



Board of Supervisors Memorandum

June 7, 2016

Lease of 97 E. Congress Street to Caterpillar Global Mining LLC

Background

Through our ongoing economic development efforts and in accordance with Action Item 11.2 of the Board of Supervisors adopted Economic Development Plan to expand basic employment in the downtown area, the County, along with the Arizona Commerce Authority, Sun Corridor Inc. and the City of Tucson, worked to attract the Surface Mining and Technology Division of Caterpillar to Tucson and Pima County.

"11.2 Encourage new or expanded primary employment in the downtown by making available for such the County-owned office buildings at 97 E. Congress Street and 160 N. Stone Avenue, as well as the County's vacant property at Broadway Boulevard and Scott Avenue and 332 S. Freeway."

This process began in early December 2015 and culminated with Caterpillar's announcement of the relocation of their Surface Mining and Technology Division to Tucson on May 3, 2016.

This relocation will result in approximately 650 new, high-wage and highly skilled jobs in Tucson. This will complement the existing 350 jobs at the Caterpillar Proving Grounds south of Green Valley. We believe Caterpillar's consolidation and relocation will set the stage for significant additional growth of this unit of Caterpillar based on mining activities in the southwest and Mexico.

Over the next two years Caterpillar will be relocated approximately 300 to 350 employees to 97 E. Congress. As you will recall 97 E. Congress formerly housed the Regional Flood Control District that was relocated to the County/City Public Works Building; Pima Vocational High School will be relocated to the Old Pueblo Neighborhood Center; and the remaining two tenants are now being relocated to 160 N. Stone.

Caterpillar Lease Terms

Caterpillar plans to utilize 97 E. Congress as an interim facility and plans to locate to a significantly larger facility built by Rio Nuevo and then leased to Caterpillar. This new building is expected to accommodate the 650 or more employees. This lease arrangement where a company temporarily uses a County building for several years, is very similar to our lease with Accelerate Diagnostics.

The lease term for 97 E. Congress is four years with two, one-year options. Caterpillar will pay the County an annual lease rate of \$13.72 per square foot of occupied space and \$7.12 per square foot of unoccupied space.

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It is anticipated Caterpillar will take between one and two years to fill the entire building. The building will remain the County's property; and it is currently being improved and modernized, which will include a façade upgrade. Tenant improvements to meet Caterpillar's space and design needs are estimated to cost \$2 million; and Caterpillar has agreed to repay 30 percent of the capital tenant improvement costs over the four-year period, which is equivalent to the depreciated value of the tenant improvements over the same period. Caterpillar will also pay all operating and maintenance costs associated with the building, as well as the standard government property excise fees.

The County will also provide up to 200 parking spaces in the adjacent County Legal Services Garage.

The proposed lease is attached for your information and review. This proposed lease has been approved by Caterpillar officials (Attachment 1).

Also attached for your review is my May 3, 2016 memorandum to the Board advising of Caterpillar's relocation and consolidation announcement (Attachment 2).

Consistency with Adopted County Economic Development Plan

The primary objective of the County's Economic Development Plan is to grow and expand the tax base by increasing export-based primary employment. The attraction of Caterpillar to this community accomplishes this objective.

Expected Economic Benefits, Direct and Indirect

The total value of the 10-year economic impact of Caterpillar is estimated to be \$1.9 billion, with total new annual tax revenue of \$69.6 million (\$39.7 million local and \$29.9 million State).

Recommendation

I recommend the Board of Supervisors approve the lease with Caterpillar Global Mining LLC for 97 E. Congress Street.

Respectfully submitted,



C.H. Huckelberry
County Administrator

CHH/mjk – June 3, 2016

Attachments

ATTACHMENT 1

**THE FINAL PROPOSED
LEASE WILL BE
AVAILABLE FROM
CATERPILLAR LATER
TODAY,
JUNE 3, 2016, AND
WILL BE DISTRIBUTED
UPON RECEIPT**

ATTACHMENT 2



MEMORANDUM

Date: May 3, 2016

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

From: C.H. Huckelberry
County Administrator 

Re: **Relocation of the Surface Mining and Technology Division of Caterpillar, Inc. to Tucson and Pima County, Arizona**

Introduction

Chapter 11 of the County's Adopted Economic Development Plan 2015 through 2017 discusses enhancing the downtown by increasing the opportunity for locating corporate headquarters in the downtown by leasing or selling certain County buildings that are no longer needed for County purposes at the present time. In fact, Action Item 11.2 specifically discusses this issue:

"11.2 Encourage new or expanded primary employment in the downtown by making available for such the County-owned office buildings at 97 E. Congress Street and 160 N. Stone Avenue, as well as the County's vacant property at Broadway Boulevard and Scott Avenue and 332 S. Freeway."

In addition, Chapter 7 of the Plan discusses Mining and calls for modernizing a traditional Arizona economic activity.

As part of the County's Plan, County representatives, along with representatives of Sun Corridor, the Arizona Commerce Authority, the Rio Nuevo Multipurpose Facilities District and the City of Tucson, have been meeting with representatives of Caterpillar, Inc. to discuss possible relocation of Caterpillar's Surface Mining & Technology (SM&T) Division to Tucson.

We believe attracting the SM&T Division of Caterpillar will significantly enhance our opportunity to support modern and advanced mining technology, as well as advance sustainable industry practices. Promoting more efficient resource extraction, while minimizing impacts, is the future of mining as an economic driver of job creation. Caterpillar has long been committed to developing mining technologies at the cutting edge of science, while remaining mindful of the need to keep workers safe and protect the natural environment.

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These commitments match Pima County's goal of supporting mining activities that provide well-paying jobs and meet the environmental standards established in our Sonoran Desert Conservation Plan.

As is always the case, the discussions with Caterpillar were subject to confidentiality requirements, and the selection process was highly competitive. Caterpillar discussed possible relocation with several other communities at the same time, and those communities offered attractive economic incentives to induce Caterpillar to choose them.

Ultimately, representatives of the Arizona agencies and political subdivisions noted above were able to assemble an economic incentive package that complies with all legal requirements and which is sufficiently attractive that Caterpillar representatives have agreed to relocate to Tucson. The package includes a four-year lease of the County's 97 E. Congress building to Caterpillar while it builds a permanent facility. As noted above, 97 E. Congress is specifically referenced in our Economic Development Plan to be leased or sold for increasing primary-based downtown employment. It is expected the building will accommodate approximately 300 to 350 of Caterpillar's employees.

Corporate Profile

With 2015 sales and revenues of over \$47 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. The company has three main product segments - Construction Industries, Resource Industries and Energy & Transportation. Caterpillar's SM&T Division is one of four divisions within the Resource Industries Group. It was formed in 2015 when the company combined its surface-mining sales-and-support teams with its Hauling & Extraction Division, a reorganization that Caterpillar expects will improve performance.

As part of its reorganization and streamlining effort, Caterpillar began looking for a site to relocate and consolidate its SM&T Division. It explored potential sites in several different communities, including Denver, Colorado. As part of the competitive site selection process, those communities offered Caterpillar economic incentives.

Tucson was also on the list of potential sites. Caterpillar already operates its Tinaja Hills Demonstration & Learning Center, a training facility and mining-equipment proving ground that employs approximately 300 people, on a 6,500-acre site in Green Valley.

Sun Corridor, the Arizona Commerce Authority, Rio Nuevo, the City of Tucson, and Pima County all worked together to assemble a package of economic incentives that ultimately induced Caterpillar to select Tucson as the site for its reorganized SM&T Headquarters. This consolidated operation (the Operation) is expected to grow to include nearly 1,000 jobs

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within five years, which means this action will result in 650 new jobs. These jobs are highly skilled and highly paid, consisting primarily of engineers and those involved in research and development.

Caterpillar intends to begin consolidating and relocating its Operation to Tucson as soon as June 1, 2016. Although it intends, with the assistance of Rio Nuevo and the City, to build a large new facility in downtown Tucson to house its Operation, designing and constructing such a facility will take several years. It therefore needs office space for short- and long-term lease until its new permanent facility is ready for occupancy.

Temporary Location at 97 E. Congress

The County is proposing Caterpillar's lease of 97 East Congress for a four-year period, with two, one-year options; allowing the company to relocate employees and plan for a new, larger facility in the Rio Nuevo Multipurpose Facilities District.

The County-owned 97 East Congress building is no longer needed for housing of County employees, and existing tenants in the building will be relocated in the near future. The County has already begun necessary rehabilitative work on the building, and we are prepared to make additional building renovations based on Caterpillar's specifications. Caterpillar will be responsible for paying agreed upon rent, including all operating, maintenance and utility expenses. Parking will be provided in an adjacent parking structure.

We are preparing a draft lease to be transmitted to Caterpillar within the week and will work with Caterpillar at its convenience to finalize the lease. We hope to have a formal lease agreement submitted to the Board of Supervisors for consideration on May 17, 2016.

The County also offered to provide Caterpillar up to 9,000 square feet of temporary, as-is office space in the Bank of America Building at \$8,000 per month beginning June 1, 2016.

Attached to this memorandum is my May 2, 2016 letter to Caterpillar's site selector, which provides specific information regarding the proposed lease terms for 97 East Congress, as well as Floor 11 of the Bank of America Building.

Economic Impacts

An economic impact study commissioned by Sun Corridor has estimated Caterpillar's operation in Pima County would generate a total economic impact during its first five years of almost \$600 million.

The division Caterpillar is proposing to relocate to Tucson involves the relocation of approximately 650 jobs to the region within five years. Those jobs will pay an average

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annual wage of \$90,000. Caterpillar will also cause to be constructed a new headquarters building costing up to \$50 million in that same time period.

We welcome this division of Caterpillar to Tucson and Pima County, and we look forward to making the Company's relocation to their temporary facility at 97 East Congress as seamless as possible.

CHH/mjk

Attachment



COUNTY ADMINISTRATOR'S OFFICE

PIMA COUNTY GOVERNMENTAL CENTER
130 W. CONGRESS, FLOOR 10, TUCSON, AZ 85701-1317
(520) 724-8661 FAX (520) 724-8171

C.H. HUCKELBERRY
County Administrator

May 2, 2016

Mr. Wes Bowen, Esq.
Mr. Rudy N. Watkins
Harvest Group, LLC
3024 Centre Oak Way
Germantown, Tennessee 38138

Re: Lease of 97 East Congress and the 11th Floor of the Bank of America Building, Buildings Owned by Pima County, for the Headquarters of the Surface Mining and Technology Division of Caterpillar Inc.

Dear Messrs. Bowen and Watkins:

Since December 2015, County representatives have participated in numerous site visits and information exchanges with Harvest Group, LLC, the site locator for Caterpillar, Inc. We have also met with numerous Caterpillar staff over this same period. We are pleased to now make this formal proposal for a four-year lease of 97 East Congress for Caterpillar's relocation purposes, subject to approval by the Pima County Board of Supervisors, as well as a lease for the temporary occupancy of Floor 11 of the Bank of America Building at 33 North Stone Avenue. I understand these leases will be for a limited period, allowing the company to relocate employees and plan for construction of a new, larger facility, possibly in the Rio Nuevo Multipurpose Facilities District.

The County has an economic-development interest in promoting Tucson's downtown. In fact, Chapter 11 of our Board-adopted Pima County Economic Development Plan, 2015 through 2017, calls for encouraging new or expanded primary employment in the downtown by making available for lease or sale County-owned buildings such as 97 East Congress. Caterpillar's relocation, which will add 650 or more new or relocated employees to the downtown area, as well as its planned capital investment of up to \$50 million, will provide significant economic benefits for the region and State. We understand that the County's

Messrs. Wes Bowen and Rudy Watkins

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assistance in providing these temporary leases is a key element in Caterpillar's decision to relocate here.

The County-owned 97 East Congress building is no longer needed for housing of County employees, and existing tenants in the building will be relocated in the near future. The County has already begun necessary rehabilitative work on the building, and we are prepared to make additional building renovations based on Caterpillar's specifications. Caterpillar will be responsible for paying agreed upon rent, including all operating, maintenance and utility expenses. Parking will be provided in an adjacent parking structure. The proposed lease, which must be submitted to the Board of Supervisors for approval, would contain the following terms, which are reflective of the previous general discussions:

1. Term. Four years, with two one-year renewal options. After Year 3, Caterpillar will have the right to terminate the lease by paying a \$168,000 early termination fee.
2. Premises. 97 E. Congress is currently being rehabilitated by Facilities Management. Caterpillar would initially occupy at least 10,000 square feet or more on the second and/or third floors. It would occupy additional space as the building is rehabilitated, leasing at least 31,000 square feet by the beginning of the second year of the term and the remaining space (approximately 40,000 square feet total) by the beginning of the third year of the term. The County will endeavor to have the top two floors available for occupancy by August 2016 and will complete the total building renovation by January 1, 2017. These dates assume timely response from Caterpillar regarding ordering of certain building rehabilitation materials.
3. Rehabilitation. Caterpillar will be permitted to have input on the interior rehabilitation work being done by the County. This rehabilitation work is not expected to cost more than \$50 per square foot, and Caterpillar will work with the County to remain within that amount. (See Item 2 above regarding timely plans and materials approvals.)
4. Rent. Caterpillar will pay base rent at the rate of \$13.72 per rentable square foot per year for the occupied space, as well as \$4.12 per square foot on the unoccupied space over the lease period. If the cost of the rehabilitation work performed by the County exceeds \$50 per square foot, the base rental rate will increase by \$0.08 for each dollar in excess of \$50. Base rent during the two extension periods, if the option to extend is exercised by Caterpillar, will be at \$18 per square foot per year.
5. Government Property Lease Excise Tax (GPLET). Caterpillar will also pay any rental taxes, as well as the GPLET, which is estimated to be \$2.59 per square foot per year.

Messrs. Wes Bowen and Rudy Watkins

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6. Option Fee. Caterpillar will also pay an option fee (which is included in the base rent for the occupied space) on the unoccupied space in the building at the rate of \$6 per square foot per year, which will offset the County's carrying costs for the unoccupied space.
7. Operation and Maintenance Costs. The operating and maintenance expenses for the entire building, as well as utility costs, are now included in the base rent.
8. Parking. Caterpillar will have the right to utilize one County parking garage space for every 200 rentable square feet of space in the Premises. It is estimated the number of spaces used at full occupation of the building will be 200. If Caterpillar needs more than 200 spaces, additional parking spaces can be leased from the County at \$85 per month.

We are prepared to send Caterpillar a draft lease within the next week and work with Caterpillar at its convenience to finalize the lease. We hope to have a formal lease agreement submitted to the Pima County Board of Supervisors for their consideration at the scheduled meeting of May 17, 2016.

In addition, we are prepared to provide up to 9,000 square feet of temporary, "as is" office space with County-owned furnishings in the Bank of America Building at \$8,000 per month for Caterpillar beginning June 1, 2016 and continuing to January 1, 2017 or continuing on a month-to-month basis until terminated by Caterpillar, but in no event extending beyond 12 months.

We welcome Caterpillar to Tucson and Pima County, and we look forward to making the Company's relocation to their temporary facility at 97 East Congress as seamless as possible.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/mjk

c: Regina Nassen, Deputy Pima County Attorney
Sandra Watson, President and CEO, Arizona Commerce Authority
Joseph Snell, President and CEO, Sun Corridor Inc.