5.5 Financing the Site

Things are rolling now. A site has been chosen, a marketing approach developed, and the community understands and supports the development effort. But how is the development of the site going to be paid for? While it would be wonderful if there was a magical source to step in and finance this risk, the fact is that no such source exists. Actually a community should be thankful that this magical source does not exist. It is often said that a community's ability to tax itself is a key factor in developing a healthy community. So it is good that most communities will need to become creative in their efforts to finance site development. A few general suggestions follow.

Costs

The following is a list of cost categories a community will want to consider during the site development process:

Site Acquisition: Included in this category are actual purchase price, legal fees, appraisals, realtor fees, crop-damage cost, survey fees and title insurance. Often the community can defer these costs by entering into a first refusal or option agreement with the current property owner. A theme throughout this section has been that communities should seek to develop partnerships that share the risk and reward. The owner of a site benefits by having someone who has developed a strong marketing approach representing the site.

Planning and Design Fees: The major costs under this heading are the consulting engineering fees. Also included, however, are the potential attorney fees and the engineering study testing fees. These costs are difficult to defer, so they require funding at the time of performance.

Infrastructure Costs: Companies will usually assume on-site infrastructure costs, but public right-of-way costs are usually incurred by the appropriate political jurisdiction.

Financing Costs: Interest and service costs for funds borrowed make up the primary costs in this category.

Revenue Sources

Potential sources identified by Waterhouse (1996, 115) for funding the site development include:

Initial Land Sales: If the community can agree with the current property owner these revenues will go to the seller.

Loans: Local banks may be willing to provide loan funds, often at a reduced interest rate, for purchase of land and consultant fees if the collateral of the land is sufficient to cover the risk. If this method is used, the interest and consultant fees should be included in the land selling price. Some state agencies will also provide low-interest deferred loans to communities for site development.

Governmental Capital Investment: Local governments can use bond sales to finance the public portion of infrastructure improvements. Many political jurisdictions also have the ability to use tax increment financing (TIF) as a tool to recover infrastructure improvements. Basically, TIF projects allow governments to use future property-tax revenues generated by the new firm to pay off bonds and bond costs committed to infrastructure development.

Grants: Federal and state programs may be a source for financing public infrastructure site development. Most programs require a matching contribution by the local community.
Utility Companies: Some utility companies will provide planning funds to communities developing sites within their service areas. Based on the size of the services provided to a firm locating on a site, utility companies may also finance improvements to the community's infrastructure.

The challenge to a community in funding site development is to combine local contributions with governmental grants and local tax-structure commitment to finance development costs. Creative communities can share the risk and defer development costs by entering into partnerships.