

CITY OF LONG BEACH

R-14

DEPARTMENT OF DEVELOPMENT SERVICES

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May 10, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all related documents to implement a Sales Tax Incentive Agreement with Cabe Brothers for the expansion of the Toyota dealership located at 2895 Long Beach Boulevard. (District 6)

DISCUSSION

Approval is recommended to enter into a Sales Tax Incentive Agreement (Agreement) with Cabe Brothers (Cabe) to support expansion of the Toyota dealership located at 2895 Long Beach Boulevard. Cabe has been in business since 1966.

On March 17, 1992, the City Council approved a Sales Tax Incentive Program (Program) to encourage large-scale development, stimulate private investment in the retail sector, and enhance sales tax revenue to the City of Long Beach (City). New or existing retail businesses planning to expand, that generate more than \$5 million in taxable sales, may be eligible for the Program. For expanding businesses, the City may agree to share up to 50 percent of the sales tax generated in excess of a predetermined sales tax base. Cabe's annual taxable sales have averaged \$25 million since 1999.

Cabe has submitted conceptual plans to improve and expand its existing facility to a total of 38,000 square feet. The total cost of the proposed improvement and expansion is estimated at \$5 million. Keyser Marston Associates (KMA) conducted an independent analysis of Cabe's operating expenses and revenues. Based on an analysis of Cabe's current revenues and expenses, KMA has found that the cost of the expansion and improvements are not economically feasible, and a \$3 million funding gap exists. Cabe recently completed the purchase of real property located immediately south of their existing location to allow for expansion and will incur significant predevelopment costs to realize the expansion. As such, it is being recommended that the reimbursement provisions of the proposed Agreement commence in advance of completion of construction.

It is proposed that the City enter into a Sales Tax Incentive Agreement with Cabe to facilitate the upgrade and expansion of its facilities. The Agreement will terminate in 15 years or when a cumulative total of \$1 million is paid to Cabe, whichever occurs first. During the term of the Agreement, the City will share 50 percent of the sales tax generated by the dealership in excess of a base-year amount. The Agreement term will commence January 1, 2011, and all sales tax generated by Cabe starting on this date would be a part of this Agreement. The base year amount will equal total sales tax generated during calendar year 2010. Quarterly payments will

commence and continue without interruption for the term of the Agreement, but are contingent upon Cabe obtaining a Certificate of Occupancy for its expansion within four years of the start of the Agreement. If a final Certificate of Occupancy is not obtained by January 1, 2015, the Agreement will terminate and all payments made to Cabe since the inception of the Agreement must be repaid in full to the City.

Based on current projections, the cumulative total of sales tax generated during the term of the Agreement is estimated to be \$5 million. Of this amount, a maximum of \$1 million will be paid to Cabe, while the City will retain the remainder. In partially offsetting the need for new investment capital, the Agreement will assist in retaining a local business while saving more than 80 jobs.

This letter was reviewed by Chief Assistant City Attorney Heather Mahood on April 18, 2011 and by Budget Management Officer Victoria Bell on April 13, 2011.

TIMING CONSIDERATIONS

City Council action is requested on May 10, 2011, to expedite implementation of the proposed Agreement retroactive to January 1, 2011.

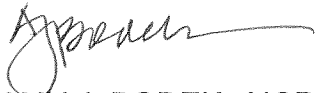
FISCAL IMPACT

Retaining this automobile dealership is expected to generate \$5 million in sales tax revenue to the City during the period of this Agreement, while the City will pay the dealership a maximum of \$1 million. More than 80 jobs will be retained as a result of this recommended action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



AMY J. BODEK, AICP
DIRECTOR OF DEVELOPMENT SERVICES



DAVID NAKAMOTO
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



PATRICK H. WEST
CITY MANAGER