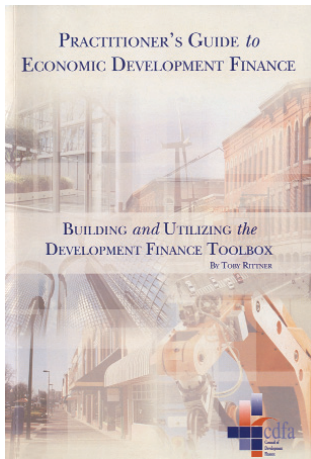


Making Good Use of Economic Development Finance Tools

By Michael J. Mucha



Practitioner's Guide
to Economic
Development Finance:
Building and Utilizing
the Development
Finance Toolbox

By Toby Rittner

Council of Development
Finance Agencies

2009, 112 pages, \$55

Many local governments place a high priority on creating and developing a healthy community that promotes economic growth, creates jobs, and attracts business and citizens to the area. Alternately, others might emphasize retaining existing industries and maintaining an attractive workforce. Whatever their specific goals, governments must make use of development finance, an approach intended to assist economic development projects by using public resources to support private-sector investment. In *Practitioner's Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox*, author Toby Rittner explains options and tools governments might have at their disposal to help them achieve their economic development goals.

Finance directors who plan to use development finance effectively need a thorough understanding of all the tools, techniques, programs, and other resources that are available. These may include loans, equity, tax abatements, tax credits, the offer of a guarantee, collateral or some other form of credit enhancement, gap financing, remediation of environmental concerns, incentives, and grants. Ritter explains that development finance is a complex undertaking that requires a considerable amount of knowledge and train-

ing. Development finance employs many tools, but education is the key to making them more effective. Success can be achieved by educating staff and leadership.

TOOLKIT OVERVIEW

This book starts educating readers by breaking down the many kinds of financing into categories of tools and the types of challenge each tool is most effective at addressing. The book explores options within each category. Having achieved an understanding of the options that are available, finance directors can then do additional research to further expand their understanding of development finance.

The author identifies five practice areas and then pulls together various types of financing that are likely to be useful in each area:

- “Bedrock tools” — bonds — work with government projects, established industry, and development and redevelopment.
- “Targeted tools” — tax increment finance, special assessment districts, government districts, and project-specific district financing — work with established industry and development and redevelopment.
- “Investment tools” — tax credits, seed and venture capital, and angel funds — work with established

industry, development and redevelopment, small business and microenterprises, and entrepreneurs.

- “Access to Capital Lending Tools” — revolving loan funds, mezzanine funds, loan guarantees, and microenterprise finance — work with small business and microenterprises, and entrepreneurs.
- “Support tools” — federal economic development programs and tax abatements — work with all five practice areas.

Practice Area 1: Bedrock Tools. To understand development finance, finance directors must understand bond finance. Bonds have been used to build all types of local government infrastructure — roads, bridges, schools, libraries, and many other projects. While commonly used, bond financing can be complex and requires considerable oversight, often by external professionals. This section of the book explains options that exist for governmental bonds and qualified (tax exempt) private activity bonds. Ritter touches on many types of private activity bonds, including: small issue industrial development bonds, qualified redevelopment bonds, qualified mortgage bonds, new clean renewable energy bonds, and qualified zone academy bonds. This section also includes a discussion on strategies that have been effective in taking advantage of bond financing, including mini bond programs and bond banks.

Practice Area 2: Targeted Tools. Targeted financing tools provide direct incentives, tax rebates, credits, or other

unique financing structures to a specific geographic area. This form of finance, which includes tax increment financing districts and special assessment district financing, represents the fastest-growing area of development finance. These tools attempt to do one of two things: generate new taxes and use the future revenues to create incentives and pay for current growth, or allow business to set special tax assessments and use the collective funds to make improvements that benefit the area. Every state has different rules governing the use of tax increment financing districts or special assessment district financing, and these tools can be quite complex. But they are also quite popular and effective for certain types of projects, as they arguably don't commit current governmental funds.

Practice Area 3: Investment Tools. Investment tools, or programs that provide direct funding to private-sector entities to catalyze investment, have become increasingly popular over the past 20 years. Programs such as tax credits, seed and venture capital, and angel funds can make a significant difference in encouraging economic development. In this section, Ritter explains how tax credits can be used, and he identifies common misconceptions regarding the use of tax credits. In addition, common federal tax credit programs such as the Historic Preservation Tax Incentives Program, Federal Brownfield Tax Incentive, New Markets Tax Credits, and Low Income Housing Tax Credits are explained.

Practice Area 4: Access to Capital Lending Tools. As the economic

events of late 2008 have proven, access to capital is critical for business of all sizes to be successful. This section of the book explains economic development finance options that governments have in providing access to capital for both large and small firms. Examples include revolving loan funds, mezzanine finance, loan guarantees, and microenterprise financing. While these tools are complex, partnerships with private institutions can help with managing programs.

Practice Area 5: Support Tools. Support tools are generally more flexible and less complex than other tools discussed in this book, and they can coexist with many of the other tools across the four other practice areas. Finance directors should be aware of these tools, where they exist, because they can be combined with other methods of development finance to help achieve goals. Examples of support tools include: U.S. Department of Housing and Urban Development grant programs such as the Community Development Block Grant Program, Section 108 Loan Guarantee Program, and the Disaster Recovery Assistance Program; Economic Development Administration grant and revolving loan funds; the U.S. Department of the Treasury Fund Programs; and U.S. Department of Agriculture programs.

Many governments have been successful at implementing pieces of the toolbox, and the book presents ten case studies from around the United States. These examples show that a number of options worked in various situations.



IT'S AS EASY AS



GFOA YIELDADVANTAGE™

With GFOA YieldAdvantage™ you can save time, save effort, and invest efficiently – with complete transparency.

The •Fast •Efficient •Transparent Way to Streamline the Investment Process

1

2

3

Powered by
GRANT STREET GROUP
Software That Works™

For more information visit <http://www.gfoayield.com/>

CONCLUSIONS

While *A Practitioner's Guide to Economic Development Finance* ultimately advocates for the use of these financing tools to encourage economic development, finance professionals will want to use them carefully, balancing the inherent public risk with the potential reward. In addition, care must be taken to ensure that economic development strategies are aligned with the overall preferences of the community. An essential strategy, therefore, is to define specific outcome goals and performance measures. These will enable the government to gauge each program's effectiveness, hold programs accountable, and allow the government to refine its approach and learn from past experiences. As Rittner points out, economic development professionals have one of the most difficult jobs in local governments, but they must still be held responsible for results.

Development finance will be competing for limited funding with other key areas of government such as public safety, public health, parks and recreation, especially in the current financial environment. With this in mind, it becomes critical for finance directors to fully understand the options that are available to them and to be able to communicate the risks, potential rewards, and actual results effectively to staff, elected officials, and the community. |

MICHAEL J. MUCHA is a senior consultant/analyst in the GFOA's Research and Consulting Center in Chicago, Illinois.