



TO: T.C. Broadnax, City Manager
FROM: Martha Anderson, Assistant Director, Community and Economic Development Department
Ricardo Noguera, Community and Economic Development Department
COPY: City Council; City Clerk
SUBJECT: **Resolution – Second Amendment to Purchase and Sale and Development Agreement between City of Tacoma and North America Asset Management Group, LLC**
DATE: December 13, 2016

SUMMARY:

North America Asset Management Group, LLC (NAAM) is requesting a second amendment to the Purchase and Sale and Development Agreement and First Amendment as approved by City Council on June 14, 2016. The second amendment will adjust performance dates and development parameters under the agreement in exchange for an additional \$2,400,000 non-refundable deposit to complete funding needed for purchase.

STRATEGIC POLICY PRIORITY:

This project is aligned with the following Council strategic policy priority:

- Foster a vibrant and diverse economy with good jobs for all Tacoma residents

BACKGROUND:

The property was acquired in parcels from 1998–2002 using approximately \$4.1 million in proceeds from a 1997 sale of tax-exempt bonds (1997B). The amount currently outstanding on the 1997B bonds is approximately \$5.12 million (principal and interest) and they are due to be paid off by 2018. The same land secures a \$4.2 million General Fund loan which was made to the Police Department in 2005 for capital construction. The interest due on this loan has been paid annually, however the principal amount of \$4.2 million is still outstanding. Finally, there is an outstanding loan from the Open Space Fund of approximately \$175,000 (principal and interest).

City Council approved a Purchase and Sale and Development agreement with North America Asset Management LLC (NAAM) on June 14, 2016 for City property at the proximate location of South 21st to 23rd and Jefferson St. to Tacoma Ave. and approved the first amendment to the agreement revising legal description and amending performance deadlines.

NAAM has requested a further revision to extend performance dates to allow adequate time for permitting approvals and financing. The amendment will increase the number of residential units built and will increase the number of phases of construction from two to three.

Development will include over 800,000 square feet and will be constructed in three phases.

- Phase 1A will include minimum of 220 residential units, parking and approximately 20,000 square feet commercial/professional or retail space.
- Phase 1B will include approximately 200,000 square feet retail space, 130 residential units and parking. Combined Phase 1A and 1B will include a minimum of 450 parking stalls



- Phase 2 will include a minimum of an additional 180 residential units, 50,000 square feet commercial/professional space and 185 parking stalls

Closing date for the purchase of the property will occur no later than August 31, 2017 after receiving site development permit, submitting building permit package and depositing funds with the City or bonding for off-site improvements required by the City. Construction schedule will be:

- Phase 1A construction will begin no later than September 30, 2017 and completed by February 28, 2019.
- Phase 1B will start in 2018 and will be completed by November 30, 2019.
- Phase 2 construction will begin within six months of receiving certificate of occupancy for Phase 1

NAAM has waived feasibility and has previously paid non-refundable deposits of \$1,125,000. NAAM will pay an additional \$2,400,000 non-refundable deposit in consideration of the amendment extending the schedule and amending the phasing. These deposits will cover the entire amount of the purchase price of \$3,451,228 plus closing costs and prorations.

ISSUES:

Because the land was purchased with proceeds of tax-exempt bonds, the disposition of the asset (land) is subject to restrictions imposed by the U.S. tax code. If the City disposes of the land, it constitutes, under IRS rules, a “change in use” from the purpose for which the bonds were issued. A change in use, combined with title transfer to a for-profit entity, will cause the bonds to be taxable from their date of issue, assuming they pass certain private use thresholds. This is because there are limitations on the amount of tax-exempt subsidy which may be transferred to a nongovernmental purpose entity. To avoid the negative tax implications attributable to “private activity bonds” the City has two options. The first option is to pay off the amount of the bonds attributable to the purchase of the land. A second option is to apply the sale proceeds to another capital project of the City.

ALTERNATIVES:

Not approving the agreement will delay the developer’s ability to secure additional investors and secure firm commitments from tenants.

RECOMMENDATION:

It is recommended that the City Council approve this agreement.

FISCAL IMPACT:

Purchase price of the property is \$3,451,228 based on March, 2015 appraisal. Since the sale amount of this property is less than the amount of the various loans that are secured by this property, it will result in a loss to the General Fund. In addition, any proceeds from the sale of this property 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
010 General Fund	Loan- needs to be paid off/written-off	1820010	\$4,200,000
1195-Open (Open Space)	Loan- needs to be paid off/written-off	1820000	\$177,000 (approx. principal & interest)
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
General Fund-0010 (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: Net Revenue is \$0.00

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED: NO