APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF NWC ALMA SCHOOL AND SOUTHERN ON THE CITY OF MESA

PREPARED FOR:

ECONOMIC DEVELOPMENT DEPARTMENT
CITY OF MESA

FEBRUARY 2019

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1.0 INTRODUCTION

Applied Economics was retained by the City of Mesa to perform an economic impact analysis of a proposed residential development at the northwest corner of Alma School Road and Southern Avenue, which is part of the larger proposed Fiesta Village Mixed Use area. The NWC Alma School and Southern development is anticipated to include 220 multi-family units and is located in the designated Central Business District for the City of Mesa as well as in the Southwest Redevelopment Area. The project may 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, pending Council approval. This analysis is intended to provide a framework for understanding the economic and revenue impacts the project would have on the city.

1.1 Project Description

This site, which includes parcels 134-28-383 and 134-28-384, represents 12.0 acres within the larger Fiesta Village Mixed Use area. The property was previously occupied by a retail center that has been vacant for some time. The retail center would be demolished and replaced by garden style apartments. The proposed 285,378 square foot apartment project would include 220 one, two and three bedroom units, as well as a clubhouse and fitness center (Figure 1). The analysis assumes a 92 percent occupancy rate and an average lease rate of $1,199 per month. Total construction costs are estimated at $37.8 million.

FIGURE 1
DEVELOPMENT ASSUMPTIONS
NWC ALMA SCHOOL AND SOUTHERN

	Square Feet	Estimated Jobs	Monthly Lease Rate	Occupancy
Total	**285,378**	**4**		
Residential (220 units)	275,998	4	$1,199	92%
Clubhouse/Fitness Center	9,380	0	na	na

2.0 IMPACT SUMMARY

The redevelopment of this site in the City of Mesa would provide new economic benefits within the Central Business District. The proposed development will create new workforce housing options and support surrounding local businesses through resident spending.

- About 240 direct construction jobs and 180 additional indirect jobs could be supported in the City of Mesa during the construction period. The total construction impact is estimated at $60.4 million.

- Once completed, the project could generate an annual economic impact of $6.0 million or a total of $48.2 million over the next eight years.

- The development could directly support approximately 4 jobs related to property management and maintenance. In addition, the estimated 220 resident households could directly support an additional 15 jobs through their local spending, assuming 25 percent of the residents are new to Mesa. The economic impacts of these 19 jobs could result in 9 additional indirect jobs at other local businesses.

- The new residents in the apartment project could generate 50 to 60 school aged children, based on the mix of units by bedroom size and the types of amenities that are planned.

- In terms of tax revenues, the apartment project would directly and indirectly generate approximately $859,000 in local revenues to the City of Mesa from 2020 to 2027, and $2.5 million to the state, county, school district, and other local taxing jurisdictions. The development will directly generate construction sales tax as well as on-going sales tax on rental revenues. There will be additional indirect sales and personal income taxes generated by apartment residents.

- The project would be eligible for a GPLET with a term of eight years that would exempt all real property taxes to the city and other local governments. The value of the 8-year property and lease excise tax exemption for all jurisdictions combined is estimated at $3.3 million. During this same time period, the project would generate direct sales tax from construction and rents estimated at $2.0 million, and residents living in the apartments would generate an additional $1.3 million over eight years. The prime lessee would also make payments in lieu of taxes to the local school districts estimated at $303,000 over eight years. The total public benefit to the state and local governments is estimated at $3.6 million over eight years. Thus, the total public benefit exceeds the value of the GPLET and meets the statutory requirements.[1]

The NWC Alma School and Southern project would generate new revenues for the city based on sales taxes from 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 redevelopment of this abandoned property would also result in additional property tax revenues to the city and school districts once the GPLET terminates.

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[1] Residential rental projects are exempt from the economic estimate analysis requirements in A.R.S. 42-6209 that apply to nonresidential and mixed use projects in order to qualify for an eight year abatement. However, this analysis demonstrates that the NWC Alma School and Southern project does in fact meet these more stringent standards.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from the NWC Alma School and Southern project include both one-time construction impacts and on-going operations impacts. These impacts can be quantified in terms of direct and total jobs, personal income and output that would be generated by the project. Indirect impacts (the difference between direct and total) are the result of the multiplier effect and capture supported supplier and consumer businesses in the City of Mesa that would benefit from the new development.

3.1 Construction Impacts

New construction expenditures are estimated at $37.8 million, as shown in Figure 2. Construction is expected to occur during 2019. The multiplier effects of this construction spending on the City could result in a total increase in economic activity of about $60.4 million during the construction period. The approximately 240 direct jobs and 180 indirect and induced jobs created by this construction activity could result in nearly $22.8 million in personal income in the City of Mesa during the next year.

FIGURE 2
CONSTRUCTION IMPACTS TO THE CITY OF MESA
NWC ALMA SCHOOL AND SOUTHERN

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Personal Income	Output	Jobs	Personal Income
Total	**$37,800,000**	**237**	**$14,304,890**	**$60,446,740**	**417**	**$22,772,270**
Hard Costs	$27,600,000	177	$8,644,475	$42,554,039	296	$14,157,921
Soft Costs	$10,200,000	59	$5,660,415	$17,892,700	121	$8,614,348

3.2 Operations Impacts

Once construction is completed, this apartment project will create on-going impacts through household spending by tenants as well as through the economic impacts of the new property management jobs at the apartments. The total economic activity from on-going operations of the NWC Alma School and Southern project is shown in Figure 3. The development will directly support an estimated 4 property management jobs. In addition, household spending by tenants could support another 15 direct jobs at the local establishments where these residents shop.

The total impacts include the direct impacts described above plus the additional jobs, income and output stemming from local vendor purchases made by the apartment complex, vendor purchases made by the establishments where tenants shop, and additional consumer spending by the supported employees.

FIGURE 3
ON-GOING ECONOMIC IMPACTS TO THE CITY OF MESA
NWC ALMA SCHOOL AND SOUTHERN

	Direct Impacts			Total Impacts		
Component	Output	Jobs	Personal Income	Output	Jobs	Personal Income
Total	**$3,704,081**	**19**	**$840,922**	**$6,025,675**	**28**	**$1,262,783**
Property Management	$238,973	4	$140,800	$388,754	5	$193,804
Resident Spending	$3,465,108	15	$700,122	$5,636,921	23	$1,068,979

Note: Resident spending impact assumes that 25% of tenants are new to Mesa.

The multiplier effect of this increase in business activity in the City could result in a total annual output impact of $6.0 million, or $48.2 million over the next eight years. The approximately 28 direct, indirect and induced jobs supported by the development could result in about $1.3 million 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. The average output multiplier for this development is 1.63. This means that for every $1 million of tenant spending and/or local vendor purchases by the apartments, an additional $630,000 in economic activity and 7 local jobs are supported at other local businesses.

4.0 REVENUE IMPACTS

In addition to supporting jobs, income and output at related businesses in the city through multiplier effects, the NWC Alma School and Southern project would also generate local tax revenues, primarily through sales taxes on residential rents and secondarily through resident spending. In total, the project could generate approximately $859,000 in tax revenues to the City of Mesa between 2019 and 2027, and $2.5 million in additional revenues to the county and state during this period (Figure 4). This total includes direct revenues from the development as well as indirect revenues from residents.

FIGURE 4
STATE AND LOCAL REVENUE IMPACTS
NWC ALMA SCHOOL AND SOUTHERN

	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 Taxes	**$0**	**$721,556**	**$721,556**	**$0**	**$288,622**	**$288,622**	**$1,004,640**	**$0**	**$1,004,640**	**$2,014,818**
2019 (Const.)	$0	$313,950	$313,950	$0	$125,580	$125,580	$1,004,640	$0	$1,004,640	$1,444,170
2020	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2021	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2022	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2023	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2024	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2025	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2026	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331
2027	$0	$50,951	$50,951	$0	$20,380	$20,380	$0	$0	$0	$71,331

	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 Taxes	**$0**	**$137,345**	**$137,345**	**$0**	**$54,938**	**$54,938**	**$439,505**	**$682,854**	**$1,122,360**	**$1,314,643**
2020	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2021	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2022	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2023	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2024	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2025	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2026	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
2027	$0	$17,168	$17,168	$0	$6,867	$6,867	$54,938	$85,357	$140,295	$164,330
Total Direct & Resident Taxes	**$0**	**$858,901**	**$858,901**	**$0**	**$343,560**	**$343,560**	**$1,444,145**	**$682,854**	**$2,127,000**	**$3,329,461**

4.1 Direct Revenues

The project would generate one-time sales taxes from new construction estimated at $1.4 million to the city, county and state combined, of which $314,000 would go to the City of Mesa, based on hard construction costs of $27.6 million. There would also be on-going sales tax revenues to the city and county from residential rents estimated at $571,000 over the eight year period. No property taxes are included in direct revenues in order to illustrate the potential impacts of the GPLET.

4.2 Resident Revenues

Along with the direct taxes generated by the project, there are also taxes generated by residents of the apartments. Sales taxes paid by residents on taxable purchases are estimated by multiplying tenant incomes (based on expected rents) times 31 percent (share of taxable expenditures), times the city, county and state sales tax rates.[2] Only 25 percent of the sales taxes generated by resident spending were included, assuming that only a quarter of the new apartment tenants would be new to the city. City sales taxes from residents are estimated at $17,000 per year by 2020, or a total of $137,000 over eight years. Additional sales taxes generated to the county and the state are estimated at $62,000 per year by 2020, or $494,000 over eight years.

In terms of state personal income tax, the residents in the apartments could generate approximately $683,000 in revenues from 2020 to 2027, assuming 25 percent of residents are new to the state. State income tax revenues are calculated using average income per resident and current tax schedules from the Arizona Department of Revenue. No additional taxes are included for the property management employees based on the conservative assumption that they would not be new to Arizona.

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 exempted for the first eight years.[3] 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, "within the term of the lease, the economic and fiscal benefit to the state and the county, city or town in which the government property improvement is located will exceed the benefits received by the prime lessee as a result of the development agreement or lease." 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, on-going sales taxes from rents, sales and income taxes from apartment residents, and payments in lieu of taxes (PILOT) by the prime lessee to local school districts.

The property tax savings to the developer is estimated at $3.3 million over the eight year GPLET term, of which $275,000 would have gone to the City of Mesa at current tax rates, $1.94 million would have gone to Mesa Public Schools (MPS), $370,000 would have gone to Maricopa Community Colleges (MCCD), $13,000 would have gone to East Valley Institute of Technology (EVIT), and the remaining $688,000 would have gone to Maricopa County and other special taxing districts. In order to make the school districts whole, the developer is proposing to make payments in lieu of taxes equal to the taxes on the current land value (without improvements)

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[2] *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.*

[3] *The current full cash value of the property is $10.5 million and the estimated hard cost of construction is $27.6 million, resulting in more than a 100 percent increase in value.*

over the eight year period, which are estimated to be $303,000, so that the school district will not lose any of the revenues they are currently receiving on the land.

All total, the direct and resident revenues to state and local jurisdictions, plus the value of in lieu payments to MPS, MCCD and EVIT are equal to $3.6 million over eight years. Thus, the value of other tax revenues generated by the project exceeds the property tax savings from the GPLET by $343,000 over eight years, thereby meeting the requirements of the statute (Figure 5). Moreover, because the proposed payment in lieu of taxes is less than the $343,000 net benefit, the project would still meet the economic benefit test even if the total payment in lieu were adjusted downward, based on a reduction in assessed value of the land prior to the commencement of a GPLET lease.

FIGURE 5
EIGHT-YEAR VALUE OF THE GPLET
NWC ALMA SCHOOL AND SOUTHERN

	Benefit to Local and State Governments							Benefit to Lessee
	City of Mesa	Maricopa County	State	PILOT to MPS[1]	PILOT to MCCD[1]	PILOT to EVIT[1]	Total	Property Tax Savings[2]
Direct Revenue	**$721,556**	**$288,622**	**$1,004,640**	**$252,684**	**$48,161**	**$1,751**	**$2,317,413**	**$3,288,862**
2019 (Const.)	$313,950	$125,580	$1,004,640	$0	$0	$0	$1,444,170	$0
2020	$50,951	$20,380	$0	$26,461	$5,043	$183	$103,019	$344,416
2021	$50,951	$20,380	$0	$27,785	$5,296	$193	$104,604	$361,636
2022	$50,951	$20,380	$0	$29,174	$5,560	$202	$106,267	$379,718
2023	$50,951	$20,380	$0	$30,632	$5,838	$212	$108,014	$398,704
2024	$50,951	$20,380	$0	$32,164	$6,130	$223	$109,848	$418,639
2025	$50,951	$20,380	$0	$33,772	$6,437	$234	$111,774	$439,571
2026	$50,951	$20,380	$0	$35,461	$6,759	$246	$113,796	$461,550
2027	$50,951	$20,380	$0	$37,234	$7,097	$258	$115,920	$484,627
Resident Impacts	**$137,345**	**$54,938**	**$1,122,360**	**$0**	**$0**	**$0**	**$1,314,643**	**$0**
2020	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2021	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2022	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2023	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2024	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2025	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2026	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
2027	$17,168	$6,867	$140,295	na	na	na	$164,330	$0
8 Year Total	**$858,901**	**$343,560**	**$2,127,000**	**$252,684**	**$48,161**	**$1,751**	**$3,632,056**	**$3,288,862**

[1] Payment in lieu of taxes to Mesa Public Schools, Maricopa Community Colleges and East Valley Institute of Technology.
[2] Based on a property tax rate of 12.2164% in tax rate area 041000.

The foregone property tax revenues associated with the GPLET were estimated based on limited property value (LPV) per square foot for comparable apartments in the surrounding area. Based on these comparable developments, an average limited property value per square foot of $98.79 was used, resulting in a total LPV estimate of $28.2 million in 2020. It is assumed that the property value would increase by 5 percent per year, based on recent increases in LPV for comparable properties and statutory guidelines.

The value of the land on which the PILOT is based, is estimated using the share of 2019 LPV attributed to land of $1.94 million. It is assumed that the land value would increase by 5 percent per year, based on recent increases in LPV for the subject property and statutory guidelines. Applying current tax rates for MPS, MCCD and EVIT to the LPV for the land, multiplied by the current 18 percent assessment ratio for commercial property, yields the PILOT estimates shown in Figure 5.

The estimated LPV per acre for these two parcels ranges from $126,000 to $169,000, which is lower than the average value per acre for other vacant parcels in the vicinity of the site. Undeveloped vacant land in this area ranges from $200,000 per acre to $270,000 per acre in terms of LPV. Associated commercial parcels in this area, which are generally surface parking lots associated with buildings on adjacent parcels, range from $150,000 to $250,000 per acre, based on assessor's records. If the existing improvements are demolished and the property is re-assessed, it is likely that the land value would increase.

4.4 Summary

The proposed redevelopment of the NWC of Alma School and Southern, as described in this analysis, could create both economic and revenue benefits for the City of Mesa. The development will create 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 value from the redevelopment of this property that would generate new property taxes to the city and other local jurisdictions after the GPLET term ends, as well as additional sales tax revenues from the apartment rents and from resident spending on an on-going basis.