

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083
FOR A SALES TAX SHARING AGREEMENT
BY AND BETWEEN CITY OF GARDEN GROVE
AND AAA OIL, INC. dba CALIFORNIA FUELS AND LUBRICANTS**

Pursuant to Government Code Section 53083, the City Council of the City of Garden Grove (“City”) must hold a noticed public hearing and, prior to the public hearing, provide certain information in written form and available to the public and through the City’s website regarding a proposed economic development subsidy to the benefit of the City and AAA Oil, Inc., dba California Fuels and Lubricants (“CFL”). In 2013 the City entered into an Operating Covenant Agreement (“Original Agreement”) with CFL to share sales tax proceeds to induce CFL to make certain working capital improvements and to locate its business in Garden Grove. The Original Agreement was Amended and Restated in 2016 (the “2016 Agreement”) to provide for additional working capital investment, to extend the length of the term, and to revise the method of calculating the sales tax sharing formula. A proposed Amended 2016 Agreement is being considered by the Garden Grove City Council to provide for even more working capital investment, to further extend the length of the term, and to again revise the method of calculating the sales tax sharing formula. Notice was published on the City’s website for a public hearing to be held on November 14, 2023.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Amended 2016 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 AAA Oil, Inc., dba California Fuels and Lubricants, a California corporation: 11621 and 11671 Westminster Avenue, Garden Grove, CA.

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

The start date of the economic development subsidy began on August 13, 2013, was amended and restated on January 26, 2016 and will again be amended on November 14, 2023, if approved by the City Council, and the end date will be June 30, 2056. The economic development subsidy will be paid quarterly, within 30 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, in all three iterations, is a portion of base sales tax accruing to the City with some formula of tax sharing after the City collects the base threshold.

Original Agreement (2013): City retains \$600,000 base and then shares 50% of sales tax proceeds after base is achieved. CFL did not produce sales tax in excess of \$600,000 base and therefore no sales tax was ever shared under the Original Agreement.

2016 Agreement: City retains \$200,000 base and then shares sales tax proceeds on a tiered scale as follows:

Portion of Annual Sales Tax Revenues Generated by Business	Percentage Retained by City	Percentage Payable to Company
First \$200,000	100%	0%
Next \$1,800,000	30%	70%
Next \$1,000,000	40%	60%
Next \$2,000,000	50%	50%
Next \$2,000,000	45%	55%
Amount in Excess of \$7,000,000	35%	65%

From 2016 to date, CFL did not bring in sales tax greater than \$1.8 million annually and therefore only the 30%/70% tier was utilized to share sales tax proceeds. During this period the City received approximately \$3 million in sales tax proceeds while CFL received approximately \$3.9 million in sales tax proceeds.

Proposed Amended 2016 Agreement: City retains \$312,000 base and then shares sales tax proceeds with 75% going to CFL and the City retaining 25%. Through the term of the proposed amendment (June 30, 2056), it is anticipated that CFL will receive approximately \$192.1 million of sales tax proceeds (average \$6 million annually).

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

CFL delivers high-quality name brand petroleum products and services throughout Southern California and Garden Grove is CFL’s point-of-sale for sales tax purposes. CFL was founded in Garden Grove September 2004 with only 2 employees. CFL is one of the City’s top ten (10) highest sales tax producers. In exchange for the changes included in the proposed Amended 2016 Agreement, the term of the operating covenant would be extended for 20 years (from 2036 to 2056) and CFL would agree to continue to keep its business in Garden Grove and designate Garden Grove as its point-of-sale through June 30, 2056. CFL has estimated that this Amended 2016 Agreement will enable CFL to expand into new markets, invest additional capital dollars in Garden Grove (minimum of \$10 million), and hire and retain local employees. CFL anticipates its revenues will increase by over 350% due to increasing sales volume made possible by the Amended 2016 Agreement. Based on CFL projections, the City would receive approximately \$266.9 million (present value) in sales tax revenue through 2056.

The sale of petroleum products is conducted by a limited number of companies in California all competing for market share. The industry is currently seeing consolidation opportunities. The purpose of the proposed Amended 2016 Agreement is to induce CFL to remain in Garden Grove through 2056, make significant capital investment of its own funds in its business in order to increase the volume of

sales in Garden Grove, and increase employment opportunities in Garden Grove. If the anticipated expansion and sales growth occurs as a result of CFL's capital investment, the Amended 2016 Agreement will result in the generation of significant additional sales tax revenues to the City's General Fund, the creation of additional employment opportunities for residents of the City, the long-term maintenance of the Site in a first class condition, and other tangible and intangible benefits to the City.

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

Projections indicate that, over the 30+ year period of the Amended 2016 Agreement, roughly \$266.9 million (\$8.3 million annual average) in present value dollars of additional sales tax revenue could be received by the City. Of this amount, the City would pay CFL approximately \$192.1 million in present value terms.

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

CFL also projects the addition of approximately one hundred (100) new jobs over a period of ten (10) years. New jobs are anticipated to include drivers, dispatchers, logistics office staff, accounting and IT positions. CFL will work closely with the City to prioritize the hiring of Garden Grove residents.