



City Council Report

Date: September 11, 2017
To: City Council
From: Natalie N. Lewis, Deputy City Manager
Subject: Amendments to Purchase and Lease Agreements for Mesa-Owned Pinal County Lands
Citywide

Purpose

Approve Resolution ___ amending the Purchase Agreement, Escrow Instructions and Master Lease Agreement between the City of Mesa and Pinal Land Holdings, LLC to:

- Provide additional flexibility in closing on the remaining city-owned properties in phases and/or in whole and prior to the end of the Option Period of June 19, 2019,
- And to confirm timing and method of distributing TEP-related condemnation funding.

Background

In 1985, the City purchased approximately 11,400+/- acres of farm lands in Pinal County to help meet its 100-year assured water supplies. For many years, the City was able to retain the lands for water assurances and cover its costs (farm management, water district fees, County/City taxes) by leasing the lands to local farmers. Because Mesa uses a combination of water management practices to meet water demands, in the early 2000's it was determined that the City no longer needed the Pinal County groundwater to meet our assured water supply. The original bonds (\$30M) were repaid in 2007. As such, the City Council authorized staff to seek opportunities to market and sell the properties and to reinvest those proceeds back into Mesa.

On December 30, 2013, the City entered into a 5.5-year, three-phased option purchase and master farm lease with Pinal Land Holdings, Inc. (PLH). This deal is structured to provide a financial incentive to PLH to complete the entire land purchase. PLH paid a premium (\$15k/ac) for the initial purchase, paid \$10k/ac for the Option 1 lands, and will pay a reduced \$8,906/acre for Option 2 lands. This price per acre averages out to \$10k/ac.

The sale/lease proceeds are being reinvested back into Mesa by paying down outstanding bond debts used to construct new and to improve existing spring training facilities in Mesa.

Discussion

The City and PLH are now 3.5 years into the 5.5-year, phased agreement, which is scheduled to conclude no later than June 30, 2019. PLH has achieved its financial and legal obligations to the City, which includes purchasing approximately 3,970.72 acres (\$47.7M) of the land and leasing (\$17.3M) the land still under city ownership. Also, PLH has been responsible for paying all irrigation water district fees, County and City taxes, and paying for the upkeep of the irrigation wells, farm housing/equipment and managing all farm subleases.

With the proceeds from the land sales and master lease, the City has been able to pay down our outstanding Excise Tax Bonds, which also has resulted in helping the City avoid approximately \$2.2M of annual interest.

The final, and largest, land take down (7,376ac/\$65.7M) is scheduled to be completed on or before June 30, 2019 (“Option Period”). PLH has indicated they fully intend to complete the purchase and within the Option Period. This amendment has two key priorities/clarifications and which will take effect during the final Option Period:

- **Phased Purchasing Flexibility during the Final Option Period:** Given PLH has achieved their financial and legal obligations to date, PLH has asked and the City staff is recommending that the Council provide PLH with additional, phased purchasing flexibility during the final Option Period. The amendment would allow PLH, within the same Option Period, to purchase the final lands in whole or in multiple phases. This added ‘multiple phases’ flexibility could allow them to more successfully market and negotiate timely land deals. Ultimately, getting paid early would help the City more quickly pay down remaining Excise Tax Bonds, which saves in payments and interest.
- **Tucson Electric Power (TEP) Easement Severance Distribution:** The other key aspect of the proposed amendment has to do with \$495k “severance funding” that is to compensate for an easement over a portion of city-owned property. The severance funding is to cover possible losses in property value from TEP’s high-voltage electric line that will transect a portion of the city-owned land that PLH plans to purchase and develop. The amendment provides that PLH receives all of the severance funding, but not until PLH has purchased all remaining lands and within the Option Period. If PLH decides not to purchase all remaining lands, then PLH has agreed that the City will retain the severance funding.

Financial Analysis

The final take down of 7,376 acres will gross approximately \$65.7M to the City. Also during these final two years, the City expects to collect approximately \$3.6M per year in lease revenues. If PLH purchases the land sooner than June 30, 2019 deadline, the annual lease revenues would be reduced according to the amount of acreage

purchased. However, receiving land sale payment earlier also allows the City to make smart investments to repay additional bonds and avoid additional interest.

Alternatives

Staff recommends City Council approve the Resolution and allow the amendments to be completed. PLH has demonstrated that they have strong and sustainable financial partners and fully intend to complete the full land purchase. Providing added flexibility within the final Option Period is viewed as a win-win: 1) PLH receives greater negotiating power for potential land deals and may attract new uses that bring jobs and economy to the region; and 2) the City receives revenues more quickly and PLH may be positioned to complete the full purchase sooner.

Council may also take no action and/or recommend changes to the structured amendment, as attached.

Coordinated With

City Manager's Office, City Attorney's Office, Real Estate Office

Attachments

Resolution
Proposed Amendment