DOWNTOWN INVESTMENT AUTHORITY
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MEMORANDUM

TO: DIA BOARD

FROM: Lori Boyer, CEO

DATE: July 5, 2024

RE: Long Range Budget, Incentive and Plan Implementation Priorities

**THE PURPOSE OF THIS WORKSHOP**

*The purpose of the Workshop is to discuss long range budget, incentive, and redevelopment priorities for Downtown, and to develop one or more strategies for presentation to the Special Committee on the Future of Downtown that address both General Fund budgetary concerns and the suggestion to focus.*

This memo attempts to raise many of the issues that will be involved if, by choice or City Council dictate, we make significant changes to our adopted plan regarding budget and incentive priorities and how those changes could be implemented through program changes. I do not anticipate that we will finish the discussion today, nor that we will get to the detail involved in establishing new program or incentive evaluation criteria. However, the Board should be aware of the magnitude of the task ahead and the time commitment it will require.

I do not believe we can responsibly suggest a particular number to the City Council - i.e. whether $50 million/year is needed or sufficient- without giving thought to how we would prioritize use of those funds.

**BACKGROUND**

The Community Redevelopment Plans and Business Investment Strategy (together the BID Plan) was amended and readopted by City Council in February of 2022. In preparation of the plan, we hired the Wildan Group to prepare a market study of each Downtown neighborhood to help us right-size incentives to market conditions in each neighborhood. The study was completed on the heels of the post COVID outbreak, so return to office impacts were unclear; additionally, it was completed prior to the war in Ukraine, 2022 inflation and interest rate hikes. If we were to procure a new study today, we would likely not have the final results for a year.

Different financial gaps by neighborhood and location - the 2022 update does recognize that achievable rents vary by neighborhood, while construction costs do not thus creating different incentive needs. Those variances are built into the multifamily REV grant program factors and, for example, limit REV grants in Southbank and Brooklyn areas - particularly waterfront. The current post-inflation and interest rate market conditions today have, however, make even those projects not financially feasible with full REV grants.

<u>Completion Grants</u> - Prior to approval of the Four Seasons Hotel (really created in Lot J proposal) there were no recognized "completion grants" to help fill financial gaps on new construction- only land donations and REV grants. Our programs did pay grants upon completion for retail incentives, façade grants, and historic restorations but these were not simply financial gap fillers for new construction.

<u>Growth in General Fund Commitments</u> - Since 2022, requests for incentives that rely on City General Fund resources have grown significantly in number and value and are having a material impact on General Fund budgets. These include both DPRP historic incentives and "completion grants" approved under the complex "Tiers analysis" (found on page 125-126 of the BID Strategy) or the new 30-year ROI analysis approved by the Board in spring of 2024. A commitment tracking sheet is attached that reflects these obligations and expected payout years.

<u>Special Committee: Fixed allocation</u> - The City Council Special Committee on the Future of Downtown has raised the concept of providing DIA with a fixed annual allocation for General Fund obligations and allowing DIA to independently approve the allocation and award of these funds. The funding amount that has been discussed ranges from \$20 - \$50 million annually in light of other current budget demands.

<u>Special Committee: Focused Geography</u> – The Committee is discussing a focused geographic area for incentives and plan implementation (City Center). For Board consideration and later discussion attached is a map we prepared showing vacant buildings and lots as well as City owned buildings and parcels in City Center and Northcore.

<u>Current BID Plan prioritization and strategy</u> – The 2014 and 2022 plans **<u>essentially prioritize residential growth and office retention in order to increase taxable values and build a Downtown population</u>** as well as to generate enough revenue in the two tax increment districts to finally be able to fund capital projects from the TIDs. **<u>The annual discretionary income (revenue above overhead and financial obligations) is now approximately \$5 million on the SB and \$10 million on the NB</u>**. That was not the case on the SB until we repaid the \$23 million obligation which is fully funded in the coming FY, and on the NB until we renegotiated the MPS garage obligation. In FY 22, the NB number was \$3 million.

The TID funding is allocated based on the Years Tables found in the BID Strategy on pages 127-135 which projects the funding needed for DIA funded incentive programs such as façade grants and retail enhancement as well as the priorities for capital projects identified in the CRA Plan. We annually review funds on hand and the years table when we develop the annual TID budgets and prioritize those incentive programs which are being depleted by awards (such as FABREP and Affordable Housing loans). We then allocate funds to capital projects based on years table priorities, development in the area, new project needs, etc. There has not been a focus on a particular Downtown neighborhood or street regarding capital projects, although some incentives such as FABREP (limited to Elbow and Laura/Hogan) and Façade Grants (limited to National Historic District) focus on the core.

<u>What are the consequences of focusing on a limited area?</u>

1. DIA can potentially have a greater impact in terms of vibrancy and attraction of visitors to an area if we concentrate both capital investments and incentives in a very targeted approach. For example, we have already identified Laura/Hogan as a food and beverage corridor and the Hogan Street segment of the Emerald Ttrail on the west side of Hogan Street and the CIP streetscape project on east side of Hogan Street will commence later in summer 2024. JU Law School is relocating to the corridor and Riverfront Plaza is under construction. Should we focus on F&B buildouts in Ed Ball, incentives to get Furchgotts and 214 Hogan Street and other vacant buildings on the street renovated and in service as well as upgrades to existing F&B on the corridor? Consideration should also be give to possibly including the Snyder disposition and Mags and Chamblin's. This is a proactive approach as opposed to market driven but could create a much improved corridor.
2. What if the affected property owners are uncooperative or unmotivated to invest? What leverage do we have?
3. There are winners and losers based on who owns the property- will the losers who do not qualify for funding just go to City Council directly? Is DIA undermined in its role of planning and establishing priorities?
4. Are there criteria or thresholds of significance that trigger City Council involvement and final approval?

<u>What investments are Catalytic vs. Significantly additive?</u>

Most projects we have incentivized are additive to both tax growth (at least 25% above the REV) and to building momentum and residential population. In the aggregate they are catalytic by creating greater momentum and now retail demand. However, when the incentives provided essentially take the ROI down to 1, the project is not additive to tax revenues and is only catalytic **<u>IF</u>** it spawns other adjacent developments that do not require significant incentives. In looking at comparison cities, some of the investments that appear to have been truly catalytic are the Tampa Convention Center that resulted in major taxable value growth through a proliferation of hotels that did not receive incentives. Additionally, in St. Petersburg, the investment in public parking garages and museums appears to have significantly enhanced the growth of F&B and entertainment which in turn increased rents and brought more residential units without incentives.

Private developments can be catalytic if they drive investment in the market or rent rates such as the expected impact of the proposed Related project. But the second and third projects that follow cannot be similarly incentivized or the rationale does not hold.

In Downtown, we are relying upon the investment of CRA land and City CIP dollars in a riverfront destination park system to be the major catalyst for Downtown. The research from comparison cities, including Tampa, indicate that can be the case. However, we will not see the increase in taxable values, residential demand and rents until the parks are completed. The two-way street restorations are expected to have a similar impact on retail occupancy and values of adjacent properties based on the experience of those cities who have completed similar projects in the last decade.

In prioritizing capital projects moving forward, we should be evaluating not only their quality of life impact and long-term impact on taxable value growth and vibrancy, but also their short-term impact on adjacent development opportunities.

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*The purpose of the Workshop is to discuss long range budget, incentive, and redevelopment priorities for Downtown, and to develop one or more strategies for presentation to the Special Committee on the Future of Downtown that address both General Fund budgetary concerns and agency priorities.*

In order to tackle this broad-ranging discussion, I suggest we begin with Northbank, and only address Southbank if time permits. I do not expect to get through the entire list below, but decisions on some points will help guide the later discussion. I would also suggest we order the discussion as follows - which follows the order on the handout provided.

1. Assumptions and available NB and General Fund potential resources:
    a. CRA resources can only be spent in the respective CRA - NB or SB
    b. Assume $10M available annually in NB and $5M in SB ***these assumptions are based on remaining revenue that may be budgeted for expenses after financial obligations***
    c. General Fund, presumably in addition to Commitment tracking plus Related, Gateway and Doro, possibly $25 - $50 million/year for 3-4 years.

2. REV grants- continue to fund per plan throughout NB but perhaps consider accelerated payouts (85% first 3 years, 80% next 3 years, 75% next 3 years, 70 % next __ years, 65% final __ years) - will not impact assumptions above.

3. Set aside funds as needed for current TID funded programs (see attachments to memo) or defund one or more programs.
    a. Will need ~ $1 million annually to keep up with demand for FABREP and REP
    b. May need $ 750,000 or more annually for Development loans/affordable housing
    c. Many programs have adequate balance and will not require additional funding for 2 years

4. Consider pros and cons of focused area:
    a. What is area? City Center only? Perhaps Hogan only?
    b. LaVilla should not be excluded from eligible programs- perhaps second focus area?
    c. Should we concentrate TID funded programs only in focus area? Façade for example?

5. Consider option to bond a portion of TID discretionary revenue.
    a. If we were to set aside approximately $4 million per year for 20 years, we could cover debt service on a $50 million bond. Unfortunately, that only gets us a few large projects and limits our resources for capital projects- is that a choice we would want to make? Shortsighted or accelerating progress? What can be funded with bond proceeds? What is the capacity to deliver capital projects?

6. What allocation between use of funds (whether TID or General Fund) for capital projects, small incentives, historic and completion grants is optimal?
    a. $10M split 60/40 capital/TID incentives with all General Fund to incentives.
    b. All TID to capital projects other than minimal program funding in 3 above; General Fund for incentives?
    c. $10M split 40 capital projects/15 existing programs/15 new targeted programs/30 TID funded completion grants (set program parameters).

7. If General Fund allocation funds only or primarily incentives?
    a. What is optimal allocation between historic and new construction- historic lower ROI and tax exempt so lesser impact on TID but more catalytic? 80 new:20 historic; 70 new: 30 historic?
    b. What is the optimal % of General Fund used in City Center or even smaller targeted area? 70%? What about LaVilla? 20% leaving 10% Northcore or elsewhere

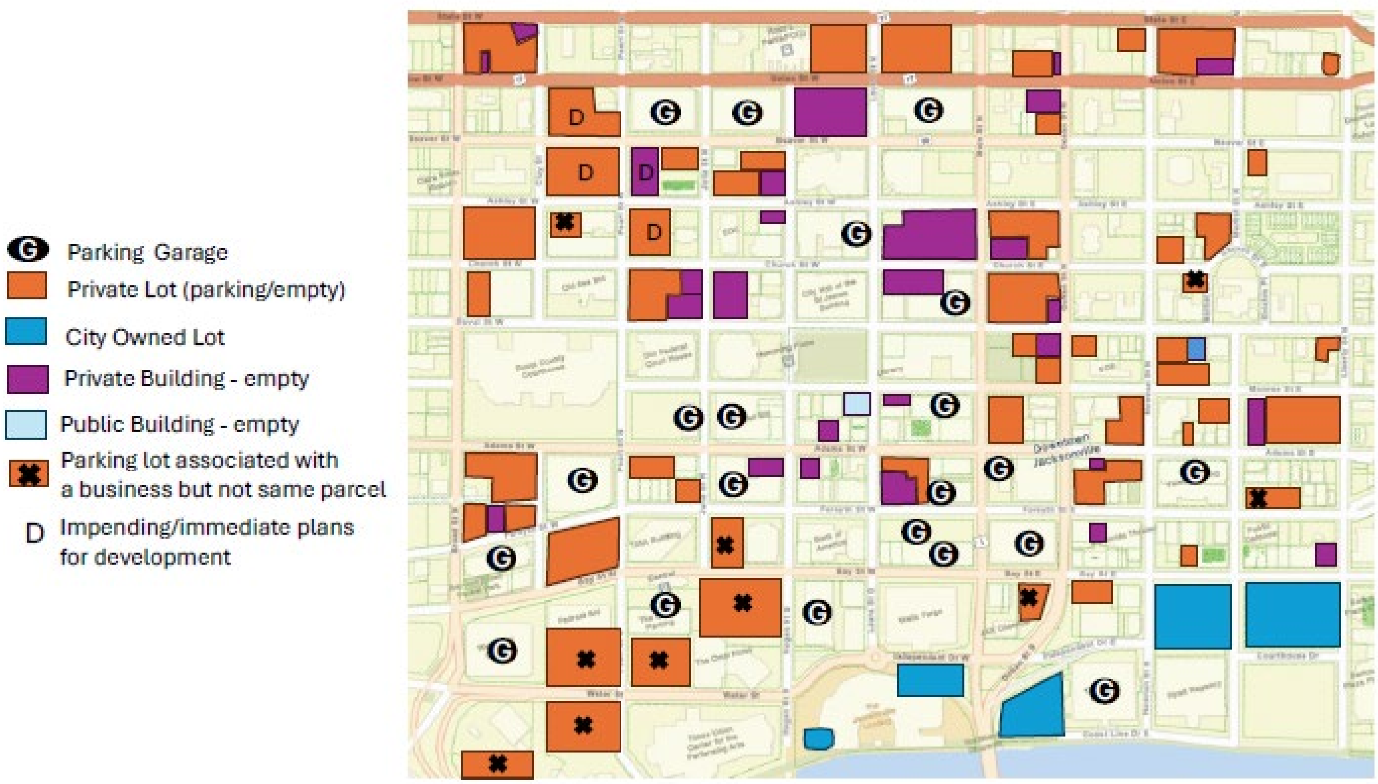
8. If limited incentive funding, how should applications be evaluated and scored against one another?
    a. First come first serve by project type, allocating a fixed amount to each type
    b. Competitive rounds- perhaps 2x/year
    c. Divide process between small (less than $5M) and large (greater than $5M)

9. The details- need to establish additional criteria and guardrails; some ideas for discussion which are not mutually exclusive nor are all suggestions internally consistent and feasible:
    a. Importance of execution ability- experience, owner/developer equity
    b. Importance of delivery timing- performance schedule- how much design risk has developer taken at their own expense before application in order to accelerate delivery of finished development
    c. Projects spawned by capital projects should receive higher priority but not necessarily greater funding
    d. Can't spend more than <u>X</u> (75?)% of a year's budget on one project
    e. Can't award more than 1.5 x one year's budget in a single year
    f. Could exceed those limits, project specific, with Council approval
    g. Eligible uses limited to the following utilizing competitive funding rounds with criterion established through SIC and administered via RFP (3-4 annually):
        i. Completion grants meeting high-rise parameters (30-year methodology including LOST @ 50%).

ii. Completion grants meeting mixed use parameters to be established (20-year methodology including LOST @ 50% with ROI 1.1 or higher).
iii. Completion grant program to convert surface parking to mixed-use parking garage, but not to exceed lesser of 30% (estimated) of actual hard costs plus architectural/engineering services or $5 million max per project (NB, City Center only, 2 per year), also REV and REP/FAB-REP eligible via TIF.
iv. Historic redevelopment limited to not more than 20% of either sublimit max and may only be used for properties deemed high priority and most impactful to stimulate neighborhood growth (joint determination made by SIC and HPS). Vanilla shell created eligible for REV and REP/FAB-REP via TIF.
v. Sub 1:1 ROI projects with high intangible return limited to not more than X (30?)% of either sublimit maximum (max of 1-2 each per NB and SB).
    1. Charter schools (Historic Stanton, Fuller Warren Bldg., Sulzbacher, properties within State and Union, Suddath Building, MOSH, etc.)
    2. Grocery store(s)
    3. Drug store(s)
    4. City-owned building converted to performing arts venue or similar (i.e., Snyder Memorial)
vi. City owned property disposition below appraised value in conjunction with a development project where overall ROI ≥ 1:2 (inclusive of TIF incentives).
vii. Ten-year amortization with balance owed on liquidity event or sale of property.

h. Historic Guardrails
    i. Potential limiting criteria
        1. Area – *Could* limit to City Center and LaVilla; do we want to take out Brooklyn
        2. Building Age – Would consider 75 years+
        3. Ranking list w/ input from Historic Preservation Section
        4. Historical significance
        5. Applicant approval process – of some sort – capital, experience, etc.
        6. Higher TDC % for residential, retail and hospitality uses
        7. Lower TDC % cap for office uses
    ii. Excluding code compliance piece

Map


Parking Garage
Private Lot (parking/empty)
City Owned Lot
Private Building - empty
Public Building - empty
Parking lot associated with
a business but not same parcel
D Impending/immediate plans
for development
Downtown
Jacksonville

| | Total development cost | Incentives | |
|---|---|---|---|
| CRA Incentives Paid (REP, Façade, CRP) | $ 8,628,631.00 | $ 1,412,846.00 | **2012-2023** |
| CRA Incentives awaiting RDA | $ 8,422,158.00 | $ 897,965.00 | **2023-2024** |

| | | Years table rec. | Years table rec. | Years table rec. | |
|---|---|---|---|---|---|
| Northbank | Balance May 24 | 22/23 | 23/24 | 24/25 | Notes |
| Downtown Dev Loan Funds | $ 1,356,446.57 | $ 650,000.00 | $ 625,000.00 | $ 650,000.00 | |
| REP (NB) | $ 1,349,836.00 | $ 1,000,000.00 | $ 1,000,000.00 | $ 1,000,000.00 | Keep same |
| Façade (NB) | $ 780,021.37 | $ 150,000.00 | $ 150,000.00 | $ 150,000.00 | Same or more |
| CRP (NB) | $ 988,083.85 | $ 500,000.00 | $ 500,000.00 | $ 500,000.00 | Less needed unless change program |
| Small Scale Resi (NB) | $ 500,000.00 | $ 250,000.00 | $ 250,000.00 | $ 225,000.00 | About right |
| Screening (NB) | $ 181,341.00 | $ 500,000.00 | $ 500,000.00 | $ - | Expired |
| Southbank | | | | | |
| REP (SB) | $ 950,664.00 | $ 300,000.00 | $ 500,000.00 | $ 200,000.00 | 250K /yr |
| Screening (SB) | $ - | $ 75,000.00 | $ 50,000.00 | $ - | Expired |
| CRP (SB) | $ 400,000.00 | $ 250,000.00 | $ 200,000.00 | $ 250,000.00 | Keep same |
| Small Scale Resi (SB) | $ 25,000.00 | $ 25,000.00 | $ 25,000.00 | $ 25,000.00 | About right |
| Downtown Development Loans - (SB) | $ 120,000.00 | $ 650,000.00 | $ - | $ 750,000.00 | not in years table |
| | | | | | |
| Total NB Incentives | $ 3,799,282.22 | $ 2,400,000.00 | $ 2,400,000.00 | $ 1,875,000.00 | |
| Total SB Incentives | $ 1,375,664.00 | $ 650,000.00 | $ 775,000.00 | $ 475,000.00 | |
| Total Loans | $ 1,476,446.57 | $ 1,300,000.00 | $ 625,000.00 | $ 1,400,000.00 | |