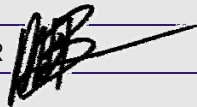




MEMO

TO:	MAYOR & CITY COUNCIL
FROM:	MITCHELL E. BAIR, AICP, CITY MANAGER/ECONOMIC DEVELOPMENT DIRECTOR 
RE:	GATEWAY RV INCENTIVE REQUEST DISCUSSION
DATE:	JANUARY 23, 2017
ATTACHMENTS:	GATEWAY RV PRO FORMA CITY FORECASTED SALES TAX REVENUES PRELIMINARY DEVELOPMENT AGREEMENT APPROVED SITE PLAN

EXECUTIVE SUMMARY

Gateway RV is located at 2020 Mall Street (the former site of Randy's Trailer Town) within the boundaries of the recently approved Southwest Corridors TIF and Business District. They have been open for approximately one year and have already experienced significant business growth. Their primary business is the sales of Recreational Vehicles (solely in the form of 5th wheel trailers); however, they have recently become a Power Sports (ATV's, Personal Water Craft, etc.). To accommodate the growing business they have planned to expand the site through adding area to accommodate additional merchandise as well as a facility expansion of 6,000 SF and estimate the total project costs at \$628,818. With this request they are requesting the City award incentives for this expansion in the amount of \$100,000. Further they are requesting the City consider awarding the full incentive amount upon "Substantial Completion" of the project, rather than the typical manner of reimbursement over term.

OVERVIEW

The developer is seeking assistance in the form of incentives in the amount of \$100,000 for a project that is estimated to cost \$628,818. This level of assistance represents 15.9% of the total project costs. When evaluating the proposed development agreement, and specifically Exhibit D, and removing typical items the City has not considered for reimbursement on a consistent basis (not that these items are not TIF eligible, but that past policy is not to consider these items for reimbursement when considering eligible project costs—i.e. painting) the amount is reduced by -\$148,216 to \$480,602. When considering this reduced project cost after removing those items, the request for \$100,000 in incentives equates to 20.1% of these total eligible project costs. Both of these percentages of 15.9% for the total project costs and 20.1% for total eligible project costs are well within the levels typically acceptable by the City for incentive consideration. These percentages have typically fallen below 30% for total project costs and 40% of eligible project costs (these have never been adopted formally as policy only as guidance tools when evaluating incentive amount appropriateness).

The owner has supplied a pro forma from which Finance Director Ammann has projected sales tax implications. The owner expects that the expansion will facilitate sales revenues to grow to \$11,460,871 for 2017 with total sales tax revenues to the City in the amount of \$123,051. The increase in EAV for the site is not included in these estimates, but it is reasonable to see the revenues grow related to the increased EAV for the site and the improvements and expansion by 20%. This would add an additional \$5,014.57 to the already property tax amount of \$25,096 (2015 amount as this is the last year on record and available) for a total property tax revenue of \$30,111.41. Assuming this increase it would take a term of 20 years to pay back the requested \$100,000 when only considering property tax increase captured by the TIF.

The project is expected to provide a total projected Business District sales tax amount of \$4,771 annually. So when considering both TIF and BD revenue sources against the term of payback for the incentive award amount would be reduced to a term of 10 years (assuming no increases in either, but rather a conservative 1 year increase, a reasonable consideration is that these numbers would increase each year, thereby reducing the term for payback to the City). When considering the return to the City the term on its face is reasonable as the common timeframe is generally established at a 10-year payback period, of which the conservative estimates establish the payback term. However, when considering the



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other sales tax benefits to the City and its revenues of the forecasted amount of \$116,280 (this amount does not include the BD tax) then the impacts of the expansion and the benefits derived from the project are meritorious of consideration. Based on this staff would recommend a combination of increase in property taxes and the full BD taxes from the project when financing the requested incentive request.

The applicant has requested that the incentive be awarded fully upon "Substantial Completion" of the project. This is not consistent with the past practice of reimbursing over time. This is problematic as there is no cash balance to pay out of as this is a new TIF district. Based on this staff would recommend against full payout upon "Substantial Completion" of the project.

SUMMARY

A cursory review of the merits of the request for \$100,000 in incentives for the project is that it is meritorious based on the financial implications of the projects and the derived benefits of said request. That being said, staff is not comfortable recommending full payout of the requested incentive upon "Substantial Completion" of the project, but rather over time based on revenues derived from the project in a manner that includes both property taxes and BD sales tax revenues until the awarded amount is satisfied.

Based upon the discussion with the City Council at the January 23rd City Council meeting staff and Corporate Counsel will be prepared to bring this item back in the form if a revised development agreement on the February 13th City Council meeting agenda under "New Business" for consideration.