

Funding a Local Main Street Program

Under the operating model of Main Street, the Four Point Approach™ of organization, promotion, economic restructuring and design (<http://www.preservationnation.org/main-street/>) is the tool used to achieve the objectives of downtown revitalization, historic preservation and economic development. This model allows for *sustainable* revitalization and is effectively and *measurably* used by thousands of communities all across the country. The national effort was begun in the late 1970s. In Texas, the program began in 1981, making it one of the oldest in the country.

The effort becomes sustainable in large part because well-thought-out strategies turn into plans of action that help achieve these goals and objectives. A sound organizational structure is a critical component of this. Through this organizational structure, the program becomes accountable, effective and well-regarded throughout the community. Additionally, the program models the Eight Guiding Principles of Main Street (<http://www.preservationnation.org/main-street/about-main-street/the-approach/eight-principles.html>) through:

- **Comprehensiveness;**
- An **incremental** approach (step-by-step, project-by-project) that leads to significant change in the Main Street district ;
- Its **self-help** nature;
- **Partnerships;**
- **Identifying and capitalizing on assets;**
- **Quality** impact;
- **Change** that makes believers of everyone and;
- **Implementation.**

Lack of funding or unstable funding sources – especially over long periods of time – can cause a program to struggle or even fail. Having an organizational structure in place that includes sound funding mechanisms is imperative for a program at any stage, but it is especially important in the critical first years. Any organization that has to spend the bulk of its time raising money just to support operations, runs the risk of not being able to focus energies and time on achieving its mission and vision. Everyone in the community is a stakeholder who benefits from effective downtown revitalization because it results in a better quality of life for all. Thus, broad-based community support is a very important element of the Main Street model. For this reason, it is also realistic to assume that a local Main Street effort will receive funding from more than one source. This is a more reliable mechanism and helps avoid the all-eggs-in-one-basket syndrome – if one funding source is reduced or goes away, the entire program won't go away with the funding source. The state Main Street office does not fund operations of local Main Street programs; one of the reasons for this is the self-help nature of the model – the true commitment toward the Main Street effort must be grassroots at the local level.

In Texas, Main Street programs are generally structured as follows:

Small city program (under 50,000 in population upon entrance into the program): the Main Street manager is an employee of the city usually reporting to the city manager. An Advisory Board and Main Street committees work with the Main Street manager to carry out the goals of the program.

Urban Program (over 50,000 in population): operates as a self-governing non-profit downtown revitalization organization or as a city department with an Advisory Board.

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At the same time, the Texas Main Street Program (TMSP) respects the unique nature of the local communities in which Main Street programs operate. So, over time these structures may change in more established programs. However, cities initially applying for designation (new or recertified) as an official Texas Main Street community need to abide by the structure noted above in their applications.

As mentioned previously, regardless of their structure, Main Street programs should receive funding for operations and to carry out projects and activities from a variety of sources. The remainder of this document will explain some of these mechanisms. There may also be other funding sources unique to the individual communities. Every other year, the Texas Main Street Program conducts a survey of its statewide programs to determine their funding sources. Virtually all receive funding from multiple sources. Regardless of whether it is a small-city or self-governing non-profit (urban program), all local Main Street programs receive financial support from the local government (and in some cases, the county government as well). This is an appropriate use of government funds since the efforts of the Main Street program help to ensure that quality-of-life goals for the community are met. Additionally, it is important that the local Main Street program also receives philosophical support from the city (management, staff and elected officials) because it is truly these public-private partnerships that make the Main Street effort work.

When considering ways to fund a program, it is very important to note the following:

- Whether accepting funding from private or public (tax-supported) sources, the local Main Street effort must be accountable to the funder so that the funder (and in reality, the community at large) knows that the dollars are being used in the way that it was intended and to achieve the organization's objectives. Adequate bookkeeping, budgeting and reporting are imperative.
- All contributions must be used under guidelines and policies pertinent not only to the Main Street organization but also to the funder's practices, and in many cases appropriate uses will fall under state law (such as use of Hotel Occupancy Tax and economic development sales taxes).
- Legal advice should always be sought to ensure that uses of funding are appropriate and legal.

Below is a summary of ways a local Main Street effort can be capitalized. There may also be others in your community. The full budget for a Main Street program will include monies for operations, plus special projects and activities under the Four Point Approach™ of economic restructuring, organization, design and promotion. Contributions from Hotel Occupancy Tax (HOT) can be used as allowed by law to help pay for tourism activities in the downtown that draw tourists for overnight stays. Likewise, certain economic development sales tax dollars can be used as allowed by law (local and state). The options listed below are not in any priority order.

Local government: This might include money from the general revenue fund, special projects funds, certain monies received under the federal Community Development Block Grant (CDBG) program, economic development sales taxes, and hotel occupancy tax dollars collected in the city. Some of these funds must be restricted for certain uses and expended only as allowed by law. It is critical that local government support the local Main Street effort and allocating revenues from the city budget is one way to accomplish this. The most obvious is in small communities, where the Main Street Manager is usually a city employee.

Hotel Occupancy Tax (HOT): Municipalities are authorized under the Texas Tax Code to impose hotel occupancy taxes. There are seven categories of allowable uses for this revenue. Broadly, HOT revenues have to promote tourism. One category refers specifically to historic preservation that promotes tourism as an allowable use of HOT. Revenues can also be used for projects such as visitor information centers, promotional programs

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to attract tourists and promotion of the arts (including architecture). Many local Main Street programs receive funding from this source for their projects and activities that meet the uses allowed by law.

Economic Development Sales Taxes: are authorized under the Development Corporation Act of 1979 and can be imposed by a city (and a local election) as long as the total local sales tax does not exceed 2%. (State sales tax rate of 6.25%, local rate up to 2% for a total sales tax of 8.25%). Previously called 4A and 4B taxes in reference to the sections of the Act, they are now referred to as Type A and Type B corporations (effective April 2009). The use of these funds to promote the public purpose of economic development can also be used for Main Street projects and activities, dependent on a variety of factors such as the Act itself, the type of tax adopted locally, the ballot language under which it was adopted and the specific economic development expenditures, activities and projects of the Main Street program.

Tax Increment Financing (TIF): Authorized through the Tax Increment Financing Act and Chapter 311 of the Texas Property Tax Code. TIF districts can be tools for spurring downtown development. At the creation of a TIF, a baseline of property value is created. As tax values increase, the increment over the baseline is returned to finance projects and activities within the district.

Foundations: Some communities have foundations that provide funding within certain regions or for certain community development purposes. Foundations can be approached for a variety of special projects or activities.

Organizational structures: Some Main Street Programs create tax-exempt (c)(3) structures under the Internal Revenue Service in order to accept tax deductible donations to the program or to accept membership dues or sponsorships. To increase the chances of a successful (c)(3) application, a qualified tax attorney should be consulted.

Fundraising, sponsorships and special projects may be undertaken to cover the costs of certain activities. For instance, if an objective of the local program is to produce a downtown shopping guide and this is not covered in the budget, a special fundraising effort may be undertaken. The fundraising effort might include donated printing, sponsors, merchants paying to be listed in the brochure, etc. A special event might also be held, with profits going to the production of the brochure. Similarly, some Main Street efforts enhance their grant programs for facades, signs, paint etc. with festivals and other events that have the sole or primary purpose of raising money for these grants. However, this is not the most reliable source to fund these kinds of grant programs and should not be used as the only mechanism. It is important that a local Main Street program have some sort of façade/sign/paint grant program in place. The visual appeal and economic development impact (buildings returned to use or adaptive for alternative use) makes them very important tools.

Special assessment district: There are numerous special assessment districts in Texas, especially in larger cities. Through these districts, which are authorized through statute, property owners in the district pay an added assessment which is in turn used to provide services in the district. In at least one Texas community, the local Main Street program falls under the umbrella of the assessment district.

Capital projects: There are many sources of federal, state and local dollars for capital improvements. Many capital projects – such as infrastructure improvements – will probably not flow directly through the Main Street budget. However, they will still benefit the Main Street district and the Main Street program should work hard to help these types of projects come to fruition. There is technical assistance provided to local programs through the TMSP state office that helps locate these grants and loans for particular projects. Additionally, through a

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long-time partnership with the Texas Department of Agriculture, there is a Texas Main Street Program Texas Capital Fund that is available to official Main Street programs. More information about this program can be found at:

<http://texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/TexasCapitalFund/MainStreetImprovementProgram.aspx>.

Other sources: In some Main Street cities, like-minded organizations such as the chamber of commerce, museum or preservation organization may also help fund (or help raise funds) for the Main Street effort. Often times, this follows an educational process that helps all of these organizations see how their partnership with the Main Street program spells success for all. Likewise, a group such as a downtown merchant's organization may opt to raise money for the Main Street programs promotions budget which can then be used to fund retail promotions.

It is important to note that raising funds for the program should not be considered solely the job of the Main Street manager. Downtown revitalization is too big of a job for one person, which is precisely why the backbone of the Main Street model is public-private partnerships and volunteerism. As in most non-profits, volunteers—especially board members—should be charged with the bulk of fundraising efforts so staff can tend to the administrative and operational aspects of the program. The sky's the limit when paid staff and volunteers work hand-in-hand to achieve the vision of the Main Street program. The greatest benefactors? The whole community!

Note: This document is for information only and should not be construed as legal advice. Legal advice should always be sought to ensure that uses of funding are appropriate and legal.

Additional information:

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