RESOLUTION 2024-05-04

A RESOLUTION OF THE DOWNTOWN INVESTMENT AUTHORITY ("DIA") TO MODIFY UNDERWRITING STANDARDS AND PROCEDURES BY INCREASING THE NUMBER OF YEARS INCORPORATED INTO THE PROJECTED CITY OF JACKSONVILLE AD VALOREM TAX COLLECTION IN THE CALCULATION OF RETURN ON INVESTMENT ("ROI") FOR HIGH RISE RESIDENTIAL AND/OR HOTEL BUILDINGS IN DEFINED CIRCUMSTANCES THE SPECIFICS OF WHICH ARE INCLUDED HERETO AS EXHIBIT 'A'; AUTHORIZING ITS CHIEF EXECUTIVE OFFICER ("CEO") TO TAKE ALL NECESSARY ACTION TO EFFECTUATE THE PURPOSES OF THIS RESOLUTION; PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Downtown Investment Authority ("DIA") has been designated by the City of Jacksonville as the Community Redevelopment Agency ("CRA") for community redevelopment areas within the boundaries of Downtown pursuant to Ordinance 2012-364-E; and,

WHEREAS, via Ordinance 2014-0560, the City Council adopted a *Business Investment and Development Strategy* for Downtown Jacksonville (the "BID Strategy"), as updated and amended by Ordinance 2022-0372; and,

WHEREAS, the City of Jacksonville Public Investment Policy dated June 28, 2016, as administratively updated November 21, 2019 (the "PIP"), states that, *"Projects will be evaluated on whether they provide a return on investment (ROI) to the City. Projects will also be evaluated against standard underwriting criteria and an assessment of the public investment risk associated with the project.*"; and,

WHEREAS, the ROI, as outlined in the PIP, "*measures the economic benefit against the public investment for a project,*" and provides a goal to "*have the ROI on a project exceed the ratio of 1:1";* and,

WHEREAS, Redevelopment Goal No. 2 as found in the BID Strategy charges the DIA to "*Increase rental and owner-occupied housing Downtown targeting diverse populations identified as seeking a more urban lifestyle.*"; and,

WHEREAS, among the Strategic Objectives that support Redevelopment Goal No. 2 and provide further action-oriented tasks by which the goal may be carried out include:

- Actively pursue a minimum of 8,140 built and occupied multi-family dwelling units by 2030; and strive to induce construction of 425 multifamily dwelling units per year, on average.
- Improve the breadth and diversity of housing options across Downtown to provide all types, and varied price ranges, of rental and owner-occupied opportunities, including mixed income and mixed-use structures.

- Contribute to resiliency in design and construction of new residential buildings, and flexibility in response to changing residential demand for unit sizes, home workspaces, amenities, and future conversion of parking; and

WHEREAS, the first CRA Plan Umbrella is Economic Development and in support thereof the adopted BID Plan includes a Targeted Hotel Rev Grant to encourage development of certain types of new hospitality offerings; and

WHEREAS, the underwriting protocol of the DIA heretofore has matched the number of years of projected City of Jacksonville ad valorem tax collection with the maximum payout period for a REV incentive in the calculation of ROI while benefits will continue for longer periods of time, most specifically when high rise buildings constructed of concrete, steel and similar materials are involved; and

WHEREAS, the construction cost of materials and construction techniques for high rise structures are significantly more expensive than frame construction over podium; and

WHEREAS, in order to stimulate growth in the development of high-rise, mixed-use properties constructed in compliance with the enhanced building code requirements for such structures, modification of the analytical approach to calculating the ROI following guidelines attached hereto as Exhibit 'A' is warranted to achieve the broader goals of Downtown redevelopment.

NOW THEREFORE, BE IT RESOLVED, by the Downtown Investment Authority:

Section 1. The DIA finds that the recitals set forth above are true and correct and are incorporated herein by this reference.

Section 2. The DIA hereby adopts the modification to underwriting standards and procedures in calculation of the ROI on incentives, where such a calculation is required, as set forth in Exhibit 'A' attached hereto.

Section 3. The DIA instructs its CEO to take all necessary action to effectuate the purposes of this resolution.

Section 4. The Effective Date of this Resolution is the date upon execution of the Resolution by the Chairman of the DIA.

***** SIGNATURES FOUND ON THE FOLLOWING PAGE *****

WITNESS: **DOWNTOWN INVESTMENT AUTHORITY**

______________________ ______________________ 5/15/24

Jim Citrano, Chair Date

VOTE: In Favor: 8 Opposed: 0 Abstained: 0

EXHIBIT A
Modified Underwriting Standards for ROI Calculation
High-Rise Residential and Hotel Mixed-Use Properties

<u>Summary</u>

To further development of high-rise residential, and certain hospitality properties, constructed of concrete, steel, and similar advanced materials and techniques, requires modification of the methodology employed in the calculation of Return on Investment ("ROI") to recognize the long life and contribution to the City of Jacksonville's ad valorem tax collection.

- The City of Jacksonville will benefit by having a greater number of high-rise residential and hospitality properties in Downtown Jacksonville.
- Construction materials and techniques required for the development of high-rise properties far exceed the comparative cost per square foot of mid-rise properties most commonly associated with suburban development. Our calculations indicate an increase in cost per square foot or unit of approximately 27%.
- Modification of the ROI calculation to include 30 years of incremental ad valorem to the City better aligns with the expected financial benefits of the type of development activity that qualifies for this treatment.
- The basic ROI calculation is made by dividing the total direct City revenue (generated principally through projected City ad valorem taxes) by the total maximum commitment of the City's funding toward the project (comprised mainly of a Recapture Enhanced Value ("REV") Grant).
- Modification to the methodology used in the calculation of the ROI to allow for 30 years would apply only to the projected City ad valorem taxes as found in the numerator of that calculation (City Benefit or Inflows).
- No change to the calculation of City payouts or maximum indebtedness would be made by this modification, and the maximum term of a REV Grant remains unchanged at 20 years and the maximum percentage paid out remains unchanged at 75%.
- Projects meeting the criteria of this methodology shall automatically qualify for a 75% REV calculation in determining Maximum Indebtedness.
- Evaluation of any other payment obligations or property transfers (City Outflows) remain unchanged from approved program or tiers approach calculations approved in the BID Plan update by Ordinance 2022-372-E.
- In all cases where the proposed methodology is utilized, the numerator would be the 30-year anticipated ad valorem (plus any other City Benefits) divided by the Maximum Indebtedness of the REV Grant with a 20-year maximum time horizon following all conventional calculation methodology, plus any other funding commitments made or the value of any property to be conveyed, as the denominator.
- ROI = City Inflows (30-year incremental City ad valorem) plus any other City benefits/City Outflows (__% of incremental City ad valorem over 20-years maximum) plus any other City commitments

<u>Qualification Criteria- all must be satisfied.</u>

1. Only high-rise developments within Downtown Jacksonville that are required to utilize concrete, steel, and similar advanced materials (other than wood frame) and construction techniques due to Type I or Type II fire rating considerations per State of Florida or City of Jacksonville building codes shall be eligible for this modified ROI calculation.

2. Only those buildings in a multi-building project that meet the high-rise requirement or are direct supporting uses to the high-rise such as a mid-rise garage on the same site, shall be eligible for this consideration. The costs and applicable incentive for any other buildings below 10 stories in the same project shall be calculated on a 20-year schedule.

3. Only buildings a minimum of 10 stories tall shall be eligible.

4. Buildings meeting the criteria herein must also have a minimum of five habitable stories above any garage or podium to be eligible.

5. Only projects where the high rise yields a minimum of 115 units per acre inclusive of parking, if any, shall be eligible.

6. The total project ROI must equal or exceed 1.1X coverage as defined above.

7. The total of all city Incentives may not exceed 100% of Developer's Equity. For these purposes, Developer's Equity shall be limited to:
    a. Direct at-risk investment into the property owner entity (recipient of funding) that is put in place prior to or during the construction phase and remains in place at the time construction is substantially completed and construction debt converts to permanent debt.
    b. May include common and preferred equity evidenced by shares of proportional ownership in the entity.
    c. The value of any property owned or contributed to the project as part of an investment in the ownership of the property owner entity shall be given credit using the "As-is" value from an appraisal ordered, or agreed upon, by the DIA in its sole discretion, net of any associated debt or liens regardless of the obligor for such debt.
    d. Pre-development costs incurred and paid through out-of-pocket expenditures will be considered but must be supported by documentation satisfactory to the DIA in its sole discretion.
    e. Shall exclude equity like investments including but not limited to warrants, tax-credit equity, mezzanine financing, PACE loans, and grants or incentives provided by third party agencies of any nature including the DIA and the City of Jacksonville.
    f. Equity shares earned through like-kind exchanges or "sweat equity" will not be considered.
    g. This list of inclusions and exclusions to the definition of Equity, including any items specifically not captured here, is subject to revision by the DIA at its sole discretion.

8. A Completion Grant may be recommended without satisfaction of the Tiers Analysis in order to encourage high rise development, but only if there is an eligible companion REV Grant which shall have a minimum 15-year payout period included as part of the City incentive.

9. To be eligible for this methodology, properties immediately adjacent to the river, creek, or the Emerald Trail must provide a minimum 3,000 square feet of restaurant or retail space directly accessible to the public from the Riverwalk, at the street level, or on the rooftop or similar height advantaged location as approved by the RE&PD Committee and DIA Board.
10. Any completion grant may not exceed 25% of hard costs plus costs for architecture and engineering but shall not include acquisition costs and may not exceed 65% of Developer's Equity.
11. Proposed developments must adhere to all other criteria established in the BID Plan and the Downtown Overlay Zone.
12. Eligibility is limited to residential and hospitality properties including those mixed-use properties meeting the minimum requirements of the BID Plan and qualifying for REV grants under the BID Plan. Incorporation of uses other than retail or parking as a supplemental use to a primarily residential or hotel property, or combination thereof, shall not preclude use of this ROI calculation methodology unless such use exceeds 15% of total building square footage or is prohibited by the Downtown Overlay Zone Standards.