Funding Rural Redevelopment

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

Ryan Pesch, Extension Educator
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Partners/Sponsors:

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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 UMVRDC 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 UMVRDC staff with funding provided by the EDA Center.

In addition, through the connections made with other agencies in the course of this investigation, the UMVRDC 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, UMVRDC 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 UMVRDC 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 UMVRDC could take this on or if a partnering organization is better suited or positioned. Certainly the UMVRDC has the experience and skills with managing other funds which give the organization the necessary chops to manage a redevelopment fund. Yet, does the UMVRDC 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).

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 UMVRDC’s redevelopment fund idea:

![Image](https://example.com/image)

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 UMVRDC 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. UMVRDC 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

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.

Related Resources of Funding Sources:


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 UMVRDC already does.

![Northwest Wisconsin Regional Economic Development Fund](image1.png)

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):

![SMPDC Southern Maine Planning & Development Commission](image2.png)

Funding & Eligibility

Available Funding for Brownfield Assessments & Cleanup

Through grants from EPA, SMPDC’s Brownfield Redevelopment Program can pay for Phase I and Phase II environmental site assessments of hazardous substance and petroleum Brownfield sites throughout York and southern Oxford County.

Funding for hazardous substance and petroleum clean-up activities is available through SMPDC’s Brownfields Revolving Loan Fund and EPA’s Brownfield Cleanup Grant competition.

Private owners and companies, non-profit organizations, and public entities are all eligible to receive funding. Please contact Chuck Morgan at (207) 571-7105 or cmorgan@smmpdc.org to determine eligibility for specific projects.

[SmPDC Guidelines for Use of Brownfields Program Income](#)

How to Apply for Assessment Funds

The first step in applying for assessment funding is to enroll a site in the Brownfields Program. If you are interested in recommending or enrolling a site into SMPDC’s Brownfields Assessment Program, please complete the Brownfields Assessment Project Eligibility form below.
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](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 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.

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.

https://duluthmn.gov/planning-development/business-development/programs
Sleepy Eye EDA Business Rehabilitation Loan

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.


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](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


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<td>Jack</td>
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<td>Jim</td>
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<td>EPA Region 5</td>
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<td>Kevin</td>
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<td>Dawn</td>
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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/](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:


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/reevelopmentgrantprogram.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