



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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October 20, 2015

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive the supporting documentation into the record, conclude the public hearing regarding an economic subsidy in connection with a Location Agreement with CRC Services, LLC, pursuant to California Government Code Section 53083; and

Authorize the City Manager to execute all documents necessary to enter into a 30-year Location Agreement with CRC Services, LLC, located at 111 W. Ocean Boulevard, for the establishment of a material and supply procurement company for California Resources Corporation (CRC). (Citywide)

DISCUSSION

In 1992, the City Council adopted the Retail Sales Tax Incentive Program outlining the policy for sales tax sharing to encourage the expansion of the City's retail base, improve retail sales tax productivity and stimulate private investment in the retail sector of the City's economy. After launching this program, several successful agreements were entered into, resulting in a significant increase in retail sales activity. Successful projects include the retention of key Long Beach auto dealerships, including Hooman Toyota and Worthington Ford.

Based on the success of the Retail Sales Tax Incentive Program, the City later instituted another similar program intended to address retail sales. The new program was the Location Agreement Program (LAP), first used in 2008. LAP is designed to attract new businesses or retain businesses under certain criteria, create and retain jobs and enhance business-to-business sales tax revenue to the City. To qualify for assistance under the LAP, businesses would be required to generate sales in Long Beach in excess of \$50 million annually. A LAP agreement would remit to an eligible business a negotiated portion of the local sales taxes generated by the business for an agreed upon period of time. Implementation of a location agreement often results in the establishment of a purchasing company.

City Council approval is requested to enter into a 30-year Location Agreement (Agreement) with CRC Services, LLC. CRC Services, LLC, is a material and supply (purchasing) company, which will purchase materials and supplies for resale to affiliates of CRC and some third party businesses. CRC spun-off from Occidental Petroleum

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Corporation on December 1, 2014. CRC is the parent company of a consolidated group of corporations that primarily explore, develop and produce crude oil, natural gas and natural gas liquids in the State of California. CRC holds investments in its subsidiaries and their obligations to third party lenders. CRC has a significant presence in Long Beach with approximately 475 employees and 175 contractors as of July 1, 2015. CRC Services, LLC, is a Delaware limited liability company that was formed by CRC, prior to the spin-off from Occidental Petroleum, to acquire and hold certain information technology, fractional interests in Net Jets, blanket purchase agreements and serve as the centralized cash management function for CRC.

CRC is an economic engine for California. This Agreement would allow CRC to grow in the City, enhance additional business-to-business sales tax revenue, and retain a business partner in Long Beach. CRC Services, LLC, is the purchasing company for resale to CRC and its affiliated businesses. To achieve administrative and cost efficiencies, CRC Services, LLC, will centralize the procurement function for its larger material vendors in Long Beach. The centralization of procurement is expected to result in significant new sales tax revenue to the City. CRC's taxable expenditures vary in any given year due to the oil production market. CRC's total taxable expenditures in 2014 was \$830 million for materials and supplies. In 2015, total taxable expenditures are projected to be \$250 million for materials and supplies. Going forward, a substantial portion of these expenditures would be purchased through CRC Services, LLC.

Under the proposed Agreement, CRC Services, LLC, would receive 80 percent of the sales tax and the City would retain 20 percent. However, the split of sales tax would not occur in any year until the City receives a minimum base sales tax revenue equivalent to \$425,000. In any year in which CRC Services, LLC, receives less than 80 percent of the total sales tax revenue received by the City, the shortfall will be rebated in the next year in which enough revenue is generated to both meet the \$425,000 City base and the shortfall. Shortfall corrections will not exceed a two-year catch-up period. Given the recent difficult financial constraints California cities have experienced, if the City declines to act on this Agreement, new revenue to Long Beach from CRC will be lost. The City currently receives minimal sales tax revenue from CRC. The Agreement ensures that the City will receive sales tax revenue from CRC, a company doing millions of dollars of business in Long Beach, via the centralized procurement of CRC Services, LLC. The Agreement is proposed to be effective as of Fiscal Year 2016 (FY 16), starting on October 1, 2015. While the volatile nature of the oil production industry makes it difficult to predict the exact amount of sales and use tax revenue that will be generated as a result of this agreement, based on recent expenditures and the size and stature of the organization, the City anticipates receiving sales tax of at least \$1.5 million in a low year, of which \$425,000 would be retained by the City. As market conditions improve, estimated sales tax received by the City may grow to \$4.0 million or higher in a good year, of which at least \$800,000 would be retained by the City.

This matter was reviewed by Deputy City Attorney Amy R. Webber and Assistant Finance Director Lea Eriksen on September 28, 2015.

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TIMING CONSIDERATIONS

Pursuant to California Government Code Section 53083, the Economic Development Subsidy Report was posted on the City's website on October 10, 2015. City Council action is requested on October 20, 2015, to expedite implementation of the proposed Agreement.

FISCAL IMPACT

The proposed consolidation of services is expected to take several months to complete. After the centralization of sales has occurred, there will be additional net revenue received by the City. Projections indicate that the City's net revenue from CRC Services, LLC, will be a minimum of \$425,000 each year to the General Fund and could exceed \$800,000 in any given year. Should the City decline to act on this agreement, the City may not recover any sales or use tax for CRC purchases. Approval of the recommendation will result in a positive local job impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

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APPROVED:


PATRICK H. WEST
CITY MANAGER