

Exhibit B



Southwest RDA Determination of Blight Executive Summary

City of Mesa

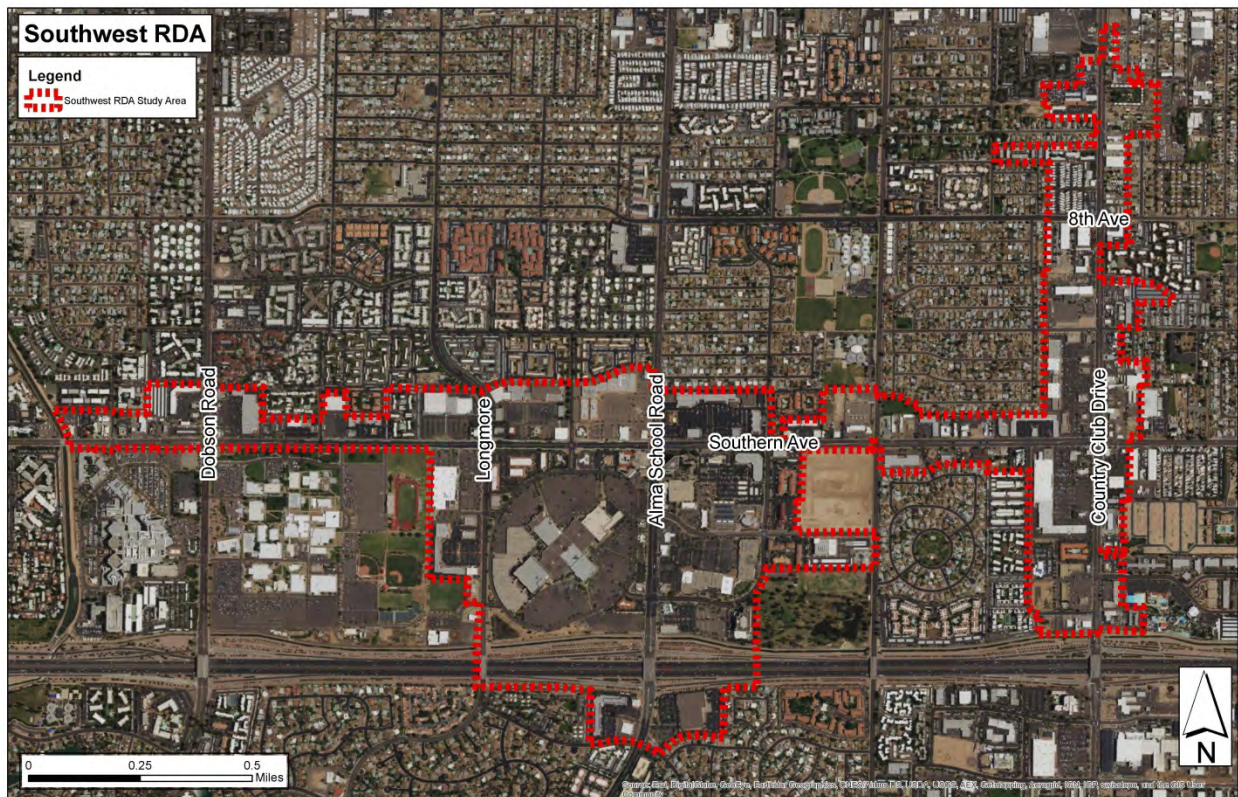
July 2016

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Background

The Southwest RDA runs north and south along Country Club Drive between Broadway and US 60, and east and west along Southern Ave between the Tempe Canal and Country Club Drive. The Southwest RDA abuts the existing Town Center RDA, which is located to the northeast. The study area also includes the shopping centers located just south of US 60 at the intersection of Alma School Road and Isabella Drive. The Southwest RDA consists of 616 acres, 483 of which are included on 281 parcels within the area, and the remaining 133 acres are road acres.



Determination of Blight

The determination of blight study and analysis was based on the nine blight statutory factors listed in Arizona Statute 36-1471, which states:

"Blighted area" means an area, other than a slum area, where sound municipal growth and the provision of housing accommodations is substantially retarded or arrested in a predominance of the properties by any of the following:

1. *Dominance of defective or inadequate street layout*
2. *Faulty lot layout in relation to size, adequacy, accessibility or usefulness*
3. *Unsanitary or unsafe conditions*
4. *Deterioration of site or other improvements*
5. *Diversity of ownership (by block)*
6. *Tax or special assessment delinquency exceeding the fair value of the land*
7. *Defective or unusual conditions of title*
8. *Improper or obsolete subdivision platting*

9. Existence of conditions that endanger life or property by fire and other causes

An on-site survey of each of the parcels was conducted by City staff between May 17 and May 26, 2016. Additional data was collected through various sources, including the Maricopa County Assessor's Office, Maricopa County Recorder's Office, and the City of Mesa.

Based on the statutory blight factors, the on-site survey, and the subsequent data collected, 147 of the 281 parcels were determined to have at least 1 blight factor, equaling 52 percent of parcels in the area, and 62 percent of parcel acreage in the area (see Table 1). The determination of blight for inadequate street layout, unsanitary or unsafe conditions, deterioration of site or other improvements, and conditions that endanger life or property was subjective for each parcel, based on the severity of each case.

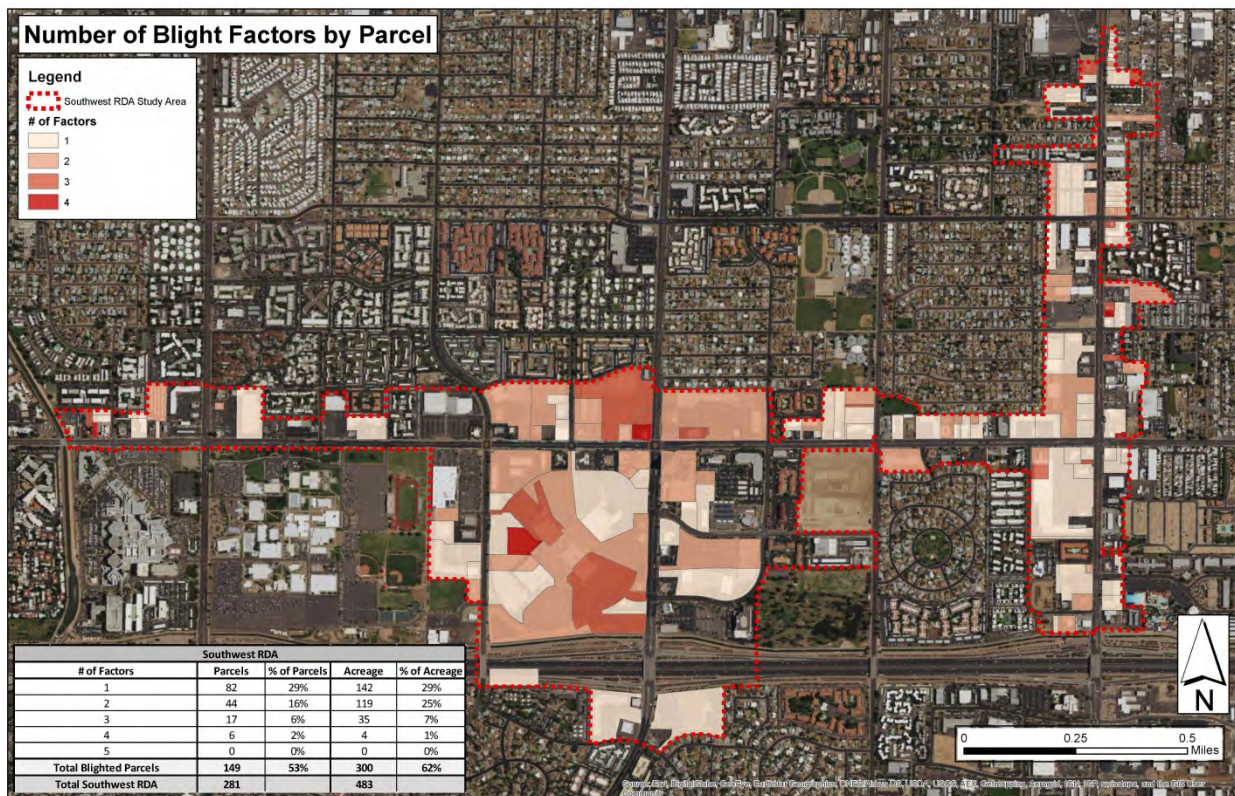
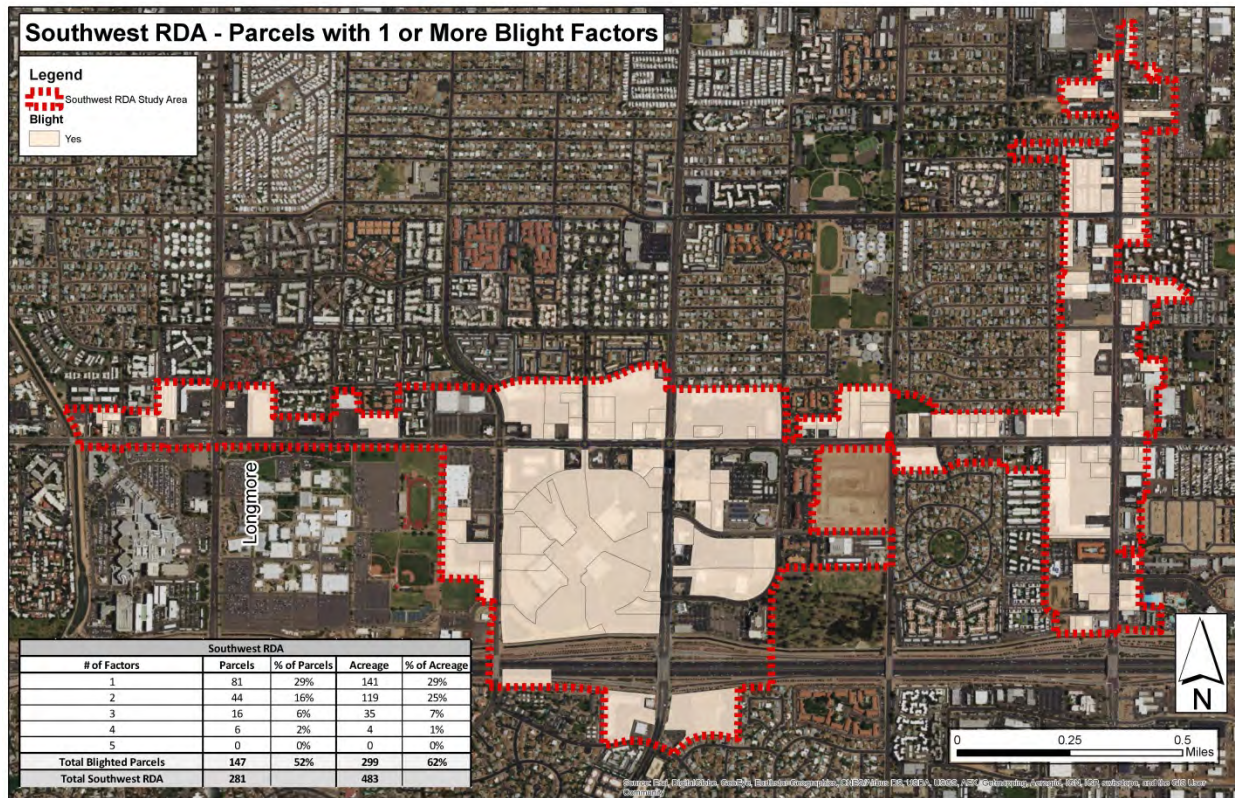
Table 1: Number of Parcels by Number of Blight Factors

# of Factors	Parcels	% of Parcels	Acres	% of Acres
1	81	29%	142	29%
2	44	16%	119	25%
3	16	6%	35	7%
4	6	2%	4	1%
Parcels w/ at least 1 Blight Factor	147	52%	299	62%
Total Southwest RDA	281		483	

The most common blight factor was the deterioration of site or other improvements (22 percent of parcels, 44 percent of acres). This is due, in large part, to the high vacancy rates in the Southwest Area. Other major blight factors is improper or obsolete subdivision platting (23 percent of parcels, 7 percent of acres), the dominance of defective or inadequate street layout (15 percent of parcels, 13 percent of acres), and diversity of ownership (9 percent of parcels, 21 percent of acres).

Table 2: Number of Parcels by Blight Factor

	Factor	Parcels	% of Parcels	Acres	% of Acres
1	Dominance of defective or inadequate street layout	43	15%	64	13%
2	Faulty lot layout in relation to size, adequacy, accessibility, or usefulness	15	5%	4	1%
3	Unsanitary or unsafe conditions	11	4%	37	8%
4	Deterioration of site or other improvements	63	22%	215	44%
5	Diversity of ownership	25	9%	102	21%
6	Tax or special assessment delinquency exceeding the fair market value of the land	0	0%	0	0%
7	Defective or unusual conditions of title	0	0%	0	0%
8	Improper or obsolete subdivision platting	64	23%	36	7%
9	Existence of conditions that endanger life or property by fire and other causes	20	7%	44	9%
	Total Southwest RDA	281		483	



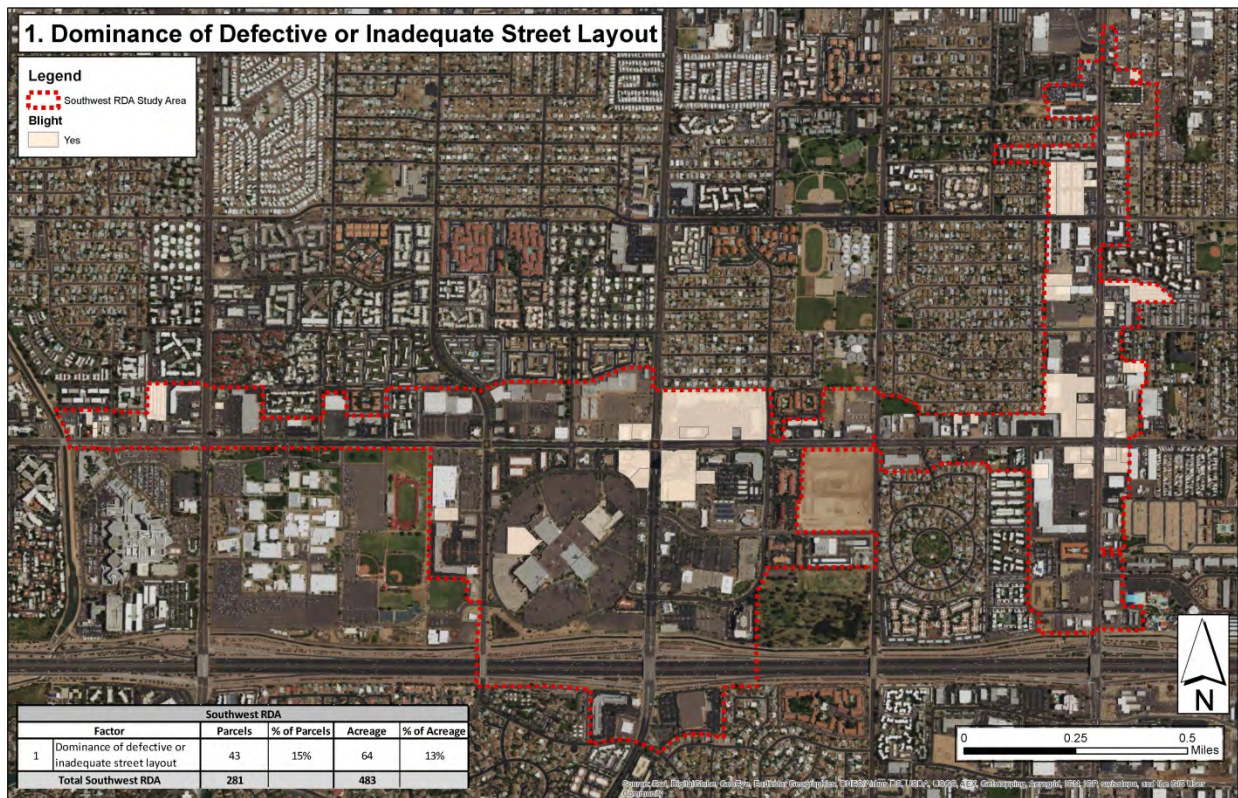
1. Dominance of Defective or Inadequate Street Layout

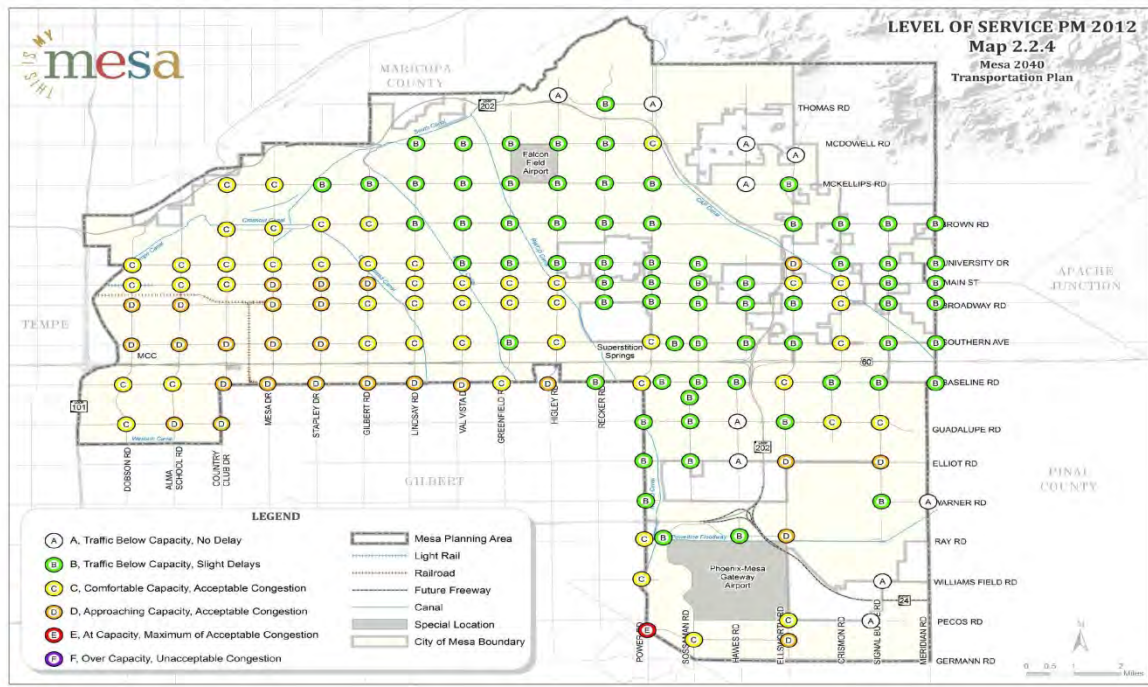
Table 3: Dominance of Defective or Inadequate Street Layout

	Factor	Parcels	% of Parcels	Acres	% of Acres
1	Dominance of defective or inadequate street layout	43	15%	64	13%

Indicators used to identify blight:

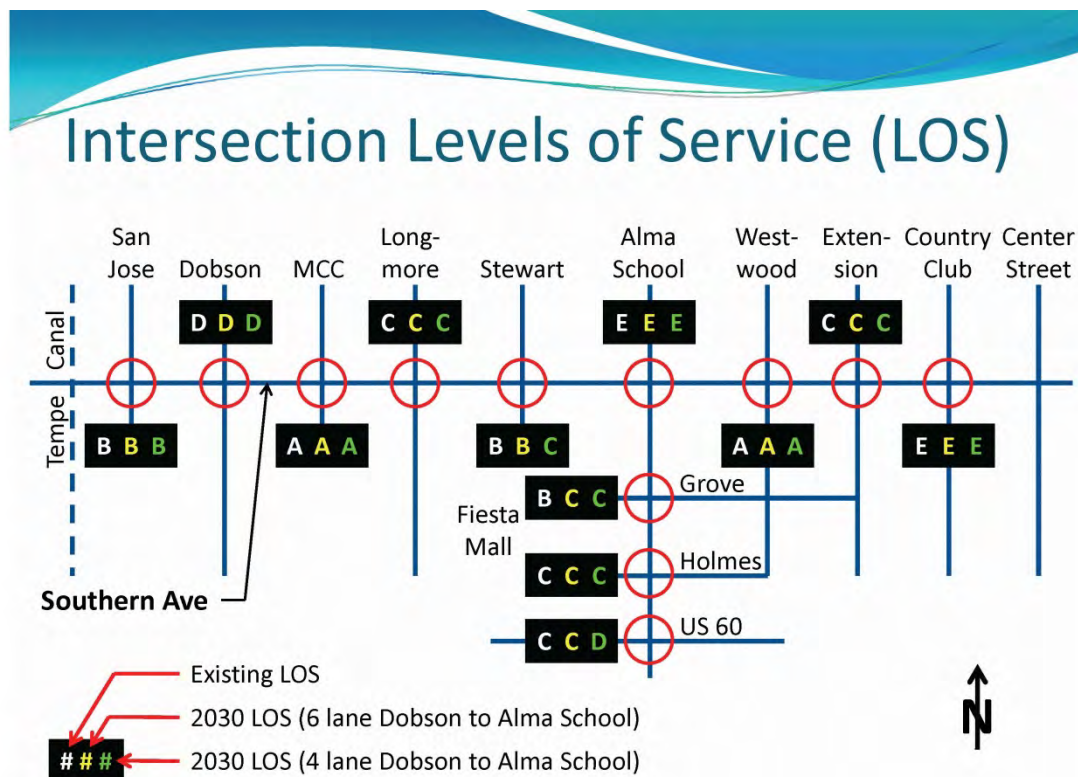
- Access to parcel is impaired: Physical obstructions prohibiting access to parcels, including but not limited to walls, fences, or abandoned vehicles
- Inadequate frontage: Parcels without street frontage were indicated as blighted due to the lack of street layout
- Street Traffic Conditions LOS: Parcels adjacent to roads with a LOS E, as indicated by the Fiesta District Implementation Plan (2011) and the Mesa 2040 Transportation Master Plan (2012) (see figures on the next page)





Mesa 2040 Transportation Master Plan

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Source: Fiesta District Implementation Plan, 2011

2. Faulty Lot Layout in Relation to Size, Adequacy, Accessibility or Usefulness

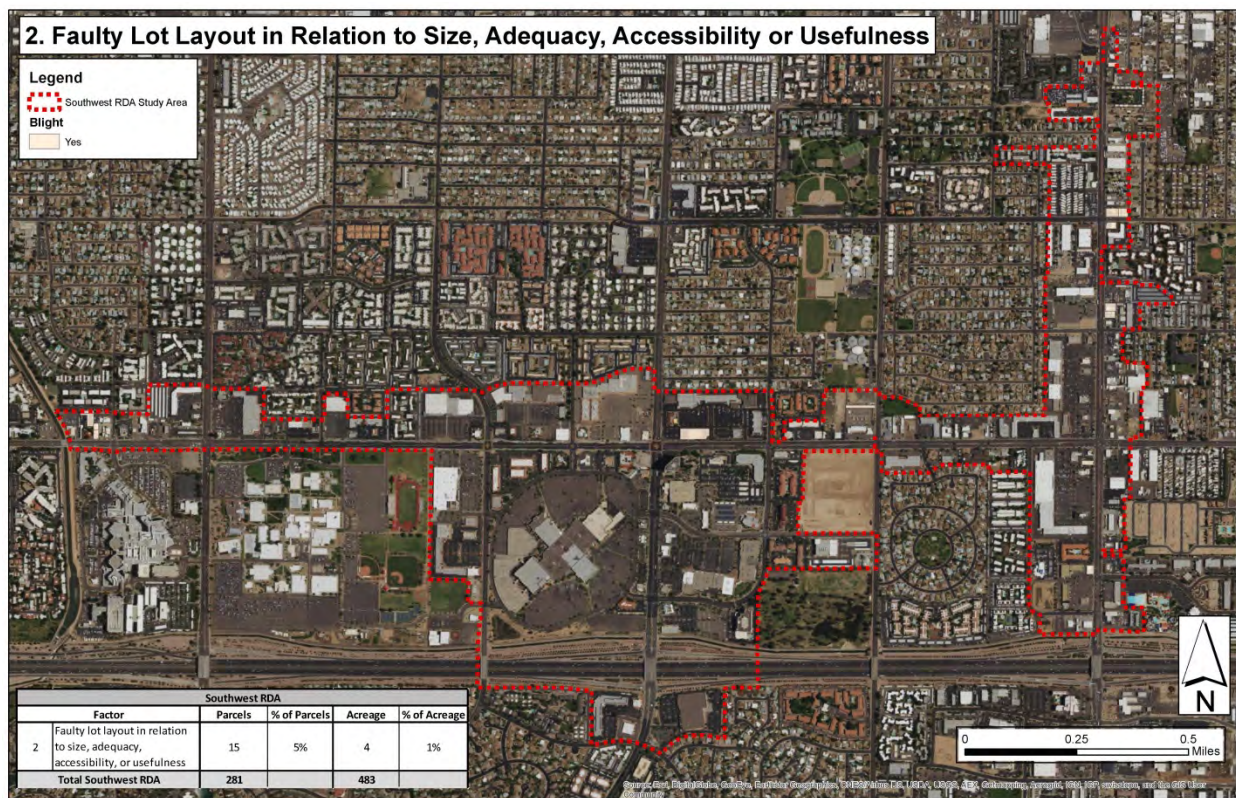
Table 4: Faulty Lot Layout in Relation to Size, Adequacy, Accessibility or Usefulness

	Factor	Parcels	% of Parcels	Acres	% of Acres
2	Faulty lot layout in relation to size, adequacy, accessibility, or usefulness	15	5%	4	1%

Indicators used to identify blight:

- Faulty lot layout
- Lack of access
- Inadequate lot size

The blight indicators were determined by a list of challenged parcels due to lot layout, access, or size, provided by the City of Mesa, as well as visual surveys of each parcel. Parcels that had faulty layouts but had the same owner as an adjacent parcel that had street access were not marked as blighted.



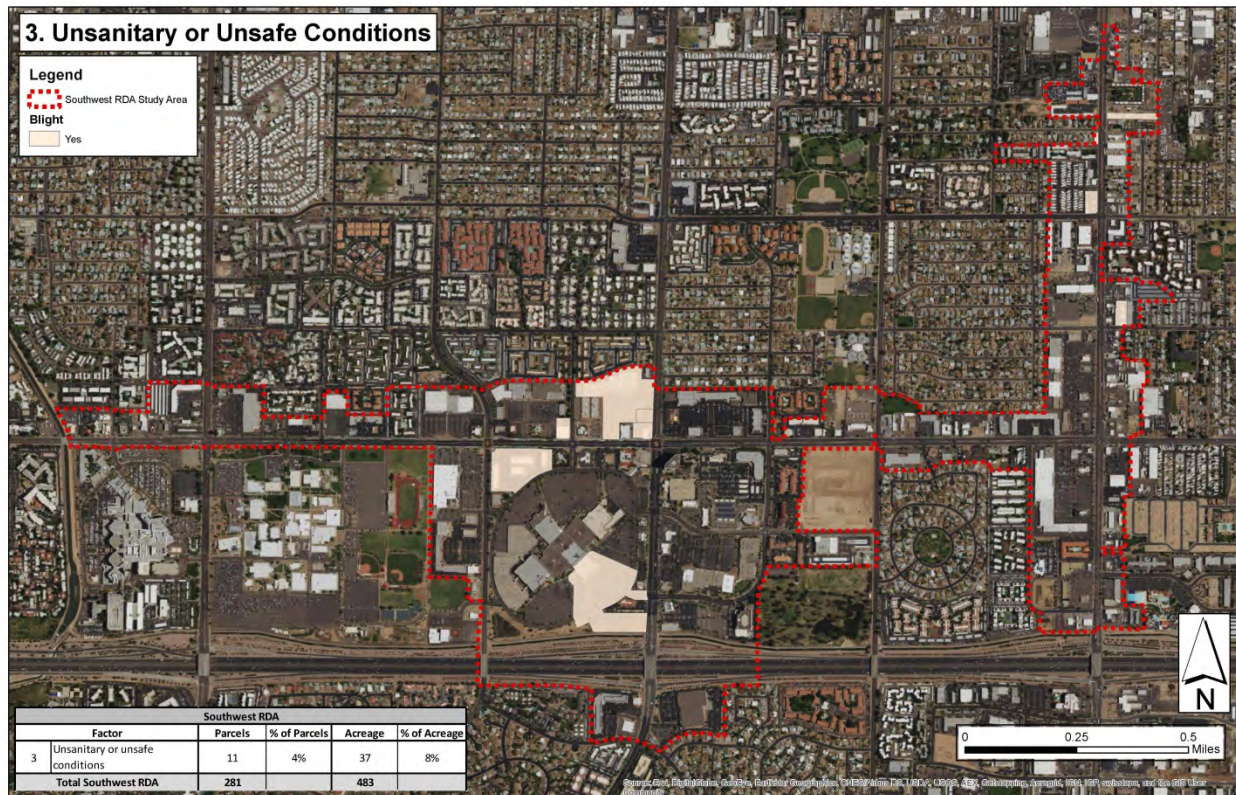
3. Unsanitary or Unsafe Conditions

Table 5: Unsanitary or Unsafe Conditions

	Factor	Parcels	% of Parcels	Acres	% of Acres
3	Unsanitary or unsafe conditions	11	4%	37	8%

Indicators used to identify blight:

- Broken fence
- Solid waste accumulation
- Uneven or grossly cracked sidewalk or driveway
- Broken glass
- Standing water
- Abandoned vehicles
- Visible mold/insects
- Construction materials
- Vehicles on unpaved lot
- Paint cans
- Substantial debris
- Gas/oil cans/drums
- Stained pavement
- Above ground storage tanks



4. Deterioration of Site or Other Improvements

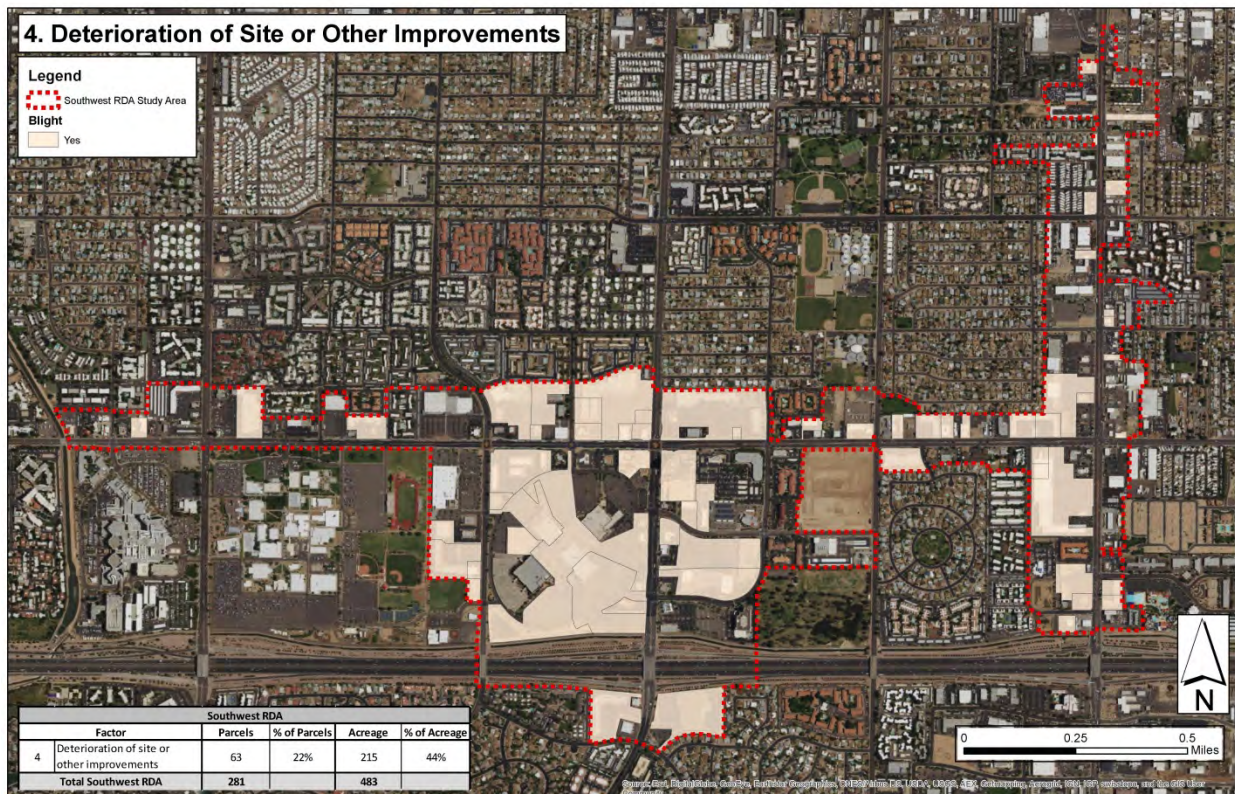
Table 6: Deterioration of Site or Other Improvements

	Factor	Parcels	% of Parcels	Acres	% of Acres
4	Deterioration of site or other improvements	63	22%	215	44%

Indicators used to identify blight:

- Dilapidated gutters
- Cracked or peeling paint
- Roof in need of repair
- Broken windows
- Broken fence
- Foundation damage
- Uneven or grossly cracked sidewalk or driveway
- Exterior rot
- Vacancy
- Obsolescent use

Building vacancy is a major contributing factor to blight in the area. According to the City of Mesa, the current commercial vacancy rate in the City is 12.1 percent. In addition to parcels that indicated other factors of deterioration, any parcel with a vacancy rate higher than 15 percent, which is 25 percent more than that of the City, was indicated as blight.



In addition to the visual blight factors relative to unsanitary and unsafe conditions, as well as the deterioration of site or other improvements, code violations in the study area were compared to code violations near the Superstition Springs Center. In Q1 2016, the study area had 27 more code violations per square mile than the Superstition Springs area.

Table 7: Code Violations per Square Mile

Area	Code Violations per Square Mile
Southwest RDA	56
Superstition Springs	29
<i>Difference</i>	<i>27</i>

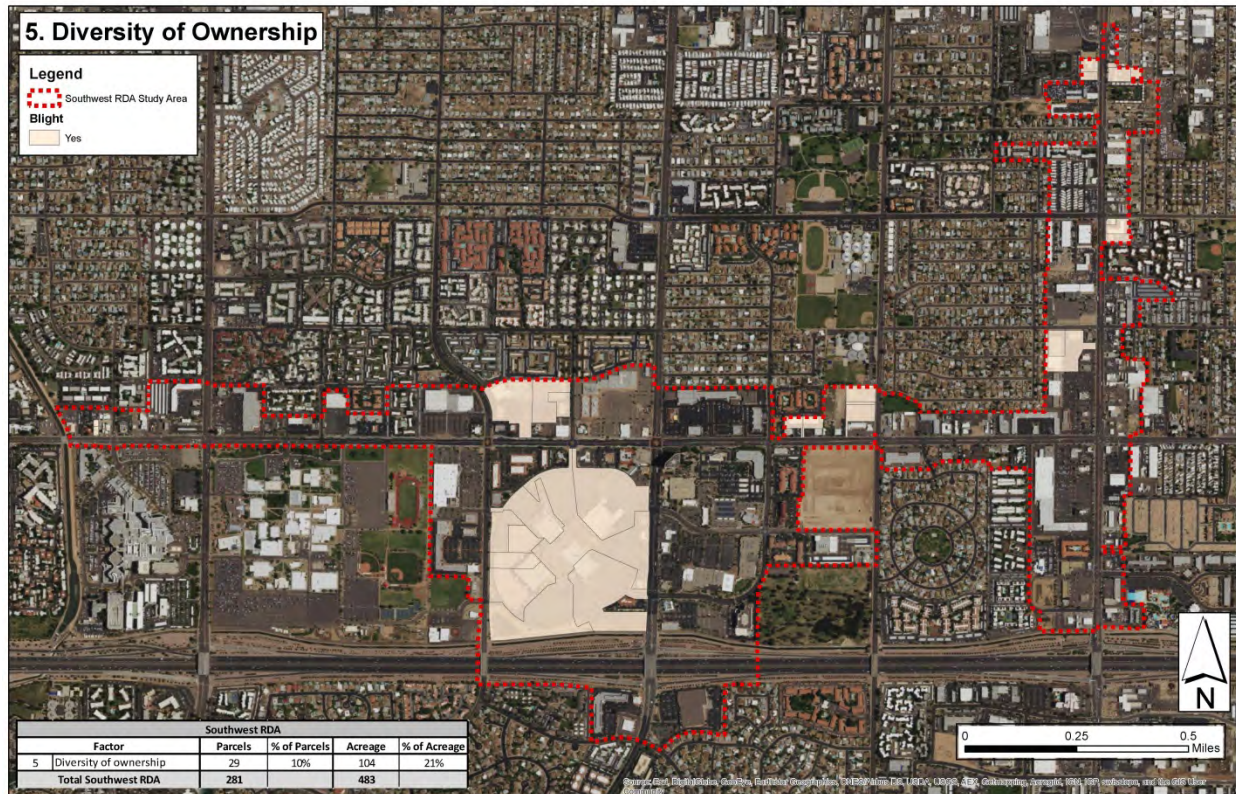
5. Diversity of Ownership

Table 8: Diversity of Ownership

	Factor	Parcels	% of Parcels	Acres	% of Acres
5	Diversity of ownership	25	9%	102	21%

Indicators used to identify blight:

- Buildings that were split among more than one parcel were indicated as blighted because it would be more difficult to redevelop buildings that have multiple owners. Most of these cases were shopping complexes or strip malls.



6. Tax or Special Assessment Delinquency Exceeding Fair Value of the Land

Table 9: Tax or Special Assessment Delinquency Exceeding Fair Value of the Land

	Factor	Parcels	% of Parcels	Acres	% of Acres
6	Tax or special assessment delinquency exceeding the fair market value of the land	0	0%	0	0%

Indicators used to identify blight:

- The Maricopa County Treasurer's Office database was used to determine if parcels had tax or special assessment delinquencies. 24 parcels had tax delinquencies, but none of them exceeded the market value of the land.

7. Defective or Unusual Conditions of Title

Table 10: Defective or Unusual Conditions of Title

	Factor	Parcels	% of Parcels	Acres	% of Acres
7	Defective or unusual conditions of title	0	0%	0	0%

Indicators used to identify blight:

- The Maricopa County Recorder's Office database was used to determine if parcels had active defective or unusual conditions of title recorded in the last two years, including liens, mortgage encumbrances, judgments, or other title defects. None of the parcels in the area had active defective or unusual conditions of title recorded in the last two years.

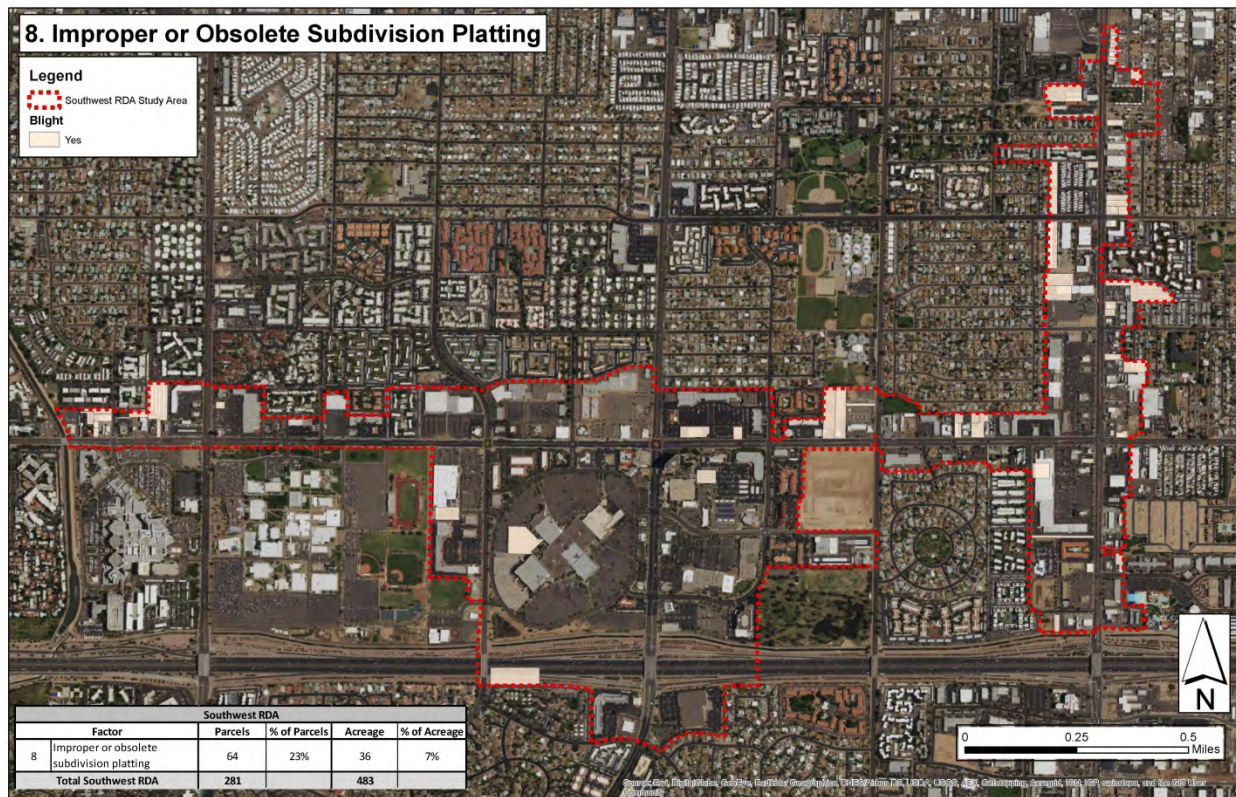
8. Improper or Obsolete Subdivision Platting

Table 11: Improper or Obsolete Subdivision Platting

	Factor	Parcels	% of Parcels	Acres	% of Acres
8	Improper or obsolete subdivision platting	64	23%	36	7%

Indicators used to identify blight:

- Blight was determined by a list of challenged parcels due to lot layout, access, or size, provided by the City of Mesa, as well as visual surveys of each parcel. Parcels with improper or obsolete subdivision platting are likely a result of lot line adjustments, subdivisions, or other changes to parcel boundaries by property owners. Unlike blight factor 2 (Faulty Lot Layout in Relation to Size, Adequacy, Accessibility or Usefulness), parcels that had improper or obsolete subdivision platting were marked as blight, regardless of the ownership of adjacent parcels.



9. Existence of Conditions that Endanger Life or Property by Fire and Other Causes

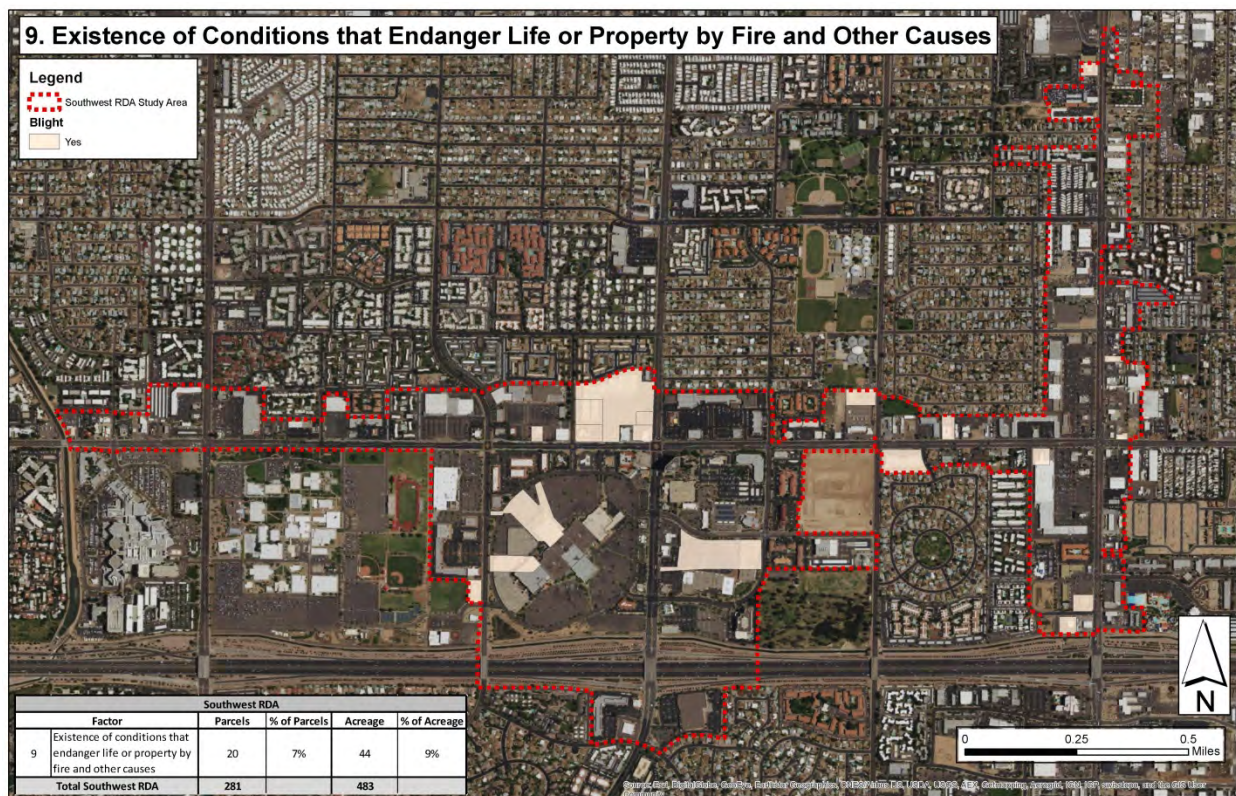
Table 12: Existence of Conditions that Endanger Life or Property by Fire and Other Causes

	Factor	Parcels	% of Parcels	Acres	% of Acres
9	Existence of conditions that endanger life or property by fire and other causes	20	7%	44	9%

Indicators used to identify blight:

- Abandoned vehicles
- Building is leaning
- Materials stored on ground
- No sidewalk
- No curb and gutter
- Stair/stair railings broken/non-existent
- Graffiti
- Tires, pallets, cans, etc.
- Lack of water & sewer availability and backflows
- Boarded building
- Excessive junk
- Unpaved driveway/parking lot
- High weeds/grass
- Blocked entrances
- Inadequate provision for light, air ventilation, sanitation or open space
- Overcrowding
- Crime Rates (higher than a comparable area)

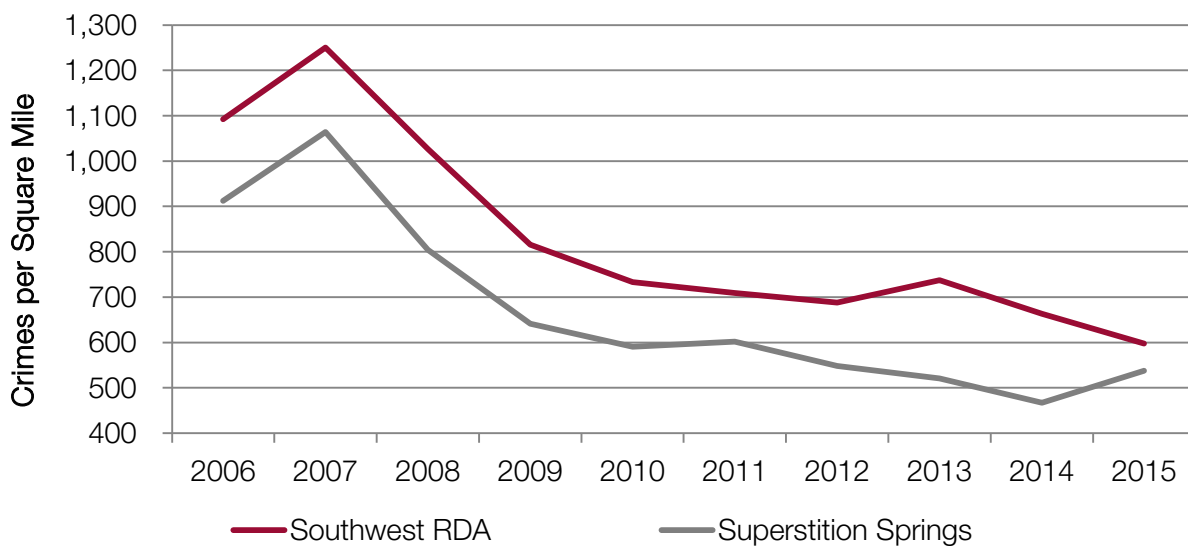
According to the City of Mesa Fire and Medical Department, buildings with 100 percent vacancy pose a special fire threat. Therefore, these parcels were listed as blighted.



In addition to visual blight factors relative to conditions that endanger life or property, crime rates in the study area were compared to the crime rates near the Superstition Springs Center. While crime rates in both of these areas have decreased since 2006, the Southwest area has had, on average, 162 more crimes per square mile than Superstition Springs.

Table 12: Crimes per Square Mile by Year

Area	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	Avg.
Southwest RDA	1,092	1,250	1,027	816	733	709	688	737	663	598	8,314	831
Superstition Springs	913	1,064	804	642	591	602	548	521	468	538	6,689	669
<i>Difference</i>	<i>180</i>	<i>186</i>	<i>223</i>	<i>174</i>	<i>142</i>	<i>107</i>	<i>140</i>	<i>216</i>	<i>196</i>	<i>60</i>	<i>1,624</i>	<i>162</i>



Blight “Predominance” Definitions– Intermountain/Arizona Statutes and Cases

In the landmark case *Kelo v. City of New London* (2005) the United States Supreme Court upheld the ability of municipalities to use eminent domain to further economic development. As a result of the public outcry following this decision, 44 states overhauled their blight statutes and public watchdog groups gave heightened scrutiny to redevelopment actions. The federal courts declined to make official definitions of blight, deferring to states to write their own code. The focus of this summary is to provide context to the meaning behind the language and precedence of Arizona’s legal requirements regarding a “predominance” of these conditions. Outlined below are summaries of statutes in the intermountain region and cases that attempt to provide clarity to Arizona’s vague statute. While much of the language of these statutes state by state is similar given the similar time frames (see the report by the National Association of Realtors¹ for a full national summary of statute language following *Kelo*), the language for many statutes still defer to municipalities and redevelopment agencies to make the final determination of blight within a project area.

Arizona

Arizona’s law defers to local municipalities to make the determination saying only a predominance of certain factors, but gives the power to the governing body to determine blight by a 2/3 majority.² The following are recent redevelopment projects that determined blight in Arizona. The threshold for “predominance” varies greatly and there appears to be no legal action brought against these projects.

- Phoenix, North Mountain Redevelopment Study Area (2013): 37% of parcels had one or more violations. Six of the nine blight indicators were found throughout the study area. The study found this to exceed the statutory requirements to designate it as a redevelopment area pursuant to ARS 36-1471, a determination upheld by City staff and City Council.
- Phoenix, Rio Salado Redevelopment Study Area (2014): This study, while it did survey the project area, did not note the final percentage of blighted parcels. It simply notes that more than one condition exists; only specifically noting that deterioration of site was found in a majority of parcels.
- Flagstaff Redevelopment Area (1992): Blight conditions on the Redevelopment Area were declared by the City Council based on an area survey by consultants. Six characteristics of blight were found. Four of those are generally described (unhealthful conditions, obsolete layout, land ownership, and incompatible land uses). Additionally, unsafe conditions were found to impact approximately 45 percent of the Redevelopment Area and 65 percent of the existing buildings were found with structural deterioration. The City website currently notes that this plan is undergoing a new review with compatibility of the current law.
- Tempe, Apache Boulevard Redevelopment Plan (2001): This study generally describes the conditions in the area, but does not explain the quantity of the conditions present. However, the City Council resolution indicates they declare the area a redevelopment area based on the requirements of the code and the results of the study.

¹ http://www.ct.gov/pro/lib/pro/documents/urban_blight_2007.pdf

² Arizona Code 36-1473

California

Redevelopment agencies were abolished in 2012 by the State. However, prior to this California's blight code was strict in the areas it could be applied, but somewhat vague in its definition of quantity of blight required for determination. Power of blight determination was in the local government's control guided by the code definition of blight. The area had to be predominantly urbanized (which is defined in Section 33031 of the Health and Safety Code as being more than 80 percent urbanized). Blighted area was defined as

"an area in which the combination of conditions set forth...is so prevalent and so substantial that it causes a reduction of, or lack of, property utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community that cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment."

This definition provided agencies quite a bit of latitude in determining blight. The only check on this determination was through lawsuits, but those had to be filed within 60 days of the plan's adoption. As such, much of the definitions of blighted areas went unchecked until the dissolution of redevelopment agencies in 2012.

Colorado

The statute defines a "blighted area" as one with the presence of at least four of the conditions of blight listed (five conditions if eminent domain is to be used), but does not provide a specific threshold. This determination is given to the local governing body. In addition, if the property owners and the tenants have no objection to the inclusion of a property in an urban renewal area, then "blighted area" also means that only one condition of blight needs to be present. If this property is included in the urban renewal area under this condition, no property owner rights are waived in connection with condemnation.

The code does not specify at all the quantity of conditions,³ only that 4-5 are present (unless given property owner approval) and that the city council determines if the presence of these factors is significant enough to justify an urban renewal area. They must find that the plan area boundaries are drawn and narrowly as feasibly to accomplish the objectives, it must conform to the comprehensive plan, and be specific in plans for land use and projects planned for the area. Once approved by the governing body, the plan is then submitted to the county for another level of approval.

Colorado courts have generally upheld and supported the judgement of municipalities in determining blight, unless gross misconduct is an issue or the intent to eliminate blight is not the primary purpose in the plan. One case stated this support as followed: "The fact that there were not widespread violations of building and health ordinances does not of itself establish arbitrariness on the part of the responsible authorities in the finding that the area was slum and blighted." Another case specifically notes that the statute has placed the responsibility in the hands of the legislative branch:

"Determination of 'blighted area' by council is a legislative question. A city council's determination as to whether an area is blighted, when such determination relates to the

³ <http://www.renewdenver.org/assets/files/3%20-%20Blight%20Study%20Presentation%2011-10-09.pdf>

need for an ordinance, is a legislative question and scope of review by the judiciary is restricted.” Tracy v. City of Boulder, 635 P.2d 907 (Colo. App. 1981).

New Mexico

New Mexico statute has similar language to many other states. Its full definition of a “blighted area” as follows:

“blighted area” means an area within the area of operation other than a slum area that, because of the presence of a substantial number of deteriorated or deteriorating structures, predominance of defective or inadequate street layout, faulty lot layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions, deterioration of site or other improvements, diversity of ownership, tax or special assessment delinquency exceeding the fair value of the land, defective or unusual conditions of title, improper subdivision or lack of adequate housing facilities in the area or obsolete or impractical planning and platting or an area where a significant number of commercial or mercantile businesses have closed or significantly reduced their operations due to the economic losses or loss of profit due to operating in the area, low levels of commercial or industrial activity or redevelopment or any combination of such factors, substantially impairs or arrests the sound growth and economic health and well-being of a municipality or locale within a municipality or an area that retards the provisions of housing accommodations or constitutes an economic or social burden and is a menace to the public health, safety, morals or welfare in its present condition and use; 3-60A-4

Of note in New Mexico, legislation in 2007 following *Kelo* banned the use of eminent domain for purposes of private development unless the public benefit and use was clearly established. Also, the state code notes that, if possible, there should be an effort to conserve and rehabilitate through voluntary action, including through the provision of government assistance.

The municipality needs to simply make a resolution that the area is blighted based on the statute’s conditions with no quantity specified – only one condition needs to be present. Advocacy groups against eminent domain have noted concerns about the vagueness of this law and its low threshold, while the New Mexico Supreme Court has upheld that legislative determination is “well-nigh conclusive” (*Kaiser Steel Corp. v. W.S. Ranco Co., 81 N.M.*).

Nevada

Nevada’s blight laws, much like Colorado, define a “blighted area” as one that is “characterized” by at least four of the blight factors listed in the code. The law (NRS 279.424) explicitly states that this is “a matter of legislative determination”. Like New Mexico, Nevada law restricts transfer of blighted property for private use, giving the burden to the government to prove public use.

Utah

Utah code is one of the few in the country that clearly outlines the quantity of blight conditions required to be present for determination of a blighted area. Section 17C-2-203 notes that at least half of the parcels be developed and that at least half of the parcels be affected by the blight factors listed. The affected parcels must comprise at least 66 percent of the privately owned acreage of the project area.

Miscellaneous Notes

While not in the Intermountain region, North Carolina's blight statute also calls for a "predominance" of parcels to be blighted in a project area. However, it goes on to detail that in order for a "predominance" to exist, it must be determined by the planning commission that two-thirds of the buildings in the area are blighted. For eminent domain to be exercised, the parcel being taken must be specifically determined by the council to be blighted.

A review of blight statutory and case law by the American Bar Association⁴ surveyed statute language and cases in determination of blight. This review was done in 2000 – before *Kelo* – so while there is outdated information in this piece, the following points show the general approach in these matters:

- Most states give investigatory and research powers to local redevelopment authorities. These authorities also enjoy broad discretionary powers in determining blight. Only California seems to rely primarily on judicial findings in the determination of blight.
- The testimony of principal planners from local redevelopment agencies tends to be highly persuasive evidence when offered to show blight in a proposed redevelopment area. Also useful is testimony from fire department officials, who may need to be qualified as expert witnesses; testimony from the local chief of police; testimony from welfare officials; testimony from health department officials; and testimony from the city title department or treasurer, whose testimony may be corroborated by a title expert. The testimony and qualifications of experts should be carefully scrutinized to avoid the situation in *Simco Stores v. Redevelopment Authority*. In *Simco Stores*, the court found the following: [A]ppellants rely on testimony by their expert witness, a real estate appraiser, that only 15% of the area certified in 1963 was in fact blighted and that in 1972 only 10% was blighted. This witness, appellants' only witness, admitted that he knew nothing about economics and was not an authority on traffic control. Both are among the statutory standards used to determine the existence of blight. While the executive director of the Commission, testifying on behalf of the Authority, admitted that the certification "does not indicate that blight is pervasive throughout the area" and that "there were large areas ... which were not blighted," he did testify that the Commission made its determination after eleven years of traffic studies, economic studies and studies of land value and use. The Court found blight in *Simco Stores*.
- Photographic evidence should be authenticated. Courts tend to rely heavily on photographic evidence to arrive at a finding of blight. Maps of the proposed redevelopment area also should be authenticated. Finally, fire and police department records should be authenticated either by an employee whose occupational responsibilities include custody of the records or by the person who exercised supervision over their creation.
- In *County of Riverside v. City of Marrieta*, the court noted that the evidence must be substantial: "In reviewing whether substantial evidence exists, the cases say: 'Substantial' evidence means that evidence must be of 'ponderable legal significance.' It must be 'reasonable in nature, credible, and of solid value.'"
- On the other hand, courts have accorded little weight to the testimony of residents and private citizens. For example, in *West v. City Commission*, the court based its decision to disregard citizen testimony "on grounds that [citizens] were laymen whose opinions were not based on any statutorily recognized principles."

⁴ Copy pulled from WestLaw, can be purchased at:
https://www.jstor.org/stable/20782215?seq=1#page_scan_tab_contents

A case specifically using the word “predominance” in determining blight.

- In *Warren v. Waterville Urban Renewal Authority*, the court found blight based on the affidavit of Morton R. Braun, a professional consultant for urban renewal projects, hired by the Urban Renewal Authority to survey the proposed project area. Braun found that the Charles Street area was one in which there was a predominance of buildings which were in fact dilapidated, deteriorated, aged, and obsolete.... [A professional consultant for urban renewal projects] made or supervised a careful inspection of structures from the outside ... [and] concluded that of 83 structures in the Charles Street Area Project 36 structures, or 43%, were substandard, warranting clearance, 29 or 35% were deficient but were in need of repair and 18 or 22% were standard buildings.

Summary

Arizona's law defers to local municipalities to make the determination saying only a "predominance" of certain factors needs to be present. Those factors are:

1. Dominance of defective or inadequate street layout
2. Faulty lot layout in relation to size, adequacy, accessibility or usefulness
3. Unsanitary or unsafe conditions
4. Deterioration of site or other improvements
5. Diversity of ownership (by block)
6. Tax or special assessment delinquency exceeding the fair value of the land
7. Defective or unusual conditions of title
8. Improper or obsolete subdivision platting
9. Existence of conditions that endanger life or property by fire and other causes

This study has carefully evaluated those factors on a parcel-by-parcel basis and has found that 147 of the 281 parcels were determined to have at least 1 blight factor, equaling 52 percent of parcels in the area, and 62 percent of parcel acreage in the area.

Table 13: Number of Parcels by Number of Blight Factors

# of Factors	Parcels	% of Parcels	Acreage	% of Acreage
1	81	29%	141	29%
2	44	16%	119	25%
3	16	6%	35	7%
4	6	2%	4	1%
Parcels w/ at least 1 Blight Factor	147	52%	299	62%
Total Southwest RDA	281		483	

As shown in this report, a substantial number of blight conditions exist in the study area. Based on the vagueness of Arizona statute regarding the threshold for "predominance" of the above factors, as well as the varying thresholds in other Arizona communities where a predominance of blight was found to exist, it is the opinion of Zions Public Finance, Inc. that the Mesa City Council could make a finding of blight in the study area.