



APPLIED ECONOMICS

May 28, 2024

Mr. Nick Juszczak
Project Manager
City of Mesa
120 N. Center Street
Mesa, AZ 85201

Dear Mr. Juszczak,

This letter presents the results of an independent third party review by Applied Economics of the development agreement between the City of Mesa and BCB Group Investment for Destination at Gateway, a mixed-use development located on the south side of Williams Field Road, both east and west of Signal Butte Road. We understand that BCB Group Investment is planning to construct a mix of commercial and residential development on this approximately 128-acre site, including one or more auto dealerships. While the development agreement includes land use restrictions and other development specifications, the focus of this review is the sales tax rebate.

To activate the sales tax rebate, development agreement requires construction of at least one auto dealership that would be open to the public no later than July 1, 2029. Average construction costs for an auto dealership are estimated at \$24.4 million, but will vary depending on the dealership brand. This analysis includes two scenarios. The first scenario includes a single new car dealership that would be operational by July 1, 2029, and depicts the minimum requirements. The second scenario includes a total of eight new car dealerships. The development agreement also allows for motorcycle dealerships and used car dealerships under certain conditions, but this analysis is based on new car dealerships only. The second scenario assumes construction of two dealerships per year starting in 2028, and continuing through 2031. The first two dealerships would open by July 1, 2029. If additional dealerships are built beyond the eight dealerships included in this analysis, it will simply shorten the payback period, and generate additional sales tax revenue for the city over the long term.

The development agreement includes provisions for a sales tax rebate equal to 50% of the 1.2% non-dedicated general fund sales taxes generated by the operations of the dealerships and related vehicle service facilities. The rebate does not include construction sales tax. The maximum rebate would be equal to the lesser of the actual cost of public improvements constructed and dedicated to the city, or a maximum of \$14.4 million over a period of up to 12 years, which is the Economic Incentive Period. The incentive period begins when the certificate of occupancy is issued for the first dealership and concludes no later than July 1, 2040, if there is only one dealership. Additional dealerships that open during the incentive period extend the term by three years, up to a maximum of 21 years total.

Per A.R.S. 9-500.11, it is required that any proposed tax incentive is anticipated to raise more revenues than the amount of the incentive within the duration of the agreement. We have reviewed the development agreement and prepared an analysis of projected taxable activities and the future sales tax revenue stream to the city over the next 12 years for the single dealership scenario, and 21 years for the eight-dealership scenario. Based on our review, we believe that the Destination at Gateway Auto Mall would generate a significantly greater amount of sales tax revenues than the total amount of the rebate under both scenarios. If only the one required dealership is built, the amount of tax revenues generated



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will likely be insufficient to reach the estimated maximum rebate of \$14.4 million within the 12-year Economic Incentive Period. However, if eight dealerships are built beginning in 2028, it is likely that the maximum rebate could be met by 2034.

The city could retain an estimated \$15.0 million in sales tax collections from a single new car dealership during the 12-year term, including construction sales tax, and the developer could receive an estimated \$6.2 million in reimbursements. If a eight dealerships are built in the first four years of the Economic Incentive Period, the city could retain an estimated \$255.6 million during the 21-year term, and the developer could receive an estimated \$14.4 million in reimbursements by the end of 2034. The site could accommodate up to 12 dealerships. Additional dealerships would increase revenues to the city in proportion to the year in which they are built.

The \$14.4 million rebate of retail sales taxes is intended to cover the cost of specific infrastructure improvements to be completed by the developer, as outlined in the development agreement. These would include design and construction of the south side of Williams Field Road and the east and west sides of Signal Butte Road; design and construction of internal streets to serve the auto mall; and a signalized intersection at Signal Butte Road and Berge Lane. These improvements must be completed and dedicated to the city by April 1, 2028. A.R.S. 42-6010 requires that sales tax incentives offered to retail businesses be provided only as reimbursement for public infrastructure dedicated to, and accepted and controlled upon completion of the project, by the city. All public improvements described above would meet these requirements, and the cost of such improvements forms the basis for the sales tax rebate amount per the development agreement.

A.R.S. 9-500.11 also requires that this development would not have occurred in the same time, place or manner in the absence of a tax incentive. Based on information provided by the developer's representative, we believe that this project would not have occurred in the same place or manner without the incentive. The subject property is currently in an undeveloped area and requires significant improvements to surrounding streets that serve the subject site and adjacent properties, along with full construction of internal streets. Without these street improvements, the site would not be suitable for commercial development and the auto mall would locate outside of Mesa. In addition, in a post-COVID environment, it is more difficult to attract new car dealerships to developing areas, and the attraction of multiplier new dealerships would not have been possible without the incentives.

Based on our review, we believe that the agreement between the City of Mesa and BCB Group Investment meets the requirements of A.R.S. 9-500.11 with regard to the amount of the incentive, and A.R.S. 42-6010 with regard to public infrastructure reimbursement. Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Sarah E. Murley
Principal