CITY COUNCIL REPORT

DATE: November 6, 2015

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 - REVISED

This City Council Report was originally provided to inform the City Council of the current property or transaction privilege tax rebates provided in our community. Subsequent Council questions have been received and this CCR has been modified to address.

DISCUSSION

Property Tax

The City of Flagstaff currently has entered into three agreements to allow for property tax savings to promote economic development, employment and other community benefits.

NESTLE PURINA

The City originally entered into an agreement with Nestle Purina in 2003 pursuant to which the City accepted title to Nestle Purina's real property, so as to exempt it from property tax. (Governmental property is exempt from property tax). The City in turn leased the property back to Nestle Purina, and Nestle Purina pays a lesser Government Property Lease Excise Tax (GPLET) at a rate set by state law. The GPLET is collected, administered and distributed by the County Treasurer's Office. The net tax savings helped Nestle Purina with 100,000 square foot plant expansion and employment expansion. This agreement was modified in 2008 which provided for additional consideration including 94,000 square foot warehouse expansion and parking expansion, real estate disposition (sale of two acres of property to the City for use as a fire station), and hiring 50 new full time employees. The original agreement was set to expire in October 2015, with estimated tax saving of approximately $3 million. This agreement was most recently extended for six months to provide for additional opportunity to look at using tax savings for odor mitigation.

This agreement, to date, has realized a savings of $2,413,159 to Nestle Purina. This year the City received more precise valuation information from the Assessor's office which resulted in a revised calculation of savings from $3,004,734 to $2,413,159. This includes the 2003 Agreement (GPLET 1) savings of $481,964 plus 2008 Amendment (GPLET 2) savings of $1,931,195. The reduction is the result of clarifying the difference between the Full Cash Value and the Limited Property Value versus the Primary Assessed Value and the Secondary Assessed Value.

JOY CONE

In 2008, the City entered into a similar Development Agreement with Joy Cone and has accepted title to Joy Cone's real property and personal property (equipment) from January 1, 2009 to January 1, 2023, so as to exempt it from property tax. The City leases the real property and personal property back to Joy Cone, and Joy Cone pays a GPLET on the real property. At the time the Development Agreement was approved, savings to Joy Cone were anticipated to be approximately $3 million dollars over a 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. In 2012 the City assisted Joy Cone in obtaining an Arizona Commerce Authority grant, which enabled Joy Cone to help pay for a second batter room to accommodate increased production.

The total savings Joy Cone has realized from FY2010 through FY2016 is approximately $988,234. This number does not include any personal property tax savings. The Development Agreement does not require calculation of actual tax savings and the City and Assessor have insufficient information as to the value of the equipment in order to make an estimate.

ORPHEUM

In 2009, the City entered into a Development Agreement with the Orpheum wherein the City also accepted title to the real property in order to qualify for property tax exemption. The City leases the property back to the Orpheum, however the Orpheum does not pay a GPLET because performing arts centers are exempt from the GPLET tax. This Development Agreement is in place for eight (8) years and will result in anticipated savings to the Orpheum of approximately $100,000. In exchange for this, the Orpheum obligated to operate a performing arts venue open to the public and make 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.

The specific improvements the Orpheum made are:

TASK	PERFORMANCE DEADLINE	STATUS
Modify the environment of the theater to attract a broader variety of events/performance artists and acts by expanding capacity from 740 persons to 1180 persons	August 2011	COMPLETED
Convert back office space to usable commercial space	August 2011	COMPLETED
Improve and/or relocate artist hospitality area	August 2011	COMPLETED
Replace certain fixtures and improve quality of restrooms	August 2012	COMPLETED
Upgrade heating system	August 2012	COMPLETED
Repair or replace roof	August 2014	COMPLETED
Repaint exterior	August 2014	COMPLETED
Upgrade and/or replace sound equipment	August 2014	COMPLETED
Repaint interior by August	August 2017	COMPLETED

Other expectations in the schedule of performance include the following:

- Developer to use $0.50 per guest ticket sold for building improvements throughout the lease period.
- Developer will make an additional match of monies collected from ticket sales at a rate of $0.50 per ticket for building improvements up to $15,000 per year. Developer may apply any annual unused funds to the following years' improvements.
- Tenant or Sub-Tenant will continue to promote venues by using local media at a rate of approximately $30,000 per year.

To date, the Orpheum has realized property tax savings of $72,483.

The total tax savings realized to date under all three Development Agreements is $3,473,876.

<u>Transaction Privilege Tax</u>
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 local transaction privilege ("sales") tax imposed by the City 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 from both construction and retail sales generated to date.

While Butler & Lone Tree LLC was the original developer, the rebate has been assigned to subsequent purchasers of the property. The rebate is currently sent to Sawmill NF, LLC (New Frontiers), Campus Crest at Flagstaff LLC (the Grove and related development), and Flagstaff Aspen Place LLC (the northern portion consisting of commercial development.)

<u>RECOMMENDATION / CONCLUSION</u>

This report is for information only.