



November 21, 2011

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 amendment to the development agreement between the Town and Fain Signature Group, L.L.C. for the 60 acre commercial development located west of Glassford Hill Road, north of Florentine Road and east of Pine View Drive. 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 Town would agree to reimburse the developer for actual cost of designing and constructing infrastructure improvements completed by the developer, plus interest. At this point in time, the developer has completed all infrastructure improvements described in the development agreement at a cost of \$5,610,977. The reimbursement would be paid over a period of up to 20 years from the opening of the first commercial retail use.

The project is expected to include up to 318,000 square feet of commercial space. Phase I includes a 62,000 square foot Kohl's store that opened in 2007. A final development plan for Phase II, which will include an 180,000 square foot Wal-Mart Supercenter, was approved in October 2007. The Wal-Mart is expected to open in mid-2013. There are about 76,000 additional square feet in Phase III that will include a Maverik store and other retailers. Phase III is expected to come on line approximately four years after the Wal-Mart in 2017. We have prepared a detailed analysis of the sales tax that would be generated by the project over a 20 year time period (through 2027) and the projected reimbursement schedule.

The project is currently generating approximately \$260,000 in annual sales tax revenues to the Town. Once Phases II and III are developed, this will increase to approximately \$1.8 million per year by about 2017. These results could vary depending on long term sales growth and inflation, but they are based on the best available information at this time.

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



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reviewed all relevant assumptions regarding projected taxable activities for this property and prepared an analysis of the future revenue stream to the city over the next 20 years. 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 during that 20 year period.

Depending on future sales levels, development timing and interest rates, we project that it will take until approximately 2025 to repay the cost of the infrastructure improvements. It could also be the case that the flow of tax revenues is not sufficient to cover the reimbursement amount in the allotted 20 year time period; however there would be no penalty to the town for underpayment due to lower than expected taxable sales generated by this property.

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 current and projected development in the expected trade area, and 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 cost of public infrastructure improvements required to make the site usable for this type of retail center would not have been feasible without reimbursements.

Additionally, A.R.S. 42-6010 requires that sales tax incentives offered to retail businesses be provided as reimbursement for public infrastructure dedicated to and accepted and controlled upon completion of the project by the town. We have reviewed the cost estimates for the additional infrastructure improvements and verified that they are consistent with the reimbursement amount specified in the development agreement. It is important to note that these transportation improvements to reconstruct the Florentine-Glassford Hill intersection and widen the roads leading to that intersection, as well as related water and sewer line extensions, would have been necessary to support future development in the area regardless of whether this particular retail center was developed.

Based on our review, we believe that the agreement meets the requirements of A.R.S. 9-500.11 and A.R.S. 42-6010. Should you have any questions or concerns, please do not hesitate to contact us.

Sincerely,

A handwritten signature in cursive script that reads 'Sarah E. Murley'.

Sarah E. Murley
Partner