



TO: Elizabeth Pauli, City Manager
FROM: Elly Walkowiak, Assistant Director, Community and Economic Development Department
 Ricardo Noguera, Director, Community and Economic Development Department
COPY: City Council and City Clerk
SUBJECT: **Resolution – Amended and Restated Agreement Regarding the Purchase and Sale and Development of Real Property between the City of Tacoma and North America Asset Management Group, LLC for Development of the Town Center Located Between S. 21st to S. 23rd Streets and Jefferson to Tacoma Avenues – September 12, 2017**
DATE: September 12, 2017

SUMMARY:

North America Asset Management Group, LLC (NAAM) is requesting additional amendments to the Development Agreement that the City Council approved on August 18, 2015 related to the Town Center mixed use project on a 6.4-acre City-owned site located downtown between S. 21st and S. 23rd Streets and Jefferson to Tacoma Avenues adjacent to the University of Washington Tacoma. The proposed Amended and Restated Agreement primarily involves refining the conditions precedent to closing, fine-tuning development requirements, adjusting the closing date, extending performance deadlines, strengthening the City’s reacquisition rights to the site and memorializing a Developer commitment to contribute \$750,000 to fund the S. 21st Street improvements adjacent to the Property.

Council is asked to (1) Approve the proposed Amended and Restated Agreement, which includes final closing and development requirements for the Town Center mixed use project, and (2) Authorize execution of a Quit Claim Deed to convey the entire 6.4-acre site (Tier 1 property), excluding Fawcett Avenue, to NAAM for \$3,451,228 upon meeting the Development Agreement requirements for property conveyance.

This estimated \$125 million mixed use project will contribute significantly to transforming the Brewery District in Downtown Tacoma. It represents a major foreign direct investment on publicly-owned land in Tacoma adjacent to the University of Washington Tacoma. This place-making project will generate substantial tax revenue as well as create about 1,405 construction and at least 185 full-time jobs to enable Tacoma’s continued economic vitality.

STRATEGIC POLICY PRIORITY:

This project that will result in new investment, job creation and increased tax revenue will align best with the following Council priorities:

- Foster a vibrant and diverse economy with good jobs for all Tacoma residents.
- Assure outstanding stewardship of the natural and built environment.

BACKGROUND:

From 1998-2002, the City acquired title to the properties located between S. 21st and S. 23rd Streets from Jefferson to Tacoma Avenues using approximately \$4.1 million in proceeds from a sale of tax-exempt 1997 bonds (1997B). The 1997B bonds are projected to be paid in full by 2018 after the balance of \$5.12 million (principal and interest) is paid off. The Property secures a \$4.2 million General Fund loan made to the Police Department in 2005 for capital construction. Interest due on this loan has been paid



annually; however, the principal amount of \$4.2 million is outstanding. In addition, there is an outstanding loan from the Open Space Fund of approximately \$177,000 (principal and interest).

On August 18, 2015, the City Council approved the Purchase and Sale and Development Agreement with North America Asset Management Group, LLC (NAAM) to develop the Town Center project on the approximate 6.4-acre site situated between S. 21st to S. 23rd Streets from Jefferson to Tacoma Avenues. This agreement has been amended twice. The First Amendment, dated June 14, 2016, primarily adjusted the legal description to remove a portion of real property to be dedicated as additional right-of-way for S. 23rd Street and, consequently, the Purchase Price to \$3,451,228, updated the Development Plan and extended the construction timeline. The Second Amendment, entered into on December 13, 2016, required a \$2.4 million non-refundable deposit, altered the project phasing, increased the residential density and extended the construction timeline.

The entire 6.4-acre development site will be conveyed at one time even though the Town Center project will be developed in three stages—Phase 1A (S. 23rd and Jefferson), Phase 1B (S. 21st and Jefferson) and Phase 2 (Fawcett to Tacoma Avenues). This is necessary for the Developer to invest in and construct the offsite improvements that encompass the whole property. These improvements include but are not limited to erosion control from S. 21st to S. 23rd Streets at Jefferson and Fawcett Avenues, paving S. 21st Street from Jefferson to Tacoma Avenues, constructing storm drains throughout the site, demolishing sanitary sewer in vacated Court E, eliminating power lines in vacated Court D and Court E, along with the associated public utility easement releases, and installing electrical lines along Fawcett Avenue from S. 21st to S. 23rd Streets to complete the loop, and other infrastructure work. The Developer is eager to start construction prior to the onset of the heavy rain in late fall/winter.

Key provisions of the Third Amendment are as follows:

1. NAAM must demonstrate that it has financing available to complete Phase 1A of the project, which is estimated to cost \$35 million. A minimum of \$15 million cash equity transferred to the U.S. (instead of \$20 million) and a Term Sheet from a U.S. financial institution for a \$20 million loan (instead of \$15 million) will be required prior to property conveyance. NAAM must submit evidence of the loan commitment within 90 days of acquiring title to the Property. If it does not meet this requirement, the City will be enabled to reacquire the Property at the Purchase Price.
2. Project financing milestones are established for Phase 1B and Phase 2. NAAM must show the City proof of financing to complete the \$45 million Phase 1B project by December 31, 2018 and the \$45 million Phase 2 project within four months after receiving a Certificate of Occupancy for Phase 1B, which is estimated to occur by March 31, 2021. The City will have the right to reacquire the undeveloped Property at the pro-rated Purchase Price if these requirements are not met and seek other investors to complete buildout of the site.
3. NAAM will increase residential density from a total of 530 to at least 600 units, decrease retail/service commercial space from 220,000 square feet to 200,000 square feet, maintain at least 50,000 square feet of office space and reduce the number of parking stalls from 635 to 600.



- 4. Performance deadlines are modified as follows to allow sufficient time for permit approvals and financing:

Action	Second Amendment	Amended and Restated Agreement
Closing Date	August 31, 2017	September 30, 2017
Start Phase 1A	September 30, 2017	November 30, 2017
Complete Phase 1A	February 28, 2019	August 15, 2019
Start Phase 1B	2018	February 15, 2019
Complete Phase 1B	November 30, 2019	November 5, 2020
Start Phase 2	May 31, 2020	May 31, 2021
Complete Phase 2	November 2021	November 30, 2022

The entire buildout is anticipated to be completed approximately one year later than identified in the Second Amendment. The City Manager will be provided with the authority to approve modifications to the schedule especially in cases where the project is delayed due to prolonged construction of public infrastructure improvements that affect site development.

- 5. On August 18, 2017, the City applied for a \$2.7 million State Transportation Improvement Board (TIB) grant to pave S. 21st Street from Jefferson to Tacoma Avenues and install sidewalks, street lights and trees as well as a traffic signal at S. 21st Street and Tacoma Avenue and interconnecting signals at S. 21st Street and Jefferson Avenue and S. 19th Street and Tacoma Avenue. NAAM is pledging \$750,000 as grant match.

ISSUE:

If the Amended and Restated Development Agreement and the sale are not approved, the City’s long-term goal of a mixed use urban village on the site will be delayed, and the property will continue to be underutilized. If the Agreement is approved, there is potential for a residual irreducible risk that the Developer will not commence construction or will start but not complete the project. As a result, the City would be compelled to reacquire the property or participate in securing another entity to construct the mixed use development.

In addition, because the land was purchased with proceeds of tax-exempt bonds, the disposition of the asset is subject to restrictions imposed by the U.S. tax code. The City has two options: (1) pay off the amount of bonds attributable to the land purchase, or (2) apply the sale proceeds to another capital project of the City.

ALTERNATIVES:

The City Council may elect not to approve the Amended and Restated Development Agreement. However, this action will act to delay NAAM’s ability to start construction this fall and hinder it from obtaining additional investors and firm commitments from tenants. Downtown revitalization will lag which will negate job creation and tax revenue generation.

RECOMMENDATION:

Staff recommends that the City Council approve the Amended and Restated Development Agreement as well as authorize execution of a Quit Claim Deed under the terms of the Agreement to convey this Tier 1 property located between S. 21st to S. 23rd Streets and Jefferson to Tacoma Avenues to North America Asset Management Group, LLC for \$3,451,228 upon meeting the Development Agreement requirements



for property conveyance. The \$125 million Town Center mixed use project will serve as a catalytic development in the downtown core. It will generate significant direct and indirect revenue, create jobs, increase downtown residential density, add to the liveliness of the University of Washington retail corridor, attract diversified foreign investment and enhance the City’s international image.

FISCAL IMPACT:

The purchase price of the property is \$3,451,228 based on a March 2015 appraisal. Since the sale price of this property is less than the amount of the loans secured by it, the General Fund will incur a loss. In addition, any sales proceeds must be used to either retire outstanding bonds or for another qualified public capital purpose of the City.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Fund 0010—General Fund	Loan needs to be paid off/ Written off	1820010	\$4,200,000
Fund 1195—OPENS (Open Space)	Loan needs to be paid off/ Written off	1820010	\$177,000 (principal and interest)
TOTAL			\$4,377,000

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Fund 0010—General Fund (Land Sale Proceeds)	651000	6411030	\$3,451,228
TOTAL			\$3,451,228

POTENTIAL POSITION IMPACT: N/A

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$0 net revenue.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No.

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.