

Downtown Housing Incentive Policy **Valparaiso Redevelopment Commission**

Background:

Since the initial 2002 HyettPalma Downtown Action Agenda, the City has been focused on strengthening its downtown. As noted in that assessment, Valparaiso is fortunate to have both the Porter County Courthouse and Porter County Administration Building in its downtown, plus various professional businesses (e.g. lawyers, bankers). That said, several downtown weaknesses were identified including limited residential options, few restaurants, insufficient retail businesses and a lack of public amenities to draw residents and guests to the downtown area on a consistent basis— especially after business hours or on the weekends. To begin addressing these deficiencies, the City pursued and secured ten (10) liquor licenses in 2005 to be used in the downtown by restaurants to help create a “destination identity” and a reason for residents and guests to visit and stay. Façade Improvement Grants, also initiated by the City, encouraged and incentivized property owners to invest in their buildings to create a more welcoming, clean and vibrant appearance in the downtown. Over the last 16+ years, there have been sidewalk/stormwater/streetscape improvements as well as the addition of speakers for music and even a valet parking service. In addition to capital and service investments made to the downtown, the City has invested in organizing and scheduling year-round events to maximize downtown assets. Although beyond these investments and enhancements, the two transformative downtown projects have been the construction of *Central Park Plaza* (2011) and *Urschel Pavilion* (2015).

Building upon these successes, the Valparaiso Redevelopment Commission (“Commission”) announced in May 2018 its selection of Flaherty & Collins for the redevelopment of the former Anco site – an area situated 2 blocks southwest from the downtown. Preliminary plans for Phase 1 show 266 smaller residential units with approximately 24,000 s/f of office space and 12,000 s/f of retail space. In addition, *Journeyman Distillery* will be renovating and occupying all of the current factory building space for its expansion to Valparaiso. This development will complement existing commuter transit service to Chicago and enhance (not replicate) existing downtown amenities.

As the downtown has redeveloped, the desire to live in or near the downtown has grown. At first, the existing residential options, predominately second/third floor apartment units, saw occupancy rates increase. As demand increased, this led to the conversion of downtown storage and office space to residential units. The next phase began in 2014 with two new residential projects: i) a four-unit condominium project on Chicago St.; and, ii) an eight-unit apartment complex on the corner of Lincolnway and Michigan St. This progressed in 2017 to a 48-unit condominium project on the site of the former St. Paul school. The first 24 units are scheduled to be completed in the spring/summer of 2019.

City Objectives:

The City wants to encourage higher-density residential options in the downtown area to both meet current demand and ensure future sustainability and growth; however, the City wants these residential options to be developed in a way that complements existing and future downtown infrastructure while not unnecessarily taxing City services or unreasonably burdening existing property owners and tenants. The City also wants current and future downtown residential development to contribute to the overall sustainability of downtown local businesses. The City is sensitive to the long-term sustainability of the downtown and sees additional residential development as a key aspect to maintaining and growing the downtown. Moreover, where opportunities exist to enhance future residential and mixed-use developments and maximize opportunities, the City wants to encourage developers to do such and assist, where appropriate.

Supportive of these City Objectives is the 2017 HyettPalma Downtown Action Agenda update– **Addendum A** and 2018 Supplemental Letter – **Addendum B**. HyettPalma is a nationally recognized consulting firm specializing in the economic enhancement of downtowns and older commercial districts. Since its founding in 1985, HyettPalma has developed economic enhancement strategies for nearly 1,000 downtowns nationwide. HyettPalma prepared an initial assessment for Valparaiso’s downtown in 2002 with specific recommendations to foster growth. An updated assessment with revised recommendations (based on prior accomplishments and successes) was prepared in 2009 and 2017.

The 2017 HyettPalma Downtown Action Agenda noted:

1. The three items identified as the greatest needs in the downtown were housing, retail and parking – **Page 16**.
2. For downtown activity generators, housing was identified as an area that should be pursued by the City. Specifically: “[a] concerted effort should continue to be made to encourage and support the development of more housing in the upper floors of buildings throughout Downtown Valparaiso. By all local accounts, and following discussions with successful developers of upper story housing in Downtown, units are greatly sought by tenants, with many renting before construction/remodeling is completed. To stimulate the development of housing in larger or problem properties, consideration should be given to assisting with the assembly and acquisition – when needed and for quality projects only.” **Pages 28-29**.
3. As to implementation, the use of incentives was strongly encouraged to help realize the City’s downtown goals. Incentives were specifically suggested for: i) “attracting additional, high quality retail shops”; ii) “encouraging the redevelopment of obsolete buildings in and around the Downtown”; and, iii) “encouraging the creation of additional quality housing in and adjacent to

Downtown”. Moreover, although City incentives should be flexible and limited in duration, City Standards must be clear and firm. **Pages 32-33.**

The 2018 HyettPalma Supplemental Letter noted:

1. “There is every reason to expect that the overall demand for quality housing in and near Downtown Valparaiso will continue to increase in the future as Downtown and its surrounding environs continue to be revitalized, developed and redeveloped – all of which are currently taking place.” – **Page 2.**

2. “While it is understood that most caring communities desire to provide adequate shelter for residents of all income levels, the introduction of affordable housing into the economic fabric of an older commercial district like Downtown Valparaiso is most difficult due to the high cost of housing rehabilitation and new construction in an established commercial district, particularly one that has marginal or weak demand for all types of uses, as was the case back in 2002 in Downtown Valparaiso.” **Page 2.**

3. “Due to the need to recoup invested dollars through rents or sales prices, in Valparaiso, just like in virtually every other successful Downtown enhancement effort throughout the nation over the past 50 plus years, the goal has been to seek the highest return on housing investments in order to induce Downtown housing developers to take the initial risk of investing in Downtown housing. In fact, in most Downtown revitalization projects, for example, the income from revenue derived from upper floor housing enables retail and service businesses rents to remain reasonable on the lower floors by actually generating revenue above to help finance the cost of space below.” **Page 3.**

Challenges to City Objectives:

As residential development projects have been proposed, a constant and legitimate concern voiced from developers has been the initial cost to create a developable lot. From demolition of an existing structure, environmental remediation work, required infrastructure improvements, and utility/stormwater requirements, the upfront costs can substantially limit the quality and type of development or simply prohibit otherwise sound projects. In addition, City Standards and the preference for on-site parking, when feasible, adds additional costs.

One option is to maintain City Objectives and Standards and hope the market eventually supports the type of housing that will sustain and grow the downtown. That option has not proven effective. As we look to other communities that have been successful at creating vibrant and sustainable downtowns that combine public amenities with both retail and residential options, almost all have included some type of financial assistance to encourage residential development.

Role of the Commission to Address Challenges and Structure of Assistance:

The Commission has been a key financial contributor and supporter of almost every City initiative related to the downtown. Without the use of TIF funds, many of the public improvements and amenities in the downtown would not exist. As the City looks to encourage residential downtown developments that support long-term sustainability, the Commission has an opportunity to continue its vital role.

The Commission will review Applications (**Addendum D**) and coordinate efforts with City Staff to ensure City Objectives are being achieved. The Commission's analysis will draw from the recommendations offered by HyettPalma and the City Planner. The Commission will also engage with the City Economic Development Director to consider possible alternative and supplemental incentives that might limit the amount of TIF funds used. Upon initial approval of the proposed project, the Commission would take steps to create a tax allocation area to cover the proposed project area. Upon completion of the process (which would require Plan Commission and City Council involvement and approval) future TIF funds generated from the specific project would be monetized and reinvested into the project for specific costs ("TIF Revenue"). Such costs could include, among other things, demolition costs, environmental remediation work, required infrastructure improvements, utility/stormwater items that benefits the proposed project and surrounding properties, City required enhancements and on-site parking. The monetization of TIF Revenue from the proposed project would be a bond that would be purchased by the developer. The semi-annual TIF Revenue from the project would service the bond debt payments. The City and Commission would have no obligation to pay the bond debt and any deficiencies would be covered by the developer, as the bond purchaser. Moreover, documents would be drafted so that any nonpayment or default would not reflect negatively on the City or Commission. Assistance under this Policy would be limited to the Downtown Area as defined in **Addendum E**. A Development Agreement and other documents will be prepared and executed by the developer. Developer, as bond purchaser, will be expected to sign a Bond Purchase Agreement and a "sophisticated investor" letter (at closing) in a form satisfactory to the City and its advisors.

Amount of Assistance:

Except in certain unique and limited situations, no project would be allocated 100% of the TIF Revenue generated for 25 years. All projects must generate some tax benefit for the City to support municipal services. After analyzing the financial gaps and needs of a project that meets City Objectives, an appropriate financial incentive will be offered that uses flexibility to maximize the amount of available funds for the project and minimizes expenses. All costs of issuing the bonds and creating the tax allocation area, capitalized interest, if any, and related

costs would be paid by the developer. The developer will be responsible for such costs incurred by the City's professionals related to any potential bond issuance even if the bonds are not issued.

Projects outside the Downtown:

As drafted, the Policy's primary focus is on the City's Downtown Area. The City and Commission do recognize that other parts of our community could benefit from application of this Policy. Nothing in this Policy should be considered as a prohibition against using the tools identified in this Policy in areas outside the Downtown Area if the proposed project otherwise meets the Policy's objectives and requirements.

Addendum A

2017 HyettPalma Downtown Action Agenda.

Addendum B

2018 HyettPalma Supplemental Letter.

Addendum C

Overview of the legal process prepared by Attorney Tom Pitman.

Addendum D

Application.

Addendum E

Map of Downtown Area.