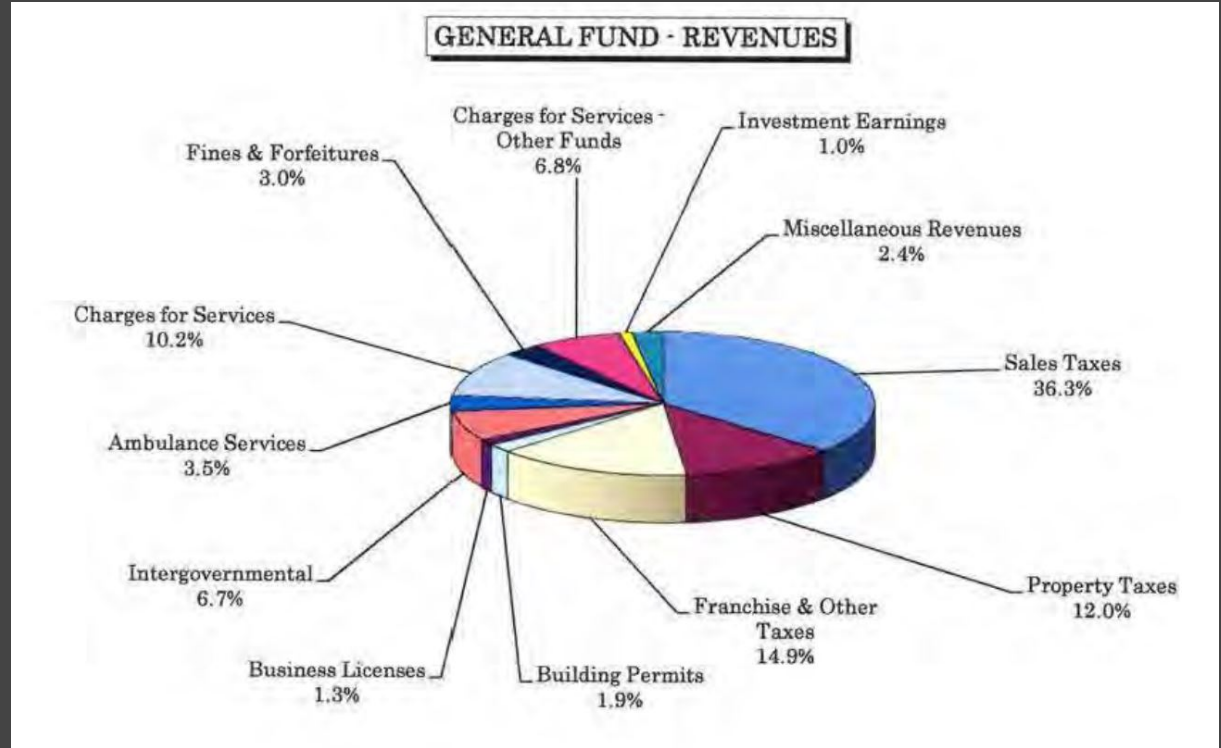


# MOTION

Approving the participation agreement with RW Imports, Inc. and BBF Real Estate, LLC and the loan agreement with BBF Real Estate, LLC for the Brent Brown Toyota dealership.

## Percentage of General Fund Revenues from Sales Tax

<u>Year</u>	<u>Percent</u>
2016	36.3%



Source:  
City of Orem Comprehensive Annual Financial Report (Year Ended June 30, 2016)



# IMPORTANCE OF SALES TAX REVENUE

## Citywide:

- 2016 Total Taxable Sales Orem: \$2.319 billion
- 2016 Total Sales Tax Revenues: \$21.4 million
- 2016 Total Retail Motor Vehicles & Parts Dealers Sales: \$307 million
- 2016 New Vehicle Dealerships Percentage of Vehicle Sales Tax: 51%
- 2016 Vehicle Sales Percentage of Total Sales Tax Revenues: 14.8%

## Brent Brown Toyota:

- 2016 Sales Tax Ranking in Orem: 3rd
- 2016 Jobs: 143
- Average Annual Wage (source:nada.com/statedata): \$51,844



# GOALS & PRIORITIES

- Goal #9:

“Maintain supremacy as the regional retail hub of Utah County.”

- The goal is identified as one of three top priorities in the EDSP.

“Retail sales are vital to Orem and the City needs to stay abreast of retail trends in order to maintain its position as the center of shopping activity.”



# Challenges for Existing New Car Dealerships

- Relative Market Area
- Recruitment
- Manufacturer Requirements
- Out of Space

## Old RMA Law

15-Mile Radius that originates  
from a dealership  
and  
County Boundary.

## 2015 New RMA Law

10-Mile Radius that originates  
from a dealership.

This has opened up northern  
and southern parts of the  
County for possible dealership  
points for Honda, Nissan, VW,  
Mazda, and Toyota.



RELATIVE MARKET AREA (RMA)

## Examples:

- West Jordan sent recruiting materials to existing dealerships in Salt Lake County.
- Draper approved an incentive of half of the city's anticipated sales tax revenue or up to \$3.1 million if two LHM new car dealerships relocated from Sandy.



- Dealerships must meet manufacturers requirements. This includes building and land size.
- Failure to comply results in inventory reductions, which results in reduced sales.
- There is no room to negotiate. “Manufacturers hold all the cards.”
- State Law prevents a manufacturer from demanding a showroom upgrade within 10 years, but manufacturers find a way around the law by using other tactics.



## MANUFACTURER REQUIREMENTS



- Dealership Remodel
- Site Improvements along I-15
- \$1.9 Million Investment
- 62,106 Square Feet
- March 26, 2016 Grand Opening



**BRENT BROWN**  
**TOYOTA** 



RECENT REINVESTMENT



OUT OF SPACE



# OVERFLOW PARKING



OUT OF SPACE

# ADDRESSING THE CHALLENGE



EXPANSION SOLUTION





- Additional nine vehicle service bays
- Additional 47 parking stalls
- Increased Vehicle Inventory
- Increased Service Capacity



- Approximate Capital Investment of \$2.3 million
- 10 New Jobs with a required minimum average annual wage of \$35,000
- Additional Car Inventory
- Projected Increase of Vehicle Sales
- Projected Increase of Vehicle Service
- Additional Sales Tax Revenues
- Already invested \$1.9 million for the remodel project



BRENT BROWN INVESTMENT

## Toyota Loan



- \$650,000
- 15 year term
- 9% Interest
- If requirements are met the annual payment is forgiven
- If the requirements are not met, the annual payment is required or an additional year is added to the retention term

## Toyota Requirements

- Complete the redevelopment of the Property
- Create and maintain 10 jobs
- Maintain or exceed the Average Sales Tax Level (2010-2016)
- Dealership to remain in Orem for 15 years





- Existing RDA Funds
- The loan and participation agreement fulfill the purposes and objectives of the Project Area by increasing the tax base and providing additional jobs.



FUNDING SOURCE

- Retains and protects the existing Toyota sales tax base.
- City revenue will increase as a result of the redevelopment of the dealership.
- The agreement is a loan and will require repayment if the dealership does not meet performance criteria.
- Protects against recruiting efforts by other municipalities.



## ADVANTAGES

- The agreement contains a retention term of 15 years.
- Dealership reinvestment increases vehicle inventory, which directly correlates with increased sales.
- 10 new jobs with an average annual wage required to exceed \$35,000.



ADVANTAGES CONTINUED

- If sales and service do not increase as projected, an increase in revenue to the City will not be realized.
- The dealership could still move out of the city after paying off the loan.



## DISADVANTAGES

# COST/BENEFIT ANALYSIS

## ❖ LYRB modeled 3 scenarios:

**Scenario 1** – Orem supports the Brent Brown dealership, and it remains and expands;

**Scenario 2** – Orem does not support the Brent Brown dealership, but it still stays; and

**Scenario 3** – Orem does not support the Brent Brown dealership, and the dealership relocates outside of Orem.



# COST/BENEFIT ANALYSIS

## Scenario 1 – Supporting the Dealerships:

### ❖ Potential costs include

- Loan amounts (\$650,000)
- Opportunity Cost
- If sales do not increase as projected, an increase in revenue to the City will not be realized.
- The Dealership could still move out of the city after paying off the loan.

### ❖ Potential benefits include

- Increased property tax
- Increased taxable sales



# COST/BENEFIT ANALYSIS

## Scenario 1 – Supporting the Dealerships:

### ❖ Additional benefits

- The agreement is a loan and will require repayment if the dealership does not meet performance criteria.
- 10 new jobs
- Increased employee multiplier effect
- Maintain and expand best use for land

# COST/BENEFIT ANALYSIS

**Scenario 2** – Not Supporting the Dealership, Which Remains:

❖ **Potential costs include**

- Risk of Losing the Dealership
- No significant increase in tax revenues

❖ **Potential benefits include**

- Use of tax revenue for other development purposes
- Maintain best use for land





# COST/BENEFIT ANALYSIS

## Scenario 3 – Not Supporting the Dealership, Which Relocates:

### ❖ Potential costs include

- Significant loss of tax revenues to the City
- Potential for development of Blight

### ❖ Potential benefits include

- Use of tax revenue for other development purposes



# COST/BENEFIT ANALYSIS

**TABLE 1.2: AGGREGATE DIFFERENCE BETWEEN SCENARIOS' TOTAL COSTS AND BENEFITS**

## Scenario 1 Year 2

<b>Total Benefit</b>	Plus	<b>Total Cost</b>	Plus	(Previous Year's) <b>Net Deficit/Surplus</b>	Equals	<b>Aggregate Costs &amp; Benefits</b>
\$135,334	+	\$35	+	\$(382,664)	=	\$(382,664)



# COST/BENEFIT ANALYSIS

Table 1.2: Aggregate Difference Between Scenarios' Total Costs and Benefits

SCENARIO #	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Scenario 1	\$(517,962)	\$(382,664)	\$(244,022)	\$(101,955)	\$43,624	\$192,804	\$345,672	\$502,323	\$662,850	\$827,351
Scenario 2	\$11,573	\$23,436	\$35,595	\$48,058	\$60,833	\$73,927	\$87,349	\$101,106	\$115,207	\$129,661
Scenario 3	\$(332,883)	\$(665,766)	\$(998,649)	\$(1,331,532)	\$(1,664,415)	\$(1,997,298)	\$(2,330,181)	\$(2,663,064)	\$(2,995,947)	\$(3,328,830)

SCENARIO #	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15	YEAR 16	YEAR 17	YEAR 18	YEAR 19	YEAR 20
Scenario 1	\$995,924	\$1,168,672	\$1,345,698	\$1,527,111	\$1,713,019	\$1,903,534	\$2,098,773	\$2,298,854	\$2,503,896	\$2,714,024
Scenario 2	\$144,475	\$159,661	\$175,225	\$191,179	\$207,532	\$224,294	\$241,475	\$259,085	\$277,135	\$295,637
Scenario 3	\$(3,661,713)	\$(3,994,596)	\$(4,327,479)	\$(4,660,362)	\$(4,993,245)	\$(5,326,128)	\$(5,659,011)	\$(5,991,894)	\$(6,324,777)	\$(6,657,660)



# COST/BENEFIT ANALYSIS

Table 5.1: Aggregated Net Benefit from Scenarios 1 & 2

YEAR	4	5	6	7
Scenario 1 Aggregate Benefit	\$(101,955)	\$43,624	\$192,804	\$345,672
Scenario 2 Aggregate Benefit	\$48,058	\$60,833	\$73,927	\$87,349

Table 5.3: NPV for all 3 Scenarios at Years 15 & 20

SCENARIO #	NPV YEAR 15	NPV YEAR 20
Scenario 1	\$1,247,805	\$1,853,179
Scenario 2	\$165,082	\$218,364
Scenario 3	(\$4,023,244)	(\$5,031,203)



# COST/BENEFIT ANALYSIS

Due to the risk of Brent Brown relocating its dealership outside the City if unsupported, LYRB recommends that the Agency provide the requested support for the dealerships' expansion and improvements.

This option provides stability to City and Agency revenues by maintaining the highest quality and best use for the properties.



# QUESTIONS?

