



COSTCO RETAIL STORE

FAQ QUESTIONS AND ANSWERS FOR THE PROPOSED \$8 MILLION INCENTIVE AGREEMENT TO BE CONSIDERED BY THE CITY COUNCIL ON APRIL 12, 2017

Q WHO HAS REQUESTED THIS INCENTIVE AND WHAT IS IT FOR?

A The incentive has been requested by The Ridge EG East, LP, which is an entity affiliated with Pappas Investments (the “Land Owner”). They are the owner and developer of the land where Costco Wholesale Corporation wants to construct a store. The purpose of the incentive is to provide funds to the Land Owner to make moving forward with the Costco project financially viable. The City Council must approve or deny the incentive request after a public hearing. A public hearing for the matter has been scheduled for April 12, 2017 at the regular City Council meeting on that date. A public notice regarding the matter was published on March 29, 2017.

Q WHAT IS THE TOTAL AMOUNT OF THE INCENTIVE UNDER CONSIDERATION BY THE CITY COUNCIL AND HOW WOULD IT BE PROVIDED?

A The total amount of the requested incentive is \$8 million on a present value basis. The funds to provide the incentive would come from sales tax revenues generated by the store and received by the City once, and only if, the Costco store is built. No current City revenues or services would be impacted by payment of the incentive. Payments would be made quarterly to the Land Owner for not more than 25 years in the amount of 50% of sales taxes received from the store. For example, if in year three of the Costco project the City collected \$1M of sales tax from the store, the City would keep 50% of those revenues, and remit the other 50% to the Land Owner. In this way, the project would generate new revenues for the City, year over year, which would inure to the City’s General Fund, for use in providing needed City services. Once the incentive is paid off, or the agreement expires after 25 years, whichever comes first, the City would keep all revenues generated by the store. The City estimates the incentive would be paid off in approximately year 20 of the Agreement. If no sales tax is ever generated by the project, no payments will ever be made.

Q WHAT WOULD BE THE CITY’S RETURN ON ITS INVESTMENT IN THE COSTCO PROJECT?

A Using conservative estimates developed by the land owner, and closely reviewed by the City, City staff believes that over the 25 year term of the Incentive Agreement the store would generate an estimated \$27.8 million of sales tax for the City after payment of the incentive amount. Further the City assumes the project will act as a catalyst for other retail development near the store, like the adjacent approved Ridge shopping center and other undeveloped retail lands. City staff estimates that new nearby retail could generate approximately \$42.5 million in additional sales tax revenue for the City over the same 25 year period. For every incentive dollar the City provides for the project, the City will receive \$3.50 back in new sales tax revenue over 25 years. This amount could increase to \$8.80 if additional retail development occurs.

Q WHAT IS THE LAND OWNER'S RETURN ON INVESTMENT FOR THE PROJECT AND WHAT EFFECT DOES THE REQUESTED INCENTIVE HAVE ON IT?

A If the incentive is provided, the Land Owner would realize an estimated 14.40% return on investment based on their project costs to purchase and prepare the land for development vs. the capitalized value of the lease at project completion and stabilization. If the incentive is not provided, the Land Owner estimates its return on investment to be negative 15.92%.

Q WHERE WOULD THE STORE BE BUILT? HOW BIG WOULD IT BE?

A On July 13, 2016, the City Council approved construction of the store on a 17.43-acre parcel of land, owned by the Pappas Investments subsidiary, located at the northwest intersection of Civic Center Drive and Babylon Drive, near the intersection of Elk Grove Blvd and Bruceville Road. The building would be approximately 150,000 square feet in size. The project would also include approximately 24 fueling pumps, which may be expanded to 30 pumps. The property is zoned for this type of use, and the City Council approved the project's size, design, and environmental impacts in July of 2016.

Q HOW MANY JOBS WOULD THE COSTCO PROJECT CREATE AND WHAT ARE THE WAGES?

A Costco anticipates the need for approximately 100 full-time and 100 part-time employees at the store, with average hourly wages of approximately \$22, plus benefits.

Q IF THE CITY DOES NOT PROVIDE THE INCENTIVE, WOULD THE COSTCO PROJECT STILL BE BUILT IN ELK GROVE? WHY DOESN'T COSTCO JUST BUILD THE PROJECT AT A DIFFERENT LOCATION IN THE CITY THAT DOESN'T REQUIRE AN INCENTIVE?

A The City has been informed by the Land Owner that if the City does not provide the requested incentive in order to make the project financially viable, it will not execute a land lease with Costco. If a land lease with Costco is not executed, then the project would not be able to proceed in Elk Grove at that location. Further, Costco has advised the City that it has limited to no interest in any other sites in Elk Grove, and that its fallback position, should the land lease not be executed, would likely be to build a project elsewhere in south Sacramento County, outside of Elk Grove's City limits. The City has no ability to "force" Costco to build a store at any particular location.

Q CAN'T ANOTHER KIND OF STORE BE BUILT WITHOUT THE CITY HAVING TO PROVIDE AN INCENTIVE?

A Yes, another kind of store could be constructed on the land, assuming the Land Owner and a replacement store operator were both willing to execute a lease for a large retail facility at that location. The City does not own the land, and has no ability to dictate what specific store is built on the site. As part of its due diligence in evaluating the incentive request, City staff evaluated the fiscal impact of several likely replacement stores including Home Depot and Lowe's, Sam's Club, and Target. In each case, using conservative sales tax projections, the Costco store produces more revenue than the replacement stores, even after providing the requested incentive.

Q CAN'T COSTCO SIMPLY PAY A HIGHER RENT TO THE LAND OWNER TO AVOID THE NEED FOR AN INCENTIVE?

A Costco has indicated it is unwilling to pay rent above that which has been agreed to between them and the Land Owner.

Q WHAT OTHER MAJOR ECONOMIC DEVELOPMENT INCENTIVES HAS THE CITY PROVIDED IN THE PAST?

A California Correctional Health Care Services (CCHCS):
\$1.9M to CCHCS; Sept 14, 2011
\$1.4M to Pappas Investments; Sept 14, 2011
\$81,066 to CCHCS; Jan 27, 2016
Jobs: 1,565 (capacity for 1,630)
Private Investment: \$53M (EST.)
Leverage: 1:16
Status: Complete

Auto Dealers: Elk Grove Ford: \$500,000; Dec 1, 2010
Jobs: 80 to 180
Private Investment: \$2.5M (EST.)
City Revenues to Date: \$2,893,500 (EST.)
Leverage: 1:11
Status: Complete

Mazda of Elk Grove: \$150,000
Status: Complete

Subaru of Elk Grove: \$150,000
Status: Complete

Q WHAT OTHER SALES TAX SHARING AGREEMENTS HAS THE CITY ENTERED INTO?

A The Howard Hughes Corporation (mall infrastructure reimbursement). On October 22, 2014, the City entered into a License Agreement whereby a portion of sales tax generated by the mall project would be remitted to the developer, the Howard Hughes Corporation, totaling \$15,581,689, to reimburse the developer for public infrastructure around the mall. To date, no payments have been made, because no sales tax has been generated by the mall project.