



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

C-14

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

June 19, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to Amend the Sales Tax Incentive Agreement with Marina Pacifica LLC, allowing for a Five-Year Extension and a Maximum Payout of \$980,000. (District 3)

DISCUSSION

Approval is recommended to amend an existing Sales Tax Incentive Agreement (Agreement) with Marina Pacifica LLC (Marina Pacifica). The existing 15-year Agreement, which went into effect in the fourth calendar quarter of 1996, expires in the third calendar quarter of 2011. Marina Pacifica continues to request the City's assistance in the form of a Sales Tax Sharing Agreement, beginning with the fourth quarter of calendar 2011, which is the start of the amended period. The Agreement is contingent upon Marina Pacifica executing a minimum 10-year lease with Best Buy Co., Inc. (Best Buy) for space at 6310 East Pacific Coast Highway in Long Beach, California.

Marina Pacifica has requested the City's assistance to partially offset the cost of a reduced rental rate required to attract Best Buy. The rental rate Best Buy is willing to pay is below that which returns an adequate return on investment. The City's investment of shared sales tax will assist in securing a national retailer, stabilizing the tenancy, enhancing overall business at Marina Pacifica, and augmenting sales tax revenue.

On March 17, 1992, the City Council approved a Sales Tax Incentive Program (Program) to encourage large-scale retail development, stimulate private investment in the retail sector, and enhance sales tax revenue in the City. A copy of that action is attached as Exhibit A. New retail businesses or existing businesses planning to expand, which generate more than \$5 million in annual sales, may be eligible for the Program. For an expanding business, the City may return up to 50 percent of the sales tax generated in excess of an agreed-upon base.

On June 6, 1995, the City Council authorized a 15-year Sales Tax Incentive Agreement to provide financial assistance for capital improvements to rebuild Marina Pacifica. The initial agreement was subsequently modified a number of times. A summary of the agreement is attached as Exhibit B.

HONORABLE MAYOR AND CITY COUNCIL

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As a strategic tool, the Program has been used successfully at Marina Pacifica. The Program was used to assist in rebuilding a distressed shopping center, protecting it during a period of economic challenge for one of its primary retailers, and to improve it so that it now houses theaters, retailers and restaurants. Current tenants include AMC, Barnes and Noble, Ralphs, Pier 1 Imports, Sportmart, Loehmann's, Acapulco and Tantalum. Sales tax revenue to the City increased from \$62,062 in calendar 1995 before the current agreement went into effect, to \$277,763 in 1997 when it was fully operational. For calendar 2006, sales tax revenue retained by the City was \$298,775.

This item was reviewed by Assistant City Attorney Heather A. Mahood on June 11, 2007, and Budget and Performance Management Bureau Manager David Wodynski on June 7, 2007.

TIMING CONSIDERATIONS

City Council action is requested on June 19, 2007 to expedite the attraction of Best Buy to Marina Pacifica.

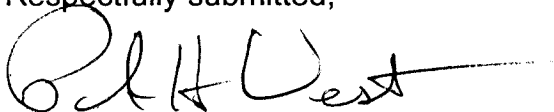
FISCAL IMPACT

The proposed amendment is expected to have no fiscal impact in the 2007 fiscal year, but a positive impact in the 2008 fiscal year in the approximate amount of \$69,000.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF COMMUNITY DEVELOPMENT

PHW/RMS:dm

Attachments: Exhibit A – Council Letter Dated March 17, 1992

Exhibit B – Summary of Sales Tax Incentive Agreements

APPROVED:



GERALD R. MILLER
CITY MANAGER

CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

BUSINESS DEVELOPMENT CENTER • 230 PINE AVENUE, THIRD FLOOR • LONG BEACH, CALIFORNIA 90802 • (310) 590-6097 (310) 590-6437

March 17, 1992

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Authorization to Establish Retail Sales Tax
Incentive Program

This requests your authorization to establish a Retail Sales Tax Incentive Program to encourage large-scale retail development, improve retail sales tax productivity and stimulate private investment in the retail sector of the city's economy.

BACKGROUND

Despite our efforts within the community to encourage the expansion of our retail base, Long Beach still suffers from the loss of retail sales taxes as local residents still travel to surrounding cities to make a substantial portion of retail purchases.

Several efforts by the City promise to improve this phenomenon over time. These include the implementation of the I-405 Retail Redevelopment Project Area, the adoption of Los Altos Shopping Center as a redevelopment project area, and the recent authorization by City Council to implement two new loan programs -- the Small Business Revolving Loan Program and the Retail Development Loan Program. Of course, the Enterprise Zone designation may also contribute to improving our retail base. Yet the City still lacks sufficient funding sources and mechanisms to encourage large-scale retail development, particularly outside of redevelopment project areas.

The proposed Retail Sales Tax Incentive Program would be of specific benefit because it would provide a vehicle for the City to make funds available to major retail businesses at a time when funds for such projects are generally not available outside of redevelopment project areas.

One of the biggest obstacles in encouraging large-scale retail development has been the competition mounted by nearby cities which already utilize approaches similar to those being proposed. Often these cities use strategies such as declaring their entire community a redevelopment area in order to facilitate the write-down of land costs to levels substantially lower than those of neighboring cities and leveraging tax increment to further attract additional business through subsidies not available in Long Beach.

If Long Beach were able to realize retail sales taxes equal to that of the average of all cities in the County of Los Angeles, the City would receive an added \$10 million dollars annually for General Fund use. Additionally, the City recently engaged Keyser Marston Associates to do a Per Capita Sales Study contrasting Long Beach to Cerritos, Glendale, Huntington Beach, Lakewood, Pasadena and Torrance. The results of that study, which are summarized in the attached table, show that Long Beach competes fairly well with these other cities in some areas, but not in the major retail categories of "Per Capita Comparison Sales" and "Per Capita Auto Sales." In each case, Long Beach demonstrated substantially poorer per capita performance than the other cities.

The proposed Retail Sales Tax Incentive Program would be available to both new and existing retail businesses. To qualify for assistance new businesses would be required to have the ability to generate retail sales in excess of \$5 million annually. The sales performance of these businesses would have to be verified by a business evaluation, which would include a three-year sales performance analysis. The program would return to an eligible business 50% of the sales taxes generated by it in excess of the first \$50,000 in sales taxes generated for an agreed upon period of time. The program would be available to a business for up to 15 years.

Existing retail businesses which plan on expanding and which also have the ability to generate retail sales in excess of \$5 million annually would be eligible for the program. The City would return to the business 50% of the incremental difference over and above the sales taxes currently generated by the business. The expected sales performance of the business would be evaluated.

A business would receive retail sales tax incentives only for the period of time necessary to offset fixed

construction or improvement costs related to the new or expanded retail project. If, for example, it was agreed that retail sales tax incentives would be devoted to offsetting the cost of constructing and landscaping a parking lot, which was part of a new retail development, then the retail sales tax incentive would equal the cost of constructing and landscaping the parking lot.

An additional feature of the program could be of general value to businesses operating within an assessment district which is coterminous with City Council-designated Parking and Business Improvement Associations (PBIAs). Businesses operating within such districts could, in the aggregate, utilize the program so that 50% of the retail sales taxes generated by the businesses in an assessment district, which were over and above their aggregate base annual sales, could be returned to the assessment district. This would provide additional benefit to the business district, thereby supporting ongoing authorized uses such as marketing, public right-of-way improvements, special events, etc. Or, such funds could be used to secure and/or retire bond financing acquired to further the viability and success of the business district.

In summary, the following criteria would be established to ensure that retail businesses selected for this program:

- o Produce new, or in some cases retain existing, sales taxes for the community;
- o Improve the existing retail base;
- o Demonstrate long-term commitment to the community; and
- o Demonstrate an established track record for high volume retail sales.

There have been three recent significant retail business opportunities which have specifically prompted the development of this proposed Retail Sales Tax Incentive Program:

- o The first retail business opportunity results from a Long Beach auto dealer who has approached the City wanting to retain and expand his established auto dealership. Although the recession has adversely affected the dealer's recent performance, sales tax

volumes for the past several years suggest that the business is a strong retail performer and an important contributor to the local retail sales tax stream. However, the auto maker is demanding that the dealer make certain capital improvements to the dealership facility.

Moreover, because of the recession, the business requires some debt consolidation and access to working capital to expand its inventory. Were the Retail Sales Tax Incentive Program in place, the City could provide assistance to the business.

- o A second opportunity comes about because of the potential to attract a major new retail business to a parcel of land totalling nearly 19 acres adjacent to a major freeway corridor in the city. Because of the excellent location and freeway access to this site, and because this site was formerly used for industrial purposes, the introduction of retail uses has the ability to add substantial net sales taxes to the community.

Were the Retail Sales Tax Incentive Program available, the City could offset the costs of making certain site, road and public improvements by utilizing retail sales taxes through the proposed program. Conversely, the City could simply pledge future sales taxes to a retail business capable of meeting the criteria of the proposed program.

- o Third, the City would have the ability to assist businesses within an assessment district which is also coterminus with Council-designated PBIAs to make needed exterior facade improvements, parking improvements or street and sidewalk improvements.

Under the Program, the businesses would voluntarily agree to establish an assessment district. The district would be secured by liens against participating properties. To make the assessment more affordable, sales taxes from businesses in the assessment district, which were in excess of a base level of annual sales previously achieved by businesses operating within the same area,

would be returned annually to lower the assessment to individual businesses.

Should the City Council authorize the establishment of the Retail Sales Tax Incentive Program, it is recommended that the City's Economic Development Commission be charged with establishing both guidelines and marketing goals for the program and that the Commission be utilized to review the qualifications of prospective program participants. The Commission, in turn, would make recommendations to the City Council for program participation, including the appropriate business structure of individual incentive agreements, on a case-by-case basis.

The Economic Development Commission endorsed the goals of the Retail Sales Tax Incentive Program at its special meeting of December 18, 1991. The program also received the endorsement of the Long Beach Area Chamber of Commerce at its meeting of February 11, 1992.

CURRENT ACTION REQUESTED

It is requested that the City Council authorize the establishment of a Retail Sales Tax Incentive Program to encourage large scale retail development, increase retail sales taxes, and stimulate private investment in the retail sector of the city's economy.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

- (1) Authorize the establishment of the Retail Sales Tax Incentive Program as outlined herein;
- (2) Authorize the City's Economic Development Commission to establish guidelines and marketing goals for the program, and establish a procedure for reviewing the qualifications of prospective Program participants, and;
- (3) Authorize the City Manager to take all actions necessary to implement the Retail Sales Tax Incentive Program.

HONORABLE MAYOR AND CITY COUNCIL

March 17, 1992

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Sincerely,



SUSAN F. SHICK, Director
Community Development

Attachment

SFS:ah

APPROVED:


James C. Hankla
City Manager

CITY OF LONG BEACH
RETAIL SALES TAX INCENTIVE PROGRAM

Established March 1992

PURPOSE

To encourage retail development, improve sales tax productivity and stimulate private investment in the retail sector of the City's economy.

BENEFIT

The program will return to an eligible business 50% of the sales tax generated by it in excess of the first \$50,000 in sales taxes generated for an agreed upon period of time.

CRITERIA

- Available to new and existing retail businesses;
- A business must demonstrate an ability to generate retail sales in excess of \$5 million annually;
- Available for the period of time necessary to offset construction or improvement costs to a new or expanded project, not to exceed 15 years.

**Brief Summary of Sales Tax Incentive Agreements
Marina Pacifica LLC
May 2007**

| <u>Date</u> | <u>Action</u> |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6/6/95 | The City Council authorized a 10-year (later modified to 15 years) Sales Tax Incentive Agreement with the Trident Group (subsequently changed to Marina Pacifica LLC). The City would lease a portion of the premises from Marina Pacifica LLC for 50% of the sales tax in excess of (\$50,000 plus a base year amount), and sublease the property back for \$1 per year. The agreement would terminate earlier if other conditions were met. The agreement would terminate earlier if other conditions were achieved. |
| 2/6/96 | The City Council authorized the following modification: (1) The Agreement is to last for three years, (2) the base year is set as 1995, and (3) a First Source Hiring Clause is added. The early termination provision was eliminated. There would be no early termination provision. |
| 10/29/96 | The City Council authorized payment of the transportation improvement fee in installments. |
| 4/8/97 | To assist in the construction of the store Loehmann's is to occupy, the City Council authorized the following amendments: <ol style="list-style-type: none"> 1. The City would reimburse Marina Pacific for all the hard and soft costs, not to exceed \$2.875 million via a \$750,000 CDBG loan for "soft costs" structured as a Key Tenant loan to be amortized over 10 years but not requiring payment. 2. Increase the term of the agreement to 15 years. 3. Share 50% of the sales tax above the 1995 base year. 4. Lease Loehmann's premises for the first five years if Loehmann's terminates the lease. (Note: There is a "kick-out" clause allowing Loehmann's to terminate if sales targets are not met in the first three years.) |
| May 1999 | Loehmann's declared Chapter 11 Bankruptcy, resulting in the closure of 28 stores nationwide. |
| 9/19/2000 | When Loehmann's declared Chapter 11 Bankruptcy, to protect the City's investment, reduce the risk of the City's guarantee-to-lease requirement from going into effect, and continue to provide a wide range of retail opportunities, the City Council authorized the following: <ol style="list-style-type: none"> 1. Require Marina Pacifica to reduce Loehmann's rent \$50,000 per year for two years. 2. Allow a potential increase in sales tax sharing of \$50,000 per year for two years. 3. Require Marina Pacific to eliminate the early-termination clause in the Loehmann's lease. |