City Council

Date: July 27, 2026

To: City Council

Through: Scott Butler, City Manager

From: Jeffrey McVay, Manager of Urban Transformation

Stefanie Monge, Urban Transformation Project Manager

Subject: Development Agreement, Government Property Lease Excise Tax (GPLET) Agreement, and Parking License Agreement for the AC Hotel by Marriott Downtown Mesa Project
District 4

Purpose and Recommendation

Approve and authorize the City Manager to execute a Development Agreement, GPLET Agreement, Parking License Agreement and related documents (the "Agreements") with OCAP Main St, LLC for the development of an AC Hotel by Marriott located at the northeast corner of Main Street and Centennial Way.

Staff believes the proposed Agreements support and advance the City's long-term redevelopment objectives, addresses conditions of slum and blight, while ensuring measurable public benefits. The project will generate significant private investment, expand Downtown Mesa's hospitality offerings, create employment opportunities, improve public infrastructure, and strengthen Downtown Mesa's ability to attract visitors, conferences, and special events. In consideration of the above-described benefits, the developer commitments contained in the Agreements and the findings of an independent Economic Impact Analysis, staff recommends approval of the proposed Agreements.

Background

The proposed project consists of redevelopment of approximately 0.75 acres located at the northeast corner of Main Street and Centennial Way. The property is located within the Town Center Redevelopment Area, the City's single Central Business District, and adjacent to the Center Street Light Rail station and the City's Hibbert parking garage. The project site is currently underutilized and represents an important redevelopment opportunity within Downtown Mesa. The Developer proposes to construct a five-story, approximately 85,000 square foot AC Hotel by Marriott hotel that supports the City's long-term vision of creating a vibrant, walkable downtown that serves residents, visitors, businesses, educational institutions, and cultural destinations. The proposed AC Hotel by Marriott is expected to complement recent public and private investment within Downtown Mesa by increasing lodging opportunities for business travelers, visitors, conference attendees, and patrons of nearby educational, cultural, and entertainment destinations. The hotel is also anticipated to support surrounding restaurants, retailers, and other businesses by increasing overnight visitation within the downtown core.

Discussion

The Agreements establish the respective obligations of the City and the Developer necessary to facilitate redevelopment of the property while ensuring the project provides long-term public benefits and advances the City's Downtown redevelopment objectives. The following provides a summary of the primary deal points of the Agreements:

Minimum Project Requirements:

1. The Project includes the demolition of existing improvements, any necessary environmental remediation, and construction of the following minimum improvements:
   a. An AC Hotel by Marriott consisting of:
      a. 150 hotel room
      b. A minimum of 1,500 SF of meeting space
      c. An AC Kitchen and AC Lounge open to hotel guest and public, consisting of a minimum 2,000 SF of indoor and outdoor space
      d. An outdoor pool

Developer Obligations:

In addition to minimum project requirement above, the Agreements include the following Developer obligations:

1. Construction of the following Public Improvements:
   a. Excavation of trenches, installation of conduit, backfilling of trenches, and surface restoration related to electric infrastructure
   b. Sidewalk, landscaping, and lighting improvements along Main Street and Centennial Way
2. Licensing 100 parking spaces within the City Hibbert Parking Garage.
   a. Year 0-8 license rate is $10/space/month

    b. Year 9-50 license rate is then Council adopted parking rate (currently $50/space/month)
    c. Any costs associated with improvements to the Hibbert Garage necessary for Hotel to use garage
3. Dedication of any public improvement and granting the City a perpetual public utility easement over public electric infrastructure at no cost.
4. Provision of an official guest room “block” of at least 10 percent of total guest rooms for Major Events for which City is host, co-host, sponsor, or partner.
5. Provision of rental free use of the Hotel meeting rooms by City or City Partners for two meetings per year or eight hours per year.
6. Use of City water, sewer, solid waste, and natural gas utility services.
7. Maintenance of non-standard public improvements within City right-of-way.
8. Reimburse the City $5,675 for the cost of the economic impact analysis prior to the effective date of the Lease.
9. Annual reporting to City of number of full- and part-time employees and number of nightly room rentals.

City Obligations:

1. Approval of a GPLET Lease Agreement providing an eight-year tax abatement ($2,100,000) upon completion of all public and private improvements and meeting all other obligations of the agreement.
2. Reimbursement of the non-dedicated construction sales tax generated by the project for eligible public improvement costs, currently estimated at $288,000.
3. Provision of a 50-year license for 100 parking spaces within the City’s Hibbert Parking Garage.
4. Construction of the elements of public electric infrastructure improvements that are not a Developer obligation. The improvements are estimated to cost $245,000, of which $188,000 would be re-imbursed to the electric utility using FY26/27 RDA Toolkit funds.
5. Provision of a customized plan review schedule.

Key Compliance Dates:

To be eligible for any construction sales reimbursement from the City, the Developer must meet the following compliance dates:

- Obtain building permits within 18 months of effective date of the Development Agreement.
- Complete construction of all public and private Improvements within 24 months of effective date of the Development Agreement.

Government Property Lease Excise Tax (GPLET) Agreement

The Government Property Lease Excise Tax (GPLET) statutes (A.R.S. §§ 42-6201 et seq.) allow, following completion of construction, the developer to convey the property and improvements to the City, and the City to then lease the property and private improvements back to the developer in accordance with the GPLET lease agreement. Located within Mesa's Town Center Redevelopment Area and Central Business District, the project is eligible for abatement of property taxes during the eight (8)-year GPLET lease term, which commences upon issuance of the final Certificate of Occupancy. At the conclusion of the GPLET term, ownership of the improvements are conveyed back to the Developer.

In compliance with the GPLET statute (A.R.S. § 42-6209), the City obtained a professional analysis of the economic and fiscal benefit of the Project confirming that the project meets the statutory requirements for a GPLET lease with an eight-year property tax abatement, including: (1) the property is located within the City's single, designated Central Business District and within a Redevelopment Area; (2) the Project will increase the value of the land by greater than 100%; and (3) the Project is projected to generate greater revenues to the state, county, and city than the property taxes abated. During the eight (8) year term of the GPLET, the project would be exempt from approximately $2.1 million in property taxes.

The Developer will pay a one-time, lump-sum "in-lieu" payment to the impacted school districts, based on the taxes assessed against the property that the districts would otherwise have received had the land remained vacant and property tax not been abated. The in-lieu payments are: $14,238 to the Mesa Public School District; $2,532 to the Maricopa Community College District, and $117 to the East Valley Institute of Technology District. In addition, during the term of the GPLET lease, the Developer will pay any annual lump-sum, in-lieu payment to City in the amount that would have been assessed by SID 228 if Developer were fee owner, which in-lieu payment will be provided to the Downtown Mesa Association.

In compliance with the GPLET statutes, the City provided notice to the impacted taxing authorities at least 60 days in advance of Council's consideration of the GPLET lease and provided the independent economic benefit analysis to the impacted taxing authorities at least 30 days in advance of Council consideration.

In addition to the GPLET Statutory requirements, the proposed AC Hotel by Marriott development facilitated by the Agreements provides significant public benefit through infrastructure improvements, streetscape improvements, licensing of City-owned parking spaces, and addressing conditions of slum and blight. Staff believes the proposed project provides substantial economic and public benefits that support the proposed incentives included in the Agreements.

Additional key economic and public benefits include:

- Approximately $45 million in new private investment within Downtown Mesa
- Redevelopment of an underutilized property located within the Town Center Redevelopment Area, addressing conditions of slum and blight
- Development of a nationally branded AC Hotel by Marriott
- Projected $59.8 million in gross sales tax revenues to the City over 35 years
- Estimated visitor spend of $45 per day outside of the hotel, totaling $4 million annually after Year 3 of operations
- Supports 290 construction jobs
- Creation of 50 permanent jobs
- Expanded lodging opportunities supporting tourism, special events and Downtown Mesa businesses

Alternatives

Modify terms to the proposed Agreement

Denial of the proposed Agreement

Alternatives are not recommended as this would limit or prohibit the construction of the project.

Fiscal Impact

The Agreements provide for reimbursement of eligible public improvement costs through construction sales tax generated by the project estimated at $288,000.

The project will provide estimated parking license revenue of $5 million over the 50-year term of the Parking License.

Coordinated With

The terms of the lease agreement were coordinated with the City Manager’s Office, the City Attorney’s Office, and Energy Resources Department.