APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF DOBSON 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 Dobson Station, a proposed apartment community just west of downtown Mesa. The proposed project will be located on a 6.08 acre site north of the northeast corner of Dobson Road and Main Street that is in the West Redevelopment Area and in the city's Central Business District. The site is currently developed as surface parking.

The proposed development plan includes 220 residential units ranging in size from studios to three bedroom units. The 8,000 square foot common area would include co-op work space, a fitness center and other amenities. This location in the West Redevelopment Area is well suited for high-density urban development. This analysis is intended to provide a framework for understanding the economic and revenue impacts the project will have on the city and evaluate whether the project meets the statutory requirements for a GPLET agreement. All calculations and estimates presented in the report are based on the project parameters provided by the city.

1.1 Project Description

The proposed development plan includes 220 upscale residential units including studio, one, two and three bedrooms. Total construction costs are estimated at $44.5 million including hard costs and soft costs. The development could create about 4 new jobs on-site for maintenance and property management. While there is no commercial development in the site plan, there will be taxable sales associated with the apartment leases. The residential units are expected to rent for $1,200 to $1,900 per month, depending on the unit size, with an estimated occupancy rate of 95 percent.

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Rentable Square Feet	Estimated Jobs	Occupancy	Monthly Lease Rate
Residential (220 units)	195,004	4	95%	$1,200-$1,900
Amenity Space	8,000	0	100%	na
Total	195,004	4		na

In terms of public improvements, the developer is willing to provide extensive landscaping, pedestrian pathways, road & parking paving, an entry gate and fencing for the adjacent Webster School at an estimated value of $1 million, although none of these improvements would be dedicated to the city for maintenance.

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 mixed-use development in the West Redevelopment Area will create a variety of economic and fiscal impacts to the City. These impacts are based on the specific mix of proposed uses.

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), the project would also be eligible for an abatement of all lease excise taxes during the eight-year term, resulting in an incentive to the lessee.

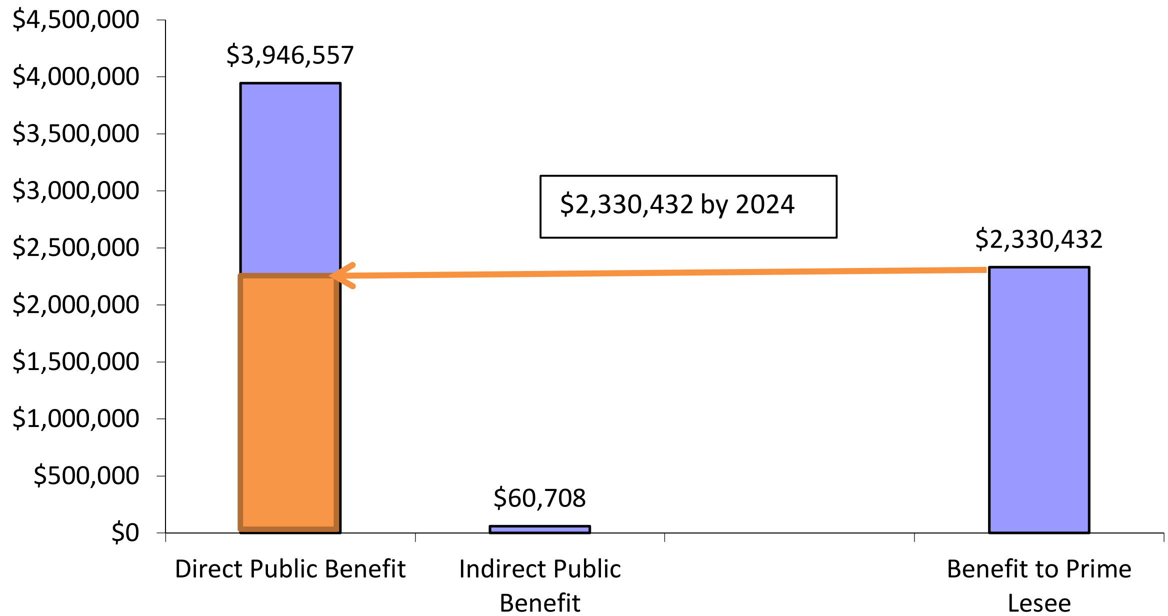
- Dobson Station meets the requirements for a GPLET because the development will increase the value of the property by more than 100 percent and the benefits to state and local governments would exceed the value to the prime lessee during the term of the agreement. The development is projected to generate **$3.9 million** in revenues to the city, county, school district and state from sales and income taxes from 2022 through 2030. This significantly exceeds the **$2.3 million** estimated value of the property tax exemption and lease excise tax abatement during the GPLET term and would meet the requirements detailed in A.R.S. 42-6209.[1].

- Direct revenues to the City of Mesa are estimated at **$574,000** from 2022 to 2030, versus the city's share of the property tax exemption estimated at **$211,000**. In addition, the project could generate **$3.4 million** in sales and income taxes to the state and county over the eight-year term, based on the project assumptions outlined in this analysis.

- In terms of economic benefits to the city, the property management jobs created by this apartment complex could create an economic impact of **$2.6 million** from 2023 to 2030, directly and indirectly supporting estimated at **5 jobs** and **$1.4 million** in labor income during the eight-year GPLET term. Additional jobs would be supported by household spending of the apartment residents that are not captured here.

[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.

FIGURE 2
DOBSON STATION FISCAL IMPACTS
2022 TO 2030



The Dobson Station apartments 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. The type and intensity of development proposed for this site also capitalizes on the presence of the light rail line through this part of Mesa along Main Street.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from Dobson 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 would 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 would benefit from the new development.

3.1 Construction Impacts

The hard and soft construction costs estimated at $44.5 million have the potential to generate local economic impacts. Construction is expected to occur over a period of about 18 months with completion in 2022.

The multiplier effects of this construction spending on the city is projected to result in a total increase in economic activity of about $66.6 million (Figure 3). These impacts would occur in 2021 and 2022. The approximately 360 direct jobs and 152 indirect and induced jobs created by this construction activity could result in over $30.8 million in additional labor income in the City of Mesa during construction.

FIGURE 3
CONSTRUCTION IMPACTS OF DOBSON STATION
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
Hard Costs	$37,852,062	327	$19,969,001	$55,543,699	448	$26,030,725
Soft Costs	$6,683,441	34	$3,193,343	$11,012,221	64	$4,811,678
Total	**$44,535,503**	**360**	**$23,162,345**	**$66,555,920**	**512**	**$30,842,402**

3.2 Operations Impacts

Once construction is completed, the property management and maintenance staff at the apartments will create modest economic impacts through supplier purchases, as well as through employee spending. Direct impacts include employment, labor income and output at the property. The apartment management will also make local supplier purchases, and their employees will make consumer purchases that are captured in the total impact estimates.

The project, as proposed, could directly support an estimated 4 jobs, $124,000 in annual labor income and $200,000 in annual output. The multiplier effect of this increase in jobs and labor income would result in a total output impact of $331,000 annually (Figure 4). During the 8-year term of the GPLET, Dobson Station could create $2.6 million in economic impacts, directly and indirectly supporting approximately 5 jobs and $1.4 million in labor income.

FIGURE 4
ANNUAL ECONOMIC IMPACTS OF DOBSON STATION
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2023	$200,232	4	$123,533	$330,675	5	$169,603
2024	$200,232	4	$123,533	$330,675	5	$169,603
2025	$200,232	4	$123,533	$330,675	5	$169,603
2026	$200,232	4	$123,533	$330,675	5	$169,603
2027	$200,232	4	$123,533	$330,675	5	$169,603
2028	$200,232	4	$123,533	$330,675	5	$169,603
2029	$200,232	4	$123,533	$330,675	5	$169,603
2030	$200,232	4	$123,533	$330,675	5	$169,603
Total	**$1,601,855**	**4**	**$988,263**	**$2,645,403**	**5**	**$1,356,828**

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 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 property management and multi-family construction.

4.0 REVENUE IMPACTS

In addition to supporting jobs, labor income and output at related businesses in the city through the multiplier effects, the proposed Dobson Station apartments will also generate new local tax revenues, primarily from taxable rents. In total, the project could generate approximately $580,000 in combined direct and employee tax revenues to the City of Mesa from 2022 to 2030, and $3.4 million in additional revenues to the county, school district and state.

4.1 Direct Revenues

The project would generate one-time sales taxes from new construction estimated at $2.0 million to the city, county and state combined, of which $492,000 would go to the City of Mesa (Figure 5). There would also be on-going sales tax revenues from rents estimated at $82,000 to the city and $21,000 to the county over the eight-year period.[2] Construction and on-going sales taxes combined total $2.1 million over eight years. No property taxes or lease excise taxes are included in direct revenues in order to illustrate the impacts of a GPLET abatement.

At the state level there would also be personal income taxes from residents estimated at $1.8 million.[3] This analysis assumes that 50 percent of residents would be new to the state given the location and market orientation of this project.

FIGURE 5
DIRECT LOCAL AND STATE REVENUE IMPACTS

	City of Mesa			County and Schools			State of Arizona			
	Property	Sales[1]	Total Benefit	Property	Sales[1]	Total Benefit	Sales	Personal Income	Total Benefit	Total Tax Benefit
Direct Impacts	**$0**	**$574,318**	**$574,318**	**$0**	**$192,787**	**$192,787**	**$1,377,815**	**$1,801,637**	**$3,179,452**	**$3,946,557**
2021/22 (Const.)	$0	$492,077	$492,077	$0	$172,227	$172,227	$1,377,815	$0	$1,377,815	$2,042,119
2023	$0	$9,582	$9,582	$0	$2,395	$2,395	$0	$209,908	$209,908	$221,886
2024	$0	$9,774	$9,774	$0	$2,443	$2,443	$0	$214,106	$214,106	$226,323
2025	$0	$9,969	$9,969	$0	$2,492	$2,492	$0	$218,389	$218,389	$230,850
2026	$0	$10,168	$10,168	$0	$2,542	$2,542	$0	$222,756	$222,756	$235,467
2027	$0	$10,372	$10,372	$0	$2,593	$2,593	$0	$227,212	$227,212	$240,176
2028	$0	$10,579	$10,579	$0	$2,645	$2,645	$0	$231,756	$231,756	$244,980
2029	$0	$10,791	$10,791	$0	$2,698	$2,698	$0	$236,391	$236,391	$249,879
2030	$0	$11,007	$11,007	$0	$2,752	$2,752	$0	$241,119	$241,119	$254,877

[2] Rents are subject to city and county sales tax, but not state sales tax.

[3] Resident household income estimates assume that rents are equal to 25 percent of total annual income. State income tax revenues are calculated using estimated income per household based on rents and current tax schedules from the Arizona Department of Revenue.

4.2 Employee Revenues

Along with the direct taxes generated by the project, there would also be a small amount taxes generated by employees working at the apartments. Using the results from the economic impact analysis, it is possible to estimate employee tax impacts which could total $61,000 over eight years (Figure 6).

Employee property tax revenues, which represent property taxes on worker housing, can be estimated using average residential assessed value per capita in Mesa, times the annual supported population living in Mesa, times the property tax rate. Employee property taxes are estimated at about $1,900 to the city and an additional $19,000 to the school district, community college and county over eight years, based on the assumptions used in this analysis.

FIGURE 6
EMPLOYEE LOCAL AND STATE REVENUE IMPACTS

	City of Mesa			County and Schools			State of Arizona			
	Property	Sales	Total Benefit	Property	Sales	Total Benefit	Sales	Personal Income	Total Benefit	Total Tax Benefit
Employee Impacts	**$1,877**	**$3,392**	**$5,268**	**$19,409**	**$2,283**	**$21,692**	**$18,263**	**$15,485**	**$33,748**	**$60,708**
2023	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2024	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2025	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2026	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2027	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2028	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2029	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589
2030	$235	$424	$659	$2,426	$285	$2,712	$2,283	$1,936	$4,218	$7,589

Employee sales taxes are estimated by multiplying direct labor income from the economic impact times 33 percent (share of taxable expenditures), times the Mesa live-work ratio of 52 percent, times the local and state sales tax rates.[4] No residency ratio is applied for county or state sales tax. City sales taxes from employees living in Mesa are estimated at $3,400 over eight years. Additional sales taxes generated to the county and the state are estimated at $21,000 over the eight-year GPLET term.

Direct employees could also generate an estimated $15,000 in state personal income tax revenues from 2023 to 2030. State income tax revenues are calculated using average income per employee and current tax schedules from the Arizona Department of Revenue.

[4] According to the Census Bureau Consumer Expenditure Survey persons in the median income range spend about 33 percent of their income on taxable goods. Maricopa County Rideshare data shows that about 52 percent of employees who currently work in the City of Mesa also live in the city.

4.3 GPLET Impacts

If approved, the project would be eligible for a GPLET agreement that would 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 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 tax 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 retail sales and rents.

The property tax savings to the developer is estimated at $2.3 million over the eight-year GPLET term, of which $211,000 would have gone to the City of Mesa, $1.4 million would have gone to Mesa Public Schools and the remaining $730,000 would have gone to Maricopa County, the community colleges and other local taxing entities (Figure 7). In comparison, tax revenues to state and local jurisdictions total $3.9 million (Figure 8). The value of other tax revenues generated by the project exceeds the property tax savings from the GPLET by $1.6 million over eight years, thereby meeting the requirements of the statute.

FIGURE 7
PROPERTY TAX IMPACT BY JURISDICTION WITHOUT GPLET EXEMPTION

		Annual Property Tax										
Year	Estimated Limited Property Value	City of Mesa	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
2023	$1,975,018	$22,063	$145,551	$25,440	$988	$36,409	$2,765	$178	$3,539	$1,098	$6,016	$244,047
2024	$2,073,769	$23,166	$152,828	$26,712	$1,037	$38,230	$2,903	$187	$3,716	$1,153	$6,317	$256,249
2025	$2,177,458	$24,324	$160,470	$28,048	$1,089	$40,141	$3,048	$196	$3,902	$1,211	$6,633	$269,062
2026	$2,286,331	$25,541	$168,493	$29,450	$1,143	$42,149	$3,201	$206	$4,097	$1,271	$6,964	$282,515
2027	$2,400,647	$26,818	$176,918	$30,923	$1,200	$44,256	$3,361	$216	$4,302	$1,335	$7,312	$296,641
2028	$2,520,679	$28,159	$185,764	$32,469	$1,260	$46,469	$3,529	$227	$4,517	$1,401	$7,678	$311,473
2029	$2,646,713	$29,566	$195,052	$34,092	$1,323	$48,792	$3,705	$238	$4,743	$1,472	$8,062	$327,046
2030	$2,779,049	$31,045	$204,805	$35,797	$1,390	$51,232	$3,891	$250	$4,980	$1,545	$8,465	$343,399
8 Yr Total		**$210,681**	**$1,389,882**	**$242,931**	**$9,430**	**$347,678**	**$26,404**	**$1,697**	**$33,797**	**$10,486**	**$57,447**	**$2,330,432**

*Based on a property tax rate of 12.3567% in tax rate area 041000. Real property value is increased by 5 percent per year.

FIGURE 8
8-YEAR VALUE OF THE GPLET
MESA ARTS DISTRICT LOFTS

	Benefit to Local and State Government				Benefit to Prime Lesee
	City of Mesa	County/ Schools[1]	State	Total Public Benefit	Property Tax Savings
Total Direct	**$574,318**	**$192,787**	**$3,179,452**	**$3,946,557**	**$2,330,432**
2021/22	$492,077	$172,227	$1,377,815	$2,042,119	$0
2023	$9,582	$2,395	$209,908	$221,886	$244,047
2024	$9,774	$2,443	$214,106	$226,323	$256,249
2025	$9,969	$2,492	$218,389	$230,850	$269,062
2026	$10,168	$2,542	$222,756	$235,467	$282,515
2027	$10,372	$2,593	$227,212	$240,176	$296,641
2028	$10,579	$2,645	$231,756	$244,980	$311,473
2029	$10,791	$2,698	$236,391	$249,879	$327,046
2030	$11,007	$2,752	$241,119	$254,877	$343,399

[1]Includes Mesa Unified District and EVIT.

[2] Includes 5 percent annual increase in limited property value.

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable apartments west of the downtown area. An average limited property value per square foot of $97 was used for the apartments, resulting in a total LPV estimate of $19.8 million, assessed at 10 percent. 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 apartment project described in this analysis would create economic and revenue benefits for the City of Mesa. The economic benefits include the impacts of construction as well as on-going operations. The development would create additional demand in the West Redevelopment Area through resident spending, and support ridership on the light rail line.

Overall, Dobson Station is projected to generate $3.9 million in direct tax revenues to the city, county, school districts, and state from sales, property and income taxes from 2022 through 2030. These direct revenues significantly exceed the $2.3 million estimated value of the property tax exemption and lease excise abatement during the requested 8-year GPLET term. This project would also increase the value of the property by more than 1,200 percent based on the current LPV compared to the projected LPV, exceeding the statutory GPLET requirements.