Appendix A: Development incentives

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Property or other tax abatements and credits				
Property tax abatements (Historic preservation, multi-family tax exemption, etc.)	A time-limited reduction in property taxes, sometimes just on improvements or new equipment, to encourage private investment in a property.	Local taxing jurisdictions' general funds– cities, school districts, counties, etc.	• Increases the financial feasibility of property improvements. • Often more politically acceptable than other funding sources; it does not require a budget allocation.	• Reduces general fund revenues for all overlapping taxing districts. • Can require ongoing monitoring to ensure compliance and accountability.
New Markets Tax Credits (NMTCs)	The NMTC program provides federal income tax credits for commercial, industrial, mixed-use, and community facilities in low income communities with census tracts with a poverty rate of at least 20%. In Olympia, there are several Westside census tracts that qualify for NMTCs. The developer or operating business receives discounted financing typically in the form of below market rate equity or debt, which is sometimes forgivable.	Private or institutional investors/Federal Government	• Can be used for mixed-use developments provided that annual residential revenues don't exceed 80% of total project revenues. • Can fund up to 25% of a total development cost in certain cases. • Can position project to leverage additional resources, including opportunities to combine other tax credits, grants, or incentives with NMTC financing.	• The NMTC process is highly competitive. • All funding packaged as part of a NMTC project must be funneled through a complex NMTC structure. • Community Development Entities that serve as intermediaries have specific requirements they must meet under their allocation agreements with respect to both geography and achieving community impacts. Greatest potential to use NMTCs is in census tracts that meet high levels of economic distress, as determined by the Federal Government.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Low Income Housing Tax Credits (LIHTCs)	Provides tax credits for acquisition, rehabilitation, new construction of rental housing targeted to lower-income households. At least 20% of residential units must be restricted to low income residents with income less than 50% median gross income of the area—or at least 40% of the units must be restricted to low income residents with income of 60% or less of the median gross income of the area.	Private and institutional investors/Federal government	• Can increase the supply of affordable housing in an area. • Because they provide much of the equity needed for a project, a tax credit property can in turn offer lower, more affordable rents. • Can be used to fund mixed- income projects. • There are two types of LIHCTs, 4% (less money and less competitive) and 9% (more money but highly competitive).	• States allocate federal housing tax credits through a competitive process. • Property must maintain compliance with program requirements to remain eligible.
Federal historic rehabilitation tax credits	Encourages private sector rehabilitation of income-producing historic buildings. The program allows a 20% tax credit for certified rehabilitation of certified historic structures. It also allows a 10% tax credit for rehabilitation of non-historic, non-residential buildings built before 1936. The rehabilitation must be substantial and must involve a depreciable building.	Private and institutional investors/Federal government	• The 10% tax credit is available for the rehabilitation of non-historic buildings placed in service before 1936. • Can be bundled with historic property tax freeze and NMTCs to significantly reduce rehab costs of historic buildings for adaptive re-use	• Long designation and certification process. • Buildings must be rehabilitated for non-residential use. • An owner that is allocated the tax credits must remain in title for at least five years after the project is placed in service. • Potential pitfalls involving the allocation of the tax credits by the investor party.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
HUD 202 supportive housing for the elderly	Provides interest-free capital advances to private, nonprofit sponsors to finance housing development for low-income seniors. The capital advance does not have to be repaid as long as the project serves low-income seniors. The nonprofit must provide a minimum capital investment equal to 0.5 percent of the HUD-approved capital advance, up to a maximum of $25,000. Occupancy in Section 202 housing is open to any very low-income household comprised of at least one person who is at least 62 years old at the time of initial occupancy.	Federal HUD funds	• Capital advance does not have to be repaid as long as the project serves very low-income elderly persons for 40 years.	• Competitive process to secure loans/grants for individual projects. • Difficulty in retaining experienced contractors over lengthy application and fund disbursement timeframes.
Low interest grants/loans				
CDBG grants	Community Development Block Grants provide communities with resources to address a wide range of community development needs, including affordable housing and service provision, infrastructure improvements, housing and commercial rehab loans and grants as well as other benefits targeted to low- and moderate-income persons.	Federal HUD funds	• Funds are fairly flexible in application. • Program has been run since 1974, and is seen as being fairly reliable.	• Competitive process to secure loans/grants for individual projects. • Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. • Amount of federal funding for CDBG has been diminishing over the past few years. • CDBG program is run through Thurston County and is not in the control of the City.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
HUD Section 108	HUD Section 108 is one mechanism that increases the capacity of block grants to assist with economic development projects, by enabling a community to borrow up to 5 times its annual CDBG allocation.	Federal HUD funds	• Funds are fairly flexible in application. • Program has been run since 1974, and is seen as being fairly reliable.	• Competitive process to secure loans/grants for individual projects. • Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. • Amount of federal funding for CDBG has been diminishing over the past few years. • CDBG program is run through Thurston County and is not in the control of the City.
EB-5	Investment dollars for new commercial enterprises that will benefit the US economy primarily by creating new jobs for US citizens. There are two versions of the program: 1) the original program that requires foreign investor to commit $1 million for eligible projects that create at least 10 full-time direct jobs, and 2) the newer program that allows foreign investors to commit $500,000 in eligible projects within Targeted Employment Areas that create at least 10 direct and/or indirect jobs. In return for these investments foreigners seek US citizenship.	Foreign investors	• Relatively low-cost source of equity for appropriate projects. • Projects can be construction (new or rehabilitation), or direct investments into businesses that will create required jobs. • EB5 can be bundled with many other funding sources.	• $500,000 program investor projects must be in an EB-5 eligible “targeted employment area” or TEA. TEAs are areas that have unemployment rates in excess of 150% of the federal rate for a given year. TEAs are established and adjusted by the governors of each state. • Must meet job generation requirements within 2.5 years. • Investors expect to get their equity investment repaid at the end of five years. • It takes added time to secure EB5 funds due to federally required process steps.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Tools to reduce development costs				
Land assembly & property price buy down	Assistance with the process of combining parcels together into one developable site. Sometimes takes the shape of technical assistance or expedited process. Other times, the public sector acquires the parcels, combines them, and sells to a private party. If the area is in a designated community renewal area, a public agency may chose to sell a property to qualifying developers at a price lower than fair market value to induce development.	CDBG/HUD 108/GO bonds in combination with CRA, City funds	• Can help overcome development feasibility challenges by creating more viable redevelopment sites. Public ownership of assembled land makes land write-downs or ground leases more viable. • Increases development feasibility by reducing development costs. • Gives the public sector leverage to achieve its goals for the development via development agreement process with developer.	• Public agencies sometimes buy land at the appraised value because they want to achieve multiple goals – which can impact costs of future public and private acquisitions. • Requires careful underwriting and program administration to reduce public sector risk and ensure program compliance
Reduced building permit/planning fees or impact fee buy down / waiver	Reduce various development fees as an incentive to induce qualifying types of development or building features (e.g. stormwater improvements through the Commercial Stormwater Fee Reduction).	General Fund or impact fund, respectively	• Increases development feasibility by reducing soft costs for developers. • Fee cost structures are within City control and can be easier to manipulate than other components of the development cost structure.	• Reduces revenues to provide permitting and compliance services. • If impact fees are reduced for some developments, that revenue burden will be shifted to other developments.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Pre-development assistance	Grants or low interest loans for pre-development (evaluation of site constraints and opportunities, development feasibility, conceptual planning, etc.) to reduce pre-development costs.	CDBG, General Fund (with CRA)	• Reduces what are often risky pre- development costs for developments that fulfill community goals. • Enables developers and communities to explore wider range of project possibilities, particularly those that can meet more community as well as private sector objectives.	• Can be perceived as favoring particular developers or property owners. • CDBG is only available in eligible areas
Impact fee financing or credits	SDC financing enables developers to stretch their SDC payment over time, thereby reducing upfront costs. Alternately, allows developers to make necessary improvements to the site in lieu of paying SDCs.	SDC fund / general fund. In some cases, there may be no financial impact.	• Reduced up-front costs for developers can enable quicker development timeframe and availability of property to generate additional taxes.	• Reduces availability of SDC funds over the short term.
Expedited / fast-tracked building permits	Expedite building permits for pre-approved development types or green buildings.	Limited costs.	• Can be targeted to a specific development type that is incented. • Can save projects time in development process, which produces financial savings.	• May not have a large enough impact on development bottom line to change financial viability of project.

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
Tools that spurs investment in a specific area				
Façade improvement grants/loans	Commonly used as part of the Main Street approach to economic development, these are low or no interest loans, or matching grant funds to improve the façade of a building.	CDBG loans or grants	• A relatively low-cost approach to assisting property owners with improvements that creates a stronger environment for retail.	• Can be perceived as favoring some businesses or business areas over others.
Sole Source Impact Fees	Retains SDCs paid by developers within a limited geographic area that directly benefits from new development, rather than being available for use city- wide.	SDC funds	• Enables SDC eligible improvements within smaller areas which can enhance catalytic and redevelopment value of area.	• Reduces resources for SDC-funded projects in a broader geography. • Small geographic areas may not have sufficient SDC revenues to support bonds.

Appendix C: Development Incentives Glossary

Incentive name	What it is and how it works	Fund sources/ fund impacted	Potential benefits	Potential drawbacks
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Property tax abatements (Historic preservation, multi-family tax exemption, etc.)	A time-limited reduction in property taxes, sometimes just on improvements or new equipment, to encourage private investment in a property.	Local taxing jurisdictions' general funds–cities, school districts, counties, etc.	• Increases the financial feasibility of property improvements. • Often more politically acceptable than other funding sources; it does not require a budget allocation.	• Reduces general fund revenues for all overlapping taxing districts. • Can require ongoing monitoring to ensure compliance and accountability.
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