



COUNCIL MINUTES

November 21, 2002

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on November 21, 2002 at 8:00 a.m.

COUNCIL PRESENT

Mayor Keno Hawker
Dennis Kavanaugh
Rex Griswold
Kyle Jones
Janie Thom
Claudia Walters
Mike Whalen

COUNCIL ABSENT

None

OFFICERS PRESENT

Mike Hutchinson
Debbie Spinner
Barbara Jones

1. Presentation of rebate check from Office Depot contract.

Materials Management Director Sharon Seekins addressed the Council relative to this agenda item. She reported that she has the pleasure of presenting to the Council a rebate check from Office Depot for \$12,341.30, which represents the first time that a City of Mesa purchase contract has included an opportunity for the City to earn a cash rebate.

Ms. Seekins stated that Mesa's contract with Office Depot is based on a nationwide cooperative bid that was established as part of the U.S. Communities Government Purchasing Alliance; that the Alliance's objective is to pool the purchasing power of public agencies to achieve bulk volume discounts on commonly purchased items; that with regard to the Office Depot contract, Los Angeles County served as lead agency responsible for obtaining the bid, and that in responding to the bid, Office Depot elected to offer its most favorable pricing ever, as well as the potential for each participating agency to receive a cash rebate; that the rebate is based on the dollar volume of purchases and also the utilization of Office Depot's website for placing a majority of the orders; that at the end of the first year of the contract, Mesa's annual purchase volume (\$822,753.33), in conjunction with the number of electronic orders placed by staff, qualified the City to receive the one and one-half percent rebate.

Mayor Hawker expressed appreciation to the City's Purchasing Division for its efforts and hard work in finding innovative methods to purchase goods and services for the organization.

2. Hear presentations, discuss and consider Site 21 redevelopment proposals.

Mayor Hawker reported that at the November 7, 2002 General Development Committee meeting, the members of the Committee reviewed four redevelopment proposals for Site 21. He explained that at the conclusion of the meeting, it was the recommendation of the Committee, by a 2-1 vote, that the matter be referred to the full Council with a recommendation that a "total mix" of uses, including residential, business and retail, be approved. Mayor Hawker advised that the format for this morning's meeting will include a 10-minute presentation to the Council from each of the development teams, an opportunity for the Council to pose questions to the developers, and staff's presentation and recommendations.

Mayor Hawker invited the first presenter, Equus Development Corporation, to address the members of the Council relative to their proposal.

Doug Edgelow, Present of Equus Development Corporation, addressed the members of the Council and introduced Jim Martell, one of the principals of ADA Construction who would partner in the development of the One Macdonald Place project. He briefly outlined a series of goals for the project including the creation of a strong center point for future downtown redevelopment and an exciting people-oriented project; the generation of increased sales tax revenues for the City of Mesa; the creation of 24-hour activity in the downtown area, and the revitalization of the area.

Mr. Edgelow advised that his proposal is a strong "three-legged stool approach" consisting of retail, commercial and residential components of the building. He explained that it is the intention of the company to follow the recommendation of a previous study that was done for the City that called for live/work spaces in the building. Mr. Edgelow noted that the first floor of the building would consist of a lively, family-oriented, affordable restaurant with a coffee shop; the second floor is office (either independent users or executive suites); and with regard to the third floor, the company has received a letter of intent from BPLW Architects that the firm will occupy the entire floor. He stated that the top two floors would feature live/work loft condominiums that would be available for sale. Mr. Edgelow also discussed the building's tie to the historical nature of the area and said that Equus is not proposing to make any changes to the building.

Mr. Edgelow displayed a series of graphics in the Council Chambers that depicted various components of the design proposal. He commented on staff's negative analysis relative to Equus' proposal regarding parking garages on Pepper Street and explained that to the contrary, the garages add dimension to the rear of the building. Mr. Edgelow noted that another area of concern to staff was the residential component and stated the opinion that this element would create activity 24-hours a day, create purchasing power from the residents that would normally purchase goods and services elsewhere, and reduce crime in the area as well. He commented that four of the units have already been reserved and added that he is confident that the remaining units will sell just as quickly. Mr. Edgelow stressed that the Town Center Concept Plan encourages the development of loft housing above ground level retail businesses on Main Street.

Mr. Edgelow outlined his proposal's strengths including, but not limited to, that the company has over \$1 million of equity and \$4 million of debt committed to the project; that 100% of the third floor will be leased to BPLW Architects; that the accounting firm of Nelson Lambson has sent a letter of interest relative to occupying the second floor office; that the company has a letter of

intent for the main floor restaurant, and Equus' extensive residential and commercial experience and strong local market knowledge.

Discussion ensued relative to the proposed design features of the building; ADA Construction Company's extensive new and renovation experience; an analysis that will be conducted by Cornerstone Consulting to determine the size and pricing of the condominiums, and an estimated eight-month timetable for completion of the project.

Mr. Edgelow concluded his remarks by commenting that the company's proposal is a well-conceived concept plan that supports the previous market studies completed for the City of Mesa. He thanked the Council for its consideration of the proposal and views this project as a partnership with the City of Mesa.

Mr. Martell provided a brief overview of his construction experience and a variety of projects that he has completed.

In response to a question from Vice Mayor Kavanaugh, Mr. Edgelow clarified that the proposal calls for the construction of a 14-stall parking garage with a landscaped terrace on the roof. He stated that individuals who used the garages would access into the second floor of the building and would take an elevator to their units. Mr. Edgelow added that the top of the garage would be landscaped and contain a terrace, and that people on the main floor would walk along under a shaded canopy that would provide a shaded walkway along the side of the parking lot and around/over to the Pepper Street Garage. He also stated that if it were necessary in the future to redevelop the parking area, his firm would be capable of making the modifications as long as parking spaces were provided elsewhere for the condominium residents.

In response to a question from Councilmember Jones, Mr. Martell advised that the building was designed structurally to accommodate three more stories, and if the market warranted the additional space, the existing foundation would support the modifications.

Further discussion ensued relative to the fact that Equus would probably enter into some type of lease agreement with the City for the proposed parking garage; that the City's inability to waive impact fees would not be a "deal killer" for Equus, and the screening of the HVAC system on the roof.

Councilmember Walters noted that it is important to her that the City has the option of developing the surface parking lot area in the future. She stated that if Equus were selected as the designated developer, it would be necessary to include specific provisions in any contract between the City of Mesa and Equus to prevent future disagreements if the City elected to proceed with additional development at that site.

Mayor Hawker thanked Mr. Edgelow and Mr. Martell for their presentation and asked the representatives from Continental Commercial Group, LLC to address the Council at this time.

Norm Solomon, a principal and managing partner with the team of Continental Commercial Group, LLC, Andrew Scott, the project's designer, and Mark Appleton, an architect with the internationally acclaimed firm Appleton & Associates and also a team member, addressed the Council relative to this agenda item.

Mr. Solomon stated that the Bank One Building has been a part of the City of Mesa's history for the past 40 years and commented that it should be used to create a live/work foundation over a retail base. He explained that the Downtown Development Committee and the General Development Committee understand this concept, and noted that this type of design has been at the core of every successful urban revitalized center in the country. Mr. Solomon added that the Town Center Concept Plan calls for live/work loft living over retail as a methodology by which to revitalize the downtown area and stated the opinion that the only way to generate a vibrant downtown is to integrate it into the Mesa Arts and Entertainment complex that is being constructed so that the building becomes a part of the community rather than a stand alone "oasis."

Mr. Solomon stated that his firm reviewed the BPLW plan and that after careful consideration, determined that the plan was the wrong design not only for an adaptive reuse of the Bank One Building, but also the wrong concept for the Mesa Town Center. He commented that the three-year old BPLW design is for a conventional office concept and that it would be a viable project on another site within the City; that even if the plan was successful, it would not create a demand for retail, establish a 24-hour live/work program, produce an interactive vibrancy or maintain a significant impact on the downtown area. He stressed the fact that Continental Commercial is the only developer among the three presenters that has over 20 years of experience in developing and designing successful, high-end, adaptive reuse projects.

Mr. Solomon urged the Council to consider that the design for the project should not merely place a slightly updated, but conventional facade on the structure, but that it is important to sensitively readapt the existing building. He noted that loft conversions work best when existing structures are not destroyed or camouflaged, but rather recycled, opening spaces to light, creating balconies and decks, and injecting a more vibrant contemporary sense of architectural design into the mix. Mr. Solomon added that his proposal is fresh and interactive with the community, relates to the Mesa Arts and Entertainment Center and can be the catalyst to transforming downtown Mesa into a 24-hour, 7-day a week environment.

Discussion ensued relative to the fact that live/work loft projects are more flexible with regard to parking arrangements as compared to office buildings; that it is not mandatory that the proposal's parking spaces be located in the surface parking lot; that leasing parking spaces in the Pepper Street Garage would not negatively impact the project; the configuration of the balconies for the individual units; the rooftop terrace and deck; screening at the ground level by incorporating the existing overhang and key placing of landscaping, and the proposed color palette consisting of desert/adobe hues.

Mr. Solomon informed the Council that Continental Commercial has already received considerable interest relative to the lease and/or sale of not only the ground floor, but the loft units as well. He explained that like other live/work loft projects he has developed in the past, a homeowners' association would be formed and an account established to provide the necessary funds to maintain, refurbish and renovate the building so that it continues to remain a Class A high-end project.

Mayor Hawker thanked everyone for the presentation and invited the representatives from Outsource, International to address the Council at this time.

Bill Stalnaker, one of the principals of Outsource International, and Greg Bonderud, Project Manager for MacShane Corporation, addressed the Council relative to this agenda item. Mr. Stalnaker reported that there are three major entities involved in the LLC which has been established for the project One MacDonald LLC, including Outsource International, MacShane Corporation and BPLW Architects. He explained that Outsource will be responsible for participation in the marketing of the program and also for property management; that MacShane will be responsible for the management/actual building of the project in relation to the design by the architect, and that BPLW will be the architect for the project. Mr. Stalnaker also displayed graphics in the Council Chambers and offered a short synopsis of the financial capability of the project team.

Mr. Bonderud provided an in-depth analysis of a market study he conducted which resulted in his conclusion that a mixed-use project (retail on the ground floor and offices on the remaining floors) would be the most appropriate use for the Bank One Building. He outlined a number of his findings, including, but not limited to, the fact that if the City of Mesa sells the building to a developer for a purchase price of \$1, the developer is in a better position financially to invest those funds which would normally be expended on the acquisition of the property into the building's architecture; that a Class A office project will attract high quality tenants, and thereby provide greater economic benefit to the local community; that employment is the fundamental key to urban revitalization; that MacShane Corporation has a national reputation in the development of Class A office projects; that the Bank One Building has only 34,000 square feet of usable space for residential units (24 condo units or 32 rental units) and that the tenants who occupy these spaces would have little impact on the downtown economy; that Site 7 and Site 17 would be more suitable locations for higher density projects; that the site has parking deficiencies and that it would be necessary to construct a parking garage north of the building (if residential units were included in the design project) and thereby eliminate future development options at that location; that there is currently a strong demand for Class A office space in downtown Mesa and the proposed office/retail project will serve as an anchor to downtown Mesa, and that it would be necessary to sell the condominium units for a minimum of \$260,000 or to rent the units at an estimated cost of \$1400/month.

Discussion ensued relative to the fact that there is a strong demand by Phoenix businesses to have smaller "satellite offices" located in the City of Mesa; that Outsource has obtained a construction loan commitment and has raised \$1.5 million in equity for the project; that 250 parking stalls will be leased at the Pepper Street Garage, and that the landscape design at the onsite parking is considered an amenity because it shades the pedestrian link between the garage, the building and Main Street.

Mayor Hawker thanked Mr. Stalnaker and Mr. Bonderud for their presentation and requested that the representative from BPLW Architects address the Council relative to this matter.

Rob Burgheimer, Senior Vice President of BPLW Architects, provided the Council with a brief historical overview of the proposed design concept for the One Macdonald Building.

(Mayor Hawker declared a recess at 9:16 a.m. The meeting reconvened at 9:30 a.m.)

Redevelopment Director Greg Marek and Senior Redevelopment Specialist Patrick Murphy, who has been serving as the project manager on this issue, addressed the Council relative to this agenda item.

Mr. Marek provided a brief historical overview of the property and a chronology of events that led to the submittal of four quality proposals. (As of yesterday, Lexington Capital Corporation withdrew its proposal from consideration.) He explained that the review team which analyzed the various proposals consisted of Don Hunter and Ernie Bleinberger from Hunter Interests, Inc, Economic Development Director Dick Mulligan, as well as Shelly Allen, Patrick Murphy and himself from the Redevelopment staff.

Mr. Marek reported that in reviewing the developers' proposals and the various requested incentives, most of the requests (with the exception of the waiver of permit fees) were included in previous redevelopment agreements. He noted, however, that due to the City's current budget shortfalls, the Capital Improvements Office has postponed for two years the completion of the Macdonald Streetscape Improvements and the improvements to the Pepper Street Garage. Mr. Marek explained that staff notified the developers regarding this matter and that all three developers expressed their willingness to work with the City. He added that another requested incentive involving the abatement of the Government Property Lease Excise Tax (GPLET), which allows the City to abate the property taxes for eight years for projects in the Town Center Redevelopment Area, may not be possible for those developers who are proposing residential projects, especially "For Sale" units.

Mr. Marek commented that the review team engaged in considerable discussion regarding office/retail versus residential/retail projects, and that it was the ultimate recommendation of the group to focus on the office/retail projects. He stressed that the review team is not anti-residential, and added that the Hunter Interests Report indicated that Site 7 and Site 17 would be more suitable locations for future residential projects in downtown Mesa.

Discussion ensued relative to the fact that office projects have a better chance for success as compared to residential projects in today's market; that downtown Mesa currently has a 3% vacancy rate in office space; that although there are many offices in downtown Mesa, the majority of the employees are in the public sector and that it imperative to private sector employees are brought into the area as well, and that Mr. Hunter recommended that if the City selected a proposal that contained residential units, that they be rental units with the ability to convert to condominiums at a later date.

Mr. Marek stated that in analyzing the various proposals, the review team also considered that residential units in the building would require dedicated and secured parking and that both options at the location are very limited. He added that the review team also expressed concerns how the developers who are proposing residential units would provide the necessary parking. Mr. Marek further stated that the review team considered the experience and financial backing of the developers to make a successful project and ultimately recommended that Outsource International be designated as the preferred developer at this time. He noted that whoever the Council selects as the preferred developer, it is the recommendation of the Redevelopment Office that the City enter into a 90-day exclusive negotiation period with that entity to prepare a redevelopment agreement, conduct a detailed due diligence review of the company and receive more detailed financial information.

Mr. Marek noted that at the October 17, 2002 meeting of the Downtown Development Committee, the Committee reviewed the proposals and, by a vote of 5-3, recommended that the proposals of both Outsource International (if an office project was selected) and Continental

Commercial Group (if a residential project was chosen) be actively studied by the General Development Committee and the Council to determine the importance and relevancy of the housing component to the City of Mesa, and that staff be directed to enter into a 60-day exclusive negotiation period with one of those entities based on the outcome of conclusions regarding the residential component. He added that at the November 7, 2002 General Development Committee meeting, the Committee also considered the proposals and, by a vote of 2-1, recommended the designation of Equus Development Corporation as the preferred developer.

Mr. Marek concluded his remarks by stating that the Council now has three separate recommendations for consideration, and that staff is requesting that the Council select one of the developers as the preferred developer this morning to ensure that the project proceeds forward in a timely manner.

In response to a question from Councilmember Thom, Mr. Marek clarified that the City did not offer to sell the Bank One Building to the developers for \$1, but rather the proposals which were submitted to staff reflected the fact that the developers preferred to invest significant funding (between \$4.5 and \$5 million) into the architectural design and the improvements to the building which would ultimately result in a high end, Class A project. He added that it was also the opinion of the developers that if those same funds were expended for the purchase of the building, limited funding would be available for the building's improvements, which would therefore result in a lesser grade project.

(The presenters responded to a series of questions from the Councilmembers relative to a variety of issues.)

In response to a question from Councilmember Thom regarding the GPLET incentive, City Attorney Debbie Spinner clarified that per the Arizona Revised Statutes, if one of the developers who proposed residential units was selected as the preferred developer, fee simple title could not be transferred for eight years. Mr. Marek commented that the City has offered the GPLET incentive in past redevelopment agreements and added that Site 21 is not currently on the tax rolls. He stated, therefore, that the current budgets for Maricopa County and the school districts would not be impacted if the Council approves the use of this incentive. Mr. Marek added that in previous analyses, staff calculated that such an incentive could result in an estimated \$1 million in savings to the developer over the eight-year period.

In response to Ms. Spinner's comments, Mr. Edgelow and Mr. Solomon advised the Council that they would be willing to consider a lease/purchase arrangement regarding the proposed residential units and the ability to sell the units after the eight-year timeframe has elapsed.

Mayor Hawker voiced appreciation to the developers for their presentations and stated that he is pleased with all three proposals. He commented that after touring The Brickyard project in downtown Tempe, he favors a residential component in downtown Mesa, but questioned whether Continental's concept of live/work residential units is the most appropriate use for the Bank One Building. Mayor Hawker also noted that Outsource's office/retail proposal would bring added economic development to the Town Center area, and added that the Hunter Interests Report recommended that Site 21 would be an appropriate location for this type of use. He further stated that he also liked Equus' office/retail/residential concept and added that he would be interested to see if the "urban living" concept is something that the City might

consider promoting in other areas of the downtown area. Mayor Hawker concluded his remarks by stating that he is unsure how he will vote, and he requested to hear the comments and opinions of the other Councilmembers.

Councilmember Whalen commented that the members of the Council have obtained a great deal of input from the review team, staff and the community in general, and that it has been a very arduous process to select the best proposal for Site 21. He stated the opinion that because this will be the City's first redevelopment project in the Town Center area, that an office/retail concept would be the most appropriate use for the Bank One Building.

It was moved by Councilmember Whalen, seconded by Councilmember Walters, that Outsource International be selected as the preferred developer for Site 21 and that the City enter into a 90-day exclusive negotiation period with Outsource International, provided that neither the City nor the developer have any legal obligations to the other until a redevelopment agreement is executed by both parties.

Councilmember Walters voiced appreciation to all of the developers for their excellent proposals and commented that whatever the outcome is today regarding Site 21, she hopes that they will work with the City of Mesa again on future projects. She noted that although she was leaning towards the Equus proposal and a total mix of uses at the time of the November 7, 2002 General Development Committee meeting, she now feels that it is somewhat inconsistent with her previous position not to limit the City's ability to develop the surface parking lot area to the north of the building. Councilmember Walters added that at that time, she did reserve the right to change her mind when the issue was brought before the full Council for consideration.

Vice Mayor Kavanaugh said he does not support the motion, but advised that the process has been extremely difficult for the Council due to the high quality of all of the proposals that have been submitted. He explained that after a careful analysis of the proposals, listening to the presentations at the General Development Committee meeting and also today, in his opinion, the live/work loft concept is the most appropriate use for Site 21 and the downtown area as a whole. Vice Mayor Kavanaugh commented that he favors Continental Commercial Group's proposal due to the critical mass of residential housing in the project, and also the fact that the architectural design is more reflective of the manner in which the Mesa Arts and Entertainment Center will transform the landscape of the Town Center area.

Councilmember Thom expressed opposition to the motion and provided a series of comments relative to this issue. She stated that based on today's presentations, it seems questionable whether the developers can afford to purchase the Bank One Building and still produce a quality project; that with the City's current budget constraints, she is fearful that the City cannot afford to participate in the project; voiced concerns that Lexington Capital Corporation withdrew its proposal due to the "questionable process procedures;" that because the building has been off the tax roles for many years, a competent individual in the real estate field should conduct a market analysis of the property to determine its worth, and that the City should dispose of the property.

Councilmember Jones advised that he is undecided at the present time regarding his vote on this issue, but noted that he is pleased with all three of the proposals.

Councilmember Griswold expressed opposition to the motion and noted that one of the main goals of the Mesa General Plan is to provide Mesa citizens the opportunity to live, work and enjoy leisure activities within a 20-minute commute. He stated that he prefers the proposal presented by the Equus Development Corporation.

Mayor Hawker expressed support for the motion. He concurred with Councilmember Walters' comments regarding Equus' proposal relative to the surface parking lot to the north of the Bank One Building.

Councilmember Whalen expressed disappointment that Lexington Capital Corporation withdrew its proposal from consideration and noted that a continued dialogue between City staff and the developer may have resolved some of the issues. He added that he hopes the City's relationship with Lexington will not be harmed in the future as a result of this process.

Vice Mayor Kavanaugh concurred with Councilmember Whalen's comments. He added that the proposal selection has been a fair and open process and that the City was presented four quality proposals.

Councilmember Jones stated that in an effort to move the process forward, he will support the motion.

Upon tabulation of votes, it showed:

AYES - Hawker-Jones-Walters-Whalen
NAYS - Griswold-Kavanaugh-Thom

Mayor Hawker declared the motion carried by majority vote.

Mayor Hawker expressed appreciation to the developers and staff for their concise and informative presentations.

3. Discuss and consider the sale of excess real property.

Due to time constraints, this matter was continued to a future Study Session.

4. Acknowledge receipt of minutes of boards and committees.

- a. Design Review Board meeting held November 6, 2002.
- b. General Development Committee meetings held October 21 and November 7, 2002.

It was moved by Vice Mayor Kavanaugh, seconded by Councilmember Whalen, that receipt of the above-listed minutes be acknowledged.

Carried unanimously.

5. Hear reports on meetings and/or conferences attended.

There were no reports on meetings and/or conferences attended.

6. Scheduling of meetings and general information.

City Manager Mike Hutchinson stated that the meeting schedule is as follows:

Tuesday, November 26, 2002, 8:30 a.m. – General Development Committee Meeting

Monday, December 2, 2002, TBA – Study Session

Monday, December 2, 2002, 5:45 p.m. – Regular Council Meeting

7. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

8. Items from citizens present.

There were no items from citizens present.

9. Adjournment.

Without objection, the Study Session adjourned at 10:23 a.m.

KENO HAWKER, MAYOR

ATTEST:

BARBARA JONES, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 21st day of November 2002. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK