



284 Elm Street Hotel Project City of Amesbury TIF Plan October 2014

Mayor Ken Gray

William Scott
Deputy Director
Office of Community and Economic Development
City of Amesbury
scottw@amesburyma.gov



Section One: The Need for Incentives

1. Mutual Goals

As far back as September 17, 1998 the Town of Amesbury completed the “Economic Diversification Strategy”, which was followed by the “2002 Redevelopment Plan - Lower Mill Yard”. In 2007 the Golden Triangle study articulated the development potential of properties adjacent to I-495 and I-95. Both the Millyard and the Golden Triangle areas represent development opportunities facing constrained sites. The Lower Mill Yard currently offers a collection of viable businesses amongst underutilized, and, in some cases, abandoned mill buildings, some with brownfields, many served by narrow streets with poor access. The Golden Triangle is open land that requires roadway improvements, connections to local roads, and mitigation of environmental constraints in order to fully utilize the site. The development constraints, in the Lower Mill Yard and the Golden Triangle, limit development potential for the highest and best users, and, as a result, development opportunities require more aggressive financial approaches to facilitate economic and job growth.

Those seeking development sites want a location that meets their needs as expressed in a cost effective project with no surprises. Sites with extraordinary costs, such as off-site traffic improvements, brownfields, and environmental constraints, generally do not attract development proposals. While business wants readily developable sites, the City needs businesses that responds to criteria such as: additional tax revenue, minimal municipal service impacts, a business mix that meets the needs of the community, and job creation. These needs, site suitability for the developer, and preferred land use for the City, are not mutually exclusive; in fact, they align well when the correct programs are established.

An incentives package should target the capital needs of a preferred project to tie the incentive to level the playing field to attract uses that the community needs and prefers. Therefore, the program is not an outright subsidy, but rather the incentive program becomes a tool to overcome constrained sites so that the City can attract the land uses that are preferred.

2. Targeting the TIF to Extraordinary Costs

The TIF program is a financial tool that provides a community with a competitive edge to attract business, create investment opportunities and create jobs. The TIF program allows a reduction of taxes for the value of the new development improvement, called the incremental increase, and not for the current values of the property, the base value. The current taxes on the property are not lost, only the taxes on the additional new value are impacted, in this proposal by reallocation to cover extraordinary development costs. The incremental increase is represented by the improvements made to a property which are necessary to create the economic opportunity. The tax incentive can run for a twenty-year period. This plan advocates that the TIF program be used to relocate a percentage new tax payments to mitigate the costs associated with items such as: utility installation, additional costs to address derelict properties, for amortizing equipment costs, or an incentive to create a competitive site when compete with other sites outside of the community. The City advocates that the TIF should be used to make a project work financially, to overcome extraordinary costs and share in the burden and reward. A TIF allows the growth to

happen sooner as the incentive changes the financial viability of a site. This places the development in the hands of the City as a partner as favorable opportunities arise.

To create support for a TIF program and incentivize key sites, the city has developed the *Economic Incentive Guidelines March 2014 (Appendix A)* and received approval in April 2014. The intent of the guidelines is to create an organized, equitable, and rationale process to achieving the economic goals of the City through the EDIP. The following section of this plan outline the conformance of the proposals with the guidelines and the outcome of the proposal.

Section Two: 284 Elm Hotel Project Proposal

Introduction

This section outlines the proposals for use of the TIF program and how that proposal meets the criteria outlined in the Economic Incentives Guidelines adopted by the City. Archgrove Hospitality is planning on developing a Hotel at 284 Elm Street. The description of the project and company background is provided below, followed by the comparison of the project with the applicable criteria.

Applicant Business Background and Proposal

Archgrove Hospitality, Inc. is one of the region's leading hospitality companies, owning and operating eight trademarked hotels and inns catering to business and leisure travelers in Connecticut, Maine and New Hampshire. The companies sites include: Hampton Inn and Suites in Tilton, NH, Hampton Inn in Wallingford CT, Holiday Inn Express and Suites in Winsor Locks, CT, Holiday Inn Express and Suites in Smithfield, RI, Holiday Inn Express and Suites in Seabrook, NH, Holiday Inn Express and Suites in Tilton, NH, Holiday Inn Holiday Inn Express and Suites in Freeport, ME and a Holiday Inn Express in Biddeford, ME.

Archgrove Hospitality, Inc. is proposing to construct and operate a ninety-two room hotel with meeting space at 282 Elm Street in Amesbury, MA. The proposed development would be a trademarked hotel similar to those in our existing portfolio. The hotel, as proposed, would require an investment of in excess of \$10.5 million and be approximately fifty-four thousand (54,000) square feet and include the ninety-two rooms, a meeting space, gym, breakfast room and indoor pool. The project has many extraordinary costs and is therefore prohibitive to development. Archgrove Hospitality, Inc. is seeking benefits associated with the Economic Development Incentive Program (EDIP) to help defray these costs and increase the project feasibility.

Project Review with Local Criteria

The proposal for a Hotel as outlined by the EDIP Preliminary Application filed October 25, 2014, represents a project which clearly meets the criteria outlined by City of Amesbury Economic Incentive Guidelines March 2014. The following sections represent a review of the proposal as it relates to the City of Amesbury local Certification Criteria.

A. TIF Plan Goals City of Amesbury

The above referenced project meets the below goals as excerpted from the City of Amesbury Guidelines for Incentives and as more specifically described in the below sections.

- Provide a means to stimulate private capital investment in commercial and industrial properties resulting in a substantive increase in net taxable property value.
- Encourage qualifying existing businesses to expand within the City of Amesbury.
- Attract new businesses that are compatible with the City of Amesbury.
- Foster reconstruction and renovation of vacant or underutilized commercial properties.
- Provide private funds to leverage public improvements that are mutually beneficial and necessary for the City and business community.
- Diversify the tax base and reduce the burden on residential properties.
- Stimulate the creation of jobs paying above the area median income for Amesbury.
- Increase the expediency at which redevelopment occurs by changing the financial options to development in a manner that favorably alters the financial feasibility.

B. Criteria

The following criteria result from the City of Amesbury Guidelines for Economic Incentives. This is a review to determine compliance with those incentives.

1. **Job retention and/or creation:** The project will generate fifteen (15) jobs as outlined in the Agreement and the Preliminary application. Under local Guidelines that would qualify the project for \$750,000 in incentives. The guideline for the local requirement is one job for every \$50,000 in tax incentive provided. In all projects the minimum level of jobs created must be consistent with state requirements for Certified Projects. Where extenuating circumstances that benefit the community are clearly evident as determine by the City, the City may waive the above. The recommendation of this plan is to waive the local requirement due to the nature of the site development costs, the conservative job estimate by the applicant which could exceed 18 jobs, and the more favorable economic impact of a Hotel project.
2. **Business Loss of Opportunity to City:** The applicant has clearly indicated that in the absence of the incentive proposal that they will not proceed with the project. As cited from the Preliminary Application: *“The project has many extraordinary costs and is therefore prohibitive to development.”*
3. **Company Risk:** The nature of the economy, site, and type of business indicate that the applicant is willing to take reasonable risks to move forward with the project. Inherent in a Hotel site is the occupancy risk associated with a daily tenancy cycle. The lack of tenant commitment introduces substantial risk for hotel investors, given the variable demand for hotel rooms. Taken together, changes in rate and occupancy cause hotel income—and the cash flow—to be quite volatile over the course of a business cycle. This problem is further

complicated by the nature of hotel cash flows and their dependence on the cost of wages and supplies, as well as the costs of financing. Hotels' volatility, which is a common measure of risk, gives rise to the perception of hotels as a risky type of investment property.

4. **Incentives Limited and Required:** Based on a review with the applicant no other incentives are available, beyond the applicants financing, to address the additional costs associated with the site development.
5. **Offsite Impacts and Mitigation:** The project will not overburden or harm the City's existing infrastructure. The site plan review process addressed issues of infrastructure with the coordination of review through multiple departments. The impacts are therefore known and acceptable.
6. **On-Site Impacts Mitigation:** The project will invest in on-site mitigation representing extraordinary costs which are required to overcome development constraints. The applicant has provided (see Appendix C) correspondence from the contractor indicating the costs associated with site development that exceed normal project costs. These items are confirmed as required investments to develop the site in accordance with the approved plans.
7. **Project Capacity to Leverage Investments and Economic Development:** The project will create an economic ripple effect as a result of, but not limited to the following:

Direct Impact

Direct impact includes all projected revenues that will be generated from consumers at the new hotel. This will include all room revenues. Direct impact also includes total payroll paid out to employees hired at the hotel as well as all payroll paid out to temporary construction workers who construct the hotel. Archgrove Hospitality, Inc.'s internal marketing analysis anticipates that approximately 70% of the proposed facility's annual revenues will be derived from out-of-state travelers visiting Amesbury and Greater Essex County on leisure, tourism and business travel. Given the proposed site does not contain a full service restaurant local businesses will benefit from visitors.

Fiscal Impact

Fiscal impact refers to all federal, state, and local taxes that will be collected from the development and operations of the new hotel. Taxes include all sales taxes collected in association with the hotel generated revenues, as well as all payroll related taxes collected from full-time hotel employees and temporary construction workers. The City will also collect revenues through lodging taxes. In FY 2014 the revenues to the City from Hotel/Motel taxes for existing facilities was \$125,138.00. This will increase given the doubling of rooms within the City.

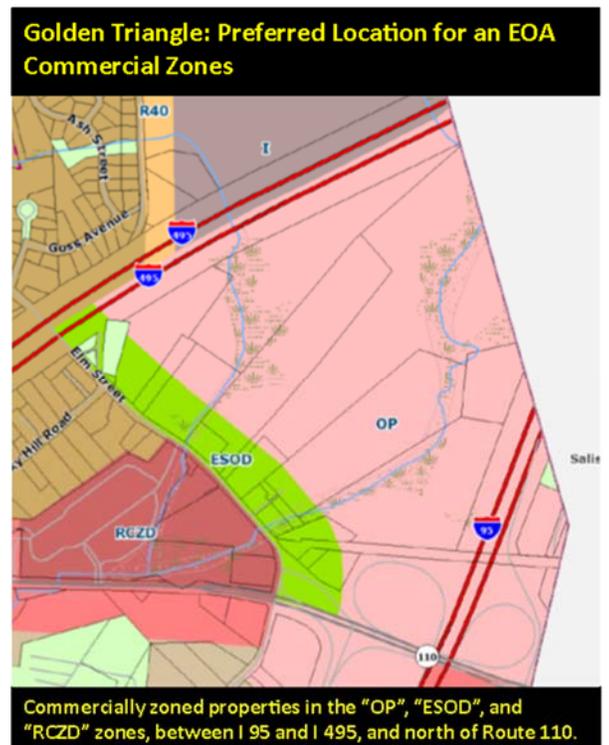
Indirect Impact

In addition to local governments and hotel owners/employees, contractors and suppliers to a newly developed hotel will also benefit. Indirect impact includes all jobs and income generated by businesses that supply goods and services to the hotel. Examples of businesses that will indirectly benefit from the development of a hotel include suppliers of room related goods (housekeeping supplies, room amenities, etc), telecommunication vendors (internet, cable, etc.), utility companies, food and beverage suppliers, and other hotel related vendors.

Induced Impact

Induced impact refers to economic effects generated when employees (full-time and temporary) and suppliers re-spend their wages on local consumer purchases. For example, an employee may purchase gas for their car on their way home from work.

8. **Project Compatibility with City:** The Planning Board approved the plan review for the project on 7/23/2012. The site is an allowed use for the zoning district.
9. **Project Scale and Coordination:** The project will make full use of the applicable site. The City is in the process of coordinating traffic improvements to facilitate additional development within the Elm Street Corridor near route 110. Further the site, as per the Planning Board decision, will provide an easement to facilitate the construction of a segment of a regional bikeway system.
10. **Applicants Readiness and Profile:** Arch Grove Hospitality, Inc. is one of the region's leading hospitality companies, owning and operating eight trademarked hotels and inns catering to business and leisure travelers in Connecticut, Maine and New Hampshire. The project has received permits from the Planning Board and Conservations Commission and has already begun the predevelopment process to fulfill the permits. <http://www.archgrovehospitality.com/>
11. **Use Eligibility:** The City of Amesbury recognizes the relationship between zoning as a means to manage land use, and incentives as a means to then attract preferred uses. The hotel project meets the requirements as a preferred use within the Economic Incentive Guidelines.



12. **Preferred Location:** The City is particularly interested in TIF Agreements that support projects that enhance the locations outlined in the City Incentive Guidelines. The Hotel project is located in the area between interstate routes I-95 and I-495 as shown on the map (prior page) titled **Golden Triangle: Preferred Location for an EOA Commercial Zones**, comprised of the zoning districts ESOD and OP, including all properties whether completely or partially in those zones.

Section Three: 284 Elm Hotel Project TIF Agreement

Project TIF Rationale

Archgrove Hospitality, Inc. is proposing to construct and operate a ninety-two room hotel with meeting space at 282 Elm Street in Amesbury, MA. The proposed development would be a trademarked hotel similar to those in our existing portfolio. The hotel, as proposed, would be approximately fifty-four thousand (54,000) square feet and include the ninety-two rooms, a meeting space, gym, breakfast room and indoor pool. The project has many extraordinary costs and is therefore prohibitive to development. Archgrove Hospitality, Inc. is seeking benefits associated with the Economic Development Incentive Program (EDIP) to help defray these costs and increase the project feasibility.

The project investment is planned for in excess of \$10.5 million dollars. This investment value could translate into a \$7.5 million assessed value. With the current property value for 284 Elm Street at \$542,000 the incremental increase for the property is \$6.95 million (Assessed Value – Base Value = Increment). The site has constraints that represents over \$890,000 in additional development costs. Archgrove wishes to achieve a TIF number close to the costs of the constraints while at a minimum seeking \$400,000 of that number within the first five years.

Tax Increment Financing Example 10 Years Hotel Site 75 % 35%									
# Yrs.	Year FY	A	B	C	D	E	F	G	
		Tax Pre Development	Tax Post Development	Incremental Increase	Tax Reallocation Site Costs	Est Tax added with TIF	A + E Tax w Tif and Pre	Savings Est	
1	2017	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 109,431.95	\$ 36,477.32	\$ 47,843.06	\$ 109,431.95	First Five
2	2018	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 109,431.95	\$ 36,477.32	\$ 47,843.06	\$ 109,431.95	\$ 109,431.95
3	2019	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 109,431.95	\$ 36,477.32	\$ 47,843.06	\$ 109,431.95	\$ 109,431.95
4	2020	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 109,431.95	\$ 36,477.32	\$ 47,843.06	\$ 109,431.95	\$ 109,431.95
5	2021	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 109,431.95	\$ 36,477.32	\$ 47,843.06	\$ 109,431.95	\$ 109,431.95
6	2022	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 51,068.24	\$ 94,841.02	\$ 106,206.76	\$ 51,068.24	\$ 109,431.95
7	2023	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 51,068.24	\$ 94,841.02	\$ 106,206.76	\$ 51,068.24	\$ 547,159.73
8	2024	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 51,068.24	\$ 94,841.02	\$ 106,206.76	\$ 51,068.24	Next Five
9	2025	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 51,068.24	\$ 94,841.02	\$ 106,206.76	\$ 51,068.24	\$ 51,068.24
10	2026	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ 51,068.24	\$ 94,841.02	\$ 106,206.76	\$ 51,068.24	\$ 51,068.24
11	2027	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ -	\$ 145,909.26	\$ 157,275.00	\$ -	\$ 51,068.24
12	2028	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ -	\$ 145,909.26	\$ 157,275.00	\$ -	\$ 51,068.24
13	2029	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ -	\$ 145,909.26	\$ 157,275.00	\$ -	\$ 51,068.24
14	2030	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ -	\$ 145,909.26	\$ 157,275.00	\$ -	\$ 255,341.21
15	2031	\$ 11,365.74	\$ 157,275.00	\$ 145,909.26	\$ -	\$ 145,909.26	\$ 157,275.00	\$ -	
		\$ 170,486.10	\$ 2,359,125.00	\$ 2,188,638.90	\$ 802,500.93	\$ 1,386,137.97	\$ 1,556,624.07	\$ 802,500.93	
				(C-A)	C*tax reallocation	(C-D)			
	Tax rate	\$ 20.97	\$ 20.97						
	Property	\$ 542,000.00	\$ 7,500,000.00	\$ 0.07	\$ 6,958,000.00				
	Tax Bill	\$ 11,365.74	\$ 157,275.00	7%					
	Tax Incre	100.00%	100.00%						
	Tax reallocation %			1st five	75.00%				
				2nd five	35.00%				

The City through the Office of Community and Economic Development negotiated with the developer running multiple scenarios to achieve a program that addresses multiple objectives. During that process it was determined that both parties required a term shorter than 20 years. The developer wanted more incentive in the first five years during the risk period of the hotel business, and the City viewed the front-loading as positive to get to full value taxation sooner.

Proposal Schedule

The above spreadsheet addresses the issues of both the City and the developer. With a 75% incentive in the first five years the developer obtains an estimated \$109,000 annual incentive which provides the funds necessary to get through the more difficult years of a hotel project. Despite the tax incentive over the first five years the revenue to the City is more than three times the current revenue. Front loading the incentive provides a ten year shorter term and the City is able to get to the full tax value sooner. After the first five years the incentive is lowered by 40%, from 75% to 35% which has far less impact providing a \$51,000 incentive. The revenue impact in year's six to ten (\$94,000) jumps to over eight times the current revenue. Given the front loading of the incentive the developer was willing to not request the full value of the costs of the constraints. The possible outcome is the City will provide approximately \$100,000 less than requested by the developer.

Without the incentive over the ten year term of the TIF, assuming the current undeveloped site value, the City would receive \$113,657.40, with less than \$12,000 per year in revenue. During the same ten year period, with the Hotel investment the City could realize over \$656,000 in revenue not including the current taxes for the base. Including current base taxes the City would realize over \$770,000. These numbers are dependent on several factors such as existing estimated values.

The question is simple does the City want \$113,000 over ten years or \$770,000 over the same period. The primary aspect of the above schedule is the more rapid arrival at a full tax bill. With that advantage the revenue will increase from less than \$12,000 in revenue per year to \$36,000 in year one, \$94,000 in year six and over \$145,000 in year ten.