

Economic Development Tools Applied to Downtown Tucson

Pamela Sutherland, JD, EDFP

“Connecting the Dots”

Conecta Los Puntos LLC

P.O. Box 41796

Tucson, AZ 85717

p.k.sutherland@gmail.com

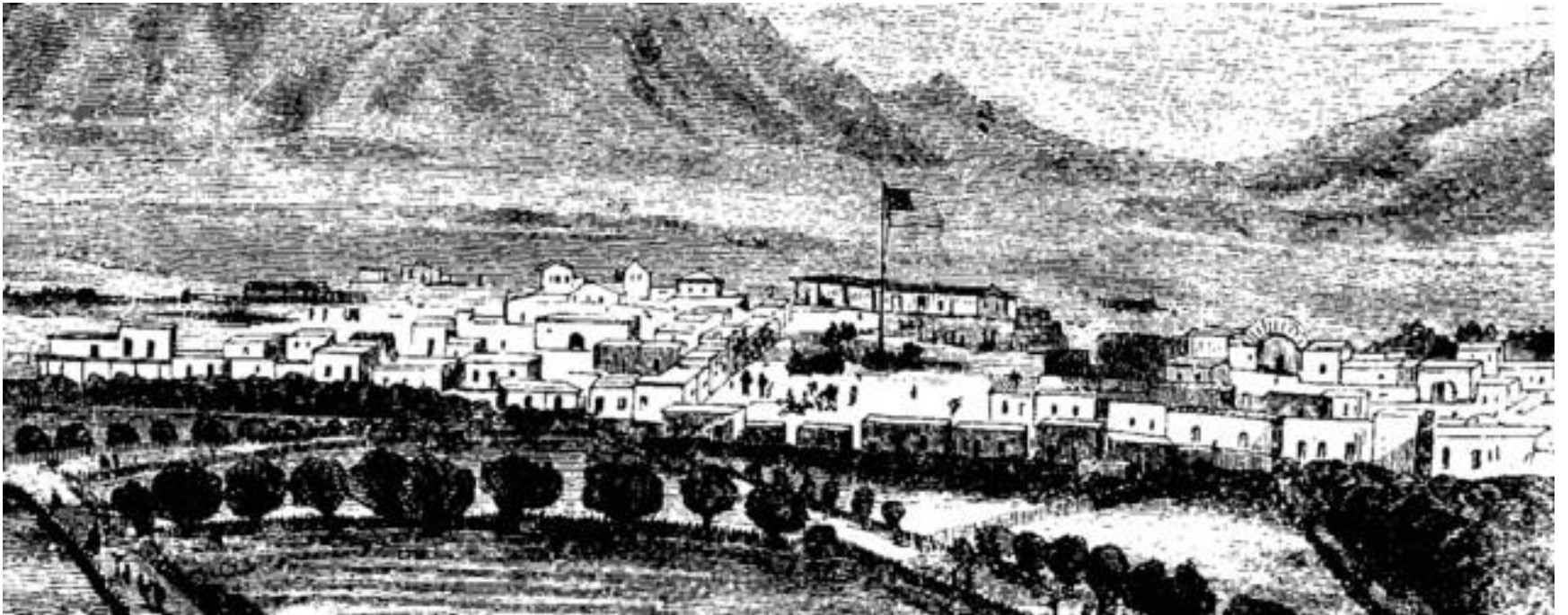
520-548-1451

2014 CDFA Arizona Financing Roundtable Conference

Downtown Tucson 400 BC



Downtown Tucson 1864



Downtown Tucson 1870s



Tucson in the 1870's

Downtown Tucson and the Southern Pacific Railroad (arrived 1880)



Downtown Tucson's 1st Boom: early 1900s



Santa Rita Hotel (1904)



Downtown Tucson's 2nd Boom – 1920s-early 1930s



Downtown Tucson's 3rd Boom – 1950s



“Snapped on the Street” 1953



Merry Christmas

Downtown Tucson Bleak Years



Speedway: America's Ugliest Street Time Magazine (1971)



Tucson 2003



Downtown Tucson – 2008



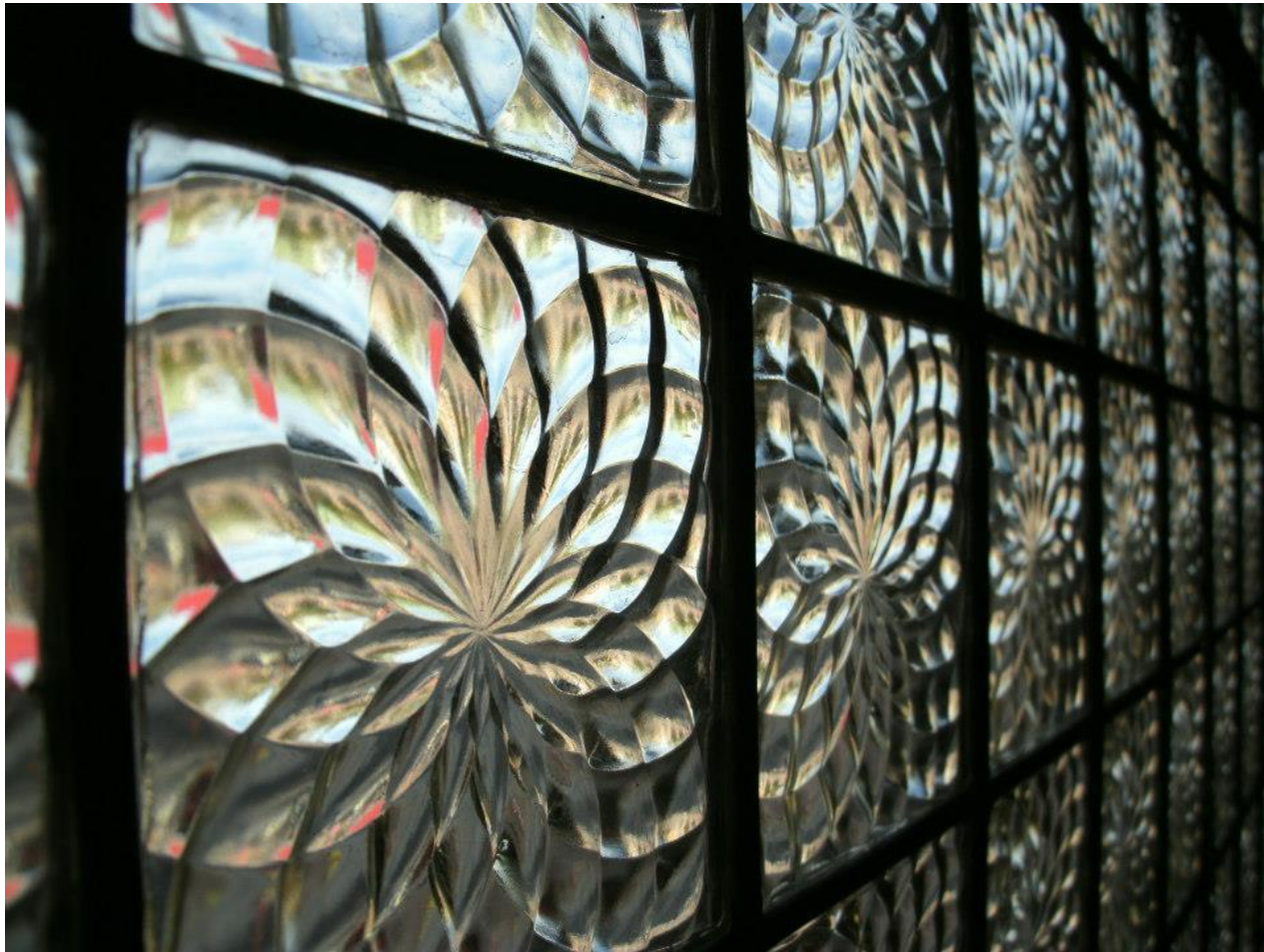
Current Boom: Downtown Tucson 2008-13 and beyond



Chicago Music Store – Downtown BID's Façade Grant Recipient 2012



Glass Window Tiles Revealed as part of Façade Restoration



Modern Streetcar: TIGER grant + bond funding



Streetcar Construction (1892)



Streetcar Construction (2012)



ONE EAST BROADWAY

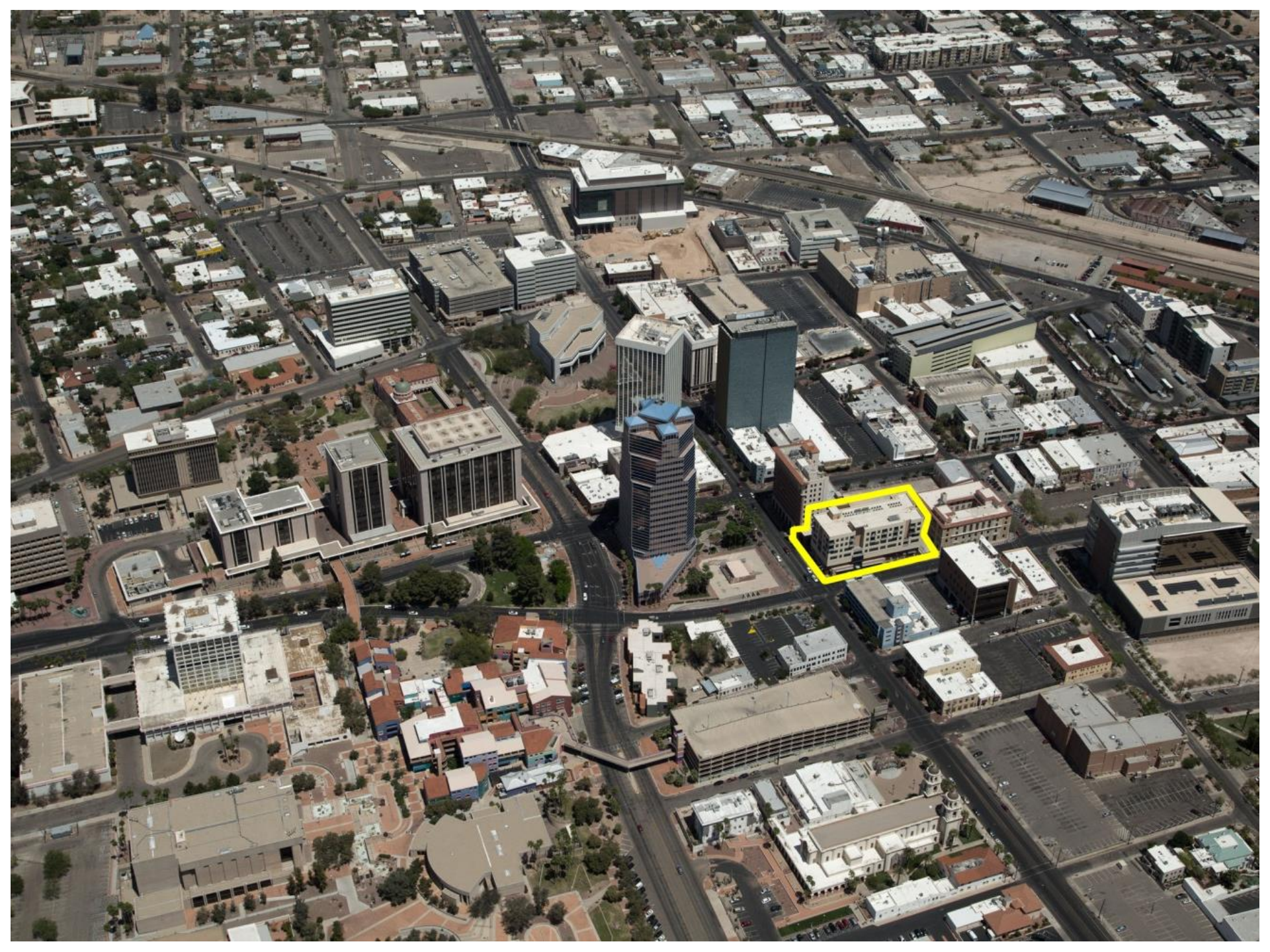


INTRODUCTION

- 130,000± Mixed Use Development – Heart of Downtown
- On Modern Streetcar Line – Stops Across the Street & in the Other Direction ½ Block to the North
- First Mixed Use to Include Parking, Retail, Office, and Residential in the History of Downtown
- First Mixed Use Development of Any Type in Tucson for Decades

BUILDING DESCRIPTION

- 111 Parking Spaces on Four Floors, Including One Below Grade
- 4,080 SF of Retail
- 31,331 SF of Office
- 24 Apartments Comprised of 16 One-Bedroom and 8 Two-Bedroom Units



DEBT & EQUITY STRUCTURE

OVERVIEW

- Ownership is LP which contributed all of the equity. Equity is treated like debt in the NMTC structure.
- Originally planned to finance with conventional financing. This financing structure did not work due to the concrete & steel construction of the property, combined with the extra costs associated with the parking garage.

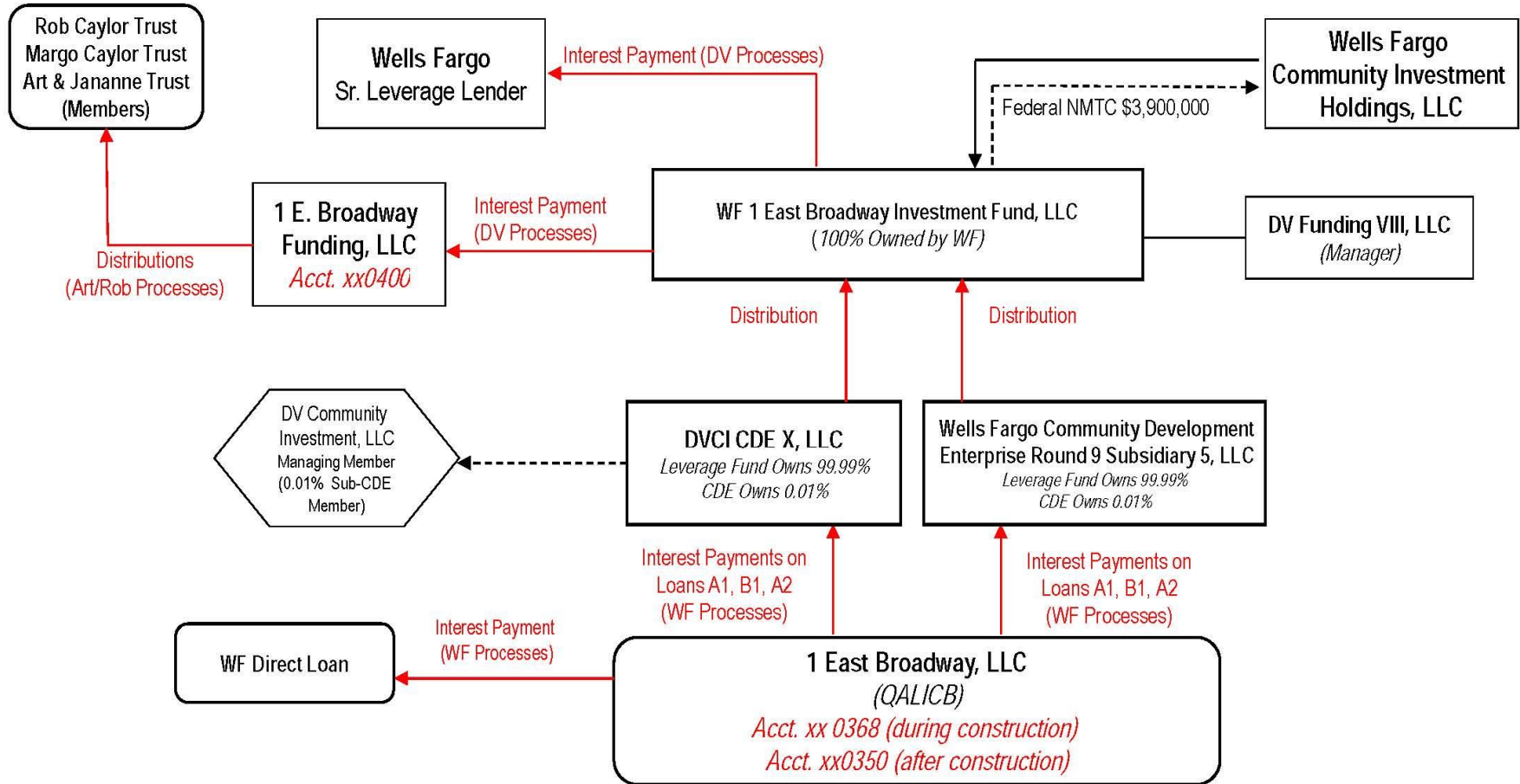
DEBT & EQUITY STRUCTURE

- Michael Keith & Pam Sutherland of Downtown Tucson Partnership suggested we consider New Markets Tax Credits.
- Met with Jim Howard of Dudley Ventures who has known Art for a long time. We determined that the property potentially qualified for NMTC's.

DEBT & EQUITY STRUCTURE

- Timing issues:
 - Dudley & Wells Fargo received allocation notice in February 2012
 - Dudley & Wells Fargo commit projects in August 2012
 - Closing on NMTC loans has to occur by November 1, 2012
 - Development has to be shovel-ready before closing to include site ownership, and all plans and permits in-place. Cost to developers of \pm \$800k plus land costs. If no commitment, plans and permits have to be redone due to project not being feasible without the NMTC debt.
 - One day loan needed for \$800k to offset developers equity in plans and permits.

1 East Broadway NMTC Interest Payment Chart



DEBT STRUCTURE TERMS

- QLICI – Qualified Low-Income Community Investment (Developer/Project)
- CDE – Community Development Entities (Lender) – in this case DVCI (Dudley Ventures) and Wells Fargo Community Development Enterprise
- NMTC – New Markets Tax Credits – a program that encourages investment in low-income communities:
 - Generally poverty rate of at least 20% (49% at One East)
 - Median family income less than 80% of the area

DEBT STRUCTURE TERMS

- Credits are 39% Credits of Qualified Equity Investments (QEI's) in CDE's (DVCI and WF)
- Generally purchased at 68% - 72 % of par
- One East Broadway – \$10,000,000 NMTC's (\$5,000,000 each DVCI and WF)
- Proceeds \$2,697,000 equals 69.15% of \$3,900,000 (39% of \$10,000,000)

DEBT/EQUITY STACK

Wells Fargo Direct Loan with Rate Swap Paul Kraft/Eric Lamb	\$6,950,000 (Swap)
QLICI Senior Leverage Loan A with Rate Swap Wells Fargo New Markets Tax Credit Group & Dudley Ventures	\$3,925,000 (Mandatory Swap)
NMTC Loans (same lenders as above)	\$1,365,000 & \$1,332,000 \$2,697,000 Total (1% I.O.)
QLICI Junior Leverage Loan B (Developers Equity)	\$1,672,000 & \$1,555,000 \$3,228,232 Total (1% I.O.)
Total NMTC debt including QLICI loans. \$150k (3% on \$5M) in loan fees deducted from \$10M loans	\$9,850,000
Appraised Land Value	\$890,000 (\pm \$37/FT)
Total Debt/Equity	\$17,689,000

DEBT AFTER SEVEN YEARS

Developers/Purchase Investors interest in NMTC Loan and QLICI Junior Leverage Loan B totaling \$5,925,000 for a nominal amount. A “Put and Call” is in-place to minimize the tax consequences.

INCENTIVES – CITY OF TUCSON

GOVERNMENT PROPERTY LEASE EXCISE TAX (GPLET)

Process

- Application to City of Tucson

- Economic Benefit to City must exceed Economic Benefit to Developer of Real Estate tax abatement for eight years from C of O

- Application details of proposed development included
 - Improvements must represent increase of at least 100% from existing use

 - Property is located in Qualified Low-Income Census Tract

OTHER INCENTIVES – CITY OF TUCSON DOWNTOWN CORE INFILL INCENTIVE DISTRICT

- Waiver of \$10,000 of Building Permit Fee
- 2% construction sales tax credit on public right-of-way improvements

Way Cool!!!

©74

*BUT HOW DOES THIS RELATE TO THE
REST OF THIS DISCUSSION?*



Existing Tools Can Be Used to Revitalize Existing Communities

1. Business Improvement Districts: ARS 48-575
2. Revitalization Districts: ARS 48-6801 et seq
3. Tax Increment Financing (TIF)
4. Central Business Districts/GPLETs: ARS 36-1479 (Redevelopment Area) + ARS 42-6201 et seq
5. New Markets Tax Credits: federal program
6. IDAs: private activity bonds, ARS 35-701 et seq; ARS 35-901 et sq
7. Historic Tax Credits: federal program
8. Funding options through HUD: CDBG programs

Lessons Learned

Incentives ...

- Development in Downtown occurred without significant direct financial incentives to developers
- Government invested heavily in infrastructure: new transit system, parking garages, streets and streetscape
- Conclusion?

Lessons Learned

Work with your strengths – Tucson is a university town, so key to success of Downtown is the integration of UA into our Downtown

- Modern Streetcar
- UA Downtown
- Student housing Downtown
- Next steps?

GO CATS!!!



**I DON'T ALWAYS
THANK PEOPLE**



**BUT THANK YOU FOR
LISTENING.**