



CITY OF LONG BEACH

DEPARTMENT OF ECONOMIC AND PROPERTY DEVELOPMENT

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January 5, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive supporting documentation into the record, conclude the public hearing regarding an economic subsidy associated with the First Amendment to Sales Tax Incentive Agreement No. 32583 with Cabe Brothers, a California corporation, pursuant to California Government Code Section 53083; and

Authorize the City Manager to execute all documents necessary to implement the First Amendment to Sales Tax Incentive Agreement No. 32583 with Cabe Brothers, a California corporation, for the expanded Toyota dealership located at 2895 Long Beach Boulevard. (District 6)

DISCUSSION

On May 10, 2011, the City Council authorized the execution of Sales Tax Incentive Agreement No. 32583 (Agreement) with Cabe Brothers (Cabe). The intent of the Agreement was to support expansion and improvements at Cabe's Toyota dealership located at 2895 Long Beach Boulevard. The primary structure of the Agreement is that 50 percent of sales tax generated by the dealership beyond an established base-year is shared with Cabe for a fixed period of time, or until achieving a set numerical cap.

Cabe has completed the extensive expansion and remodel of its Toyota dealership, which now totals over 31,000 square feet over three blocks along Long Beach Boulevard. Expansion costs have been determined to be in excess of \$6.3 million. The recently completed project includes a brand new Service Center, service reception area and customer lounge, ten additional service bays and car wash, parts retail center, wholesale offices and parts warehouse, a new 8,000 square-foot vehicle showroom, AND AN expanded vehicle display area and detail center. The project is LEED-certified with energy-efficient fixtures and an 80-panel solar photovoltaic system. Additionally, the project includes resurfacing with new asphalt, decorative concrete, landscaping, and planters.

While the improvements have been implemented, and Cabe reports that sales have benefited from the expansion, there are certain provisions of the Agreement that were not sufficient to provide Cabe with the economic relief necessary to support the cost of facility upgrades. Review of the Agreement and associated analysis reflect support for modifications to the Agreement that provide economic parity with other sales tax sharing agreements. The proposed First Amendment to Sales Tax Incentive Agreement No.

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32583 will contain the following major revised terms and conditions, as presented pursuant to California Government Code Section 53083:

- Base Year: Reestablish the base year from 2010 (\$221,715) to 2009 (\$170,340). As stated in the original May 10, 2011 City Council letter, significant associated project costs began occurring for this project in June 2009 with the purchase of a building and property at 2849 Long Beach Boulevard, adjacent to the existing Cabe Toyota dealership. Therefore, 2009 would provide a more accurate and appropriate base year.
- Incentive Cap: Increase Incentive Cap from \$1,000,000 to \$3,000,000. The original May 10, 2011 City Council letter stated that Keyser Marston Associates conducted an independent analysis of Cabe's operating expenses and revenues and determined that the project had a \$3,000,000 funding gap. Cabe has made every effort to bridge this gap with increased revenue from the project improvements, but continues to experience an economic disadvantage relative to other dealerships in the area.
- Term of Agreement: Reset the 15-year term of the Agreement. While Cabe's improvements have resulted in increased sales, they will need a full 15 years to benefit from the increased Incentive Cap. The original January 1, 2011 commencement date shall be reset to January 1, 2016.

Based on current projections, the cumulative total of local sales tax generated during the prior and proposed term of the Agreement is estimated to be \$10.8 million. Of this amount, a maximum of \$3 million will be paid to Cabe, while the City will receive the remainder.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on December 17, 2015 and by Assistant Finance Director Lea Eriksen on December 16, 2015.

TIMING CONSIDERATIONS

City Council action is requested on January 5, 2016, to expedite implementation of the proposed First Amendment.

FISCAL IMPACT

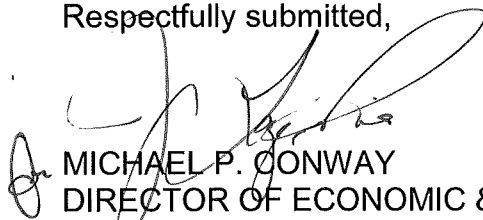
Projections indicate that over the term of the amended Agreement, the City's net sales tax revenue from Cabe could be approximately \$7.8 million.

The amended Agreement will assist in retaining a local business while preserving approximately 105 existing jobs. The growth and stability provided by the Agreement, to date, has already resulted in additional growth with more than 20 jobs created since 2011.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



MICHAEL P. CONWAY
DIRECTOR OF ECONOMIC &
PROPERTY DEVELOPMENT

MPC:JMV



JOHN GROSS
DIRECTOR OF FINANCIAL
MANAGEMENT

APPROVED:



PATRICK H. WEST
CITY MANAGER