City Council

Date: July 8, 2020

To: Mayor and Council

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

From: William J. Jabjiniak, Economic Development Director
Christine Zielonka, Development Services Department Director
Lori Collins, Deputy Economic Development Director
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Subject: Making findings required by A.R.S. § 9-500.11 (Version 2) for the City to enter into a development agreement meeting the definition of "a retail development tax incentive agreement" with Signal Butte 24, LLC for the project known as the "Destination at Gateway" generally located at the corner of South Signal Butte Road and East Williams Field Road.
Council District 6

Purpose and Recommendation:
The purpose of this report is to discuss the findings required per A.R.S. § 9-500.11 (Version 2) that would allow the City to enter into a retail development tax incentive agreement with Signal Butte 24, LLC. The proposed retail development tax incentive agreement would facilitate the development of a project known as "Destination at Gateway" that will include regional commercial uses, such as new auto dealerships and supporting retail, that will be of an economic benefit to Mesa.

Staff recommends that the City Council approve the resolution.

Background
Prior to entering into a retail development tax incentive agreement, A.R.S. § 9-500.11 (Version 2) requires the City make findings that the proposed tax incentive will raise more revenue than the amount of the incentive during the term of the agreement and also that the retail business would not locate in the city in the same time, place or manner without the tax incentive. To verify the findings, the City hired Applied Economics, an independent third party, to review the proposed development agreement and retail development tax incentive.

Discussion
As evidenced by the economic impact analysis (see Exhibit A) prepared by Applied Economics, sales tax revenues to the City would be an estimated $9.3 million with just one auto dealership operating on the property during the term of the agreement. If a second auto dealership is added, the City's sales tax revenues would increase to $18.9 million. Both sales tax revenue projections far exceed the $6.0 million retail sales tax incentive to the developer.

The existing public infrastructure improvements in the area are severely lacking and will require a significant investment by the developer in order to properly serve the proposed new auto dealerships. The retail sales tax incentive of $6.0 million will reimburse the developer for the necessary public infrastructure improvements. Per the economic impact analysis, the site would not be suitable for commercial development and the auto dealerships would locate elsewhere without these public infrastructure improvements. 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 added investment by the developer they would not incur on a fully-improved site. The developer’s representative confirmed that the proposed new auto mall would not occur in the absence of the tax incentive because of the needed infrastructure. 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.

Alternatives
The following alternatives are presented for consideration:

> APPROVAL OF THE RESOLUTION.
> Approval of the resolution will demonstrate that the City made the findings required by A.R.S. § 9-500.11 (Version 2) prior to entering into a retail development tax incentive agreement.
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> NO ACTION.
> If the Council chooses not to approve the resolution, the City will not be able to enter into a retail development tax incentive agreement with the developer. Without the agreement, new auto dealerships will locate elsewhere and the City will not receive new tax revenues generated from automobile sales on the property.

Staff recommends that the City Council approve the resolution making findings required by A.R.S. § 9-500.11 (Version 2) prior to entering into a retail development tax incentive agreement.

Fiscal Impact
The proposed retail development tax incentive agreement will allow the City to reimburse the developer up to $6.0 million for the construction of public infrastructure improvements that will serve new auto dealerships. However, the City will retain sales tax revenues of $9.3 million dollars with one auto dealership and revenues of $18.9 million with two auto dealerships during the term of the agreement.

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.

Attachment**:** Exhibit A, Independent Third-Party Economic Impact Analysis