Beyond TIF

The Future of Development Funding and Partnerships

Introduction

A New Beginning in California

In February 2012, facing its worst fiscal crisis in state history, California abolished its Regional Development Authorities and discontinued the use of Tax Increment Financing (TIF). When the recession took hold in 2007–2008, California had more than 400 TIF districts totaling over $10 billion in annual revenues, over $28 billion in long-term debt, and more than $674 billion of assessed land valuation. But last year the first U.S. state to adopt TIF in 1952 became the first state to get rid of it, joining Arizona and Wyoming as the only states without TIF (and joining Arizona as the only other state without redevelopment agencies).

Why — at a time of struggling economic recovery and slowed job creation — would the most populous state in the nation dismantle major programs intended to spur public/private partnerships for new development? Given California's history as an early adopter of policies that eventually migrate to other state houses, the question bears considering. California's move came after years of scrutiny of its RDAs, and increasing dissatisfaction with the return many of its municipalities were getting from freezing tax revenues to fund redevelopment.

While not all states will decide to follow California's lead, critical discussions over the best way to advance public/private development partnerships (and what the desired outcomes should be) are likely to increase nationwide. As the California Legislative Analyst's Office acknowledged in its 2012-2013 Budget report "Unwinding Redevelopment," the conversation about post-TIF development funding in their state is just beginning:

"The end of RDAs…represented a major change in California finance…Over time, schools and other local governments will receive significantly more property tax revenues — and fewer funds will be reserved for redevelopment purposes. While the process for unwinding these complex agencies' financial affairs will be lengthy, it likely will launch important civic debates about the use of local property tax revenues and the role of government in promoting economic development and providing affordable housing."

As government at all levels faces growing needs and massive budget pressures, public/private partnerships may be the best, if not the only, vehicle for government to meet many of its obligations.

A "P3" Manifesto
Sandy Apgar and
Tony Canzoneri
Urban Land
July 19, 2012

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The Future of Development Funding and Partnerships

Recognizing the critical role that public/private partnership (P3) will play in the sustainable growth and success of our cities, SmithGroup hosted a group of urban planning professionals for a roundtable discussion on the future of develop-ment funding and partnerships. The panel included public, private and nonprofit sector representatives with diverse backgrounds and perspectives on community planning and development. Their lively and thought-provoking discussion took place during the 2012 Upper Midwest APA Conference in Madison, Wisconsin. This paper summarizes that conversation, and highlights some key ideas and directions deserving of further examination.

In FY 2012, 42 states had budget shortfalls totaling $103 billion, and a shortfall totaling $54 billion across 30 states is forecast for FY 2013. In an effort to try to close these gaps, 46 states have been forced to cut services and 30 have raised taxes. When these steps do not close the budget gap, localities are often forced to defer projects. In a survey conducted by the National League of Cities in 2011, 60 percent of cities said they delayed or canceled capital projects that year due to fiscal conditions…

To make the problem worse, municipal revenues have also declined in many jurisdictions. These fiscal woes are not perceived as a short-term problem: in fact, a large majority of public officials expect the changes implemented in response to the recession to be permanent, touting "a new normal."

Testing Tradition: Assessing the Added Value of Public-Private Partnerships
National Council for Public-Private Partnerships

Trends & Challenges

The Urban Generation

Panelists agreed that the current national renaissance in urban living is not a fad. It's a demographic reality and a major paradigm shift that planners and developers must pay attention to. A desire for urban experiences and amenities is drawing Millennials (adults roughly 20–34 years old) to cities in huge numbers. Keeping them there represents both a key opportunity and challenge for the urban development community.

While much of the Baby Boom generation is "aging in place" in the suburbs, a growing number of empty nesters and retirees are joining the Millennials in their desire for an urban lifestyle. The fact that these very different populations both increasingly want to be downtown is something that planners, designers and developers need to understand and capitalize on moving forward.

Facilitating a More Diverse Conversation

New urban growth is also bringing increased racial, cultural and linguistic diversity. In many communities, this is creating a growing disparity between older and predominantly white political representatives and the younger, more diverse populations they serve. This same disparity is often reflected in the steering committees for important urban redevelopment projects.

Our roundtable panel discussed the importance of engaging their more diverse constituencies, and of bringing the next generation of citizen partners and advocates to the table. Growing linguistic diversity was also identified as the source of a whole new range of challenges that need to be addressed. The consensus was that cities will struggle to move forward if their staff and elected officials do not understand and respond to these major shifts in communication and outreach.

We are really blessed right now to be part of a return of youth to the central city. What we have to do is figure out ways to build on that attachment so this generation is not just living and recreating downtown, but also working downtown.*

How do we give voice to that population that really has very little political clout and try to advocate for them when your Council members are retired or semi-retired and white and male . . . ?

*Quote bubbles highlight roundtable panelist comments throughout.

Increased Competition for Jobs

Cities are increasingly competing with each other for much-needed businesses and jobs. Our roundtable group discussed how the recession has made economic development a fundamental consideration for urban planners — and has brought with it a host of new challenges related to attracting and retaining employers.

Cities aren't just competing with the community next door.

It's no longer just domestic competition that cities need to be concerned about. The growing globalization of the economy has made the competition for development more international than it's ever been.

While many companies still locate where they can get the least expensive labor, space and parking, there are new factors that are influencing their decisions. For example, the panel commented on how countries around the world are beating the U.S. with the creation of the high-tech, high-speed infrastructure that is needed to attract and retain today's fastest growing businesses.

> Without jobs you can't really grow the base, the constituency for downtown.

> We are having a tough time holding on to a lot of these start-up companies. One of the things that we are trying to focus on is figuring out how we can keep them here and let them continue to grow here.

Everyone needs the big companies.

While start-ups are a pivotal part of the future urban economy, so are established companies that employ larger numbers of people. Retaining these big companies in an era of increased competition was a key challenge cited by our panel.

> There are so many of us who are trying to build entrepreneurship and create startups and foster startups. But at some level … most jobs are in big companies, and if we aren't sustaining companies of significant size in downtowns that are committed to the places in which they are, this is a lot of banging your head against the wall.

It is becoming increasingly clear that both domestic and multinational companies — especially faster growing high-technology industries and information-based services — are using new criteria to choose cities in which to locate or expand their business activities.

"The Changing Forces of Urban Economic Development: Globalization and City Competitiveness in the 21st Century," D.A. Rondinelli, J.H. Johnson, Jr., J.D. Kasarda, University of North Carolina, *Cityscape: A Journal of Policy Development and Research*, Volume 3, Number 3, 1998, U.S. Department of Housing and Urban Development
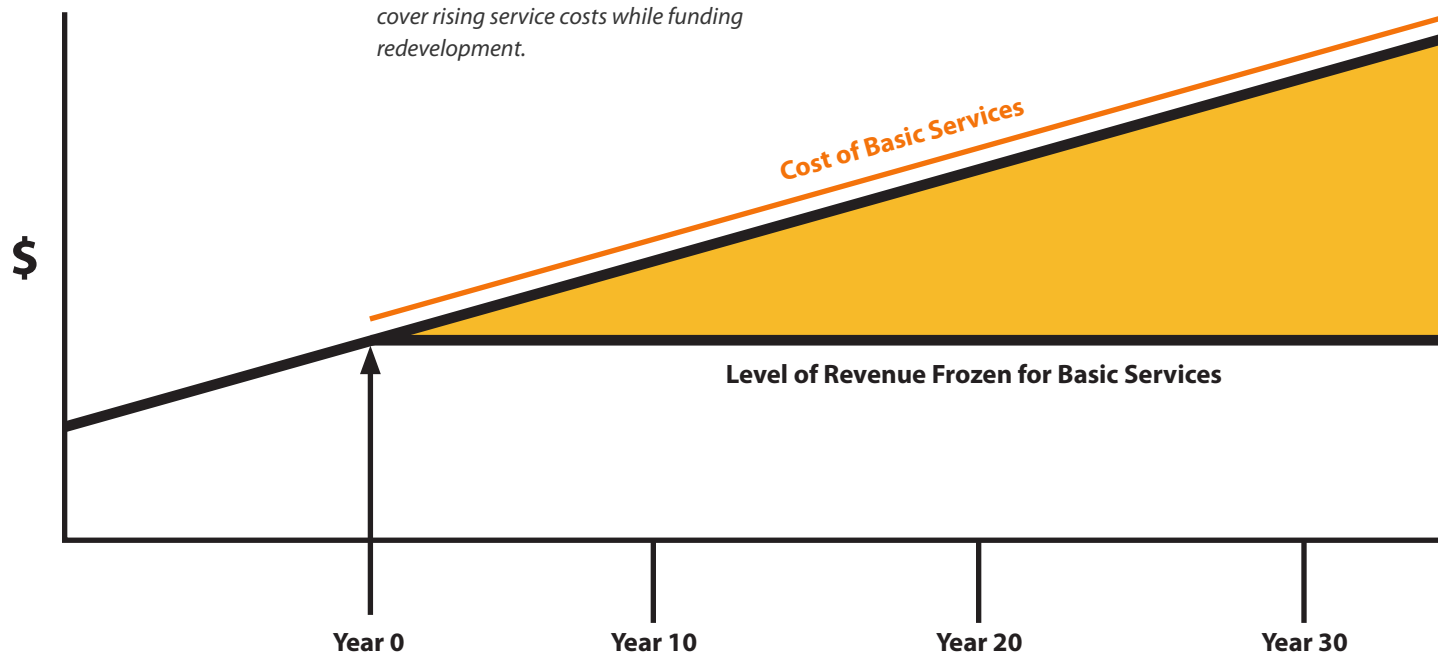
To TIF or not to TIF?

The questions being raised nationwide about the pros and cons of TIF were strongly reflected in our panel's discussion. More and more communities are confronting the trade-offs between freezing tax revenues for schools and city services and incentivizing much-needed private development.

The general consensus was that TIF remains a necessary public/private funding source, but it needs to be used smartly and judiciously in order to be effective.

Our panel discussed how the misapplication of TIF — whether to incent retail or commercial, to promote greenfield development, or to finance development that would have happened without it — is adversely affecting communities as they compete for development that does not provide an adequate return on investment. A more open, careful deliberation about the use of TIF is needed moving forward—both within and between communities.

Funding Urban Renewal with TIF
The longer the TIF period the more pressure it puts on municipalities to cover rising service costs while funding redevelopment.

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Cost of Basic Services

Level of Revenue Frozen for Basic Services

Year 0   Year 10   Year 20   Year 30

New policies are needed to more effectively promote urbanism.

The panel discussed the challenges that traditional zoning limitations and Federal funding regulations frequently pose for effective urban development — particularly in the areas of housing, transportation and education. While there is clearly a need for advocacy and change, city managers and directors of community development are not in a position to wait for this change to occur; they need to do the best they can with the policies and funding tools already in place.

The panel agreed that more innovative, mixed-use approaches to urban development can help push the conversation towards what generates increased value and capacity for a community. This is especially effective when broad-based partnerships are formed to advocate for these new approaches.

When you look at separate use zoning, which is pushed by the federal programs, they all have these restrictions on non-residential. That's why Main Street isn't built … Where the federal government is screwing up is the financing system for development, which is anti-urban. That needs to change. That is not asking them for money; that is just asking them to butt out.

I'm dealing with what is and I'm going to maximize within the system whatever we need to do for our communities. We can talk about what the policies should be, but time is going to get by and you're not going to move forward.

You have to dig in and do what is best for the community. But we can't lose sight of trying to change that legislative and bureaucratic stasis. It is so much more than HUD rehabbing a house.

An argument to the Feds and to the states is that whatever they do should add value to the place where they are doing it. That is what is missing.

Principles and methods of land use planning, transportation, regulation and real estate development are changing, as are demographics and social norms. Zoning conventions are no longer conventional. . .

Dropping the word "zoning" necessitates using an alternative vocabulary. It's time to talk less about zoning restrictions and limits and more about visionary plans, urban design goals and architectural aspirations.

Roger K. Lewis, "As land use planning changes, 'zoning' is no longer appropriate," *The Washington Post,* Real Estate, February 22, 2013

EDUCATION

NEXT EXIT ↗

Assuring the Future of Public Education

> One of our greatest challenges is that people are opting out of our public schools. How do we assure the future of our public schools?

> You need this coalition to overcome the specialists, whether it is the DOT or Department of Public Instruction, which wants 30 acres for a high school, 20 acres for a middle school, 10 acres for a grade school. Wrigley Field is 8.3 acres, so your grade school footprint has to be almost two acres bigger than Wrigley Field. That is why you need the partnerships.

The conversation grew particularly passionate around the topic of public education and the key role it plays in supporting urban development at the neighborhood level. Some of the roundtable members felt that improving the quality of their school system was a pivotal development issue for them — since the quality of a city's schools has a major impact on whether families decide to live there. Others cited the difficulty of building new schools in urban areas when school siting regulations required unnecessarily large acreages in order to be approved.

A number of different approaches and initiatives were discussed, with strong consensus around the idea that new community/school district partnerships are needed to help assure the future of public schools in our urban centers.

New Thinking & Approaches

Building partnerships is the key.

When asked to describe "creative and innovative funding approaches," panelist Candace Damon of the economic development firm HR&A Advisors replied, "There's nothing creative about the funding and financing mechanisms themselves. Where the innovation comes in is the partnerships. Creative partnerships are what leverage funding solutions and lead to successful revitalization efforts."

The stories and examples shared by the panelists all attested to this fact: city governments can't do it alone. The current economic climate has made broad-based, public/private partnerships essential for development success. The discussion touched on a number of strategies and approaches that can help nurture and forge these valuable partnerships.

Define a vision.

We needed a commitment by the City Council to plan and manage growth. We weren't just going to figure out where we were going to go by wandering around.

Each organization has to go through its own process to decide what it wants to be when it grows up. It has to have a vision, a mission statement. It identifies what it wants to be and then looks for the partnerships. Partnerships are key to making that vision happen.

Foster and encourage leadership.

The leadership doesn't have to come from a mayor. There are some cities where the political leadership might not be there but the rest of the leadership is there.

Leadership is the key. You look at the cities that aren't doing well and the leadership isn't there. You have to have strong leaders, and clear leadership.

We had a leader who demanded that the key people who needed to be around the table showed up, whether that was the county officials, or city officials, or the economic development folks. They started out as separate little communities, but they aren't anymore; it is all one organization now.

Recruit, network and build a team.

Get a peer of theirs to help elected officials understand the program. If it is their people who give them the money to run for council, then it becomes an initiative. Then it is their team. I don't care who takes credit. As long as it happens, everybody wins in the end.

Because I'm from the nonprofit world we have to be at the table so we can help build the consensus. That is what we do all day long. We try to get everyone to the same table.

Now we have the nonprofit sector. It can be groups like our Main Street organization or it can be groups like our community foundation, which then has its own set of networks that we begin to look at. Funding from the philanthropic sector has been huge for us.

The elected officials, the business leaders and those in the philanthropic sector were the leaders. Because they also worked together, nobody needed credit. It was not a competitive buy-in, it was a collective buy-in.

Engage the business community and diversify.

Given the shift in how cities look and the people who are living in them, if you are going to retain that employment base it is going to be from involving the business community.

We try to look for that partnership, opposed to the city battling with the developer. We want to be with the developer because we see the potential for the diversification of our revenue sources and we have a lot to give there. When we're working as a partner, we're able to bring some of the best development ideas into our community.

At the International Downtown Association's conference in Minneapolis Richard Davis, the head of U.S. Bank, said "Call me. Ask me what we want." He said, "I want to make sure my employees have a great experience. That is why I want to put my businesses in the downtowns. That is why I want to put my headquarters here.'" He said, "I think those things. Ask me."

What we are doing on our own is really giving our own subsidy to the software industry through reduced rents. Our occupancy overall is 93% so it's not like we are doing this out of desperation. We think that the economy downtown has to be rebalanced. We have to diversify the downtown economy so we have been seeding the clouds a little bit and we have some software firms that have now gotten investors and are paying full rent.

The private sector was a big part of us pulling together and looking at the changes that needed to happen in our community because we had put all of our eggs in one economic basket.

Beyond TIF: The Future of Development Funding and Partnerships

## Expand the conversation by engaging in digital and social media.

The panel discussed the growing challenge of engaging people under the age of 35, who are less likely to attend neighborhood meetings and more likely to share their ideas via electronic media. While the use of social media in development planning is growing quickly, many communities still don't have a social media plan in place. Some municipal planning and development departments want to retain the one-voice paradigm of traditional public relations and are reluctant to open up the conversation—not only to the public, but also to their own internal staff. In addition to embracing electronic communications, communities will also need to embrace the higher level of transparency required, along with a process that is more about engaging in a conversation than controlling the message.

New "crowdsourcing" social media services such as MindMixer, Bang the Table, Nixle, Civic Ideas and Popularise were discussed as an important trend, providing the development community with much needed third-party options for digital public engagement. Panelists also shared examples of municipalities that had developed effective in-house tools for facilitating electronic community input.

It is no longer enough to hold the meeting and see who comes. You know, the future belongs to who shows up. I think the future belongs to who blogs in or e-mails in. There has to active outreach because if you don't do that, you miss major parts of your community that will feel under-represented and will feel left out.

It is time to get in with the new media and we have to figure out how to do that. We have to get this next generation of people involved and committing to the kinds of things that need to happen for our communities to move forward.

Kansas City has an interactive part on their website now called Momentum, and you can blog about something that you feel strongly about, whether it is good or bad. That is one of the keys. You have to embrace both the good and the bad because as long as they are communicating that is a great thing and it gets them involved.
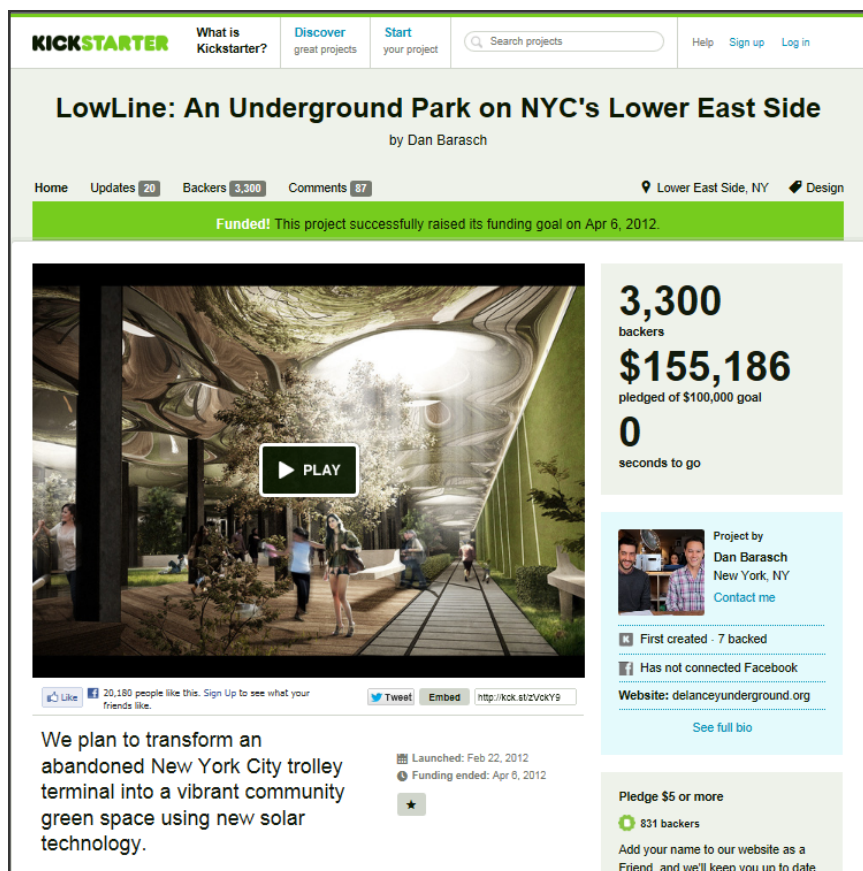
Look to crowdfunding as a new financing option.

The panel discussed the growing role of online "crowdfunding" services that are providing new options for project fundraising and financing. While Kickstarter is the most widely known, there are other contribution-based platforms emerging such as Indiegogo and RocketHub. There are also online platforms that use debt and equity models to raise funds for projects, including Lending Club, On Deck, Prosper, AngelList, CircleUp and Crowdfunder. A number of these could prove to be viable options for funding development projects moving forward.

The LowLine in New York is a project of community-based entrepreneurs who have rediscovered an old trolley tunnel under the Manhattan Bridge. They are trying to create a sustainable underground park that will be solar lit with all this new technology. They launched on Kickstarter and they're paying for all their soft costs. They have established enormous amounts of credibility with the MTA, which is the site owner, by virtue of the success of their Kickstarter campaign.

Improve outreach to diverse audiences.

Greater linguistic and cultural fluency will be needed to effectively reach and engage a more diverse constituency. The panel agreed that electronic media would not be effective in reaching some population groups, necessitating the need for more direct outreach and communication.

Find some of the leaders from the communities, whether it is faith-based or elsewhere, and get out in the neighborhoods. We need to look out for each other. We need to find the places that people are comfortable with. These different groups want to engage with the community but they are probably as confused about how to do it as you are. But we can work through their leadership.

Beyond TIF: The Future of Development Funding and Partnerships

We advocate a return to the historic understanding of the street network as a fundamental framework for safe, livable communities, where the human scale of the individual and the act of walking represent the basic unit of design.

From the CNU Project for Transportation Reform *Sustainable Street Network Principles,* Congress for the New Urbanism, 2012
http://www.cnu.org

Partners for Policy

In 2002, the CNU Project for Transportation Reform joined the Institute of Transportation Engineers (ITE) and the Federal Highway Administration (FHWA) to publish guidelines for the design of major streets. The result, Designing Walkable Urban Thoroughfares: A Context Sensitive Approach, was published in 2010 as an ITE Recommended Practice.

Leverage partnerships as advocacy for better development practices.

The conversation frequently returned to the pivotal role that broad-based partnerships can play in advancing more effective mixed-use and sustainable development approaches. Clearly the future of development partnerships is not only one of expanded funding options, but also of improved advocacy for design and development practices that will truly benefit urban communities.

If we're talking about public/private partnerships, what is the public policy benefit of the project? You have to be willing to say these projects are the kinds of things we like to do and these are the ones we don't.

Good development often comes down to overcoming the obstacles to what your community wants. To get around those obstacles you have to get the business class, the boosters, the local universities and all these people to say "This is what we want."

We threw out the criteria. You do not need 10 acres for a school for elementary students. We put that new school back in the downtown where it had been and we made it a charter school. The city put in money for a resource center so that the neighborhoods in the downtown area that were served by that school could meet there. Once that new school was built, we had trouble accommodating people from the neighborhood because everyone wanted to come back.

Oulu, Finland, the hometown of Technopolis, has boomed along with the company. Within a fairly short time, Oulu has become an internationally significant center for technology and expertise. In wireless communications in particular, it is a world leader.

This is a good performance for a town that as recently as the early 1980s was primarily known for its chemical and wood-processing industries and enjoyed its previous international boom in the heyday of the tar trade back in the 18th and 19th centuries. With a population of some 200,000, the Oulu area is not a metropolis, and it is located far from the major market areas, but in high technology it is peerless.

Today, some 850 high-tech companies are based in the Oulu area, employing some 18,500 people and representing a combined turnover of billions of euros per year.

Kari Arokylä, Technopolis keeps its finger on the pulse, May 2009, *This is Finland,* http://finland.fi/Public/default.aspx?contentid=160115&nodeid=37598&culture=en-US

Look to higher education and the innovative potential of town/gown relationships.

Massachusetts and Finland were cited by panelists for the success they've enjoyed centering high-tech business incubation around research universities. Leveraging the entrepreneurial potential of MIT and Harvard, Massachusetts provided incubator investments that allowed faculty to create small businesses, then helped ease them out as the companies grew. Technopolis in Oulu, Finland is one of the better known success stories in a country that has consistently used its higher education system to attract international talent and investment—and to help provide the workforce for the resulting business growth.

While not every community with a university can incubate the next Technopolis, forging creative and committed partnerships with higher education institutions represents an outstanding opportunity for municipalities and developers.

Increase public school involvement in community development.

Our panelists discussed a wide range of initiatives that states and communities are exploring to improve the academic and fiscal performance of public schools—ranging from the Kalamazoo Challenge to charter schools to vouchers—and the impacts these approaches are having on neighborhood development. There was strong consensus that school districts need to be at the table for community development discussions—particularly if TIF dollars are going to be part of the conversation. Since many of the "achievement gap" issues schools are struggling to address are impacted by housing and transportation policy and neighborhood income disparities, inviting school districts to participate in community development partnerships represents a promising and necessary direction.

If education is a key to economic development, why aren't school districts more of a prominent partner? Why aren't they partnering with local communities, with the private side and nonprofit side?

There is a new program called the Third Grade Reading Initiative. It's a program where cities and communities and school districts across Iowa and across the country started to partner because the schools can't do it by themselves. It's back to the partnerships. I think those are the kinds of things that we need to look for—examples to help raise all of our communities up to where they need to be.

Key Ideas & Next Steps

While many development funding options and approaches were discussed throughout the evening, the conversation was notable for its much stronger emphasis on the committed partnerships needed to leverage and utilize that funding. These are the key ideas that emerged from the discussion:

- Public/private partnerships are increasingly essential for funding urban development and revitalization in these tight economic times.

- Nationwide trends point towards a return to the city with continued urban population growth.

- A younger and more diverse generation of urban constituents requires new methods of civic engagement and outreach.

- Economic development and job creation have become the primary goals for urban planning and improvement efforts.

- Public education plays an essential role in long-term community development success. We need to involve school district representatives in the process, and make sure we have a holistic approach that balances community development needs with educational priorities.

- We need to address current policy obstacles to urbanism and best development practices. One of the best ways to achieve this is through our work itself—leveraging broad-based partnerships to advocate for more progressive urban design solutions.

- We need to promote approaches to development and development funding that build capacity and add value to our communities.

If, as our panel suggests, the future of development funding rests on innovative P3 partnerships, the last two ideas indicate the growing need for meaningful metrics to help inform improved development policies. More research, more benchmarking, and more sharing of case studies and success stories will help create more informed partnerships. This in turn will lead to more effective advocacy through the planning and development process, and to a broad-based return on investment for community development dollars.

Acknowledgements

Street Grid

Cover and sidebar illustration of San Francisco's Market Street adapted from "Great Streets" by Allan B. Jacobs, The MIT Press, 1995

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