



APPLIED ECONOMICS

June 10, 2020

Mr. Bill Jabjiniak
Economic Development Director
City of Mesa
20 E. Main Street, Suite 200
Mesa, AZ 85201

Dear Mr. Jabjiniak,

This letter presents the results of an independent third party review by Applied Economics of the proposed development agreement between the City of Mesa and Signal Butte 24 LLC for Destination at Gateway, a mixed-use development located on the south side of Williams Field Road both east and west of Signal Butte Road. We understand that Signal Butte 24 LLC is planning to construct a mix of commercial and residential development on this approximately 89-acre site, including one or more auto dealerships. While the development agreement includes land use restrictions and other development specifications, the focus of this review is the sales tax rebate.

The development agreement requires the construction of at least one auto dealership that would be open to the public no later than December 31, 2026. The proposed dealership would most likely be located on the southeast corner of Signal Butte Road and Williams Field Road. Average construction costs for an auto dealership are estimated at \$12.38 million, and will vary depending on the dealership brand. This analysis assumes that the first dealership would be operational by December 31, 2026 and that additional dealerships could be built in future years. If additional dealerships are built, or the total number of dealerships exceeds the required minimum of one, it will simply result in a shorter payback period and more additional sales tax revenue for the city.

The development agreement includes provisions for a sales tax rebate equal to 50 percent of the 1.2 percent non-dedicated general fund sales taxes generated by the operations of the dealership and related vehicle service facility. The rebate does not include construction sales tax. The maximum rebate would be equal to the lesser of the actual cost of public improvements constructed and dedicated to the city, or a maximum of \$6.0 million over a period of up to eight years, which is the Economic Incentive Period. The incentive period begins when the certificate of occupancy is issued for the first dealership and concludes no later than December 31, 2034.

Per A.R.S. 9-500.11, it is required that any proposed tax incentive is anticipated to raise more revenues than the amount of the incentive within the duration of the agreement. We have reviewed the development agreement and prepared an analysis of projected taxable activities and the future sales tax revenue stream to the city over the next eight years. Based on our review, we believe that the project would generate a significantly greater amount of sales tax revenues than the total amount of the rebate. If only the one required dealership is built, the amount of tax revenues generated will not likely be sufficient to reach the estimated maximum rebate of \$6.0 million within the eight year Economic Incentive Period. However, if a second dealership is built in 2027 or 2028, it is likely that the maximum rebate could be met within the eight year period.



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The city could retain an estimated \$9.3 million in sales tax collections from a single dealership during the eight year term, including construction sales tax. If a second dealership is added in 2027, the city could retain an estimated \$18.9 million during the eight year term. In both cases, the revenues to the city exceed the maximum rebate of \$6.0 million. Additional dealerships would increase revenues to the city during the eight year period in proportion to the year in which they are built.

The \$6.0 million rebate of retail sales taxes is intended to cover the cost of specific infrastructure improvements to be completed by the developer, as outlined in the development agreement. These would include design and construction of the south side of Williams Field Road and the east and west sides of Signal Butte Road; design and construction of an internal street to serve the auto mall; and design and construction of the west side of 110th Street. These improvements must be completed prior to opening the auto dealership. A.R.S. 42-6010 requires that sales tax incentives offered to retail businesses be provided only as reimbursement for public infrastructure dedicated to, and accepted and controlled upon completion of the project, by the City. All public improvements described above would meet these requirements and the cost of such improvements forms the basis for the sales tax rebate amount per the development agreement.

The second component of A.R.S. 9-500.11 requires that this development would not have occurred in the same time, place or manner in the absence of a tax incentive. Based on information provided by the developer's representative, we believe that this project would not have occurred in the same place or manner without the incentive. The subject property is currently in an undeveloped area and requires significant improvements to surrounding streets that serve the subject site and adjacent properties, along with full construction of internal streets. Without these street improvements, the site would not be suitable for commercial development and the auto mall would locate elsewhere.

Based on our review, we believe that the agreement between the City of Mesa and Signal Butte 24 LLC meets the requirements of both A.R.S. 9-500.11 and A.R.S. 42-6010. Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Sarah E. Murley
Principal