

## **RESOLUTION**

### **To Identify a Development Area and Approve An ECONOMIC DEVELOPMENT POLICY**

**WHEREAS**, the City Council (the "Council") of the City of Harrisonburg, Virginia (the "City") finds that the further development of the City's tax base may require the use of economic incentives to attract certain business and commercial investment in the City; and

**WHEREAS**, the Council seeks to identify the geographic area in the City that is particularly situated and positioned for further commercial development and construction of new or expanded facilities (the "Development Area") (as described in the Addendum attached hereto); and

**WHEREAS**, upon mature consideration, the Council finds that the Development Area presently constitutes such an area in the City that is uniquely positioned for economic development; and

**WHEREAS**, the Council desires to encourage substantial capital investment in the Development Area; and

**WHEREAS**, dpM Partners, LLC has proposed to develop a hotel and conference center within the Development Area ("the Project"); and

**WHEREAS**, dpM Partners, LLC and other entities will finance the hotel portion of the Project, and the James Madison University Foundation, Inc. ("the "Foundation") will finance the development of the conference center portion of the Project ("the "Conference Center"); and

**WHEREAS**, the animating purposes for any economic incentives by the City from time to time are the significant public benefits that shall be derived from (i) promoting a strong, viable economy in the City, (ii) increasing the City's sources of tax revenues, (iii) providing additional employment opportunities for the citizens of the City; and

**WHEREAS**, pursuant to Section 15.2-953 of the Code of Virginia, 1950, as amended (the "Virginia Code"), the City is authorized to make gifts, donations and appropriations of money from time to time to the Industrial Development Authority of City of Harrisonburg, Virginia (the "Authority") for the purpose of promoting economic development; and

**WHEREAS**, the Council duly established the Authority on April 24, 1973, with all such powers as granted under the Industrial Development and Revenue Bond Act as set forth in Chapter 49 of Title 15.2 of the Virginia Code; and

**WHEREAS**, pursuant to Section 15.2-4905 of the Virginia Code, the Authority may accept contributions, grants and other financial assistance from the City in order to make grants for the furtherance of economic development; and

**WHEREAS**, the Council now desires to designate the Development Area and establish the Economic Development Policy that shall be applicable to the Conference Center in the Development Area, including the qualifications required for the Foundation to receive any economic incentives related to the Conference Center.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF HARRISONBURG, VIRGINIA, as follows:

1. Approval of Development Area; Establishment of Economic Development Policy Therefore. The Council hereby approves the Development Area and establishes this Economic Development Policy for the Conference Center portion of the Project in the Development Area. Accordingly, the Recitals above are incorporated into and made a part of this Economic Development Policy as if set forth in their entirety in this Section 1.

2. Consideration of Appropriations. From time to time, the Council shall consider an appropriation to the Authority, as may be recommended by the City Manager in the annual budget, in order to enable the Authority to make an economic grant, from time to time, to the Foundation for the replacement of its initial capital investment in the Conference Center and for certain monetary advances by the Foundation, if the criteria established in this Economic Development Policy is met.

For purposes of this Economic Development Policy, the following terms shall have the meanings ascribed:

(a) "*Foundation Loan*" shall mean the amortized loan undertaken by the Foundation for the Conference Center, including any renewals or refinancings thereof to which the City consents, whether or not at the same financial institution. (The term does not include a temporary, interest-only construction loan.)

(b) "*Foundation Advances*" shall mean certain costs incurred by the Foundation, specifically, (i) the portion of the annual debt service on the Foundation Loan which, in any given year, is not covered by the IDA's annual payment under paragraph five, (i) the Foundation's interest costs incurred for any construction loan, if the parties are unsuccessful at having such costs "rolled up" into the Foundation Loan and paid from the Foundation Loan proceeds and (iii) simple interest on the foregoing advances at the annual rate equal to the average rate of return realized by the Foundation on all of its investments for the three (3) calendar years prior to the date such interest is paid, provided, however, that in no event shall the interest paid by the City to the Foundation for such Foundation Advancements be less than four percent (4%) or greater than eight percent (8%) per annum. The exact formula for determining the interest rate to be paid on Foundation Advancements is set forth on Exhibit 1 attached hereto.

3. Eligibility for Economic Incentives. The Foundation shall qualify for receipt of an Annual Grant for each year (which may be paid from time to time throughout the year) during

the term of this Economic Development Policy (as described below) if: (a) the Foundation shall have financed an investment for construction of a Conference Center within the Development Area; (b) the Project is completed substantially in the form presented to City Council and the City has issued a final Certificate of Occupancy for both the hotel and Conference Center portions of the Project; (c) the hotel and Conference Center portions of the Project are in full operation as contemplated by the City; (d) the full and timely payment of all taxes properly due and payable from all sources within the Development Area are made from time to time during the term of this Economic Development Policy, including, but not limited to, property taxes, meals taxes, lodging or occupancy taxes, sales taxes, and business, professional, and occupational license taxes, or fees (excluding utility taxes and administrative fees such as building-permit fees) derived directly from all development within the Development Area, business operating there, and transactions occurring there (the "Project Tax Receipts"); (e) the Foundation has cooperated with City Staff and other City Officials as may be appropriate in the verification of the incremental increase in tax revenues and fees attributable to all initial capital investment in the Development Area; (f) there is no default on any payment due or condition related to the financing of any portion of the Project within the Development Area; and (g) there are no, and have not been, any bankruptcy proceedings initiated by any investor or entity within the Development Area that affects the Project or Development Area in any manner.

4. Computation of Economic Incentives; Term. The total amount of economic incentives pursuant to this Economic Development Policy (the "Total Incentive Amount") shall be the principal and accrued interest due on the Foundation Loan and the Foundation Advancements.

The Total Incentive Amount shall be payable to the Authority for the benefit of the Foundation in one or more installments each year (with the aggregate amount of such installments each year being referenced herein as the "Annual Grant"). The amount of the Annual Grant shall equal 100% of the City's actual receipt of annual Project Tax Receipts that are above the current amount of tax revenue receipts attributable to the Development Area as of June 1, 2014 (the "Annual Incremental Increase"), up to the amount of annual debt service actually paid by the Foundation on the Foundation Loan and any outstanding Foundation Advancements. To the extent that Project Tax Receipts received by the City in a certain year exceed the amount of the Foundation's annual debt service payment and any outstanding Advancements, the City shall appropriate as part of the Annual Grant an amount that exceeds the Foundation's annual Foundation Loan debt service paid, together with any Foundation Advancements, but not to exceed the amount of Project Tax Receipts received. The Annual Grant shall be applied to Foundation Advancements first and then to the Foundation Loan.

Payment of the Annual Grant to the Authority for the benefit of the Foundation shall commence no later than December 31, 2017 (in respect to the 2016 Tax Year of the City), and shall continue until the entire Total Incentive Amount shall have been paid to the Authority for the benefit of the Foundation.

Accordingly, it is to be understood that (i) the Total Incentive Amount represents a maximum amount payable under this Economic Development Policy; (ii) the amounts of each Annual Grant may vary from time to time; (iii) payment of each Annual Grant to the Authority for the benefit of the Foundation shall be made in accordance with law and shall be subject to the provisions hereof.

It is to be understood, however, that any and all payments of the Annual Grant by the City to the Authority shall be subject to the provisions of Section 7 below, and, further, shall be payable from funds of the City that are lawfully available and appropriated for such purpose, from time to time.

5. Expected Annual Incremental Increase in Tax Revenues. The expected Annual Incremental Increase in Tax Revenues in the Development Area is projected as follows for Year 1 and Year 10 of the Project's operation:


Category of Taxes	Current Tax Base of the Development Area (as of June 1, 2014)	Estimated Annual Project Tax Receipts Attributable to Economic Development in Development Area (Year 1)	Estimated Annual Project Tax Receipts Attributable to Economic Development in Development Area (Year 10)	Expected Annual Incremental Increase in Taxes (Year 10)
Lodging (Rooms)	\$ 0	\$379,363	\$ 582,490	\$ 582,490
Meals (Food and Beverage)	\$ 0	\$210,600	\$ 291,013	\$ 291,013
Business License	\$0	\$18,625	\$ 27,526	\$27,526
Real Estate	\$0	\$221,297	\$ 288,744	\$288,744
Personal Property	\$0	\$81,408	\$ 24,422	\$24,422
Personal Property (Computers)	\$0	\$11,236	\$225	\$225
<b>Total:</b>	\$0	\$922,529	\$ 1,214,420	\$1,214,420

The total expected Annual Incremental Increase in Taxes for years 1 through 10 is not less than \$10,800,000 based on the parties significant due diligence, including an independent study by PFU Consulting USA, PLC commissioned by the City, the City and Foundation believe that the Expected Annual Incremental Increases in the Development Area shall continue to increase following year 10.

6. Verification of Actual Annual Incremental Increase in Taxes and for Interest Calculations. The City Manager shall coordinate with City Staff and other City Officials as may be appropriate in the verification process to determine the actual amount of the Annual Incremental Increase that is paid to the City, from time to time. The City Manager shall include the amount of each Annual Grant in his budget submitted to the Council for the following fiscal year as an amount to be appropriated to the Authority pursuant to this Economic Development Policy. The City Manager shall also deliver to the Chairman of the Authority, within ten (10) business days after the adoption of the City's budget for each fiscal year, a written confirmation stating whether the Council has appropriated to the Authority an Annual Grant for the purposes described in this Economic Development Policy, including the precise amount thereof and any applicable payment instructions for such Annual Grant by the Authority to the Foundation. The Foundation shall also deliver to the City Manager, no later than December 15<sup>th</sup> each year, such documents as necessary in the opinion of the City Manager, to establish and verify the rate of interest to be paid on by Foundation Advancements.

7. Nature of Payments of Annual Grants. The Council hereby adopts this Resolution providing for the non-binding obligation of the Council to consider certain appropriations for the

amount of an Annual Grant to the Authority for the benefit of the Foundation as may be requested by the City Manager from time to time to the fullest degree and in such manner as is consistent with the Constitution and laws of the Commonwealth of Virginia. The Council, while recognizing that it is not empowered to make any binding commitment to make such appropriations in future fiscal years, hereby states its intent to make such appropriations in future fiscal years during the term of this Economic Development Policy for the Development Area, and hereby recommends that future Councils do likewise in order for the City to achieve the significant public benefits described herein. Further, it is to be understood that nothing herein contained is or shall be deemed to be a lending of the credit of the City, and nothing herein contained is or shall be deemed to be a pledge of the faith and credit or the taxing power of the City, nor shall anything herein contained legally bind or obligate the Council to appropriate funds to the Authority for the purposes described herein, all in accordance with Virginia law.

  
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 Mayor

**CERTIFICATE**

The record of the roll-call vote by the City Council of the City of Harrisonburg, Virginia, on the foregoing Resolution adopted by the City Council by a roll-call vote at its regular public meeting held on October 14, 2014, is as follows:

	AYE	NAY	ABSTAIN	ABSENT
Ted Byrd, Mayor		X		
Charles Chenault, Vice-Mayor	X			
Richard Baugh	X			
Kai Degner	X			
Abe Shearer		X		

Dated: October 14, 2014

[SEAL]

  
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 Erica Kann, Clerk of Council  
 City of Harrisonburg, Virginia