Potential Land Bank Revenue Sources

Short term or start-up revenues

Initial land bank revenues often come in the form of non-recurring grants. Potential short-term revenue sources include:

Federal Community Development Block Grants (CDBG), Neighborhood Stabilization Program (NSP) or HOME funding – have been used in other states to support specific land bank activities such as demolition of structures to eliminate slum and blight, dealing with foreclosed properties or covering the costs associated with residential rehabilitation. Federal grants can be used for some land banking activities but not all. Restrictions associated with each federal program will dictate the purposes for which funds may be used. These types of funds should not be considered sustainable but can augment other more stable funding sources.

Federal Environmental Protection Agency (EPA) grants or loans – Nationally several land banks have received EPA funds for environmental assessment and clean up to supplement EPA allocations awarded directly to local municipalities.

Foundations – Land banks are typically eligible for foundation grants due to their non-profit corporate structure or governmental status. In its formative stages the land bank may need to rely upon foundation grants for general operating costs to develop its competencies. Such grant funding would allow the land bank to build its capacity to operate programs that will potentially generate ongoing financial resources to support the programs of the land bank. Foundation grants can also serve as a long-term revenue source to fund certain land bank programs and projects on an ongoing basis.

Program Related Investments (PRI) might also be a viable option for potential foundation partners looking to leverage a greater return on their philanthropic resources.

The approach of leveraging philanthropic resources and technical assistance to achieve regionally significant community development goals has been successfully applied in examples like the West Cook County Housing Collaborative, a joint effort between Bellwood, Berwyn, Forest Park, Maywood, and Oak Park working to keep quality affordable housing available in the western suburbs. The communities worked with IFF, a community development financial institution to secure NSP funding to renovate a foreclosed property and return it to productive use. In the south suburbs, the South Suburban Mayors and Managers Association (SSMMA) is leveraging a $2 million Sustainable Communities grant to attract PRI and other private investment in a fund to catalyze economic and housing development in distressed areas.

In-kind support – is often essential for the initial formation and start-up phase of any land bank organization. Possible stakeholder partners may include Cook County, local governments, regional civic organizations, community development corporations, neighborhood associations and others.

Illinois' portion of the National Attorneys General Mortgage Settlement – Attorney General Lisa Madigan will oversee the distribution of the $1 million share that Illinois received as a result of the robo-signing settlement negotiated with the nation's five largest banks. An allocation from this source could help cover a land bank's start-up phase and provide the land bank with the initial capital and time to build programs that produce a sustainable revenue stream.

Local government general revenue funds – Funding from the general revenue of units of local government is permitted by law but may not be practical in communities already struggling to cover the costs of delivering basic government services.

Tax Increment Financing Districts (TIFs) – TIF districts allow municipalities to capture the additional property tax revenue generated by redeveloping a specific area over a 23-year period and devote that revenue to certain activities. Assuming the TIF district meets the blighting requirements under Illinois law, one of the permitted uses of such TIF funds is the acquisition and redevelopment of property.

Long term revenue

While initial revenue may be in the form of non-recurring grants, the model for a land bank or redevelopment corporation is to become self sustaining with dedicated and predictable revenue sources. Potential long-term revenue sources include:

Built In Cook – HUD Section 108 Loan Guarantee Program -- The County will use the Section 108 Loan Pool, to fund projects located within suburban Cook County that provide clear economic and community development benefits to low- and moderate-income persons and their communities. The Section 108 Loan Pool will represent a new tool that the County can use to support economic development efforts in targeted slow growth areas with market potential as well as in stronger market areas where new jobs will be made available to low- and moderate-income residents. Funds will be utilized to support a wide range of CDBG-eligible activities contingent upon evolving local needs, and available resources.

Bonding –Illinois law permits both counties and municipalities to borrow funds under certain circumstances. Borrowing of such funds includes both typical indebtedness and issuing bonds. Home rule units may enter into typical indebtednesses, such as secured and unsecured loans, under their grant of authority under the Illinois Constitution. The Illinois Constitution, however, does contemplate potential limitations on home rule local government units' authority to issue bonds. To date, however, the Illinois General Assembly has not enacted any such limitations.

The law surrounding the ability of non home rule units of local government to borrow funds is significantly more complicated. Non home rule municipalities are expressly allowed to "borrow money from any bank or financial institution." Such authority is limited, however, by the requirement that such indebtedness be repaid within 10 years and authorized by ordinance.

Delinquent tax revolving funds as a source of financing for land banking activities is another land banking revenue generation strategy that may be possible in Illinois. The property tax sale system in Illinois allows local governments to acquire property taxes at property tax sales. Assuming local governments could borrow at cheap enough rates, Illinois law would permit local governments to use those funds to purchase the taxes on properties within their jurisdictions. Further, local governments would actually be able to acquire such property taxes through a no cash bid procedure requiring even fewer resources to be expended in the tax acquisition process.

Inventory cross-subsidization, an approach discussed in land banking literature, requires that all properties which flow through the tax foreclosure system end up in the hands of a land bank. This approach is not available in Illinois because the Illinois Property Tax Code allows for the purchase of taxes by private individuals.

Land bank participation as a developer or co-developer in real estate development projects in target redevelopment areas can generate a developer's fee ranging from 7% to 20% of project costs. In cases where the Land Bank determines it will remain involved in a project as an equity partner, it may receive a reasonable rate of return in the form of cash flow and/or eventual buy-out.

Land sales proceeds – When land banks are able to sell properties for greater than their acquisition cost, they can generate program income to support other activities. The acquisition of property at below market value or at no cost through the Scavenger Sale or via donation can facilitate the generation of land sales revenue.

New Market Tax Credits (NMTC) The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period.

Private Activity Bond (PAB) – A municipal security, the proceeds of which are used by one or more private entities.

Rental income from commercial and residential tenants – A rental program is both necessary and desirable in an economy such as ours with severe credit constraints. Further, the provision of quality rental properties to the market is vital to any stable real estate market, and it fits with the overall mission of the land bank.

Tax increment revenue for land bank properties that are transferred to new owners – Under Michigan law land banks receive 50% of the specific tax generated on all properties that are sold by the land bank for five (5) years succeeding the transfer of the property. In Ohio, county treasurers have the authority to assess up to 5% as an additional fee on tax delinquent properties to fund land banks. Illinois may choose to consider a similar type of legislation to help create a sustainable revenue source for its activities.

Tax Recapture, another land banking revenue generating innovation provides that a certain percentage of property tax revenue generated by a property after the land bank sells the property be remitted to the land bank. While this process is not expressly required by Illinois law, it may be possible to achieve similar results in Illinois. Currently, no state law prohibits a unit of local government from either itself or by intergovernmental agreement dedicating a portion of tax revenue generated by a property redeveloped through land banking to future land banking activities.

Sources: Frank S. Alexander, *Land Banks and Land Banking*, (Center for Community Progress), June 2011
Bridget Gainer, Commissioner, Cook County Board, *2012 Cook County Land Bank Proposal*