



# City Council Report

**Date:** February 8, 2016  
**To:** City Council  
**From:** Natalie Lewis, Deputy City Manager  
**Subject:** Artspace Development Agreement and Land Conveyance (District 4)

## Strategic Initiatives



## Purpose and Recommendation

Approve Resolution to authorize the City Manager to enter into a Development Agreement and Purchase and Sale Agreement with Artspace Projects, Inc. and Artspace Mesa, LP for the conveyance of approximately 1.7+/- acres of real property for the development of affordable live-work space with tenant selection preference for artists.

## Background

Founded in 1979, Artspace is a non-profit organization that creates quality, affordable spaces where artists can live and work. To date, Artspace has developed 35 successful projects throughout the United States. Using third-party evidence-based research, Artspace demonstrates that their projects strengthen the neighborhoods and economies they are within and benefit thousands of artists who share a vision of arts-centered community transformation.

In 2012, Artspace approached the City of Mesa based on the City's strong arts and culture momentum in downtown. Artspace has conducted dozens of community meetings, completed a comprehensive market study, and has worked with the City and the Neighborhood Economic Development Corporation (NEDCO) to develop a concept that best fits Mesa. The concept is in alignment with the community-created and Council-approved Downtown Vision, which seeks an "innovative, art-centered, quality-focused, eclectic blend of old and new."

"The Mesa Artspace Lofts" project is being proposed to be constructed on a 1.7+/- acre, City-owned parcel at 155 S. Hibbert. This parcel has been vacant since 1999 and is one-quarter mile from light rail. The Mesa Artspace Lofts would include a minimum of 48 units of live-work space for artists and their families and for households below 60% of area median income. Residential units will vary in type and style including studio, one-, two- and three-bedrooms. In support of the City's

efforts to serve our Veterans, Artspace has agreed to market this development to U.S. Veteran artists who meet income requirements.

In addition, the project would include approximately 1200 square feet of ground floor commercial space for which Artspace will actively pursue creative and art-related tenants as well as an open-air courtyard and approximately 3,500 square feet of community space for interior gallery, events, exhibitions, and educational programs. Artspace has worked with the City and community to design the project to be as open and engaging to the public as possible. Artspace has committed to work with Mesa Public Schools and other local/national arts education entities to add value to the school districts, Mesa's youth and to support efforts to promote Downtown Mesa as the hot area for entrepreneurs, artists, students and creative businesses.

## **Discussion**

The development agreement and Purchase/Sale agreement include the following provisions.

Total Mesa investments and commitments:

- City would convey the land in exchange for the development of the project and the conditions set forth in the Development Agreement. The Development Agreement includes a provision whereby Artspace is required to provide evidence to the City that they have received funds needed to proceed with the full project before the City agrees to close on the land conveyance. These funding sources include, but are not limited to, Low-Income Housing Tax Credits (LIHTC), HOME Investment Partnerships Program (HOME) funding, Community Development Block Grants (CDBG), and private philanthropic funding.
- City provides the property appraisal, environmental Phase I and survey the property, which Artspace estimated at a project value of approximately \$45,000.
- City would provide a 50 percent reduction for the first three years for water, energy and gas rates that are the direct responsibility of the developer (i.e. no cost recovery from residents/tenants). Based on preliminary plans, the developer could save approximately \$5,000 annually for water costs. The savings for electric and gas need to be determined when plans are more detailed. Actual costs would be based on usage.

NOTE: City contribution values for this project will be applied to HOME match needs, both for this project and to meet citywide needs and requirements.

Artspace requirements and agreements:

- Build and manage a minimum of 48 affordable, live-work units for artists and creative veterans at 155 S. Hibbert in downtown Mesa. While the obligation will exist on the property for a minimum of 20 years, Artspace's intent is for the project to continue into perpetuity.
- Responsible for construction of all onsite and offsite improvements as well as

- paying the cost of all permitting fees and applicable taxes.
- Provide access to the community space and campus to the general public no less than four times per year so that the public may directly engage with artists, etc.
  - Build the development with energy efficient standards, which seek to match LEED requirements.
  - Participate and comply with Crime Prevention Through Environmental Design (CPTED) of the Mesa Police Department.
  - Contract for all services through City of Mesa solid waste and include a recycling program for residents.
  - Make it a priority to seek creative business tenants for the commercial spaces who also strive to maximize their hours of operation, both day and night.
  - Ensure the project design will be as open and engaging to the public as possible.
  - Work with Mesa Public Schools and other local/national arts education entities to add value to the school districts, Mesa's youth and to support efforts to promote Downtown Mesa as the hot area for entrepreneurs, artists, students and creative businesses.
  - Prior to closing on the land conveyance, demonstrate to the City's satisfaction that Artspace has all the funding needed to build the project along with the community-oriented features important to Downtown Mesa and our residents.

## **Alternatives**

Approval of the Development Agreement and Purchase/Sale Agreements provides the "site control" that Artspace needs in order to submit and compete for LIHTC on March 1, 2016.

1. Approve the Development Agreement and Purchase/Sale Agreement, as proposed.
2. Approve Development Agreement and Purchase/Sale Agreement with new conditions, as proposed by Council.
3. Choose not to approve the proposed Development Agreement and Purchase/Sale Agreement. This action would result in Artspace not being able to apply for 2016 LIHTC, a funding source critical to the project.

## **Fiscal Impact**

With approval, the City's overall value/exchange investment is \$230,000, which equates to the current value of the land at 155 S. Hibbert. The City has also contributed approximately \$45,000 for environmental studies, site boundary studies and appraisals, which belong to the City if this project is not completed.

The Mesa Artspace Lofts is a \$13.5 million project. Of this sum, approximately \$1.5 million would come from private sources. The majority of funding will come through an allocation of Low Income Housing Tax Credits (LIHTC) via the Arizona Department of Housing.

In order for Artspace to receive “City Contribution Points” in the LIHTC application, the City is required to contribute approximately \$675,000. Artspace is using the \$230,000 land value and is applying for \$500,000 in HOME funding in order to satisfy this requirement. The Council’s Community and Cultural Development Committee will review HOME funding allocations and make recommendations in mid-February. City Council will review and provide final direction on HOME funding at the end of February. The LIHTC applications are due March 1.

Other funding sources will include additional public sources such as city HOME funds, CDBG funds, grants, as well as a private mortgage on the property.

While representing a modest portion of the total budget, the private philanthropic dollars are essential to make the leap from “affordable housing” to “affordable live/work spaces for artist families” which will include special features such as larger living spaces to accommodate art-making, common galleries, outdoor living/green space, and space for community businesses and organizations. Like other projects before this one, Artspace has set the groundwork to receive private donations and will finalize once HOME and LIHTC funding has been approved. Before the City closes on the land, Artspace will need to demonstrate to the City’s satisfaction that they have all the funding needed to build and operate the special features described.

### **Coordinated With**

The Development Agreement and Purchase and Sale Agreement has been created in coordination with Mesa’s Arts and Culture Department, Real Estate Services, City Attorney’s Office, Community Services Department, the City Manager’s Office as well as the City’s Water, Solid Waste and Energy departments.

### **Attachments**

1. Resolution
2. Development Agreement
3. Purchase and Sale Agreement
4. Mesa Artspace Lofts Project Summary
5. Downtown Mesa Vision Summary