CITY OF BOULDER
CITY COUNCIL AGENDA ITEM

MEETING DATE: April 19, 2016

AGENDA TITLE: Hill Reinvestment Strategy Update and Staff Recommendation for University Hill Public Parking Garage Financing Mechanism

PRESENTERS:
Jane Brautigam, City Manager
Bob Eichem, Chief Financial Officer
Cheryl Pattelli, Finance Director
David Gehr, Deputy City Attorney
Molly Winter, Department of Community Vitality Director
Sarah Wiebenson, Hill Community Development Coordinator
Lucas Markley, Assistant City Attorney
Joel Wagner, Special Assistant, Finance Department

EXECUTIVE SUMMARY

Staff is returning to Council after a December 8, 2015 study session on a proposed University Hill public parking garage with additional information on the following:

1. The estimated cost and recommended approach for financing a public parking garage on University Hill; and,
2. An update on progress with the Hill Reinvestment Strategy and long-term governance and funding options.

STAFF RECOMMENDATION

Suggested Motion Language:
Staff requests council consideration of this matter and action in the form of the following motion:
Motion to authorize the city manager to develop a partnership structure that will result in the construction of a public parking garage, hotel, and related uses, including the UHGID Pleasant Street parking lot; to pursue the recommended financing approach for the public parking component of the public-private partnership project; and return to the Council for consideration of the implementation strategy and related ordinances and agreements.

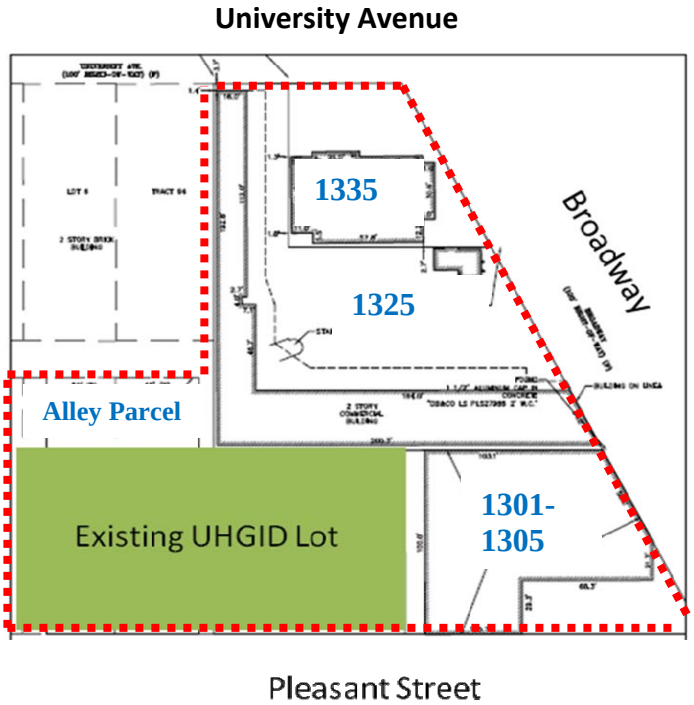
I. UNIVERSITY HILL PARKING GARAGE FINANCING

Background

At a study session with council on December 8, 2015, staff reported that numerous University Hill stakeholder surveys and a consultant's report from the Hill Commercial Area (HCA) moratorium in early 2015 cited insufficient parking as a barrier to achieving year-round economic vitality. (https://www-static.bouldercolorado.gov/docs/15-1208_CC-SS_HRS_Agenda_Memo_packet-1-201604181016.pdf) The city had received a proposal in April 2015 to enter into a public-private-private partnership (P3) to construct a public parking garage and hotel with retail and dining on the Pleasant Street public parking lot owned by the University Hill General Improvement District (UHGID) and four adjacent privately-held parcels at the northern gateway to University Hill.

The P3 would be a partnership between the city/UHGID and BMC Investments, Sage Hospitality and the owners of 1301-1305 Broadway (Ora S. Fowler Trust and Wells Fargo Bank), 1325 Broadway (St. John/Dorrell, LLC) and 1335 Broadway (1335 Broadway, LLC). Additionally, an adjacent parcel on the alley between Pleasant Street and University Avenue would be conveyed to the UHGID to expand the project footprint and provide alley access to the rear of the proposed hotel.

Image 1. Proposed Joint Venture Parcels at Pleasant & Broadway



It is proposed that the combined parcels be redeveloped to accommodate a 155-room hotel with 30,000 square feet of retail/restaurant use and an underground public parking garage with 247 spaces with 80 spaces leased to the hotel. The Pleasant Street lot currently accommodates 68 spaces, representing a mix of 49 commuter permit and 19 short-term spaces.

Staff explained that the mill levy revenues generated by UHGID are insufficient to finance the construction of a public parking garage. Staff asked council if, given the council goal of year-round vitality in the Hill Commercial Area, the city would consider partnering with UHGID to finance the garage construction. Additionally, the proposed uses are projected to provide a new source of accommodations tax revenues and to increase current revenues from sales and property taxes. Council asked staff to return with a construction cost estimate and the recommended financing mechanism.

Construction Cost Estimate

To answer council's first request to provide an order of magnitude of the cost to construct the P3 public parking garage, staff worked with the development partnership to estimate the construction costs, including any potential environmental remediation on the site, as well as any 'soft' costs related to the project. The city engaged an environmental counsel to review the development partnership's engineer's cost estimate for remediation and the city engaged a local architectural firm to serve as an 'owner's representative' to review the cost estimates provided by the development partnership's construction manager. The resulting cost summary drafted by the owner's rep found that the total (hard and soft) construction costs could range from approximately $16.0 million on the low end to $19.2 million on the high end, including contingencies. Staff estimates the total project cost for both the hotel and public parking garage to be about $83 million.

Funding

To answer council's second request for a recommended financing option, staff reviewed various options. An overview of the feasibility analysis, as well as the recommended approach is provided below.

<u>Tax Increment Financing</u>

When first approached, the city was asked to consider using traditional tax increment financing (TIF). Any TIF funding would have required the involvement of the Boulder Urban Renewal Authority (BURA) and would have had to meet TIF requirements before it could be declared a property eligible for TIF funding. In a TIF all incremental taxes for all taxing entities that levy a mill levy are captured by the property within the TIF boundaries and are used to pay back bonds that are issued to redevelop a property or area. Due to a variety of legal issues created by HB 15-1348, amending the Colorado Urban Redevelopment Laws, no bond attorney has been able to provide the opinion needed to issue such bonds. In light of this, TIF funding is not viable at this time and staff has considered other alternatives.

<u>Alternatives to a TIF</u>

1. Developer Financing. The first analysis included a P3 where the hotel group would build the parking garage and the city would pay the group back over time. When this option for a public/private partnership was analyzed, the payment stream needed to make it viable would have taken all new revenues generated by the site. This would continue to occur indefinitely with no end date in the future. While the city would receive new parking spaces it would also be giving up all future revenue streams for this property. Under the Taxpayer Bill of Rights

(TABOR) passed in 1992 any multi-year obligation entered into by the city that requires the city to pay anyone must be approved by the voters at a November election. Given the many unknowns of what needs the city will require in the future for such revenue streams and the uncertainty around giving up annual cash flows (being a TABOR occurrence), this option was not deemed to be a good use of city resources and created too much risk for the city. It was not considered further.

2. Cash Funding From Reserves. A second option considered was for the city to build the parking garage and cash fund it from city general fund reserves. This was not considered viable or realistic because it would strip the city of financial resources that would be needed in the event of a natural disaster, an economic downturn or other major need that arose. Given that such occurrences have happened within the past eight years it is not out of the realm of possibility or probability of it happening again. There would also be a strong chance that usage of these funds would also cause a downgrade in other general fund outstanding debt obligations and lower ratings for future bond issues (thus increasing the interest rate the city would pay). Reserve levels below two months of estimated expenditures (roughly 17 percent) on an ongoing basis for a general fund the size of the city of Boulder falls below best practices in local government (based on recommendations by the Government Finance Officers Association). Given the short and long term financial impact and risk of this option it is not considered to be a valid financing method.

After concluding that none of the foregoing possibilities were viable or beneficial for the city, other P3 alternatives and city options were considered. The following option came about after looking at what the city has done elsewhere with parking garages. The general fund now owns the parking garage on the old hospital site. The Central Area General Improvement District (CAGID) also has parking garages and has entered into other partnerships with owners that have been successful financial arrangements; the St. Julien is the best example. Since the UHGID stands alone as a separate taxing entity, it cannot be a part of CAGID, nor can CAGID make the debt payments for UHGID. The CAGID tax base is substantial and can support its debt without contributions from the general fund. UHGID does not have the financial resources or ability to make debt payments on a parking garage. Therefore, it would need financial assistance to participate in a P3 arrangement.

3. Certificates of Participation. For this option, the construction costs would be paid for by issuing 30 year certificates of participation (COPs). This is the same financial mechanism that was used to purchase the hospital property in 2015. The Colorado Supreme Court has held that COPs are not a multi-year obligation under TABOR because the annual payments are not automatic and are subject to an annual appropriation clause that means the payments are appropriated one year at a time. The collateral for the COPs would be the parking garage itself and at least one other building owned by the general fund. The garage by itself will not be sufficient collateral to cover the total cost of the total project. There will also be

other costs besides the actual construction, such as landscaping and other amenities or requirements that must be included. There has also been significant discussion regarding the parking garage being essential enough to meet legal requirements to be used as collateral for the COPs. Discussions with the city's financial advisor and bond counsel have determined that the parking garage would be essential enough and that no reserve fund would have to be borrowed as a guarantee against a default on payments.

There are strict restrictions on the ability to use *tax exempt* COPs when private enterprise is involved. In this case it would be too restrictive and would eliminate large amounts of flexibility in the time the COPs would be outstanding. At this time taxable rates are at historical lows, and if this option is pursued staff recommends using *taxable* COPs to provide maximum flexibility now and in the future (this is the same approach taken for the purchase of the hospital site). It may also be possible to use tax exempt financing for part of the structure and taxable for what may be used by the hotel. Staff and bond counsel will continue to analyze this possibility.

If council moves this project forward, staff recommends the annual COP payments be paid from a combination of the net revenues from the parking garage, the property tax for both the city and UHGID, sales and use tax, one hundred percent of the accommodations tax generated by the hotel and any accompanying retail or other development that is included in the project. Staff does not usually propose such restrictions on future revenues as it reduces flexibility in the future to address new operating costs and unexpected environmental or economic events. In this isolated case it is an acceptable risk given the ultimate goal of rejuvenating the Hill and stimulating other positive changes in the area. In conclusion, the shared revenues generated by this project will enable the garage to be built. For purposes of convenience it is referred to in the rest of this memo as an "internal TIF."

There are certain amounts of tax that cannot be used if the internal TIF is used. That includes property taxes that are dedicated, such as those going to the permanent parks fund, public safety, and the library. Sales and use taxes that have been restricted by the voters for open space, parks and recreation and transportation cannot be included in the internal TIF. Until all annual COP payments are completely covered with the incremental revenue it is recommended that no amount of the accommodations tax from the new hotel be shared with the Visitors and Convention Bureau until the city's general fund would cease to make any additional annual investments in the project and have a three year track record of doing so. If collections would be greater than needed for COP payments it is proposed that the excess be put in a contingency account in case an economic downturn would occur in future years.

Based on a range of cash flows and sensitivity analysis, staff expects there will need to be an ongoing investment by the general fund to close the gap between total revenue generated from the internal TIF and total COP payments. The amount per year would vary depending on actual revenues received and operating expenses incurred (various

scenarios are shown below). It is expected that the COPS would need to be in the amount of approximately $19 million and would be thirty years in length. Given the life span of a parking garage, the asset will last longer than the length to maturity.

Additional Considerations – Early Timing Gap

Numerous cash flow scenarios have been run and analyzed. In any re-development project, the first three to five years are the most challenging. The full impact of all new revenues will not be fully in effect until then. This is due to the lag time between the year the project begins, and receiving the full amount of property, sales and accommodations tax that will eventually be generated annually, compared to the dates the first few COP payments must be made.

Various options are available to build a financial bridge to span this timing gap. The gap between available revenues from the project in the first eighteen months is expected to be about one million dollars. Staff continues to analyze the possibility of using a method often used in this type of situation. It is called capitalizing the interest. The COP issue would include borrowing enough to make the interest payments during this timeframe to pay it off over the length of the COP issue. This would reduce the additional amount the general fund would need to allocate for its annual investment. In the current low interest rate environment this possibility should be considered. At the same time, it means the city would have to have use collateral and make payments on the additional amount of borrowed money to pay off the capitalized interest. Staff will continue to analyze this option if staff is asked to proceed with the project.

Given the many variables that have to be considered the number of scenarios that could occur are numerous. For illustrative purposes staff has included three potential ranges of results, best, mid and worst.

Table 1. Early Timing Gap Analysis

	Estimated range of annual city investment after timing gap	*Estimated highest year after timing gap*	*Estimated average city investment / year while needed*	*Year projected positive cash flow will occur*
Best	$75K to $331K	$331K	$176K for 4 years	Year 5
Mid	$15K to $475K	$473K	$170K for 11 years	Year 12
Worst	$1K to $605K	$605K	$245K for 22 years	Year 23

The projections are conservative and it is staff's expectation that the actual results will fall closer to the mid case than the high and low extremes.

Letter of Intent

In P3 projects, it is sometimes necessary to outline a 'road map' among the partners to establish roles and responsibilities. To outline the parameters of the potential Hill hotel/garage project, a Letter of Intent (LOI) between the P3 partners would establish the

contributions of the various land owners; how the cost of construction would be allocated; and the ownership structure of the project after construction is completed. As currently envisioned among the P3 partners, the LOI would take into account current market barriers to commercial development on University Hill, with the city/UHGID leasing the UHGID land at a nominal cost; financing and operating the garage; paying for the streetscape improvements and a share of the remediation costs. Of the total 247 parking spaces, the hotel partnership would lease 80 spaces from the city/UHGID. The hotel partnership also has offered to purchase and convey to UHGID an adjacent alley parcel to expand the footprint of the project.

Table 2. Proposed Hill Parking Garage Letter of Intent – Key Points

UHGID/City	Hotel Partnership
Land Contribution	Land Contribution
Garage Financing	Hotel Financing
Parking Garage Operations and Maintenance	Lease for Spaces to Serve Hotel Users
Streetscape Improvements	Conveyance of Alley Parcel to UHGID
Remediation (Shared)	

Additionally, the LOI would outline the agreements that would need to be signed by the P3 partners to move forward with the project if directed by Council, namely:

- Ground Lease of UHGID Property;
- Parking Structure Interest Agreement for UHGID Garage Operations;
- Agreement Among Owners;
- Development and Ownership Agreement;
- Hotel Parking Lease; and,
- Cooperation Agreement Between UHGID and City.

If Council wishes to take the next steps to pursue the P3 project and the recommended financing approach, staff will return to Council for consideration of an LOI.

Questions for Council

1. Does Council have questions for staff about the construction cost estimate?

2. Does Council have questions about the proposed COP financing method, internal TIF lease payment method or the early timing gap?

3. Does Council support contributing the UHGID Pleasant Street parcel to the proposed P3 project and support the city/UHGID participating as partners in the development?

4. Does Council wish for the City Manager to direct staff to take the next steps to draft the LOI and pursue the recommended financing approach and to return to the Council?

II. HILL REINVESTMENT STRATEGY UPDATE

The Hill Reinvestment Strategy (HRS) is a multi-year interdepartmental effort to improve quality of life on University Hill for its residents, businesses and visitors. The City Council made University Hill a priority for its 2014-16 term, including investments by the General Fund as outlined below.

Table 3. Hill Reinvestment Strategy Progress, 2014-2016

HRS Goal	Status	Estimated Date of Completion
Hire Community Development Coordinator	COMPLETE	September 2014
Pilot neighborhood cleanup service contract ('Residential Service District' or RSD)	COMPLETE	Funded through December 2016
Pilot Hill Employee EcoPass Program to reduce parking demand	COMPLETE	Funded through December 2016
Install a tree irrigation system in the Hill Commercial Area	IN PROCESS	Spring 2016
Install enhanced pedestrian lighting in the Hill neighborhoods	IN PROCESS	Summer 2016
Design and construct a public gathering space or 'event street' in the Hill Commercial Area	IN PROCESS	Winter 2016-17
Pursue a National Register Historic District designation for the Hill Commercial Area to incentivize private investments	IN PROCESS	January 2017
Draft an Alley Enhancement Master Plan for the Hill Commercial Area	PLANNING STAGE	January 2017

In the near term (the so-called 'prime the pump' phase of the HRS), the city is serving as a catalyst for private investment in the Hill Commercial Area and helping to manage town/gown relations in the Hill neighborhoods. Staff is currently drafting a second phase of the Hill Reinvestment Strategy that will include completing certain phase one initiatives, e.g. the National Register District designation and the Alley Enhancement Master Plan, as well as continuing pilot programs such as the RSD and the Hill Employee EcoPass Program. Proposal to continue the hill initiatives will be forthcoming.

Hill Reinvestment Working Group (HRWG)

Integral to phase two of the HRS is an effort to identify long-term, self-sustaining governance and funding structures to continue improving quality of life on the Hill. Toward this end, the city convened a 15-member stakeholder group called the Hill Reinvestment Working Group (HRWG). HRWG members represent the following Hill stakeholder organizations: City Council, CU administration, CU Off-Campus Housing, CU Student Government, IFC/Panhellenic, the University Hill Commercial Area Management Commission (UHCAMC), the University Hill Neighborhood Association (UHNA), The Hill Boulder business association; the Boulder Area Rental Housing

Association (BARHA), the Responsible Hospitality Group (RHG), and commercial and residential property owners in the Hill Commercial Area.

The goal of the HRWG is to craft a recommendation to City Council for pursuing long-term HRS efforts, including potential organizational structures and how these efforts will be funded.

In November 2015, the HRWG held its first workshop to identify long-term funding priorities for the Hill. The priorities identified by the HRWG supported numerous stakeholder surveys that cite a lack of diversity on the Hill as a key issue: the need for a greater variety of housing types and residents in the neighborhoods, as well as a greater variety of businesses and customers in the commercial district for year-round economic vitality. Specific programs and initiatives identified by the HRWG at the first workshop are outlined below.

Table 4. HRWG Long-term Funding Priorities

Hill Neighborhoods	Hill Commercial Area	Access & Economic Vitality
1. **Preserve a Balanced Neighborhood** - Investment property trend - Mix of housing types (affordability) - Mix of residents (permanent residents, grad students, families)	1. **Aesthetics** (freshen, improve, incentives)	1. **Provide Sufficient Parking** - Availability - Cost - Management - Commercial District
2. **Enforcement** (noise, litter, over-occupancy)	2. **Anchor Tenant** (diversify beyond student market)	2. **Improve Safety** - Lighting/Alleys - Transients - Policing - Alcohol/Underage Drinking
3. **Aesthetics** (incentives)	3. **Identify Markets to Attract** (e.g. CU staff and faculty)	3. **District Identity/PR**
4. **Litter Removal** (especially weekends)	4. **Streetscape Maintenance**	4. **Long-Range Planning**
5. **Town/Gown Relations**	5. **Marketing & Events**	5. **TDM Programs**, e.g. EcoPass
6. **Landlord Accountability**	6. **Advocacy/Tenant Attraction**	6. **Improved Bus/Bike/Ped Facilities**
	7. **Street Décor**, e.g. Holiday Lights	7. **Transit Options/Routing**

At the second workshop of the HRWG in January 2016, HRWG members discussed possible funding sources and governance structures to achieve the priorities identified at the first workshop. Staff is currently reviewing the suggested options to determine the legal and statutory impediments or requirements to pursue these options. These options included a blend of funding sources in the Hill Commercial Area:

- Increased mill levy from property owners;
- Pilot signage district to generate advertising revenue;
- Pursue grants and possible CU contribution;

- Revenue sharing from district sales, admissions and property taxes.

There was support as well for identifying a funding source to continue the pilot Residential Service District (acknowledging the current financial impact of Smart Regulations requirements) and pairing this with an effort to identify policies that would reduce the impact of high-occupancy student areas and increase the diversity of housing types. A potential funding source for continuing the neighborhood cleanup services of the RSD included imposing an impact fee on holders of rental licenses in this area, possibly through the city's Rental Licensing Program.

At the next meeting of the HRWG on April 21, 2016, staff will review its findings in testing the feasibility of these funding ideas through meetings with other city departments. The group will meet for a fourth workshop to wrap up its recommendation to Council before the end of the first phase of the HRS in December 2016.

Questions for Council

1. Does Council have questions for staff about the Hill Reinvestment Strategy or the work of the Hill Reinvestment Working Group?

III. NEXT STEPS

Based on the feedback from Council, staff will return to Council with an update on the P3 hotel/garage project, including a Letter of Intent, and return before the end of 2016 with a work plan for phase two of the HRS (2017-2019) and options from the HRWG for sustainable governance and funding to continue quality of life improvements on University Hill.