

Government Property Lease Excise Tax (GPLET)

Position on and Recommendations to Enhance Downtown Phoenix Community Benefits and Economic Development Incentives

Background

- As a community-based organization developed in 2004, Downtown Voice Coalition (DVC) is committed to community engagement in quality revitalization and economic development of our city's core (see DVC Guiding Principles in the Appendix).
DVC Founding Documents 2004 <https://app.box.com/shared/umsreppgkq>
- Authorized by the State of Arizona as an economic development tool in 1996¹, GPLET applies to government-owned property not subject to property tax. GPLET provides a way to collect an excise tax from private entities who lease government property, where the excise Tax as substitute to Property Tax. Without GPLET, the tax otherwise would be zero.
- The State Legislature implemented major changes to GPLET in 2010. These changes include limiting the GPLET duration down from 99 years to 25 years, and modifying how the excise tax is calculated.
<https://treasurer.maricopa.gov/PDFs/GPLETOverviewAndInst.pdf>
- There is an open application process for GPLET through the Downtown Redevelopment Area RFP. This RFP document is issued annually and provides guidelines for the applicants.
<https://www.phoenix.gov/financesite/SolicitationAttachments/Downtown%20RFP%2015.16.pdf>
- This position paper is the result of a series of community meetings organized by DVC in the summer of 2016. The DVC Subcommittee explored the impact, benefits, and drawbacks of GPLET as an economic development tool in Downtown Phoenix addressing the following three goals:
 1. Develop community understanding about the benefits and impacts of GPLET in Greater Downtown Phoenix.
 2. To create a guiding document regarding 'Community Benefits and Economic Development Incentives' for the DVC steering committee to vote on.
 3. Suggest a practical method of engagement between City staff and the Greater Downtown Phoenix community concerning GPLET projects.

Meeting participants, discussion notes and other support documents are included in the Appendix.

¹ ARS Title 42, Chapter 6, Article 5.

What is GPLET?

According to the City of Phoenix Community and Economic Development Department (CEDD) staff², GPLET can help solve the financial gap for infill development challenges in addressing difficult to design projects with entitlement, environmental, and development costs. GPLET is one of the few tools available to assist with the communities' redevelopment objectives including eliminating slum and blight, rehabilitating properties in core areas, facilitating private investment, increasing the tax base, and creating jobs.

Examples of GPLET properties are office buildings including the One North Central tower, hotels including The Renaissance Hotel, residential complexes including Roosevelt Point, and mixed-use properties such as CityScape. The City of Phoenix Economic Development Department notes that fifteen active projects have resulted in capital investment in Downtown Phoenix of more than \$2 billion.

GPLET used for economic development must be within both the Downtown Redevelopment Area and Central Business District³. GPLET allows the City to take over the rights to a piece of land and lease it back to the developer at a reduced rate replacing the normal property tax. The incentive allows properties to not pay property taxes for up to the first eight years of the lease⁴, and after the exemption period the property pays an excise tax rate determined by the State⁵. Unlike normal property taxes, which are based on value, GPLET excise rates are based on the size and type of the buildings⁶. For agreements signed before 2010, the excise tax rate decreases over the duration of the lease⁶. For agreements signed after 2010, the state adjusted excise tax rate trends upward.

Recently, developments seeking GPLET are encouraged to donate the predicted tax loss from the abatement period back to the school districts. This means that during the time when properties are not paying any tax the developer provides the school's percentage of the original 'undeveloped' property tax. A 2009 change in school funding added economic development GPLET properties into the equation for evaluating total property value. This creates an added tax burden on all properties within the school district. Once the City understood this change they hired a consultant and worked with the Schools and County to review the change⁷. It was found that many of the properties being included were categorized incorrectly, including City-owned low income housing and government buildings. However, central city properties do have to make up the school funding gap created by economic development GPLETs.

Because of the complicated nature of GPLET, small businesses cannot easily get the incentive. For example, the legal fees associated with the process are typically around \$100,000. Furthermore, there is an additional requirement that the property make a 100% improvement over the existing value to qualify for the incentive. While supporters say GPLET helps to spur development, critics say the incentive is only available to big corporations and leave other property owners picking up a larger share of the tax burden. Before the school funding change this was less of an issue because the small percentage of property value GPLET projects represented, meant that the tax impact across the entire city were minimal. Any review the GPLET program requires a clear understanding of the changes made in 2009 and 2010.

² Phoenix Economic Development staff presentation to DVC's GPLET committee, June 7, 2016.

³ Phoenix Economic Development staff presentation to DVC's GPLET committee, June 7, 2016.

⁴ *Change made in 2010

⁵ Beginning in 2012, the rates are adjusted annually by the AZ Dept. of Revenue (§42-6203 B.)

⁶ Philip, Agnel: "GPLET tax incentive draws developers but may also hurt small businesses," *Downtown Devil*, May 2, 2014.

⁷ Phoenix Economic Development staff presentation to DVC's GPLET committee, August 30, 2016.

DRAFT- DVC Position Statement

The mission of Downtown Voices Coalition includes a committed interest in the economic revitalization of our city's core. DVC members understand that many of our guiding principles are intertwined with smart economic development. There is a recognition that in all cities across the US many building types that are desired for smart urban growth typically have a funding gap. There may also be a need to incentivize a projected market given the lengthy construction time of urban projects, and the effects shortages can have on economic rents. While cities in the other 49 states have more preferred options to assist urban development, Arizona cities are limited to GPLET. Therefore, it would not seem prudent to tie the hands of our economic development professionals and elected leaders by asking to eliminate the only tool at their disposal. This however is not a static position, and it can only be sustained if substantive progress is made towards implementing and enforcing the included recommendations.

While many reforms have been implemented since 2010, and new developer agreements with the schools may help curb education impacts, we believe more is necessary. As the GPLET program is a City-led endeavor, we feel the burden of proof concerning the benefits is on the City and should not be left up to the market or developers to prove. If the GPLET program is truly valued for economic development, then those we have elected are also accountable for providing tangible benefits.

The idea that the community benefits derived from GPLET should extend beyond general economic growth has fostered, taken hold, and is justified. However, making community groups become the de facto arbitrators between the City and developers in trying to achieve many of these tangible benefits on a piecemeal basis is cumbersome, ineffective, and an abnegation of political responsibility. The urban environment requires a holistic approach, and most needs and requests stretch beyond the capacity of an individual development, project, or City department.

For over a decade DVC has defined community benefits through numerous planning initiatives, organizational statements, and strategic vision plans. We feel the "2015 General Plan" provides clear guidance on what strategic investments the City should be making to "Create an Even More Vibrant Downtown," and in this way the community and voters have instructed the City on what to prioritize. As always DVC looks forward to working with the City to continually update and refine this vision.

While the new developments incentivized by GPLET do bring in additional sales, construction, and eventually property tax dollars, there is a direct impact on property tax. This is particularly due to the 2009 legislation that includes GPLET property values when determining school funding. The common economic theory that future tax revenue growth will provide sufficient community benefit cannot stand in a vacuum separated by the real and current tax implications to residents and business owners. We stress the need for vigilance on this issue, particularly so that this increased tax burden never impacts voter willingness to approve bonds and special taxing districts. Without these two funding tools our future options for revitalizing the Redevelopment Area will become even more limited.

In summary, we reinforce our understanding of the necessity of GPLET in certain circumstances; however, the tax implications cannot be ignored. This puts a heavy burden of proof upon the City and any developer asking for assistance from taxpayers. It is time for the "community benefits" derived from GPLET to start aligning with downtown priorities set forth in the General Plan. We believe a method for coordination and community oversight needs to be implemented in order to prioritize these ideas into obtainable objectives. Finally, DVC does understand that our state government has put its cities at a disadvantage nationally and we welcome working with the City to develop or promote alternative preferred incentive options.

DRAFT- DVC Recommendations

DVC's recommendations fall into two categories: Recommendations for Ensuring Community Benefits, Communication, Outreach and Transparency of Information, and Recommendations for Modifying the Downtown Development RFP.

I. Recommendations for Ensuring Community Benefits, Communication, Outreach, and Transparency of Information

- 1) All Downtown Phoenix GPLET projects should be assessed according to the following criteria:
 - a) Alignment with the voter-approved Phoenix General Plan and specifically the section focusing on the core value of "creating an even more vibrant downtown." (See PlanPHX, pages 157 to 180). PlanPHX was approved by 78 percent of Phoenix voters in the fall of 2015, after extensive public input and a major community outreach conducted from 2012 to 2015.
 - b) Enforce that only projects of sufficient design quality and adherence to downtown codes, ordinances, and goals should be considered.
- 2) Downtown continuity projects and community benefits should be determined yearly between selected community/neighborhood representatives and a specified Downtown Coordinator.
 - a) Expenditures should attempt to leverage additional federal, state, county, city, and private capital.
 - b) Urban areas require a holistic approach to development; this necessitates multiple city departments working together to achieve these goals. Currently the City does not appear to have an apparatus or management structure in place to coordinate these geographic-specific goals.
- 3) DVC members believe that the Downtown Community Reinvestment Fund is likely a good starting place from which GPLET community benefits should be derived.
 - a) We suggest no more than a third of this fund be used to incentivize large developments or institutional projects.
 - b) Each project receiving additional incentives from the Community Reinvestment Fund should be itemized in the Capital Improvement Program Budget.
 - c) We welcome other funding suggestions and options.
- 4) A review of the Community Reinvestment Fund over the last few years shows an imbalance between providing assistance to large developers or institutions, while other community related programs are continually pushed back. While a small amount of the funds derived from GPLET leases are currently used for community benefit projects, there has been little publicity over the source of these expenditures.
- 5) Phoenix's GPLET policy should include a framework for providing both small and local business development and diverse, attainable housing components.
 - a) Housing focused on bringing families into Downtown Phoenix is of a particular importance to the school district.
 - b) While in many cases improved neighborhood aesthetics can be a great help to small businesses, grant and loan programs also should be considered.
 - c) These items are all clearly mandated within the General Plan.

- 6) A one-page impact analysis should be developed and communicated on the City of Phoenix website, as well as in Council meeting information packets before a vote to approve a GPLET.
 - a) This impact statement should indicate the tax implications, agreed terms, anticipated value of school agreements, etc.
- 7) An informational video, slideshow, or annual workshop should be produced and used to explain the GPLET program to provide clarity to developers, community members, and residents.
- 8) While the State's "gift clause" already puts tight controls over determining developer needs, we stress conservative discretion on the number of GPLET projects, and the negotiated terms of those projects.

II. Recommendations for modifying the Downtown Development RFP

As all GPLET applications must go through the RFP process, we believe that this is a key mechanism for changing community and developer misconception of the program.

- 1) The City of Phoenix should clearly define what types of projects will be incentivized.
 - a) CEDD should make clear what class, style, and type of projects it prioritizes for downtown development. Understanding development trends, market needs, and economic necessities are all essential qualities for world class urban environments.
 - b) Special emphasis should be shown to projects attempting to meet market deficiencies and community needs.
 - c) There is currently a perception that tax incentives will be given out to any and all projects. By clarifying development goals yearly CEDD may help curb this perception, while also allowing each Director the ability to show their vision for downtown development.
 - d) The perception of "easy GPLET" skews the land market within the Redevelopment Area and CEDD must find a way to counteract that perception.
- 2) The RFP should clearly indicate that any parcel where a historically designated or eligible building has been removed within the last 10 years will not be GPLET eligible without additional Historic Preservation Commission approval.
- 3) A clear line should be made between neighbors requested design modifications and community benefits derived from the GPLET program.
 - a) Neighbors requested design modifications should be considered during the evaluation period.
 - b) The community's request for development improvements or design modifications typically should not increase the developer's' original assistance request.
- 4) GPLET RFP evaluation panels should include neighborhood input by either
 - a) A member chosen by the relevant Neighborhood Association being included on the panel.
OR
 - b) The Neighborhood Association shall have an opportunity to present their view to the panel.

Downtown Matrix of Priorities-DVC Sub Committee

<u>General Plan Pg 156</u>	<u>2016-18</u>	<u>2018-20</u>	<u>2020-25</u>
<u>Open Space - Placemaking</u>	-Build a community park in Evans Churchill (C.O.pg 2-3) -Provide and maintain downtown street trees *2016-2025+ (G.P.pg 176)	-Add welcoming places to sit in Downtown- Stop with hostile architecture! -Build Park in Roosevelt South of VB (C.O.pg 2-3)	-Park in WH district -Central Plaza/Park in Downtown core -Use Water capture & retention, desert planting techniques to create shaded green but water friendly parks
<u>Arts, Culture and Entertainment</u>	-Fund- Murals/Storefronts (CIP) -Temporary installations/ & vacant lot activations (G.P. pg 170)	-Fund public art projects and Art institutions (C.S.)	-Increase percentage for arts
<u>History & Local Business</u>	-Work to Retain current Commercial businesses (G.P. pg 162) -Renovate WCM (CIP)	-Local Small Business and Redevelopment loans	-Re-acquire or find partner on Phoenix Union Station
<u>Transportation Infrastructure</u>	-Bike lanes and streetscape projects- Bike Racks (G.P.pg 174)	-Complete Taylor Paseo adding adjacent streets where applicable (DT Code)	-Implement Connected infrastructure and Street by Street downtown design guidelines
<u>Housing</u>	-Make sure GPLET agreements include some affordable/attainable space 5% (G.P. pg 166)	-Work to create innovative, attainable and flexible live/work spaces.	-Enact non GPLET ways to guarantee affordable and attainable housing downtown.
<u>Surrounding Neighborhoods</u>	-Wayfinding Signs -Co Sponsored Events	-Street lights and crossings at intersections bordering Downtown.	-Connected parks, pathways, & bike routes (G.P. pg 168)
<u>Employers</u>	-Make sure GPLET agreements include some affordable/attainable space 5%	-Work to create innovative, attainable and flexible live/work spaces.	-Enact non GPLET based incentives for small business and attainable work space downtown
<u>Opportunity Sites</u>	See all other categories	See all other categories	See all other categories

General Plan - G.P.

<https://www.phoenix.gov/pddsite/Documents/PlanPhx%20Draft%20General%20Plan%20Update.pdf>

Connected Oasis - C.O.

https://www.phoenix.gov/pddsite/Documents/pdd_pz_pdf_00340.pdf

Creative Sector Task Force Vision- C.S.

<https://www.phoenix.gov/artssite/Documents/CSTFVision.pdf>

Preserve Historic Phx - P.H.

https://www.phoenix.gov/pddsite/Documents/pdd_hp_pdf_00185.pdf

Appendix

DVC Guiding Principles

Community

The community should be central to downtown Phoenix development. Obtaining community buy-in or acceptance for a specific vision of downtown development is crucial and critical to any successful downtown revitalization effort. While obtaining consensus or acceptance to a specific vision may be difficult and challenging, it is critical to success.

Communication

Positive change will require constant communication and connection with the downtown community and stakeholders. The public must be informed and have its voice heard to ensure a collaborative effort that will guarantee the success of downtown redevelopment. Aesthetics Design of all aspects of a development project should take into consideration the history of Phoenix and its central position in the metropolitan valley. Design should be complimentary to our heritage, environment and community assets.

Preservation

Preservation of Phoenix's rich history and diversity should have an important place in the redevelopment of downtown.

Mobility/Accessibility

Downtown should incorporate a multimodal system that allows for easy access as well as various types of transportation methods beyond the automobile, including pedestrian friendly streets, bicycle lanes and paths, and bus and rail public transportation.

Diversity

Downtown should reflect a sensitivity to the diverse ethnic, socioeconomic and educational backgrounds, along with the variation in age groups and sexual preferences that are an important characteristic of our downtown neighborhoods. Success of downtown redevelopment will embrace this diversity and incorporate it as a dynamic community asset.

Arts/Culture

Downtown should incorporate an already existing mainstream and growing grassroots art and cultural environment and support downtown Phoenix as a regional arts and culture center.

Economic Development

Market information of specific and current economic, social and physical conditions existing in downtown Phoenix should be utilized when discussing and planning the economic revitalization of the downtown core. An understanding of the downtown market place through the completion of market analyses, inventory of businesses, customer surveys and other market research will assist all stakeholders in decision making. These efforts will lead to the development of realistic strategies for sustained economic growth.

Environment

Revitalization efforts should take the environment into consideration. Institutional acceptance of environmentally friendly development is critical to the preservation of precious natural resources such as efficient use of water or landscaping suitable for the Sonoran Desert climate.

GPLET Meeting Schedule:

5-24-2016- #1 Welcome, Scope, Defining Goals, Schedule

6-07-2016- #2 CEDD Presentation, GPLET History, Process, and Benefits

6-21-2016- #3 Project Finance and Developer Perspective

8-02-2016- #4 Neighborhoods and Community Engagement

8-16-2016- #5 Impact on School Districts

8-30-2016- #6 CEDD Presentation, Tax Impacts and Final Questions

September 1 to October 1 - Work on Final Position and Recommendations

10-04-2016- #7 Final Discussion and Approval

GPLET Meeting Attendees:

DVC Subcommittee

Jeff Sherman, Louisa Stark, Ph.D., Nicole Underwood, Karl Obergh, Andrew George, Sean Sweat, and Carol Poore, Ph.D.

Downtown Phoenix Inc.

David Krietor

City of Phoenix

Ruben Alonzo, Eric Johnson, Ben Henderson, and Chris Mackay

Development

Tim Sprague

Education

Larry Weeks CEO (PESD) Phoenix Elementary School District

Stanford Prescott School Board Member (PUHSD) Phoenix Union High School District

Community and Neighborhood Associations

Dorina Bustamante and Jim McPherson (ECCA) Evans Churchill Community Association

Sherry Rampy and Ryan Tempest (RAA) Roosevelt Action Association

Doug Newton (DNA) Downtown Neighborhood Alliance

Matthew Salenger (RoRoMA) Roosevelt Row Merchants Association

Kate Krietor and Andie Abkarian (Other)

City of Phoenix GPLET Process:

1. Discuss community desires before issuing RFP
2. Developers respond to the RFP (specific site, or broad Downtown RFP)
3. RFP panel includes relevant community members
4. The City approves the developer's Proposal
5. A Letter of Intent (LOI) is mutually agreed upon between the developer and the City
6. A third party consultant must perform an Economic Impact Analysis
7. 60-day notification to the taxing jurisdictions prior to the City Council
8. 30 days prior to the public hearing, the results of the Economic Impact Analysis are sent to the taxing jurisdictions
9. CED & Developer make neighborhood presentations
10. City Council Subcommittee in open public meeting
11. City Council Formal meeting in open public meeting
12. City and developer enter into certain agreements, typically a Development Agreement
13. Once the Development Agreement is signed by both parties, the GPLET deal is approved but not activated
14. GPLET takes effect once the project receives its Certificate of Occupancy

City of Phoenix Economic Development staff noted that the city's RFP stakeholder outreach process includes public notices, surveys, public forums, media outreach, communication with neighborhood associations and community organizations, and interaction with business owners.

