



MEMORANDUM

Date: January 29, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **JE Dunn Construction Proposal to the Rio Nuevo Multipurpose Facilities District to Construct a Major New Downtown Office Building and Parking Garage on County Property Located at 75 East Broadway Boulevard**

Property Background

On January 6, 2005, the County purchased the existing office building at 97 East Congress Street and the parking lot at 75 East Broadway Boulevard for \$4,710,775. The acquisition was made for the purpose of providing the Regional Flood Control District (RFCD) office space in downtown Tucson. The property was purchased with County General Funds. Once additional County office space was developed, including development and opening of the Public Service Center, space became available in the Public Works Center to relocate the RFCD from 97 East Congress. The private tenant the County inherited with the purchase of 97 East Congress, Tucson Indian Center (TIC), negotiated a purchase of the County-owned three-story building located at 160 North Stone Avenue. The County purchased this building at 160 North Stone on August 8, 2012 for \$635,354 and completed a sale transaction to the TIC on January 18, 2017 for \$1,507,500.

With the relocation of the TIC to 160 North Stone, the 97 East Congress building was vacant and made available to the Caterpillar Surface Mining Division for their initial relocation to Tucson, Arizona. The County remodeled 97 East Congress and leased this property to Caterpillar Global Mining LLC on June 7, 2016. Their lease expires on August 31, 2020, which coincides with the completion of their new building on Cushing Street, west of the Santa Cruz River, being constructed by Rio Nuevo. When Caterpillar vacates 97 East Congress, the building will be leased to another new employer to the region or sold for the same purpose at the current-market-value now estimated to be approximately \$5 million.

Rio Nuevo Lease and Proposals

It has always been the County's intent to lease or sell the 75 East Broadway property for economic development. Early in our economic development deliberations it was decided the best vehicle to transition this underutilized parking lot to economically beneficial uses was to partner with the Rio Nuevo District. Rio Nuevo has several economic development tools that are not available to the County, hence, the County entered into a Ground Lease Option

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **JE Dunn Construction Proposal to the Rio Nuevo Multipurpose Facilities District to Construct a Major New Downtown Office Building and Parking Garage on County Property Located at 75 East Broadway Boulevard**

January 29, 2018

Page 2

Agreement with Rio Nuevo on December 13, 2016. This Option Term expires on December 13, 2018 unless modified pursuant to the Agreement. The Option also establishes a fair-market-value rent amount that is determined by appraisal to be annual market-ground lease rate of \$173,250 established by the appraisal of Baker, Peterson, Baker and Associates, Inc., dated December 19, 2017. In addition, there has been discussion with Rio Nuevo regarding lease with an option to purchase at the end of the construction period. The appraisal by Baker, Petersen, Baker and Associates also established a purchase price of the property to be \$2,475,000.

Upon exercising the County option agreement, Rio Nuevo issued a request for proposals to construct a new building on the property with certain minimum performance parameters. The performance parameters provided by the County included a minimum of 150,000 square feet of class A office space, ground floor retail, minimum wage levels of 150 percent the median Regional wage for Pima County, and a minimum of 350 parking spaces. Design and construction activities were required to be completed within three years.

Rio Nuevo advertised for proposals, two proposals were received. The proposals were evaluated by an Evaluation Team consisting of Fletcher McCusker and Mark Irvin of Rio Nuevo, John Nyman of Concord General Contracting, and John Moffatt representing Pima County. JE Dunn Construction, Inc., a national construction firm with a modest presence already in the Tucson and Pima County region, submitted the winning proposal. This proposal is summarized below and if developed as now proposed, will be the largest single office building built in downtown Tucson since 1985.

History of Activities of County for Development of 75 East Broadway

Contact with Pima County was initiated 18 months ago by Bog Creek Development and The Planning Center, with the concept of developing a new Class A office building on County property located on Broadway between Scott and Sixth Avenues. Key points in their analysis were:

- The real estate community clearly states that there is no general use Class A office space in the Tucson area based on current definitions;
- The last Class A office building was built downtown 30 years ago;
- The significant growth in residential units downtown;
- The propensity of the millennials that live downtown to want to work close to their residence and/or use public transportation;
- Bog Creek had identified some major tenant opportunities that would make the project viable.

Over the past three years, there were multiple inquiries from other developers but all projects discussed were much smaller in scope and did not address our belief that a large

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **JE Dunn Construction Proposal to the Rio Nuevo Multipurpose Facilities District to Construct a Major New Downtown Office Building and Parking Garage on County Property Located at 75 East Broadway Boulevard**

January 29, 2018

Page 3

comprehensive employment center was needed in the downtown. Based on our experience with numerous Sun Corridor project leads, the County has long felt that there was a need for a "Large Floor Plate" office complex to accommodate companies that have expressed a desire for modern workspace to attract high technology, professional employees. Caterpillar and Hexagon are examples of highly paid workforces where the companies are focused on an attractive work environment in the downtown area. In both cases, new office buildings were needed in the downtown area to meet those needs.

JE Dunn Construction Proposal

On September 18, 2017, Rio Nuevo issued a Request for Proposals that incorporated our minimum requirements as well as other requirements to address the retail and parking needs downtown. As the landowner, Pima County participated in the development of the RFP and evaluation of the responses received. The proposal from JE Dunn Construction, Inc., in partnership with Bog Creek Development, The Planning Center, Peach Properties, Swaim Associates, and CBRE was an overwhelming winner with unanimous choice by the evaluation committee. The proposal was for a multi-phase project depending upon demand. A maximum of 275,000 square feet of office space was proposed, but smaller configurations can be built if the initial demand is not initially identified. The foundations will initially be developed to handle the maximum building size. Swaim Associates is the project architect. Parking demand in the downtown area is clearly identified and 500 to 600 parking spaces were proposed with more spaces planned for another site nearby if needed. Since Peach Properties has significant experience with downtown retail, JE Dunn partnered with Peach Properties to handle the 40,000 square foot retail component on the first two floors and potentially an underground movie theater. CBRE is the leasing agent for the office space and indicated that they have had discussions with users that could utilize 400,000 to 500,000 square feet of similar office space. They have a short list of two very serious tenants at 50,000 and 25,000 square feet each. The proposed building will also have open terraces for dining and events. Direct employment upon full use of the building is projected to be 1,250 people. The building will also convert the alleyway on the north side to a service drive at night and a two sided retail mall type atmosphere during the day.

On January 23, 2018, the Rio Nuevo Board formally selected JE Dunn as the successful bidder and voted to enter into negotiations for a development agreement for the site with a goal of completion for the February Rio Nuevo Board meeting. In parallel, Pima County and Rio Nuevo are negotiating the execution of the option granted earlier. The proposed timeframe once the negotiations between JE Dunn and Rio Nuevo are concluded includes three to eight months for feasibility to develop interest and to determine the amount of office space to build in the first phase. Design activities for the foundations and parking structure are now underway. Occupancy is expected in 2020.

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **JE Dunn Construction Proposal to the Rio Nuevo Multipurpose Facilities District to Construct a Major New Downtown Office Building and Parking Garage on County Property Located at 75 East Broadway Boulevard**

January 29, 2018

Page 4

JE Dunn Construction Inc., is a 94 year-old privately held company based in Kansas City, Missouri with 20 offices around the country. Their annual revenues run approximately \$3.5 billion per year. They have similar projects under way in Kansas City, Missouri and Austin, Texas and were the developer of the latest large expansion at Tucson Medical Center and the first phase of the projected \$150 million renovation of The University of Arizona football stadium. Having a national developer commit to spending over \$100 million dollars on a building in Tucson is an excellent vote of confidence in our community as well as a signal to the development community that Tucson is a viable, growing community. This will be a game-changing opportunity for Tucson.

Moving Forward

The County will continue discussions with Rio Nuevo as well as the City of Tucson in moving this project forward. It is likely the next necessary decisions will be how to structure an appropriate lease/purchase from the County at fair-market value, as well as define the roles of Pima County and the City of Tucson in actually implementing the project. As further information becomes available regarding this project, I will provide it to the Board.

CHH/lab

Attachment

c: Jan Leshar, Chief Deputy County Administrator
Dr. John Moffatt, Director, Economic Development
Fletcher McCusker, Board Chair, Rio Nuevo District
Regina Nassen, Deputy County Attorney
Mark Collins, Attorney, Gust Rosenfeld PLC