

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083
FOR A SALES TAX SHARING AGREEMENT
BY AND BETWEEN CITY OF HUNTINGTON BEACH
AND MCKENNA MOTORS HUNTINGTON BEACH, INC.**

Pursuant to Government Code Section 53083, the City Council of the City of Huntington Beach must hold a noticed public hearing and, prior to the public hearing, provide all of the following information in written form and available to the public and through the City's website regarding a proposed economic development subsidy to be provided by the City pursuant to a Sales Tax Sharing Agreement by and between the City of Huntington Beach and McKenna Motors Huntington Beach, Inc. ("Agreement"). Notice was published on the City's website for a public hearing to be held on November 21, 2016.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy, as further described in Number 2 below.

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.

The Agreement is with McKenna Motors Huntington Beach, Inc. who will construct, own and operate a new Subaru dealership that will benefit from the economic development subsidy:

McKenna Motors Huntington Beach, Inc.
18711 Beach Boulevard
Huntington Beach, CA 92647

2. The start and end dates and schedule, if applicable, for the economic development subsidy.

If the Agreement is approved by the City Council, the start date of the economic development subsidy will commence on January 1, 2017 and the end date will be no later than 16 years after the start date, on December 31, 2033. The economic development subsidy will be paid quarterly, within 60 days of the end of each quarter.

3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

The economic development subsidy is equal to forty-five percent (45%) of the sales tax revenue received by the City for the VW and Subaru dealerships in excess of \$150,800 for each year (base year). The term of the subsidy is 16 years and the estimated total amount of revenue lost to the City is estimated at \$1.94 million in nominal dollars or approximately \$987,000 in present value terms, assuming an 8% discount rate.

4. A statement of the public purpose for the economic development subsidy.

Danny McKenna owns and operates the McKenna VW on Beach Boulevard, he also owns the property that a majority of the Kia Dealership is also located and operated from. Due to concerns over a pending residential project adjacent, dealership's future had been in question (both VW and Kia). In order to continue his auto dealers business, he purchased the adjacent land (former McDonald's site) from the residential developer for \$6.75 million. However, due to the residential project being in the planning application process, the property was valued much higher, than a vacant parcel. With the purchase of the land, Mr. McKenna was presented with the opportunity to buy a Subaru dealership, which he has done and is selling Subaru's from the McKenna VW lot.

Mr. McKenna would like to expand and use the two parcels adjacent to the MCKenna VW lot (Site – parcels 159-102-06 and 159-102-07), of which he is the owner, to construct a new showroom/retail store and maintenance facility to meet Subaru's dealership image and space guidelines. The opportunity is expensive and he is asking for assistance from the City. Mr. McKenna will be investing an additional \$4.5 to \$5 million to construct the new dealership in addition to the purchase of the land (\$6.75 million) and the purchase of the Subaru franchise (\$6 million).

The proposed economic development subsidy will enable Mr. McKenna to expand the operations of both the VW and Subaru dealerships, with annual combined sales revenues of approximately \$58 million per year and potentially increasing the annual sales tax revenues to the City by an average of \$148,000 per year over the existing base of \$150,800 per year, or approximately by 100%.

5. The projected tax revenue to the local agency as a result of the economic development subsidy.

Operations of the new dealership are expected to generate significant sales activity and to increase the sales tax generated by the VW and Subaru dealerships by approximately \$4.32 million over the term of the proposed Agreement plus the \$150,800 per year that is currently being received by the City from the existing facility. The current assessed value of the Site is \$5,137,000 and it is projected that the Site will have a projected assessed value of \$9,934,000 after the proposed improvements are completed, or a \$4,797,000 increase.

Projections indicate that, over the 16 year period of the sales tax sharing agreement, the City will receive approximately \$2.37 million in additional sales tax revenue, or \$1.21 million in present value dollars, assuming an 8% discount rate, as a result of the economic development subsidy. In addition, the City is projected to receive approximately \$894,000 in additional property taxes during the term of the agreement, or \$479,000 in present value terms. Therefore, it is estimated that the City will receive an estimated \$1.69 million in projected present value tax revenue after the estimated \$987,000 in present value terms is provided to the dealership as an economic development subsidy.

6. The estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time and temporary positions.

The City anticipates the construction and operation of the new dealership will yield a minimum of 85 full- and part-time jobs and approximately 50 temporary new jobs during the construction.