



Date: September 9, 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 Wexford Chesterfield Parking, LLC for Capital Investments related to development of 701 W. Main Street (The Chesterfield) in Downtown Durham.

Executive Summary

This item relates to the construction of approximately 284,000 square feet of commercial space known commonly as The Chesterfield and an associated offsite structured parking facility located in the Brightleaf District of Downtown Durham. It also describes the tenets of an economic development incentive agreement between the City and the Company.

Recommendation

1. Conduct a public hearing to review the proposed economic development incentive agreement between Wexford Chesterfield Parking, LLC and the City of Durham; and
2. Authorize the City Manager to execute an economic development incentive agreement between the City of Durham and Wexford Chesterfield Parking, LLC for capital investment associated with construction of The Chesterfield, for a total incentive payment amount not to exceed \$6,000,000.00 over 15 years.

Background

The Chesterfield redevelopment with an estimated total cumulative minimum qualified capital investment of over \$80,000,000.00 would activate a significant vacant building along West Main Street in the Brightleaf District of Downtown. The Chesterfield would consist of approximately 284,000 square feet of commercial space including laboratory (153,000 square feet), Class A office (78,000 square feet), ground floor retail (11,000 square feet), and a research and development innovation space (42,000 square feet). The Company would additionally construct a 544 space offsite structured parking deck supplemented by as many as 221 onsite surface parking spaces for a total of approximately 765 additional improved parking spaces in downtown. The company is evaluating future development possibilities on the surface parking lot.

Redevelopment of The Chesterfield 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 The Chesterfield would

consist of as many as 710 permanent jobs created by tenants, and as many as 560 temporary construction jobs.

All City payments would be “performance based”, meaning Wexford Chesterfield Parking, LLC would not receive any payments from the City until after the project construction is complete. The Company would also be required to maintain a minimum level of occupancy for The Chesterfield 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 the Company 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 the Company 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 \$6,000,000.00 incentive to be paid over a 15 year period after the building is completed. No payments to Wexford Chesterfield Parking, LLC would be made prior to project completion and verification of the stated capital investment amounts.

Payment to Wexford Chesterfield Parking, LLC will consist of annual payments subject to the Company satisfying certain requirements, including the following:

- The required minimum capital investment must be made by the Company and a certificate of compliance must be issued by the completion deadline;
- Maintenance of minimum tenant occupancy of The Chesterfield building;
- Compliance with the tenets of the Durham-Based Business Plan;
- Compliance with the tenets of the Durham Workforce Plan;
- Delivery of a precondition payment to the City to accompany each annual invoice for incentive payment;
- Making available to the public at least 50% of the spaces in the proposed parking deck on nights and weekends.

Alternatives

The City Council may decide not to authorize the City Manager to execute the economic development incentive agreement, or may decide to authorize such execution with changes. Choosing the former option may eliminate chances for successful redevelopment of The Chesterfield in its entirety given the ability of the developer to construct the project is contingent upon public investment as well as ability to begin construction in 2015. The City would further forego an opportunity for increased job creation and a net tax revenue gain over, and beyond, the period of the incentive.

Financial Impact

The cash flow analysis performed as part of the evaluation 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 \$6,000,000.00 incentive would yield payments to the Company equivalent to \$400,000.00 annually over the proposed 15 year incentive period. The Company must in-turn deliver a precondition payment to the City with each annual invoice for incentive payment equivalent to \$260,000.00 annually over the proposed incentive period. Such precondition payment serves to level revenue to the City enabling the Company to

retain local historic landmark designation and the associated eligibility for a fifty percent annual property tax deferment. Incentive payments represent approximately 70% of the incremental City property tax revenue generated by the project, and would begin in 2018 (assuming that the construction project begins in 2015 and is completed in 2016).

SDBE Summary

While no specific SDBE provisions are required by ordinance for this agreement, it is understood that if an agreement is approved, the Company will be required to make good faith efforts to use Durham-based firms for contracting activities. The database of Durham-based firms will include Durham-based minority and woman-owned businesses. They will also be required to enter into a Workforce Development Plan to ensure that Durham residents registered with the NCWorks Career Center System have the first opportunity to apply for available jobs to be created.