

**MAYOR BOB FOSTER**

CITY OF LONG BEACH

December 8, 2009

MEMBERS OF THE CITY COUNCIL  
City of Long Beach**RECOMMENDATION:**

Authorize the City Manager to offer and negotiate incentives with Boeing and Tesla Motors to locate a production facility in the City of Long Beach including: (1) rebate of 50 percent of sales tax generated to Long Beach for a term of 10 years, (2) provide a Section 108 Loan in the amount of \$2 million with a term of 10 years for facility improvements, and (3) other economic development tools as described below. (District 5)

**BACKGROUND**

Over the last several months the Mayor and City staff have been meeting with Tesla Motors and the Boeing Company to discuss the opening of an electric vehicle production facility at the former 717 manufacturing site, 3860 Lakewood Boulevard. Through this process Boeing has outlined a letter of intent to lease the facility to Tesla for production of the new model "S", a four-door electric vehicle. Even though the discussions to date are related to a private property transaction between Boeing and Tesla, the City is interested in offering economic development incentives to assist Tesla in opening the new operation. The incentives include:

1. **Sales Tax Rebate** – With the approval of Council, the City will enter into a sales tax incentive program with Tesla to return 50 percent of sales tax generated by sales and lease of Tesla products in Long Beach in excess of a base of \$50,000 for a period of 10 years. The potential sales tax rebate would be substantial if Long Beach serves as the point-of-sale for all Internet sales and lease agreements. (Exhibit A)
2. **Section 108 Loan** – The City will provide a Section 108 Loan for facility upgrades in an amount of \$2 million with a term of 10 years.
3. **Long Beach Enterprise Zone Tax Credits** - The Long Beach Enterprise Zone offers a variety of tax credits to offset California income taxes (Exhibit B). The credits include:
  - a. **Hiring Credit** - A qualified business may reduce its state income tax by a percentage of wages paid to one or more qualified employees over a five-year period. Over \$37,400 in tax credits is available per qualified employee. The credits may be carried over until they are exhausted.

- b. **Sales and Use Tax Credit** - California income of franchise tax may be reduced by the amount of sales or use tax paid on the cost of qualified equipment or machinery parts purchased for exclusive use in the Enterprise Zone. The credits may be carried over until they are exhausted. The sales and use tax credit is capped at \$2 million per entity.
  - c. **Business Expense Deduction** - Part of the cost of certain property, furniture and fixtures purchased for exclusive use in the Enterprise Zone may be deducted as a business expense in the first year it is placed in service.
  - d. **Net Operating Loss Carryover** - Up to 100 percent of Net Operating Loss Carryover (NOL) can be for individuals or corporations doing business in the Enterprise Zone. This NOL may be carried over up to 15 years.
4. **Workforce Incentive** – Through its Workforce Investment Network, the City is prepared to develop a full worker incentive package that can greatly assist Tesla in hiring efforts. Typical assistance includes employee recruitment, screening, background checks, industry assessments, and necessary training. For qualified employees there are also on-the-job training reimbursements available for the first 90-120 days.

**FISCAL IMPACT**

**Benefits to Tesla Motors**

Sales Tax Rebate (Exhibit A)	\$15,400,000
Section 108 Loan	\$2,000,000
Enterprise Zone (Exhibit B)	\$10,400,000
Workforce Investment Network	\$800,000
<b>Total</b>	<b>\$28,600,000</b>

Rebate of Sales tax would be 50 percent of tax received by the City from direct Tesla Motors products, net \$50,000 base. The Section 108 Loan is a federal program that provides the City the ability to borrow against Community Development Block Grant (CDBG) allocation. Tesla would be given a 10-year term to repay. Should Tesla not be able to repay the debt, CDBG would cover the payment.

Respectfully submitted,



Mayor Bob Foster  
City of Long Beach

## Exhibit A

### Sales Tax Sharing Agreement

	Year	Taxable Sales Tax	Base	Residual	Tesla	City
1	2011	\$900,000	\$50,000	\$850,000	\$425,000	\$475,000
2	2012	\$1,800,000	\$50,000	\$1,750,000	\$875,000	\$925,000
3	2013	\$3,000,000	\$50,000	\$2,950,000	\$1,475,000	\$1,525,000
4	2014	\$3,150,000	\$50,000	\$3,100,000	\$1,550,000	\$1,600,000
5	2015	\$3,307,500	\$50,000	\$3,257,500	\$1,628,750	\$1,678,750
6	2016	\$3,472,875	\$50,000	\$3,422,875	\$1,711,438	\$1,761,438
7	2017	\$3,646,519	\$50,000	\$3,596,519	\$1,798,259	\$1,848,259
8	2018	\$3,828,845	\$50,000	\$3,778,845	\$1,889,422	\$1,939,422
9	2019	\$4,020,287	\$50,000	\$3,970,287	\$1,985,143	\$2,035,143
10	2020	\$4,221,301	\$50,000	\$4,171,301	\$2,085,651	\$2,135,651
<b>Totals</b>		\$31,347,327			\$15,423,663	\$15,923,663

note= based on a 10-year agreement, a 50/50 split after a \$50,000 base to City  
\$60,000 per unit price; year 1 = 1500; year 2 = 3000; year 3 = 5000  
annual growth of 5% after year 3

## Exhibit B

### Tax Credits for 717 Site: Hiring Credits and Sales & Use Tax Credits Based on 500 Employees

	Employees 500	Qualify 50%	Year 1	Year 2	Year 3	Year 4	Year 5	Total
			Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	
Assembly	350	175	\$2,184,000	\$1,747,200	\$1,310,400	\$873,600	\$436,800	\$6,552,000
Office	100	50	\$624,000	\$499,200	\$374,400	\$249,600	\$124,800	\$1,872,000
Management	50		\$0	\$0	\$0	\$0	\$0	\$0
<b>Totals</b>		225	\$2,808,000	\$2,246,400	\$1,684,800	\$1,123,200	\$561,600	\$8,424,000
<b>Sales &amp; Use Tax</b>								\$2,000,000
<b>Total</b>								<b>\$10,424,000</b>

#### Notes:

1. Tax credits are against state corporate income tax.
2. Estimated hiring tax credits assume 50% of non mgmt employees qualify.
3. Maximum Sales & Use Tax Credit for Equipment = \$2,000,000 for entire project, all years
4. Equipment = manufacturing related equipment, plus telecom, plus data, plus pollution control



**City of Long Beach Memorandum**  
*Working Together to Serve*

## REQUEST TO ADD AGENDA ITEM

**Date:** *December 4, 2009*

**To:** Larry Herrera, City Clerk

**From:** *Mayor Bob Foster*

**Subject:** Request to Add Agenda Item to Council Agenda of *December 8, 2009*

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Pursuant to Municipal Code Section 2.03.070 [B], the City Councilmembers signing below request that the attached agenda item (due in the City Clerk Department by Friday, 12:00 Noon) be placed on the City Council agenda under New Business via the supplemental agenda.

The agenda title/recommendation for this item reads as follows:

Authorize the City Manager to offer and negotiate incentives with Boeing and Tesla Motors to locate a production facility in the City of Long Beach including: (1) rebate of 50 percent of sales tax generated to Long Beach for a term of 10 years, (2) provide a Section 108 Loan in the amount of \$2 million with a term of 10 years for facility improvements, and (3) other economic development tools as described below. (District 5)

Council District	Authorizing Councilmember	Signed by
4	Patrick O'Donnell	<i>Patrick O'Donnell</i>
9	Val Lerch	<i>Val Lerch</i>
3	Gary DeLong	<i>Gary DeLong</i>

Attachment: Staff Report dated *December 8, 2009*