



CITY COUNCIL AGENDA ITEMS

To: Mayor and City Council

From: Dean Rich, Director of Finance
Walter Denton, City Administrator

Date: May 1, 2006

Subject: Subaru Economic Incentive Agreement

List of committees that have reviewed: Finance and Administration

Background: In September of 2005 Mr. John Hanna approached the city about establishing a Subaru Dealership. At that time Mr. Hanna estimated he could build the Dealership for approximately \$1,650,000 and asked for the cities help with an SSA. This request was preliminarily approved on 18 Sept 2005 and Mr. Hanna planned to break ground in Nov. Numerous actions have delayed this project and Mr. Hanna finds himself faced with a \$557,706 (34%) increase in cost and he has just broken ground. Faced with this huge cost increase Mr. Hanna has requested economic assistance in the form of a sales tax rebate agreement. After reviewing all the available data and past agreements the staff concluded a \$150,000 agreement is within the guidelines of our Policies Providing Economic Development Funding Assistance. The requested agreement is a \$150,000, 50/50, 10 year time limit proposal and is the smallest agreement we have offered to a new car dealership.

Legal Considerations, if any: This ordinance is consistent with our previous agreements and has been reviewed by our City Attorney

Budget Impact: This proposal shares sales tax on a 50/50 basis for up to \$150,000 of sales tax revenue over a not to exceed 10 year period. It is an incentive to Subaru of O'Fallon to sell as many cars as possible as soon as possible and should result in increased long term revenue for the City. This is the City of O'Fallon's 14th agreement and these agreements produced over \$4,400,000 in sales tax during FY 2006, or \$5.33 of income for every \$1.00 we rebated.

Staff recommendation: Staff recommends Council approval for this ordinance.