

## 1. REDCO - Midtown Feasibility Study (W691)

January 21, 2010

**Grantee:** Rochester Economic Development Corporation (“REDCO”)

**Beneficiary Company:** PAETEC Holdings, Inc. (“PAETEC”)

**ESD Investment:** A grant of up to \$18,000 to be used for a portion of the cost to study financing alternatives for constructing PAETEC’S headquarters on a downtown site.

**Project Location:** 18-58 South Clinton Avenue (“Midtown Plaza” or “Midtown”),  
Rochester, Monroe County

**NYS Empire Zone (or equivalent):** Rochester Empire Zone

**ESD Incentive Offer Accepted:** July 20, 2009

**Project Completion:** November 2009

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**Beneficiary Contact:** Pete Connoy, Vice President - Finance  
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<b>Project Team:</b>	Origination	Merideth Andreucci
	Project Management	Edward Muszynski
	Affirmative Action	Helen Daniels
	Environmental	Paul Tronolone

### **Project Description:**

#### Background

The City of Rochester (the “City”) is ESD’s partner in a transformational project involving site demolition and partial reuse of a former downtown enclosed shopping mall and its adjoining office towers. On October 16, 2007, ESD, the City and PAETEC entered into a Memorandum of Understanding to acquire, remediate, partly demolish, and redevelop 1.5 million square feet of blighted office and retail space known as Midtown Plaza. Following asbestos abatement currently underway, the existing Midtown Tower (the tallest of several adjoining buildings) will be preserved and renovated into a mixed-use housing

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and retail complex. The underground parking garage will also be retained. Once the balance of the site is demolished, it will be redeveloped as a mixed-use space that includes a new headquarters (“HQ”) for PAETEC, a telecommunications company, with part of the building leased to others. The timeline for completion of PAETEC’s project is 2012. This is an upstate City-by-City initiative.

For the past eighteen months, the City, ESD and PAETEC have worked to develop an HQ project that meets PAETEC’s needs and fits with the City’s long-term goals to revitalize the area. Unfortunately, conditions in the commercial real estate market have made the project’s financing extremely challenging. Conventional financing for Class A, build-to-suit projects no longer enjoy favorable lending terms, and mezzanine debt has all but vanished. PAETEC’s current debt, combined with high construction costs and low market rents, have created a financing gap that cannot be addressed with traditional economic development incentives, such as tax abatements.

Therefore, the City, through its local development corporation REDCO, turned to the National Development Council (“NDC”) for assistance. NDC, a not-for-profit corporation based in New York City, regularly performs services for various government agencies and public benefit corporations across the United States. NDC was selected by the City, in cooperation with ESD, as a sole-source provider due to: 1) NDC’s extensive experience with new market tax credits; and 2) its experience working with municipalities and ESD.

The City does not have the discretionary funds to pay for these consulting services, other than the 10% match. To facilitate creation of a shovel-ready Midtown site, \$69,970,000 in public funding has already been committed. This includes a 2009-2010 New York State budget re-appropriation of \$55,000,000 for asbestos abatement, demolition and associated costs; \$900,000 from ESD’s Urban and Community Development Program (with an additional \$70,000 from the City) for pre-development costs, such as master planning, environmental impact statement preparation, and engineering studies; and \$14,000,000 from the City for acquisition of the 8.5-acre site and relocation of the building’s forty-nine tenants. The City has also expended considerable funds over the past eighteen months related to maintenance, security, property management, and taxes for the 1.5 million-square-foot complex.

Among the key accomplishments to date are: (1) preparation of a redevelopment plan for the site and an environmental impact statement, as required; (2) relocation of tenants; (3) hiring of consultants for asbestos surveying and removal and air monitoring; (4) start of asbestos removal in October 2009, which is now 25% complete; and (5) selection of the development team of Christa Development and Morgan Management for adaptive re-use of the Midtown Tower.

REDCO is a not-for-profit development corporation dedicated to stimulating business investment in the City by providing technical, financial and other services. Between 1998 and 2008, ESD provided assistance to REDCO for the following projects in Rochester’s

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Enterprise Community Zone: (1) Upper Falls Market – a \$1,051,500 grant toward construction of a Tops supermarket, which continues to serve an underserved area; (2) Brooks Landing Project – a \$1,294,631 grant toward construction of an eighty-room hotel and adjacent restaurant, which have revitalized a district on the Genesee River; (3) a \$98,000 grant toward renovation of an historic building in the High Falls District at 194 Mill Street into office uses; and (4) a \$208,500 grant toward the Empire Brewery, also in High Falls. The brewery/restaurant later closed, and the City's loan (using ESD's proceeds) was discharged in bankruptcy court.

### The Project

The project involves a four-month consultant study by NDC to assist the City and PAETEC in determining how to finance the HQ project. The scope of work is as follows:

- Advise and structure deals using available public sector economic development programs, including economic development recovery zone bonds and new market tax credits; and recommend how to maximize the benefits of various tax-exempt financing structures and public-private partnership models;
- Assist with pre-development and development issues related to PAETEC's HQ project, including a review of facility needs, cost assumptions and development/operating budgets; and
- Advise on tax credits and debt/equity sources, and their requirements and structuring.

Upon completion of the project, the Grantee will furnish a final report describing the impact and effectiveness of the project.

Financing Uses	Amount	Financing Sources	Amount	Percent
Consultant Fees, including reimbursables	\$20,000	ESD Grant	\$18,000	90%
		Grantee Equity	2,000	10%
Total Project Costs	\$20,000	Total Project Financing	\$20,000	100%

### **Financial Terms and Conditions:**

1. The Grantee will be obligated to advise ESD of a material adverse change in its financial condition prior to disbursement.
2. The Grantee will contribute at least 10% in equity to the Project. Equity is defined as any non-debt source of capital, and should be auditable through Grantee financial statements or Grantee accounts, if so requested by ESD.

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3. Up to \$18,000, or 90% of the cost of consultant fees and associated reimbursables, whichever is less, will be disbursed in a lump sum payment upon submission of documentation of project expenditures, along with a final draft of the feasibility study as approved by Grantee. Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenses must be incurred on or after July 20, 2009 to be considered eligible project costs. All disbursements must be requested by December 31, 2010.
4. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$18,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Grantee and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.

### **Environmental Review:**

The Directors made a Determination of No Significant Effect on the Environment for the proposed project at their meeting of May 21, 2009. This determination addressed all aspects of the proposed Midtown Redevelopment Project. Therefore, no further environmental review is required in connection with this action.

### **Statutory Basis – Empire State Economic Development Fund:**

1. The project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the State or would enhance or help to maintain the economic viability of family farms.  
As a result of this project, the City of Rochester and the Beneficiary Company, PAETEC, are expected to find a way to finance the PAETEC HQ project. The new facility will be the new location for PAETEC's corporate headquarters, data and other operations and house approximately 1,000 employees, including the 600 existing PAETEC employees located in the suburbs.
2. The project would be unlikely to take place in New York State without the requested assistance.  
ESD assistance is needed to fill a financing gap for this consultant effort.
3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.  
Given the projected benefits to the City's economy to locate the PAETEC HQ downtown, the benefits of undertaking this feasibility study are expected to exceed the cost of the grant.
4. The requirements of Section 10(g) of the Act are satisfied.  
See cover memo.