



City of Charlotte, City Clerk's Office



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CITY COUNCIL WORKSHOP Monday, February 2, 1998

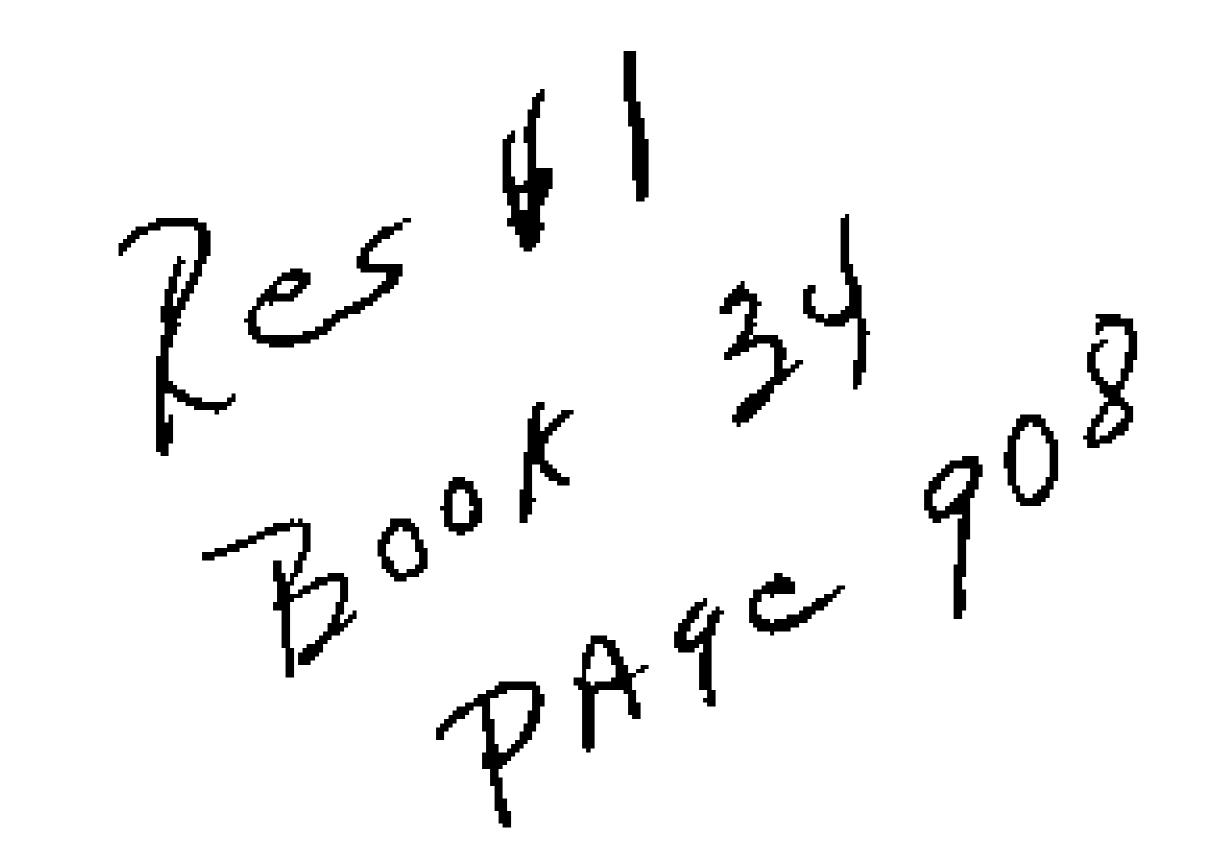
Room 267

5 00 p.m Dinner

5 15 - 6.15Economic Development. Sale of Old Convention Center6 15 - 6 30Economic Development: Air Quality Update6:30 - 6 50Economic Development Water Quality Update6:50 - 7 10Economic Development. Regional Wastewater Treatment Update

7 30 Cıtızens' Forum Council Chamber

ENd of Citizons Forum. Approve Resolution to Set Public Hearing For REZONING PETITION 98 23



TOPIC: Sale of Old Convention Center

Economic Development

STAFF RESOURCE:

Kent Winslow

KEY POINTS (Issues, Cost, Change in Policy):

- Taubman is the high bidder from the upset bid process for the Old Convention Center
- The City Manager has raised issues concerning the City's compensation for the two year due diligence period proposed by Taubman



At the February 9 meeting, Council will be asked to consider three options

- 1) Accept Taubman offer "as 1s"
- 2) Direct Manager to negotiate with Taubman on key issues of concern to Council
- 3) Reject all bids and direct the Manager to develop an alternative process for selling
 - the old Convention Center

COUNCIL DECISION OR DIRECTION REQUESTED: At the workshop, Council will be asked to discuss the options and issues related to the Taubman bid Council members will have an opportunity to request any additional information they may need to make a decision on February 9

ATTACHMENTS: Summary of Issues and Options

ISSUE PAPER Taubman Bid for Old Convention Center

Bid Summary

The Taubman Company's bid of \$12,181,000 for the Old Convention center includes the following key provisions

<u>- Price</u> First 6 months \$12,181,000, Second 6 months \$12,552,000, Third 6 months \$12,916,000, Fourth 6 months \$13,290,000 - Due Diligence Four increments of 6 months each, each payment is non-refundable First 6 months free Second 6 months \$150,000Third 6 months \$200,000 Fourth 6 months \$300,000 <u>- Deposit</u> \$665,000 - Environmental Limited to \$250,000 for the City Any additional expense is borne by the developer

The Taubman Company wants to acquire this site to construct a destination retail mall to

serve shoppers from the Charlotte region The mall could be up to one million square feet and represent a \$300 million investment

Council Action

The council is to discuss the options on the Taubman offer in preparation for a decision at your February 9 Council meeting This is an opportunity for Council to tell staff the information Council will need to make this decision, and raise issues for the Manager to discuss with Taubman before the February 9 meeting Councils' Options on February 9 are

- 1 Accept Taubman offer as is
- 2 Direct Manager to further negotiate on key issues as outlined below
- 3 Reject all bids, and direct the Manager to develop an alternative process for selling the

Old Convention Center

The City Manager has some key issues about the Taubman bid that she shared with Council in a January 9, 1998 memo (copy attached) These issues are -How long is Council willing to wait before the sale closes? -How much risk is Council willing to take to achieve a more profitable outcome for the City in terms of property and sales tax?

- How much does Council want to be compensated for this risk?

Option I: Accept Taubman Offer

Advantages:

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- 1 Highest sales price for the Old Convention centers (see attached financial analysis)
- 2 Returns annual property and sales tax to the City estimated to be \$\$75 million
- 3 Creates 3,000 jobs
- 4 Meets destination retail need of Uptown tourists identified by the Convention Center maximization study
- 5 Project would strengthen Uptown Charlotte by making it a retail center for the region,

rather than just the business center it is today

Disadvantages:

 City compensated only \$665,000 maximum, if Taubman does not close, for accepting the risk of keeping the Convention Center off the market for two years
 Taubman's project would require them to explore opportunities for acquiring additional land This means that Taubman requires more time to determine if their

project can be developed

Option II: Direct Manager to Negotiate on Key Issues

The City Manager will discuss these key issues with the Taubman Company before February 9 The results of these discussions would be considered by Council on February 9, 1998 agenda Specifically, these discussions would focus on shortening the due diligence period, and/or higher compensation to the City for the risk of keeping the Old Convention center off the market for the next two years Staff would also discuss periodic reports from Taubman that indicate their activity on this project and develop a confidence in the eventual success of the project On February 9, Council may wish to direct the Manager to continue these discussions if they are fruitful

Advantages:

1 Same as Option I above

2 If discussions are successful, lowers City risk or increases City compensation for taking that risk

Disadvantages:

1 Adds two more weeks to a sales process that began two years ago

Option III: Reject All Bids

The council cannot reject the Taubman bid in favor of the Orix/TMK bid All bids must be rejected and a new process for selling the Old Convention Center developed

If City Council selects this option, the City Manager will develop an alternative sales process and bring this process back to Council in late February

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Advantage:

1 The alternative sales process will allow Council to consider other factors besides price in deciding to whom to sell the Old Convention Center

Disadvantages:

- 1 May not get an offer as high as Taubman's bid of \$12 181 million
- 2 Alternative sales process will take at least three months before Council could authorize a sale to a buyer

Decision Framework

In giving direction to the City Manager, City Council should consider what risks the City should take in selling the Old Convention Center One payoff of the higher risk of the Taubman proposal are potential City tax revenues generated by the Taubman proposal If these potential revenues are insufficient to compensate Council for the risk, then Council may want to ask the City Manager to get higher payments for the due diligence period.

Another consideration is the length of the due diligence period While two years may seem like a long time, it is shorter than the five to ten years spent by Indianapolis, Columbus or Norfolk attracting a developer to do a project similar to the Taubman proposal in their downtowns. If this due diligence is too long, even considering the complexity of the proposed project, Council may wish to direct the Manager to explore ways to shorten Taubman's due diligence period

If Council wants to start with a new slate and dictate these terms to prospective developers, then Council may wish to direct the Manager to develop an alternative sales process However, the alternative process does not guarantee that the selected developer will be able to complete their project, or request an extension of their due diligence, or offer the same price as Taubman

4

CITY OF CHARLOTTE CITY MANAGER'S OFFICE

MEMORANDUM

January 9, 1998

TO: Mayor and City Councilmembers

FROM: Pamela A Syfert City Manager

SUBJECT: Old Convention Center Sale

Last Monday I asked you to defer the decision on the Taubman bid after I learned of some ambiguity in the wording of the sales contract which might put the "due diligence" payments at risk. The purpose of the delay was to clarify the contractual wording and this has been accomplished. The item is on your agenda Monday for approval of an upset bid process on the Taubman offer

I want to share my thoughts with you on where we are with this sales process I am continuing to maintain my objectivity on the two companies bidding on the old convention center, but I do have some concerns about where this process may lead and what your options are in making the decision to

Both developers are reputable, have good track records and have the financial ability to close on the sale. Both have asked for due diligence periods. ORIX TMK for six months; Taubman for two years Although this is speculative, it seems to me that the ORIX TMK proposal has a greater probability of closing on the sale and developing the property The Taubman proposal is a more complex proposal, and the probability of not closing the sale is higher than with ORIX TMK. However, the long term tax revenues and private investment in the property have the potential to be greater with Taubman than with ORIX TMK.

The issue before the City Council is not just sales price, but how long you are willing to wait for a closing, and whether you are willing to take some risk in order to achieve a more profitable outcome

The current offer Taubman has made for the old convention center is clearly the best price to date for the building if the sale closes The state law which governs the upset bid process

recognizes only the bid price as the decision point on accepting an offer from a qualified buyer.

This process works very well for asset sales if the City and the buyer will be closing the sale within a relatively short time period. If the buyer does not make good on the bid offer, then the City keeps the deposit, determines if the losing bidder is still interested, or puts the property back on the market. This usually occurs within 60 to 90 days so the opportunity to sell the property is still good.

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- If the Taubman Company cannot develop the property as planned, then the City may be in the position of putting the property back on the market two years from now We would receive up to \$674,000 for this due diligence period, but we have to ask if that amount is sufficient compensation to the City for our potential lost opportunities in selling and developing the property
- I have told Bruce Heckman, Vice President of Development with Taubman, that the due diligence payment after the first 12 months should be more than they are offering His position is that the investment Taubman would be making during the due diligence period, and the price they are willing to pay at closing represent a good deal for the City

WHAT ARE THE CITY'S OPTIONS?

- 1 Move forward on Monday with advertising for an upset bid on the Taubman offer
 - a. If there is not an upset bid on Taubman's offer
 - (1) Contract with Taubman under the terms offered, or,
 - (2) Attempt to negotiate more money for the due diligence periods, or,
 - (3) Reject the Taubman offer and end the current sales process
- The City may not reject the Taubman offer and turn around and accept the last offer from ORIX TMK. If we reject a legitimate upset bid, we must stop this particular process and start again.
 - b If there is an upset bid on the Taubman offer:
 - (1) Continue with the upset bid process without setting any terms of the sale, or,
 - (2) Continue with the upset bid process, but add conditions about the due diligence periods, either as to length of the due diligence or minimum payment requirements; or,
 - (3) Reject the offer and end the current sales process.

2. On Monday, reject all offers and end the current sales process We would bring the City Council an alternative sales process at the next meeting. I think it is premature to take this action on Monday You need to approve moving forward with advertising the Taubman offer for upset bid. However, you need to be aware that ending this process is an option if you do not end up with an acceptable contract to buy the property.

You have financial impact information on the two offers in the memo I also asked Bob Percival to give us his thoughts on the two proposals. Please feel free to call me over the weekend or Monday if you want to discuss this further

Cc Mac McCarley Susanne Knox Kent Winslow Leadership Team

MemorandumDateNovember 13, 1997FromRichard D Martin, Director of FinanceToC D Readling, City EngineerSubjectTaubman Proposal re Old Convention Center

The Finance Department has reviewed the proposal submitted by Taubman Centers Inc More specifically, the property and sales tax projections contained in their proposal have been reviewed with the following results

Annual Revenues Before and After the Proposed Sale Taubman Centers Inc.

	Authority		Cıty		County		Total	
	Before	After	Belore	After	Before	Ajter	Before	After
Local Option Sales Tax*				1,153,645		2,391,667		3,545,312
Property Tax**				1,727,400		2,190,000		3,917,400
Parking Revenue***	212,000						212,000	
Total	212,000			2,881,045		4,581,667	212,000	7,462,712

*Assumes that all sales at the new facility would not have taken place in Mecklenburg County otherwise Based on Annual sales of \$240,000,000

** Assumes the Assessed Tax Value of the New Facility is \$300,000,000

***All Parking Revenue currently goes to the Auditorium, Coliseum, Convention Center Authority Based on FY97 Revenue

We have not conducted an independent audit of Taubman's financial status, however, a quick review of their statements reveals a very strong and liquid position Finally, it is significant that the Taubman proposal is not contingent on the availability of financing nor is the City of Charlotte being asked to participate financially

CC Kent Winslow Real Estate Manager

Taubman Closes 6/30/98	
Taubman Closes 12/31/98	
Taubman Closes 6/30/99	
Taubman Closes 12/31/99	
Taubman Doesn't Close	

<u>Assumptions</u>

Parking Revenues equal Operating Costs while City Owns the Building (Does not impact numbers) Interest Rate estimate > 5% Property Tax Revenue is based on 1997 Rates Does not take into account Real Estate Commissions and Fees (Taubman 3 5%) Due Dilligence Payment paid on First Day of Period Principle Payments, Interest, and Taxes paid on Last Day of Period Property Tax and Interest Income are added in Periods two and four This analysis does not include interest on Deposits (Taubman \$665,000) Property Tax Includes City County, and Uptown Service District Taxes Tax value of the building is estimated at \$12,000,000 00 8 Jan 98

Old Convention Center Sale: Taubman Proposals Financial Analysis/Cash Flow

Period 1 1/1/98 + 6/30/98	Period 2 7/1/98 - 12/31/98	Périod 3 1/1/99 - 6/30/99	Period 4 7/1/99 -12/31/99	Total
\$12,180,000 D0	\$413,298 00 (Interest & Tazes)		\$849,327 39 (Interest & Taxes)	\$13,442,625 39
	\$12,550,000 00	3	\$846,946 00 (Interest & Taxes)	\$13,396,946 00
	\$154,125 00 (Includes Interest)	\$1,2,770,000,00 ×	\$437,999 88 (Interest & Taxes)	\$13,362,124 88
	S154,125 00 (Includer Interest)	* \$200,000 96	\$12,959,476 88 (Principle & Interest)	\$13,313,601 88
	\$154,125 00 (Includes Interest)	\$200,000.00	\$319,476 88 (Includes Interest)	\$673,601 88

TOPIC: Air Quality Update

COUNCIL FOCUS AREA: Economic Development

STAFF RESOURCE: Jim Humphrey

KEY POINTS (Issues, Cost, Change in Policy):

- Discussion of this topic was postponed from the City Council Retreat to this Workshop
- Attached is the issue paper distributed in the Retreat packet
- At the workshop, Jim Humphrey will make a short presentation, then answer City Council

questions

OPTIONS:

COUNCIL DECISION OR DIRECTION REQUESTED: No Council action is requested This item is for information and discussion

ATTACHMENTS: State Regulatory Issues - Air Quality (Retreat Information)



State Regulatory Issues

Air Quality



Benefit quality of life, meet Federal air quality regulations

2 Balance goals of Quality of Life and Economic Development

3 Work with County, Regional Towns and Counties, and State on a coordinated approach

Air Quality - Background

- The Federal Environmental Protection Agency (EPA) establishes air quality standards for all States
- The EPA approved an air quality plan for this area in 1992 which was prepared by the North Carolina Department of Environment and Natural Resources (DENR) which establishes limits for stationary (industry) and mobile (vehicle) emissions
- The problem emission for Charlotte is nitrous oxides which is the primary cause of ozone Among other sources, nitrous oxide is a byproduct of internal combustion engines and coal-fired power plants
- Charlotte-Mecklenburg is dangerously close to exceeding air quality limits
 - We can exceed daily limits only two (2) times in 1998
 - Projections indicate we barely meet limits imposed for mobile sources for 2005 and 2015 even assuming the aggressive transit strategy recently approved by City Council and technology improvements in vehicles
- Air quality problems are primarily being caused by industrial sources, growth in travel, which is
 increasing at 7% per year, and pollution "blown in" from northern cities
- Our ability to meet air quality limitations has put the State road building program at risk and has the potential to significantly affect the area's quality of life, economic development potential and cost of living If we do not meet standards requirements may be imposed for use of higher-priced gasoline that burns cleaner, enhanced levels of vehicle inspection or special gasoline pumps which capture fumes Such "controls" may be expanded to require modification to industrial plants and for higher standards for new industrial emissions and growth/development limitations
 The State will continue to assess local air quality daily through monitors positioned in the Country and the local Transportation Plan must be modeled again in the year 2001 to show we can meet limitations imposed for future years

- There is concern regarding our ability to meet limits in the future without additional controls on vehicles and/or growth In 2001, new air quality regulations go into effect which are more stringent. The State estimates that at least 28 geographic areas, including Charlotte will be unable to meet the standards without substantial new regulations on vehicles and development. Additionally, our abilities to sustain an aggressive transit program and address the unfunded State road problem will have a significant impact on congestion travel and resulting air quality
- The County, through its Environmental Protection Department regulates industrial/business emissions and maintains air quality monitoring equipment.

Proposed Staff Action

- Work with the State and County regarding ongoing efforts to monitor and comply with air quality regulations
- Work with the County to develop an aggressive public education program regarding the state 2 of our air quality and implication for the future
- Evaluate the effect of the new 2001 Air Quality regulations Lobbying at the national level for 3 more lenient 2001 air quality regulations as appropriate
- 4 Work with the County, NCDOT and DENR on efforts to test various alternatives and arrive at a plan to meet new 2001 air quality standards
- 5 Consider air quality and the need to reduce vehicle travel growth in Land Use Planning



Page 57

Water Quality Update TOPIC:

Economic Development

Doug Bean STAFF RESOURCE:

KEY POINTS (Issues, Cost, Change in Policy):

- Wastewater treatment plants and collection systems are faced with more stringent ۰ requirements for the quality of treated wastewater
- The NC Department of Environment and Natural Resources is implementing a more ٠ stringent enforcement program to ensure requirements are met
- While CMUD plants are treating wastewater to a higher level that ever before, some are • still experiencing problems consistently meeting permit limits
- While overflows from the collection system have been declining, we are still experiencing • overflows as a result of blocked pipes, wet weather flows and broken lines
 - Key action steps have been implemented by CMUD including redirecting staff resources and accelerating capital improvements
- This update was originally scheduled for presentation at the January City Council retreat ٠



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No Council action COUNCIL DECISION OR DIRECTION REQUESTED: is requested This item is for Council's information and discussion

ATTACHMENTS: State Regulatory Issues - Water Quality (Retreat Information)

Water Quality

Goal Statement To update the City Council on our efforts to insure that the wastewater treatment plants and collection system are in compliance with federal and state mandates

Water Quality - Background

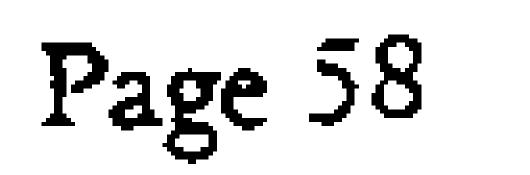
- Wastewater treatment plants and collection systems are faced with more stringent requirements
- Public awareness of environmental issues in NC has increased due in a large part to the condition • of the Neuse River and the advertising campaign by the hog farmers
- The NC Department of Environment and Natural Resources is implementing a more stringent ٠ enforcement program
- While CMUD plants are treating wastewater to a higher level than ever before, some are still • experiencing problems consistently meeting permit limits
- While overflows from the collection system have been declining, we are still experiencing overflows 4 as a result of blocked pipes, wet weather flows and broken lines
- Recent upgrades at Sugar Creek and Irwin Creek Plants have not been successful in consistently meeting permit limits at higher flow rates

Key Action Steps

Daily performance of the wastewater treatment plants is being closely monitored

- 2 CMUD staff has been reorganized and redirected to address compliance problems
 - Deferred capital improvement needs have been identified and \$21.5 million is programmed in the FY99-03 CIP
- 4 More sophisticated treatment process controls are being implemented
- 5 A higher level maintenance program of \$15 million is in the FY99-03 CIP
- 6 An accelerated cleaning program of the wastewater collection lines will begin in the summer of 1998

- A program to regulate the discharge of oil and grease, which blocks sewer lines is being developed
- The Irwin Creek Treatment Plant will be returned basically to pre-flood condition by March 1



- 9 CMUD staff is participating in focus groups that are providing input to the state's new enforcement plan
- 10 Action steps appear to be having a positive effect with reduced violations that do not result in environmental damage





Regional Wastewater Treatment Update **TOPIC:**

- CMUD has negotiated regional wastewater treatment agreements with Cabarrus and Union • Counties
- KEY POINTS (Issues, Cost, Change in Policy):

STAFF RESOURCE:

Doug Bean

COUNCIL FOCUS AREA:

Economic Development

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- CMUD has participated with Cabarrus, Union, and Stanly Counties in a preliminary study of the feasibility of another regional wastewater treatment agreement This agreement could serve the eastern extremes of Mecklenburg in the Mint Hill vicinity along with a large area of Cabarrus and Union and a part of Stanly
 - The first phase of this work is complete and it has been determined that an arrangement of this type is feasible and would benefit each participant
 - The second phase of the study is beginning now and will look in more detail at the permitting, ownership, and operational issues that would be associated with a regional plant
- The facility considered in the study would be located on Rocky River, probably in Union ۰ County
 - The benefits to Charlotte-Mecklenburg would be
 - additional treatment capacity beyond that which can be provided by our existing plants,
 - gravity service to an area that would otherwise require pumping, and,
 - potential cost savings over other ways of providing service

OPTIONS:

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COUNCIL DECISION OR DIRECTION REQUESTED: No Council action is requested This item is for Council information and discussion

ATTACHMENTS: None

