City Council

Date: March 1, 2021

To: City Council

Through: Christopher J. Brady, City Manager

From: Jeff McVay, Manager of Downtown Transformation

Subject: Mesa Arts District Lofts (District 4)
Approving and authorizing the City Manager to enter into a Development Agreement, A Government Property Lease Excise Tax (GPLET) Lease Agreement, and a Perpetual Easement Agreement for the development of 9.7± acres of property generally at the southeast corner of East Main Street and South Sirrine.

Purpose and Recommendation

Consider the proposed Development Agreement, a Government Property Lease Excise Tax (GPLET) Lease, and a Perpetual Easement Agreement. The three agreements would allow the redevelopment of 9.7± acres of privately-owned real property in downtown Mesa that has remained vacant since 2014. The proposed agreements will facilitate the construction of four multi-story buildings, totaling 389,000± square feet (SF), including a clubhouse and buildings that will total 402,300± SF with approximately 334 market rate residential apartments, live-work units, residential amenities, parking and 13,000± SF of ground floor commercial space (Exhibit A) (the “Project”). A Perpetual Easement Agreement will provide public access to a plaza and a central thoroughfare, as well as public parking along the thoroughfare (Exhibit B). The proposed development will create market-rate multi-family housing, create jobs, increase revenues to the City, and reduce slum and blight conditions within the Town Center Redevelopment Area and the City’s single Central Business District. Staff recommends approval of the proposed Development Agreement, the GPLET, and the Perpetual Easement Agreement.

Background

The City was approached by the developer (Opus Development Company, LLC) requesting a GPLET to help facilitate the redevelopment of the vacant, almost one full city block area bounded by East Main Street, East 1st Avenue, South Sirrine, and South Hibbert, totaling 9.7± acres. The redevelopment site was formerly operated as a new automobile dealership for several decades until it was vacated in 2014. In 2017, the buildings were demolished to help address undesirable activities. Even though the buildings were demolished, some building foundations, pavement, perimeter fencing, and parking lot light poles were left in place adding to the slum and blight of the site. The City desires to see the privately-owned site redeveloped.

In July 2020, City staff presented an overview of the business terms of the agreements to City Council and received direction to complete agreement negotiations for Council action. The project has since obtained planning and zoning entitlements in November, 2020 and the developer is currently preparing construction drawings to submit to the City for permit review.

Discussion

The following provides a summary of the primary deal points for the Development Agreement, the GPLET, and the Perpetual Easement Agreement:

<u>Minimum Project Requirements</u>:

1. The Project will entail the construction of the following minimum private improvements: a total of (5) buildings consisting of (2) four-story buildings, (2) three-story buildings, and a one-story clubhouse:
    a. Residential
        i. 389,000 ± SF of rentable residential floor area and approximately 334 residential units that include Main Street walk-ups, live/work townhomes, 1-to-3-bedroom units and studio units with a minimum of (105) 2-bedroom units.
        ii. 6,200± SF Clubhouse, pool, spa, fitness center, cabanas, pet washing station, and electric vehicle charging stations.
    b. Commercial
        i. Intends to build approximately 13,000± square feet of ground floor commercial space for restaurants, specialty retail, and service uses.
    c. Transitional Residential Element
        i. Design and construct 12,000 SF building to an Assembly Occupancy Class at the ground floor of the Main Street buildings to activate the streetscape.
        ii. Area shall be actively marketed for commercial uses throughout construction of the project.
        iii. No portion of the Transitional Residential Element can be built out for market-rate residential living space until the final phase of construction of the Residential Element for the Project. All portions of the Transitional Residential Element used for market-rate residential living space to be continually marketed for conversion to retail and restaurant uses as soon as market conditions support absorption of additional commercial uses.
    d. Plaza, Thoroughfare, and Parking
        i. Intends to build a 74,000± SF central thoroughfare bisecting the site from north to south and east to west which will include:
            1. A 3,300± SF landscaped pedestrian plaza with art sculptures, benches, and shaded seating areas adjacent to

Main Street.
2. Pedestrian walkways separated from bike lanes and vehicular lanes.
3. Approximately 37 parking spaces made available for restricted public use granted to the City in a perpetual easement. The developer will retain the right to provide time limits as needed to ensure parking availability for the businesses on the ground floor of the buildings.

2. On-site amenities consisting of a clubhouse, fitness center, swimming pool and spa, pool cabanas, pet washing station and pet friendly policies, resident package delivery and receiving, and covered/shaded parking among other on-site amenities.
3. Quality unit amenities including: a private deck, balcony, or patio (a minimum of 4' x 8') in at least 50% of the units; and higher-end finishes, energy efficient fixtures, and high-speed internet.
4. Exterior high-quality design which includes: three high quality and durable exterior building materials, windows with Low-E glazing, a cool roof, a minimum of 75% ground floor transparency along Main Street, sign to incorporate neon, pedestrian area to incorporate pavers, stamped colored concrete, or other specialty paving materials, and a minimum of 36" box size trees to be planted along public streets.
5. Enhanced sustainability features such as, a minimum of eight electric vehicle charging stations.
6. Project will be designed to meet the National Green Building Standard, Bronze performance level.
7. Potential Phase 2: The development has been designed to allow two, mid-rise residential buildings to be constructed on the surface parking fields adjacent to Sirrine and Hibbert. If developer notifies City that it intends to commence construction of the Phase 2 development within 5 years after completion of construction, City agrees to enter into good faith negotiations with developer for a potential development agreement, customized review schedule, and a separate GPLET Lease for Phase 2.

Terms of Development Agreement:

Developer Obligations:

1. Construct the Project as provided in the minimum Project requirements (outlined above).
2. Design and reconstruct streetscape improvements to the public right-of-way (Hibbert, Sirrine, 1st Ave), which includes wider public sidewalks, curb, and gutter, the removal of unused driveways, the provision of landscape material in new planters, irrigation, and lighting.
3. Maintain new landscape, irrigation, and lighting improvements within the public right-of-way, in perpetuity.
4. Perpetual Easement Agreement to provide public access to the thoroughfare,

plaza, bike lanes, pedestrian walkways, and restricted public parking.

5. Use of City sewer, water, energy, and solid waste services.
6. Pay SID 228 assessment during the GPLET term.

City Obligations:

1. If certain obligations of developer are met, enter into a GPLET Lease (described below).
2. Provide a customized plan review schedule.
3. Provide impact fee credits for previous development on the site, as allowed by City Code.
4. Allow encroachments into the right-of-way to support canopies, architectural elements, and outdoor seating areas for restaurants.

Arizona Government Property Lease Excise Tax (GPLET) statutes (A.R.S. §§ 42-6201 *et seq*.) allow, following completion of construction, the developer to convey the property and improvements to the City, and the City to then lease the property and private improvements back to the developer in accordance with the GPLET (Government Property Improvements) lease agreement which will allow developer the benefit of the abatement of certain tax. Because the property is located within Mesa's Downtown Redevelopment Area and Central Business District, the Project is eligible for an abatement of all lease excise taxes during the 8-year lease term.

In compliance with the GPLET statute A.R.S. § 42-6209, the City obtained a professional analysis of the economic and fiscal benefit of the Project, attached as Exhibit C. The analysis confirms that the proposed Project meets the statutory requirements for approval of a GPLET lease with an eight year property tax abatement: 1) the property is located within the City's single, designated Central Business District and is entirely located within a slum or blighted area (Mesa's Downtown Redevelopment Area), 2) the Project will increase the value of the land by greater than 100%, and 3) the Project is projected to generate greater revenues to the state and the county, city or town in which the Project is located than what is received by the developer as a result of the development agreement or lease, specifically the Project is projected to generate **$8.8 Million** in revenues from sales and income tax during the estimated abatement period (lease term) which significantly exceeds the value of the property taxes abated **($5.1 Million**). The analysis further projects that during the abatement period, the project will generate **$1.5 Million** in direct revenues to the City, **$63.9 Million** in indirect economic benefit, and directly and indirectly support **ninety-five** jobs.

A primary concern with GPLET projects is the reduction in school district property taxes. To address this concern, the City negotiated an "in-lieu" payment by the developer to the school districts (Mesa Public Schools, Maricopa Community Colleges, and East Valley Institute of Technology). The in-lieu payment is equal to the school district tax revenues that the 9.7± acres would generate, as vacant property, over the course of the abatement period. After the first year, a five percent escalator was added to each year to account for typical property value increases. In total, the in-lieu payments equal **$201,819**. In further compliance with the GPLET statutes, the City provided notice to the impacted taxing authorities at least 60 days in advance of Council's consideration of the lease and development agreement, and provided the independent economic benefit analysis to the impacted taxing authorities at least 30 days in advance of Council consideration.

Key Compliance Dates

- Commence construction on or before January 1, 2022.
- Complete construction on or before December 31, 2024.

Fiscal Impact:

During the term of the GPLET Lease, the developer will pay to the City $10,000 a year in rent and a $5,000 buy-back fee, both of which cover the City's cost to administer the GPLET.

The project is estimated to generate **$2.6 Million** in construction sales tax, of which **$624,000** would go to the City of Mesa. On-going sales tax revenues from rents and taxable sales are estimated at **$866,000** to the City over the eight-year lease period. At year nine, the estimated secondary property tax revenue is **$115,879** a year. In addition, upon completion of construction, City utilities will gain new residential and commercial accounts.

Coordinated With

The agreement terms were coordinated with the City Manager's Office, City Attorney's Office, Energy Resources Department, Development Services Department, Water Resources, Engineering Department, and Environmental Management and Sustainability Department.

Alternatives

Modify terms to the proposed Development Agreement, GPLET Lease, or Perpetual Easement Agreement.

Denial of the proposed agreements.

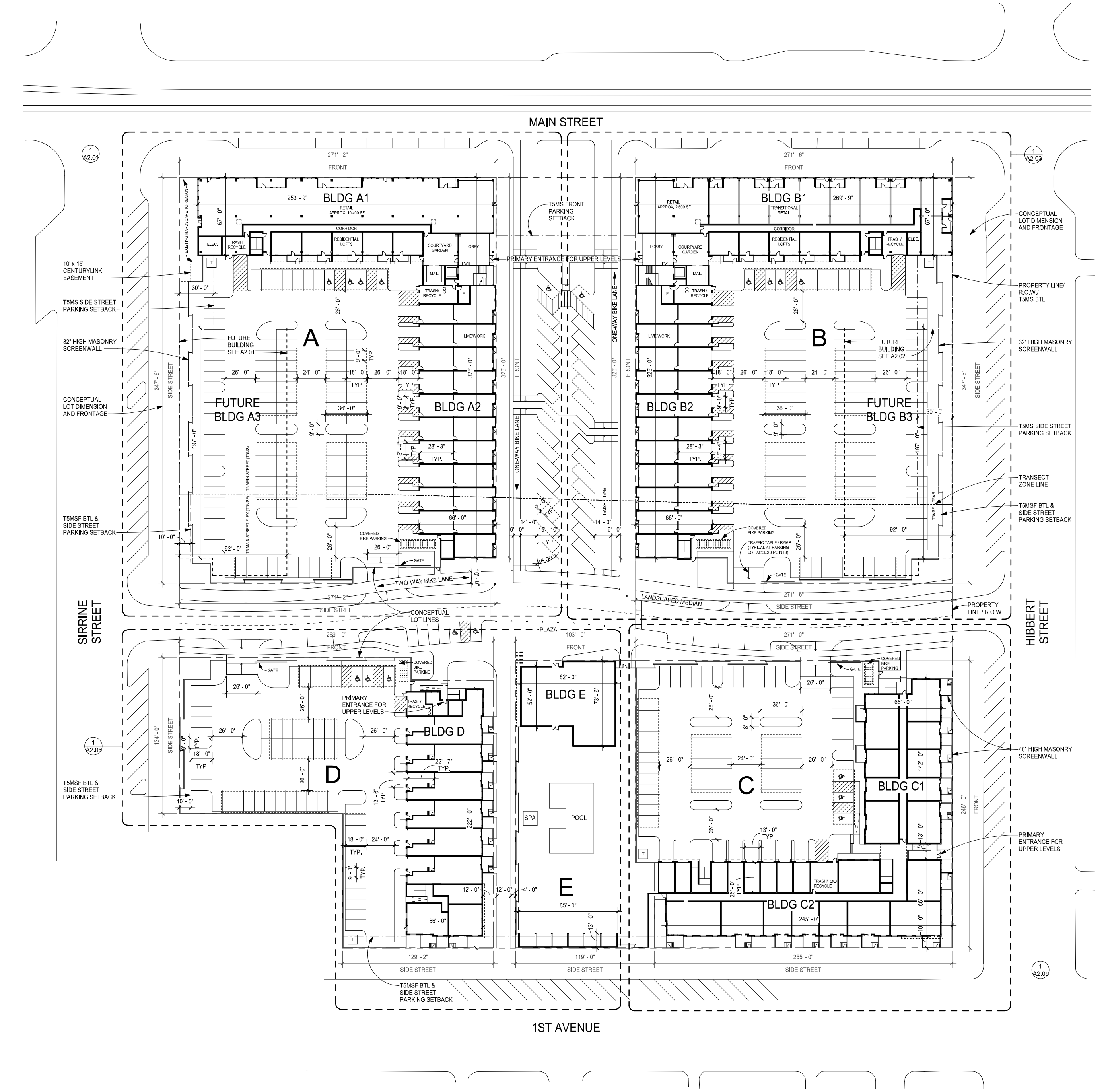
Attachments

Exhibit A: **Project Site Plan, Exterior Elevations, and Off-site Improvements**

Exhibit B: **Perpetual Easement (Thoroughfare, Plaza, and Restricted Public Parking**

Exhibit C: **Economic Benefit Analysis**

Exhibit A: Project Site Plan, Exterior Elevations, and Off-site Improvements



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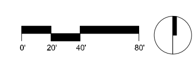
PROJECT INFORMATION

SITE AREA	9.67	ACRES
BLDG A1 & A2		
TOTAL AREA	APPROX. 140,000	GSF
LEVELS	4	(3 LEVELS OVER PODIUM)
HEIGHT	+/- 55	FEET
BLDG B1 & B2		
AREA	APPROX. 149,000	GSF
LEVELS	4	(3 LEVELS OVER PODIUM)
HEIGHT	+/- 55	FEET
BLDG C1 & C2		
AREA	APPROX. 75,000	GSF
LEVELS	3	
HEIGHT	+/- 35	FEET
BLDG D		
AREA	APPROX. 41,500	GSF
LEVELS	3	
HEIGHT	+/- 35	FEET
BLDG E		
AREA	APPROX. 6,200	GSF
LEVELS	1	
HEIGHT	+/- 20	FEET
TOTAL BUILDING AREA	APPROX. 411,700	GSF

UNIT COUNT

BLDG A1 & A2	106
BLDG B1 & B2	121
BLDG C1 & C2	64
BLDG D	43
TOTAL RESIDENTIAL UNITS	334

PARKING INFORMATION	PROPOSED	FORM BASED CODE
RETAIL AND SERVICE USES		2/1,000SF MIN.
RESIDENTIAL UNITS		NO MIN. ; 1/UNIT MAX.
'A'		
GARAGE	10	
PARKING LOT	118	
INTERNAL STREET	15	
TOTAL 'A' PARKING	143 STALLS	
RETAIL	10,400 SF	21 FBC MIN. STALLS
RESIDENTIAL	106 UNITS	106 FBC MAX. STALLS
'B'		
GARAGE	10	
PARKING LOT	118	
INTERNAL STREET	15	
TOTAL 'B' PARKING	143 STALLS	
RETAIL	2,600 SF	5 FBC MIN. STALLS
RESIDENTIAL	121 UNITS	121 FBC MAX. STALLS
'C'		
GARAGE	8	
PARKING LOT	73	
TOTAL 'C' PARKING	81 STALLS	
RESIDENTIAL	64 UNITS	64 FBC MAX. STALLS
'D'		
GARAGE	6	
PARKING LOT	57	
TOTAL 'D' PARKING	63 STALLS	
RESIDENTIAL	43 UNITS	43 FBC MAX. STALLS
'E'		
INTERNAL STREET	13	
TOTAL 'E' PARKING	13 STALLS	
TOTAL PROJECT AUTO PARKING	443 STALLS	
TOTAL RETAIL AREA	13,000 SF	26 FBC MIN. RETAIL STALLS
TOTAL RESIDENTIAL UNITS	334 UNITS	334 FBC MAX. RESIDENTIAL STALLS
TOTAL COVERED PARKING (NOT INCLUDING GARAGES)	200 STALLS	0 FBC REQUIRED
BIKE PARKING		
'A'	14 STALLS	
'B'	14 STALLS	
'C'	8 STALLS	
'D'	8 STALLS	
TOTAL BIKE PARKING	44 STALLS	44 FBC MIN. BIKE STALLS



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CONSULTANT

PROJECT
Mesa Arts District Lofts

PROJECT ADDRESS
Mesa, AZ

PROJECT NUMBER
31593000

ISSUE RECORD
03/03/20 FBC 2ND SUBMITTAL
04/08/20 BOA SUBMITTAL
08/19/20 FBC 3RD SUBMITTAL
09/29/20 FBC 4TH SUBMITTAL
10/22/20 FBC 5th SUBMITTAL

DATE
10/22/20

PROJECT MANAGER

DRAWN BY
JW

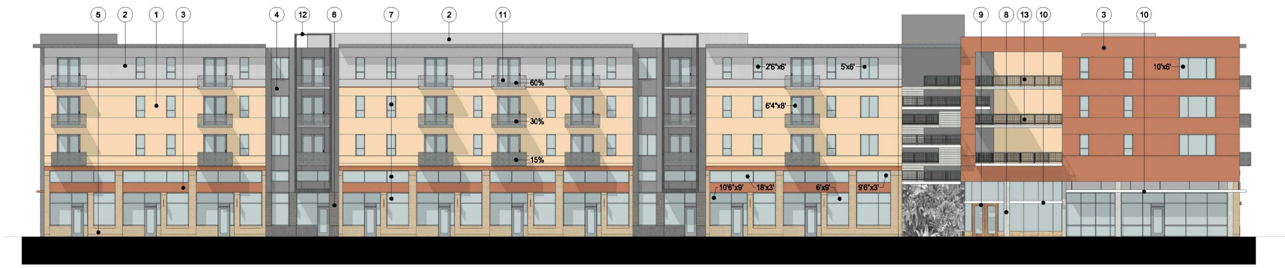
CHECKED BY
DN

REGISTRATION

SHEET TITLE
CONCEPT SITE PLAN

SHEET NUMBER
A1.01

1 BLDG A - NORTH
1/16" = 1'-0"



2 BLDG A - EAST
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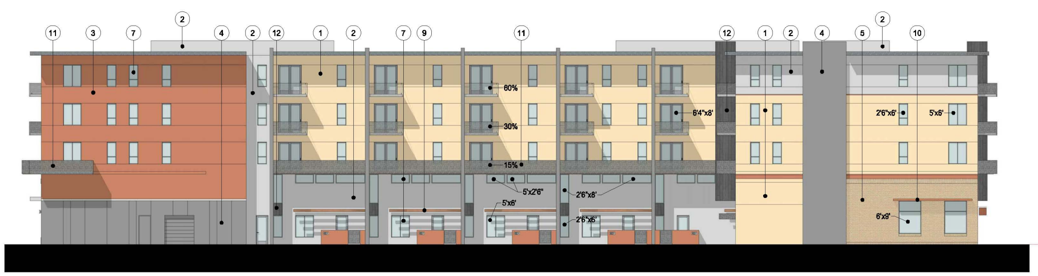
CONCEPTUAL MATERIAL LEGEND

01. STUCCO / E.I.F.S. COLOR #1
02. STUCCO / E.I.F.S. COLOR #2
03. STUCCO / E.I.F.S. COLOR #3
04. STUCCO / E.I.F.S. COLOR #4
05. FACE BRICK LIGHT GREY COLOR
06. FACE BRICK DARK GREY COLOR
07. VISION GLASS (CLEAR OR TINT)
08. EXPOSED CONCRETE COLUMNS
09. WOOD COLOR / PATTERN
10. CANOPY
11. PERFORATED ALUMINUM (15%, 30%, 60% OPEN AREA)
12. METAL PANEL
13. WOVEN WIRE MESH
14. FIBER CEMENT LAP SIDING



3 BLDG A - SOUTH
1/16" = 1'-0"

4 BLDG A - WEST
1/16" = 1'-0"

0' 8' 16' 32'

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10/22/20 FBC 5th SUBMITTAL

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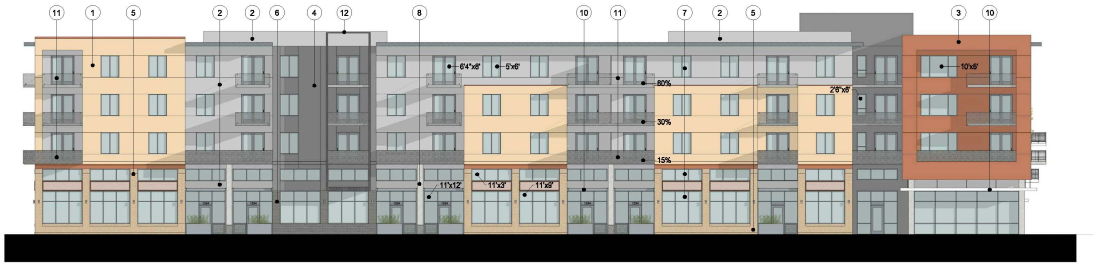
REGISTRATION

SHEET TITLE
CONCEPT ELEVATIONS - BLDG A

SHEET NUMBER
A3.01



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2 BLDG B - EAST
1/16" = 1'-0"

3 BLDG B - SOUTH
1/16" = 1'-0"

4 BLDG B - WEST
1/16" = 1'-0"

0' 8' 16' 32'

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REGISTRATION

SHEET TITLE
CONCEPT ELEVATIONS - BLDG B

SHEET NUMBER
A3.02

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3 BLDG C - SOUTH
1/16" = 1'-0"

4 BLDG C - WEST
1/16" = 1'-0"

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CONCEPTUAL MATERIAL LEGEND

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REGISTRATION

SHEET TITLE
CONCEPT ELEVATIONS - BLDG C

SHEET NUMBER
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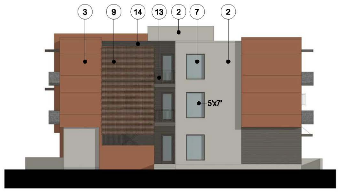

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2 BLDG D - EAST
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3 BLDG D - SOUTH
1/16" = 1'-0"

4 BLDG D - WEST
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0' 8' 16' 32'

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REGISTRATION

SHEET TITLE
CONCEPT ELEVATIONS - BLDG D

SHEET NUMBER
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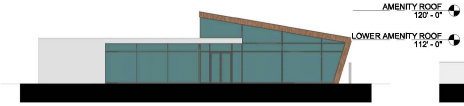

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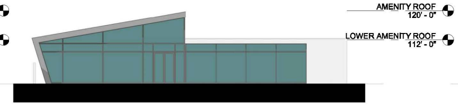

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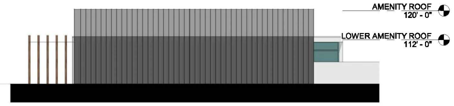

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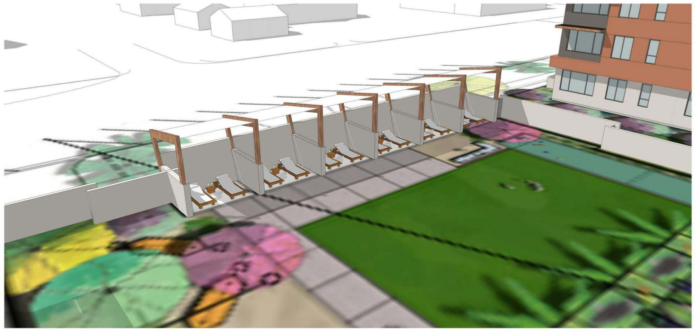

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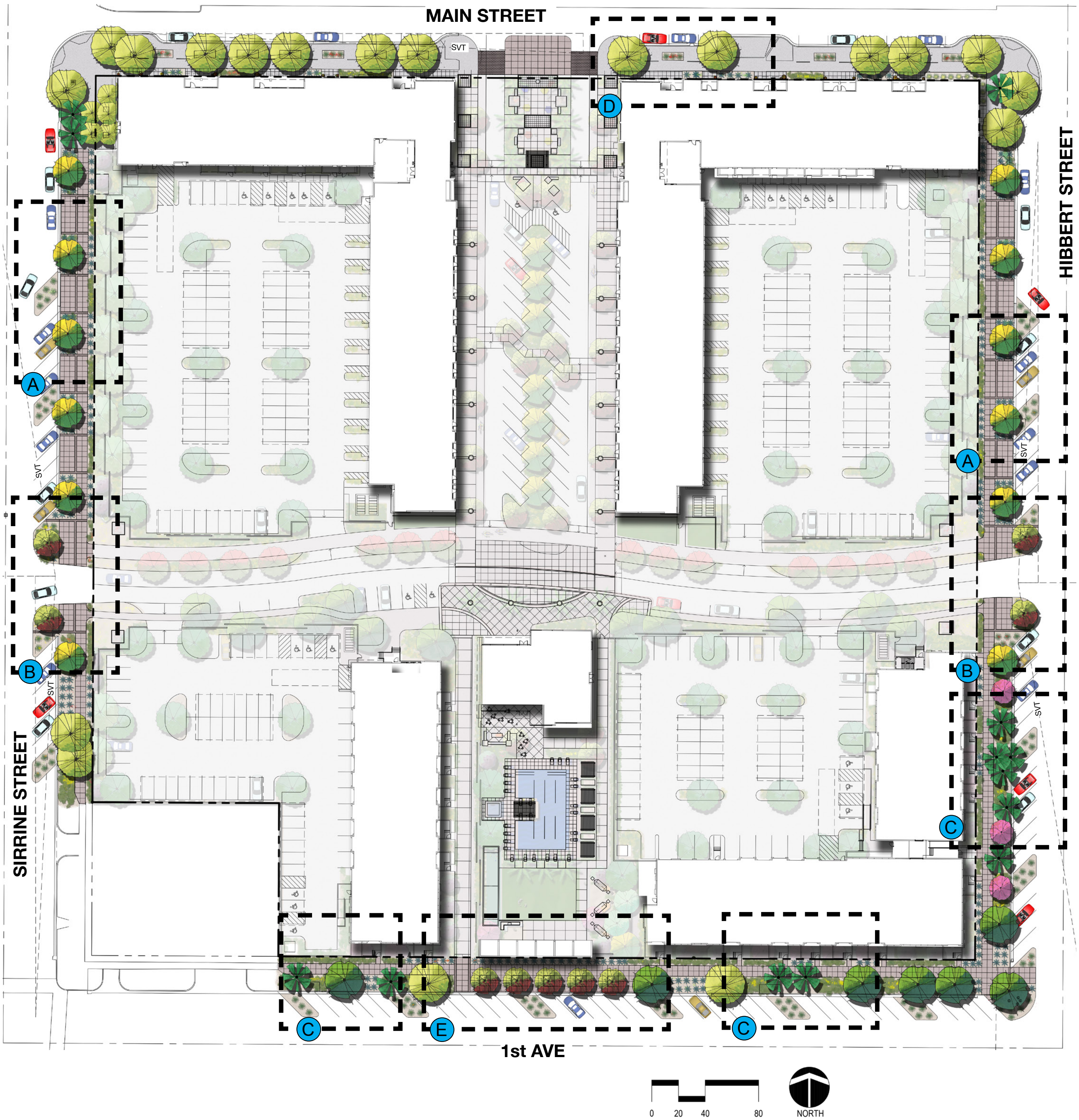

Mesa Arts District Lofts

Mesa, Arizona

February 23, 2021

studio DPA
Planning and Landscape Architecture

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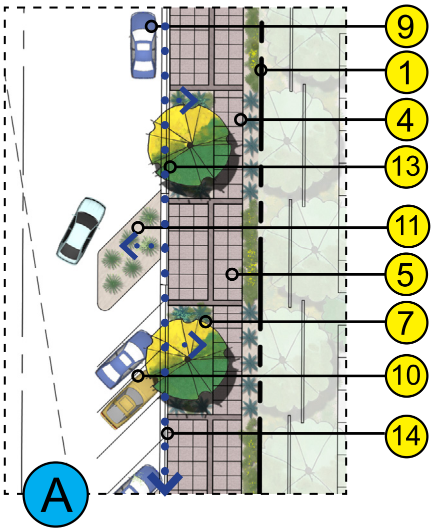
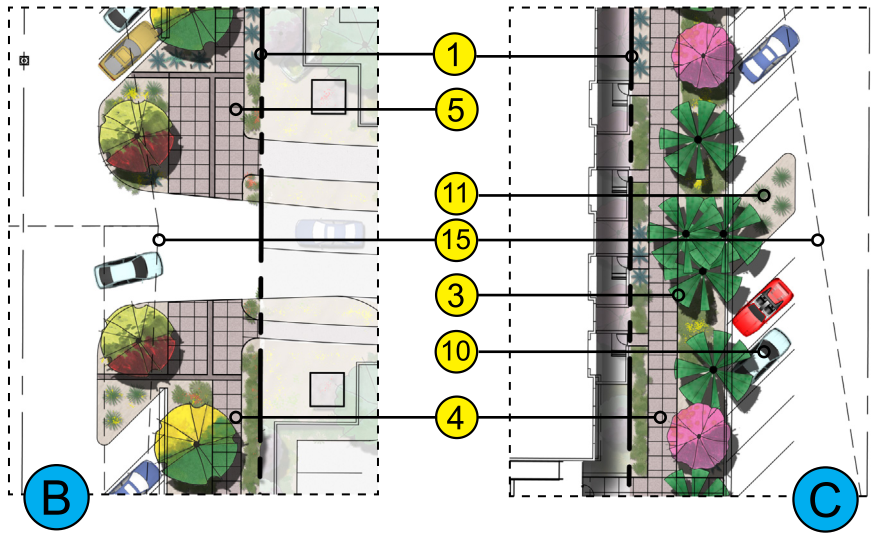
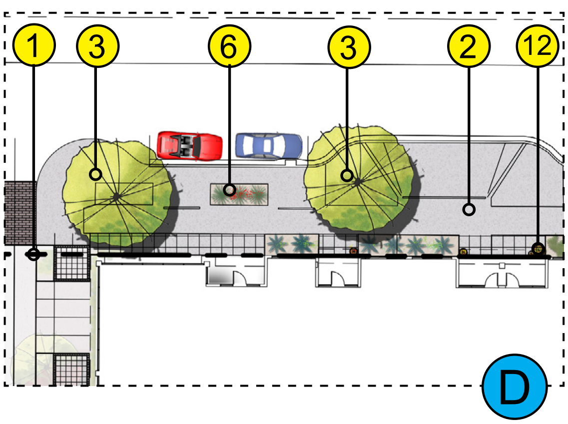
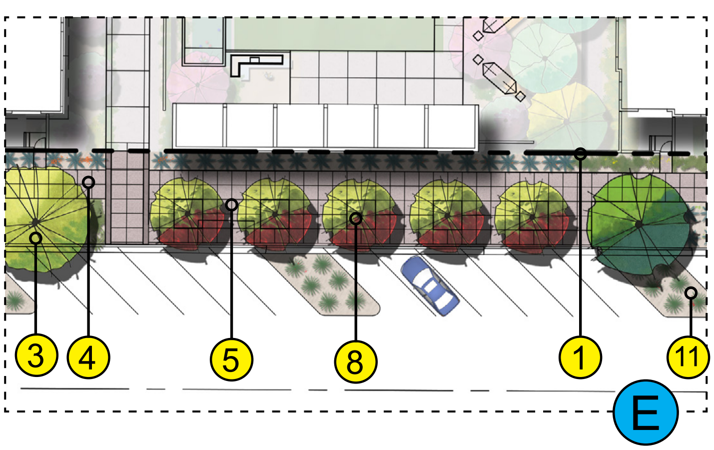








Keynotes

1. Property Line / ROW
2. Existing Sidewalk to Remain
3. Existing Tree/Palm to Remain
4. Proposed Concrete Sidewalk (8 ft. width)
5. Proposed Concrete Sidewalk (Expanded Width)
6. New Planting in Existing Cutouts
7. Rainwater Havesting Planters
8. Planter cutouts in Paving
9. Ride Share Drop-Off
10. On-Street Parking
11. Proposed Landscape Island
12. Pot / Urn
13. Curb-Cuts for Rainwater
14. Storm Flow for Rainwater
15. Sight Visibility Triangle

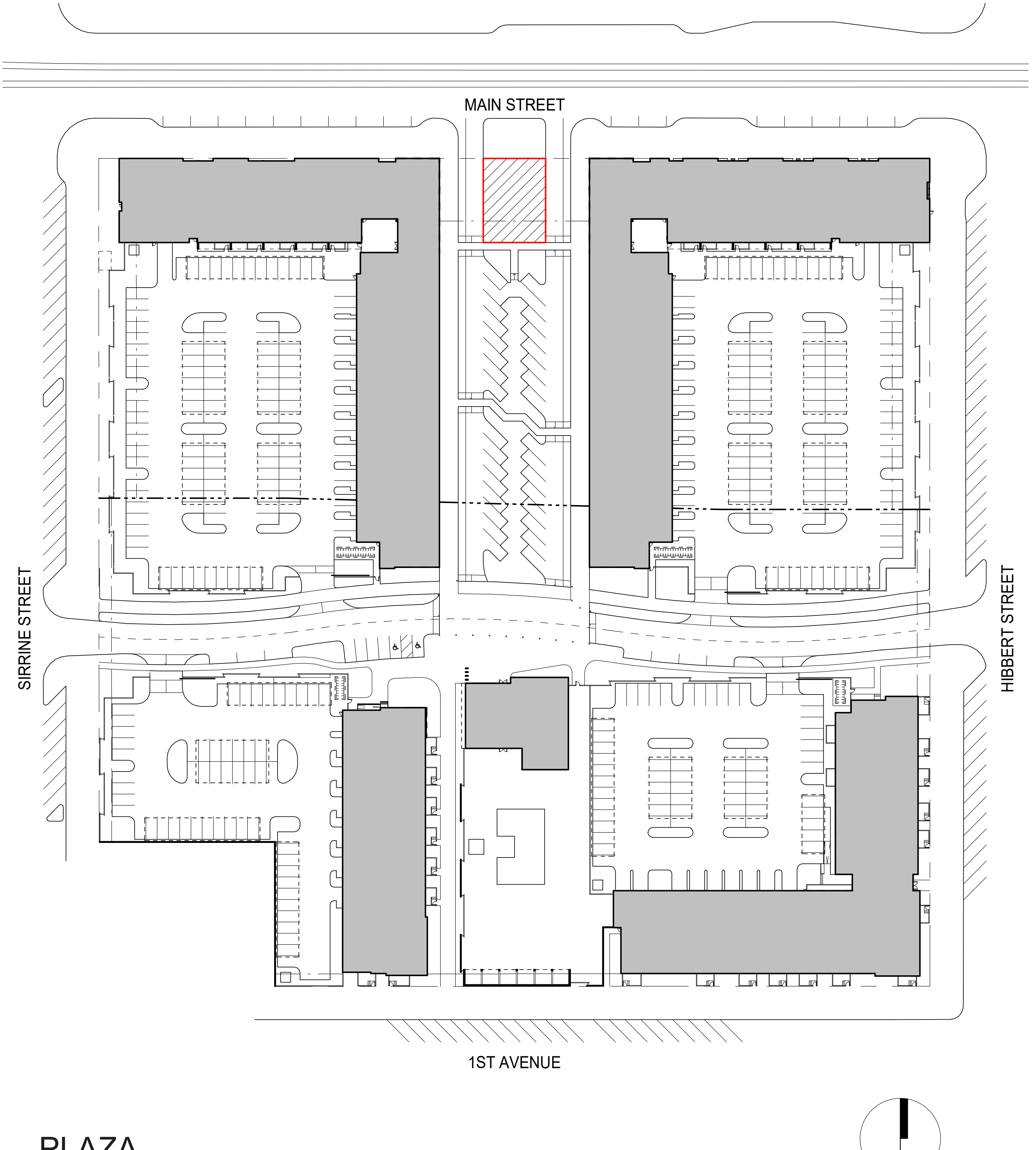
Mesa Arts District Lofts

Mesa, Arizona

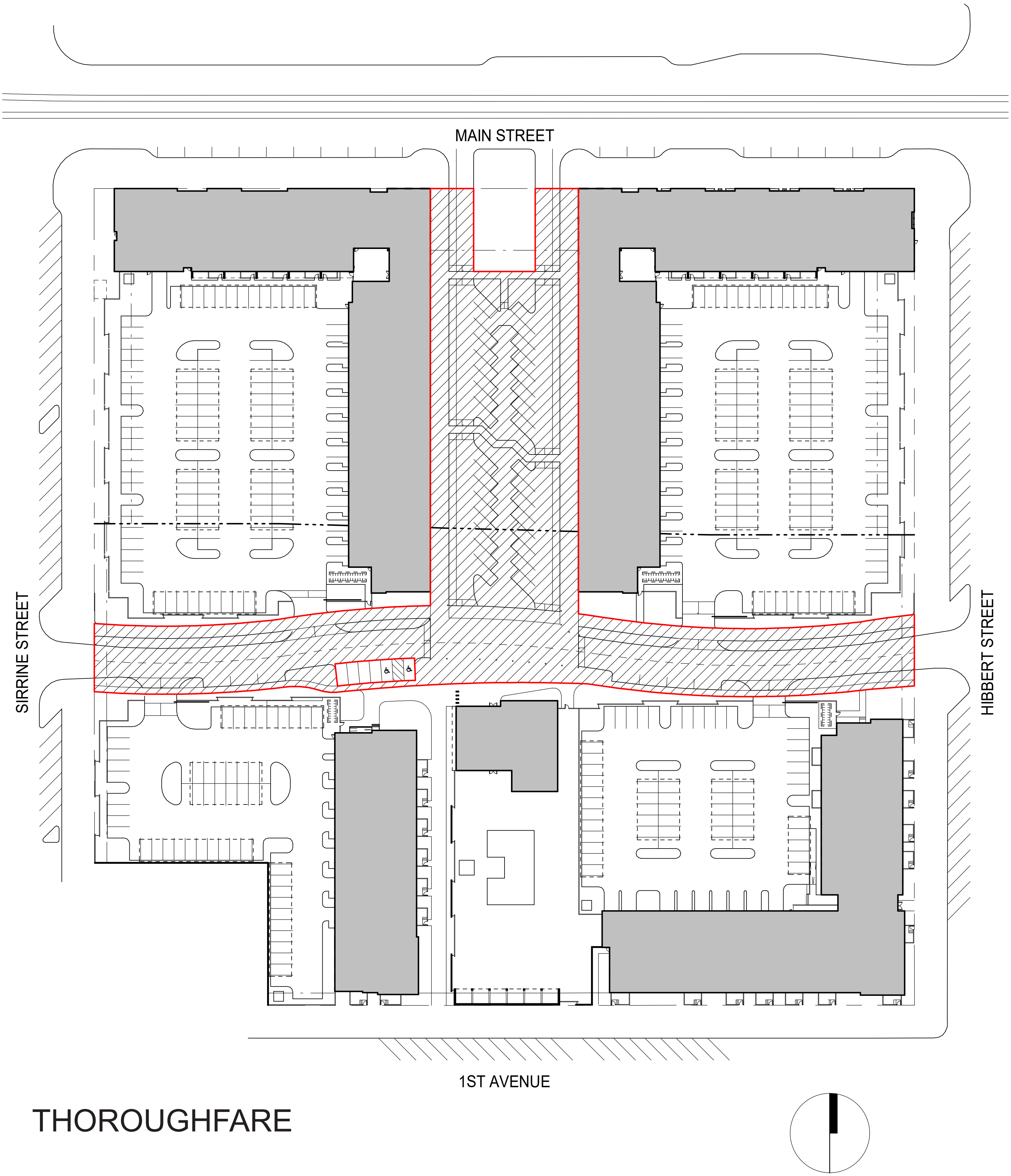
February 23, 2021

studio DPA
Planning and Landscape Architecture

Exhibit B: Open Space Easement (Thoroughfare, Plaza, and Restricted Public Parking

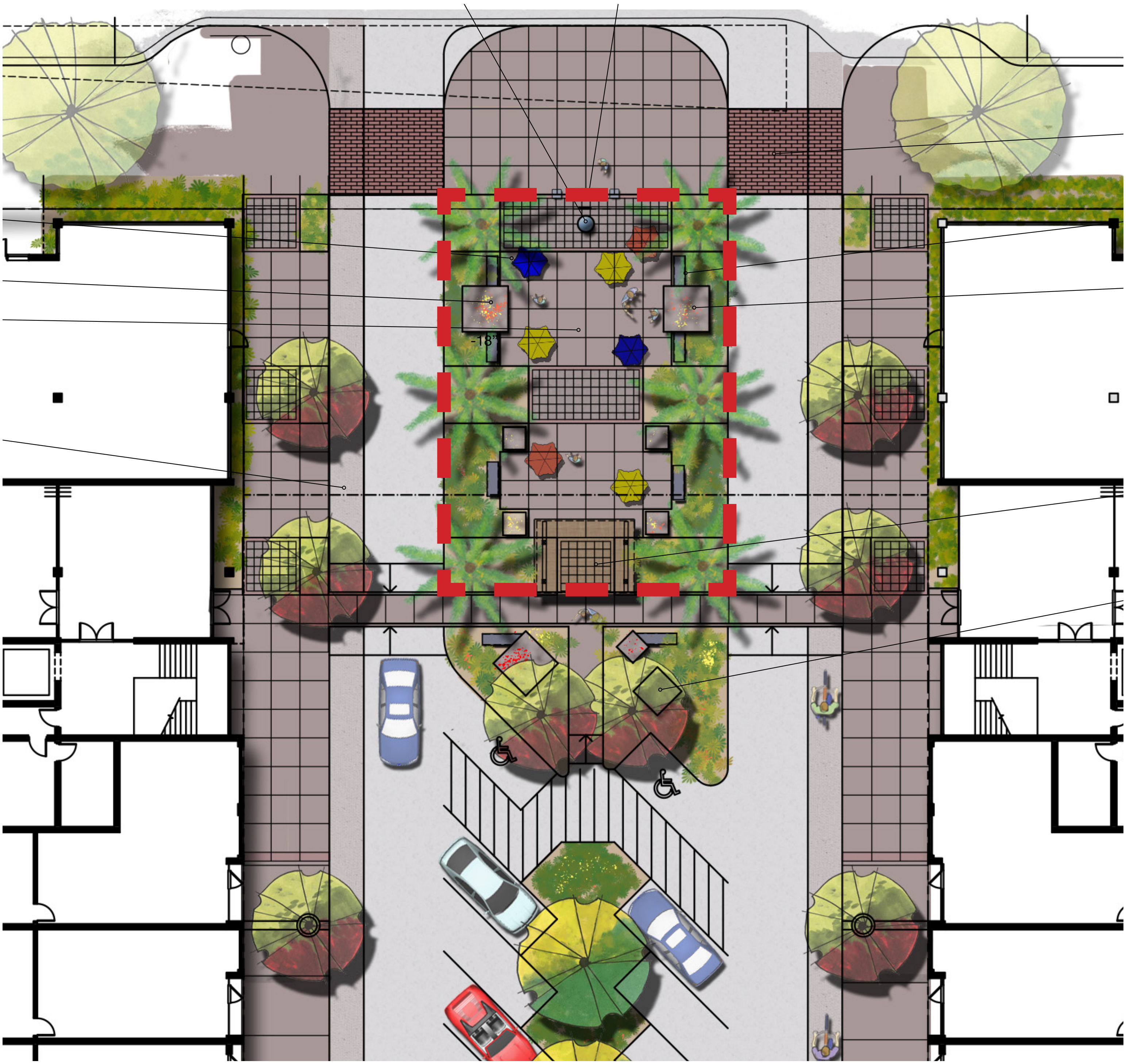


PLAZA



THOROUGHFARE

THOROUGHFARE AND PLAZA EXHIBIT



ENLARGED PLAZA PLAN

Exhibit C: Economic Benefit Analysis

APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF MESA ARTS DISTRICT LOFTS CITY OF MESA, AZ

SEPTEMBER 2020

11209 N. Tatum Boulevard, Suite 225 * Phoenix, AZ 85028 * 602-765-2400 tel * 602-765-2407 fax

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1.0 INTRODUCTION

Applied Economics was retained by the City of Mesa to perform an economic impact analysis of the Opus Mesa Arts District Lofts, a proposed live-work community in downtown Mesa. The proposed project will be located on a 9.67 acre site on the southwest corner of Hibbert and Main Street that is in the city's Central Business District.

The proposed development plan includes 334 residential units ranging in size from studios to three bedroom units, as well as live/work and walk-up units, with street level specialty retail and restaurants. The common area would include an art gallery and other amenities. This location in downtown Mesa is well suited for 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 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 13,129 square feet of commercial space including retail, services and restaurants, and 334 upscale residential units including studio, one, two and three bedrooms. Total construction costs are estimated at $54.0 million including hard costs, soft costs and FF&E. Some of the residential space may eventually be transitioned to additional commercial uses, but since the timing for this transition is not known, the initial configuration is used in this analysis as a more conservative basis for estimating the economic and fiscal impacts.

The development could create about 75 new jobs on-site, assuming a long-term occupancy rate of 100 percent for the commercial space and 95 percent for the residential units (Figure 1).[1] 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 are expected to rent for $1,160 to $2,860 per month, depending on the unit size.

Given that the development pro-forma could change somewhat depending on market conditions, this report also includes a sensitivity analysis to illustrate how the impacts would change if the number of residential units (and corresponding square footage of residential space) was reduced by 10 percent.

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

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Rentable Square Feet	Estimated Jobs	Occupancy	Taxable Sales PSF	Monthly Lease Rate
Retail/Service	6,565	17	100%	$250	$20
Restaurant	6,565	44	100%	$500	$20
Residential (334 units)	389,171	15	95%	$0	$1,160-$2,860
Total	402,300	75		na	na

Note: Analysis assumes that approximately 50 percent of retail/service space would generate taxable sales.

In terms of public improvements, the developer is willing to provide a public easement over the private streets (outside of the private gated areas), open space and outdoor public gathering areas within the development. The total area for this "public license" property is 83,465 square feet with an improved property value of $3.4 million.

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 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.

- The Mesa Arts District Lofts meet 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 **$8.8 million** in revenues to the city, county, school district and state from sales and income taxes in 2022 through 2030. This significantly exceeds the **$5.1 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.[2]. As a sensitivity analysis, the same impacts were calculated with a 10 percent reduction in the residential part of the development, and even with this change the benefit to state and local governments significantly exceeded the benefit to the prime lessee.

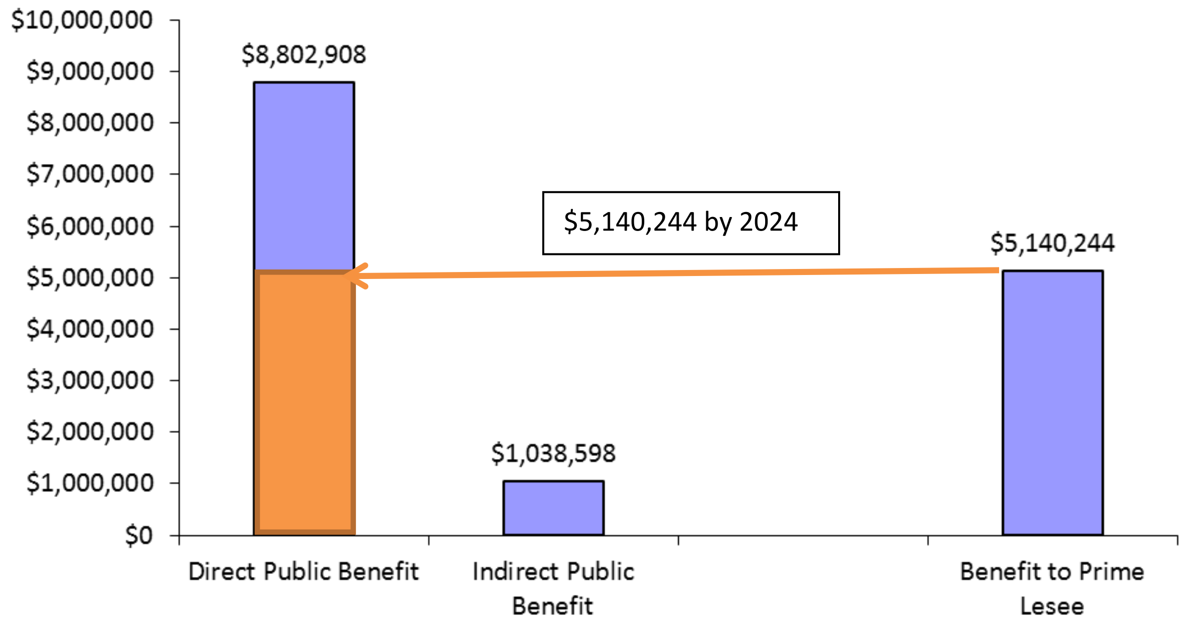
- Direct revenues to the City of Mesa are estimated at **$1.5 million** from 2022 to 2030, versus the city's share of the property tax exemption estimated at **$465,000**. In addition, the project could generate **$7.3 million** in sales and income taxes to the state and county over the eight-year term, based on the project assumptions outlined in this analysis.

- In terms of economic benefits to the city, the commercial component of the Mesa Arts District Lofts could create an economic impact of **$63.9 million** from 2023 to 2030, directly and indirectly supporting estimated at **95 jobs** and **$24.7 million** in labor income during the eight-year GPLET term.

▪ The retail, service and restaurant space in the development could directly support about **75** jobs, including on-site property management personnel. The commercial tenants could also support an additional **20** indirect jobs at other local businesses in Mesa. These indirect jobs are the result of local supplier purchases made by the tenants in the development, as well as local spending by employees. Additional jobs would 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
MESA ARTS DISTRICT LOFTS FISCAL IMPACTS
2022 TO 2030



The Mesa Arts District Lofts 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 downtown Mesa.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from the Mesa Arts District Lofts 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 estimated breakdown of construction costs includes hard costs, soft costs and FF&E totaling $54.0 million. The hard and soft costs, estimated at $53.0 million, have the potential to generate local economic impacts. Construction is expected to occur over a period of about 22 months with completion in Q4 2022.

The multiplier effects of this construction spending on the city is projected to result in a total increase in economic activity of about $78.7 million (Figure 3). These impacts would occur in 2021 and 2022. The approximately 440 direct jobs and 177 indirect and induced jobs created by this construction activity could result in over $36.6 million in additional labor income in the City of Mesa during construction.

FIGURE 3
CONSTRUCTION IMPACTS OF MESA ARTS DISTRICT LOFTS
ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
Hard Costs	$48,000,000	415	$25,322,585	$70,434,679	568	$33,009,425
Soft Costs	$5,000,000	25	$2,388,996	$8,238,436	48	$3,599,701
Total	**$53,000,000**	**440**	**$27,711,581**	**$78,673,116**	**616**	**$36,609,126**

3.2 Operations Impacts

Once construction is completed, the tenant businesses in the development will create economic impacts through supplier purchases, as well as through employee spending. Direct impacts include employment, labor income and output within the development. The businesses in the development 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 75 jobs, $2.1 million in annual labor income and $5.1 million in annual output upon completion. The multiplier effect of this increase in jobs and labor income would result in a total output impact of $8.0 million annually

(Figure 4). This $8.0 million represents the annual gross revenues created by the commercial development within the project, plus the increase in revenues to local suppliers and local establishments where employees shop. During the 8-year term of the GPLET, the Mesa Arts District Lofts could create $63.9 million in economic impacts, directly and indirectly supporting approximately 95 jobs and $24.7 million in labor income.

FIGURE 4
ANNUAL ECONOMIC IMPACTS OF MESA ARTS DISTRICT LOFTS ON THE CITY OF MESA

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2023	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2024	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2025	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2026	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2027	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2028	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2029	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
2030	$5,056,726	75	$2,093,743	$7,992,995	95	$3,083,132
Total	**$40,453,805**	**75**	**$16,749,943**	**$63,943,963**	**95**	**$24,665,060**

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 retail, restaurants, personal services, property management and multi-family construction. The average output multiplier for this mixed-use development is 1.58. 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 $580,000 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, labor income and output at related businesses in the city through the multiplier effects, the proposed Mesa Arts District Lofts will also generate new local tax revenues, primarily from taxable retail sales and rents. In total, the project could generate approximately $1.6 in direct and employee tax revenues to the City of Mesa from 2022 to 2030, and $8.2 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 $2.6 million to the city, county and state combined, of which $624,000 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 $866,000 to the city, $290,000 to the county and $2.1 million to the state over the eight-year period.[3] Construction and on-going sales taxes combined total $5.8 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 $3.0 million.[4] This analysis assumes that 50 percent of residents would be new to the state, which is higher than a typical new apartment complex due to the proximity to Benedictine University and the new ASU campus, both of which attract out-of-state students.

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**	**$1,489,849**	**$1,489,849**	**$0**	**$508,108**	**$508,108**	**$3,798,082**	**$3,006,869**	**$6,804,950**	**$8,802,908**
2021/22 (Const.)	$0	$624,000	$624,000	$0	$218,400	$218,400	$1,747,200	$0	$1,747,200	$2,589,600
2023	$0	$100,880	$100,880	$0	$33,754	$33,754	$238,948	$350,330	$589,277	$723,911
2024	$0	$102,898	$102,898	$0	$34,429	$34,429	$243,727	$357,336	$601,063	$738,389
2025	$0	$104,955	$104,955	$0	$35,117	$35,117	$248,601	$364,483	$613,084	$753,157
2026	$0	$107,055	$107,055	$0	$35,820	$35,820	$253,573	$371,773	$625,346	$768,220
2027	$0	$109,196	$109,196	$0	$36,536	$36,536	$258,645	$379,208	$637,853	$783,585
2028	$0	$111,380	$111,380	$0	$37,267	$37,267	$263,818	$386,792	$650,610	$799,256
2029	$0	$113,607	$113,607	$0	$38,012	$38,012	$269,094	$394,528	$663,622	$815,242
2030	$0	$115,879	$115,879	$0	$38,773	$38,773	$274,476	$402,419	$676,895	$831,546

[1] Taxables sales are increased at a rate of 2 percent per year to reflect inflation.

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

[4] 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 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 $4,400 per year to the city beginning in 2023, and an additional $44,000 per year to the school district, community college and county. All total, the project could generate about $390,000 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

	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	**$35,369**	**$57,486**	**$92,855**	**$354,270**	**$38,692**	**$392,962**	**$309,539**	**$243,241**	**$552,780**	**$1,038,598**
2023	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2024	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2025	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2026	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2027	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2028	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2029	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825
2030	$4,421	$7,186	$11,607	$44,284	$4,837	$49,120	$38,692	$30,405	$69,098	$129,825

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.[5] No residency ratio is applied for county or state sales tax. City sales taxes from employees living in Mesa are estimated at $57,000 over eight years. Additional sales taxes generated to the county and the state are estimated at $348,000 over the eight-year GPLET term.

Direct employees could also generate an estimated $243,000 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.

[5] 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 $5.1 million over the eight-year GPLET term, of which $465,000 would have gone to the City of Mesa, $2.7 million would have gone to Mesa Public Schools and the remaining $1.9 million 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 $8.8 million (Figure 8). The value of other tax revenues generated by the project exceeds the property tax savings from the GPLET by $3.7 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
2023	$4,102,176	$48,693	$41,022	$286,397	$54,497	$2,051	$76,198	$5,743	$390	$7,351	$2,281	$13,673	$538,296
2024	$4,307,284	$51,127	$43,073	$300,717	$57,222	$2,154	$80,008	$6,030	$409	$7,719	$2,395	$14,356	$565,210
2025	$4,522,649	$53,684	$45,226	$315,753	$60,083	$2,261	$84,008	$6,332	$430	$8,105	$2,515	$15,074	$593,471
2026	$4,748,781	$56,368	$47,488	$331,541	$63,088	$2,374	$88,209	$6,648	$451	$8,510	$2,640	$15,828	$623,145
2027	$4,986,220	$59,186	$49,862	$348,118	$66,242	$2,493	$92,619	$6,981	$474	$8,935	$2,772	$16,619	$654,302
2028	$5,235,531	$62,146	$52,355	$365,524	$69,554	$2,618	$97,250	$7,330	$497	$9,382	$2,911	$17,450	$687,017
2029	$5,497,308	$65,253	$54,973	$383,800	$73,032	$2,749	$102,112	$7,696	$522	$9,851	$3,057	$18,323	$721,368
2030	$5,772,173	$68,516	$57,722	$402,990	$76,683	$2,886	$107,218	$8,081	$548	$10,344	$3,209	$19,239	$757,436
8 Yr Total		**$464,973**	**$391,721**	**$2,734,841**	**$520,402**	**$19,586**	**$727,622**	**$54,841**	**$3,721**	**$70,196**	**$21,780**	**$130,561**	**$5,140,244**

*Based on a property tax rate of 13.1222% in tax rate area 041010. 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	**$1,489,849**	**$508,108**	**$6,804,950**	**$8,802,908**	**$5,140,244**
2021/22	$624,000	$218,400	$1,747,200	$2,589,600	$0
2023	$100,880	$33,754	$589,277	$723,911	$538,296
2024	$102,898	$34,429	$601,063	$738,389	$565,210
2025	$104,955	$35,117	$613,084	$753,157	$593,471
2026	$107,055	$35,820	$625,346	$768,220	$623,145
2027	$109,196	$36,536	$637,853	$783,585	$654,302
2028	$111,380	$37,267	$650,610	$799,256	$687,017
2029	$113,607	$38,012	$663,622	$815,242	$721,368
2030	$115,879	$38,773	$676,895	$831,546	$757,436

[1]Includes Mesa Unified District and EVIT.

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

As a sensitivity test, the same impacts were calculated with a 10 percent reduction in the number of residential units and a corresponding reduction in the amount of residential square footage in the project. The commercial square footage was left unchanged. This reduction in residential units translates into slightly lower construction costs and construction sales tax, and lower taxable residential rents on an on-going basis. At the same time, the property tax savings is also slightly less since the building would be smaller. The results of this sensitivity analysis show a total public benefit of $8.2 million (or a $600,000 reduction over 8 years). This compares to a property tax savings to the prime lessee of $5.1 million (or a $474,000 reduction over 8 years). With a 10 percent reduction in the number of residential units, the value of other tax revenues generated by the project still exceeds the property tax savings from the GPLET by $3.5 million over eight years, thereby meeting the requirements of the statute.

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable retail, restaurants and apartments in the downtown area. An average limited property value per square foot of $134 was used for the commercial space and $97 for apartments, resulting in a total LPV estimate of $37.9 million. 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 arts-oriented, 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 on-going operations. The development would create additional demand in the downtown area through resident spending, support jobs and payroll at tenant businesses within the development, and support ridership on the light rail line.

Overall, the Mesa Arts District Lofts are projected to generate $8.8 million in direct tax revenues to the city, county, school districts, and state from sales, property and income taxes between 2022 through 2030. These direct revenues significantly exceed the $5.1 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 2,100 percent based on the current LPV compared to the projected LPV, exceeding the statutory GPLET requirements.