

**PROPOSED CARMAX
OCEANSIDE, CALIFORNIA**

ECONOMIC DEVELOPMENT SUBSIDY REPORT

**California Government Code
Section 53083**

**PURSUANT TO THE INCENTIVE AGREEMENT
BETWEEN
THE CITY OF OCEANSIDE
AND
CARMAX SUPERSTORE CALIFORNIA, LLC.**

City of Oceanside, California

November 2018

TABLE OF CONTENTS

I. Introduction 3

II. Name and Address of Business Entity Receiving Subsidy 5

III. Description of Economic Subsidy 5

IV. Start and End Dates of Subsidy 5

V. Public Purpose of Subsidy 5

VI. Projected Tax Revenue to City Resulting from the Subsidy 5

VII. Estimated Number of Jobs Created by the Subsidy 7

VIII. Limiting Conditions..... 8

I. INTRODUCTION

A. Purpose of Report

This Economic Development Subsidy Report (Report) was prepared in accordance with Section 53083 of the California Government Code in order to inform the City Council of the City of Oceanside (City) and the public of the proposed Economic Development Subsidy (Subsidy) provided by the City to CarMax Superstore California, LLC (Developer). The proposed Subsidy is described in a proposed Incentive Agreement (Agreement) between the City and the Developer.

As background, the Developer is proposing a used car retail sales and service facility (Project) located on two (2) vacant parcels totaling approximately 10.5 acres (Site).

The Report describes and specifies:

- (1) The name and address of all corporations or any other business entities that are the beneficiary of the Subsidy;
- (2) The start and end dates and schedule, if applicable, for the Subsidy;
- (3) The description of the Subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the City as a result of the Subsidy;
- (4) The statement of the public purposes for the Subsidy;
- (5) The projected tax revenue to the City as a result of the Subsidy; and
- (6) The estimated number of jobs created by the Subsidy, broken down by full-time, part-time, and temporary positions.

B. Overview of Proposed Project

The Project will be located on two vacant parcels on Plaza Drive bounded by Ronald Packard Parkway (State Highway 78) to the north, the California Department of Motor Vehicles (DMV) and Thunder Drive to the east, Buena Vista Creek to the south, and the Tri-City Crossroads Shopping Center to the west. Per the Agreement, the Project must be located and operated in the City for a minimum of 15 years from the date of the initial payment of the Subsidy.

Table I-1 below provides a summary of the physical characteristics of the proposed Project.

Table I-1: Preliminary Project Description

I. Site Area	10.5 Acres
II. Gross Building Area	
A. Sales	4,909 SF
B. Presentation	1,197 SF
C. Retail Service	4,309 SF
D. Carwash	936 SF
E. Other	96 SF
F. Total	11,447 SF

C. Proposed Transaction Terms

This section summarizes the salient aspects of the business terms contained in the Agreement.

- The Project will be operated as an automobile dealership, which may include the business of selling, leasing, display, and repair of motor vehicles on the Site.
- The Project must achieve sales tax above \$100,000 within a fiscal year to receive a Subsidy within the same fiscal year.
- The City will pay the Developer a Subsidy not to exceed \$5.0 million or a 10-year period, whichever occurs first. The Subsidy will be based on new taxable gross retail sales tax revenue (excluding all Measure X revenues) generated by the Project. Measure X revenues are the retail sales tax revenues to be generated by the local 0.5% transactions and use tax approved by voters on November 6, 2018.
- The City will retain sales tax revenue generated by the Project equal to the base amount of \$100,000, increasing by 3.0% annually during the term of the Agreement.
- The City will pay the Developer the Subsidy annually within thirty (30) days of the City's receipt of fiscal year-end sales tax revenue from the State of California.
- The Project must be operated and located within the City for 15 years from the date that the City makes its initial payment of the Subsidy. If the Project closes or relocates outside the City, (a) the City shall not be obligated to continue any Subsidy payments in the event the 10-year term of the Subsidy has not concluded and (b) the Developer will repay the City any Subsidy provided under the terms of the Agreement.

II. NAME AND ADDRESS OF BUSINESS ENTITY RECEIVING SUBSIDY

The Subsidy provided under the Agreement will be paid to the Developer, under the name:

CarMax Auto Superstores California, LLC
12800 Tuckahoe Creek Parkway
Richmond, VA 23238-1115

III. START AND END DATES OF SUBSIDY

Payments will be delivered by the City to the Developer after certain conditions are completed in accordance with the Agreement. The City shall continue to provide the Subsidy in excess of the indicated base amount until the Developer has received an aggregate total of \$5.0 million, or the 10-year term of the Subsidy has concluded, whichever comes first.

IV. DESCRIPTION OF THE SUBSIDY

The City will provide the Developer a Subsidy generated by new taxable gross retail sales tax above \$100,000 within each fiscal year pursuant to the requirements stated in the Agreement and start and end dates of the Subsidy as indicated above.

V. PUBLIC PURPOSE OF SUBSIDY

Implementation of the proposed Agreement, allowing for the Subsidy, can be expected to assist the City in achieving the City’s economic development goals and objectives, including:

- Creating jobs to improve the jobs-to-housing ratio;
- Increasing sales and property tax revenue per capita; and
- Recruiting and assisting new prospective businesses to the City.

VI. PROJECTED TAX REVENUE TO CITY RESULTING FROM THE SUBSIDY

Direct tax revenues generated to the City as a result of completion and operation of the Project consist of property tax and sales tax. These public revenues are based on a detailed economic analysis of the Project.

Table VI-1 provides a summary of the assumptions and projections for sales tax revenue to the City during the first year of Project operations.

Table VI-1: Projected Sales Tax Revenue to City at Year 1 ⁽¹⁾	
Gross Sales ⁽²⁾	\$57,768,449
Sales Tax Revenues to City at 1.0%	\$577,684
(Less) Subsidy to CarMax	<u>(\$477,684)</u>
Net Sales Tax Revenues to the City	\$100,000
Add: Measure X Revenues at 0.5% of Gross Sales ⁽³⁾	\$72,211
Total Tax Revenues to City	\$172,211
(1) All estimates are expressed in undiscounted future dollars.	
(2) Source: CarMax, Inc., September 2018.	
(3) Assumes 25% of sales will be from City residents.	

Table VI-2 provides a summary of the assumptions and projections for property tax revenue to the City during the first year of Project operations.

Table VI-2: Projected Property Tax Revenue to City at Year 1 ⁽¹⁾	
Projected Assessed Value	\$13,321,000
(Less) Existing Assessed Value	<u>(\$479,000)</u>
Net Assessed Value	\$12,842,000
Property Tax at 1.0%	\$128,000
Property Tax Revenue to City at 21.4% ⁽²⁾	\$27,000
(1) All estimates are expressed in undiscounted future dollars.	
(2) Source: County of San Diego Auditor & Controller – Property Tax Services.	

Table VI-3 below provides a summary of the total estimated property and sales tax revenue to the City during the first year of Project operations.

Table VI-3: Estimated Tax Revenue to City at Year 1 ⁽¹⁾	
Sales Tax Revenues ⁽²⁾⁽³⁾	\$172,211
Property Tax Revenues	<u>\$27,000</u>
Total Revenues to City	\$199,211
(1) All estimates are expressed in undiscounted future dollars.	
(2) Includes revenues from Measure X.	
(3) Reflects net sales tax revenues to City after the proposed Subsidy to Developer during Year 1.	

Table VI-4 below provides a summary of the projected tax revenues to the City for 15 years. Net tax revenue is defined as sales tax, property tax, and Measure X revenues received by the City, less the Subsidy paid to the Developer. As shown below, net tax revenue to the City as a result of completion of the Project are estimated to be \$199,211 in Year 1 and projected to grow to \$1,013,131 by Year 15.

Table VI-4: Estimated Tax Revenue to City ⁽¹⁾						
Year	Gross Sales Tax Revenues to City ⁽²⁾	Projected Subsidy to CarMax	Net Sales Tax Revenues to City ⁽³⁾⁽⁴⁾	Add: Measure X Revenues to City ⁽⁵⁾⁽⁶⁾	Add: Property Tax Revenues to City ⁽⁷⁾	Total Net Tax Revenues to City
1	\$577,684	(\$477,684)	\$100,000	\$72,211	\$27,000	\$199,211
2	\$612,543	(\$509,543)	\$103,000	\$76,568	\$27,500	\$207,068
3	\$638,465	(\$532,375)	\$106,090	\$79,808	\$28,100	\$213,998
4	\$666,595	(\$557,323)	\$109,273	\$83,324	\$28,700	\$221,297
5	\$693,000	(\$580,449)	\$112,551	\$21,656	\$29,300	\$163,507
6	\$720,720	(\$604,793)	\$115,927	\$0	\$29,900	\$145,827
7	\$749,549	(\$630,144)	\$119,405	\$0	\$30,500	\$149,905
8	\$779,531	(\$656,543)	\$122,987	\$0	\$31,100	\$154,087
9	\$810,712	(\$451,146)	\$359,566	\$0	\$31,700	\$391,266
10	\$843,142	\$0	\$843,142	\$0	\$32,300	\$875,442
11	\$868,435	\$0	\$868,435	\$0	\$32,900	\$901,335
12	\$894,488	\$0	\$894,488	\$0	\$33,600	\$928,088
13	\$921,322	\$0	\$921,322	\$0	\$34,300	\$955,622
14	\$948,962	\$0	\$948,962	\$0	\$35,000	\$983,962
15	<u>\$977,431</u>	<u>\$0</u>	<u>\$977,431</u>	<u>\$0</u>	<u>\$35,700</u>	<u>\$1,013,131</u>
Grand Total, Years 1-15	\$11,702,579	(\$5,000,000)	\$6,702,579	\$333,567	\$467,600	\$7,503,746

(1) All estimates are expressed in nominal dollars. Allow for rounding.
(2) Based on CarMax, Inc. projections of gross sales; September 2018.
(3) Reflects net sales tax revenues to City after the proposed Subsidy to Developer in Years 1-10.
(4) Per the Agreement, assumes an annual escalation of 3.0% beginning in Year 2 until the end of the Subsidy.
(5) Assumes Measure X has an effective date of April 1, 2019 and an end date of March 31, 2026.
(6) Assumes 25% of sales will be from City residents.
(7) Assumes an annual escalation of 2.0% beginning in Year 2.

VII. ESTIMATED NUMBER OF JOBS CREATED BY THE SUBSIDY

The Developer estimates that once sales ramp up to Year 5 levels, the Project operations will generate between 55 to 65 full-time permanent jobs and 10 to 20 part-time permanent jobs.

Assuming a one-year construction period, it is estimated that the construction and development of the Project will generate approximately 33 full-time-equivalent temporary construction jobs. The specific breakout of full-time vs. part-time jobs is not known at this time.

VIII. LIMITING CONDITIONS

1. The Keyser Marston Associates, Inc. (KMA) analysis is based, in part, on data provided by secondary sources such as state and local governments, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. The projections and analyses contained herein are based on estimates and assumptions which were developed using currently available economic data, project-specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, would require review or potential revision of this document.
3. Any estimates of revenue or cost projections are based on the best project-specific and fiscal data available at this time as well as experience with comparable projects. They are not intended to be projections of actual future performance of any specific project. Any changes to costs, development program, or project performance may render the conclusions contained herein invalid.
4. KMA assumes that all applicable laws and governmental regulations in place as of the date of this document will remain unchanged throughout the projection period of our analysis. In the event that this does not hold true, i.e., if any tax rates change, the analysis would need to be revised.
5. Although KMA is registered with the SEC as a municipal advisor, KMA is not acting as a municipal advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in this KMA work product. The City shall discuss any information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own municipal advisors, that it deems appropriate before acting on the information and material.