

Memorandum



DATE January 30, 2009

TO Members of the Economic Development Committee: Ron Natinsky (Chair),
Tennell Atkins (Vice-Chair), Dwaine Caraway, Jerry R. Allen, Sheffie Kadane,
Mitchell Rasansky, Linda Koop, Steve Salazar

SUBJECT **Arts District Garage**

On February 2, 2009, the Economic Development Committee will be briefed on Arts District Garage.

A copy of the briefing is attached. Staff will be available at the meeting to answer questions.

Should you have any questions, please contact me at (214) 670-3314.


A.C. Gonzalez
Assistant City Manager

C: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Forest Turner, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Jeanne Chipperfield, Director, Budget & Management Services
David Cook, Chief Financial Officer
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Helena Stephens-Thompson, Assistant to the City Manager

ARTS DISTRICT GARAGE

Economic Development Committee
February 2, 2009

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Arts District Garage

Current



Proposed



Arts District Garage - Background

- In 1986, City entered into a 200-year lease agreement (effective in 1988) with Metropolitan Structures (owner of the site) related to the development of the Arts District Garage. Site map included as Exhibit 3.
 - City financed construction of a 1,787 space underground garage on its leasehold to support parking needs in the Arts District (Metropolitan financed and retained fee ownership of 145 of the 1,787 spaces)
 - Metropolitan sublet an additional 442 spaces from the City for 20 years (with nine 20-year options)
 - The 442 space sublease expired December 31, 2008 (was extended through February 16, 2009)
 - Metropolitan's original development plan contemplated construction of two 50-story office towers and a second underground garage
 - The office towers and second garage were not constructed due to market conditions associated with the real estate crash of the mid-to-late 1980's
 - In 1995, affiliates of Hall Financial Group purchased fee simple title to the surface land, air rights and the interest that Metropolitan had in the Garage

Arts District Garage - Background

- In August 2005, Hall Financial approached the City seeking a restructure the Garage sublease and potential economic incentives in order to facilitate the potential development of a new mixed-use tower on the site.
- After months of discussions, in March 2006 the City ultimately informed Hall Financial that it could not support economic incentives sought by the company for the project because:
 - level of incentives pursued at the time were viewed excessive
 - concerns over potential interference with a use agreement with the Symphony and other operations
- Subsequent to the cessation of discussions, Hall stopped paying rent on its sublease and the City sued Hall for back rent.
- Hall counterclaimed alleging they were due offsets for insurance costs incurred, utility charges and repairs it had made.

Arts District Garage

Current Status

- 1) Hall owns fee simple title to surface land, air rights, and 145 garage spaces
- 2) City has a 200 year lease agreement with Hall related to 1,642 of 1,787 total garage spaces

Hall sublets an additional 442 spaces from city for 20 years with nine 20 year options – sublease expires 12/31/2008 but was extended to 2/16/2009

Proposed Settlement

Same

City enters into an 80 year sub-lease with Hall beginning January 1, 2009

Sublease is not assignable prior to Certificate of Occupancy on new tower

Arts District Garage

Current Status

- 3) City operates and maintains the garage

- 4) Hall defaulted on its sublease and City sued for back rent.

Hall counterclaims offsets for insurance costs, utility charges and repairs.

Proposed Settlement

- Hall manages or contracts to manage the garage and is responsible for all operating, insurance and maintenance costs

- Hall pays past due rent and City waives penalties and interest; both sides drop lawsuit

- Hall has deposited past due rent into escrow account pending settlement (\$626,669.57)

Arts District Garage

Current Status

- 5) City is responsible for outstanding American Disability Act repairs plus engineering items for health and structural safety

Proposed Settlement

Hall agrees to make outstanding ADA repairs plus needed health and structural safety repairs within 12 months of settlement agreement

Hall makes additional improvements connected to new building including: relocation of elevators, streetscape, valet areas, reconfiguration of public parking

Arts District Garage

Current Status

- 6) City has an existing use agreement with the symphony

- 7) Net operating revenue for Garage was: \$152,178 in FY06; (\$25,471) in FY07, and \$62,738 in FY08 (not including rent due from Hall)

Estimated net operating revenue for FY09 is \$346,063

Proposed Settlement

Existing use agreements with the symphony and cathedral will be honored

New sublease rent (80-years)

- First year prepaid
- \$250K / yr: 2009 – 2012
- \$300K / yr: 2013 – 2016
- \$500K / yr: 2017 – 2028
- \$750K / yr: 2029 – 2038
- \$1.0M / yr: 2039 – 2048
- \$1.5M / yr: 2049 – 2058
- \$2.0M / yr: 2059 – 2088

Total rent = \$100.7M (\$9.9 NPV)

Arts District Garage

Current Status

- 8) City owns the leasehold for 180 more years

Proposed Settlement

Hall is permitted to purchase city's interest in garage for greater of appraised FMV or \$11.3M (plus an annual escalator – see Exhibit 1) within first 15 years.

Hall cannot purchase the leasehold prior to 12/31/2012 unless building permit for new tower is obtained

Hall has option to renew lease at end of 80 years at \$2m annually (with escalators) or purchase at FMV

Arts District Garage

Current Status

- 9) “Stonehenge” surface improvements blemish Ross Ave. entrance to new Arts District

Proposed Settlement

Hall commits to minimum 450,000 sq. ft. mixed-use building (office and retail) and invest a minimum of \$120M

Building permit by 12/31/2012 and Certificate of Occupancy by 12/31/2015

City can terminate sublease if either date is not met

Arts District Garage

Current Status

- 10) 2008 DCAD land value of \$11,841,000 producing total estimated property taxes of \$296,940

- 11) No current city assistance

Proposed Settlement

- Estimated taxable value upon building completion of \$120M with annual taxes at FY 2008 tax rate of \$3,009,276

- Hall reimbursed up to \$7M plus interest (up to a maximum of \$9M) for described improvements, subject to separate Downtown Connection TIF Board and City Council approvals

Recommendation

- Approve amended sublease and development agreements on February 11, 2009

Exhibit 1 – Potential Sale Price

	Yr 1	Yr 2	Yr 3	Yr 4	Yr5	Yr6	Yr7	
Staff Calculated Value	11,300,000	11,300,000	11,728,000	12,181,680	12,662,581	13,172,336	13,662,676	
PV Accrual		678,000	703,680	730,901	759,755	790,340	819,761	
Rent (credit)		(250,000)	(250,000)	(250,000)	(250,000)	(300,000)	(300,000)	
Purchase Price	11,300,000	11,728,000	12,181,680	12,662,581	13,172,336	13,662,676	14,182,436	
	Yr8	Yr9	Yr10	Yr11	Yr12	Yr13	Yr14	Yr15
Staff Calculated Value	14,182,436	14,733,383	15,117,385	15,524,429	15,955,894	16,413,248	16,898,043	17,411,925
PV Accrual	850,946	884,003	907,043	931,466	957,354	984,795	1,013,883	1,044,716
Rent (credit)	(300,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Purchase Price	14,733,383	15,117,385	15,524,429	15,955,894	16,413,248	16,898,043	17,411,925	17,956,641

Exhibit 2 – Responses to Recent Committee Questions

- What has been the net revenue for the garage over the last three years?
Net operating revenue for the Arts District Garage was \$152,178 in FY06, (\$25,471) in FY07 and \$62,738 in FY08.
- If we don't do the Hall deal, what will be the net revenue this year?
Estimated net revenue for the Arts District Garage for a full year operation in FY09 is \$346,063. This includes estimated expenditures of \$170,000 for needed replacement of the ticket dispensers and ADA improvements. (Note: Previous staff response included estimated net revenue of \$259,193 instead of \$346,063. Increased estimate due to aggressive marketing of Hall parking spaces).
- If the monthly rent were \$90.00 per month instead of the current \$55.00 (market rate) per month what would the net revenue be for the year?
If monthly rent were \$90.00 per month beginning April 1, FY09 net revenue would increase to \$673,643, assuming the price increase did not change the market demand and that spaces currently leased to Hall were rented at \$90.00 per month.
- How does the potential FY09 net revenue of \$346,063 compare to proposed annual sub-lease revenue?
Current proposed annual sub-lease revenue is \$250,000 annually for years 2009-2012 and escalating as follows: \$300,000 annually for years 2013-2016; \$500,000 annually for years 2017-2028; \$750,000 annually for years 2029-2038; \$1 million annually for years 2039-2048; \$1.5 million annually for years 2049-2058; \$2 million annually for years 2059-2088.

Exhibit 2 – Continued

- Has Hall paid past due rent ?
Past due rent has been placed in escrow pending City Council approval of the amended and restated sublease.
- Did Hall pay late fees ?
Late fees were waived as part of settlement negotiations.
- Was this in FY07-08 or FY08-09 budget ?
The FY08-09 budget assumed transfer of operations effective January 1, 2009..
- How does the new lease terms compare to previous ?
The revised sub-lease expands beyond the existing lease primarily in the following ways: (1) Hall, not the City, will be responsible for operations and management, (2) Hall's new sub-lease would include all garage spaces (minus those reserved for the Symphony) instead of the current 442 spaces, (3) Hall will have a 15-year purchase option at a predetermined price or market value (whichever is greater) and a purchase option for fair market value after year 80, (4) Hall will make payments of \$250,000 annually for years 2009-2012; \$300,000 annually for years 2013-2016; \$500,000 annually for years 2017-2028; \$750,000 annually for years 2029-2038; \$1 million annually for years 2039-2048; \$1.5 million annually for years 2049-2058; \$2 million annually for years 2059-2088, plus a renewal option.
- How did we come up with a purchase price of \$11.3M ?
\$11.3M was the NPV of a negotiated 80-year rental stream.
- Revenue for current budget versus what was planned?
First Quarter revenue for FY08-09 was budgeted at \$115,000 monthly and revenue estimates are \$112,000 monthly. Expenses are estimated at \$91,870 monthly.

Exhibit 3

