



September 23, 2022

To: Board of Trustees, Village of Oak Park

From: John Lynch, Executive Director, OPEDC

Re: Support Letter – RRV Motor Cars II LLC Sales Tax Sharing Agreement

The Oak Park Economic Development Corporation (OPEDC) is pleased to provide this letter in support of a sales tax sharing agreement between the Village of Oak Park and RRV Motor Cars II LLC (RRV) for the purpose of establishing a newly constructed Polestar dealership at 1047 Garfield Street. We believe that by entering the proposed sales tax sharing agreement, Oak Park has an opportunity to reap significant new sales and property tax revenue while simultaneously activating an underutilized parcel currently used for outdoor vehicle storage.

For the past several months, OPEDC has been in active discussions with Mr. Richard Fisher, President of RRV and owner of Oak Park's Autobarn Volvo (located across the street from the proposed Polestar site) and several other car dealerships throughout the Chicago area. As a licensed Volvo dealer, Mr. Fisher has the opportunity to expand his offerings to include Polestar vehicles (Polestar is an independent, *all-electric* brand co-owned by Volvo Cars and Geely Holding Group) but must construct a separate commercial showroom space dedicated to the Polestar brand. To accomplish this, Mr. Fisher is planning on constructing an approximately 3,700 square foot building on the $\pm 7,000$ square foot lot he currently owns at 1047 Garfield Street. The building would serve as a showroom and order facility for new Polestar vehicles, with no inventory vehicles being stored inside or outside the building.

Despite the expectation that electric car sales will accelerate rapidly in the coming decade, there will certainly be a ramp-up period for any new dealership and especially one affiliated with a new brand in the marketplace. Adding to the uncertainty of this investment is the fact that Polestar deliveries to the U.S. to date have lagged projections due to supply chain disruptions. Despite positive early signs with U.S. Polestar sales, the financial risks associated with this brand launch may not justify the high cost of developing a new building that meets the modern design standards of the Polestar brand without some financial incentive, and, in fact, Mr. Fisher has indicated that a tax sharing agreement would be necessary for his ability to commit to the new dealership.

In order to bolster the feasibility of this project in a way that benefits both the Village of Oak Park and RRV, OPEDC's Board of Directors is recommending a 60% sales tax rebate to RRV on Polestar vehicle sales over the next 6 years up to a maximum of \$900,000. In this letter, we provide additional details and rationale for this recommendation.

Oak Park Economic Development Corporation
104 N. Oak Park Ave., Suite 203, Oak Park, IL 60301
708.383.3838

oakparkedc.org



Polestar Background

Polestar is an automotive brand co-owned by Volvo Cars and Geely Holding Group. The Polestar brand served as a performance- or racing-quality partner to the Volvo brand for several years before Volvo and Geely committed in 2017 to make Polestar a standalone brand focused exclusively on electric cars. The Polestar 1 launched as a luxury performance car in 2018, and the Polestar 2 launched in 2020 as a still-upscale but more mainstream small/midsize sedan. With the upcoming release of the Polestar 3, the brand will continue efforts to broaden its audience with a small crossover SUV and is openly seeking to compete with Tesla for buyers in the all-electric market.

As Volvo has committed to establishing Polestar as a standalone brand, we have learned from Mr. Fisher that any Polestar dealership must have the Polestar vehicles, branding, and physical storefront space wholly separated from Volvo's sales infrastructure (though they are permitted to share servicing departments, which Mr. Fisher plans to do by locating the new dealership just across the street). Auto publications and other media coverage predict Polestar will see significant growth in the coming years, perhaps matching total Volvo sales as electric vehicle (EV) adoption and infrastructure continues to grow.

Autobarn and RRV Motor Cars II LLC

RRV Motor Cars II LLC (RRV) is a legal entity controlled by Mr. Fisher that assumed ownership and operation of the Autobarn Volvo of Oak Park in 2015. At the time, the Village of Oak Park approved a Sales Tax Sharing Agreement between the Village and RRV. This agreement provided a rebate of 50% of sales taxes collected over 6 years (expiring in 2021), with the rebate beginning once sales reached \$50 million total during that time period. The Village of Oak Park reports that Volvo was rebated approximately \$560,000 total during the agreement term.

Polestar and Volvo will be distinct brands with separate buildings, thereby requiring the evaluation of this incentive on its own merits. Nonetheless, OPEDC notes and acknowledges that this is the second incentive request from Mr. Fisher in just over 7 years. While we strive to entertain all mutually beneficial public/private partnership discussions, we also acknowledge that multiple and repeated incentive requests from the same business owner may not be received favorably by many stakeholders. We therefore have requested – and Mr. Fisher has agreed to commit in writing if desired by the Board – that Mr. Fisher and his affiliated entities not solicit additional incentives from the Village for a period of 10 years after execution of this proposed agreement if adopted.

Project Economics

In evaluating the need for a sales tax sharing agreement, we have worked closely with Mr. Fisher and his team to understand the anticipated costs and potential revenues associated with this proposed Polestar dealership. Given Polestar's projected sales and our understanding of Autobarn Volvo's historical performance, we expect that the new dealership may generate as much as \$265,000 in total annual sales taxes by 2025. Lower figures should be expected in the initial years of the agreement; we are

Oak Park Economic Development Corporation
104 N. Oak Park Ave., Suite 203, Oak Park, IL 60301
708.383.3838

oakparkedc.org



forecasting approximately \$95,000 in 2023 and \$190,000 in 2024 as Polestar gains traction in the market.

We must strongly note, however, that these figures are merely projections, and that accurate projections for very young vehicle brand are virtually impossible. Due to the risks and uncertainties associated with product delivery, market positioning of Polestar, and even broader macroeconomic conditions, there is no guarantee that they reach these projected sales numbers. In addition, we understand that dealership revenue margins will be fixed on Polestar sales, and that the Polestar brand will have a reduced opportunity for follow-up maintenance since electric cars have fewer mechanical parts than gas vehicles. As a result, we concur with Mr. Fisher's assessment that the overall profitability of the project is far from certain.

A sales tax sharing agreement would help to reduce the investment risk for RRV to more closely align with the uncertainty on the revenue side. By providing this incentive to RRV, the Village would be partnering to establish a new sales tax generating business, still capturing 40% of the sales tax in the first 6 years, and then capturing 100% of the sales tax generated from a significant potential tax generator as EV sales increase.

On the cost side of delivering the new dealership, estimates provided to OPEDC suggest that the construction cost will total at least \$1.8 million and more likely will exceed \$2 million. The Polestar brand requires a visually modern and elegant design that will prove more costly than a typical commercial space but will ultimately be an encouraging addition to that Garfield/Harlem area and a signifier of positive development and investment in that business district.

In light of the cost estimate, OPEDC is proposing capping the 60/40 sales tax split at \$900,000 in total rebates to reflect a Village participation of 50% of project cost at the low end. Since the project is in fact likely to cost in excess of \$2 million, we expect total rebates to total less than 50% of the Polestar dealership's upfront construction costs.

Finally, in addition to the sales tax produced, the Village will benefit from the increase in property taxes generated by a new commercial building at 1047 Garfield Street versus the existing unimproved lot. OPEDC estimates that a commercial building will generate over \$50,000 annually in net new property taxes to Oak Park taxing bodies as compared to the existing lot.

Sales Tax Sharing Agreement Benchmark Analysis

As part of our analysis we have researched municipal sales tax sharing agreements in other communities for benchmarking purposes. A review of 85 auto dealership municipal sales tax sharing agreements made available publicly through the Illinois Department of Revenue suggests that the term and rebate split of this agreement are well within common practice. While the median rebate is 50% in the agreements reviewed (ranging from 25% to 100%), the median term is 15 years (ranging from 5 to 25 years). We have recommended a slightly higher split than the median (60%) to keep the agreement to a shorter duration (6 years).

Oak Park Economic Development Corporation
104 N. Oak Park Ave., Suite 203, Oak Park, IL 60301
708.383.3838

oakparkedc.org



Finally, of the agreements that provided a dollar cap, the median amount of that cap on taxes returned to the dealership was \$1,500,000 (ranging from \$221,117 to \$4,800,000). Again, we believe our proposed cap of \$900,000 – less than half of the initial construction cost – is appropriate and defensible considering benchmark agreements.

Community Benefits

OPEDC believes that by supporting this sales tax sharing agreement, the Village of Oak Park will continue to demonstrate its public commitment toward more environmentally sustainable vehicle electrification. To further enhance that commitment, the OPEDC board has requested a few other key community benefits be provided by RRV Motor Cars II LLC.

First, in keeping with our Village's commitment to sustainability and environmentally friendly practices, we have requested that RRV install rooftop solar panels on the new dealership. He has agreed to this term and recognizes the positive brand alignment of Polestar with sustainability in general and the Village's goals more specifically.

Second, we have requested that RRV install a public and complimentary electric vehicle charging station at a location to be mutually agreed with the Village. We believe that having another place for Oak Park residents to charge their EVs will assist with EV adoption for residents living in that part of the Village. Mr. Fisher expressed willingness to accommodate this request.

Recommendation Summary

After reviewing the expected project financials and discussing the merits of the project, the OPEDC Board supports the development of a new Polestar dealership at 1047 Garfield Street and believes that the project is not likely to move forward without a sales tax sharing incentive.

The Board of Directors of OPEDC therefore recommends that the Oak Park Village Board of Trustees support a Sales Tax Sharing Agreement between the Village of Oak Park and RRV Motor Cars II LLC with 60% of new and used Polestar vehicle sales tax being rebated to RRV for a period of 6 years. The Board further recommends that the rebate be capped at \$900,000, and that Mr. Fisher and his business entities agree not to request additional incentive support from the Village for a period of 10 years from the beginning of the agreement.

Finally, OPEDC is also recommending that the Board of Trustees consider our request that RRV install rooftop solar panels at the new facility and also include installation of a public and complimentary EV charging station in the vicinity of the dealership or at another location mutually agreeable to the Village.

We thank you for your consideration.

Oak Park Economic Development Corporation
104 N. Oak Park Ave., Suite 203, Oak Park, IL 60301
708.383.3838

oakparkedc.org