



Evaluation of City Tax-Sharing

October 1, 2024

Background

On August 6, 2024, Council Member McKeon submitted a Councilmember Item directing the City Manager and Finance Director to report back to Council with a written report and oral presentation on questions regarding City Tax-Sharing.



Overview

1. Business Subsidies
 - a. Sales Tax Sharing Agreements Non-Car Dealerships
2. COVID Rent Abatement
 - a. Hotel TOT Deferment
3. Sales Tax Sharing Agreements Car Dealerships
 - a. Auto Dealers Association
4. Property Tax
5. Other



Business Subsidies

- The City did not provide any concession or incentive to any Amazon business. However, the City may provide economic incentives in the form of sales-tax sharing agreements, through negotiated contracts, to incentivize a business to locate or remain in the City, and/or encourage the sale of goods within City boundaries.
- State law (AB 562) defines an “Economic Development Subsidy” as an expenditure of public funds or loss of public revenue of \$100,000 or more for purposes of economic development, and requires local agencies to make this information public.
- Combined sales tax to the City over the years through the sales tax sharing agreements is over **\$30 million**.
- Per Revenue and Taxation Code Section 7056, sales tax data must remain confidential. Therefore, the information provided here is based on publicly accessible data from the City’s Annual Comprehensive Financial Reports.

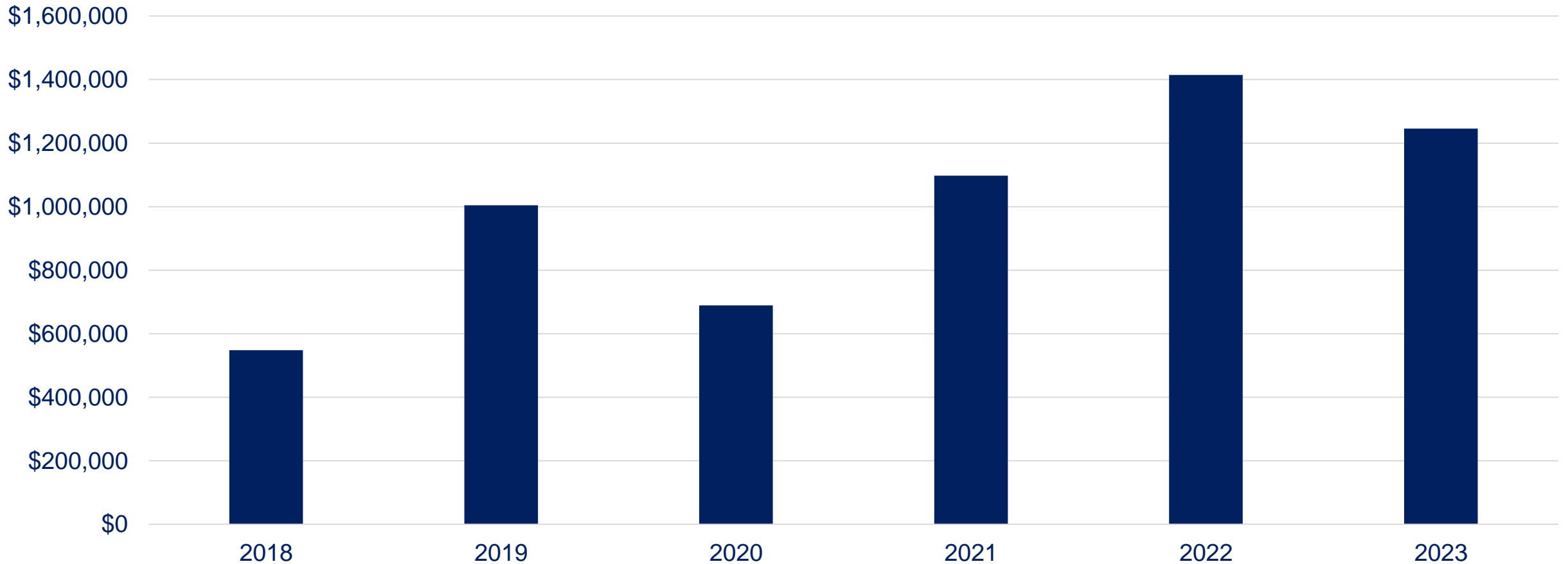


Sales Tax Sharing Agreements: Non-Car Dealerships

Company/Program	Projected Tax Revenue	Date Range
<p>Pinnacle Petroleum</p>	<p>65%/35% Pinnacle/City split, with base sales of \$100,000</p>	<p>2014-2029, with one 5-year extension option (until 2034)</p>
<p>Applied Computer Solutions (ACS)</p>	<p>25%/75% ACS/City split over a base of \$200,000, and 35%/65% ACS/City split over \$600,000 annually</p>	<p>2000-2020</p>
<p>Surf City Auto Group II, Inc (Jeep)</p>	<p>50%/50% Auto Group/City split with base sales of \$1,681,797; increases by 1% each year.</p>	<p>2017-2038</p>
<p>McKenna Motors Huntington Beach, Inc. (Subaru)</p>	<p>45%/55% McKenna/City split with base sales of \$150,800.</p>	<p>2016-2033</p>

Sales Tax Sharing Agreements

Total Sales Tax Rebate



COVID Rent Abatement

- On March 31, 2020, the City Council approved COVID rent abatement to concessionaire tenants of various City-owned facilities, effective from the date of the issuance of the State of California's Proclamation of State of Emergency (March 4, 2020) until the Proclamation was lifted.
- On July 6, 2020, the City Council approved to end COVID rent abatement for certain tenants at City-owned facilities, effective August 1, 2020, and authorized the City Manager to reinstate if necessary.
- The City provided approximately **\$1.8 million** in COVID Rent Abatement

COVID Rent Abatement

- Some concessionaire tenants were required to pay partial rent payments beginning on May 1, 2021, in one of three ways:
 1. For tenants with leases containing percentage sales rent, minimum base rent continued to be temporarily waived.
 2. For tenants with leases containing only monthly rent, 50% of monthly rent was required to be paid.
 3. For tenants occupying City facilities that remained closed, rent abatement was continued until the facilities were fully reopened to the public.
- Rent abatement ended by July 2021, except for the California Genealogical Society, which ended in March 2023, when the group was able to return to the library.

Hotel TOT Deferment

- During the pandemic, hotels were given the option of holding their TOT/TBID receipts for the months of March 2020 to August 2020.
- Option to repay the funds in full by January 29, 2021, or in six equal payments due by June 30, 2021.
- All applicable hotels met the requirement of repaying the funds within the agreed timeframe.



Sales Tax Sharing Agreements: Car Dealerships

Company/Program	Projected Tax Revenue	Date Range
Pinnacle Petroleum	65%/35% Pinnacle/City split, with base sales of \$100,000	2014-2029, with one 5-year extension option (until 2034)
Applied Computer Solutions	25%/75% ACS/City split over a base of \$200,000, and 35%/65% ACS/City split over \$600,000 annually	2000-2020
Surf City Auto Group II, Inc (Jeep)	50%/50% Auto Group/City split with base sales of \$1,681,797; increases by 1% each year.	2017-2038
McKenna Motors Huntington Beach, Inc. (Subaru)	45%/55% McKenna/City split with base sales of \$150,800.	2016-2033

Auto Dealers Association

- The City has a MOU with Huntington Beach Auto Dealers Association for the Auto Incentive Beach Parking Pass to provide free annual beach parking passes for car buyers and lessees, encouraging local purchases.
- \$300,000 to \$400,000 annually in beach parking passes through this MOU.
- The City's financial contribution through parking vouchers supports sales tax revenue from local auto dealers, which generates \$8-\$9 million annually.
- In FY 23/24, the City provided 1,977 vouchers, which equates to approximately **\$385,515**.



Property Tax

In 2021, the City entered into Public Benefit Agreements for the acquisition and conversion of the Breakwater and Elan properties for the Middle-Income Housing Program. The initial sales price for Breakwater was \$185M and for Elan was \$136M.

City will forgo approximately **\$22.2M** in property tax revenue over a 35-year period due to the tax-exempt status of the Breakwater and Elan properties under the Middle-Income Housing Program

- Takes into account a 2% annual increase the City would have received
- \$633,391 average per year



Property Tax

If a conveyance occurs, the anticipated foregone property tax over the 35-year period for each entity would be as follows:

- **City of Huntington Beach: \$20.9M (12.08%)**
- **Huntington Beach Employee Retirement: \$2.2M (1.29%)**
- County of Orange: \$128.6M (74.21%)
- Orange County Sanitation District: \$9.0M (5.21%)
- Coast Community College District: \$4.8M (2.74%)
- Huntington Beach City School District: \$3.7M (2.11%)
- Huntington Beach Union High School: \$3.5M (2.03%)
- Municipal Water District of Orange County (1): \$526,451 (0.30%)
- Orange County Vector Control District: \$26,884 (0.02%)
- Municipal Water District of Orange County (2): \$3,291 (0.00%)

The total anticipated foregone property tax across all these entities is approximately **\$173.2M** over 35 years.



Property Tax

By the end of the 35-year period, the properties are expected to have a combined value of approximately **\$595.6M**

- Breakwater: \$345.4M
- Elan: \$250.2M
- Annual appreciation rate of 1.8%

At year 35, if the City decides to sell the properties, anticipated to receive approximately **\$445.6M**.

- This amount includes the City's share of the property tax payment (\$20.9M) and the Huntington Beach Employee Retirement share (\$2.2M).



Other

Type	Financial Concession/Cost Sharing	Examples of Entities
Non-exclusive Agreements	Waive field use or rent in exchange for facility maintenance and/or services to the community	Little League, AYSO, Boys & Girls Club, Waymakers, Catalyst Family, Inc.
Memorandum of Understanding (MOU)	Waive rental fees for non-profit orgs in exchange for use of meeting space at libraries or Senior Center	Veterans Resources Center, Sister City Association of Huntington Beach, Robert Mayer Leadership Academy, HB Reads, Huntington Beach Council on Aging, Orange County Memorial Care, Hoag
City Sponsored or Co-Sponsored Events	Waive event fees for non-profit orgs in exchange for City-sponsored or co-sponsored events (Resolutions 2014-15 & 2014-16)	Kiwanis Club for the Annual Easter Hunt and Family Fun Day, Huntington Beach Concert Band, Huntington Beach Historical Society
Specific Events	Waive specific event fees based on Council Action	VISSLA International Surfing Association (ISA) World Junior Surfing Championship, Airshow

Questions?

