



To: CCRFC Policy Committee
From: CCRFC/DMC Staff
Date: August 5, 2015
RE: Downtown PILOT Program and Policies

Downtown PILOT Program:

The Downtown Memphis PILOT (Payment In Lieu Of Taxes) Program is a financial incentive that is designed to encourage commercial real estate development in and around the Memphis Central Business Improvement District (CBID) by partially freezing property tax assessments at the predevelopment level for a predetermined period of time. Downtown PILOTs are reserved for projects that “but for” a PILOT could not be financed and built. The Downtown PILOT program increases revenues to the city and county by dramatically increasing property values.

Discussion items for possible modification of the PILOT program:

I. Midtown (outside the CBID) PILOT Requests-

CCRFC’s legal jurisdiction to issue PILOTs includes Midtown within the Parkways, but CCRFC policy generally limits PILOTs to Downtown (CBID). There is language in the program that outlines the extraordinary attributes that projects outside the CBID and in Midtown must possess to be eligible for a PILOT. The main purpose for keeping that area in CCRFC’s policy for PILOTs was to have the tool available to make the renovation of Sears Crosstown possible. A PILOT was recently awarded to Sears Crosstown, and as a result the property is currently undergoing a \$150+ Million comprehensive renovation as “Crosstown Concourse.”

Downtown belongs to everyone in the city, county, and region. Downtown is the cultural, sports, entertainment, and economic center of the tristate region: It represents Memphis to the world. Though vastly improved in the last 10 years, Downtown still has many properties, buildings, and areas that are in need of investment and redevelopment. Because of this, staff believes that it is important to continue to concentrate the PILOT program Downtown. When it comes to catalytic and high impact projects that need PILOTs to be viable within CCRFC’s legal boundaries but outside the CBID, staff is supportive of having the incentive available. However, staff proposes a more defined standard for determining the projects that should be eligible for PILOTs in those areas (see current language).

Staff proposes that the existing language be modified so that the following attributes are part of establishing a higher standard:

- An example of a high impact project would be a mixed-use development containing at least 150 residential units and an integral parking structure/garage with at least 200 spaces

- Blight Remediation
 - Renovating existing building or razing non-historic architecturally insignificant building in preparation for ground-up construction
 - Property identified as being blighted
- Highest and best use: use and building are no longer sympathetic to the neighborhood and current development patterns
- Total Project Cost shall be at least \$30,000,000
- A high impact project would grade out for a minimum 15-year PILOT, the program's maximum term

Staff recommends that projects outside of the CBID, but within CCRFC's legal jurisdiction, must have all or substantially all of these attributes, in addition to meeting all basic eligibility requirements, to be eligible for consideration of a PILOT.

II. Public Financial Incentives for Downtown Hotel Development

Given the high level of interest hotel developers have in Downtown Memphis and the recent manifestation of the Memphis Convention and Visitors Bureau's (CVB) proposed "Smart Hotel Growth" draft, the DMC has hired Chuck Pinkowski & Company, a hotel development consulting firm, to review the CVB's proposal and explore when and how it should be used to incentivize new hotel development. The CVB proposal recommends that incentives be reserved for larger hotels that help increase tourism, convention and meeting business (see Smart Hotel Growth draft). Given CVB's expertise and mission in regard to attracting tourism, hotel business, meetings and conventions to Memphis, as part of its current practice, the DMC will continue to coordinate its review of proposals for hotel incentives with the CVB. Upon the findings of the consultant's review, staff may propose modifications to the PILOT program. However, the DMC must also keep in mind its goals of increasing property values, attracting people and economic development, facilitating the renovation of historic buildings, and mitigating blight.

III. CCRFC Priorities – Additional PILOT years for Eligible Projects located in the Edge District

With the DMC's current special focus on working with the residents, businesses, and stakeholders in the Edge to improve and attract more economic development activity to the neighborhood, the staff recommends the following:

- Include Edge (district) for 3 years of accumulation in the PILOT grading and scoring matrix (borders shall be specified)

It should be noted that given the minimum size requirement, 15,000 square feet for retail as a primary use, many projects in the Edge may not qualify for PILOT consideration.

IV. City Tax Increment to match County Tax Increment

Currently, payments in lieu of taxes with respect to City of Memphis taxes are based on the predevelopment assessment for the first 15 years of a PILOT. However, Shelby County taxes are based on the predevelopment assessment, plus 25% of the increase in the assessment from the date of the PILOT. Staff proposes that payments in lieu of taxes, with respect to City of Memphis taxes, be based on the predevelopment assessment, plus 25% of the increase in the assessment from the date of the PILOT, as are Shelby County taxes. Though Downtown development remains extremely difficult given its high costs and market factors, there has been significant improvement in the last several years. Though there would be a negative impact on projected net operating income, cash flow, and returns for prospective PILOT projects, staff believes that the PILOT incentive, with the proposed City increment, will still be substantial enough to move good projects forward. This is due to the improving demographics and economic factors in Downtown Memphis.