



# City Council Report

**Date:** October 7, 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  
Maria Laughner, Deputy Economic Development Director  
Beth Hughes-Ornelas, Deputy Director Development Services

**Subject:** A Resolution approving and authorizing the City Manager to enter into a Development Agreement with THS DUAL FLAG AT GP, LLC for the development of a portion of the project commonly known as "Gallery Park" generally located near S. Power Road between E. Ray Road and State Route 202 (APN 304-30-975).  
(Council District 6)

## Purpose and Recommendation

The purpose of this report is to provide Council with information for the consideration of a resolution for the approval of a development agreement with THS DUAL FLAG AT GP, LLC ("Developer") that will allow the City to provide a reimbursement of the non-dedicated portion of construction sales tax for certain public infrastructure ("Development Agreement"). The proposed Development Agreement would facilitate the development of a higher-caliber hotel and restaurant that would provide increased transaction privilege and transient lodging tax, and serve a specific area need that would otherwise remain unfulfilled.

Staff recommends that the City Council approve the Resolution to authorize the City Manager to enter into the Development Agreement.

## Background

The subject property site is approximately 3.6 ± acres of vacant land generally located near S. Power Road between E. Ray Road and State Route 202 (APN 304-30-975). ("Property").

Developer intends to develop the Property as a portion of the project known as "Gallery Park". The development on the Property will consist of a full-service, dual flag, 174 room

hotel comprised of a Tempo by Hilton and a Homewood Suites by Hilton (collectively, the “Hotel”) catering to regional guests traveling for business, leisure and extended stay, and featuring an independently branded and operated full-service 6,000 square foot restaurant currently (“Restaurant”) (collectively, the “Project”).

The original development for the Property was to be a dual flag Hilton Garden Inn and a Homewood Suites with accompanying eating accommodations designed primarily to serve Hilton Garden Inn and Homewood Suites guests; the Developer previously obtained the entitlements and site plan approval for the original development concept. However, the new, inclusion of the upgraded Tempo brand to the Hotel and the accompanying Restaurant would introduce a higher caliber of accommodations and a full-service restaurant designed to serve the general public. The proposed new Project is estimated to generate substantially increased transaction privilege and transient lodging tax revenues for the City and will serve an area need for a full-service, sit-down restaurant and hotel accommodations at the caliber of the Tempo brand Hotel and the Restaurant.

## **Discussion**

As there are increased costs to Developer for the inclusion of the higher-caliber Hotel and Restaurant, Developer requested reimbursement for the costs of construction for certain public infrastructure improvements in the area, consisting of the water and sewer lines for the Project depicted in Exhibit C to the Development Agreement, which will require a significant investment by the Developer in order to properly serve the proposed Hotel and Restaurant. The purpose of the Development Agreement is to provide for the terms and conditions of the reimbursement for the infrastructure.

The funds used to reimburse the Developer for the eligible public infrastructure will consist of the non-dedicated portion of the taxes (1.2% of the City’s total 2.0% tax rate is considered non-dedicated) that are collected by the City related to the construction of the Project for specified taxable activities under Section 5-10-415 of the Mesa Tax Code, commonly referred to as “Construction Sales Tax”.

The total amount of the reimbursement will not exceed the lesser of either the non-dedicated Construction Sales Tax collected by the City for the Project or the eligible construction costs for the water and sewer line infrastructure. Developer will not be eligible to receive the reimbursement until completion of construction and acceptance by the City of the water and sewer line public infrastructure, and the completion of construction of the Hotel and Restaurant which is estimated to be complete by December 1, 2026.

The reimbursement of the Construction Sales Tax is permitted by A.R.S. § 42-6010(D)(4), as a reimbursement for public infrastructure that will be dedicated to and accepted and controlled upon completion of the Project by the City.

## **Alternatives**

Staff recommends approval of the resolution to authorize the City Manager to enter into

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the Development Agreement as presented to City Council.

The following alternatives to approval are presented for consideration:

**MODIFICATION.**

The City Council can modify the terms and conditions of the Development Agreement as proposed.

**NO ACTION/DENIAL.**

If the City Council chooses not to approve the resolution, the City will not be able to enter into the Development Agreement with the Developer for the Construction Sales Tax reimbursement.

**Fiscal Impact**

The proposed Development Agreement would result in the City reimbursing the Developer the lesser of: (a) the non-dedicated Construction Sales Tax collected by the City for the Project which is estimated to be \$401,700; or (b) the eligible construction costs for the water and sewer line infrastructure which are estimated to be \$442,247. It is worth noting that the reimbursement is only for the non-dedicated Construction Sales Tax; the City will receive all the Mesa Tax Code transaction privilege and transient lodging tax the Project will generate.

**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: Development Agreement