

**FIVE YEAR REPORT PURSUANT TO  
CALIFORNIA GOVERNMENT CODE SECTION 53083  
ON AN  
OPERATING COVENANT AGREEMENT  
BY AND BETWEEN  
THE CITY OF HUNTINGTON BEACH  
AND  
PINNACLE PETROLEUM, INC.**

The following Five Year Report has been prepared pursuant to California Government Code Section 53083. Section 53083 requires that for economic development subsidy agreements approved on or after January 1, 2014, the city must hold a public hearing within five years to provide an update on the project. As required this report reiterates details of the Operating Covenant Agreement (Agreement) and provides information on subsidy payments to date.

This update report considers only the Agreement. The purpose of this Agreement is to effectuate economic development in the City of Huntington Beach (City).

The following Summary Report is based upon the information contained within the Agreement, and is organized into the following six sections:

- I. Identity of the Developer:** This section provides the name and address of the Developer.
- II. Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on Pinnacle and the City by the Agreement.
- III. Economic Incentives Provided and Cost of the Agreement:** This section details the economic incentives provided, and the costs incurred by the City to implement the Agreement.
- IV. Consideration Received and Comparison with the Economic Incentives Provided:** This section describes the financial compensation to be received by the City.
- V. Creation of Economic Opportunity and Public Purpose:** This section explains how the Agreement will assist in creating economic opportunity in the City.
- VI. Job Creation/Retention:** This section describes the number of full-time, part-time and temporary jobs created or retained under the Agreement.

This report and the Agreement are to be made available for public inspection prior to the public hearing on the status of the Agreement.

## **I. IDENTITY OF DEVELOPER**

Information on the Developer is provided below:

### **Pinnacle**

Pinnacle Petroleum, Inc.  
7911 Professional Circle  
Huntington Beach, California 92648

## **II. SALIENT POINTS OF THE AGREEMENT**

### **A. Pinnacle Responsibilities**

The Agreement required Pinnacle to accept the following:

1. Pinnacle agreed to enter into the Development and Operating Covenant with the City.
2. Pinnacle agreed to maintain its headquarters in the City for the next 10 years, with options to extend the time by up to ten years.

### **B. City Responsibilities**

The Agreement imposed the following responsibilities on the City:

1. The City purchased the Operating Covenants over the initial ten-year period and for the two optional five year periods for an amount equal to 65% of the sales tax revenues generated provided that sales tax revenues exceed \$25,000 per quarter (\$100,000 per year).

### **C. Schedule**

The Agreement has a ten year term. It became effective on April 21, 2014 and expires on April 20, 2024. The Agreement provides for two five year options, which, if both are exercised, would extend the Agreement until April 20, 2034.

## **III. ECONOMIC INCENTIVES PROVIDED AND COST OF THE AGREEMENT**

The City entered into the Agreement to retain Pinnacle in the City. Pinnacle had received numerous offers to relocate its headquarters to other locations near the City. The City's incentive program caused Pinnacle to choose to remain in the City. Economic incentives are provided to high sales tax producers to incentivize the business to remain in the City.

Under the Agreement the City rebates 65% of the sales tax revenues generated by Pinnacle in any given fiscal year. Through the first five years of the Agreement, the City has incurred \$2,919,843.87 in costs, as shown below.

| <u>Fiscal Year</u> | <u>Rebate</u>       |
|--------------------|---------------------|
| 2014 – 2015        | \$715,218.31        |
| 2015 – 2016        | \$452,131.40        |
| 2016 – 2017        | \$434,519.21        |
| 2017 – 2018        | \$663,682.23        |
| 2018 – 2019        | <u>\$654,292.72</u> |
| Total              | \$2,919,843.87      |

The costs to be incurred by the City through the remaining five years of the Agreement are estimated to be approximately \$3,271,500 assuming that the annual rebate remains at \$654,292.72 for the next five years. The amount could be higher or lower depending upon whether the cost of fuels and quantities sold increase or decrease over the next five years.

#### **IV. CONSIDERATION RECEIVED AND COMPARISON WITH THE ECONOMIC INCENTIVES PROVIDED**

The Agreement has retained substantial sales tax revenues for the City. Thus far, Pinnacle has generated \$4,557,009.26 in sales tax revenues through the end of fiscal year 2018 – 2019. Absent the Agreement Pinnacle would have relocated to another City and those sales tax revenues would have been captured elsewhere. As shown below, the City has retained \$1,637,165.39 of the total sales tax revenues.

| <u>Fiscal Year</u> | <u>Retained Tax</u> |
|--------------------|---------------------|
| 2014 – 2015        | \$366,464.69        |
| 2015 – 2016        | \$260,593.07        |
| 2016 – 2017        | \$300,428.81        |
| 2017 – 2018        | \$357,367.36        |
| 2018 – 2019        | <u>\$352,311.46</u> |
| Total              | \$1,637,165.39      |

The revenues to be retained by the City through the remaining five years of the Agreement are estimated to be approximately \$1,761,600, assuming that the sales remain constant and the City receives \$352,311.46 per year for the next five years. The amount could be higher or lower depending upon whether cost of fuels and quantities sold increase or decrease over the next five years.

## V. CREATION OF ECONOMIC OPPORTUNITY AND PUBLIC PURPOSE

As noted when the Agreement was approved, Pinnacle was being wooed by other cities to relocate their operation and sales tax payments to their city. Pinnacle decided to stay in Huntington Beach in large part due to the City entering into the Agreement. As a result, the City has retained between 19 and 22 full-time and part-time jobs over the last five years and expects to do so over the next five years of the Agreement.

The Agreement includes two five-year options. If Pinnacle and the City exercise the options, then the City could expect to retain approximately \$3.5 million during the option periods if sales volumes remain at their existing levels. Pinnacle would expect to receive rebates totaling approximately \$6.5 million over the two option periods, again assuming sales remain at their current levels.

The City's 2019-2020 revised budget estimates local sales tax revenues at approximately \$36.4 million. The retained sales tax revenues of approximately \$352,000 represent nearly 1.0% of the City's projected sales tax revenues.

## VI. JOB CREATION/RETENTION

Pinnacle averaged between 20 and 25 employees over the first five years of the Agreement. These jobs would have been lost to the community if Pinnacle had relocated to another city. These jobs have been retained in the City at an average annual cost of \$28,625.89 per job through the first five years as shown below.

| <b>Fiscal Year</b> | <b>Full-time Employees</b> | <b>Part-time Employees</b> | <b>Total Employment</b> | <b>Rebate Payment</b> | <b>Rebate per Employee</b> |
|--------------------|----------------------------|----------------------------|-------------------------|-----------------------|----------------------------|
| 2014 – 2015        | 12                         | 8                          | 20                      | \$715,215.31          | \$35,760.66                |
| 2015 – 2016        | 12                         | 8                          | 20                      | \$452,131.40          | \$22,606.57                |
| 2016 – 2017        | 14                         | 8                          | 22                      | \$434,519.21          | \$19,750.87                |
| 2017 – 2018        | 13                         | 6                          | 19                      | \$663,682.23          | \$34,930.64                |
| 2018 – 2019        | 14                         | 7                          | 21                      | <u>\$654,292.72</u>   | \$31,156.80                |
| Total              | 65                         | 37                         | 102                     | \$2,919,840.87        | \$28,625.89                |