



CITY OF LONG BEACH

DEPARTMENT OF ECONOMIC AND PROPERTY DEVELOPMENT

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July 14, 2015

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all documents necessary to effect the Second Amendment to Lease No. 24823 between the City of Long Beach and Worthington Ford, Inc., to extend the term of the ground lease to September 23, 2030, including one five-year option to extend the term to September 23, 2035, for the use of 3.24 acres of land at the Lakewood Boulevard off-ramp at an annual rental rate of \$1 per year; and

Authorize the City Manager to execute all documents necessary to implement a Retail Sales Tax Incentive Agreement with Worthington Ford, Inc., to assist in financing the renovation of the electronic display sign located at 2601 Lakewood Boulevard. (District 5)

DISCUSSION:

On June 25, 1996, the City Council approved Lease No. 24823 (Lease) between the City of Long Beach (City) and Worthington Ford, Inc. (Worthington), for use of City-owned property at 2601 Lakewood Boulevard (Premises) for the construction and maintenance of an electronic display sign (Sign). On June 22, 2008, the City Council approved an extension of that lease to September 23, 2020, with no options to extend.

Ground Lease

The Premises is a 3.24-acre parcel located adjacent to the Lakewood Boulevard off-ramp of the southbound I-405 Freeway. Limited access and isolation preclude other commercial uses of the Premises, but make it ideal for an electronic display sign. The value of the Premises as undeveloped was determined by Valentine Appraisal & Associates in January 2008 to be \$248,000 or roughly \$2.10 per net square foot. Applying a 3 percent annual appreciation rate, the value of the Premises in January 2015 is estimated at \$305,000. At the standard 8 percent annual rate of return on land value, rent for the Premises would be \$24,400 or \$2,033 per month.

As required under the Lease, Worthington is required to maintain the Premises free of trash and debris and keep the vegetation from becoming overgrown. The City also controls the use of 20 percent of the advertising time on the Sign for civic and community promotional purposes. These benefits serve to offset the rental value and

rent is set at \$1 per year. The Sign has allowed Worthington to effectively compete with other dealers and has resulted in increased sales volume, however, outdated technology is now limiting the Sign's effectiveness.

Worthington seeks to implement a significant renovation of the Sign, including two full color LED displays in a "V" configuration for better visibility. The top band will be repainted, the lighting will be refurbished, and the Sign will read *Worthington Ford* instead of the existing *Cal Worthington*. Likewise, the bottom band will be refurbished and will continue to read *City of Long Beach*. The renovation costs are estimated at \$678,952. To protect this significant investment, Worthington seeks a 10-year extension of the Lease to September 23, 2030, with a 5-year option to extend through September 23, 2035. Rent is proposed to remain at \$1 per year.

These enhancements to the Sign will overcome physical and functional obsolescence and make the Sign more visible to the more than 285,000 cars traveling past that location, which, at 1.2 persons per car, is equal to a 342,000-person viewing audience per day. Based on similar upgrades in nearby communities, these changes are projected to increase dealer sales by at least 6 percent.

Retail Sales Tax Incentive Agreement

On March 17, 1992, the City Council approved a Sales Tax Incentive Program to encourage large scale retail development, improve retail sales productivity, and stimulate private investment in the retail sector of the City's economy. Program guidelines specify that the applicant must generate retail sales in excess of \$5 million annually to be eligible. Worthington exceeds this minimum threshold.

Worthington has agreed to pay for the \$678,952 upfront cost to renovate the Sign and requests that the City participate in this investment by entering into a retail sales tax sharing agreement for one-half of the cost of renovation (\$339,476). To consider this request, staff worked with Keyser Marston, the City's economic consultant, to review auto dealership operating data. Keyser Marston has determined that Worthington is spending between 2.5 and 3.0 times the national average for advertising. Considering this aggressive advertising budget, additional advertising costs is not a viable option.

Keyser Marston has determined that the City's 20 percent use of the electronic display sign has an advertising value of \$192,000 to \$240,000 per year. Over the 20-year period of the extended term, the present value of the City's advertising rights is between \$2,459,000 and \$3,075,000.

Further, Keyser Marston has determined that, in similar scenarios, sales volume may increase around 6 percent. Over the 20-year period of the extended term, the present value of the sales tax generated by the increased volume is estimated at \$868,000. It is important to understand that the goal of the investment into the renovation of the Sign is intended to, at a minimum, maintain market share. Without the requested renovation, the advertising impact will diminish and sales volumes may decline.

Staff is recommending City Council approval of a lease amendment and a retail sales tax sharing agreement, as follows:

- Extend the term of the lease for ten years to expire on September 23, 2030, with one 5-year option to extend the term to September 23, 2035, and continue the existing maintenance obligations and the City's control at 20 percent of advertising time, at an annual rental rate of \$1 per year.
- Beginning on October 1, 2015, enter a retail sales tax sharing agreement with Worthington Ford for a maximum 15-year term, or terminate when the City has paid \$339,476 in retail sales tax revenue above the Base (discussed below), whichever first occurs.
- Establish a retail sales tax base of \$380,286, which is the average of the last six years of sales tax generation and does not impact the City's budgeted revenues. At this rate, it is estimated to take approximately four years for the City to pay its share.

The enhanced sign is expected to increase sales, result in increased sales tax revenue, preserve existing jobs, and provide an exceptional promotional opportunity for the City.

This matter was reviewed by Deputy City attorney Richard Anthony on June 1, 2015, and by Budget Management Officer Victoria Bell on June 5, 2015.

TIMING CONSIDERATIONS

City Council action is requested on July 14, 2015 so that Worthington Ford, Inc., can proceed with its plans to upgrade the freeway sign.

FISCAL IMPACT

After renovation of the electronic display sign and lease amendment, projections indicate that, over the 15-year period of the sales tax sharing agreement, roughly \$868,000 in additional sales tax revenue could be received by the City. Of this amount, the City would pay Worthington a maximum of \$339,476 for one-half of the renovation cost. Additionally, the City will be able to use 20 percent of the display time for City-related advertising valued between \$192,000 and \$240,000 per year.

The Agreement will assist in retaining a major local auto dealer and preserving approximately 165 existing jobs, with the expectation that the number of jobs could grow within the next few years.

HONORABLE MAYOR AND CITY COUNCIL

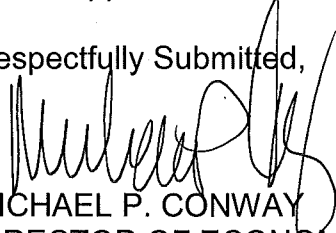
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SUGGESTED ACTION:

Approve recommendation.

Respectfully Submitted,



MICHAEL P. CONWAY
DIRECTOR OF ECONOMIC &
PROPERTY DEVELOPMENT

MPC:sj

APPROVED:



PATRICK H. WEST
CITY MANAGER