



CITY OF CONCORD

REPORT TO MAYOR AND CITY COUNCIL

FROM: Matthew R. Walsh, Director of Redevelopment, Downtown Services & Special Projects

DATE: August 12, 2019

SUBJECT: Supplemental Report - Former New Hampshire Employment Security Redevelopment Project

Recommendation:

- Accept this report.
- Approve the consent resolution authorizing the City Manager to enter into agreements with abutters concerning construction related impacts associated with the redevelopment of the Employment Security property.

Background:

The purpose of this report is to provide further clarification regarding Purchase and Sales Agreement Amendment #8 between the City and Dol Soul Properties, as well as proposed amendments to the Sears Block Tax Increment Finance District to support redevelopment of the former New Hampshire Employment Security property, located at 32-34 South Main Street and 33 South State Street, by Dol Soul Properties L.L.C.

Discussion:

The purpose of this report is to clarify several items and issues, which were raised during the public hearing on July 8, 2019.

- 1) Goals of Economic Development; Comparison with Dol Soul Project: When considering redevelopment of the former Employment Security property, it is important to be mindful of the City's economic development goals for such projects.

For more than 40 years, the City has made significant investments to support a variety of real estate projects that generate tangible economic development benefits for the community.

Historically, the goals of the City's economic development initiatives have been:

- a) Tax Base Expansion;
- b) Business Retention and Recruitment;

- c) Job Base Retention and Expansion;
- d) Eliminate Blight;
- e) Create Vitality; and,
- f) Make Concord the place where people want to live, play, work, and invest.

Increasingly, the availability of housing across all income levels has also become an important economic development, as it directly affects the supply of available labor in the local labor market.

Dol Soul's redevelopment plan achieves the City's economic development goals in the following ways:

- a) Tax Base Expansion: The project will create \$20,797,000 in net new taxable assessed value for the City; generating approximately \$625,000 in property taxes in the first year following completion. This makes the project one of the single most valuable properties in the City, and one of the largest single taxpaying properties in the community.
- b) Business Retention and Recruitment: Households residing in the 125 new market rate apartments created by the project will patronize local businesses, thus supporting business retention. Further, the new 5,000SF ground floor commercial space included as part of the project will either be used by an existing business electing to stay and grow in Concord (i.e. retention), or a new business moving into the City (i.e. recruitment).
- c) Job Base Retention and Expansion: Similar to business retention and recruitment, households residing at the property will purchase goods and services at local businesses, thus supporting job retention and expansion. Further, businesses that will occupy the 5,000SF of ground floor commercial space included in the project will also serve to retain and expand the local employment base. Lastly, the Developer plans to hire a property manager for this building, as well as maintenance staff, thus helping to retain and expand the City's job base.
- d) Eliminate Blight: The former NH Employment Security property has been vacant for approximately 5 years. Although the City has maintained the building and associated landscaping so they are reasonably attractive, having a three quarter acre of vacant property in the heart of the City's central business district does not make a positive contribution to the community. Moreover, the new 180,000SF building, which will replace the existing 26,000SF structure, will maximize the highest and best use of the property.
- e) Create Vitality: The addition of 125 new households, as well as 5,000SF of commercial activity, which is intended to be a restaurant, will contribute to the vitality of downtown, as well as the entire community.
- f) Make Concord the place where people want to live, play, work, and invest: In addition to tangible financial and economic developments this project will generate, a project of this magnitude will contribute to the ever increasing "buzz" about Concord, thus further making the City attractive to prospective residents, businesses, and developers alike.

g) Housing: The development will create 125 units of housing. This is especially beneficial given the overall lack of supply in the local housing market.

2) Comparison of Developer’s Original Concept and Revised Concept: The table below provides a comparison of the Developer’s original and revised concepts for the site. It is important to note that much of the additional square footage is the result of the inclusion of a 2 story parking garage on the interior of the new building. By constructing 125 parking spaces on site, the Developer is helping to make the project attractive to potential residential tenants, while minimizing the project’s impact on public parking.

	Original Concept	Revised Concept
Building Square Footage (SF)	120,000SF	180,000SF
Apartments (Market Rate; Studio - 2-Bedrooms)	109	125
Commercial Space	5,000SF	5,000SF
Developer Provided On-Site Parking Spaces	54	125
City Provided Off-Site Permit Parking Spaces	85	32
Projected Assessed Value	\$12,490,000	\$20,797,000
Projected Property Taxes in Year 1 After Completion	\$373,000	\$625,000

3) Clarification Regarding the City’s Supplemental Financial Support to Resolve Project Funding Gap: As noted in the June 10, 2019 staff report, the projected total cost for the Developer’s project is \$30.4 million; however, projected income for the development will only support a project cost of \$23.4 million. Thus, the project has a \$7 million gap.

Per the terms of Purchase and Sales Agreement Amendment #8, the City and Developer shall equally split project costs above \$23.4 million. Specifically, the City is committing to provide \$0.50 of each \$1 above supportable project cost of \$23.4 million, with a cap of \$3.5 million (presuming a \$7 million gap). In the event the project gap is less than \$7 million, then the City’s total investment would be reduced accordingly.

4) Proposed Use of Tax Increment Financing to Support Project and Resolve Funding Gap:

a. TIF On-Site Improvements, Closing in Escrow, and Legal Review: RSA 162-K permits the use of tax increment financing to support public improvements to facilitate private development projects. Public improvements may include a variety of items such as off-site improvements (i.e. roads, sidewalks, utilities, landscaping, public plazas, as well as improvements to private property to accommodate such items).

Public improvements may also include preparation of publicly owned property for redevelopment. The former NH Employment Security property is owned by the City of Concord. Therefore, the City may make improvements to the property in order to prepare it for redevelopment.

Because on-site improvements (if any) to be supported with TIF funds would be completed while the City is the owner of the former NH Employment Security Property (albeit after the transaction with the Developer is closed in escrow), the City is compliant with State Law.

Closing in escrow is commonly used for large, complicated commercial real estate transactions whereby the buyer and seller require certainty that each will fulfill their respective obligations before cash is exchanged and deeds are recorded.

Specifically, when a transaction is “closed in escrow”, all legal and financial items required for the transaction (moneys for the purchase price, buyer’s financing, buyer’s development permits and construction contracts, the deed conveying the property from the seller to the buyer, etc.) have been secured and executed by the parties. However, rather than immediately exchanging cash and recording the deed, all moneys, legal documents, and related items are held by a third party attorney, mutually selected by the buyer and seller, “in escrow” pending the satisfaction of certain terms and conditions between the buyer and seller. Once the terms and conditions are satisfied, money for sale of the property is provided to the seller, the deed for the property is recorded at the registry of deeds, and other items, like the buyer’s financing and construction contracts, are released from escrow.

Closing the sale of the former NH Employment Security Property in escrow is mutually advantageous for the City (the seller) and Developer (the buyer).

For the City, closing in escrow gives the City certainty that the Developer has its secured permits and approvals for the project, all required financing for the project, as well as entered into necessary construction contracts to build the project, thus giving the City certainty that the Developer’s project will move forward immediately upon completion of the City’s TIF supported onsite improvements. Having this certainty is important, as the City is relying on the Developer’s project to generate new tax revenues to support debt service payments associated with the City’s TIF related investments for the Developer’s project. Secondly, closing in escrow allows the City to complete on-site improvements while the property remains in public ownership, thus ensuring compliance with applicable State Law concerning tax increment financing.

For the Developer, closing in escrow provides leverage to ensure that the City fulfills its obligations regarding on-site improvements to the Developer’s satisfaction prior to the transaction being perfected (i.e. cash for sale price of the real estate being released to the City).

The City’s Legal Department and the City’s outside legal counsel for bond issuances have reviewed and approved P&S Agreement Amendment #8, as well as the proposed amendments to the Sears Block Tax Increment Financing Plan and related appropriation resolutions. Both have determined that the structure of the agreement, including the concept of closing in escrow and completing on site improvements, as well as proposed amendments to the Sears Block TIF Districts, is consistent with all applicable law.

- b. Past Use of TIF Funds for On-Site Improvements. The concept of using tax increment financing to complete on-site improvements to prepare City owned real estate for redevelopment is not new. For example, environmental cleanup and site preparation activities completed in 2014 at that portion of City owned former

Allied Leather Tannery property located at 11-35 Canal Street were completed, in part, with moneys from the Penacook Village Tax Increment Finance District.

Beyond the use of TIF, the City used USEPA and NHDES grant funds to remove buried leather at 4 Crescent Street to facilitate the Penacook Family Physicians / DEW project in 2010. This work was completed before the site was transferred by the City to DEW.

In addition, the City is currently making onsite improvements to the remaining portion of the former Allied Leather Tannery site at 11-35 Canal Street in order to facilitate development of the forthcoming Penacook Landing housing project to be developed by the Caleb Development Corporation. These improvements, which include demolition, site work, and sewer pump station, are being financed with a \$500,000 Community Development Block Grant.

- c. City's Financial Support is Not a Loan: Some members of the public have suggested that use of the Sears Block TIF District to facilitate on-site and off-site improvements supporting the Dol Soul project amounts to a loan from the City to the Developer. This is not accurate. For clarification, there is no loan between the City and Developer. Rather, the City will make certain on-site and off-site improvements, which shall be financed by bonds supported by the Sears Block Tax Increment Finance District. Said bonds will be repaid by new tax revenues generated by the Developer's project. This approach is no different than any other TIF investment undertaken by the City in any of its TIF Districts over the past several decades.

5) Parking:

- a. Closure of Former NH Employment Security Parking Lot: During the public hearing, some members of the public expressed concerns about the impending closure of the 75+/- space parking lot at the former NH Employment Security property.

It is important to remember that the City did not acquire the former NH Employment Security property for the express intent of expanding public parking. Rather, the former NH Employment Security property was specifically acquired for the purpose of facilitating a redevelopment project to maximize highest and best use of the site in order to further the City's economic development goals.

Although the City elected to operate the former Employment Security parking lot for public parking for the past 5 years, this was done so on an interim basis in order to keep the property active so as to deter inappropriate activity at the site, as well as to generate revenues for the Parking Fund.

It is worth noting that the City used a similar strategy with the former Sears Block property at 11 South Main Street (now the Hotel Concord Building). Specifically, upon acquisition of the former Sears Block, the City operated a temporary parking lot at a portion of the property on an interim basis for approximately 3 years until construction for the Capital Commons Project began in 2005.

- b. Parking for Developer's Project: The former NH Employment Security property is located in the CBP Zoning District. Recognizing the urban characteristics of Downtown, there are no parking requirements in the CBP Zoning District. This is customary in most downtowns throughout the country.

Although parking is not required by the zoning ordinance, the Developer desires to provide parking for the project in order to make it attractive in the market place. In addition, for a project of this caliber, dedicated parking typically becomes necessary for the purposes of marketability and financing, as evidenced by similar Downtown projects such as Capital Plaza (1985), Capital Commons / Hotel Concord (2007), Smile Building (2011), and Love Your Neighbor Building (2013), all of which have long-term agreements with the City for parking in City owned facilities. Some of these properties also have privately owned parking on-site or nearby.

Generally speaking, it is customary for dwelling units constructed in suburban and rural environments to typically be required to provide 2 parking spaces per unit. Like most communities across the country, Concord has this requirement for its suburban and rural zoning districts. However, in a shared parking environment, like in a downtown area, a rate of 0.9-1.25 parking spaces per dwelling unit is customarily used.

Dol Soul desires to provide 1.25 parking spaces for each apartment (or a total of 156.25 parking spaces for 125 units). As is customary with other Downtown properties, no dedicated parking will be provided for the proposed 5,000SF retail / restaurant space.

Per the terms of the Purchase and Sales Agreement, the Developer shall provide 125 on-site parking spaces. This will be accomplished through the construction of a 125 space, two level parking garage located inside the Developer's building.

The City will provide the balance of parking required for the Developer's Project (up to 32 spaces). These spaces will be offered directly to the Developer's residential tenants, and can be provided in any City facility where permit parking is provided to the general public. However, it should be noted that the Developer strongly desires to have these spaces provided at the Storrs Street Garage. Permit parking will be offered at the City's prevailing market rate (i.e. the Developer's tenants will receive no special discounts). The City will be required to offer up to 32 permit parking spaces to the Developer's residential tenants for a period of 20 years after the project is completed. Subject to available supply, the City may offer permit parking to commercial tenants of the Developer's project at market rates, but has no obligation to do so.

- c. Supply of Public Parking Downtown: Since the adoption of the City's Strategic Parking Plan in the fall of 2017, the City has been working on several initiatives to improve the public parking system.

One critical initiative is the conversion of reserved parking spaces from "exclusive use" leases to permit parking. This effort, which is ongoing, will expand public access to reserved parking, as well as likely allow the City to expand the supply of metered parking in its garages.

By way of example, the City transitioned the State Street Garage from leases to permits on July 1, 2018 with great success. In FY 2019 a total of 112 permits have been issued for 93 permit spaces (a ratio of 1.2 permits per reserved space), and metered parking was increased from 98 to 124 spaces (or 26.5%).

City Administration is engaged in ongoing negotiations with long-term lease holders to convert the School Street and Storrs Street Garages from a lease to a permit system. It is important to note that reserved parking in the School Street Garage is currently being operated via a permit system on an interim basis, by special agreement with long-term leaseholders to facilitate ongoing repairs and renovations which began in 2017.

Lastly, the City's 2017 Strategic Parking Plan identified 9,917 public and private parking spaces in and around Downtown Concord. Based upon a shared parking model, this figure is approximately twice the amount of parking needed to serve this area. As noted in the Strategic Parking Plan, the issue with parking in Downtown Concord and surrounding neighborhoods is not the supply of parking, but rather how these spaces are managed in order to satisfy demand. Hence the City's strong desire to transition reserved parking from inefficient, exclusive use leases to a shared permit parking system.

- 6) Too Much Market Rate Housing Being Developed in Downtown: During the July 8th public hearing, it was suggested by some members of the community that too much market rate housing is being developed in Downtown, thus creating an imbalance between market rate and affordable housing.

As of 2019, Concord has a total of 18,542 dwelling units. A 2019 inventory of assisted living units for low / moderate income people compiled by the NH Housing Finance Authority determined there were 1,078 assisted housing units for low / moderate income people in Concord. Assisted units are defined as housing units developed with certain State or Federal funds, which require that these units must be offered to low moderate income households.

This figure excludes 99+/- assisted living units in the process of being developed in the City at the former Allied Leather Tannery site, and the City's former water tower property on Village Street. Further, this figure also excludes Section 8 vouchers (approximately 370 in Concord) and manufactured housing units (approximately 1,012 as of 2014).

The same report also determined that Concord has the third largest quantity of assisted living units in New Hampshire, behind Nashua and Manchester.

Of the 1,078 assisted living units in the City, approximately 354 were located in the Downtown area. These include the following:

Property	Location	Total Assisted Units
Families in Transition	Bicentennial Square	16
Firehouse Block	Warren St. / Green St.	83
Kennedy Apartments	Thompson St.	86
Mennino Place	Storrs St.	45
Pitman Apartments	Pitman St.	105
Families in Transition	Pleasant St.	9
Union Street Apartments	Union St.	4
Thompson Square Apartments	South Main St.	6
Total		354

Since 2013, a total of new 98 market rate units have been developed in Downtown, as described in the table below.

Property	Location	Year	Total Market Rate Units	Notes
Endicott Hotel	South Main St	2013	27	Apartments
Remi Block	North Main St.	2017	20	Apartments
Sacred Heart Church	Pleasant St.	2017	10	Condominiums
Elm Grove	15 Pleasant St.	2019	12	Apartments
Elm Grove	19 Pleasant St.	2019	1	Apartments
Elm Grove	5 South State St.	2019	27	Apartments. 10 Net New Units. Under construction.
Berat Holdings	58-68 N. Main St.	2019	1	Under construction
Total			98	

The Dol Soul Project would create 125 additional market rate units in Downtown.

- 7) **Abutter Agreements:** Lastly, should the City Council approve Amendment #8, the City and Developer will need to enter into agreements with the owners of certain abutting properties relative to construction related impacts stemming from the Developer's project. As such, the attached consent resolution is intended to give the City Manager the authority to enter into such agreements.

Conclusion: Staff recommends that the City Council approve Purchase and Sales Agreement Amendment #8 with Dol Soul Properties L.L.C., as well as related Sears Block Tax Increment Finance District amendments in order to support the project, for the following reasons:

1. This 180,000SF mixed use project maximizes the development potential of the site, and achieves the highest and best use of the real estate.
2. The City's investment to support the Dol Soul Project has significant return on investment for the community. Specifically, the project will expand the City's tax base by nearly \$21 million and will generate significant property tax revenues (\$625,000 in its first year after completion).
3. The project will expand the local housing supply by 125 units. This is especially important given the City's tight housing market.
4. The project includes a new 125 space on-site private parking garage for tenants of the project, thus minimizing the projects impacts upon downtown public parking.

5. The 125 new apartments and 5,000SF of commercial space will have positive economic development benefits for the community. Spending by the residents of these new apartments will support local businesses, thus helping the City to retain and grow its business base. Businesses which will occupy the 5,000SF ground floor commercial space will help retain and expand the City's employment base. In addition, the Developer will also hire a team of employees to manage the property upon completion, thus further expanding the City's employment base.

In addition to these tangible financial and economic developments this project will generate, a project of this magnitude will contribute to the ever increasing "buzz" about Concord, thus further making the City attractive to prospective residents, businesses, and developers alike.

6. Use of Sears Block Tax Increment Finance funds to make on-site and off-site improvements to support the project is consistent with the City's past practice, as well as State Law concerning tax increment financing. Further, the TIF has sufficient financial capacity to support this project. Lastly, presuming no additional development occurs in the SBTIF, or any additional TIF supported investment in infrastructure improvements, it is projected that this development will help expedite termination of the TIF district by approximately 1 year.