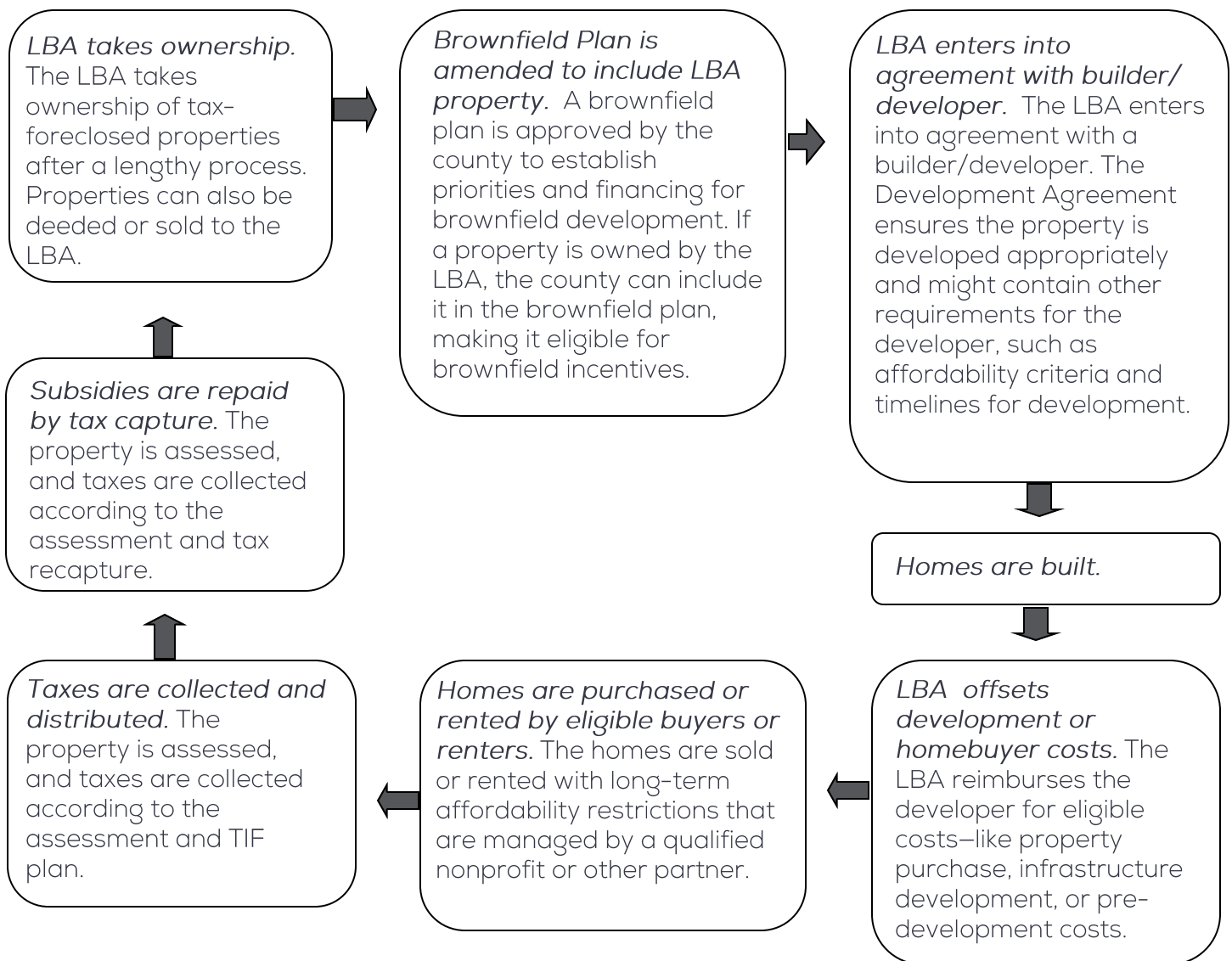


Using Land Bank Tools to Offset Development Costs

A land bank authority (LBA) is organized by a county to manage tax foreclosures, and provides important development tools that can support local goals for housing and economic development. Perhaps most importantly, LBA-owned properties are automatically classified as “brownfield” sites, which comes with certain financial tools and the ability to offset development costs.

HOW IT WORKS

How does it work? First, the county brownfield plan must be amended to include the LBA property in a tax-increment financing (TIF) district. Next, a house is built on the property by a qualified builder, developer, and/or nonprofit partner. Let’s assume the total cost for the new home is \$180,000; but in order to be affordable to the workforce, the target price for the home is \$150,000. The LBA offsets or subsidizes \$30,000 of development costs on the home—by paying for property or infrastructure, or by providing a second mortgage to the homebuyer. That \$30,000 is then paid back to the LBA by the taxes on the property that are captured by the TIF.





Land Bank Authorities & Community Development

Land bank authorities are designed to manage tax-foreclosed properties, and allow counties to postpone foreclosure for homeowners facing financial hardship. Because they were created to deal with problems often associated with tax-foreclosed properties, they provide a number of important planning and financial tools that can support community development efforts. A land bank can take ownership of a property through the tax foreclosure process, and can also buy land and buildings or receive donations of property. Once a property is held by a land bank, it can be sold, rented, cleaned up, redeveloped, or simply held and maintained tax-free until it's ready for sale or development.

Land bank authorities can also:

- Qualify for brownfield status and funding
- Own homes, transfer or sell property, rent, prevent eviction, sell on land contract, demolish
- Partner or enter into contract with private,

public, or nonprofit agencies for redevelopment

- Retain proceeds from the sale or rental of property
- Collect a portion of a specific tax on property sold by the land bank
- Borrow money, issue bonds, accept grants, and invest in property
- Clear “dirty” titles in order to prepare properties for sale
- Land banks *cannot* exercise eminent domain, condemn property, levy special assessments or taxes, or assist in or finance the development of a casino.

Michigan's land banks have helped communities achieve economic development goals, increase affordable housing opportunities, and stabilize neighborhoods through a variety of programs—often in partnership with private, public, or nonprofit agencies.

THE LAND BANK TOOLBOX

Brownfield Incentives

Brownfields are an important component of the land bank authority's toolbox. A brownfield is an abandoned, underused, or obsolete property known or suspected to be contaminated. These properties are eligible for grants and loans for certain environmental activities; and some redevelopment activities can be reimbursed by tax-increment financing (TIF)—such as property purchase, blight removal, infrastructure (like sidewalks), or pre-development work. Brownfield incentives have successfully encouraged the redevelopment of blighted and contaminated properties throughout the state, and have proven to be a powerful economic development tool.

Tax-Increment Financing

When an area is designated as a TIF district, the property value of all the real estate within its boundaries at that time is set as the “base value.” For an established number of years, taxes are collected based on that value. Once the property is developed and the real estate and taxable values increase, the additional taxes *above and beyond the base value* taxes are “captured” – that is, they go into a separate fund earmarked for a certain purpose. Often, that purpose is to stimulate additional development by offering loans or subsidies for projects that meet goals that have been established for the TIF district. Ultimately, once development goals have been achieved and the loans in the TIF district have been paid off, the TIF “capture” ends and the jurisdiction collects all new taxes generated in the district. TIF is typically used to stimulate new investment and taxes in areas that are difficult or unprofitable to develop without incentives.