APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF CITY PARK ON THE RIO NUEVO DISTRICT AND THE CITY OF TUCSON

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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 Rio Nuevo Multipurpose Facilities District to perform an economic impact analysis of the City Park mixed-use development. The development is located at 40 East Congress Street and includes 45,129 square feet of restaurant and entertainment space plus an additional 9,150 square feet of outdoor dining space and rooftop deck, and 26,300 square feet of office lofts. The concept includes a 14,690 square foot food hall that would house numerous local and regional restaurants in a quick service format, an 11,289 square foot entertainment hall with upscale bowling and games and beverage service, and a 10,000 square foot event venue. City Park would be housed in a five story building with the food and entertainment hall on the first two floors, office lofts on the third and fourth floor, and the entertainment venue on the fifth floor.

The project would be eligible for a Government Property Lease Excise Tax (GPLET) agreement that would result in the abatement of all real property taxes and lease excise taxes during the first eight years following construction. This analysis is intended to provide a framework for understanding the economic and revenue impacts the project would have on the Rio Nuevo District and the City of Tucson.

1.1 Project Description

This mixed-use restaurant, entertainment and office project is in a prime location within the Congress Street Entertainment District and will enhance the vibrant urban environment that has developed in this neighborhood. All total, the project could create an estimated 194 new jobs and $13.0 million in annual taxable sales (Figure 1).

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Total Square Feet	Estimated Jobs	Sales per Square Foot	Lease Rate
Food Hall	14,690	37	$450	$30
Entertainment Hall	11,289	23	$200	$30
Outdoor Food and Entertainment	5,850	29	$0	$0
Rooftop Deck	3,300	0	$0	$0
Meeting/Event/Entertainment Venue	10,000	0	$250	$30
Office Lofts	26,300	105	$0	$22
Total (excluding deck and outdoor space)	62,279	194	na	na

2.0 IMPACT SUMMARY

The construction of City Park in the Rio Nuevo District would provide significant economic benefits within this revitalizing area. The proposed food and entertainment hall will complement the other commercial development along Congress Street and will allow this site to develop to its full potential.

- About 120 direct construction jobs and 70 additional indirect jobs would be supported in the City of Tucson during the construction period. The total construction impact is estimated at $24.9 million.

- Once completed, the project could generate an average annual economic impact of $24.2 million or a total of $193.5 million over the next eight years.

- The restaurant and entertainment venues could directly support about 90 jobs, and the office lofts could add another 105 jobs. The project could also support an estimated 59 additional indirect jobs at *other local businesses* in Tucson. These indirect jobs are the result of business to business purchases made by restaurant/entertainment and office businesses in City Park, as well as local spending by employees.

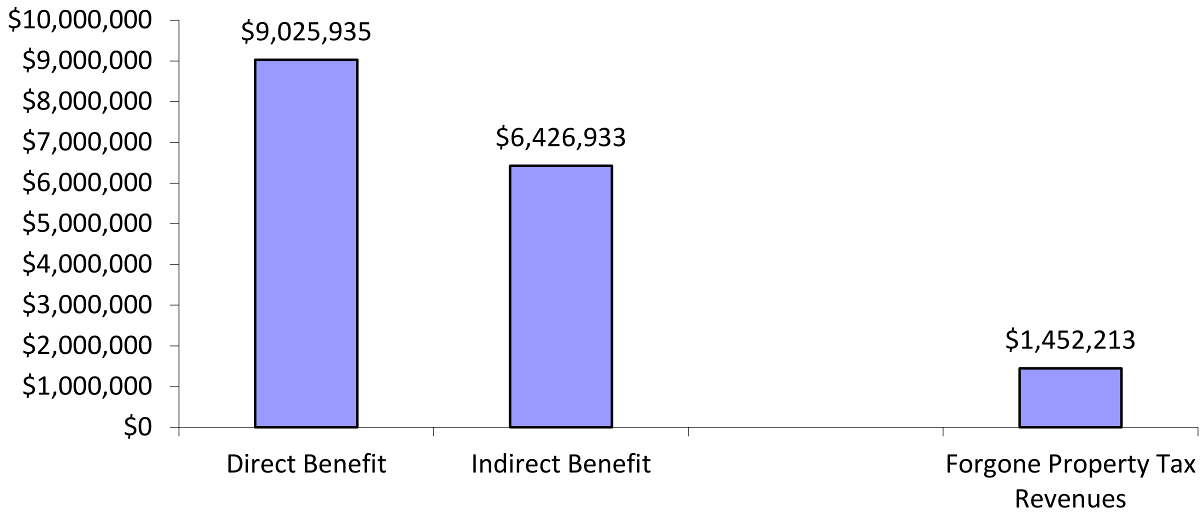
- An estimated $6.9 million in direct personal income, or payroll, and $9.4 million in total direct and indirect personal income would be generated by the development annually, creating the potential for significant local expenditures by employees and their families.

- In terms of local tax revenues, the restaurants, entertainment and office uses that are part of City Park would directly and indirectly generate approximately $3.0 million in local revenues to the Rio Nuevo District, $3.1 million to the City of Tucson, $3.3 million to the county, school district and other local taxing jurisdictions, and $6.1 million to the state from 2017 to 2025. Indirect revenues include taxes paid by employees, whereas direct revenues are generated by businesses in the development.

- The project could qualify for a GPLET lease excise tax abatement for eight years on all real property taxes and lease excise taxes to the city and other local governments. These abatements are accounted for in the revenue impacts above. The value of the abatement for all jurisdictions combined is estimated at $1.5 million over eight years. However, during that period the project would generate direct sales tax from on-going retail sales for a total benefit to the state and local governments of $9.0 million over eight years (based on direct revenues only). Thus, the benefit to the city, county and state would significantly exceed the value of the GPLET property and lease excise tax abatement.

- The term of the GPLET would extend for 25 years. After the eight-year abatement period, the project would begin to generate lease excise taxes. However, there is a statutory exemption for entertainment uses that would apply to most of the City Park development, except for the office lofts on the third floor. Based on current GPLET lease excise rates for office uses, the project would generate $68,117 per year in excise tax revenues, of which 7 percent would go to the City of Tucson, and the remainder would go to the county, community colleges and school district.

FIGURE 2
VALUE OF PROJECT TO STATE AND LOCAL GOVERNMENTS



City Park would generate new revenues for the Rio Nuevo TIF and the City of Tucson, as well as creating approximately 194 new jobs in the downtown area. The nature of the restaurants and entertainment uses in this development, combined with numerous public events and performances at the nearby Rialto Theatre, the Tucson Convention Center and other downtown venues, will attract additional Tucson residents and visitors to the area for dining and entertainment. Other local businesses could benefit as well from this synergistic effect. The City Park development would support the local economy while providing an anchor for redevelopment activity in the heart of downtown.

3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from City Park include both the one-time construction impacts and on-going operations impacts. These impacts are quantified in terms of direct and indirect jobs, personal 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 Rio Nuevo District and the City of Tucson that would benefit from the new development.

3.1 Construction Impacts

The proposed construction costs for this mixed-use project are estimated at $19.04 million (Figure 3). Construction is expected to take approximately 12 months with occupancy in early 2018.

FIGURE 3
CONSTRUCTION COSTS FOR CITY PARK

Land	$2,070,000
Building Shell	$6,842,500
Tenant Improvements	$7,097,500
Contingency	$622,250
Soft Costs	$2,405,507
Total	$19,037,757

The total increase in economic activity from new construction expenditures is estimated at $24.9 million, as shown in Figure 4. The project would result in direct construction expenditures, excluding land, of about $17.0 million. The multiplier effects of this construction spending on the city would result in a total increase in economic activity of about $24.9 million. These impacts are projected to occur during the construction period. The approximately 120 direct jobs and 70 indirect and induced jobs would result in more than $8.5 million in additional personal income in the City of Tucson during the next year.

FIGURE 4
CONSTRUCTION IMPACTS OF CITY PARK

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Personal Income	Output	Jobs	Personal Income
Hard Costs	$14,562,250	97	$4,763,007	$20,549,791	145	$6,438,641
Soft Costs	$2,405,507	22	$1,384,529	$4,354,010	40	$2,079,605
Total	$16,967,757	119	$6,147,536	$24,903,801	186	$8,518,246

3.2 Operations Impacts

Once construction is completed, the proposed project will create about 194 permanent jobs. The office lofts, restaurant and entertainment businesses will also generate economic impacts through local vendor purchases, as well as through employee spending.

The total economic activity from on-going operations of the project is shown in Figure 5. The approximately 194 new jobs and $6.9 million in direct personal income will generate an estimated $14.5 million in increased direct output each year. The average income from these new jobs is estimated at $36,000 per employee, based on data from the economic impact model.

FIGURE 5
ECONOMIC IMPACTS OF CITY PARK

	Direct Impacts			Total Impacts		
	Output	Jobs	Personal Income	Output	Jobs	Personal Income
2018	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2019	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2020	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2021	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2022	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2023	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2024	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
2025	$14,524,761	194	$6,938,220	$24,186,828	253	$9,421,035
8 Year Total	$116,198,088	194	$55,505,758	$193,494,624	253	$75,368,282

The multiplier effect of this increase in business activity at City Park will result in a total annual output impact of $24.2 million or a total impact of $193.5 million over the next eight years. The approximately 253 direct, indirect and induced jobs supported by the development will result in about $9.4 million in annual personal income in Tucson, or a total of $75.4 million over the next eight years.

The direct and indirect jobs generated by this project would support a total local population of about 450 people in the City of Tucson, based on local commuting patterns. Supported population includes families of direct employees, as well as families of employees at related supplier and consumer businesses. This estimate assumes that about 79 percent of the employees will live and work in Tucson, based on local commuting data from the American Community Survey.

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 Tucson. Industry specific multipliers were used for the hotels, retail, restaurants and commercial construction. The average output multiplier for this mixed use development is 1.67. This means that for every $1 million of annual output created by the development, an additional $670,000 in economic activity and 4.1 local jobs are supported at other local businesses outside the development. On average, the income from these indirect jobs is estimated at about $42,000 per employee. Additional indirect jobs and payroll would be supported in other parts of the metro area.

4.0 REVENUE IMPACTS

In addition to supporting jobs, income and output at related businesses in the city through multiplier effects, the businesses in City Park would also generate significant local tax revenues, primarily sales tax. In total, the project could generate approximately $3.0 million in direct and indirect local tax revenues to the Rio Nuevo District, $3.1 million in revenues to the city, and $9.4 million in additional revenues to the county, RTA, school district and state from 2017 to 2025 (Figure 6).

FIGURE 6
STATE AND LOCAL REVENUE IMPACTS OF CITY PARK

FIGURE 6
STATE AND LOCAL REVENUE IMPACTS OF CITY PARK

	City of Tucson			Rio Nuevo	County, RTA and Schools			State of Arizona			
	Property[1]	Sales	Total Benefit	Sales	Property[2]	Sales	Total Benefit	Sales[3]	Personal Income	Total Benefit	Total Public Benefit
Direct Impacts	**$0**	**$2,425,391**	**$2,425,391**	**$2,997,098**	**$0**	**$606,348**	**$606,348**	**$2,997,098**	**$0**	**$2,997,098**	**$9,025,935**
2017 (const)	$0	$189,309	$189,309	$265,033	$0	$47,327	$47,327	$265,033	$0	$265,033	$766,702
2018	$0	$260,525	$260,525	$318,312	$0	$65,131	$65,131	$318,312	$0	$318,312	$962,282
2019	$0	$265,736	$265,736	$324,679	$0	$66,434	$66,434	$324,679	$0	$324,679	$981,527
2020	$0	$271,051	$271,051	$331,172	$0	$67,763	$67,763	$331,172	$0	$331,172	$1,001,158
2021	$0	$276,472	$276,472	$337,796	$0	$69,118	$69,118	$337,796	$0	$337,796	$1,021,181
2022	$0	$282,001	$282,001	$344,552	$0	$70,500	$70,500	$344,552	$0	$344,552	$1,041,604
2023	$0	$287,641	$287,641	$351,443	$0	$71,910	$71,910	$351,443	$0	$351,443	$1,062,437
2024	$0	$293,394	$293,394	$358,471	$0	$73,348	$73,348	$358,471	$0	$358,471	$1,083,685
2025	$0	$299,262	$299,262	$365,641	$0	$74,815	$74,815	$365,641	$0	$365,641	$1,105,359
2026 (post-abatement)	*$4,768*	*$305,247*	*$310,015*	*$372,954*	*$63,349*	*$76,312*	*$139,661*	*$372,954*	*$0*	*$372,954*	*$1,195,583*

	City of Tucson			Rio Nuevo	County and Schools			State of Arizona			
	Property	Sales	Total Benefit	Sales	Property	Sales	Total Benefit	Sales	Pers Income	Total Benefit	Total Public Benefit
Indirect (Employee-Driven)	**$289,344**	**$369,154**	**$658,497**	**$0**	**$2,591,056**	**$116,821**	**$2,707,877**	**$1,308,393**	**$1,752,165**	**$3,060,558**	**$6,426,933**
2018	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2019	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2020	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2021	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2022	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2023	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2024	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
2025	$36,168	$46,144	$82,312	na	$323,882	$14,603	$338,485	$163,549	$219,021	$382,570	$803,367
Total Direct and Indirect (2017 to 2025)	**$289,344**	**$2,794,545**	**$3,083,888**	**$2,997,098**	**$2,591,056**	**$723,169**	**$3,314,225**	**$4,305,492**	**$1,752,165**	**$6,057,657**	**$15,452,868**

[1] Based on city property tax rate of 1.5982%.

[2] Based on county/school property tax rate of 15.0753%.

[3] Represents net state sales tax after 50% is returned to Rio Nuevo.

4.1 Direct Revenues

The project would be eligible for a GPLET agreement that would abate lease excise taxes for eight years. 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 full cash value of the property, the lease excise taxes would also be abated over the first eight years of the project.

Other direct revenues during the first eight years include sales tax, which would be generated on an on-going basis. The project would generate one-time sales taxes from new construction estimated at about $265,000 to the Rio Nuevo District, $189,000 to the city and $312,000 to the RTA and state combined. There would also be on-going sales tax revenues associated with taxable food, beverage and entertainment sales. Additionally, there would be city and RTA sales taxes on the property leases. It is estimated that the project would generate sales taxes in the amount of $366,000 per year to the Rio Nuevo District, $299,000 to the city, and $440,000 in sales taxes to the RTA and state each year by 2025.[1] All total, the project could generate about $9.0 million in direct state and local sales tax revenues from 2017 to 2025.

Note that the Rio Nuevo District receives half of the 5.6 percent state sales tax on sales within the district above the base. Since all of the activity associated with City Park would be new, it is assumed that the full 50 percent of the state 5.6 percent tax would be returned to the TIF district.

4.2 Indirect Revenues

Along with the direct taxes generated by the project, there are also indirect taxes generated by employees. Using the results from the economic impact analysis, it is possible to estimate indirect tax impacts.

Indirect property tax revenues, which represent property taxes on new housing for employees, were based on average residential assessed per capita in Tucson, times the annual supported population, times an average countywide property tax rate of 15.91 percent. On average, indirect property taxes are estimated at about $36,000 per year to the city, and an additional $324,000 per year to the school district, community college and county. All total, the project would generate about $2.9 million in indirect property tax revenues to all jurisdictions combined from 2018 to 2025, based on the assumptions used in this analysis.

Indirect sales tax revenues include sales taxes paid by direct employees at City Park and employees at other supported local businesses. Indirect sales taxes are estimated by multiplying total personal income from the economic impact times 31 percent (share of taxable expenditures), times the Tucson live-work ratio of 79 percent, times the sales tax rate.[2] No residency ratio is used for RTA or state indirect sales tax. Indirect sales taxes to the city are estimated at $369,000 over eight years. Additional sales taxes generated to the RTA and the state are estimated at $1.4 million over eight years. Since it is not clear what share of employee spending would occur in the Rio Nuevo District, no indirect district sales taxes are shown in Figure 6.

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[1] *This analysis assumes that taxable sales increase by 2 percent per year.*

[2] *According to the Census Bureau Consumer Expenditure Survey persons in the median income range for this project spend about 31 percent of their income on taxable goods.*

In terms of state personal income tax, direct and indirect employees could generate approximately $1.8 million in revenues from 2018 to 2025. State income taxes are calculated using average income per employee and current tax schedules from the Arizona Department of Revenue.

4.3 GPLET Impacts

In addition to calculating revenue impacts to local and state governments, this analysis also considers the property tax impacts of the GPLET relative to the amount of benefit to the property owner (prime lessee). 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. The District is proposing a 25-year term for the GPLET. During the first eight years, the prime lessee would pay no lease excise tax or real property tax since the project is located in a Central Business District and would increase the value of the property by more than 100 percent.

After that time, for the remainder of the lease term, the property owner would pay lease excise taxes to the city, county, school district and community college district. However, entertainment uses are exempted by statute (A.R.S. 42-6208) and so the lease excise tax would only apply to the 26,300 square feet of office uses for the remainder of the 25 year lease. Based on a 2016 lease excise tax rate for two to seven story offices of $2.59 per square foot, this would result in $68,117 per year in lease excise tax revenues, of which $4,768 would to go the city and the remainder would go to the county, school district and community college district.[3]

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 term of the GPLET. Revenues from the project include direct sales tax revenues from construction and on-going retail sales taxes. There are additional indirect revenues from supported employees including property and sales taxes.

Over the eight-year term of the abatement, the direct revenues to state and local jurisdictions total $9.0 million (Figure 7). Revenues over the entire 25 year term of the GPLET would be significantly greater. In comparison, the property tax savings to the developer are estimated at $1.5 million over the eight-year GPLET term, of which $139,000 would have gone to the City of Tucson. The value of other tax revenues generated by the project exceeds the property tax savings from the GPLET by $7.6 million over eight years, thereby meeting the requirements of the statute.

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[3] *Lease excise tax rates are adjusted annually based on the percentage change in the producer price index for construction for the two most recent fiscal years. In addition, over the term of the lease, there is a graduated reduction in the amount of lease excise tax paid based on a percentage of the current square foot rate. As such, it is difficult to predict the exact amount of annual lease excise tax revenues for years 9 through 25.*

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable developments in the downtown area, which include other recent GPLET projects. Based on these comparable developments, an average limited property value per square foot of $80.44 was used for the office component of City Park, $81.93 for restaurant space and $82.27 for entertainment and bar space, resulting in a total LPV estimate of $5.07 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.

FIGURE 7
VALUE OF GPLET TO THE CITY OF TUCSON

Year	Benefits to City/Rio Nuevo/RTA[1]	Benefits to State [2]	Total	Benefit to Lesee (Property Tax Savings)[1]
2017	$501,670	$265,033	$766,702	$0
2018	$643,969	$318,312	$962,282	$152,078
2019	$656,849	$324,679	$981,527	$159,682
2020	$669,986	$331,172	$1,001,158	$167,666
2021	$683,385	$337,796	$1,021,181	$176,050
2022	$697,053	$344,552	$1,041,604	$184,852
2023	$710,994	$351,443	$1,062,437	$194,095
2024	$725,214	$358,471	$1,083,685	$203,800
2025	$739,718	$365,641	$1,105,359	$213,990
Total	$6,028,837	$2,997,098	**$9,025,935**	**$1,452,213**

[1] Includes city rate of 2 percent plus RTA rate of 0.5 percent plus Rio Nuevo share of state tax at 2.8%.

[2] State sales tax net of Rio Nuevo 50 percent share.

[3] Property tax savings assumes a 5 percent annual increase in limited property value.

4.4 Summary

The proposed City Park development described in this analysis could create both economic and revenue benefits for the Rio Nuevo District and the City of Tucson. The retail and entertainment venues would provide additional dining and nightlife opportunities in a unique format, generating increased visibility and activity in the Downtown/Gateway area. The project will likely create synergy for additional redevelopment on nearby properties and will serve to eliminate blight in this part of downtown. The development would support a significant amount of new jobs and payroll in the downtown area, and it would create additional demand at other local businesses based on supplier purchases and employee spending. It would also generate sales tax revenues for the Rio Nuevo TIF district that could be used to fund infrastructure improvement to support other redevelopment in the District.