

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: September 6, 2022
RE: PILOT Application: 250 N. Main Street (Sheraton Renovation & Expansion)

The enclosed PILOT application has been submitted for consideration at the September 13, 2022 CCRFC Board Meeting.

Project: 250 N. Main Street (Sheraton Renovation & Expansion)

Applicant: Hotel Memphis, L.P.
- A joint venture between affiliates of Starwood
Capital Group & Schulte Hospitality Group

Representative: Rob Tanenbaum
Managing Director of Asset Management
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Applicant's Request: 30-year PILOT and 5% Tourism Surcharge for renovation of the existing Sheraton Hotel and new construction of a 300-key hotel expansion.

Included Parcels: The applicant is requesting a PILOT to include the following parcels:

<u>Parcel ID #</u>	<u>Address</u>
001030 00001L	250 N. Main St.
001029 00004	0 Market Ave.
001029 00005	0 Market Ave.
001030 00002	0 Market Ave.
001030 00003	0 Market Ave.
001030 00001Z	Market Ave. (between Main & 2 nd)

Background: In 2017, Hotel Memphis acquired the Sheraton Memphis, a 600-key hotel with more than 16,000 square feet of meeting space adjacent to the Renasant Convention Center. In December 2021, Hotel Memphis transitioned management of

the Sheraton Memphis to Davidson Hospitality. Hotel Memphis supports an estimated 253 permanent jobs and \$12.1M in total annual wages.

Project Description:

The original building of the Sheraton Memphis was built in 1985 and the additional tower with 207 rooms was constructed in 2004. The applicant is considering a renovation of the existing hotel and potential construction of 300 additional rooms with a tower expansion. The potential tower expansion would likely occur on Tax Parcel #001029 00003 (0 N. Second Street), which is currently owned by the City of Memphis. The applicant’s goal is to reinvigorate the Sheraton Memphis to be the “living room” of the Convention Center District with social gathering spaces and amenities. The applicant plans to enter into a parking agreement with the adjacent Renasant Convention Center for approximately 230 parking spaces for a period of 10 years.

Depending on future market factors and economic considerations, renovation could begin in Q1 2023 and be complete in 18 months. The 300-key hotel expansion could begin as early as 2024 and be complete within 20-22 months after commencement.

Project Budget:

The applicant plans a total development budget of approximately \$226,000,000, assuming the expansion of the hotel. This total budget includes renovation of the existing hotel, construction of a new hotel tower, and FF&E items.

The following describes the project’s sources and uses:

Sources:

TDZ Surcharge Revenue	\$226,000,000	(100%)
Total Sources	\$226,000,000	(100%)

Uses:

Hotel Renovation	\$86,000,000	(38%)
FF&E/Refreshes	\$37,000,000	(16%)
300-Key Hotel Expansion	\$103,000,000	(46%)
Total Uses	\$226,000,000	(100%)

Project Grading:

Per the CCRFC’s PILOT grading system, the project achieves a maximum grade of up to 20 Years:

Primary Qualification:

Hotel (+201 rooms) 5 Years

Secondary Qualification:

Retail (+30,001 sf) 3 Year

Total Project Development Costs:
+\$20M Million 5 Year

Priorities & Initiatives
Located within CBID 3 Years
New Construction in DT Core 1 Years
Main-2-Main Route Location 3 Years

Total Grade: 20 Years

PILOT Request: 30 Years

EBO Program: Any project that is awarded financial incentives from the Downtown Memphis Commission (DMC), or any of its affiliate boards, shall include a best faith effort to attain no less than 25% participation by minority and/or women-owned businesses (MWBES) in the project's development costs (design soft costs and construction hard costs). **Compliance with this Equal Business Opportunity (EBO) Program is a closing requirement. If the requirements of the EBO Program are not met, the CCRFC reserves the right to cancel the incentive.**

Outreach & Inclusion Plan: The specific steps required for each applicant to be compliant with the DMC's EBO Program will take into consideration the size, scope of work, and development costs associated with the project. At the time of PILOT application, it is typically too early in the process to identify specific contractors or sub-contractors that will ultimately be involved in the construction. However, the developer has a clear understanding of the EBO Program and has worked with DMC staff to identify the following key steps that will be included in their Outreach & Inclusion Plan:

- The applicant will meet and coordinate with minority-owned business assistance organizations such as the Memphis Area Minority Contractors Association (MAMCA) and the Mid-South Minority Business Council Continuum (MMBC) to make their members aware of the project and any contracting and sub-contracting opportunities.
- The applicant will use the City of Memphis Business Diversity & Compliance Registry and the resources at the Shelby County Office of Equal Opportunity Compliance to identify qualified general contractors and tradespeople to perform the needed work.

- The applicant will advertise and host a pre-bid conference at the property to allow MWBE general contractors and subcontractors an opportunity to ask questions and learn more about the job opportunity. DMC staff will be invited to attend the pre-bid conference to observe.
- The developer will work in good faith to identify any opportunities for a joint venture, partnership, teaming agreement, or similar creative approach to provide MWBE general contractors an opportunity to participate in the project to gain new experience with projects of this size and scale.
- Once a general contractor is identified, the applicant will contact a minimum of 3 certified MWBE businesses for each trade or type of subcontractor needed, and provide each a fair opportunity to submit a bid and be considered for the work.
- Once the service providers have been identified, the applicant will submit the form titled “Proposed Utilization Plan” to DMC staff for review and approval. The applicant will also be asked to provide a full record of the outreach steps taken and the results. This documentation can include items such as a phone call log, copies of emails, meeting notes, and pre-bid conference attendance sheet.
- After construction has started, the applicant will provide monthly updates to DMC staff detailing the project status and level of MWBE involvement at each major phase of the project.

Minimum MWBE Goal:

Based on the current information provided by the applicant, the estimated EBO-eligible costs for this project are as follows:

Hotel Renovation

Hard Construction Costs	\$63,097,000
Professional Fees	\$3,365,000

300-Key Tower Expansion

Hard Construction Costs	\$78,000,000
Professional Fees	\$5,000,000

Total EBO-Eligible Costs \$149,462,000

According to the above estimates, a 25% level of MWBE inclusion for the EBO-eligible costs will be approximately **\$37,365,500.**

Tourism Surcharge:

The Local Tourism Development Zone Business Act was amended recently to permit the City to:

- Impose a privilege tax on the sale of certain goods and services within all or a portion of the Downtown Memphis Tourism Development Zone
- Assign the revenues generated from a Tourism Surcharge to CCRFC to finance, fund, or otherwise reimburse costs incurred in connection with the development of a qualified public use facility (QPUF).

The Surcharge Act defines a QPUF as a full-service hotel of 250 or more rooms and related retail, commercial, and parking spaces located within the Downtown Tourism Development Zone (TDZ). The subject property is a full-service hotel with 600 rooms and various commercial, retail and parking areas, and is located within the Downtown TDZ. The applicant's position is that the Sheraton Memphis qualifies for Tourism Surcharge incentives and requests the following:

- CCRFC and the City designate the Project Location as a QPUF under the Surcharge Act
- The City impose via ordinance a Tourism Surcharge of five percent (5%) on the sale of all qualified goods and services made within the Project Location for a period of thirty (30) years
- The City assign all revenues generated by such Tourism Surcharge to CCRFC to finance or fund all applicable costs incurred in connection with the Project
- The CCRFC enter into a development agreement with Hotel Memphis in connection with the Tourism Surcharge incentive and the use of the proceeds therefrom as the funding mechanism for the Project.

Applying a 5% surcharge to total revenue expected to be generated over the next 30 years at a renovated Sheraton Memphis (including room and F&B revenue), the applicant estimates that the Tourism Surcharge would generate an average of \$2.8M per year in revenues with a total of approximately \$93M in revenues over the 30-year term. If the applicant undertakes the expansion, it anticipates that the Tourism Surcharge levied at a renovated and expanded Sheraton Memphis would generate an average of \$4.2M per

year in revenues with a total of approximately \$127M in revenues over the 30-year term.

Design Review Board: The applicant will submit design plans to the DRB prior to start of any exterior work.

Estimated Payments The current annual city and county taxes on the subject property, which is currently under an existing PILOT, total approximately **\$246,440**. Following the expiration of the current PILOT in 2023, the taxes will total approximately **\$1,135,662**. A PILOT would facilitate an extensive renovation of the existing hotel, and the construction of a new tower.

During the 30-year PILOT term, the annual payment in lieu of taxes following the hotel renovation and tower construction is estimated to be **\$1,770,512**. This represents a **618%** increase from the amount of taxes currently generated by the property, and a **35%** increase from the amount that would have been paid after the expiration of the current PILOT.

Staff Evaluation: The DMC's Strategic Plan encourages the following: facilitating and accelerating real estate development, incentivizing development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment.

Adding new high-quality hotel rooms and amenity space near the recently renovated Renasant Convention Center is highly consistent with the DMC's strategic plan for building commercial density and attracting new investment within the Downtown Core. New infill construction with additional hotel rooms will help improve commercial property values in the area, increase vibrancy, and may ultimately help attract additional convention business and visitors to the region.

Staff Request: Staff requests approval of a 30-year PILOT for the planned renovation and 300-key hotel expansion, subject to the relevant closing requirements and conditions, and contingent on any required approval from the State of Tennessee for the extended PILOT term.

Staff requests that CCRFC enter into a development agreement with Hotel Memphis in connection with the 5% TDZ Tourism Surcharge incentive and the use of the proceeds as the funding mechanism for the Sheraton renovation & expansion project.