Agenda Item

Orange City Council

Item #: 8.1.	8/11/2026	**File #:** 26-0400

TO: **Honorable Mayor and Members of the City Council**

THRU: **Jarad Hildenbrand, City Manager**

FROM: **Russell Bunim, Director of Community Development**

1. SUBJECT

Public Hearing pursuant to Government Code Section 53083 to consider approval of the Vehicle Incentive Program Participation Agreement with five Orange franchised automobile dealerships, contingent upon voter approval of a future Transactions and Use Tax Measure

2. SUMMARY

The proposed Vehicle Incentive Program (VIP) is a buy-local economic development initiative designed to encourage City of Orange residents and businesses to purchase or lease vehicles from participating franchised dealerships located within the City. The Program would provide a $500 rebate toward the purchase or lease of a new vehicle and a $250 rebate toward the purchase of a qualifying pre-owned vehicle (minimum purchase price of $15,000). By encouraging local vehicle purchases, the Program is intended to protect the City's point-of-sale (Bradley-Burns) sales tax base, support local automobile dealerships and the jobs they provide, and preserve revenues that help fund essential City services.

The Program is contingent upon voter approval of the proposed Transactions and Use Tax Measure anticipated for the November 2026 ballot. Pursuant to California Government Code Section 53083, the City Council must conduct a noticed public hearing and review the attached Economic Development Subsidy Report before approving the Participation Agreement and establishing the Program.

3. RECOMMENDED ACTION

1. Conduct and close the Public Hearing pursuant to California Government Code Section 53083.
2. Authorize the Mayor and City Clerk to execute a Participation Agreement with the participating Orange franchised vehicle dealers (Mazda of Orange, Selman Chevrolet, Nissan of Orange, Toyota of Orange, and Villa Ford of Orange) to establish the Vehicle Incentive Program for the period of April 1, 2027 to April 1, 2040, for an amount not to exceed $1,550,000 per year in rebates ($20,150,000 over the 13-year term), contingent upon voter approval of a future Transactions and Use Tax (sales tax) Measure.
3. Approve the Vehicle Incentive Program Guidelines as established by the City Manager and Economic Development Subsidy Report and direct staff to return following the November 3, 2026, election with any necessary implementation actions and budget appropriation requests, contingent upon voter approval of the proposed Transactions and Use Tax Measure.

4. FISCAL IMPACT

The total estimated annual cost of the Vehicle Incentive Program (VIP) is up to $1,600,000, consisting of up to $1,550,000 in resident and business rebates and up to $50,000 for City marketing and administration. Over the 13-year Program term, total expenditures shall not exceed $20,800,000, including up to $20,150,000 for rebates and up to $650,000 for marketing and administration.

The Program is contingent upon voter approval of the proposed Transactions and Use Tax Measure and annual appropriation of funds by the City Council. If approved by the voters, rebate payments and administrative costs would be budgeted annually in the General Fund, with the initial appropriation covering the partial fiscal year beginning April 1, 2027.

Because the Program is structured as a rebate to qualifying Orange residents and businesses, with participating dealerships serving only as an administrative pass-through, it does not divert existing Bradley-Burns point-of-sale sales tax revenues from any other jurisdiction. The City Attorney has reviewed the proposed Program structure for consistency with Government Code Sections 53083 and 53084.

5. STRATEGIC PLAN GOALS

Goal 3: Enhance Economic Development and Achieve Fiscal Stability.

6. DISCUSSION AND BACKGROUND

The City of Orange is home to five franchised automobile dealerships that are a significant source of local sales tax revenue and local employment. On May 26, 2026, the City Council reviewed the draft Vehicle Incentive Program (VIP) and directed staff to prepare the required economic development subsidy report and to schedule a public hearing to consider approval. In anticipation of the proposed Transactions and Use Tax Measure on the November 2026 ballot, staff has developed the Vehicle Incentive Program (VIP) to encourage Orange residents and businesses to continue purchasing and leasing vehicles from Orange dealerships, thereby protecting the City's point-of-sale sales tax base and supporting local employment.

The VIP provides a rebate to Orange residents and businesses who purchase or lease a vehicle from a participating Orange dealership in the amounts of $500 for the purchase or lease of a new vehicle and $250 for the purchase of a qualifying pre-owned vehicle (minimum final sales price of $15,000) applied as a discount to the purchase or lease price at the point of sale. Motorcycles, off-road vehicles, and watercraft are not eligible. The Program is a buy-local incentive designed to improve the price-competitiveness of Orange dealerships for Orange residents and businesses, thereby retaining vehicle-purchase and lease activity, and the associated local sales tax revenue and jobs, within the City. Staff focused the Program on this industry because vehicle purchases represent one of the City's largest and most mobile sources of taxable retail sales, making it particularly well suited for a targeted buy-local incentive.

Vehicle purchases are among the largest taxable transactions most households make, and consumers routinely compare pricing among multiple dealerships throughout Orange County. In many cases, purchasing decisions are influenced by relatively small differences in price or incentives. Staff believes the proposed rebate provides sufficient value to encourage residents and businesses to purchase locally when competing offers are otherwise comparable, helping retain taxable sales and associated sales tax revenues within the City.

Under California law, the local Bradley-Burns sales tax (the City's existing 1% local share) is allocated to the jurisdiction where the selling dealership is located. The City retains that point-of-sale revenue only when a resident or business purchases from a dealership located in Orange. A district transaction and use tax, such as the proposed measure, is applied to a vehicle that is required to be registered, and allocated to the City based on the buyer's registration address. Therefore, an Orange resident or business pays the City's district rate regardless of where the vehicle is purchased. Because the tax rate the buyer pays does not depend on dealer location, the decision to purchase locally turns primarily on price; the VIP improves the price-competitiveness of Orange dealerships and thereby protects the City's point-of-sale sales tax base. The Economic Development Subsidy Report (Attachment 2) provides a detailed analysis of the Program's fiscal effects.

Although the rebate is provided only to qualifying purchasers, the intended beneficiary of the Program is the community as a whole. By retaining taxable vehicle sales within Orange, the Program helps preserve revenues that support police, fire, parks, streets, libraries, infrastructure maintenance, and other essential City services relied upon by all residents.

The proposed Agreement is with five participating Orange franchised dealerships: Mazda of Orange, Selman Chevrolet, Nissan of Orange, Toyota of Orange, and Villa Ford of Orange. The Program is limited to franchised dealerships because they generate the majority of the City's taxable vehicle sales and compete directly with other franchised dealerships throughout the region selling substantially similar vehicles. Staff believes this highly competitive market provides the greatest opportunity for a modest rebate to influence purchasing decisions and retain local sales tax revenues. While independent used vehicle dealerships are valued members of the City's business community, they generally offer unique inventories that compete primarily on vehicle availability, condition, mileage, and price rather than identical vehicles sold at multiple locations. As a result, staff does not believe a standardized rebate would have the same effect on retaining taxable vehicle sales for those businesses.

The Program is proposed to commence on April 1, 2027, and continue through April 1, 2040, aligning with the proposed 13-year duration of the Transactions and Use Tax Measure. Program implementation is contingent upon voter approval of the measure and annual appropriation of funds by the City Council. The annual rebate budget is capped at $1,550,000, with up to $50,000 annually available for City marketing and administration. Participating dealerships will verify purchaser eligibility, apply the rebate at the point of sale, maintain supporting documentation, submit monthly reimbursement requests to the City for reimbursement, and assist in promoting the Program to eligible Orange residents and businesses.

Government Code Section 53083 requires that the City Council hold a noticed public hearing and, prior to the hearing, provide specified information regarding a proposed economic development subsidy in a report posted on the City's website. An "economic development subsidy" is any expenditure of public funds or reduction of revenue of $100,000 or more for the purpose of stimulating economic development; the aggregate expenditure for the VIP exceeds that threshold.

The attached Economic Development Subsidy Report will remain posted on the City's website until the end date of the subsidy. The base term of the subsidy is 13 years. In accordance with Government Code Section 53083, the City will prepare a follow-up economic development subsidy report and hold a public hearing within the Program term, but no later than five years after approval. Because the Program has a term more than 10 years, the City will also provide the required information and hold a public hearing at the conclusion of the 13-year Program term.

7. ATTACHMENTS

- Attachment 1 - Participation Agreement with Dealerships
- Attachment 2 - Economic Development Subsidy Report (per Government Code Section 53083)
- Attachment 3 - Vehicle Incentive Program Guidelines