



DATE March 19, 2012

TO: Thomas J. Bonfield, City Manager
THROUGH: Keith Chadwell, Deputy City Manager
FROM: Kevin Dick, Director, Office of Economic and Workforce Development
Christopher Dickey, Senior Manager - Economic Development
SUBJECT: Public Hearing and Recommended Agreement for Economic Development Incentive with Self Help

Executive Summary

This item describes the economic and community development project proposed by Self Help within the Community Development Area in the City of Durham (CDA) outside the downtown development tier. It also describes a proposed economic development incentive contract between Self Help and the City of Durham.

Recommendation

The Office of Economic and Workforce Development (OEWD) recommends that the City Council:

- 1) authorize a public hearing on the proposed economic development incentive agreement per G.S. 158-7.1, and;
- 2) authorize the City Manager to execute an economic development incentive agreement with Self Help in an amount not to exceed \$236,000.00 for a building renovation project at 107 South Driver Street, Durham NC.

Background

On April 4, 2011 the City Council approved an economic incentive policy amendment that updated the earlier policy approved on May 17, 2010, and included a revised Neighborhood Revitalization Grant Incentive Program. Projects to be funded through this program would receive grant funding that is no greater than fifty percent (50%) of the total project investment and are intended:

- to stimulate economic revitalization by leveraging private investment;
- to create and retain permanent full-time livable wage jobs;

- to make permanent jobs accessible to lower income neighborhood residents; including persons who are unemployed
- to engage community involvement and support;
- to strongly encourage local partnerships;
- to complement other neighborhood initiatives, projects and programs;
- to leverage other funding resources.

In order to be eligible for an incentive payment under the “Neighborhood Revitalization Grant Incentive Program,” the capital investment must be made within the Community Development Area (CDA) outside the downtown development tier. The project should have a substantial impact on the physical economic vitality of the affected neighborhood which will strengthen the City of Durham tax base in that area. The maximum incentive award may be up to 50% of the total capital investment made for a total incentive payment but not exceed \$500,000.00. The implementation of this policy is intended to be “performance-based.” In this case, no incentives would be paid to the company until after the company has completed the improvements required by the economic incentive agreement.

Self Help has applied to OEWD for a Neighborhood Revitalization Grant Incentive, in support of its proposed redevelopment project of the “Old” Y.E. Smith School in Northeast Central Durham within the CDA outside the downtown development tier. The restoration of this property will help the continued revitalization of Northeast Central Durham, and is consistent with Self-Help’s mission is to create and protect ownership and economic opportunity for the community at large.

According to documents received from Self Help, the Old Y.E. Smith School was built in 1910 and expanded in 1920. The building sits on a 2.83 acre site, a few blocks north of the Angier-Driver targeted commercial development corridor in Northeast Central Durham. The building was in use as a school from time it was opened until 1967. After 1967 it was then used for a short period of time as a workshop space for Durham Exchange Club Industries’ programs for adults with disabilities. TROSA, Inc. purchased the property in 1998 with plans to renovate it for residential use. These plans have gone unfulfilled. Self Help currently has an option to purchase the building that expires in April 2012 and has been in discussions with Maureen Joy Charter School for them to occupy the building as the only tenant. Maureen Joy’s tenancy would involve a relocation of their existing operation from Cornwallis Road in West Durham to the location on Driver St. The school is in need of a larger facility that would accommodate an increase of approximately two hundred forty (240) students from its existing student body of three hundred sixty (360) to a new total student body of six hundred (600). It should also be noted that according to information received from Maureen Joy Charter School and Self Help, many of the students live within a few miles of 107 South Driver Street and that a relocation of the school to 107 S. Driver would reduce busing schedules by greater than twenty-five percent (25%).

In 2011, Self Help received the unanimous support of both the Durham City-County Planning Commission and the Durham City Council to rezone the property from the previous RU-5 lower density residential designation. Such a rezoning was needed for a minor Special Use Permit application that would allow a school to operate in the building. Self Help’s tentative schedule

reveals that renovation is anticipated to take fourteen to fifteen months from demolition activities to final up fit.

Issues and Analysis

Project Benefits

OEWD staff members have assessed this project and identified potential benefits associated with the restoration and redevelopment of the Y.E. Smith School. Potential benefits are as follows:

- An incentive would help complete the renovation of a 48,000 square foot building that has been underutilized for over forty years;

Renovation of this building could serve to stimulate future private investment in the area.

- An incentive would help create opportunities for two hundred eight (208) construction positions and twenty-five (25) new permanent positions, for which Durham residents could apply (seventy existing permanent positions would move to the new facility as well). Adherence to a Durham Workforce Plan will be a contract deliverable and Durham residents will have the opportunity to apply for temporary positions through the Durham JobLink Career Center System;
- An incentive would help create opportunities for Durham-based businesses to bid on construction-related work associated with the project. Adherence to a Durham-based business plan for construction-related trades would be a contract deliverable; it should be noted that the contractor that is likely to be selected to undertake the project is a Durham-based firm that has a strong familiarity with other local Durham firms and the City's Equal Opportunity Equity Assurance (EOEA) program. Therefore, the likelihood of other Durham businesses participating in this project increases.
- A considerable amount of foot and car traffic would be created only a few blocks north of the Angier-Driver corridor and for upcoming streetscape work. This older neighborhood of Durham has been a targeted area for redevelopment as defined by the City Council in 2006. Such traffic could help create the critical mass needed to strengthen retail possibilities and business prospects in the area. The addition of two hundred eight (208) construction workers and a permanent workforce of ninety-five (95) individuals, in addition to the parents and children that would now be in direct proximity to the commercial area, could improve existing business prospects and future development prospects.
- The redevelopment would increase the tax value the City earns on the property, even after tax credits are applied.

Why a Neighborhood Revitalization Grant is Needed to Make the Project Happen

The anticipated sources of capital for the project are as follows:

Source	Amount
Bank	
Source 1	3,510,900
Bank	
Source 2	1,680,856
Bank	
Source 3	2,092,963
Other	125,000
City	236,000
Maureen	
Joy	250,000
Self-Help	1,343,564
Self-Help	1,162,962
\$ 10,402,244	

OEWD has performed an analysis that indicates a \$236,000.00 grant is needed in order for the project to be completed.

- Self Help is planning to contribute \$1.3 million from its equity fund which yields an internal rate of return (IRR) for the project that just meets the organization’s minimum return requirements as approved by its Board of Directors in May 2006.¹ Self-Help’s return requirements are below the general industry standard IRR for commercial investment of between 10% and 25%. Therefore, this project is already considered a marginal investment by industry standards and the ability of Self Help to invest in other community development projects could be compromised because of the undue burden this project would place on its equity fund if the investment from the fund needed to be greater than currently proposed. If the \$236,000.00 grant were not included as a source of funds, Self Help would be forced to commit more of its equity fund and thereby achieve a lower IRR, which is already at marginal level and at the minimum of the Self Help policy. Furthermore, because of the fact that the investment is marginal from a quantitative standpoint, if Self Help were unable to undertake the project, it is likely that there would be few or no other investors. Therefore, it is likely that the building would remain underutilized and not be rehabilitated for a higher and better use.
- The public commitment of \$236,000.00 sends a strong message to potential investors that would buy New Market and Historic Tax Credits that the City is invested in the deal. Typically, public commitments drive investor confidence. Therefore, the

¹ Internal rates of return are commonly used to evaluate the desirability of investments or projects. The higher a project's internal rate of return, the more desirable it is to undertake the project. Assuming all projects require the same amount of up-front investment, the project with the highest IRR would be considered the best and undertaken first.

\$236,000.00 is a stabilizing influence in determining whether two other key sources will be viable for the project.

- While \$236,000.00 is necessary for the project to happen, the proposed grant comprises only \$236,000.00 of the \$10.4 million project budget. Therefore, the City investment would be very efficient in this case, because it would be leveraged more than forty (40) times with private investment.

Other Policy Issues

Although Self-Help proposes to enter into a lease agreement with Maureen Joy Charter School for use of the renovated facility, the purpose of the city's incentive agreement is to help stimulate economic growth in a community long targeted by the City for redevelopment and revitalization and not to directly assist Maureen joy in any way. The city money being offered to Self-Help for this project is an incentive for economic development, but also a grant for the restoration or preservation of an old, established city neighborhood. Such expenditures of city funds are authorized under North Carolina law as community development programs and activities.

To this end, the proposed incentive agreement includes provisions to allow limited public access for the community to certain portions of the building whether it is ultimately occupied by Maureen Joy Charter or some other school or tenant.

Other Deliverables

The company must provide the City with evidence of capital investment expenditures for space to be occupied at relevant timeframes.

Alternatives

The City Manager may reject the recommendation to approve the funding or may choose to award a grant for a different amount. Implications of such a decision are listed below.

- If the City were to not provide funding for the project, Self Help has indicated that they would be likely to seek alternative financing. However, the likelihood of securing alternative low or no cost alternative financing by the time of the scheduled closing on the property (April, 2012) would be minimal. There is also no guarantee that TROSA would allow the closing to be scheduled at a later date – it has already been pushed from November 2011 to April 2012. For these reasons, the project could be placed in jeopardy if the City were to not provide funding.
- Any alternate financing would likely have a cost associated with the debt. Incurring additional debt service costs would change the internal rate of return and broaden the project financing gap. Such a scenario would also place the project in jeopardy.
- Even if TROSA were to allow the closing date to again be moved later, the construction start would be later and the tenant would not be able to move into the building at the scheduled time of August 2013. The tenant would be unlikely to move into the building in the middle of a school year; therefore, it is likely that the move would be delayed until August 2014. Hence, one of the aforementioned project

advantages related to increased foot and car traffic would be delayed for at least a year.

- Not funding the project would be inconsistent with the Neighborhood Revitalization Grant Incentive program in the CDA outside the downtown development tier. The program is intended to catalyze potentially transformative projects in neighborhoods where disinvestment has been prevalent. The Old Y.E. Smith School Project represents an opportunity for the City to play a key role in investing in a large (48,000 square foot) single building redevelopment project in the City that would further catalyze transformation in the Angier-Driver corridor within Northeast Central Durham. Not funding the project would prevent the City from investing in a potentially impactful public-private partnership where City funding would be leveraged forty times.

Financial Impact

Funding for this project will come from the FY 2012 Neighborhood Revitalization Fund allocation.

SDBE Summary

An SDBE summary is inapplicable because no project-specific goals have been set and no SDBEs are involved in this item