

Memorandum



CITY OF DALLAS

DATE May 7, 2018

MEMORANDUM FOR
TO Members of the Economic Development & Housing Committee: Tennell Atkins, Chair, Rickey D. Callahan, Vice-Chair, Lee M. Kleinman, Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder, Omar Narvaez

SUBJECT **Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building at 2557 Elm Street**

Summary

Westdale Properties and Epic Dallas have applied for a 100% tax exemption through the Historic Preservation Tax Incentive Program. Westdale Properties has invested \$407,974.00 in the formerly vacant Knights of Pythias/Union Bankers property and has begun working to reposition it into a boutique hotel and restaurant space with a 100,000 square foot addition. This hotel and addition are part of a large mixed-use hotel, office, retail, and residential project currently under construction called Epic Deep Ellum. On March 5, 2018, the Landmark Commission recommended approval of the Certificate of Eligibility and approval of \$407,974 in eligible expenditures spent on rehabilitation prior to the issuance of the Certificate of Eligibility. Certificate of eligibility means that the Landmark Commission designated the historic property as a historically significant site in need of tax relief to encourage its preservation

Background

Article XI of the Dallas Development Code established the Historic Preservation Tax Incentive Program, which allows property owners to receive tax exemptions for restorations of historic properties. Dallas Development Code Section 11.201(e) requires that City Council review any exemption over \$50,000.

The Knights of Pythias building was constructed in 1915-1916 as the state headquarters of the Black Knights of Pythias, and it was a center for social services and activities for the organization. It was designed by William Sidney Pittman, the first African-American architect to practice in the City of Dallas. The Knights of Pythias site was designated a City of Dallas Landmark in 1989. The property owner is currently restoring the historic Knights of Pythias building and redeveloping the site into a hotel. The discussion and planning of this project, and the possible use of TIF funds for it, began in October 2015.

The Office of Economic Development and the Sustainable Development and Construction Department coordinate on incentives provided to historic properties in the City's TIF districts.

Westdale Properties and Epic Dallas initially inquired about TIF funds in December 2015 for the hotel component of the Epic Deep Ellum project. A follow up conversation occurred in October 2016 and it was determined by Fair Housing and the City Attorney's Office that in order for the applicant to get TIF funding, they would either have to add deed restrictions requiring a certain percentage of affordable housing units for the multifamily portion of the project or Westdale Properties and Epic Dallas would have to sell the hotel property. Staff viewed the development of the hotel and other structures as one project from one owner, even though the components are on separately platted lots.

DATE May 7, 2018
SUBJECT Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building at 2557 Elm Street

On April 13, 2017, the property owner submitted a zoning change application requesting an amendment to the preservation criteria and reduction of the boundary of the historic designation so that it would exclude the future hotel addition. Another meeting was conducted in September 2017 with Economic Development staff to discuss the project and the guidance previously given. The Urban Design Peer Review meeting was held on October 20, 2017, with comments given for the entire project, including the Knights of Pythias component. This meeting is a requirement that must occur before a TIF fund applicant may submit an application for consideration.

In December 2017, after the property owner decided not to pursue TIF funds, they amended their zoning application to expand the boundary of the historic district to include the hotel addition, and applied for the historic tax exemption for both the historic building and the addition. City Council approved the amendments to the preservation criteria and expanded boundary on April 11, 2018.

Knights of Pythias Hotel Project Description

Westdale Properties and Epic Dallas intend to reposition the unused historic building as part of a larger boutique hotel project with restaurant uses. On March 8, 2018, Landmark Commission approved minor window and door modifications and the construction of the seven-story addition and glass connector. The renovation work includes repairing and replacing key exterior components including; paint removal from the historic exterior masonry facades, repointing of the exterior brick, repair of historic cast stone elements, and restoration of the window and door openings. All interior and exterior work, including the new additions, have been reviewed and approved by the Texas Historical Commission and the National Park Service, in compliance with national historic renovation guidelines as part of those federal tax credit and state programs. Although the entire project, including the new additions, have been reviewed by the National Park Service, only the historic component of the structure will be allowed to claim the Federal historic tax credits.

The building qualifies under the "Urban Historic District" exemption which allows for an exemption up to 100 percent of the City portion of the property taxes for up to a ten-year period. To qualify for this exemption, the cost of rehabilitation must exceed 75 percent of the pre-rehabilitation value of the structure. The 2017 Dallas Central Appraisal District (DCAD) appraised value for the 2557 Elm Street account is \$1,328,840, with an improvement value of \$148,040 and land value of \$1,180,800. The applicant is therefore required to invest approximately \$111,030 into the property to qualify for the exemption. As of March 5, 2018, the applicant has spent \$407,974 on eligible items.

After Landmark Commission review, staff refined the future estimated taxable values for this project. Staff used the DCAD values of comparably renovated historic hotel properties near downtown and an inflation rate of 3% to estimate \$1,930,414 in revenue forgone over the next ten years if both the historic building and the new construction are approved for the historic preservation tax exemption program (see table below). Currently, the City is expected to collect \$12,028 in revenue for tax year 2018.

DATE May 7, 2018

SUBJECT Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building at 2557 Elm Street

| Building Name | Taxable value before completion | Taxable value after completion | Revenue Forgone (First Year) | Revenue Foregone (10 years) |
|--------------------------------------|--|---------------------------------------|-------------------------------------|------------------------------------|
| Knights of Pythias historic building | \$1,328,840 | \$7,208,663 | \$56,256 | \$644,917 |
| New Construction | 0 | \$14,368,858 | \$112,135 | \$1,285,497 |
| Total | \$1,328,840 | \$21,577,521 | \$168,391 | \$1,930,414 |

Previously approved projects

The City previously approved two tax exemption applications for projects that included additional buildings and new construction. However, in both cases, the exemption was only for the historic buildings within the larger project.

In 2007, Council approved a historic tax exemption for the Old Parkland Hospital, built in 1925. In 2010, Council approved a historic tax exemption for the adjacent Nurses' Building, built in 1922. Both historic buildings are now part of a multi-building office campus constructed by Crow Holdings. Only the two historic buildings receive the historic tax exemption. The remaining non-historic, non-contributing buildings in the office campus are valued on the tax rolls at \$94 million.

In 2016, Council approved a historic tax exemption for the renovation of the Adolphus Hotel. Only the historic hotel and the subsequent additions, built between 1912 and 1951 and determined to be 'contributing' additions to the expanded historic overlay district by Landmark Commission, is included in the tax exemption. The remaining buildings on the block are on the City's tax rolls for \$18 million.

Program Issues

The Historic Preservation Tax Exemption allows the Landmark Commission to make a determination if a building is "contributing". Only "contributing" structures are eligible for the incentives. A contributing structure means a structure that retains its essential architectural integrity of design and whose architectural style is typical of or integral to a historic district (Sec. 51A-11.102(4) of Dallas Development Code). The Landmark Commission approved the historic tax exemption with the new seven-story hotel addition (over 100,000 square feet) because they believed the construction of the addition makes the restoration of the historic structure possible. The applicant believes that the intent of the tax exemption program is for the economic investment in a district and to encourage the rehabilitation of historic structures. The Applicant stated that the proposed addition is potentially contributing to the historic overlay for the Knights of Pythias site, and would not have an adverse effect on the property. The Landmark Commission was satisfied with the fact that any alterations to or demolition of the new addition or the historic structure would require their oversight.

Staff is concerned that identifying the new addition as "contributing" to take advantage of the historic tax exemption is contrary to the purpose of the Historic Preservation Tax Incentive Program and contrary to National Park Service guidance that provides that only buildings older than 50 years are eligible for 'contributing' status. The purpose of the program is to encourage economic development through the revitalization and preservation of historic properties.

DATE May 7, 2018
SUBJECT Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building at 2557 Elm Street

Next Steps

The Certificate of Eligibility will be reviewed by City Council on Wednesday, May 23, 2018.

Alternatives

The City established the historic tax exemption program to support restoration and adaptive reuse of the City's historic properties. If Council is inclined to make the historic tax exemption only for existing historic structures and not allow new construction to be part of the program, staff could work on a code amendment to clarify the regulations. The applicant included the large new hotel addition in the request for the historic tax exemption and staff is concerned that a property owner may meet their required investment amount only through, or primarily through, new construction on a site instead of through restoration of the historic resource itself.

Fiscal Impact

The first year of tax revenue foregone is estimated at \$56,256 for the historic building and \$112,135 for the addition. Over ten years, the estimate is a total of \$644,917 for the historic building and \$1,285,479 for the addition, for an overall total of \$1,930,414. This is contingent on the Applicant completing the rest of the historic tax exemption program requirements. Since the Applicant has already spent the required eligible expenditure amount of \$111,030, a Certificate of Occupancy will have to be submitted and a Commitment to Repay filed with the County deed records before the Certificate of Eligibility expiration date of March 5, 2021.

Landmark Commission Recommendation

On March 5, 2018, the Landmark Commission made a recommendation of approval of the Certificate of Eligibility and approval of \$407,974.00 in eligible expenditures spent on rehabilitation prior to the issuance of the Certificate of Eligibility with the finding of fact that the addition makes the viability of the restoration of the historic structure possible, that the intent of the tax exemption is for economic investment in a district and to encourage the rehabilitation of the historic structures into new uses, and with the finding of fact that the addition is potentially contributing to the historic overlay property that includes the original structure and the connecting property; and with the finding that the addition does not have an adverse effect on the property at 2557/2551 Elm Street, and any changes or demolition of the addition or existing structure will have to be reviewed by the Landmark Commission.

Staff Recommendation

Staff recommends the Economic Development and Housing Committee approve the historic preservation tax exemption for the Knights of Pythias/Union Bankers project at 2557 Elm Street for a ten-year period on 100% of the land and structure value to be applied to the existing, historic component of the project only and exclude the new addition.

DATE May 7, 2018
SUBJECT Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building at 2557
Elm Street

Should you have any questions, please contact David Cossum, Director of the Department of Sustainable Development and Construction, or myself.



Majed A. Al-Ghafry
Assistant City Manager

- c: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
- Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Historic Preservation Tax Exemption for Knights of Pythias/Union Bankers Building

Economic Development &
Housing Committee

May 7, 2018

David Cossum, Director,
Sustainable Development and
Construction



City of Dallas

Presentation Overview

- Summary
- Background
- Timeline
- Revenue Forgone
- Previously approved projects
- Issues
- Recommendations
- Next steps

Summary

- Westdale Properties and Epic Dallas applied for a 100% tax exemption through the Historic Preservation Tax Incentive Program.
- The building qualifies under the “Urban Historic District” exemption, which allows for an exemption up to 100 percent of the City portion of the property taxes for up to a ten-year period. To qualify for this exemption, the cost of rehabilitation must exceed 75 percent of the pre-rehabilitation value of the structure.
- Dallas Development Code Section 11.201(e) requires City Council to review any exemption over \$50,000.
- Proposed development is a boutique hotel and restaurant space with a 100,000 square foot addition as part of a large mixed-use hotel, office, retail, and residential project currently under construction called Epic Deep Ellum.

Summary

- The 2017 Dallas Central Appraisal District (DCAD) appraised value for the 2557 Elm Street account is \$1,328,840, with an improvement value of \$148,040 and land value of \$1,180,800.
- The applicant is required to invest approximately \$111,030 into the property to qualify for the exemption.
- As of March 5, 2018, the applicant has spent \$407,974 on eligible items.

Background of Historic Structure

- The Knights of Pythias building was constructed in 1915-1916 as the state headquarters of the Black Knights of Pythias, and it was a center for social services and activities for the organization. Union Banker Insurance Company purchased the building in 1959.
- It was designed by William Sidney Pittman, the first African-American architect to practice in the City of Dallas.
- The Knights of Pythias site was designated a City of Dallas Landmark in 1989.



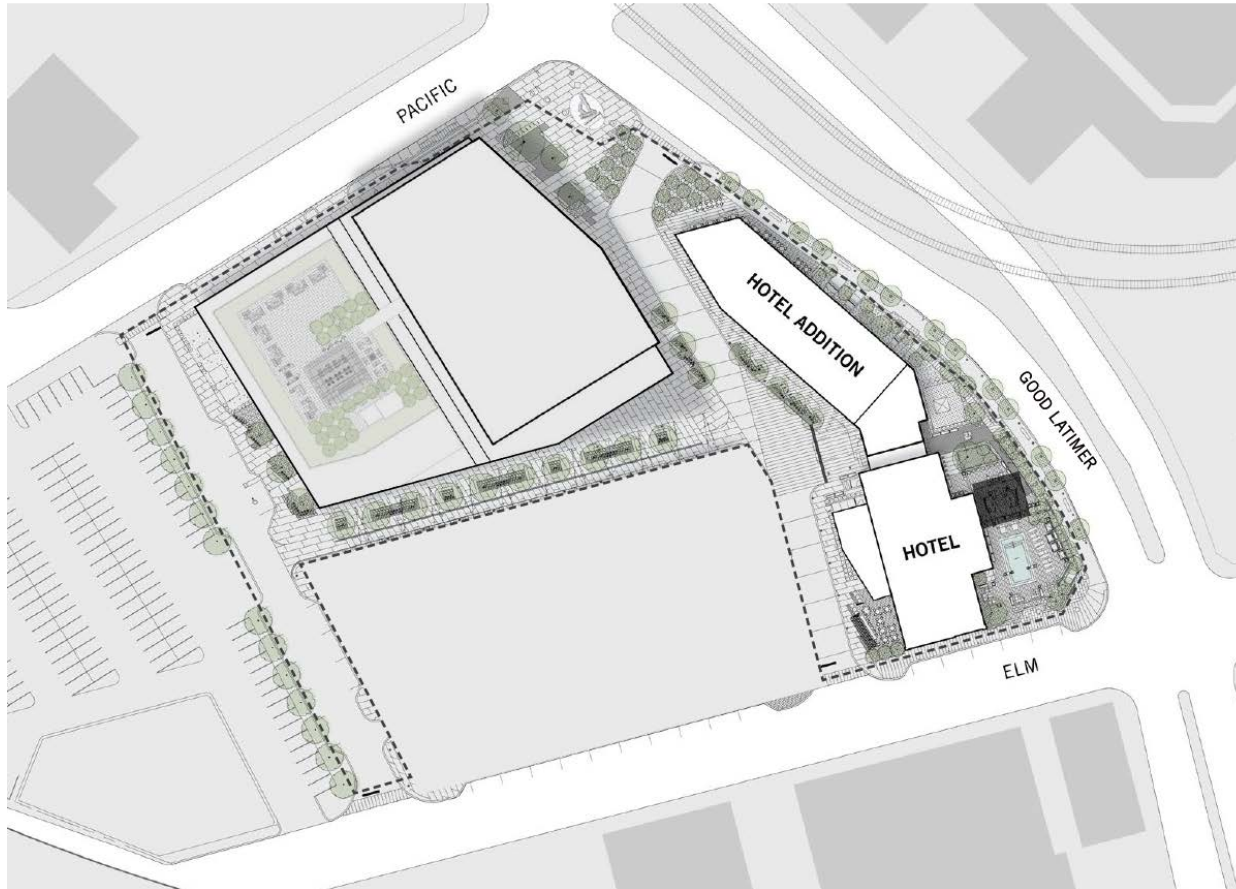
Background

- On March 5, 2018, Landmark Commission approved minor window and door modifications to the existing building and the construction of the seven-story addition and glass connector.
- The renovation work includes repairing and replacing key exterior components including; paint removal from the historic exterior masonry facades, repointing of the exterior brick, repair of historic cast stone elements, and restoration of the window and door openings.
- All interior and exterior work, including the new additions, have been reviewed and approved by the Texas Historical Commission and the National Park Service, in compliance with national historic renovation guidelines as part of those federal tax credit and state programs.



Background

- Knights of Pythias/Union Bankers Overall Project map



Timeline

- December 2015 – Applicant inquired about TIF funds for the hotel component of the Epic Deep Ellum project.
- TIF funding required certain percentage of affordable housing units for the multifamily portion of the project.
- Applicant decided not to pursue TIF funding.
- April 13, 2017 - Applicant submitted a zoning application to amend the preservation criteria and reduce the boundary of the historic designation overlay.
- December 2017 - Applicant amended their zoning application to expand the boundary of the historic district to include the hotel addition, and applied for the historic tax exemption for both the historic building and the addition.

Timeline

- March 5, 2018 - Landmark Commission recommended approval of the Certificate of Eligibility and approval of \$407,974 in eligible expenditures spent on rehabilitation prior to the issuance of the Certificate of Eligibility and determined the proposed new construction was a 'contributing' structure to the historic overlay district.
- March 5, 2018 - Landmark Commission approved minor window and door modifications to the existing building and the construction of the seven-story addition and glass connector.
- April 11, 2018 - City Council approved the amendments to the preservation criteria and expanded boundary of the historic overlay district.

Revenue Forgone

- The amount forgone for the addition is estimated to be \$112,135.
- Over ten years, the estimate is a total of \$644,917 for the historic building and \$1,285,479 for the addition, for an overall total of \$1,930,414.
 - This is contingent on the Applicant completing the rest of the historic tax exemption program requirements before the exemption expires in March 5, 2021.

Revenue Forgone

- Staff used the DCAD values of comparably renovated historic hotel properties near downtown and an inflation rate of 3% to estimate \$1,930,414 in revenue forgone over the next ten years if both the historic building and the new construction are approved for the historic preservation tax exemption program.

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- The City previously approved two tax exemption applications for projects that included additional buildings and new construction.
- However, in both cases, the exemption was only for the historic buildings within the larger project.
- In 2007, Council approved a historic tax exemption for the Old Parkland Hospital, built in 1925.
 - In 2010, Council approved a historic tax exemption for the adjacent Nurses' Building, built in 1922.
 - Both historic buildings are now part of a multi-building office campus constructed by Crow Holdings.
 - Only the two historic buildings receive the historic tax exemption.
- In 2016, Council approved a historic tax exemption for the renovation of the Adolphus Hotel.
 - Only the historic hotel and the subsequent additions, built between 1912 and 1951 and determined to be 'contributing' additions to the expanded historic overlay district by Landmark Commission, is included in the tax exemption.

Issues

- A contributing structure means a structure that retains its essential architectural integrity of design and whose architectural style is typical of or integral to a historic district
- Identifying the new addition as ‘contributing’ to take advantage of the historic tax exemption seems to be contrary to the purpose of the Historic Preservation Tax Incentive Program.
- The purpose of the historic tax exemption program to support restoration and adaptive reuse of the City’s historic properties.
- Staff recommends mirroring the Federal historic tax credits and have the historic tax exemption apply only to the contributing structure.

Recommendations

- The Landmark Commission approved the historic tax exemption with the new seven-story hotel addition (over 100,000 square feet) for the stated reason that the construction of the addition makes the restoration of the historic structure possible:
 - The Landmark Commission also determined that the addition is now a 'contributing' feature of the historic overlay.
- Staff recommends the Economic Development and Housing Committee only approve the historic preservation tax exemption for the Knights of Pythias/Union Bankers building and exclude the new addition.

Next Steps

- The Certificate of Eligibility is scheduled for consideration by City Council on Wednesday, May 23, 2018.

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