

CITY OF CHARLOTTESVILLE, VIRGINIA

CITY COUNCIL AGENDA



Agenda Date: February 22, 2011

Actions Required: Yes (Approval of Resolution -- One Reading)

Staff Presenter: Aubrey Watts, CFO/COO, Director Economic Development

Staff Contacts: Craig Brown, City Attorney
Aubrey Watts, Chief Operating Officer / Chief Financial Officer
Chris Engel, Asst. Director Economic Development

Re: Authorizing resolution approving a performance agreement to support economic development efforts at 459 Locust Avenue

Background:

In 2010, the city entered into a tax increment based performance agreement in an effort to encourage a significant development opportunity downtown. That project which is now under construction will bring over \$20 million dollars in private investment and 200 jobs to the city. Recently another opportunity for such an agreement has arisen.

The tax increment based performance agreement concept works like this: the project developer fully funds the projects costs and pays all applicable fees and taxes during and after construction. Prior to development, the tax base of the project area is determined. Following project completion the tax base is reassessed and the difference is deemed the "tax increment." This increment is considered the taxes attributable to the new development and is the basis for the incentive. Upon receipt and verification of taxes paid the city then agrees to return a portion of the taxes through its Economic Development Authority who then through a performance agreement grants this same amount back to the project developer.

During challenging economic times such as we are currently experiencing, with low growth in the commercial tax base and higher unemployment rates, we believe it is both an appropriate and prudent course of action to engage in performance agreements or similar efforts to help spur investment and job creation in the city.

Discussion:

We have recently had discussions with a development group that is planning to begin major renovations of the former Martha Jefferson Hospital facility near downtown. The entity - 459 Locust Charlottesville Owner LLC (developer), now owns the four tax parcels

(530234000, 532034L00, 530234L10 and 53024700) that comprise the 8.2 acre main hospital campus. The developer is seeking to renovate 140,000 SF of the existing structure, including the South Wing and the Patterson Building, into Class A office facilities to accommodate a lead tenant that would bring several hundred well paying jobs to the site. In addition, the 60,000 SF Rucker Building will be renovated into rental apartments with 20% of the units designated as affordable units. The Cardwell Building will be transformed into additional commercial space. The total project has a capital investment of over \$40 million dollars.

The success of major urban renovation projects such as this one often relies on the ability to attract a lead tenant in a timely manner. The absence of an anchor tenant could cause the project to be dormant and delay potential tax revenues. In addition, the costs associated with an adaptive reuse of this type are often higher than a greenfield site. For these reasons, the developer has requested that the city consider a tax increment based performance agreement option as a means to help secure a lead tenant and mitigate the costs of the project into an acceptable range relative to the competition. While the prospective tenant has indicated a desire for the downtown location, financial negotiations to complete the deal continue. Approval of the tax increment based performance agreement concept will send a strong signal that the city is supportive of quality urban development and job creation while providing the flexibility for both parties to reach an agreement.

In addition to the immediate jobs and tax revenue generated, this project will re-use the four main buildings on the campus and return additional green space through the removal of several mechanical buildings. All parking is handled on site with no new structures needed. The new use is expected to cause traffic volumes in the area to decrease by 6,500 trips per day compared to the hospital operation. The project also provides an enormous infusion of daily users to the nearby Downtown Mall and surrounding area, particularly supporting restaurants and small specialty retailers.

From a procedural standpoint, City Council would need to approve the attached resolution agreeing to commit the amount of the tax increment to CEDA each year following verification of actual real property tax receipts. As Council is prohibited from obligating future funds this resolution is one of “intent” and thereby non-binding. CEDA would create a performance agreement between itself and the developer to manage the process and would also approve a similar resolution to grant the amount of the tax increment to the developer annually. A draft of the performance agreement is also included herein.

From a policy standpoint, it is important to remember that the implementation of a tax increment based performance agreement does not negatively impact the city budget as the rebate is generated solely from the increase in real estate revenue received from the project. If the project is stalled or never completed for any reason the increase in taxes is not realized and therefore the city is not obligated to grant a rebate.

Specifically what is being proposed is that 50% of the incremental increase in real property taxes attributable to the development be returned to the developer, for a period of ten years, as an incentive to initiate the project immediately with a lead anchor tenant. The city will receive 50% of the increase during the ten year period and the full amount of real property taxes from the project thereafter. The agreement is contingent upon a)

fully receiving all real property taxes due and b) meeting the employment requirement stipulated in the agreement.

Alternatives:

City Council can decline to adopt the attached Resolution supporting the performance agreement.

Budget Impact:

Funds will need to be allocated for transfer to CEDA but only after each building has received a certificate of occupancy and increased real property taxes have been realized for a full year.

Recommendation:

City staff recommends adoption of the attached Resolution subject to final approval of the performance agreement by the City Attorney.

Attachments:

Proposed Council Resolution supporting Performance Agreement