
Implementation Strategies

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Resources

Safe Neighborhood Plan^[1]

The purpose of the Legislation is to allow local governments, property owners' associations, special dependent districts, and community redevelopment neighborhood improvement districts to guide and accomplish the coordinated, balanced, and harmonious development of safe neighborhoods^[2]; to promote the health, safety, and general welfare of these areas and their inhabitants, visitors, property owners, and workers; to establish, maintain, and preserve property values and preserve and foster the development of attractive neighborhood and business environments; to prevent overcrowding and congestion; to improve or redirect automobile traffic and provide pedestrian safety; to reduce crime rates and the opportunities for the commission of crime; and to provide improvements in neighborhoods so they are defensible against crime.

One of the provisions of the legislations is the authorization of a local government neighborhood improvement district to levy an ad valorem tax on real and personal property of up to 2 mills annually. The Legislation also provides planning grants and technical assistance on a 100-percent matching basis to the neighborhood improvement districts. Planning grants are awarded to eligible applicants as follows:

- Property owners' association neighborhood improvement districts may receive up to \$20,000.
- Local government neighborhood improvement districts may receive up to \$100,000.
- Special neighborhood improvement districts may receive up to \$50,000.
- Community redevelopment neighborhood improvement districts may receive up to \$50,000.

The Study Area falls within the boundaries of a Community Redevelopment Agency. The legislation provides upon the recommendation of the community redevelopment agency and after a local planning ordinance has been adopted authorizing the creation of a community redevelopment neighborhood improvement district(s), the local governing body of a municipality or county may create community redevelopment neighborhood improvement district (s) by the enactment of a separate ordinance for each district.

^[1] see the Appendix for a full description of the Legislation Safe neighborhood improvement district, "district," or "neighborhood improvement district" means a district located in an area in which more than 75 percent of the land is used for residential purposes.

New Markets Initiative

- On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. The law provides for \$15 billion in tax incentives under the New Markets Tax Credit Program to help spur economic growth in new markets in urban and rural communities across the country. By making an equity investment in an eligible “community development entity” (CDE), individual and corporate investors can receive a New Markets Tax Credit worth more than 30 percent of the amount invested over the life of the credit, in present value terms. This is an attempt to assist in the financing of new retail and commercial development within distressed communities. In one way, it is a cousin to the Low Income Tax Credit used to assist in the financing of low income housing.
- The New Markets Tax Credit (NMTC) will stimulate \$15 billion of equity investments in the economic development of low-income communities – starting with \$2.5 billion in 2002. That makes New Markets potentially the federal government’s most important new important economic development tool for low income communities in a generation. The first competition for allocations of New Markets Tax Credits is expected to open this spring. A 90-day application period is anticipated.

Incentives

- The Delray Beach CRA/City has significant tools to assist the Southwest Atlantic Community in redevelopment. The following discussion provides an overview of some of the “carrots and sticks” that City government can utilize and public financing techniques that may be used depending on the size and scope of potential development and the economic and political viability of the program.
- The city has a number of specific incentives available to businesses that expand or locate with the general Redevelopment Area. These incentives include; waiver of impact fees, waiver of building permit fees, and waiver of water and sewer facilities construction and installation.
- The study area already has in place a number of development incentives as a result of the past redevelopment planning efforts for the business community, CDC and city staff: significant public improvements, designation of the area as a Redevelopment District according to Chapter 163, Part III, and a host of financial and economic development resources.
- The study area is a part of Redevelopment District according to Chapter 163 F.S. and as such as a range of tools and resources uniquely available to a RDA including acquisition of property, demolition, removal and clearance of existing structures, relocation assistance, management of property acquired and construction of public improvements. The following provides an overview of other tools government can use to manage redevelopment.

Public financing techniques for redevelopment projects can take the form of indirect and direct measures to assist public/private ventures. Indirect or non-monetary measures, while not financially involving local government in a real estate project, can have an equal or greater impact on project financing than direct public financial participation. Motivated by a desire to avoid direct financial participation or by a lack of financial resources, these measures can effectively close financing gaps for a project. **The following discussion is for educational input only.** While the City of Delray Beach currently uses most of the techniques referenced below; this section does not suggest that any of these techniques or combination of techniques can be utilized within the **Southwest Atlantic Community** without close scrutiny and detailed analysis by the appropriate City Departments. We have provided examples of the use of various techniques in other areas of the country.

Zoning and Density Bonuses

- ✦ By using its land use ordinance, the city can create value for a site by upgrading the land use or density allowed as well as by creating disincentives for developing in competing areas. It is important to note, however, that increased density might not translate into increased value if the market cannot support the size of the project. The City has current utilized this approach in zoning the northern portions of the study area as mixed-use residential which allows for a mix of retail, commercial and residential.

Government Commitments to Rent Space

- ✦ A public commitment to lease space in a new development makes it considerably easier for a developer to obtain financing. Even if government commits itself to leasing, only a minor portion of a proposed project (its favorable credit rating as a lessee) makes it easier for the developer to obtain other lease commitments. By carefully structuring the terms of rent escalation and renewal options, a municipality can minimize the cost of space at the same time it encourages private development. This approach is being use along West Atlantic to house the CRA and Weed & Seed

Transfer of Development Rights

- ✦ Transferring development rights form on site to another, not only encourages development within a given location, but also relieves development pressures on other sites, notably where historic structures are located. The transferred development rights can be used to increase a building's total floor area and to increase its lot coverage beyond what the zoning ordinance would normally allow. This approach is not appropriate at this time.

Regulatory Relief from Zoning and Building Codes

- ✦ Flexible regulations and zoning measures can create market opportunities in depressed areas. Trading permitted maximum floor area for the provision of improved pedestrian circulation, greater public open space, better shopping and coordinated development has been used in cities nationwide. This technique has been used in allowing the development of non-conforming residential lots and could be used in the northern part of the study area.

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Facilitating Project Approvals

- The City of Delray can take steps to facilitate permitting, reduce processing time and champion public approvals in projects they politically support. Reduced approval time can result in lower interest and overhead costs to a developer thereby putting income-producing property on the local tax rolls faster. Organizing a one-stop office to receive city approvals where a developer can coordinate all approvals through one person has been particularly effective. It can also be used to remedy problems caused by changes in zoning ordinances or planning policies before a project's completion.

Quick Take by Eminent Domain

- Taking by eminent domain, a mechanism that allows immediate public possession of private property for public use, has been a major redevelopment tool for cities throughout Florida and the nation. It facilitates the assembly of parcels of land for development and reduces the time and cost required to ready a site.

Encouragement of Financing by an Ancillary Party

- The public sector can influence the availability of financing for private development projects by facilitating civic funds, patient capital or soft equity money to be placed in a project. It can also orchestrate the placement of foundation funds or can direct the placement of equity through local non-profit organizations to facilitate tax deductions and contributions for investors.
- Local banks might be persuaded to make concessions in return for deposits of government funds in their institutions. While the moneys might or might not be lent to the project, their presence can have a positive effect by creating a supply of loan funds that otherwise would not have existed.

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- ✦ **Section 108 Guaranteed Loans:** Section 108 of the Housing and Community Development Act allows communities entitled to CDBG moneys to borrow against future grants to finance major projects. Communities can borrow up to three times their annual CDBG and repay the loan over a period up to six years by pledging the future CDBG funds as security. Section 108 loans, administered by HUD, can be used for almost any CDBG-eligible rehabilitation or economic development project and because of the collateral, loan rates are low. The application process is short as well -- six to eight weeks. Section 108 loans are not affected by the caps on volume and other restrictions of the Tax Reform Act of 1986, nor are they limited by any local debt ceilings.
- ✦ The amount of funds available is up to three times the annual entitlement amount. The funds borrowed are repaid over a six-year period from the city's entitlement. The repayments can be made from the cash flow of the development either for the full amount or portion. These repayments by the developer can also be secured with lines of credit, property, personal net worth, etc. The repayment of these moneys could come in whole or part from the developer so as not to limit the city's use of CDBG funds in the future.
- ✦ The restrictions on CDBG moneys involve benefit to very low, low- and moderate persons.
- ✦ **SBA Section 504 Loans.** The SBA 504 program provides financing for acquisition of fixed assets and real property to individual businesses, usually through a local SBA-certified development corporation. Typically, the development corporations, through a private intermediary, sell SBA-guaranteed (up to 40 percent) debentures. A 10 percent injection of equity is required, but other public financing can be used to satisfy that requirement.
- ✦ **State Funds**
- ✦ Several programs are available for either local governments or for profit or nonprofit residential developers.
- ✦ **SAIL Program:** This program is for multi-family rental development. The project may be either new construction or rehabilitation of existing units. The state's funds are in the form of a below-market rate loan which is repaid over a period of 20 years. As a condition of this assistance, 20 percent of the units must be set aside for up to 15 years for persons of very low income (50 percent or below median adjusted for family size).
- ✦ Unlike the federal assistance programs, there is no assistance to the tenant as a part of the program. A tenant with a housing voucher may chose to live in the development, but this is not an assisted project.
- ✦ **Housing Predevelopment Loan Fund:** This program makes available up to \$500,000 of moneys to assist in the costs associated with predevelopment activities of residential development. These developments can be either rental or for sale. The funds are provided as a three-percent, three year loan.

Local Sources

To be acceptable to private investors, the public's share of the return in most cases comes after private investors have earned a return sufficient to attract their investment in the first place. This objective for profit sharing has led to a shift from outright grants to private developers to loans with the repayment schedules and interest rates depending on the project's performance, similar to those used by conventional mortgage lenders. Thus, direct public financial assistance is now focused on the particular problems frustrating private investment and development, reflecting the more business-like and sensitive approach public entities are taking to spur greater interest from private investors and developers.

- + **Subsidized Loan Interest:** This subsidy is normally implemented through loan pools established with local or federal funds matched to other than public assistance.
- + **Loan Guarantees:** Local government can shift some of the lender's risks by guaranteeing a loan, a portion of a loan, or a portion of the debt service payments made to retire loans, thus increasing the likelihood that developers can obtain private funds. Similarly, if the local government agrees to lease or purchase the project at a percentage of projected market value in the event the projected return does not materialize, the project becomes more attractive to equity and mortgage investors.
- + In Asheville, North Carolina, the city agreed to guarantee partial repayment of the private financing for Park Plaza, a downtown project, consisting of 11 adjacent historic buildings dating from the late 19th century, a new office/commercial building and a new 320-car parking structure. City financing was necessary to justify restoration of these structures and to interconnect the three blocks of buildings so that marketable floor plates and efficient elevator cores could be offered.
- + In the event the project did not generate net operating income sufficient to cover the first mortgage payment to a consortium of local private lenders during the first five years of the project, the city pledged that it would make available a \$200,000 line of credit to the developer. If \$200,000 were not needed in any one year to cover the payment, the funds paid by the city would be only the amount necessary to cover the mortgage payment. The partnership agreement called for any funds paid by the city to the developer under the line of credit to be repaid by the developer with interest upon sale or refinancing of the project or no later than 10 years after initial project occupancy.
- + **Public Grants:** Grants of surplus or unused public moneys to fund the public portion of a public/private venture can be made. Typical sources of local revenues include surplus water and sewer funds and leftover urban renewal funds.
- + **Direct Loans:** In a highly competitive capital market, direct loans from the public sector at below-market interest rates can fill a gap created when no private funds or insufficient funds are available for a particular portion of a project's financing. In addition to the benefit of encouraging new development, local governments also get the benefit of exercising a level of control that it would not have otherwise. If its interests are at stake, the city might wish to offer a below-market direct loan, even if a project does not require it financially. Many states have resolved the prohibitions against the use of public funds for direct loans by passing enabling legislation allowing the creation of economic development corporations or other special vehicles that serve as a conduit for city grants, loans and contracts to private entities.

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- ✦ **Public Funding of Predevelopment:** Involving a private developer early in the project could hinge on the public sector's willingness to underwrite some or all of the front-end expenses. This technique has successfully attracted developers to assess the potential for a project by removing one of the major obstacles to urban development, the difficulty of convincing developers to invest time and money in an assessment of a project's feasibility in weak or uncertain markets. Most developers view the probability of a reward from front-end investments under these conditions as very low and therefore choose not to make the effort. The willingness of the local government to undertake some such development costs creates an atmosphere conducive to further negotiations and possible involvement.
- ✦ In New Bern, North Carolina, for example, the city, through a nonprofit development corporation, funded studies by consultants for market, financial and design feasibility assessments in an effort to attract developers to dormant, unused urban renewal property along the waterfront adjacent to the downtown area. The property, located at the confluence of two rivers, had been cleared 14 years earlier, but had remained unproductive. The city's underwriting initial expenses attracted a developer to the project, and construction of the \$22 million development, which includes a 100-room hotel, a 400-seating meeting center, 10,000 square feet of retail space, a 100-slip marina and 40 residential condominiums.
- ✦ **Support of Other Public Objectives:** Cities desiring high-quality amenities that the market might not be able to support, public art, for example, can offer to pay for the increment of cost necessary to create the amenity.
- ✦ **Tax Increment Financing.** Tax increment financing (TIF) is a mechanism that allows city redevelopment agencies to fund downtown revitalization by capturing the increased property taxes that result from revitalization. This annual increment of revenues, which otherwise would be split with local taxing entities, is then used to pay for the public improvements directly or to secure the repayment of bonds used to finance public improvements. Bond issues based on tax increment revenue are not direct obligations of the city, therefore, they do not require voters' approval once approved by the city council.

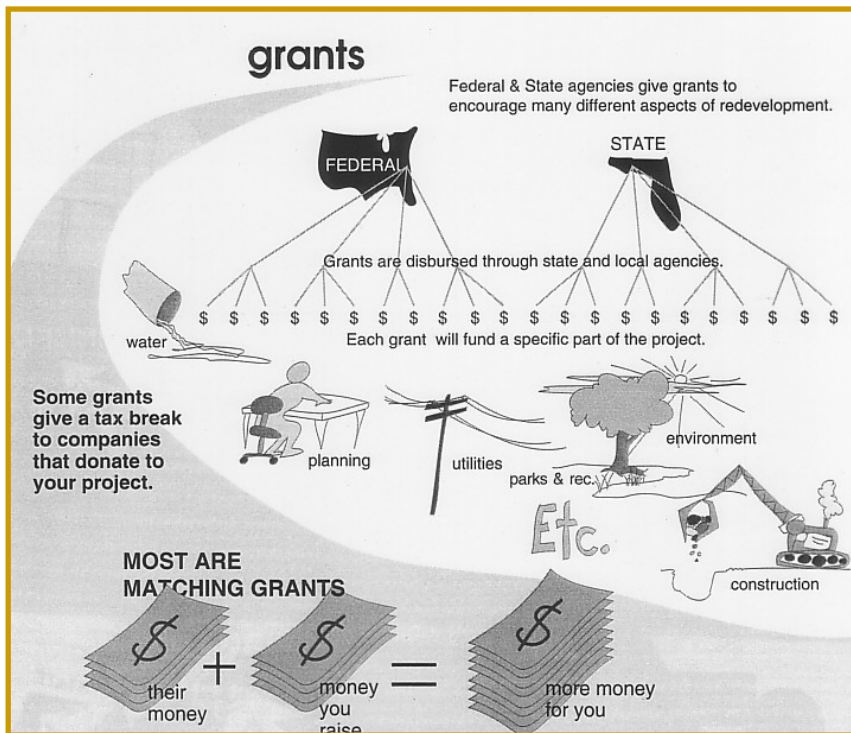
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- ✦ **Improvement or Business Development Districts.** An improvement district combines the financing vehicle of assessment district, in which all properties in a defined area are levied against for all or part of the cost of certain improvements, with additional administrative powers, such as planning, maintenance and promotion of improvements or downtown activities.
- ✦ Typically, the city levies a charge on the property in a specified single or multi-purpose district (a downtown area, a commercial strip or a historic preservation area) and the funds collected are used to retire bonds issued by the city (or the district itself) to pay for the improvements and services in the district. The bonds are repaid directly from the tax revenues collected or from the city' general fund, which is later reimbursed by the special tax revenues.
- ✦ **General Obligation Bonds.** Backed by the city's full faith and credit, these bonds are used to finance general public improvements. Ad valorem tax revenues are used to retire the bond debt. The city's current financial status must be evaluated to identify its capacity to issue general obligation bonds and the interest rates the bondholders charge the city reflect the municipality's bond rating. General referenda could be required to issue general obligation bonds and sufficient debt capacity must remain for the city to enter the bond market.
- ✦ **Revenue Bonds.** Revenue bonds are retired directly with the revenues generated from a specific facility. Parking fees from garages, hotel or bed taxes, and sales taxes, for example, have been used to pay debt tied to parking facilities, visitor facilities, group meeting space and other similar ventures.
- ✦ **Industrial Development Bonds.** Issued by a public agency or authority, IDBs are revenue bonds for private projects with a public purpose. The Tax Reform Act of 1986 limits the amount of the bonds to \$50 per capita or \$150 million per state, whichever is higher, and their use to multifamily housing, mass transit, airports, docks, wharves, utilities (electricity or gas), hazardous waste disposal, sewage and water facilities. The following types of projects cannot be financed with IDBs: sports, hydroelectric, air/water pollution, parking facilities, convention/trade show complexes and commercial activities.
- ✦ Shared Grants and Funding options: Most developments today take use of a multitude of financial and other grants/incentives by combining the best funding/incentives:

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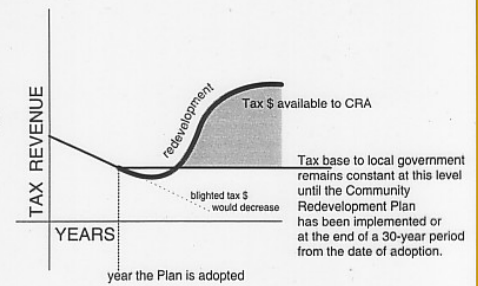
tax increment financing (TIF)

The non-exempt ad valorem tax base from the CRA is frozen the year the Community Redevelopment Plan is adopted (July 1 deadline each year).

Any increase in taxes goes to the CRA. Tax revenue increases because redevelopment increases the value of the property.

Without redevelopment, the tax revenue would continue to decrease as the area becomes more and more blighted.

When the Plan has been implemented, the tax base for local government will have been significantly increased.



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- ✦ **Tax Concessions.** Through tax concessions, a city encourages privately financed improvements in specified areas by not collecting the real estate taxes on those improvements for a number of years, or by freezing the assessment at the predevelopment level.
- ✦ In Phoenix, Arizona, for example, the city abated taxes for eight years for the 1 million-square-foot mixed-use Arizona Center. The abatement was part of a comprehensive public financing package, including vacated public right-of-way in exchange for equity in the project, access to tax-exempt municipal bonds and ownership of public space.
- ✦ In Trenton, New Jersey, the developer of Trenton Commons pays 15 percent of rents received annually in lieu of property taxes for 15 years, an effective abatement of 50 percent. Other variations of tax concessions have included exempting the increased value of redeveloped property from property taxes and gradually decreasing abatements.
- ✦ **Site Assembly.** In a built up area like the Southwest Atlantic Community, where most of the land has already been subdivided and developed, the acquisition of a suitable site can be a major problem. Because most of the land has been divided into relatively small parcels owned by separate parties, the problem of acquisition increases with the size of the site required.
- ✦ The public sector can alleviate these problems by purchasing property, removing clouded titles from privately purchased property and/or instituting land banking. Land banking allows a city agency or local development corporation to acquire and assemble land suitable for development and to hold the land until a suitable user is identified.
- ✦ **Land Writedowns and Deferred Land Payments.** Traditional redevelopment projects used land write-downs to attract developers to renewal sites and the incentive is still popular. After an analysis of the residual value of the land (calculated by capitalizing the net income to arrive at the value of a project and matching it with the capital cost of producing or replacing it), the write-down, or reduction of price to a level the proposed development can support can be established.
- ✦ Alternatively, rather than a one-time payment for the land, the public entity holding the land could agree to receive installment payments from the developer. This practice reduces the requirement for front-end cash and allows the developer to stage the payments to better match cash flow from the project.
- ✦ **Relocation Assistance.** Even though a public agency might not directly aid site acquisition, it can help a private developer assemble a site by helping to relocate space users in property slated for development. Relocation assistance can take the form of loans and grants to pay moving expenses or aid in finding or developing a new site for those who must move. Both parties can benefit. The relocated activity has a chance to leave obsolete facilities and an inadequate location and the community gains economic benefits from new businesses. Because a majority of property identified for assemblage is residential and the likelihood that Federal moneys will be utilized, relocation assistance will have to be provided to all those dislocated.
- ✦ **Insuring Condemnation or Acquisition Costs.** The unusual, but effective practice of securing an insurance policy to cover local government's risk of excessive court-negotiated acquisition costs during eminent domain proceedings can mean the difference in whether a project is feasible or not. Local government units can pay for or share in the costs of a one-time premium payment made to an insurance company that assumes the risk that total acquisition costs will not exceed an agreed upon level. This practice makes it possible to avert stalemates in negotiations that occur when cities are reluctant to use eminent domain unless they are certain of the maximum acquisition cost. Similarly, developers who agree to pay for city-assembled land avoid surprises or excessive payments resulting from court proceedings subsequent to their negotiated transactions with public entities.

- **Site Clearance and Demolition.** Once sites have been assembled and the existing residences and business relocated, government funds can be used to demolish and clear the site and prepare it for new development.
- **Privatization.** Local governments can enter into contracts where the private sector acquires, owns and operates facilities traditionally built by government. In some instances, public entities lease the facilities. Many types of public facilities have been built under this arrangement, among them parking garages and jails. Privatization usually works best when market conditions allow private developers to generate sufficient yields from other components of the project to justify building public facilities with private moneys.
- **Transfer of Assets.** Land and/or building swaps can be used to accomplish a variety of goals. Land swaps, for example, are used when the city and/or developer holds only pieces of the land it needs. The land is appraised, and parcels of equal value are traded to assemble usable sites for both parties. This technique was successfully used when a private landowner held several key parcels needed for the development of the Dallas Arts District. The landowner participated in a three-way exchange of property involving the city and the nonprofit Central Dallas Association to obtain land in another area more suitable for his business.
- Local governments can also swap properties in their inventories for private construction of much-needed public space or facilities. If the market is sufficiently strong and land values high, cities often can directly swap land for space that might be difficult to finance or be approved by voters. Usually employed when a city is legally barred from offering any direct incentives to the private sector and when a city does not have traditional urban renewal powers, exchanges or swaps can also provide a city with increased control over the project's design and construction.
- **Provision of Infrastructure and Public Facilities.** To attract private investment, local governments can provide a range improvements adjacent to or on the project site, including major capital improvements (transit systems, highway and street alignment, transit stops, storm and sanitary sewers, utilities), major public facilities (schools, parking a civic center, government office buildings, hospitals, neighborhood centers), or public amenities (outdoor recreational plazas, open spaces, landscaping or pedestrian bridges). A city's investment in public facilities can generate demand for specific kinds of private investment tied directly to those facilities, such as hotels, office buildings or residential projects.
- **Sharing Space.** Shared use of space allows the developer of a mixed-use project to avoid duplicating facilities and to minimize the requirements of open space that cannot be amortized by privately incurred debt. An impressive foyer, lobby, entry or parking garage can be shared by city and private users to amortize or set aside those aspects of the public/private development that cannot be amortized. Kitchen and registration areas can be shared in hotels and convention centers, for example.
- **Shared Expenses for Maintenance.** In a large, complex project, combining public and private space agreements are usually fashioned to define responsibilities for public and private sectors' maintenance and management of those facilities. The general trend is to consolidate most management and maintenance under one entity, with other participants paying for their share of services.

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- ✦ **Off-Budget Debt Financing.** Agencies have entered into securitized lease/purchase and other installment capital deals in which the use of tax-exempt financing (often through certificates of participation or COPs) results in lower-than normal annual costs for public buildings. Voters' approval is usually not required, as when certificates are used. Non-appropriation carries significant penalties, however, and can result in a strong negative mark on a city's credit rating.
- ✦ Defaults rarely occur with this type of financial transaction as tax-exempt lease/purchase agreements are usually made for unpopular, but essential facilities. COPs are an expanding and widely used alternative to general obligation bonds and have been used to build schools, jails, public administration buildings and other projects. Typically, COPs are slightly more expensive than issuing general obligation bonds, but investors' confidence has grown and their yield is now within a narrow range of general obligation debt.
- ✦ As installment purchase contracts for a capital project, COPs allow developers to build public facilities for a fee. The public entity agrees to lease the facility for a stated time period. At the end of the lease, the public entity purchases the building for a nominal fee (usually \$1). Such arrangements also lower total costs, as the public and the developer can avoid government procurement processes and can negotiate fast-track, turnkey construction services, materials and equipment for the public facilities.
- ✦ **Ground Leases.** While ground leases are not new, local governments have not employed them to a large degree outside of several western states, including California. Public entities, using vacant public lands, enter into long-term, unsubordinated, participating ground leases with developers to create additional cash flow to supplement tax revenues. In some instances, the public sector negotiates lower lease payments in exchange for developers' providing limited building space.
- ✦ Long-term leases are increasingly used in publicly assisted development because they are so flexible. The lease can provide for a minimum base payment, plus a percentage of income generated by the project or by some other graduated arrangement. Thus, if the project does well, the city shares in the income and can recover some or all of its costs. Ground leases, moreover, can be subordinated if necessary, that is, the city can execute a mortgage of its land as security for the development loan made to the lessee.
- ✦ For the developer, such long-term leases can greatly improve the net return on investment through improved financing terms, reductions in the equity required and tax advantages. With a subordination clause in the lease, the advantages are even greater. The disadvantage is that cash flows to the public entity are reduced when the land is leased rather than purchased.
- ✦ In San Diego, the city's redevelopment agency leased land for a new apartment building in the downtown's marina redevelopment project adjacent to the south end of Horton Plaza. In return for leasing the land at a nominal rate, the San Diego Redevelopment Agency participates in substantial cash flow after a preferred return on the developer's equity. The agency was also able to win agreement from the developer that 20 percent of all units would be set-aside for low and moderate-income households.

Implementation Timelines

Strategic Actions & Benchmarks	Short Term 1 – 2 Years	Intermediate 2 – 5 Years	Long Term 5+ Years
Resident Relocation	Outreach & Education 100% Property Appraisals 100% Residents Relocated 25%	Residents Relocated 75%	Residents Relocated 100%
Infill Development	Lot Acquisition 50% 50% Build-Out	Lot Acquisition 100% 100% Build-Out	
Targeted Redevelopment	Acquisition & Assembly 25%	Acquisition & Assembly 75% Design & Construction 25%	Acquisition & Assembly 100% Design & Construction 100%