



CITY OF LONG BEACH



CITY OF SIGNAL HILL

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May 7, 2012

AGENDA ITEM

**TO: HONORABLE CHAIR
AND MEMBERS OF THE JOINT POWERS AUTHORITY**

**FROM: KENNETH C. FARFSING
EXECUTIVE DIRECTOR
CITY MANAGER, CITY OF SIGNAL HILL**

**REGINALD HARRISON
DEPUTY CITY MANAGER, CITY OF LONG BEACH**

**SUBJECT: MEMORANDUM OF UNDERSTANDING RELATING TO A SALES TAX
SHARING ARRANGEMENT**

Summary:

The Spring Street Corridor Joint Powers Authority (SSCJPA) will consider the adoption of a Memorandum of Understanding pertaining to a sales tax sharing arrangement to permit the retention of Office Depot.

Recommendation:

It is recommended that the SSCJPA take the following actions:

- 1) Approve of the Memorandum of Understanding;
- 2) Forward the Memorandum for final approval by the City Council of the City of Long Beach and the City Council of the of Signal Hill

Background/ Analysis:

The Spring Street Corridor JPA (SSCJPA) was created by the City of Long Beach and the City of Signal Hill in February of 1995 to coordinate the economic development and revitalization efforts between the two cities along the Spring Street Corridor. The SSCJPA also included the redevelopment agencies from both communities. Since the

adoption of AB 1 X 26, which effectively dissolved redevelopment agencies as of February 1, 2012, the SSCJPA currently consists of the two charter cities.

At their meeting of March 27, 2012, the SCCJPA Board confirmed that they wish to continue the joint economic development goals relying on their municipal powers. The SCCJPA has had numerous successful projects, including the construction of the Office Depot warehouse and distribution center and the major street widening of Spring Street, from Long Beach Boulevard to Orange Avenue in 2005. Office Depot is a major regional employer and between the two facilities they employ over 550 people.

The Prior Owner Participation Agreement

On September 5, 1996, the SCCJPA entered into an Owner Participation and Implementation Agreement (OPIA) with Office Depot to provide incentives from the JPA and Member Agencies to continue leasing the Signal Hill site (440,000 square feet of office and warehousing) and to construct a new facility in Long Beach (187,000 square feet). The Signal Hill Redevelopment Agency (SHRA) approved of the OPIA at their September 10, 1996 meeting. This OPIA was due to expire in September of 2011. Office Depot expressed a desire to relocate its operations in 2010, and that without the continuation of the 1996 OPA assistance it would close its facilities and would relocate.

Extension of the OPIA

The City of Signal Hill and the SHRA negotiated an extension of the 1996 OPIA on March 16, 2011. This OPIA extension also assisted in facilitating an additional lease period between Office Depot and LBSH, the owner of both the Long Beach and Signal Hill properties and improvements. At that time, the City of Signal Hill Redevelopment Agency believed that it was in the public interest to retain the operations of Office Depot at the Signal Hill and Long Beach sites in order to retain jobs in both the City of Long Beach and Signal Hill.

The effects of the Great Recession were uneven, as are the effects of a slow economic recovery. The impacts on the Gateway Cities, in particular the City of Long Beach and surrounding communities was profound. Although national unemployment rates are improving slowly, California's job recovery is still a major problem. The February 2012 unemployment rate in California was 11.4%, while the national unemployment rate was 8.3% and the unemployment rate in Los Angeles County was 12.1%. The current unemployment rate in the Gateway Cities area is 13.6%, which is 4.3% above the national rate. Unemployment in the City of Long Beach is 13.2%, with a full 31,700 persons unemployed. Signal Hill's unemployment rate was 9.6%, improved from the other measures, but still too high. Economists believe that these unemployment rates are understated, since there many individuals are underemployed and have stopped actively searching for jobs.

Another factor the SHRA considered in extending the 1996 OPA was the retention of Signal Hill's most significant tax-generating business. Office Depot is in the City of

Signal Hill's top 25 sales tax producers. Twelve of the top twenty-five businesses, including Office Depot, generated 59.4% of the Signal Hill's entire sales tax revenues in FY2010-2011. The total sales tax revenues for the City of Signal Hill in that fiscal year was \$8.86 million, while these twelve businesses generated over \$5.26 million. This compares to the City's \$17.1 million General Fund budget. These businesses, including Office Depot, provide important funding for municipal services. The SHRA believed that the loss of these revenues would have a dramatic impact on Signal Hill's municipal budget.

The SHRA also considered that the project would retain a use at the Long Beach and Signal Hill sites, which otherwise would be very difficult to utilize. The two facilities total over 627,000 square feet in size. There is a large vacancy rate for these types of buildings in the Gateway Cities area. Also, vacancy rates for large industrial and warehouse buildings located in the Inland Empire are at historic high levels. When contacted in early 2011 Office Depot indicated that they were completing relocation studies in order to determine if there were options other than lease renewal in the Long Beach/Signal Hill facilities. The SHRA was very concerned that the loss of Office Depot would perpetuate the existence of blight in the project area. In addition, the Office Depot lease was economically unfeasible without the assistance of the SHRA.

Purpose of the MOU

During the last twenty years the problems with the "fiscalization of land use," or the competition between communities for big box retail and auto dealerships and the revenues they can bring, have been outlined. The two cities determined that they could be drawn into a destructive competition for retaining the Office Depot business. The SCCJPA's 1996 OPIA was an early version of a tax sharing and cooperation between cities to retain and attract new businesses. A repeat of a destructive competition could be avoided by relying on the SCCJPA to establish fair sale tax sharing arrangement that would protect the financial interests of each entity. Due to AB 1 X 26 the redevelopment agencies of each City have ceased to exist and this MOU provides an implementation mechanism.

Recently representatives of Office Depot approached Long Beach about sales in Long Beach with the possibility of Long Beach receiving greatly increased revenue in exchange for an increase in assistance of 70%, notwithstanding the SHPA's commitment to a 50% assistance level in Signal Hill. Rather than engage in a destructive competition between the cities, representatives of the Cities have negotiated this MOU as a guidepost to a cooperative arrangement to be implemented as provided below.

The actual assistance to Office Depot will be increased through the MOU from the level established in the OPIA, as extended in 2011. Under the OPIA, the assistance is paid from tax increment funds at a level measured by 50% of the sales taxes. Under the MOU the assistance level is increased to 70%. The extra assistance is to provide through the MOU and implementation agreements. The City of Signal Hill will provide the additional assistance above the amount in the OPIA. Signal Hill will also pass through to Long Beach a portion of the sales taxes received. Meanwhile, all sales will be consolidated in the Signal Hill facility.

The implementing agreements which are being developed include (i) an Economic Development Assistance Agreement between Signal Hill and LBSH Parcel 1, LLC ("landlord") and Office Depot (tenant); and (ii) a sales tax sharing agreement between Signal Hill and Long Beach whereby Signal Hill rebates to Long Beach its share of sales taxes from the allocation formula contained in the agreement (roughly a 60/40 split).

(Note: Disclosure of an individual business' sales tax revenues is not permitted by the State Board of Equalization. Both Long Beach and Signal Hill retain sales tax consultants, who have executed confidentially agreements with the SBOE. The cities have similar agreements.)