



# City of San Antonio

## Agenda Memorandum

**File Number:**15-3356

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**Agenda Item Number:** 4.

**Agenda Date:** 5/28/2015

**In Control:** City Council A Session

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**DEPARTMENT:** Center City Development and Operations

**DEPARTMENT HEAD:** Lori Houston

**COUNCIL DISTRICTS IMPACTED:** Council District 1

### **SUBJECT:**

Public Private Partnership (P3) with Weston Urban and Frost Bank

### **SUMMARY:**

A public hearing on the Weston Urban and Frost Bank Public Private Partnership (P3) proposal and Comprehensive Development Agreement (CDA) 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 since 1989.

### **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 cursory 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.

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.

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.

As part of its commitment to ensure the proposed project would 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 could 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 could then lease six floors to third party office users and the remaining street level space to retail users.

### **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 needs 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 \$585,000 in replacement/repairs 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 but not limited 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 would no longer be on the tax rolls.

Although included in the proposed 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, 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 more desirable for redevelopment which is anticipated to increase their future value. The proceeds from the sales of both properties could 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 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.

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.

As a result of the above analysis, the P3 Oversight Committee for the Weston Urban and Frost Bank P3 proposal recommends City Council approval of the project. The Committee is 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. All of the agreed upon terms for the transaction are formalized in the CDA among the City, Weston Urban, and Frost Bank. The CDA includes the following ancillary agreements: a Real Estate Contract for the purchase of the Frost Bank Tower; Real Estate Contracts for the purchase of the three City Properties; a Master Lease Agreement for Frost Tower to be occupied by Frost Bank for a period of time; Development and Incentive Agreements for the construction of the new tower and housing projects; Escrow Agreement; Deed Escrow Agreement; Parking Lease Agreement for the use of 85 parking spaces in the Frost Bank Tower by Weston Urban; and a Tunnel License Agreement for shared use of the tunnel that connects Frost Bank to the Municipal Plaza Building. The CDA is attached and is summarized below.

The City will purchase the Frost Bank Tower for \$51 million. Frost Bank hired Valbridge to perform an appraisal which shows a value of \$54 million. The City's appraisal, performed by The Glen Company, shows a \$47.5 million value. The \$51 million purchase price was agreed upon by both parties.

The Alderson report identified \$2.9 million of improvements that need to be done upon closing. The City will purchase the Frost Bank Tower after Weston Urban completes the design and obtains the financing for the new tower. The City will then master lease the entire building to Frost so it may occupy the building during the construction of the new Tower. In order to offset some of the cost of the identified improvements, Frost will provide the City with an estimated \$1.9 million to be put towards such improvements through a lease

arrangement during the 30 month period when the new Tower is under construction. Frost will provide the City with a discounted rent on the 19<sup>th</sup> floor, which it currently occupies, and free rent in the spaces that become vacated by Frost over the 30 month period. This will enable the City to save an estimated \$1.9 million in lease payments and initiate improvements to the building early and move staff in the building as leases in other buildings expire.

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

Weston Urban will purchase the Municipal Plaza Building located at 114 West Commerce (the City to retain ownership of Council Chambers, B Room, public restrooms, and common areas), 319 W Travis (San Fernando Gym) and 403 N Flores (Surface Parking Lot). The purchase prices for these buildings are their appraised values: Municipal Plaza Building is \$5,020,000; 319 West Travis is \$950,000; and 403 North Flores is \$392,432. The original proposal included the purchase of 200 North Main and 322 West Commerce. These properties have been eliminated from the transaction. 200 North Main was removed from the proposal because it was determined through the title search that the City does not own this parcel and the parties could not reach an agreement on the purchase price for the property located at 322 West Commerce.

The sale of the three properties combined with the properties that Frost will sell to Weston Urban will facilitate the construction of at least 265 housing units of which 65 will be a part of the renovated Municipal Plaza Building. The City will provide incentives to the projects as identified in the Center City Housing Incentive Policy to include 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. Both the City fee waivers and the loan from the Inner City Incentive Fund are subject to annual budget appropriations. The City fee waiver amount is \$117,703 and the loan amount is approximately \$1.5 million. In the event the City fee waiver for the housing, estimated at \$117,703, is not appropriated by City Council prior to the conveyance of the City properties to Weston Urban, this amount will be deducted from the purchase price of the properties.

The City will deposit \$5.5 million as a Prepaid Purchase Price into an escrow account. At closing on the Frost Bank Tower, these funds will be applied to the \$51 million purchase price of the Frost tower. In the event that the City does not meet its obligation to purchase the Frost Bank Tower, then \$510,000 representing 1% of the purchase price will be paid to Frost Bank and Weston Urban will be reimbursed in accordance with the agreement for any actual costs incurred up to \$5 million. Weston Urban will deposit \$1 million into an escrow account. These funds will be applied to the purchase price of the City buildings at closing. If the project does not move forward, under certain situations these funds will be disbursed to the City.

City Council will take action on the CDA on June 4, 2015. If approved, Weston Urban will initiate the design effort for the new tower which will take approximately 12 months. Upon its completion 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 construction completion, Frost Bank will relocate to the new tower and the City will begin renovations to the new 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:**

Per the P3 Guidelines, the City must hold a public hearing on the proposal and CDA. The purpose of the public hearing is to solicit citizen input. City Council is scheduled to take action on the CDA at the June 4, 2015 City Council Meeting.

**ALTERNATIVES:**

The item is a public hearing. City Council is scheduled to take action on the item at the June 4, 2015 City Council Meeting. City Council could choose not to consider this item at the June 4th City Council Meeting, however, this could jeopardize the construction of a new class A office tower or 265 new housing units in the central business district. The City would also continue to lease administrative office space and not benefit from a consolidated administrative tower that is owned by the City.

**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 beyond the \$1.2 million.

**RECOMMENDATION:**

This item is a public hearing. A final recommendation will be made at the June 4, 2015 City Council meeting.