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Exploring Alternative Funding Methods for the Lead Remediation Program in Scott County, Iowa

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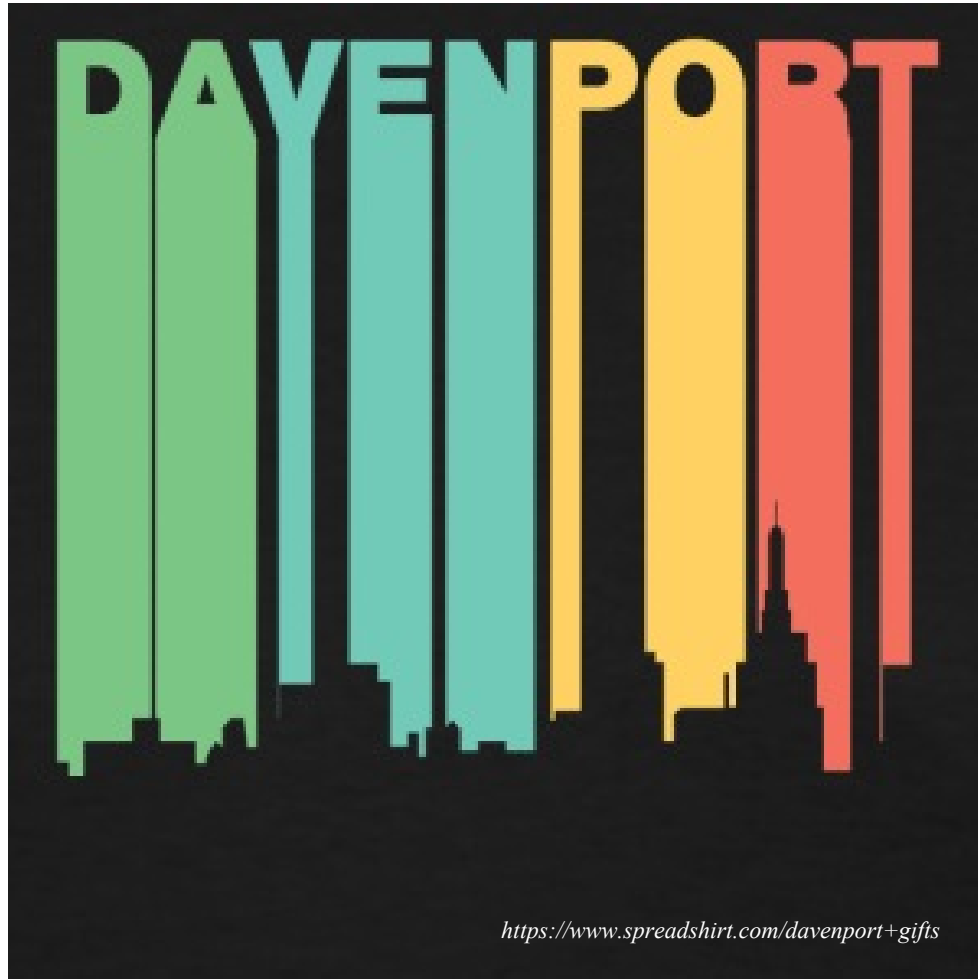
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Augustana College



Exploring Alternative Funding Methods for the Lead Remediation Program in Scott County, Iowa

Winter 2017 • Sustainable Working Landscapes Initiative

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Students in Accounting 445: Accounting Seminar

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Table of Contents

Acknowledgements..... 3

The Sustainable Working Landscapes Initiative (SWLI) 3

EXECUTIVE SUMMARY 4

 Project Summary 4

 Overview 4

 Recommendations 5

INTRODUCTION 5

MEMOS 6

 Tax Increment Financing Decision Memo6

 Urban Revitalization Decision Memo.....7

 Revolving Fund Decision Memo.....8

 Housing Trust Decision Memo.....9

 CRA Decision Memo.....10

CONCLUSION.....11

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The Sustainable Working Landscapes Initiative (SWLI)

The concept of the Upper Mississippi Center for Sustainable Communities (UMC) came from exploratory meetings with more than 125 on and off-campus community stakeholders between January and August of 2013. The need was clear: our area's urban and rural communities have identified many environmental and economic sustainability issues and do not have the staff, expertise, time or funding to address them. The vision of the UMC was to mobilize Augustana's faculty and students to help communities solve the social, economic, and environmental challenges facing the rural and urban landscapes of the Upper Mississippi region by integrating the study of these current, local issues into coursework taught on campus. After two pilot years, the UMC implemented a unique collaborative learning model named the Sustainable Working Landscapes Initiative.

The Sustainable Working Landscapes Initiative is modeled after the Sustainable Cities Year Program at the University of Oregon. Augustana College is the only exclusively undergraduate institution in the country to adapt this highly successful program to a residential liberal arts setting. The model creates a full one-year partnership between Augustana and a city/county partner, matching existing courses from multiple departments and other learning experiences (independent study, senior inquiry, internships) with community-identified and driven sustainability problems. The SWLI also helps cities and counties achieve their economic, social, and environmental sustainability goals while working with limited resources.

The Sustainable Working Landscapes Initiative represents a paradigm shift for service learning experiences in higher education. Instead of asking groups and communities to participate in initiatives that originate in academia, the UMC asks communities to identify their most pressing social, economic, and sustainability challenges. It then provides these groups and communities with the human and academic resources of Augustana College faculty and students to help them address the challenges. This is not a one-time group of volunteers. SWLI student and faculty participants commit to supplying three, 10 week terms of sustained research, study and work in the classroom and in the field. The UMC is establishing enduring relationships between Augustana and these constituents so they can continue to work together to find creative solutions, test and evaluate their effectiveness, and try again as challenges and problems change.

EXECUTIVE SUMMARY

Project Summary

Lead poisoning is an environmental as well as social problem. Areas with more older housing and higher rates of poverty are also the areas with the most lead poisoned children. Though the United States banned the use of lead paint in 1978 and lead poisoning is preventable, lead poisoning remains a public health problem. Homes built before 1978 may pose risk of lead paint exposure, but of special concern to Scott County are the number of homes built before 1950.

Scott County, Iowa is home to some of the oldest housing units in the U.S. Iowa ranks fifth among the states in the percentage of housing built before 1950 and third in percentage of housing built before 1940. While the national average of pre-1950 homes is 22.3%, Scott County's pre-1950 housing stock is 30%. Pre-1950 housing stock rises to 77% in the census tracts 106 through 112 in the City of Davenport. It is in these pre-1950 homes where children in Iowa are most at risk.

Scott County's poverty level of 7.7% exceeds the state average, and the incidence of lead poisoning at 2.2% is more than double the national average of 1.0%. The incidence of lead poisoning in the census tracts 106 through 112 in the City of Davenport reaches 3.8%, nearly quadruple the national average.

In 2016, Scott County Health Department officials reached out to the Sustainable Working Landscapes Initiative (SWLI) program at Augustana College to begin a partnership addressing this environmental problem in our community. Students in the Winter 2017 term researched a variety of possible funding opportunities to help with the environmental problem through financing a project to resolve the issue.

Overview

The layout of this report is as follows: First, we identify the most common funding options that other governments have taken to fund a lead remediation project in their own jurisdiction. Then, we provide recommendations for what is most feasible for Scott County to implement. It is our hope that these recommendations will be useful in helping to inform next steps in the improvement of environmental health in our community through this funding opportunity research.

Recommendations

In this report, we focus on the recommendations based on lessons learned from other communities in the United States.

- Our top recommendation is that Scott County investigates the feasibility of each of these options through the pros and cons we have given.
- We also recommend that Scott County investigate combining multiple of these recommendations for the best outcome.

INTRODUCTION

Most lead hazard prevention programs use United States Department of Housing and Urban Development (HUD) grants as a main source of funding. In 2007 and 2011, the City of Davenport received \$2.5 million in HUD funding for remediation of homes where children were at risk of lead poisoning, however there remains much work to do. To date, the City of Davenport has no stated plans to apply for future grant cycle funding. The lack of funding will hamper efforts to remediate lead contaminated housing in Scott County, and perpetuate the problem of lead poisoning of children in the county. The County estimates that approximately 81% of the housing in Scott County was built prior to 1978 and over 30% was built prior to 1950. The risk of lead poisoning raises substantially in census tracts 106 through 112 in the City of Davenport where this rises to 96% of housing was built prior to 1978 and 77% before 1950. The previous cycles of HUD funding remediated approximately 300 lead-contaminated houses in which children 6 years of age or younger lived, but the City estimates that over 2,000 housing units in the target area are in substandard condition needing substantial repairs. Challenges with administration of the HUD grant resulted in fewer properties to be remediated than planned and disillusionment of partners.

Institutional barriers have proved to be a major obstacle in using HUD funds to combat lead hazards proactively. To date, the city and county take mostly reactive measures in treating lead hazards. The County is currently studying pathways for alternative funding mechanisms outside of or beyond HUD grants. In addition, partnerships must continue to be built to leverage existing and alternative resources within the community and provide greater flexibility in proactive interventions than allowed through HUD funding. The following memos highlight various methods researched by an accounting seminar at Augustana College and interns for the UMC.

Summary and introduction written by Dr. Angie Carter and Emma Nordmeyer, Sociology

MEMOS

Tax Increment Financing Decision Memo

STATEMENT OF ISSUE:

After receiving information of homes in the Davenport, IA area having lead in them, it was the goal of the Upper Mississippi Center to find plausible funding initiatives to help solve this problem. One funding method that we thought would make sense was the use of a TIF or also known as tax increment financing. This type of funding essentially would allow the reallocation of property taxes in the area to help finance the lead removal project. After holding meetings with officials in the Davenport area and conducting more research on TIF funding, we found that it is probably not a realistic funding option to our project anymore.

The biggest underlying problem to this financing initiative is the location of the properties. In order for a TIF to be used, the property values of the homes we are repairing must go up significantly. Unfortunately, due to the location of where the houses are in Davenport a significant increase in property value after repairs is just not likely. The other key component to deeming this project unrealistic was a quick equation we received to see just exactly how much money we would receive for funding the project if we used a TIF. The equation basically equated to a \$40 increment we can use to repair the homes for every \$1,000 we increase the property value. Now, just going off of some rough estimates in our prior analysis we concluded that the homes in our project would need around \$12,000-\$15,000 in repairs. Therefore, based off these estimations we would need to increase the property value of the home by \$300,000 if we wanted to make repairs of \$12,000 on a home. This conclusion does not seem realistic as many newer homes in the Davenport area hardly cost \$300,000. These were the two biggest reasons why we thought TIF funding would not be helpful to our project any longer.

Urban Revitalization Decision Memo

STATEMENT OF ISSUE:

Developed to address deteriorating city areas, the Urban Revitalization Tax Exemption (URTE) program is designed to incentivize property owners to make improvements on their properties with the potential for a tax exemption. Through the program, property owners—of either residential, commercial or industrial buildings within a designated revitalization area—who meet the goals of the URTE program and improve their property value by at least 10% are able to apply for the tax exemption. The amount of the exemption then depends on the location and type of property. For residential properties, like the properties this project focused on, there are full and partial exemptions ranging from \$20,000 per project, up to \$75,000 or no limit. Participating property owners are able to apply to the city or county for the exemption after the improvements have been made. In addition, they are allowed to apply for eligibility before work begins, or file an amended application later, though this does not guarantee them the exemption. Pursuant to the Iowa Tax Code 404, an assessor will determine if the property value has increased at least 10% from the improvements.

For the purpose of this project, focus was placed on the Iowa Tax Code and what Davenport required for the URTE program. Burlington and Dubuque—cities similar to Davenport—also have URTE programs, but it is not known if they have successfully used it for the purpose of addressing lead abatement. One requirement of the program is that the city or county must designate the afflicted area as an Urban Revitalization area. Based on a map provided by the City of Davenport through their website, the targeted area for this project does fall under a revitalization area. One important restriction is that this exemption is not applicable to properties that receive benefits from TIFs.

Based on our research, we believe that as long as improvements increase the property values by at least 10%, the Urban Revitalization Tax Exemption (URTE) program is a viable option to address lead abatement in Scott County. However, as it is a tax exemption, effected entities such as school districts may raise objections. Furthermore, property owners might still hesitate to make improvements since the exemption is a retroactive return and dependent on a 10% increase in property values. The final caution is that since this exemption is inapplicable for properties receiving TIF benefits, if the county were to decide to use TIF in combination with something else, the use of URTE would become invalid.

Overall, we recommend that the county considers the use of the Urban Revitalization Tax Exemption program to address lead abatement. Provided that properties meet the requirements, the exemption could cover most if not all of the cost per property.

Revolving Fund Decision Memo

STATEMENT OF ISSUE:

A revolving fund is one of the options that Scott County can use to help their lead abatement initiative be successful. This is often used in government agencies to support specific operations under special rules set by Congress. Revolving funds are accounts where money is deposited for expenditure without fiscal-year limitations. The government agency using this fund must be authorized by Congress to establish such a fund. Due to the lack of fiscal-year limitations, Congress can mandate other specific rules and strict terms that go along with the expenditure of this fund. One positive is money in the fund at the end of the year, is still available to use the following year instead of reverting back to the general treasury.

Revolving funds are under restrictions of the Antideficiency Act. This act prohibits the agency from entering into a contract that would allocate more funds than what is available for use at the time. Congress may however grant an agency a limited exemption from the Antideficiency Act restrictions by granting “contract authority.” However, these contracts are only able to be interpreted by what is written in the document.

The state of Iowa has used such a fund before for water and wastewater management. This State Revolving Fund (SRF) helps to manage water treatment plants, sewer rehabilitation, stormwater quality improvements, and non-point source projects under the Clean Water SRF. It also funds water treatment plants, and improvements to facilities, water line extensions to existing unserved properties, water storage facilities, wells, and source water protection efforts under the Drinking Water SRF. There are multiple loans that can be taken out under these SRFs, including construction loans, planning and design loans, source water protection loans, and non-point source loans. This is an example of revolving loans at the state level, but a successful example within the same state that Scott County is in.

A solution to this public health problem is to start a revolving fund for lead abatement in Scott County. The seed money for this revolving fund would come from the Iowa Finance Authority. This money is then loaned out with a low-interest rate to owner-occupied properties, investor-owned with eligible income tenants, and non-profit organizations that rent to eligible tenants. Once loans are repaid, money can be loaned out again to finance more lead abatement projects. This fund, once established will continue to run until the need for the fund is no longer seen. However, the Iowa Finance Authority seems unable to provide sufficient funds as seed money, so this option may not be viable.

Housing Trust Decision Memo

STATEMENT OF ISSUE:

Many municipalities have used a housing trust to support affordable housing development. A housing trust fund is a source of funding for affordable housing development and modification projects that is established by the government. Over 30 states and 250 cities and counties have created such a trust. Each municipality gets the money for the trust in different ways. Some use seed money from loans or HUD, others use tax revenues, and others use development fees.

One option is to look into receiving funds from a government source like Ohio has done with HUD money and find additional donors that are willing to match those donations. In Ohio, they have \$2.9 million for three years from HUD that is matched by an additional \$300,000.00 from the Ohio Housing Finance Agency and the Ohio Housing Trust Fund. Many other communities such as Sioux City, Iowa and the state of New York have used HUD funds for similar housing trust funds. Most communities seem to use HUD as their seed money, although there are a few other options out there where HUD money is not used. Two other options are finding a community group or organization that will donate the initial seed money for the housing trust fund or using tax revenues to start the fund.

First we looked into setting up a revolving loan fund with seed money from the Iowa Finance Authority. After communication with the Iowa Finance Authority, we learned that they currently do not have a program that our revolving loan fund fits into.

The Iowa Finance Authority currently has the Home- and Community- Based Services Revolving Loan Fund which assists in the development and expansion of facilities and infrastructure that provide adult day services, respite services and congregate meals for low-income individuals, and they have the HOME Program which is designed for creating affordable housing. We had hopes that one of these or a pilot program would be something our revolving loan fund project would be considered under, however after correspondence with Iowa Finance Authority's policy director, we learned there are no such funds that we can use from them as our seed money for our program. In conversation with the policy director, we were directed to Rick Schloemer of the Scott County Housing Council to discuss funds for a housing trust fund due to the council's active role in funding lead remediation work in the past.

A solution to this public health problem is to start a housing trust fund where you can use some or all of that money to go towards lead (abatement/remediation) in Scott County. The seed money for this housing trust fund would come from the Scott County Housing Council. The Scott County Housing Council is a group that provides the resources to promote economic and community development in our county. The money would then be loaned out or given as grants on a case-by-case basis through an application form. In the future more money can be added to the trust fund through other loans and through county taxes. This process would be overseen by an administrative agency and would work closely with community-based partners that would be willing and able to help with the lead (abatement/remediation) process—including many non-profits throughout the Scott County area.

CRA Decision Memo

STATEMENT OF ISSUE:

The CRA is a result of the neighborhood movement of the 1970s, when community groups rallied against historical practices of housing and banking discrimination in low-income urban neighborhoods. The CRA specifically addressed a discriminatory practice called redlining that had become entrenched in federal housing policy and was used to deny or raise the cost of loans to low-income and minority borrowers. Now, FDIC institutions are required to comply with the CRA to help with the economy of low-income neighborhoods. Further research also showed that this option will save money in other aspects. The use of the CRA will be helpful in saving money in the long-run: spending one dollar on remediation returns \$17 to \$221 dollars in benefits through higher earnings and tax revenue, reduced spending on special education, and less criminal activity.

As I went through this process, I reached out to David Farmer: he is the contact from Scott County Health Department. I also reached out to Brian Hollenbeck From Bridge Investment, but was unsuccessful in receiving a reply. I also Bret Robinson from Farmers State Bank of Western Illinois. Bret expressed to me that this institution cannot do anything to help this project, due to the location, but he suggested I contact Bi-State Regional. I have not yet contacted Bi-State Regional, because they will not comply with the CRA, but I have passed along this information to the rest of the group. And finally, I got in contact with Rick Schloemer, who is in charge of the Davenport Housing Cluster . I am looking forward to hearing from him, at this point. I also researched other communities to see if they have had any experience with using the CRA for lead-remediation. The first article I found stated that the CRA loans they processed were only for \$5000.00 over a period of 60 months (5 years). They were set at a rate of 7.9% and in this case, they were processed the same way as other home rehabilitation loans. This institution only completed 10 or 20 of these matching loans over a 6 year period. The second case I found was set in New Jersey. In this case, the loans were at a lower interest rate (around 4-6% APR) they also lent up to \$10,000.00 per each home. The loan recipients also used HUD and Leap funding to cover the rest of the remediation costs. However, they only approved and completed 21 loans out of the 113 interested applicants. In this case, the CRA loans accounted for about one-third of the total abated units.

Thus far, this option would work in small amounts, meaning, we could allocate funds for 50 or fewer houses at one time from some institutions, but the entire amount of each property will not be covered by the funds from the bank, alone. I would suggest this option only in accordance with other funding and with the ability to do continue to do it with more houses over a period of time.

CONCLUSION

Solving the lead poisoning problem is more than just repainting, it means tackling bigger problems, too. Knowing that children in lower-income homes are most vulnerable to lead poisoning should inspire partners to look at immediate as well as long-term solutions. Recognizing the intersecting systems of inequality at play and why these children are more likely to be poisoned is essential to finding a sustainable solution long-term. Solving this problem long-term, will cost money and thus we recommend a combination of the funding sources we researched.

Our top recommendation is that Scott County investigates potential grants and loans through local donors who are invested in the community and to combine this with one or more of our other recommendations.

We hope that Scott County will use this formation to the best of their ability for the betterment of the community.

