

BACKGROUND

The Neighborhood Transformation Initiative Program Statement and Budget describes the programs and activities that the City will fund using bond proceeds issued under the previous Administration's Neighborhood Transformation Initiative and the interest earned on those bond proceeds.

The Neighborhood Transformation Initiative (NTI) was created in 2001 to rebuild and restore Philadelphia's neighborhoods. Funding for NTI came from three primary sources: tax-exempt bonds, taxable bonds and qualified redevelopment bonds (QRBs) that totaled \$296 million. These bonds were all issued by the Redevelopment Authority (PRA). See Figure 1 for details.

Figure 1

Sources

	May 2002	March 2005	TOTAL
Tax-Exempt	\$ 124,100,000	\$ 83,400,000	\$ 207,500,000
Taxable	\$ 18,500,000	\$ 25,000,000	\$ 43,500,000
Qualified Redevelopment	\$ -	\$ 45,000,000	\$ 45,000,000
TOTAL	\$ 142,600,000	\$153,400,000	\$ 296,000,000

Note: These amounts reflect the face value of the bonds and not their ultimate sales price. See Figure 4 for that detail.

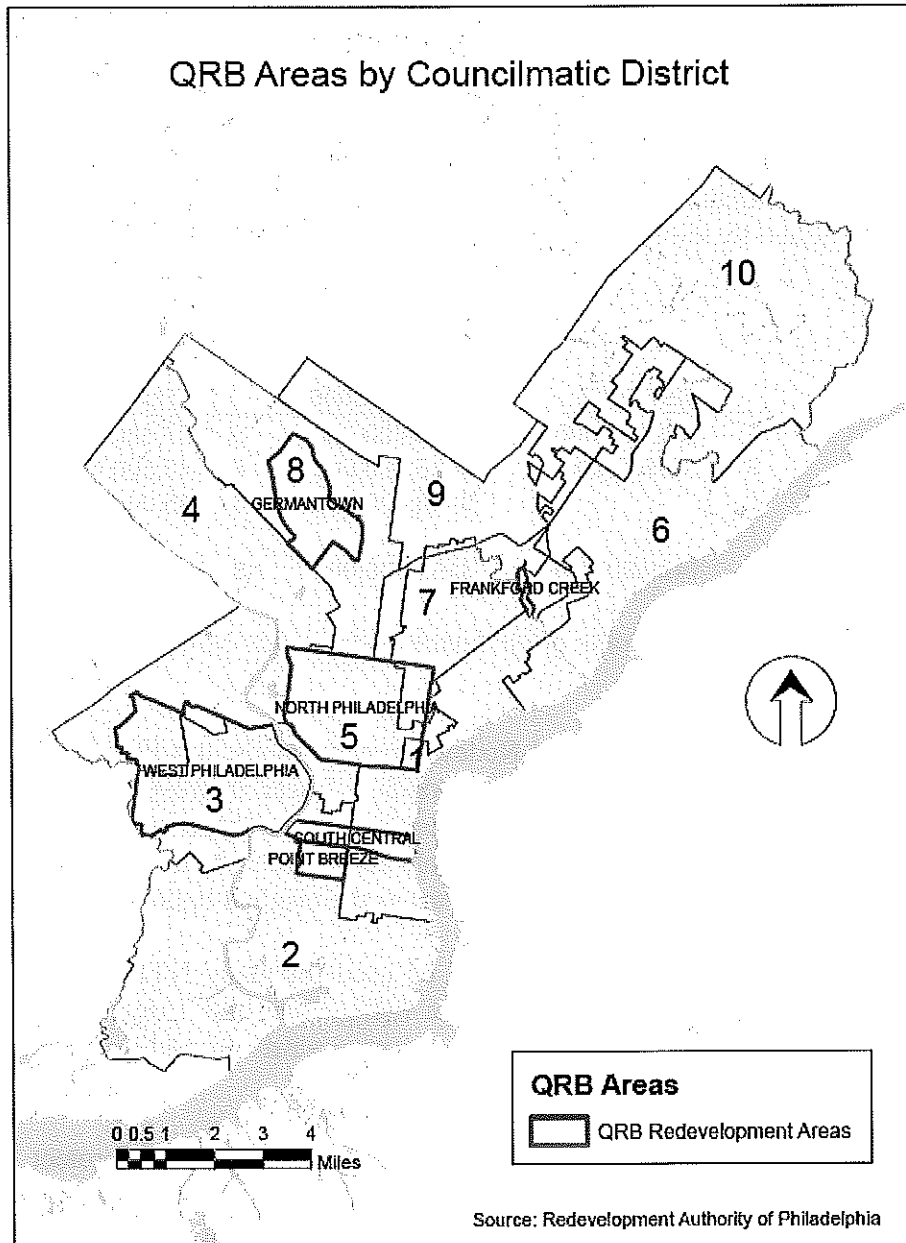
When it issued the tax-exempt and Qualified Redevelopment bonds, the PRA agreed to follow specific usage requirements that would give the bonds a lower interest rate and ensure the bondholders that the bonds would retain their tax-exempt status. Those usage requirements are listed below along with a description of how the taxable bonds are to be used. (Note: any interest earned on the bonds carries with it the same restrictions as the original bond proceeds.)

Taxable Bonds: Taxable bond money, which can be used for many NTI programs with few restrictions, has been spent on programs such as the PHIL Loan, the Targeted Basic Systems Repair, and the Home Ownership Rehabilitation Loan programs. In addition, more than \$25 million in taxable bond funds was spent on land acquisitions.

Tax-Exempt Bonds: Bond proceeds may only be used for activities that protect the health, safety and welfare of the public. Most of the tax-exempt money spent to-date has been on the demolition, stabilization and encapsulation of vacant, dangerous buildings. These funds may also be used to repair publicly-owned facilities and streets. Tax-exempt bonds may not be used to acquire property.

Qualified Redevelopment Bonds: Spending is restricted to specific activities (land acquisition, site preparation, rehabilitation and relocation expenses) in designated geographic areas. These city areas were agreed to by City Council before the bonds were issued in March 2005. (See Figure 2) Any property purchased using this money must then be disposed of at fair market value (unless the purchaser is a government entity).

Figure 2



In June 2014, City Council approved the FY15 Program Statement and Budget (Figure 3).

Figure 3 FY15 Program Budget—Passed by City Council

	Cumulative Budget	Cumulative Expenses	FY15 Budget
Demolition			
Residential Demolition	\$ 136,660,895	\$ 136,660,895	\$ -
Large Vacant Building Demolition	\$ 6,075,297	\$ 5,805,797	\$ 269,500
	\$ -	\$ -	\$ -
Land Assembly			
Land Acquisitions	\$ 77,470,859	\$ 58,737,350	\$ 18,233,509
Pilot Rental Rehabilitation Program			\$ 500,000
	\$ -	\$ -	\$ -
Housing and Neighborhood Preservation			
Vacant Property Stabilization	\$ 5,743,273	\$ 4,947,250	\$ 796,023
Retaining Wall, Alley Driveway, Curbs & Sidewalk,	\$ -	\$ -	\$ -
Repair and Reconstruction Pilot Program	\$ 2,422,156	\$ 2,180,783	\$ 241,373
CLIP Vacant Property Stabilizations	\$ -	\$ -	\$ -
Expanded Home Rehabilitation Program	\$ 6,000,000	\$ 6,000,000	\$ -
Expanded Philadelphia Home Improvement Loan Program	\$ 3,800,000	\$ 3,800,000	\$ -
Sub-Prime Anti-Predatory Loan Product	\$ 931,967	\$ 810,954	\$ 121,013
Employer Assisted Housing Program	\$ 2,560,944	\$ 2,560,944	\$ -
Targeted Basic System Repair Program	\$ 3,000,000	\$ 3,000,000	\$ -
NSP Enhancement Basic System Repair	\$ 1,500,000	\$ 1,500,000	\$ -
Basic System Repair Program - Tier II	\$ 31,877,924	\$ 31,877,924	\$ -
Teacher & Student Retention Program	\$ -	\$ -	\$ -
SHARP Home Repair Program	\$ 525,000	\$ 525,000	\$ -
Settlement Grant Assistance	\$ 4,300,000	\$ 4,300,000	\$ -
Preservation Development Initiative	\$ 250,000	\$ 250,000	\$ -
Adaptive Modification Program	\$ 11,750,000	\$ 11,750,000	\$ -
Historic Property Repair Program	\$ 1,457,500	\$ 1,457,500	\$ -
Affordable Rental Development	\$ 250,000	\$ 250,000	\$ -
Housing Trust Fund	\$ 1,500,000	\$ 1,500,000	\$ -
Equitable Development Strategy	\$ 1,600,000	\$ 1,600,000	\$ -

Commercial Corridor Support Initiative	\$	1,953,861	\$	1,953,861	\$	-
Homeless Preservation	\$	1,600,000	\$	1,600,000	\$	-
Vacancy Prevention (Tangled Tile Program)	\$	100,000	\$	100,000	\$	-
Foreclosure Prevention	\$	2,000,000	\$	2,000,000	\$	-
Affordable Housing Renovation	\$	2,200,000	\$	2,200,000	\$	-
Management Information Systems	\$	-	\$	-	\$	-
Land Tracking System	\$	1,005,012	\$	596,765	\$	408,247
Vacant Property Management Information System	\$	5,700,000	\$	5,700,000	\$	-
Additional Management Information Systems	\$	3,095,133	\$	3,095,133	\$	-
Other	\$	150,000	\$	100,000	\$	50,000
Total	\$	317,479,821	\$	296,860,362	\$	20,619,665

From 2002 until April 2015, the City of Philadelphia has spent over \$277 million worth of bonds and interest earned on those bonds to spend on a variety of NTI-related programs (See Figure 4).

It should be noted that the bond amounts stated in Figure 4’s “Deposits to Trustees” reflect the bonds’ actual sale price. When bonds are issued, they often command a market price that is higher or lower than their face value—this occurred with three of the NTI bond issuances and the amount of money deposited with the Bond Trustee differed from the face value.

As of 5/29/15, \$39,528,545 worth of bond proceeds and interest remain to be spent. As a result of the April 2015 refunding of the Tax Exempt and QRB proceeds that had been drawn down have been returned to the Trustee and will be managed by the Redevelopment Authority. The FY15 budget reflects all available funds.

Figure 4-BOND SOURCES

Sources	QRB	Tax Exempt	Taxable	Total
2002 Series		\$125,228,569	\$18,185,700	\$143,414,269
2005 Series	\$45,000,000	\$83,371,915	\$25,000,000	\$153,371,915
Interest Earned	\$5,033,387	\$13,191,609	\$2,172,746	\$20,397,742
Cumulative Expenses	(\$22,050,827)	(\$210,367,121)	(\$45,237,433)	(\$277,655,381)
Funds Remaining	\$27,982,560	\$11,424,972	\$121,013	\$39,528,545

PROPOSED FY2016 BUDGET

Since the FY2015 Program Statement and Budget was approved by City Council, the City and

PRA have refunded the Tax Exempt and QRB bonds, saving the City millions of dollars in future interest payments. As part of this refunding, the PRA and the City reconciled the Tax Exempt and QRB records, reallocated funds from completed projects and closed projects that had not expended funds. This reconciliation is accounted for in the FY16 budget.

Additionally, the FY16 budget reflects actual expenditures and not funds drawn down from the Trustee.

The PRA and the City have been advised that the remaining proceeds must be spent in a timely manner. Under typical circumstances, bond proceeds are spent within three (3) years of issuance. Ten (10) years have passed since the most recent NTI issuance. As such, the Executive Director and the City's Finance Director certified that the remaining bond proceeds could reasonably expect to be spent by March 2016. Without this certification, bond proceeds would have been redeemed and unspent dollars lost. Under these guidelines, however, any project receiving funds must be ready to move forward and the money must be spent, not simply obligated, by March 2016. To this end, the PRA reserves the right to reassign funds should any project meet unexpected challenges.

With these expenditure deadlines in mind, the FY16 Program Statement and Budget is expected to be the last budget presented to Council.

The Nutter Administration proposes the following budget for FY2016.

Figure 5-Funds Remaining to Expend (includes obligations and unallocated dollars)

Activity	QRB (including interest)	Tax Exempt (including interest)	Taxable	CDBG	Additional Land Sales/Liens	Total
Demolition of Dangerous Buildings		\$ 2,111,828				\$ 2,111,828
Land Acquisition	\$ 16,494,341	\$ 1,140,000		\$ 5,581,744	\$ 3,289,396	\$ 26,505,481
Site Preparation and Environmental Remediation	\$ 617,860					\$ 617,860
Emergency Public Safety Repairs	\$ 1,731,000	\$ 799,998				\$ 2,530,998
Renovation of City-owned Facilities	\$ 9,139,359	\$ 4,520,636				\$ 13,659,995
Technology		\$ 759,638				\$ 759,638
Commercial Corridor Enhancement		\$ 1,346,258				\$ 1,346,258
Housing Preservation		\$ 308,118	\$ 121,013	\$ 489,306		\$ 918,437
Community Planning and Capacity		\$ 243,818				\$ 243,818
Economic Development		\$ 194,678				\$ 194,678
Total	\$ 27,982,560	\$11,424,972	\$ 121,013	\$ 6,071,050	\$ 3,289,396	\$ 48,888,991

The remaining QRB and Tax exempt bond proceeds must be spent by March 2016. Failure to spend the remaining bond proceeds could result in significant penalties.

As such, all funds have been obligated to specific projects and the Redevelopment Authority will carefully monitor each project's progress to ensure the deadline is met. If, by November 30, 2015, a project has not made significant progress, the PRA may reassign those funds to another project.

Should a reassignment of QRB funds be necessary, the PRA has identified the Philadelphia Housing Authority's acquisition activities as an eligible project with the ability to meet the timing requirements associated with the funds.

Should a reassignment of Tax Exempt funds be necessary, the PRA has identified additional demolition of dangerous buildings and several economic development projects ready to begin as eligible projects that have the ability to meet the timing requirements associated with the funds.

The PRA will notify Council of any reassignment.

Acquisition Recycling Fund & Land Sales

Pursuant to a July 2005 agreement among the City, PRA and then-existing NTI office, an Acquisition Recycling Fund was established to leverage the NTI bond funds used to finance land assembly activities. Most of the property that the PRA condemns is tax delinquent and/or has other municipal liens recorded against it. When the PRA settles with an owner or in the case of abandoned property, the PRA pays the "just compensation" or the appraised value of the real estate into Court. The City then collects the outstanding municipal liens it is owed (the School District also receives a portion of the collected liens based upon an agreed upon formula), up to the appraised value of the real estate and deposits these proceeds into the Acquisition Recycling Fund.

On an annual basis, the Administration includes as part of the City's operating budget an amount equal to the share of delinquent real estate taxes and other municipal liens that will be collected from the Court. Liens are then made available to the Office of Housing and Community Development through a year-end transfer ordinance. Finally, the PRA invoices OHCD, which transfers the funds to PRA for future land acquisitions. The originating City Council district or City Significant is "credited" the amount of the lien.

An agreement is also in place that allows land sales proceeds to be similarly credited to either the originating Council district or City Significant.

As of May 29, 2015 approximately \$3.2 million in recycled liens and \$9.8 million in land sale proceeds have been allocated back to individual Council district and City Significant budgets. Some of these proceeds have already been used for various projects.

Allocations and obligations by Council District and Remaining Balances by Council District are detailed in Figures 6 and 7.

FIGURE 6 - Total Allocation of Remaining Sources

District	Original Allocation	Additional Land sales/liens/bond interest	Total Sources	Total Obligations	Total Remaining
1	\$7,025,000	\$1,117,464	\$8,142,464	\$8,142,464	\$ -
2	\$7,025,000	\$1,259,803	\$8,284,803	\$7,941,522	\$343,281
3	\$7,025,000	\$1,111,432	\$8,136,432	\$8,136,432	\$ -
4	\$3,475,000	\$94,960	\$3,569,960	\$3,569,960	\$ -
5	\$7,025,000	\$2,192,793	\$9,217,793	\$8,831,448	\$386,345
6	\$1,450,000	\$10,694	\$1,460,694	\$1,460,694	\$ -
7	\$7,025,000	\$469,101	\$7,494,101	\$7,310,186	\$183,915
8	\$7,025,000	\$139,985	\$7,164,985	\$7,164,985	\$139,655
9	\$3,475,000	\$51,165	\$3,526,165	\$2,976,766	\$549,399
10	\$1,450,000		\$1,450,000	\$1,450,000	\$ -
CS*	\$36,195,507	\$11,229,337	\$47,424,844	\$47,424,844	\$7,747,157
Grand total	\$88,195,507	\$17,676,734	\$105,872,241	\$104,409,301	\$9,349,752

FIGURE 7 - Remaining Unobligated Balances by Council District

District	QRB	DCED	CDBG	Land Sales	Liens	Total
1	\$0	BSRP	\$0	\$0	\$0	\$0
2	\$0	BSRP	\$0	\$343,281	\$0	\$343,281
3	\$0		\$0	\$0	\$0	\$0
4	\$0	BSRP	\$0	\$0	\$0	\$0
5	\$0	BSRP	\$269,337	\$117,008	\$0	\$386,345
6	\$0	BSRP	\$0	\$0	\$10,694	\$0
7	\$0	BSRP	\$183,915	\$0	\$0	\$183,915
8	\$0	BSRP	\$0	\$0	\$139,655	\$139,655
9	\$0	BSRP	\$498,234	\$0	\$51,165	\$549,399
10	\$0		\$0	\$0	\$0	\$0
CS	\$0		\$5,119,564	\$479,724	\$2,147,869	\$7,747,157
Grand total	\$0	\$0	\$6,071,050	\$940,013	\$2,349,383	\$9,349,752

Remaining DCED balances were transferred to the Basic Systems Repair Program.

Demolition and Vacant Property Stabilization

The City of Philadelphia's Department of Licenses & Inspections manages NTI-related residential demolitions.

All City Council District allocations related to demolition activity have been fully expended. These commitments were fulfilled using tax-exempt bond funds.

The remaining demolition activity will focus on imminently dangerous commercial and residential buildings as determined by the Department.

Land Acquisition

The PRA uses bond funds and NTI-related land sales proceeds to acquire land for development projects.

Acquisition requests have been evaluated by the Administration to ensure they are consistent with NTI's principles. The following criteria are used when evaluation proposals:

- Conform with strategic neighborhood plans supported by the City Planning Commission;
- Facilitate economic growth by building on market strengths and encouraging market-rate investments;
- Leverage City resources to the fullest extent possible by maximizing private investment, minimizing public subsidies and making investments that are linked to other public and private investments in an area; and
- Comply with the legal and financial requirements of the funding source, particularly when Qualified Redevelopment Bonds are used.

The Administration also considers criteria such as the developer's capacity and track record; the project's feasibility, budget and timeline; the source and amount of public subsidy, if any; leverage; and neighborhood context (e.g., consistency with neighborhood plans, suitable strategic reuse of the site, and likelihood of stimulating investment activities by others).

Land acquisition funds are also used for the following activities: advertising for public hearings, title searches, appraisals, and relocation costs.

Role of City Council

The acquisition and disposition of vacant property is carried out in accordance with applicable federal, state and local laws, including, but not limited to: Section 5-900 of the Philadelphia Home Rule Charter, Section 16-400 of the Philadelphia Code, the Urban Redevelopment Authority Law and Redevelopment Cooperation Law, and the Uniform Relocation Act.

Because the highest concentration of vacant properties is located in certified urban renewal and redevelopment areas, the aggregation of land for redevelopment will be subject to City Council review. For example, in order for the PRA to exercise its powers of eminent domain, the Urban Redevelopment Law requires City Council approvals for the following:

- Creation or modification of Redevelopment Areas;

- Redevelopment Proposal Plans to support condemnation of the property by the PRA, including the number of properties that will be condemned and the proposed reuse;
- Selling, leasing or transferring of any real property in a Redevelopment Area to a developer, regardless of the means of acquisition by the PRA.

Site Preparation and Environmental Remediation

The PRA will contract with independent contractors or will provide grants to other government agencies to survey, grade and clear publicly owned sites. Additionally, the PRA will contract with independent contractors or will provide grants to other government agencies to perform appropriate environmental testing and remediation to allow future development of publicly owned sites.

Emergency Public Safety Repairs

The PRA will contract with independent contractors to remediate dangerous conditions such as damaged sidewalks adjacent to publicly owned land, dangerous trees and retaining walls.

Renovation of City-owned Facilities

Working with City Council, the Department of Public Property and the Department of Parks and Recreation, the PRA has identified a number of publicly-owned buildings in need of renovation. The PRA will contract with independent contractors or will use existing staff to renovate and repair these structures.

Technology

Various technology needs have been identified including the capturing of planimetric and elevation data to more accurately reflect the City's current land use, ongoing updates of the City's Market Value Analysis, the update of core systems and technology upgrades to improve inspection services.

Commercial Corridor Enhancement

The Commerce Department will issue grants to corridors already identified through its Commercial Corridor Improvement program.

Housing Preservation

OHCD has prior-year obligations for various housing preservation activities. Additionally, the Administration will continue to work in the Sixth Councilmanic District on a Rental Rehabilitation Program. Grants of up to \$15,000 per unit will be offered to responsible landlords for property improvements. One-to-three unit properties are eligible for the program and the property must have appropriate zoning to be eligible. The landlord must be current in taxes, have appropriate licenses and have no long-term violations, unless the grant is being used to cure the violation. Eligible repairs include plumbing, heating, electrical, roof, doors and windows, structural repairs to make the building safe, curb and sidewalk repair/replacement. Tenants' income must meet federal low-income guidelines. Landlords must rent the property to low-moderate income households for a period of five years. The grant will be secured by a self-amortizing lien on the property, which will be satisfied 20% each year for a period of five years, as long as the unit is occupied by a low-moderate income tenant.

Community Planning and Capacity Building

OHCD has prior-year commitments for various community planning and capacity building activities. The PRA will also issue a number of grants to assist planning activities.

Economic Development

The PRA will issue grants to projects where the PRA has a reasonable expectation funds will be expended in the required time-frame and where, but for this additional economic support, would not begin. Projects receiving funds have been identified as key parcels for future growth of the surrounding neighborhood.

