03-20-2019 Town Council Meeting
Responses to Council Questions

ITEM #6: Consider a Glen Lennox Performance Incentive

Council Question: The chart on p. 78 shows projected tax revenue of $516,951 annually. Is that the amount that goes to Chapel Hill? Or is it the amount paid to the county, a portion of which goes to Chapel Hill?

If the latter, are we committing Orange County to participate in the tax incentive? If Orange County declines to participate, do we lower the incentive to only Chapel Hill's portion? Or do we extend the incentive out several years more to reach the incentive amount?

Staff Response*: The projected taxes as presented are for the Town of Chapel Hill only. Orange County is not considered to be participating in the consideration of the Agreement or award.*

Council Question: Regarding the charts on pages 75 and 76, could you please remind me what happened in 2002 and 2009 that led to the significant shifts in the office space market?

Staff Response*: From 1969 until 2010 we consistently produced office space with peaks and valleys of growth. Post 2010 and continuing until the Certificate of Occupancy was issued for Carolina Square and The Station at East 54 in 2018, we produced no office space. Much of this trend could likely be attributed to the economic downturn of 2008/2009.*

Council Question: Assuming that without an incentive the office space would not be built, do we know what Grubb would do with that property instead?

Staff Response*: The area is identified as office space in the approved Development Agreement (2014) and it is presumed that it is reserved for such. If the Town does not offer this incentive it is understood that the space would not be built until it is 50% pre-leased.*

Council Question: Could you please confirm that taxes related to the office building do not hinge on occupancy, similar to an apartment building? Also, the incentive is related to the creation of the space, not the creation of jobs?

Staff Response*: After all buildings receive their Certificate of Occupancy the Orange County Tax Assessor obtains the information and subsequently lists the property on the tax roll. Occupancy does not affect the assessment of taxes.*

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Council Question: Could you please help me understand the structure of the incentive package - it appears that the plan is to build 4 buildings over the course of 5 years. The incentive amount is based on the total anticipated office space created over that period, not based on the development expected per year. So, would we be offering a grant on a higher amount of tax revenue than we would actually be receiving in the first 4 years? At the same time, the payment of the incentives is performance-based - is the "performance" considered the building being built, rather than the actual tax value it is bringing in? In this scenario, if I am understanding it correctly, what happens if fewer than the 4 buildings end up being built? Would Grubb have to return previously granted funds since we would have issued a grant based on the total amount expected over the 5 years?

***Staff Response**: The proposed Incentive is based on two performance measures; 1) constructing and receiving a certificate of occupancy on office building(s) and 2) being billed and subsequently paying property taxes together provides for eligibility of an annual economic development grant. The annual grant amount is based on a pro-rata of the 488,000 projected square feet and the actual taxes paid over the projected Agreement period (2021-2026). Failure to perform accordingly means the applicant is ineligible to apply for the projected annual grant and no grant is made until performance can be measured, meaning construction of office space and annual tax payment. In essence, no performance, no grant.*

Council Question: What exactly comprises the $2.5 million incentive?

***Staff Response**: Grubb properties initially asked for a $3.5 million dollar incentive. This amount was revised based on our projections of collectable taxes on office space over a 5 year period. The $2.2 million performance based grant is based on building office buildings, paying taxes and then requesting an economic development grant from the Town of Chapel Hill. That grant cannot exceed the annual amount paid in office space property taxes.*

Council Question: What accounts for the absorption declining so sharply in 2015-2016?

***Staff Response**: The decline in office market actually began in 2010 and continued until 2017. Post 2010 and continuing until the Certificate of Occupancy was issued for Carolina Square and The Station at East 54 in 2018, we produced no office space. Much of this trend could likely be attributed to the economic downturn of 2008/2009.*

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Council Question: Would this agreement essentially be a development agreement?

***Staff Response**: No, this would be an Economic Development Agreement. Glen Lennox has a Development Agreement that was approved by Town Council in 2014.*

Council Question: Would there be any intervening steps between authorization of an agreement and before the office building comes out of the ground?

***Staff Response**: If Council authorizes the negotiation of an Agreement, that Agreement would come back to Council for final consideration. If authorized, Glen Lennox could begin the construction of new office space.*