



# City Council Report

**Date:** July 8, 2020

**To:** City Council

**Through:** Christopher J. Brady, City Manager  
Karolyn Kent, Assistant City Manager

**From:** William J. Jabjiniak, Economic Development Director  
Christine Zielonka, Development Services Director  
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**Subject:** Discuss and consider entering into a Development Agreement with Signal Butte 24, LLC for approximately 89 acres located south of Williams Field Road on the east and west sides of Signal Butte Road.  
Council District 6

## Purpose and Recommendation

The purpose of this report is to discuss and consider approving a development agreement with Signal Butte 24, LLC (Developer). This development agreement includes approximately 89 acres of property that will be rezoned to General Commercial-Planned Area Development with a Council Use Permit (GC-PAD-CUP) with case ZON19-00805.

Staff recommends that the City Council approve the development agreement.

## Background

The Developer has made a request to rezone approximately 89 acres at the southeast and southwest corners of Williams Field Road and Signal Butte Road from residential zoning districts to a general commercial zoning district to accommodate a future mixed-use development (see Exhibit A). The predominant uses anticipated on the site are regional commercial uses, particularly high-quality, new auto dealerships, and other commercial uses that will serve the surrounding neighborhoods and region. The site may include some multi-residence as a secondary use. There is a significant economic benefit to the City associated with the proposed development that includes additional jobs and new sales tax revenues generated by automobile sales operations.

In 2018, the City commissioned an analysis of opportunities for new automotive dealership development in Mesa. The study indicated the planned interchange at the intersection of the Gateway Freeway (SR 24) and Signal Butte Road is the only location in Mesa that meets the requirements for an auto mall (see Exhibit B). This assessment is based on legislative restrictions governing same-make locations and the access and visibility requirements for auto and light truck dealerships.

The site requires significant investment in public infrastructure by the developer to serve the subject site and adjacent properties, including construction of streets and related water and sewer lines. These improvements are necessary in order to attract the type of development that are of an economic benefit to Mesa. As pointed out in the economic impact analysis, the

current average construction costs for a car dealership are estimated at \$12.38 million dollars. The public infrastructure costs available for reimbursement will cost \$6 million, a significant investment by the developer. As the project is located on two arterial streets, the location of the project and the public improvements provided by the developer will provide an important regional benefit to the community.

Due to these factors, the Developer and the City are proposing to enter into a development agreement that includes retail sales tax incentives.

Arizona State law requires that cities and towns considering entering into a retail sales tax incentive agreement must adhere to the following requirements:

1. As a separate agenda item, the City Council shall make a finding by a majority vote that:
  - a. The proposed tax incentive is anticipated to raise more revenue than the amount of incentive for the duration of the agreement.
  - b. In the absence of a tax incentive, the retail business would not locate in the City in the same time, place or manner.
2. The City shall not enter into a tax incentive agreement if the proposed tax incentive raises less revenue than the amount of the incentive.
3. The findings must be verified by an independent third-party before the City enters into a retail tax incentive development agreement. The City shall fund the independent third-party analysis as well as select the independent third-party.
4. The City must adopt a Notice of Intent to enter into a retail tax incentive agreement at least fourteen (14) days prior to Council consideration of the tax incentive agreement. The Mesa City Council adopted a Notice of Intent for this development agreement at the June 15, 2020 Council meeting.
5. The development agreement must be approved by a majority of the Council and cannot be placed on the Consent Agenda.
6. Incentives offered to retail businesses be provided only as reimbursement for public infrastructure dedicated to, accepted and controlled by the City.

## **Discussion**

The purpose of the development agreement is to guide future development of the property as well as provide for certain economic incentives that will yield the highest and best use for the site and bring new tax revenue to the City. The development agreement includes the following stipulations:

### **Land Use Restrictions:**

- 1) The Developer has agreed to certain land use restrictions on the property to maintain the Mixed-Use Activity District character designation of the General Plan. The land use restrictions for this property are as follows:
  - a) A minimum of 60% of the acreage of the property shall developed with commercial uses.
  - b) A maximum of 40% of the acreage of the property may be developed as multiple residence.

- c) There shall be no more than 550 multiple residence units on the property.
- d) No residential uses will be allowed on five acres at the southwest corner of Signal Butte and Williams Field Roads.
- e) No residential uses will be allowed within 200' of Williams Field Road east of Signal Butte Road for a distance of 750' or within 200' of Signal Butte Road to the project's south boundary.

#### **Public Improvements:**

- 1) The Developer shall construct and dedicate to the City of Mesa street improvements, which shall include pavement, curb, gutter, sidewalk, streetlights, traffic signals, storm drain, water and sewer lines and landscaping, at the following locations:
  - a) South side of Williams Field Road adjacent to the property
  - b) East and west sides of Signal Butte Road adjacent to the property
  - c) West side of 110<sup>th</sup> Street adjacent to the property
  - d) New internal auto mall street
- 2) The cost of the improvements for the above noted streets will be reimbursed to the Developer, up to \$6.0 million, from the transaction privilege taxes and use taxes actually generated from the retail activity on the property.

#### **Economic Incentives:**

- 1) Of the City's 2.0% sales tax rate, the sales tax reimbursement will equal 50% of the 1.2% non-dedicated general fund sales taxes generated by the operations of the dealership(s) and related vehicle service facilities. The sales tax reimbursement will not include any portion of the 0.3% Streets and Maintenance Tax, 0.25% Quality of Life Tax and 0.25% Public Safety Tax.
- 2) 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.
- 3) The incentive period begins when the public infrastructure improvements are completed, a certificate of occupancy is issued for the first auto dealership and the auto dealership opens for business, which shall be no later than December 31, 2026. The incentive period concludes no later than December 31, 2034.

#### **Alternatives**

The following alternatives are presented for consideration:

##### **APPROVAL OF THE DEVELOPMENT AGREEMENT.**

Approval of the development agreement will facilitate new tax revenues for the City from the proposed new auto dealerships as well as promote high-quality development in southeast Mesa.

##### **NO ACTION.**

If the Council chooses not to approve the development agreement, the new auto dealerships will locate elsewhere and the City will not receive new tax revenues generated from automobile sales on the property.

Staff recommends the City Council approve the development agreement.

### **Fiscal Impact**

The proposed retail sales tax reimbursement shall not exceed \$6.0 million and is intended to cover the cost of specific infrastructure improvements that will be completed by the Developer, as outlined above. The independent third-party analysis conducted by Applied Economics (see Exhibit C) indicated if only one dealership is built, the City could retain an estimated \$9.3 million in sales tax collections, including construction sales tax, during the eight-year term. If a second dealership is added by 2027, the City could retain an estimated \$18.9 million in sales tax collections during the eight-year term. In both cases, the revenues to the City exceed the maximum reimbursement of \$6.0 million. Additional dealerships would only increase revenues to the City during the eight-year period in proportion to the year in which they are built.

The findings of the economic impact analysis conducted by Applied Economics also established the amount of tax revenues raised by the proposed development will be more than the incentive to the Developer, the development would not have occurred in the same time, place or manner without the tax incentive and the incentive will only provide reimbursement for public infrastructure that will be dedicated to and owned by the City.

### **Coordinated With**

The development agreement was coordinated with the Office of Economic Development, the Development Services Department, the Engineering Department and the City Attorney's Office.

Attachments: Exhibit A, Area Map  
Exhibit B, Auto Dealership Location Analysis Map  
Exhibit C, Independent Third-Party Economic Impact Analysis