



DOWNTOWN DEVELOPMENT DISTRICTS (DDD)

2015 Annual Report

DDD Grant Program

INTRODUCTION

After decades of losing residents who moved out to the suburbs, Delaware's cities and towns have been working hard to reestablish their downtowns as places where people can live, work, and thrive. However, poor building conditions, socioeconomic challenges, crime and perception of safety have made redevelopment a daunting task for both communities and potential investors.

Fortunately, these same areas have desirable assets, such as designated historic districts, traditional commercial corridors, compact walkable neighborhoods, parks, and architecturally beautiful buildings. With strong coordinated effort to overcome these barriers to development, new private investment and market opportunities can be shifted back to the heart of Delaware's communities.

DOWNTOWN DEVELOPMENT DISTRICT PROGRAM OVERVIEW

In April of 2014 the General Assembly passed Senate Bill 191, the Downtown Development Districts Act of 2014 (the Act), which was subsequently signed by Governor Markell on June 5, 2014. This Act created the Downtown Development Districts program which seeks to revitalize the downtown "Central Business District" in selected city, town, and county areas through the use of economic and other incentives. The purposes of the Act are to:

- Spur private capital investments in commercial business districts and other neighborhoods;
- Stimulate job growth and improve the commercial vitality of districts and neighborhoods;
- Help build a stable community of long-term residents by improving housing opportunities; and,
- Assist municipalities in strengthening neighborhoods while harnessing the attraction that vibrant downtowns hold for talented people, innovative small businesses, and residents from all walks of life.

Local governments can take advantage of this program by identifying an area in their downtowns as being desirable for revitalization and then developing a district plan and incentives to support revitalization of the area in accordance with the goals of the Act. The application process for designation as a Downtown Development District (DDD or District) is facilitated by the Office of State Planning Coordination. The applications are then evaluated by the Cabinet Committee on State Planning Issues according to three criteria, as specified in the Act: the need and impact (50%), the quality of the district plan (30%) and the local incentives (20%). The Cabinet Committee then makes recommendations to the Governor who makes the final designation.

An initial application round for designation as a DDD was held in the fall of 2014. Completed applications were received from nine local governments: Clayton, Dover, Middletown, Milford, New Castle County, Newark, Seaford, Smyrna, and Wilmington.

While many of the applications were very good, the high level of need demonstrated by three municipalities distinguished their applications.

In January 2015, Governor Markell announced the first three DDDs: Dover, Seaford, and Wilmington. Additional Districts can be designated in future program years. The number of Districts is limited to 15 at any one time. District designations last for 10 years, and the Committee can consider up to two five-year extensions.

Selection as a DDD entitles businesses and investors who invest in commercial, industrial, residential, and mixed-used buildings or facilities located within designated DDDs access to state and local incentives as well as a host of other benefits.

- **Downtown Development District Grant (DDD Grant)**: The DDD Grant provides up to a 20 percent grant of capital construction costs and is administered by the Delaware State Housing Authority.
- **Historic Preservation Tax Credits**: The Act allocates 30 percent of the State’s yearly allocation of Historic Preservation Tax Credits to be reserved for projects within a District.
- **Municipal Incentives**: Each municipality implements incentives specific to the designated District within its jurisdiction and to the identified projects in the District Plan. Examples of municipal incentives include, but are not limited to:
 - reduction or waiver in fees or taxes
 - permit process reform
 - special zoning districts or exemptions from local ordinances
 - façade improvement grants

DDD GRANT SUMMARY

The DDD Grant Program awards grants to Qualified District Investors (Investors) who make Qualified Real Property Investments (QRPI) within the boundaries of a designated District and in conformance with the District Plan. The investment *must* be necessary for the **rehabilitation, expansion, or new construction of commercial, industrial, residential** (including multi-family), or **mixed-use** buildings or facilities.

To qualify for a DDD Grant, an Investor must first meet a Minimum Qualified Investment Threshold (MQIT) of \$15,000 or \$25,000, depending on size of investment.

Investors making QRPIs are entitled to a DDD Grant in an amount of 20 percent of the QRPI in excess of the MQIT up to \$500,000 per building or facility. DDD Grants in excess of \$500,000 are calculated at a lower rate up to an additional \$500,000 for a maximum DDD Grant of \$1,000,000.

The DDD Grant is limited to \$1,000,000 per building or facility within a five-consecutive-year period starting with the year in which a grant is first awarded or reserved.

PROGRAM DESIGN

Delaware was fortunate to have the highly successful Virginia Enterprise Zone program as a starting point when structuring the DDD program for Delaware. From there, DSHA conducted extensive outreach to various stakeholder groups to identify important considerations for Delaware’s program. The following is a summary:

*A key component of the DDD Grant program is funds are awarded only **after** successful project completion.*

- Concern about proceeding in hard-to-develop areas without assurance of funds.
- A variety of diverse projects are needed to reinvigorate distressed areas.
- Small investors may not access the program if it is too complex or if competing with large investors.
- Provide flexibility and ease of use to the greatest extent possible.
- Ensure that investors in all DDDs have reasonable access to funds.
- Provide incentives to projects that best meet local and state priorities.

As a result, the following components were incorporated into the program to support a variety of projects throughout the State and ensure State funds are used effectively and efficiently.

Reservation Process

A Reservation process was created to give Investors assurance that their project will be funded once complete. A Reservation is required for Investors applying for the Large Project Set-Aside and a Lite-Reservation is an option for Investors accessing the Small Project Set-Aside.

Flexibility and Threshold Requirements

Great effort was taken to incorporate flexibility in regard to eligibility of projects and applicants. However, there are four threshold requirements that must be met:

- The project must be made within the boundaries of a designated DDD.
- The project must be in conformance with the District Plan.
- The QRPI must be in excess of the required MQIT (\$15,000 for Small; \$25,000 for Large).
- The Investor must demonstrate site control.

Small and Large Project Set-Asides

To ensure a variety of projects, DSHA established two funding set-asides for DDD Grant awards.

Small Project Set-Aside

- This set-aside is intended for Investors who may only use the program once, or are not familiar with the complexities of larger scale projects. The maximum DDD Grant award an Investor can receive from the Small Project Set-Aside is \$50,000 per building or facility. This award is based on a capped QRPI (minus the MQIT of \$15,000) of \$250,000 regardless of the actual QRPI associated with a building or facility. Small Project Investors can apply throughout the year, *as long as funding is available.*

Large Project Set-Aside

- The maximum DDD Grant award an Investor can receive from the Large Project Set-Aside is \$1,000,000 per building or facility. An Investor must apply for a Reservation to be considered for a DDD Grant from this set-aside. Applications for Large Project Reservations are accepted once per year; however, DSHA can offer additional application rounds.

District Pool: *To ensure that Investors from all Districts have reasonable access to DDD funding, the Large Project Set-Aside is further divided into a General Pool and a District Pool. District allocations are based on the population of each District.*

Priority Consideration

In cases where Reservation requests exceed the funding available, DSHA wanted to ensure that the highest quality projects would receive a DDD Grant. This is done by giving projects priority consideration when they meet additional state and local community objectives. These priorities were developed in collaboration with local governments with DDDs.

- Identified as a Priority Project in District Plan
- Readiness to proceed
- Creates permanent jobs
- Provides mixed-use development
- Expands housing opportunities
- Protects historic resources
- Actively reuses existing structures
- Promotes sustainable practices.



The historic Priscilla Block building, at a key intersection in downtown Dover, received a Large Grant Reservation that will result in mixed-use commercial office space, retail, restaurant, and apartments.

FISCAL YEAR 2015

When the DDD Act was enacted, the initial allocation was \$7 million to fund and administer the DDD Grant program. These funds were divided into the following categories:

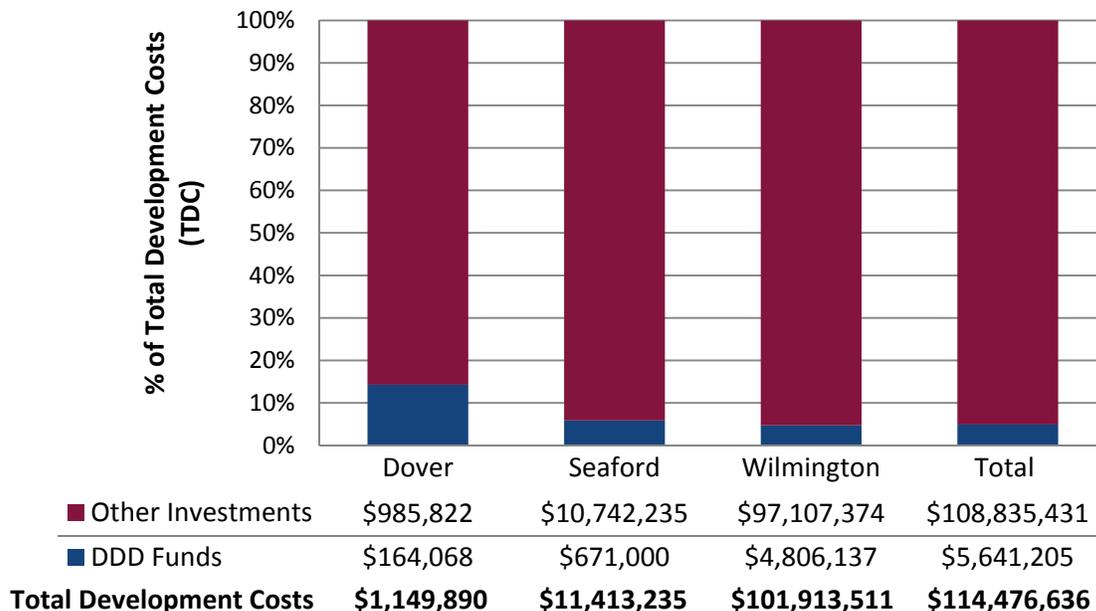
TOTAL ALLOCATION:	\$7,000,000
<i>Administration*</i>	<i>\$350,000</i>
SMALL Project Set-Aside	\$1,000,000
LARGE Project Set-Aside	\$5,650,000

** Represents 5 percent to DSHA for administration.*

LARGE PROJECTS SET-ASIDE

In April, the recipients of the inaugural round of DDD Grants were announced for Large Projects. A total of 13 projects in the three DDDs were selected to receive \$5.6 million. While the intent of the DDD program is to leverage private investment, the demand for the funds and extent to which private investment is leveraged through this program is impressive. Sixteen applications were received requesting nearly \$8 million in funding. In addition, this initial ***\$5.6 reservation will leverage more than \$114 million dollars*** – in other words for every state DDD dollar invested, it is anticipated to be met with \$20 in private investment.

Private Investment Leverage

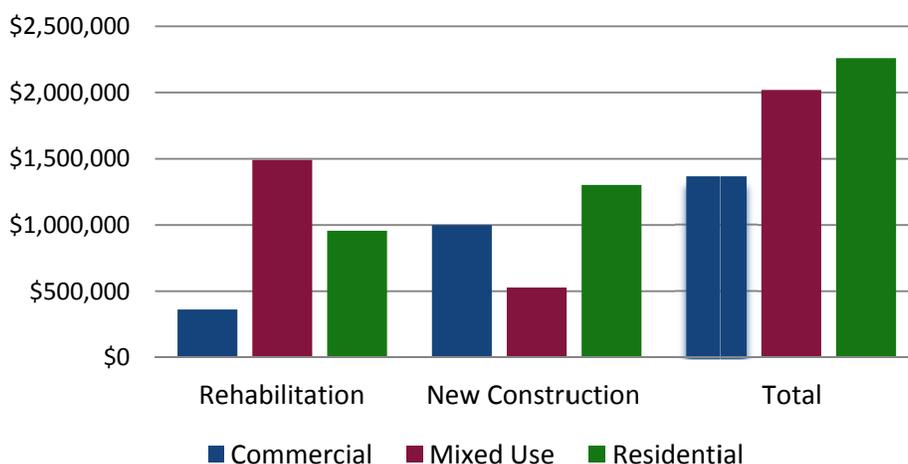


The District Pool ensures that each District has fair access to grant funds. From the applications received in the first round, the majority of funds were awarded to projects located in Wilmington. Those funds will leverage over \$101 million dollars.

The projects that received a Reservation reflect a broad range of activities. Residential development received the largest Reservation amount with \$2.26 million and represents a wide range of housing opportunities: single-family homes intended for homeownership; rental

apartments above small-scale retail; and both market rate and affordable rental apartment units. Applications for mixed-use projects received the next largest Reservation award with just over \$2 million dollars. Approximately 75 percent of all mixed use project will involve the rehabilitation of existing buildings. The following chart is a summary of Reservations awarded by type and use of projects. Additional information is then detailed in the next two tables by District, Investor, costs, and project descriptions.

DDD Funds by Type and Use



DISTRICT/INVESTOR	APPLICATION TOTAL DEV. COSTS	APPLICATION QRPI	AWARDED RESERVATION
Dover	\$1,149,890	\$820,340	\$164,068
Central Delaware Habitat for Humanity	\$680,300	\$375,750	\$75,150
G & J Holdings, LLC	\$469,590	\$444,590	\$88,918
Seaford	\$11,413,235	\$9,089,846	\$671,000
The Residences at River Place, LLC	\$11,413,235	\$9,089,846	\$671,000
Wilmington	\$101,913,511	\$55,639,688	\$4,806,137
608 Market LLC	\$7,698,809	\$3,977,003	\$528,000
627 Market LLC	\$11,851,171	\$5,743,135	\$585,000
Connections CSP	\$3,874,784	\$1,557,530	\$311,506
Delmar Affordable Housing Partners	\$6,310,671	\$2,004,883	\$400,977
Historical Society of Delaware	\$6,800,000	\$1,811,511	\$362,302
Market Street Village LLC	\$29,122,842	\$11,727,622	\$757,000
Midtown Parking LLC	\$25,922,644	\$22,595,733	\$1,000,000
Sacred Heart Village II	\$8,071,166	\$4,700,509	\$557,000
STM II	\$327,205	\$302,205	\$60,441
Wilmington Housing Partnership	\$1,934,219	\$1,219,557	\$243,911
Grand Total	\$114,476,636	\$65,549,874	\$5,641,205

PROJECT DESCRIPTIONS

Dover

- Construction of 5 single family homes on South Kirkwood Street for homeownership
- Rehabilitation of historic Priscilla Block Building/Annex at Loockerman and State Streets resulting in mixed-use commercial office space, retail, restaurant, and apartments

Seaford

- Construction of 72 market rate apartment units within two buildings, pool, clubhouse, and marina

Wilmington

- Mixed use construction of 24 market rate apartments units and 2,811 sf ground floor retail
- Mixed use rehabilitation of 46 market rate apartments and 4,470 sf ground floor retail
- Rehabilitation of 3 properties to expand permanent housing for individuals with special needs and establish housing for artists.
- Rehabilitation of Quaker Hill Apartments that will increase by 1 unit to 45 apartment units
- Several renovations as well as construction of a physical glass connector between historic Old Town Hall and Delaware History Museum
- Rehabilitation of 3 historic building to be adapted and used for residential and commercial purposes. Total 76 apartment units, community center and Walgreens Pharmacy
- Construction of 3-level, 355-space parking garage available to the public
- Construction of three-story building to offer 25 apartment units for very low-income seniors
- Renovations for upgraded fire suppression system for historic building comprised of 86 residential units and 20 commercial units
- Construction of 7 townhomes on formerly blighted 800 block of Bennett St. to be sold to homebuyers with incomes at 120% of area median income.



The rehabilitation of the existing building at 627 N. Market Street will provide a mix of uses – residential on a small scale and ground floor retail. This vital combination helps to preserve and enhance Wilmington’s traditional commercial corridor.

SMALL PROJECT SET-ASIDE

While both set-asides require project completion before funds are distributed, the Small Project Set-Aside does not require a Reservation. The option for a Lite-Reservation just became available in September of 2015 for Investors with a building permit.

As a result, it has been difficult to determine the number of projects accessing the funds until project completion. However, Investors began submitting applications for the Small Project Set-Aside in August and September.

DISTRICT/INVESTOR	DESCRIPTION	TOTAL DEV. COSTS	FINAL QRPI	DDD GRANT
Dover		\$357,187	\$178,822	\$35,765
Carmen Hardcastle	Residential	\$50,933	\$35,933	\$7,187
John and Karen Marble	Residential	\$157,889	\$142,889	\$28,578
Event Horizons LLC (Grey Fox Grille)	Commercial	\$148,365	*	*
Seaford		\$321,090		
Craig de Marlana Aleman	Mixed use	\$321,090	*	*
Wilmington		\$250,000		
Jamestown Hospitality Group, LLC	Commercial	\$250,000	*	*
Grand Total		\$928,277	\$178,822	\$35,765

* Indicate applications are currently under review.

While active communication with officials from each DDD indicate several small projects underway in each DDD, only projects with a submitted application are included in this report.



This newly constructed home on Mary Street received a Small DDD Grant to bring homeownership to an area of Dover experiencing a very high rental rate.

COLLECTIVE IMPACT

Just one year after the first Districts were announced, the DDD program has proven to be a true public-private partnership. Local governments with designated DDDs have demonstrated tremendous leadership in marketing to potential Investors, creating meaningful incentives, and seeking additional expertise – all to capitalize on the potential of the DDD Program. Some examples include:

- The City of Dover worked closely with local realtors to implement a real-time interactive map of their designated DDD that shows not only the incentives available to each property, but also whether the property is for sale or rent and contact information.
- Seeing the potential to accelerate revitalization in the State’s most distressed areas, other entities have since stepped forward with additional incentives to offer Investors:
 - Kent County allocated \$200,000 to match the DDD Grant up to \$10,000 per project.
 - Delaware’s Sustainable Energy Utility increased rebates for their Home Performance with ENERGY STAR program by 50 percent for projects located in DDDs. Also, primarily a residential program, they extended the same to commercial units that are less than 2,500 square feet in mixed use buildings.
 - Cinnaire, a community development financial institution, created a program to fill the economic void in financing projects in DDDs.

This infusion of partnerships, private investments and public incentives is achieving multiple social and economic returns in the form of new retail and commercial development, new and enhanced residential opportunities, improved quality of life for current residents, and additional redevelopment as the barriers to redevelopment continue to dissolve.



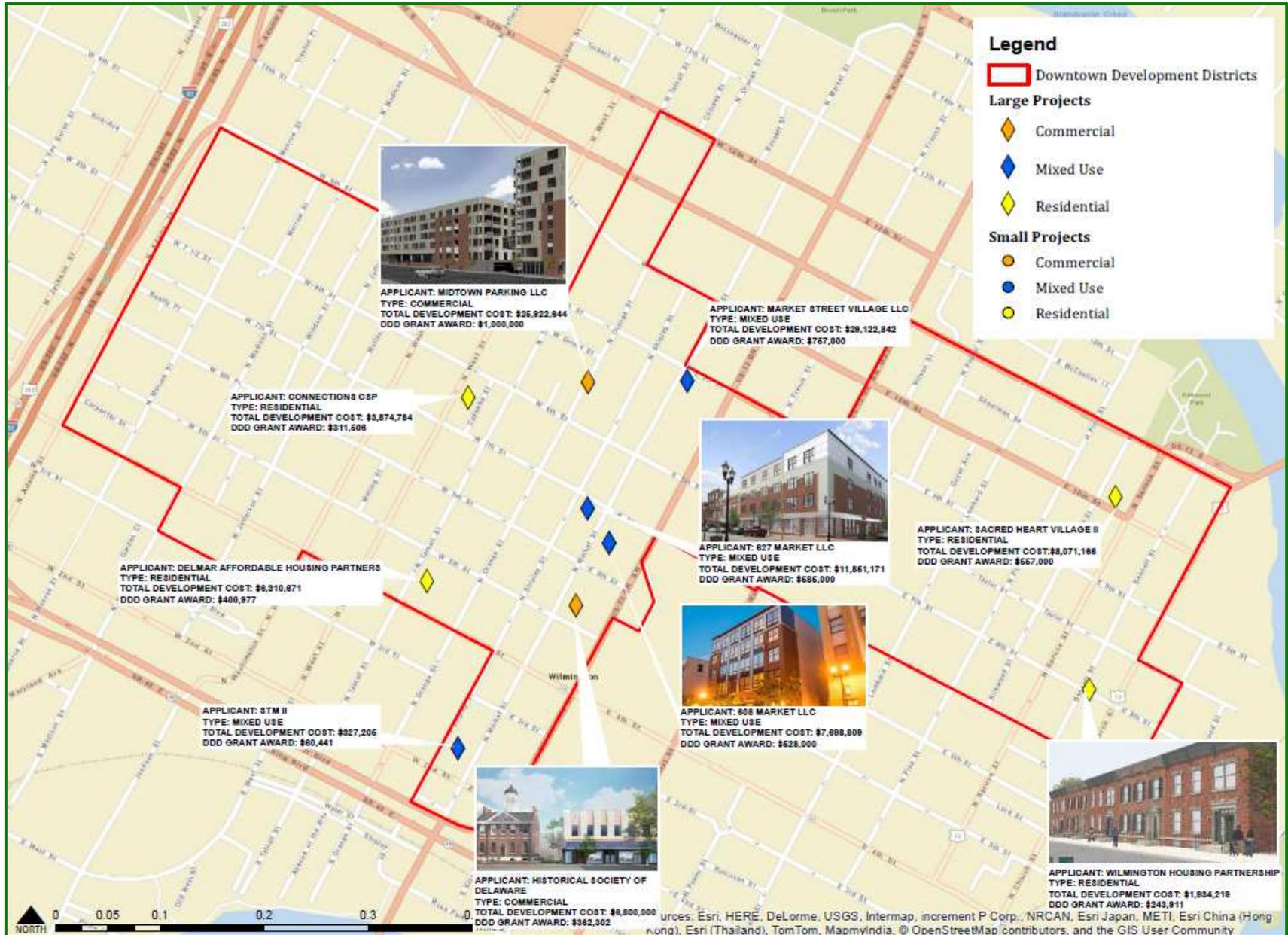
With the smallest District, Seaford’s leadership leveraged the DDD Grant program to attract an Investor with a powerful vision who is transforming Seaford’s riverfront. The Residences at Riverfront received a Reservation for \$671,000 in DDD Grant funds and is the first of several proposals that will redefine downtown Seaford.



DOWNTOWN DEVELOPMENT DISTRICT – SEAFORD

PROJECTS AWARDED





DISTRICT INCENTIVES

DISTRICT/INCENTIVES	DESCRIPTION
Dover	
• First Time Homebuyer Transfer Tax Exemption	Transfer tax exemption for first time homebuyers if property is used as principal residence.
• Tax Abatement for Owner-Occupied Properties	4-year property tax abatement as long as home is principal residence. The first year is a 100% tax reduction and is reduced 25% each subsequent year.
• Waiver of Water/Sewer Fees	Expanded beyond multistory, mixed use to include residential, office, commercial uses.
• Business License Fee Waiver	Waives business license fees for new businesses for three years.
• Property Tax Abatement	10-year abatement of City property tax on the value of improvements.
• Transfer Tax Abatement for businesses	50% transfer tax rebate upon issuance of Certificate of Occupancy.
• Façade Improvement Grants	Architectural support services up to \$5,000 for renovation for new business or expansion.
Seaford	
• Reinvestment Tax Incentive	Substantial qualifying improvements may receive a 10-year rebate (upfront cash payment) from the City for taxable value of improvements.
• Sidewalk Loan Program	4-year, no interest loan up to \$2,000 for sidewalk/curb repairs.
• C-3 Riverfront Enterprise Zone	Mixed-use zoning district encompassing 50-acre Riverfront area that allows for downtown style development.
• Fee Reduction Incentive	Fee reduction for water capacity charge, downstream sewer assessment and electric system cost recovery fee.
• C-3 Zone Façade Improvement Program	5-year tax reduction on expenses above \$25,000 – cannot exceed 50%. The percentage “would equate to the amount of tax reduction the property the property owner would receive for the 5-year period.
• Fee Waiver for Water and Sewer Tap Fees	Waives the tap fees for water and sewer for large project investors.
Wilmington	
• Expedited Permitting	Permit applications in DDD are walked through multi-department approval process to ensure shortest possible review time. A City-wide permitting reform process is underway to reduce review time further in the DDD.
• Architectural and Engineering (A&E) Feasibility Assistance	50% match (up to \$20,000k) for architectural and engineering feasibility work for for-profit small business developers to explore capital investments in DDD. (Total development cost capped at \$1 million, program allocation of \$100,000, approval-based). [City-wide]
• Grow Wilmington Fund	SBA 7(a) loan that offers 3.75% rate for qualified borrowers making investments in downtown that result in new jobs or capital improvements. [City-wide]
• Creative District Mixed-Use Overlay Zone	Special DDD-specific zoning overlay to facilitate mixed-use development. This zone is in the process of being written and is not yet adopted.