



City of San Antonio

Agenda Memorandum

File Number: 15-3501

Agenda Item Number: 4B.

Agenda Date: 6/4/2015

In Control: City Council A Session

DEPARTMENT: Center City Development & Operations

DEPARTMENT HEAD: Lori Houston

COUNCIL DISTRICTS IMPACTED: Council District 1

SUBJECT:

A Public Private Partnership (P3) among the City, Weston Urban LLC and Frost Bank for the acquisition of the Frost Bank Tower, development of 265 residential units in the central business district and the construction of a class A office tower in downtown.

SUMMARY:

City Council action authorizing the execution of a Comprehensive Development Agreement (the "CDA") and ancillary documents among and between the City, Weston Urban LLC and Frost Bank that will result in: 1) a consolidated administrative office tower for the City; 2) 265 housing units in the central business district; and 3) the construction of the first class A office tower in downtown San Antonio since 1989.

This action also declares as surplus three City-owned properties: 300 N. Santa Rosa St. (also known as 319 West Travis), 114 W. Commerce, and 401 N. Flores and authorizes the sale of each property to Weston Urban LLC.

BACKGROUND INFORMATION:

On June 25, 2014, the City received a Pre-Proposal letter from Weston Urban and Frost Bank in accordance with the City's Public-Private Partnership Guidelines. The letter described a series of transactions that would result in a consolidated administrative office tower for the City, 265 housing units in the central business district, and the construction of the first class A office tower downtown since 1989. Following a preliminary review by City staff of the concepts within the Pre-Proposal Letter, the City invited Weston Urban and Frost Bank to submit a detailed proposal outlining the specifics of the project. The detailed proposal was submitted

on August 8, 2014.

Original Proposal

Under the terms of the original detailed proposal: 1) Frost would sell the Frost Bank Tower and Parking Garage to the City for the purpose of consolidating the City's administrative offices and creating a public parking garage; and 2) the City would sell Weston Urban five properties for the purposes of providing funds to apply to the purchase price of the Frost Tower and to provide Weston Urban with property to facilitate housing development in the central business district. The five properties included: 114 West Commerce (Municipal Plaza Building), 322 West Commerce (Continental Hotel and Parking Lot), 319 W Travis (San Fernando Gym), 403 N Flores (Surface Parking Lot), and 200 N Flores. In addition, the proposal provided for Weston Urban to construct a new office tower to serve as the Frost Bank Headquarters to be located on the Frost Motor Bank and surface parking lot on the northwest corner of Flores and Houston Street.

Public Posting

In accordance with the City's P3 Guidelines, the detailed proposal was posted on the City's website for the purposes of notifying the public of the proposed transaction and soliciting competing proposals from those interested in providing the City with a similar project. On October 17, 2014, the City received a competing proposal from Primera Partners, which proposed a direct sale of the Riverview Tower located at 111 Soledad Street. The 20 story building is 248,000 square feet and the City currently occupies 120,000 square feet of that building. However, following due diligence on the property, the City declined to pursue the competing proposal based on the following: 1) the building does not accommodate the space requirements for the City's consolidation; 2) the building does not have parking to accommodate City staff or to provide for public parking during non-business hours; and 3) the proposal did not provide for any other economic development benefits such as the construction of an office tower to house a downtown employer or the development of housing in the central business district.

Due Diligence

As part of its commitment to ensure the proposed project will be cost neutral, City staff undertook a comprehensive due diligence process that included a space needs analysis, a building assessment on the Frost Bank Tower, an appraisal of the Frost Bank Tower, and a financial analysis of the proposed transaction.

Space Needs Analysis

The City commissioned Facility Programming and Consulting ("FPC") to perform a space needs analysis. As part of the analysis, FPC was asked to determine: (1) how much space the City would need if it was to consolidate its operations; (2) how much of the approximate 445,000 square feet in the Frost Bank Tower the City could occupy if the City were to acquire the property and utilize an open space floor plan; and (3) how much the City could lease to a third party office or retail user. Per the analysis, the City can occupy 12 floors of the Frost Tower and the entire basement level, as well as some of the street level (367,057 square feet). The City can then lease 6 floors to third party office users and the remaining street level space to retail users.

The City will be doing additional space planning for the Frost Bank Tower, which may impact the number of floors to be leased to third parties. The City owns a building at 401 S. Frio that currently houses Information Technology Services Department employees and the City's primary data center. The sale of this building will be assessed with the potential for the employees and data center to be relocated to the Frost Bank Tower. Other employee amenities will be explored such as a cafeteria/meeting planning center, and fitness facility. Any

remaining floors to be leased to third parties allow the City to cost effectively fund the project while preserving the ability to meet future growth in space requirements over the long-term.

Frost Bank Tower Building Assessment

The City also commissioned Alderson & Associates to assess the condition of the Frost Bank Tower. Their assessment identified \$6.7 million in improvements. Of this amount, \$2.9 million of improvements need to be completed in the near term. These improvements include items such as the replacement of air handler units and electrical control upgrades and replacement. Additionally, since the City plans to renovate over 50% of the building, the City will need to perform sprinkler upgrades and asbestos removal at an estimated cost of \$3.2 million. The remaining \$585k in improvements will need to be completed within the next five years.

Frost Bank Tower Appraisal

The City hired The Glen Company to do a fair market appraisal of the Frost Bank Tower. The appraisal report shows a \$47.5 million value.

Financial Analysis

The financial analysis is based on a 30-year cash flow analysis and shows a projected net savings of approximately \$1.2 million to the City budget over a 30-year period. The City currently leases office space for administrative staff in 5 buildings with lease payments totaling \$3.8 million annually: Riverview Tower, 1400 S Flores, One Alamo Center, Frost Bank Tower and 4410 Piedras.

The analysis assumes that the City occupied space in the Frost Bank Tower is finished out in an open systems floor plan and provides for the necessary improvements to the building as identified in the Alderson report. The detailed analysis also took several other factors into account, including to the following: lease payments made by the City for office space; revenue from third party leases in the Frost Bank Tower; parking revenue for nights and weekends in the parking garage; and the increase in ad valorem taxes the City will receive as a result of the new tower and the housing projects. It also took into account the Frost Bank Tower and other properties that will no longer be on the tax rolls.

Although included in the original Weston Urban and Frost Bank proposal, City staff is recommending that 322 West Commerce Street (Continental Hotel occupied by Metro Health) be removed from this transaction and that it, along with 506 Dolorosa (the parking lot next to City Hall which was the former City Hall Annex), be sold by the City in separate transactions within the next 36 months. 322 West Commerce is recommended for removal due to the inability of the City and Weston Urban to reach an agreed upon purchase price for the property. 506 Dolorosa has long been considered as the site for a future administrative tower for the City, however, with the acquisition of the Frost Tower, the site would no longer be needed for this purpose. Both properties are within the Zona Cultural planning area and along the planned \$175 million San Pedro Creek redevelopment making both properties extremely desirable for redevelopment which is anticipated to increase their future values. The proceeds from the sales of both properties can be utilized to fund a portion of the renovations required to be made to the Frost Bank Tower. The impact is a reduction in the amount of debt to be issued for the Project and will provide an additional cost savings to the City (above the estimated \$1.2 million in savings) over the thirty year period. Staff will also evaluate the issuance of some portion of the Project financing as variable rate debt, which could also increase the cost savings over the thirty year period.

Additionally, the site for the new tower on Houston Street and Flores will be removed from the Westside Tax Increment Reinvestment Zone (TIRZ) and placed in the Houston Street TIRZ. Both the City and County contribute 100% of their Tax Increment from the Houston Street TIRZ to the tax increment fund. This boundary amendment will enable the City to use the tax increment from the new tower to assist in servicing debt to be issued for the project.

Other indirect benefits of the Project that were not included in the cash flow model, but worth noting are the Project's estimated \$1.5 million in sales tax revenues and \$130,000 projected annual CPS revenue (representing the City's 14% allocation of overall CPS revenues). Additionally, the cash flow model does not take into consideration the value of the City owning the building at the end of the thirty-year period, or the increased efficiencies resulting from the consolidation of City offices in close proximity to City Hall and Council chambers.

Comprehensive Development Agreement and Ancillary Agreements

In consideration of the above analysis, the P3 Oversight Committee for the Weston Urban and Frost Bank P3 proposal, comprised of Assistant City Manager Carlos Contreras, Chief Financial Officer Ben Gorzell, Director of the Center City Development and Operations Department Lori Houston, Director of Transportation and Capital Improvements Department Mike Frisbie, and Assistant City Attorney Ray Rodriguez, recommends to the City Council approval of the transaction. All of the agreed upon terms for the transaction are formalized in the CDA and its ancillary agreements.

Real Estate Contract for the purchase of the Frost Bank Tower

The City will purchase the Frost Bank Tower for \$51 million. The purchase price was negotiated by the parties following evaluation of each party's appraisals. Frost Bank had appraised the Frost Bank Tower at \$54 million. The purchase occurs following the completion of the design of the new class A office tower and proof of financing for its construction.

Master Lease Agreement

Following the purchase of the Frost Bank Tower, the City will lease the property back to Frost Bank to occupy while the new tower is under construction. Frost Bank will pay the City annual lease payments and will provide the City with a discounted rent rate for the space it currently occupies. In addition, Frost will provide free rent on spaces that are vacated or become available during the thirty (30) month period of the lease as an offset for the \$2.9 million of near-term improvements identified in the A&A report. This is anticipated to produce a \$1.9 million savings to the City and enable the City to initiate improvements to the building sooner and relocate staff as leases in other buildings expire.

New Tower Incentive and Development Agreement

Under the terms of the CDA, Weston Urban will construct a 400,000 square foot tower and associated parking lot at the current Frost Motor Bank location. The City will provide Weston Urban with a SAWS Impact Fee Waiver in the amount of \$640,710 and an additional \$30,510 for public improvements associated with the greenbelt on the northeast corner of Houston and Flores Streets. The City will also provide, subject to an annual budget appropriation by the City Council, City fee waivers associated with the construction of the new Tower in accordance with the Inner City Reinvestment Infill Policy. The approximate amount of the City fee waivers is \$330,149.

Real Estate Contract for the purchase of 3 City Properties

Weston Urban will purchase: 1) the Municipal Plaza Building, located at 114 West Commerce St. for the amount of \$5,020,000; the San Fernando Gym, located at 319 W Travis for the amount of \$950,000; and a surface parking lot located at 403 N Flores for the amount of \$392,432. The original proposal included the purchase of 200 North Main and 322 West Commerce, however, these properties have been eliminated from the transaction.

The City will retain ownership of certain portions of Municipal Plaza, including the City Council Chambers, through a condominium agreement as described below.

Condo Agreement, Tunnel License Agreement, Parking Lease Agreement

The City will retain ownership of certain portions of Municipal Plaza, including the City Council Chambers, through a condominium agreement. The remaining first floor space and floors 2-11 will be sold to Weston Urban for the purpose of developing retail and residential units. The City will also retain ownership of the tunnel that connects the Municipal Plaza Building to the Frost Bank Tower and execute a license agreement with Weston Urban for the use of the tunnel by residents of the Municipal Plaza Building. Weston Urban will own and maintain the elevators while providing the City with a license to utilize them. The City will lease 85 parking spaces in the Frost Bank Tower parking garage to Weston Urban to be utilized by residents and retail customers of the Municipal Plaza Building.

Housing Development and Incentive Agreement

The sale of the three City-owned properties and additional properties that Frost Bank will sell to Weston Urban under a separate agreement will facilitate the construction of at least 265 housing units. The City will provide incentives in accordance with its Center City Housing Incentive Policy (“CCHIP”) to the projects so long as they are undertaken within a five year period following their acquisition by Weston Urban. The CCHIP provides for City fee waivers, SAWS fee waivers, tax rebates and loans. The City will provide Weston Urban a SAWS Impact Fee Waiver in the amount of \$1,220,400 for the construction of the housing projects; however, the City fee waivers and loans from the Inner City Incentive Fund are subject to annual budget appropriations by the City Council. The City fee waiver amount is approximately \$117,703 and the projected loan amount is approximately \$1.5 million.

In the event the City fee waiver for the housing is not appropriated by City Council prior to the conveyance of the City properties, the amount will be deducted from the purchase price of the City-owned property being acquired.

Deed Escrow Agreement

The City will deposit \$5.5 million into an escrow account as a Prepaid Purchase Price for the Frost Bank Tower. At the closing of the Frost Bank Tower transaction, the entirety of these funds will be applied to the \$51 million owed by the City to Frost Bank. Should the City not meet its obligation to purchase the Frost Bank Tower under the terms of the CDA, then \$510,000 (1% of the purchase price) will be paid to Frost Bank and the remaining \$5 million will be available for Weston Urban to draw upon for reimbursement for any actual costs incurred as a result of the transaction.

Weston Urban will deposit \$1 million into an escrow account as a guaranty of performance to purchase the City-owned properties. Should the project not move forward, under certain circumstances described in the CDA and escrow agreement, the funds would be disbursed to the City.

Process and Next Steps

On May 27, 2015, the City’s Planning Commission considered and recommended approval of the declaration of the identified City-owned properties as surplus and their disposition to Weston Urban.

On May 28, 2015, a public hearing was held on the Weston Urban and Frost proposal and Comprehensive Development Agreement.

Upon City Council approval, Weston Urban will initiate the design effort for the new tower which will take approximately 12 months. Once design is completed and after Weston Urban has secured financing, the City will acquire the Frost Bank Tower and enter into a master lease agreement with Frost Bank for the duration of the new tower’s construction. Construction on the new tower is anticipated to begin in fall of 2016 with a spring 2019 completion date. Upon completion of construction, Frost Bank will relocate to the new tower and

the City will begin renovations to Frost Bank Tower to provide for a city administrative office tower by spring 2020. Upon vacating the Municipal Plaza Building, Weston Urban will begin renovation of the Municipal Plaza Building and anticipates completion in spring 2023.

ISSUE:

City staff is requesting approval from City Council of the CDA and its ancillary agreements as well as requesting authorization to sell three City-owned properties to Weston Urban.

ALTERNATIVES:

Approval of this item will result in the consolidation of City staff into a City-owned administration building, construction of a class A office tower in downtown, and 265 new housing units in the central business district. Should Council reject this recommendation, the City could continue to lease administrative office space, but not benefit from a consolidated administrative tower.

Alternatively, the City could construct a new tower for staff consolidation; however, such an endeavor may prove to be cost prohibitive.

None of the alternatives provide the City with the ability to centralize its administrative operations and provide additional economic development benefits such as the construction of a new class A office tower in downtown, 265 residential units in the central business district, and the retention of one of the City's largest and oldest employers in downtown.

FISCAL IMPACT:

The City will purchase the Frost Bank Tower for \$51 million. Weston Urban will purchase three properties from the City for approximately \$6.4 million. The City will issue debt for the acquisition and renovation of the Frost Bank Tower. The City performed a 30 year cash flow analysis for the transaction which showed a projected net savings of approximately \$1.2 million to the City budget over a 30-year period. The City currently leases office space for administrative staff in 5 buildings with lease payments totaling \$3.8 million annually: Riverview Tower, 1400 S Flores, One Alamo Center, Frost Bank Tower and 4410 Piedras. The analysis took several other factors into account, including but not limited to the following: revenue from third party leases in the Frost Bank Tower; parking revenue for nights and weekends in the parking garage; and the increase in ad valorem taxes the City will receive as a result of the new tower and the housing projects. It also took into account the Frost Bank Tower and other properties that would no longer be on the tax rolls.

Net proceeds from the eventual sale of 322 West Commerce Street and 506 Dolorosa will be used to offset debt issuance for the transaction outlined above and increase the overall net savings to the City's budget.

RECOMMENDATION:

Staff recommends approval of this item.