CITY OF NORCO
STAFF REPORT

TO:	Honorable Mayor and Members of the City Council
FROM:	Andy Okoro, City Manager
DATE:	March 16, 2016
SUBJECT:	Approval of Economic Incentive Agreement – Sales Tax Sharing with Paul Blanco's Good Car Company Inland Empire
RECOMMENDATION:	Approve Economic Incentive Agreement for sales tax sharing with Paul Blanco's Good Car Company Inland Empire and authorize the City Manager to execute the agreement.

SUMMARY: Paul Blanco's Good Car Company Inland Empire (Paul Blanco) has a lease agreement with Bob Hemborg for 2000 Hamner Avenue where the company is proposing to establish a major used car dealership capable of generating over $300,000 annually in City sales tax. In order to operate a major used car business at this location with the future potential for new car sales, Paul Blanco needs additional lot space to park vehicles. To meet this need, Paul Blanco is seeking for City assistance to purchase the Successor Agency vacant real parcel located on Four Wheel Drive. The requested assistance consists of partial/full credit for City sales tax it generates above $200,000 annually. The sales tax credit will be for a period of five years and credits received by Paul Blanco will be applied towards the $805,000 purchase price of the Successor Agency parcel.

BACKGROUND/ANALYSIS: Paul Blanco has entered into lease agreement with Bob Hemborg for the lease of 2000 Hamner Avenue, for the purpose of establishing a major used car dealership in Norco capable of generating over $300,000 annually in City sales tax revenue and creating significant employment in the City. Paul Blanco has expressed their commitment for long-term dealership in Norco, which may include expansion for new car sales. In order to achieve the level of car sales that Paul Blanco has planned in Norco, the company needs additional lot to park vehicles. To address this need, the City is willing, ready and able to acquire the Successor Agency Property at fair market value of $805,000 and then immediately sell the parcel to Paul Blanco at same amount under the deal terms summarized below.

1. The City will buy the Successor Agency a 1.6-acre parcel (APN 126-120-038) at fair market value of $805,000 and immediately sell it to Paul Blanco for the same price.

2. During the first five (5) years of the Agreement, the City will provide economic development subsidy to Paul Blanco in the form of sales tax revenue sharing as outlined in the next paragraph. Sales tax sharing will end after five (5) years from the effective date of this agreement. All sales tax subsidies (credits) will be applied to the loan to be provided by the City to Paul Blanco for the purchase of the 1.6-acre parcel as described above.
3. City agrees to finance Paul Blanco's purchase of Successor Agency property under the following loan terms:
    a. Loan Term: 10 years
    b. Down Payment: $0
    c. Interest Rate: 2% annually on remaining principal during first five (5) years; and 3% annually on remaining principal during the last five (5) years
    d. In the event that City loan has not been retired in the first five (5) years through sales tax credits, an installment payment will be required on a monthly basis until the entire loan is repaid.
    e. No subordination: in the event that Paul Blanco elects to construct a new building on the vacant parcel acquired from the City, the remaining balance of City loan must be immediately paid by Paul Blanco. If this happens in the first five (5) years, any sales tax credit earned by Paul Blanco will be converted into cash payments annually in the amount equivalent to the credit that would have been applied to the loan.
4. The amount of sales tax credits to Paul Blanco will be based on the actual annual total sales tax revenues paid and received by the City from Paul Blanco's operations in the City pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law (Revenue and Taxation Cod Section 7200 et seq.), as amended, and any successor laws or amendments thereto that arises from, including but not limited to, taxable sales and services. All sales taxes are collected by the State Board of Equalization with a local tax rate of 1% (City share) apportioned back to the City. City share of sales tax revenue shall not include any local add-on transactions and use tax that may be imposed by the City. Sales tax credit is proposed to be calculated pursuant to the following schedule based on total actual annual sales from Paul Blanco's operations in the City of Norco:

First $200,000 of City Sales Tax Revenue	No Credit to car Dealer, City Share $200,000
Next $100,000 of City Sales Tax Revenue	100% credit to Car Dealer
Balance of City Sales Tax Revenue (amount in excess of $300,000 annually):	Split 50/50 between City and Car Dealer

5. Paul Blanco's sales tax credit will be determined annually beginning with the first full month after the execution of this agreement. No later than sixty days after the end of the first full year from the effective date of this agreement, Paul Blanco shall submit to the City copies of its actual Sales Tax Returns filed with the State Board of Equalization for the full year in which sales tax credit is to be received. The City will verify and calculate the amount of sales tax credit due to Paul Blanco within 30 days of receiving information. Sales tax credit due to Paul Blanco will be applied to City loan as outlined in item 3 above

FISCAL IMPACT: It is estimated that the City's General Fund will receive over $2.6 million in net sales tax revenue from Paul Blanco's operation in the City during the ten year term of this agreement. Sales tax credit to Paul Blanco is limited to five (5) years and the amount of credit shall not exceed $805,000. Sales tax revenues are used to pay for essential City services.

Attachment: Economic Incentive Agreement – Sales Tax Sharing

ECONOMIC INCENTIVE AGREEMENT
SALES TAX SHARING

This Economic Incentive Agreement for Sales Tax Sharing (hereinafter referred to as the "Agreement") is entered into as of this 16th day of March, 2016, by and between the City of Norco, a municipal corporation (herein after referred to as the "City") on the one hand, and Paul Blanco's Good Car Company, Inland Empire, LLC (hereinafter referred to as the "Paul Blanco"), a California limited liability company on the other (collectively, the "Parties") agree with reference to the following facts:

RECITALS

A. WHEREAS, Paul Blanco has entered into lease agreement with Bob Hemborg for the lease of 2000 Hamner Avenue, in the City of Norco California for the purpose of establishing a major used car dealership in Norco capable of generating over $300,000 annually in in City sales tax revenue and creating significant employment in the City; and

B. WHEREAS, Paul Blanco has expressed their commitment for long-term dealership in Norco which may include expansion with new car dealership provided, however, the City is able assist with property acquisition; and

C. WHEREAS, the Successor Agency to the former Norco Community Redevelopment Agency currently owns 1.63-acres of vacant parcel (APN 126-120-038) located on Four Wheel Drive (Successor Agency Property) which is currently in the market for sale; and

D. WHEREAS, the City is willing, ready and able to acquire the Successor Agency Property at fair market value ($805,000) and then immediately sell the property at same value, under a promissory note with the terms defined in this agreement, to Paul Blanco to be used initially as additional parking in support of Paul Blanco's proposed used car dealership at 2000 Hamner Avenue; and

E. WHEREAS, Paul Blanco has represented to the City that it has been notified by its current landlord for its dealership in the City of Riverside that its lease will be terminated no later than May 31, 2016; and

F. WHERAS, Paul Blanco has agreed to secure all permits, licenses and other regulatory approvals necessary to operate a used car dealership at 2000 Hamner Avenue; and

G. WHEREAS, the City has agreed to process all permits and licenses expeditiously in accordance with applicable City rules and regulations to facilitate the operation of the Paul Blanco's business; and

H. WHEREAS, the City has conducted the necessary public hearing pursuant to Government Code Section 53083 to review the economic benefits of the proposed car dealership; and

I. WHEREAS, 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 Paul Blanco provides funds, through credits based on generated sales tax revenue, to assist Paul Blanco in acquiring additional land for expansion of its retail operation, which may eventually include a new car dealership accompanying its proposed used car dealership.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing Recitals and the following mutual covenants, agreements, conditions and representations, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. The City will sell to Paul Blanco the 1.6-acre parcel (APN 126-120-038), previously owned by the SA. The City of Norco will acquire the site at fair market value of $805,000 and immediately sell it to Paul Blanco for the same price.
2. During the first five (5) years of the Agreement, the City will provide economic development subsidy to Paul Blanco in the form of sales tax revenue sharing as outlined in the next paragraph. Sales tax sharing will end after five (5) years from the effective date of this agreement. All sales tax subsidies (credits) will be applied to the loan provided by the City to Paul Blanco for the purchase of the 1.6-acre parcel as described above.
3. City agrees to finance Car Dealers purchase of Successor Agency property under the following loan terms:
    a. Loan Term: 10 years
    b. Down Payment: $0
    c. Interest Rate: 2% annually on remaining principal during first five (5) years; and 3% annually on remaining principal during the last five (5)years.
    d. In the event that City loan has not been retired in the first five (5) years through sales tax credits, an installment payment will be required on a monthly basis until the entire loan is repaid.
    e. No subordination: in the event that Paul Blanco elects to construct a new building on the vacant parcel acquired from the City, the remaining balance of City loan must be immediately paid by Paul Blanco. If this happens in the first five (5) years, any sales tax credit

earned by Paul Blanco will be converted into cash payments annually in the amount equivalent to the credit that would have been applied to the loan.

4. The amount of sales tax credits to Paul Blanco will be based on the actual annual total sales tax revenues paid and received by the City from Paul Blanco's operations in the City pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law (Revenue and Taxation Cod Section 7200 et seq.), as amended, and any successor laws or amendments thereto that arises from, including but not limited to, taxable sales and services. All sales taxes are collected by the State Board of Equalization with a local tax rate of 1% (City share) apportioned back to the City. City share of sales tax revenue shall not include any local add-on transactions and use tax that may be imposed by the City. The credit is proposed to be calculated pursuant to the following schedule based on total actual annual sales from Car Dealer operations in the City of Norco:

First $200,000 of City Sales Tax Revenue	No Credit to car Dealer, City Share $200,000
Next $100,000 of City Sales Tax Revenue	100% credit to Car Dealer
Balance of City Sales Tax Revenue (amount in excess of $300,000 annually):	Split 50/50 between City and Car Dealer

5. Paul Blanco's sales tax credit will be determined annually beginning with the first full month after the execution of this contact. No later than sixty days after the end of the first full year from the effective date of this agreement, Paul Blanco shall submit to the City copies of its actual Sales Tax Returns filed with the State Board of Equalization for the full year in which sales tax credit is to be received. The City will verify and calculate the amount of sales tax credit due to Paul Blanco within 30 days of receiving information from Paul Blanco. Sales tax credit due to Paul Blanco will be applied to City loan as outlined in item 3 above

6. Disclosure. Paul Blanco is informed and hereby acknowledges that the City is uncertain as to whether the benefits conferred by this Agreement create a public work for prevailing wage purposes which, in turn, requires the payment of prevailing wages by Paul Blanco on any project involving the Successor Agency Property. Paul Blanco expressly and affirmatively acknowledges that the City's representation of uncertainty, as specifically set forth in this Agreement, is the sole and complete representation made by the City regarding the prevailing wage issue. Paul Blanco hereby acknowledges that it has been informed of the City's uncertainty in this regard. Paul Blanco is encouraged to seek the advice of its own attorney(s) as to this issue, prior to the execution of this Agreement. Execution of this Agreement is an

acknowledgement that such independent advice and counsel has been obtained.

7. Indemnity Obligation. Paul Blanco agrees to protect, defend (with legal counsel acceptable to the City), indemnify and hold harmless the City, its council members, officers, agents, independent contractors and employees from any and all claims, damages, penalties, losses, costs, expenses (including reasonable attorneys' fees and court costs), injuries and liabilities of every kind arising out of all claims that the benefits conferred by the City under this Agreement may create a public work for prevailing wage purposes thereby requiring the payment of prevailing wages, and all claims challenging the legality, constitutionality, or enforceability of this Agreement, including but not limited to the City's authority to pay sales tax credit. This section shall apply regardless of whether or not the claim, damage, penalty, loss, cost, expense, injury and/or liability complained of arises out of or relates in any way to any negligence on the part of the City. The City's rights of indemnity, as expressly set forth in this Agreement, shall not depend upon the actual payment of any claim, damage, penalty, loss, cost, expense (including reasonable attorneys' fees and court costs), injury or liability sustained by the Paul Blanco and/or its contractors, subcontractors, agents and/or employees. In the event that the City tenders the defense and indemnification of a claim contemplated by this Agreement to the Paul Blanco and/or to his/her/its contractors, subcontractors, agents and/or employees, the City shall be entitled to actively supervise the claim and/or the defense of the same, shall be authorized to select and retain its own separate, independent counsel, at Paul Blanco's and/or his/her/its contractors, subcontractors, agents and/or employees' expense, as necessary, which decision shall be made solely and exclusively by the City, and the City must consent to the disposition of any such claim, including but not limited to, the settlement of any such claim.

8. Authority to Execute Agreement. Each individual signing this Agreement represents and warrants that he or she has full authority to execute the same on behalf of the Party on whose behalf he or she so signs, and that he or she is acting within the scope of his authority. Each individual signing this Agreement agrees to indemnify and hold harmless the other Party for loss, damage, liability, cost or expense (including reasonable attorneys' fees) arising out of any claims made by anyone that such authority to sign this Agreement does not exist.

9. Advice of Counsel. Each of the Parties hereto has received the advice of independent legal counsel prior to signing this Agreement. Each of the Parties hereto acknowledges that no other party or agent or attorney of any other party has made a promise, representation, or warranty whatsoever, express or implied, not contained herein concerning the subject matter herein to induce the other Party to execute this Agreement.

10. Entire Agreement. It is expressly understood and agreed that this Agreement contains the entire agreement and understanding concerning the subject matter thereof, and supersedes and replaces all prior negotiations and agreements between the Parties, whether written or oral. It is expressly understood and agreed that there have been no promises, agreements,

warranties or inducements, not herein expressed. The Parties acknowledge that they have read this Agreement and have executed it without relying upon any statements, representations, or warranties, whether written or oral, not expressly set forth herein.

11. Governing Law. All questions with respect to the construction of this Agreement and the rights and liabilities of the Parties hereto shall be governed by the laws of the State of California.

12. Further Assurances. The Parties shall at their own cost and expense execute and deliver such further documents and instruments, including, but not limited to, escrow instructions, and shall take such other actions as may be reasonably required or appropriate to carry out the intent and purposes of this Agreement.

13. Captions. Sections, titles and captions contained in this Agreement are inserted only as a matter of convenience and for reference and shall in no way be construed to define, limit or extend the scope of this Agreement or the intent of any of its provisions.

14. Contingent on City Council's Approval. Paul Blanco understands and acknowledges that this Agreement is subject to approval by the City Council of the City, and that it cannot be fully performed by the City unless and until such approval has been duly and regularly made. The terms, conditions, and covenants set forth herein are all made expressly contingent upon approval by the City Council. In the event this Agreement is not approved, neither Party shall be obligated to perform and is released and discharged by the other from any and all obligations hereunder

15. Amendment. This Agreement shall not be amended except by a written instrument signed by the Parties or their respective successors and assigns.

16. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

17. Severability. If any provision of this Agreement or the application thereof to any person or entity is held to be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby.

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(SIGNATURE PAGE TO FOLLOW)

IN WITNESS WHEREOF, the City and Paul Blanco have executed this Agreement effective as of the date first written above.

CITY:

CITY OF NORCO,
a municipal corporation

By: _____

Printed Name: Andy Okoro

ITS: City Manager

CAR DEALER:

PAUL BLANCO'S GOOD COMPANY INLAND EMPIRE, a California limited liability company

By: _____

Printed Name: _____

ITS: _____

ATTEST:

_____
Cheryl Link, City Clerk

APPROVED AS TO FORM:

_____
John R. Harper, City Attorney