



City Council

Date: December 9, 2019
To: City Council
Through: Christopher J. Brady, City Manager
From: Jeff McVay, Manager of Downtown Transformation

Subject: Third Amendment to the Lease Agreement, with option to purchase, between City and Benedictine University (Benedictine), which extends the Lease term 10 years, reduces premise rent through Year 15 of the Lease term, and commits City to design and construct certain building improvements. **(District 4)**

Purpose and Recommendation

Consider the proposed Third Amendment to the Lease Agreement between the City of Mesa and Benedictine University ("Amendment"). The proposed Amendment would provide nine years of annual rent reduction, which would be provided to facilitate Benedictine's investment in expanding existing academic programs, developing new academic programs, hiring new faculty and staff, and increasing enrollment. In addition, the proposed Amendment would commit the City to design and construct building improvements, at total costs not to exceed \$2,000,000, to facilitate job creation, business development, Benedictine University's partnership with CO+HOOTS in the creation of entrepreneurship academic programming, and the operation of a commercial co-working space by CO+HOOTS. Staff recommends approval of the proposed Third Amendment to the Lease Agreement.

Background

The City of Mesa and Benedictine University originally entered into a Lease Agreement with Option to Purchase in November 2012, for a 15-year term with the option to purchase after 10 years. The Lease included use of 225 E. Main Street (Gillette Hall). and the two parking lots adjacent on the south and east. In compliance with the Lease, the City built-out the first floor and a portion of the second floor of the building. In April 2017, a First Amendment to the Lease was approved which provided six years of rent abatement totaling approximately \$1.08M to be used by Benedictine for build-out of unfinished space, in support of increased enrollment. In November 2017, a Second Amendment to the Lease was approved which removed the adjacent east parking lot from the Lease in support of an adjacent redevelopment project (The GRID).

Benedictine continues to experience rapid growth and currently has a student body population of 568 students; 14 full-time faculty, 38 adjunct faculty, and 24 staff; 16 undergraduate programs; one graduate program; and 14 collegiate sports programs (including the 2019 NAIA Men's Volleyball National Champion Redhawks), as well as significant use of the Mesa Center for Higher Education classrooms and the Alhambra

student housing facility. In support of Benedictine's continued growth in enrollment, the proposed Amendment would provide Benedictine reduced annual rent effective December 1, 2019 and ending July 31, 2028 (Years 7 through 15).

The proposed Lease Amendment also commits the City to design and construct approximately 10,000 square feet in first, second, and third floor building improvements, at total costs not to exceed \$2,000,000. The building improvements will provide tenant space within Gillette Hall for CO+HOOTS. Benedictine and CO+HOOTS have entered into a partnership to develop entrepreneurial academic programs, as well as create new Mesa jobs/businesses through CO+HOOTS' operation of a commercial co-working space.

Discussion

The following provides a summary of the primary deal points for the Third Amendment to the Lease.

Terms of Amendment – Benedictine:

1. Benedictine will increase enrollment through the expansion of existing academic programs, development of new academic programs, and hiring new faculty and staff.
2. The term of the lease will be extended 10 years, from 15 years to 25 years.
3. Between December 1, 2019 and July 31, 2022, annual rent will be reduced by 70 percent, from \$666,660 to \$199,998.
4. Between August 1, 2022 and July 31, 2025, annual rent will be reduced by 50 percent, from \$666,660 to \$333,330.
5. Between August 1, 2025 and July 31, 2028, annual rent will be reduced by 30 percent, from \$666,660 to \$466,662.
6. Between August 1, 2028 and July 31, 2029, annual rent will be \$679,500.
7. Between August 1, 2029 and July 31, 2030, annual rent will be \$691,500.
8. Between August 1, 2030 and July 31, 2031, annual rent will be \$703,500.
9. Between August 1, 2031 and July 31, 2032, annual rent will be \$716,500.
10. Between August 1, 2032 and July 31, 2033, annual rent will be \$728,500.
11. Beginning August 1, 2033 until the end of the Lease (July 31, 2038), annual rent will be a market-rate rent based on seven percent of the appraised fair-market value of the property.
12. Benedictine's option to purchase the property begins August 1, 2033. The current option to purchase begins August 1, 2028.
13. If Benedictine defaults on this Lease, they will be required to repay the City the difference between the City's initial investment in Gillette Hall (less the 1st Amendment rent abatement) and the total rent paid.
14. If the GRID does not commence construction, Benedictine will have the option to restore their leasehold interest in the east parking lot, which was removed by the Second Amendment to the lease.

Terms of Amendment – Benedictine/CO+HOOTS:

1. In partnership, Benedictine and CO+HOOTS will create a Certificate in Entrepreneurship and an Entrepreneurial Leadership programs. The partnership will have a minimum 10-year term and provide:
 - a. Scholarships/internships to Benedictine students to provide real world

- experiences for Benedictine students.
 - b. Creation of no fewer than 300 jobs/business through CO+HOOTS commercial enterprise.
 - c. Provision of weekly public entrepreneurship/community events each year.
 - d. Annual reporting by Benedictine to the City on scholarships, job creation, and entrepreneurship events.
2. City will design and construct approximately 10,000 square feet of building improvements to facilitate the above described partnership between Benedictine and CO+HOOTS.
- a. Design and construction costs shall not exceed \$2,000,000 and consist of a new building entry; reception area; flexible and fixed office space; restrooms; breakroom; and mechanical, electric, and plumbing improvements.
 - b. CO+HOOTS will be responsible for all furniture, fixture, and equipment (FF&E) costs.
3. If CO+HOOTS vacates before the end of their 10-year agreement with Benedictine, Benedictine and City will work cooperatively to lease, sub-lease, or license the space to a new tenant.
- a. If after six months, City and Benedictine are unable to find a suitable tenant for the space, the space will revert to Benedictine should they provide commercially reasonable evidence that the space will be used for academic programming.

Fiscal Impact

Including the First Amendment and this Third Amendment, Benedictine would receive rent reductions totaling \$4,206,538. Based on the original Lease the City would have collected \$9,999,990 in rent through Year 15. However, through the original Lease and First Amendment to the Lease, Benedictine was provided rent abatements that reduced the total amount the City would have collected in rent by approximately \$1.3M. With the extension of the lease term in this Third Amendment the City would collect approximately \$8,715,950 through Year 20, plus market-rate rent from Year 21 through Year 25 if Benedictine does not exercise its option to purchase in Year 20.

Coordinated With

This amendment was coordinated with the City Manager's Office, City Attorney's Office, Office of Economic Development, and Benedictine University.