



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

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

DATE: March 9, 2017

SUBJECT: RSA 79E Application: Former Sacred Heart Church, 54 Pleasant Street (Bienvenue Redevelopment L.L.C.)

RECOMMENDATION

- Accept this report and set the attached Resolution for a public hearing on April 10, 2017.
- Determine whether to award the project a RSA 79-E benefit. Per the Statute, the City Council has no obligation to approve the request, and the City's decision cannot be set aside by a Court or the Board of Tax and Land Appeals except for bad faith or discrimination.
- If the Council desires to grant the project a RSA 79-E benefit, determine the number of years of tax relief benefit the project should receive. Under the Statute, the project is eligible for between 1 and 7 years of tax benefit upon completion. The Developer has requested 6 years of benefit which is projected to result in \$357,640 +/- of property tax savings for the buyers of the residential condominium units. This figure equates to an average of \$35,763 per unit over 6 years, or \$5,960 / unit annually.

BACKGROUND

On January 14, 2008, the City Council approved Resolution #8130, which adopted the provisions of RSA 79- E "Community Revitalization Tax Relief Incentive." RSA 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. In short, the program allows for a property owner to forgo property taxes associated with improvements to real estate for a period between 1 and 15 years, depending upon the unique attributes of the qualifying development project.

Since its initial adoption, the City has amended its 79-E program three times. Most recently, the City Council adopted Resolution 8911 on April 11, 2016 which expanded the RSA 79-E program to make historic structures located outside of the Downtown and Penacook Village 79-E

Districts potentially eligible for the program. This resolution also enacted special enhanced eligibility criteria for such projects beyond those set forth within the statute. In conjunction with the adoption of Resolution 8911, the City Council also accepted a staff report which outlined the City Administration’s intentions to require applicants to provide more detailed financial information, including, but not limited to, financial pro formas, so that “needs testing” could be undertaken to help the City evaluate whether a project truly required a 79-E benefit to be economically viable.

To date, the City has awarded 6 applications for RSA 79-E tax relief, as detailed below:

<u>Year</u>	<u>Project</u>	<u>Location</u>	<u>Years of Tax Relief Granted</u>
2008	Washington Street Condominiums (Residential)*	Washington St, Penacook	7
2009	Penacook Village Laundry Mat (Commercial)	Village St, Penacook	1
2009	Sanel Block Redevelopment (Commercial)	South Main Street	5
2012	Endicott Hotel (Commercial)	South Main Street	3
2012	Endicott Hotel (Residential)	South Main Street	5
2014	Remi Block Redevelopment (Mixed Use)	North Main Street	5

Units where not sold during the RSA 79-E benefit period and were held and operated by the owner as apartments.

DISCUSSION

1. *Overview:* Local developer Jon Chorlian, doing business as Bienvenue Redevelopment L.L.C., acquired the former Sacred Heart Church on August 9, 2016 for \$725,000 for the purpose of preserving and renovating the property into a 10 unit residential condominium. The property consists of the former 15,486SF Catholic Church, constructed in 1933, set on 1.06 acre lot. A building permit for the project was issued on September 20, 2016. The project is currently under construction and scheduled to be completed in June 2017. All 10 condominium units were put under agreement several months ago. In addition to selling the condominium units, the Developer is currently entertaining the possibility of divesting of a portion of the parking lot which was subdivided from Church property on August 9, 2016.

Bienvenue Redevelopment L.L.C. applied for a RSA 79-E Community Tax Relief Incentive on February 9, 2017. A supplemental cover letter clarifying the Developer’s request, together with enhanced financial information, was received on February 28, 2017. The application and the cover letter are attached.

Based upon information provided by the Developer, the total budget for the project is approximately \$3,222,221 including property acquisition, design, and other soft costs. Sale prices for the 10 residential condominium units range between \$295,000 and \$435,000. Using sales information provided by the Developer, it is anticipated the project will have an assessed value of approximately \$3,670,000 upon completion, excluding the parking lot which was subdivided from the premises. Per a site visit on March 2nd, the City Assessing Department has estimated that the property’s assessed value was \$1.650 million. Staff estimates the value of the project will be \$1,730,000 by the time of the City Council’s public hearing on April 10th and granting of the Protective

Covenant to the City by the Developer shortly thereafter, should this application be approved.

As the City Council will recall, the City's RSA 79-E application package explicitly requires applicants to file for RSA 79-E prior to commencement of a project. Historically, this has not been an issue because most developers would not begin a project without first obtaining 79-E approval as the benefit has typically been required to make a project financially viable. That said it is important to note that the Statute itself 1) does not specifically require an applicant to apply prior to starting a project and, 2) gives flexibility to municipalities regarding how they establish and operate their RSA 79-E programs.

RSA 79-E:13 states that any RSA 79-E benefit granted shall only apply to the portion of improvements completed after 1) the City Council approves the application and 2) the applicant grants the City a covenant to protect the public's interest in the project. Because the City Council will hold a public hearing on this request on April 10th, and the project is scheduled to be completed in June, only those portions of the project completed during that 2 +/- month window will be eligible for RSA 79-E relief. It is important to note that the Developer will continue construction of its project during the ensuing period, therefore the projected assessed value of \$1.73 million will need to be verified in April should the City Council chose to award a 79-E benefit. Once renovations are completed, the property will be re-assessed. Although the applicant, and future condominium owners, would not have to pay property taxes on the value of the new improvements created on or about April 10th, they will be obligated to pay taxes on the projected \$1.73 million base value of the property, including any taxes associated with increases to the base value due to market inflation.

2. Review of Project Compliance with RSA 79-E Requirements: Per the Statute, the City has no obligation to approve a RSA 79-E application. However, in order for the project to be eligible for a 79-E benefit, the City Council must make a series of findings and determinations about the project as described herein.
 - a. Historic Property: A historic inventory of the property commissioned by the City in 1988 by historic consultant Liz Hengen determined that the property is potentially eligible for the National Register of Historic Places. A copy of the inventory form is attached to the application. Therefore, the project satisfies certain base line eligibility requirements enacted by Resolution 8911 regarding "historic properties".
 - b. Minimum Investment: To be eligible, the value of improvements to any historic property outside of the two established RSA 79-E Districts must be at least \$250,000 or total 25% of the property's current assessed value, whichever is less, per Resolution 8911. The Developer's total investment of \$3.2 million satisfies this requirement.
 - c. Compliance with Master Plan and Development Regulations: The governing body must make a finding that the development is consistent with the municipality's master plan or development regulations. It is the opinion of the

staff that the project satisfies this requirement and supports the goals and objectives of the City's 1997 Downtown Master Plan and 2030 Master Plan.

- d. Public Benefit: In order to approve this application, 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:
- i. The project enhances the economic vitality of the downtown;
 - ii. 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;
 - iii. 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.
 - iv. The project promotes development of municipal centers, providing for efficiency, safety, and a greater sense of community, consistent with RSA 9-B (New Hampshire's "Smart Growth" statute); or,
 - v. The project increases residential housing in urban or town centers.

It is the opinion of staff that the residential portion of the project satisfies all five criteria. However, it is important to note that the parking lot, which was subdivided from the Church property in August 2016, does not satisfy any of these criteria. Therefore no RSA 79-E benefit is recommended for the parking lot parcel.

3. Duration & Amount of RSA 79-E Tax Relief Period: Upon making a finding that one or more of the public benefits outlined above exists, the City Council may grant the project between 1 to 7 years of tax relief. Specifically, the project is eligible up to 5 years for simply moving forward, as well as up to 2 additional years due to the creation of new residential units.

The Developer, as set forth in his February 28, 2017 letter, requested 5 to 7 years of 79-E benefit depending upon the base assessed value. Because the projected base assessed value is estimated to be \$1.73, the Developer has requested 6 years of RSA 79-E benefit.

Based upon a 6 year RSA 79-E benefit period, and presuming a \$1.73 million base value and \$3.67 million completed assessed value, the estimated total tax savings to future owners of the condominiums is \$357,640. Please see the attached spreadsheet calculating annual and cumulative tax savings for the duration of the 79-E period requested by the Developer.

4. Other Considerations: In addition to those requirements mandated by the Statute, the City Council should also consider the following when evaluating this application:

- 1) Needs Testing: The staff report which accompanied Resolution 8911 in April 2016 articulated the City Administration's intention of requiring applicants to provide detailed financial information, including pro formas, to facilitate "needs testing" to help the City determine whether a project requires a RSA 79-E benefit to be economically viable.

Historically, the City has used RSA 79-E to support projects which have been held by developers during the benefit period. Specifically, the City's experience is that developers have customarily used property tax savings created by the RSA 79-E benefit to afford additional short-term gap financing to make their projects viable.

- 2) FPAC Review & Recommendation: The City Council referred this application to the City's Fiscal Policy Advisory Committee (FPAC) for review and input. FPAC met on February 21, 2017 and discussed the application.

FPAC concluded the following:

- a. FPAC felt the project was important to the community as it preserves an iconic historic resource and will create \$3.67 million in new assessed valuation, excluding the parking lot.
 - b. It was the consensus of FPAC that it would be appropriate for the City to grant some level of level of RSA 79-E benefit for the project given the preserved the historic Sacred Heart Church. However no specific proposal was approved.
 - c. FPAC further suggested that the City Council examine the total amount of tax benefit that the project might be eligible for and make a determination as to what might be reasonable and appropriate given this project's unique circumstances.
- 3) Tax Exempt Status of Sacred Heart Church: Sacred Heart Church was previously tax exempt due to its religious use. Therefore, the projected base line RSA 79-E assessed value of \$1.73 million creates new property tax revenues for the City, State, County, and Concord School District starting on April 1, 2017 in the amount of \$47,870 +/- based on the current FY2016 tax rate of \$26.67. Also, the subdivided parking lot is currently valued at approximately \$204,000 and will generate new property tax revenues in the amount of \$5,645 annually in the coming tax year.