



CITY OF BANNING

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO
GOVERNMENT CODE SECTION 53083
(AB 562 REPORT)**

**PRESENTED FOR PUBLIC HEARING
BANNING CITY COUNCIL
DECEMBER 12, 2016**

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INTRODUCTION

Legislative Intent

With the adoption of Assembly Bill 562, codified as California Government Code Section 53083, the California Legislature recognized the need for municipalities and counties to encourage economic development, even in light of the dissolution of Community Redevelopment Agencies in 2012. However, the legislation requires that subsidies to local businesses in the amount of \$100,000 or more—those intended to increase employment, enhance the local tax base and attract or retain desirable businesses—be detailed in a written report and subject to a public hearing. This report is intended to satisfy the requirements of Government Code 53083, and is being made available to the public prior to consideration of the proposed Agreement and subsidy. It is also, pursuant to statute, being made available on the City of Banning’s website.

Legal Requirements

Pursuant to Government Code Section 53083, the following elements must be presented in written form, available to the public, including posting on the City’s website, prior to the approval of the proposed economic development subsidy:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.
2. The start and end dates and schedule, if applicable, for the economic development subsidy.
3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.
4. A statement of the public purposes for the economic development subsidy.
5. Projected tax revenue to the local agency as a result of the economic development subsidy.
6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

Proposed Agreement

The City of Banning, in an effort to increase the generation of sales tax revenue, enhance community vitality and create new jobs, proposes to provide the type of subsidies addressed by Government Code Section 53083. The City of Banning (“City”) and Dalia Auto Group, LLC and Khan Properties, LLC, doing business as Diamond Hills Chevrolet Buick GMC (“Dalia”) intend to enter into an Economic Development Subsidy Agreement

("Agreement"). The Agreement requires Dalia to retain a point-of-sale location in Banning, and for the City to provide a limited sharing of sales tax revenue to assist the company in acquiring additional parcels, freeway front signage and renovating its facility which is essential to its long term viability in the City of Banning.

AB 562 REPORTING REQUIREMENTS

This section addresses the reporting elements of Government Code Section 53083:

A. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy:

Name: Dalia Auto Group, LLC and Khan Properties, LLC,

doing business as Diamond Hills Chevrolet Buick GMC

Business Address: 4545 W. Ramsey and 4661 W.

Ramsey St., Banning, CA, 92220

APN Numbers: 537-100-027-7, 537-100-028-8, & 537-100-029-9

B. The start and end dates and schedule, if applicable, for the economic development subsidy:

The Agreement is anticipated to commence in December, 2016 and expire no later than January, 2031. During the fifteen (15) years of the Agreement, the City will provide Dalia up to \$3,200,000 of credits in the form of shared sales tax revenue, all of which shall be used to retire a loan(s) for property acquired and renovated by Dalia.

C. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy:

In furtherance of the City's economic development strategies, specifically the generation of sales tax revenues to support essential City services, the proposed Agreement with Dalia provides funds, through credits based on generated sales tax revenue, to assist the company in acquiring additional land for expansion of its retail operation, which may eventually include a new car dealership accompanying its existing used car sales. Specifically, the City will pay Dalia a percentage of the sales tax revenue as an economic subsidy for renovations, improvements and expansion at a rate of 85% over the first \$150,000 annually in the form of quarterly payments, provided that Dalia maintains its obligations under this agreement.as described herein.

Additional terms of the economic development subsidy are as follows:

- A. City to pay Dalia a portion of the sales tax revenue as an economic subsidy for renovations, improvements, acquisitions, and expansion to the auto dealership, in an amount not to exceed \$3,200,000 at a rate of 85% over the first \$150,000 annually in the form of quarterly payments, provided that Dalia maintains its obligations under this agreement and completes the renovations, improvements, acquisition and possible expansion. The City shall keep 100% of the first \$37,500 each quarter, and any sales tax revenue above \$37,500 shall be split with 15% to the City and 85% to Dalia until the total cost of renovations, improvements, acquisitions, and expansion has been recovered by Dalia.
- B. Upon recovery of the cost of renovations, improvements, acquisitions, and expansion, the City shall pay Dalia a portion of the sales tax revenue at a rate of 50% over the first \$200,000 annually in the form of quarterly payments, provided that Dalia remains in operation at its current location or within the City of Banning. The City shall keep 100% of the first \$50,000 each quarter, and any sales tax revenue above \$50,000 shall be split with 50% to the City and 50% to Dalia.
- C. If Dalia does not show adequate documentation to the City of renovations, improvements, acquisitions, and expansion, the economic subsidy shall convert to the terms at set forth in item B under City Obligations.
- D. The term of this Agreement shall remain in effect for fifteen years at the economic subsidy rate of 85% of sales tax revenue to Dalia over the first \$150,000, or until Dalia has recovered their costs for renovations, improvements, acquisitions, and expansion. If they recover the costs for renovations, improvements, acquisitions, and expansion, or do not complete the renovations, improvements, acquisitions, and expansion the rate shall convert to 50% of sales tax revenue to Dalia over the first \$200,000.

EXAMPLE OF TAX SHARING REIMBURSEMENT						
ANNUAL SALES TAX	City's Sales Tax Base	City Share over Base	Dealership Share over Base	City TOTAL	Dealership TOTAL	ANNUAL REVENUE
\$ 318,840	\$ 150,000	\$ 25,326	\$ 143,514	\$ 175,326	\$ 143,514	= \$318,840
	100% of first \$150k	15% over \$150k	85% over \$150k			

Dalia and Khan Properties OBLIGATIONS:

- A. Provide and operating covenant to operate a Chevrolet Buick GMC dealership at its current location or in the City of Banning for a period of fifteen (15) years.
- B. Make improvements and renovations to the existing dealership, acquire property along the freeway, and install a freeway frontage sign. An expansion of the

dealership will be applicable to the economic subsidy for improvements, up to the maximum of \$3,200,000.

- C. Provide the option to the City to display a message on the freeway frontage sign, including but not limited to "Welcome to Banning."
- D. Dealership agrees to provide to City documentation reasonably acceptable to City, including without limitation, invoices, lien releases, and other evidences of Dealership's actual payment, confirming payments to contractors, subcontractors, and vendors.
- E. Dalia shall expansion, remodeling, renovation and improvement of the Existing Retail Business by (i) enlarging or remodeling the new car showroom; or (ii) renovating the facility per GM corporate imaging; and (iii) adding a new freeway frontage sign to the newly acquired property adjacent to the facility and identified by Assessor Parcel Numbers 537-100-027-7, 537-100-028-8, and 537-100-029-9.
- F. Continuously operate, or cause and allow for the continuous operation of, Dalia at 4545 W. Ramsey Street and 4661 W. Ramsey Street, Banning, California 92220.
- G. Operate with inventory and sales personnel sufficient to satisfy and respond to customer demand and, in compliance with Government Code Section 53084.5, shall designate said property on its sales tax statements as the point-of-sale for all sales transactions generated from or arising out of the business conducted on the subject property.
- H. Maintain, or cause maintenance of said property to Banning Municipal Code standards at company's own expense.
- I. Carry out the operation of the business of retail automobile sales in substantial conformity with applicable laws, ordinances, statutes, codes, rules, regulations, orders and decrees of the United States, State of California, Riverside County, and City of Banning.
- J. Maintain continued possession of valid City of Banning Business License and Sales and Use Tax Permit from the State of California Board of Equalization.
- K. Repay Dealership loan(s) and financing as provided in the Economic Incentive Agreement – Sales Tax Sharing.

D. A statement of the public purpose for the economic development subsidy:

The proposed Agreement is consistent with City's economic development goals and objectives and is in the best interest of the general public. Specifically, the following public

purposes are achieved:

- Ensuring increased sales in sales tax revenue, which ultimately funds essential City services while securing the City's financial stability.
- Creating new jobs in the community, thereby stimulating further generation of sales tax revenue and increased demand for housing, goods and services.
- Occupying a strategic site, Dalia complements the three existing new car dealerships with plans of expanding and making it a more appealing, economically vibrant destination for prospective car buyers.

The proposed Agreement is projected to result in one of the City's highest grossing businesses and one of its largest producers of sales tax revenue. That revenue will support the City's General Fund, from which the City funds essential services such as public safety, recreation, leisure, infrastructure, etc. With the already increased employees and revenue since Dalia purchased Diamond Hills, Dalia can benefit the City in future business recruitment and retention. The proposed Agreement, through its generation of sales tax revenue and creation of significant on-site employment, advances the City's economic development goals and thus, achieves a great public purpose.

E. Projected tax revenue to the local agency as a result of the economic development subsidy:

Specific sales tax data for individual businesses such as Dalia is confidential pursuant to California Revenue and Taxation Code Section 7056. However, using conservative assumptions and based on sales from Diamond Hills Auto Group and Dalia, staff has estimated that more than \$7.8 million of local sales tax revenue will be generated to the City during the 15-year term of this Agreement (See Exhibit A). This translates into approximately \$200,000 of average annual sales tax revenue to be retained by the City. Cyclical market trends and overall economic conditions may cause sales volume to fluctuate, but over time revenue can reasonably be expected to grow.

F. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions:

During the first year of operation since purchasing Diamond Hills, Dalia has already increased jobs from 49 to 63. During the proposed Agreement, Dalia is expected to add more than 50 full-time employees to the Banning labor force. Based on anticipated expansion of the facility for additional services, it is estimated that employment will increase by at least 10% within the first year of the Agreement and modest annual increases in employment are likely. These well-paying jobs would not exist without the proposed economic development subsidy. Additionally, it is anticipated that the presence of this company with the additional jobs created will have a stimulative impact on the local economy.