

Center City Revenue Finance Corporation Board Meeting

To: Center City Revenue Finance Corporation (CCRFC)
From: DMC Staff
Date: June 6, 2023
RE: PILOT Application: Liberty Park Mixed-Use Project

The enclosed PILOT application has been submitted for consideration at the June 13, 2023, CCRFC Board Meeting.

Project: Liberty Park Mixed-Use Project

Applicant: James E Maclin, Jr.
President/CEO, M&M Enterprises
25 Dr. MLK Ave. STE 306
Memphis, TN 38103

Norm Jenkins
President/CEO, Capstone Development
4445 Willard Ave. STE 600
Chevy Chase, MD 20815

Applicant's Request: 15-year PILOT for a mixed-use development with 200 apartment units, 12,000 sq. ft. ground floor commercial space, and a 200-key full-service hotel.

Site & Included Parcels: This PILOT application is for the first phase of the Private Development Opportunity (PDO) for the City of Memphis's fairgrounds redevelopment named Liberty Park. The proposed project was selected by the City of Memphis for key parts of the Fairground Planned Development including the following:

- Parcel 5 (Multifamily)
- Parcel 6 (Multifamily)
- Parcel 1 (Hotel)

The site is generally located at the corner of Central Ave. and Early Maxwell between the Memphis Children's Museum and The Maxine Smith STEM Academy. In the Memphis 3.0 Comprehensive Plan, this area is designated as primed for acceleration as a key urban center.

Background: The proposed project will be a mixed-use development including approximately 200 new apartment units, over approximately 12,000 sq. ft. of ground floor commercial

retail and amenity space, and approximately 200 full-service hotel rooms.

As Liberty Park is public property, the deal structure deviates slightly from that of a typical PILOT request involving only a private commercial development on privately-owned property. The subject property is currently tax exempt and does not pay City or County property taxes. If a PILOT is approved, this project will involve one or more ground-leases between the applicant and the City of Memphis. The CCRFC PILOT lease will be between the City of Memphis and the CCRFC, with the applicant being a party to the PILOT Lease. The PILOT Lease will provide that the applicant/developer will assume the obligations of a developer under the PILOT Lease. The City will also sublease the subject property to the applicant.

If a PILOT is approved for the project, the applicant will be in a position to conclude development agreement negotiations with the City of Memphis. Construction of the multifamily and mixed-use commercial part of the project could begin in Q4 2024 and be complete by Q4 2026. Hotel construction is projected to begin in Q3 2024 and be complete in Q1 2026.

Project Budget:

The total development cost of the project is approximately \$75,442,554. To be eligible for a PILOT, the value of the proposed building renovations, site improvements, or new construction must be equal to, or greater than, at least 60% of the total project cost. Based on the preliminary budget, the project meets this requirement.

The following describes the overall sources and uses of funding for each major project component:

MIXED-USE BUDGET:

Multifamily & Ground-Floor Commercial

Mixed-Use Sources:

Debt	\$27,766,578	(65%)
Equity	\$14,951,234	(35%)

Mixed-Use Sources **\$42,717,813** **(100%)**

Mixed-Use Uses:

Hard Costs	\$35,401,250	(82.9%)
A&E Design Fees	\$1,375,000	(3.2%)

Studies (Mkt & Eng)	\$160,000	(0.4%)
Furniture & Fixtures	\$570,000	(1.3%)
Financing/Legal	\$2,405,000	(5.6%)
Developer Fee	\$1,738,563	(4.1%)
PILOT Fee	\$568,000	(1.3%)
Cash Reserves	\$500,000	(1.2%)
Contingency	\$1,650,000	(3.9%)
Mixed-Use Uses	\$42,717,813	(100%)

HOTEL BUDGET:
200-Key Full-Service Hotel

Hotel Sources:

Debt	\$22,907,319	(70%)
Equity	\$9,817,423	(30%)

Hotel Sources **\$32,724,742** **(100%)**

Hotel Uses:

Hard Costs	\$19,950,000	(61%)
A&E Design Fees	\$988,800	(3%)
Other Soft Costs	\$1,340,380	(4.1%)
Furniture & Fixtures	\$3,520,000	(10.8%)
Financing/Legal	\$1,823,968	(5.6%)
Developer Fee	\$890,069	(2.7%)
PILOT Fee	\$483,000	(1.5%)
Cash Reserves	\$883,000	(2.7%)
Contingency	\$2,845,525	(8.7%)

Hotel Uses **\$32,724,742** **(100%)**

Project Grading:

Per the CCRFC's PILOT grading system, the project achieves a grade of up to 18.5 Years:

Primary Qualifications:

Residential (+51 units)	6 Years
Hotel (101-200 rooms)	5 Years

Secondary Qualification:

Retail (10,000 – 14,999 sf)	1.5 Year
-----------------------------	----------

Total Project Development Costs:

+\$20 Million	5 Years
---------------	---------

Priorities & Initiatives

Located within CCRFC Boundaries 1 Year

Total: 18.5 Years

Applicant's Request: 15 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 applicant 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 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.

- 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 thus far. 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:

Hard Construction Costs	\$53,701,250
A&E Fees	\$2,363,800
<u>Total Eligible Development Cost</u>	<u>\$56,065,050</u>

According to the above estimates, a 25% level of MWBE inclusion for the eligible costs will be approximately **\$14,016,263.**

Housing Policy: Multifamily developments with 51 or more units are subject to the Downtown PILOT Program’s affordable housing policy. This policy states that at least twenty percent (20%) of the residential units shall be occupied by or held available solely for individuals and families of low and moderate income such that the percentage of median gross income shall not exceed eighty percent (80%) of the median gross income for Shelby County, Tennessee.

Design Review Board: The applicant will submit plans to the DRB in the coming months.

Estimated Payments:

Generally, where a project has been owned by a non-taxpaying entity prior to a PILOT Lease being put in place, CCRFC has set a base assessment based on the tax assessment of the property (if there is an assessment), a third-party appraisal of the property, or a reasonable value based on relevant comps, and applied the 25% incremental increase in PILOT Payments to the amount above the assessor's or third party's appraisal. Staff is comfortable using the applicant's assumption of approximately \$3.16 per sq. ft. for the value of the vacant land being occupied by this project's footprint.

This PILOT will allow for the full redevelopment of underutilized public property in the heart of the core city. The annual property tax generated by this property is currently **\$0**. During the 15-year PILOT term, the developer estimates that the annual payment in lieu of taxes paid directly to the City and County could be an amount up to **\$624,000**.

Over the 15-year PILOT term, the developer estimates that this project could generate up to **\$9,300,000** in total payments in lieu of taxes to the City and County.

After the PILOT term ends, the ground lease with the City will stay in place and a leasehold assessment of the property is expected. The ground lease provides that the developer will pay whatever taxes are charged with respect to the property following the PILOT term completion.

Staff Evaluation:

Based on the submitted application and the accompanying pro forma, DMC staff agrees with the applicant that a PILOT is needed for the project to be economically viable, attract bank financing, and warrant equity investment.

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.

In the heart of the core city, Liberty Park is planned to be a hub of activity featuring Tiger Lane, Simmons Bank Liberty Stadium, and now home to the new 227,000-square-foot facility for youth sports and events. Liberty Park will be home to festivals, sporting events, and celebrations of all types. The mix of uses is designed to attract both tourists and locals alike.

The overall Private Development Opportunity (PDO) offered by the city of Memphis will help anchor the northern end of Liberty Park. The proposed mixed-use development represents a significant piece of that area and is intended to add retail and hospitality options to the site along with new residential population to support around-the-clock vibrancy at Liberty Park. The applicant currently has the site under letter of intent with the City of Memphis and is working diligently on ground lease and development agreements with the City.

The proposed mixed-use development will help fulfill the overall vision of Liberty Park by adding new residential density, full-service hotel rooms, and additional retail offerings to this catalytic site in the core city. The proposed uses will be an important and synergistic complement to the youth sports and recreation facilities within the reimagined Fairgrounds property.

Recommendation:

Staff recommends approval of a 15-year PILOT.