



# CITY OF CONCORD

## REPORT TO MAYOR AND THE CITY COUNCIL

**FROM:** Matthew R. Walsh, Deputy City Manager - Development

**DATE:** June 28, 2023

**SUBJECT:** Application for RSA chapter 79-E Community Revitalization Tax Relief Incentives First Church Holdings, LLC, 177 North Main Street, Concord, New Hampshire

### **RECOMMENDATION**

Accept this report and hold a public hearing on August 14, 2023 for the attached resolution, granting up to seven years of RSA 79-E Community Revitalization Tax Relief Incentive for real estate located at 177 North Main Street, Concord, New Hampshire (“Property”).

### **BACKGROUND**

On January 14, 2008, the City Council approved Resolution #8130, which adopted the provisions of RSA chapter 79-E Community Revitalization Tax Relief Incentive. RSA chapter 79-E is a local option statute designed to support revitalization of downtown and village centers by providing property tax incentives for qualifying real estate development projects. Specifically, the program allows the owner of qualified real estate projects to forego the payment of property taxes associated with qualified improvements to the real estate for a period of 1-15 years, depending upon the unique attributes of said real estate project.

### **DISCUSSION**

1) Overview: Local developers Jon Chorlian and Ben Kelley, doing business as First Church Holdings LLC (“Applicant”), plan to acquire the former First Church located at 177 North Main Street in Concord for the purpose of preserving and renovating the building into 33 units of market rate rental housing (“Project”). The former church, which was constructed in 1937 and later expanded in 1967, is approximately 26,000SF. Please see the attached plans for more information.

The Property is comprised of multiple parcels. The church building itself sits on two separate parcels. As such, as a condition of the RSA chapter 79-E tax relief, the developer shall merge the two parcels upon which the building is located into a single lot. In addition to good planning, this merger is important to facilitate administration of RSA chapter 79-E benefits and covenants for the Property. Parking to support the new apartments is will be located on other adjacent properties which will also be acquired by the developer as part of this Project.

The Project is currently moving through the City’s development permitting process. The developer intends to complete the permitting process this summer 2023.

- 2) Historical Significance: First Congregational Church’s history in the community dates to 1730. The former church presently located at 177 North Main Street was erected in 1937, and later expanded in 1967. A 1988 historical inventory commissioned by the City for the Property determined that the building is eligible for the national register of historic places. Please see the attached historic inventory for more information.
- 3) Owner’s Redevelopment Plan: As previously noted, the developer plans to acquire the Property and redevelop it into 33 units of market rate housing. The applicant’s total development budget for the project is \$6,065,000, as summarized below:

Purchase Price	\$770,000
Soft Costs (Design, Permitting, Carrying Costs, Fees, Etc.)	\$550,000
Hard Costs (Construction)	\$4,345,000
<u>Contingency</u>	<u>\$400,000</u>
Total Budget	\$6,065,000

4) Review of RSA 79-E Criteria:

a. Eligibility Criteria:

- i. Property Located in RSA 79-E Districts: This Property is located within the Downtown Concord RSA chapter 79-E District.
- ii. Cost of Renovations: The estimated cost of the renovations, excluding acquisition of the real estate, is \$5,295,000, thus exceeding minimal thresholds of 15% of current assessed value (excluding land), or \$75,000 (whichever is less).
- iii. Start of Renovations: Renovations have not yet begun. Subject to receipt of development permits and approvals, the outcome of the RSA chapter 79-E application, as well as closing on construction financing, construction is tentatively scheduled to commence in September 2023. The developer anticipates the project will take 10-12 months to complete.

*Analysis: The application satisfies these base criteria for potential participation in the City’s RSA chapter 79-E Program.*

b. 79-E Review Process:

i. RSA Chapter 79-E Statutorily Mandated Deadlines:

1. Public Hearing and Decision: In accordance with RSA 79-E:4, II & III, the City has 60 days to hold a public hearing upon receipt of a completed application, and 45 days to act upon it after the public hearing.

2. City's Ability to Deny Applications:

a. Generally: In accordance with RSA 79-E:4, V, the City Council may deny any application at its sole discretion. Such denial may be appealed to the Board of Tax and Land Appeals or Superior Court. However, a denial may only be overturned if the City acted in bad faith.

b. Applications for Properties Within Tax Increment Finance Districts: In accordance with RSA 79-E, VI, the City may deny applications for community revitalization tax relief for properties located within a Tax Increment Finance (TIF) district if granting such relief would impede, reduce, or negatively affect the TIF's:

- i. Development program or financing plans; or,
- ii. Ability to satisfy or expedite repayment of its debt service obligations; or
- iii. Ability to satisfy its administrative, operating, or maintenance expense.

*Analysis: This Property is not located within a Tax Increment Finance District; therefore, this provision is not applicable.*

ii. Public Benefit: For an application to be eligible for approval, the City Council must determine that the development/project will create one or more "public benefits" as set forth within RSA 79-E:7, as follows:

1. That the Project enhances the economic vitality of the downtown.

*Analysis: The Property is located within Downtown Concord on the northerly edge of the central business district. The Project will redevelop a vacant, historic structure. Creation of 33 units of housing will enhance the economic vitality of the central business district. Therefore, the application satisfies this criterion.*

2. That the Project enhances and improves a structure that is culturally or historically important on a local, regional, state, or national level, either independently or within the context of an historic district, town center, or village center in which the building is located.

*Analysis: A 1988 Historic Inventory of the Property commissioned by the City determined the Property is historically significant and eligible for the national register of historic places. Therefore, the application satisfies this criterion.*

3. That the Project promotes the preservation and reuse of existing building stock throughout a municipality by the rehabilitation of historic structures, thereby conserving the embodied energy in accordance with energy efficiency guidelines established by the U.S.

*Secretary of the Interior's Standards for Rehabilitation. Analysis: The Applicant aspires to preserve and renovate the property so as to achieve "net zero" energy / carbon footprint. Potential improvements*

*include a solar array, high efficiency heat pump technology, and energy recovery mechanical ventilation systems. Therefore, the application satisfies this criterion.*

4. That the Project promotes development of municipal centers, providing for efficiency, safety, and a greater sense of community, consistent with RSA chapter 9-B (New Hampshire's Smart Growth statute). *Analysis: This Project is consistent with the goals of the State's Smart Growth statute, as it involves renovation of a historic building served by existing infrastructure, thus helping to reducing sprawl. Therefore, the application satisfies this criterion.*
5. That the Project increases residential housing in urban or town centers. *Analysis: This Project results in the creation of 33 new residential units, and therefore satisfies this criterion.*

*Analysis: Staff believes that this project, as proposed, satisfies all five criteria above, and is therefore eligible for the RSA chapter 79-E program.*

iii. Other Considerations: The City Council is required to also consider the following when evaluating this application:

1. The renovation budget includes funding for energy improvements, thereby satisfying the requirements of RSA 79-E:2, IV. *Analysis: As previously noted, the Applicant aspires to renovate the Property so as to achieve "net zero" energy / carbon footprint. Potential improvements include a solar array, high efficiency heat pump technology, and energy recovery mechanical ventilation systems.*
2. RSA 79:E-14 stipulates "the provisions of this chapter shall not apply to properties whose rehabilitation or construction is subsidized by state or federal grants or funds that do not need to be repaid totaling more than 50 percent of construction costs from state or federal programs". *Analysis: The Applicant is using a combination of traditional bank financing and developer equity to fund this Project. No state or federal funds are proposed to finance the Project at this time, therefore this provision does not apply to this application.*

- 5) Term of Tax Relief: In accordance with RSA 79-E:4, IV, the term of tax relief for qualifying projects may range between 1 and 15 years of tax relief; as follows.
- a. **Up to** 5 years for projects which satisfy base "public benefit" criteria;
  - b. **Up to** 2 additional years for projects which create new dwelling units;
  - c. **Up to** 4 additional years for projects which create affordable housing; and,
  - d. **Up to** 4 additional years for projects renovated in accordance with the United States Secretary of the Interior's Standards.

The applicant has requested 7 years of tax relief per items "a" and "b" above.

Tax relief commences upon the initial April 1<sup>st</sup> following substantial completion of proposed renovations. The Applicant has stated that construction will commence in fall 2023 and be completed approximately 10-12 months thereafter (say fall 2024 / early 2025). Therefore, it is anticipated that the term of tax relief would begin on April 1, 2025. *Analysis: The Applicant's Project is eligible for up to 7 years of tax relief per items "a" and "b" above. The City Council has the discretion to award anywhere between 1-7 years, as the City Council might believe is appropriate. The City Council may also deny the application. In addition to the 7-year benefit period, the Project will not pay property taxes on new assessed value created by renovations during the construction period.*

- 6) Potential Tax Savings to Applicant: The City Assessor has determined that the base value of Property in its current condition is \$1,205,500.

Once renovations are completed, the Assessing Department projects that the Property will have an assessed value of \$3,249,800 using the City's current equalization ratio.

If RSA chapter 79-E were granted, it would only apply to the \$2,044,300 difference between the base value of \$1,205,500 and projected renovated assessed value of \$3,249,800.

If the City Council were to grant this application for seven years of tax relief, the total combined tax savings to the application is projected to be approximately \$471,231. On average, 79-E will save the Project approximately \$58,908 annually. Please see the attached spreadsheet titled "Estimated Financial Benefit of RSA 79-E Tax Relief Incentive" for more information.

It is important to note that the RSA chapter 79-E benefit only applies to that portion of the assessed valuation created by the proposed improvements. Therefore, the Applicant will still be obligated to pay taxes on the \$1,205,500 base value of the property for the entire duration of the RSA chapter 79-E benefit period.

- 7) Statement of Financial Need for RSA chapter 79-E Benefits:

a. Statement of Financial Need: The Applicant is seeking RSA chapter 79-E to make the Project financially viable. Economic challenges negatively impacting the Project are historically high costs of construction, as well as rising interest rates (and, in turn, debt service payments). In tandem, these circumstances impact the Project's ability to achieve debt service coverage ratios (DSCR) customarily required by lenders for real estate projects.

b. Review of Pro Forma:

i. General: As part of its recodification of the City's RSA chapter 79-E program in April 2016, the City Council concurred with the City Administration's recommendation that all RSA chapter 79-E applicants provide a comprehensive financial pro forma for their projects. The purpose

of requiring a pro forma is to help the City determine whether RSA chapter 79-E benefits are required to make a project financially viable.

The Applicant has provided the required pro formas for this Project. The pro formas are proprietary and not subject to public disclosure.

- ii. *Analysis*: In accordance with the City's requirements, the Applicant has provided two pro formas to the City for the project which model revenues and expenditures for the Project *with and without* RSA 79-E benefits. Said pro formas comply with requirements of the Applicant's lender, as well as the City's RSA chapter 79-E program.

The pro forma demonstrates that without RSA chapter 79-E benefits, the Project will not achieve the minimum debt service coverage ratios (DSCR) customarily required for real estate development projects by commercial lenders.

DSCR are a measure of a Project's cash flow and ability to pay debt service. It is calculated by taking net operating income and dividing it by annual debt service costs. It is customary for commercial bankers – including the applicant's lender – to require a project to achieve a DSCR of approximately 1.2 annually for a project to be financially viable.

Without RSA chapter 79-E, the Project will achieve an average DSCR of 1.02. With RSA chapter 79-E, the Project achieves an average DSCR of 1.18 annually over pro forma's 10-year planning horizon.

Without RSA chapter 79-E, the Applicant's Project will not satisfy its lender's DSCR requirements, and, therefore, will be unable to secure financing. Without financing, the project will be unable to move forward.

The applicant has stated that its financing commitment is contingent upon receiving RSA chapter 79-E benefits for the project.

### **SUMMARY:**

In summary, staff offers the following:

1. The application appears to satisfy all statutory requirements set forth in RSA chapter 79-E.
2. The Project is located within the City's Downtown RSA chapter 79-E District and satisfies all five public benefit requirements as established in the Statute. (To be eligible, the project only needs to satisfy one of the five criteria).
3. The Property is historically significant. It has been determined potentially eligible for the National Register of Historic Places. The Applicant's Project will preserve and renovate the existing structure at the Property.

4. The estimated total cost of the Applicant's Project, including acquisition, is \$6,065,000. The Project will create 33 units of market rate rental housing in Downtown Concord, thereby helping to expand the City's housing stock, as well as support the vitality of Downtown Concord. Housing vacancy rates in the City is approximately 0.4% (NH Housing Finance Authority 2022). Typically, a 5% vacancy rate is considered a "balanced" housing market.
5. The Property is currently tax exempt. Upon acquisition by the developer, the Property will become taxable. During the seven-year RSA chapter 79-E benefit period, the Property will have a "base" assessed value of \$1,205,000 and generate \$31,310 annually (2022 tax rate of \$25.89 / \$1,000). Following the conclusion of the RSA chapter 79-E benefit period, the assessed value of the Property is projected to be \$3,249,800, and the Property will generate approximately \$109,780 (projected 2031 tax rate of \$33.78).
6. The Applicant's pro forma demonstrates that the Project will not achieve debt service coverage ratios required to make the Project viable for commercial financing. Without commercial financing, the project is unable to move forward.