



City of Huntington Beach

File #: 22-373

MEETING DATE: 5/3/2022

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Sean Joyce, Interim City Manager

VIA: Ursula Luna-Reynosa, Director of Community Development

PREPARED BY: Robert Ramirez, Economic Development Project Manager

Subject:

Public Hearing to consider acceptance of the Five-Year Economic Development Subsidy Report for Surf City Auto Group II, Inc. Sales Tax Sharing Agreement

Statement of Issue:

Government Code Section 53083 mandates certain requirements of local agencies prior to approving economic development subsidies, as well as during the term of such subsidies. One requirement is that not less than five years after the approval of an economic development subsidy, a report (the "Five-Year Subsidy Report") containing specific information shall be made available to the public via the City's website and at a City Council public hearing. In July 2017, the City approved a Sales Tax Sharing Agreement (the "Agreement") with Surf City Auto Group II, Inc. The Five-Year Subsidy Report is attached.

Financial Impact:

A fiscal impact was associated with the original action to approve the Agreement. However, there is no fiscal impact to receive and file this Five-Year Subsidy Report.

Recommended Action:

A) Open the public hearing and receive written and oral testimony; and,

B) Receive and file the "Five-Year Economic Development Subsidy Report Pursuant to California Government Code Section 53083 for a Sales Tax Sharing Agreement by and Between the City of Huntington Beach and Surf City Auto Group II, Inc.," in compliance with Government 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. Surf City Auto Group II, Inc. (Surf City Auto) approached the City in 2017 expressing interest in expanding the existing Chrysler, Jeep, Dodge, Ram dealership located at 16555 Beach Boulevard, and building a new stand-alone Jeep dealership at 16701 Beach Boulevard to accommodate growing sales of Jeep vehicles. To help facilitate the expansion that would in turn increase car sales, the City negotiated a sales tax sharing agreement (Agreement) with Surf City Auto.

The Agreement established that the sales tax of all Surf City Auto sales are retained by the City up to an annual base sales tax amount of \$1,681,797, increasing by 1% each subsequent year. Any additional sales tax above the base is split 50% to the City and 50% to Surf City Auto. The subsidy was approved in July 2017 and the Agreement commenced in December 2018 following the opening of the new Jeep dealership. The economic subsidy enabled Surf City Auto to expand operations at its original location and build a new stand-alone Jeep dealership with a private investment of \$3.3 million. This investment went toward design, construction, furnishing, and signage.

Car dealerships are the largest sales tax generators in the City with annual sales tax revenue estimated to be between \$8-9 million. Despite unprecedented changes to car purchases as a result of COVID-19, chip shortages, and low inventory, the Agreement has been revenue positive with Surf City Auto generating over \$220 million of annual gross sales, which amounts to \$2.2 million of annual sales tax. From 2018 through 2021, the City received approximately \$7.2 million of sales tax revenue from Surf City Auto, of which approximately \$6.4 million has been retained by the City and almost \$785,000 has been rebated to Surf City Auto.

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 2017, before approving the Agreement with Surf City Auto, the Council held a public hearing and disclosed the information 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 approved 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:

- The Agreement term is for twenty years (through November 30, 2038) or can be terminated any time after ten years upon written notice by Surf City Auto;
- The City has retained \$6,436,646 of total sales tax revenues;
- The City has provided Jeep with \$784,694 of sales tax rebates;
- A total of 25 full-time jobs and 75 temporary construction jobs were created in association with 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 1506(c)(3).

Strategic Plan Goal:

Economic Development & Housing

Attachment(s):

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