

Meeting Minutes

City Council Work Session

February 23, 2023 | 4:30 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Mayor Kevin Hartke at 4:30 p.m.

Roll Call

Council Attendance

Mayor Kevin Hartke
Vice Mayor Matt Orlando
Councilmember OD Harris
Councilmember Mark Stewart
Councilmember Christine Ellis
Councilmember Jane Poston
Councilmember Angel Encinas

Appointee Attendance

Josh Wright, City Manager
Kelly Schwab, City Attorney
Dana DeLong, City Clerk

Staff in Attendance

Tadd Wille, Assistant City Manager
Dawn Lang, Deputy City Manager / CFO
Andy Bass, Deputy City Manager
Kevin Mayo, Planning Senior Manager
Micah Miranda, Economic Development Director
Ryan Peters, Strategic Initiatives Director
Melissa Quillard, Marketing and Communications Manager
Lauren Koll, Digital Content Creator
Matthew Burdick, Communications and Public Affairs Director
Michael Winer, Economic Development Project Manager

Discussion

1. Presentation and Discussion from the Economic Development Division on the Mayor's 4-Corner Report Relating to Infill and Redevelopment of Vacant and Underutilized Properties

MAYOR HARTKE called for a staff presentation.

JOSH WRIGHT, City Manager, introduced the item. The Four Corner report was initially conducted in 2011 on the retail situation in Chandler. This is an update on that report over the past decade, and a way to discuss what comes next.

MICAH MIRANDA, Economic Development Director, presented the following presentation.

- Mayor's 4-Corner Retail Committee Report Update
- Background
 - Mayor's 4-Corner Retail Committee was assembled in Fall 2011
 - Committee had 22 members
 - Property owners, brokers, developers, builders, architects, attorneys, citizens, and the Chandler Chamber of Commerce
 - Included representation from different property specializations – multifamily, retail, office and industrial
 - Evaluated intersections where retail was the dominant use, with high vacancy rates and questionable long-term viability
 - Made recommendations to support redevelopment of underutilized projects
- Key Issues in 2011
 - The opening of the Chandler Fashion Center in 2001 led to the relocation of many national retail tenants to the mall area
 - The opening of the Loop 202 Santan Freeway resulted in a shift in traffic patterns, affecting the viability of shopping centers and retail in older area in Chandler
 - The opening of the Loop 202 Santan Freeway also led to the development of several new power centers, attracting many national tenants
 - The global financial crisis resulted in bankruptcies and store closures in the retail industry that had a significant impact on Chandler
 - The financial crisis also affected consumer spending and population growth in Chandler
- Intersections Studied – Alma School Rd and Elliot Rd
- Intersections Studied – Alma School Rd and Warner Rd
- Intersections Studied – Alma School Rd and Ray Rd
- Intersections Studied – Alma School Rd and Queen Creek Rd
- Intersections Studied – Arizona Ave and Warner Rd

COUNCILMEMBER HARRIS asked if there are any alternative uses for the extra space in storage unit parking lots. There is a lot of parking with not a lot of use.

MR. MIRANDA said that on infill development sites, options are limited. Potential infill projects will be coordinated with the property owner. Frequently, property owners are not interested. These

sites are pushed for redevelopment projects. The police department and code enforcement do what they can to enforce property management.

COUNCILMEMBER POSTON asked if these intersections with lower traffic counts would be able to handle higher volumes of traffic.

MR. MIRANDA said that most of the intersections are functioning at a B+ rating, there is capacity to take on additional volumes. Specific grades can be provided later.

COUNCILMEMBER POSTON asked what kinds of development is being sought for the Alma School and Ray intersection.

MR. MIRANDA said we would not want to introduce uses that would compete with existing projects, but there is nothing particular in mind. Mr. Miranda suggested a low-density townhome project.

MAYOR HARTKE asked if there were any ideas for retail projects that would not be competitive with existing projects.

MR. MIRANDA said that staff discusses creative retail tenant options with developers and retail brokers. They consider what is complementary to the area and listen to what residents want.

COUNCILMEMBER ENCINAS asked which sections shown on the map the city owns.

MR. MIRANDA pointed out the corner that the city owns.

COUNCILMEMBER ENCINAS asked what the goal is for traffic numbers for these intersections.

MR. MIRANDA said it depends on what the intersection is engineered for. Major arterial roadways can handle a lot of movement. It is dependent on the individual intersection. This intersection could handle more movement.

MAYOR HARTKE said that we have built up multiple roadways through major intersections to improve capacity of traffic.

MR. MIRANDA added that the remaining traffic choke points are in South Chandler, where city departments are working to develop better east-west corridors. There are few remaining intersections that need improvement.

COUNCILMEMBER HARRIS asked about the impact of the Kroger – Albertson's merger on the development of existing grocery stores.

MR. MIRANDA said that information is currently an unknown.

COUNCILMEMBER HARRIS asked if the retail area around Chandler mall will remain well maintained due to changing property management leadership.

MR. MIRANDA said that there are multiple departments within the property management company Macerich that they collaborate with. The mall development team looks at the future of what the mall will be. They work to understand what the new retail landscape looks like. This space has performed well.

COUNCILMEMBER HARRIS asked about the forecast for Bed Bath and Beyond.

MR. MIRANDA said that the store will be another big box vacancy needing to be filled. It will not be quick or easy to fill. Our staff pursue experiential retailers to use the space in a creative way.

COUNCILMEMBER HARRIS said he would like to know more about the outreach done.

MR. MIRANDA continued the presentation.

- Intersections Studied – Cooper Rd and Ray Rd
- Intersections Studied – McQueen Rd and Pecos Dr
- Uptown Chandler
 - Place branding initiative launched in 2017 to raise awareness of the area with participation from a group of key stakeholders
 - Established a name for the area that is now used by real estate brokers, developers, and businesses (not 'donut hole' anymore)
 - Branding positions the area's unique character as a strength for business attraction and redevelopment (casual, eclectic, authentic)
 - Banners and traffic signal art installed to enhance sense of place within the area

VICE MAYOR ORLANDO asked how does the vacancy rate correlate to the quality of the retail.

MR. MIRANDA said to level up tenants, the area demographics need to be observed. Historically, Uptown Chandler was called the donut hole, it was located in between highways and did not have a solid identity. To generate desired tenants, the overall economic performance of the community must be improved.

VICE MAYOR ORLANDO asked if it is worth saving some of these corners with retail shrinking and encouraging different types of development. If more density is added, perhaps the retail centers will survive.

MR. MIRANDA answered that as discretionary spending increases, the quality of tenants increases. People working in those areas during the day provide business to retail during the day. We do not need as much retail; it is about finding an equilibrium with the right amount and types of clients.

VICE MAYOR ORLANDO said as we look to invest, we have a basis to forecast success.

MR. MIRANDA added that forecasting is done on a per-project basis. Fiscal economic impact analysis is conducted to quantify what the net benefit to the city would be for the individual project.

MR. MIRANDA continued the presentation.

- Infill Projects
 - Uptown Commons
 - Location: Arizona Ave and Elliot Rd (NEC)
 - Status: Approved
 - Former Use: Vacant Lot
 - Future Use: Apartment Complex (252 Units)
 - Elevation AZ 87
 - Location: Arizona Ave and Elliot Rd SEC
 - Status: Approved
 - Former Use: Vacant Lot
 - Future Use: Apartment Complex (199 Units)

VICE MAYOR ORLANDO said this has come up a few times. Legislators say projects do not move fast enough. We need ideas on what more projects we have that are out of our hands. There are four design reviews in progress.

COUNCILMEMBER STEWART said that zoning comes in and staff meets the corresponding deadlines, but developers do not move fast enough.

MR. MIRANDA added that these projects achieve the employment corridor-specific goals that the city wants to see.

MR. MIRANDA continued the presentation.

- Redevelopment Projects
 - Alta Chandler at the Park
 - Location: Alma School Rd and Parklane Blvd SWC
 - Status: Under Construction
 - Former Use: Office Buildings
 - Future Use: Apartment Complex (291 Units)
 - Alta Uptown
 - Location: Arizona Ave and Corporate Pl SEC

- Status: Approved
- Former Use: Auto Dealership Parking Lot
- Future Use: Apartment Complex (425 Units)
- TBD
 - Location: Alma School Rd and Warner Rd NEC
 - Status: Proposed
 - Former Use: Sun Village Fair Shopping Center
 - Future Use: Apartment Complex
- Retail Market: Then vs. Now

COUNCILMEMBER HARRIS asked what incentives are offered to attract retailers.

MR. MIRANDA said that incentives are no longer offered. The Arizona state constitution has a gift clause which has been interpreted as severely limiting governments' role in incentives. There are recommendations in proactive recruitment that do not violate court rulings.

MR. MIRANDA continued the following presentation.

- Industrial & Office: Then vs. Now
 - Economic recovery in these areas has also included base industry growth and new job creation. From 2011 to 2021, Uptown Chandler added more than 580 jobs.

MAYOR HARTKE asked about the expectations for leased but underutilized office space.

MR. MIRANDA said that we anticipate office sublease vacancy to increase. We are spending marketing dollars for office user tenants to backfill the space. We are in a good spot right now.

MR. MIRANDA continued the following presentation.

- Area Plan Updates
 - Development Services concept approach is to do 'neighborhood level' updates based on the characteristics of each area. Proposed sequence is as follows:
 - Southside Village Area: boundaries are Frye Rd to Pecos Rd (north to south). And Arizona Ave to the Union Pacific Railroad from (west to east)
 - Downtown Area: boundaries are Chandler Blvd to Frye Rd (north to south), and San Marcos Estates to Union Pacific Railroad (west to east)
 - North Arizona Ave Area: boundaries to be determined
 - East Chandler Blvd Area: boundaries to be determined
- City Code / Zoning Code Updates
 - Proposing to bring City Code / Zoning Code updates to City Council in groups. The first group would be concurrent with the first area plan update (Southside Village area):
 - Building setbacks for infill development
 - Building height trigger for midrise overlay (45' to 50')

- Murals
- Mechanical screening
- Blade sign limitations (enlarge)
- Single-family permitted in MF-1, MF-2 and MF-3 districts by right
- Driveways / front yard paving regulations (establish maximum paving allowances)
- Alleys (permit primary vehicular / pedestrian access)
- February 2023 kickoff for Area Plan Updates and City Code / Zoning Code Updates
- Other Staff Recommendations
 - Economic Development is also working on recommendations to support redevelopment and placemaking projects
 - Expand Adaptive Reuse Overlay District Boundaries
 - Issue: The Adaptive Reuse Overlay District has been successful in facilitating reuse projects, but its geographic scope is very limited
 - Proposal: Expand the district boundaries to include all parts of Chandler north of Loop 202

COUNCILMEMBER STEWART asked if discussion on city code and zoning would include multi-family zoning in upcoming discussions.

MR. MIRANDA said yes, discussions would include multi-family zoning.

COUNCILMEMBER STEWART shared concern about parking change. Due to increasing rents, more people live in a single unit, where one unit would require multiple cars and multiple parking spots. There may be parking overflow for multifamily housing.

KEVIN MAYO, Planning Senior Manager said that our parking code is restrictive and requires lots of parking of developers. Some developments entertained parking reductions because it was pre-COVID-19. At this time, we are not entertaining any parking reductions. The parking code requires a certain number of spaces per unit. The developers are not assigning the spaces to the unit, they are for rent as well.

VICE MAYOR ORLANDO asked for an example of adaptive reuse.

MR. MIRANDA explained that adaptive reuse is a parcel less than 15,000 sqft. in a certain area with different development standard requirements like retention screening and landscaping. It did not dictate use. This was intended for smaller parcels to lessen development requirements to help facilitate growth in these lots.

COUNCILMEMBER HARRIS said we should explore the option of container projects.

MR. MIRANDA said that these projects have been evaluated before and did not progress. There should be nothing in the code that prohibits container projects.

COUNCILMEMBER HARRIS said we have to consider how our businesses make people feel.

MR. MIRANDA said he will follow up on this.

MAYOR HARTKE said previous attempts were unsuccessful and asked if anything changed since 10 years ago that would be more inviting to these project.

MR. WRIGHT said that we will be revisiting code revisions in the future.

MR. MIRANDA continued the presentation.

- Other Staff Recommendations
 - Expand the Commercial Reinvestment Program boundaries to match proposed Adaptive Reuse Overlay District and shift focus of program funding
 - Issue: Program was created to provide reimbursements to private property owners for redevelopment activities, but most financial support is not legal per court ruling of Arizona's Gift Clause
 - Proposal: Use funds on public infrastructure upgrades, land acquisition / assembly, and placemaking projects
- Other Staff Recommendations
 - Advocate for changes to state legislation that would encourage the redevelopment of underutilized properties to provide new housing units
 - While redevelopment often seems like an obvious answer, there are additional costs and risks that property owners / developers need to take into consideration:
 - Fragmented Ownership
 - Approval Processes
 - Site Prep / Restoration
 - Pace of Development
- City Redevelopment Powers
 - Existing state legislation empowers municipalities to engage in redevelopment, but it cannot produce the large-scale housing development needed in Arizona.
 - Government processes are slow
 - Eminent domain is highly contentious
 - Revenue bonds for redevelopment projects are higher risk and less attractive to investors than other revenue bonds (e.g., utilities bonds)
- City Redevelopment Powers
 - Additional legislation could be enacted to help municipalities better support private sector led redevelopment projects
 - One idea would be to allow municipalities to authorize a temporary property reclassification for redevelopment projects that create new housing units

- Reclassifying to Class Six would lower the assessment ratio from 10% to 5% for residential projects, substantially reducing property taxes. Over time, cumulative savings would offset the higher costs of redevelopment.
- Factoring this benefit into a pro forma, developers would be able to see they can achieve their required internal rate of return from the redevelopment project.
- Proposed State Legislation
 - Process for Municipalities to Authorize Property Reclassification:
 - Developer submits a site analysis to the municipality explaining how the property satisfies the conditions for a slum or blighted area designation under ARS 36-1471.
 - Municipality adopts a resolution pursuant to ARS 36-1473 finding and declaring the site a slum or blighted area and that redevelopment is necessary.
 - Developer submits a redevelopment plan to the municipality pursuant to ARS 36-1479.
 - Municipality contracts for an economic and fiscal impact analysis pursuant to proposed section ARS 36-1492.
- Proposed State Legislation
 - Process for Municipalities to Authorize Property Reclassification (continued):
 - Developer and municipality enter into a redevelopment contract authorizing real property reclassification to Class Six for seven years (5% assessment ratio).
 - County assessor establishes a base tax payment using the current year real property tax bill. During reclassification, property taxes paid to any district cannot be less than its share of the base tax payment.
 - Property significantly increases in value following redevelopment. Developer pays lower property taxes than usual due to reclassification, helping to offset site restoration costs.
- Case Study
 - Sun Village Towne Fair Center
 - Built in 1991
 - 158,000 SF of retail space on 17.3 acres
 - Grocery store anchor left in 2016; 84,000 SF space remains unfilled
 - Current occupancy rate is 23%
 - Tenant mix includes cash for gold, payday loan, furniture rental businesses
 - Riata Apartments
 - Built in 2019
 - 300 Units on 8.6 acres (50% of Sun Village land area)
 - 93% occupancy rate (City avg. is 92%)
 - \$1,810 average rent (City avg. is \$1,886)
 - Sold in November 2020
 - \$91 million / \$303,333 per unit
- Case Study: Property Taxes

- Case Study: Property Taxes
- Case Study: Fiscal Impact Analysis
 - Sun Village Fair: Inputs & Assumptions
 - 158,000 SF shopping center
 - No investments made in renovations
 - 35,658 occupied SF (23% occupied)
 - \$22 per SF annual lease rate
 - \$300 per SF average in-store retail sales
 - 65 full-time employees (1 per 550 SF)
 - \$41,600 average salary (\$20 per hour)
 - Riata Apartments
 - 300 new housing units constructed
 - \$81.9 million capital investment
 - 18-month construction period
 - 50% occupied in year built; 93% after
 - \$1,810 per unit rent
 - \$86,880 average household income
 - Reclassification benefit for the first 7 years
- Case Study: Fiscal Impact Analysis
 - Sun Village Fair: 10-Year Impacts
 - Negative net fiscal impact on the city
 - Net income of -\$81,307
 - General Fund Revenues: \$1.67M
 - General Fund Expenses: \$1.75M
 - Revenues include property taxes, commercial lease tax, retail sales tax, local spending by employees
 - Most significant expense is public safety
 - Riata Apartments
 - Positive net fiscal impact on the city
 - Net income of \$1.94M
 - General Fund Revenues: \$5.21M
 - General Fund Expenses: \$3.27M
 - Revenues include property taxes, building permit/plan review fees, construction TPT, residential lease tax, state shared revenues, local spending by residents

COUNCILMEMBER HARRIS asked how much collaboration is there with public safety on these analyses to continue safety efforts.

MR. MIRANDA answered that we have a city-wide team that meets called pre-deck to review projects during initial consideration. The economic development team keeps a close eye on response times, the new fire station helps with this. We have great response times, but a large

volume of calls. Public safety plays an important role in redevelopment possibilities. We work with property owners to provide public safety as insurance rankings resulting from response times are important to owners.

COUNCILMEMBER POSTON asked if this addresses the issue of developers not working to complete projects.

MR. MIRANDA said this was a 5-year pilot program. This gives cities more opportunities to build housing in. There are not yet statistics to suggest an opinion.

COUNCILMEMBER POSTON asked if we would require developers to start building in a certain amount of time, so movement on construction begins quicker.

MR. MIRANDA said that they would not receive tax benefits. They would need to begin construction within however many years since approval of the project or they would lose the potential benefit.

MR. MIRANDA continued the following presentation.

- Recap & Staff Recommendations
 - The 4-Corner report intersections are performing better now than in 2011 with redevelopment / reuse projects and an improved retail market lowering vacancies
 - The City has actively helped to revitalize and bring new uses to these areas
 - Staff recommends the City take the following additional, proactive steps:
 - Implement City Code / Zoning Code Updates
 - Expand Adaptive Reuse Overlay District
 - Invest in Placemaking Activities
 - Strategic Parcel Assemblage
 - Work with Partners to Propose Redevelopment Legislation
- Thank you! Questions?

MAYOR HARTKE thanked Mr. Miranda for the information and looked forward to getting more details.

VICE MAYOR ORLANDO asked how practical the legislation is and what happens if it does not pass. Vice Mayor Orlando shared concern with the variance in addressing the gift clause in developer agreements.

KELLY SCHWAB, City Attorney said that there are a few things we can do that are safe like public infrastructure. Some things carry a level of risk, and some are outright banned. There must be a community benefit rather than directly benefiting just the project. Whatever amount the city is investing there must be revenue that meets or exceeds that amount. Historically any attempts to circumnavigate the gift clause are met with more case law limiting options.

VICE MAYOR ORLANDO asked to revisit this on what we can and cannot do since it is unlikely that the legislature will address this.

Adjourn

The meeting was adjourned at 5:48 p.m.

ATTEST: *Dana R. DeLong*
City Clerk

Kevin Harbke
Mayor

Approval Date of Minutes: March 20, 2023

Certification

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the City Council of Chandler, Arizona, held on the 23rd day of February 2023. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this 20 day of March, 2023.

Dana R. DeLong
City Clerk

