



Date: April 30, 2015

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Kevin Dick, Director – Director, Office of Economic and Workforce Development

Subject: Second Amendment to Economic Incentive Contract Between the Gentian Group, LLC And The City Of Durham For Capital Investment in Downtown Durham

Executive Summary

This item recommends the approval of a contract to amend the agreement between the Gentian Group, LLC and the City of Durham related to the economic development incentive awarded to the Gentian Group, LLC on September 17, 2012. The contract was amended on April 21, 2014 with a contract period that would end on April 30, 2015. This second amendment provides for the Company to secure a final Certificate of Compliance by July 31, 2015.

Recommendation

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

1. Hold a public hearing on the proposed amendment to an economic development economic incentive agreement per G.S. 158-7.1; and
2. Authorize the City Manager to execute as the second amendment to the original agreement between the Gentian Group, LLC and the City of Durham extending the time required to secure a final Certificate of Compliance to no later than July 31, 2015;

Background

On September 17, 2012, the City Council approved an Economic Development Incentive Contract of up to \$605,000.00 for the proposed Holland Hotel (now called Hotel Durham) project, a 54-room select service hotel that would contain a restaurant and bar within the 315 East Chapel Hill property in downtown Durham. The project would create a new hotel in the heart of downtown and revitalize an iconic downtown

building while providing much needed hotel rooms to support the Durham Convention Center. The project would expand Durham's tax base by generating new local taxes and creating new permanent jobs. This project would continue to build momentum for the 24 hour per day/365 days per year thriving downtown that has been contemplated as an objective of the 2007 Downtown Durham Master Plan endorsed by the Durham City Council and many downtown stakeholders. The project is slated to create 91 new permanent downtown-based jobs and over 100 temporary construction jobs.

This request is for a second extension. The City council granted the first extension when the developer was denied an attempt to close an adjacent street passage for exterior hotel usage. A lengthy process ensued subsequently that led to the execution of a Revocable Use Easement for this area. A contract compliance date of April 30, 2015 was established.

Since the Council approved the prior extension, the developer has confronted three issues beyond the firm's control that have caused addition delays.

Duke Energy Transformer

During the initial project review, the developer received assurances that an existing vault area on the project premises would be sufficient for locating a new transformer. During April, 2014, Duke Energy determined that a new transformer location exterior to the building would be required given a final assessment of power needs. Locating a site suitable to all parties, and the related redesigns lasted until September, 2014. The County owns the land sited for this purpose and it was necessary to execute an easement. The final process of development review associated with these changes, including the need to obtain a Historic Preservation Certificate of Appropriateness, lasted through February 2015. This resulted in delays of an additional 64 working days.

Holland Street Water Line

The Gentian team agreed to take on the portion of the downtown waterline project, being done by the City of Durham that was to effect water service to their property during January and February 2015. They did this in order to ensure that the work would be completed within a timeframe that would support their opening and would not disrupt water service after opening. They were provided a site plan and construction drawings by the City of Durham and the City's consultant (Kimley Horn). Due to prolonged reimbursement negotiations, as well as discrepancies between the drawings and actual field conditions, this work took three weeks (or 15 working days) longer than scheduled. This delay precluded them from being able to complete water tie-ins to the building and some interior plumbing work on schedule – which in turn delayed many of their plumbing inspections.

Weather

The winter weather of 2015 caused 8-10 days of delays in progress on work on the rooftop, while hazardous driving conditions required a complete shutdown of the construction site for four days. The total time lost to weather was 8 working days.

In total, these issues represent 87 working days of lost time. The Gentian Group LLC has had to spend additional funds (about \$550,000.00 on these issues) in order to help expedite work on the project. With additional weekend work and overtime they have managed to recapture some of that time.

On April 13, 2015, The Durham Board of County Commissioners approved a contract extension on for the Gentian Group, LLC (Hotel Durham) project through July 31, 2015.

Issues and Analysis

According to the original agreement, Gentian was required to secure a final Certificate of Compliance by April 30, 2014. The Gentian Group, LLC experienced severe delays in its development schedule which directly prevented the Company from completing the project within the original proposed timeframes referenced in the economic development incentive agreement, the first amendment was approved at the City Council meeting on April 21, 2014 and extended their contract until April 30, 2015.

Because of the additional delays experienced by the Gentian Group, LLC since April 2014, staff recommends that the City Council authorize the City Manager to amend the first amended contract for economic incentive agreement as follows:

1. Extend the time required to secure a final Certificate of Compliance to no later than July 31, 2015.

Alternatives

The City Manager may choose to reject the recommendation to extend the agreement or to approve a different length of time for the extension. Such decisions could severely impact the ability of the project be completed and to meet the broader visions of the Downtown Durham Master Plan, Comprehensive Plan and the intent to strengthen the business prospects of the Durham Convention Center. Such a decision could also severely impact the ability of the project to be an important part of redevelopment in downtown Durham.

Financial Impact

Extending the completion date in the agreement by 90 days would have no financial impact as the maximum amount of the economic development incentive would not change.

SDBE

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

Attachment:

Second Amendment to Economic Incentive Contract between the Gentian Group, LLC and the City of Durham for Capital Investment in Downtown Durham.