



City Council Report

Date: November 26, 2025

To: City Council

Through: Scott Butler, City Manager
Brent Stoddard, Assistant City Manager
Marc Heirshberg, Assistant City Manager

From: Jeff Robbins, Redevelopment Program Administrator

Subject: Approving the formation of the Palo District, a theme park district pursuant to Arizona law, on approximately 80 acres of land wholly within the boundaries of the City of Mesa, generally located north of the US-60, south of West Southern Avenue, west of South Alma School Road, and east of South Longmore; electing two City Councilmembers to serve on the district board of directors; and approving the form and authorizing the execution and delivery of a Development and Intergovernmental Agreement by and among the City, the Palo District and the owners of land and interests in land within the district; and approving and authorizing additional actions in connection with the district. **District 3**

Purpose and Recommendation

Consider the proposed formation of a theme park district known as the “Palo District,” election of two City Councilmembers to the Palo District board of directors, and approval of a related development and intergovernmental agreement that will facilitate the redevelopment of approximately 80 acres of privately-owned real property in the Fiesta District north of the US-60, south of West Southern Avenue, west of South Alma School Road, and east of South Longmore, including the site of the former Fiesta Mall (“Property”).

Staff recommends approval of the formation of the Palo District, election of two City Councilmembers to the Board, and approval of the proposed Agreement.

Background

The City (“City”) was approached by Palo District, LLC (“Successor Owner”) with an interest in acquiring the Property from the current owner, Verde Fiesta I, LLC (“Owner”). The Successor Owner and Owner are requesting formation of a theme park district to attract and facilitate redevelopment of the Property and have submitted a

written consent that includes the boundaries of the proposed district encompassing the Property.

The Fiesta Mall on the Property closed in 2019 and demolition began in 2023. The Owner partnered with the City to produce the Fiesta Redefined Master Plan. On December 10, 2024, the City Council approved rezoning the Property from Limited Commercial (LC) to Infill Development District 2 (ID-2). The approved ID-2 zoning supports a mix of uses. The anticipated future development is a mixed-use district with restaurant, retail, lodging, office, and residential uses, and a multiuse stadium that could include soccer. The City has not received any submittals for improvements to the Property since the rezoning.

Title 48 of the Arizona Revised Statutes (“A.R.S.”) governs special taxing districts in Arizona. Creating a special taxing district establishes a dedicated funding source for needed or desired services or development, with the cost assigned to the properties and individuals who directly benefit. The authority to create a special taxing district generally lies with the legislature, which created A.R.S. Title 48, Chapter 36 (the “Act”) in 2005 to provide a funding mechanism and governance structure for the construction, operation, and maintenance of a theme park (“Theme Park District”). A theme park is generally defined in the Act as any combination of recreational, entertainment, sports, amusement and cultural venues and parking facilities and any buildings and improvements with a central access designed and built around a particular time, place, story or subjects. There are currently no active Theme Park Districts in Arizona; however, Coconino County, in partnership with the City of Phoenix and the Town of Williams, formed Arizona’s only Theme Park District in 2015.

Discussion

Theme Park Districts

Theme Park Districts are tax levying public improvement districts that are corporate and political bodies with all the rights, powers and immunities of a municipal corporation except as may be modified by the Act; a Theme Park District is a separate legal entity from the jurisdiction that establishes the district, governed by its own board of directors.

Under the 2024 amendments to the Act, the City may establish a Theme Park District within the jurisdictional limits of the City. The initial geographical boundaries of a Theme Park District must be established at formation using contiguous, whole parcels of real property whose owners have expressly agreed to inclusion in the district; a Theme Park District cannot encompass any property without the owner’s specific consent.

Once established, some notable powers of a Theme Park District that may be exercised by its board of directors pursuant to the Act include: (a) providing for the acquisition, construction, renovation, redevelopment, lease, use and maintenance of the properties and interests owned or controlled by the district; (b) the power to levy a

transaction privilege tax on business activity in the district; and (c) the ability to issue negotiable revenue bonds that do not constitute a debt of the state or of the county or city establishing the district. The transaction privilege tax imposed by a Theme Park District pursuant to the Act is in addition to transaction privilege and use taxes imposed by the state pursuant to title 42, chapter 5 and any county, city, town or other local transaction privilege tax.

Two Members of the Council Required to Sit on the Palo District Board

Theme Park Districts are governed by a non-compensatory, four-person board ("Board") with membership comprised of:

- Two members representing the jurisdiction(s) that formed the district
- One member of the general public appointed by the Speaker of the House
- One member of the general public appointed by the President of the Senate

If the Council approves the formation of the Palo District, the Act requires the Council to elect two of its members to serve on the Palo District Board. Staff recommends that the two Councilmembers be deemed elected as a part of the resolution approving the formation of the Palo District.

Development and Intergovernmental Agreement

The Act requires a Theme Park District to enter into an intergovernmental agreement with the jurisdiction establishing the district. Staff recommends that the Council enter into the Development and Intergovernmental Agreement with the Palo District, Owner, and Successor Owner ("Agreement"). A summary of some of the principal terms of the Agreement is below:

Use of City Employees and Facilities. No employees of the City may serve as administrative staff or officers of the Palo District, and the Palo District is required to engage its own legal counsel, financial consultants, and administrative and support staff. The Palo District must find its own meeting facilities and, if it uses City facilities, will pay the then standard or commercially equivalent rate.

Construction of Public Improvements. Public improvements to be dedicated to the City must be constructed in accordance with applicable laws and City engineering and design standards and be dedicated to the City at no cost; the Agreement creates no obligation or guarantee for the City to reimburse the cost of construction of any such public improvements. Advertisements for procurements must also contain certain language stating the City is not responsible for payment of construction contracts or any related claim.

Indemnification. The Palo District, Owner, and Successor Owner agree, jointly and severally, each at their sole cost and expense, to indemnify, defend, and hold the City and certain named indemnified parties harmless against any indemnified claim under the Agreement.

Replenishable Expense Fund. The Agreement creates a replenishable expense fund for the City to draw from to pay initial and subsequent Palo District-related City expenses. The initial deposit is to be provided by the Successor Owner after formation of the Palo District. Future transfers into the fund will be provided by the Owner or the Successor Owner subject to a minimum annual amount that will be maintained.

The City is Not Liable for Palo District Indebtedness. Neither the general fund nor any other funds or moneys of the City will be liable for the payment or repayment of any obligation, liability, bond, or indebtedness of the Palo District, and the taxing authority of the City will not be pledged to pay such debts or obligations of the Palo District. Any indebtedness or liabilities created by the Palo District, including the issuance of revenue bonds by the Palo District, are obligations of the Palo District alone.

The Palo District Must Provide Disclosures. Commercially reasonable efforts must be made to obtain disclosure statements from each subsequent owner, lessee, and business operator within the boundaries of the Palo District acknowledging that the land they are occupying/owning is within the boundaries of the Palo District and may be subject to the Palo District's levying and collection of transaction privilege taxes for the repayment of revenue bonds.

Fiscal Impact

Palo District Formation

The cost of outside counsel to review, negotiate and prepare for the possible formation of the Palo District and any other initial expenses are to be paid by the Palo District, Owner, and/or Successor Owner through the replenishable expense fund. Any future identified City expenses related to the Palo District will be paid through the replenishable fund as well.

Operation and Maintenance

The City would have no financial obligations for operations and maintenance beyond maintenance of any public improvements dedicated to the City within the Palo District boundaries; this is similar to other developments within the City that are required to dedicate public improvements to the City.

Property Tax Exemption

There is a property tax exemption under the Act for certain property acquired, leased or constructed by a Theme Park District that is not automatic with the creation of a Theme Park District but requires actions by the district after formation. As the City has no primary property tax, the only tax of the City that may be impacted by the exemption is the secondary property tax collected within the proposed Palo District boundaries which, in 2025, was \$17,805.34.

Alternatives

Not approve formation of the Palo District: The Council could choose not to approve the formation of the Palo District. If the Council chooses not to form the Palo District, it will likely impact the future development opportunities for the Property.

Direct staff to modify the terms of the formation of the Palo District and/or Agreement: The Council could direct staff to modify the language of the resolution forming the Palo District or the terms of the Agreement as presented.

Take no action: The Council could choose to take no action or table the item until a future date. Taking no action means the Palo District would not be formed unless and until approved by a resolution of the Council at a later date.

Coordinated With

The terms of the resolution forming the Palo District and the proposed Agreement were coordinated with the City Manager's Office, Office of Urban Transformation, Economic Development Office, and the City Attorney's Office.