



## JESSICA

### JOINT EUROPEAN SUPPORT FOR SUSTAINABLE INVESTMENT IN CITY AREAS

### JESSICA EVALUATION STUDY FOR SICILY



A large, abstract graphic in the center-right of the page consists of numerous thin, light blue lines forming a complex, three-dimensional geometric shape that resembles a twisted ribbon or a series of nested ellipses.

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## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	5
1. INTRODUCTION .....	16
1.1. THE JESSICA INITIATIVE WITHIN THE URBAN POLICIES OF THE 2007-2013 PROGRAMMING PERIOD .....	16
1.2. THE JESSICA MECHANISM .....	18
1.3. JESSICA IN SICILY AND THE OBJECTIVES OF THE STUDY.....	24
2. ANALYSIS OF THE URBAN SECTOR IN SICILY .....	26
2.1. QUALITY AND EFFICIENCY OF THE REGION'S URBAN SYSTEMS .....	26
2.2. THE IMPACT OF INTEGRATED PLANNING ON THE URBAN SECTOR .....	27
2.2.1. <i>The era of "Programmi complessi" in Sicily .....</i>	29
2.3. INNOVATIVE METHOD FOR INVOLVING PRIVATE INVESTORS.....	31
2.3.1. <i>Project Financing and Concession Contracts .....</i>	31
2.3.2. <i>Società di Trasformazione Urbana .....</i>	34
2.3.3. <i>FIPRS Fund .....</i>	36
3. SUSTAINABLE URBAN DEVELOPMENT IN THE OP ERDF 2007-2013 FOR THE REGIONE SICILIANA.....	37
3.1. STRUCTURE OF THE OP ERDF .....	37
3.2. URBAN DEVELOPMENT: MULTI-AXIS APPROACH .....	40
3.3. MECHANISM FOR THE IMPLEMENTATION OF PRIORITY AXIS VI (SYNTHESIS) .....	44
4. PLANNING PROCESSES AND URBAN PROJECTS UNDER WAY IN THE REGIONAL CONTEXT (IN THE PERSPECTIVE OF JESSICA) .....	47
4.1. STRATEGIC PLANS AND OTHER PLANNING INSTRUMENTS FOR SUSTAINABLE URBAN DEVELOPMENT .....	47
4.2. EMERGING PROJECTS AND MAIN THEMATIC AREAS .....	50
5. OPERATIONAL MODES FOR THE JESSICA HOLDING FUND IN SICILY .....	54
5.1. CONSTITUTION OF THE HOLDING FUND .....	54
5.2. THE FUNDING AGREEMENT BETWEEN THE REGIONE SICILIANA AND THE EIB .....	57
5.3. ACTIONS REQUIRED FOR BETTER OPERATIVITY OF THE JESSICA MECHANISM IN SICILY .....	60

<b>6. THE ARCHITECTURE OF JESSICA IN SICILY.....</b>	<b>66</b>
<b>6.1. THE ARTICULATION OF URBAN DEVELOPMENT FUNDS .....</b>	<b>66</b>
<i>6.1.1. Proposal for the case of Sicily .....</i>	<i>66</i>
<b>7. PLANNING "JESSICABLE" PROJECTS.....</b>	<b>72</b>
<b>7.1. THE SELECTION AND CONSTRUCTION OF JESSICABLE PROJECTS .....</b>	<b>72</b>
<b>7.2. PRELIMINARY ASSESSMENT OF SUSTAINABILITY AND DEFINITION OF THEPROJECT .....</b>	<b>73</b>
<b>7.3. STRUCTURING THE OPERATION.....</b>	<b>74</b>
<b>8. THE PILOT PROJECTS.....</b>	<b>77</b>
<b>8.1. THE SELECTED PROJECTS.....</b>	<b>77</b>
<b>8.2. SIRACUSA – REGENERATION AND REFUNCTIONALIZATION OF THE WATERFRONT OF THE PORTO GRANDE.....</b>	<b>78</b>
<i>8.2.1. Regional context .....</i>	<i>78</i>
<i>8.2.2. Range of action .....</i>	<i>79</i>
<i>8.2.3. Characteristics of the project .....</i>	<i>80</i>
<i>8.2.4. Functional programme .....</i>	<i>83</i>
<b>8.3. TRAPANI – NEW AUDITORIUM E RENOVATION OF PALAZZO LUCATELLI.....</b>	<b>85</b>
<i>8.3.1. Regional context .....</i>	<i>85</i>
<i>8.3.2. Range of action .....</i>	<i>85</i>
<i>8.3.3. Characteristics of the project .....</i>	<i>86</i>
<i>8.3.4. Functional Programme .....</i>	<i>89</i>
<b>8.4. CALTAGIRONE – CONSTRUCTION OF A HOSPICE AND A NEW HOSPITALITY STRUCTURE .....</b>	<b>89</b>
<i>8.4.1. Regional context .....</i>	<i>89</i>
<i>8.4.2. Range of action .....</i>	<i>91</i>
<i>8.4.3. Characteristics of the project .....</i>	<i>92</i>
<i>8.4.4. Functional programme .....</i>	<i>95</i>
<b>8.5. RAGUSA – RENEWAL OF VIA VELARDO TO ESTABLISH HOSPITALITY STRUCTURES, CATERING AND HANDCRAFTING ACTIVITIES .....</b>	<b>96</b>
<i>8.5.1. The regional context.....</i>	<i>96</i>
<i>8.5.2. Range of action .....</i>	<i>98</i>
<i>8.5.3. Characteristics of the project .....</i>	<i>100</i>
<i>8.5.4. Functional programme .....</i>	<i>103</i>
<b>8.6. PALERMO – CONSTRUCTION OF A NEW URBAN CENTRALITY – THE LOLLI- NOTARBARTOLO NODE.....</b>	<b>104</b>
<i>8.6.1. Regional context .....</i>	<i>104</i>
<i>8.6.2. Range of action .....</i>	<i>105</i>

8.6.3. Characteristics of the project .....	107
8.6.4. Functional programme .....	111
<b>8.7. "GREEN ENERGY" PILOT PROJECT .....</b>	<b>112</b>
8.7.1. Characteristics of the project .....	112
8.7.2. Functional programme .....	112
<b>9. ANALYSIS OF THE FEASIBILITY OF THE PROJECTS.....</b>	<b>114</b>
<b>9.1. NOTES ON THE METHOD OF ANALYSIS.....</b>	<b>114</b>
<b>9.2. SIRACUSA .....</b>	<b>116</b>
9.2.1. Structure of the operation .....	116
9.2.2. Detail of expected financial returns .....	118
9.2.3. Baseline scenario: economic performance without JESSICA .....	118
AGGREGATE FREE CASH FLOW CHART.....	121
9.2.4. Scenarios for the employment of JESSICA .....	121
9.2.5. Financial results and preferred JESSICA scenario.....	123
<b>9.3. TRAPANI .....</b>	<b>124</b>
9.3.1. Structure of the operation .....	124
9.3.2. Detail of expected financial returns .....	126
9.3.3. Baseline scenario: economic performance without JESSICA .....	126
9.3.4. Scenarios for the employment of JESSICA .....	129
9.3.5. Financial results and preferred JESSICA scenario.....	131
<b>9.4. CALTAGIRONE .....</b>	<b>132</b>
9.4.1. Structure of the operation .....	132
9.4.2. Detail of expected financial returns (Caltagirone) .....	134
9.4.3. Baseline scenario: economic performance without JESSICA .....	134
9.4.4 Scenario for the employment of JESSICA.....	137
9.4.5. Financial results and preferred JESSICA scenario.....	139
<b>9.5. RAGUSA.....</b>	<b>140</b>
9.5.1. Structure of the operation .....	140
9.5.2. Detail of expected financial returns .....	142
9.5.3. Baseline scenario: economic performance without JESSICA .....	142
9.5.4. Scenarios for the employment of JESSICA .....	145
9.5.5. Financial results and preferred JESSICA scenario.....	147
<b>9.6. PALERMO .....</b>	<b>148</b>
9.6.1. Structure of the operation .....	148
9.6.2. Detail of expected financial returns .....	150
9.6.3. Baseline scenario: economic performance without JESSICA .....	150
9.6.4. Scenarios for the employment of JESSICA .....	153
9.6.5. Financial results and preferred JESSICA scenario.....	155

<b>9.7. GREEN ENERGY PILOT PROJECT .....</b>	<b>156</b>
9.7.1. Structure of the operation .....	156
9.7.2. Detail of expected financial returns .....	158
9.7.3. Economic performance .....	158
<b>10. FINANCIAL RESULTS OF THE URBAN DEVELOPMENT FUNDS (UDF) AND THE HOLDING FUND (HF) .....</b>	<b>162</b>
<b>10.1. ANALYSIS OF THE SCENARIO WITH TWO GENERALIST UDF .....</b>	<b>164</b>
10.1.1. Financial results of the UDF .....	166
10.1.2. Results of the Holding Fund and Managing Authority .....	167
<b>10.2. ANALYSIS OF THE SCENARIO WITH ONE GENERALIST UDF AND ONE "ENERGY" UDF.....</b>	<b>170</b>
10.2.1. Financial results of the UDF .....	171
10.2.2. Results of the Holding Fund and the Managing Authority .....	173
<b>11. ROAD MAP FOR THE IMPLEMENTATION OF JESSICA IN SICILY .....</b>	<b>176</b>

## APPENDIX – “IMPLEMENTATION OF JESSICA IN SICILY: LEGAL PROFILES” (*Studio Legale Associato NCTM*)

## EXECUTIVE SUMMARY

### I. JESSICA INITIATIVE IN SICILY

JESSICA – an acronym for *Joint European Support for Sustainable Investment in City Areas*, is an initiative of the European Commission, in collaboration with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), to promote the development of financial engineering mechanisms – such as Urban Development Funds (UDF) and Holding Funds (HF) – in order to support sustainable projects, growth and employment in urban areas.

Thanks to this initiative, **the Managing Authorities of the Member States of the European Union have the power to decide to invest part of the allocations of the Structural Funds to sustain financial engineering mechanisms that can make repayable investments in favour of partnerships between the public and private sectors**, or any other party both public or private, involved in projects that are part of an “integrated plan for sustainable urban development”.

JESSICA is therefore not an additional source of funding for Member States, but an alternative instrument to handle the allocations of the Structural Funds, whose purpose is to generate a lever effect to create additional funding resources from the European banking or private sectors, to support processes of sustainable urban development in European cities.

In addition, **the revolving financing mechanism** used by JESSICA offers the opportunity to transform currently available funds, deriving from Operational Programmes, into a **permanent source of financing**, which may be subsequently reused for new urban development programs. This advantage appears even more evident in reference to the Member States that will have their EU outright grants curtailed during the next programming period.

The ERDF Operational Programme 2007-2013 of the Regione Siciliana, includes a Priority Axis within its own structure, **Priority Axis VI, specifically dedicated to sustainable urban development**, and an **explicit statement concerning the possible use of the JESSICA initiative** by the Managing Authority to enact the urban policies contained in this Priority Axis.

The initiative was formally launched in Sicily on **19 November 2009, the day that the EIB and the Sicilian Regional Government signed a Funding Agreement with the purpose of creating a Regional JESSICA Holding Fund**, to be managed and administered by the EIB, within which it would take the form of a “separate block of finance”.

The constitution of the Regional Holding Fund was made possible by the contribution of financial resources from **12 Actions of the ERDF OP** – for a total of € 148,068,359.00 – four of which refer to Priority Axis VI, and the rest to Priority Axis I (Networks and connections for mobility), II (Efficient use of natural resources) and III (Enhancement of the cultural identities and the environmental and landscape resources for tourist attractiveness and development).

This is the context in which this Study has been developed, with the purpose of accompanying the Regione Siciliana in the process of implementing JESSICA, selecting the best modalities and suggesting the actions to undertake to make the mechanism itself work best.

The objectives of the Study are, in fact, as follows:

- the quantification and qualification of the expressed and potential demand for JESSICA investments in Sicily
- the definition of the potential architecture of JESSICA in Sicily, in terms of the articulation and typology of the Urban Development Funds to be constituted
- to determine any critical areas and/or obstacles to the implementation of JESSICA, in light of the comparison between the potential demand for JESSICA investments and the financial resources converging into the Holding Fund (and the relative Activities of the original ERDF OP), and to analyze the different solutions that might be implemented to favour a more effective and fluid operation of the mechanism
- to analyze the procedure for including the JESSICA projects in the Integrated Urban and Regional Development Plans (PISU and PIST) in order to identify any critical areas and to suggest the corrections that the Regional Administration should make to help local government bodies in their applications for JESSICA funding.
- to illustrate a typical process of construction for projects to be financed through the JESSICA mechanism
- to conduct an analysis of the feasibility of six selected pilot projects, urban renewal projects that are representative of the projects currently being developed
- to simulate the financial results of the Urban Development Funds (UDF) and the Holding Fund (HF).

This Document also includes as an appendix the **Study “Implementation of JESSICA in Sicily: legal profiles”** - commissioned by the EIB to the law firm Studio Legale Associato NCTM – whose purpose is to examine a series of legal issues involved in the implementation of the JESSICA initiative in Sicily.

## II. SUSTAINABLE URBAN DEVELOPMENT IN THE ERDF OP SICILY 2007-2013

The structure of the Operational Program of the ERDF 2007-2013 for the Regione Siciliana, approved by European Commission Decision N. C(2007) 4249 dated 7 September 2007 – is divided into **seven Priority Axes. The seven Priority Axes are declined in Specific Objectives, each divided into Operational Objectives, subdivided into Activities.**

As highlighted earlier, the Priority Axes of the Operational Program include one priority axis, **PRIORITY AXIS VI, specifically dedicated to sustainable urban development**, the general objective of which is “to promote economic development, the capacity for attraction and innovation of the city with a view towards sustainable development and social integration”.

**This Axis**, which therefore represents the primary planning context within which to proceed with the implementation of JESSICA in Sicily, contains **no Activity specifically dedicated to projects of sustainable urban development that may be financed with the JESSICA mechanism**, though the use of the JESSICA mechanism is specifically included in the Operational Program for the enactment of urban policies included in the same Priority Axis.

**PRIORITY AXIS VI was assigned 11% of the total financial resources of the Programme.**

If on the one hand the amount of these resources appears undersized with respect to the general objective of the Priority Axis, on the other hand it is important to underline **that urban development is a common factor pervading the entire Operational Program**, given that all the

other Priority Axes include Actions that can contribute significantly to regional urban development.

In this sense the Guidelines for the enactment of PRIORITY AXIS VI state that the process of enactment of the Priority Axis itself << *must be viewed in relation to the enactment of the other Priority Axes of the ERDF OP – in particular the ones that benefit the Local Governments – taking into account the quantification of the allocated resources which, overall, are more congruous to the effectiveness of the strategies of innovation and competitiveness, compared to the limited amount of resources allocated to PRIORITY AXIS VI>>*.

Urban development therefore represents a general objective and an aspect that runs through the entire Programme, as demonstrated by the fact that the JESSICA Holding Fund of the Regione Siciliana was constituted with resources deriving from several different Priority Axes and by the circumstance that one of the instruments of implementation of Priority Axis VI is the inclusion of Actions belonging to other Priority Axes of the ERDF OP, which will contribute to financing urban and regional development projects, included in the Integrated Plans for Urban Development (PISU) and for Regional Development (PIST).

These Integrated Plans, in fact, are the instruments chosen for the implementation of Priority Axis VI and respond to the definition of “integrated plan for sustainable urban development”, the plan in which a project must be included in order to be eligible to apply for JESSICA investments.

In particular, the procedure for the enactment of Priority Axis VI establishes that the **Integrated Plans for Regional Development (PIST)** must be developed by Regional Coalitions, which gather municipalities of any size (both large and small) belonging to territories that are complementary in terms of allocation and vocation (the so-called areas of regional re-composition). The PIST must necessarily include the **Integrated Plans for Urban Development (PISU)**, which are the Integrated Plans developed by provincial capitals and municipalities with more than 30,000 inhabitants, and which must be coherent with the PIST they are included in.

The entire process therefore refers to the capacity of cities to work in a network with other regional groups, complementary in terms of allocation and vocation, and attributes a critical role to the larger cities, without which the entire operation for the reinforcement of regional cohesion and the capacity for negotiating projects that transcend the local level with regional Authorities would be undermined.

In reference to JESSICA, the procedure for the implementation of Priority Axis VI establishes that **the PIST must include, among others, projects for urban development and public-private partnership (PPP) initiatives, to be funded with resources from the Urban Development Funds activated thanks to the JESSICA initiative**.

The “JESSICA projects” must therefore be coherent with the strategy of the PISU/PIST they are included in, and with the JESSICA Actions which have contributed to the constitution of the Holding Fund.

The process of developing and presenting the Integrated Plans takes place in three successive phases<sup>1</sup> characterized by a procedure of negotiation/assessment, which includes verifying eligibility and assessing both the Integrated Plans as a whole, and the individual operations it consists of. The internal coherence and the correspondence to the objectives of the regional strategy for sustainable development is ascertained by the Regional Authorities. The negotiation/assessment procedure, which is activated in each of the various phases, produces a final output that consists in a ranking of merit for the operations eligible for outright grants, to be attributed to the Activities of Priority

<sup>1</sup> “First preliminary window” (deadline for the presentation of the documentation: 15 April 2010); “Second window” (deadline for the presentation of the documentation: 19 July 2010), “Third window” (deadline for the presentation of the documentation: 31 May 2011).

Axis VI and other Priority Axes of the ROP that will finance the operations included in the Integrated Plans (PISU and PIST).

On this subject, it must be underlined that the **JESSICA operations – those that apply for revolving or reimbursable investments and not for outright grants – are not subject to the above-mentioned negotiation/assessment procedure. However their inclusion into the Integrated Plans for urban and regional development (PIST and PISU) are the premise for their access to the selection and financing procedure conducted by the UDF.** It must be emphasized that this list of projects may be amended and added to by the Regional Coalitions in relation to specific operational requirements agreed upon with the UDF even after the presentation of the Integrated Plans, according to procedures to be established by the Regione.

### III. THE PLANNING PROCESSES AND URBAN PROJECTS UNDER WAY (THE PERSPECTIVE OF JESSICA)

In order to **quantify and qualify the potential and expressed demand for JESSICA investments in Sicily**, it was deemed important to conduct an analysis of the following aspects: (a) the urban renewal market, and the capacity of Sicilian Local Governments to manage “complex urban development programs”; (b) the involvement of private parties in the processes of urban renewal; (c) the projects developed by Sicilian Local Government.

Overall, in the most authoritative national rankings, Sicilian cities generally place among the worst performances in terms of quality of life and services. Nevertheless, the prevailing scenario in Sicilian cities nowadays is actually much more differentiated and, above all, characterized by a certain dynamic quality. In fact many Sicilian cities have made a systematic and continuous effort over the past two decades – thanks to the experience of the **“complex programmes” of urban development**, both national (promoted by what was then the Ministry of Public Works), and European (for example the URBAN I and URBAN II Community Initiative Programmes) - to conduct important urban renewal processes, which have had a positive impact on the quality and efficiency of urban systems. In particular, though there has been no definitive solution to serious problems such as air pollution, traffic congestion or waste disposal, much has been done by Sicilian cities to regenerate and revitalize historic city centres, which in most Sicilian cities are characterized by the concentration of valuable artistic and architectural assets. These processes have generally been effective in pursuing the twin objective of regenerating situations of social and economic blight, and in restoring and opening important assets of the artistic and architectural heritage; this has considerably increased their level of attraction, and as a corollary, the competitive edge of these cities. This systematic effort has led, though not everywhere and not always in a linear fashion, to a growing interest on the part of private investors in project typologies that are increasingly compatible with processes of sustainable urban development, such as the restoration and refunctionalization of historic buildings.

Finally the management of complex and integrated urban development programmes are an opportunity for the construction of partnerships, both inter-institutional and public-private, though the latter have found complete expression only in the “more virtuous” local contexts.

In reference to the planning initiatives expressed by Sicily, an examination was conducted of the projects included in various municipal planning instruments, primarily the **Strategic Plans** (municipal and inter-municipal), chosen by the ERDF OP Sicily 2007-2013 as the primary reference for the definition of Integrated Plans of Urban and Regional Development. The examination of many of the planning processes in Sicilian municipalities led to a selection of projects that could be transformed into “jessicable” interventions, which were then grouped into thematic categories.

Subdivision of the projects per thematic area (synthesis chart)							
THEME	N. Selected projects	% of total	N. projects complete with cost estimate	% of total projects relative to the same Theme	Resources requested € /Mln	% of total resources requested	Average cost per Project € /Mln
A - Environmental cleanup and Waterfront regeneration	24	18%	17	71%	1.502,312	56%	88,37
B - Conversion of historic and industrial buildings and brownfields	67	49%	45	67%	931,98	35%	20,71
C - Energy efficiency, renewable energy, waste management	10	7%	8	80%	56,086	2%	7,01
D - Sustainable urban mobility	23	17%	13	57%	85,461	3%	6,57
E - Support structures for entrepreneurship	4	3%	4	100%	58,55	2%	14,64
F - Infrastructure for sports and recreation	9	7%	7	78%	33,026	1%	4,72
<b>Total</b>	<b>137</b>	<b>100%</b>	<b>94</b>	<b>69%</b>	<b>2.667,415</b>	<b>100%</b>	<b>28,38</b>

**Theme A** presents the greatest demand for economic resources, given the complexity and the significant costs that on the average are involved in the regeneration of *Waterfronts*, whereas there is a clear numerical predominance of interventions classified under **Theme B**, which may be explained by the marked interest of Sicilian Municipalities for regenerating and repopulating the historic centres of their cities.

The demand for resources classified under **Theme C** appears underestimated, given that many of the projects for the restoration of historic and industrial buildings (Theme B), often include a component involving energy efficiency, energy savings and energy production.

The demand for resources for projects classified under **Theme D** is also underestimated, because only a small percentage of the projects selected actually have a cost estimate, and because this estimate does not include the planning components that can generate revenue.

**Themes E and F** gather the smallest number of projects. In the case of Theme E, this is because the selection was based on the existence of development and urban renewal components in the project. In reference to Theme F, despite a significant number of projects for the construction or renovation of sports facilities, the projects were selected among those that, within their complexity, could potentially include components that generate income.

#### IV. ACTIONS TO EASE JESSICA'S IMPLEMENTATION IN SICILY

The JESSICA regional Holding Fund (HF) was constituted with financial contributions linked to **12 Actions associated with 4 Priority Axes (I,II,III,VI) of the ERDF Operational Programme 2007-2013 of the Regione Siciliana**.

The involvement of the JESSICA mechanism in such a large number of Actions associated with different Priority Axes, is primarily due to the absence within the Operational Programme of one or more actions dedicated specifically to projects to be funded through the JESSICA mechanism, and to the fact that “Sustainable Urban Development”, to which Priority Axis VI is specifically dedicated, is in fact a theme that pervades the entire Programme.

This state of affairs, along with other particular factors of the ERDF OP of the Regione Siciliana, **entails the following constraints and complications in the operation of the JESSICA mechanism:**

- a) a) the specificity and level of detail in the ‘scope’ of the individual Actions involved represent an obstacle to JESSICA investments in projects that do not correspond precisely enough to the area of application of the Actions themselves;
- b) b) the fragmentation of the financial resources of the Holding Fund into multiple Actions creates rigidity in the JESSICA investments which, instead of being oriented exclusively towards the real demand expressed by the region, must also take into account the financial resources available for each Action;
- c) c) each Action has different “Eligibility Requirements” and “Selection Criteria”, which are often very specific and detailed, incompatible with the need for flexible project management through the JESSICA mechanism, and requiring that the various components of a “jessicable” project, which as part of an integrated plan of urban or regional development can be complex and multi-sectorial, comply with a series of conditions.
- d) d) The Actions involved specify different beneficiaries, which do not always include **Local Government** or public private partnerships (**PPP**), which, on the contrary, within the “Public Advisory of the second phase” relative to the implementation of Priority Axis VI, are identified as beneficiaries of the JESSICA investments...

This has led to a reassessment of the idea of re-planning the current configuration of the financial resources conferred to the Holding Fund, both in terms of their division among Actions and in terms of the creation of new and more generic JESSICA Actions that, compared to the present, could be applied in more flexible situations and therefore encourage the use of the JESSICA mechanism.

In this sense, it should be noted that the fact that the Document of the Operational Programme specifies the Actions (called activities in the OP) into which the operational Objectives are divided and lists the beneficiaries by Priority Axis, creates a barrier to the addition of a new Activity specifically dedicated to JESSICA inside the Priority Axes, to any change in the names of the Activities or to the inclusion of additional beneficiaries in the lists per Priority Axis already in the Programme.

In light of the above-mentioned possible critical points, **a series of possible strategies have been developed in detail to improve the operation of JESSICA in Sicily.**

The following two options have emerged, each of which can be structured differently as illustrated in the table below:

- **OPTION A – Amendment to the ERDF OP**
  - ▷ A1 - Amendment to the ERDF OP and creation of a JESSICA Action in Priority Axis VI
  - ▷ A2 – Amendment to the ERDF OP and creation of more than one JESSICA Action (1 Action for each of the Priority Axes involved – II,II,III,VI)
- **OPTION B – Amendment only to the document “Requisites of Eligibility and Selection Criteria”**
  - ▷ B1 – Amendment to the document “Requisites for Eligibility and Selection Criteria” and the simultaneous cutback in the Actions that have conferred resources to the HF
  - ▷ B2 – Amendment to the document “Requisites for Eligibility and Selection Criteria” with no imminent changes to the “configuration” of the HF.

The different amendment OPTIONS for better operativeness of the JESSICA mechanism in Sicily	
OPTION A1 Amendment to the ROP and creation of a single JESSICA Action	OPTION B1 Amendment to the document "Requisites of Eligibility and Selection Criteria" and the simultaneous cutback in the Actions that have conferred resources to the HF
<p>Advantages:</p> <ul style="list-style-type: none"> <li>▪ Offers maximum flexibility in the use of the resources that have been concentrated in JESSICA by the UDF, both in terms of the selection of the projects and in reporting expenditures.</li> <li>▪ It does not alter the current balance of governance: the Regional departments that are part of the Investment Board of the HF will also, jointly, serve as the Centre of responsibility for the new Action</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>▪ Implies a complex process to modify the ROP – which includes the reconfiguration of the structure of the programme (introduction of a new Action) and amendments to the Financial Plan (shifting significant resources between Priority Axes) – which appears as “reprogramming”</li> <li>▪ It loses the multi-axis approach to sustainable urban development, as the across-the-board objective of the Program.</li> <li>▪ Lengthy process to complete the procedure and obtain a Decision from the European Commission.</li> </ul>	<p>Advantages:</p> <ul style="list-style-type: none"> <li>▪ Does not require a change in the ROP and therefore the required Decision by the European Commission (shorter and less complex procedure than Option A)</li> <li>▪ Makes it possible to concentrate resources on Actions that are easier to use for investing in “jessicable” projects</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>▪ Does not allow full flexibility in the use of resources by the UDF</li> <li>▪ Limits operativeness in terms of the typology of projects that can be invested in</li> <li>▪ <i>(possible) limitations to the operativeness in terms of the typology of beneficiaries</i></li> <li>▪ requires a periodic recourse to “financial reformulations” between Actions that have conferred resources to the HF, or integration/substitution</li> <li>▪ alters the current balance in governance in the case of substitution or integration of the Actions in the HF that refer to different Regional Departments, and in the case of variations in their relative financial conferral to the Fund.</li> </ul>
OPTION A2 Amendment to the ROP and creation of JESSICA Actions in all the Priority Axes	OPTION B2 Amendment to the document "Requisites of Eligibility and Selection Criteria" with no imminent amendments to the configuration of the HF
<p>Advantages:</p> <ul style="list-style-type: none"> <li>▪ ample flexibility in the use of the resources conferred to JESSICA thanks to the creation, within all the Priority Axes involved (I, II, III, VI) of specific easy-to-use Actions</li> <li>▪ The amendment of the ROP has relatively less impact than in Option A1, because it does not require a reformulation of the financial Plan (no resources need to be shifted between Priority Axes)</li> <li>▪ Maintains the multi-axis approach to sustainable urban development, as an across-the-board objective of the Programme</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>▪ The UDF must take into account the division between Priority Axes in the use of their resources.</li> <li>▪ Lengthy process to complete the procedure and obtain a Decision from the European Commission.</li> </ul>	<p>Advantages:</p> <ul style="list-style-type: none"> <li>▪ does not require amendment to the ROP and therefore a specific decision by the European Commission (a shorter and less complex procedure than in Options A1 e A2)</li> <li>▪ postpones the reduction, substitution, integration of the Actions that have conferred resources to the Fund and the variation of the relative conferrals until the demand is effectively ascertained.</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>▪ does not provide total flexibility in the use of the resources by the UDF</li> <li>▪ limits the operativeness in terms of the typology of projects that can be invested in</li> <li>▪ <i>(possible) limits to operativeness in terms of the typology of beneficiary</i></li> <li>▪ requires a periodic recourse to “financial reformulations” between Actions that have conferred resources to the HF, or integration/substitution of them</li> <li>▪ alters the current balance in governance in the case of substitution or integration of the Actions in the HF that refer to different Regional Departments and in the case of variations in their relative financial conferral to the Fund.</li> </ul>

## V. THE ARCHITECTURE OF JESSICA IN SICILY

The definition of the most advantageous architecture for JESSICA in Sicily implies the choice of the number and typology of the Urban Development Funds that will be activated and, as a corollary, the definition of their respective financial endowment, conferred by the Holding Fund.

The analysis of the advantages and disadvantages of UDFs specialized by (a) regional context, (b) investment sector or (c) form of investment (loans, equity, collateral) – carried out in the light of the regional diagnosis that examined the characteristics of the various regional areas, the existing projects, the capacity of local authorities to manage complex urban regeneration programmes, and the involvement of private parties in these programmes – has led to the formulation of two alternative hypotheses for the most advantageous architecture of the UDF.

The first hypothesis (Scenario A) matches the Holding Fund with **two Urban Development Funds, competent over the entire regional territory, each with identical endowments, multi-instrument (operating primarily with loans and equity) and with a multi-sectorial project competence.**

### Error! Objects cannot be created from editing field codes.

The competence of the Funds over the entire region of Sicily can encourage the sharing of *best practices* between the different projects financed in various areas of the Region. In addition, the presence of two UDFs operating throughout the region in the same investment sectors, is the condition required to create healthy competition between the two Funds, which would have greater incentive to stimulate the demand for JESSICA investments, thus contributing to the success of the initiative.

With regard to the lack of specialization of the two Funds under consideration, it should be pointed out that it is still possible, within each of them, to bind the destination of the JESSICA resources by investment sector or by regional context or “target areas”, in compliance with the investment strategies of the Holding Fund established by the Investment Board. With regard to the idea of creating “dedicated” Funds for a specific regional area and investment sector, establishing its financial assets before it becomes operative on the territory, this solution makes it possible, over time, to modify the destination of the resources, based on changes in the investment strategies and on the actual demand for investment encountered in the region.

The second hypothesis (**Scenario B**) considers **the advantage of creating two Funds with competence over the entire regional area of which one is a generalist (multi-sectorial) Fund with a larger endowment, in the amount of € 90-100million, and the other a Fund specialized in the energy sector, with an endowment equal to the remaining resources (< € 48 –38 million).**

A Fund specialized in the energy sector, despite its smaller amount of resources, would nevertheless be appealing to the market of financial operators for two reasons:

- the specialization in the energy sector would lead to a standardization in the processes of evaluating and structuring operations, and a simplified reporting process, allowing the Fund to realize scale economies and subsequently reduce costs;
- the demand for investment in the energy sector is potentially high and can grow over time, thanks to the advisory work and project scouting that the UDF can carry out in the region.

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## VI. THE PILOT PROJECTS

Within the study, 6 pilot projects were developed with the purpose of illustrating the planning process for urban development initiatives to be financed with the JESSICA mechanism, and to simulate the workings of the proposed structure (Holding Fund – UDF) on the basis of the financial results observed in concrete cases. The projects were planned in collaboration with the Municipalities involved, on the basis of the proposals and planning capacities developed within the administrations and coherent with the strategic directions adopted by these Municipalities. Five Municipalities were involved, each with one project; four of them are provincial capitals, in 5 distinct provinces: Siracusa, Trapani, Caltagirone (CT), Ragusa and Palermo. The exercise conducted with the Municipalities, selected on the basis of the quality of their planning initiatives and their general “administrative capacity”, consisted **in structuring planning packages that are based on the development of public facilities, but integrate components capable of producing revenue.**

A hypothetical pilot project was also developed **for a programme to improve the energy efficiency of municipal buildings used by a Sicilian city Administration**. The reason for this simulation lay in the urgency of illustrating, even on the basis of an example, how JESSICA can support projects involving energy savings and efficiency.



**CALTAGIRONE:** Construction of a Hospice and a new hospitality structure

**PALERMO:** Construction of a new urban centrality – the Lolli Node

**RAGUSA:** Urban renewal of Via Velardo to establish hospitality structures, catering and handcrafting workshops

**SIRACUSA:**

**Regeneration and re-functionalization of Porto Grande**

**TRAPANI:**

**New Auditorium and renovation of Palazzo Lucatelli**

As shown in the following table, all the projects contribute significantly to sustainable urban development, and generate positive cash flows that can potentially pay back the initial investment over time.

Name of project	IRR <sup>2</sup> and Payback <sup>3</sup> for project	Investment (€/thousand) and financial structure	Invested JESSICA resources	IRR and Payback <sup>4</sup> Private partners	IRR and Payback comm Debt
<b>Siracusa</b> - Regeneration and re-functionalization of the Waterfront of Porto Grande	7.03% 16 years	€ 26.414 35% Equity 65% Debt	€ 12.150 <i>Equity + Debt</i>	8.37% 18 years	7.84% 8 years
<b>Trapani</b> – New auditorium and re-functionalization of Palazzo Lucatelli	8.37% 14 years	€ 13.877 45% Equity 55% Debt	€ 5.343 <i>Debt</i>	10.40% 14 years	7.84% 6 years
<b>Caltagirone</b> – Construction of a new Hospice and a new hospitality structure	8.48% 14 years	€ 11.105 30% Equity 70% Debt	€ 3.887 <i>Debt</i>	12.14% 14 years	6.94% 8 years
<b>Ragusa</b> – Urban renewal of Via Velardo to establish hospitality and catering structures and handcrafting workshops	7.37% 15 years	€ 13.551 40% Equity 60% Debt	€ 6.288 <i>Equity + Debt</i>	9.09% 15 years	6.34% 6 years
<b>Palermo</b> – Construction of a new urban centrality in the Lolli area	6.66% 6 years	€ 195.770 50% Equity 50% Debt	€ 48.460 <i>Equity + Debt</i>	7.97% 6 years	5.52% 4 years
<b>Pilot case</b> – Energy savings and self-production	5.85% 13 years	€ 2.482 100% Debt	€ 2.234 <i>Debt</i>	-	2.0% <sup>5</sup> 4 years

In each of these cases, the intervention of JESSICA in the form of debt or a blend of debt and equity, depending on the specific characteristics of the project, is decisive for the actual feasibility of the development operation, in two ways:

<sup>2</sup> The **IRR**, the Internal Rate of Return, is the rate of financial return on an investment. It is a composite annual effective rate of return generated by an investment; in technical terms it represents the yield of an investment.

<sup>3</sup> The **PAYBACK PERIOD** is the period of time required for a capital investment to produce returns that can compensate its cost.

<sup>4</sup> The IRR of the investors is considered net of the construction margin.

<sup>5</sup> The rate of return of the commercial bank indicated here is represented by the rate of interest applied to the disbursement of the loan for the realization of the project. It was estimated at 2% because this value represents the variable rate of interest applied on the average to local governments for operations with this level of risk.

The intervention of JESSICA in the form of debt, at rates that comply with the current legislation on State Aid, makes the operation more attractive for potential private investors, increasing their prospects of return.

The intervention of JESSICA in the form of both equity and debt, to cover a significant portion of the financial needs of each project, is a decisive element to reassure other potential financial subjects, whether they invest directly or provide credit.

## VII. RESULTS BY MANAGING AUTHORITY, HOLDING FUND (HF) AND UDF

From the point of view of the Managing Authority, the introduction of the JESSICA mechanism offers considerable advantages. In both cases under examination (the activation of two generalist UDF / of one generalist UDF and one in the energy sector), given an initial conferral to the Holding Fund of approximately € 148 million, **the resources that may be activated for sustainable urban development projects are forecast at over € 325 milion**. In both cases, the forecast is that **50% of the value of the initial conferral will be paid back to the Managing Authority as early as the eighth year** after the constitution of the Holding Fund, and that this figure will rise to 80% between the twelfth and the thirteenth year.

For the Holding Fund, the two simulations show an IRR of 6.04% with payback after the twelfth year (in the case of two generalist UDF) and an IRR of 5.27% with payback at the thirteenth year (in the case of a generalist UDF and a UDF in the energy sector).

The performance of the hypothesized UDF, based on a portfolio of funded projects constituted by different combinations of the pilot projects analyzed by the study, varies from a IRR of 10.45% (with payback after four years) to an IRR of 14.23% (with payback after six years). This result considers that management fees will decrease progressively in the years following the construction of the projects, and that the projects will be co-financed with their own resources (at market conditions) in the measure of 60% to 100% of the resources received from the Holding Fund.

An exception is the case of the UDF dedicated to projects in the energy sector which postulates a more modest rate of co-financing (10%) to allow local Administrations to take out loans directly to fund projects for energy efficiency and self-production. In fact the debt referring to resources derived from the ERDF OP has no impact on the closing balance of the Administrations, which counts to determine compliance with the internal Stability Pact, unlike the loans involving the resources of the UDF.

Below are two tables that summarize the overall performance of the JESSICA mechanism in the two implementation scenarios postulated by the Study.

.2 Generalist UDF - Summary Table				
	Total resources conferred to the HF	Total JESSICA resources invested in the projects	Total investments activated	Total fees paid <sup>6</sup>
Overall values	148.068.359	120.502.683	357.827.782	26.652.374

<sup>6</sup> The sum in the “Total fees paid” box, in the two charts, indicates the amount of fees and management costs paid to the HF and to UDFs over the entire life of the Funds, imagined, for the purpose of this Study, of 30 years.

1 Generalist UDF + 1 energy sector UDF - Summary table				
	Total resources conferred to the HF	Total JESSICA resources invested in the projects	Total investments activated	Total fees paid
Overall values	148.068.359	122.207.334	325.073.830	24.388.676

## 1. INTRODUCTION

### 1.1. THE JESSICA INITIATIVE WITHIN THE URBAN POLICIES OF THE 2007-2013 PROGRAMMING PERIOD

One of the principal new features introduced into the 2007-2013 European Community programming period, as far as the sector of urban development is concerned, is undoubtedly the JESSICA initiative.

JESSICA – an acronym for Joint European Support for Sustainable Investment in City Areas is a joint initiative of the European Commission and the European Investment Bank (EIB), in collaboration with the Development Bank of the European Council, to promote the development of financial engineering mechanisms to support sustainable projects, growth and employment in urban areas.

Thanks to this initiative, **the Managing Authorities of the Member States of the European Union can invest part of the allocations of the Structural Funds to make repayable investments in projects that are part of an integrated plan for sustainable urban development.**

In the intentions of the Commission JESSICA is the financial instrument through which European cities can procure and manage the funding required for ambitious urban renewal projects, to be implemented on the basis of the approaches which were developed and became common practice in previous programming periods thanks to the URBAN initiative, which was not renewed for the seven-year period 2007-2013.

The important new challenges that European cities must face, in the old Member Countries and in the newer entries to the EU, as both engines of competition and innovation and as the catalysts for social cohesion and environmental responsibility, therefore represent the scenario in which the JESSICA initiative was launched and is currently being developed.

The meaning of the European Commission and the EIB's efforts to introduce and spread new financial mechanisms to stimulate sustainable urban renewal lies in the following motivations:

- **Sustainable urban development is one of the priority objectives of the programme of European Structural Funds for the 2007-2013 programming period, instrumental to the pursuit of cohesion and competitiveness in the extended European Union.<sup>7</sup>** From this perspective, the Regulation for the management of Structural Funds during the 2007-2013 period, introduced two innovative components to ensure an effective urban renewal policy: a) the provision that the urban dimension must be specifically developed in the programming

<sup>7</sup> The premise (13) of EC Regulation 1083/2006 states "Given the importance of sustainable urban development and the contribution of cities, especially medium-sized cities, to regional development, it is important to give them greater importance by enhancing their role in the context of the programming in order to promote urban revitalization".

documents (Strategic Reference Frameworks, Operational Programmes); b) instruments of financial engineering for the promotion of sustainable urban development (“Urban Development Funds”). The Leipzig Charter on sustainable urban cities (June 2007) also confirms and advances the key role of urban policies in the pursuit and, above all, the integration of the EU macro-objectives of cohesion and competitiveness. The guidelines of the Leipzig Charter, unanimously shared, are the result of a lengthy process of discussion within the European Community concerning the future role of cities and their perspectives for growth. A double role is attributed to European urban areas, each at their own scale and following their specific prerogatives, as both engines of development and innovation (Lisbon Strategy), and leaders in environmental sustainability and the reduction of polluting emissions (Göteborg Strategy).

- In earlier programming periods, the urban sector was considered a potential catalyst for substantial private investment, but proved insufficiently prepared to orient the market towards high quality renewal/regeneration projects, which could significantly increase the capacity for attraction of European cities. The “**urban renaissance**” phenomenon which has emerged in recent years in most Member Countries, though with varying degrees of intensity and effectiveness, **still depends primarily on the incentives constituted by public investments and grants**. In some countries, Great Britain in particular, complex forms of public-private partnership have long been used to structure and implement urban renewal operations. Nevertheless, orienting private operators and big investors towards integrated projects in areas that often have enormous potential, but are less attractive, remains a thorny problem for all the countries of the Union.
- **The demand for financial resources to invest in the transformation of cities is constantly rising**; one of the reasons is that problems which have long been neglected, such as urban mobility, the housing crisis and environmental decay, are becoming more and more acute: a solution to these problems can no longer be delayed, at the risk of further and unsustainable degeneration in the management of urban functions. On the other hand, cities today cannot limit their ambitions to improving the quality of services and the efficiency of their urban context. The current European and global scenario stimulates a virtuous competition between cities and is a driving force in the search for new identities and specializations, based on excellence, and in the consolidation of alliances and complementary relationships between cities, and between urban and rural areas. In this context the cities must know how to invest more incisively both on the exploitation of their assets and on their capacity to attract exogenous resources.
- **The progressive enlargement of the European Union to relatively underdeveloped countries is imposing a particularly cautious utilization of the limited resources from structural funds in the older Member States**. In particular, there is a need for radical change in the approach with which Structural Funds are invested. Rather than using them as grants, **the contribution from the European Union (and the public sector in general) must be considered as financial leverage for garnering private resources**. From this point of view, the Structural Funds must not only serve as catalysts for composite investment packages, but must be used to optimize the productivity of the investment, so that in the long run, they may be regenerated and reused for new strategic public investments.

The JESSICA investment, launched in 2006 as a practical application of the financial engineering tools for sustainable urban renewal prescribed by the European Regulations, therefore represents a direct response to the considerations described above.

## 1.2. THE JESSICA MECHANISM

The JESSICA operative framework is specified in the legislative texts applicable to the EU Structural Funds for the 2007-2013 programming period.<sup>8</sup>.

To qualify for the JESSICA instrument, the Managing Authorities of the Structural Funds must include, in their respective Operational Programmes, an urban component, i.e. a component involving projects in the urban sector that preferably includes a statement regarding the possible use of JESSICA for the implementation of these projects.

The MA will then have to decide in what proportion they intend to use the Structural Funds they are entitled to for JESSICA. Hence, **JESSICA is not an additional source of funding for Member States, but an alternative instrument to handle the allocations of the Structural Funds to support urban development projects.** The ultimate purpose of JESSICA is to generate a lever effect to create additional funding resources from the European banking or private sectors, to support the creation of public-private partnerships (PPP).

Council Regulation (EC) 1083/2006, in article 44, establishes the possibility, within the context of the Operational Programmes, to finance expenditures linked to an operation that includes contributions to sustain financial engineering instruments, such as the **Urban Development Funds, or “funds that invest in partnerships between the public and private sectors and other projects included in an integrated plan for sustainable urban development”**. The same article also includes the possibility of organizing this operation by means of **Holding Funds, i.e. a fund constituted to invest in Urban Development Funds.**

This provision leads to the conclusion that, firstly, **the instruments of financial engineering designated for urban development are the Urban Development Funds and the Holding Funds.**

These Funds – as established by art. 43.2 of Regulation 1828/2006 – are constituted as independent legal entities disciplined by agreements between the co-funding partners or the stockholders, or as separate block of capital within a financial institution. In the latter case, the JESSICA resources must keep separate accounts and be clearly distinct from other resources of the financial institution in question. It must also be specified that these Funds may be increased with additional financial resources, public and/or private, independent of the allocations included in the Operative Programmes.

Second, from the provision in art. 44 of Regulation 1083, it can be deduced that **there are two possible approaches to the activation of JESSICA** and the financing of sustainable urban

<sup>8</sup> Council Regulation (EC) 1083/2006 of the Council of 11 July 2006 – modified by Council Regulation (EC) 284/2009 of 7 April 2009 and by Regulation (EC) of the European Parliament and of the Council of 16 June 2010 - laying down “general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion fund and repealing Regulation (EC) No. 1260/1999”; Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 – modified by Regulation (EC) 397/2009 of 6 May 2009- on the European Regional Development Fund and repealing Regulation (EC) no. 1783/1999; Commission Regulation (EC) 1828/2006 of 8 December 2006 – modified by Commission Regulation (EC) 846/2009 of 1 September 2009 – setting out rules for the implementation of Council Regulation (EC) no. 1083/2006 and Regulation (EC) No. 1080/2006.

development projects within the context of the initiative, more fully described below:

- a) direct relationship with the Managing Authority and the Urban Development Fund/s
- b) activation of JESSICA through a Holding Fund.

#### *Activation of JESSICA through a direct relationship with the Managing Authority and the Urban Development Fund/s*

In the case that JESSICA is activated through a direct relationship with the Managing Authority and the Urban Development Fund/s, the Managing Authority will select, on the basis of a public procedure, the UDFs that can, as specified, be constituted as independent legal entities or as separate blocks of capital within a financial institution.

The principal criteria for the selection of the Funds will be the typology of investments and the projects to finance, the terms and conditions at which they will be financed, the percentage of stake and levels of contribution of the co-founders, the degree of utilization of the ERDF contribution, the Fund's winding-up provisions, etc. To benefit from JESSICA financing, the UDF must demonstrate that it has sufficient management competence and autonomy, a business plan or other appropriate document, adequate balance sheets for the implementation of eligible projects and financial solidity.

When the evaluation is completed, **a funding agreement between the Managing Authority and the selected UDF/s** will be underwritten, specifying the terms and conditions for the contribution of the Operational Programme to the fund/s, the strategy and investment plan, the dispositions to monitor the implementation of the qualifying investments, as well as the other required elements established in art. 43.3 of Regulation 1828/2006<sup>9</sup>.

The **Urban Development Funds** are **rotating funds**, of a public, private, or mixed public-private nature, **which provide repayable investments or guarantees for repayable investments**, or both, to partnerships between the public and private sectors or other projects included in an integrated plan for sustainable urban development<sup>10</sup>. The forms of investment that may be used by the Urban Development Funds, as established in article 46.2 of Reg. (EC) 1828/2006, can be of three different typologies: a) loans, b) guarantees, c) capital investments ("equity").

What is new about these financial engineering instruments is the demise of the idea of the outright grant, replaced by the introduction of a **revolving mechanism** of investments, which allows the UDF to finance itself and contribute, in a medium to long term perspective, to the financing of a greater number of projects.

Though the concession of subsidies by the Urban Development Funds is prohibited, it is worth noting that, as per art. 43.6 of Reg. (EC) 1828/2006, a project that is part of an integrated program for sustainable urban development may simultaneously benefit from a JESSICA investment and subsidy or support from another operational programme.

#### *Activation of JESSICA by means of a Holding Fund*

As demonstrated earlier, the Managing Authorities can activate JESSICA with the intermediation of a Holding Fund, i.e. a fund that invests in various Urban Development Funds, providing them with venture capital, financing or guarantees.

<sup>9</sup> The management costs recognized to the Urban Development Funds cannot exceed the maximum values established by art. 43.4 of Regulation 1828/2006.

<sup>10</sup> These Funds may be constituted at a national, regional or local/urban level, based on the integrated plans of urban development, or a group of projects that are specific or respond to the investors' interests.

The Managing Authority will entrust the responsibility of the Holding Fund to specialized subjects (banks or other financial institutions), selected according to the other modalities established by art. 44.2 of Regulation 1083/2006 or to the EIB, which may be directly commissioned without further need of a public tender.

**A funding agreement between the Managing Authority and the Holding Fund** will therefore be underwritten, establishing the methods of financing and the objectives, as well as the elements specified in art. 44.2 of Regulation 1828/2006<sup>11</sup>. In turn the Holding Fund must proceed to the selection of the Urban Development Funds, at the end of which **a funding agreement between the Holding Fund and the selected UDF (the so-called Operational Agreement)** will be underwritten.

Though it is not an indispensable condition for the implementation of JESSICA, **the constitution of a Holding Fund offers the Managing Authority several advantages**.

First of all, a Holding Fund allows the Managing Authorities to engage competent professionals in order to delegate some of the functions required for the implementation of JESSICA – many of which are highly technical and particularly complex at an administrative level – for which the necessary competence and professional expertise is rarely available within the regional administrative structures.

For example the responsibilities of the Holding Funds include: the selection of the best legal and typological form for the UDFs in which to invest, the formulation of specific criteria for investment in the UDFs, the assessment and selection of the UDFs, the negotiation of contracts (funding agreements) with the UDFs, monitoring the activity of the UDFs and reporting information regarding their performance to the Managing Authority (Investment Committee).

In the second place, the Holding Funds make it possible to associate other public and/or private resources with the JESSICA funds for investment in the UDFs, given that, as mentioned earlier, all the JESSICA funds can be provided with additional financial resources, both public and/or private, that are independent of the allocations included in the Operational Programmes.

Finally, even in those cases in which the urban development sector is not yet mature, the Managing Authorities will have at their disposal the European co-financing destined for JESSICA from the very moment the Holding Fund is constituted, and, while the Urban Development Funds are constituted and the urban development projects drafted; the initial activities of the Holding Fund can be financed with the active interest matured on these unused resources.

The Management Authorities can in fact receive the share of EC co-financing from the Funds of the Operational Programme as soon as the financial engineering instrument is constituted, and hence before the projects are selected and developed, unlike traditional ex-post receiving mechanisms applied to Structural Funds financing. The use of Regional OP financial resources for the constitution of a financial engineering instrument, as per art. 78.6 of Regulation 1083/2006, is considered an “intermediate payment”, and therefore activates a rapid accreditation of the EC share of co-financing.

However, it must be noted that the presence of a Holding Fund implies the creation of an additional structure and especially additional management costs, and consequently it is important that the projects financed through JESSICA be in a position to cover not only the costs of the UDFs, but of the Holding Funds as well<sup>12</sup>.

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<sup>11</sup> The management costs recognized to the Holding Funds cannot exceed the maximum value established by art. 43.4 of Regulation 1828/2006.

<sup>12</sup> It must be emphasized that the management commissions of the Holding Funds can be downscaled once

Whether it is appropriate or not to activate a Holding Fund will be evaluated by weighing the above-mentioned advantages against the disadvantages; it will also depend on whether the Managing Authority can count on a dedicated and highly specialized structure within the Regional Administration that can function as a Holding Fund, and on the costs involved.

#### *The “equity” and the “non-equity” model*

All said, conceptually the forms of the Holding Fund and the Urban Development Fund can vary according to two main models of reference:

- a) the “equity model”
- b) the “non-equity model”.

In the first case, the UDFs receive a JESSICA investment in the form of capital (*equity*), directly from the Managing Authority, i.e. from the Holding Fund, and guarantee the investor a coherent return on his investment, in the form of dividends. This model is particularly interesting when the public sector wants a share of the returns generated by the medium-to-long term projects (role of “patient capital”) – with yields close to market value – or when it wishes to stimulate the participation of private capital in the Funds and greater discipline in public investment, which must adopt an approach more similar to that of the private sector. However the “*equity model*” requires mature financial markets and investment funds.

The “*non-equity*” or “simplified” model consists in the constitution of Urban Development Funds that take the form of a separate block of capital within a financial institution selected by tender. In this case, the Managing Authority – or the Holding Fund, if there is one – simply provides “repayable” contributions (“*cash fund*”) to the UDF/s, which will be responsible for covering the interest payments and repaying the amounts received.

This model – which is based on an approach that is more similar to the traditional method of utilizing the Funds – is easier to put together than the “*equity model*”. It is also more appropriate in the cases in which the financial market and the sector of investment funds is not particularly developed, and in those situations in which the public resources are sufficient and do not require additional levers (in particular for the regions in the Convergence Objective), since there is a lesser possibility of attracting private investments in the funds. This model could also be preferable if the public sector does not wish to delegate management decisions to others and wishes to maintain more direct control over the JESSICA resources, rather than funding third parties or PPPs.

#### *Projects that can qualify for JESSICA investments*

Whatever approach is used for the implementation of JESSICA, as mentioned earlier, the object of the investments made by the UDFs are local partnerships between the public and private sector and other projects included in an integrated plan for sustainable urban development, as per art. 46.1 of Reg. (EC) 1828/2006. On this subject, it must be emphasized that art. 46.1 specifies that **such private-public partnerships or other projects to invest shall not include the creation and development of financial instruments such as venture capital, loan or guarantee funds for businesses.**

This provision makes it clear, first of all, that the UDF may not invest in “funds of funds” and, second, **that a project cannot qualify for JESSICA investments unless it is included in an integrated plan for sustainable urban development.**

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the financial allocation is totally invested in the UDF, whereas the management commissions paid to the UDFs can be reduced once the financial allocation is invested in the projects.

The regulation does not specify the criteria for the identification of “an integrated plan for sustainable urban development”, though the latter may be defined as “a system of interconnected projects finalized towards the permanent improvement of the economic, physical, social and environmental conditions of a city or a district”. This definition may be applied to various tools of integrated city planning within the Member States or the various Regions of a single State.

Another characteristic required for projects to qualify for JESSICA funding is the **ability to repay the investment**, to comply with the provisions of art. 43.1 of Regulation 1828/2006 which states that *<<articles 43 to 46 shall apply to financial engineering instruments in the form of actions which make repayable investments, or provide guarantees for repayable investments, or both (...)>>* The European Community regulation seems to require, as a minimum standard, that the investment be capable of repaying the JESSICA contribution – so that it may be reused in other urban renewal projects – but not that this contribution be remunerated as well. In this sense, it must be specified that the use of JESSICA financing must be compared with European legislation in the matter of “state aid”<sup>13</sup>.

The criteria which determine the eligibility of investments for the JESSICA instruments are the same ones that discipline the use of Structural Funds in general, and must therefore take into account the ineligible expenditures listed in the Regulations, and the specific constraints established at the national level<sup>14</sup>.

Apart from the non-eligibility of expenditures for residential housing – for which Member States such as Italy, which joined the EU before 1 May 2004, do not qualify - except for those involving energy efficiency and the use of renewable energy sources<sup>15</sup>, the European Community Regulations do not include a list of costs that can be covered by the investment activity of the UDFs. In this sense, it must be emphasized that art. 8 of the Reg. (EC) 1080/2006 contains a **very broad interpretation of projects finalized towards sustainable urban development**, stating that the ERDF may support strategies for sustainable urban development *<<through activities such as: strengthening economic growth, the rehabilitation of the physical environment, brownfield redevelopment, the preservation and development of natural and cultural heritage, the promotion of entrepreneurship, local employment and community development, and the provision of services to the population (...)>>*

The individual Managing Authorities will therefore be responsible for identifying the typologies of expenditures, within their own Operational Programmes, that can be financed through JESSICA.

Theoretically, JESSICA can invest in the following typologies of intervention:

- the construction of basic urban infrastructure (including transport, roads, waste disposal systems, energy, etc.);
- regeneration of the historic or cultural heritage, for the purpose of tourism or other sustainable uses;
- conversion of brownfields for collective use (for example the refunctionalization of abandoned historical or industrial buildings);

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<sup>13</sup> On this subject, it is important to highlight that art. 43.7 of Regulation 1828/2006 states that *<<Managing authorities shall take precautions to minimize distortion of competition in the venture capital or lending markets>>*. The theme of state aid in reference to the JESSICA initiative, is examined in the [Study “Implementation of JESSICA in Sicily: legal profiles”](#)

<sup>14</sup> See art. 56 Reg. 1083/2006, art. 7 Reg. (EC) 1080/2006; D.P.R. n. 196/2008 – Regulation for the execution of Reg. (EC) 1083/2006 laying down general provisions on the European Regional Development Fund, on the European Social Fund and the Cohesion Fund.

<sup>15</sup> See art. 7.2 of Reg. (EC) 1080/2006.

- development of regional facilities to serve small and medium-size businesses and companies in high-technology fields (information technology, research and development);
- social, health care, educational and training infrastructure;
- projects for the improvement of energy efficiency.

It must be underlined that the **non-eligible expenditure components of the JESSICA projects can still be covered by financial resources from third parties (public and private) participating in the project.**

#### *Advantages deriving from the use of JESSICA*

All of the above having been said, despite the fact that JESSICA does not provide additional European Community funding, the use of this instrument offers several advantages that will be discussed below.

In the first place and as highlighted earlier, JESSICA offers **immediate allocation of the financial resources destined for the projects.** The Managing Authorities can receive an advance payment on the share of European Community co-financing for the Operative Programme Funds when the financial engineering instrument (UDF or, if there is one, the Holding Fund) is constituted – given that using Regional OP financial resources to constitute the JESSICA Fund is considered an “intermediate payment” – i.e. before the selection and development of the projects.

In the second place, **the revolving financing mechanism** used by JESSICA offers the opportunity to transform currently available funds (deriving from Operational Programmes) into a permanent source of financing, which may be subsequently reused for new urban development programs.

As per art. 78 (paragraphs 6 and 7) of Reg. (EC) 1083/2006, **on the condition that the Urban Development Funds (UDF) invest the JESSICA financing to cover eligible planning expenditures before the end of the programming period for the Structural Funds (specifically before the end of the year 2015)**, the returns or profits generated by the investment can be withheld by the UDF or returned to the Managing Authorities to be reinvested in new urban renewal projects. This advantage appears even more evident in reference to the Member States that will have their EU outright grants curtailed during the next programming period.

On this subject, it must be emphasized that JESSICA also offers the possibility to allot land and real estate to instruments of financial engineering, like UDF. This will allow the local government bodies that might wish to “participate” to use their own real-estate holdings, without requiring them to contribute funds.

Another advantage that the JESSICA mechanism offers local government bodies consists in the fact that the JESSICA funds from European Community resources are excluded from the financial balance of the Internal Stability Pact. This **will therefore allow local government bodies to contract debt, thereby waiving the constraints imposed by the Stability Pact<sup>16</sup>.**

In addition, JESSICA will offer the opportunity to **involve the expertise and know-how of the private and banking sectors**, which will become available for the benefit of the Managing Authorities and the local administrations, and could bring greater discipline to the public investment, which will adopt an approach more akin to that of the private sector.

Another of JESSICA’s prerogatives is that it provides a **flexible approach**, both in terms of greater eligibility of the expenditures, and for the use of resources in the form of capital investments, loans or guarantees.

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<sup>16</sup> This aspect is better described in the Study [“Implementation of JESSICA in Sicily: legal profiles”](#).

### 1.3. JESSICA IN SICILY AND THE OBJECTIVES OF THE STUDY

The ERDF Operational Programme for Sicily 2007-2013 – which will be described in depth in Chapter 3 of this study – includes a Priority Axis within its own articulation, **Priority Axis VI, specifically dedicated to sustainable urban development**, and an **explicit statement concerning the possible use of the JESSICA initiative** by the Managing Authority, to implement the urban policies contained in this Priority Axis.

PRIORITY AXIS VI, whose general objective is to “promote economic development, the capacity of the city to attract and innovate in a perspective of sustainable development and social integration” therefore represents the primary programming context within which to proceed with the implementation of JESSICA in Sicily.

It is worth anticipating here that the instruments intended for the enactment of Priority Axis VI of the Regional OP Sicily are the *Piani Integrati di Sviluppo Urbano* (PISU - Integrated Urban Development Plans) and the *Piani Integrati di Sviluppo Territoriale* (PIST - Integrated Regional Development Plans), which respond to the definition of “integrated plan for sustainable urban development”, i.e. the plan that projects must be part of if they wish to apply for consideration as JESSICA investments.

This Study “for the implementation of JESSICA in Sicily” fits into this context in absolute coherence with the JESSICA initiative.

Unlike the case of most of the analogous Studies commissioned by the European Investment Bank (EIB) relative to other Italian and European contexts, this Study was not propaedeutical to the decision to activate JESSICA in Sicily or to the evaluation of whether or not it was appropriate to create a Regional Holding Fund.

In fact, when the Study was begun, the Sicilian Regional Government had already decided to activate the JESSICA initiative by constituting a Regional Holding Fund to be managed by the EIB.

**On 19 November 2009, the EIB and the Sicilian Regional Government signed a Funding Agreement with the purpose of creating a Regional JESSICA Holding Fund**, to be managed and administered by the EIB, within which it would take the form of a “separate block of finance”<sup>17</sup>.

It is worth underlining that the choice made by the Sicilian Regional Government was based not only on the consideration of the advantages intrinsic to the creation of the Holding Fund – described in the previous paragraph – but also on the assessment of the advantages that derive from entrusting the management of the Fund itself to the EIB.

In the first place, this solution made it possible for the Regione to avoid public bidding procedures for the selection of the subject (bank or other financial institution) that would administer the Holding Fund and therefore to activate the JESSICA initiative as quickly as possible. This circumstance also allowed an early disbursement of the EC Funds and the share of central State funding on the national component.

In the second place, especially in consideration of the fact that JESSICA is a recently implemented innovative instrument, this solution offers the Regione the advantage of relying on the technical and financial assistance of the EIB which, compared to other “local” financial institutes, has a vaster understanding of the procedures for planning and monitoring EC financial engineering instruments, and can play a significant role in coordinating JESSICA at a time when the knowledge of this instrument is not yet consolidated, and the experiences of the relative practices have yet to circulate and be shared.

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<sup>17</sup> See Chapter 5 of this Study.

Based on these premises, and coherently with the specifications in the *Terms of Reference* produced by the EIB, the purpose of this Study was to accompany the Regione Siciliana in the process of implementing JESSICA, selecting the best modalities and suggesting the actions to undertake to make the mechanism itself work best.

More in detail, in the initial phase, the work was oriented towards the **quantification and qualification of the expressed and potential demand for JESSICA investments in Sicily**, by studying the market for urban renewal and for the management of “complex urban development programs” on the part of local government bodies over the past decade, the analysis of the involvement of private parties in the urban regeneration processes, and an investigation into the planning processes of Sicilian local governments.

This analysis was functional to the definition of the potential architecture of JESSICA in Sicily, in terms of the **articulation and typology of the Urban Development Funds to be constituted**, and to the selection of the **pilot projects** for the Study, i.e. the urban renewal projects representative of the planning in progress, on which to conduct the feasibility study.

At the same time, it became possible to compare the potential demand for JESSICA investments measured by the financial resources flowing into the Holding Fund and the relative Activities of the original OP ERDF.

This comparison made it possible to determine the critical areas and the obstacles to the implementation of JESSICA and to analyze the different solutions that might be implemented to favour a more effective and fluid operation of the mechanism.

Several actions in particular were deemed appropriate – such as, for example, simplifying the division into Activities of the financial resources in the Holding Fund, defining the requisites for eligibility and the selection criteria specific to JESSICA projects and other operations – illustrated in depth in Chapter 5 of this Study – with the purpose of facilitating the activity of the UDF to be constituted and promoting the investment of JESSICA resources in urban development programs.

To encourage the use of JESSICA, it was also deemed appropriate for the Study to analyze not only the procedure for constructing the Integrated Plans, but also the procedure for including the JESSICA projects in the Integrated Plans (PISU and PIST) in order to identify any critical areas and to suggest the corrections that the Regional Administration should make to help local government bodies in their applications for JESSICA funding.

A significant portion of the Study was then dedicated to the illustration of **a typical process of construction for projects to be financed through the JESSICA mechanism**, and to the analysis of **six pilot-projects** – five of which were developed with the City Administrations involved, and a hypothetical sixth was related to a program for the improvement of energy efficiency in the operating real estate assets of a city administration – describing the process required to assemble and structure them.

The process to select, structure and analyze the pilot-projects has highlighted, on the one hand, the methods for remodulating the projects in order to finance them through the JESSICA mechanism, and on the other hand, the concrete advantages deriving from the activation of JESSICA in terms of the ability to implement urban renewal for which there is a real demand expressed in the region.

Finally, it is important to mention that attached to this Document is a **Study – commissioned by the EIB to the law firm Studio Legale Associato NCTM – whose purpose is to examine a number of legal issues involved in the implementation of the JESSICA initiative in Sicily**.

For example, one of the many issues developed by the Study is the theme of the legal nature of the

Urban Development Funds and their contractual relationship with the Holding Funds; it examines the possible legal forms for the planning instruments that promote “jessicable” projects and addresses the theme of “internal stability pacts” and “state aid”, the impact of which must be taken into due consideration in the process of structuring and planning JESSICA investments.

## 2. ANALYSIS OF THE URBAN SECTOR IN SICILY

### 2.1. QUALITY AND EFFICIENCY OF THE REGION’S URBAN SYSTEMS

As the legacy of its ancient and important history, Sicily can boast a particularly rich and variegated system of cities and urban communities. Though the most significant and populous cities are clearly concentrated along the northern and eastern coasts (Palermo, Catania, Messina, Siracusa), the island is characterized as a whole, and also in its inland areas, by a network of medium to medium-small towns, some of which constitute (or have historically constituted) proper sub-regional hubs or catalysts for significant economic and commercial processes<sup>18</sup>.

This complexity is demonstrated by the extraordinarily rich heritage of Sicilian cities, both large and small, in terms of architecture and the urban and natural landscape. It represents a historic and artistic legacy that, despite the neglect that often surrounds it, has almost no equal (in terms of quality and density) in the world<sup>19</sup>.

Despite this primacy, Sicilian cities suffer from many heavily blighted urban areas. This is a problem that is more obvious and severe in the island’s three metropolitan areas (Palermo, Catania and Messina), but concerns a wide and diffuse range of smaller centres as well. It is significant, indeed, that these conditions of physical, social and economic urban blight are often to be found in the same areas of the city that also have the most significant concentration of artistic and architectural assets, prevalently in the historic city centres. This status quo which, as we will see, is being slowly modified by a string of public policies implemented in recent years, is the result of the flight of the middle class, who rapidly abandoned the historic heart of the cities after World War II. The urban expansion that coincides with this exodus produced new residential districts which are generally densely inhabited, offering few services and consequently, a low urban and environmental quality.

**Overall, in the most authoritative national rankings, Sicilian cities generally place among the worst performances in terms of quality of life and services.**

The *Qualità della Vita* (“Quality of Life”) ranking released annually by the newspaper Il Sole 24 Ore, based on data gathered for each province relative to categories such as income/spending, services, economic vivacity, security and leisure, tends to be rather explicit in underlining the gap of Sicilian cities. In the past four years, a Sicilian city has always held last place in the ranking: Agrigento in 2009 and in 2007, Caltanissetta in 2008, Catania in 2006.

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<sup>18</sup> It is however important to highlight that, in general, there is a rather serious imbalance between the northern and southern parts of the island. Along the northern Tyrrhenian coast there is a greater concentration of connecting infrastructure and major urban facilities; moving progressively southwards, the density of higher-ranking administrative centres and urban cores decreases, with some significant exceptions, but only in the case of centres with a prevalently tourist or rural vocation.

<sup>19</sup> Sicily boasts four areas of historic and artistic interest recognized by UNESCO as World Heritage Sites: the late Baroque cities in the Val di Noto, Siracusa and the rocky Necropolis of Pantalica, the Roman Villa del Casale in Piazza Armerina and the Archaeological Zone of Agrigento.

The annual report on the environmental friendliness of Italy's provincial capitals, released by Legambiente and known as "Ecosistema Urbano", also emphasizes the particularly disappointing performance of Sicilian cities with respect to the national "ranking". The 2009 edition ranked Ragusa next to last and Catania second to last, the 2008 edition ranked Ragusa last and at least five Sicilian cities (Catania, Siracusa, Caltanissetta, Agrigento and Trapani) among the ten worst on a national level.

Overall this data corroborates a stereotype which is fairly consolidated in the collective imagination, at least in Italy. Sicilian cities are perceived as urban contexts with great potential for attraction, but in reality problematic to live in, or even just to utilize, because they suffer from chronic inefficiency and widespread physical, social and economic blight.

The prevailing scenario in Sicilian cities nowadays is actually much more differentiated and, above all, characterized by a certain dynamic quality. In particular, it may be said that **in many Sicilian cities, much has been done to regenerate and revitalize the historic city centres, though there has been no definitive solution to severe problems such as air pollution, traffic congestion or waste disposal**. This effort has been generally effective in pursuing the twin objective of regenerating situations of social and economic blight, increasing the level of cohesion in particularly disadvantaged areas, and in restoring and opening important elements of the artistic and architectural heritage; this has considerably increased their level of attraction, and as a corollary, the competitive edge of the cities.

This systematic effort conducted by public administrations with initiatives that will be described below, has led to a growing interest on the part of the private real-estate transformation market, though not everywhere and not always in a linear fashion, in project typologies that are increasingly compatible with processes of sustainable urban development, such as the restoration and refunctionalization of historic buildings.

In other words, though after World War II and especially during the Sixties and Seventies, private speculation had driven the construction of enormous suburban districts around the major cities, most of them devoid of services and urban quality, starting in the Nineties **the market showed a growing interest in restoring historical buildings, especially in the heart of the major cities and the most fascinating locations**.

As mentioned earlier, the opportunity for initiating this virtuous trend was provided by the allocation of public investments specifically aimed at sustaining processes of urban regeneration in the most severely blighted areas. The availability of these investments, since the early Nineties, combined with the implementation of a series of reforms in public administrative processes and the new central role of the local levels of regional government, have generated innovative experiences in planning interventions in the urban context.

## 2.2. THE IMPACT OF INTEGRATED PLANNING ON THE URBAN SECTOR

Starting in the Nineties, the Ministry of Infrastructure and Transport (formerly Public Works), and in particular the Department for the Coordination of Regional Development (*Dipartimento per il Coordinamento per lo Sviluppo del Territorio - Di.Co.Ter*) began to foster a new way of conceiving the problems of the city by experimenting with the so-called "*Programmi complessi*".

These experiences sought to introduce into Italy an approach to urban policies that had already been tested in the Eighties, primarily in Great Britain, and in other continental countries such as France and the Netherlands; the objective was to offer an effective response to the problems of

acute disadvantage and degradation that often characterized the large suburban popular housing districts. Once it was introduced to Italy, this type of planning effort was also extended to more heterogeneous and complex urban realities, even in advance of other European countries. Whereas the *Programmi di Recupero Urbano* (D.L.398/93 converted into Law 493/93) provided resources specifically for Programs whose projects centred on the restoration of public housing, the *Programmi di Riqualificazione Urbana*, launched almost simultaneously (Law 172/92 and subsequent changes), funded complex urban renewal programs which did not necessarily include interventions on public housing. The strong and positive impact of the URBAN I Community Initiative (1994-1999) in almost all the Italian cities involved, helped to consolidate processes of complex urban planning in the nation as an effective and efficient way to regenerate areas with a particular concentration of social disadvantage and environmental blight.

**The approach that was sharpened by this initial period of complex urban planning experiences has revealed the advantages of working in an integrated manner (therefore with inter-sectorial strategies) and of focusing efforts on clearly defined target areas.** Building partnerships, between institutions or between public and private bodies, has emerged as a fundamental aspect in the development and implementation of these programs. This is the factor that was emphasized at the outset of the initiatives developed at the turn of this century (which incidentally coincided with the beginning of the 2000-2006 European Community planning period), in particular the PRUSST and the URBAN II, URBAN Italia and *Porti e Stazioni* projects.

The 2000-2006 European Community planning period also witnessed the consolidation of the complex programs as ways to use ERDF funding for the different Regional Operative Programs, both in the Southern and Central-Northern regions of Italy.

In recent years the virtues and limitations of the complex programs have begun to emerge more clearly.

In many contexts, the implementation of these programs worked as a stimulus for a more rational allocation of available resources and a debate on the possible synergies between existing and potential regional assets. This was especially true in areas where the development of the program was stimulated by the prospect of acquiring special financial resources through a competitive mechanism (this is the case with the URBAN programs in particular). The *Programmi complessi* also proved to be efficient overall in the coordination of a multiplicity of projects of various kinds, and in producing urban transformations that respond to the real needs and expectations of the resident populations involved; a process that is bolstered by the activation of innovative forms of participation, communication, and, in some cases, co-planning.

**The main limit of the “Programmi Complessi” that has emerged at the close of this 15-year process is the inadequacy they have demonstrated in persuading private subjects to co-fund public utility projects.** In fact it is usual, within the context of the complex programs, for public and private interventions to converge, generally, towards common objectives, yet from a financial and operative point of view, they remain fundamentally distinct. It is worth underlining that, to the present day, a significant majority of the complex programs activated in the country was spurred by the need/opportunity to win public grants. In this context, private subjects tend to pursue projects with the intention of producing capital gains thanks to the changed market conditions created by the publicly-financed improvements.

In synthesis, considering the many successful efforts in activating inter-institutional partnerships that could contribute to regional governance in a wider sense, the *Programmi complessi* have rarely produced public-private partnerships solid enough to be developed, in the long range, independently of the specific opportunity provided by the public partner’s access to special funding. This limited ability to bring together public and private interests in the name of a shared long-range development project is, today, one of the major reasons for doubting that complex partnerships can

constitute an adequate method for implementing particularly ambitious urban regeneration and development operations in a context in which public resources allocated as outright grants are progressively dwindling.

### 2.2.1. The era of “*Programmi complessi*” in Sicily

It may be stated that the considerations relayed above in reference to the general situation in Italy also apply to the Sicilian context, with some distinctions.

As mentioned above, the first significant initiative introduced by the Di.Co.Ter to promote complex projects for urban renewal and for the development of urban facilities in particularly degraded contexts, matching public financial resources with funding by entrepreneurs interested in developing private projects within a coherent framework, were the *Programmi di Riqualificazione Urbana* (PRU). In Sicily four municipalities have benefited from PRU funds allocated by the Ministry: **Agrigento, San Giovanni La Punta, Caltanissetta and Siracusa**. Of these, the three provincial capitals also received considerable additional funding from the regional administration. Overall, although the Sicilian administrations were not particularly successful in their bids for the tender from the Ministry (other regions with similar dimensions, such as the Piedmont or Tuscany regions, obtained the funding for, respectively, sixteen and eleven programs), **the PRU initiative in Sicily was an important precedent for later integrated and area-based<sup>20</sup> regeneration experiences.**

In particular the two most successful programs, with the greatest impact, were Caltanissetta and Siracusa, both of which concentrated on reclaiming the historical urban fabric: in a certain sense, they represent the beginning of a trend that has characterized the era of *Programmi complessi* in Sicily: the **integrated regeneration projects in the historic city centres and in the most architecturally distinguished areas have sparked processes of true urban renewal**, with dynamic processes that have recurred over time even without further public intervention; whereas the projects in modern and popular districts have not been generally successful in generating tangible positive externalities and lasting benefits.

The experience of the PRUs was followed by the P.R.U.S.S.T., an acronym for Programs for Urban Regeneration and Sustainable Regional Development, also promoted and coordinated by the Di.Co.Ter. Seven of them have been activated in Sicily, at least three of which are prevalently urban (Palermo, Catania and Messina). The experience of the PRUSST in Sicily, like in the rest of the nation, did little to trigger evident processes of transformation, despite the considerable effort that was put into the organization of the programs and of the inter-institutional or public-private partnerships. In part, the reason may lie in the difficulty encountered by the public promoters in governing very complex processes that involve a potentially excessive number of actors. Moreover, abandoning an *area-based* approach in favour of the integration of projects based on functional affinity rather than on physical proximity has proved premature in many instances, especially given the modest resources allocated by the central government as investment grants for each programme.

In the wake of the success of the PRUs, the implementation of the **URBAN programmes in Sicily**,

<sup>20</sup> The four Sicilian PRUs have produced investments in urban renewal in the amount of 193 million Euro, of which 85 million Euro in grants for public interventions financed by public entities (Ministry plus Region) and 108 million Euro for private development projects. As a measure of comparison the 16 PRU of the Piemonte region have produced investments in the amount of 1.118 million Euro with a ratio of 1 to 4 between the public and the private sector, in Tuscany the overall investment was about 311 million Euro with a ratio of more or less 1 to 2 between the public and private sectors. Source: “*Dieci anni di governo delle complessità territoriali*”, Ministry of Infrastructure and Transport, 2006.

both during the 1994-1999 and the 2000-2006 programming periods, highlighted the enormous potential efficacy of a multi-sectorial and *area-based* approach to the development effort in blighted historical city centres.

It is important to underline that Sicilian cities participated with particular enthusiasm in the URBAN experience, winning funding for a relatively large number of regeneration programs compared to the average of other Italian regions. This was the case for the two European Community initiatives (URBAN I and II) and the initiative promoted by the Di.Co.Ter with national funding, and hence known as URBAN Italia, implemented parallel to URBAN II. Below is a table summarizing the participation of the cities in the various URBAN initiatives.

PIC URBAN I (1994-1999)	PIC URBAN II (2000-2006)	URBAN Italia
Palermo	Misterbianco (CT)	Messina
Catania		Trapani
Siracusa		Caltagirone

The impact of the implementation of the URBAN programmes in some of these cities was so great that it **transformed the project areas from inaccessible and blighted zones to the fulcrum of city life**. In all these cases, to tell the truth, the point was to restore centrality to parts of the city that had traditionally played this role. The URBAN programmes in Sicily were in fact primarily involved in the physical and functional reclamation of the historic city centres, which coincide, as was previously underlined, with the most blighted areas of the city.

It is particularly important to emphasize how the renewal processes triggered by the URBAN programmes, especially when working as a system with other public works programmes, created the conditions for attracting private investments, above and beyond the partnerships constituted specifically for each individual programme.

In more recent years, initiatives whose purpose was to promote sustainable urban renewal programmes have sought primarily to increase the capacity of local public administrations to use constantly diminishing public resources strategically, by involving private investors. Initiatives such as *Porti & Stazioni*, *S.I.S.Te.M.A* and *Progetti di Territorio*, promoted by the Ministry of Infrastructure and Transport since 2001, may be interpreted from this point of view.

These three initiatives financed almost exclusively the development of plans, projects and feasibility studies. The administrations that benefited from them were selected directly on the basis of their particular characteristics, such as, for example, being the seat of a Port Authority (*Porti e Stazioni*) or constituting a strategic regional hub in terms of logistics (*S.I.S.Te.M.A*) or of regional development processes (*Progetti di Territorio*). The three initiatives have not effectively produced tangible renewal yet, but have stimulated interesting planning and design processes, contributing to the definition/structuring of strategic projects that the local authorities will commit to realizing in the near future. Further details on these projects, and in particular on the ones that can be developed coherently with JESSICA, are highlighted in the next chapter. Below is a table summarizing the administrations involved in the three initiatives.

Porti e Stazioni	S.I.S.Te.M.A.	Progetti di Territorio
Palermo	Catania	Catania
Catania	Siracusa	Siracusa
Messina	Ragusa	
Trapani		

As stated earlier, the experiences developed within the context of *Programmi complessi* have inspired the Regions, starting with the 2000-2006 programming period, to structure the way they use the resources of the European Community Structural Funds. Within the context of the 2000-2006 programming period, the Sicilian Regional Government promoted the implementation of integrated regional programmes, the *Progetti Integrati Territoriali* (PIT). Thirty-five PIT programs were effectively funded and implemented, mostly programs involving projects for infrastructure, or specific projects in wider regional contexts, above the municipal level. Apart from considerations on the utility or even the suitability of the individual works that were funded, it is important to underline that the impact of the PIT on the regeneration and sustainable urban renewal processes was effectively perceptible in the contexts where the finished projects were integrated or systematized with other development initiatives, especially the URBAN projects.

### 2.3. INNOVATIVE METHOD FOR INVOLVING PRIVATE INVESTORS

Sicily is the region in southern Italy that has the greatest experience in the use of innovative forms of public-private partnerships for funding and managing infrastructure or regional facilities<sup>21</sup>. As far as the urban sector in particular is concerned, the development of important renewal projects by means of public-private planning vehicles is still infrequent. Today, there are a few start-ups, which will be illustrated in detail that could definitely pave the way to a more frequent reliance on the constitution of mixed companies or on the involvement of private capital, using different forms of concession to promote publicly-led processes of urban transformation.

#### 2.3.1. Project Financing and Concession Contracts

At the moment the involvement of private investors is more frequently sought for the development of individual facilities or services. In particular, there is a growing recourse to forms of *Project Financing* by local administrations in Sicily in the following areas:

- Construction of public parking;
- Construction of cemeteries;
- Modernization and management of street lighting;

<sup>21</sup> Source: *Osservatorio nazionale del Project Financing* (National Project Financing Observatory).

- Construction and management of photo-voltaic roof structures;
- Construction and management of marinas and tourist ports.

The following are significant examples of works funded by project financing, completed or still in progress, and referring to the areas listed above:

Underground parking garage and renovation of Piazza Vittorio Emanuele Orlando	
Location	Palermo
Date	Construction began 6 April 2006
Method of Financing	Project Financing
Amount □	16.000.000

The underground parking garage (inaugurated in August 2009) and, above it, the renovation of Piazza Vittorio Emanuele Orlando, are the first projects built with Project Financing in the capital of Sicily.

Begun in 2006, the parking lot now offers 770 parking spaces, including 180 garages, 143 spaces reserved for the court building and 16 parking spaces for the disabled, for a total of 20,000 square meters.

The work was completed thanks to the public-private partnership established between the City and private investors. In the agreement, the City contributed the area and the private investor built the project, sustaining a cost of € 16,000,000 in return for a 99-year lease.

Upgrade and extension of the street lighting system	
Location	Caltagirone (City, Fractions and some suburban areas)
Date	Contract awarded in January 2005. Construction completed in April 2008
Method of Financing	Project Financing
Amount □	3.600.000

In 2005, the city government of Caltagirone awarded a contract to extend and upgrade the street lighting system to a private contractor, using a *Project Financing* formula. The electrical systems were therefore renovated, extended and reinforced with the purpose of contributing to the optimization of energy use and hence to save money.

The private investors financed the project and in return were awarded a contract to manage the system for 18 years. The company built works for the city for a total amount of 3,6 million Euro.

The company also installed at its own expense a new lighting system for three public monuments and bought three electric mini buses for local public transport.

Energy renovation of public buildings and installation of photo-voltaic panels	
Location	Caltanissetta
Date	Construction began May 2009 Contract awarded April 2008
Method of Financing	Project Financing
Amount □	750.000

At the present time, the City of Caltanissetta can boast 5 photo-voltaic systems built on solar roofing in 5 municipal schools. There are 4 20-KWatt systems and 1 35-KWatt system, connected to the local electrical grid in December 2009 and currently operative.

Construction began in May 2009 on this operation, which was structured with *Project Financing*. In particular, the City offered the solar roofs of 5 municipal buildings (granting surface rights), and uses part of the electrical power produced by these systems in return (local exchange); the private investors who participated, built the work and sustained the totality of the costs, € 750.000, and are repaid with the proceeds of the government incentives established by law.

New Tourist Port and Waterfront in Marina di Ragusa	
Location	Ragusa
Date	Call for bids February 2005 (second call)*
Method of Financing	Project Financing
Amount □	69.667.972

\* In 2003, a first call was made for bids for the concession of the construction and management, economic and functional, of the Tourist Port of Marina di Ragusa; because of the rigid clauses of the project, no bid was received.

The *project financing* operation set up by the City Administration of Ragusa consisted in the design, development, construction and operation of the port of Marina di Ragusa.

The initiative, promoted jointly in 2003 by the Regional Department for the Territory and Environment, by the Regional Department of Communication and Transport and by the City of Ragusa, was funded with public (50% Structural Funds) and private capital (50% *project financing*).

In return, the Concessionaire was granted the right to functionally manage and economically exploit the works for a period of no longer than 60 years.

Today the Tourist Port is a modern and functional structure, with over 800 slips, which serves as a HUB port, with an extra-regional vocation, a magnet for attracting tourists to the Island.

Addition to the cemetery and new graveyard	
Location	Caltagirone
Date	Contract awarded April 2009
Method of Financing	Project Financing
Amount □	19.000.000

*Project financing* was also used for the construction of ten thousand new gravesites in the cemetery of Caltagirone and the construction of the new graveyard in the fraction of Granieri, for an overall investment of over 19 million Euro, paid entirely by the construction company. The agreement between the City and the private partner - lasting 15 years - will include an 18,000-square meter addition to the current cemetery of Caltagirone in an area to the northwest, with the construction of 9941 gravesites. The new graveyard in Granieri (on an area of 13,0000 square meters) will contain 2,656 spaces.

The contract stipulates that the contractor will be responsible for the expropriation procedures (and the relative costs), the construction of the burial niches and the public urbanization works, such as the water and sewer system, street lighting, parking and cemetery landscaping, and the management of the cemetery services both in the new and the old cemeteries. The City will continue to be responsible for security.

At the end of the 15 years, ownership of all the works, including the expropriated areas, will revert to the City of Caltagirone.

The administrations of the larger cities, or at least the provincial capitals, seem to be more active on the front of *Project Financing*, because they have more significant technical and administrative structures with a potentially greater capacity to attract investments. A significant exception is the city of **Caltagirone** in the province of Catania (about 40,000 inhabitants) which, in addition to the *Project financing* operations described in the preceding tables, is currently tendering a competition to select a private partner for a particularly ambitious urban renewal project, focused on the construction of the new stadium for the city.

The stadium will be a multi-purpose facility, with a minimum capacity of six thousand seats. It will feature an athletic track, four tennis courts, a building for a sports school and several parking lots. The structure will also host public performances and great events for at least ten thousand people. The project also includes the possibility of building hospitality and leisure structures to enhance the sports facility, in the area next to the stadium. The private contractor will manage the new structure for 30 years. In addition, the contractor will build an international standard football field for the City, beside the main facility, with at least 300 seats.

### 2.3.2. Società di Trasformazione Urbana

Law 127 of 1997 granted Municipalities and Metropolitan Cities the right to constitute public

companies for the purpose of planning and implementing urban renewal projects (known as STUs). The impact of this innovation was more or less similar in Sicily to all the other regions in the nation. In other words, the strong initial interest demonstrated by the cities, stimulated by the possibility of receiving grants to produce feasibility studies for the constitution of STUs<sup>22</sup>, was followed by a phase of relative indifference and scepticism, motivated by the widespread perception in the municipal administrations that this instrument might be too difficult to use. The basis for this wariness was the generally disappointing outcome of the feasibility studies produced with the funding granted by the central government, starting in 2001, after which a very small number of STUs was actually constituted, and none of them rapidly.

In Sicily, four feasibility studies were funded and completed for the constitution of STUs for the municipalities of:

- Siracusa
- Messina
- Caltanissetta
- Marsala (TP)

In recent years, thanks to the growing capacity for initiative of the more “dynamic” administrations, and the constantly diminishing resources for public investments, the resistance to experimenting with particularly advanced (and binding) forms of partnership with private investors has partially waned. A significant number of STUs have therefore been constituted and become operative. These “virtuous” examples have recently rekindled a strong interest in this instrument in all the more enterprising administrations.

As for Sicily, the first STU has been officially constituted. The company is “Il Tirone SpA”, in which the City of Messina participates with a 30% share, and the rest is held by a group of six private companies, both local and national.<sup>23</sup> The STU, whose organization and feasibility were the object of one of the studies funded by the Ministry, was constituted to develop a particularly ambitious program of renewal/regeneration that encompasses ten principal projects:

- the construction of a new school complex and adjoining parking area,
- a new shopping centre,
- the urban regeneration of the historic urban fabric of Borgo Tirone and new roads,
- the restoration of the S. Barbara stair,
- the construction of a new office building in Viale Cadorna,
- the restoration of Palazzo degli Elefanti,
- a new residential building in Via Santa Maria del Selciato,
- new housing in Viale Italia,
- renovation of Piazza Lo Sardo (piazza del Popolo) into a pedestrian zone with new urban furniture,
- new *social housing*.

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<sup>22</sup> Art. 7 of Law n.21/2001 allocated 41.6 billion Liras over a three-year period destined for Municipalities to fund the processes required to constitute S.T.U.s. The funding was paid after a selection process that chose the most interesting applications from the Municipalities in response to a call for bids by the Ministry of Infrastructure and Transport.

<sup>23</sup> The six private partners of Il Tirone SpA are: Garbali SpA, Demoter SpA, Studio FC and RR Associati Srl, Trio Srl, Quattropreti Srl.

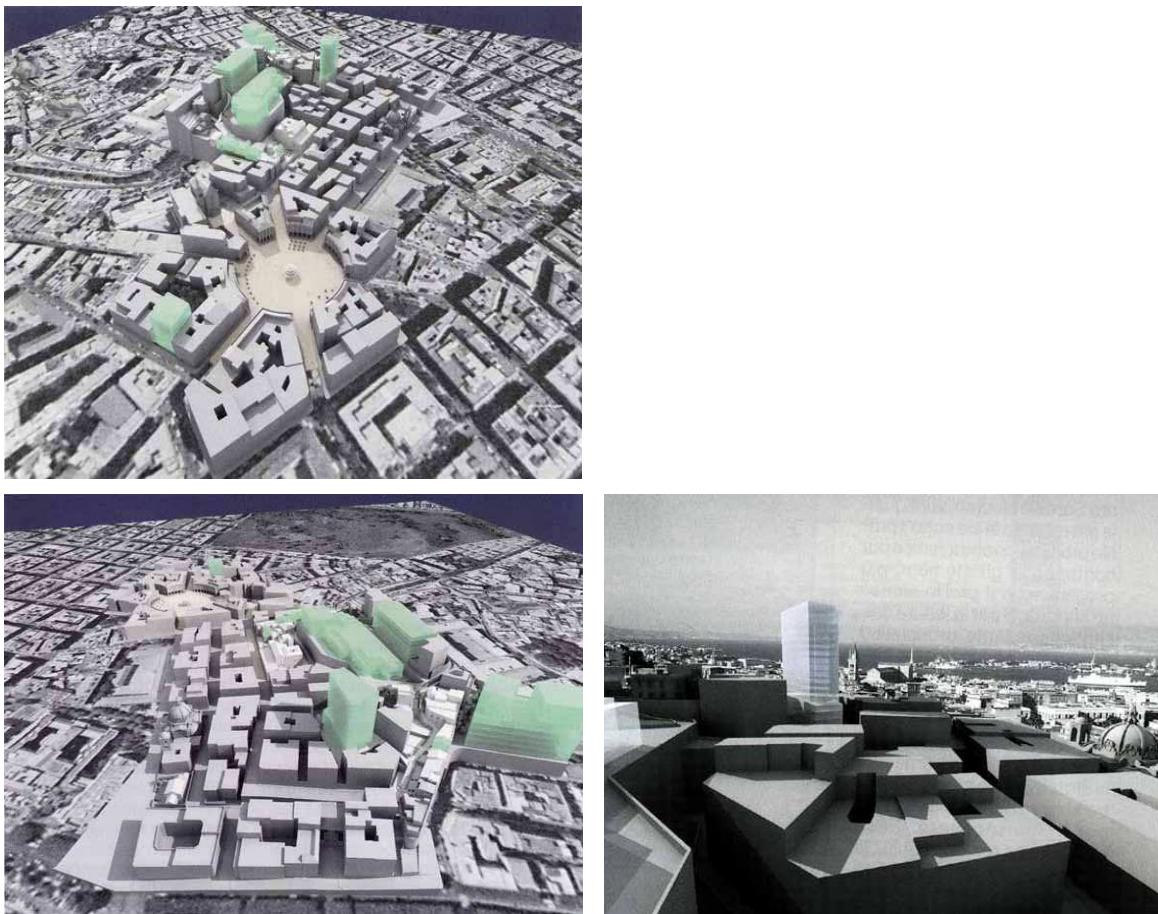


Figure 1 - Development project for the Tirone district. At left: an overview of the projects from the south-east. Below: view from the north and a detail of the new office building.

### 2.3.3. FIPRS Fund

And finally, as part of an effort to improve the exploitation of its real estate properties, the Sicilian Regional Government launched, with its Regional Budget law of 2005, an operation entitled *Fondo Comune di Investimento Immobiliare Regione Siciliana*, the model of which was conceived and developed by the Regional Budget Council and the Department of the Budget and Treasury. The fund, known as FIPRS, an acronym for *Fondo Immobiliare Pubblico Regione Siciliana*, is a closed fund created with the contribution of public real estate properties. FIRSP is managed by Pirelli RE SGR with the support of RREEF Opportunities Management srl. The Fund was constituted thanks to the contribution and the sale of 34 commercial properties, prevalently office buildings, by the Region and other regional bodies, for a value of 263 million Euro.

### 3. SUSTAINABLE URBAN DEVELOPMENT IN THE OP ERDF 2007-2013 FOR THE REGIONE SICILIANA

#### 3.1. STRUCTURE OF THE OP ERDF

The structure of the Operational Program of the ERDF 2007-2013 for the Regione Siciliana, approved by European Commission Decision N. C(2007) 4249 dated 7 September 2007 – is divided into the following **seven Priority Axes**:

- Priority Axis I Networks and connections for mobility
- Priority Axis II Efficient use of natural resources
- Priority Axis III Enhancement of the cultural identities and the environmental and landscape resources for tourist attractivity and development
- Priority Axis IV Diffusion of research, innovation and the information society
- Priority Axis V Business development and competitiveness of local production systems
- Priority Axis VI Sustainable Urban Development
- Priority Axis VII *Governance, institutional capacity and technical assistance.*

**The seven Priority Axes are articulated in Specific Objectives, each of which are divided into Operational Objectives, subdivided into Activities.**

**Priority Axis I** in particular, coherently with Priority 6 of the NSRF (Networks and connections for mobility), aims to fortify the transport and logistics infrastructure and services, with the completion of the primary transport networks and those serving the rural and internal areas, a more incisive action to achieve modal balance in view of the development of the Trans-European networks, an increase in the quantity of specific infrastructure (*terminals*, logistic platforms) and, above all, the rationalization of the mobility of goods and people with more widespread public guided mass transportation systems and the promotion of sustainable modalities.

**Priority Axis II** – in coherence with Priority 3 of the NSRF (Sustainable and efficient use of environmental resources for development) – identifies natural resources as a second important factor of attraction, on the basis of the evidence provided by the context analysis, which identifies the major critical areas as the delay in achieving the objectives set by Kyoto, the incomplete implementation of the integrated management of waters and waste, and the significant hydrogeological risk present in many areas of the region. In the field of energy, the Priority Axis focuses prevalently on the cultivation of opportunities for the development of renewable resources and energy savings, and on the support for regional energy production chains, as a complementary measure to the Energy Interregional Operational Programme whose purpose is to promote inter-regional production chains.

**Priority Axis III** – coherently with Priority 3 and Priority 5 (Cultivation of the natural and cultural resources for attractiveness and development) of the NSRF and complementary to the objectives of the Interregional Operational Program “Cultural and natural factors of attractiveness and tourism” – centres on the enhancement of the regional and local, cultural and natural assets to develop tourism, and on the reconstruction of production chains and systems for tourism.

**Priority Axis IV** – coherently with Priority 2 of the NSRF (Promotion, cultivation and diffusion of research and innovation for competitiveness) – and complementary to the Interregional Operational Programme “Research and competitiveness”, concentrates prevalently on promoting innovation and technological transfer within the context of production districts and *clusters*, on reinforcing the demand for innovation, on a greater integration between public and private research, with increased convergence between research and the needs of businesses.

**Priority Axis V** – coherently with Priority 7 of the NSRF (Competitiveness of production systems and employment) – concentrates its action primarily on abolishing the constraints deriving from the size limits of businesses, including explicit actions to encourage forms of aggregation between them. The Priority Axis therefore seeks to complete the production chains, to reorganize the aid system to take into account the dimensional characteristics of the businesses, to identify the production chains/*clusters*, to provide incentives for the formation of *distretti*, to narrow the knowledge gap in small and medium-size businesses to help in their consolidation, to promote synergy between research and small and medium-size businesses, and to reduce their dependency on external resources in the distribution sectors by promoting quality products and services, but not only.

**Priority Axis VI** serves to reinforce urban services in the metropolitan areas and medium-size centres (working prevalently on the incubating function of urban hubs, on social and health centres and on the provision of eco-sustainable mobility) by allocating resources to solve problems of social integration in urban and metropolitan areas, even by restoring the values of identity connected with place. This Priority Axis is coherent with national orientations in the matter of projects for urban revitalization/regeneration, integrated from a social, economic and environmental point of view and in particular with Priority 4 – Social inclusion and services for the quality of life and attractiveness of the region, and with Priority 8 – Competitiveness and attractiveness of cities and urban systems, of the NSRF<sup>24</sup>.

Finally, **Priority Axis VII** aims to increase the general range of instruments that foster efficiency and effectiveness – and therefore the capacity for response – in the public administration and how it governs public policy. This is also the context for the action that aims to guarantee levels of lawfulness, a primary requirement for southern regions in the Convergence objective.

The above shows that the first three priority axes refer prevalently to factors of attractiveness in the context, the next two to the “diffusion of the knowledge society and entrepreneurialism”, whereas the last two address a range of issues.

In reference to the **financial resources** allocated to each of the seven Priority Axes – shown in the following table – as may be seen more clearly in Diagram 1 below, 70% of the total financial resources of the Program are concentrated on the following Priority Axes: I – *Networks and connections for mobility*, II – *Efficient use of natural resources* and III – *Enhancement of cultural identities and the environmental and landscape resources for tourist attractiveness and development*.

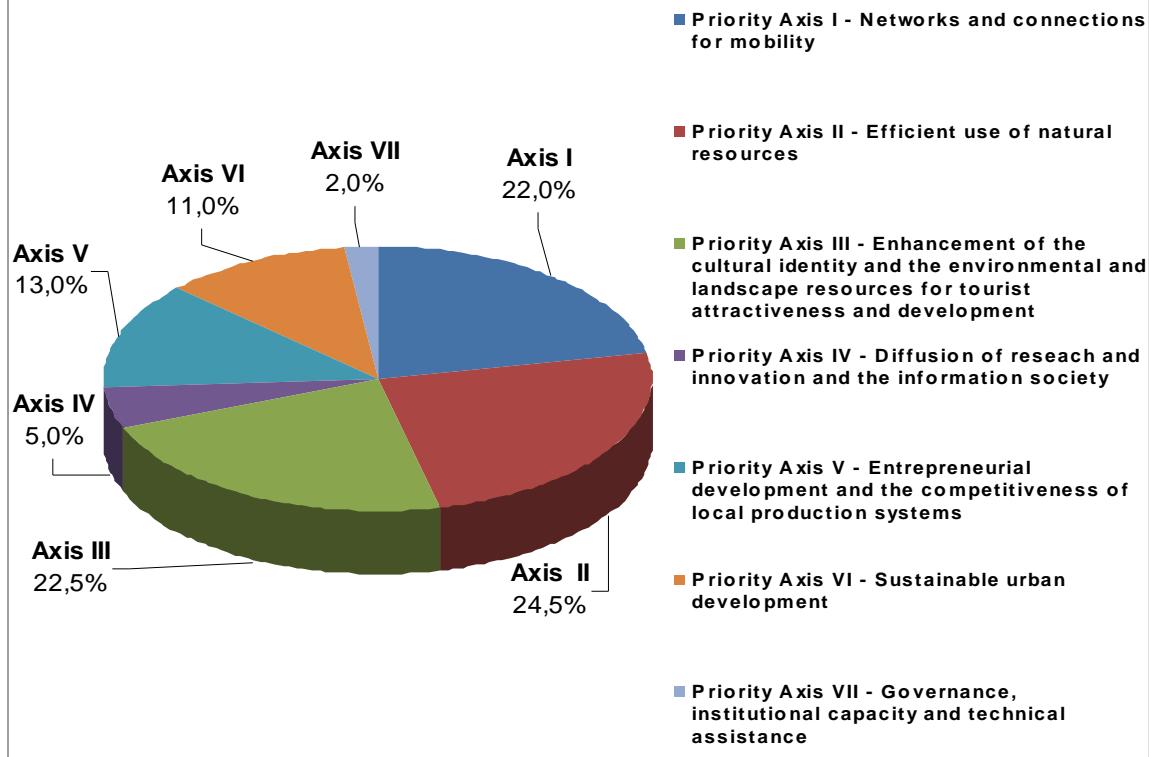
<sup>24</sup> On the basis of the general orientations defined after the intermediate revision of the Lisbon strategy – which also included the definition of the Activities aimed at growth and employment, approved in March 2005) – each Member State was required to draft a national reform plan on a three-year basis, which would indicate the reforms and other measures adopted at a national level to achieve the objectives of the Lisbon Strategy. Italy approved the Plan for Innovation, Growth and Employment (*Piano per l’Innovazione, la Crescita e l’Occupazione* - PICO), which specified the reforms, the measures and the national interventions that could be programmed to pursue the Lisbon objectives and to renew their potential. Priority Axis VI is also coherent with the following measures in the PICO: I- Increase the range of free choice available to citizens and businesses; IV – Upgrade the material and immaterial infrastructure; V – Protect the environment. (See Par. 3.a.3., ROP ERDF 2007-2013).

**Table 1 - Regione Siciliana – Operational Program ERDF 2007-2013 – Total Financial Plan (Amount in €)**

	Contribution from the European Community (a)	National matching funds (b)=(c)+(d)	Indicative distribution of the national matching funds		Total Financing (e) = (a) + (b)	Co-financing Ratio (f)=(a) / (e)
			National public financing (c)*	National public financing (c)*		
<b>Priority Axis I</b> Networks and connections for mobility	719.356.560	719.356.560	719.356.560	0	1.438.713.120	50%
<b>Priority Axis II</b> Efficient use of natural resources	801.101.625	801.101.625	801.101.625	0	1.602.203.250	50%
<b>Priority Axis III</b> Enhancement of the cultural identity and the environmental and landscape resources for tourist attractiveness and development	735.705.574	735.705.574	735.705.574	0	1.471.411.148	50%
<b>Priority Axis IV</b> Diffusion of research and innovation and the information society	163.490.128	163.490.128	163.490.128	0	326.980.256	50%
<b>Priority Axis V</b> Entrepreneurial development and the competitiveness of local production systems	425.074.332	425.074.332	425.074.332	0	850.148.664	50%
<b>Priority Axis VI</b> Sustainable urban development	359.678.280	359.678.280	359.678.280	0	719.356.560	50%
<b>Priority Axis VII</b> Governance, institutional capacity and technical assistance	65.396.051	65.396.051	65.396.051	0	130.792.102	50%
<b>TOTAL</b>	3.269.802.550	3.269.802.550	3.269.802.550	0	6.539.605.100	50%

\* The national public share is constant (50%) for each Priority Axis in the Programme. The national public share includes, in a constant measure for each Priority Axis, the contribution from the Rotating Fund instituted by law n. 183/1987, for the amount of Euro 2,335,861,784 (71.44%), including 47,000,000 Euro for financial rebalancing, and from the Region and/or other public entities participating in the Programme, for the amount of Euro 933,940,766 (28.56%).

**Diagram 1 - Percentage of financial resources allocated to each Priority Axis of OP ERDF 2007-2013 for the Regione Siciliana**



### 3.2. URBAN DEVELOPMENT: MULTI-AXIS APPROACH

The Operational Program of the ERDF 2007-2013 for the Regione Siciliana, within the articulation of its text, includes, as previously shown, a priority axis (**PRIORITY AXIS VI**) specifically dedicated to sustainable urban development, and an explicit statement regarding the possible use of the JESSICA initiative by the Managing Authority for the implementation of urban policies included in this Priority Axis<sup>25</sup>.

PRIORITY AXIS VI, the general objective of which is “to promote economic development, the capacity for attraction and innovation of the city with a view towards sustainable development and social integration” therefore represents the primary planning context within which to proceed for the implementation of JESSICA in Sicily.

It must however be underlined that within this Priority Axis there is no Activity specifically dedicated to projects of sustainable urban development to be financed with the JESSICA mechanism.

As previously shown, PRIORITY AXIS VI was assigned 11% of the total financial resources of the Programme.

<sup>25</sup> See Par. 4.9. ROP ERDF 2007-2013.

If on the one hand the amount of these resources appears undersized with respect to the general objective of the Priority Axis, on the other hand it is important to highlight the complementary relationship and the tendency towards the integration of PRIORITY AXIS VI with the other Priority Axes of the OP, which include projects that can contribute significantly to regional urban development.

In this sense the Guidelines for the enactment of PRIORITY AXIS VI state that the process of enactment of the Priority Axis itself << *must be viewed in relation to the enactment of the other Priority Axes of the OP ERDF – in particular the ones that benefit the Local Governments – taking into account the quantification of the allocated resources which, overall, are more congruous to the effectiveness of the strategies of innovation and competitiveness, compared to the limited amount of resources allocated to PRIORITY AXIS VI>>*.

The **contribution of the other Priority Axes in the O.P. to the pursuit of urban development** is particularly clear in reference to the following projects:

- Within *PRIORITY AXIS I – Networks and connections for mobility*: completion and reinforcement of the transport networks, improvement of accessibility and the mobility of people and goods, and reinforcement of the public mass transportation system;
- Within *PRIORITY AXIS II – Efficient use of natural resources*: rationalization of the demand for energy, support for the production of energy from renewable resources, upgrading and monitoring of the facilities for the production and distribution of energy, completion of investments in the infrastructure to comply with the standards of the water distribution sector and improvement in the efficiency of solid urban waste management;
- Within *PRIORITY AXIS III – Enhancement of the cultural identities and the environmental and landscape resources for tourist attractiveness and development*: projects to revitalize architectural and urban contexts with historical and cultural value, and realization of infrastructure and cultural itineraries, to reinforce the systems that are of interest to tourism;
- Within *PRIORITY AXIS IV – Diffusion of research and innovation and of the information society*: actions to support industrial research and experimental development in order to reinforce the role of urban areas as centres that dispense functions of excellence and superior-level services to businesses;
- Within *PRIORITY AXIS V – Entrepreneurial development and competitiveness of local production systems*: projects whose purpose is to support policies for production systems that develop urban-scale functions or services.

**Urban development therefore represents an aspect that is common to the entire Programme**, as shown by the fact, described above, that one of the instruments of implementation of Priority Axis VI is the inclusion of projects/actions that contribute to urban and regional development and also count as part of other Priority Axes of the OP ERDF, and by the circumstance that the JESSICA Holding Fund of the Regione Siciliana was constituted with resources deriving from several different Priority Axes.

Consequently an absolutely central role is attributed to urban development in the Operational Programme ERDF 2007-2013, in which the analysis of the regional context highlights the fact that the Region's competitiveness is essentially centred on its urban systems, in addition to other dimensions such as local production systems and rural areas.

The analysis of the context explicitly emphasizes the key role played by urban and urban-metropolitan systems in the development processes of the entire regional area, as generators or hubs for the dynamics of renewal.

Though the urban structure of the Region features a prevalence (approximately 72% of the total) of

smaller towns, with a population below 10,000 inhabitants and mostly located in rural contexts, the Sicilian population, as well the majority of foreign residents in search of employment are distributed primarily in the medium to large-size cities<sup>26</sup>.

In particular, the towns with over 30,000 inhabitants, which number 34 (including the provincial capital Enna which counts approximately 28,000 inhabitants) out of a total of 390, and are prevalently located along the coasts, concentrate 54% of the population (statistics 2008)<sup>27</sup>, and most of the productive activities are established there.

In the light of these facts, the O.P. highlights both the importance of cultivating the competitive potential on an interregional scale, and the leadership role of metropolitan cities, medium-sized centres and provincial capitals in the economic and social development processes of the entire Region.

This entails that, on the one hand, medium-size cities must reinforce their urban-grade functions to benefit adjacent communities as well, and on the other hand, larger municipalities must reinforce the production of advanced services of excellence (for people and businesses), since they condense at least one quarter of the entire regional population, or over one third if the issue is considered from a metropolitan point of view.

At the same time, it is deemed appropriate to focus social policies in urban areas, because it is the urban context that prevalently experiences unemployment for the weaker segments of the job market, episodes of discrimination and violation of the principles of equal opportunity, demographic pressure deriving from the concentration of foreign workers, manifestations of lawlessness that obstacle entrepreneurial activities and lower the quality of life of the citizens.

Finally, emphasis is laid on the importance for urban policies in sustaining economic and productive networking and grouping, and in improving the provision of services at a regional inter-municipal scale, favouring interventions with greater impact on the regional areas of reference, in a logic of regional cohesion, integration and poly-centrism that can lead to a reduction in the internal differences and create greater balance to benefit the more marginalized areas.

This strategic approach has been adopted by Priority AXIS VI, both in its content and in the modalities established for its implementation<sup>28</sup>.

PRIORITY AXIS VI in fact seeks to simultaneously promote and integrate policies in favour of entrepreneurship and employment, and policies for community development, in the form of a better provision of services to the citizens, and of social cohesion through the improvement of living conditions and environmental quality in disadvantaged urban areas and neighbourhoods.

As shown in Table 2, the general objective of this Priority Axis is articulated in two Specific Objectives, in turn divided into four and two Operational Objectives.

The six Operational Objectives are also divided into 23 Activities, for which 8 Regional Departments will serve as Centres of Responsibility.

<sup>26</sup> In 2005 (ISTAT census of the resident population as of 1 January 2006), the towns with a population greater than 20,000 inhabitants counted over 65% of the resident population, whereas the share of the region's population resident in towns with over 30,000 inhabitants was equal to 53%. 67.4% of foreigners were resident in the urban areas (See OP ERDF Regione Siciliana).

<sup>27</sup> Almost half of the population is concentrated in the three cities of Palermo, Catania and Messina.

<sup>28</sup> In this sense Axis VI hinges on the urban policies delineated by the European Union, with reference to the communication of the Commission to the Council and Parliament COM (2006) 385 final "Policies of cohesion and the city: the contribution of cities to growth and occupation in regional development", and to the Leipzig Charter for sustainable European Cities dated May 2007.

**Specific Objective 6.1 – *To reinforce urban services in the metropolitan areas and medium-sized cities*** targets **cities that are provincial capitals** and **cities with a population greater than 30,000 inhabitants.**

Objective 6.1 aims, within the larger cities, to stimulate the attraction of private investments and the further development of services in the more advanced sectors, to foster the regeneration and sustainability of the welfare system by improving the quality and quantity of urban services – typically public and public-private – available to people and to business.

**Specific Objective 6.2 – *To create new centralities and enhance urban renewal by building new hubs of development and services for a wider-ranging usership*** - aims to create, within the **smaller urban centres (with less than 30,000 inhabitants)**, diffused hubs of development and services for a usership beyond the local level, to foster greater balance and cohesion in the region.

Table 2 - Priority Axis VI – Sustainable Urban Development

Specific Objective	Operational Objective	Activities
6.1 - Reinforce urban services in metropolitan areas and medium-size cities	6.1.1 - To build urban-scale structures and projects for the establishment and development of activities and services, which could also support the entrepreneurial system.	6.1.1.1; 6.1.1.2; 6.1.1.3; 6.1.1.4
	6.1.2 - To strengthen regional health centres and adopt advanced technology for services of greater quality	6.1.2.1; 6.1.2.2; 6.1.2.3
	6.1.3 - To upgrade the structures of urban services and mobility to respond to criteria of social and environmental quality.	6.1.3.1; 6.1.3.2; 6.1.3.3; 6.1.3.4; 6.1.3.5; 6.1.3.6; 6.1.3.7
	6.1.4 - To reinforce the network of prevention services and of activities aimed at the more disadvantaged situations in the urban areas.	6.1.4.1; 6.1.4.2; 6.1.4.3; 6.1.4.4
6.2 - To create new centralities and enhance urban renewal by creating new hubs for development and services with wider-ranging usership	6.2.1 - To build urban renewal projects for the creation of hubs of development and services.	6.2.1.1; 6.2.1.2
	6.2.2 - To revitalize and regenerate areas in critical condition or under-utilized.	6.2.2.1; 6.2.2.2; 6.2.2.3

The **beneficiaries of Priority Axis VI** are: Regione Siciliana, Public Bodies, Local Government Bodies, Trade Fair Entities, Temporary Associations for Public/Private Purposes, public corporations, consortia between public bodies, Agencies or companies dependent or under the supervision of the Regional or City Administration, scientific research and health institutes, individual or associated Social Companies, RPA, Private non-profit agencies, Associations of the third sector, A.U.S.L., Hospitals, IRCCS public University Hospitals (individual or associated).

It should be emphasized that private companies as such are not included among the beneficiaries of Priority Axis VI.

As established by the document *Eligibility Requirements and Selection Criteria*, Local Government Bodies, and therefore **City Administrations – are included among the beneficiaries in all the descriptions of the Activities of Priority Axis VI, except for the Activities under the responsibility of the Health**

**Department, related to Operational Objective 6.1.2 and the reinforcement of Health Centres** (6.1.2.1, 6.1.2.2, 6.1.2.3.). These Activities should not be included in the Integrated Plans for Urban and Regional Development drafted by Local Government Agencies.

### 3.3. MECHANISM FOR THE IMPLEMENTATION OF PRIORITY AXIS VI (SYNTHESIS)

Coherently with the objective of enacting urban policies with a scope and impact that transcend the local level, and with the intent to pursue coherent development policies, the modalities and instruments established for the implementation of Priority Axis VI have been chosen to encourage a process that involves the regions in a logic of “regional cohesion” and participation in the processes of multilevel *governance*, which include the participation of larger cities, as engines of development, in processes to strengthen attractiveness, innovation and competitiveness throughout the entire “Sicily system”.

The Operational Programme establishes that Specific Objective 6.1. be implemented by means of **Piani Integrati di Sviluppo Urbano** (P.I.S.U. - Integrated Urban Development Plans), and that Specific Objective 6.2 be implemented with instruments of renewed integrated planning, represented by the **Piani Integrati di Sviluppo Territoriale** (P.I.S.T. – Integrated Regional Development Plans).

It must however be emphasized that the **P.I.S.U. must be included in the P.I.S.T.**, with which they must prove to be coherent; therefore the P.I.S.T. will contain projects that will be financed with reference to both Specific Objective 6.1, and to Specific Objective 6.2.

#### “Integrated Plan for Sustainable Urban Development”

It is worth recalling here that, according to art.44 of Regulation (EC) 1083/2006, the projects eligible for financing with JESSICA instruments must be included in an “integrated plan for sustainable urban development”.

The regulation does not specify the criteria for the identification of an integrated plan for sustainable urban development, though it may be defined as a system of interconnected interventions whose purpose is to permanently improve the economic, physical, social and environmental conditions of a city or a neighbourhood.

This definition covers various instruments of integrated city planning within the Member States or the different Regions of the same State.

The Regione Siciliana has chosen to restrict the areas of planned integration within which to select projects that may apply for JESSICA investments to the P.I.S.U. and P.I.S.T.

The “Guidelines for the implementation of Priority Axis VI”, approved in Council Deliberation n.431 dated 29 October 2009, establish that Local Government Bodies gathered into **Regional Coalitions** – formalized by a Protocol of Agreement<sup>29</sup>, can present the following, **as part of the P.I.S.T.**:

<sup>29</sup> Following the Public Announcement for the regional implementation of the OP ERDF 2007-2013, Priority Axis VI “Sustainable Urban Development” (published in the GURS n.51 dated 6 November 2009), 26 Regional Coalitions were constituted by the beneficiary Local Government Bodies, on the basis of specific Protocols of Agreement, for the development of twenty-six P.I.S.T.

- Projects for interventions/actions to be funded in relation to Specific Objective **6.1**, as part of the **P.I.S.U.** at the urban scale for cities with over 30,000 inhabitants and/or provincial capitals<sup>30</sup>;
- Integrated projects for interventions/actions (also integrated), involving Activities referring to **other Priority Axes of the O.P. ERDF**, which contribute to the implementation of Priority Axis VI;
- Projects for interventions/actions based on **other Programmes of the Regione** (PAR FAS, PO FSE, PSR Sicilia, PO FEP<sup>31</sup>, transnational Programmes Italy-Malta and Italy-Tunisia) to decide jointly with the responsible Departments who have signed the Inter-Departmental Agreements between Managing Authorities;
- **Projects for urban development and public-private partnership (PPP) initiatives, to be funded with loans from the Urban Development Funds activated on the basis of the JESSICA initiative.**

As a consequence, a requirement for a project to be able to apply for JESSICA investments is that it be included in the P.I.S.T. (Integrated Regional Development Plans) and the P.I.S.U. (Integrated Urban Development Plans).

The process of developing and presenting the Integrated Plan takes place in three successive phases<sup>32</sup>, characterized by a negotiation/assessment procedure, which includes verification of eligibility and an assessment, both with reference to the Integrated Plans as a whole, and with reference to the individual operations of which it consists. The negotiation/assessment procedure, which is activated in each of the various phases, produces a final output that consists in a ranking of merit for the operations eligible for outright grants, to be attributed to the Activities of Priority Axis VI and other Priority Axes of the ROP that will finance the operations included in the Integrated Plans (P.I.S.U. and P.I.S.T.).

On this subject, it must be underlined that the **JESSICA operations** – which must be coherent with the JESSICA Activities, i.e. those Activities that have contributed to the constitution of the JESSICA Holding Fund – **are not subject to the above-mentioned negotiation/assessment procedure.**

However, their inclusion into the Integrated Plans for urban and regional development (P.I.S.T. and P.I.S.U.) are the premise for their access to the selection and financing procedure by the UDF. **This List of projects may be modified and added to by the Regional Coalitions in relation to specific operational requirements agreed upon with the UDF even after the presentation of the Integrated Plans.**

Below is a chart (Chart 2), which details all the Activities attributed to Priority Axis VI and the other Priority Axes of the OP ERDF, and the relative available financial resources designated to fund grants for the projects included in the Integrated Plans. This chart also highlights the **Activities that have contributed to the constitution of the JESSICA Holding Fund** and the relative financial resources available to them, **which are meant to provide rotating funds for the**

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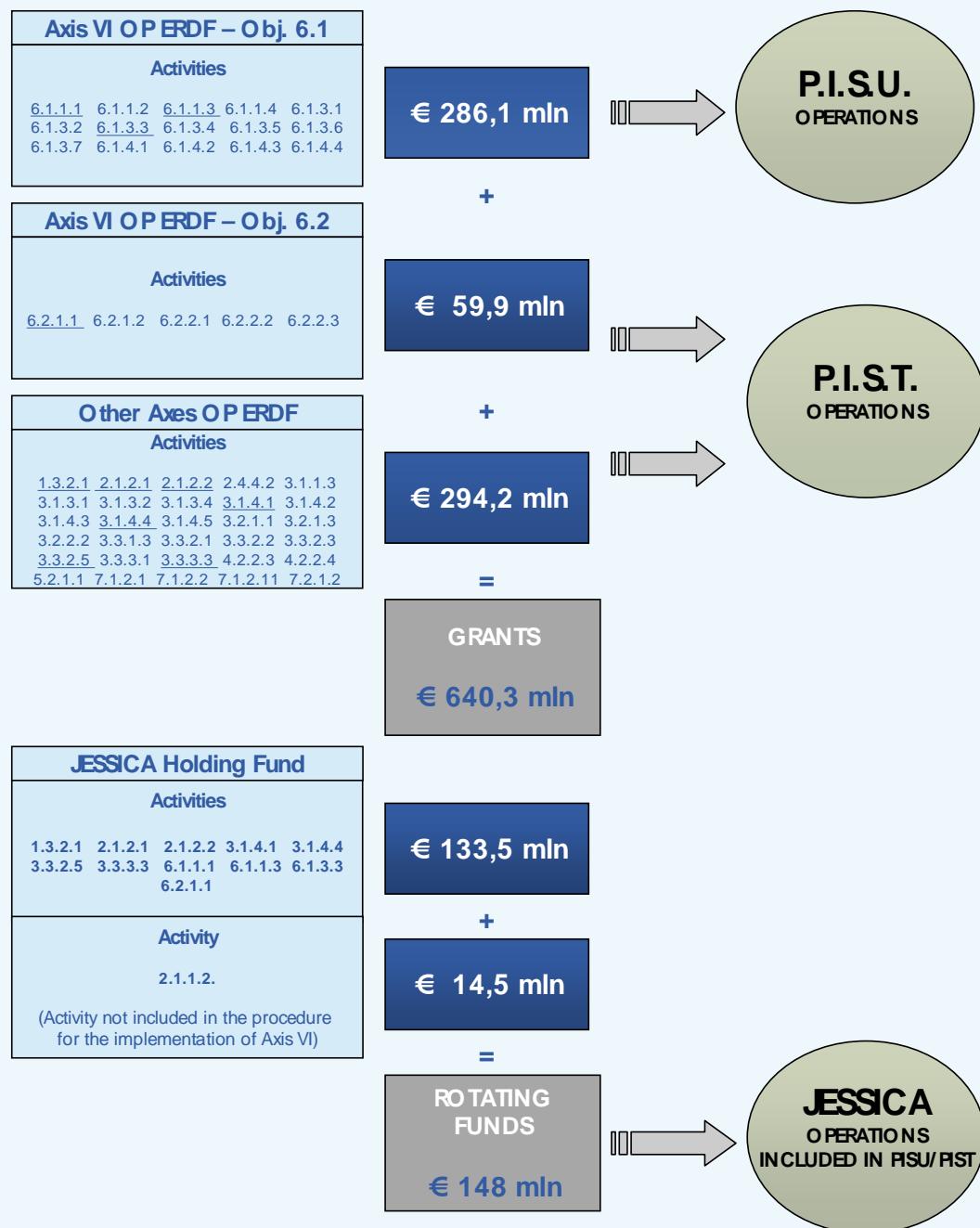
<sup>30</sup> As shown above, the PISU/PIST cannot include projects relating to Activities 6.1.2.1, 6.1.2.2, 6.1.2.3.

<sup>31</sup> These are the: “Programma Attuativo Regionale Fondi Aree Sottoutilizzate” (Regional Enactment Programme FAS Funds), the “Programma Operativo Fondo Sociale Europeo” (the Operational Programme of the European Social Fund), the “Programma di Sviluppo Rurale” (the Rural Development Programme), and the “Programma Operativo Fondo Europeo per la Pesca” (the Operational Programme European Fishing Fund”.

<sup>32</sup> “First preliminary window” (deadline for the presentation of the documentation: 15 April 2010); “Second window” (deadline for the presentation of the documentation: 19 July 2010), “Third window” (deadline for the presentation of the documentation: 31 May 2011).

**JESSICA operations included in the Integrated Plans.**

**Diagram 2 – Financial resources available for sustainable urban development**



## 4. PLANNING PROCESSES AND URBAN PROJECTS UNDER WAY IN THE REGIONAL CONTEXT (IN THE PERSPECTIVE OF JESSICA)

### 4.1. STRATEGIC PLANS AND OTHER PLANNING INSTRUMENTS FOR SUSTAINABLE URBAN DEVELOPMENT

The first phase of the Study, which began in October 2009, was dedicated to the examination of the planning processes developed in Sicily, with the purpose of:

- Identifying the potential demand for JESSICA-typology funding
- Providing the Regione Siciliana with an approximate quantification of the resources to allocate to the Holding Fund, which was in the process of constitution at the time<sup>33</sup>,
- Selecting “pilot-cases” on which to concentrate the successive analysis which could effectively represent the planning initiatives currently underway and could therefore serve as a model to reproduce in local contexts other than the ones under consideration.
- Defining the articulation and typology of Urban Development Funds in Sicily.

First, the decision was made to examine the projects contained in the Strategic Plans, for the following reasons:

- **The experience of the Strategic Plans** (currently in the process of being developed and approved) **involves over 200 municipalities**, given that there are **32** Strategic Plans promoted in Sicily and approximately half of them refer to one single Municipality (with a population greater than 30,000 inhabitants), and **15 are inter-municipal**.
- The Strategic Plans not only define the development strategy, often beyond the local scale, with an integrated systematic approach between non-homogeneous parts of the same region (urban and rural), but they are also instruments that have systematized previous programming experiences;

Both the OP ERDF and the document “Guidelines for the regional enactment of the OP ERDF 2007-2013, in reference to Priority Axis VI – sustainable urban development – both in the draft dated 23 July 2009 and the definitive version approved by Council Deliberation n. 431 dated 29 October 2009 – define the Strategic Plans, because of the aspect highlighted in the preceding point, as the primary reference for the definition of the Integrated Plans for Urban Development<sup>34</sup>.

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<sup>33</sup> In particular, during the period between the end of October and the beginning of November 2009, a series of meetings was held with the Regional Planning Department and other Regional Departments (Cooperation, Energy Department, Industry Department, Public Works Department, Tourism Department, Cultural Heritage Department, Budget and Treasury Department), which became an important opportunity to underline the advantages of allocating resources to the Regional Holding Fund, and to clarify the modalities for managing the resources conferred to the Fund. These encounters provided the opportunity to illustrate to the Departments the preliminary results of the analysis conducted on the projects under development by the Cities, to provide elements that could help guide the choice of Activities in the ROP which might be most appropriately allocated for the constitution of the Holding Fund, and offer an approximate quantification of the demand for financial resources required by the selected projects.

<sup>34</sup> On this subject, it must be remarked that a significant share of the FAS (Underutilized Area Funds) was invested to promote the Strategic Plans.

### The Strategic Sicilian Plans

The Strategic Plans developed by the cities and by local aggregations of municipalities were financed with FAS funds allocated by the central government in 2004 (CIPE deliberations n. 20/2004 and n.35/2005) – with the sole exception of the Municipal Plan of Caltagirone financed with other resources than those in the CIPE deliberation – to favour sustainable urban development in “underutilized areas” of the country and aimed towards the pursuit of the objectives and strategies defined in the Lisbon and Göteborg Strategies.

The financial effort by the central government derives from the recognition that strategic planning, as it developed in Europe and in the world starting at the end of the Eighties, is an instrument than can structure and optimize the role of cities and regional realities as hubs of excellence of material and immaterial networks, or as veritable centres of research and innovation. In other words, the central government stimulated the production of Strategic Plans in the cities of southern Italy in order to give those areas adequate instruments to maximize the benefits that derive from the use of EC funding during the 2007-2013 programming period.

Though recognizing that it is impossible and inappropriate to codify a priori the processes of developing and managing strategic plans, the central government provided Guide Lines, based primarily on the major inspiring principles of the strategic plans that have proven to be most effective, both nationally and internationally.

The Sicilian Strategic Plans, though they can differ significantly from one another in terms of structure and content, were developed in coherence with these Guide Lines and:

- Define a political design of sustainable development and strategic and competitive repositioning in a medium to long-term perspective,
- Identify mechanisms of connection to city planning at various scales on the basis of a vision of guidance projected onto the territory,
- Identify strategic directions for development at the urban, inter-municipal and greater area scale regarding several key contexts such as: the production of public/collective goods and services, economic and social safety, the battle against physical and social decay, environmental quality, attractiveness and competitiveness of the urban-regional context, effectiveness of administrative and institutional action,
- Define specific actions instrumental to the pursuit of the directions in strategic development,
- Can identify and build effective partnership structures to structure and manage the implementation structures of the Plan itself (the definitive draft of the Strategic Plan can be accompanied by an Agreement signed by the public and private actors involved in its realization).

In particular, it was decided to concentrate attention on the Strategic Plans related principally to urban areas, in coherence with the objectives of the JESSICA initiative to promote sustainable urban development projects.

Many of the Sicilian Strategic Plans are currently in the process of elaboration, therefore a definitive plan document is not yet available.

Nevertheless, in some cases it has been possible to establish direct contact with the administrations responsible for them and to obtain information about the planning initiatives and projects currently being incorporated into the definitive Plan document, though not all of them include a cost estimate.

In particular, the following Strategic Plans, available at a definitive or intermediate stage, were examined:

- **6 inter-municipal Plans: Agroericino (leader Erice –TP), Terre Sicane (leader Sciacca – AG), Terre Iblee (leader Ragusa), Valle dell’Ippari (leader Comiso – RG), August (SR), Catania<sup>35</sup>;**
- **12 Municipal Plans: Trapani, Mazara del Vallo, Alcamo, Termini Imerese, Agrigento, Caltanissetta, Gela, Enna, Modica, Caltagirone, Messina, Barcellona Pozzo di Gotto.**

In other cases in which the list of projects was not yet available, it was decided to conduct an analysis of the intermediate documents of the Strategic Plan and of other programming/planning tools, as in the case of **Palermo, Siracusa and Messina**.

In other cases yet, it was decided to deal directly with the competent local administrations to understand the planning processes underway, as in the case of Ragusa, Siracusa, Caltagirone and Trapani in particular<sup>36</sup>.

Out of all the planning processes that were examined, a selection was made of the potentially “jessicable” projects, i.e. projects that could be transformed into interventions or “packages of interventions” to be financed with the financial mechanism introduced by JESSICA.

The criteria adopted to make this selection were based on the following aspects:

- Return capacity of the investment, in relation to both the interventions considered individually, and the full “planning packages”;
- The possibility of constituting a public-private partnership to fulfil the above-mentioned requisite;
- The capacity of the interventions – considered individually or as part of a “planning package” – to become the catalysts for a real process of sustainable urban development or more simply for the exploitation of real-estate assets; in this perspective, the selection process was oriented towards projects to restore and renovate existing structures rather than projects for new construction.

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<sup>35</sup> The inter-municipal Strategic Plans under examination include the following municipalities: Agroericino – 6 Municipalities (Erice, Valderice, San Vito Lo Capo, Custonaci, Castellammare del Golfo, Buseto Palizzolo); Terre Sicane- 9 Municipalities ( Sciacca, Santa Margherita del Belice, Sambuca di Sicilia, Ribera, Montevago, Menfi, Cattolica Eraclea, Caltabellotta, Calamonaci); Terre Iblee- 5 Municipalities (Ragusa, Monterosso Almo, Giarratana, Scicli, Chiaramonte Gulfi); Valle Dell’Ippari – 4 Municipalities (Comiso, Vittoria, Santa Croce Camerina, Acate); Augusta-11 Municipalities (Augusta, Solarino, Priolo Gargallo, Melilli, Lentini, Francofonte, Florida, Ferla Cassaro, Carlentini, Buscami, Bucceri); Catania-9 Municipalities (Catania, Tremestieri Etneo, Sant’Agata li Battiati, San Pietro Clarenza, San Giovanni la Punta, Misterbianco, Mascalucia, Gravina di Catania, Aci Bonaccorsi).

<sup>36</sup> In the case of the inter-Municipal Strategic Plan of Ragusa “Terre Iblee – Mari e Monti”, the encounter with the Municipal Administration of Ragusa made it possible not only to acquire the list of projects in the Strategic Plan, but also to highlight new planning initiatives promoted by the City of Ragusa and not included in the Plan, which demonstrate significant potential in view of the future implementation of the JESSICA mechanism.

Whereas in the case of the Strategic Plan of the City of Caltagirone “Caltagirone 2010”, completed in July 2004 – the only Strategic Plan in Sicily financed with resources not covered by CIPE deliberations n.20/2004 and n.35/2005 – the direct contact with the City Administration proved particularly useful for understanding the planning processes underway in the City, in that the above-mentioned Strategic Plan is partly obsolete and many of the planning projects in it have already been completed.

## 4.2. EMERGING PROJECTS AND MAIN THEMATIC AREAS

The examination of the planning processes currently in progress highlighted several recurring thematic areas. It appeared useful to highlight these themes and to group the selected projects by thematic area, for two purposes:

- to select the resources of the ROP ERDF that are most appropriate to allocate;
- to define the future channels of disbursement for the resources that will be allocated to JESSICA (typology and articulation of the Urban Development Funds).

The selected projects were grouped into the following thematic categories:

- A - Environmental regeneration and renovation/revitalization of the *Waterfront*;
- B - Revitalization of historic city centres and brownfields / restoration of large historic or industrial buildings;
- C - Systems for managing and saving energy resources, natural resources and waste;
- D - Sustainable urban mobility and rationalization of the accesses to historic city centres;
- E - Development of regional amenities at the service of business and local production;
- F - Gathering places for young people, to designate as green spaces or sporting facilities.

A table was then elaborated listing all the selected projects grouped by thematic area, and accompanied by indications of the following elements:

- a) the programming/planning tool they were chosen from;
- b) site of the project;
- c) level of definition of the project initiative<sup>37</sup>;
- d) cost estimate of the project, if available.

To provide an easier reading of the results deriving from the aggregation of the projects selected for Terni, a synthesis was made in the chart below.

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<sup>37</sup> The level of definition of the project initiative was divided into 3 categories:  
IDEA-PROJECT, which indicates that this is a concept-project or that there is already a feasibility study;  
MEDIUM, which indicates preliminary design drawings;  
ADVANCED, which indicates the presence of a definitive design and/or working drawings.

Table 3 - Subdivision of the projects per thematic area (synthesis chart)

THEME	N. Selected projects	% of total	N. projects complete with cost estimate	% of total projects relative to the same Theme	Resources requested € /Mln	% of total resources requested	Average cost per Project € /Mln
A- Environmental cleanup and Waterfront regeneration	24	18%	17	71%	1.502,312	56%	88,37
B- Conversion of historic and industrial buildings and brownfields	67	49%	45	67%	931,98	35%	20,71
C- Energy efficiency, renewable energy, waste management	10	7%	8	80%	56,086	2%	7,01
D- Sustainable urban mobility	23	17%	13	57%	85,461	3%	6,57
E- Support structures for entrepreneurship	4	3%	4	100%	58,55	2%	14,64
F- Infrastructure for sports and recreation	9	7%	7	78%	33,026	1%	4,72
<b>Total</b>	<b>137</b>	<b>100%</b>	<b>94</b>	<b>69%</b>	<b>2.667,415</b>	<b>100%</b>	<b>28,38</b>

The table above provides a summary, in reference to each specified Theme, of the number of selected projects, of the projects that include a cost estimate and their incidence with respect to the total of the projects inherent to the same Theme, as well as the resources required for each grouping, in proportion to the total.

It shows that out of the 137 projects selected, only 94 (69% of the total) included the cost estimate, equal to a total of 2,667,415 million Euro.

Though most of the selected projects were at a phase in the design process that made it possible to get an idea of the costs involved, it is worth specifying however that these costs must be considered as purely indicative, for two reasons:

- because they derive from clearly inaccurate estimates (this is the case when the planning initiative is still in the phase of project-concept or feasibility study);
- because they refer only to the construction of infrastructure or public facilities and not to the construction of complex projects, which include components to generate returns.

The scheme of the Table above – which has no pretence of scientific basis, because the selection of the projects was drawn from only one part, however important, of the planning processes of Sicilian municipalities, and because the costs estimated for the projects are to be considered, for the reasons described above, as merely indicative – can provide a useful indication of the scope of the overall demand for resources and especially the proportion of this demand in reference to each of the Themes under consideration.

This could be useful to identify which Activities that might be activated, out of all the ones from which resources were drawn for the constitution of the regional JESSICA Holding Fund and, in the final analysis, to verify the capacity for spending the resources of the Fund itself.

**Theme A – “Environmental cleanup and regeneration/renovation of the Waterfront”** is the

one that presents the greatest demand for economic resources (equal to about 56% of the total resources requested). This is not so much due to the large number of projects that are included in this grouping – which numerically represent 18% of the total number of selected projects – as to the fact that on the average they have rather high costs, because of their significant complexity. These are projects that include many interventions involving environmental regeneration and the structural regeneration of *Waterfronts*, the renovation of existing structures or the construction of new infrastructures to establish functions intrinsic to port activities or complementary to them (for example commerce, food services, hospitality) and interventions involving roads or parking areas and in some cases the transfer of functions (for example industry or production) currently located on the *Waterfront*.

The synthesis in previous Table highlights, on the contrary, the **clear numerical predominance** of projects (equal to 49% of the total projects selected) inherent to **Theme B “Revitalization of the historic city centres and brownfields / regeneration of large historic or industrial buildings”**.

This typology of project is in fact included in most of the Strategic Plans under examination. The reason lies primarily in the circumstance that the revitalization and repopulation of the historic city centres of Sicilian cities – which in many cases are in a state of abandon and decay though they include buildings (both public and private) of historical and architectural value - is identified by Local Government Bodies as a strategic action to activate a process of social and economic development of the entire city, thanks to the downstream effects on tourism, real-estate, commerce and society.

The result is a diffused planning process regarding the restoration and regeneration of publicly-owned historical buildings – there is a lesser proportion of industrial buildings – and their revitalization. It must also be highlighted that the selection considered only those projects that included the establishment of not only public functions, but also and especially cultural, commercial, hospitality, and other activities that can generate income and therefore show a capacity for a return on the investment, which is a requirement for admission to the JESSICA mechanism.

Considering only the projects that include a cost estimate, the demand for resources for the projects in Theme B is equal to 35% of the resources requested overall.

**Theme C – “Systems for managing and saving energy resources, natural resources and waste”** gathers 10 large projects – some of which are composed of several interventions involving different buildings or areas<sup>38</sup> - including one that concerns the construction of a waste management system (Augusta-SR) and another regarding projects for optimization/efficiency, savings and energy production from renewable resources.

The projects to optimize and reduce energy consumption consist primarily in the insulation of buildings, the modernization of HVAC systems and the installation of systems and components for high energy-efficiency lighting systems. In reference to the projects regarding the production of energy from renewable resources, only one project, included in the Strategic Plan for the Valle dell’Ippari (Province of Ragusa), involves the construction and completion of a methane plant and a facility to reuse biogases produced by landfills, while others, where specified, involve the installation of photovoltaic systems on the roofs of the buildings in the project.

The demand for resources for the projects inherent to the Theme in question is 56 million Euro,

<sup>38</sup> On this subject it must be specified that in the case of Caltagirone, several projects regarding the optimization of energy use and production with photovoltaic systems or for public lighting were considered as a single project (Palazzo dell’Aquila, Edificio Ex Officine Elettriche, Palazzo dell’Educandato S. Luigi, Palazzo dei Padri Crociferi, Palazzo ex Collegio Gesuiti, Borgo S. Pietro e Scuole Comunali, Palazzo Reburdone).

equivalent to 2% of the resources requested for all the selected projects that include cost estimates. It must however be underlined that the actual demand for resources for projects “based on energy” is greater, because many of the projects to restore historic and industrial buildings (Theme B) include a component dealing with energy efficiency, savings and production.

**Theme D “Sustainable urban mobility and rationalization of accesses to historic city centres”** includes many projects to build new parking areas – projects that are often funded by *project financing* operations – and projects concerning public transportation services with a low environmental impact (electric shuttle buses, above-ground subway systems, mechanized connection systems and elevators) to redesign urban mobility, by rationalizing the accesses to the historic city centres and revitalizing abandoned railway belts. These are projects that are particularly appropriate for the constitution of PPPs, because they include or have the potential to include components that can generate income, derived from a fee system (as in parking lots, for example) or from the functions – such as commercial activities, restaurants, hospitality, etc. – which can be established in or near the nodes/modal stations.

It must be underlined that the demand for resources deriving from the projects that belong to this grouping, equal to 85 million Euro, is underestimated because only a small percentage of the selected projects includes a cost estimate, and because, as we have shown, this estimate does not include the planning components that generate income.

**Theme E – “Development of regional facilities at the service of entrepreneurship and local productions”** is the one with the smallest number of projects (four in all), because they were selected because they included a component of urban development and renewal within the project. Nevertheless, it must be noted that the demand for resources for these projects amounts to circa 58 million Euro, since the projects are particularly complex and costly on the average.

Finally **Theme F – “Gathering places for young people, to designate as green spaces or sports facilities”** includes only 9 projects and corresponds to a demand for resources equal to a mere 1%.

It must be said that the examination of the planning processes in Sicilian municipalities revealed a larger number of projects for the construction and regeneration of sports facilities – many of them in schools – than the number of projects in the selection.

In this case, too, the selected projects were those that, within their complexity, could potentially include components that generate income, and are therefore coherent with the criteria of “Jessicability” concerning the capacity to repay the investment. It must also be underlined that the complex projects for the construction of sports structures or facilities – such as sports centres or stadiums – have the potential to generate income, and as such are capable of attracting private capital and encouraging the constitution of PPPs.

## 5. OPERATIONAL MODES FOR THE JESSICA HOLDING FUND IN SICILY

### 5.1. CONSTITUTION OF THE HOLDING FUND

During the months of October and November 2009, five Regional Departments (Energy, Public Works, Transportation, Cultural Heritage, Tourism) wrote respective memos to state their interest in applying for the JESSICA initiative, identifying the Actions pertaining to their own responsibilities in the ERDF OP Sicily 2007-2013 and the relative resources to be allocated.

On 11/19/2009 a Funding Agreement was signed between the EIB and the President of the Regione Siciliana<sup>39</sup> - subsequently approved by D.P.n.373/S VIII DRP dated 11/23/2009 – with the purpose of establishing a regional JESSICA Holding Fund and agreeing on the Fund's rules of *governance*. In particular, the Funding Agreement states that the Holding Fund will be managed and administered by the EIB – within which it will be organized as a “separate block of finance” – which will, in the name of and on behalf of the Managing Authority, perform all the tasks required for the implementation of the Holding Fund (so-called “JESSICA Action”).

In addition, it specifies that the Holding Fund will be constituted with an initial contribution deposited by the Managing Authority in the amount of **€148.068.359,00** which can be increased at a later date.<sup>40</sup>

As stated earlier, five Regional Departments participate in this contribution, with the following financial allocations – referring to 12 Actions related to 4 Priority Axes of the ERDF OP – identified in the deliberation of the Regional Government n.444 dated 11/13/2009<sup>41</sup>.

● Department of Energy	€ 54.868.359,00
● Department of the Cultural Heritage	€ 20 000.000,00
● Department of Public Works	€ 20.000.000,00
● Transportation Department	€ 18.200.000,00
● Department of Tourism	€ 35.000.000,00

Below is a table that lists the resources transferred to the JESSICA Holding Fund, divided by Actions, as indicated in the respective memos of the interested Regional Departments.

<sup>39</sup> More precisely, the Agreement was signed by the Representative of the EIB and the Managing Authority of the OP ERDF Sicily 2007-2013, the General Accountant of the Regione and the General Managers of the Departments that participated in the constitution of the Holding Fund.

<sup>40</sup> Article 6.1 of the Funding Agreement states that this amount “could be increased to a maximum total amount of EUR 199 million without the need for amending this Agreement, provided that this contribution is made before 03/31/2010”. In fact, this did not happen. It must be underlined however that art. 6.2 of the Agreement states: “Without prejudice to Article 6.1, upon a satisfactory level of commitments vis à vis the Operations and with the agreement of the EIB, the Managing Authority may as required contribute additional funds available under the OP Sicily to the JESSICA Holding Fund.”

<sup>41</sup> In Deliberation n.444 dated 11/13/2009, the Regional Government deliberated to accept the plan of the Funding Agreement between the EIB and the Regione Siciliana for the implementation of the JESSICA European Community initiative, including the total amount of the resources that the Regional Departments interested in the initiative had shown interest in conferring.

**Table 4 – List of resources conferred to the JESSICA Holding Fund, divided by the Actions of the ERDF OP 2007-2013**

Regional Departments	Actions of the ERDF OP 2007-2013	Resources conferred to the HF (€)
Department of Energy	<b>2.1.1.2</b> Actions to support the production of energy from renewable sources, by local government agencies and other public parties and to benefit productive areas	14.506.954,40
	<b>2.1.2.1</b> Actions to support increased energy efficiency in final uses and to reduce climate-changing emissions, especially in the sectors of industry, transportation and social-health construction, including demonstrative actions, with incentives for co-generation and tri-generation, among others..	20.711.984,20
	<b>2.1.2.2</b> Development and implementation of locally integrated programmes, which may also include demonstrative actions, to reduce climate-changing emissions by aiming for energy self-sufficiency, in the sectors of industry and transportation among others, by exploiting renewable energy sources, and using hydrogen as an energy vector	19.649.420,40
Subtotal	<b>54.868.359,00</b>	
Department of the Cultural Heritage	<b>3.1.4.1</b> Creation of cultural infrastructures to improve the quality of life of the residents and the cultivation of local identities	14.714.111,20
	<b>3.1.4.4</b> Regeneration projects for rural contexts with historical and cultural value	5.285.888,80
Subtotal	<b>20.000.000,00</b>	
Department of Public Works	<b>6.1.1.1</b> Projects for integrated regeneration, with criteria of architectural quality and sustainable building, for the establishment, incubation and reinforcement of urban and metropolitan functions and services, possibly by means of the adaptive reuse of existing structures or forms of bailment of abandoned public real-estate assets.	10.000.000,00
	<b>6.1.1.3</b> Projects for the renovation and/or completion of buildings for pre-school education, school or university-level education with the purpose of offering regional services (social, health, cultural, sports, etc.) and helping to reconcile work and family life.	9.000.000,00
	<b>6.2.1.1</b> Integrated urban regeneration project to establish and/or enhance service centres (for business, social, cultural, sports, health, infancy, etc.) as magnets beyond the local level.	1.000.000,00
Subtotal	<b>20.000.000,00</b>	
Department of Tourism	<b>3.3.2.5</b> Structural and infrastructural interventions for the implementation of the regional strategic plan for tourist ports, giving priority to the construction of safe havens with flexible reception capacity in the smaller islands and in the major tourist locations.	30.000.000,00
	<b>3.3.3.3</b> Interventions in the centres with greatest tourist attraction and in sites of interest for better fruition by visitors, such as the installation of proper street signage and detailed information panels or the construction of new parking areas, possibly with the participation of private financial resources, to be implemented with the procedures set on in L.109/94.	5.000.000,00
Subtotal	<b>35.000.000,00</b>	
Department of Transportation	<b>6.1.3.3</b> Incentives for the development of plans for mobility and the growth of car sharing	8.600.000,00
	<b>1.3.2.1</b> Construction of parking lots for modal interchange	9.600.000,00
Subtotal	<b>18.200.000,00</b>	
<b>TOTAL</b>	<b>148.068.359,00</b>	

As highlighted in Chapter 3 of this Study, Action 2.1.1.2 is the only one that is not included in the Priority Axis VI implementation procedure.

It must be underlined that as per Presidential Decree dated 5 December 2009, n.12 – “*Rules of enactment for Title II of Regional Law 16 December 2008, n.19, concerning standards for the reorganization of the Regional Departments. Legislation of the Government and Administration of the Region*”<sup>42</sup>, the Regional Departments that are responsible for the Actions and have conferred resources to the Holding Fund have been reduced from 5 to 4, because of the unification of the Department of Public Works and the Department of Transportation into the new Regional Department of Infrastructure, Mobility and Transportation.

Furthermore, as shown in the following table, **the new Department has become responsible for Action 3.3.2.5, previously assigned to the Department of Tourism.**

Table 5 – JESSICA Holding Fund – List of Actions and new Responsibilities of the Regional Departments

Action	Regional Department Originally Responsible	Regional Department Now Responsible	Contribution to the JESSICA Holding Fund
1.3.2.1	Department of Transportation	Department of the Infrastructure, Transportation and Mobility	9.600.000,00
2.1.1.2			14.506.954,40
2.1.2.1	Department of Energy	Department of Energy	20.711.984,20
2.1.2.2			19.649.420,40
3.1.4.1	Department of the Cultural and Environmental Heritage and Permanent Education	Department of the Cultural Heritage and Sicilian Identity	14.714.111,20
3.1.4.4			5.285.888,80

<sup>42</sup> Published in the GURS n.59 21 December 2009 (Part I).

**Table 5 – JESSICA Holding Fund – List of Actions and new Responsibilities of the Regional Departments**

Action	Regional Department Originally Responsible	Regional Department Now Responsible	Contribution to the JESSICA Holding Fund	
3.3.3.3	Interventions in the centres with greatest tourist attraction and in sites of interest for better fruition by the visitors, such as the installation of proper street signage and detailed information panels or the construction of new parking areas, ... (catg. nn. 13, 57, 78)	Department of Tourism	Department of Tourism, Sport and Entertainment	5.000.000,00
3.3.2.5	Structural and infrastructural interventions for the implementation of the regional strategic plan for tourist ports, giving priority to the construction of safe havens with flexible reception capacity in the smaller islands and in the major tourist locations. (catg. nn. 30, 57, 5)			30.000.000,00
6.1.1.1	Projects for integrated regeneration, with criteria of architectural quality and sustainable building, for the establishment, incubation and reinforcement of urban and metropolitan functions and services, (catg. n. 61)		Department of Infrastructure, Mobility and Transportation	10.000.000,00
6.1.1.3	Projects for the renovation and/or completion of buildings for pre-school education, school or university-level education with the purpose of offering regional services.... (catg. nn. 61, 75, 77, 79)	Department of Public Works		9.000.000,00
6.2.1.1	Integrated urban regeneration project to establish and/or enhance service centres (for business, social, cultural, sports, health, infancy, etc.) as magnets beyond the local level. (catg. nn. 77, 78, 79)			1.000.000,00
6.1.3.3	Incentives to develop plans for mobility and for the growth of car sharing (catg. n. 52)	Department of Transportation		8.600.000,00

## 5.2. THE FUNDING AGREEMENT BETWEEN THE REGIONE SICILIANA AND THE EIB

The Funding Agreement signed on 11/19/2009 between the EIB and the Regione Siciliana – of which this paragraph intends to illustrate some of the more significant points – contains the rules of governance for the Holding Fund, which discipline:

- a) the contribution of the Managing Authority to the JESSICA Holding Fund (addressed in the preceding paragraph);
- b) how the JESSICA Holding Fund works;
- c) the definition of the information required as per art.43, par. 3 and art.44, par. 1 and 2 of the Regulation (EC)1828/2006 (concerning the scope of the Funding Agreement between the Managing Authority and the Holding Fund);
- d) the determination of the amount and conditions for the payment of costs by the Managing Authority to the EIB;
- e) the terms for the termination of the JESSICA Holding Fund;

f) the management of the treasury.

As stated earlier, the Funding Agreement states that the EIB will manage and administer the Holding Fund and, in the name of and on behalf of the Managing Authority, will enact the so-called “JESSICA Action”, i.e. all the tasks that are required for the implementation for the Holding Fund.

Before providing a detailed definition of the JESSICA Action – and therefore of the tasks of the EIB – it is important to underline that, as per art. 5 of the Funding Agreement, the performance of this Action by the EIB is subject to the relative dispositions of the **Investment Board**. This Board is composed of seven Members designated by the Managing Authority after consulting with the EIB; up to two officials of the EIB shall be nominated to participate in the sessions of the Board, as Observers without voting rights.<sup>43</sup>

As per art.4 of the Agreement, **the JESSICA Action performed by the BEI includes:**

- **pursuing** the strategy contained in the document “**Investment Strategy and Planning**” attached to the Funding Agreement and the revision of same (which requires approval by the Investment Board of a draft of the revised text, drawn up by the EIB);
- performing all the actions necessary for the **selection of the UDF**, and presenting to the Investment Board the proposals for Operations, understood as each contribution of the Holding Fund to a UDF;
- the **evaluation of the Business Plans<sup>44</sup> presented by the UDF** and the presentation to the Investment Board of the proposals for Operations, understood as each contribution by the Holding Fund to a UDF;
- **negotiating Funding Agreements with the UDFs (so-called Operational Agreements)<sup>45</sup>,**

<sup>43</sup> The Investment Board for the performance of the JESSICA Action was constituted with a Decree by the President of the Regione Siciliana dated 19 February 2010. It is composed of the following 7 members: the Directors General belonging respectively to the 4 Regional Departments “Infrastructure, Mobility, Transportation”, “Tourism”, “Energy”, “Cultural Heritage”; the General Accountant of the Regione (or a delegate); the Secretary General for the President of the Regione Siciliana; the General Manager of the Regional Planning Department, who also serves as the President of the Board. The first meeting of the Investment Board was held on April 9 2010.

<sup>44</sup> The Funding Agreement states that each **Business Plan**, in compliance with art. 43(2) of the Regulation (EC) 1828/2006, must contain at least the following elements:

(a) The investment strategy and targeted market of the UDF, the proposed Urban Projects, the underlying integrated urban development plans and the criteria and condition for financing them;  
(b) the cash flow forecasts and the operational budget for the UDF, including the level of management fees to be charged;  
(c) the ownership of the UDF;  
(d) the co-financing partners or shareholders;  
(e) the by-laws of the UDF;  
(f) the governance structure, including provisions on professionalism, competence and independence of the management;  
(g) the justification for, and intended use of the contribution from the EU Structural Funds;  
(h) The policy of the UDF regarding the termination of investments in Urban Projects;  
(i) The winding-up provisions of the UDF, including re-utilization of the resources returned to the UDF from investments in Urban Projects or residual funds after all guarantees have been honoured.

<sup>45</sup> The Funding Agreement establishes the essential conditions that must be contained in every **Operational Agreement with the UDF**, including, for example: (a) the obligation for the UDF to periodically report to the EIB and to allow access to documents and information relevant for monitoring the JESSICA Action; (b) the right of the EIB to claim, in compliance with appropriate standard market clauses, possible losses

on condition that they be approved by the Investment Board, and carrying out these Operational Agreements on behalf of the JESSICA Holding Fund;

- **monitoring and controlling the Operations** in compliance with the terms and condition of the applicable Operational Agreement;
- **reporting to the Investment Board** about the progress of the various Operations;
- managing the treasury with the balance of the JESSICA resources, in compliance with the treasury Guidelines.

Subject to approval by the Investment Board, the EIB may also perform **additional tasks** that contribute to the efficient and effective implementation of the JESSICA Action, including, for example: the necessary assistance to allow the Managing Authority to comply with standing EU Legislation (in the matter of State Aid and/or Great Projects); assistance in the matter of interpreting EU Legislation regarding financial engineering and, in particular, the eligibility of expenses; assistance for the selection and/or improvement of the integrated plans for sustainable urban development and Urban projects.

What has been described above highlights the importance of the **Investment Board**, which – as per art. 5 of the Funding Agreement – **makes the decisions on many issues by approving or entirely rejecting proposals and recommendations presented by the EIB, save for the power to amend them in those cases in which the EIB allows it.**

In particular the Investment Board makes decisions concerning:

- changes or revisions to the “Investment Strategy and Planning”;
- calls for expression of interest and relative amendments and, where pertinent, specifications;
- Business plans;
- Every Operation proposal, including the basic terms and conditions for each proposal for an Operational Agreement;
- Approval of the UDF among those submitted by the EIB;
- Operational budget and costs connected to the performance of the Additional Tasks by the EIB.

Furthermore, the Investment Board performs the following tasks on the basis of information provided by the EIB:

- Constant monitoring of the EIB’s overall performance of the JESSICA Action and the Operations, in compliance with the objectives of the Sicily ‘s OP and the Investment Strategy and Planning;
- Where necessary, the formulation of recommendations and statements of principle of a general nature (i.e., not concerning individual Operations) addressed to the EIB and the Managing Authority with regard to the performance of the JESSICA Action, to the further development of the activities of the JESSICA Holding Fund and/or further activities aiming to optimize the impact of the JESSICA Holding Fund and the JESSICA Action on urban development in Sicily;
- In consultation with the Managing Authority, verifying the progress and strategy of the JESSICA Holding Fund, approving the Progress Reports and the performance of the EIB in

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sustained by the JESSICA Holding Fund if the UDF does not meet its obligations; (c) the right of the UDF to receive management fees based on market standards, and in any case no greater than the limits established in art. 43(4) of Reg. (CE) 1828/2006; the minimum scope of every Investment Agreement between the UDF and an urban project.

the implementation of the JESSICA Action, for the period referring to each annual Progress Report, approved as stated in the Funding Agreement.

As previously underlined, the EIB is obligated to implement the JESSICA Action in compliance with the “Investment Strategy and Planning”, contained in the document attached to the Funding Agreement, or in accordance with the terms applicable after each revision proposed to the Investment Board and approved by it.

The “**Investment Strategy and Planning**” confirms that the Holding Fund of the Regione Siciliana, managed by the EIB – within which it takes the form of a “separate block of finance” – invests in the UDF – providing equity, loans, collateral or a blend of these forms of investment – and that the UDF in turn invests in urban projects for Sicily, with equity (or *quasi-equity*), loans and collateral.

It should be underlined that the **Strategy does not establish the legal form of the UDF, which is the object of a specific Study<sup>46</sup> for the identification of possible options within the context of Italian legislation<sup>47</sup>.**

The document furthermore specifies that the UDF may operate either exclusively with the financial resources provided by the Holding Fund, or with the contribution of resources from other co-financing parties, who may even invest directly at the level of the individual urban projects, contained in an integrated plan for sustainable urban development.

On this subject, it should be underlined that the Funding Agreement also considers the possibility for the EIB itself to participate in the financing of a UDF or an Urban Project that receives funding from the JESSICA Holding Fund.

### 5.3. ACTIONS REQUIRED FOR BETTER OPERATIVITY OF THE JESSICA MECHANISM IN SICILY

As illustrated in the paragraphs above, the regional JESSICA Holding Fund (heretofore also called Holding Fund or HF) was constituted with financial contributions linked to **12 Actions associated with 4 Priority Axes (I,II,III,VI) of the ERDF Operational Program 2007-2013**.

There is such a large number of Actions associated with various Priority Axes of the ROP in the JESSICA mechanism for the following reasons:

- The **ERDF OP Sicily does not specify one or more Actions especially dedicated to sustainable urban development projects to be funded by the JESSICA mechanism**
- The “**Sustainable Urban Development**” to which Priority Axis VI is specifically dedicated is in fact a theme that pervades the entire Programme, as demonstrated by the possible inclusion, among the tools of implementation of Priority Axis VI (PISU and PIST), of interventions/actions that contribute to urban and regional development associated with other Priority Axes of the ERDF OP.

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<sup>46</sup> This is the above-mentioned Study “Implementation of JESSICA in Sicily: legal profiles”, an appendix to this document.

<sup>47</sup> In the same way, the document does not establish the optimal configuration – in terms of number and typology – of the Urban Development Funds in Sicily, which is addressed by this Study in Chapter 6 below.

This state of affairs, along with other particular features of the ERDF OP of the Regione Siciliana, results in a series of constraints and complications that limit the operativeness of the JESSICA mechanism, illustrated below:

- a) the specificity and level of detail in the ‘scope’ of the individual Actions involved represent an obstacle to JESSICA investments in projects that do not correspond precisely enough to the area of application of the Actions themselves;
- b) the fragmentation of the financial resources of the Holding Fund into multiple Actions creates rigidity in the JESSICA investments which, instead of being oriented exclusively towards the real demand expressed by the Sicilian local municipal governments, must also take into account the financial resources available to each Action;
- c) each Action has different “Eligibility Requirements” and “Selection Criteria”, which are often very specific and detailed, incompatible with the need for flexible project management through the JESSICA mechanism, and requiring that the various components of a “jessicable” project, which as part of an integrated plan of urban or regional development can be complex and multi-sectorial, comply with a series of conditions.
- d) The Actions involved specify different beneficiaries, which do not always include **Local Government** (this is the case with Action 2.1.2.1) or public private partnerships (**PPP**), which, as per art.4 co 3 of the “Public Advisory of the second phase” relative to the implementation of Priority Axis VI – Sustainable Urban Development of the ERDF OP Sicily 2007-2013, are identified as beneficiaries of the JESSICA investments and must therefore be understood as beneficiaries of the Actions involved in the initiative. The interpretation to give to the term “beneficiaries” is addressed more extensively in the box following.

## **"Beneficiaries" within the JESSICA initiative**

Article 2 paragraph 4 of the Regulation (EC) 1083/2006 defines a "beneficiary" as an operator, organism or company, public or private, responsible for initiating or initiating and implementing "operations".

The COCOF note 07/0018/01 dated 16 June 2007, when financial engineering tools as per art. 44 of Reg. EC 1083/2006 are being used, identifies the "beneficiaries" as the Funds themselves, i.e., in the case of JESSICA, the Urban Development Funds, or if there is one, as the Holding Fund.

This definition is founded primarily on the provision contained in art. 78.6 of Reg. 1083 which, as far as the financial engineering tools described in article 44 of the Regulation are concerned, as an exception to the general rules in the matter of stating and certifying expenditures as required by paragraph 1 of the same article, establishes that: "*the statement of expenditure shall include the total expenditure paid in establishing or contributing to such funds or holding funds*".

The second part of the same paragraph 6 furthermore specifies: "*However, at partial or final closure of the operational programme, eligible expenditure shall be the total of:*

- a) *any payments from urban development funds for investment in public private partnerships or other projects included in an integrated plan for urban development;*  
(...)and
- d) *eligible management costs.*"

With this premise, it is deemed that **the Funds are to be considered "beneficiaries" only for the purposes of reporting and certifying the expenditure, in compliance with paragraph 6 of art. 78**. However, it appears incoherent with respect to the entire architecture of the ERDF OP 2007-2013 of the Regione Siciliana, considering the Funds as beneficiaries of the Actions involved in the JESSICA initiative – i.e. those which have contributed resources for the constitution of the Holding Fund – when the above-mentioned Funds are only the recipients of the financial resources to be invested in public-private partnerships and other projects included in an integrated plan for sustainable urban development. In fact, the above-mentioned Actions are not finalized towards the establishment of "JESSICA Funds" – as is the case, for example, of other Operational Programs, which contain a specific Action for the creation of Collateral Funds, which indicates a series of selection criteria referring to the Fund Managers – but towards the realization of "specific" urban development projects.

This interpretation is also sustained by the definition of "operation" contained in art. 2 of Regulation 1083 which describes the "operation" as "**a project or a group of projects selected by the managing authority of the Operational Program concerned or under its responsibility, according to criteria laid down by the monitoring committee and implemented by one or more beneficiaries allowing achievement of the goals of the priority axis to which it relates**". In this context it becomes evident that the "**operations**" are **sustainable urban development projects coherent with the scope of the actions involved**. These actions will be initiated and brought to term in the region by subjects other than the Funds, and could be financed either with grants (that refer to the specific Actions) or with JESSICA investments made by the UDF. To obtain JESSICA investments, the projects will be assessed by the UDF, on the basis of the selection criteria established for JESSICA projects, within the Actions themselves. In the case that the Funds themselves are considered to be the beneficiaries of the Actions, they should establish selection criteria that refer to the Funds themselves.

As for the configuration of the ERDF OP of the Regione Siciliana, the Funds in question are considered "instruments" or "vehicles", conceived to support public-private partnerships and other projects contained in an integrated plan for sustainable urban development with investments in the form of equity, collateral and loans. As a consequence, **the beneficiaries of the Actions of the ERDF OP involved in JESSICA**, meaning "*the operators, organisms or companies, public or private, responsible for the start-up or start-up and implementation of the operations*" **may be found in the public, private (partners in contract-type PPPs) or mixed parties**, who promote or implement the projects included in an integrated plan for sustainable urban development and benefit from JESSICA investments.

This interpretation seems to have been accepted by other experiences as well, in the context of the ERDF Operational Programs, regarding the use of financial engineering tools. For example, the Document "Requisites for eligibility and selection criteria for the ERDF OP 2007-20130 of the Regione Puglia" includes Action 6.1 – "Projects for the competitiveness of businesses", which include "Programs of financial engineering" with the creation of a Fund that facilitates access to credit and establishes that the beneficiaries will be "small and medium-sized businesses and large businesses" and not the Fund or the manager of the Fund itself.

However, because JESSICA is a new tool, only recently implemented, it was considered fitting for the Managing Authority to actively solicit a definitive answer on the "issue of beneficiaries", by requesting a formal clarification from the European Commission.

Should the answer contradict the hypothesis presented here and instead confirm the contents of the above-mentioned COCOF note – which considers the Holding Fund, or if there is none, the Urban Development Funds, to be the legitimate beneficiaries – it will be fitting, though ex-post, to include the existing Regional Holding Fund as one of the beneficiaries of the Actions of the OP of the Regione Siciliana which participate, by investing their resources, in the JESSICA initiative. In this case, the parties that receive the JESSICA investments (local authorities, mixed public-private parties, private partners of contract-type PPPs) must be qualified as "proposing parties" and be included as necessary in the requisites for eligibility established for the JESSICA projects.

There are two other aspects of the ERDF OP Sicily 2007-2013 that should be highlighted and that distinguish it from other Operational Programs in other European areas in which the JESSICA initiative was implemented:

1. The Operational Programme details the Actions (named "activities" in the OP) within which the Operational Objectives are articulated<sup>48</sup>.

For each Priority Axis, the Operational Programme specifies a list of Beneficiaries.

The two above-mentioned aspects are a barrier to the addition of a new Activity specifically dedicated to JESSICA inside the Priority Axes, to the amendment of the names of the Activities or to the inclusion of additional beneficiaries in the lists per Priority Axis already in the Programme.

These actions, in fact, would constitute an amendment to the Programme, which requires approval by the European Commission, according to the procedure established by art. 33 of Regulation (EC) 1083/2006 – "Revision of Operational Programmes" and accepted by art. 11 – "Procedures for the amendment of the ROP" of the Internal Rules of the Monitoring Committee of the ERDF OP Sicily 2007-2013, which establishes the following procedure: "*The Managing Authority of the ROP submits to the Monitoring Committee, for approval, any proposals to amend the ROP, which it will forward to the European Commission which, within a limit of three months starting from the official notification by the State of Italy, will render its decision*".

In light of the above-mentioned possible critical points, **a series of possible strategies have been developed in detail to improve the operativeness of JESSICA in Sicily.**

The following two options have emerged, each of which can be structured differently as illustrated in the table below:

<sup>48</sup> It may be helpful to reiterate, as illustrated in Chapter 3 of this Study, that the ERDF OP is divided into seven Priority Axes. The 7 PRIORITY AXES are expressed in SPECIFIC OBJECTIVES, in turn divided into OPERATIONAL OBJECTIVES, subdivided into ACTIVITIES.

- **OPTION A - AMENDMENT TO THE ERDF OP**
  - ▷ A1 - Amendment to the ERDF OP and creation of a JESSICA Action in Priority Axis VI
  - ▷ A2 - Amendment to the ERDF OP and creation of more than one JESSICA Action (1 Action for each of the Priority Axes involved – I, II, III, VI)
- **OPTION B – AMENDMENT ONLY TO THE DOCUMENT “REQUISITES OF ELIGIBILITY AND SELECTION CRITERIA”** (for the items “Requisites for Eligibility” “Selection criteria” and “Beneficiaries”, in relation to the Actions involved in the JESSICA operation)
  - ▷ B1 – Amendment to the document “Requisites for Eligibility and Selection Criteria” and the simultaneous cutback in the Actions that have conferred resources to the HF
  - ▷ B2 – Amendment to the document “Requisites for Eligibility and Selection Criteria” with no imminent changes to the “configuration” of the HF.

Whereas OPTIONS A1 and A2, as shown earlier, require the approval of the Monitoring Committee and a favourable decision by the European Commission for changes to the Operational Programme, the changes to the Document “Requisites for Eligibility and Selection Criteria” as described in Options B1 and B2, could be made within the Monitoring Committee, both in ordinary session, or with the procedure by written consultation as per art. 7 of the Internal Rules of the Monitoring Committee of the ERDF OP Sicily 2007-2013<sup>49</sup>.

Following is a comparison chart highlighting the advantages and disadvantages of OPTIONS A1, A2, B1 and B2.

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<sup>49</sup> The above-mentioned art. 7 reads that the components of the Committee give their written opinion within 10 working days after the date that the documents to be examined are mailed or faxed, or within five days in case of motivated urgency. The absence of a written opinion on the part of a member will be considered Assent.

**Table 6 – The different amendment OPTIONS for better operativeness of the JESSICA mechanism in Sicily**

OPTION A1 Amendment to the ROP and creation of a single JESSICA Action	OPTION B1 Amendment to the document “Requisites of Eligibility and Selection Criteria” and the <u>simultaneous cutback in the Actions that have conferred resources to the HF</u>
<p>Advantages:</p> <ul style="list-style-type: none"> <li>Offers maximum flexibility in the use of the resources that have been concentrated in JESSICA by the UDF, both in terms of the selection of the projects and in <i>reporting</i> expenditures.</li> <li>It does not alter the current balance of governance: the Regional departments that are part of the Investment Board of the HF will also, jointly, serve as the Centre of responsibility for the new Action</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>Implies a complex process to modify the ROP – which includes the reconfiguration of the structure of the programme (introduction of a new Action) and amendments to the Financial Plan (shifting significant resources between Priority Axes) – which appears as “reprogramming”</li> <li>It loses the multi-axis approach to sustainable urban development, as the across-the-board objective of the Program.</li> <li>Lengthy process to complete the procedure and obtain a Decision from the European Commission.</li> </ul>	<p>Advantages:</p> <ul style="list-style-type: none"> <li>Does not require a change in the ROP and therefore the required Decision by the European Commission (shorter and less complex procedure than Option A)</li> <li>Makes it possible to concentrate resources on Actions that are easier to use for investing in “jessicable” projects</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>Does not allow full flexibility in the use of resources by the UDF</li> <li>Limits operativeness in terms of the typology of projects that can be invested in</li> <li>(possible) <i>limitations to the operativeness in terms of the typology of beneficiaries</i></li> <li>requires a periodic recourse to “financial reformulations” between Actions that have conferred resources to the HF, or integration/substitution</li> <li>alters the current balance in governance in the case of substitution or integration of the Actions in the HF that refer to different Regional Departments, and in the case of variations in their relative financial conferral to the Fund.</li> </ul>
<p>Advantages:</p> <ul style="list-style-type: none"> <li>ample flexibility in the use of the resources conferred to JESSICA thanks to the creation, within all the Priority Axes involved (I, II, III, VI) of specific easy-to-use Actions</li> <li>The amendment of the ROP has relatively less impact than in Option A1, because it does not require a reformulation of the financial Plan (no resources need to be shifted between Priority Axes)</li> <li>Maintains the multi-axis approach to sustainable urban development, as an across-the-board objective of the Programme</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>The UDF must take into account the division between Priority Axes in the use of their resources.</li> <li>Lengthy process to complete the procedure and obtain a Decision from the European Commission.</li> </ul>	<p>Advantages:</p> <ul style="list-style-type: none"> <li>does not require amendment to the ROP and therefore a specific decision by the European Commission (a shorter and less complex procedure than in Options A1 e A2)</li> <li>postpones the reduction, substitution, integration of the Actions that have conferred resources to the Fund and the variation of the relative conferrals until the demand is effectively ascertained.</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>does not provide total flexibility in the use of the resources by the UDF</li> <li>limits the operativeness in terms of the typology of projects that can be invested in</li> <li>(possible) <i>limits to operativeness in terms of the typology of beneficiary</i></li> <li>requires a periodic recourse to “financial reformulations” between Actions that have conferred resources to the HF, or integration/substitution of them</li> <li>alters the current balance in governance in the case of substitution or integration of the Actions in the HF that refer to different Regional Departments, and in the case of variations in their relative financial conferral to the Fund</li> </ul>

## 6. THE ARCHITECTURE OF JESSICA IN SICILY

### 6.1. THE ARTICULATION OF URBAN DEVELOPMENT FUNDS

As highlighted in the preceding chapters, a Funding Agreement was signed on November 19 2009 between the EIB and the Regione Siciliana with the purpose of establishing a regional JESSICA Holding Fund, which will be managed and administered by the EIB. While the establishment of a Holding Fund, which might be advisable in some ways and in certain contexts, is not a necessary condition for the implementation of JESSICA, the creation of one or more Urban Development Funds (hereafter referred to as UDF) is vital to make this mechanism operational for the financial support for projects developed by the regions.

The Urban Development Funds – as established by art. 44 of the EC Regulation 1083/2006 of the Council dated 11 July 2006 – are financial engineering tools that invest in partnerships between the public and the private sectors and in other projects included in an integrated plan for sustainable urban development. These funds, as per art. 46, paragraph 2 of the Regulation (EC) 1828/2006, invest by means of equity instruments, loans and collateral.

#### 6.1.1. *Proposal for the case of Sicily*

In reference to the construction of the architecture of JESSICA in Sicily - and deferring the choice of the legal form that the UDF could adopt in the specific context to the Study entitled "[Implementation of JESSICA in Sicily: legal profiles](#)", added as an appendix to this study – it appeared advisable initially to assess the different types of Urban Development Fund, in order to **choose the most advantageous structure, on the basis of a regional diagnosis, with particular reference to the number and typology of UDF that are to be activated and consequently on the basis of the respective financial resources deriving from the conferral of resources by the Holding Fund.**

In the first place, the presence of a JESSICA Holding Fund with consistent financial assets, equal to 148 million Euro, suggests discarding the idea of creating one single Urban Development Fund and to examine solutions that consider the presence of two or more Funds, with the purpose of establishing “specialized” Funds or in any case establishing the conditions to create competition between the Funds.

In reference to the typology of UDF, theoretically, they can be “specialized” by: (a) sub regional target area; (b) investment sector; (c) typology of financial support offered (loan, equity, collateral).

On this subject, it must be underlined that, in general, the advantages that could derive from the specialization of the Funds must be reconciled with the interest in building an architecture for JESSICA that, in general terms, makes it as simple as possible to manage, and act efficiently and in an integrated manner at the regional level. It should also be pointed out that specialized UDFs can be more effective because they can be more successful in focusing their “advisory” work (and potential *scouting* for projects), and in assessing projects on the basis of the characteristics of the region or of specific issues. On the other hand, the concentration of a UDF on overly-limited regional contexts or investment sectors is not altogether functional to maximizing the integration of projects that could be funded as part of complex strategies for sustainable development both on an urban and regional scale.

**Table 7 - TYPOLOGIES OF URBAN DEVELOPMENT FUNDS**

SPECIALIZATION OF URBAN DEVELOPMENT FUNDS BY SUB REGIONAL TARGET AREA		
OPTIONS	ADVANTAGES	DISADVANTAGES
UDF COASTAL AREAS AND UDF INTERNAL AREAS	<ul style="list-style-type: none"> <li>▪ focus of UDF activity on project scouting and on advisory work within the context of a territory smaller than the regional context.</li> <li>▪ specialization of the Funds in certain project typologies</li> <li>▪ guarantees that part of the financial resources and activities of the Funds are dedicated to the internal areas of the Island</li> </ul>	<ul style="list-style-type: none"> <li>▪ the solution is not coherent with the strategy of the ERDF OP relative to sustainable urban development and with the method of formation of the Integrated Plans</li> <li>▪ difficulty/impossibility of obtaining favourable conditions for the management of the JESSICA resources, applicable to the UDF for internal areas (management costs, co-funding rates)</li> <li>▪ creates rigidity in the awarding of resources</li> <li>▪ lack of competition between the two UDF</li> </ul>
UDF CENTRAL-EASTERN SICILY AND UDF CENTRAL-WESTERN SICILY	<ul style="list-style-type: none"> <li>▪ focus of UDF activity on project scouting and on advisory work within the context of a territory smaller than the regional context.</li> <li>▪ ensures a balanced distribution of JESSICA resources on a regional basis, proportioned to the expected demand for investments by the metropolitan cities and medium to large cities</li> <li>▪ it is finalized towards filling the existing development gap between the urban contexts of central-eastern Sicily and those of central-western Sicily.</li> </ul>	<ul style="list-style-type: none"> <li>▪ lack of competition between the two UDF</li> <li>▪ creates rigidity in the awarding of resources</li> </ul>
SPECIALIZATION OF URBAN DEVELOPMENT FUNDS BY SECTOR OF INVESTMENT		
OPTIONS	ADVANTAGES	DISADVANTAGES
UDF ENERGY AND ONE OR TWO UDFs DEDICATED TO OTHER INVESTMENT SECTORS	<ul style="list-style-type: none"> <li>▪ UDF with specialized know-how and expertise, both under the profile of technical and financial evaluation, and in the forms of viable PPPs, in relation to projects in the energy sector</li> <li>▪ support and advancement of projects in the energy sector thanks to a dedicated UDF, which can focus its own advisory and scouting efforts on projects centred on energy</li> <li>▪ economies of scale for the UDF specialized in the energy sector</li> </ul>	<ul style="list-style-type: none"> <li>▪ difficulty for the planning vehicles, which must work with two different UDFs, to request JESSICA funding for multi-sectorial projects that also contain an energy-based component</li> <li>▪ creates rigidity in the awarding of resources</li> </ul>
UDF FOR MEDIUM AND LARGE CITIES AND UDF FOR SMALL CITIES	<ul style="list-style-type: none"> <li>▪ specialization of the Funds in certain project typologies typical of larger cities (large infrastructure and urban facilities) and of smaller cities (mobility, regeneration of small historic city centres...)</li> <li>▪ ensures that part of the financial resources and assistance offered by the Funds are dedicated to small cities</li> </ul>	<ul style="list-style-type: none"> <li>▪ the solution is not coherent with the strategy of the OP ERDF relative to sustainable urban development and with the method of formation of the Integrated Plans</li> <li>▪ greater difficulty in obtaining favourable conditions for the management of the JESSICA resources, applicable to the UDF for small cities (management costs, co-funding rates)</li> <li>▪ lack of competition between the two UDF</li> </ul>
UDF FOR METROPOLITAN CITIES AND UDF DEDICATED TO ALL THE OTHER CITIES	<ul style="list-style-type: none"> <li>▪ focuses the resources and activities of the UDF on projects for metropolitan cities</li> <li>▪ ensures that not all the JESSICA resources are absorbed by the demand for investment by metropolitan cities, but are also dedicated to other cities</li> </ul>	<ul style="list-style-type: none"> <li>▪ creates rigidity in the awarding of resources</li> </ul>

**Table 7 - TYPOLOGIES OF URBAN DEVELOPMENT FUNDS**

SPECIALIZATION OF URBAN DEVELOPMENT FUNDS BY FORM OF INVESTMENT		
OPTIONS	ADVANTAGES	DISADVANTAGES
TWO OR THREE FUNDS SUBDIVIDED BY FORM OF INVESTMENT	<ul style="list-style-type: none"> <li>▪ the subdivision of the Funds by typology of financial support offered (loans, collateral, equity) could foster greater expertise and a higher professional level of the Funds in reference to the selection of projects, relative to the chosen form of investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ the utilization of a single form of investment is not always effective; therefore, in the context of Sicily – where there is no absence of specific typologies of resource – this solution appears to constrain the work of the UDF</li> <li>▪ lack of competition between the two UDF</li> </ul>
NON-SPECIALIZED URBAN DEVELOPMENT FUNDS (REGIONAL, MULTI-SECTORIAL AND MULTI-INSTRUMENT)		
OPTIONS	ADVANTAGES	DISADVANTAGES
TWO REGIONAL UDF	<ul style="list-style-type: none"> <li>▪ makes it possible to constrain the "territorial" destination of the JESSICA resources within the same Fund, in accordance with the Holding Fund's investment strategy</li> <li>▪ makes it possible to change the destination of the resources in the territory should the above-mentioned investment strategy change, even on the basis of actual demand</li> <li>▪ makes it possible to share <i>best practices</i> between the various projects receiving funding in various parts of the Region</li> <li>▪ creates the conditions for competition between Funds, which could foster a more efficient management of the JESSICA resources</li> </ul>	
MULTI-SECTORIAL	<ul style="list-style-type: none"> <li>▪ makes it possible to constrain the "territorial" destination of the JESSICA resources within the same Fund, in accordance with the Holding Fund's investment strategy</li> <li>▪ makes it possible to change the destination of the resources by investment sector, should the above-mentioned investment strategy change, even on the basis of real demand</li> <li>▪ creates the conditions for competition between Funds, which could foster a more efficient management of the JESSICA resources</li> </ul>	<ul style="list-style-type: none"> <li>▪ lesser specialization of the UDF with respect to the hypothesis of creating a Fund dedicated to projects in the energy sector, which requires specialized know-how and expertise.</li> <li>▪ lesser economies of scale than funds specialized by investment sector</li> </ul>
MULTI – INSTRUMENT	<ul style="list-style-type: none"> <li>▪ Gives the UDF a more versatile choice of the most appropriate form of investment to use alone or jointly in its projects</li> <li>▪ Makes it potentially possible for the UDF to manage operations with a different schedule of return on the investment and different levels of risk and profitability</li> </ul>	<ul style="list-style-type: none"> <li>▪ UDF investments consisting in issue of guarantees appear to be more difficult to activate than the other forms of investment</li> </ul>

The analysis of the advantages and disadvantages relative to UDFs specialized by (a) sub-regional target area, (b) investment sector or (c) form of investment (loans, equity, collateral) – carried out in light of the regional diagnosis that examined the characteristics of the various regional areas, the existing projects, the capacity of local authorities to manage complex urban regeneration programmes, and the involvement of private parties in these programmes – has led to the formulation of **two alternative hypotheses for the most advantageous articulation of the UDF**.

The first hypothesis (**Proposal A**) matches the Holding Fund with **two Urban Development Funds, competent over the entire regional territory, each with identical endowments<sup>50</sup>, multi-instrument (operating primarily with loans and equity) and with a multi-sectorial project competence.**

The competence of the Funds over the entire region of Sicily can encourage the sharing of *best practices* between the different projects financed in various areas of the Region. In addition, the presence of two UDFs operating throughout the region in the same investment sectors, is the condition required to create healthy competition between the two Funds, which may be more incentivized to stimulate the demand for JESSICA investments, thus contributing to the success of the initiative.

With regard to the lack of specialization of the two Funds under consideration, it should be pointed out that it is still possible, within each of them, to bind the destination of the JESSICA resources by investment sector or by regional context or “target areas”, in accordance with the investment strategies of the Holding Fund, established by the Investment Board. With regard to the hypothesis of creating “dedicated” Funds for a specific regional area and investment sector, establishing its financial assets before it becomes operative on the territory, this solution makes it possible, over time, to modify the destination of the resources, based on changes in the investment strategies and on the actual demand for investment encountered in the region<sup>51</sup>.

It must be considered however that an endowment smaller than € 90-100 million for each Fund could be less profitable for the manager – and therefore less interesting to the market of financial operators - , especially if the activity of the Funds involves all sectors of investment and therefore precludes the economies of scale that derive from a specialization by sector.

For this reason a second hypothesis was developed (**Proposal B**) which considers **the advantage of creating two Funds with competence over the entire regional area of which one is a generalist (multi-sectorial) Fund with a more significant endowment, in the amount of € 90-100 mln, and the other a Fund specialized in the energy sector, with an endowment equal to the remaining resources (< € 48-38 mln).**

A Fund specialized in the energy sector, despite its smaller amount of resources, would nevertheless be interesting to the market of financial operators for two reasons:

- a) specialization in the field of energy would involve a standardization in the processes of evaluating and structuring operations, and a simplified reporting process, allowing the Fund to realize economies of scale and subsequently reduce costs;
- b) the demand for investment in the energy sector is potentially high and can grow over time,

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<sup>50</sup> It should be underlined that the total assets of the UDFs are equal to the difference between the initial endowment of the Holding Fund (HF) and the management costs of the HF, equal to over € 10 mln, over the entire life of the Funds, which is postulated at 30 years, as will be illustrated in Chapter 9 .

<sup>51</sup> It should be emphasized that this hypothesis should be debated with the sector of financial institutes that could be candidates to manage the UDFs. The first investigations on the field showed that it is not worthwhile for the financial institutes we contacted to manage multi-sectorial or generalist funds for which the endowment is under 90-100 mln.

thanks to the advisory work and project scouting that the UDF can carry out in the region.

The following diagrams 3A and 3B illustrate the two proposals described above to structure the Urban Development Funds for the Enactment of JESSICA in Sicily.

**Diagram 3 A - General Architecture of JESSICA in Sicily : SCENARIO A**

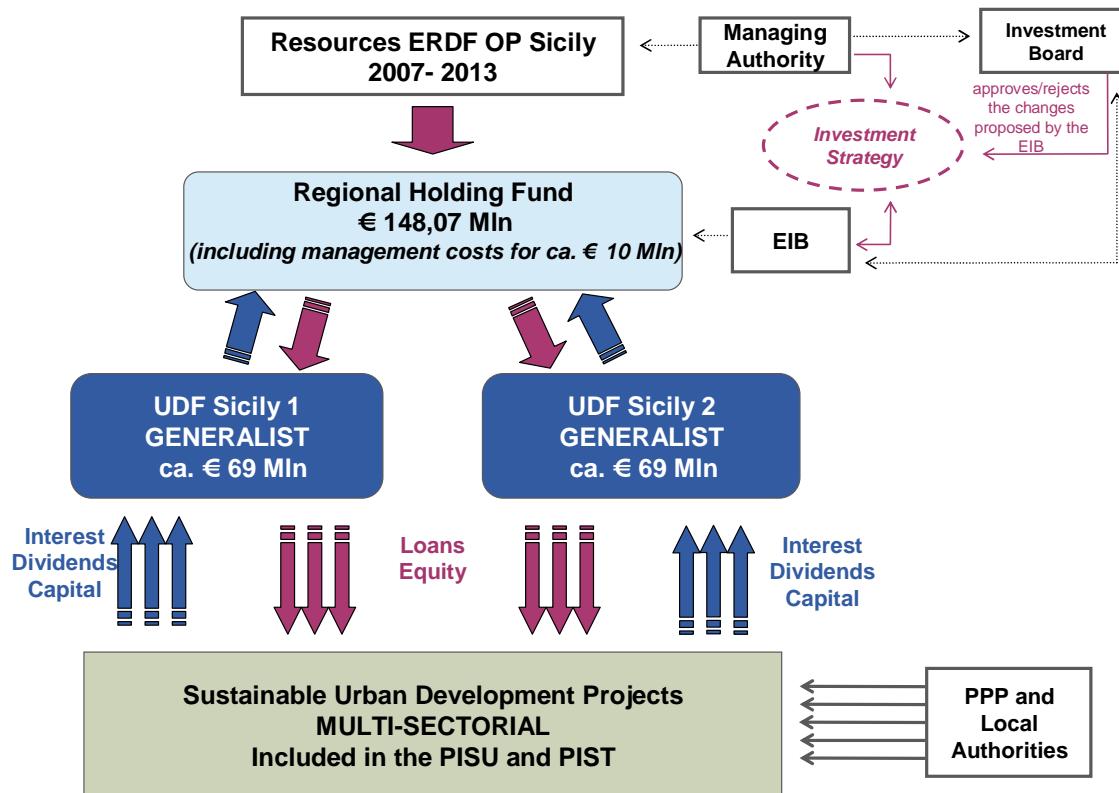
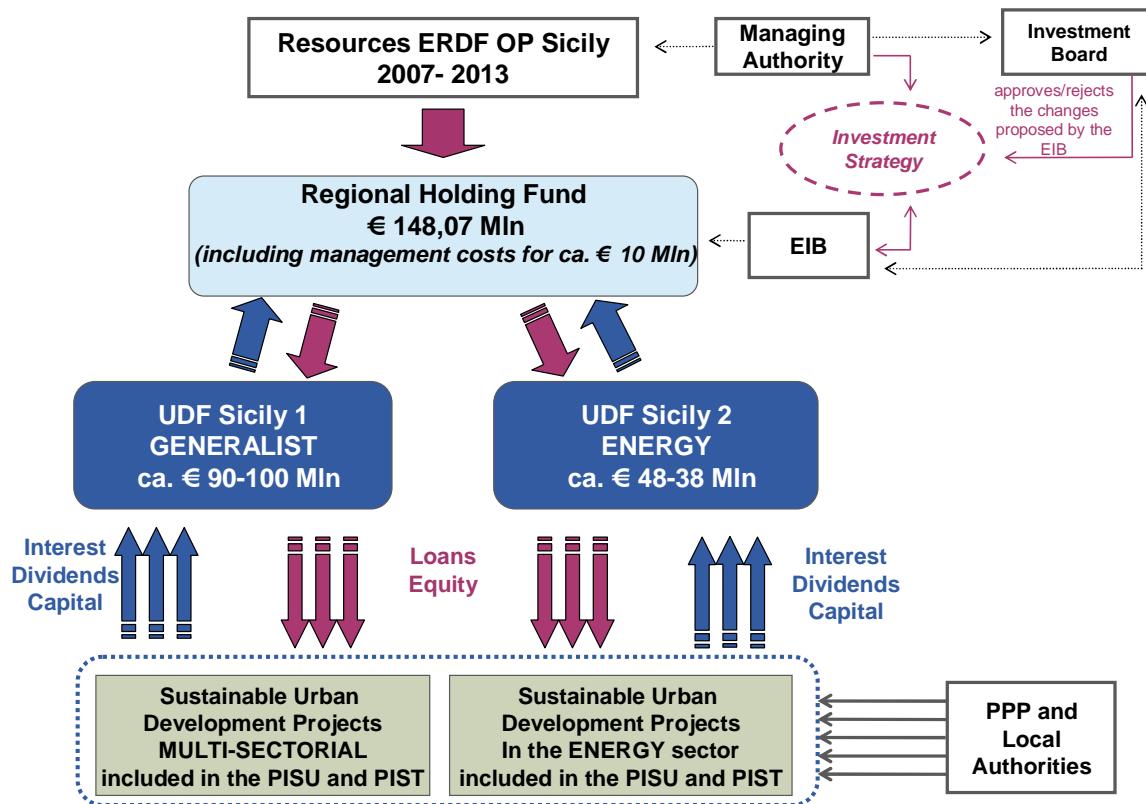


Diagram 3B - General Architecture of JESSICA in Sicily : SCENARIO B



## 7. PLANNING “JESSICABLE” PROJECTS

This chapter will illustrate a typical process for building and structuring a project that can be financed with the JESSICA mechanism. The pilot projects illustrated in the following two chapters have been developed by simulating this process in collaboration with the City Administrations involved.

It is worth emphasizing that, though the fundamental steps in the construction and implementation of “jessicable” projects are substantially the same in all the European regions, the process described in the following paragraphs takes into account the peculiarities of the context in which the JESSICA experience is being developed in Sicily, peculiarities which have been extensively described in the chapters above.

The typical process of building and structuring a “jessicable” project may be substantially subdivided into three fundamental phases:

- the selection and construction of the project
- the preliminary assessment of sustainability and project fine-tuning
- structuring the operation.

### 7.1. THE SELECTION AND CONSTRUCTION OF JESSICABLE PROJECTS

A Sicilian City Government intent upon advancing sustainable urban development projects with the support of JESSICA must typically conduct a thorough examination of its own existing projects, in order to select the projects with the characteristics listed below, which may be considered as veritable **minimum requirements**:

- the capacity to contribute in a significant manner to sustainable urban development<sup>52</sup> and to be coherent with the investment strategy of the JESSICA Holding Fund constituted by the Regione Siciliana,
- coherence and possibility of integration into the relative PISU/PIST,
- capacity to generate financial revenue and repay the investment.

#### *Jessicability of the selected projects*

Projects considered to be absolute priorities for the local Administrations, with the requisites listed above might not however have sufficient revenue-producing characteristics to be financed with JESSICA. To increase the level of a project’s “jessicability” there are substantially two, not necessarily alternative, options:

1. **Reformulation of the project and its components**
2. **Incorporation of the project into more complex renewal projects**

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<sup>52</sup> Art. 8 of Reg. (EC) 1080/2006 contains a very open interpretation of projects finalized towards sustainable urban development, previously examined in the Chapter “Introduction” of this document.

In the first case the project (or programme of interventions) must be reformulated by increasing, in both a qualitative and quantitative sense, the components that can produce financial returns.

The reformulation of the project must not compromise its capacity to contribute positively to sustainable urban development. On the contrary, the addition of new, for example commercial, functions or components must be interpreted as an **opportunity to increase the utilization and attractiveness of the original main component** of the project.

The second strategy that may be pursued to increase the “jessicability” of a project is to include it in a larger and more composite renewal operation that features new components capable of generating financial returns. This strategy, as mentioned earlier, may obviously work in tandem with the option described above.

The original project – for example the construction of a public facility such as a museum or a transport terminal – can be interpreted as part of a larger operation of urban renewal/regeneration, or renovation and enhancement of public real-estate assets. In this way **new functions may be added to the functions of the original project, that could be compatible and synergetic and create revenue** (from management or sale), helping the operation to achieve overall economic and financial balance.

In this case too, it is possible to find a significant example in one of the projects developed in this Study.

## 7.2. PRELIMINARY ASSESSMENT OF SUSTAINABILITY AND DEFINITION OF THEPROJECT

Following the initial phase of building and giving a structure to the project, it is necessary to begin to **progressively refine the project idea through a preliminary assessment of sustainability**.

It is particularly important to investigate the costs and revenue of the project, and consequently to verify the **balance between the hot components** (which can produce earnings) **and the cold components** (which represent nothing but costs) by preparing simple tables that compare prospective costs and revenues.

Based on the overall result, a decision can be made regarding **any further amendments** to the project that might be necessary to achieve a relationship between costs and revenue that guarantees **minimum standards of economic and financial feasibility** in the operation.

### *Projects financed through JESSICA and outright grants*

In the case that the changes required to achieve economic and financial sustainability in the operation are shown to undermine the nature of the original project, and weaken its capacity for a positive impact on sustainable urban development (for example by introducing an undesirable predominance of the commercial component), the project can still be financed by using **JESSICA in combination with a grant**, or other type of aid, attributed in reference to the Operational Programme (as established in art. 43 par.5 Reg. EC 1828/2006, modified by Reg EC 846/09) or other public contributions (OP EDF, PAR FAS, special laws...)

This can be done in two ways:

- **By separating the cold components from the operation, where possible and appropriate, and finance their realization independently with grants (outright),**

- By keeping the structure of the operation intact and conferring the outright grant to the party or project vehicle constituted for the implementation of the operation (for example the holder of *project financing*, an STU or other public-private partnership)<sup>53</sup>.

### 7.3. STRUCTURING THE OPERATION

#### *The choice of partnership model and project vehicle*

This is a crucial phase in the process of structuring any sustainable urban development project promoted by a public administration in partnership with private parties, independently of the possibility of using JESSICA.

The choice of partnership model to be adopted lies substantially with the Public Administration promoting the project. It is inextricably bound to the choice of the most appropriate and efficient vehicle for managing the partnership and implementing the project.

These choices are also related to the concrete feasibility of a sustainable project, in principle, from an economic and financial standpoint. The primary evaluations that determine the choice involve the following factors:

- The **ownership structure** of the renewal area / existence of real-estate assets belonging to the local administration promoting the project
- **Complexity of the operation** (in terms of the number of different planning components and potential difficulties in carrying it out);
- **Possibility of involving private parties** with specific competences (as financial partners, builders or managers);
- **The overall appeal of the project** and its capacity to attract private investments;
- Whether or not it is necessary to maintain **public control over the operation**;
- Favourable tax conditions.

Remembering that the National Procurement Law (*Codice degli Appalti*, art. 3 comma 15-ter) classifies as Public-Private Partnerships (PPP) a wide range of agreements “whose **purpose is one or more activities such as the planning, construction, management or maintenance of a public work or a work of public utility**, or the provision of a service, including in any case total or partial financing by private parties of these activities, even in different forms, with assignment of the risks as indicated by standing Community prescriptions and orientations...” , it should be emphasized that the forms of PPP that can be used for the implementation of urban development operations can be divided substantially into two categories:

- The **contract-type PPP**, such as for example:
  - ▷ **Project Financing**
  - ▷ **Concession** (concession of planning, execution and management; concession of public domain areas – for example belonging to the Maritime Public Domain; concession for

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<sup>53</sup> The possibility of receiving a subsidy in reference to the ERDF OP requires that the party receiving the subsidy be included in the list of possible “Beneficiaries” of the Action from which these resources are drawn. The restrictions imposed by the rules on State Aid must also be respected.

exploitation)

- The **corporation-type PPP**, such as for example:
  - ▷ **Urban Renewal Companies (STU – Società di Trasformazione Urbana)**
  - ▷ **Real-Estate Mutual Funds**
  - ▷ Other forms of mixed companies

Reference should be made to the [Study “Implementation of JESSICA in Sicily: legal profiles”](#), included as an appendix to this Report, for a detailed analysis of the characteristics, the advantages and disadvantages of all the instruments established by current legislation that can be used as vehicles for “jessicable” projects.

#### *Choice of financial structure and method of intervention for JESSICA*

The choice of the most advantageous financial structure, in terms of the relationship between equity and debt capital, is closely bound to the characteristics of appeal and the risk level of the operation.

The factors to consider in the choice of the financial structure are typically the ones that influence the relationship between risk/revenue of the operation:

- the amount of the contribution of resources (financial, real-estate and other assets) by the promoter or public partner,
- the capacity of the operation to respond to a clearly quantifiable market demand (volatility of revenue),
- the potential expressed by the urban renewal and by the context,
- the level of interest expressed by potential financial contributors and operators in the field,
- the possibility of using the real-estate assets involved in the renewal as collateral.

Basically the existence (or significance) of these conditions makes it easier to finance the project with debt capital.

The concession of JESSICA financing at particularly advantageous conditions to parties that are not public entities might conflict with the current legislation in the matter of State Aid. A detailed overview of the restrictions relative to State Aid is contained in the above-mentioned [Study “Implementation of JESSICA in Sicily: legal profiles”](#), attached as an appendix to this Report, however, at this point, the following should be taken into account.

**In order to avoid being considered State Aid, it is sufficient that**, when benefiting private subjects – such as the project vehicles described in the preceding sub-paragraph – **the JESSICA investments be granted at conditions that satisfy the principle of the investor operating in a market economy**, or, in particular:

- as loans at a rate equal or greater than the reference rate that is close to market rate (calculated on the basis of the methodology indicated by Commission Communication 2008/C 14/02);
- as a contribution in equity at the same conditions as other economic operators bringing equity.

In this context, JESSICA can contribute significantly to the feasibility of the project in two ways:

- **by granting loans at a rate equal to or greater than the “reference rate”,** and in any case more advantageous than those applied by financial institutions, in order to create more appealing conditions for private investors;
- **contributing with equity** in projects that, by their very nature or for conjunctural reasons, find it difficult to obtain financing directly on the market.

## 8. THE PILOT PROJECTS

### 8.1. THE SELECTED PROJECTS

This section illustrates the typologies and characteristics of the six pilot projects analyzed in the Study.

All but one were developed in collaboration with Sicilian Municipalities and based on proposals and planning initiatives previously matured within the administrations and coherent with strategic development frameworks already adopted. Five Municipal administrations, from five different Sicilian provinces, took part in this exercise, each with one project. Four of them are provincial capitals (Siracusa, Trapani, Ragusa and Palermo), the fifth, Caltagirone, is one of the main urban centres in Catania's Province.

It must be specified that during the process of examining the Projects developed by the Municipalities in Sicily, which took place during the initial phase of the study with the analysis of the Strategic Plans and other tools of integrated planning for urban renewal, no truly "Jessicable" projects were found. The work done with the municipalities, selected on the basis of the quality of their planning initiatives and their overall "administrative capacity"<sup>54</sup>, consisted in structuring planning packages that are based on the development of public amenities (infrastructure and also services), but integrate components capable of producing revenue.

A further Pilot project, developed entirely by the authors of this study, consists in an initiative aimed at increasing the energy efficiency of the public real estate assets of an hypothetical Sicilian town. It has appeared appropriate to include such simulation to illustrate how JESSICA can effectively support projects in the field of energy saving and efficiency.



Figure 2 - Map of the Sicilian cities where the pilot projects have been developed.

<sup>54</sup> Reference is to the review of project initiatives set up by Sicilian municipalities, described in chapter 4.

## **8.2. SIRACUSA – REGENERATION AND REFUNCTUALIZATION OF THE WATERFRONT OF THE PORTO GRANDE**

### **8.2.1. Regional context**

Extending across the ample natural bay of Porto Grande, nestled between the island of Ortigia and the peninsula of the Maddalena, against the backdrop of the Mounts Iblei and Mount Etna, the city of Siracusa is a unique example of the stratification of different civilizations.

The official statement recognizing Siracusa as a UNESCO “World Heritage Site” defines the city and the site of the rocky necropolis of Pantalica as an “excellent example of a property of outstanding universal value” in which “the human, cultural, architectural and artistic stratification which characterize the city from the ancient Greek period to the Baroque, mean that it has no equivalent in the history of the Mediterranean”.

Only in recent years has the economic development of the city of Siracusa, which until the 1980's was centred entirely on the petro-chemical industries concentrated in the regional area around the cities of Priolo and Augusta, begun to focus on cultivating the historical, artistic and cultural heritage so widely disseminated throughout the region.

Local and regional bodies (the City Government and public and private entities) have created forms of institutional and social partnership to launch many initiatives to foster a new development of the city.

A new awareness of the region's potential in terms of tourism, culture and the environment, has brought a radical change of perspective to the management policies and regional planning; in particular, the system of actions implemented by the City Government focused on the growth of several sectors of the local economy (the tertiary and tourism in particular) and on actions to revitalize and promote the region.

Over the course of these years, the city has witnessed the evolution of initiatives that have made it possible to supplement its city planning instruments with integrated programmes of urban regeneration, and guaranteed the allocation of financial resources that would compensate the paucity of funds from the standard budget of the local Administrations.

Of the many assets that could generate economic development and competitive growth in the city, reconnecting the city to the sea became of strategic importance. The “regeneration of the environmental coastal areas of Porto Grande” represents one of the strategic guidelines that has become the focus of the activity and attention of local administrators. In particular, this theme (the Gate to the Sea) was broadly articulated in the study of the Sustainable Development Plan and the Progetto di Territorio currently underway.

Restoring the ancient relationship between the city and the sea, and exploring the relationships that might be activated between the urban system on the mainland and the potential offered by the sea, touches upon a number of other significant issues for the area of Siracusa, including the following priorities:

- the enhancement of the most valuable areas and the environmental regeneration of the region;
- the interconnection between the existing protected areas and the most valuable landscape and natural areas;
- the integrated management of the land and sea sides;
- the revitalization of the area with the establishment of eco-sustainable activities to support

tourism;

- the construction of “light” infrastructure projects with the purpose of optimizing sustainable use by tourists;
- the enhancement of the beaches along the coast with projects that respect the natural and environmental characteristics;
- the regeneration and protection of the coast from erosion;
- the improvement of the quality of the water in the sea, to protect the delicate and valuable ecosystem of the Plemmirio;
- the improvement of the environmental quality of the Anapo and Ciane Rivers;
- the protection and cultivation of the productive agricultural system, with an eye to the quality of the landscape”.

The proposed project interprets the city’s vocation and promotes initiatives to enhance the landscape and environmental resources and to restore the relationship between the city and the sea.

### 8.2.2. Range of action

The pilot project for Siracusa includes the restoration and functional regeneration of the waterfront that extends from Ponte Umbertino along the coastal strip in front of the *Capitaneria di Porto* (Port Authority), to the western end of the wharf of Sant’Antonio. The proposed programme of works also includes the restoration and renovation of several buildings owned by the City which are located within the burgh of San Antonio facing the areas in concession to the contractor currently building the *New Tourist Port*.

The project is coherent with a broader programme of action promoted by the City Administration and is complementary to some of the other public initiatives currently underway:

- The structural upgrade of the wharf of Sant’Antonio to allow for the mooring of two large ships;
- The regeneration of the docks of Porto Grande in Siracusa (currently underway);
- The conversion of an ample area facing Via Rodi into a public parking lot (job completed);

The plan and programme of projects in this area favour the creation of quality public spaces and the enhancement of existing historic buildings; its objective is to bring together in a unitary design the various initiatives now underway or included in the city planning instruments, such as: the *New Tourist Port*, the wharf for fishing boats, the area designated for the caulkers and the renovation of the Sant’Antonio wharf to moor large ships.

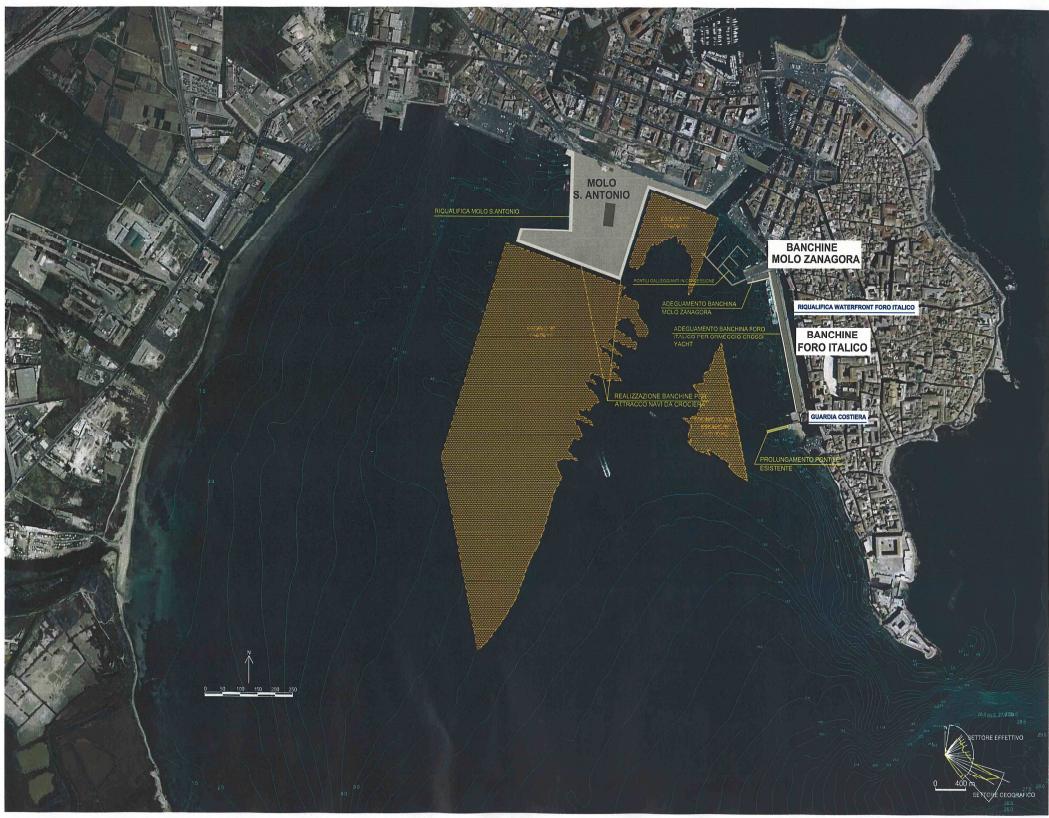


Figure 3 - Aerial view and localization of the projects underway in the Porto Grande

### 8.2.3. Characteristics of the project

The transformation in question concerns the *regeneration and renovation of the waterfront of Porto Grande*. In particular, the intention in this area is to create a new functional axis coherent with the principal development strategies for the city that could play an important role in fostering social aggregation and attracting new collective activities and services.

As described earlier, the project includes the area along the coast of Porto Grande, from the offices of the *Capitaneria di Porto* to the northern border of Pantanelli; as it stands, the site of the project is severely blighted and under-utilized, and is configured as a service space for port activities. The large open spaces along the edge of the sea add great fascination to the area, enhanced by the presence of the *Capitaneria* buildings in fine late nineteenth-century style and by other existing buildings, which could be interesting to restore and reuse. The scenery, the panoramic vistas and the views onto the island of Ortigia are an extremely suggestive environmental resource, an invitation to design well though out open spaces for pedestrians and for social outdoor activities.

The proposed project will remove all the incongruous buildings and the remaining silos in the area, and will redesign the open spaces to make them usable as public pedestrian spaces with high-quality urban renovation works for the architecture and the landscape.

The heart of the transformation is the construction of the new Maritime Station to serve the new tourist traffic arriving from the sea. The building, the preliminary design of which is the product of a recent international design competition coordinated by the City Administration, will become a brand new landmark for the city. Underlying the design idea is the consideration that the flux of

tourists into Siracusa has increased significantly in recent years, thanks to a local development policy has done much to increase the attractiveness of the city.

The renewal project will also include the construction of a multi-level parking block (two floors, one of which is underground) to serve the traffic generated by the businesses established inside the Maritime Station and the island of Ortigia.



Figure 4 - Panoramic view of Porto Grande and a rendering of the project for the new Maritime Station

Overall the proposed urban renewal should improve urban accessibility in both directions: from the sea towards the city, in consideration of the passenger and cargo traffic, upgrading and regenerating the functionality of the existing road infrastructure, and from the city to the sea, reinforcing the public transportation network, by creating park-and-ride parking spaces as well as pedestrian and bicycle trails.



Figure 5 - View of the island of Ortigia and rendering of the project for the New Maritime Station

At the same time, the construction of the Maritime Station should be an opportunity for the city to promote and trigger processes of regeneration and virtuous renewal of the entire port area. The proposed project would include the construction of a building of significant urban value that could interact and blend with the surrounding historic, artistic, landscape and environmental context.



Figure 6- Elevation of the project for the new Maritime Station

The new Station, in fact, has the formal and functional characteristics to play an important role as an urban and social magnet; within its volume and its adjacent spaces it will combine the functions inherent to cruise ship traffic and to maritime transport and commercial activities, related to the passenger flow (shops, travel agencies, car rentals, Tourist Offices) and to the nature of the valuable public space the whole area will become.

The regeneration of the waterfront will offer adequate venues for new commercial and catering activities. In particular, the natural vocation of the area would be to host facilities for free time and leisure, including night clubs, street bars, etc.

The transformation of the coastal areas will serve as a lever for the revitalization of the economy in Siracusa, for both the traditional commercial activities, concentrated in the port complex, and the potential development made possible by cruise ship tourism and leisure yachting.

In particular the restoration and renovation of publicly-owned City property located along the seafront of Borgata Sant'Antonio (the former fish-market and former City dog pound) transforming them into structures for the sale of fine local products, is going to contribute to the flourishing of new commercial services in the area, already spurred by the opening of the New Tourist Port, currently under construction next to the future maritime station.

The renewal project in the proposal is part of a more general effort to regenerate and renovate the existing building fabric. The town and the building system facing the wharf of Sant' Antonio on the western constitute a historical urban district that has been partially abandoned as a result of a more general process of depopulation, with a strong identity in terms of construction techniques and typologies (low fishermen's houses and warehouses). The restoration and renovation of city-owned buildings is a stimulating theme that can ensure the protection and conservation of the places that convey the elements of the city's identity; there are already several specific projects underway on this portion of the city, which are the result of recent actions implemented by the City Administration. The building that held the old Fish Market, in particular, is an interesting example of Art Nouveau architecture that would be deserving of a modern philological restoration.

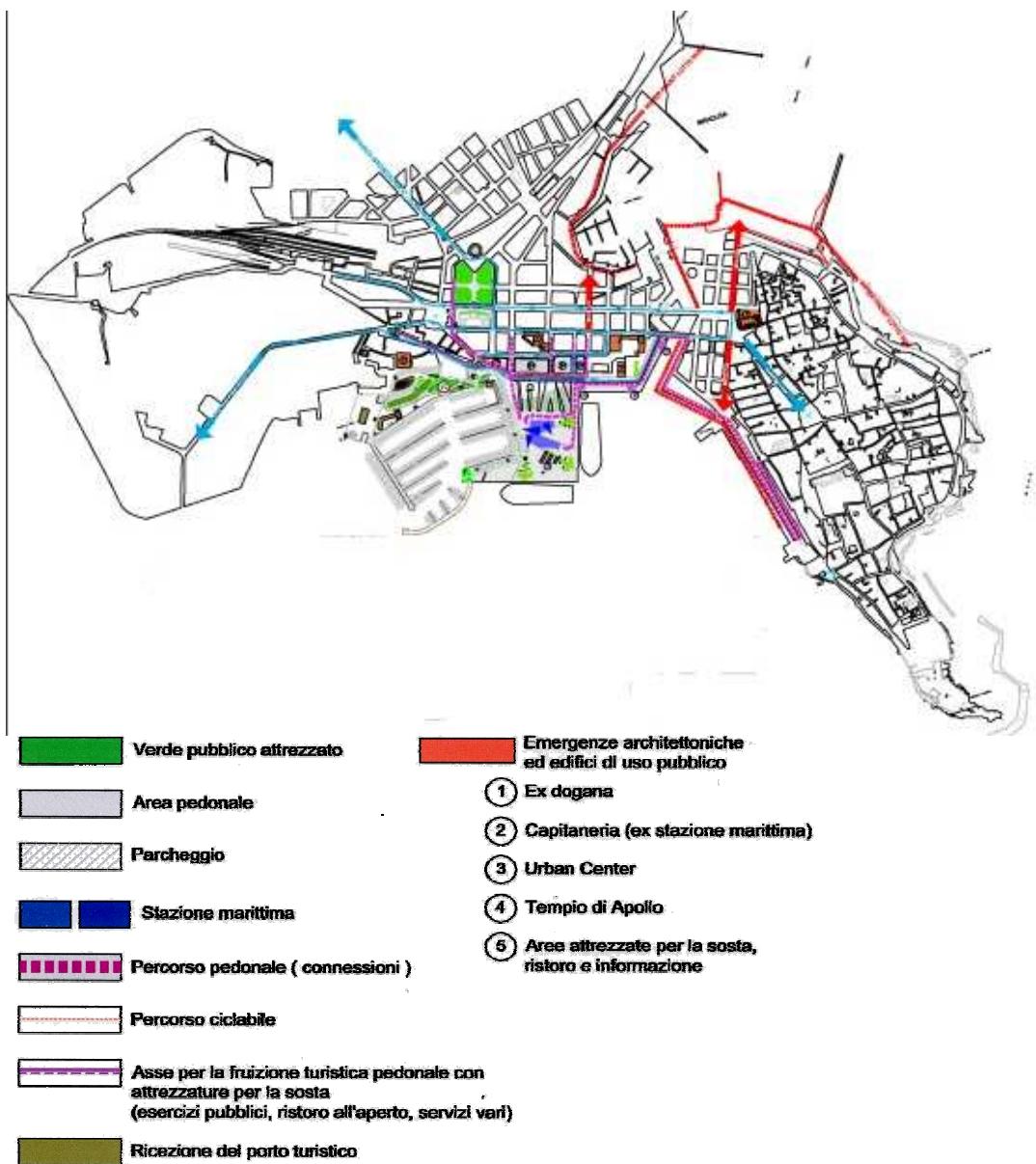


Figure 7 - Plan of the project area and study of the network of connections to the rest of the city.

The areas involved in the project are mostly Public Domain managed by the Regional Government; only the buildings in the Borgata Sant'Antonio are owned by the city. Currently, the parking lot behind the wharf of Sant'Antonio is leased in concession to the City of Siracusa.

#### 8.2.4. Functional programme

The following is the functional programme of the project for Siracusa, divided by the typologies of income that can be produced.

Project component	Cost (in €)	Typologies of income that can be produced
<b>Construction of the Maritime Station</b>		
Passenger services and adjoining areas (services for incoming, services for outgoing, ticket offices for navigation companies, etc.)	3.362.884	Public works
Offices for Port Authority, Police and Customs	484.944	Return from Rental /Management
Toilets and first aid centre	609.579	Public works
Offices and management area	876.978	Return from Rental /Management
Commercial activities (shops, travel agencies, car rental agencies)	1.840.068	Return from Rental /Management
Hospitality and catering services (restaurants/bars)	1.466.163	Return from Rental /Management
<b>Revamp of the area and new landscaping</b>		
Two storey parking facility (one level below ground and one over ground)	5.635.025	Return from Rental /Management
Creation of new receptive (leisure and free time) and commercial facilities – covered walkways and temporary structures	2.827.950	Return from Rental
Photovoltaic panels on temporary structures for commercial activities	1.663.500	Return from photovoltaic energy production
Creation of outfitted spaces, pedestrian trails and public green spaces	4.264.610	Public works
<b>Renovation and transformation of the former fish market</b>		
Retail center for local food products	2.634.800	Return from Rental
<b>Renovation and adaptive reuse of the former dog pound</b>		
Services and activities for leisure yachting	501.600	Return from Rental
<b>Urban revamp of Via Tripoli</b>	246.796	Public works
<b>TOTAL COST</b>	<b>26.413.903</b>	-

## 8.3. TRAPANI – NEW AUDITORIUM E RENOVATION OF PALAZZO LUCATELLI

### 8.3.1. Regional context

Trapani is a coastal city with about 60,000 inhabitants on the far eastern tip of Sicily. The city, which has very ancient roots, is the capital city and primary administrative centre of a province which, despite its relative isolation from the rest of Sicily and the country, includes other urban centres such as Marsala (with a population slightly greater than Trapani) and Mazara del Vallo.

At this time, the economy of the city is based primarily on services, which mostly respond to the administrative role of the capital. Industries which in the past were responsible for the economic and social prosperity of the city, such as the port and the production of salt (in the nearby saltworks) have become marginal today. The city's port is still a very important terminal for maritime traffic (passenger and cargo) between Sicily, the Egades Islands, Pantelleria and Sardinia.

Overall Trapani is one of the poorest province capitals in Italy, in terms of *per capita* income and consumer spending. Nevertheless some sectors of the local economy have accelerated strongly in recent years. In particular, the city is successfully developing its potential as a tourist destination and an important centre for cultural services. This interesting new trend was undoubtedly encouraged by the major effort put into the regeneration and enhancement of the historic city centre by the City Administration over the past ten year and by the successful organization, in 2005, of a number of important sailing competitions, as part of the *Louis Vuitton Cup*.

### 8.3.2. Range of action

The city today is seeking to reinforce its role as the core for tourist travel within a system of fascinating and renowned locations which include, in addition to the historic centre of Trapani, the nearby city of Erice, the Egades Islands, the beach resort of San Vito lo Capo, and the natural reserve of the Zingaro. Within this district, in which the tourist industry has significant prospects for growth, Trapani already serves the primary logistical base, with the main port and the international airport which, as the alternative to Palermo for a number of low-cost airline carriers, has witnessed an exponential growth in passenger traffic in recent years.

The city has also reinforced its own image as a cultural centre in recent years, supporting its campaign to promote this new tourist vocation. In particular, the city hosts and sponsors an important institution included in the international circuits, the *Ente Luglio Musicale Trapanese* which not only organizes a rich summer opera season, but also promotes the production and performance of fine music and theatre with workshops, schools and international competitions.



Figure 8 – Aerial view and localization of Palazzo Lucatelli

### 8.3.3. Characteristics of the project

The project consists in the renovation of a prestigious architectural complex (*Palazzo Lucatelli*) in the historic city centre of Trapani for the primary purpose of creating a new multi-purpose 500-seat auditorium for concerts and entertainment. This structure, which will become Trapani's principal Theatre, will host most of the performances and activities organized by the *Ente Luglio Musicale*. In particular, the complex of Palazzo Lucatelli will house not only the theatre, but also the educational activities, the workshops and "handcrafting" spaces (for building the scenery) that are an increasingly significant part of the *Ente*'s activities.



**Figure 9 – Palazzo Lucatelli, Palazzo Lucatelli, detail of the main façade and the entrance portal**

The existing building has a footprint on the ground of 2,136 square meters and a volume of ca. 28,000 cubic metres. Through 1968, it was used as a public hospital. In addition to the theatre and its functionally adjoining spaces, the renovation will include the construction of an upscale hospitality structure (with adjoining spaces for conventions) in the rear portion of the building complex and an underground parking garage for 100 cars, serving both Palazzo Lucatelli and the surrounding urban context.

The project seeks clearly to provide new impetus to the process of regenerating and re-adapting the historic city centre. As mentioned, the process has been underway for some time, but must still be consolidated. The architectural and functional renovation of Palazzo Lucatelli is, in this sense, a particularly important opportunity, for two reasons:

- the building, which is currently in a state of abandon, is located in one of the most heavily blighted sections of the city centre, because it is relatively decentralized with respect to the axes that have already been regenerated and partly converted into pedestrian areas. This is a valuable work of architecture, with a monumental Late Baroque façade, which encloses a small city square with a garden of palm trees in the centre. The context is therefore one where even the simple architectural renovation of the building, which is considerably larger than the surrounding buildings, will bring immediate benefits to the physical regeneration of the urban context,
- the renovation will bring new and valuable urban and regional-level functions to the centre, helping to stimulate a real “repopulation” of the ancient city, and restoring its original role as the fulcrum of public life and preventing it, after the restoration, from becoming nothing but an open-air museum, excluded from the most important dynamics of social and economic development.

The proposed transformation also ensures that Palazzo Lucatelli can be used by the public off-hours as well, when there are no performances. In particular, the spaces dedicated to educational

activities and the workshops, all located on the top floors of the building, will remain accessible. As for the street level, part of the façade of the palace overlooking the square will be occupied by a very large bar-cafeteria (developed indoors in three spaces with cross-vaults that constitute the base of the building, and outdoors on the square) which will also lead to a restaurant inside, featuring an outdoor terrace space with over 100 seats. The project will also preserve (and restore) a public medical clinic serving the neighbourhood, the last vestige of the building's original function.

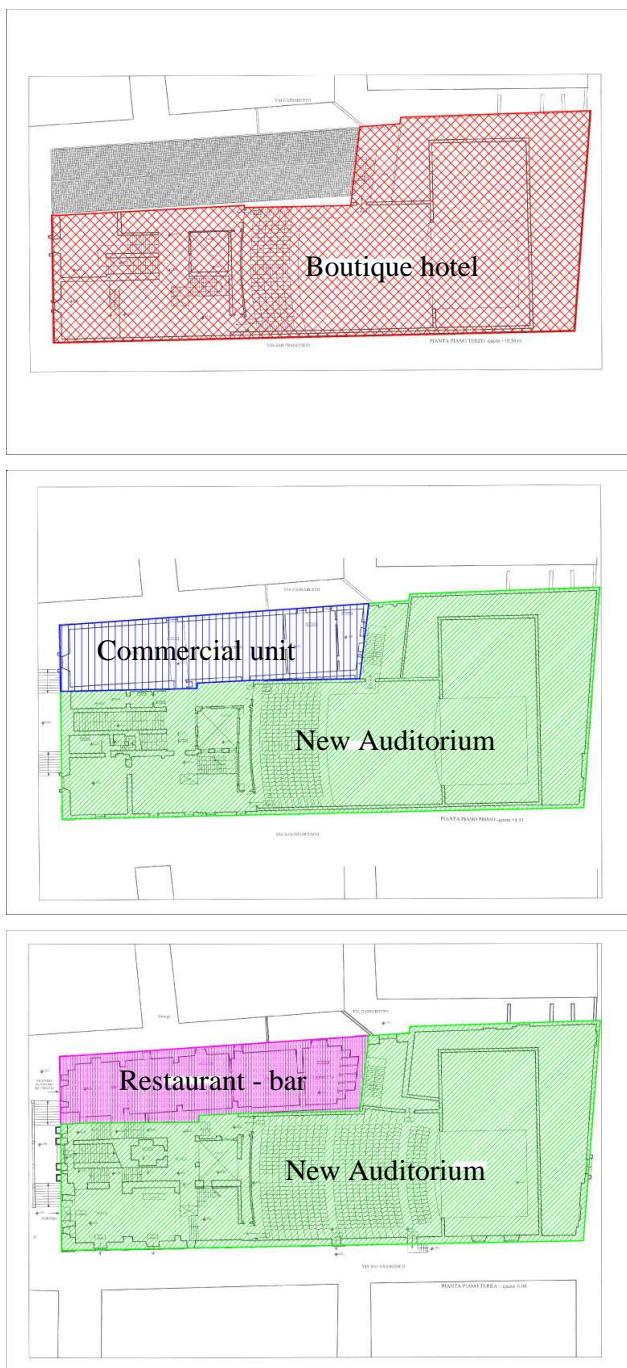


Figure 10 – Palazzo Lucatelli, plans for the new Auditorium complex

### 8.3.4. Functional Programme

The following is the functional programme of the project for Trapani divided by the typologies of income that can be produced.

Project component	Cost (in €)	Typologies of income that can be produced
<b>New auditorium and adjoining spaces</b>		
Auditorium "Teatro di Trapani" new construction 500 seats (foyer, auditorium including orchestra and balconies, stage, dressing rooms, rehearsal rooms ,fly tower, technical spaces) including stage systems (acoustic and lighting)	8.204.766	Return from management and from rental as Convention centre
Drama school and workshops for music and theatre.	Included in the Auditorium	-
<b>Mechanized parking</b>		
Two-level underground parking garage with mechanized access (elevators) and two independent entrances on the side streets (one of them will be closed to regular traffic)	1.907.542	Return from direct management
<b>Commercial activities and catering</b>		
Bookstore/shop (Merchandising)	985.515	Return from rental
Restaurant, bar/café	985.515	Return from rental
<b>Hospitality</b>		
New hotel on top level of building complex	1.735.526	Return from direct management
Construction of new elevators	58.235	-
<b>TOTAL COST</b>	<b>13.877.099</b>	-

## 8.4. CALTAGIRONE – CONSTRUCTION OF A HOSPICE AND A NEW HOSPITALITY STRUCTURE

### 8.4.1. Regional context

Caltagirone is a Municipality of almost 40,000 inhabitants, in the province of Catania, which functions as a hinge connecting two areas that are undergoing interesting development processes,

Calatino Sud Simeto and the Val di Noto<sup>55</sup>.

The key sectors for the development of the city are the ceramic industry, commerce, tourism, and the agriculture/food industry<sup>56</sup>.

Caltagirone is particularly renowned around the world for the production of artistic ceramics, a field with over 130 manufacturing companies, mostly craft-based, which correspond to approximately 24% of the regional companies in the industry<sup>57</sup>.



Figure 11 - Stairs in S. Maria del Monte in Caltagirone

Ceramics are the major tourist attraction of the city, which also boasts a historic city centre listed as a UNESCO “World Heritage Site”, one of the “Baroque Cities of the Val di Noto” along with seven other cities in eastern Sicily, for the particular concentration of works with a superior historical, archaeological and artistic value.

Despite the potential of Caltagirone as a tourist destination, linked also to the natural forest reserve of the Bosco di Santo Pietro and numerous archaeological areas, tourism remains disappointing. Despite its growth and year-round development in recent years the median stay is inferior to the regional average for reasons that may be attributed to insufficient hospitality structures and poor public relations/ marketing strategies.

<sup>55</sup> The Calatina Sud Simeto area is composed of 15 municipalities South-East of the province of Catania (Caltagirone, Castel di Iudica, Grammichele, Licodia Eubea, Mazzarrone, Militello Val di Catania, Mineo, Mirabella Imbaccari, Palagonia, Raddusa, Ramacca, San Michele di Ganzaria, Scordia and Vizzini); the area of the Val di Noto includes Caltagirone, Catania, Militello Val di Catania, Noto, Palazzolo Acreide, Scicli, Ragusa and Modica.

<sup>56</sup> In recent years the Calatina area, which has an agricultural vocation, has focused on modernizing production processes in the agriculture and food industry, which had suffered a long period of deep crisis. The cultivation of this sector in Caltagirone and in the entire Calatino area proceeded with the acquisition of the protection trademarks DOP Monte Iblei, Cerasuolo DOC, IGP for the Mazzarone grapes, and with the participation in the “Associazione della strada del Cerasuolo di Vittorio e dei Vini Iblei: dal Barocco al Liberty”, the participation in the “Città del Vino” (with Nanfro Wine) and the “Città dei Formaggi”, the creation of the Consortium, now being constituted, for the protection of the purple Artichoke, the creation of the “Paniere dei prodotti tipici del Calatina” for typical local products and the organization of the “Fiera dei Sapori” at Borgo di S. Pietro and the Kalataexpo.

<sup>57</sup> This data refers to the year 2000 (Source: Strategic Plan for Caltagirone).

From an administrative point of view, in the past ten years, the city has demonstrated the capacity to implement measures to sustain employment and local development.

These interventions were implemented with the active involvement of most of the organized local forces, and resulted in the constitution of the regional Pact “Calatino Sud Simeto”. In addition, with the PRUSST, URBAN Italia and LEADER II programmes, the Plan for the renewal of the historic city centre and the effort to integrate the economic, social and administrative/institutional levels, several urban regeneration projects were brought to term - including the restoration of buildings with significant cultural and historical value, as well as industrial containers - and new business start-ups were encouraged.

Mention should also be made of the public-private partnerships promoted by the City administration - described in an earlier section of this Study - which made it possible to rely on project-financing programmes to extend and improve street lighting in the territory of the city, to build the Santo Stefano parking garage (408 indoor parking spaces and an overall surface of 16,000 square meters, with restaurants, shop, a 3,000-sq.meter terrace with facilities, bathrooms for users and tourists, public green spaces), the addition to the cemetery of Caltagirone (10,000 new spaces) and the construction of a cemetery in the fraction of Granieri<sup>58</sup>.

#### **8.4.2. Range of action**

The “Hospice” project promoted by the city of Caltagirone intends to offer complete and comprehensive medical assistance to terminal patients or to patients afflicted by particularly painful pathologies, who, because of additional psychological or social issues, such as solitude and/or poverty, cannot get adequate referrals or answers to their problems<sup>59</sup>.

The objective of this project is to create a centre for services of excellence, in terms of typology and level of quality, the only one of its kind in the region and therefore with an influence that extends beyond the local context, in consideration of the geographical position of Caltagirone, which is centrally located with respect to the vast territory of the south and center of Sicily, making this Municipality the ideal connection point between the Calatino Sud Simeto, the Val di Noto, the area of Gela and the zone of the Valley of the Temples and Piazza Armerina<sup>60</sup>.

The project represents a coherent prolongation of the social policies enacted in recent years by the City. In fact, as one of the strategic objectives for the development of the city, the Strategic Plan for Caltagirone chose to “Improve the quality of life and the quality of the city to make it more livable and to attract more people and new businesses”. The development model selected by the City

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<sup>58</sup> There is a selection process currently in progress to choose the private participant in the construction, with project financing, of the new stadium (6,000 seats) which will be built in Molona, in the northern suburbs of Caltagirone.

<sup>59</sup> Today, Residential Centres for Palliative Care or Hospices describe structures that are part of the network to assist terminally-ill patients, to provide temporary hospitalization for patients affected by progressive illnesses, or in an advanced phase, or illnesses that progress rapidly or are diagnosed as fatal, for whom any therapy for recovery, or stabilization of the illness, is no longer possible or is inappropriate. Hospitalization in the Hospice is destined primarily for patients with terminal cancer pathologies who require palliative therapy and support. The definition is contained in the “Solidarity Pact for Health Services” which was added to the National Health Plan 1998-2000, which allocated 406 billion euro in 3 years for the Regions, to create at least one “Hospice” per region or autonomous province and to reinforce at-home assistance.

<sup>60</sup> In particular, this favourable position allowed the city to connect rapidly to six provincial capitals (Catania, Siracusa, Ragusa, Agrigento, Caltanissetta and Enna) out of the regional total of nine. In particular, Caltagirone lies near the Airport of Catania and the Airport of Comiso, soon to be opened.

Administration therefore contemplates the establishment of a city that is sensitive to social issues and cares not only about the economic development of the territory but also about the pursuit of general social wellbeing and a satisfactory quality of life.

In recent years it has pursued a policy of integrating its administrative activity with the social effort to verify the needs of its citizens, smoothing the integration between the services performed by the city and the services offered by other bodies in the region (Health Services, the Courts, Volunteer Associations).

With the “Zonal Plan” drafted in collaboration with the other municipalities of the Calatino, the Urban Italia “Assegno Servizi” programme, the growth of the Office for Citizens, and many other social work programmes and projects, the City of Caltagirone has bolstered the work of the centres for educational assistance and remedial schooling for children with behaviour and learning problems, activated social and health services and at-home assistance for the elderly and for physically-challenged citizens, promoted social inclusion and employment for citizens with social, economic, physical or psychological issues and implemented programmes for the inclusion and integration of immigrants and political refugees.

The capacity to develop projects and to promote initiatives offering quality social services also helped the city to tap into important reward systems, and to win national acknowledgment<sup>61</sup>.

#### **8.4.3. Characteristics of the project**

This is the context surrounding the Hospice project promoted by the City of Caltagirone. It involves the construction of a residential center for Palliative Care (Hospice). The Project seeks to offer comprehensive and complete medical assistance to patients at the terminal stage of their illness or afflicted by particularly painful pathologies; hospitalization is intended for patients affected by terminal cancer pathologies that require palliative care and support.

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<sup>61</sup> The Office for Citizens received an international award from the Ben-Essere prize (in all of Italy, nine Cities received the acknowledgment, including Caltagirone), which rewards administrative experiences offering a high quality of services at the lowest possible cost. This office offers citizens complete information in the matter of civil rights, services and accessibility to city services, and in particular to health services, and was recently reinforced with a team constituted by a number of specialized professionals: social workers, a psychologist, a consultant for family education, cultural mediators, social service operators. The Office for Citizens will also host the headquarters of the Experimental Service Centre for the Promotion of Activities for Social Inclusion and Employment for the disadvantaged, funded by the Regione Siciliana, offering work scholarships and employment for 15 people who are socially, economically, psychologically and physically challenged. In 2008, the “Noi nella città” project (APQ) was completed: it was funded by the Regione and served to foster an effective integration between the district of Via Bungavillea and the entire city. The realization of this project made it possible to participate in the tender by the Ministry of the Family “Premio Amico della Famiglia”: the City of Caltagirone won first prize, worth 100,000 euro, which it reinvested for further welfare initiatives, especially in the area of housing rights.

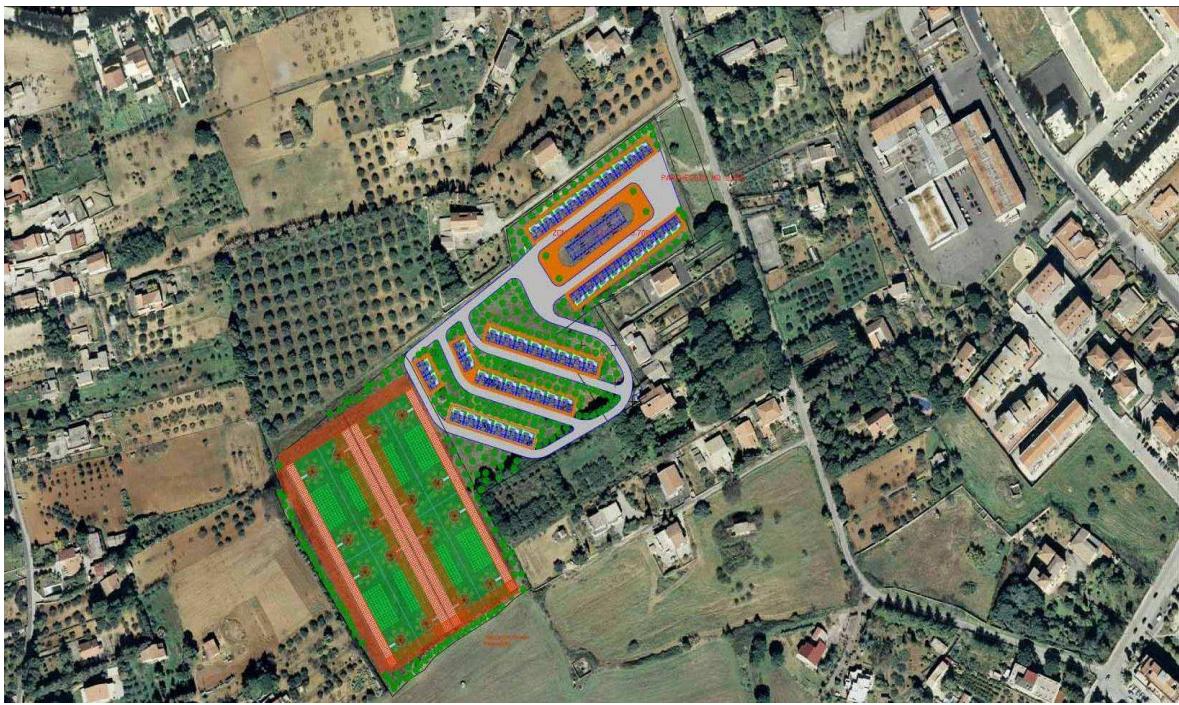


Figure 12 – Aerial view of the Hospice in its urban context

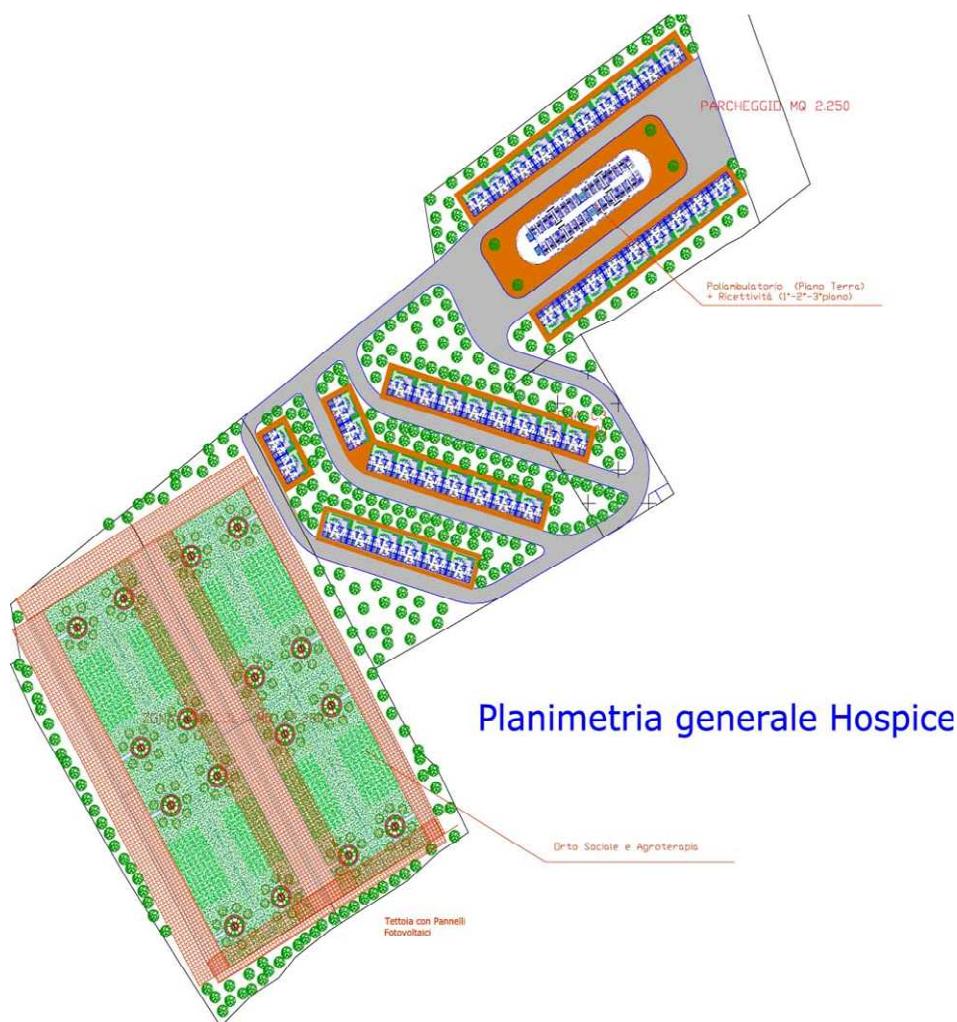
The general objective pursued in this project is the construction of a regional centre for social and health services that can represent a benchmark at a level beyond the local, and a center of excellence for therapy and applied research in the treatment of pain, combined with at-home assistance and the training of medical and paramedical personnel.

The distribution of the spaces and volumes inside the Hospice are designed to guarantee the psychological and human wellbeing of the patient and his family, environmental comfort, a safe use of the spaces, the protection of privacy, and easy accessibility. The project area includes four distinct primary cores:

- **The Pain Management Clinic.** This is a clinical structure that will contain the spaces, services and technical equipment that will allow the doctors to examine, diagnose and treat individual, non-hospitalized, patients.
  - ▷ n° 1 office for interviewing and admitting patients, located on the ground floor of the structure;
  - ▷ n° 2 offices/units for clinical examinations;
  - ▷ n° 2 units for administering therapy;
  - ▷ n° 1 surgery room, for mini-invasive surgery;
  - ▷ n°1 Radiology unit;
  - ▷ n° 1 Sonography unit;
  - ▷ n° 1 Cardiology unit;
  - ▷ n° 1 Physical Therapy unit.

The services include spaces reserved for the employees of the structure, such as dressing rooms, private bathrooms, etc., the kitchen to prepare meals for the residents; a pharmaceutical dispensary; two morgues with a total capacity for five corpses, with services that comply with legal standards, and an adequate system of ventilation and air conditioning.

- **At-home care.** This unit includes the following spaces:
  - ▶ n° 1 space for 24-hour listening and patient monitoring, located in the basement floor of the clinic;
  - ▶ n° 1 space for storing medical products;
- **Hospitalized Palliative Care.** **45 mini-apartments** lined up along the principal access/cross roads of the centre. Each apartment has a surface of 60 square meters, and features all the services, furniture and equipment required for the hospitalization of long-term patients and for palliative care (kitchen, living room, hospital bed, television, telephone, air conditioning and bedroom for a care-taker).
- **Hospitality.** This unit includes a hotel for relatives who wish to be near their loved ones. The hotel will charge for the stay, though the rates will be controlled. There will be 80 double rooms with amenities.



**Figure 13 – General plan of the Hospice**

The project also includes the construction of an area designated for a **social vegetable garden** where the patients can do minimal manual labour (agro-therapy) and stroll outdoors. Inside this area there will be covered walkways and photovoltaic rooftops are also planned. The surface involved in this operation will cover 6,000 square meters and produce about 1 Mw of electrical

power annually.

The project design interprets the vocation of the project area which falls primarily within Zone C of residential expansion. The city planning instrument (PRG) prescribes low volumetric ratios and a building typology that is prevalently made of scattered single-family homes.

The proposed project will be integrated with the fabric of the city, the area involved in the renewal lies within the urban perimeter and is served by urban traffic routes. The immediate surroundings are characterized by the presence of primary urban services (schools, kindergartens, etc.), and most importantly it is near the Hospital, which is less than eight hundred meters away, and near the main axes to enter and exit the city.

#### **8.4.4. Functional programme**

The following is the functional programme for the project in Caltagirone, highlighting the typologies of returns that may be activated.

Project component	Cost (in €)	Typologies of income that can be produced
<b>Construction of a structure for pain therapy (medical clinic) and for at-home care</b>		
Clinics and services for the examination, diagnosis, and treatment of patients (n° 18 units)	1.634.500	Return from management
Spaces designated for at-home care	-	No return may be produced
<b>Construction of housing for palliative care of pain during hospitalization</b>		
Single family lodgings (n° 45 mini-apartments, 2 persons per unit)	3.545.694	Subsidies from Regional Health Service
<b>Hospitality structures</b>		
Hotel (in part dedicated to relatives and visitors – 4 floors – n° 80 double rooms all with amenities)	1.908.200	Return from management
<b>Creation of an area designated as a social vegetable garden</b>		
Spaces destined for agrotherapy	654.080	No return may be produced
Construction of covered walkways with installation of photo-voltaic roof tiles	3.270.000	Return from photo voltaics
<b>Infrastructural and landscaping works</b>		
Construction of a parking lot (90 parking spaces) and pedestrian trails and public green spaces	92.250	Public works
<b>TOTAL COST</b>	<b>11.104.724</b>	-

## 8.5. RAGUSA – RENEWAL OF VIA VELARDO TO ESTABLISH HOSPITALITY STRUCTURES, CATERING AND HANDCRAFTING ACTIVITIES

### 8.5.1. The regional context

The City of Ragusa, the capital of the homonymous province located in the southeastern section of Sicily, counts 72,755 inhabitants<sup>62</sup>, and is spread across a vast territory stretching from the coast to the hills of the Monti Iblei.

At the provincial level, the gross national product per inhabitant – which is considered the best indicator of the region's unit production capacity – is higher than the regional average<sup>63</sup> and it boasts the lowest unemployment rate in Sicily (in 2007, the figure was 8.3% compared to the regional average of 13%)<sup>64</sup>.

The total number of registered enterprises, which on the date of 12.31.2009 was recorded as 34,265, corresponds to a business density of 10,92 enterprises per 100 inhabitants<sup>65</sup>.

The productive structure in the province features a significant number of agricultural enterprises, which represent almost 30% of the total registered enterprises in the province, and more than 10% of the agricultural enterprises of the region. Other important sectors in terms of the numbers of enterprises are commerce (which concentrates 25.37% of the total enterprises), services (11.84%), and construction (11.73%).

A very important economic resource for the province and in particular for the city of Ragusa is tourism<sup>66</sup> which, in recent years, has grown in the province in terms of numbers of tourist arrivals and sojourns, superior to the regional average<sup>67</sup>. The increase in the flow of tourists – fostered primarily by specific policies that began to exploit the immense tourist potential of the region (from the “Baroque” of the province and especially the city of Ragusa, to the beaches on the coast) and in part by the visibility that came from cinema and television productions filmed in the Ibleo area<sup>68</sup> -

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<sup>62</sup> The resident population has a percentage of immigrants equal to 3.98%, higher than the regional average, which is 2.27%. (Source: data from Istat dated 01.01.2009, [www.demo.istat.it](http://www.demo.istat.it)).

<sup>63</sup> In 2006, the GNP *pro-capite* for the province of Ragusa was Euro 17,741, compared to a regional average of Euro 16,628 and a national average of Euro 25,032. In terms of the *pro-capite* GNP, Ragusa is ranked fourth among the provinces in the region after Siracusa Euro 20,167), Trapani Euro 18,444) and Messina (Euro 18,203). (Source: Annuario Statistico Regionale Sicilia, year 2008).

<sup>64</sup> Statistics for the year 2007 (Source: Annuario Statistico Regionale Sicilia, year 2008):

<sup>65</sup> At the regional level, the average business density is 9.35 (Statistics elaborated on the basis of data from Istat/Infocamere).

<sup>66</sup> The mayors of the 12 Comuni Iblei, on the subject, have recently initiated a process to build the future “tourist district”.

<sup>67</sup> At the regional level, in the decade between 1996 and 2005, there was a clear increase (+34%) of tourist arrivals and presences, with a substantially unchanged length of stay (3.2 days). In the province of Ragusa, the increase of the presences over the decade was equal to 57%, while the number of arrivals was lightly smaller (49%); consequently the average length of stay went from 3.96 to 4.17 days, the highest in Sicily. At the level of the municipality, the trend in the growth of tourist arrivals and sojourns was more similar to those at the regional level. The total number of presences in the hospitality structures of the City of Ragusa in 2007 was 478 thousand, with an average stay of 4,08 days and an average occupation ratio of 22%. It must be said that the City of Ragusa (in 2007) registered a greater number of foreign tourists than the rest of the province and the regional average; they represented 44% of the total number of tourists (against 36% in the region and 32% in the province). (See the Strategic Plan of the Ibleo Region “Terre Iblee – Mari e Monti”).

<sup>68</sup> The province of Ragusa provided the locations for the film “Il Gattopardo” by Luchino Visconti,

will also be favoured by the coming inauguration of the airport of Comiso which is being built on the site of the former American missile base (with passenger traffic that, in the first phase, will be assumed to be 400,000 units/year) and by the tourist port of Marina di Ragusa, completed in July 2009, with a capacity for 900 boats.

The city of Ragusa, from a planning perspective, is divided into two distinct cores, Ragusa Inferiore (the ancient Ibla) and Ragusa Superiore, separated by the “Valle dei Ponti”, a deep ravine crossed by four bridges, near the quarry of Santa Domenica.

The two historic centres of Ragusa are the result of an urban development process that took place in different sites, though nearby, and at different moments: the Medieval Ages, as far as the first nucleus is concerned (Ragusa Ibla) and the Late Baroque for the second nucleus (Ragusa Superiore)<sup>69</sup>.



Figure 14 - Ortofotopiano dei Centri Storici di Ragusa : Ragusa Ibla e Ragusa Superiore(San Giovanni, Cappuccini)

The unifying element of the two urban realities is the presence of many Baroque monuments, built during the reconstruction that followed the 1693 earthquake, which along with the beauty of the environmental context – characterized by the deep and scenographic “quarries” that the urban and architectural heritage adapts so harmoniously to – makes the city extremely fascinating (though in

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“L’uomo delle Stelle” by Giuseppe Tornatore, and above all, the successful TV series ‘Il Commissario Montalbano’, whose enormous popularity amplified the fame of the province and especially the city of Ragusa as a tourist destination, and even led to the creation of tourist itineraries tracking the so-called “Montalbano places”.

<sup>69</sup> In the different urban structure, the city demonstrates its past as an area with intense seismic activity. In fact, following the catastrophic earthquake in 1693, the Old city was rebuilt on the same place as the original city (Ibla), which despite the presence of a large number of Baroque buildings, maintains a Medieval urban configuration, and new buildings were built on the Patro hill – with a regular grid system (a combination of rectangles and squares), correlated with the first religious settlements existing in that part of the region. A staircase runs up 350 steps from the original nucleus of Ragusa Nuova or Superiore, connecting it to Ragusa Ibla and crossing through other characteristic neighborhoods.

part it is still excluded from the routine tourist itineraries).

For this reason in 2002 Ragusa was listed as a UNESCO World Heritage Site, as one of the “Baroque Cities of the Val di Noto” along with seven other locations in Eastern Sicily<sup>70</sup>. For Ragusa the UNESCO area includes the Zone of “IBLA” and part of the S. Giovanni district – which are part of the historic centre of Ragusa Superiore. Within these zones, 18 monuments have been listed as UNESCO Heritage sites.

### 8.5.2. Range of action

The pilot project – which is centred on the restoration of a historic street in the Ibla district – is part of a greater project, promoted by the city administration, to restore the historic centre of Ragusa Ibla and Ragusa Superiore with the objective of repopulating the area and generating a process of economic and social revitalization.

The area of the historic city centre is the one with the greatest social and economic issues and urban blight, which are primarily caused by the following factors:

- Severe environmental blight of significant parts of the urban fabric, with over a hundred buildings that are uninhabited and/or abandoned, dilapidated or collapsing<sup>71</sup>;
- Significant lack of facilities and infrastructure, and a paucity of street lighting;
- population loss in the area under study starting in the 1960's because of the exodus towards the newer suburbs of the city<sup>72</sup> and a resident population growing progressively older;
- a significant unemployment rate;
- a concentration of non-European minorities;
- contraction of the small craft activity;
- a growing drug-dependency rate;
- concentration of prostitution – a phenomenon that is not particularly significant in the city – in some physically degraded areas especially in the historical context of Ragusa Superiore.

On the other hand, the area of the Centre has several important assets that lead us to think that the development of the area could represent a driving force for the entire territory of the city.

The major strong points are:

- the richness of the urban, historic and architectural heritage, which has enormous potential for tourist and cultural attraction, demonstrated by the listing of this area as a UNESCO World Heritage Site;

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<sup>70</sup> The other locations are: Caltagirone historic centre, Catania urban environment, Militello Val di Catania individual monuments, Modica individual monuments, Noto historic centre, Palazzolo Acreide individual monuments, Scicli urban environment.

<sup>71</sup> Ragusa Ibla in particular is only 30% occupied (see “PPE Centri Storici di Ragusa” report).

<sup>72</sup> In particular, in the period between 1951-2007, the 47% increase in the total resident population in the City was accompanied by a 71% reduction of the population residing in the Ibla district (from 7415 to 2155) and a 62% reduction in the S.Giovanni-Fonti di Ragusa Superiore districts (Source: City of Ragusa). It must be recorded however that in the period from 2002 to 2007 the population in the Historic Centre did not vary significantly, though it may be said that the phase of demographic decline has stopped. This phenomenon may be explained by the growing interest and attraction of the City, which has been partially revitalized in recent years, thanks to the growing number of tourists and the non-local university students who live in the city five days out of seven, to attend the university venues located in the historic city centre (See the “PPE Historic City Centres of Ragusa” report).

- the presence of university faculties in the historic city centre of Ragusa Ibla (Tropical and Sub-tropical Agricultural Sciences, Law, Languages) located here thanks to an agreement with the Università degli Studi di Catania;
- the vocation of the urban and architectural fabric as a venue for traditional local craft industries, and as the physical space for significant moments of social and cultural aggregation;
- the initiatives organized by the city administration to encourage the cultivation and fruition of the extraordinary valleys that lie near and even within the city (S.Domeniea, Cava Velardo, San Paolo, S. Leonardo), which are of remarkable environmental, historical and archaeological interest and are characterized by an exceptional system of caves and quarries.

Attention should also be called to the extensive efforts towards the enhancement of the historical city centres of Ibla and Ragusa Superiore on the part of the city administration, to enact the Regional Law 61/81 “Standards for the restoration and renovation of buildings in the Historic Centre of Ibla and some districts of Ragusa”<sup>73</sup>, which led to completion of many projects, the most important of which are: the construction of the Panoramica del Parco, upgrading the technological systems (sewer system, water supply system, electrical power grid, methane gas grid), the development of the valleys, incentives for economic activities (which fostered the opening of many public establishments in the historical city centre), the renovation of several buildings designated as the campus for the University<sup>74</sup>.

The results of these efforts were primarily the revitalization of the central area of Ragusa Ibla, in which many significant historical buildings were restored, renovated and refunctionalized; many of them were designated to be used by the University faculties, with a consequent increase in alternative homes for students, as well as restaurants, bars, pubs, nightclubs and private social clubs. The enhanced attraction of the area, as highlighted above, has also proven to be a magnet for tourism, in terms of arrivals and presences<sup>75</sup> and the consequent development of hotels and other hospitality structures (B&B), encouraging the regeneration of building by private property owners.

The same policy guidelines underlie the *Piano Particolareggiato Esecutivo* (PPE) for the historic city centres of Ragusa”, currently being adopted, which aims to refunctionalize all the ancient districts of the city, by integrating several different levels of intervention.

In the first place, the PPE includes the regeneration of the decaying building heritage, which may also rely on the technique of “deliberate annexation” of minor buildings, to establish venues for new services and tertiary activities, for the creation of residential units that comply with modern standards of comfort and hygiene and are therefore attractive on the market, and for temporary housing for students and university professors, or for the establishment of tourist and hospitality

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<sup>73</sup> The public works that were included and are in part completed focused primarily on the “centres” of Giardi Iblei, Ex Castello, the Monumental Complex of San Giorgio – Corso XXV Aprile – San Giuseppe, Complex of the Gesù, Complex of Santa Teresa, Piazza Repubblica, Piazza Don Minzoni, Piazza San Paolo, Quartiere Carmine, Santa Lucia, the Monumental Complex of Piazza San Giovanni, Teatro La Concordia, Ecce Homo

<sup>74</sup> The funds allocated by the R.L.61/81 were supplemented with other funds, some of them regional (also raised by the P.I.T.”Quattro Città e un parco per vivere gli Iblei”), which made it possible to renovate Casa Castillett as a University building, to renovate Palazzo Cosentini for use as a diagnostic centre and Teatro La Concordia, to be used as a theatre as before.

<sup>75</sup> It should be noted that the abundance of artistic resources has led to a flow of tourists that is rather evenly distributed throughout the year, unlike the fraction near the sea (Marina di Ragusa), which is more popular during the summer months – mostly because of its environmental qualities, but also because of its many shops, nightclubs and open-air discotheques, and is the most active seaside resort in southeastern Sicily.

facilities or small craft or commercial activities.

In the second place, the PPE will include the construction of a modern system of mobility and accessibility, as a necessary condition to repopulate the area, based primarily on the construction of kiss-and-ride parking lots and alternative means of transportation such as the surface Urban Subway and a hectometric transport system, composed of lift and elevator systems linked by underpasses, to connect the different levels of the ancient city, which is characterized by a hilly terraced orography.

### 8.5.3. Characteristics of the project

The project is part of an overall effort for the development and re-functionalization of the urban fabric in the two historic cores of Ragusa, Ibla and Ragusa Superiore.

Via Velardo, which is the focus of the planned transformation, represents a typical example of historic urban environment that has been completely abandoned as a result of a general process of depopulation which has involved the central part of the city in recent decades. The theme of regenerating and re-functionalizing Via Velardo is a particular challenge for two major reasons:

- the road runs along a precipice dominated by an imposing rock formation. The context is therefore potentially scenographic and picturesque but access to it is remarkably problematic; in particular, the area is completely inaccessible to automobile traffic;
- the building fabric is totally abandoned and in a critical state of decay, and though it appears uniform in terms of materials and volumetric composition, it has no outstanding artistic or architectural features. The original building typology is residential, but the individual units are composed of relatively small spaces, arranged on several floors and generally dark on the ground floor. The appeal of the area is determined by the totality of the buildings and by their relationship with the rocky cliff above.



Figure 15 - Views of Via Velardo in its current condition



Figure 16 - The *Albergo diffuso* of Santo Stefano in Sessanio

Because of the conditions described above, the transformation conceived for Via Velardo does not intend to restore its original residential vocation. Nearby streets with similar characteristics that are wider, and therefore allow automobile access, such as Via Giusti, are already involved in specific building restoration and renovation projects for residential use, by private entities. These projects are coherent with the current repopulation trend in the historic part of the city, encouraged by the remarkable effort led by the city administration and its development of so many public spaces and buildings.

The development project includes the total regeneration of the entire abandoned area of Via Velardo (corresponding to about 2/3 of its overall extension) interpreting the particular characteristic of this street, its inaccessibility to automobile traffic, as an asset rather than a liability. The development would establish Via Velardi as a pedestrian, or slow mobility, street, and would seek to enhance its attraction as a typical and particularly scenographic location.

In coherence with such ambition a suitable new predominant function for the regenerated Via Velardo was identified: the *Albergo diffuso*. This is a relatively new mode of development for hospitality structures particularly appropriate for the refunctionalization of especially fascinating urban areas which are unsuitable however for more traditional residential use<sup>76</sup>. In the project, Via Velardo will remain a public street in every way, but will serve as the distribution space for the extended hotel structure, providing direct access to the shared services (reception and restaurant)

<sup>76</sup> *Albergo diffuso* translates literally as “scattered hotel.” The principle is that rooms, decorated in a consistently authentic and local style, are scattered throughout different buildings within the town but overseen by one manager. A traditional breakfast might be served at a local cafe or in the kitchen of one of the local houses, or delivered to your room. Like a holiday apartment, an albergo diffuso allows travelers to imbed themselves in village life, but the bonus is that it offers the basic services of a hotel. There is a reception or central area to report to where a manager is available to help with questions, recommendations or bookings. One of the most renowned instances of *Albergo diffuso* is the Village of Santo Stefano in Sessanio in Abruzzo Region.

and to the circa 70 rooms and holiday apartments that will result from the renovation of the buildings, all of which are currently uninhabited.

The project also includes the establishment of spaces for retail stores (and craft shops) on the ground floor of some sections along the street, as well as restaurant spaces accessible directly from the street level.

The access to the area from the main adjacent streets will be guaranteed not only by the existing pedestrian stairways, but by mechanical systems of connection as well. In particular, the reception and common services areas will be directly connected by a new sloped elevator (the construction of which is an integral part of the project) to the new multi-level underground parking garage now in the final phases of construction immediately below, in the area of the former city slaughterhouse. Additional connections between Via Velardo and the streets accessible to automobile traffic around it are included in the detailed plan for the historic city centre (for example by hectometric transport).

The transportation of merchandise to service the hotel and the retail activities will be ensured by small electrical vehicles, compatible with the narrowest section of Via Velardo and the prevalently pedestrian use of the street. To allow these vehicles to transit, the project includes the adaptation of the street paving, to eliminate the small number of existing steps.

At the conclusion of the development programme in the area, a portion of the buildings, equal to about 20,2% of the surface of the development area (1164 square meters), will be designated for private residential use.

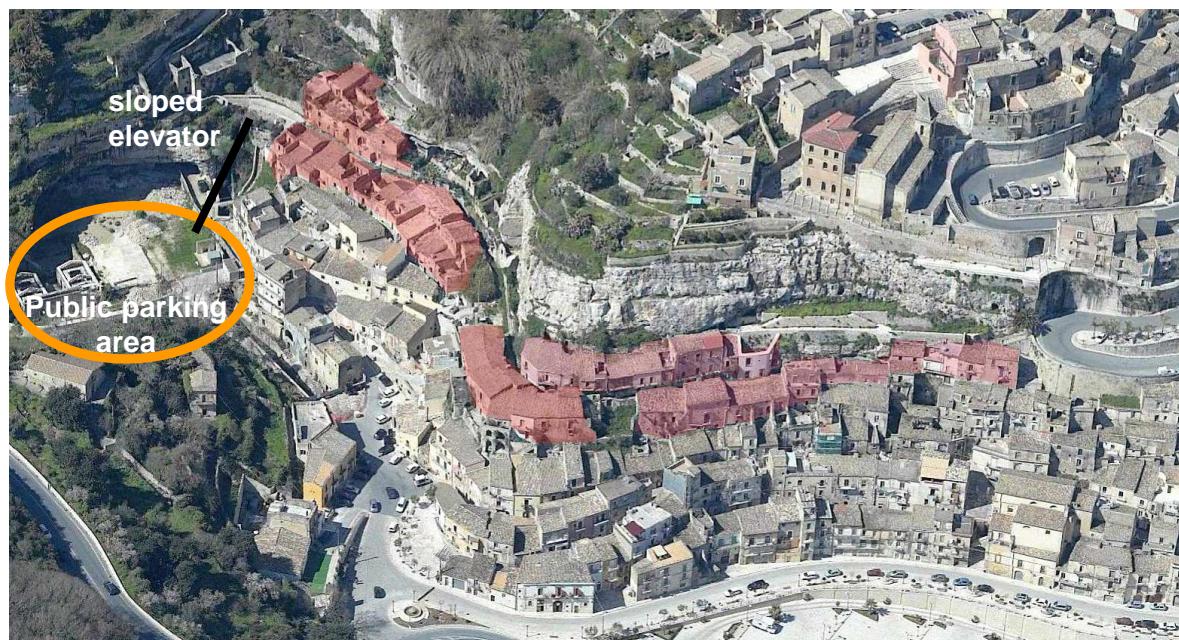


Figure 17 – Delineation of the project area



Figure 18– Land registry map and delineation of the project area

#### 8.5.4. Functional programme

Below is the functional programme for the Ragusa project, highlighting the typologies of activities that can be activated.

Project component	Cost (in €)	Typologies of income that can be produced
<b>Regeneration of buildings in Via Velardo</b>	<b>9.819.200</b>	
Extended hotel (70 double rooms or efficiency apartments with direct access to Via Velardo, common and service spaces): the value established includes initial furnishing costs	6.160.800	Returns from Management
Catering facilities (restaurants, bars and wine bars)	542.300	Returns from Rental
Retail and craft shops	1.137.300	Returns from Rental
Buildings for residential use	1.978.800	Returns from sale
<b>Upgrade and new street furnishings for Via Velardo</b>	<b>37.500</b>	

Project component	Cost (in €)	Typologies of income that can be produced
Renovation of the paving and construction of a circulation route for electric service vehicles (250m x 3m)	37.500	Public Works
<b>Mechanical system for connection to the parking garage – Via Velardo</b>	<b>1.300.000</b>	
Sloped elevator such as Leitner ( <a href="http://www.leitner-lifts.com">www.leitner-lifts.com</a> )	1.300.000	Public Works
<b>Acquisition of buildings</b>	<b>2.394.700</b>	-
<b>TOTAL COST</b>	<b>13.551.400</b>	-

## 8.6. PALERMO – CONSTRUCTION OF A NEW URBAN CENTRALITY – THE LOLLI-NOTARBARTOLO NODE

### 8.6.1. Regional context

Palermo, the administrative capital of the Sicilian Region and the homonymous province is the most important city on the island in demographic terms. The resident population within the municipal limits counts approximately 660,000 inhabitants. The metropolitan area of Palermo<sup>77</sup>, which encompasses a total of 26 municipalities, with over one million inhabitants, is the fifth largest in Italy.

The city boasts one of the most important artistic, historical and architectural legacies in Italy and in Europe. Founded in ancient times and capital of Sicily for centuries, Palermo is by far the most important urban, infrastructural and economic node on the western side of the island. In the regional context, its relative importance is significantly reduced by the presence of the important and (relatively) dynamic urban system of eastern Sicily, based in the cities of Catania, Messina and Siracusa.

Long known for the conditions of extreme physical, social and economic blight that plague some of its districts, including the monumental historic city centre, over the past several years the city has initiated a process of progressive renewal of its urban fabric with the implementation of ambitious environmental regeneration programmes and plans to upgrade its infrastructural system.

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<sup>77</sup> The Metropolitan Area of Palermo, which has no specific corresponding institutional agency, has been defined by a Decree by the President of the Sicilian Region dated August 10 1995 on the basis of urban continuity and the powerful social and economic interaction that exists between other municipalities in the province of Palermo and the capital itself.

### **8.6.2. Range of action**

This proposal concerns a large portion of the territory located in a central position within the city characterized by the presence of railway infrastructure, abandoned and in the process of reorganization, of the former station of Lolli, between Via Malaspina and Via Adria.

The area is part of an important transformation operation, the *Programma Innovativo in Ambito Urbano* (PIAU) *Porti e Stazioni* (Innovative Programme in an Urban Context - Ports and Stations), whose objective is urban regeneration and increased social and economic development. The projects defined in the PIAU intend to bridge the laceration represented by the vestiges of the tracks and the railway structures, most of them abandoned, to improve the efficiency of public transportation, to renovate the buildings with architectural and historic value, to give a significant connotation to the urban configuration of the city and to improve the quality of life and of the city.

As the object of the PIAU *Porti e Stazioni*, the implementation of the projects is ensured by the Operational Plan "Priority interventions for the railway areas of Lolli-Notarbartolo". Below are some of its salient features.

In 2001 RFI (National Railways) stipulated a Programme Agreement with the City of Palermo for the "Palermo Node", delineating the actions required to regenerate stations and railway areas.

On June 30 2004 a Protocol of Understanding was stipulated between the Ministry of Infrastructure and Transport, the City of Palermo, the R.F.I spa, the Ferrovie Real Estate and the Port Authority of Palermo to govern the implementation of the PIAU *Porti e Stazioni*.

The PIAU is coherent with the terms of the 2002 General Variation to the PRG (the city general development plan), the Plan for Sustainable Mobility (2007) and with the context of the programme and the complex integrated planning (PRUSST, PIT). The former Station of Lolli is also located within the perimeter of the *Urban Parks*, appearing as an element that can reinforce, connect and enhance the system of green spaces. In this context, the plan includes a system of bicycle trails which, if adequately integrated, will make it possible to create a network of itineraries through the existing historical and public gardens.

In collaboration with the City Administration, an initial group of projects for the area named Lolli-Malaspina has been selected as the pilot project to develop within the context of this study that could be completed independently and potentially integrated at a later date, involving:

- Areas designated for museum activities inside the building of the former Lolli station (privately-owned Locomotive Museum) and the adjacent pavilions, which could be used for schools or public functions.
- Residential and commercial buildings along Via Malaspina and Via Adria
- A system of open public spaces
- Development of Piazza Lolli
- New streets between Piazza Lolli, Via Malaspina and Via Adria
- Public parking at Lolli

In a central position within the city, the area under examination is particularly strategic, in terms of its extension and its vicinity to structures of cultural interest that have been recently revitalized, such as the former *Fabbrica Ducrot* (now *Cantieri Culturali*), the Arabic-Norman Castle of the Zisa, the Malfitano, Serradifalco and Filippina Villas, the Mediterranean Museum of Contemporary Art, the Museum of the Zisa and of the Whitaker Foundation.

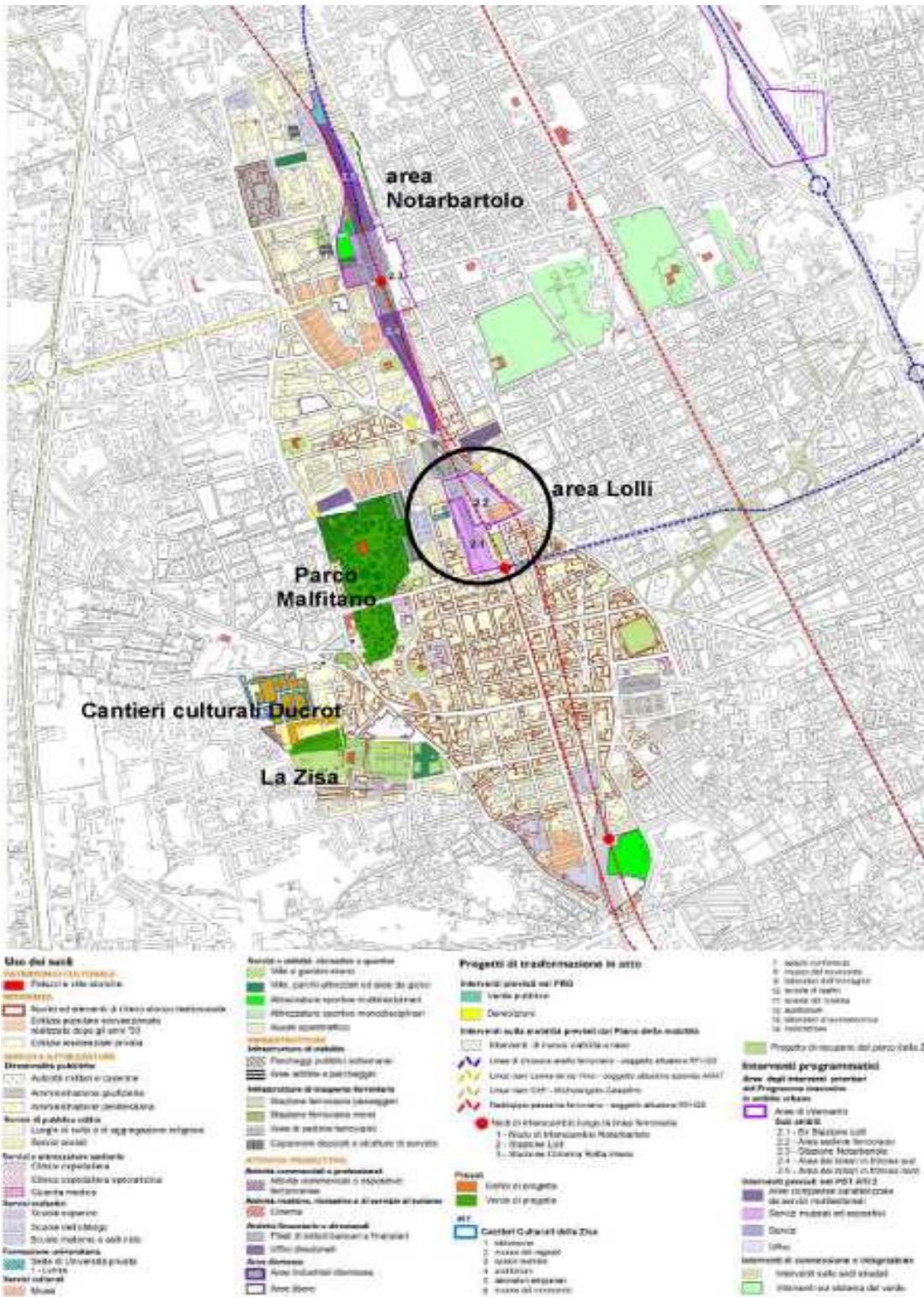


Figure 19 - Transformation of Lolli-Notarbartolo area (as planned in PIAU Porti e Stazioni )

### **8.6.3. Characteristics of the project**

The essential principle behind the organization of the Lolli-Malaspina area is to replace the current urban space, which has nothing to do with the rationale of the surrounding urban fabric, and to replace it with a system that can complete and integrate the existing one, and at the same time, generate a new centrality, transforming the current laceration into an urban seam.

The current owner of the area is Ferrovie SpA (a company of the National Railways group), except for the building of the former Lolli passenger station (privately owned) and the streets. R.F.I. (National Railways) has declared its approval of the urban conversion of the railway areas, delegating to the City the option of making the most appropriate planning decisions. Despite its central location, the state of total abandon and decay of the Lolli station itself has contributed to the poor maintenance of the façades of the residential buildings overlooking the square.

The proposal refers to the development of the area of the former Lolli railroad station and the improvement of the system of accessibility, defining the public works that are a priority for the urban renewal: the reorganization of the road and mobility systems, the connection to the network of bicycle and pedestrian trails, the reinforcement of the green and public open space system, the construction of facilities for cultural activities and collective services (public and private), residential buildings.

As for the reconnection of the road network, alternative routes will be added to the existing streets to connect Piazza Lolli and Via Malaspina, Via Adria and Via Malaspina and a thoroughfare that connects Via Malaspina directly to Via Dante using the bed of the ancient railroad tracks. The new road section will also feature bicycle and pedestrian paths.

The longitudinal connection with the other city nodes will take place by means of a system of open spaces, green areas and gardens. The urban park planned in the PRG (general development plan) in fact includes not only the existing gardens and city square, but also the former Lolli station railway area and extends through the Park of Villa Trabia and the *Giardino Inglese* (English garden) to the Ucciardone prison, and the area of the farmer's market and the Sampolo station.

The project clearly addresses the priorities defined for the transformation of the area:

- to expand the system of green spaces
- to mend the fabric of the road system and reinforce public transportation
- to regenerate abandoned buildings and create a new urban centrality.

The creation of the new centrality necessarily depends on the renovation of the abandoned buildings for new uses. The introduction of new activities will obviously lead to a functional mix, which responds to two levels of needs: the current paucity of collective spaces and services in this section of the city, and the completion of a strategic design which envisions a cultural and tourist vocation for this district. Therefore, in compliance with the scenario delineated in the PRG and encouraged in the Strategic Plan for the city, the museum and exhibition spaces will be complemented by residential, office and commercial spaces.

For each of these functions, the proposal considers the maximum building density, the maximum volumes, the maximum indoor surface and the legal parameters for the quantification of urban standards and parking, as identified in the feasibility study for the PIAU.

The **renovation of the Lolli station**, in compliance with the indications of the PRG that provides for the protection of buildings of historical interest classified for this purpose as *Netto Storico*, maintains part of the existing buildings, which have the required historical architectural requisites, also motivated by the need to preserve the traces of the railway context, which gave form and meaning to this part of the city. The transformation of the passenger terminal of the former Lolli

station, now privately owned, into a Locomotive Museum is not part of the pilot project. For the railway pavilions overlooking Via Dante near the passenger terminal, the pilot project features the installation of new services and public spaces. The other buildings, which have no architectural value and are far from the railway station, will be demolished.

New buildings, to be constructed, will create a continuous façade along Via Malaspina. The completion of the block on Via Parlatores redefines the building front along the system of gardens and facilities of the former Lolli station, now fragmented and of relatively poor architectural quality.

The new building is destined entirely for collective services to support the interchange node and the adjacent residences; responding to the need to increase the functional blend of the area, it contributes to the creation of a new urban centrality.



Figure 20 – Plan and volume project in the PIAU

New public parking lots will be located near the former Lolli station.

The new gardens of Piazza Lolli, in compliance with the provisions of the PRG, occupy most of the track beds, in continuity with the areas designated for museum, cultural and exhibition facilities, indicated as an objective in the Strategic Plan of the city of Palermo which identifies this as an area for the “internationalization of culture”, in which to reinforce existing cultural nodes.

The extension of the system of green spaces is partly included in the projects for the reconnection of the roads and concerns the network of bicycle and pedestrian trails.



Figure 21 - The system of green spaces planned in the PIAU

The projects to mend the fabric of the road system consist in the construction of new streets over the covered railway cutting. The new road system – between Piazza Lolli and Via Malaspina, the extension of Via Adria up to Via Malaspina and the thoroughfare that connects Via Malaspina directly with Via Dante – is included in the current PRG and constitutes a system of alternative roads for automobile traffic that complement the existing roads, helping to alleviate the intensity of the traffic.

The importance of the new centrality of Lolli is also measurable by the forecasts relative to the public transportation system.

The **construction of a second railway link** from Palermo-Brancaccio to the airport of Punta Raisi creates a high-capacity connection between the airport of Punta Raisi, the Palermo Centrale railway station and the Brancaccio area, along a highly urbanized corridor that is 26 kilometers long and will include a stop near the former Lolli station.

Another project to reinforce public transportation is the **underground railway ring**: a ring route almost 6 and a half kilometers long, almost completely underground (with a brief section in a cutting) that connects the main urban poles of attraction, by means of a “metro-railway” system with a maximum transport capacity, at rush hour, independently of the direction of travel, of 2400 passengers per hour for an average of one run every 15 minutes at the completion of the first functional section and one every 5 minutes at the completion of the second section. The entire journey lasts about 13 minutes.

Currently only one part exists, corresponding to about half of the entire route from the Notarbartolo station to Piazza Giachery, and including four stops: Notarbartolo, Imperatore Federico, Fiera and Giachery.

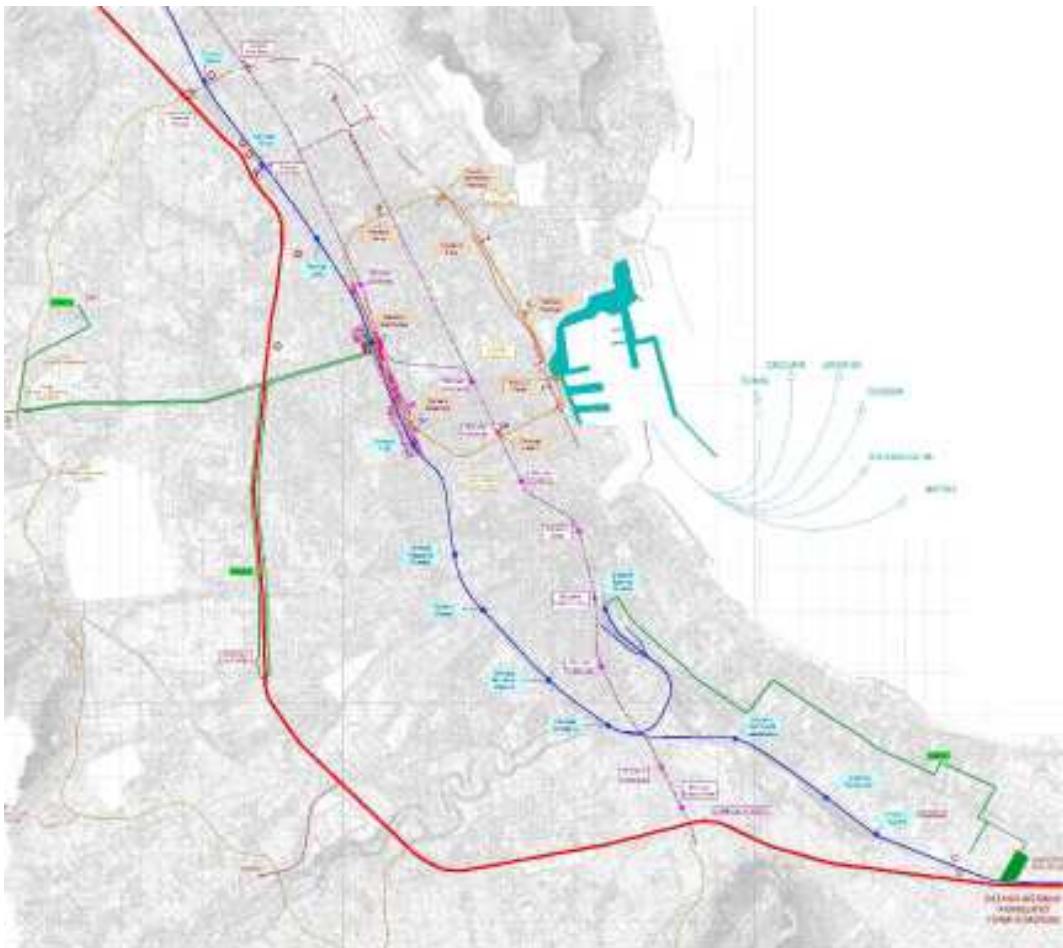


Figure 22 - The system of public transportation in the forecast for the Sustainable Mobility Plan

The City Administration is also involved in the construction of **bicycle trails, for sustainable mobility**, with the objective of building a “network”. Some trails have already been funded and are under construction, others have been planned to plug into them, to create a “bicycle network” for moving around the city. In particular, a bicycle and pedestrian trail has been planned on the overpass connecting Piazza Lolli and the new square near the Notarbartolo station. The trail, which runs through the existing gardens, could extend to Piazza Principe di Camporeale, and continue all the way to the gardens of the Zisa and the Cantieri Culturali.

For its complete realization, the implementation of the projects planned by the PIAU in the Lolli-Malaspina area requires the integrated and coordinated action of the City, of the Sicilian Regional Government and other public agencies. Hence, the *Accordo di Programma* (Programme Agreement) is considered to be the most appropriate tool for the completion of the specified functional sections. This exercise will entail a variation to the PRG in compliance with the guidelines set by the PRG itself for the regeneration of abandoned railways areas.

#### 8.6.4. Functional programme

Project component	Cost (in €)	Typologies of income that can be produced
<b>Construction of the cultural hub</b>		
Hub for public services at the former Lolli station	9.853.320	transfer free of charge to the City
Underground parking (below new Hub)	1.395.680	transfer free of charge to the City
Public garden at the former station	727.518	transfer free of charge to the City
<b>Regeneration of the former Lolli area</b>		
Restoration of Piazza Lolli	2.123.946	transfer free of charge to the City maintenance provided at the expense of the management of the underground parking garage
New streets and bicycle and pedestrian trails Lolli - Malaspina	4.037.022	transfer free of charge to the City
Public garden on via Adria	88.242	transfer free of charge to the City
Underground public parking garage	12.738.880	income from sale
Office and commercial services	56.184.755	income from sale
Residential units	41.497.830	income from sale
Underground parking (for residential units)	7.967.080	income from sale
Acquisition of the development area	56.547.100	-
<b>TOTAL COST</b>	<b>195.796.874</b>	-

## 8.7. "GREEN ENERGY" PILOT PROJECT

### 8.7.1. Characteristics of the project

The City Council of a hypothetical Sicilian city is structuring a programme for the **energy reconversion of some of the municipal buildings**.

The operation, which concerns 9 buildings, consists in both improving the thermal performance (thermal insulation) and in introducing a system for the production of renewable energy (from photovoltaic and solar panels).

Depending on the building typology (and function), the most advantageous solutions are chosen. For buildings habitually occupied by users (which therefore consume more energy for heating and cooling), such as offices, schools, nursery schools, senior citizens centres and the library, the project involves installing thermal insulation to increase performance in terms of energy. For buildings that host activities requiring the production of hot water (swimming pool/sports fields and gymnasium), the idea was to install solar panels.

Photovoltaic panels will be installed on all the buildings for the production of electric energy, which is currently sustained by government subsidies (paid in proportion to the energy produced and transferred to the manager of the power grid to which the photovoltaic system is connected).



Figure 23 – From left: installation of thermal insulation on an existing building, solar panel on the roof of an existing building, photovoltaic panels on the roof of an existing building.

### 8.7.2. Functional programme

Below is the functional programme of the project for the improvement of energy consumption in the buildings of a hypothetical municipality in Sicily, highlighting the type of revenue that may be produced.

Project	Cost (in €)	Typology of income that may be produced
<b>School A (3.200 sqm)</b>		
Thermal insulation	207.912	Savings on the use of methane gas
Photovoltaic panels (20 kWp)	80.000	Savings on the use of electrical power and government incentives
<b>School B (4.700 sqm)</b>		
Thermal insulation	397.902	Savings on the use of methane gas
Photovoltaic panels (20 kWp)	80.000	Savings on the use of electrical power and government incentives
<b>Nursery School</b>		
Thermal insulation	105.825	Savings on the use of methane gas
Photovoltaic panels (10 kWp)	40.000	Savings on the use of electrical power and government incentives
<b>Municipal offices A (4.500 sqm)</b>		
Thermal insulation	380.970	Savings on the use of methane gas
Photovoltaic panels (20 kWp)	80.000	Savings on the use of electrical power and government incentives
<b>Municipal offices B (3.800 sqm)</b>		
Thermal insulation	321.708	Savings on the use of methane gas
Photovoltaic panels (20 kWp)	80.000	Savings on the use of electrical power and government incentives
<b>Gymnasium and sports fields</b>		
Solar panels (thermal solar)	84.000	Savings on the use of methane gas
Photovoltaic panels (10 kWp)	40.000	Savings on the use of electrical power and government incentives
<b>Sports facilities with swimming pool</b>		
Solar panels (thermal solar)	210.000	Savings on the use of methane gas
Photovoltaic panels (10 kWp)	40.000	Savings on the use of electrical power and government incentives
<b>Library (1.200 sqm)</b>		
Thermal insulation	101.592	Savings on the use of methane gas
Photovoltaic panels (10 kWp)	40.000	Savings on the use of electrical power and government incentives
<b>Senior Citizens Centre (1.050 sqm)</b>		
Thermal insulation	88.893	Savings on the use of methane gas
Photovoltaic panels (10 kWp)	40.000	Savings on the use of electrical power and government incentives
<b>TOTAL COST</b>	<b>2.481.802</b>	-

## 9. ANALYSIS OF THE FEASIBILITY OF THE PROJECTS

### 9.1. NOTES ON THE METHOD OF ANALYSIS

The typical process of setting up and defining “jessicable” projects was illustrated in Chapter 7 above. The pilot projects developed for this Study were built in coherence with this process.

In particular, the approach described in paragraph 7.3 was adopted to define their financial structure. In this chapter, the decisions regarding the choice of the most advantageous financial structure and project vehicle are detailed in the opening paragraph of the subchapter dedicated to the analysis of each of the 6 pilot projects.

In reference to the analysis of the opportunities and methods of intervention offered by JESSICA to sustain the actual feasibility of the projects, it should be emphasized once again that this Study was based on the premise of using JESSICA without relying on State Aid.

For this reason, the intervention of JESSICA was considered exclusively in coherence with the **principle of the investor operating in a market economy**. What this actually means is:

- The JESSICA loans were granted at a rate equal or greater than the reference rate which approximates the market rate (calculated on the basis of the methodology established in “Communication from the Commission on the revision of the method for setting the reference and discount rates” 2008/C 14/02)
- JESSICA’s contribution in equity will be repaid at the same conditions as the other economic operators contributing equity

For each of the pilot projects, a simulation was made of **several different hypotheses for the intervention of JESSICA**. All of them provide for a use of JESSICA resources within the limits set by the eligible ERDF expenditures relative to each specific project. For each pilot case, a hypothetical “**baseline scenario**” was analyzed to illustrate how it would be financed without JESSICA. In the base case, the overall value of the investment is covered by equity resources, contributed by the public sphere or by private investors, and by debt resources, provided by an ordinary commercial bank at market conditions. This scenario on the one hand confirmed the theoretical sustainability of the investment, which in any case had a positive IRR, and on the other the scarce potential for its realization given the current conditions of the market, and in particular the conditions typical of the contexts in which the projects are being developed.

The next step was to identify the scenario which, given the intervention of JESSICA with a loan (applying an interest rate equal to the reference rate and in any case lower than an actual market rate), ensures the conditions that align the level of return for the private investors with current expectations dictated by the market – “**JESSICA option I**”.

For each project a third “**JESSICA option II**” was studied, which postulated the intervention of JESSICA with a contribution of equity, proportioned to the overall volume of investment and commensurate to the specific capacity of the project to be financed. The latter scenario does not envision variations in the rate of return offered to investors (it remains stable compared to JESSICA option I, because the JESSICA capital is remunerated at the same rate as the other investors). The decision on whether to sustain the projects with JESSICA equity, in addition to JESSICA debt, was evaluated case by case taking into consideration the risks involved in each operation and/or the effective availability of private resources to activate.

Below is a table that sums up the rates used for the remuneration of the debt capital invested in the projects, on the basis of each one's specific characteristics.

The interest rates, applicable to the different loans, were estimated on the basis of market value and of considerations on the risks and the specific collateral for each operation, as established in the methodology indicated in the above-mentioned Communication by the European Commission.

In particular, to estimate **the cost of the JESSICA debt**, the process started with the yearly **base rate**, set annually by the Commission and diffused by Communication, **with the addition of a spread** commensurate with the intrinsic risks involved in each operation (assessment of credit in relation to the nature of the project, to the difficulty of realization, to the potential management problems, to the potential of the market of reference, etc.) and the potential collateral offered by each project. This method, while taking into account the insufficiently advanced level of development of the project proposals, approximates the determination of the **reference rate** applicable to each project so that it is not considered State Aid.

Finally, to estimate **the cost of the commercial debt**, it was deemed appropriate to increase the JESSICA reference rate, as calculated above, by 350 base points, an approximate median value, determined on the basis of the current economic conjuncture, which is characterized by a credit crunch, and on the basis of the equity market in the urban development sector.

BASE RATE				1,24% <sup>78</sup>	
Project	Credit rating	Quality of the Collateral	Spread applicable to the Base Rate	REFERENCE RATE JESSICA debt	Approximate cost of commercial debt
Caltagirone	Good	Low	2,20%	3,44%	6,94%
Palermo	Excellent/ Good	High/ Normal	0,78%	2,02%	5,52%
Ragusa	Good/ Satisfactory	Normal	1,60%	2,84%	6,34%
Siracusa	Good/ Satisfactory	Low	3,10%	4,34%	7,84%
Green Energy	-	-	-	1,50%	2,00% <sup>79</sup>
Trapani	Good/ Satisfactory	Low	3,10%	4,34%	7,84%

<sup>78</sup> The Base Rate used to calculate the values in the table is the rate established for Italy by the "Commission notice on current State aid recovery interest rates and reference/discount rates for 27 member States applicable as from 1 March 2010", n. 2010/C 55/04.

<sup>79</sup> The rate is substantially lower than in the other cases. See the analysis in paragraph 9.7.1. below.

## 9.2. SIRACUSA

### 9.2.1. Structure of the operation

#### Description of the operation

Siracusa's City Council sets up a Real Estate Fund (*Fondo di Investimento Immobiliare*) for the revamp of the waterfront in the Porto Grande area. The operation includes the construction of a new landmark building: the *Stazione Marittima*. The municipality transfers two real estate assets to the Real Estate Fund, their transformation is integral part of the overall revamp operation.

The area (apart from the buildings originally belonging to the municipality) is entirely coastal property of the Sicilian Region, as such it must remain public domain and cannot be sold.

The Real Estate Fund set up by the City Council closes with the Regional Authority (*Agenzia regionale del Demanio*) a contract for the concession of the area for 30 years. The Real Estate Fund will pay the Regional Authority an annual rent.

#### Type of revenues

The urban transformation comprises the creation of new public spaces and of several new facilities (including the *Stazione Marittima*) that can be exploited to create financial returns, either through direct management or through lease (please see chart at paragraph 9.2.2). Further revenues are generated by the photovoltaic roofs of the new kiosks on the waterfront.

The foreseen life of the Real Estate Fund is 30 years, the same duration of the Concession. At the end of such period the real estate assets built on the area will become property of the Regional Authority. The assets originally transferred by the municipality to the Real Estate Fund will be sold at market prices.

#### Financial structure

The structure of the capital for this operation is 35% equity and 65% debt. The capital invested by the public entity (City Council of Siracusa) is equal to the value of the real estate assets transferred to the Fund (prior to transformation).

This structure is coherent with the characteristic of the operation: the volume of investment is not high considering the scale of the transformation and the area is particularly attractive for the planned new facilities. The risk is linked to a possible increase in construction costs: the whole development has high construction and aesthetic standards and the *Stazione Marittima* will be a new urban landmark. In this case the building contractor is selected by the Real Estate Fund and is not one of the investors.

Reimbursement of the debt is done using up to 70% of the cash flow until extinction. The remaining 30% is used to issue dividends to equity investors (in proportion of the shares held). All partners are paid equally and at the same time.

### *Partnership structure and project vehicle*

The operation is implemented through the set up of a **Real Estate Fund** by the City Council of Siracusa. The City Council will transfer to the Fund the property of its own real estate assets that will be involved in the transformation. Because of its size and complexity, it is more appropriate to involve in the operation private partners mainly as financial backers rather than specialised operators (responsible for the construction and management of the developed assets). For this reason the real estate fund appears to be the most suitable project vehicle: it eases financial participation of investors thank to a special taxation regime (20% on dividends issued)

Summary of the key features of the operation (Siracusa)	
Investment period	3 years
Duration	30 years
Total investment	€ 26.413.903
Operating costs	<p>The Real Estate Fund manager is paid an annual fee of 2% of the total investment for the first 3 years (construction period), 1,5% from year 4 to year 6 (set up of leases and start up of activities), 1% for the remaining life of the Fund (management and other administrative activities)</p> <p>A "global service" fee equal to 3,5% of the total investment is paid annually to a contractor for all maintenance, cleaning and general running costs.</p> <p>Annual rate for the Concession of the area (€ 84.099)</p>
Financial structure	35% Equity – 65% Debt
Partnership structure and project vehicle	Real Estate Fund established by the City Council – Contract for the Concession of the Area
Eligible investments (on total investments)	<p>100%</p> <p>(on the premise of using JESSICA without relying on State Aid)</p>
Tax rate	<p>20% on dividends issued</p> <p>ICI / Local property tax: 0,7% of the assessed value of the real estate assets (in this case of the total investment costs)</p>

### 9.2.2. Detail of expected financial returns

Project component	Type of income	gross annual rate of return <sup>80</sup>
New public spaces and facilities	Public works	0%
Offices for public services	Return from rental (discounted)	4.38%
Offices and management area	Return from rental / direct management	6.58%
Commercial activities <sup>81</sup>	Return from rental / direct management	10.06%
Commercial facilities in kiosks/temporary structures	Return from rental	14.12%
Hospitality and catering services	Return from rental	9.09%
New public parking facility	Return from direct management	43.16%
Photovoltaic panels	Return from photovoltaic energy production (partly subsidised)	15.00%

### 9.2.3. Baseline scenario: economic performance without JESSICA

#### Key features and results of the operation

Total investment	€ 26.413.903
Debt (financial institutions)	€ 17.169.037
Aggregate EBITDA (over 30 yrs)	€ 93.229.841
Average yearly EBITDA	€ 3.452.957
IRR on project	7.03%
PAYBACK	Year 16

<sup>80</sup> Rate linked to the return on a specific investment. The rate is the ratio between the EBITDA and the initial investment.

<sup>81</sup> The Real Estate assets conveyed to the Fund by the Municipality will be sold at closure of the Fund.

## Profit & Loss (Siracusa) <sup>82</sup>

Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30
Activity year				1	2	3...	...21		22	23	24	25	26	27
. Rental of offices (for public services)	3.208.241	-	-	-	93.842	95.494	97.175	133.027	135.368	137.751	140.175	142.642	145.153	147.708
. Rental of offices (private businesses)	1.945.980	-	-	-	56.921	57.922	58.942	80.689	82.109	83.554	85.024	86.521	88.043	89.593
. rental of commercial units	19.278.909	-	-	-	426.304	433.807	441.442	604.312	614.948	625.771	636.785	647.992	659.397	5.375.602
. rental of commercial units (temporary kiosks)	14.382.486	-	-	-	420.693	428.097	435.632	596.358	606.854	617.535	628.404	639.463	650.718	662.171
. rental of bar/restaurant units	3.637.230	-	-	-	106.390	108.263	110.168	150.815	153.469	156.170	158.919	161.716	164.562	167.458
. direct management of parking facility	87.610.212	-	-	-	2.562.631	2.607.734	2.653.630	3.632.688	3.696.623	3.761.684	3.827.889	3.895.260	3.963.817	4.033.580
. photovoltaic panels (energy production and incentives)	5.240.025	-	-	-	249.525	249.525	249.525	249.525	-	-	-	-	-	-
. "Global service" costs	24.961.138	-	-	-	924.487	924.487	924.487	924.487	924.487	924.487	924.487	924.487	924.487	924.487
. maintenance of parking facility (ord + extraordinary)	5.728.634	-	-	-	212.172	212.172	212.172	212.172	212.172	212.172	212.172	212.172	212.172	212.172
. concession of the Area	2.270.673	-	-	-	84.099	84.099	84.099	84.099	84.099	84.099	84.099	84.099	84.099	84.099
. Real Estate Fund (management costs)	9.112.797	528.278	528.278	528.278	396.209	396.209	396.209	264.139	264.139	264.139	264.139	264.139	264.139	264.139
<b>EBITDA</b>	<b>93.229.841</b>	(528.278)	(528.278)	(528.278)	2.299.341	2.363.876	2.429.547	3.962.518	3.804.476	3.897.569	3.992.300	4.088.699	4.186.794	8.991.216
<b>- Depreciation</b>	<b>23.534.788</b>	-	-	-	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293
<b>EBIT</b>	<b>66.815.938</b>	(528.278)	(528.278)	(528.278)	1.321.048	1.385.583	1.451.254	2.984.225	2.826.183	2.919.276	3.014.007	3.110.406	3.208.501	8.012.923

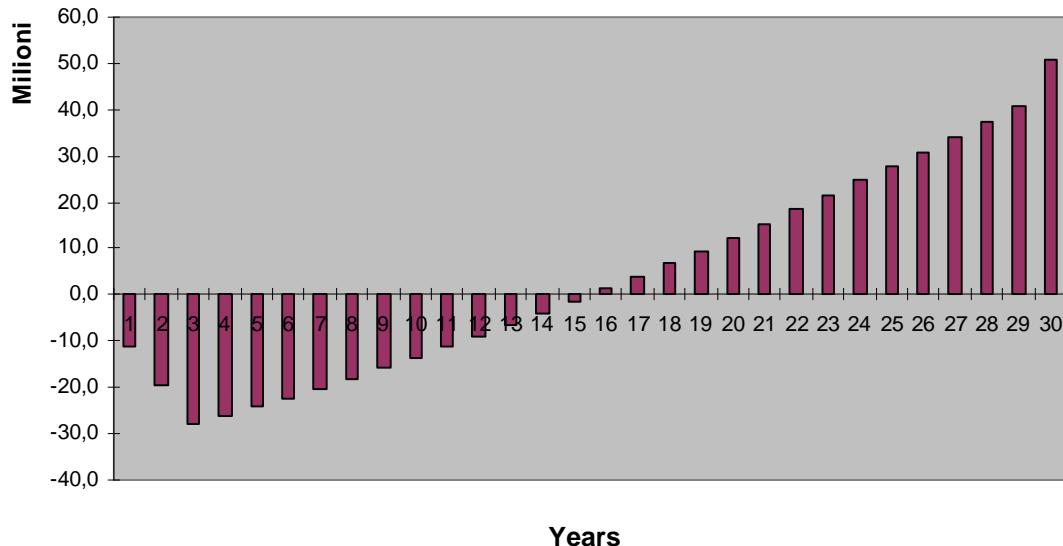
<sup>82</sup> Please note that the P&L sheet takes into account a prudential annual increase of 80% of the average foreseen long term inflation rate (2.2%) for revenues (sales or operating revenues, written in black in the chart above), since they are linked to goods and services subject to market variations. As for costs, no rate of increase has been taken into account since they are, for the most part, linked to long term contracts.

## Free Cash Flow statement (Siracusa)

FREE CASH FLOW STATEMENT														
Projection year	1	2	3	4	5	6...	...24	25	26	27	28	29	30	
Activity year	1	2	3...	...21	22	23	24	25	26	27	28	29	30	
+ EBIT	66.815.938	(528.278)	(528.278)	(528.278)	1.321.048	1.385.583	1.451.254	2.984.225	2.826.183	2.919.276	3.014.007	3.110.406	3.208.501	8.012.923
- tax	-	-	-	-	1.121.797	1.451.254	2.984.225	2.826.183	2.919.276	3.014.007	3.110.406	3.208.501	8.012.923	-
Substitute tax	18.962.935	-	-	-	459.868	472.775	485.909	792.504	760.895	779.514	798.460	817.740	837.359	1.798.243
+ depreciation	23.534.788	-	-	-	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293	978.293
- Working capital requirements	23.277.503	10.565.561	7.924.171	7.924.171	-	-	-	-	-	-	-	-	-	(3.136.400)
<b>FREE CASH FLOW</b>	<b>50.989.403</b>	<b>(11.093.839)</b>	<b>(8.452.449)</b>	<b>(8.452.449)</b>	<b>1.839.473</b>	<b>1.891.101</b>	<b>1.943.638</b>	<b>3.170.014</b>	<b>3.043.580</b>	<b>3.118.055</b>	<b>3.193.840</b>	<b>3.270.959</b>	<b>3.349.435</b>	<b>10.329.372</b>
<b>FCFF (aggregate)</b>		<b>(11.093.839)</b>	<b>(19.546.288)</b>	<b>(27.998.737)</b>	<b>(26.159.265)</b>	<b>(24.268.164)</b>	<b>(22.324.526)</b>	<b>24.684.162</b>	<b>27.727.742</b>	<b>30.845.797</b>	<b>34.039.637</b>	<b>37.310.596</b>	<b>40.660.031</b>	<b>50.989.403</b>

IRR (30 y)	7,03%
Payback	16,0

#### AGGREGATE FREE CASH FLOW CHART



#### 9.2.4. Scenarios for the employment of JESSICA

Three scenarios have been examined, all three are based on the financial structure of the operation described in paragraph 9.2.1., i.e. 35% equity and 65% debt.

In the Baseline Scenario the 16.0% of the equity is held by the public partner (as a result of the real estate assets conferred to the Fund), the remaining 84% is held by private partners. All the Debt will be provided by a commercial bank at market rates.

In JESSICA Option I 60% of debt assumed by the Fund will be covered with JESSICA resources (at a lower than market rate), thus allowing an increase in the rate of return for equity investors.

In JESSICA Option II additional JESSICA resources are invested in the project to cover 20% of the equity, in order to provide further “collateral” to the other equity investors and to financial institutions issuing the commercial debt.

Baseline scenario			JESSICA option I			JESSICA option II		
Total investment		26.413.903	Total investment		26.413.903	Total investment		26.413.903
Equity	9.244.866	35,0%	Equity	9.244.866	35,00%	Equity	9.244.866	35,00%
Public partners	1.479.179	16,00%	Public partners	1.479.179	16,00%	Public partners	1.479.179	16,00%
Private partners	7.765.688	84,00%	Private partners	7.765.688	84,00%	Private partners	5.916.714	64,00%
JESSICA	-	-	JESSICA	-	-	JESSICA	1.848.973	20,00%
Debt	17.169.037	65,0%	Debt	17.169.037	65,00%	Debt	17.169.037	65,00%
JESSICA	-	0,0%	JESSICA	10.301.422	60,00%	JESSICA	10.301.422	60,00%
Comm. bank.	17.169.037	100,0%	Comm. bank.	6.867.615	40,00%	Comm. bank.	6.867.615	40,00%

### 9.2.5. Financial results and preferred JESSICA scenario

JESSICA options – comparison chart (Siracusa)				
		Baseline scenario	JESSICA option I	JESSICA option II
Project	IRR	7.03%	7.03%	<b>7.03%</b>
	Pay Back	16	16	<b>16</b>
Public partners	IRR	7.33%	8.37%	<b>8.37%</b>
	Pay Back	20	18	<b>18</b>
Private partners With construction margin <sup>83</sup>	IRR	n.a.	n.a.	<b>n.a.</b>
	Pay Back	n.a.	n.a.	<b>n.a.</b>
Private partners without construction margin	IRR	7.33%	8.37%	<b>8.37%</b>
	Pay Back	20	18	<b>18</b>
Equity JESSICA	IRR	-	-	<b>8.37%</b>
	Pay Back	-	-	<b>18</b>
Debt JESSICA	IRR	-	4,34%	<b>4,34%</b>
	Pay Back	-	13	<b>13</b>
Debt commercial bank	IRR	7,84%	7,84%	<b>7,84%</b>
	Pay Back	11	8	<b>8</b>

The level of **risk of the operation is mainly linked to the complexity** of the procedures that must be followed to implement the transformation (establishment of a Real Estate Fund, property transfer of public buildings, concession for the use/exploitation of an area of public property). Much fewer are the risks linked to the “commercial success” of the new development.

The contribution of JESSICA resources to the debt capital (60%, as in Option I) can increase the rate of return for private direct investors to a level that is adequate in view of the risks of the operation.

A contribution of JESSICA also to the equity of the operation is nevertheless considered necessary to offer a further incentive to the participation of private direct investors, considering the innovative and complex nature of the proposed development. The most feasible scenario is therefore **JESSICA option II**.

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<sup>83</sup> In this case the vehicle selected for the implementation of the project is the Real Estate Fund. It is therefore unlikely that shareholders of the Fund may, at the same time, be building contractors.

## 9.3. TRAPANI

### 9.3.1. Structure of the operation

#### *Description of the operation*

The Municipality of Trapani promotes the restoration and revamp of historic Palazzo Lucatelli through a PPP with a private partner chosen following a public tender procedure. The contract awards the private partner the concession (*Concessione di Valorizzazione*) of the building for 30 years. The private partner will build inside Palazzo Lucatelli the new *Teatro di Trapani* (theatre and auditorium), a restaurant/cafeteria, a commercial area (bookstore) a hotel and an underground car park (mechanized). Instead of a royalty rent the concessionaire will give the Municipality the right to use the theatre premises free of charge for part of the year to host the concert season (at least 120 days per year).

#### *Type of revenues*

The concessionaire will benefit from revenues deriving from direct management (operating activity) of the hotel and of the car park and from the rentals of the restaurant/cafeteria and of the commercial area (book and media store). More over the concessionaire will be able to rent the auditorium (typically as a conference venue) for the part of the year when it is not used by the Municipality. The exploitation of the Auditorium (renting for private events - on average 25 per year) is expected to cover all the running and maintenance costs.

General annual building maintenance costs are 1% of total investment. Maintenance costs for the mechanized car park are 3,5% per year (due to costs related to mechanical equipment).

#### *Financial structure*

The main component of the development operation (theatre) is not expected to produce significant revenues but the other components are likely to prove very profitable. The building is of great aesthetic value and strategically located in the historic centre of town. The low level of risk of the operation is counterbalanced by the fact that the property of the real estate remains in the hands of the municipality and cannot be used as collateral. In view of this the suggested capital structure is 45% equity and 55% debt.

Reimbursement of the debt is done using up to 70% of the cash flow until extinction. The remaining 30% is used to remunerate equity investors (in this case the concessionaire).

### *Partnership structure and project vehicle*

The operation imagined with the City Council of Trapani entails the drawing up of a **Contract for the long term Concession of a real estate asset** (*Contratto di concessione e valorizzazione di immobile*). The implementation of the operation through such project vehicle will allow the City Council to refurbish the building (Palazzo Lucatelli) at no cost for the municipal budget, develop new public facilities (namely the new city Auditorium), and benefit from an annual concession fee, all while maintaining the formal property of the building.

Summary of the key feature of the operation (Trapani)	
Investment period	3 years
Duration of the operation	30 years
Total investment	€ 13.877.099
Operating costs	Ordinary maintenance costs (Palazzo Lucatelli): 0,5% per year Extraordinary maintenance costs (Palazzo Lucatelli): 0,5% per year Ordinary maintenance costs (mechanised parking): 0,5% per year Extraordinary maintenance costs (mechanised parking): 3,0% per year
Financial structure	45% Equity – 55% Debt
Partnership structure and project vehicle	Contract for the concession of a real estate asset ( <i>Contratto di concessione e valorizzazione di immobile</i> )
Eligible investments (on total investment)	100% (on the premise of using JESSICA without relying on State Aid)
Tax rate	IRES (27,5% on taxable base) + IRAP (4,25% on taxable base)

### 9.3.2. Detail of expected financial returns

Project component	Type of income	Gross annual rate of return <sup>84</sup>
Auditorium "Teatro di Trapani" (500 seats)	Rental for conferences and conventions	1.52%
Underground mechanised parking (100 spaces)	Direct management	50.41%
Bookstore/media store	Return from rental	5.09%
Restaurant – bar - café	Return from rental	6.11%
4 stars boutique hotel	Direct management	26.22%

### 9.3.3. Baseline scenario: economic performance without JESSICA

#### Key features and results of the operation

Total investment	€ 13.877.099
Debt (financial institutions)	€ 7.632.404
Aggregate EBITDA (over 30 yrs)	€ 55.018.926
Average yearly EBITDA	€ 2.037.738
IRR	8.37%
PAYBACK	14

<sup>84</sup> See first footnote of this charter.

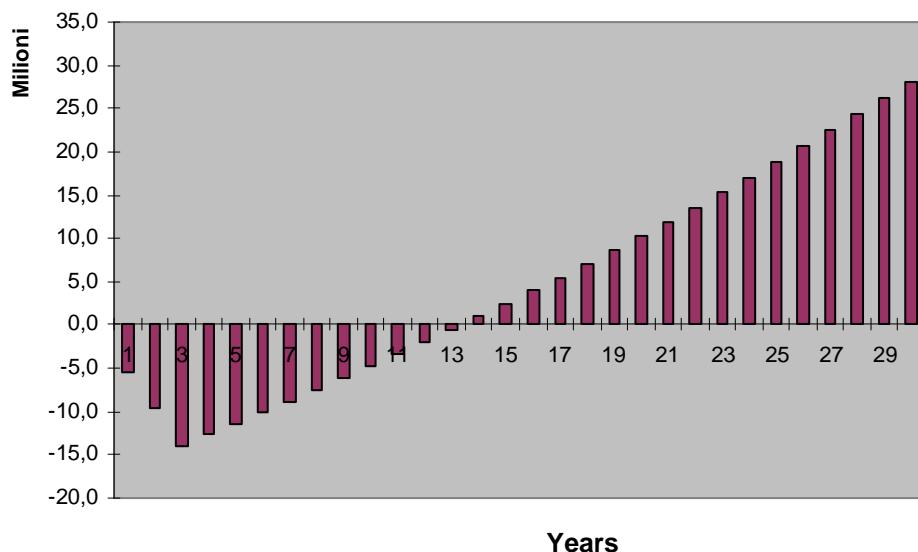
## Profit & Loss (Trapani)

Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30
Activity year					1	2	3...	...21	22	23	24	25	26	27
. Auditorium - rental for private events (25 per year)		4.492.724	-	-	131.414	133.727	136.080	186.287	189.566	192.902	196.297	199.752	203.268	206.845
. Direct management of parking facilities		34.641.024	-	-	1.013.263	1.031.096	1.049.244	1.436.363	1.461.643	1.487.367	1.513.545	1.540.183	1.567.291	1.594.875
. Rental – Bookstore/Media store		1.807.095	-	-	52.858	53.788	54.735	74.930	76.249	77.590	78.956	80.346	81.760	83.199
. Rental – Restaurant/Bar/Café		2.169.224	-	-	63.451	64.567	65.704	89.945	91.528	93.139	94.778	96.446	98.144	99.871
. Direct management of Boutique hotel		16.943.268	-	-	495.597	504.319	513.195	702.539	714.904	727.486	740.290	753.319	766.577	780.069
. Ordinary maintenance Palazzo Lucatelli		1.615.890	-	-	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848
. Extraordinary maintenance Palazzo Lucatelli		1.615.890	-	-	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848	59.848
. Ordinary maintenance Parking facility		257.518	-	-	9.538	9.538	9.538	9.538	9.538	9.538	9.538	9.538	9.538	9.538
. Extraordinary maintenance Parking facility		1.545.109	-	-	57.226	57.226	57.226	57.226	57.226	57.226	57.226	57.226	57.226	57.226
EBITDA		55.018.926	-	-	1.570.123	1.601.039	1.632.499	2.303.604	2.347.429	2.392.026	2.437.407	2.483.587	2.530.580	2.578.400
- Depreciation		13.877.099	-	-	513.967	513.967	457.944	457.944	457.944	457.944	457.944	457.944	457.944	457.944
EBIT		41.141.827	-	-	1.112.179	1.143.094	1.174.554	1.845.660	1.889.485	1.934.082	1.979.463	2.025.643	2.072.636	2.120.456

## Free Cash Flow statement (Trapani)

FREE CASH FLOW STATEMENT		1	2	3	4	5	6...	...24	25	26	27	28	29	30	
Projection year				1	2	1	2	3...	21	22	23	24	25	26	
Activity year															
+ EBIT		41.141.827	-	-	-	1.056.156	1.087.072	1.118.532	1.789.638	1.833.463	1.878.059	1.923.441	1.969.621	2.016.613	2.064.433
- Tax	IRES	11.314.003	-	-	-	290.443	298.945	307.596	492.150	504.202	516.466	528.946	541.646	554.569	567.719
	IRAP	1.748.528	-	-	-	44.887	46.201	47.538	76.060	77.922	79.818	81.746	83.709	85.706	87.738
+ Depreciation		13.877.099	-	-	-	513.967	513.967	513.967	513.967	513.967	513.967	513.967	513.967	513.967	513.967
- Working capital requirements		13.877.099	5.550.840	4.163.130	4.163.130	-	-	-	-	-	-	-	-	-	-
FREE CASH FLOW		28.079.297	(5.550.840)	(4.163.130)	(4.163.130)	1.234.793	1.255.893	1.277.365	1.735.394	1.765.305	1.795.742	1.826.715	1.858.233	1.890.305	1.922.942
FCFF (aggregate)			(5.550.840)	(9.713.969)	(13.877.099)	(12.642.306)	(11.386.413)	(10.109.048)	17.020.055	18.785.360	20.581.102	22.407.817	24.266.050	26.156.355	28.079.297
IRR (30 y)		8,37%													
Payback		14,0													

### Aggregate Free Cash Flow chart



#### 9.3.4. Scenarios for the employment of JESSICA

The operation is characterised by a relatively low level of complexity. More over the proposed transformation appears fully coherent with the location and with the market demand in Trapani's city centre, the ongoing regeneration of which is drawing new quality functions and services. Nevertheless the operation has a medium-high level of risk due to the lack of actual collateral (property of Palazzo Lucatelli remains public and cannot be transferred)

All this considered the most appropriate financial structure appears to be 45% equity -55% debt.

In the Baseline scenario the equity share is fully covered by private investments, the debt is entirely provided by a loan contracted with a commercial bank at current market rates.

JESSICA Option I entails the use of JESSICA resources to cover 70% of the debt capital (as Junior debt), thus making the operation more attractive for potential equity investors.

In JESSICA Option II additional resources are invested in the project to cover 50% of the equity, in order to provide further "collateral" to the other equity investors and to financial institutions issuing the commercial debt.

Baseline scenario			JESSICA option I			JESSICA option II		
Total investment		13.877.099	Total investment		13.877.099	Total investment		13.877.099
Equity	6.244.695	45,00%	Equity	6.244.695	45,00%	Equity	6.244.695	45,00%
Public partners	0	0,00%	Public partners	0	0,00%	Public partners	0	0,00%
Private partners	6.244.695	100,00%	Private partners	6.244.695	100,00%	Private partners	3.122.347	50,00%
JESSICA	0	0,00%	JESSICA	0	0,00%	JESSICA	3.122.347	50,00%
Debt	7.632.404	55,00%	Debt	7.632.404	55,00%	Debt	7.632.404	55,00%
JESSICA	0	0,00%	JESSICA	5.342.683	70,00%	JESSICA	5.342.683	70,00%
Comm.bank	7.632.404	100,00%	Comm.bank	2.289.721	30,00%	Comm.bank	2.289.721	30,00%

### 9.3.5. Financial results and preferred JESSICA scenario

JESSICA options – comparison chart				
		Baseline scenario	JESSICA option I	JESSICA option II
Project	IRR	8.37%	<b>8.37%</b>	8.37%
	Pay Back	14	<b>14</b>	14
Public partners	IRR	-	-	-
	Pay Back	-	-	-
Private partners <i>With construction margin</i>	IRR	11.48%	<b>12.38%</b>	15.25%
	Pay Back	14	<b>13</b>	12
Private partners <i>Without construction margin</i>	IRR	9.67%	<b>10.40%</b>	10.40%
	Pay Back	15	<b>14</b>	14
Equity JESSICA	IRR	-	-	10.40%
	Pay Back	-	-	14
Debt JESSICA	IRR	-	<b>4.34%</b>	4.34%
	Pay Back	-	<b>10</b>	10
Debt commercial bank	IRR	7.84%	<b>7.84%</b>	7.84%
	Pay Back	9	<b>6</b>	6

The operation has a fairly attractive IRR for potential investors, even in the Baseline scenario. In JESSICA option I the increase in IRR for prospective investors appears to be a significant enough incentive to spur the actual involvement of private partners and commercial banks.

JESSICA Option II sees a significant further increase of the rate of return for potential “industrial partners” (i.e. construction firms), but because of the nature of the project vehicle (a very long term concession), the involvement of such actors in the capital structure of the operation is unlikely.

The preferred JESSICA scenario is **Option I**.

## 9.4. CALTAGIRONE

### 9.4.1. Structure of the operation

#### Description of the operation

The Municipality of Caltagirone sets up a *Finanza di progetto* operation for the development of an Hospice (for terminal illnesses) in a publicly owned area in a residential district. *Finanza di Progetto* entails that a private partner, selected through a public tender process, will build and run a facility (or provide a service) for a set number of years; at the end of such period property reverts to the original public owners.

The new development consists in: the new hospice (with residential units, pain therapy units, a hotel (general access and special rates for relatives of the patients), a park with gardening allotments for patients and a network of pedestrian walkways canopied with photovoltaic panels.

#### Type of revenues

Revenues are generated by the direct management (operating activity) of the Hospice and of the Hotel. The regional health service pays €264 per day per patient as a subsidy to facilities that provide care for terminal patients. The hotel, in a separate building, will have a share of rooms available at a discounted rate for visiting relatives/friends of the patients.

A system of canopied pathways will be fitted with photovoltaic panels which will produce revenues from the production of green energy (boosted by state incentives).

The private partner will reap a construction margin of 10%.

#### Financial structure

The level of risk of this operation is reasonably low due to the presence of generous public subsidies for the care of terminal patients. Such state of things is unlikely to change in the near future. The overall volume of the investment is also relatively modest.

The proposed capital structure is 30% equity and 70% debt.

Reimbursement of the debt is done using up to 70% of the cash flow until extinction. The remaining 30% is distributed as earnings to the private investor.

#### Partnership structure and project vehicle

The operation in Caltagirone can be structured as a “Project Financing”, a vehicle by means of which the construction and management of a public facility is carried out by a private partner, selected with an open bid procedure, at no cost for the promoting public authority

In this case the City Council will gain full property of the development at the end of the agreed

concession period. The development being a hospital-type structure, the private partners will be selected among those with appropriate experience both in the field of construction, development and health facility management.

Summary of the key features of the operation (Caltagirone)	
Investment period	3 years
Duration of the operation	30 years
Total investment	€ 11.104.724
Operating costs	Ordinary and extraordinary maintenance: 1,32% per year
Financial structure	30% Equity – 70% Debt
Eligible investments (on total investment)	100% (on the premise of using JESSICA without relying on State Aid)
Partnership structure and project vehicle	<i>Project Financing</i>
Tax rate	IRES (27,5% on taxable base) + IRAP (4,25% on taxable base)

#### 9.4.2. Detail of expected financial returns (Caltagirone)

Project component	Type of income	Gross annual rate of return
Pain therapy units (18)	Direct management	2.00%
Hospice – Residential units (45)	Direct management	12.71%
Hotel (80 rooms, some at discounted rates)	Return from rental	25.38%
Allotments for gardening therapy	Direct management	-2.53%
Landscaping	maintenance	-1.00%
Photovoltaic canopies	Return from photovoltaic energy production (partly subsidised)	15.00%

#### 9.4.3. Baseline scenario: economic performance without JESSICA

##### Key features and results of the operation (Caltagirone)

Total investment	€ 11.104.724
Debt (financial institutions)	€ 7.773.307
Aggregate EBITDA (over 30 years)	€ 42.549.963
Average yearly EBITDA	€ 1.575.925
IRR	8,48%
PAYBACK	14

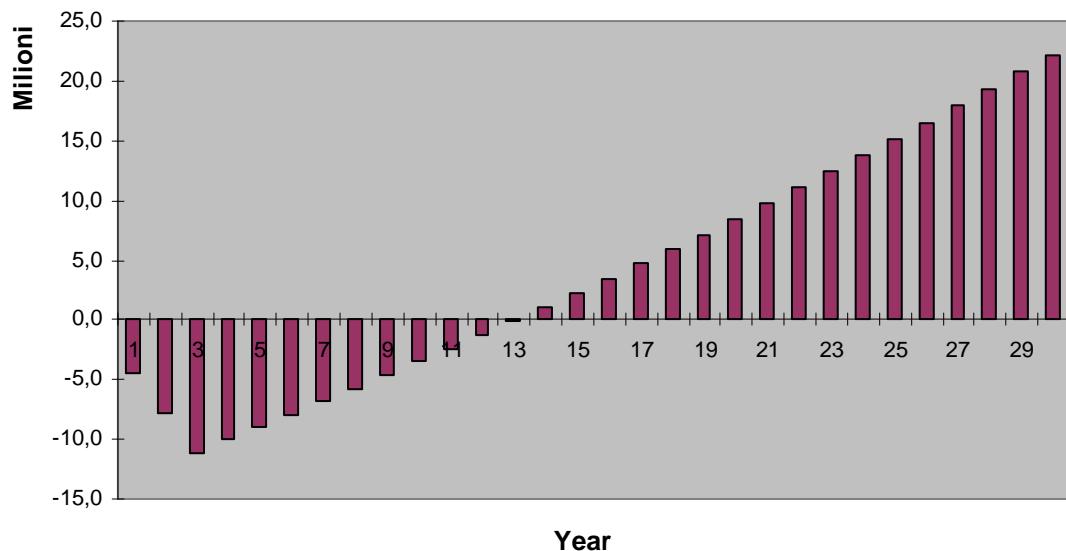
## Profit & Loss (Caltagirone)

Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30
Activity year					1	2	3...	...21	22	23	24	25	26	27
. pain therapy units		<b>1.177.646</b>	-	-	34.447	35.053	35.670	48.830	49.690	50.564	51.454	52.360	53.281	54.219
. Hospice – Residential units		<b>16.234.792</b>	-	-	474.874	483.231	491.736	673.163	685.010	697.067	709.335	721.819	734.523	747.451
. Hotel		<b>17.446.786</b>	-	-	510.325	519.307	528.446	723.417	736.149	749.105	762.290	775.706	789.358	803.251
. gardening allotments		<b>483.295</b>	-	-	24.636	25.069	25.510	-	-	-	-	-	-	-
. photovoltaic canopies		<b>12.150.000</b>	-	-	450.000	450.000	450.000	450.000	450.000	450.000	450.000	450.000	450.000	450.000
. landscaping		<b>33.233</b>	-	-	972	989	1.007	1.378	1.402	1.427	1.452	1.478	1.504	1.530
. maintenance		<b>3.942.732</b>	-	-	146.027	146.027	146.027	146.027	146.027	146.027	146.027	146.027	146.027	146.027
<b>EBITDA</b>		<b>42.549.963</b>	-	-	1.298.011	1.315.506	1.333.309	1.748.005	1.773.420	1.799.282	1.825.600	1.852.380	1.879.632	1.907.364
<b>- Depreciation</b>		<b>13.492.240</b>	-	-	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713
<b>EBIT</b>		<b>29.057.724</b>	-	-	798.298	815.793	833.596	1.248.292	1.273.707	1.299.570	1.325.887	1.352.668	1.379.920	1.407.651

## Free Cash Flow statement (Caltagirone)

Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30	
Activity year					1	2	3...	...21	22	23	24	25	26	27	
+ EBIT		29.057.724	-	-	-	798.298	815.793	833.596	1.248.292	1.273.707	1.299.570	1.325.887	1.352.668	1.379.920	1.407.651
- Tax	- IRES	7.990.874	-	-	-	219.532	224.343	229.239	343.280	350.270	357.382	364.619	371.984	379.478	387.104
	- IRAP	1.234.953	-	-	-	33.928	34.671	35.428	53.052	54.133	55.232	56.350	57.488	58.647	59.825
+ Depreciation		13.492.240	-	-	-	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713	499.713
- Working capital requirements		11.104.724	4.441.890	3.331.417	3.331.417	-	-	-	-	-	-	-	-	-	-
<b>FREE CASH FLOW</b>		<b>(4.441.890)</b>	<b>(3.331.417)</b>	<b>(3.331.417)</b>	<b>1.044.551</b>	<b>1.056.491</b>	<b>1.068.642</b>	<b>1.351.672</b>	<b>1.369.018</b>	<b>1.386.669</b>	<b>1.404.630</b>	<b>1.422.908</b>	<b>1.441.508</b>	<b>1.460.435</b>	
FCFF (aggregate)0		(4.441.890)	(7.773.307)	(11.104.724)	(10.060.173)	(9.003.682)	(7.935.040)	13.734.244	15.103.262	16.489.931	17.894.562	19.317.470	20.758.977	22.219.412	
IRR (30 y)		8,48%													
Payback		14,0													

*Aggregate Free Cash Flow chart*



#### **9.4.4 Scenario for the employment of JESSICA**

The operation is characterised by a low level of complexity, particularly as far as the development phase is concerned. The operation also features a low level of risk, thanks to the limited volatility of revenues deriving from the management of the new development.

The foreseen financial structure for the operation is 30% equity and 70% debt.

In the Baseline scenario the equity share is fully covered by private investments, the debt is entirely provided by a loan contracted with a commercial bank at current market rates.

JESSICA Option I entails the use of JESSICA resources to cover 50% of the debt capital, thus making the operation more attractive for potential equity investors.

In JESSICA Option II additional resources are invested in the project to cover 50% of the equity, in order to provide further “collateral” to the other equity investors and to financial institutions issuing the commercial debt.

Baseline scenario			JESSICA option I			JESSICA option II		
Total investment		11.104.724	Total investment		11.104.724	Total investment		11.104.724
Equity	3.331.417	30,00%	Equity	3.331.417	30,00%	Equity	3.331.417	30,00%
Public partners	0	0,00%	Public partners	0	0,00%	Public partners	0	0,00%
Private partners	3.331.417	100,00%	Private partners	3.331.417	100,00%	Private partners	1.665.709	50,00%
JESSICA	0	0,00%	JESSICA	0	0,00%	JESSICA	1.665.709	50,00%
Debt	7.773.307	70,00%	Debt	7.773.307	70,00%	Debt	7.773.307	70,00%
JESSICA	0	0,00%	JESSICA	3.886.653	50,00%	JESSICA	3.886.653	50,00%
Comm. Bank	7.773.307	100,00%	Comm. Bank	3.886.653	50,00%	Comm. Bank	3.886.653	50,00%

#### 9.4.5. Financial results and preferred JESSICA scenario

JESSICA options – comparison chart (Caltagirone)				
		Baseline scenario	JESSICA option I	JESSICA option II
Project	IRR	8.48%	<b>8.48%</b>	8.48%
	Pay Back	14	<b>14</b>	14
Public partners	IRR	-	-	-
	Pay Back	-	-	-
Private partners With construction margin	IRR	13.96%	<b>15.42%</b>	21.76%
	Pay Back	13	<b>12</b>	9
Private partners without construction margin	IRR	11.08%	<b>12.14%</b>	12.14%
	Pay Back	15	<b>14</b>	14
Equity JESSICA	IRR	-	-	12.14%
	Pay Back	-	-	14
Debt JESSICA	IRR	-	<b>3.44%</b>	3.44%
	Pay Back	-	<b>12</b>	12
Debt Commercia bank	IRR	6.94%	<b>6.94%</b>	6.94%
	Pay Back	10	<b>8</b>	8

The project is characterised by a few challenges linked to the management of a structure hosting a range of different functions. In financial terms the operation has limited risk thanks to generous public subsidies for the terminal patients that will be hosted in the *Hospice*.

The contribution of JESSICA resources only as debt, as foreseen in Option I, allows an increase in IRR and a shorter payback period for the private partners. A further injection of JESSICA resources as equity (as in Option II) does not appear to alter significantly the appeal of the operation. The equity required for the implementation of the operation is only € 3 million. A significant further increase in IRR would be to the benefit only of a potential private partner who can also reap a construction margin (i.e. a construction company).

The preferred JESSICA scenario is **Option I**.

## 9.5. RAGUSA

### 9.5.1. Structure of the operation

#### *Description of the operation*

The Municipality of Ragusa sets up a STU (Urban Regeneration company) for the rehabilitation of derelict Via Velardo in the city's historic centre. The development operation entails the revamp in stock of all the buildings of the eastern end of the street, currently all abandoned, and their transformation into a hotel (*Albergo diffuso*), a few high quality residential units, artist/craftsman workshops and commercial spaces and restaurants/bars. The transformation also includes construction of a public inclined lift linking Via Velardo (perched on a steep hillside and inaccessible by car) with a large public parking area below.

The Municipality transfers to the STU the property of 10 buildings of Via Velardo that it owns in exchange for an equivalent amount of shares. The STU buys the remaining 40 units involved in the transformation from the respective owners at market prices. At the end of the project all the real estate still owned by the STU is sold at market value.

#### *Type of revenues*

The STU will receive revenues from the direct management (operating activity) of the hotel, from the sale of the residential units, from the rental of the workshops/commercial spaces and of the restaurants/bars.

The STU will take care of maintenance costs not only related to the economic activities it runs but also of the public spaces (Via Velardo is a public pedestrian-only street) and of the inclined lift.

The STU operating costs (management and administration) are 0,6% (annual) of the total investment.

The private partner of the STU (typically a construction industry developer) will reap a construction margin of 10%

#### *Financial structure*

The main risk of the operation is linked mainly to lower than expected occupation rate for the hotel and lower than expected demand for the sale of the residential units. Ragusa is quickly becoming a desirable holiday destination but the part of the historic centre where the development will take place, in spite of its great potential, is still in very bad state of conservation. The STU will have full property rights over the real estate and can offer that as collateral for the loan. In consideration of all the above the recommended capital structure is 40% equity and 60% debt.

## *Partnership structure and project vehicle*

The Ragusa pilot project is characterised by a complex ownership structure of the development area (partly public, partly private and, in some cases, difficult to establish). The operation is made more complex by the fragile environmental context (historic buildings and rocky formations)

The project vehicle selected to carry out this operation is the STU (Urban Regeneration Company). Although a relatively complex vehicle to set up and manage the STU has been considered particularly appropriate in this case because:

- it can easily sort out problems linked to the acquisition of the area (it can, if necessary, obtain that the city council start expropriation procedures),
- it entails a substantial involvement of the promoting Municipal administration in every phase of the development thus guaranteeing an efficient and speedy execution of necessary technical and administrative processes,
- it can guarantee that the promoting administration retain a clear leadership of the operation. This can be crucial, also in “political” terms, if, like in this case, the regeneration operation involves the transformation of a large portion of the historic urban fabric.

Summary of the key features of the operation (Ragusa)	
Investment period	3 years
Duration	30 years
Total investment	€ 13.551.400
Operating costs	Management and administrative costs of STU: 0,50% yr 0-3, 0,60% yr 4-30
Financial structure	40% Equity – 60% Debt
Struttura partnership e veicolo progettuale	STU (Società di Trasformazione Urbana – Urban regeneration company)
Eligible investments (on total investments)	Approx. 70% (on the premise of using JESSICA without relying on State Aid)
Tax rate	IRES (27,5% on taxable base) + IRAP (4,25% on taxable base) ICI / Local property tax: 0,7% of the assessed value of the real estate assets (in this case of the total investment costs)

### 9.5.2. Detail of expected financial returns

Project component	Type of income	Rate of return on sale <sup>85</sup>	Gross annual rate of return
Albergo diffuso (rooms and holiday apartments)	Direct management	-	19.57%
Restaurants-cafés-bars	Return from rental	-	6.08%
Shops and workshops (local crafts and food)	Return from rental	-	5.29%
Residential units	Sale	35.29%	-
Inclined lift	Public works	-	-
New street paving	Public works	-	-

### 9.5.3. Baseline scenario: economic performance without JESSICA

#### Key features and results of the operation

Total investment	€ 13.551.400
Debt (financial institutions)	€ 8.130.840
Aggregate EBITDA (over 30 years)	€ 40.423.028
Average yearly EBITDA	€ 1.497.149
IRR	7.37%
PAYBACK	15

<sup>85</sup> Percentage expressing to the rate between the gross margin (difference between revenues from sales and construction costs) and the initial investment.

## Profit & Loss (Ragusa)

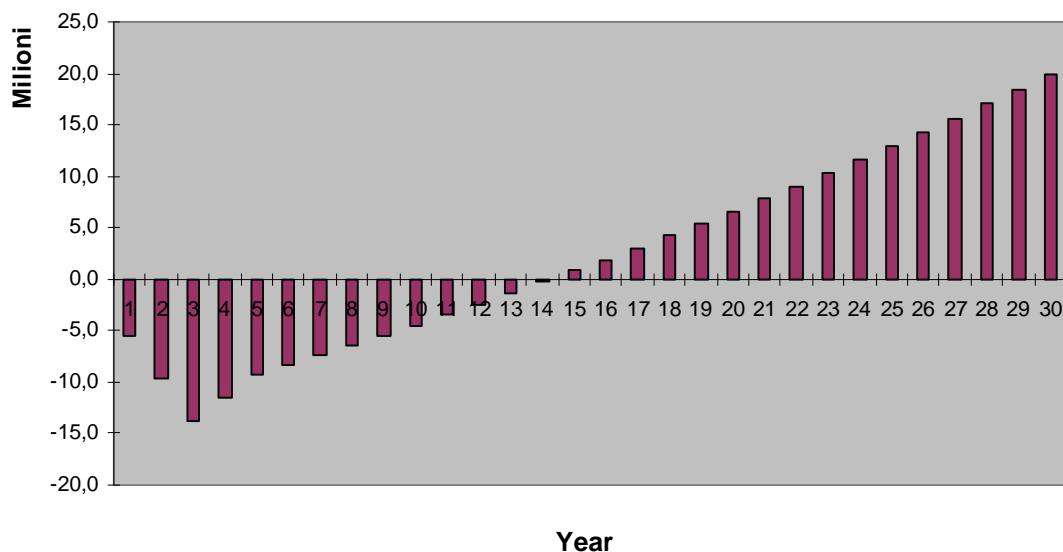
Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30	
Activity year					1	2	3...	...21	22	23	24	25	26	27	
. Hotel ( <i>Albergo diffuso</i> )		<b>43.433.802</b>	-	-	-	1.270.455	1.292.815	1.315.568	1.800.948	1.832.645	1.864.899	1.897.722	1.931.121	1.965.109	1.999.695
. bars/cafés/restaurants (to let)		<b>1.187.799</b>	-	-	-	34.744	35.355	35.977	49.251	50.118	51.000	51.898	52.811	53.741	54.686
. commercial units and workshops (to let)		<b>2.167.358</b>	-	-	-	63.396	64.512	65.647	89.868	91.449	93.059	94.697	96.363	98.059	99.785
. residential units (to sell)		<b>866.997</b>	-	-	-	421.086	445.911	-	-	-	-	-	-	-	-
	Sale	<b>2.845.797</b>	-	-	-	1.410.486	1.435.311	-	-	-	-	-	-	-	-
	Costs	<b>1.978.800</b>	-	-	-	989.400	989.400	-	-	-	-	-	-	-	-
. Building maintenance costs		<b>2.116.908</b>	-	-	-	78.404	78.404	78.404	78.404	78.404	78.404	78.404	78.404	78.404	78.404
. cost of maintenance of public inclined lift		<b>1.228.500</b>	-	-	-	45.500	45.500	45.500	45.500	45.500	45.500	45.500	45.500	45.500	45.500
. ICI		<b>1.488.923</b>	-	-	-	55.145	55.145	55.145	55.145	55.145	55.145	55.145	55.145	55.145	55.145
. management costs of STU		<b>2.398.598</b>	67.757	67.757	67.757	81.308	81.308	81.308	81.308	81.308	81.308	81.308	81.308	81.308	81.308
<b>EBITDA</b>		<b>40.423.028</b>	(67.757)	(67.757)	(67.757)	1.529.323	1.578.235	1.156.835	1.679.709	1.713.855	1.748.601	1.783.958	1.819.938	1.856.551	1.893.809
- Depreciation		<b>13.551.400</b>	-	-	-	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904
<b>EBIT</b>		<b>26.871.628</b>	(67.757)	(67.757)	(67.757)	1.027.419	1.076.331	654.931	1.177.806	1.211.951	1.246.697	1.282.055	1.318.035	1.354.648	1.391.905

### Free cash Flow statement (Ragusa)

Projection year		1	2	3	4	5	6...	...24	25	26	27	28	29	30	
Activity year					1	2	3...	...21	22	23	24	25	26	27	
+ EBIT		26.871.628	(67.757)	(67.757)	(67.757)	1.027.419	1.076.331	654.931	1.177.806	1.211.951	1.246.697	1.282.055	1.318.035	1.354.648	1.391.905
- Tax	IRES	7.389.698	-	-	-	226.641	295.991	180.106	323.897	333.286	342.842	352.565	362.460	372.528	382.774
	IRAP	1.142.044	-	-	-	35.026	45.744	27.835	50.057	51.508	52.985	54.487	56.016	57.573	59.156
+ Depreciation		13.551.400	-	-	-	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904	501.904
- Working capital requirements		11.572.600	5.420.560	4.065.420	4.065.420	(989.400)	(989.400)	-	-	-	-	-	-	-	-
<b>FREE CASH FLOW</b>		<b>(5.488.317)</b>	<b>(4.133.177)</b>	<b>(4.133.177)</b>	<b>2.257.056</b>	<b>2.225.900</b>	<b>948.894</b>	<b>1.305.756</b>	<b>1.329.060</b>	<b>1.352.774</b>	<b>1.376.906</b>	<b>1.401.462</b>	<b>1.426.451</b>	<b>1.451.879</b>	
FCFF (aggregate)		(5.488.317)	(9.621.494)	(13.754.671)	(11.497.615)	(9.271.715)	(8.322.821)	11.980.153	13.309.213	14.661.988	16.038.894	17.440.356	18.866.807	20.318.686	

IRR (30 y)	7,37%
Payback	15,0

### Aggregate Free Cash Flow chart (Caltagirone)



#### 9.5.4. Scenarios for the employment of JESSICA

The complexity of the Ragusa operation, in terms of actual development of the transformation, is relatively low. All in all the operation is, nevertheless, fairly risky because of the high volatility of expected revenues (in particular the occupation rate of the hotel facility).

The financial structure that was identified as most appropriate for this operation is 40% equity and 60% debt.

In the Baseline Scenario the 18.0% of the equity is held by the public partner (as a result of the real estate assets conferred to the STU), the remaining part is held by private partners. All the Debt will be provided by a commercial bank at market rates.

In JESSICA Option I 50% of debt assumed by the STU will be covered with JESSICA resources (at a “reference rate” lower than market rate), thus allowing an increase in the rate of return for equity investors.

In JESSICA Option II additional JESSICA resources are invested in the project to cover 41% of the equity, in order to provide further “collateral” to the other equity investors and to financial institutions issuing the commercial debt.

*Summary of the scenarios analysed (Ragusa)*

Baseline scenario			JESSICA option I			JESSICA option II		
Total investment		13.551.400	Total investment		13.551.400	Total investment		13.551.400
Equity	5.420.560	40,00%	Equity	5.420.560	40,00%	Equity	5.420.560	40,00%
Public partners	975.701	18,00%	Public partners	975.701	18,00%	Public partners	975.701	18,00%
Private partners	4.444.859	82,00%	Private partners	4.444.859	82,00%	Private partners	2.222.430	41,00%
JESSICA	0	0,00%	JESSICA	0	0,00%	JESSICA	2.222.430	41,00%
Debt	8.130.840	60,00%	Debt	8.130.840	60,00%	Debt	8.130.840	60,00%
JESSICA	0	0,00%	JESSICA	4.065.420	50,00%	JESSICA	4.065.420	50,00%
Commercial bank	8.130.840	100,00%	Commercial bank	4.065.420	50,00%	Commercial bank	4.065.420	50,00%

### 9.5.5. Financial results and preferred JESSICA scenario

JESSICA options – comparison chart (Ragusa)				
		Baseline scenario	JESSICA option I	JESSICA option II
Project	IRR	7.37%	7.37%	<b>7.37%</b>
	Pay Back	15	15	<b>15</b>
Public partners	IRR	8.38%	9.09%	<b>9.09%</b>
	Pay Back	16	15	<b>15</b>
Private partners <i>With construction margin</i>	IRR	10.99%	11.95%	<b>17.19%</b>
	Pay Back	14	14	<b>11</b>
Private partners <i>Without construction margin</i>	IRR	8.38%	9.09%	<b>9.09%</b>
	Pay Back	16	15	<b>15</b>
Equity JESSICA	IRR	-	-	<b>9.09%</b>
	Pay Back	-	-	<b>15</b>
Debt JESSICA	IRR	-	2.84%	<b>2.84%</b>
	Pay Back	-	12	<b>12</b>
Debt Commercial Bank	IRR	6.34%	6.34%	<b>6.34%</b>
	Pay Back	10	6	<b>6</b>

As well as important potentials (high quality and charm of the built and natural environment) the project features a few important uncertainties (such as the volume of future tourist flows to Ragusa, the actual cost of development in such a delicate/sensitive environment) that could make it difficult to attract a substantial amount of equity investments.

The preferred JESSICA scenario in this case is **Option II**.

## 9.6. PALERMO

### 9.6.1. Structure of the operation

#### Description of the operation

The Municipality of Palermo sets up a STU (Urban Regeneration company) for the redevelopment of a large brownfield area currently owned by *Ferrovie dello Stato SpA* (national railways). The STU will buy the land at market value (€ 55 mln, in view of the planned development).

0,5% of the shares of the STU will be held by the Municipality (to ensure presence in the governance structure of the development operation), the remaining 99,5% will be held by a consortium of private investors (mainly developers) selected with a public tender procedure.

The redevelopment consists in the refurbishment and creation of public spaces and facilities (schools and public offices, parks, squares, roads and pathways), commercial spaces, offices, residential units and public parking.

At the end of the project property of all public facilities will be transferred, free of charge, to the municipality. All other real estate assets produced will be sold.

#### Type of revenues

50% of all residential units (and related parking facilities) will be sold at market value, the other 50% will be sold in stock to a specialised Social Housing manager (such as a Social housing fund) at a reduced price.

The public car park will also be sold to a specialised manager.

It is expected that the private partners (as developers) will reap a 10% construction margin.

STU operating costs are estimated at 0,5% of total investment for the whole duration of the project (they include administrative and general management costs)

#### Financial Structure

Due to the extremely high volume of investment needed to carry out this operation, even with relatively low level of risk and real estate assets to offer as collateral for a loan, the foreseen capital structure is 50% equity and 50% debt.

Reimbursement of the debt is done using up to 70% of the cash flow until extinction. The remaining 30% is distributed as earnings to the private investor.

### *Partnership structure and project vehicle*

The project vehicle selected to carry out the development operation in Palermo is the STU (Urban Regeneration Company). The areas involved in the transformation are all former railways areas and are currently owned by different agencies belonging to the *Ferrovie dello Stato* (National Railways) group. As already mentioned, in reference to the Ragusa case, the STU can be a particularly efficient project vehicle in carrying out complex transformations in sensitive urban areas, because:

- it can easily sort out problems linked to the acquisition of the area (it can, if necessary, obtain that the city council start expropriation procedures),
- it entails a substantial involvement of the promoting Municipal administration in every phase of the development thus guaranteeing an efficient and speedy execution of necessary technical and administrative processes,
- it can guarantee that the promoting administration retain a clear leadership of the operation. This can be crucial, also in “political” terms, if, like in this case, the regeneration operation involves the transformation of a large portion of the urban fabric and the creation of much needed strategic links between the historic centre and the “modern” city centre (including the development of new transport infrastructure of metropolitan and regional importance)

Summary of the key features of the operation (Palermo)	
Investment period	3 years
Duration	6 years
Total investment	€ 195.796.874
Operating Costs	Administrative and general management costs of STU: 0,50% yearly
Financial structure	50% Equity – 50% Debt
Eligible investments (on total investments)	Approx. 50% (on the premise of using JESSICA without relying on State Aid)
Partnership structure and project vehicle	STU (Società di Trasformazione Urbana – Urban regeneration company)
Tax rate	IRES (27,5% on taxable base) + IRAP (4,25% on taxable base)

### 9.6.2. Detail of expected financial returns

Project component	Type of income	Rate of return on sale (public facilities)	Rate of return on sale (private real estate)
Public car park	Sale	30.0%	-
Commercial activities and Office spaces	Sale	-	175.60%
Underground parking spaces (for Commercial activities and Office spaces)	Sale	-	106.82%
Residential units	Sale	-	163.64%
Underground parking spaces (for residential units)	Sale	-	162.50%
Social housing units	Sale	36.36%	-
Underground parking spaces (for social housing units)	Sale	43.16%	-
Public spaces and facilities	Public works	-	-

### 9.6.3. Baseline scenario: economic performance without JESSICA

#### Key features and results of the operation

Total investment	€ 195.796.874
Debt (financial institutions)	€ 97.898.437
Aggregate EBITDA (over 6 years)	€ 93.627.249
Yearly average EBITDA	n.a.
IRR	6.66%
PAYBACK	6 years

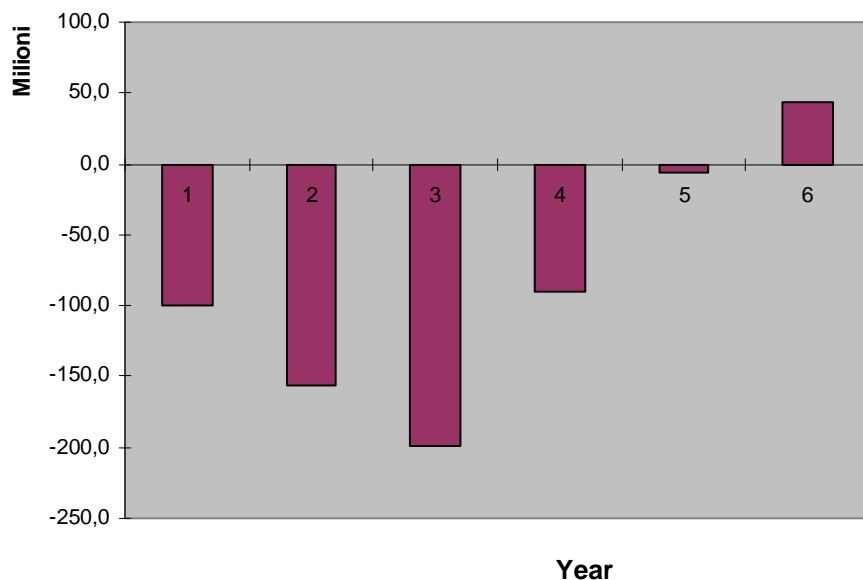
## Profit & Loss (Palermo)

Projection year		1	2	3	4	5	6
Activity year					1	2	3
. Commercial activities and Office spaces		<b>70.935.135</b>	-	-	-	<b>31.287.952</b>	<b>24.988.306</b>
	Sales	107.450.570	-	-	-	47.719.897	37.768.708
	Costs	<b>36.515.435</b>	-	-	-	<b>16.431.946</b>	<b>12.780.402</b>
. Parking spaces (for Commercial activities and Office spaces)		<b>23.765.188</b>	-	-	-	<b>10.438.516</b>	<b>8.382.900</b>
	Sales	43.434.508	-	-	-	19.289.710	15.267.162
	Costs	<b>19.669.320</b>	-	-	-	<b>8.851.194</b>	<b>6.884.262</b>
. Residential units		<b>37.657.389</b>	-	-	-	<b>16.601.825</b>	<b>13.267.605</b>
	Sales	58.406.304	-	-	-	25.938.837	20.529.725
	Costs	<b>20.748.915</b>	-	-	-	<b>9.337.012</b>	<b>7.262.120</b>
. Parking spaces (for residential units)		<b>7.181.275</b>	-	-	-	<b>3.165.815</b>	<b>2.530.176</b>
	Sales	11.164.815	-	-	-	4.958.408	3.924.415
	Costs	<b>3.983.540</b>	-	-	-	<b>1.792.593</b>	<b>1.394.239</b>
. Social Housing units		<b>9.460.020</b>	-	-	-	<b>4.079.085</b>	<b>3.356.273</b>
	Sales	30.208.935	-	-	-	13.416.097	10.618.394
	Costs	<b>20.748.915</b>	-	-	-	<b>9.337.012</b>	<b>7.262.120</b>
. Parking spaces (for social housing units)		<b>2.106.282</b>	-	-	-	<b>911.959</b>	<b>746.324</b>
	Sales	6.089.822	-	-	-	2.704.552	2.140.563
	Costs	<b>3.983.540</b>	-	-	-	<b>1.792.593</b>	<b>1.394.239</b>
. Public car park		<b>4.942.967</b>	-	-	-	<b>2.120.193</b>	<b>1.756.534</b>
	Sales	17.681.847	-	-	-	7.852.689	6.215.142
	Costs	<b>12.738.880</b>	-	-	-	<b>5.732.496</b>	<b>4.458.608</b>
. Acquisition of the area		<b>(56.547.100)</b>	-	-	-	<b>(24.860.472)</b>	<b>(19.940.502)</b>
	Costs	<b>56.547.100</b>	-	-	-	<b>24.860.472</b>	<b>19.940.502</b>
. Administrative and management costs of STU		<b>5.873.906</b>	<b>978.984</b>	<b>978.984</b>	<b>978.984</b>	<b>978.984</b>	<b>978.984</b>
EBITDA		<b>93.627.249</b>	<b>(978.984)</b>	<b>(978.984)</b>	<b>(978.984)</b>	<b>42.765.889</b>	<b>34.108.632</b>
<b>- Depreciation</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
EBIT		<b>93.627.249</b>	<b>(978.984)</b>	<b>(978.984)</b>	<b>(978.984)</b>	<b>42.765.889</b>	<b>34.108.632</b>

## Free Cash Flow (Palermo)

Projection year		1	2	3	4	5	6	
Activity year					1	2	3	
+ EBIT		93.627.249	(978.984)	(978.984)	(978.984)	42.765.889	34.108.632	19.689.682
- Tax	IRES	25.747.493	-	-	-	10.952.957	9.379.874	5.414.662
	IRAP	3.979.158	-	-	-	1.692.730	1.449.617	836.811
+Depreciation		-	-	-	-	-	-	-
- working capital requirements		20.861.229	98.322.032	55.699.910	41.774.932	(78.135.318)	(61.376.492)	(35.423.835)
FREE CASH FLOW		43.039.368	(99.301.017)	(56.678.894)	(42.753.917)	108.255.519	84.655.633	48.862.043
FCFF (aggregate)			(99.301.017)	(155.979.911)	(198.733.827)	(90.478.308)	(5.822.674)	43.039.368
IRR (6 y)			6,66%					
Payback			6,0					

#### *Aggregate Free Cash Flow chart (Palermo)*



#### *9.6.4. Scenarios for the employment of JESSICA*

Demand for the facilities developed (residential, commercial, offices and services) in the Palermo area is strong. The level of risk is nevertheless relatively high because of the scale of the operation (total development cost of € 196 million), even considering that most of the developed real estate assets can be used as collateral

The financial structure that was identified as most appropriate for this operation is 500% equity and 50% debt.

In the Baseline Scenario the 0.5% of the equity is held by the public partner (a symbolic share necessary to guarantee the presence of the City Council in the governance structure of the STU), the remaining part is held by private partners. All the Debt will be provided by a commercial bank at market rates.

In JESSICA Option I 40% of debt assumed by the STU will be covered with JESSICA resources (at a “reference rate” lower than market rate), thus allowing an increase in the rate of return for equity investors.

In JESSICA Option II additional JESSICA resources are invested in the project to cover 9.5% of the equity, in order to provide further “collateral” to the other equity investors and to financial institutions issuing the commercial debt.

*Summary of the scenarios analysed (Palermo)*

Baseline scenario			JESSICA option I			JESSICA option II		
Total investment		195.796.874	Total investment		195.796.874	Total investment		195.796.874
<b>Equity</b>	<b>97.898.437</b>	<b>50,00%</b>	<b>Equity</b>	<b>97.898.437</b>	<b>50,00%</b>	<b>Equity</b>	<b>97.898.437</b>	<b>50,00%</b>
Public partners	489.492	0,50%	Public partners	489.492	0,50%	Public partners	489.492	0,50%
Private partners	97.408.945	99,50%	Private partners	97.408.945	99,50%	Private partners	88.108.593	90,00%
JESSICA	0	0,00%	JESSICA	0	0,00%	JESSICA	9.300.352	9,50%
<b>Debt</b>	<b>97.898.437</b>	<b>50,00%</b>	<b>Debt</b>	<b>97.898.437</b>	<b>50,00%</b>	<b>Debt</b>	<b>97.898.437</b>	<b>50,00%</b>
JESSICA	0	0,00%	JESSICA	39.159.375	40,00%	JESSICA	39.159.375	40,00%
Commercial bank	97.898.437	100,00%	Commercial bank	58.739.062	60,00%	Commercial bank	58.739.062	60,00%

### 9.6.5. Financial results and preferred JESSICA scenario

JESSICA options – comparison chart (Palermo)				
		Baseline scenario	JESSICA option I	JESSICA option II
Project	IRR	6.66%	6.66%	<b>6.66%</b>
	Pay Back	6	6	<b>6</b>
Public partners	IRR	7.24%	7.97%	<b>7.97%</b>
	Pay Back	6	6	<b>6</b>
Private partners With construction margin	IRR	14.26%	15.15%	<b>16.03%</b>
	Pay Back	5	5	<b>5</b>
Private partners Without construction margin	IRR	7.24%	7.97%	<b>7.97%</b>
	Pay Back	6	6	<b>6</b>
Equity JESSICA	IRR	-	-	<b>7.97%</b>
	Pay Back	-	-	<b>6</b>
Debt JESSICA	IRR	-	2.02%	<b>2.02%</b>
	Pay Back	-	5	<b>5</b>
Debt Commercial Bank	IRR	5.52%	5.52%	<b>5.52%</b>
	Pay Back	5	4	<b>4</b>

Even in the Baseline scenario the IRR for prospective equity investors is interesting. The substantial injection of JESSICA resources as debt (as in Option I) makes the operation significantly more attractive both for direct investors (higher IRR) and financial institutions (lower share of debt issued).

In this case, because of the particularly high volume of investment needed, a contribution of JESSICA to the equity capital seems appropriate and necessary in order to guarantee actual feasibility of the operation.

The preferred JESSICA scenario in this case is **Option II**.

## 9.7. GREEN ENERGY PILOT PROJECT

### 9.7.1. Structure of the operation

#### Description of the operation

The Municipality of an hypothetical Sicilian town sets up a programme for the revamp of part of its real estate properties.

The operation involves 9 buildings consists both in improving the thermal performance (through insulation) and in the introduction of green energy production systems (photovoltaic panels and hot water panels).

All the buildings will remain of public property and continue to function as public buildings throughout the life of the project. The Municipality will contract the execution of the construction to a specialized firm but will be the only beneficiary of the savings and of the revenues deriving from the energy produced. Currently the production of green energy through photovoltaic technology is supported with national incentives (paid in proportion to the amount of energy produced and transferred to the power grid).

#### Type of revenues

The project produces revenues of two types: savings on energy consumption, earnings from energy production.

The savings are an indirect type of revenue and are thus not subject to taxation.

Revenues linked to energy production from photovoltaic panels is subject to normal taxation : IRES (27,5% on earnings) + IRAP (4,25% on earnings).

#### Financial structure

The financial structure of the operation is extremely simple. **The municipality will obtain from the UDF a JESSICA loan to cover 90% of the investment costs**, the remaining 10% will be covered by a loan issued by the UDF with its own resources.

The operation is characterised by a very low level of risk. Considering that the JESSICA loan is issued to a Public entity, State aid rules do not apply. Rates as low as 1,5% can thus be applied (just enough to cover UDF management costs). The commercial loan is imagined at an interest rate of 2%, the current rate applied by *Cassa Depositi e Prestiti* (Italy's main public investment bank) for loans to local authorities.

### *Partnership structure and project vehicle*

The operation, focusing entirely on the production of green energy and on energy saving in public buildings, does not require the set up of a complex public private partnership, or the input of private resources as equity. No project vehicle has thus been imagined to carry out the operation.

Summary of the key features of the operation (Green Energy Pilot Project)	
Investment period	1 year
Duration	20 years
Total investment	2.481.802
Operating costs	Maintenance costs of photovoltaic panels: 2.30% per year Maintenance costs of solar panels: 1.00% per year
Financial structure	100% debt
Eligible investments (on total investment)	100%
Partnership structure and project vehicle	No public-private partnership _ Public tender
Tax rate	IRES (27,5% on taxable base) + IRAP (4,25% on taxable base)

### 9.7.2. Detail of expected financial returns

Project component	Type of income	Gross annual rate of return
Photovoltaic panels	Returns from sale of energy produced (including state incentives)	12.70%
Photovoltaic panels	Savings on energy consumption	5.40%
Thermal insulation of buildings	Savings on energy consumption	4.30%
Hot water panels	Savings on energy consumption	15.50%

### 9.7.3. Economic performance

#### Key features and results of the operation

Total investment	€ 2.481.802
Debt	€ 2.481.802
Aggregate EBITDA (over 20 years)	€ 4.465.606
Average yearly EBITDA	€ 262.683
IRR	5.85 %
PAYBACK	13

## Profit & Loss chart (Green Energy Pilot Project)

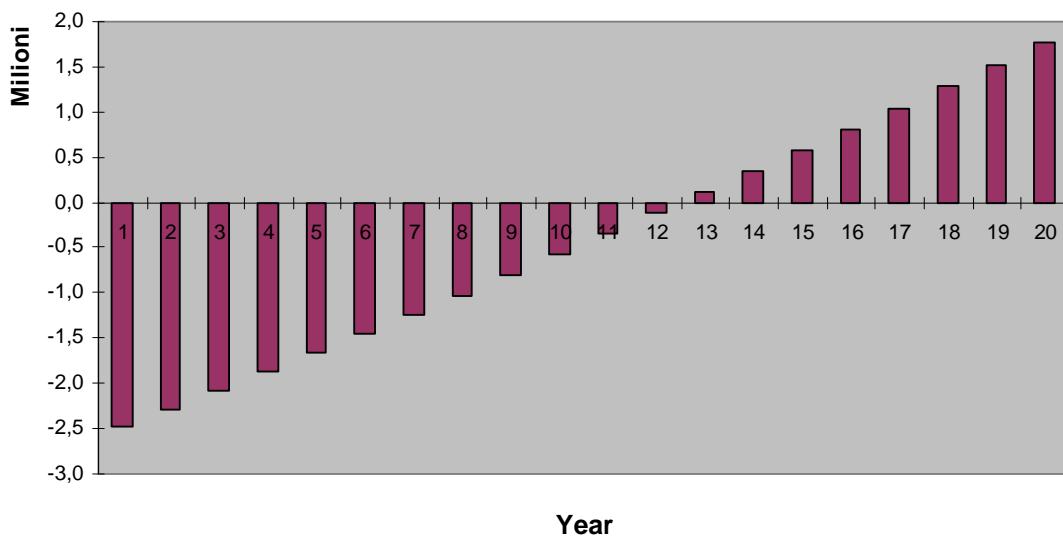
Projection year		1	2	3	4	5	6...	...16	17	18	19	20	
Activity year					1	2	3...	...13	14	15	16	17	
. Photovoltaic panels (on roofs of school buildings)		822.648	-	36.837	37.485	38.145	38.817	39.500	47.029	47.857	48.699	49.556	50.428
	Sale of energy	577.217	-	25.847	26.302	26.765	27.236	27.715	32.998	33.579	34.170	34.771	35.383
	Savings on energy consumption	245.431	-	10.990	11.184	11.380	11.581	11.784	14.031	14.278	14.529	14.785	15.045
. Thermal insulation		1.629.741	-	72.978	74.262	75.569	76.899	78.253	93.169	94.808	96.477	98.175	99.903
	Sale of energy	-	-	-	-	-	-	-	-	-	-	-	-
	Savings on energy consumption	1.629.741	-	72.978	74.262	75.569	76.899	78.253	93.169	94.808	96.477	98.175	99.903
. Hot water panels		1.035.583	-	46.372	47.188	48.019	48.864	49.724	59.202	60.244	61.304	62.383	63.481
	Sale of energy	-	-	-	-	-	-	-	-	-	-	-	-
	Savings on energy consumption	1.035.583	-	46.372	47.188	48.019	48.864	49.724	59.202	60.244	61.304	62.383	63.481
. Photovoltaic panels (on roofs office buildings)		1.316.238	-	58.939	59.977	61.032	62.106	63.200	75.246	76.571	77.918	79.290	80.685
	Sale of energy	923.548	-	41.355	42.083	42.824	43.577	44.344	52.797	53.726	54.672	55.634	56.613
	Savings on energy consumption	392.690	-	17.584	17.894	18.209	18.529	18.855	22.449	22.844	23.246	23.655	24.072
. maintenance costs (photovoltaic panels)		271.792	-	12.170	12.385	12.603	12.824	13.050	15.538	15.811	16.089	16.373	16.661
. maintenance costs (hot water panels)		66.812	-	2.992	3.044	3.098	3.153	3.208	3.819	3.887	3.955	4.025	4.096
EBITDA		4.465.606	-	199.964	203.483	207.065	210.709	214.417	255.288	259.782	264.354	269.006	273.741
- Depreciation		520.000	-	46.800	46.800	46.800	46.800	46.800					
EBIT		3.945.606	-	153.164	156.683	160.265	163.909	167.617	255.288	259.782	264.354	269.006	273.741

## Free Cash Flow statement (Green Energy Plot Project)

FREE CASH FLOW STATEMENT													
Projection year		1	2	3	4	5	6...	...16	17	18	19	20	
Activity year													
+ EBIT		3.945.606	-	153.164	156.683	160.265	163.909	167.617	255.288	259.782	264.354	269.006	273.741
- Tax	IRES	176.594	-	1.441	1.693	1.949	2.210	2.475	18.270	18.592	18.919	19.252	19.591
	IRAP	27.292	-	223	262	301	342	383	2.824	2.873	2.924	2.975	3.028
+ Depreciation		520.000	-	46.800	46.800	46.800	46.800	46.800	-	-	-	-	-
- Working capital requirements		2.481.802	2.481.802	-	-	-	-	-	-	-	-	-	-
<b>FREE CASH FLOW</b>		<b>1.779.918</b>	<b>(2.481.802)</b>	<b>198.300</b>	<b>201.529</b>	<b>204.814</b>	<b>208.157</b>	<b>211.559</b>	<b>234.194</b>	<b>238.316</b>	<b>242.511</b>	<b>246.779</b>	<b>251.122</b>
FCFF (aggregate)			(2.481.802)	(2.283.502)	(2.081.973)	(1.877.159)	(1.669.001)	(1.457.442)	801.190	1.039.506	1.282.017	1.528.796	1.779.918

IRR (20 y)	5,85%
Payback	13,0

*Aggregate Free Cash Flow chart (Green Energy Pilot Project)*



Key financial results (Green Energy Pilot Project)		
Project	IRR	5.85%
	Pay Back	13
Debt JESSICA	IRR	1.5%
	Pay Back	17
Debt Commercial bank	IRR	2.0%
	Pay Back	4

## 10. FINANCIAL RESULTS OF THE URBAN DEVELOPMENT FUNDS (UDF) AND THE HOLDING FUND (HF)

The overall structure postulated for the implementation of JESSICA in Sicily, given the constitution of a Holding Fund (HF) with a financial endowment of just over €148.0 million from the ERDF OP Sicily 2007-2013, establishes the constitution of two Urban Development Funds (called UDF 1 and UDF 2) with competence over the entire regional territory, which will serve as the vehicles for channelling the global resources managed by the HF towards the selected projects.

The following table highlights the fundamental characteristics of the Holding Fund:

JESSICA Holding Fund (HF)	
<b>Funds received by the Managing Authority</b>	<b>148.068.359</b>
<b>Management fees</b>	
2010 - 2013	1,00%
2014 - 2015	0,50%
after 2015	0,10%
<b>TOTAL management fees through 2039</b>	<b>10.957.059</b>
<b>Total amount to invest in the Urban Development Fund (UDF)</b>	<b>137.111.300</b>

The management fees<sup>86</sup> for the Holding Fund have been postulated as decreasing, based on the premise that the activity will be more intense at the beginning, given the need to select the Urban Development Funds.

Overall the management fees amount to circa € 10,9million, considering a lifetime of 30 years for the Holding Fund. It should be emphasized that the data assigned in the table, both with reference to the **management costs** and in relation to the **thirty-year lifetime of the fund, represent indicative values**<sup>87</sup>, which may therefore be modified.

This chapter analyzes two different possible architectures for the Urban Development Funds,

<sup>86</sup> In this Chapter the term “management fees” indicates “management costs” as stated in art. 43.4 of the Regulation (EC) 1828/2006.

<sup>87</sup> It should be emphasized in particular, that the simulations show that limited variations in the applied rates, such as the management fees for the HF (1.5% instead of 1% for the first 3 years), do not imply significant variations in terms of the return period for the investment and the profitability of the Managing Authority. As far as the Urban Development Funds are concerned, given a marginally reduced endowment of resources, there are no significant variations in terms of yield and payback period.

anticipated in Chapter 6 of this document.

The first includes the constitution of two *GENERALIST* Urban Development Funds, with a more or less equal financial endowment, multi-instrument (operating primarily through funding with debt and equity) and capable of financing sustainable urban development projects of any type (multi-sectorial).

As said earlier, it must however be considered that an endowment of capital for each Fund below a level of € 90-100 Million, could be less advantageous for the manager – and therefore less appealing in the market of financial operators – especially when the activity of the Funds involves all sectors of investment and therefore does not allow scale economies that are possible with the specialization per sector.

For this reason, the second hypothesis includes the constitution of two Urban Development Funds, of which one is a *GENERALIST* (multi-sectorial) fund with an endowment of circa € 90-100 million and one is specialized in financing projects in the *ENERGY* sector, with an endowment equal to the remaining resources (ca. € 48 – 38 million).

As shown in paragraph 6.1.1, the fund specialized in the energy sector, despite its limited endowment of resources, could be appealing in any case to the market of financial operators for two reasons:

- The specialization in the energy sector would involve a standardization in the processes of evaluating and structuring the operations, and a simplification of the reporting, therefore creating scale economies and reducing costs;
- The demand for investments in the energy sector is potentially high and can grow over time, thanks to the advisory work and project scouting that could be carried out by the UDF in the region.

It is important to underline that both simulations entail the numerical “repetition” of the hypothesized pilot projects until resources are depleted, so that the operation can be assessed overall at the various levels in which it is structured: Managing Authority, Holding Fund, Urban Development Fund. In reality the portfolio of projects financed by the UDF will be more ample.

## 10.1. ANALYSIS OF THE SCENARIO WITH TWO GENERALIST UDF

The first simulation postulates 2 GENERALIST funds, as anticipated in the introduction to this chapter, **with similar characteristics**. The prospectus below illustrates their principal characteristics.

<b>UDF 1</b>	
<b>Funds received from the Holding Fund (HF)</b>	<b>69.500.000</b>
<b>Management Fees</b>	
2010 - 2013	3,00%
2014 - 2015	1,50%
after 2015	0,20%
Maximum Amount*      Actual Amount **	
TOTAL Management Fees up until 2015	10.425.000      6.929.058
TOTAL Management Fees after 2015	3.336.000      479.603
Overall amount to invest in the projects	59.075.000      62.570.942
<i>Paid by the Holding Fund</i>	
<i>Paid by the revenue from the projects</i>	
<b>Portfolio of projects</b>	
	Number/ repetitions      Amount of JESSICA funds      Total resources Debt      Total Resources Equity
CALTAGIRONE	1,00      3.886.653      3.886.653      0
PALERMO	1,00      48.459.726      39.159.375      9.300.352
TRAPANI	1,00      5.342.683      5.342.683      0
GREEN ENERGY	2,00      4.467.244      4.467.244      0
<b>TOTAL</b>	<b>5,00      62.156.306      52.855.955      9.300.352</b>
<b>Unused funds</b>	<b>414.636</b>
* calculated on the basis of the total contribution HF	
** calculated on the basis of the funds managed	

The UDF 1 fund turns out to be constituted by € 695 million of resources from the Holding Fund. It can co-finance 5 projects, including Palermo, which absorbs a significant portion of the funds.

The management fees have been presumed to be decreasing, because most of the activity is considered to take place during the period of project selection and start-up, rather than during the monitoring phase. The fees as a whole amount, in real terms, to circa € 7.4 million and will be paid in part with the resources conferred by the Holding Fund and in part with the revenue deriving from the projects themselves (after 2015 the revenue from the projects will pay for the annual fees).

On this subject, it is important to illustrate the *range* within which the management fees can vary. The column “Maximum Amount” indicates the absolute value of the amount of the fees (divided by periods of time) accrued as a result of the management services performed by the Urban Development Funds and calculated on the basis of the overall amount of resources conferred for

investment (for example in this case the rate is 3.0%, then 1.50% and finally 0.20% for € 69.5 million), were they to be invested for the entire solar year in which the UDF is constituted. In the second column (Real Amount), the same rates are applied to the total amount of resources actually managed in each single year, on the basis of the schedule of disbursement and payback<sup>88</sup> by the funds involved to the individual projects.

UDF 2																	
Funds received by the HF	67.611.300																
<b>Management Fees</b>																	
2010 - 2013	3,00%																
2014 - 2015	1,50%																
after 2015	0,20%																
<table> <thead> <tr> <th></th><th>Maximum Amount*</th><th>Actual Amount **</th><th></th></tr> </thead> <tbody> <tr> <td>TOTAL Management Fees through 2015</td><td>10.141.695</td><td>8.766.258</td><td>paid by the HF</td></tr> <tr> <td>TOTAL Management Fees through 2015</td><td>3.245.342</td><td>1.006.323</td><td>paid by revenue from the projects</td></tr> <tr> <td>Total Amount to invest in the projects</td><td>57.469.605</td><td>58.845.042</td><td></td></tr> </tbody> </table>			Maximum Amount*	Actual Amount **		TOTAL Management Fees through 2015	10.141.695	8.766.258	paid by the HF	TOTAL Management Fees through 2015	3.245.342	1.006.323	paid by revenue from the projects	Total Amount to invest in the projects	57.469.605	58.845.042	
	Maximum Amount*	Actual Amount **															
TOTAL Management Fees through 2015	10.141.695	8.766.258	paid by the HF														
TOTAL Management Fees through 2015	3.245.342	1.006.323	paid by revenue from the projects														
Total Amount to invest in the projects	57.469.605	58.845.042															
<b>Portfolio of projects</b>																	
SIRACUSA	2,00	24.300.791	Total resources Debt	Total resources Equity													
CALTAGIRONE	3,00	11.659.960	20.602.844	3.697.946													
RAGUSA	2,00	12.575.699	11.659.960	0													
TRAPANI	1,00	5.342.683	8.130.840	4.444.859													
GREEN ENERGY	2,00	4.467.244	5.342.683	0													
<b>TOTAL</b>	<b>10,00</b>	<b>58.346.377</b>	<b>4.467.244</b>	<b>8.142.806</b>													
<b>Unused Funds</b>	<b>498.665</b>																
* calculated on the basis of the total contribution by the HF																	
** calculated on the basis of the managed funds																	

The UDF 2 fund is therefore constituted by € 67.6 million and is capable of financing 10 projects.

In this case too, the management fees have been postulated as decreasing, because most of the activity is presumed to take place during the period of project selection and start-up, rather than during the monitoring phase. As a whole, they amount, in real terms, to circa € 9.7 million, of which € 8.7 million will be paid by the Holding Fund, and approximately € 1.0 million will be paid by revenue from the projects.

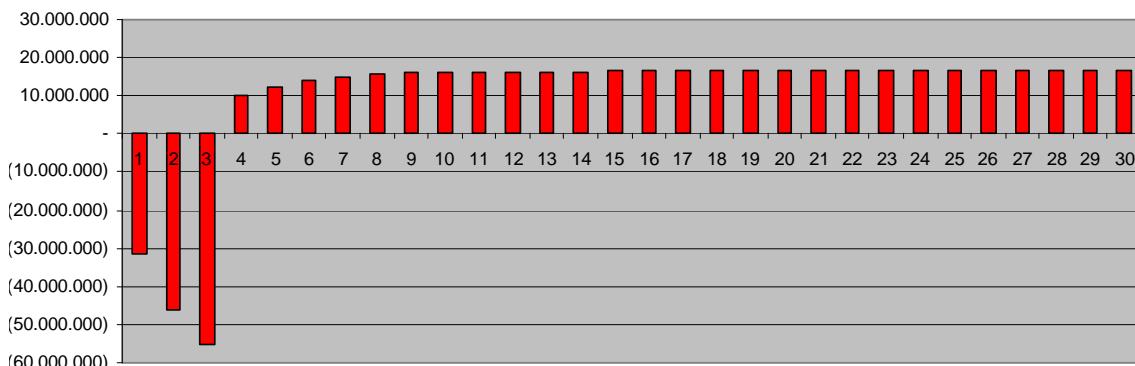
<sup>88</sup> It is important on this subject to recall that the resources reimbursed periodically from the cash flow of the projects are presumed to be paid back directly to the main disbursor, therefore the JESSICA financing to the Holding Fund and then to the Managing Authority, whereas the debt financed by commercial banks (which are presumed to be the managers of the UDF) will be paid back to the bank itself.

### 10.1.1. Financial results of the UDF

With reference to the Urban Development Fund 1 (UDF1), it should be noted that the structure described above brings rather satisfactory results in terms of its economic-financial performance: the *diversified* composition of the project portfolio makes it possible to achieve a fairly good overall yield given a rather low level of risk and a limited period of return of the investment.

UDF 1	
IRR 30 years	10,45%
IRR without management fees	5,74%
Pay Back	4
JESSICA Amount managed Funds	69.500.000
Funds invested (UDF=Commercial Bank)	65.411.797
Management fees	7.408.661

Below is a chart of the **Aggregate Cash Flow for the UDF 1**



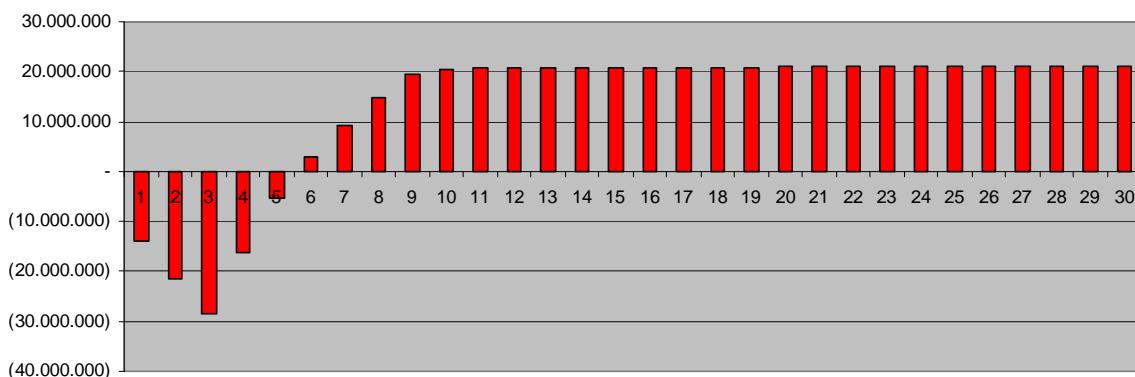
The yield rate over 30 years is over 10.0% (5.74% net of management fees<sup>89</sup>) given a period of return on the investment in only 4 years.

And in reference to the Urban Development Fund 2 (UDF2), it may be underlined that the structure described above makes it possible to achieve satisfactory results in reference to the economic-financial performance, both in terms of yield and period of return on the investment, and in terms of risk, which emerge from the following table:

<sup>89</sup> It is postulated that the activity of the urban development fund can also consist in financing as a Commercial Bank at the established conditions. In fact the probability that the management of the Fund be entrusted to a bank is high.

UDF 2	
IRR 30 years	14,23%
IRR without management fees	7,25%
Pay Back	6
JESSICA Amount of Funds managed	67.611.300
Funds invested (UDF=Commercial Bank)	36.312.112
Management fees	9.772.582

Below is a chart of the **Aggregate Cash Flow of the UDF 2**



It is important to point out that in the UDF2, the diverse composition of the investment portfolio (the prospectus analyzed earlier shows the projects included in each UDF) brings better results than the UDF 1.

#### 10.1.2. *Results of the Holding Fund and Managing Authority*

In the first simulation, the existence of two GENERALIST Urban Development Funds implies a fairly good economic and financial performance for the Holding Fund which constitutes and manages them throughout the lifetime of the operation (30 years), as shown in the following table:

SICILY Holding Fund	
IRR 30 years	6,04%
Payback	12
Funds managed	148.068.359
Management fees 30 years	10.957.059
Funds invested in the UDF	137.111.300

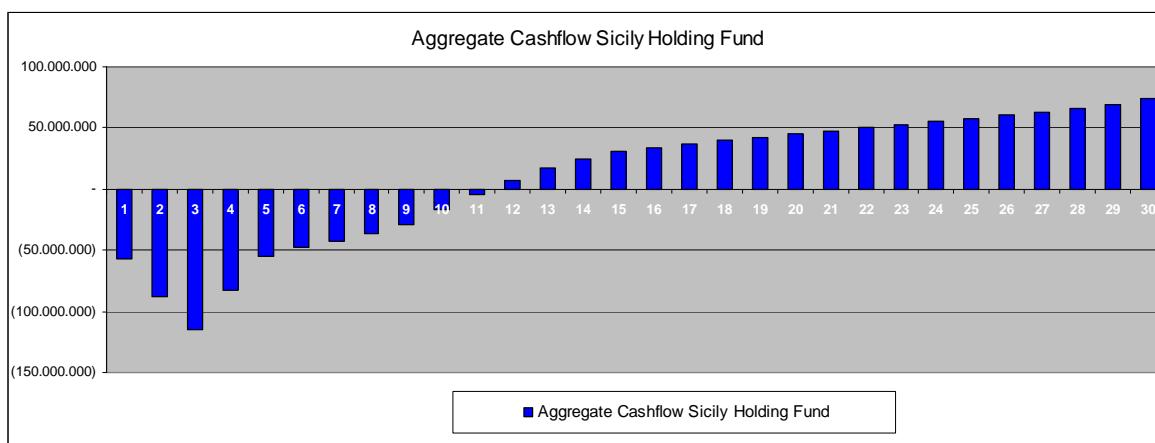
For the management and monitoring required by the Funding Agreement, the Holding Fund

produces a yield of approximately 6.0% and a total of € 11.0 million for the management fees over the entire lifetime of the fund (30 years), as shown in the table.

The period of return of the investment is 12 years.

In synthesis, given an overall endowment of resources just over € 148.0 million, the Holding Fund would convey over € 137.1 million into the two Urban Development Funds.

Below is a chart of the **Aggregate Cash Flow for the Holding Fund**.



At a higher level of analysis, in reference to the **Managing Authority**, it is possible to underscore the results for the structure proposed in the first simulation, as shown in the table below:

Managing Authority	
Nominal Amount of the Funds	148.068.359
Management fees paid to the Holding Fund	10.957.059
Management fees paid to the Urban development funds	15.695.316
Resources invested in projects	120.502.683
Unutilized Funds	913.301
Return on investiment_30 % (anno)	5
Return on investiment_50 % (anno)	8
Return on investimento_80 % (anno)	12
Global Revolving ratio	124,33%

The Managing Authority conveys funds to the Holding Fund for a total amount of approximately € 148.0 million. Out of this total, approximately € 10.9 million will be paid as management fees.

A mechanism structured in this manner should allow the Managing Authority to recover about 50% of the total resources conferred to the Holding Fund after only eight years (and up to 80% after twelve).

Overall, thanks to the financial logic underlying the JESSICA mechanism, the Managing Authority

will recover 124.33% of the total resources invested. In other words, given that the projects produce a positive return, the invested resources will be returned in an amount superior to the original value: this means that the Managing Authority will invest approximately € 148.0 million in the operation, and at the end of the operation (approximately 30 years), will be paid back €184.1 million.

The following table summarizes the most important information concerning this first simulation:

Summary Table				
	Total resources conferred to the HF	Total JESSICA resources invested in the projects	Total investments activated	Total fees paid
<b>Overall values</b>	<b>148.068.359</b>	<b>120.502.683</b>	<b>357.827.782</b>	<b>26.652.374</b>

Given the € 148.0 million conferred by the Managing Authority to the Holding Fund, the JESSICA mechanism makes it possible to activate investments for a value of approximately € 358.0 million. Given the cost of the fees for the overall management (Holding Fund + Urban Development Funds), which will total approximately € 26.6 million, additional resources for investments in sustainable urban development may be activated for a value of €240.0 million.

## 10.2. ANALYSIS OF THE SCENARIO WITH ONE GENERALIST UDF AND ONE "ENERGY" UDF

The second simulation postulates 2 funds, including 1 GENERALIST fund and another dedicated to projects involving the energy sector, with a diverse financial endowment and with particular and not always similar characteristics, as is clearly shown in the prospectus below.

UDF 1																	
Funds received by the HF	100.000.000																
<b>Management Fees</b>																	
2010 - 2013	3,00%																
2014 - 2015	1,50%																
after 2015	0,20%																
<table> <thead> <tr> <th></th><th>Maximum Amount *</th><th>Actual Amount **</th><th></th></tr> </thead> <tbody> <tr> <td>TOTAL Management Fees up until 2015</td><td>15.000.000</td><td>10.704.662</td><td>paid by the HF</td></tr> <tr> <td>TOTAL Management Fees after 2015</td><td>4.800.000</td><td>858.157</td><td>paid by the revenue of the projects</td></tr> <tr> <td>Overall amount to invest in projects</td><td>85.000.000</td><td>89.295.338</td><td></td></tr> </tbody> </table>			Maximum Amount *	Actual Amount **		TOTAL Management Fees up until 2015	15.000.000	10.704.662	paid by the HF	TOTAL Management Fees after 2015	4.800.000	858.157	paid by the revenue of the projects	Overall amount to invest in projects	85.000.000	89.295.338	
	Maximum Amount *	Actual Amount **															
TOTAL Management Fees up until 2015	15.000.000	10.704.662	paid by the HF														
TOTAL Management Fees after 2015	4.800.000	858.157	paid by the revenue of the projects														
Overall amount to invest in projects	85.000.000	89.295.338															
<b>Portfolio of projects</b>																	
SIRACUSA	1,00	12.150.395	10.301.422	1.848.973													
CALTAGIRONE	1,00	3.886.653	3.886.653	0													
PALERMO	1,00	48.459.726	39.159.375	9.300.352													
RAGUSA	3,00	18.863.549	12.196.260	6.667.289													
TRAPANI	1,00	5.342.683	5.342.683	0													
<b>TOTAL</b>	<b>7,00</b>	<b>88.703.007</b>	<b>70.886.394</b>	<b>17.816.614</b>													
<b>Unutilized funds</b>	<b>592.331</b>																
* calculated on the basis of the total contribution of the HF																	
** calculated on the basis of the funds managed																	

The UDF 1 is constituted by €100.0 million and is capable of financing 7 projects, selected among the projects developed in this study and repeated until resources are depleted, according to the same logic applied to the Urban Development Funds postulated in the first simulation.

The management fee in this case too have been presumed as decreasing, because most of the activity is presumed to take place during the project selection and start-up phase, rather than during the monitoring phase. In this case they amount comprehensively to approximately € 11.6 million and will be paid in part by the Holding Fund and in part by the revenue generated by the projects themselves.

Thanks to the revenue generated by the projects, the total amount available for investments reaches the figure of approximately € 89.3 million.

<b>Funds received by the HF</b>	<b>37.111.300</b>			
<b>Management Fees</b>				
2010 - 2013	1,50%			
2014 - 2015	0,80%			
After 2015	0,20%			
Maximum Amount *	Actual Amount **			
TOTAL Management Fees up until 2015	2.820.459	2.726.956		
TOTAL Management Fees from 2015	1.781.342	561.170		
Total amount to invest in the projects	34.290.842	34.384.345		
<b>Portfolio of projects</b>				
	Number/ repetitions	Amount of JESSICA funds	<i>Total resources Debt</i>	<i>Total resources Equity</i>
GREEN ENERGY	15,00	33.504.327	33.504.327	0
<b>TOTAL</b>	<b>15,00</b>	<b>33.504.327</b>	<b>33.504.327</b>	<b>0</b>
<b>Unutilized funds</b>		<b>880.018</b>		

\* calculated on the basis of the total contribution of the HF

\*\* calculated on the basis of the funds managed

The UDF 2 is constituted by € 37.1 million and is capable of financing 15 projects in the Energy sector. The simulation is based on the hypothetical project in the energy sector developed by this study, multiplied as many times as was necessary to exhaust the investment capacity of the Fund. The management fees were set below those of UDF 1 because of the presumption that the evaluation and management of projects related to a monothematic fund would be much simpler than for a multi-sectoral fund. In this case too, the values were presumed to be decreasing, because most of the activity is considered to take place during the project selection and start-up phase, rather than during the monitoring phase. The fees amount overall to approximately € 3.2 million, of which approximately € 2.7 million will be paid with the resources conferred by the Holding Fund, and the remaining part will be paid by the resources produced by the projects.

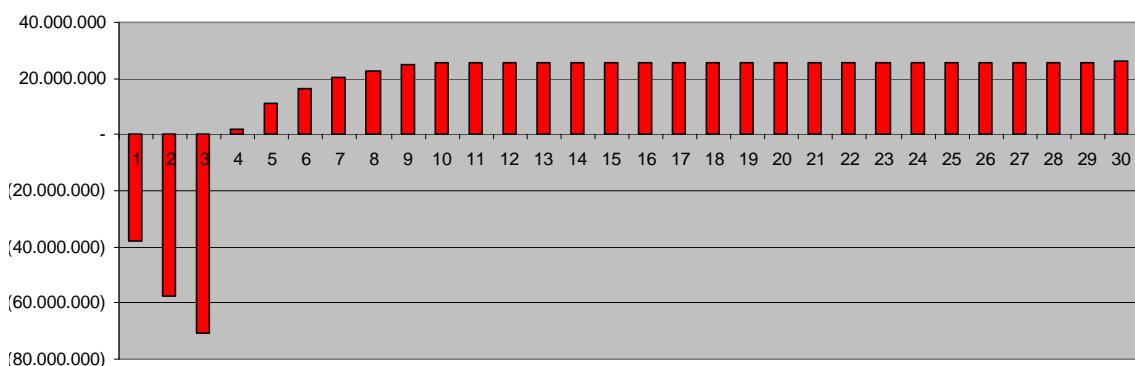
Thanks to the revenue generated by the projects, the total amount available for investment reaches a figure of approximately € 34.4 Million.

### 10.2.1. Financial results of the UDF

In reference to the UDF 1, it should be underlined that the structure described above brings very satisfactory results in terms of economic and financial performance: the *diversified* composition of the project portfolio makes it possible to achieve a good overall yield given a rather low level of risk.

IRR 30 years	11.26%
IRR without management fees	6,14%
Pay Back	4
JESSICA Amount of managed funds	100.000.000
Invested Funds (UDF=Commercial Bank)	83.979.312
Management fees	11.562.818

Below is a chart of the **Aggregate Cash Flow of UDF 1**



The yield after 30 years is greater than 11.2% (6.14% net of management fees<sup>90</sup>), given a return period on the investment of only 4 years.

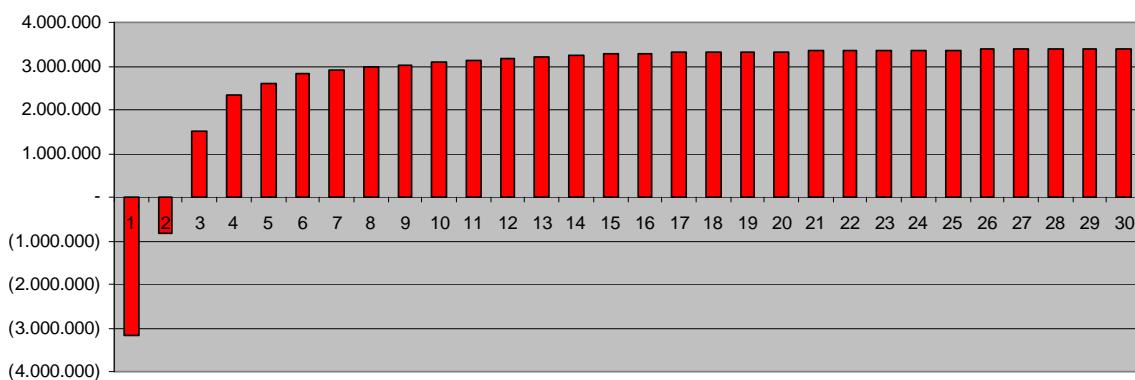
As for UDF 2, given the nature of the investments, the economic benefits of the manager derive primarily from the management fees. It is therefore not important to calculate the IRR of the Fund starting with the additional financial resources invested by the manager as debt. It is worth underlining that the yield net of management fees is equal to 2.0%, which is equivalent to the interest rate applied to the loan granted (in this case it should be remembered that the rate was estimated at 2.0%, similar to the average cost of a loan from the *Cassa Depositi e Prestiti* to a local government body).

<sup>90</sup> It is presumed that the activity of the urban development fund may also consist in financing activities at the established conditions in the role of a Commercial Bank.

## UDF 2

IRR 30 years	Not significant
IRR without management fees	2,00%
Pay Back	3
JESSICA Amount of Funds managed	37.111.300
Invested Funds (UDF=Commercial Bank)	3.722.703
Management Fees	3.288.125

Below is a chart of the **Aggregate Cash Flow of UDF 2**



### 10.2.2. Results of the Holding Fund and the Managing Authority

In the second simulation, with two Urban Development Funds including 1 GENERALIST fund and one focused on ENERGY sector, the Holding Fund registers a yield of circa 5.3% and a comprehensive total of management fees equal to approximately € 11.0 million over the lifetime of the fund (30 years), in return for the management and monitoring services required by the Funding Agreement, as shown in the table below.

## SICILY Holding Fund

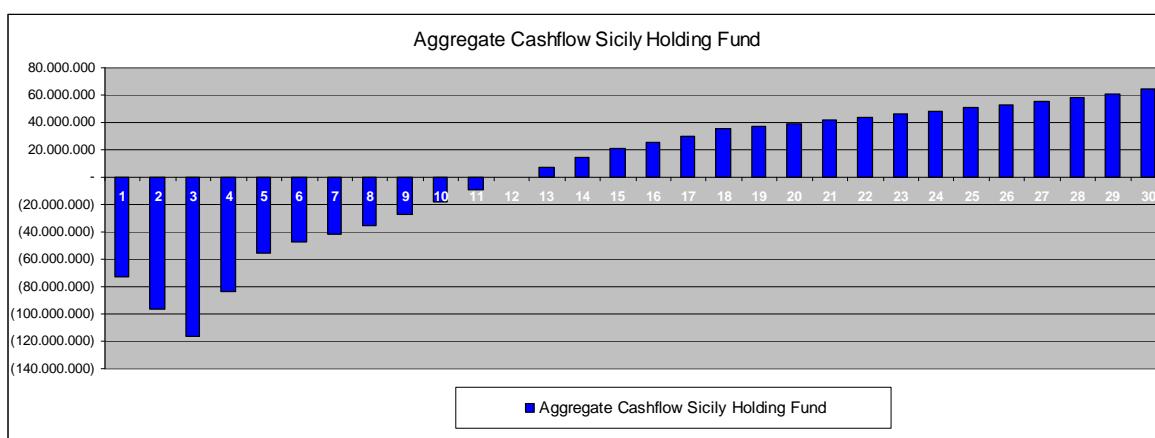
IRR 30 year	5,27%
Payback	13
Funds managed	148.068.359
Management fees 30 years	10.957.059
Funds invested in the UDF	<b>137.111.300</b>

The return period on the investment comes out to 13 years.

Despite the difference in structure of the operations in the two simulations above, the results achieved by the HF in this simulation substantially concur with the preceding simulation involving the two GENERALIST funds, both in terms of yield (5.27% compared to 6.0%) and period of return on the investment (13 years compared to 12 years).

Like in the first simulation, in this case too, given an overall amount of managed resources equal to slightly over €148.0 million, the Holding Fund would confer over € 137.1 million into the two Urban Development Funds.

Below is a chart of the **Aggregate Cash Flow of the Holding Fund**.



At a higher level of analysis, or better yet in reference to the **Managing Authority**, it is possible highlight the results of the structure proposed in this second simulation, as shown in the following chart:

Managing Authority	
<b>Nominal Amount of Funds</b>	<b>148.068.359</b>
Management fees paid to the Holding Fund	10.957.059
Management fees paid to the Urban Development Funds	13.431.618
Resources invested in projects	122.207.334
Unutilized funds	1.472.349
Return of investment_30 % (year)	5
Return of investment_50 % (year)	8
Return of investment_80 % (year)	13
<b>Global Revolving ratio</b>	<b>118,83%</b>

As mentioned earlier, the Authority conveys funds for a total amount of € 148.0 million approximately to the Holding Fund, to which it pays management fees in the amount of almost € 11 million. The Urban Development Funds absorb resources for a total of approximately € 13.4 million, while the amount effectively invested in the projects is approximately € 122.2 million.

The managing authority will be paid back the resources invested in the hypothesized structure in

the measure of 50% only in the eighth year, and 80% in the thirteenth.

According to the logic described above, the Management Authority will recover 118.83% of the resources invested at the end of the operation.

The following table summarizes the most important information concerning this second simulation:

Summary table				
	Total resources conferred to the HF	Total JESSICA resources invested in the projects	Overall investments activated	Total fees paid
Overall values	148.068.359	122.207.334	325.073.830	24.388.676

Given the total of € 148.0 million conferred by the Managing Authority to the Holding Fund, the JESSICA mechanism makes it possible to activate approximately € 325.0 million worth of investments. Given a cost for overall management fees (Holding Fund + Urban Development Funds) equal to approximately € 24.4 million, additional resources may be activated to invest in sustainable urban development for a total of approximately € 204.0 million.

## 11. ROAD MAP FOR THE IMPLEMENTATION OF JESSICA IN SICILY

As illustrated in the previous chapters of this Study, the implementation of the JESSICA initiative in Sicily – which began with the signature of a Funding Agreement in November 2009 and proceeded with the constitution of the Holding Fund – consists in a series of actions to fulfil, of which some are required – for example the selection of the UDF – and some are optional, and aim to make the operation of the mechanism more fluid and effective.

For clarity of exposition, the process will be subdivided into the various steps required to implement and make the initiative operational, based on the principal party involved in the processes under consideration.

The *road map* for the implementation of JESSICA in Sicily therefore illustrates the diverse actions that will be taken by the **EIB** (with the **Investment Board of the JESSICA Holding Fund**) and by the **Managing Authority of the ERDF OP** Sicily 2007-2013, until the UDF become operational.

In reference to the **UDF**, the road map will provide not only an approximate indication of the moment it will become operational, but also a temporary list of the functions it must perform in its first months of activity, until the disbursement of the first JESSICA resources for sustainable urban development projects.

It also indicates the deadlines (2<sup>nd</sup> and 3<sup>rd</sup> windows) established by the procedure for the implementation of Priority Axis VI of the ERDF OP “Sustainable Urban Development”, for the **Municipalities**, gathered in Regional Coalitions, to submit the documentation relative to the Integrated Plans for Urban and Regional Development (PISU/PIST) – which must include the projects that intend to apply for JESSICA investments – and offers an indication of the schedule for structuring JESSICA projects and for their submission to the UDF by the Municipalities themselves.

The timeframe under consideration begins in July 2010 and ends in July 2011. That is the month, as shown in the following paragraphs, in which the first resources should be disbursed, at least by the first operational UDF, to the projects for which the procedures for structuring the project vehicle did not begin until after the UDF became operational.

It must be specified that in reference to the schedule established in the road map, the deadlines are also indicative, because it is not always possible to ascertain them precisely *ex ante*. Furthermore, for each phase taken into consideration, minimum time frames were postulated, and must therefore be considered subject to possible extensions.

### *Activities of the EIB, as manager of the Holding Fund*

The first thing the EIB will have to do is select the Urban Development Funds.

The time required for this activity will depend primarily on the choice of the architecture of these Funds, in terms of number and typology.

On this subject, it should be advised that the decision involving the architecture of the UDF was made by the **Investment Board (IB)** in a meeting held on **July 22 2010**, in the wake of the proposal presented by the EIB, based on the results of this Study, and corresponding to Scenario B, illustrated in paragraph 6.1.1 above.

More precisely, in the above-mentioned meeting, the decision was made to proceed with the constitution of two UDF – in the form of a separate block of finance within the existing financial institutions – including:

- a) one multi-sectorial or “generalist”, operating with the resources of the Holding Fund deriving from the 9 Actions associated with Priority Axes I,III,VI of the ERDF OP;
- b) one specialized in the sector of energy efficiency, savings and production, operating with the resources of the Holding Fund, deriving from the 3 Actions associated with Priority Axis II of the ERDF OP.

It must be underlined that the procedure for the selection and identification of the Energy UDF and the multi-sectorial UDF will have different schedules.

During the months of July and August 2010, the EIB, with the support of independent legal consultants, will draft the text for the **public tender (calls for expression of interest)<sup>91</sup> for the selection and identification of the multi-sectorial Urban Development Fund**. The structure and the wording of the calls for expression of interest for the identification of the multi-sectorial Urban Development Fund will be submitted for approval to the Investment Board in the month of September 2010, a required condition for the publication of the tender itself, which will be released at the end of September. Vice-versa, the publication of the tender for the selection of the Energy UDF, preceded by the above-mentioned groundwork (drafting the text for the calls for expression of interest; approval by the Investment Board) is expected by December 2010.

The procedure for the identification and selection of the UDF will require about two/three months, a length of time that includes final approval of the offers selected by the EIB and by the Investment Board (which is expected by the end of December 2010 for the multi-sectorial UDF and by the end of March 2011 for the Energy-UDF).

It is therefore expected that the Funding Agreement (the so-called **“Operational Agreement”**) between the Holding Fund and the multi-sectorial UDF be ready for signature by the end of January 2011, after the Investment Board approves the text of the agreement, while the signature of the Operational Agreement between the Holding Fund and the Energy-UDF could take place 3 months later, at the end of April 2011. This means that **the multi-sectorial UDF could become operational starting in February 2011, whereas the Energy-UDF could become operational starting in May 2011**.

Following the signature of the Operational Agreements, the Holding Fund will proceed to **the transfer of the agreed-upon financial resources to the UDF**, in one or more instalments, as approved by the Investment Board, and after verifying compliance with the requisites (established by the Operational Agreement) required for the transfer. It is expected that the financial resources be disbursed starting at the end of February 2011 for the multi-sectorial UDF, and at the end of May 2011 for the Energy-UDF.

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<sup>91</sup> It should be specified that the selection of the UDF will take place in two phases: the first, which will be opened by a call for expression of interest containing the criteria for selection or exclusion of the UDF (for example a solid financial position, the technical capacity to manage the initiative, etc.) will end with the selection by the EIB from a list of potential UDF managers which, in the second phase, will be asked to present a “Business Plan” (see paragraph 5.2 above), and an economic bid specifying management fees and the capacity/availability to co-fund the “jessicable” projects – with the resources of the UDF manager itself. The final selection by the EIB will however be made on the basis of qualitative criteria (the technical capacity of the manager) and quantitative criteria (the management fees and the capacity/willingness to co-fund the project).

### *Activities of the Managing Authority of the ERDF OP Sicily 2007-2013*

On June 24 2010 a **Seminar on the JESSICA initiative** was held in Palermo, organized by the Regional Administration, with the participation of public and private institutional parties (EIB and its consultants, the ANCI - *Associazione Nazionale Comuni Italiani*, ANCE – *Associazione Nazionale Costruttori Edili*, Confindustria, ABI - *Associazione Bancaria Italiana*, Sicilian Municipalities); this proved to be a constructive opportunity for an encounter between the stakeholders of the JESSICA initiative on the issues involved in the implementation and operation of the mechanism in Sicily.

On this occasion, the Managing Authority stated the intention of the Regional Departments that had conferred resources to the Holding Fund, and whose General Directors serve on the Investment Board, to proceed to a simplification of the Holding Fund's operativeness.

**The meeting of the Investment Board, held on 22 July 2010, clarified the strategy to improve the operativeness of the Holding Fund; though slightly different, this strategy relies on the essential elements and operational procedures corresponding to OPTION B2** – “Amendment to the document *Requisites of Eligibility and Selection Criteria* without imminent changes in the configuration of the HF” described in Chapter 5 of this Study, which may be referred to for more detail.

During this meeting, to avoid delaying the selection of the UDF any longer, the Investment Board decided to leave the configuration of the Holding Fund momentarily unchanged, in terms of Actions that have contributed to its constitution and their relative financial endowment, while establishing however that the investments of the UDF be bound not to the financial endowment per individual Action of the Holding Fund, which remains in any case an orientation in terms of investment strategy, but to the division of the financial resources of the Holding Fund per Priority Axis of reference<sup>92</sup>. This solution allows greater flexibility in using the resources conferred to the Holding Fund, associated with the Actions belonging to the same Priority Axis, and at the same time subordinates any changes to the financial division by Actions of the Holding Fund to a verification by the UDF of the actual demand for JESSICA resources, and a subsequent request for amendment, subject to the approval of the Investment Board.

Again in view of fostering greater flexibility in the JESSICA mechanism, the Investment Board also emphasized the need to simplify the “Eligibility Requirements” and the “Selection Criteria” of the Actions that have conferred resources to the Holding Fund, if only for the “jessicable” projects. On this subject, it must be underlined, as specified in Chapter 5 above, that **amendments to the document “Requisites of Eligibility and Selection Criteria”** may be made only by the **Monitoring Committee of the ERDF OP**, both in ordinary session and at any other time, in writing.

### *Activities of the Urban Development Fund*

As previously stated, it is expected that the final selection of the multi-sectorial Urban Development Fund be concluded in the month of December 2010 and that the Fund become operational after the signature of the Operational Agreement with the Holding Fund, starting in February 2011. As previously underlined, the timeframe for the selection and operational start of the Energy-UDF will take three months longer than the multi-sectorial UDF.

The first activity that will be undertaken by the UDF, once they are operational, is to analyze the projects presented by the Municipalities (examination phase).

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<sup>92</sup> For the division of the financial resources of the Holding Fund by Priority Axis, see Chapter 5.

During this **examination phase, which will take approximately 1 month** from the date the projects/proposals are presented, the UDF will do the following:

- a) analyze any projects that already potentially demonstrate the characteristics/conditions required to obtain JESSICA funding;
- b) offer assistance to the Municipalities that present a project (or project idea), complete with feasibility study, which have not yet begun the procedures for structuring the project vehicle.

**Case (a)** regards the projects – presented by Municipalities or by PPPs – for which a project has already been structured and which therefore potentially demonstrate the characteristics/conditions to obtain JESSICA funding.

In this case, after the examination to verify the “jessicability” of the project and having reached an agreement with the Municipality or the PPP on financing conditions, the UDF may invest in the projects.

**As a consequence, the multisectorial UDF will be able to invest in the above-mentioned projects, presumably starting in the month of March 2011<sup>93</sup>.**

It is worth remarking that – as detailed more precisely in the [Study “Implementation of JESSICA in Sicily: legal profiles”](#), attached as an appendix to this Report – in principle, a JESSICA investment in PPP projects that have already been tendered (and where the call for tender did not specify the option, in favour of the winner, to benefit from JESSICA investments) could be considered a violation of the principle of equal treatment, transparency and competition.

Consequently, if on the one hand there is no obstacle in the case that the beneficiary of the JESSICA investment is the Municipality, on the other hand, in the case in which the beneficiary is a corporate-type PPP or the private partner of a contract-type PPP, the UDF will have to verify, case by case, that the JESSICA investments do not conflict with the above-mentioned principles of equal treatment, transparency and competition<sup>94</sup>.

To avoid this problem, **it is advisable for the tendering administrations to include an option in their call for tenders that allows the potential winner to benefit from JESSICA funding, in compliance with the selection procedures and funding methods defined by the UDFs to be constituted<sup>95</sup>.**

**Case (b)** concerns the presentation by the Municipalities of projects/proposals for which the project vehicle has not yet been structured. In this case, the UDF must first analyze the project and the supporting documentation (feasibility studies, design documentation, etc.), then can provide an opinion on the merit of the best project vehicle for the project under discussion, on the basis of the requisites that the project and the project vehicle must present to obtain a JESSICA investment, and the requisites required for the different financing conditions<sup>96</sup>.

<sup>93</sup> It should be remembered that the disbursement of the financial resources by the Holding Fund to the multi-sectorial UDF is expected to start at the end of February 2011.

<sup>94</sup> In reference to the corporate-type PPP, for example, they will have to verify that the selection process and the commitments of the private partner are not in conflict with the concession of a JESSICA investment to the public-private planning vehicle.

<sup>95</sup> See the [Study “Implementation of JESSICA in Sicily: legal profiles”](#) (attached as an appendix to this Report)

<sup>96</sup> The UDF can indicate not only the minimum requisites to obtain a JESSICA investment, but can detail the requisites of the project or planning vehicle required given different investment conditions by the UDF (for example in terms of the incidence of the funding on the total cost of the intervention, the

At the end of the “preliminary” phase of examination, and when agreement is reached with the Municipality on the investment conditions, the UDF can sign a letter of commitment to fund the intervention at the conditions and in the presence of the requisites for the project and the project vehicle established in the letter itself<sup>97</sup>. **In the case of the multi-sectorial UDF, the letter of commitment may be signed as early as March 2011.**

The call for public tender launched by the Municipalities – following the preliminary examination – to assign the contract for the construction of the projects (in the case in which the Municipalities themselves, and not a PPP, are the beneficiaries of the JESSICA investments), or for the constitution of project vehicles, must therefore take into account the conditions and requisites of the project and project vehicle established in the letter of commitment. Furthermore, in the call for public tenders, it would be advisable to add a reference to the JESSICA funding.

Once the project vehicle is constituted (or the contract for the public works is awarded in the case that the Municipality, and not a PPP, is the beneficiary of the JESSICA financing), and if all the other conditions required to obtain a JESSICA investment are met, the UDF can disburse the JESSICA resources.

Given that calls for public tender to contract out public works require 4 to 5 months time on the average (after the signature of the letter of commitment), **the first JESSICA resources from the multi-sectorial UDF may not be disbursed until the month of July 2011.**

The procedures for the constitution of other forms of PPP require an average of 6 months time, therefore the JESSICA resources for their respective projects may be disbursed, once the project vehicles have been constituted, after September 2011.

Finally, it should be said that the examination phase and the disbursement of the JESSICA resources by the Energy UDF will begin three months after the dates indicated for the multi-sectorial UDF.

### ***Activities of the Municipalities***

In reference to the JESSICA initiative, the Municipalities will be involved in the following activities:

- inserting the “jessicable” projects into the PISU/PIST
- structuring or refining the “jessicable” projects
- presenting projects to the UDF, sustained by the required documentation
- implementing the procedures for the constitution of the project vehicles

### **Inserting the “jessicable” projects into the PISU/PIST**

As emphasized many times over, a project must be included in a PISU/PIST in order to apply for JESSICA financing.

The procedure for the implementation of Priority Axis VI of the ERDF OP (Advisory of the second phase) has two deadlines, 19 July 2010 (2<sup>nd</sup> window) and 31 May 2011 (3<sup>rd</sup> window), for the presentation by the Municipalities gathered in Regional Coalitions, of the documentation relative to

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interest rate applied, the form of investment, the ratio of co-funding by the manager of the UDF with its own resources, etc.)

<sup>97</sup> On this subject, see also the Study “Implementation of JESSICA in Sicily: legal profiles”, attached as an appendix to this Report.

the Integrated Plans, which must include the List of JESSICA interventions, and the reports on the JESSICA projects<sup>98</sup>.

It should be underlined that even after the presentation of the Integrated Plans, the list of JESSICA interventions may be amended and extended by the Regional Coalitions for the purposes of specific operational requirements, in agreement with the Regional administration and the UDF (following guidelines and deadlines that will have been defined once the UDF are operational)<sup>99</sup>.

#### Development and structuring of “jessicable” projects

Before the UDF become fully operational, the Municipalities will be involved in structuring the projects they intend to submit for JESSICA financing, following the process illustrated in Chapter 7 above. During this time they will conduct the necessary studies for the technical and city planning, economic and financial, legal and administrative feasibility, which will make it possible to refine the project concept, and will lead to the choice of the most advantageous potential project vehicle for the type of operation that is envisioned. The sustainability tests will then be followed by the necessary design development for the project and the preparation of the administrative processes – including for example writing up the calls for public tender for the selection of the partner or private contractor – required to structure the project vehicle.

#### Presentation of the projects to the UDF, complete with the required documentation

As anticipated in the paragraph above, “Activities of the Urban Development Funds”, the Municipalities will present to the UDF, once they have become operational (February 2011 for the multi-sectorial UDF and May 2011 for the Energy UDF):

- a) any projects that already potentially demonstrate the characteristics/conditions required to obtain JESSICA financing;
- b) the projects for which, at the moment of presentation to the UDF, the procedures for structuring the project vehicles have not yet begun.

In case a), when the project passes the examination phase (which is expected to last approximately one month), and meets required conditions, the Municipalities/PPP will obtain a JESSICA investment towards the presented project.

In case b), based on the result of the preliminary examination (which is expected to last approximately one month), the UDF will be able to sign a letter of commitment to provide, should a series of conditions/requisites be met, a JESSICA investment to the Municipality or to the public-private partnership being constituted.

#### Enactment of the procedures for the constitution of the project vehicles

This activity has already been illustrated in the preceding paragraph “Activities of the Urban Development Fund”, which may be referred to for further information.

As shown above, the procedures for public tender initiated by the Municipalities, will require an average of 4.5 to 6 months of time (starting after the letter of commitment has been signed) for contracting public works and for the constitution of other forms of PPP.

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<sup>98</sup> See paragraph 3.4 of this Study

<sup>99</sup> See paragraph 3.4 of this Study

