

# How You Can Benefit from Often Overlooked Economic Development Initiatives

By Mark Hilpert

Are you taking advantage of the many unclaimed tax breaks and other incentives available to nonprofits?

Successful nonprofit leaders have proved adept at locating and tapping a variety of funding sources. At the same time, however, many nonprofit organizations are missing out on what could be millions of dollars in unclaimed government grants, loans, and tax incentives. In most cases, nonprofits are overlooking opportunities simply because they're unaware of what's available. Some of these programs don't target nonprofits directly but still offer benefits based on such factors as location, benefit to the community, and nature of the workforce.

## Brownfield and Economic Development Zones

One such area of opportunity for nonprofits is in the redevelopment of brownfields and blighted areas. Over the past few decades, federal, state, and local governments have increasingly made economic development a priority, resulting in hundreds of grants, loans, technical assistance, and tax incentives to benefit economically disadvantaged areas. Some of the more expensive programs (for government) have been repealed or replaced, but most others have remained, whether they're used or not. Many live on in quiet obscurity.

Virtually every state has brownfield initiatives. Some state programs encourage and rely on community-based organizations to target locations and spearhead clean-up and redevelopment efforts. Michigan, for example, offers tax-increment finance programs, the proceeds of which can be used for site assessment and clean-up. In effect, local tax dollars are redirected away from the taxing entities and focused on redevelopment. In addition, there is a tax credit of up to 10% of the investment in the property. A number of nonprofits that serve urban populations or advance local quality of life are located in brownfield or zoned economic development areas and are thus eligible for this money.

Recent surveys identified more than 100 federal brownfield programs, involving 24 agencies and departments. As you may imagine, these programs can be difficult to find among multiple layers of government. For example, the National Oceanic and Atmospheric Administration in the Department of Commerce offers several brownfield redevelopment incentives, including the Coastal Zone Management Program, which, among other things, provides technical and financial assistance for waterfront revitalization. More obvious programs are provided by the



Environmental Protection Agency, Housing and Urban Development, and Economic Development Administration.

### Grants for Education

Because it's harder to attract industries to a region that's short of skilled workers, many initiatives are directed to workforce training and research. If educational and research organizations are alert, they can benefit from this grant money.

State development agencies, in conjunction with private-sector employers, have devised ways to identify high-wage, high-skilled jobs that are, and will be, in demand. Many of these programs, although performed for the benefit of trainees and their future private-sector employers, are provided by community colleges and private vocational schools. One example is alternative energy. In light of recent global events, environmental concerns, and the inevitable demise of the world's oil supply, there is no

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“hotter” economic development policy area than alternative energy. States are scrambling to attract alternative energy companies, and local colleges and universities are creating alternative energy and renewable fuel research degree programs. Those that anticipated this development — or, better yet, helped convince policymakers of its importance — have been rewarded. For example, Lansing Community College in Michigan received a \$1 million Department of Energy appropriation for its foresight in advancing its alternative energy initiative.

Another opportunity to take advantage of policymakers' focus

on economic development is in commercialization of research. In Michigan, for example, the Technology Tri-corridor Program focuses on the life sciences, advanced automotive manufacturing, and homeland security. Administered by the Michigan Economic Development Corporation, the program provides grants and loans through a competitive process. Universities and nonprofit research institutes are eligible for grants. In 2004, the program awarded \$24 million in funding.

### Tax Incentives for “Tax-Exempts”?

Other key components of economic development programs include tax incentives. At first, it may seem odd to discuss tax incentives for tax-exempt organizations. But, even though nonprofits are exempt from federal income tax, an increasing number are paying tax on unrelated business income. Nationally, unrelated business income tax (UBIT) payments

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## Virtually every state has brownfield initiatives.

have experienced double digit growth in almost every year since the early 1990s. Many nonprofits have experienced enough growth in UBIT that they've found it prudent to "spin off" certain activities into for-profit subsidiaries. These spin-offs are fully subject to tax. In addition, depending on the state and type of nonprofit entity, some organizations must pay sales, property, and excise taxes. In many states, charitable organizations are exempt from property tax, but other nonprofits are not. Even in states in which charitable organizations are property-tax exempt, the charity has to fight harder these days to keep its exemption.

At the same time, given that nonprofits comprise an increasingly large portion of the nation's economy, their tax-exempt status is falling under greater scrutiny. This is particularly true if they're located in municipalities that receive little or no tax revenue (at least directly) from nonprofits within their boundaries. Additionally, there is the perennial debate regarding alleged unfair competition between nonprofits and tax-paying businesses.

### Property-Tax Exemptions & Abatements

For nonprofits that don't benefit from statutory property-tax exemption, the property they own can still become exempt. Virtually every state has its own set of redevelopment programs for targeted areas. "Targeted" usually means economically distressed; however, the definition varies from state to state and program to program. In addition, this criterion is often the result of negotiation with lawmakers attempting to get parts of their legislative districts designated as eligible. In many cases, the result is that some attractive areas for development fall within a zone or

district in which special financing or tax incentives are available. At the same time, if you're located in a distressed area, there are much greater benefits available through the Federal Empowerment Zone and some state enterprise zones.

### Work-Opportunity & Welfare-to-Work Credits

The nonprofit sector and related for-profit subsidiaries are at the forefront of creating entry-level jobs that are an essential part of our economy. Important incentives for employers to hire disadvantaged workers for these entry-level positions are the Work-Opportunity Tax Credit (WOTC) and the Welfare-to-Work Credit (WTWC).

The WOTC provides a credit of up to \$2,400 for qualified employees, including ex-felons, vocational rehabilitation referrals, food stamp recipients, supplemental social security recipients, and high-risk youths. The WTWC provides credits up to \$5,000 per employee but is limited to employees who are long-term family-assistance recipients.

While both these programs sunsetted at the end of 2003, there's a good chance that many nonprofits still qualify for the credit. It's just a matter of submitting the proper certifications and forms. In addition, there are at least a couple of proposals in the U.S. legislature to extend or combine the credits. Given the strong support in Congress for moving people off public assistance and into the workforce, there's an excellent chance of at least a temporary extension.

### Look Carefully before You Leap

The proliferation of economic development programs offers a huge opportunity. The money is there, but first you'll need to do some research into what's available in your state, your region, and your nonprofit subsector. It will take some time to sort out all your options.

Understanding the relationship between programs is complicated by the existence of programs at multiple layers of government,

each with its own eligibility criteria. Not only are there too many programs to easily track, but it's also important to understand how they might interrelate. In some cases, participation in one program may disqualify you for another.

Before jumping into a program, be sure you understand how it interacts with other programs. Only then you can make a decision about the right incentive or blend to pursue. ■

## How to Get Started

There are many economic development tools available to nonprofits on the Internet. The following sites include a comprehensive listing of federal assistance programs, grant-writing tips, and other tools you may find useful.

The Catalogue of Federal Domestic Assistance, <http://www.cfda.gov/public/faprs.htm>

Grant Writing Workshop Information, <http://www.hud.gov/offices/fbc/grantworkshop.cfm>

HUD's Economic Development Web Page, <http://www.hud.gov/economicdevelopment/index.cfm>

Local Initiatives Support Council, <http://www.lisc.org/>

Links to State Economic Development Agencies, <http://www.ncsl.org/programs/econ/econ-dev.htm>

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