

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: December 1, 2020
RE: PILOT – One Beale Phase IV

The enclosed request is for consideration at the December 8, 2020, CCRFC Board Meeting.

Project: One Beale Hotel #3 and Restaurants (Phase IV)

Applicant/Owner: One Beale, LLC
c/o Carlisle Development Company, LLC
119 S. Main Street, suite 800
Memphis, TN 38103
901-526-5000

Representatives: James Maclin, President/ CEO, M&M Enterprises
Chance Carlisle, President, Carlisle Development Company
Stephen Kallaher, Co-Developer with Carlisle Development Company

Financial Guarantors: Carlisle Development Company, LLC

Project History: The One Beale site comprises 5.5 acres generally bound by Beale Street to the north, Front Street to the east, Pontotoc Avenue to the south, and the railroad line to the west.

The One Beale mixed-use development last received CCRFC approval for a 20-year PILOT for the 227 room Hyatt Centric hotel in December 2019 as well as a 20-year PILOT for the 126 room Hyatt Caption hotel & the 232 apartments (the Landing) and funding for a 465 space public parking garage in May 2018. The site also includes 16,000 sf of office space and 7,000 sf of commercial space and additional buildings which were part of the Ellis business and are planned to be restaurants.

The Hyatt Centric will open March 3, 2021. The Hyatt Caption is expected to open May, 2022. The Landing Residences has started pre-leasing activities in October 2020 and the first tenants will move in January 2021.

Project Scope: Phase IV will have a development budget of approximately \$191,000,000 and include new construction of a 350-key Hyatt Grand hotel (161,325 gross square feet) to include 42,000 square feet of meeting space and 14,500 square feet of commercial space within the Grand Hyatt hotel and

includes the 3 daypart restaurant, lobby bar, rooftop bar, pool restaurant and potential 3rd party restaurant. In the 2018 application, redevelopment plans for the parcels subject to this amendment were included in the 2018 application and contemplated as a future commercial use. A hotel at this location is consistent with the 2018 plan.

The additional hotel to be developed as Phase IV will be incorporated into the river facing parcel West of Wagner Pl. and also include two restaurants in the former Ellis Machine Shop complex, located at the northwest corner of Dr. M.L. King Jr. Avenue and Front Street.

The closing of financing and start of construction for Phase IV is expected in Q1 2022. Construction is expected to be completed by the end of 2023 or early 2024.

The following parcels are relevant to this Phase III PILOT amendment:

- 1 Beale Street (Parcel ID 002070 00001C) Formerly 245 Wagner Place

Phase IV Budget:

The total development cost for Phase IV is approximately \$191,000,000. 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.

Sources:

Developer/ Senior Debt	\$78,647,397	(41%)
Equity (including land)	\$31,702,482	(17%)
Bond Proceeds**	\$81,000,000	(42%)
Total Sources	\$191,349,879	(100%)

Uses:

Land	\$10,500,000	(5%)
Hard costs	\$143,269,643	(75%)
Furniture, Fixtures, Equip	\$18,959,505	(10%)
Soft Costs & prof. fees	\$ 6,247,831	(3%)
Financing/working capital	\$12,372,900	(7%)
Total Uses	\$191,349,879	(100%)

PILOT Grade:

The length, or grade, of a PILOT is based on a clear grading system that reflects the strategic priorities of the CCRFC. Generally, a higher PILOT grade indicates that a project is expected to have a greater positive impact on the development of Downtown Memphis.

The CCRFC’s PILOT Program is currently limited by statute to the maximum length of a PILOT to 20-years. The applicant plans to request authorization from the State of Tennessee to receive a PILOT up to 30-years in length for this project due to the significant amount of meeting space included for the benefit of the Renasant Convention Center (“RCC”) as well as the provision of a Room Block Agreement with the RCC whereby RCC will have rights to secure the rooms to attract conventions.

Primary Qualification A:

Hotel (201+ keys) 6 Years

Primary Qualification B:

Retail (15,000-20,000 sf) 4 Years

Total Project Development Costs:

+\$20 Million 5 Years

Priorities & Initiatives:

Located within CBID 3 Years

New Construction in DT Core 1 Year

Optional Credits:

Public Art 1 Year

Enhanced Architectural Lighting 1 Year

Total Base Grade: 19 Years

Total Grade with Public Art & Lighting: 21 Years

Applicant’s Request: 30 Years

Parking: The addition of this hotel represents a further return on investment by the DPA into the 465 car garage on the site. The hotel will share parking with the office, commercial, apartment and Hyatt Centric and Caption users. The addition of this hotel also represents a return on investment by the DPA into the 1400 space Mobility Center proposed in November 2020.

PILOT Request: In order to finance Phase IV, the applicant is requesting a 30-year PILOT. This will require approval by the State of Tennessee Office of the Comptroller and the Office of Economic & Community Development.

Surcharge Request: The applicant is requesting use of the 5% Tourism Surcharge. The hotel qualifies for use of the surcharge in accordance with the policies adopted by CCRFC in August 2020.

Sales Tax Request: In order to generate the bond proceeds sufficient to support construction of the hotel and due to the significant meeting space included, which will not generate revenue most of the

time but is necessary to support the RCC, the applicant is requesting a pledge of the local option of the sales tax generated from the Hyatt Grand hotel. This request will be reviewed for approval by the Memphis City Council.

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 women and/or minority-owned businesses (W/MBEs) 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 following project costs are subject to the EBO program:

Hotel Hard Costs	\$118,222,643
Construction Contingency	\$19,000,000
Architect & Engineer Fees	\$ 6,047,000
Total	\$143,269,643

According to the above estimates, a 25% level of W/MBE inclusion for the combined hard and soft costs will be approximately **\$35,817,410**.

Outreach & Inclusion Plan:

The specific steps required for each applicant to be compliant with the DMC's EBO Program will take into consideration the size, scope of work, and development costs associated with the project. At the time of PILOT application, it is too early in the process to identify specific contractors or sub-contractors that will ultimately be involved in the construction. However, the applicant has a clear understanding of the EBO Program and has worked with DMC staff to identify the following key steps that will be included in their Outreach & Inclusion Plan:

- The applicant includes a minority-owned co-developer, M&M Enterprises. Joint Ventures are strongly suggested and supported by the DMC's EBO Program.
- The applicant is partnering with Cooper Carry to create a plan that includes outreach, procurement and support to businesses that will be working on the project.
- The applicant has and will continue to meet and coordinate with minority-owned business assistance organizations such as the Memphis Area Minority Contractors

Association (MAMCA) and the Mid-South Minority Business Council Continuum (MMBC) to make their members aware of the project and any contracting and sub-contracting opportunities.

- The applicant will hold its own meetings with MWBE trade partners and make introductions between minority sub-contractors and larger sub-contractors.
- The applicant will deploy a website to provide updates and critical information to MWBE firms.
- The applicant will use the City of Memphis Business Diversity & Compliance Registry and the resources at the Shelby County Office of Equal Opportunity Compliance to identify qualified general contractors and tradespeople to perform the needed work.
- The applicant will advertise and host a pre-bid conference to allow MWBE general contractors and subcontractors an opportunity to ask questions and learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe.
- The general contractor will arrange, divide and structure multiple trade packages to maximize participation among MWBE subcontractors and vendors.
- Once the service providers have been identified, the applicant will submit the form titled “Proposed Utilization Plan” to DMC staff for review and approval. The applicant will also be asked to provide a full record of the outreach steps taken and the results thus far. This documentation can include items such as a phone call log, copies of emails, meeting notes, and pre-bid conference attendance sheet.
- After construction has started, the applicant will provide monthly updates to DMC staff detailing the project status and level of MWBE involvement at each major phase of the project.

Design Review Board:

The applicant will be required to submit design plans to the DRB before closing of the PILOT.

Estimated Payments:

The current annual city and county taxes on the property total **\$30,079**. During the 30-year PILOT term, the annual payment in lieu of taxes would equal approximately **\$878,659**. Over the course of the 30-year PILOT term, the cumulative increase in taxes generated by this property would be approximately **\$25,457,400**.

Staff Evaluation:

It is staff's determination that a 30-year PILOT is needed for the project to be viable and attract financing.

One Beale has been a high priority of the DMC and its partners for many years. The developer has diligently worked to bring the project to fruition since the mid-2000's. The DMC's support for this overall project has been consistent and unwavering. One Beale will be a true mixed-use development including residential, commercial, hotels, and office. The proposed new hotel will add to the vibrancy being created by the project and support the City's investment in the Convention Center.

As a whole, One Beale will be an iconic and transformative project for Downtown Memphis. The project will add much-needed population and residential density to an area linking the Downtown Core with the South Main District.

Recommendation:

Staff recommends the following CCRFC Board actions:

Approve the request for a 30-year PILOT for the revised and expanded scope of the One Beale Phase IV project