

Memorandum



DATE April 13, 2007

TO Honorable Mayor and Members of the City Council

SUBJECT Tower Petroleum/1900 Pacific

Attached you will find a briefing on the Tower Petroleum/1900 Pacific project. The briefing will detail the project history, the project terms, and outstanding issues.

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


A.C. Gonzalez
Assistant City Manager

c: Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ryan S. Evans, First Assistant City Manager
Charles W. Daniels, Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Maria Alicia Garcia, Director, Office of Financial Services
David Cook, Chief Financial Officer
Jerry Killingsworth, Director, Housing Department
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant. Director, Office of Economic Development
Chandra Marshall-Henson, Assistant to the City Manager

Tower Petroleum/1900 Pacific

City Council Briefing
April 18, 2007



Office of Economic
Development
WWW.BIGD-ED.ORG

Purpose

The purpose of this briefing is to provide information related to the Tower Petroleum Building/1900 Pacific Avenue project:

- Project history
- Project terms
- Outstanding issues

Project History

The applicant of Tower Petroleum/1900 Pacific is 2004 Pacific Holdings, Ltd.

- Rita and Lawrence Sweeney, principal representatives

A company owned by Rita Sweeney previously completed the Hart Furniture Building in the City Center TIF District.

The Hart Furniture Building:

- Completed in 2003 on schedule
- \$4.0 private investment
- \$1.37 TIF funds (paid in full)
- Contains Club Blue, a software company (25 employees), and Pillar Group (10,000 sf of office space)

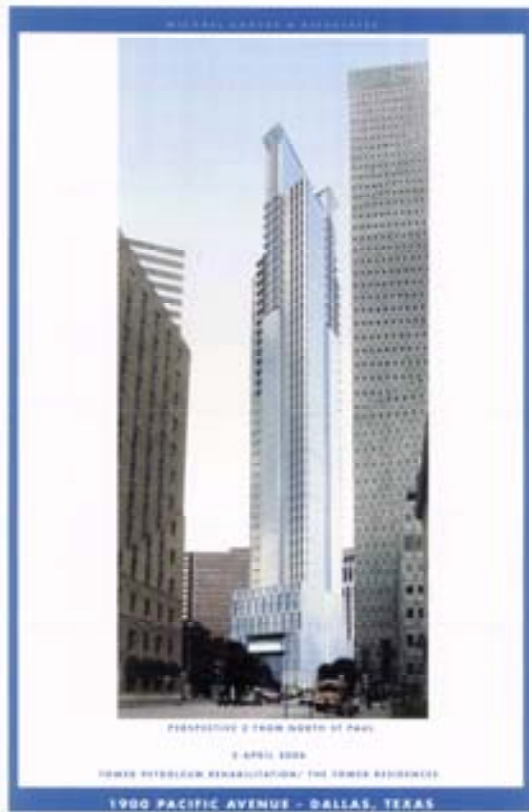


Project History (cont.)

The application for redevelopment of the Tower Petroleum Building and construction of a new tower at 1900 Pacific was submitted in June 2005, prior to approval of the Downtown Connection TIF District (created August 2005).

This project was initially considered a second catalyst project to the Mercantile because of its large scope and being the first project after Mercantile.

Project History (cont.)



Conceptual of new
condominium tower

The application was for City incentives to assist with the construction that would create an upscale hotel with approximately 125 hotel rooms, approximately 130 condominium units, and ground floor retail space (latest proforma shows 145 hotel rooms and 165 condominiums).

The 1900 Pacific building would be demolished and replaced with a new condominium tower.

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Project History (cont.)

On February 9, 2006, the Downtown Connection TIF District Board of Directors recommended TIF funding for the Tower Petroleum Building (1907 Elm Street) and 1900 Pacific, subject to the following conditions:

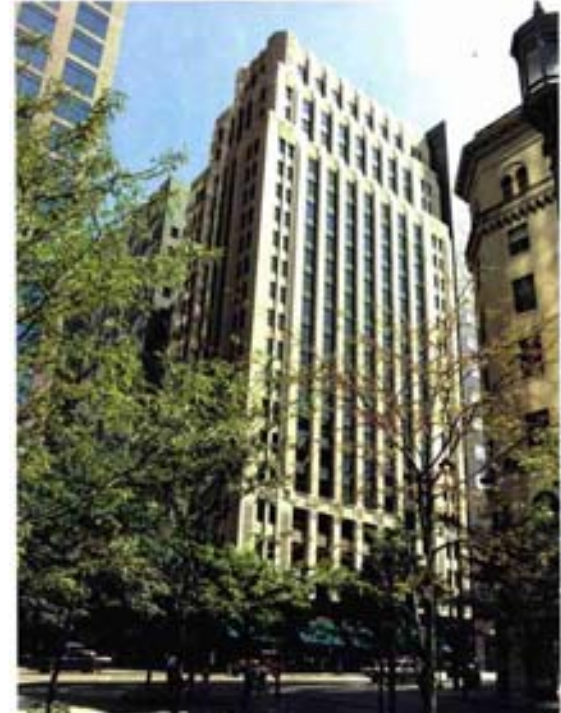
- (1) TIF funding in an amount not to exceed the lesser of \$12M or 10% of total project cost, and
- (2) public project/hotel announcement within 6 months of City Council approval, permits issued within 12 months from City Council approval/execution of the development agreement, and certificates of occupancy issued for both buildings within 30 months of the permit date, and
- (3) reimbursement in the TIF district queue after all bond obligations, administration, and uptown improvements (there were no other developer projects at this time).

Project History (cont.)

That same month, on February 22, 2006, the City Council approved an historic tax abatement for the Tower Petroleum Building for fifteen years on the added value of the structure.

The fifteen year tax abatement is estimated to be \$2,887,877.

The tax abatement required that the Development Agreement for TIF funds, to be considered at later date, be executed with certain conditions, namely operational and fine dining provisions for the Hart Furniture Building, a building developed by an affiliate of the same developer.



Tower Petroleum Building

Historic Note

Typically all incentives for an individual project are brought to City Council at one time.

However, in this case, because tax abatements would not be allowed after the DDDA/ Mercantile Bond Sale, the action needed to take place on or before February 22, 2006.

Therefore, the tax abatement was approved prior to the TIF portion of the project being fully negotiated.

The specific terms of the operational plan provision imposed by City Council through the historic tax abatement resolution were discussed throughout the spring and summer of 2006.

Project History (cont.)

On September 5, 2006, the Economic Development and Housing Committee was briefed on the terms of the development agreement for the Tower Petroleum/1900 Pacific project.

The committee voted to recommend the project to full City Council, with the stipulation not to enact the development agreement for TIF funding until the following points be modified to the Committee's satisfaction:

EDH Committee Recommendation

Recommended stipulations to TIF approval:

1. Clarification that retail be redefined to Committee's specifications

2. Public Safety Issues

- Club Blue employees and management must take training prescribed by DPD
- All guests must be 21 years of age or older
- Drinks must be served in plastic bottle or plastic cups (no glass)
- Security criteria must be 1 security person per 100 patrons
- Patrons of the club must not bring weapons or mobile phones into the club. Metal detectors must be installed as a method of detection

(See Appendix F for lease provisions related to Landlord's additional controls)

EDH Committee Recommendation (cont.)

Recommended stipulations to TIF approval, cont.:

3. Upon the cessation of the current lease for club use on the property, the Committee's revised retail definition will apply to the 15,000 square feet for subsequent uses

4. Withdrawal of the fine dining requirement from the Hart Building as part of tax abatement.

Status of TIF funding Request

The item was not forwarded to City Council because the outstanding issues identified by City Council on February 22, 2006 and EDH Committee on September 5, 2006 were not resolved.

Recent Actions

At their February 2007 meeting, the Downtown Connection TIF District Board was asked to reconsider the payment schedule for TIF funds since:

- the Tower Petroleum/1900 Pacific project had been delayed due to inability to agree on operational plan terms
- the TIF Board held a retreat the summer of 2006 and determined a policy on how TIF payments were to be disbursed. They determined that all TIF project should share increment based on revenue generated in order to best encourage new development.
- the Board's role is to encourage development in the TIF District and the payment schedule could hinder approved and future projects*

Recent Actions (cont.)

* Impact of payment schedule on other approved and future DC TIF District projects:

- Approved and future projects would be required to wait for \$12 million in increment to be generated before they could begin realizing increment
- Projects identified for TIF funding provide the City's development agreement to assist with securing loans for the project
- The uncertainty of the Tower Petroleum/1900 Pacific project may adversely impact the other projects' ability to secure financing

Recent Actions (cont.)

The TIF Board tabled the item to review and reconsider the reimbursement prioritization of Tower Petroleum and 1900 Pacific, previously reviewed on February 9, 2006, at the developer's request.

The TIF Board asked staff at that meeting to place on the agenda of a subsequent Board meeting reconsideration of the project milestone dates (application for building permit and final certificate of occupancy).

2006 Project Terms

- TIF funds in an amount not to exceed the lesser of:
(1) ten percent (10%) of the Developer's total Investment, or (2) an amount not to exceed \$12,000,000 for actual expenditures incurred for TIF-eligible Project Costs.
- \$90,000,000 minimum investment
- A minimum of 125 hotel rooms utilizing a minimum of 64,800 square feet of space.
- Condominium units utilizing a minimum of 150,000 square feet of space

2006 Project Terms (cont.)

- A minimum of 6,500 square feet of retail in the basement, first floor, and second floor, with a minimum of 3,000 square feet of leaseable retail space on the ground floor of the Tower Petroleum Building
- In lieu of affordable housing, fee to “buy-out” of provision based on 10 percent of the final unit count at \$20,000 per unit
- Announcement of a hotel operator and a contract with the hotel operator within six months of City Council authorization to enter into a development agreement for Tower Petroleum/1900 Pacific

Summary

The Tower Petroleum/1900 Pacific Project would be a beneficial project in the Downtown Connection TIF District, adding value and critical mass downtown.

The project includes a large investment, would support Live Oak Gardens Park, and cleans up a vacant and dilapidated building.

Summary

The developer has not complied with terms approved in the historic tax abatement and recommended by the Economic Development and Housing Committee pertaining to the Operational Plan for the Hart Furniture Building.

Summary

The options for City Council to consider are:

- Approve TIF funding with EDH Operational Plan recommendations
- Reject project
- Approve TIF funding with modification to the EDH Operational Plan recommendations
- Redirect project to staff and DC TIF District Board for recommendations of clarified terms, with or without the Operational Plan requirement

Additional information to be provided in Executive Session.

Appendix A

Project Benefits

The Tower Petroleum/1900 Pacific project is beneficial to downtown in adding to the critical mass goals as well as increasing the value of the district (based on minimum requirements/original proforma data).

Item	Total Cash Flow	Net Present Value
Sales tax of Construction Materials	\$645,641	\$645,641
Real Property Taxes (City)	\$5,616,865	\$4,183,471
Real Property Taxes (Other Jurisdictions)	\$22,739,041	\$16,936,160
Hotel Occupancy Tax	\$16,875,000	\$12,568,590
Affordable Housing	\$260,000	\$260,000
Retail Sales Tax	\$195,000	\$145,237
DART	\$195,000	\$145,237
Permit Fees	\$920,935	\$920,935
<u>Water tap fees</u>	<u>\$73,950</u>	<u>\$69,929</u>
Sum - 10-year benefits	\$47,521,433	\$35,875,201

Appendix A

Project Benefits

The direct benefits, increment generated from this project over the life of the TIF District, are anticipated to be as follows (based on minimum requirements/original proforma data):

TOWER PETROLEUM/1900 PACIFIC ESTIMATE OF INCREMENT COLLECTED OVER LIFE OF TIF DISTRICT (assumes 15 year tax abatement on historic structure)	
Future Value (without taxes on historic building)	\$77,027,775
city tax	0.007292
90%	\$505,518
15 years	\$7,582,768
Future Value (of both buildings)	\$103,003,449
city tax	0.007292
90%	\$675,991
9 years	\$6,083,919
county tax	0.002139
55%	\$121,178
14 years	\$1,696,498
TOTAL	\$15,363,185

The TIF funds will not exceed 10% of the total project cost.

The maximum TIF assistance will be \$12,000,000, if the total project cost is greater or equal to \$120,000,000.

Appendix B

Tower Petroleum Updated Project Economics

<u>Residential Unit Breakdown</u>	<u>SF</u>	<u># of Units</u>	<u>Total SF</u>	<u>\$ per SF</u>	<u>Avg. Sales Price</u>
Total/Avg	1,736	165	286,440	\$202	\$350,672

<u>Hotel Room Breakdown</u>	<u># of Rooms</u>	<u>Stabilized Room Rate</u>	<u>Occupancy</u>
Total/Avg (4.5 star hotel)	145	\$255	55%

<u>Combined Project Costs (\$M)</u>	
Total Land Basis	\$6.792
Hard Cost	\$84.433
Demolition	\$2.155
Environmental Abatement	\$2.756
*Soft Cost	\$27.878
Total Project Cost	\$124.014

* Includes advertising/promotion, appraisal, A&E, developer fees, financing costs, insurance, interior design, legal, admin, accounting, title insurance

<u>Combined Project Value (\$M)</u>	
Condo Sales	\$100.254
- Commission	\$5.012
- Closing Costs	\$1.003
- Transfer Fee (afford)	\$0.330
Net Condo Sales	\$93.909
<u>Stabilized Annual Hotel Revenue</u>	
Hotel Rooms	\$6.652
Food and Beverage	\$2.340
Other	\$0.404
Gross Operating Revenue	\$9.396
Gross Operating Margin (30%)	\$2.819
Other Operating Costs	\$0.590
NET OPERATING INCOME	\$2.229

<u>CAP RATE</u>	<u>7%</u>	<u>8%</u>	<u>9%</u>	<u>10%</u>
Hotel Value	\$31.84	\$27.86	\$24.76	\$22.29

Hotel Value at 7% CAP	\$31.840
Total Project Value	\$125.749



Appendix C

Anticipated Return With and Without Assistance

Tower Petroleum/1900 Pacific Total Project Cost (\$M)	
Tower Petroleum Rehabilitation	\$42.844
1900 Pacific Condominium	\$81.170
Estimated Private Investment	\$124.014
Tower Petroleum/1900 Pacific TIF Eligible Improvements	
Abatement/Selective Demolition	
Exterior Rehabilitation	
Exterior Lighting	
Demolition of 1900 Pacific	
Maximum TIF funds	\$12,000,000
Historic Tax Abatement (15 years)	\$2,888,877
TIF Payment + Tax Abatement NPV	\$9,650,528
Return on Investment (ROI) without Assistance	1.4%
Net of Deferred Developer Fee	5.2%
Return on Investment (ROI) with Assistance	10.0%
Net of Deferred Developer Fee	14.5%

Appendix D

Tower Petroleum Updated Project Proforma

<u>Item</u>	<u>Amount (\$M)</u>	<u>\$/Sq Ft</u>	<u>%</u>
Land Cost (acquisition)	\$5.400		
Predevelopment Expenses	\$1.392		
Total Land Basis	\$6.792	\$19.34	5.5%
Hard Costs	\$89.344	\$254.36	72.0%
Construction	\$84.433		
Environmental Abatement	\$2.756		
Demolition	\$2.155		
Soft Costs	\$27.878	\$79.37	22.5%
Advertising and Promotion	\$1.760		
Appraisal	\$0.055		
Architecture and Engineering	\$3.105		
Contingency/Other	\$0.880		
Developer Fees	\$8.021		
Earned (\$3.521)			
Deferred (\$4.500)			
Finance Costs (Int, Fees)	\$12.064		
Insurance	\$0.224		
Interior Design	\$0.384		
Legal, Admin, Accounting	\$0.195		
Title Insurance	\$1.190		
Total Development Cost	\$124.014	\$353.07	100.0%

Appendix E

Public Assistance Provided to Downtown Projects

<u>Project (City Center and Downtown Connection with over 75 units)</u>	<u>TIF Assistance</u>	<u>Tax Abatement (estimate)</u>	<u>Section 108 and other Intown Housing Funds</u>	<u>Private Investment</u>	<u># of Units</u>	<u># of Affordable Units/Amount of Buy-Out</u>	<u>Public to Private Investment</u>
Santa Fe II (SoCo Lofts)	n/a	\$1,354,735	\$4,050,000	\$18,465,825	205	49	29.27%
Majestic Lofts	n/a	\$768,181	\$4,051,760	\$10,300,000	129	51	46.80%
Kirby Building	\$1,375,000	\$892,992	\$5,100,000	\$21,500,000	156	57	34.27%
Davis Building	\$1,350,000	\$1,189,000	\$7,216,000	\$34,000,000	183	40	28.69%
Wilson Building	\$3,800,000	n/a	n/a	\$18,000,000	133	0	21.11%
Dallas Power and Light	\$6,503,000	\$997,000	n/a	\$24,000,000	154	0	31.25%
Interurban Building	\$5,000,000	\$967,000	n/a	\$15,000,000	134	0	39.78%
Republic Center	\$4,605,000	\$1,440,000	n/a	\$34,000,000	227	0	17.78%
1200 Main (Metropolitan)	\$4,750,000	n/a	n/a	\$48,000,000	273	0	9.90%
Mosaic	\$9,000,000	\$6,777,298	n/a	\$80,000,000	440	0	19.72%
Mercantile Complex	\$58,000,000	\$4,000,000	n/a	\$130,000,000	375	0	47.69%
500 S. Ervay/717 Leonard	\$15,000,000	\$2,874,600	n/a	\$129,000,000	522	\$1,040,000	13.86%
Tower Petroleum/1900 Pacific	\$12,000,000	\$2,887,877	n/a	\$120,000,000	255*	\$260,000**	12.41%
Total	\$121,383,000	\$24,148,683	\$20,417,760	\$682,265,825	2,931		

NOTE: If Private Investment is \$90,000,000, the TIF funds will not exceed \$9,000,000, marking the public to private investment 13.21%.

* Includes hotel rooms and condominiums

**Transfer fee for 130 condominium units



Appendix F

Club Blue Lease Provision:

8.6 Tenant must procure at its sole expense any permits and licenses required for the transaction of business in the Demised Premises and otherwise comply with all applicable laws, ordinances and governmental regulations. In addition, if the nature of Tenant's business makes it advisable for Tenant to take any extra precautions (for example, in the case of a business which is affected by so-called "dram shop" laws, Tenant's compliance with all "dram shop" educational programs and procedures), Tenant must take all such extra precautions. At Landlord's request, Tenant must deliver to Landlord copies of all such permits and licenses and proof of Tenant's compliance with all such laws, ordinances, governmental regulations and extra precautions.