



Greenfire Development

Frequently Asked Questions

1. **How did the City come up with a \$20 million dollar incentive for the project?**

The City hired a nationally recognized outside consultant to review the project's financial plan. Their analysis showed that, in order to make the project work, the developers would need about \$18.3 million in additional funding (not counting the extra costs of the affordable housing component upon which the City insisted). The \$18.3 million "gap" exists after the deduction of any tax credits for the project, but does include providing a reasonable rate of return to the developer (without which investors would not be willing to fund the project). This gap analysis does not include expenses the developer will incur for providing affordable housing units, nor extra parking costs desired by the developer. If these elements are added to the gap projection, the gap widens to \$20 - \$23 million.

This, the City's standard approach, is the same as that used for both the West Village II project and the proposed Heritage Square project.

Once the gap was identified, City staff analyzed the amount of additional money the City might receive (over and above what we now receive on the properties) in the form of increased property taxes, money from the sale or lease of land, sales tax revenues, and parking revenues. The amount of "new money" we receive as a result of the project is used to determine the City's ability (financial capacity) to fund the difference between what the developer can finance and what the project needs to be successful (the gap). City staff also calculated the ratio of public investment to private investment.

The proposed incentive package for Greenfire Development represents approximately 7% of the total project cost. The private investment versus the public investment in the Greenfire Development project is at a ratio of 14.2 to 1.

The City proposed an investment of \$20 million in cash incentives spread over 17 years. The value of that same money to the developer is \$12 million because they can use the promise of future City incentive money to leverage their private financing for the project.

2. **Why does Greenfire Development need the City's money?**

In order to meet the parking needs for the commercial and retail portions of the project, the developers need additional funding - to help close the gap. The City incentive money is based on the non-residential (commercial, retail) portions of the project, not on the residential portions (apartments, condominiums). The residential development stands on its own.

Keep in mind, though, that the \$20 million City incentive does not entirely close the financing gap for the project: the developer's will need to find an additional \$10 to \$13 million to completely close it.

3. How will the project be financed?

Greenfire Development must find its own private financing for the project - and show proof of that financing as well as construction contracts - before the City commits to any funding, sale of land, or leases. This means that private investors, banks and other financial institutions will do their homework first, and then they must be convinced that the project will work - or they won't be willing to put their money into the project. Again, the developer's financing must be in place before the City gets involved.

This financing process is the same as that done with/for American Tobacco, West Village II, and the proposed Heritage Square projects. No redevelopment/revitalization project of this type receives City financing prior to the Council's approval of a Development Agreement (legally binding contract) with the City or prior to pre-leasing on the project.

4. Does Greenfire Development have the financial capacity to make the project work?

So far, Greenfire has invested \$60 million in acquisitions and renovations in downtown; more than the combined land purchases made by Capitol Broadcasting (American Tobacco), Blue Devil Partners (West Village II) or Scientific Properties (Heritage Square). Their ability to fund acquisitions and renovations of such magnitude speaks very highly of their ability to finance this development project.

5. Could the project be smaller and therefore, the City investment less?

Yes. American Tobacco could have been smaller, too. West Village II could have been smaller. Heritage Square could have been smaller. But would they be as successful?

The issue with Greenfire's development plan is creating enough critical mass to attract tenants and to change the built environment into a transformational, sustainable "place". Without the residents and employees this project will bring to the City's core, the retail businesses would not be able to survive and the "feet on the street" would be severely reduced. Without the retail, the residents would not be attracted to the area - because they wouldn't have the services/products in a convenient location. Without the commercial businesses, the residents would not be driven to locate in the downtown area to be close to work and the "urban lifestyle". The project's components are all intertwined. If one part is "off", the project doesn't work --- much like missing ingredients for a cake recipe.

Would American Tobacco have had the same impact on Durham's downtown vitality if it were smaller? Would the American Tobacco project have worked if it were done as a piecemeal development? Would the impact on the downtown area be as profound?

6. Why is the Woolworth office building so big?

The Woolworth office building will be a “signature” building (a distinct, place-making, identifiable building) at Corcoran, Main and Parrish Streets - perhaps the most important property in our downtown. The just-updated Downtown Master Plan as well as the downtown community have told us loudly and clearly that they really want a signature building at this location to help transform the City’s center. The Woolworth building will front on three streets – Corcoran, Main, and Parrish Streets. The Woolworth site is the linchpin – the essential element – of the Historic Parrish Street project’s success.

7. Can the project be disaggregated (separated into parts)?

City staff recommends that the City invest in the Greenfire Development project because of its scale, its close relationship to the goals of the updated Downtown Master Plan, and the profound effect it will have on the downtown. Separating the project into pieces will make it non-fundable by financiers. The project must be taken as a whole in order to make it financeable from a parking perspective and a cash flow perspective. Sufficient cash needs to flow in from the project to be able to pay the debt from the project. The City needs to be able to assure that there is enough of an “increment” (difference between City income from the properties before and after development) from the project to fund the incentives tied to it.

8. Does Rogers Alley need a City investment?

Again, the Greenfire Development project and the incentive package should be viewed in the aggregate, measured against the total project’s funding “gap” of between \$20 and \$23 million - with the City helping to fund \$12 million of that gap (the amount the City incentives finance). This Greenfire Development project is not about stand-alone financing for the Rogers Alley project, but about financing the non-residential (commercial, retail) parking needed for the entire project.

Remember, Greenfire Development must spend \$284 million on the project - and they must deliver the total project package – or they will not receive the incentives. For example, if Component One and Component Two are completed, but Greenfire Development fails to complete Component Three - Greenfire loses all future incentive payments - including those future payments for Component One and Component Two. (See the Deal Points for components).

9. Are there tax credits or abatements and, if so, why would they receive cash incentives as well?

Tax abatements are illegal per North Carolina law.

Applications for historic landmark designation for the Rogers Alley properties have been received by the City. The Hill Building already has historic landmark designation, but it has not been “activated”. Since it costs significantly more to redevelop or renovate the historic buildings we so treasure, the state has allowed cities to approve Landmark designation - which provides a 50%

reduction in property taxes – for historic renovations. This tax reduction serves as an inducement for property owners to redevelop these cherished historic properties.

In calculating the difference in tax revenues before the Greenfire project and after the Greenfire project, we have factored in the Landmark designation discount. Incentives for these properties, therefore, are based on the smaller tax return to the City from Landmark designations.

This is similar to what was done with both the West Village II and Golden Belt projects. The City's financial analysis (and determination of incentives) also took into account other tax credit financing alternatives such as the New Markets Tax Credit. Because the majority of Greenfire's development is new construction, most of the projects are not eligible for federal or state historic tax credits.

10. What is the overall net impact on City-owned parking space?

The City's current plans are to not replace 167 existing public parking spaces in downtown after full build-out. But, we have reserved the right and the flexibility to have Greenfire build more public parking (in Lot 20 and Parrish/Church Street) if we decide we need more. This gives us the opportunity to assess how the first few projects impact the City's parking capacity – and to determine whether additional parking is needed.

Of the 167 parking spaces, 91 are located at the Parrish/Church Street lot – now used primarily for the Court House. The Court House – and its parking demand - will move to the south side of the railroad tracks in 2012 - before the Parrish/Church Street lot begins construction.

Seventy-six spaces from Lot 20 (Ramseur Street) will be relocated to the Church and Corcoran Street decks.

We may want to keep in mind, however, that with escalating gasoline costs, increased transit and rail ridership, along with the new “urbanization” and Smart Growth trends, we may not need the same amount of parking space per person as we now have. The Greenfire Development project hopes to increase foot traffic and reduce auto traffic within the City's core.

11. Is the City losing 380 spaces at the Chapel Hill Street Deck?

No. The City is maintaining 380 spaces within the new deck. The 380 spaces will function the same way they do now. The City sets the prices and policies for the spaces. The City is essentially selling or leasing the rest of the deck to Greenfire.

12. Why is the City building a new deck instead of simply renovating the Chapel Hill Deck? What's the deal?

The Chapel Hill Street deck has outlived its useful life. It is 37 years old - and in very poor condition. In fact, the City recently spent \$1 million on emergency repairs – just to keep the deck operating. If the City chose to maintain the existing deck, rather than a new deck, it would spend a minimum of \$3.2 million to \$6 million just to give it additional life. The City's contracted Construction Manager at Risk (CMAR) estimates for repair of the deck were quite conservative at

\$3.2 million. In fact, the City’s Department of General Services requested \$6 million from the CIP budget, this year, for deck repairs.

The Deal Points call for a not-to-exceed cost of \$22,000 to construct each new parking space at the Chapel Hill Street Deck. (It may be less than this). This equals an \$8.3 million total cost to the City to replace the deck. Using the \$8.3 million City cost (and taking into account how much repairing the existing Chapel Hill Street deck would cost (from \$3.2 to \$6 million)), the total amount spent to have a brand new deck, versus the old deck is, at most, \$2.8 million.

Item	Repairs cost \$3.2 M	Repairs cost \$6.0 M
Construction Cost for a new deck (380 spaces at a cost of \$22,000/space)	\$8.3 M	\$8.3 M
Amount Greenfire pays to purchase deck property	-\$2.3 M	-\$2.3 M
Amount City pays Greenfire for construction over 15 years	\$6.0 M	\$6.0 M
Amount City won’t have to pay for Deck repairs	-\$3.2 M	-\$6.0 M
Total cost to City for a new Chapel Hill Street parking deck in Greenfire proposal	\$2.8 M	\$0.00

We used very conservative numbers – and didn’t add in the annual maintenance savings realized from having a new deck instead of an old one (\$45,000 per year). We didn’t include any increases in monthly parking either, although they would increase the City’s parking revenues.

The City would not fund the Chapel Hill Street deck from the General Fund. (This would save from \$3.2 to \$ 6.0 million in debt against the City’s General Fund.) Rather, the project itself pays for the new deck using the new cash flow generated by project revenue. Since project revenues will be deposited into the Downtown Revitalization Fund account, debt service payments (like a mortgage) for the new deck will be made from the Downtown Revitalization Fund – not from the General Fund. Parking revenue from the new deck, however, will continue to go into the General Fund.

The City gets a much better deck wrapped with attractive retail shops on the ground level facing Orange Street and Chapel Hill Street, and gets rid of an old, obsolete, poorly designed deck. The net result makes the City’s core much more attractive.

13. Doesn’t the City have to issue an RFP (Request for Proposals) in order to sell City-owned parcels?

North Carolina law (GS 160A – 458.3) allows cities to participate in public/private partnerships in the central business district (Downtown Tier), if they will have a significant effect on the revitalization of the area – including entering into binding contracts with private developers for the acquisition, construction, ownership, or operations of a project. GS 160A-457 specifies that, in

these instances, cities can convey their property interests to private parties to encourage certain significant downtown revitalization projects.

North Carolina law gives the City the legal right to enter into these public/private partnerships if the City determines that it is in the common good of the City to do so, as long as the City's investment in the project is not more than 50% of the total project cost.

This same section of North Carolina law has enabled the City to participate in the American Tobacco, West Village II, and the proposed Heritage Square projects.

If a developer approaches the City with a well-thought-out plan that is catalytic/transformational and that meets the needs and the plans of the City (e.g. updated Downtown Master Plan), the City can move forward with due diligence on that project.

City staff supports Greenfire Development's proposed project for many reasons. First, it directly addresses the goals of the updated Downtown Master Plan – increased residential, retail, and hotel uses along with Parrish Street redevelopment – all within the core of the City. Second, Greenfire's catalytic investment is \$284 million. Their master vision will have a tremendous positive impact on the redevelopment of downtown Durham and aligns very positively with the Downtown Master Plan.

Greenfire already owns 29 properties in downtown Durham, 19 of which are within the "loop". In total, Greenfire has spent \$60 million to purchase and redevelop properties. This level of financial commitment, along with the future level of financial commitment, influences the City's view.

A review by a third-party consultant hired by the City determined that while the project has its challenges, it is feasible, if given public assistance. The project elements were proposed by Greenfire and carefully reviewed by City staff.

14. How much will the City pay for the Parrish Street Museum within the Woolworth office building?

The City supports the prospect of a history museum and the Parrish Street museum. We are now undertaking a study, as part of our efforts to implement the Cultural Master Plan, to see whether it would be wise to combine both museum projects into one.

While our Contract of Sale for the Woolworth site stipulates that the developer must set aside 5,000 SF for a museum, the City can choose to either use that space or not – depending on whether or not it feels that the Woolworth site is the best, most economical choice for the museum. The cost to lease space is estimated at \$65,000 to \$90,000 per year, some of which may be able to come from the Parrish Street set-aside monies, state or federal funding.

15. Why are some of the tax values higher than investment levels?

We often think of the value of a property as the amount of money we spend on its construction. That's not, however, the way properties are valued by the Tax Office. In assessing properties the

Tax Assessor uses the “per square foot” market value of properties by class (A, B, or C, etc.) by type (residential, office, retail) in the area, then adds in extra for elevators, etc. The recent revaluation of downtown properties resulted in market values increasing by 135%.

16. What do we do about parking during construction?

The City worked with its parking management firm, Central Parking, to develop a detailed parking plan for use during construction of the Greenfire project. Make no mistake - there will be disruptions. But the City, along with its new parking management firm, will work very closely with downtown interests to accommodate as many parking needs as possible.

The major parking issue with the Greenfire Development project occurs when the new Chapel Hill Street deck goes under construction. At that time, current Chapel Hill Street deck parkers will move to City employee lots adjacent to City Hall and to Church Street, Corcoran Street, and the Durham Centre Deck, and, possibly, some will go to Lot 14. The City and the development team will work closely with downtown small business owners, churches, and other key stakeholders, to make sure their parking needs are addressed.

17. Will there be adequate long-term parking within the City’s public parking system during and after the Greenfire project?

Yes. Long-term parking needs are detailed in the agenda item now before Council. The parking study was produced by Central Parking. It shows that with a projected 4% growth in demand above and beyond the demand created by the Greenfire project, the lowest availability for spaces in any year is 379 spaces. The lowest with on-street parking is 419 spaces.

Currently, the City’s overall parking occupancy rate for decks and lots is about 57%. One of the City’s goals in brokering the Greenfire Development project’s incentives was to maximize the use of existing spaces within the existing system.

The terms of the Deal Points state that Greenfire Development will lease 380 existing spaces from the City at market rates (See agenda item # 4777).

18. Why is the City leasing 380 parking spaces to Greenfire?

Any entity now has the ability to lease spaces from the City at market rate. Most deck spaces cost \$45 per space per month. Most surface lot spaces are at \$30 per space per month.

Greenfire approached the City with a request for parking to meet the needs of its proposed development. With a current 57% parking occupancy rate, the City determined that the proposed parking plan is a positive way to both increase occupancy in existing parking spaces and to increase revenues to the City.

The approach includes leasing to Greenfire Development 150 spaces in the Durham Centre deck and 230 spaces from a combination of the Corcoran Street Deck, Lot 14 and the Church Street Deck.

So that financing can be secured for the project (similar to the long-term parking lease between the City's North Deck and Capitol Broadcasting at American Tobacco), the City is proposing a 20-year lease with escalating lease payments in Year 11.

19. Greenfire's development includes a significant residential component. How will the current state of the residential markets impact the development?

It is difficult to predict what the real estate markets will look like over time. The majority of Greenfire's residential units will be constructed a few years from now. Out of a proposed 430 residential units, 305 do not get built until Component Three of the project. This means they are not likely to be under construction until 2012 and 2013. By then, the economy and markets are likely to recover, and Greenfire's residential product will be in a good position for the market's recuperation.

Having more residential units in the downtown is in concert with the conclusions of the Downtown Master Plan:

“A key strategy to achieve the level of activity and economic sustainability that the Durham community desires to bring to downtown is to dramatically increase the rate of growth of residential units in downtown. In particular, this will help support the growth of retail and commercial services that existing Durham residents already demand.”