

Nueces County Courthouse Corpus Christi, Texas

Feasibility Study for Hotel Use

JULY 5, 2019



Town Square Initiative
TEXAS HISTORICAL COMMISSION



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INTENDED USE

This is a preliminary study and not intended for permitting or regulatory approvals. It should be used as a suggested direction and superseded by recommendations made by licensed design professionals employed by the owner or potential owners of the subject property.

No guarantees are implied as to the existing nor proposed conditions and configurations of the building, the economic viability of the suggested course of action and funding possibilities, nor any explicit nor implied regulatory approvals.



Constable's Office, c. 1940

ACKNOWLEDGEMENTS

This document was prepared by the Texas Historical Commission's Town Square Initiative for use by Nueces County Commissioner's Court and the Nueces County Historical Commission.

Special thanks to the Corpus Christi Downtown Management District staff for their expertise and assistance.

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Preliminary Draft
July 5, 2019



Introduction

The Town Square Initiative completed a Preliminary Conceptual Design and Financial Feasibility Study for redevelopment of the 1914 Nueces County Courthouse at the request of Senator Juan Hinojosa, Texas District 20, and Nueces County in January of 2016. The County actively sought to make a deal with a private sector developer to sell the courthouse outright. At the time, downtown Corpus Christi was engaged in a Downtown Area Action Planning effort that emphasized residential redevelopment and the 2016 study illustrated a residential concept as the basis for the property's new use.

Redevelopment of the historic courthouse did attract private sector interest and the county announced that its sale would be finalized in May 2018 to an Ohio-based developer. Operating as Nueces County Development Partners, LLC, they planned to convert the property into a 4-star hotel. The deal required payment of the property's back taxes and penalties as part of closing. The developer's payment was delayed and the County terminated their agreement in August 2018. Nueces County then reissued a Request for Proposal (RFP) in October 2018 for concealed bids on either new construction or rehabilitation of the historic courthouse. No viable proposals were submitted; the County rejected the only offer from the Ed Rachal Foundation, which proposed to demolish the building in order to clear the land for unspecified future development.

The Texas Historical Commission (THC) has worked as an active partner to save and rehabilitate this building since the early 2000s when the Texas Historic Courthouse Preservation Grant program was first established. Major state grant funding was awarded to Nueces County in 2002 and 2004 and a preservation easement was granted to the THC. Once the county rejected the Rachal Foundation bid, the THC offered to update the 2016 study to explore a hotel concept and provide guidance on reissuing an RFP that will result in viable redevelopment proposals.

HOW TO USE THIS DOCUMENT

This document builds off the 2016 study and utilizes the collective knowledge acquired by the County and Downtown Management District in working through the now-terminated hotel deal and the unsuccessful RFP process to illustrate a successful path for a developer. It is intended to be a concise, more action-oriented planning tool for use by the County, the City of Corpus Christi, the Downtown Management District, and the private sector.

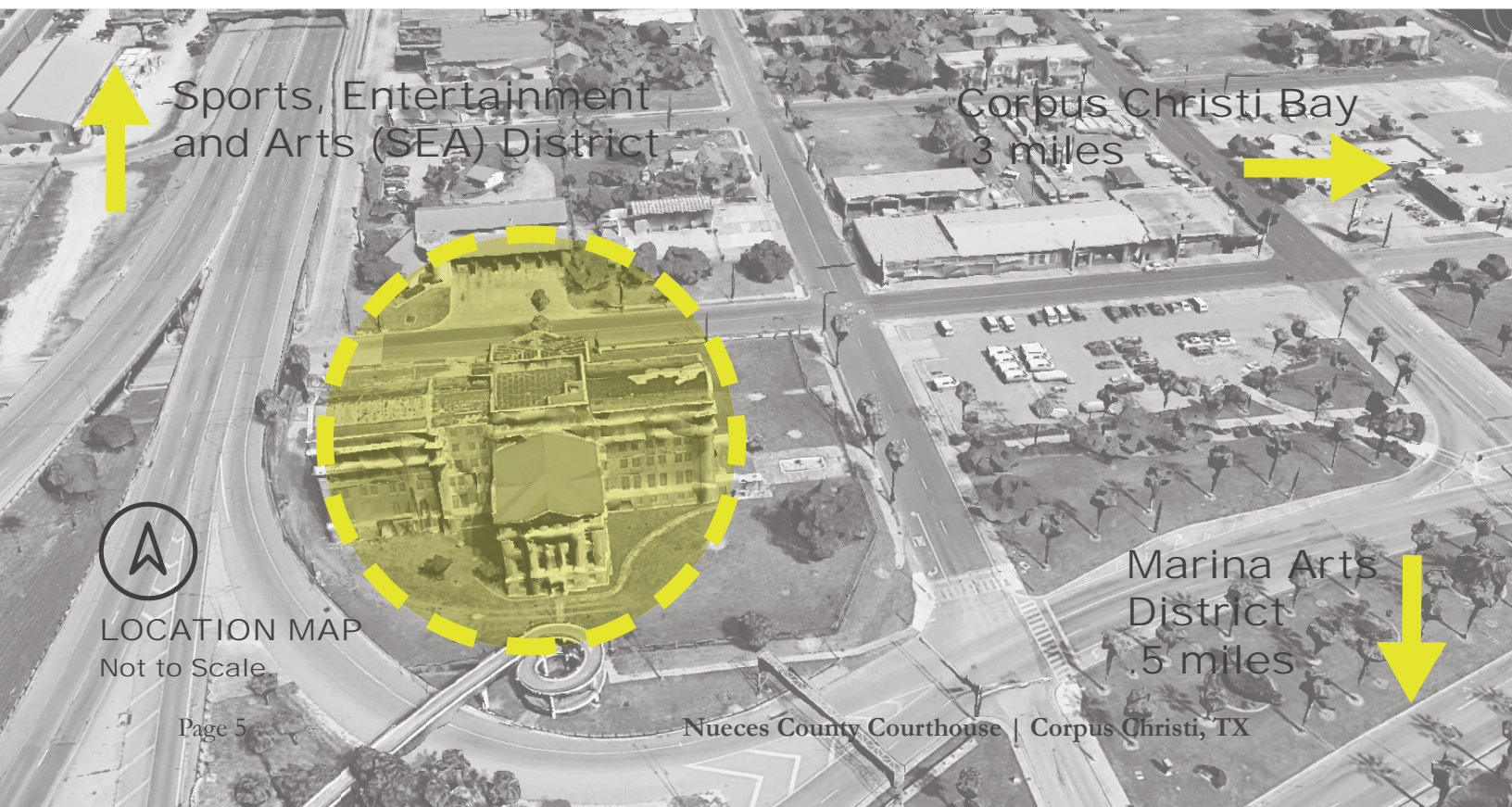
The Town Square Initiative finds that a boutique hotel concept is feasible for the historic courthouse. However, the previous deal and RFP process brought to light a number of major variables at play that ultimately decide the financial viability of the rehabilitation project. These are:

- the building's structural condition;
- the Harbor Bridge relocation and its impacts on the site;
- the continued viability of the location of Fire Station #1 at 514 Belden Street;
- availability of parking for the property;
- the availability of local financial incentives; and,
- the ability of a developer to create a

redevelopment plan that is consistent with the Secretary of the Interior's Standards for Rehabilitation in order to be eligible for the state and federal Historic Preservation Tax Incentives.

Nueces County Development Partners, LLC spent over two years on due diligence planning and analysis of the courthouse's potential re-use. The negotiations involved were extensive, but ultimately resulted in a financially viable historic hotel project that had resolved many of these major redevelopment constraints.

This document is intended to not only explore the conceptual design and financial feasibility of a high-end boutique hotel use, but also summarize and communicate to the private sector the previously identified redevelopment challenges that caused uncertainty in the process, and how those challenges have already been addressed or plan to be addressed at the county and municipal level. It should also be used to assist the County in drafting and reissuing a new Request for Proposal that clearly communicates the resolution of these identified challenges.





Building Facts

Name: (Old) Nueces County Courthouse

Year Built: 1914, west wing addition completed 1931

Number of Stories: 6, (ground floor level at finished grade elevation, 3 floors of offices and courtrooms, and two floors of the jail)

Gross Square Footage: 80,000 +/- total (1930 addition is approximately 18,000 of the total)

Acreage: 1.92 +/-

Zoning: Intensive Commercial (CI) with Uptown-Downtown Mixed Use (MUS) Overlay. According to the city's Unified Development Code, the base zoning allows a wide variety of commercial uses including hotel and residential. There are no restrictions in CI on density, lot area, setbacks, minimum open space and height. The Overlay waives all parking requirements for existing buildings.

Downtown Master Plan: Yes, Corpus Christi Downtown Area Development Plan (DADP) adopted 2017

Historic Designations: National Register of Historic Places, individually listed in 1976

Architect: Harvey L. Page

Architectural Style: Neo-Classical

Historic Tax Credit Eligible: Yes

New Market Tax Credit Eligible

Census Tract: Yes

PACE Financing Available: Yes, Nueces County PACE resolution adopted December 2016

Opportunity Zone: Yes

- 1857: Construction of first Nueces County Courthouse.
- 1878: Construction of second Nueces County Courthouse.
- 1914: Construction of third (subject property) Nueces County Courthouse.
- 1919: 1919 Hurricane.
- 1930: Completion an extension to the west wing.
- 1957: Construction of the Harbor Bridge and extension of IH 37.
- 1957: Engineering report completed by W. A. Ratz of Corpus Christi.
- 1970: Hurricane Cecilia.
- 1976: Listed on the National Register of Historic Places, building study by Associated Planning of Chicago, IL and Eugene Wukasch of Austin, TX.
- 1977: Nueces County moves to new, larger facility at 901 Leopold.
- 1978: Historic courthouse purchased by Friends of the Courthouse/Lex Land at auction. \$100,000 purchase grant provided by the National Park Service (NPS) & Texas Historical Commission (THC). Preservation deed covenant established expiring May 31, 2018.
- 1978: Study of the Alternative Uses for the Old Nueces County Courthouse by Associated Planners, Chicago, Illinois, and Wukasch & Associates, Austin, TX.
- 1979: Purchased by Charles Bennett & Associates.
- 1979: Reuse Study for the Old Nueces County Courthouse by Anderson Notter Finegold, Inc. Boston, MA. Proposal included office and restaurant use.
- 1983: Designated a State Antiquities Landmark (SAL) by the THC.
- 1991: Purchased by Courthouse Solutions, Inc.
- 1992: Deed transferred to Justice Building Inc.
- 1993: Creation of the Corpus Christi Downtown Management District.
- 1995: Study for the Adaptive Reuse of the Old Nueces County Courthouse by the General Services Administration.
- 1998: Needs assessment and restoration study completed by Killis Almond & Associates, San Antonio, TX.
- 1999: Texas Historic Courthouse Preservation (THCPP) grant program established by the Texas Legislature, first appropriation of \$50 million.
- 2000: Completion of a Courthouse Preservation Master Plan by McGloin and Sween for Nueces County, including a preliminary structural assessment by Pat Sparks.
- 2001: Nueces County awarded a THCPP planning grant for \$333,401 for development of construction documents.
- 2002: Nueces County awarded THCPP \$1.9 million for Phase I Rehabilitation by the THC. (THCPP Grant #20020043 - A local cash share of \$950,000 and \$331,000 in additional in-kind labor was provided by Nueces County). Ownership transferred back to Nueces County.
- 2002: 25 year preservation easement granted by Nueces County to the THC, expires Sept 1, 2027.
- 2005: Additional THCPP funding of \$1.7 million rejected by county.
- 2007: Phase I Rehabilitation completion and celebration.
- 2010: LNV hired by Nueces County to conduct an engineering study.
- 2011: Corpus Christi City Council and Nueces County Commissioners pass resolutions supporting demolition after reviewing LNV study.
- 2014: The City of Corpus Christi initiates a 20-year policy and strategic framework, Plan CC, to be adopted in 2016. The Downtown Area Development Plan is drafted as part of this process.
- 2015: Marina Arts District accepted into the Texas Main Street Program.
- 2016: Town Square Initiative's conceptual plan and financial feasibility study for residential released.
- 2016: County begins negotiations with Nueces County Development Partners, LLC for hotel use.
- 2017: Downtown Area Development Plan adopted by Corpus Christi City Council.
- 2018: County terminates deal with Nueces County Development Partners, LLC and issues RFP.
- 2019: County rejects RFP submission from Rachal Foundation for demolition. Pursues NPS grant for stabilization planning and structural investigation.

Hotel Concept

The proposed concept for the historic Nueces County Courthouse is for redevelopment as a high-end boutique hotel. Boutique hotels are defined by the industry using the following terms:

- They are cultural, historic, and authentic;
- They appear as an individual hotel, not a “chain”;
- They offer interesting and unique services;
- They provide high quality in room features; and,
- They offer social spaces such as living rooms, libraries with social events.¹

Boutique hotels as a use are well-suited to historic rehabilitation projects because the process requires sensitive treatment of the original materials and structure. Done well, this type of hotel can be among the most environmentally sustainable of hotel construction types and offer the most unique experience to its guests.

This proposed plan features 173 guest rooms; a restaurant, bar, and coffee shop primarily to service guests; and event space. It will mostly cater to leisure travelers seeking a historic and authentic experience along the Texas coast as well as business travelers. Two ballrooms in the historic courtrooms will also allow the building to serve as an ideal venue for special events such as weddings and banquets.

OVERVIEW

The building is six stories tall—this includes a ground floor at grade elevation and five additional stories. In order to reach a quantity of rooms that is financially viable, the concept features two six-story additions at the rear of the site tucked into the northeast and southeast corners. There are guest rooms on every floor with food and beverage, events, and meeting facilities on floors one through three. The main entrance is proposed to be the original primary entrance on the east-facing first floor (one up from grade) through the grand entry stairs. Guests will enter into the corridor with a lounge and coffee bar on either side. The two-story courtrooms on the second floor all serve as event space— the north courtroom (17th District) will serve as a restaurant and the west (94th District) and South (26th District) will serve as ballrooms and meeting spaces.

The courtrooms, corridors, and central staircase remain in their original configurations and serve as important character-defining features. Floors four and five are the original jail and contain different finished floor heights and irregular corridors compared to the rest of the building. These floors are guest rooms only and they are proposed to retain the distinct character of the jail. New additions on the west wing extension will be exclusively guest rooms – 14 per floor.

SITE IMPROVEMENTS

A new drive in the northeast corner will provide ADA access to the building and a guest drop off point at the front stairs. There is no parking on site; therefore, it is absolutely necessary that guest and employee parking be provided permanently in the city-owned lots directly east of the building.

A pool can be added in the southeast part of the lawn and the property will require all new landscaping. Finally, although not illustrated in the schematic drawings or included in the proforma calculations, there is an existing flat portion of the roof that may be utilized as occupiable space.

¹ “Boutique and Lifestyle Hotels: Emerging Definitions.” Dr. Jonathon Day, Donna Quadri, and Dr. David Jones. Boutique and Lifestyle Lodging Association. Prepared for Frances Kiradjian, Founder. Accessed at www.tourism-generis.com, 2019.

CONCEPTUAL SITE PLAN



OPERATIONS

It is assumed that this concept would be managed by an experienced hotel operator and it is most likely that one of the major industry brands with boutique collections would be interested in the Corpus Christi market. This study utilizes a RevPAR (Revenue per Available Room) basic model to project revenue based upon an average daily rate of \$159 and 60% occupancy. These figures are the result of our analysis of existing market conditions as well as general performance measures shared by previous development teams. Further modeling by experienced hotel industry professionals could provide more sophisticated revenue projections.

TABLE 1.
SUMMARY OF PROPOSED USES

Guestrooms Queen/Queen or King	Number of Units 173
Food and Beverage Facilities Lobby Lounge and Coffee Bar Restaurant (Former 17th District Courtroom)	Est. Gross Square Footage 3,000 4,200
Meeting and Events West Ballroom (Former 94th District Courtroom) South Ballroom (Former 26th District Courtroom)	Est. Gross Square Footage 3,480 4,750
Amenities Outdoor Pool Fitness Room Business Center Market/Gift Shop	

TABLE 2.
GUEST ROOMS PER FLOOR

Level	Keys- Existing Bldg	Gross Est. SF	Avg Room Size	Keys - New Bldg	Gross Est. SF	Avg Room Size
Ground Floor	22	7,564	344	14	4,600	329
First Floor	21	7,737	368	14	4,600	329
Second Floor	3	1,415	472	14	4,600	329
Third Floor	9	3,229	359	14	4,600	329
Fourth Floor	17	6,000	353	14	4,600	329
Fifth Floor	17	6,000	333	14	4,600	329
	89	31,945	359	84	27,600	329
Building Totals:	173	59,545	344			

TABLE. 3
 APPROXIMATE GROSS SQUARE FOOTAGE BY FLOOR AND USE

		Existing Building	New Addition
Ground Floor	Guest Rooms	7,564	4,600
	Service	1,558	
	Vertical Circulation	412	298
	Circulation	4,039	784
	Fitness Room	977	
	Total	14,550	5,682
First Floor	Guest Rooms	7,737	4,600
	Service	132	
	Vertical Circulation	755	298
	Circulation	4,017	784
	Lobby/Lounge/Coffee Bar	3,092	
	Total	15,733	5,682
Second Floor	Guest Rooms	1,415	4,600
	Service	1,923	
	Vertical Circulation	755	298
	Circulation	2,786	784
	Event/Restaurant/Ballroom	8,297	
	Total	15,176	5,682
Third Floor	Guest Rooms	3,229	4,600
	Service	132	
	Vertical Circulation	755	298
	Circulation	2,820	784
	Event/Restaurant/Ballroom	5,313	
	Total	12,249	5,682
Fourth Floor	Guest Rooms	6,000	4,600
	Service	547	
	Vertical Circulation	783	298
	Circulation	2,075	784
	Total	9,405	5,682
	Fifth Floor	Guest Rooms	6,000
Service		547	
Vertical Circulation		783	298
Circulation		2,075	784
Total		9,405	5,682
Combined		Existing Building	New Addition
113,594		76,518	34,092

Hotel Use Feasibility Study

TABLE 4.
HOTEL FINANCIAL PERFORMANCE
Projection for year one of operation.

Assumptions

Number of Rooms:	173
Days Open:	365
Occupancy:	60%
Avg Daily Rate:	\$159
RevPAR:	\$95.4

	Annual PAR	Daily POR
Revenue		
Rooms	\$34,821	\$159
Food and Beverage (30%)	\$10,446	\$48
Other Income (4%)	\$1,393	\$6
Total:	\$46,660	\$213.06
Departmental Expenses		
Rooms (20%)	(\$6,964)	\$32
Food and Beverage (70%)	(\$7,312)	\$33
Other Expenses (25%)	(\$348)	\$42
Total Departmental Expenses:	(\$14,625)	\$66.78
Departmental Revenue:	\$32,035	\$146
Undistributed Oper. Expenses		
Admin. and Gen. (10%)	\$4,666	\$21.31
Franchise Fees (6%)	\$2,800	\$13
Management Fees (3%)	\$1,400	\$6
Sales and Marketing (4%)	\$1,866	\$9
Utility Costs (5%)	\$2,333	\$11
Property Oper. and Maint. (4%)	\$1,866	\$9
Total:	\$14,931	\$68.18
House Profit/Income Before Fixed Charges	\$17,104	\$78
Fixed Charges		
Insurance (1.5%)	\$700	\$3
Property Taxes	\$1,078*	\$3
Parking		
Renewal and Replacement (3%)	\$1,400	\$6
Total:	\$3,177	\$9.59
Net Income Before Debt Service	\$13,927	\$66
Total Property Net Income Before Debt Service: \$2,409,331.17		

*Potential incentive agreements through the TIRZ can offer a refund for property tax payments.

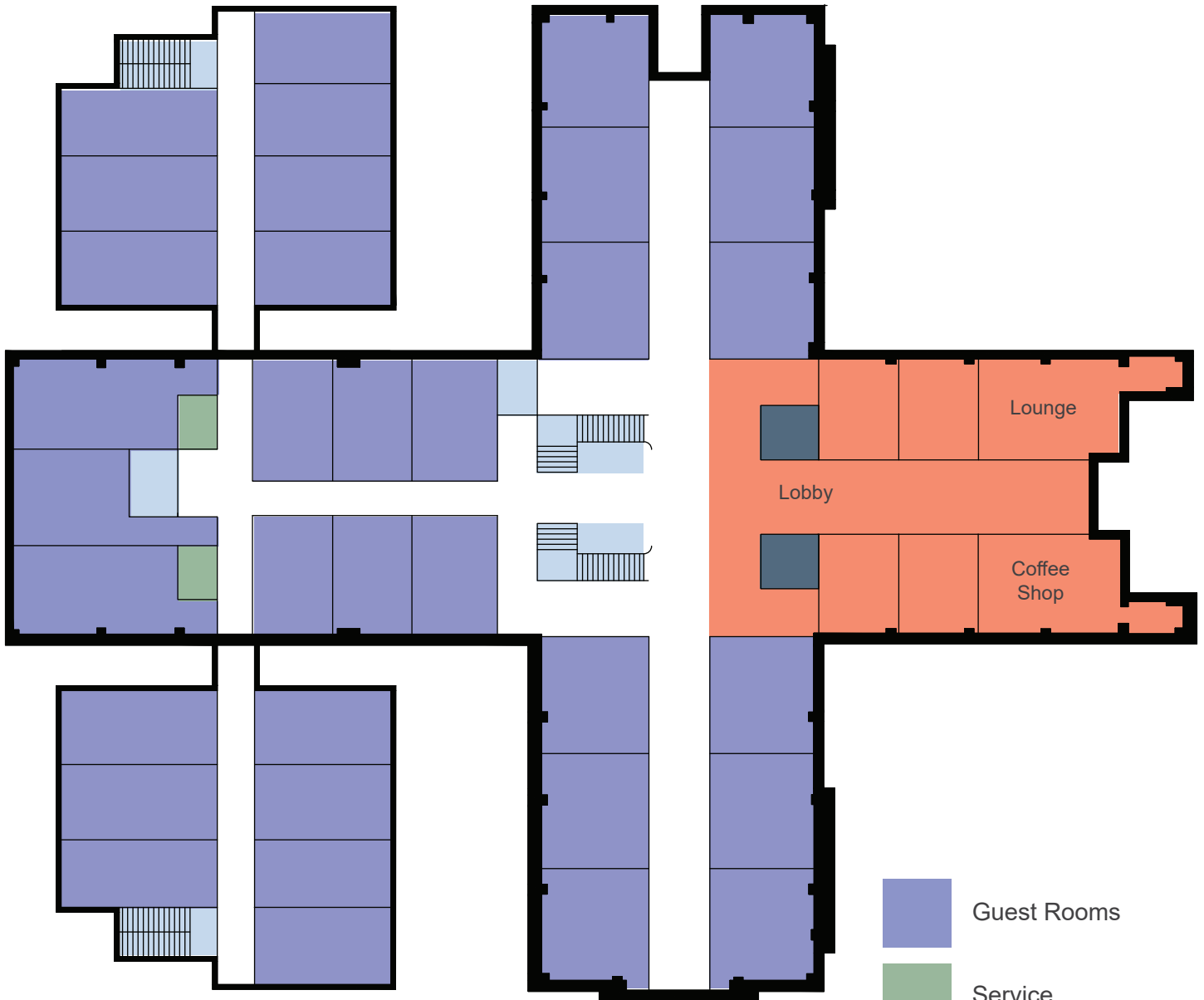


Ground Floor Plan

Scale: 1"=20'-0"










- Guest Rooms
- Service
- Vertical Circulation: Stair
- Vertical Circulation: Elevator
- Event
- Lobby/Lounge
- Fitness Room

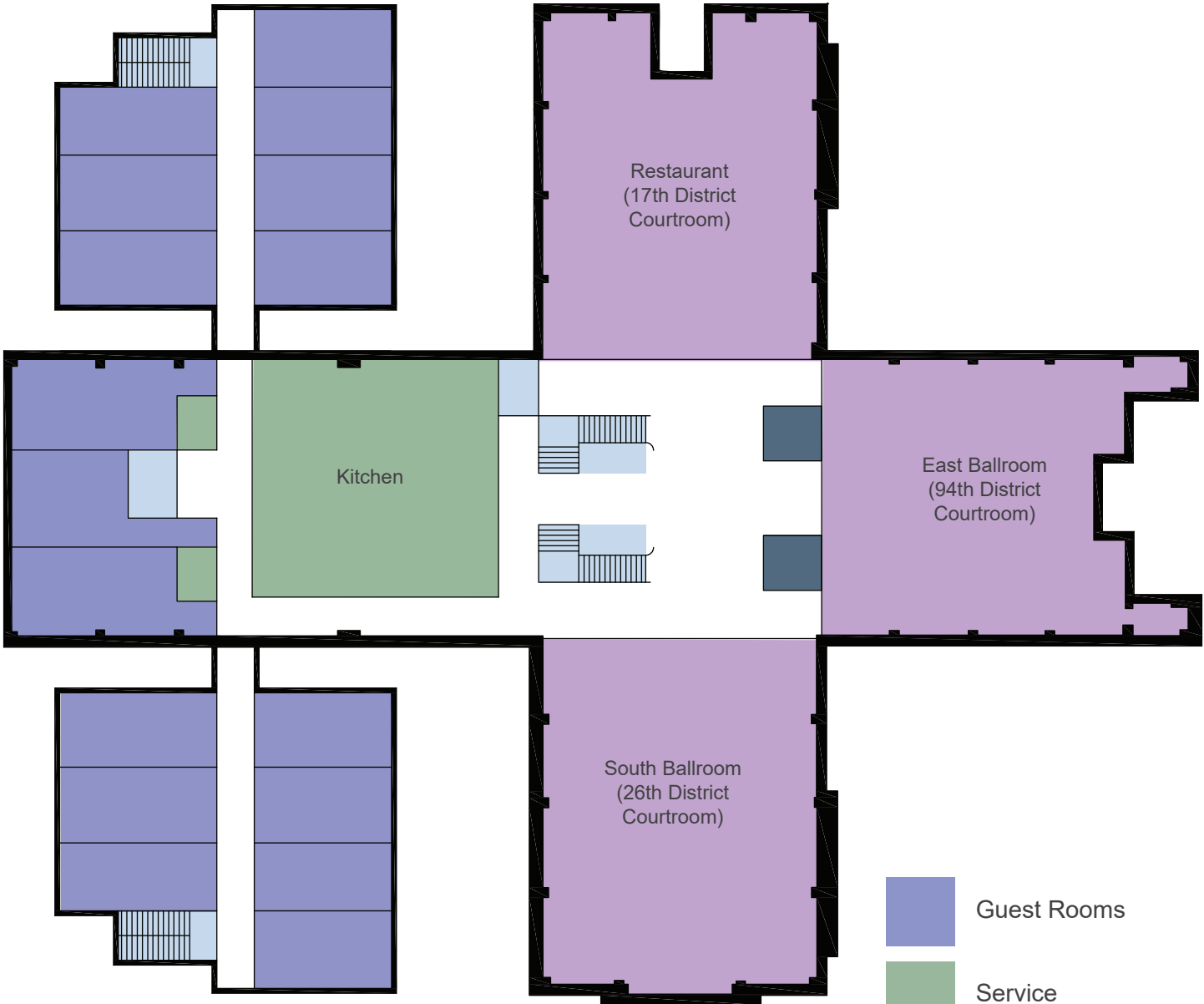


First Floor Plan

Scale: 1"=20'-0"



-  Guest Rooms
-  Service
-  Vertical Circulation: Stair
-  Vertical Circulation: Elevator
-  Event
-  Lobby/Lounge
-  Fitness Room

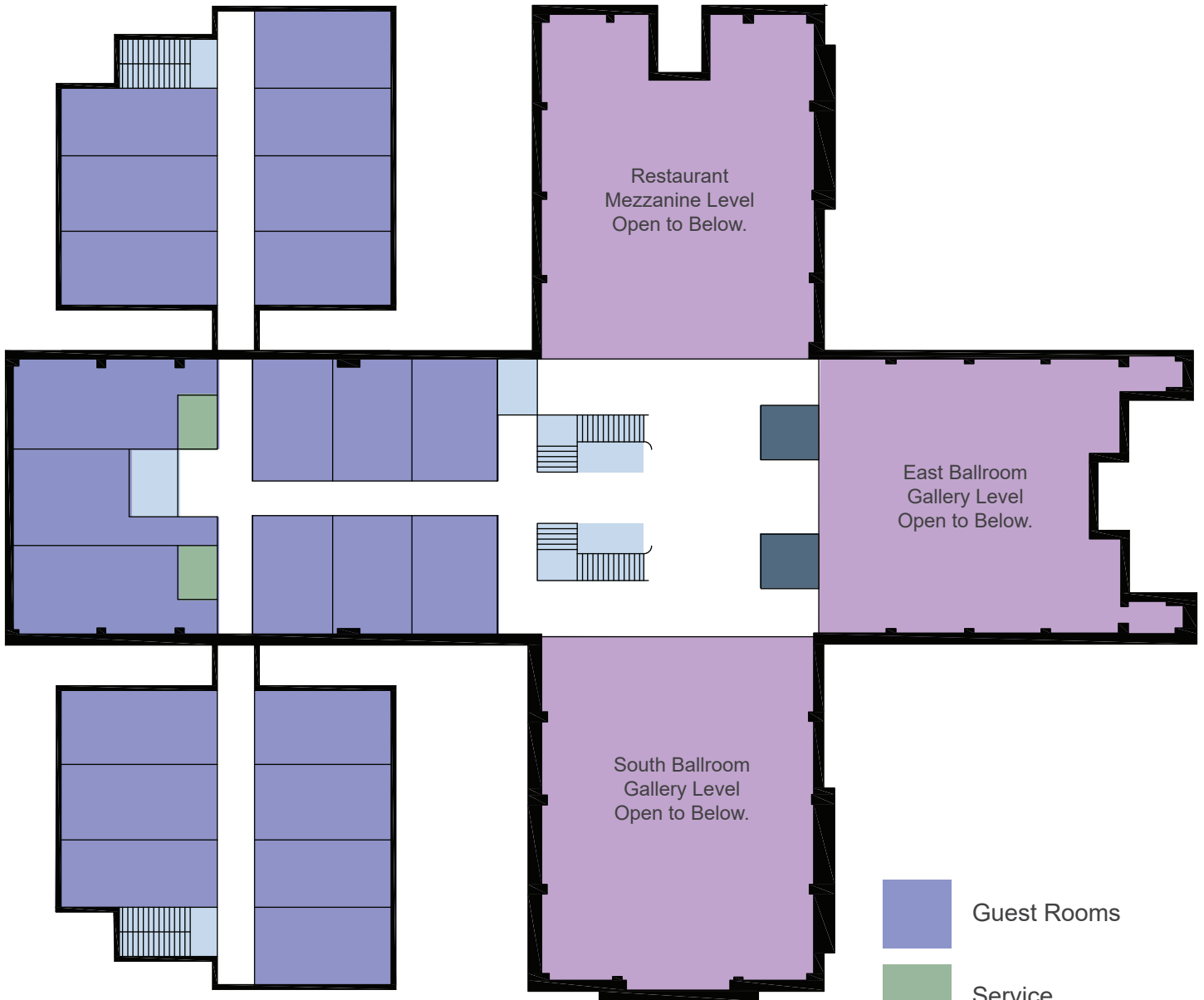


Second Floor Plan

Scale: 1"=20'-0"










- Guest Rooms
- Service
- Vertical Circulation: Stair
- Vertical Circulation: Elevator
- Event
- Lobby/Lounge
- Fitness Room

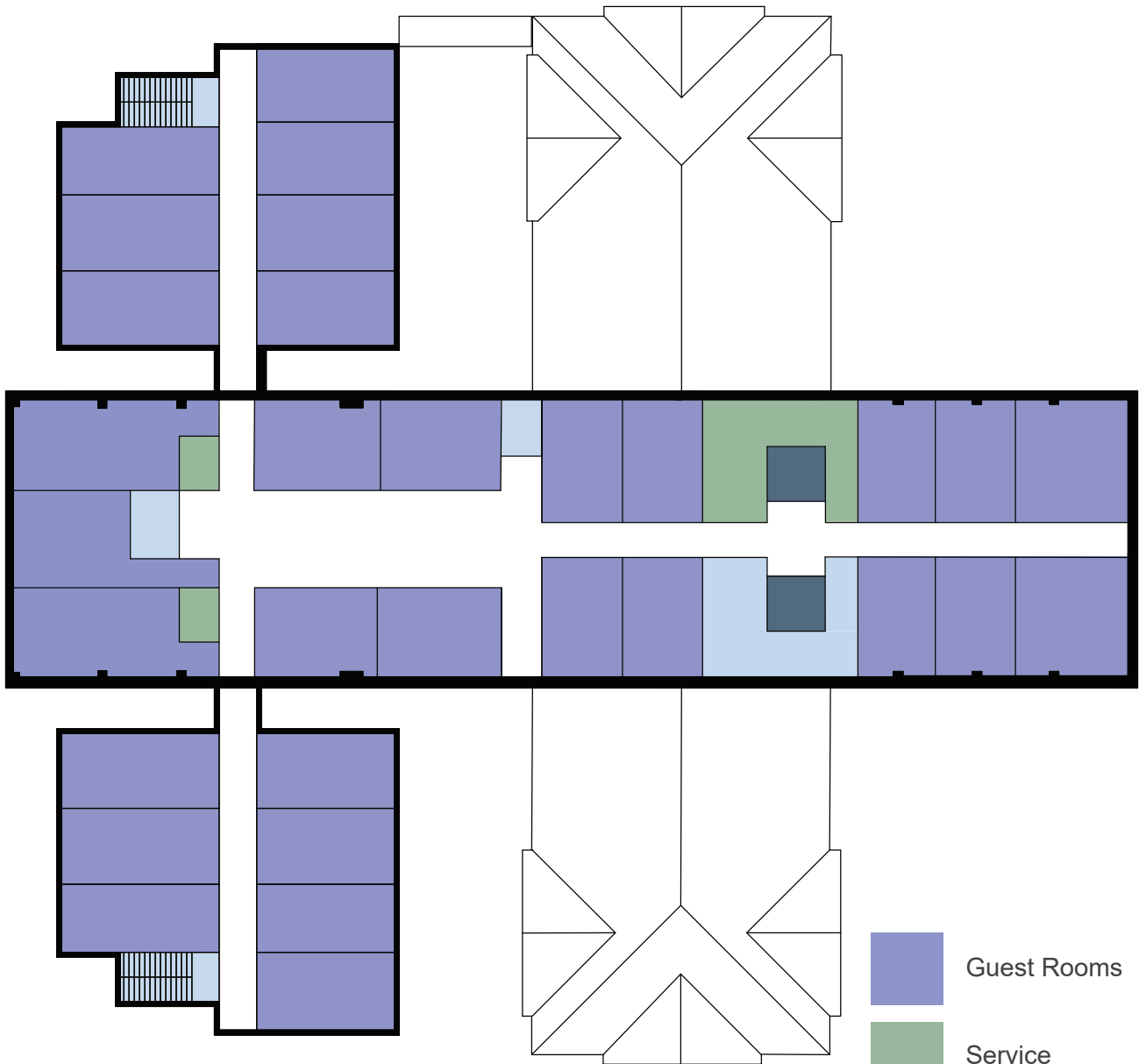


Third Floor Plan

Scale: 1"=20'-0"



-  Guest Rooms
-  Service
-  Vertical Circulation: Stair
-  Vertical Circulation: Elevator
-  Event
-  Lobby/Lounge
-  Fitness Room



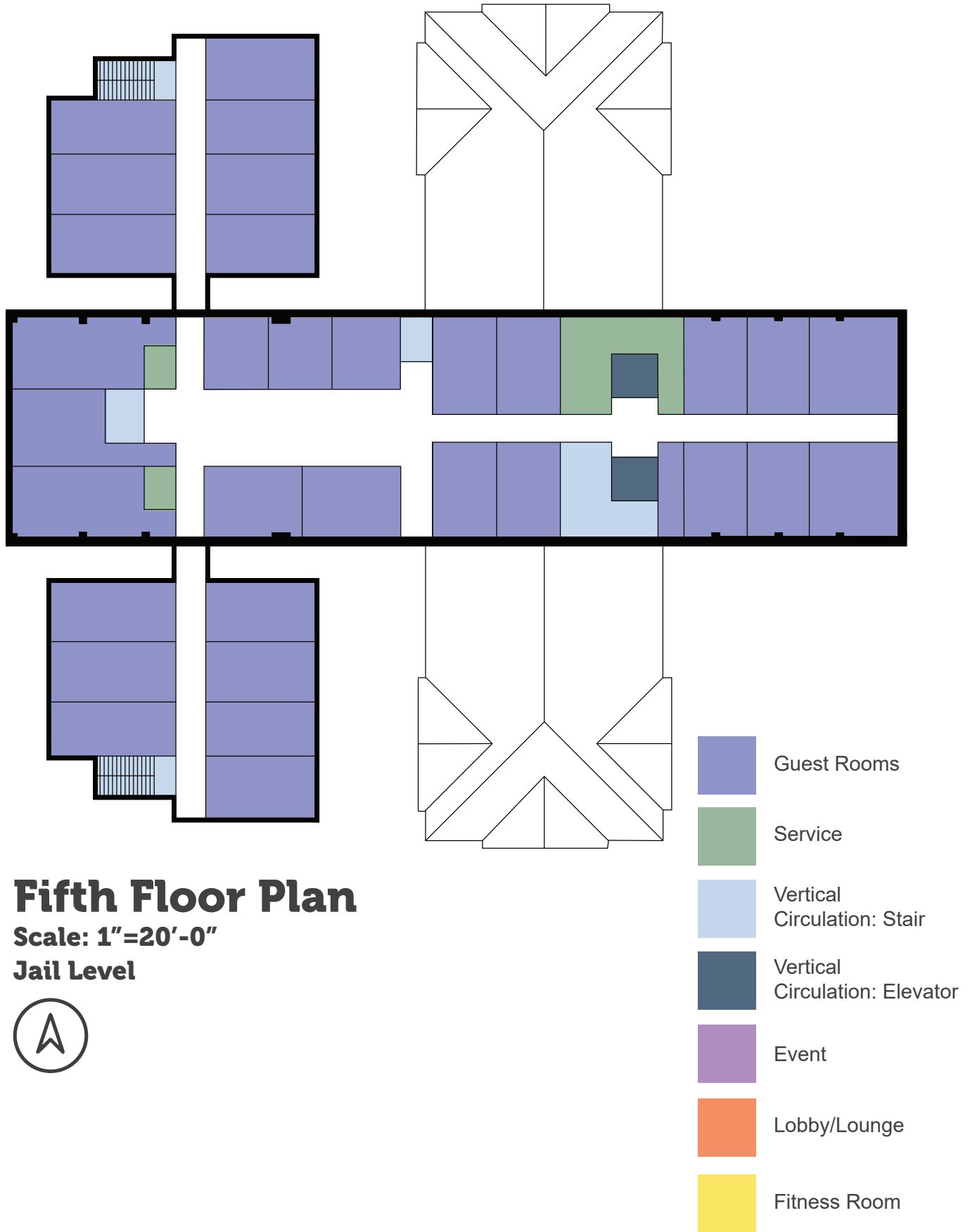
Fourth Floor Plan

Scale: 1"=20'-0"

Jail Level



- Guest Rooms
- Service
- Vertical Circulation: Stair
- Vertical Circulation: Elevator
- Event
- Lobby/Lounge
- Fitness Room



Market Summary

TOURISM MARKET ANALYSIS

The Coastal Bend region of Texas, anchored by Corpus Christi, has long been known as one of the top travel destinations for Texans. The city sits on the southern shores of its eponymously named bay behind Padre and Mustang islands which are part of the string of barrier islands protecting the Texas coast. While much of the area's economy is based on downstream petrochemical production and port operations (increasingly oil and gas exports), Corpus Christi and the surrounding Coastal Bend region is also recognized as a major tourism destination for the south-central U.S. in general and Texas specifically.

According to a 2014 study from Texas A&M University-Corpus Christi commissioned by the Corpus Christi Convention & Visitors Bureau, an estimated 8.1 million visitors had an economic impact of \$1.5 billion of the Corpus Christi area's economy, making it the 6th most popular tourist destination in the Texas.

TABLE 5.
ECONOMIC IMPACTS OF TOURISM ON THE CORPUS CHRISTI AREA'S ECONOMY

Direct Impacts of Local Tourism

- \$675 million in value added (output)
- 17,051 jobs
- \$13.2 million direct room taxes, \$31.8 million indirect local taxes

Tourism directly accounts for 5% of local business activity and 8% of local workforce

- Restaurants & bars: 7,520
- Hotels/motels: 3,071
- Attractions: 2,353
- Retail Trade: 2,208

Total Impacts, including secondary (ripple) effects:

- \$1.5 billion in value added
- 28,784 jobs

Source: Texas A&M University-Corpus Christi, EDA University Center

More recent figures provided by a 2017 study for the Tourism division of the Office of the Governor show the number of visitors increasing to almost 21.5 million by 2016, which accounted for approximately four percent of all tourism in Texas. The vast and increasing majority of those visitors come to Corpus Christi for leisure while a shrinking share visit for business.

This study goes on to report that approximately 90 percent of visitors live in Texas with about six in ten coming from San Antonio, Houston, and the lower Rio Grande valley. Of the roughly 40 percent who pay to stay in a hotel or motel overnight, the study indicates that 9.6 percent choose accommodations in high-end properties.

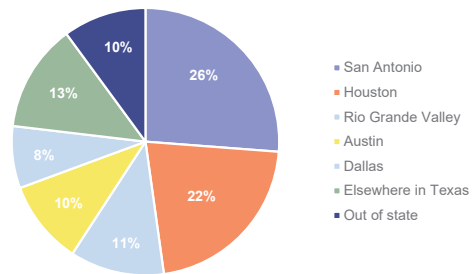
ECONOMIC IMPACTS OF TOURISM

TAXABLE SALES BY SECTOR

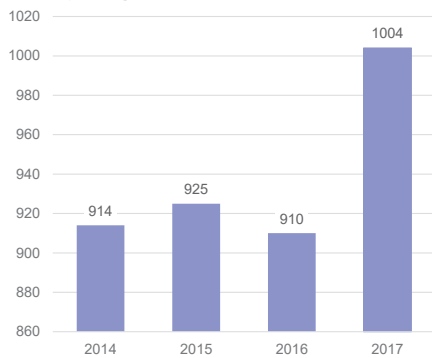


Source: Texas Comptroller's Office

WHERE VISITORS ARE COMING FROM

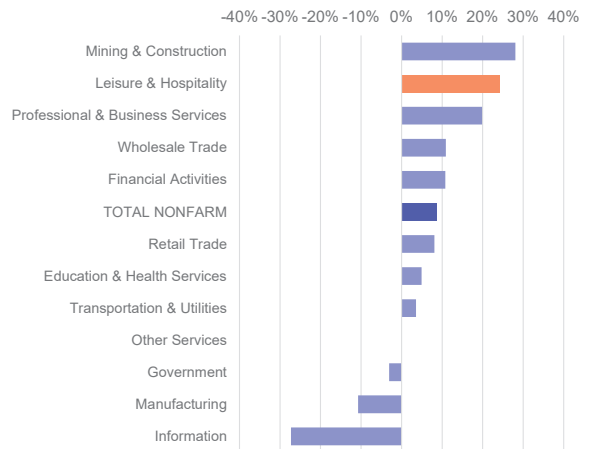


TOTAL SPENDING IN MILLIONS



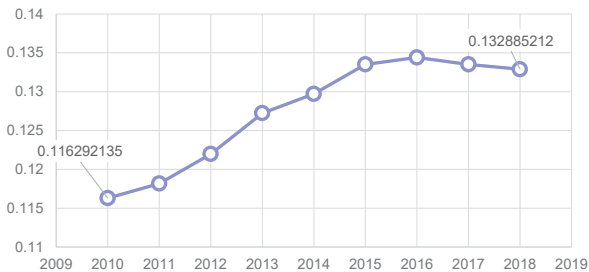
Source: Dean Runyan Associates

JOB CHANGE BY INDUSTRY, 2010-2018



(Current Employment Statistics)

LEISURE AND HOSPITALITY SHARE OF JOBS



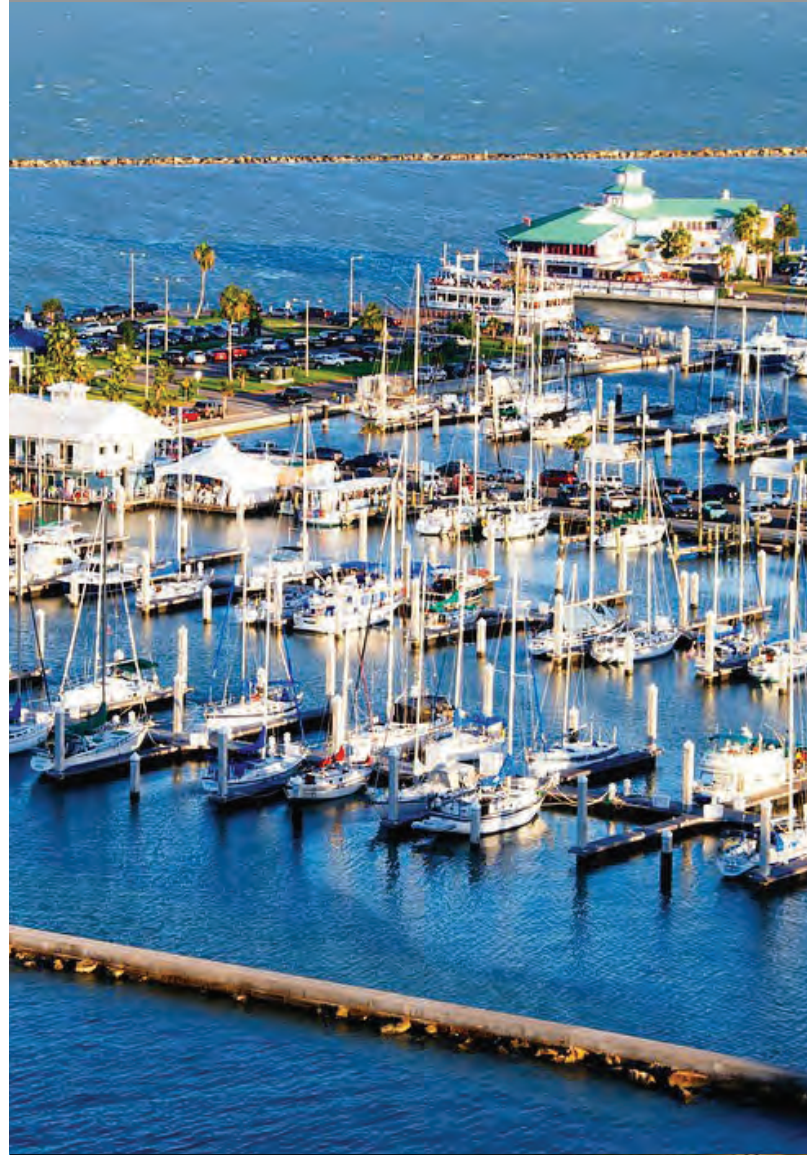
Yet another more impressive study by Dean Runyan Associates in August 2018 analyzing the impacts of visitor spending on the City of Corpus Christi determined that spending surged in 2017 and topped \$1 billion for the first time ever which generated \$39.4 million in local tax revenue.

This study goes on to find that tourism also has a significant impact on employment throughout the Corpus Christi metropolitan area by supporting approximately 17,500 jobs, a nearly 5,000 increase from five years prior. Moreover, travelers generated \$105 million in state and local taxes behind only Dallas/Fort Worth, Houston, San Antonio, and Austin.

An analysis of employment trends also emphasizes the importance of tourism and related sectors to the Corpus Christi area economy. The Current Employment Statistics series provided by the Texas Workforce Commission is divided into broad sectors describing basic economic activities. The Leisure and Hospitality sector, which includes hotels, restaurants, arts, and entertainment was one of the top three growth sectors for the Corpus Christi area from 2010 to 2018. During that time, the sector added approximately 5,000 jobs, growing from about 21,000 to nearly 26,000.

While Leisure and Hospitality grew at a rate of 24.2 percent, the region's overall job market only increased 8.7 percent. Due to this growth disparity, the sector's share of all jobs increased from 11.6 percent to 13.3 percent, which further reflects the growing importance of the tourism and related activities to the Corpus Christi economy.

The Texas Comptroller's Office provides quarterly taxable sales data by category for each jurisdiction in Texas. Unfortunately, however, fourth quarter figures for 2018 were unavailable. As a result, this analysis uses taxable sales for the fourth quarter of the previous year plus the first through third quarters for the indicated year to create an annual comparison.



Hotel Use Feasibility Study

An analysis of taxable sales for Nueces County since the beginning of the decade reveals diverging trends in consumer spending. While each category increased substantially over that period, the county's taxable retail sales began to lag and even fall for a couple of years before rebounding in 2018 for an overall 27.9 percent increase. At the same time, sales in food and accommodation steadily increased to 47.4 percent while those related to the arts, entertainment and recreation skyrocketed by 90.0 percent.

This shift in local spending reflect greater trends seen across the country as shoppers are increasing their online spending for standard goods or convenience items while at the same time seeking out retail with a high degree of personalized service or "experience." As a result, local jurisdictions will need to begin looking at other economic activities, such as Food and Accommodations and Arts, Entertainment and Recreation, to generate revenue. Fortunately, Corpus Christi's status as a tourism destination provides the demand to support these activities.

HOTEL MARKET ANALYSIS

To determine whether the Corpus Christi hotel market can support the Courthouse's redevelopment as a high-end boutique hotel, it is first important to understand the state of the local hotel market. According to the JLL Hotel Performance Study for the Governor's Office Division of Tourism Texas, Corpus Christi was the fifth largest hotel market in the state behind Houston, Dallas/Fort Worth, Austin, and San Antonio when categorized by both rooms and revenue in 2017 (the most current year for which data are available). This places Corpus Christi above the El Paso and McAllen-Edinburg-Mission metropolitan areas, both of which are approximately twice its size according to 2018 estimates.

The 2017 occupancy rates in Corpus Christi were 65.9 percent, according to the study. That was a surprising improvement over the previous year's 60.5 percent rate which coincided with a period of exceptionally low oil prices. During that time, the price of West Texas Intermediate fell as low as \$28 per barrel. This significantly impacts the disposable incomes of Texans, especially those who live in oil-dependent metropolitan areas, such as Houston, a market from which Corpus Christi draws a fifth of its visitors. While prices had stabilized within the \$50 per barrel range in 2017, the market had not yet fully recovered to its present levels. Even so, the number of room nights sold increased 11.5 percent while the total room revenue attained a 13.4 percent growth rate.

Oil analysts predict continued strength in Texas' oil and gas sector for the coming years due to new discoveries, unprecedented levels of production, and increased exports. Given Corpus Christi's status as, not only a tourism destination, but also a strategically important port with new infrastructure that will only heighten its value as an export facility, the city will likely continue to see an increase in both leisure and business visitors in the future.

TABLE 6.
CORPUS CHRISTI HOTEL PERFORMANCE

	2015	2016	2017	15-16	16-17
Hotels	144	144	147	0.0%	2.1%
Rooms	11,803	11,700	12,028	-0.9%	2.8%
Average Rooms per Hotel	82.0	81.3	81.8	-0.9%	0.7%
Room Nights Available (millions)	4.3	4.3	4.4	0.0%	2.3%
Room Nights Sold (millions)	2.7	2.6	2.9	-3.7%	11.5%
Occupancy Rate	62.8%	60.5%	65.9%		
Room Revenue (\$million)	\$228	\$217	\$246	-4.8%	13.4%
Average Daily Rate	\$85.54	\$84.64	\$86.36	-1.1%	2.0%
Revenue per Available Room	\$53.71	\$51.18	\$56.92	-4.7%	11.2%

Source: JLL (formerly Jones Lang LaSalle) for the Tourism Division of Office of the Governor



DEMAND FOR A HIGH-END PROPERTY

To determine the “ballpark” demand for a high-end boutique hotel in Corpus Christi, this analysis must rely heavily on the previously cited studies. According to the JLL study, approximately 2.9 million room nights were rented within the Corpus Christi market at a 65 percent occupancy rate in 2017. According to the DK Schifflet report, roughly 9.6 percent of travelers who stay in a hotel choose to choose accommodations in high-end properties. This would imply that, in 2017, there was an estimated demand for 763 high-end rooms per night. Given the likelihood of higher occupancy rates in the future, it can be estimated that the demand for high-end accommodations would fluctuate between about 700 and 800 rooms within the expected 60-70 percent occupancy range.

Room nights sold at 65.0% occupancy in 2017:	2,900,000
Percent of visitors who stay in high-end hotels:	9.6%
Estimated demand for high-end rooms per night, 2017:	763

Hotel Use Feasibility Study

Currently, the 475-room Omni Hotel is the only hotel in the Corpus Christi market that could be considered as a high-end property. According to website HotelPlanner.com, the cheapest publicly available room rates at this nearby high-end hotel range around \$120-200 per night with an average of \$158 per night. Given the existing latent demand in 2017 for high-end rooms (763) exceeds the total capacity of both the Omni Hotel and the proposed 173-room rehabilitated Courthouse hotel (648 total rooms), it appears that the Corpus Christi market in its present state could feasibly support the project.

TABLE 7.
FISCAL IMPACT OF PROPOSED PROJECT

Rooms Nights Available	173
Occupancy Rate	60.0%
Room Nights Sold	104
Average Daily Rate	\$159
Average Annual Revenue	\$6,024,033
Local HOT Tax Receipts (9%)	\$542,163

The City of Corpus Christi collects a hotel occupancy tax of 9%. Calculating revenues based off a conservative 60 percent occupancy rate and a room rate of \$159 per night, it can be estimated that a rehabilitated Nueces County Courthouse that is adaptively reused as a high-end boutique hotel would immediately generate approximately \$540,000 annually in local HOT tax receipts. The impact of the project, however, would go far beyond a simple injection of revenue to local coffers.

The proposed concept would be beneficial to Corpus Christi on several fronts. The building's location connects two recognized districts within the waterfront urban core—the Sports, Entertainment and Arts (SEA) District and the Marina Art District. The SEA District contains a number of other underutilized properties ripe for redevelopment proximate to the Art Museum and Convention Center, the Museum of Science and History, and the Harbor Playhouse. The Marina Arts District contains a large concentration of the city's major hotels and restaurants along with the historic "Main Street" area. Along with the pending rerouting of US 181, the existence of a vibrant boutique hotel at this strategic location could serve as a vital bridge connecting the two districts and their attractions. Moreover, this type of historic hotel product—one that is becoming increasingly popular among tourists—is currently missing within the Corpus Christi marketplace. Finally, a product of this type could provide critical and strategic assistance to the overall "Corpus Christi brand" as the area continues to focus on raising the bar for redevelopment downtown, attracting higher spending visitors, and recruiting talent for expanding businesses in the city.



Financial Feasibility

Financially, the timing for a project of this magnitude could not be better in light of the incentives available, the current market position of Corpus Christi as a visitor destination and the city's priorities for downtown revitalization. Since the 2016 study was issued, additional major financial tools have been introduced and the City has demonstrated an interest in providing significant local incentives as well.

As a result of the financial programs and tools available, the Town Square Initiative team finds the redevelopment of the Nueces County Courthouse as a boutique hotel to be financially feasible. However, it must be stated that this analysis is based on a number of broad assumptions. While the methodology is straight-forward, a myriad of variables could influence the development budget in either direction. These numbers represent a good starting point for the costs and sources of funds associated with the project.

The total project cost is estimated at \$68.5 million. This includes rehabilitation of the 80,000 SF +/- historic courthouse building and the new construction totaling approximately 34,000 SF +/- for the two additions. It includes the back taxes and penalties, but reduces the sale price to \$1. Site improvements and environmental costs are modest. The largest costs will be associated with the facade restoration and structural repairs.

The cost of construction for the rehabilitation is estimated at \$250/SF for interior finish-out and MEP. The cost of construction for the new additions is estimated at \$215/SF for interior finish-out and MEP. Repairs and restoration of the historic building's exterior envelope is estimated at \$14 million with an additional \$3.5 million for interior structural repairs. These figures take into account several estimates provided by structural engineers on the repair costs. Still, a more thorough evaluation of the envelope and structural condition, expected in the near future, will inform the estimate. Finally, the exterior construction of the new addition requires some specialized treatment due to climate and height; therefore, we included a separate line item of \$1.8 million to account for these costs.

In our hotel performance model, 173 rooms at 60% occupancy with an average daily rate of \$159 provides net income before debt service of approximately \$2.4 million in year one. This is estimated to support about \$27.8 million in debt service. The additional sources of funds for the project include federal and state Historic Tax Credits (HTC), New Market Tax Credits, Texas-PACE financing, local incentives, and some developer equity. The sources of funds are described in more detail on page 28. Again, these calculations should be accepted as the starting point for further feasibility analysis by design and financial professionals.

TABLE 8.
SUMMARY OF DEVELOPMENT COSTS

Acquisition/Site	
Acquisition (Back Taxes)	\$1,631,031
Site Improvements	<u>\$750,000</u>
Acquisition/Site Subtotal	\$2,381,031
 Hard Costs	
Structural Repairs/Exterior Restoration	\$17,500,000
Interior Rehabilitation, Existing Building	\$19,129,500
New Construction	\$9,034,380
General Conditions (8%)	\$3,713,110
Construction Contingency (12%)	<u>\$6,015,239</u>
Hard Costs Subtotal	\$55,392,229
 Soft Costs	
Construction Permits, Environmental	\$350,000
Professional Fees	<u>\$10,340,562</u>
Soft Costs Subtotal	\$10,690,562
 Development Costs Total	\$68,463,823

TABLE 9.
CASH FLOW AND SOURCES OF FUNDS

Total Project Cost	\$68,463,823	100%	
Developer Equity	\$3,423,191	5%	
HTC Equity	\$22,309,170	33%	
Local Incentives	\$4,000,000	6%	
ESHPF Grant	\$500,000	1%	
NMTC Equity	\$3,900,000	6%	
PACE	\$6,500,000	9%	
Debt (Based on 1.25 DSC):	\$27,831,461	41%	(5.0% Interest Rate, 25 Year Term)
 Monthly payment P&I	(\$162,700)		
Annual NOI	\$2,409,331		
Annual Debt Service	(\$1,952,399)		
Annual Cash Flow: (above debt service & operating expenses)	\$456,932		
			<i>Debt Service Coverage ratio: 1.23</i> <i>13.35% Pre-tax Return on Equity</i>

TABLE 10.
DEVELOPMENT BUDGET DETAIL

Item	Cost	Subtotals	Qualified Rehabilitation Expenses
Acquisition		\$1,631,031	
Building and Site Acquisition	\$1		
Back Taxes	\$327,232		
Penalties and Fees	\$1,303,798		
ROW Land Acquisition	\$-		
Site Improvements		\$750,000	
Demolition	\$-		\$-
On-Site Imp.	\$500,000		
Off-Site Imp./Parking	\$250,000		
Structural Repairs/Exterior Restoration		\$17,500,000	
Exterior Restoration	\$14,000,000		\$14,000,000
Structural Interior Repairs	\$3,500,000		\$3,500,000
Interior Rehabilitation, Existing Building		\$19,129,500	
Interior Finish-Out (62%)	\$11,860,290		\$11,860,290
Mechanical, Engineering, Plumbing (38%)	\$7,269,210		\$7,269,210
New Construction		\$9,034,380	
Interior Finish-Out	\$5,420,628		
Mechanical, Engineering, Plumbing	\$1,806,876		
Exterior Envelope	\$1,806,876		
General Conditions		\$3,713,110	
General Conditions (8%) QRE	\$2,990,360		\$2,990,360
General Conditions (8%) New Construction	\$722,750		
Contingency QRE (12% Hard Costs)		\$6,015,239	
12% Contingency on QRE's	\$4,844,383		\$4,844,383
12% Contingency on New Construction	\$1,170,856		
Other Cost (Not Hard)		\$350,000	
Environmental Testing and Abatement	\$300,000		\$300,000
Permits and Fees	\$50,000		\$50,000
Professional Fees		\$10,340,562	
Construction Management Fee (4.5%)	\$2,492,650		\$2,492,650
Developer Fee (5% of Hard Costs)	\$2,769,611		\$2,769,611
Architect & Engineering Services (9% of Hard Costs)	\$4,985,301		\$4,985,301
Survey	\$10,000		\$10,000
Real Estate Attorney	\$20,000		\$20,000
Accountant	\$20,000		\$20,000
Environmental Consultant	\$40,000		\$40,000
Cost Certification	\$3,000		\$3,000
Development Costs (Total)	\$68,463,823		\$55,154,806

Hotel Use Feasibility Study

Below is a description of the sources of equity utilized in this scenario.

FEDERAL AND STATE HISTORIC PRESERVATION TAX CREDIT PROGRAMS

\$22 M+/-

As mentioned, the Courthouse is presently listed on the National Register of Historic Places and is therefore eligible to participate in both the state (25%) and federal (20%) tax incentive programs. These programs are well-known and may be considered the most significant sources of equity for the project, when combined contributing potentially a 45% credit on the qualified rehabilitation expenditures. The amount of equity investment varies. In this analysis, the assumption for pricing is .88/\$1.00 for the federal program and .93/\$1.00 for state program.

Neither the state nor the federal historic rehabilitation credits are subject to caps or direct competition; therefore, if the completed work meets the required rehabilitation standards and program requirements as determined by the National Park Service and THC, the owners can earn substantial financial credits. The Texas Historical Commission administers both historic tax incentive programs and will review the applications, provide consultation and guidance. In the case of the Nueces County Courthouse, staff completed a preliminary review of the previous rehabilitation proposal for the tax credit programs and those comments are provided in this study for the benefit of both the County and any future interested developer.

TEXAS PACE PROGRAM

\$6.5 +/-

Texas Property Assessed Clean Energy (TX-PACE) is an innovative financing program that offers commercial, industrial, and large multifamily property owners an opportunity to participate in a voluntary program to obtain up to 100% financing for water conservation, energy-efficiency, and distributed generation retrofits. Nueces County adopted their PACE resolution in December 2016. PACE is essentially a long-term (typically 10-20 year), low-cost loan for such improvements as:

- HVAC modification or replacement
- Light fixture modifications
- Solar panels
- High-efficiency windows or doors
- Automated energy control systems
- Insulation, caulking, weather-stripping or air sealing
- Water use efficiency improvements
- Energy- or water-efficient manufacturing processes and/or equipment
- Solar hot water
- Gray water reuse
- Rainwater collection system

PACE financing works well in combination with the historic tax credit programs. However, not all PACE-eligible work will meet the rehabilitation standards for historic tax credit projects and PACE work items must be reviewed as part of the tax credit application. For example, TX-PACE is contributing over \$6.4 million in equity to the rehabilitation of the 1927 Barfield Building in Amarillo, TX, which will be converted into a Marriot branded hotel. Also applying for both historic tax credits, the PACE-financed improvements include HVAC, LED lighting, building envelope efficiency improvements, water efficiency, and domestic hot water heating.

TAX INCREMENT REINVESTMENT ZONE #3 \$4M +/-

In previous negotiations with Nueces County Development Partners, LLC, in the spring of 2018 the City of Corpus Christi TIRZ #3 Board approved two major incentives. The first was a TIRZ Agreement for a \$1,000,000 property tax reimbursement. The second was a Type A Business Incentive Agreement for \$3,000,000.² Performance requirements included the creation of 25 new full-time equivalent positions in the city and total investment of at least \$40,000,000 in the project. This significant commitment on the part of the City and the TIRZ signals broad based public support for the project. It is likely these incentives would be available to a future developer.

NEW MARKET TAX CREDIT PROGRAM 3.9M+/-

This courthouse is located in a qualified census tract where at least 20% of the population lives below the United States poverty level. Accordingly, the project would be eligible for the New Market Tax Credits (NMTC). The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The CDEs then use the proceeds to make Qualified Low-Income Community Investments (QLICs) in qualified census tracts. The credit totals 39 percent of the original investment amount and is claimed over a period of seven years.

There are criteria to guide the investment, but generally the project must be able to demonstrate community impact. This can be through job creation or the provision of goods and services such as a pharmacy or grocery store. According to the National Trust's Community Investment Corporation, boutique hotels are an attractive investment opportunity for these funds because they provide number of decent wage jobs. In addition, the NTCIC sees Texas as an underserved market. The proposed Nueces County Courthouse project would also have to meet a "but for" test meaning but for the contribution of NMTCs its redevelopment would not be possible. This could likely be the case.



The Barfield Hotel in Amarillo, TX, will utilize about \$6.4 million in PACE financing assistance for energy efficiency improvements and receive about \$9 million in equity from the State Historic Tax Credit program. Image courtesy Architexas.

² Agreements are accessible online at: <https://corpuschristi.legistar.com/LegislationDetail.aspx?ID=3492437&GUID=3AA5DFF5-F6CC-4205-820A-EFE0FD5E36B0&Options=ID|Text|&Search=courthouse>; and, <https://corpuschristi.legistar.com/LegislationDetail.aspx?ID=3502026&GUID=5AAB7471-E834-4331-9375-265FB552A875&Options=ID|Text|&Search=le+meridien>

Hotel Use Feasibility Study

HURRICANE HARVEY EMERGENCY SUPPLEMENTAL HISTORIC PRESERVATION FUND GRANT PROGRAM \$500K +/-

The National Park Service (NPS) has awarded Texas a \$12,318,047 Emergency Supplemental Historic Preservation Fund grant for historic preservation projects in a 54 county area affected by Hurricane Harvey. The emergency grant program will address damage inflicted by Hurricane Harvey or mitigation for future disasters. The THC manages this grant program for the State of Texas. These emergency grants do not require matching monies and can be used for completed work. On May 9, 2019, the Commission approved Nueces County's application for a \$150K planning grant for a comprehensive structural evaluation and stabilization plan. A second application for \$500K to support a Stabilization Phase for the project is currently under consideration by the THC and NPS.

OPPORTUNITY ZONE - NOT ILLUSTRATED IN PRO FORMA

Another potential source from which funding could be tapped for the proposed project is federal "Opportunity Zone" funding. This is a new federal incentive program that was passed as part of the 2017 federal tax cut package and is designed to attract "patient" capital toward redevelopment projects in qualified areas. Fortunately, much of downtown Corpus Christi falls within a Qualified Opportunity Zone, meaning the courthouse redevelopment project would be eligible for reinvestment dollars from a Qualified Opportunity Fund (QOFs) which is an investment vehicle for those who are willing to wait for return on investment in exchange for significant tax breaks. Already, several QOFs have been established and are seeking opportunities in gentrifying communities and neighborhoods across the country.



Redevelopment Challenges

Redeveloping the 1914 Nueces County Courthouse can be a financially feasible project as a result of the combination of tools and incentives now available. There has never been a better time given the city's focus on downtown revitalization. Texas Monthly highlighted the "New Corpus Christi" in its August 2018 issue writing "with this uptick in restoration, the Sparkling City by the Sea—the hometown of Selena and the birthplace of Whataburger—is starting to live up to its nickname."³ The article even mentions the Courthouse hotel project at THE place to stay in 2020.

The time is now for the Nueces County Courthouse. The financial viability appears realistic and feasible; however, a series of challenges remain that, if unresolved, may likely prevent further interest by the private sector. These challenges pose additional risk beyond what is typically assumed in a historic rehabilitation project of this scale. The County and City, along with other partners, can work collaboratively to mitigate or resolve entirely these issues as a way to proactively clear a path for a developer to submit a new, and successful, proposal.

³ <https://www.texasmonthly.com/travel/experience-new-corpus-christi/amp/>

1. Current Structural Assessment

OVERVIEW

The Nueces County Courthouse has been vacant since 1977 and, unfortunately, it looks like a building that has been vacant for over 40 years. The structural condition of the building – especially the exterior envelope – presents challenges that are above and beyond what would normally be palatable for private sector interest and investment. The questions around the structural integrity have been cited by one interested development team as the biggest reason why they aren't willing to pursue the project.

Several structural assessments have been completed over the years, but there is no current evaluation of the structural integrity of the building by an engineer experienced in historic building materials and construction methods. A 2011 engineering study by a local firm made assumptions about bringing all aspects of the building's structure into compliance with current codes which is not required although much of the building's original construction exceeds modern standards for buildings of its type.

It is important to note that notable Texas preservation professionals have investigated this building over time and acquired extensive knowledge of its structural system and building materials. A Nueces County Courthouse Preservation Master Plan, written by McGloin and Sween Architects in 2001, describes the work required to preserve the building. Construction documents for a complete exterior restoration have been prepared and were used to complete the South Wing Exterior Restoration Project. It was conceived as a “demonstration project” to begin the process of restoration, learn if any efficiencies could be gained in the construction methodology, and show the public that restoration was technically feasible.

The South Wing restoration, undertaken in 2004-2006, included complete exterior restoration of that portion of the building: removal and reinstallation of the brick and terra cotta masonry, new windows, a temporary roof, interior hazardous materials abatement and a security system.

RECOMMENDATION #1

The primary challenge is that there is no recent comprehensive structural assessment by an engineer who is experienced in historic building materials and construction methods. It is critically important that the County conduct a thorough condition assessment with a structural engineering firm experienced in historic preservation so any interested development team has a complete and accurate understanding of the structural integrity and the costs associated with stabilizing the building. The assessment should include review of previous structural evaluation reports and the completed South wing restoration work, materials testing, load calculations, a survey of existing conditions, recommendations for necessary repairs to the structure, facades and roof, and a cost estimate for all associated work.



2. “Mothballing” the Building

OVERVIEW

Under county ownership, some efforts have been made to keep the building secure and maintained. In January, many of the open windows were infilled with plywood by County staff. Further work is needed to secure the building and protect it from additional damage and/or deterioration.

The development of a “mothballing” plan has been proposed and tentatively funded through a National Park Service grant. The plan must be prepared by an architect in consultation with a structural engineer and perhaps a masonry contractor. Further investigation of the building’s current conditions is necessary but reportedly, there is roof damage that must be addressed to prevent water from entering the building. Loose terra cotta should be removed and placed in storage. Temporary weather-resistant enclosures for the exterior walls and all windows is necessary. Clean-up of the interior and guard rail protection at the balconies and atrium should be undertaken. Temporary lighting, electrical service, an alarm system should be enhanced and consideration given to a whole building ventilation system.

Executing this work will not only stabilize the condition of the courthouse but it will provide a better environment for potential developers to tour the building.

RECOMMENDATION #2

Plan and execute the recommended “mothballing” work immediately.



Opposite page: Phase I Rehabilitation, 2004. Top: The demonstration wall constructed in 2004 as part of Phase 1 to illustrate the method used to repair the exterior brick veneer, (photo taken 2019). Bottom: Example of the terra cotta detailing, much of which has been stored in the building.

3. US 181 Right-of-Way

OVERVIEW

Probably the most drastic change to the courthouse context came with the construction of the Harbor Bridge and the extension of Interstate Highway 37 (IH-37) in 1957-59. The Harbor Bridge placed an elevated access road literally next to the building's second floor on the west façade while the termination of IH-37 – a four-lane divided highway – lined the south boundary. While successful in dramatizing the community's ascension into the modern era, these major transportation projects effectively disrupted the historic street grid, making the courthouse largely inaccessible and severing the important public facility from the business district and civic community.

In the next few years the context for this building will largely revert to its early twentieth century relationship with the downtown. The Texas Department of Transportation will complete construction a new Harbor Bridge and re-align Highway 181 further inland. The former Harbor Bridge will be removed and traffic will circulate at grade on North Broadway Street. The City of Corpus Christi recognizes this important shift and has undertaken several planning initiatives including the 2018 Tax Increment Reinvestment Zone #3 Traffic Planning and Analysis. The study identifies 24 “mid-term” capital improvement projects (scheduled between 2021-2028) that will occur in the “years immediately after the Harbor Bridge construction and the old bridge is removed.”⁴

Dates for removal of the elevated roadway nearest the courthouse are estimated to be completed in 2021. The state highway right-of-way does not become surplus until the construction project is complete, so it is difficult to plan for acquisition.

However, by TxDOT statute, local government entities receive priority over private landowners in the disposition process.⁵

Not only does the removal of the highway create a better environment for the hotel, the acquisition of this additional land west of the courthouse could facilitate more amenities on the property such as outdoor dining, recreation areas, detached buildings, or parking. Likely, the acquisition of right-of-way would be utilized to substantially improve service access to the hotel that in turn would open up the north side of the courthouse to a more appropriate guest use.

RECOMMENDATION #3

The County should begin working with the City Planning Department and TxDOT to explore any possibilities of expediting the right-of-way disposal process in advance of project completion. The County should acquire the adjacent right-of-way property to deed to the developer upon acquisition of the courthouse parcel. The additional property or terms of commitment to that effect should be included in the terms of the contract for sale.



⁴ <https://www.cctexas.com/sites/default/files/TIRZ%20%233%20Traffic%20and%20Planning%20Analysis.pdf>

⁵ <http://www.txdot.gov/txdot/forms/SaveForm?formName=/PMDispCklist.dot&appID=/ROW&status=/reportError.jsp&configFile=WFServletConfig.xml>



Top (Photo): Existing conditions looking west on Belden Street.
Below (Map): Highway 181 removal is shown in purple. Once removed, Hwy 181 will again be N. Broadway, a local street at grade level.
Opposite: Construction of the Harbor Bridge, 1959.

4. Fire Station #1 Relocation

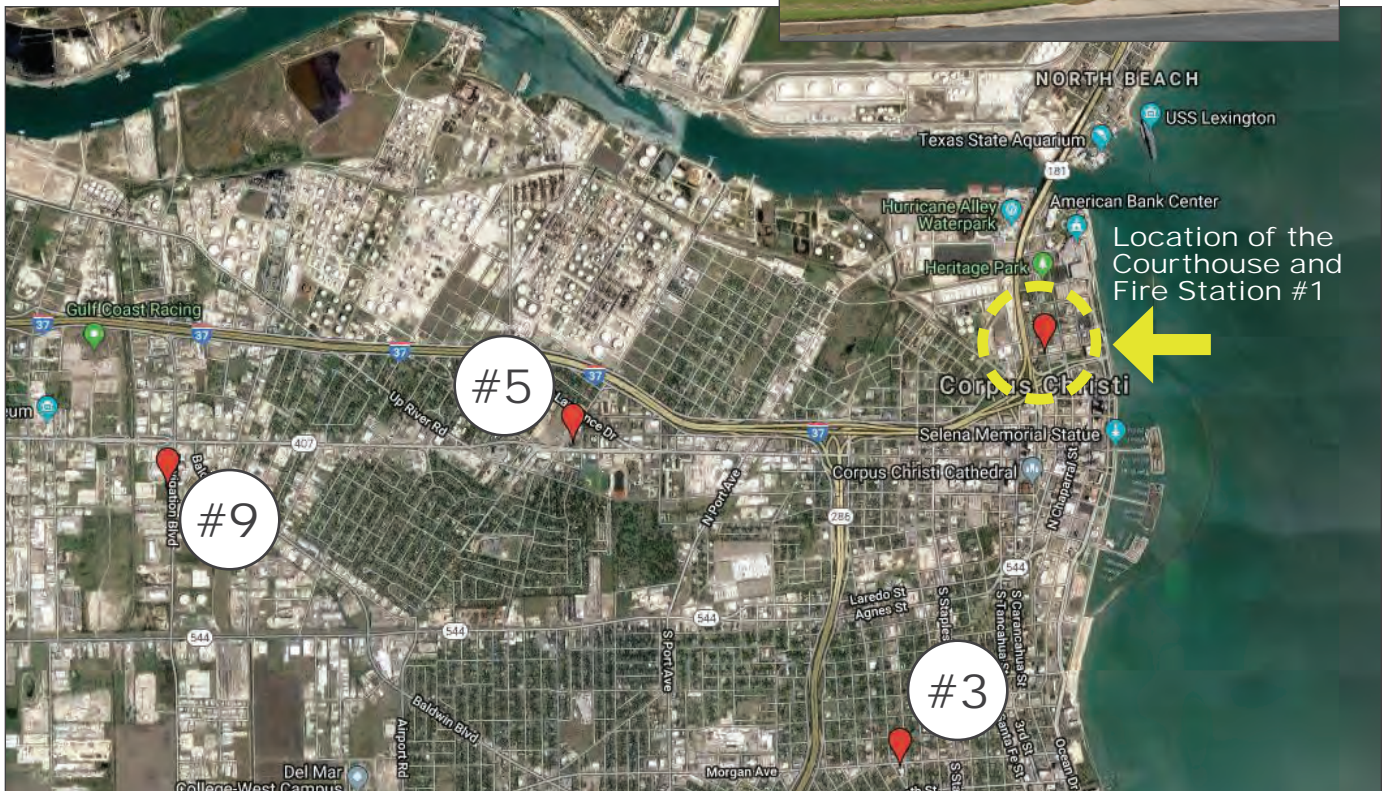
OVERVIEW

The City of Corpus Christi’s Fire Station #1 is located at 514 Belden Street immediately north of the Courthouse. Fire stations are an undesirable neighbor to hotels and this concern has been expressed by several hotel operators associated with different development teams looking at the project feasibility. During prior negotiations, the city estimated the cost to relocate the existing, fully functional 5 bay Fire Station #1 to be about \$5 million, and asked for that cost to be paid by the developer.”

Yet, with the changes to traffic circulation as a result of the new Harbor Bridge, access to the North Beach neighborhood, on the north side of the canal will be impacted. This makes Fire Station #1 significantly less viable to serve its previous area and its replacement is now considered strategically important.

RECOMMENDATION #4

With the considerable additional costs incurred as a result of the structural condition of the building, it is not feasible for the developer to also absorb the costs of relocating the fire station. It is recommended that the County obtain a commitment from the City to reassess future functionality of Fire Station #1 and self-fund necessary realignments as appropriate—including possible relocation of Fire Station #1.



Top (inset): Fire Station #1 view from Nueces County Courthouse grounds. Below (map): Fire station locations in central Corpus Christi. Source, City of Corpus Christi.

5. Parking Availability

OVERVIEW

There is little availability for parking on the county-owned parcel at its current size. While the city’s zoning ordinances do not require any additional parking, it is a necessity for a hotel redevelopment project.

Previous negotiations resolved the parking challenge by committing one of two city-owned parcels directly east to the project through the use of a long-term lease (Lot #1 in diagram). The developer also planned to secure two smaller parcels on Belden Street (Lots #3 and #4). Lot #1 is estimated to provide 120 spaces. Lot #2, although not fully developed, could provide the same. Lots #3 and #4 combined could provide about 45 spaces.

National development standards range from .64 space per room (International Transportation

Engineers) to 1 space per room (Urban Land Institute). Many parking consultants have developed specialized community models which take into account the overall supply and demand. Those models also generally require less than one space per room for hotel developments.⁶

It is estimated that the private sector will desire a ratio of about 85%. In the TSI schematic plans, 173 rooms would generate the need for 148 parking spaces.

RECOMMENDATION #5

A commitment in writing must be secured from the City for sale of the property or a low-cost (ie \$1 per year) long-term lease for spaces in the underutilized lots directly to the east. The developer would then be responsible for landscaping and security enhancements.



Map of potential available parking lots to serve the redeveloped courthouse.



City Owned



Privately Owned

⁶https://www.kimley-horn.com/wp-content/uploads/2017/02/PARK_Plus_ParkingGen.pdf

6. Local Incentives

OVERVIEW

The City of Corpus Christi TIRZ #3 Board, a Type A Board, approved two major incentives in the spring of 2018 for the courthouse redevelopment project. The first was an agreement for a \$1,000,000 property tax reimbursement. The Project Specific Development Agreement stated, “beginning the year after the Developer receives a permanent Certificate of Occupancy for the improvements from the City’s Development Services Department, the City shall reimburse annually up to 50% of the property taxes paid on the Improvements to the participating taxing entities in TIRZ #3, for ten years.”

The second major incentive was a Type A Business Incentive Agreement for \$3,000,000. Performance requirements included the creation of 25 new full-time equivalent positions in Corpus Christi

and total investment of at least \$40,000,000 in the project.

This is a significant investment on the part of the City and the TIRZ; it signals broad-based public support for the project. The combined total of \$4,000,000 is an important contribution to making the project economically feasible. When the County reissued the RFP in late 2018, respondents were unclear whether these incentives would be available to new projects.

RECOMMENDATION #6

The County should work with the TIRZ#3 Board to secure standing commitments via resolution that these same agreements would be guaranteed to any future developer proposing a similar hotel redevelopment plan.

7. Acquisition Costs

OVERVIEW

Under the RFP issued in 2018, the County stipulated \$800,000 as the purchase price of the property based on an appraisal of the land’s value as \$800,000. The expectation that the value of the property remains \$800,000 with a dilapidated building needing either to be demolished or rehabbed at a significant cost was a strategic mistake. In addition, the unpaid local taxes to the county, city and independent school district and penalties which cannot be waived under state law were to be paid by the new owner as part of the sale.

Not only are acquisition costs not eligible as qualified rehabilitation expenditures subject to reduction by tax credits, a developer must deliver these funds as cash at the beginning of the project,

Table 11. 2018 RFP Acquisition Costs

Building	\$800,000
Back Taxes	\$327,232
Penalties and Fees	<u>\$1,303,798</u>
Total	\$2,431,030

which can be challenging depending on the team of investors and the way the project is being financed.

RECOMMENDATION #7

The County must recognize that the property, still protected by a preservation easement and in its current condition is not an asset but a liability and be willing to sell the property without a direct profit. The County should reduce the sale price to a nominal amount plus back taxes and penalties in order to communicate a positive message to the private sector. Contributions to the project that the City or County can provide in the form of utility upgrades could also be considered to offset the outstanding tax liability.

8. Historic Tax Credit Review Guidance

OVERVIEW

The Federal Historic Preservation Tax Incentive Program and the Texas Historic Preservation Tax Credit Program can be paired and used as an essential financial tool for the successful rehabilitation of the Nueces County Courthouse. The proposed construction plans must be developed in conformance with the Secretary of the Interior's Standards for Rehabilitation in order to be certified for the substantial tax credit incentives. Fortunately for this property, under a prospective developer, THC staff consulted with the National Park Service Technical Preservation Services, the office that oversees and approves projects for the Federal Rehabilitation Tax Credit. The preliminary review comments are provided here as general guidance for any future proposal. The schematic plans provided by THC in this study are consistent with the expressed guidance from NPS on this courthouse's rehabilitation as a hotel.

PRELIMINARY REVIEW PROCESS

Typically, during preliminary reviews by THC and NPS, limited but significant aspects of a project are looked at to determine how they can be designed to best meet the Secretary of the Interior's Standards for Rehabilitation and other established NPS guidance, and help ensure that the project will be successful through the historic tax credit programs. Preliminary reviews are informal, with no decisions being official until an application is submitted however it is generally designed to follow the application process, where the applicant and their project team will prepare information and submit that to the THC. THC forwards that information to the NPS, then the THC and NPS will discuss the project to develop a joint response. THC will relay that response back to the project team via email. Occasionally, for high-profile or especially complex projects, NPS may participate in a conference call with the THC and the project team.

EXTERIOR ADDITIONS

The earliest submitted conceptual plans all proposed enlarging the building with new construction connected to the later 1930s western portion of the building, away from the primary east-facing façade. Some investigations were made of possible expansions to the south, assuming that the highway right of way would be available for development. Other plans were provided with various iterations of a new construction extending to the north. Some of these plans explored the idea of demolishing the fire station and closing Belden Street, to allow for a new extension of significant length, including new hotel rooms and a ballroom/conference center.

Other plans kept the new construction on the north side of the existing building within the block and street grid. The NPS reaction to these various plans indicated a need to respect the symmetry of the original building, and to strictly maintain overall symmetry in the planning of any new additions. This led to revised plans for two wing additions, one to either side of the west wing, beginning roughly at the end of the original building/beginning of the 1931 addition. A single-story addition was planned behind these proposed new additions, to accommodate kitchens and other back of house functions.

Revised plans elicited further guidance from the NPS on potential additions:

- Critical to maintain overall building symmetry along the east-west axis which constricts additions to the north and south.
- Hide new construction so it is not visible when viewing the building while standing directly across N. Mesquite St, in line with the front-facing monumental east stairs.
 - o It is understandable that the building is highly visible in the round, and that new additions and/or construction will be visible from other vantage points.

Hotel Use Feasibility Study

- New additions cannot extend laterally in plan to the north and south beyond the original north and south pavilions respectively.
- New additions should not be taller than the existing building.
 - This does allow the construction to be taller than the north and south pavilions, as long as the sightline described above is maintained.
 - Some positive consideration was given by the NPS to allowing the roof of the 1931 addition on the west side, beginning beyond the central flat roofed section, to be raised, which could accommodate a higher ceiling height in the historic building and provide for a better roof connection between the historic building and the new additions.
- Any single-story addition on the west side, or rear, of the building need not be symmetrical, but must be fully tucked behind the new additions.
- Per the Secretary's Standards, new additions must be compatible with the historic building but must not match.
 - Given the size of new additions proposed, brick is an ideal exterior finish material.
- NPS presented the idea of removing the 1931 west addition, allowing for the construction of a new wing fully along the rear of the building. This is not a proposal that would necessarily be approved, but it was noted that the National Register nomination, which helps guide the decision-making process when reviewing tax credit proposals, focuses on the original building. This proposal could be further explored through additional preliminary reviews.
 - One benefit of this proposal would be ease of creating accessible paths between the historic building and the new additions,

which might benefit from more regularized floor to ceiling heights.

- New construction, even when replacing a demolished addition, is not a qualified rehabilitation expense and will not count towards the value of tax credits.

OTHER EXTERIOR REHABILITATION WORK

The previous project team proposed a circular drive and a new hotel entry at the northeast corner of the building. This would allow for an accessible, at-grade entry and accessible path to the elevators and lobby on an upper floor. This was acceptable in concept, though a specific design to mark the entrance was not approved. Like any other addition or alteration, in order to meet the Secretary's Standards, a new entrance must be compatible with the historic character of the building, but not attempt to look historic.

Masonry, including terra cotta, will need to be appropriately treated, which may include removing and rebuilding the veneer given the condition of the building, maintaining historic fabric to the greatest extent possible.

Replacement windows are expected and will need to be match the historic windows as closely as possible. Windows that were installed as part of the south wing demonstration project were constructed to meet windstorm standards and it is anticipated that this same design and construction could be used throughout the building. Since few historic window screens remain, those will not require replacement, but replacement is encouraged because those gave the building a distinctive appearance. Additionally, screens could alleviate the need to retain bars in jail windows, since the screens obscured the view of the bars.

INTERIOR REHABILITATION WORK

In a historic courthouse, major public spaces, including courtrooms, corridors, and other gathering spaces, are treated as primary spaces, wherein rehabilitation work must retain the overall space as it exists.

The Nueces County Courthouse features three large, historic courtrooms, all of which must generally be retained in their historic configurations, with extant historic materials. Recognizing that this constitutes a large portion of the building, priority is given to the main courtroom in the east wing and the smaller courtroom in the north wing, which, although originally identical to the south wing courtroom, retains greater physical integrity. The north courtroom retains more of the judge's bench, jury box, and the knee wall in front of the audience. It is expected therefore, that these features be retained in this courtroom, while the south courtroom may be able to undergo additional alterations (though it must still retain its courtroom character). Few court related features remain in the east courtroom, but this was architecturally grander with a higher level of finish in a larger space. The courtroom must be retained as an open room with a balcony, with the historic finishes retained and repaired. The hotel lobby, bar, restaurants, meeting rooms, or other similar gathering functions would be ideal to incorporate into the courtrooms.

The previous proposal called for elevators to be reinstalled in the historic elevator shafts, but rotated 90 degrees towards the center of the building. This would allow for the elevator lobby, atrium, and open stairs to be treated as a protected egress route. This would require some kind of enclosure, and glazed walls are generally considered to be acceptable although it is encouraged to consider hidden emergency curtains or fire wall systems that

would allow the atrium to remain open unless there is an emergency.

Permanent enclosure of the atrium requires additional alterations to the interior floorplan to create a path around the enclosed area. This was accomplished in previous proposals by demolition of (non-significant vaults and other secondary spaces surrounding the enclosure.

Original corridors throughout the floors must be retained, also retaining the door pattern of those spaces. Office spaces beyond the corridors may be rearranged to create hotel rooms.

Original wood trim, doors, flooring, stair rails, decorative plaster, and other interior features must be retained and repaired to the greatest extent possible.

Like the exterior, treatment of interiors in the additions must be in keeping with the historic character of the building, but not match the historic finishes.



View of the south courtroom. The courthouse features three, all of which must generally be retained in their historic configurations.

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JAIL FLOORS

The jail floors have a character that is unique to those floors, different from the rest of the building, which is largely unfinished surfaces and open floors with inserted cells. The lower jail floor does have offices and other rooms at one end that maintain the finished character similar to the rest of the building. The separate architectural character of those spaces must be retained as it was historically.

Rehabilitation of the finished area must follow guidelines established above related to retention of the corridor and historic finishes.

The NPS has preliminarily stated that jail cells need not be retained or preserved in their entirety, but elements of the cells must be retained and incorporated into the new construction to retain an understanding of the original function of those spaces. The unfinished concrete and overall character of these spaces must be retained while introducing new finishes to create hotel rooms (or other new functions).

Both jail floors have only 8-foot floor to ceiling height and ceiling beams with low head clearance. A number of treatment approaches may be acceptable for dealing with these, including structural modifications. Creative space planning may be required.

The two main elevators do not currently access the jail floors, and can be extended to do so.

ROOF DECK

The existing flat portion of the roof may be utilized as an occupiable space. This would require the extension of an elevator through the roof. A new elevator penthouse, and any other alterations, would be reviewed as any rooftop addition would be, under established NPS guidance.

RECOMMENDATION #7

Provide general information in the forthcoming new RFP on possible new construction, estimated square footage, location and design constraints as stated above, which can reasonably be considered within a proposed rehabilitation project. Adhering to this guidance and undertaking further consultation with THC and NPS will allow full use of the available tax credit equity towards the project and permit approval under the Texas Antiquities Code.



Original interior features, such as the grand stairs, must be retained and repaired to the greatest extent possible.

9. RFP Process

OVERVIEW

The 2018 Request for Proposal process yielded one submittal, which outlined a plan to demolish the historic courthouse in order to prepare the land for future new construction. However, a number of development teams expressed interest both to the County and to the Downtown Management District, but they cited a number of challenges with the process itself including:

- Difficulty finding information about the property and the proposal process.
- Difficulty accessing County officials for discussion and dialogue
- Lack of clarity on whether previously recommended incentives would be available to a new development team.

There is still interest in the project from these teams. An improved RFP process is likely produced viable proposals, especially if the challenges identified elsewhere in this study are addressed.

RECOMMENDATION #8

Revision of the RFP to clarify the expectations and parameters for the proposal will facilitate participation. The RFP itself and related documents on the property must be easily accessible to the public and if the county does not have a good means to post or advertise the opportunity, assistance must be obtained. The RFP should be distributed to potential development teams and a reasonable amount of time allocated to the preparation of a proposal. Conversely, the County should establish firm expectations on closing the sale and completion of the project either through its scoring criteria or as terms of their agreement with the selected proposer.



View from the gallery of the 28th District Courtroom.

Summary of Recommendations

Redevelopment of the historic Nueces County Courthouse can be financially feasible given the tools and incentives available, the prioritization of downtown revitalization by the City of Corpus Christi, and the favorable market conditions for boutique lodging along the coast. However, the County must see itself as an active partner in any future proposal process and work to resolve the major redevelopment constraints.

Recommendation #1: Contract for preparation of a current structural assessment.

It is critically important that the County contract for services to conduct a comprehensive structural evaluation and prepare a report with recommended repairs so any interested development team has a complete and accurate understanding of the structural integrity and the estimated costs associated with full exterior restoration and appropriate interior rehabilitation of the building.

Recommendation #2: Plan and execute the recommended “mothballing” work immediately.

Recommendation #3: Expedite state highway right-of-way property disposal. The County should begin working with the City and TXDOT to expedite the right-of-way disposal process in advance of project completion. The County should acquire the excess right-of-way since they will be given priority and it should be deeded to the new owner upon its acquisition.

Recommendation #4: Obtain a commitment from the City to reassess future functionality of Fire Station #1 and self-fund necessary realignments as appropriate—including possible relocation of Fire Station #1.

Recommendation #5: Resolve parking availability issue by obtaining long-term lease agreement with City for adjacent vacant lot(s)

It is estimated that the private sector will desire a parking ratio of about 85% resulting in the need for about 150 spaces. The County should secure a commitment for a low-cost long-term lease for spaces in the underutilized lots directly to the east.

Recommendation #6: Obtain standing commitment from TIRZ Board on project funding.

The County should work with the TIRZ#3 Board to secure standing commitments via resolution that the previous incentive agreements will be guaranteed to any future developer proposing a similar hotel redevelopment plan.

Recommendation #7: Resolve to eliminate County’s “profit” as motivation for sale. Reduce the sale price to a nominal amount plus back taxes and penalties in order to communicate a positive message to the private sector.

Recommendation #8: Include THC/NPS design guidance in Request for Proposal. Any future proposal should follow the THC and NPC guidance closely. As a result, a developer may expect efficient and timely reviews and move forward with confidence that the proposed plans will make the project eligible for the more than \$20 million in historic tax credit equity.

Recommendation #9: Improve RFP document, process, and availability. Revision of the RFP to clarify the expectations and parameters for the proposal will facilitate participation. The RFP itself and related documents on the property must be easily accessible to the public. The RFP should be proactively distributed to potential development teams and a reasonable amount of time allocated to the preparation of a proposal.



Town Square Initiative
TEXAS HISTORICAL COMMISSION



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real places telling real stories