



December 17, 2014

Mr. Larry Tarkowski
Town Manager
Town of Prescott Valley
7501 E. Civic Circle
Prescott Valley, AZ 86314

Dear Mr. Tarkowski,

Applied Economics has been contracted by the Town of Prescott Valley to perform an independent third party review of the development agreement between the Town and Presly Investments LLC. This agreement concerns the 91,191 square foot parcel located south of the existing Kia dealership along Market Street in the Crossroads. It is intended that this parcel would be used for a new Volkswagen (VW) dealership.

This development agreement includes provisions for reimbursement of up to \$50,000 in fees and charges associated with construction and occupancy of the new VW dealership including building permit fees, engineering fees, zoning permit fees, circulation system fees, public safety fees, industrial wastewater pretreatment permit fees, wastewater and water system capacity charges, water resources fees and water meter charges. The developer would initially pay the applicable fees and they would then be reimbursed by the Town after the developer has constructed and obtained a certificate of occupancy for the dealership.

The project is expected to include approximately 10,500 square feet of built space for the new auto dealership. Projected taxable sales are estimated at \$5.3 million per year beginning in 2017 which a partial year of operations in 2016. Estimated sales are based on the size of the dealership and current sales at other local auto dealers. All auto sales would be taxed at a rate of 2.33 percent by the Town. Of that total, 1 percent would go to Kitchell based on the pre-existing development agreement for the Crossroads. The remainder would go to the Town's general fund. There would be additional construction sales tax revenues to the Town in 2016 estimated at \$20,000. Although the construction fees and charges are being reimbursed to the dealership, it is important to note that the amount of construction and retail sales taxes generated in the first year, which only represents a partial year of operations, is approximately equal to the amount of the reimbursement. By the second year, estimated annual sales tax revenues to the Town exceed \$70,000 per year.

The economic and revenue benefits of this project to the Town significantly exceed the benefits received by the auto dealer. Based on our review, we believe that the project would generate a significantly greater flow of sales tax revenues during the first full year of operations than the amount of construction fees and charges. It is also important to note that since no sales taxes are being refunded, all of the sales tax revenues are in addition to the construction fees and charges being reimbursed. Should you have any questions or concerns regarding this analysis, please do not hesitate to contact us.

Sincerely,

A handwritten signature in cursive script that reads 'Sarah E. Murley'.

Sarah E. Murley
Principal