

***GAY STREET REDEVELOPMENT
AND
URBAN RENEWAL PLAN***

***Center City Redevelopment Project Number 11
Knoxville, Tennessee
December, 2004***

KNOXVILLE CITY GOVERNMENT

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TABLE OF CONTENTS

| | |
|---|----|
| Introduction | 5 |
| Project Area Boundary and Existing Conditions | 7 |
| Plan Objectives | 8 |
| Relationship to Local Objectives | 9 |
| Redevelopment Process | 11 |
| Relocation of Residences and Businesses | 13 |
| Land Acquisition and Disposition Plan | 14 |
| Procedure for Plan Amendments | 15 |
| Property Management | 16 |
| Financing Plan | 17 |
| Exhibit A – Gay Street Redevelopment and Urban Renewal Area Map | 20 |

INTRODUCTION

Gay Street has long been the very center of the commercial and retail life of downtown Knoxville. However, in the last several decades, Gay Street and other sections of downtown have suffered from the exodus of a number of businesses, leaving some structures vacant and in disrepair. Yet, in recent years a growing number of businesses and residents have shown a new confidence in downtown by taking steps to renovate several of the structures in the South Gay Street area, bringing vitality to long-empty buildings. The 300, 400, 500 and 600 blocks of the east side of South Gay Street are the prime example of these two trends, with newly renovated businesses and residences appearing among the deteriorating structures.

The Knoxville City Council adopted a resolution on October 26, 2004, requesting Knoxville's Community Development Corporation ("KCDC") to create a redevelopment and urban renewal plan for the South Gay Street area in order to further encourage the revitalization of the area. KCDC has prepared this plan as a result of that request and has submitted the plan as both a redevelopment plan under Section 13-20-203(B) of the Tennessee Code Annotated and an urban renewal plan under Section 13-20-211 of the Tennessee Code Annotated.

The Gay Street Redevelopment and Urban Renewal Plan is intended to assist business owners in restoring the 300 through 600 blocks of the east side of South Gay Street to former days when those blocks were a center for retail and office space. Additionally, the plan encourages new usage for those blocks – a movie theater complex for entertainment – and increased usage of a previously underrepresented segment – individual residences. The interest in this mixed-use development has been supported by the findings of the "Nine Counties One Vision" initiative, which has been a citizen-driven strategic planning effort to identify goals and implementation strategies for an area comprised of Knox County and eight surrounding counties. Also, the need for a mixed-use development on Gay Street has been recognized by the Crandall Arambula master plan for a civic vision for the entire downtown Knoxville area. While promoting economic development, this plan is also intended to encourage the preservation of one of the most historic areas in the City of Knoxville. Many of the properties in the redevelopment area are already included in the nationally registered Gay Street Historic District.

Redevelopment and urban renewal plans have been approved in the last three years for the areas immediately adjoining the 300 through 600 blocks of the east side of South Gay Street. Most of the area on the west side of South Gay Street is incorporated into the Historic Market Square Redevelopment and Urban Renewal Plan, initiated in 2001, and the Gay Street area to the north is incorporated into the Jackson/Depot Redevelopment and Urban Renewal Plan initiated in 2001-2002. This plan is intended to encourage the continuation of these redevelopment efforts.

This plan is a direct result of the emphasis that the City of Knoxville has placed on the redevelopment of downtown Knoxville. Adoption of the plan will hopefully provide an incentive for business owners, individual residents, developers and property owners, both existing and prospective, to seek creative approaches for renovation and development of the

properties in the area, thereby initiating through private development renovation of the area structures and revitalization of a business/residential center. Additionally, implementation of the plan should lead to integration of the area into the adjacent Market Square and Jackson/Depot areas that are currently being regenerated under separate redevelopment plans and to the ultimate revival of the center of downtown Knoxville.

PROJECT AREA BOUNDARY AND EXISTING CONDITIONS

The proposed redevelopment and urban renewal area generally encompasses the east side of the 300, 400, 500 and 600 blocks of South Gay Street, as bordered by State Street on the east, Summit Hill Drive on the north, Gay Street on the west, and with Clinch Avenue as the southern boundary. A boundary map depicting the redevelopment area is attached to this plan as Exhibit A.

Presently the redevelopment area consists of mixed uses, including retail, restaurants, entertainment, parking, residential, and service businesses. A number of the properties in the area have been redeveloped and/or are occupied by active businesses, but these properties are interspersed among properties that are dilapidated or obsolete. Significant efforts to redevelop properties in the area for residential uses are also being made, but a number of other buildings that could be redeveloped for residential use remain blighted and dilapidated.

Some of the properties within the redevelopment area are already covered by existing redevelopment and/or urban renewal plans. Those properties within the South Gay Street redevelopment area that have been previously named in other plans shall be automatically excluded from any plan other than this plan, effective the date of adoption of this plan by the City Council of the City of Knoxville.

The redevelopment area clearly is eligible to be a redevelopment project within the meaning of Section 13-20-202(a) of the Tennessee Code Annotated. Based on physical inspections of the area conducted by KCDC, the redevelopment area is blighted due to dilapidation of a number of the buildings throughout the redevelopment area. Much of the land use in the area is also deleterious because of vacant buildings or inappropriate land uses. The redevelopment area also clearly qualifies as an urban renewal project within the meaning of Section 13-20-212(a) of the Tennessee Code Annotated because the area, based upon physical inspection by KCDC, when considered as a whole, is blighted, deteriorated and deteriorating.

PLAN OBJECTIVES

The primary objectives of this redevelopment and urban renewal plan are:

- * To facilitate the redevelopment of the area with mixed land uses, including commercial, office, cultural and residential uses.
- * To protect the unique architectural and historic character of the redevelopment district.
- * To eliminate conditions of blight and blighting influences and incompatible and inappropriate land uses.
- * To assist the development of the area through tax increment financing.

RELATIONSHIP TO LOCAL OBJECTIVES

Appropriate Land Uses

The land uses in the South Gay Street area have traditionally consisted of commercial, office, arts, and retail activities, with minor usage for residences. The redevelopment plan for the South Gay Street area encourages reinstatement or expansion of each of these land uses, as well as the introduction of a new use in the area of entertainment. The proposed construction of a movie theater will introduce a new aspect of entertainment in the area, which is an appropriate complement to the other existing and prospective land uses on Gay Street, including specifically the Tennessee Theatre which is under extensive renovation and expansion. The area has already witnessed expansion of the residential component, and further expansion is encouraged.

Many structures located in the redevelopment area are historic structures, and preference should be given for preservation of those structures to enhance the character of the downtown community. In fact, many of the properties subject to the plan are included in the Gay Street Historic District, which is a nationally registered historic district. Knoxville has already indicated a strong emphasis on preservation of historical structures with its redevelopment efforts in the downtown areas of Market Square and Jackson/Depot Avenue. However, the South Gay Street plan recognizes that some structures have already been demolished or are in a state of great disrepair, thereby creating opportunities for full development of some sites.

The redevelopment area is presently zoned for the proposed and current land uses. In the event that any specific proposed uses require zoning approvals, KCDC will take steps to secure the proper zoning for the area to encourage redevelopment proposals for the appropriate uses.

Improved Traffic and Public Transportation

The downtown area is the center of the public transportation network for Knoxville. The present system of trolleys serving the entire downtown market and the existing bus lines serving adjoining areas are adequate to meet the needs of the redevelopment area.

In the recent Crandall Arambula master plan, establishing a downtown Knoxville civic vision, Gay Street is identified as a primary pedestrian corridor. In order to enhance the pedestrian experience between the businesses and residences, attention should be placed on enhancing the existing sidewalk system through the area to create a more pleasant green space and to make the system more biking- and walking-friendly.

New parking facilities are not presently contemplated in the redevelopment area, other than in conjunction with the development of each parcel by the separate businesses or residential owners. Adequate parking is currently available in the Promenade Garage to support some of the businesses, and construction of the new Market Square parking garage will provide additional, readily accessible parking to the area.

Public Utilities

The redevelopment area presently has full access to all public utilities. It is likely, however, that some utility improvements may be required in order to meet the demands of the renovated or newly developed structures.

Recreational and Community Facilities

The plan contemplates the redevelopment area becoming an entertainment center of downtown Knoxville. The redevelopment area already contains one of the most beloved entertainment venues of all of Knoxville, the Tennessee Theatre. Through public and private assistance, the Tennessee Theatre is currently undergoing extensive expansion and renovation, which should result in the draw of large productions that downtown Knoxville currently has little capacity to attract. In addition, development of a movie theater complex in the redevelopment area is being strongly encouraged. This entertainment component should be a complement to the other arts and entertainment facilities in the downtown area such as the Bijou Theatre, the nearby Knoxville Museum of Art, and the newly expanded East Tennessee History Museum located across the street from the Tennessee Theatre.

Other Public Improvements

Areas adjacent to the South Gay Street redevelopment area are presently being redeveloped under other plans, primarily the Market Square and Jackson/Depot areas. Future improvements are also planned by the Tennessee Department of Transportation for the Gay Street Viaduct and the Church Street Bridge, both of which are major arteries to the South Gay Street plan area. The redevelopment of the properties in the South Gay Street area is necessary to create a cohesive downtown Knoxville in which there may be interaction among the businesses and residents of all of areas. Redevelopment of the South Gay Street area will therefore enhance opportunities for downtown workers, visitors and guests throughout the City.

REDEVELOPMENT PROCESS

The redevelopment process for the South Gay Street area will be a process driven by private development of the individual tracts of property. The adoption of this plan is intended to assist in the stimulation of the private development of the area through identification by KCDC of the needs of the area, by recommendations of KCDC to the City of Knoxville for any identifiable infrastructure needs of the properties, and by the availability of tax increment financing for the properties in the area. It is contemplated that the redevelopment process will occur in an incremental manner and will take a number of years to complete.

While this plan is in effect, property owners in the redevelopment area who are interested in redeveloping their properties are invited to submit redevelopment proposals to KCDC at any time upon their own initiative to seek the assistance of KCDC in the redevelopment process. The property owners may identify in such proposals any infrastructure and public improvements needs of the property owner that they deem necessary to facilitate the redevelopment. If a redevelopment proposal is approved by KCDC, KCDC will submit such infrastructure and public improvement needs to the City for consideration for funding in accordance with the capital budget process of the City.

In connection with the submission of a redevelopment proposal, any property owner is invited to submit to KCDC any requests for tax increment financing to assist in the redevelopment of the owner's property. This plan must be amended, with such amendment approved by the City and County, in order to provide specific information relating to the tax increment financing for the project. Current state law requirements for such tax increment financings are summarized in the Financing Plan section of this plan.

The properties in the area currently constitute a mix of blighted properties and of properties either completely renovated or those undergoing renovation at this time. KCDC will initiate the redevelopment process by assessing the properties in the redevelopment area and by conducting a complete inventory of the properties within the area, identifying which properties require redevelopment to meet the goals of this plan and identifying those properties that have been or are being renovated or redeveloped.

At this time, KCDC does not expect to acquire blighted properties in the redevelopment area in order to effectuate the redevelopment plan. Owners of blighted properties in the redevelopment area are encouraged to submit redevelopment plans on their own initiative and to actively seek to redevelop their blighted properties. Nevertheless, if a particular property in the redevelopment area is blighted in the judgment of KCDC and the condition of such property is impeding the redevelopment within the redevelopment area, KCDC will issue and submit to the owner of such property a request for proposal for the redevelopment of the property. In the preparation of the proposals, the property owner should include a description of the intended use of the property, the improvements to be made to the property, a proposed budget for the cost of improvements and a timetable for construction. Each owner receiving such a request should also demonstrate its financial ability to complete any proposed redevelopment project, including evidence of the availability of funds to complete the project. All proposals from property owners, as requested by KCDC, must be submitted to KCDC within ninety (90) days from the date of the request.

Properties in the area will be considered "blighted" by KCDC in the redevelopment area if the properties meet the definition of "blighted areas" under Section 13-20-201 of the Tennessee Code Annotated. "Blighted areas" are defined in that statute as areas, buildings or improvements which by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, are detrimental to the safety, health, morals or welfare of the community. Dilapidation, for purposes of this statute, means extreme deterioration and decay due to lack of repairs to and care of the area.

In the event that any property owner fails to submit a redevelopment proposal as requested, KCDC may, in its discretion, seek funding from the City of Knoxville for acquisition of the blighted property and may then, upon approval of such funding, commence condemnation proceedings against the blighted property. Prior to or after the acquisition of the any such blighted property, KCDC may request proposals from third parties for the redevelopment of the property to be acquired.

RELOCATION OF RESIDENCES AND BUSINESSES

It is not anticipated that any residences or businesses will need to be relocated as a result of the redevelopment and urban renewal plan. However, in the event that any residents or businesses need to be temporarily or permanently displaced to permit redevelopment of the district, KCDC will assist such residents with relocation benefits and payments. If the need for any displacement arises, KCDC will comply with its own relocation policies and City relocation ordinances. Additionally, in the event that any businesses must be permanently relocated or temporarily displaced during the redevelopment of the area, KCDC will use its best efforts to assist those businesses in identifying suitable replacement space in the area in close proximity to the area they currently occupy. Any such relocations will be conducted in accordance with applicable policies.

LAND ACQUISITION AND DISPOSITION PLAN

The only properties that KCDC anticipates will be acquired under this plan are: (1) blighted properties for which the owners have elected not to submit proposals upon request in accordance with this plan, (2) properties that the owners have elected to convey to KCDC, (3) properties for which proposals were rejected for noncompliance with this plan or for incentive requests that are deemed unsuitable or unnecessary by KCDC to permit redevelopment, and (4) such other property as KCDC may need to acquire to reduce blight, blighting factors or the causes of blight, as permitted by Section 13-20-202(a)(2) of the Tennessee Code Annotated. KCDC intends to request funding from the City to acquire such properties.

Properties identified for acquisition will be obtained through negotiation if possible. KCDC will acquire property in the redevelopment area by condemnation only if negotiations to acquire the property are unsuccessful. Any condemnation of properties shall be in compliance with state law and KCDC's acquisition policies, and the owners of any property acquired shall receive fair market value for their properties.

Properties acquired by KCDC will be disposed of in accordance with state law and specifically Tennessee Code Annotated Sections 13-20-204 and 13-20-210. As provided in those statutes, KCDC may dispose of any acquired property at such value as KCDC determines such property should be made available in order that it may be redeveloped for the purposes set forth in the plan. Any such dispositions will be made subject to such restrictions and covenants as KCDC deems necessary to (a) ensure completion of the redevelopment project after the transfer, (b) maintain the quality of the redevelopment area, and (c) ensure the continued maintenance of the properties in the area.

PLAN AMENDMENTS AND TERMINATION

In the course of implementing this redevelopment plan, amendments to this plan may be warranted, particularly in connection with the utilization of tax increment financing for particular redevelopment projects. Any amendments to this plan will only be adopted by City Council after a public hearing is conducted in the same manner as the hearing was conducted prior to the adoption of this plan and, where applicable, in compliance with the requirements of Section 13-20-205 of the Tennessee Code Annotated. Notice of any proposed amendments will be given to all property owners within the project area pursuant to the requirements of state law. If County Commission's approval of any amendment is required by state law, such approval will also be requested.

This plan and the provisions thereof shall terminate on the date that is the later of (i) the date that no tax increment financing remains outstanding with respect to any portion of the redevelopment area or (ii) twenty (20) years from the date of approval of this plan by the City Council of the City of Knoxville.

PROPERTY MANAGEMENT

In the event KCDC acquires any properties in the redevelopment area under the circumstances described above, such properties may be under management by KCDC at various times during the redevelopment process. Although the primary objectives of the property management activity will be to minimize the length of occupancy of property after acquisition and to relocate occupants as quickly and efficiently as possible into appropriate accommodations in accordance with this plan, relocation and construction activities will be staged in a manner determined most beneficial to the project. Only such maintenance as may be required for the health and safety of persons lawfully remaining in occupancy will be undertaken with respect to acquired properties. A rent schedule will be established by KCDC for any property that is to be occupied after acquisition.

FINANCING PLAN

The cost of redeveloping particular projects under the plan generally are expected to be funded by the property owners and developers of projects within the redevelopment area and from the proceeds of tax increment financing that may be made available for particular projects. Neither KCDC nor the City expects to directly fund such costs of private redevelopment projects except through the availability of tax increment financing. However, KCDC and the City may assist the property owners and developers through other means, for example payment of the cost of public improvements, such as utility, street and sidewalk improvements that may be needed in connection with a redevelopment project. In addition, property owners may realize benefits from being located in the City's empowerment zone and may utilize other tax incentives, such as historic tax credits. Certain properties may also be eligible for participation in the City's CityLife program, which can provide certain property tax reductions and other redevelopment benefits.

As was mentioned above, KCDC and the City of Knoxville, in conjunction with Knox County, may provide assistance to property owners and developers through approval of tax increment financing proposals. Generally, when tax increment financing is available with respect to a particular redevelopment project, real property taxes imposed by the City of Knoxville and Knox County, Tennessee with respect to such property, after the acquisition thereof by KCDC, may be divided in accordance with the following state law requirements:

(1) That portion of taxes which would be produced by the rate at which the tax is levied each year by each taxing agency, upon the assessed value of such property as shown upon the assessment roll of the appropriate assessor, as of the date of the most recently determined valuation prior to the acquisition of such property by KCDC (the assessed value being herein called the "base assessment") shall be allocated to, and when collected, shall be paid to, the respective taxing agencies as taxes levied by such taxing agencies on all other property are paid; provided, that in any year in which the actual assessment of the area comprising a redevelopment project is less than the base assessment, there shall be allocated and paid to the respective taxing agencies only those taxes actually produced by the application of the current tax rates against such actual assessment;

(2) All the taxes levied in each year in excess of the amount provided for in subdivision (1) shall be allocated to and, when collected, shall be paid into a special fund or funds of KCDC to pay the principal of and interest on bonds, loan or other indebtedness incurred or to be incurred by KCDC to finance or refinance, in whole or in part, the redevelopment project contemplated by such redevelopment plan. If any portion of the taxes received by KCDC pursuant to this provision are not needed within the next six-month period to pay scheduled debt service payments, such excess shall either be used to prepay such indebtedness or to reimburse any guarantor of such indebtedness for payments made by such guarantor with respect to such indebtedness;

(3) Upon the retirement of all bonds, loans or other indebtedness incurred by KCDC and payable from such special fund or funds or at such time as moneys on deposit in such special fund or funds are sufficient for such purpose, all the taxes referred to in

subdivision (2) shall, when collected, be paid to the respective taxing agencies as taxes levied by such taxing agencies on all other property are paid, and KCDC shall give notice to the City of Knoxville and Knox County of such retirement. Any incremental taxes received by KCDC during the last tax year that the indebtedness is outstanding that is in excess of the amount needed to pay the remaining debt service on such indebtedness may be used to reimburse any guarantor of such indebtedness for payments made by such guarantor with respect to such indebtedness. Thereafter, all incremental tax revenues shall be retained by the appropriate taxing agency; and

(4) Taxes shall be levied and collected over all or any part of the area compromising a redevelopment project in the manner provided by the law with the following exceptions:

(A) The appropriate assessor shall, in each year during the period in which taxes are to be allocated to KCDC pursuant to subdivision (2), compute and certify the net amount, if any, by which the current assessed value of all taxable property located within the redevelopment project which is subject to taxation by the particular taxing agency exceeds the base assessment. The net amount of any such increase is referred to in this subdivision (4) as the incremental value for that particular year;

(B) In any year in which taxes are to be allocated to KCDC pursuant to subdivision (2) in which there is an incremental value, the appropriate assessor shall exclude it from the assessed value upon which the appropriate assessor computes the tax rates for taxes levied that year by the taxing agency. However, the appropriate assessor shall extend the aggregate tax rate of such taxes against the base assessment and the incremental value and shall apply the taxes collected therefrom, subject to any other provisions of this amendment or any other legal limitations, as provided above; and

(C) For purposes of this section, if in any year property compromising a portion of a particular redevelopment project shall be removed from the tax rolls of a taxing agency, the base assessment for the area of such redevelopment project shall be reduced by the amount of the base assessment allocable to the property so removed for each subsequent year in which taxes are to be allocated to a particular authority pursuant to the above provisions.

State law requires that certain financial information be set forth in a redevelopment plan with respect any redevelopment project that utilizes tax increment financing. At this time, KCDC has the necessary information with respect to only one proposed redevelopment project in the redevelopment area. This proposed redevelopment project involves the redevelopment of the property located at 402 S. Gay Street (the "402 S. Gay Project"). By adoption of this plan, tax increment financing for the 402 S. Gay Project shall be authorized.

The estimated cost of the 402 S. Gay Project is approximately \$3,593,000. The sources that are expected to be used to pay the costs of the 402 S. Gay Project are a bank loan of \$1,703,000, tax increment financing of \$1,100,000 and owners equity of \$790,000. The tax increment financing for the 402 S. Gay Project expected not to exceed \$1,100,000 and the final

maturity is expected not to exceed 20 years after the later of the date the tax increment financing is issued or the completion of the 402 S. Gay Project. The expected impact of the tax increment financing amendment upon the City of Knoxville is approximately \$62,624 per year and on Knox County approximately \$64,525 per year.

Other property owners who desire to redevelopment their properties in the redevelopment area are encouraged to request that tax increment financing be made available in connection with their specific projects as part of their redevelopment proposal. Upon receipt of such a request, KCDC will prepare and submit to the City of Knoxville and Knox County for approval an amendment to this plan to authorize tax increment financing for the proposed redevelopment project.

Property owners should note that taxes levied upon property subject to tax increment financing provisions by any taxing agency for the payment of principal of and interest on all bonds, loans or other indebtedness of such taxing agency, and taxes levied by or for the benefit of the State of Tennessee, shall not be subject to allocation as provided in subsection (a), but shall be levied against such property and, when collected, paid to such taxing agency as taxes levied by such taxing agency on all other property are paid and collected. In addition, property owners should also note that all special assessments for properties located in the Central Business Improvement District will be unaffected by any tax increment financing and will not be made available to pay debt secured on any tax increment financing.

EXHIBIT A

Gay Street Redevelopment and Urban Renewal Area Map

