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# MEMORANDUM

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Date: February 17, 2021

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator *CHH*

Re: **75 E. Broadway - Government Property Lease Excise Tax (GPLET)**

At the Board's February 16, 2021 meeting, there was an item regarding the County's agreement for the development of 19 story building on County property at 75 E. Broadway. Supervisor Grijalva requested information on the value of the Government Property Lease Excise Tax (GPLET) incentive that would be provided to the developer.

As part of the appraisal process, the value of the GPLET was estimated by reviewing 2020 property tax information for other mid to high rise buildings downtown. Attachment 1 is that section of the appraisal. It shows that the developer/future owner of the property would have paid an estimated \$939,045 in property taxes annually without the GPLET incentive. With the GPLET incentive, the developer/future owner will instead pay an estimated \$863,984 in "Lease Excise taxes", Attachment 2 (similar to sales taxes in lieu of property taxes.) That means the estimated incentive is about \$75,061; not much different than if the property was subject to property taxes.

There are different types of GPLET agreements, which can get confusing. Also attached is a brief description of the different types.

CHH/mp

Attachments

c: Jan Leshar, Chief Deputy County Administrator  
Carmine DeBonis, Deputy County Administrator for Public Works  
Dr. Francisco Garcia, MD, MPH, Deputy County Administrator & Chief Medical Officer,  
Health and Community Services  
John H. Moffatt, Director, Economic Development Office  
Nicole Fyffe, Executive Assistant to the County Administrator

# ATTACHMENT 1

**REAL ESTATE TAXES**

Pima County identifies the subject property, as parcel numbers 117-15-0010, 0030, 0040, 0060 and 0080. The subject's existing portion, the parcels along Congress Street 117-15-0010, 0030 & 0040) are in various stages of renovation, with a 2020 Assessed Value for these parcels of \$2,843,620 and 2020 real estate taxes of \$62,458.17.

The subject's two vacant parcels along Broadway (parcels 117-15-0080 & 0060) have a total Assessed Value of \$2,258,682. These parcels are owned by Pima County and are tax exempt. The table below summarizes the current and preliminary Full Cash Values for all parcels, as well as current and last years' taxes.

Address	Parcel #	SF- Land	Bldg SF	2020 FCV	2021 FCV	Tax 2019	Tax 2020
75 E Broadway Blvd.	117-15-0080	18,480	0	\$1,451,961	\$1,452,420	\$0.00	\$0.00
	117-15-0060	10,300	0	\$806,721	\$806,960	\$0.00	\$0.00
130 E Congress St.	117-15-0010	9,958	19,155	\$1,532,400	\$1,532,400	\$30,889.74	\$31,335.04
128 E Congress St.	117-15-0030	3,300	6,494	\$616,930	\$616,930	\$17,233.83	\$17,394.41
118-120 E Congress St	117-15-0040	4,000	7,379	\$694,290	\$705,358	\$13,534.99	\$13,728.72
	<b>Total</b>	<b>46,038</b>	<b>33,028</b>	<b>\$5,102,302</b>	<b>\$5,114,068</b>	<b>\$61,658.56</b>	<b>\$62,458.17</b>

The subject is being approved for a GPLET (Government Property Excise Lease Tax) tax reduction or exemption by the Rio Nuevo Multipurpose Facilities District (Rio Nuevo). The GPLET is a state program designed to encourage economic development in blighted central business districts to encourage infill development and revitalization. The program sets forth a path for developers to prove the proposed development will contribute a greater economic benefit to the surrounding area than the developer receives in tax exemptions. After the economic benefits have been proven by the developer, the property's fee simple ownership is placed in the possession of the local government/quasi-government agency and leased to the true owner for a specified period of time (in this case, 25 years). At the end of the term, the property reverts back to the true owner and is taxed as a typical property. The subject has received approval from the District for the GPLET, with the effective start date being the building obtaining a Certificate of Occupancy.

In order to develop an opinion of the subject's potential property taxes absent the GPLET agreement, property assessment and tax information from other mid and high-rise projects in downtown and elsewhere in Tucson were considered. As the subject is a blend of commercial (largely office) and residential/apartment space, tax comparables for each component were evaluated, as summarized in the following tables.

**OFFICE TAX COMPARABLES**

PROPERTY ADDRESS	TAX ID #	YEAR BUILT	2020		ASSESSED		
			FCV	TAXES	BLDG (SF)	TAXES/SF	TAXES/FCV
1 S Church Avenue	117-12-103C	1986	\$28,214,820	\$585,026.31	285,521	\$2.05	2.07%
201 N Bonita Avenue	116-19-3740	2002	\$10,105,028	\$267,018.15	74,952	\$3.56	2.64%
3050 S MLKing Jr Way	132-13-068B	2019	\$30,076,650	\$652,214.27	200,511	\$3.25	2.17%
250 S Craycroft Road	128-10-079B	2003	\$4,758,319	\$126,788.29	44,385	\$2.86	2.66%
2015 W River Road	104-01-379R	2011	\$8,333,925	\$201,700.05	48,930	\$4.12	2.42%
<b>AVERAGES</b>						<b>\$3.17</b>	<b>2.39%</b>

With emphasis on the downtown and newer projects, the subject’s taxes for the commercial portions would likely be near \$3.50 per square foot. Excluding apartment and garage areas, the total commercial space in the new building will be approximately square feet, resulting in estimated market taxes for this portion of about \$699,587.

APARTMENT TAX COMPARABLES

PROPERTY ADDRESS/ PROJECT NAME	TAX ID #	YEAR BUILT	2020 FCV	2020 TAXES	ASSESSED BLDG (SF)	TAXES/SF	TAXES/FCV
Urbane 1023 N Tyndall - Student Housing	115-04-509A	2015	\$47,148,480	\$409,949.93	130,968	\$3.13	0.87%
Junction at Iron Horse 504 E 9th St - Student & Market	117-06-117B	2013	\$20,938,452	\$200,284.65	100,511	\$1.99	0.96%
2 E Congress Downtown, market rent hi-rise	117-12-087B	1929 remod	\$5,500,000	\$127,579.16	64,955	\$1.96	2.32%
The District 550 N 5th Ave - Student Housing	117-04-489A	2011	\$85,150,191	\$642,915.92	301,737	\$2.13	0.76%
1 N 5th Downtown, market rent hi-rise	117-06-183B	1984 remod	\$4,223,777	\$52,478.23	60,426	\$0.87	1.24%
AVERAGES						\$2.02	1.23%

The multi-family tax comparables in the downtown area indicate a range in taxes from \$0.87 to \$3.13 per square foot, with the upper end of the range bring a mixed use project with extensive amenities adjacent to the University of Arizona campus. With primary weight to the remaining tax comparables, an estimated tax for the subject’s multi-family portion would likely be around \$2.00 per square foot. Including the common areas and storage units, the total building area pertaining to the apartments is 88,500 square feet, for a total estimated market tax for these portions at \$177,000.

The last component of the improvements is the 514 space six-level parking garage. This portion of the building will be fully master-leased to Rio Nuevo on a NNN basis. It is the understanding of the parties that these areas will likely be tax exempt. However, even if they are not, the tenant (Rio Nuevo) would be wholly responsible for taxes for no vacancy risk for the term.

Therefore, based on the subject’s property taxes for the existing portions and the projected market-rate property taxes for the subject’s for the two components of the proposed building, the total estimated property taxes for the subject, if not exempt, would be approximately \$939,045.

As noted, the entire subject property will be combined under a new single entity, with both the existing and proposed portions to be placed under the GPLET lease agreement.

Under state law, there are essentially two lease option structures for a GPLET arrangement. The first, and most commonly used, is for an 8-year hard lease term, with extensions for a total of up to 25 years. Under this scenario, as a government-owned property, there are no property taxes due for the initial 8-year term, with typical property taxes then beginning in year 9 of the agreement, if extended.

\* The second scenario allows for a hard term of up to 25 years. However, under this scenario, property taxes are not abated, but are calculated under a specific schedule based on use per the Arizona Department of Revenue, as summarized below:

GOVERNMENT PROPERTY LEASE EXCISE TAX (GPLET) RATES								
One Story Office Structure	Two to Seven Story Office Structure	Eight or More Story Office Structure	Retail Structure	Hotel/Motel Structure	Warehouse/ Industrial Structure	Residential Rental Structure	All Others	Parking
\$ 2.36	\$ 2.72	\$ 3.66	\$ 2.97	\$ 2.36	\$ 1.60	\$ 0.90	\$ 2.36	\$236.43

Applying these tax rates to the subject's applicable square footage for these categories, the subject's total estimated property taxes under the GPLET lease structure would be \$863,984.40.

Lease Excise Tax (sales)

GPLET TAX RATES			
SF	Use	Tax Rate	Taxes
3,213	Retail Structure	\$2.97	\$9,542.61
30,015	1 & 2 Story Office	\$2.54	\$76,238.10
47,847	Retail Structure	\$2.97	\$142,105.59
152,035	Office, 8 or more stories	\$3.66	\$556,448.10
88,500	Residential Rental	\$0.90	\$79,650.00
<b>TOTAL GPLET TAXES</b>			<b>\$863,984.40</b>

\$939,045  
 \$863,984  
 \$75,061  
 Incentive

Using the second option, the subject's entire property will be placed under a 25-year, hard term GPLET leaseback structure. As this exceeds traditional investment holding periods, the subject's contractual GPLET property taxes will be used in this analysis.

# ATTACHMENT 2

## Government Property Lease Excise Tax (GPLET) – By Type

### A. GPLET for Property Already Owned by Government (i.e. County owns Bank of America building):

The building/parcel is property tax exempt because it is owned by Pima County. Private businesses in the building are required by state statute to pay the Pima County Treasurer a lease excise tax in lieu of property taxes at an amount set in statute. The Treasurer then distributes the excise tax revenues to all of the property taxing agencies that would have received property taxes if the building was not owned by the County.

### B. GPLET as a Redevelopment Incentive

#### 1. Without Tax Abatement (i.e 75 E. Broadway):

City or Rio Nuevo enter into agreement whereby they take over ownership of a property for 25 years or less. Because it is owned by a property tax exempt agency, the property is exempt from paying property taxes. But because it is being used by private parties, those private parties are required by state statute to pay the Pima County Treasurer a lease excise tax in lieu of property taxes at an amount set in statute. The Treasurer then distributes the excise tax revenues to all of the property taxing agencies that would have received property taxes if the building was not owned by tax exempt organization.

#### 2. With 8 Year Tax Abatement (i.e. most of the City of Tucson GPLET incentive projects):

City or Rio Nuevo enter into agreement whereby they take over ownership of a property for 25 years or less. Because it is owned by a property tax exempt agency, the property is exempt from paying property taxes. But because it is being used by private parties, those private parties are required by state statute to pay the Pima County Treasurer a lease excise tax in lieu of property taxes at an amount set in statute. HOWEVER, because it is in the Central Business District AND because City or Rio Nuevo want to offer an additional incentive, they abate the excise tax for up to 8 years. Private parties using the property don't pay property tax or the in lieu excise tax for up to 8 years.

#### 3. With 8 Year Tax Abatement AND New GPLET Rent (i.e. Recent City of Tucson GPLET incentive projects)

Same as number 2 above, but property taxing entities like the County commented to the City about the lack of taxes being paid to county, school districts and others during the 8-year abatement. City researched what other cities were doing in and around Phoenix, and decided to require a 10% "GPLET rent" for those projects that were to receive the 8-year tax abatement. City calculates it as 10% of what the property taxes would have been. The City keeps 10% of the 10% GPLET Rent and distributes the remaining 90% of the 10% to the Pima County Treasurer, who in turn distributes it to all of the property taxing agencies that would have received the lease excise taxes over those 8 years if not abated.