



Economic and Real Estate Consulting

MEMORANDUM

To: Jeffrey Burt
City of Yuma

From: Jill Welch
Elliott D. Pollack & Company

Date: July 31, 2019

Re: Economic and Fiscal Impact of a Proposed Coffee Shop, Yuma, Arizona

Elliott D. Pollack & Company has been retained by the City of Yuma to perform an economic and fiscal impact analysis of the construction activity and ongoing operations of a proposed coffee shop. The project plan calls for an 858 square-foot drive-thru format at the intersection of 4th Avenue and 16th Street in Yuma, Arizona.

The analysis is being performed as part of the Yuma North End – 4th Avenue and 16th Street Redevelopment Area Plan wherein the City redeveloped the intersection and, among other things, facilitated the commercial/retail redevelopment of the northwest corner of the intersection. This agreement will further develop the northwest corner of the intersection with an additional commercial/retail use. The agreement will be in accordance with the Arizona Revised Statute 42-6209 relating to the proposed use and abatement of the Government Property Lease Excise Tax (GPLET).

This economic and fiscal impact analysis focuses on the impacts derived from (a) the new construction activity, and (b) ongoing operations at the site that will occur annually. Economic impact analysis examines the regional implications of an activity in terms of three basic measures: output, earnings, and employment. Fiscal impact analysis evaluates the public revenues created by a particular activity. In a fiscal impact analysis, the primary revenue sources of a governing entity are analyzed to determine how the activity may financially affect them. ***Our report does not address the financial or market feasibility of the project, nor does it address costs associated with providing city services beyond the agreed upon incentives.***

Assumptions of Analysis

The assumptions used to estimate the impacts of the construction of the proposed coffee shop have been developed from a variety of sources. The construction costs, building size, employment, average wage, and lease rates were provided by the City of Yuma. While data internal to the model, such as consumer spending and tax rates have been collected from various government and private sources including the U.S. Bureau of Census, Bureau of Labor Statistics, Consumer Expenditure Survey, Arizona Department of Revenue, and the Arizona Tax



Research Association. Additional assumptions regarding utility usage and local supply purchases are based on industry standards from various sources.

The proposed coffee shop will employ 34 people with average annual wages estimated to be \$20,000 per year, excluding benefits. Construction at the site will total \$861,000 with additional equipment projected to cost \$245,000. On average, the coffee shop will generate an estimated \$1.65 million in sales each year. The limited property value will be about \$698 per square foot. The following table contains a summary of the primary assumptions of the study.

Assumptions Proposed Coffee Shop (2019 Dollars)	
<i>Project Description</i>	
Total building square feet	858
Value of new construction	\$861,000
Estimated FF&E	\$245,000
<i>Operating Assumptions</i>	
Total Jobs (full & part time)	34
Average Annual Wage (excluding benefits)	\$20,000
Annual ground lease	\$71,717
Estimated annual sales (\$ mil)	\$1.65
Projected annual utility usage	\$2,059
Locally purchased supplies	\$34,000
Projected limited property value of building per sf	\$698
<i>Various City of Yuma Tax Rates</i>	
Construction sales tax	1.7%
Retail transaction privilege tax	1.7%
Restaurant & bar sales total (including additional tax)	3.7%
Commercial Assesment Ratio (post GPLET)	18.0%
Property tax rate per \$100 assessed value	2.2747
Sources: Elliott D. Pollack & Co., City of Yuma	

All dollar values presented in this report are stated in constant 2019 dollars. No adjustment has been made for inflation over time.

Economic Impact Methodology

Economic impact analysis examines the economic implications of an activity in terms of output, earnings, and employment. For this study, the analysis focuses on the jobs and corresponding output and wages that are created during construction as well as the jobs and output that are created through the operations of the project.



The different types of economic impacts are known as direct, indirect, and induced, according to the manner in which the impacts are generated. For instance, direct employment consists of permanent jobs held by the project employees. Indirect employment is those jobs created by businesses that provide goods and services essential to the operation or construction of the project. These businesses range from manufacturers (who make goods) to wholesalers (who deliver goods) to janitorial firms (who clean the buildings). Finally, the spending of the wages and salaries of the direct and indirect employees on items such as food, housing, transportation and medical services creates induced employment in all sectors of the economy throughout the region. These secondary effects are captured in this study. Multipliers have been developed to estimate the indirect and induced impacts of various direct economic activities. The IMPLAN Group LLC developed the multipliers used in this study.

Fiscal Impact Methodology

Fiscal impact analysis quantifies the public revenues associated with a particular economic activity. The primary revenue sources of local, county, and state governments (i.e. taxes) are analyzed to determine how an activity may affect the various jurisdictions. This report will evaluate the impact of the proposed coffee shop on the City of Yuma. The major sources of tax revenue generation for governmental entities are related to the construction of the project and ongoing impact from the operations such as construction sales tax, sales tax from direct revenues and retail spending, utility taxes, lease taxes, property taxes and State shared revenues.

Economic Impact of the Proposed Coffee Shop

The economic impact of the project development is outlined in the following table. The construction would generate an estimated 7 direct jobs and approximately \$312,000 in direct wages during the construction phase. Another 2 indirect and induced jobs would be created in the local economy and \$104,000 in wages. Altogether, the project would create approximately 9 jobs during the construction period, generating \$416,000 in wages and over \$1.2 million in economic activity.

Once construction is complete and the coffee shop is up and running, a total of 34 people will be directly employed with total wages of nearly \$680,000. Taking into account the ripple effect of the regional multipliers, approximately 40 permanent direct, indirect, and induced jobs are supported throughout the Yuma area as a result of the operations of the project. In total approximately \$920,000 in wages are paid out annually to these employees and nearly \$3.3 million in economic activity is produced each year.



Proposed Coffee Shop Economic Impact Summary (2019 Dollars)			
Construction			
	<u>Jobs</u>	<u>Wages</u>	<u>Economic Output</u>
Direct	7	\$312,000	\$861,000
Indirect	1	\$45,000	\$115,000
Induced	1	\$59,000	\$193,000
Total	9	\$416,000	\$1,169,000
Operations (at buildout)			
	<u>Jobs</u>	<u>Wages</u>	<u>Economic Output</u>
Direct	34	\$680,000	\$2,530,107
Indirect	3	\$109,000	\$348,000
Induced	3	\$131,000	\$428,000
Total	40	\$920,000	\$3,306,107
1/ Figures at stabilized operating levels. Figures may not sum to total due to the effects of rounding. Sources: Elliott D. Pollack & Co., City of Yuma			

Fiscal Impact of the Proposed Coffee Shop

The construction and operations associated with the coffee shop also creates tax revenues for the City of Yuma. Revenues have been defined in this analysis as either primary or secondary, depending on their source and how the dollars flow through the economy into tax accounts. For instance, some revenues, such as construction sales taxes, are straightforward calculations based on the cost of construction. These revenues are described in this study as direct revenues and include retail sales taxes, property taxes and lease taxes. Secondary revenues, on the other hand, flow from the wages of those direct, indirect and induced employees who are supported by the project. Revenue projections are based on typical wages of the employees working in the project, their spending patterns, and projections of where they might live.

The following table outlines the fiscal impact of the project during construction and over 15 years of operations (stated in 2019 dollars without an inflation factor). Approximately \$16,520 is estimated to be generated during the construction. This includes \$13,700 in direct construction sales taxes and taxes collected on local equipment purchases, along with nearly \$2,820 in secondary tax revenues generated by the construction employees. Additional revenues would likely be generated in terms of permit and fees and impact fees, not included in this analysis.

Annual operations of the coffee shop generate an average of about \$66,100 in annual tax revenues for the City of Yuma. This includes an average of roughly \$59,700 in primary tax collections such as direct sales at coffee shop, taxes paid on local supply purchases, utility taxes and personal property taxes. Excluded from this amount are real property taxes during the first



eight years if a proposed GPLET agreement is finalized. Indeed, after the 8-year abatement, real property taxes to the city will be approximately \$2,500 on average each year.

In addition to the revenues generated for the City of Yuma, nearly \$18,100 is generated annually for community college and other school districts. This includes both the impact from direct property taxes at the proposed site as well as additional taxes that will be generated by the employees on homes they occupy.

In total, during the construction period and over the 15 years of operations, the proposed coffee shop is expected to generate \$1.0 million in tax revenue for the City of Yuma and \$211,300 for community college and other school districts. A detailed table by year and category is provided on the following page. All figures are in 2019 dollars, no inflation has been added to the calculations.



**Proposed Coffee Shop
Fiscal Impact of City of Yuma**

(2019 Dollars)

	Construction	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total
Construction Impact																	
Primary impact during construction	\$13,700	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$13,700
Construction sales tax	\$9,500	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$9,500
Permit fees	N/A	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$0
Local equipment purchases	\$4,200	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$4,200
Secondary impact from const. employees	\$2,830	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$2,830
Employee spending sales tax	\$1,200	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$1,200
Residents property tax	\$1,400	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$1,400
State shared construction sales tax	\$20	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$20
State shared employee spending sales tax	\$10	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$10
State shared vlt	\$100	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$100
State shared hurf	\$100	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$100
Total Impact from construction	\$16,530	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	\$16,530
Operations Impact																	
Total Primary Operations Impact	\$28,740	\$29,990	\$63,070	\$63,090	\$63,110	\$63,070	\$63,000	\$62,940	\$65,440	\$65,440	\$65,440	\$65,440	\$65,440	\$65,440	\$65,440	\$65,440	\$895,090
Utility sales tax	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$600
Local taxable purchases sales tax	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$600	\$9,000
Lease tax	\$0	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$16,800
Direct sales tax	\$28,100	\$28,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$61,100	\$850,500
Personal property tax	\$0	\$50	\$130	\$130	\$170	\$130	\$60	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$690
Real property tax	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$17,500
Secondary impact from DIRECT employees	\$5,365	\$5,365	\$5,365	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$5,335	\$80,115
Employee spending sales tax	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$28,500
Residents property tax	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$39,000
State shared direct sales tax	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$2,250
State shared income tax	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$225
State shared vlt	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$4,500
State shared hurf	\$400	\$400	\$400	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$370	\$5,640
Secondary impact from INDIRECT & INDUCED employees	\$1,025	\$1,025	\$1,025	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$1,095	\$16,215
Employee spending sales tax	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$7,500
Residents property tax	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$6,000
State shared employee spending sales tax	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$300
State shared income tax	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$75
State shared vlt	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,500
State shared hurf	\$0	\$0	\$0	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$70	\$840
Secondary impact from operations employees	\$6,390	\$6,390	\$6,390	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$6,430	\$96,330
Employee spending sales tax	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400	\$36,000
Residents property tax	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$45,000
State shared direct sales tax	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$2,250
State shared employee spending sales tax	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$300
State shared income tax	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$300
State shared vlt	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$6,000
State shared hurf	\$400	\$400	\$400	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$440	\$6,480
Total Impact from operations	\$35,130	\$36,380	\$69,460	\$69,520	\$69,540	\$69,500	\$69,430	\$69,370	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$991,420
TOTAL CITY FISCAL IMPACT	\$51,660	\$36,380	\$69,460	\$69,520	\$69,540	\$69,500	\$69,430	\$69,370	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$71,870	\$1,008,000
Additional Impact on School Districts	\$14,600	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$18,100	\$18,100	\$18,100	\$18,100	\$18,100	\$18,100	\$18,100	\$18,100	\$211,300

NOTES:

All figures are intended only as a general guideline as to how the City could be impacted by the project(s).
The above figures are based on the current economic structure and tax rates of the City.

GPLET Payments

The proposed coffee shop may qualify for favorable tax treatment in the form of an eight-year abatement of the Government Property Lease Excise Tax (GPLET) after deeding title to the property and improvements to the City of Yuma and entering into a government property lease with the City. The following table outlines the projected value of these GPLET payments if the abatement is not awarded. An eight-year abatement would cost the city approximately \$2,500 each year in foregone GPLET payments (or a total of \$20,000 over the eight-year period).

Proposed Coffee Shop Estimated Property Taxes by Taxing Authority (2019 Dollars)		
Taxing Authority	Rate / \$100	Projected Annual Tax
City of Yuma	2.2747	\$2,500
City of Yuma School Districts	4.9061	\$5,300
Arizona Western College	2.5677	\$2,800
Southwest Technical Education	0.0500	\$100
State aid to education	0.4741	\$500
Yuma County	2.5288	\$2,700
Yuma County Library Fund	0.9034	\$1,000
Flood Control District	0.2522	\$300
Total	13.957	\$15,200
Source: Yuma County Assessor, City of Yuma, EDPCo.		

Beyond the eight-year abatement period, the City of Yuma would revert back to collecting real property taxes based on the net assessed value each year from the grocery/retail building.

Summary

The proposed coffee shop will create annual economic and fiscal benefits for the City of Yuma. The economic benefits include local jobs and the ripple effect of these jobs throughout the economy. Indeed, the operations generate nearly \$3.3 million in economic activity each year in Yuma.

In terms of fiscal benefit, the redeveloped shopping center will generate more than \$3.2 million in revenues during construction and operations over the 15-year period. This includes about \$1.6 million for the State of Arizona, \$439,600 for Yuma County, \$1.0 million for the City of Yuma and approximately \$211,300 for community college and other school districts.

Based on the above analysis, the economic and fiscal benefits derived from the proposed coffee shop will exceed the incentives being offered by the City.



Proposed Coffee Shop Yuma, Arizona Summary

Economic Impact Summary

Construction (total over 15 years)

	Jobs	Wages	Economic Output
Direct	7	\$312,000	\$861,000
Indirect	1	\$45,000	\$115,000
Induced	1	\$59,000	\$193,000
Total	9	\$416,000	\$1,169,000

Operations (annual at buildout)

	Jobs	Wages	Economic Output
Direct	34	\$680,000	\$2,530,107
Indirect	3	\$109,000	\$348,000
Induced	3	\$131,000	\$428,000
Total	40	\$920,000	\$3,306,107

Fiscal Impact (Total over 15 years)

	Construction / FF&E	Operations	Total
State	\$54,800	\$1,524,000	\$1,578,800
County	\$10,100	\$429,500	\$439,600
City	\$16,530	\$991,420	\$1,008,000
School districts	\$4,600	\$206,700	\$211,300
Total	\$86,030	\$3,151,620	\$3,237,700

1/ Figures at stabilized operating levels

Sources: Elliott D. Pollack & Co., City of Yuma

