

Minutes of the Work Session held January 10, 2011 at 6:00 p.m. in the Council Chambers.

**MEMBERS PRESENT**

Mayor Lopez Rogers and Council Members

Jim McDonald, Vice Mayor  
Jim Buster  
Stephanie Karlin  
Frank Scott  
Charles Vierhout  
Ken Weise

**ALSO PRESENT**

Charlie McClendon, City Manager  
David Fitzhugh, Assistant City Manager  
Rogene Hill, Assistant City Manager  
Dan Davis, Economic Development Director  
Sammi Curless, Economic Development Specialist  
John Ruggieri, City Center Business Development Specialist  
Andrew McGuire, City Attorney  
Carmen Martinez, City Clerk

**1) ROLL CALL BY THE CITY CLERK**

Mayor Lopez Rogers called for a moment of silence to reflect on the victims of the shooting in Tucson on January 9, 2011.

**2) ECONOMIC DEVELOPMENT STRATEGIES**

An update to the City Council regarding the City's Economic Development Strategies.

Mr. Davis acknowledged that 2010 was a very challenging year for Economic Development. City Council's primary goal over the past few years has been to make Avondale attractive as an investment opportunity for the retail, commercial, office, and light industrial sectors, with a specific emphasis on job creation. City Center is off to a good start. The City's marketing and branding effort reaches out to state and national businesses to promote Avondale as a good place to do business. The McDowell Road medical corridor is focusing on development that would synergize with the Phoenix Children's Hospital. Avondale is reaching out to site selectors to let them know what is available here. ED's plan is to focus on the areas of medical, life sciences, renewable energy, and amateur and sports-tourism. The American Sports Center is a good start, and there are many other opportunities to build upon this success. Higher education is a key focus area. Estrella Mountain Community College has formed a partnership with Workforce Development, setting the groundwork for future progress. Avondale has many good greenfield sites that could be developed into a hub for general manufacturing jobs.

Mr. Davis commented that the information shared at the State of the State program last week was overly depressing and added that Avondale's ability to balance its budget could set the tone for what needs to happen at the state and national levels. The recession was long and drawn out, and the recovery will not be a normal one. Unemployment is still very high. As investors remain weary, there is a great deal of money not being invested in business development. The national debt also remains a concern.

Despite the bad news last year, some good things also happened. The relocations of Suntech, Tower Automotive, Rio Glass, and Subzero were very positive additions to the

West Valley. Those businesses were looking for very specific sites, namely existing buildings over 200,000 square feet in size, which Avondale has none of. Until vacant buildings of that size get filled in, new development on greenfield sites will remain far off.

There have been some positive signs in Avondale. Sales tax revenues have exceeded previous years' numbers in two of the last three months. Business lead traffic has increased steadily over the past seven months. While things are beginning to turn around, there are some very specific challenges in the months ahead.

Mr. Davis noted that Avondale has been working with site selectors to learn what it is they are looking for in a community. In the past, Avondale has ranked well in terms of quality of life components, but those qualities are not as important as they once were. The cost of a project is the primary factor in determining where a company locates. Avondale is challenged by the competition, not only locally, but also by states, especially Texas, Colorado, and Utah. These places are seeking the same results that Avondale is. It will be critical for the City to foster a competitive, business-friendly environment in Avondale. Relocating companies want to minimize their cost risk for each project, including site cost, development, and targeted incentives, especially in the early years.

John Ruggieri reviewed the prevailing trends and market conditions. He reported that the economy appears to be stabilizing, which is good news. A year ago most people were still uncertain where the bottom was going to be. Some people remain pessimistic, although noting that unemployment has not appreciably fallen and the looming federal and state deficits could detrimentally impact the economy. From a retail standpoint, vacancies have stabilized at about 12.3%, versus 12.2% last quarter. Rents are down this year from \$17.44 per square foot, to \$15.71 per square foot, but that too is beginning to stabilize. Big box vacancies rose from 132 last year to 302 currently, though there was only one in Avondale last year. There are no new speculative buildings on the horizon. Office vacancies are at 26%, an all time high. Rents are down to \$22.50 per square foot from \$24.50. Industrial vacancies decreased from 16.5% to 15.5% in the last year. Prices have stabilized at about .50 cents per square foot. New construction is approximately 50% of what it was the previous year.

The worst is over for the multi-family market. When the single-family market declined, everything declined. As a result of S.B. 1070, population declined in B and C class apartment buildings. Class A buildings were also affected, but are now starting to recover. Financing is available now within the multi-family market. The cost of money for building new apartment buildings has dropped considerably over the past few months from 6.5% two months ago to 5.1% in the present. Institutions are anticipating growth in this market, which is good news for Avondale. Hospitality has been stabilizing over the past year and some hoteliers are beginning to report revenue growth. The capital markets are starting to see the introduction of new debt in the hospitality market. Avondale is benefiting from the halo effect in Phoenix sports and tourism.

Mr. Ruggieri reviewed capital markets. He said the commercial credit market is nonexistent and the private equity and debt markets are very selective. Banks are not lending money, but private investors are moving in. Commercial mortgage-backed securities are rising and they are issuing new debt, which provides liquidity. He explained that capitalization rates

describe what an institutional investor expects as a return on their investment. These have been stable now for the last two years. The federal monetary policy has kept cap rates down. This means that recovery could happen fairly quickly, as long as there is some job growth.

Avondale has to take a long-term view of the megatrends. The U.S. population has grown by 100 million people since 1970, and is expected to grow by another 150 million over the next 40 years. People are attracted to the affordability of the Phoenix metro area and about 40% of the area's growth will occur in the West Valley, mostly along I-10 and the established corridors. The City Center project area is well positioned over the long term to take advantage of that growth. Baby boomers are living and working longer. Households are shrinking, as families are having fewer children. The cost of living expenses will continue to increase, especially in the area of transportation. Currently the U.S. has an oil supply in excess of demand, which keeps prices low. This will change soon; once it does, the cost of living will increase significantly. This will have an impact on how and where Avondale develops, and on the importance of access to alternate transportation modes. Light rail and bus rapid transit are very important to Avondale. Infrastructure decline is occurring all over the U.S. As federal and state budgets tighten up, the amount of money available for big projects will dry up. Environmental mandates at the federal level are getting stricter, which impacts the cost of development. The future will see lower rates of home ownership, smaller houses, more communal living spaces, and a higher priority on amenities.

The recession has created an upheaval in the real estate development and investment markets. The availability of cheap debt over the past several years has resulted in an overbuilding of retail. Banks are now de-leveraging themselves. Lenders are going back to basics, now requiring proof that an establishment will have traffic. Speculation is out. Lenders want to see tenants that can drive business to a center. Supermarkets and movie theater opportunities are limited. Non-traditional anchor tenants such as ASC are the way to go. Real-estate investment trusts and institutions as well as private equity will likely be the market place for commercial development. City Center, as a mid-block enterprise, has to be mindful of how it is tenanted in the future. Leasing is at about 33% and could soon be 46%, which would mark the break-even point. Anything going forward will add to the reserve.

The City has two exit strategies for City Center: lease and hold for annualized revenue, or sell it at a targeted amount. Cap rates are important because they affect the sales price. It is good that the rates have stabilized. Investors also look at net operating income, cash flow, tenant mix, the strength of tenants, lease terms, location, site conditions, and parking to determine what an investment is worth. An orderly development of Phase II is critical because it would reinforce the commitment that has been made on Phase I. Considering the dire condition of most markets, Phase II should include a multi-family housing component. The money is available, the market is expanding, and it would put buying power on the site. Staff is searching for credible and reliable partners with the experience to advise on this type of development. An SOQ will likely go out in the next few months. It will take about 24 months to design and build Phase II.

Sammi Curless reviewed the City's marketing efforts and provided a retail update. Economic Development will spend a considerable amount of time over the next few years marketing Avondale. ED has become more actively engaged with the Greater Phoenix Economic Council (GPEC), which represents the region nationally and internationally. The team is participating in ambassador events, mission trips, and other sales missions that will provide direct benefit to the city. GPEC provides assistance developing strategies and programs that fit into the goals of the region and the state, particularly in the area of biomedical and life sciences. The team is also engaging with local brokers with properties in Avondale to gain insight and share information on the market. ED Participates in local, regional, and national tradeshows in strategic areas, such as the International Council of Shopping Centers conference in San Diego, which resulted in valuable contacts. There are many cities that go to these conferences, so it is important to tell Avondale's story in a compelling way.

The internet is the primary gateway that people come to learn about a city. With that in mind, there is an effort to update the City's web image and collateral materials. New technology will be utilized to market Avondale in effective ways and to demonstrate engagement with the marketplace. A City Center video and model will be created to show what the development could look like when it is finished.

Ms. Curless said retailers continue to find Avondale an advantageous location even during the economic downturn. A wealth of new restaurants have opened up. A to Z Equipment Rental is now in Avondale. Ultimate Electronics anticipates a start to tenant improvements in August. Trek Bicycles is opening up a store. Camping World and Mazda are re-additions to the auto mall, providing more choices to consumers, good sales tax revenues, and new jobs.

Mr. Davis cited that over the past two years, Avondale has been working with adjacent cities to establish the Greater Maricopa Foreign Trade Zone (GMFTZ). On December 22, 2010, the federal government approved it. Avondale can now begin marketing foreign trade activity. This program was started by the federal government in 1934 and it allows federal taxes and fees to be lowered or eliminated in activated sites for business services. In Arizona, state taxes can also be lowered in foreign trade zones. Businesses realize a cost savings. Avondale has many greenfield sites that only generate about \$300 per ten acres in taxes. Even with a reduced tax status, the GMFTZ would generate more revenue by attracting new businesses that attract foreign trade. A FTZ can also be a catalyst for other development that does not require or have a need for that status. This would provide Avondale with another advantage when it comes to attracting new businesses. The new tax policy would also protect the current revenue associated with businesses. The School District supports the program because they could eventually benefit from the additional revenue. Westmark is administering the implementation of the GMFTZ, and Avondale is conducting its own marketing effort.

Economic Development supports the effort to get the motion picture tax incentive program back in place during this legislative session. The State's enterprise zone is in place, although there are sections of the city that do not fall within the mapping area. It might be updated to overlay the entire state, perhaps as part of a jobs bill. ED staff will meet with the

new Arizona Commerce Authority to coordinate strategies to attract out of state businesses.

Mr. Davis acknowledged that for Avondale to be successful, the Economic Opportunities Fund is critical, especially when it comes to closing deals with companies. Appropriate funding is key to an aggressive branding and marketing effort. He also encouraged Council to consider speeding up the review process for site plan approval by returning it to the administration.

Council Member Weise said he would accept administrative review of site plans because staff has a proven record of doing what is best for the city, and is willing to hold developers accountable to the City's needs. Avondale has to make sure that the process is as streamlined as possible because that makes a big difference in a businesses decision of whether to relocate here or not. Mr. Davis noted that Peoria and Chandler use an administrative site plan approval process. Council Member Wiese felt that Avondale should actively market some of the new infill projects like it has done with ASC. He also noted that the sports center area is only going to support so many restaurants. Other types of businesses have to be brought in to diversify its appeal.

Council Member Weise addressed a recent *West Valley View* article criticizing Avondale's continued investment in Old Town as a waste of money. He felt that Council should not ignore any part of the city. The rehabilitation of buildings, new signage, and investment assistance is equally as important as the sports center. If one part of the city dies, eventually it all will. He inquired about Avondale's economic development effort relative to neighboring communities. Mr. Davis explained that Avondale is doing very well. The current strategies and focus continue to move the city in the right direction. The demonstrated successes have people talking and the community needs to build upon that. Development Services has also been instrumental in helping ED work through the necessary processes to bring projects in.

Council Member Weise suggested that Economic Development be featured on the first page of the City's website, as Goodyear does. He also encouraged Avondale to put the same effort into the process of planning, zoning, development services, and inspections, as it does in landing businesses in the first place.

Council Member Vierhout expressed a desire to see more information on creating and growing jobs from within the community. Everything in the presentation was about bringing jobs in from the outside, but locally created jobs stay within the community. Chandler is exploring the hackerspace concept in its Gangplank facility, a collaborative coworking and event space. This place could be instrumental in growing jobs from within. Mr. Davis responded that ED is meeting with Chandler next week regarding their technology-focused incubator site. Avondale's focus on biomedical and life sciences would be a good concentration for a local incubator site.

Council Member Karlin said she likes the incubator concept. She lamented businesses that started in Avondale, but were lured away to other cities. Avondale should get involved with helping these people so that they stay within the community. Established businesses are attractive but it is just as important to consider the potential of businesses, especially local

ones. She felt that Avondale has some attractive spaces available and they should be marketed. Certain shopping centers could be branded according to themes, such as what is being done with the sports center. This would allow the clustering of businesses that cater to particular markets.

Council Member Karlin noted that Avondale has no vertically mixed-use buildings that feature commercial retail on the first floor with a residential space above. This could potentially be a selling point. She queried whether Avondale ever reconnects with old contacts that ultimately choose not to relocate to Avondale to see whether their situation has changed. Mr. Davis responded that ED absolutely follows up on past leads, especially those that came close to relocating but ultimately pulled away. The Avondale Commerce Center is a distressed property that will be a challenge to improve, but Elisio Felix Drive in the past year has seen a number of successes. Mr. Ruggieri noted that Phase II of City Center calls for integrated vertically mixed-use buildings.

Council Member Karlin recognized that a three person staff has limitations on what they can do, but she asked about Avondale's competitive edge. Mr. Ruggieri agreed that the recession has only increased the competition among cities. Businesses that do not have finances cannot afford to grow. City Center has been successful because Avondale is taking the initiative on professional services and financing. Nobody else is making progress on that front. Mr. Davis added that Avondale is perfectly located. There is stability within the local community and people recognize this.

Vice Mayor McDonald said the economic downturn has created savvier buyers. Avondale can stand apart from the competition by focusing on the sales and the service. He encouraged synergy with current development. He cautioned against trying to fit in too tightly with GPEC's goals. By doing so, Avondale is not distinguishing itself. Mr. Davis clarified that with GPEC Avondale puts its strategies first and foremost. Not many communities are going after the tourism and amateur sports sectors, for example. Everyone is pursuing the same limited sectors that are projected to grow over the next few years, such as health care. This creates a bottleneck. Avondale needs to think creatively to set itself apart. Avondale is also responding to the market by pursuing businesses that want to expand here. Some businesses do not fit Avondale in terms of zoning, location, or the strategic plan, and there is no point in pursuing them.

Vice Mayor McDonald noted that the median age in Avondale is 30. In 20 to 30 years they will be coming into much wealth as the baby boomer generation passes it on. They are going to want things that will keep them in the community. They never experienced the Great Depression and will want to spend that money. He said the focus on multi-family housing would make the City Center diverse. He encouraged ED to begin thinking about Avondale's role in a greater future megalopolis that could compete on a global level. While Avondale is currently a landlord in City Center, he would like to see the City refrain from using that cash flow to multi-layer similar projects. It would be better to develop a great product, let the economy improve, and use the sales proceeds to develop the next capital project. Vice Mayor McDonald noted the importance of getting the word out on the sports center before taller buildings obscure its location in the future.

Council Member Buster asked whether the current budget has an economic opportunities fund. Mr. Davis responded that currently it has about \$300,000, which has been rolled over from previous years. It started at \$500,000 and has been drawn down for different uses over the past two years. Mr. McClendon suggested restoring it to the \$500,000 level. Council Member Buster agreed and also expressed his support for administrative site plan approval. The City needs as many competitive advantages as possible.

Council Member Karlin noted that many cities have successfully used their Sister Cities programs to develop economic ties internationally. The Phoenix area has large Chinese and Indian communities. The leaders of these local communities might serve as a good resource. Mr. Davis agreed. The international community still views the U.S. as a desirable place in which to expand and locate businesses. GPEC has introduced an international business development staff member to target specific countries.

Council Member Vierhout inquired about recent successes in the light industrial and medical sectors. Mr. Davis explained that there have been few leads in light industrial. It is currently a very soft market and Avondale did not land anything in this sector. In the medical sector, Avondale responded to a few research and development projects that are in process. ED talked to landowners in the area around Phoenix Children's Hospital. They love the synergy concept and are working with the City whenever a new lead develops. Several large property owners have a vested interest in seeing that area developed. Council Member Vierhout cautioned that an over-reliance on the restaurant and retail sectors would put Avondale in a precarious spot during the next recession.

Vice Mayor McDonald inquired about factors that make the current site approval process so slow. Mr. Davis cited the frequency of meetings required to sync everything together. Mr. McClendon added that Avondale is as fast as any city when it comes to the zoning process but many cities do not require a separate approval process through Planning and Zoning and the City Council, as Avondale does. This alone can add months to the site plan approval process. There was a time when the community felt the need for this additional level of review. He recommended Council review about whether that need still exists. Vice Mayor McDonald said staff has consistently shown their ability to make good choices in meeting the citizens' needs, but cautioned against taking it too far.

Council Member Wiese questioned the value that Avondale receives from GPEC. They look for big buildings and big sites. Council Member Weise commented that Avondale might do better alone and suggested that the relationship should be re-evaluated.

Mayor Lopez Rogers suggested that GPEC be invited to talk to Council. She said the economic opportunity fund is a valuable tool for Avondale. The Arizona Commerce Authority needs representation from the cities, so it is good that they are going to talk to Avondale. She requested an overview of how other cities approach the administrative review of site plans. It is critical to change brokers' perceptions that Avondale is not a place to do business. There are many opportunities for small business ventures and the Small Business Administration in Washington D.C. would be a good resource.

3) ADJOURNMENT

With no further business before the Council, Council Member Weise moved to adjourn the work session. Council Member Karlin seconded the motion. The motion carried unanimously.

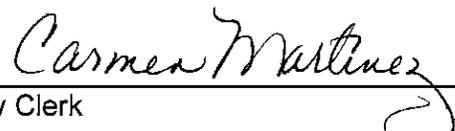
Meeting adjourned at 7:46 p.m.

  
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Mayor Lopez Rogers

  
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Carmen Martinez, CMC  
City Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Session of the Council of the City of Avondale held on the 10th day of January 2011. I further certify that the meeting was duly called and held and that the quorum was present.

  
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City Clerk