APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF RESIDENCES ON MACDONALD ON THE CITY OF MESA

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11209 N. Tatum Boulevard, Suite 225 * Phoenix, AZ 85028 * 602-765-2400 tel * 602-765-2407 fax

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1.0 INTRODUCTION

Applied Economics was retained by the City of Mesa to perform an economic impact analysis of Residences on Macdonald, a proposed market rate housing project at the southeast corner of 1st Avenue and Macdonald on a parcel that is located in the designated Central Business District and is currently owned by the City of Mesa. Residences on Macdonald are anticipated to include 72 multi-family units on 1.7 acres. The project would be eligible for a Government Property Lease Excise Tax (GPLET) agreement that would result in the abatement of all real property taxes and lease excise taxes during the first eight years following construction. This analysis is intended to provide a framework for understanding the economic and revenue impacts that the project would have on the city.

1.1 Project Description

The proposed development plan includes 72 market rate one and two bedroom units with surface parking. Total construction costs are estimated at $7.4 million. The analysis assumes a 92 percent occupancy rate and an average lease rate of $1,121 per month. It is assumed that any parking fees would be included in the monthly rent.

1.2 Applied Economics Background

Applied Economics LLC is an economic consulting firm, based in Phoenix, Arizona, specializing in economic development, economic and fiscal impact assessment, incentive analysis, socioeconomic modeling and urban planning. Applied Economics conducts economic and fiscal impact studies and develops models to measure the effects of a wide variety of activities. These activities include development land use and policy changes, business-driven economic impacts, and incentive agreements. Applied Economics is frequently called upon by local governments to provide a third party evaluation of incentives including GPLET agreements and sales tax reimbursements. The principals at Applied Economics have worked together for more than twenty five years, and are very experienced in working with local and regional planning and development issues.

2.0 IMPACT SUMMARY

The construction of this urban housing development in downtown Mesa will provide a variety of economic benefits within the Central Business District that can be valued in comparison to the GPLET incentive.

- The developer is interested in entering into a GPLET agreement with the city that would exempt the site from real property taxes during the term of the agreement. Since this property is located in a single Central Business District (CBD), the project would also be eligible for an abatement of all lease excise taxes during the eight year term, resulting in an incentive to the lessee.

- Residences on Macdonald meets the requirements for a GPLET because it will increase the value of the property by more than 100 percent and the benefits to state and local governments would exceed the value to the prime lessee. The development is projected to generate **$953,000** in revenues to the city, county, school district and state from sales and income taxes in 2021 through 2028. The value of the property tax exemption for all jurisdictions combined is estimated at **$719,000** over 8 years. *Thus, the benefit to the city, county, state and school districts would be more than the value of the GPLET property tax exemption and would meet the requirements in A.R.S. 42-6209.*[1]

- Revenues to the City of Mesa are estimated at **$250,000** from 2021 to 2028, versus the city's share of the property tax exemption estimated at **$60,000**. In addition, the project would generate **$703,000** in sales, property and income taxes to the state, county and schools over the next 8 years, based on the assumptions outlined in this analysis.

- In terms of economic benefits to the city, Residences on Macdonald could create an economic impact of **$9.2 million** from 2021 to 2028, directly and indirectly supporting approximately **8 jobs** and **$2.5 million** in personal income during the 8-year GPLET term.

- The development could support approximately 3 direct jobs and 1 indirect job related to property management and maintenance. In addition, the estimated 66 resident households could indirectly support an additional 4 jobs through their local spending, assuming 25 percent of the residents are new to Mesa.[2]

The Residences on Macdonald project would generate new revenues for the city from sales taxes on construction and rents, and would indirectly generate new resident spending in the Central Business District that would support additional jobs and taxable sales at local retail and restaurants. The development would ultimately result in additional property tax revenues to the city. In addition, the type and intensity of development proposed for this site capitalizes on the presence of the light rail line through downtown Mesa.

[1] Per A.R.S. 42-6209 C2, agreements involving rental housing are exempt from the economic benefit requirement, although the city may choose to apply this higher standard to all projects including rental housing.
[2] The analysis assumes a 92 percent occupancy rate.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from Residences on Macdonald include both one-time construction impacts and on-going operations impacts. These impacts are quantified in terms of direct and indirect jobs, personal income and output that will be generated by the project. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses in the City of Mesa that may benefit from the new development.

3.1 Construction Impacts

The construction costs for the project are estimated at $7.4 million. Construction is expected to occur over a period of about 18 months with completion in June 2021. The multiplier effects of this $7.4 million in construction spending could result in a total increase in economic activity of $11.3 million (Figure 1). The approximately 47 direct jobs and 32 indirect and induced jobs created by this construction activity could result in close to $3.8 million in additional employee income or payroll in the City of Mesa during construction.

FIGURE 1
CONSTRUCTION IMPACTS OF RESIDENCES ON MACDONALD ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Personal Income	Output	Jobs	Personal Income
Construction	$7,350,000	47	$2,302,061	$11,332,326	79	$3,770,316

3.2 Operations Impacts

Once construction is complete, this multi-family project will create on-going impacts through household spending by tenants as well as through property management activity at the development. The total economic activity from on-going operations of the project are shown in Figure 2. The development could support an estimated 3 direct property management jobs and 1 indirect job. In addition, household spending by tenants could support another 4 induced jobs at the local establishments where these residents shop.

The total impacts include the direct impacts of jobs at the multi-family property, plus the additional jobs, income and output stemming from local vendor purchases related to property maintenance and additional consumer spending by the supported employees and the project residents.

FIGURE 2
ANNUAL ECONOMIC IMPACTS OF RESIDENCES ON MACDONALD
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Output	Jobs	Personal Income	Output	Jobs	Personal Income
Annual Impacts	**$179,230**	**3**	**$105,600**	**$1,158,437**	**8**	**$310,775**
Property Management	$179,230	3	$105,600	$291,565	4	$145,353
Resident Spending	na	na	na	$866,871	4	$165,421
Eight Year Total	**$1,433,840**	**3**	**$844,800**	**$9,267,493**	**8**	**$2,486,198**
Property Management	$1,433,840	3	$844,800	$2,332,522	4	$1,162,826
Resident Spending	na	na	na	$6,934,971	4	$1,323,371

The multiplier effect of this increase in business activity in the city could result in a total annual output impact of $1.2 million, or $9.3 million over the next eight years. The approximately 8 direct, indirect and induced jobs supported by the development could result in about $310,000 in annual personal income in Mesa.

The differences between direct and total economic impacts are called multiplier effects. Multiplier effects are a way of representing the larger economic effects on the local economy. The multiplier effects translate an increase in output or business sales into a corresponding increase in jobs and personal income. The total increase in output includes the impacts on other local supplier and consumer businesses. In essence, the multiplier effect represents the recycling of local spending. This process creates new business opportunities.

The multipliers used in this analysis are from IMPLAN, a national vendor of economic impact software, and are specific to the City of Mesa. Industry specific multipliers were used for commercial construction, property management and household spending.

4.0 REVENUE IMPACTS

In addition to supporting a modest amount of jobs, personal income and output at related businesses in the city through multiplier effects, Residences on Macdonald could also generate local tax revenues, primarily through sales taxes on residential rents and secondarily through resident spending. In total, the project could generate approximately $250,000 in tax revenues to the City of Mesa between 2020 and 2028, and $703,000 in additional revenues to the county and state during this period (Figure 3). This total includes direct revenues from the development as well as secondary revenues from residents.

FIGURE 3
STATE AND LOCAL REVENUE IMPACTS
RESIDENCES ON MACDONALD

	City of Mesa			Maricopa County			State of Arizona			
	Property	Sales	Total Benefit	Property	Sales	Total Benefit	Sales	Pers Income	Total Benefit	Total Public Benefit
Direct Impacts	**$0**	**$208,336**	**$208,336**	**$0**	**$83,334**	**$83,334**	**$267,540**	**$0**	**$267,540**	**$559,211**
2020 (Const.)	$0	$83,606	$83,606	$0	$33,443	$33,443	$267,540	$0	$267,540	$384,589
2021	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2022	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2023	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2024	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2025	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2026	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2027	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828
2028	$0	$15,591	$15,591	$0	$6,236	$6,236	$0	$0	$0	$21,828

	City of Mesa			Maricopa County			State of Arizona			
	Property	Sales	Total Benefit	Property	Sales	Total Benefit	Sales	Pers Income	Total Benefit	Total Public Benefit
Resident Impacts	**$0**	**$42,029**	**$42,029**	**$0**	**$16,811**	**$16,811**	**$134,491**	**$200,432**	**$334,923**	**$393,763**
2021	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$24,862	$41,673	$49,028
2022	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2023	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2024	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2025	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2026	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2027	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
2028	$0	$5,254	$5,254	$0	$2,101	$2,101	$16,811	$25,081	$41,893	$49,248
Total Direct & Resident Taxes	**$0**	**$250,365**	**$250,365**	**$0**	**$100,146**	**$100,146**	**$402,031**	**$200,432**	**$602,463**	**$952,974**

4.1 Direct Revenues

The project would generate one-time sales taxes from new construction estimated at $385,000 to the city, county and state combined, of which $84,000 would go to the City of Mesa. There would also be on-going sales tax revenues to the city and county from residential rents estimated at $175,000 over the eight year period. No property taxes are included in direct revenues in order to illustrate the potential impacts of a GPLET abatement.

4.2 Resident Revenues

Along with the direct taxes generated by the project, there would also be taxes generated by resident spending. Using estimated household incomes for residents based on projected rents, it is possible to estimate the resident tax impacts, assuming that rents are 25 percent of annual household income.

Resident sales tax revenues include taxable purchases by residents. Sales taxes are estimated based on multiplying estimated household income of residents times 31 percent (share of income spent on taxable items), times the city, county and state sales tax rates.[3] Only 25 percent of the sales taxes generated by resident spending were included, conservatively assuming that only a quarter of the apartment tenants would be new to the city. City sales taxes from residents are estimated at $5,000 per year beginning in 2021, or a total of $42,000 over eight years. Additional sales taxes generated to the county and the state are estimated at $19,000 per year by 2021, or $151,000 over eight years.

In terms of state personal income tax, the residents in the apartments could generate approximately $200,000 in revenues from 2021 to 2028, assuming 25 percent of residents are new to the state. State income tax revenues are calculated using average income per household and current tax schedules from the Arizona Department of Revenue.

4.3 GPLET Impacts

The project would be eligible for a GPLET agreement that could exempt it from real property taxes during the term of the lease. Normally, there would be a lease excise tax in lieu of property taxes, but since the project is located in a Central Business District, and it would result in more than a 100 percent increase in property value, the lease excise taxes could also be abated for the first eight years. After that time, the property owner would pay real property taxes to the city and other taxing jurisdictions at the normal rate.

A.R.S. 42-6209 requires that the economic and fiscal benefit to the state, county and city in which the government property improvement is located will exceed the benefits received by the prime lessee within the term of the development agreement. In order to meet the statutory requirements, it is necessary to show that total revenues to the state, county and city would exceed the value of forgone property taxes during the eight year term. Revenues include direct sales taxes from construction and on-going sales taxes from rents.

The property tax savings to the developer is estimated at $719,000 over the eight year GPLET term, of which $60,000 would have gone to the City of Mesa, $425,000 would have gone to Mesa Public Schools and the remaining $234,000 would have gone to Maricopa County, the community colleges and other local taxing entities (Figure 4). In comparison, tax revenues to state and local jurisdictions total $953,000 (Figure 5). The value of other tax revenues

[3] *According to the Census Bureau Consumer Expenditure Survey persons in the income range of the residents and living in urban areas spend about 31 percent of their income on taxable goods.*

generated by the project is more than the property tax savings from the GPLET by $234,000 over eight years, thereby meeting the requirements of the statute.

FIGURE 4
PROPERTY TAX IMPACT BY JURISDICTION WITHOUT GPLET EXEMPTION

		Annual Property Tax										
Year	Estimated Limited Property Value	City of Mesa	Mesa Public Schools	Maricopa Comm Colleges	EVIT	Maricopa County	Central AZ Water	Fire District Assist	County Flood Control	County Library District	Maricopa Special Health District	Total Property Tax
2020	$6,163,309	$6,287	$44,476	$8,477	$308	$11,556	$863	$66	$1,104	$343	$1,813	$75,293
2021	$6,471,475	$6,602	$46,700	$8,901	$324	$12,134	$906	$69	$1,160	$360	$1,903	$79,058
2022	$6,795,048	$6,932	$49,035	$9,346	$340	$12,741	$951	$73	$1,218	$378	$1,998	$83,011
2023	$7,134,801	$7,278	$51,487	$9,813	$357	$13,378	$999	$76	$1,279	$397	$2,098	$87,162
2024	$7,491,541	$7,642	$54,061	$10,304	$375	$14,047	$1,049	$80	$1,342	$417	$2,203	$91,520
2025	$7,866,118	$8,024	$56,764	$10,819	$393	$14,749	$1,101	$84	$1,410	$437	$2,313	$96,096
2026	$8,259,424	$8,425	$59,602	$11,360	$413	$15,486	$1,156	$88	$1,480	$459	$2,429	$100,900
2027	$8,672,395	$8,847	$62,583	$11,928	$434	$16,261	$1,214	$93	$1,554	$482	$2,551	$105,945
8 Yr Total		**$60,037**	**$424,709**	**$80,948**	**$2,943**	**$110,351**	**$8,240**	**$630**	**$10,547**	**$3,272**	**$17,309**	**$718,985**

*Based on a property tax rate of 12.2164% in tax rate area 041000. Real property value is increased by 5 percent per year.

FIGURE 5
EIGHT-YEAR VALUE OF THE GPLET
RESIDENCES ON MACDONALD

	Benefit to Local and State Governments				Benefit to Lessee
	City of Mesa	Maricopa County	State	Total	Property Tax Savings[2]
Direct Revenue	**$208,336**	**$83,334**	**$267,540**	**$559,211**	**$718,985**
2019/20 (Const.)	$83,606	$33,443	$267,540	$384,589	$0
2021	$15,591	$6,236	$0	$21,828	$75,293
2022	$15,591	$6,236	$0	$21,828	$79,058
2023	$15,591	$6,236	$0	$21,828	$83,011
2024	$15,591	$6,236	$0	$21,828	$87,162
2025	$15,591	$6,236	$0	$21,828	$91,520
2026	$15,591	$6,236	$0	$21,828	$96,096
2027	$15,591	$6,236	$0	$21,828	$100,900
2028	$15,591	$6,236	$0	$21,828	$105,945
Resident Impacts	**$42,029**	**$16,811**	**$334,923**	**$393,763**	**$0**
2021	$5,254	$2,101	$41,673	$49,028	$0
2022	$5,254	$2,101	$41,893	$49,248	$0
2023	$5,254	$2,101	$41,893	$49,248	$0
2024	$5,254	$2,101	$41,893	$49,248	$0
2025	$5,254	$2,101	$41,893	$49,248	$0
2026	$5,254	$2,101	$41,893	$49,248	$0
2027	$5,254	$2,101	$41,893	$49,248	$0
2028	$5,254	$2,101	$41,893	$49,248	$0
8 Year Total	**$250,365**	**$100,146**	**$602,463**	**$952,974**	**$718,985**

The foregone property tax revenues were estimated based on 2020 limited property value (LPV) per square foot of $96.54 for the adjacent multi-family property owned by Mesa Housing Associates, resulting in a total LPV estimate of $6.2 million for 63,840 square feet. It is assumed that the value would increase by 5 percent per year, based on recent increases in LPV for comparable properties and statutory guidelines.

4.4 Summary

The proposed Residences on Macdonald multi-family project as described in this analysis could create both economic and revenue benefits for the City of Mesa. The development will add to the inventory of workforce housing in the Central Business District and will also generate new demand for local restaurants, retail and services based on the type of tenants that the project will attract. The economic benefits include the impacts of construction as well as the on-going operations impacts. There would also be a significant increase in the value of this property, which was previously owned by the city and was tax-exempt. The development will generate new property taxes to the city and other local jurisdictions at the end of the GPLET, as well as additional sales tax revenues.