

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083.1**

**FOR AN OPERATING COVENANT AGREEMENT
BY AND BETWEEN
CITY OF ONTARIO
AND
SID TOOL, INC.**

Pursuant to Government Code Section 53083.1, the City Council of the City of Ontario 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 Ontario and SID TOOL, Inc. ("Agreement"). Notice was published in the local newspaper for a public hearing to be held on April 5, 2022.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083.1 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, including members of a commonly controlled group or members of a combined reporting group of which the corporation is a member, or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.**

The Agreement is with SID TOOL, Inc., a New York corporation ("MSC"). MSC is the beneficiary of the economic development subsidy.

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- 2. The name and address of the commercial sales office that are the beneficiary of the economic development subsidy.**

The Sales Office currently under consideration is a 1,616 square foot office in the Palmbrook Corporate Center on Inland Empire Boulevard in Ontario, CA ("Office"), which would benefit pursuant to the terms of the Agreement, and subject to approval by the City Council. MSC may consider other similar locations within the City.

- 3. The start and end dates and schedule, if applicable, for the economic development subsidy.**

If the Agreement is approved by the City Council, the term will begin on the Effective Date of the Agreement and continue for no less than 20 years. The first Covenant Payment will be paid following the first Covenant Quarter in which MSC has performed its covenants and other obligations pursuant to the Agreement.

4. 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 shall be the sum of fifty percent (50%) of the Sales Tax Revenues attributable to annual taxable sales received by the City for Office.

The City estimates that the annual payment to MSC will be approximately five hundred eighty-seven thousand dollars (\$587,000) for each year commencing upon the effective date of the Agreement, and that the total amount of the expenditure or loss of revenue of public funds as a result of the economic development subsidy will be approximately eleven million seven hundred forty thousand dollars (\$11,740,000) over the 20-year term.

MSC's sales tax paid to City is estimated to be up to twenty-three million four hundred eighty thousand dollars (\$23,480,000) over the 20-year term of the Agreement.

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

MSC and its affiliates comprise one of the largest industrial equipment distributors in the United States, distributing more than 1.5 million metalworking and other industrial products and is seeking to restructure its business operations in order to better serve customers within California and the Western region of the United States.

Through this Agreement, MSC will lease a sales office of approximately 1,600 square feet within the City of Ontario. Without an agreement, MSC would not consider locating its sales office in the City. The economic development subsidy will ensure that MSC selects the City for its sales office thereby generating a benefit to the City for a period of up to 20 years.

The City has determined that location of MSC, as described in the preceding paragraph, will generate substantial revenue for the City, would serve as the base of operation for about 40 employees who would be re-assigned to the Ontario office, and may result in community and public improvements that might not otherwise be available to the community for many years.

Further, the location of MSC 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. This Agreement furthers the policies of the City to be business friendly and support economic growth including new sources of revenue that support residents and city services.

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

The City anticipates that the expansion of MSC within the City will result in an approximate increase of annual sales tax revenue in the amount of up to one million one

hundred seventy-four thousand dollars (\$1,174,000), minus the covenant payments to be paid to MSC as set forth in number 4 above.

The City will receive an estimated sixty thousand dollars (\$60,000) in business license tax from MSC annually.

7. A description of any accountability measures, including, but not limited to, clawbacks of subsidies, provided in the contract if the sales office does not meet the goal outlined in the contract for subsidies.

If MSC does not meet any of the covenants required by Agreement, City may automatically terminate its obligations with respect to Covenant Payments without cost, expense or liability, after providing MSC an opportunity to cure. MSC's contractual covenants include an operating and use covenant for the Office, a required designation of City as point of sale in compliance with California sales tax law, and obligations regarding maintenance of the Office and against solicitation or acceptance of financial assistance, as defined. MSC also covenants that the Office shall not be used for any purpose outside of that set forth in the Agreement, as a sales office.

If MSC breaches their covenant obligations within the first five (5) years of the Agreement (20 Computation Quarters), the City may recover an amount equal to sixty-six percent (66%) of the Covenant Payments paid to date.