Memorandum

MIAMI-DADE COUNTY

Date: July 8, 2010

Agenda Item No. 12B1

To: Honorable Dennis C. Moss, Chairman
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Information to the Resolution Approving the Issuance of Recovery Zone Private Facility Bonds to Wexford Equities, LLC.

This report has been prepared in response to questions raised at the April 13, 2010 Budget, Planning and Sustainability Committee regarding the issuance of the American Recovery and Reinvestment Act (ARRA) Recovery Zone Bonds.

Under ARRA, Miami-Dade is authorized to issue $40 million worth of those bonds for public facilities and $60 million for private facilities. On December 1, 2009, the Board approved R-1416-09, delegating the review of projects and issuance of the private-facility bonds to the Industrial Development Authority (IDA), subject to ratification by the Board. Following a public hearing on March 23, 2010, the IDA moved to issue the entire $60 million to Wexford to finance part of the cost of the initial research and development building in the University of Miami Life Science and Technology Park.

Swerdlow Development Company, LLC also submitted a request to utilize ARRA private facilities bonds for the construction of Civica Towers, but because the developer indicated that the details of the project's financing plan had not been finalized, the project was not presented to the IDA Board. The Civica Towers' financing plan states that the estimated $8.5 million annual debt service for the project will be partially secured by the County's budget through an appropriation of non-ad valorem revenues. The remainder of the debt service is to be secured by the rents to be paid by Jackson Health Systems under a master lease, which will also be guaranteed by the County with a budget to appropriate. Civica Towers' financing plan obligates the County to cover any gap in debt service associated with development of the project should the revenues identified in the financing plan fall short of projections. Attached is a more detailed analysis of the information provided for Civica Towers.

The recommendation to issue the ARRA bond allocation to support the development of the Life Science and Technology Park was presented to the Budget, Planning and Sustainability Committee at its April 13, 2010 meeting. In a letter to the Committee (attached), Dr. Eneida Roldan, President and Chief Executive Officer of Jackson Health System (JHS) requested deferral, indicating that the construction of Civica Towers will be part of the JHS's longer term sustainability. Furthermore, she stated that that JHS's long term plan addresses the issues outlined in County staff's analysis of the Civica Tower project.

To date, we have received no such plan or any other information from JHS regarding the Civica project. Since the most recent financing plan for the Civica Towers project relies on the County backing the repayment of the entire debt, private facilities bonds are not essential for that project to move forward if in the future the Board decides to proceed with the Civica Towers development. I stand by the attached analysis and recommend against deferring the allocation of the requested authority to issue Recovery Zone Private Facility Bonds to Wexford Equity, LLC, as recommended by the IDA.

It is estimated that construction of the 252,000 square foot Life Science and Technology Park Building 1 will provide approximately 1,300 direct and indirect jobs during construction. Updated economic impact reports indicate that the ongoing operations in Building 1 will support 626 new and annually recurring employment positions with an average salary of $61,389, plus an additional 1,225 recurring jobs from indirect and induced economic impacts. Wexford Equities, LLC (Wexford), the developer of the University of Miami Life Science and Technology Park, and its affiliates will issue the Recovery Zone Private Facility Bonds and are fully responsible for the repayment of those bonds. In contrast to the Civica Towers financing plan, the County has <u>no</u> financial exposure from the private facility bonds issued through the IDA for Wexford. I urge you to support the IDA's recommendation to issue $60 million to Wexford.

Attachments

Director
General Services Administration

Memorandum

MIAMI-DADE COUNTY

Date: March 9, 2010

To: George M. Burgess
County Manager

Through: Wendi J. Norris, Director
General Services Administration

From: Leland Salomon, Division Director
Real Estate Development

Subject: Proposed Civica Tower Development

Pursuant to your request, we have reviewed Jackson Health System's business plan for the proposed Civica Tower as well as the terms laid out in a non-binding letter of intent (LOI) signed by Public Health Trust President Eneida Roldan on January 12, 2010. The stated purpose of constructing a new 578,000 square foot office tower at 1050 NW 14th Street is to "allow the hospital to benefit from reduced occupancy costs and increased operational efficiencies at the administrative level while freeing up valuable space in the medical care facilities." The business plan also states that the project should provide a 30-50 year solution to the administrative needs of the hospital.

In summary, we do not recommend pursuing this project. We are extremely concerned with the financing plan which states that the estimated $8.5 million annual debt service will be partially secured by a County budget to appropriate non-ad valorem revenues. The other portion is to be secured by the rents to be paid by the hospital under the master lease, which will also be guaranteed by the County with a budget to appropriate. In light of the hospital's financial challenges and recent announcements of downsizing, it is unclear how much of the proposed space will in fact be needed by the time the building opens. Furthermore, we question the demand for the private office space in the current market. Ultimately, the County will be responsible whether or not the space is occupied. If the hospital is seeking an alternative to the currently leased office space, we would welcome the opportunity to identify potential alternatives in County-owned space.

The Proposal
Swerdlow Development Company, LLC is proposing to develop a 25-story Class "A" office building, half of which would by occupied by Jackson Health System (JHS) administration and the remainder would be leased "primarily to physicians and other medical related entities and a small component for conference, dining and retail space." The JHS half would be a separate, defined condominium unit consisting of the top floors of the building. According to the LOI, the County would be the owner of the JHS space, the obligor on the bonds issued to acquire the Jackson space, and the guarantor of JHS's rental obligations of the third party space. In addition to being the user of the JHS space, JHS would be the master tenant of the third party space and the lessor of subleases for third party space. Swerdlow Development Company, LLC would be the guarantor of construction costs, while a Swerdlow related entity would be the owner, landlord, rental agent, operator and manager for the third party space.

The LOI further states that the County/JHS will purchase the JHS space at 115% of the actual project cost, with the 15% representing "the developer's profit for acquiring the land, completing planning and design, obtaining entitlements and necessary permitting, securing both debt and equity financing, as well as bearing all financial risks through completion of the project, including a guaranteed final project cost." Based on an estimated project cost of $160 million, the developer's profit is $24 million.

A normal profit for a project of this magnitude with government backing might be between 10% and 15% of cost but, based on the schedule of sources and uses provided by the developer, this "profit" is not included in the total projected project cost of $160 million and the developer is including, in addition, a developer fee of three million dollars, a leasing commission of five million dollars, overhead of one million dollars and a hard cost contingency of four million dollars. These additional project costs diminish the potential risks enumerated by the developer, and a much closer examination of the developer's risk would be required before approving this type of schedule or profit.

The developer proposes that the County would be the issuer of $100 million in ARRA bonds and $60 million of other tax exempt and taxable bonds. JHS would "purchase" its 280,000 square feet of space for a 15% fee and master lease the additional 250,000 square feet for a period of 30 years. This arrangement allows the ARRA bonds to be used to build this project, as $40 million of these bonds can only be used on a government project. Furthermore, it guarantees the cash flow which, at a minimum, is required to pay for the bonds.

The developer proposes a blended debt service rate of 6.3% on the bonds. If this rate is lower when the bonds are issued any benefit would accrue to JHS. The developer's proforma shows that this rate translates into a $17.50 per square foot (PSF) rent for the hospital. An additional $4.50 PSF is required to fund the developer's profit resulting in a net rental rate of $22.00 per square foot. Assuming that the Hospital's space is held in a tax exempt entity there would be no real estate taxes attributable to the Hospital's space.

The remaining 250,000 square feet of the building is to be subleased to physicians and other medical office users. The developer estimates that market's rent at $32.00-$35.00/square foot (net). The business plan states that the Hospital staff and the developer "have surveyed the market extensively and are highly confident that there is adequate if not excessive demand for this type of space." The main sources for leasing this space are "Hospital acquired medical practices, interns whose practices have evolved over the years, physicians currently located in Cedars Medical Center, FIU's expanding intern program and pharmaceutical and drug companies who require a presence in the health district." None of this survey information was included.

<u>**Analysis**</u>

- Land cost is listed at $30 million for 1.9 acres, which represents $29.00 PSF of the project cost. While no comparisons are provided in JHS's business plan, the vacant 2.51 acres owned by the County/Public Health Trust at the SE corner of 19th Street and NW 12th Avenue (contemplated for development as a hotel, retail and conference center) was valued at $12.7 million in an appraisal completed in September, 2008.

- The improved shell to be built by the developer includes $35.00 PSF for tenant improvements for the Hospital and $50.00 per square foot for the medical offices. Recent experience of the County in preparing the office space at Overtown II projects a furniture, fixtures and equipment and information technology cost of $81.00 per square foot. This additional FF&E and IT cost would add \$46.00 PSF to the overall office space cost.

- The developer's estimate of operating expenses of \$6.00 PSF for Hospital office space and \$10.00 PSF for medical office space seems low. Overtown's operating expenses are approximately \$10 PSF with no real estate taxes. GSA staff has computed the real estate tax rate on the medical office space to be \$8.74 PSF which would result in a total base operating expense budget of more than \$14.00 PSF.

- In order to cover the financing cost, operating expenses and real estate taxes, staff estimates that the medical office space would need to be rented for \$41.23 PSF. A major reason given by the developer for entering into this agreement is that the Hospital would benefit from 50% of any "profit" from this space. Based on the developer's projection of \$35.00 PSF, the \$41.23 rate is not a realistic rate nor does it provide a realistic prospect of profit sharing. In addition, the developer is asking the County to Master Lease this space. Given that the projected rental rate is significantly higher than the market, it would be very risky for the County to guarantee this portion of the ongoing project costs.

- The developer is projecting \$500,000 per year in revenue from the valet parking of 440 spaces. The LOI states that the hospital will be assigned two spaces per 1,000 square feet (560 spaces) free of charge. It is difficult to perceive that the 280,000 square feet of medical practice space would have no assigned spaces and be required to park by valet only. Providing assigned parking for this space would seriously lessen the expected valet revenue due to the Hospital.

- Based on the information provided in the business plan, there are approximately 93,000 square feet of office space being rented by the Hospital for administrative purposes in downtown Miami. The average rent being paid for that space is \$27.17 PSF, including parking at approximately \$3.00 PSF. The starting "rent" (since we are assumed to have purchased this space the rent covers only debt service and operating expenses) of the proposed Hospital space is \$25.85. Although slightly less than what the Hospital is presently paying, no consideration has been made for operating expenses on the garage space, and greater scrutiny is required of the projected \$6.00 PSF operating expenses on the office space. It is difficult to justify this type of move as creating operating efficiencies sufficient enough to offset the higher cost, to say nothing of the County's risk in guaranteeing the rent on the medical office component.

We do not feel that it is in the best interest of the County to proceed with this development at this time. Certainly we would need to perform a more thorough analysis of the construction costs, revenues and expenses. However, regardless of the outcome of that analysis we believe that the risk in doing this development as proposed is, contrary to the opinion of the developer, significant. The County is responsible for issuing all \$160 million of bonds required for the construction of this project, which makes us responsible for the debt service and repayment. Additionally, we are being asked to purchase the JMH space and master lease the remaining space in the building which makes us additionally responsible for all operating expenses. Based on our projections above, this would require an annual budget to appropriate \$19.1 million, increasing annually. There is serious concern that the County presently has the capacity to make this commitment.

As an alternative, the County has two facilities downtown that could be configured to accommodate the administrative space presently leased by the Hospital in three separate facilities (DuPont Building, 155 S. Miami Ave., and 9275 SW 152nd Street) at a significant savings.

Jackson
HEALTH SYSTEM
PUBLIC HEALTH TRUST

Eneida O. Roldan, M.D., M.P.H., M.B.A
President & C.E.O.

Executive Office
1611 N.W. 12th Avenue
Miami, Florida 33136-1096
305-585-6754

April 12, 2010

TO: The Honorable Chairperson, Katy Sorenson
Budget Planning and Sustainability Committee

FROM: Eneida O. Roldan
President & CEO

Dear Chairperson Sorenson:

I understand that your committee will soon be considering a recommendation to allocate $60 million of the ARRA Development Bonds for the Wexford project at the UM Life Science Park. While we are certainly supportive of our partnership with UM in general and of the University's efforts to develop a Life Science Park here in the health district in particular, we respectfully request that you table this matter until County staff can receive and review our pending financial sustainability plan.

When completed in the next few weeks, that plan will outline our vision for a revitalized Jackson Health System and among other things, a new approach to phycician services. In anticipation of a renewed commitment from our acadmeic partners at UM and FIU as well as the meaningiful engagement of community physicians, we feel that the construction of Civica Towers (which has previously requested the ARRA bonds) will be an important part of our longer term sustainability and our future prospects carrying out our mission as the County's hospital.

As you know, JHS has signed a letter of intent for Civica Tower. As I understand it from the developer of the project, our options are severely limited without these bonds. My staff has reviewed the GSA memorandum regarding the project and believes that our plan will effectively address the issues outlined in that memo. Again, this matter is of great importance to the future of the County's hospital.

Sincerely,

Eneida O. Roldan, M.D., M.P.H., M.B.A.
President/CEO

EOR/sch
Cc: Honorable Jose A. Martinez, Vice Chair
Honorable Audrey M. Edmonson
Honorable Carlos A. Gimenez
Honorable Sally A. Heyman
Honorable Barbara J. Jordan