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Community Finance Brief

Beyond Budgets: A Community's Blueprint for Climate Adaptation

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Climate change adaptation poses a significant financial burden for local governments. With traditional financing mechanisms unable to foot sustainability costs, the idea of linking under-utilized public land to financing resilience could make sense. But, crossing the "T's" and dotting the "I"s on such an initiative and administering that is a considerable undertaking. Flexibility and innovation aren't necessarily two things that come to mind for most when pondering local government but that is what is happening in one Chesapeake Bay watershed community.

An independent Resilience Authority that can act on behalf of two separate local governments has been created (see Quick Takes, **right**) between Anne Arundel County and Annapolis, Maryland to approach said ideas. Last year, the Authority underwrote a thoughtful analysis of non-private, developable land each government owns (see figure, **page 6**) and is now in the process of planning how to monetize certain parcels with proceeds set to be directed explicitly towards climate mitigation and adaptation efforts.

This initiative has nation-wide relevance as it is coming at a time when local government revenue streams are under pressure in large part due to climate-related infrastructure needs and an over reliance on federal dollars. This community is identifying new revenues while ensuring programs support future generations by essentially earmarking dollars for resilience. This looks to be the first public community wealth fund in the United States and could very well be a blueprint for other state and local governments to follow.

INCUBATING NEW LOCAL GOVT. REVENUES

The first step in the community's process may seem simple

Quick Takes

The American Society of Civil Engineers assigned a grade of C-minus to the nation's infrastructure and estimated a $2.59 trillion investment over the next decade would upgraded it to a solid B.
– *ASCE*

Maryland Senate Bill 457 authorizes local governments to establish and fund a Resilience Authority. The law notes that "communities in coastal states account for nearly half of the nation's population and economic activity and that cumulative damage in those areas could reach $3.5 trillion by 2060."
– *Adaptation Clearinghouse*

The top 1% of Americans' wealth increased to almost $40 trillion in 2020 from $5 trillion in 1989 while the bottom 50% increased from $1 trillion to $2.5 trillion
– *Federal Reserve System*

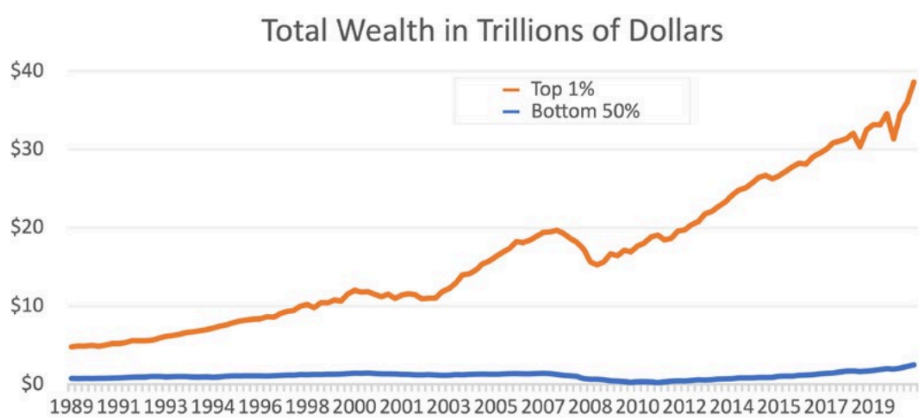
Putting Assets to Work is currently accepting applications from local government for its next cohort.

to an outside observer but is a central thesis of Putting Assets to Work (PAW): most local governments don't know what they currently own and if they can properly inventory what is owned they can start to be thoughtful about how to make land work for the community. Former mayor and U.S. Congressman Ben McAdams, who started PAW (see quote, **next page**), did this as mayor of Salt Lake County in 2017 and discovered more than $10 billion in public assets that weren't being leveraged.

Now, with support from the Government Officers Finance Association (GFOA) and funding from various philanthropies, PAW has led incubator labs for ten local governments around the country, essentially creating an ecosystem for peer-to-peer advancement and an actionable, data-driven sandbox for new revenue creation ideas. Whilst in the lab, a physical assets inventory occurs and from there the initiative goes on to help these communities align policy aims with the discovered assets. In Cleveland the focus is economic development while Atlanta is targeting affordable housing. As was the case in Maryland, PAW goes on to support the various next steps that must ensue to begin putting assets to work. These next steps are crucial to making the theoretical a reality.

After taking an in-depth assessment of public land, PAW makes a series of recommendations of the various ways a local government can then act on the inventory. This ranges from creating dedicated staff within the executive branch, an independent authority, an enterprise fund to a community land trust. (see chart, **page 4**). From there, PAW will also review various

"Transparency and accountability are prerequisites for good governance of public assets, but creativity and professionalism are also necessary," write **Dag Detter** and **Stefan Folster** in *The Public Wealth of Cities: How to Unlock Hidden Assets to Boost Growth and Prosperity*. "For cities it is not just management of economic assets that matters. Equally important is canny investing in social and human assets."



Source: Board of Governors of the Federal Reserve System (US), Total Net Worth Held by the Top 1% (99th to 100th Wealth Percentiles), Total Net Worth Held by the Bottom 50% (1st to 50th Wealth Percentiles), retrieved from FRED, Federal Reserve Bank of St. Louis Federal Reserve System approaches to consider, whether it be on-site work to develop parcels for community aims, or to leverage the land to generate revenues that can then be used to put policy into action off-site.

Finally, PAW also works with governments on various financing strategies that are needed to develop the land. This also comes in various forms, from catalytic capital, the issuance of municipal bonds to private investment. However the community embarks on the recommendations, there is one consistent theme: maximizing use of physical assets to promote community goals. Recommendations create a set of internal checks and balances within which hopefully leads a government to think about long-term implications of decisions and not just an election cycle.

"Millions of people around the world have discovered how to make money right in their backyard – or in their own homes – from resources they own, renting out a spare bedroom, for example, and earning spare cash that helps pay for groceries, gas, or any number of other needs," writes **Ben McAdams** in his *Recommendations to the Resilience Authority of Anne Arundel County and Annapolis*. "Meanwhile, most local governments in the U.S. have at their fingertips a wealth of real estate assets that are underutilized – dormant parking lots, empty plots of land, vacant buildings in quiet parts of town, and more. "

A COMMUNITY WEALTH FUND

PAW is not theoretical, *it is an active sandbox* helping currently elected officials and civic-minded stakeholders engage in making policy work now. Many of the concepts, however, are founded in theories that revolve around the creation of community wealth funds that address historical disinvestment and empower residents by pooling resources for local development that are largely attributed to Dag Detter and Stefan Folster's book, *The Public Wealth of Cities* (see quote, **above**). PAW offers community's the tools to build out the capacity for local governments to generate revenues for long-term plans, which more and more in this country, are geared towards resilience and climate adaptation like we are seeing in Maryland right now.

A community wealth fund is essentially a pot of money set aside for long-term investment in a specific community, particularly those that are considered disadvantaged, for any number of reasons have historically seen disinvestment or are facing chronic change like that associated with the climate. The core idea is to channel resources directly to the people who need them most and empower them to decide how to use the funds for their benefit.

Some key characteristics of a community wealth fund:

- Community-led decision making: Residents of the target community have a say in how the money is spent, fostering a sense of ownership and ensuring the investments meet their specific needs.

	Level of Autonomy	Public Engagement	Transparency / Accountability	Project Pace / Scale Management	Legal Considerations
Enterprise Fund	High	Medium	High	Medium	Requires legislative action by the jurisdiction. Verify with legal counsel whether any state or local legal considerations apply.
CDE / CDFI / Other Nonprofit Entity	High	Medium (High with Appropriate Policies and Practices)	Medium (High with Appropriate Safeguards)	High	Requires legislative action by the jurisdiction. Verify with legal counsel whether any state or local legal considerations apply.
Authority	High	Medium	High	Medium / High	Requires legislative action by the jurisdiction. Verify with legal counsel whether any state or local legal considerations apply.
Center	Low	High	High	Low	None (informal structure)
Designated Staff	Low	High	High	Low	None (informal structure)

- Long-term investment: The focus is on sustained growth and development, rather than quick fixes. Funding is typically allocated over a period of 10-15 years.
- Hyper-local focus: The money is directed towards initiatives that benefit the specific neighborhood or community, addressing local challenges and priorities.
- Building community power: The aim is not just to distribute funds but also to equip residents with the skills and resources to manage the fund and advocate for their interests.

On the international front, community wealth funds are a relatively new approach to local economic development, but they are gaining traction as a way to address issues like income inequality, lack of social infrastructure, and disinvestment in certain areas like resilience. In the United States, the approach has been slower to adopt as once we get to the state and local level, the complexity of governance, land-use, politics and profit complicate efforts.

By maintaining independence and supported by thought-leaders in local governance like the GFOA, an initiative like PAW is creating a structure for local leaders to think creatively, constructively and most importantly, are actually doing the work needed for communities to thrive. A community wealth fund is not the explicit goal for going through the incubator lab, but communities are finding that an independent authority such as what has been stood-up in Maryland might very well be a version of the future of CWFs in this country. The legislation used by the state to allow for financial and policy independence could very much be a model elsewhere.

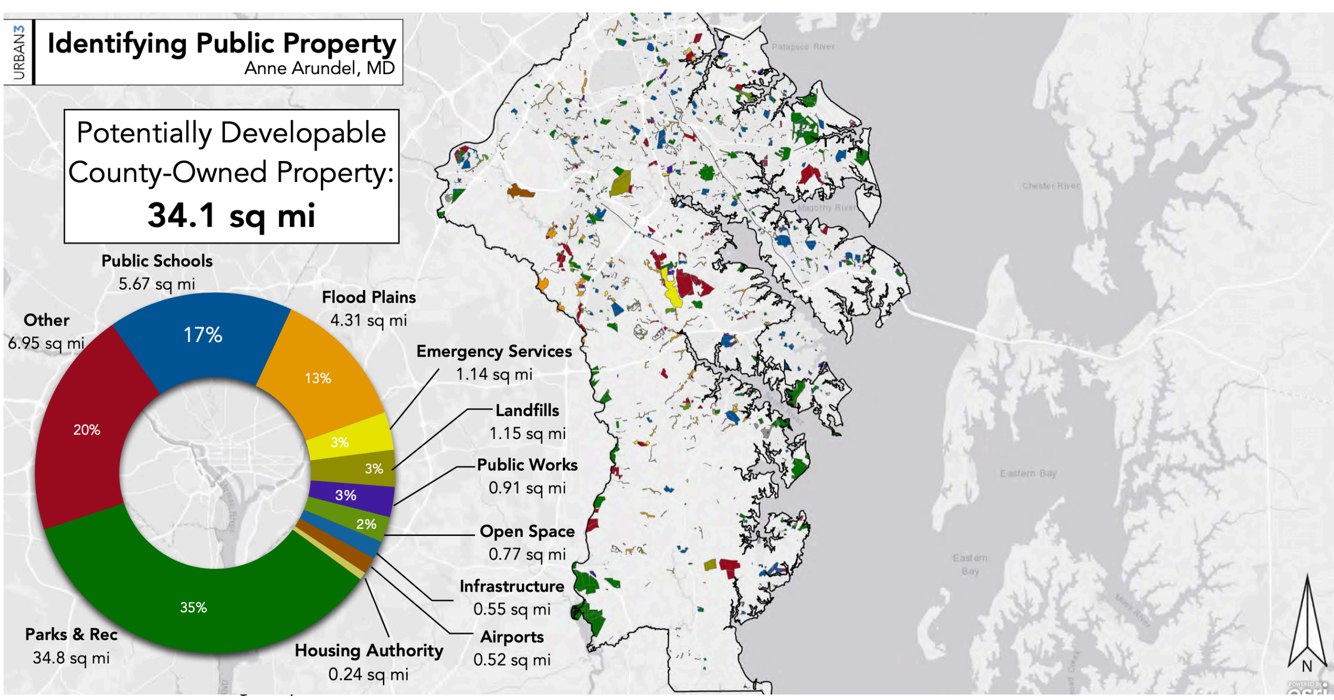
A RESILIENCE AUTHORITY ON THE CHESAPEAKE

Shoreline restoration and wetland reconstruction are the visible fronts when it comes to public policy around adaptation and mitigation on climate change. The financing and capacity of these activities and others, especially at the local level, do not garner the same attention. State support through enabling legislation, a legal requirement to focus on resilience and significant financing flexibility are all important facets to consider that make up the Resilience Authority and are relevant in the face of the complex set of issues climate change brings to the fore.

"We were looking at the cost associated with resilience and how we were going to pay for it," said Dan Nees, former interim executive director of the Resilience Authority and now a part of Throwe Environmental, a climate science consulting firm working with the Authority. "We did a stress test on the level of investment we needed here and the need far exceeded what the government can pay for. So we had to think outside the box and getting the state's support in creating the Authority and then the incubator lab to learn and to get a detailed third-party assessment of our jurisdiction gives us a lot to work with moving forward."

After enabling legislation was passed, the Authority started the PAW incubator and by late 2023, was looking at a map of the county and city as to what was publicly owned and for what purposes (see figure, **below**). PAW works with a third-party data analytical group called Urban3, that (in a very brief summary) goes through community land registries to identify land uses of a geography and then backs into potential revenue generation capability by looking at tax records of adjacent properties. Again, from a private enterprise perspective this would appear straightforward but a vast majority of local governments do not do this type of work.

With a detailed inventory in hand, the Authority is in the process of reviewing the geography and identifying parcels for development. It is expected that the Authority will publicly announced parcels of land it intends to develop this year. From there, **CSG** assumes a request for proposal process will ensue and a review period of potential partners will begin.



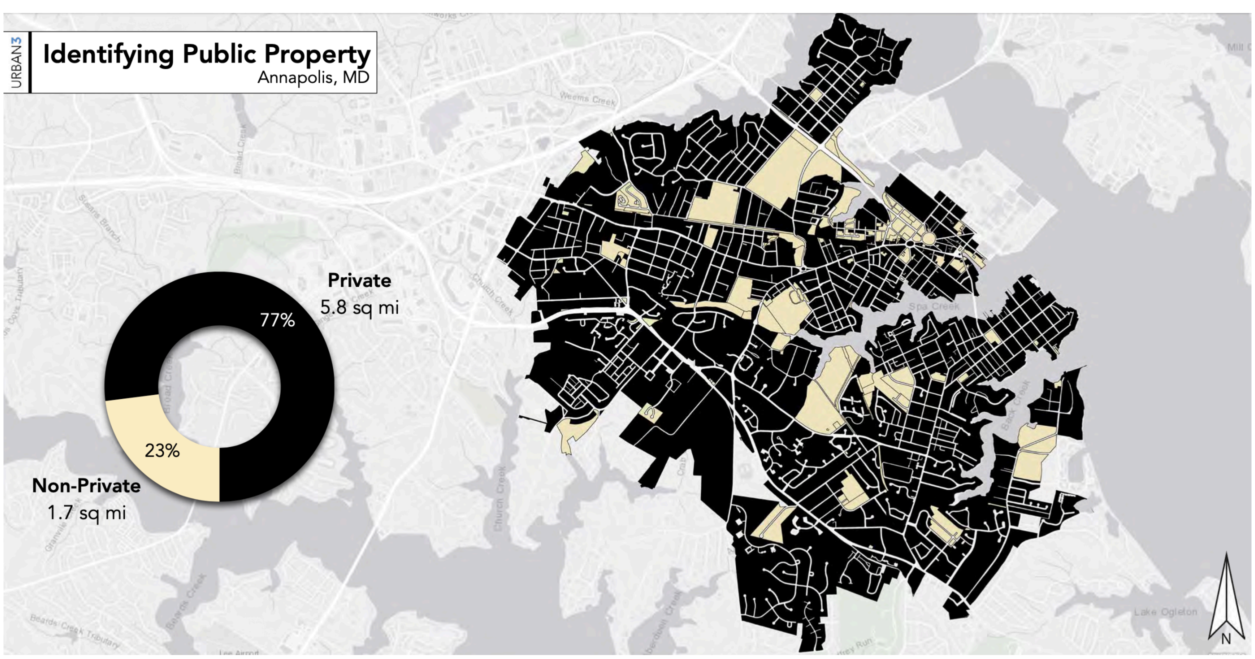
An important component of the Authority is that it is mandated that any revenues generated have to be committed to resilience efforts (this is where Throwe Environmental consultancy comes into play). With these particular parcels, the Authority intends to develop them to generate revenues for resilience work elsewhere in the jurisdiction. In the future, it also has the ability to directly develop parcels that have have on-site relevance to its resilience mission.

NEW PARTNERS FOR DEVELOPMENT & FINANCING

This community is ahead of the curve in one very important aspect: it created the Authority before it even underwent the asset inventory. For many communities, the political willpower is not there to cede control over to another entity. This reality is probably the biggest inhibitor to the community wealth fund concept. For this community, the Authority is in place to not only represent two separate local governments when it comes to land management and uses of proceeds, but it also has the ability to make decisions separate of the election cycles in this community. It can develop proposals, form partnerships, engage stakeholders and execute on the land on behalf of the community.

The public is now waiting on the an official notice of the three parcels of land that will be made available and from there, the Authority will be taking proposals on how to maximize revenues and support the community with the land. This does sound overly optimistic as surely there will be NIMBY issues and otherwise but for now, we are at a point where other communities should take note of how the Authority goes about its business.

The report published by PAW for the Authority details issues that apply all over the country: that traditional financing mechanisms and other normal budgeting processes fall short of adequately funding climate resilient infrastructure. It goes on to note that new partnerships,



strategies and ideas for leveraging existing resources can generate solutions that simply require a deeper look within.

As things now stand, the Authority will be looking for private partners, likely through a RFQ process to focus on negotiating with investors, lenders and oversee the development and operation of facilities being built. Part of this process will also involve attracting capital. On this, PAW makes two particular recommendations:

- Create a catalytic capital fund using a blend of public resources and real estate that could attract private investment opportunities to entities with a more patient approach and those tolerant of higher risk with a potential 'multiplied' return profile. This insinuates a tiered return wherein some revenues generated would be reinvested in the fund to create a sustainable cycle. This capital would likely come from non-profits or mission-driven entities or even pseudo-government ones; and/or
- Engage social impact capital vis-a-vis outside management or direct investment. This would mean partnering with a private fund that specializes in impact criteria to leverage public assets, attract a diverse set of private investors that also includes foundations, philanthropic pursuits, ESG-linked REITs and other institutional investment advisors. By defining a resilient mission, it could streamline the process of attracting capital and development teams.

Whether this Authority goes the route of developing its own revolving type of fund, or a coalition of investors and built out a unique capital stack for one or various parcels will offer learning experiences for observers. Each has pros/cons but the ends in this case of a more resilient bay area watershed should justify most any means.