

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: December 6, 2018
RE: TIF Request – Union Row Mixed-Use Development

The enclosed request is for consideration at the December 11, 2018, CCRFC Board Meeting.

Project: Union Row Mixed-Use Development (Phase I)

Applicant: J. Kevin Adams, Managing Partner
Big River Partners, LLC
2724 Central Avenue
Memphis, TN 38111

Site Control: The applicant has control of the 10.765 acre site.
All Phase I parcels are either owned by the applicant or under contract.

Applicant's Request: The Downtown Memphis Tax Increment Financing (TIF) Program is a financial incentive designed to encourage commercial real estate development in and around Downtown Memphis by reinvesting site-specific property taxes above the predevelopment level for a predetermined period of time into the project infrastructure. The eligible amount of time for a TIF to be in place is determined by use and cost as well as other criteria.

The maximum length of a TIF from the CCRFC is limited by statute to 20-years. Subject to State of Tennessee approval, the applicant is requesting a TIF with a term up to 30 years for this project.

Project Site: Phase I is a mixed-use development comprised of 10.765 acres located generally on Union Avenue, Danny Thomas Boulevard, and Beale Street. See detailed map in the TIF Application for the exact boundaries of the site.

Project Overview: Phase I of Union Row envisions a mixed-use campus of apartments, retail, commercial, offices, hotel, grocer, park space, and new structured parking. A new central boulevard will also be added to improve connectivity within and through the site.

It is anticipated that public infrastructure improvements are necessary for Union Avenue, Danny Thomas Blvd., Beale St, Gayoso Ave., as well as the proposed new north-south boulevard within the development.

In addition, a landscaped "lid" is proposed over Danny Thomas Blvd from south of Union Avenue to Monroe Avenue on the north to provide a landscaped park setting and a pedestrian connection to the Edge neighborhood.

Phase I Building Program:

Market/Grocer	30,000 sq. ft.
Retail	80,000 sq. ft.
Multifamily Apartments	793 units
Class A Office Space	350,000 sq. ft.
Hotel	200 keys
Structured Parking	2,664 spaces
Total Development Cost	\$511,894,155

Project Timing: Contingent upon TIF and other required approvals, the development team plans to close on financing and Phase I property acquisition in February, 2019. Construction for Phase I is planned to begin in June, 2019 and will take approximately 20-24 months to complete.

Development Budget: The total development cost for the entire project is approximately \$511,894,155. To be eligible for a TIF, 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:

Debt	\$224,869,588	(44%)
Estimated TIF	\$79,860,290	(16%)
MLGW infrastructure	\$1,086,769	(0%)
New Market Tax Credits	\$10,847,926	(2%)
Garage incentives/DPA	\$81,985,185	(16%)
Equity	\$113,244,395	(22%)
Total Sources	\$511,894,155	(100%)

Uses:

Land & closing	\$29,156,205	(6%)
Demo/sitework/infrastructure	\$25,698,356	(5%)
Construction costs	\$304,840,998	(60%)
Construction contingency	\$37,329,529	(7%)
Arch, design, & engineering	\$21,542,207	(4%)
Development fees	\$21,317,819	(4%)

Financing & Leasing Fees	\$13,109,140	(3%)
Other soft Costs	\$27,918,645	(5%)
Interest & operating reserves	\$22,944,933	(4%)
Owner's Contingency	\$8,036,322	(2%)
Total Uses	\$511,894,155	(100%)

*Numbers rounded.

TIF Grade:

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

The CCRFC's TIF Program is currently limited by statute to the maximum length of a TIF to 20-years. The applicant plans to request authorization from the State of Tennessee to receive a TIF up to 30-years in length for this catalytic and exceptional project. Given the complexity, size, and development costs associated with Union Row, the project grades far in excess of the program maximum. Per the scoring system, the project achieves a base grade of 32 years and could reach 34 years with public art & lighting.

Primary Qualification A:

Office (+300,000 sf) 6 Years

Primary Qualification B:

Residential (+51) 6 Years

Primary Qualification C:

Hotel (100-200 keys) 5 Years

Primary Qualification D:

Retail (+30,001 sf) 6 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: 32 Years

Total Grade with Public Art & Lighting: 34 Years

Applicant's Request: 30 Years

TIF Program:

Under the CCRFC's Tax Increment Financing (TIF) program, the following items are eligible expenses for TIF revenues:

- Capital costs, including the construction and reconstruction of public infrastructure, clearing, grading and excavating, site work, and other hard construction expenses
- Costs of obtaining permits for the project from governmental authorities
- Capitalized interest
- Premiums for payment and performance bonds issued in favor of governmental authorities or the board
- Professional fees for architectural, engineering, and legal expenses capitalized as project costs under generally accepted accounting principles
- Fees and expenses of the CCRFC and other fees and expenses related to the TIF

For purposes of a CCRFC TIF, public infrastructure includes the following examples of public facilities and public improvements:

- Streets, roads, highways, curbs, gutters, water lines, sanitary sewer lines, storm drainage facilities, ramps, bridges, traffic signals, paving, driveways, sidewalks, walking and running trails, mass transit and other public transportation facilities, culvers, manholes, retaining walls, tunnels, approaches, underpasses, artificial lighting, off-street parking improvements and structures, fencing, landscaping, public parks, site work and grading for such public infrastructure, walkways, signage, flood control improvements, and improvements for the supply, storage, and distribution of water; and
- Electricity and telecommunications services, utility, and similar site development infrastructure costs, qualified public improvements that may include off-site, utility relocation and under-grounding, according to the city's plans.

TIF Eligible Expenses:

The applicant has performed analysis showing that Phase I will generate in excess of \$100,000,000 in TIF proceeds over the term. The applicant plans to use the anticipated TIF revenues to finance the following eligible Phase I improvements:

Land acquisition & closing costs	\$26,828,325
Architecture/design/engineering	\$16,358,073

Pedestrian land bridge & parks	\$7,856,029
Demolition	\$1,941,341
Grading/erosion control/layout	\$1,475,627
Off-site infrastructure	\$4,800,000
Storm water/Gayoso Bayou	\$3,109,620
Utility infrastructure	\$1,324,157
Road improvements	\$4,474,450
Site amenities/signage	\$1,677,150
Plaza pavilions	\$1,178,251
Hardscape/landscape/irrigation	\$1,349,608
Financing & Professional Fees	\$4,293,250
Contingency	\$3,194,411
Total	\$79,860,290

*Numbers rounded.

After funding the eligible expenses, TIF revenues up to the \$100,000,000 cost limit will be applied to parking garage costs.

Parking Request:

Phase 1 parking needs are estimated at 2,664 spaces in two structured parking garages as well as 6% allocated to surface parking. These spaces will service the 793 residential units and 200 room hotel as well as the 460,000 sq. feet of office and commercial space. The Downtown Parking Authority (DPA) will review this request at its next board meeting. The applicant will provide further analysis of the parking need, cost and operational plan. The DPA has a comprehensive Parking Study in progress for Downtown and will utilize the consultant team to evaluate this request, focusing on shared parking among uses where possible.

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 (MWBES) 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 estimated costs are subject to the EBO program:

Hard Costs	\$304,840,998
<u>Arch/design/engineering</u>	<u>\$21,542,207</u>
Total	\$326,383,205

According to the above estimates, a 25% level of MWBE inclusion for the estimated hard and soft costs will be approximately **\$81,595,801**. The applicant has committed to a goal of 28%, or **91,387,297**.

Design Review Board: The applicant will submit design plans to the Design Review Board (DRB) in the coming months.

Housing Requirement: Per the TIF Program policies, multifamily apartment developments with 51 or more units are subject to, and must be compliant with, DMC's housing policy. Per the policy, at all times during the TIF term, at least 20% of the residential units shall be occupied by or held available solely for individuals and families of low and moderate income such that the percentage of median gross income shall not exceed 80% of the median gross income for Shelby County, Tennessee. The applicant is committed to meeting this requirement.

Economic Impact: The applicant commissioned an economic impact study to quantify the direct positive impact of the Union Row project. According to the economic projections, the one-time impact of construction will produce over 4,731 construction jobs and produce in excess of \$8.5 million in sales taxes. This is in addition to the impact of the construction wages that will exceed \$259 million.

Once construction is complete and the project is stabilized, Phase I is expected to create an annual positive economic impact of \$165,586,693 while creating approximately 4,317 jobs.

Additionally, property taxes generated on the subject property will increase substantially as a result of receiving a TIF. The current annual city and county taxes on the Phase I property is approximately **\$188,839**. During a 30-year TIF term, the annual taxes paid will increase to approximately **\$2,056,095**. This represents a **1089%** increase from the amount of taxes currently generated by the property. After expiration of the TIF, it is estimated that annual taxes on the Phase I property will total approximately **\$10,789,886**. Further, annual taxes paid will significantly exceed this once the public garages are owned by a private entity.

Staff Evaluation: The DMC's Strategic Plan encourages the following: facilitating and accelerating real estate development, incentivizing development when necessary to increase

investment and economic development, and fighting blight to improve the visual appearance of the built environment.

Staff is highly supportive of the proposed TIF application. As one of the largest private developments in the history of Memphis, Union Row will be transformative and catalytic. Over \$500MM in mixed-use development will anchor the eastern end of the Downtown Core and provide critical infill to better connect recent investment around ServiceMaster and Main Street with ongoing investment in the emergent Edge neighborhood.

Union Row will also be instrumental in transforming Union Avenue into a welcoming and vibrant gateway into Downtown Memphis from the east. This sizable investment will effectively create a new sub-neighborhood and special place out of an area currently defined as consisting mostly of vacant property and underutilized structures.

Recommendation:

Subject to the applicant receiving State of Tennessee approval, staff recommends approval of a TIF of up to 30 years in length, subject to all standard approval requirements and conditions.