

Code Section 53083.

Alternative Action(s):

Do not receive and file the Five-Year Subsidy Report.

Analysis:

The City has used sales tax sharing agreements as an economic incentive to help attract new businesses and retain existing businesses. Danny McKenna, owner of McKenna Volkswagen (VW), approached the City in 2016 expressing interest in constructing a new Subaru showroom, retail store, and maintenance facility adjacent to the McKenna VW lot. In order to offset the cost of the project, originally estimated at \$17 million, the City negotiated a sales tax sharing agreement (Agreement) with McKenna. The Agreement established that the sales tax portion of the original \$25 million from McKenna VW in gross car sales be retained by the City. A good portion of the gross sales is not taxable (e.g. wholesale transactions for parts and used vehicles, service and labor, etc.) resulting in \$15,080,000 of taxable sales with the City's portion of sales tax being one percent; therefore, the City's portion of sales tax revenue prior to the Agreement was \$150,800 which amount serves as the City's base amount. The agreement provides that annually the City's portion of sales tax, in excess of the base amount, for both dealerships be split 55% to the City and 45% to McKenna.

The economic subsidy enabled McKenna to expand VW operations and establish a new Subaru dealership with a private investment of \$29.8 million. While the initial proposed investment by McKenna was \$17 million, the final cost was higher and included \$13.6 million for the purchase of land, \$10.2 million to construct the new facility, and \$6 million towards the purchase of the Subaru franchise. Subaru operated out of VW's dealership beginning in 2016 until construction of the new Subaru facility was completed in July 2019.

Despite unprecedented economic circumstances related to the COVID-19 pandemic, the Agreement has been revenue positive and has achieved higher revenues for the City than projected. In addition to the base amount of \$150,800, McKenna has generated \$145,335 in annual sales tax revenue for the City, for a total of approximately \$296,000 in annual sales tax revenue.

On January 1, 2014, the State approved Assembly Bill 562 (AB 562), a law that requires local agencies to disclose certain information, make it available to the public, and conduct a public hearing prior to approving an economic development subsidy. The bill was codified as section 53083 of the Government Code and requires the following information, as applicable:

- 1) The name and address of all corporations or any other business entities, except for sole proprietorships, that are beneficiary of the economic development subsidy.
- 2) The start and end dates and schedule for economic development subsidy.
- 3) A description of the economic development subsidy, including the estimated total amount of the expenditure of public by, or of revenue lost to, the local agency as a result of the economic development subsidy.
- 4) The net tax revenue accruing to the local agency as a result of the economic development subsidy.
- 5) The number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

In 2016, before approving the Agreement with McKenna, the Council held a public hearing and disclosed the information identified above. The staff report, the Agreement, and the original subsidy report from that public hearing are attached (Attachment #1).

An additional requirement of the law is that a local agency that approves an economic development subsidy prepare a report and make it available to the public via the City's website and at a public hearing within five years of the approval of the economic development subsidy. The report must include the items listed above. The City has prepared the Five-Year Subsidy Report (Attachment #2) which includes the following key points:

- Agreement term through December 31, 2033;
- The City has retained \$1,480,673 of total sales tax revenues;
- The City has provided McKenna with \$594,550 in sales tax rebates;
- A total of 37 full-time jobs and 305 temporary construction jobs were created from the economic subsidy.

Environmental Status:

Pursuant to CEQA Guidelines Section 15378(b)(4), government fiscal activities that do not result in a physical change in the environment and do not commit the lead agency to any specific project, do not constitute a project. Therefore, these activities are exempt in accordance with CEQA Guidelines Section 15060(c)(3).

Strategic Plan Goal:

Economic Development & Housing

Attachment(s):

1. Original Staff Report, original Subsidy Report, and the Sales Tax Agreement Between the City of Huntington Beach and McKenna Motors Huntington Beach, Inc.
2. Five-Year Economic Development Subsidy Report Pursuant to Government Code Section 53083 for a Sales Tax Sharing Agreement by and Between the City of Huntington Beach and McKenna Motors Huntington Beach, Inc.