

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC) Board of Directors
From: DMC Staff, Planning & Development Department
Date: April 8, 2015
RE: PILOT Application – Universal Life Building

The enclosed PILOT application has been submitted for consideration at the April 14, 2015, CCRFC Board Meeting. The following report describes the project.

Project: Universal Life Building

Applicant: Self Tucker Properties, LLC
Juan Self & Jimmie Tucker
505 Tennessee Street, Suite 101
Memphis, TN 38103

Subject Property: 480 & 504 Dr. Martin Luther King Jr. Ave.

Applicant's Request: 10-year PILOT lease for renovation of an historic building for office use

Property Background: The subject property consists of two (2) adjacent parcels at the northeast corner of Danny Thomas Blvd. and Dr. Martin Luther King Jr. Avenue. The 1.1 acre site includes a vacant building at the corner with a surface parking lot to the east.

The primary structure on site is a 2-story office building originally constructed as the headquarters of the Universal Life Insurance Company. Founded in 1923, this family business grew to be one of the largest African-American-owned life insurance companies in the United States. The business was a pillar of the local African-American community and served as an important place for commerce, civic, and social gathering during the era of racial segregation.

In addition to the historic importance of the Universal Life Insurance Company, the circa 1949 building is architecturally significant as a mid-20th century example of Egyptian Revival style architecture. In 2007, the building was

individually listed on the National Register of Historic Places.

Project Description:

The applicant plans to renovate the building for office use. The 33,000 s.f. building offers a total of 25,482 s.f. of leasable space including both floors and part of the basement. Self + Tucker Architects, an architecture firm owned by the applicants, will lease about 20% of the building, leaving the remainder available for office tenants.

The existing parking lot will be resurfaced and upgraded with new fencing and an automated gate. A shade structure equipped with photovoltaic panels to generate electricity on site will cover a portion of the parking area. The applicant intends to incorporate enhanced architectural lighting as part of the project. The exact scope of the lighting plans are still being determined, but it is likely that the exterior building elevations will be artistically illuminated and the historic Universal Life clock sign will be restored.

The applicant has owned both parcels (Parcel ID #007011 00035 & #007011 00036) since 2006. The property is classified as Commercial by the Shelby County Assessor of Property and currently has a total assessed value of \$221,280. Contingent upon receipt of a PILOT from the CCRFC and a Development Loan from the Center City Development Corporation (CCDC), the applicant intends to close on project financing in July, 2015 and begin construction later that month. Construction is expected to take around 12 months.

It should be noted that the applicant is actively pursuing the purchase of a vacant lot immediately to the east of the existing parking area (Parcel ID #007011 00037). Acquiring that land would allow for additional surface parking.

Environmental Goals:

Energy conservation and environmental sustainability are key goals for the project. The applicant will pursue Gold level certification under the Leadership for Energy and Environmental Design (LEED) program. To achieve LEED certification, the renovation work

will feature significant investments in new mechanical equipment, new lighting, energy efficient windows, and water efficient fixtures. It is anticipated that as a result of these strategies, the building will achieve a minimum 10% reduction in energy usage, emissions, and water usage.

The project was awarded a grant from the Memphis Green Communities Program and the Memphis & Shelby County Office of Sustainability in November, 2014. Up to \$1,975,000 in Qualified Energy Conservation Bonds (QECBs) are designated as grant funds to assist the project in building retrofits that promote energy conservation.

Project Budget:

The total development cost of the project is approximately \$6,260,880.

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 sixty percent (60%) of the total project cost. Based on the preliminary budget, the project meets this requirement.

The following describes the sources and uses of funding:

Sources:

Bank Loan	\$1,800,000	29%
CCDC Development Loan	\$300,000	5%
Historic Tax Credit Equity	\$508,106	8%
Owner Equity	\$595,492	9%
Green Communities Grant	\$1,975,000	31%
City Infrastructure Grant	\$600,000	10%
City Pre-Development Grant	\$482,282	8%

Total Sources **\$6,260,880** **100%**

Uses:

Acquisition Costs	\$580,000	9%
Hard Costs	\$4,860,388	78%
Soft Costs	\$820,492	13%

Total Uses: **\$6,260,880** **100%**

Project Grading: Per the PILOT scoring system, the project has a base grade of 11 years assuming LEED Certification and could achieve a maximum grade of 13 years with approved public art and enhanced architectural lighting.

Primary Qualification:
Office (15,000 – 50,000 s.f.) 2 Years

Total Project Development Costs:
\$5 – 10 Million 2 Years

CCRFC Priorities:
Renovation of individually-listed structure on the National Register 5 Years

Other Possible Credits:
LEED Certification 2 Years
Exterior Public Art 1 Year
Enhanced Architectural Lighting 1 Year

(Maximum) Total: 13 Years

Requested PILOT Term: The applicant is requesting approval of a 10-year PILOT. According to the applicant, approval of a 10-year PILOT is necessary for the project to be viable and attract financing. The applicant’s lender has indicated that financing will be subject to obtaining a 10-year PILOT for the project.

Design Review: The applicant intends to submit design plans to the Design Review Board (DRB) in May, 2015. Additionally, the National Park Service and the Tennessee Historic Commission will require exterior work to meet certain historic preservation standards and guidelines as a condition of receiving Historic Preservation Tax Credits.

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 20% 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:

Hard Costs	\$4,860,388
Architectural Design/Project Mgmt.	\$291,765
Civil Engineering	\$24,000
Structural Engineering	\$13,000
Landscape Design	\$5,300
Construction Consultant	\$20,000
Total:	\$5,214,453

According to the above estimates, a 20% level of W/MBE inclusion for the above costs related to design and construction would be approximately **\$1,042,890.**

Estimated Payments:

It should be noted that an earlier version of this project was approved for a PILOT from the CCRFC in 2006. That project did not move forward as planned and was placed on hold due to the overall downturn in the economy. The property is not currently income producing and as a result, the property is not current on all local property taxes. On initial review, the property appears to be in arrears to the amount of approximately \$9,815 for Shelby County property tax, \$29,185 for City of Memphis property tax, and \$4,619.50 for the CBID Assessment. **As is the case with all CCRFC PILOTS, the applicant must be current on all outstanding taxes, assessments, fees, and fines prior to closing the PILOT.**

The current annual city and county taxes on the property total \$17,193. A PILOT would allow for the building to be renovated and brought back into productive use. During the 10-year PILOT term, the annual payment in lieu of taxes would equal \$29,937. This represents a 74% increase from the amount of taxes currently generated by the property. Over the course of the PILOT term, this cumulative increase in taxes equals approximately \$127,440.

After the PILOT term ends in 10 years, annual combined property taxes on the property are estimated to be \$107,830.

Staff Evaluation:

Based on the submitted application and the accompanying 10-year pro forma, staff agrees with the applicant that a PILOT is needed for the project to be viable and attract financing.

The DMC's Strategic Plan encourages facilitating and accelerating real estate development, incentivizing Downtown development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment Downtown. The building has been vacant and unused since 2001. The subject property sits at a key location east of the FedEx Forum and along a significant east-west route into the heart of Downtown Memphis.

This project also closely aligns with the DMC's primary goal of increasing commercial property values through redevelopment and reinvestment. The project will not only put a historically significant building back into productive use, the building is also being designed to achieve LEED Certification and can be a model for reducing energy use, emissions, and water consumption in historic buildings Downtown.

Recommendation:

Staff recommends approval of a 9-year PILOT, subject to all standard closing requirements and conditions. An additional year will be added to the PILOT term following either LEED Certification, approval of DRB-approved enhanced architectural lighting, or DRB-approval public art. Per policy, the property must be current on all outstanding taxes, assessments, fees, and fines prior to closing a PILOT tax incentive.

PILOT Request	
Requested PILOT Term (years)	10.0
Project Type	Rehabilitation
Current Amounts	
Current Appraisal	\$553,200
Current Assessment	\$221,280
Current Annual City Tax	\$7,524
Current Annual County Tax	\$9,670
Current Annual RE Taxes	\$17,193
Project Costs	
Acquisition Cost	\$580,000
Hard Costs	\$4,860,388
Soft Costs w/o PILOT fee	\$758,092
Total Project Costs w/o PILOT fee	\$6,198,480
Public grants eligible for PILOT fee basis reduction	\$0
PILOT fee basis	\$6,198,480
PILOT fee	\$61,985
Total Project Costs w/ PILOT fee	\$6,260,465
Hard Costs Investment Check - 77.6%	YES
Valuation & CBID Assessment	
Current Appraisal	\$553,200
Percentage of Hard Costs	\$2,916,233
Estimated Appraisal after Improvements	\$3,469,433
Estimated Assessment after Improvements	\$1,387,773
Estimated Annual CBID Assessment after Improvements	\$8,956
Annual RE Taxes	
<i>Without PILOT</i>	
Estimated Annual City Tax without PILOT	\$47,184
Estimated Annual County Tax without PILOT	\$60,646
Estimated Total Annual Taxes without PILOT	\$107,830
<i>With PILOT</i>	
Estimated Annual City Tax with PILOT	\$7,524
Estimated Annual County Tax with PILOT	\$22,414
Estimated Total Annual Taxes with PILOT	\$29,937
Estimated Annual Benefit	\$77,893
Cumulative RE Taxes	
<i>Without PILOT</i>	
Estimated Cumulative City Tax without PILOT	\$471,843
Estimated Cumulative County Tax without PILOT	\$606,457
Estimated Total Cumulative Taxes without PILOT*	\$1,078,300
<i>With PILOT</i>	
Estimated Cumulative City Taxes with PILOT	\$75,235
Estimated Cumulative County Tax with PILOT	\$224,139
Estimated Total Cumulative Taxes with PILOT	\$299,374
Estimated Cumulative Benefit over 10-year PILOT	\$778,926

Estimated Cumulative Increase in Taxes due to PILOT

\$127,439

**Staff has concluded that this project would not go forward without a PILOT. Hence, the "Estimated Total Cumulative Taxes without PILOT" figure is a fictional/moot number used to calculate the benefit of the PILOT to the project ("Cumulative" meaning over the term of the PILOT). The benefit figure does not represent lost tax revenue to the city and county. Without the PILOT, the property would remain unimproved and the tax assessment would continue to be based upon the unimproved value. With the PILOT, the amount listed above as "Estimated Cumulative Increase in Taxes due to PILOT" would be the approximate benefit to the city and county from newly generated property tax revenue. That amount does not include any new sales taxes that will be generated by the construction and operation of the project. Furthermore, after the PILOT term has finished, it is expected that the annual taxes will be approximate to the amount listed as "Estimated Total Annual Taxes without PILOT".*