

Summary of Economic and Fiscal Impacts

Mesa City Center

ASU Satellite Campus + Urban Plaza

Prepared by HR&A Advisors, Inc.

I. Executive Summary

Arizona State University's planned expansion to Downtown Mesa, together with an on-campus signature park and investments in nearby university and other infrastructure (collectively "Mesa City Center"), will generate significant economic and fiscal benefits for both the City and State. Funded in part through a \$177M two-phase public investment, Mesa City Center will not only spur economic activity on-site, but also catalyze redevelopment and spin-off activity throughout Downtown Mesa.¹ In total, the proposed redevelopment of Mesa City Center will result in the following impacts over the next twenty years:²

- **Jobs:** 5,670 construction jobs and 2,830 permanent jobs;
- **Labor Income:** \$1.8B in total wages;
- **Economic Output:** \$5.1B in total economic output;
- **City Revenue:** \$46M in City tax revenue;³ and
- **State Revenue:** \$99M in State tax revenue.

II. Project Detail

Site Description: Mesa City Center will be developed in two phases according to the following program.⁴

- **Phase I**
 - 171,500 GSF of new ASU academic space;
 - 14,000 GSF of new ground floor food & beverage space;
 - A signature urban plaza; and
- **Phase II**
 - 78,000 GSF of additional ASU space; and
 - 60,000 GSF of commercial office space, to be developed and funded by private developers on two designated parcels.

¹ Public investment will include \$141M in Phase I costs, including \$80M for new structures, \$25M for open space, \$15M for parking, \$4M for off-site work, \$7M for Benedictine University and ~\$10M for ASU FF&E, and \$36M in Phase II costs, including \$32M for new structures and ~\$4M for ASU FF&E.

² Twenty-year net present values presented throughout assume a discount rate of 5%, representing a conservative projection of possible bond debt terms.

³ This analysis excludes additional property tax revenues that will accrue to Mesa Public Schools, which are expected to total \$4.7M in a stabilized year (2016\$) and \$57.4M over the next twenty years (NPV).

⁴ Per Colwell Shelor site plan, May 2016.

Methodology: HR&A quantified the economic and fiscal impacts that will be generated as a result of public investment in Mesa City Center and resulting private investment in Downtown Mesa.

- **Public Sector Investment** in Mesa City Center will yield one-time economic and fiscal impacts from the construction of the campus and public space, as well as permanent impacts stemming from on-site university and plaza operations and activity.
- **Private Sector Investment** in Downtown Mesa is likely to be catalyzed by public sector university and plaza investments. To project this growth, HR&A examined both regional and national precedents demonstrating the impact of new signature parks and university expansions on private sector redevelopment activity. These growth projections were used to estimate the construction-related impacts and permanent impacts that will be generated through private development as well as spin-off activity.

Projected Impacts: Economic impact analysis measures the ripple effect of initial economic changes owing to a new investment, e.g., a public investment in and around the Mesa City Center site. The analysis is predicated on the concept of the “multiplier effect,” where direct, new economic activity in an area’s economy, such as new spending on construction materials or new faculty and staff jobs, generates further spending and job creation because businesses and individuals in a regional economy are interdependent and purchase goods and services from each other.

Our analysis projected a number of economic impacts the City of Mesa and State of Arizona could expect over the next twenty years.⁵ HR&A estimated the following impacts:

- i. **Economic output (spending)**, defined as the total value of production across all industries and equivalent to the aggregate spending in the area of analysis;
- ii. **Jobs**, either one-time construction jobs-years or permanent full-time equivalent employees employed in retail stores, offices, and other buildings; and
- iii. **Labor income**, including wages received by employees and income received by proprietors in the City of Mesa.

In addition to economic impacts, HR&A examined City and State fiscal impacts that will be generated through construction of Mesa City Center and related public improvements, new activity associated with university and open space programming and new private investment Downtown. These fiscal benefits will be realized via:

⁵ HR&A used IMPLAN to estimate the economic impacts of the development and operation of the proposed project on the local economy. IMPLAN, created by the IMPLAN Group, LLC (formerly MIG or the Minnesota IMPLAN Group, Inc.), is an industry standard input-output model used to conduct economic impact analyses by leading public and private sector organizations across the United States. It also has been used to monitor job creation for a range of Federal government initiatives, including the economic impacts of the American Recovery and Reinvestment Act of 2009 on state economies. For economic spending, IMPLAN traces the pattern of commodity purchases and sales between industries that are associated with each dollar’s worth of a product or service sold to a customer, analyzing interactions among 440 industrial sectors, with assumptions about spending that takes place outside of the study area.

- i. **City taxes**, which are generated by one-time construction purchases and the on-going sale of goods and services (sales tax) as well as property taxes associated with redevelopment;⁶ and
- ii. **State taxes**, which stem from ongoing sales of goods and services (sales tax), as well as increased worker income generated through the construction and operations of both public and private development (income tax).

III. Neighborhood Context

Lower Density and Growth: Downtown Mesa has experienced significantly less development than Downtown Phoenix, Tempe and Scottsdale. These peer cities have recently benefitted from public support for downtown signature public open space and cultural programming improvements that subsequently attracted increased residential and commercial development. Downtown Phoenix, for example, has benefitted from a number of catalytic projects in the last decade, including the 2006 addition of an ASU satellite campus, the 2009 opening of Civic Space Park, and the pending redevelopment of Hance Park, first announced in 2013.

Growth Potential: Downtown Mesa has experienced slower growth than other regional downtowns in recent years. The proposed public investment in Mesa City Center, coupled with favorable trends including regional population growth, a growing regional and national propensity for downtown living and the extension of the light rail network to Downtown Mesa, is likely to accelerate growth significantly.

- **Light Rail Extension:** The Valley Metro line extended service to a terminus adjacent to the Mesa City Center site in 2015, ensuring direct access between ASU's campuses in Phoenix, Tempe and Mesa.
- **Growth in Local Population:** The population of Mesa, the region's second largest city, and of the surrounding East Valley is growing. A growing share of Phoenix area young professionals and retirees are seeking a more urban lifestyle and will consider moving to a revitalized downtown Mesa.
- **Strong Regional Precedents:** In Downtown Phoenix and Downtown Tempe, ASU campuses have spurred considerable residential development, with positive implications for the quality and quantity of downtown retail.

IV. Regional and National Precedents

In order to project the amount of private development occurring in Downtown Mesa following redevelopment of Mesa City Center, HR&A examined the redevelopment impacts associated with a set of university expansion and signature park investments in urban neighborhoods around the country, including:

University Expansion & Signature Open Space

- **Downtown Phoenix, AZ:** Arizona State University opened a secondary campus in downtown Phoenix in 2006 and has established schools of journalism, law, and nursing at the location, among others. Since 2006, the downtown campus has grown to 1.3 million square feet. In 2009,

⁶ HR&A assumed that 60% of new private development in downtown Mesa over the next five years will benefit from the Government Property Lease Excise Tax (GPLET), which will effectively exempt these properties from property tax taxes for eight years.

the adjacent, award-winning Civic Space Park opened. The upcoming redevelopment of Hance Park, first announced in 2013, has also helped to encourage development on the north side of Downtown Phoenix.

- **Uptown Charlotte, NC:** In 2000, the City released a Vision Plan for 2010, calling for the long-awaited construction of Romare Bearden Park. After a public and private fundraising campaign, construction began in 2011 and the park opened in 2013. The University of North Carolina's \$50 million Center City campus opened in 2011.

University Growth

- **Wake Forest Innovation Quarter, Winston-Salem, NC:** Proposed in 2002 as part of a medical school expansion, the Innovation Quarter was conceived to connect the downtown business environment with academic research and innovation. The Innovation Quarter has expanded steadily over the past decade.
- **University City, Philadelphia, PA:** With its 2006 vision plan, the University of Pennsylvania launched an ambitious plan for expansion in University City, Philadelphia. These plans resulted in the creation of one of University City's largest recreational assets, Penn Park, many new institutional buildings, and supporting retail.
- **Baylor University, Waco, TX:** In 2002, Baylor's campus plan called for University investment in catalytic campus projects including the Baylor Science Building, the campus's largest facility which now houses all science programs alongside other research and lab space. More recently, the Baylor's new football stadium, announced in 2012, was partially funded by public investment stemming from the Downtown TIF Zone based on the anticipated development interests that have since come to fruition.
- **Vanderbilt University, Nashville, TN:** With the intention of preserving the Vanderbilt's architectural character, the 2001 campus plan identified ways to achieve 50% expansion in facilities within the existing campus footprint. Over the next decade, the school established a residential college system and improved its student center, helping to boost attendance by 20% and thus driving the local residential population and spin-off commercial activity in its adjacent neighborhoods.

Signature Open Space

- **Uptown Dallas, TX:** The Dallas Real Estate Council funded a feasibility study for a new park over the Woodall Rodgers Freeway in 2004. Construction of Klyde Warren Park began in 2009. Since the park's opening in 2012, it has been a highly visible, nationally award-winning destination for neighborhood residents, tourists and office workers.
- **Downtown Cincinnati, OH:** In 2003, the public-private Cincinnati Center City Development Corporation was organized to support the revitalization of the City's downtown business and entertainment district. The group led the revitalization of the formerly distressed Fountain Square park into Downtown Cincinnati's signature destination, with year-round programming and activity.

Comparable Projects – Growth Over Time

For each redevelopment example, HR&A analyzed the change in square footage by use in the surrounding neighborhood during the ten years following project announcement.

Figure 1. Comparable Projects: % Change in Neighborhood SF/Hotel Rooms

University/Open Space	Office	Residential	Retail	Hotel
Arizona State University/U of Arizona	7%	110%	1%	90%
Fountain Square (Cincinnati)	9%	16%	2%	8%
Klyde Warren Park (Dallas)	15%	27%	17%	26%
UNC Charlotte/Romare Bearden	21%	127%	67%	27%
UPENN/Drexel (W. Philadelphia)	15%	11%	3%	0%
Wake Forest (Winston-Salem)	14%	39%	4%	15%
Vanderbilt University (Nashville)	5%	54%	5%	32%
Baylor University (Waco)	9%	26%	7%	61%
Average	12%	51%	13%	32%

Figure 2. Comparable Projects: Absolute Change in Neighborhood SF/Hotel Rooms⁷

University/Open Space	Office	Residential	Retail	Hotel
Arizona State University/U of Arizona	259,000	2,025,000	28,000	1,655
Fountain Square (Cincinnati)	1,061,000	674,000	37,000	290
Klyde Warren Park (Dallas)	2,620,000	2,523,000	83,000	1,985
UNC Charlotte/Romare Bearden	3,997,000	3,896,000	447,000	960
UPENN/Drexel (W. Philadelphia)	1,216,000	272,000	20,000	0
Wake Forest (Winston-Salem)	767,000	281,000	51,000	110
Vanderbilt University (Nashville)	410,000	1,631,000	95,000	1,693
Baylor University (Waco)	194,000	1,562,000	348,000	1,151
Average	1,316,000	1,608,000	139,000	3,200

- **Residential:** Multifamily uses have grown rapidly in the years following the creation of signature parks and new or expanded university campuses, often representing the largest share of new development.
- **Hotel and Office:** Hotel and office growth has generally been moderate in the neighborhoods adjacent to comparable projects, though major downtowns with convention centers and well-developed office hubs have seen faster growth. Hotel growth is also associated with significant increases in student enrollment.
- **Retail:** The quality and diversity of retail offerings has generally increased more than retail square footage.

⁷ Nashville and Waco experienced significant residential development – up to 1M SF of new construction – adjacent to their respective university campuses in 2014 and 2015, which is not captured in the 10-year development snapshot shown above.

V. Projection of Growth in Downtown Mesa

Over the last ten years, Downtown Mesa has seen limited redevelopment activity. Multifamily residential and retail growth has been flat. A small increase in office space occurred due to the construction of a single government-sponsored job placement center. A small hotel of 48 rooms, Baymont Inn & Suites, was constructed in 2008.

Figure 3. Downtown Mesa Real Estate Composition, 2005 & 2015

Use	2005	2015	Percent Change
Office*	770,000	890,000	16%
Retail	460,000	460,000	0%
Multifamily	430,000	430,000	0%
Hotel	360,000	380,000	6%

*Increase due to a single public building added in 2012.

Downtown Mesa is also less dense than its regional peers, with greater availability of developable land and thus greater opportunity for redevelopment. Compared to Downtown Mesa, Downtown Phoenix has five times greater office density, three times greater retail density and six times greater residential density. Downtown Tempe has three times greater office density and moderately greater retail density.

Based on the foregoing, our analysis projects the following growth in commercial uses over the next decade:

- **Office:** Within the Mesa City Center site, space has been set aside for modest future office development (60,000 square feet), which we have assumed will be built within the next decade. An additional 260,000 square feet is projected to be built off-site, which could be accommodated in one or two additional buildings. This increase in commercial office space is on par with the percent increase in office stock seen in Uptown Charlotte after the addition of the UNC City Center campus and the redevelopment of Romare Bearden Park (though Charlotte's absolute increase in office square footage was substantially larger than projected growth in Downtown Mesa).
- **Multifamily:** Our analysis assumes that one to two moderately-sized multifamily projects per year could be built over ten years. The addition of 1.75 million square feet of multifamily space is moderately lower than the growth experienced on the north side of Downtown Phoenix during the ten years following the creation of a new ASU campus and Civic Space Park, a period which included the Great Recession. This level of growth is also just over half of the level of development seen in Uptown Dallas following the creation of Klyde Warren Park. Therefore, we believe this projection to be conservative.
- **Hotel:** Our analysis projects the construction of three to four small- to medium-sized hotels over ten years, an increase of approximately 400 rooms. Because there has been so little hotel product added in the last ten years, hotel growth is expected to be moderate, though below levels seen in Phoenix and other major city centers with large convention centers.
- **Retail:** We have projected 100,000 square feet of new retail, equivalent to adding a new a grocery store plus additional ground floor retail and in line with observed growth at precedent

projects. The greatest retail impact is likely to be associated with an increase in the quality and success of existing retail spaces.

VI. Projected Economic Benefits

We project a substantial increase in jobs, wages, and economic output (value of goods & services) over the next twenty years as a result of public investment in Mesa City Center. The following one-time (construction-related) and ongoing impacts include both impacts associated with public investment in and around the Mesa City Center campus and plaza, as well as impacts associated with private investment in Downtown Mesa.

Figure 4: One-Time Construction Impacts

Construction Impacts	Job-Years	Labor Income	Economic Output
Mesa City Center			
Direct Impact	1,130	\$56.2M	\$156.2M
Multiplier Impact	490	\$23.9M	\$65.4M
Sub-Total	1,620	\$80.1M	\$221.6M
Private Development			
Direct Impact	2,820	\$126.6M	\$351.8M
Multiplier Impact	1,230	\$53.9M	\$147.4M
Sub-Total	4,050	\$180.5M	\$499.2M
Total Impact			
Direct Impact	3,950	\$182.8M	\$508.0M
Multiplier Impact	1,720	\$77.8M	\$212.8M
Total	5,670	\$260.6M	\$720.8M

Figure 5: Incremental Economic Activity

	Jobs	Labor Income		Economic Output	
Permanent Impacts	FTE	Stabilized Yr.	20-Year NPV	Stabilized Yr.	20-Year NPV
Mesa City Center					
Direct Impact	280	\$17.6M	\$189.8M	\$34.7M	\$374.0M
Multiplier Impact	130	\$7.0M	\$75.6M	\$21.4M	\$230.2M
Sub-Total	410	\$24.6M	\$265.4M	\$56.1M	\$604.2M
Private Development					
Direct Impact	1,490	\$77.6M	\$.8B	\$229.1M	\$2.5B
Multiplier Impact	930	\$43.8M	\$.5B	\$121.9M	\$1.3B
Sub-Total	2,420	\$121.4M	\$1.3B	\$351.0M	\$3.8B
Total Impact					
Direct Impact	1,770	\$95.2M	\$1.0B	\$263.8M	\$2.9B
Multiplier Impact	1,060	\$50.8M	\$.5B	\$143.3M	\$1.5B
Total	2,830	\$146.0M	\$1.6B	\$407.1M	\$4.4B

VII. Fiscal Impacts

We project significant incremental tax revenues accruing to the City and State as a result of construction and new long-term commercial and university activity.

Figure 6: One-Time Construction Impacts

Permanent Impacts	City Taxes	State Taxes
Mesa City Center		
Sales & Use Tax	\$1.7M	\$5.6M
Personal Income Tax	N/A	\$1.9M
Sub-Total	\$1.7M	\$7.5M
Private Development		
Sales & Use Tax	\$3.9M	\$12.6M
Personal Income Tax	N/A	\$4.3M
Sub-Total	\$3.9M	\$16.9M
Total Impact		
Sales & Use Tax	\$5.6M	\$18.2M
Personal Income Tax	N/A	\$6.2M
Total	\$5.6M	\$24.4M

Figure 7: Incremental Permanent Fiscal Impacts

Permanent Impacts	City Taxes		State Taxes	
	Stabilized Yr.	20-Year NPV	Stabilized Yr.	20-Year NPV
Mesa City Center				
Sales & Use Tax	\$67K	\$740K	\$216K	\$2.4M
Income Tax	N/A	N/A	\$506K	\$5.5M
Property Tax	N/A	N/A	N/A	N/A
Sub-Total	\$67K	\$740K	\$722K	\$7.9M
Private Development				
Sales & Use Tax	\$2.0M	\$22.4M	\$3.2M	\$37.1M
Income Tax	N/A	N/A	\$2.8M	\$29.9M
Property Tax ⁸	\$1.4M	\$17.2M	N/A	N/A
Sub-Total	\$3.4M	\$39.6M	\$6.0M	\$67.0M
Total Impact				
Sales & Use Tax	\$2.1M	\$23.1M	\$3.4M	\$39.5M
Income Tax	N/A	N/A	\$3.3M	\$35.4M
Property Tax	\$1.4M	\$17.2M	N/A	N/A
Total	\$3.5M	\$40.3M	\$6.7M	\$74.9M

⁸ This conservative projection excludes local property tax revenues to Mesa Public Schools, which are expected to total \$4.7M in a stabilized year (2016\$) and \$57.4M over the next twenty years (NPV).

VIII. Ancillary Benefits

In addition to new jobs, economic growth, and taxes, the public investment in Mesa City Center can be transformative for the city and region. The following ancillary benefits are anticipated to occur following public investment in and around Mesa City Center:

- Downtown Mesa will emerge as a more significant regional destination with an increased population and more activity in the civic core;
- The brand of the City, metro area, and State will be strengthened;
- ASU, through new and diverse course offerings and an expanded geographical presence, will improve its competitive position; and
- Mesa's residents will have increased access to recreation space and cultural programming.