Other States Distressed Municipalities Programs

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October 2, 2017 | 2017-R-0214

Issue

Describe how other states assist distressed municipalities.

Summary

Our online 50-state survey found at least 14 states (i.e., selected states), including seven in the northeast, administer or support programs to revitalize distressed areas, including municipalities. Some pre-designate these areas based onstatutory criteria; others incorporate distressed area criteria in the programs' eligibility requirements, an approach that allows the programs to assist projects in relatively distressed sections of an otherwise healthy municipality.

Connecticut's Distressed Municipalities

Connecticut annually scores and ranks municipalities based on social and economic distress criteria, designates the top 25 as distressed, and uses this and several other geographic designations to target state aid to the designated municipalities, as OLR 2001-R-0700 describes. Attachment 1 lists Connecticut's current designated municipalities.

Distressed areas generally exhibit several symptoms, including blighted and abandoned property; low demand for market rate housing; deteriorated neighborhoods and inactive downtowns; relatively high proportions of low-income households and unskilled workers; and shrinking tax bases, which often force municipal officials to choose between cutting services or increasing taxes. Because revitalization programs tend to address different symptoms, they can be grouped by the ones they address.

For example, some revitalization programs address blight or the other physical symptoms that threaten public safety, reduce property values, and discourage new investment. Many do so by offering financial incentives to developers and property owners to acquire and develop vacant lots or rehabilitate abandoned buildings and structures. Other programs concentrate on rebuilding a neighborhood's physical and social fabric by encouraging residents and business owners to collaborate on improving streetscapes and building facades, converting vacant lots into community gardens, rehabilitating homes and apartments, improving parks and open spaces, preserving historic property, starting small businesses, or celebrating a community's history and culture.

Although all of the 14 selected states run programs to help chronically unemployed people acquire relevant job skills, New Jersey appears to be the only state with a program that connects distressed area residents participating in job training programs with jobs created by state assisted economic development projects.

Five selected states also administer programs aimed at a municipality's fiscal capacity. Some provide grants to help distressed municipalities maintain services without increasing property taxes. Others monitor municipalities' fiscal health and impose state financial oversight and control if it begins to deteriorate.

The state distressed municipalities programs we describe in this report operate alongside municipal and nonprofit programs, many of which are funded by federal agencies and private foundations. For example, Chicago's Homeownership Preservation Initiative, which seeks to prevent foreclosure and reclaim vacant property, is a partnership between the city's housing department, the Federal Reserve Bank of Chicago, and lending and service institutions. Except for the programs administered by the nonprofit New Jersey Community Capital, we did not include local, nonprofit, and federal distressed municipalities programs.

Overview of Distressed Municipality Program Types

Our online survey identified over 50 programs in 14 states that target grants and loans, tax incentives, and technical assistance to distressed counties, regions, municipalities, and neighborhoods. The programs vary based on the distressed conditions they address. To highlight how these programs differ, we classified them based on Alan Mallach's 2017 analysis of state urban revitalization programs. Mallach analyzed these programs based on their intended outcomes:

1. increase economic competitiveness,
2. strengthen housing markets,
3. improve quality of life,
4. develop human capital, and
5. improve the capacity to fund and deliver services.

In doing so, he described the conditions or symptoms that a distressed municipality must address to achieve these outcomes.

Table 1 uses Mallach's analysis to show how state distressed municipalities programs address different types of symptoms.

Table 1: Types of State Distressed Municipalities Programs by Distress Symptoms

Symptoms	*Types of Remedial Programs*	*States*
Uncompetitive Business Climate: • Concentration of abandoned, underused, or contaminated property • Inability to retain or attract businesses • Inability of city residents to obtain high paying jobs	• State tax incentives and low-interest financing to businesses constructing or expanding facilities in distressed municipalities • Statutory authority for municipalities to finance projects by issuing bonds and using the incremental tax the projects generate to repay the bonds (i.e., tax increment financing) • State financing to (1) construct, improve, or repair and (2) operate transportation infrastructure • Policies encouraging regional coordination and implementation of economic development policies and programs	Florida Illinois Indiana Maine Massachusetts Michigan New Jersey New York Oregon Pennsylvania Texas Virginia
Weak Housing Market: • Lack of demand for middle and upper income housing • Deteriorating residential property and declining property values	• Financial assistance for making street improvements and developing mixed-income housing • Apportion affordable housing units on a regional basis and adopt inclusionary zoning regulations • Mortgage assistance for purchasing homes in urban areas and development incentives for constructing or rehabilitating housing there • Statutory authority to use flexible tools for regulating land uses and addressing blighted property • Funding technical assistance for multifaceted neighborhood revitalization projects	Florida Massachusetts Michigan New Jersey Oregon
Deteriorated Neighborhoods and Diminished Quality of Life: • Vacant lots and boarded property • Neglected parks • Dilapidated historic structures • High crime rates • Loss of community	• Funds for creating or maintaining parks, community gardens, and other public spaces • Funds and tax credits for preserving historic structures and places • Support for programs that incorporate art and culture to revitalize neighborhoods and create a sense of place	Florida Illinois Michigan New Jersey New York Pennsylvania

Table 1 (continued)

Symptoms	***Types of Remedial Programs***	***States***
Lack of Human Capital Development: • Low or unskilled urban residents unable to access job training programs • Failure to adequately extend the economic benefits of housing, community, economic development programs to city residents, and businesses	• Making pre-K and early childhood education more accessible to low-income residents • Maximizing educational choices for students from low-income families • Job programs addressing the workforce needs of low-income residents • Statutory authority to adopt local hiring and procurement requirements for publicly funded projects	New Jersey
Lack of Capacity to Fund and Deliver Services: • Inability to deliver services without unduly burdening taxpayers • Lack of the technical and managerial ability to provide quality services and effectively implement revitalization programs	• State imposed revenue and spending caps • Statutory authority to impose user fees and levy sales, income, and other taxes, in addition to traditional property tax • Redistribution of revenue generated by casinos, sports stadiums, and other specialized facilities • State appropriations for education, roads, and other purposes • Technical support for fiscally troubled municipalities • State oversight and control of municipal spending and service delivery	Michigan Ohio Pennsylvania Rhode Island

While it is useful to examine programs based on the symptoms they address, Mallach suggests that doing so may also cause policy analysts to lose sight of the interrelationships between the symptoms and propose fragmented and uncoordinated policies.

For example, programs that help businesses construct new facilities and create jobs in distressed municipalities may strengthen their tax bases and capacity to deliver services. But they may also do little to improve the lives of the municipality’s unemployed residents if those jobs go to residents of other municipalities. Consequently, the programs must be coordinated with those that provide job services to a distressed municipality’s unemployed residents.

Similarly, programs that seek to stimulate the demand for market rate housing in distressed neighborhoods may drive up property values and rents and consequently displace a neighborhood’s low- and moderate-income residents if the programs do not preserve or create housing they can afford.

Economic Competitiveness

One of the telltale signs of an economically distressed municipality is a disproportionately high number of abandoned or underused business properties that are typically concentrated in specific neighborhoods and districts. These properties weaken local tax bases, thus straining a municipality's capacity to provide services without unduly burdening its residential and business taxpayers. Most of the selected states offer financial or tax incentives to businesses that redevelop the properties and create new jobs in economically distressed areas, including regions, municipalities, and enterprise zones. For example, Virginia's programs seek to prevent economic distress by diversifying the economies of several regions that depend heavily on one or two industries, such as tobacco farming and coal mining.

A few states also directly assist distressed municipalities, providing financial aid or statutory tools to help them improve their economic competitiveness. For example, Illinois provides grants to distressed municipalities to construct sewers, roads, and other infrastructure businesses need to expand and grow. Michigan, Pennsylvania, and Texas allow distressed municipalities to issue bonds to finance locally approved development projects with the additional tax revenue they generate upon completion (i.e., tax increment financing).

Connecticut's Geographically Targeted Economic Development Programs

Connecticut operates several economic development programs that target tax incentives or extra state assistance to businesses that develop property and create jobs in distressed areas. For example, the five-year state reimbursed property tax exemption for constructing or rehabilitating new facilities is limited to the 17 municipalities with enterprise zones (i.e., targeted investment communities). And, the maximum amount of Manufacturing Assistance Act funding for projects in these municipalities is 90% of project costs, compared to 50% in other municipalities.

Table 2 provides more details about state programs to improve distressed municipalities' economic competitiveness.

Table 2: Selected States' Distressed Municipalities Programs to Improve Economic Competitiveness

State Administered Business Assistance Programs		
Job Creation and Capital Investment Incentives Available City-Wide	***State and Local Business Tax Incentives Available only in Designated Zones***	***State Assistance to Distressed Municipalities***
Florida: • State grants matching local aid to businesses in targeted sectors • Business income or sales tax credits for creating jobs in designated urban high-crime areas Massachusetts: • Tax credits for remediating brownfields in distressed areas New Jersey: • Business tax credits for creating jobs and making capital investments in distressed municipalities and other eligible areas Oregon: • Distressed area businesses receive priority for business loans Pennsylvania: • Business and individual tax credits, waivers, and abatements for developing and occupying abandoned or underused land and buildings and creating jobs in redeveloped property Virginia: • Accelerated, five-year, capital investment incentive grants for businesses in distressed areas • Discretionary grants for creating jobs and stimulating investment in tobacco industry-dependent communities • Low-interest loans for businesses in coalfield regions	Illinois: • State sales tax credits and exemptions for creating or preserving jobs in enterprise zones • Tax credits, exemptions, and deductions for remediating brownfields in five City River Edge Redevelopment Zones Indiana: • Business tax incentives in designated Urban Enterprise Zones • Business tax credits for development projects in Community Revitalization Enhancement District Maine: • Business tax credits for creating jobs in targeted sectors in designated Pine Tree Development Zones Massachusetts: • Investment tax credits for businesses that create jobs and make capital investments in economic target area communities Michigan: • Michigan Personal Property Tax Relief in Distressed Communities: statute allows state-designated distressed communities to abate a business's property taxes on newly acquired personal property New York: • Property tax credits for businesses in targeted industries that create jobs and make capital investments in designated investment zones Oregon: • Property tax exemptions for capital investments in designated zones Pennsylvania: • Tax credits for contributions toward the cost of expanding, improving, or rehabilitating property in enterprise zones and creating jobs for zone residents Texas: • Sales and use tax refunds for businesses making capital investments and creating jobs in enterprise zones Virginia: • Job creation and investment grants for businesses in enterprise zones	Illinois: • Grants for infrastructure, transportation, and workforce development in economically distressed communities in 16 southernmost counties Michigan: • Authorization to use tax increment financing to remediate and redevelop brownfields in targeted areas Pennsylvania: • Authorization to use state and local tax revenue to finance redevelopment of vacant, abandoned, or underused property in designated revitalization and improvement zones Texas: • Authorization to use tax increment financing to pay off debt incurred to finance redevelopment projects in distressed areas

Strengthening Housing Markets

Most states administer programs that focus on meeting the housing needs of specific groups by subsidizing rents in private apartments or subsidizing the construction or rehabilitation of affordable housing. Six selected states also administer programs to stimulate or strengthen the demand for market rate housing in certain areas, including distressed neighborhoods.

Some programs, for example, seek to reduce the financial risk private developers take when they rehabilitate or construct homes and apartments in distressed areas. The risk is that the low demand for market rate housing in these areas will prevent developers from recouping their costs and making a profit. The selected states' programs seek to reduce this risk by subsidizing development costs through grants, loans, or tax breaks.

Other programs seek to preserve mixed-income housing in established neighborhoods where foreclosures and diminishing property values could discourage property owners from maintaining or improving their property. Such inactions could lead to blight, a drop in property values, more disinvestment, and finally, an exodus of middle-income people from the area.

Table 3 describes selected states' programs to strengthen housing markets. We included those administered by the nonprofit New Jersey Community Capital because they appear to address several factors that weaken housing demand and cause neighborhoods to decline.

Table 3: Selected States' Distressed Municipalities Programs to Strengthen Housing Demand

Financial Assistance	***Tax Incentives***	***Comprehensive Neighborhood Assistance***

Florida:
• Florida Preservation Fund: Loans for preserving at-risk affordable multifamily rental housing
	Massachusetts:
	• Massachusetts Housing Development Incentive Program: State sales tax credits and local option property tax exemptions for developing market rate housing in designated "Gateway Cities" (population between 35,000 and 250,000)
	• Massachusetts Commercial Area Transit Node Housing Program: Funds for developing small (maximum of 24 units) mixed-income housing in neighborhood commercial areas or near a public transit node
	
	Michigan:
	• Michigan Neighborhood Enterprise Zone: Statutory authority to exempt taxes on newly constructed or rehabilitated housing in locally designated distressed areas (i.e., enterprise zones)
	
	Oregon:
	• Oregon: Vertical Housing Program: Property tax exemption for constructing or rehabilitating multistory mixed use and mixed income downtown housing
		New Jersey:
		• New Jersey Community Capital:
		  • Communities Strategies: Provides research and technical assistance to community groups to remedy problems caused by foreclosed, abandoned, and blighted property
		  • Community Asset Preservation Corporation: Acquires and redevelops foreclosed property in distressed neighborhoods
		  • Affordable Housing Mortgage Platform: Provides pre mortgage counseling and flexible lending
		  • Home Preservation Program: Acquires underwater mortgages (i.e., the mortgage's value exceeds the property's value), reduces borrower's principal payments, and provides individual counseling

Building Healthier Neighborhoods

Six selected states run programs to make distressed communities attractive places to live, work, and visit. Some programs seek to preserve, restore, or promote a community's unique assets, such as streetscapes (Michigan), arts and cultural attractions (New Jersey), and historic buildings (Illinois). For example, Illinois' Urban Assistance Office implements programs that help distressed area residents access job training, fresh food, weatherization assistance, and other services.

Connecticut Neighborhood Revitalization Programs

Connecticut's Neighborhood Revitalization Program provides a process through which residents, businesses, and government agencies can collaborate on revitalizing distressed neighborhoods.

The public and privately supported Connecticut Main Street Center program provides technical assistance to help merchants, local officials, and other groups revitalize downtown areas.

Others programs support grassroots revitalization efforts by providing technical assistance, grants, or tax credits to local nonprofit organizations, businesses, and local governments that collaborate on planning and implementing community revitalization strategies. Florida helps community groups and municipalities prepare plans to develop a community's unique assets, while Pennsylvania provides grants to municipalities that collaborate with businesses to improve the quality of life in distressed neighborhoods. Pennsylvania and New Jersey also provide tax credits to businesses that support comprehensive neighborhood-based housing and economic development programs. Lastly, New York provides grants for planning and implementing revitalization projects in downtown districts that are ripe for development.

Table 4 provides more details about these programs.

Table 4: Selected States Distressed Municipalities Programs to Build Healthier Neighborhoods

Financial Assistance	*Tax Credits*	*Comprehensive Assistance*

Michigan:
• Michigan Public Spaces Community: Matching grants for projects that revitalize streetscapes, plazas, alleyways, and other public spaces
 	
New Jersey:
• New Jersey Community Capital, Creative Placemaking Fund: Flexible financing for projects that incorporate arts and culture in comprehensive community revitalization plans
	Illinois:
	• Illinois Historic Preservation Tax Credit: Personal income tax credit for rehabilitating historic property in the five-city River Edge Redevelopment Zones
	
	New Jersey:
	• New Jersey Revitalization Tax Credit Program: 100% business tax credits for contributions to nonprofit organizations implementing comprehensive housing and economic development revitalization plans
		Florida:
		• Florida: Competitive Florida Partnership (CFP):
		  ◦ Technical Assistance: Technical assistance to community groups and municipalities for preparing plans to develop their unique assets and creating an overarching economic development organization
		  ◦ Partnership Planning Grants: Grants to local governments for planning and implementing economic development strategy based on the CFP model

Table 4 (continued)

Financial Assistance	***Tax Credits***	***Comprehensive Assistance***
Pennsylvania: • Pennsylvania Keystone Communities Program: Grants for planning and implementing public-private partnerships to stabilize neighborhoods, promote social and economic diversity, and strengthen and secure quality of life	Pennsylvania: • Neighborhood Assistance Program: Business tax credits for contributions to nonprofits operating affordable housing, community services, and other specified programs for low- and moderate-income people in designated distressed areas • Neighborhood Partnership Program: Business tax credits for multiyear contributions to nonprofit organization implementing comprehensive strategic plans in designated distressed areas	Florida (continued): • Economic Development Partnership Grants: Grants for implementing projects consistent with the community's economic development strategy Illinois: • Illinois Urban Assistance Office: Implements programs in distressed communities to help residents access job training, fresh food, and weatherization services New York: • New York Downtown Revitalization Initiative: Grants for preparing local strategies and plans to revitalize downtown areas

Building Human Capital

Human capital programs seek to improve the quality of life of a distressed area's residents by helping them access different types of services, including (1) pre-K and early childhood education and (2) job training that helps trainees secure jobs created by businesses that receive state economic development funds. This report focuses only on programs that help residents access job training programs.

Although all of the selected states operate workforce development programs, New Jersey Community Capital's THRIVE South Jersey program appears to be the only one that concentrates on placing distressed area residents in jobs created by businesses that receive state economic development aid. The program operates in a four-county region suffering job losses in the manufacturing and casino industry sectors.

Fiscal and Service Delivery Capacity Programs

Four selected states address the ability of distressed municipalities to manage their finances and debt. Michigan and Rhode Island provide mostly unrestricted grants intended to absorb some service costs and thus ease the pressure on local property tax bases to sustain these costs. Ohio and Pennsylvania monitor municipal fiscal conditions and, depending on their severity, impose different degrees of state oversight and control. Pennsylvania also provides grants to distressed municipalities to prepare multi-year financial plans. Table 5 provides more details about these fiscal and service delivery capacity programs.

Table 5: Selected States' Distressed Municipalities Programs Addressing Fiscal and Service Delivery Capacity

Multi-Purpose Grants	***Financial Planning Grants***	***State Fiscal Oversight***
Michigan: • Grants to financially distressed municipalities to fund projects, services, or strategies aimed at restoring financial stability Rhode Island: • Grants to municipalities with the highest property tax burdens relative to taxpayer wealth	Pennsylvania: • Matching grants to fiscally distressed municipalities for developing multi-year financial plans	Ohio: • State-administered system for early detection fiscal distress culminating in the creation of a state financial planning and supervision commission Pennsylvania: • Authority to declare fiscal distress, require recovery plans, and impose receivership, among other things, for failing to implement recovery plan

Source: Alan Mallach, *State Government and Urban Revitalization: How States can Foster Stronger, More Inclusive Cities,* Working Paper WP 17AM1, Lincoln Land Institute (April 2017): https://www.lincolninst.edu/sites/default/files/pubfiles/mallach_wp17am1.pdf

Attachment 1: Designated Municipalities

Municipality	***2016 Distressed Municipality***	***Targeted Investment Community****	***2017 Public Investment Communities***
Ansonia	X		X
Ashford			X
Beacon Falls			X
Bloomfield			X
Bridgeport	X	X	X
Bristol	X	X	X
Brooklyn			X
Chaplin			X
Derby	X		X
East Hartford	X	X	X
East Haven	X		X
East Windsor			X
Enfield	X		X
Griswold	X		X
Groton		X	X
Hamden		X	X
Hampton			X
Hartford	X	X	X
Killingly	X		X
Lisbon			
Manchester			X
Mansfield			X
Meriden	X	X	X
Middletown		X	X
Milford			X
Montville	X		X
Naugatuck	X		X
New Britain	X	X	X
New Haven	X	X	X
New London	X	X	X
Norwalk		X	
Norwich	X	X	X
Plainfield	X		X
Plainville			X
Plymouth	X		X
Putnam	X		X
Scotland			X
Seymour			X
Southington		X	
Sprague	X		X
Stafford			X
Stamford		X	
Stratford			X
Sterling			X
Thomaston		X	X

Attachment 1 (continued)

Municipality	***2016 Distressed Municipality***	***Targeted Investment Community****	***2017 Public Investment Communities***
Thompson			
Torrington	X		X
Vernon			X
Voluntown			X
Waterbury	X	X	X
West Hartford			X
West Haven	X		X
Winchester			X
Windham	X	X	X
Windsor			X
Windsor Locks			X

*Municipalities with enterprise zones are automatically designated as targeted investment communities.

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