

P R I O R I T Y

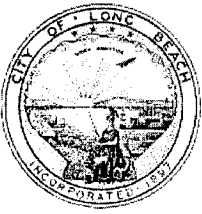
Date: April 28, 2010

To: Mayor & City Council

From: Patrick H. West
City Manager


Subject: Keyser Marston
Analysis on Worthington Ford

Comments: Please find attached
the financial analysis referenced
in Agenda Item #25 on the May
4, 2010 Council Agenda



City of Long Beach
Working Together to Serve

Memorandum

Date: April 28, 2010
To: Patrick H. West, City Manager 
From: Robert M. Swayze, Manager, Economic Development & Cultural Affairs /s/
For: Mayor and Members of the City Council
Subject: **Keyser Marston Analysis on Worthington Ford**

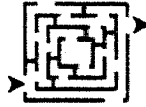
Please find attached an analysis that provides an evaluation on financial assistance to Worthington Ford as prepared by the City's financial consultants, Keyser Marston Associates. The analysis reviews the background and evaluates assistance options.

Please contact Robert Swayze, Manager of Economic Development and Cultural Affairs, at 570-3853 if you have additional questions or need more information.

Thank you.

PHW:dm
Att.

cc: Suzanne Frick, Assistant City Manager
Reginald I. Harrison, Deputy City Manager
Robert M. Swayze, Manager, Economic Development and Cultural Affairs



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Mr. Robert Swayze, Manager
Economic Development Bureau
City of Long Beach

From: James Rabe

cc: Reginald Harrison

Date: April 28, 2010

Subject: Worthington Ford – Evaluation of Assistance

ADMINISTRATIVE
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ECONOMIC DEVELOPMENT

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At your request, Keyser Marston Associates, Inc. (KMA) has evaluated two options for providing assistance to Worthington Ford (Worthington) as part of an agreement to keep Worthington in the City of Long Beach (City). This memorandum provides an overview of Worthington sales activities over the last several years, evaluates two options for providing assistance to Worthington and considers the impact on sales tax revenues if Worthington leaves the City.

BACKGROUND

The City entered into an assistance agreement with California Drive-In Theaters, Inc. (Developer¹) in 1999 to facilitate development of a second car dealership and a retail center at this location (Site). Construction was completed in 2000 and the 15-year assistance program started. At this location, the City provided 50% of sales tax revenues from the entire Site in excess of \$568,675 to the Developer to cover extraordinary infrastructure improvements and to secure critical tenants.² The assistance expired at the earlier of 15 years from initial occupancy or the Developer receiving \$6,574,427 plus interest at 8%. To date, the Developer has received approximately \$3,200,000 in principal and interest payments. There is almost no

¹ Developer has since changed its name to Robertson Properties.

² As part of the transaction, Developer allowed Ford Motor Credit to receive approximately 28% of the sales tax revenues available for distribution.

possibility that the Developer will be fully repaid by the expiration of the assistance period.

As a portion of the Site, sales tax revenues from the Worthington store over the term of the agreement have ranged from a high of nearly \$700,000 in 2001 to a low of approximately \$300,000 in 2009. If Worthington remains at this location and occupies the vacant Chevrolet dealership, they expect to generate the 2001 level of sales tax revenues within five years as indicated below.

	<u>Gross Sales</u>	<u>Sales Tax Revenues</u>
2011	\$45,000,000	\$315,000
2012	\$60,000,000	\$420,000
2013	\$68,000,000	\$476,000
2014	\$80,000,000	\$560,000
2015	\$100,000,000	\$700,000

ASSISTANCE OPTIONS

The City is considering two assistance options to keep Worthington in Long Beach. The first contemplates \$600,000 in assistance as a key tenant loan to Worthington. There would be two payments, \$250,000 in the current fiscal year and \$350,000 in the next fiscal year.

The allocation of sales tax revenues from the entire Site under the first alternative is shown in Table 1. Total sales tax revenues for calendar year 2010 are projected at \$841,771. Sales tax revenues are project to grow to \$1,535,986 by 2017. Through 2017, the City is projected to retain \$3,431,747 of the sales tax revenues in excess of the \$568,575 threshold. The sales tax revenue flow has a net present value (NPV), discounted at 8% of \$2,371,703. In 2016 and 2017, the City retains all of the sales tax above the threshold. The sales tax threshold revenues over this eight-year period amount to \$4,548,600, as shown in Table 1. The City collects this amount under any scenario.

The second option contemplates the same \$250,000 initial payment, but the second payment would be in the form of a \$350,000 note that would accrue interest at 8.0%. This second option has an additional complication. In order for Worthington to receive any funds prior to the expiration of the assistance agreement at the end of 2015, either the agreement has to be modified to have the Developer receive a smaller share of the available sales tax revenues, or the City needs to keep less sales tax revenues. For

To: Mr. Robert Swayze, City of Long Beach
Subject: Worthington Ford – Evaluation of Assistance

April 28, 2010

Page 3

comparison purposes, KMA has assumed that the Developer is willing to reduce its share of excess sales tax revenues from nearly 36% to 27%. The difference would be paid to Worthington. In exchange for reducing its share, the Developer would be allowed to collect the sales tax revenues for an additional two years.

This second option is shown in Table 2. The first thing to note is that in 2016 and 2017, the City only receives 50% of the sales tax revenues in excess of the threshold. Over the eight-year period, the City is projected to collect \$2,673,687 of sales tax revenues. The present value of the sales tax revenue flow is \$1,907,847. This NPV is \$463,856 less than the first option and this loss is over \$100,000 greater than the \$350,000 note amount for Worthington. The additional revenue is being paid to Robertson as part of their agreement to change the structure of the agreement.

WORTHINGTON LEAVES

Another consideration for the City is the financial implications if Worthington vacates the Site. If Worthington leaves then there is likely to be a significant reduction in taxable sales at the Site for the last half of 2010 and likely through 2012. It seems unlikely that the Developer and/or the City will be able to attract another auto dealer to the Site. The Developer will seek to modify the entitlements for the auto dealership parcels to allow for other retail uses.

For purposes of this analysis, KMA believes it is prudent to conservatively estimate sales tax revenues from the Site for 2011 and 2012 at \$700,000 for each year. As the Developer builds new space, tenants occupy the space in 2012 and thereafter sales tax revenues are projected to increase at a 10% annual rate. KMA projections for this option are shown in Table 3.

Even though sales are expected to drop dramatically, sales tax revenues are expected to remain above the threshold. The City revenues in excess of the threshold, however, are substantially less than either of the two options discussed above. As shown in Table 3, the City's share of sales tax revenues above the threshold could be less than \$70,000 per year in 2011 and 2012. Assuming that the Developer is able to stabilize the Site after Worthington leaves, the City might collect \$1,626,495 in sales tax above the threshold. This is substantially less than the sales tax that the City would receive if Worthington stays, even taking into account the \$600,000 of assistance.

CONCLUSIONS

The City is considering options to provide financial support to Worthington Ford to keep their auto dealership open in the City rather than relocating to another location. Two

To: Mr. Robert Swayze, City of Long Beach
Subject: Worthington Ford – Evaluation of Assistance

April 28, 2010

Page 4

options have been discussed: (1) providing \$600,000 in two lump-sum payments to Worthington; and (2) providing \$250,000 as a lump-sum payment and \$350,000 as a note to be paid based upon the amount of sales tax generated.

From the perspective of the City, the first option generates more net revenue to the City than does the second option, as shown below.

	<u>Total Revenues above Threshold 2010 - 2017</u>	<u>Net Present Value @ 8%</u>
Option 1 - Two Lump-Sum Payments to Worthington Ford	\$3,431,747	\$2,371,703
Option 2 - One Lump-Sum Payment and \$350,000 Note	\$2,673,687	\$1,907,847
Net Loss to City of Option 2	\$758,059	\$463,855

In simple terms, Option 2 is more expensive for the City because the City will need to provide some incentive for the Developer to renegotiate the existing agreement. That renegotiation is likely to lead to a longer tax sharing agreement that benefits the Developer.

The departure of Worthington Ford is likely to have a greater negative impact on the City. If Worthington leaves, the two auto dealership parcels are likely to be vacant for some time, as the Developer tries to redevelop that area of the Site to accommodate retail tenants. The loss to the City is indicated below.

	<u>Total Revenues above Threshold 2010 - 2017</u>	<u>Net Present Value @ 8%</u>
Option 1 - Two Lump-Sum Payments to Worthington Ford	\$3,431,747	\$2,371,703
Worthington Ford ceases operations in Long Beach	\$1,626,495	\$1,124,999
Net Loss to City	\$1,805,252	\$1,246,704

If Worthington Ford leaves Long Beach, the City might lose approximately \$1,800,000 in sales tax revenues. On a present value basis, the loss is more than \$1,200,000. The loss is substantially more than the \$600,000 of assistance.

Attachments

TABLE 1

SALES TAX ASSISTANCE - \$600,000 UP FRONT
 WORTHINGTON FORD
 LONG BEACH, CALIFORNIA

Fiscal Years	Total Sales Tax	Sales Tax Base	Available for Distribution	City @ 50%	Ford Credit 14.0235%	Robertson 35.9765%
2010	841,771	568,575	273,196	136,598	38,312	98,286
2011	925,948	568,575	357,373	178,686	50,116	128,570
2012	1,018,543	568,575	449,968	224,984	63,101	161,883
2013	1,120,397	568,575	551,822	275,911	77,385	198,526
2014	1,232,437	568,575	663,862	331,931	93,097	238,834
2015	1,355,681	568,575	787,105	393,553	110,380	283,173
2016	1,491,249	568,575	922,673	461,337		
2017	1,535,986	568,575	967,411	483,706		
Totals		\$4,548,603		\$3,431,747		\$1,109,272
NPV @ 8%		\$3,528,789		\$2,371,703		\$616,658

TABLE 2

SALES TAX ASSISTANCE OPTION 2 - \$250,000 UP FRONT- ROBERTSON WORTHINGTON SHARE
 WORTHINGTON FORD
 LONG BEACH, CALIFORNIA

Fiscal Years	Total Sales Tax	Sales Tax Base	Available for Distribution	City @ 50%	Ford Credit 14.0235%	Robertson 27%	Worthington	Worthington NPV @ 8%	Robertson NPV @ 8%	Robertson Current	Robertson NPV @ 8%
2010	841,771	568,575	273,198	136,598	38,312	98,286		350,000	91,006	98,286	
2011	925,948	568,575	357,373	178,686	50,116	96,491	32,080	345,920	173,731	128,570	
2012	1,018,543	568,575	449,988	224,984	63,101	121,491	40,391	333,203	270,175	161,883	
2013	1,120,397	568,575	551,822	275,911	77,385	148,982	49,534	310,325	379,688	198,526	
2014	1,232,437	568,575	663,862	331,931	93,097	179,243	59,592	275,559	501,678	238,834	
2015	1,355,681	568,575	787,105	393,553	110,380	212,518	70,655	226,949	635,600	283,173	816,658
2016	1,481,249	568,575	922,673	461,337		249,122	212,215	32,890	780,961		
2017	1,535,986	568,575	967,411	670,688		261,201	35,522	0	922,079		

Totals \$4,548,603 \$2,673,687

NPV @ 8% \$3,528,789 \$1,907,847

TABLE 3

WORTHINGTON FORD CLOSSES
 WORTHINGTON FORD
 LONG BEACH, CALIFORNIA

Calendar Years	Total Sales Tax	Sales Tax Base	Available for Distribution	City @ 50%	Ford Credit 14.0235%	Robertson 35.9765%	Robertson NPV @ 8%
2010	829,070	568,575	260,495	130,247	36,530	93,717	86,775
2011	700,000	568,575	131,425	65,712	18,430	47,282	127,312
2012	700,000	568,575	131,425	65,712	18,430	47,282	164,846
2013	770,000	568,575	201,425	100,712	28,247	72,466	218,110
2014	847,000	568,575	278,425	139,212	39,045	100,167	286,282
2015	931,700	568,575	363,125	181,562	50,923	130,640	368,607
2016	1,024,870	568,575	456,295	456,295			
2017	1,055,616	568,575	487,041	487,041			
Totals		\$4,548,603		\$1,626,495			
NPV @ 8%		\$3,528,789		\$1,124,999			