

Funding Parks, Transit & Streetscape Improvements Through Value Capture

How to create a capital budget in the absence of funding from higher levels of government



Business improvement districts

Ground leases

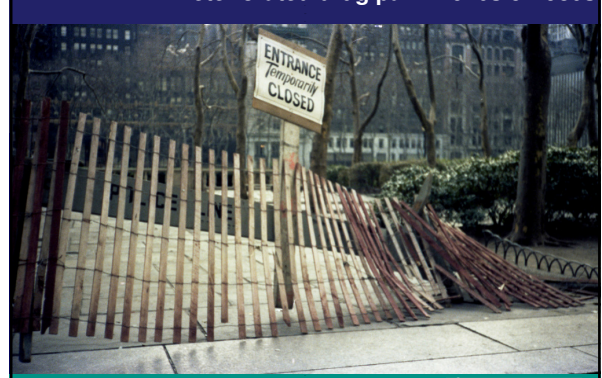
Tax increment financing



Bryant Park: Before & After



Deteriorated drug park: 1970s & 1980s



Very poor maintenance



Homeless encampments



1987: Completely rethought & renovated;
traditional fundraising & formation of a BID
Bryant Park Restoration Corporation



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Between 5th & 6th Avenue, 40th to 42nd Streets
West of Public Library, Manhattan



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Great green lawn



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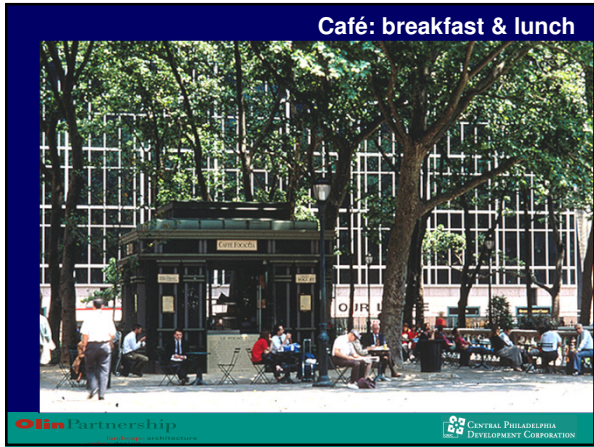
Very generous landscaping



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Programmed with continuous events



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Winter Iceskating



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Bryant Park Restoration Corporation



Maintenance & management funded by a **business improvement district** that draws its revenues from surrounding office buildings

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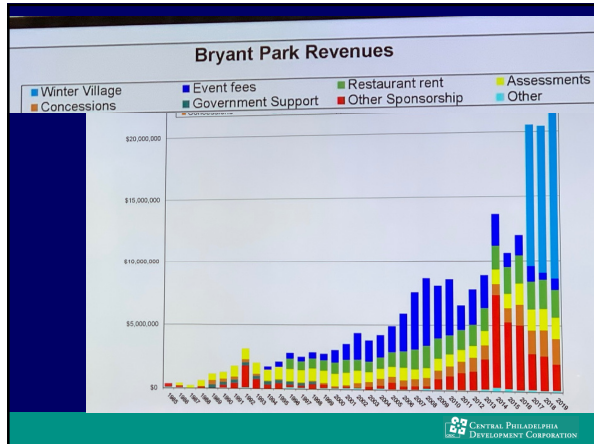
Expanding role of sponsorship

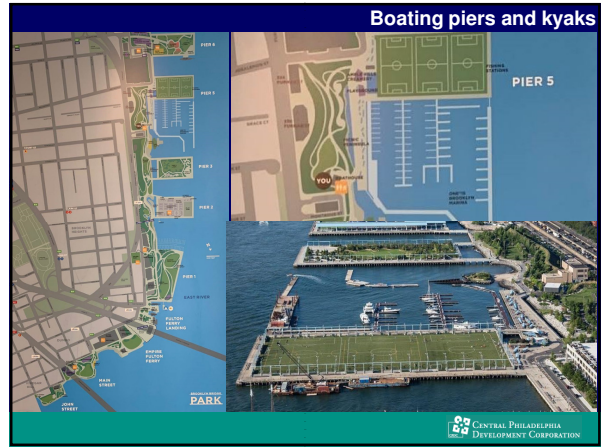


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Bank of America: Winter Village







Brooklyn Bridge Park Conservancy: Active programming



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All real estate developed along edge pays ground rent



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Units include affordable housing



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Park & real estate symbiotic relationship



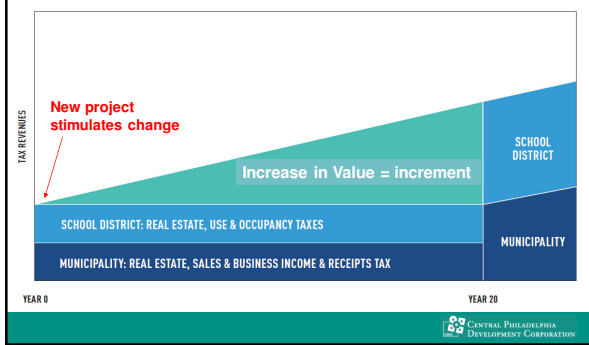
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Tax increment financing (TIF) is means of capturing *increase* in city tax value and using it to finance improvements



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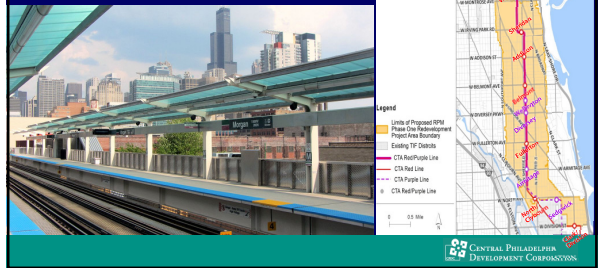
**Tax increment financing captures the increase in value
Due to the investment in a project**



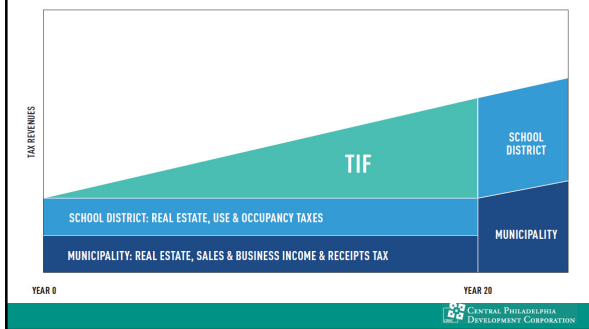
Remove a parking garage and replace it with...



**Build a new train line
increases desirability & value
of adjacent properties**



**Current base level of taxes continue to flow to City & School District
Increment would not exist without the investment
Increment is usually devoted to debt service for 20+ years
It is diverted from the City's general fund**



**Philadelphia has experience with single-developer
Usually, single building tax increment financing**



Tax Increment Financing

- Authorized by Commonwealth of Pennsylvania & implemented under Section 21-1400 of the Philadelphia code with City Council creating a geographic district in which TIF is authorized to capture future value of development.
- A TIF can apply to real estate property, use & occupancy, city sales, & business income and receipts taxes.
- PIDC & the City work with a developer to calculate amount of incremental tax revenue that would result from a development over the term of a TIF & the developer then takes out a loan in the form of municipal bonds that can be supported by the tax revenue stream. (public purpose is job creation; interest income tax-exempt)



Tax Increment Financing

- Bonds are then repaid with the *incremental* tax revenue that results from the annual increment generated by the development & recapturing those increased taxes that would otherwise go to the city or school district; the revenue that would have gone to taxes, goes to debt service – a significant public subsidy to project
- Project numbers would not work without TIF; project costs are in excess of income from project
- Developer guarantees to cover any shortfall; no risk to city
- Taxing bodies continue to receive the base amount of tax revenues (the amount paid annually prior to the improvements), but forgo increased tax revenues during the life of the TIF, which is limited to 20 years.



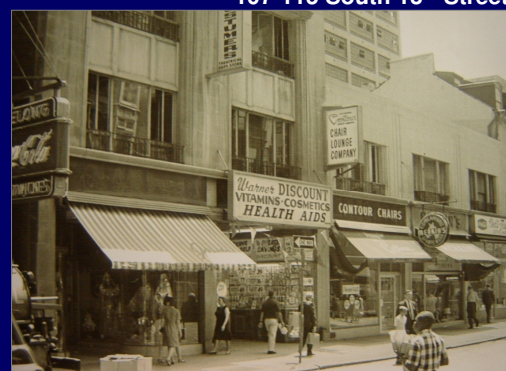
Examples of single-developer, multi-building TIFs Goldman Properties, 13th Street



Faded retail corridor in the 1960s

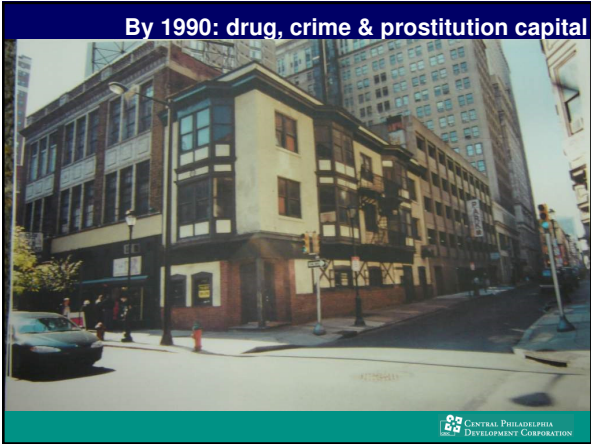


107-115 South 13th Street



1960s





Before

- Acquisition of 14 properties; architectural interest; ground floor retail potential; 1990s
- Assembled quietly & quickly many from well-known slum-lord
- Patient about longer term leases

Raised investor equity not bank debt

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The Portfolio

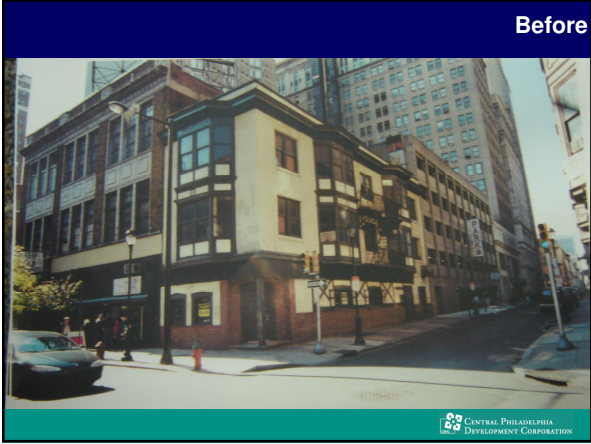
Philadelphia

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After

- Placemaking
- Common design vocabulary
- Creative economy tenants upstairs
- Owner proprietor retailers/lower rents
- Create a street scene to attract upper floor tenants
- TIF District; façade improvements

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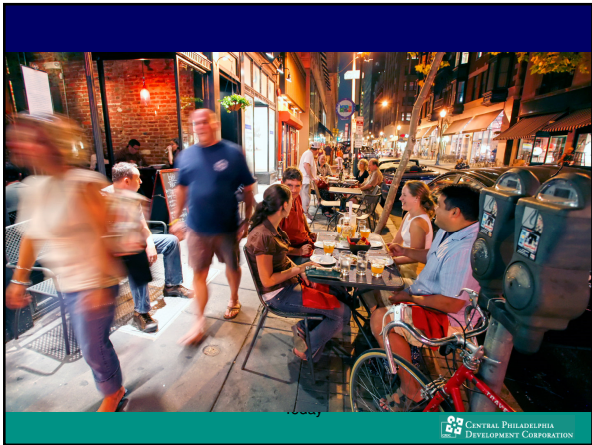


107-115 South 13th Street

Philadelphia



1990s



13th Street: Goldman Properties
Single developer, multiple properties



Navy Yard



Federal naval installation from the 18th century



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Transferred to city 1990s; Liberty Property Trust Selected developer funds Stern masterplan



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1,000 acre campus



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Extensive public area; streetscape improvements



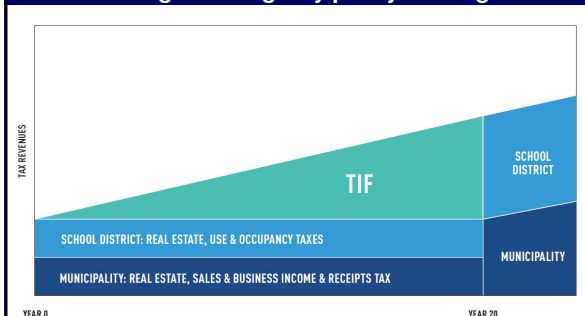
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Funded through TIF: 1% of city jobs

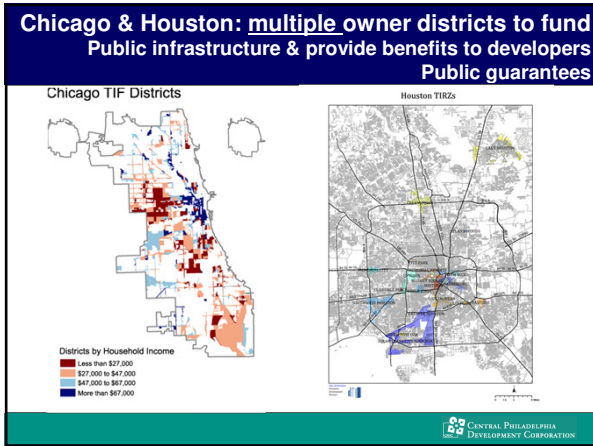
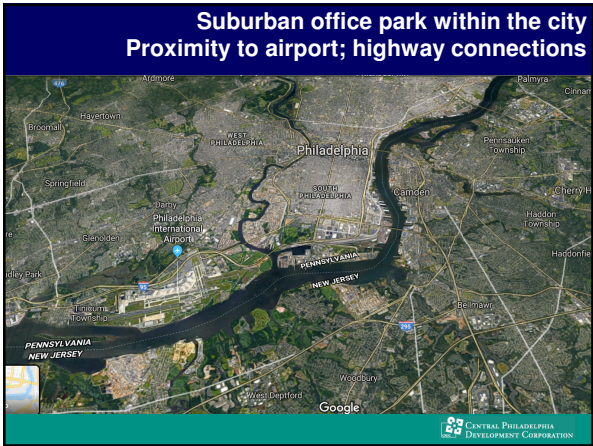


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TIF tax increment pledged back to debt financing
Guaranteed by the developer
Long-standing City policy not to guarantee



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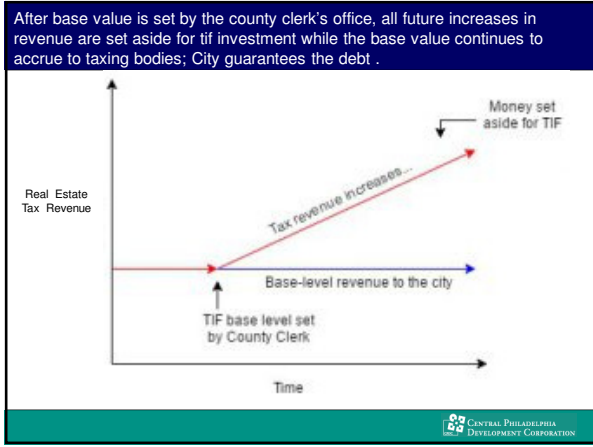
Traditional Tax Increment Financing in Illinois

Illinois Tax Increment Allocation Development Act passed in 1977

TIF designation requires "blight," including dilapidation, deterioration, obsolescence, having structures below minimum building code and declining assessed value

23-year term with possibility for 12-year extension by state legislation action

Municipal government authorizes and adopts redevelopment plan for TIF district



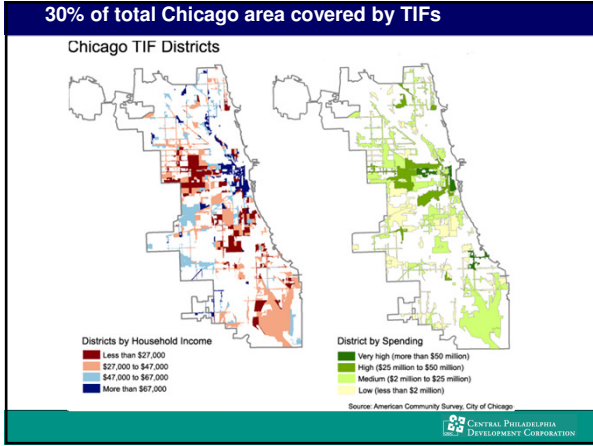
Tax Increment Financing in Illinois

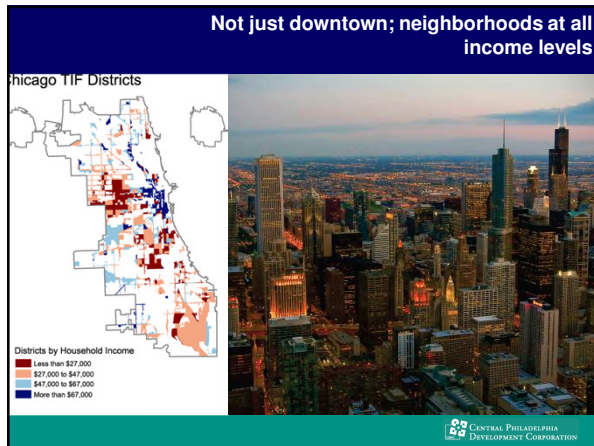
Through 2016, 514 municipalities had created 1,397 TIFs in the state

Average TIF project in Illinois produced \$4 of private investment for every \$1 of tax increment invested*

As of March 2017, there were 146 TIF districts in the City of Chicago and one in five Chicago properties is part of a TIF zone, down from 163 TIF districts in August, 2011

*Source: Tax Increment Financing: Learning from Research and Municipal Best Practice, Illinois Municipal Policy Journal, 2017, Vol. 2, No. 1, 135-145, Illinois Municipal League





Tax Increment Financing in Illinois

August of 2011, Mayor Rahm Emanuel announced changes to allocation of TIF funding to focus on long-term economic development and job creation

TIF Task Force created to subject all TIF projects to strict performance metrics and to ensure that metrics are met

Increased focus on use of TIF funds for transit and transportation investments.

\$61 Million of TIF funds committed to CTA projects since 2011. Additional funds committed to new CTA rail stations constructed by CDOT

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Growing Rail Ridership

While rail ridership is down 4.5% since the 2015 all-time high of 241.6 Million trips, rail ridership continues to grow during peak periods.

Our fastest growing lines have capacity constraints and include some of CTA's oldest infrastructure.

The Red, Blue and Brown Lines carry over 60% of all CTA rail riders.

TIF investments have focused on rail system.

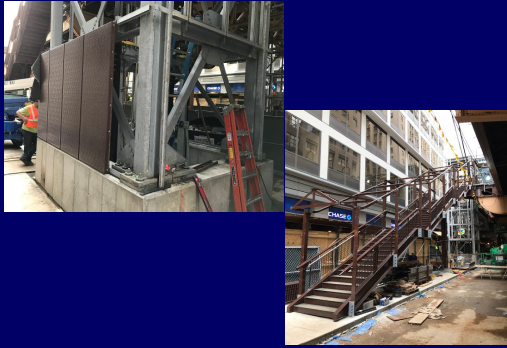
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Morgan Station – West Loop - \$35 Million TIF
\$2 Billion of investment since 2012 within a 1/4 mile of the station based on building permit activity

Cermak-McCormick Station – South Loop - \$50 Million TIF
\$638 Million of investment since 2015 within a 1/4 mile of the station based on building permit activity

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Quincy Station - \$18 Million



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Illinois Medical District (IMD) - \$27 Million



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How Does a Transit TIF Work?

➤ The Transit TIF is a traditional TIF with several key differences:

- The use is restricted to specific transit facilities
- The boundaries can extend only up to a half-mile from specific transit facilities
- The term is up to 35 years
- The increment is divided between the various taxing bodies and the Transit TIF
- Chicago Public Schools receives its proportional share of the TIF revenue first
- Of the remaining TIF revenue:
 - All other taxing bodies share 20% of the remaining TIF revenue
 - The Transit TIF receives 80% of the remaining TIF revenue



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Proposed Boundary: RPM Phase 1 Project Transit TIF District

- RPM Phase One TIF boundaries set based on revenue needed for local match
- Boundaries could have extended further south into central business district
- No larger than:
 - Devon Avenue on north
 - North Avenue on south
 - ½ mile east and west of Red and Purple lines
- Excludes all existing TIF districts

Passed unanimously by Chicago City Council in November 2016.



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Transit TIF – Use of Proceeds

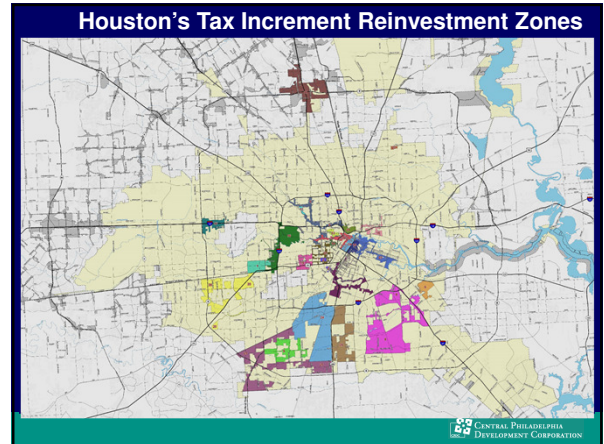
- Transit TIF revenue will be used to pay for \$622 Million of the CTA's share of RPM Phase One, specifically \$622 Million in debt financing.
- Debt financing likely to be TIFIA loan – federal loan program for transportation projects with low interest rates, but could also be CTA-issued bonds.
- TIFIA loan will be secured by farebox revenues. In the event bonds are issued, the bonds will be secured by sales tax revenues which are part of CTA's existing operating funding.

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Transit TIF – Use of Proceeds

- CTA will use revenues from Transit TIF to repay TIFIA loan or bonds.
- CTA is responsible if Transit TIF revenues are insufficient to cover debt service
- Once the CTA debt financing is repaid, the TIF may be terminated by City Council prior to the 35th year
- If TIF revenues are generated as projected, the CTA debt financing will be fully repaid by 2033
- Called "The good TIF" by the Chicago Tribune

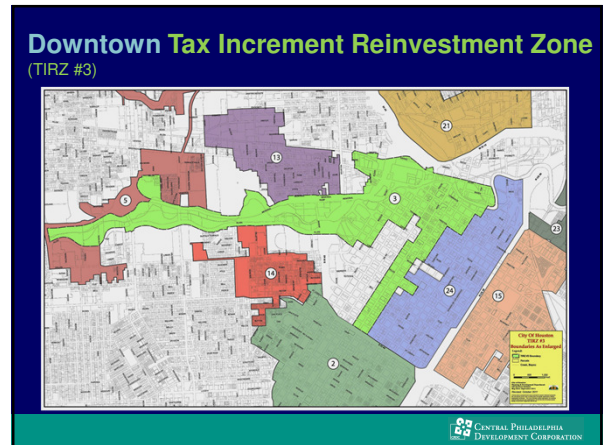
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Texas Tax Increment Financing Act

(Chapter 311 Texas Tax Code)

- Creation powers given to municipalities with petition, project plan, hearing and action of City Council
- To address areas *impaired of sound growth, poor platting, deterioration, faulty lot layout, inadequate street & sidewalk layout*
- Broad definition of allowable "project costs"
- No more than 25% of total appraised value or 30% residential property
- Allows for real property and/or sales tax increments



Buffalo Bayou Park: amenity adds value to adjacent property



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Buffalo Bayou Park: Partners

- City of Houston- *owner*
- Buffalo Bayou Partnership- *philanthropic funding, developer & operator*
- Kinder Foundation- *lead donor*
- Harris County Flood Control- *flood control improvements & maintenance*
- Texas Department of Transportation- *hike & bike trails*
- TIRZ# 3/ Downtown Redevelopment Authority- *Allen Parkway & maintenance & operating funding*
- TIRZ# 5- *Rosemont Bridge & adjacent trails*

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TIF financing for maintenance of the park



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TIF financing for streetscape enhancements in Houston



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What can Philadelphia learn from their experience?



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