



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

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

DATE: December 9, 2019

SUBJECT: 10 Pleasant Street Extension – Application for RSA 79-E Community Revitalization Tax Relief Incentives

RECOMMENDATION

Accept this report and hold a public hearing on January 13, 2020 for the attached resolution, granting up to 9 years of RSA 79-E Community Revitalization Tax Relief Incentives for real estate located at 10 Pleasant Street Extension.

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 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.

To date the City has awarded the following applications for RSA 79-E tax relief.

Year	Project	Location	Use	Total Years Granted
2008	Washington Street Estates LLC	Washington St, Penacook	Residential	7
2009	Penacook Village Laundromat	Village St, Penacook	Commercial	1
2009	Sanel Block Redevelopment	49 South Main St	Commercial (Office)	5
2012	Endicott Hotel	South Main St	Commercial (Office / Services)	3
2012	Endicott Hotel	South Main St	Residential	5
2014	Remi Block	148-158 North Main St	Mixed Use (Residential & Service / Restaurant)	5
2017	Elm Grove / State Pleasant LLC	15 Pleasant Street	Residential	6
2017	Elm Grove / State Pleasant LLC	5-7 South State Street	Residential	6
2018	Granite Center LLC	1 Eagle Square	Office & Retail	5
2018	Granite Center LLC	4-6 Dixon Avenue	Mixed use (Residential & Office)	5
2018	Granite Center LLC	8-14 Dixon Avenue	Office & Retail	5
2019	Governor Rollins Mansion (CITY COUNCIL ACTION PENDING)	135 North State Street	Live / Work Space	9 (Pending City Council Public Hearing on December 9, 2019)

DISCUSSION

- I. Overview: Local developer Steve Duprey, doing business as Duprey Acquisitions IV L.L.C., acquired 10 Pleasant Street Extension on January 20, 2011 for the sum of \$400,000. At the time, the property was occupied by the Lighting Place, an independent retail store that specialized in lighting fixtures. The Lighting Place closed on April 20, 2017, and the property has since remained vacant.

The property consists of a 7,264SF building (including the basement) known as the former “Monitor Statesman Building” set on a 0.07 acre lot. The building was constructed in 1912.

- II. Historical Significance: The Monitor Statesman Building was constructed in 1912 to house the Monitor Statesman Newspaper, a predecessor of the modern day Concord Monitor. The Monitor was published at this site from 1912 – 1929. The building is typical of the early 20th Century, and exhibits many exterior features which were influenced by Classical Revival style of architecture, which was common for the era.

Two historic inventories of the property are available. The first was commissioned by the City in 1999 and prepared by historic preservation consultant Lisa Mausolf. The inventory determined the property was potentially eligible for the National Register of Historic Places as a contributing structure to the Downtown National Register District.

A second historic inventory was commissioned by Duprey Acquisitions IV L.L.C., and was completed by MacRostie Historic Advisors in October 2019. This effort expanded upon the 1999 inventory.

Copies of both inventories are attached to this report.

- III. Owner’s Redevelopment Plan: Bill Wilcox, doing business as WB4 L.L.C., is the applicant for this RSA 79-E application.

On August 18, 2019, Mr. Wilcox entered into a Purchase and Sales Agreement to acquire the property from Duprey Acquisitions IV L.L.C. As part of the agreement, Duprey Acquisitions will complete a full renovation of the property into office space prior to the closing. The sale price is \$1.229 million, of which \$400,000 is allocated for the real estate and \$829,000 is allocated for building renovations.

The purchase and sales agreement has several contingencies, including approval of RSA 79-E benefits for the property by the City Council.

Upon acquiring the property, Mr. Wilcox, through his limited liability company, will lease the property to Wilcox and Barton, a civil and environmental engineering firm. Mr. Wilcox is the President of Wilcox and Barton.

Wilcox and Barton was founded in 2000 and is currently headquartered in Londonderry, New Hampshire. The offices at 10 Pleasant Street Extension will serve as the company’s new corporate headquarters. Approximately 10 employees will be based at the premises.

The applicant's total development budget for the project is \$1,579,542, including the \$1.229 million sale price. Details of the \$1,579,542 budget are as follows:

- Soft Costs: \$690,000 (\$95.46 per Gross Square Foot). These include property acquisition (\$400,000) design, accounting and legal fees, as well as fixture / furnishings / equipment for the property (\$100,000).
- Hard Costs: \$889,542 (\$125.45 per Gross Square Foot). These are construction costs. Renovations include new electrical, plumbing and HVAC systems, new roof, insulation improvements, new windows, and flooring. Although the building is three stories (including the basement) no elevator is included in this project. This is unusual for a multi-story office building.

IV. 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 79-E District.
- ii. Cost of Renovations: The estimated cost of the renovations, excluding acquisition of the real estate, is \$1,179,542, thus exceeding minimal thresholds of 15% of current assessed value (excluding land), or \$75,000 (whichever is less). The applicant has provided detailed cost estimates from a local general contractor for the project.
- iii. Start of Renovations: Renovations have not yet begun. Work is tentatively scheduled to commence in January 2020 following 1) City Council's action on the application and 2) receipt of the statutorily mandated RSA 79-E Protective Covenant "may result in denial of the application."

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

b. 79-E Review Process:

i. RSA 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. *Analysis: The applicant filed its RSA 79-E application on October 21, 2019. Electronic copies of the applicant's pro formas, as well as other supporting information, were subsequently provided on November 13 and 15th. As the application was complete on November 15, 2019, the City must hold the public hearing by January 14, 2020. The City Council will have until February 28, 2020 to vote on the application.*

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. Tax Increment Finance Districts: In accordance with RSA 79-E, VI, the City may deny applications for community 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 located within the Sears Block TIF District. While granting RSA 79-E would delay expediting the repayment of existing TIF debt, approval of this project will not undermine the financial viability of the Sears Block TIF District to support its current debt service or operating expenses.

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 the Downtown Central Business District and the City's Downtown 79-E District. The project will redevelop a vacant building, which is in need of significant renovations. 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: Two historical inventories of the property have been prepared by qualified historic preservation consultants. Both concluded that the property has historical and cultural significance for the community. 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 intends to renovate the property in accordance with the Secretary of the Interior's Standards for Rehabilitation. Provided that the New Hampshire Division of Historical Resources confirms that renovations are completed in accordance with these standards, 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 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 will not result in any new residential units.*

Analysis: In summary, Staff believes that this project, as proposed, satisfies four of the five criteria above, and is therefore eligible for the RSA 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: The project will include energy efficiency improvements such as new LED lighting, energy efficient windows, and improved building insulation, thus satisfying this requirement.*
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 intends to use US Historic Tax Credits to support this project. Combined, the projected cash value of these credits is approximately \$20,000 - \$80,000. Estimated construction costs for the project are \$889,542. Therefore, the application appears to satisfy this requirement.*

V. 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 US Secretary of the Interior’s Standards.

The applicant has requested 9 years of tax relief per items “a” and “d” above.

Tax relief commences upon the initial April 1st following substantial completion of proposed renovations. The applicant has indicated the project will be completed in June 2020; therefore, the term of tax relief would begin on April 1, 2021. *Analysis: The applicant’s project is eligible for up to 9 years of tax relief per items “a” and “d” above. The City Council has the discretion to award anywhere between 1-9 years, as the City Council might believe is appropriate. The City Council may also deny the application. In addition to the 9 year benefit period, the project will not pay property taxes on new assessed value created by renovations during the construction period (i.e. January 2020 – March 30, 2021).*

- VI. Potential Tax Savings to Applicant: The City Assessor has determined that the base value of property in its current condition is \$254,300.

Once renovations are completed, the Assessing Department projects that the property will have an assessed value of \$658,800.

If RSA 79-E were granted, it would only apply to the \$404,500 difference between the base value of \$254,300 and projected renovated assessed value of \$658,800.

If the City Council were to grant this application for 9 years of tax relief, the total combined tax savings to the application is projected to be approximately \$126,897. On average, 79-E will save the project approximately \$12,690 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 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 \$254,300 base value of the property for the entire duration of the RSA 79-E period.

- VII. Statement of Financial Need for RSA 79-E Benefits:

- a. Statement of Financial Need: The applicant is seeking RSA 79-E due to the relatively high cost of the project.

Although the building contains approximately 7,264SF, the applicant only intends to occupy the upper two floors which total approximately 4,872SF. The basement will be used as storage.

Given a total budget of \$1,579,542 and 4,872SF of useable square footage, the development cost of the project is approximately \$324.21 per useable square foot.

b. Review of Pro Forma:

- i. General: 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 RSA 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.

ii. Analysis:

1. The applicant will own the property via a limit liability company, which will lease the property to his engineering firm.
2. The lease will be "triple net", meaning that the applicant's engineering firm will pay a base rent, as well as all other costs associated with the property such as utilities, maintenance, and property taxes.
3. Using information provided by the applicant, staff projects that the "all in" triple net rate for the property in Year 1 of the lease will be approximately \$39.69 per square foot.

By comparison, an all in triple net lease rate of approximately \$30 per square foot is the top of the non-medical Class A office market in Concord, with only a few elite properties achieving such rents.

Therefore, Wilcox and Barton's rent will be approximately 25% more than the most prestigious non-medical office spaces in the City.

4. If RSA 79-E were awarded, the rent would decrease by approximately \$2.38 per square foot in Year 1 (or 6%).
5. Because all costs associated with the property will be passed by the applicant onto the applicant's engineering firm by the triple net lease, the property will have modest positive cash flow for the applicant's real estate holding company.

SUMMARY:

In summary, staff offers the following:

1. The application appears to satisfy all statutory requirements set forth in RSA 79-E.
2. The property is historically and architecturally significant. It has been determined potentially eligible for the National Register of Historic Places. Subject to review and approval of the NH Division of Historic Resources, the applicant plans to renovate the property in accordance with the US Secretary of the Interior's Standards.
3. The estimated total cost of the project, including acquisition, is \$1,579,542.
4. The property has been vacant since April 2017. The project will result in a tired, vacant property being put back into productive use.
5. The project will also result in the relocation of Wilcox and Barton's corporate headquarters to Concord. It is anticipated that 10 staff will occupy the property once renovations are completed.
6. The owner of the property is the President of Wilcox and Barton. The owner will lease the property to his company via a limited liability company which he controls.
7. Staff estimates that the lease rate for the initial year of the lease will be approximately \$39.69 per square foot. When compare to other office buildings, the projected lease rate is approximately 25% more expensive than the top of the market for non-medical office space.
8. If RSA 79-E were awarded for this project, it is estimated that the Year 1 rent would decrease by approximately \$2.38 (or 6%) to \$37.31 in Year 1.
9. The total projected cash value of the RSA 79-E benefit is approximately \$127,000. On average, RSA 79-E will save the applicant approximately \$12,690 annually for the 9 year tax relief term, plus the construction period.
10. Because the applicant will be leasing the building to his company, the property will generate modest positive cash flow for the applicant.
11. Determination of financial need is not statutorily required for awarding RSA 79-E applications. However, the City has typically considered financial need as part of its decision making process for RSA 79-E applications.