



City Council

Date: February 5, 2018
To: City Council
Through: Christopher J. Brady, City Manager
From: Jeffrey McVay, Manager of Downtown Transformation
Sara Sorensen, Economic Development Project Manager
Subject: Consider proposed First Amendments to the Development, Ground and Air Rights Lease, and License Agreements for The GRID; a retail, office, and residential project on City-owned property generally located at the southwest corner of Main Street and South Pomeroy and 34 South Pomeroy and granting an option to purchase the associated land and air rights.

District 4

Purpose and Recommendation

Consider the proposed First Amendments to the Development, Ground and Air Rights Lease, and License Agreements (collectively, “the Agreements”) between the City of Mesa and 3W Management, LLC. The proposed First Amendments facilitates the location of an anchor tenant, CO+HOOTS, in The GRID development.

Background

City Council approved the current Agreements on November 20, 2017, which facilitate the development of The GRID, a proposed \$59M retail, office, and residential, project on City-owned property, generally located at the southwest corner of Pomeroy and Main Street. The project site consists of an existing surface parking lot currently leased to Benedictine University, the City-owned Pomeroy Garage, and Pomeroy right-of-way (ROW). City Staff, The GRID developer, and owners of CO+HOOTS have been negotiating terms of First Amendments to these agreements to facilitate the development of approximately 13,000 square feet of co-work space for CO+HOOTS within The GRID.

CO+HOOTS, which has been in operation in Phoenix for seven years, is a pioneer of co-working in Arizona and is well respected across the country. This year, CO+HOOTS was ranked the No. 4 co-working space in the United States by *Inc. Magazine* and the No. 1 co-working space in Arizona by AZ Big Media. CO+HOOTS has also been recently ranked by various publications as the No. 1 Most Innovative Co-Working Space in the United States, the No. 2 overall Co-Working Space in the United States and the No. 9 overall in the world.

Last year, CO+HOOTS was responsible for the creation of more than 219 new jobs in Phoenix. In the next twelve months, CO+HOOTS expects to create at least 113 more jobs according to member companies that completed a recent internal survey. CO+HOOTS has facilitated the growth of more than 1,000 businesses and helped incubate companies like Uber, Heckler Design and Revolution Parts to become multimillion dollar companies today. CO+HOOTS also creates significant economic benefits, generating more than \$50 million of revenue annually. In addition to the economic benefits, their nonprofit arm, The CO+HOOTS Foundation provides free educational programming and advisement days for youth and minorities interested in entrepreneurship. The CO+HOOTS Foundation has mentored more than 500 students, held 131 events and the revenue that could have been generated from the hours members, mentors and volunteers donated to the community would have exceeded \$300,000.00.

Discussion

The First Amendments to the Agreements are all with 3W Management, LLC as the developer. While the City commitments are to 3W Management, LLC, the benefits provided in these agreements are provided to CO+HOOTS, through 3W Management. The following provides a summary of the primary deal points for the First Amendment to the Agreements.

Description of Project:

1. Developer will enter into a minimum 10-year lease with CO+HOOTS for a minimum of 13,000 square feet.
2. CO+HOOTS will create a minimum of 500 new jobs, of which a minimum of 300 of the new jobs will be filled by Mesa residents. CO+HOOTS has up to 10 years to meet the job creation requirement.
3. CO+HOOTS will create a minimum of 25 new Mesa businesses. CO+HOOTS has up to 10 years to meet the new business creation requirement.
4. CO+HOOTS will provide free public programs, workshops or seminars to assist new businesses and entrepreneurs. A minimum of 50 events in the first year, 100 events in the second year, and 150 events in years three thru ten.
5. During the first 10 years, CO+HOOTS will provide no fewer than 15 scholarships to high school students residing in Mesa for coding, programming and related business technology classes.
6. CO+HOOTS will make good faith efforts to enter an agreement with a Mesa university to provide programming classes and entrepreneurial courses as part of the university's degree or certificate program.
7. CO+HOOTS will provide technical support and assistance for attraction of investors and capital.
8. CO+HOOTS will have an opening in The GRID of no later than December 31, 2020.

Terms of Agreements:

1. City will provide 3W Management, LLC with a 25 percent reduction to the Ground and Air Rights Lease rate and Parking License Rates for the first five

years of CO+HOOTS operations.

2. City will reimburse developer, from permit fees paid, \$1,000 for each new Mesa resident job created, \$500 for each new non-Mesa resident job created. The job creation reimbursement is capped at \$375,000 and CO+HOOTS will have up to 10 years to comply.
3. 3W Management, LLC ensures that the rental rates paid by CO+HOOTS reflect the economic development and permit reimbursement credits described above.

Separate from the above described First Amendments to the Agreements, the City and CO+HOOTS will establish a collaborative relationship to help ensure the success of CO+HOOTS and grow the overall downtown entrepreneurial ecosystem.

Alternatives

Modify terms to the proposed First Amendments to the Development, Ground and Air Lease, and License Agreements.

Denial of the proposed agreements.

Fiscal Impact

Over the first 15 years, the City would receive an estimated \$693,900 in lease and parking license revenue, or \$46,260/year, which is an approximately \$375,000 reduction in lease and parking license revenue from the existing Agreements.

Over the first 10 years, the City would reimburse up to \$375,000 in permit fees for the creation of new jobs and new businesses.