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Transformational Incentive Program Changes (B)

The CRA has requested that the Transformational Projects Incentive Program be reviewed. Due to the number of issues that need to be discussed, staff has proposed dividing discussion of this program into two parts: first, a discussion of changes to the mechanics of the program, and second, a discussion of the financial formula for the program - the maximum financial participation, at the September CRA meeting.

At this time, the CRA has received three Transformational Projects Incentive Program applications. Three applications have been approved, one in the College Park/University Heights Redevelopment Area (University Corners) one in the Downtown Redevelopment Area (Jefferson on Second, and one in the Fifth Avenue/Pleasant Street Redevelopment Area (University House on 13th Street).

The Transformational Projects Incentive Program was created to help move key sites into redevelopment. These sites, located in various CRA areas, many of which were challenging for a variety of reasons, including difficult land assembly, environmental issues, and complex infrastructure or parking needs. The program is structured to explain to developers what the CRA expects and desires from redevelopment projects and to help quantify for the CRA which projects merited incentives.

The program lists specific redevelopment goals that projects must meet and provides a point system to evaluate the level of incentives for which the developer can qualify. Each Advisory Board created a unique points system for their area that focused on the issues they believe are key to redevelopment. The program also lists the types of public infrastructure, design, and land assembly expenses for which the CRA will reimburse the developer.

Over the past few years the CRA has moved to providing only back end incentives for projects. These incentives are paid for from the tax increment generated by the project, rather than having the CRA participate in projects by incurring debt. Since the CRA’s ability to borrow is limited and the increment is not large enough to provide front-end infrastructure for projects, this strategy is the only way the CRA can participate in projects.

Over time, other CRAs have moved to back end incentives for the same reasons. Similar programs exist in Orlando, Ft. Myers, and Daytona Beach. The most current Development Agreement form is based on a model from Orlando and prior Gainesville CRA agreements. The push to increase residential units in the urban core is seen statewide. Significant residential density is required to support the type of urban environment Gainesville is seeking, and

incentives for residential development are often key to getting the units built.

In addition to providing incentives through the Transformational Projects Incentive Program, the CRA provides incentives in the College Park/University Heights, Eastside and Fifth Avenue/Pleasant Street Areas through the Redevelopment Incentive Program. Awards under this program are limited by the amount equal to 100% of the tax increment revenues generated by the project for up to 5 years, or 50% of the tax increment revenues generated by the project for up to 10 years, or 25% of the tax increment revenues generated by the project for up to 20 years. The College Park/University Heights Redevelopment Incentive Program has received the most applications for incentives under this program, receiving 11 applications since the program was created. However, each application is independently evaluated to ensure that the project would not be feasible if not for the incentives provided for the CRA. As a result of these evaluations, five of the 11 applications for incentives (nearly half) have been rejected at the staff level for failure to meet that requirement. A spreadsheet outlining all of the incentive requests granted over the past ten years has been included in the backup

When the Transformational Projects Incentive Program was originally created, the program anticipated projects in the \$40 to \$50 million range. This range is significantly higher than anything that has ever been built in the CRA. That University Corners was the first application to the program led to the following results. First, it has redefined what “transformational” means, and the projects originally anticipated by the program pale in comparison to the \$187 million University Corners project. This comparison is unfortunate because the CRA would benefit from the development of a number of \$40 to \$50 million projects throughout the four CRA areas. This type of redevelopment would be easier for the market to absorb and be more reflective of a solid growth pattern. University Corners will be a great addition to Gainesville, but should be a unique “one of a kind” type development much like City Place is in West Palm Beach, rather than the standard for all future development in the CRA.

CRA staff has been working to make recommendations for modification of the program based on previous feedback from the CRA and staff’s experience in working with the program. Staff would like to discuss the issue of the maximum financial participation in incentives at the September CRA meeting, in order to provide a number of options. Staff has provided a number of recommendations for discussion this month, and recommends the following be considered for modification:

1. Modification of the program by area -Staff recommends that the CRA consider limiting the Transformational Projects Incentive Program in the College Park/University Heights Redevelopment Area to the following development types: 1) Technology/health care and related developments within the City’s Innovation Zone; 2) Hotel-conference center and 3) mixed use projects including these components. Staff further recommends that projects of any type be considered in the following locations: 1) projects within the College Park/University Heights Expansion Area and 2) projects on University Avenue between 6th Street and 13th Street and on 13th Street between University Avenue and 7th Avenue. In the Downtown Redevelopment Area, staff recommends that the CRA not limit the program until the first project has been built, after which, the program can be considered for amendment. In the Fifth Avenue/Pleasant Street and Eastside Areas staff recommends that no changes to the program be made. This will provide generous incentives in these two redevelopment areas where projects are needed comparatively more.
2. Clarification of the items for which developers receive points - Staff recommends that the items for which developers receive points be clarified to make them more straightforward. This clarification should help developers understand exactly what is expected if the points are claimed. As an example, tying into the City’s Stormwater Park is not a creative stormwater solution.
3. Changes to the Points System - Staff recommends that the points system be referred back to the Advisory Boards for review. College Park/University Heights has discussed several additions they would like to consider for inclusion based on the updated Redevelopment Plan, such as providing incentives for technology/health care development. The CRA may also wish to make amendments to the points system independent of the Advisory Board recommendations. Staff proposes also considering adding points for green building, affordable or moderate housing (where appropriate, and energy conservation. The point value of certain items could be adjusted and the level to meet the threshold for qualifying for incentives could be raised.

4. Clarification of the role of the “but for” gap in formulating the incentive amount - There is an opportunity to clarify the overall concept so that it becomes clearer that the “but for” gap in the project is at the heart of the incentive; that the CRA will reimburse the developer for infrastructure, design and or land assembly costs up to the value of the “but for” gap. The program should also clarify the net present value concept and make it clear that the program may cover the gap early if the increment generated by the project is higher than anticipated or may never cover the gap if the increment is lower than anticipated. This is how the concept is currently described in the development agreements.
5. Introduction of design guidelines - The CRA could establish design guidelines for the program that would help to define the desired features in future projects. These guidelines could include desired façade materials, architectural features, mass, scale and building rhythm or the CRA could require the developer to meet a general design value statement.
6. Establish a non-refundable application fee - Some communities require that the developer provide an outside review of their project as part of their application. At present, the CRA hires a firm to review the projects and the review can run between \$10,000-\$15,000. Staff recommends that the CRA continue to hire its own consultant to review projects rather than require the developer to provide the review, but does believe that a non-refundable application fee should be charged to help cover the cost. The establishment of an application fee of \$15,000 would also help insure that the developer works closely with staff to be sure the application is complete and meets all the criteria before submittal.
7. Authorization for staff to decline an application - If an application does not appear complete, does not meet the criteria, requests more funding than it is eligible for, or from the consultant’s report does not meet the “but for” test, staff requests authorization to decline the application without bringing it forward to the CRA. Staff, including the Executive Director, Community Development Director, the Finance Director, the CRA Attorney, and the CRA Manager would review the application, consultant’s report, and other materials and would determine if the application should move forward. This should help clarify to developers that the program’s parameters are firm.
8. Applications previously submitted and approved may be modified under the terms of the original program.
9. Use of increment payments to make repairs - The CRA could ensure that if those items the CRA has provided incentives for fall into disrepair the CRA can use annual increment payments to make repairs as needed.
10. The CRA Attorney has recommended the CRA consider limiting or prohibiting contact between applicants and the Community Redevelopment Agency and Advisory Board members outside of public meetings.

Following the discussion of the maximum financial participation of the CRA at the September CRA meeting and once the CRA has determined which changes it would like to implement, staff will prepare a draft of the program for review by the Advisory Boards and return it to the CRA with their recommendations. Staff recommends that applications be reviewed under the current program if submitted prior to changes being implemented.

The program provides funds only from a portion of the taxes generated by development projects, paid in future years as that project tax increment is generated.

Executive Director to the CRA: Recommend the CRA direct staff to work with the Advisory Boards to make recommendations for the following changes to the Transformational Projects Incentive Program: 1) modification of the program by area; 2) clarify the items for which the developer receives points; 3) review possible changes to the points system; 4) clarify the role of the “but for” gap in formulating the incentive amount; 5) consider the introduction of design guidelines or a value statement regarding design; 6) establish a non-refundable application fee; 7) authorize staff to decline an application; 8) allow the use of increment payments to make repairs and 9) allow applications previously approved to be modified under the terms of the original program.

CRA Attorney to the CRA: Recommend the CRA limit or prohibit contact between applicants and the Community Redevelopment Agency and Advisory Board members outside of public meetings.