New Market Tax Credits and other Strategies for Community Development

Rules and Economic Development Committee

May 15, 2013
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**

<table>
<thead>
<tr>
<th>All Former Redevelopment Project Areas</th>
<th>Former CCDC and SEDC Redevelopment Project Areas</th>
<th>Former Downtown Redevelopment Project Areas Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Wind-down redevelopment</td>
<td>▪ Economic development</td>
<td>▪ Long-range planning</td>
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<tr>
<td>▪ Manage housing and non-housing assets of former RDA</td>
<td>▪ Public works projects (not on ROPS)</td>
<td>▪ Community Plan and PDO amendments</td>
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<td>▪ Implement projects, including public works, on approved ROPS or using excess bond proceeds</td>
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<td>▪ Park and Fire Station design</td>
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<td>▪ Environmental lead agency</td>
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<td>▪ Mobility</td>
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<td>▪ Design review</td>
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<td>▪ Issuance of entitlements</td>
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<td>▪ Issuance of permits</td>
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<td>▪ Parking District management</td>
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<td>▪ DIF and FAR Bonus Fee project implementation</td>
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</tbody>
</table>
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

Villa Montezuma – Sherman Heights

Pinnacle Park – East Village
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

Civic San Diego

Community Development Financial Institutions Fund (CDFI)
U.S. Treasury

$35,000,000

Civic San Diego
Economic Growth and Community Investment Fund (CDE)
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
**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
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 viewpoints 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  PATH
- Jody Carry  Community Activist
- Jennette Lawrence  Family Health Centers
- Peter Callstrom  SD Workforce Partnership
- Cruz Gonzales  SEDC Board
- Richard Lawrence  SEDC Board
- Diane Moss  Project New Village
<table>
<thead>
<tr>
<th>Pipeline NMTC Projects</th>
<th>Southease SD</th>
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<td>Valencia Business Park</td>
<td>Southease SD</td>
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<tr>
<td>Second Chance</td>
<td>Southease SD</td>
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<tr>
<td>San Diego Public Market</td>
<td>Barrio Logan</td>
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<tr>
<td>Ocean Discovery Institute</td>
<td>City Heights</td>
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<tr>
<td>Jackie Robinson YMCA</td>
<td>Southease SD</td>
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<tr>
<td>Family Health Centers Technology and Training Facility</td>
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Sample Leveraged NMTC Structure

NMTC Investor
$3,000,000 Equity Contribution
Investor Member 99.99%

Leverage Fund

Economic Lender
$7,000,000 Loan
Interest 6.5%
7 years

ABC Sponsor (CDE)
$10,000,000
Investor Member 99.99%
Managing Member 0.01%

ABC Community Development Entity, LLC

QALICB
$2,000,000 Loan (B Loan)
Interest 1.0%
40 years

$7,000,000 Loan (A Loan)
Interest 6.5%
7 years

Sponsor Fees $500,000
Loan Loss Reserve $500,000
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
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 21st 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?