City Council Report

Date: October 21, 2024
To: Mayor and Council
Through: Christopher J. Brady, City Manager
Marc Heirshberg, Deputy City Manager

From: Jaye O'Donnell, Economic Development Director
Nana Appiah, Development Services Department 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 and Pre-Annexation Development Agreement meeting the definition of "a retail development tax incentive agreement" with Horne Real Estate Investments LLC, Gateway Land Investments LLC, Signal Butte 20 DJB, LLC and Signal Butte 10, LLC for the project known as the "Gateway AutoMall" generally located at the northeast and northwest corners of Pecos Road and Signal Butte 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 Horne Real Estate Investments LLC, Gateway Land Investments LLC, Signal Butte 20 DJB, LLC and Signal Butte 10, LLC ("Developer"). The proposed retail development tax incentive agreement would facilitate the development of a high quality, mixed use, master planned development known as "Gateway AutoMall" that will include regional commercial uses, such as new auto dealerships and supporting retail. The proposed development will have significant economic benefit to the City.

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: (a) the proposed tax incentive will raise more revenue than the amount of the incentive given during the term of the agreement; and (b) the retail business would not locate in the City in the same time, place or manner without the tax incentive.

To verify the findings for the Development Agreement, the City hired Applied Economics, an independent third party, to review the proposed development agreement and retail development tax incentive.

Discussion

The public infrastructure improvements in the area will require a significant investment by the Developer in order to properly serve the proposed new auto dealerships. The retail sales tax incentive of $11.6 million will reimburse the Developer for the necessary public infrastructure improvements. Property owner intends to develop the Public Improvements in phases. Completion of the first phase of Public Improvements is a Condition Precedent to Property Owner's right to receive Sales Tax Rebates, but the Total Incentive Amount shall not be available to the Property Owner until the completion of all phases of the Public Improvements. Rather, the Total Incentive Amount available for reimbursement shall increase cumulatively as Property Owner completes each phase of the Public Improvements. The Total Incentive Amount shall be divided, as follows:

- 8.3.1 Upon completion of Phase 1 of the Public Improvements, $6,249,451.57 of the Total Incentive Amount shall be available for reimbursement.
- 8.3.2 Upon completion of Phase 2 of the Public Improvements, an additional $533,910.80 of the Total Incentive Amount shall be available for reimbursement.
- 8.3.3 Upon completion of Phase 3 of the Public Improvements, an additional $772,941.90 of the Total Incentive Amount shall be available for reimbursement.
- 8.3.4 Upon completion of Phase 4 of the Public Improvements, the remaining $937,102.93 of the Total Incentive Amount shall be available for reimbursement.
- 8.3.5 Upon completion of Phase 5 of the Public Improvements, the remaining $3,150,400.00 of the Total Incentive Amount shall be available for reimbursement.

As evidenced by the economic impact analysis prepared by Applied Economics (see Exhibit A), sales tax revenues to the City would be an estimated $15.2 million with just one new auto dealership operating on the property during the 12-year initial term of the Economic Incentive Period (the period of time in which the non-dedicated sales tax generated at the property from the dealerships can be used towards the sales tax rebate), and the Developer could receive $6.2 million in reimbursements during that time. If five dealerships are built over 20 years of the Economic Incentive Period, the City's sales tax revenues would increase to $156.5 million during the 21-year term (initial term, plus all extensions) of the Development Agreement, and the Developer could receive an estimated $11.6 million in reimbursements. Both sales tax revenue projections exceed the $11.6 million retail sales tax reimbursement incentive to the Developer; therefore, the independent economic impact analysis supports the finding that the proposed project would generate a significantly greater amount of sales tax revenues than the total amount of the rebate.

As it pertains to the finding that the retail business would not locate in the City in the same time, place or manner without the tax incentive, the Developer's representative has maintained that, without the incentive, the Gateway AutoMall project would not be able to locate in Mesa in the same time, place, or manner primarily because of the high level of infrastructure costs necessary to support the development. The subject site requires substantial investment in public infrastructure by the Developer to facilitate development of the site for the anticipated auto mall, including construction of streets and related water and sewer lines as the property is currently in an undeveloped area.

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.

NO ACTION.

If the Council chooses not to approve the resolution, the City will not be able to enter into a Development and Pre-Annexation Development Agreement retail development tax incentive agreement with the Developer. Without the agreement, the project would not be able to located in Mesa in the same, time, place and manner and the City would not receive the anticipated tax revenues that would be generated by the Gateway AutoMall 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 $ 11.6 million for the construction of public infrastructure improvements that will be dedicated to, and accepted and controlled upon completion of the project by, the City. However, the City will retain sales tax revenues of $15.2 million dollars with one auto dealership and revenues of $156.5 million with five auto dealerships during the term of the agreement, thus the City will receive more revenues than the amount of the incentive to the Developer.

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
Exhibit B, Development Agreement