



City Council Report

Date: June 4, 2018
To: City Council
Through: Chris Brady, City Manager
From: Jeff McVay, Manager of Downtown Transformation
Subject: Consider 1) Lease Agreement between the Arizona Board of Regents/Arizona State University, and the City of Mesa for the development of an approximately 118,000 SF Arizona State University building in downtown Mesa, 2) ASU Building project budget, 3) and authorization to sell excise tax bonds in an amount not to exceed \$65 million (*Council District 4*)

PURPOSE AND RECOMMENDATION

This report transmits a resolution authorizing the City Manager to enter into a long-term Lease with the Arizona Board of Regents for, and on behalf of Arizona State University (ASU) and the City of Mesa for the development, operation, and maintenance of an approximately 118,000 SF higher education facility ("ASU Facility") on City owned land located at the northeast corner of Center and Main Streets ("City Center"). The Initial Project Budget for the ASU Facility is \$63.5 million. Increases to the Initial Project Budget would require Council approval. This report also transmits a resolution authorizing the sale of up to \$65 million in excise bonds to fund the design and construction of the ASU Facility.

Staff is recommending approval of both resolutions and the Initial Project Budget.

LEASE

Below is a summary of the business points of the Lease:

Base Lease Terms:

- 99-year ground lease
- \$100K/year base rent
- ASU responsibility for all Furniture, Fixtures, and Equipment costs of \$10M (minimum \$8M in first year and total \$10M in first three years)
- ASU responsibility for approximately \$1.3M/year in operations and maintenance costs
- ASU responsibility for all cost associated with future building upgrades/renovations

- ASU provision of academic and research programming related to digital and sensory technology, film and media arts, user experience design, and entrepreneurial support
- Minimum 750 students and 40 faculty and staff within five years
- Provision of 25 scholarships/stipends annually for Mesa residents, with focus on programs offered at ASU Facility
- ASU responsibility to annually provide 25 public film events
- ASU responsibility to fund Reserve and Replacement Fund (R&R) - \$75K/year for first five years, and \$2/net SF for each following year. R&R will fund the prorated salary of a City of Mesa facilities staff position responsible for coordinating maintenance of the ASU Facility and City Center
- City and ASU will develop a security plan prior to ASU's use of the ASU Facility
- Net rents from retail sub-leases to City. Approx. 1,500 SF has been designated for first-floor retail space, which future tenant to be approved by City Manager, and managed by ASU, with net revenues due to City

City Center Project Elements:

Public Open Space

- City responsibility for design and construction of 2-3 acre public open space as refined in City Center Master Plan
- Initial design/programming of the City Center open space was approved by the voters in the 2012 Parks Bond, and is the basis for the City Center Master Plan
- Funding for final design and construction of the first phase of the City Center open space is preliminarily included in potential future Parks/Cultural bond package

Mesa Innovation Studios

- City responsibility for design and construction of Mesa Innovation Studios
- Renovation of minimum 6,000-12,000 SF of former IT Building
- ASU and City to agree to future License Agreement for the use of Mesa Innovation Studios
- Subject to development of Mesa Innovation Studios, ASU responsibility to annually provide 20 public entrepreneur/innovation events
- Initial design/programming of Mesa Innovation Studios currently underway as part of the Downtown Innovation District
- Final design/programming subject to negotiation with potential future tenants

Infrastructure

- City responsibility for design and construction of infrastructure improvements
- Infrastructure improvements include sewer, water, electric, fiber, public/staff parking)

City Center Master Plan, Design Guidelines, and Infrastructure Plan

- The City Center Master Plan, City Center Design Guidelines, and Infrastructure Plan are still being finalized. These will be provided to Council when finalized. The lease provides that these items will be approved by the City, through the City Manager, and by ASU, through its representative.

BOND SALE AUTHORIZATION

The resolution authorizes the sale of excise tax bonds, in an amount not to exceed \$65 million, to fund the design and construction of the ASU Facility. While approval of increases to the \$63.5 million Initial Project Budget requires Council approval, authorization of up to \$65 million in excise bonds, allows efficient packaging of bond issuances should Council approve increases to the Initial Project Budget.

DISCUSSION

Alternatives

1. ***APPROVAL OF THE RESOLUTIONS AUTHORIZING THE CITY MANAGER TO ENTER INTO THE LEASE AGREEMENT AND SALE OF EXCISE TAX BONDS.***
(Preferred alternative)
2. ***SPECIFY CHANGES TO THE AGREEMENTS***
Council could direct staff to make changes to the Lease and/or Bond Sale Authorization prior to final approval.
3. ***DENY APPROVAL OF THE LEASE AND SALE OF EXCISE TAX BONDS***

Fiscal Impact

City expenditures:

- \$63.5 million for ASU Facility, increase subject to Council approval

Revenues to the City:

- \$100,000/year lease payment
- Prorated salary of City Facilities Manager
- Net revenue from commercial leases within ASU facilities
- Revenue from the operation of City developed parking facilities.

Coordinated With

The Lease, Bond Sale Authorization, and Project Budget has been coordinated with the City Manager's Office, City Attorney's Office, and Engineering Department.