



COUNCIL MINUTES

September 20, 2000

The City Council of the City of Mesa met in a Joint Meeting with the City Council of the City of Tempe in the lower level meeting room of the Council Chambers, 57 East 1st Street, on September 20, 2000 at 4:00 p.m.

MESA COUNCIL PRESENT	MESA OFFICERS PRESENT	TEMPE COUNCIL PRESENT	TEMPE OFFICERS PRESENT
Mayor Keno Hawker Bill Jaffa Dennis Kavanaugh Pat Pomeroy Claudia Walters Mike Whalen	Mike Hutchinson Neal Beets Barbara Jones	Mayor Neil Giuliano Ben Arredondo Dennis Cahill Barbara Carter Hugh Hallman Mark Mitchell	Patrick Flynn
MESA COUNCIL ABSENT		TEMPE COUNCIL ABSENT	
Jim Davidson		Len Copple	

Mesa Mayor Keno Hawker excused Mesa Councilmember Jim Davidson from the meeting.

1. Introductions of Mayors and Councilmembers.

Mayor Hawker welcomed everyone to the meeting and requested that those in attendance introduce themselves.

2. Hear from Ernst & Young regarding the financial feasibility study of the joint Mesa/Tempe stadium site.

Steve Klatt, Ernst & Young LLP, addressed the joint Councils regarding this agenda item. Mr. Klatt said that he is the Senior Manager of the General Consulting Practice for Ernst & Young Real Estate. Mr. Klatt referred to graphics on display in the Council Chambers and to a report prepared by Ernst & Young for the joint cities entitled, “*Project Summary – A Proposed NFL Stadium and Mixed Use Development.*” Mr. Klatt said that he would present a brief summary of Ernst & Young’s findings and noted that the projections contained in the report are only as

reliable as the underlying assumptions and also assume stable economic conditions over the long term.

Mr. Klatt reported that the analysis indicates negative cash flows of \$22 million, but an overall positive fiscal impact of \$15 million. Mr. Klatt said that the cities could receive \$122 million in cost with a 6% annual return and an additional \$15 million net in physical benefits over the next 30 years. Mr. Klatt added that the analysis is based on cost estimates prepared by City staff and assumptions for 30 year income sources including land lease payments, property taxes, sales taxes, bed taxes and construction sales taxes. Mr. Klatt noted that all revenue and expense estimates are directly for the subject project without consideration of economic impact to the surrounding areas.

Mr. Klatt explained that Ernst & Young was engaged by Mesa and Tempe to perform a fiscal impact analysis of a proposed mixed-use development located southeast of the Loop 101 and Loop 202 interchange and that Ernst & Young's findings are an unbiased third party opinion of the costs and revenues associated with the proposed project.

Mr. Klatt reported that Ernst & Young performed the following procedures in conjunction with their analysis:

- Conducted a site evaluation of the property;
- Met with city officials to discuss the proposed area project;
- Obtained a proposed site plan and overall project cost figures for infrastructure, land acquisition costs and parking from the Cities;
- Obtained initial land acquisition prices from Mesa and Tempe and estimated finished PAD site sale prices for cash flow modeling purposes, based on recent comparable sales in the market;
- Collected and analyzed published data on historical and projected economic and demographic conditions and trends;
- Collected and analyzed office, retail, hotel and apartment market data in the surrounding area;
- Collected and analyzed taxable revenue generators related to stadiums and other large entertainment/spectator venues in the greater Phoenix area and around the country;
- Analyzed parking and construction costs for each proposed land-use;
- Estimated cash flows over a 30 year period based on the above procedures.

Mr. Klatt also reported on the estimated market supported uses of the project, including: 1,300,000 sf of office space, 125,000 sf of retail space; 500 hotel rooms; 400 apartments and 20,000 parking spaces.

Mr. Klatt discussed the estimated development and construction timing of the project and noted the estimated absorption (stabilization) period for each use, including: office space, 2005-2016; retail and restaurant uses, 2005-2006; hotels, 2004-2007; and residential, 2005-2006. Mr. Klatt also spoke about key attributes of the site.

Mr. Klatt detailed the key assumptions utilized in the cash flow model, including:

- A 67,000 seat stadium including 6,800 club seats and 86 luxury boxes;

- \$122 million initial investment by the cities for land/relocation, parking and infrastructure (figure estimated by the cities);
- Cities would equally share in all costs and all non-dedicated revenues generated by the project;
- Cities would retain title to all property within the project and master lease commercial pad sites for development;
- Analysis does not include a residual value for the stadium or the stadium site;
- Land lease rental income was inflated at a 2.5% annual rate every 5 years;
- 3% annual inflation factor;
- Cities act as master developer, operating development and leasing program;
- All benefits (taxes and land leases) and costs (City development) are directly generated by the project.

Mr. Klatt reported that the estimated 30 year cash flow of the project is \$252.5 million; the estimated initial development costs are \$123.8 million (including inflation and non-discounts); the estimated commercial land lease reversion benefit (assuming 80 year leases, a reversion of land lease payments beginning in 2031 through 2081) is \$153.3 million; and other City tax benefits total \$72.5 million (dedicated taxes for Mesa's Quality of Life tax and Tempe's Transit and Performing Arts Center taxes).

Mr. Klatt said that in an effort to provide an indication of the present worth of the total cash flows, the cash flows were discounted by 6% a year which resulted in the following figures: present value of 30 year cash flow, \$(22) million (negative); present value of commercial land lease reversion, \$9.8 million; present value of other City tax benefits, \$28 million; and Total Net Present Value, \$15.8 million (in addition to \$122 million initial investment return).

In response to a question from Mesa Councilmember Pat Pomeroy regarding the initial investment figure, Mr. Klatt clarified that the \$122 million initial investment figure includes an estimate of the value of the land owned by Mesa, therefore reducing Mesa's share of initial out-of-pocket costs.

Discussion ensued regarding various aspects of the Ernst & Young report, including: the fact that there was no value attributed to the stadium site or the stadium itself; the fact that land lease payments on the commercial leases were taken into consideration, and the fact that the revenue stream of sales taxes are based only on the project itself, and does not take into consideration sales tax increases outside of the stadium district.

In response to a question from Mesa Councilmember Mike Whalen, Mr. Klatt explained that City staffs compiled and provided all of the cost figures, and Ernst & Young estimated the revenue figures.

Discussion ensued regarding the initial costs of the project; the fact that the initial infrastructure costs are projected to be borne by the Cities only, and the possibility of reducing the initial infrastructure costs by partnering with other government or private sector entities.

In response to questions from Mesa Councilmember Bill Jaffa, Mr. Klatt clarified that the report and projections only took one scenario into consideration and that there are numerous variables that might change, thereby altering the projections.

Tempe Councilmember Dennis Cahill commented on Tempe's efforts to stabilizing East Apache Boulevard and voiced the opinion that the general area of East Apache Boulevard in Tempe and West Main Street in Mesa would benefit from economic development that could occur as a result of this project.

In response to a question from Councilmember Cahill, Mr. Klatt confirmed that Ernst & Young shares the opinion that this project could be a catalyst for redeveloping other areas in the immediate vicinity.

Tempe Councilmember Ben Aridando voiced appreciation to Mr. Klatt and Ernst & Young for their work.

Discussion ensued regarding the projected costs and revenues attributed to the project and how there were calculated over a 30 year period; the purpose and effect of applying the 6% discount rate to the projections; the purpose and effect of applying the 3% inflation factor to the projections; the basis for utilizing a 3% inflation factor; the effect of utilizing bond funds versus City cash funds to pay the initial development costs; the value of the real estate; the fact that Ernst & Young assumed that the land leases and the commercial land would be sold; the fact that Ernst & Young did not consider the land value of the stadium site itself which is 68 acres, and the possibility of significantly reducing the initial development costs by sharing the infrastructure costs with developers (hotels, golf courses, retail and residential housing).

Tempe Mayor Neil Giuliano provided a brief history of events with respect to the pending State ballot issue regarding increased tourism related taxes to pay for a stadium and the creation and purpose of the Tourism and Sports Authority (TSA). He explained that the purpose of the joint meeting is not to approve or disapprove the proposed project, but only to determine whether or not to submit a letter to the TSA that states that the Cities of Tempe and Mesa have a joint site for development consideration, should voters approve the pending tourism tax issue on the November ballot. Mayor Giuliano stated the opinion that the joint site has significant merit.

Mayor Hawker expressed concerns regarding how the initial development costs associated with the project would be funded; whether the projected revenue stream is sufficient to secure bond financing; problems relating to relocating three holes of Mesa's Riverview Golf Course, and the issue of addressing the Cities' respective levels of participation in the project.

Mayor Giuliano concurred with the concerns expressed by Mayor Hawker and stated that the pending issues are to decide whether or not the Cities desire to submit the joint site to the TSA for consideration, and are willing to address the development issues subsequent to the November election.

Mayor Hawker voiced concerns regarding the issue of requiring voter approval to secure bond funds and protecting the citizens of Mesa from prematurely committing to any type of funding for a stadium project.

In response to questions from Tempe Councilmember Hugh Hallman regarding Ernst & Young's findings and the applicability of the report, including projected costs and revenues, to other stadium sites in the Phoenix metropolitan area, Mr. Klatt explained that although the model itself is reusable, costs and revenue will vary significantly from site to site.

Councilmember Hallman voiced support for proceeding with the submission of a letter to the TSA indicating that the Cities of Tempe and Mesa are interested in presenting a joint site located near the 101/202 Freeway interchange for consideration regarding a stadium project.

Discussion ensued regarding Ernst & Young's involvement in a stadium project in West Phoenix.

3. Discuss and provide staff direction on proceeding with the project.

Councilmember Pomeroy voiced appreciation to Mr. Klatt and Ernst & Young for the report and stated that although the report is helpful, it raises numerous unanswered questions. Councilmember Pomeroy voiced support for "keeping the doors open," and submitting a letter to the TSA offering the joint site for consideration.

Mayor Hawker said that he is supportive of continuing this matter to a succeeding Mesa City Council meeting to allow public comment prior to determining whether or not to submit a joint site proposal to the TSA for consideration.

In response to discussion regarding the deadline date for submission of stadium sites for consideration and the possibility of submitting a site for consideration subsequent to the November election, John Benton, a member of the Tourism and Sports Authority Board who was present in the audience, addressed the joint Councils and stated that although it is the preference of the TSA that proposals are submitted by October 1, 2000, it is not a requirement. He added that although he cannot speak for the TSA regarding whether or not sites submitted subsequent to the election will be considered, his personal opinion is that proposals submitted subsequent to the election will not be considered as credible as those submitted prior to the election.

In response to a question regarding the submission of proposals to the TSA that are conditional, Mr. Benton stated that although the most complete proposals will be welcomed, TSA board members are cognizant of the fact that all entities submitting sites for consideration will have unresolved issues and areas of concern at the time of submission.

Mesa Councilmember Claudia Walters voiced concerns regarding investing additional City funds and manpower into this issue prior to the November election. She voiced support for submitting a proposal from the Cities offering the joint site for consideration following a succeeding Mesa City Council Meeting allowing public comment and after confirming with Mesa's City Attorney that submission of a proposal is not legally binding on the Cities to proceed with the project.

Councilmember Arredondo spoke in support of submitting a proposal to the TSA for consideration and stated that the appropriate time to analyze the viability of the project will be subsequent to the November election. Councilmember Arredondo voiced the opinion that there will be a multitude of sites submitted for consideration and stated that the joint site near the 101/202 Freeways may not be the only site submitted by Tempe or Mesa.

Mayor Giuliano stated that it is appropriate under the agenda for the Councils to direct staff to prepare a draft of a proposal letter for submission to the TSA, for consideration of the Cities' joint site located near the junction of the 101/202 Freeways, for development of a stadium project.

Mesa Councilmember Dennis Kavanaugh stated that the purpose of the study was to determine if the joint site is a viable site for a stadium project. He added the opinion that the study shows that the site is viable and offers the potential of returns on investment. He stated that if the voters

approve the measure on the ballot, structuring an agreement that is acceptable between the two Cities and negotiating the proposal with the TSA will be a complex, time-consuming process. He voiced support for submission of a letter of interest to the TSA for consideration.

In response to a request from Councilmember Hallman for a definitive answer from the TSA regarding whether or not proposals submitted subsequent to the November election will be equitably considered by the TSA, Mr. Benton advised that the pending question and other technical questions should be posed to the TSA's attorney, Jay Refner.

Councilmember Whalen voiced the opinion that it is important to inform Mesa's voters regarding what the projected infrastructure costs of a stadium project at the joint site will be, prior to the November election. Councilmember Whalen also stated that he has been informed that there are local developers with relevant expertise who are willing to assist Mesa and Tempe in this process. He added that he is supportive of pursuing a public/private partnership with this project.

Mayor Hawker stated that he is supportive of instructing Mesa staff to generate a "general level of interest" letter to the TSA submitting the joint site located near the 101/202 Freeway interchange for consideration, but only in conjunction with and subsequent to a public meeting to provide public comment.

Councilmember Kavanaugh said that with Council approval, staff can be instructed to prepare a draft of a letter submitting the joint site to the TSA, that a Council Study Session would provide an opportunity for Council to review and consider the drafted letter and also provide the opportunity for public comment on the drafted letter.

Mayor Giuliano stated that the same process is appropriate for the Tempe Council in conjunction with an Issue Review Session.

It was moved by Councilmember Kavanaugh, seconded by Councilmember Jaffa, that staffs be directed to draft a letter of intent for potential submittal to the Tourism Sports Authority Board indicating Mesa's and Tempe's interest in submitting a joint site located at the junction of the 101/202 Freeways, for consideration regarding the development of a stadium project and to provide that draft to the Mesa City Council and the Tempe City Council for review and consent at their respective Study Session/Issue Review Session meetings.

Councilmember Jaffa voiced the opinion that it is the Mesa Council's fiduciary responsibility to offer the joint site for consideration and that in doing so, Mesa is only agreeing to participate in further discussion regarding the joint site and will not be barred from the opportunity of further discussion and negotiation with the TSA and the potential opportunity of reaping significant benefits from a stadium project, in the event voters approve the stadium tax measure. Councilmember Jaffa also spoke about the significant merit of the joint site for development of a stadium project.

Mayor Hawker suggested that a separate motion/vote be made by each Council regarding their concurrence to instruct staff to prepare a draft letter to the TSA to submit the site at the 101/202 Freeways for consideration, should the stadium tax measure be approved by voters in the November election.

In response to a question from Councilmember Jaffa, Mayor Hawker clarified that, upon joint Council approval, the letter would be submitted to the TSA prior to the November election, not following the election, as his previous statement inferred.

Upon tabulation of votes, it showed:

AYES - Hawker-Jaffa-Kavanaugh-Pomeroy-Walters-Whalen
NAYS - None
ABSENT - Davidson

Mayor Hawker declared that the motion carried unanimously by those present.

It was moved by Councilmember Cahill, seconded by Tempe Councilmember Barbara Carter, that staffs be directed to draft a letter of intent for potential submittal to the Tourism Sports Authority Board indicating Tempe's and Mesa's interest in submitting a joint site located at the junction of the 101/202 Freeways, for consideration regarding the development of a stadium project and to provide that draft to the Tempe City Council and the Mesa City Council for review and consent at their respective Study Session/Issue Review Session meetings.

Upon tabulation of votes, it showed:

AYES - Arredondo-Cahill-Carter-Giuliano-Hallman-Mitchell
NAYS - None
ABSENT - Copple

Mayor Giuliano declared that the motion carried unanimously by those present.

Councilmember Cahill voiced appreciation to the City of Mesa for encouraging and hosting the joint meeting and voiced support for continued cooperation and dialogue between the two Councils regarding pursuit of the joint interests of the neighboring Cities of Mesa and Tempe.

4. Discuss scheduling future meetings.

Mayor Hawker stated that due to action previously agreed upon by both Councils, the scheduling of future meetings is not appropriate at this time.

Mayor Giuliano concurred with Mayor Hawker.

5. Adjournment.

Without objection, the Joint Meeting adjourned at approximately 5:30 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 Joint Meeting of the City Council of Mesa and the City Council of Tempe held on the 20th day of September, 2000. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of _____, 2001.

BARBARA JONES, CITY CLERK

pjt