

2018

San Tan Valley
Fiscal Analysis at Build Out

San Tan Valley

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1. INTRODUCTION

This fiscal analysis was performed on the preferred land use scenario for the San Tan Valley Special Area Plan. The boundaries of the study area is depicted in the following map. The purpose of the analysis is to understand the potential revenue to Pinal County relative to expenditures required to service San Tan Valley, based on the preferred land use scenario. This is a high level analysis and only includes general fund revenue and expenditures when calculating future budget revenue and costs. Infrastructure capital costs, annual maintenance and capital replacement costs and debt service were not included in this analysis; nor were enterprise funds or development impact fees. Findings within the analysis are presented in today’s dollars and are not adjusted for inflation. There is no assumption made as to when “build out” will occur.

The preferred land use scenario provides build out estimates for San Tan Valley, as shown in Table 1. This information includes dwelling unit and population projections based on residential land use density, and employment projections for commercial, mixed use, office and industrial space based on square footage of space.

Housing units are projected based on the preferred land use acres times the number of dwelling units per acre. Population is derived off of the number of acres times the persons per household.

Employment was computed based on the number of employment land use acres divided by an applicable floor to area (FAR) ratio to estimate the amount of square feet. A square foot per job generation factor for retail, office and industrial was then multiplied by the building square footage to derive the total number of jobs.

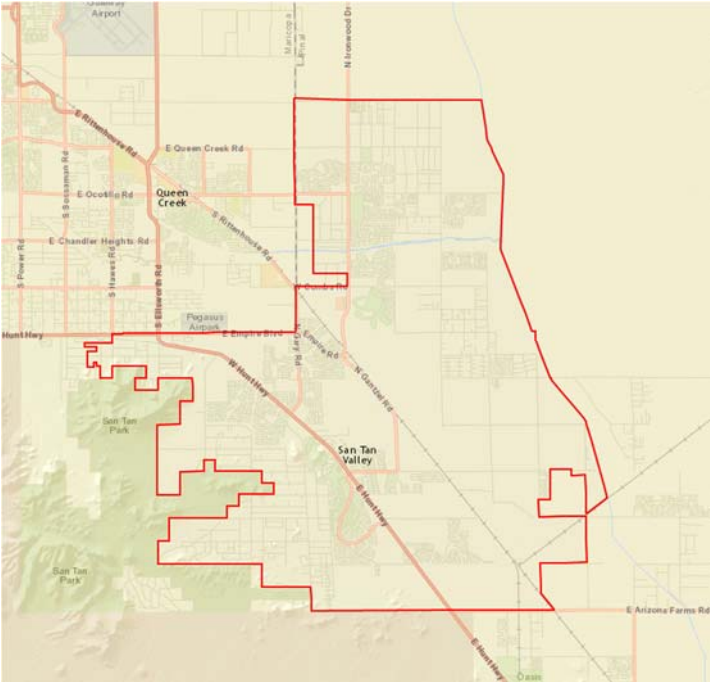


Table 1 – San Tan Valley Land Use Build Out Summary

	Dwelling Units	Population	Square Feet	Employment
Residential:				
Large Lot Residential	18,450	49,631	--	--
Single Family Detached	79,702	214,398	--	--
Single Family Attached	13,912	37,423	--	--
Multi-Family	6,240	8,674	--	--
Mixed Use	120	167	--	--
Employment				
Neighborhood Retail	--	--	2,722,500	5,445
Community Retail	--	--	6,011,280	12,023
Urban Retail	--	--	740,520	1,481
Mixed Use				
Retail (75%)	--	--	81,675	0
Office (25%)	--	--	27,225	0
Office	--	--	3,049,200	15,246
Manufacturing/Warehousing	--	--	16,901,280	16,901
Energy/Resource Production	--	--	158,776	106
Totals	118,424	310,293	29,692,456	51,202

As a result of this preferred land use scenario, San Tan Valley at build out will have 310,293 people and 51,202 jobs, for a jobs to housing ratio of .43.

2. FISCAL ANALYSIS OVERVIEW

The fiscal analysis is grounded in the preferred land use scenario, which provides the projections for population, dwelling units, square feet of employment space and employment. Pinal County’s adopted general fund budget for FY2017-18 is utilized to derive a series of assumptions which are applied to San Tan Valley to calculate future revenues and expenditures at build out. The methodology used is adapted from the “Fiscal Balance Report” prepared for the Maricopa Association of Governments. The sources of revenue generation in the analysis includes the following:

- Sales Taxes
- Property Tax
- Licenses & Permits
- Intergovernmental
- Charges for Services
- Fines & Forfeits
- Investments earnings

Likewise, expenditures by Pinal County noted within the general fund budget are utilized to present future expenditures.

- | | |
|-------------------------------------|---|
| • Board of Supervisors | • Community Development |
| • County Manager | • Economic Development |
| • Human Resources & Info Tech | • Public Works |
| • County Clerk & Elections | • Parks, Recreation, Library, Social Services |
| • County Attorney | • Non-Departmental |
| • Justice and Law | • Housing |
| • Finance, Audit, Budget & Research | • Correctional Health Services |
| • Sheriff | • General Government |
| • Air Quality | • Superintendent of Schools |

Assumptions

In preparing an analysis of this nature a series of assumptions are created for use in calculating the fiscal impact of future development. At a minimum these assumptions include current and projected population and employment, lease rates, occupancy rates, retail sales per square foot, construction cost per square foot, as well as existing Pinal County tax rates. The analysis assumes that build out, based on the preferred land use scenario, is today and therefore all the data is in today’s dollars and there is not adjustment for inflation.

A list of key assumptions along with the source is presented in the following Table 2.

Table 2 – San Tan Valley Fiscal Analysis Assumptions

Assumptions	Value	Source
<u>Pinal County</u>		
2017 Population	430,237	U.S. Census, ACS 2017
2017 Employment	141,196	U.S. Census, ACS 2016 with ESI Corp 2017 projection
Sworn Officers (FY 2017)	216	Pinal County
County FTE's (FY 2017)	2,005	Pinal County
Park acres	174.32	Pinal County
<u>San Tan Valley</u>		
2017 Population	96,524	US Census, ACS 2012-2016 with ESI 2017 projection
2017 Employment	38,705	US Census, ACS 2012-2016 with ESI 2017 projection
Build Out Population	310,293	Michael Baker International
Build Out Employment	51,420	Michael Baker International
Pinal County Tax Rates:		
Retail Sales	1.10%	Pinal County
Restaurant and Bar	1.10%	Pinal County
Contracting	1.10%	Pinal County
Real Estate and Rental Leasing	1.10%	Pinal County
Primary Net Assessed Valuation	\$2,239,027,256	Department of Revenue, 2017
Property Tax Rate per \$100 of assessed valuation	0.0387	Pinal County
<u>Real Estate</u>		
Housing vacancy rate	16.0%	Michael Baker International
Residential Rental Rates	varies	Rentbits.com
Owner vs Renter Tenure	70.3%/29.7%	San Tan Valley CDP, U.S. Census ACS 2016
Retail, Office and Industrial Lease Rates	varies	LoopNet and CBRE, Q4 2017
Retail, Office and Industrial Vacancy Rates	varies	CBRE, Q4 2017
Commercial space occupied by retail	90%	ESI Corp
Commercial space occupied by restaurant/bar	10%	ESI Corp
Sq. Ft. Commercial Construction Cost	varies	Rider Levett Bucknall
Sq. Ft. Office Construction Cost	varies	Rider Levett Bucknall
Sq. Ft. Industrial Construction Cost	varies	Rider Levett Bucknall
Retail Sales Per Sq. Ft.	varies	ESI Corp
Restaurant and Bar Sales per Sq. Ft.	varies	ESI Corp
<u>Projections</u>		
Build Out Population	310,293	Michael Baker International
Build Out Employment	51,420	Michael Baker International
Build Out Dwelling Units	118,424	Michael Baker International
Build Out Square Feet	29,692,456	Michael Baker International

In addition to the assumptions noted in Table 2, a variety of other hypotheses have been made in order to simulate revenue generation resulting from the preferred land use scenario at build out. These include:

- The inclusion of only primary property taxes.
- Construction cost is used to calculate the property value, which is then factored at 85% to reflect the Assessor's value.
- The value of land is not included in the analysis.
- Square feet of retail space is used to calculate sales per square foot and tax generation.
- 90% of commercial space is assumed occupied by retail and 10% by restaurant/bar.
- Mixed use square feet consists of 75% retail and 25% office.
- Occupancy tax revenue is based on the assumption that 95% of retail space is renter occupied; 85% of office is renter occupied; and 50% of industrial space is renter occupied.

Approach

A series of steps are undertaken to estimate the fiscal impacts of the San Tan Valley preferred land use scenario. To begin, the County's adopted 2017-18 Fiscal Year General Fund Budget is used as the basis to calculate revenue and expenditure multiplier rates for each line item. The rate developed for revenue generation is based on either square feet of space, value of construction, population, employment, or service population. Service population is the combination of population and employment. In some cases population was double weighted to better reflect resident demand and in some cases employment was double weighted to better reflect employment/business demand. The countywide metric that is calculated is then applied to the projected build out population, employment, or service population figure in order to estimate the future revenues that would be generated at San Tan Valley build out.

The multiplier rate developed for each line item expenditure is based on either population, per county FTE, employment, service population, or per park acre. The countywide multiplier rate is then applied to the projected build out population, employment, or service population figure in order to estimate the future cost to service San Tan Valley at build out.

Tables 3 and 4 provide a summary of the FY 2017-18 adopted budget revenue and expenditures, including the basis that is used to calculate the future revenue or cost and the multiplier rate that was applied to the preferred land use.

Table 3 – San Tan Valley Fiscal Impact Analysis Revenue Rates

REVENUE (General Fund)	Adopted FY2017-18	Basis	Multiplier Rate
Taxes			
Retail	\$7,350,074	Square feet	varies
Restaurant/Bar	\$1,625,269	Square feet	varies
Occupancy	\$380,281	Square feet	varies
Construction	\$2,246,539	Construction value	varies
All Other	\$5,547,124	Population	\$12.89
Property tax			
Primary Property Tax	\$86,648,116	Assessed Value	\$3.8699
Licenses & Permits			
Liquor License	\$40,400	Employment	\$0.29
Utility Franchise	\$875,500	Service population (Emp*2)	\$0.87
Alarm Permits-Business	\$103,000	Employment	\$0.73
Planning Permits	\$40,000	Service population	\$0.07
Building Permits	\$3,300,000	Service population	\$5.77
Mechanical/Plumbing/Electric	\$147,000	Employment	\$1.04
Sanitation Fees	\$85,000	Service population	\$0.15
Intergovernmental:			
Federal grant & aid	\$45,188	Service population	\$0.08
State Grants & aid	\$157,896	Service population	\$0.28
State Shared Revenue	\$45,461,484	Service population	\$79.56
Local Government in lieu	\$4,719,518	Service population	\$8.26
Federal payments in Lieu	\$1,301,589	Service population	\$2.28
Charges for Services	\$7,980,703	Service population (Pop*2)	\$7.97
Fines & Forfeits	\$1,016,287	Service population (Pop*2)	\$1.01
Investments earnings	\$152,000	Population	\$0.35
Misc.	\$2,875,649	Service population	\$5.03

Notes:

Service population = population plus employment

Service population (emp*2) = population plus 2 times the employment

Service population (pop*2) = 2 times the population plus employment

Table 4 – San Tan Valley Fiscal Impact Analysis Expenditure Rates

EXPENDITURES (General Funds)	Adopted FY2017-18	Basis	Multiplier Rate
Board of Supervisors	\$1,467,207	Population	\$3.41
County Manager (incl. intergovernmental)	\$312,517	Service pop	\$0.55
Communications / News & Information	\$162,001	Population	\$0.38
Human Resources and Info Tech	\$10,047,968	Per FTE	\$5,011.46
County Clerk & Elections	\$1,294,895	Service pop	\$2.27
County Attorney	\$10,840,031	Population	\$25.20
Justice and Law	\$30,863,543	Population	\$71.74
Finance, Audit, Budget & Research	\$2,354,683	Per FTE	\$1,174.41
Sheriff	\$40,898,159	per officer	\$189,343.33
Air Quality	\$109,099	Employment	\$0.19
Community Development	\$3,474,180	Service pop	\$6.08
Economic Development	\$584,481	Employment	\$4.14
Public Works	\$104,646	Service pop	\$0.18
Parks, Recreation, Library, Social Services	\$344,146	60% pop	\$0.48
		40% park acres	\$789.69
Non-departmental (gen fund expenditures)	\$57,847,658	Population	\$134.46
Housing	\$69,572	Population	\$0.16
Correctional Health Services	\$4,278,557	Employment	\$30.30
General Govt	\$17,475,537	Service pop	\$30.58
Superintendent of Schools	\$917,241	Population	\$2.13

Notes:

Service population = population plus employment

Service population (emp*2) = population plus 2 times the employment

Service population (pop*2) = 2 times the population plus employment

Tax Revenue Generation

The calculation of tax revenue for sales, occupancy and property taxes is based on the preferred land use scenario at build out. In so doing, construction costs for both residential and employment land uses are calculated which forms the basis to derive retail sales, real estate occupancy and property tax generation.

For residential development the number of dwelling units per acre and vacancy rate is based on the preferred land use scenario. Likewise, square feet of space for employment land use comes from the preferred land use scenario for San Tan Valley. Residential unit size is assumed along with construction cost per square foot and percentage of retail versus office square footage within the mixed use land use category.

The information in Table 5 is used to calculate retail sales, lease and net new property taxes for San Tan Valley. At build out there are 118,424 dwelling units and 29,692,456 square feet of commercial, office and industrial space.

Table 5 – San Tan Valley Preferred Land Use Scenario, Unit Size, Square Feet and Construction Cost

Land Use	Average DU/Ac	Number of DUs	Unit Size	Const. Cost Per SF
Large Lot Residential	1.50	18,450	3,200	\$115.00
Single Family Detached	3.30	79,702	2,200	\$115.00
Single Family Attached	8.00	13,912	1,500	\$120.00
Multi-Family	16.00	6,240	1,000	\$110.00
Mixed Use - Residential Portion	24.00	120	800	\$110.00
			Square Feet	Const. Cost Per SF
Neighborhood Retail	--	--	2,722,500	\$110.00
Community Retail	--	--	6,011,280	\$135.00
Urban Retail	--	--	740,520	\$160.00
Mixed Use:	--	--		
Retail (75%)	--	--	81,675	\$160.00
Office (25%)	--	--	27,225	\$147.50
Office	--	--	9,583,200	\$147.50
Manufacturing/Warehousing	--	--	3,049,200	\$77.50
Energy/Resource Production	--	--	16,901,280	\$100.00

Source: Michael Baker International, ESI Corp, and RLB|Rider Levett Bucknall

Construction Sales Tax

Construction tax collections is based on net new construction of housing and employment space. This is a one-time fiscal impact for the County. Construction tax is based on 61 percent of the construction value to reflect the reduction of labor. The fiscal impact is significant at \$158.3 million, which is collected over the build out timeframe.

Table 6 – San Tan Valley Construction Sales Tax

	Number of Net New Dwelling Units	Construction Value	Construction Tax
Large Lot Residential	12,765	\$4,697,634,479	\$31,521,127
Single Family Detached	55,145	\$13,951,624,309	\$93,615,399
Single Family Attached	9,626	\$1,732,595,198	\$11,625,714
Multi-Family	4,317	\$474,911,086	\$3,186,653
Mixed Use - Residential Portion	83	\$7,306,324	\$49,025
	Net New Square Feet	Construction Value	Construction Tax
Neighborhood Retail	2,366,719	\$260,339,063	\$1,746,875
Community Retail	5,225,715	\$705,471,525	\$4,733,714
Urban Retail	643,748	\$102,999,600	\$691,127
Mixed Use:			
Retail (75%)	71,002	\$11,360,250	\$76,227
Office (25%)	23,667	\$3,490,910	\$23,424
Office	2,826,279	\$416,876,109	\$2,797,239
Manufacturing/Warehousing	15,665,659	\$1,214,088,582	\$8,146,534
Energy/Resource Production	147,168	\$14,716,837	\$98,750
Total Construction Tax			\$158,311,810

Real Estate Lease Tax

When calculating real estate lease revenue, it is assumed that 16 percent of residential property is vacant and that 29.7 percent is occupied by a renter. When it comes to employment space it is presumed that commercial has 8.1 percent vacancy rate, office has 14.4 percent vacancy rate and that industrial has 8.3 percent vacancy. Further, a percentage of renter versus owner occupancy is applied to commercial, office and industrial space to calculate lease revenue. It is assumed that 95 percent of retail space is renter occupied, and 85 percent of office and 50 percent of industrial is renter occupied. The annual lease revenue and resulting sales tax generated for each land use type is noted in Table 7, which shows annual lease tax revenue of \$4.2 million at build out.

Table 7 – San Tan Valley Real Estate Lease Tax

	Residential D/Us	Office	Retail	Industrial
Total SF	35,172	3,076,425	9,555,975	17,060,056
Occupied SF	29,544	2,633,420	8,781,941	15,985,257
Lease Revenue	\$62,091,635	\$38,051,001	\$125,976,944	\$161,342,006
Lease Tax	\$683,008	\$418,561	\$1,385,746	\$1,774,762
Total Lease Revenue	\$387,461,586			
Total Lease Tax				\$4,262,077

Retail Sales Tax

Retail sales tax generation is based on occupied retail space, which is assumed at 91.8 percent. Of the total occupied commercial space, 90 percent is considered retail with the remaining 10 percent restaurant/bar. Total annual sales tax collections at build out for the combined retail and restaurant/bar is \$268.4 million.

Table 8 – San Tan Valley Retail Sales Tax Generation

	Retail	Restaurant/Bar	Totals
Occupied SF	53,845,773	5,982,864	59,828,636
Retail Sales	\$9,187,844,395	\$2,072,441,732	\$11,260,286,127
Sales tax	\$202,132,577	\$66,318,135	\$268,450,712

90% of total square feet is retail and 10% is restaurant/bar

Primary Property Tax

Primary property Tax revenue for the preferred land use scenario includes both existing and future dwelling units and square feet of commercial and industrial space. To estimate property taxes at build out the estimated assessed value of new construction is used to calculate property taxes, which is based on 85 percent of the total construction cost¹. Existing property taxes for San Tan Valley comes from Pinal County. Personal property is based on the multiplier rate of existing personal property per employee times the build out employment figure for San Tan Valley.

The total annual property tax collections is estimated at \$676,816,760.

Table 9 – San Tan Valley Primary Property Tax Generation

	Net Assessed Value	Assessment Ratio	Taxable Amount	Property Tax
Existing ¹	\$409,647,051	--	--	\$15,852,931
<u>Net New</u>				
Residential	\$17,734,460,688	10%	\$15,074,291,584	\$583,360,010
Retail, Office & Industrial	\$2,319,941,445	18%	\$1,971,950,228	\$76,312,502
Personal Property	\$39,287,134	18%	\$33,394,064	\$1,292,317
Totals	\$20,503,336,317			\$676,817,760

¹Existing San Tan assessed value is from Pinal County

All of the other revenue categories including intergovernmental, charges for services and licenses and permits fees are based on the applicable revenue multiplier, noted in Table 3.

¹ This value represents the difference between market value and full cash value.

3. FISCAL ANALYSIS FINDINGS

This fiscal analysis assumes that the preferred land use scenario for San Tan Valley is built out today as presented in the build out summary in Table 1. As mentioned earlier, infrastructure capital costs, debt service and annual maintenance and capital replacement costs are not included in the fiscal analysis. Also important to note, street construction and maintenance and flood control is not included within the general fund revenue and expenditure budget and is accounted for under “special revenue” within the County’s budget.

At build out, San Tan Valley will have a projected population of 310,293 people and 51,202 jobs. The total number of dwelling units is estimated at 118,424 representing a jobs to housing ratio of 0.43. The total square feet of commercial, office and industrial space is estimated at 29.6 million.

Based on general fund revenue and expenditure multiplier rates used in this analysis, combined with the various assumptions noted earlier, the estimated revenue at build out for San Tan Valley is \$916.9 million with expenditures of \$153.8 million for a surplus of \$763 million, as presented in Table 10. For every \$1.00 of general fund expenditures, the County will receive \$6.00 in general fund revenue.

Construction sales tax revenue is included in this analysis and it is worth pointing out that communities and counties with significant construction activity have been the beneficiary of substantial construction sales tax dollars over the years. This one-time influx of money fuels the general fund budget and allows counties to fund programs and deliver services that they may not otherwise have been able to. To illustrate the significance of this revenue source to Pinal County, construction tax is the second largest source of general fund revenue after property taxes and is estimated at \$158.3 million over the build out period of the preferred land use scenario.

It is important to place some perspective on the findings of the fiscal analysis. This analysis is very high level and represents a snapshot in time. No adjustment for inflation, or modifications to the existing tax rate structure has been included. There are many variables and assumptions that are used to derive revenues and expenditures. If these assumptions were modified in any way, the findings of the analysis would change. For example:

- Modifying the percentage of square feet of space leased versus owned would change the occupancy tax revenue generation.
- Escalating the sales per square foot for retail and restaurant/bar and changing the ratio of real estate occupied by restaurant/bar versus retail would increase sales tax revenue.
- Changing the sales and primary property tax rates, which were held constant, would modify the revenue generation and ultimately the findings.
- Altering the number of dwelling units per acre, the average unit size and construction cost per square foot would change the primary property tax revenue.
- Including the cost of street maintenance and flood control would increase expenditures.

Table 10 – San Tan Valley Build-Out Fiscal Impact, Preferred Land Use Scenario

REVENUE (General Fund)	Revenues	EXPENDITURES (General Funds)	Expenses
Taxes		Board of Supervisors	\$1,058,169
Retail	\$29,655,326	County Manager	\$367,519
Restaurant/Bar	\$3,376,816	Communications / News & Information	\$116,837
Occupancy	\$4,262,077	Human Resources & Info Tech	\$10,047,968
Construction	\$158,311,810	County Clerk & Elections	\$1,522,794
All Other	\$4,000,658	County Attorney	\$7,817,972
Property tax		Justice and Law	\$22,259,191
Primary Property Tax	\$676,817,760	Finance, Audit, Budget & Research	\$2,354,683
Licenses & Permits		Sheriff	\$40,898,159
Liquor License	\$14,712	Air Quality	\$9,817
Utility Franchise	\$316,151	Community Development	\$2,199,124
Alarm Permits-Business	\$37,510	Economic Development	\$212,851
Planning Permits	\$25,320	Public Works	\$123,064
Building Permits	\$2,088,870	Parks, Recreation, Library, Social Services	\$148,922
Mechanical/Plumbing/Electric	\$53,533		\$137,658
Sanitation Fees	\$53,804	Non-departmental (gen fund expenditures)	\$41,720,489
Intergovernmental:		Housing	\$50,176
Federal grant & aid	\$28,604	Correctional Health Services	\$1,558,123
State Grants & aid	\$99,947	General Government	\$20,551,199
State Shared Revenue	\$28,776,700	Superintendent of Schools	\$661,526
Local Government in lieu	\$2,987,411	TOTAL EXPENSES	\$153,816,242
Federal payments in Lieu	\$823,894		
Charges for Services	\$2,881,903	NET IMPACT	\$763,093,437
Fines & Forfeits	\$366,990		
Investments earnings	\$109,624		
Misc.	\$1,820,259		
TOTAL REVENUE	\$916,909,676		