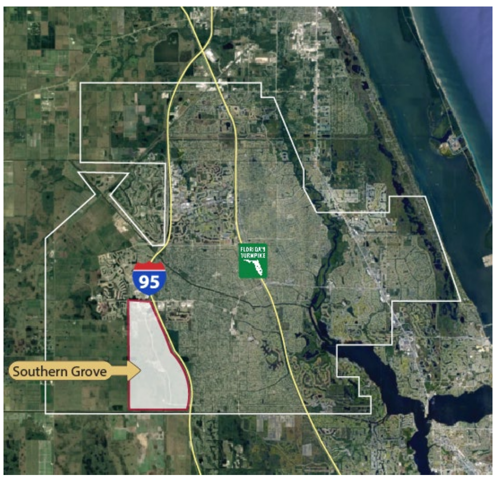
# Technical Memorandum #6

## Public Incentives & Preliminary Implementation Considerations

### Southern Grove Master Plan

### Port St. Lucie, FL




Prepared for:
**Treasure Coast Regional Planning Council**
Stuart, FL

On behalf of:
**City of Port St. Lucie**
Port St. Lucie, FL

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WTL +a

Real Estate & Economic Advisors
Washington, DC—Cape Cod, MA
301.502.4171 508.214.0915

# General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible. These data are believed to be reliable at the time the study was conducted. This study is based on estimates, assumptions, and other information developed by WTL +Associates (referred hereinafter as “WTL+a”) from its independent research effort, general knowledge of the market and the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent and/or representatives, or any other data source used in preparing or presenting this study.

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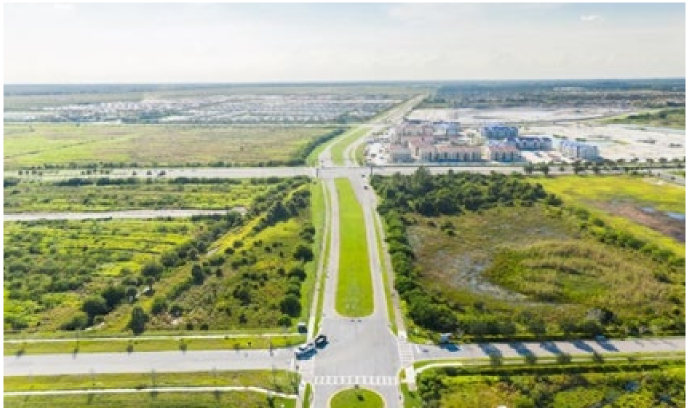
# Overview



The City of Port St. Lucie, located in St. Lucie County, Florida, is one of the fastest-growing municipalities in the State of Florida. Established in 1961, its municipal boundaries encompass 121.5 square miles. The City acquired 1,215.9 acres known as the "Southern Grove" property (the "study area") on June 28, 2018, of which approximately 1,183 acres are owned by the City of Port St. Lucie Government Finance Corporation (GFC), and the focus of this analysis.

The study area is a part of the Southern Grove Development of Regional Impact (DRI), which encompasses approximately 3,606 acres. Technical Memorandum #6 summarizes a series of recommended implementation strategies, approaches, and policy suggestions to consider as Southern Grove is fully planned, developed, and built-out. It supplements Technical Memoranda #1—#5, which provide a demographic/economic profile, real estate market conditions and development potentials, a financial scorecard analysis, economic impact analysis, and summary of comparable cities. These memoranda have been prepared as part of an overall market/financial analysis of Southern Grove.

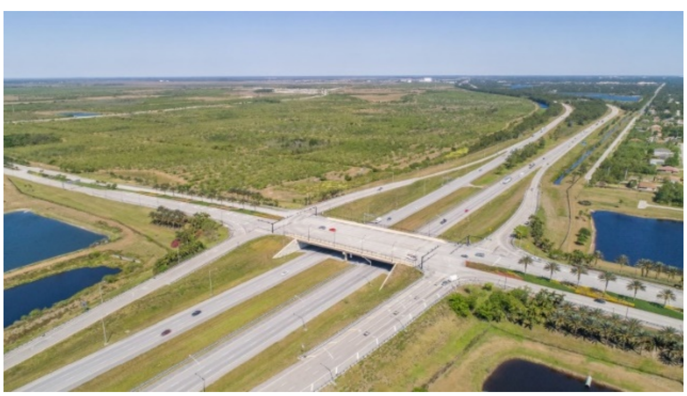
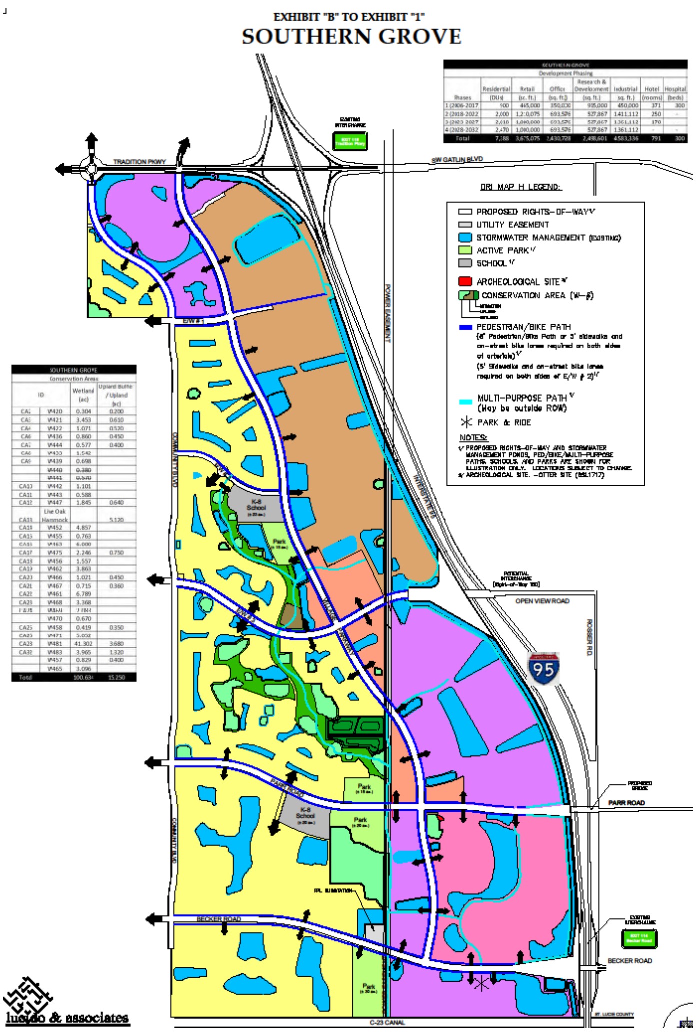


**Figure 1: Southern Grove Study Area**




WTL +a, with Retail & Development Strategies LLC, evaluated a series of existing financing structures, redevelopment tools and incentives used to encourage the sale and development of available Southern Grove parcels, with a series of parallel engineering analyses completed through TCRPC. Prepared by Captec, Inc., these studies include assessments of current storm water management infrastructure, roads and transportation analysis and system-wide implications of various redevelopment projects in Southern Grove. These separate studies include: Project Memorandum #1 (Due Diligence) and Project Memorandum #4 (Land Development & Infrastructure Overview).

# Impacts of the 2020 Pandemic

This report presents the findings of the real estate market and development potentials for housing, workplace (commercial office and industrial), and supporting uses such as retail and hotel/lodging. It should be noted that **market conditions presented are based on data and conditions *prior to* COVID-19 impacts**. While the timing for future development may be more extended due to the pandemic, there are potentials for selected, carefully considered new growth and investment. Experience in other Florida markets has demonstrated the best way to fully optimize economic benefits will result from a strategically structured and implemented master plan that appropriately integrates different land uses and phases to provide development flexibility.

The most important difference between year-end 2019 (the data-year used for this analysis) and current conditions in January 2021 is the impact of the global Coronavirus pandemic. COVID-19 has already had a significant impact on commercial real estate, although these impacts vary considerably from location to location. It has affected consumer spending, real estate sales, job prospects and recreation options in ways that have profoundly modified pre-COVID conditions. **The office market, especially for technology and other computer-based industries, has responded most rapidly and *not* in ways that are likely to encourage new office development.** At the broadest levels across the country, early reactions to self-isolation and working-at-home have resulted in some companies advising employees to work at home for the remainder of 2020, while Twitter has announced that its employees can work at home *forever*.

The travel, hospitality and retail industries have been particularly hard-hit, with airline passenger volumes reportedly down by as much as 90%, major layoffs in the hotel and food & beverage industries, and the recent announcement of a bankruptcy filing by the Hertz Rental Car company. The travel and leisure market based on tourism has been seriously impacted and will likely take several years to stabilize, much less fully recover. **The National Retail Federation speculated in May 2020 that as many as 40% of small retailers *may never re-open*.**

In its bi-annual bankruptcy update of the retail industry, BDO Global ((an international network of public accounting, tax, consulting and business advisory firms formerly known as Binder Dijker Otte) identified 18 retailers that headed to bankruptcy court in the first half of the year and another 11 in July through mid-August. In fact, the industry's bankruptcy record so far put it on pace with 2010, following the Great Recession, when there were 48 bankruptcy filings by retailers. The COVID-19 pandemic has essentially interfered with what is normally a cyclical pattern for retailers and set up the industry for yet more bankruptcies in 2020's second half.

According to BDO researchers, 2020 was on track to set the record for the highest number of retail bankruptcies and store closings in a single year. By BDO's measure, bankrupt retailers alone have announced nearly 6,000 store closings this year, more from January through mid-August than the record 9,500 stores that closed throughout 2019, and most of them in malls. More than 15 retailers (including Macy's, Bed Bath & Beyond and Gap) outside of bankruptcy court have announced a total of 4,200 closures.

National unemployment levels in 2020 are at their highest since the Great Depression of the 1930s. From a record yearly low of 3.5% in February, seasonally-adjusted unemployment jumped to 14.7% in April. With uneven recovery generated by the pandemic, the *official* national unemployment rate has steadily declined over the past seven months: 13.3% in May; 11.1% in June; 10.2% in July; 8.4% in August; 7.9% in September; 6.9% in October; and 6.7% in November.

By comparison, according to the Department of Economic Opportunity (DEO), Florida's unemployment rate jumped from a low of 2.8% in February 2020 to 13.8% in April; 13.7% in May; 10.3% in June; 11.4% in July; 7.3% in August; 7.2% in September; and remained at 6.4% in both October and November. For a visitor destination like Florida, where the $111.7 billion annual tourism industry is the state's largest industry, the impact is already great, and could become a profound issue as the virus continues prior to widespread vaccinations. Like many states, government policies are seeking to balance social responsibility and safety with the need to re-open businesses and encourage visitors to return. The re-opening of beaches and public spaces across the state has been a relief to millions of Florida residents, but it could also result in a virus rebound that could require retrenchment, or (at minimum) more carefully regulated public behaviors.

Taken in total, **these impacts will cause a major slowdown in economic activity across Florida (especially in hospitality and tourism-dependent sectors), and the costs of lost consumer spending will result in near-term increases in vacancy rates for retail and office uses, a massive slowdown in tourism and visitor spending**, and a slow recovery period, due in large part to the number of unknowns about a global pandemic. Until vaccinations are given in sufficient volumes to significantly reduce the rate of transfer, thereby restoring consumer confidence to travel, spend time in other places, and have the money to stimulate local economies will be set back for many months, if not years.

Accordingly, the short-term economic forecasts should be cautious and slow. However, there are mitigating factors that could change the mid-to longer-term outlook:

- **Slowing of Unsupportable Speculative Real Estate Development**—an overheated real estate market in Florida has encouraged speculative development and over-entitlements in many submarkets.
- **Time to Plan More Effectively—**a slowdown could encourage a more manageable pace of development and reduce environmental and social impacts that often result from hurried decisions.
- **Business Opportunities for Millennials**—the millennial generation is highly entrepreneurial and will be more willing to start new retail, food & beverage, and consumer service businesses once the pandemic has stopped.
- **Pent up Demand for Social Experiences**—while online sales have spiked, consumers are also looking forward to dining out, going out, and shopping; it would be reasonable to assume consumer demand for goods and services is pent-up at levels not seen since the 2007 recession.
- **Creative Regulation & Behavior Management**—if reasonable standards can be put into place and safety practices realized, Florida's beaches, communities, and visitor destinations should rebound faster than other parts of the country.

**For Port St. Lucie and Southern Grove, the impacts of COVID-19 are more likely related to time and phasing than a permanent loss of economic activity.** The area's economic recovery period may present opportunities to take advantage of the 'pause' and consider how to best optimize prospective agreements to create new jobs, attract business investment, and create an overall plan that will capitalize on the site's advantages.

We note that Port St. Lucie potentially benefits due to its overall location and ready access to other parts of the state with I-95 and the Florida Turnpike. Other advantages include a location contiguous to Martin County (which has not aggressively sought development) and proximity to the more populous counties of South Florida (Palm Beach, Broward and Miami-Dade Counties) to the south. Port St. Lucie also has available land, adopted land development and regulatory policies focused on job creation, and a large master-planned site with available land at Southern Grove.

These factors are expected to strengthen opportunities for Port St. Lucie to attract specific business categories, especially logistics, distribution and warehousing, and light manufacturing. Because Port St. Lucie is adjacent to both I-95 and the Florida Turnpike, the City is poised for additional growth and economic development, drawing investment and facilities from the increasingly built-out, more urbanized counties to its south. For example, Cleveland Clinic has stimulated a bio-health cluster in the northern portion of the Southern Grove study area, and manufacturing and warehouse/distribution companies have been attracted due to the proximity to I-95 and lower land values than more urbanized counties to the south.

Land values and densities are lower, vehicular and truck access is very good, and there is a clear commitment to jobs creation. Port St. Lucie can benefit from Florida's need for light industrial and warehousing uses that can respond to sustained increases in on-line sales and for Florida-based distribution and fulfillment centers to satisfy that demand.

Ironically, U.S. financial markets have stabilized more quickly than consumer markets. The reduced costs of debt/capital have encouraged developers to accelerate proposed projects, allowing 18-24 months for regulatory review, approvals, and construction so that they are ready for the rebound when it occurs. The challenge for the City of Port St. Lucie will be to select those projects carefully so that new development in the Southern Grove study area can generate the greatest economic benefits possible for the City over the long-term. While economic recovery may take two to three years, the longer-term prospects for Southern Grove remain moderate but steady over the near-term.

# Economic Development Incentives—Comparable Cities

Technical Memorandum #5 presented an employment-based analysis of five comparable cities identified by the City of Port St. Lucie as relevant comparable examples for potential policy and redevelopment guidance. Part of that analysis included a series of interviews and survey documentation of financial and policy-oriented incentives employed in each city. It should be noted that, while the five cities—Cape Coral, Lakeland, Palm Bay, Pembroke Pines and West Palm Beach account for 56% to 94% of Port St. Lucie's population, the characteristics of the surrounding contexts are quite different. As illustrated in Table 1 below, Port St. Lucie is the largest in total population (specifically, Lakeland, West Palm Beach, and Palm Bay are each 56% to 60% of Port St. Lucie's population). However, when surrounding counties (and the economic bases they represent) are compared with St. Lucie County, the differences are much greater:

- Brevard County (Palm Bay) is just under twice as large as St. Lucie County,
- Polk (Lakeland) and Lee (Cape Coral) counties are more than twice as large as St. Lucie County, and
- Palm Beach (West Palm Beach) and Broward (Pembroke Pines) are between 4.5 and 5.9 times the population of St. Lucie County.

**Table 1: Population of Comparable Cities**

| | 2020 | | | |
|---|---|---|---|---|
| **City** | **City Population** | **County** | **County Population** | **City As % of County** |
| Cape Coral | 186,294 | Lee County | 753,337 | 25% |
| Lakeland | 111,262 | Polk County | 703,886 | 16% |
| Palm Bay | 119,426 | Brevard | 616,481 | 19% |
| Pembroke Pines | 167,376 | Broward | 1,909,545 | 9% |
| **Port St. Lucie** | **197,907** | **St. Lucie** | **326,357** | **61%** |
| West Palm Beach | 111,654 | Palm Beach | 1,471,269 | 8% |

***Source: U.S. Census Bureau; ESRI Business Analyst; RDS LLC; WTL+a, January 2021.***

In addition, West Palm Beach and Pembroke Pines are both located within the heavily urbanized area extending from Miami-Dade County in the south up the east coast of Florida. As such, those two comparables are more heavily influenced by regional economic drivers than the more rural (though rapidly urbanizing) St. Lucie County (at least for now).

This analysis is useful in two findings about the use of incentives. The first key finding illustrates that as **development pressure moves north up the coast from increasingly built-out areas of Broward and Palm Beach Counties, the relatively lower land values in St. Lucie County present an opportunity to capture a larger share of regional growth through incentives**.

The second key finding is that despite its smaller size and county population, Port St. Lucie has constructed a successful series of incentives to accelerate the community's share of commercial investment. While unusually complicated in both range and application, the **policies and incentives enacted by Port St. Lucie to encourage development of Southern Grove have proven largely effective in attracting investment** and assigning assessment costs to the private sector. Both the Financial Scorecard (Technical Memorandum #3) and Economic Impact Analysis (Technical Memorandum #4) indicate the use of incentives, assessments, and other tools has drawn new employment and capital investment and reduced the City's overall debt obligations in the process.

While there can be refinements made as future deals are executed, **Port St. Lucie's current development incentives and assessments program should be considered successful**, particularly when viewed in the context of the City's smaller financial and economic capacity to address opportunities when compared to the five comparable city/county areas.

In analyzing the five comparable cities, the identified Target Industries were also considered. Florida's state-sponsored Qualified Target Industry (QTI) Program provided assistance for localities to pursue industries targeted for both local and state benefits in recruiting industry to the state. The state identified a range of economic sectors, and local economic development plans adopted those industries that best suited their local conditions. As illustrated in Table 2 (and likely affected by the core list developed by the state), the target industries overlap between the comparable cities.

We also note that within this range of industries, Port St. Lucie has particularly benefited from the presence of Cleveland Clinic to encourage location/investment by other institutional and professional Health Care investors. All of the other comparable cities have identified Life Sciences and Health Care as target industries.

## Table 2: Summary of Targeted Industries—Comparable Cities

| City of Cape Coral | City of Lakeland | City of Palm Bay | City of Pembroke Pines | City of Port St. Lucie | City of West Palm Beach |
|---|---|---|---|---|---|
| Medical Technology | Clean Technology | Clean Technology | Advance Materials & High Tech | | Agribusiness |
| Logistics & Distribution | Life Sciences | Life Sciences | Manufacturing | | Aviation/Aerospace |
| Manufacturing | Information Technology | Information Technology | Alternative Energy & Renewable Resources | | Financial Services + Hedge Funds |
| Aviation & Aeronautics | Aviation/Aerospace | Aviation/Aerospace | Aviation/Aerospace | | Corporate Headquarters |
| Life Sciences | Homeland Security/Defense | Homeland Security/Defense | Global Business Services | | Distribution & Logistics |
| Information Technology | Emerging Technologies | Emerging Technologies | Global Media & Production | | Equestrian |
| Emerging Technologies | Logistics/Distribution | Logistics/Distribution | Corporate HQ and Marketing Operations | | Clean Tech |
| Defense and Homeland Security | Corporate headquarters | Corporate headquarters | Human Resources & Higher Educ. | | Healthcare |
| Corporate Headquarters | Financial & Professional Services | Financial & Professional Services | International Trade & Logistics | | International Commerce |
| Financial & Professional Services | Emerging Technologies | | Life Sciences | | IT/Telecommunications |
| | Manufacturing | | Marine Industries | | Life Sciences |
| | | | | | Manufacturing |
| | | | | | Marine Industries |

***Source:** Cape Coral Economic Development Plan, 2019; City of Lakeland Target Industries, 2020; City of Palm Bay Economic Development Strategic Plan; City of Pembroke Pines, 2014-2019 Economic Development Strategic Plan (expired); City of West Palm Beach Economic Development Strategic Plan, 2018; RDS LLC; WTL+a, January 2021.*

**Port St. Lucie's use of incentives to attract Cleveland Clinic was a critical positive decision and one that should be protected and leveraged as the Clinic and its related businesses continue to grow**. It is a strong complement to the other industry sectors included in the pending manufacturing/research & development, such as Oculus Surgical, Inc., and logistics projects, such as Project Sansone.

To summarize the comparison cities' incentives with those currently (or in some cases, potentially) offered, the range of incentives available in each of the cities is illustrated in Table 3 (financial incentives) and Table 4 (policy incentives). The analysis indicates **Port St. Lucie is currently offering financial and policy incentives that are equal to those offered in larger, more populous, and more economically powerful counties**. While the population of individual cities serves as one basis for comparison, it is notable that Port St. Lucie has developed incentive programs that are competitive with counties that incorporate much larger economic engines.

It is noteworthy that despite the differences in economic scale and community contexts between the five comparable communities, **Port St. Lucie's incentives program was viewed with interest as a possible model for other communities.**

## Table 3: Comparison of Financial Incentives—Comparable Cities

| Financial Incentives | Cape Coral | Lakeland | Palm Bay | Pembroke Pines | Port St. Lucie | West Palm Beach | Notes |
|---|---|---|---|---|---|---|---|
| **CDBG Funds** | | | | | | | *Cape Coral:* CDBG used only for affordable housing<br>*Pembroke Pines:* Created small business COVID impact fund, but no awards yet<br>*Lakeland:* Affordable housing only<br>*West Palm Beach:* Mostly for affordable housing, but potentially available for other projects |
| **Ad Valorem Property Tax Abatement** | | | | | | | *Cape Coral:* Allowed in CRAs; plan to expand into other areas<br>*Lakeland:* 3-5 year, 30%-50% abatement for designated QTI businesses<br>*Palm Bay:* Available, but not frequently used (two examples); hope to expand<br>*West Palm Beach:* Has been used in the past |
| **Florida QTI Job Creation Grants**<br>***NOTE: Expired July 1, 2020 (Not Renewed)*** | | | | | | | *Lakeland:* Grants funded through State of FL<br>*West Palm Beach:* Business recruitment & development<br>*Pembroke Pines:* Applied but jobs not created, so not funded |
| **Local QTI Job Creation Grants** | | | | | | | *Lakeland:* Polk County grants supplementing state QTI grants<br>*West Palm Beach:* City funds participating match to County & State grants |
| **Industrial Development Revenue Bond (IDRB Financing)** | | | | | | | *Lakeland:* IRBs issued by Polk County to finance fixed asset investments for qualified manufacturers & non-profits; IRBs not allowed for working capital or inventory<br>*Cape Coral:* Only offered through Lee County |
| **Tax Increment Financing (TIF)** | | | | | | | *Palm Bay:* Bayfront & Business Improvement District CRA areas; $200,000 maximum TIF over 20 years<br>*Lakeland:* TIF for CRA Core/downtown; 5,000+ acres<br>*West Palm Beach:* Used extensively throughout CRAs |
| **'Synthetic' TIF** | | | | | | | *Cape Coral:* Trying to create public debt-financed project repaid by future increase in property values (ad valorem); no specified boundaries, no 'but-for' clause; requires public referendum approval |
| **Community Redevelopment Agency (CRA)** | | | | | | | *Cape Coral:* 1,070-acre Bayfront Community Redevelopment District; sunsets in 2024<br>*Lakeland:* Core Improvement area (CBD & adjoining districts)<br>*West Palm Beach:* Downtown/City Center CRA & Northwood/Pleasant City CRA |
| **Small Business Incentive Fund** | | | | | | | *Cape Coral:* COVID relief proposed for local small businesses<br>*Pembroke Pines:* See CDBG above |

## Table 3 (Continued): Comparison of Financial Incentives—Comparable Cities

| Financial Incentives | Cape Coral | Lakeland | Palm Bay | Pembroke Pines | Port St. Lucie | West Palm Beach | Notes |
|---|---|---|---|---|---|---|---|
| **HUB (Historically Underutilized Businesses) Zone** | | | | | | | *Cape Coral:* $1,500 cash rebates/job for new FT job creation, higher wage rates, construction impacts for renovation or new construction, community needs or catalysts in designated areas<br>*Palm Bay:* Creates contracting opportunities for businesses in designated areas ('Empowerment Contracting'); SBA qualifies by Zip Code; limited use to date, but hope to expand |
| **Business Improvement District (BID)** | | | | | | | Property tax surcharge dedicated to improvements & services within a designated boundary<br>*Palm Bay:* BID established in low-density commercial/residential district in 2018<br>*West Palm Beach:* Downtown Development Authority/DDA |
| **Sales Tax Reimbursement** | | | | | | | Depends on County; applicable if local Food & Beverage or Sales Tax enacted<br>*Palm Bay:* Proposed 1,000-acre PD requesting 1% retail surcharge for infrastructure |
| **Provision of Public Infrastructure** | | | | | | | *West Palm Beach:* City bond funds available for streetscape |
| **Infrastructure Reimbursements** | | | | | | | *Lakeland:* Negotiated on deal-by-deal basis<br>*West Palm Beach:* City will subsidize improved streetscapes within entitlements on a reimbursement basis |
| **Land Sale Price Discounts** | | | | | | | *Pembroke Pines:* City has acquired land at below market value & re-sold at market value<br>*West Palm Beach:* Mostly used for housing; Old City Hall redevelopment included reduced sales price to developer for specific mixed-use program, open space & design; City reduced sales price to cover 'gap' |
| **Florida Power & Light Job Creation Utility Incentives** | | | | | | | Energy use rebate to new companies creating permanent jobs; eligibility is confirmed through FP&L, credited only after jobs provided. In effect for comp cities, but no confirmed job creation to receive credits |
| **Electrical Use Rider (Phased Cost Reduction)** | | | | | | | *Lakeland:* Utility costs discounted for up to 5 years for business relocation/expansion through City-owned electric utility; ***unique to Lakeland*** |
| **Foreign Trade Zone** | | | | | | | *Lakeland:* 5-year declining credit for energy use for new/expanded businesses; City owns the Lakeland electric utility<br>*Cape Coral:* FTZ designation<br>*Palm Bay: Access through non-contiguous "key hubs" elsewhere in county*<br>*Pembroke Pines:* Designated but not renewed |
| **Opportunity Zone (Designated Area[s])** | | | | | | | *Lakeland:* Reductions in import/export duties & customs fees for raw materials & manufactured products<br>*Palm Bay:* OZ designated but located over 'preserve area', so not usable |
| **Cash Incentives for Job Creation & Business Relocation/Expansion** | | | | | | | *Cape Coral:* 2,750-acre Opportunity Zone; 8,900 vacant parcels; $1,500/job (min of 5 FT) for targeted industries<br>*Lakeland:* Up to $120,000/year in City rebates for job creation<br>*Pembroke Pines:* Will participate if County/State provide *credits/funds*<br>*West Palm Beach:* Job training assistance & relocation incentives |

***Source: City Websites; Interviews with Local Economic Development Staff; RDS LLC; WTL+a, January 2021.***

## Table 4: Comparison of Policy Incentives—Comparable Cities

| Policy Incentives | Cape Coral | Lakeland | Palm Bay | Pembroke Pines | Port St. Lucie | West Palm Beach | Notes |
|---|---|---|---|---|---|---|---|
| **Bonus Zoning for Public Enhancements** | | | | | | | *West Palm Beach:* Used to encourage public space development w/in entitlements<br>*Palm Bay:* Can be provided through Development Agreements |
| **Transfer of Development Rights (TDRs)** | | | | | | | *West Palm Beach:* Very successful in downtown area; City's TDR 'bank' is sold out. developers must purchase on open market. City has also sold TDRs to raise funds for historic Black church renovation |
| **Expedited Review & Permitting** | | | | | | | *Pembroke Pines:* Designated as a 'Platinum Review' city (through Greater FLL Alliance)<br>*Lakeland:* Expedited review process |
| **Impact Fee Mitigation (Credits/Refunds/Deferrals)** | | | | | | | *West Palm Beach:* Use City grants to reimburse for County impact fees<br>*Cape Coral:* Deferrals only, want to expand to other forms<br>*Palm Bay:* Can be offered through Development Agreements<br>*Lakeland:* Water & wastewater use, application & permitting fees |
| **Ombudsman Services for Entitlement Process** | | | | | | | *West Palm Beach:* 'Concierge' management of entitlements & permitting<br>*Palm Bay:* Coordinated through reorganization of Economic Development Department<br>*Cape Coral:* Management help with project entitlements & permitting |
| **TOTAL-Incentive Programs Offered:** | **6** | **14** | **7** | **6** | **13** | **16** | |

***Source: City Websites; Interviews with Local Economic Development Staff; RDS LLC; WTL+a, January 2021.***

## City of Cape Coral

Cape Coral is a largely residential city located across the Caloosahatchee River from Fort Myers, which, although it comprises only half of Lee County's population, is the commercial and governmental center for Lee County. Notably, Cape Coral currently has 8,900 vacant parcels and a 2,750-acre designated Opportunity Zone. The city offers job creation tax rebates for salaries above Lee County's average wage levels and incentives for job-creating business expansions and relocations. Road and utility impact fees can be deferred to fund infrastructure, and business development incentives are available within CRA boundaries.

Economic development incentives were described by the city's economic development staff as available on "a case-by-case basis". Cape Coral is also planning to establish a 'Synthetic' TIF, a revenue program that functions more like a traditional Tax Increment Financing mechanism but without establishing specific boundaries for a TIF district. It was uncertain when and how that will be created and implemented.

In several cases, the city's economic development staff was very interested in learning more about both Port St. Lucie's development incentives and also in comparing their programs to other comparable cities. All but Pembroke Pines have current economic development plans in place, both to identify target industries and to guide their use of incentives.

## City of Lakeland

Lakeland, located in Polk County, is positioned approximately halfway between the rapidly growing Tampa/Hillsborough County and Orlando/Orange County metropolitan areas located along I-4. The city also has several distinctive characteristics that differentiate it from other comparable cities and from Port St. Lucie. For example, Lakeland is a regional medical center with hospitals and medical specialties that account for significant growth in the Health Care sector. Lakeland is also the corporate headquarters of Publix, which generates more than $11.2 billion in annual revenues for its stores located throughout the Southeast U.S. The City of Lakeland also owns the local electrical utility, providing a unique electrical power rebate provided as an incentive for relocation and expansion of job-creating industries.

Polk County has also capitalized on its central Florida location on I-4 to incentivize significant recruitment and expansion of warehousing and logistics centers in the area between Lakeland

and Plant City (in neighboring Hillsborough County). The city has focused incentives on job creation and business/industrial recruitment linked to locational advantages and an available labor base.

## City of Palm Bay

Palm Bay's economic development program is relatively new, with a program director brought in to create and enhance available incentives. Many of the programs already in place in Port St. Lucie have not been tried or made available in Palm Bay. The city's economic development department is hiring outside brokers to assist in securing land sales and capital investment on City-owned surplus land. The Palm Bay City Council is being presented a proposed program in mid-February to consider ad valorem property tax abatements as part of a program of incentives and inducements. The city's source of infrastructure funding is based on a fair share impact fee, but it has not yet been used. Recognizing the need for additional infrastructure funding, a 1% retail sales tax is being proposed.

Notably, Palm Bay's designated Opportunity Zone overlaps with an adjoining municipality, but the portion of the Opportunity Zone within Palm Bay is located in a dedicated preserve area and will require revisions, if still applicable. The economic development director also noted another similarity with Port St. Lucie in that General Development Corporation (GDC) played a key role in residential development of the city in the 1960s, with similar development patterns in both. Due to its proximity to Cape Canaveral and the Kennedy Space Center, Palm Bay has joined with Melbourne and other nearby cities to focus on defense contracting, technology, and space-related industries.

## City of Pembroke Pines

In contrast to the larger cities, Pembroke Pines is at a much earlier stage in establishing economic and policy incentives. According to the city's economic development office, they are now investigating the need for incentives as a tool to attract investment to a largely built-out suburban municipality that extends roughly 14 miles along Highway 820/Pines Boulevard between Hollywood and the Everglades/Francis Taylor Wildlife Management Area. As a largely residential community with low density commercial strip development along primary arterials, Pembroke Pines has not traditionally offered development incentives. The city's economic development initiatives were primarily directed at land acquisition (including the former

Women's Prison site and North Perry Airport) and re-selling these parcels at higher prices. Pembroke Pines' 2014-2019 Economic Development Plan expired last year and has been funded to be updated, but the city is waiting for post-COVID conditions to become clearer. The plan may not be updated until 2022, and new incentives will be placed on hold until then.

### City of West Palm Beach

West Palm Beach is in a different position, having established itself as the major commercial and office center in Palm Beach County, and as a downtown retail destination in its central business district. Flanked by the Island of Palm Beach on the east and equestrian developments in Wellington and numerous approved Planned Developments in the central/western part of Palm Beach County, downtown West Palm Beach is a fully mixed-use area that includes 11,600 dwelling units; 1.66 million sq. ft. of office space (out of 14.1 million sq. ft. citywide) and more than 12,000 white-collar workers; five hotels; and 150 retail and restaurant businesses along Clematis Street and within Rosemary Square (formerly CityPlace).

The city's economic development focus has included façade improvements, building redevelopment incentives for older commercial structures, and a full range of other incentives (see Table 3 and Table 4). West Palm Beach has also implemented a successful Transfer of Development Rights (TDR) program in the downtown area, largely supported by ongoing development and increasing density. According to the West Palm Beach Economic Development Department, all of their available TDRs have been sold, and developers are requesting the City 'create new TDRs' to respond to unavailable supply on the open market. Unlike the other comparable cities, West Palm Beach is experiencing a rolling market for existing office space, residential demand and strategies to support and sustain post-COVID retail uses. However, the city's development incentive issues are more related to managing growth and demand rather than aggressively seeking to attract it. West Palm Beach offers the greatest number of the listed incentives, slightly more than Port St. Lucie and Lakeland.

## Land Disposition & Revenue Strategies

The City of Port St. Lucie has used a comprehensive series of land disposition programs and revenue strategies to market, sell, and incentivize redevelopment of land parcels in Southern Grove. Given the amount of debt assumed by the City for prior infrastructure commitments intended to enhance/capture value from redevelopment, it is not surprising that the complex web of assessments, fees, and various tools have been put into place. The range of financing and fee mechanisms currently structured for Southern Grove is considerably more complex than those undertaken in most comparably-sized cities.

These economic development tools were created to provide direct City revenues from the sale of City property; in some cases, transaction momentum has been enhanced by incentives (in the form of land value write-downs, generation of direct sales revenues at market value to "backstop" public debt, and/or generation of longer-term generation ad valorem taxes). The incentives and how they have been combined are specific to the particular needs and requirements of the intended purchasers and the negotiated solutions created to address them.

Real estate values are shaped by a number of variables that affect how the public sector can benefit. The City of Port St. Lucie has already incorporated many of the sophisticated tools needed for flexible responses to separate development opportunities, and these are illustrated by the three case studies in Technical Memorandum #3.

Among the annual assessments and fees the City is allowed to charge are the following sources used to pay for public bond obligations:

## Special Assessment Districts (SAD)

Port St. Lucie has used Special Assessment District (SAD) assessments to cover bond debt for improvements to the Southern Grove study area.

## Community Development Districts (CDD)

Community Development District (CDD) assessments can also be levied for community-wide improvements, such as road networks or district-wide infrastructure; operations and maintenance (O&M) fees can also be assessed. A CDD structure is in place in Southern Grove.

## Community Improvement (CI)

Community Improvement (CI) fees can be assessed on properties within Southern Grove for community-wide infrastructure improvements.

### District Improvement (DI)

District improvement (DI) costs can be recovered through an annual DI charge for infrastructure improvements within a specific district, benefitting only those parcels that are adjacent to those improvements. While this particular assessment has not yet been implemented in Southern Grove, it is within the rights of the City to install these fees, as applicable.

### Other Fees or Incentives

Other annual fees and/or development incentive funding can include stormwater management fees and credits for job creation or other public goods. However, we note the sources and uses of these fees and/or credits attributable to St. Lucie County do not originate with or provide revenues to the City of Port St. Lucie.

## Implementation Context & Recommended Action Steps

This section has two parts. The first is a conceptual overview of traditional land disposition alternatives for publicly-owned property and the potential relevance to Port St. Lucie. The second portion describes recommended implementation approaches and tools suggested for future consideration in Port St. Lucie for Southern Grove.

### Public Property Disposition Alternatives—Advantages & Disadvantages

Publicly owned property represents an asset held by city, state, national, or some other public entity that can be used to provide some form of public benefit. That benefit may take many forms, including but not limited to:

- Public open space
- Public parking
- Closing the economic gap on affordable housing through a reduction in land value
- Development of public services structures, educational, cultural, or recreational facilities
- Long-term expansion opportunities for future growth of public facilities
- Environmental areas such as wetlands, ecological/wildlife/plant conservation areas

- Securing or expanding key economic development goals, such as land development or job creation

To varying degrees, each of these 'public' uses serves to address a necessity and benefit for the general public, and it also constitutes a responsibility for governmental units, whether in protecting resources or providing leveraged redevelopment opportunities. In circumstances in which publicly-owned property could be redeveloped, increased in density, or significantly changed in its use, there are different options for the approaches to capturing that development potential.

The five primary approaches are:

### Government as Owner/Developer

Redevelopment by the governing public entity, which could range from a city government to a regional authority (such as a transportation authority, a parks authority or other), state or national government is a primary mechanism. In this case, the governmental entity would be the 'developer' of the site, with complete control, complete responsibility for financing and maintaining the facility, and future responsibility for management and operations of the facility, whatever purpose it may serve.

### Fee Simple Sale to the Private Sector

The public sector can sell property to private interests on a fee-simple basis, but it can restrict/incentivize redevelopment through tools such as zoning, density allowances, requirements of provision of public uses (such as open space, affordable housing, business start-up space, parking or other public facilities) to influence what is allowed to be developed.

### Ground/Land Leases

Publicly held land and/or facilities can be leased (most often on a long-term basis ranging from 50 to 99 years) to private entities for development/redevelopment. Under this approach, the underlying land remains in public ownership in exchange for a rental revenue stream (called a ground lease or land lease) paid by the private investors to the public sector owner. The value of that ground/land lease is negotiated, but it may also include a reversion clause in which any vertical development (buildings or other improvements paid for by the private sector lessor) would transfer back to the public entity at the time the ground/land lease term ends.

## Joint Venture Partnership

In a public/private joint venture, a legal partnership agreement is structured between public and private entities, where the public sector partner retains some share of the project equity as well as shares in the project risk (i.e., responsibility for a negotiated share of losses as well as gains) and any resulting benefits. The share percentages are negotiated and can include contribution of land as a minority equity share, but with the majority of risk, financing, and a greater percentage of profits allocated to the private investment partner(s).

## Public Private Partnerships ("P3")

This model, which has grown in public sector interest as a result of needs for public infrastructure over the past 10 years, is structured in a way in which the public sector negotiates some form of participation in a project with the intent to provide a clearly defined public benefit as a result of its participation. P3s, as they are commonly known, offer the widest range of negotiable components and have been expanding as a mechanism to leverage public resources (such as land, infrastructure, financing, or development policies) to achieve a public objective in a project that is typically financed, developed, and managed by private interests. Public/private partnerships can include consolidation of projects and services through private partners, including design/build contracts, build and transfer, ongoing project management, or other combinations over the term of the agreement.

Advantages and disadvantages and relevance to Port St. Lucie of each approach are summarized below.

## Government as Owner/Developer

***Advantages***

- Can take direct actions but within public approvals and available public funding
- Development programs can be fully public in nature without outside developer investment requirements
- Public buildings and projects are usually eligible for lower cost public financing (i.e., revenue or General Obligation bonds, capital investment budgets, etc.)

***Disadvantages***

- Limited precedents for government development other than public facilities (e.g., police and fire stations, schools, libraries, recreational facilities, government buildings such as City Halls, County buildings, state buildings, infrastructure); commercial development is not a core mission for governmental entities.
- The public sector is often less able to tightly manage budgets, cost overruns, and change orders
- To avoid overspending, quality of design and construction may be lower than privately developed projects
- The policy decision and implementation process may be affected by election cycles and changing priorities of elected officials

***Relevance for Southern Grove***

Unlike other comparable cities, Port St. Lucie has undertaken an active role as an owner/developer in response to the specific conditions surrounding the DRI and creation of the Government Finance Corporation (GFC). Through a complex web of incentives, inducements, tax and fee deferrals, and other tools, Port St. Lucie has expanded its tax base, attracted investor companies to develop raw land, reduced its responsibility for prior recurring debt obligations, and begun to counter its need for more jobs for area residents. While this role is non-traditional, Port St. Lucie is directly involved as a 'developer' and development-inducing government.

## Fee Simple Sale to the Private Sector

***Advantages***

- Straightforward transaction; many legal precedents
- Sales proceeds go directly to governing entity; up-front revenue boost
- Liabilities and other obligations shift to purchaser; can reduce exposure for some site conditions to public sector (assumes complete transparency in disclosures of environmental, tax liens, or other obligations attached to the property

- Public sector can influence project resulting from sale through zoning, density, and other property rights granted above existing zoning; provision of public funds can reduce costs of financing, land use restrictions, negotiated development proffers, etc.

***Disadvantages***

- Once a sale has occurred, any potential future value enhancements (beyond sale revenues and higher property taxes) transfer to private sector owner; a public asset once sold is no longer 'public'
- Establishment of post-redevelopment 'value' as a component of the sale price may be hard to balance against private negotiating positions
- If the city or county is approaching full build-out, land sales can increase future pricing of additional public facilities required by long-term growth; land (and particularly public land) is not infinite
- Government has less experience with commercial real estate and may not negotiate efficiently to reach a full and fair sales price; this is an issue if the public sector goal is to maximize/optimize revenue enhancement rather than another 'public' goal

***Relevance for Southern Grove***

Port St. Lucie has completed transactions for institutional, commercial, and residential projects within the Southern Grove planning area. Sales of sites have been directly negotiated by the City's representatives as well as working through commercial brokers to close land sales and attract new businesses and investment. To accelerate the pace of these transactions, a range of incentives have been negotiated and varied by site/deal structure. On a deal-by-deal basis, the near-term (up to 10 years) impacts have ranged in their impacts resulting from the incentives provided. However, as shown in the case study analyses in Technical Memorandum #3, the longer-term benefits resulting from increased ad valorem taxes are anticipated to provide significantly improved returns to the City of Port St. Lucie over time.

## Ground Lease/Land Leases

### *Advantages*

- Ground leases significantly reduce developer costs because the access to land does not require full purchase price
- Public entity receives ongoing revenues from ground lease agreement; lease rates can be flat (i.e., "predictable" for bond financing or other public revenue programs) or can include multipliers for inflation, value enhancements, etc.
- Public sector retains ownership of land over time
- Public sector retains any buildings and takes ownership of infrastructure or other 'vertical' development at end of ground lease term
- Depending on site size and context, development program can be negotiated to address designated public sector goals (e.g., affordable housing, public parking, open space, public facilities)
- Project can be completed with low investment by public sector
- Since land remains in public ownership, all private improvements are fully depreciable, improving return on investment (ROI) for private lessor/developer
- Depending on negotiated requirements, can obligate lessor to provide amenities and public benefits at reduced cost to public sector

### *Disadvantages*

- To achieve financing and investment, ground leases are long-term, usually minimum of 30 years and frequently 50 to 99 years; long term commitment means property unavailable for up to a century
- If the leasehold and improvements are sold before the ground lease term is up, the value may be lower than a fee-simple sale because of the more complicated ownership/control approach
- Because private sector lessors do not own the property, may require higher equity commitments or complicated lender subordination terms; public 'owner' is almost always subordinated to other financial participants due to risk allocations
- Private sector controls land and improvements throughout ground lease term; public revenues limited to negotiated lease amount

- If development programs/objectives are not met, or developer defaults during ground lease term, could become a management issue for future government entities, particularly if ground lease revenues are linked to other public financing instruments
- Liabilities should rest with lessor but may become an issue over time, depending on changing programmatic needs, environmental issues, or other legal concerns
- Overall project/property vertical improvement (buildings) values tend to become less and less over the term of the ground lease; vertical development typically is considered a diminishing asset

***Relevance for Southern Grove***

This approach has not yet been implemented in Port St. Lucie, although it might be considered over the longer-term, both as the City's debt is reduced and as the number of remaining available parcels is reduced (and potentially of higher value). To be fully beneficial, the specific location, land use(s) and types of buildings constructed and other factors involved in any long-term lease should be carefully considered and compared to other disposition approaches.

## Joint Venture Partnerships

***Advantages***

- If structured properly, joint ventures (JVs) can generate higher revenues to the public sector partner over the life of the agreement
- Public sector land can be capitalized as an equity commitment to the project, generating up front revenues and a revenue stream over time
- Developer risk is lower if part of the risk is shared by other partners, including public sector/government partners
- Revenues may flow to public sector partner, either based on cash flows or potential project sale
- Can be used to address public interests/public benefits

***Disadvantages***

- Governments may or may not be able to participate as Limited or Unlimited Partners depending upon state regulations

- Relatively few examples of JVs between governmental units and private development companies; more typical JVs occur between developers and investors, developers, and family trusts or institutions that want low risk, steady revenues over many years or corporate/institutional property owners and developers seeking access to properties with limited availability
- Calculation and distribution of net profits may require careful monitoring of cash flow, management costs, and developer overhead/fees under a JV agreement
- Liabilities are shared between public and private JV Partners
- Public JV partnership may be considered a liability for private sector financing due to political uncertainties
- Public sector JV partners must carefully structure terms of participation to avoid financial obligations in case of default, termination, or unanticipated 'put and call' provisions

***Relevance for Southern Grove***

As with ground leases, it would only be under certain circumstances that a Joint Venture partnership might make sense for the City of Port St. Lucie. Cities have sometimes worked with institutional and non-profit organizations/universities/research centers on a joint venture basis. A strictly commercial joint venture between the City and a private developer would be less likely due to potential liabilities, limited liquidity of public funds, or other factors.

## Public/Private Partnerships (P3s)

***Advantages***

- Maximum flexibility for the public sector in deal structuring; everything is negotiable
- Opportunity to leverage public funding and land use policies to attract private investors, developers, and managers
- Because the objective is to achieve some form of public benefit, most of the financial risk is assumed by the private sector partner
- Operational and implementation risks are transferred to the private sector partner from the governmental partner
- Depending on the structure of the partnership, the return on investment is typically spelled out in the contract, but final payment is often based on performance

- Under public/private partnerships both the public and private partners can do what each does best – the public side achieving some form of benefit for the public good (provision of public assets or services such as affordable housing, infrastructure, public open space or amenities, etc.); the private side is usually more efficient at cost containment, management of change orders, and commercial/market responsiveness
- Because of private involvement, quality of design, construction, and materials may be higher than on purely 'public' projects
- As appropriate, lower cost public financing mechanisms may reduce developer (and overall project) costs, which can improve feasibility
- Less public sector experience in commercial real estate may be an advantage for private interests to negotiate deal terms

***Disadvantages***

- Public sector may not achieve maximum/optimum deal terms due to private sector development experience and private assumption of greater risk
- Project scale may affect whether private interests can gain enough returns to participate; may be fewer prospects who want to deal with additional deal complexities and obligations
- Election cycles for public officials may be viewed as commitment risks by private investors
- While implementation under P3's may be more efficient, the time required to establish terms, negotiate, and execute a partnership agreement lengthens the process, which can increase initial 'carrying costs' for private interests
- Default or failure by private interests over time may become a public obligation for the governmental partner
- Real estate cycles and changing financial/capital markets can alter returns for private partners
- P3's require "patient money" from private partners; this may limit the field of potential developers willing to participate
- Limited and inconsistent prototypes in the U.S.; early examples of toll roads in multiple states and "sale" of parking meter revenues in Chicago demonstrated notable gaps in public sector negotiating capacity and/or negative outcomes.  While P3s are increasing as an implementation approach, recent history suggests careful and deliberate decisions by both public and private partners are necessary

***Relevance for Southern Grove***

Sometimes described as a future trend for governments, P3s seem to function best in more dense, urban environments with higher land values, more complex zoning and land use combinations, and greater pressure to provide public spaces and amenities. As with joint ventures and ground leases, this approach would be heavily dependent on a specialized project and deal structure and opportunity for the City.

# Recommended Public Incentives & Implementation Strategies

From an economic development perspective, Southern Grove includes an extraordinary level of complexity. Southern Grove's debt and financing obligations, the scale of the bond indebtedness the City inherited from the prior owner (Tradition Land Company), and the need to generate jobs for local residents have created the necessity of continuing new deals as an ongoing City priority. The urgency of the City's negotiations for property transactions during the master planning effort for Southern Grove has determined a direction in the types of land uses and potential returns-on-investment to the City of Port St. Lucie. While some of the uses desired by area residents (such as recreation and entertainment facilities) are not immediately poised for property sales agreements or specific tenant/users, the City's longer-term debt obligations will be supported by the deals negotiated to-date.

Because of the economic and financial burdens created by the City's bond obligations, the City has taken an aggressive and successful approach to land sales and use of incentives to attract investment; to attract new (or retain employment to the City); and to recruit new businesses to specific locations/parcels in the Southern Grove study area. By its nature, the goal of public debt reduction has been a necessary priority as well as an incremental economic development tool for the City. However, as more sites have been sold and an increasing share of public debt is paid down and/or renegotiated, it is timely to suggest other policies, programs, and strategies for redevelopment the City of Port St. Lucie could initiate over time.

The parameters for these approaches differ in the timeline in which they might be deployed and in the amount of potential revenue generated for the City. The suggested economic development strategies are not intended to change or replace the range of special assessments and other incentives currently used by the City of Port St. Lucie. Instead, other incentive tools as described below are intended to supplement current approaches and incentives and potentially offer other types of returns to the City in exchange for the relative risks that each carries.

As the City's financial and bonded debt levels for Southern Grove stabilize and a longer public investment horizon becomes possible, the following additional economic development incentives, strategies, and concepts are suggested for consideration.

## Use of Commercial Brokers to Market & Source Potential Buyers

This strategy has been used by the City in Southern Grove to market a package of parcels to individual buyers in the area south of the bio-medical/health district surrounding the Cleveland Clinic. A well-regarded local commercial broker and developer (Tambone Companies) was contracted by the City to market a block of Southern Grove parcels (comprising approximately 84 acres) to prospective owner/users. In the case of the recently-approved Sansone project, which was secured through Tambone Companies' services, the transaction includes an expected owner/user (who also absorbed the cost of infrastructure improvements) as well as adjacent parcels that are being marketed by Sansone on a secondary basis.

The contracted broker approach achieved several objectives:

- The pace of land sales and redevelopment was increased due to the network and commercial real estate contacts provided by the broker
- The City of Port St. Lucie benefited by a group of land sales that transferred multiple parcels
- Some initial costs were absorbed by Tambone Companies, which were reimbursed after the sale, reducing the City's risk and financial exposure
- Overall redevelopment was accelerated by combining multiple parcels, and
- New investment and job creation and new businesses were attracted to Southern Grove.

It is recommended that this approach continue to be available as needed to market as-yet unsold Southern Grove parcels.

## Land Value Write-downs

The City has completed several economic development-based property transactions in Southern Grove that include both reduced and significantly reduced land valuations. The recently-approved Sansone project agreement transferred those parcels at approximately the cost of infrastructure required for redevelopment. As described in Technical Memorandum #3, **land costs alone are not an adequate measure of economic benefit to the City of Port St. Lucie; reduced land values can accelerate and incentivize a redevelopment project** that creates jobs (such as the Oculus Surgical project), retain businesses and jobs (such as the Tamco/City Electric project), and create temporary construction jobs and retail spending generated by residents of new housing (such as the AHS multi-family project).

These (and other) projects have achieved other economic benefits, encouraged by reduced costs for the properties they occupy. As the availability of competing properties at this scale/size is reduced as locations south of St. Lucie County are built out, it may be possible to modify the degree to which minimum thresholds for land sales are reduced, although **it is *not* recommended that land write downs be eliminated from the tools available to close new economic development deals in Southern Grove**. While creating short-term differences in market value, the long-term ad valorem tax and economic development benefits generated far outpace the value of the write-downs themselves.

## Ground Leases

As described above, all of the completed real estate transactions in Southern Grove have been fee-simple sales, although most have also included one or more financial incentives such as ad valorem property tax abatements, deferral of impact fees or other special assessments, or other financial concessions. As the number of property sales and overall economics of the entire Southern Grove study area increase and offset public debt, it may become possible for the City to consider offering ground leases instead of sales for selected properties. Ground leases offer both advantages and disadvantages to both the lessor (the City of Port St. Lucie) and potential lessees (e.g., developers, businesses that want to construct and operate facilities).

For the City, ground lease revenues would stretch out over the number of years identified in the lease term, potentially exceeding the revenues generated at the time of direct fee simple sale. This revenue stream would most likely be structured as monthly payments in exchange for the lessee's right to make improvements, develop new buildings and facilities, and invest without having the impacts of up-front land acquisition costs. For the lessee, a monthly lease payment would reduce the initial capital investment and potential levels of debt required to complete the project since ground lease payments would be an ongoing operating cost.

The other aspect of a ground lease is that the City, as lessor, would not lose ownership of the property, yielding only the right to occupy and improve the site for the term of the lease. It is also a conventional part of ground leases that whatever buildings and improvements are made by the lessee during the term of the lease, these improvements convey back to the lessor (the City of Port St. Lucie) at the end of the lease. Buildings, landscape improvements, and other property enhancements can then be leased or sold to a different commercial prospect after the ground lease's expiration or termination.

A negative factor when considering ground leases is that the subject projects and improvements may be more difficult to finance for lessees. Generally, financial institutions like the simplicity and predictability of full property ownership because their risk is lower if the property can be resold in case the borrower defaults, goes bankrupt, or vacates at the end of the holding period. Under a ground lease, the fact that the underlying land is not owned by the lessee can create a different perception of risk, although a public owner should be considered less risky than a private/commercial owner.

The other major factor is the term of the ground lease, as the lease term should be as long as possible, often assumed to be up to 99 years. However, ground lease terms have been decreasing in length, particularly if the ground lease term can be linked to the depreciable life of the improvements (vertical development) made by the lessee. For example, a warehouse and distribution facility may only have a typical usable life of 30 or 40 years before becoming functionally obsolete. A ground lease that is tied to the expected usable life of the vertical improvements (such as a warehouse building) will not be as permanent as a 99-year ground lease, and it would provide more flexibility to the City over time without compromising the ability to finance buildings for the lessor. The lessor could still finance and depreciate the buildings, equipment, and other improvements but without the longer-term commitment of a 99-year ground lease.

Florida has precedents for creating ground leases for publicly-owned land with private commercial interests, both at 'market rate' lease values and at below-market rates as a form of development incentive financing. In Bradenton, Manatee County entered into a ground lease for development of a 252-room convention hotel adjacent to the Bradenton Convention Center. The ground lease term is 40 years, with up to two 10-year renewals at a rate of $1 per year. The hotel will generate potential customers/support for the convention center, create new jobs and local spending, and generate transient occupancy (bed) taxes. If the hotel closes or is sold during the first 20 years of the ground lease, a penalty fee of between $1 million and $5 million (depending upon the year of the closure or sale) is required to be paid to the County and is incorporated into the ground lease contract.

This Manatee County example may be an extreme one in its annual revenue concession, but it demonstrates that commercial development projects can be financed and executed without having the land ownership be part of the agreement. After the expiration of the ground lease, the property and improvements will revert to full ownership by the County. Other provisions in the ground lease agreement provide guarantees for provision of parking, insurance, and liabilities; maintenance and management quality; permitted and prohibited activities on the property; a covenant restricting land-use to a hotel; and risk factors such as rights for assignment and terms of default to protect the County as the ground lessor. In particular, the ground lease includes terms specifying there will be no subordination of financial obligations to protect the County's position as landlord of the property. A $60 million, eight-story 252-room Sheraton Hotel is to be completed in 2021 as a result of the ground lease deal.

This suggested ground lease strategy should be considered as a longer-term public investment option for future land transactions if the terms of negotiation will support it. It should also be noted that the City of Port St. Lucie would need to adopt the position that it would be in the land ownership business for the full term of entering a ground lease, implying that City staff will be administering and managing the lease agreement, payments, and ongoing status. Ad valorem taxes would still be generated on the vertical improvements; job benefits would accrue to the area; and at the end of the lease term, the City would own a marketable asset for re-lease or for sale, presumably at a higher price than the land might have generated if originally sold rather than leased.

## Joint Venture/Public Private Partnership

While it may be argued that the City's redevelopment efforts in Southern Grove have functioned as public/private partnerships (P3s) to achieve broader development and civic goals, the difference is in whether the City can (and is willing to) participate in more material ways. This participation could be exercised through provision of equity or capital in exchange for a share of overall project ownership and of a negotiated share of the revenues that ownership can generate. Precedents are limited, and this concept may be more than the City government and/or Port St. Lucie voters are willing to take on. Another complication is that because the City would be a participating partner in a development project, certain financial and other liabilities would also be assigned to the City, in exchange for it receiving a share of the project profits. While a full development partnership would be the most complex structure for this type of agreement, a contribution of City-owned land as a part of the project's equity could allow a larger financial return over time than an up-front, fee-simple sale.

This approach might be most applicable to development of a commercial recreation facility on City-owned land, which was identified as a strong desire by residents participating in the development of the Master Plan. Rather than selling or ground leasing the publicly owned land, the City could contribute its property as part of the overall development financing. Another form would consider using City-backed financing (potentially through a municipal bond) to underwrite some/all of the costs of construction of a recreational facility, then contracting with a commercial business/third-party to operate and manage the facility jointly with the City. In this way, the amount of initial capital investment required from a private operator could be reduced while still providing a new recreational facility (which could be a shell building through equipment or other accessories) as a public recreational benefit to Port St. Lucie residents. The specific terms of such an agreement would depend on multiple factors, including the level of financial and liability risk the City is willing to take; the use of public debt for a facility operated by a private commercial enterprise; and the willingness and capacity of the City to reach beyond traditional recreational management and programming to new models.

## Land Banking

When the City of Port St. Lucie acquired the Southern Grove study area, it was engaged in a remarkably large-scaled experiment in land development—from public ownership to private ownership that could be expected to meet public objectives to generate new ad valorem tax revenues and new jobs. As described previously, the City has successfully completed a number of transactions that met these public objectives. **The approach to reduce or eliminate**

**the infrastructure bond debt may be the most appropriate strategy for the remainder of the Southern Grove study area.**

However, as available land is sold, and the momentum of redevelopment increases, it may also become possible, over time, to slow the pace of transactions and to "bank" land to allow its value to increase. In many jurisdictions across the U.S., land banking has most often been utilized to (a) assemble parcels in deteriorating areas to allow development of less remunerative uses such as affordable housing, or (b) to preserve agricultural land in the face of redevelopment pressure in fast-growing areas. The latter has been used in Florida to 'reserve' agricultural and orchard land from development.

In the case of Southern Grove, the development cycle had already begun, and the area's need for new companies to create jobs for local residents has been partially realized among completed transactions. Whether in Southern Grove (e.g., reserving land proximate to Cleveland Clinic and the bio/health district for bio/health users) or in future growth areas of the western DRIs, it may be possible to hold land to wait for value appreciation and provide even greater returns to the City. The context for this type of land banking should be based on sustained growth and elimination of the infrastructure bond debt. It will necessitate some amount of time and multiple economic cycles before Port St. Lucie is positioned to 'bank' land for higher returns, but it is suggested for consideration as a future strategy.