



Date: July 22, 2013

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Kevin Dick, Director, Office of Economic and Workforce Development

Subject: Economic Development and Historic Property Preservation Agreement with Concord Hospitality Enterprises Company for Capital Investments and Historic Property Preservation of 1108 W. Main Street

Executive Summary

This item describes the Residence Inn by Marriott project currently proposed by Concord Hospitality Enterprises Company. The item also describes the tenets of a proposed economic development and historic property preservation agreement between the City and Concord Hospitality Enterprises Company that is being recommended by the Administration.

Recommendation

1. Conduct a public hearing on the proposed economic development and historic property preservation agreement between Concord Hospitality Enterprises Company and the City of Durham; and
2. Authorize the City Manager to execute an economic development and historic preservation agreement between the City of Durham and Concord Hospitality Enterprises Company for capital investment and historic property preservation of 1108 W. Main Street, for a total payment amount not to exceed \$1,332,266.00.

Background

The proposed \$29.5 million project would create a 143 room upscale select service Residence Inn by Marriott hotel that will be located at 1108-1110 West Main Street in downtown Durham. The project includes the preservation of specific architectural elements of the historic McPherson hospital by incorporating the front and portions of the side façades of the McPherson building into the hotel structure. Additionally, the preservation of the McPherson hotel and its important architectural elements would help to integrate the project into the adjacent Trinity Park neighborhood to make it more compatible with the image and historical characteristics of Trinity Park.

In addition to preserving architectural elements of the McPherson hospital, the project would expand Durham’s tax base by generating new property, sales and occupancy taxes and would create new permanent jobs. This project would continue to enhance the downtown environment; which was identified as an objective of the 2007 Downtown Master Plan and endorsed by the City Council and many downtown stakeholders. The new jobs, expected to be created by the project, would consist of 14 part-time positions and 31 new full-time paying jobs with benefits; including 8 salaried positions. The Bull City Connector stops directly in front of the proposed hotel.

All City payments would be “performance based”. This means that Concord Hospitality Enterprises Company (“Concord”) would not receive any payments from the City until after the project construction is complete; the McPherson architectural elements have been preserved and integrated into the project; 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 would also be required for the project. These plans would stipulate that Concord and/or its general contractor would make good faith efforts to engage Durham-based firms in the construction work that is done relative to the project and that Concord engages the Durham JobLink Career Center System in efforts to hire temporary and permanent staff related to the project. Relationships have been formed with North Carolina Central University, Durham Technical Community College and other entities in the area that provide hospitality and customer service training.

Issues and Analysis

Staff is proposing a \$1,332,266.00 incentive to be paid over an 8 year period after the building is completed. No payments to Concord Hospitality Enterprise Company would be made prior to completion and evidence that the project has preserved specific architectural elements of the front and side facades of the historic McPherson hospital building. Verification of the stated capital investment amounts would also take place prior to payments being made. Finally, in order to ensure that the new, anticipated jobs are maintained, the hotel will be required to operate continuously to remain eligible for each annual payment made under the agreement.

The proposed amount is \$87,036.00 higher than an amount previously proposed to City Council during FY13. The following considerations apply as it relates to the current proposal:

- The time period of payments has also changed. Whereas the previous proposal to City Council would have had payments being made between FY14 and FY 21, the current proposal would have payments be made between FY16 and FY23. The timing of payments changes the net present value of the proposed incentive, an important calculation that helps determine the ability of the developer to find financing for the project. In essence, delayed payments lessen the value of the previous proposal and broaden the gap. Hence, staff is recommending an increase in real dollars.
- The net present value that was stipulated as being necessary for the developer to acquire financing was \$1,175,000.00. Under the previous proposal, the net present value was \$1,094,047.76. Due to the lesser value caused by delaying payments two years compared with the initial proposal, the additional \$87,036.00 causes an increase in net present value of only \$13,434.67.
- With the current proposal, the net present value would be \$1,107,482.43. Through the possible acquisition of tax credits, workforce grants or energy efficiency programs, the developer would seek to offset the remaining net present value gap of \$67,517.57. It is important to note, however, that these vehicles are more likely to be acquired when there is public commitment of incentives that can be used to leverage them. The risk to the City is minimized because there will be a commencement date threshold and a completion date threshold in the agreement. Therefore, if the developer could not acquire any remaining gap financing and the project did not commence in a timely manner, the city would not need to pay any incentives.

- The increase in real dollars of \$87,036.00 is still within the policy guidelines approved by City Council on April 4, 2011.

On June 24, 2013, the Durham County Board of County Commissioners approved a community development grant for historic preservation of an additional \$400,000.00 to the project. A joint City-County incentive on this project would be consistent with the City and County objective to strengthen the coordination between the two governmental entities as it pertains to economic development philosophy and initiatives. Also, staff has verified that the incentive amount is needed in order for the project to be financed.

The total capital investment planned for the project is \$29.5 million; however, approximately \$22.2 million of this amount is qualified capital investment as defined by the Resolution for the Economic Development Financial Investment and Incentive Policy approved by the Durham City Council on April 4, 2011 (Policy). This means that the \$22.2 million portion will include taxable improvements that could have a positive impact on the city's tax base. Furthermore, this means that the project is consistent with the mid-sized project incentive program of the Policy, which states that a project must directly create in the Community Development Area within downtown at least \$500,000.00 in non-residential capital investment and at least 10 full-time jobs within 3 years of Council approval of an incentive, in which the incentive may be up to 6% of the non-residential capital investment, but not more than \$2,000,000.00.

A further objective of this project is to preserve a dilapidated property and to restore and preserve an important historic structure located adjacent to the Trinity Park neighborhood pursuant to G.S. 160A-456. The agreement with Concord will require the restoration and preservation of the historic McPherson hospital by integrating the front and portions of the side facades of the McPherson building into the hotel construction. The agreement will require that the following architectural elements of the McPherson building be retained in the completed project:

1. Roof and Roofline
 - (a) Hipped roof with central palladian dormer
 - (b) Eaves with modillions and denticulated cornice

2. South (West Main Street) Facade
 - (a) Three story, symmetrical brick façade
 - (b) Double-hung windows with monolithic keystones and sills vertically aligned in columns
 - (i) 2nd and 3rd floor center windows are comprised of three window units: a 6 over 6 unit flanked by narrow 4 over 4 units on either side
 - (ii) 1st, 2nd, and 3rd floor windows to the left and right of the center windows are 8 over 8
 - (c) Balustraded widow's walk balcony at center third floor window supported by two sets of three square columns (arranged in an L configuration at the front corners of the stoop) and two pilasters engaged at the facade
 - (d) Juliet balcony with metal railing at 2nd floor center window
 - (e) 15-light first floor center door with single light sidelights on either side and half round transom; full door surround around transom and sidelights with keystone to match windows

3. East and West Facades -- Double-hung windows with monolithic keystones and sills vertically aligned in columns

- (a) 2nd and 3rd floors have three units each floor: two discrete 6 over 6 units next to a single 8 over 8 units located closest to the south facade
- (b) 1st floor has two 8 over 8 units; one centered under the pairs above and the other aligned with the same units above

Payment to Concord will be annual payments subject to the company satisfying the following requirements:

- The required minimum capital investment was made by Concord; the McPherson architectural elements are preserved and integrated into the project; and a certificate of compliance is issued before the completion deadline.
- 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.
- Compliance with the tenets of the Durham-Based Business Plan
- Compliance with the tenets of the Durham Workforce Plan
- Other tenets of the agreement

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

Concord Hospitality Enterprises Company – 16.6 to 1
Holland Hotel – 16 to 1
21c Museum Hotel – 6 to 1
West Village – 13 to 1
American Tobacco – 5.3 to 1

Alternatives

The City Council may decide to not approve the Economic Development and Historic Preservation Agreement or may decide to approve it with changes. Choosing the former option would likely eliminate the chances for redevelopment of the 1108-1110 West Main Street property given the fact that the ability of Concord to develop the property is contingent upon public investment.

Also, the City would forego an opportunity for a net revenue gain of \$446,634.00 over the period of the incentive and increased amounts beyond the period of the incentive.

Financial Impact

The Cash Flow Analysis (see Exhibit D) identifies the financial impact to the City. It also identifies the following revenue sources to the City from the project: property taxes, sales taxes and occupancy taxes. The payments proposed would be a \$1,332,266.00 paid over an 8 year period that would be approximately 6% of the qualified capital investment amount of \$22.2 million and be paid from incremental tax revenues slated to be generated from the project. There would be no impact on the existing 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. Based upon current tax valuations, over \$640,736.00 in incremental property taxes, \$1,138,000.00 in occupancy and retail sales taxes would be generated as a result of this project, yielding a net revenue gain to the City of \$446,634.00 over 8 years beginning in fiscal year (FY) 2016 (assuming that the construction project begins in FY14 and is completed in FY15).

SDBE Summary

While no specific SDBE provisions are specifically required by ordinance for this agreement, it is understood that if this agreement is approved, Concord will be required to develop and implement a plan to make 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.