



MAYOR & COUNCIL COMMUNICATION

February 4, 2025

Subject: Tucson House Rehabilitation Update and Approval to Submit the Application for Section 18 Disposition to the U.S. Department of Housing and Urban Development (HUD) (Ward 3)

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Issue – During the February 4, 2025 Public Housing Board of Commissioners meeting, HCD will provide an update on Tucson House Rehabilitation. This item is for Mayor and Council Approval to Submit the Application for Section 18 disposition of Tucson House to HUD, which is one of the requirements in order to move forward on the project.

City Manager's Office Recommendation – It is recommended that Mayor and Council authorize the resolution to Submit the Application for Section 18 Disposition of Tucson House to HUD.

Background – In July 2023, the City of Tucson (City) was awarded a \$50 million Choice Neighborhoods Implementation (CNI) Grant from the HUD for the Thrive in the 05-community reinvestment area. As part of the CNI award, and through a competitive selection process, the City entered into a Master Development Agreement (MDA) with Gorman and Company (Gorman) as Co-Developer and Choice Implementation Entity for the Tucson House rehabilitation as well as other CNI affordable housing projects. Among other responsibilities, the MDA establishes Gorman as the sole financial guarantor for CNI projects, including the Tucson House rehabilitation, assigning Gorman full responsibility for any and all financial obligations related to CNI project execution.

The first phase of implementation, and the centerpiece of the CNI grant, is the rehabilitation of the target housing site, Tucson House. Tucson House is currently operated as a part of the Public Housing program. The Public Housing program is not financially sustainable long-term, and, on September 19, 2023, the Board of Commissioners directed staff to pursue the Public Housing Financial Stability Plan to ensure the PHA has viable funding for the future. Asset repositioning to the Housing Choice Voucher Program allows private investment in the properties, guaranteed rents, and creates cash flow to sustain operations into the future, none of which are possible in the Public Housing program. The voucher-based subsidy provides recipients more flexibility and choice in their housing often resulting in more social, economic, and educational opportunities — a major policy goal of the regional Prosperity Initiative. A critical component of the Tucson House rehabilitation process is the repositioning from Public Housing to the Housing Choice Voucher program. In December 2024, the Board approved a significant amendment to the PHA Annual Plan to incorporate the asset repositioning of Tucson House through a Section 18 disposition.

This communication provides a comprehensive update on the rehabilitation project and describes the Section 18 disposition.

Present Consideration(s) – The Tucson House rehabilitation is the single largest rehabilitation project that the City has ever undertaken. This is an extraordinarily complex project, involving the total rehabilitation of a tower, historic preservation, resident relocation, Section 18 disposition, and mixed financing, making it a first of its kind for CNI. A team of specialized experts and experienced contractors have been assembled to ensure project success:

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- El Pueblo Housing Development (EPHD), the City's affordable housing non-profit, and Gorman are leading the development team.
- Poster Mirto McDonald, a local firm with expertise in historic preservation, and a trusted community partner, is the architecture and design team.
- Praxis Consulting is providing financial consulting services with experience in mixed financing, Section 18 disposition, and Choice project implementation.
- Gorman General Contractors, a subsidiary of Gorman, is the general contractor and brings direct experience in tower rehabilitation. They will be supported by a City of Tucson project manager.
- HCD Resident Services is providing resident support during and after construction, focused on resident health, wellness, enrichment, and quality of life.
- Revival Development Services, with extensive experience in resident relocation services, is dedicated to supporting relocation with care and empathy.
- HCD Choice Neighborhoods continues supporting all aspects the CNI grant implementation including coordination with our HUD CNI partners.
- The Liou Choice, an expert in CNI implementation, is supporting the HCD Choice team and project with CNI implementation.
- Property Management is currently being provided by HCD and will be transitioning to Gorman Property Management, a subsidiary of Gorman, who currently manages 21 properties in Arizona and has extensive experience with affordable housing property management.

To help build resident confidence, trust, and increase awareness and knowledge around the project, a Meet the Team document has been provided to Tucson House residents (Attachment A).

Key areas of the project update include resident engagement, design, relocation, financing, and construction.

Resident Engagement. Resident engagement and input continue to be a priority and are guiding the redevelopment effort. Of all of the developments in the CNI implementation, Tucson House is the most challenging. Primarily, in that we will have residents in an active construction zone and will have to relocate residents throughout the project. Mitigating and minimizing the impact of this on residents is our top priority. Secondly, this project is the first of its kind for the City and for HUD, which brings with it some uncertainty that we have to work through and adjust for as we go and makes communication more difficult. While we will continue to do everything, we can to help ease the stress and anxiety of the residents, we recognize the significant impact this has on residents and are committed to hearing their concerns with empathy and working through them together.

Housing and Community Development and the development team have engaged Tucson House residents specifically and continuously on the redevelopment of the building since receiving the Choice Neighborhoods Planning Grant in 2018. Below is a summary of Tucson House resident engagement during the Planning Grant (2018 – 2023).

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- In addition to providing accessible transportation to all Thrive in the 05 Transformation Plan meetings and events held throughout the neighborhood, the planning team held monthly “It’s Your Choice” meetings at Tucson House focused on rotating topics from safety to services to the housing redevelopment strategy, specifically for residents.
- Resident leaders were offered leadership training by ASU’s Office of Community Health Engagement and Resiliency (OCHER).
- HCD staff attended monthly Tucson House Resident Council meetings and developed Fun Nights to provide informal opportunities for residents to get to know one another and City staff, and build the relationships and trust needed for greater involvement.
- Resident Council members hold seats on the Thrive in the 05 Steering Committee.
- Through a Community-Based Participatory Research approach, residents were involved in the design of the needs assessment survey conducted during the planning phase which surveyed 104 households with 165 questions about their needs for services and preferences for Tucson House.
- Architect and Housing Plan partners from PMM held a design workshop with Tucson House residents to discuss possibilities for amenities in the building.
- When the COVID-19 pandemic hit, HCD staff transitioned from the planning phase to emergency response, and instituted new engagement and communications methods with residents, including a weekly 1501 Express newsletter hand-delivered to each resident’s door (available in four different languages) and a monthly “Tucson House Talk” show live via Zoom and phone to share updates on the grant activities and progress.

Building on the engagement structure from the Choice Planning Grant, the development team has continued engagement of all residents living at Tucson House. Below is a summary of engagement efforts focused on resident input with the redevelopment and the delivery of robust supportive services.

- Monthly Tucson House Talks and the weekly 1501 Express, one-page newsletter for residents, are ongoing.
- The development team holds regular resident update meetings; quarterly in 2023, every other month in 2024, and will be hosting them monthly in 2025.
- Topic-specific lunch and learns occurred regularly in 2024 and will continue to be scheduled as needed to provide more in-depth information on complex topics or based on resident feedback.
- Starting in November 2024, the development team began “floor walks” designed to bring information to the residents on their floors. The first one was very successful, and these will continue, likely quarterly.
- Additional meetings and events are held as needed with residents, which has included four separate design workshops with residents since the grant award.
- HCD established a Resident Ambassador program where residents could apply to receive a stipend for supporting outreach and information sharing of Transformation Plan activities.

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HCD believes strongly in investing in capacity building for the Resident Ambassadors to help them succeed in their role and grow as leaders of the community.

- Since the grant award, residents have been engaged in two separate survey efforts: 1) a needs assessment to understand the demand for various services under the People Plan conducted by a research team with the University of Arizona which is described in more detail in the People Plan, and 2) a Design Survey focused on resident preferences for various amenities within the building. The needs assessment is an annual undertaking, and staff are preparing to complete a new assessment in early 2025.

Design. Heavily influenced by historic preservation parameters and stakeholder engagement, including residents, service providers, property management, and City staff the design team has worked diligently to design the rehabilitation of the Tucson House. The design includes:

- Total replacement of mechanical systems, including the replacement of the central plant with new efficient all-electrical HVAC.
- Total replacement of plumbing systems including all piping.
- Total replacement of electrical equipment, lighting, and wiring throughout the building.
- Site and building security upgrades including perimeter fences and gates, extensive camera system, and advanced access control system.
- Major upgrades to interior and exterior amenity spaces for residents, including restoring the magnificent 17th floor for resident use.
- Addition of much-needed office space within the building for property management and permanent and visiting service providers.
- Replacement of the three existing building elevators.
- Total renovation of all apartments, providing new kitchens, bathrooms, flooring, and lighting.

Key benchmarks in the design to date include:

- Plan approval by the CNI HUD team
- Plan submission to the City of Tucson for permitting
- Approval of historic tax credits by National Park Service
- Section 106 concurrence

Relocation. As part of Gorman's role, they have contracted with an experienced relocation company, Revival Development Services, to manage the relocation process for the Tucson House residents during the renovation. The primary aspect of the Choice Neighborhoods grant is that residents get their 'Choice' in deciding whether to return to the Tucson House, move to another Choice housing project, or take a voucher and find another place to live using the voucher. The schedule for relocation will coincide with the schedule for construction, which is discussed in detail in this communication. Residents will get at least 90 days of notification when they are scheduled for relocation.

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Key benchmarks in relocation to date include:

- In early 2024, lease-up at Tucson House was stopped in preparation for construction. This creates vacant units to facilitate on-site relocation and minimize occupancy to reduce the number of residents that will need to be relocated.
- Revival began relocation interviews with residents in January 2024 to help understand resident relocation preferences and needs and to begin to build relationships with residents in order to better support them. Multiple surveys on relocation preferences have also been conducted. To date 141 interviews have been completed, representing 46% of current residents.
- In October 2025, the Relocation Plan (Plan) and Re-occupancy policy were completed and provided to residents. The Plan is 77 pages long and is a structured and formal document. Residents have access to the full document (Attachment B) and were also provided an executive summary (Attachment C) and flow charts (Attachment D) to help provide the most critical information in an accessible format.
- Two General Information Notices (GIN) have been sent to residents, in late 2023 and late 2024 to keep residents informed.

Financing. This project is a momentous undertaking. As the cornerstone of the CNI grant, \$26.4 M of the \$50 M award is dedicated to the Tucson House Redevelopment. Other major funding sources include Low-Income Housing Tax Credits (LIHTC) equity estimated at \$76.2 M and Historic Tax Credits (HTC) equity estimated at \$24.5 M. This project would not be possible without the additional support and gap funding provided by the City, State, and County. Additional funding is made up of a variety of sources reflected in the table below.

Funding Source	Amount
Low Income Housing Tax Credit Equity	\$76.2 M
Historic Tax Credit Equity	\$24.5 M
Choice Neighborhoods Implementation Grant	\$26.4 M
First Mortgage	\$23.0 M
Seller Financing	\$23.5 M
City of Tucson (General Fund)	\$ 5.0 M
City of Tucson (HOME funding)	\$1.0 M
Arizona Department of Housing, Housing Trust Fund Loan	\$ 4.0 M
Deferred Developer Fee	\$ 2.0 M
Pima County Gap Funding	\$ 1.0 M
Accrued Interest	\$ 1.8 M
Total Committed Funding	\$188.4 M
<i>Funding Gap</i>	<i>\$ 0 M</i>
Total Project Cost	\$188.4 M

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In November 2024, Gorman began soliciting equity proposals for this project. As shown here, the equity in this project totals \$100.7 M. It is a large solicitation, and it will take time to find the right partner(s). Financial closing is currently estimated to take place near the end of the second quarter of 2025. Financial closing will be the final trigger for the transition of Tucson House from the Public Housing program to the Housing Choice Voucher program.

Construction. Construction will begin directly after financial closing, which the exact date will be determined after the partner is identified, but it is anticipated to be June 2025. It is expected that construction will last 30 months. As residents will have the choice to stay in Tucson House during construction, the construction schedule will be rolling. The basement, first floor, 17th floor, and 16th floor will be the first to undergo rehabilitation. These spaces include resident amenities, resident services, office spaces, the needed floors for structural and infrastructure updates, and one floor of resident units. As those spaces are completed, they will be reopened for resident use. Construction will then roll down the building from the 15th floor to the 2nd floor, releasing complete floors for occupancy as additional floors are taken offline for construction. Resident relocation will roll with construction to minimize the amount of time that residents are relocated.

A construction timeline has been provided to residents and discussed at length (Attachment D).

Section 18 Disposition Application. Pursuant to Section 18 of the 1937 Act, 24 CFR part 970, and PIH Notice 2021-07, the Public Housing Authority is required to submit a Disposition Application to the HUD Special Application Center (“SAC”) to allow for the financing and redevelopment of the Tucson House property.

The Section 18 Disposition Application consists of several elements, all of which have been completed or are in process, including:

- HUD Environmental Review approval;
- Substantial Amendment to the PHA Plan;
- Consultation with the Tucson House Resident Council and the Authority-Wide Resident Advisory Board; and,
- Consultation with the local government, which has been ongoing.

As anticipated, and based upon HUD approval, the Tucson Housing property (land and improvements) will be transferred from the existing ownership entity, Tucson House Apartments, LLLP, back to the City. The City will retain ownership of the land. It will enter into a long-term ground lease for the land and a purchase and sale agreement for the improvements with a new sole-purpose entity, which is the vehicle for raising the significant tax credit financing for the rehabilitation. The City non-profit development subsidiary El Pueblo Housing Development will be a part of the ownership with its developer partner, Gorman & Company. While the property transfer will occur at financial closing, HUD is requesting that the Disposition Application be submitted now.

A Resolution from Mayor and Council is required for the application to HUD.

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Plan Tucson Consideration(s) – The Tucson House Rehabilitation incorporated many of the goals and policies outlined in Plan Tucson including but not limited to:

H1: Evaluate the social, physical, and spatial needs related to housing program design and location, including neighborhood conditions and access to basic goods and services.

H2: Focus public and private investment on documented housing needs and priorities considering the long-term housing supply and demand.

H8: Address the housing needs of the most vulnerable populations in the community, including those at risk of homelessness.

PI1: Invest in highest priority needs to manage and maintain public infrastructure and facilities that are fundamental to economic development and to sustaining and enhancing living conditions in the community.

Financial Considerations – All PHA programs are federally funded by HUD, therefore approval of the disposition will have no financial effect on the General Fund. Gorman is providing the financial guarantees on the Tucson House project.

Operating Cost and Maintenance Input – The transition of Tucson House from the Public Housing program to the Housing Choice Voucher program provides the opportunity to bring in private investment and creates positive cash flow on the project that will sustain operations, neither of which are possible in Public Housing. Upon financial closing of the rehabilitation project, Gorman will be taking over the Property Management duties at the Tucson House.

Legal Considerations – The Mayor and Council resolution has been reviewed and approved by the City Attorney as to form.

Respectfully submitted,



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Assistant City Manager

LM/AC/jh
Housing and Community Development

Attachment(s): A – Meet the Team
B – Relocation Plan
C – Relocation Plan Executive Summary
D – Relocation Flow Chart
E – Construction Timeline
Resolution