

TAX SHARING REPORT

PREPARED IN ACCORDANCE WITH SECTION 3.46.040 OF THE CATHEDRAL CITY MUNICIPAL CODE FOR ANALYSIS OF THE REQUEST FOR APPROVAL OF THE FIRST AMENDMENT TO SALES TAX SHARING AGREEMENT BETWEEN PALM SPRINGS MOTORS, LLC, AND THE CITY OF CATHEDRAL CITY

A Tax Sharing Report, as defined in Cathedral City Municipal Code (“CCMC”) Chapter 3.46, provides the fiscal analysis necessary to determine the current and projected revenue generated by an Applicant for a Sales Tax Sharing Agreement. This information is used to establish a “Sales Tax Base” or historic benchmark for the Sales Tax collected by the City from the subject business. After the Sales Tax Base has been determined, projections of additional sales tax revenue attributable to the renovation and expansion of the business will be generated. The incremental difference between the Sales Tax Base and the projected additional revenues represents a new source of income for the City, of which a portion could be shared with the business owner without a negative fiscal impact on City revenues.

If it can be demonstrated that the proposed improvements will result in community-wide benefit, often defined as additional revenues that can be used to provide municipal services, the City Council may choose to approve a Sales Tax Sharing Agreement in order to incentivize the business owner to complete upgrades and improvements. This report identifies the financial data necessary to allow the City Council to reach a conclusion about the value and validity of an application for a Sales Tax Sharing Agreement.

In accordance with CCMC Section 3.46.040(b), the following factors, together with any additional studies or reports requested by the City Council, shall be analyzed:

1. For Existing Businesses, the existing level of Sales Tax generated by the business, and the projected Sales Tax to be generated after a planned expansion (or renovation) project; and
2. For New Businesses, the projected Sales Tax to be generated by the new Business; and
3. For Existing Businesses, the amount of expected Sales Tax Increment; and
4. For New and Existing Businesses, the type, quality, and price point of the goods and services sold or provided by the Business; and
5. For New and Existing Businesses, the total projected cost to construct the New Business or expand (or renovate) the Existing Business; and
6. The impact and benefits of the proposed expansion or construction of the Business on the residents of the City and the surrounding region; and
7. The necessity for public assistance

Proposal

The Cathedral City Sales Tax Sharing Program identifies specific criteria for participation by the Owner/Developer of an existing Business. In accordance with CCMC Chapter 3.46.030, each participant must:

1. Be the Owner/Developer of an existing Business that will be renovated or expanded
2. Complete and submit an application for participation in the Sales Tax Sharing Program
3. Be approved following a public hearing conducted by the City Council
4. Enter into a Sales Tax Sharing Agreement in the form approved by the City Council
5. Execute and record against the Business property the Operating Covenants provided in CCMC Section 3.46.050
6. Execute an Indemnification Agreement in the form approved by the City

The Applicant, Palm Springs Motors, LLC, is seeking assistance to expand and remodel an existing Mazda automobile showroom facility located at 69-200 East Palm Canyon Road primarily to accommodate the anticipated growth in the Mazda product portion of the dealership. The Applicant has determined that

the expansion will result in significant growth in the gross receipts of the dealership and without the expansion, the Mazda product would not be sold at the dealership. The Applicant is seeking \$900,000 in assistance over a period not to exceed seven (7) years and not to exceed fifty (50) percent of the incremental increase in the sales tax generated by the dealership.

The renovation and expansion of the existing facility will generate additional tax revenue to the City and participation in a Sales Tax Sharing Agreement will bring the Project more in line with a reasonably supportable development cost in relation to achievable sales volume.

Per City Ordinance No. 730, any proposed sales tax sharing shall not exceed fifty (50) percent and ten (10) years unless City Council determines that additional assistance is warranted to achieve the City's goals. Based on the Applicant's request and Council direction, the recommended Sales Tax Sharing Program is a reimbursement of fifty (50) percent of incremental sales tax revenue generated by the Business up to \$1,300,000, including the \$400,000 incremental sales tax revenue per the Sales Tax Sharing Agreement dated September 12, 2012, for a maximum period of seven (7) years following completion of the Mazda improvements and acceptance by the City. Operating Covenants require the Applicant to devote the property to the intended use for the duration of the amended Agreement.

Existing Sales Tax Generation and Determination of Sales Tax Base

Sales tax is assessed in accordance with the provisions of the Bradley Burns Uniform Local Sales and Use Tax Law and is payable to Cathedral City from the State board of Equalization. Only the sales tax obtained by Cathedral City through the distribution formula used by the State Board of Equalization will be included in the shared reimbursement. The Sales Tax Base was set at \$400,000 for the original Agreement. Retention of this base amount for the First Amendment to the Sales Tax Sharing Agreement simplifies the future calculations and administration of the amended and extended Agreement.

Type, Quality and Price Point of Goods & Services Sold

The Applicant has indicated that new Mazda automobiles will have an average sales price of \$30,000 and used vehicles obtained and sold as a result of a Mazda transaction will have an average sales price of \$22,000. Mazda is a mid-range product line that has been in the marketplace for many years. It is anticipated that the brand will remain strong and potentially grow significantly given the new line of vehicles that continue to be introduced. The Applicant believes that the facility improvements will draw additional customers to Mazda, as well as to the Lincoln and Ford brands. Retaining Palm Springs Motors as the only dealership offering the Mazda product line as a result of the improvements ensures the sale of new Mazda products will occur at Palm Springs Motors.

The Applicant is currently preparing the design drawings to be submitted to the City to obtain the necessary permits for construction of the expanded and renovated Mazda facility. The Applicant had previously completed a significant expansion and renovation of the dealership's Lincoln and Ford facilities in 2014, which has allowed for retention of the Lincoln brand and increased sales volume as the dealership as demonstrated by increasing tax generation. Completing the proposed Mazda improvements is projected to provide the same benefits.

Projected Construction and Costs

Renovations include expanding the dealership showroom by approximately 2,500 square feet and completing exterior façade enhancements on the entire Mazda facility (the "Project"). The Applicant has selected KSC, Inc. to complete these improvements at a projected a cost of over \$1,600,000 for the renovations, architecture, engineering, furniture, fixtures, equipment, signage and fees. The finished building will have an entire interior upgrade with new floors, vehicle display areas, wall finishes, customer comfort areas and furniture. The finishes will be in compliance with corporate standards. The cost of the

improvements is in addition to the considerable investment made by the Applicant in 2014 for the expanded and enhanced Lincoln and Ford facilities.

Impacts and Benefits

It is anticipated that following the expansion of the dealership, an additional 540-900 new and used Mazda vehicles will be sold annually, generating between \$16 million and \$24 million in gross sales and between \$160,000 and \$240,000 in local sales tax. It is also anticipated that parts sales and service will further augment local sales tax by as much as \$10,000. The projected incremental increase in sales tax over the proposed seven-year period attributable to Mazda-only sales will be approximately \$1,500,000. Sales tax generated from the sales of Lincoln and Ford products are in addition to that amount and thus is expected to satisfy the \$1,300,000 in shared taxes that the Applicant is seeking during this time period as reimbursement of a portion of the Applicant's investment in improving Palm Springs Motors and retaining both Lincoln and Mazda dealerships in Cathedral City as the single point of sales for these brands in the Coachella Valley.

Automobile dealerships are a major tax generator for the City. The proposed expansion and remodel will provide expanded services for customers, both local residents and visitors to the City. The attractive features of the site's new architectural upgrades and the additional revenues that can be used to provide municipal services will provide a significant benefit to the community. The expansion will also result in the need for approximately ten (10) additional employees.

Necessity of Public Assistance

Mazda Corporation has mandated a dealership upgrade in order for the Applicant to retain the Mazda showroom and sales. The improvements will provide an enhanced facility to accommodate the new product lines being released. According to the Applicant, Mazda will not provide funding to complete the necessary upgrades. Conversely, they have indicated that without the renovations, they are likely to relocate the Mazda dealership out of the City. Without some form of assistance, the Applicant may choose to forgo the opportunity to upgrade the facility and no longer offer the Mazda brand, resulting in a loss of existing sales tax revenue.

The Applicant is only eligible to receive incremental sales tax, thus this Sales Tax Sharing Program is performance-driven. As net new sales tax share increases for the Applicant, it correspondingly increases for the City. No sharing will occur if there is no new increase above the base. There is also an opportunity cost to be considered. The Applicant has confirmed that they would choose not to proceed with the improvements without public assistance resulting in the likely loss of the Mazda dealership. Amending the existing Sales Tax Sharing Agreement makes the project feasible and provides assurance to Mazda that the City is supportive of retaining that brand within the City.

Recommendation

Based on the contents of this Sales Tax Sharing Report, the potential for public benefit and the request by the Applicant, staff recommends approval of the application for a Sales Tax Sharing Agreement that reimburses fifty (50) percent of the annual incremental sales tax increase actually received by the City over and above a Sales Tax Base of \$400,000; that the total sales tax reimbursement not exceed \$1,300,000; that the length of the agreement not exceed seven (7) years pending completion of the improvements and acceptance by the City as stated in the First Amendment to the Sales Tax Sharing Agreement; and that the Operating Covenants require the Applicant to devote the property to the intended use for the duration of the amended Agreement.

Staff recommends that the Applicant's proposal is consistent with the findings to be made in accordance with Ordinance 3.46 and in the best interest of the general public as follows:

1. Without financial assistance, the applicant is unlikely to complete the improvements necessary to retain and expand a Mazda dealership in Cathedral City.
2. The project will serve to update and upgrade the current Mazda facilities creating additional value and generating additional sales tax revenue.
3. The expansion of the Mazda line of automobiles is anticipated to create a net increase of approximately ten (10) new jobs.
4. The Applicant projects an incremental increase in gross receipts of approximately \$1,500,000 over a seven (7)-year period for Mazda products alone.