



TO: Elizabeth Pauli, City Manager
FROM: Teresa Sedmak, City Treasurer
COPY: City Council and City Clerk
SUBJECT: Approval of documents and authorization of actions necessary to obtain Federal Historic Tax Credit Funding on Renovations of the Pantages Building, and related contract change orders for the renovation project
DATE: June 4, 2019

SUMMARY:

A resolution related to the renovations of the historic Pantages Theater building allowing staff to work with consultants and legal counsel to capture Federal Historic Tax Credit funding, to fund additional restoration work.

STRATEGIC POLICY PRIORITY:

This amendment aligns with the following strategic policy priorities:

- Strengthen and maintain a strong fiscal management position.
- Foster neighborhood, community, and economic development vitality and sustainability.

BACKGROUND:

The City passed a resolution (Resolution No. 39899 or “the Resolution”) in December of 2017, allowing for a lease of the Pantages Building (through Tacoma Community Redevelopment Authority or “TCRA” as owner of the property) in order that it may be in a position to access Federal Historic Tax Credits (“FHTCs”) funding to partially offset the costs of its historic renovation. In accordance with the Resolution, a lease structure was developed and documented, satisfying the structural requirements associated with Historic Tax Credit funding.

At this time, the majority of the historical components of the renovation (which include paint and plaster, seating, flooring, lighting and other items) are complete, with the remaining improvements scheduled to be completed on or before December 31, 2019. The City is now in the process of negotiating with a tax-credit investor for Federal Historic Tax Credit funding associated with the improvements. As is typical for FHTC financings, the tax-credit investor is requiring, among other items, that the City take responsibility for: (1) the lien-free completion of the improvements; (2) payment of excess development costs and receipt of a certificate of completion no later than December 31, 2019; (3) the proper and accurate certification of the qualified rehabilitation expenses; (4) that the building will be operated as a historic theater for at least the five (5) years following completion of the improvements; and (5) that any environmental issues related to the project will be addressed. Without the City taking on these obligations, the investor will not invest in the project. These obligations will be set forth in one or more agreements between the City and the investor. The City’s existing management agreement with Tacoma Arts Live will be amended to become a sub-management agreement and/or otherwise to reflect the tax credit structure. The City will enter into one or more agreements terminating encumbrances on the property that may be inconsistent with the tax credit structure and procuring title insurance. The City entered into a tax-credit obligation in 1983 for improvements to the Pantages Building. This tax credit structure was terminated in 2014 to make way for the planned improvements to the building which are currently underway.

In addition, on May 8, 2018, by Resolution 40006, the City Council authorized the assumption and execution of design and construction agreements previously contracted by the Broadway Center for the Performing Arts (Tacoma Arts Live) with John Korsmo Construction, Inc., d.b.a. Korsmo Construction,



for first phase construction for renovations and repairs to the historic theater heater and associated facilities. In order to provide for completion by December 31, 2019, and provide for the utilization of the proceeds of the Historic Tax Credits it is necessary authorize change orders with Korsmo Construction pertaining to the remaining work, including doors, brick and sidewalk repairs, elevator work, and an outside staircase for the adjacent Rialto Theater.

ISSUE:

In order to acquire funds through the sale of FHTCs, the City will be required to enter into one or more agreements with the tax-credit investor, including City obligations to provide: (1) for the lien-free completion of the improvements; (2) for payment of excess development costs and receipt of a certificate of completion no later than December 31, 2019; (3) the proper and accurate certification of the qualified rehabilitation expenses, (4) that the building will be operated as a historic theater for at least the five (5) years following completion of the improvements; and (5) that any environmental issues related to the project will be addressed; and change orders with Korsmo Construction to provide for expenditure of the proceeds of the Historic Tax Credit sale and timely completion of the project. The City will also terminate certain encumbrances on the property and amend its agreement with Tacoma Arts Live to accommodate the tax credit structure.

ALTERNATIVES:

Council could decide to not to approve this action and not enter into the agreements, and related documents, required by the tax-credit investor. This would eliminate the Federal Historic Tax Credits from available funding for the renovation project. Without the tax credit financing, the project would either need to cut scope or seek additional funding from other sources.

RECOMMENDATION:

Staff recommends that City Council approve the resolution and enter into the agreements, and related documents, necessary to secure funding from the tax-credit investor, and change orders to provide for expenditure of the proceeds of the Federal Historic Tax Credit Sale and timely completion of the project.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: None. As stated earlier, without the tax credit financing, the project would either need to cut scope or seek additional funding from other sources.

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