



Legislation Text

File #: 22-0751, Version: 1

City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 4, 2022

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Public Hearing, Second Reading and Final Passage of an ordinance to adopt a Tourism Development Plan developed in conjunction with the Virginia Tourism Development Financing Program (TDFP) to provide gap financing to incent the redevelopment of the 699 Prince Street Hotel Project. [ROLL-CALL VOTE]

ISSUE: Adoption of a Tourism Development Plan, endorsement of a tourism project at 699 Prince Street and approval of a Performance Agreement in order for a project to qualify for the State's TDFP and associated gap financing.

RECOMMENDATION: That City Council:

- 1) Introduce and approve on first reading on January 11, 2022, and set for second reading, public hearing, and final approval on January 22, 2022 an ordinance (Attachment 1) adopting the Tourism Development Plan (Attachment 2) endorsing a proposed tourism project at 699 Prince Street which entitles the project to gap financing derived from certain state and local tax revenues; and
- 2) Approve the proposed Performance Agreement and, subject to passage of the docket item titled TDFP 699 Prince St Ordinance at public hearing, authorize the City Manager to negotiate and execute a Performance Agreement substantially in conformance with the attached agreement (Attachment 3) between the City, the Alexandria Economic Development Partnership (AEDP) or its designee Alexandria Industrial Development Authority, and J River 699 Prince Street LLC (Developer).

BACKGROUND: The Virginia General Assembly passed legislation in 2011 enacting a Tourism Development Financing Program under the purview of the VTC, which entitles an authorized tourism project to receive certain state and local tax credits and deductions and certain regulatory flexibility only offered within a designated Tourism Zone.

The ongoing COVID-19 pandemic has disproportionately and negatively impacted businesses throughout the tourism industry and has created a major gap in available financing for new businesses and projects looking to make investments in the City of Alexandria. Tourism-driving projects in many parts of the City may not proceed until these financing gaps are closed.

DISCUSSION: As part of the City's Economic Recovery efforts, staff explored tools not yet utilized or enabled at the federal, state and local level that support new investment in and growth of the tourism industry. With a focus on the City's goal to jumpstart attraction of new businesses as the pandemic hopefully ends, staff determined that the adoption of the Tourism Development Plan Ordinance will create an opportunity for 699 Prince Street to qualify for gap financing assistance from the State through the TDFP, run by the Virginia Tourism Corporation. In applying for the TDFP, the Developer needs to have a minimum of 70% of funding of the project in place and enter into a Performance Agreement with the economic development authority.

Retaining this building as a commercial use achieves the following goals:

- C-Suite accommodations as this hotel is aimed at a higher-end Alexandria visitor
- Continues the commercial use of this asset, which is located on a main gateway to Old Town, and is surrounded by other commercial uses to include office and retail space
- Rejuvenates the 100 block of South Washington Street which soon will have more vacant retail frontage
- Provides boutique hotel room inventory to the City's core tourism district
- Historic preservation of one of the City's older hotels
- Adaptive reuse of an existing office building to a higher and better hotel and restaurant use
- Conversion to a hotel use decreases the daily single occupancy vehicle trip generation in comparison to an office building.

A summary of the Tourism Development Plan, the TDFP, and the Performance Agreement are provided below.

Tourism Development Plan

AEDP submitted a Tourism Development Plan draft to VTC/Virginia Resources Authority (VRA) and have received preliminary approval. The Tourism Development Plan allows the applicant to gauge the City's tourism infrastructure, economy and business community, as well as the City's social and cultural assets; includes a brief S.W.O.T. analysis of the City, and an official adopted marketing plan by which the City can maximize its tourism potential. The plan is also a template which collects project-specific information including:

- A mutually agreed-upon deficiency (void) in the locality's tourism product;
- A representation of a locality's current tourism product and assets, infrastructure, marketing efforts and visitor profiles;
- The return on investment (projected tax, FTE jobs and visitor spend) the proposed project will have to the local economy;
- An understanding of how the proposed project will meet an identified deficiency outlined the locality's existing community development plan or business plan.

TDFP

The State's TDFP is reserved for projects that fill an identifiable deficiency, taking into account local and regional product similarity, availability and proven visitor need and requiring that the project must provide a significant benefit to the locality and existing tourism business community, and in net, encourage new jobs, traveler spending and local tax revenue.

This would involve the provision of both State and City funding assistance. The estimated cost for the redevelopment is \$69.6 million, funded by \$45.2M in sale/leaseback proceeds, \$10.3 million in federal and state historic tax credits, \$8.1 million in private equity, with the proposed TDFP providing gap financing of \$6.1 million.

The purpose of the TDFP program is to provide a gap financing mechanism for projects that cannot, otherwise, find sufficient funding or lending for a project. With a TDFP the developer assumes all debt with lenders. Under the TDFP the developer obtains a gap filling loan (in this case \$6.1 million) that would be planned to be repaid by the following revenues:

- 1) the State will reallocate its 1% sales and use tax collected by the hotel from its customers over a 20-year term,
- 2) the City would also reallocate its collected 1% sales and use tax from hotel customers, and
- 3) the Developer/Operator would levy a 5% access fee on hotel and restaurant patrons for the same 20-year term to repay TDFP related debt issuance. An access fee is one that is added to each hotel and restaurant customer's bill in addition to the usual and customary sales and use, meals and transient occupancy taxes.

To repay the estimated \$6.1 million borrowing over a 20-year period, the State would pay an estimated \$2.3 million, the City would pay the same \$2.3 million, and the developer/operator would pay \$12.2 million. A chart depicting how the finances in this TDFP transaction flow is included as Attachment 4.

The AEDP and the City have received substantial financial materials from the developer and the lender including revenue and expense projections and has had those documents reviewed by the City's independent financial consultant who advises the City on business development and real estate finances. The consultant's conclusion is that the financial projections for this hotel are optimistically reasonable, but not overly aggressive in the assumptions that it uses. The City's exposure is also limited to the 1% sales and use tax that the hotel generates. This is a developer loan with no City or state obligation to repay any developer shortfall. The City's obligation to pay the 1% generated is also subject-to-appropriation, but in practical terms that represents an obligation that the City should always honor. Not honoring subject-to-appropriation pledges is problematic with the bond rating agencies.

Performance Agreement

The Developer has been previously awarded a City Council approved grant totaling \$750,000 from the Alexandria Investment Fund. Based upon the terms of the existing Performance Agreement, the Developer has received one-third or \$250,000 of the total incentive and used that to do interior demolition. Pursuant to a new Performance Agreement, no further payments of this grant will be paid to the Developer.

Some of the key terms of the new Performance Agreement are:

- Term of the agreement shall in no event exceed twenty (20) years beyond the receipt of the Certificate of Occupancy for the Project and the actual opening of the hotel operations.
- The Developer will maintain a minimum of seventy percent (70%) of the funding for the Project through other debt or equity throughout the term of the Gap Financing.
- Lays out the specific terms of the Gap Financing.
- Non-recourse to AEDP, the City and the Commonwealth.
- Locality Contribution and the Commonwealth Contribution is subject to annual appropriation.
- The Developer shall file with the AEDP, an annual performance report by March 1st of each year, and provide it a right to audit.

- Default and cure rights.
- Nondiscrimination and drug free workplace.

FISCAL IMPACT: The creation of the project ordinance allows the 699 Prince Street catalyst project to participate in the State's Tourism Development Finance Program. The proposed project must qualify to generate Virginia and City of Alexandria sales and use tax, such as lodging, dining, meeting space rental and catering, and limited, project-specific retail, to invest in the City within a designated Tourism Zone.

The redeveloped hotel is anticipated to open in late 2023. For the City, the 699 Prince Street redevelopment is estimated to generate \$42.9 million incremental tax revenue over a 20-year period. After deducting the 1% sales and use tax rebate of almost \$2.3 million, and \$3 million for estimated city services, the net gain for the City is \$37.6 million over a 20 year period.

The projected net fiscal impact to the City for a boutique hotel is approximately 500% greater than an alternative residential project.

ATTACHMENTS:

1. Tourism Development Financing Program - 699 Prince St Cover and Ordinance
2. Tourism Development Plan
3. Performance Agreement
4. Chart Explaining How the TDFP Gap Financing Program Works

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