



# City Council

**Date:** February 26, 2018  
**To:** City Council  
**Through:** Christopher J. Brady, City Manager  
**From:** Jeff McVay, Office of Downtown Transformation Manager  
Sara Sorensen, Economic Development Project Manager  
**Subject:** Consider the proposed Memorandum of Understanding for a mixed-use development near Pepper Place and North Robson.

Resolution authorizing the City Manager to enter into a Memorandum of Understanding between the City of Mesa and R^3 MESA, LLC.

District 4

## Purpose and Recommendation

Consider the proposed Memorandum of Understanding (MOU) for the city-owned surface parking lot located near the southeast corner of Pepper PI and N Robson (the "Pepper Place Lot").

Staff recommends that the City Council approve the following document:  
Resolution authorizing the City Manager to enter into the MOU between City of Mesa and R^3 MESA, LLC.

## Background

The City was approached by R^3 MESA, LLC, a private development company, with a unique proposal for a mixed-use development on the City-owned Pepper Place surface parking lot located south of Pepper PI and east of Robson (see attached Exhibit A). The Pepper PI parking lot is nearly one acre (38,629 square feet) and consists of 76 public parking spaces. These parking spaces are primarily used as hourly parking for Downtown Mesa customers and visitors.

## Discussion

Summarized below, the MOU establishes the primary deal points for further development and lease/purchase agreement negotiations.

### *Developer Obligations*

- In conjunction with further negotiations, provide a business plan that details the development pro forma (acquisition, development, and operating costs; gross

and net operating revenues; and operation and maintenance costs), projected commercial and residential lease rates, market analysis, and demonstrated tenant interest.

- The developer may seek abatement of property taxes through the Government Property Lease Excise Tax (GPLET) Program. The business plan must detail the City's proposed role and how the inclusion of GPLET impacts the project's pro forma.
- In conjunction with further negotiations, provide City Manager with sufficient evidence of financial capacity and investor commitments to successfully execute and complete the project.
- Minimum development improvements include:
  - A minimum 70 market rate/luxury highly sustainable apartments which may include: hybrid car sharing program, a natural pool, water catchment system for landscape irrigation, and a micro and macro energy use display.
  - A minimum 5,000 square feet commercial space.
  - Construction of a multi-story, structured parking garage that includes a minimum of 76 public parking spaces at no cost to the City, and construction additional structured public parking spaces at the City's request and expense.
- Developer will enter into **either**:
  - A ground lease with an option to purchase. The ground lease will be a long-term lease in which developer will pay a reduced rental amount for the first 15 years. After 15 years, developer will pay a market rate rental amount for remainder of lease term. There may also be an option to purchase the property at fair market value. This option is not subject to GPLET.

**-OR-**

- A real estate option purchase agreement with the City. Purchase Price will be current appraised value, which may be adjusted in consideration of the benefits the City will receive (operations and maintenance of City parking spaces, conversion of surface parking to covered structured parking, and a permanent easement for City Parking). This option may include GPLET.
- The Developer will have control of the site either upon the lease effective date or upon closing under the real estate purchase agreement, as applicable.
- Developer is solely responsible for the customary operation and maintenance of City Parking spaces and shared drive aisles for 15 years. After 15 years, the City is responsible for operations and maintenance of City Parking spaces.
- Developer is solely responsible for the structural and capital repair/replacements of the Project in perpetuity.

#### *City Obligations*

- City will enter into either a ground lease with an option to purchase or a real estate purchase agreement.
- City will support qualification of the project for property tax abatement through GPLET. If project elects to enter a GPLET agreement, City will engage an independent third party to complete an economic benefit analysis.

- The City Parking will remain open for public use and/or permit parking.
- City will enter into a Development Agreement for the Project, which may include provisions whereby the City will reimburse developer for construction of public infrastructure improvements, subject to a cap and other restrictions.
- City will provide impact fee offsets, consistent with City Code, for previous development on the property.
- Project entitlement (zoning, design review, permitting) will follow a customized review schedule, which will be overseen by a Development Services Department Project Manager assigned to the project.
- The City will initiate a rezoning case consistent with the provisions of the adopted Form-Based Code, if needed.

#### *Other Deal Points*

- Developer is provided rights to redevelop parking within the new structured parking garage to commercial/residential use, as demand for parking decreases, provided the minimum number of City spaces are maintained.
- The City Parking Spaces in garage will be subject to the exclusive control of the City. City will retain all revenue generated from City Parking spaces.
- City is not obligated to provide any type of security for the garage.
- Developer will use all City utilities (Electric, Gas, Sewer, Water, Solid Waste).
- MOU expires December 31, 2018.

#### **Coordinated With**

The Office of Downtown Transformation has worked very closely with the Office of Economic Development and the City Attorney's Office.

#### **Attachments**

Exhibit A: Pepper Place Lot