

ED Development Agreements 101

January 13, 2022



What is Economic Development?



- The creation of wealth realized as community benefits
- More than a jobs program: it's a long-term investment in growing and enhancing the prosperity and quality of life for all residents.
- It depends on social and economic institutions and on cooperation between the public sector and private enterprise.



What are Primary ED Efforts?



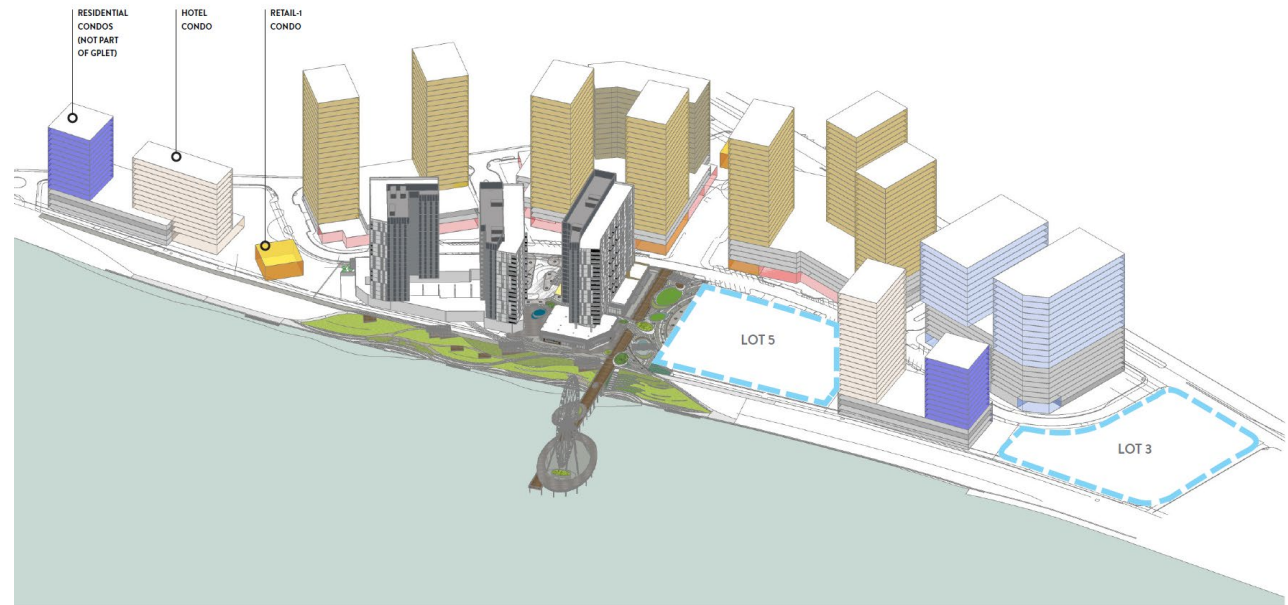
- Attracting new investment
- Retaining and expanding existing investment
- Growing and nurturing small business and entrepreneurship
- Redevelopment to prevent blight
- Workforce training to ensure competitiveness



Why a Development Agreement?



- Project is complex
 - Large and multi-phase
 - Historic Preservation
 - Housing or Transit components
- Locations are competitive
- Developer/Client needs an incentive to do it
- City wants to ensure benefits are guaranteed





What are Common
Incentives in Economic
Development Agreements?

Common Incentives



- Construction Sales Tax Rebate/TPT Rebates
- Development Fee Waivers/Rebates
- Infrastructure Credits
- Job Creation Credits
- GPLET (Government Property Lease Excise Tax)
- Lease Benefits on City property





Which of these impact
You the MOST?

Financial Impact



Unpredictable General Fund Impact	Predictable Future Budget Impact
Construction Sales Tax Rebate	Infrastructure Credits
TPT Rebates	Job Creation Credits
Development Fee Waivers/ Rebates	GPLET or Lease Benefits

Common Pitfalls



- How much construction sales tax or TPT did we actually receive?
- How can we plan for reimbursements?
 - How much will the incentive be?
 - When is it to be paid out?
- When do abatement periods start?
- Who is managing the project and what are the metrics?



How the Sausage is Made



- Determine the deal points
- Review an economic impact analysis (EIA)
- Evaluate the analysis: what matters to the City?
- Finalize deal points
- Commission your own EIA
- Go to Council for input and approval





● Arizona Gift Clause

- Article 9 Section 7. Neither the state, nor any county, city, town, municipality, or other subdivision of the state shall ever give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation, or become a subscriber to, or a shareholder in, any company or corporation, or become a joint owner with any person, company, or corporation, except as to such ownerships as may accrue to the state by operation or provision of law or as authorized by law solely for investment of the monies in the various funds of the state.



Legal Considerations



- Two items to be considered to ensure compliance with the Gift Clause
 - Does it serve a public purpose?
 - Is the consideration, or public benefit, adequate?



Public Benefit Analysis



Direct Public Benefits are GUARANTEED

- Qualified Jobs and Capex
- TPT guaranteed
- In-lieu payments for lease benefits
- Voluntary contributions
- Rebates on infrastructure
- Historic preservation
- Housing affordability through a deed restriction



Indirect Benefits **DON'T** Count

- **Future sales tax estimates**

Incentive Request Example



- GPLET with 8-year abatement
 - Total value = \$114M
 - Foregone taxes to Tempe = \$25M
- Construction Sales Taxes Reimbursement
 - Capped at \$1.5M
 - Quarterly requests audited by City
 - 50% of eligible taxes paid out



Public Benefit Analysis



Project Ask	Cumulative Cost/Benefit Analysis		
	City Cost/Foregone	Project Cost/Value	Public Benefit
GPLET Tax Abatement Total \$114,660,221*	\$ 25,361,376		\$ (25,361,376)
Construction of Pier/Ped Bridge Portion		\$ 10,000,000	\$ 10,000,000
Contribution to Ped Bridge City Portion		\$ 2,000,000	\$ 2,000,000
Schools Contribution		\$ 250,000	\$ 250,000
In-lieu Contribution Housing/Transit		\$ 12,680,688	\$ 12,680,688
Enhanced Landscaping		\$ 2,000,000	\$ 2,000,000
Construction Sales Tax Rebate (50% of unencumbered construction sales taxes rebated up to \$1.5M)	\$ 1,500,000		\$ (1,500,000)
Total Cost/Benefits	\$ 26,861,376	\$ 26,930,688	\$ 69,312

* Estimate provided by Gruen Gruen and Associates

Public Benefits Guaranteed



- Cash contributions of \$12,680,688
 - Paid upon GPLET leases
 - 80% to The Affiliate
 - 20% to Transit Fund
- Construction of Phase I Ped. Bridge and pier = \$10M
- Cash contribution to Phase II Ped. Bridge = \$2M
- Contribution to Schools = \$250K
- Enhanced Landscaping = \$2M
- TOTAL DIRECT BENEFITS = 26,930,688



Indirect Public Benefits



- \$2,655,889 in annual property taxes to City
 - *Currently only \$27K*
- 2,700 direct jobs created
- 3,500 new Tempe residents
- Annual economic impact = \$317M
- Estimated \$34.2M in tax revenues over 10 years
- *Impressive but not guaranteed*



Incentive Request Example #2



- \$150,000 requested
- Company to do these things:
 - Move HQ to Tempe
 - Sign lease for 27,000 SF at Watermark
 - Hire 150 people at \$100,000 average salary
 - Spend \$4M in capex



Requirements Example #2



● Incentive is POST-PERFORMANCE

- DA solidified mutually-agreed upon metrics
- Company to submit annual reports demonstrating job creation, average salary, and capex expenditure
- City will pay Quality Jobs Credit annually upon evaluation of achievement





What are some
examples from
your community??



What is the
Role of Finance?

Where does Finance fit?



- Recommendation: Get in on the action early!
 - What incentives are most appropriate for your City's budget?
 - How can you help streamline the accountability process so the incentive is successful?
 - How can you work with ED to plan and budget for incentive payouts?
 - How can you plan for any direct increase in future revenues?

Tempe's Best Practices



- Public benefits analysis
- Work with Sales Tax and Licensing
 - Language for agreements
 - Meet quarterly to update on existing projects and give heads up on new projects
 - Coordinate GPLET leases
- Work with Finance and Budget
 - To ensure the funds will be available or earmarked
 - To determine how to account for future revenues





- Development is a **TEAM EFFORT!!**
 - Be a resource to your ED Team
 - Provide input on incentives for agreements
 - Stay ahead of the curve to reduce surprises



Questions & Thank You



Tempe

Making waves in the desert

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