



Staff Report

City Council

Item No. {{section.number}}.A

Meeting Date: August 14, 2024

From: Anne Ambrose, Assistant City Manager

Title: First Amendment to the 2016 Tax Sharing Agreement with GL HOD, LLC, doing business as Honda of the Desert

RECOMMENDATION:

To conduct a public hearing under Municipal Code Title 3, Chapter 3.46 to receive evidence and testimony; and consider terms of a first amendment to Sales Tax Sharing agreement with GL HOD, LLC, doing business as “Honda of the Desert” (“GL HOD”) to include GL TOD, LLC, doing business as “Toyota of the Desert” (“GL TOD”), collectively the “Applicant”, and adopt a resolution making findings and authorizing the City Manager to execute the first amendment to sales tax sharing agreement, consistent with the terms set forth in the resolution.

BACKGROUND:

Cathedral City Municipal Code Chapter 3.46 provides for economic incentive payments to a qualifying retail business in order to incentivize the operation, expansion or renovation of that business within the city as determined by the City Council. Provision of such incentives would enhance the quality of the facilities, goods, and services available to the public and the City's residents and would result in a desirable and attractive shopping experience that would increase sales tax revenue to the City.

City and GL HOD entered into a sales tax sharing agreement dated March 23, 2016 (“Agreement”). The purpose of the Agreement was to assist GL HOD to implement showroom renovations and improvements to meet Honda Motor America “Generation 1” design standards.

The total incentive payments (prior payments) to be made by the City to GL HOD based on the Agreement was \$427,000, paid over a period of seven and a half years. The current agreement is still active.

A notice of public hearings was published on July 26th, 2024 and August 2nd, 2024 to notify residents and interested parties regarding the consideration of a first amendment to the Agreement.

DISCUSSION:

Sales tax revenue is a vital revenue source for the City accounting for approximately 50% of all revenue, making it the single largest revenue source. There are nine industry categories that make up total sales tax revenue, of which the automotive category accounts for roughly 51% of the total.

Honda of the Desert and Toyota of the Desert have been longstanding businesses in the Cathedral City Auto Center and are a vital part of the Cathedral City business community, being some of the top producers in the industry within the City.

GL HOD and GL TOD (“Applicants”) are requesting to amend the existing Sales Tax Sharing Agreement to participate in the City’s economic incentive program to (1) provide assistance to keep both brands in the City by incentivizing the purchase of their current leased facilities, GL HOD automobile dealership located at 68-025 Kyle Road and GL TOD automobile dealership located at 68-105 Kyle Road in Cathedral City, and (2) to receive payments supporting anticipated showroom improvements for both brands as set forth in the Agreement in accordance with Chapter 3.46 of Title 3 of the Cathedral City Municipal Code (the “Program”).

The Sales Tax Sharing Ordinance enables the City to enter into agreements with existing businesses that expand or otherwise improve their business resulting in greater sales tax generation that accrues to the benefit of the city, provided certain findings can be made. In the case of GL HOD and GL TOD, failure to assist with the purchase of the leased facility would likely have resulted in a loss of both dealerships from Cathedral City, the impact of which would have been a considerable loss to the City’s sales tax revenue impacting the direct provision of city services and creating difficult to fill vacancies in the center of the Cathedral City Auto Center. Additionally, major renovations in compliance with corporate design enhancements are generally required to be implemented every five to seven years or could occur earlier with changes in brand management. According to the Applicant, neglecting to implement more than one series of design standards would violate the sales and service agreements between the Applicant and Honda Motor America and Toyota USA.

Pursuant to the original agreement, the City has made payments to Applicant under this Agreement in the aggregate amount of \$427,000 (“Prior Payments”). Beginning on the first day of the calendar quarter first following the date of recordation of the Grant Deed and continuing through the Sales Tax Sharing End Date (as defined in the Agreement), the Economic Incentive Payment will be an amount equal to 50% of the Sales Tax Increment derived from the GL HOD and 50% of the Sales Tax Increment derived from GL TOD (“Ongoing Payments”), in an additional amount not to exceed \$4,000,000 (“Maximum Payment”). The Applicant will be eligible for 1) economic incentive payments for purchasing the current leased facilities, in an amount totaling \$2,000,000 of the Maximum Payment at the time a Grant Deed is recorded for that transaction, and 2) planned improvements in an amount totaling not less than \$2,000,000 of the Maximum Payment at the time documentation is submitted to the city of invoices, lien releases, and other evidence of their actual payment, confirming payments to contractors, or subcontractors for completed improvements. The City’s Transactions and Use Tax (TUT) is separate from, and not part of, any economic incentive payments.

The Amendment to the Agreement would be effective until the earlier of June 30, 2040 or when applicants have received the maximum payment of \$4,000,000. The Economic Incentive Payment will be an amount equal to 50% of the Sales Tax Increment (difference between the sales tax base and the amount of sales tax generated) derived from the Honda Retail Business and 50% of the Sales Tax Increment derived from the Toyota Retail Business and paid no later than 90 days after the close of each fiscal year. The sales tax base for Honda of the Desert is \$347,000 and for Toyota of the Desert is \$589,094. The Tax Sharing Report (attached) provides additional information regarding the basis of the sales tax bases.

The Operating Covenants have been amended and restated and would be recorded against the site. These covenants bar discrimination and require that the facilities be maintained and operated as automobile dealerships with integrated sales and services centers for a period of no less than sixteen (16) years.

FISCAL IMPACT:

	DESCRIPTION	GENERAL LEDGER ACCOUNT CODES	PROJECT CODE	AMOUNT	ONE TIME or ONGOING
2024-2025	Sales Tax Sharing	100-900-910-911-8650-8662-	N/A	\$345,218	Ongoing

FIVE-YEAR STRATEGIC PLAN:

Goal C: FISCAL STABILITY and SUSTAINABILITY

Objective: Cathedral City has economically prospered by facilitating investment of private dollars in high quality development which benefits the community. We remain financially solvent by instituting prudent fiscal policies and transparent financial practices.

ATTACHMENTS:

1. First Amendment to Sales Tax Sharing Agreement
2. Public Hearing Notice
3. Resolution