



UNIVERSITY OF MINNESOTA EXTENSION

CENTER FOR COMMUNITY VITALITY

# Funding Rural Redevelopment

An investigation into the establishment of a redevelopment fund in the Upper Minnesota Valley RDC area.

Ryan Pesch, Extension Educator





# Funding Rural Redevelopment

An investigation into the establishment of a redevelopment fund in the Upper Minnesota Valley RDC area.

August, 2022

Ryan Pesch, Extension Educator

## Partners/Sponsors:



© 2021, Regents of the University of Minnesota. University of Minnesota Extension is an equal opportunity educator and employer. In accordance with the Americans with Disabilities Act, this publication/material is available in alternative formats upon request. Direct requests to 612-624-2116.



# Table of contents

## Contents

Next Steps .....3

Funding Sources.....4

Redevelopment Organization Examples: .....8

Key Informant Interviews: ..... 11

Appendix A: Notes from Redevelopment Roundtable: ..... 13

The purpose of this research project was to assist the RDC in identifying resources to inform the possible establishment of a redevelopment fund in the region, including models for fund organization and funding sources to establish the fund.

This project is part of the pandemic priorities that UMRDC outlined to the EDA and requested assistance from University of Minnesota Extension to do the research. Ryan Pesch, Extension Educator with the Extension Center for Community Vitality conducted the research in conjunction with UMRDC staff with funding provided by the EDA Center.

In addition, through the connections made with other agencies in the course of this investigation, the UMRDC also participated in a technical assistance roundtable organized by Kansas State University TAB (see Appendix 1 for notes and <https://www.ksutab.org/> for more information). The experts on the roundtable gave the primary direction to (1) start with select projects to get some momentum, and (2) tap federal funds to support the efforts. At the time of this writing, UMRDC has already taken significant steps to address the issue in the region, including an inventory of vacant properties and design work to reimagine how to redevelop select properties.

## **Next Steps**

### ***1. Estimate Funding Needs:***

Contract with a public finance advisory firm to estimate the raise necessary for a redevelopment fund in the region. Set targets for local matching funds necessary to meet the need for a fully robust redevelopment fund. One key recommendation for funding from the KSU technical assistance roundtable was for the UMRDC to pursue the Multipurpose Grant from the EPA as a base of funding for planning, engagement, and initial cleanup of properties in the region (<https://www.epa.gov/brownfields/brownfields-multipurpose-grants>). Cost-share is being waived for 2023 applications.

### ***2. Decide on RDC Capacity:***

Decide if the UMRDC could take this on or if a partnering organization is better suited or positioned. Certainly the UMRDC has the experience and skills with managing other funds which give the organization the necessary chops to manage a redevelopment fund. Yet, does the UMRDC have the capacity, not only for the mechanics of fund management, but also the marketing of new resource in the region for the long run?

### ***3. Build Support for the Project:***

Sell the idea to local partners in order to raise local funds as a match for federal resources. This can be done by asking for their involvement in one redevelopment project with a good chance of success. Even one successful redevelopment project can often inspire other community partners to open up to the idea of providing financial support or lending their expertise and resources. Getting initial momentum is difficult, but the need and opportunity clearly exists in the region and the RDC is well-positioned to take leadership in this area.



## Funding Sources

Extension found potential funding resources from a mix of regional, state, and federal sources.

### Regional Sources of Funds:

#### *Mid-Minnesota Community Development Corporation (MMCDC):*

Nicole Kirchner, Vice President of this regional CDC, expressed interest in partnering with the RDC on redevelopment projects in areas that meet their definition of distressed. They are also a CDFI and CDFI definitions of target investment areas and distressed tracts are important indicators. The RDC region has only a single distressed census tract according to CDFI designation (see Fig 1).

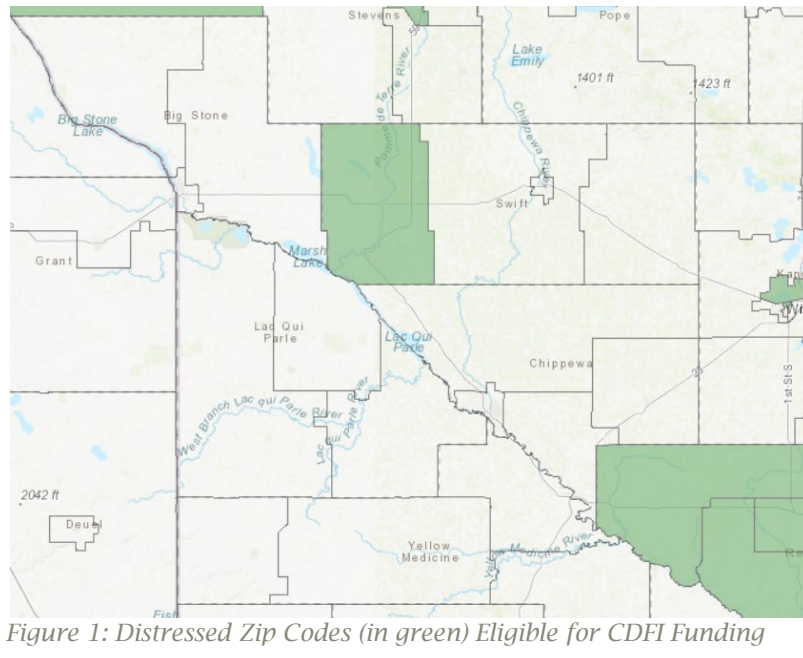


Figure 1: Distressed Zip Codes (in green) Eligible for CDFI Funding

#### *The Rural Electric Economic Development (REED) Fund:*

This organization, a consortium of rural electric cooperatives, already operates in the UMVRDC region and could be potential partners on individual projects. Two of the fund's members are within the UMVRDC region, including Traverse Electric and Agrilite. Attempts at contacting the respective CEOs who also serve on the REED Fund board about supporting a new redevelopment fund through the RDC went unanswered. Kory Johnson is CEO of Agrilite and Joel Janorschke is CEO of Traverse Electric.

#### *Bush Foundation Community Innovation Grant*

Certainly one of Minnesota's stalwart funders, the Bush Foundation's Community Innovation Grants allow for a wide type of community improvement projects. The funds are dedicated for 501(c)3 organizations, so the RDC may need a lead non-profit partner to apply. The challenge, however, is that the grants are quite competitive and the grantors aspire to fund efforts that provide 'transformational impact.' In this way, Bush Foundation does not typically support rudimentary public funding and a standing redevelopment fund would not rank high. However, there may be room under of their four strategic initiatives:

1. Make our region the best place in the country to launch and grow social purpose businesses
2. Make art central to problem solving on more issues in more communities all around our region

Fostering a creative approach to the region's vacancy problem via a social purpose business or art may be a project idea ripe for a Bush Community Innovation Grant:

<https://www.bushfoundation.org/community-innovation-grants>

#### Bremer Foundation

The Bremer Foundation has a track record of widespread community support and also work throughout rural Minnesota. One of the social focus areas of their giving is called Community Asset Building. After reviewing recipients and past funded projects, a rationale for funding a solution to the region's issue of vacant properties seems reasonable.

Most previously funded grants focused on low-income business or housing development programs, but \$250k went to NE Entrepreneur Fund for its lending pool, which seems very comparable to the UMRDC's redevelopment fund idea:

<p><b>Northeast Entrepreneur Fund, Inc.</b> DULUTH, MN</p> <p>To support this organization grow it's small business financing pool to ensure local small business owners have access to capital, support community revitalization, economic mobility, and a resilient regional economy.</p>	<p><b>\$250,000</b></p> <p><b>Year Approved:</b> 2019 <b>Region Served:</b> Central and Northern Minnesota <b>Grant Category:</b> Community Asset Building</p>
---	--

#### National Sources of Funding:

##### *USDA Rural Development*

The Intermediary Relending Program (<https://www.rd.usda.gov/programs-services/intermediary-relending-program>) is an obvious source for capital for any new fund operating in rural area and one the UMRDC is already very familiar with.

The Rural Placemaking Innovation Challenge (<https://www.rd.usda.gov/about-rd/initiatives/rural-placemaking-innovation-challenge>) may be a source of funds to support redevelopment efforts along side any new redevelopment fund. This funding exists to support technical assistance efforts in this arena and local units of government are eligible.

##### *Environmental Protection Agency*

The EPA's Revolving Loan Fund (RLF) Grant is the primary federal funding source for brownfield clean-up costs. UMRDC is an eligible applicant and can apply for up to \$1,000,000 with a 20% match. At least half of the allocation would need to be used for loans, but a successful applicant can use the RLF for subgrants or lending: <https://www.epa.gov/brownfields/brownfields-revolving-loan-fund-rlf-grants>

Certainly the RLF could act alone as the redevelopment fund, although these funds are not as flexible in terms of redevelopment in the region as other sources. The EPA also has other grants to



technical service providers; the multipurpose grant may fit best with the work scope of the UMVRDC. Pursuing this multipurpose grant from the EPA was one of the primary suggestions by the KSU technical assistance roundtable on April 19, 2022. As an eligible applicant, the UMVRDC can apply for up to \$800,000 with a 20% match to fund a range of activities related to brownfield clean up and assessment according the EPA website (<https://www.epa.gov/brownfields/brownfields-multipurpose-grants>):

- Developing inventories of brownfield sites;
- Prioritizing sites;
- Conducting community involvement activities;
- Conducting environmental site assessments;
- Developing cleanup plans and reuse plans related to brownfield sites;
- Carry out cleanup activities on brownfield sites owned by the applicant; and
- Developing an overall plan for revitalization.

Since the UMVRDC has already started an inventory of vacant properties and engaged in their reuse, this grant may be a good next step to support the plans for how to redevelop these sites.

#### *National Community Stabilization Trust (NCST)*

The NCST works with banks to buy their bank-owned properties or facilitate transactions for redevelopment. Much of their work appears to be with land banks and 501(c)3 organizations focused on affordable housing and selling groups of properties in an area in order to bring them back into reuse. Their work is focused on distressed and low-income communities and their efforts look to be concentrated in urban areas (<https://www.stabilizationtrust.org/>).

### **State Sources of Funding:**

#### *MN Department of Employment and Economic Development*

The department administers a range of grants, yet all are project-based and competitive. In this manner, they can only be employed with a redevelopment project and not as a source for a standing redevelopment fund administered by the UMVRDC:

1. Redevelopment Grant
  - a. Eligible applicants include local units of government, local economic development organizations, such as port authorities, EDAs, and HRAs.
  - b. At least half of the funding is dedicated for communities outside of the 7-county metro area.
  - c. Funding up to 50% of site preparation, acquisition, remediation, or demolition. Costs related to building renovation and construction do not apply.
  - d. Factsheet at [https://mn.gov/deed/assets/redevelopment-grant-program\\_tcm1045-321435.pdf](https://mn.gov/deed/assets/redevelopment-grant-program_tcm1045-321435.pdf)
2. Greater MN Public Infrastructure Grant Program
  - a. Eligible economic development projects include manufacturing, technology, warehousing and distribution, research and development, agricultural processing, and industrial park development
  - b. Funding up to 50% of community infrastructure costs
3. Small Cities Development Program



- a. Cities with fewer than 50,000 residents and counties with fewer than 200,000 residents are eligible
  - b. Comprehensive projects can include an economic development component such as commercial rehabilitation along with housing and public infrastructure improvements.
  - c. Projects must be done in 30 months.
- 4. Rental Rehabilitation Deferred Loan
  - a. A MN Housing program
  - b. Focused on non-metro multi-family projects of 8 units or more, so may have a role in a commercial redevelopment project with housing in play.
  - c. <https://www.mnhousing.gov/sites/multifamily/rrdl>
- 5. Contamination Cleanup and Investigation and RAP Development Grant
  - a. Eligible applicants include local units of government, local economic development organizations such as port authorities, EDAs, and HRAs outside of the Twin Cities Metro Area.
  - b. Assists local communities with the cleanup of soil and groundwater contamination at previously developed sites and contain contaminants, pollutants or hazardous substances.
  - c. A local match of 25% is required for each project site.
  - d. <https://mn.gov/deed/government/financial-assistance/cleanup/contamination.jsp>

#### **Related Resources of Funding Sources:**

Brownfield Redevelopment Resource Guide from MN Brownfields: <https://mnbrownfields.org/wp-content/uploads/2016/03/MN-Brownfields-Resource-Guide-2016-PDF.pdf>

Community Development Finance Association:  
<https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/index.html>

KSUTAB Resources by State:  
<https://www.ksutab.org/resources/stateresources>



## Redevelopment Organization Examples

When seeking out examples of regional development organizations managing redevelopment funds, Extension found few that expressly marketed their fund as redevelopment funds or were dedicated to targeting the redevelopment of blighted properties. Regional Development Commissions in Minnesota and elsewhere manage economic development revolving loan funds in much the same way the UMRDC already does.



Figure 2: Northwest Wisconsin Regional Economic Development Fund is Typical of Funds Operated by RDOs

The Southern Maine Planning and Development Commission is an RDO which operates a dedicated brownfield redevelopment fund. The organization was started with Federal EPA funds (see National Sources of Funds above):

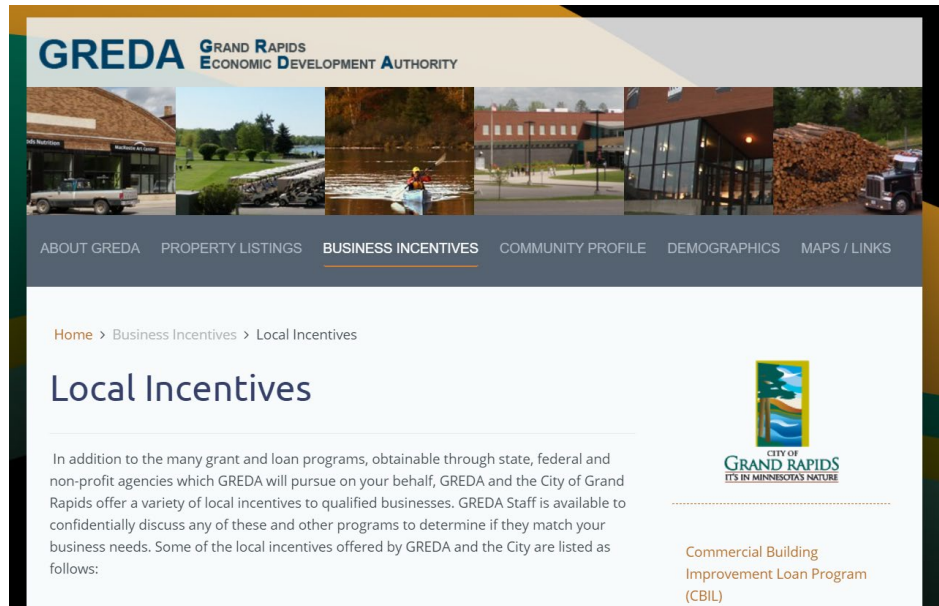


The Arrowhead RDC also received this funding from the EPA and administers the assessment grant: <https://www.epa.gov/newsreleases/epa-selects-arrowhead-regional-development-commission-receive-600000-brownfields>

## Minnesota Examples

No redevelopment fund operated by an RDC is currently in operation in Minnesota. We searched out examples of local units of government in the state that were explicitly targeting redevelopment in their efforts.

### Grand Rapids EDA



In partnership with the Blandin Foundation, GREDA has established a \$1,000,000 Redevelopment Loan Fund for the purpose of providing short-term bridge financing, or gap financing in conjunction with private lending to lending to developers for projects that will result in the redevelopment of blighted or

substandard buildings and the creation of new or improved commercial or residential development.

Used in conjunction with private lending as a subordinate second mortgage, loans may be amortized over a 20-year term, with a five-year balloon payment. Interest rates charged to the Redevelopment Fund loans will range between 0% and 0.25% over Prime Rate, subject to GREDA and Foundation approval, depending upon project specifics.

<https://www.grandrapidseda.com/business-incentives/local-incentives-programs-grand-rapids-mn/redevelopment-fund-loan-program>

## City of Duluth

The city manages a revolving loan fund initially created with funds from the EPA Brownfield Redevelopment Fund

The Brownfield Revolving Loan Fund is funded by the U.S. EPA and can assist with remediating properties contaminated with hazardous substances.

Applicants can be for profit, non-profit or units of government. Applicants are eligible for loans up to \$200,000 for remediation work in connection to brownfield sites with economically viable reuse plans. Allowable costs associated with

removing, managing, or preventing the release or threat of release of hazardous substances, pollutants, or contaminants include: site monitoring, predesign, abatement of hazardous materials, removal activity, or managing the threat or release of hazardous materials through excavation, treatment, and removal or on-site management (including, but not limited to, capping) of contaminated soils. The remediation project will be developed in consultation with the EPA and the MPCA.

Applicants must own the property proposed for redevelopment and are required to provide no less than a 20% match of the loan funds. Collateral on the loans may include but not be limited to shared mortgages or lien positions and personal guarantees. The loan rates will be generally less than market rate and be amortized over 15 years with a 5 year balloon payment. For more information, contact [planning@duluthmn.gov](mailto:planning@duluthmn.gov).

<https://duluthmn.gov/planning-development/business-development/programs>

Figure 3: Press on Establishment of Fund (source: Business North)

### Duluth creates new brownfield redevelopment loan fund

Dec 8, 2016 Updated Dec 8, 2016



Mayor Emily Larson, left, and Heidi Timm-Bijold at a West Duluth industrial area where numerous brownfield sites are located.

#### Latest News

- St. Luke's Obstetrics & Gynecology Associates announce move to new \$4.5 million clinic
- Mesabi Trust responds to royalty dispute with Cleveland-Cliffs
- PolyMet secures up to \$40 million convertible debentures
- Trudeau invokes emergency powers to silence protest
- Thunder Bay Tourism outlook points to further recovery in 2022
- Shortage of truck drivers adds to on-going supply chain disruption
- Big data transform logistics, supply chain management
- Arrowhead Manufacturers & Fabricators Association names new executive director, elects 2022 board

#### Latest e-Edition

**BusinessNorth** | BusinessNorth -  
Sept 2016

## Sleepy Eye EDA Business Rehabilitation Loan

### SLEEPY EYE EDA BUSINESS REHABILITATION PROGRAM

*To assist business owners in the revitalization of their business building/property.*



This program is available to businesses located in the central business district of Sleepy Eye, MN. Eligible businesses can receive a forgivable loan for half of the rehabilitation project costs and a low interest loan for the remaining half. Businesses receiving assistance must undertake a program to improve the exterior of the building that may include new windows, siding, signs and awnings

Application: [https://www.sleepyeye-mn.com/uploads/1/2/0/1/120150374/se\\_eda\\_business\\_rehab\\_prog\\_application.pdf](https://www.sleepyeye-mn.com/uploads/1/2/0/1/120150374/se_eda_business_rehab_prog_application.pdf)

## Key Informant Interviews

### MMCDC

Midwest Minnesota Community Development Corporation is one of the longest running and biggest CDCs in the Midwest. Their portfolio includes commercial and home mortgage lending as well as business and community development services. The organization is based in Detroit Lakes, MN with a banking arm called Community Development Bank with branches in Ogema, Hancock, and St. Michael, MN.

"If I were starting a loan pool in rural MN I would start with an application to USDA IRP—probably not earth-shattering news for you."

-Jamie Marks Erickson, Development Director, MMCDC

Nicole Kirchner, Vice President of Business Development, provided insights into the development funds they use including the New Markets Tax Credit in cooperation through the CDFI Fund (<https://www.cdfifund.gov/research-data>). Nicole cautioned that the application process to become a Community Development Financial Institution is a significant and arduous process, which may not make sense unless the organization does a significant number of projects. In addition, although the



CDFI designation is open to a wide range of organizations engaged in finance, CDFI fund criteria are targeted to low-income and distressed areas (<https://www.cdfifund.gov/mapping-system>).

Due to these constraints, Nicole suggested that the RDC connect and partner with MMCDC on a case-by-case basis. MMCDC would not simply invest in another redevelopment fund outside of their control.

In addition to Nicole, Extension got advice from Jaimie Marks Erickson, the Development Director at MMCDC. She suggested starting with an application to USDA’s Intermediary Relending Program (IRP), an obvious first step for any new fund that operates in rural counties, although it would need a local match.

**Public Finance Advisors: Ehlers and Associates and David Drown Associates**

Extension sought out advice from those in the public finance field to inform the best funding opportunities to pursue the establishment of a redevelopment fund for the region.

Extension interviewed two public finance advisors, namely Bruce Kimmel from Ehlers and Associates, and Jason Murray from David Drown Associates. Both suggested that they could assist the RDC with the necessary cash flow analysis and organization of the funding vehicle. Their analysis would help identify capitalization requirements and budgeting for a given level of projects.

*Figure 4: Offerings and Process of Ehlers and Associates*



# Appendix A: Notes from Redevelopment Roundtable

Upper MN Valley Regional Planning Commission: Upper Minnesota Valley region: Resource Roundtable, April 19, 2022. Notes by Beth Grigsby, KSUTAB, coordinator.

Roundtable Participants		
Patricia	Gage	Adaapta
Kate	Greene	Atlas Community Studios
Alex	Holland	Atlas Community Studios
Jack	Eskin	Delta Institute, Inc.
Beth	Grigsby	KSU TAB
Maggie	Belanger	KSU TAB
Jim	Van der Kloot	EPA Region 5
Scott	Nightingale	KSU TAB
Jennifer	Clancey	KSU TAB
Keary	Cragan	EPA Region 5
Elizabeth	Klusener	Minnesota Brownfields
Kristin	Lukes	MN DEED
Amy	Hadiaris	MPCA
Shanna	Schmitt	MPCA
Ryan	Pesch	UMN Extension
Kevin	Ketelsen	UMVRDC
Dawn	Heglan	UMVRDC

Upper Minnesota Valley region is located along the South Dakota border in west central Minnesota. The region consists of Big Stone, Chippewa, Lac qui Parle, Swift and Yellow Medicine counties. The Inventory of properties has been collected from communities is a mix of vacant land (greenspace) and brownfields (main street, gas stations, industrial). Three example sites include:

- City of Benson – Old Creamery Building
- City of Ortonville – Former gas station, grocery
- City of Madison – Empty lot

The Inventory of properties has been collected from communities is a mix of vacant land (greenspace) and brownfields (main street, gas stations, industrial). The information can be found at <https://prairiewaters.com/site-selector/>

***The Region needs assistance in the following:***

*Identify resources (particularly BIL) to inform the possible establishment of a redevelopment fund in the region, including **models for fund organization and funding sources to establish the fund**. The region would like to identify resources they can tap to produce a strategy to create their own development fund for redevelopment of brownfields and vacant properties. It has been difficult to identify rural models where regional RDCs operate a redevelopment fund for small cities/towns that*





*do not have the capacity to manage their own fund. The funding could address demolition and redevelopment of properties.*

Recommendations:

Atlas: Consider:

Deconstruction of properties rather than demolition—(possible revenue for future demolition) see following link:

[Checklist for Assessing the Feasibility of Building Deconstruction for Tribes and Rural Communities \(epa.gov\)](#)

Vacant property registries and Bad Buildings program (can also provide incentives for commercial developers/entrepreneurs to take advantage of):

<https://wvleap.wvu.edu/fundamental-tools/vacant-property-registration>

[Vacant Property Registration | Coos County OR](#)

[Foreclosure/Vacant Property Registration – Village of Hanna City, IL \(hannacityil.com\)](#)

[The fight against blight - Pipestone County Star \(pipestonestar.com\)](#)

[BAD-Buildings-Program-Guide.pdf \(wvbrownfields.org\)](#)

Utilize CRA credits for development of community grants:

<https://www.usbank.com/about-us-bank/community/community-reinvestment-act.html>

Foundations can put a lot of money behind revitalization projects, but can also help open the door to other regional/national entities that this type of program may appeal to

EPA: Consider:

Landbanks:

[Land Bank — Region 1 Planning Council \(r1planning.org\)](#)

EPA Brownfields Grants for planning, assessment, and cleanup planning

<https://www.epa.gov/brownfields/brownfields-assessment-grants>

DEED: Contact Kristin Lukes at 651-259-7451 or kristin.lukes@state.mn.us for more information. See Link below

<https://mn.gov/deed/government/financialassistance/cleanup/redevelopmentgrantprogram.jsp>

TAB:

Please visit the KSU TAB website to review all of the Minnesota resources related to brownfield redevelopment at <https://www.ksutab.org/resources/stateresources>

You can also contact Beth Grigsby at 317-601-3839 for more information about the EPA Brownfields Grants, however, it is best that you start with State resources first

MPCA:

Shanna Schmitt: contact Shanna about grants the program offers, particularly, their targeted brownfields assessments. Shanna identified 6 or 7 sites on your inventory that could use environmental assessment. Her contact is:

Shanna Schmitt, PG, CPG | MPCA | 651.757.2697