

**CITY OF UPLAND ECONOMIC DEVELOPMENT
PARTICIPATION AGREEMENT REPORT
BETWEEN CITY OF UPLAND AND CNC MOTORS, INC.
PURSUANT TO AB 562**

The City of Upland, to maintain sustainable economic development, community vitality and recovery from the annual loss of approximately \$11 million in redevelopment tax increment revenues previously received by the former Redevelopment Agency, is implementing economic development strategies and programs that include the application of Assembly Bill 562. The City of Upland and CNC Motors, Inc. (“CNC”) propose to enter into a Owner Participation Agreement (the “Agreement”). The Agreement requires CNC to expand its business to include a new dealership location to be constructed at CNC’s expense near Campus Avenue and the I-210 Freeway, and for the City to provide a sales tax sharing agreement with CNC, for a term that ends once CNC receives its maximum payment obligation in the amount of \$2,000,000.

The California Legislature, based on direction from Governor Brown, made the decision to terminate all Redevelopment Agencies throughout the State resulting in the elimination of the major economic development tool available to local agencies. Following the decision to terminate redevelopment, the Governor and Legislature recognized the necessity of cities, counties and the State to encourage employment, retain jobs and promote expansion of sales tax producers for each community.

Assembly Bill 562 which added Section 53083 to the Government Code, requires public input prior to approving an economic development subsidy, by requiring, among other things:

- A public hearing prior to approving an economic development subsidy.
- A report regarding the economic development subsidy including the terms and details of said subsidy; and,
- An additional public hearing, not less than 5-years after the approval of the Agreement, reporting on the economic development subsidy.

This report includes the information required by AB 562 and the fiscal analysis to describe the projected revenue generated to the City, as well as the financial subsidy provided to CNC.

AB 562 Reporting Requirements:

Effective January 1, 2014, each local agency shall, before approving any Economic Development Subsidy within its jurisdiction, provide all of the following information in written form available to the public and through its Internet Website, if available:

- 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.**

CNC Motors, Inc., 4980 Vanderbilt Street, Ontario, CA, 91761 will continue to retain 100% ownership.

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

The commencement date for the Agreement shall begin after receipt of a certificate of occupancy but no later than January 1st, 2017. The proposed end date for the Agreement shall be 5 years after the attainment of the \$2,000,000 maximum financial assistance amount.

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.

In furtherance of the City's economic development strategies, an Agreement with CNC is being proposed. AB 562 defines an economic development subsidy as an expenditure of public funds or loss of revenue to local agency in the amount of one hundred thousand dollars (\$100,000) or more, for the purpose of stimulating economic development within the jurisdiction of a local agency. The City of Upland and CNC are proposing entering into a revenue sharing agreement that will be mutually beneficial. CNC, in the event of the contemplated expansion to the proposed site at Campus and the 210 freeway, will become one of the City's top sales tax producers and contributor to the City's General Fund. Providing an economic development subsidy in the form of revenue tax sharing, is a financial incentive for CNC to expand its business to the City of Upland (as opposed to expanding to another jurisdiction), and to ensure that CNC is able to become one of our top sales tax producers for the City. Failure to offer a financial incentive may ultimately cause loss of revenue to the City if CNC decides to expand to another City.

Sales tax revenue from automobile/transportation business group currently accounts for 22.2% of Upland's total sales tax revenue, which will only increase further with the addition of CNC to the City of Upland. Sales tax data for specific businesses such as CNC is required to be kept confidential per California Revenue and Taxation Code Section 7056. To comply with the provisions of California Assembly Bill AB 562, which became effective January 2014, as well as adhere to disclosure requirements contained in California Revenue and Taxation Code Section 7056, a range of potential sales tax revenue projections was generated based on possible increased sales volumes. The economic development subsidy is based on a sales tax sharing methodology that includes the following: Annual sales tax revenue that the City would otherwise receive will be split 50% to CNC and 50% to the City. There would be no cap on the duration of the agreement, i.e., it will be in effect until such time as the \$2,000,000.00 has been received by CNC. There will, however, be an escrow holdback of 15%, which will be maintained by the City and paid to CNC only upon the expiration of the five-year operating covenant referenced below.

It is understood and agreed that the City portion of sales tax revenues from CNC is being used merely as a measure of the amount of the subsidy payments that will be provided and that the subsidy will be paid from any source of funds legally available to City.

The term for the Agreement shall conclude after the expiration of a five-year operating covenant post-receipt by CNC of the \$2,000,000.00 threshold.

The maximum amount of subsidy to CNC shall be \$2,000,000. Sales tax revenue for the City of Upland is dependent on actual sales performance generated by CNC, with estimates projecting a range of \$4,000,000 to \$4,500,000 (using conservative or optimistic sales performance numbers) in sales tax revenue to the City of Upland.

All sales taxes are collected by the State Board of Equalization with a local tax rate of 8% with 1% of said sales taxes apportioned back to the City. Payments from sales tax receipts will be paid to CNC on an annual basis, after the taxes have been collected by the state and analyzed by the City's sales tax consultants, HdL.

4. A statement of the public purpose for the economic development subsidy.

The proposed Agreement is consistent with City's economic goals and objectives and is in the best interest of the general public. The loss of redevelopment throughout the state has significantly impacted the City's major economic development program. Providing a financial incentive to a business such as CNC to expand and open a second location in the City of Upland and develop a new auto dealership to add significant sales tax to the City. CNC is proposing to expand its business by developing a new, state-of-the-art showroom of exotic and luxury vehicles that will be freeway adjacent and will generate increased sales tax revenue due to this proposed location. CNC has indicated that the proposed Agreement and financial incentives provided therein are necessary to facilitate CNC's contemplated development and investment in the City of Upland of more than \$8.5 million. Further, every job created by CNC's proposed expansion to the City of Upland will mean new jobs for the City that do not presently exist.

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

The maximum amount of subsidy to CNC shall be \$2,000,000. Sales tax revenue for the City of Upland is dependent on actual sales performance generated by CNC, with estimates projected to range from \$4,000,000 to \$4,500,000.

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

During the term of the proposed Agreement, CNC expects to hire 25 full-time employees and 6 part-time employees. Absent the expansion by CNC to the City of Upland, none of these new jobs will otherwise exist.