RESOLUTION 2021-12-01

A RESOLUTION OF THE DOWNTOWN INVESTMENT AUTHORITY RECOMMENDING CITY COUNCIL APPROVAL OF A DOWNTOWN ECONOMIC DEVELOPMENT GRANT FOR THE HOME2SUITES PROJECT; AUTHORIZING THE CHIEF EXECUTIVE OFFICER (THE "CEO") TO NEGOTIATE A REDEVELOPMENT AGREEMENT REGARDING THE SAME BETWEEN THE CITY OF JACKSONVILLE, DOWNTOWN INVESTMENT AUTHORITY, AND KELCO BROOKLYN, LLC; AUTHORIZING THE CEO OF THE DOWNTOWN INVESTMENT AUTHORITY TO EXECUTE SUCH AGREEMENT; PROVIDING AN EFFECTIVE DATE.

WHEREAS, Kelco Brooklyn, LLC (or similar such entity to be formed) (the "Developer") proposes to construct a six-story, 100 room, select-service, extended stay hotel under the Home2Suites brand of Hilton Hotel properties at 600 Park Street in Jacksonville, Florida 32204, to include 2,000 square feet of leasable space for a restaurant and amenities as outlined in the Exhibit A Term Sheet. The project will result in the investment of approximately $16,167,000 for the construction of the hotel and associated improvements; and

WHEREAS, the Developer is requesting a Downtown Economic Development Grant ("DEDG") in the amount of $2,385,220 that does not otherwise qualify for an established DIA Incentive Program; and

WHEREAS, the DIA Board considered the Developer's request, the DIA staff report recommending denial of the incentive, and the expert testimony of Developer's appraiser and concluded that an incentive was necessary to ensure redevelopment of the site for the proposed project; and

WHEREAS, the DIA Board found that the extended stay nature of the proposed hotel, the Hilton brand not otherwise available in the vicinity, and the business community needs in the immediate area differentiate this product from other select service and limited-service hotels thus eliminating the adverse impact on occupancy and room rates of other existing Downtown hotels; and

WHEREAS, the DIA Board found that the additional costs incurred by the Developer to integrate into the building a full service, open to the public, restaurant with outdoor seating along Park Street, including the cost of improvements to such space, factored into the need for an incentive; and

WHEREAS, the DIA Board therefore recommends approval of a Downtown Economic Development Grant in the amount of $2,385,220 to help support the commercial growth occurring in the Brooklyn area of Downtown Jacksonville and future hospitality needs of Brooklyn in particular.

NOW THEREFORE, BE IT RESOLVED, by the Downtown Investment Authority:

Section 1. The DIA finds that the recitals set forth above are true and correct and are incorporated herein by this reference.

Section 2. The DIA hereby directs the CEO of the Downtown Investment Authority to take all necessary action, including the filing of legislation before the City Council, to seek DEDG funding of up to $2,385,220, to be allocated over ten annual payments of $238,522 subject to terms and conditions found on the attached Exhibit A Term Sheet.

Section 3. The Chief Executive Officer is hereby authorized to execute the contracts and documents and otherwise take all necessary action in connection therewith to effectuate the purposes of this Resolution.

This Resolution, 2021-12-01, shall become effective on the date it is signed by the Chair of the DIA Board.

WITNESS: **DOWNTOWN INVESTMENT AUTHORITY**

Xzavier Chisholm

W. Braxton Gillam, Esq., Chairman   Date 12/15/21

VOTE: In Favor: 6 Opposed: 2 Abstained: Ø

Exhibit A:

**DOWNTOWN ECONOMIC DEVELOPMENT GRANT
TERM SHEET**

**Home2Suites / Kelco Brooklyn, LLC
600 Park Street, Jacksonville FL 32204**

PROJECT DESCRIPTION

The project proposes the construction of a new hotel property at 600 Park St. in the Brooklyn District of Downtown Jacksonville utilizing City of Jacksonville funding as may be authorized by the Jacksonville City Council and administered as a Downtown Economic Development Grant by the Downtown Investment Authority ("DIA").

Grantee intends to construct a six-story, 100-room, select-service hotel under the Home2Suites brand of Hilton properties. The hotel development proposes to provide hotel amenities including a business center, fitness center, vending and ice machines, a guest laundry room, and a sundries shop and to construct and lease 2,000 square feet of space integrated into the primary building for a full service restaurant open to the public and facing Park Street, with outdoor seating.

Applicant / Owner: Kelco Brooklyn, LLC
(or similar entity to be formed by these Principals for this purpose)

Principals: Kelley Slay, Andy Allen, George Leone

City Funding: Not more than $2,385,220, funded in ten annual installments of $238,522 on each successive anniversary of the Substantial Completion of the project, through the City of Jacksonville, Downtown Investment Authority, subject to additional terms and conditions that follow.

Infrastructure: No City of Jacksonville infrastructure improvements are contemplated.

Land: No City of Jacksonville land is committed to the project.

Loans: No other loans, grants, or other funding from the City of Jacksonville are contemplated for this project, although commercial tenants leasing space within these Property may be eligible for funding under separate programs. No costs may be submitted for duplicative funding under more than one DIA incentive program.

DEVELOPER OBLIGATIONS

1. To maintain eligibility for annual installment funding under the Downtown Economic Development Grant ("DEDG"), Owner shall cause the design, construction, and

continuing operation of the Hotel improvements ("Improvements") to include the following:

i) a select service, extended stay hotel with approximately 100 hotel rooms; but no fewer than 98 (the "Hotel") that shall remain open 24 hours per day, seven days per week, 365 days per year, subject only to force majeure events; and

ii) amenity space for guests to include the following minimums:

a) Fitness center open 24 hours per day which may be limited for guest use only, minimum of 800 square feet; and

b) Flexible meeting space available during business hours and evenings (6:00 AM until 11:00 PM), minimum of 700 square feet; and

iii) restaurant of not less than 2,000 square feet integrated into the primary building for a full-service restaurant open to the public and facing Park Street, with outdoor seating open to the public, with additional requirements as defined further below (e.g., a breakfast bar serving hotel guests does not satisfy this requirement); and

iv) maintain compliance with all features and limitations as approved by the Downtown Development Review Board ("DDRB").

2. The Minimum Private Capital Investment for the Improvements shall be $14,666,740 (including land and the direct hard and soft costs of the development activity, but excluding any developer fee, project management, operating reserves, prepaid costs, furniture, fixtures, and equipment, and any costs not typically eligible for capitalization as a component of the real property per GAAP). Such minimum may be reduced by up to 10% with a pro rata reduction (considering Minimum Private Capital Investment for the Improvements plus Minimum Tangible Personal Property) in the City Funding commitment, subject to approval by the DIA CEO.

3. The Minimum Tangible Personal Property ("TPP") expenditures for the Hotel shall be $1,500,000 to include computers, furniture, fixtures, and equipment, supplies, tenant improvements, and other similar expenditures for which the Grantee pays TPP tax on an annual basis, where costs may not also be included in Improvements. Such minimum may be reduced by up to 10% with a pro rata reduction (considering Minimum Private Capital Investment for the Improvements plus Minimum Tangible Personal Property) in the City Funding commitment, subject to approval by the DIA CEO.

4. A Minimum Equity Requirement of $5,950,000 shall be evidenced at closing and maintained per requirements found in 7. below.

5. Improvements shall be constructed primarily of CMU (concrete masonry unit) and precast concrete and otherwise comply with the Downtown Zoning Overlay with design elements subject to DDRB approval.

6. During the term of the DEDG, the Hotel shall be operated as a Home2Suites Hotel (or, to the extent the Home2Suites name is changed throughout the United States by the ownership of the hotel name, under such new name, but subject to the below). In the event the owner of the Hotel elects to change the flag of the Hotel from Home2Suites to another brand, the change in the flag will be subject to approval of DIA to ensure that the Hotel continues to be operated as a select service, extended stay brand consistent with the Hotel as proposed and underwritten. In the event DIA fails to approve the change of flag on the Hotel, the owner of the Hotel may nevertheless change the flag but will thereafter lose the right to collect any further DEDG payments.

7. Eligibility for funding under the DEDG shall terminate if there is a full or partial sale of the property, or reduction in equity contribution below the Minimum Equity Requirement, prior to the fifth anniversary following the Effective Date of the Agreements. Any amounts funded under the DEDG commitment prior to the occurrence of such an event within five years following closing on the Agreements shall be immediately reimbursed to the City of Jacksonville. Andy Allen, George Leone, and Kelley Slay shall maintain operational control and a majority ownership during the five years following closing of the grant.

8. The addition of space for a 2,000 square foot restaurant and its continued operation is an integral component to the DEDG commitment. As such, initial year one funding of the DEDG is contingent upon lease of the restaurant space to be occupied and open for business within six (6) months of the issuance of a Certificate of Occupancy ("CO") for the hotel. Continued annual funding of the DEDG at the full amount is contingent upon restaurant operation a minimum of 8 hours per day, 6 days per week, throughout the year except in the event of operator turnover or declared force majeure events. In the event of operator turnover, a closure of not more than 90 days will be allowed without penalty for that year, otherwise Developer shall forfeit 20% of the annual payment for any such year.

PERFORMANCE SCHEDULES

The following Performance Schedule milestones shall be included in the RDA for all Improvements to be constructed:

RDA EXECUTION:	Within thirty (30) days following City Council Approval and execution by the Mayor.
PERMITTING:	Permits necessary to commence construction shall be applied for within ninety (90) days after RDA Execution.
COMMENCE CONSTRUCTION:	To occur within thirty (30) days following receipt of all required approvals, permitting, and closing on all

	required financing to allow the start of construction activities, but not later than twelve (12) months following the Effective Date of the Redevelopment Agreement; and proceed without material delay through completion.
COMPLETION OF CONSTRUCTION:	All improvements on the Hotel Improvements to be substantially completed within 18 months of Commencement.
EXTENSIONS:	The DIA CEO shall have authority to extend this Performance Schedule, in the CEO's sole discretion, for up to six (6) months for good cause shown by the Grantee. Any such extension to the Commencement Date will have the same effect on the Substantial Completion Date.

ADDITIONAL COMMITMENTS

There will be additional terms, conditions, rights, responsibilities, warranties, and obligations for both parties which shall be determined in a later negotiated mutually agreeable written contract (or multiple written contracts as is deemed necessary).

Home 2 Suites
Downtown Economic Development Grant
Staff Report
December 15, 2021

Applicant:	**Kelco Brooklyn, LLC (to be formed)** **Kelco Management and Corner Lot Development**
Project:	**Home 2 Suites Hotel** **600 Park Street** **Jacksonville, FL 32204**
Total Development Cost (as underwritten):	**$14,666,740**
Incentive Proposed:	**Downtown Economic Development Grant $2,385,220** ***Payable in ten equal annual installments of $238,522 subject to compliance with terms and conditions as outlined in the Ex A Term Sheet.***

The Project

The developer, Kelco Brooklyn, LLC (Kelco), is a proposed joint venture between Kelco Management (Mr. Kelley Slay) and Corner Lot Development (Mr. Andy Allen, CEO, and Mr. George Leone, COO). Kelco has developed plans for a six-story, 100 room, select-service, extended stay hotel under the Home2Suites brand of Hilton properties. The hotel development proposes to lease approximately 2,000 square feet of space for a restaurant, and provide amenities including a business center, fitness center, vending and ice machines, a guest laundry room, and a sundries shop.

The Development Team

- *Kelley D. Slay*, President of Kelco Management & Development. Mr. Slay directs the development and acquisition activity of Kelco hotels and is responsible for developing new business opportunities including providing recommendations regarding hotel markets, supply and demand dynamics and cash flow projections.
- *Andy Allen*, CEO of Corner Lot Properties. Mr. Allen started Corner Lot Properties in 2009 where he conducted commercial, multi-family and land transactions and quickly became the largest real estate wholesaler in Northeast Florida showing over $1 billion of real estate including acquisition, disposition, sales, and development.
- *George Leone*, COO of Corner Lot Properties. Corner Lot Development Group (CLDG) was formed in 2017 and developed over $15 million in commercial and SFR subdivisions in its first year.

Incentive Calculation:

a) The project as proposed is not eligible for an established CRA incentive program and does not meet the qualifications of the REV Grant structure as found in the Public Investment Policy.

b) At the direction of the DIA Board, a structured payment over time equivalent to the calculated maximum indebtedness of a 75% twenty-year REV Grant has been utilized to calculate the incentive amount, which is proposed to be structured and administered as a Downtown Economic Development Grant, funded over ten years subject to completion and operating performance measures.
c) Property tax generated that accrues to the benefit of the Northbank Downtown CRA through the end of a twenty-year period is projected to equal $3,194,183 before consideration of the incentive.
d) 75% of the City portion of incremental ad valorem taxes totals $2,385,220 (rounded).
e) The ROI for this project would approximate 1.34X with the Downtown Economic Development Grant as the City Investment.

Recommendation:
Analysis performed by DIA Staff found that the financial incentives are not warranted by capital shortfalls resulting from the pro forma operating performance of this project.

The applicant has presented its case that the project cannot be undertaken without financial incentives and the DIA Board has agreed that merit is found in the following attributes and conditions that provide support for recommending an incentive as proposed:

a) A select-service, extended stay hotel, may be considered highest and best use for this underutilized parcel in the Brooklyn submarket.
b) The project will help meet the needs of the growing number of corporate clients found in close proximity to the development site.
c) Alternative prospects for the site have not moved forward, and it is not providing value to the Brooklyn District in its current state.
d) Meeting the demands of business traveler loyalty to specific flags or brands is an important element to fostering growth in the surrounding corporate community.
e) Cost increases related to height, design elements and inclusion of a restaurant amenity make the project more difficult to construct and contribute to the need for financial support.
f) An additional restaurant offering in this area will be beneficial to the local community.
g) There is some precedent for the award of incentives to select service hotels, i.e., Marriott Residence Inn
h) Additional hotel properties in the market will increase stays being lost to hospitality providers outside of Downtown Jacksonville.
i) The extended stay nature of the proposed development is unique and needed within Downtown Jacksonville, and the Brooklyn District.
j) Anticipating growth in hospitality demand in Jacksonville is important and warrants incentive to prepare to meet those demands proactively.
k) If not eligible for a REV Grant, an alternative approach is warranted that helps achieve this desirable development activity.

The Ex. A Term Sheet to the resolution is structured to meet the request of the applicant and the recommendations of the DIA Board and includes the following provisions:

a) Downtown Economic Development Grant in an amount equal to a 75%/20-year REV Grant and payable in ten equal annual installments of $238,522.

b) City Protections:

   1. Sale of the property, equity withdrawals, or material changes in equity interests within the first five years renders the project ineligible for future payments under the commitment and requires repayment of any funding made under the commitment up to that point. (This provision is similar to what was required of the Four Seasons and staff believes is warranted particularly in light of the pro forma and other financial information provided- the incentive should not be available to create a financial windfall)
   2. Establishes Minimums for Total Development Cost ($14,666,740), Tangible Personal Property expenditures ($1,500,000), and Developer Equity ($5,950,000) as drawn from applicant provided documentation.(similar to RDA terms for all REV grants)
   3. Leasing and operation of the restaurant is an integral component of the incentive and performance measures are incorporated to be eligible for payments in each year. (the cost of constructing the restaurant was argued as a material factor in creating the need for the incentive, and its operation is considered a material benefit to activation of Park Street differentiating this use from a medical office building- terms similar to One Riverside regarding operation)

c) Others as found in the Ex. A Term Sheet