



Legislation Text

File #: 11-1214, **Version:** 1

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

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.

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.

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.

Approve recommendation.

REGINALD HARRISON
DEPUTY CITY MANAGER

APPROVED:

PATRICK H. WEST
CITY MANAGER