talent* but extends to all the workers involved in production. Related and subsidiary activities, which support and create economies of scope and both formal and informal institutions, which share expertise and define a future trajectory are all part of the factors of production. Observing that much industrial know-how defies formal capture through market transactions, Alfred Marshall (1890) is noted to have said, *the secrets of the industry are in the air*. Despite the Internet and advances in teleconferencing, innovation still requires debating ideas, unpredictable epiphanies and chance encounters. Innovation is interesting to study because it is essentially unpredictable – rooted in the creative sparks that make us human and the serendipity that makes life interesting.

This has implications for economic development in both creating the capacities that promote innovation as well as easing the transitions for places. Of course, predicting what will be the next *big thing* or even next important industry is difficult, and most likely too difficult. Location becomes important not only for recognizing opportunity but also for providing an environment that is responsive to the entrepreneurs' activity, which in turn lowers the cost of innovating (Audretsch & Feldman, 1996). Innovation and entrepreneurship require economic agents to venture into unchartered domains and test the limits of their capabilities to realize potential rewards. Even the most accomplished venture capital investors and stock analysts make bad investments from time to time. It is no easier for government than for private investors to decide which companies will be successful or how markets will develop. We never know which new opportunities will yield a high return and which projects or companies will fail. The best way to hedge society's bets is building the capacity of individuals to fully and creatively participate in economic and social life, and to incentivize companies to more fully realize their capability to add to the economy. By facilitating industrial upgrading and improving infrastructure, government lowers transaction costs to expedite economic exchanges. By investing in institutions, government lowers risk and supports the utilization of private sector capabilities.

Economic growth provides slack resources that, if invested well in economic development, provide the basis for future economic growth (Amsden 1997). For example, the Indian economy has a surplus of uneducated labor, suggesting that attracting low wage industry would be a viable economic growth strategy. However, the Indian government chose to make significant investment in engineering and technology education beginning in the 1960s as an economic development strategy. Initially, U.S. universities attracted students from India, in what originally looked like the classic brain drain. But decades later the result was an Indian diaspora in Silicon Valley that was mutually beneficial through social ties that facilitated knowledge flows and investment (Saxenian 2002, 2006). The result has been a growing domestic software engineering industry, concentrated in Bangalore (Arora and Athreye 2002). Korea followed a similar example of capacity building investments in economic development that subsequently yielded a high rate of economic growth. Faced with devastation after the Second World War and Korean Wars, Kim (1997) documents the government's long-term growth strategy that invested in education and research while simultaneously developing export industries to absorb this capacity. Both of these examples highlight the long-term nature of economic development investments.

Economists conclude that the development of high quality institutions is the major factor behind economic growth (Rodrik et al. 2002). Lipset (1959) argues that the efficiency of a political jurisdiction's social and economic institutions define economic development. Institutions are the rules of the game, enforcement mechanisms or the accepted standard of behavior in a society (Ostrom 1986). Institutions operate with specific rules and procedures that lower transaction costs and inspire confidence by certifying the range of potential outcomes. High quality institutions support productive activities and encourage capital accumulation, skill acquisition, invention, and technology transfer (North and Thomas 1973). Rosenberg and Birdzell (1987) highlight how the development of institutions conducive to capitalism was a driving force in *How the West Grew Rich.* Two points about institutions are relevant to solidifying our understanding of economic development. First, there is no single institution, such as the legal system or property rights that supports economic development. What matters is an underlying capability and orientation of the social and economic organization of a society, especially the capacity to instill confidence in the future. Formal and even informal institutions create predictability and order that allow individuals and businesses to make investment decisions. Second, institutions are endogenous – that is, they are the product of history, culture and historical accidents. Institutions evolve in unexpected and idiosyncratic ways. However desirable, it is mostly not possible to transplant organizations or sets of incentives wholesale from where they originate to other contexts where they appear to be needed. Instead, organizations and incentives need to flow from existing institutional arrangements. Engaging in economic development means building or augmenting existing institutions that are critical to progress.

Michael Porter (1998:19-20), in his very influential work, *The Competitive Advantage of Nations*, considers that, "Economic development seeks to achieve long-term sustainable development in a nation's standard of living, adjusted for purchasing power parity." The term sustainable, as defined by Tatyana Soubbotina at the World Bank (2004:9 – 10), could "be otherwise called equitable and balanced, meaning that, in order for development to continue indefinitely, it should balance the interests of different groups of people…in three major interrelated areas–economic, social, and environmental." But in defining standard of living, Porter unfortunately conflates economic growth with economic development: "Standard of living is determined by the productivity of a nation's economy, which is measured by the value of the goods and services (products) produced per unit of the nation's human, capital, and physical resources." When economic development is confused with economic growth, then private sector constructs are often adopted uncritically as means by which public investments ought to be evaluated.

It is not uncommon for policy makers to talk about return on investment (ROI), yet this belies the fact that government invests in those activities that the private sector does not find lucrative enough to warrant their own investment in the short term, or for which the capital requirements are so large and the number of actors so complex that collective action is required. Porter (1998) does not articulate a role for government policy, but instead considers government as a background condition with influence on all of the factors in what has become known as Porter's Diamond. Porter's emphasis, however, does highlight what the private sector requires to be profitable and internationally competitive. Porter advances the idea of geographic clustering of industries in a model that includes the nature and extent of the inputs required by firms to produce goods or services; the type and intensity of local rivalry; the quality of demand for local services; and the extent and quality of local suppliers and related industries. These factors certainly define firm and industry capabilities as one of the important components of a regional economy. However, Porter does not directly consider capabilities that support and sustain innovation and new firm formation. The focus on existing industries precludes an emphasis on the nascent or emerging industries that offer the most in terms of upside economic potential. In the *Innovator's Dilemma,* Clayton Christensen (1997) points out that innovative firms that focus solely on their currently profitable activities are eclipsed by their more innovative competitors. Of course, the trick is to appreciate potential before the opportunity becomes obvious.

Clusters appear to occur spontaneously as a result of the natural tendency for industrial activity, especially innovative activity to cluster spatially, however they build on existing capacities (Audretsch and Feldman 1996). In many cases the design and cultivation of competitive industry clusters, often seen as a policy panacea, has failed to produce meaningful economic development (Martin and Sunley 2003; Duranton, 2011). This failure has also contributed to dissatisfaction with government policy (Lerner 2009). One reason perhaps is that the cluster model obscures the role of government and fails to consider how industrial competitiveness translates into economic development outcomes for an economy. The concept of competitiveness, while operational at the individual firm and industry level, does not translate fruitfully into economic development activities and often creates bidding wars between adjacent jurisdictions that would benefit from working together. Despite all the attention to lowering tax rates and increasing a pro-business climate, the evidence suggests that these factors have little effect on economic growth, while actually decreasing the potential for economic development (Hungerford 2012).

Economic development is also a professional practice that uses definitions more inclusively than those of academic economists. Two influential American planners, Fitzgerald and Leigh (2002:33) propose that, "…economic development preserves and raises the community's standard of living through a process of human and physical infrastructure development based on principles of equity and sustainability." This adds to the concept of community and expands the objectives of economic development to explicitly embrace equity and also highlights sustainability. In this conceptualization, economic development is about creating choice or expanding the opportunity set for both consumers and businesses. Equitable and sustainable economic development fosters economic growth that – at the same time – renews and improves the capacities and conditions that make growth possible. While industrial activity certainly benefits from location, the resulting profits are often not distributed back to local residents or reinvested in those same places that provided the advantage to firms and industries. Pieces of the economic development puzzle are missing and require greater articulation.

Inspired above all by Sen, and building on the prior work discussed above, we offer the following definition: *Economic development is the expansion of capacities that contribute to the advancement of society through the realization of individual, firm and community potential. Economic Development is measured by a sustained increase in prosperity and quality of life through innovation, lowered transaction costs, and the utilization of capabilities towards the responsible production and diffusion of goods and services. Economic development requires effective institutions grounded in norms of openness, tolerance for risk, appreciation for diversity, and confidence in the realization of mutual gain for the public and the private sector. Economic development is essential to creating the conditions for economic growth and ensuring our economic future.*

By capacities, we mean conditions conducive to promoting an array of intermediate outcomes that set the stage for the realization of potential. This potential may be realized at multiple levels– for an individual, a firm or set of firms or industry, a community of people or a place. One lesson that history teaches is that the limits of potential are unbounded and lie in unchartered domains. Building capacities allows for a better platform to accommodate an uncertain future and the ability to meet many possible contingencies.

Rationale for Government Investment in Economic Development

Capacity building requires government investment: there is simply no other entity that has societal benefit as its main objective and is able to command the resources required to have significant impact. Government is a vehicle for collective action: an agent for whom the principal is its citizens and the businesses within its borders. While the not-for-profit and even for-profit sector has taken over many functions previously allocated to government (Salamon 2002), the results of this privatization are mixed. Government is the principal inclusive vehicle for organizing economic, social and civic life. In contrast, markets are concerned with transactions and coordinate activity through prices. The invisible hand works on the logic that firms attempt to maximize profits or shareholder value while workers seek to maximize their wages. The result is the all too familiar race to lower costs through relocation or the de-skilling of the labor force. This market logic does not account for longer-term potential firm benefits due to worker suggestions for new product improvements or even Henry Ford's epiphany that if he paid his workers more they could afford to buy his cars.

Government seeks to allocate resources for the collective good and tries to simultaneously satisfy a large number of constituencies. In reality, the profit maximization goal of private business is much easier to achieve than satisfying the diverse goals required for the achievement of government effectiveness. While it has become popular to bemoan the quality of government services, a reasonable benchmark may be our levels of satisfaction with mobile phone service, computer operating system, insurance claims or consumer choice in many product markets. We hold government to a higher standard because, implicitly at least, we acknowledge its functions are critically important.

Giving primacy to the market hides the fact that markets would be very primitive without government. When government works well, the private sector benefits through greater productivity and efficient use of resources. Government also mitigates risk through a relatively stable and predictable system of laws and money. Government provides rules and incentives – the conditions under which modern markets are even possible, and enable the private sector to realize its potential. More broadly, government provides for social order and predictability in contracts and daily life. The difficult balance for the government to strike is to provide for the realization of potential while not reducing incentives in the private sector.

Economists have traditionally relied on the theory of market failures to justify government investment in economic activity. The longstanding rationale is that, in order to increase efficiency, the government must intervene in situations where the market does not function optimally. Markets are concerned with transactions. In a variety of circumstances, specifically those concerning public goods; information asymmetries; industry conditions that provide a barrier to new firms being able to enter; and the difficulty of pricing externalities, markets yield less than efficient outcomes. Efficiency, for economists, refers to the use of resources that maximizes the production of goods and services. As described in almost every economic textbook, market failures lead to sub-optimal outcomes and inefficient use of resources.

An easy illustration of the market failure justification for government investment is Research and Development (R&D) investment. Nelson (1959) cogently argues for federal funding to support R&D activity within the U.S.: "when the marginal value of a 'good' to society exceeds the marginal value of the good to the individual who pays for it, the allocation of resources that maximizes private profits will not be optimal." Strict reliance on the private sector results in an under-investment in R&D (Bush, 1945). Econometric estimates provide evidence that the rate of return on R&D investments are higher than for ordinary capital; moreover, the social returns are even higher (Hall, Mairesse and Mohnen 2009). However, R&D does not exist in a vacuum; investing in R&D critically depends on complementary social capabilities and infrastructure to support and bolster economic growth (Fagerberg et.al forthcoming).

Market failure has become a primary rationale for all government investment in the economy. The logic of market failures, though appropriate to justify R&D investment, should not be uncritically extended to all government investment. In the discourse of market failure, the market takes primacy while the government's role is minimized. Amsden (1997: 470) makes the case that the market failure approach, while useful in considering economic exchanges, is inadequate when the focus is on economic development, which requires building and sustaining markets and communities. Markets only work when there are well-defined property rights, a valid medium of exchange and enforceable contracts. These require agreement, collection action and enforcement.

There are many attempts to substitute market mechanisms for government provisions using economic logic. For example, support for public funding for higher education has eroded (Bok, 2009). The argument is frequently made that educated individuals receive higher wages as a result of their investment in human capital (Spence, 1973). This suggests that it is rational for individuals to make the investment rather than use public funding. However, job markets are highly uncertain and individuals are investing without a guaranteed return (Green & Zhu, 2010). Moreover, the positive spillovers from a well-educated workforce must also be recognized (Greenstone, Hornbeck and Moretti 2010). The consensus in both the theoretical and empirical literature is that spillovers have a positive significant impact on firm and industry productivity, and economic growth (Jaffe & Trajtenberg, 1993). These positive spillovers represent a subsidy that is impossible to price or even attribute, but they are nonetheless real. In contrast to market logic, public provision of higher education has long been justified in the U.S. as a building of capacity to allow citizens to fully participate in social and economic life (Nash 1963).

Neoclassical economics is centrally concerned with the efficient allocation of goods. It treats the creation of knowledge as exogenous – ideas simply appear (Arrow, 1962; Romer 1995). A fuller consideration of the benefits of government R&D investment suggests that the private benefit may be recast as increased capacity. Indeed, Salter and Martin (2001) highlight that government R&D investments creates additional long-term dynamic externalities as skills and capabilities are developed. This in turn lowers the cost of subsequent inventive activity. Investments in R&D offer opportunities for experimentation and learning that enhance the ability to solve complex technological problems and extend the scope of inquiry. Finally, government R&D investments make it easier for firms to absorb information and improve private sector decision-making and ability to innovate (Cohen & Levinthal, 1990).

With a more nuanced understanding of the nature of innovation and entrepreneurship, the case for government involvement is stronger (Feldman & Kelly, 2003). At the point when technology has the greatest potential for creating new industries, the frontiers are poorly defined and the chances of failure are high. Complex new technologies require collaboration and information sharing; however, the cost of establishing research and development partnerships and making them work productively is a disincentive to the private sector despite the high potential to create new industries. As evidenced by pharmaceutical manufacturers' current focus on blockbuster life-style drugs, the profit motive favors short-term activity with large market potential.

By contrast, government is the actor in the economy best positioned to act with an eye to the long run, undertaking investments that provide a platform for economic growth. There are exemplary cases of government investment in the development of nascent but transformative technologies, such as radar, penicillin, atomic energy, the Internet, and space travel. Firms have only weak incentives to invest in new technologies that are radically different from those that already exist. Formerly radical new technologies required decades of public support to reach the threshold of commercial viability. Direct government investment is essential, given the long-term, risky and commercially unpredictable nature of basic research. Entrepreneurial firms have been most innovative when given the opportunity to capture economic rents opened up by complementary public investment.

Rather than relying on the market-based rationales for public investment, it is important to define the function of the public sector as building and bolstering capacity. Rather than viewing individuals and firms as objects on the receiving end of public initiatives, economic development requires that they be considered as active agents. This prioritizes improving quality of life and wellbeing by enhancing capabilities and ensuring that agents have freedom to achieve their potential as productive members of society. When every actor in society is capable of being an active agent with the potential for full participation in economic and communal life, society makes better use of available resources.

If we reconsider the rationale for government investment through a capacity building lens, then government serves as a facilitator for the population at large, including the private sector. By promoting capacity, the public sector's contribution extends beyond improving efficiency and equality towards bolstering a foundation upon which long-term growth and development can be sustained.

Evidence suggests that at a time when market fundamentalism has come to guide policy debates, government has actually become more and more immersed in the economy through its technology policies (Block & Keller, 2009) and public institutions (Schrank & Whitford, 2009).[1] The nature of scientific research has changed due to the decentralization of industrial networks and open innovation. Rather than being confined to the R&D labs of large corporations, collaborative activity is now embedded in networks of scientific collaborators between both public and private institutions (Stephan, 2012). This decentralization not only encourages more organizations to work in concert, but also fosters a greater dependence on government programs to coordinate these networks. In their examination of the *R&D 100*, which catalogs cutting-edge premier innovations, Block and Keller (2009) observe that organizations have moved away from vertical integration toward relying more heavily on complex collaborations that include governmental agencies or government programs as important conveners and intermediaries. Inter-agency collaborations like the Jobs and Innovation Accelerator Challenge are a perfect example of this emergent practice.[2]

At the same time, bolstering capacity as a rationale for government intervention is as old as the American republic. As Alexander Hamilton (1791) highlighted in his Manufacturing Report presented to the House of Representatives, the government holds the responsibility to build a foundation so that the private sector can flourish. He emphasized the role of manufacturing in leading the country toward economic growth and prosperity. Hamilton saw

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[1] While the most recent estimates of public investment in university R&D show slight declines, this is attributable to financial constraints that resulted from the recent economic recession rather than a changing shift in public support for R&D. Source: http://www.insidehighered.com/news/2012/01/23/state-funds-higher-education-fell-76-2011-12#.Tx1RreVDRX4.mailto

[2] http://www.eda.gov/challenges/jobsaccelerator/

manufacturing as a complement to other economic activities, providing for the "employment of persons who would otherwise be idle (and in many cases a burden on the community), and increasing the viabilities of communities." Following Hamilton's advocacy, tariffs were imposed on imported manufactured goods. These tariffs were the major source of government revenue until the imposition of the federal income tax. This infant industry policy supported the development of U.S. manufacturing, which became the backbone the economy. [3]

Capacity building has been instrumental throughout the American experience. Investments in building the TransAmerican railroad or supporting the World Wide Web by the Department of Defense and the National Science Foundation have served to enhance the private sector abilities. In the United States, there have been cyclical debates about the role of government with the waning and waxing of regulations, tariffs and social policies. Yet the role of government in building scientific and research capacity has never been questioned. A long-term contract between the public and private sector has been the foundation for American prosperity, providing the opportunity for the private sector to create, build, employ, trade and innovate.

Capacity is essential to innovation and entrepreneurship. Innovation relies on creativity and we are never sure where genius originates. Our investments in innovation capacity building come with a certain level of necessary risk because the results cannot be immediately observed nor can we accurately predict how they will be affect products and processes over time. For example, J.K. Rowling was a welfare mother when she wrote her first *Harry Potter* manuscript. The result demonstrates the potential of small, seemingly inconsequential efforts (Bell 2012). It took Rowling 12 attempts to find a willing publisher. Once published, the novel did well. It created an entire new category of fiction for young teens – an audience that publishers felt was moribund. Of course, Rowling had the capacity to pursue her ambition: she was well educated and public assistance gave her the chance to pursue her ambitions. The result, reported in the *Financial Times* in 2003 is that J.K. Rowling was wealthier than the Queen of England.[4] Like a true entrepreneur, her ideas have created wealth and jobs through subsequent films, video games, toys, and now even, a theme park. The underlying idea from this simple example is that it is impossible to predict what ideas will take hold and create the desired outcomes. But the greater

[3] Unfortunately, too often tariffs have been used to support mature industries.
[4] "In the News." *Financial Times* [London, England] 28 Apr. 2003: 3. *Financial Times*. Web. 30 Aug. 2013.

the capacity in the total population, the more likely that unexpected ideas can take hold and innovation will eventually successfully propel the economy forward.

However, there is a fear that government will become captive to vested interests. While there is broad consensus that innovation serves as an integral catalyst in leading the trajectory of an economy and even society forward, the emphasis in economic development policy remains on traditional attraction and retention incentives. This is often directed at specific businesses, which is largely a zero-sum game with little or no broader effects for economic development. In addition, local governments tend to support the same policies over time, adding incremental changes to preexisting strategies, rather than a wholesale reconsideration of investment strategy. The emphasis recently has shifted towards boutique, targeted policies. Yet, as we consider that the greatest economic growth potential is expected from the development of new industries, the difficulty of predicting what will be the next big thing is a daunting task for venture capitalists, investment bankers and other experts. Our argument is that government has a vital role in promoting capacities that enable the fullest variety of human endeavors and potential, including a variety that cannot be foreseen.

Policy efforts aimed at fostering equity are commonly criticized as handouts that produce perverse incentives to diminish effort. Despite intentions to "even the playing field", the American public has notable reservations in supporting redistributive programs (Pittau, et al. 2013). Up until the recent economic recession, many espoused anti-regulation and pro-privatization practices. Nevertheless, as we reflect on economic practices over the past few decades, many are questioning the tenets of the Chicago School of Economics: rent-seeking behavior associated with widespread deregulation and retraction of government involvement in the marketplace and society is widely considered to have contributed to the growing socioeconomic rifts across the U.S. population as well as the dramatic economic downturn that began in 2008. In his recent book, *The Price of Inequality*, Nobel Prize winning economist Joseph Stiglitz (2012) argues that equity and efficiency must be considered in tandem. The skewed distribution of wealth in the U.S. has grave consequences for the economy and society. Those occupying the middle and lower rungs of the income distribution are unable to follow the American Dream because they lack the capabilities to fully participate in the economy. If this cycle continues there is potential for subsequently even greater divergence in income and opportunity, leaving those who are disadvantaged less able to gain access to education, finance and opportunity. Moreover, as Brenner and Pastor (2013) emphasizes, the increasingly unequal distribution of income inhibits entrepreneurship, slows economic growth, and destabilizes the economy of American cities. Rather than viewing equity and efficiency at odds, they appear to be complements. Reconsidering the role of government argues for a broader framework focused on building capacities designed to benefit the entire population.

The Goals of Government Investment in Economic Development

For the private sector, the objectives are clearly defined as profit maximization and organizational survival. For government, articulating a vision and meeting a set of broad objectives is more difficult as a result of competing interests, the need to consider diverse perspectives, and the inability to divest mandated but unprofitable and sometimes unpopular activities. In the absence of an accepted consensus vision for government, it is too easy to give in to competing short term demands or become diverted to serve other purposes. An articulated vision for government is crucial to following a long run course.

From a societal point of view, increases in quality of life, which includes long-term prosperity, is the ultimate vision of economic development for democratic governments. Prosperity and quality of life are often synonymous with the concept of the *good life*, which encompasses a sense of material comfort as well as psychological satisfaction and health (Lane 1994). Indeed, the concept of the American Dream is an ideal of a good life based on a classless society with meritocratic advancement and continual progress (Cullen 2003). High quality of life is an integral outcome for government policy. It would be difficult to argue for the opposite as an articulated objective for government in any democracy.

Economic development is the means to achieve the objective of high quality of life and prosperity. The notion behind greater prosperity and better quality of life is that they are earned by working hard, realizing potential, and being successful. Employers reward professional success and innovativeness with higher wages or more prestigious jobs, which then translates into higher income. But underlying this ideal is the reality that individuals are educated and prepared for gainful employment, and that high quality jobs are available, with opportunities for advancement. Reaching this objective requires the public and private sector work together for their mutual gain and the greater good of society.

Prosperity and high quality of life are laudable long-term goals. More intermediate realized outcomes, however, may be used to measure more tangible progress, such as, the quality and quantity of jobs created, the earnings and wealth of individuals, the types of new innovative goods and services introduced to the market and investments made and the growth and exporting of firms. These intermediate outcomes are only realized through the actions of the private sector and require that firms have incentives to take risk and are actively engaged in the production and distribution of goods and services. Economic development requires effective institutions grounded in norms of openness, tolerance for risk, appreciation for diversity, and confidence in the realization of mutual gain for the public and the private sector. These are the ideal goals for a better functioning economy.

Conclusion

We define economic development as activities that expand capacities to realize the potential of individuals, firms or communities who contribute to the advancement of society through the responsible production of goods and services. Economic development addresses the functioning of the microeconomics of the economy. Without economic development, economic growth is limited. The ultimate result of economic development is greater prosperity and higher quality of life; however, these goals can only be realized through sustained innovation, activities that lower transaction costs through responsive regulation, better infrastructure and increased education and opportunities for more fruitful exchange. Only by appreciating the role of government as a vehicle for collective action can we ensure our economic future.

The logic of economic development requires certain capacities that require collective action through government. For government to be effective in creating economic development there is a need for performance and impact measurement systems that are able to provide decision support for strategic investments, to assess progress made in the catalytic capacity-building function, and to assess the limitations and barriers that prevent the utilization of capacity that government investments build. More than simply ex-post evaluation, there is potential for continuous improvement and adjustment when metrics are monitored. However, it is important to be sure that measurement is done well and reflects an understanding of the complex process of economic development. In this paper, we have built a foundation for understanding economic development and the role of government that should permit the future development of such performance and impact measurement systems.

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SUCCESSFUL

Public/Private PARTNERSHIPS

FROM **PRINCIPLES** TO **PRACTICES**

EDITED BY **STEPHEN B. FRIEDMAN**

ULI Public/Private Partnership Councils

Urban Land Institute

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About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has more than 38,000 members worldwide, representing the entire spectrum of the land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians.

ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development.

About the ULI Foundation

The mission of the ULI Foundation is to serve as the philanthropic source for the Urban Land Institute. The Foundation's programs raise endowment funds, major gifts, and annual fund monies to support the key initiatives and priorities of the Institute. Philanthropic gifts from ULI members and other funding sources help ensure ULI's future and its mission of providing leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

About the Public/Private Partnership Council

The mission of the Public/Private Partnership Council (PPPC) is to develop, refine, and disseminate best practices for effective real estate public/private partnerships. The Council is a vibrant community of practitioners who learn from one another through hands-on examination of projects, discussion and debate of emerging industry trends, and the development of resources to improve outcomes for both the public and private sectors.

The Council offers members the opportunity to examine completed projects in the cities where it meets through first-hand review of sites and presentations by the public/private development teams that made them happen. All property types are considered by the Council, as long as they have a tangible development and investment component from public and private sources.

About This Report

This document was the work of a committee organized from the membership of the ULI Public/Private Partnership Councils, both the Gold and Blue Flights.

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DEDICATION

This report is dedicated to the memory of David Scheuer, late president of the Retrovest Companies, Burlington, Vermont. David contributed to this report and more importantly was an environmentally sensitive and award-winning developer who practiced the art and science of high-quality development through public/private partnerships. He was also a leader in promoting ULI's Healthy Places Initiative. He succumbed to ALS in August 2015 before this project was complete. He will be missed at ULI and from the ongoing effort to bring about better places through the collaborative and cooperative efforts of the public and private sectors.

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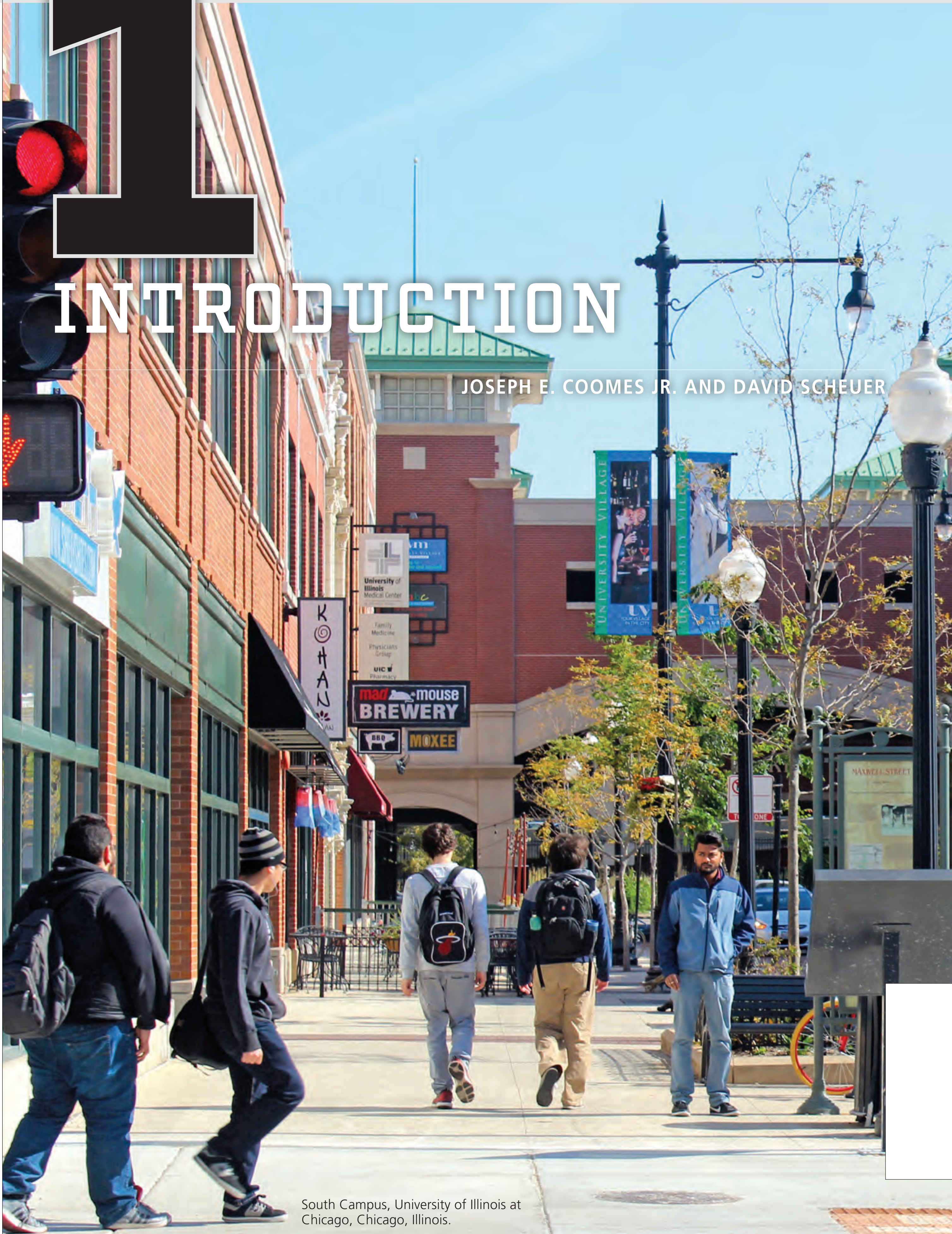
INTRODUCTION

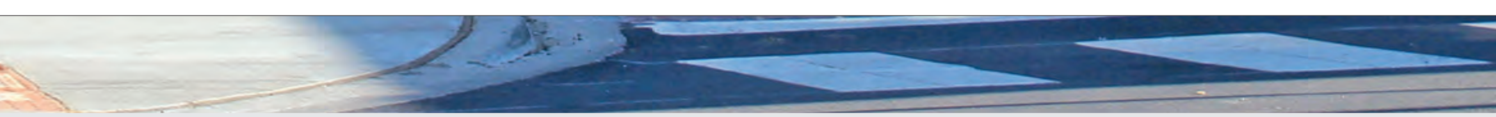
JOSEPH E. COOMES JR. AND DAVID SCHEUER



SB Friedman Development Advisors

South Campus, University of Illinois at Chicago, Chicago, Illinois.

Ten years ago, the Urban Land Institute published *Ten Principles for Successful Public/Private Partnerships*.[1] That publication set forth core principles essential for successful accomplishment of joint development by the public and private sectors, benefiting both, that neither could achieve independently. Those ten principles remain as applicable today as they were then, but the challenges facing urban development have changed dramatically. >>>



IN 2005, REAL ESTATE MARKETS WERE BOOMING and provided numerous examples of successful public/private partnerships (PPPs), many of them involving the use of public redevelopment authority and tax increment financing. In 2004 alone, $75 billion was spent nationally through PPPs on economic development and urban renewal projects.[2] The recession that began in 2008 brought most real estate development to a halt, caused capital markets to dry up, precipitated several municipal bankruptcies, and left governments at all levels financially stressed. Although economists say the recession technically ended in June 2009, the trough was so deep that even in 2016 recovery is not complete. Whereas markets in some regions have recovered completely, others are still struggling. But everywhere, PPPs have become critical to enabling the transformations that are taking place in our urban environment in both primary and secondary markets, using new methods of financing from a variety of sources, including significant foreign investment.

Ten Principles for Successful Public/Private Partnerships

1. **Prepare properly for public/private partnerships**
2. **Create a shared vision**
3. **Understand your partners and key players**
4. **Be clear on the risks and rewards for all parties**
5. **Establish a clear and rational decision-making process**
6. **Make sure all parties do their homework**
7. **Secure consistent and coordinated leadership**
8. **Communicate early and often**
9. **Negotiate a fair deal structure**
10. **Build trust as a core value**

Mary Beth Corrigan et al., *Ten Principles for Successful Public/Private Partnerships* (Washington, DC: ULI, 2005), 1.

Today, ULI's priorities include leadership in global and domestic initiatives to improve quality of life and global competitiveness, including the following:

- Supporting infrastructure investment to enhance competitiveness and sustainability;
- Providing diverse and affordable housing;
- Developing sustainable communities in economic, environment, social, and quality-of-life aspects;
- Building healthy places by urban design that promotes personal and public health; and
- Creating resiliency in public and private infrastructure, buildings, and facilities to respond to and rebuild with less fragility in the wake of natural disasters, which appear to be increasingly more frequent and severe as a result of climate change.

At the same time, new challenges face a public sector with diminished resources:

- Meeting the needs of the aging baby boomer cohort;
- Understanding the needs of the millennial cohort, the largest in U.S. history;
- Addressing increased ethnic and racial diversity;
- Coping with the national infrastructure deficit;
- Linking transportation to land use and infill development;
- Creating opportunities for affordable and workforce housing;
- Stimulating job creation;
- Improving access to high-quality education and health care;
- Reducing carbon emissions;
- Fostering global economic competitiveness; and
- Incorporating principles of resilient, sustainable, and healthy communities into planning and community development practices.

These challenges require a collaborative effort by the public and private sectors to effectively use the resources and skills of each to shape and carry out developments that respond to these challenges. Neither sector can accomplish this task alone; hence, PPPs in development, infrastructure, and public facilities are a continuing necessity.

As the Brookings Institution, based on case studies of selected metropolitan regions, recently stated:

> The tectonic plates are shifting. Across the nation, cities and metros are taking control of their own destinies, becoming deliberate about their economic growth. Power is devolving [from federal and state governments] to the places and people who are closest to the ground and oriented toward collaborative action.[3]

PPPs have never been easy. As the *Ten Principles* illustrated, successful PPPs require the building of trust between the public and private sectors and a change in mind-sets: for the public sector, from development regulator to facilitator of economically feasible projects providing public benefits, and for the private sector, from an adversarial private role as an applicant for development permits to a collaborative, open, and transparent role in negotiating profitable projects with public benefits. The divide between the two sectors is reflected in the survey summarized in the adjacent sidebar. However, creating effective PPPs is more necessary today than ever, given public sector needs and fiscal constraints when faced with challenging urban issues.

In *Ten Principles*, PPPs were considered "creative alliances" formed between a government entity and private developers to achieve a common purpose. Over the past ten years and in the future, the need for these creative alliances is expanding in three broad areas: (a) to facilitate the development of a real estate asset to achieve greater benefits for both the public and private sectors; (b) to develop and ensure the maintenance of critical infrastructure; and (c) to design, build, operate, and maintain public facilities, all in the service of the goal of building sustainable, healthy, and resilient communities.

The purpose of this publication is to build on the *Ten Principles* to provide public and private sector representatives with an understanding of both the necessity for, and the obstacles and opportunities inherent in, PPPs and a toolkit of best practices for the creation of effective PPPs. It is written with the goal of helping both the public and private sectors understand each other's needs, expectations, and resources. It is intended to be applicable to a broad range of communities, not just large cities or other jurisdictions undertaking news-making projects. Examples have been intentionally selected to be widely applicable.

The next chapter distinguishes the three most common types of PPPs, and chapter 3 discusses key practices to build on the principles established in the *Ten Principles*. These include the necessity for creating a shared vision, assembling the right public and private teams, using proactive predevelopment to prepare for a PPP, establishing working relationships between the public and private sectors, demonstrating that a PPP is a fair deal, identifying fiscal impacts and demonstrating community benefits, structuring PPP development deals, using a value-for-money (VfM) analysis to test the benefits of PPPs for facilities and infrastructure, managing risks and sharing success, and documenting and monitoring a PPP. Best practices for success are summarized in the conclusion.

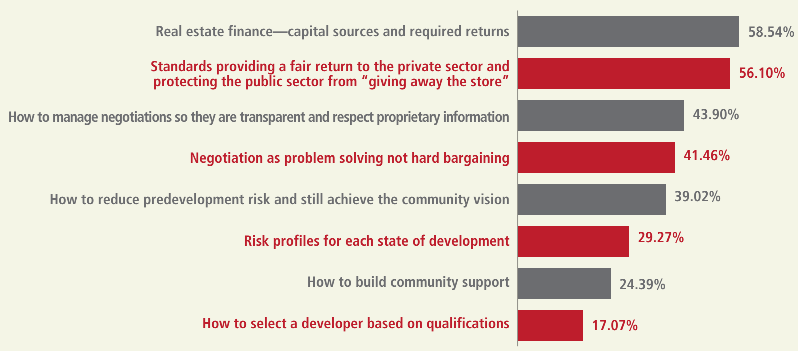
PUBLIC/PRIVATE SECTOR SURVEY

CHARLES A. LONG

ULI's Public/Private Partnership Council surveyed its membership on their perceptions of the significant challenges in crafting partnerships and the skill needed for both the public and private sectors. Here are the questions and the results of the survey.

1. Where are the greatest challenges in crafting effective public/private partnerships?

2. What expertise does the public sector need?



3. What expertise does the private sector need?

Source: Charles A. Long Properties, Survey Monkey.

2

WHAT WE MEAN WHEN WE SAY

PUBLIC/PRIVATE PARTNERSHIP

JOSEPH E. COOMES JR., MARK BURKLAND, AND JEFFREY FULLERTON

Governor George Deukmejian Courthouse, Long Beach, California.

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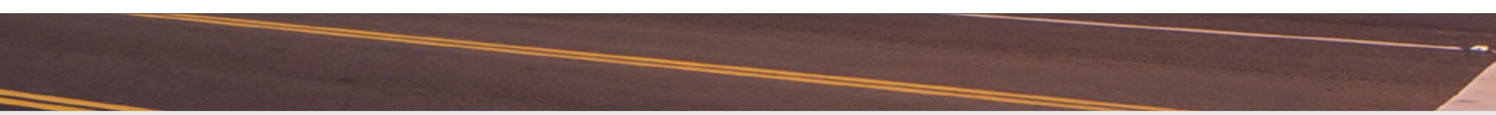
For our purposes, public/private partnerships take three forms. The first section of this chapter summarizes the functions of a more traditional PPP, formed to develop or redevelop an area or a site in a community. The following two sections describe the use of PPPs as a tool to develop public infrastructure or as a method for a public body to realize the monetary value of an asset it holds that is unnecessary, is underused, or otherwise lacks value in its current form. The public partner may be any of a number of >>>



governmental entities—municipalities, special districts, counties, states, and authorities. Throughout the report we often refer to these entities as municipalities as an all-inclusive term, which mirrors the new language of financial regulation in which all state and local issuances of securities are considered "municipal" and under the supervision of the Municipal Securities Regulatory Board (MSRB).

- The developer is struggling to acquire that abutting property, which is essential to the project.
- The project requires numerous variances from the municipality's newly revised zoning standards or a dramatic switch to form-based zoning.
- The project requires upgrades to aging public infrastructure, including water and sewer mains and street reconstruction.

Public/private partnerships are considered "creative alliances" formed between a government entity and private developers to achieve a common purpose. Other actors have joined such partnerships—including nongovernmental institutions, such as health care providers and educational institutions; nonprofit associations, such as community-based organizations; and intermediary groups, such as business improvement districts. Citizens and neighborhood groups also have a stake in the process.

Ten Principles, v.

Using PPPs to Facilitate Development of a Real Estate Asset or Community Area

Development PPPs have the power to develop or redevelop an area or site, often blighted or underused, within a community. The partnership may be proactively initiated by a municipality to achieve key public objectives, such as downtown revitalization, affordable housing, industrial and commercial development, transit-oriented development, or neighborhood services. The municipality may have public land to include in a project or may be seeking to repurpose a surplus public facility for private use and return it to the tax rolls. A development PPP may also be initiated when a developer envisions a project but cannot realize that vision without the help of the host municipality. The developer may need assistance with site assembly, remediation, extraordinary site preparation, public facilities, overly restrictive zoning, costs of structured parking, rebuilding infrastructure to serve the development or to access water and sewer services, stormwater management, or the like in a newly developing area (greenfield).

Here is a familiar situation: The downtown business district of a bedroom community is distressed. A few businesses remain, but many buildings host nonretail tenants or have been shuttered. The post office and library generate some foot traffic, but not much. The municipality has revised its zoning regulations to encourage development.

A developer sees an opportunity to build a mixed-use building but faces challenges:

- The property may have been contaminated by operations of a long-shuttered gas station on abutting property.
- The first-floor retail component of the building won't be viable any time soon. The building must contain a sufficient number of residential units to sustain the project.
- The municipality would like the project to be a catalyst for further development in the area in which it is located

The developer and municipality meet, and the seed of a partnership is planted. The municipality is eager for the project but wary of the developer's numerous requests for assistance and of taking on too much financial risk. Issues are discussed touching every element of the project—from the exercise of the municipality's eminent domain power to the size and design of the building; the establishment of a tax increment financing (TIF) district and issuance of TIF bonds for infrastructure improvements; the must-be-anticipated assault from nearby residents who will just hate how tall and ugly the building is; and the myriad other issues, standards, and milestones integral to the project.

Partnerships between developers and host municipalities are necessary for several reasons:

- Municipalities now expect that every significant development will benefit the municipality in ways in addition to attracting new residents or businesses. Those benefits may be traditional, such as infrastructure improvements, or more contemporary, such as long-term sharing of the costs of infrastructure maintenance or other traditionally public services, or the creation of community-building amenities, such as plazas, parks and open space, public art, or bikeways.

- Developers are more wary of financial risks because of municipalities' higher expectations, long and expensive entitlement processes, social media mobilization of opposition, and decision-making processes fraught with politics.
- A municipality may see a favorable opportunity to invest in a project or project infrastructure.
- A developer may need resources outside the four corners of its project to achieve economic viability and meet the goals of the municipality.

When an effective PPP is formed, the needs noted can be met, financial and political risks can be better managed, and other controversy can be anticipated and mitigated.

The range and scope of a partnership is limited only by enabling laws and the parties' collective imagination:

- Brownfield development, where a partnership can ease the burdens on both the developer and the municipality of regulatory processes, unanticipated obstacles and their costs, and public controversy;
- Redevelopment of industrial property, which may involve environmental issues, railroads, and other regulatory hurdles;
- Area-wide revitalization projects that require land assembly, regulatory compliance, and infrastructure improvements;
- Infill site redevelopment, mixed-income housing, and transit-oriented development with their attendant planning and zoning challenges; and
- Funding of public amenities or infrastructure in strategic locations to spur economic growth (as discussed further in the following section).

Using PPP Tools to Develop Critical Infrastructure

An infrastructure PPP is a partnership arrangement in the form of a long-term performance-based contract between the public sector (any level of government) and the private sector (usually a team of private sector companies working together) to deliver public infrastructure for citizens. A PPP could be created for any kind of infrastructure or service, such as a new hospital or bridge or highway, a new type of technology that delivers services in a faster and more efficient manner, or a new federal government building—anything that citizens typically expect their governments to provide. Figure 2-1 summarizes both the benefits and limitations of these types of partnerships.

Emerging from the recession, many municipalities, as well as state and federal agencies, found themselves struggling with the dual problem of an increasing public debt burden and an increasing infrastructure deficit. In 2013, the American Society of Civil Engineers pegged the U.S. infrastructure deficit at $3.6 trillion. The need for internationally competitive infrastructure and the potential benefits noted in figure 2-1 have caused many public agencies of American jurisdictions to begin looking at the variety of PPPs used around the globe to deliver long-term infrastructure and their core public service missions expediently. These types of partnerships combine the strengths of both the public and private sectors. A typical infrastructure PPP transaction involves a public entity procuring a suite of services from a private entity to deliver some or all phases of development, design, construction, financing, and operations (design/build/finance/operate/maintain, or DBFOM). Each project uses some or all of the DBFOM suite, depending on the needs of the public sector. By including long-term maintenance in the procurement, agencies are ensuring they are not repeating the mistakes of the past that have caused building systems, roads, bridges, and water infrastructure to fail from chronic deferred maintenance. By including financing in the procurement, agencies can more effectively time the revenues associated with the economic uplift from the projects with the related expenditures for the infrastructure and thus effect risk transfer. Through design/build procurement in a competitive environment, agencies can harness private sector innovation while increasing the speed to market of critical infrastructure.

PPPs for infrastructure enable the public sector to transfer risks to the private sector, which is a proven factor in their success. Risks typically transferred can include the risk of construction cost overruns, timing of delivery, and long-term maintenance and life-cycle costs. Infrastructure PPPs enable faster project delivery than traditional public procurement methods and can

FIGURE 2-1

Summary of PPP Benefits and Limitations

Potential benefits

- Project risks transferred to private partner
- Greater price and schedule certainty
- More innovative design and construction techniques
- Public funds freed up for other purposes
- Quicker access to financing for projects
- Higher level of maintenance
- Project debt kept off government books

Potential limitations

- Increased financing costs
- Greater possibility for unforeseen challenges
- Limited government flexibility
- New risks from complex procurement process
- Fewer bidders

Source: Legislative Analyst's Office, *Maximizing State Benefits from Public-Private Partnerships*, November 8, 2012.

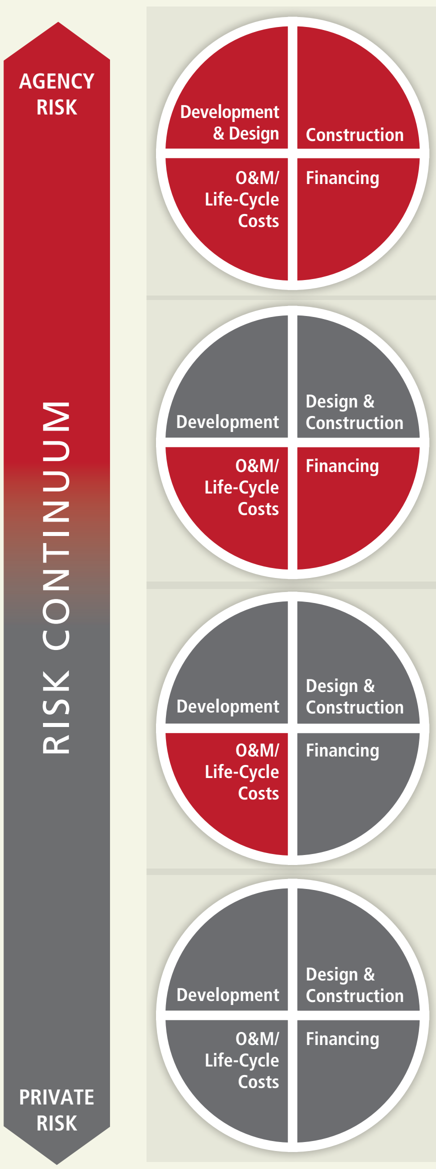
often be used to preserve public sector debt capacity for additional projects. Throughout the world, this transaction structure has been used to deliver a wide range of public assets, including highways, mass transit, airports, and public buildings. Although these infrastructure PPPs have been commonplace in Canada, India, Europe, and Australia for decades, they are now increasingly being looked at in the United States to address a growing list of critical infrastructure needs.

American public procurement strategies traditionally follow a design/bid/build procurement methodology. This method isolates the various aspects of asset delivery. Each aspect is usually completed by independent teams as each activity is completed in a linear fashion. In contrast, a more integrated PPP model can be used by the public agency to contract for a more holistic result. By combining the aspects of real estate delivery, financing, and long-term operations and maintenance, public agencies can encourage more collaboration and high-quality delivery.

One of the great benefits of public/private partnership is that one size does not have to fit all, and

FIGURE 2-2

Risk-Transfer Spectrum in a Turnkey Public Facility



Design/Bid/Build (DBB)

TRADITIONAL DBB RISKS

- In traditional DBB, the agency retains all risk of development, design and construction, financing, and operation and maintenance/life-cycle costs

Turnkey/Design/Build (TDB)

DEVELOPMENT, DESIGN, AND CONSTRUCTION RISKS TRANSFERRED UNDER TURNKEY APPROACH (COST AND SCHEDULE)

- Entitlement delays
- Permit delays
- Utilities (cost and schedule)
- Site issues
- Attracting third-party tenants
- Change orders
- Schedule delays
- Scope creep
- Code compliance

Turnkey/Design/Build/Finance (TDBF)

FINANCING RISKS

- Alternative private financing

Turnkey/Design/Build/Finance/Operate/Maintain (TDBFOM)

O&M/LIFE-CYCLE RISKS

- Baseline operating costs
- Uncontrolled operating cost escalations
- Energy/performance
- Deferred maintenance
- Deferral of major equipment and component replacements

KEY: AGENCY RISK | RISK TRANSFERRED TO PRIVATE SECTOR

Source: © Edgemoor Infrastructure & Real Estate LLC.
Note: O&M = operation and maintenance.

agencies can determine which risks are best managed by private sector parties (and thus transferred) and which are best retained. For example, a spectrum of risk transfer in a turnkey public facility is represented by figure 2-2.

In considering where to land on the spectrum, public agencies need to consider a host of issues specific to the infrastructure or public facility they seek to deliver to the public. When considering an infrastructure PPP, public agencies should ask questions such as the following:

1. Is this a complex asset that would benefit from private sector innovations and that would capture more creativity by transferring design/build risk to the private sector?
2. Is there a benefit to accessing private financing for public infrastructure?
   a. Does introducing private equity ensure more robust delivery and long-term operations?
   b. Does limited availability of traditional public financing necessitate using private capital for critical infrastructure?
   c. Does assigning revenue risk to the private sector come with social consequences because the consortium sets tolls or other rates for use?
   d. How can risk be shared or transferred from public to private as noted in figure 2-3?
3. By including maintenance and/or performance-based payment structures in the deal, does the public get a high-quality product over the long term?
4. Can the private sector use tools that are otherwise unavailable to a public agency to create value (e.g., subleasing a part of a facility, creating and monetizing private development opportunities as part of the project)?

If some or all of the preceding objectives are important, the public agency should consider a PPP. As an example, consider the delivery of the South County Secondary School in Lorton, Virginia. Under the traditional procurement process, the district would have delayed this project by several years, waiting for funding authority and ultimately paying more for the asset. By engaging a private developer in a PPP model, the district was able to reduce cost through design/build innovation and used a creative private financing strategy that monetized excess. The school was delivered three years faster and created $25 million in value that would not otherwise have been realized.

One common tenet of any infrastructure PPP is that it typically allows faster delivery of public assets because the private sector is willing to take risk to advance the project. Figure 2-4 gives a hypothetical timeline comparison.

Infrastructure PPPs are not the same as the privatization of public assets. In a privatized asset scenario, the assets are sold; but in an infrastructure PPP, ownership of the underlying land and improvements often remains with the public sector and, critically, the public sector is a key decision maker throughout the entire development and operation process. This participation is typically accomplished with a service agreement that details performance requirements for the private sector's delivery of some or all of designing, building, financing, operating, and maintaining a building or piece of infrastructure. Life-cycle maintenance and upgrades by the private sector can mitigate the extensive buildup of deferred maintenance costs that are characteristic of many publicly owned facilities.

To determine whether an infrastructure PPP makes sense for the delivery of a given public asset, the public sector can perform a value-for-money (VfM) analysis. This analysis compares the public sector's cost to deliver and operate an asset using a traditional method such as design/bid/build with the public sector's cost to deliver and operate the same asset under a PPP arrangement. The mechanics of the VfM analysis are discussed further in chapter 3.

FIGURE 2-3

Major Risks Transferred in PPP Agreements

Financing risks

- Changes in financing costs
- Estimated and actual inflation

Design and construction risks

- Interface between design and construction
- Discovery of endangered species
- Discovery of archeological, paleontological, or cultural resources
- Discovery of hazardous materials
- Discovery of unknown utility lines
- Delays in getting permits approved

Operation and maintenance risks

- More facility maintenance required than planned
- Operation of facility more costly than planned
- Standards or requirements imposed in the future

Revenue risks

- Use of the facility lower than predicted
- Public less willing to pay user fees than projected

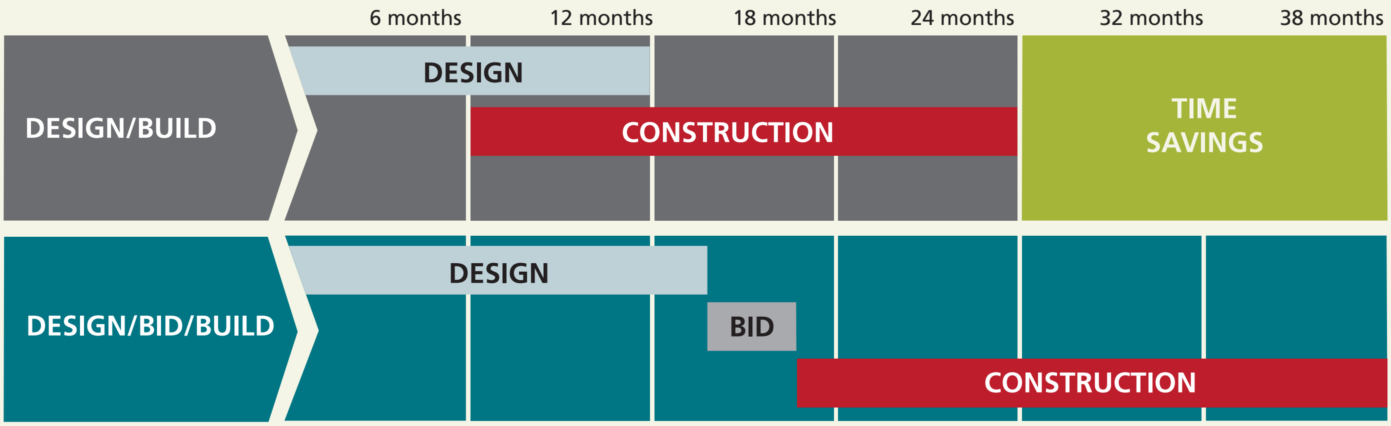
Source: Legislative Analyst's Office, *Maximizing State Benefits from Public-Private Partnerships*, November 8, 2012.

Monetizing Public Assets for Public Benefit

Public asset PPPs are partnerships that find ways to unlock the existing monetary value found in many public assets today. Whether through an outright sale,

FIGURE 2-4

Hypothetical Timeline Comparison for Infrastructure PPP



Source: © Edgemoor Infrastructure & Real Estate LLC.

ground lease, or other transaction mechanism, the proceeds from the monetization of these public assets are then used to provide additional public benefit. Numerous types of public assets are good candidates for public asset PPPs, and the uses of the proceeds are seemingly endless. Potential underused public sector assets include the following:

- Vacant land;
- Surplus buildings;
- Air rights;
- Parking lots and garages;
- Transit stations;
- Assets on sites with higher and better uses;
- Utility systems and infrastructure;
- Fleet and equipment; and
- Energy savings through cured deferred maintenance.

The public sector must factor in a number of considerations before embarking on a public asset PPP. Does the asset in question play a role in long-term master-planning considerations for the public sector? Might existing legal, financial, environmental, or other aspects of the asset make a private sale or transfer difficult to execute? Does sufficient market demand exist for the asset?

Selecting an appropriate private sector partner for a public asset PPP is a crucial decision. Finding a partner who has a proven track record with similar asset sales is a key factor, because that can play a significant role in the ultimate value the public sector is able to capture from the partnership.

Another key aspect of a public asset PPP is determining a clear use for the proceeds of the asset monetization that will be beneficial to the public. Perhaps less clear-cut than a VfM analysis but no less important, the public sector must analyze its current position and be certain that the monetization of an existing asset will ultimately provide more benefit to the public than keeping it as is. Monetization has not been without controversy, such as the monetization of parking and airports used to provide short-term monetary benefits to a municipality, for example to fill an operating budget gap, rather than reinvesting in further capital improvments or other longer-term strategies.

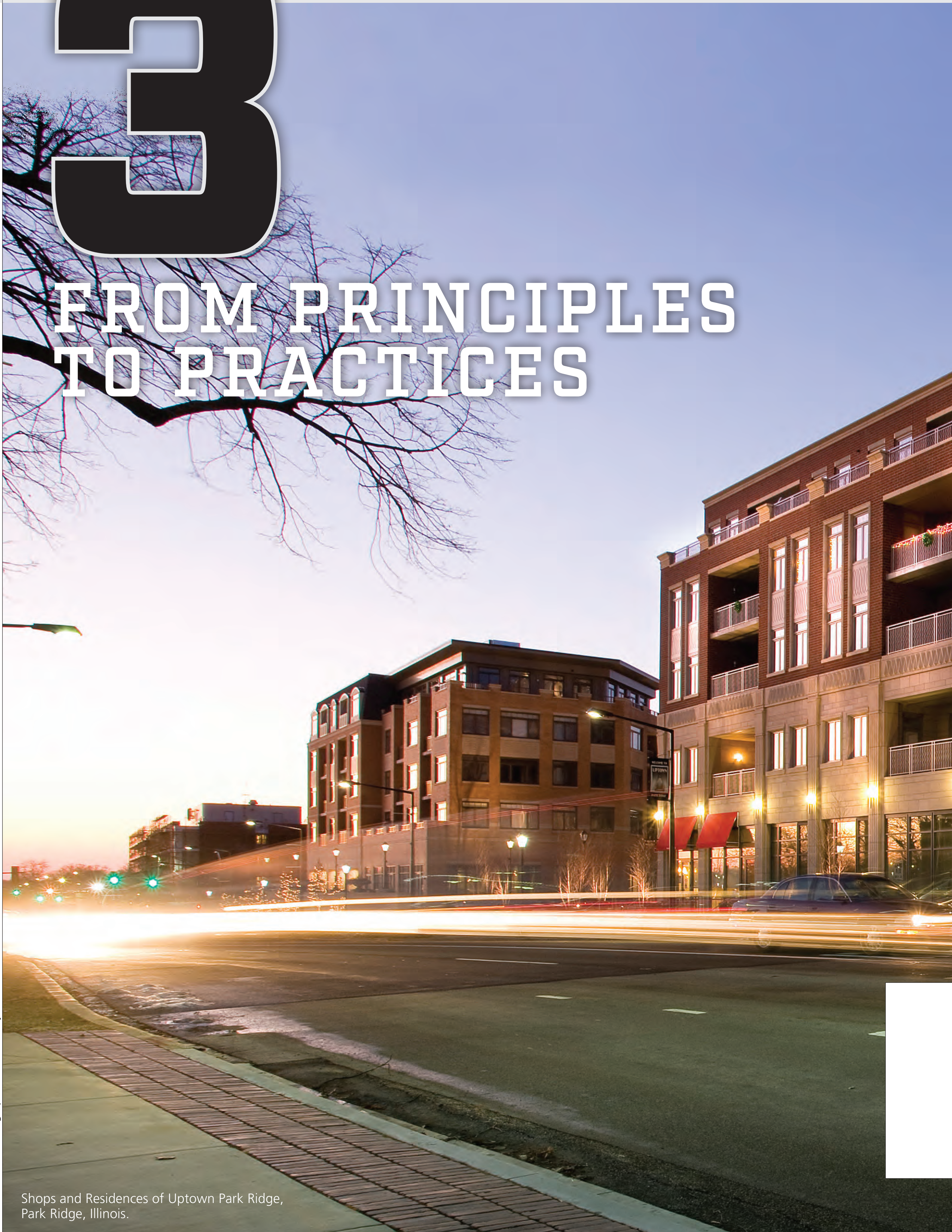
No matter the type of public/private partnership, the principles for success discussed in this report apply.

Facing page: Shops and Residences of Uptown Park Ridge, Park Ridge, Illinois.

OKW Architects; Photographer: Charlie Mayer

3

FROM PRINCIPLES TO PRACTICES



Shops and Residences of Uptown Park Ridge, Park Ridge, Illinois.

OKW Architects; Photographer: Charlie Mayer

The ten principles recapped in the introduction continue to provide a basic framework for thinking about appropriate public/private partnerships. Many specific tools and techniques have been used and refined to help implement the principles in the often challenging realm of real estate development and redevelopment. Each section of this chapter provides additional detail on techniques and methods that have been found to help apply the principles to successful development programs. >>>

Creating a Shared Vision and Public Purpose

NEISEN KASDIN

THE VISION GUIDING A PPP must be subscribed to by key stakeholders, including elected officials, the developer, and neighbors, as well as civic, philanthropic, and business leadership. The developer, "community," and government must have a common vision and compatible goals. It must be an informed vision, and appropriate public participation is crucial in shaping, validating, and supporting that shared vision. Successful public/private projects fuse market potential, physical reality, and community goals.

Creating the Vision

The process of developing a shared vision is far more extensive, expensive, and time-consuming than either private developers or many public officials would like. The vision can be the product of a community planning or visioning process; a developer-generated vision; or a combination of both: that is, a government vision or master plan, shaped and refined with community input, and implemented by a developer.

Understanding the difference between a vision plan and a master plan is important. A *master plan* is a more detailed plan, which is prescriptive about uses, urban design, and development regulations, such as height, density, and the like. A *vision plan* speaks more broadly to uses, character, and scale of an area. Vision plans are typically more helpful than prescriptive master plans. The former afford the developer the flexibility to shape the project based on the reality of the market.

> All successful projects start with a vision. Without a vision, the project will most likely fail. The vision is the framework for project goals and serves as the benchmark to ensure the realization of joint objectives.
>
> *Ten Principles,* 8.

Informed Vision

An informed vision is one that is based on solid market analysis, planning, and business principles and relates to historical trends and a realistic projection of future possibilities. It is not based on the whim or unrealistic expectations of a political leader or constituent group. The vision may be created by a small group of business or civic leaders or enlightened government officials, working with professional planners, architects, and economists. That vision is then ready to be explained, shared, and shaped with constituent groups and stakeholders. Alternatively, an increasing number of examples of stakeholder-engaging processes, properly informed by the work of a team of experts, result in "fact-based" visions with strong community support.

As an example, in Miami Beach's South Beach in the 1980s, the vision that guided its remarkable transformation was first created and refined by a small group of preservationists, planners, architects, entrepreneurial new investors, and cultural innovators. That vision was subscribed to by new residents and investors and ultimately by longtime residents and businesses. Though never formally adopted by the city government, that vision guided investments in public infrastructure, the arts, and catalytic PPP projects such as the Loews Miami Beach Hotel. In practice, although we may talk about "PPP" or "P3," public/private projects have more key participants, as shown in the sidebar "Why P5s Matter."

Public Participation

An integral part of creating a shared vision is public participation and engagement. Community outreach, public presentations, and workshops with neighbors and constituent groups are often required before government considers and approves PPP projects. Public participation can be used both to help shape a shared vision and to educate stakeholders and interested parties, to dispel myths and present facts supporting the proposed project. This early spadework

MIAMI, FlORIDA

CREATING THE VISION FOR MIDTOWN MIAMI

A vision plan that resulted in Miami's largest PPP project is Midtown Miami, located about two miles north of downtown. The site was an abandoned 55-acre rail yard owned by the Florida East Coast Railroad, along what was known as the FEC Corridor. The corridor was a little-used freight line leading into Downtown Miami, surrounded by derelict former warehouses and manufacturing facilities.

In 2002, the Metropolitan Center of Florida International University (FIU) created a redevelopment strategy for the corridor. The centerpiece was the redevelopment of the rail yard as a mixed-use development integrated into the surrounding urban grid. Shortly after the plan was completed, private investors purchased the rail yard and implemented a successful development plan that followed the vision, but adapted it to accommodate major retail that became the foundation for the development of the neighborhood. The rail yard, the FIU plan, and the Midtown Miami Master Plan that was ultimately developed are shown at right.

DEVELOPER AND GOVERNMENT: SHARING THE VISION

Critical to the success of a PPP is that the sponsoring government and developer both share, and believe in, the vision. In the Midtown Miami project, the developers for the retail and infrastructure, Developers Diversified Realty (DDR), and Midtown Equities, the residential developer, bought into the vision of the FIU plan. The district city commissioner, Johnny Winton, and Miami mayor Manny Diaz supported the FIU plan and became champions of the development plan proposed by DDR and Midtown Equities.

Implementing the plan required replatting, rezoning, and amending the land use and creating a Regional Activity Center to allow greater development, creation of a site-specific Community Redevelopment Area (CRA), and creation of a Community Development District (CDD) to help finance infrastructure improvements. All of this was accomplished within one year. Without government leadership and the developers sharing and strongly believing in that vision, this could not have been accomplished.

IMPLEMENTATION OF THE VISION

The Midtown Miami project required the creation of a site-specific CRA and pledging of the CRA TIF to pay for public parking garages for the retail center. It also required creation of a CDD to pay for project infrastructure through tax-exempt bonds. Both of these financing vehicles required specific findings that a public purpose was being served as a predicate to the issuance of bonds. The TIF money could be used only for a public garage and the CDD assessments for publicly owned infrastructure.

Zyscovich Architects

Zyscovich Architects

Zyscovich Architects

FROM TOP: Aerial of abandoned rail yard; Florida International University's proposed mixed-use district; the Midtown Miami master plan that ultimately was developed.

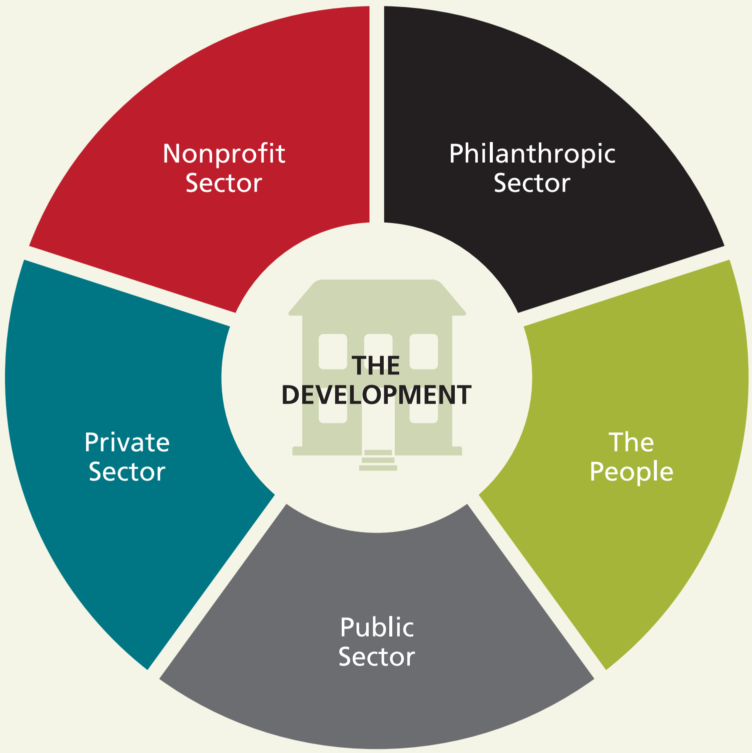
WHY P5s MATTER

CALVIN GLADNEY, MOSAIC URBAN PARTNERS

The public/private partnership—often called a PPP or P3, is a beloved tool in the United States and abroad. However, as I work with cities and nonprofits on urban regeneration projects around the country, I see a more complex tool emerging—one I call the P5.

BEHOLD . . . THE P5

The five Ps: Not just an evolved version of P3s



As you can see from the diagram, the P5 adds three critical players to the equation:

1. The philanthropic sector;
2. The nonprofit sector; and
3. The people.

So . . . why should you care about the emergence of the P5? If you are fighting in the war to regenerate our neighborhoods, towns, and cities, you care because: (1) The players in a P5 world speak a different language (Do you speak Philanthropic?); (2) they use different financing tools and structures (e.g., Program-Related Investments (PRIs) or New Market Tax Credits Equity); and (3) these partners' goals are different (longer term and more specifically mission-driven than even the public sector).

All of these factors not only make working in a P5 partnership more challenging, but also make P5s an incredibly powerful resource to create more equitable real estate and economic development outcomes in our neighborhoods.

prevents opposition down the road. A delicate balance also exists between accommodating public concerns and ideas and being too accommodating. Often, local knowledge received from the public outreach process helps project design, function, and implementation. However, some ideas offered by constituent groups, neighbors, and government are impractical, unreasonable, and contrary to the project's vision. Those ideas must be politely, but firmly, rejected. A number of techniques have been developed and are widely used to help create a shared vision and build support for ideas gestated from business, developer, or governmental initiatives, such as the following:

- Stakeholder steering committees;
- Focus groups;
- Community planning processes with multiple workshops;
- Planning charrettes;
- Joint committees and task forces; and
- Joint commission reviews.

Official Support

The shared vision should ultimately have official support from the governmental entities with authority to facilitate its execution, whether through entitlements, infrastructure investment, financial assistance, or public financing. As a practical matter, the broad official support for a project and the vision behind it will help it proceed through the often extended period of implementation and multiple governmental administrations (and sometimes successive or multiple developers). In addition, formal approval helps establish the public purpose being served.

Public Purpose

Public purpose is both a legal requirement and the raison d'être for a PPP project. Most public actions in support of a PPP project, especially where government is making a direct financial contribution or providing use of public lands or facilities, require meeting a legal test that the public investment serve a public purpose. Public purpose does not mean that the local government providing the incentives must be the sole beneficiary of those incentives. The private party receiving the incentives can also directly benefit. *Public purpose*—as opposed to *public use*—can include economic development, job creation, preservation or creation of open space, and many other acts broadly contributing to the "health, safety, and general welfare" of the community. These acts are often outlined in specifically required tests and provided for in state law.

Continuum of Public Sector Support

The extent and nature of public support can vary greatly from project to project. At one end of the continuum is heavy financial participation, which can include direct investment of public funds, favorable lease or conveyance of public lands, and investment in infrastructure. At the other end of the continuum, direct public investment can be minimal, but the project could be facilitated through more liberal and flexible development standards, expedited processes, and conveyance at market rate of public property. These issues are discussed in more detail in the next section.

In sum, engagement among the public sector, private developers, and civic, community, philanthropic, and business interests will help form a compelling and enduring shared vision that integrates community goals, physical capacity, and economic feasibility, as illustrated in figure 3-1. This shared vision may be used to build support and champions for visions emerging from any one of those sectors. Obtaining official sanction and establishing the legal public purpose pave the way for an enduring vision for an area or a project that can then receive the support of various public powers and funds as well as survive the vicissitudes of both economic cycles and political change.

FIGURE 3-1

Elements of a Successful Project

Source: SB Friedman Development Advisors.

> **A shared vision that is created and embraced by key stakeholders will stand the test of time and will persevere through implementation.**
>
> *Ten Principles,* 9.

Assembling the Development Team

MARK BURKLAND AND DAVID SCHEUER

IN PUBLIC/PRIVATE DEVELOPMENT PROJECTS, a wide range of issues unique to the particular project generally are presented and need to be effectively addressed. Such issues might include creating a shared vision, understanding benefits, understanding the economics of the project, structuring the transaction, and protecting all parties in its execution and ongoing operation. Thus, both developers and governmental bodies should carefully consider their typical processes for undertaking development projects and, particularly, ensure they form teams that possess the required expertise to achieve a successful conclusion.

Assembling the Municipal Team

As PPPs have become more creative and complicated over the years, assembling experienced advisers for each component of the project has become increasingly important for a jurisdiction contemplating a partnership. The assembly can become surprisingly large, composed of some persons who will be thoroughly engaged in the project and others who will be called on only for particular components.

Following is a description of the typical members of a municipal team.

MUNICIPAL STAFF

MANAGER. The city or village manager, or equivalent, should normally assume administrative responsibility for the team. The manager's first task is to choose, with advice from staff, the members of the team. What other responsibilities the manager assumes depends on his or her abilities and experience. At a minimum, the manager should remain the central repository for all information and general communications. In addition, the manager should retain certain responsibilities, such as communications with the mayor or president of the municipality and the other corporate authorities. Most of the project's day-to-day tasks likely will be assigned to the other team members.

FINANCE DIRECTOR AND DEPARTMENTAL STAFF. The finance director certainly must be engaged in the project along with his or her departmental staff. The staff will very likely be supplemented by an outside consultant to deal with what is perhaps the most complex components of the project. In many municipalities, the finance director has valuable experience and the confidence of the corporate authorities and thus is an important member of the team.

DEVELOPMENT DIRECTOR AND PLANNER. The importance of the municipality's economic development/development staff would be difficult to overstate. They are instrumental in setting the stage for a project through their planning efforts and zoning ordinance maintenance over the years. In addition, they are likely the most familiar with the municipality's planning commission, zoning board of appeals, and other advisory bodies, some of which are likely to be engaged in project review. As deal structures are negotiated and project details are proposed, debated, and revised, keeping the in-house experts close by may be important.

MUNICIPAL ATTORNEY. Good legal services are required for a successful project. The municipality's attorney not only must know the law, but also must be able to draft an approval ordinance, a development agreement (or equivalent), and perhaps related documents such as covenants, easements, and property transfer documents. Those documents can become complicated quickly. Many of them will differ significantly from those of a typical development project with which the municipality's regular counsel may be familiar. It is also helpful if the attorney is an experienced, skilled negotiator. These days, a municipality's attorney likely has experience with land use, zoning, and development matters and at least some knowledge of the basic laws and structures related to redevelopment and PPPs. When the limits of that knowledge and experience are reached, especially in small communities that use their general counsel only sparingly, then retaining outside special counsel to help with some components of the project may be necessary.

CODE REVIEW AND ENFORCEMENT STAFF. The municipality's staff responsible for code reviews must be involved from time to time to ensure that building, fire, drainage, and the host of other code standards are met. This may include persons from the fire, police, and development departments, among others. Answering questions regarding code compliance quickly, as they arise, is preferable to altering course at a later time when the project is further along.

ENGINEER AND PUBLIC WORKS DIRECTOR. Because municipal infrastructure (existing and proposed) often is a key consideration in a project, both the municipal engineer and public works director should be engaged at the outset, so they have the full background.

CONSULTANTS

FINANCIAL ADVISER/MUNICIPAL ADVISER. Perhaps the key outside consultant is the financial adviser. The more the municipal team knows about the developer's positions, the municipality's own resources, the potential structures for an agreement, and myriad other elements—and the sooner the team knows it—the better. This role has multiple aspects, and the municipality typically needs (a) an adviser on the real estate economics of the project and the actual need for financial assistance; (b) an analyst who understands the local revenue sources and can prepare and review projections of revenue as well as evaluate benefits; and (c) a registered municipal adviser under the new requirements of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* who can legally and practically advise on debt instruments, such as notes, reimbursement agreements, or bonds that may be used in the financial structure.

ARCHITECT. For a project that includes significant buildings and streetscapes, an architect may be essential. The municipality should expect the architectural features of a project to be subject to close scrutiny and to generate a variety of opinions. A municipal staff rarely includes someone with the experience and expertise to guide discussion of these features. For that reason alone, an architect can be a valuable team member. The architect can also be valuable as a resource, or a gateway to a resource, for cost estimates, landscaping design, and other related project elements. In addition, many architects know how to conduct a charrette, the value of which should not be forgotten.

OUTSIDE SPECIAL COUNSEL. As noted previously, when a project is complex, retaining an attorney with specific experience may be necessary. When in doubt, do so. Never be underrepresented.

BOND COUNSEL. Engaging bond counsel may be necessary. Although the municipal attorney may act as issuer's counsel, an outside attorney more commonly serves as bond counsel.

COMMUNICATIONS AGENCY. Municipalities can lag far behind private sector companies and agencies in working to communicate with the public and stakeholders regarding complex redevelopment projects. When public assets or public funding is involved, maintaining both the actuality and the appearance of upholding fiduciary duty is important to the project's success. Public outreach and transparency in the process should be considered from the outset.

COMMUNITY MEMBERS

In discussing the shared vision, we emphasized the importance of using inclusive processes involving the public as well as agencies to arrive at a common vision as a project begins. As a project progresses, it will again come before the public and community as developers are selected, projects reviewed, and formal approvals occur. Among those who need to be included throughout the process are the following:

STAKEHOLDERS. For most development projects, the municipality can identify residents, businesses, and organizations that will be affected to a degree greater than the general population. Figuring out who those people and entities are and engaging them early is useful. The chamber of commerce, other business associations, and homeowners association leaders may be good choices. These groups likely won't be involved regularly in the project, but the municipality will benefit from knowing who they are and what they think—and from having engaged them early on.

COMMUNITY LEADERS. In addition to the direct stakeholders are community leaders. Every municipality has them—they may be former elected officials, business leaders, clergy, social services providers, or others. If elements of the proposed PPP will be controversial, then the municipality will benefit from having engaged with the people around town who likely will be approached for opinions on those elements.

FOCUS GROUPS. At some point, the municipality may want to vet an element of the project with residents who compose a cross section of the municipality—whether in a charrette setting or through an open house or meet-the-developer event. Stakeholders and community leaders can be part of a focus group, but inclusion of average residents may be wise.

APPROVAL BODIES. Although formal approval bodies will still have to manage specific processes and procedures, to the extent allowed by law, their inclusion throughout the process will facilitate review and help ensure that issues and problems are identified early. These entities may include appearance commissions, historic preservation boards, and planning commissions, among others, all of whom have official duties in addition to those of the ultimate governing body.

Assembling the Developer Team

Few tasks require more attention and care for the developer or provider of a public facility or service than selecting the appropriate project team. This is especially true when the development team is competing for a project through a competitive process. The successful developer's tasks are the following:

- Putting the right team on the field;
- Coaching each member so that team goals and individual roles are clear; and
- Managing the team effectively.

Some team members have more visibility and *apparent* importance than others. Not uncommonly, one team consultant compromises the success of an entire team. In the end, poor performance by any team member can derail a development proposal. In a competitive process, just the appearance of uncertainty, misreading the community goals, or miscommunication can have a compromising effect. Empathy, listening, and the ability to engage with public officials and the community are crucial skills.

The following guidelines have proved useful in selecting consultants to join the developer team:

- Does the consultant have specific experience and a strong track record in the field? What is the firm's breadth of experience? What is the depth of experience in the area needed for the project? *For example, if the project involves multifamily housing, does the architect have a substantial portfolio in this product type?*
- Does the consultant have a clear understanding of the developer's goals? *The developer is responsible to communicate and confirm this.*
- Does the consultant have a clear understanding of the public and community goals? Is the consultant capable of listening actively to municipal team members to develop and refine the required understanding of the public and community goals, challenges, and perogatives?
- Does the consultant have adequate communication skills in a public forum? Is he or she able to produce clear, understandable presentation materials? Can he or she respond well to questions and comments? *Consultants who come across as arrogant, egotistical, or all-knowing can do irreparable harm*.
- Does the consultant have sufficient staff and capacity? Can he or she meet deadlines for producing deliverables? Does he or she understand the full task or scope?
- How effectively can the consultant budget and manage his or her portion of the project?
- How flexible is the consultant? On programmatic changes? On design changes? On schedule and budgetary issues?
- Do the team members work effectively together? Are they collaborative or proprietary? Are they team players or individualists?
- Is the team, or a significant component, local to the jurisdiction? Vet each team member about his or her experience in the locality. Are they respected? Do they have past issues with decision makers? With stakeholders? *Having some local representation can be helpful, both substantively for local knowledge and politically, conveying the message that the team understands and respects the community. It strengthens and adds credibility to the team.*
- Are the team members objective enough to conduct due diligence about the potential risks of the project and answer these questions: Is this city or public entity capable of delivering what is required of it in a timely manner? Is this project appropriate for a PPP or will the city subsequently discover that it can undertake the project under traditional procurement methods?

The development team for a PPP will be larger and different from the team for a private development project. It must include experts in redevelopment law, public finance, community engagement—and members of the community. The experts and design professionals must be comfortable engaging in a public process, as well as in practicing their profession.

A few key words of advice:

- Go where the numbers are! *For example*, *the architect's experience should match up with the products in the program and the context of the project. The same is true of other consultants.*
- Make sure you have assembled the full team necessary, and be prepared! *If you anticipate a controversial issue (environmental, traffic, community opposition), choose consultants who can competently address those issues and get them on board early.*
- When thinking about selecting any team member, consider how they will be perceived in a public forum as well as how they work behind the scene:
  - Will they appear knowledgeable and candid?
  - Will they instill trust and complement the entire team?
  - Will they reflect well on the project and the developer?

How Might This Team Be Different?

As noted, the team should encompass the range of issues expected in a particular project. Both the public and private sides need to be represented in most areas of expertise. In many situations, the developer should expect to have the following, often additional, experts (and studies) available:

- Design professionals skilled in public participation and interaction, able to engage creatively with the public in workshops, charrettes, and presentations to public bodies. Depending on the scope of the project, this may require urban planners, urban designers, and landscape architects or site planners, as well as architects.
- Financial consultants knowledgeable in private sector real estate economics and public sector tools, able to prepare and defend pro formas with and without public assistance and help structure a transaction to address public side concerns.
- Fiscal and economic impact analysts able to realistically and accurately address the fiscal benefits and possible secondary economic benefits of a project.
- Traffic and parking experts able to both estimate traffic, including time-of-day matters, and constructively address solutions to real traffic issues.
- Engineering specialists able to address specific site-related issues, such as flooding, wetlands, soil conditions, and other environmental issues that may be raised.
- Attorneys knowledgeable in redevelopment law and process, not just land use, entitlements, and real estate transactions.

Sometimes these will be the same professionals with whom a developer would work on all projects, but other times they will be different. The greater the number of participants and stakeholders representing the community and funders, the larger the overall team, because each player is likely to bring its own advisers and experts. The developer must expect to field this larger, diverse team. Selection and involvement of these team members may be key to success. All parties must be prepared to work with a complex team representing the diverse interests in the project.

Proactive Predevelopment for Successful PPPs

CLAYTON GANTZ

MUNICIPALITIES CAN DO MUCH TO LAY THE GROUNDWORK for successful public/private partnerships in their communities. Through effective predevelopment activities, municipalities can both attract private development to their communities and help ensure that the community's development vision is realized in a timely and efficient manner. The governmental efforts for predevelopment can help reduce risk to levels manageable by the private sector and thereby facilitate projects. Effective predevelopment activities can do much to ensure maximum value for public assets used in redevelopment. In contrast, the failure to take basic steps such as those enumerated below increases the odds of poor or even failed execution and failure to meet redevelopment objectives.

Although this section emphasizes what government can do to set the proper stage for public/private projects, it can also serve as a guide to what the private sector might expect and encourage. These predevelopment activities may result in a more publicly driven process for selecting developers, particularly where public land becomes involved. Although developers may be tempted to jump in ahead of competitors and seek to undertake many of these activities under private control, the pitfalls are substantial; encouraging public sector preparation is recommended.

> [P]artnerships must create and use mechanisms to allow continuous assessment of the effectiveness of decisions and implementation procedures. To resolve constraints, . . . partners must have the opportunity to modify the process. [T]o incorporate new information and reassessed goals into the process, parties must allow for incremental . . . decision making. . . . [T]he process must . . . be flexible.
>
> *Ten Principles*, 17.

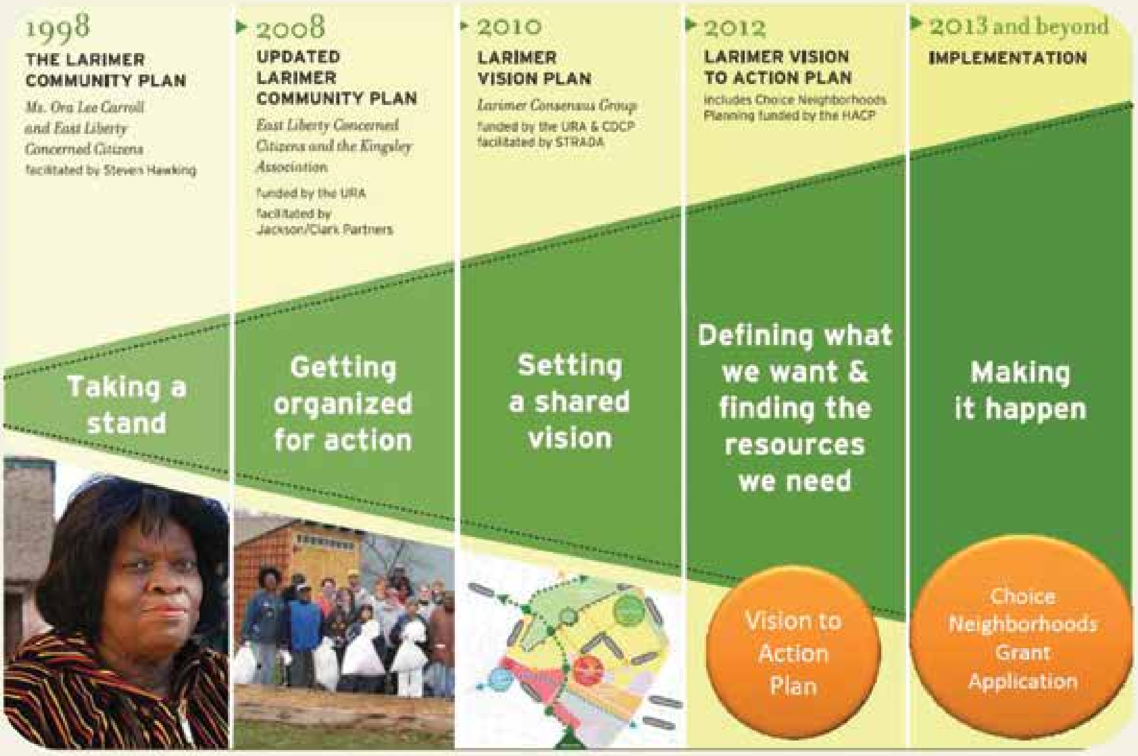
Naturally, communities have used proactive predevelopment to further their public/private development objectives in many different ways, including the following nonexhaustive list:

- **Undertake market-based planning to facilitate development.** Proactive planning is an effective way for communities to get things done without having to provide financial subsidy. Good planning can help drive an outcome; for example, if downtown revitalization is the goal, smart planning can ensure that the necessary ingredients (e.g., a rational, market-based mix of residential, office, and retail uses, available public transit, suitable parking, and inviting public spaces) will be in place. Good planning can also lessen the risk of project challenges and delays. For example, where a well-thought-out precise zoning plan is coupled with thorough environmental review, developers who are prepared to build within the "box" created by the precise plan can often proceed without the necessity of further environmental review. The municipalities can recover the cost of these planning and environmental review activities through the imposition of development fees or assessments.
- **Build community support.** Local government leaders, trusted and respected in their communities, are often more effective than private developers in building community support for a project. Through an inclusive planning process, community concerns can be identified and addressed, thus mitigating a major development risk. As suggested in figure 3-2, building support can be a multistage process and may take some time. Many helpful techniques and processes can be built into a planning and development review process, including community workshops, stakeholder focus groups, design char-

FIGURE 3-2

Vision to Action

Larimer/East Liberty Choice Neighborhood Plan



Source: City of Pittsburgh; Pittsburgh Urban Redevelopment Authority; Housing Authority of the City of Pittsburgh; McCormack Baron Salazar; Jackson Clark Partners.

rettes, web-based tools, and management of public hearings and review.

- **Assist with site assembly.** Traditionally, municipalities have assisted with site assembly by using their powers of eminent domain to take private property, which in turn was conveyed to a developer for project development. The constitutionality of such takings by eminent domain for the purpose of facilitating private development was considered by the U.S. Supreme Court in the case of *Kelo v. New London.* Although the *Kelo* court upheld the constitutionality of the city of New London's takings, ironically the court's holding has had the effect of creating a widespread public and political backlash against the use of eminent domain to facilitate private development. This reaction resulted in the passage of many new state laws that at least purported to limit eminent domain rights in this setting. While legal scholars debate whether such efforts at reform were substantive or merely "window dressing," the fact is that many municipalities are extremely reluctant to exercise their eminent domain powers. Sellers reap federal tax benefits where eminent domain is used or threatened, which can be a tactical tool in site assembly.

  Although the traditional tool of eminent domain has fallen into disfavor, a municipality can still do a lot to facilitate site acquisition. For example, through the planning process, the municipality can concentrate development in areas with fewer or larger landholdings, thereby easing the developer's land acquisition task. The municipality can also sell or lease its property to facilitate site assembly, a tactic particularly practical in facilitating redevelopment of parking lots, municipal service facilities, and obsolete municipal buildings ripe for replacement.

- **Develop community infrastructure to support development.** The community can provide transit, parking, utility, and other infrastructure to serve community objectives and facilitate private development. For example, public transit might be provided to mitigate increased traffic caused by increased downtown density. Similarly, structured parking might be provided to attract dense retail development. The costs of these infrastructure activities are typically recovered through user fees but may also be recovered through development impact fees or assessments, or simply the overall increased value of the redeveloped area. This strategy often requires

PRINCIPLE IN PRACTICE

REDWOOD CITY, CALIFORNIA

CROSSINGS/900

Chad Ziemendorf

The Crossings/900 project, a development by Hunter Storm and Kilroy Realty, is a centerpiece of Redwood City's efforts to revitalize its downtown by facilitating the development of housing, office, and retail. To facilitate this and other downtown development, the city adopted a thoughtful and detailed plan focused on driving the desired outcome of a vibrant pedestrian downtown, and it supported the plan by exhaustive environmental review, resulting in an area-wide Environmental Impact Report. By designing its project to fit the constraints of the precise plan zoning, the developer was able to leverage the environmental work undertaken by the city and was required to undertake only limited additional environmental review, thus limiting the environmental review process and its potential for challenge, uncertainty, and delay. In contrast, other Bay Area jurisdictions, which have not invested the time and effort required to do thorough planning and environmental review, have seen their community revitalization efforts become mired in litigation.

The city contributed to the site acquisition by selling at fair market value the principal development site, a 200-space city parking lot a short walk to the Caltrain station, to the developer. The developer was able to enhance its project by acquiring two smaller contiguous parcels from private landowners. In the end, the developer needed to deal with only three landowners, making the site acquisition process relatively manageable.

Increased stress on limited parking resources was a concern with respect to the development activity engendered by the city's precise plan. The city addressed this effect in several creative ways. First, the city provided private developers with an incentive to provide shared parking for public uses by allowing lower parking ratios where the developers' parking was made available for shared public parking after 5 p.m. and on weekends. Second, the city contributed valuable parking infrastructure by making spaces available in a nearby city parking garage and providing a shuttle service from that garage to the new downtown area.

The city also mitigated developer risk by agreeing to relocate an underground culvert before development began. Although the developer could have undertaken that responsibility, it would have needed to discount its land acquisition price to reflect the risk associated with that unknown underground condition. The city correctly determined that undertaking the work itself would be cheaper and allow the city to receive full value for its land. Other steps taken included making city land available to the developer for construction period staging and expediting processing time for nondiscretionary approvals, such as building permits.

Source: Clayton Gantz, Manatt, Phelps & Phillips LLP law firm, on behalf of Hunter/Storm and Kilroy Realty.

difficult decisions to focus public investment rather than spread it throughout the community. It can often be best accomplished when linked directly to project development and recaptured through the revenues of the project itself via tax increment financing, payments in lieu of taxes, and other bootstrap techniques.

- **Undertake selective site preparation.** Particularly with respect to land owned or controlled by the municipality and slated for private development, the municipality can undertake selective site preparation and remediation activities, such as moving underground utilities that affect development and allowing predevelopment entry to undertake excavation and environmental due diligence. These activities can be particularly important with contaminated sites. In some cases, public sector leadership can facilitate obtaining brownfield grants, recognizing that in many cases, the actual remediation is best undertaken as part of the redevelopment.
- **Streamline development approval processes.** Streamlining entitlement and other approvals can in itself be a form of predevelopment. In many locales, the recent trend to update zoning with form-based code—or other forms of improvements—has been effective by establishing clearer parameters of acceptable development. Coordinating review and approval processes can also help facilitate both community input and moving projects forward.

By undertaking these sorts of activities, municipalities effectively reduce the risk of challenges, unforeseen conditions, and delay, thus greatly decreasing the project risk for private developers. By doing so, they effectively create an environment in which private developers can compete effectively and aggressively to pursue projects, and thus increase the returns to the community, both in terms of dollars paid for community assets and in quick and efficient realization of the desired community benefits.

PRINCIPLE IN PRACTICE

BARTLETT, ILLINOIS
HEAVY LIFTING PREDEVELOPMENT EFFORT

SB Friedman Development Advisors

A Chicago suburb of 41,000 undertook substantial predevelopment to support creation of a town center that would build on its traditional downtown, train station, and village hall. Its work included the following:

- Acquistion of nine acres of industrial land;
- Remediation;
- Market and financial feasibility studies;
- Predevelopment planning to establish development goals for the site; and
- Developer recruitment, resulting in selection of New England Builders as redeveloper of the site as Bartlett Town Center.

Tax increment financing was used to support the work.

SB Friedman Development Advisors

Source: SB Friedman Development Advisors.

Creating Relationships between Developers and Public Bodies

STEPHEN B. FRIEDMAN AND CLAYTON GANTZ

PUBLIC/PRIVATE PARTNERSHIPS INVOLVE A RELATIONSHIP between public bodies and private entities different from typical civic, regulatory, or procurement activities. The public entity has goals and objectives beyond highest price, lowest cost, or minimal compliance. It is seeking other benefits at the same time that the private parties are often dealing with projects with complex problems (see figure 3-3). As a result, development project deals are typically negotiated, and many states provide different authorities for deal making in redevelopment districts or other special zones that would not be allowed elsewhere. For public facility and privatization projects, the public entity bears a unique responsibility to fully define what is being sought and to seek proposals that fully address complex public issues.

The difference in perspective was reflected in the survey presented in chapter 1: the private sector finds the public sector's limited understanding of private-capital underwriting criteria to be among the greatest challenges while the public sector needs to protect itself from giving away the store. The private sector does not understand that municipalities are not profit motivated, and the public sector does not understand that private developers expect to be paid to take risk.

Bridging the divide is critical to success, and establishing relationships is one of the first steps.

When Developers Approach a Public Body

Developers often approach public bodies to propose projects they feel will fulfill a community need but that require some type of public assistance. These may be business incentive requests, tax abatements, tax increment, sales tax sharing, or any of the many other variants on tools. They may be seeking public land that completes a parcel where they have some ownership or responding to a general call for development in a community in which the public body owns little or no land but is trying to encourage development. In evaluating developers' initiatives, both public and private sector participants should consider several key actions:

- **Get to know each other.** Knowing with whom you are dealing and their capabilities is number one in any transaction. It has been said that "you can't make a bad deal with a good person and you can't make a good deal with a bad person." Disclosure and background checks should occur early in the relationship. As a result of the Great Recession, many firms have restructured or been newly created. The track records and reputations of the individual principals will be more critical in such cases as the public side considers the capabilities of the private partner. Conversely, the developer needs to understand how the government entity is structured; what the election cycle is; who can champion the project; and what time frames, such as term limits, may affect approval. In addition, the need for transparency in government and limitations on participation of public officials in private and trade events and organiza-

> Partners can communicate more effectively by building personal relationships with each other. Formal and informal forms of communication between entities create opportunities to build a more open and trusting relationship.
>
> *Ten Principles,* 31.

tions can make the kind of informal communication that helps to build trust difficult to achieve.

- **Establish a shared vision.** How does the project fit with public goals and values? Even in the case of a developer-initiated project, the municipality and the developer must plan to engage stakeholders and adjacent property owners to reach a shared vision with support for the project.
- **Determine who has authority.** For the private sector, making sure you are dealing with officials with the authority to carry out the process and move the project forward is important. Local and specialized counsel are often required to ensure this.
- **Determine If the developer controls any land.** In cases where the developer owns relevant land, rather than simply proposing an idea about a development, the landscape is different. Where the developer owns or controls land, it may be entitled to different processes in obtaining adjacent public land and certainly in seeking entitlements and financial assistance.
- **Assess whether the public body has land to complete a site.** What resources and tools are available to assist this project?
- **Identify the legal processes that allow negotiation.** The regulations vary from state to state. Can land be sold without public bidding? Can terms of deals be negotiated in closed session? Must analysis and numbers be revealed or are they legally proprietary? The private sector must expect more public disclosure of "sensitive" information than it would like, and the public must expect less.
- **Establish fair value—appraisals.** Where public land is involved, achieving a fair price is critical both legally and politically. But what is a fair price? It is typically not what the public entity paid for the land, but often less. Appraisals based on the use of the land as part of the project should be the basis for determining a fair price.
- **Review capabilities for structuring, documenting, and monitoring.** These issues are dealt with in later sections. Developers need to recognize that public involvement may include upside sharing of profits over a threshold as well as ongoing commitments to provide the public benefits promised. The documentation will be extensive, and the public bodies need to have appropriate capabilities to complete their responsibilities in these matters.

Soliciting Developers: RFQ/RFP Process for Publicly Owned Land

Developers and public bodies approach the process of selecting a developer for a project on publicly owned land with almost diametrically opposed points of view. The public sector must have an open, transparent process: it is the law and a way to manage locally "involved" developers as well as other public policy issues. Developers want to avoid expensive, public processes and protect proprietary information. Most developers tie up land in private, then they work to complete the deal. They do not announce their intentions to the world first.

To manage these opposing cultures and requirements, a two-step process can be used: obtaining true qualifications first (via a request for qualifications, or RFQ)—including experience and capacity, organiza-

FIGURE 3-3

Private Sector versus Public Sector

Private Sector Sees the "Hair" on the Deal

- Profit maximizing; time kills deals;
- Entitlement time/risk;
- Community opposition/benefits agreements;
- Business cycle time risks;
- Landowner holdouts/excessive site assembly costs;
- Road, traffic, other off-site needs;
- Deal with the unknown, e.g., underground, remediation, environmental risk;
- Excess costs of demolition, site preparation;
- Construction risks, costs, fees that are a mismatch with market pricing;
- Product market mismatch/market risks;
- Financial guarantees;
- Financing gap;
- Risk of city performance;
- Dealing with bureaucracy;
- Problems caused by excessive transparency; and
- Risk of failure.

Public Sector Focuses on Public Values, Goals, and Issues

- Benefit maximizing; controversy minimizing;
- Density, height, design, and parking requirements;
- Open spaces, parks, and recreation;
- Community programming and events to activate areas;
- Historic preservation;
- Preference for homeownership;
- Inclusionary zoning, affordable housing requirement;
- Fiscal impact and fees for other districts;
- Public funding/fiduciary (and legal) responsibilities;
- Minority-owned business certification, women-owned business certification, and prevailing wage;
- Community and taxpayer opposition;
- Political and career risk; and
- Risk of failure—financial loss and impact on providing basic services.

Source: SB Friedman Development Advisors.

PRINCIPLE IN PRACTICE

PARK RIDGE, ILLINOIS

SHOPS AND RESIDENCES OF UPTOWN PARK RIDGE

OKW Architects; photographer: Charlie Mayer

After purchasing two car dealership sites, relocating them within the city, and determining it must replace a leaking reservoir, the city of Park Ridge, Illinois, followed the process outlined here.

The city received 19 qualifications submittals and elicited six full proposals. The ultimate project reinforced the downtown and commuter-rail station, adding 90,000 square feet of commercial space, 190 condominiums, and more than 700 parking spaces.

The development met its $100 million–plus pro forma, but changes in assessment practices have challenged some of the public financing commitments in the TIF district. Still, the project—developed by PRC Partners (Edward R. James Companies, Valenti Builders, and Mid-America Real Estate Group)—was catalytic in anchoring and transforming the downtown to become a lifestyle center with a Walk Score of 85.

SB Friedman Development Advisors

tional and financial—and requesting specific proposals second (via a request for proposals, or RFP). Assuming the community has done the predevelopment work discussed previously, these are the key steps to recruiting the most qualified developer:

- **The development prospectus.** A substantive prospectus should include details on the market, site conditions, status of control, a "believable fiction" of the desired development outcome, indication of what types of tools may be available, and indication of community and official buy-in. Considerable debate exists about how much "flash" is needed in documents. One way or the other, substance is preferred to flash. The document should be realistic and balance economic feasibility, site capacity, and community goals. It should be clear about what is expected of respondents at both the qualifications and proposal stages.
- **Outreach and advertising.** Individual outreach to identify and encourage developers with the type of experience needed is necessary to get a good response to an RFQ/RFP. Public bodies will be required to advertise broadly, however, which often discourages the most appropriate developers who believe they are entering a "beauty contest" rigged for the locally connected. Outreach can overcome that misapprehension.
- **Timing.** The process should allow ample time to attract developers and for developers to prepare responses. For RFQs, a minimum of 90 days is recommended: 30 to reach the developers; 30 for them to decide to respond; 30 to prepare their response. For RFPs, a similar amount of time should be allowed. Developers do not know if they will be asked for a proposal and need time to mobilize to prepare a thorough response.
- **Qualifications.** The RFQ stage should require information to establish the respondents' understanding of the project (but not a specific, detailed proposal), the experience of the team with similar projects, the current organizational capacity of the team, and financial capacity of the organization—not just its access to financing for the project. The organization will need staying power from its own resources to complete the predevelopment because it typically will not have land it can mortgage until the deal closes.
- **Proposals.** An appropriate number of teams—typically three to six—can be invited to submit detailed development proposals. Developers should expect to be provided with additional information on site conditions, such as environmental and soils studies, infrastructure conditions, and the like. Public bodies should expect to meet with candidates to share information as well as goals regarding the project.
- **Review.** Proposals should be reviewed both quantitatively and qualitatively. Public bodies should be certain that all proper review bodies are included and that the process passes procedural muster. Developers should be prepared to present their plans to multiple community and public body meetings. The financial proposal, design, goal achievement, and community benefits will all be part of the review. In the end, the selection should be of the best plan with the best overall benefits.

- **Negotiate term sheet before final selection.** Establishing term sheets with finalist developers before final selection can be useful in ensuring the selected developer will not try to negotiate away from terms that led to its selection. Other developers will be in line to step in if the selected developer does not negotiate in good faith according to the term sheet.
- **Documenting and monitoring.** These matters are detailed in a later section. Important, however, is to ensure that the redevelopment agreement and other documents follow the term sheet and are legally binding to ensure that the desired development is what will be delivered. In many cases this may lead to simultaneous approval of a redevelopment agreement and entitlements necessary to undertake the project.

Figure 3-4 summarizes this process.

Additional Considerations in RFQ/RFP Process for Delivering Public Facilities

A successful PPP solicitation process for infrastructure projects has all the same considerations previously noted. As with all competitive solicitations, the public agencies' reputation to run an open and fair competitive process is key; however, with infrastructure projects, the magnitude of investment by private sector consortiums in successful bids is often several million dollars. A reputable agency and a desirable asset can attract private firms to make significant investments in developing innovative designs and technical concepts as well as creative financing and legal structures, all of which benefit the public sector partners.

- **Have clear goals.** To encourage competition, public agencies considering a PPP should be clear on their goals in the RFQ. Clearly articulating what problem the agency is trying to solve will encourage private sector teams to organize and respond appropriately. A clear statement of goals and scoring criteria in the document also send a signal to the market that the process is professional and well thought out.
- **Have clear rules of engagement.** Outlining a transparent and fair process attracts private sector partners with the same values. Items to consider are anti-lobbying regulations, communication protocols, definitive timelines, and conflicts of interest. In addition, an agency should be clear about its legal authority to enter into a PPP. Care should be taken to define technical requirements broadly enough to allow a range of innovative solutions.
- **Develop a short list.** A typical RFQ/RFP process for public infrastructure will shortlist no more than three or four qualified teams. Typically, this number is enough to encourage competition and innovation but gives the private competitors reasonable odds for their significant investment in preparing the RFP response.
- **Offer a stipend for short-listed teams.** By offering a stipend, the agency encourages a higher level of investment in the responses and, as a result, will typically receive a higher-quality product. A stipend also demonstrates an investment in the procurement beyond staff and consultant time by the agency, showing the market the agency is a serious about the procurement and reducing the perceived risk the project might be canceled.

FIGURE 3-4

Elements of a Successful Project

1» DEFINE DEVELOPMENT GOALS	2» ESTABLISH DEVELOPER RELATIONSHIP			3» FINALIZE AND IMPLEMENT PROJECT	SUCCESSFUL DEVELOPMENT
	SOLICIT DEVELOPER FOR PUBLIC LAND	OR	RESPOND TO DEVELOPER SEEKING LAND/ASSISTANCE		
• Develop a community-supported vision with all stakeholders • Prepare site development program • Address development readiness of site • Understand resources • Create a "believable fiction"	• Prepare request for qualifications • Review qualifications and determine short list • Solicit proposals from short list • Evaluate proposals • Conduct interviews/community reviews • Select developer		• Identify land sales processes · Negotiated sales · Modified bidding · Alternative bids • Identify entitlements • Review assistance application · Project plan and costs · Market analysis · Financial benefits/tax increment · Pro forma/gap · Community benefits · Eligible costs · Basic structure/capital stack	• Negotiate term sheet/redevelopment agreement • Obtain zoning/planned development approval • Identify financing structure/sources • Identify public structure · Pay-as-you-go · Notes · Bonds • Obtain simultaneous approvals • Coordinate and oversee project	

Source: SB Friedman Development Advisors.

The "But for" Problem and the Need to Make a Fair Deal

STEPHEN B. FRIEDMAN AND CHARLES A. LONG

WE HAVE ADDRESSED SOME WAYS in which municipalities can facilitate PPPs through predevelopment activities earlier in this chapter, but sometimes that is not enough. In many cases, private real estate investment still requires a PPP to address its economics: that is, an economic shortfall or need exists that "but for" its existence is preventing the project from moving ahead. Solving this problem must occur within the context of the real estate project's economics, and the solution must be fair to the public. Demonstrating the fairness of the deal ranked high in both the public and private sectors in the survey reported in chapter 1 of this report.

In general, this "but for" problem arises in two circumstances:

- **Financing Gap:** A project has a funding gap where its market value is insufficient to create financial viability to fund its costs. This gap may arise because of market weakness, special public requests and requirements (e.g., reduced height and density), or extraordinary costs associated with land assembly, environmental remediation, or site conditions (e.g., soils, wetlands, stormwater).
- **Competitive Necessity:** Competition among multiple jurisdictions for private investment generates use of a variety of tools as inducements to locate in one location over another. This competition can be for job creation, tax base, or catalytic uses that enhance overall community viability. It can be among different regions (interregional) and within regions (intraregional). The dynamics of these two situations differ significantly.

A project should be considered for public investment to address these situations when all four of the following conditions are met:

1. The project contributes to important public policy goals, such as employment, serving as a development catalyst, providing affordable housing, creating a needed service or facility, cleaning up a dirty or hazardous site, substantially enhancing tax base, creating public amenities, or other agreed goals.
2. The project will be economically feasible and has a reasonable chance of success if the assistance is provided.
3. But for the assistance to be provided, the project will not be able to proceed as desired to achieve its public and private sector goals.
4. The project will pay for itself through revenues it generates or is of such importance that tapping other funds is justified by its broader benefits.

The two following sections describe how jurisdictions can evaluate the appropriateness of assistance to meet a financing gap or competitive situation.

Financing Gap

A developer approaches a municipality and says: "Mayor, I believe we have a project that can provide the kinds of public benefits you would like to see, and I just need a little help closing a funding gap." The mayor's reaction is: "Tell me why this project is a great deal for the community and then I'll decide whether it serves the public's interests to partner with you." To address the public sector question, the project will need to be fully reviewed and evaluated against the four criteria noted: public goal attainment, project viability, financing gap, and fiscal benefit. This section focuses on project viability and financing gap. Fiscal benefits are discussed in the section "Assessing Fiscal Impacts and Community Benefits of Public/Private Partnerships." A *financing gap* is a shortfall between a project's cost and its market value under current financing conditions. In certain circumstances, it can also mean that financing is not available for other reasons—a problem that occurred during the Great Recession of 2008 to 2012. The gap can be the result of market weakness, limitations on height and density beyond those imposed by the market, additional public requirements for amenities, site acquisition and preparation costs, environmental remediation, soil conditions, stormwater management, or other extraordinary costs that take a project out of the market. A project can be evaluated carefully to validate and measure the problem as a basis for assistance.

REAL ESTATE ECONOMICS AND RETURNS

The need for the public sector to understand real estate finance was the highest-ranked challenge in the survey reported in chapter 1. Real estate development is a capital-intensive business where a significant portion of a project's costs can be the cost of the capital necessary to fund the development. Real estate projects compete in a global market for both debt and equity and must provide an appropriate risk-adjusted rate of return over the life of the project to be funded. The key tool for evaluating both the viability of a project and its need for assistance is the *pro forma financial analysis*—a projection of the expected financial performance of a project.

USE OF A PRO FORMA. A pro forma is a projection based on current and foreseeable market assumptions at the time it is prepared to justify entering into a PPP. For a single building project to be started or completed in a relatively short time, say three to five years, the pro forma may reasonably approximate the actual economic performance of the project. However, for longer or more complex projects, the parties should assume that the pro forma will change over time for better or for worse, depending on real estate and economic cycles, regulatory changes, or unforeseen events resulting in project changes, delays, reduced revenues, or increased costs—or occasionally improved market and financing conditions and reduced costs.

Both parties should negotiate business terms in a way that ultimately reflects the actual economic performance of the project. For example, the public entity may want to negotiate a base level of infrastructure or public amentities or a minimum economic return depending on the project's performance. The developer may want provisions to protect it from adverse market, economic, or unforeseen events. The pro forma is a tool on which to evaluate the viability of the project and need for financial assistance and to build a deal structure that is clear on the allocation of risks between the parties and provide a framework to deal with unforeseen adverse events while still leading to project success.

REVIEWING THE PRO FORMA. The pro forma for a development project contains both development costs and ongoing revenues. For a for-sale project, such as a condominium, residential subdivision, or industrial land sales program, the revenues are typically sell-out proceeds. Costs during sell-out are part of the development costs. For investment projects, such as office buildings, retail, or rental residential, the operating period is important as well as the development costs. Each element of the pro forma can be validated against current market conditions.

DEVELOPMENT COST PRO FORMA. The cost structure shown in figure 3-5 generally applies to both for-sale and investment projects. Each of these costs can be validated through research of industry sources or through interviews and expert consultation, or both. (See the Resources section of this report.) Many are specific to the project, labor and construction markets, and site conditions and need to be validated carefully. Evaluating site and hard construction costs, as well as

FIGURE 3-5

Development Cost Pro Forma

Site costs

- Land acquisition
- Demolition
- Remediation
- Site improvements (including landscaping)

Building construction

- Core and shell
- Tenant improvements
- Furniture, fixtures, and equipment
- Options

Soft costs

- General and administrative (G&A)
- Permits and fees
- Financing during construction
- Marketing
- Commissions
- Legal and professional
- Architecture, engineering, and planning

= Total, all-in costs

Source: SB Friedman Development Advisors.

FIGURE 3-6

Revenue/Operating Pro Forma

Investment projects

- Preleasing/lease-up schedule
- Base rental income
- Accessory income
- Percentage rent (retail usually)
- Expense and property tax recoveries
- General operations
- Utilities
- Maintenance
- Property taxes
- Insurance
- Legal/accounting
- Management
- Tenant improvements
- Reserves
- Debt service

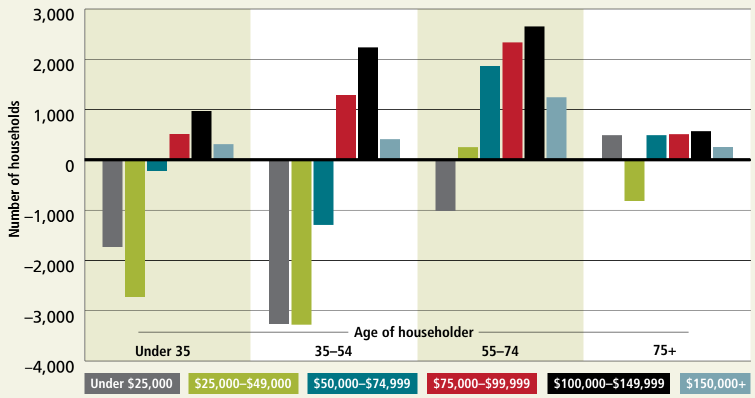
For-sale projects

- Total revenue
- Base unit price
- Additional parking cost
- Upgrades
- Extra cost options

Source: SB Friedman Development Advisors.

FIGURE 3-7

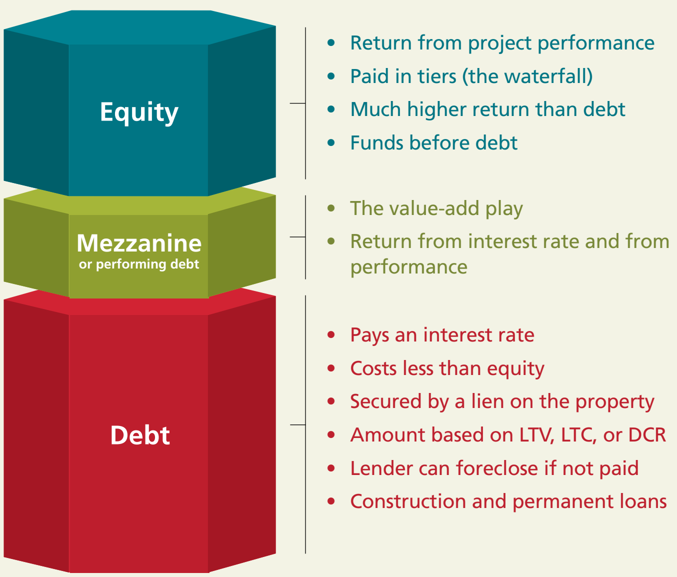
Five-Year Change in Market-Area Households by Age and Income



Source: ESRI; SB Friedman Development Advisors.

FIGURE 3-8

The Capital Stack



Source: Charles A. Long Properties LLC.

fees, is very important. A small, say 5 percent, overstatement of costs can quickly open a seeming gap.

REVENUE/OPERATING PRO FORMA. Each revenue and expense assumption can be validated using a combination of industry sources (see Resources), comparable projects, interviews with market players, and expert consultation. The elements of the pro forma will vary. For example, if the project is a net leased one, then operating costs may be less important. To the extent relevant to a specific situation, the pro forma should include the elements shown in figure 3-6.

EVALUATING REVENUE: THE IMPORTANCE OF MARKET ANALYSIS

Revenue estimates for a project, whether for sale or for lease, are critical and are derived from an understanding of the real market for the project. A small understatement of revenue coupled with a small overstatement of costs can open up a 10 percent or greater seeming financing gap. Conversely, overestimating revenue sets a project on a path toward market failure.

Real estate market analysis should carefully review both existing supply and, independently, demand. Supply analysis can tell you a great deal about current rents or prices, and vacancy and historical absorption. However, looking at demographic and economic drivers of demand, related to past absorption, helps forecast future need. Household formation, age and income preferences, retail sales potential, employment growth, and projected growth in output all drive the amount and types of real estate for which demand exists. As shown in figures 3-7 and 3-9, age and income shifts can be analyzed, and retail sales potential can be reconciled using tools such as gravity modeling. These market studies can be complex, but they avoid major "topline" mistakes that cannot be overcome. The Resources section contains references for techniques of market analysis, including gravity modeling and other more advanced tools.

INVESTMENT ANALYSIS AND RETURN MEASURES

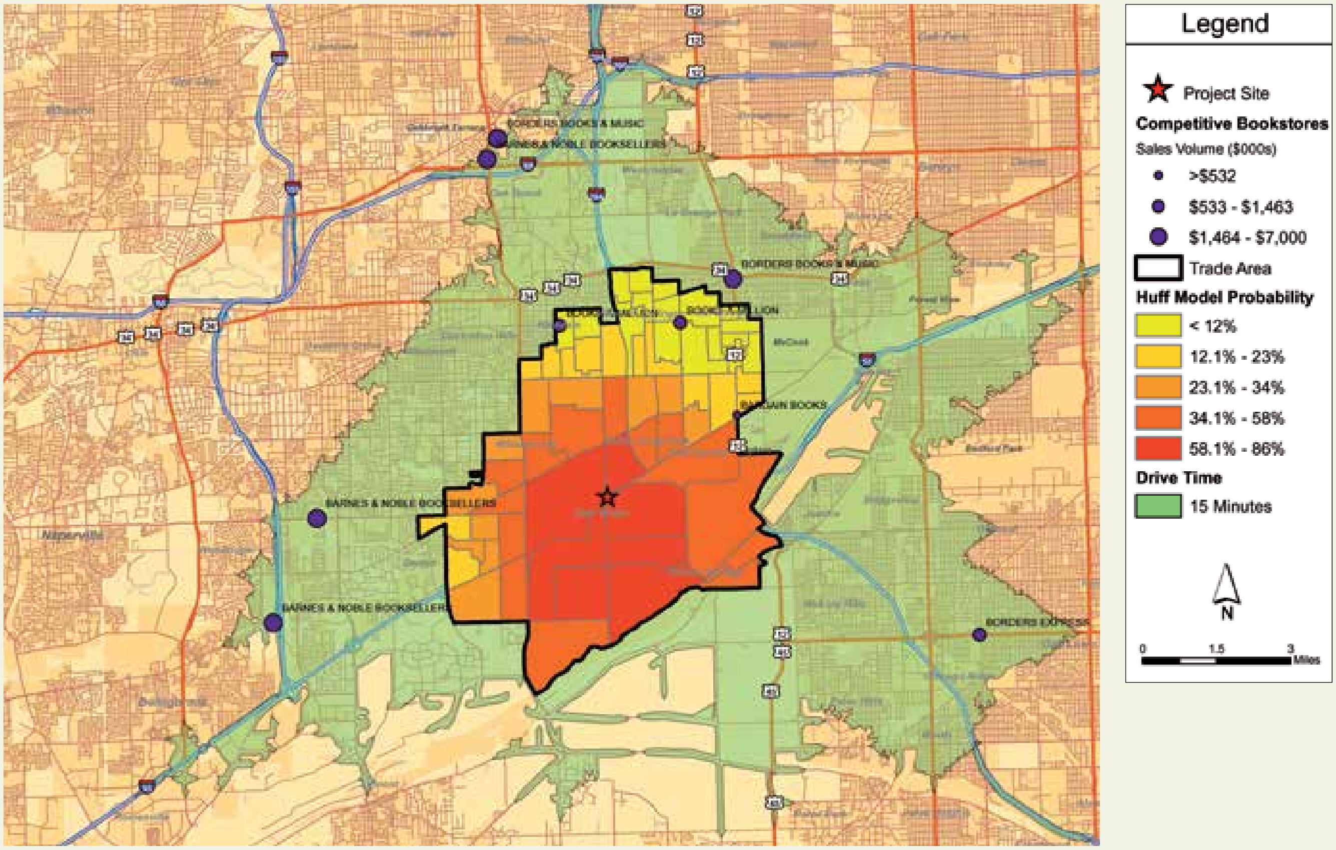
Projects should be evaluated based on risk-adjusted rates of return appropriate to the project type and market conditions, taking into account the appropriate financing structure and rates and terms. Rates vary widely with market conditions, type of financing, and access different types of developers may have to capital. Rates and terms for each capital source are determined in the context of a particular transaction and market conditions at the time a specific project is being reviewed.

Figure 3-8 shows the types of capital that make up what is called the *capital stack*. The application of each layer of the stack differs, depending on the risk profile of the project component. Debt, which has the lowest cost, typically does not enter a project until the entitlement risk has been passed and construction starts. A real estate development project will also have two forms of debt: construction debt to finance the actual construction and long-term "permanent" debt, a mortgage that is serviced from project revenues.

As one moves up the capital stack, the cost of the capital becomes more expensive because its appli-

FIGURE 3-9

Retail Gravity Model



Source: ESRI; SB Friedman Development Advisors.

cation is committed to a riskier component of the project. The overall rate of return required for a project is the result of the blended cost of capital over time.

Equity investors drive the underwriting criteria because they are the ones taking the risk and obtaining the bank loan. Equity returns, which are often viewed by the public sector as quite high, are what is necessary for real estate to compete for capital with other investment options. These returns also reflect the risks associated with construction and lease-up, and the duration of development—often two years of predevelopment and two years to full lease-up or sell-out once construction begins.

The financial structure typically gives preference to the lowest costs of capital—usually debt—and then the other sources. Debt, however, is secured by a lien, and many investors limit debt to mitigate the risk of losing the project to foreclosure if market conditions change. The amount of debt is driven by bank underwriting criteria, risk, loan to value or cost (LTV or LTC), and debt coverage ratios upon completion. Construction debt is replaced by permanent debt upon project completion and lease-up.

The rates of return change with market conditions and should be researched through market analysis and interviews of market participants. The investment analysis can then review a number of key return measures, as follows:

For-sale projects:

- Margin on sales (combined overhead, G&A, and profit)

Investment projects:

- Capitalization rate
- Annual cash on total cost at stabilization
- Annual cash on equity at stabilization
- Internal rate of return on total cost
- Internal rate of return on equity

Details on how these factors are analyzed can be found in the Resources section.

The specific benchmarks are again determined, based on research, interviews, and adjustment to reflect the appropriate levels of risk. The amount of assistance that will in some form be required to achieve the necessary rate of return for the project to be financially feasible can then be calculated and the gap validated.

After a gap has been confirmed, then the public and private sectors can address how to overcome it. Tools for closing a financing gap are described in the section "Structuring Development Partnership Deals" in this chapter.

Competitive Necessity

The second type of "but for" condition involves single or multiple jurisdictions competing to attract the same development. Such competition may be for job creation, tax base enhancement, or a specific use, such as a research park, that will catalyze more economic activity within the jurisdiction. The dynamics of competition among regions (intraregional) differ from that within regions (interregional). Private investors choosing among regions consider a broad range of issues, such as quality of life, infrastructure, education system, cost of living, and regional demographics, as well as an economic package. This type of competition requires that jurisdictions within a region collaborate and bring regional resources to the table to enhance their competitive position and, perhaps, to overcome shortcomings in base conditions. In contrast, competition within regions, primarily for tax base, frequently approaches the dynamics of a zero-sum game where jurisdictions may offer resources that are close to the economic value of the resources created by the investment. Here are some parameters of these two competitive situations.

INTERREGIONAL COMPETITION

Companies frequently seek a new location for their headquarters office, industrial plant, or new product center by choosing among different regions based on both their underlying circumstances and the value of the economic package offered by the region. This sets up a competition among regions. If jurisdictions within a region can understand this dynamic, they can pool resources to make their region more competitive. As an example, jobs within one jurisdiction in a region provide economic value to the entire region, not just to that jurisdiction. Regional cooperation and collaboration benefit all jurisdictions in the region.

Effective action in this environment starts with an assessment of the region's competitive position. Here is a checklist of dimensions to assess:

- Statewide regional and sector-based development policies;
- Business climate rankings;
- Land and building costs;
- Labor costs/union status;
- Labor availability and skills;
- Local taxation;
- Utilities: water, sewer, power;
- Transportation for goods, workforce, and executives and sales personnel;
- Industry links;
- Community quality and cost of living; and
- Incentives, both state and local.

The economic package then needs to address the region's shortcomings. Will the school district be part of the discussion? What about job training programs? Can tax and utility costs be reduced? In some cases, tools such as tax incentives, development assistance, housing assistance, and others can address cost differentials. In other cases, an individual jurisdiction would be hard pressed to overcome lack of diverse housing, mixed-use walkable neighborhoods, or transit access in the short run.

In many regions, the calculus has been made more complex by the need to attract the millennial cohort labor force with its special skills and the mismatch of housing and jobs for both this and other labor cohorts. The millennial cohort has a documented preference for mixed-use urban living, placing many suburban locations at a disadvantage. Decades of suburban monoculture development have separated administrative, managerial, and executive labor in distinct sections of the region, requiring long employee commutes if the project is not located in a transit-rich location.

But a region's competitive strength is frequently its strongest asset. In Chicago, Mayor Emanuel's "elevator speech" during his first term was simply: "I guarantee you your labor force (10 points higher college graduates than nationally and a restructured community college system), and I guarantee you global access (O'Hare International Airport)." He succeeded in attracting 32 corporate headquarters to downtown, including several from other regions with almost no incentives!

> **Trust is tangible and can be earned through work and commitment to the project. Building trust incrementally through small efforts within the partnership creates a record of small successes that support bigger strides. In other words, success breeds confidence, and confidence breeds trust.**
>
> *Ten Principles,* 30.

INTRAREGIONAL COMPETITION

Within a market area, the iconic example of interregional competition is competition for retail sales. This is ultimately a zero-sum game because demand crosses jurisdictional boundaries and is ultimately limited. However, this fact does not stop localities from seeking to attract retail for its contribution to both property tax and sales tax. Furthermore, in some states (Illinois among them), sharing sales tax with retailers and retail developers is legal. (In California, as a contrast, this practice was outlawed in 1994.) The stakes can be high and the competition fierce, with the seemingly rational idea of tax-base sharing limited to a few areas. Evaluating the need to provide assistance to a retail project (excluding real estate extraordinary cost issues discussed in the prior section) requires careful analysis of the following:

- Demographic pitch of area to retailer;
- Traffic and site access characteristics;
- Market area/competition and overlaps;
- Land and site costs;
- Property tax and sales tax differentials;
- Local factors;
- Tax-sharing deals and incentives offered by competitors;
- Projections of revenue generation; and
- Abatement/development cost shares.

In the final analysis, such projects involving competition within the region can involve sales-tax sharing, real estate tax abatement, or TIF-type assistance with development costs. Frequently, however, such packages simply relocate economic activity from one part of the region to another with no net gain in value.

Making a Fair Deal That Connects the Public Investment to the Public Benefits

Simultaneous with identifying the means of closing the gap is the work of crafting business terms of the PPP. Three principles apply in crafting business terms:

- Connect the public investment to the benefits created.
- The private sector must have its own capital ("skin in the game") before public investment goes into the project.
- Create terms that provide the public sector a return if the project performance exceeds expectations—that is, ensure that the public investment does not create a windfall for the developer.

As noted in the survey in chapter 1, a major impediment to making effective PPPs can be a "winner-take-all" or "hardball" bargaining dynamic. Such bargaining often fails in the PPP context because it inhibits problem solving and trust building. The negotiation process, instead, should focus on identifying and addressing each party's legitimate issues in an open and transparent way that allows for accommodation wherever possible, recognizing that, at times, each party will be asked to leave something on the table to make the deal work. The private sector must recognize that the public sector must ultimately be in a position to defend its deal to all stakeholders. Conversely, the public sector must recognize that the private sector must realize a fair return to justify the risk that it may incur in a development deal.

Summary

With this analysis in hand, and assuming the project meets the four criteria—goals, need, viability, fiscal benefit—six principles should be followed in negotiating these PPPs:

1. **MAKE DEALS BASED ON THE REAL NEEDS, NOT WISHFUL THINKING.** Validate the deal based on the real estate economics and on what the markets will actually support or on the carefully analyzed competitive position.
2. **BUILD TRUST AND OWNERSHIP.** Who is involved in the partnership is as critical as what the project is. Developers and communities need to take the time to use the "open book" and to develop relationships of consistency and trust.
3. **DO THE HARD WORK COMPETENTLY.** PPPs are complicated and require resilience and persistence to accomplish. They require a competent team on both sides of the table who take the time and effort to craft complex deals.
4. **USE NEGOTIATION AS PROBLEM SOLVING.** Respecting public needs for transparency and private need to protect proprietary information, expect the negotiation process to be used to resolve the differing perspectives, needs, and risks of the parties.
5. **VALIDATE A FAIR DEAL FOR BOTH.** The public must achieve key goals and benefits, and the private sector must receive a reasonable return for the level of risk.
6. **UNDERSTAND THE REAL RISKS AND FINANCING CHALLENGES.** Both the public and private partners must explain to the public the risks and financing issues that deals worthy of public/private partnership entail.

Assessing Fiscal Impacts and Community Benefits of PPPs

RUSS WEYER

PUBLIC/PRIVATE PARTNERSHIPS have immediate and lasting impacts and benefits to both the public sector and the private sector. These impacts and benefits are the very reason that PPPs are formed. Fiscal and economic advantages of PPPs include reduced public capital investment, improved efficiencies and quicker completion, improved cost-effectiveness, shared resources, and a guaranteed revenue stream.

From the public sector perspective, PPPs help address a number of governmental social objectives, including the following:

- Job creation;
- Affordable housing;
- Expansion or restoration of government infrastructure;
- Health education; and
- Quality of life.

Those objectives help drive the fiscal responsibilities of and benefits for the public sector. Those responsibilities and benefits include:

- Increasing the tax base through property taxes;
- Increasing sales tax revenue through an increase in jobs;
- Introducing private sector technology and innovation in providing better public services through improved operational efficiency;
- Incentivizing the private sector to deliver projects on time and within budget;
- Imposing budgetary certainty by setting present and future costs of infrastructure projects over time;
- Creating diversification in the economy;
- Supplementing limited public sector capacities to meet the growing demand for infrastructure and community service development;
- Integrating local workforce development; and
- Developing the capacities of minorities, women, and disadvantaged businesses.

From the private sector perspective, many objectives and benefits are obtained by engaging in a PPP, including the following:

- Making a profit;
- Repaying equity;
- Creating leverage;
- Increasing business;
- Increasing the value of property in a sustainable and prosperous environment;
- Allocating risk;
- Building trust and long-term relationships with the public sector; and
- Deploying assets, both financial and human resources, during economic downturns.

Measuring the Fiscal and Economic Benefits of PPPs

Measuring the fiscal and economic benefits of PPPs can take many forms and take place at various points during the PPP project. Particularly during the formation time frame, both the public and private sectors seek to determine the fiscal and economic impacts of the project. Both parties have different measurements to determine if the project is feasible enough to proceed with the partnership.

The public sector will want to know the fiscal impact, in terms of revenues and costs, the project will have on its budget. Those revenues and costs target both operating budgets and capital budgets. The public sector will also want to determine the local economic effect the project will have on job creation; direct, indirect, and induced effects; plus the dynamic effects.

The private sector will seek to determine the direct profitability of the project on its finances in addition to the political and public goodwill and future growth that could potentially occur because of the public involvement in the project.

WHEN TO MEASURE

Various schools of thought exist about the timing of fiscal measuring. Each situation is unique and requires collaboration between the public and private entities involved in the partnership.

Fiscal measurement of a PPP project during its negotiation process is imperative. This measurement sets the benchmark fiscal targets that are used to measure the project's positive or negative fiscal results.

Once the benchmark measurement is established, both the public and private partners need to agree upon the future time frame in which to measure the fiscal results. Depending on the tax and fiscal structures of a public entity, measuring the project upon its completion is prudent, thus allowing the project time to get up and running in terms of its fiscal impact on the public sector.

An interm measurement may be required if the project appears to be missing its timing of a plan element delivery or if the project's plan elements change during the course of its evolution.

PUBLIC SECTOR FISCAL AND ECONOMIC MEASUREMENTS

Generally, public sector entities use two types of measurements to determine the viability of a PPP—fiscal impact analysis models (FIAMs) and economic impact models. FIAMs are used to determine the net fiscal impact of a PPP on public sector budgets, and they determine both the operating and capital impacts of a project.

Operating revenues and costs are ongoing charges. Operating revenues are a combination of ad valorem taxes and per capita charges, such as gas taxes, sales taxes, franchise fees, utility taxes, occupational licenses, building permits, and grants. Costs are generally measured on a per capita basis and include financial and administrative, legal, law enforcement, fire, corrections, solid waste, U.S. Departent of Housing and Urban Development (HUD), economic development, and health.

Capital revenues and expenses are one-time charges imposed on projects to cover such community capital costs as roads, schools, law enforcement, emergency medical services, libraries, and parks. Capital revenues are generated from impact fees. Costs are driven by a number of analysis techniques, such as trip generation and capacity for roads, and per capita for other capital needs.

TYPES OF FIAMS. In his book *The Fiscal Impact Handbook*,[4] Robert Burchell identifies six types of fiscal modeling methods. The per capita multiplier method is the most widely used model due to its focus on residential development. However, all the models apply to PPPs. Following is a description of each model type:

- **Per Capita Multiplier Method:** This technique—primarily used for the impact of residential development—uses average government cost per person and school costs per pupil multiplied by a projection of the expected number of new people and students to estimate the costs of a new development. The recommended multipliers for population and enrollment changes can be derived using U.S. Census data.
- **Case Study Method:** The case study method can be used for residential and nonresidential fiscal impact analyses. This method involves interviewing local officials and experts (e.g., school administrators, people involved in local budget process, etc.) to obtain an estimate of how different government bodies will be affected by a given development. The expert estimates are then combined to account for the impacts in different areas and create an overall estimate of the fiscal impact of a development.
- **Service Standard Method:** The service standard method uses U.S. Census of Governments data to calculate the average manpower per 1,000 people and capital-to-operating expenditure ratios for eight municipal functions. The fiscal expenses are then calculated based on expected population changes,

> [I]t is widely acceptable that the private side, in exchange for taking significant financial risk, will accrue proportionate future financial returns. The public side, in return for providing the infrastructure, entitlements, or other public resources that allow the private activity to advance, will receive sufficient tangible and intangible public benefits—such as improved public infrastructure; increased property, employment, or sales tax base; provision of needed services; clearing of blight; and nontax income and tax revenue generated by the project—that justify the required investment.
>
> *Ten Principles,* 26.

service manpower requirements, local salaries, statutory obligations, and expenses per employee.

- **Comparable City Method:** As the name indicates, this method is based on finding a municipality that has a similar population and growth rate as the city in question is projected to have. The underlying assumption of this method is that cities of comparable size and growth rates spend similar amounts on municipal and educational expenditures.
- **Proportional Evaluation Method:** This method is used for a fiscal impact analysis of nonresidential development, whereby the development is assigned a portion of the municipality's costs based on the proportion of local property it comprises. However, because municipal expenditures for a single development are not always linear with regard to the development's size, this method can overstate the cost of large developments and understate the cost of small developments.
- **Employment Anticipation Method:** Another method for estimating the fiscal impact of nonresidential developments is the employment anticipation method. This method hinges on an estimate of the number of employees a development would add to the municipality. In effect, estimates of the additional cost for each new employee across various municipal sectors are multiplied by the anticipated increase in employees to create the total cost estimate for the city.

Selecting an appropriate method or methods to use is primarily determined by the type of PPP being proposed. The models may be implemented at any stage of the PPP—from the beginning, to determine potential impacts, through completion, to determine if the PPP met its goals.

TYPES OF ECONOMIC IMPACT MODELS. Economic impact analyses usually use one of two methods for determining impacts. The first is an input-output model (I/O model) for analyzing the local and regional economy. These models rely on interindustry data to determine how effects in one industry (PPP project) will affect other sectors. In addition, I/O models estimate the share of each industry's purchases that are supplied by local firms (compared with those outside the study area). Using these data, multipliers are calculated and used to estimate economic impacts. Examples of I/O models used for economic impact analyses are IMPLAN, RIMS-II, and EMSI.

Input/output models measure direct, indirect, induced, and dynamic effects of a PPP project on the local and regional economy. The *direct effects* from the initial spending create additional activity in the local economy. *Indirect effects* are the results of business-to-business transactions indirectly caused by the direct effects. Businesses initially benefiting from the direct effects will subsequently increase spending at other local businesses. The indirect effect is a measure of this increase in business-to-business activity (not including the initial round of spending, which is included in the direct effects).

Induced effects are the results of increased personal income caused by the direct and indirect effects. Businesses experiencing increased revenue from the direct and indirect effects will subsequently increase payroll expenditures (by hiring more employees, increasing payroll hours, raising salaries, and so on). Households will, in turn, increase spending at local businesses. The induced effect is a measure of this increase in household-to-business activity. Finally, *dynamic effects* are caused by geographic shifts over time in populations and businesses.

Another method used for economic impact analyses is economic simulation models. These are more complex econometric and general equilibrium models. They account for everything the I/O model does, plus they forecast the impacts caused by future economic and demographic changes. One such model is is the REMI Model.

COMPARISON TO OTHER ANALYSES

Economic impact analyses are related to but differ from other similar studies. An economic impact analysis covers only specific types of economic activity. Some social impacts that affect a region's quality of life, such as safety and pollution, may be analyzed as part of a social impact analysis but not an economic impact analysis, even if the economic value of those factors could be quantified. An economic impact analysis may be performed as one part of a broader environmental impact assessment, which is often used to examine impacts of proposed development projects. An economic impact analysis may also be performed to help calculate the benefits of a project as part of a cost-benefit analysis.

Public and Private Sector Tools Brought to a PPP

Both parties not only inherently receive monetary benefits from the partnership but also bring tools that are unique to each partner to the partnership. Completing the circle in assessing fiscal and community benefits is reviewing the various tools that each party brings. Understanding these tools is important because they form the basis for assessing the fiscal impacts and community benefits. Tolls and fees, TIF or another form of tax district, impact fees, development taxes, capital contributions, special assessments, grants, and development approvals are just a few of the public sector tools that would benefit a PPP. Development efficiency, private financing, labor skills, technology transfer, and an experienced workforce are tools the private sector brings to the PPP.

COMMUNITY BENEFIT AGREEMENTS

A community benefits agreement (CBA) is a contract signed by community groups and the private sector that requires the private sector to provide specific amenities or mitigations to the local community or neighborhood. In exchange, the community groups agree to publicly support the project, or at least not to oppose it. Often, negotiating a CBA relies heavily upon the formation of a multi-issue, broad-based community coalition, including community, environmental, faith-based, and labor organizations.

Negotiating with community representatives in creating a CBA can be an effective way to gain community support for the private sector and help move the PPP forward. Participating in CBA negotiations also allows the private sector to work with a unified public coalition rather than having to engage community organizations one by one.

Effective CBAs are inclusive because they allow many public organizations to participate. They are also enforceable and provide accountability from both the public and private sectors to perform the obligations of the agreement.

Typically, CBAs include job quality standards, local hiring programs, and affordable housing requirements that are all at the top of community activists' lists. Other potential benefits that could be included in a CBA are living wage and prevailing wage requirements; local hiring goals; job training programs; minority, women, and/or local business contracting goals; and space setasides for neighborhood organizations, community centers, child care centers, and other nonprofits.

Because a CBA is a legally binding contract, it can be enforced only by the parties that signed it. CBAs that are incorporated into development agreements can be enforced by the government as well as by community groups.

DEVELOPER CONTRIBUTION AGREEMENTS

Many times during the rezoning or other development processes, a local government will require the developer to make certain types of contributions, either monetary or in kind. The developer contribution agreement (DCA) sets forth the requirements for these contributions for both the local government and the developer. DCAs are most often mutual and are negotiated and agreed upon during the formation of the PPP.

Mutual developer contribution agreements benefit both the public sector and the private sector in that the private sector contributes something of value in return for a benefit from the public sector. An example would be for the private sector to financially contribute to the construction or addition to a wastewater treatment plant in exchange for reserving future capacity.

PRINCIPLE IN PRACTICE

WASHINGTON, D.C.

McMILLAN DEVELOPMENT CBA

The government of Washington, D.C., owned a 25-acre parcel of the McMillan Sand Filtration Site, which is bounded by North Capitol Street NW, Channing Street NW, First Street NW, and Michigan Avenue NW in the District of Columbia.

In 1986, the property was declared as surplus by the federal government. In 1987, the District purchased the site for mixed-use development and historic preservation. In 2007, Vision McMillan Partners LLC (VMP), consisting of Trammell Crow Company, EYA, and Jair Lynch Development Partners, was identified as land development partners of the property and later as its vertical developers. The project plan consists of 146 townhomes, 531 apartments, a grocery store anchor and other ground-floor retail, over 1 million square feet of health care facilities, an eight-acre central park with other open space, and a 17,000-square-foot community center.

In 2014, a community benefits agreement (CBA) was created to represent neighboring residents' concerns and involved input and negotiations among the developer, the affected communities, the D.C. Office of Planning, and the D.C. Zoning Commission. It was determined from the beginning that the project would significantly and negatively impact the abutting Bloomingdale and Stronghold neighborhoods as well as nonabutting neighborhoods in close proximity to the property; thus, these neighborhoods were considered deserving of receipt of targeted CBA benefits and amenities. In addition, because the project would most directly affect the abutting communities, those communities were to be given special consideration with regard to proposed changes to the development plan for those items that are of greatest negative impact.

The CBA established that in addition to affordable housing commitments, VMP would provide the following community benefits:

- $1,000,000 as a workforce development fund;
- $125,000 to parent-teacher associations serving science, technology, engineering, and mathematics programs at three nearby schools;
- $500,000 over a ten-year period to provide guided tours of the McMillan site highlighting the preserved historic resources;
- $750,000 over a ten-year period to create a community market, outdoor cage, and space for art installations;
- $225,000 to facilitate business start-up in the project;
- $500,000 for neighborhood beautification projects in surrounding neighborhoods;
- $150,000 for a storefront improvement program;
- VMP's best efforts to provide free wi-fi for public use in the community center and park; and
- A total of approximately 97,770 square feet of gross floor area devoted to retail and service uses, including a neighborhood-serving grocery store.

Capping off a series of recent approvals by the Zoning Commission and D.C. Council's Government Operations and Economic Development Committees, the four resolutions granting the surplus and disposition of McMillan received unanimous passage during the December 2, 2014, legislative meeting. The council unanimously passed resolutions PR20-1082, PR20-1083, and PR20-1084, granting the sale at fair market value to VMP. The property is now in the planning and permitting process.

Source: Vision McMillan Partners Team: Trammell Crow Company, EYA LLC, Jair Lynch Development Partners.

Structuring Development Partnership Deals

STEPHEN B. FRIEDMAN AND CHARLES A. LONG

AS DISCUSSED IN THE SECTION "The 'But for' Problem and the Need to Make a Fair Deal," public/private partnerships address the fundamental economic viability of a project or the competitive environment for attracting a particular investment. Some of the problems faced by development projects today include:

- Difficulties with site assembly;
- Extraordinary cleanup, demolition, or structural costs;
- Poor surrounding conditions that undermine market and marketability for a project;
- Needed infrastructure;
- Regulatory processes and standards out of synch with the project;
- Public goals in a desired project that are "above market";
- Community-imposed design or density limits that reduce returns below acceptable level;
- Capital market fluctuations and investment priorities creating financing difficulties;
- Multiple problems creating returns lower than required to attract capital; and
- Competitive site and location costs (taxation, labor, development, etc.).

The public sector has tools with which to help the private sector overcome these problems with actions that, among others,

- Lower the cost of capital through financing tools;
- Reduce effective project costs through government grants, cost sharing, or philanthropy;
- Overcome regulatory and other institutional barriers;
- Enhance project value through public investment or increased density;
- Anchor the development with a public facility lease or facility; and
- Moderate operating cost differences (e.g., taxes, labor costs, training, etc.).

In many states and locales, public tools have been essentially incentive payments to induce a production facility or employer and were about helping the community compete with other communities. Although this use of public tools continues, and in fact in some states has increased in recent years, their use raises much concern. For example, in August 2010, the New Jersey State Comptroller issued a report reviewing tax abatements, which found that

> [tax] abatement practices go largely unmonitored . . . and . . . municipal governments have little incentive to comprehensively assess whether an abatement is necessary to attract development, whether the type of development is needed in the first place, or whether the abatement ultimately achieves its desired economic development goals.[5]

The recommended practices today focus assistance on the real problems of a project, taking into account the risks experienced by both the public and private sectors and the benefits to be attained by each (as discussed in the two prior sections).

Managing Risk

Structuring PPP transactions presents a dilemma and a conflict between the perspectives of private and public bodies and their risks and needs. Generally, assistance to projects is constrained by need on one hand and fiscal benefits on the other. From a private sector standpoint, the risks are greatest in the predevelopment and development phases, particularly with projects that seek to address the often complex goals of publicly desired redevelopment. The private sector would like as much assistance at the front end as possible. Even predevelopment soft costs can reach seven figures. From the public sector standpoint, the risks that the project will not be completed or produce the benefits expected lead to a preference to link assistance to performance of the project. In the case of projects to be funded by or with reference to incremental revenues or other benefits that flow from the project, a timing problem exists, as illustrated by figure 3-10.

The public sector's risk is mitigated by limiting its pledge of support to revenues linked to the project's benefits and provided when the project delivers the promised gains for the jurisdiction.

Structuring requires achieving a balance between the private sector's need for early capital and the public sector's need to limit risk. Structuring should be thought of not only as direct financial assistance, but also as other actions that may assist a project (see sidebar at right). These may include the following:

- **Process Assistance:** Streamlining development approvals and providing appropriate entitlements more quickly at less cost to the project;
- **Site Assembly Assistance (Nonfinancial):** Using public powers of eminent domain for redevelopment to help complete a site or provide public land or parking facilities that can become part of a development;
- **Site Assembly (Land Writedown) Assistance:** Acquiring land and reselling at its redevelopment value or providing financial assistance to a developer where land costs are greater than supportable residual land value for the desired use;
- **Infrastructure and Public Facility Coinvestment:** Prioritizing street, water, sewer, park, school, transportation, and government building projects to support a development;
- **Facilitation of Improvement Districts and Special Assessment Districts:** Where economically competitive, providing the legal and administrative mechanisms for a development to pay for its own infrastructure through additional taxes;
- **Assumption of Extraordinary Costs:** Having a public agency use its own funds, create and use some form of incremental taxing district, and/or seek grants or low-cost loans from higher levels of government to absorb demolition, remediation, and structural issues linked to site conditions such as soil bearing, engineered caps, flood protection, and wetlands;
- **Using Financing Tools to Reduce Cost of Capital:** Facilitating tax-exempt bonds where allowable (e.g., industrial revenue bonds, periodic disaster bonds, housing bonds, 501(c)(3)) and finding government loan funds that may be available for public or in some cases private costs;
- **Using Tax Credits to Reduce Other Capital Requirements:** Assisting developers in obtaining tax credits for projects, including housing (coordinating with allocating body), new markets, and historic as well as state variants on the same;
- **Tax Abatements and Sharing:** As allowed in one form or another in many states, allowing private developers to retain or receive back a portion of taxes generated for use to assist the economics of the project; and
- **Local Tools/Local Funds for Project Costs:** Whether public or private as allowed by law in

PRINCIPLE IN PRACTICE

MIAMI, FLORIDA

BRICKELL CITY CENTRE

Brickell City Centre is a 6.5 million-square-foot mixed-use project by Swire Properties of Hong Kong under construction in downtown Miami.

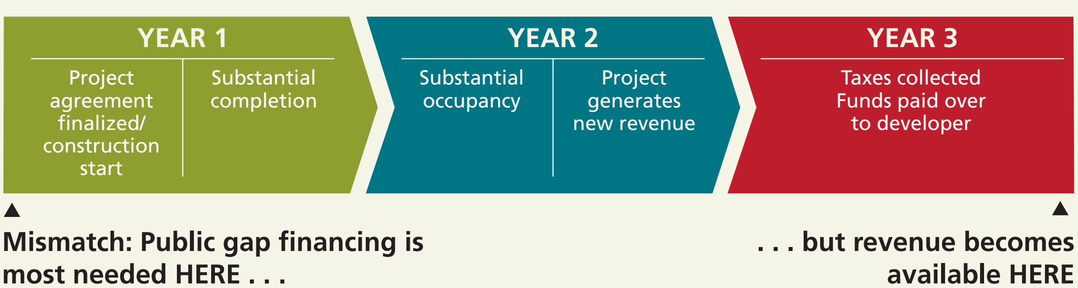
The government participation was not in the form of direct subsidy but in the nature of favorable regulatory and proprietary actions, which included adoption of a Special Area Plan, the first under Miami's new zoning code, that allowed certain deviations from the code because of the size, scale, and complexity of this project.

In their proprietary capacities, the County Transit Agency, the Florida Department of Transportation, and the city of Miami conveyed easements and small parcels to the developer at market rates, which helped facilitate the development.

Source: Neisen Kasdin.

FIGURE 3-10

Fundamental Timing Problem



Source: SB Friedman Development Advisors.

FIGURE 3-11

Typical Tools, 2015

Municipally Controlled Tools

- Tax increment financing (TIF)
- Payment in lieu of taxes (PILOT)
- Improvement districts (BID/CID/SA)
- Sales tax sharing (selected states)
- Tax abatements
- Land banks

Other Tools for Local Projects

- New Markets Tax Credits (NMTCs) (selected locations)
  - Renewed for 2012 and 2013
  - Commercial, industrial, community facilities, mixed use
- EB-5 (Immigrant Investor Program)
  - Foreign investment in exchange for green card
  - Debt or equity source in layered deals
- Low-income housing tax credits
- HOME
- Section 108 loans
- Transportation Infrastructure Finance and Innovation Act (TIFIA)/ Railroad Rehabilitation & Improvement Financing (RRIF)
- Transportation Investment Generating Economic Recovery (TIGER)
- U.S. Economic Development Administration programs
- Privatization and facility provision
- Foundations/civic ventures

Source: SB Friedman Development Advisors; Real Estate Strategies Inc.

each locale, using locally generated funds from TIF, payments in lieu of taxes, and similar tools to defray development costs. These may be also used in conjunction with various bonding and other borrowing mechanisms.

The Financial Assistance Toolkit

The tools available for financial assistance vary over time and from place to place. Figure 3-11 summarizes typically available tools for development and redevelopment projects in 2015. However, each state and locale has its own set of laws and policies that will shape how projects may be assisted, and the tools will change over time. Fresh research at the start of a project is often warranted.

Using the Tools

The application of the tools can be understood within a four-part framework as follows:

1. **THE PUBLIC SECTOR CAN ASSIST IN OVERCOMING BARRIERS AND RISKS,** such as site assembly, cleanup, entitlement, and market risk, that make private investment in a project risky. In many states, redevelopment agencies still have the legal authority to exercise eminent domain for site assembly for redevelopment projects. Some states authorize either cities or redevelopment agencies to mandate site cleanup and bill the site owners. A process that engages the community to create a community vision can streamline the entitlement process and lower the risk of loss during predevelopment. A public facility lease for a portion of a project may provide the anchor tenant necessary to complete financing. Special taxes such as hotel, visitor, and entertainment taxes may be used to bolster the cash flow of related facilities to reach sufficient net operating income to support financing. A public agency can address market risk with contingent business terms, which postpone debt repayments or provide project subsidies if market performance fails to meet market projections, for example by providing aid with a second or third mortgage position.

   Public agencies can also enhance project value by permitting higher density and height in return for public benefits. The city of Vancouver, British Columbia, has a term called "the land lift" under which the city's grant of density and height results in a community benefit package of affordable housing, parks, and plazas. California law allows jurisdictions to require a setaside of units for affordable housing in return for increased height and density. Similar bonus or tradeoff provisions are common elsewhere as well.

2. **THE PUBLIC SECTOR CAN INCREASE PROJECT VALUE** through coinvesting in adjacent facilities that synergize higher value or by granting additional development entitlements that increase the development yield and, therefore, project value. Coinvestment in parks, parking, transit infrastructure, bike trails, theaters, and even golf courses are examples of facilities that often increase the value of adjacent development. Allowing increased height and density (the so-called land lift) is commonly used as a means to increase project value to fund the cost of affordable housing or other community benefits.

   Coinvestment can have major impacts on project value. Examples of areas in which to invest include public plazas, parks, theaters, bike trails and golf courses. One example of coinvestment is shown in figure 3-12. This project in Charlotte, North Carolina, converted an old Rouse shopping center that had paved over a creek into a mixed-use project that daylighted the creek. The city invested $16.9 million in bike trail and stream restoration, connecting the project to the downtown, and provided the development with tax rebates based on its rating on a Sustainable Development Index. The result is a $240 million mixed-use project with residential, office, and retail.

FIGURE 3-12

Metropolitan, Charlotte, North Carolina

Pappas Properties

Source: Charles A. Long Properties LLC.

Mixed-Use Redevelopment by Pappas Properties

Public participation

- $8.9 million in infrastructure
- $8.0 million in greenway/land acquisition
- $17 million from property tax rebates

Cost

- $240 million, private

Size

- 163,000 square feet of office space
- 231,000 square feet of retail space
- 205 residential units
- 2,000 parking spaces

3. **THE PUBLIC AND PHILANTHROPIC SECTORS CAN LOWER THE COST OF CAPITAL** by either financing some components of the project using low-cost municipal debt or providing a source of capital that has a low or no return requirement. Ordinary municipal tax-exempt debt financing is limited to public facilities, such as land, roads, utilities, parking, or affordable housing, but it can create significant cost savings because the cost of municipal debt is lower than private debt. Other municipal debt instruments may not be tax-exempt but can still result in lower capital costs than private debt or equity. Low- or no-cost capital can take such forms as tax credits, grants, or philanthropic contributions. These capital sources may have a position for distribution of return subordinated to that of the primary equity investors, may be donations, or may be forgiven at a later time.

4. **THE PUBLIC SECTOR CAN REDUCE THE NET PROJECT COSTS** by directly funding some portions of the project, contributing land to a project, or waiving some project costs, such as development impact fees. The reduction in cost allows a lower project value to meet the project hurdle on return necessary to show economic viability and attract the remaining capital.

Financing and Grant Tools

Following the "less-to-more" principle, strategies to overcome barriers and risks and use public investment to help a project would come first. However, these are often insufficient, and various financing and grant tools may be needed to achieve a desired project. Key tools are described below.

LOWERING THE COST OF CAPITAL

Figure 3-13 diagrams the basic financing structure of a real estate project. Capital comes in two basic categories: debt and equity. Similar to financing for a single-family home, the debt is secured by a lien, which allows the lender to foreclose for nonpayment, and the equity is "at risk" for loss if the property value declines.

The total capital for a project is sometimes called the capital stack (see figure 3-8). Although the stack can have many different layers, including first loans, second loans, mezzanine debt, and different priorities of equity, figure 3-8 shows three basic categories: debt, mezzanine debt, and equity. Because debt is secured by a lien and has lower risk, it has an interest rate that is much lower than the rate of return needed to attract equity.

Mezzanine debt is typically junior to primary debt and carries a higher rate of interest commensurate with risk. Interest may also be contingent, within limits of Internal Revenue Service (IRS) definitions of interest versus equity return. Mezzanine debt often substitutes for equity, carrying lower return obligations.

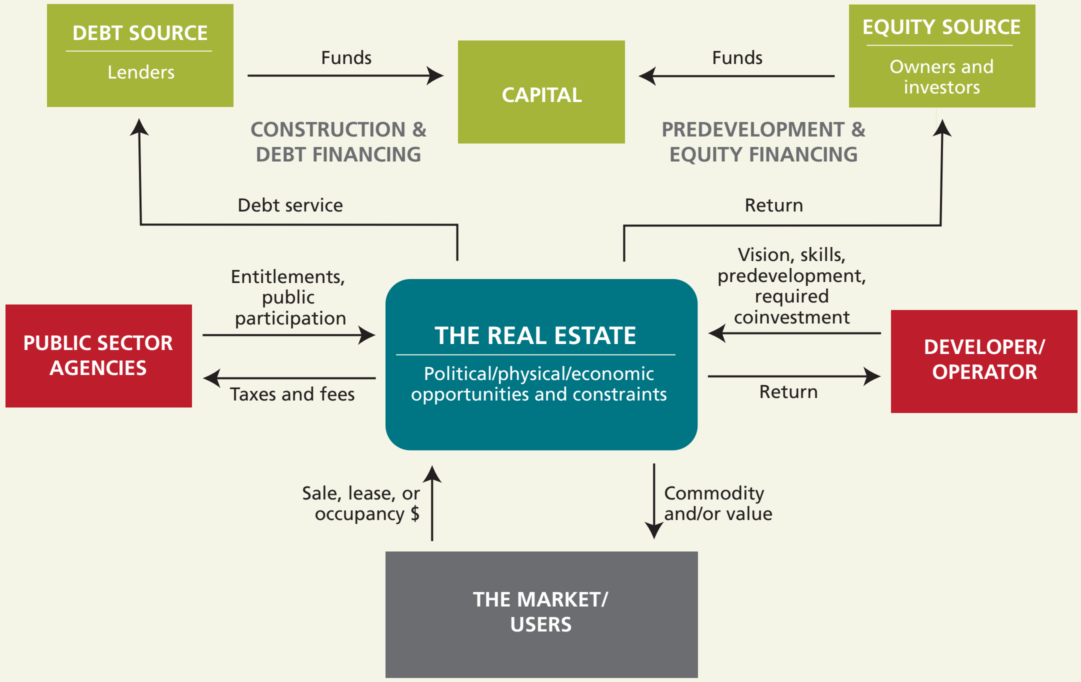
Today mezzanine debt is part of almost every large financing simply as a pricing tool to attract capital investment. In fact, most modern senior secured financing allows for the tranching of the facility to provide higher-yielding subordinate tranches to facilitate syndication.

Equity receives a return based on project performance, often in a tiered distribution, which distributes initial profits to the investors and increasing distributions to the developer for higher profits. Other tiers may be related to returns to early investors versus later investors, as well.

Most projects will also have a temporary financing structure during construction followed by a permanent structure upon completion or some later point. There may be "bridge" loans to cover later contributions—

FIGURE 3-13

Basic Financing Structure Involving Debt and Equity



Source: Charles A. Long Properties LLC.

sometimes developer equity but sometimes the public participation. Not uncommonly, construction loans convert to "mini-perms" with a five- to seven-year term and then are "taken out" by permanent financing. Some tiers of equity investors may remain for the long haul; others may be replaced at different points or the project may be sold.

From the public sector point of view, the capital structure should first provide for a reasonable equity contribution ("skin in the game") and maximize the lowest-cost debt financing before determining the level of public involvement.

The public sector has numerous capital sources that can lower the cost of capital for public/private projects.

BONDS. The first major category is municipal bonds, which typically have a lower interest rate than private debt because their interest is exempt from federal income tax (they are also exempt from taxation to taxpayers in many of the states of issuance). They also usually have a longer amortization period than private debt. However, in recent years, concerns about municipal credit have resulted in some periods in which interest rates on municipals have exceeded private debt. As an indicator of this market anomaly, since 2009, the Bond Buyer Index for general obligation bonds has ranged from about 3.25 percent to 5.4 percent. Bonds have the additional advantage that in many cases they can be used for construction as well as permanent financing.

Under the Dodd-Frank Financial Reform Act of 2010, municipal finance has come under additional regulation. A new category of registered professional was created called a "municipal advisor." Professionals providing advice on the use of bonds for economic development and redevelopment projects must be registered with the Securities Exchange Commission (SEC) and the Municipal Securities Regulatory Board (MSRB), or their advice must be reviewed by someone who is registered and designated by the issuing jurisdiction as their "independent registered municipal advisor."

These bonds fall into numerous categories, depending on their repayment source, and they are a major funding source for PPPs. The most significant types of bonds for public/private partnerships are as follows:

- **Land-Secured Bonds (also may be called Special Assessment and Community Improvement District Bonds):** These bonds are repaid in installments by property owners within a development project. The payments are subject to enforcement through tax foreclosure. The annual payments can be derived from a tax formula, based on the property characteristics, or on a fixed lien assessment that allocates

FIGURE 3-14

Mission Bay, San Francisco

Hawkeye Photography

- 303-acre old rail yard
- Site cleanup
- 11,000 new residents
- 31,000 new jobs
- University of California, San Francisco, campus
- Biotech research labs
- $400 million of infrastructure (financed with "land secured" bonds)
- Public transit links and open space

Source: Charles A. Long Properties LLC.

the original costs that were financed. These types of bonds can be used for infrastructure and site cleanup, as shown in the example in figure 3-14 describing the Mission Bay project in San Francisco, which used $400 million of land-secured bonds.

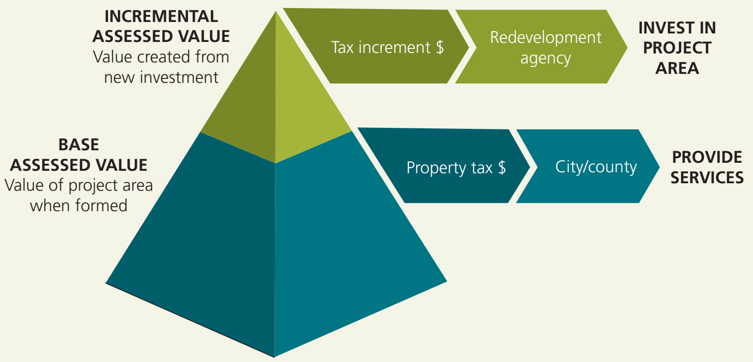
- **Tax Increment Bonds:** Most states have statutes permitting operation of tax increment financing, based on forming a redevelopment project area or TIF district. Increased property taxes from these designated areas can be invested in projects that revitalize the area and increase property values. Figure 3-15 illustrates the distribution of property taxes from these areas. These types of bonds are sometimes called special revenue bonds, and repayment is limited to defined sources within the TIF district or other supporting sources. In one city, all sales tax revenue is pledged as a support. Depending on state law on allowable use of TIF funds, these bonds may be limited to public infrastructure or may be available for other project costs, such as site preparation within the private project, rehabilitation of buildings, or new construction. The use of the proceeds and the repayment sources will determine which elements of such bonds may be tax exempt and which may be taxable. Even when taxable, they may be a lower-cost source of funds than additional private debt, which, in any case, may not be available because of the economic characteristics of the project and its financing gap.
- **Other Municipal Bond Types:** Although federal regulations limit use of municipal bonds to public purposes and require compliance with IRS regulations for use of funds, numerous types of municipal bonds can still be used for PPPs. Housing revenue bonds can provide the debt component of affordable housing or low-cost mortgages for single-family homeowners. Revenue bonds can finance capacity for large employers in water and sewer plants. General obligation bonds can finance public infrastructure components of private projects or site assembly. Importantly, not-for-profit organizations can be the beneficiary of tax-exempt bonds (sometimes called 501(c)(3) bonds) for their facilities. The example in figure 3-16 is from the city of Berkeley, California, which, through a lease, financed a new theater for the Berkeley Repertory Theatre company and issued lease revenue bonds paid for by lease payments from the not-for-profit theater company.

- **Developer Notes/Pay-as-You-Go.** Sometimes taxable and sometimes tax exempt, depending on uses and repayment sources, these are less formal debt

FIGURE 3-15

Tax Increment Bonds

Redevelopment finances investment from increased value



Source: Charles A. Long Properties LLC.

FIGURE 3-16

Lease Revenue Bonds

kevinberne.com

Berkeley Repertory Theatre

- City signs lease with theater and places the lease with a trustee.
- The trustee issues certificates of participation (COPs) in the lease in $5,000 denominations.
- The proceeds from the sale of the COPs build the theater.
- The theater pays rent to the city.
- The city's general fund backs up payments on the bonds.

Source: Charles A. Long Properties LLC.

instruments used when the level of support is insufficient to tap public finance markets. The developer holds the note; in some cases, it may be sold to a third party. It may be supported by a general revenue source or limited to project revenues or other structures.

TAX CREDITS. Tax credits create equity for projects by selling a right to take an income tax credit to corporations or high-wealth individuals. They come in three basic categories: low-income housing, new markets tax credits, and historic preservation. Although largely federal tax credits, a number of states have parallel programs. Each category has different amortization periods for taking the tax benefits and different compliance provisions and is administered by a distinct federal or state agency. Figure 3-17 summarizes the three types of tax credits.

Using tax credits requires a substantial amount of time and expertise from specialists in the field and involves a number of intermediaries to obtain credits and investors to buy them. Somewhat organized and established sources of investors are now available for each type of credits, often conventional corporations with tax liability and large banks with community reinvestment act motivation.

All the tax credits are used as but one layer in multi-source capital stacks. Low-income housing tax credits are often paired with "soft money" from the HUD HOME program or state and local sources. Allocations of 9 percent credits may be obtained from state housing agencies (roughly 9 percent of eligible costs for ten years). Tax-exempt housing bonds may be used for first mortgage financing for such projects and automatically trigger so-called 4 percent credits. Credits sell in a competitive market and may garner 70 to 90 percent, depending on conditions.

New markets tax credits are obtained from a community development entity (CDE) that has competitively obtained an allocation of credits from the Community Development Financial Institutions Fund (CDFI Fund) of the U.S. Department of the Treasury. These credits are for commercial, industrial, community facility, and mixed-use projects and are layered with many other sources (except low income housing tax credits). Key is a layer of "senior debt," which may be philanthropic for community facilities or bank debt for other types of

FIGURE 3-17

Types of Tax Credits Available

Low-Income Tax Credits

- Affordable rent-restricted housing
- $9 billion annual market, awarded at the state level to specific projects
- Rigorous compliance requirements

New Markets Tax Credits

- Low-income communities
- $3 billion to $4 billion annually awarded by Treasury Department
- Rigorous compliance requirements

Historic Tax Credits

- Historic preservation
- Administered by U.S. Park Service and state preservation offices
- Rigorous compliance requirements

Source: Charles A. Long Properties LLC.

projects. Figure 3-18 illustrates a basic structure. The tax credit funds remain in the project for seven years, after which they may be refinanced or forgiven depending on the circumstances and CDE involved. New markets tax credits typically can account for 18 to 20 percent of a project's costs, net of the fees and closing costs.

Historic tax credits are based on 20 percent of eligible rehabilitation costs of a commercial property, including rental housing, listed on the National Register of Historic Places. Credits remain in place, amortizing over five years. Because they confer ownership and other tax benefits of depreciation over the five years, they may sell for 100 percent of their value, typically to conventional corporations or bodies representing such investors. Compliance is complex and rigorous, requiring review and approval by the State Historic Preservation Officer and the U.S. Department of the Interior.

OTHER TOOLS. The following should also be considered when capitalizing a project:

- **EB-5:** EB-5 awards visas to immigrants who invest $500,000 to $1 million in a U.S. business. Applicants who can prove their investment has created at least ten jobs get permanent green cards. This capital source is brokered through specialists who recruit investors and work within allotments set by statute. The *Los Angeles Times* reported in August 2014 that the program used up its entire annual allotment in 2014 and that 85 percent of funds for the program have come from China.
- **Land Value:** A commonly used means of providing capital to a PPP is by conveying land for the project with a portion of the land sale price categorized as either debt or equity in the project. Payment on that portion of the land value can either be structured as a fixed interest rate or be based on project performance.
- **Direct Investment:** Provided that the funding source is not municipal bonds, public agencies and philanthropic organizations can make direct investments in projects. Just as with land value, the investment can be made as debt or equity.
- **Credit Enhancements:** Regional infrastructure banks and other financial institutions are often able to offer contingent guarantees and conduit financing vehicles to allow developers, groups of landowners, and other unrated issuers to effectively organize and access lower costs of capital for projects that serve a public good.

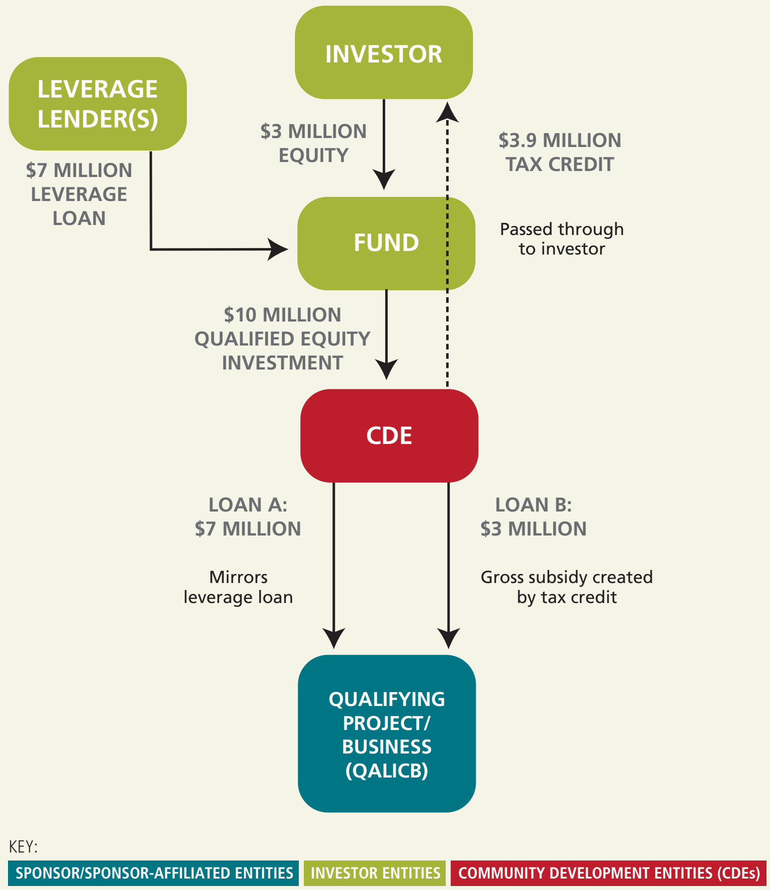
REDUCING NET PROJECT COSTS

Public agencies have numerous sources of funding for lowering project costs to make the project viable:

- **Federal and State Grants:** Numerous programs administered by the U.S. Department of Transportation (Federal Highway Administration and Federal Transit Administration) are available to reduce project costs. HUD also administers categorical grant programs for affordable housing and sustainable development. The U.S. Environmental Protection Agency has funding available for site cleanup.
- **Regional Grant Programs:** Many federal and state grants are funneled through regional councils of governments or metropolitan planning organizations. In California, regional transportation metropolitan planning organizations are required to adopt sustainable community strategies and channel transportation funding to projects that enhance higher-density projects that reduce vehicle miles traveled.
- **Local Funding:** Tax increment financing can serve as a source of funding to reduce project costs. Other funding sources include local sales tax and federal or state sources, such as Community Development Block Grants.

FIGURE 3-18

Basic Structure of Senior Debt



Source: SB Friedman Development Advisors.
Note: CDE fees, closing costs, and required reserves reduce the net subsidy to about $2 million.

How Much Assistance?

Previously, we discussed the need to measure the financing gap through analysis of the project's pro forma or to analyze the project's competitive position and what is needed to attract the use to a site or community. This needs analysis drives the maximum financial assistance within the limit of the financial benefits of the project. Often the private sector approaches the project's request for assistance based on other factors: the incremental benefits ("it's *my* TIF") or maximum legally eligible costs (for example, all land and infrastructure costs). The appropriate level of assistance is the lesser of eligible costs, financing capacity, or demonstrated need as illustrated hypothetically in figure 3-19.

In contrast, some jurisdictions may impose more arbitrary limits, such as 20 percent of project costs, so as to achieve a 1:5 "leverage" or number of jobs created. Important policy goals may or may not be embedded in these limitations, but often they are inappropriate and restrict assistance to a level insufficient to allow the project to proceed.

In addition, projects with broader and secondary benefits may justify public funding (above grants) that exceeds the measurable direct fiscal benefits. Major job creators, such as convention centers and other tourism attractors, are demonstrated to have secondary economic impacts that may justify broader funding. Catalytic projects that change the environment or major remediation projects may have positive spillovers that justify deeper and broader assistance.

Monetizing Assistance

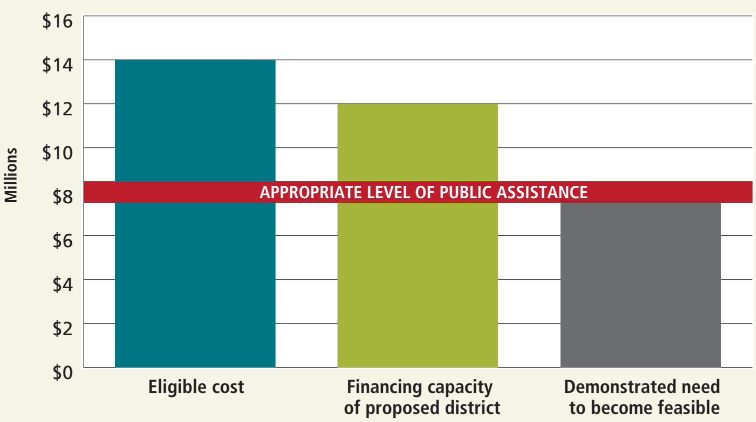
The tools that address risk and return do so by lowering capital costs, lowering project costs, reducing risk, or increasing project value. Their use requires that the public agency understand enough of real estate finance to ensure that the resulting partnerships are fair to the public. The partnerships should clearly connect to the public benefits that are being achieved; the process for arriving at these partnerships must be open and transparent; and the partnerships' need for public actions must be explainable and understandable by the public.

From the public sector perspective, a number of ways exist to integrate public support with private real estate economics. Public entities can approach monetizing from the perspective of risk (see figure 3-20) and public benefit, as summarized below. Accordingly, a number of techniques may be used to fund the local public share of assistance to a project.

Assistance to a PPP should be measured according to what is needed to fill a gap and within the levels of public benefit expected. Assistance can range from improved processes to deep financial involvement, but risks need to be shared fairly.

FIGURE 3-19

Determination of Appropriate Level of Public Assistance



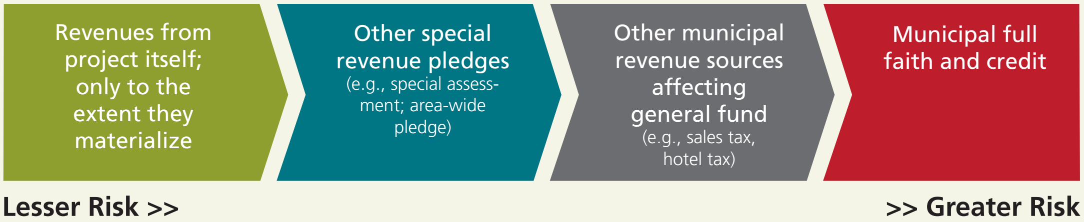
Source: SB Friedman Development Advisors.

PAYMENTS IN LIEU OF TAXES (PILOT)

In some states, this is a key form of assistance to abate taxes in part or in full, with some payment for certain governmental costs in lieu of taxes. In such a situation, the developer actually retains the funds and can apply them to costs within the project. Payments in lieu may be for general services or for off-site improvements, depending on state and local law and practice.

FIGURE 3-20

Municipal Risk Spectrum: Funding Sources



Source: SB Friedman Development Advisors.

PAY-AS-YOU-GO

In pay-as-you-go financing, the payments to the developer are made when and if funds become available, typically only from the project. The mechanisms may vary from state to state. For example, if the mechanism available is a tax rebate, payment would be made as the funds were received. If incremental taxes are pledged on such a basis, those would be paid as received. Similarly, in some states sales tax may be shared with a developer as it is received.

MONETIZING FUTURE REVENUES FROM THE PROJECT ITSELF

In some states, interest-bearing notes may be issued to a developer as reimbursement for costs allowed under state law. The developer then borrows additional funds or provides its funds to complete project financing. This method is low risk to the municipality but often difficult for the developer in a challenging project.

Notes may be left outstanding or may be taken out by more formal public financing when the project achieves stabilization. This financing may take the form of special revenue bonds supported only by the revenue from the project or some other defined, limited source, for example incremental taxes from throughout a district. General revenues are not pledged to this type of instrument.

Bonds may also be issued that are supported by special taxes levied on a development. These may arise under special assessment legislation (typically based on benefit) or community improvement district legislation (often based on value or interests in real estate). These are additional taxes beyond the general taxes applicable to the jurisdiction.

BACKING BONDS WITH OTHER REVENUE PLEDGES

Bonds may also be used with broader backing, such as general sales taxes or the full faith and credit of the municipality (general obligation). In redevelopment this method can create greater risk than other mechanisms and is usually undertaken only after careful analysis and for specific purposes that provide a lasting public asset such as land or infrastructure.

LOANS

Some municipalities may have sources of funds for loans. These may come from previous repayments, sharing in success on projects, or other statutory and grant provisions. In these cases, the funds may be advanced as a loan and a junior mortgage position taken on the project, usually at a submarket interest rate. The eventual repayment of these loans may create additional economic development resources.

TRIGGER AND TAKE-OUT BONDS

Various provisions may also trigger changes from one type of funding to another. The lowest rates will be paid by a municipality on general obligation bonds, and in some cases providing such support may be appropriate after the project has achieved stabilization to take out more expensive notes. In other cases, providing such support in parallel to private commitments and private funding may be prudent.

Although these mechanisms are more complicated for the private developer than a direct grant, they have all been used in various jurisdictions to successfully fund public/private development projects.

Evaluating and Structuring Infrastructure and Facility PPPs

JEFFREY FULLERTON AND RYAN JOHNSON

PUBLIC PROCUREMENT STRATEGIES traditionally follow a design/bid/build procurement methodology. This method isolates the various aspects of asset delivery; each aspect is usually completed by independent teams as each activity is completed in a linear fashion. This structure is represented in figure 3-21.

In contrast, an integrated PPP model can be used by the public agency to contract for a more holistic result. By combining the aspects of real estate delivery, financing, and long-term operation and maintenance, public agencies can encourage more collaboration and high-quality delivery. This structure is represented in figure 3-22.

A number of factors are considered in determining whether or not to pursue an alternative path to providing infrastructure or a public facility. These may include administrative capacity, construction and operating organizational skills, financing legalities, length of lease allowed under governing statutes, and considerations of equity and ongoing efficiency. A body considering an infrastructure or facility PPP will want to evaluate all of these more qualitative and management issues, but it will also want to take a hard look at the economics involved, as discussed below.

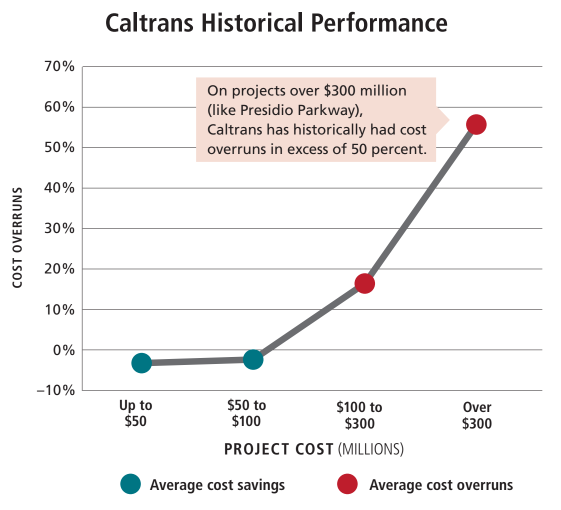
MAXIMIZING BENEFITS OF PPPS: SOME POLICY CONSIDERATIONS

In its analysis of the Presidio Parkway, the California Department of Transportation reviewed its experience of delivering projects on time.

As illustrated in the graph, larger, more complex projects had a history of being over budget with the agency. This illustrates an expected value of the construction risks that would have been retained in the public sector comparator, defined as the estimated equivalent cost if the agency developed the infrastructure under a traditional design/bid/build approach and retained the relevant risks of cost overruns, maintenance, etc. An agency needs to have an agreed-upon set of standards by which a VfM analysis is to be performed.

The California Legislative Analyst's Office reviewed the Presidio Parkway, along with the Long Beach Courthouse, and recommended that an independent review board be established to standardize VfM calculation methodologies before the state of California proceeded with further public/private partnership projects. Such agencies exist in Canada and other countries where infrastructure PPPs are more common.

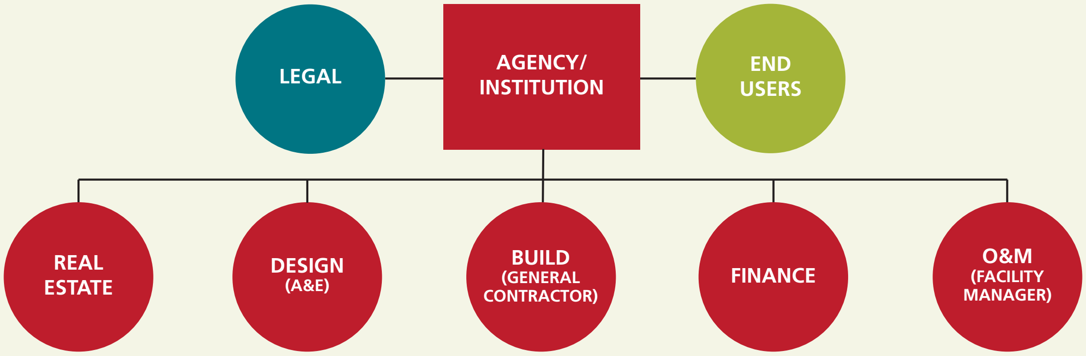
Source: Legislative Analyst's Office, *Maximizing State Benefits from Public-Private Partnerships* (Sacramento, CA: Legislative Analyst's Office, 2012).



Source: Edgemoor Infrastructure and Real Estate; based on data derived from the *Presidio Parkway Business Case Analysis* by Arup & Parsons Brinckerhoff, February 2010.

FIGURE 3-21

Traditional Design/Bid/Build Structure



- End-user coordination site entitlement
- Permits
- Utilities
- Inspections
- Quality control
- FF&E
- Risk management
- Community relations
- Leasing
- Accounting

- Designer
- Engineers
- Code compliance
- Tenant work
- Schedule
- LEED requirements
- Geotech/ environmental

- Builder/general contractor
- Tenant work
- Schedule
- Insurance
- Commissioning
- Build per plans and specifications

KEY: AGENCY RISK

Source: © Edgemoor Infrastructure & Real Estate LLC.
Note: A&E = architecture and engineering; O&M = operation and maintenance; FF&E = fixtures, furnishings, and equipment; LEED = Leadership in Energy and Environmental Design.

Value for Money Analysis

The VfM analysis provides a useful prism through which the public sector can evaluate procurement options for new infrastructure assets. It is probably the most important of the factors in a decision over procurement methods because it can be used to justify the most cost-effective method rather than only traditional approaches. A properly executed VfM allows the public sector to make an informed decision, based on comparing the costs and risks of a traditional delivery method with the costs and risks of a PPP delivery.

The VfM analysis is typically performed by an independent third-party consultant on behalf of the public sector before procuring private sector partners. The results of the analysis can serve as a benchmark throughout the procurement, delivery, and operations phase and should be revisited routinely over time to confirm the assumptions used and the conclusions drawn from the analysis.

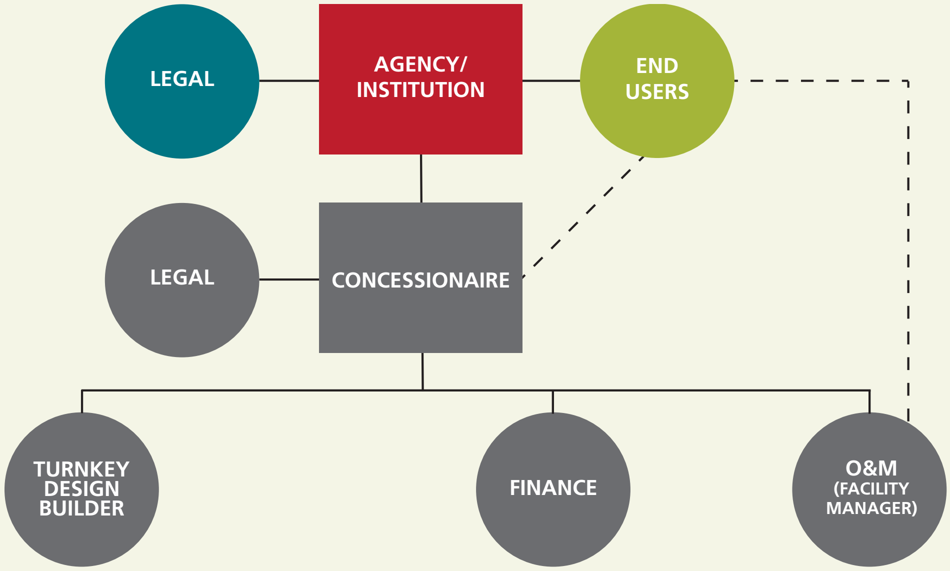
PUBLIC SECTOR COMPARATOR

The first step is to develop a public sector comparator (PSC), which is the term given to the public sector's cost to deliver and operate the asset through a traditional procurement method. Typically, a standard design/bid/build procurement process is used as the basis for the PSC. The PSC must include the estimated capital costs to design and construct the facility as well as all costs associated with financing the asset. In addition to the cost of financing and delivering the asset, the PSC includes the cost of routine operations and maintenance of the facility as well as life-cycle costs, such as system upgrades and replacements that will affect the building or infrastructure over the course of its useful life.

The PSC must also include the risks that the public sector takes on in the traditional process. Risks such as construction cost overruns and deferred maintenance can, and often do, have significant financial impacts to the public sector. A detailed analysis must be

FIGURE 3-22

PPP Design/Build/Finance/Operate/Maintain



- Real estate activities
- Owner-rep delivery
- End-user coordination
- Site entitlement
- Permits
- Utilities
- Inspections
- Quality control
- FF&E
- Leasing
- Accounting
- Risk management
- Community relations

- Design/build activities
- Builder
- Designer
- Engineers
- Lump sum fixed price
- Code compliance
- Tenant work
- Guaranteed schedule
- LEED requirements
- Insurance
- Geotech/ environmental
- Move-in coordination
- Life-cycle cost studies
- Commissioning

- Feasibility studies
- Capitalization plan
- Debt (banks/bonds)
- Equity
- Investors
- Transaction structuring
- Bond/lender counsel
- Loan documentation
- Collateral agreements
  - Builder/lender
  - Facility manager/ lender
- Financial close
- Ongoing financial reporting

- Owner-rep operations
- Life-cycle cost analysis
- Building management
- Operating cost management
- Licensing/permits
- Lease management
- Tenant service
- LEED requirements
- Risk management
- Insurance
- Move-in coordination
- Repairs and maintenance
- Equipment/ component replacements

KEY: AGENCY RISK | RISK TRANSFERRED TO PRIVATE SECTOR

Source: © Edgemoor Infrastructure & Real Estate LLC.
Note: O&M = operation and maintenance; FF&E = fixtures, furnishings, and equipment; LEED = Leadership in Energy and Environmental Design.

performed to arrive at the cost of each of these risks and the likelihood of their occurrence. The expected cost of each of those risks borne by the public sector must be included in the PSC. Once all cash inflows and outflows have been vetted and determined, then the cash flow is discounted back to the present day's dollars to arrive at a net present value (NPV) that will be compared to the PPP alternative.

COST OF THE PPP ALTERNATIVE

The next step in the VfM analysis is to estimate the cost of the PPP alternative, often referred to as the shadow bid. The shadow bid has two basic components. The first is the annual payment the private sector will charge the public sector to deliver and operate the project. This amount includes the cost to finance the design and construction of the asset, private sector profit, routine operations and maintenance, and reserves for life-cycle replacement. The cost of financing for the PPP alternative will typically be higher than in the PSC. The private financing mechanisms used in a PPP often require private equity investments that will garner higher rates of return than the low-cost, tax-exempt debt financing solutions that are typical in the public sector's standard project finance approach. Although the PPP alternative typically has a higher cost of financing, a key benefit of the VfM analysis is that it allows the public sector to weigh that relative cost differential against all the other costs and benefits of a PPP to arrive at a true, holistic comparison of the traditional procurement method versus a PPP.

The second component of the shadow bid is the expected cost of all risks the public sector retains in a PPP scenario. Although a PPP transfers most risks to the private sector, a few notable exceptions include force majeure, unforeseen site conditions, and changes in law that must be factored into the shadow bid. Similar to the PSC, once all cash flows of the shadow bid are known, they are discounted back to present day value to arrive at the shadow bid's NPV.

For the VfM analysis to be accurate and a fair comparison of the two alternative procurement methods, a few key parameters must be set. First, the project scope, operational standards, and life-cycle replacement assumptions must be the same for both the PSC and shadow bid. In addition, the discount rate used for both alternatives must be the same and be pegged at the public sector's borrowing rate. Any inconsistencies in these parameters can yield dramatically different results in the NPVs being used for comparison.

COMPARATIVE NPV

The final step in the VfM analysis is to compare the NPVs of the PSC and the shadow bid. The difference between the value of the PSC and the value of the shadow bid the "value for money" created by selecting the PPP alternative. Assuming that difference is positive, the public sector would receive more value for its money by opting to use a PPP to deliver the asset.

Of course, quantitative factors are not the only selection criteria. The public sector must consider numerous other factors in making the final decision to pursue a PPP. Often, PPPs can deliver assets much more quickly than a standard procurement. In addition, many municipalities can benefit from the certainty that comes with transferring many risks to the private sector as well as the consistency of equal, anticipated

The Intercounty Connector (ICC) in Maryland.

© Robb Williamson/AECOM

Governor George Deukmejian Courthouse, Long Beach, California.

annual payments. In some cases, the jurisdiction may not have access to capital, even if less costly. However, PPPs can be political lightning rods, especially in jurisdictions that have not used the innovative approach successfully in the past. The VfM analysis, when combined with the full gamut of factors to be considered, is a wonderful tool to help the public sector determine if a PPP is the right solution to deliver new infrastructure assets.

Deal Types and Structures for Infrastructure and Public Facility Projects

Several common structures are currently being pursued for infrastructure and public facility projects, depending on their characteristics and the type of service being provided.

REVENUE-GENERATING ASSETS

For infrastructure such as toll roads and parking facilities that generate revenue from user-based fees, PPPs can be structured to capture that revenue stream and use it to secure financing for delivery of the asset. The public sector has the option to collect the tolls or user fees and set rates as a matter of social policy or to transfer the risk of generating revenue to the private sector. One recent PPP project that exemplifies this type of public/private partnership in the United States is the I-495 express lanes in Virginia. The Capital Beltway Express LLC consortium developed this $2 billion toll road under a design/build/finance/operate/maintain (DBFOM) public/private service contract that allows it to collect tolls to help support the capital cost of the project.

AVAILABILITY PAYMENTS

For assets that do not typically generate revenue or for which the private sector is unwilling to take demand risk, such as courthouses, prisons, or research labs, for example, many PPPs use an availability payment structure. This structure is based on the public entity making regular payments to the private entity in exchange for the private entity operating the facility at predetermined levels of building performance. Any deficiency in the asset's operation reduces the amount of the availability payment; thus, the private entity has a significant incentive to ensure that the asset is always functional. One recently successful example of this type of project was the Governor George Deukmejian Courthouse in Long Beach, California. When state bond funding was not available to complete this critical justice sector project, the state turned to a

European-style DBFOM to expedite the project. Under the performance-based contract, the state has an absolute right of offset to deduct from its service payment to the private sector consortium, if components of the building are not available. The building was delivered ahead of schedule and under budget using an innovative off-balance-sheet financing structure to preserve debt capacity for the state of California.

SAVINGS CAPTURE

It is no secret that many public assets are operationally inefficient and functionally obsolete and are often far more expensive to operate and maintain than a newly built, efficient asset. A well-crafted PPP can take advantage of this situation by using the "savings captured" by constructing a new, more efficient facility to pay for the cost of constructing and operating that new facility. For example, if a municipality is paying \$50 million a year to operate an inefficient building, a savings capture infrastructure PPP could be created to build a new building that requires only \$20 million a year to operate. Then, the remaining \$30 million of the current annual expenditure of \$50 million can be used for debt service on the new facility. The net result for the public sector is a new facility delivered and operated for the same cost as it currently pays for the outdated existing facility. This strategy was recently used successfully by the city of Long Beach, California, to procure a new civic center. By redirecting the funding otherwise going to off-site leases and ongoing maintenance of its existing civic center campus to a PPP development and allowing the private developer the right to develop excess land created in the master plan, the city will not only get a new city hall, library, and redeveloped 4.8-acre park, but also vibrant new development in the heart of the city that will provide incremental tax revenue and economic improvement.

Managing Risk and Sharing Success

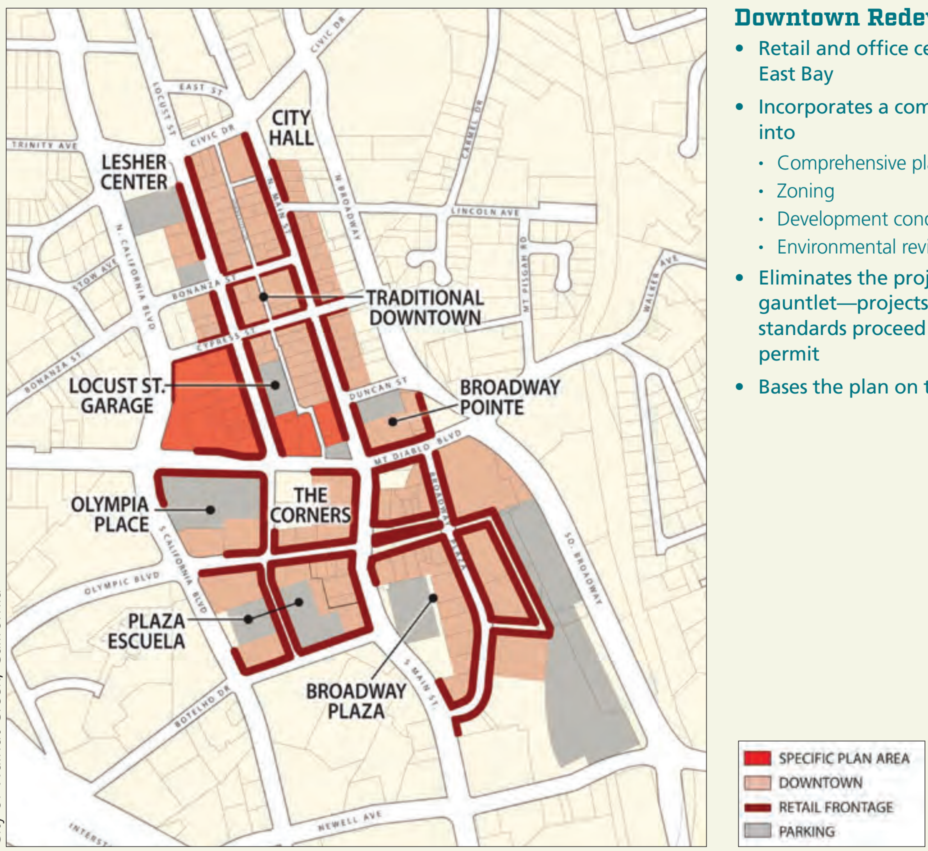
JOSEPH E. COOMES JR. AND CHARLES A. LONG

A PRINCIPAL CHALLENGE for contemporary development today is its higher risk profile. Part of this risk comes from it being more urban, and more physically and economically complicated with new product types, such as mixed use. In addition, the public is increasingly involved in the entitlement process and demands more public benefits; consequently, the entitlement process takes longer, and its outcomes are more uncertain. Time also increases the risk that markets will change before the project can be built and closed out. Therefore, communities that want to achieve high-quality development engage in PPPs that address this higher risk profile by mitigating to the extent feasible the entitlement and market risks for the developer.

These communities use basic strategies. First, they work with the community itself to create a vision with high-quality development standards that permit developers who meet these standards to move straightforwardly and expeditiously through the entitlement process. Second, they address the market risk for developing newer, unproven product types by investing along with the developer and participating in that risk. Both of these

FIGURE 3-23

Walnut Creek, California



City of Walnut Creek, California

Downtown Redevelopment

- Retail and office center for the East Bay
- Incorporates a community vision into
  - Comprehensive plan
  - Zoning
  - Development conditions
  - Environmental review
- Eliminates the project-by-project gauntlet—projects that meet the standards proceed to design and permit
- Bases the plan on the market

Source: Charles A. Long Properties LLC.

FIGURE 3-24

Silver Spring, Maryland

Silver Spring Town Center

Silver Spring, Maryland, in Montgomery County, part of the Washington, D.C. metro area, is currently a vibrant mixed-use community that is headquarters to the American Film Institute and Discovery Channel as a result of county-financed parking and renovation of an art deco movie theater.

Bryce Turner of Brown Craig Turner

Source: Charles A. Long Properties LLC.

strategies enable the community to share the success that comes from higher-quality development that is configured to respond to a contemporary demand profile.

A High-Quality Community Vision

High-quality developers prefer to compete on value, not on price. A jurisdiction that engages the community in creating a high-quality vision creates this opportunity by setting its development standards high and, thus, making the community a more valuable location to live and work. The community vision also streamlines the entitlement process for projects that meet the high standards and thus lowers the entitlement risk.

An interesting consensus is emerging about the strategy of setting high standards and streamlining the entitlement process. Greenbelt Alliance in the San Francisco Bay area in its publication entitled *Smart Infill* says: "Simplify the process for developers. By streamlining permitting and construction processes, getting departments to work together to promote infill, and ensuring requirements are consistent, cities can smooth the way for good development."[6]

Communities that set high standards operate on the principal that the standards may cost more, but they make the community more valuable. Numerous examples of this paradigm exist. The city of Walnut Creek in the San Francisco Bay area has strong planning processes and streamlined entitlement that have resulted in high-quality development (see figure 3-23).

Sharing Market Risk

Communities share the market risk in numerous ways. One is to invest alongside the private sector and catalyze value. Figure 3-24 shows an example in Silver Spring, Maryland. The investments by the county in parking and in renovation of an art deco movie theater catalyzed conversion of the downtown area from a tired and obsolete suburban retail center into a vibrant mixed-use transit-oriented development.

Another risk-sharing method is for a community to convey property for development at a reduced price through a ground lease, basing lease payments on the performance of the project. In the city of Pinole, California, the redevelopment agency conveyed land to a shopping center developer through a ground lease, where rent was 80 percent of the operating cash flow of the center. As a result of the redevelopment agency not requiring an upfront payment for the land, the developer was able to use the land value as the equity contribution to the project.

Communities that recognize and manage the higher risk profile of today's contemporary development can reap substantial benefits from helping the developer manage that risk. Starting with high development standards, streamlining and mitigating the entitlement risk, and extending into possible sharing of market risk through coinvestment or performance-based business terms are two major strategies to achieve this goal.

Documenting and Monitoring Deals

MARK BURKLAND

SOME ADMINISTRATIVE PROCEDURES are always critical to completing a development transaction and carrying out a project. Faithfully memorializing the terms of the agreement reached by the developer and the municipality and incorporating the responsibilities of all parties are important to ensuring successful execution. The sensitivity of a municipality devoting public funds and other resources to a project, and assuming some level of risk of loss, demands greater documentation than would occur in a purely private project. When public land is involved, a purchase and sale agreement is often proposed by the private sector but rarely sufficient. Public/private transactions of all types require detailed agreements.

Documentation of the Process

The surest way to minimize last-minute misunderstanding or disagreements when a development deal is nearly at hand is to have properly memorialized the process. Following are common means of documentation that always should be undertaken.

JOINT EFFORTS

Some recordkeeping may be shared by the parties as a matter of efficiency.

- The parties should decide which party will be responsible for what recordkeeping. That decision itself should be in writing so no confusion exists about who is responsible for what recordkeeping.
- Minutes should be prepared of each face-to-face meeting or significant telephone conference, including the date, the participants, and a brief summary of topics discussed. For items requiring follow-up, the nature of the item and follow-up required, who is responsible for the follow-up, and when the follow-up is due should be noted.
- As negotiations progress, agreements on significant terms, even if still interim and subject to change, should be put in writing and distributed.

INDIVIDUAL EFFORTS

Each party should establish an internal protocol for memorializing communications and activities, including the following:

- Logs of everyday communications. Each party should keep a record of each communication between the developer and the municipality.
  - E-mail messages should be retained at least in electronic form. For municipalities, this almost certainly is required by state law.
  - Telephone calls made and received should be recorded in a log—just the date and time of the call and the names of participants are enough. Voicemail messages should be saved or transcribed unless they plainly are (or become) irrelevant.
- Diaries of significant activities. Developers and municipalities have their own responsibilities and timetables and have commitments to each other. Each party should keep a diary of those responsibilities and commitments so that none escapes attention and milestones and commitments are achieved.

Documentation of the Deal

When an agreement is reached, it must be written thoroughly and clearly. The importance of detailed, unambiguous writing is impossible to overstate.

TERM SHEET/LETTER OF INTENT: Arriving at an agreement regarding key business terms sets the stage for the other agreements. This process allows the expectations of all parties to be reconciled. For the private side, the various requirements of working on a public transaction will become clear: disclosure of ownership; adherence to prevailing wage; minority- and women-owned business requirements; public goal attainment, such as job creation, should be summarized. For the public side, such matters as the basic financial structure, financing sources and commitments, performance guarantees, and tenant commitments are among the matters to be clarified and agreed. Although the subsequent agreements will memorialize much detail—and negotiation around it—basic deal parameters should not be a surprise going forward.

DEVELOPMENT (OR REDEVELOPMENT) AGREEMENT: The development agreement is the working document that must be truly comprehensive. It should include all the substantive terms of the deal. A deal has far too many potential terms to list all of the categories here, but following are some basics:

- All elements of the project affected by zoning or code limitations, variations, or modifications;
- All requirements related to completion and submission of final plans and specifications;
- All procedures and documents required for all real property acquisitions, easements, transfers of title, and other land-related matters, including forms of deeds, easement agreements, and other transfer documents;
- All responsibilities related to who builds what and when, and how that construction is accomplished and paid for;
- Responsibilities for compliance with state and local labor, employment, environmental, LEED standards and other laws, including as applicable minority- and women-owned businesses, Historically Underutilized Business Zone (HUB Zone), disadvantaged business enterprises, and prevailing wage;
- TIF and other financing mechanisms, including funding triggers and requirements;
- All standards for documenting and reporting on project matters, such as
  - Spending;
  - Costs and reimbursement matters (and terms for making payments);
  - Prevailing wage law compliance (including such things as certified payroll records if, and as required, by state or local laws); and
  - A statement of minority- and women-owned business requirements (which should be in the approval ordinance too) and proof of satisfaction of those requirements;
- Timetables, critical path matters, inspections, approvals, public infrastructure standards, and other construction-related items;
- Performance guarantees and warranties, including forms of performance security such as forms of letters of credit and performance and labor and materials payment bonds;
- Commitments to provide declarations of covenants and forms of covenants, conditions, and restrictions;
- Standards for, and limitations on, transferability of ownership, rights, and responsibilities;
- Specific terms for declarations of breach, opportunities to cure, and termination;
- "Clawback" triggers and consequences;
- Terms for final inspection and approvals of public infrastructure improvements and other elements of the project;
- Profit-sharing provisions, lookbacks, and settling point;
- Definitive development plans, specifications, and budgets in an enforceable form, such as approved planned development documents and building plans; and
- Forms of condominium/homeowners association bylaws and property maintenance standards.

ORDINANCE (OR EQUIVALENT): Deal terms may not commonly be stated in both the approval ordinance and in the development agreement, but it can be beneficial for both parties for that to be the case. The municipality must have, and the developer certainly must be satisfied with, an ordinance that covers every element of the deal. Some elements are exclusive to the ordinance, such as zoning approvals, among others. Other elements are appropriate in other documents but should be stated in, or incorporated into, the ordinance. Still other elements are appropriate to be regulated both in the ordinance and in another document (such as a declaration of covenants or an easement agreement).

Execution and Monitoring

As the project proceeds, the private side should expect, and the public side should plan to conduct, oversight of execution and monitoring of performance throughout the life of the agreement. This may include the following:

CONSTRUCTION OVERSIGHT: The private sector can expect the public sector to provide additional review of construction where public funds are involved. This oversight is typically in addition to lender inspections and may be a condition of release of public funds or reimbursements.

PROJECT COMPLETION/COST CERTIFICATION: Formal procedures may be required to prove final costs and true-up elements of the agreement.

ANNUAL FINANCIAL REPORTING/AUDITS: Some projects, particularly affordable housing, carry requirements for annual audits and other financial reporting that may be beyond that usually required by lenders or equity partners in purely private transactions.

COMPLIANCE REPORTING: Certified payrolls to demonstrate prevailing wage compliance and documentation of minority- and women-owned business involvement are typically required on a monthly or quarterly basis. In some cities, residency targets for construction workers may also exist.

EMPLOYMENT AND OTHER PUBLIC GOAL ACHIEVEMENT: Annual certification and documentation of achieving promised goals is typical. "Creating" and maintaining, or retaining, some number of jobs is a common requirement in city commercial and industrial projects. Maintaining affordability is a requirement of affordable housing projects.

ONGOING REIMBURSEMENT OR PAY-AS-YOU-GO: Where assistance is provided over time, as reimbursement for eligible costs, subsidy of interest, or note payments, procedures for periodic submission and review of requests for payment will apply.

PPP transactions share many elements with ordinary private transactions in terms of documentation and reporting. However, additional documentation, compliance, and reporting will be required for a number of project aspects, thereby adding to the ongoing responsibilities of both public and private parties to the project.

Facing page: South Campus, University of Illinois at Chicago, Chicago, Illinois.

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CONCLUSION

STEPHEN B. FRIEDMAN, JOSEPH E. COOMES JR., AND CLAYTON GANTZ

SB Friedman Development Advisors

Public/private partnerships are a critical vehicle for accomplishing key community development objectives with regard to real estate development and redevelopment, infrastructure and public facilities, and monetization of existing public assets for public benefit. These partnerships tap the expertise, tolerance for risk, and financial resources of the private sector to help achieve public goals. However, they are complex, and the public and private sectors approach such transactions with different skills, concerns, and perspectives. >>>

The private sector finds the public sector's limited understanding of private capital underwriting vexing while the public sector's worry about "giving away the store" can get in the way of successful deal making. The private sector does not understand that municipalities are not profit motivated, and the public sector does not understand that developers justifiably expect to be paid to take risk. The public sector's goals transcend profit, whereas the private sector may share the community goals and broader objectives but must achieve an economically viable result more narrowly construed.

These different perspectives were outlined in the introduction and further in the section "Creating Relationships between Developers and Public Bodies" in chapter 3 of this book. Building shared vision, knowledge, and trust are essential. Best practices have evolved, and the following tools to bridge the divide are better understood:

- **Create a shared vision and public purpose** with both the partners and the community, stakeholders, and civic leadership.
- **Assemble the right development team** with participation by all parties to the project to bring the breadth and depth of expertise required for more complex projects.
- **Engage proactively in the necessary predevelopment activities,** often exceeding those things that either a public entity or a private party will do on their own, to lay the groundwork for a successful partnership.
- **Establish appropriate relationships,** with each party knowing the capabilities and history of the other and respecting and reflecting the public requirements for transparency and accountability while managing the private sensitivity to public process and disclosure requirements.
- **Make the economics and financing of the project clear** so that public support can focus on clear extraordinary costs, public benefits, financing gap, or competitive necessity.
- **Know the benefits and how they will be secured** through understanding the fiscal and economic impacts of project, seeing the other community benefits, and ensuring that the requisite commitments can be afforded by the private sector and will be received by the community.
- **For infrastructure and facilities, understand cost-effectiveness over a life cycle,** and structure partnerships to ensure savings to the public sector when private sector efficiencies and skills bring benefits.
- **Structure transactions to meet the needs of the deal while mitigating risk to the public sector,** a process that requires not only understanding the many resources available but also addressing the timing and risk preferences of both parties. Financing market knowledge is critical—the developer needs to be sophisticated in such matters, and the public sector needs to be able to understand the reality faced by the developer.
- **Share in upside potential,** particularly when public support is equity-like or involves risk that may justify profit sharing, waterfall participation, or contingent land prices, while protecting the developer's need to achieve competitive returns.
- **Document and monitor the transaction** to ensure that the public receives the benefits it is seeking and the project is proceeding appropriately, allowing early opportunity to make changes and adjustments if problems occur.

Through these tools and methods, the public and private sector concerns and perspectives can be bridged to use public/private partnerships to the benefit of the community with appropriate profit and returns to the private sector.

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...City of Fort Bragg...

Proposed Economic Development & Housing Development Incentives Manual

Guide to Economic Development Financing Tools

January 29, 2020

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INTRODUCTION

The City of Fort Bragg welcomes new business investment and supports businesses which have already chosen to invest in our community. The City recognizes that investment decisions may be competitive and that high quality development and infrastructure benefits improve the quality of life for our residents and visitors. Effective economic development incentives support economic growth and job opportunities, as well as foster the preservation of residential neighborhoods and the revitalization of commercial districts. The City acknowledges that incentives are an effective way to meeting economic development goals.

Economic Development strategies, when used strategically, can promote employment opportunities and build the City's tax base. This document provides a standard approach and guidelines to ensure that economic development incentives support the goals of Fort Bragg community revitalization, attract new businesses, encourage investment of local businesses, and are applied consistently.

COMMUNITY FACILITIES DISTRICT

In 1978, Proposition 13 was enacted by Californians, which limited the ability of many public agencies to finance new projects. In 1982, Senator Henry Mello and Assemblyman Mike Roos affected the passage of the "Mello-Roos Community Facilities Act of 1982" (the Act) authorizing local governments and developers to create Community Facilities Districts (CFDs) for the purpose of selling tax-exempt bonds to fund public improvements that will benefit the district.

ELIGIBLE ACTIVITIES

The range of public facilities that may be financed with a Community Facilities District (CFD) is very broad and there is an extensive description of authorized facilities in the Mello-Roos Act. Generally, a CFD may be used to finance the purchase, construction, expansion, improvement or rehabilitation of real or other tangible property with an expected useful life of five years or longer, which the local agency is authorized by law to construct, own, operate, or to which it may contribute revenue. The following list are common improvements financed through CFDs:

- Streets
- Utility mains
- Parks and playgrounds
- Sidewalks
- Street lights
- Storm water facilities

FINANCING

Financing is accomplished through the issuance of tax-exempt bonds. The issuance of bonds provides up-front funds for capital projects. The bonds are repaid with a special tax levied on the properties within the district boundaries and therefore the City has no payment obligation. The property owners in the district agree to put a lien on their properties in order to provide collateral for the bonds. CFDs provide non-recourse financing for developers often at attractive rates.

APPROVAL PROCESS

Before the City may undertake a Mello-Roos proceeding, it is required to adopt its own "Local Goals and Policies" concerning its use of the Mello-Roos Act. These must include statements of:

- The priority to be given, in the use of the Act, to the various types of public improvements that might be financed, including facilities of other public agencies;
- The credit quality to be required of any bonds issued, and the means of measuring that quality – the focus here usually being the ratio between the value of the property that is the security for the tax, and the amount of bonds permitted to be sold;
- The steps to be taken to ensure that prospective purchasers of property will be informed of the special tax before they enter into a contract to purchase;
- Criteria for evaluating the equity of proposed special tax formulas, and desirable and maximum limits on the special tax;
- Definitions, standards and assumptions to be used for appraisals of the taxable property that will be the security for the bonds.

An Engineer’s Report is also required for an assessment district including a Rate and Method of Special Tax Apportionment (RMA) for the CFD. This report specifies the allocation of special taxes or assessments among parcels. Finally, to establish the district the City must hold a public hearing and a vote must be held to include the property owners within the district boundaries which must pass with 2/3 of the vote.

SCENARIO

As an example of implementation of this type of financing, one might envisage a group of adjacent property owners wishing to install infrastructure such as streets, street lights, sidewalks, water mains and sewer mains in order to facilitate development of the properties. The group of property owners approach the City and request sponsorship of a Community Facilities District. In collaboration with the City they form the CFD upon a vote of 2/3 of the property owners within the district and impose a 1% special assessment tax on their properties. They bond for the cost of installing the desired infrastructure at a cost of $30 million. With an appraised value of $90 million within the CFD, the annual payments for the project will be $900,000. At this rate, the infrastructure improvements will be paid off in 30 years.

INFRASTRUCTURE FINANCING DISTRICT

The traditional redevelopment economic development tool in California is gone but several new tools are now in place and allow tax increment to be used for various purposes. They differ significantly from "old school" redevelopment, but offer potential to help cities solve problems. Compared with redevelopment, the new tools have reduced financial capacity, thus requiring innovative thinking and new partnerships to maximize their potential.

Tax increment is much different under the new tools. Agreement by any affected agency is now required. A taxing jurisdiction is entitled only to the increment generated on its own share of the property tax unless other local agencies also agree to contribute their shares. For example, if a city forms a new entity, the city can direct only the increment derived from its own share to this purpose, unless the county and/or special districts also agree to have growth of their respective shares dedicated. As a result, when local governments agree to partner on infrastructure and economic development they can maximize the tool's financial capacity.

School districts, however, are prohibited from agreeing to allocate growth from their shares of property tax to these purposes, reflecting the state's concern about the need to backfill any losses. This is a major reduction in financial capacity, because approximately 50 percent of property taxes are allocated to schools.

Three new tools are briefly described below with more detailed descriptions provided as attachments.

ELIGIBLE ACTIVITIES

Typical eligible activities include:

- Infrastructure, such as roads, bridges and wastewater and groundwater facilities;
- Affordable housing, mixed-use development and sustainable development;
- Transit-oriented development;
- Light rail;
- Industrial structures;
- Parks and open space;
- Libraries;
- Child care facilities;
- Military base reuse; and
- Brownfields remediation.

FINANCING

Enhanced Infrastructure Financing District

The Enhanced Infrastructure Financing District (EIFD) law (beginning with Section 53398.50 of the California Gov't. Code) provides broad authority for local agencies to use tax increment to finance a wide variety of projects. No public vote is required to establish an authority, and though a 55 percent vote is required to issue bonds, other financing alternatives exist. Unlike former redevelopment, this tool imposes no geographic limitations on where it can be used, and no blight findings are required. An EIFD can be used on a single street, in a neighborhood or throughout an entire city. It can also cross jurisdictional boundaries and involve multiple cities and a county. While an individual city can form an EIFD without participation from other local governments, the flexibility of this tool and the enhanced financial capacity created by partnerships would likely call for creative discussions between the City and other local agencies on how the tool can be used to fund common priorities.

Community Revitalization and Investment Authority

The Community Revitalization and Investment Authorities (CRIAs) law (beginning with Section 62000 of Gov't. Code) authorizes tax increment to be used in combination with the powers of former redevelopment agencies. A CRIA focuses on assisting with the revitalization of poorer neighborhoods and former military bases. While similar to redevelopment, a CRIA is more streamlined. Accountability measures are included to ensure that the use of the CRIA remains consistent with community priorities, and a 25 percent set-aside is included for affordable housing. Although an initial protest opportunity exists, no public vote is required to establish an authority, and bonds and other debt can be issued after a CRIA is established.

Annexation Development Plan

The Annexation Development Plan (ADP) law (Section 99.3 of Revenue and Tax Code) authorizes tax-increment financing to be adopted by consenting local agencies (city and/or a county or special district) to improve or upgrade structures, roads, sewer or water facilities or other infrastructure as part of annexing a disadvantaged unincorporated community. An ADP can be implemented by a special district either formed for this purpose or incorporated into the duties of an existing special district. After the Local Agency Formation Commission (LAFCO) approves the annexation, the special district can issue debt without an additional vote.

APPROVAL PROCESS

Enhanced Infrastructure Financing District

Established by Resolution of the City Council (subject to certain prequalification). Once the District is established a governing body known as a Public Financing Authority (PFA) is appointed and consists of three members of the City Council plus two members of the public. Once appointed, the PFA directs the preparation of an Infrastructure Financing Plan (IFP) that includes the details or the public facilities and other forms of development that is proposed within the area of the district and how those facilities and development will be funded.

Community Revitalization and Investment Authority

A CRIA is a public agency separate from the city, county, or city and county that created it; and deemed to be an "agency" for purposes of receiving property tax increment. Any taxing entity within the Area (except for a school district) may choose to allocate some or all its share of tax increment funds to the CRIA. For a CRIA created by a city, county, or city and county, the governing body consists of three members of the city council plus two members of the public who live or work within the community revitalization and investment area. For a CRIA created through a joint powers agreement the governing body consists of a majority of the members from the legislative bodies of the public agencies that created the authority and a minimum of two public members who live or work within the area. A CRIA must adopt a Plan that guides its revitalization programs and authorizes receipt and expenditure property tax increment revenues. The Plan must be adopted over a series of three public hearings, held at least 30 days apart. The final version of the plan is subject to written and oral protests. Proceedings to adopt the plan must terminate if there is a majority protest (over 50% of the combined number of property owners and residents in the area). An election on whether to adopt the plan must be called if between 25% and 50% of the combined number of property owners and residents file a protest.

Annexation Development Plan (ADP)

An annexation proposal for a change of organization or reorganization is submitted to LAFCO. To include an ADP, the applicant is required to submit a plan for providing services within the affected territory. The plan for providing services must include a description of the services to be provided; an indication of when those services will be provided; and information about how those services will be financed. A plan for providing services to an unincorporated disadvantaged community is adopted by the local agency that files the application with LAFCO and one or more other consenting local agencies that wish to see services to an unincorporated disadvantaged community improved or upgraded. If an ADP is included with a local agency's application to LAFCO, then the county LAFCO may include in its approval of the application the formation of a special district or reorganization of a special district with the special district's consent, to provide services to the disadvantaged unincorporated community. The property tax increment from those local agencies that consented to the ADP will be allocated to the special district formed or reorganized by LAFCO to fund the identified services through pay as you go or the issuance of bonds

SCENARIO

As an example of implementation of this type of financing, one might envisage the City joining with the County of Mendocino, The Harbor District, The Parks District and the Hospital District to create a multi-entity CRIA for the purpose of meeting the City Council goal of providing 200 units of affordable housing in the next 5 years. The multi-entity Authority is created by way of a joint powers agreement. All of the agencies joining the Authority pledge future tax increment and the newly formed CRIA issues $3.2 million in tax allocation bonds to purchase a 20 acre lot and construct $1 million of infrastructure upgrades. The acreage is donated to a housing developer who constructs 100 units of moderate-income housing and 100 units of low-income housing. All rental units are stipulated to remain affordable for 55 years and all owner-occupied units are stipulated to remain affordable for 45 years. The bonds are repaid over a period of 40 years using the tax increment created in the Authority area.

BUSINESS IMPROVEMENT DISTRICT

A Business Improvement District (BID) is a program under which the city levies an assessment against businesses or property to fund services or improvements that benefit the assessed business or property. BIDs are increasingly common in downtowns and other commercial areas to provide localized marketing, sanitation, security and other services. Cities find BIDs attractive because they can help bolster an aging commercial area, ideally leading to increased tax revenue for the City, with minimal investment of general fund tax dollars. A city council can only establish a BID after the owners of the businesses or property have indicated their support for the BID via a petition, a ballot, or both. Assessments may be against businesses (tenants) or property (owners). Assessments against businesses are usually collected by cities along with their business license taxes, and against property are usually collected as part of the property tax.

BIDs also require a “management district plan” containing specific information about the proposed BID, be prepared for each BID at the beginning of the establishment process. Additionally, if assessments are to be levied against property, it is required that the assessment be supported by a “detailed engineers report” that typically includes analysis describing how the proposed assessment complies with the requirements of Proposition 218. These two documents are sometimes combined into a single document, and with the resolutions adopted by the city council during the establishment process serve as the "constitution” for the BID.

While BID programs can be designed in-house or by the business or property owners who propose the BID, it is typical for these programs to be created by a specialized BID consultant. Fees for the consultant are sometimes paid by the city and are sometimes paid by the BID proponents. These costs are sometimes reimbursed from the first BID assessments, but if the BID is not successfully established, there will be no assessments from which to make reimbursements.

Cities can structure BIDs so that the services and/or improvements are provided directly by the city. However, it is much more common for services and improvements to be provided either by an existing nonprofit organization (such as a chamber of commerce) or by a nonprofit organization formed by BID proponents specifically to serve the BID. Such a nonprofit is often called an “owners’ association” and are usually governed by a board of directors that is elected by the business or property owners subject to the assessment. The relationship between the owners’ association and city is contractual in that the city agrees to pay the owners’ association the proceeds of the assessment (sometimes with a deduction for administrative and collection costs incurred by the city), and the owners’ association agrees to use those proceeds to fund BID services and/or improvements as set forth in the management district plan.

ELIGIBLE ACTIVITIES

BIDs most commonly fund services, such as security services, sanitation services, and marketing services. So long as the services properly benefit assessed businesses or property, the scope of services that can be provided is essentially unrestricted.

BIDs can also acquire, construct, install and maintain improvements. Examples include bus benches, trash receptacles or other street furniture. It is also common for BIDs to install banners on street lights. The scope of permissible improvements is very broad, essentially encompassing any tangible property with an estimated useful life of at least five years.

There must be a direct tie between the assessment and the benefit provided, and the benefit needs to be over and above general benefits available to the public at large.

APPROVAL PROCESS

There are two laws that authorize the establishment of BIDs—the Parking and Business Improvement Area Law of 1989 and the Property and Business Improvement District Law of 1994. The '89 Law levies assessments against businesses, and the '94 Law allows BIDs be funded by assessments against businesses, property or a combination of the two.

A BID established under the '89 Law (i.e. the BID is limited to assessments against businesses) requires the following steps:

1. The city council adopts a "resolution of intention" setting forth the details of the BID program, a date and time for a public hearing, and other information required by statute.
2. Within seven days of adopting the resolution of intention, a complete copy of that resolution must be mailed to each business owner in the territory of the proposed BID.
3. The city must mail to each business a "joint notice of public meeting and public hearing." This "joint notice" is typically mailed along with the copy of the resolution of intention.
4. No earlier than ten days after mailing the "joint notice," the city council must hold "at least one public meeting at which [the city council] shall allow public testimony regarding the proposed…new…assessment."
5. No earlier than forty-five days after mailing the joint notice, and no earlier than seven days after the public meeting, the city council must hold a public hearing.
6. At the public hearing, the city council must consider oral and written protests. If written protests meeting the requirements of Section 36524 of the Streets & Highways Code are received (and not withdrawn) from "the owners of businesses in the proposed area which will pay 50 percent or more of the assessments proposed to be levied", then proceedings must be abandoned for no less than one year. Otherwise, the city council may (but is not required to) adopt an ordinance establishing the BID.

A BID established under the '94 Law (i.e. the BID may include assessments against businesses, property or both) requires the following steps:

1. Proponents circulate a petition, and obtain signatures from "property or business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied." If any proposed assessment will pay more than 40 percent of the assessment, that assessee's obligations in excess of 40 percent do not count towards this calculation. The '94 Law requires that the petition include a summary of the management district plan, which must include:
    a. "a map showing the boundaries of the district;"
    b. "information specifying where the complete management district plan can be obtained;" and
    c. "information specifying that the complete management district plan shall be furnished upon request."

2. The city council adopts a “resolution of intention.”
3. If the BID includes assessments against property, the city must conduct a property-owner assessment ballot proceeding pursuant to Proposition 218.40 This involves mailing a notice and ballot to each affected property owner at least forty-five days prior to the public hearing. For more information about conducting assessment ballet proceedings, refer to the League of California City’s Proposition 26 & 218 Handbook.
4. If the BID includes assessments against businesses, the city must notice and conduct a public meeting and public hearing pursuant to Section 54954.6 of the Government Code, as outlined in the discussion of the ’89 Law.
5. The city council holds a public hearing.
6. After conducting the public hearing, the city council must abandon proceedings in connection with an assessment against property if the ballots submitted (and not withdrawn) in opposition to the assessment against property exceed the ballots submitted (and not withdrawn) in support of that assessment. For purposes of this calculation, ballots are weighted by the amount of the assessment obligation of the parcel.
7. After conducting the public hearing, the city council must abandon proceedings for at least one year in connection with an assessment against businesses, if written protests meeting the requirements of Section 36623(b) of the Streets & Highways Code are received (and not withdrawn) from “the owners or authorized representatives of businesses in the proposed district that will pay 50 percent or more of the assessments proposed to be levied.”
8. Except to the extent it is required to abandon proceedings by virtue of protests or the assessment ballot proceedings, the city council may (but is not required to) adopt a resolution of formation that establishes the BID.

It is not unusual for cities to create additional procedural steps, such as a petition requirement for BIDs established under the ’89 Law. One reason for imposing additional requirements can be to gauge stakeholder interest before using municipal resources to develop a BID program.

TRANSIENT OCCUPANCY TAX (TOT)/HOTEL TAX INCENTIVE PROGRAM

ELIGIBLE ACTIVITIES

- Development and construction of new hotels or motels within City limits with at least ten rooms to be rented on a short term basis (30 days or less) only.
- Construction of additional hotel rooms at an existing hotel or motel to be rented on a short term basis (30 days or less) only.
- Renovation projects for existing hotels or motels rented on a short term basis (30 days or less) within City limits in which no less than $5,000 per room is invested within a 12-month period.

REBATE

- Up to fifty percent (50%) of new TOT for up to 20 years for new construction
- Up to fifty percent (50%) of incremental TOT increase for up to 10 years for renovations/remodels
- Up to fifty percent (50%) of incremental TOT increase for up to 5 years for construction of additional rooms at existing hotel/motel

APPROVAL PROCESS

City Council approves a Tax Sharing Agreement with a Hotel/Motel owner or developer which sets forth the terms of the full agreement in compliance with the program requirements. Staff will evaluate and estimate the incremental TOT revenue anticipated from the project and determine if and how much of a gap exists to make the project financially feasible and determine a reasonable repayment period. The TOT rebate percentage and time period will be based on those factors with consideration for project specific circumstances or benefits.

SCENARIO

Hotel developer or owner who is interested in constructing a new hotel or motel develops the concept and applies for a planning permit with the City of Fort Bragg. At the same time the developer/owner may request that the City consider a TOT Sharing Agreement. City staff will evaluate the project, the potential incremental revenue, existing or projected gaps in in financial feasibility and provide Council with a proposed Agreement based on the project’s alignment with City Council goals and the program criteria.

MILLS ACT

The Mills Act is a California state law and important economic incentive program for the restoration and preservation of historic buildings by private property owners. Mills Act contracts are unusual among preservation incentives in that the tax benefits are available for both income property and owner-occupied property, as well as all types of taxable properties: single-family, multi-family, commercial and industrial. Enacted in 1972, this legislation allows local governments to administer property tax relief to qualified properties who actively participate in restoration and maintenance activities.

NOTE: Owners of properties with comparatively low property taxes may not benefit financially because the assessed value under the Mills Act will likely be higher than the existing Base Year Value of the property under Proposition 13. Generally, this program is beneficial to recent buyers and current owners who have made major improvements to their properties.

ELIGIBLE ACTIVITIES

Eligible activities can include the entire property:

- Interior of buildings, such as flooring, windows, doors, fireplace, decorative features
- Exterior of buildings, such as foundation, roof, cladding, porches, balconies
- Site amenities, such as landscape, hardscape, retaining walls, sheds
- Systems, such as mechanical, electrical and plumbing

These activities are based on the Secretary of Interior's Standard's for the Treatment of Historic Properties, which offer four distinct approaches:

- Preservation – focuses on the maintenance and repair of existing historic materials and retention of a property's form as it has evolved overtime.
- Rehabilitation – acknowledges the need to alter or add to a historic property to meet continuing or changing uses while retaining the property's historic character.
- Restoration – depicts a property at a particular period of time in its history, while removing evidence of the other periods.
- Reconstruction – recreates missing portions of a property for interpretive purposes.

FINANCING

The Mills Act allow qualifying property owners to receive a property tax reduction in order to utilize the savings to help rehabilitate, restore and maintain their buildings. Contracts are administered by the City and renew automatically each year for a ten-year period. The contract is attached to the land, transferring to new owners when a property is sold.

Property valuation is determined by the Assessor as set out in Revenue and Taxation Code, Section 439.21.

NOTE: Failure to rehabilitate the property may cause cancellation of Contract and penalty equaling 12.5% of the fair market value.

APPROVAL PROCESS

Interested property owners of historic structures must complete a Mills Act Program Application Packet. Following review by City staff, eligible applicants will meet to discuss specifics, establish expectations and schedule a pre-contract inspection of the property. City Council considers and approves a Mills Act Contract with property owner. Periodic inspections of the property will be conducted to ensure compliance.

SCENARIO

A property owner interested in applying for tax relief to restore and maintain their qualifying property completes a Mills Act Program Application Package. City staff evaluates the proposal, identifies priority consideration criteria, establishes expectations of applicants and develops contract for City Council consideration. Approved contract is signed by both parties and automatically renews for a 10-year period. Periodic inspections are made to ensure compliance with agreement.

CAPACITY FEE DEFERRAL PROGRAM

Currently the owner/s or developer/s of lands within the service area of the City and/or the Municipal Improvement District No. 1 are required to pay a capacity charge, prior to the issuance of a permit, to connect any portion of the property to the sanitary sewer works or water system. The purpose of the capacity charge is to assure that there will be sufficient funding for improvements to the District sanitary sewer works or City water system as necessitated by increased flows of water and/or wastewater resulting from new connections.

However, in order to stimulate economic development within the city, the City Council wishes to instate a temporary Capacity Fee Deferral Program. Rather than paying capacity fees at the time a building permit is issued, developers may elect to defer a portion of those fees. It is proposed that the Deferral Program be instated for an initial period of two years and renewed for additional two year periods at the discretion of Council.

ELIGIBLE FEES

The following capacity fees are eligible for deferral:

- Water system capacity fees
- Wastewater system capacity fees

FINANCING

Two-year program – to be eligible for this program, the total qualified capacity fees must be over $15,000 but less than $100,000.

- Down payment – 20% of qualifying fees, plus all other fees due at time of permit issuance.
- Payment schedule – two equal annual installments, plus interest calculated on the unpaid principal.

Three-year program – to be eligible for this program, the total qualified capacity fees must be $100,000 or greater.

- Down payment – 20% of qualifying fees, plus all other fees due at time of permit issuance.
- Payment schedule – three equal annual installments, plus interest calculated on the unpaid principal.

The rate of interest shall be equal to the Local Area Investment Fund (LAIF) published rate of interest at the time the Fee Deferral Agreement is signed.

APPROVAL PROCESS

Developers who wish to participate in the program must submit an application to the Community Development Department. If approved, the City will defer fees after the Developer has entered into a Fee Deferral Agreement. The City will not enter into a Fee Deferral Agreement until the developer has paid all non-city controlled fees due as well as the required down payment.

To participate in the fee-deferral program, a development project must satisfy the following requirements:

1. The property shall be located on property within the City of Fort Bragg.
2. The project shall have received the final discretionary approval by the City Council, Planning Commission, or staff as appropriate.
3. The project shall have undergone all required environmental review and shall be in compliance with all requirements established by the environmental document prepared for the project.
4. All conditions of approval, as applicable at the time of permit issuance shall have been met.
5. All payments of taxes and assessments on the property on which the project is located shall be current.
6. The applicant shall have no unpaid balances due to the City for the project or any other project or purpose.
7. The applicant and/or his, her or its partners and affiliates shall have been deemed by the City to present a low risk of non-payment of fees. The City may require the applicant to provide a risk assessment from a qualified and independent third party at the applicant's sole cost. Additionally the City may review criteria such as (but not limited to) applicant foreclosure history, bankruptcy filings, and civil judgements in making a determination of low risk.
8. All fees imposed by a government agency other than the City either shall have been paid or shall have been the subject of a fee deferral agreement between the applicant and the agency imposing the fees.
9. To ensure payment of deferred fees, the City will require, as security, a lien against the project property or another security instrument mutually agreed upon by both the City and Developer.

SCENARIO

As an example of implementation of this type of financing, one might envisage a new development of a retail/grocery store in the City. The Water system capacity fees for the project are calculated at $66,000 and the Wastewater system capacity fees are calculated at $90,000; total capacity fees equal $156,000. The developer submits an application to the City and after meeting all of the requirements of the program the two parties enter into a fee deferral agreement. The developer makes an initial payment equal to 20% of the total capacity fees due which equals $31,200 leaving a balance of $124,800. The remaining fees are paid in three equal annual payments of $41,600 each plus interest. The LAIF rate of interest at the time the agreement is completed is 2%. Using a rate of 2%, interest across the life of the deferral equals $4,992.

CENTRAL BUSINESS DISTRICT CAPACITY FEE FORGIVENESS PROGRAM

The Public Works and Facilities Committee received a report on this program on January 8, 2020. The full Council will receive the committee's recommendation on the topic in a separate report.

COMMUNITY DEVELOPMENT BLOCK LOANS

CDBG offers Over-the-Counter loans and offers a Business Assistance Loan Program (BALP). They are distinctly different, but both offer access to capital for local businesses to stimulate economic development.

OVER-THE-COUNTER LOANS

The CDBG Over-the-Counter (OTC) program provides single-purpose grants from $300,000 to $6 million for eligible cities and counties to lend to businesses to accommodate the creation, expansion or retention of identified businesses. Loans are available in amounts of $35,000 per job created or retained. At least 51% of the jobs must be filled by members who locally qualify as low-income. Loan terms depend on the use of the loan and security pledged, and typically range from 5 to 30 years. Oftentimes, applicants must demonstrate that they do not qualify or cannot obtain a traditional loan in order to qualify. These eligibility and application requirements are subject to change each year the program is offered.

The City can help businesses apply for OTC loans through its ongoing CDBG program; however, there are application windows that vary from year to year. Currently, CDBG is accepting applications for OTC loans until September 15, 2020, with the expectation that another application window would open next year.

The City assisted with an OTC loan to Sport Chrysler Jeep Dodge in 2014. For this loan, CDBG approved the "low-moderate income area of benefit" National Objective because the funded activity provides a unique service (new car sales) within Fort Bragg city limits that is "available to benefit all the residents of an area that is primarily residential…where at least 51% of the residents are LMI persons." The City of Fort Bragg is an area that is primarily residential where 51.4% of the population was low-moderate income per HUD tables available for the 2014 application. The required Public Benefit was met through provision of an "area benefit" loan with a maximum funding amount equal to $350 per low/moderate income resident, or $1,295,125 ($350 times 3,700 low-moderate income residents). The total grant application of $846,151 included $756,151 for the loan, Activity Delivery funding of up to $40,000 and General Administration funding of up to $50,000. The actual amount funded for the loan was $720,397. Actual Activity Delivery expended was $7,006, and General Administration expenses were $50,000. General Administration expenses included $19,563 in pre-application loan development fees that could not be charged as Activity Delivery before the grant was funded. Amounts that were awarded but not billed or received for the loan ($24,274) and Activity Delivery ($32,994) was disencumbered.

OTC grants also provided Activity Delivery funds to provide for loan development and loan servicing costs, as well as General Administration funding to provide for costs of administering and implementing the CDBG program.

BUSINESS ASSISTANCE LOAN PROGRAM

Loans from the Business Assistance Loan Program differ in that they are competitive, and they are available to a maximum amount of $300,000. BALP loans may be used for operating capital, inventory, furniture, equipment, property improvements (prevailing wage rates apply), real property, debt restructure or for the purchase of an existing business. These parameters are subject to change each year as the program evolves.

Similar to OTC loans, BALP loans have application windows but are often shorter—they need to be included with the City's comprehensive CDBG application. The City is eligible to pursue BALP loans through its ongoing CDBG program. Since BALP loans are competitive, they are reviewed on a case-by-case basis and award is not assured even if the eligibility guidelines are met.

The 2016 CDBG grant provided $161,000 to provide BALP loans to eligible businesses located within city limits and to procure a highly experienced program operator to assist with the business loan process. Grant funds were used to provide a $140,000 loan to Overtime Brewing, Inc. to assist with startup costs and $21,000 was used to fund administrative costs associated with the loan development and loan activity closeout. Overtime Brewing, Inc. created 11 new jobs.

FAÇADE IMPROVEMENT PROGRAM

ELIGIBLE ACTIVITIES

- Painting the façade of an existing business
- Replacing or adding an exterior business sign
- Repair or replacing outdoor lighting, windows or outdoor landscaping
- The addition of finishes that improve the appearance of the façade (siding, stucco, tile, stone or brick)
- The removal of dated, deteriorating or unattractive finishes
- Awnings, canopies or sunshades
- Façade improvement must be visible from the public right of way

FINANCING

The program provides a fifty percent (50%) match of up to $2,000 for exterior improvements to local businesses throughout Fort Bragg. Program recipients will be reimbursed for work performed up to 50% based on submittal of acceptable evidence of the work performed, such as copies of paid invoices, credit card receipts with accompanying statement or invoices identifying work performed and copies of cancelled checks.

APPROVAL/APPLICATION PROCESS

Completion of the application by eligible applicant. Eligible applicants are property owners or tenants of commercial properties within the City limits with valid City of Fort Bragg Business Licenses. Business owners who are tenants must provide documentation as to the right to make the proposed alternations to the property. Applications will be reviewed by a City appointed committee and annual awards will be limited to $5,000 per year, subject to annual appropriation. Businesses who qualify for the program and successfully complete the façade improvement project are eligible to apply in future years, although priority will be given to businesses who have not already participated in the program.

Recipients will hire contractor and is responsible for obtaining all local permits and approvals.

SCENARIO

A qualifying business owner in the Central Business District (CBD) who is interested in replacing the siding and painting the façade of the businesses on the front entrance can apply for a fifty percent match of funds up to $2,000 to make the repairs. The business owner is responsible for obtaining at least two quotes and contracting for the services, if not completed by the owner.

INDUSTRIAL DEVELOPMENT/INDUSTRIAL REVENUE BONDS

ELIGIBLE ACTIVITIES

Capital expenditures such as land, building and equipment and other depreciable property used for manufacturing, production or processing of tangible property. Projects must provide some public benefits, including job creation or retention.

At least 95% of the bond proceeds must be spent on qualifying costs and no more than 25% can be used to acquire the land.

FINANCING

Industrial Development Bonds (IDBs) are tax-exempt securities issued up to $20 million by a government agency, including cities, to provide money for acquisitions, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies.

APPROVAL PROCESS

Local governments may issue bonds to finance industrial development on behalf of a for profit private or non-profit organization. The local government issues the bonds backed by the revenues generated from a specific project or revenue source. Upon issuance, the of the bonds ownership of the development site and/or equipment transfers to the local government. Property owned by the local government is not subject to property taxes. The proceeds are used to fund the acquisition, construction/reconstruction, expansion or improvement of the property that qualifies as a manufacturing facility or equipment. Once the bonds are repaid, the local government conveys title of the site and/or equipment back to the organization.

The local government must issue Approval from the California Industrial Development Financing Advisory Commission is necessary before a receiving a Qualified Private Activity Bond Allocation.

SCENARIO

An organization identifies land, building and/or equipment for manufacturing, production or processing. If the project meets the other criteria and provides sufficient public benefit, the organization can ask the City to partner in the venture. The City would work with Bond Counsel and Financial Advisors to issue the debt pledging the revenues from the new venture. The City would take ownership of the property until the bonds are paid off. The financing would be tax exempt and during the time the City owns the property it would be exempt from property taxes, thereby creating lower cost financing. The City benefits from the creation of new jobs and/or other public benefits.

PLANNING INCENTIVE PROGRAM FOR HIGH QUALITY JOBS

Planning Incentive Programs help guide development in the City and are created to be a "win-win" solution for both the community and developers. The core of these programs is an exchange of value given to a project for some kind of community benefit, in this case, high quality jobs. Created or retained jobs must meet the required wage threshold of ____ and must also provide a sufficient benefit package to all full-time employees.

ELIGIBLE ACTIVITIES

- Height, density and Floor Are Ratio (FAR) bonuses
- Reduction in parking requirements
- Fee waivers or reductions
- Tax Credits / Sharing / Exemptions
- Loans / Grant Assistance

FINANCING

Provisions granted to a business in exchange for creating or retaining high quality jobs reduce actual costs that might be associated with the relocation, modernization or expansion of a qualifying project in an effort to make such investments financially feasible.

APPROVAL PROCESS

A business interested in investing in Fort Bragg and benefiting from a High Quality Job Incentive Program would submit proposal to City. Through an iterative process, the project would be awarded bonus provisions to offset some of the costs incurred to relocate, expand or modernize a facility. This exchange would be fair and careful analysis is required through a project specific review. The guidelines and outcome of this exchange would be clearly agreed upon prior to project approval to ensure predictability for both parties.

SCENARIO

A local business that provides job opportunities for a skilled workforce and meets the wage threshold requirements for high quality jobs, desires to expand and modernize their facility. A project proposal is developed that includes company background, project description, number of jobs retained/created, wages and benefit summary and financial pro forma. City staff verifies eligibility and schedules a meeting to discuss potential assistance the City can offer based on the industry, quality and number of jobs generated.

For example, for each square foot of high quality jobs, the project could be granted an additional square foot of floor area. Or perhaps, there is an opportunity to refund sales tax, waive permit fees or reduce capacity fees.

HOUSING DENSITY BONUS

The California State Density Bonus Law, under Section 65915 of the California Government Code offers incentives of up to a 35-percent increase in densities, in exchange for including affordable housing units in a project. Residential or mixed use projects of five or more units could receive a density bonus by providing provisions such as, on-site affordable housing, senior housing, childcare facilities, and condominium conversions. The density bonus is based on the percentage of affordable units provided, and whether those units are considered moderate income, low income or very low income. In addition, waivers or reductions of local development standards such as height, parking, setbacks or open space could also be eligible.

ELIGIBLE ACTIVITIES

- Increased density up to 35%
- Waiver or reduction concessions of development standards

FINANCING

Housing density bonuses and concessions are granted to developers to reduce actual costs, which could significantly contribute to the economic feasibility of a project by reserving affordable units.

APPROVAL PROCESS

Projects eligible for Housing Density Bonus incentives are analyzed and entitled through the planning permit process. Pre-application meetings are encouraged prior to formal application submittal.

SCENARIO

A project has a maximum allowable residential density of 15 units. The developer reserves 2 units for rental to low income households. This would equal 13% of the project, the 10% minimum to be entitled to a 20% bonus would be met – an additional 3 bonus units. The remaining 3% over the minimum (10%) could mean the developer is also entitled to an additional bonus of 2.5% for each 1% over the minimum (2.5% multiplied by 3 = 7.5%). In this scenario, that would be an additional 2 units for a total of 4 bonus units, keeping in mind that the maximum increased density bonus any project could be granted is 35%.

In the same scenario, if the developer decided to reserve 2 units for rental to *very* low income households, this would still equal 13% of the project, however the minimum to be entitled to a 20% bonus is only 5%, allowing 3 bonus units. However, the remaining 8% could mean that the developer is entitled to an additional housing bonus of 3 units (2.5% multiplied by 8 = 20%), for a total increased density bonus of 6 units.

Furthermore, the developer may request concessions to development standards, such as setbacks, parking, private or open space. In the scenario above, reserving 2 units for low income households, the developer could be granted one concession. In the scenario providing 2 units to *very* low income households, two concessions could be granted. In order for a concession to be approved, the developer is required to demonstrate that each requested incentive would result in identifiable, financially sufficient, and actual cost reductions that contribute significantly to the economic feasibility of reserved affordable units.

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HOW SMALL TOWNS AND CITIES CAN USE LOCAL ASSETS TO REBUILD THEIR ECONOMIES: LESSONS FROM SUCCESSFUL PLACES

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Executive Summary

Over time, all communities experience changes that affect the industries, technologies, and land use patterns that help form the foundation of their local economies. Economically resilient towns, cities, and regions adapt to changing conditions and even reinvent their economic bases if necessary. Even if the community has lost its original or main economic driver, it has other assets that it can use to spur the local economy. While most economic development strategies involve some effort to recruit major employers, such as manufacturers or large retailers, many successful small towns and cities complement recruitment by emphasizing their existing assets and distinctive resources. This report examines case studies of small towns and cities that have successfully used this approach, including:

- Bend, Oregon (population 79,000).
- Douglas, Georgia (population 12,000).
- Dubuque, Iowa (population 58,000).
- Emporia, Kansas (population 25,000).
- Mount Morris, New York (population 2,900).
- Paducah, Kentucky (population 25,000).
- Roanoke, Virginia (population 98,000).

While no magic bullet or set process will work everywhere, these case studies illustrate several successful tactics that other communities can use:

- **Identify and build on existing assets.** Identify the assets that offer the best opportunities for growth and develop strategies to support them. Assets might include natural beauty and outdoor recreation, historic downtowns, or arts and cultural institutions.
- **Engage all members of the community to plan for the future.** Engage residents, business owners, and other stakeholders to develop a vision for the community's future. Stakeholder engagement helps ensure plans reflect the community's desires, needs, and goals and generates public support that can maintain momentum for implementing changes through election cycles and city staff turnover.
- **Take advantage of outside funding.** Even a small amount of outside funding applied strategically to support a community's vision and plans can help increase local interest and commitment in the area and spur private investment.
- **Create incentives for redevelopment, and encourage investment in the community.** Make it easier for interested businesses and developers to invest in the community in ways that support the community's long-term priorities.
- **Encourage cooperation within the community and across the region.** Cooperation to achieve jointly established priorities helps leverage the assets that each party can bring to the table to make the most of the region's resources.
- **Support a clean and healthy environment.** Invest in natural assets by protecting natural resources and cleaning up and redeveloping polluted properties, which makes productive use of existing transportation, water, and utility infrastructure; increases the tax base and employment opportunities; removes environmental contamination; and helps spur investment in surrounding properties.

I. Introduction

Over time, all communities experience changes that affect the industries, technologies, and land use patterns that help form the foundation of their local economies. Economically resilient towns, cities, and regions adapt to changing conditions and even reinvent their economic bases if necessary. However, smaller communities often have a more difficult time making significant adjustments. They are more likely to depend on a single economic sector, and they might not have the infrastructure, facilities, and human capital they need to tackle the complicated economic and social challenges they face.[1] As a result, many small towns and cities across the country have seen their job base shrink. Many residents move to other places with more opportunities, leaving behind those with few other options and concentrating poverty in struggling communities.

Traditionally, many communities focus their economic development efforts on recruiting major employers such as manufacturers or large retailers. Many communities focus on attracting clusters of related firms and institutions that can benefit from being close to each other. While these recruitment strategies can bring new jobs to a community, recruitment often simply moves jobs from one region to another, rather than creating new jobs. Relying on recruitment alone can be particularly challenging for small towns and cities, because local governments often offer land, tax relief, and other incentives to attract employers. Small communities often are unable to offer the same level of resources and incentives as larger cities, which makes it difficult for them to compete.[2]

Exhibit 1. Locations of communities profiled. Communities across the country are using local assets to rebuild their economies.

While most economic development strategies involve some recruitment activities, many successful small towns and cities complement recruitment by emphasizing their existing assets and distinctive resources. Even if the community has lost its original or main economic driver, it has other assets that it can use to spur the local economy and rebuild its economic foundation. This report examines case studies of small towns and cities that have successfully used this approach. The communities profiled are:

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[1] Pender, John, Alexander Marré, and Richard Reeder. *Rural Wealth Creation Concepts, Strategies, and Measures*. U.S. Department of Agriculture. 2012. http://www.ers.usda.gov/publications/err-economic-research-report/err131.aspx.

[2] For a general discussion of these themes, see Fulton, William. *Romancing The Smokestack: How Cities and States Shape Prosperity*. Ventura, Ca.: Solimar Press, 2010.

- Bend, Oregon (population 79,000).
- Douglas, Georgia (population 12,000).
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While no magic bullet or set process will work everywhere, these case studies illustrate several successful tactics that other communities can use:

A. Identify and build on existing assets.
B. Engage all members of the community to plan for the future.
C. Take advantage of outside funding.
D. Create incentives for redevelopment, and encourage investment in the community.
E. Encourage cooperation within the community and across the region.
F. Support a clean and healthy environment.

A. Identify and Build on Existing Assets

Virtually every community, regardless of size or circumstance, has assets that can be part of building a resilient economy. Successful communities identify the assets that offer the best opportunities for growth and develop strategies to support them. Assets might include natural beauty and outdoor recreation, historic downtowns, or arts and cultural institutions. For example, Paducah, Kentucky, developed a cohesive identity around its core assets of artistic and cultural offerings, the Ohio River, and its rich history. The city provides financial and marketing support for cultural institutions, such as a quilt museum and a performing arts center, that draw activity and tourists downtown. Nonprofit arts and culture organizations generated $39.9 million in local economic activity in the Greater Paducah region in 2007 alone, supporting 819 full-time jobs and generating $3.6 million in local and state government revenue.[3]

Courtesy of steelman204 via flickr.com

Exhibit 2. Flood Wall in Paducah. The flood wall that protects historic Paducah is covered with murals that depict scenes of important historical moments for the city.

[3] Americans for the Arts. *Arts & Economic Prosperity III*. 2009. http://paducahky.gov/paducah/files/GreaterPaducahKY_FinalReportw03.pdf.

Virtually every community began and grew because its location supported economic activity. Cities were built to take advantage of natural resources and trade routes along rivers or other transportation corridors. Many communities, especially small towns and cities, historically based their economies on resource production and extraction with industries such as agriculture, mining, or timber. Some communities have recognized that conserving and restoring natural resources for outdoor recreation and tourism can help build a stronger, more diverse economy. Both Roanoke, Virginia, and Bend, Oregon, have remade themselves as outdoor recreational destinations. They have attracted new residents, visitors, and entrepreneurs, many of whom capitalize on their location by starting related businesses such as manufacturing outdoor recreational equipment. Dubuque, Iowa, recognized that its river was central to its identity and that reconnecting the city's residents with this neglected natural asset could spark revitalization of the surrounding area.

Exhibit 3. Before (left) and after (right) renovation in Downtown Emporia. With the city's encouragement, local businesses are adopting design standards that help make the area appealing to shoppers.

Historic downtowns are also important assets that communities can use to help spur their economies. Downtowns help define a community's identity through distinctive, often historic architecture; shops and restaurants; and community gathering places. Maintaining the places and institutions that make a community special contributes to a sense of place and neighborhood identity, which help retain existing residents and could attract new residents and businesses. Virtually all the case study communities worked to revitalize and beautify their downtowns because a downtown center of activity is an important part of the foundation of many local economies. Downtown revitalization strategies vary but include reducing vacancies, providing incentives to fix building façades, improving streetscapes, and creating parks and greenways. Emporia, Kansas, created design guidelines for its downtown to promote development that contributes to the community's existing historic fabric and character.[4] Emporia also used the Main Street Four Point Approach, a preservation-based tool for economic development that has helped many small towns reap financial rewards by investing in revitalizing downtowns.[5]

Government agencies, private businesses, nonprofit organizations, and community institutions can also be assets and core components of a local economy. In Roanoke, Virginia, Carilion Health Systems, Virginia Tech, and the University of Virginia have made major investments to redevelop former rail property adjacent to downtown, creating a new economic engine for the city. An asset mapping exercise can identify strengths the community can build on, assess their potential to catalyze development, and help develop and implement strategies to make the most of these assets. The

[4] Emporia Main Street. *Downtown Design Guidelines*. 2008. http://www.emporiamainstreet.com/Forms/Emporia%20Main%20Street%20Guidelines,%205-20-09.pdf.

[5] National Main Street Center. "The Main Street Four Point Approach." http://www.preservationnation.org/main-street/about-main-street/the-approach/. Accessed Mar. 4, 2015.

Council on Competitiveness developed a guide to help leaders first identify human, capital, institutional, and intangible assets and then integrate them into a strategy for regional innovation.[6] This guide and other tools for community asset mapping[7] can be easily adapted for different areas of focus and geographic contexts.

B. Engage All Members of the Community to Plan for the Future

Communities that successfully retool their economies engage residents, business owners, and other stakeholders to develop a vision for the community's future. Stakeholder engagement helps ensure that plans reflect the community's desires, needs, and goals and generates public support that can maintain momentum for implementing changes through election cycles and city staff turnover. None of the communities profiled here implemented all the changes overnight; a long-range plan is necessary to guide work over many years. Planning often involves considerable effort coordinating and integrating multiple processes to ensure they complement each other and work together to achieve the community's goals. Comprehensive plans, area master plans, economic development plans, and other local and regional plans can help identify incremental steps that will move the community forward.

In 2005, Dubuque, Iowa, invested in a stakeholder-driven planning process to identify 10 high-impact projects for the city. Tens of thousands of people submitted ideas, and community members selected the projects. The community-driven process gave the ideas credibility among donors and residents. All of the projects have been completed or are underway. Roanoke, Virginia, launched an extensive public participation process in 2000 to develop a vision for the future. Ultimately, *Vision 2001-2020*, the city's comprehensive plan, was passed in 2001, incorporating input from a citizens' advisory

Courtesy of EPA

Exhibit 4. Historic Millwork District in Dubuque. Community members identified restoration of the historic Millwork District as one of 10 high-impact projects. Renovated warehouse buildings anchor the neighborhood and preserve a vital part of the city's history and culture.

[6] Council on Competitiveness. *Asset Mapping Roadmap: A Guide to Assessing Regional Development Resources*. 2007. http://ncf.compete.org/publications/detail/33/asset-mapping-roadmap-a-guide-to-assessing-regional-development-resources/.

[7] U.S. Department of Housing and Urban Development. *Connecting to Success: Neighborhood Networks Asset Mapping Guide*. Undated. http://lnshhq05w.hud.gov/NN/websites.nsf/AttachmentsA/456E7EEFD772500C8525703F00614E6A/$File/assetmapping.pdf?OpenElement.

committee, citizen-based task teams, city staff, consultants, the planning commission, city council, and the public. With the community-supported comprehensive plan to guide development decisions, the city could move forward with confidence.[8]

Planning is also an important, and often necessary, tool to help communities obtain funding for implementation**.** Dubuque, Iowa, created a comprehensive plan in 1995 and has used it, along with plan updates in 2002 and 2007, to guide its redevelopment efforts. One of these efforts was a plan to transform the Mississippi riverfront into a walkable, mixed-use neighborhood. Having a cohesive vision for the area helped raise the $188 million needed for the 90-acre riverfront revitalization project from city, state, and federal sources; the Dubuque County Historical Society; and private investment.[9]

C. Take Advantage of Outside Funding

While philanthropic, federal, and state funding is important to communities of all sizes, it is particularly helpful to smaller communities that have limited resources to deal with challenges such as out-of-date infrastructure, vacant and possibly contaminated properties, and relatively few amenities to attract new residents and businesses. Even a small amount of outside money applied strategically to support a community's vision and plans can help increase local interest and commitment in the area and spur private investment. For example, Douglas, Georgia, jumpstarted its downtown revitalization through a streetscape project funded in part by a federal Transportation Enhancements grant. Mount Morris, New York, used a grant from the state's Main Street Program to help restore downtown buildings, which spurred additional private investment. Roanoke, Virginia, used a state program to designate an area as an Enterprise Zone, making new or expanding businesses in that area eligible for incentives including façade grants, tax exemptions, and fee waivers.

Courtesy of Pubdob via Wikipedia Commons

Exhibit 5. New Family Theater in Mount Morris. In 2010, Mount Morris received a $433,500 grant from Restore NY to preserve and renovate the art deco façade and marquee of the 1930s New Family Theater and repurpose the building.

Communities can also create their own financial incentive programs. Small public investments can be narrowly targeted to encourage private property owners in particular areas to contribute their own resources, creating a cumulative effect that is greater than the sum of its parts. For example, Douglas, Georgia, helped renovate 40 façades

[8] City of Dubuque. *Masterpiece on the Mississippi: Application for Iowa Great Places*. 2006. http://www.iowagreatplaces.gov/profiles/assets/dubuque-gp.pdf.
[9] URS Corporation, Leland Consulting Group, and EDG, Ltd. *Port of Dubuque Master Plan.* City of Dubuque. 2002. http://www.cityofdubuque.org/DocumentCenter/Home/View/288.

in its downtown by offering small façade-improvement grants to businesses spending an equal amount of their own money.

D. Create Incentives for Redevelopment, and Encourage Investment in the Community

Many communities reinvent their economies by making it easier for interested businesses and developers to invest in the community in ways that support the community's long-term priorities. Tactics to facilitate private-sector investment include streamlining the development process, providing technical assistance, and creating informational guides.

Town leaders in Emporia, Kansas, partnered with Emporia's Main Street Program to create a "code team" that brings together code officials, firefighters, engineers, and zoning staff to meet with new or expanding business owners at the business site to clarify requirements expeditiously. To help small businesses, Douglas, Georgia, created a guide for starting and growing a business that outlines local resources, permitting and zoning processes, tax policies, and steps to get business loans.[10] The Mount Morris, New York, downtown development program gave private developers an inventory of all the downtown buildings with information that helped encourage private investment, including physical characteristics, rental rates, ownership, and identification of tax-delinquent properties and those near foreclosure.

Financial incentives can also help encourage redevelopment. Livingston County, New York, where Mount Morris is located, set up a program under which taxes on the improvements in a community-defined redevelopment area gradually increase over a 12-year period, allowing time for developers and businesses working in struggling areas to generate enough activity to afford the higher tax bill.[11] To revitalize a downtown neighborhood, leaders in Paducah, Kentucky, created a home purchase program focused on building an artist community. The town bought vacant or foreclosed buildings, then sold them to artists for as little as $1. In the first five years of the program, the town spent about $3 million, while the artists invested approximately $35 million. More than 100 artists eventually came to live and work in the neighborhood, which is now filled with galleries, shops, and restaurants that attract visitors and residents.[12]

E. Encourage Cooperation Within the Community and Across the Region

Many of the communities profiled were successful in part because entities with different missions worked together to make the city a better place to live and work. Cooperation within the community and across the region to achieve jointly established priorities helps leverage the assets that each can bring to the table to make the most of the region's resources. Conversely, counterproductive competition for limited resources can undermine a community's or region's attempt to generate durable economic growth.

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[10] Douglas-Coffee County Chamber and Economic Development Authority. *A Helpful Guide to Starting and Growing a Business in Coffee County*. Undated. http://www.douglasga.org/pdf/HowToStartABusiness.pdf.
[11] Macaluso, Tim Louis. "Development: The Mt. Morris Miracle." *City Newspaper*. Jul. 18, 2012. http://roccitynews.wordpress.com/2012/07/18/development-the-mt-morris-miracle.
[12] Stodola, Sarah, "How to Save the Cities—Send in the Artists." *The Fiscal Times*. Jun. 4, 2010. http://www.thefiscaltimes.com/Articles/2010/06/04/How-to-Save-the-Cities-Send-in-the-Artists.

Mount Morris, New York, has taken advantage of its proximity to the State University of New York (SUNY) Geneseo to enlist students' help in its revitalization efforts. Students have been involved in everything from beautification projects to publicity about community events.[13] A SUNY student fills the role of a Main Street manager and coordinates advertising and social media outreach for the Main Street businesses. The city of Roanoke and the Roanoke Redevelopment and Housing Authority assembled 23 acres of former industrial properties; conducted environmental site testing; and improved public utilities, streets, and drainage. They then sold the land to Carilion Health Systems, which partnered with Virginia Tech and the University of Virginia to establish the Carilion Biomedical Institute.[14] The city's $20 million investment in the center has leveraged more than 10 times that amount in private dollars over the course of a decade.[15,16]

F. Support a Clean and Healthy Environment

Protecting natural resources and reducing pollution are not only compatible with economic development but can also support economic revitalization. Communities that invest in their natural assets by protecting natural resources can better attract and retain residents, tourists, and businesses who value clean air and water and natural landscapes. Cleaning up and redeveloping polluted properties makes productive use of existing transportation, water, and utility infrastructure; increases the tax base and employment opportunities; removes environmental contamination; and helps spur investment in surrounding properties.

Sustainable Dubuque makes sustainability the city's top priority, establishing 12 sustainability principles that guide city operations and community development plans, including the city's comprehensive plan, long-range transportation plan, and comprehensive economic development strategy.[17] This vision helps the city meet its goal of creating a legacy for generations to come through economic prosperity, environmental protection, and cultural vibrancy. In Bend, Oregon, a property the city wanted to redevelop was contaminated with hazardous substances from petroleum storage tanks, wood treatment, charcoal manufacturing, and other activities.[18] The state and the site developer remediated[19] the property. The resulting Old Mill District now includes recreational activities along and on the Deschutes River, as well as a variety of restaurants, shops, and art galleries. Not only has the redevelopment cleaned up environmental contamination, the Old Mill District also created an economic engine for the region, employing 1,700 people just one year after opening.[20] Roanoke, Virginia, is improving its natural and outdoor recreation assets through a multi-

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[13] Wadsworth, Louise, and Greg O'Connell. *Downtown Revitalization in Rural New York State.* Livingston County Development Corporation. 2011.
[14] Virginia Tech. "Carilion, Virginia Tech, U.Va. create biomedical institute – Virginia Tech Forms Optical Sciences and Engineering Research Center." *ScienceBlog.* Nov. 18, 1999. http://www3.scienceblog.com/community/older/1999/E/199904502.html.
[15] EPA. "Land Revitalization Spring '08 Newsletter – Roanoke's Industrial Core Gets Economic Transplant As Biotechnology Hub." http://www.epa.gov/reg3hscd/bf-lr/newsletter/2008-Fall/roanokesindustrial.html. Accessed Feb. 25, 2015.
[16] City of Roanoke. "Riverside Center." http://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N27PEMWV328BTFKEN. Accessed Jun. 26, 2014.
[17] City of Dubuque. *A Guide to the Dubuque Comprehensive Plan.* 2007. http://www.cityofdubuque.org/DocumentCenter/View/284.
[18] City of Bend. *Bend Area General Plan.* 2005. http://www.bend.or.us/index.aspx?page=634.
[19] Brownfield remediation is the removal or sealing off of a hazardous contaminant so that a site can be safely used again.
[20] EPA. *Revitalizing Southeastern Communities: A Brownfields Toolkit.* Undated.

pronged approach that includes creating a network of trails, improving facilities for bicycling, protecting scenic and ecologically valuable land, and increasing the tree canopy.[21,22,23,24] Since these efforts began, tourism has increased, and in 2012, *Blue Ridge Outdoors Magazine* named Roanoke as the Best Mid-Sized Mountain Town.[25]

Courtesy of Roanoke Regional Partnership via flickr.com

Exhibit 6. Roanoke Go Outside Festival. An annual event to encourage healthy, outdoor recreation brings community members together for music, competitions, demonstrations, and outdoor gear sales.

The tactics all of these small towns are using support not just economic development, but also smart growth, an approach to community development that protects the environment and public health, creates strong neighborhoods with diverse housing and transportation options, and improves residents' quality of life. Compact, diverse, and walkable development can increase property values and property tax revenues, encourage job creation, reduce housing and transportation costs, and create amenities and places that attract and retain residents. Real estate developers and investors, businesses, and local governments can therefore use smart growth development as a strategy to maximize their economic advantages. The connection between smart growth and economic success is explored in detail in a series of publications targeted toward these audiences.[26]

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21 City of Roanoke. "Bicycle Friendly Community." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YM9Q607LGONEN. Accessed Jun. 26, 2014.

22 Roanoke Valley Area Metropolitan Planning Organization. *Bikeway Plan for the Roanoke Valley Area Metropolitan Planning Organization 2012 Update*. 2012. http://rvarc.org/wp-content/uploads/2013/12/RVAMPO-BikewayPlan-2012Update-web.pdf.

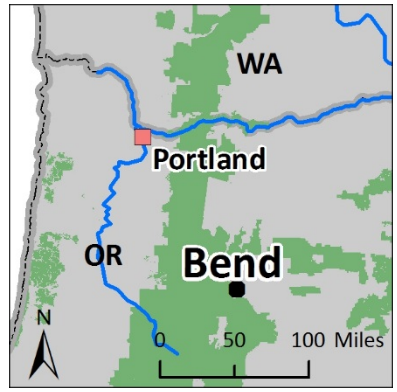
23 City of Roanoke. "Conservation Easements." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YMAB696LGONEN. Accessed Jun. 26, 2014.

24 City of Roanoke. "Tree Canopy." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YMEY344LGONEN. Accessed Jun. 26, 2014.

25 Murray, Jack. "The Best Mid-Sized Mountain Town." *Blue Ridge Outdoors Magazine*. Nov. 2012. http://www.blueridgeoutdoors.com/outdoors-travel/the-best-mid-sized-mountain-town.

26 EPA. *Smart Growth and Economic Success: Benefits for Real Estate Developers, Investors, Businesses, and Local Governments*. 2012. http://www2.epa.gov/smart-growth/smart-growth-and-economic-success-benefits-real-estate-developers-investors-business.

II. Bend, Oregon



Bend, Oregon, in the central part of the state next to the Cascade Mountains and Deschutes National Forest, draws visitors and new residents with its scenic beauty and year-round outdoor recreation. Its population was 79,118 as of 2012, a more than 50 percent increase since 2000, compared to the state's roughly 15 percent increase over that time.[27] Deschutes County, where Bend is located, led the state in population growth over the decade from 2000 to 2010. The city began as a logging town at the turn of the 20th century, with lumber mills on both sides of the Deschutes River. At their peak, the mills employed more than 4,000 people and helped Bend become the world's leader in the manufacture of secondary wood products.[28,29] However, depletion of forest resources ultimately devastated the timber industry in Oregon, leading to the worst recession the state has experienced in the early 1980s, as measured by the percentage of jobs lost and the months it took to recover them.[30]

A. Economic Development Strategies

Economic Development for Central Oregon (EDCO) is a nonprofit organization supported by public and private money that formed in 1981 to help the city diversify its economy after the loss of the timber industry.[31] EDCO had some success attracting companies in the aviation industry, and Bend's economy began to pick up in the late 1980s as its population began growing, fueled in large part by retirees and others who were attracted to Bend's low cost of living and scenic beauty.

Bend's population grew by an average of 6 percent per year through the 1990s.[32] To manage this growth, Bend encouraged infill and redevelopment in its core as a way to direct development away from sensitive natural areas toward where it could have the greatest economic impact. In 2001, the city created the *Central Bend Development Program Area Plan* for a 236-acre sector containing the central business district and adjacent commercial, industrial, and residential areas.[33] This plan aimed to enhance the function, condition, and appearance of the area while improving economic and environmental conditions. The plan's guiding principles included:

- Create a downtown center by giving high priority to the river and downtown core projects.
- Give high priority to human scale and quality of life.

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[27] U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Apr. 17, 2014.
[28] Old Mill District. "Our Story." http://www.theoldmill.com/about/history. Accessed Nov. 10, 2012.
[29] Secondary wood products use products produced directly from forest trees (e.g., pulp, lumber, plywood) as raw material (e.g., paper products, furniture, moldings, and toys).
[30] Mapes, Jeff. "For Oregon, the Early 1980s Recession was the 'Great Recession.'" *The Oregonian.* Oct. 10, 2011. http://blog.oregonlive.com/mapesonpolitics/2011/10/for_oregon_the_early_80s_reces.html.
[31] Jacklet, Ben. "Bend's Economy is Coming Back to Life." *Oregon Business.* Jul. 2011. http://www.oregonbusiness.com/articles/101-july-2011/5460-bends-economy-is-coming-back-to-life.
[32] City of Bend. *Bend Area General Plan.* 2005. http://www.bend.or.us/index.aspx?page=634.
[33] Bend Development Board. *Central Bend Development Program Area Plan.* 2001. http://www.bend.or.us/modules/showdocument.aspx?documentid=3930.

- Increase downtown's role as a center for government and business activity.
- Maintain and develop cultural, historic, and entertainment resources.

Courtesy of Granger Meador via flickr.com

Exhibit 7. Old Mill District along the Deschutes River in Bend. Redeveloping former lumber mills removed environmental contamination and created a distinctive destination that celebrates the area's history. The area includes riverside restaurants, shops, trails, a movie theater, and a live concert venue.

To help implement the *Central Bend Development Program Area Plan*, the city prepared the *Bend Area General Plan* in 2005.[34] The general plan encouraged downtown revitalization by rezoning the abandoned mill property on the riverfront from heavy industrial to mixed commercial and residential use. However, before the property could be redeveloped, environmental contamination had to be cleaned up. After decades of industrial use, 180 acres of former lumber mill sites had been contaminated with hazardous substances from petroleum storage tanks, wood treatment, charcoal manufacturing, and other activities.[35] The Oregon Department of Environmental Quality began remediation, and the site developer agreed to a voluntary cleanup plan to complete it. The redeveloped site, now known as the Old Mill District, includes activities such as kayaking and fishing along and on the Deschutes River, as well as a variety of restaurants, shops, and art galleries. The development preserved and repurposed portions of multiple historic buildings, including the iconic lumber mill smokestacks that enrich the neighborhood's distinctive character and celebrate its history. Not only did the redevelopment clean up environmental contamination, the Old Mill District also created an economic engine for the region, employing more than 2,000 people by 2013.[36]

The population of Bend grew at a rate three times that of the state during the 1990s[37] and early 2000s. Demand for new housing fueled the construction and wood products industries, so the housing market crash of 2008 hit Bend particularly hard. The local economy suffered, mainly because the rise in housing prices was "fueled by speculation not solid economics," according to Roger Lee, executive director of EDCO.[38] At the end of 2009, housing prices were down 68 percent from just two years earlier, and many people owed more on their houses than the properties were worth.[39] Bend's construction and building supplies industries declined along with the housing market. Another major blow to Bend's economy was the downturn of the aviation industry, which was Bend's first real foray away from construction and wood products. At the same time the

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[34] City of Bend 2005. Op. cit.
[35] Ibid.
[36] Envision Realty Advisors. *Old Mill District: Shop, Dine, Work, Live, Play.* 2013. http://envisionrealtyadvisors.com/property-listings/The%20Old%20Mill%20Web%20Brochure.pdf.
[37] City of Bend. *Analysis of Impediments to Fair Housing.* 2006.
[38] Jacklet 2011. Op. cit.
[39] Glucklich, Elon. "Bend Real Estate Recovering." *Bend Oregon Real Estate.* Feb. 25, 2012.

housing market crashed, two major employers at the airport either shut down operations or filed for bankruptcy.[40]

With the economy again struggling, the city and EDCO focused on recruiting and supporting the creation of microbrewing, biosciences, recreation equipment manufacturing, and technology companies. They focused on these types of companies in large part because entrepreneurs in these fields have the flexibility to choose where they locate. Understanding that such entrepreneurs are attracted to vibrant, walkable cities and towns with cultural and recreational activities, the city and EDCO continue to focus on quality of life and downtown development.

EDCO and the city also attract and nurture entrepreneurs by creating a supportive environment rather than simply providing loans or financial incentives. EDCO has fostered entrepreneurship by having monthly "pub talks" where growing companies can network and pitch ideas.[41] Since 2004, EDCO has hosted an annual Bend Venture Conference, which attracts several hundred investors, entrepreneurs, and business leaders. The conference provides valuable coaching, mentoring, and exposure for young companies and features a competition where entrepreneurs compete for $250,000 of startup funding.[42] In 2011, the city of Bend formally established the Bend Economic Development Advisory Board, made up of five representatives from the business community and four from local economic development and workforce development agencies. The board advises the city council to help promote a supportive and innovative business environment.[43]

B. Results

By several measures, the economic conditions in Bend have been improving in the six years since the end of the 2007-09 recession, especially in the city's core. The citywide office vacancy rate at the end of the third quarter of 2014 was 11.4 percent, the lowest rate since the first quarter of 2008, when the vacancy rate was 11.2 percent. At 7.1 percent, downtown has maintained the lowest vacancy rate among the three Bend submarkets analyzed. Retail vacancy rates for the Old Mill District and downtown were 6.1 percent and 2.4 percent respectively, compared to 8.1 percent overall among seven analyzed submarkets. The industrial vacancy rate in the central submarket stood at just 1.2 percent, the lowest of four analyzed submarkets.[44] While Bend had an unemployment rate of 9.9 percent as of February 2014, the city has been making progress since the peak period of unemployment in the first three months of 2010, when the rate was more than 16 percent.[45] Outside of Portland, central Oregon shows some of the best job growth in the state, thanks in part to growth in Bend.[46]

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[40] Jacklet 2011. Op. cit.

[41] Economic Development for Central Oregon. "Central Oregon Pubtalk." http://www.edcoinfo.com/events. Accessed Apr. 16, 2014.

[42] Schoenfeld, Bruce. "Why Bend, Ore., Is the Next Big City for Entrepreneurship." *Entrepreneur.* Aug. 2012. http://www.entrepreneur.com/article/223997?goback=.gde_4597877_member_160115978 - comments.

[43] City of Bend. "Bend Economic Development Advisory Board." http://www.bend.or.us/index.aspx?page=946. Accessed Apr. 30, 2015.

[44] Compass Commercial Real Estate Services. "2013 Summary/2014 Forecast." *Compass Points.* Q4 2013. http://www.compasscommercial.com/index.php?id=013.

[45] Bureau of Labor Statistics. "Databases, Tables & Calculators by Subject." http://data.bls.gov/timeseries/LAUMT411346000000003?data_tool=XGtable. Accessed Apr. 16, 2014.

[46] State of Oregon. *Oregon Economic and Revenue Forecast.* Mar. 2014. http://www.oregon.gov/DAS/OEA/docs/economic/forecast0314.pdf.

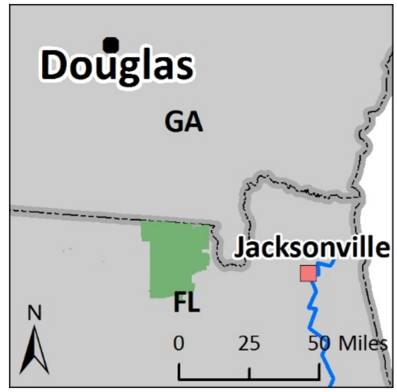
Bend has been able to use its quality of life and natural resources to attract entrepreneurs to the city. The environment created by the city and EDCO through their outreach, networking, and support led *Entrepreneur Magazine* to call Bend "the most entrepreneurial city in America."[47] As of 2014, the city had at least 95 startups across multiple technology sectors.[48] In 2010, Bend ranked 17th among 320 metropolitan regions in the United States for the number of high-tech startups in a region relative to the region's population.[49]

Bend has been able to recover from several boom-and-bust cycles in its economy by prioritizing a vibrant downtown with a high quality of life and preservation of its natural beauty. These assets have attracted new residents, tourists, and business entrepreneurs who drive economic growth.

Some information for this case study came from an interview with Joe Skidmore, Assistant City Manager, City of Bend, on November 13, 2012.

47 Schoenfeld 2012. Op. cit.
48 Blank, Steve. "Bigger In Bend—Building A Regional Startup Cluster." *Forbes*. Jan. 14, 2014. http://www.forbes.com/sites/steveblank/2014/01/14/bigger-in-bend-building-a-regional-startup-cluster.
49 Ewing Marion Kauffman Foundation. *Tech Starts: High-Technology Business Formation and Job Creation in the United States*. 2013. http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/tech-starts-hightechnology-business-formation-and-job-creation-in-the-united-states.

III. Douglas, Georgia



Douglas is in southern Georgia, approximately 115 miles northwest of Jacksonville, Florida. The city of almost 12,000 people[50] is the county seat of Coffee County and the economic center of the region. It is home to South Georgia State College, a two-year college, and Wiregrass Technical College.[51]

Historically, Douglas' economy was based predominantly on agriculture, but in the late 1950s, leaders in Coffee County recognized the importance of diversifying the economy to be more resilient to changes in the agricultural sector. As a result, the Douglas-Coffee County Economic Development Authority was formed in 1959. At first, the authority focused on recruiting large industrial employers, including PCC Airfoils and a Wal-Mart distribution center in the 1980s. Despite these successes, manufacturing jobs declined from 33 percent of all employment in 2000 to 14 percent in 2013, representing a loss of almost 700 jobs.[52]

A. Economic Development Strategies

Douglas' strategy for economic development is grounded in cooperation among the city, county, business community, education institutions, and civic leaders. The Douglas-Coffee County Chamber of Commerce and Economic Development Authority works for a regional economy stabilized by small, local businesses.[53]

To regain lost jobs, Douglas reoriented its approach to economic development to include support of small businesses and entrepreneurs. City and county leaders recognized that small business development would not only directly support a diverse economy but also could provide more services that might attract industrial employers. To launch the new small business strategy, the city provided funding for the Chamber of Commerce to hire a full-time director of entrepreneur and small business development in 2002.[54] One of the director's first initiatives was creating *A Helpful Guide to Starting and Growing a Business in Coffee County*, which outlines local resources, permitting and zoning processes, tax policies, and steps to get business loans.[55] The chamber also offers programs to connect experienced business owners with new ones, give community members discounts at participating businesses to encourage their patronage, and train budding leaders in workplace and community leadership skills.[56]

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50 U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Jun. 3, 2014.
51 Lambe, Will. *Small Towns, Big Ideas*. UNC School of Government. 2008. http://www.iog.unc.edu/programs/cednc/stbi/pdfs/stbi_final.pdf?q=programs/cednc/stbi/pdfs/stbi_final.pdf.
52 U.S. Census Bureau. Op. cit.
53 Ibid.
54 Ibid.
55 Douglas-Coffee County Chamber and Economic Development Authority. *A Helpful Guide to Starting and Growing a Business in Coffee County*. Undated. http://www.douglasga.org/pdf/HowToStartABusiness.pdf.
56 Douglas-Coffee County Chamber and Economic Development Authority. "Programs – Ambassadors." http://www.douglasga.org/Ambassadors.html. Accessed Apr. 23, 2014.

Douglas has also invested in preserving its architectural heritage and making downtown an attractive place for businesses to locate. In the late 1980s, downtown Douglas had a high vacancy rate, and people from the community rarely visited. A Main Street Program was started in 1987 to revitalize the area. One of the program's first activities was a façade grant program to restore Douglas' storefronts. Initially, $10,000 from the city and the Industrial Development Authority (now the Economic Development Authority) provided matching grants for 20 façade improvements, and 20 more façades were improved a decade later.[57] Around the time the Main Street Program was formed, the city applied for and received a federal Transportation Enhancements grant of $850,000. Combining the grant with a local match of $321,317, the city began a one-year streetscape project, adding street trees, patterned brickwork sidewalks, pedestrian lighting, landscaping, a gazebo, and a brick archway at the main downtown intersection.[58] Thanks to the façade improvements and the streetscape project, the downtown area is now a gathering place for the community. A downtown market with local vendors, artists, and farmers is held on the second Saturday of the month.[59] In addition, a walking and biking trail connects downtown with the campuses of Wiregrass Georgia Technical College and South Georgia College.[60] Maintaining downtown's mix of uses and historic character and redeveloping vacant sites are components of the city's 2007 comprehensive plan update, ensuring that new development continues to support downtown.[61]

Courtesy of Lance Taylor via University of North Florida Digital Commons

Exhibit 8. Downtown Douglas. The city of Douglas supports small businesses and entrepreneurs and invested to make the downtown an attractive place to locate a business and to shop.

B. Results

Efforts to revitalize downtown reaped rewards for the city. After completion of the downtown streetscape project in 1995, the downtown vacancy rate started falling from its high of 25 percent, a

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[57] Russell, Victoria. "Downtown Main Street Douglas, Georgia." *Economic Development Journal*. Winter 2002. Pages 35-51.
[58] Georgia Department of Transportation. "Douglas Streetscape." Information accessed Jul. 1, 2014.
[59] Douglas-Coffee County Chamber and Economic Development Authority. *The Friday Facts*. Mar. 8, 2013. http://www.douglasga.org/index_11_476981306.pdf.
[60] Douglas-Coffee County Chamber and Economic Development Authority. "Quality of Life." http://douglasga.org/QualityOfLife-Economic.html. Accessed Jul. 2, 2014.
[61] Jordan, Jones, & Goulding. *Coffee County 2007-2027 Comprehensive Plan Update: Community Agenda for the City of Douglas*. Coffee County. 2007. http://www.dca.ga.gov/largefiles/OPQG/2007/CoffeeCo.AmbroseCi.BroxtonCi.DouglasCi.NichollsCi.CAg.pdf.

change that city officials attributed to the streetscape improvements.[62] At the end of 2012, 12 newly opened businesses dropped the downtown vacancy rate to 6 percent.[63]

In 2004, Douglas-Coffee County was the first community in Georgia to be designated as "entrepreneur friendly" by the state in recognition of its commitment to develop strategies that support local entrepreneurs.[64] The efforts to attract entrepreneurs were credited with creating 800 new jobs for small business and entrepreneurial startups and expansions by 2006.[65] Joanne Lewis, president of the Douglas-Coffee County Chamber of Commerce and Economic Development Authority, strongly believes that the focus on small businesses helped Douglas to weather the economic downturn later in the decade because, although many small businesses in Douglas did close during this time, there were also new businesses opening.[66]

Some information for this case study came from interviews with Dale Batten, Community Development Director, City of Douglas, on November 9 and November 19, 2012, and Terrell Jacobs, City Manager, City of Douglas, on November 19, 2012.

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[62] Georgia Department of Transportation. Op. cit.
[63] Lightsey, Ed. "Douglas|Coffee County: Staying the Course." *GeorgiaTrend*. Dec. 2012. http://www.georgiatrend.com/December-2012/Douglas-Coffee-County-Staying-The-Course.
[64] Center for Rural Entrepreneurship. "Local Success, Challenges and What Lies Ahead for Rural Georgia." *Entrepreneurial Program of the Month*. Dec. 2005. http://www.energizingentrepreneurs.org/file_download/9479c847-3396-434b-8d4c-ffc24032a526.
[65] Ibid.
[66] Personal communication with Joanne Lewis, President, Douglas-Coffee County Chamber of Commerce and Economic Development Authority, Nov. 13, 2012.

IV. Dubuque, Iowa

Located in northeastern Iowa along the Mississippi River, Dubuque is approximately 175 miles northwest of Chicago. Its population, estimated to be 58,253 as of 2013, has been stable since 2000.[67] Dubuque was one of the first settlements west of the Mississippi River and grew along its banks as the mining, fur-trading, and manufacturing sectors thrived.[68]

With the loss of several large employers in the early 1980s, including John Deere and the Dubuque Packing Company, the city fell on hard times. Unemployment reached 23 percent, and the downtown vacancy rate climbed to 55 percent. Residents left as they lost hope that the city's future could improve. Between 1980 and 1990, the city lost 7.8 percent of its population, and home values fell 9 percent.[69]

A. Economic Development Strategies

Dubuque's recovery was the result of a series of comprehensive, community-driven planning processes. In 1990, the city's Long-Range Planning Commission initiated Vision 2000, a public planning process, to outline the vision for Dubuque's economic future. More than 5,000 people participated, inspired to rebuild their city.[70] Vision 2000 was adopted by the city council in 1993 and guided development of a new comprehensive plan in 1995, the first since 1936.[71]

The city developed 23 implementation plans based on elements in the comprehensive plan. One of these was a master plan for redevelopment of the riverfront to help residents and visitors physically and psychologically connect with the Mississippi River. Though it is one of the city's most important assets, the riverfront was riddled with vacant brownfields,[72] and residents and tourists could not easily get to the river.[73] The *Port of Dubuque Master Plan* aimed to transform this area into a walkable, mixed-use neighborhood.[74] In 2002, a partnership of the city, the Dubuque County Historical Society, the Dubuque Area Chamber of Commerce, the Greater Dubuque Development Corporation, and others launched America's River, a 90-acre riverfront revitalization project.[75]

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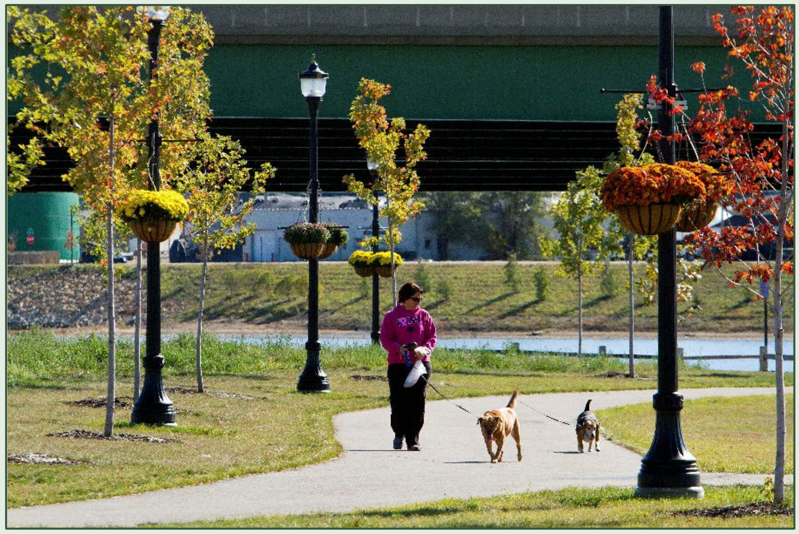
[67] U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Jun. 4, 2014.
[68] City of Dubuque. "History." http://www.cityofdubuque.org/index.aspx?nid=1060. Accessed Jun. 4, 2014.
[69] City of Dubuque. *Masterpiece on the Mississippi: Application for Iowa Great Places*. 2006. http://www.iowagreatplaces.gov/profiles/assets/dubuque-gp.pdf.
[70] City of Dubuque 2006 Op. cit.
[71] Van Milligen, Michael C. "The City of Dubuque: Masterpiece on the Mississippi." City of Dubuque. 2006. http://www.philadelphiafed.org/community-development/events/reinventing-2006/presentations/cca_roc-040606_pursuing-modern-vision_van-milligen.pdf.
[72] Brownfields are properties, the expansion, redevelopment, or reuse of which might be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.
[73] City of Dubuque. "History." Op. cit.
[74] URS Corporation, Leland Consulting Group, and EDG, Ltd. *Port of Dubuque Master Plan*. City of Dubuque. 2002. http://www.cityofdubuque.org/DocumentCenter/Home/View/288.
[75] Van Milligen 2006. Op. cit.

The $188 million in funding for the project came from a combination of city, state, and federal sources; the Dubuque County Historical Society; and private investment.[76] The first phase of the project included a Mississippi Riverwalk, the National Mississippi River Museum & Aquarium, the Grand River Center, the Grand Harbor Resort, and the historic Star Brewery complex, all of which attracted tourists and additional investment to the area. In 2010, with phase II underway to create a second museum complex, new casino, and new movie theater, the America's River Project began a campaign for its third phase, which includes daylighting the historic Bee Branch Creek to deal with recurrent flooding, creating a new gateway to the city from the north, and building a mile-long linear park along the creek to connect the historic riverfront with the core of the city.[77] Restoration of the lower Bee Branch Creek was completed in 2011. Restoration of the upper Bee Branch Creek is set to begin in 2015 and be completed in 2016.



Courtesy of City of Dubuque

Exhibit 9. Bee Branch Creek restoration. Dubuque reduced the flood risk to over 1,100 flood-prone properties by uncovering and redirecting portions of the creek so that it now flows above ground, saving the city millions of dollars to build new storm sewers and providing residents of nearby neighborhoods an attractive community park.

In 2005, under the leadership of newly elected Mayor Roy D. Buol, whose platform was "engaging citizens as partners," another citizen-driven planning process began. The Community Foundation of Greater Dubuque and the Chamber of Commerce formed a steering committee to lead Envision 2010, which aimed to identify 10 high-impact community projects. Over several months, 10,000 to 20,000 people submitted more than 3,000 ideas.[78] A selection committee comprised of community members narrowed the list down to 100, and participants in a community town hall meeting selected 30 finalists.[79] The selection committee then chose the final 10 projects, including revitalization of the Historic Millwork District, expanding the America's River Project with new cultural destinations, a walking and biking trail system, a community health center, an indoor-outdoor performing arts center, and passenger train service.[80] Projects like these can help the city attract and retain residents and businesses, boosting property and sales tax revenue.[81] In addition, the community-driven process gave the ideas credibility among donors, including a local university, casino, and

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[76] Ibid.

[77] City of Dubuque. "America's River III: Bee Branch Creek Restoration & Gateway." http://www.cityofdubuque.org/1420/Americas-River-III. Accessed Jun. 30, 2014.

[78] City of Dubuque 2006. Op. cit.

[79] Ibid.

[80] Envis10n. "Final 10 Ideas." http://www.envision2010.org/final.html. Accessed Jun. 5, 2014.

[81] EPA. *Smart Growth and Economic Success: Strategies for Local Governments.* 2014. http://www2.epa.gov/smart-growth/smart-growth-and-economic-success-strategies-local-governments.

businessman.[82] As of 2014, the Community Foundation of Greater Dubuque had received donations to endow seven of the 10 projects, all of which are either completed or underway.[83]

Uniting all of Dubuque's efforts is the concept of creating a sustainable city. Believing that "cities that get out in front on sustainability will have competitive economic advantages in the future," Mayor Buol created Sustainable Dubuque in 2006, an initiative that makes sustainability a top priority for the community.[84] A citizen task force helped create 12 sustainability principles that guide city operations and community development plans, including the city's comprehensive plan, long-range transportation plan, and comprehensive economic development strategy. This vision helps the city meet its goal of ensuring the city will thrive for generations to come through "economic prosperity, environmental integrity, and cultural vibrancy."[85]

The community engagement continues through an annual visioning and planning process. The city maintains a 20-year vision, which is supported by five-year goals. Each year, with community input, the city council creates yearly goals and priorities to achieve the five-year goals and updates the five-year goals with the 20-year vision in mind.[86] This process gives all city departments the same priorities and enables the city to work collectively toward the vision for the future.

The Greater Dubuque Development Corporation supports the city's focus on improving quality of life, seeing it as an economic development strategy that can help attract residents and employees. President and CEO Rick Dickinson says that the key to success is a "combination of making sure to create jobs while enhancing quality of life so the region becomes a magnet for talent." The organization's economic development efforts focus on the city's existing business assets by emphasizing employer retention and expansion over recruitment. In 1997, the city created a new industrial center, and 21 of the 24 firms that have located there are local firms that expanded.[87]

B. Results

Dubuque's broad-ranging efforts to engage stakeholders in shaping its future have enabled the city to rebound from its low point in the 1980s. Dubuque's Metropolitan Statistical Area had 37,600 people working in 1983, a number which grew to more than 60,000 by 2014.[88] Dubuque recovered all of the jobs that it lost during the recession in the late 2000s by the first quarter of 2011, a feat

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[82] Daniels, Alex, and Ben Gose. "Community Funds Ask People From Diverse Walks of Life for Priorities." *Chronicle of Philanthropy*. Mar. 23, 2014.

[83] Gose, Ben. "Dubuque Community Fund's Example of Involving Locals Is Blueprint for Others." *Chronicle of Philanthropy*. Mar. 23, 2014.

[84] Sustainable Dubuque. "About Sustainable Dubuque." http://www.sustainabledubuque.org/en/about_us/about_sustainable_dubuque. Accessed May 20, 2014.

[85] City of Dubuque. *A Guide to the Dubuque Comprehensive Plan*. 2007. http://www.cityofdubuque.org/DocumentCenter/View/284.

[86] City of Dubuque. "Mayor & City Council." http://www.cityofdubuque.org/index.aspx?NID=67. Accessed Jun. 5, 2014.

[87] Braun, Georgette. "Rockford should take cues from Dubuque." *Rockford Register Star*. Oct. 20, 2013. http://www.rrstar.com/article/20131020/NEWS/131029939/10354/OPINION#OPINION/?Start=1&_suid=141693028395403882191682762058.

[88] City of Dubuque. "City Manager's Message." *City Focus*. Spring 2014. http://cityofdubuque.org/ArchiveCenter/ViewFile/Item/4145.

accomplished by only 18 other cities out of 363 that were examined.[89] In November 2013, its unemployment rate was just 3.5 percent, half the national average, and it had the 17th highest gross domestic product growth rate in the country at 5.1 percent.[90]

Exhibit 10. Dubuque riverfront. The Mississippi River has been one of the city's most valuable assets throughout its history. Originally used primarily to support industry, it now also helps attract more than 1 million tourists annually.

Many tax incentives given to businesses that helped revitalize Dubuque are due to expire, and the city's financial payoff from these earlier programs will begin. In 2018, the Dubuque Technology Park tax-increment financing[91] district is set to expire, providing the city an additional $1 million in annual tax revenue. In 2020, when the Dubuque Industrial Center West tax-increment financing district expires, the city can expect an additional $3 million in tax revenue per year.[92]

Businesses continue to invest in the city. In 2009, IBM announced the opening of a new facility in one of Dubuque's historic downtown buildings, bringing more than 1,000 jobs.[93] The company was lured in part by the city's demonstrated ability to bring together diverse public and private interests around a common purpose. IBM's presence has helped attract additional employers, fostered a more educated and diverse workforce, and supported the downtown's revitalization. In the five years after IBM's facility opened, 250 new residential units were built downtown.[94]

The city estimates that "more than one million tourists visit Dubuque annually to ride the riverboats, learn the history, and see the sights."[95] The city's Main Street Program, the longest-running Main Street Program in the country, received the first Great American Main Street Award in 1995. By 2006, downtown had real estate sales near $92 million, a first-floor vacancy rate of 10 percent (down from 55 percent at the organization's founding), and a net gain of 1,923 jobs.[96]

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[89] U.S. Conference of Mayors. "Return to Peak Employment." 2013. http://usmayors.org/metroeconomies/0613/BondsImpactJobsdatareport.xls.
[90] City of Dubuque "City Manager's Message." Op. cit.
[91] Property owners in tax-increment financing districts are eligible to finance new development based on the anticipated property taxes that would result from the increase in taxable valuation of those properties after development.
[92] City of Dubuque. "Capital Improvements: Bridging Present and Future Needs." *City Focus*. Sep. 2012. http://ia-dubuque.civicplus.com/ArchiveCenter/ViewFile/Item/3096.
[93] Greenblatt, Alan. "Corporate Entrepreneurs Are at the Heart of Downtown Revitalizations." *Governing*. Jan. 2014. http://www.governing.com/topics/urban/gov-corporations-at-revitalizations-center.html.
[94] Ibid.
[95] City of Dubuque. "Masterpiece on the Mississippi: Application for Iowa Great Places." Op. cit.
[96] Ibid.

Dubuque's high quality of life has been recognized by many organizations. Among many other awards:

- It was voted one of the 10 best riverfronts by readers of USA Today in 2014.
- EPA gave it a 2013 National Award for Smart Growth Achievement.
- It was named a 2013 All-America City by the National Civic League for the third time in six years.
- It has been named one of 100 Best Communities for Young People by America's Promise Alliance five times, most recently in 2012.
- In 2010, it was named Best Small City to Raise a Family by *Forbes*.
- In 2008, it was awarded Most Livable Small City in the United States by the U.S. Conference of Mayors.[97]

Much of Dubuque's success can be attributed to the city's engaged community and a comprehensive citizen-driven planning process that focuses on long-term sustainability for the economy, environment, and community.

Some information for this case study came from interviews with Teri Hawks Goodmann, Assistant City Manager, City of Dubuque, on October 26, 2012, and Roy D. Buol, Mayor, City of Dubuque, on November 7, 2012.

[97] City of Dubuque. "Awards & Recognition." http://www.cityofdubuque.org/index.aspx?NID=73. Accessed Feb. 13, 2015.

V. Emporia, Kansas

Emporia is in eastern Kansas between Topeka and Wichita, just over 100 miles from Kansas City. The population has been relatively stable in the past decade, decreasing from 26,760 in 2000 to 24,799 in 2013.[98] Emporia is the county seat of Lyon County and the largest city in the county.[99] Emporia is the home of Emporia State University, with approximately 6,000 students,[100] and Flint Hills Technical College, with approximately 750 students.[101]

Historically, Emporia was primarily an agricultural and manufacturing town.[102] Due to the decline of agricultural prices in the late 1970s and early 1980s, many factories and businesses that depended on agriculture moved out of town, starting the city's decline. At the same time, jobs created by the construction of a regional power plant drew local workers out of Emporia. Emporia's downtown vacancy rate eventually reached 30 to 40 percent.

A. Economic Development Strategies

The city and county governments joined with the Downtown Association and Chamber of Commerce to create a Main Street Program in 1991.[103] The Emporia Main Street Program provides promotion, design, business enhancement, and organization services to current and potential downtown businesses. It also helps to connect businesses to a variety of federal, state, and local funding sources, including:

- Zero-interest loan programs from the Kansas Department of Commerce; the privately funded Trusler Foundation; and Network Kansas, a statewide organization established by the Kansas legislature to provide entrepreneurial support.
- Historic preservation tax credits and competitive grant programs.
- Loan guarantee programs.
- Tax-increment financing.[104]

The city has also been involved in downtown revitalization efforts. The city partially funds Emporia Main Street (40 percent of its funding comes from the city's general fund and 60 percent from private sources). The city and Emporia Main Street worked together to create a "code team" in 2005 to help facilitate development approvals. The team brings together code officials, firefighters,

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98 U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Jul. 31, 2014.
99 Lyon County, Kansas. "Lyon County Fact Sheet." http://lyoncounty.org/index/?page_id=64. Accessed Jun. 2, 2014.
100 Kansas Department of Commerce. "Small Town Success Stories: Emporia." http://www.kansascommerce.com/index.aspx?NID=479. Accessed Jun. 2, 2014.
101 National Center for Education Statistics. "Flint Hills Technical College." http://nces.ed.gov/collegenavigator/?q=flint+technical+college&s=all&id=155052#programs. Accessed Jun. 2, 2014.
102 Kansas Department of Commerce. Op. cit.
103 National Trust for Historic Preservation. "Emporia, Kansas." 2005. http://www.preservationnation.org/main-street/awards/gamsa/2005/emporia-kansas.html#.VVDkT5Pd1QJ.
104 Emporia Main Street, Inc. *Historic Downtown Emporia Kansas: Business Investment Guide.* 2012. http://www.emporiamainstreet.com/wp-content/uploads/2012/03/2013-Business-Investment-Guide.pdf.

engineers, and zoning staff to meet with new or expanding business owners at the business site to clarify requirements expeditiously.[105]

The city and Emporia Main Street also worked together to create and adopt downtown design guidelines to promote mixed-use development and reinvestment in downtown Emporia that contributes to the area's existing historic fabric and character.[106] The design guidelines address the street grid, architectural detailing, construction materials, design principles for adaptive reuse and infill construction, signage, integrating multiple transportation modes into the existing streets, parking design and placement, lighting, street trees, and street furniture.

Courtesy of Emporia Main Street

Exhibit 11. Downtown Emporia. Downtown events like the annual Artist Walk, Welcome Week activities for university students, and holiday carriage rides help make downtown a center of life for community residents.

The city created the *Neighborhood Revitalization Plan* in 2008, along with a tax rebate program, to encourage improvements to residential and commercial properties in distressed areas.[107] Emporia's 2008 comprehensive plan includes goals to help create a vibrant downtown, including promoting downtown investment and redevelopment, providing incentives for redevelopment and infill in blighted areas, restoring and preserving the original façades of downtown buildings, improving pedestrian and bicycle connections throughout Emporia, creating a park for downtown and surrounding neighborhoods, and providing a wide range of housing options throughout the city.[108] In 2011, Emporia established a downtown historic district that gives property owners access to historic tax credits to help with renovation costs.[109]

In addition to being the county seat and having a historic downtown, the city has Emporia State University and Flint Hills Technical College and can draw educated workers from nearby Kansas State and Wichita State universities.[110] As well as providing the city with access to a skilled labor

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[105] Ibid.
[106] Emporia Main Street. *Downtown Design Guidelines*. 2008. http://www.emporiamainstreet.com/Forms/Emporia%20Main%20Street%20Guidelines,%205-20-09.pdf.
[107] City of Emporia. *Neighborhood Revitalization Plan*. 2008. http://www.emporia-kansas.gov/files/nra_plan_2008.pdf.
[108] City of Emporia. *City of Emporia Comprehensive Plan*. 2008. http://development.emporia-kansas.gov/files/gis/maps/City_of_Emporia_Comprehensive_Plan.pdf.
[109] Emporia Main Street, Inc. "Historic Incentives." http://www.emporiamainstreet.com/buisness-resources/historic-incentives/. Accessed Mar. 12, 2015.
[110] Kansas Department of Commerce. Op. cit.

force, Emporia State University is home to a Kansas Small Business Development Center. One of eight regional centers in Kansas, it provides counseling, training, and resources to entrepreneurs and small businesses in a nine-county area.[111]

Exhibit 12. Historic Renovation before *(left)* and after *(right)*. A business owner used historic tax credits and zero-interest revolving loans to finance a building renovation, converting an eyesore into a contributing part of the historic fabric while improving business and employee morale.

B. Results

Around 2000, Emporia completed a $2.3 million downtown streetscape project, helping to spur the renovation of hundreds of buildings. Every public dollar spent led to a return of $33 in private investment.[112] As of 2012, Emporia Main Street's initiatives since the early 1990s resulted in $57 million of investment in downtown and a decline in the vacancy rate from 30 percent to 7 percent.[113] Emporia Main Street won the 2005 Great American Main Street Award. At the time of the award, efforts to improve downtown Emporia had resulted in 637 new jobs, 124 new businesses, and 23 new housing units.[114] Since 2005, major downtown revitalization projects include the restored historic Granada Theatre and the Emporia Arts Center, which spurred the formation of a new arts and entertainment district.[115] In the three years after the establishment of the downtown historic district, property owners invested $3.8 million in historic renovations.[116] New development also occurred. The Granada Plaza and Lofts, Broadview Tower, and Kellogg Plaza and Lofts were completed between 2009 and 2012, adding new mixed-use development downtown that further increased the number of residents and businesses in the area.[117] Investment in the town's core between 2009 and 2015 has totaled $32 million,[118] including the opening of Emporia's first brewery since before Prohibition.[119]

Some information for this case study came from interviews with Casey Woods, Executive Director, Emporia Main Street, Inc. on August 30, 2012 and March 12, 2015.

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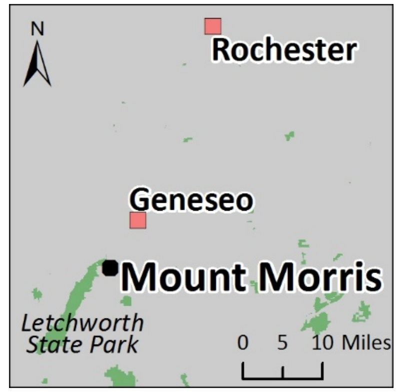
111 Emporia State University. "Kansas Small Business Development Center." http://www.emporia.edu/sbdc/mission.html. Accessed Jun. 2, 2014.
112 National Trust for Historic Preservation. "Emporia, Kansas." Op. cit.
113 Emporia Main Street, Inc. 2012. Op. cit.
114 National Trust for Historic Preservation. "Emporia, Kansas." Op. cit.
115 Emporia Main Street, Inc. 2012. Op. cit.
116 Personal communication with Casey Woods, Executive Director, Emporia Main Street, Inc. on Mar. 12, 2015.
117 Bolerjack, Don. "Emporia Downtown Home to New Businesses, Boosting Economy." *Kansas First News*. Apr. 29, 2014. http://kansasfirstnews.com/2014/04/29/emporia-downtown-home-to-new-businesses-boosting-economy.
118 Ibid.
119 Bolerjack, Don. Op cit.

VI. MOUNT MORRIS, NEW YORK



Mount Morris, New York, is a village of 2,929 people in western New York, 45 miles south of Rochester. The village is in Livingston County, which had a population of about 64,800 in 2012. Mount Morris lost 10 percent of its population from 2000 to 2012, while Livingston County grew by about 1 percent.[120,121]

In the mid-19th century, Mount Morris transitioned from a small farming community into a bustling commercial agricultural and milling town thanks to the Genesee Valley Canal, which allowed goods to be shipped out of the valley to market. However, operation of the canal proved too costly, and it closed in 1878. With no viable means of transporting goods, many communities along the canal route, including Mount Morris, sought to replace the canal with a new rail line. By 1882, rail service linked Mount Morris and Rochester, allowing the village to continue to prosper through the early 20th century.[122] By the mid-20th century, Mount Morris, like many communities across western New York, had begun a long economic decline as manufacturing jobs left the area. Exacerbating this long-term trend, an expressway bypassed the village in the 1970s, road construction blocked off routes through the village for two years, and competition from a nearby Wal-Mart left half the downtown storefronts empty by 2007.[123]

A. Economic Development Strategies

To help revive the economy, the Livingston County Development Group[124] (LCDG) focused on supporting small businesses and encouraging entrepreneurship. It provides classroom instruction, one-on-one technical assistance, downtown relocation services, and a loan fund for small businesses' start-up or expansion expenses.[125]

LCDG also promotes downtown redevelopment.[126] When an expressway bypassed the village of Mount Morris in the 1970s, downtown businesses suffered, and buildings fell into disrepair or were abandoned. In 2003, LCDG and the village leadership developed a downtown program that catalogued downtown buildings, subsidized rent, and advertised Mount Morris to developers. In 2007, the development potential of the village's historic buildings in the largely intact, but neglected,

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120 ACT Rochester. "Livingston County Data and Trends." http://www.actrochester.org/Livingston. Accessed Apr. 21, 2014.

121 U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Apr. 21, 2014.

122 The Gombach Group. "Mount Morris Village." http://www.livingplaces.com/NY/Livingston_County/Mount_Morris_Village.html. Accessed Sep. 5, 2012.

123 Dobbin, Sean. "Greg O'Connell Helps Breathe New Life Into Mount Morris." *Democrat & Chronicle*. Apr. 17, 2011. http://roc.democratandchronicle.com/article/20110417/NEWS01/104170355/Greg-O-Connell-helps-breathe-new-life-into-Mount-Morris.

124 LCDG comprises three public authorities: the Industrial Development Agency, the Development Corporation, and the Capital Resource Corporation.

125 LCDG. "Programs & Services." http://www.livingstoncountydevelopment.com/programs-services.html. Accessed Apr. 30, 2015.

126 LCDG. "Downtown Partnership." http://www.livingstoncountydevelopment.com/downtown-partnership.html. Accessed Apr. 30, 2015.

downtown caught the eye of Greg O'Connell, a New York City developer who had been a student at the State University of New York (SUNY) at Geneseo in the 1960s.[127] LCDG gave O'Connell an inventory of all the downtown buildings, including physical characteristics, rental rates, ownership, and identification of tax-delinquent properties and those near foreclosure. LCDG's downtown program was also applying for grants and received one from the New York Main Street Program to help restore downtown buildings.[128] The possibility of significant investment in downtown made the area more attractive to O'Connell.

Exhibit 13. Jane's Pantry in Mount Morris. This fine foods and spices shop was one of the first stores to open on the revitalized Main Street. A few years later, its success led the owner to expand by adding a tea room.

O'Connell spent more than $1 million to buy 20 buildings and another $1 million to rehabilitate them, restoring historic storefronts and interiors and renovating second-floor apartments. He pursued an eclectic mix of retailers, including a café and bakery, barbershop, and antiques dealer. To help these businesses succeed, O'Connell charges as little as $100 per month for rent and, in exchange, asks business owners to help create a dynamic downtown neighborhood by, for example, staying open one evening a week and regularly changing window displays. O'Connell makes a profit on the properties by renting the upper-story apartments to people who want to live in the center of activity.[129]

Livingston County set up a program under which taxes on the improvements in a community-defined redevelopment area gradually increase over a 12-year period, allowing time for developers and businesses working in struggling areas to generate enough activity for them to afford the higher tax bill.[130]

Community involvement has been key to revitalizing downtown. Mount Morris has taken advantage of its proximity to SUNY Geneseo to enlist the help of students. They have been involved in everything from beautification projects to publicity about community events.[131] A SUNY student acts as a Main Street manager, coordinating advertising and social media outreach for the Main Street businesses—a position created and funded by O'Connell. Merchants have also worked

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127 Garner, Dwight. "The Last Townie." *New York Times*. Mar. 18, 2011. http://www.nytimes.com/2011/03/20/magazine/mag-20KEYSmallTown-t.html.
128 Genesee/Finger Lakes Regional Planning Council. *Genesee-Finger Lakes Economic Development District Comprehensive Economic Development Strategy*. 2012. http://www.gflrpc.org/Publications/CEDS/2011-12/2012CEDSFinal.pdf.
129 Garner. Op. cit.
130 Macaluso, Tim Louis. "Development: The Mt. Morris Miracle." *City Newspaper*. Jul. 18, 2012. http://roccitynews.wordpress.com/2012/07/18/development-the-mt-morris-miracle.
131 Wadsworth, Louise, and Greg O'Connell. *Downtown Revitalization in Rural New York State*. Livingston County Development Corporation. 2011.

together to create a viable business district by jointly funding publicity, collaborating on events to bring people downtown, and agreeing to uniform business hours.[132]

The County's efforts to promote downtown redevelopment have continued. In 2010, Mount Morris received a $433,500 grant from Restore NY to preserve and renovate the art deco façade and marquee of the 1930s New Family Theater and repurpose the building.[133] Mount Morris hopes to build on other assets beyond downtown by capitalizing on its proximity to Letchworth State Park and the Genesee Valley Greenway, an 84-mile multi-use trail that parallels the Genesee River.[134] In 2012, tourism revenue per resident in Livingston County was only about half of the regional rate,[135] suggesting an area ripe for additional growth. Building on the natural assets and attracting more of the region's tourists to visit downtown could help further the village's economic development goals.

B. Results

Thanks to the efforts of Greg O'Connell and other community leaders, Mount Morris has filled vacant downtown storefronts with several small businesses, including restaurants and antiques dealers. One of the first restauranteurs to open on Main Street in 2010 was able to turn a profit in just 10 months, largely due to the affordable rent,[136] and three years later, he opened a second establishment, an ice cream parlor.[137] Another of the first businesses to open in a renovated storefront, Jane's Pantry, expanded a few years later by adding a tea room to the fine foods and spices shop.[138]

Some information for this case study came from interviews with Louise Wadsworth, Downtown Coordinator, Livingston County Economic Development Corporation, on September 7, 2012, and Charles DiPasquale, Supervisor, Town of Mount Morris, on September 5, 2012.

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132 Thomas, Kay. "The Reimaging of Main Street in Mount Morris." *Life in the Finger Lakes.* Fall 2011. http://www.lifeinthefingerlakes.com/reimaging-main-street-mount-morris.
133 Mills, Wendy. "Mount Morris Village Working to Revitalize Main Street." *Time Warner Cable News.* Feb. 24, 2010. http://www.twcnews.com/archives/nys/rochester/2010/02/24/mount-morris-village-working-to-revitalize-main-street-NY_497064.old.html.
134 D'Imperio, Tony. "Where does Mount Morris go from here?" *The Livingston County News.* Nov. 4, 2011.
135 ACT Rochester. Op. cit.
136 Dobbin. Op. cit.
137 Williams, Josh. "Zeppo's Ice Cream new addition for Mount Morris." *Genesee Sun.* Jul. 29, 2013. http://www.geneseesun.com/zeppo-s-ice-cream-parlor-new-additon-to-mount-morris.
138 "Jane's Pantry opens new Tea Room." *Genesee Sun.* Aug. 1, 2013. http://www.geneseesun.com/jane-s-pantry-add-a-tea-room.

VII. PADUCAH, KENTUCKY

Paducah is a city of 25,048 in western Kentucky at the confluence of the Ohio and Tennessee rivers.[139] From the city's beginning in the early 19th century, it was an agricultural and trade center, capitalizing on its waterways and later rail transportation. Paducah had decades of steady population growth leading into the 20th century.

Most significant for the town's economy, the Paducah Gaseous Diffusion Plant was built in surrounding McCracken County in 1952 and produced enriched uranium for nuclear power plants until 2013.[140] An estimated 30,000 people moved to Paducah for the plant's construction, and it had as many as 2,200 workers as recently as 2010.[141] As Paducah's population grew in the 1950s, the outskirts of Paducah and McCracken County started to suburbanize, and downtown Paducah began to lose population and struggle economically. In the early 1980s, a shopping mall built on the outskirts of the city further hurt Paducah's downtown retail.[142]

A. Economic Development Strategies

In 1988, Paducah residents elected Gerry Montgomery as mayor. She believed that returning vitality to downtown Paducah was critical to the area's economic future. Along with several other community leaders, she launched an effort to reinvest in downtown and restore the sense of place and quality of life that Paducah had lost over time. They saw downtown as critical to the city's future success, as it is the "front door" to their community, gave Paducah its sense of place, and attracted visitors. However, faced with a 70 percent downtown vacancy rate and high crime, Mayor Montgomery and the community had a daunting task.

In 1989, the mayor helped launch the Paducah Renaissance Alliance, an organization dedicated to developing and retaining the historic integrity of the Renaissance Area, which includes the LowerTown Arts District, the historic downtown, and the riverfront. The organization's approach, which is based on the Main Street Four-Point Approach developed by the National Main Street Center,[143] includes:

- Enhancing the design of the Renaissance Area by supporting an attractive, pedestrian-oriented streetscape that takes advantage of its historic buildings.

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[139] U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Apr. 29, 2014.

[140] Centrus. "Paducah Gaseous Diffusion Plant." http://www.centrusenergy.com/gaseous-diffusion/paducah-gdp. Accessed Apr. 30, 2015.

[141] Feldhaus, Rebecca. "At the heart of the Atomic City: Paducah's Gaseous Diffusion Plant." WKMS. May 11, 2010. http://www.publicbroadcasting.net/wkms/news.newsmain/article/0/1/1648416/Local.Features/At.the.heart.of.the.At omic.City.Paducah's.Gasesous.Diffusion.Plant.

[142] City of Paducah. *Lower Town Neighborhood Plan*. 2002. http://paducahky.gov/paducah/files/u3/LTpdfPlan.pdf.

[143] National Main Street Center. "The Main Street Four Point Approach." http://www.preservationnation.org/main-street/about-main-street/the-approach. Accessed Jun. 3, 2014.

- Promoting the distinctive characteristics of the Renaissance Area that make it a great location to live, work, shop, and invest.
- Restructuring the economy to strengthen Paducah's existing assets while also diversifying its economic base by recruiting new businesses that can contribute to the central commercial district.
- Organizing a volunteer-driven program to build consensus and cooperation toward common goals.[144]

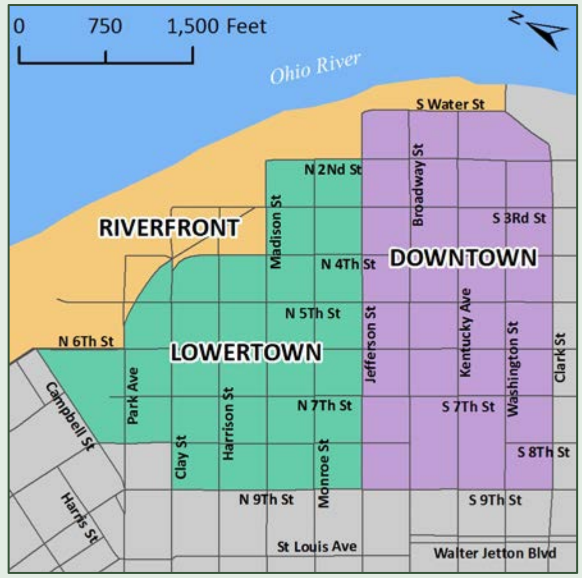

Exhibit 14. Paducah Renaissance Area. The Paducah Renaissance Alliance focuses its efforts on the Riverfront, LowerTown, and Downtown.
Map based on information from *Renaissance Area Master Plan.*

Paducah has used this approach to develop a cohesive identity around its core assets: art, the Ohio River, and history. A key component of nurturing the arts was supporting cultural institutions that would draw activity to the Renaissance Area. The city already was home to the William Clark Market House Museum and Market House Theater, both housed in a historic 1905 structure that is an icon of downtown Paducah.[145] Adding to these cultural assets, a local couple who were quilting enthusiasts led an effort to establish the National Quilt Museum. In 1991, the museum opened the doors to a new $2.2 million building in downtown Paducah.[146] It draws about 40,000 national and international visitors a year.[147]

Around the same time the quilt museum opened, the nonprofit Paducah Film Society opened the Maiden Alley Cinema. A few years later, a team of community leaders launched an effort to build a regional performing arts center that would house the Paducah Symphony Orchestra. Understanding the center's potential economic impact and educational value for the entire region, 13 surrounding counties passed resolutions supporting its construction. In 2004, the Luther F. Carson Four Rivers Center opened to the public.[148] During its first five years of operation, 665,000 people from 49 states attended events at the center.[149]

In 2008, the Paducah School of Art and Design opened as an anchor in the LowerTown Arts District, and in 2013, it expanded into renovated facilities. The school is planning another 25,000-

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144 Paducah Main Street. "Our Approach." http://www.paducahmainstreet.org/about-our-approach.htm. Accessed Jun. 2, 2014.

145 City *Visions* Associates; AECOM; ConsultEcon, Inc.; and HNTB. *Renaissance Area Master Plan*. Paducah Riverfront Development Authority. 2011. http://matchbin-assets.s3.amazonaws.com/public/sites/1140/assets/3T5K_Final_RAMP_2012.pdf.

146 The National Quilt Museum. "Museum History." http://www.quiltmuseum.org/history.html. Accessed May 1, 2014.

147 City *Visions* Associates et al. 2011. Op. cit.

148 The Carson Center. "History." http://thecarsoncenter.org/history. Accessed May 1, 2014.

149 Paducah Economic Development. "The Carson Center." http://www.epaducah.com/why-paducah/the-carson-center. Accessed May 1, 2014.

square-foot expansion into a renovated historic building in the fall of 2015.[150] The city considers its collection of cultural institutions to be a major asset that draws people from near and far.[151]

This concentration of cultural and arts attractions is complemented by the city's efforts to revitalize LowerTown, one of Paducah's oldest residential neighborhoods with many historic buildings. However, by the late 1990s, LowerTown was in serious decline, with high poverty and unemployment, dilapidated buildings, a low homeownership rate, and high crime.[152] In 2000, Mark Barone, a local artist, and Thomas Barnett, the city planner at the time, set out to revitalize the neighborhood by building on Paducah's new cultural investments. They created the Artist Relocation Program to attract artists to live and work in the neighborhood, and the city hired Barone to manage the program.[153] As part of the program, the city bought 55 vacant or foreclosed buildings that it then sold to artists for as little as $1. The city gives buyers up to $2,500 for professional design services, as well as business and marketing support. The artists in turn promise to renovate the building for use as their home, studio, or retail space. Paducah Bank agreed to offer mortgage loans at well above the properties' appraised values so new owners could afford renovations, which was critical to the program's success.[154] In the first five years of the program, the city spent about $3 million, while the artists invested approximately $35 million. More than 100 artists eventually moved to live and work in the neighborhood, which is now filled with galleries, shops, and restaurants that attract visitors and residents.[155] By facilitating homeownership for the people spearheading the area's revitalization, the program helps them afford to stay as property values rise.

Courtesy of WKMS via flickr.com

Exhibit 15. LowerTown Arts District. The LowerTown neighborhood celebrates an annual Arts and Music Festival that brings residents and visitors to the area, supporting local businesses and artists.

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150 Paducah School of Art & Design. "Facilities." http://paducahschoolofartanddesign.org/facilities. Accessed Feb. 19, 2015.
151 City *Visions* Associates et al. Op. cit.
152 City of Paducah 2002. Op. cit.
153 Brundige, Wendy. "New York, Paris, Paducah? Kentucky Attracts Artists." *ABC News*. Dec. 23, 2006. http://abcnews.go.com/Entertainment/WNT/story?id=2748161.
154 Patton, Zach. "Work of Arts." *Governing Magazine*. Jul. 2007. http://www.governing.com/topics/economic-dev/Work-Arts.html.
155 Stodola, Sarah. "How to Save the Cities—Send in the Artists." *The Fiscal Times*. Jun. 4, 2010. http://www.thefiscaltimes.com/Articles/2010/06/04/How-to-Save-the-Cities-Send-in-the-Artists.

Revitalization efforts continued in other parts of the Renaissance Area. In 2005, the city created a riverfront redevelopment master plan. Projects under this plan include expanding a public park by adding fill material from the Ohio River, creating a downstream harbor as well as building a boat launch, dock, and marina. Paducah secured just over $10 million in federal and state funding for the riverfront's redevelopment, including $6.3 million from the Federal Highway Administration, $3 million from the U.S. Department of Housing and Urban Development, and $910,000 from the U.S. Fish & Wildlife Service.[156] Construction began in May 2013 on the Ohio River boat launch and was completed in 2014.[157]

Building on the overwhelming success of the LowerTown neighborhood redevelopment, in 2007, Paducah turned its attention to revitalizing the Fountain Avenue neighborhood, one of the city's first streetcar suburbs that suffered from years of disinvestment.[158] The city created several incentives to attract existing and new homeowners—not just artists—to invest in the neighborhood.[159] Current residents can apply for a loan of up to $20,000 that covers up to 15 percent of a renovation project costing $50,000 or more, with 20 percent of the loan forgiven per year, while new residents are eligible for up to 10 percent of the cost of a renovation or new construction project. In addition, the city offered for sale city-owned vacant lots or houses requiring renovation at prices as low as $1; a waiver for planning application, inspection, permit, and sewer connection fees; 24-hour turnaround for inspections; and free sidewalk replacement for new infill and major rehabilitation projects. More than $8 million in public and private funds has been invested in the area, and crime has declined an average of 77 percent per year between 2000 and 2011.[160]

To coordinate the many downtown investment strategies, the city commission created the Paducah Riverfront Development Authority in 2008. In 2011, the authority commissioned the *Renaissance Area Master Plan* to improve the physical connections among Paducah's downtown, the LowerTown Arts District, and the riverfront; reinforce downtown character; and improve transportation.[161] The authority is tasked with redeveloping the former site of a riverfront hotel and helping with planning and implementation of the *Renaissance Area Master Plan* and the Paducah Riverfront Project.[162]

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156 City of Paducah. "Riverfront Master Plan." http://paducahky.gov/paducah/riverfront-master-plan. Accessed May 1, 2014.
157 City of Paducah. "Ohio River Boat Launch." http://paducahky.gov/paducah/ohio-river-boat-launch. Accessed Feb. 19, 2015.
158 City of Paducah. *Fountain Avenue Neighborhood Phase I Revitalization Plan*. 2007. http://www.fountainave.com/documents/FinalPlanweb.pdf.
159 City of Paducah. "Fountain Avenue Neighborhood: Incentives." http://www.fountainave.com/incentives.php. Accessed May 1, 2014.
160 City of Paducah. "Fountain Avenue Neighborhood: Project Purpose." http://www.fountainave.com/index.php. Accessed May 1, 2014.
161 City *Visions* Associates et al. Op. cit.
162 City of Paducah. "Paducah Riverfront Development Authority PRDA." http://paducahky.gov/paducah/PRDA. Accessed May 1, 2014.

B. Results

Paducah's investments in its downtown have strengthened the city's economy. A study conducted by Americans for the Arts found that, in 2007, the nonprofit arts and culture organizations generated $39.9 million in local economic activity in the Greater Paducah region, supporting 819 full-time jobs and generating $3.6 million in local and state government revenue. More than two-thirds of this economic activity was generated by event-related spending, much of it from tourists. Nearly 400,000 people attended arts events in Paducah during 2007, 37.5 percent of whom came from out of state. These out-of-state visitors spent more than five times as much as local residents for event-related expenses, including lodging, meals, transportation, and shopping, not counting admission fees.[163]

Photo courtesy of Calebism via flickr.com

Exhibit 16. Downtown Paducah. The historic buildings and cultural institutions in downtown attract residents and visitors to local shops and businesses.

As investors and entrepreneurs saw how the city improved downtown, they made investments of their own. As of 2010, more than $100 million had been invested in downtown, about half from public investment and half from private investment.[164] In 2010, the National Trust for Historic Preservation gave Paducah a Great American Main Street Award for its efforts to revitalize the city's historic retail district. At the time of the award, the Paducah Renaissance Alliance's efforts were responsible for 234 new businesses, 1,000 new jobs, the renovation of 119 buildings, and a drop in the vacancy rate from 70 percent to 14 percent, dramatically improving the economy and quality of life.[165]

Paducah has continued to build on its assets and garner recognition for its work. In 2013, the United Nations Educational, Scientific and Cultural Organization (UNESCO) designated Paducah the world's seventh City of Crafts and Folk Art.[166] This recognition was based on the city's art institutions, programs, events, and training, along with the number of active artists living in Paducah—all assets the city has cultivated for more than a decade.

Some information for this case study came from interviews with Steve Ervin, Director of Economic Development, City of Paducah, and Steve Doolittle, Executive Director, Paducah Riverfront Development Authority, on November 7, 2012.

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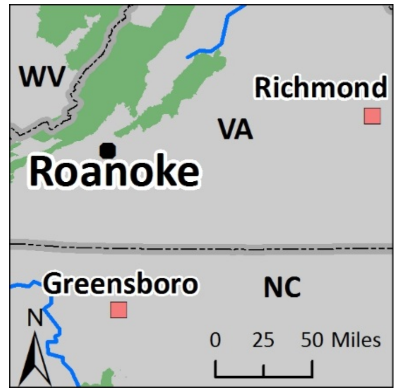
163 Americans for the Arts. *Arts & Economic Prosperity III*. 2009. http://paducahky.gov/paducah/files/GreaterPaducahKY_FinalReportw03.pdf.

164 National Main Street Center. "Paducah Renaissance Alliance: Congratulations Paducah, Kentucky!" 2010. http://www.preservationnation.org/main-street/awards/gamsa/2010-gamsa-winners/paducah-renaissance-alliance.html.

165 Ibid.

166 City of Paducah. "Paducah, A UNESCO Creative City of Crafts & Folk Art." http://paducahky.gov/paducah/news/paducah-unesco-creative-city-crafts-folk-art. Accessed Jun. 3, 2014.

VIII. ROANOKE, VIRGINIA



Located in southwestern Virginia, Roanoke is the largest city in the western part of the state. Approximately 170 miles west of Richmond and 100 miles north of Greensboro, North Carolina, Roanoke sits along the Blue Ridge Parkway, a 469-mile National Parkway connecting Great Smoky Mountains and Shenandoah national parks and the Appalachian Trail, a 2,180-mile hiking trail running from Maine to Georgia.[167] Roanoke is adjacent to other public lands, including the George Washington and Jefferson national forests.[168] The population has been relatively stable, increasing from 94,911 in 2000 to 98,465 in 2013.[169]

Roanoke was historically an industrial town, and prior to the 1980s, its economy was largely driven by railroads. Roanoke was home to the headquarters, workshop, and maintenance facility for the Norfolk & Western Railway for nearly 100 years. In 1982, however, the Norfolk & Western Railway merged with Norfolk Southern, and the corporate headquarters moved to Norfolk, along with many jobs. Around the same time, several banks in Roanoke consolidated with banks in North Carolina, resulting in even more job loss. Additionally, in 1979 the Virginia state legislature abolished cities' ability to annex land. These factors, combined with residents moving out to the growing suburbs, resulted in a largely vacant downtown and large swaths of underused or abandoned industrial properties. No longer able to expand its economy by expanding its boundaries, the city realized that the only way to grow was to use its assets and redevelop within its current footprint.

A. Economic Development Strategies

In 2000, the city launched an extensive public participation process to develop a vision for the future. *Vision 2001-2020*, the city's comprehensive plan, passed in 2001, incorporating input from a citizens' advisory committee, citizen-based task teams, city staff, consultants, the planning commission, city council, and the public. The comprehensive plan is built on a set of guiding principles including:

- Quality of life and economic development are integrally related.
- Quality design principles enhance the city.
- Roanoke is the heart of the region.
- Roanoke needs both public and private investment in high-quality amenities, infrastructure, and services to ensure continued vitality and growth.

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167 Blue Ridge Parkway Association. "About the Blue Ridge Parkway." http://www.blueridgeparkway.org/v.php?pg=7. Accessed Jun. 26, 2014.

168 Murray, Jack. "The Best Mid-Sized Mountain Town." *Blue Ridge Outdoors Magazine*. Nov. 2012. http://www.blueridgeoutdoors.com/outdoors-travel/the-best-mid-sized-mountain-town.

169 U.S. Census Bureau. "American Fact Finder." http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml. Accessed Jul. 10, 2014.

- Roanoke should be a sustainable community.[170]

With the comprehensive plan to guide development decisions, the city undertook several economic development initiatives, including:

- Redeveloping downtown.
- Making outdoor recreation an economic driver.
- Creating a biomedical research facility and technology park.

Courtesy of Brent Moore via flickr.com

Exhibit 17. Downtown Roanoke. A refurbished Dr. Pepper sign from the 1940s was moved to a renovated office building at a prominent downtown corner. The Roanoke Valley Preservation Foundation recognized the sign's preservation with an award in 2006.

1. Redeveloping Downtown

Part of Roanoke's downtown redevelopment strategy included designating the area centered along the main east-west tracks of the Norfolk & Western Railway as an Enterprise Zone under a state program. New or expanding businesses in this zone are eligible for state and local incentives, including:

- Façade grants for up to one-third the cost of renovations.
- Exemptions from increased real estate taxes due to increases in assessed value as the result of rehabilitation or renovation of commercial, mixed-use, or industrial buildings.
- Rebates for development fee and water, fire, and sewer hookup fees. The amount is based on a sliding scale, from 10 percent for investments of $125,000 to $249,999.99 up to 100 percent for investments of $1 million or more.
- Grants to neighborhood organizations for neighborhood and park beautification projects.
- Job-training grants.[171]

For residential, commercial, and industrial buildings at least 25 years old, Roanoke also offers partial tax exemptions for five years equal to the difference in the appraised value before and after completion of rehabilitation.[172]

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[170] City of Roanoke. *Vision 2001-2020*. 2001. http://www.roanokeva.gov/85256A8D0062AF37/vwContentByKey/N254FQP9276FGUREN.
[171] City of Roanoke. *Enterprise Zone One A Incentives*. Undated. http://www.roanokeva.gov/85256A8D0062AF37/vwContentByKey/6B51776E13D71E0C85257AA20050D6F5/$File/Enterprise%20Zone%20One%20A%20Information.pdf.
[172] City of Roanoke. "Tax Credits." http://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N254UMHM330LBASEN. Accessed Jun. 26, 2013.

2. Making Outdoor Recreation an Economic Driver

The city is using its environmental assets, including nearby state parks, the Appalachian Trail, and the Blue Ridge Parkway, to spur economic development. In 2006, the Roanoke Regional Partnership, a regional economic development organization, began branding Roanoke as a premier spot for outdoor recreation, launching a website and dedicating staff to the effort.[173] The partnership and the city are using the area's natural assets to attract tourism, outdoor-oriented businesses, and new residents.

The city is improving its natural and outdoor assets through a multi-pronged approach:

- Greenways: The city and regional partners completed a *Roanoke Valley Conceptual Greenway Plan* in 1995 and updated it in 2007 to document progress and prioritize new routes for construction.[174] In addition, the city's comprehensive plan incorporates a policy to develop a high-quality network of regional greenways for recreation, conservation, and transportation and identifies actions to achieve this goal.[175] Between 1995 and 2012, 26 miles of greenways were built in the city and surrounding area.[176]
- Biking: The city took several steps to improve bicycling amenities with the aim of being designated a Bicycle Friendly Community℠ by the League of American Bicyclists, a goal the city achieved in 2010.[177] The Roanoke Valley Area Metropolitan Planning Organization approved a bikeway plan in 2005 and updated the plan in 2012. The plan helps the region develop a regional transportation network that makes bicycling safe and appealing.[178]
- Conservation easements:[179] Between 2008 and 2010, the city placed almost 12,000 acres under conservation easements, including the largest single tract ever protected in Virginia, safeguarding the main freshwater source for the city, scenic views, and wildlife habitat.[180]
- Tree canopy: In 2002, the city created a goal of achieving 40 percent tree canopy in 10 years. By 2010, it had surpassed this goal, with 48 percent tree cover, by improving tree maintenance and revising zoning ordinances to encourage tree preservation and require tree canopy on developed lots.[181]

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173 Roanoke Regional Partnership. "Roanoke Outside.com." http://www.roanokeoutside.com. Accessed Jul. 10, 2014.
174 Roanoke Valley Greenway Commission and Roanoke Valley- Alleghany Regional Commission. *Update to the Roanoke Valley Conceptual Greenway Plan*. 2007. http://www.roanokecountyva.gov/DocumentCenter/Home/View/253.
175 City of Roanoke 2001. Op. cit.
176 Roanoke Valley Greenways. "Progress." http://greenways.org/?page_id=28. Accessed Jul. 22, 2014.
177 City of Roanoke. "Bicycle Friendly Community." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YM9Q607LGONEN. Accessed Jun. 26, 2014.
178 Roanoke Valley Area Metropolitan Planning Organization. *Bikeway Plan for the Roanoke Valley Area Metropolitan Planning Organization 2012 Update*. 2012. http://rvarc.org/wp-content/uploads/2013/12/RVAMPO-BikewayPlan-2012Update-web.pdf.
179 Conservation easements limit the type or amount of development that can occur on property that remains under private ownership.
180 City of Roanoke. "Conservation Easements." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YMAB696LGONEN. Accessed Jun. 26, 2014.
181 City of Roanoke. "Tree Canopy." https://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N287YMEY344LGONEN. Accessed Jun. 26, 2014.

3. Creating a Biomedical Research Facility and Technology Park

In 2000, the city increased the downtown service area by 40 percent by creating the South Jefferson Redevelopment Area, 110 acres of land adjacent to downtown that had been home to much of Roanoke's railroad and industrial past and included numerous brownfield properties.[182] The Roanoke Redevelopment and Housing Authority and the city assembled 23 acres, conducted environmental site testing, and improved public utilities, streets, and drainage. They designated the area as the Riverside Center for Research and Technology.[183] In 2006, the majority of the land was sold to Carilion Health Systems, which partnered with Virginia Tech and the University of Virginia to establish the Carilion Biomedical Institute that would build on the assets of these local and regional institutions.[184] In addition to the Carilion Biomedical Institute, the Riverside Center is now home to the Carilion Clinic, a hotel, and a medical school funded by a state bond package in 2008.[185]

This redevelopment project is part of the city's strategy to reuse brownfield properties to provide locations for growth in a city that is 95 percent built out, better use property zoned for industrial and commercial uses, create new jobs and housing, increase the tax base, and correct environmental problems. In 2008, the Roanoke City Council adopted the *City-Wide Brownfield Redevelopment Plan*, which establishes the city's role in brownfields redevelopment and encourages and facilitates reinvestment in brownfield properties.[186]

Courtesy of st.steele via flickr.com

Exhibit 18. Historic Roanoke City Market. Located in the heart of downtown, the City Market is open every day. It has been in operation since 1882 and is a popular destination for both residents and visitors.

182 Roanoke Redevelopment and Housing Authority. "South Jefferson." http://www.rkehousing.org/redevelopment/south-jefferson. Accessed Nov. 5, 2012.

183 City of Roanoke. "Riverside Center." http://www.roanokeva.gov/85256A8D0062AF37/CurrentBaseLink/N27PEMWV328BTFKEN. Accessed Jun. 26, 2014.

184 Virginia Tech. "Carilion, Virginia Tech, U.Va. Create Biomedical Institute – Virginia Tech Forms Optical Sciences and Engineering Research Center." *ScienceBlog*. Nov. 18, 1999. http://www3.scienceblog.com/community/older/1999/E/199904502.html.

185 Virginia Tech Carilion. "About VTC." http://www.vtc.vt.edu/about. Accessed Jun. 26, 2014.

186 City of Roanoke. *City-Wide Brownfield Redevelopment Plan*. 2008. http://www.roanokeva.gov/85256A8D0062AF37/vwContentByKey/26EEAAD1B77A18D685257B17004FF023/$File/CityWideBFPlanJanuary2008.pdf.

B. Results

Downtown Roanoke has undergone a dramatic change since the turn of the century. In 2000, fewer than 10 people lived in downtown, but that number grew to around 1,200 by 2012.[187] Between 2009 and 2012, 25 restaurants opened downtown, many drawing on the popularity of local food by featuring products from Roanoke's long-running farmer's market.[188] One of the downtown developers capitalized on Roanoke's success by founding CityWorks (X)po, an annual place-making conference that seeks to strengthen small towns.[189] Smarter Travel named Roanoke one of the 10 best small cities on the rise, citing the new residents attracted to downtown and the 333 new downtown residences in the works.[190]

Roanoke is also reaping dividends from its efforts to capitalize on the region's natural assets.

- The annual Blue Ridge Marathon event series (featuring a full marathon, half marathon, and 10K races) attracts a growing number of visitors from outside the metropolitan region—59 percent of participants in 2014. The total economic impact of the event was $521,326 in 2014, up 9 percent from 2013. Since its inception in 2009, the event has generated more than $2 million dollars in regional economic activity.[191]
- The city continues to gain accolades for its appeal to bicyclists and outdoor enthusiasts since being designated a Bicycle Friendly Community℠ by the League of American Bicyclists in 2010. *USA Today* picked the Roanoke Valley as one of the 10 most bike-friendly cities in 2014.[192]
- In 2012, *Blue Ridge Outdoors Magazine* named Roanoke the Best Mid-Sized Mountain Town and said the city is "rapidly gaining a reputation as one of the country's top outdoor destinations."[193]
- *Metro Parent Magazine* touts Roanoke as a family-friendly vacation destination for the number and variety of hiking options close to downtown attractions.[194]

The Riverside Center for Research and Technology has also been a success. Between 2003 and 2007, the Carilion Biomedical Institute generated "$33 million in economic impact, 10 new companies and

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187 Chang, Nicholas. "Don't Call it a Comeback: The Rebirth of Downtown Roanoke, VA." *Smart Growth America*. Aug. 16, 2012. http://www.smartgrowthamerica.org/2012/08/16/dont-call-it-a-comeback-the-rebirth-of-downtown-roanoke-va.

188 Ryzik, Melena. "Virginia Developer is on a Mission to Revive His Town." *New York Times*. Jul. 24, 2012. http://www.nytimes.com/2012/07/25/us/in-virginia-developer-is-on-a-mission-to-revive-his-town.html.

189 Ibid.

190 Moore, Jamie. "America's Best Small Cities on the Rise." *Smarter Travel*. Jul. 20, 2014. http://www.smartertravel.com/photo-galleries/editorial/americas-best-small-cities-on-the-rise.html?id=802.

191 Roanoke Valley – Alleghany Regional Commission and Roanoke Regional Partnership. *2014 Economic Impact Analysis*. 2014. http://blueridgemarathon.com/wp-content/uploads/2014/06/EconomicImpact_2014.pdf.

192 Turnage, Neal. "10Best: Bike-Friendly Cities." *USA Today*. Jul. 1, 2014. http://www.usatoday.com/story/experience/weekend/my-weekend-experience/2014/07/01/10-best-cities-for-biking/11894665/#.

193 Murray 2012. Op. cit.

194 Gough, Kristen J. "Trails, Trains and More in Roanoke, Virginia." *Metro Parent*. May 27, 2014. http://www.metroparent.com/daily/family-travel/family-vacations/trails-trains-and-more-in-roanoke-virginia/.

60 new jobs in the Roanoke and New River valleys."[195] The city calculates that its initial $20 million investment in the center has leveraged more than 10 times that amount in private dollars.[196]

These efforts have made the city an attractive place to live. Roanoke has won a multitude of awards, including being named an All-America City six times by the National Civic League, named one of America's Most Livable Communities by Partners for Livable Communities, and voted Number 2 in Kiplinger's Best Cities Reader's Poll award in 2010.[197]

Some information for this case study came from interviews with Tom Carr, Director, Planning Building and Development, City of Roanoke, on October 11, 2012; Rob Ledger, Economic Development Manager, City of Roanoke, on October 30, 2012; Christopher Morrill, City Manager, City of Roanoke, on October 30, 2012; Brian Townsend, Assistant City Manager for Community Development, City of Roanoke, on October 30, 2012; Pete Eshelman, Director of Outdoor Branding, Roanoke Regional Partnership, on October 30, 2012; Curtis Mills, Jr., Chair, Downtown Roanoke, and Senior Vice President, Carilion Clinic, on October 30, 2012; and Steve Musselwhite, President, Downtown Roanoke, on October 30, 2012.

195 Barchi, Daniel. "Carilion Biomedical Institute is Creating Dividends." *Roanoke Times*. Mar. 26, 2007.
196 City of Roanoke "Riverside Center." Op. cit.
197 City of Roanoke. "Awards and Honors." https://www.roanokeva.gov/85256A8D0062AF37/vwContentByKey/N25Z7NUX818LBASEN. Accessed Jun. 26, 2014.

IX. Conclusion

While small towns and cities can face more significant challenges than their larger counterparts, they also have great opportunities. The case studies show how communities of various sizes facing a diversity of challenges can successfully retool their economies to fit the changing economic climate. Small towns and cities, often with limited resources, must be innovative, thinking beyond just being a good place to do business and focusing on using their distinctive assets for economic development. Leaders of the case study communities understood this and effectively integrated their economic development activities into efforts to support and nurture those features that make their communities distinctive, whether it is a historic downtown or access to treasured natural areas.

No two communities are the same—they do not face the same challenges, and they cannot recover from economic downturn by merely replicating efforts that have succeeded in other places. However, the tactics discussed in this report can be useful to many communities and can be tailored to the strengths and needs of the individual place to help struggling communities regain their economic footing and create a better quality of life for their residents.

Smart Growth
PROGRAM

From:	Amy@WCPlan.com
To:	Miller, Tabatha; McCormick, Sarah
Subject:	City Council Meeting - Economic Development, item 1A comment
Date:	Monday, March 1, 2021 4:42:21 PM
Attachments:	Vacant Parcels Zoned Industrial.pdf Signature Screen Shot 2018-05-02 at 3.59.11 PM.png

Hello Tabatha and Sarah,

I'm happy to see Economic Development on the agenda for a Special City Council meeting this evening.

As the Council considers direction to Staff, I would like to encourage them to prioritize bringing City Water & Sewer to the industrially zoned parcels north of Pudding Creek.

As you know, I have had clients in the past work their way through proposals - to levels of exploration - for unique development that would only have been permissible in these zoning districts. As these parcels are relatively small for Industrial parcels, it would help potential developers greatly if these lands were a part of the City's water/sewer infrastructure. Individual developers for parcels of this size have not yet been able to pencil out projects that can afford to bring such services to those lands. Any City support would prove helpful in utilizing these lands as they are zoned.

I've attached a screen shot from an exhibit pretended to City Council in July 2019 as a part of the Mill Site zoning exploration performed by City Staff; this illustrates the industrially zoned parcels north of Pudding Creek.

Thank you for receiving and considering my commentary.

All the best,
Amy

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From:	Megan Caron
To:	Albin-Smith, Tess; Peters, Lindy; Norvell, Bernie; Morsell-Haye, Jessica; Miller, Tabatha; McCormick, Sarah; Lemos, June
Subject:	Comment on Economic development meeting
Date:	Tuesday, March 2, 2021 1:05:59 AM

Greetings,
Thank you for having tonights special meeting, opening up this important conversation is imperative to the revitalization of our community. Below are some things I would like to add to the discussion.

Housing
Fort Bragg is abundant with entrepreneurial opportunity however opportunity cannot be taken without the availability of basic housing. Obviously housing should be our first priority, little can be done without it.

Encouraging ADU's is great however many property owners may not have the financial ability to build one from scratch. Many homes already have existing structures behind them that could potentially be turned into small rentals. Could the city provide low interest loans to fix up these existing structures? This alternative may be more financially viable for some homeowners and at the same time preserving some of our historical buildings.

Can we please prohibit all vacation rentals including those in the CBD?

Downtown
Vacancy tax -long overdue
Code enforcement- long overdue
We have too many property owners using downtown Fort Bragg as a tax write off, this is unacceptable.
Empty overgrown lots in the CBD should be landscaped with native drought tolerant plants and maintained or the owner should have to lease the lots to the city for public use.

Unfortunately our local community has little to no connection to their own downtown, how do we change this?
We use one of the vacant lots (corner of Redwood and Franklin) to create a small green space. We desperately need a place for our community to be a community, Where live music could play and coffee could be enjoyed. These are the places where communities become "close knit" we don't have these places in Fort Bragg. I believe this Is one of the reasons people don't feel a strong sense of community here and this is one of the reasons they end up leaving.

The overgrown lot across from City Hall should be turned into a weekend open air market place for makers, artists and antique dealers. It could also be used for the farmers market which would open up parking spaces which are in short supply on Wednesdays.

The Footlighters building (not the organization) needs to be saved from going to auction where someone from the cannabis industry will probably buy it. Community art centers are essential in every arts community. Arts and culture are a product we already have but we lack a place that makes them accessible. It is a fact that artist communities bring in tourist dollars, the people who visit these communities tend to spend more money and time in them.
Certainly there is some CBDG money that could be appropriated to save this piece of local history. At the same time fulfilling a serious need in our community.

Visit Fort Bragg
These funds need to be redirected into more substantial endeavors. We continue to invite people here and often they leave disappointed. Whether it was the lack of colored glass at the beach or a clean restroom to use downtown. Funds need to be spent on celebrating our local history with building placards and developing an app for a downtown history walk. These could easily be done with collaboration with the guest house museum.
Speaking of the guest house museum, it has one of the best views in DTFB and no one goes back there. There should be tables there for people to sit and enjoy their coffee. After all, it is one of the only places in DTFB with a view, we need to start using these assets.

We also need more public art, the kind that is interactive and engaging. Perhaps Flockworks could be involved in this type of endeavor.
I have serious doubts about the impact of restaurant week and shop small campaigns. While the idea may appear beneficial to our business community, the financial return on these endeavors should at least exceed the cost to execute them. I have a strong feeling it does not. This was one of the reasons I was hesitant to join the Visit Fort Bragg committee. The public perception of this organization is that it is waste of taxpayers dollars. We need to do what we can to change that.

Thank you for your time,
Megan Caron
Fort Bragg

Sent from my iPhone

Vacant & Underutilized Industrial Parcels, Fort Bragg CA

Parcel Number	Address	Acres	Usable Acres	Water & Sewer
Heavy Industrial Parcels				
069-232-11-00	1261 N MAIN ST	1.4	0.7	No
069-232-10-00	1265 N MAIN ST	0.153	0.0612	No
069-241-13-00	1220 N MAIN ST	6.48	3	No
	Subtotal	**8.033**	**3.7612**	
Light Industrial Parcels				
069-232-08-00	1281 N MAIN ST	2.35	1.175	No
069-231-21-00	1280 N MAIN ST	6.96	3.48	No
069-241-17-00	1216 N MAIN ST	2.4	2.4	No
069-241-19-00	1206 N MAIN ST	2.37	2.37	No
	Subtotal	**14.08**	**9.425**	
	Total Vacant & Underutilized	**22.11**	**13.1862**