

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: September 3, 2019
RE: PILOT Application: 61 Keel Ave.

The enclosed PILOT application has been submitted for consideration at the September 10, 2019, CCRFC Board Meeting.

Project: **61 Keel Ave.**

Applicant/Owner: Wolf River Harbor Holdings, LLC
495 Tennessee Street, Suite 152
Memphis, TN 38103

Project Representatives: Mr. William Orgel
Mr. Tom Marsh
Mr. Jay Lindy
Mr. Adam Slovis

Applicant's Request: 15-year PILOT lease for renovation of a historic industrial building for use as a 30,000 sq. ft. commercial event space

Included Parcel: Parcel ID 001052 00001 (61 Keel)

Project Description: The subject property is located on the east side of N. Front Street, in the block between Keel Avenue and Looney Avenue in the Uptown neighborhood. The property includes a historic industrial building. The historic Tri State Iron Works Building (28,000 sf) is two-stories above grade with a large double height space and attached one-story sections. The building is a masonry structure with a timber floor and roof framing.

Five different industrial companies operated in the building at this address from 1883 to 1946. The building had operated as a cotton seed oil press, first as the Globe Oil and Fertilizer Company, then the Tennessee Cotton Oil company and finally as the Gayoso Oil Works. Between 1899 and the 1924 it operated as the Memphis Ginning and Cotton Huller Company.

After standing vacant until 1927, it was purchased for a manufacturing facility by the Tri State Iron Works. Tri State Iron Works, operated an iron and steel manufacturing

facility at the site from 1927 until 1975. After 1975, the building was used for various light industrial uses, including metal work, purified water distribution, and currently serves as office and workshop for a bicycle company.

The project involves the full renovation of the existing structures for conversion to commercial event space. This renovation work will include the following major elements:

- Restoration of masonry and wood frame structure
- Floor repair to create a level surface
- Improvements to meet ADA requirements
- Creation of exterior gathering spaces
- Add new entrance from Keel Ave.
- Create new catering kitchen service area
- New closure doors for the main event space
- Required improvements to meet fire protection, fire alarm, and emergency exiting requirements
- Site modifications for parking, service entrances and gathering space
- Full HVAC system
- Repair or replacement of mechanical equipment
- Removal of existing steel beams in event space

Contingent on CCRFC PILOT approval, construction could begin as early as Q4. 2019 and be complete in Q2. 2020.

Project Budget:

The total development cost of the project is approximately \$2,581,151. 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 intends to pursue Historic Tax Credits (HTCs) as part of the deal structure.

The following describes the overall sources and uses of funding:

Sources:

| | | |
|----------------------------|--------------------|---------------|
| Debt | \$1,500,000 | (58%) |
| Owner's Equity | \$753,512 | (29%) |
| Historic Tax Credit Equity | \$327,639 | (13%) |
| Total Sources | \$2,581,151 | (100%) |

Uses:

| | | |
|-------------------------|-------------|-------|
| Property | \$277,500 | (11%) |
| Hard Construction Costs | \$1,575,000 | (61%) |

| | | |
|-------------------|--------------------|---------------|
| Soft Costs | \$538,975 | (21%) |
| PILOT Fee | \$38,775 | (1.5%) |
| Financing Fees | \$27,201 | (1%) |
| Professional Fees | \$123,700 | (4.5%) |
| Total Uses | \$2,581,151 | (100%) |

Project Grading:

Per the PILOT scoring system, the project has a base grade of 13 years and could achieve a maximum grade of 15 years with approved exterior public art and enhanced architectural lighting.

Primary Qualification A:

Retail* (20,001-30,000 sf) 5 Years

Total Project Development Costs:

\$1 - 5 Million 1 Year

Priorities & Initiatives

Located within CBID 3 Years

Census Tract (+20% Poverty Rate) 2 Years

Census Tract (80% AMI) 2 Years

Approved Public Art 1 Year

Approved enhanced architectural lighting 1 Year

Total: 15 Years

**Note that event space is not specifically listed as a category. Staff suggests that the retail category is the closest fit for the proposed commercial use.*

Applicant's Request:

The applicant is requesting approval of a 15-year PILOT. According to the applicant, approval of a PILOT is necessary for the project to be economically viable, warrant equity investment, and attract financing.

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 (MWBs) 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 \$1,530,000 (74%)

| | | |
|--------------|--------------------|---------------|
| Soft Costs | \$538,975 | (26%) |
| Total | \$2,068,975 | (100%) |

According to the above estimates, a 25% level of MWBE inclusion for the combined hard and soft costs will be approximately **\$517,244**.

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 **\$8,043**. A PILOT would allow for a underutilized industrial building to be fully rehabilitated as a commercial space and event center. During the 15-year PILOT term, the annual payment in lieu of taxes is estimated to equal approximately **\$14,891**. This represents a **85%** increase from the amount of taxes currently generated by the property. Over the course of the 15-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$102,712**.

Staff Evaluation: Staff supports this project as a creative reuse of an underutilized historic industrial building. While the property currently serves as office and workshop space, the full renovation of the building will allow a higher and better long-term use.

The site location is also of strategic importance. The subject property is near Uptown Flats, Malone Park Commons, and the recently announced Snuff District redevelopment. Supporting commercial development along N. Front Street and the Wolf River Harbor has long been a goal of the DMC to help extend the vibrancy of the Uptown neighborhood west to towards the harbor.

Recommendation: **Staff recommends approval of a 15-year PILOT, subject to the all standard closing requirements and conditions.**

| PILOT Request | |
|---|--------------------|
| Requested PILOT Term (years) | 15.0 |
| Project Type | Rehabilitation |
| Located in the CBID? | Yes |
| Current Amounts | |
| Base Appraisal | \$277,500 |
| Base Assessment | \$111,000 |
| Annual City Tax on Base Assessment | \$3,548 |
| Annual County Tax on Base Assessment | \$4,496 |
| Annual RE Taxes on Base Assessment | \$8,043 |
| Project Costs | |
| Acquisition Cost | \$277,500 |
| Hard Costs | \$1,575,000 |
| Soft Costs | \$693,725 |
| Total Project Costs w/o PILOT fee | \$2,546,225 |
| Hard Costs Investment Check - 61.9% | YES |
| Public grants eligible for PILOT fee basis reduction | \$0 |
| PILOT fee basis | \$2,546,225 |
| PILOT fee | \$38,193 |
| Total Project Costs w/ PILOT fee | \$2,584,418 |
| Valuation & CBID Assessment | |
| Base Appraisal | \$277,500 |
| Percentage of Hard Costs | \$945,000 |
| Estimated Appraisal after Improvements | \$1,222,500 |
| Estimated Assessment after Improvements | \$489,000 |
| Estimated Annual CBID Assessment after Improvements | \$3,114 |
| Annual RE Taxes | |
| <i>Hypothetical annual taxes without PILOT*</i> | |
| Estimated Hypothetical Annual City Tax without PILOT* | \$15,628 |
| Estimated Hypothetical Annual County Tax without PILOT* | \$19,805 |
| Estimated Hypothetical Total Annual Taxes without PILOT* | \$35,433 |
| <i>Estimated annual taxes with PILOT</i> | |
| Estimated Annual City Tax with PILOT | \$6,568 |
| Estimated Annual County Tax with PILOT | \$8,323 |
| Estimated Total Annual Taxes with PILOT | \$14,891 |
| Estimated Annual Benefit | \$20,542 |
| Cumulative RE Taxes | |
| <i>Hypothetical cumulative taxes without PILOT*</i> | |
| Estimated Hypothetical Cumulative City Tax without PILOT* | \$234,426 |
| Estimated Hypothetical Cumulative County Tax without PILOT* | \$297,068 |
| Estimated Hypothetical Total Cumulative Taxes without PILOT* | \$531,493 |
| <i>Estimated cumulative taxes with PILOT</i> | |
| Estimated Cumulative City Tax with PILOT | \$98,516 |
| Estimated Cumulative County Tax with PILOT | \$124,841 |
| Estimated Total Cumulative Taxes with PILOT | \$223,358 |
| Estimated Cumulative Benefit over 15-Year PILOT | \$308,136 |
| Estimated Cumulative Increase in Taxes due to PILOT | \$102,712 |

*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".