



COUNCIL MINUTES

July 7, 2003

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 July 7, 2003 at 4:52 p.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. Review items on the agenda for the July 7, 2003 Regular Council Meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Items placed on the consent agenda: 9.1a

Items removed from the consent agenda: None

Items deleted from the consent agenda: None

2. Discuss and consider the sale of City-owned property at 49 West 1st Street.

Property Acquisition Supervisor Craig Crocker addressed the Council relative to this agenda item. He referred to a June 11, 2003 City Council Report, copies of which were distributed to the Councilmembers, and provided a brief historical overview of the process by which two historic homes were privately moved to a parcel of City-owned land located at 49 West 1st Street, as well as the execution of a 35-year ground lease. (See Attachment.)

Mr. Crocker reported that Mayor Hawker received a letter dated May 4, 2003 from NMAZ Partners (NMAZ), who is the current lessee of the property, asking to purchase the parcel. He noted that NMAZ also requested that the issue be presented to the Council for discussion and action. Mr. Crocker stated that the City owns all of the property (excluding an office building located at 40 North Center Street), on the block bordered by Center, Macdonald, Pepper and First Streets; that the other City-owned properties include the Mesa Southwest Museum, Pepper Street Parking Garage, Fire Station No. 201

and the Fire Administration Offices; that the current land value is estimated at \$70,617.60 (\$8.00 per square foot); that there are no other costs or obligations from the City regarding the property and no property taxes or improvements on the property, and that at the end of the lease, the improvements will revert to the City.

Mr. Crocker concluded his remarks by stating that it is the recommendation of staff that the property not be sold to NMAZ.

Mayor Hawker requested that staff conduct further historical research relative to whether the City subsidized the relocation of the historic homes or whether Mesa's investment is strictly for the value of the land. He noted that if the City did subsidize the moving of the homes, in his opinion, it would be prudent to incorporate those costs into the sale of the property, if that is the ultimate direction of the Council.

Councilmember Walters commented that from the City's perspective, simply asking for the current market value of the land would be insufficient to regain what the City's real value is in the property. She stated that the parcel is somewhat of a "landlocked strip" and questioned its value to the City for future projects. Councilmember Walters added that the City might be better served by selling the land to NMAZ.

In response to Councilmember Walters' comments, City Manager Mike Hutchinson clarified that in arriving at their recommendation, it was the opinion of staff that it would be prudent to retain City ownership of the land in order to provide Mesa with flexibility for future, albeit currently unknown, projects in the area.

Ron Peters, General Partner with NMAZ Partners, addressed the Council and provided an enhanced historical perspective of this agenda item. He reported that NMAZ has invested over \$100,000 to refurbish the property; that as a businessman, it would be more advantageous for him to obtain a loan on property that is owned rather than leased; that he and his partners are anxious to invest additional monies into the property to maintain and enhance the structure; that neither the Planning or Redevelopment Divisions have any long-range plans for the parcel; that because of the limited property size (8,000 square feet), he questioned what type of project the City could envision at this location, and that with regard to cost recovery measures, the City did not purchase, move or renovate either of the historic homes.

Councilmember Griswold concurred with Mr. Peters' comments regarding how difficult it is for an individual to obtain a loan on property that is leased and not owned outright. He added that it is imperative that the City simplify the process for business owners wishing to make private investments in downtown Mesa.

Mayor Hawker voiced opposition to the sale of the property to NMAZ. He explained that it was his understanding when the historic homes were initially moved to the property and the City gave the land to the lessee for \$1.00, that it was the intent of the City that the buildings placed on the land would have some value and that the City would eventually recoup a portion of that value in exchange for the \$1.00 purchase price. Mayor Hawker added that the \$8.00 per square foot land value is not a sufficient cost recovery for the City.

In response to Mayor Hawker's comments, Mr. Hutchinson advised that although an exact assessment has not yet been made, in his opinion, the existing buildings do have some value and that such an

amount could be incorporated into the land value cost to ensure that the City would recoup additional monies. He added that if it is the direction of the Council to proceed with the sale of the property to NMAZ, staff will pursue this area of inquiry.

Councilmember Thom expressed support for the sale of the property and commented that in her opinion, it is not a deciding factor that the City owns most of the property in the surrounding area. She also thanked Mr. Crocker for his efforts and hard work relative to this matter.

Councilmember Whalen suggested that this item be continued to a future Study Session to provide staff with the opportunity to conduct further research relative to the future master planning of Fire Station 201 and also the possible expansion of the Pepper Street Parking Garage.

Mayor Hawker noted that the entire Council concurred with Councilmember Whalen's suggestion. He also thanked everyone for the presentation.

3. Discuss and consider a proposal from Hunter Interests, Inc. for a northeast quadrant planning study.

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

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

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

5. Scheduling of meetings and general information.

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

Thursday, July 10, 2003, 7:30 a.m. – Study Session

Monday, July 14, 2003, TBA – Study Session

Monday, July 14, 2003, 5:45 p.m. – Regular Council Meeting

6. Prescheduled public opinion appearances.

There were no prescheduled public opinion appearances.

7. Adjournment.

Without objection, the Study Session adjourned at 5:25 p.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 7th day of July 2003. I further certify that the meeting was duly called and held and that a quorum was present.

BARBARA JONES, CITY CLERK

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Attachment

City Council Report

Date: June 11, 2003
To: City Council
Through: Mike Hutchinson, City Manager
Paul Wenbert, Deputy City Manager
From: Jack Friedline, Development Services Manager
Subject: Sale of Land Under a Long-Term Ground Lease
Council District 4

Purpose and Recommendation

The purpose of this report is to respond to a letter from NMAZ Partnership asking for Council to discuss and consider them purchasing a parcel of City-owned land located at 49 W.1st St., Mesa, AZ.

The recommendation is for City Council to not sell this land.

Background

In the mid 1980's, two historic homes were privately moved to 49 W. 1st St. on a parcel of land owned by the City of Mesa. The property is north of the Pepper Street Parking Garage, fronting along the south side of First Street. The City executed a ground lease for a term of 35 years with a renewal option. The property was remodeled as a restaurant. In 1992, NMAZ Partners purchased the improvements (houses converted into a restaurant) and on September 30, 1992, the City approved a reassignment of the ground lease with NMAZ. The property was remodeled again into office space with the architectural firm of BPLW leasing the property.

There are 24 years remaining on the initial lease term with an option to extend for an additional 10 years (to the year 2037). The lease payments were \$1.00 per year for the first ten years until September 2002 at which time the lease amount was 5% of the market value of the land, paid monthly. The payments graduate up 1% per year to a maximum of 10% (September 2007). The current lease payment is \$275.85 per month (plus applicable taxes) based upon the square footage size of 8,827.20 times the then market rate of \$7.50 per square foot times the lease rate of 5%, paid monthly. Additional terms of the lease allows for 10 parking spaces in the adjacent parking garage to be reserved specifically for the tenant of this property. The monthly rate is currently \$35.00 per parking space, which equates to \$350.00 per month. This is in addition to the money received from the ground lease. The lease payments are current.

At the end of the lease period in 2037, all rights to the leased property and all rights to the improvements shall revert to the City of Mesa at no cost. No financing or any other obligations of the lessee may have a term that extends beyond the lease period.

Discussion

A letter (attached) was received from NMAZ Partners (lessee) dated May 4, 2003 addressed to Mayor Keno Hawker asking to purchase the land. NMAZ has requested this issue be brought before the City Council for discussion and action.

The City owns all the property except the office building (40 N. Center St.) in the block bordered by Center St., MacDonald St., Pepper St. and First St. The other city-owned properties are the Mesa Southwest Museum, Pepper Street Parking Garage, Fire Station 201 and the Fire Administration Offices.

The land value has increased slightly to approximately \$8.00 per square foot, which equates to \$70,617.60. The present value of the lease income calculated to the end of the lease period is approximately \$68,668.43. There are no other costs or obligations from the City regarding this property. There are no property taxes on the property or improvements. This is based on the fact that the improvements revert to the City at the end of the lease. The Mesa Town Center Improvement District Tax is paid by NMAZ.

Alternatives

The alternative to staff's recommendation is to sell this property to NMAZ. The City would stop receiving monthly lease payments and the property would not revert to the City in the year 2037. If Council gives direction to sell the land, then a resolution for approval would be forthcoming and presented at a scheduled City Council Meeting.

Fiscal Impact

Under the current ground lease, the City is receiving \$275.85 (plus applicable taxes) per month (or \$3,310.20 per year). If the land were sold at market value (which is estimated at \$8.00 per square foot), the City would realize \$70,617.60.

Concurrence

The City Manager's Office and Redevelopment Office concurs with the recommendation of not selling the land.

Craig K. Crocker
Property Acquisition Supervisor

Doug Tessoroff
Real Estate Services Director

Jack Friedline
Development Services Manager

Paul Wenbert
Deputy City Manager

Mike Hutchinson
City Manager