



Amend Business Terms for Phoenix Central Station at 300 N. Central Ave. (Ordinance S-46813)

Request to authorize the City Manager, or his designee, to amend the approved business terms for entering into a development agreement, ground lease, easements, and other agreements as necessary (collectively, the Agreements) with Electric Red Ventures, LLC (Developer) for a transit-oriented development project at the City-owned Central Station Transit Center located at 300 N. Central Ave. (Site). Also, request an exception pursuant to Phoenix City Code section 42-20 to include indemnification and assumption of liability provisions where necessary in the transaction documents that would otherwise be prohibited by Phoenix City Code section 42-18. Further request authorization for the City Controller to disburse funds related to this item.

Summary

In April 2019, City Council authorized business terms proposed by the Community and Economic Development Department (CEDD) and Public Transit Department (PTD) to enter into agreements with the Developer to redevelop the Central Station Transit Center.

The Developer's originally proposed project, comprised of two towers with 1.1 million square feet of development with an estimated investment of \$231 million, includes the following:

- Tower One: 30-story high-rise with 300 apartments, a 150-room Intercontinental Hotel, and 35,000 square feet of office space on the southeast portion of the Site;
- Tower Two: 18-story building that includes student housing and 9,000 square feet of space for the replacement of PTD's current office space on the west side of the Site;
- 45,000 square feet of ground-floor restaurant, retail, and grocery uses; and
- Both towers to sit on top of three floors of underground parking.

Since City Council authorization, the Developer has performed additional due diligence at the Site to determine the full feasibility of the proposed project. Through its due diligence, the Developer has identified the following unusual public infrastructure challenges that need to be resolved to develop the Site:

- Arizona Public Service (APS) electrical equipment serving Civic Space Park is located within the Site;
- Underground vault containing City fiber is located within Van Buren Street adjacent to the Site;
- A Parks and Recreation Department shade structure is encroaching on the Site;
- Traffic signals serving the current transit center are located on the Site and must be temporarily relocated during construction; and
- Temporary relocation of PTD's bus operations will cause an impact to parking meters near the Site.

In addition to the above Site challenges, the COVID-19 pandemic has created economic challenges for the project, particularly for the planned Intercontinental Hotel. The Developer has communicated that the hotel component of the project cannot be financed under current economic conditions.

Despite these challenges, the Developer wishes to move forward with the project without a hotel use. The Developer has continued to work in good faith with the City as noted by the design progress and upcoming submittal to the Federal Transit Administration (FTA) for a Joint Development Project Formal Review and Approval. FTA's review must be completed prior to the City entering into the development agreement and ground lease with the Developer.

With respect to the economic challenges described, and in order to maintain project feasibility, City staff and the Developer have negotiated the following business-term modifications, which will be incorporated into the development agreement and related ground lease:

- Removal of hotel use from the project;
- Inclusion of an additional 65 multi-family residential rental units for a total of 364 units, with five percent of the total units designated as workforce housing;
- Inclusion of an additional 38,000 square feet of office space, for a total of approximately 70,000 square feet; and
- Removal of one level of underground parking from the project, resulting in a total of two underground parking levels to be constructed.

The removal of the hotel component and additional multi-family units will result in an increased height of Tower One (East Tower) to 32 stories; an increase in the height of Tower Two (West Tower) to 22 stories; and a reduction in the gross square footage, now estimated at 973,000 square feet of development amongst the two towers. The

total project investment has increased by \$44 million for a total of \$275 million.

With respect to the public infrastructure challenges, City staff and the Developer have negotiated the following modifications to the business terms:

- APS power relocation: Developer shall pay APS and contractors directly, as necessary, for costs associated with the relocation of APS equipment to Civic Space Park, with an estimated cost of \$500,000.
- Underground telecom vault shoring: Developer shall pay for direct costs to shore and stabilize the City's vault to avoid relocation, with an estimated cost of \$100,000.
- APS/underground vault work: City shall reimburse Developer for APS and/or underground vault work at an amount not to exceed \$600,000. Any costs incurred beyond this amount shall be borne solely by Developer.
- Shade structure: City will pay to remove the Parks and Recreation Department's shade structure at the southeast corner of Civic Space Park at a cost not to exceed \$10,000.
- Traffic signal relocation: City will reimburse Developer an amount not to exceed \$20,000 to design temporary traffic signals at the Site. Developer shall pay for the design and installation of a permanent traffic signal.
- Parking meter obligations: Parking meter fees under Phoenix City Code section 36-31.2(A) will be waived for three impacted parking meters upon City Council authorization.
- Indemnification/assumption of liability: City to obtain an exception pursuant to Phoenix City Code section 42-20 to include indemnification and assumption of liability provisions where necessary in the transaction documents that would otherwise be prohibited by Phoenix City Code section 42-18.

City staff also recommends extending the time period from City Council authorization to enter into a development agreement and the related ground lease from 8 months to 18 months. Following FTA review and approval, staff anticipates entering into the development agreement and related ground lease prior to the expected construction this fall.

Upon approval of these amended business terms, staff will incorporate the changes into the proposed agreements with the Developer. Other than the changes referenced above, all other terms and conditions of the development agreement, ground lease, and other agreements shall remain the same.

Financial Impact

The total reimbursement to the Developer for costs associated with Site challenges

noted above will not exceed \$630,000. Funding is available in the Downtown Community Reinvestment Fund beginning in Fiscal Year 2020-21. Staff expects the construction sales tax revenue to offset the expected short-term revenue loss to the General Fund realized from the three impacted parking meters. As previously agreed, Developer will pay the sum of \$170.2 million to the City's PTD over the term of the land lease.

Concurrence/Previous Council Action

On April 17, 2019, City Council approved the project (Ordinance S-45566).

Location

300 N. Central Ave.
Council District: 7

Responsible Department

This item is submitted by Assistant City Manager Deanna Jonovich, Deputy City Managers Mario Paniagua and Toni Maccarone, and the Community and Economic Development, Public Transit, Street Transportation, and Parks and Recreation departments.