

Robyn Tice

From: Don Kraher
Sent: Tuesday, January 10, 2017 5:00 PM
To: Brian Spencer; Gerald Wingate; Sherri Myers; P.C. Wu; Larry B. Johnson; Andy Terhaar; Jewel Cannada-Wynn
Cc: Ericka Burnett; Robyn Tice; Elaine Mager; Sonja Gaines; 'andrew@studercdg.com'; 'quint@quintstuder.com'
Subject: Questions regarding the EDATE Ordinance 2017
Attachments: Questions regarding the EDATE Ordinance 2017.docx

PLEASE DO NOT REPLY ALL

Council President and Members of City Council

Please find attached questions posed to Mr. Quint Studer and Mr. Andrew Rothfeder regarding the EDATE Ordinance request involving Daily Convo, LLC. You will find the questions and responses for your consideration.

Respectfully,

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Thank you for your questions regarding the upcoming amendment to the EDATE ordinance. We understand and appreciate your due diligence on behalf of your constituents. This process has been convoluted to say the least. Before addressing your questions, we think it would be helpful to provide some context to the overall request.

The original EDATE incentive for Daily Convo was approved in late 2014. At that time the City Council and County Commission approved a ten year EDATE incentive for this transformative downtown project. The incentive was crucial to making Daily Convo's project economically viable. Further, Daily Convo's project met all legal criteria for the EDATE in effect as of late 2014. Daily Convo is not the first entity to receive an EDATE in the city or the county- EDATES have been awarded to numerous other business in the city and the county. We are appreciative and grateful for your support of the original EDATE ordinance. In reliance on the city council's original approval of the EDATE, Daily Convo commenced demolition of the old PNJ Industrial/Commercial Structures, environmental remediation, and ultimately construction of a \$52MM development.

Unfortunately, in late 2015, we learned that a critical element of our EDATE eligibility was in question based on the failure of the Legislature to renew "Enterprise Zones" during the 2015 legislative session. With the renewal/grandfathering of Enterprise Zones by the legislature in 2016 in question, the City and County passed interim ordinances to help Daily Convo salvage at least 8 years of the 10 year incentive—if the Legislature failed to act.

Fortunately for Daily Convo and many other important economic development projects around the state, the legislature enacted legislation grandfathering projects in "Enterprise Zones" which were approved prior to the sunset date of December 31, 2015, which had the effect of maintaining Daily Convo's entitlement to a full ten year EDATE. This brings us to our present request of council, i.e., to establish the effective date to match the original ten year EDATE intended to be created by Council in 2014. Hopefully this background will help inform some of your questions and concerns regarding the present situation; nevertheless, if we can provide any further context or explanation, we are happy to meet with you at your convenience this week to discuss further.

Responses to your specific inquiries follow in ***bold italics***:

>>> Thank you so much for agreeing to answer all of my questions about this important request. I really appreciate it. Like many in our community I am deeply grateful for all of Quint and Rishy's investments in Pensacola and I am excited about the growth and benefits that the apartment project will bring to our downtown.

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>>> That said I take my fiduciary responsibility to our city's taxpayers very seriously, and anytime we are dealing with an issue that involves hundreds of thousands of dollars, I want to make sure I have all the facts. My concern is that since this project is already financed and under construction, giving the developer essentially two additional years of EDATE could be construed by some as the city padding the profit or return on the project. ***As explained above, we are not requesting an "additional two years;" rather, we are asking for the benefit of the original ten year period that the City Council unanimously intended and approved in the fall of 2014. At that time the issue with regard to the sunseting of the Enterprise Zone was not a possibility anyone contemplated. Now that the Legislature clarified its intent for projects like ours to continue to qualify, we are able to recognize the original intent of the City and Daily Convo as set forth in the original approved 2014 Council resolution.***

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>>> There are a number of important dates and figures which were not included in the agenda memo that was provided to the city council. What is the estimated completion date of the project? **January 2018**. What is the total value of the project? **The answer to this question depends on how you define "value." We see this project as a major mixed-use project that will make a huge difference in the renaissance of downtown Pensacola – temporary and permanent jobs; significant tax revenue for infrastructure, schools and other City needs; 400 additional people living in our downtown core to support existing businesses; environmental and aesthetic cleanup of a blighted site, providing much needed connectivity of our downtown neighborhoods; and a catalytic investment in our urban core – providing the optimism to encourage investment and development by others – a vision that has in fact been realized. From that perspective the value of the project is immeasurable. Nevertheless, the cost of the project is approximately \$52,000,000.00. Upon completion, Chris Jones will assess the property for tax purposes. In our submissions, Mr. Jones preliminary opinion of the assessed value of the project per our application is \$50,000,000.** Do we have estimates of the total value of the EDATE incentive with and without this extension? **Current TOTAL property tax on this parcel in 2016 was \$26,000. Over 30 years that would equal \$780,000 in Total tax revenue, if nothing changed. Using \$50mm and current TOTAL millage rate of 20.1776, and with the EDATE, this project will generate \$25,000,000 in total tax revenue over that same 30 year period. Using current City millage rate of 4.2895, the "value" of the incentive is approximately \$215,000.00 per year. If we were not to receive the full ten years as originally contemplated, the project would have to absorb an additional \$430,000+/- in costs which would likely result in an increase in rents to offset the lost incentives.**

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>>> When the council discussed this back in December 2015 we were told that the project was not viable without the EDATE. Is the project's completion dependent on this extension being approved? **No. The project is underway and will be completed in January of 2018.** Is the additional incentive going to help finance any changes or improvement to the project? **As stated earlier, this is not an "additional" incentive; rather, the ten year EDATE was what the City Council, Mayor, and County Commission agreed to extend to Daily Convo in September of 2014. The financials of the project contemplated the 10 year incentive and set rent ranges based on these assumptions, which were confirmed by our market studies and surveys to be attainable for the market given our wage index and housing affordability. Were the project to be denied the full benefit of the ten year EDATE it could result in higher rents.** Do you have 10-year ROI projections with and without the EDATE extension? If these are available for me to review it would help me become more comfortable with this amendment. **These documents were not requested when Council voted for the incentive in September of 2014; further, we are not aware of any other EDATE applicant being subject to this sort of scrutiny. While we have proformas for this project, we do not want to convert our private internal financial modeling into a public record—which we would necessarily do if we send it to you or even show it to you. We do feel confident that the ROI for this project can improve if the rental rates are increased—perhaps even enough to offset the loss of two years of EDATE incentive-- however, our goal is to keep rental rates as low as possible so that they are accessible for working people.**

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>>> I would also like to know who exactly Daily Convo LLC is. Is it just Quint and Rishy or are there other investors involved? **At this time Daily Convo, LLC is owned 100% by Quint & Rishy Studer.** What happens to the EDATE if the development is sold before the 10 years is up? **At the present time there is no plan to sell the development during**

the next 10 years. If hypothetically the development was sold during the 10 year period, so long as substantially similar uses of the property continued, the property would remain eligible for the EDATE exemption.

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>>> I hope the mayor plans to communicate his support directly to the council. It's not too late for the mayor to co sponsor this, but if that doesn't happen hopefully he will put his support down in writing to the council or attend the meeting to speak in support. With the mayor's role as the head of economic development in our city I believe the mayor and council should be united on an issue like this. ***We have spoken to the Mayor and he indicated his full support for the project, and the honoring of the original intent of the 10 year EDATE. The mayor was vocal in his support of the ten year EDATE when it was first brought to the City Council. We believe Mayor Hayward thinks this project will make a huge positive difference in our city and be a strong force in continuing the renaissance of our downtown. Further, the mayor and his staff were extremely supportive in passing the interim ordinance in December of 2015 to ensure the project did not lose the EDATE entirely if the Legislature did not take action—fortunately for Daily Convo and other EDATE projects, the legislature did act and the City Council, Mayor, and Daily Convo can now carry out the original intent of the Ordinance approving the EDATE in 2014 without risk or uncertainty, or raising rental rates above our pro-forma.***

1. When the EDATE was being discussed back in 2015, there was some type of promise made that a certain portion of the parking garage would be available for public use. How many parking spaces will be allotted to the city and have any agreements been signed to put that in writing? ***In addition to providing parking for residents of the Apartments, the garage will service customers of the commercial tenants of Southtowne, members of the YMCA (under a sharing agreement), and employees and guests of the new office building being built adjacent to the YMCA (under a sharing agreement). This garage is not intended to provide general public parking in the same manner as the Jefferson Street City Garage as such there is no plan for any type of parking agreement with the City—nor will the developer be looking to the City to subsidize operations of the parking facility. To the extent we can first meet our aforementioned parking obligations, we hope to make the garage available to the general public on a real-time vacancy basis.***
2. Media reports have indicated very strong demand for apartments. A PNJ story last year said there were 625 people on the waiting list for the 258 units. Can you tell me how many people are on the waiting list now? ***Presently we have 528 apartment reservations. One of the reasons this list is so robust is the reasonable rents we are projecting. We could cut the list by raising prices to stem demand; however, one of our goals has always been to bring a reasonably priced product to people who want to live downtown. The EDATE is an essential element of keeping rents in a reasonable range. The reservation list is another way we are able to gauge how attractive and affordable the product is to the market.***
3. What are the long term plans for this development? Do the owners or investors have any current plans to sell the development to other investors or to convert the rental units to condo units? ***Daily Convo, LLC has no plans to market, sell, or flip the property. Daily Convo has no plans to convert the property into Condominiums. This is an investment in downtown and our present intention is to hold the property and maintain local ownership.***

4. I have heard that the owners or investors have distributed informational packages to other potential investors in the project. Is this accurate? If so, would it be possible for me to review one of these packages? Daily Convo, LLC is presently owned 100% by Quint and Rishy Studer. ***The Studer's have offered minority interests in the development to a limited number of people who have helped to make the project possible or have partnered with them in the past. At this point to respect their privacy, and since they are not officially part of the LLC yet or this application, we would prefer not to disclose their names. Further, we are not in a position to convert any private placement information or circulars into public records.***

5. Have/will the owners or investors received any benefit from the EDATE for the 2016 and 2017 tax years? ***No. Since the improvements were under construction on January 1, 2016, and January 1, 2017, no EDATE exemption benefits will be received for those two tax years.***

One additional answer to a question that was asked in the meeting – “Did the project receive EDATE benefits for 2016?”. The answer is “no” in any scenario, given that the EDATE only applies to ad valorem created by the improvements made, not pre-existing value – which in this case is just the land.