APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF 35 E TOOLE AVE ON THE RIO NUEVO DISTRICT AND THE CITY OF TUCSON

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1.0 INTRODUCTION

Applied Economics was retained by the Rio Nuevo Multipurpose Facilities District (the District) to perform an economic impact analysis of the renovation of the single-story office building at 35 E Toole Avenue into a multi-tenant retail and restaurant space. This historic building is located in the Warehouse District on the northern edge of Downtown Tucson and is currently vacant.

The project would be eligible for a Government Property Lease Excise Tax (GPLET) agreement that would result in the replacement of all real property taxes during of the agreement with a lease excise tax. Since the project is located in a Central Business District and would result in more than a 100 percent increase in property value, the lease excise tax could be abated for 8 years. Alternatively, the GPLET agreement could be extended to 25 years with no lease excise tax abatement. *Since it is unclear at this time what the terms of the GPLET agreement will be, this analysis includes both an 8-year and a 25-year alternative.*

In addition to the GPLET, the District is considering paying the developer 100 percent of the TIF funds from the project during the term of the GPLET, up to a maximum amount of $1.0 million by June 30, 2035. The developer has also asked for assistance on parking, given the limited availability of on-street parking for restaurant patrons, by having the District enter an agreement with the County to extend the operating hours of the nearby parking garage for a period of five years at no cost to the developer. The cost to the District of extended parking garage operations is estimated at $84,000 per year. This analysis is intended to provide a framework for understanding the economic and revenue impacts that the project would have on the District and the City of Tucson relative to the value of incentives being offered.

1.1 Project Description

The proposed redevelopment project at 35 E Toole would include a 5,200 square foot restaurant in the corner suite (Suite 1) that fronts onto Toole Avenue and 7th Avenue (Figure 1). A typical restaurant user in Suite 1 could create an estimated 26 new jobs along with $2.2 million in new annual taxable sales and leases. The total capital investment is estimated at $1.0 million for construction costs. *There would be an additional 8,400 square feet of new retail and entertainment space that is not included in this analysis.*

FIGURE 1
DEVELOPMENT ASSUMPTIONS

	Gross Square Feet	Occupancy	Estimated Jobs	Annual Lease Rates	Sales per Square Foot
Suite 1	5,200	100%	26	$25.00	$400

2.0 IMPACT SUMMARY

The redevelopment of this historic building in the Rio Nuevo District would provide economic and revenue benefits to the city and the District.

- About 10 direct and indirect construction jobs would be supported in the City of Tucson during the construction period. The total direct and indirect construction impact is estimated at $1.4 million.

- Once completed, Suite 1 of 35 E Toole could generate an annual economic impact of $1.9 million.

- A restaurant tenant could directly support about 26 jobs, based on the assumptions used in this analysis. The project could also support an estimated 6 indirect jobs at *other local businesses* in Tucson. These indirect jobs are the result of business to business purchases made by the restaurant, as well as local spending by employees.

- An estimated $516,000 in direct personal income, or payroll, and about of $690,000 in total direct and indirect personal income would be generated by the project annually, creating the potential for additional local expenditures by employees and their families.

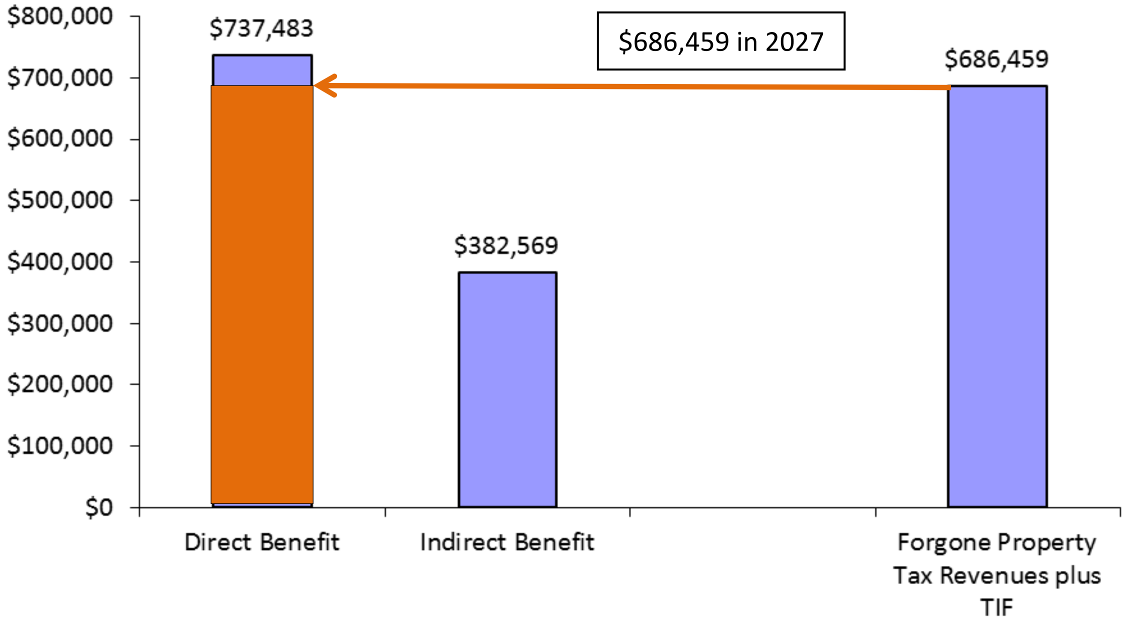
- In terms of local tax revenues, the project could directly generate approximately $549,000 in new TIF revenues to the District over the next 8 years before reimbursements, along with $1.2 million to the city, county, school district and state. Direct employees supported by the project could generate an additional $383,000 in local and state revenues over 8 years.

- The proposed agreement with the District would provide for reimbursement of 100 percent of the TIF revenues directly from the building tenants, up to a maximum of $1.0 million. The TIF revenues associated with the project between 2020 and 2027 are estimated at $549,000, based on the assumptions used in this analysis. It is unlikely that the maximum reimbursement level would be reached within the 8-year term.

- Over a 25-year term, the project could generate $1.1 million in TIF revenues to the District before the $1.0 million reimbursement, as well as $5.5 million to the city, county, school district and state from 2019 to 2044. Additional indirect revenues from employees are estimated at $1.2 million over 25 years.

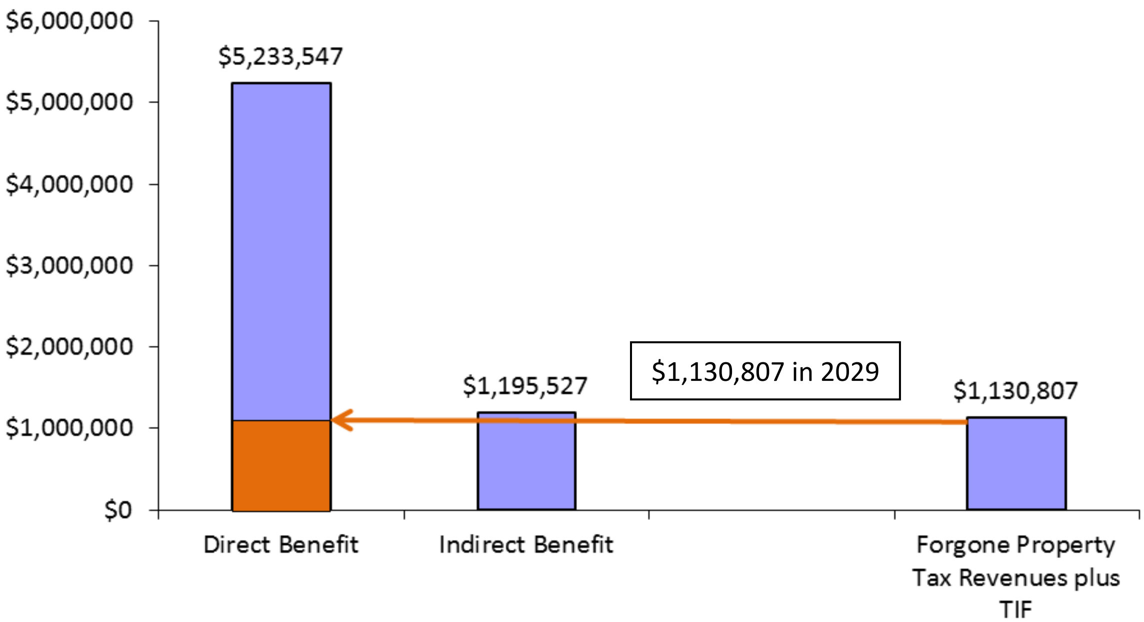
- The project could also qualify for a GPLET. The GPLET would include a property tax exemption, and potentially an abatement of lease excise taxes during an eight year term. If granted, the tax savings to the prime lessee plus the value of the TIF reimbursement is estimated at $686,000 over eight years (Figure 2A). During that period the project would generate direct sales tax from retail sales and leases resulting in a total benefit to state and local governments of $1.2 million over eight years (based on direct revenues only) less the $420,000 parking cost to the District for a net public benefit of $737,000. Thus, the benefit to the city, county and state would exceed the benefit to the prime lessee by $51,000.

FIGURE 2
VALUE OF GPLET AND TIF WITH AN 8-YEAR TERM
WITH 2027 BREAKEVEN



- If the GPLET was extended to a 25-year term with no abatement of lease excise taxes, the net property tax savings to the prime lessee (plus the value of the TIF reimbursement) is estimated at $1.1 million (Figure 2B). During that period, the project could generate direct sales tax from retail sales and leases and lease excise taxes, for a total benefit to the state and local governments of $5.7 million over 25 years (based on direct revenues only) less the $420,000 parking cost to the District for a net public benefit of $5.2 million. Thus, the benefit to local and state government would exceed the benefit to the prime lessee.

FIGURE 3
VALUE OF GPLET AND TIF WITH A 25-YEAR TERM
WITH 2029 BREAKEVEN



3.0 ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from the renovation of Suite 1 at 35 E Toole 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 tenants. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses in the District and the City of Tucson that would benefit from the project.

3.1 Construction Impacts

The proposed construction/renovation costs for this project are estimated at $1.0 million, excluding building acquisition costs. Construction is expected to be completed in 2019. The multiplier effects of this construction spending on the city would result in a total increase in economic activity of about $1.4 million (Figure 3). These impacts are projected to occur during the construction period in 2019. The approximately 10 direct, indirect and induced jobs would result in an estimated $442,000 in additional personal income in the City of Tucson during the construction period.

FIGURE 3
CONSTRUCTION IMPACTS OF 35 E TOOLE – SUITE 1

	Direct Impacts			Total Impacts		
	Expenditures	Jobs	Labor Income	Output	Jobs	Labor Income
2019	$1,000,000	7	$327,079	$1,411,169	10	$442,146

3.2 Operations Impacts

Once construction is completed, the proposed project could create about 26 permanent jobs with a restaurant tenant. The total economic activity from on-going operations of the tenant in this project is shown in Figure 4. The approximately 26 new jobs and $516,000 in direct labor income will generate an estimated $1.2 million in increased direct output each year.

The multiplier effect of this increase in business activity could result in a total annual impact of $1.9 million, with a total impact of $15.3 million over the next eight years and $47.9 million over the next 25 years. The approximately 32 direct, indirect and induced jobs supported by the development would result in about $690,000 in annual personal income in Tucson.

FIGURE 4
OPERATIONS IMPACTS OF 35 E TOOLE – SUITE 1

	Direct Impacts			Total Impacts		
	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2020	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2021	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2022	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2023	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2024	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2025	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2026	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2027	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2028	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2029	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2030	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2031	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2032	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2033	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2034	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2035	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2036	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2037	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2038	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2039	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2040	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2041	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2042	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2043	$1,249,523	26	$515,547	$1,915,274	32	$689,157
2044	$1,249,523	26	$515,547	$1,915,274	32	$689,157
8 Year Total	$9,996,186	26	$4,124,373	$15,322,190	32	$5,513,254
25 Year Total	$31,238,082	26	$12,888,665	$47,881,842	32	$17,228,920

The direct and indirect jobs generated by this project would support a total local population of about 40 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 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 restaurants and commercial construction. The average output multiplier for this project is 1.53. This means that for every $1 million of annual output created by the building tenants, an additional $530,000 in economic activity and 4.4 local jobs are supported at other local businesses outside the development.

4.0 REVENUE IMPACTS – EIGHT YEAR TERM

In addition to supporting jobs, income and output at related businesses in the city, the 35 E Toole project would also generate local tax revenues, primarily sales taxes. In total, Suite 1 could generate approximately $554,000 in direct and employee revenues to the city, and $986,000 in additional revenues to the county, RTA, school district and state from 2019 to 2027. All additional revenues to the District during this time period would be part of the TIF reimbursement.

4.1 Direct Revenues

Total direct revenues from the project, net of incentives, are estimated at $1.2 million from 2019 to 2027, including sales taxes to the city, RTA and state (Figure 5A). The project would be eligible for a GPLET agreement that would exempt it from real property taxes. 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 during the eight year term.

FIGURE 5A
DIRECT STATE AND LOCAL REVENUE IMPACTS OF 35 E TOOLE – SUITE 1

	City of Tucson			District	County, RTA and Schools			State of Arizona		
	Property	Sales	Total Benefit	TIF	Property	Sales	Total Benefit	Sales	Total Benefit	Total Public Benefit
Direct Impacts	**$0**	**$510,077**	**$510,077**	**$0**	**$0**	**$98,092**	**$98,092**	**$549,314**	**$549,314**	**$1,157,483**
2019 (Const.)	$0	$16,900	$16,900	$0	$0	$3,250	$3,250	$18,200	$18,200	$38,350
2020	$0	$57,460	$57,460	$0	$0	$11,050	$11,050	$61,880	$61,880	$130,390
2021	$0	$58,609	$58,609	$0	$0	$11,271	$11,271	$63,118	$63,118	$132,998
2022	$0	$59,781	$59,781	$0	$0	$11,496	$11,496	$64,380	$64,380	$135,658
2023	$0	$60,977	$60,977	$0	$0	$11,726	$11,726	$65,668	$65,668	$138,371
2024	$0	$62,197	$62,197	$0	$0	$11,961	$11,961	$66,981	$66,981	$141,138
2025	$0	$63,440	$63,440	$0	$0	$12,200	$12,200	$68,321	$68,321	$143,961
2026	$0	$64,709	$64,709	$0	$0	$12,444	$12,444	$69,687	$69,687	$146,840
2027	$0	$66,003	$66,003	$0	$0	$12,693	$12,693	$71,081	$71,081	$149,777

Direct revenues include construction and on-going sales taxes from the restaurant tenant. The project would generate one-time sales taxes from new construction estimated at about $18,200 to the District, $20,200 to the city and RTA, and $18,200 to the state in 2019. The construction sales tax to the District would be part of the reimbursement to the developer and is not included in Figure 5A.

There would be on-going sales tax revenues associated with taxable sales and leases estimated at $608,000 to the city and RTA, and $549,000 to the state over the eight year period.[1] There could also be some small amount of additional sales tax from parking revenues. However, reliable estimates of additional parking usage are not available at this time and therefore as a more conservative estimate, the potential parking revenues are excluded from Figure 5A.

The TIF portion of on-going sales tax would be reimbursed to the developer. The 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 the 35 E Toole project would be new, it is assumed that

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

the full 50 percent of the state 5.6 percent tax would be returned to the TIF district. Total TIF revenues generated by Suite 1 are estimated at $549,000 between 2019 and 2027, which would be reimbursed to the developer. Note that the TIF funds used for reimbursement are not included in the direct revenues in Figure 5A.

4.2 Employee Revenues

Along with the direct taxes generated by the tenant in Suite 1, there would also be taxes generated by employees. Using the results from the economic impact analysis, it is possible to estimate employee tax impacts from the 26 new jobs that could be created by the tenant, which are estimated at $383,000 over eight years.

The employees could generate about $178,000 in property tax revenues to all jurisdictions combined from 2020 to 2027, based on the assumptions used in this analysis (Figure 5B). Employee property tax revenues, which represent property taxes on employee housing, were based on average residential assessed per capita in Tucson, times the annual supported population, times an average citywide property tax rate. Employee property taxes are estimated at about $2,200 per year to the city, and an additional $20,000 per year to the school district, community college and county.

FIGURE 5B
EMPLOYEE STATE AND LOCAL REVENUE IMPACTS OF 35 E TOOLE – SUITE 1

	City of Tucson			County and Schools			State of Arizona			
	Property	Sales	Total Benefit	Property	Sales	Total Benefit	Sales	Personal Income	Total Benefit	Total Public Benefit
Employee Impacts	**$17,968**	**$26,262**	**$44,230**	**$160,504**	**$6,393**	**$166,897**	**$71,599**	**$99,843**	**$171,442**	**$382,569**
2020	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2021	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2022	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2023	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2024	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2025	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2026	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2027	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821

Employee sales taxes to the city and RTA are estimated at $33,000 over eight years. Additional sales taxes generated to the state are estimated at $72,000 over eight years. Since it is not clear what share of employee spending would occur in the District, no District sales taxes are shown in Figure 5B. Employee sales tax revenues include sales taxes paid by tenant employees. Sales taxes are estimated by multiplying direct 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.

In terms of state personal income tax, tenant employees could generate approximately $100,000 in revenues from 2020 to 2027. State income taxes are calculated using average income per employee and current tax schedules from the Arizona Department of Revenue.

[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.*

4.3 GPLET Impacts

In addition to calculating revenue impacts to local and state government, this analysis also considers the property tax impacts of the GPLET relative to the amount of benefit to the 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. If the project is approved for an eight year GPLET, the lessee would pay no lease excise tax or real property tax during this term 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, the property owner would pay real property taxes to the city and other taxing jurisdictions at the normal rate.

In order to meet the statutory requirements, it is necessary to show that total revenues to the state, county and city would exceed the benefit to the prime lessee (in the absence of a GPLET) during the term of the agreement. Revenues from the project include direct sales tax revenues from construction and on-going retail sales and leases.

Over the eight-year term, the direct revenues to state and local jurisdictions total an estimated $1.2 million. However, there would be an additional cost to the District of $420,000 over the first five years for parking garage operations, resulting in a net public benefit of $737,000 (Figure 6). In comparison, the property tax savings to the developer plus the TIF reimbursement are estimated at $686,000 over the eight year term. Of the total property tax savings, $13,000 would have gone to the City of Tucson. The value of revenues generated by the project exceeds the benefit to the prime lessee from the GPLET by $51,000 over eight years, thereby meeting the requirements of the statute.

FIGURE 6
EIGHT YEAR VALUE OF INCENTIVES

	Benefit to Local and State Governments					Benefit to Prime Lessee		
	City of Tucson	Rio Nuevo District	County and Schools	State	Total	Property Tax Savings[1]	TIF	Total
Total Direct	**$510,077**	**-$420,000**	**$98,092**	**$549,314**	**$737,483**	**$137,145**	**$549,314**	**$686,459**
2019 (Const.)	$16,900	$0	$3,250	$18,200	$38,350	$0	$0	$0
2020	$57,460	-$84,000	$11,050	$61,880	$46,390	$14,362	$80,080	$94,442
2021	$58,609	-$84,000	$11,271	$63,118	$48,998	$15,080	$63,118	$78,198
2022	$59,781	-$84,000	$11,496	$64,380	$51,658	$15,834	$64,380	$80,214
2023	$60,977	-$84,000	$11,726	$65,668	$54,371	$16,626	$65,668	$82,293
2024	$62,197	-$84,000	$11,961	$66,981	$57,138	$17,457	$66,981	$84,438
2025	$63,440	$0	$12,200	$68,321	$143,961	$18,330	$68,321	$86,651
2026	$64,709	$0	$12,444	$69,687	$146,840	$19,247	$69,687	$88,933
2027	$66,003	$0	$12,693	$71,081	$149,777	$20,209	$71,081	$91,290

[1] Based on a property tax rate of 15.7081% in tax rate area 0163.

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable retail and restaurant buildings in the downtown area. Based on these comparable developments, an average limited property value per square foot of $97.68 was used, resulting in a total LPV estimate of $508,000. 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.

5.0 REVENUE IMPACTS – TWENTY FIVE YEAR TERM

Over the next 25 years, Suite 1 could generate approximately $2.0 million in direct and employee revenues to the city, and $4.7 million in additional revenues to the county, RTA, school district and state. There would be $130,000 in additional revenues to the District after the $1.0 million TIF reimbursement.

5.1 Direct Revenues

Total direct revenues from the project, net of incentives, are estimated at $5.7 million from 2019 to 2044, including sales and lease excise taxes to the city, District, RTA and state (Figure 7A). The project would be eligible for a GPLET agreement that would exempt it from real property taxes during the term of the lease, although there would be a lease excise tax in lieu of property taxes.

FIGURE 7A
DIRECT STATE AND LOCAL REVENUE IMPACTS OF 35 E TOOLE – SUITE 1
TWENTY FIVE YEAR TERM

	City of Tucson			Rio Nuevo	County, RTA and Schools			State of Arizona		
	Lease Excise	Sales	Total Benefit	TIF	Lease Excise	Sales	Total Benefit	Sales	Total Benefit	Total Public Benefit
Direct Impacts	**$30,697**	**$1,857,361**	**$1,888,058**	**$129,958**	**$407,834**	**$357,185**	**$765,019**	**$2,870,512**	**$2,870,512**	**$5,653,547**
2019 (Const.)	$0	$16,900	$16,900	$0	$0	$3,250	$3,250	$18,200	$18,200	$38,350
2020	$1,030	$57,460	$58,490	$0	$13,686	$11,050	$24,736	$61,880	$61,880	$145,106
2021	$1,045	$58,609	$59,654	$0	$13,882	$11,271	$25,153	$63,118	$63,118	$147,924
2022	$1,060	$59,781	$60,841	$0	$14,080	$11,496	$25,577	$64,380	$64,380	$150,798
2023	$1,075	$60,977	$62,052	$0	$14,281	$11,726	$26,008	$65,668	$65,668	$153,727
2024	$1,090	$62,197	$63,287	$0	$14,486	$11,961	$26,447	$66,981	$66,981	$156,714
2025	$1,106	$63,440	$64,546	$0	$14,693	$12,200	$26,893	$68,321	$68,321	$159,760
2026	$1,122	$64,709	$65,831	$0	$14,903	$12,444	$27,347	$69,687	$69,687	$162,865
2027	$1,138	$66,003	$67,141	$0	$15,116	$12,693	$27,809	$71,081	$71,081	$166,031
2028	$1,154	$67,324	$68,478	$0	$15,332	$12,947	$28,279	$72,502	$72,502	$169,259
2029	$1,171	$68,670	$69,841	$0	$15,551	$13,206	$28,757	$73,952	$73,952	$172,550
2030	$1,187	$70,043	$71,231	$0	$15,774	$13,470	$29,244	$75,431	$75,431	$175,906
2031	$1,204	$71,444	$72,649	$0	$15,999	$13,739	$29,739	$76,940	$76,940	$179,327
2032	$1,221	$72,873	$74,095	$0	$16,228	$14,014	$30,242	$78,479	$78,479	$182,816
2033	$1,239	$74,331	$75,570	$6,667	$16,460	$14,294	$30,755	$80,048	$80,048	$193,040
2034	$1,257	$75,817	$77,074	$81,649	$16,696	$14,580	$31,276	$81,649	$81,649	$271,648
2035	$1,275	$77,334	$78,608	$41,641	$16,934	$14,872	$31,806	$124,923	$124,923	$276,979
2036	$1,293	$78,880	$80,173	$0	$17,177	$15,169	$32,346	$169,896	$169,896	$282,415
2037	$1,311	$80,458	$81,769	$0	$17,422	$15,473	$32,895	$173,294	$173,294	$287,958
2038	$1,330	$82,067	$83,397	$0	$17,671	$15,782	$33,453	$176,760	$176,760	$293,610
2039	$1,349	$83,708	$85,057	$0	$17,924	$16,098	$34,022	$180,295	$180,295	$299,374
2040	$1,368	$85,383	$86,751	$0	$18,180	$16,420	$34,600	$183,901	$183,901	$305,252
2041	$1,388	$87,090	$88,478	$0	$18,440	$16,748	$35,188	$187,579	$187,579	$311,245
2042	$1,408	$88,832	$90,240	$0	$18,704	$17,083	$35,787	$191,330	$191,330	$317,357
2043	$1,428	$90,609	$92,037	$0	$18,971	$17,425	$36,396	$195,157	$195,157	$323,590
2044	$1,448	$92,421	$93,869	$0	$19,243	$17,773	$37,016	$199,060	$199,060	$329,945

Direct revenues include construction and on-going sales taxes from the restaurant tenant. The project would generate one-time sales taxes from new construction estimated at about $18,200 to the District, $20,200 to the city and RTA, and $18,200 to the state in 2019. The construction sales tax to the District would be part of the reimbursement to the developer and is not included in Figure 7A. There would be on-going sales tax revenues associated with taxable sales and leases estimated at $2.2 million to the city and RTA, $130,000 to the District and $2.9 million to the state over the 25-year period.[3]

The TIF portion of on-going sales tax would be reimbursed to the developer, up to a total of $1.0 million by June 30, 2035. The District receives half of the 5.6 percent state sales tax on sales within the District above the base during this time period. The reimbursement would include 100 percent of the TIF through 2035, up to the maximum amount. It is estimated that $1.0 million could be reimbursed by 2033, and an additional $130,000 in TIF revenues would be retained by the District in 2033 through 2035. Note that the TIF funds used for reimbursement are not included in the direct revenues in Figure 7A.

5.2 Employee Revenues

Along with the direct taxes generated by the tenant in Suite 1, there would also be taxes generated by employees. Using the results from the economic impact analysis, it is possible to estimate employee tax impacts from the 26 new jobs that could be created by the tenants, which are estimated at $1.2 million over 25 years.

The employees could generate about $558,000 in property tax revenues to all jurisdictions combined from 2020 to 2044, based on the assumptions used in this analysis (Figure 7B). Employee property tax revenues represent property taxes on employee housing. Employee property taxes are estimated at about $2,200 per year to the city, and an additional $20,000 per year to the school district, community college and county.

Employee sales taxes to the city and RTA are estimated at $102,000 over 25 years. Additional employee sales taxes generated to the state are estimated at $224,000 over 25 years. Since it is not clear what share of employee spending would occur in the District, no District sales taxes are shown in Figure 7B.

In terms of state personal income tax, tenant employees could generate approximately $312,000 in revenues from 2020 to 2044. State income taxes are calculated using average income per employee and current tax schedules from the Arizona Department of Revenue.

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

FIGURE 7B
EMPLOYEE STATE AND LOCAL REVENUE IMPACTS OF 35 E TOOLE – SUITE 1
TWENTY FIVE YEAR TERM

	City of Tucson			County and Schools			State of Arizona			
	Property	Sales	Total Benefit	Property	Sales	Total Benefit	Sales	Personal Income	Total Benefit	Total Public Benefit
Employee Impacts	**$56,150**	**$82,067**	**$138,218**	**$501,576**	**$19,977**	**$521,554**	**$223,747**	**$312,008**	**$535,756**	**$1,195,527**
2020	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2021	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2022	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2023	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2024	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2025	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2026	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2027	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2028	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2029	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2030	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2031	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2032	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2033	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2034	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2035	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2036	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2037	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2038	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2039	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2040	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2041	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2042	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2043	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821
2044	$2,246	$3,283	$5,529	$20,063	$799	$20,862	$8,950	$12,480	$21,430	$47,821

5.3 GPLET Impacts

In addition to calculating revenue impacts to local and state government, this analysis also considers the property tax impacts of the GPLET relative to the amount of benefit to the property owner. This alternative reflects a 25 year term for the GPLET, during which time the developer would pay lease excise tax instead of real property tax. The prime lessee would also receive an estimated $1.0 million in additional TIF incentives from the District.

Total revenues to the state, county and city would exceed the value of property tax savings (in the absence of a GPLET) during the term of the agreement. Revenues from the project include direct sales tax revenues from construction, on-going retail sales taxes and lease excise taxes.

Over the 25-year term, the direct public benefit to state and local jurisdictions is estimated at $5.7 million. However, there would be an additional cost to the District of $420,000 over the first five years for parking garage operations, resulting in a net public benefit of $5.2 million (Figure 8). In comparison, the benefit to the prime lessee is estimated at $1.1 million over the GPLET term, including TIF reimbursements from the Rio Nuevo District. The benefit to the prime lessee includes the amount of property tax that would have been paid without the GPLET, minus the amount of lease excise taxes paid. The estimated public benefit, or net value of other tax revenues generated by the project, exceeds the property tax savings from the GPLET and TIF incentives to the prime lessee by $4.1 million over 25 years.

FIGURE 8
TWENTY FIVE YEAR VALUE OF INCENTIVES

	Benefit to Local and State Governments					Benefit to Prime Lessee		
	City of Tucson	Rio Nuevo District	County and Schools	State	Total	Property Tax less Lease Excise Tax[1]	TIF	Total
Total	**$1,888,058**	**-$290,042**	**$765,019**	**$2,870,512**	**$5,233,547**	**$130,807**	**$1,000,000**	**$1,130,807**
2019 (Const.)	$16,900	$0	$3,250	$18,200	$38,350	$0	$0	$0
2020	$58,490	-$84,000	$24,736	$61,880	$61,106	-$354	$18,200	$17,846
2021	$59,654	-$84,000	$25,153	$63,118	$63,924	$154	$61,880	$62,034
2022	$60,841	-$84,000	$25,577	$64,380	$66,798	$694	$63,118	$63,812
2023	$62,052	-$84,000	$26,008	$65,668	$69,727	$1,269	$64,380	$65,649
2024	$63,287	-$84,000	$26,447	$66,981	$72,714	$1,881	$65,668	$67,549
2025	$64,546	$0	$26,893	$68,321	$159,760	$2,531	$66,981	$69,512
2026	$65,831	$0	$27,347	$69,687	$162,865	$3,222	$68,321	$71,542
2027	$67,141	$0	$27,809	$71,081	$166,031	$3,955	$69,687	$73,642
2028	$68,478	$0	$28,279	$72,502	$169,259	$4,228	$71,081	$75,309
2029	$69,841	$0	$28,757	$73,952	$172,550	$4,510	$72,502	$77,012
2030	$71,231	$0	$29,244	$75,431	$175,906	$4,802	$73,952	$78,754
2031	$72,649	$0	$29,739	$76,940	$179,327	$5,103	$75,431	$80,535
2032	$74,095	$0	$30,242	$78,479	$182,816	$5,415	$76,940	$82,355
2033	$75,570	$6,667	$30,755	$80,048	$193,040	$5,737	$78,479	$84,216
2034	$77,074	$81,649	$31,276	$81,649	$271,648	$6,070	$73,381	$79,451
2035	$78,608	$41,641	$31,806	$124,923	$276,979	$6,414	$0	$6,414
2036	$80,173	$0	$32,346	$169,896	$282,415	$6,769	$0	$6,769
2037	$81,769	$0	$32,895	$173,294	$287,958	$7,136	$0	$7,136
2038	$83,397	$0	$33,453	$176,760	$293,610	$7,514	$0	$7,514
2039	$85,057	$0	$34,022	$180,295	$299,374	$7,906	$0	$7,906
2040	$86,751	$0	$34,600	$183,901	$305,252	$8,309	$0	$8,309
2041	$88,478	$0	$35,188	$187,579	$311,245	$8,726	$0	$8,726
2042	$90,240	$0	$35,787	$191,330	$317,357	$9,157	$0	$9,157
2043	$92,037	$0	$36,396	$195,157	$323,590	$9,601	$0	$9,601
2044	$93,869	$0	$37,016	$199,060	$329,945	$10,059	$0	$10,059

[1] Based on a property tax rate of 15.7081% in tax rate area 0163.

The foregone property tax revenues were estimated based on limited property value (LPV) per square foot for comparable retail and restaurant buildings in the downtown area. Based on these comparable developments, an average limited property value per square foot of $97.68 was used, resulting in a total LPV estimate of $508,000. It is assumed that the value would increase by 5 percent per year over the next 8 years, based on recent increases in LPV for the comparable properties and statutory guidelines, and an average of 2.5 percent per year over the remainder of the 25-year term.

5.4 Summary

The proposed renovation of Suite 1 at 35 E Toole described in this analysis would create both economic and revenue impacts to the Rio Nuevo District and the City of Tucson. The development would support a new jobs and payroll, and create additional tax revenues for the District and the city on a long-term basis.

Over the 2019 to 2027 period, the project could generate an estimated $549,000 in TIF revenues that would be reimbursed to the developer, whereas over the longer 25-year term the maximum $1.0 million reimbursement would be reached. The property tax savings to the prime lessee would be $137,000 over the eight year term with no lease excise taxes, compared to a tax savings of only $131,000 over the 25-year term because the tax savings is offset by lease excise taxes. As a result, the net benefit to state and local governments, including the additional parking garage operation cost to the District, does marginally exceed the benefit to the prime lessee within the 8-year term. The District would receive an estimated $73,000 in annual TIF revenues from the project beginning in the ninth year, and other local governments would receive an estimated $101,000 in direct annual property and sales taxes upon expiration of the GPLET term in the ninth year. Over the 25-year term, which does not include an abatement of lease excise taxes, the net benefit to state and local governments exceeds the benefit to the prime lessee by $4.1 million and local governments could receive an estimated $144,000 in annual sales and property taxes beginning in 2045.