# Appendix A Economics, Market Forces, and Funding

## A.1 Introduction

### A.1.1 Background

The City of Billings established the East Billings Urban Renewal District (EBURD) in 2006 to address development issues in an area near downtown (then called the East Transition Zone). The previously adopted downtown Framework Plan had already identified the East Transition Zone as a logical area for the expansion and continued revival of downtown Billings. The City of Billings, in partnership with Big Sky Economic Development Agency (BSEDA) developed an Urban Renewal Plan and a tax increment finance district to manage and fund the EBURD.

The Urban Renewal Plan is an overarching document that guides future development in the EBURD. Among other things, that plan called for the development of a more detailed development plan, design guidelines, and other implementation measures.

To conduct that next level of work, BSEDA, on behalf of EBURD and the Billings Industrial Revitalization District, Inc. (BIRD), hired EDAW. Work began in August of 2008 and is scheduled to be complete in July 2009. ECONorthwest (ECO) is part of the EDAW team and responsible for the part of the plan that deals with markets and financing. This appendix is ECO's primary product: its principal findings are summarized in the main report in Chapters 2 (Economic and Market Analysis) and 3 (Funding).

### A.1.2 Methods

ECO's analysis addresses (1) market factors that influence development in EBURD and (2) a conceptual finance plan that describes broadly some of the costs and options available. To develop this analysis, ECO took the following steps:

- **Review of data and documents**. ECO reviewed and analyzed available economic data related to Billings, which includes information about the market value of land, land use, vacant lands, and property size. In addition, ECO reviewed City of Billings and statewide policies.
- **Baseline forecast.** ECO described forecast of potential development in Billings based on historical population and employment growth trends, and available forecasts of population and employment in the Billings region.
- **Interviews with industry experts (brokers, land owners, developers).** The project team interviewed several industry experts in Billings to better understand the opportunities and barriers to development and to get ideas about actions that the public and private sectors could take to improve development opportunities.
- **Site visit.** ECO visited EBURD and collected information on existing land use, transportation, and development activity.
- **Community charrette.** ECO attended a community charrette to discuss development alternatives for EBURD.
- **Discussion with the team.** Staff at ECO and EDAW met to discuss their respective draft findings. ECO used that discussion to support and revise its recommendations.

More work on markets and finance could obviously be done. For example, ECO's work does not include a full evaluation of the impacts on development in EBURD of competition from surrounding areas. Nonetheless, the analysis presented here is consistent with ECO's scope and budget, and with the purpose, audience, level of detail, and size of EDAW's final report. It provides an appropriate level of detail to give direction to an implementation strategy for EBURD.

### A.1.3 Organization of this Appendix

This appendix is organized into the following sections:

- ***Section A.2, Economic Context*** focuses on factors that affect potential future development of EBURD. Its purpose is to give an idea of what kind of development to expect in the absence of the incentives generated by the EBURD, and how that might increase in response to public policies and investments that the EBURD might implement.
- ***Section A.3, Redevelopment Potential in EBURD*** discusses the many factors that will influence development in the EBURD (grouped roughly as locational, site, market, and policy factors), and uses that information to draw conclusions about the type and amount of development that might occur in EBURD in the next 5–10 years.

- *Section A.4, Funding* discusses various ways that improvements for public facilities (e.g., streetscape, parking, storm drainage, parks) might be funded to help stimulate development in EBURD.

## A.2 ECONOMIC CONTEXT

### A.2.1 HISTORICAL ECONOMIC TRENDS

Billings is Montana's most populous city. It is located in Yellowstone County, Montana's most populous county. Billings is larger than any city in a 500-mile radius, making it a center for commercial, educational, medical, and transportation services. Billings' primary trade area consists of Yellowstone County and 14 surrounding counties, including approximately 250,000 people from Montana, Wyoming, South Dakota, and North Dakota. Billings has three colleges, two hospitals, two oil refineries, and an airport.

Exhibit A-1 shows population in Montana, Yellowstone County, and Billings in 1990, 2000, and 2007. In 2007, Billings had 96,588 residents, 10% of Montana's total and 69% of Yellowstone County's total. Over the seventeen-year period, Billings grew at just over 1% annually, at about the same rate as the state during the same period.

**Exhibit A-1. Population in Montana, Yellowstone County, and Billings, 1990, 2000, and 2007**

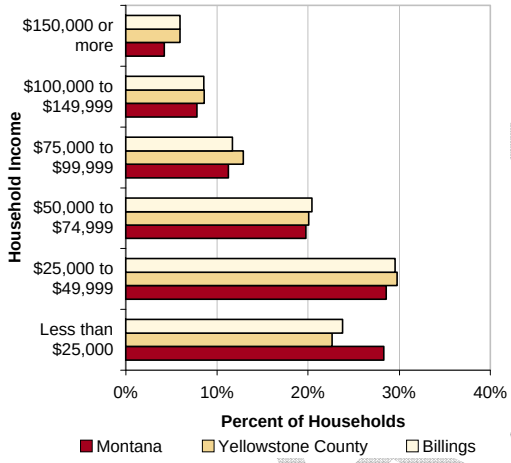
| | 1990 | 2000 | 2007 | Change 1990-2007 Number | Percent | AAGR |
|---|---|---|---|---|---|---|
| Montana | 799,065 | 902,195 | 957,861 | 158,796 | 20% | 1.07% |
| Yellowstone County | 113,419 | 129,352 | 139,936 | 26,517 | 23% | 1.24% |
| Billings | 81,151 | 89,847 | 96,588 | 15,437 | 19% | 1.03% |

Source: U.S. Census 1990 Summary File 1, P001, http://factfinder.census.gov/
U.S. Census 2000 Summary File 1, P1, http://factfinder.census.gov/
American Community Survey 2007, B01003, http://factfinder.census.gov/

Exhibit A-2 shows household income in Montana, Yellowstone County, and Billings in 2007. Billings and Yellowstone County have similar income distributions, with 24% of Billings residents and 23% of county households making less than $25,000, compared to 28% of statewide households. Similarly, 14% of Billings households made $100,000 or more, compared to 15% of county households and 12% of statewide households.



**Exhibit A-2. Household income in Montana, Yellowstone County, and Billings, 2007**




Source: American Community Survey 2007, B19001, http://factfinder.census.gov/

A report, *Socio-Economic Profile for the Billings Market Area* (Headwaters Economics, April 2007) defined a Billings Market Area (a larger area than the City of Billings) and estimated it had 252,437 residents in 2004. Job growth in the Billings Market Area outpaced the state and the nation since 1970. The most rapid growth in the area came in the construction and agriculture sectors. Income growth kept pace with the nation and outgrew the state since 1970.

Exhibit A-3 shows employment by industrial sector, by size, in the Billings Market Area in 2004. Retail trade (1,435 firms) and construction (1,267) were the sectors with the highest number of firms. The distribution of employees across firms suggests the sectors with the greatest number of employees were retail trade, accommodation and food services, and health care and social services.

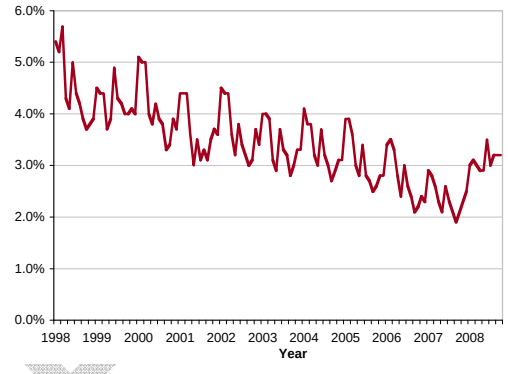
Exhibit A-4 shows the unemployment rate in the Billings Metropolitan Statistical Area (MSA includes Yellowstone and Carbon Counties) from 1998-2008. The unemployment rate shows seasonal variation, but it generally moved downward. After hitting a low of 1.9% in September 2007, the rate rose back to 3.2% in October 2008. The most recent rate is low relative to national averages.

**Exhibit A-3. Employment by size and sector in Billings Market Area, 2004**

| Sector | Total | 1-4 | 5-9 | 10-20 | 20-49 | 50-99 | 100 or more |
|---|---|---|---|---|---|---|---|
| Forestry, fishing, hunting, & agriculture | 46 | 36 | 5 | 5 | - | - | - |
| Mining | 129 | 72 | 24 | 12 | 10 | 5 | 6 |
| Utilities | 58 | 36 | 5 | 8 | 6 | 2 | 1 |
| Construction | 1,267 | 888 | 211 | 113 | 44 | 9 | 2 |
| Manufacturing | 329 | 159 | 63 | 55 | 33 | 11 | 8 |
| Wholesale trade | 482 | 247 | 91 | 80 | 45 | 14 | 5 |
| Retail trade | 1,435 | 696 | 357 | 214 | 121 | 29 | 18 |
| Transportation & warehousing | 337 | 195 | 47 | 41 | 36 | 12 | 6 |
| Information | 161 | 79 | 32 | 30 | 14 | 4 | 2 |
| Finance & insurance | 482 | 298 | 94 | 37 | 39 | 10 | 4 |
| Real estate, rental, & leasing | 403 | 326 | 45 | 21 | 10 | 1 | - |
| Professional, scientific, & technical serv. | 865 | 626 | 134 | 70 | 24 | 7 | 4 |
| Mgmt of companies and enterprises | 36 | 16 | 11 | 5 | 3 | 1 | - |
| Admin, support, waste mgt, remed. serv. | 413 | 278 | 62 | 35 | 26 | 11 | 1 |
| Educational serv. | 59 | 36 | 11 | 3 | 4 | 2 | 3 |
| Health care & social assistance | 783 | 386 | 196 | 103 | 45 | 30 | 23 |
| Arts, entertainment, & recreation | 289 | 176 | 47 | 35 | 24 | 4 | 3 |
| Accommodation and food serv. | 845 | 305 | 164 | 175 | 164 | 27 | 10 |
| Other services | 865 | 580 | 178 | 78 | 26 | 2 | 1 |
| Unclassified establishments | 53 | 51 | - | 2 | - | - | - |
| **Total** | **9,337** | **5,486** | **1,777** | **1,122** | **674** | **181** | **97** |

Source: SocioEconomic Profile: Billings Market Area, Headwaters Economics, page 17
Accessed: www.bigskyeda-edc.org/pdf/Billings-Market-Area.pdf

**Exhibit A-4. Unemployment rate in Billings MSA, 1998-2008**

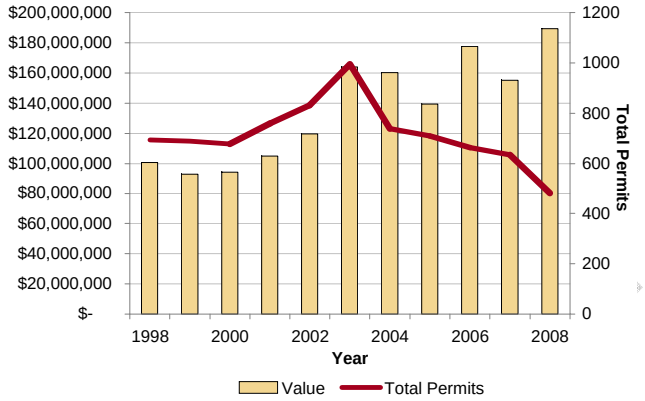



Source: Bureau of Labor Statistics, series LAUMT30137403, http://data.bls.gov

Exhibit A-5 shows the total number of building permits and valuation per year between 1998 and 2008 for *all new construction*, including single-family dwellings, duplexes, multi-family dwellings, hotel/motels, commercial uses, and garages. The total number of building permits issued declined from 995 in 2003 to 482 in 2008.



**Exhibit A-5. Building Permits and Valuation in Billings, All Types, 1998-2008**




Source: Monthly Building Permit Reports, City of Billings
Accessed: http://bil.ci.billings.mt.us/buildinginspection/default.aspx

Exhibit A-6 shows the number of dwelling units in the City of Billings in 2000 and 2007. The number of housing units within the City of Billings increased by 3,590 units between 2000 and 2007. Exhibit A-6 summarizes the increase in units for single-family (detached and attached), multi-family (including duplex), and mobile homes.

**Exhibit A-6. Dwelling Units in the City of Billings, 2000, 2007.**

| | 2000 | | 2007 | |
|---|---|---|---|---|
| Year | Number | Percent | Number | Percent |
| Single Family, detached | 24,221 | 62% | 27,176 | 64% |
| Single Family, attached | 1,811 | 5% | 2,183 | 5% |
| Multifamily | 10,254 | 26% | 10,517 | 25% |
| Mobile Home | 2,865 | 7% | 2,462 | 6% |
| **Total** | **39,151** | **100%** | **42,338** | **100%** |

Source: U.S. Census 2000, Summary File 3, H30, http://factfinder.census.gov/
American Community Survey 2007, B25024, http://factfinder.census.gov/
Note: multi-family includes duplexes

Single-family homes made up about two-thirds of all dwelling units in Billings in 2000 and 2007. Multi-family units made up about one quarter of dwelling units. The number of single-family dwelling units increased by 3,327 between 2000 and 2007, which is an average net addition of 475 units per year. Multi-family units increased by 263 in that timeframe (average of 38 units per year). The number of mobile homes declined by 403 units.

## A.2.2 FORECASTS

The Montana Economic and Demographic Databook prepared by Montana State University Billings forecasts population and employment in Montana Counties up to 2030. Exhibit A-7 shows Yellowstone County is projected to grow from nearly 144,000 people in 2010 to over 171,000 in 2030, a change of 27,360 people, an average annual growth rate of 0.87%.

**Exhibit A-7. Population forecast in Yellowstone County, 2010-2030**

| Year | Population | Change |
|---|---|---|
| 2010 | 143,940 | -- |
| 2012 | 146,600 | 2,660 |
| 2014 | 149,230 | 2,630 |
| 2016 | 151,840 | 2,610 |
| 2018 | 154,440 | 2,600 |
| 2020 | 157,110 | 2,670 |
| 2030 | 171,300 | 14,190 |
| **Change 2010-2030** | | |
| Number | | 27,360 |
| Percent | | 19% |
| AAGR | | 0.87% |

Source: Montana Economic and Demographic Databook, page 340
Accessed: http://housing.mt.gov/Includes/CP/Docs&Rpts/CP_Databook-Powderriver_yellowstone.pdf

Exhibit A-8 shows an employment forecast for Yellowstone County from 2010 to 2030. Yellowstone County is projected to grow from about 107,000 workers in 2010 to about 132,000 in 2030, a change of 24,750 workers, or an average annual growth rate of 1.04%.

**Exhibit A-8. Employment forecast in Yellowstone County, 2010-2030**

| Year | Employment | Change |
|---|---|---|
| 2010 | 107,670 | -- |
| 2012 | 111,690 | 4,020 |
| 2014 | 114,820 | 3,130 |
| 2016 | 117,810 | 2,990 |
| 2018 | 120,140 | 2,330 |
| 2020 | 122,400 | 2,260 |
| 2030 | 132,420 | 10,020 |
| **Change 2010-2030** | | |
| Number | | 24,750 |
| Percent | | 23% |
| AAGR | | 1.04% |

Source: Montana Economic and Demographic Databook, page 337
Accessed: http://housing.mt.gov/Includes/CP/Docs&Rpts/CP_Databook-Powderriver_yellowstone.pdf



## A.2.3 IMPLICATIONS FOR DEVELOPMENT IN EBURD

Population and employment in the City of Billings have grown consistently historically. Population and employment in Billings grew slightly faster than Montana or the U.S. from 2000-2007.

Montana has the largest coal reserves in the nation with about 120 billion tons, mostly throughout the central and eastern portions of Montana.[1] Alberta, Canada, directly north of Montana, has tar sands deposits that allow Canada to be ranked second in the world (after Saudi Arabia) in petroleum reserves—Billings has a pipeline coming from those fields, is the nexus for several oil and gas pipelines, and has two refineries. Growth in the energy industries will help drive economic growth over the next decade. Billings is likely to continue to grow at rates similar to or slightly greater than Montana and the nation both in terms of population and employment. The State's long-run forecast is for continued growth in Billings at about the same rate.[2]

The main implication for the EBURD planning is that there is likely to be growth in the Billings area that it can capture a share of. What happens in EBURD depends on (1) how much growth there is in the Billings area, and (2) what share of that growth EBURD captures.

Regarding the first point, it seems reasonable to assume that after the current recession plays out, Billings will see growth over the next 20 years at about the rate it has seen historically over the last 20 years. That is what all the long-run forecasts are currently saying. In rough terms, the long-term prospects for Billings are for growth in population and employment at a rate of around 1% per year. For population, that means, in rough and round terms, an increase of about 1,000 people per year in Billings; at about 2.2 people per dwelling unit, that is about 450 dwelling units per year; for the last seven year, Billings has averaged about 500 new dwelling units per year, so those numbers are consistent. The number of employees is typically a little over half of the number of people in a large region, but in Yellowstone County the estimates in Exhibits A-7 and A-8 show the estimated growth in employment to be 90% of the estimated growth in population.[3] For the purpose of this calculation, we assume that there are

[1] Montana DEQ: http://www.deq.mt.gov/ClimateChange/Energy/EnergySupply/SScoal.asp

[2] A fundamental assumption here is that US and world economies recover from the current recession in a year or two (i.e., that the recession is part of a business cycle, not the leading edge of a longer period of economic decline).

[3] Implying that most of the people moving to the County are workers—that there are few children or retirees. That number seems high.

now about 70,000 employees in the City of Billings (75% of the population). Depending on the type of employment, employees may use anywhere from 250 (dense office space) to 2000 (warehousing space) square feet of gross built space per employee. Assume that the average space per employee is 625 square feet.[4] If employees grow at 1% per year, needed space would start at about 440,000 square feet per year. These rough estimates put the demand for new commercial and industrial space (combined) at around 0.5 million square feet per year.

Regarding the second point, the share of growth that EBURD experiences depends on several demand and supply factors (including the ultimate plan, its policies, and any investments the City might make to increase the value of the district as a location for development). We address those in the next section.

## A.3 Redevelopment Potential in EBURD

### A.3.1 Factors that Influence Development in EBURD

While local governments and service districts cannot control the short-term real estate market, their actions can influence the market: policy decisions about land use regulation (zoning and development code), infrastructure development (location, capacity, and funding), and redevelopment policy (urban renewal), can shape future development types and can sometimes influence expectations about pricing for land in the market.

This analysis focuses on the mid- to long-term market in EBURD. It looks more at longer-term fundamentals than current market prices and volumes—more at the longer trends than at the business cycles. Our assessment of available demographic information and growth projections for the Billings area leads us to conclude that the character of today's real estate market is not a likely predictor of market demand in the 10-15 year planning horizon. In a longer planning horizon, physical and regulatory characteristics may give EBURD some advantages relative to other areas for development in the Billings region, if not overall, then for a particular development type. Each sub-area of the Billings market has somewhat different combinations of advantages and disadvantages that affect development potential: land, location, natural resources, infrastructure, and public services.

[4] Three-quarters of new employment in commercial/institutional (office / retail) at an average of 500 sf per employee; one-quarter in industrial/warehousing at an average of 1000 sf per employee.



While evaluating property development usually requires a comparison: "how does this property compare to other properties?" it also requires some notion of net value—of the property attributes relative to the price. Good site and location attributes do not mean a property will develop quickly if it is priced way beyond what the market will pay for those attributes.

A distinction often made in property evaluation is between *location* and *site* characteristics. Location characteristics are about all the things around a property; site characteristics are those of the property itself.

For EBURD we are not evaluating a single site, but a large grouping of sites in an area of almost a square mile. At a regional level, all of the sites have similar locational characteristics: they are flat, have public services (except for some that lack drainage or fully improved streets), and are close to the downtown and all the services and amenities it has to offer. But at the neighborhood level, the properties have different locational characteristics: for example, some are closer to the downtown, some are closer to MetraPark. The distinction between locational and site characteristics gets blurred: for example, is access to the rail spur a locational characteristic or a site characteristic?

Thus, in this analysis we do not worry about the distinction between site and locational characteristics, nor does our analysis look at particular sites (properties). Rather, we provide an overview of development potential of the EBURD area by looking at three broad categories of factors: physical, market, and policy factors.

#### A.3.1.1 Location

EBURD has several important locational advantages relative to other areas in Billings:

- **Proximity to downtown**. EBURD is centrally located near employment and commercial uses in the Central Business District, the medical campuses, and the University (directly to the west).
- **Proximity to MetraPark.** MetraPark is a county owned multi-function facility that has an indoor arena, rodeo grounds, a horse track, open space and other facilities.
- **Proximity to the airport.** EBURD is closer to the Billings Logan Airport (3 miles) than many areas in the Central Business District as well as areas in south and east Billings.

- **Proximity to amenities and commercial areas.** EBURD is in close proximity to commercial areas downtown and in Billings Heights, which is a commercial and residential hub to the north. There is a large grocery store (Albertson's) located at 27th Street and 6th Avenue, within walking distance of the east end of the study area. In addition, EBURD is located near an established residential neighborhood to the north (North Park).
- **Proximity to regional highways.** Especially the intersection of 212, I-90, and I-94.

The key comparative advantage for EBURD is its central location *between* downtown and MetraPark (and between the West End and the Heights) on flat land with urban services. It is an obvious location for urban development.

### A.3.1.2 Access and Transportation

Access is critical to successful redevelopment of an area. Access applies both regionally and locally. It is an advantage to be connected to areas outside Billings for freight, market penetration, and tourism. Locally, it is an advantage to get people into and through an area efficiently, making it easy for people to stop (park) and participate in activities (work, shop, recreate).

The EBURD study area has relatively convenient motor-vehicle access to and from other areas in Billings. The study area is centrally located near downtown and in close proximity to major transportation routes, including State Routes 87, 212 and Interstates 90 and 94.

While access to and from the study area and circulation *through* the study area, is relatively convenient, circulation *within* the area and access to individual locations within the boundaries is less convenient. Many close-in transitioning industrial areas in other cities experience issues similar to those facing EBURD. There are tradeoffs between through traffic and local traffic; between convenient access and speed; and between safety and speed. Transportation systems in areas like EBURD have often developed in ways that have had negative impacts on businesses and quality of life. Bypasses, couplets, and one-way streets can negatively affect an area by increasing travel speeds, limiting local circulation, encouraging through traffic, and hindering the pedestrian environment. This applies, to some extent, to EBURD: the east-west streets are primarily one-way and 2nd/3rd Avenues act as a couplet. Most traffic



going into the study area is pass-through traffic or is traveling to a destination in the east end of the study area.[5] While this provides relatively convenient access *through* the area, it does not always help to promote safe and convenient circulation *within* the area, in particular for pedestrians and bicyclists.

Met Transit operates mid-day and peak hour bus service within the study area. The downtown Transfer Center is located in close proximity to EBURD's western boundary.

Bicycle and pedestrian access is limited due to relatively high traffic speeds, which contribute to a "highway-like" atmosphere throughout the study area. There are limited bicycle lanes through the district, as well as limited sidewalks and other pedestrian amenities (lighting, crosswalks, benches etc). There is no established pedestrian link between downtown and the Central Business District.

An active freight mainline is located within the study area (between Minnesota and Montana Avenues, along the southern boundary of the study area. A spur traverses east/west through the study area along 5th Avenue. The spur is used intermittently for deliveries to local businesses.

The overall evaluation of the relative transportation advantages or disadvantages of EBURD depend on the scale and on the users being evaluated. At a regional level, EBURD scores well: good highway access, ample local street capacity for through traffic, heavy rail for freight, close to the airport, and close to the interstate. For industrial and commercial users these are all positives. At the neighborhood level, the area has a good street grid and, with the kinds of improvements suggested in the main report, the street system should be able to offer good access to all properties.

### A.3.1.3 Physical characteristics and infrastructure

Urban growth and redevelopment requires certain physical characteristics and types and levels of infrastructure to support its growth: paved streets, public water, sewer / stormwater facilities. The EBURD study area is relatively flat, with minimal grade change. With the exception of stormwater drainage facilities, the study area is furnished with adequate urban level infrastructure in most places.

[5] Internal memorandum: "Existing Transportation Conditions and Opportunities for EBURD." Nelson Nygaard. 2008.

There area is currently served with water and sanitary sewer facilities. A grid of water mains serves the majority of the area, with the exception of the eastern portion of the study area, which is characterized by larger that occupy multiple blocks and parcels that are not within the City limits. The existing water system is adequate to meet domestic water needs, but may not meet required fire flow requirements in the short-run. The sanitary sewer system is deemed adequate for the short-run planning period (five years), although there are some areas in the study area that are not served. The sewage treatment plant is located east of the MetraPark facilities.

Upgrades to the water and sanitary sewer systems are not contemplated in the City's Capital Improvements Plan (CIP). Improvements would need to be made as needed and would likely be driven by owner or developer needs. The estimate to bring the water and sanitary sewer systems up to standards is approximately $1.4 million for the water system and $0.6 million for the sanitary system.

The most notable deficiency in the area is the stormwater drainage system. The area experiences significant backup and surface ponding in a few locations due to capacity limitations of the mains and lack of curb and gutter improvements. The current estimate to bring the stormwater drainage system up to standards is approximately $2.8 million. The City has not allocated funding for this in the CIP.[6]

The total estimate for water, sanitary sewer and stormwater drainage upgrades is approximately $5 million.

Although the transportation system is discussed in the previous section, transportation infrastructure itself is an important factor to consider, as improvements to the streetscape can add additional costs to development. Many of the existing streets in the study area lack bicycle lanes, sidewalks, landscaping, planter strips, and other pedestrian and bicycle amenities (such as crosswalks and lights). There are many opportunities to improve conditions for motor—vehicles, pedestrians and bicyclists throughout the district, although there is considerable amount of work (and expense) required to make such improvements.

[6] Technical information about the water, sewer, and storm drainage system provided by Engineering, Inc. internal memorandum entitled "Existing Conditions and Needs – Public and Private Utility Infrastructure" 2008



### A.3.1.4 Existing uses / compatibility

Existing uses in the area can have an impact on the likely location of redevelopment projects as well as the likely timing of redevelopment.

What businesses and developers judge to be compatible uses depends on what they want to develop. Surrounding industrial uses will be less risky for most industrial redevelopment than surrounding residential uses. But compatibility is not absolute and is traded-off against relative prices. Thus, one finds pioneering redevelopment of commercial and residential space in industrial areas because land prices are low relative to other properties and to the locational characteristics.

Vacant lots are typically considered more attractive as opportunities for redevelopment in the short-term because they present fewer barriers and costs, such as relocation of existing businesses and demolition of existing structures. Established businesses or residential areas are sometimes considered less likely to redevelop while there are other, more attractive sites in the area.

Existing land uses in EBURD include a mixture of light industrial, manufacturing, and commercial uses. The industrial uses include service and wholesale distribution businesses that cater to automotive, manufacturing, construction, agricultural trades or businesses. Larger industrial uses are located primarily on the north, east, and south edges of the study area. Smaller commercial uses and vacant lots are interspersed through the middle of the area. There are some residential uses in the western part of the study area.[7] The East Billings Urban Renewal Plan indicates that there are many vacant lots and vacant buildings in the study area, many of which have deteriorated and will require significant reinvestment to rehabilitate or redevelop them.

In general, the size of and diversity of parcel types and locations in the EBURD provide numerous of opportunities for all types of development.

### A.3.1.5 Lot size and ownership

Land ownership patterns are a challenge to redevelopment when existing parcels are small and owned by many different owners. Any large-scale development will require assembly of smaller parcels into one larger site. When these parcels are owned by a variety of people who may or may not be willing to sell, land assembly can be an impediment.

[7] East Billings Urban Renewal District Plan, 2006. Section F.I, Existing Conditions

The EBURD study area has about 550 tax lots; there are obviously many different owners. Some of the lots are small. This situation can create a need to assemble land for many types of office, commercial and residential projects. If these parcels were all held by different owners, land assembly for larger projects could be a challenge. This is not entirely the case in EBURD, however, as there are some larger parcels, or groups of parcels under common ownership. These include half-block configurations or full blocks under consolidated ownership, such as the Golden Steel & Recycling site (approximately 3-4 acres), the former Chevy dealership site, and a few other full block sites.

### A.3.1.6 Historical economic, market, and development activity

The scope of work for this project did not envision a detailed market analysis. Nonetheless, any forecast of future development activity in EBURD requires some reference to what kind of development has occurred in EBURD and Billings, and some assumptions about what the future market might be like for various types of development. This section gives an overview for broad categories of development: industrial, commercial (office and retail, with a breakout of the lodging component of retail), and residential.

Section A.2.3, *Implications for development in EBURD*, above establishes some broad boundaries for likely growth in the Billings area. It shows information to justify an assumption that post-recession development in Billings will be on the order of 400-500 dwelling units per year, and 0.3 to 1.5 million square feet of commercial and industrial space (employment space).

In March 2006, Taimerica prepared an economic analysis of EBURD for BSEDA. That report provided the kind economic information that is standard for establishing an urban renewal district. We use that information as a base.

The EBURD is has almost 360 total acres, almost 60% of which make up about 550 taxlots (most of the remainder is in right-of-way). Of the developed or developable land, only about 5% is residential: it is mainly industrial and commercial.

Taimerica forecasted commercial absorption (its definition of "commercial" includes "industrial") for the Billings MSA (including Yellowstone County) at 7.7 million square feet over a 10-year period (table, page 10), which would be an average of about 0.8 million square



feet per year over that period. The MSA is obviously bigger than the City of Billings. If we scale back the estimate, commercial development in the City of Billing might average about 0.5 million square feet per year, which is in the range of the estimate we got using other methods.

A further cross-check is the new First Interstate Bank building, which will have on the order of 50,000 square feet. That would be 10% of the annual Billings allocation. The Taimerica analysis goes on to conclude that the total increase in assessed value from new buildings in the EBURD could be about $140 million over 10 years, an average of $14 million per year. This estimate is also in the ballpark of the value of First Interstate Bank.

The viability of the EBURD for industrial uses is obvious: it is zoned for that use, has compatible development, and has good highway and rail access. A potential obstacle to industrial redevelopment will be the expectations (with reason) that land in the EBURD could develop commercially, with those expectations translating into higher land prices that make industrial development more difficult.

Various businesses and institutions have taken notice of the locational and site characteristics in EBURD and have expressed potential interest in developing office space. Both the hospitals and the University have expressed interest in moving some administrative operations from their more crowded campuses to a back office operation in EBURD. The federal government plans to put 100,000 square feet of new office space somewhere in central Billings: EBURD is a possibility. Montana Avenue and 3rd Avenue are logical extensions for downtown office and retail activity into the EBURD.

For the purposes of the estimates in this report, given all the previous information on the factors that will affect development in EBURD and the Taimerica estimates, it does not seem unreasonable to assume that the EBURD might capture up to 5% to 10% of the commercial / industrial development in Billings over the next 10 years. Given previous estimates, that would mean an average on the order of 25,000 to 50,000 square feet of new built space per year. That development will be a mix of commercial and industrial development. The commercial development is more likely to be office development than retail, though retail has potential at the western and eastern edges of the district, where it can serve other developed areas: the estimated amount of other new commercial development in EBURD in the next 10 years is not sufficient to support much retail on its own.

Developing the retailing component of commercial will probably be harder than developing the office component. The most likely retail opportunities are all at the edges: on the west, tied to the downtown and Montana Avenue; on the east, tied to Main Street and MetraPark; and on the north, as strip commercial tied to 6th Avenue. Retail would be helped by proximate housing, but we describe some of the problems for housing below. The best chance for retail is probably by incorporating it into mixed-use development at the west end (driven by office uses) and east end (driven by lodging, and as a higher-end variant of a retail power center).

Because of the location of MetraPark, its interest in lodging, the suitability of sites across from MetraPark for lodging, and the Taimerica assumption that a part of the future development in EBURD would be lodging, we looked market information for lodging in more detail. Through MetraPark we were given access to data from Smith Travel Research, the industry standard for lodging. We looked at occupancy and rate data since 2004.

Our assessment is that the current occupancy rate is at about what has been historical what industry analysts call "the natural occupancy rate." That average annual rate across all reporting lodging establishments (most of the ones in Billings) is around 63%. That means historically, when occupancies are at that level, there is not strong upwards or downward pressure on room rates. This level is where the market drives itself to in the long run either by new properties opening or old ones closing. When a market is running at the natural occupancy rate (as measured over the entire year), profit margins in the industry are adequate. If the current occupancy rate were much higher than the natural occupancy rate, lodging developers are more likely to build more lodging.[8]

Thus, there does not appear to be much *current* demand for new lodging. Moreover, the current market is uncharacteristically depressed. But all the forecasts are long-run growth of population and employment in Billings. Lodging demand should increase at more or less the same rate, other things being equal.[9] Smith Travel Research reports about 4,000

[8] In general, the more expensive the property (more upscale) the higher the occupancy rate has to be so to make a fair rate of return. Thus, if the natural occupancy rate overall is 63%, it might be 72% for an upscale hotel and 55% for a budget motel in the same city. The same is so for full-service versus limited service (the difference being having a restaurant in the hotel).

[9] An example of one thing that might not be equal and would have a disproportionately depressing effect on lodging: large increases in prices for fuel for motor vehicles.



available rooms in Billings. Elsewhere we have provided evidence to support 1% as a reasonable annual growth rate for population, employment, and the Billings economy in general. Taking 1% of 4,000 yields 40 rooms per year.

These numbers suggest that over the next 10 years it is likely that three to five new hotels will be built in Billings. Is EBURD competitive as a location for some of that new lodging? We think it is. With the proper planning, public cooperation, and public-private partnership, the land just west of MetraPark across main is available and suitable for lodging.[10] That land is at the eastern gateway to the City. MetraPark is across the street, has a long history of successful operation (850,000 to 1 million visitors per year, with 30% coming from over 100 miles away[11]), and provides opportunities for complementary meeting space and catering facilities. As a caution, however, since an upscale hotel generally needs a higher occupancy rate, it will need to be reasonably occupied throughout the week and throughout the seasons. Business related to MetraPark, by itself, will not be sufficient: the hotel will need to attract different demand segments. Commercial and business travelers are an obvious target and would help level off the swings in demand from MetraPark. But, being close to MetraPark means being distant from the downtown, which is where non-MetraPark guests are more likely to want to be.

Ultimately it will be primarily private money that develops the hotel, and the developers will be considering these types of tradeoffs. EBURD should definitely market and consider proposals for lodging in the district, and should consider the use of *some* TIF revenue to help make it happen. This can be good use of TIF if the proportions are right and the TIF has some security in the project

Regarding housing, Exhibit A-6 shows that the market for new housing in Billings has been and continues to be predominantly for single-family housing, and suggests that the total market for all new housing in Billings might average around 400 to 500 units per year over the next 10 years (less, if one factors in the lean years that will accompany the current recession). That leaves a relatively thin market for multifamily housing in all of Billings, and EBURD is a small part of Billings.

[10] This land is not in the EBURD boundary, but next to it. It was left out because it is not in the City. In our opinion, it should be in all parties' interests to look into annexing that land and bringing it the district.

[11] Per Sandra Hawke, MetraPark, February 2009.

A few numbers and some assessment of buyer and renter options and preferences give an idea of the challenge for urban-style housing development in the EBURD:[12]

- Single-family detached units are not likely or appropriate in the EBURD. Making them work would take a lot of investment in amenity, and the return on that investment would be small because of the relatively low density.
- Thus, our conclusion is that one must be looking at some type of attached residential product: either horizontal (townhouses) or vertical (apartments or condominiums). High-rise construction (steel and concrete) will require costs that almost certainly will not work in EBURD over the next 10 years. Thus, the vertical market is probably for two- to three-story or podium construction.
- Even that cheaper type of construction may have all-in costs (land, soft cost, hard cost) of $100 to $120 per square for basic units. Higher quality units with more amenity might run at $200 per square foot. These numbers suggest that rental units, to be financially feasible without subsidy, might have to rent in the range of $1.00 to $1.50 per square foot per month. An average two-bedroom apartment might have 800 – 1,000 square feet (say 900). Average (mean and median) rents for two-bedroom apartments in the Billings area in early 2009 were around $620 per month. That yields rents of just under $0.70 per square foot per month. Of course, these are mainly used units, but it is the market within which new units have to compete. Rents have been rising in recent years, but they are still low relative to the substantially increased cost of building new housing.
- The Downtown, after South Billings, has the lowest median sales prices in the Billings area.
- Comparing average sales price to average square footage for single-family homes in 2008 in Yellowstone County: the mean is $88 per square foot; the median is $84 per square. That is the market in which new housing in the downtown must compete, and it almost certainly cannot deliver square footage at that cost. Thus, buyers have to decide that the location in the EBURD is worth the premium. A better comparison would be to *new* housing (not average sales for all types of housing), but we don't have the details of the numbers. From work elsewhere we can say, however, that the cost per square foot of building new urban-type housing as infill is typically higher than building multifamily housing in more suburban locations.
- If construction types similar to those used in more suburban locations are used for housing in the EBURD (e.g., traditional, woodframe, 2-3 story apartments with carports), then construction costs might be similar for the dwelling units. But suburban products in the EBURD will not create the kind of urban feel that is desired, at least at the west end of the district.

[12] We are grateful to Howard Sumner for sharing with us his extensive information (The Sumner Source) on the residential housing market in Billings.



The previous analysis is not meant to dispute the *desirability* of having housing in and around the downtown: the evidence on the desirability of that housing is overwhelming. Rather, we are pointing out that despite its desirability from a social perspective, it will be tough to deliver from a market perspective. There are some things, however, that could help to bridge the gap. Because new housing in the EBURD competes with the entire housing stock in the Billings area, anything that changes relative prices of *the full bundle of housing services* in favor of EBURD will be helpful. Some examples:

- Increases in the cost land at the urban fringe, perhaps because of the increasing cost of extending infrastructure and public facilities. That could come about by government policies that restrict that development (e.g., a requirement that suburban development have full urban services, be annexed to Billings as the urban service provider, and pay a full or higher share of the costs of providing the services).
- Increases in the price of fuel. Part of housing's bundle of services is access to work, shopping, and recreation. If consumers deem that access better in central locations, they may pay a premium for those locations (or less for distant locations).
- It is typical for urban renewal district to use tax increment to publicly finance certain aspects of development. That public finance, other things being equal, reduces the costs to private sector developers. Some of that public money can go to housing to reduce the cost and the rents required to make a rate of return that will allow development to occur. The problem, of course, is that urban renewal districts are by definition areas with some blight, which means there is usually a backlog of expensive infrastructure, clean-up, and basic-services issues that need attention and funding.

- There are outside sources for housing assistance. Section A.4, Funding (below), describes some of those. Some of those programs target affordable housing for households whose incomes are substantially below estimated averages. They should be a component of the housing in EBURD, but should not be the entire neighborhood—the emphasis should be on market-rate and workforce housing, which will generate support for retail, help create a new image for the area, and support an office environment.

### A.3.1.7 Public policy

There are not obvious and major barriers to redevelopment created by public policy. A case can be made that the opposite is true:

- EBURD is an urban renewal area: it now has tools available for redevelopment that are not available in other places (e.g. funding, financing, and land assembly).
- EBURD has been subject of policy plans focusing on the future vision for the area. This document and earlier plans lay the groundwork for development and show public commitment for successful redevelopment.
- There appear to be no big regulatory or political barriers to redevelopment in EBURD.

## A.3.2 IMPLICATIONS FOR DEVELOPMENT IN EBURD

The considerations above were discussed as part of the creation of a development concept for the EBURD area and strongly influenced the concept recommended in the main report. It is not a coincidence that the conclusion here potentially feasible redevelopment supports the recommended concept for redevelopment.

In this section we take a long-run perspective: redevelopment in EBURD will probably be a least a 20-year process, and probably longer. The development pattern we describe is not one that will be attained quickly. It is our assessment, from an economic and market perspective, of what EBURD could aspire to and have some reasonable hope of achieving over the long run. The main points:

- **Pay attention to the edges**. Our analysis above suggests some clear direction. The west end is adjacent to the downtown and North Park, and close to the medical and university campuses. The logical development here is commercial, and mixed use (with housing and retail) would be ideal if the market will provide it. Housing should be a mix of market-rate, workforce, and affordable. The east end should develop in ways consistent with providing an gateway to Billings, and reinforcing the economic driver that MetraPark provides. Lodging is an obvious possibility, but there are other options (e.g., a specialized retail environment that ties together food services, outdoor space, and connections to MetraPark). What should be avoid is standard strip commercial, especially if it cuts off the connections to the east-west avenues that connect MetraPark and the downtown.
- **Good places build from good bones: get the infrastructure right**. Streets are the visible skeleton, and they provide the above and underground right-of-way for all other services. Streets are important for cars and trucks, but they are also used by other modes and, if designed properly, can provide services beyond through-travel capacity and local access. The transportation element of the plan makes that point and shows how it might be implemented. Streets also provide right of way for drainage, which is important in the southeast part of the district. Another piece of important infrastructure is the rail line. Parks and open spaces are also part of the essential urban structure. We are not proposing the details of an implementation plan here: we are simply noting that any plan must include these elements in a logical way, and not set them aside for later because money is needed for new buildings. Infrastructure will provide the backbone to support a lot of future building.
- **Get housing into (or close to) the district.** Housing has a lot of advantages beyond shelter: it creates a market for retail, it creates more activity which adds to amenity and security, it can reduce travel costs. We noted above the problems for EBURD: an older industrial environment that is not a good residential neighborhood, and the high cost of developing urban-type housing in mixed-use projects. The TIF and other grants can help. EBURD should also consider finding less expensive but quality ways to build housing: e.g., prefab and modular units that can be stacked. These are being built elsewhere in the Northwest to LEED standards and can look just like stick built three-four story structures for hard costs of $80-$90 per square foot.
- **Develop and stick with standards for mix of uses and design**. Part of the plan that this appendix supports includes design standards. There will always be complaints about any level of standards; and, yes, they will probably increase costs. But in the longer run, they can deliver a lot more value and return on investment if they are

consistently applied. Avoid the temptation to waive standards as part of a deal to land new development: make the case on why the standards will enhance value.

- **Develop opportunistically**. There are a lot of pieces to implementation. There are dozens of things that need to get done and hundreds of ways they could be organized. Do not get stuck on specifics—stay flexible within the boundaries of the big picture. Like judo: use your limited resources to leverage your opponents momentum. One example: the potential federal office building—That would be a big deal for EBURD; there will not be many comparable opportunities; EBURD is a logical location; the BIRD should be paying a lot of attention to this opportunity.
- **Find a balance between focused investment and providing something for everyone**. Ultimately, what EBURD can do for development is limited by funding. The next section describes some of the possibilities: tax-increment financing, standard City sources, and possibilities for outside grants. But the likely funding relative to what needs to be done just on the public / infrastructure side (i.e., not counting the buildings, which will be constructed almost entirely by the private sector) is large, and the district is large. If the limited funds are spread equally each year over the entire district, little more could be done than adding street furniture, flower pots, and banners. Some of the investment must be focused. One way to do that is with a *catalyst project*: something that is expected to stimulate other development by the private sector. Consistent with the previous points, the logical locations for such catalyst projects are at the west and east edges: those are the areas that need to be protected and are the areas with the most potential for development.

## A.4 FUNDING

### A.4.1 OVERVIEW

Public funds will likely be needed in EBURD to help pay for the cost of upgrading and improving infrastructure, such as water, sewer, storm water, and street facilities. With the exception of the infrastructure needs identified in section A.3, specific projects and their costs have not yet been identified. We do know, however, that infrastructure in EBURD is inadequate and that a significant amount of funds will need to be spent in order to make the kind of physical improvements that will help stimulate redevelopment over the next 15 years. The City's Capital Improvement Plan (Public Works, Roads and Storm Sewer, Water and Waste Water



sections) does not appear to include significant expenditures for infrastructure within EBURD in the near future (5 years). Funding for these improvements will probably be funded primarily with tax revenues generated in the district and financed with Tax Increment Financing.

This section describes how tax increment financing works and illustrates how much tax increment will be generated per $1 million in new investment (along with bonding capability). It compares the estimated increment with our previous estimates the type and amount of new development can be reasonably expected in EBURD over the next 10 years.

#### A.4.1.1 Introduction to Tax-Increment Financing

Tax-Increment Financing (TIF) is one method cities can use to finance the cost of public infrastructure and stimulate private development within designated urban renewal areas. It is a widely used mechanism for economic development. According to the Council of Development Finance Agencies, it is used in 49 states and the District of Columbia; annually, TIF legislation is responsible for catalyzing financing for hundreds of public and private sector development projects.[13]

Urban renewal is a state-sanctioned program that can be adopted by cities, towns, counties, or city-county consolidated governments in Montana to help them, through partnerships with the private sector, implement adopted plans that revitalize specified areas within their jurisdiction. Urban renewal, through the provision of tax-increment financing, can provide for capital improvements such as parks, streets, parking garages, and transit systems that stimulate private investment and attract new businesses, jobs, and residents. It can also be used to assist with development activities that are approved in an Urban Renewal Plan such as financing for affordable housing or mixed-use transit oriented development.

In Montana and most other states, urban renewal areas may only be formed within contiguous boundaries surrounding areas deemed "blighted." The Montana Code Annotated states that blighted areas, among other characteristics, impair the economic growth of

[13] *2008 TIF State-By-State Report*. Council of Development Finance Agencies. December 2008.

municipalities, restrict the provision of housing accommodations, aggravate traffic problems, or place public health and safety at risk.[14]

Tax-increment financing is the primary funding tool used within tax-increment financing districts (TIFD). The tax-increment revenue is generated within a TIFD when a designated area is established and the normal property taxes within that area are frozen (often called the *frozen base*). Any new taxes generated within that area, through either property appreciation or new taxable development becomes the *increment*. Taxing jurisdictions continue to collect tax income from the frozen base but agree to release assessed value above the frozen base into the TIFD. The TIFD can then issue bonds to pay for identified public improvements and/or investments in private projects that are in the public interest. The tax increment is used to pay off the bonds.

In Montana, qualified TIFD projects eligible for TIF are residential, commercial, industrial, and mixed-use. Any cost that is incurred in connection with a qualified urban renewal project may be covered by TIF, including: streets, sidewalks, parking lots, sewer infrastructure, land acquisition, and utility infrastructure.

### A.4.1.2 TIF in Billings and EBURD

The City of Billings has previous experience with urban renewal and tax-increment financing districts. The Billings Downtown Core TIFD was established in the 1970s and expired in March of 2008. During its life, tax increment funds were leveraged for a variety of renewal projects, including storefront improvements, housing grants, building rehabilitation, streetscape improvements, and other projects. It is estimated that private owners invested approximately $40 million in improvements between 1998 and 2008 in the downtown district.

The EBURD TIFD was established in 2006, at which time the City and Big Sky EDA created an Urban Renewal Plan for the district. In addition, Taimerica developed an economic analysis (referred to in section 3.1.6).[15] Taimerica evaluated the TIFD and concluded that EBURD would likely experience private investment similar to that seen in the Downtown TIFD and assumed that EBURD would attract new housing, retail, office, and

[14] See Montana Code Annotated, Title 7, Chapter 15, Parts 42 and 43. http://data.opi.state.mt.us/bills/MCA_toc/7_15.htm.

[15] Economic Analysis of a New Tax Increment Zone in Billings, Taimerica. 2006



entertainment uses. That study includes a development scenario for EBURD that includes a new 130,000-square foot hotel and conference center, 350 residential units, and about 500,000 square feet of commercial uses (retail/office/theater). It was estimated that these new uses would add approximately $140 million to the tax base over a ten-year period and generate approximately $2.5 million per year in tax increment (at 2006 millage rates).

Since the EBURD Urban Renewal Plan and economic analysis were completed, one significant project has been developed within the EBURD TIFD. This project, the First Interstate Bank, is an office facility for the bank's back office functions. This project is estimated to have a value of approximately $7 - $12 million, which could generate about $120,000 to $200,000 of increment per year (from taxes on both real property and equipment).[16] Over 11 years, this is approximately $1.2 to $2.2 of million of tax increment, which could be used to pay off bonds (if bonds were issued) or which a portion could be granted to projects in the district.[17] It is our understanding that some of the increment generated by the First Interstate Bank will be granted to improvements to that site.

### A.4.1.3 Estimating TIF

The calculation depends heavily on the prevailing property tax statutes that govern each state, as well as the particular county that the TIFD happens to fall in. This section shows generally how TIF revenues would be calculated in for parcels within the EBURD boundary.

The first step in TIF calculation is determining the value of the frozen base. This is simply the assessed value of the parcels within EBURD at the time of its adoption. The TIF is then calculated based on the increase in assessed value over the frozen base. In Montana, properties are appraised every six years. The value is assessed by subtracting the new appraised value from the previous old value. The difference is then "phased-in" at 16.66% per year over the next six years until the property is reappraised again.[18] This method for assessing the value of properties affects how much TIF revenue a TIFD can generate from year to year since assessed

[16] Value estimates were provided to ECONorthwest by the Downtown Billings .

[17] The grant amount cannot exceed 45% of the total increment generated over the life of the district.

[18] For instance, assume that a property formerly appraised at $100 is reappraised at $200. Therefore, in year 1 after the reappraisal, the assessed value is $116.66. In year 2, it is $133.33; year 3 it is $150.00, and so on until it is assessed at $200.00 in year six and reappraised once more. The difference between the new appraisal and $200 is calculated and the cycle repeats.

value does not increase at the same rate that the appraised (real market) value does.

After the assessed value is calculated, the taxable value is estimated by using state and local exemptions. The taxable value is multiplied by the mill levy to reach the real property tax. Roughly the same process is used to estimate the private property (e.g., machinery, equipment, vehicles) tax. Exhibit 4-1 below uses a hypothetical scenario to show how tax increment is calculated for $1 million in real property value.

**Exhibit 4-1. Hypothetical TIF revenue estimate for $1 million new real property value**

| TIF Calculation | | Value | Comments |
|---|---|---|---|
| **Real Property** | | | |
| Assessed Value | $ | 1,000,000 | Real propety increment only; phase-in of appraised value |
| Comstead Exemption | $ | 150,000 | Montana DOR exemption; 15% for commerical (Comstead), 34% for residential (Homestead) |
| Subtotal | $ | 850,000 | Assessed value minus exemption |
| Taxable Value | $ | 255,850 | Equals 30.1% of subtotal above, per DOR exemption for every property |
| Mill Levy | | 61.8 | Estimated; tax per $1,000 in taxable value |
| **Real Property Tax** | **$** | **15,812** | **Taxable value multiplied by mill levy** |

Source of calculations, including rates of exemption and estimated mill levy: Downtown Billings Partnership, Development Director.

Exhibit 4-1 estimates that an assessed real property value increment of $1 million over the frozen base would generate roughly $16,000 in TIF revenues for EBURD. That is, the tax increment generated is roughly 1.5% of every $1 million invested in new construction.[19]

EBURD can use the increment from real property to cover more than $1 million in costs. The City can leverage that amount by issuing bonds to cover the cost of urban renewal projects over the TIF district's 15-year life.[20] Exhibit 4-2 below takes the hypothetical TIF revenue above and estimates the amount of revenue that it can leverage for EBURD.

[19] This estimate does not include the value of personal property (equipment etc), which could add to the increment generated. The amount depends on the value of the property.

[20] The initial life of a TIF district is 15 years. A city may sell bonds at any time during the span of the district, which allows the termination date of the district to coincide with the final payment date of the bonds issued.



**Exhibit 4-2. Hypothetical bond value calculation, using TIF revenues from Exhibit 4-1 above.**

| Bond Calculation | | Value | Comments |
|---|---|---|---|
| Total Annual Increment | $ | 15,812 | Real property increment plus private property increment |
| Contingency | $ | 11,068 | Coverage ratio of 30%; bond issuers require to cover for contingencies |
| Bond Rate | | 6.00% | Estimated interest rate |
| Bond Years | | 20 | Life of bond |
| **Total Bond Amount** | **$** | **126,950** | **Amount leveraged from TIF revenues** |

Source of calculation, contingency, bond rate and bond years: Downtown Development Partnership, Development Director.

Exhibit 4-2 indicates that the roughly $16,000 in TIF revenue could be leveraged into $127,000 in bonds to be paid back over 20 years.

We can simplify all these calculations by jumping from the top line to the bottom line. If tax increment revenues are pledged as payments against a bonded obligation, then every $1 million dollars of new (increment) value in the EBURD will give it the ability to spend about $125,000. In other words, divide the increased property value from new development by 8 to get a quick, rough estimate of how much new money EBURD will have to work with as a result of that new development. In addition, as the EBURD grows and improves, the value of other properties will increase even if they have no improvements (the "rising tide" effect).

### A.4.1.4 Implications

The purpose of urban renewal is to capture and invest tax dollars within a district to help stimulate redevelopment in that district. Strategic investments in infrastructure typically help to stimulate redevelopment. Here is one way to think about the needs for that increment in EBURD:

- There are about $5 million in infrastructure costs identified that the City is not planning to fund through traditional means (e.g., through its Capital Improvement Plan). We recognize that it is likely that more than $5 million will be needed to pay for other infrastructure improvements not included in that estimate: streetscape upgrades, bicycle lanes, sidewalks, planter strips, "green" amenities (swales) trail connections etc.
- First National Bank is the only project in EBURD so far and will generate $1 to $2 million in increment, of which up to 45% could be granted to that site, leaving less available for other projects in the district to help stimulate redevelopment.
- Using our "rule of 8," EBURD would need about $40 million in new development to have tax increment revenues to support the bonding of $5 million of infrastructure improvements. Using our estimated capture rates, that amount of development might happen

in 4 – 8 years. The federal courthouse offices alone could be a $20 million project, which, if done as a private development and lease-back, would be taxable value and would therefore generate tax increment revenue.

## A.4.2 OTHER FUNDING SOURCES AND FINANCING STRATEGIES

The list of funding sources below can be used in addition to TIF and traditional private equity for developing and maintaining the area inside EBURD. While most of these programs would be in addition TIF, those that offer property tax abatement can work against TIF collection for limited time periods.

- Local Improvement Districts (for infrastructure)
- Sole source Systems Development Charges/Impact Fees (keeping impact fees collected from an area in that area for infrastructure)
- HUD Section 108 loans (borrowing against future Community Development Block Grant allocations for low interest loans to stimulate economic development projects such as office buildings)
- Parking revenue bonds (can be taxable or tax exempt and used for public parking garages where fees can be charged to service debt)
- 63-20 non-profit bonds (for a range of non-profit improvements, free standing or mixed-use, including educational buildings, parking structures and recreational facilities but projects must be able to service debt)
- State grants (infrastructure/transportation systems)
- Federal grants (primarily for infrastructure/transportation systems such as streetcar, possibly the treatment plant)
- Federal Stimulus money
- Affordable housing tax credits (for affordable housing)
- Historic Tax credits (if there are potentially eligible buildings such as older warehouses that can be converted, etc)
- New Market tax credits (if this is an eligible census tract)
- Affordable housing bonds issued by the state
- Multi-family vertical housing partial property tax abatement(Oregon tool, don't know if Mont has it)



- HUD 221(d)(4) housing finance guarantee program (offer guarantees by the federal government that enable up to 90 percent financing for market rate apartments that meet HUD standards)
- Energy tax credits (energy efficient commercial, mixed-use projects and some utilities)( this is particular to Oregon and a few other states – not sure Montana has these)
- Business Improvement District (a city sanctioned self imposed assessment to be used for programming and marketing business areas; supplemental public safe enforcement, etc)
- Home-owner fees (provided by property owners for maintenance of public spaces)