

# Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)  
From: DMC Staff  
Date: April 2, 2019  
RE: PILOT Application: 189 S. Barksdale St.

---

The enclosed PILOT application has been submitted for consideration at the April 9, 2019, CCRFC Board Meeting.

**Project:** 189 S. Barksdale St.

---

Applicant/Owner: Eric Clauson & John Planchon  
Lexington Asset Management  
(dba- 189 Barksdale, LLC)  
1437 Central Avenue, Suite 1200  
Memphis, TN 38104

Applicant's Request: 14-year PILOT lease for a mixed-use development

Included Parcel: Parcel ID 016051 00006

Project Description: The subject property is located on the west side of Barksdale Street, in the block between Union Avenue and Peabody Avenue. The 0.47-acre Midtown property contains a historic 2-story building originally constructed by the City of Memphis in 1910 as the Mounted Police Station. Following the relocation of the police precinct in 1958, the 2-story building was used by the City Parks Commission and leased to the Memphis Boys Club until their departure in 1979. The property was used for record storage and sat vacant without a future use until it was sold by the City of Memphis in 2018 as the result of an RFP process.

The applicant purchased the property and plans to redevelop this historic building as office space (3,000 sq. ft.) and seven rental apartments. The property will also include eleven on-site parking spaces to be shared by the office and residential tenants. The office space will be leased to Lexington Asset Management, a real estate development and management firm owned and operated by the applicant.

Contingent on PILOT approval, the applicant plans to close on project financing within six months. Construction should begin in the fall of 2019 and be completed by mid-2020.

**Project Budget:**

The total development cost of the project is approximately \$2,431,191. To be eligible for a PILOT, the value of the proposed building renovations, site improvements, or new construction must be equal to, or greater than, at least 60% of the total project cost. Based on the preliminary budget, the project meets this requirement. The applicant also intends to pursue Historic Tax Credits (HTCs) as part of the project's capital stack. The following describes the overall sources and uses of funding:

**Sources:**

Debt	\$1,553,082	(64%)
Owner Equity	\$607,798	(25%)
Historic Tax Credits	\$270,311	(11%)
<b>Total Sources</b>	<b>\$2,431,191</b>	<b>(100%)</b>

**Uses:**

Property Purchase	\$406,000	(17%)
Hard Construction Costs	\$1,802,076	(74%)
Professional Fees	\$162,187	(6.5%)
Permits & Testing	\$10,000	(0.5%)
Legal/Insurance/Marketing	\$15,000	(0.5%)
PILOT Fee	\$35,929	(1.5%)
<b>Total Uses</b>	<b>\$2,431,191</b>	<b>(100%)</b>

**Project Grading:**

Per the PILOT scoring system, the project has a base grade of 12 years and could achieve a maximum grade of 14 years with approved architectural lighting and MLGW Energy Advantage Certification.

**Primary Qualification A:**

Residential (6-10 units) 2 Years

**Primary Qualification B:**

Office (Below 15,000 sf) 1 Year

**Total Project Development Costs:**

\$1 - 5 Million 1 Year

**Priorities & Initiatives**

Located within CCRFC Boundaries 1 Year  
 National Register (Individually Listed) 5 Years  
 Census Tract w/+20% Poverty Rate 2 Years

Design & Energy

MLGW Energy Advantage Certification	1 Year
Enhanced Architectural Lighting	1 Year

**Total Potential PILOT Grade: 14 Years**

Applicant's Request:

The applicant is requesting approval of a 14-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable and attract financing. Without a PILOT tax incentive, the project pro forma shows a Return on Equity (ROE) and Return on Investment (ROI) insufficient to warrant equity investment. Moreover, the debt service coverage ratio without a PILOT is far below the threshold that can be financed by a bank.

EBO Program:

Any project that is awarded financial incentives from the Downtown Memphis Commission (DMC), or any of its affiliate boards, shall include a best faith effort to attain no less than 25% participation by minority and/or women-owned businesses (M/WBEs) in the project's development costs (design soft costs and construction hard costs). **Compliance with this Equal Business Opportunity (EBO) Program is a closing requirement. If the requirements of the EBO Program are not met, the CCRFC reserves the right to cancel the incentive.**

The estimated hard and soft development costs for this project are as follows:

Hard Construction Costs	\$1,802,076	(92%)
Professional Fees	\$162,187	(8%)
<b>Total Uses</b>	<b>\$1,964,263</b>	<b>(100%)</b>

According to the above estimates, a 25% level of M/WBE inclusion for the combined hard and soft costs will be approximately **\$491,066**.

Design Review Board:

The applicant will submit plans to the DRB in the coming months.

Estimated Payments:

The current annual city and county taxes on the property total **\$1,617**. A PILOT would allow for a vacant building to be rehabilitated and brought into active use. During the 14-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$9,452**. This represents a **485%** increase from the amount of taxes currently generated by the property. Over the course of the 14-year PILOT term,

the cumulative increase in taxes generated by this property would be approximately **\$109,686**.

**Staff Evaluation:**

Based on the submitted application and the accompanying pro forma, DMC staff agrees with the applicant that a PILOT is needed for the project to be economically viable, attract bank financing, and warrant equity investment.

Supporting new development and attracting investment to the core city is a top priority for the CCRFC and the City of Memphis. The redevelopment of 189 Barksdale will create 7 new apartment units and 3,000 sq. ft. of office space in a currently vacant building. This adaptive reuse project is aligned with the dual community goals of encouraging mixed-use development and increasing population density by adding new housing units within our urban center.

While the building is modest in size, putting this vacant structure back into productive use is an incremental step toward the city's goal of building up, and not out, in Memphis's core neighborhoods. Given the fact that the developer is reusing a historic building and making only minimal exterior changes, the project will also be contextually-appropriate and in keeping with the range and scale of commercial and residential uses in the neighborhood.

**Recommendation:**

**Staff recommends approval of an up to 14-year PILOT subject to the applicant achieving the proposed grading enhancements and meeting all standard closing requirements and conditions.**

<b>PILOT Request</b>	
Requested PILOT Term (years)	14.0
Project Type	Rehabilitation
Located in the CBID?	No
<b>Current Amounts</b>	
Base Appraisal	\$55,800
Base Assessment	\$22,320
Annual City Tax on Base Assessment	\$713
Annual County Tax on Base Assessment	\$904
<b>Annual RE Taxes on Base Assessment</b>	<b>\$1,617</b>
<b>Project Costs</b>	
Acquisition Cost	\$406,000
Hard Costs	\$1,802,076
Soft Costs	\$187,187
<b>Total Project Costs w/o PILOT fee</b>	<b>\$2,395,263</b>
<b>Hard Costs Investment Check - 75.2%</b>	<b>YES</b>
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$2,395,263
<b>PILOT fee</b>	<b>\$35,929</b>
<b>Total Project Costs w/ PILOT fee</b>	<b>\$2,431,192</b>
<b>Valuation &amp; CBID Assessment</b>	
Base Appraisal	\$55,800
Percentage of Hard Costs	\$1,081,246
Estimated Appraisal after Improvements	\$1,137,046
<b>Estimated Assessment after Improvements</b>	<b>\$454,818</b>
<b>Estimated Annual CBID Assessment after Improvements</b>	<b>\$0</b>
<b>Annual RE Taxes</b>	
<i>Hypothetical annual taxes without PILOT*</i>	
Estimated Hypothetical Annual City Tax without PILOT*	\$14,536
Estimated Hypothetical Annual County Tax without PILOT*	\$18,420
<b>Estimated Hypothetical Total Annual Taxes without PILOT*</b>	<b>\$32,956</b>
<i>Estimated annual taxes with PILOT</i>	
Estimated Annual City Tax with PILOT	\$4,169
Estimated Annual County Tax with PILOT	\$5,283
<b>Estimated Total Annual Taxes with PILOT</b>	<b>\$9,452</b>
<b>Estimated Annual Benefit</b>	<b>\$23,504</b>
<b>Cumulative RE Taxes</b>	
<i>Hypothetical cumulative taxes without PILOT*</i>	
Estimated Hypothetical Cumulative City Tax without PILOT*	\$203,503
Estimated Hypothetical Cumulative County Tax without PILOT*	\$257,882
<b>Estimated Hypothetical Total Cumulative Taxes without PILOT*</b>	<b>\$461,385</b>
<i>Estimated cumulative taxes with PILOT</i>	
Estimated Cumulative City Tax with PILOT	\$58,366
Estimated Cumulative County Tax with PILOT	\$73,962
<b>Estimated Total Cumulative Taxes with PILOT</b>	<b>\$132,328</b>
<b>Estimated Cumulative Benefit over 14-Year PILOT</b>	<b>\$329,057</b>
<b>Estimated Cumulative Increase in Taxes due to PILOT</b>	<b>\$109,686</b>

\*Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Hypothetical" amounts are fictional/moot numbers used to calculate the benefit of the PILOT to the project. The benefit figure does not represent lost tax revenue to the City or County. Without the PILOT, the property would remain unimproved and the tax assessment would continue to be based upon the unimproved value. With the PILOT, the amount listed above as "Estimated Cumulative Increase in Taxes due to PILOT" would be the approximate benefit over the PILOT term to the City and County from newly generated property tax revenue. That amount does not include any new sales taxes that will be generated by the construction and operation of the project. Furthermore, after the PILOT term has finished, it is expected that the annual taxes will be approximate to the amount listed as "Estimated Hypothetical Total Annual Taxes without PILOT".