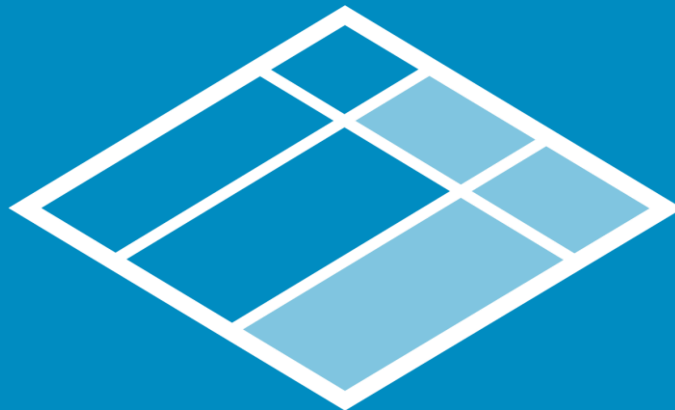




■ DOWNTOWN  
■ MEMPHIS  
■ COMMISSION

ADOPTED JULY 1, 2023

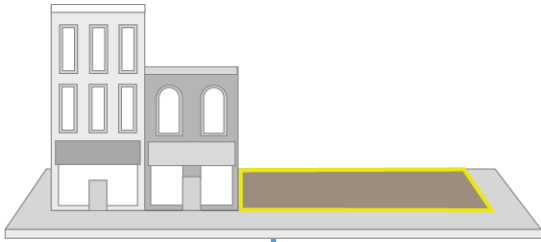
# DOWNTOWN MEMPHIS PILOT PROGRAM



*A partial freeze of property taxes for significant new  
construction or renovation projects.*

# PILOTS: A QUICK GUIDE

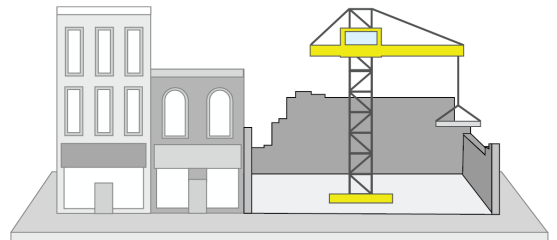
## APPLYING FOR A PILOT



- PILOT applications are reviewed and approved by the Center City Revenue Finance Corporation Board.
- Before applying for a PILOT, the applicant must either own the subject property, or have an option to purchase the property.
- A complete PILOT application must demonstrate financial need using detailed pro formas comparing the development's financial performance with and without a PILOT.

- Within 12 months of PILOT approval, the PILOT recipient must close the PILOT. Closing a PILOT includes:
  - Transferring the property title to the CCRFC
  - Entering into a PILOT lease with the CCRFC
  - Paying the PILOT closing fee
- Once a PILOT is closed, the PILOT lessee has 24 months to complete construction before the awarded PILOT years begin.
- The PILOT recipient must comply with the DMC's Equal Business Opportunity (EBO) Policy during the construction process to retain the awarded PILOT.

## CONSTRUCTION & CLOSING



## ACTIVE PILOT PERIOD



- While the PILOT is active, the PILOT lessee is responsible for maintaining the property in good condition, making timely annual PILOT payments to the city and county, and providing the DMC with any compliance documentation for affordable housing and other program requirements.
- A PILOT lessee may transfer or sell their interest in a PILOT property, subject to CCRFC approval and the payment of a transfer fee.
- At the end of the term specified in the PILOT lease, the property title is returned to the PILOT lessee, and the owner begins paying full property taxes.



# DOWNTOWN MEMPHIS PILOT PROGRAM

ADMINISTERED BY THE CENTER CITY REVENUE FINANCE CORPORATION (CCRFC)

The Downtown Memphis PILOT (Payment-In-Lieu-Of-Taxes) Program is a financial incentive designed to encourage commercial real estate development in and around the Downtown Memphis area by partially freezing property taxes at the predevelopment level for a limited period of time.

- PILOTs are not entitlements. In order to qualify for a PILOT, an applicant must clearly demonstrate that their project requires a PILOT in order to be financially viable, and meets all the other eligibility requirements.
- The CCRFC Board reserves the right to reject any application, or place conditions on its approval.
- Following approval, the project must comply with all the terms of the approved PILOT, including the DMC's Equal Business Opportunity (EBO) policy (p. 3).

## PROGRAM OVERVIEW

---

### HOW THE PILOT WORKS

A PILOT slows the rise in property taxes that would normally occur following a significant investment to a property, but does not decrease taxes from their present amount, or fully freeze them.

- In order to receive the tax benefits of a PILOT, the property owner transfers the title to the CCRFC before the start of construction, which grants the property tax-exempt status.
- The CCRFC then executes a PILOT lease with the former owner, which specifies annual PILOT payments that must be made to the city and county.
- Annual PILOT payments are equivalent to the property's pre-development property taxes, plus taxes on 25 percent of the property's increase in value since the close of the PILOT – payments during the PILOT period are always higher than the property's pre-development property taxes.
- At the end of the term specified in the PILOT lease, the title is transferred back to the PILOT lessee, and the property owner begins paying conventional property taxes based on the property's full valuation.

### ELIGIBILITY REQUIREMENTS

In order to be eligible for a PILOT, applicants must meet the following requirements:

- The project must be located within the program’s boundaries, which include the Central Business Improvement District (CBID), the adjacent area bounded by the Parkways, and the Fairgrounds (**Attachment II: Boundary Map**).
- Hard construction costs must make up more than 60 percent of the total project cost.
- The project must pass a “but for” test that determines that the project would not be financially feasible without a PILOT.
- Applicant must own the property or have an option or other right to purchase the property.
- Residential projects with 50 units or more must be able to comply with the requirements of the DMC’s Affordable Housing Program (**p. 4**).
- Any development project that is already under construction, excluding stabilization, site preparation, or utility work, is ineligible for the program.

## PILOT LENGTH

Eligible projects qualify for a standard PILOT length of 10 years. Longer PILOTs are possible under the following conditions:

- 15-Year PILOTs are available for projects that meet three bonus criteria from the list below.
  - Alternatively, multifamily projects with over 50 units can qualify for a 15-Year PILOT by providing affordable housing within the development under the terms of the DMC’s Affordable Housing Program.
- 20-Year PILOTs can be awarded to projects that meet the requirements for a 15-year PILOT and include over \$100 million in total project costs.

### *PILOT Bonus Criteria*

- Project includes the redevelopment of a property certified as blighted by DMC staff.
- Project includes the adaptive reuse of an existing building.
- Project will Infill a vacant lot or surface parking lot in the Downtown Core (must be condition prior to acquisition).
- Project includes the renovation of a contributing structure in a National Register Historic District or an individually listed property on the National Register of Historic Places.
- Project will achieve LEED or Net Zero Certification.
- One of the following geographic priorities can be counted:
  - Project is located in a Memphis 3.0 Accelerate Anchor.
  - Project is located in a designated retail node or the Downtown Core.
  - Project is located in a census tract with poverty rate over 20%.

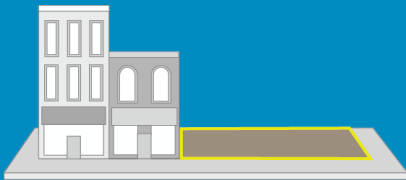
## PILOT PAYMENTS

During the term of the PILOT, payments in lieu of taxes to the City of Memphis and Shelby County will be based on the property's assessment at the time of closing, plus 25 percent of the property's increase in assessment since closing.

An example of a typical PILOT payment calculation is given below:

### *PILOT Payment Calculation Example*

Pre-Development Assessment  
**\$1,000,000**



Current Year's Assessment  
**\$10,000,000**



Assessment Increase	\$9,000,000
25% of Assessment Increase (Increment)	\$2,250,000
Pre-Development Assessment + Increment	\$3,250,000
PILOT Payment Calculation: \$3,250,000 X Current Year's Millage Rate	

## OTHER REQUIREMENTS AND FEES

### EQUAL BUSINESS OPPORTUNITY (EBO) POLICY

Projects that are awarded a PILOT must comply with the requirements of the DMC's Equal Business Opportunity (EBO) Program:

- The applicant must make a best-faith effort to reach out to Minority and Women-owned business Enterprises (MWBEs) for the contracting opportunities associated with the project, with the goal of reaching 25 percent MWBE participation in the project's eligible costs.
- Eligible costs include all hard costs, as well as soft costs associated with professional services like architecture and engineering.
- The outreach process must be documented by the applicant to provide evidence of compliance.
- DMC staff will work with the applicant to identify necessary steps for the project's EBO compliance, and to provide resources and support throughout the compliance period.

- Failure to comply with the EBO policy will result in a termination of the project's PILOT award.

## AFFORDABLE HOUSING PROGRAM

Multifamily projects with over 50 units of housing must comply with the requirements of the PILOT Affordable Housing Program. Projects have the choice to comply with this requirement in two different ways:

- **A project can provide affordable housing within the development during the term of the PILOT.**
  - At least 20 percent of the building's residential units must be rented to households making 80 percent or less of the Memphis MSA's Area Median Income (AMI).
  - These affordable units must reflect the building's mixture of unit sizes and types, and not merely consist of the smallest units in the building.
  - Rents for these units must be capped at 30% of monthly income for households making 80 percent or less of the Memphis MSA's AMI.
  - The DMC will provide PILOT applicants with current income and rent limit information to assist with the compliance process.
- **A project can choose to pay a fee which will be used to fund other affordable housing projects in Downtown Memphis.**
  - The fee will be equal to 2 percent of the project's total costs, excluding the PILOT fee.
  - Projects that choose to pay the affordable housing fee rather than providing affordable housing in the development are limited to a PILOT term of 10 years.

## PROGRAM FEES

- **Closing Fee**  
If a PILOT is granted, a closing fee equal to 1 percent of total project costs will be due upon closing. The closing fee will be capped at a maximum of \$1 million. Project costs shall be determined on the basis of the total budgeted cost for a project including all soft and hard costs, but excluding CCRFC fees. The proposed budget included in a PILOT application will be considered the applicant's certification of the project's likely cost. An updated budget may be requested at the time of a PILOT's closing to calculate the final fee.
- **Closing Deadline Extension Fee**  
If a PILOT does not close within one year from approval, the applicant may request to extend the closing deadline for one year, subject to an additional \$2,500 closing deadline extension fee.
- **Transfer Fee**  
The transfer of a lessee's interest in a PILOT property requires the approval of the CCRFC, and the payment of a PILOT transfer fee equal to 1 percent of the project's value.

# PILOT APPLICATION & APPROVAL PROCESS

---

## 1. ELIGIBILITY SCREENING

Potential applicants should contact the Downtown Memphis Commission (DMC) to evaluate their eligibility for the Program. DMC staff will ensure that all eligibility criteria are met prior to submitting an application.

## 2. PRE-SUBMITTAL CONFERENCE

A meeting with an assigned staff member must be held prior to submission of the application. The purpose of the meeting is to acquaint all parties with the scope of the project and any related issues. This meeting also serves to familiarize the applicant with the submittal and review process along with program requirements and policies. The estimated eligible PILOT Term may be determined in this meeting.

## 3. APPLICATION SUBMITTAL

The application must be assembled according to the Application Outline (Attachment I). Incomplete applications will not be accepted. The final application must be submitted no later than three weeks prior to the CCRFC meeting date. Once the final application has been submitted to the CCRFC Board, the information contained in the application is a matter of public record.

## 4. EBO COORDINATION

The applicant and DMC staff must discuss and agree on a preliminary plan for EBO compliance prior to the CCRFC board meeting where the PILOT will be considered. Compliance with the DMC's EBO requirement is absolutely necessary in order to receive a PILOT. Before any PILOT is approved, the applicant must work with DMC staff to identify the specific steps they will take to comply with the policy.

## 4. DMC STAFF REVIEW AND RECOMMENDATION

Based on the application, staff will prepare a report that will include a summary of its evaluation and its recommendation. This report, along with the application, will be sent to the CCRFC Board prior to its monthly meeting, and will also be made available on the DMC website.

## 5. CCRFC BOARD MEETING, REVIEW AND APPROVAL

The CCRFC Board generally meets on the second Tuesday of every month at 9:00 am. Meetings are typically held at the DMC offices at 114 North Main Street. At this meeting, the application and staff report will be made available for public viewing and comments.

Staff will present each application and its recommendation at the meeting. The applicant, or an authorized representative, must be present. The Board may ask the applicant to make brief remarks regarding the project, at which time the Board may further ask questions of staff and the applicants before making its decision.

The Board will approve, deny, or postpone a resolution of the application at this meeting. The Board reserves the right to deny or reject any application, or to reduce or increase any PILOT Term request. The Board

also has the right to approve any application, based on certain conditions being met. Applicants will be notified in writing of the Board's resolution.

## 6. DESIGN REVIEW BOARD APPROVAL

All applicants pursuing PILOTs must have their projects reviewed by the DMC Design Review Board (DRB). For details regarding the DRB review, please refer to the separate DRB Application.

## POST-APPROVAL STEPS

---

### CLOSING

The deadlines and related policies for approved applicants are as follows:

- A PILOT may be vetoed, in writing, by the Mayor of the City of Memphis with respect to City of Memphis taxes, and the Mayor of Shelby County with respect to Shelby County taxes, within 14 days of written or electronic notice to the respective Mayor the Board meeting where such PILOT is approved.
- After approval by the Board, the applicant will have up to one year to close a PILOT lease.
- If the lease has not been closed within one year, an applicant may request a closing deadline extension of one year, subject to the \$2,500 extension fee.
- Projects are limited to one extension, and the extension fee shall not be credited against the closing fee.
- If a PILOT does not close prior to the termination of the extension period, the project must be resubmitted, reviewed, and approved by the CCRFC.
- All PILOT leases will be closed in the name of the applicant or party designated in the application as the owner of the project. Prior approval of CCRFC Board of Directors will be required for substitution of another party as lessee under any PILOT lease upon closing thereof.
- Upon closing, title transfer will occur and the PILOT lease will be registered with the City of Memphis and Shelby County.
- The PILOT lease will provide for a construction period of up to 24 months before the PILOT benefits begin and the awarded PILOT years start running down.
- If the applicant abandons the project and leaves it not cared for and unoccupied for more than 60 days, or as stipulated in the lease, the PILOT may be terminated.
- The following must be provided on closing:
  - Phase I Environmental Assessment
  - Liability insurance on the property with \$3,000,000 in coverage. If the project is valued at less than \$1,000,000, then only \$1,000,000 in coverage is required.
  - The PILOT closing fee (p. 4)



## PROJECT COMPLETION

Upon completion of any project subject to a PILOT lease, the project shall be reviewed to determine if the project was completed as set forth in the application with respect to such plans and specifications approved by the CCRFC and the DRB. If the project as completed would have received a PILOT lease of fewer years than it was initially granted, the term of the PILOT lease may be reduced appropriately.

## COMPLIANCE & REPORTING

During the term of the PILOT, PILOT lessees are required to provide the following information to DMC staff annually:

- Current occupancy rates and rent levels for all leasable commercial and multifamily space in the development, or equivalent occupancy and revenue data for hotel rooms.
- If the development is providing affordable housing under the terms of the DMC's Affordable Housing Program, the PILOT lessee must provide documentation that demonstrates the requirements of the policy are being met, including income certifications for the tenants of the development's affordable units, and the current rent for each affordable unit.
- DMC staff will request all required information annually, and provide all necessary forms for submitting the information.

**Failure to pay any payments in lieu of taxes for property under a PILOT lease can result in termination of the lease.** Written notification of any delinquent payments will be sent to the lessee and its lenders by certified mail. The lessee must pay the delinquent payments in lieu of taxes within 30 days of receipt of the notice (or such later date as is provided for the lessee's lender to cure). If the lessee or its lenders fail to pay the delinquent payments in lieu of taxes in the time period provided in the notice, CCRFC can terminate the lease or take any other action to enforce the lien for delinquent payments in lieu of taxes.

## SELLING OR TRANSFERRING A PILOT PROPERTY

**Any sale, transfer, or assignment of the lessee's interest in a PILOT lease must be approved by the CCRFC.**

- Transfers are subject to a transfer fee of 1 percent of the project value.
- In the event that a lender forecloses on a lessee's interest in a PILOT lease, this action will not be considered an assignment of the PILOT lease, and will not be subject to Board approval or the transfer fee requirement, as long as the lender holds the interest in the PILOT lease for resale, and not for investment purposes (defined as holding the property for more than 18 months).
- If all the current lessee's interest in the property is being transferred, project value shall be determined on the basis of the total value given (including, without limitation, cash and assumption of debt).
- If only a portion of the lessee's interest in the property is being transferred, project value shall be determined on the basis of the project's appraisal.

## INTERESTED IN APPLYING? CONTACT:

**Brett Roler, AICP**

Senior Vice President of Planning & Development

Downtown Memphis Commission

[roler@downtownmemphis.com](mailto:roler@downtownmemphis.com)

(901) 575-0574

# ATTACHMENT I: APPLICATION OUTLINE

*The following items should be included in a PILOT application in order for staff to consider it as a complete application. Projects with incomplete applications will not be presented to the CCRFC Board.*

## 1. Applicant Background

- The name, mailing address, email address, and telephone number of the applicant
- The names, mailing addresses, email addresses, and telephone numbers for any other primary members of the development team
- A description of the the development team's relevant development experience
- A description of the develop team's corporate or partnership structure, if applicable

## 2. Proposed Project Description

- The location of the proposed project by address (or legal description, if requested)
- The intended uses included in the project
- The square footage of the site, any buildings being renovated, and any new buildings being constructed
- Architectural plans and renderings if available, including site plans indicating changes needed to the public space around the project (e.g. sidewalks, lighting, and planting)
- An overview of the project's parking or mobility strategy, including the number of parking spaces provided on site, any plans to lease off-site parking, and a description of any features that would reduce the need for parking by facilitating alternate travel modes like biking, walking, and transit
- A statement on the project's economic and environmental impact
- Any available history on the property
- The financial history of the project and descriptions of previous attempts to develop, if applicable
- A letter from a certified engineer, licensed in the State of Tennessee, as to the structural integrity of the building for its intended usage, if applicable
- Marketing plans identifying the development's targeted market
- If the development is speculative, an estimate of how long it will take to reach full occupancy, and who will manage the development
- If requested, a summary of the project's fiscal impact on public services
- All other information needed to fully explain the project

## 3. Site Control

- Name the property owner at the time of application submittal.
- If the applicant does not presently own the property, state if the applicant has a valid option to purchase the property and supply a copy of the option if requested.

- Describe any and all existing financing, options, and liens on the property.

#### **4. Project Team**

- Name any of the following that will be involved with the project, along with addresses and phone numbers:
  - Counsel for the applicant, if known
  - Architects and engineers, if known
  - General Contractor for project, if known
  - Other professionals, if known
- Disclose if the applicant or any guarantor has any previous or ongoing relationship with any Board member or legal counsel of the Board. If such a relationship exists, please describe in detail.

#### **5. Project Timeline**

- State the proposed schedule for the project including the dates anticipated for the following:
  - Closing of the loan or other financing availability
  - Commencement of construction
  - Project completion.

#### **6. Development Budget & Assumptions**

- Provide a sources and uses statement outlining the following:
  - The total project budget
  - All sources of funding
  - Project costs broken down by component (e.g. land acquisition, hard costs, design fees, etc.)
- For the hard costs associated with the project, provide an itemized construction budget.
- Provide all the market assumptions used to estimate the project's financial performance, including:
  - The estimated stabilized occupancy rate of any commercial or multifamily space
  - The estimated rent per square foot for any commercial or multifamily space
  - Estimated annual rent and expense increases
  - Estimated PILOT and conventional property tax payments

#### **7. Financing Terms**

- If the project includes debt financing, provide the following information for each loan:
  - The name, address, and phone number of the lender and contact person associated with lender
  - The amount of the loan, interest rate, term, and amortization period
  - A commitment letter from the lender

- If the project includes funding from other federal, state, or local incentive programs, provide any information necessary to understand the nature of this funding.

## 8. Pro Formas

- Provide two project pro formas – one that shows the project’s performance with conventional property taxes, and the other showing the project’s performance as a PILOT property:
  - The number of years included in each pro forma must match the PILOT term requested.
  - The pro formas should reflect the same information used to acquire financing.
  - Each pro forma should include standard financial metrics for comparison, including:
    - Debt Service Coverage Ratio
    - After Tax Cash Flow
    - Return on Equity
    - Internal Rate of Return
  - The income and expense figures used in the pro forma should be consistent with the applicant’s stated assumptions around rent, occupancy, and property taxes.
  - DMC staff can provide an Excel pro forma example that demonstrates all the necessary components of a complete PILOT pro forma.

## 9. Financial Statements

- If requested, send current audited financial statements of the applicant and guarantors under separate cover. If audited financial statements are unavailable, non-audited statements can be submitted. If the applicant is an individual, three years of tax returns may be requested.

*Please note that personal financial information will not be disclosed to the public.*

## 10. Credit References

- Provide the following references from business professionals (not from relatives):
  - Three personal credit references
  - Three business credit references

## 11. Items for Lease Preparation

- Provide the name of the applicant or entity who will be the lessee of the PILOT property.
- State the tax parcel number for each property involved with the project and the current assessed value of each property.
  - If any assessments are presently under appeal, describe the status of the appeal.
  - State if the project will result in the subdivision or consolidation of any present tax parcels.

*Tennessee State law stipulates that in order for the CCRFC to grant a PILOT, title to the property must be conveyed to the CCRFC. The CCRFC then leases the property to the applicant or entity designated by the applicant.*

## 12. Disclosures

- The following information must be disclosed in the application, if applicable:
  - If the applicant, guarantor, or any other principals involved with the project are currently engaged in any civil or criminal proceeding.
  - If the applicant, guarantor, or any other principals involved with the project have ever been charged or convicted of any felony or currently is under indictment.
  - If the applicant has ever filed for bankruptcy.

## 13. Applicant Affirmation

- The application must be, signed, and dated by the applicant or the applicant's representative.
- The following statements must be included along with the dated signature of the applicant or the applicant's representatives:
  - This application is made in order to induce the Memphis Center City Revenue Finance Corporation (CCRFC) to grant financial incentives to the applicant. The applicant hereby represents that all statements contained herein are true and correct. All information materially significant to the CCRFC in its consideration of the application is included. The applicant expressly consents to the CCRFC's investigation of its credit in connection with this application. The applicant acknowledges that it has reviewed the descriptions of the CCRFC financial program for which it is applying and agrees to comply with those policies. The applicant shall also be required to show a good faith effort with regard to the employment of MWBE contractors. The applicant specifically agrees to pay all reasonable costs, fees and expenses incurred by the CCRFC whether or not the incentive is granted or project completed.

## ATTACHMENT II: BOUNDARY MAP

