



To: Center City Revenue Finance Corporation (CCRFC) Policy Committee
 From: DMC Staff
 Date: August 24, 2022
 RE: Recommended PILOT Policy Changes for Board Discussion

Background:

At its October 12, 2021 meeting, the CCRFC selected consulting firm PGAV to conduct a review of its existing PILOT policy, with the goal of identifying policy changes that could be made to strengthen the program. The final PILOT Policy Review Report prepared by PGAV was accepted by the CCRFC Board at its June 14, 2022 meeting. Following the acceptance of the report, DMC staff began a review of the report findings and the existing PILOT program in order to identify specific policies that could be adopted to improve the PILOT program.

Staff Recommendation

The table below compares existing PILOT program features with suggested program revisions. These recommended revisions are based on both the results of the PILOT Policy Review Report, and an in-depth review of current PILOT provisions by DMC staff. The recommended policies are intended to achieve the following goals:

- To align PILOT policies with current plans for Downtown and the City of Memphis, including Memphis 3.0 and the BuildDowntown Master Plan.
- To ensure that the PILOT is powerful enough to incentivize projects that align with the CCRFC’s priorities, while reducing the length of PILOT tax abatements when possible.
- To streamline the PILOT application and review process by providing uniform standards for PILOT applications, and removing program features and language that are no longer relevant.
- To increase the transparency of the PILOT program.

Current & Proposed PILOT Policies:

Program Eligibility	
<p>Current</p> <ul style="list-style-type: none"> • The project should be located within the Central Business Improvement District (CBID), and/or within the Parkways. • Construction costs must be equal to or greater than 60 percent of the total project cost. • The project must pass a “but for” test that determines that the project would not be financially feasible without a PILOT. 	<p>Proposed</p> <ul style="list-style-type: none"> • Remove the following: <ul style="list-style-type: none"> ○ Prohibition on “Industrial projects, with the exception of (1) medical or research related industrial projects within the Medical District, (2) projects in the industrial area north of Chelsea, or (3) projects within the South Downtown Business Park as identified in the South

<ul style="list-style-type: none"> • Applicant must own the property or have an option to purchase the property. • Residential projects with 51 units or more are subject to the DMC’s affordable housing requirement. • No project on Mud Island south of A. W. Willis Avenue shall be considered for a PILOT without consideration of the Riverfront Development Corporation’s recommendation. • Only multi-family projects or mixed-use developments that include a multi-family component are eligible for a PILOT outside of the CBID. • Apartment and mixed-use projects shall not utilize electric resistance heat systems. • The following projects are ineligible for the Program: <ul style="list-style-type: none"> ○ Any development project that is under construction. ○ Industrial projects, with the exception of (1) medical or research related industrial projects within the Medical District, (2) projects in the industrial area north of Chelsea, or (3) projects within the South Downtown Business Park as identified in the South Central Business Improvement District Zoning Map. 	<p style="text-align: center;">Central Business Improvement District Zoning Map”</p> <ul style="list-style-type: none"> ○ “No project on Mud Island south of A. W. Willis Avenue shall be considered for a PILOT without consideration of the Riverfront Development Corporation’s recommendation.” ○ “Only multi-family projects or mixed-use developments that include a multi-family component are eligible for a PILOT outside of the CBID.” <ul style="list-style-type: none"> • Add the following: <ul style="list-style-type: none"> ○ Projects that have self-storage as their primary use are not eligible for a CCRFC PILOT. • Other Changes: <ul style="list-style-type: none"> ○ The existing affordable housing requirement should be replaced with the affordable housing program outlined later in this table.
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But-For Test / Pro Forma Requirements

<p>Current</p> <ul style="list-style-type: none"> • Sample pro forma is provided in application packet (p. 26), but required metrics and financial assumptions are not explicitly stated. 	<p>Proposed</p> <ul style="list-style-type: none"> • The following performance metrics must be included in the applicant’s pro forma: <ul style="list-style-type: none"> ○ Debt Service Coverage Ratio ○ After Tax Cash Flow ○ Return on Equity ○ Internal Rate of Return • The following financial assumptions must be included in the applicant’s pro forma: <ul style="list-style-type: none"> ○ Estimated real estate taxes ○ Operating expenses ○ Rental rates for each use type and estimated total income ○ Occupancy assumptions ○ Estimated annual expense increase ○ Estimated annual revenue increase
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	<ul style="list-style-type: none"> • DMC staff will replace the existing sample pro forma with a more thorough Excel template. • Applicant will be required to submit their pro forma as an Excel or Google Sheets spreadsheet (does not have to include formulas). • Applicant must provide statement identifying specifically how their project falls short of their required financial metrics without a PILOT.
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PILOT Length

<p>Current</p> <ul style="list-style-type: none"> • Maximum PILOT length is set using a grading system (attached) that takes into account the use, size, and cost of the project, as well as criteria based on location, design, energy efficiency, and other criteria. • While a project may grade for a term exceeding 15 years, the maximum term that can be applied for is 15 years. • In practice, PILOTs of 20 years are granted, but application packet does not provide guidance on when this is appropriate. 	<p>Proposed</p> <ul style="list-style-type: none"> • Projects eligible for a PILOT will qualify for a basic PILOT of 10 years. • A project can qualify for a 15 year PILOT if three of the following bonus criteria are met: <ul style="list-style-type: none"> ○ Redevelopment of a property certified as blighted by DMC staff ○ Adaptive reuse of an existing structure ○ Infill on a vacant lot or surface parking lot (must be condition prior to acquisition) ○ Renovation of a contributing structure in a National Register Historic District or an individually listed property on the National Register of Historic Places. ○ LEED or Net Zero Certification ○ Geographic Priorities (can only count one): <ul style="list-style-type: none"> ▪ Project is located in a Memphis 3.0 Accelerate Anchor ▪ Project is located in a designated retail node or the Downtown Core. ▪ Project is located in a census tract with a poverty rate over 20% • Alternatively, a project may achieve a grade of 15 years by providing affordable housing as outlined in the
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	<p>affordable housing program below.</p> <ul style="list-style-type: none"> PILOTs of 20 years may be considered for catalytic projects – defined as a project that meets three bonus criteria, and includes over \$100 million of investment.
Closing & Closing Fee	
<p>Current</p> <ul style="list-style-type: none"> PILOT is closed at the start of construction, and PILOT years immediately begin running down. PILOTs under 10 years pay a 1% closing fee. PILOTs over 10 years pay a 1.5% closing fee. 	<p>Proposed</p> <ul style="list-style-type: none"> PILOT is closed at the start of construction, but PILOT leases include a construction period of up to 24 months before the PILOT years start being used up. PILOTs pay a 1% closing fee, capped at \$1 million.
Affordable Housing	
<p>Current</p> <ul style="list-style-type: none"> Multifamily projects with 51+ units are subject to the DMC Affordable Housing Requirement. DMC Affordable Housing Requirement: “at least 20 percent of the residential rental units shall be occupied by, or held available solely for, individuals and families of low or moderate income, defined as no more than 80% of the median gross income for Shelby County, TN” 	<p>Proposed</p> <ul style="list-style-type: none"> A project with 50+ units must either participate in the Affordable Housing Program, or pay an additional 1% PILOT fee, to be used to fund affordable housing. Participation in the Affordable Housing Program also allows a project to receive a PILOT of 15 years without meeting additional criteria. Affordable Housing Program: At least 20% of units must be occupied or held available for households making 80% or less of the median Shelby County household income. <ul style="list-style-type: none"> Rent for these units must be set at 30% or less of the renters’ gross income. Affordable units must reflect the proportion of unit sizes and types in the development as a whole.

Compliance, Reporting, and Transparency	
<p>Current</p> <ul style="list-style-type: none"> • Multifamily PILOTs falling under affordable housing requirement are required to maintain a file with income certifications of qualifying tenants, which must be provided on request. • PILOT staff reports, applications, and project information are available on the DMC website. 	<p>Proposed</p> <ul style="list-style-type: none"> • Multifamily PILOTs participating in the affordable housing program must submit annual reports documenting compliance. • All PILOTs containing multifamily units or leasable commercial space must annually report occupancy and rent per square foot. <ul style="list-style-type: none"> ○ Staff will submit an annual request letter and survey form to PILOTs falling under this requirement. • PILOT staff reports, applications, and project information will remain accessible on the DMC website. • DMC staff will maintain a PILOT impact report that includes the following information for a 10-year period: <ul style="list-style-type: none"> ○ The number of active PILOTs ○ Number of terminated PILOTs back on tax rolls ○ Difference between PILOT and pre-PILOT taxes for active PILOTs ○ PILOT approvals by year ○ PILOT closings by year ○ PILOT fee reinvestment activity
Other Program Features	
<p>Current</p> <ul style="list-style-type: none"> • Application fee of \$1,000 due upon application submission. 	<p>Proposed</p> <ul style="list-style-type: none"> • Remove application fee. • Add language allowing DMC staff to request fiscal impact analysis if necessary. • Add language requiring applicant to include paragraph describing project's parking / mobility strategy.

Attachment - Current PILOT Grading Sheet

Appendix I – PILOT Grading

A project must meet at least one primary qualification category in order to be eligible for any applicable secondary qualifications and/or additional term accumulation. Exceptions for projects that further the priorities of the CCRFC may be granted at the discretion of the CCRFC board.

PRIMARY QUALIFICATION		SECONDARY QUALIFICATION	
RESIDENTIAL			
2 to 5 Units:	<i>1 Year</i>	2 to 5 Units:	<i>.5 Year</i>
6 to 10 Units:	<i>2 Years</i>	6 to 10 Units:	<i>1 Year</i>
11 to 15 Units:	<i>3 Years</i>	11 to 15 Units:	<i>1.5 Years</i>
16 to 25 Units:	<i>4 Years</i>	16 to 25 Units:	<i>2 Years</i>
26 to 50 Units:	<i>5 Years</i>	26 to 50 Units:	<i>2.5 Years</i>
51 Units +:	<i>6 Years</i>	51 + Units:	<i>3 Years</i>
OFFICE			
Below 15,000 sf:	<i>1 Year</i>	Below 15,000 sf:	<i>.5 Year</i>
15,000 to 50,000:	<i>2 Years</i>	15,000 to 50,000:	<i>1 Year</i>
50,001 to 100,000:	<i>3 Years</i>	50,001 to 100,000:	<i>1.5 Years</i>
100,001 to 200,000:	<i>4 Years</i>	100,001 to 200,000:	<i>2 Years</i>
200,001 to 300,000:	<i>5 Years</i>	200,001 to 300,000:	<i>2.5 Years</i>
300,001 sf +:	<i>6 Years</i>	300,001 sf +:	<i>3 Years</i>
EDUCATION			
Below 15,000 sf:	<i>1 Year</i>	Below 15,000 sf:	<i>.5 Year</i>
15,000 to 50,000:	<i>2 Years</i>	15,000 to 50,000:	<i>1 Year</i>
50,001 to 100,000:	<i>3 Years</i>	50,001 to 100,000:	<i>1.5 Years</i>
100,001 to 200,000:	<i>4 Years</i>	100,001 to 200,000:	<i>2 Years</i>
200,001 to 300,000:	<i>5 Years</i>	200,001 to 300,000:	<i>2.5 Years</i>
300,001 sf +:	<i>6 Years</i>	300,001 sf +:	<i>3 Years</i>
HOTEL			
2 to 10 Rooms:	<i>1 Year</i>	2 to 10 Rooms:	<i>.5 Year</i>
11 to 25 Rooms:	<i>2 Years</i>	11 to 25 Rooms:	<i>1 Year</i>
26 to 50 Rooms:	<i>3 Years</i>	26 to 50 Rooms:	<i>1.5 Years</i>
51 to 100 Rooms:	<i>4 Years</i>	51 to 100 Rooms:	<i>2 Years</i>
101 to 200 Rooms:	<i>5 Years</i>	101 to 200 Rooms:	<i>2.5 Years</i>
201 Rooms +:	<i>6 Years</i>	201 Rooms +:	<i>3 Years</i>
INDUSTRIAL			
Below 50,000 sf:	<i>1 Year</i>	Below 50,000 sf:	<i>.5 Year</i>
50,000 to 150,000:	<i>2 Years</i>	50,000 to 150,000:	<i>1 Year</i>
150,001 to 250,000:	<i>3 Years</i>	150,001 to 250,000:	<i>1.5 Years</i>
250,001 to 350,000:	<i>4 Years</i>	250,001 to 350,000:	<i>2 Years</i>
350,001 to 500,000:	<i>5 Years</i>	350,001 to 500,000:	<i>2.5 Years</i>
500,001 sf +:	<i>6 Years</i>	500,001 sf +:	<i>3 Years</i>
PARKING STRUCTURES			
200 to 300 cars:	<i>1 Year</i>	200 to 300 cars:	<i>.5 Year</i>
301 to 400 cars:	<i>2 Years</i>	301 to 400 cars:	<i>1 Year</i>
401 to 500 cars:	<i>3 Years</i>	401 to 500 cars:	<i>1.5 Years</i>
501 to 600 cars:	<i>4 Years</i>	501 to 600 cars:	<i>2 Years</i>
601 to 700 cars:	<i>5 Years</i>	601 to 700 cars:	<i>2.5 Years</i>
701 cars +:	<i>6 Years</i>	701 cars +:	<i>3 Years</i>

RETAIL

15,000 to 20,000 sf:	4 Years	Below 5,000 sf:	.5 Year
20,001 to 30,000 sf:	5 Years	5,000 to 9,999 sf:	1 Year
30,001 sf + :	6 Years	10,000 to 14,999 sf:	1.5 Years
		15,000 to 20,000 sf:	2 Years
		20,001 to 30,000 sf:	2.5 Years
		30,001 sf + :	3 Years

TOTAL PROJECT DEVELOPMENT COST

\$1 – 5 Million:	1 Year
\$5+ – 10 Million:	2 Years
\$10+ – 15 Million:	3 Years
\$15+ – 20 Million:	4 Years
\$20+ Million:	5 Years

CCRFC Priorities**General Location**

Located in CBID (Appendix II):	3 Years
Located outside CBID, but inside CCRFC boundaries (Appendix II):	1 Year

Core & Historic

Project may only qualify for one of the following five:

Construction of a new structure in the Downtown Core:	1 Year
Renovation of an existing structure in the Downtown Core:	2 Years
Renovation of a structure listed as non-contributing property in a National Register or Landmarks Commission Historic District:	3 Years
Renovation of a structure listed as significant or contributing in a National Register or Memphis Landmarks Commission Historic District:	4 Years
Renovation of a structure listed individually on the National Register of Historic Places:	5 Years

Community-based Initiatives & Economically Distressed Areas

Project may qualify for up to two of the following:

Fronting the Main to Main Multi-Modal Connector Route (Appendix II):	3 Years
Located within the boundaries of the Edge Neighborhood (Appendix II):	3 Years
Located within the boundaries of the South City Impact Area (Appendix II):	3 Years
Located within the boundaries of the Pinch Neighborhood (Appendix II):	4 Years
Located in a Census Tract with a Poverty Rate over 20 percent*	2 Years
Located in a Census Tract earning 80 or less of Area Median Income (AMI)*	2 Years

Design & Energy

Project may qualify for one or more of the following:

Including permanent public art (qualification determined by the DMC Design Review Board):	1 Year
Including enhanced architectural lighting (qualification determined by the DMC Design Review Board):	1 Year
Leadership in Energy and Environmental Design (LEED) Certification:	4 Years

Net Zero Energy Building (NZEB) Certification:	4 Years
Memphis Light, Gas and Water (MLGW) Energy Advantage Certification:	1 Years

* Applicants may refer to the HUD map to confirm qualification; <https://www.huduser.gov/gct/gctmap.html>.

PILOT TERM CALCULATION

Primary Qualification:	
Secondary Qualification A:	
Secondary Qualification B:	
Secondary Qualification C:	
Total Project Development Cost:	
CCRFC Priorities:	
PILOT TERM:	