



TO: Elizabeth Pauli, City Manager
FROM: Elly Walkowiak, Assistant Director, Community and Economic Development
Jennifer Hines, Assistant Division Manager, Real Property Services
Jeff Robinson, Director, Community and Economic Development
COPY: City Council and City Clerk
SUBJECT: Old City Hall First Amendment to Development Agreement, Purchase and Sale Agreement,
and Public Benefits Agreement – September 28, 2021
DATE: September 8, 2021

SUMMARY AND PURPOSE:

A resolution is requested authorizing the City Council to approve the First Amendment to the Old City Hall Development Agreement, Purchase and Sale Agreement and Public Benefits Agreement with Tacoma Old City Hall LLC (TOCH) of Tacoma, WA to develop a residential and commercial mixed-use project on City-owned property known as Old City Hall at 625 Commerce Street in downtown Tacoma. The purpose is to approve modifications to the development plan, phasing, construction schedule and financing which are necessary to enable renovation of this historic and architectural landmark, support job creation and promote neighborhood revitalization.

BACKGROUND:

Tacoma Old City Hall LLC (Developer) entered into a Development Agreement, Purchase and Sale Agreement, and Public Benefits Agreement with the City of Tacoma on April 22, 2019, per Resolution No. 40268 to develop a residential and commercial mixed-use project at Old City Hall at 625 Commerce Street in downtown Tacoma. The City of Tacoma acquired the property on June 19, 2015, to stave off further degradation of this historic and architectural landmark and repurpose it for viable adaptive reuse.

During the last nearly two and one-half years, the Developer has conducted extensive due diligence and critically examined numerous approaches to seismically retrofit this 128-year old icon so that it will withstand potential earthquakes and protect public safety for the next 100 years. It has met the complex challenges of adapting the building's reuse to current building codes and anticipates obtaining a building permit in early October to begin construction. The Landmarks Preservation Commission unanimously approved the project on June 9, 2021.

Key provisions of the First Amendment to the Development Agreement are as follows:

1. The Development Plan is somewhat revised in order to meet the requirements of the International Building Code. A total of 19 instead of 40 micro-apartments on the fifth level will be constructed. At least nine (9) of the 19 units will be allocated for affordable housing at 60% Area Median Income (AMI). Furthermore, a food hall on Commerce Street and a bar in the basement will be developed. Event space will be situated on the rooftop in the glass-enclosed area (sixth level) but not in the Clock Tower, and there will be no rooftop restaurant as development of a commercial kitchen in this space was disallowed by code. Exhibit, retail, office and co-working space will continue to occupy the first four levels.
2. Renovation of the structure will occur in two phases, instead of one phase, with no delay between the first and second phases. Phase 1 will result in completion of at least 60% of the full buildout. It will focus on:



- Building envelope: Internal structural upgrades (seismic renovations for earthquake protection and related improvements), including the Old Clock Tower, and all exterior masonry rehabilitation excluding brick veneer anchorage, except for completing an investigation plan to determine whether or not reinforcement is required;
- Office space to be leased to the Tacoma Historical Society to showcase exhibits as well as restaurant and retail space to include a food hall on the second level (Commerce Street); and
- Co-working/office space on the third and fourth levels.

A Certificate of Occupancy will be issued after the Phase 1 work is finished which will allow the building to be activated as soon as possible.

Phase 2 will result in completion of the remaining 40% of the full buildout. It will involve:

- Office space in the basement;
- Cafés, a bar and/or office space on the first level (Pacific Avenue);
- Apartments on the fifth level;
- Event space on the sixth level; and
- Any required brick veneer reinforcement.

3. The construction schedule is adjusted as noted in the table below.

Action	Development Agreement	First Amendment
Commence building renovation	<i>No Phasing</i> August 15, 2020	<i>Phase 1</i> November 30, 2021 <i>Phase 2</i> June 1, 2023 (completion of Phase 1)
Complete building renovation	<i>No Phasing</i> November 30, 2021	<i>Phase 1</i> May 31, 2023 <i>Phase 2</i> November 30, 2024
Obtain Certificate of Occupancy	<i>No Phasing</i> December 15, 2021	<i>Phase 1</i> July 31, 2023 <i>Phase 2</i> January 31, 2025



Renovation and occupancy of 60% of the structure in Phase 1 is expected to occur approximately 18-19 months later than originally contemplated in the Development Agreement executed in April 2019. Occupancy of the remaining 40% of the building is projected to happen approximately 37 months later than previously planned. The effects of the pandemic, complex nature of the seismic retrofit and historic rehabilitation work, and unique Developer financing have contributed to extending the timeframe for project completion.

4. The Total Project Cost is estimated at \$14.5 million rather than \$15 million. It is comprised of property acquisition (\$2 million in cash and \$2 million in public benefits), \$1.7 million in soft costs which the Developer has invested to date prior to acquiring title, construction sales taxes, hard costs, for which bids have been received and accepted on major large expense work items, and a 10% construction contingency. The construction budget was independently evaluated by Falkin Associates of Seattle, Washington, and determined to be acceptable. Furthermore, overhead costs will be much lower than typically expected due to the Developer's use of his in-house construction team—Landmark Restoration.

The Developer is self-financing Phase 1. It has established a dedicated construction account exclusively for the rehabilitation of Old City Hall and has deposited a minimum of \$6.68 million into this account to cover the Phase 1 hard construction costs, sales tax and construction contingency. In addition, the Developer has presented evidence that funds are readily available to remit the property acquisition cost of \$2 million in cash at closing.

Regarding Phase 2, the Developer is required to either self-finance or obtain additional equity and debt financing to complete the project. If the Developer self-finances Phase 2, it must deposit a minimum of \$2.14 million into a dedicated construction account to cover the Phase 2 hard construction costs, sales tax and construction contingency. The City will retain oversight for monitoring construction draws related to all self-financing.

The only change in the First Amendment to the Purchase and Sale Agreement is the date of closing, which is to occur on or before November 30, 2021 rather than July 31, 2020.

The First Amendment to the Public Benefits Agreement has slight revisions to account for the decrease in the number of housing units which requires the Developer to forego applying for and obtaining the Multi-Family Property Tax Exemption (MFPTE) for the Property. As a result, the budget for the 10-year Entrepreneurial Education Program will be increased accordingly and a new one-year Computer Literacy Skills Program will be developed to account for a total public benefit of \$2 million. The Agreement Term of 10 years from the date of the Certificate of Occupancy remains the same.

The revised total public benefits are as follows:

1. Reduced Rent to the Tacoma Historical Society (THS) (\$287,500) – No Change

The Developer is required to make available to the Tacoma Historical Society (THS) not less than 1,250 square feet of museum/exhibit space at the rate of one dollar (\$1) per square foot per year for the Term.

- A. The Developer shall agree to obtain approval to install exterior signage on Old City Hall that indicates the presence of THS.



- B. THS shall agree to provide free admission to the museum/exhibit space.
- C. THS shall agree to lead and/or sponsor monthly workshops and events (12 per calendar year). One workshop/event per year must include the topic of redeveloping historic properties in order to encourage reinvestment in Tacoma, which THS shall advertise to property owners within Tacoma's historic districts and to developers.
- D. At all times during the Term, not less than 20% of the THS museum/exhibit space shall reflect the history of Tacoma's communities of color and women.

2. **Entrepreneurial Education Program (\$1,415,000) - Increase of \$170,000**

The Developer is required to conduct an educational program for a minimum of 50 students annually (instead of 44 students), held weekly at Old City Hall, with a core curriculum in business skills. The core curriculum will adapt to changing market conditions during the Term.

- A. The Developer shall endeavor to have not less than 50% of accepted students live and/or work in underserved geographical areas of Tacoma.
- B. The Developer shall strive to employ educators/providers reflective of the population demographics they are serving at Old City Hall.

3. **Computer Literacy Skills Program - New Program: Increase of \$25,186**

The Developer is required to conduct a one-year computer literacy skills training program for a minimum of 276 students (23 adult students per month for 20 hours of training in Microsoft Office and Adobe Acrobat), held weekly at Old City Hall. This program is designed to assist workers entering or re-entering the workforce as well as those re-skilling.

- A. The Developer shall endeavor to have not less than 50% of accepted students live and/or work in underserved geographical areas of Tacoma.
- B. The Developer shall strive to employ educators/providers reflective of the population demographics they are serving at Old City Hall.

4. **Affordable and Market Rate Housing (\$272,314) - Decrease of \$195,186**

The Developer is required to forego applying for and obtaining the Multi-Family Property Tax Exemption (MFPTE) for the Property.

- A. The Developer shall offer 50% of the affordable housing units to persons living or doing business in underserved geographical areas of Tacoma who are at or below 60% AMI.

The Developer shall continue to have the right to present the City with a buy-out option at any point during the Term for the proposed benefits or propose new benefits of value in place of those agreed upon.



The City will compel project performance and manage its risk in several ways. It will ensure that the Developer has 100% project financing and permitting for Phase 1 prior to transferring title to the Property, monitoring construction draws related to self-financing, maintaining frequent communication through progress reports, retaining its right to repurchase the Property at the same price the Developer paid if construction does not begin in accordance with the Development Plan and final Construction Schedule, obtaining ownership of all Intellectual Materials which may be used by future development partners in the event of reacquisition, ensuring the Developer pays liquidated damages for project delays or other defaults, and that it forfeits all investments and equity in the project and the purchase price for failure to perform based on the new Construction Schedule.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

Renovating and repurposing Old City Hall will meet several community needs consistent with Council priorities. It will preserve and adaptively reuse one of Tacoma’s most iconic historic buildings that operated as a center of community life many decades ago. New uses will include office and co-working space to accommodate the needs of growing companies and enable the creation of livable wage jobs. In addition, it will assist in addressing the critical shortage of affordable housing identified in the Affordable Housing Action Strategy. Old City Hall will be a model mixed-use development of dynamic uses that will ensure its long-term sustainability.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility: (Mandatory)

New affordable and market-rate housing as well as office space proximate to public transit in the Downtown Regional Growth Center will provide accessibility to livable wage jobs, educational opportunities and other amenities that will contribute toward reducing racial and other inequities and enhance the quality of life for underserved communities. Subcontracting opportunities will be made available to minority and women-owned firms.

Economy/Workforce: Equity Index Score: Moderate Opportunity

Increase the number of diverse livable wage jobs.

Decrease the number of vacant properties downtown and in the neighborhood business districts.

Livability: Equity Index Score: Moderate Opportunity

Improve access and proximity by residents to diverse income levels and race/ethnicity to community facilities, services, infrastructure, and employment.

Explain how your legislation will affect the selected indicator(s).

Renovation of Old City Hall will offer affordable housing options in an area of the downtown with moderate opportunity, enable the creation of livable wage jobs and preserve a historically significant building.

ALTERNATIVES:

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. Do not approve the First Amendment	N/A	Would considerably delay redevelopment and contribute to project cost escalation with no certainty



		that another developer would construct a project of equal or greater value to the community; may involve litigation
2. Issue a new RFP and negotiate a new contract with one or more developers	May result in development of an acceptable project	Would considerably delay redevelopment and contribute to project cost escalation with no certainty that another developer would construct a project of equal or greater value to the community; may involve litigation

EVALUATION AND FOLLOW UP:

Staff will review Developer reports to ascertain construction progress as well as ensure compliance with all agreements. Upon project completion, the Public Benefits Agreement will be monitored for 10 years to ensure that the Developer is complying with the requirements regarding the lease to the Tacoma Historical Society, Entrepreneurial Education Program, Computer Literacy Skills Program and creation of market rate and affordable housing units at 60% AMI.

STAFF RECOMMENDATION:

Staff recommends approval of the First Amendment to the Old City Hall Development Agreement, Purchase and Sale Agreement and Public Benefits Agreement with Tacoma Old City Hall LLC (TOCH) of Tacoma, WA. The \$14.5 million Old City Hall mixed-use project at 625 Commerce Street across from McMenamins will adaptively reuse a historic landmark and catalyze additional development within the Old City Hall Historic District. It will add affordable and market rate housing, provide office and co-working space to attract growing companies, create livable wage jobs, develop retail and restaurant-related space, showcase historic exhibits in a landmark building and deliver event space that will enable people to gather and celebrate. Although Old City Hall will be privately-owned, the use of this signature building will be returned to the community for all to live, work, learn and enjoy.

FISCAL IMPACT:

The Developer will remit \$1.6 million in cash, which will be deposited into the UDAG Fund to offset the \$4 million used to purchase Old City Hall from this source. In April 2019, the Developer remitted \$400,000 to the City as a Good Faith Deposit toward the \$2 million cash purchase price, which has been deposited into the UDAG Fund.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. 1105-UDAG, UDAG Fund	852400	6411030	\$1,600,000
TOTAL			\$1,600,000



City of Tacoma

City Council Action Memorandum

What Funding is being used to support the expense? N/A

Are the expenditures and revenues planned and budgeted in this biennium's current budget?

NO, PLEASE EXPLAIN BELOW

Agreements needed to be negotiated before the revenue could be planned.

Are there financial costs or other impacts of not implementing the legislation?

No

Will the legislation have an ongoing/recurring fiscal impact?

No

Will the legislation change the City's FTE/personnel counts?

No

Please enter Explanation.

ATTACHMENTS:

N/A