



CITY OF HUNTINGTON BEACH

City Council Meeting – Council Member Items Report

To: City Council

From: Dan Kalmick, City Council Member
Rhonda Bolton, City Council Member
Natalie Moser, City Council Member

Date: August 6, 2024

Subject: **Financial Transparency – Determine Total Cost of Pacific Airshow Settlement**

After more than a year of litigation to make the Airshow Settlement Agreement public, on July 12, 2024, a judge ordered City Attorney Michael Gates to release the complete document. Since its release, speculation has arisen about the potential cost to Huntington Beach taxpayers if the agreement extends over the next 40 years, as it contemplates. In other words, what is the City's maximum exposure?

This 40-year term, along with huge parking concessions, are among the glaring discrepancies between the "executive summary" that was released in May 2023 and the actual settlement language. Even more troubling is that no actual cost analysis was performed (despite our request) before the settlement was approved and signed by then Mayor Tony Strickland, Mayor Pro Tem Van Der Mark and Council Members Burns and McKeon.

We have no precise estimate of the settlement agreement's cost to taxpayers. We only know that the costs far exceed the payments, refunds, and concessions reflected in the City Attorney's executive summary.

Taxpayers deserve financial transparency. And, an expectation of transparency should not be misconstrued as a desire to "end" or "stop" the Airshow from taking place.

Additionally, accurate information about the event's economic impact is necessary to calculate the true cost of the Airshow to taxpayers. Unsubstantiated figures have been cited, with past estimates last year claiming \$120 million in Airshow-generated revenue to the city. Now, a recent City press release quoting Mayor Van Der Mark declares there is "over \$100 million in economic benefit that the Airshow brings to the **region** (emphasis added) every year." Huntington Beach taxpayer dollars should not subsidize the *region's* businesses.

Why is the economic impact a moving target? The figures appear to be based on a marketing report commissioned by Visit Huntington Beach (VisitHB) (at a time when Kevin Elliott, owner of Pacific Airshow/Code Four, sat on its Board of Directors). The VisitHB-commissioned report's calculations could not be verified to a reasonable degree of certainty (again, despite our questions). Plus, VisitHB's report was provided in final form only AFTER the settlement agreement was signed. In effect, no financial impact analysis was completed before the settlement agreement was reached.

We reiterate our call for fiscal transparency. Huntington Beach taxpayers deserve a full accounting of the settlement agreement's cost and its benefit to Pacific Airshow LLC.

The accounting should provide estimated and inflation-adjusted valuations, including but not limited to:

- Four environmental review documents and consultants (current EIR only contemplates ten years, but the settlement agreement allows for three more non-revocable 10-year options)
- Total benefit of parking concessions and lost revenue to the City, including the 2023 Airshow
- Potential benefit of purchasing additional parking at \$10 per space
 - What's the value of a parking space in 2064?
- RV Parking concession value and lost revenue to the City
- Costs of public safety and other staff time
 - What does mitigation of "third-party fees" (settlement agreement Section 2.b.v.) mean? Does this mean overtime from our Huntington Beach Police Department versus other police departments and Orange County Sheriff's Department?
- Waived permit fees, including 2021 and 2022 refunds
- Total cash payments made and estimated inflation costs on the last payment
- Potential value of the Pacific Airshow as a sellable/transferrable asset, as created by the settlement agreement

The accounting should include all calculations, "work product," and assumptions used to produce these valuations so that Huntington Beach taxpayers can be aware of any unknowns.

Furthermore, there must be an independent, credible estimate of the Airshow's annual direct revenue to the City. An outside entity should be able to provide upper and lower bounded estimates based on hotel room availability (with the assumption that the hotels would not be empty at the end of September), the fact that federal employees (i.e., military pilots and crews) do not pay local taxes (e.g., hotel taxes) when operating in their official capacity, and some semblance of the sales tax generated during the three days the Airshow operates. As with the above request, the work product should include all assumptions and calculations used to derive estimates. Both analyses should be made available for public scrutiny.

RECOMMENDED ACTION

Direct the City Manager to contract an independent third-party expert in financial auditing or accounting (not firms that prepare reports for marketing entities) to review the settlement agreement costs and value, City financials, and estimate the Airshow's net direct economic benefit to the City. This expert should present their findings within 60 days at a public City Council meeting, providing detailed assumptions, calculations, and source material for resident understanding.

Attachments:

- Airshow Settlement Agreement and General Release
- Airshow Settlement Memo