



CITY OF LONG BEACH

R-23

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802

July 24, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to enter into a Memorandum of Understanding with the City of Signal Hill and the Spring Street Corridor Joint Powers Authority; a 15-year Sales Tax Sharing Agreement with the City of Signal Hill; and a 15-year Economic Development Agreement with Office Depot, City of Signal Hill, and LBSH Parcel I, LLC. (Citywide)

DISCUSSION

On January 24, 2012, the City Council authorized the City Manager to enter into a Location Agreement with Sales Center Development Concepts, which would have resulted in Office Depot locating an e-commerce sales office at an existing Office Depot location in the City of Long Beach. Subsequently, the City of Signal Hill contacted the City and requested that the two cities work cooperatively to maximize the benefit to both cities of the new e-commerce opportunity. Office Depot has proposed establishing an e-commerce call center facility in California to receive and process internet orders, and to handle phone calls for its California sales orders in order to be more responsive to its California customers. The e-commerce business is currently being handled out of several call center locations, both inside and outside the United States. Office Depot believes there is an opportunity to create California jobs and centralize processing for its California e-commerce orders at the new California call center facility. The new relationship is intended to preserve the City of Long Beach's previously anticipated new sales tax revenues, as well as preserve the City of Signal Hill's revenues.

In order to accomplish this, three interrelated agreements have been discussed between the various parties, which include the City of Long Beach, the City of Signal Hill, Office Depot, the Spring Street Corridor Joint Powers Authority, and LBSH Parcel I, LLC. LBSH Parcel I, LLC, is the owner of the property at 3366 E. Willow in the City of Signal Hill and 3500 E. Willow in the City of Long Beach. Both of these locations (Site) are leased by Office Depot, and are the subject of the agreements.

Memorandum of Understanding

The Spring Street Corridor Joint Powers Authority (SSCJPA) was formed on January 11, 1995, to allow the various governmental agencies a forum to discuss the best utilization of the Site. The original members of the SSCJPA included four City Council members from the City of Long Beach from the districts adjacent to the Site; City Council members from the City of Signal Hill, as well as representatives of both cities' Redevelopment Agencies, since redevelopment of the site was an intrinsic element of this process. In 1996, the JPA and Office Depot entered into an Owner Participation and Implementation Agreement (OPA), which provided various economic incentives to Office Depot, as well as financial assistance from both cities' redevelopment agencies to expand the original Signal Hill warehouse and to construct a facility on the Long Beach location. The incentives under the original OPA would have expired in 2011 and 2012. On March 16, 2011, the City of Signal Hill and the Signal Hill Redevelopment Agency extended the OPA for an additional period, thus providing the foundation for the current lease between LBSH Parcel I and Office Depot.

With the demise of the redevelopment agencies, the SSCJPA continued the process of ensuring the two cities retained and expanded the sales and distribution activities of the Site. On May 7, 2012, the SSCJPA discussed the elements of the deal and approved a Memorandum of Understanding (MOU) that describes:

- The general foundation for the consolidation of Office Depot's sales operations at the Site.
- The incentive for Office Depot to continue to operate at the existing Site and to expand that operation to include an e-commerce sales office.
- The mechanism by which the two cities would share the remaining sales tax generated by Office Depot.

City Council approval is being requested for the City Manager to enter into this MOU that was created through and approved by the SSCJPA, and which is the basis for the second agreement - the Sales Tax Sharing Agreement with the City of Signal Hill.

Sales Tax Sharing Agreement

In this tax sharing agreement, the two cities agree to remit to Office Depot 70 percent of all local sales tax revenues generated by the operations in Signal Hill and Long Beach. The following are some of the key provisions:

- The term of the agreement is 15 years.
- All sales will be consolidated in the Signal Hill facility.
- Signal Hill will pass through to Long Beach a portion of the sales taxes received as described in the following formula:
 - Up to \$1 million: 60 percent to Signal Hill and 40 percent to Long Beach;

- Between \$1 million and \$2.5 million: 50 percent to Signal Hill and 50 percent to Long Beach, and:
 - Above \$2.5 million: 60 percent to Signal Hill and 40 percent to Long Beach.
- This Sales Tax Sharing Agreement includes indemnification provisions and joint sharing of litigation expenses related to this agreement.

Economic Development Agreement

The original 1995 Owner Participation and Implementation Agreement, which was signed by all of the parties involved in the new Economic Development Agreement, established the incentive to Office Depot of 50 percent of the sales tax above a base amount, which, in the City of Long Beach was \$50,000. Under the proposed Economic Development Agreement, the assistance is increased to 70 percent. The additional assistance is provided through the MOU, the Sales Tax Sharing Agreement and the Economic Development Agreement.

Under the proposed Economic Development Agreement, the following terms would apply:

- The term would be for 15 years.
- Office Depot would receive 70 percent of the sales tax, and the Cities of Signal Hill and Long Beach would share in the remaining 30 percent (of the 1 percent sales tax remitted to the City from the State). Signal Hill and Long Beach would split the remaining sales tax revenues on an approximate 60 percent Signal Hill and 40 percent Long Beach allocation.
- The City of Signal Hill will provide the additional assistance above the amount in the OPA.
- The Economic Development Agreement contains performance thresholds that are the benchmark for the tax-sharing agreement between the Cities of Long Beach and Signal Hill. Office Depot must generate \$2 million in sales tax during the second fiscal year and \$3 million in the third and fourth fiscal years. The threshold for the fifth fiscal year is \$4 million in sales tax revenues. If the payments do not meet these thresholds, the payment to the City of Long Beach would be reduced proportionately by the shortfall.
- The determination of amount of the sales tax to be rebated will be based on State Board of Equalization reports of actual receipts.
- City payments would be made every six months, based on receipt of the sales tax revenues from the State Board of Equalization.
- The Economic Development Agreement contains indemnities and provides that Office Depot will fund 70 percent of any litigation reasonably related to the agreement.
- The cities will share any litigation or State Board of Equalization costs based on the funding formula.

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This matter was reviewed by Deputy City Attorney Amy Webber on June 21, 2012 and Budget and Performance Management Bureau Manager Dennis Strachota on June 18, 2012.

TIMING CONSIDERATIONS

There is some urgency for the City Council to conclude these matters on July 24, 2012. The new revenues will not start until the various agreements are signed.

FISCAL IMPACT

Under this proposed agreement, the expected revenue is about \$1,400,000 a year. The revenue could be lower, perhaps \$500,000 per year or it could be higher, perhaps \$2,000,000 per year. The actual revenues produced for Long Beach are expected to be largely dependent on sales of the new E-commerce center. Although the agreement appears to fully comply with State law and with the State Board of Equalization requirements, if there are any known disputes, the money will be held and not expended.

SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

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APPROVED:



PATRICK H. WEST
CITY MANAGER