



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

FROM: Matthew R. Walsh, Director of Redevelopment, Downtown Services, & Special Projects
Thomas J. Aspell, Jr., City Manager

DATE: July 2, 2018

SUBJECT: RSA 79-E Community Revitalization Tax Relief Incentive Application
1 Eagle Square

RECOMMENDATION

Accept this report and hold a public hearing on July 9, 2018 for the attached resolution granting a five year RSA 79-E Community Revitalization Tax Relief Incentive for real estate located at 1 Eagle Square. During its June 14, 2018 meeting, the City Council set this item for public hearing on July 9th.

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 of 1-15 years, depending upon the unique attributes of said real estate project.

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

Year	Project	Location	Total Years of Tax Relief Granted
2008	Washington Street Condominiums (Former Hoyt Electric)	Washington St, Penacook	7
2009	Penacook Village Laundry Mat	Village St, Penacook	1
2009	Sanel Block Redevelopment	South Main St	5
2012	Endicott Hotel (Commercial)	South Main St	3
2012	Endicott Hotel (Residential)	South Main St	5
2014	Remi Block (Residential)	South Main St	5
2017	Elm Grove Properties	5-7 South State St	6
2017	Elm Grove Properties	15 Pleasant St	6

DISCUSSION

1. *Overview:* On June 28, 2018 Granite Center LLC filed an application seeking RSA 79-E relief for property located at 1 Eagle Square. Pro formas for the application were subsequently provided on June 29, 2018. The applicant plans to acquire this property on or about August 1, 2018 for \$4.4 million.

Acquisition of this property is part of a larger redevelopment project being undertaken by the applicant involving other properties including 4-6 Dixon Avenue, 8-14 Dixon Avenue, as well as three parking lots located on Dixon Avenue and Storrs Street (one of which is owned by the City).

The subject property consists of a 65,000SF commercial building on a 0.36 acre lot, which currently features retail, restaurant, and office uses. Currently, the property is approximately 50% vacant.

The Eagle Hotel was constructed in 1851 and was listed on the National Register of Historic Places in 1978.

The owner plans to invest approximately \$3.315 million to renovate the property, excluding the acquisition price. The project is scheduled to start in August 2018 and is projected to be completed in February 2019. As such, the RSA 79-E benefit will commence on April 1, 2019.

A copy of the RSA 79-E application is attached.

In accordance with RSA 79E:4, II & III, the City has 60 days to hold a public hearing on the application and 45 days to act upon it after the public hearing.

Per RSA 79:E, V, City Council may deny the 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. If the City Council were to deny the application, the Developer may cancel the project and not move forward with renovation of related properties at 4-6 Dixon and 8-14 Dixon Avenue.

2. *Basic Criteria for Awarding RSA 79-E Community Revitalization Tax Relief Incentives:* It is important to note that the City has no obligation to grant any RSA 79-E applications. However, in order for the City to approve this application, City Council must find the following as set forth in RSA 79-E:4, IV:
 - a. The governing body finds a public benefit under RSA 79-E:7. If a benefit is found to exist, City Council has the discretion to grant tax relief for up to five years. Analysis for this is provided later herein. The statute also provides additional years of tax relief for qualifying projects on a discretionary basis, as follows:
 - i. Up to additional two years of tax relief for a project which results in new residential units. *Analysis: Renovation of this property will not result in any new housing and therefore is ineligible for this benefit.*

- ii. Up to four years for a project that includes affordable housing. *Analysis: This project will not include any affordable housing. Therefore the project is ineligible for an additional four years of benefit.*
 - iii. Up to an additional four years of tax relief for the substantial rehabilitation of a qualifying structure that is listed on or determined eligible for listing on the National Register of Historic Places provided that the substantial rehabilitation is conducted in accordance with the U.S. Secretary of Interior's Standards for Rehabilitation. *Analysis: Although the Eagle Hotel was listed on the National Register of Historic Places in 1978, the applicant's proposed improvements will not strictly comply with the Secretary of the Interior's Standards. Therefore the project is not eligible for an additional four years.*
 - b. The specific public benefit is preserved through a covenant under RSA 79-E:8. *Analysis: The applicant will provide the required covenant to the City which shall run with the land for a period twice the benefit period (i.e. 10 years) in accordance with RSA 79-E:8, II.*

In conjunction with granting RSA 79-E for this parcel, but separate from the covenant required by RSA 79-E:8, the Developer shall also grant to the City a second covenant whereby should any or all of the property ever become owned by a tax exempt entity, then said entity would be responsible for making a payment in lieu of taxes to the City in an amount equal to what would be owed if the property was not tax exempt. This covenant shall run with the land in perpetuity.
 - c. The governing body finds that the proposed use is consistent with the municipality's master plan or development regulations. *Analysis: The preservation, renovation, and adaptive reuse of historic properties such as the Eagle Hotel supports the goals and objectives of the City's 2030 Master Plan and 1997 Downtown Master Plan.*
 - d. The value of proposed improvements is at least \$75,000 or total 15% of the property's current assessed value, whichever is less. *Analysis: The Developer's budget for renovation of this property is \$3.315 million (excluding acquisition of \$4.4 million). This budget is well in excess of the \$75,000 or 15% of pre-renovation assessed value threshold required for participation in the RSA 79-E program.*
- 3. **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:
 - a. That the project enhances the economic vitality of the downtown. *Analysis: Currently, the Eagle Hotel is 50% vacant. The Developer's plan to improve the property will attract additional tenants and, in turn, create additional vitality in Downtown. Therefore staff believes this project satisfies this criterion.*

- b. 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: The property was listed on the National Register of Places in 1978, thus satisfying this criterion.*
- c. 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: Although the project will preserve and renovate a historic structure, and includes energy efficiency improvements, the applicant does not intend to strictly conform to the Secretary of the Interior's Standards for Rehabilitation. Therefore, the project does not technically satisfy this criterion.*
- d. That 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). *Analysis: This project is consistent with the goals of State's Smart Growth statute as it involves renovation of a historic building served by existing infrastructure, thus helping to reducing sprawl. Therefore staff believes this project satisfies this criterion.*
- e. That the project increases residential housing in urban or town centers. *Analysis: This project will not result in any new residential units.*

Staff believes that this project, as proposed, satisfies three of the five criteria above, and is therefore eligible for the RSA 79-E program. Again, the project only needs to satisfy one of the five criteria to be eligible for consideration.

4. Financial Need for 79-E Benefits: As part of its recodification of the City's RSA 79-E program in April 2016, the City Council concurred with the City Administration's recommendation that all RSA 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 a 79-E benefit is required to make a project financially viable.

The applicant has provided a pro forma for this project. The pro forma is proprietary and not subject to public disclosure.

A review of the pro forma has confirmed that the Developer's project does achieve positive cash flow. The Developer's pro forma included projected revenues and operating expenses for the property and it is determined that a 79-E benefit is required to make the project financially viable.

5. Potential Tax Savings to Applicant: The City Assessor has determined that the current assessed value of the property is \$4,023,800. This amount shall serve as the project's base value for the purposes of RSA 79-E. The City Assessing Department projects that the property will have an assessed value of \$4,680,700 upon completion of the proposed improvements.

Based upon this information, staff projects that granting of the RSA 79-E benefit will result in total savings to the developer of approximately \$101,000. Please see the attached spreadsheet titled “Projected Financial Benefit of RSA 79-E Award to Applicant” for more information.

It is important to note that the RSA 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 base value of the property, including any taxes associated with increases to the base assessed value of \$4,023,800 due to market inflation.

6. Other Considerations: In addition, City Council should also consider the following when evaluating this application:
 - a. The renovation budget includes funding for energy improvements, thereby satisfying the requirements of RSA 79-E:2, IV.
 - b. 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”.

The Developer intends to use equity generated by the sale of an allocation of New Markets Tax Credits, a federal program, to support this project. The equity from these tax credits does not need to be repaid.

The Developer has reported that the total cost of its project, in the aggregate, is \$13.7M. This includes renovation of the Eagle Hotel, as well as all other properties located on Dixon Avenue and Storrs Street. The sale of New Markets Tax Credits will generate \$4,512,300 (or roughly 33% of the total project budget). This requirement is satisfied.

- c. The subject property is not located within a Tax Increment Finance District.

STAFF RECOMMENDATION:

Given the information provided, it appears that the application complies with all statutory requirements set forth by RSA 79-E.

Should the City Council chose to award RSA 79-E for this project, staff would note the following:

1. This project builds upon momentum initiated by the recently redeveloped Remi Block relative to redevelopment of North Main Street;
2. The developer is making a significant financial investment which will expand vitality in Downtown Concord; and,

3. The proposed project satisfies four of the five public benefit criteria set forth in the statute;