



Board of Supervisors Memorandum

July 6, 2021

World View Modification of Lease-Purchase Agreement

Introduction

Pima County and World View Enterprises entered into a lease-purchase agreement in 2016 under which World View leases from the County a headquarters and manufacturing facility at the County's Aerospace Research Campus. The rent under the agreement was structured to fully compensate the County for its investment in the facility and the 12-acre parcel of land on which it is located. It provides that, at the end of the 20-year term, after paying almost \$25 million in rent, World View can take title to the property for a nominal payment--\$10.00. The Board entered into the lease-purchase agreement as an economic-development activity under A.R.S. § 11-254.04.

COVID-19 Pandemic Impact on World View

World View is the owner of a proprietary high-altitude balloon technology that it was in the process of refining and commercializing when the pandemic struck last year, interrupting its capital fundraising and forcing it to lay off almost all of its employees. The County, as it did for many of its other tenants—indeed, as all landlords have had to do over the last year—made rent accommodations to help World View stay in business and weather the pandemic.

World View is now in the process of finalizing some reorganization and capital-fundraising efforts and is quickly ramping its workforce back up, hoping to employ 100 full-time employees by year end, with average annual wages far in excess of the community's median level. To assist it in that effort, and create a clear path forward, County staff have been working with World View to restructure the rent due under the lease-purchase agreement for the remainder of the term.

New Rent Structure and Option Price

That proposed restructuring is set forth in the Second Amendment being submitted to the Board of Supervisors for approval at its July 6 meeting. Unlike under the original agreement, which increased the rent every 5 years, the revised agreement increases the rent gradually over the remainder of the term, but keeps it relatively low for the next 12 months to help ensure that World View's resources can be focused on its employment efforts.

The Goldwater Institute, a few months after the Board of Supervisors approved the lease-purchase agreement in January 2016, sued the County, challenging the legality of the agreement. That litigation has concluded in the trial court, which a few months ago entered final judgment in favor of the County. The County has prevailed in two previous appeals in the case. The final issue—whether the agreement violated the Arizona Constitution's "Gift Clause," which prohibits giving away public funds to private business entities—is currently before the Arizona Court of Appeals.

The revised rent structure is designed to ensure that the County's return is every bit as high as under the original lease and that it is therefore covered by the trial court's Gift-Clause

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **World View Modification of Lease-Purchase Agreement**
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ruling. Over the entire term of the lease, taking into account what World View has already paid and what will be due under the amended lease for the remainder of the term, World View will pay slightly less total rent—approximately \$23.4 million rather than \$24.9 million. But the price for the purchase option at the end of the term will now be \$5 million. If World View exercises the option, then the “present value” of World View’s total payments, when calculated as of the lease-commencement date, is actually a little *higher* than it would have been under the original lease. If World View does not exercise the purchase option, then the County will still own the building and will have received approximately 90 percent of market-value rent over the term.¹

World View has also agreed to give up a right of first refusal that it currently holds with respect to a 6-acre parcel of County-owned property adjacent to the leased property.

Employment & Salary Requirements

The Amendment also restates the employment and salary levels set out in the lease to reflect the reality of the current circumstances. It requires World View to grow to 125 full-time employees in 2022, a number that increases gradually each year thereafter until the original final goal of 400 employees is reached. The required minimum average salaries have been increased. The resulting total payroll actually surpasses that required under the original lease, starting in 2024.

Recommendation

The proposed Second Amendment to Lease Purchase Agreement restructures World View’s rent in a manner that assists the company with its post-pandemic “reset,” while providing taxpayers the same return as the current lease structure, therefore I recommend approval.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/mp – June 29, 2021

Attachment

c: Jan Leshar, Chief Deputy County Administrator
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer,
Health and Community Service

¹ This is based on an appraisal of the market-value rent, as of the lease-commencement date, that was obtained during the litigation.

Pima County Department of Facilities Management

Lease: 1805 E. Aerospace Parkway

Tenant: World View Enterprises, Inc.

Contract No.: CTN FM 16*145

Contract Amendment No.: 02

Orig. Contract Term: 12/23/2016 – 12/22/2036
Termination Date Prior Amendment: N/A
Termination Date This Amendment: 12/31/2036

Orig. Amount: \$23,625,000.00 Rev
Prior Amendments Amount: \$1,225,000.00 Rev.
This Amendment Amount: (\$1,438,333.32 Rev.)
Revised Total Amount: \$23,411,666.68 Rev.

SECOND AMENDMENT

The parties agree to amend the above-referenced lease agreement as follows:

1. Background and Purpose.

- 1.1.** County and World View Enterprises, Inc. ("**World View**") previously entered into the above referenced lease agreement, which was effective as of January 19, 2016 (the "**Original Agreement**" and, as revised, the "**Lease Agreement**"). Capitalized terms used in this Second Amendment that are not defined have the meanings assigned by the Lease Agreement.
- 1.2.** After construction of the facility to be leased was completed, World View and County amended the Original Agreement to establish the Commencement Date of the lease's Term as well as the final square footage and rent amount.
- 1.3.** The Lease Agreement requires World View to pay a total of \$24,850,000 in rent over its 20-year term.
- 1.4.** County and World View also entered into an agreement (the "**Purchase Option**"), dated January 19, 2016, under which World View has the right to purchase the improved Building Parcel for a nominal amount after paying all sums due over the Term of the Lease Agreement. The parties recorded a Memorandum of Option Agreement in the Office of the Pima County Recorder, sequence no. 20160970576.
- 1.5.** Pursuant to the Lease Agreement, County and World View also entered into an agreement (the "**Right of First Refusal**"), dated January 19, 2016, encumbering an adjacent parcel of County-owned property. The parties recorded a Memorandum of Right of First Refusal in the Office of the Pima County Recorder, sequence no. 20160970577.
- 1.6.** World View developed and has been in the process of commercializing a proprietary high-altitude balloon technology.

- 1.7. The Covid-19 pandemic that struck in the first quarter of 2020 disrupted World View's progress and forced it to lay off most of its employees. It paid approximately 1/3 of its rent for 2020.
 - 1.8. World View is in the process of ramping its work back up and anticipates being able to employ 100 people by the end of 2021. In order to facilitate that, World View has asked to restructure its lease payments to keep them lower in the near term.
 - 1.9. The Board of Supervisors finds that facilitating World View's pandemic recovery will enhance the economic welfare of the County as a whole. And, by restructuring the rent over the remainder of the Term, and adjusting the Option Price at the end of the Term, as set forth in this Amendment, Pima County's economic return is the same as under the Original Agreement.
- 2. **Term.** The Term of the Lease Agreement is, for administrative convenience, extended from December 23, 2036, to December 31, 2036.
 - 3. **Employment Targets.** The Employment Targets set forth in Section 4, and Exhibit E, of the Original Agreement are adjusted as follows:

Year	Required Number of FTE Employees	Required Average Annual Salary
2022	125	\$60,000
2023 – 2032	25 more than the year before	\$65,000
2033 – 2036	400	\$70,000

- 4. **Rent.** World View will pay Rent for the remainder of the Term as follows:
 - 4.1. From the effective date of this Second Amendment through September 2021: \$25,000 per month.
 - 4.2. October 2021 through June 2022: \$75,000 per month.
 - 4.3. July 2022 through December 2022: \$80,000 per month.
 - 4.4. The annual rent for 2023 will be \$1,020,000 (\$85,000 per month). Every year thereafter—2024 through the end of the term—the annual rent will be \$60,000 more than the year before.
 - 4.5. In addition to restructuring the rent due under the Original Agreement, this replaces all prior agreements regarding payment of back due amounts.
- 5. **Purchase Option.** The Purchase Option is amended as follows:
 - 5.1. The First Option Term and First Option Price (as defined in the Purchase Option) are hereby eliminated.
 - 5.2. The Second Option Price is \$5,000,000.

6. Right of First Refusal. The Right of First Refusal is hereby terminated. The parties will, within 30 days after the Board's approval of this Amendment, execute and record a memorandum providing notice of the termination.

All other provisions of the Lease Agreement not specifically changed by this Amendment remain in effect and are binding upon the parties.

PIMA COUNTY

WORLD VIEW ENTERPRISES, INC.

Sharon Bronson
Chair, Board of Supervisors

Authorized Officer Signature

Date

Printed Name and Title

Date

ATTEST

Julie Casteneda
Clerk of the Board

Date

APPROVED AS TO FORM

APPROVED AS TO CONTENT

Victoria Buchinger

Deputy County Attorney

Lisa Josker, Facilities Management Director

Victoria Buchinger
Print DCA Name

Date

June 25, 2021
Date

6. **Right of First Refusal.** The Right of First Refusal is hereby terminated. The parties will, within 30 days after the Board's approval of this Amendment, execute and record a memorandum providing notice of the termination.

All other provisions of the Lease Agreement not specifically changed by this Amendment remain in effect and are binding upon the parties.

PIMA COUNTY

WORLD VIEW ENTERPRISES, INC.

Sharon Bronson
Chair, Board of Supervisors

Authorized Officer Signature

Date

Printed Name and Title

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ATTEST

Julie Casteneda
Clerk of the Board

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APPROVED AS TO FORM

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Deputy County Attorney



Lisa Josker, Facilities Management Director

Print DCA Name



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