Introduction to Land Use, Finance, and Governance Issues Impacting Main Street Programs

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About

Main Street America is a network of place-based organizations. Each organization is positioned uniquely in its community and operates based on distinct local, state, and regional challenges and opportunities. The work of Main Street extends beyond farmers markets and block parties to small business support, local economic development, affordable housing, multi-modal transportation, and sustainability in buildings and commercial corridors. These combined activities revitalize downtowns and commercial corridors.

Existing land use, finance, and governance structures influence the ways in which Main Street programs operate. These structures contribute to either a friendly or non-friendly environment for place-based economic development and community preservation. Below is an inventory of those structures, categorized as "land use and zoning," "finance," and "governance." A basic understanding of these structures can help a Main Street program become conversant in policy issues impacting the commercial district.

Land Use and Zoning

Zoning

Land use regulations set guidelines for what can be developed. The most common form of land-use regulation is zoning. The basic purpose and function of zoning is to divide a municipality into residential, commercial, and industrial districts (or zones), that are separate from one another for the most part. The use of property within each district is reasonably uniform. There are restrictions that typically apply to each zoning type, like requirements around the type of buildings allowed, the size and height of buildings, the setback from streets required, the minimum lot area, number of dwelling units, and more. These land use regulations and zoning restrictions impact the built environment on Main Streets, directing what can and cannot be built.

In the 1920's, the Standard State Zoning Enabling Act (SZEA) granted the power for local municipalities to set zoning regulations within their jurisdictions. Thus, land use and zoning regulations are set at the local level, leaving opportunity for change at the local level. Alongside the power to zone, each locality was required to establish a zoning commission to advise on the establishment and amendment of zoning regulations. A locality's zoning commission, in addition to the mayor and city council members, hold decision-making power over the development and implementation of zoning regulations.

To note, building codes are related to land use because while land use regulations, like zoning, determine what type of structure can be built on a particular piece of land, building codes then dictate the specific construction standards and safety requirements that must be met for any building erected on that land, ensuring the structure is safe and functional according to its intended use.

Main Streets are places where people live, work, play, and connect. Certain zoning designations facilitate vibrant Main Streets, including:

- **Mixed-use zoning**
  Mixed-use zoning permits a complementary mix of residential, commercial, and/or industrial uses in a single district. Mixed-use zoning can take a variety of forms, but often is categorized as one of three types: vertical mixed-use, horizontal mixed-use, and mixed-use walkable. Vertical mixed-use involves combining different types of uses within the same building, typically with non-residential functions on the lower floors and residential spaces above. Horizontal mixed-use, on the other hand, integrates different types of uses on separate parcels or within a specific area or district. This approach helps simplify regulatory and safety requirements that might complicate combining different uses in a single building. Mixed-use walkable areas combine elements of both vertical and horizontal mixed-use, creating neighborhoods where mixed-use buildings coexist with single-use structures in close proximity.

- **Form-based vs. Euclidian zoning**
  Prior to the rise of the automobile and modern zoning practices, mixed-use developments were the norm. Since the rise of Euclidean Zoning in 1926, which is a type of zoning that only allows one kind of land use (e.g., residential) per zone, use segregation has been the norm. The emergence of sustainability and walkability as important factors in community development has led to a resurgence of mixed-used zoning. In addition, the rise of form-based codes which guide land use by the form of buildings as opposed to separating uses, has encouraged mixed-use development. Implementation of mixed-use zoning has evolved to include more than just permitting mixed-use developments in certain districts. Local governments are now creating mixed-use districts using form-based code. This allows for a more widespread integration of uses and the development of increasingly cohesive and efficient communities.

- **High density and vertical housing zone**
  Zoning codes set density, or the number of developed units in a specific area of land. High density can promote economic development and affordable housing by allowing for more opportunities for development in a single area. When done well, density can bring large numbers of people together, making public transit possible, supporting shops restaurants and other enterprises, promoting walkability, offering affordable housing options, and using resources more efficiently and emitting fewer greenhouse gasses.

  Vertical housing development zones encourage higher density, mixed-use housing, which can bring about vibrant, and active "24/7" downtowns. Vertical housing zones can be paired with tax exemptions to offer incentive for rehabilitation of old buildings in downtown areas and adaptive reuse of existing building stock for commercial ground-floor uses and residential upper-story uses.

- **Transit-oriented development**
  Transit-oriented development is an approach to building compact, mixed-use, pedestrian-oriented communities around new or existing public transit stations. Over the past several decades, cities have been combining clusters of mixed land uses with transit stations and producing examples of efficient and livable growth patterns that make walking and transit use more convenient. When done using an equity-based approach, this sort of development can preserve and expand affordable housing, protect tenants and small businesses form rising costs, and connect residents to jobs and economic opportunities.

Historic Districts

Historic districts are described as areas of land with additional protections and restrictions because they have historic landmarks, buildings, archaeological sites, engineering structures, or landscape features. Properties and districts may be designated as historic by both local and federal governments. The goal of historic preservation is typically to ensure that work done on historic properties is compatible with their historic character. Because of these protections, the ability and ease to make changes to historic properties may be minimal. Main Streets have lasting aesthetic appeal due to historic protections; however, these same protections may hinder effective adaptive reuse of Main Street buildings to serve today's needs and carry them into the future.

Comprehensive Plans

Comprehensive plans are the backbone of any community planning effort and the foundation for long-term planning and land use. Set in the 1920's alongside the Standard State Zoning Enabling Act (SZEA), the Standard City Planning Enabling Act (SCPEA) authorized local municipalities to develop a planning commission to analyze land use at the local and regional levels and develop comprehensive city plans (also referred to as Comp Plans and Master Plans). The comprehensive plans outline challenges facing the community, identify solutions, and provide guidance to appointed and elected officials on planning-related decisions. The comprehensive plan is a recommendatory document, providing guidance and is often written abstractly so that appointed and elected officials can utilize a variety of means to implement it.

A comprehensive plan lays the foundation for zoning and building codes, the legal tool for implementing the vision of the future contained in the comprehensive plan. Often, when zoning disputes are brought to court, comprehensive plans are consulted to determine what development was envisioned across certain districts and whether the present zoning aligns with that. Comprehensive plans also guide other city policies, including environmental and sustainability objectives, economic development objectives, and housing objectives.

Setting the vision for a community, a comprehensive plan's goals can align with Main Street principles and support efforts to revitalize Main Streets. These include:

- **Economic Development**
  Building level: Supporting small and local business
  Neighborhood level: Promoting neighborhood strategies for economic development
  Citywide level: revitalizing corridors, districts, and neighborhoods

- **<u>Sustainability</u>**
  Building level: adaptive reuse of buildings w/ green incentives
  Neighborhood level: tree canopy, access to park/recreation space, streetscape improvements
  Citywide level: transportation network (EV's, BRT's, public transit incentives)

- **<u>Equity</u>**
  Building level: grants, subsidies, tax breaks, other financial incentives for small businesses
  Neighborhood level: conversion credits for adaptive reuse projects, workforce development, workforce housing
  Citywide level: affordable housing

Finance

Place-based finance structures can support Main Streets and facilitate thriving communities by incentivizing investment in local economies and encouraging the rehabilitation and adaptive reuse of existing buildings in downtowns and commercial corridors. The following are various finance structures which allow entities to direct what goals and objectives development must meet.

Taxes – Local Solutions

- **<u>BIDs</u>**
  Business improvement districts (BIDs) - sometimes referred to as business improvement zones, as well as special improvement, special assessment, special services, and/or business assistance districts - are organizations formed by private property owners and businesses which elect to pay a special tax to cover the expense of providing their district with services beyond what the local government offers. The legalities of forming a BID vary from state to state, but the organizations are often created simply by the approval of a majority of local business and property owners, by those who control a majority of the land area, or by owners responsible for the majority of the fees assessed. Some are independent of local government, having almost complete autonomy to finance, construct, and manage specific projects, while others are dependent on local government, created only to raise revenue for specific projects.

- **<u>TIFs</u>**
  Tax increment financing (TIF) allows municipalities to promote economic development by earmarking property tax revenue from increases in assessed values with a designated district. It captures the future tax benefits of real estate improvements and development in order to pay for the present costs of those improvements. The rules for tax increment financing vary across states. The designation usually requires a finding that an area is "blighted" or "underdeveloped" and that development would not take place "but for" the public expenditure or subsidy. TIF expenditures are often debt financed in anticipation of future tax revenues. Growth and development in TIF districts is proven; however, evidence suggests that the non-TIF areas of municipalities that use TIF grow at the same pace or more slowly than similar municipalities that do not use TIF. This shows that the benefits are exclusive to TIF districts.

- **Synthetic TIFs**
  Similar to TIF's, synthetic TIFs uses future tax revenue generated by a specific development or improvement project to pay for its costs. Whereas traditional TIFs primarily rely on the incremental property tax revenue generated from the increased property values within the TIF district, synthetic TIFs may include a variety of funding sources, such as sales tax revenue, income taxes, or other financial instruments, in addition to property taxes. These financing mechanisms have certain benefits over TIFs, notably that there are not size restrictions on the area that would be considered part of the TIF district under a traditional TIF, and payment can be made from the general revenues of a local government, rather than specifically from the increments produced in a formal TIF district.

Taxes – State and Federal Solutions

- **Historic Tax Credit**
  There are both federal and state rehabilitation tax credits. The federal Historic Tax Credit (HTC) is a 20% income tax credit on qualified rehabilitation expenses (QREs) available for rehabilitation of historic buildings that are determined by the Secretary of the Interior to be "certified historic structures. – listed individually on the National Register of Historic Places or contributing to a historic district listed on the register. In addition to preserving historic buildings, the HTC revitalizes communities and spurs economic growth—all while returning more to the Treasury than it costs, $1.20 in tax revenue for every dollar invested. It is a critical ingredient for historic preservation, economic development, and neighborhood revitalization.

  As of 2024, 39 states offer a state historic tax credit. These credits all offer a dollar-for-dollar reduction in tax liability, but they vary in their rate, size, and provisions impacting their use. Advocacy for state tax credits is an ongoing project, with proposed improvements to increase the effectiveness of credits offered each year.

  It is important to note that 2025 will be an active year for federal tax reform. Changes may be proposed to the Historic Tax Credit, and other credits may be proposed, such as a credit to promote conversion of office buildings to commercial and residential uses, or a rehabilitation credit similar to a 10% credit that was eliminated in 2017.

- **New Markets Tax Credit**
  The New Markets Tax Credit (NMTC) aims to attract private investment necessary to reinvigorate struggling local economies. The NMTC program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39% of the original investment amount and is claimed over a period of seven years. While NMTCs are complicated tax vehicles requiring external legal counsel, over 1000 NMTC projects have occurred within Main Street districts.

- **Low Income-Housing Tax Credit**
  The Low-Income Housing Tax Credit (LIHTC) encourages private investment in the development and preservation of affordable housing. Established in 1986, the program provides tax credits to developers and investors who create or rehabilitate rental housing that is affordable for low-income households. These tax credits are allocated to states by the federal government, which then distribute them to developers through a competitive process. In exchange for the credits, developers must ensure that a portion of the housing units remain affordable, typically for a minimum of 15 to 30 years, depending on the agreement. There is a 4% credit which is generally used for projects involving the rehabilitation of existing affordable housing or the acquisition and rehabilitation of existing buildings. There is also a 9% credit (floating rate) primarily used for new construction or substantial rehabilitation projects that do not use other federal subsidies. Both credits are applied annually over a 10-year period. The LIHTC has been instrumental in financing the construction and renovation of affordable housing, offering financial incentives for private sector involvement in addressing housing needs for low-income individuals and families.

- **Opportunity Zones**
  Opportunity Zones were created through the 2017 Tax Cuts and Jobs Act and are an economic development tool that allows people to invest in distressed areas in the United States. Their purpose is to spur economic growth and job creation in low-income communities while providing tax benefits to investors. There are 8,764 Opportunity Zones in the U.S., many of which have experienced decades if disinvestment. Roughly 48% of Main Street programs intersect with an Opportunity Zone. Where Opportunity Zones intersect with Main Streets, there is opportunity to collaborate and ensure that public and private investment is acting to advance Main Street objectives. OZ projects can be both real estate development and small business support. Critics of the OZ program note that many of the investments made through the program benefit a limited number of the designated zones.

Parking Benefit Districts

A parking benefit district (PBD) is an area where a city charges drivers for parking on the street and spends some or all of the resulting revenue to pay for added public services on the metered streets. These public improvements are intended to attract more visitors, which generates additional parking revenue and fosters continued development. PBDs, which can be found across the country, support parking operation and maintenance, which can increase local sales tax revenue and reduce traffic congestion. They do not include revenue from parking violations or parking permits but offer an avenue to make parking work better and support community goals at the same time.

Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA) requires banks to invest in the communities they serve. Federal banking regulators (the Federal Reserve, the Office of the Comptroller of Currency, and the Federal Deposit Insurance Corporation) encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods. The Act was passed in 1977 in response to “redlining,” a process in which banks systematically denied mortgages to Black Americans and other people of color who lived in certain areas designated by the federal Home Owners' Loan Corporation (HOLC) maps. Neighborhoods with predominantly racial and ethnic minority populations were colored red and overwhelmingly barred from access to credit. Together, these bodies insure that banks are offering credit to reinvigorate and revitalize all parts of a community, particularly for low- and moderate-income households. Main Street programs should be aware of CRA guidelines and processes to better propose investments and projects to banking partners.

Community Benefit Agreements (CBA)

Community Benefit Agreements (CBAs) are legally binding contracts between community-based organizations and developers that shape how local development projects contribute to improving the quality of life of nearby residents. When implemented effectively, CBA processes shift power more evenly to ensure the residents most impacted by development projects have a say in the priorities for the new investments. Such agreements can be particularly useful to ensure that large developments seeking public investment align with the needs of local communities. CBAs can be comprehensive, with commitments for hiring local residents for the project, setting wage levels, requiring certain uses of land and building space, or making contributions to certain funds for community services and programs. The design and implementation processes of CBAs have an immense impact on their effectiveness. There has been criticism of CBAs due to past CBA processes ending with unfulfilled promises to communities and lacking mechanisms for accountability. Main Street programs can participate in working with developers and partner organizations on CBAs for proposed development projects within the Main Street district.

Property Assessed Clean Energy (PACE) Programs

Property Assessed Clean Energy (PACE) programs are emerging, innovative programs for financing energy efficiency and renewable energy improvements on private property – both residential and commerce. PACE programs allow a property owner to finance the up-front cost of energy or other eligible improvements on a property and then pay the costs back over time through a voluntary assessment. The unique characteristic of PACE assessments is that the assessment is attached to the property rather than an individual, addressing a key disincentive to investing in energy improvements because many property owners are hesitant to make property improvements if they think they may not stay in the property long enough for the resulting savings to cover the upfront costs. PACE programs benefit Main Street property owners by enabling them to make energy efficiency improvements with no upfront costs, while attaching the repayment to the property rather than the individual, ensuring flexibility and increasing the property's long-term value.

Governance

"Today's place governance is messy"

- *Nate Storring, Tracy Hadden Loh [Hyperlocal: Place Governance in a Fragmented World]*

Place governance entities can be entirely public, entirely private, or a mix of both, including public-private partnerships, public-community partnerships, and public-private-community partnerships. The entities that govern land are critical in creating an environment that is either friendly or not-so-friendly to Main Streets and their abilities to revitalize neighborhoods and preserve communities. It is key that Main Street organizations understand the people and groups that govern land to learn what drives these players and how to work with them A key component to the governance is community engagement; all forms of government offer opportunities for the public to voice their needs and priorities as it relates to government policies and programs. It's also important to note that place governance models and districts can overlap. For example, a Main Street district may overlap with a Business Improvement District, and both follow within a regional Economic Development District.

Public Entities

- **Local governments**

  Local governments play a key role in the administration of municipalities' public programs. A municipality's Office or Department of Planning (OP) performs planning for neighborhoods, corridors, districts, historic preservation, public facilities, parks and open spaces, and individual sites. OPs also engage in urban design, land use, and historic preservation review.

  Similarly, a municipality's Office or Department of Economic Development or Office or Department of Small and Local Business offer planning and analysis to support small businesses and promote local economic development within a geographic area.

  A municipality's Office of Housing and Community Development tends to focus on preservation of affordable housing, economic development, and revitalization of underserved areas.

  Finally, a municipality's Office or Department of Transportation will focus on ways in which people and goods are moved throughout the locality and the region. The local DOTs will carry out the Mayor's goals and the objectives set for transportation, access, and mobility in the comprehensive plan.

- **State governments**

  In many instances, governing bodies at the state level impact Main Streets. Local governments tend to mirror state governments, which the offices or departments and their respective jurisdictions similar to those outlined in the section above. Though Main Streets are local entities, they sit on state land, and sometimes state rules/regulations come into play. For example, around 75% of Main Streets have a state highway running through them. This means that whenever the Main Street communities is considering making changes to the streetscape along the Main Street corridor, the state's Department of Transportation must be involved.

- **Regional authorities**

  Regional authorities, such as Metropolitan Planning Organizations (MPOs), which carry out metropolitan transportation planning process, cross jurisdictions and are not confined to certain local and state boundaries. MPOs are required to represent localities in all urbanized areas (UZAs) with populations over 50,000, as determined by the U.S. Census.

MPOs are designated by agreement between the governor and local governments that together represent at least 75 percent of the affected population (including the largest incorporated city, based on population) or in accordance with procedures established by applicable state or local law. When submitting a transportation improvement program to the state for inclusion in the statewide program, MPOs self-certify that they have met all federal requirements.

Economic Development Districts (EDDs) are multi-jurisdictional entities, commonly composed of multiple counties and in certain cases even cross-state borders. They help lead the locally-based, regionally driven economic development planning process that leverages the involvement of the public, private and non-profit sectors to establish a strategic blueprint (i.e., an economic development roadmap) for regional collaboration. EDDs are charged with developing a Comprehensive Economic Development Strategy (CEDS), which outlines a community's economic development goals and the strategies to achieve them. It serves as a roadmap for local leaders, stakeholders, and residents to enhance economic growth, sustainability, and resilience.

- **Miscellaneous**

  Other entities like neighborhood councils are typically governmental advisory bodies with the purpose of promoting citizen participation in local government. Some, but not all, municipalities have neighborhood councils, which act as the most local and accessible level of government. These bodies organize street cleanups, facilitate neighborhood convenings, interact with constituents, and advocate for or against legislation at the city level. That said, neighborhood councils are advisory groups: they can't pass laws or compel officials to do anything, but they can weigh in on neighborhood priorities and legislation or programs that affect the area.

  Geographic overlays like historic districts protect certain historic properties within certain boundaries. The properties are subject to additional regulations and review for new construction, demolitions, exterior alterations that require a permit, or subdivisions. It is important to note that not all buildings in historic districts are considered "contributing structures," which are buildings that add to the historical integrity of the district. Alternatively, some individual properties are deemed historic structures even though they do not sit with a designated historic district. See more about historic districts in the Land Use and Zoning section.

  Central business districts (CBDs) have a specific focus on downtown areas. They are loosely defined as the area of densely concentrated commercial activity that forms a core of economic and population density in a city or region. CBD is a key term in planning because of its importance to so many intersecting issues of the city—the success of the local and regional economy, the movement of goods and people, the life and culture of cities. Programming for central business districts is meant to activate and maintain public spaces, attracting business and commerce, and driving foot and vehicular traffic – from parks to plazas to parklets to "streeteries."

Public-Private Entities

- **<u>Main Street Programs</u>**

  The term “Main Street” has numerous meanings and conjures different associations and images for different people. For the MSA network, Main Street is both a place and a program. For the purposes of this document, we use the following terminology:

  A **Main Street district** is a geographic area characterized by dense development, a collection of mixed-use buildings and small businesses. The districts are typically the center of community and economic activity, constituting the commercial corridors in larger cities or rural downtown areas. Many Main Street districts have served as their communities’ civic and economic center throughout their history, but more recently, many communities are seeking to create spaces outside the traditional core area that possess the qualities of a Main Street district. Geographic, demographic, social, and economic differences mean that no two Main Street communities are alike.

  A **local Main Street program** is a public-private organization dedicated to the preservation and redevelopment of downtowns and commercial corridors. The MSA network comprises two primary types of programs: local Main Street programs and Main Street Coordinating Programs, operating in a network structure in partnership with Main Street America 1200+ Local Main Street Programs operate within the geographic area of a Main Street district, whether a neighborhood commercial corridor or a rural downtown. These organizations typically follow the Main Street Approach, a methodology for downtown and commercial corridor improvement. These organizations may be part of local government or private, typically with 501c3, or somewhere on the public-private spectrum. A primary source for a local Main Street program is typically the local government.

  Main Street Coordinating Programs operate at the city-wide, county-wide, or state-wide level in 42 states to provide technical assistance, training, and resources to local Main Street programs. Coordinating Programs may be housed in departments of small business development, economic development, community affairs, or historic preservation at the city or state level. Some are structured as independent non-profit organizations, allowing diverse funding streams. Coordinating Programs are essential partners to both local Main Street programs and Main Street America in facilitating the national network of Main Street programs.

- **<u>BIDS</u>**

  As described in the “Finance” section, <u>Business Improvement Districts (BIDs)</u> are organizations formed by private property owners and businesses within a legally constituted city district. By creating a partnership, these organizations work across sectors, both public and private, to envision solutions to community needs and strategize on deployment of BID tax revenue. Often, BIDs overlap with Main Streets. Where these jurisdictions overlap, there is opportunity to align BID goals with Main Street goals.

- **Land Trusts (and Community Land Trusts)**
  Also known as land conservancies, land trusts are community-based organizations (CBOs) that work to conserve land. Land trusts can be local, state or regional in scope, working directly with private landowners and community partners to protect land that has natural, recreational, scenic, historical or agricultural values. Land Trusts are key resources in Main Street communities for their public benefits, including clean water, wildlife protection, community gardens, family farms, recreational paths, and more. The vast majority of land trusts provide public access to their protected lands, partnering with local public entities to connect people with the land. There are both commercial and residential land trusts, and they differ in purpose and property type. Commercial land trusts manage income-generating properties like offices, retail centers, or hotels, focusing on investment and development, often involving complex management and legal structures. In contrast, residential land trusts hold properties such as homes or apartments, commonly used for estate planning, asset protection, or affordable housing preservation. While commercial trusts are driven by profit and market demand, residential trusts focus on privacy, long-term housing security, and simpler management. Each type has distinct tax considerations and risks, with commercial trusts typically facing greater market volatility than residential ones.

Private Entities

- **Place-based CBOs**
  A place-based community-based organization (CBO) is one that focuses on a specific geographic area, addressing the unique needs and challenges of that community. This is a large category of organizations, with the common thread that the organizations serve a purpose within a specific geographic region. They can take the form of community centers, health clinics, food banks, environmental advocacy groups, and housing assistance providers for example. They often focus heavily on community engagement and tend to have built strong and trusting relationships within the community they operate.

- **Development Authorities**
  Economic Development Authorities exist to attract, retain, generate, and expand high-quality businesses, institutions, and other organizations to create a thriving economy. At the state level, state economic development agencies (EDAs) are tasked with supporting existing businesses, encouraging entrepreneurship, recruiting new businesses, and coordinating the economic development activities of their local governments and other local EDAs. Economic Development Authorities which are created at the city and county levels, as well as neighborhood-specific authorities, have like-minded business interests and economic goals. These goals can correspond with Main Street goals to attract and retain business and revitalize commercial corridors. In some states, Main Street programs are Downtown Development Authorities (DDAs).

- **CDCs**
  Community Development Corporations (CDCs) are 501(c)(3) non-profit organizations that are created to support and revitalize communities, especially those that are impoverished or struggling. CDCs follow a bottom-up approach as they are established and operated by

community members or local groups like churches and civic associations. CDCs often deal with the development of affordable housing. They can also be involved in a wide range of community services that meet local needs such as education, job training, healthcare, commercial development, and other social programs. Many of these needs overlap with Main Street goals and priorities, and natural alignment can be found often between the two entities.

- **Chambers of Commerce**
  A chamber of commerce is a business network and it acts as a central voice for a group of businesses that supports the interests of its members. Many chambers of commerce have an explicit goal to further the interests of small businesses in a local area, which offer clear overlap with Main Street goals to attract and retain business on Main Streets and revitalize Main Street districts. There are chambers of commerce at the city, state, regional, and national level. Each serves the interests of its respective members.