

Bettering Brownfields with Books
Roadmap to Redevelopment

Prepared for:
Mount Vernon, WA

Prepared by:
Council of Development Finance Agencies

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About the Roadmap to Redevelopment

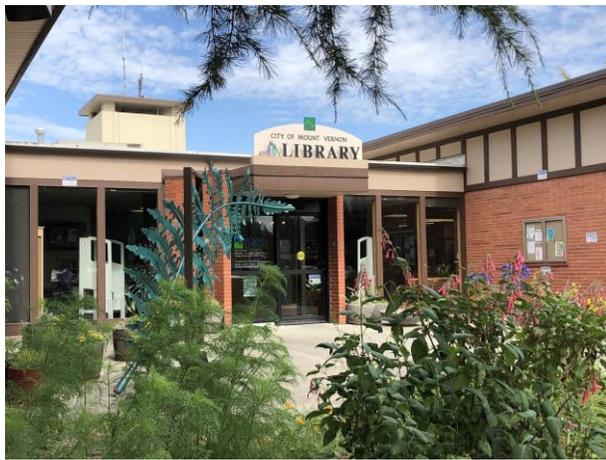
The *Roadmap to Redevelopment* is a product of the [CDFA Brownfields Technical Assistance Program](#), which is funded through a grant from the U.S. Environmental Protection Agency. The program provides technical assistance to brownfield communities on redevelopment finance. For communities that require detailed, hands-on assistance for their redevelopment efforts, CDFA Brownfields Project Response Teams comprised of CDFA staff and technical assistance partners are available to conduct site visits and provide recommendations. The goal of these visits is to offer communities specific, actionable advice that can transform brownfields into economically-productive sites in accordance with the goals and plans of the community. CDFA will coordinate 36 Brownfields Project Response Teams over the life of the program.

The *Roadmap to Redevelopment* was developed through a two-day process that included interviews with numerous stakeholders from the government, agriculture, business, and non-profit sectors. The plan provides a framework for the financing of the Mount Vernon mixed-use library building.

The *Roadmap to Redevelopment's* recommendations combine the input of development finance experts, CDFA staff, and the interests of stakeholder groups gathered during the Project Response Team site visit.

Background & History

The City of Mount Vernon is a small, picturesque city situated at the foothills of the Cascade Mountain Range in Northern Washington located nearly halfway between Seattle and Vancouver British Columbia. Its quaint streets are lined with small businesses that keep its downtown lively and its citizens happy. This charming community revolves around the library, which provides a plethora of activities and events for its citizens in addition to serving as a gathering spot for a variety of practical uses. However, the current library is approaching the end of its lifetime as the citizens need more out of the library than the building can provide.



Current Mount Vernon Library

During CDFA's visit to Mount Vernon, the Project Response Team learned of its innovative plans to combine a new library, community center, and parking garage into one mixed-use building in the heart of downtown. These plans are the culmination of years of research, outreach, and desire from the community members. To continue with their plans, the City hired OAC Services in November 2018 to document project objectives, design several conceptions and estimates, and devise a delivery method.

Through that process, it was determined that the best solution is to move the location of the library to a site closer to the downtown core that is currently open-air parking. This site was previously home to several gas stations which are believed to have contaminated the soil when the gas tanks were removed. The new combined structure will be a multi-story mixed-use building with the library on the first floor and parking on the floors above. This new building will solve several of the community's challenges at once. It will build a library large enough to accommodate the growing needs of the City, replenish the parking spaces that the new construction would remove, plus add additional parking that is needed due recent redevelopment work in and around the City when a new floodwall was built. Most importantly, moving the library would trigger the reactivation of land for its highest and best use.



Future Site of Mount Vernon Library

Bettering Brownfields with Books

Roadmap to Redevelopment

Recommendations: Financing

Before the site visit, City officials recognized several funding sources available to them. This includes the Local Infrastructure Financing Tool (LIFT) grant for \$500,000/year up to \$14 million, City general fund reserve money, and a Department of Commerce State Allocation of \$1 million. LIFT is a form of tax increment financing within Washington State that is used to pay for a portion of the public improvements within a Revenue Development Area (RDA) in order to promote economic development. In addition to these funds, the CDFA Project Response Team identified several other sources the City should consider. The first option is to raise the property taxes or to use the City's banked capacity to pay for a loan through the USDA. The second option is to finance the facility through the use of private activity bonds.

Property Tax Increase

In Washington, property tax increases are based both on the value of real property plus the value of new construction. Each year's levy may be increased by no more than 1% of the prior year's levy plus the value of new construction unless the public votes for a greater increase (commonly called a "levy lid lift") or the jurisdiction uses banked capacity. In this case, the City has levied less than the maximum amount allowed over the years. The Revised Code of Washington (RCW) 84.55.092 allows the City to retain the right to use that "banked" capacity at some future date. Thus, the City's next levy compared to their prior levy may reflect a change of more than 1% if they are using their banked capacity (assuming that it does not put the City over the statutory levy rate limit.)¹

If the City utilized their banked capacity of property tax, the City has projected that there should be a sufficient increase of property tax revenue which would make it eligible for two programs from the United States Department of Agriculture (USDA); specifically, the USDA Community Facilities Loan Guarantee Program or the USDA Community Facilities Direct Loan.

¹ <http://mrsc.org/Home/Explore-Topics/Finance/Revenues/The-Property-Tax-in-Washington-State.aspx>

USDA Community Facilities Loan Program

The Community Facilities Program from the USDA offers direct loans and loan guarantees to develop or improve essential public services and facilities in communities across rural America. The loan program has several requirements that need to be met, including how the funds may be used and the terms of the loan. Eligible borrowers comprise public bodies, community-based nonprofit corporations, and federally recognized Tribes. Eligible projects include educational services such as libraries, community centers, and local food systems. Several of the loan's terms include no pre-payment penalties, a fixed interest rate, and the loan repayment terms may not be longer than the useful life of the facility.

Between the years of 2009 and 2011, USDA has served 386,414 people in Washington State through the Community Facilities Loan Program. This includes 17 direct loans totaling \$40,929,700 and 5 loan guarantees totaling \$16,532,000.² The USDA has a local Washington State office located in Olympia that can offer detailed help for communities when applying for the program as well as help after receiving the loan. As of October 3, 2019, the Community Facilities program has expanded to include communities with populations of up to 50,000 people, making Mt. Vernon eligible. This is per Section 6402.³

The City should consider utilizing the USDA Community Facilities Loan Program as the interest rates are fixed for the entire term of the loan, the interest is determined by the median household income of the service area, and there are no pre-payment penalties.

Private Activity Bond

There is a well-developed financing technique whereby the Washington Economic Development Finance Authority (WEDFA) could issue tax-exempt private activity bonds and loan the proceeds to a nonprofit 501(c)(3) corporation, such as the Mount Vernon Library Foundation. The City Council would adopt a resolution concluding that the construction of the improvements would lessen its burden on the government. WEDFA, on behalf of the nonprofit corporation, would finance and construct the improvements and own the improvements for the term of the bonds. The City could operate the improvements for the term of the bonds. Once the bonds have been repaid, the improvements would automatically be gifted to the City.

Opportunity Zone Investment

The Tax Cuts and Jobs Act (HR 1) that was signed into law late in 2017 created a new tax incentive called Opportunity Zones, which are designed to attract capital to low-income

² <https://www.rd.usda.gov/files/reports/rdCFReportMay31-2012.pdf>

³ https://www.rd.usda.gov/files/RD_CFandWEP_FeesPopulation_FactSheet102019.pdf

census tract areas. The Opportunity Zones statute allows investors to defer tax on capital gains if the proceeds of an investment are invested in a Qualified Opportunity Fund which is used to support new or existing business activities within Zones. The capital gains invested in a Qualified Opportunity Fund are eligible for partial tax forgiveness if the investment is held in a Qualified Opportunity Fund for at least 5 years, and if an investment is held for 10 years, any tax on the appreciation of that investment is forgiven. Many investors are willing to provide capital to projects but lack the wherewithal to locate and follow through on opportunities in disinvested communities. Opportunity Zones are meant to democratize economic development by allowing a broad array of investors throughout the country to pool resources, increasing the scale of investments going into underserved areas.

After careful discussion with the community, the CDFA Projects Response Team determined that Opportunity Zone investments would not be the most beneficial for this specific project. In theory, this project could be eligible for Opportunity Zone investments because the property is located in zone. However, it's not an ideal choice because using that form of capital would require the library to be privately owned for at least 10 years. Further, Opportunity Zone investments would be a much more expensive form of capital compared to the USDA Community Facilities program.

It should be noted, however, that the City making an investment in the library with alternate sources of revenue, and moving the library into an Opportunity Zone, will be an important catalyst for attracting other Opportunity Zone investments. The additional parking this project will bring, along with activating an important corner in the downtown, will help to drive additional private investment in the mixed-use development trend Mount Vernon is currently experiencing in its downtown.

Recommendations: Future Considerations

Consider Hiring a Financial Advisor

The City of Mount Vernon would benefit greatly from the expertise of an independent, registered municipal advisor. A financial advisor provides advice on the specific needs, objectives, and circumstances of a municipality based on all facts and considerations. This includes bonds, notes, tax increment financing, tax abatements, and other investment strategies. A financial advisor could also provide advice on the USDA Program referenced previously.

A financial advisor could also assist the City of Mount Vernon by providing guidance on the issuance of general obligation bonds, municipal investments, financial planning, budgetary issues and a myriad of other financial options available to it.

Explore Creating a Local Improvement District

A local improvement district is a common financing tool that imposes a special assessment on a piece of real property. This special assessment is based on special benefit and is collected by the local taxing authority and redirected to a designated fund to finance projects, improvements, or programming for the local improvement district or to repay local improvement district bonds. Local improvement districts have been used for road, sewer, and facade improvements. Such enhancements would encourage economic development within the City.

The CDFA Project Response Team observed many opportunities to create a local improvement district that encompasses the new library site along with the downtown core. As new investment occurs in this area, the collection of special assessments to further enhance the services and amenities in the local improvement district would be an important asset in the City's long-term redevelopment goals.

Additional Resources

CDFA Brownfields Financing Toolkit |

<https://www.cdfabrownfields.org/cdfa/cdfaweb.nsf/pages/brownfields-resources.html>

CDFA Online Resource Database |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordsearch.html>

CDFA Federal Financing Clearinghouse |

<https://www.cdfa.net/cdfa/cdfaweb.nsf/ffcsearch.html>

CDFA Opportunity Zone Resource Center |

<https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html>

CDFA Special Assessments Resource Center |

<https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/specialassessment.html>

Brownfield Redevelopment Financing Webinar Series: Financing Brownfields with Private Activity Bonds |

<https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=Brownfieldswebcast08.html>

Types of Brownfields Grant Funding (Environmental Protection Agency) |

<http://www.epa.gov/brownfields/types-brownfields-grant-funding#tab-1>

USDA Community Facilities Loan Program |

<https://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program>

Municipal Advisor |

<http://www.munibondadvisor.com/Role%20of%20a%20Municipal%20Advisor.pdf>

Local Infrastructure Financing Tool 1 |

<https://www.mountvernonwa.gov/DocumentCenter/View/694/LIFT-Commonly-Asked-Questions?bidId=>

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Organizations

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OAC

About the Authors

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