



Date: August 18, 2015

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 Incentive Agreement with Longfellow Real Estate Partners, LLC for Capital Investments related to development of 224, 301, and 302 Morris Street (Durham Innovation District Phase I) in Downtown Durham.

Executive Summary

This item relates to the construction of approximately 271,000 square feet of new commercial space, an associated onsite structured parking facility, and publicly accessible open space known commonly as Phase I of the Durham Innovation District (Durham.ID Phase I) located in the Durham Central Park District of Downtown Durham. It also describes the tenets of the proposed economic development incentive agreement between the City and Longfellow Real Estate Partners.

Recommendation

1. Conduct a public hearing to review the proposed economic development incentive agreement between Longfellow Real Estate Partners, LLC and the City of Durham; and
2. Authorize the City Manager to execute the proposed economic development incentive agreement between Longfellow Real Estate Partners, LLC and the City of Durham for capital investment associated with construction of Durham.ID Phase I, for a total incentive payment amount not to exceed \$5,250,000.00 over 15 years.

Background

On June 24, 2015, the Durham City Council held a special session public hearing where Council authorized the City Manager to negotiate a proposed economic incentive agreement between the City of Durham and Longfellow Real Estate Partners, LLC for the properties being redeveloped at 224, 301, and 302 Morris Street in the Downtown Tier of the City of Durham.

This memorandum provides a summary of the proposed incentive agreement, including terms negotiated in good faith between the parties in the interim, based upon Council's June 24th authorization.

Durham.ID Phase I - Durham.ID Phase I (phase one of five in the proposed master development), with an estimated total qualified capital investment of \$87,000,000.00, would realize new construction along Morris Street in the Durham Central Park District of

Downtown. Durham.ID Phase I would consist of approximately 271,000 square feet of commercial space including laboratory (126,000 square feet) and Class A office (145,000 square feet), as well as an approximately 820 space parking garage, and publicly accessible open space to be maintained by Longfellow. Longfellow additionally proposes approximately \$8,300,000.00 in public infrastructure improvements made to streets, sidewalks, etc., located in the vicinity of the project.

Durham.ID Phase I would expand Durham's tax base by generating new property tax revenue. The project would continue to enhance the downtown environment; an identified objective of the 2015 Joint City-County Economic Development Strategic Plan endorsed by the City Council. Anticipated new jobs created by Durham.ID Phase I would consist of as many as 850 permanent jobs created by tenants, and as many as 780 temporary construction jobs.

All City payments would be "performance based", meaning Longfellow Real Estate Partners, LLC would not receive any payments from the City until after the project construction. Longfellow would also be required to maintain a minimum level of occupancy for new development during the term of the agreement to encourage job creation and to maintain continued eligibility of city incentive payments. A Durham-Based Business Plan and Durham Workforce Development Plan would also be required for the project. These plans would stipulate that Longfellow and/or its general contractor would make good faith efforts to engage Durham-based firms in the construction work performed relative to the project, and that Longfellow and its tenants and/or contractors engage the NCWorks Career Center System when hiring temporary staff related to the project.

Issues and Analysis

Staff is proposing a \$5,250,000.00 incentive to be paid over a 15-year period after the project is completed. No payments to Longfellow would be made prior to project completion and verification of the stated capital investment amounts.

Payment to Longfellow would consist of annual payments subject to the company satisfying the following requirements:

- Required minimum capital investment was made by Longfellow and a certificate of compliance is issued before the completion deadline;
- Maintenance of minimum tenant occupancy of the commercial space constructed;
- Compliance with the tenets of the Durham-Based Business Plan;
- Compliance with the tenets of the Durham Workforce Plan;
- Appropriate Treatment of Contractors and Subcontractors - In order to remain eligible for City Payments, the City may require that Longfellow provide documentation showing either that all entities with whom it has a contract to construct all or any portion of the improvements on the Property have been paid in full and on time, or that a bona fide dispute over the satisfactory completion the work to be performed exists and is in the process of being resolved.
- Provision of Open Space - Longfellow will designate a tract of land representing at least 7.23% of the gross acreage of the property to be developed in Durham.ID Phase I as common area maintained by the owners and tenants of the property but accessible to

the general public on the same terms enjoyed by the owners and tenants of the Durham.ID Phase I., The open space is to be developed in consultation with applicable City departments to insure consistency with current Durham greenway and pedestrian plans, and to provide unrestricted access from at least one existing public right-of-way;

- Parking Available to Public Evenings and Weekends –Longfellow will grant an easement to the City with a term of 40 years to provide that 50% of the total parking spaces constructed at the project (half of approximately 820 spaces) be available to the general public during evening (7:00 p.m. through 6:00 a.m. Monday through Thursday) and weekend hours (7:00 p.m. Friday through 6:00 a.m. Monday), with the same access and rights of use as the tenants of the project, at rates comparable to other Downtown City parking facilities of similar quality;

Alternatives

The City Council may decide not to authorize the City Manager to execute the economic development incentive agreement, or may decide to authorize the Manager to execute the agreement with changes. The alternatives would endanger the likelihood of development of the Durham Innovation District given the ability of the developer to construct the project is contingent upon timely receipt of public investment. In so doing, the City would forego an opportunity for a net tax revenue gain over, and beyond, the period of the incentive.

Financial Impact

The Cash Flow Analysis performed as part of the analysis of the project identifies the financial impact to the City. The payments proposed would be a paid from incremental tax revenues slated to be generated from the project. There would be no impact on the existing general fund. The proposed \$5,250,000.00 incentive would yield payments to Longfellow of \$ 350,000.00 annually over the proposed 15-year incentive period, representing approximately 70% of the incremental City property tax revenue generated by the project. Payments would begin in 2021 (assuming that the construction project begins in 2016 and is completed in 2019).

SDBE Summary

While no specific SDBE provisions are required by ordinance for this agreement, it is understood that if an agreement is approved, Longfellow will be required 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 available jobs to be created.