

# New Market Tax Credits and other Strategies for Community Development

*Rules and Economic  
Development Committee*

May 15, 2013



Building Great  
Urban Neighborhoods.  
Together.

## Responsibilities & Priorities

- Redevelopment wind-down
- Affordable housing
- Neighborhood revitalization
- Economic transformation
- Infrastructure improvements
- Inclusive community engagement
- Homeless solutions
- Long-range planning
- Foster TOD
- Facilitate mobility
- Entitlements / Permitting
- Job creation
- Environmental sustainability
- Support for arts & culture
- Historic preservation
- Advance biking/walking

## A New Approach for a New Era



## Civic San Diego Mission

“To be the entrepreneurial partner to improve economic and social well-being through a better built environment in targeted urban neighborhoods”

# Current Authorities

## Civic San Diego

| All Former Redevelopment Project Areas  | Former CCDC and SEDC Redevelopment Project Areas   | Former Downtown Redevelopment Project Areas Only   |
|---|--|--|
| <ul style="list-style-type: none"><li>▪ Wind-down redevelopment</li><li>▪ Manage housing and non-housing assets of formerRDA</li><li>▪ Implement projects, including public works, on approved ROPS or using excess bond proceeds</li></ul> | <ul style="list-style-type: none"><li>▪ Economic development</li><li>▪ Public works projects (not on ROPS)</li></ul> | <ul style="list-style-type: none"><li>▪ Long-range planning<ul style="list-style-type: none"><li>□ Community Plan and PDO amendments</li><li>□ Park and Fire Station design</li><li>□ Environmental lead agency</li><li>□ Mobility</li></ul></li><li>▪ Design review</li><li>▪ Issuance of entitlements</li><li>▪ Issuance of permits</li><li>▪ Parking District management</li><li>▪ DIF and FAR Bonus Fee project implementation</li></ul> |

# Consequences of Redevelopment Dissolution

- Loss of critical funding for

- ❑ Site acquisition, assembly and soils remediation
- ❑ Affordable and homeless housing
- ❑ Long-range planning
- ❑ Parks, fire stations, and libraries
- ❑ Capital improvements for arts and culture
- ❑ Sidewalks, streetlights, streetscape
- ❑ Capital improvements for social service providers
- ❑ Home rehabilitation and first-time homebuyer loans
- ❑ Historic preservation
- ❑ Storefront improvements
- ❑ Loss of Polanco Act and Eminent Domain for Redevelopment



*Pinnacle Park – East Village*



*Villa Montezuma – Sherman Heights*

# Affordable Housing Assets

- Affordable Housing Master Plan

- 1,045 new housing units (including approx. 400 units for homeless)

- Excess Housing Bond Proceeds

- Approximately \$33 million

- 23 Real Properties

- Ownership transferred to the City as Housing Successor Entity in January 2013
- 10 properties with existing housing developments and rent restrictions
- 8 properties to be held for future affordable housing projects
- 5 downtown properties proposed to be competitively sold for high density, mixed-use development
  - *minimum of 15% of residential units must be affordable*
  - *proceeds from sale dedicated to Affordable Housing and City-wide NOFA for housing projects*



*Atmosphere – Cortez District*

# Non-Housing Assets

- Approximately 90 parcels City-wide
  - Upon Long-Term Property Master Plan approval by the DOF
    - *Transfer to the City for a Public Purpose*
    - *Transfer to the City to hold for Redevelopment Purposes*
    - *Competitively sell*
- Excess Non-Housing Bond Proceeds
  - Completion of public improvements or P3's denied by the DOF



*Silverado Ballroom*

# Community Development

## ■ People-based strategies

- ❑ Child care
- ❑ Workforce training and skill-building
- ❑ Home ownership
- ❑ Quality schools
- ❑ Commercial stabilization
- ❑ Social services
- ❑ Business attraction incentives

## ■ Place-based strategies

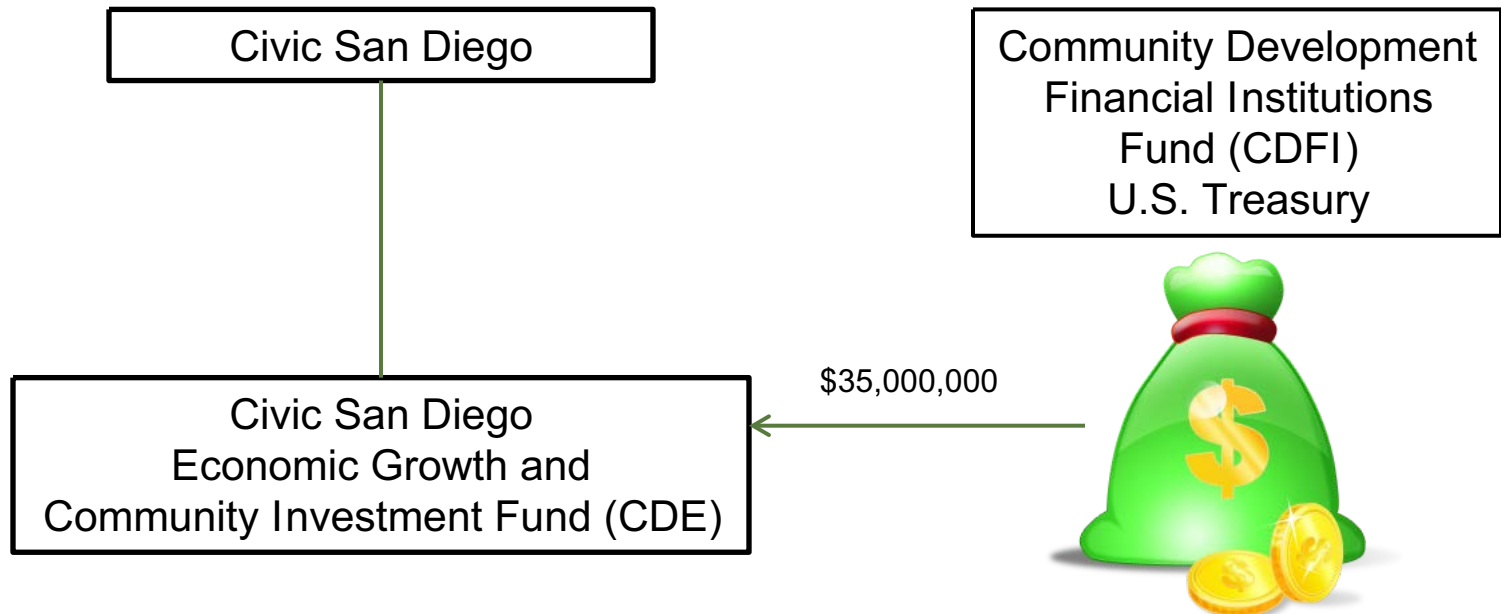
- ❑ Real estate and infrastructure
- ❑ Affordable/workforce housing
- ❑ Commercial development
- ❑ Green space & community facilities
- ❑ Transit choices
- ❑ Clear, predictable, timely and efficient permitting practices
- ❑ Shared parking opportunities

# NEW MARKET TAX CREDITS

*An Economic Development Tool*



# Community Development Entity



# NMTC

## Community Impacts

- Create or maintain quality jobs for Low-Income Persons
- Provide commercial & community goods & services to Low-Income Persons
- Finance minority-owned businesses in Low-Income Communities
- Provide flexible lease rates in Low-Income Communities
- Provide housing opportunities to Low-Income Persons
- Create environmentally sustainable outcomes in Low-Income Communities
- Provide healthy food opportunities in Low-Income Communities
- Enable catalytic projects in Low-Income Communities

# New Market Tax Credits

- Qualified Businesses
  - Rental real estate
    - Cannot be IRC § 168(e)(2)(A) “residential rental property” (building which derives 80% or more of gross rental income from dwelling units)
    - Substantial Improvements must be located on property
    - No lessee can be a country club, golf course, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility or liquor store
  
- Low Income Communities are census tracts where:
  - Poverty rate exceeds 20% or
  - Median income is below 80% of the greater of:
    - Statewide median income or
    - Metropolitan area median income
  - “Targeted populations” apply

## “Targeted Populations”

Must meet **one** of 3 tests:

- At least 50% of QALICB’s **gross income** derived from transactions with Low-Income Persons; or
  - At least 40% of QALICB’s **employees** are Low-Income Persons; or
  - At least 50% of the QALICB’s **owners** are Low-Income Persons
- And it must be in a census tract in which median family income doesn’t exceed 120%

# New Market Tax Credits

- Equals 39% of amount of original investment
- Invest \$100 and Receive \$39 Tax Credit
- Credit taken over a 7-year period
- Credit rate:
  - 5% in each of the first 3 years
  - 6% in each of the final 4 years

## Advisory Board

- ***Must*** demonstrate that the view points of the advisory board(s) are given “sufficient consideration and attention” by the ***governing board***
- Encourage selection of ***residents of LICs to serve as members***
- ***Annual certification*** of the board is required



# Advisory Board

- Advise the CDE and Governing Board on community impacts of NMTC investments
- Provide “feedback loop” to CDE from community about specific needs
- Build awareness about the NMTC programs



# Advisory Board Members

- Joel Roberts
  - Jody Carry
  - Jennette Lawrence
  - Peter Callstrom
  - Cruz Gonzales
  - Richard Lawrence
  - Diane Moss
- PATH  
Community Activist  
Family Health Centers  
SD Workforce Partnership  
SEDC Board  
SEDC Board  
Project New Village



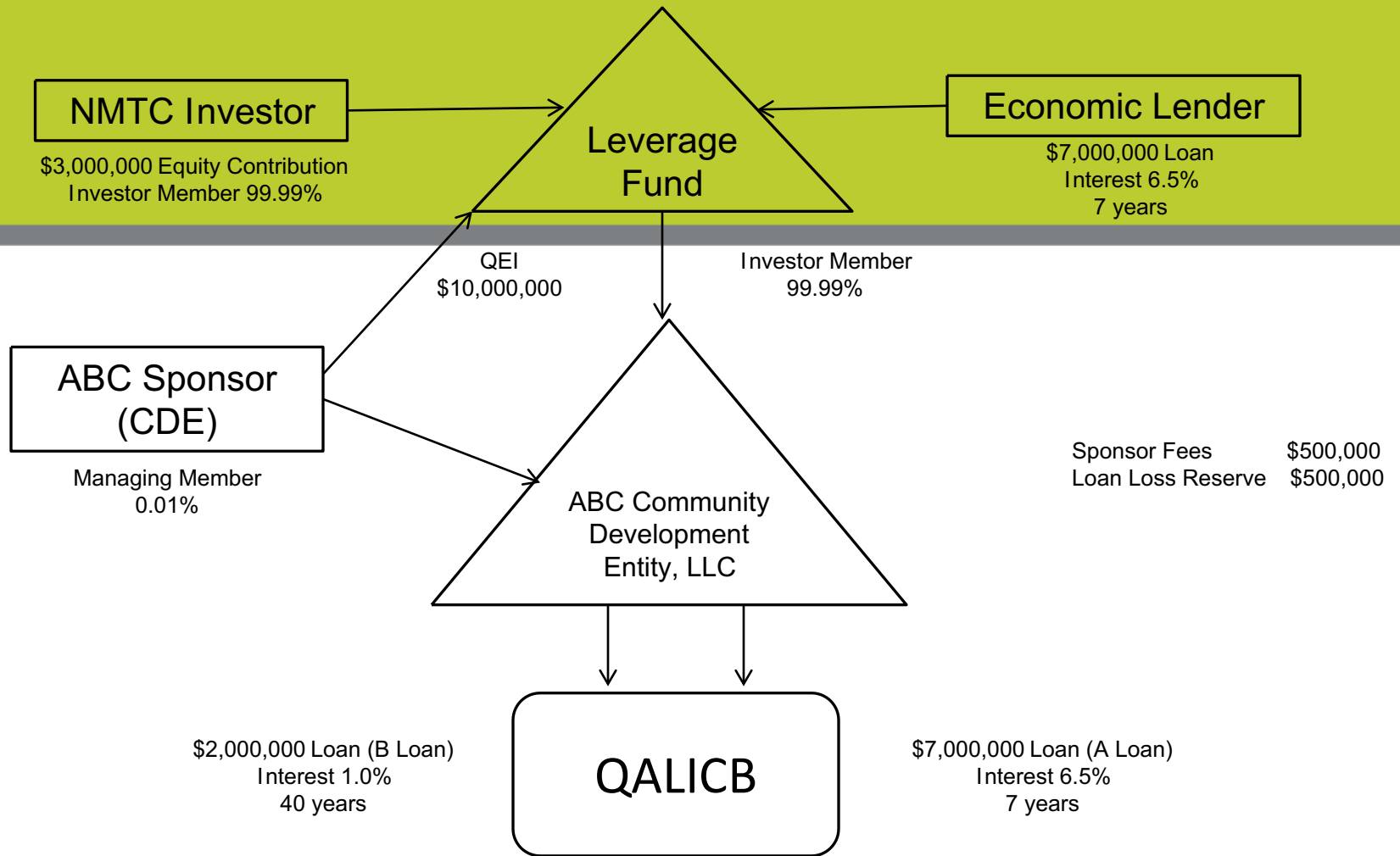


# Pipeline NMTC Projects

|  |              |
|--|--------------|
| Valencia Business Park                                 | Southeast SD |
| Second Chance  | Southeast SD |
| San Diego Public Market                                | Barrio Logan |
| Ocean Discovery Institute                              | City Heights |
| Jackie Robinson YMCA                                   | Southeast SD |
| Family Health Centers Technology and Training Facility | Southeast SD |



# Sample Leveraged NMTC Structure



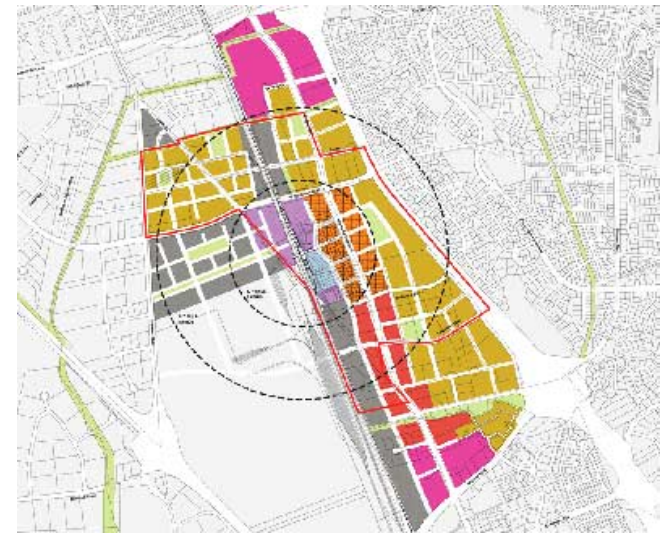
# OTHER POTENTIAL NEW FUNDING SOURCES

*For Community Development*

# Public-Private Investment Fund (Structured Fund)

## ■ Potential Targeted Uses for Funding

- ❑ Transit-oriented Development (TOD)
- ❑ Site acquisition and assembly
- ❑ Planning and environmental documents
- ❑ Sidewalks, bikeways, lighting, streetscape
- ❑ Affordable, workforce & homeless housing
- ❑ Shared parking opportunities
- ❑ Parks, plazas, open space
- ❑ Business attraction and economic incentives
- ❑ First-time homebuyer loan programs
- ❑ Access to healthy foods



# Public-Private Investment Fund (Structured Fund)

## ■ Potential Funding Sources

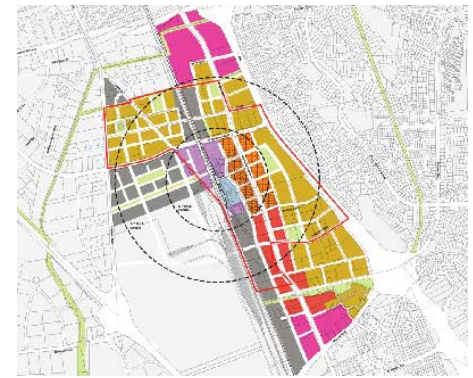
- ❑ LISC, other CDFIs, and Social Impact Funds (i.e. Healthy Futures Fund, Enterprise, LIIF)
- ❑ Federal and State Grants
- ❑ Philanthropic Grants
- ❑ SANDAG Transportation Funds and TOD Incentives
- ❑ Banking Institutions with CRA Requirements
- ❑ Public Employee Retirement Funds (example: City and County of Los Angeles)
- ❑ Proceeds from Sale of Surplus City and Former RDA Properties
- ❑ City's Share of Residual RPTTF Distributions
- ❑ Community Development Block Grants (CDBG)
- ❑ City Housing Trust Fund Revenues

# Attracting Private Investment

- In addition to Community Plan Updates....

- TOD Specific Plans or Urban Village Overlays

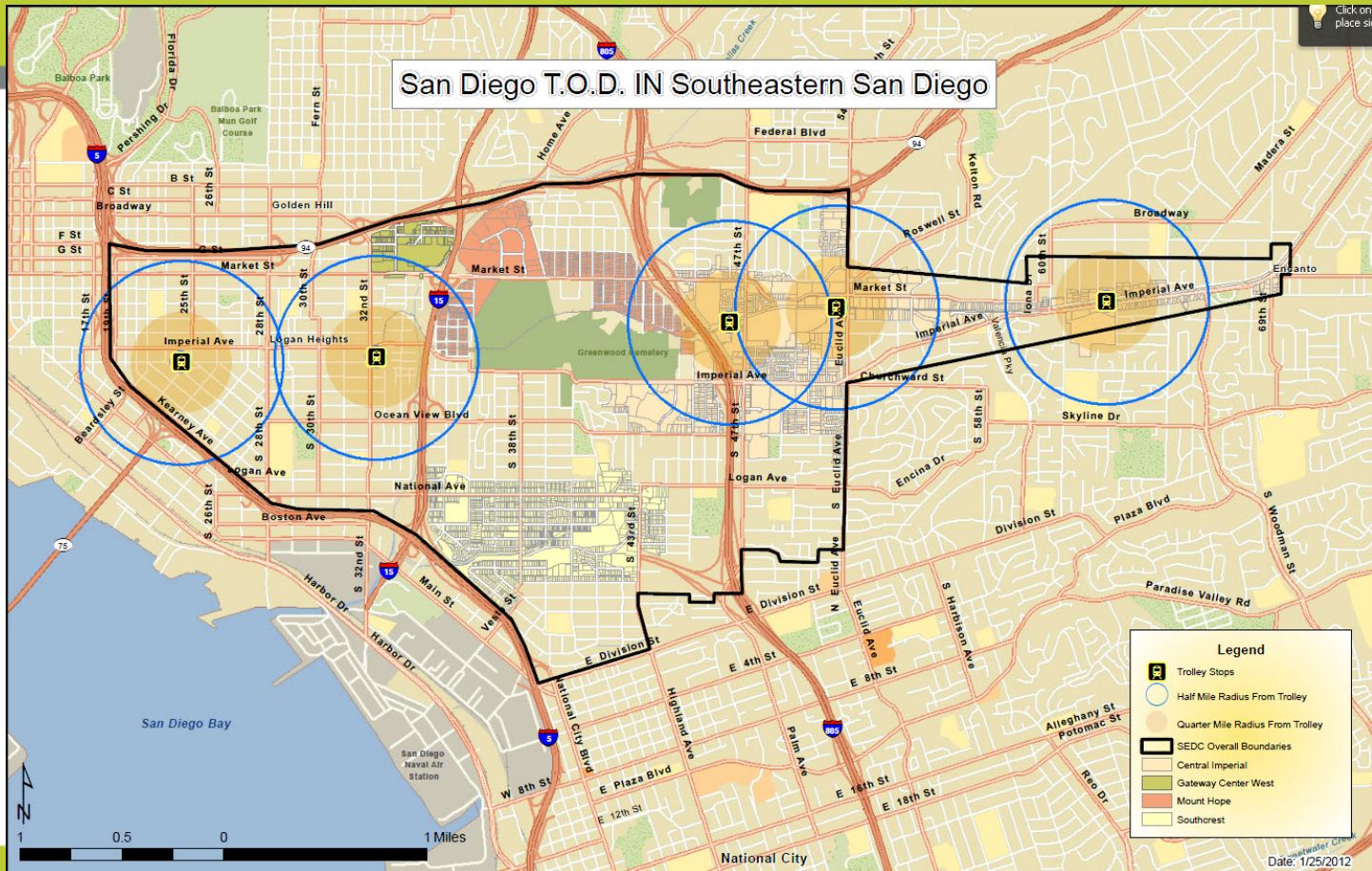
- Program EIR
    - Design guidelines
    - Density bonuses
    - Fixed permit application fees
    - Shared/reduced parking incentives
    - Updates to the PFFP
    - Attracts private investment
    - Creates certainty and predictability





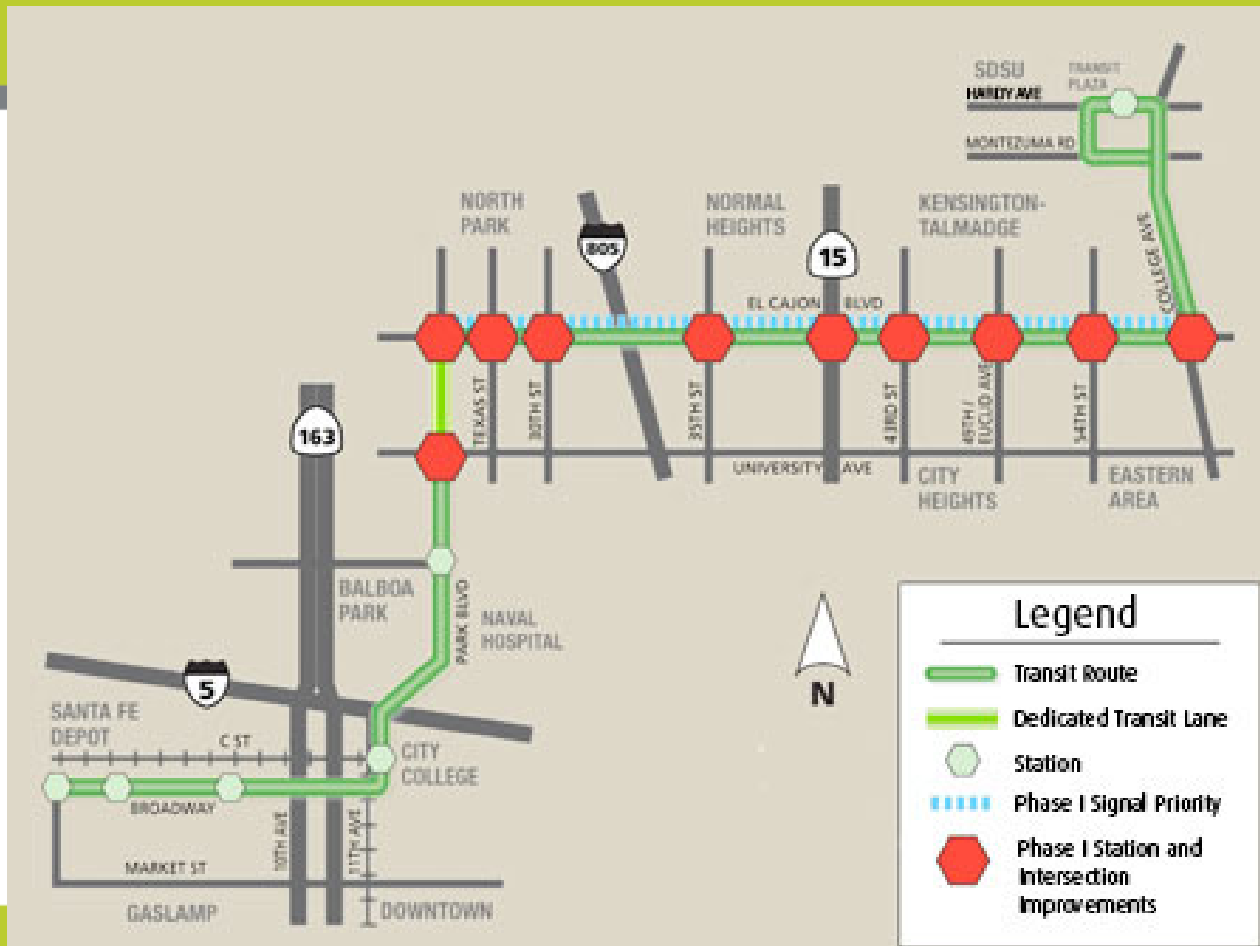
# TOD Priority Sites

## Light Rail Orange Line



# TOD Priority Sites

## The Boulevard Bus Rapid Transit





# Other Potential Funding Sources



## ▪ Value Recapture

- ❑ Development Impact Fees
  - Nexus between fee and use of fee
- ❑ Development Agreements
  - Developer contributions in exchange for development rights
- ❖ Advantages
  - ❖ Applicable to many types of infrastructure provided nexus is demonstrated
- ❖ Disadvantages / Limitations
  - ❖ Most applicable to strong real estate markets
  - ❖ Not possible to bond against

# Other Potential Funding Sources



## ▪ Special Districts

### □ Community Facilities Financing Districts (CFDs)

- Typically used to fund sewer, water, utilities, streetscape, parks/plazas
- Can be used to fund police, fire protection, transit, public parking
- Must be a clear benefit to property owners that will pay the assessment
- Requires two-thirds majority vote of registered voters within district
- Tax assessed only on commercial properties (includes apartment buildings)

### ❖ Advantages

- ❖ Applicable in strong and weak real estate markets
- ❖ Potential for bonding

### ❖ Disadvantages / Limitations

- ❖ Can be burdensome or challenging to convince property owners to pay increased tax

# Other Potential Funding Sources



## ▪ Joint Powers Authorities

- ❑ Must provide a benefit to each of the authority's members
- ❑ Potential Members: City / CivicSD / County / School District / SANDAG
- ❑ Comprised of a governing Board typically represented by members of the authority

## ❖ Advantages

- ❖ Flexibility in structure, use of funds, and funding sources
- ❖ No new tax to property owners

## ❖ Disadvantages / Limitations

- ❖ Can be challenging to achieve agreement between multiple agencies to participate and how to structure the authority

# Other Potential Funding Sources



## ■ EB-5 Financing

- ❑ Federal foreign investment program (10,000 issued per year)
- ❑ Investment of \$1 million per individual (\$500,000 if project located in an economically disadvantaged area)
- ❑ Must create or preserve at least 10 permanent direct/indirect full-time jobs per investment within a “reasonable period of time”
- ❑ Construction jobs lasting more than 24 months count as permanent jobs
- ❑ Funding coordinated through 200+ regional centers

## ❖ Advantages

- ❖ Very low or no interest earned by lenders

## ❖ Disadvantages / Limitations

- ❖ Fees paid to Regional Centers can be significant
- ❖ Must ensure job requirements are achieved
- ❖ Securing all required investment funds can take time
- ❖ Must be repaid within four to five years

# Other Potential Funding Sources



## ■ Congestion Mitigation / Air Quality Improvement Program

- ❑ Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21)
- ❑ Funding allocated to SANDAG
- ❑ Grants distributed to governments and non-profits

## ❖ Advantages

- ❖ Can be used for variety of improvements – pedestrian and bicycle facilities, transit improvements, congestion relief and traffic flow
- ❖ Applicable in strong and weak markets

## ❖ Disadvantages / Limitations

- ❖ Limited funding available and subject to timing of grant applications
- ❖ Project must be included in SANDAG's transportation improvement plan
- ❖ Significant administrative and reporting requirements

# Potential New Tools through Legislation

- Infrastructure & Revitalization Financing Districts
  - ❑ AB 229, AB 243, AB 1080, SCA 9
- Infrastructure Financing Districts (IFDs)
  - ❑ AB 294, AB 662, AB 690, SB 33, SB 628
- Restoration of Polanco Act
  - ❑ AB 427, AB 440
- Disposition of City property for Economic Development Purposes
  - ❑ AB 750
- Restore powers of local Oversight Boards / reduce reporting requirements
  - ❑ AB 564, AB 569
- Sustainable Communities Investment Authority
  - ❑ SB 1
- Funding for Affordable Housing
  - ❑ SB 391
- Special Taxes for Economic Development
  - ❑ SCA 9





QUESTIONS?



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