APPLIED ECONOMICS

Economic and Revenue Impacts of ECO Mesa on the City of Mesa

June 2020

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1.0 INTRODUCTION

Applied Economics was retained by the City of Mesa to perform an economic impact analysis of ECO Mesa, a proposed sustainable mixed-use development in downtown Mesa. The proposed project will be located on a 0.90 acre site on the south side of Pepper Place between Macdonald and Robson Street that is in the Central Business District and is currently owned by the City of Mesa.

The proposed development plan includes 102 residential units ranging in size from studios to two bedroom units with structured parking and street level specialty retail and restaurants. The site is well suited for this type of mixed-use, 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. 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 4,323 square feet of commercial space including a leasing office; 102 upscale residential units including studio, one, and two bedrooms; and structured parking in a three-story garage with a total of 206 spaces, 76 of which will be allocated to the city for public parking, and the remainder will be for residents. Total construction costs are estimated at $30.0 million including land and FF&E.

Figure 1 details the development assumptions for the proposed mix of uses including the commercial and residential components. The development could create capacity for about 24 new jobs on-site, assuming a long-term occupancy rate of 100 percent for the commercial space and 95 percent for the residential units.[1]

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Rentable Square Feet	Estimated Jobs	Occupancy	Taxable Sales PSF	Monthly Lease Rate
Retail	1,072	4	100%	$250	$21
Restaurant	2,331	16	100%	$500	$21
Leasing Office/Property Mgmt	920	5	100%	$0	$0
Residential (102 units)	109,244	0	95%	$0	$1,485-$2,640
Parking (206 spaces)	98,397	0	na	$0	$0
Total	211,964	24		na	na

[1] Since the commercial spaces are relatively small, it is likely they will be fully occupied by three retail and restaurant tenants, thus a normal market occupancy rate of 92 to 95 percent is not appropriate for this property.

Retail sales per square foot are estimated at an average of $250 for the retail and $500 for the restaurant space. There will be additional taxable sales associated with the leases on both the commercial and residential space. The residential units will rent for an estimated $1,485 to $2,640 per month, including parking, depending on the unit size.

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 downtown Mesa will provide a variety of economic benefits for the City. These benefits are based on the specific mix of proposed uses that capitalize on the demand for upscale sustainable residential development in the downtown area and along the light rail line.

- 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.

- ECO Mesa 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 is projected to generate **$3.5 million** in revenues to the city, county, school district and state from sales and income taxes in 2021 through 2029. 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 in A.R.S. 42-6209.[2].

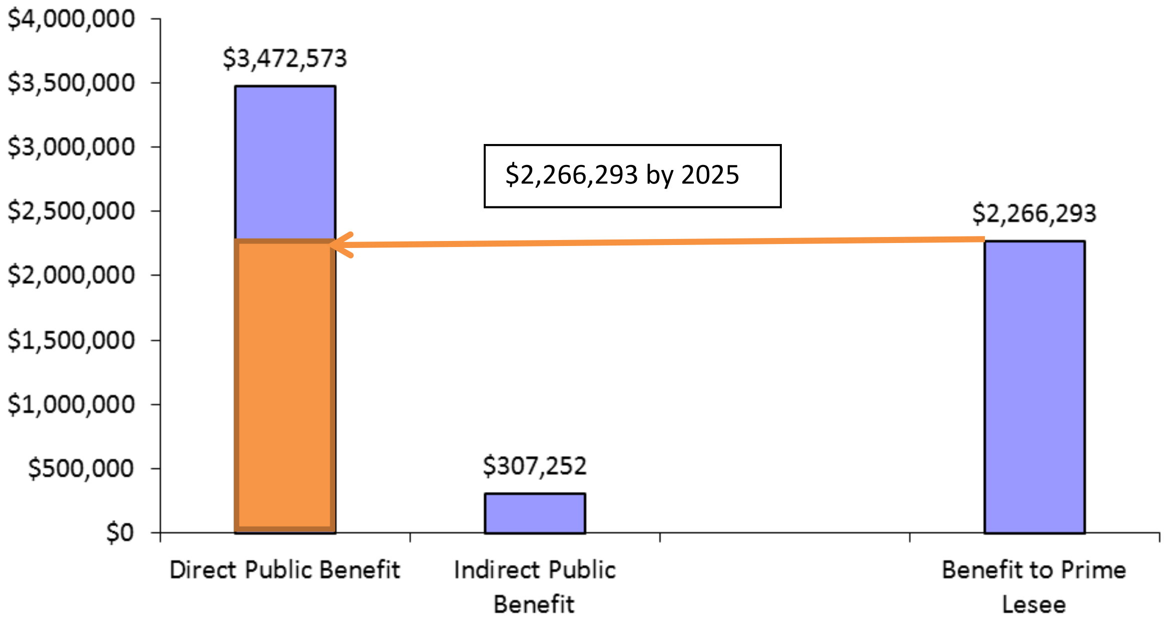
- Direct revenues to the City of Mesa are estimated at **$961,000** from 2021 to 2029, versus the city's share of the property tax exemption estimated at **$205,000**. In addition, the project would generate **$2.5 million** in sales and income taxes to the state and county over the eight-year term, based on the project assumptions outlined in this analysis.

- In terms of economic benefits to the city, the commercial component of ECO Mesa could create an economic impact of **$20.8 million** from 2022 to 2029, directly and indirectly supporting approximately **31 jobs** and **$7.6 million** in labor income during the eight-year GPLET term.

- ▪ The retail and restaurant space in the development and the property management associated with the apartments could directly support about **24** jobs. These businesses could also support an additional **7** indirect jobs at other local businesses in Mesa. These indirect jobs are the result of local supplier purchases made by the businesses in the development, as well as local spending by employees. Additional jobs will be supported by household spending of the apartment residents that are not captured here.

[2] 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
VALUE OF ECO MESA TO LOCAL AND STATE GOVERNMENTS



The ECO Mesa project 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 capitalizes on the presence of the light rail line through downtown Mesa.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from ECO Mesa 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 sales, or 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 estimated breakdown of construction costs includes hard costs and tenant improvements of $24.4 million, design and professional services of $977,000, financing, FF&E and other costs of $4.6 million. The hard and soft costs have the potential to generate local economic impacts. Construction is expected to occur over a period of about 18 to 21 months with completion in early 2022.

The project would result in direct construction-related expenditures of about $25.4 million. The multiplier effects of this construction spending on the city would result in a total increase in economic activity of about $37.4 million (Figure 3). These impacts are projected to occur in 2020 and 2021. The approximately 216 direct jobs and 82 indirect and induced jobs created by this construction activity would result in over $17.5 million in additional labor income in the City of Mesa during construction.

FIGURE 3
CONSTRUCTION IMPACTS OF ECO MESA
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
Hard Costs	$24,407,100	211	$12,876,063	$35,814,710	289	$16,784,665
Soft Costs	$977,000	5	$466,810	$1,609,790	9	$703,381
Total	**$25,384,100**	**216**	**$13,342,873**	**$37,424,500**	**298**	**$17,488,046**

3.2 Operations Impacts

Once construction is completed, the businesses in the proposed project will create economic impacts through supplier purchases locally, as well as through employee spending. Direct impacts include employment, labor income and sales within the development. The businesses in the development will also make supplier purchases in the local area, and their employees will make consumer purchases that are captured in the total impact estimates.

The project, as proposed, could directly support an estimated 24 jobs, $632,000 in annual direct labor income and $1.7 million in direct output per year. The multiplier effect of this increase in jobs and payroll would result in a total output impact of $2.6 million annually (Figure 4). This $2.6 million represents the annual gross revenues created by the commercial development within the project, plus the increase in revenues to local suppliers and local purchases by employees. During the 8-year term of the GPLET, ECO Mesa could create $20.8 million in economic impacts, directly and indirectly supporting approximately 31 jobs and $7.6 million in labor income.

FIGURE 4
ANNUAL ECONOMIC IMPACTS OF ECO MESA
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2022	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2023	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2024	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2025	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2026	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2027	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2028	$1,659,789	24	$631,740	$2,598,639	31	$948,863
2029	$1,659,789	24	$631,740	$2,598,639	31	$948,863
Total	**$13,278,311**	**24**	**$5,053,920**	**$20,789,108**	**31**	**$7,590,902**

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 personal 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 retail, property management and for multi-family construction. The average output multiplier for this mixed-use development is 1.57. This means that for every $1 million of annual output created by the retail and restaurant tenants and the property management associated with the apartments, an additional $570,000 in economic activity and 4 additional jobs are supported at other local businesses outside the development. On average, the income from these indirect jobs is estimated at about $51,000 per employee.

4.0 REVENUE IMPACTS

In addition to supporting jobs, income and output at related businesses in the city through the multiplier effects, ECO Mesa will also generate new local tax revenues, primarily from taxable retail sales and rents. In total, the project could generate approximately $989,000 in direct and employee tax revenues to the City of Mesa from 2021 to 2029, and $2.8 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 $1.3 million to the city, county and state combined, of which $320,000 would go to the City of Mesa (Figure 5). There would also be on-going sales tax revenues from rents and taxable sales estimated at $642,000 to the city and $225,000 to the county over the eight-year period. No property taxes are included in direct revenues in order to illustrate the impacts of a GPLET abatement.

At the state level there would be on-going sales tax revenue from retail sales plus one-time construction sales tax estimated at $1.6 million over eight years, plus personal income taxes from residents estimated at $590,000. This analysis assumes that 25 percent of residents would be new to the state. State income tax revenues are calculated using estimated income per household based on rents and current tax schedules from the Arizona Department of Revenue.[3]

FIGURE 5
DIRECT LOCAL AND STATE REVENUE IMPACTS

	City of Mesa			Maricopa County			State of Arizona			
	Property	Sales[1]	Total Benefit	Property	Sales[1]	Total Benefit	Sales	Personal Income	Total Benefit	Total Tax Benefit
Direct Impacts	**$0**	**$961,455**	**$961,455**	**$0**	**$336,509**	**$336,509**	**$1,584,865**	**$589,744**	**$2,174,609**	**$3,472,573**
2020/21 (Const.)	$0	$319,950	$319,950	$0	$111,982	$111,982	$895,859	$0	$895,859	$1,327,790
2022	$0	$74,742	$74,742	$0	$26,160	$26,160	$80,276	$68,711	$148,987	$249,888
2023	$0	$76,236	$76,236	$0	$26,683	$26,683	$81,882	$70,085	$151,967	$254,886
2024	$0	$77,761	$77,761	$0	$27,216	$27,216	$83,519	$71,487	$155,006	$259,984
2025	$0	$79,316	$79,316	$0	$27,761	$27,761	$85,190	$72,917	$158,106	$265,183
2026	$0	$80,903	$80,903	$0	$28,316	$28,316	$86,893	$74,375	$161,268	$270,487
2027	$0	$82,521	$82,521	$0	$28,882	$28,882	$88,631	$75,862	$164,494	$275,897
2028	$0	$84,171	$84,171	$0	$29,460	$29,460	$90,404	$77,380	$167,784	$281,415
2029	$0	$85,855	$85,855	$0	$30,049	$30,049	$92,212	$78,927	$171,139	$287,043

[3] Resident household income estimates assume that rents are equal to 25 percent of total annual income.

4.2 Employee Revenues

Along with the direct taxes generated by the project, there will also be taxes generated by employees working in the development. Using the results from the economic impact analysis, it is possible to estimate employee tax impacts.

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 $1,400 per year to the city beginning in 2022, and an additional $14,000 per year to the school district, community college and county. All total, the project could generate about $123,000 in employee property tax revenues during the GPLET term, based on the assumptions used in this analysis.

FIGURE 6
EMPLOYEE LOCAL AND STATE REVENUE IMPACTS – ECO MESA

	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	**$11,172**	**$16,294**	**$27,466**	**$111,900**	**$10,967**	**$122,867**	**$87,736**	**$69,184**	**$156,920**	**$307,252**
2022	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2023	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2024	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2025	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2026	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2027	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2028	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406
2029	$1,396	$2,037	$3,433	$13,987	$1,371	$15,358	$10,967	$8,648	$19,615	$38,406

Employee sales taxes are estimated by multiplying direct personal income from the economic impact times 31 percent (share of taxable expenditures), times the Mesa live-work ratio of 52 percent, times the sales tax rate.[4] No residency ratio is used for county or state indirect sales tax. Employee city sales taxes are estimated at $16,000 over eight years. Additional sales taxes generated to the county and the state are estimated at $99,000 over the eight-year GPLET term.

Direct employees could also generate an estimated $69,000 in state personal income tax revenues from 2022 to 2029. 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 31 percent of their income on taxable goods. Maricopa County Rideshare data shows that about 53 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 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 $205,000 would have gone to the City of Mesa, $1.2 million would have gone to Mesa Public Schools and the remaining $856,000 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 $3.5 million (Figure 8). The value of other tax revenues generated by the project exceeds the property tax savings from the GPLET by $1.2 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 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
2021	$15,020,189	$21,468	$18,086	$126,270	$24,027	$904	$33,595	$2,532	$172	$3,241	$1,006	$6,028	$237,330
2022	$15,771,198	$22,542	$18,990	$132,584	$25,229	$950	$35,275	$2,659	$180	$3,403	$1,056	$6,330	$249,197
2023	$16,559,758	$23,669	$19,940	$139,213	$26,490	$997	$37,039	$2,792	$189	$3,573	$1,109	$6,646	$261,657
2024	$17,387,746	$24,852	$20,937	$146,174	$27,815	$1,047	$38,890	$2,931	$199	$3,752	$1,164	$6,978	$274,740
2025	$18,257,133	$26,095	$21,984	$153,482	$29,206	$1,099	$40,835	$3,078	$209	$3,940	$1,222	$7,327	$288,477
2026	$19,169,990	$27,400	$23,083	$161,157	$30,666	$1,154	$42,877	$3,232	$219	$4,136	$1,283	$7,694	$302,900
2027	$20,128,489	$28,770	$24,237	$169,214	$32,199	$1,212	$45,021	$3,393	$230	$4,343	$1,348	$8,078	$318,045
2028	$21,134,914	$30,208	$25,449	$177,675	$33,809	$1,272	$47,272	$3,563	$242	$4,560	$1,415	$8,482	$333,948
8 Yr Total		**$205,003**	**$172,707**	**$1,205,770**	**$229,441**	**$8,635**	**$320,803**	**$24,179**	**$1,641**	**$30,949**	**$9,602**	**$57,563**	**$2,266,293**

*Based on a property tax rate of 13.1222% in tax rate area 041000. Real property value is increased by 5 percent per year.

FIGURE 8
8-YEAR VALUE OF THE GPLET
ECO MESA

	Benefit to Local and State Government				Benefit to Prime Lesee
	City	County	State	Total Public Benefit	Property Tax Savings
Total Direct	**$961,455**	**$336,509**	**$2,174,609**	**$3,472,573**	**$2,266,293**
2020/21	$319,950	$111,982	$895,859	$1,327,790	$0
2022	$74,742	$26,160	$148,987	$249,888	$237,330
2023	$76,236	$26,683	$151,967	$254,886	$249,197
2024	$77,761	$27,216	$155,006	$259,984	$261,657
2025	$79,316	$27,761	$158,106	$265,183	$274,740
2026	$80,903	$28,316	$161,268	$270,487	$288,477
2027	$82,521	$28,882	$164,494	$275,897	$302,900
2028	$84,171	$29,460	$167,784	$281,415	$318,045
2029	$85,855	$30,049	$171,139	$287,043	$333,948

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable retail, apartments and structured parking in the downtown area. An average limited property value per square foot of $162 was used for the retail, $102 for apartments, and $32 for structured parking, resulting in a total LPV estimate of $15.0 million. It is assumed that the value would increase by 5 percent per year, based on recent increases in LPV for the comparable properties and statutory guidelines.

4.4 Summary

The proposed sustainable mixed-use 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 the on-going operations impacts. The development would create additional demand in the downtown area through resident spending, and support jobs and payroll at businesses within the development. The development also provides new dining and shopping opportunities, generating increased visibility and support for other businesses in the downtown area and supports ridership on the light rail line.

Overall, the ECO Mesa is expected generate $3.5 million in direct revenues to the city, county, school districts, and state from sales, property and income taxes from 2021 through 2029. These direct revenues significantly exceed the $2.3 million 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 6,600 percent based on the current LPV compared to the projected LPV, exceeding the statutory GPLET requirements.

APPLIED ECONOMICS

August 18, 2020

Mr. Jeff Robbins
Downtown Transformation Project Manager
City of Mesa
P.O. Box 1466
Mesa, AZ 85211-1466

Dear Jeff,

This letter serves as an addendum to the Economic and Revenue Impact of ECO Mesa dated June 2020, prepared by Applied Economics for the City of Mesa. The purpose is to clarify the residential square footage in the ECO Mesa project and how it impacts the final results presented in the report.

In the report, **Figure 1- Development Assumptions** indicates rentable square feet of 109,244 for the residential portion of the development. This includes 85,144 square feet of rentable apartment space, along with a 2,100 square foot community room, a 1,000 square foot fitness center and 21,000 square feet of common area. The 109,244 figure includes 24,100 square feet of space that is not rentable, and thus creates confusion.

Despite this difference in square feet, the results of the analysis do not change because the taxable revenues related to the apartments are based on number of units and average rents, not on total square footage. Therefore, the direct revenue impacts in Figures 5 and 8 that constitute the benefit to state and local governments are not affected by square feet of residential development. In the case of the benefit to the prime lessee (also shown in Figure 8), the total square feet are used in the LPV estimate, and so the 109,244 square feet of residential built space is the correct basis for property tax.

Since none of the revenue impacts would change based on this difference in rentable square feet versus total square feet, the project still meets all of the statutory requirements for a GPLET agreement with an 8-year abatement. If you have any additional questions or concerns, please do not hesitate to contact me.

Sincerely,

Sarah E Murley

Sarah E. Murley
Principal