



CITY OF CONCORD

REPORT TO MAYOR AND CITY COUNCIL

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

DATE: June 10, 2019

SUBJECT: Former New Hampshire Employment Security Property Redevelopment

Recommendation:

1. Accept this report; and,
2. Set the attached resolution authorizing the City Manager to enter into the Eighth Purchase and Sale Agreement Amendment with Dol-Soul Properties L.L.C. concerning the sale and redevelopment of the former New Hampshire Employment Security site located at 32-34 South Main Street and 33 South State Street for public hearing on July 8, 2019; however, delay the vote on this item until August 12, 2019 to correspond with votes associated with the amendment of the Sears Block Tax Increment Finance District (SBTIF) Development Program and Financing Plan; and,
3. Set the attached resolution appropriating the sum of Three Million Five Hundred Thousand Dollars (\$3,500,000.00) for SBTIF District supported on-site and off-site improvements, as well as other development incentives, for the redevelopment of the former New Hampshire Employment Security Building (CIP #578) within the Sears Block Tax Increment Finance District, and authorizing the issuance of bonds and notes in the amount of Three Million Five Hundred Thousand Dollars (\$3,500,000.00) for public hearing on July 8, 2019; however, delay the vote on this item until August 12, 2019 due to the requirements of RSA 162-K:4, which stipulates that action on this item occur at least 15 days after the public hearing.

Background:

On October 31, 2014, the City acquired the former NH Employment Security property from the State of New Hampshire for the sum of \$1,575,000. The site consists of two parcels totaling approximately 0.74 acres.

The acquisition and related holding costs were financed by interest only Bond Anticipation Notes ("BANs") in the amount of \$1,990,000. These BANs, which are supported by the Sears Block Tax Increment Finance District (SBTIF), will expire in December 2019. Thus, the City

will need to issue bonds to replace these BANs in the near future. This will result in higher debt service costs on the order of \$190,000 for the SBTIF District beginning in July 2020 (i.e. FY 2021).

Following an extensive multi-year marketing effort, the City entered into a Purchase and Sales / Development Agreement with Dol-Soul Properties, L.L.C. (“Dol-Soul”) on January 2, 2018.

Dol Soul is a consortium of real estate developers and investors led by the Dolben Company of Woburn, Massachusetts (“Dolben”). Dolben is a large, award winning, fourth generation privately held company, which specializes in mixed use real estate projects. The firm currently owns 11,000 apartment units throughout the Northeast and mid-Atlantic of the United States, including two apartment complexes in Concord. In addition, they manage another 6,000 apartment units for other property owners.

Originally, Dol-Soul planned to acquire the site for the purpose of developing a 120,000+/- square foot mixed use building featuring approximately 109 market rate apartments, 5,000 square feet of ground floor commercial space (likely a restaurant), as well as 54 parking spaces.

To support the project, the City, per the terms of the January 2, 2018 Agreement, agreed to provide the following incentives to support the project:

- \$1,075,000 Sale Price for the Property;
- Capping of Development Impact Fees at \$150,000;
- Demolition of the former NH Employment Security Building at the City’s expense, estimated at \$300,000;
- Up to 32 permit parking spaces in City owned parking facilities (preferably the Storrs Street Garage) at market rates (no discount) for residential tenants of the building; and,
- Rezoning the property to Central Business Performance.

Following the execution of the P&S Agreement, Dol-Soul completed its due diligence for the project. Due diligence included: environmental assessments, title review, preliminary design of the new building, consultations with the City’s Architectural Design Review Committee regarding the exterior of the design of the new building, consultations with utility companies, as well as market studies and financial pro formas for the project. In addition, Dol-Soul received preliminary price estimates from multiple general contractors for the project.

Simultaneously with the due diligence process, Dol-Soul refined and expanded its development plan for the property. Specifically, the Developer now plans to construct a 180,000+/- square foot mixed use building featuring 125+/- market rate apartments, 5,000 square feet of ground floor commercial space (still likely to be a restaurant), as well as a 125+/- space parking garage, which shall be located entirely within the interior of the new building.

Using preliminary financial pro formas provided by the Developer, the City Assessor has projected that the Dol-Soul project will have an assessed value of \$20,797,000 upon completion. Based upon this estimate, it is projected that the project will generate approximately \$625,000 in net new property tax revenues annually (FY 2023).

Discussion:

1) Results of Developer's Due Diligence and Funding Gap:

As noted above, Dol-Soul has completed preliminary design of their proposed project, and secured construction estimates from multiple contractors related thereto. Based upon those efforts, the Developer estimates that the total development cost for their project is \$30.4 million.

As previously stated, Dol-Soul has also completed market studies and prepared financial pro formas for the project, which estimated the likely rental rates and gross revenues for the development. Based upon those efforts, projected revenues for the project will support a total development cost of \$23.4 million.

Consequently, the project has a \$7 million gap. This gap must be resolved in order for the project to move forward.

2) Benefits of Developer's Project:

If the funding gap for Dol-Soul's project can be resolved, the project would result in significant financial and economic development benefits for the City, as follows:

- a. Largest Single Development Project in Downtown Concord: The Dol-Soul Project, as measured on either a square foot (SF) or assessed value basis, will be the largest single real estate project completed in Downtown Concord to date.
 - i. Square Footage: 180,000SF. This is approximately twice the size of the Smile Building at 49 South Main Street (91,000SF).
 - ii. Assessed Value: \$20,797,000. This is approximately twice the value of the Love Your Neighbor Building at 45 South Main Street (\$10,201,000).
- b. Property Tax Revenues: Upon completion, the project is projected to generate upwards of \$625,000 in property taxes annually (FY 2023 estimate). For comparison, this figure is nearly triple the amount of taxes paid by Capital Plaza located at 57-81 North Main Street (\$233,000 in FY 2020).

Although the majority of the new property tax revenues will initially be captured by the Sears Block TIF District, it should be noted that approximately \$11,520 of new tax revenues will immediately accrue to the City's General Fund and other taxing authorities. This amount reflects taxes on the base value of the property, currently projected to be \$392,800, after the demolition of the former NH Employment Security building.

- c. Other City Revenues: In addition to property taxes, the project will generate other significant revenues for the City, including:
 - i. Permitting Revenues: \$378,000. This includes site plan review fees, building permits, and development impact fees.
 - ii. Parking: The Developer's residential tenants shall have the ability to secure up to 32 parking permits in City facilities at market rates (no discount), thus generating up to \$43,680 annually.

d. Downtown Vitality:

- i. The project will create 125 new market rate housing units, a critical component of the City's economic development strategy to preserve and enhance the economic vitality and vibrancy of the downtown central business district.
- ii. Disposable income of residents living at this new development will further support downtown merchants, restaurants, and cultural venues.
- iii. The targeted demographic for these units are singles, childless young couples, and empty nesters. This is typical of other recent housing projects downtown (i.e. Endicott Hotel, Remi Block, Elm Grove Properties, former Sacred Heart Church, etc.). Therefore, the project will have negligible impacts on student enrollments for the Concord School District.
- iv. It is likely that the 5,000SF ground floor commercial space will be a restaurant, thus further contributing to expanded evening and weekend vitality in Downtown.

- e. City Master Plans: The project is consistent with, and helps implement, a variety of City Master Plans including: 1997 Downtown Master Plan, 2005 Economic Development and Tax Base Expansion Plan, 2006 Opportunity Corridor Master Plan, Concord 20/20 Vision Plan, as well as the 2030 City Master Plan.

3) Strategy to Resolve Project Funding Gap; Eighth Amendment to Purchase and Sales Agreement:

Despite the project's funding gap, Dol-Soul remains very bullish about the Concord real estate market and desires to move forward with their project. Due to the significant economic development benefits associated with the Dol Soul Project, it would be advantageous for the City and the Developer to bridge the gap in order to bring the project to fruition.

As such, over the past several months, the City and Developer reviewed a variety of potential strategies to help resolve the funding gap. These included RSA 79-E Community Revitalization Tax Relief Incentives, New Markets Tax Credits, Community Development Block Grants, as well as Tax Increment Finance (TIF) supported on-site and off-site infrastructure improvements. Upon review, the TIF strategy was determined to be the only viable option.

In order to move the project forward, the City Administration recommends that the City and the Developer equally split the gap. Specifically, the City would provide \$3.5 million in additional on-site improvements, off-site improvements, and other development incentives, which would be financed by the Sears Block Tax Increment Finance District (SBTIF). Dol-Soul, in turn, would be responsible for resolving the remaining \$3.5 million piece of the gap.

The City's \$3.5 million in additional on-site improvements, off-site improvements, and other development incentives would be financed by the Sears Block Tax Increment Finance District, and would be a combination of the following:

- a. On-site improvements such as, but not limited to, demolition of additional structures (in addition to the former Employment Security Building, which the City is already obligated to complete), excavations, earth support/shoring, installation of structures, utility improvements, and other similar improvements. In order to comply with TIF statutory requirements, on-site improvements would be completed while the City owns the property.
- b. Off-site improvements; such as improvements to roadways, sidewalks, public plazas, streetscape improvements, utilities, etc. not located on the property. These could be completed after the sale of the property to the Developer.
- c. Reduction of the sale price for the property (currently \$1,075,000).
- d. Improvements to abutting properties, acquisition of easements on abutting properties, and other similar items, which might be required to facilitate development of the Developer's Project.
- e. Payment of fees associated with the City of Concord's Development Permits and Approvals such as Building Permits, Impact Fees, Water Connection Fees, Sewer Connection Fees, or Parking Encumbrance Fees, as well as potential reimbursement of development permitting fees that would be incurred prior to Closing such as Planning and Zoning Board application fees.
- f. Any other lawful purpose as mutually agreed by the City and the Developer.

The exact mix of these development incentives will be finalized in the coming months, as the Developer's project moves forward with development permitting, construction bidding, and financing. The Parties shall have until February 5, 2020 to develop a specific plan for how these supplemental incentives will be invested into the Project. If the Parties are unable to agree, the Parties shall have the right to terminate the Agreement.

The Developer's strategy for resolving its \$3.5 million share of the gap will likely include value engineering, provide additional developer equity to finance the project (beyond the customary 25% +/- equity level typically required for commercial real estate financing), or, to the extent practical, revenue expansion, which, in turn, would increase the total supportable development cost for the project.

4) Public Private Partnerships and Projected Total City Investment in Employment Security Redevelopment:

For more than 40 years, the City has entered into dozens of public / private partnerships in order to support real estate projects that help the City achieve its financial, community development, and economic development goals. Such public private partnerships have included:

- The Airport Industrial Parks; including Henniker and Antrim Streets (1950s – early 2000s),
- The YMCA Block and State Street Parking Garage (1979),

- Eagle Hotel and Eagle Square (1981),
- Capital Plaza and the School Street Garage (1985),
- Steeplegate Mall (1990),
- Corporate Park at Horseshoe Pond / NEOCTIF District (1998 – Present),
- Sears Block / Capital Commons Project (2003-2007),
- Foundry Business Park / Exit 16 (2003-2009),
- Former Blue Cross / Blue Shield (2 Pillsbury Street) (2006),
- Hoyt Electric Condominium (2009),
- Scandia Hall / Knight Street Condominiums (2011),
- Former Allied Leather Tannery / Penacook Family Physicians Project (2011),
- Former Sanel Block / Smile Building / Mennino Place (2011),
- Former Bindery Redevelopment / Love Your Neighbor Building (2013),
- Endicott Hotel Redevelopment (2013),
- Remi Block Redevelopment (2017),
- Elm Grove Company Pleasant / South State Projects (2018),
- Granite Center Redevelopment Project (Eagle Hotel and Dixon Avenue) (2019),
- Former Allied Leather Tannery / Caleb Development Corp Penacook Landing Project (starting construction in July 2019).

Redevelopment of the former New Hampshire Security property is consistent with this long and successful history. The table below summarizes the City’s projected total investment in the redevelopment of the former NH Employment Security Property.

Table 1: Summary of Development Incentives for Employment Security

<u>Development Incentive / Investment</u>	<u>Amount</u>	<u>Notes</u>
Discounted Land Price	\$500,000	City purchased for \$1.575M; sell for \$1.075M (\$1,003,000 net after real estate broker’s commission)
Building Demolition	\$300,000	City to demolish existing building prior to sale to Developer.
Underground Utilities	\$253,333	Complete Street Project \$1.52M; Prorated for frontage of NHES Property (125')
Impact Fee Reduction	\$65,303	Projected fee of \$215,303 less \$150,000 cap per Purchase and Sales Agreement.
Discounted Parking Permits (32 Spaces)	\$0	No Discount; tenants will pay City’s market rate
Parking Garage (32 Spaces) (At Market Rate; No Discount)	\$1,014,750	Prorated share of construction cost for 32 spaces in the Storrs Street Garage (\$16.362 Million; 516 Spaces constructed 2005-2007).
On-Site / Off-Site Improvements & Additional Incentives	\$3,500,000	50% of \$7 Million Gap
<u>Subtotal</u>	<u>\$5,633,386</u>	
<u>Less Revenues Sale of Property</u>	<u>-\$1,003,000</u>	\$1,075,000 Less real estate broker's commission
<u>Net City Investment</u>	<u>\$4,630,386</u>	
<u>Assessed Value</u>	<u>\$20,797,000</u>	City Assessing Department Estimate
<u>RATIO - CITY SUPPORT / ASSESSED VALUE</u>	<u>22%</u>	

5) Protections for the City:

The proposed Purchase and Sales Agreement includes the following safeguards to protect the City.

- a. Deposit: Dol-Soul shall increase its deposit from \$100,000 to \$300,000. Originally the \$100,000 deposit was fully refundable to the Developer in the event they withdrew from the project. However, under the new Amendment, \$75,000 of the new \$300,000 deposit shall incrementally vest with the City, in accordance with the schedule below.

Table 2: Deposit Schedule

Date	Amount of Deposit Which Becomes Nonrefundable	Cumulative Amount of Deposit Which Is Non-Refundable
November 8, 2019	\$75,000.00	\$75,000.00
February 6, 2020	\$75,000.00	\$150,000.00
May 6, 2020	\$75,000.00	\$225,000.00
August 4, 2020	\$75,000.00	\$300,000.00

By tripling their deposit from \$100,000 to \$300,000, and allowing it to incrementally vest with the City, Dol-Soul is demonstrating their strong commitment to, and confidence in, this project. Simultaneously, because the deposit becomes incrementally non-refundable, it provides a powerful incentive for Dol-Soul to proceed as quickly as possible to closing and construction. In the event Dol-Soul withdraws from the project, those portions of the deposit which have become nonrefundable shall be retained by the City.

- b. Closing in Escrow; Prohibition on Use of \$3.5 Million SBTIF Development Incentives: Prior to the City investing any portion of its \$3.5 million of SBTIF supported development incentives, the City and Developer shall close on the sale of the property in escrow. In order to close in escrow, the Developer and City must satisfy numerous terms and conditions including, but not limited to, the Developer securing development approvals, financing, and a construction contract for the Developer's project.

By closing in escrow prior to expending any of its City's \$3.5 million, the City will have assurances that the Developer's Project will proceed to construction immediately upon the City's completion of any on-site improvements the City may undertake to support the Developer's Project. This approach serves to guarantee that the Dol-Soul project will be constructed, thus ensuring sufficient property tax revenues associated therewith to finance the City's \$3.5 million SBTIF investment.

Following the completion of on-site improvements by the City, the sale price for the property will be paid and the City's deed conveying the property to the Developer would be recorded.

This concept was used by the City in conjunction with the City's participation in the Sears Block / Capital Commons / Hotel Concord project in 2003-2007.

- c. Performance Mortgage: At the time of Closing, the Developer shall grant the City a performance mortgage. The purpose of the mortgage is to ensure the project will be completed in the event the building suffers certain casualties or foreclosure during construction, thereby further protecting the City's financial and economic development interests. The City has successfully used performance mortgages on several public private partnerships, including the Capital Commons / Hotel Concord Project, Scandia Hall / Knight Street Condominium Project, as well as the Penacook Family Physicians Project at 4 Crescent Street.
- d. Minimum Payments: The Developer has agreed to a covenant, which will be incorporated into the deed conveying the property from the City to the Developer and shall run with the land, whereby the Developer (its heirs, successors, and assigns) shall make certain guaranteed minimum payments to the City in the amount of \$490,000 annually, from date of completion until 2043, thus ensuring cash flow to pay debt service for the City's TIF investments associated with the project.

The minimum payments are predicated upon 80% of the projected assessed value for the Developer's Project (i.e. 80% of \$20,797,000 or \$16,637,600). This conservative estimate has been used as the basis for the City's tax increment finance computations for the project.

The City has used this concept with other projects, including the Bindery Redevelopment / Love Your Neighbor Project developed at 45 South Main Street in 2011.

- e. Claw Back Provision: Lastly, the revised deal includes a "claw back provision" whereby in the event the total final cost of the Developer's Project is less than \$23.4 million, the Developer will reimburse the City 50% of the difference between the actual final total cost of its project and \$23.4 million.

6) Other Items:

- a. Demolition of Former NH Employment Security Building: As the City Council knows, the City will demolish the former NH Employment Security building at its cost in order to support the Dol-Soul project. However, per the terms of the January 2018 Purchase and Sales Agreement, the City is not obligated to demolish the former Employment Security Building until Dol-Soul has:
 - Completed all of its due diligence with results acceptable to the Developer;
 - Secured development permits and approvals for their project;
 - Secured a financing commitment for their project; and,
 - Secured construction estimates which are within budget for their project.

Amendment #8 does not modify these conditions; however, it does include a revised project schedule which calls for the demolition of the building on or about April 1, 2020.

- b. Abutter Agreements: It is anticipated that some minor improvements to abutting properties, primarily related to utility infrastructure, will be required. The City intends to support the Developer's efforts to negotiate these items with affected

abutters. Because SBTIF funding will likely be used to support these improvements, and for other reasons, any agreements with abutters might be jointly executed by the City, Dol-Soul, and applicable abutters.

- c. Schedule: The attached P&S Agreement Amendment includes an updated schedule for the project. An abbreviated summary of this schedule is as follows:
- August 12, 2019: City Council vote on resolutions for the P&S Agreement, SBTIF amendment, and \$3.5 million SBTIF supported appropriation.
 - December 18, 2019: Dol-Soul secures Site Plan Review approval from City Planning Board for Developer's Project.
 - January 31, 2020: City receives bids for demolition of former NH Employment Security Building.
 - February 5, 2020: Deadline for Buyer and Seller to finalize strategy for use of Supplemental Seller Development Incentives.
 - March 15, 2020: Buyer satisfies conditions for Demolition of former NH Employment Security Building by Seller as set forth in P&S Agreement.
 - April 1, 2020: City commences demolition of former NH Employment Security Building, subject to the Buyer satisfying conditions for demolition, unless otherwise waived by the Seller.
 - June 15, 2020: City completes demolition of former NH Employment Security Building.
 - June 30, 2020: Anticipated date to close in escrow; however, the Parties have until August 4, 2020 to close.
 - July 13, 2020: Commence construction. City onsite improvements, followed by Developer's Project.
 - September 2022: Project completed.
- 7) Sears Block Tax Increment Finance District Amendments:

Please see the related staff report, dated June 10, 2019, regarding amendments to the Sears Block Development Program and Financing Plan associated with the \$3.5 million of on-site and off-site improvements for this project. The conclusion of said report is that the City's proposed on-site and off-site improvements satisfy the requirements of RSA 162-K, generate significant financial and economic development benefits for the City, and that the SBTIF District has sufficient financial capacity to support these proposed investments.

These proposed investments have not yet been reviewed by the Sears Block TIF Advisory Board. However, in accordance with past practice, staff will convene a meeting of the TIF Advisory Committee prior to the City Council's vote on these items on August

12th. The Board's input will be provided as a supplemental report to the Mayor and City Council.

Conclusion:

1. For more than 40 years, the City has successfully used public private partnerships to facilitate development projects city-wide to help the City achieve its fiscal, community development, and economic development goals. The City's public / private partnership for redevelopment of the New Hampshire Employment Security is in keeping with historical practice.
2. The City's return on its \$4.6 million net investment in the Employment Security Project is significant. This will be the single largest development project to be completed in Downtown to date, will create upwards of \$20,797,000 in net new assessed value, will generate \$625,000 of new property taxes annually, and will foster additional vitality in downtown Concord through 125 new households residing in Downtown.
3. The City's agreement with Dol-Soul includes numerous provisions designed to safeguard and protect the City's financial and economic development interests. Such provisions include the following:

Financial protections:

- Conditions for demolition of the former NH Employment Security building;
- Requirements to close in escrow prior to City's investment of the \$3.5 million in on-site and off-site improvements;
- Performance mortgage to insure the project is completed if it suffers certain casualties during construction;
- Deed covenants relative to certain minimum payments to the City by the Developer (and its heirs) which run until 2043;
- Claw back provision if the Developer's project is completed at a cost less than \$23.4 million; and,
- Deed covenants requiring full payment of all property taxes in perpetuity via a Payment in Lieu of Taxes (PILOT) Agreement in the event the property (in whole or in part) becomes tax exempt.

Economic Development protections:

- Deed covenants ensuring new housing will be "market rate units"; and,
 - Deed covenants relative to the 5,000SF of ground floor space with protections against certain land uses and guarantees relative to the potential restaurant.
4. The City's total investment in the Employment Security project is fully funded by the Sears Block TIF District. As such, there will be no direct cost to the taxpayers by moving forward with this project.
 5. Further, presuming no other future investments by the TIF District to support other development projects, the Dol-Soul project will expedite closure of the SBTIF District, thereby allowing new property tax revenues generated within the District to flow to the City's General Fund and other taxing authorities more quickly than if the project was not developed, thus benefiting all City taxpayers.