

Energy, Environment, and Natural Resources
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State Financing Strategies to Address the Economic Impacts of Military Base Realignments and Closures

Military installations are a major source of economic stability for states and localities across the nation. When the U.S. Department of Defense (DoD) reorganizes its military installation infrastructure through the [Base Realignment and Closure \(BRAC\)](#) process, the economic impact can place a great deal of strain on the local community.¹ The current round of BRAC will impact military communities in different ways as some bases close and other bases expand as a result of mission growth. Since states and localities ultimately are affected by BRAC, it is best if they work together with the federal government to plan and implement economic development strategies tailored to their specific needs.

As a first step, a number of governors have established state-level committees, groups, or offices to identify state financing and policy options. States also can play a role in the Local Redevelopment Authority (LRA) or development groups which manage installation redevelopment or growth projects at the local level. In many cases, states have served as an intermediary between federal agencies and these local groups to help secure the funding for projects and programs. This type of public financing—at the local, state, and federal level—plays a crucial role in leveraging financial support from the private sector.²

Several public financing strategies can be used to address the economic impact of BRAC from the base closure/downsizing and mission growth perspectives.

- **Planning:** Develop a comprehensive plan outlining strategies and financing mechanisms.
- **Infrastructure Development:** Build or enhance public and private infrastructure to stimulate and support economic activity.
- **Business Development:** Foster new and diverse business activity.
- **Workforce Development:** Assess and meet the needs of a military community's workforce.

There is no one-size-fits-all financing plan to address the economic impacts of military base realignments and closures. States and localities should select financing mechanisms available at the federal, state, and local levels that best fit their needs. A diversified and balanced financing plan increases the total amount of funding for redevelopment and growth projects and takes advantage of the strengths each level of government offers in stimulating economic activity.

In many cases, the state is in a good position to facilitate base redevelopment and local growth projects through state-level programs such as cash grants and debt financing through bonds. In addition, states can jump-start the process by passing legislation that increases state financial aid, creates tax incentive programs, and allows for the implementation of financing strategies at the local level.

Background

Military installations often serve as state and local economic engines. The mission of one military installation alone can generate thousands of jobs and billions of dollars in economic activity and tax revenue. For example, military installations are reported to provide a \$44 billion annual economic benefit in Florida—9.8 percent of the gross state product.³ In North Carolina, military base-related spending accounts for 7 percent—or \$18 billion—of total gross state product.⁴

As the Pentagon reorganizes its military installation infrastructure through the BRAC process, the economic impact on military communities can vary greatly. Some communities will experience an increase in military activity and associated local growth, while others will be faced with a base closure or downsizing and may experience economic distress. In addition, some military communities will be affected by other non-BRAC DoD initiatives—such as the Integrated Global Presence and Basing Strategy (IGPBS)—which also will affect the mission of many bases.⁵ Since the impact of BRAC goes well beyond the local military base community, states and localities often work together with the federal government to plan and implement economic development strategies.

A key element to the successful economic adjustment of a military community affected by BRAC is to secure adequate public financing for base redevelopment and local growth projects. Public financing helps to stimulate and support economic activity and spurs private-sector investment in military communities. Intergovernmental cooperation is considered an effective and efficient approach to achieving a diversified financing plan; however, the process of identifying roles and coordinating federal, state, and local resources can be challenging.

Differing Economic Impacts: Closure versus Realignment

Before examining public financing strategies to address the economic effects of BRAC, it is important to understand the difference between a base closure and a base realignment. A base closure often is difficult for a state and locality because many communities grow to rely on the base as a stable and consistent source of employment and tax revenue. The closure of a base eliminates this economic engine and often forces the community to rebuild and diversify its economy so it can sustain itself without a military presence. These communities must consider base reuse and redevelopment and focus on strategies that stimulate new economic activity. Many communities put much of the existing base infrastructure to civilian use. For example, several former air force bases and naval air stations have been converted into civilian airports or trade ports, which allows them to use existing runways and hangars. Other communities decide to diversify the local economy through the redevelopment of bases into multi-purpose areas, demolishing all or most of the existing base infrastructure and replacing it with homes, retail and office buildings, and parks.

What Is BRAC?

BRAC stands for “Base Realignment and Closure.” It is the process the U.S. Department of Defense (DoD) uses to reorganize its military installation infrastructure to support its forces more efficiently and effectively, increase operational readiness, and facilitate new ways of doing business. In 2002, [Congress authorized a round of BRAC for 2005](#).

On May 13, 2005, DoD submitted its recommendations – often referred to as the “BRAC list” – to the BRAC Commission, an independent, nine-member panel responsible for reviewing, approving, amending, or rejecting DoD’s recommendations.

In August 2005, the BRAC Commission voted on the list and of the 190 recommendations DoD submitted, the BRAC Commission—in its [Final Report to the President](#)—approved the closure of 22 major installations and the realignment of another 33.

Congress did not pass a resolution of disapproval, which allowed the BRAC Commission’s decisions to become law on November 9, 2005.

On the other hand, BRAC also will result in several military realignments. There are two types of base realignments that can have completely different effects on military communities. A realignment can result in decreased activity on a military base by relocating missions, operations, and training to other bases. This type of realignment can have adverse economic impacts similar to those of closing a military base. Although these communities still may be home to an active installation, the reduction in military activity can result in significant loss of jobs and tax revenue which often requires adjustment strategies to regenerate economic activity.

In contrast, a realignment that expands a mission and increases military operations on a base can boost economic activity and result in local growth. DoD refers to this type of realignment as “*mission growth*.” States and localities generally have welcomed the additional economic activity generated by mission growth. Although mission growth often significantly benefits the local economy, it also can be a real challenge to the community because it strains the locality’s ability to accommodate the influx of new military and civilian personnel and their families. To prepare for this growth, communities should focus on strategies that enhance essential public services and infrastructure.

The 2005 round of BRAC is different from previous rounds in that a larger percentage of military bases will experience mission growth. While a handful of government programs address mission growth issues, there is less precedent to guide military communities through this process.

Cooperation and Consensus between the State and Localities

The impact of BRAC reaches far beyond military base borders. To respond to the challenges of installation closures and realignments, it is important for states and communities to develop cooperative relationships and come to consensus on a variety of issues. The decision regarding whether the state or localities will take the lead in BRAC-related efforts in some cases is resolved even before the BRAC recommendations are approved and become law.

Since localities experience the brunt of the economic impact of a closure or realignment, local governments often fall into a leadership role in the redevelopment or growth process to ensure the needs of defense-dependent communities are met. In other cases, the state may play a more prominent role because the economic ramifications of a base closure or realignment eventually spread beyond the locality. Furthermore, since many local governments lack the financial resources necessary to undertake projects alone, states can help with the cost of addressing redevelopment or growth through the utilization of financing mechanisms that can leverage support from the private sector.

In the case of mission growth, many affected communities are forming ad hoc committees of stakeholders—from area businesses to state and local governments—to work in partnership with military bases in managing local growth.⁶ When there is surplus property during base redevelopment, the state and localities often participate jointly in a Local Redevelopment Authority (LRA), which oversees the planning and implementation of redevelopment projects. The level of state participation may vary for different military installations. States already have employed a number of different strategies.

- ***Sent a representative to serve as a resource to the LRA:*** This approach provides the state the opportunity to participate, support, and guide the redevelopment process but allows decisions to be made at the local level.
- ***Helped organize the LRA and provide it with the necessary land-use authority:*** Many military bases are surrounded by several jurisdictions which often leads to dispute and

confusion as to who is in charge. Under these circumstances, a state could step in and identify the LRA membership and, when necessary, provide it with the authority needed to make land-use decisions.

- ***Become the LRA:*** Often in rural areas, local governments may not have the resources or manpower to effectively manage an LRA. In these cases, the local government may decide to hand over redevelopment responsibility to the state which can assume the role of LRA.

Identifying Federal Resources for Military Communities

The [Office of Economic Adjustment \(OEA\)](#) is the Department of Defense's primary source for providing funding and technical assistance—through the Defense Economic Adjustment Program—to military communities adversely affected by DoD program changes.⁷ In addition, OEA manages the President's Economic Adjustment Committee (EAC), an organizational body responsible for coordinating BRAC-related assistance in 22 key federal departments and agencies.⁸ Several federal departments and agencies have assistance programs that offer a wide variety of aid to military communities. For new BRAC communities, these programs can seem overwhelming and complicated. OEA can provide them with guidance on how to create a plan that effectively coordinates these resources.

Preparing and Planning for BRAC

The impact of BRAC on states and communities can be significant. The closure of a base can result in a great deal of economic stress on military communities. A base that experiences mission growth can place considerable strain on local and regional infrastructure. It is in the best interest of states and communities to prepare for both scenarios. Even before the 2005 BRAC recommendations were final, several governors, as a first step, began forming special committees, groups, and executive-level offices responsible for identifying suitable state planning, financing, and policy options.

As a result of the 2005 BRAC round, **Maine** Governor John Baldacci established by [executive order](#) the Office of Redevelopment, Re-employment, & Business Support to address the closure of Brunswick Naval Air Station.⁹ The new office was created to work in partnership with Brunswick and Topsham (the towns affected by the closure) to assess how the state can coordinate its resources to assist the communities in developing and implementing reuse and redevelopment plans efficiently and effectively.

How Can a State Prepare to Address the Economic Impact of BRAC?

- ***Establish a state-level committee, group, or office to serve as a central source for identifying state financing and policy options.***
- ***Establish regional working groups as a subset of the state committee to concentrate on the unique economic impacts on specific regions within a state.***

In order to address the varying economic impacts of the 2005 BRAC round on specific military communities, then-**Virginia** Governor Mark Warner established by executive directive four BRAC Regional Working Groups as a part of the State Commission on Military Bases.¹⁰ The Regional Working Groups—composed of state and local government officials as well as affected-area residents and businesses—were responsible for ensuring the state and localities effectively prepared for and responded to the implementation of the BRAC Commission recommendations.

While redevelopment and growth issues tend to be unique for each military community, states share the same basic task of deciding how to respond to the economic impact. By setting the stage early in the BRAC process, states and localities often are better prepared to take action once the BRAC recommendations become law. In many cases, the state is in a good position to undertake the role of an intermediary between federal agencies and localities by facilitating base redevelopment and local growth projects through state-level financing mechanisms. Direct state funding (often through grants) and debt financing (by means of bonds) are often the fastest and simplest financing strategies to spur private-sector investment in base redevelopment and local growth. States also can advance the process by passing legislation that increases state financial aid, creates tax incentive programs, and allows for the implementation of financing mechanisms at the local level.

To achieve success—at the planning and implementation stages—BRAC-affected communities should take advantage of public financing mechanisms available at the federal, state, and local levels. A diversified and balanced financing plan increases the total amount of funding for redevelopment and growth projects and takes advantage of the strengths each level of government offers in stimulating economic activity.

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Financing Strategies to Address Military Base Redevelopment

Since the earlier rounds of BRAC resulted in the vast majority of affected military bases either being closed or downsized, the federal government and a number of affected states and localities have become particularly knowledgeable in the area of military base redevelopment. As a result, numerous government programs are geared toward assisting communities addressing military base reuse issues.

Planning

Military communities facing a base closure first should formulate a comprehensive redevelopment plan, which outlines base reuse strategies and financing mechanisms and provides a projected budget and timeline for the completion of all projects. Developing a plan often can take months and even years to complete, as military communities take into consideration the concerns of all levels of government, area businesses, nonprofit organizations, and local citizens' groups. As a result, financing strategic planning is a crucial first step to ensuring redevelopment issues will be adequately addressed.

While a handful of state-level grant programs help fund locally based redevelopment planning activities, the federal government remains the primary source for funding and technical assistance for base reuse and redevelopment planning. For Local Redevelopment Authorities (LRAs), the primary advantage of federal and state grants is that they do not need to be repaid. For federal and state governments, awarding grants is a way to provide assistance while allowing LRAs the flexibility to address their specific planning needs.

Federal Planning Assistance

The U.S. Department of Defense's [Office of Economic Adjustment](#) (OEA) provides two types of assistance to military communities planning for base redevelopment. When a base closure is expected to result in a property surplus, *Community Base Reuse Planning Grants* can help military communities develop a comprehensive plan to determine how to reuse the land most effectively.¹¹

In addition to providing financial assistance, OEA also provides technical assistance on base reuse.¹²

Communities that will experience an adverse economic impact from a military base downsizing are eligible to receive *Community Economic Adjustment Assistance Grants* even when closure or realignment results in no surplus property. This type of assistance is used to assess the impending economic hardships of military communities, evaluate alternatives and resource requirements, and prepare economic development and diversification action plans to reduce defense dependency.

State Planning Assistance

While OEA grants usually cover a 90 percent share of funds requested for community planning assistance, state governments or other nonfederal entities are needed to provide the required 10 percent match. Matching state grants provide military communities with important redevelopment planning assistance. In addition, some states enhance their participation through the creation of state-run programs that coordinate the use of state financial resources and provide further support to military communities in need of funding for planning purposes.

The **Ohio** Defense Conversion Assistance Program (DCAP) awards grants to help Ohio's military communities adjust to the adverse economic impact of defense downsizing. Created by the Ohio legislature, DCAP functions within the state's Department of Development (ODOD) and is administered by the Ohio Defense Adjustment Office. Proposals for grants are reviewed and approved by the DCAP Grant Review Committee, a five-member panel of ODOD staff appointed by the development director. For the 2005 BRAC round, ODOD will award a total of \$1 million in grants to assist communities, primarily to develop an economic adjustment plan to address infrastructure improvements and the creation or retention of jobs.¹³

Through its Economic Reinvestment Initiative, the state of **Florida** created the Defense Reinvestment Grant Program, a grant program of the Office of the Governor, administered by [Enterprise Florida, Inc.](#), to assist Florida's communities, hosting defense industries, bases, and installations. For the 2005 BRAC round, Governor Jeb Bush awarded a total of \$1 million in Defense Reinvestment Grants to 11 Florida communities.

Infrastructure Development

Modernizing or expanding infrastructure in and around a closed or realigned military base is a crucial investment which helps attract site developers, stimulate business growth and job creation, and generate tax revenues. However, securing adequate financing for infrastructure investment is frequently a challenge for military communities because most projects are large in scale, and financing through current fiscal year revenues—whether state, local, or LRA-generated revenue—often will not cover the total cost of infrastructure projects.

Traditionally, the gap between funds available and funds needed is bridged through the issuance of municipal bonds, a form of debt financing that allows state, local, and municipal governments to borrow large amounts of capital immediately and repay the loan—with general or specified revenues—over an extended period of time, usually 15 to 30 years. Although there are several types of municipal bonds, state-issued general obligation bonds often are considered the most secure because state government pledges to use all of its revenue and taxing power—full faith and credit—to repay bondholders in a timely manner. This approach may result in raised taxes.

Local Redevelopment Authorities (LRAs) can serve as temporary political subdivisions of a state or local government; their enabling legislation often limits the types of bonds they may directly issue

to tax-increment and real estate revenue bonds. These bonds rely on increases in property values and land sales or rent fees of surplus base property to generate the revenue necessary to repay the bondholders. It is often difficult to anticipate revenues from real estate because land values can fluctuate depending on the real estate market. As a result, credit agencies generally consider these types of bonds to be high-risk. LRA-issued bonds often are rated below investment grade by credit agencies making them difficult to market to prospective bondholders.

These financial limitations often put LRAs in a situation where they are unable to finance infrastructure development projects alone. As a result, most defense adjustment infrastructure projects are financed through a combination of LRA bonds and federal, state, and local government financing mechanisms such as:

- Federal Infrastructure Construction Grants;
- State and local general obligation and revenue bonds;
- LRA-issued tax-increment bonds and real estate revenue; and
- Credit enhancements.

Federal Infrastructure Construction Grants

Federal Infrastructure Construction Grants often provide the immediate funding needed to invest in military base redevelopment projects. These grants help lessen the upfront amount of debt incurred by LRAs and state and local governments because they do not need to be repaid.

The Department of Commerce's Economic Development Administration (EDA) has two programs that award competitive grants to help economically distressed communities plan and implement infrastructure improvement projects that promote regional economic development and generate long-term investment. The *Public Works Program* awards grants to communities experiencing economic decline and distress.¹⁴ The grants can be used toward projects which revitalize, expand, and upgrade physical infrastructure in order to attract new industry, encourage business expansion, diversify local economies, and support the generation or retention of high-skill, high-wage jobs.

EDA's *Economic Adjustment Program* is broader and is geared toward helping economically distressed communities reshape their economic future.¹⁵ *Economic Adjustment Grants* may be used to finance the actual construction of public infrastructure and fund infrastructure-related technical and planning assistance. The grants also can be used to cover revolving loans to small businesses wishing to expand their business activity through capital improvements.

Another federal program intended to support military base infrastructure projects is the Department of Transportation's [*Military Airport Program \(MAP\)*](#), established specifically to address the redevelopment of former military and joint-use military airports.¹⁶ Administered by the Federal Aviation Administration (FAA), MAP grants fund certain capital improvements that are not allowed under DOT's *Airport Improvement Program*—a larger program that provides infrastructure planning and development grants to all types of airports in the United States. Although funding is available through both programs, MAP grants provide additional financial assistance that may be used for building or rehabilitating surface parking lots, fuel storage, hangars, utility systems (on and off the airport), access roads, and cargo buildings.

New Hampshire received a significant amount of infrastructure funding from the federal government to convert Pease Air Force Base into an international trade port. The base was closed during the 1988 BRAC round. The [*Pease Redevelopment Authority*](#) received \$21 million in FAA and \$8 million in EDA grant funding as part of the Military Airport Program.¹⁷ In addition, New

Hampshire law gave the state treasurer the authority to provide matching funds for the FAA and EDA grants.¹⁸

State and Local General Obligation Bonds

State and local governments may issue general obligation (GO) bonds to finance military base redevelopment infrastructure projects directly. Since state and local governments tend to have stronger sources of revenue than LRAs—such as corporate income, personal property, and sales taxes—they are usually in a better position to distribute credit risk among a larger and more established tax base. Proceeds from the sale of state-issued GO bonds can be used in two ways.

How Can a State Help Fund Base Redevelopment Infrastructure Projects?

- ***Directly issue state general obligation (GO) bonds. Bond proceeds may be:***
 - ***granted to LRAs to pay for infrastructure projects and***
 - ***used to fund low-interest revolving loans to private businesses to enhance infrastructure.***

- **State Grants:** Similar to Federal Infrastructure Construction Grants, state grants may be awarded to LRAs to finance the planning and implementation of military installation redevelopment infrastructure projects.
- **State Loans:** Proceeds from the sale of GO bonds also may be used to fund revolving loan funds, which are made available to local authorities or small businesses at low interest rates to finance infrastructure projects aimed at stimulating economic development.

The circumstances under which state and local governments may issue general obligation bonds for infrastructure projects vary based on state constitutions, statutes, and local government charters. Most state constitutions impose certain procedural requirements on the issuance of general obligation bonds and set limitations on the allowable use of bond proceeds.¹⁹ In addition, many states have limitations on the amount of debt the state and localities may incur.²⁰

A number of states and localities have issued GO bonds to help finance BRAC-related infrastructure projects. **Massachusetts** authorized the issuance of \$200 million in state GO bonds to support the redevelopment of [Fort Devens](#).²¹ The Village of Glenview, **Illinois**, issued \$34 million in local GO bonds to finance demolition and infrastructure improvements at the former Glenview Naval Air Station.²²

Revolving Loan Funds

Revolving loan funds (RLFs) for military base redevelopment may be funded initially by communities, states, and various federal agencies.²³ Participation varies from state to state. For example, EDA's Revolving Loan Fund Program relies entirely on states and localities to administer the program. EDA provides RLF grants to eligible local partners, who contribute a minimum 50 percent match. The combined funds are used to issue capital loans to businesses or local development authorities unable to obtain conventional financing for infrastructure investments.²⁴ The loans are considered "revolving" because the fund is replenished by principal repayments, interest, and fees, which in turn are used to issue more loans over time.

Some states may administer RLFs directly with a minimal financial contribution. Others provide substantial funding but permit localities to administer the RLF. **Virginia's** [Defense Conversion](#)

[Revolving Loan Fund](#) assists small businesses adversely affected by defense downsizing.²⁵ Administered by the Virginia Small Business Finance Authority (VSBFA), which is staffed by the Virginia Department of Business Assistance, the RLF provides direct loans—funded primarily by EDA grants—to defense-dependent industries making the transition to commercial products or services. Local industrial development authorities also are eligible to receive financing to purchase fixed assets to be leased to qualified companies. Up to \$1 million in fixed-asset and working capital financing is available to prime contractors and subcontractors with at least 15 percent of their operations in defense-related activities.

A number of **California** LRAs and other defense adjustment organizations manage and administer revolving loan funds locally. For instance, Alameda County's East Bay Conversion and Reinvestment Commission (EBCRC) manages the [Defense Conversion Revolving Loan Fund](#). The RLF is funded through a combination of EDA grants, state grants, and private funds but is operated exclusively by EBCRC, which makes loans to eligible businesses for infrastructure improvements on former military bases located in the East Bay area.²⁶

LRA-Issued Real Estate Revenue Bonds and Tax-Increment Bonds

Despite their high-risk status, real estate-based financing has the potential to generate sufficient revenue to repay LRA-issued bonds. Real estate revenue bonds and tax-increment bonds are used to finance general public infrastructure projects such as the construction of roads, water and sewer lines, and utility conduits.

In certain circumstances, the federal government will transfer ownership of surplus base property to an LRA. Once an LRA owns title to the land, real estate revenue bonds become a viable financing mechanism because they allow the LRA to raise revenue through real estate activities, usually by selling or leasing the land. The proceeds from land sales or leasing provide LRAs with immediate cash and can be used to pay debt service on the bonds directly or fund debt service reserves. This type of financing mechanism can be considered high-risk because of fluctuations in the real estate market, especially when leasing revenues are involved.

Tax-increment financing (TIF) arrangements allow a locality to collect from businesses in a pre-designated tax district the incremental tax revenue associated with increasing property values. The revenue can then be used to repay tax-increment bonds. TIF is considered a high-risk form of debt financing because it hinges on the assumption that infrastructure development causes property values to increase over time.

An LRA's ability to incorporate tax-increment financing into its infrastructure development plan is dependent on state-defined limitations, which vary from state to state. In some cases, state legislation may need to be amended to authorize the use of tax-increment financing for military base redevelopment.

In **Illinois**, the [Economic Development Project Area Tax Increment Allocation Act](#) was passed specifically to allow municipalities to implement TIF for base redevelopment projects.²⁷ The Village of Glenview, Illinois, was one of the first localities to successfully implement TIF during the redevelopment of the Glenview Naval Air Station. Closed through the 1995 BRAC round, Glenview (which is also the LRA) immediately mobilized for a complete redevelopment of the military base, which included demolishing nearly all the existing infrastructure to create a clean slate for a balanced residential, open space, and office and retail community. Glenview secured \$34 million in funding through locally issued general revenue bonds for the early stages of infrastructure development. TIF was the primary mechanism considered for financing the

remaining infrastructure projects. In accordance with Illinois state law, Glenview held a public hearing to inform the community of the TIF proposal. Shortly after, it adopted a tax-increment financing ordinance. Glenview structured the TIF plan so certain local jurisdictions would not have any additional tax liability to acquire or make the public improvements for the property.²⁸ Today, 95 percent of the land has been sold, leased, or is under contract, and the development has created 5,600 jobs.²⁹

In **South Carolina**, a [state law](#) authorizes counties to implement TIF in areas “which are or threaten to become blighted” specifically for the circumstances created by the adverse economic impact of the closing of federal installations.³⁰ The City of Myrtle Beach in full cooperation with and approval of the LRA approved the use of TIF to fund a specific list of public infrastructure projects needed to expedite and make possible the development of a portion of the former Myrtle Beach Air Force Base (closed through BRAC 1991) into an urban village consisting of numerous commercial, retail, and residential properties. In order to make the redevelopment area easily accessible to pedestrian and motor traffic, the LRA funded more than \$20 million in road improvements and the City negotiated the TIF with a developer to issue \$35 million in tax-increment bonds to pay for additional roads, improved public parks, utilities, and parking garages. The bond indebtedness will be paid off by the incremental property taxes created by the developer’s private investment of more than \$100 million. The redevelopment project area at full build-out in 2012 is projected to contain more than 1,600 residential units, create 1,500 jobs, and produce more than \$8 million per year in real property taxes.

Credit Enhancements

Since LRA-issued bonds can be high-risk, many LRAs secure credit enhancements to make their bonds more marketable to prospective investors and provide bondholders with additional protection against delinquency and default. Credit enhancements are guarantees that LRA-issued bonds will be repaid through other sources in the event an LRA is unable to repay. Credit enhancements lower risk and often result in lower interest rates. Many view credit enhancements as an interest rate subsidy.

How Can a State Improve the Investment Grade of LRA-Issued bonds?

- ***Provide credit enhancements—such as grants, guarantees, or pledges—through which a state agrees to make debt service payments on behalf of the LRA in case of delinquency or default.***

Both the public and private sector can supply credit enhancements to LRAs. Four strategies are used most commonly.

- **Direct Federal and State Grants:** Cash grants may be used to fund LRA debt reserve or supplemental funds to ensure there is money available to repay LRA-issued bonds.
- **State and Local Full Faith and Credit Guarantees:** A legally binding guarantee from a state or local government to use all of its revenues and taxing powers to make an LRA’s debt service payments.
- **State and Local Double-Barreled Revenue Pledges:** A legally binding pledge from a state or local government to use specified state revenues to make an LRA’s debt service payments.
- **State and Local Moral Obligation Pledges:** A pledge to request an appropriation from the state or locality to make debt service payments or replenish a debt service reserve fund. Although this type of pledge is not legally binding, many state and local governments have chosen to honor their moral obligation pledges.

Legally, the type of public credit enhancement selected is dependent upon provisions in state constitutions, enabling legislation, and local charters. County and municipal guarantees and pledges may be limited by the state constitution and often require state authorization.

The city and county of San Bernardino, **California** made a full faith and credit guarantee to credit-enhance tax-increment bonds issued by the Inland Valley Development Agency (IVDA). IVDA is an LRA comprising three cities and one county which is responsible for the redevelopment of the former Norton Air Force Base closed in the 1999 BRAC round. IVDA issued \$25 million in tax-increment bonds. These bonds are unique because they are twice credit enhanced. IVDA's first credit enhancement is from a private bank, which agreed to make regular bond payments on behalf of IVDA as long it reimbursed the private bank. The city and county of San Bernardino's full faith and credit guarantee covers IVDA's reimbursement payments to the private bank in the event IVDA's revenues are insufficient.³¹

The city of Denver, **Colorado** provided a moral obligation pledge to credit-enhance \$14.5 million in tax-increment bonds issued by the Lowry Economic Redevelopment Authority (LERA) during the redevelopment of the former Lowry Air Force Base. The proceeds of the TIF bonds were used to finance demolition and infrastructure construction and to fund debt service reserves. In the event LERA's tax-increment revenues fell below 120 percent of debt service payments, the city of Denver pledged it would make up the shortfall with a general fund appropriation.³²

Business Development

When a military base is closed or downsized, communities are eager to implement strategies that will generate new and diverse business activity. A variety of programs at all levels of government offer business development tools to individuals, communities, and businesses in BRAC-affected areas. Most of the programs fall into three broad categories: tax incentives, grants, and loans. Many business development grant and loan programs also function as infrastructure development strategies (discussed in the previous section). Tax incentive-based business development programs can be implemented at the federal, state, and local level.

Federal Business Development Assistance

A common approach for military communities interested in reusing installations as trade ports is to secure a Foreign Trade Zone (FTZ) designation from the Department of Commerce's Import Administration. FTZs are ports that allow nonprohibited foreign goods to enter the country duty-free. Merchandise may be stored, assembled, or packaged for manufacture within an FTZ and exported without duties being levied.³³ Since air force bases and naval air stations already have existing infrastructure to support foreign trade operations—such as storage hangars and airfields—many states have had these types of installations designated as Foreign Trade Zones.

The City of San Antonio, **Texas**, received a [Foreign Trade Zone](#) designation as part of a comprehensive plan to convert the former Kelly Air Force Base (realigned in the 1995 BRAC round) into an international business park to support inland port activities. More than 50 businesses currently are located on the former base, known today as Kelly USA, and they utilize several business development incentives such as the FTZ designation to conduct business operations.³⁴

The [HUBZone \(Historically Underutilized Business\)](#) Empowerment Contracting Program is another federal program geared toward encouraging business development. Administered by the U.S. Small Business Administration (SBA), the HUBZone program provides federal contracting opportunities for eligible small businesses located in economically distressed areas.³⁵

State Business Development Assistance

The most common state financing mechanism to address negative economic impacts on military communities is enterprise zone programs. Enterprise zones (EZs) are targeted development areas, usually economically distressed communities. They offer certain tax incentives to businesses that locate to the zone, which allows private-sector market forces to regenerate local economic activity.³⁶ State enabling legislation usually is required to create enterprise zones.

Tax incentives and eligibility requirements vary from state to state, but the most common tax incentives offered in enterprise zones are corporate and income tax credits for job creation and sales tax refunds on business equipment and building materials. A number of states have taken this approach a step further and established military-specific enterprise zone programs, which address the unique circumstances of base reuse and redevelopment.

A state can encourage business development in economically distressed military communities by *establishing enterprise zones that offer state and local tax incentives to businesses that locate in the zone.*

In 1992, **Arizona** established the [Military Reuse Zone Program \(MRZ\)](#) to lessen the impact of military airport closures.³⁷ The program offers tax incentives specifically to aviation and aerospace companies, insurers, and airport authorities located in an MRZ.

In **California**, the [Local Agency Military Base Recovery Areas \(LAMBRA\) Act](#) was enacted to promote economic development and employment opportunities in designated closed military base communities by offering bidding preferences of 1 percent to 9 percent on certain state contracts. According to LAMBRA provisions, state contracting officials are allowed to award bidding preferences to businesses that operate in a LAMBRA and employ LAMBRA-qualified workers.³⁸

Texas created the [Defense Economic Readjustment Zone Program \(DERZ\)](#) as a tool to generate business activity and job creation in military communities adversely affected by installation downsizing.³⁹ For a business to receive DERZ benefits, it must be nominated by the affected local community, agree to special hiring requirements, and receive a designation by the state as a Defense Readjustment Project. Project designation makes businesses eligible for state sales and allows them to use tax refunds and franchise tax credits based on job creation and capital investment in the community.⁴⁰

In an effort to bolster the economy due to the closing of Brunswick Naval Air Station in **Maine**, Governor John Baldacci recently signed a tax incentives law that would offer a 100 percent income tax credit to certain businesses that move to [Military Redevelopment Zones \(MRZ\)](#).⁴¹ The law was proposed by the governor to encourage new business development in the mid-coast area to mitigate the economic effects due to the closure of the base and assist in conversion of the base property following closure. To accomplish these goals, 500 acres of property outside the base's fence line (home to much of the local labor market) now are eligible for MRZ designation and an additional 1,000 acres of base property will be eligible for designation following the closure of the installation in the summer of 2011.

New York Governor George Pataki recently announced that Plattsburgh Air Force Base, closed in the 1993 BRAC round, will be home to a private-sector aerospace company and a new aircraft maintenance facility.⁴² The state played an active role in attracting the \$64 million project, which will create over 1,500 new jobs. Empire State Development, the state's lead economic development

entity, is providing the company with a capital grant of up to \$6.1 million, which includes \$4.1 million for the first phase of the project. The hangar construction project also will receive \$3 million in new multimodal transportation funding. In addition, the New York State Energy Research and Development Authority will provide up to \$500,000.

Local Business Development Assistance

Property tax abatement is one of the most common strategies implemented by local governments to stimulate economic growth. Tax abatement is a temporary suspension or reduction of property tax payments, which local governments offer to businesses for a specified length of time. The extent to which a locality may utilize property tax abatement is dependent on state-defined parameters on local taxation. While localities frequently offer tax abatements to new businesses as an incentive to locate in a community, they are also an important tool for encouraging existing businesses to reinvest in the community.

The city of Kettering, **Ohio**, recently entered into a BRAC-initiated tax abatement agreement with GE Consumer Finance. Under the terms of the agreement, GE will relocate 800 full-time jobs from a nearby township to its Kettering Business Park offices in November 2006. In exchange, the city will provide a 12-year, 75 percent real property tax abatement and a \$500,000 forgivable loan to be used for improvements to GE-occupied buildings located in the business park.⁴³

Workforce Development

BRAC decisions can have a dramatic impact on the workforce in a military community. A closed or downsized base can result in thousands of lost jobs and dislocated workers. These individuals will need access to job counseling to help them identify alternative employment opportunities and enhance their job skills.

During previous rounds of BRAC and other defense downsizing efforts, workforce development programs targeting dislocated workers varied widely among states and military communities. Some states and localities incorporated workforce development efforts into their comprehensive economic development plans. In St. Louis County, **Missouri**, the county government used federal planning and infrastructure grants from OEA and EDA as well as job training grants from the U.S. Department of Labor to establish a wide range of adjustment activities, including two business incubator programs, in response to the loss of 59,000 defense industry contracting jobs. Initiated by the St. Louis Defense Adjustment Program, the business incubator programs were aimed at diversifying local economic activity by allowing dislocated defense workers, such as federal civilian base workers and defense contractors, to receive job retraining and education assistance to become private small business owners.⁴⁴

Other states collaborated with localities and labor unions to provide support to federal and contract employees slated to lose their jobs because of the closure of a military installation. Soon after the 1995 BRAC Commission approved DoD's recommendation to close the Fitzsimons Army Medical Center in Denver, **Colorado**, the Governor's Job Training Office contracted with the Colorado AFL-CIO to establish a rapid response team, secure government funding, and implement a transition program for nearly 2,400 dislocated installation workers.⁴⁵ The Rapid Response Program played a crucial role in providing affected base workers early access to information about the re-employment process. In addition, the program allowed the rapid response team to conduct surveys of the workforce to determine what types of training programs would benefit them the most.

Workforce development efforts created in response to BRAC 2005 actions, however, may be slightly different than in previous BRAC rounds. The [Workforce Investment Act of 1998 \(WIA\)](#)

includes a combination of mandatory and voluntary provisions that call for a common national framework for workforce development, while encouraging flexibility in service delivery at the local levels.⁴⁶

Under WIA, dislocated workers, including BRAC-affected workers, are among three targeted populations that state and local workforce investment boards must assist through the establishment of Local One-Stop Career Centers. The local centers provide single-point access to a wide variety of job training, education, and employment services. As a result, most public financing assistance for workforce development is likely to be used to enhance services at Local One-Stop Career Centers.

The following section briefly describes the types of financing assistance available at the federal, state, and local level.

Federal Workforce Development Assistance

Traditionally, the U.S. Department of Labor's Employment and Training Administration (ETA) has provided states and localities with general guidance and financial support in planning and developing worker adjustment strategies. For instance, the *National Emergency Grant Program* has provided crucial early funding to states to respond to the needs of dislocated base workers and localities affected by BRAC decisions.⁴⁷ The first grants—totaling \$28 million—were awarded to states in 2005 to initiate early planning related to workforce and employment issues at the installation and community levels.⁴⁸

Utilizing the Internet – The BRAC Coach

The newest DoL-sponsored workforce development tool available to BRAC-affected communities is the BRAC Coach. Accessed through the Internet, the [BRAC Coach](#) is a tutorial-type information service designed to assist workers, businesses, and local One-Stop Career Center staff affected by BRAC actions to become more aware of special resources available to address BRAC-related workforce impacts.

State and Local Workforce Development Assistance

The Department of Labor encourages states and local workforce investment boards to continue offering rapid response and other worker adjustment programs to BRAC communities. For example, local workforce development offices in **Iowa** and **Illinois** recently teamed with a nonprofit organization to open a worker adjustment office at the Rock Island Arsenal, which is slated to lose nearly 1,600 jobs when several operations are transferred off the installation as a result of BRAC 2005. The [I-FORCES Center](#) (Installation-Finding Opportunities, Resources, Careers and Employable Skills) is funded by DoL grants and provides career, financial, and relocation-planning assistance to workers who are to be displaced.⁴⁹

* * *

Financing Strategies to Address Mission Growth

The 2005 round of BRAC is different from previous rounds in that a larger percentage of installations will be realigned to receive additional military operations. The U.S. Department of Defense refers to this type of realignment as *mission growth*. Although much of the mission growth efforts are a direct result of BRAC recommendations to relocate and consolidate certain military

operations, mission growth also will occur at some domestic installations because of non-BRAC military transformation and global repositioning initiatives.⁵⁰

Mission growth communities do not experience the same kind of economic distress as military communities faced with base closure or downsizing. Yet mission growth can place a great deal of economic pressure on a community because of rapid and substantial growth from military and civilian personnel moving to the area. This growth can place excessive demands on essential community services and facilities. To manage local growth successfully, states and communities need solid information on the size and timing of the direct military changes and adequate financing to address community enhancements such as roads, schools, and housing. Mission growth is a fairly new territory for both DoD and states and communities. As a result, there are fewer government programs to guide military communities through the mission growth process. However, there are several steps states and communities can take as they tackle this issue.

Planning

The U.S. Department of Defense's [Office of Economic Adjustment](#) (OEA) suggests communities undertake growth management in partnership with the affected military base.⁵¹ When necessary, local officials should organize to respond to the anticipated growth by establishing an ad hoc committee responsible for making initial assessments of important community issues.

How Can a State Help Fund Mission Growth Planning?

- ***Provide matching funds to OEA planning assistance grants issued to local growth organizations.***
- ***Provide administrative support in grant management to local growth organizations.***

Federal Planning Assistance

To help communities plan and initiate community development activities, OEA makes *Mission Growth Planning Assistance Grants* available to eligible communities that will experience rapid growth as a direct result of an increase in military base activities.⁵² These grants are to be used for a range of studies and activities to support community development plans and actions that address what states and communities may need to do in response to the growth of a military base community. Studies often address the expansion of public schools, housing construction, and new or widened roads. As with OEA grants for redevelopment, states or other non-federal government entities are required to provide matching funds.

State and Local Planning Assistance

A successful growth management partnership includes all stakeholders. The [Fort Leonard Wood Regional Commerce and Growth Association](#) in **Missouri** was one of the first growth management organizations to plan successfully for BRAC-related community growth.⁵³ Formed in response to the 1995 BRAC decision to relocate military operations to Fort Leonard Wood, the regional association is composed of numerous public and private stakeholders including representatives from the surrounding cities and counties, area businesses, local school boards, utility companies, Fort Leonard Wood, and the state of Missouri. The state provided matching funds to OEA's planning assistance grant and administrative support for grant management.

Infrastructure Development

A major concern for mission growth communities is the need for an infrastructure system capable of supporting an influx of people. Most communities will find they must build new or enhanced infrastructure but don't have the funds to make the enhancement without outside help. Often a combination of federal, state, and local financing is needed for infrastructure improvement projects.

Federal Infrastructure Development Assistance

Numerous federal agencies have grant programs to assist mission growth communities in implementing public works improvement projects. For example, EDA's *Public Works Program* and HUD's [Community Development Block Grant Program](#) provide funding to states for the construction or reconstruction of streets, water and sewer facilities, and other public works.⁵⁴ Both of these federal programs are competitive and have eligibility criteria, and not every mission growth community will qualify.

In the past, mission growth communities have focused much of their infrastructure concern on improving surface transportation and expanding public school facilities. To address the need for improved and expanded road access for growing military communities and installations, the Department of Transportation's Federal Highway Administration (FHWA) administers the [Defense Access Roads Program \(DAR\)](#).⁵⁵ The DAR program assists military bases in identifying, evaluating, and funding projects for highway improvements needed because of an increase in military installation activity. To initiate a DAR project, the local military base informs the Military Surface Deployment and Distribution Command (SDDC) of the community's access and mobility needs.

Another major infrastructure concern for mission growth communities is the overcrowding of public schools. The Department of Education's Office of Elementary and Secondary Education manages the [Impact Aid Program](#), which provides financial assistance to local school districts affected by federal activities.⁵⁶

Local school districts surrounding Fort Benning in **Georgia** expect to see a large increase in student enrollment as a direct result of the 2005 BRAC round. In an effort to streamline the application process, the affected school districts formed the Chattahoochee Valley Schools Coalition and requested funding from the U.S. Department of Education through one application. **Arkansas, Colorado, Georgia, Kansas, Oklahoma, Texas, and Virginia** likely will be affected heavily by BRAC-induced increases in student enrollment. School divisions from these states formed a group called the Seven Rivers National Coalition in the hope that their coordinated efforts might increase federal funding for military-impacted public schools.

State and Local Infrastructure Development Assistance

Traditionally, many states have contributed state funds through general revenue and debt-financed grants to support various infrastructure development projects near growing military installations.

Housing and Transportation

When nearly 7,000 people relocated to Fort Leonard Wood in **Missouri** as a result of the 1995 BRAC round, the state's department of transportation provided \$15 million in funding to expand the installation's main access gate, construct a secondary gate to improve traffic flow, help with airport improvements studies, and establish a regional airport authority.

As a result of the 2005 BRAC decisions, **New York** Governor George Pataki recently announced the release of \$9 million to support the development of affordable housing around Fort Drum, which will experience an increase in mission activities.⁵⁷ The governor hopes the funding will spur the development of 800-900 new single- and multifamily affordable housing units in the region. Building on \$6.9 million in housing incentives that Governor Pataki announced in August 2005, the \$9 million in new funds should generate a total of \$90 million in private-sector investment in the housing units.

El Paso, **Texas**, expects a large influx of people as a result of the growth of Fort Bliss. To accommodate the increase of automobile traffic, the Texas Transportation Commission has approved a \$200 million road construction project—the largest in El Paso history. The state is considering using “pass-through financing” to fund the project. The plan is to have a private road construction company pay for the design and construction of the highway. The state would reimburse the company over a number of years based on the number of cars that travel the road. The plan would not involve tolls but would count the number of cars that use the highway.

Schools

Although federal aid will be needed to provide emergency funding to address the immediate infrastructure needs of schools, state and local government financing usually is necessary to address long-term needs such as school facility expansion or new school construction. In anticipation of mission growth at Fort Riley, in Kansas, the state and counties surrounding the military base have implemented several strategies to meet the demand for school infrastructure expansion. Voters in Geary County recently passed a \$33 million school bond referendum and the school board authorized an additional \$4.5 million to expand Geary County USD #475 schools capacity. In response to the future growth of the student population, the Manhattan-Ogden School district has removed one school from its list to be closed and is considering reopening a school it already closed in order to accommodate an increase in school enrollment. Sixteen school districts in the Fort Riley area have formed a coalition to address the needs of families and students who will move to the area. Issues that the coalition covers include facilities, appropriate class size, curricula, student transitions, and the requirements of “No Child Left Behind” for incoming students.

Enrollment counts are a crucial determinant of the amount of state aid allocated to local school districts. As a result, the Kansas Legislature passed a bill that will increase modestly state financial assistance to school districts experiencing an increase in enrollment due to BRAC actions. The [School District Finance and Performance Act](#) changes the Kansas school finance law by allowing school districts affected by mission growth to submit a second headcount on February 20 to reflect the increased enrollment of active duty military dependents.⁵⁸ In order to receive additional state funding for the 2005-2006 and 2006-2007 school years, school districts may update enrollment counts only if there is an increase of at least 25 students or 1 percent or more of total enrollment, and the newly enrolled students are dependents of active duty military or military reserve members.

The Kansas Department of Education has estimated approximately 700 additional students will enroll for the 2006-2007 school year as result of BRAC 2005. Under current Kansas law, the expected enrollment increase is projected to cost the state an additional \$3.2 million per school year, in addition to financial adjustments made in the local school districts’ budgets.⁵⁹

Business Development

Although no formal government financing programs exist specifically for the purpose of promoting business development in mission growth communities, several state and local governments have taken steps to assess the potential for business development opportunities.

Federal Business Development Assistance

A Small Business Administration (SBA) grant was given to El Paso, **Texas**, to fund a local seminar to help small businesses prepare for mission growth anticipated at Fort Bliss as a result of the 2005 BRAC round.⁶⁰ The seminar informed small business executives of best practices for managing government contracts, acquiring growth capital, and handling legal affairs. The seminar also provided assistance on how to develop a strategic growth plan.

State and Local Business Development Assistance

Shortly after the 2005 BRAC Commission approved DoD's recommendation to relocate several military operations to Fort Belvoir in Northern **Virginia**, the Fairfax County Economic Development Authority (FCEDA) led a bus tour of the area surrounding the base. Public and private stakeholders interested in business development opportunities toured 13 office locations and development possibilities within six miles of Fort Belvoir.⁶¹

As a result of the 2005 BRAC decisions, Harford, Baltimore, and Cecil Counties in **Maryland** have joined together to launch a regional initiative marketing the area surrounding Aberdeen Proving Ground as the "Chesapeake Science & Security Corridor."⁶² Although the tri-county alliance is still in the coordination phase, the goal is to maximize the region's economic growth potential by pooling the counties' resources.⁶³

Funded in 2004 by a grant from the North Carolina General Assembly, the [North Carolina Military Business Center \(NCMBC\)](#) is a collaborative effort between North Carolina business and industry and the North Carolina Community College System.⁶⁴ The mission of NCMBC is to leverage the presence of the military in North Carolina to promote economic development by increasing military business for existing companies and supporting recruitment and development of defense-related businesses in North Carolina. NCMBC currently is helping local businesses prepare to take advantage of the state's mission growth opportunities.

Workforce Development

Mission growth presents military communities with workforce benefits and challenges. An increase in military activities often results in an increase in jobs directly and indirectly related to the military base. However, it can be difficult to determine exactly what kinds of jobs will be available and if the existing workforce in the receiving community is of sufficient size and has the necessary skills and expertise for the incoming jobs.

Growing military communities should focus initially on conducting a comprehensive workforce assessment. Once communities have an understanding of their current and future workforce composition, they should implement strategies that encourage job training and facilitate awareness of available opportunities.

Federal Workforce Development Assistance

The U.S. Department of Labor Employment and Training Administration (ETA) awards grants—through the *National Emergency Grant Program*—to states and localities to assess workforce needs associated with mission growth. States and localities have used these grants in a variety of ways.

State and Local Workforce Development Assistance

Some states have chosen to provide state-level administration of DoL grants for workforce development initiatives. Others have distributed their DoL funds to localities to conduct workforce development assessments at the local level. In Kansas, the state's department of commerce secured a DoL National Emergency Grant (NEG), targeted for the Fort Riley region, to address a multitude of workforce issues in cooperation with several localities, non-profit organizations, and the federal government.⁶⁵ A major result of the Fort Riley area targeted funds has been the launching of the [Fort Riley Connection](#) Web site. This Web site, maintained by the state to deal with workforce issues stemming from the 2005 BRAC decisions, is a one-stop shop for information on living and working in the communities surrounding Fort Riley—a region in North central Kansas expecting to see a population increase of approximately 30,000.⁶⁶ Furthermore, the state allocated additional

Dislocated Worker funds to provide increased work-related services for military spouses moving to the area.

The **Maryland** Departments of Labor, Licensing, and Regulation (DLLR) and Business and Economic Development (DBED) are coordinating reviews in accordance with a \$1.27 million grant provided by the U.S. Department of Labor. DLLR is working with regional Workforce Investment Boards to study the impact associated with additions to the National Naval Medical Center at Bethesda, the Aberdeen Proving Ground, Andrews Air Force Base, and Fort Meade. DBED is reviewing the BRAC positions themselves as they relate to macro-level infrastructure, higher education, and security issue requirements.

Conclusion

When the Pentagon reorganizes its military installation infrastructure through the BRAC process, the economic impact on affected states and localities can vary greatly depending on whether a military base is closed or realigned. As a result, there is no one-size-fits-all financing plan to address the economic impacts of BRAC.

Despite these differences, in order to ensure a successful economic adjustment it is important that states and localities work together with the federal government to secure adequate public financing in planning and infrastructure, business, and workforce development. A diversified and balanced financing plan not only increases the total amount of funding for redevelopment and growth projects but also takes advantage of the strengths each level of government offers in stimulating economic activity.

The federal government assists military communities primarily through technical assistance and grant programs. States can encourage base redevelopment and local growth projects through several state-level financing mechanisms. Direct state funding (cash grants) and debt financing (bonds) are often the fastest and simplest financing strategies to spur private-sector investment in base redevelopment and local growth. States also can aid the process by passing legislation that will allow for the implementation of financing mechanisms at the local level. Laws also can be passed that create tax incentive programs that encourage private-sector investment and business activity.

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Appendix 1Source: NGA Center for
Best Practices**State and Local Financing Strategies to Address Military Base Redevelopment**

	State and Local Strategies	Benefits	Challenges
Before BRAC recommendations become law	State: Establish state-level committee, group, or office to identify state policy and financing options.	Central point of contact for coordinating resources available within state government. Ensures a thorough review of <i>all</i> available state resources.	Uncertainty over whether a base will actually be closed or realigned.
	State: Establish Regional Working Groups as subsets of the state committee.	Focuses on unique economic impacts on specific regions within the state.	Difficult to ensure adequate representation of relevant stakeholders.
Planning	State: Provide matching funds to Federal OEA planning assistance grants.	Provides flexibility to the LRAs in determining suitable development strategies for specific military bases.	OEA <i>requires</i> non-federal matching funds for military communities to be eligible for federal planning assistance grants.
	State: Establish state-level BRAC grant program.	Provides additional state funding and administrative grant management support to LRAs.	Challenging to put together state-level program that enhances rather than complicates federal planning assistance grants.
Infrastructure development	State and Local (city/county): Directly issue state general obligation (GO) bonds.	State and local GO bonds tend to be investment grade bonds (i.e. low risk to investors). State and local governments are better able than LRAs to distribute risk among a more diverse tax base.	Some states have constitutional and statutory limitations on the amount of borrowing states may incur. Local governments' borrowing is dependent on debt limitations in their charter or enabling legislation.
	State: Enact legislation allowing localities to implement debt financing mechanisms—TIF or real estate bonds—for economic development purposes.	Gives more flexibility to localities; Provides direct benefits to affected stakeholders.	TIF and real estate revenue bonds tend to be high-risk due to a combination of a small tax base and price fluctuations in the real estate market.
	State and Local(city/county): Credit enhanced LRA-issued bonds through grants, guarantees, or pledges.	Improves investment grade of LRA-issued bonds.	Some states have constitutional and statutory limitations on state-issued credit enhancements. Local government credit enhancements are dependent on limitations in their charter or enabling legislation.
Business development	State: Establish Regional Enterprise Zones (with state tax incentives) in or near closed/downsized military bases. Local (city/county): Offer property tax abatements to businesses that locate to or remain near a closed or downsized base.	Tax incentives encourage existing businesses to stay and new businesses to relocate to the zone.	Challenging to determine adequate state-local tax incentive package; non-sunset legislation can raise equity questions after the economy stabilizes.
Workforce development	State: Secure U.S. Department of Labor National Emergency Grants to address workforce needs.	Funds can be distributed to state and local workforce investment boards and local One-Stop Career Centers to meet the needs of displaced workers.	Challenge to ensure that programs assist workers directly (federal civilian) <i>and</i> indirectly (defense contractors, defense-dependent service workers) connected to a closed or downsized military base.

Appendix 2Source: NGA Center for
Best Practices

State and Local Financing Strategies to Address Mission Growth			
	State and Local Strategies	Benefits	Challenges
Before BRAC recommendations become law	State: Establish state-level committee, group, or office to identify state policy and financing options.	Central point of contact for coordinating resources available within state government.	Uncertainty over whether military operations will actually increase at a base. Ensuring a thorough review of <i>all</i> available state resources.
	State and Local: Become member of an initial ad hoc local growth management organization.	Organization works in cooperation with the military base to address economic impacts on the entire community.	Challenge to ensure adequate representation of relevant stakeholders.
Planning	State: Provide matching funds to federal OEA planning assistance grants.	Provides flexibility to the LRAs in determining suitable development strategies for specific military bases.	OEA <i>requires</i> non-federal matching funds for military communities to be eligible for federal planning assistance grants.
	State: Provide administrative support for planning grant management.	Provides additional support to local growth management association.	Challenge to make timely distribution of funds to local growth management association.
Infrastructure development	State: Contribute state funds—general revenue and debt-financed grants (bonds)—to support various infrastructure projects.	State bonds tend to be investment grade bonds (i.e. low risk to investors) because they are better able than LRAs to distribute risk among a more diverse tax base.	Some states have constitutional and statutory limitations on the amount of borrowing they may incur.
	State: Pass legislation establishing state-level defense infrastructure improvement fund and program.	Provides dedicated funding for BRAC-related infrastructure projects necessitated by mission growth.	Determining adequate funding level and application and allocation procedures.
	State: Enact legislation allowing school districts to receive additional state aid.	Ensures that only mission growth affected school districts receive additional state aid.	Ensuring accurate projections of increased student enrollment.
	Local: Propose debt financing (bonds) for referendum vote to build or renovate schools.	Funds are available immediately upon the sale of bonds.	The public must vote in favor of debt financing; locality may not have a site to build new schools; locality may not be able to build or expand schools in time to meet increased demand.
Business development	State: Provide localities with technical assistance and timely access to relevant state programs.	Enhances a locality's ability to foster meaningful business/economic development opportunities.	Ensuring that the assistance addresses the unique circumstances of communities.
Workforce development	State: Secure U.S. Department of Labor National Emergency Grants to address future workforce needs.	Funds can be distributed to state and local workforce investment boards to conduct workforce assessments in mission growth communities.	Ensuring that the local workforce has the necessary skills that will allow them to apply for the new jobs created or relocated by mission growth.

NOTES

¹ The 2005 round of BRAC is governed by U.S. Public Law 101-510 as amended through FY 2005 Authorization Act, available at: <<http://www.nga.org/cda/files/baseclosure1990.pdf>>; Title 32 of the Code of Federal Regulations (CFR) as amended on February 28, 2006, available at: <<http://www.nga.org/Files/pdf/06BRACFINALRULE.PDF>>; and DoD's Base Redevelopment and Realignment Manual (BRRM) as updated on March 1, 2006, available at: <<http://www.nga.org/Files/pdf/0603BRRM.pdf>>.

² Seidman, Karl, *Economic Development Finance*. (California: Sage Publications, 2004).

³ Florida Defense Alliance (FDA), *Organization Introduction*. Available at: <<http://www.floridadefense.org/index.asp>>.

⁴ East Carolina University Regional Development Services and Regional Economic Models, Inc., *North Carolina Statewide Military Impact Study*. Prepared for North Carolina Advisory Commission on Military Affairs, February 2004. Available at: <http://www.nccommerce.com/publicaffairs/Military_Impact_2004.pdf>.

⁵ See DoD report, "Military Transformation: A Strategic Approach," prepared by the Office of Force Transformation, Office of the Secretary of Defense. Available at: <http://www.oft.osd.mil/library/library_files/document_297_MT_StrategyDoc1.pdf>.

⁶ U.S. Department of Defense, Office of Economic Adjustment (OEA), "Managing Community Growth." *Economic Adjustment Technical Bulletin 5*. Available at: <[http://www.oea.gov/OEAWeb.nsf/AF2909308D234F1F852570E0005C3690/\\$File/Managing%20Community%20Growth-Tech%20Bulletin%205.pdf](http://www.oea.gov/OEAWeb.nsf/AF2909308D234F1F852570E0005C3690/$File/Managing%20Community%20Growth-Tech%20Bulletin%205.pdf)>.

⁷ The Office of Economic Adjustment's Web site available at: <www.oea.gov>.

⁸ See full text of President Bush's Executive Order 12788, as amended, issued May 12, 2005. Available at: <<http://www.whitehouse.gov/news/releases/2005/05/20050512-10.html>>.

⁹ See full text of Maine Governor John Baldacci's Executive Order 10 FY 06/07, issued November 29, 2005. Available at: <<http://www.nga.org/Files/pdf/BRACEXECORDERME.PDF>>.

¹⁰ See full text of then-Virginia Governor Mark Warner's Executive Directive 10, issued September 2005. Available at: <http://www.vaallies.org/pdf%27s/brac/gov_directive.pdf>.

¹¹ See eligibility requirements for the Community Base Reuse Planning Grants at the *Catalog of Federal Domestic Assistance*. Section 12.612.

¹² See eligibility requirements for the Community Economic Adjustment Planning Assistance Grants at the *Catalog of Federal Domestic Assistance*. Section 12.607.

¹³ Ohio Governor Bob Taft's Office, "Taft Announces Defense Conversion Assistance Program. Funding to help communities negatively impacted by BRAC process," News Release, Columbus, Ohio, October 5, 2005. Available at: <<http://www.governor.ohio.gov/releases/100505brac.htm>>.

¹⁴ See eligibility requirements for the Public Works Program grants at the *Catalog of Federal Domestic Assistance*, Section 11.300.

¹⁵ For summary of Economic Development Administration's Economic Adjustment Program, see <www.eda.gov/PDF/BRACTriFoldFINAL1.pdf>. See eligibility requirements for the Economic Adjustment Program grants at the *Catalog of Federal Domestic Assistance*, Section 11.307.

¹⁶ U.S. Federal Aviation Administration (FAA), *Military Airports Program, Introduction*. Available at: <http://www.faa.gov/airports_airtraffic/airports/aip/military_airport_program>.

¹⁷ U.S. Government Accountability Office (GAO), "Military Bases. Status of Prior Base Realignment and Closure Rounds." *GAO/NSIAD-99-36*, December 11, 1998, 84. Available at: <<http://www.gao.gov/archive/1999/ns99036.pdf>>. For more information about the Pease Development Authority, go to: <<http://www.peasedev.org>>.

¹⁸ New Hampshire General Court, Title 1, Chapter 12-G:34 Pease Matching Grants. *New Hampshire Statute*. July 1, 2001. Available at:

<<http://www.nga.org/Files/pdf/BRACPEASENH.PDF>>.

¹⁹ Most state constitutions require referendum approval and/or a supermajority vote of the legislature. The use of proceeds from the sale of general obligation bonds is usually limited by state law to specific types of capital projects, such as constructing roads, and water and sewer systems.

²⁰ Debt limits are commonly set as an absolute dollar cap or as a fixed percentage of general revenue or of total assessed property valuation.

²¹ For more information on the redevelopment of Fort Devens, go to:

<<http://www.devenscommunity.com>>.

²² For more information on the redevelopment of Glenview Naval Air Station, see The Glen. Available at: <<http://www.glenview.il.us/glen/>>.

²³ The federal agencies that commonly fund revolving loan fund programs include the Commerce Department's Economic Development Administration (EDA), USDA's Intermediary Relending Program, the Treasury Department's Community Development Finance Institutions (CDFI), and the Department of Housing and Urban Development's Community Development Block Grant (CDBG) program.

²⁴ See eligibility requirements and benefits of the EDA Revolving Loan Fund Program in a report titled "EDA RLFs Make a Difference," prepared by the Economic Development Finance Service, National Association of Development Organizations Research Foundation, September 2002.

Available at: <<http://www.nado.org/pubs/rlf02.pdf>>.

²⁵ Virginia Department of Business Assistance (VDBA), *Virginia Defense Conversion Revolving Loan Fund Description*. *Capital Resources Directory*. Available at:

<http://www.dba.state.va.us/financing/crd/program.asp?PROGRAM_ID=70>.

²⁶ East Bay Conversion and Reinvestment Commission (EBCRC), *Defense Conversion Revolving Loan Fund Eligibility Requirements*. Available at: <<http://www.ebcrc.org/rlf.htm>>. The EBCRC is NOT an LRA, and there is no surplus property for which they have responsibility.

²⁷ Illinois General Assembly, Economic Development Project Area Tax Increment Allocation Act of 1995, Title 65, Chapter 110, *Illinois Compiled Statutes*. Available at:

<<http://www.ilga.gov/legislation/ilcs/ilcs2.asp?ChapterID=14>>.

²⁸ The Glen Redevelopment Project, *History of Redevelopment Project*. *Tax-Increment Financing Ordinance, Adopted May 1998*. Timeline. Available at:

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