



# CITY OF LONG BEACH

**R-7**

OFFICE OF THE CITY MANAGER

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (562) 570-6711 • FAX (562) 570-6583

PATRICK H. WEST  
CITY MANAGER

December 13, 2011

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION

Authorize the City Manager to amend and modify the Sales Tax Sharing Agreement between the City of Long Beach and Circle Automotive Group (District 4).

## DISCUSSION

On March 17, 1992, the City Council approved a Sales Tax Incentive Program to encourage large-scale retail development, stimulate private investment in the retail sector, and enhance sales tax revenue in the City. New retail businesses or existing businesses planning to expand, which generate or are projected to generate more than \$5 million in annual sales, may be eligible for the program. To an expanding business, the City would return up to 50 percent of the sales tax generated in excess of the existing tax revenue received by the City (the base amount).

On October 1 2002, the City Council approved a Sales Tax Sharing Incentive Agreement (Agreement) with Circle Automotive Group (Circle) as an incentive to encourage the expansion and redevelopment of the dealership located adjacent to the traffic circle on Lakewood Boulevard (Attachment A). At that time, Circle managed Mitsubishi, Volkswagen, Audi and Porsche automobile dealerships, all located within the City of Long Beach. The expansion and redevelopment project included renovation of the existing Audi dealership located on Lakewood Boulevard, and expanding its operations by acquiring and renovating the adjacent 1.44-acre property for a separate Porsche dealership.

Circle acquired the existing facility for \$3.8 million and paid \$2.8 million for the 1.44-acre expansion property. In 2002, the cost for renovating the buildings for dealership use was estimated to be \$2.75 million for a total cost of \$ 9.35 million. Circle requested financial assistance using the Sales Tax Sharing Incentive program to help defer the cost of expansion and redevelopment.

Under the 2002 Terms and Conditions, the City and Circle would share 50/50 the sales tax generated above the base year amount of \$294,465, which reflects the amount of sales tax generated during the four quarters ending June 2002. This Agreement was to commence in the third quarter of 2002, and terminate in 15 years (2017) or upon the City paying Circle \$3 million, whichever came first. The Agreement was never confirmed by Circle through an executed agreement and the City has not paid any tax revenue to Circle. James Speck, principal owner of Circle, attributed not executing the Agreement to a variety of reasons, including a very complicated process of redeveloping the Porsche and Audi dealerships and divesting his ownership of the Volkswagen dealership to allow Timmons Volkswagen to operate independently in Long Beach.

Circle has now completed the contemplated expansion and renovation of its facilities and is now requesting to execute the Agreement. Staff is recommending that the Circle Agreement be modified while staying within the parameters of the 2002 Agreement as follows:

**Proposed Terms and Conditions:** The City and Circle will share 50/50 the sales tax generated above the 2002 base year amount of \$294,465. Upon City Council approval, this Agreement will commence with sales tax receipts beginning in December 2011 and terminate for sales tax receipts as of December 2022 or upon the City paying Circle \$2.5 million, whichever comes first.

Keyser Marston Associates (KMA) Inc., the City's fiscal advisor, estimates that the completed project cost was \$15,107,455, and estimates that Circle has an annual building cost of \$1,510,746. Based on revenue projections, they can support an annual building cost of \$1,075,211, which leaves an annual feasibility gap of \$435,535 that KMA values at \$4,355,350 over the term of the Agreement. Tables 1 and 2 (Attachment B and C) contain sales projections and analysis of the financial assistance proposed.

This item was reviewed by Heather Mahood, Assistant City Attorney and Victoria Bell, Budget Management Officer on November 21, 2011.

#### TIMING CONSIDERATIONS

City Council action is requested on December 13, 2011 in order to execute the Sales Tax Sharing Agreement to Tax facilitate the dealership's ability to cover the annual capital costs of the completed expansion and renovation as was previously contemplated.

FISCAL IMPACT

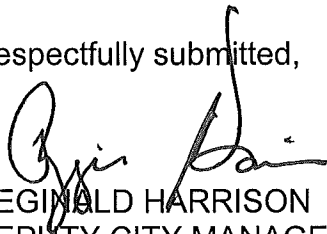
Projections of future sales tax revenue are based on a gross sales estimate for 2011 provided by Circle, which generally appears significantly higher than might actually occur, at least in the short term. Based on future estimates developed by KMA, gross sales are projected to increase by 10 percent each year for 2012 and 2013, then by five percent each year from 2014 through 2022. This would result in a net total of \$7.6 million in sales tax revenue to the City, and a maximum of \$2.5 million to Circle by the end of the Agreement term in 2022. Sales tax revenue accrues to the General Fund. Because the base year for sales tax sharing remains at 2002, there is some minor impact to the City's current net revenue identical to what would have occurred if the Agreement had been executed in 2002.

The proposed sales tax sharing payments to Circle are not currently budgeted. An appropriation increase to the General Fund will be requested after the Agreement is executed and actual sales tax performance is established. Approval of this Agreement will provide continued support to our local economy by assisting in the preservation of 74 full-time and six part-time jobs.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



REGINALD HARRISON  
DEPUTY CITY MANAGER

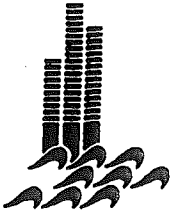
Attachments

APPROVED:



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PATRICK WEST  
CITY MANAGER



# CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

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CITY CLERK  
LONG BEACH, CALIF.  
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October 1, 2002

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**SUBJECT:** Applying the Sales Tax Incentive Program to Retain and Expand Circle Automotive Group, An Automobile Dealership Located in Long Beach (District 4)

## DISCUSSION

On March 17, 1992, the City Council approved a Sales Tax Incentive Program to encourage large-scale retail development, stimulate private investment in the retail sector, and enhance sales tax revenue in the City. New retail businesses or existing businesses planning to expand, which generate or are projected to generate more than \$5 million in annual sales, may be eligible for the program. To an expanding business, the City would return up to 50% of the sales tax generated in excess of the existing base.

The proposed application of this program to Circle Automotive Group (Circle) will serve to retain these auto dealerships in the City of Long Beach, protect the jobs in the community, and as a result of significant expansion, enhance the City's sales tax base.

Circle manages a Mitsubishi dealership at 4400 Los Coyotes Diagonal and Volkswagen, Audi, and Porsche dealerships at 1919 Lakewood Boulevard. On May 12, 1992, the City Council approved a Sales Tax Incentive Agreement with Circle to provide financial assistance for capital improvements required by the manufacturers to retain the franchises and for additional equipment and specialized tools. Under this agreement, the City is required to pay Circle 100% of the sales tax generated over a \$122,000 base for the first five years, 50% for the next five years (through the second quarter of 2002), and 0% for the remaining five years (through the second quarter of 2007). This averages 50% over the life of the agreement. The City also provided collateral for a \$240,000, five-year bank loan to Circle, which was subsequently paid off in 1997.

To retain these franchises, the manufacturers are again requiring substantial capital improvements and new equipment. Porsche and Audi are requiring separate facilities. To satisfy these requirements, Circle has acquired and intends to remodel its existing leased location on Lakewood Boulevard for the Volkswagen dealership and expand its operations by acquiring and remodeling the buildings on the 1.44-acre property across the street, for the separate Porsche and Audi dealerships. Circle acquired the existing

facility for \$3.8 million and paid \$2.8 million for the 1.44-acre expansion property. The cost of remodeling the buildings for dealership use is estimated at \$2.75 million for a total of \$9.35 million. Circle has requested financial assistance using the Sales Tax Incentive Program to help defer the cost of expansion and development.

Keyser Marston Associates, Inc., the City's fiscal advisor, determined that Circle does not have the ability to finance the capital improvements without the assistance provided by the Sales Tax Incentive Program. Based on their analysis, the excess cost is \$3.35 million. Circle is requesting sales tax sharing, in the aggregate, up to \$3 million, over a 15-year period. Based on sales projections, the proposed assistance has a present value of \$1.52 million. The amount the City will receive over 15 years, including the base tax, is projected to be \$9.32 million, with a present value of \$4.24 million.

The proposed agreement will provide for terminating the existing agreement after paying the tax sharing due to Circle for the second quarter of 2002, the last quarter in which the City is required to make a payment. The City will pay Circle 50% of the sales tax revenue generated by sales and leases for the Volkswagen, Audi, and Porsche dealerships in excess of a new base, which is \$294,465. By setting a new, higher base, the proposed agreement will preserve the intent of the existing agreement. The new base is the amount of sales tax generated by the aforementioned dealerships during the four quarters ending June 30, 2002. Payments will start in the third quarter of 2002 and will terminate in 15 years or upon paying \$3 million, whichever comes first.

To implement this agreement, the City will lease Circle's property for the sales tax sharing amount and sub-lease it back to Circle for \$1 per year. Attached Tables 1 and 2 contain a sales projection and analysis of the financial assistance proposed.

This item was reviewed by James N. McCabe, Deputy City Attorney, on August 22, 2002; Annette Hough, Budget Manager, on September 24, 2002 and Jim Sadro, City Treasurer, on September 24, 2002.

#### TIMING CONSIDERATIONS

Circle has committed to the expansion by purchasing the 1.44-acre property. An agreement with the City will facilitate the dealership's ability to secure adequate financing for the improvements. Timely execution of the Agreement will accelerate the proposed construction and, commensurately, the increased revenue to the City.

#### FISCAL IMPACT

Annual sales tax revenue is expected to grow significantly from a total of \$294,465 for the four quarters ending June 2002 to a projected \$712,000 in 2006 as a result of the

HONORABLE MAYOR AND CITY COUNCIL

October 1, 2002

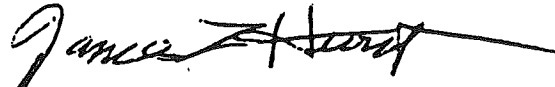
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proposed remodeling and expansion. The aggregate amount retained by the City over 15 years is projected to be \$9.32 million, which has a present value of \$4.24 million. This amount will accrue to the General Fund.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Authorize the City Manager to terminate the existing agreement with Alant Corporation (Circle Imports) and enter into a 15-year lease agreement with Circle Automotive Group for 50% of the sales tax generated above a base of \$294,465, not to exceed \$3 million.
2. Authorize the City Manager to enter into a sublease agreement with Circle Automotive Group for \$1 per year.

Respectfully submitted,




*MS*  
MELANIE S. FALLON  
DIRECTOR OF COMMUNITY DEVELOPMENT

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Attachments: Table 1  
Table 2

APPROVED:



HENRY TABOADA  
CITY MANAGER

TABLE 1

SALES TAX PROJECTION<sup>1</sup>  
 CIRCLE AUTOMOTIVE GROUP  
 LONG BEACH, CALIFORNIA

Year	Gross Taxable Sales <sup>2</sup>	Residual of Leases <sup>3</sup>	Net Taxable Sales	Less Taxable Base <sup>4</sup>	Incremental Taxable Sales	Sale Tax <sup>5</sup>	Dealer Share	City Share	City's Share with Base
1 2003	\$61,000,000	(\$10,000,000)	\$51,000,000	(\$29,446,500)	\$21,553,500	\$216,000	\$106,000	\$106,000	\$402,000
2 2004	72,700,000	(10,850,000)	61,850,000	(28,446,500)	32,403,500	324,000	162,000	162,000	456,000
3 2005	79,400,000	(11,772,000)	67,628,000	(28,446,500)	38,181,500	382,000	191,000	191,000	485,000
4 2006	84,000,000	(12,773,000)	71,227,000	(28,446,500)	41,780,500	418,000	209,000	209,000	503,000
5 2007	84,700,000	(13,859,000)	70,841,000	(28,446,500)	41,394,500	414,000	207,000	207,000	501,000
6 2008	88,400,000	(14,552,000)	73,848,000	(28,446,500)	44,401,500	444,000	222,000	222,000	516,000
7 2009	94,000,000	(15,280,000)	78,720,000	(28,446,500)	49,273,500	493,000	247,000	247,000	541,000
8 2010	96,700,000	(16,044,000)	80,656,000	(28,446,500)	51,209,500	512,000	256,000	256,000	550,000
9 2011	101,400,000	(16,846,000)	84,554,000	(28,446,500)	55,107,500	551,000	276,000	276,000	570,000
10 2012	106,000,000	(17,688,000)	88,312,000	(28,446,500)	58,865,500	589,000	295,000	295,000	589,000
11 2013	111,700,000	(18,218,000)	93,481,000	(28,446,500)	64,034,500	640,000	320,000	320,000	614,000
12 2014	111,400,000	(18,768,000)	92,634,000	(28,446,500)	63,187,500	632,000	316,000	316,000	610,000
13 2015	117,700,000	(19,329,000)	98,371,000	(28,446,500)	68,924,500	689,000	191,000	498,000	792,000
14 2016	125,400,000	(19,909,000)	105,491,000	(28,446,500)	76,044,500	760,000	0	760,000	1,054,000
15 2017	134,000,000	(20,506,000)	113,494,000	(28,446,500)	84,047,500	840,000	0	840,000	1,134,000
Total									
Net Present Value @ 10%						\$3,000,000	\$1,517,000	\$9,317,000	\$4,244,000

1 Rounded to the nearest \$1,000.  
 2 Circle Automotive Group projections. Excludes services.  
 3 Assumes 20% residual value on leases. Escalated by 8.5% per year years 1 - 5, 5% per year years 6 - 10, and 3% per year year 11 - 15.  
 4 Circle Automotive Group 2001 3rd and 4th quarters; and 2002 1st and 2nd quarters taxable sales. Excludes services and leases.  
 5 1% sales tax to the City.

TABLE 2

ILLUSTRATIVE SUPPORTABLE INVESTMENT CALCULATION W/ ASSISTANCE  
 CIRCLE AUTOMOTIVE GROUP  
 LONG BEACH, CALIFORNIA

<b>I. <u>Acquisition Cost</u></b>			
1919 Lakewood (Allocated to Existing Volume)		\$0	
Firestone / LA Fitness		2,800,000	
<b>Total Acquisition</b>			<b>\$2,800,000</b>
<b>II. <u>Improvements</u></b>			
Porsche Showroom	Allowance	\$500,000	
VW Showroom	Allowance	750,000	
Audi Showroom	Allowance	1,300,000	
Service Entrance	Allowance	200,000	
<b>Total Improvements</b>			<b>\$2,750,000</b>
<b>III. <u>Total Investment</u></b>			<b>\$5,550,000</b>
<b>IV. <u>Occupancy Cost</u></b>			
Annual Cost at	11.00%	\$611,000	
Taxes at	1%	56,000	
Insurance at	0.50%	28,000	
<b>Total Occupancy Cost</b>			<b>\$695,000</b>
<b>V. <u>Volume Required at</u> 1.25% Sales Revenues</b>			<b>\$55,600,000</b>
Projected Sales Volume	<u>2002</u>	<u>2006</u>	<u>Incremental</u>
VW	\$15,600,000	\$21,000,000	\$5,400,000
Porsche	18,000,000	22,000,000	4,000,000
Audi	12,800,000	22,000,000	9,200,000
Used	4,000,000	11,000,000	7,000,000
Service	2,800,000	4,000,000	1,200,000
Parts	6,000,000	8,000,000	2,000,000
<b>Total</b>	<b>\$59,200,000</b>	<b>\$88,000,000</b>	<b>\$28,800,000</b>
<b>VI. <u>Supportable Rent at</u> 1.25% Sales Revenues</b>			<b>\$360,000</b>
<b>VII. <u>Rent as % of Volume</u></b>			<b>2.41%</b>
<b>VIII. <u>Capitalized Occupancy Cost in Excess of 1.25% @ 10%</u></b>			<b>\$3,350,000</b>
<b>IX. <u>Total Agency Assistance</u></b>			<b>\$3,000,000</b>
Net Present Value @ 10%			\$1,517,000

1 Rounded to the nearest \$1,000.



TABLE 1

ESTIMATE OF SUPPORTABLE OCCUPANCY COST  
 CIRCLE MOTORS  
 LONG BEACH, CALIFORNIA

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**Development Costs**

Land Acquisition	1	\$4,265,086
Building Improvements	1	<u>10,842,369</u>
Total Development Costs		\$15,107,455
Annual Capital Cost @ 10% Amortization Rate	2	\$1,510,746

**Supportable Occupancy Cost**

Stabilized Sales Revenues (Year 4)		\$105,960,000
Supportable Revenues for Occupancy @ 1.2% of Sales	3	\$1,271,520
Less:		
Property Taxes @ 1.12% of Cost	4	(\$169,203)
Insurance @ 0.25% of Improvement Costs		(\$27,106)
Revenues Available for Capital Costs		\$1,075,211
Annual Capital Cost		(\$1,510,746)
Surplus/(Shortfall) for Occupancy Cost		(\$435,535)

<b>Capitalized Surplus/ (Feasibility Gap) @ 10%</b>	<b>(\$4,355,349)</b>
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<sup>1</sup> Based on Developer estimate.

<sup>2</sup> Based on KMA estimate of typical dealer financing.

<sup>3</sup> Based on KMA estimate of sales revenues. The average stabilized occupancy factor is 1.0%. A 20% premium is assumed to achieve the established limit of supportable rent.

<sup>4</sup> Estimate of property tax rate including bonded indebtedness.

TABLE 2

ESTIMATE OF SALES TAX REVENUES - KMA ESTIMATE  
CIRCLE MOTORS  
LONG BEACH, CALIFORNIA

Year	Gross Sales <sup>1</sup>	Taxable Sales @ 70%	Local Sales Tax	Sales Tax Threshold	Available for Distribution	Payment to Circle Motors @ 50%	City Revenues
2011	\$83,400,000	\$58,380,000	\$583,800	\$294,465	\$289,335	\$144,668	\$439,133
2012	91,740,000	64,218,000	642,180	294,465	347,715	173,858	468,323
2013	100,914,000	70,640,000	706,400	294,465	411,935	205,968	500,433
2014	105,960,000	74,172,000	741,720	294,465	447,255	223,628	518,093
2015	111,258,000	77,881,000	778,810	294,465	484,345	242,173	536,638
2016	116,821,000	81,775,000	817,750	294,465	523,285	261,643	556,108
2017	122,662,000	85,863,000	858,630	294,465	564,165	282,083	576,548
2018	128,795,000	90,157,000	901,570	294,465	607,105	303,553	598,018
2019	135,235,000	94,665,000	946,650	294,465	652,185	326,093	620,558
2020	141,997,000	99,398,000	993,980	294,465	699,515	336,338	657,643
2021	149,097,000	104,368,000	1,043,680	294,465	749,215	0	1,043,680
2022	156,552,000	109,586,000	1,095,860	294,465	801,395	0	1,095,860
<b>Totals</b>			\$10,111,030	\$3,533,580	\$6,577,450	\$2,500,000	\$7,611,030
<b>Net Present Value @ 8%</b>			\$6,047,293	\$2,219,111	\$3,828,182	\$1,588,090	\$4,459,203

<sup>1</sup> Includes new and used car sales, leases, parts and service. KMA utilized the Dealer's gross sales estimate for 2011. The gross sales were increased at 10% per year through 2013 and then at 5% per year for the remaining years.