



# Protecting Public Resources in Economic (Re)Development Initiatives

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# Why This Conversation Matters

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- Communities are pursuing growth & revitalization
- Public participation (usually money!) in projects is increasing
- Protecting public resources is central to responsible development
- Pressure is building on limited resources with rising levies & tax rates



# What We'll Cover Today

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**Which public resources are at stake**



**Common risks in redevelopment**



**Tools to protect public investments**



**Real-world examples & lessons learned**



# DEFINING PUBLIC RESOURCES

# What Are Public Resources?

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FINANCIAL



PHYSICAL



COMMUNITY

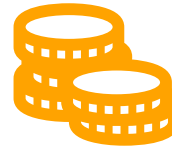


TRUST &  
GOVERNANCE

# Financial Resources

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- Property tax base & increment
- Local option sales tax base
- Fee waivers & special charges for services
- Public debt capacity
- Internal fund balances
- Long-term operating costs



# Physical & Community Resources

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- Public land & buildings
- Infrastructure investments
- Housing stock
- Historic and cultural assets



# Trust & Governance Resources

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- Transparency & accountability
- Public confidence & decision-making
- Long-term reputational impacts
- The ability to move through the public planning & subsidy process with limited friction – costs little but has big impact





# RISKS IN ECONOMIC (RE)DEVELOPMENT

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# Why Risk Matters....



The question is who bears it and how much.

# Financial Risks for Municipalities

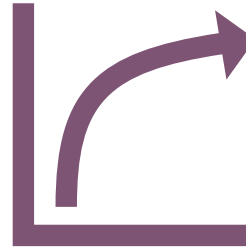
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- Upfront public investment
- Backloaded public benefits
- Revenue gaps
- Impact to existing taxpayers

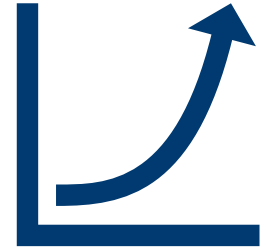
**OVERLY  
OPTOMISTIC**



**OVERLY  
CONSERVATIVE**



**MOST  
REALISTIC**



**POTENTIAL DEVELOPMENT PROJECT PROJECTIONS**

# Risks for Developers

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- Equity strength
  - ✓ Cash
  - ✓ Investors
  - ✓ Land
  - ✓ Intellectual know-how
- Track record
- Experience with similar projects

# Market Risk

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- Shifting demand
- Interest rate changes
- Speculative development
  - ✓ Private led initiatives
  - ✓ Public led initiatives

# Governance Risk

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- Inadequate development agreements or provisions
- Missing benchmarks
- Limited enforcement tools
- Property tax law changes
  - ✓ Classification compression
- State imposed mandates on public subsidies

# Risk Doesn't Mean “No”

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- Be intentional
- Understand the risk
- Leverage smart structure to reduce risk without stopping progress
- Make sure all parties understand the terms



yes



# TOOLS & STRATEGIES

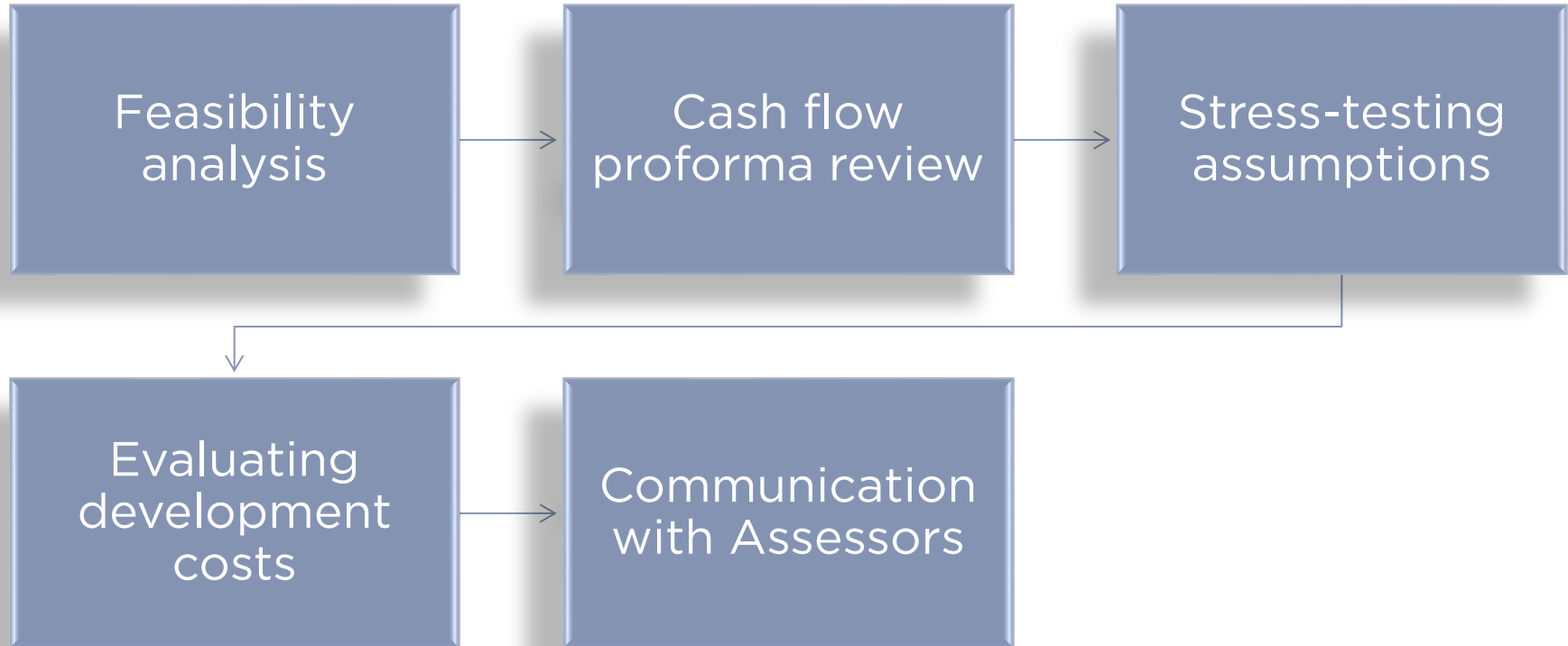
# The Framework: Public Resources Stewardship

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# Due Diligence

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# Matching Risk to Reward

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- Pay-as-you-go incentives = less risk
- Up-front assistance = more risk
- Phased assistance = managing risk
  - ✓ Milestone benchmarks
- Weighing public dollars with private equity = shifting risk
  - ✓ Public to private ratio
  - ✓ Attracting private investment
  - ✓ Private equity ideally invested first

# Putting Protections in Writing

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- Term sheets (formal or simple email)
- TIF Agreements, Development Agreement, Subsidy Agreement
- Clear milestones
- Construction deadlines
- Minimum value requirements
- Completion guarantees, Performance and Payment Bonds, Letters of Credit

# Protecting the Community If Things Change

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## Potential Remedies

- Clawbacks, lookbacks & recapture
- Reversionary clauses
- Default remedies
- Right of reverters

# Lookbacks

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## Construction Completion

- Measures developer estimated cost vs actual cost

## Stabilization

- Measures financial performance of project upon stabilization or lease up

## Sale

- Measures profits for the investor up on a sale of the project

# Lookback Upon Completion of Construction

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- If actual total development cost is less than what the developer estimated cost when they asked for assistance, the assistance (usually TIF) amount is reduced
  - ✓ Project didn't need the amount of assistance awarded if the costs are less
  - ✓ Typically, a buffer is used as small savings aren't worth the effort to adjust the assistance amount

# Lookback on Completion: Example

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Estimated Total Development Cost	20,000,000
Actual Total Development Cost	<u>19,500,000</u>
Savings	500,000
Share (50%)	250,000
Original TIF Assistance Amount	1,000,000
TIF Reduction - Share (50%)	<u>250,000</u>
<b>Revised TIF Assistance Amount</b>	<b>750,000</b>

# Lookback on Stabilization: Example

- Measuring Financial Performance when revenues & expenses are known
- Tied to a 'threshold' (Yield on Cost, Cash on Cash, IRR)
- If threshold is exceeded, then TIF is modified

Lookback Calculations	
Original TIF Amount	4,545,000
TIF Amount at Threshold Cash on Cash (10%)	3,879,366
Difference	665,634
<b>50% Difference</b>	<b>\$ 332,817</b>
Original TIF Amount	4,545,000
Less 50% Difference	332,817
<b>New Principal Amount of TIF Note</b>	<b>\$ 4,212,183</b>


# Lookback on Sale

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- If Developer/Owner sells project in a certain number of years (5, 8, 10 years) then sale price is measured against a threshold return (IRR)
- TIF amount is adjusted if threshold IRR is exceeded
- Creates a 'tail' on the TIF assistance beyond stabilization

# Let Policy Do the Heavy Lifting

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Comprehensive  
plan  
consistency

TIF & housing  
policies

Transparent  
decision-  
making



# REAL WORLD EXAMPLES

# Columbia Heights



LEFT TURN  
YIELD  
ON GREEN



ROAD  
WORK  
AHEAD

NO  
LEFT  
TURN

# Why Columbia Heights Redeveloped

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- Fully developed, first-ring suburb with no vacant land
- Aging infrastructure & obsolete downtown buildings
- Community Goals & Priorities:
  - ✓ Eliminate blight
  - ✓ Grow and diversify the tax base
  - ✓ Stabilize the Central Business District
  - ✓ Attract new residents, housing options & amenities
  - ✓ Identify a site for a new City Hall

# Mixed-Use Redevelopment & City Hall

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- Vertical mixed-use redevelopment on a priority site
  - ✓ 266 market rate apartments (Class A amenities)
  - ✓ 3,500 sq. ft. café
  - ✓ 21,000 sq. ft. City Hall
- Total Development Costs: \$68 million
- Construction Commencement: December 2020
- Completion: Fall 2022

# How the Project Was Financed

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- Redevelopment TIF District
- \$9.55 million PAYGO TIF Note
- Annual increment
  - ✓ 95% to developer
  - ✓ 5% retained by the City
- Tax base impact
  - ✓ Pre-development: \$5.2 million
  - ✓ Post-development value: \$60 million

# Development Challenges

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- No template for this type of Public-Private Partnership
- Paradigm shift from other potential City Hall sites, needed buy-in from residents and Council
- Acquisition competition with competing proposals
- Cellular antenna rooftop lease
- Due to timing and site control City had to:
  - ✓ Issue temporary debt to acquire the property
  - ✓ Finance a portion of the demolition costs

# Protecting Public Resources

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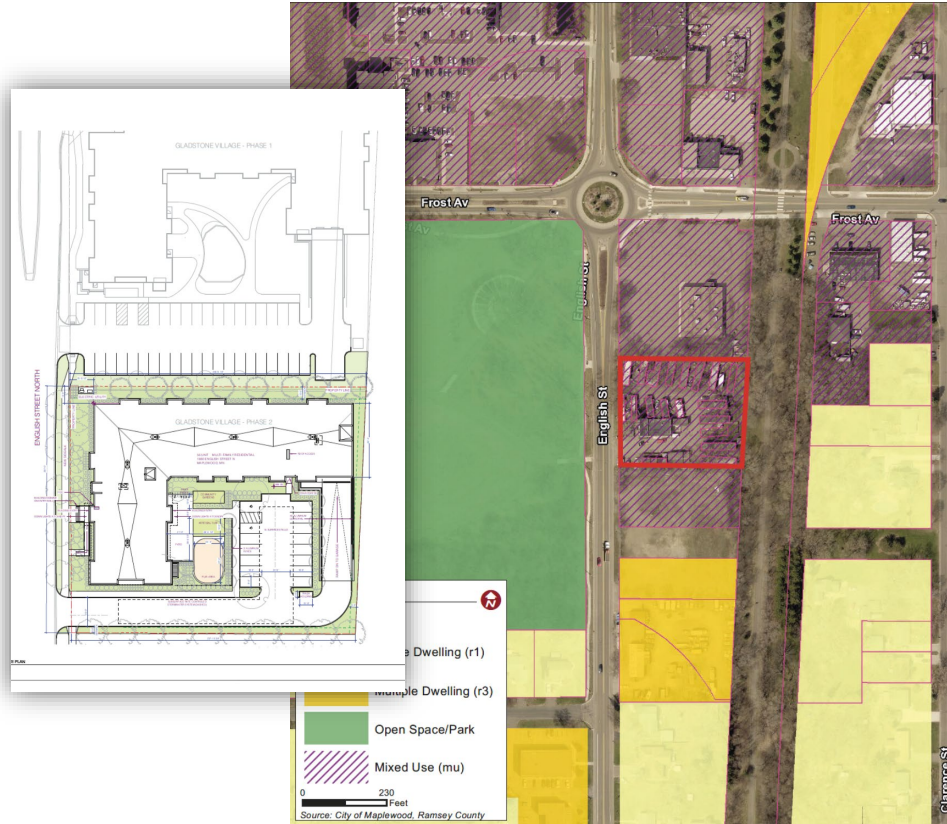
- Partnered with an experienced developer
- Transparent process and consistent communication
- Strong alignment between Council, EDA, and staff
- Willingness to manage risk paired with decisive action
  - ✓ City Hall development
  - ✓ Property acquisition
  - ✓ Rooftop leases
  - ✓ Interfund loan
  - ✓ Phased demolition
  - ✓ Lookbacks

# Columbia Heights: Outcome



# Gladstone Village 2

- 56-Unit Affordable Housing Project
- LIHTC
- Former mobile home park
- Second Phase



# Multi-Source Capital Stack, High-Cost PU

SOURCES			
	Amount	Pct.	Per Unit
First Mortgage	4,810,000	17%	85,893
TIF Mortgage	310,000	1%	5,536
Equity	100	0%	2
Tax Credits	8,152,285	29%	145,577
Deferred Developer Fee (27% of Total Fee)	800,000	3%	14,286
Other Public Sources	14,094,231	50%	251,683
<b>TOTAL SOURCES</b>	<b>28,166,616</b>	<b>100%</b>	<b>502,975</b>

USES			
	Amount	Pct.	Per Unit
Acquisition Costs	1,475,000	5%	26,339
Construction Costs	19,265,007	68%	344,018
Environmental Abatement/Soil Correction	81,060	0%	1,448
Professional Services	1,392,296	5%	24,862
Financing Costs	2,384,605	8%	42,582
Developer Fee	3,000,000	11%	53,571
Cash Accounts/Escrows/Reserves	568,648	2%	10,154
<b>TOTAL USES</b>	<b>28,166,616</b>	<b>100%</b>	<b>502,975</b>

# Protecting Public Resources

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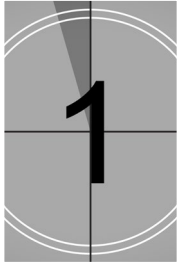
- Lookback on construction costs
- 4d(1) Class Rate Change
- While TIF Note is small, still important
- Affordable housing covenants – 26 years
  - ✓ LIHTC requirements also

# Gladstone Village Outcome



# Three Things to Remember

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Public resources  
are finite



Good deals are  
structured, not  
rushed



Protection enables  
better outcomes

# Download the Presentation

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# Your Presenters

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