



To: Center City Revenue Finance Corporation (CCRFC) Board
From: DMC Staff
Date: December 9, 2022
RE: Revised PILOT Policy Changes for Board Review

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.

After submitting an initial draft of the proposed PILOT policies to the CCRFC Board, DMC staff convened a series of four CCRFC Policy Committee meetings to discuss the policies in depth. This memo contains a revised set of PILOT policy recommendations that have been adjusted to reflect the Board’s input on the original draft policies.

Staff Recommendation

The attached table compares existing PILOT program features with suggested program revisions. These recommended revisions are based on the results of the PILOT Policy Review Report, an in-depth review of current PILOT provisions by DMC staff, and subsequent discussions with the CCRFC Policy Committee. 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.

Implementation Timeline

If the proposed policies are adopted by the CCRFC Board in Q1 of 2023, staff recommends that the new policies should go into effect on July 1, 2023.

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. • 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>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 Central Business Improvement District Zoning Map” ○ “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.” • 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.
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 	<p>Proposed</p> <ul style="list-style-type: none"> • The following performance metrics must be included in the applicant’s pro forma:

<p>financial assumptions are not explicitly stated.</p>	<ul style="list-style-type: none"> ○ Debt Service Coverage Ratio ○ After Tax Cash Flow ○ Return on Equity ○ Internal Rate of Return <ul style="list-style-type: none"> ● 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 ● 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 in the Downtown Core (must be condition prior to acquisition) ○ Renovation of a contributing structure in a National Register Historic District or an individually listed property on
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	<p>the National Register of Historic Places.</p> <ul style="list-style-type: none"> ○ 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% <ul style="list-style-type: none"> • Alternatively, a project may achieve a grade of 15 years by providing affordable housing as outlined in the affordable housing program below. • If a multifamily project with over 50 units does not participate in the affordable housing program, it is limited to a PILOT of 10 years. • 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.
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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.
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Affordable Housing

<p>Current</p> <ul style="list-style-type: none"> • Multifamily projects with 51+ units are subject to the DMC Affordable Housing Requirement. 	<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 2% PILOT fee, to be used to fund
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<ul style="list-style-type: none"> 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>affordable housing.</p> <ul style="list-style-type: none"> Participation in the Affordable Housing Program also allows a project to receive a PILOT of 15 years without meeting additional criteria. If a project with over 50 housing units does not participate in the affordable housing program, it will be limited to a 10-year PILOT. Affordable Housing Program: At least 20% of units must be occupied or held available for households making 80% or less of the median income in the Memphis MSA. <ul style="list-style-type: none"> Rent for these units will be limited to 30% of monthly income for households making 80% of Memphis AMI, based on HUD’s Income Limits documentation. Affordable units must reflect the proportion of unit sizes and types in the development as a whole.
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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.
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	<ul style="list-style-type: none"> • 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
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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.
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