APPLIED ECONOMICS

July 17, 2013

Mr. Larry Tarkowski
Town Manager
Town of Prescott Valley
7501 E. Civic Circle
Prescott Valley, AZ 86314

Dear Mr. Tarkowski,

Applied Economics has been contracted by the Town of Prescott Valley to perform an independent third party review of the restated and amended development agreement between the Town and PVL, LLC and YK Commercial Realty, LLC. This agreement concerns the 463 acre commercial development located along both sides State Route 69 (SR 69) on the south slope of Glassford Hill. The terms of the agreement have been adjusted to reflect changes in economic and market conditions that have delayed the project.

This development agreement includes provisions for a sales tax incentive equal to 50 percent of non-designated sales taxes (or 1 percent of the total 2.33 percent) generated by taxable retail sales within the property. The original 2005 development agreement extended 18 years from the opening of the first retail use over 100,000 square feet to a maximum end date of August 11, 2025. The first major retailer opened later than anticipated in September 2008 and absorption over the past five years has been slower than expected. Thus, the restated and amended agreement extends the end date 38 months to October 2028 to make up for lower reimbursement payments over the first five years.

The project is expected to include approximately 819,000 square feet of commercial space. Parcels A and B on the north side of SR 69 include plans for 442,000 square feet of which 51 percent is built and occupied. Parcel C on the south side of SR69 will include 377,000 square feet and is 41 percent occupied. Taxable sales for all currently occupied sites over the past 12 months totaled $68.1 million, resulting $1.6 million in town sales taxes. Based on the planned mix of retail development (anchors, majors, shops and PADs) and a projected development timeline for the unbuilt space in each phase, we have prepared a detailed analysis of the sales tax that could be generated by the project over the remaining term of the agreement (through October 2028) and the projected reimbursement schedule.

Per A.R.S. 9-500.11, it is required that any proposed tax incentive is anticipated to raise more revenues than the amount of the incentive within the duration of the agreement. We have reviewed all relevant assumptions regarding projected taxable activities for this property and prepared an analysis of the estimated future revenue stream to the town over the remaining term. Based on our review, we believe that the project would generate a significantly greater flow of sales tax revenues than the total amount of the reimbursement paid through October 2028.

The second component of A.R.S. 9-500.11 requires that this development would not have occurred in the same time, place or manner in the absence of a tax incentive. Based on our knowledge of the site and subsequent conversations with the Town, we believe that this type of development would not have occurred in the same time or manner without the incentive. The infrastructure improvements required to make the hillside site suitable for a large retail center would not have been feasible in the absence of the reimbursements.

Based on our review, we believe that the restated and amended agreement meets the requirements of A.R.S. 9-500.11. Should you have any questions or concerns, please do not hesitate to contact us.

Sincerely,

Sarah E Murley

Sarah E. Murley
Partner