



To: CCRFC Board of Directors
From: CCRFC Policy Committee and Staff
Date: October 6, 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. 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.

An analysis was sent the CCRFC that showed the effects of the proposed increment in city property taxes on several projects that were awarded PILOTs.

II. PILOT Requests for Projects Outside the CBID-

In addition to within the CBID (Downtown), CCRFC’s legal jurisdiction to issue PILOTs includes eligible projects within the Parkways (including the Fairgrounds); however, CCRFC policy generally limits PILOTs to Downtown. There is language in the program that outlines the extraordinary attributes that projects outside Downtown 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.”

With Crosstown Concourse now under construction, DMC staff is evaluating the extent in which PILOTs may be used to promote investment outside Downtown, mainly the Midtown and Soulsville areas. In evaluating the PILOT program and goals of the DMC/CCRFC, and in discussions with EDGE, Community Lift, commercial real estate organizations, developers, et al, the following factors are just some of possibly many that staff and the CCRFC should consider in making a decision in regards to the use of PILOTs outside Downtown:

- 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. PILOTs should continue to be supported for eligible projects in Downtown.
- Midtown is a part of the core city and is an important gateway into Downtown.
- Given its high multi-family rental occupancy level, it appears that there is a demand for more rental housing in Midtown.
- There hasn't been any new market-rate multi-family housing built in Midtown, and other parts of the city outside of Downtown in many years. This is likely due in part to low rents and high property taxes.
- The ongoing redevelopment and repopulation of Midtown and Soulsville should be encouraged.
- Community Lift, a neighborhood and economic development organization, is in the process of developing a community and economic development plan for Soulsville. There may be effective ways to use PILOTs in support of Soulsville, while also being sympathetic to the goals of the DMC.

DMC staff would like to continue to discuss and evaluate this matter to determine the best course of action. Staff also believes that accepting and evaluating PILOT applications for projects outside Downtown (but within CCRFC's legal jurisdiction) that meet current requirements may be an effective approach in establishing the most beneficial way to use PILOTs within the entirety of CCRFC's jurisdiction.

As part of the process for establishing the most beneficial way to use PILOTs within the entirety of its jurisdiction, the CCRFC agreed to accept and evaluate PILOT applications for projects outside Downtown (but within the Parkways) that meet current requirements.

III. 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.

DMC's consultant is still working on this project. DMC staff anticipates that the consultant's findings and report may be completed prior to November's CCRFC meeting.