



Date: July 13, 2012

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Kevin Dick, Director – Office of Economic and Workforce Development
David Boyd, Director – Finance
Joy Mickle-Walker – Office of Economic and Workforce Development

Subject: Economic Incentive Contract with 21c Museum Hotels for Capital Investments for City Center Revitalization - “Hill Building” in Downtown Durham.

Executive Summary

This item describes a redevelopment project proposed by 21c Durham, LLC, a division of Louisville, KY- based 21C Museum Hotels. The item also describes the tenets of a proposed economic development incentive agreement between the City and 21c Durham, L.L.C. that is being recommended by the Administration.

Recommendation

The Office of Economic and Workforce Development is recommending that City Council:

1. Authorize a Public Hearing on the proposed 21c Durham, LLC economic development incentive agreement be held per GS 158-7.1; and,
2. Authorize the City Manager to execute the economic incentive agreement between the City of Durham and 21c Durham, LLC for capital investment in the “Hill Building” in downtown Durham.

It should be noted that an exception to the Resolution for the Economic Development Financial Investment and Incentive Policy (approved by the Durham City Council on April 4, 2011) would be required in this case because the policy requires the minimum investment for a project to be at least \$45 million and for the City incentive not to exceed sixteen percent (16%) of the capital investment in a project. This project proposes a capital investment amount of \$33.6 million and a city incentive percentage of seventeen percent (17%).

Background

The project proposed is a 125 room luxury boutique hotel that would contain an art museum and restaurant within the Hill Building in downtown Durham. This project would develop a unique luxury hotel in the heart of downtown by revitalizing iconic downtown building while providing much needed hotel rooms to support Convention Center. The project is

slated to attract new visitors to the City due to this new cultural center and contemporary art museum that will garner significant positive press for City and expand Durham's tax base by generating new local taxes and creating new permanent jobs. The capital investment associated with the project would have a major impact on Durham and its future property values. It will build momentum for a 24 hours a day / 365 days a year thriving downtown and create 150 downtown-based jobs.

The proposed project is slated to create the following benefits:

- Approximately \$33.6 million in capital investment
- 125 hotel rooms
- A museum space that is open to the public, free and that would also function as a private event space.
- A restaurant and bar
- 150+ new permanent jobs
- New construction jobs
- Unique luxury hotel in the heart of downtown
- Revitalization of an iconic downtown building
- The provision of much needed hotel rooms to support Convention Center
- Attract new visitors to City
- New cultural center and contemporary art museum
- Garner significant, positive press for City
- Generate new local taxes

The hotel will be located at the former Hill Building which is in the Parrish Street District of Downtown. The City Center and Parrish Street are both priorities for development in downtown Durham.

All City incentives would be "performance based". This means that 21c would not receive incentives until after the project construction is complete and incremental property tax revenue generation has started. In short, public dollars would follow private investment. A Durham-Based Business Plan and Durham Workforce Development Plan are required for the project. These plans would stipulate that 21c and/or its general contractor make good faith efforts to engage Durham-based firms in the construction work that is done relative to the project and that 21c engage the Durham JobLink Career Center System in efforts to hire temporary and permanent staff related to the project

Issues/Analysis

It should also be noted that the previous incentive deal executed with Greenfire Development, L.L.C. did not come to fruition and that Greenfire Development L.L.C. has indicated to the City that they will not be able to execute the deliverables associated with that agreement. The proposed agreement would be for the redevelopment of the same property and parcels related to the economic development incentive agreement that was approved by City Council in 2010.

Staff is proposing a \$5,723,537.00 incentive to be paid over a 20 year period after the building is completed. No payments to 21c Durham, L.L.C. would be made prior to

completion. Verification of the stated capital investment amounts and revenues to be received from occupancy taxes and retail sales tax collections would also take place prior to payments being made.

The total capital investment is over \$40 million; however, approximately \$33.6 million is capital investment that could have a positive impact upon tax value and includes activities consistent with the Resolution for the Economic Development Financial Investment and Incentive Policy approved by the Durham City Council on April 4, 2011. The company shall begin construction activities no later than June 30, 2013 and secure a final Certificate of Compliance by June 30, 2015.

It should be noted that whereas the Resolution for the Economic Development Financial Investment and Incentive Policy approved by the Durham City Council on May 17, 2010 and revised April 4, 2011 stipulates that the minimum qualified capital investment amount for a major property investment within the Community Development Area must be at least \$45,000,000.00, staff is recommending that an exception be made to the policy in this case for the following reasons:

- The project could substantially improve business prospects at the Downtown Durham Marriott Civic Center and lessen the operating losses currently being incurred by the City;
- The project is slated to create more than 150 permanent jobs with a substantial percentage paying in excess of livable wage;
- The project can provide opportunities to local professional services and construction firms;
- The project is projected to provide an estimated \$280 million in sales and occupancy taxes over a twenty (20) year period.
- The project creates a unique contemporary art museum and private event space that will attract new visitors and tourists.

21c has garnered countless awards, media attention and accolades for their Louisville, KY hotel. They are expanding into additional markets in Bentonville and Cincinnati. Their interest in our community is confirmation that Durham's reputation has grown. Because of 21c's worldwide reputation, and access to the global art world this project will potentially bring additional benefits to Durham that will be significant additional multipliers to the total impact of the development.

Payment to 21c will be semi-annual payments subject to the company satisfying the following requirements:

- The company will have to supply verification that the occupancy tax and retail sales collections are no less than 125% of the incentive payment for the applicable payment year otherwise the company shall remit to the City the difference between the total actual occupancy tax and sales tax revenue and 125% of the performance-based incentive payment.

- Because the project will be using occupancy and retail sales tax revenues to support the project the first semi-annual base incentive payment for payment year one shall occur no sooner than nine months after the first date of operations and only after the company has paid the guaranteed revenue gap payment for year one if required.
- The hotel must remain in continuous operation such that the hotel is open and available to accept hotel room occupants at least 95% (346 days) of the applicable year.

The private to City investment ratio for this project is comparable to ratios for the following downtown projects:

Hill Building – 6 to 1
American Tobacco – 5.3 to 1
West Village – 13 to 1

Alternatives

The City Council may decide to not approve the Development Agreement or may decide to approve the Development Agreement with changes. Choosing the former option would be likely to cause a delay in redevelopment of the City Center given the fact that the ability of 21c Museum Hotels to develop the property is contingent upon public investment.

Financial Impact

The Cash Flow Analysis (see Exhibit E) identifies the financial impact to the City. It also identifies the following revenue sources to the City from the project: The incentive proposed would be a \$5,723,537.00 million incentive paid over a 20 year period that would be in the general fund.

Existing property taxes for each parcel based on a current tax rate of \$0.5675 per \$100 valuation as well as projected incremental property taxes were provided by the Durham County Tax Office with adjustments for Historic Landmark designations. Based upon current tax valuations, over \$1.9 in incremental property taxes and \$8.5 million in occupancy and retail sales taxes would be generated as a result of this project, yielding a net revenue gain to the City of over \$2.6 million over 20 years.

SDBE Summary

While no specific SDBE provisions are specifically required by ordinance for this agreement, it is understood that if this agreement is approved, 21c Museum Hotels will be required to develop and implement a plan to make a good faith efforts to use Durham-based firms for contracting activities. They will also be required to enter into a Workforce Development plan to ensure that Durham residents have the first opportunity to apply for the available jobs that will be created.