



CITY OF CONCORD

REPORT TO MAYOR AND CITY COUNCIL

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

DATE: September 1, 2017

SUBJECT: Sale and Redevelopment of the Former New Hampshire Employment Security
Property

Recommendation:

1. Accept this report;
2. Set the attached resolution authorizing the City Manager to enter into a Purchase and Sale / Development Agreement with Dol-Soul Properties L.L.C. concerning the sale and redevelopment of the former New Hampshire Employment Security site at 32-34 South Main Street and 33 South State Street for public hearing on October 10, 2017;
3. Set the attached resolution amending the Code of Ordinances, Title IV, Zoning Code; Chapter 28, Zoning Ordinance; Article 28-2, Zoning Districts and Allowable Uses; Section 28-2-3, The Zoning Map, by converting certain properties bounded by South Main Street, Fayette Street, South State Street and Thompson Street from Urban Commercial (CU) District to the Central Business Performance (CBP) District for public hearing on October 10, 2017;
4. Set the attached resolution amending the Code of Ordinances; Title IV, Zoning Code; Chapter 29.2, Public Capital Facilities Impact Fees Ordinance, Article 29.2-1-3, Administration, Section (g) Incentives for Redevelopment of Blighted, Underutilized, Abandoned, or Contaminated Buildings and Table 4 "City Priority Redevelopment Projects" for public hearing on October 10, 2017;
5. Set the attached resolution amending and restating the Sears Block Tax Increment Finance District Development Program and Financing Plan for public hearing on October 10, 2017; however delay the vote on this item until November 13, 2017 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; and,
6. Set the attached resolution appropriating the sum of three hundred thousand dollars (\$300,000) for the demolition 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 hundred thousand dollars (\$300,000) for public hearing on October 10, 2017; however delay the vote on this item until November 13, 2017 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 September 21, 2011, the State of New Hampshire notified the City of its plans to divest of the former Employment Security Property located at 32-34 South Main Street and 33 South State Street. The State divested of these properties as part of a larger plan to consolidate various Employment Security offices throughout central New Hampshire to the former Tobey Building on Fruit Street in the State Office Park. Renovation of the Tobey Building was completed in May 2014. The State's asking price was \$1.75 million as determined by a July 2011 real estate appraisal. In accordance with RSA 4:40, the City was afforded a right of first refusal to acquire the property before it was listed on the open market.

Due to the property's highly visible location and strategic importance relative to the City's ongoing downtown revitalization efforts, the City elected to invoke its right of first refusal to acquire property. Recognizing its fiduciary responsibility to the taxpayers, the City Council had initially hoped to avoid using City funds to acquire the property by partnering with a private developer to who would acquire the site through a three party transaction involving the City, State, and the developer. As such, in early 2013 the City issued a Request for Proposals (RFP) for the purpose of selecting a developer to redevelopment the property. Two proposals were received, but neither ultimately moved forward.

As a result, on October 31, 2014 the City acquired the property for the sum of \$1.575 million plus closing costs. To finance the purchase and related holding costs, the City Council approved Resolutions #8777 and #8778 which appropriated the sum of \$1.99 million in Sears Block Tax Increment Finance District (SBTIF) bonds and notes. In accordance with RSA 162-K:8 (the State law governing TIF), as well as the SBTIF's Development Program and Financing Plan, these bonds and notes were issued as short-term, low cost interest only Bond Anticipation Notes (BAN), with the understanding that the issuance would eventually be converted to full principal and interest debt once the property is sold to a developer. At the time of purchase, the City had structured its financing plan on the assumption it would hold the property for approximately 5 years.

In January 2015, the City issued a Request for Proposals for the purpose of engaging a commercial real estate broker to market the property. In March 2015 the City engaged the NAI Norwood Group of Bedford, New Hampshire to market the site. To support marketing efforts, the City engaged a design team which prepared conceptual site plans depicting how the property could potentially be redeveloped. Following the completion of development concepts and a comprehensive marketing package, the property was put on the market in August 2015 with an asking price of \$1.6 million.

On April 19, 2017 Dol-Soul Properties LLC submitted a Letter of Intent to acquire the property.

Discussion:

- 1) Overview of Dol-Soul Properties L.L.C. and its Redevelopment Plan: Dol-Soul Properties is a limited liability real estate development company comprised by a consortium of real estate developers and investors. Key partners in the company are Drew and Deane Dolben of the Dolben Company, Ari Souliotis, and Tim Vanech.

The Dolben Company is based in Woburn, Massachusetts. Founded in 1929, the company has been family owned and managed for four generations and is currently led by Drew and Deane Dolben. The Dolben Companies is a highly respected in the commercial and residential real estate industry. They focus on real estate investment, development, and management. Currently, the company owns and manages approximately 37 developments throughout the eastern seaboard, including mixed use projects and 10,000 apartment units. Dolben has experience developing individual real estate projects costing well in excess of \$50 million. In addition to managing its 10,000 units, the company provides property management services for another 5,000 apartments owned by third party clients, for an impressive total of 15,000 +/- units. By way of comparison, there are a total of 18,852 dwelling units in the City of Concord according to the 2010 US Census.

Ari Souliotis is a real estate developer and restaurateur. Currently he is the Managing Member and CEO of the Vermont Donut Company which owns and operates 18 Dunkin Donuts franchises, as well as a Dunkin's bakery, throughout the Green Mountain State. He also has experience developing convenience stores and gas stations for Evans Motor Fuels and currently holds and manages approximately 50,000SF of commercial real estate.

Tim Vanech graduated from Harvard in 1995, Cum Laude, where he studied Economics. He is the principal founding partner of Shorepoint Capital Partners, an investment company that manages hundreds of millions of dollars in financial assets for small business and private investors. He additionally co-founded a development firm that invests in Subway and Dunkin Donuts restaurants.

- 2) Dol-Soul's Development Plan: Dol-Soul desires to enter into a Purchase and Sale / Development Agreement for the purpose of acquiring the entire 0.74 acre property and developing a new 120,000SF +/- mixed use building featuring approximately 109 market rate apartments (studio, one-bedroom, and 2 bedroom units) together with support facilities (office, fitness center) and 5,000SF of commercial space on the ground level of the building along South Main Street. Dol-Soul also anticipates that approximately 54 to 103 parking spaces may also be developed on-site to support their project. Specifically, these parking spaces would be provided through either a surface parking lot beneath portions of the building, or a subterranean parking garage, or both. Currently, Dol-Soul does not envision acquiring any adjacent private properties for their project.

Based upon this preliminary development program, City Administration anticipates the project's assessed value could be approximately \$12.49 million. When completed, this will be one of the single largest, most valuable buildings in the City. Moreover, this project eclipses the size and assessed value of any single private building constructed on South Main Street since the City launched redevelopment efforts over a decade ago.

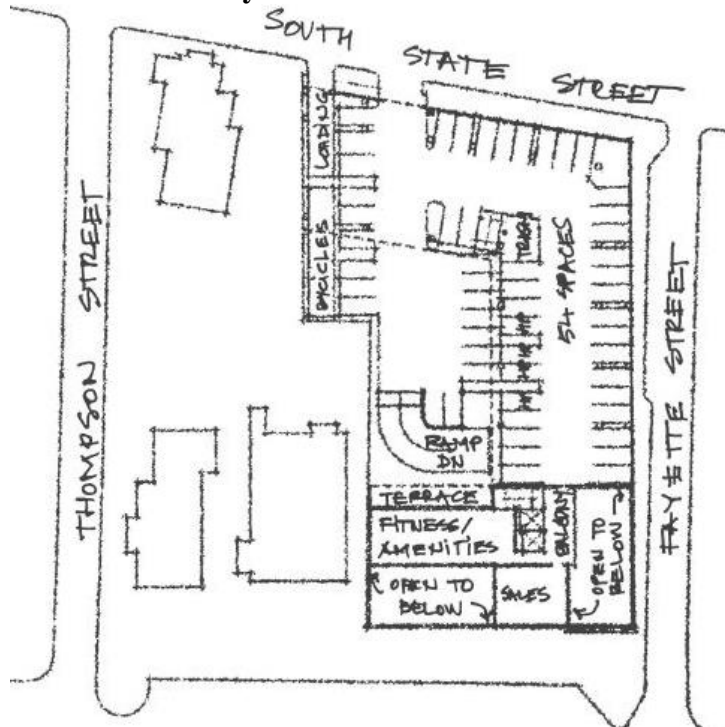
Preliminary designs for the developer's project are as follows. It is important to note that these are very preliminary and subject to change as the design and development permitting process moves forward.



South Main Street Elevation



Fayette Street Elevation



Site Plan / 2nd Floor Floor Plan

- 3) Summary of Purchase and Sale Terms and Conditions: The following is a summary of the basic terms and conditions of the proposed Purchase and Sales / Development Agreement. A complete copy of the complete agreement, including all exhibits, is attached to this report.
- a. Price: \$1,075,000; cash at Closing.
 - b. Deposit: Buyer will provide a deposit in the amount of \$100,000. The deposit will be refundable to the Developer under certain conditions if the project does not move forward.
 - c. Schedule:
 - i. Closing: Not later than September 30, 2018. However this date may be extended in the event of certain delays as further described in the Purchase and Sales / Development Agreement.
 - ii. Completion of Developer's Project: Approximately October 1, 2019. However this date could be extended in the event of certain delays in accordance with the terms of the Purchase and Sales / Development Agreement.
 - d. Infrastructure Improvements: The City has no obligation to design or construct any infrastructure to support Dol-Soul's project.
 - e. Environmental Obligations: Dol-Soul will be purchasing the property in its "as is, where is" environmental condition. The City shall have no residual liabilities for any environmental issues at the property (if any).
 - f. General Contingencies: Dol-Soul's obligation to close on acquisition of the property, and the City's obligations to convey the property, are subject to the following conditions:
 - i. The results of a 90 day due diligence period, during which Dol-Soul shall determine whether the property is in suitable environmental condition for its proposed project. During this period, Dol-Soul will also conduct a title review to determine that the property has clean, marketable, and insurable title. The Developer will also undertake market studies and related financial due diligence.
 - ii. The Developer securing all financing for its project.
 - iii. The Developer securing all development permits and approvals required for its project, including a building permit.
 - iv. The Developer entering into a sufficient number of lease or occupancy agreements prior to Closing.
 - v. Dol-Soul entering into a construction contract with a general contractor or construction manager for its project.

- vi. The Parties executing the Parking Agreement, included in Exhibit 3 of the Purchase and Sale Agreement.
 - vii. The City fulfilling its responsibilities under the Agreement pertaining to rezoning the property, partial reduction of impact fees, adoption of a City Ordinance to establish a permit parking system which enables the Parking Agreement to take effect, and demolition of the former New Hampshire Employment Security office building. These responsibilities are further described later in this report.
- b. Special Provisions: Lastly, as part of this Agreement, Dol-Soul shall agree to the following special covenants:
- i. A deed restriction that, in the event the property is ever sold to a tax exempt entity, the full amount of property taxes which would have been owed if the property was taxable shall be paid to the City, Concord School District, County, and State of New Hampshire.
 - ii. A deed restriction, which shall permit the City, at its sole discretion, to reacquire the property at a price equal to that paid by Dol-Soul to the City in the event the Developer does not commence construction of its project within 12 months of acquiring the property. Commencement of construction shall consist of Dol-Soul entering into a contract for construction of the project, securing building permits for the project, and completing the foundation for the project.
 - iii. A deed restriction with special provisions regarding the types of retail, franchise restaurants, and office uses which can be established within the 5,000SF retail space in order to safeguard the City's economic development goals for the project.
 - iv. Special provisions related to architectural provisions pertaining to the Developer's project, including prohibition or limitation on certain materials which might be used to clad the building.
- 4) City's Obligations to Support Project: In order for the project to move forward, the City must undertake the following actions:

- a. Demolition of the Existing Building and Sears Block TIF Amendments: Sale of the property is conditioned upon the City demolishing the existing 26,000SF +/- building. The preliminary estimate to abate and demolish the building is \$300,000.

The property is located within the Sears Block Tax Increment Finance District. As such, the City Administration recommends that demolition be financed by the SBTIF.

In the past, the City Council has been reluctant to demolish the building as it felt preserving the structure afforded more options in the event the City needed to divest of property quickly. As such, the City will only proceed with demolition after certain conditions are met by the Developer, as set forth within the P&S Agreement. These include the Developer completing its due diligence, securing

all permits and approvals for its project, securing a written financing commitment for the project, and receiving written confirmation from its general contractor that estimates for the project are within budget. The goal of these conditions is to provide reasonable assurance to the City that the Developer's Project will move forward before the City makes a significant additional financial investment in the property.

Use of SBTIF moneys will require the City to update the SBTIF Development Program and Financing Plan in accordance with RSA 162-K. A copy of the revised Development Program and Financing Plan are attached. Updated financial pro formas prepared in conjunction with the Development Program and Financing Plan demonstrate that the TIF has ample capacity to support these investments, as well as other investments associated with redevelopment of the Former NH Employment Security Property (property acquisition and underground utilities) and the Main Street Complete Streets Project. Please see the attached resolutions, as well as amended and restated SBTIF Development Program and Financing Plan for more information.

Should this project move forward as anticipated, and presuming no additional development or TIF infrastructure investments, the updated financial pro formas for the SBTIF predict that the SBTIF District could sunset as early as FY2030. This date anticipates full repayment of all debt service, as well as reimbursement to the Economic Development Reserve for its \$2.85 million investment in the Capital Commons Redevelopment Project (with interest), as well as creation of a \$1.050 million reserve fund for the Storrs Street Parking Garage and related SBTIF improvements. By way of comparison, the SBTIF Pro Forma approved as part of the FY2018 Budget process, predicted the SBTIF could sunset as early as FY2035. Again, please see the pro forma including in Exhibit 2 of the SBTIF Development Program and Financing Plan for more details.

Due to the confidential nature of negotiations with the Developer, the Sears Block TIF District Advisory Board has not yet been consulted about the proposed use of the SBTIF to finance demolition of the existing building, or residual costs the SBTIF will carry related to un-recouped costs from the \$1.075 million sale price related to the purchase of the property in 2014 and related weatherization and holding costs. The City Administration intends to schedule a meeting of the Advisory Board to secure their input prior to the City Council making a final decision on the TIF amendment and related appropriations.

- b. Zoning Amendment: In order for the Dol-Soul project to move forward, the City must re-zone the property from Urban Commercial (CU) to Central Business Performance (CBP). Rezoning the property will provide the project with greater flexibility concerning building height limitations, setbacks, density, impervious coverage, and parking requirements. The project will be unable to proceed without this critical zoning change.

Rather than only rezoning the former NH Employment Security property, City Administration is proposing to rezone the entire block bounded by South Main, Fayette, South State, and Thompson Streets as this will 1) foster a more logical development pattern in the future and 2) provide greater land use regulatory flexibility for the three other private properties abutting the site. Please see the

attached map for more information. The Planning Division of the Community Development Department supports this proposal.

Prior to the public hearing on October 10, 2017, the City shall send written notices to the property owners affected by the proposed zoning amendment. In addition, City Administration will seek input from the Planning Board on the proposed amendment.

Rezoning of the property is consistent with the City’s 2030 Master Plan, 2006 Opportunity Corridor Master Plan, 2005 Tax Base Expansion and Economic Development Plan, as well as the 1997 Downtown Master Plan and Concord 20/20 Vision Plan.

- c. Impact Fee Waiver: In addition to the City demolishing the existing building and rezoning the property, the Developer’s project is also contingent upon the City amending the Impact Fee Ordinance so as impact fees for the Developer’s Project will not exceed \$150,000. This will be accomplished by designating the development as a “City Priority Redevelopment Project”.

As the City Council may recall, this City has used this tool very sparingly in the past to encourage key redevelopment projects throughout the City. Specifically, this tool has only be used to support the redevelopment of the former Sears Block (now known as the Capital Commons), the former Blue Cross Blue Shield property (now known as 2 Pillsbury Street), and Bindery Redevelopment Project at 45 South Main Street.

City Administration calculates that, without this amendment, net impact fees for Dol-Soul’s project would be approximately \$297,145, presuming 109 apartments and a retail user for the 5,000SF commercial space. This includes \$108,838 in school impact fees which are proposed to be discontinued this year, pending ordinance changes currently before the City Council.

| Impact Fee Category | Amount | Notes |
|-----------------------------|------------------|---|
| Recreation | \$66,446 | \$664 / Apartment |
| Transportation | | |
| Residential | \$157,941 | \$1,449 / Apartment |
| Commercial | \$12,800 | \$2.56 / SF (Under 5,001 SF Retail Use) |
| School | \$108,838 | \$998.51 / Unit |
| NHES Office Credit | (\$48,880) | \$1.88 / SF Single Tenant Office |
| Net Total Impact Fee | \$297,145 | |

- d. Parking: Upon rezoning the property from CU to CPB, the Developer will be exempt from providing any parking for its project. However, in order to secure financing and be viable in the local marketplace, the Developer’s project will need access to a reasonable supply of parking into the future.

Based upon the Developer’s plans for 109 apartments at the property, the Dol-Soul and City Administration believe the project will need access to up to 136 parking spaces. This figure is based on a parking ratio of 1.25 parking spaces per

dwelling unit. No dedicated parking is planned for the 5,000SF of commercial space included in the Developer's Project.

As previously discussed herein, Dol-Soul plans to construct parking on site to support their project. Specifically, they plan to build or otherwise provide at least 54 parking spaces on site. However, they may provide as much as 103 spaces.

Whether Dol-Soul provides 54 or as many as 103 parking spaces, additional parking will still be required to support their project presuming 109 apartments. Therefore, as part of the P&S Agreement, the City will agree to enter into a Parking Agreement (included as Exhibit 3 in the Purchase and Sales / Development Agreement) whereby the City shall provide up to 82 permits for residential tenants of the Developer's project for an initial period of 20 years. However, the agreement can be extended for an additional 10 years based provided certain conditions are met, for a total of 30 years, combined.

The exact quantity of permits will depend upon 1) the final number of actual parking spaces built on-site, or otherwise secured by the Developer, as well as 2) the actual number of apartments developed in the project. The Agreement specifically gives the City flexibility to provide permits to the development's residential tenants in any City garage, parking lot, or street right-of-way it deems appropriate. However, City Administration envisions that permits would be available within the Storrs Street Municipal Parking Garage (516 spaces, of which 114 spaces are public meters), Hills Avenue Municipal Parking Lot (19 metered spaces), or on South State Street (currently regulated as unmetered time zone parking), or a combination of any of these facilities to the extent practical, as these facilities would be the most convenient for Dol-Soul's tenants.

Establishment of a permit program is one of the core recommendations of the draft strategic parking plan. With respect to the Storrs Street Parking Garage, the draft parking strategic plan recommends that the existing long-term lease agreements be renegotiated and transitioned into a permit system by FY2020 (July 1, 2019). However, should the City be unable to negotiate out of a sufficient quantity of lease agreements for the Storrs Street Garage, then permits would only be valid for the 114 metered spaces in the garage.

Per the terms of the Purchase and Sale Agreement, the City shall have 120 days to adopt the required Ordinances to establish the permit program or the Developer would have the right to terminate the Agreement. Also, per the Agreement, only residential tenants of the Developers project, would have access to permits upon completion of the Developer's project (potentially as soon as fall 2019) at rates which would be identical to those charged to the general public. The exact start date is subject to change in the event certain delays are encountered by the Developer.

The Parking Committee is currently working to finalize the strategic parking plan. It is anticipated that the Committee's final recommendations will be presented to the City Council early this fall. However, in the event the Strategic Parking Plan is delayed, City Administration will bring forward an Ordinance to establish the permit system so as to not violate the 120 day time limit within the Purchase and Sales Agreement.

5) Benefits of Proposed Project: The following is a summary of the anticipated benefits of this project:

- a. The proposed project is consistent with goals and recommendations of the 1997 Downtown Master Plan, 2005 Economic Development and Tax Base Expansion Plan, 2006 Opportunity Corridor Master Plan, Concord 20/20Vision Plan, as well as the 2030 City Master Plan.
- b. The project will greatly expand the supply of market rate housing in downtown, a critically important component of the City's economic development strategy to preserve and enhance the economic vitality and vibrancy of the downtown central business district.
- c. Disposable income of residents living at this new development will further support downtown merchants, restaurants, and cultural venues.
- d. Dol-Soul strongly desires to secure a quality restaurant for the ground level 5,000SF commercial space included in its building. If successful, this potential restaurant would expand the local supply of quality restaurants, thereby adding to the vitality of downtown during nights and weekends.
- e. The project will further demonstrate the viability of market rate housing in the downtown central business district. In combination with other recently completed downtown housing projects, this development will unequivocally demonstrate the viability of market rate housing in downtown, thereby encouraging other developers to pursue development of this important product in the central business district.
- f. The project will create a highly visible, signature building that will further support and enhance ongoing redevelopment efforts on South Main Street, as well as the City's recent investment in the Complete Street Project.
- g. Financial Benefits:
 - i. Sale price will be \$1.075 million. This is a reasonable price given the Developer's program for the property. After paying a commission to the NAI Norwood Group and other closing costs, staff estimates that the City will net \$1,003,000.

Although the sale price is insufficient to cover the City's total investment in the premises, property tax revenues generate by the project and captured by the SBTIF will be ample to cover the residual costs incurred by the SBTIF District.

- ii. Excluding water and sewer connection fees, it is estimated the City will receive approximately \$300,000 in development permitting revenues for this project (i.e. planning board permits, building permits, and impact fees).
- iii. Parking permit revenues are projected to generate approximately \$84,000 in the first year and upwards of \$1.85 million over the entire 20 year initial term of the Parking Agreement, presuming 82 permits annually, \$85 per

month permit cost as currently recommended in the draft strategic parking plan, and a 1% average annual price increase.

- iv. The proposed development will create upwards of \$12.49 million in new assessed value which, after a 20% coverage ratio reduction, is projected to yield nearly \$300,000 in projected property tax revenues in its first full tax year after completion (currently anticipated to be FY2021). Of this total, approximately \$45,000 will accrue to the City's General Fund immediately to account for the base value of the NH Employment Security property in accordance with RSA 162-K. Once the SBTIF District sunsets, all property tax revenues from the project would accrue to the General Fund.
- v. Including this project, since its inception in 2003, real estate development within the Sears Block Tax Increment Finance District has created approximately \$50,000,000 in new assessed value which generates approximately \$1.4 million in property tax revenues (FY2021 projection).