

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083**

**FOR AN OPERATING COVENANT AGREEMENT
BY AND BETWEEN
CITY OF FONTANA
AND
HSN, INC.**

Pursuant to Government Code Section 53083, the City Council of the City of Fontana 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 an Operating Covenant Agreement by and between the City of Fontana and Home Shopping Network, Inc. ("Agreement"). Notice was published in the local newspaper for a public hearing to be held on December 8, 2015.

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 HSN, Inc., a Delaware company ("HSN"). HSN and its subsidiaries are the sole beneficiaries of the economic development subsidy.

HSN, Inc.
1 HSN Drive
Saint Petersburg, Florida 33729

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 be on the first day of Computation Quarter 1, which is July 1, 2016. The economic development subsidy will end 20 years after the start date, on June 30, 2036, unless extended pursuant to the terms of the Agreement.

The economic development subsidy will be paid quarterly (every 3 months), within 120 days of the end of each Computation Quarter. Computation Quarters run from January 1 to March 31, April 1 to June 30, July 1 to September 30, and October 1 to December 31.

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 calculated based on HSN's sales tax revenue during a Computation Quarter in an amount equal to the sum of fifty percent (50%) of HSN's sales tax revenue allocable to Fontana for the calendar year which includes such Computation Quarter above the first Fifty Thousand Dollars (\$50,000) in sales tax revenue received by the City in each Computation Quarter

The City estimates that the total amount of the expenditure or loss of revenue of public funds as a result of the economic development subsidy will be Eight Million Dollars (\$8,000,000).

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

HSN currently operates a warehouse and distribution center in the City pursuant to an Owner Participation Agreement between HSN and the former Redevelopment Agency of the City of Fontana. That Owner Participation Agreement expired in 2011. Without an agreement to remain, HSN could consider relocating its warehouse and distribution center away from the City. The economic development subsidy will ensure that HSN remains within the City and may expand its operations within the City for a period of not less than 20 years.

The City has determined that the retention and possible expansion of HSN's warehouse and distribution center, as described in the preceding paragraph, will generate substantial revenue for the City, allow for the retention and creation of new jobs, revitalize an area of the City which has suffered a loss of jobs and businesses during the economic downturn of the mid-2000's, and result in community and public improvements that might not otherwise be available to the community for many years.

Further, the retention and possible expansion of HSN's warehouse and distribution center serves the additional public purpose of fostering a business and civic environment that may attract additional businesses and investment in the community due to the availability of the increased public and private services and economic activity resulting therefrom, thereby assisting the City in its goal of furthering the development of the community.

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

The City anticipates that the retention and possible expansion of HSN's warehouse and distribution center within the City will result in an approximate retention and increase of annual sales tax revenue in the amount of One Million Dollars (\$1,000,000), minus the covenant payments to be paid to HSN, as set forth in number 2 above.

Although there will not be an increase in other taxes including business license tax or real property taxes, the City will continue to receive approximately \$36,000 in business license tax from HSN, \$37,000 in personal property taxes, and \$400,000 in real property taxes associated with the current facility.

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

The retention and possible expansion of HSN's warehouse and distribution center within the City is anticipated to result in the retention of an average of 99 jobs currently at the facility consisting of approximately:

- 73 full-time jobs
- 5 part-time jobs
- 23 temporary positions