

CITY COUNCIL REPORT
PUBLIC

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TO: Mayor and Councilmembers

FROM: John Saltonstall, Business Retention and Expansion Manager
Barbara Goodrich, Deputy City Manager

CC: Josh Copley, Jerene Watson and, Leadership Team

SUBJECT: Current GPLETs and Sales Tax Rebates provided in our community

This City Council Report is in an effort to inform the City Council of the current property or transaction privilege tax rebates provided in our community.

DISCUSSION

Property Tax

The City of Flagstaff currently has entered into three agreements to allow for a Government Property Lease Excise Tax (GPLET) in place of property tax.

The City originally entered into an agreement with Nestle Purina in 2003 that qualified as a GPLET which provides for a reduced property tax rate to allow for plant and employment expansion. This agreement was modified in 2008 which provided for additional consideration consisting of additional expansion, real estate disposition, and hiring 50 new full time employees. This agreement was most recently extended for six months to provide for additional opportunity to look at odor mitigation. This GPLET, to date, has realized a savings of \$3,004,734 to Nestle Purina.

In 2008, the City entered into a Development Agreement with Joy Cone that also used the GPLET as the tool to reduce property taxes from January 1, 2009 to January 1, 2023. At the time the Development Agreement was approved, savings to Joy Cone were anticipated to be approximately \$3 million dollars for the 15 year period. In exchange for this benefit, Joy Cone agreed to construct a 65,000 foot expansion and to consider expansion of their manufacturing operations. Joy Cone has extended a rail spur to double dry goods storage, and has added a second batter room to accommodate increased production.

In 2009, the City entered into a Development Agreement with the Orpheum also using the GPLET tool. This Development Agreement is in place for 8 years and anticipated a savings to the Orpheum of approximately \$100,000. In exchange for this, the Orpheum obligated to improvements of approximately \$44,000 per year consisting of increased capacity, lighting repair, roof repair, painting, and heating system upgrades. The Orpheum continues to meet or exceed the expectations of the agreement. The agreement terminates in 2017.

Transaction Privilege Tax

In 2007 the City of Flagstaff entered into a Development Incentive Agreement with Butler & Lone Tree, LLC that allowed for a 50% rebate to the Landowner of all unrestricted transaction privilege (“sales”) tax imposed by the City that was generated from all taxable activity within the property for a period not to exceed 20 years or \$9 million dollars. The unrestricted rate at that time and is still currently at 1.266% which includes the general 1% rate plus the Street Improvements (0.186%) and Safety Improvement (0.080%) portions of the Transportation Tax. The 4th Street and Transit portions are specifically excluded as they are restricted in use as is the recently passed Road Repair and Street Safety Tax. In the case of a commercial business that relocated to this property from an existing location within the city limits, the rebate is limited to 50% of the incremental increase in the operations.

New Frontiers, Eddie Bauer, and the Seasoned Kitchen are all considered re-locations and the rebate is calculated based on the 50% of the new increment in business. Over the past nine years, the total sales tax rebated to three different developers to date on this property is \$739,978.79. The rebate is calculated off of both construction and retail sales generated to date.

RECOMMENDATION / CONCLUSION

This report is for information only.