

Grim Hotel

Roadmap to Redevelopment

Addendum to Recommendations

March 2017

Project Updates

This second set of recommendations was provided to the City of Texarkana during a follow-up CDFA Brownfield Project Response Team visit that occurred in February 2017. The CDFA Project Response Team provided recommendations to the City related to minimizing the financial risk of the public funds going in to the project, and related to structuring the deal to protect the public benefit of the project long term. The City anticipates a loan closing in June 2017 for the Grim Hotel project and an estimated construction start date in the fall of 2017.

The Grim Hotel redevelopment plans calls for 92 housing units and commercial space on the first level. The financing plan includes the use of 108 funds from HUD along with federal and state historic credits, an EPA cleanup loan, and conventional debt. The proposal is for market apartments for the majority of the development with a few apartments set aside for affordable family and senior housing.

*** The following update was provided to CDFA by the City of Texarkana in May 2017:**

New Update May 24th, 2017 – The development team for the Hotel Grim Lofts announced plans to purchase additional properties for redevelopment in downtown Texarkana. The new properties will add additional market rate apartment units and office space. The plan includes purchasing property at 301 Pine St that will include approximately 20 market rate residential apartments and purchasing property at 317 North State Line Avenue for conversion to renovated office space.

Based on a recently completed market study and additional environmental costs, the Hotel Grim will convert to primarily affordable family units with commercial space on the ground floor. The plan will include approximately 98 residential apartments with efficiency, one bedroom and two bedroom units available.

The overall project cost is estimated at 20 million with 12-13 million in construction costs. The overall project will add 118 residential units in downtown Texarkana and will include over 12,000 square feet in new retail and office space. The development team is currently completing the architectural design along with the environmental plans and anticipates closing the deal in Fall 2017. ¹

¹ City of Texarkana. (2017) Hotel Grim Redevelopment. Retrieved from: <http://www.ci.texarkana.tx.us/479/Hotel-Grim-Redevelopment>.

Recommendations

Part I: Entering into a Development Agreement with the Developer

A development agreement is a contract between the local jurisdiction and the developer or property owner that often serves to protect the public benefit of a project while providing certainty to the developer regarding the local jurisdiction’s commitment to a project. By creating a development agreement, the City can minimize its risk and protect its investment.

The City’s investments in the project will comprise approximately 20 percent of the total project cost. While this is not an unreasonable amount for the City to invest in a project that is expected to be catalytic to further downtown reinvestment, the City would like to be transparent and responsible in using the funds.

- i. Ensuring public benefit of the project

Not only should the development agreement specify how the public funds are to be spent (infrastructure, parking, etc.), but the agreement can also be used to ensure that other desired benefits are attained. For example, if the City wishes to require that the public maintain access to the building in some way, or that parking be provided on site, the City can detail those requirements in the agreement.

- ii. Protecting City investment

The agreement will allow the City to set a clear limit on the funds that will be made available to the project. Additionally, the agreement can be used to define how and when the developer fee will be paid out and reserve the City’s right to review all project related loan documents, construction draws, and other documentation as required.

Part II: Completing Market and Feasibility Study

Prior to finalizing plans and commitments for the Grim Hotel, it is recommended that the City review a thorough analysis of the current market for the housing units and commercial space the project is to provide. A market study for the Hotel Grim development project will assess the existing demand and supply for a certain type of use or property in the market. The feasibility study will test whether the expected revenues which were generated in the market analysis sufficiently exceed the expected costs. The market study should be commissioned by the developer or the city and then reimbursed as outlined in the Development Agreement.

**** As noted in the Project Updates section, the developer completed a market study following the CDFA site visit in February and has adjusted the Grim Hotel redevelopment plan as a result of that study.***

Part III: Creating a Public Improvement District (PID)

Previously, CDFA recommended supporting the creation of a special assessment district (such as a PID) downtown. A Public Improvement District (PID) is a special assessment area created at the request of the property owners in the district. These owners pay a supplemental assessment with their taxes, which the PID uses for services above and beyond existing City services. Typically, the revenue collected from a PID supports eligible activities such as marketing the area, providing additional security, landscaping and lighting, street cleaning, and cultural or recreational improvements.²

In this case, the PID should be created for a single parcel- the Grim Hotel- and serve as security to the debt on the project. The project should be assessed at the rate of the HUD 108 loan and the funds will be used to pay back the loan in the case of the project underperforming. If project performance is good and all loans are paid in a timely fashion the assessment is treated like a credit and repaid to the developer.

Part IV: Creating a Community Development Corporation (CDC) to Encourage Local Bank Investment

A CDC is a non-profit organization incorporated to provide programs, offer services, and engage in activities that promote and support community development. As this project aims to be the catalyst for downtown redevelopment, it is recommended that a CDC be established to aid in fostering future economic growth.³

Many local banks have interest in investing in downtown Texarkana, but are unwilling to provide loans for major redevelopment projects as the market poses too much risk to them at this time. A CDC can be a way to for local banks to make a safe investment in the community and Grim Hotel redevelopment.⁴ CDCs also provide an effective support for a bank's CRA compliance policy. A CDC can help a bank expand its CRA investment opportunities and maximizes external resources and community support

The proposed CDC could be housed within an established group like Main Street that has been dedicated to the improvement of the economic growth downtown. Main Street may have the capacity to manage the day-to-day operations of the CDC and incorporate it into their programming. Forming a subsidiary CDC enables a bank to leverage its capital for community development purposes while limiting its exposure to the inevitable risks associated with investing in economically challenged areas. As a corporate entity, a CDC can leverage its capital with loans and reinvest its income in additional projects.

² City of Dallas, Office of Economic Development. (2017). TIFs & PIDs. Retrieved from: <http://www.dallas-ecodev.org/incentives/tifs-pids/>

³ Community Development Corporations (CDCs). (2014). Retrieved, from: <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=bo-cdc.html>

⁴Specialist, K. T. (2017). Retrieved from https://www.occ.gov/static/community-affairs/community-developments-investments/winter04/investing_in.html

Part V: Seek Expert Legal Counsel

The City should also hire special legal counsel to advise them on Developer Agreement, PID, and other legal items. We recommend that the city hires an outside firm that can assist in all outlined recommendations listed above.

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