APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF MEDINA STATION CITY OF MESA, AZ

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1.0 INTRODUCTION

Applied Economics was retained by the city of Mesa to perform an economic impact analysis of Medina Station, a proposed mixed-use development in East Mesa. The project will be located on a 40-acre site at the southeast corner of Signal Butte Road and Southern Avenue. This analysis is intended to support a development agreement between the city and the developer for a sales tax reimbursement agreement for public infrastructure constructed by the developer and dedicated to the city.

1.1 Project Description

The proposed commercial development includes 245,300 square feet of anchor retail space that will include Target, Dick's Sporting Goods and Boot Barn, 18,910 square feet of shops, 22,328 square feet of quick-service restaurants, 39,642 square feet of full-service restaurants, and 11,160 square feet of non-restaurant PAD space for a total of 337,340 square feet. This site is part of a larger development that also includes approximately 700 multi-family units, but this analysis is limited to the planned commercial development in Medina Station that is included in the development agreement. Medina Station is designed to provide a balanced and cohesive mix of residential and nonresidential uses.

1.2 Development Agreement Terms

The conditions precedent in the development agreement states that the developer must obtain all necessary permits and begin construction within six months of the effective date of the agreement, complete construction and dedicate the public improvements within one year of the permit deadline, complete construction of Dick's Sporting Goods, and open the store within 48 months of the effective date of the agreement. Once the developer completes all the requirements in the conditions precedent, they would qualify for a rebate of a portion of the eligible construction sales tax.

In addition to the conditions precedent there are other milestones that the developer must meet to obtain the full construction sales tax rebate. The five full-service restaurants must be open within 48 months to receive the full construction sales tax rebate on all construction activity covered under the development agreement. There is no specific timeline for the construction and operations of the Target or the other shops and restaurants that would generate eligible construction sales tax. The developer could receive all eligible construction sales tax collected to date when construction of the fifth restaurant on Restaurant Row is complete. The final eligible construction sales tax payment could be made 12 months after the completion of construction on the fifth restaurant.

In addition to construction sales tax, the developer could also be eligible for a rebate of 50% of the eligible sales tax on taxable activities at any restaurants on Restaurant Row and the three Retail Anchors during the Economic Incentive Period. Following the completion of the conditions precedent, and the city's receipt of a monthly transactions privilege tax report that includes eligible sales tax, the developer could begin receiving sales tax rebates. However, to ensure confidentiality, no sales tax rebate payments will be made until at least three of the restaurants or retail anchors have submitted monthly tax reports for at least six months.

If only Dick's Sporting Goods opens, the company would be required to sign a confidentiality waiver to release their sales tax collections to the city to allow the developer to receive reimbursement of 50% of the eligible non-construction sales tax starting two years after the start of the Economic Incentive Period. If two or fewer restaurants and/or retail anchors open within two years of the start of the Economic Incentive Period, these businesses would also be required to sign confidentiality waivers to allow the developer to receive sales tax payments every six months. If the confidentiality waivers are not signed, the developer would be entitled to a one-time payment of the sales tax rebate within 60 days following the end of the Economic Incentive Period.

The public improvements eligible for reimbursement include street improvements, streetlights, water, sewer and storm drains on the east half of Signal Butte Road, street improvements and streetlights on the south half of Southern Avenue, and grading on the ADOT parcel on the east side of the site. The maximum cost of public improvements eligible for reimbursement would be $6,360,696. This cost includes off-site improvements on ADOT property totaling $824,630, only 60% of which ($494,778) would be reimbursed. The remaining $5,865,918 in public improvements would be eligible for 100% reimbursement, subject to the conditions of the development agreement.

1.3 Development Assumptions

This analysis includes two scenarios: a minimum conditions scenario where the developer meets the conditions precedent but there is no development beyond Dick's Sporting Goods, and a full build out scenario where all 337,340 square feet of new space is built. Both scenarios assume that the public improvements would be completed in 2026 and the Dicks Sporting Goods would open mid-year 2027. The full build out scenario assumes that Target would also open mid-year 2027, the full-service restaurants and other shops (including Boot Barn) would open mid-year 2029, and the remaining PADs would open mid-year 2030. This timeline is intentionally conservative to illustrate the maximum timeline in the development agreement.

Construction costs for the whole development are estimated at $121.6 million including developer hard costs, tenant improvements and public improvements completed by the developer. For the minimum scenario, construction costs would total $28.4 million for the public improvements and Dick's Sporting Goods.

Medina Station could create an estimated 630 new jobs on-site, assuming an average occupancy rate of 92% to 100%, including an estimated 50 jobs at Dick's Sporting Goods. This analysis assumes the retail anchor space and restaurant row would be fully occupied, and the remaining space would have a stabilized occupancy rate of 92% (**Figure 1**). Sales per square foot are estimated at an average of $250 for the anchors, $960 for the full-service restaurants, $916 for quick service restaurants, and $67 for shop space. The reduced level of retail sales per square foot for shops reflects the fact that some of the space would be occupied by service providers that do not generate sales taxes. There would be additional taxable sales associated with leases on the commercial space.

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Square Feet	Estimated Jobs	Occupancy	Taxable Sales PSF	Lease Rate
Anchors	245,300	227	100%	$250	$0.00
Shops	18,910	41	92%	$67	$50.00
Full Service Restaurants	39,642	198	100%	$960	$45.00
Quick-Service Restaurants	22,328	138	92%	$916	$45.00
Non-Restaurant PADs	11,160	26	92%	$0	$23.00
Total	**337,340**	**630**	**99%**	**$359**	**na**

1.4 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 sales tax reimbursements and GPLET agreements. The principals at Applied Economics have worked together for more than 30 years and are very experienced in working with local and regional planning and development issues.

2.0 IMPACT SUMMARY

The construction of this urban, mixed-use development in East Mesa could create a variety of economic and fiscal impacts to the city. These impacts are based on the specific mix of proposed nonresidential uses in Medina Station.

- The development is projected to generate $27.0 million in city sales taxes during construction and in the first ten years of operations under the full build out scenario. Under the minimum conditions scenario, the project is could generate $5.5 million in city taxes.

- The development would require off-site public improvements to Southern Avenue and Signal Butte Road including road improvements, utilities and streetlights and grading on the ADOT parcel. Up to $6.4 million of public improvement costs could be reimbursed from construction and retail sales taxes generated by the development over the first ten years of operations under the full build out scenario. In the minimum conditions scenario, an estimated $1.7 million of the public improvements would likely be reimbursed based on the amount of eligible sales tax generated.

- The full build out scenario for Medina Station could create a total economic impact of $1.1 billion over ten years, including economic activity at the site and supported activity at other local businesses with the city of Mesa and throughout the county. If only Dick's Sporting Goods is built, the economic impact is estimated at $97.2 million.

- The retail, service and restaurant space in the development could directly support an estimated 630 jobs at build out with a direct wage impact of $27.8 million per year (including 50 jobs and $2.6 million in direct wages at Dick's Sporting Goods). The commercial tenants could also support an estimated 290 indirect and induced jobs and $19.5 million in annual payroll at other local businesses in Mesa and throughout the county. These indirect and induced jobs are the result of local supplier purchases made by the tenants in the development, as well as local spending by employees.

- The construction activity associated with this development could also create economic impacts. In this analysis, construction is anticipated to occur from 2026 to 2030, during which time the full build out scenario could support an estimated 565 direct jobs at the site and 395 indirect and induced jobs at other local businesses. Construction activity (including public improvements) could create a total economic impact of $205.8 million during the construction period. Under the minimum conditions scenario, the construction impact is estimated at $48.1 million, supporting 225 direct, indirect and induced jobs over two years.

Medina Station could generate new revenues for the city from sales taxes on construction, retail/restaurant sales and leases. The commercial development could also create a significant number of new jobs in East Mesa, generating indirect and induced economic impacts at businesses in Mesa and throughout the county.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from the commercial portion of Medina Station include both the 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 could be generated by the development. Indirect impacts are the result of multiplier effects and capture supported supplier and consumer businesses in Mesa, and throughout the county, that could benefit from the new business activity.

3.1 Construction Impacts

Construction costs, including developer hard costs, tenant improvements and public infrastructure, are estimated at $121.6 million and have the potential to generate local economic impacts. Construction is expected to occur over a period of approximately four to five years. If only Dick's Sporting Goods is completed, construction costs are estimated at $28.4 million over two years.

The multiplier effects of this construction spending in the city and county are projected to generate a total increase in economic output of $205.8 million for the full build out scenario, or $48.1 million for the minimum conditions scenario (**Figure 2A and 2B**). The estimated 565 direct jobs and 395 indirect and induced jobs supported by this construction activity could result in over $73.5 million in total labor income during the construction period for the full build out scenario. The minimum conditions scenario could support 225 total jobs and $17.2 million in labor income.

FIGURE 2A
CONSTRUCTION IMPACTS OF MEDINA STATION
FULL BUILD OUT SCENARIO

	Direct Impacts			Total Impacts		
	Construction Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
2026	$29,390,696	137	$11,014,662	$49,736,455	232	$17,775,783
2027	$46,030,000	213	$17,250,524	$77,894,346	363	$27,839,398
2028	$19,692,246	92	$7,380,004	$33,324,237	156	$11,910,065
2029	$15,756,000	73	$5,904,829	$26,663,118	125	$9,529,384
2030	$10,719,230	50	$4,017,213	$18,139,635	85	$6,483,096
Total	**$121,588,172**	**565**	**$45,567,232**	**$205,757,792**	**960**	**$73,537,725**

Note: Construction costs include public improvements, site work, developer hard costs and tenant improvements.

FIGURE 2B
CONSTRUCTION IMPACTS OF MEDINA STATION
MINIMUM CONDITIONS SCENARIO

	Direct Impacts			Total Impacts		
	Construction Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
2026	$14,590,696	68	$5,468,111	$24,691,130	115	$8,824,597
2027	$13,841,253	65	$5,187,244	$23,422,884	109	$8,371,326
Total	**$28,431,949**	**133**	**$10,655,356**	**$48,114,014**	**225**	**$17,195,923**

Note: Construction costs include public improvements, and site work and tenant improvements for Dick's Sporting Goods.

3.2 Operations Impacts

Once construction is completed, the tenant businesses in the development could create economic impacts through their operations, as well as through supplier purchases and employee spending. Direct impacts include jobs, labor income and output at commercial tenants within the project. These businesses could make local supplier purchases, generating indirect impacts, and their employees could make consumer purchases, generating induced impacts, that are captured in the total impact estimates.

The retail, restaurant and service businesses in the commercial development could directly support an estimated 630 jobs and $27.8 million in annual labor income in the full build out scenario, or 50 jobs and $2.6 million in annual labor income in the minimum conditions scenario. The multiplier effect of this increase in jobs and labor income could result in a total annual economic output of $131.2 million under the full build out scenario or $10.0 million under the minimum conditions scenario (**Figure 3A and 3B**). Over a period of ten years, the full build out scenario could directly and indirectly support an estimated 920 total jobs and $415.6 million in total labor income with a total economic impact of $1.1 billion. Dick's Sporting Goods alone could support an estimated 60 total jobs and $40.2 million in total labor income over ten years, with a total economic impact of $97.2 million.

FIGURE 3A
ANNUAL ECONOMIC IMPACTS OF MEDINA STATION
FULL BUILD OUT SCENARIO

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2027	$11,558,057	207	$5,415,429	$20,631,785	254	$8,528,217
2028	$23,116,115	207	$10,830,858	$41,263,570	301	$17,056,433
2029	$50,877,039	466	$21,142,510	$91,684,189	671	$35,026,552
2030	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2031	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2032	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2033	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2034	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2035	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2036	$72,235,650	630	$27,821,342	$131,153,678	920	$47,337,768
2037*	$36,117,825	630	$13,910,671	$65,576,839	920	$23,668,884
Total	**$627,318,588**	**630**	**$246,048,860**	**$1,137,232,127**	**920**	**$415,644,463**

Note: 2037 represents a partial year based on the term of the development agreeement.

FIGURE 3B
ANNUAL ECONOMIC IMPACTS OF MEDINA STATION
MINIMUM CONDITIONS SCENARIO

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2027	$2,791,801	50	$1,308,075	$2,491,761	60	$1,029,978
2028	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2029	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2030	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2031	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2032	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2033	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2034	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2035	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2036	$5,583,603	50	$2,616,149	$9,967,046	60	$4,119,911
2037*	$2,791,801	50	$1,308,075	$4,983,523	60	$2,059,956
Total	**$55,836,026**	**50**	**$26,161,493**	**$97,178,697**	**60**	**$40,169,137**

Note: 2037 represents a partial year based on the term of the development agreeement.

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/production 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 Maricopa County. Industry-specific multipliers were used for retail, restaurants, fitness centers, banks, dentist offices and commercial construction. The average output multiplier for this mixed-use development is 1.82. This means that for every $1 million of annual output created by the retail, services and restaurant tenants, an additional $820,000 in economic activity and 4 additional jobs are supported at other local businesses throughout the county.

4.0 TAX REVENUE IMPACTS

In addition to supporting jobs, labor income and output at related businesses through the multiplier effects, Medina Station could generate new local tax revenues, primarily from taxable retail sales and leases. The full build out scenario could generate $27.0 million in estimated gross sales tax revenues to the city of Mesa from 2026 to mid-year 2037. This includes construction only in 2026 and the first businesses opening mid-year 2027. The reimbursement term extends for ten years, or mid-year 2037. The minimum conditions scenario could generate $5.5 million in gross sales tax revenues to the city from 2026 to mid-year 2037 years.

4.1 Gross City Tax Revenues

The project could generate one-time city sales taxes from new construction estimated at $1.6 million under the full build out scenario and $0.4 million under the minimum conditions scenario (**Figure 4A and 4B**). From mid-year 2027 to mid-year 2037, gross general fund and dedicated sales tax revenues from leases and taxable retail and restaurant sales are estimated at $5.1 million to $25.4 million over ten years, including $3.1 million to $15.3 million in general fund taxes (before reimbursements), and $2.0 million to $10.2 million in dedicated sales tax from retail sales and leases. Taxable sales include 2% annual inflation. Construction and on-going sales taxes combined could total $27.0 million over ten years under the full build out scenario and $5.5 million under the minimum conditions scenario.

FIGURE 4A
CITY TAX REVENUE IMPACTS
FULL BUILD OUT SCENARIO

	Construction Sales Tax @ 2%	Retail Sales Tax		
		General Fund @ 1.2%	Dedicated Funds @ 0.8%	City Tax Total
2026	$382,079	$0	$0	$382,079
2027	$598,390	$378,000	$252,000	$1,228,390
2028	$255,999	$771,120	$514,080	$1,541,199
2029	$204,828	$1,127,819	$751,879	$2,084,526
2030	$139,350	$1,563,835	$1,042,557	$2,745,742
2031	$0	$1,661,777	$1,107,851	$2,769,629
2032	$0	$1,695,013	$1,130,008	$2,825,021
2033	$0	$1,728,913	$1,152,609	$2,881,522
2034	$0	$1,763,491	$1,175,661	$2,939,152
2035	$0	$1,798,761	$1,199,174	$2,997,935
2036	$0	$1,834,736	$1,223,158	$3,057,894
2037 (Partial Yr)	$0	$935,716	$623,810	$1,559,526
Total	**$1,580,646**	**$15,259,181**	**$10,172,787**	**$27,012,614**

Note: Taxables sales include 2% annual inflation.

FIGURE 4B
CITY TAX REVENUE IMPACTS
MINIMUM CONDITIONS SCENARIO

	Construction Sales Tax @ 2%	Retail Sales Tax General Fund @ 1.2%	Retail Sales Tax Dedicated Funds @ 0.8%	City Total
2026	$189,679	$0	$0	$189,679
2027	$179,936	$138,000	$92,000	$409,936
2028	$0	$281,520	$187,680	$469,200
2029	$0	$287,150	$191,434	$478,584
2030	$0	$292,893	$195,262	$488,156
2031	$0	$298,751	$199,168	$497,919
2032	$0	$304,726	$203,151	$507,877
2033	$0	$310,821	$207,214	$518,035
2034	$0	$317,037	$211,358	$528,395
2035	$0	$323,378	$215,585	$538,963
2036	$0	$329,846	$219,897	$549,743
2037 (Partial Yr)	$0	$168,221	$112,147	$280,369
Total	**$369,615**	**$3,052,344**	**$2,034,896**	**$5,456,856**

Note: Taxables sales include 2% annual inflation.

4.2 Retail Sales Tax Incentive

The developer is requesting a sales tax reimbursement for public infrastructure, including street improvements, streetlights, water, sewer and storm drain on the east half of Signal Butte Road adjacent to the site, and street improvements and street lights on the south half of Southern Avenue. These improvements provide necessary ingress and egress for the commercial development. Public improvements also include grading on the ADOT property on the east side of the site to address drainage issues.

The development agreement includes provisions for a sales tax reimbursement equal to 100 percent of non-dedicated construction sales tax (1.2 percent) for the entire project. The reimbursement also includes 50 percent of non-dedicated general fund sales taxes (1.2 percent) generated by the five restaurants on "Restaurant Row" and the three retail anchors only. The maximum reimbursement would be equal to the lesser of the actual cost of public improvements constructed and dedicated to the city and to ADOT, or a maximum of $6,360,696 over a period of up to ten years. The reimbursement period for construction sales tax begins when the public improvements are complete and the Dick's Sporting Goods is operational.

The reimbursement payments for retail sales tax begins six months after the conditions precedent is met and at least two additional anchors or restaurants in Restaurant Row have submitted monthly sales tax reports for at least six months. Alternatively, if no additional stores open, Dick's Sporting Goods would be required to sign a confidentiality waiver that would allow the developer to begin receiving reimbursement of retail sales tax within two years of the start of the Economic Incentive Period. If only Dick's Sporting Goods is constructed and they do not sign a confidentiality waiver, the developer would be entitled to a one-time payment of the sales tax rebate within 60 days following the end of the Economic Incentive Period.

Per A.R.S. 9-500.11 (D), 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 during the Economic Incentive Period. Based on our review, we believe that the project would generate a significantly greater amount of sales tax revenues than the total amount of the reimbursement under both scenarios. Under the full build out scenario, the amount of tax revenues generated will likely be sufficient to reach the estimated maximum reimbursement of $6.4 million within the ten year term. Under the minimum conditions scenario where only the Dick's Sporting Goods is built and operational, the reimbursement would only cover about a quarter of the public improvement cost.

The $6.4 million maximum reimbursement is intended to cover the cost of specific public infrastructure improvements to be completed by the developer and dedicated to the city as outlined in the development agreement. These improvements must be completed and dedicated to the city and to ADOT, and the Dick's Sporting Goods must be operational prior to any construction sales tax reimbursement. The construction sales tax reimbursement occurs in three parts based on specific milestones. The first construction sales tax reimbursement occurs when the conditions precedents are met; the second construction sales tax reimbursement occurs when the fifth restaurant is operational. The third construction sales tax reimbursement occurs one year after the fifth restaurant opens. The retail sales tax reimbursement payments start at the earliest when the retail anchors and/or three of the restaurants have been operational at least six months and includes any retail sales tax generated up to that point. The retail sales tax reimbursement payments, which apply to retail anchors and full service restaurants only, continue through the tenth year after the Dicks Sporting Goods opens.

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 a state or local government entity. All public improvements described above would meet these requirements and the cost of such improvements forms the basis for the reimbursement amount per the development agreement.

4.3 Summary

The proposed commercial development described in this analysis could create economic impacts and new tax revenues for the city of Mesa. The economic benefits include the impacts of construction as well as on-going operations. The development could create jobs and payroll at tenant businesses within the development, and support additional economic activity at other local businesses in Mesa and throughout the county.

During construction and over the first ten years of operations Medina Station is projected to generate $27.0 million in city sales tax revenues in the full build out scenario, of which $6.4

million for public improvements would be reimbursed. If only the Dick's Sporting Goods is completed, the project could generate an estimated $5.5 million in city sales tax revenues over ten years, of which an estimated $1.7 million could be reimbursed.