



# Other Economic Development Financing Tools

## CRA's, PACE & FTZ's

### PRIMER

## INTRODUCTION TO OTHER ECONOMIC DEVELOPMENT FINANCING TOOLS

There are many economic development financing tools available to governmental entities to help provide the resources needed to fund capital improvements. While there are tools that focus on the creation of separate financing districts, in which the primary governmental entity may be involved (See Primer – Special Financing Districts). This primer offers a framework for a number of economic development financing tools which provide alternative funding mechanisms for projects. Many economic development tools provide resources through the abatement or redistribution of tax dollars, potentially impacting other taxing jurisdictions. These tools are generally governed by state statute or local law and as such, close coordination with legal counsel may be necessary.

## COMMUNITY REINVESTMENT AREAS

A Community Reinvestment Area (CRA) is an economic development tool available to public entities to encourage the development of new structures and revitalization of existing housing stock through the use of an exemption on real property, also known as a tax abatement. The use of this tool is particularly beneficial in redevelopment areas where the costs to redevelop are normally higher than the costs to develop vacant land. Public entities utilize this tool to encourage the private sector to invest in the community through the savings achieved from the tax abatement.

Tax abatements are authorized in almost all states and generally implemented at the local level to incentivize businesses and capital investment to increase jobs, commercial activity, or housing in local jurisdictions or designated areas. State law usually provides the parameters of the abatement including the duration and the percentage of the exemption. Specific abatements may require approval among overlapping taxing jurisdictions whose taxes would be forgone or reduced as a result of an abatement. Increasingly, government entities are required to monitor and report to other governing bodies whether businesses are meeting their commitments pursuant to the terms of an authorized abatement. “Clawback” provisions may be incorporated into such agreements that require the repayment of taxes if job, capital, or revenue commitments are not met.

## PROPERTY ASSESSED CLEAN ENERGY (PACE)

Property Assessed Clean Energy (PACE) is a financing mechanism that enables low-cost, long-term funding for energy efficiency, renewable energy, and water conservation projects. PACE financing is repaid as an assessment on the property's regular tax bill and is processed the same way as other special assessments. PACE is beneficial to property owners because they are able to fund projects with little or no out-of-pocket costs. PACE financing can extend to 20 years, so property owners are able to undertake comprehensive retrofits that have meaningful energy savings while lowering operating expenses. The reduction in expenses as a result of the energy improvement oftentimes exceeds the annual assessment payment.

Local governments benefit from PACE because it lowers the cost of doing business in the community. Additionally, it encourages property owners to invest in their property which can be beneficial in aging areas. Local governments are oftentimes a conduit between a lender and the property owner, providing the legislative arm to levy the assessment on the property. However, the government itself could possibly act as a lender if resources are available.



### FOREIGN TRADE ZONES (FTZ)

Foreign Trade Zones (FTZ) are areas within the United States that have been approved by U.S. Customs and Border Protection as being outside the U.S. Territory for the purpose of duty collection. Importers, distributors, manufacturers, and other entities can utilize an FTZ to defer, eliminate, or reduce duties on imported goods. An FTZ is advantageous to U.S.-based operations by removing certain disincentives associated with manufacturing. The duty on a product manufactured abroad and imported into the U.S. is taxed on the finished product as opposed to individual components. The U.S.-based manufacturer has a disadvantage compared with a foreign competitor because it must pay a higher rate on parts, materials, or components imported for use in a manufacturing process. The FTZ program corrects this imbalance by treating products made in the zone, for the purpose of tariff assessment, as if it were manufactured abroad. The U.S. benefits because the zone manufacturer uses U.S. labor, services, and inputs.

### QUESTIONS THE FINANCE OFFICER SHOULD ASK ABOUT OTHER FINANCING TOOLS

The finance officer should ensure the government has a sound policy on utilizing such alternative economic development financing tools and be familiar with state statute requirements. Key questions when considering these tools include:

- » What is the experience, financial capacity, and funding commitment of the developer?
- » Is the development adding value to the community?
- » Is legal counsel engaged at all stages to avoid potential missteps and litigation?
- » If an economic development tool negatively impacts the revenue of entities that would otherwise receive taxes from a proposed development, is there an undue burden placed on these jurisdictions to continue providing services without an offsetting source of revenue?
- » Is the government prepared to handle the administrative costs associated with the use of these economic development tools?
- » But for an incentive offered by the public entity, would the benefiting development occur on its own?

### OUTSIDE RESOURCES FOR CRA's, PACE & FTZ's

- » Council of Development Finance Agencies (CDFA): [www.cdfa.net](http://www.cdfa.net)
- » Ritner, Toby. Practitioner's Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox, Council of Development Finance Agencies, 2nd Edition.
- » National Conference of State Legislatures: <http://www.ncsl.org/research/energy/pace-financing.aspx>
- » Economic Development Project Evaluation:  
<http://www.gfoa.org/economic-development-project-evaluation>
- » Evaluating and Managing Economic Development Incentives:  
<http://gfoa.org/evaluating-and-managing-economic-development-incentives>
- » U.S. Customs and Border Protection:  
<https://www.cbp.gov/border-security/ports-entry/cargo-security/cargo-control/foreign-trade-zones/about>

### About GFOA

The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.