



TO: Elizabeth Pauli, City Manager
FROM: Jeff Robinson, Community & Economic Development Department
 Elly Walkowiak, Assistant Director, Community & Economic Development Department
COPY: City Council and City Clerk
SUBJECT: **Resolution to Authorize City Manager to Execute Old City Hall Purchase and Sale Agreement, Development Agreement and Public Benefits Agreement – March 26, 2019**
DATE: March 21, 2019

SUMMARY:

The Community and Economic Development Department is requesting that Council authorize the City Manager to execute a Purchase and Sale Agreement, Development Agreement and Public Benefits Agreement with Tacoma Old City Hall LLC of Tacoma, WA to develop a residential and commercial mixed-use project at City-owned property known as Old City Hall located in the downtown at 625 South Commerce Street. This estimated \$15 million retrofit will benefit a broad cross-section of Tacoma residents and visitors. It will renovate an historic and architectural landmark, continue to catalyze downtown development, increase the City’s tax base and create about 100 construction and at least 150 full-time office, retail and service jobs. The project will also incorporate equity, enable entrepreneurship, provide affordable and market rate housing, and support tourism to enhance Tacoma’s vitality.

STRATEGIC POLICY PRIORITY:

Renovation of Old City Hall aligns with the following Council priorities:

- Foster a vibrant and diverse economy with good jobs for all Tacoma residents;
- Encourage thriving residents with abundant opportunities for life-long learning;
- Cultivate a vibrant cultural sector that fosters a creative, cohesive community;
- Assure outstanding stewardship of the natural and built environment; and
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

In addition, the mixed-use project will:

- Promote redevelopment of adjacent underdeveloped properties;
- Assist in strengthening the growing information technology cluster through co-working; and
- Provide mixed-income housing that will densify the neighborhood and contribute to sustaining commercial enterprises.

BACKGROUND:

On June 19, 2015, the City of Tacoma purchased Old City Hall for \$4 million, which had deteriorated significantly and fallen into disrepair. The acquisition was made in order to stave off further degradation and repurpose this preeminent Tacoma historical and architectural landmark for viable adaptive reuse. The City initially selected a developer to rehabilitate the property through an RFI process in late 2015, but the project could not proceed for several reasons.

Subsequently, the City issued an RFP on May 29, 2018 and received five submittals, including that of the Developer. In fall 2018, the City Manager authorized staff to negotiate a Purchase and Sale Agreement, Development Agreement and Public Benefits Agreement with Eli Moreno, Manager, Surge Tacoma (Development Entity: Tacoma Old City Hall LLC) of Tacoma, WA to develop a residential and commercial mixed-use project.



Key contract provisions are as follows:

1. At a minimum, the Development Plan shall, as allowed by the International Building Code, provide for:
 - A. Two restaurants—one on Pacific Avenue (basement level) and one on the rooftop,
 - B. One bar on Commerce Street,
 - C. Approximately 20,000 square feet of retail space on the first and second levels,
 - D. Approximately 20,000 square feet of office and co-working space on the third and fourth levels,
 - E. A minimum of 40 micro-apartments on the fifth level, with at least 20 Affordable Housing units at 60% Area Median Income (AMI),
 - F. Event space in the Old Clock Tower if economically feasible, and
 - G. Exhibit space.

2. Restoration shall:
 - A. Maintain the historic integrity of the structure in accordance with the Secretary of the Interior’s Standards for Historic Rehabilitation for interior and exterior alterations as well as the Old City Hall Historic District design guidelines. The Property is listed on the Tacoma, State of Washington and National Registers of Historic Places.
 - B. Restore and maintain the clock and chimes in the clock tower so that accurate time is displayed and the clock mechanism, face and chimes are in working order in perpetuity.
 - C. Restore missing elements, such as an historically appropriate visual facsimile of the copper roofing on both towers, and copper eaves, if economically feasible.
 - D. Include specific plans addressing the stabilization and protection of all vaulted walks adjacent to the building.

3. Other actions:
 - A. Include measures in the renovation designed to promote environmental sustainability and energy efficiency if economically feasible, and
 - B. Make reasonable efforts to incorporate Small Business Enterprise (“SBE”) and Local Employment and Apprenticeship Program (“LEAP”) participation in construction of the project.

4. The Developer shall purchase the Property for \$2 million in cash and acquire title in an “as is” “where is” condition. In addition, there is an expected value of \$2 million as outlined in the Public Benefits Agreement. Cash will be remitted as follows:
 - A. \$400,000 Deposit upon execution of the Purchase and Sale Agreement by both Seller and Buyer, which shall be non-refundable, and
 - B. \$1.6 million less accrued interest due at closing.



5. The Developer shall provide the Public Benefits outlined below that are designed to meet broad-based community needs, further equitable access in service delivery, provide unique opportunities to develop and attract talent, support transformative efforts and coalesce with neighborhood synergies. The Agreement Term is ten (10) years from the date of Certificate of Occupancy.

A. Reduced Rent to Tacoma Historical Society (THS) (\$287,500)

The Developer shall 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.

- (1) The Developer shall agree to obtain approval to install exterior signage on Old City Hall that indicates the presence of THS.
- (2) THS shall agree to provide free admission to the museum/exhibit space.
- (3) 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.
- (4) At all times during the Term, not less than twenty percent (20%) of the THS museum/exhibit space shall reflect the history of Tacoma's communities of color and women.

B. Entrepreneurial Education Program (\$1,245,300)

The Developer shall conduct an annual educational program for a minimum 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.

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

C. Affordable and Market Rate Housing (\$467,200)

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

- (1) The Developer shall offer fifty percent (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 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.

6. Precedent is being set regarding equity in the Purchase and Sale, Development and Public Benefits Agreements. In addition to the equity elements referenced above, the Developer will be required to incorporate equitable access to tenancy into the Developer's lease and use of the Property. Equitable access is defined as making a concerted effort to lease fifty percent (50%) of the retail space to businesses owned by persons living or doing business in underserved geographical areas of Tacoma.



7. The Total Project Cost is estimated at \$15 million. The Developer shall contribute at least forty percent (40%) equity into the project, which may consist of its own and/or investor equity as well as equity derived from the potential sale of Federal historic tax credits, and sixty percent (60%) debt.
8. Prior to Property conveyance, the Developer must comply with the following:
 - A. Approved Development Plan for building improvements,
 - B. Approved Public Benefits Agreement,
 - C. Completed and approved Part II of Federal Historic Tax Credits application,
 - D. Committed funds for 100% of the Total Project Cost,
 - E. Secured all initial permits for constructing interior and exterior improvements,
 - F. CED Director and Public Works Director-approved Parking/Non-Motorized Transportation Plan, and
 - G. CED Director and Office of Equity and Human Rights Director-approved Equitable Access Plan regarding the Developer’s lease of the Property.
9. The initial project schedule is as follows based on a starting date of April 1, 2019:

A. Complete Due Diligence (including Scoping Process)	By June 1, 2019
B. Complete Schematic Design	By September 30, 2019
C. Apply for Historic Tax Credits	By October 31, 2019
D. Submit for Pre-Application Review	By November 30, 2019
E. Obtain Historic Tax Credit Application Approval	By February 28, 2020
F. Obtain Landmarks Preservation Commission Approval	By February 28, 2020 (projected)
G. Provide 30% Completion of Construction Drawings	By March 15, 2020
H. Demonstrate 100% Financing	By April 30, 2020
I. Obtain Building and Related Permits	By July 15, 2020
J. Transfer Title to Property	By July 31, 2020
K. Commence Building Construction	By August 15, 2020
L. Complete Building Construction	By November 30, 2021
M. Obtain Certificate of Occupancy	By December 15, 2021
N. Tenants Occupy Building	By December 31, 2021
10. The City will compel project performance and manage its risk by ensuring that the Developer has 100% project financing and permitting prior to transferring title to the Property, 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 according to 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, requiring a performance bond or Irrevocable Letter of Credit if 30% Construction Drawings are not completed and delivered to the City by November 30, 2019, and earning liquidated damages for project delays.

ALTERNATIVES:

The City Council may elect not to enter into the Purchase and Sale Agreement, Development Agreement and Public Benefits Agreement as proposed. However, this action will impede development and downtown revitalization, which will slow investment, job creation, housing construction and revenue generation.



RECOMMENDATION:

Staff recommends that the City Council authorize the City Manager to execute the Purchase and Sale Agreement, Development Agreement and Public Benefits Agreement with Tacoma Old City Hall LLC of Tacoma, WA to develop a mixed-use project at Old City Hall located at 625 South Commerce Street. This project will serve as a catalyst for transit-oriented development in the Downtown St. Helen’s neighborhood. It will preserve an historic and architectural landmark that served as the City’s early center of government, reposition the Property to serve broad-based community needs, generate substantial revenue, create jobs, provide retail and restaurant options, enable the development of new businesses, provide affordable and market rate housing and support tourism to enhance Tacoma’s vitality. For the first time in the City’s history, the redevelopment of Old City Hall will incorporate equity into the agreements to enable opportunity for all and celebrate the City’s diversity.

FISCAL IMPACT:

The Developer will remit \$2 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.

EXPENDITURES: N/A

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
1195-UDAG, UDAG Fund	852400	6411030	\$2,000,000
TOTAL			\$2,000,000



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: N/A

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? N/A

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

Explain how expenditures are to be covered and if budget modifications are required. N/A