City Council

Date: December 8, 2021

To: City Council

Through: Christopher J. Brady, City Manager

From: Jeffrey McVay, Manager of Downtown Transformation
Jeffrey Robbins, Downtown Transformation Project Manager

Subject: Consider proposed Purchase, Development, and GPLET Lease Agreements that will facilitate the development of The Residences on Main Phase Three; a multi-family residential project on City-owned property generally located at the southeast corner of 1st Avenue and South Macdonald.
District 4

Purpose and Recommendation

Consider the proposed Purchase and Development Agreements and GPLET lease between the City of Mesa and MHA III, LLC. The Agreement facilitates the development of Residences on First, Phase Three (Exhibit A – Conceptual Site Plan). The Residences on Main is a proposed $12M development, generally located at the southeast corner of 1st Avenue and South Macdonald. As shown on the attached Conceptual Site Plan, the project site consists of a total of approximately 1.48 acres of City-owned real estate.

Background

The third and final anticipated phase of the Residences on First project follows Residences on First phase one which was approved by the Mesa City Council in December 2016 and phase two in August 2019. The developer has successfully completed both phase one and two and is currently in good standing with the respective agreements.

The development proposal includes three, three story multi-family buildings containing a total of 72 market-rate apartments and approximately 49 on-site surface parking spaces. Amenities for phase three were constructed with phase two and include a swimming pool and clubhouse. The developer will also construct and maintain in perpetuity public improvements consisting of landscape islands in City right-of-way spanning approximately 600 feet of the eastern side of South Macdonald. Upon completion of the third phase, the Residences on First project will include a total of seven buildings and 168 market-rate units.

Discussion

The following provides a summary of the primary deal points of the Purchase and Development Agreements.

Description of Project:

1. Developer will construct the following minimum private improvements:
    a. 72 market-rate apartments (fifty-four one-bedroom, eighteen two-bedroom)
    b. Approximately 49 on-site surface parking spaces and 22 on-street spaces
    c. Approximately 600 linear feet of off-site public improvements along South Macdonald consisting of landscape islands and diagonal parking spaces
2. Developer will comply with project and unit amenity quality standards and exterior quality standards, i.e., National Green Building Standard rated buildings, electric car charger, private deck for minimum 70% of units
3. Development will use City of Mesa utilities
4. Construction will commence no later than August 31, 2022
5. Completion of project and all public improvements no later than December 31, 2023

Economic Benefit Analysis

An economic and revenue impact analysis was completed for the project by Applied Economics in May 2021 (Exhibit B – Economic Impact Analysis). That analysis projects $255,636 in direct revenues (construction sales and secondary property tax) to the City in the first 8 years. New residents are estimated to generate an additional $133,866 in sales tax over 8 years.

In addition to the financial benefits outlined in the economic benefit analysis, the City will receive one-time permit and impact fees, annual lease payments, and additional customers to City of Mesa utilities.

Terms of Agreements:

1. Sale of six City-owned land totaling approximately 1.48 acres for full appraised value of $775,000.
2. Developer's construction and perpetual maintenance of enhanced streetscape improvements spanning approximately 600 feet on the east side of South Macdonald.
3. GPLET Lease Agreement
    a. The lease is estimated to generate net revenue to the city of Mesa of $389,502 over eight years.
    b. Developer will make a one-time in-lieu payment of $27,212 to local school districts
    c. Developer payments to the City of $10,000 annually for lease payments ($80,000 total).

Alternatives

Modify terms to the proposed Purchase and Development Agreements.

Denial of the proposed agreements.

Attachments

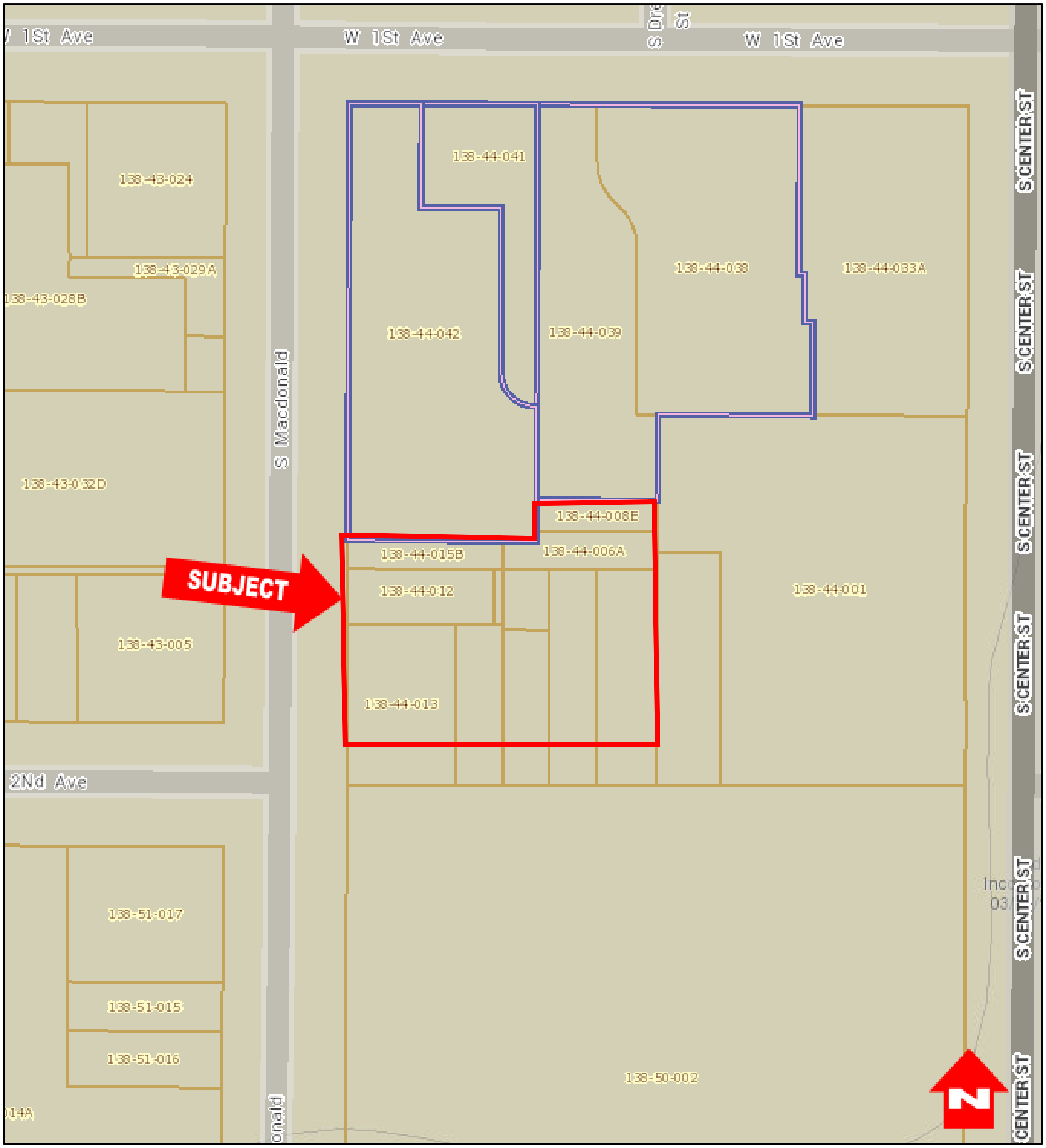
Exhibit A: Site Plan

Exhibit B: Economic Impact Analysis

EXHIBIT A

Site Plan

PLAT MAP

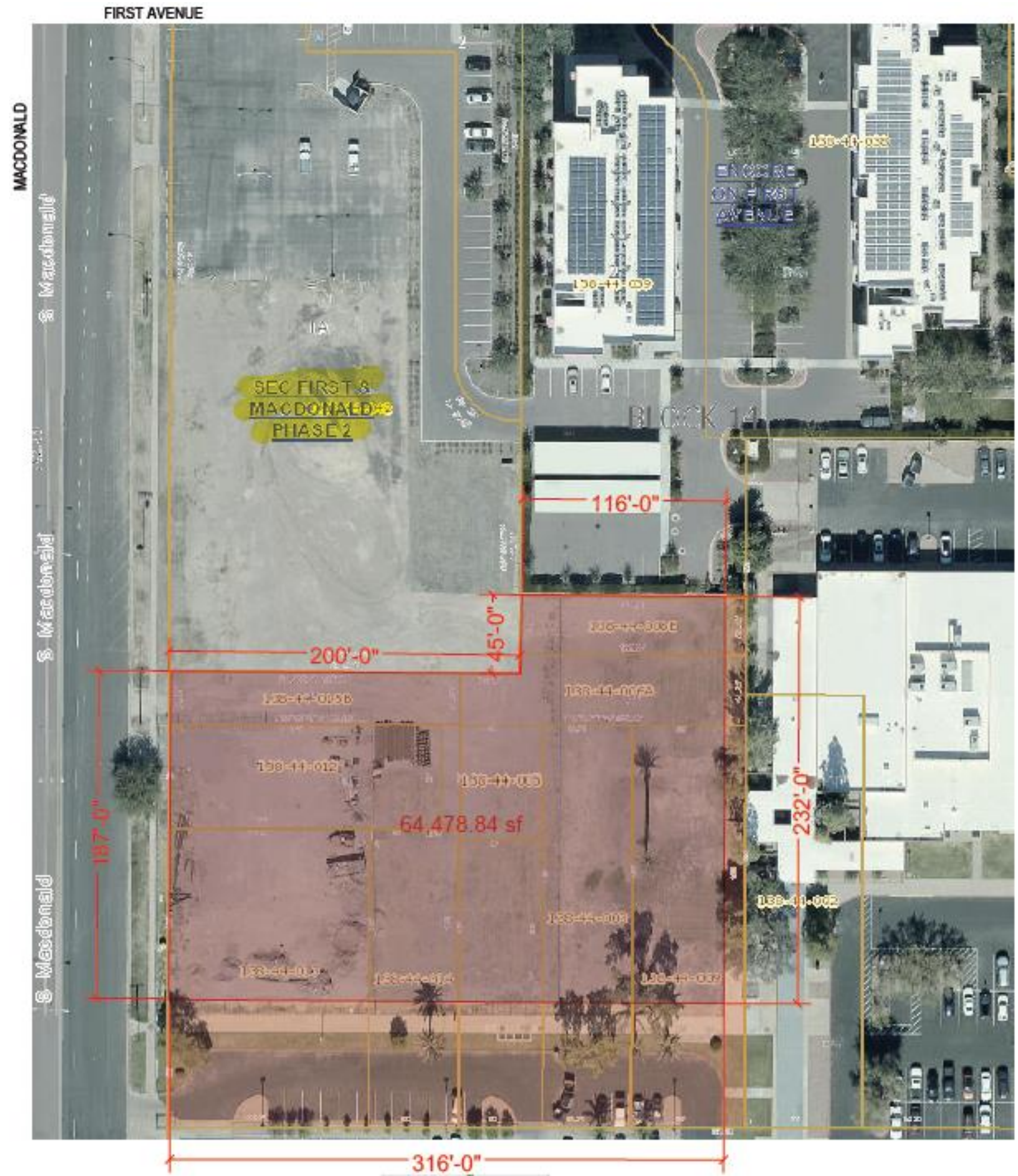


W 1St Ave
W 1St Ave
W 1St Ave
S Macdonald
2Nd Ave
S CENTER ST
SUBJECT
N
138-44-041
138-44-042
138-44-039
138-44-038
138-44-033A
138-44-008E
138-44-015B
138-44-006A
138-44-012
138-44-013
138-44-001
138-50-002
138-43-024
138-43-029A
138-43-028B
138-43-032D
138-43-005
138-51-017
138-51-015
138-51-016

AERIAL VIEW

1St Ave
W 1St Ave
W 1St Ave
S Macdonald
S CENTER ST
138-43-024
138-43-029A
38-43-028B
138-43-032D
138-43-005
138-44-041
138-44-042
138-44-039
138-44-038
138-44-033A
138-44-008E
138-44-015B
138-44-006A
138-44-012
138-44-013
138-44-001
SUBJECT
2Nd Ave
138-51-017
138-51-015
138-51-016
138-50-002
N

SITE LAYOUT



138-44- 003 (partial)
138-44- 005
138-44- 006A
138-44- 008E
138-44- 009 (partial)
138-44- 012
138-44- 013 (partial)
138-44- 014 (partial)
138-44- 015B
138-44- 007 (partial)

* dimensions and area is approximate

DEVELOPMENT PLAN

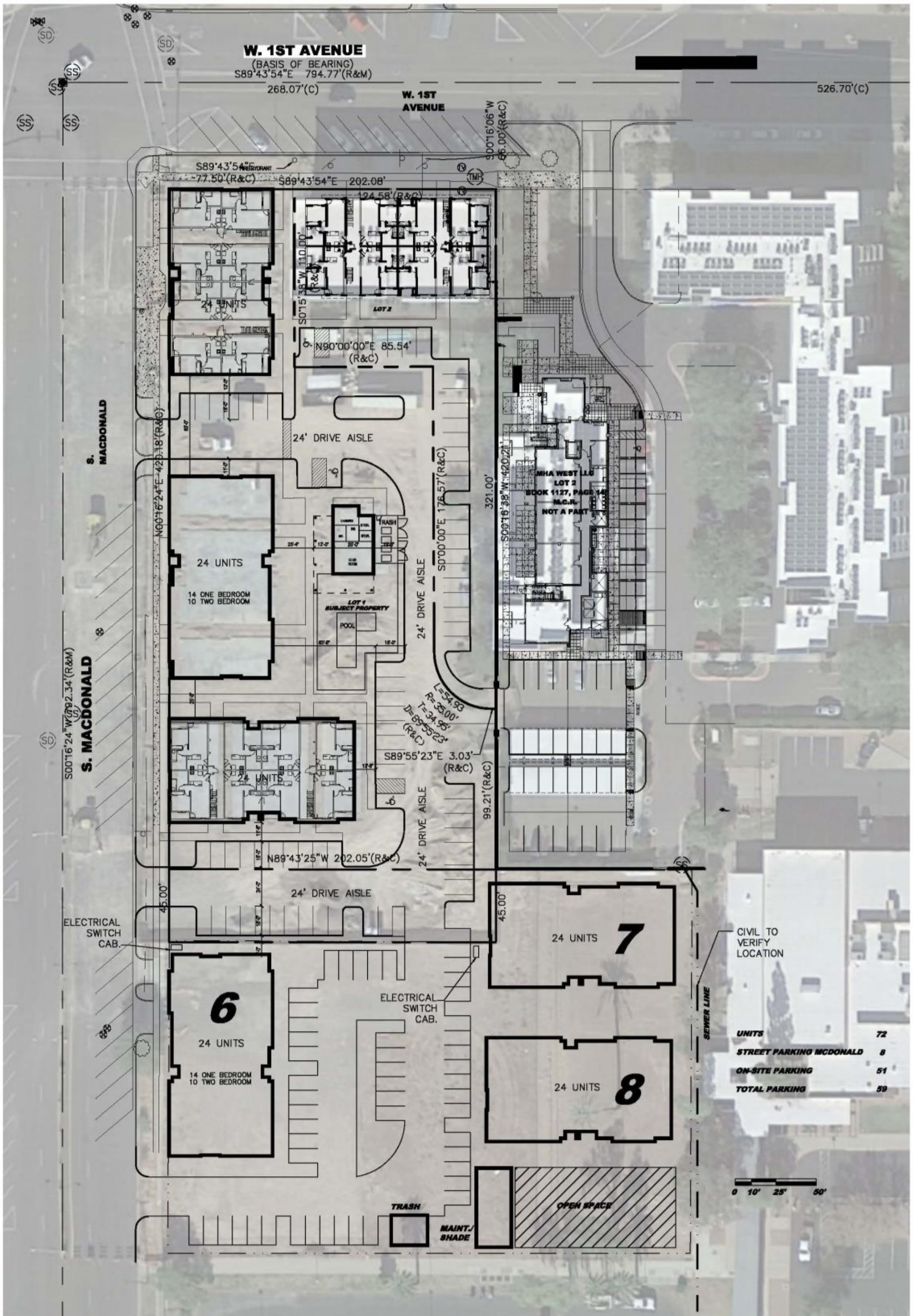


EXHIBIT B

ECONOMIC IMPACT ANALYSIS

APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF RESIDENCES ON MACDONALD, PHASE 3 ON THE CITY OF MESA

MAY 2021

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TABLE OF CONTENTS

1.0 INTRODUCTION

Applied Economics was retained by the City of Mesa to perform an economic impact analysis of Phase 3 of Residences on Macdonald, a proposed market rate housing project northeast of the intersection of 2nd Avenue and Macdonald on a parcel that is located in the designated Central Business District and is currently owned by the City of Mesa. Residences on Macdonald Phase 3 is anticipated to include 72 multi-family units on approximately 1.78 acres. The project would be eligible for a Government Property Lease Excise Tax (GPLET) agreement that would result in the abatement of all real property taxes and lease excise taxes during the first eight years following construction. This analysis is intended to provide a framework for understanding the economic and revenue impacts that the project would have on the city.

1.1 Project Description

The proposed development plan includes 72 market rate one and two bedroom units with surface parking. Total construction costs are estimated at $12.0 million. The analysis assumes a 92 percent occupancy rate and an average lease rate of $1,275 per month. It is assumed that any parking fees would be included in the monthly rent.

1.2 Applied Economics Background

Applied Economics LLC is an economic consulting firm, based in Phoenix, Arizona, specializing in economic development, economic and fiscal impact assessment, incentive analysis, socioeconomic modeling and urban planning. Applied Economics conducts economic and fiscal impact studies and develops models to measure the effects of a wide variety of activities. These activities include development land use and policy changes, business-driven economic impacts, and incentive agreements. Applied Economics is frequently called upon by local governments to provide a third party evaluation of incentives including GPLET agreements and sales tax reimbursements. The principals at Applied Economics have worked together for more than twenty five years, and are very experienced in working with local and regional planning and development issues.

2.0 IMPACT SUMMARY

The construction of this urban housing development in downtown Mesa will provide a variety of economic benefits within the Central Business District that can be valued in comparison to the GPLET incentive.

- The developer is interested in entering into a GPLET agreement with the city that would exempt the site from real property taxes during the term of the agreement. Since this property is located in a single Central Business District (CBD), it would be eligible for an abatement of all lease excise taxes during the eight year term.

- Residences on Macdonald Phase 3 meets the requirements for a GPLET because it will increase the value of the property by more than 100 percent and the benefits to state and local governments would exceed the value to the prime lessee. The development and the residents are projected to generate **$1.6 million** in revenues to the city, county, school district and state from sales and income taxes in 2022 through 2029. The estimated value of the property tax exemption for all jurisdictions combined is estimated at **$733,000** over 8 years. *Thus, the benefit to the city, county, state and school districts would be more than the value of the GPLET property tax exemption and would meet the requirements in A.R.S. 42-6209.*[1]

- Revenues to the City of Mesa are estimated at **$390,000** from 2022 to 2029, versus the city's share of the property tax exemption estimated at **$61,000**. In addition, the project and residents could generate **$1.2 million** in sales, property and income taxes to the state, county and schools over the next 8 years, based on the assumptions as presented.

- In terms of economic benefits to the city, this project could create an economic impact of **$25.5 million** from 2022 to 2029, directly and indirectly supporting approximately **14 jobs** and **$5.4 million** in labor income during the 8-year GPLET term.

- The development could support approximately 2 direct jobs and 0.4 indirect jobs related to property management and maintenance. In addition, the estimated 66 resident households (occupied units) could indirectly support an additional 12 jobs through their local spending, assuming 70 percent of the residents are new to Mesa.[2]

The Residences on Macdonald Phase 3 would generate new revenues for the city from sales taxes on construction and rents, and would indirectly generate new resident spending in the Central Business District that would support additional jobs and taxable sales at local retail and restaurants. The development would ultimately result in additional property tax revenues to the city. In addition, the type and intensity of development proposed for this site capitalizes on the presence of the light rail line through downtown Mesa.

[1] Per A.R.S. 42-6209 C2, agreements involving rental housing are exempt from the economic benefit requirement, although the city may choose to apply this higher standard to all projects including rental housing.
[2] The analysis assumes a 92 percent occupancy rate.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from Residences on Macdonald Phase 3 include both one-time construction impacts and on-going operations impacts. These impacts are quantified in terms of direct and indirect jobs, labor income and output that will be generated by the project. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses in the City of Mesa that may benefit from the new development.

3.1 Construction Impacts

The construction costs for the project are estimated at $12.0 million, of which $10.0 million would be hard cost and would create economic impacts in Mesa. Construction is expected to occur over a period of about 15 months with completion in Q3 2022. The multiplier effects of this $10.0 million in construction spending could result in a total increase in economic activity of $14.7 million (Figure 1). The approximately 86 direct jobs and 32 indirect and induced jobs created by this construction activity could result in close to $6.9 million in additional labor income or payroll in the City of Mesa during construction.

FIGURE 1
CONSTRUCTION IMPACTS OF RESIDENCES ON MACDONALD PHASE 3
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
Hard Cost	$10,000,000	86	$5,275,540	$14,673,890	118	$6,876,960

3.2 Operations Impacts

Once construction is complete, this multi-family project will create on-going impacts through household spending by tenants as well as through property management activity at the development. The total economic activity from on-going operations of the project are shown in Figure 2. The development could support an estimated 2 direct property management jobs and 0.4 indirect job. In addition, household spending by tenants could support another 12 induced jobs at the local establishments where these residents shop.

The total impacts include the direct impacts of jobs at the multi-family property, plus the additional jobs, income and output stemming from local vendor purchases related to property maintenance and additional consumer spending by the supported employees and the project residents.

FIGURE 2
ANNUAL ECONOMIC IMPACTS OF RESIDENCES ON MACDONALD PHASE 3 ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Output	Jobs	Labor Income	Output	Jobs	Labor Income
Annual Impacts	**$100,116**	**2**	**$61,766**	**$3,191,808**	**14**	**$669,310**
Property Management	$100,116	2	$61,766	$165,338	2.4	$84,802
Resident Spending	na	na	na	$3,026,470	12	$584,508
Eight Year Total	**$800,928**	**2**	**$494,131**	**$25,534,464**	**14**	**$5,354,477**
Property Management	$800,928	2	$494,131	$1,322,701	2	$678,414
Resident Spending	na	na	na	$24,211,762	12	$4,676,064

The multiplier effect of this increase in business activity in the city could result in a total annual output impact of $3.2 million, or $25.5 million over the next eight years. The approximately 14 direct, indirect and induced jobs supported by the development could result in about $669,000 in annual labor income in Mesa.

The differences between direct and total economic impacts are called multiplier effects. Multiplier effects are a way of representing the larger economic effects on the local economy. The multiplier effects translate an increase in output or business sales into a corresponding increase in jobs and labor income. The total increase in output includes the impacts on other local supplier and consumer businesses. In essence, the multiplier effect represents the recycling of local spending. This process creates new business opportunities.

The multipliers used in this analysis are from IMPLAN, a national vendor of economic impact software, and are specific to the City of Mesa. Industry specific multipliers were used for commercial construction, property management and household spending.

4.0 REVENUE IMPACTS

In addition to supporting a modest amount of jobs, labor income and output at related businesses in the city through multiplier effects, Residences on Macdonald Phase 3 could also generate local tax revenues, primarily through sales taxes on residential rents and secondarily through resident spending. In total, the project could generate approximately $390,000 in tax revenues to the City of Mesa between 2022 and 2029, and $1.2 million in additional revenues to the county and state during this period (Figure 3). This total includes direct revenues from the development as well as secondary revenues from residents.

FIGURE 3
STATE AND LOCAL REVENUE IMPACTS
RESIDENCES ON MACDONALD PHASE 3

	City of Mesa			Maricopa County			State of Arizona			
	Property	Sales	City Total	Property	Sales	County Total	Sales	Pers Income	State Total	Total Public Benefit
Direct Impacts	**$0**	**$255,636**	**$255,636**	**$0**	**$102,254**	**$102,254**	**$364,000**	**$0**	**$364,000**	**$721,891**
2021 (Const.)	$0	$34,125	$34,125	$0	$13,650	$13,650	$109,200	$0	$109,200	$156,975
2022	$0	$97,361	$97,361	$0	$38,944	$38,944	$254,800	$0	$254,800	$391,105
2023	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2024	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2025	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2026	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2027	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2028	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830
2029	$0	$17,736	$17,736	$0	$7,094	$7,094	$0	$0	$0	$24,830

	City of Mesa			Maricopa County			State of Arizona			
	Property	Sales	City Total	Property	Sales	County Total	Sales	Pers Income	State Total	Total Public Benefit
Resident Impacts	**$0**	**$133,866**	**$133,866**	**$0**	**$53,547**	**$53,547**	**$428,373**	**$253,954**	**$682,326**	**$869,739**
2022	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2023	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2024	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2025	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2026	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2027	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2028	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
2029	$0	$16,733	$16,733	$0	$6,693	$6,693	$53,547	$31,744	$85,291	$108,717
Total Direct & Resident Taxes	**$0**	**$389,503**	**$389,503**	**$0**	**$155,801**	**$155,801**	**$792,373**	**$253,954**	**$1,046,326**	**$1,591,630**

4.1 Direct Revenues

The project would generate one-time sales taxes from new construction estimated at $523,000 to the city, county and state combined, of which $114,000 would go to the City of Mesa. There would also be on-going sales tax revenues to the city and county from residential rents estimated at $199,000 over the first eight years of operations. No property taxes are included in direct revenues in order to illustrate the potential impacts of a GPLET abatement. Although the apartments would not be ready for leasing until Q4 2022, this analysis is intended to show eight full years of operations beginning when the certificate of occupancy is issued. It may be the case that the term of the GPLET extends into 2030 in order to reach eight full years.

4.2 Resident Revenues

Along with the direct taxes generated by the project, there would also be taxes generated by resident spending. Using estimated household incomes for residents based on projected rents, it is possible to estimate the resident tax impacts, assuming that rents are 25 percent of annual household income.

Resident sales tax revenues include taxable purchases by residents. Sales taxes are estimated based on multiplying estimated household income of residents times 31 percent (share of income spent on taxable items), times the city, county and state sales tax rates.[3] Only 70 percent of the sales taxes generated by resident spending were included, conservatively assuming that only a 70 percent of the apartment tenants would be new to the city. City sales taxes from residents are estimated at about $17,000 per year beginning in 2022, or a total of $134,000 over eight years. Additional sales taxes generated to the county and the state are estimated at $60,000 per year, or $482,000 over eight years.

In terms of state personal income tax, the residents in the apartments could generate an estimated $254,000 in revenues from 2022 to 2029, assuming 35 percent of residents are new to the state. State income tax revenues are calculated using average income per household and current tax schedules from the Arizona Department of Revenue.

4.3 GPLET Impacts

The project would be eligible for a GPLET agreement that could exempt it from real property taxes during the term of the lease. Normally, there would be a lease excise tax in lieu of property taxes, but since the project is located in a Central Business District, and it would result in more than a 100 percent increase in property value, the lease excise taxes could also be abated for the first eight years. After that time, the property owner would pay real property taxes to the city and other taxing jurisdictions at the normal rate.

A.R.S. 42-6209 requires that the economic and fiscal benefit to the state, county and city in which the government property improvement is located will exceed the benefits received by the prime lessee within the term of the development agreement. In order to meet the statutory requirements, it is necessary to show that total revenues to the state, county and city would exceed the value of forgone property taxes during the eight year term. Revenues include direct sales taxes from construction and on-going sales taxes from rents.

The property tax savings to the developer is estimated at $733,000 over the eight year GPLET term, of which $61,000 would have gone to the City of Mesa, $55,000 to the Mesa Town

[3] *According to the Census Bureau Consumer Expenditure Survey persons in the income range of the residents and living in urban areas spend about 31 percent of their income on taxable goods.*

Center, $404,000 to Mesa Public Schools and the remaining $212,000 would have gone to Maricopa County, the community colleges and other local taxing entities (Figure 4). In comparison, tax revenues to state and local jurisdictions total $1.6 million (Figure 5). The value of other tax revenues generated by the project is more than the property tax savings from the GPLET by $860,000 over eight years, thereby meeting the requirements of the statute.

FIGURE 4
PROPERTY TAX IMPACT BY JURISDICTION WITHOUT GPLET EXEMPTION

		Annual Property Tax											
Year	Estimated Limited Property Value	City of Mesa	Mesa Town Center	Mesa Public Schools	Maricopa Comm Colleges	EVIT	Maricopa County	Central AZ Water	Fire District Assist	County Flood Control	County Library District	Maricopa Special Health District	Total Property Tax
2022	$5,747,693	$6,421	$5,748	$42,358	$7,404	$287	$10,596	$805	$52	$1,030	$320	$1,751	$76,770
2023	$6,035,077	$6,742	$6,035	$44,476	$7,774	$302	$11,126	$845	$54	$1,081	$336	$1,838	$80,609
2024	$6,336,831	$7,079	$6,337	$46,700	$8,162	$317	$11,682	$887	$57	$1,136	$352	$1,930	$84,639
2025	$6,653,673	$7,433	$6,654	$49,035	$8,571	$333	$12,266	$932	$60	$1,192	$370	$2,027	$88,871
2026	$6,986,357	$7,804	$6,986	$51,487	$8,999	$349	$12,879	$978	$63	$1,252	$388	$2,128	$93,315
2027	$7,335,674	$8,195	$7,336	$54,061	$9,449	$367	$13,523	$1,027	$66	$1,315	$408	$2,234	$97,980
2028	$7,702,458	$8,604	$7,702	$56,764	$9,922	$385	$14,199	$1,078	$69	$1,380	$428	$2,346	$102,879
2029	$8,087,581	$9,035	$8,088	$59,602	$10,418	$404	$14,909	$1,132	$73	$1,449	$450	$2,463	$108,023
8 Yr Total		**$61,312**	**$54,885**	**$404,483**	**$70,698**	**$2,744**	**$101,181**	**$7,684**	**$494**	**$9,835**	**$3,052**	**$16,718**	**$733,087**

*Based on a property tax rate of 13.3567% in tax rate area 041000. Real property value is increased by 5 percent per year.

FIGURE 5
EIGHT-YEAR VALUE OF THE GPLET
RESIDENCES ON MACDONALD PHASE 3

	Benefit to Local and State Governments				Benefit to Lessee
	City of Mesa	Maricopa County	State	Total	Property Tax Savings[2]
Direct Revenue	**$255,636**	**$102,254**	**$364,000**	**$721,891**	**$733,087**
2021	$34,125	$13,650	$109,200	$156,975	$0
2022	$97,361	$38,944	$254,800	$391,105	$76,770
2023	$17,736	$7,094	$0	$24,830	$80,609
2024	$17,736	$7,094	$0	$24,830	$84,639
2025	$17,736	$7,094	$0	$24,830	$88,871
2026	$17,736	$7,094	$0	$24,830	$93,315
2027	$17,736	$7,094	$0	$24,830	$97,980
2028	$17,736	$7,094	$0	$24,830	$102,879
2029	$17,736	$7,094	$0	$24,830	$108,023
Resident Impacts	**$133,866**	**$53,547**	**$682,326**	**$869,739**	**$0**
2021	$16,733	$6,693	$85,291	$108,717	$0
2022	$16,733	$6,693	$85,291	$108,717	$0
2023	$16,733	$6,693	$85,291	$108,717	$0
2024	$16,733	$6,693	$85,291	$108,717	$0
2025	$16,733	$6,693	$85,291	$108,717	$0
2026	$16,733	$6,693	$85,291	$108,717	$0
2027	$16,733	$6,693	$85,291	$108,717	$0
2028	$16,733	$6,693	$85,291	$108,717	$0
8 Year Total	**$389,503**	**$155,801**	**$1,046,326**	**$1,591,630**	**$733,087**

The foregone property tax revenues were estimated based on 2022 limited property value (LPV) per square foot of $106.44 for the adjacent multi-family property owned by Mesa Housing Associates, resulting in a total LPV estimate of $5.7 million for 54,000 square feet. It is assumed that the value would increase by 5 percent per year, based on recent increases in LPV for comparable properties and statutory guidelines.

4.4 Summary

The proposed Residences on Macdonald Phase 3 multi-family project as described in this analysis could create both economic and revenue benefits for the City of Mesa. The development will add to the inventory of workforce housing in the Central Business District and will also generate new demand for local restaurants, retail and services based on the types of tenants that the project will attract. The economic benefits include the impacts of construction as well as the on-going operations impacts. There would also be a significant increase in the value of this property, which is currently owned by the city and is tax-exempt. The development will generate new property taxes to the city and other local jurisdictions at the end of the GPLET, as well as additional sales tax revenues.