



CITY OF LONG BEACH R-9

DEPARTMENT OF FINANCIAL MANAGEMENT

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

June 17, 2014

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to enter into a 20-year Location Agreement with Dion and Sons, Inc. (Citywide)

DISCUSSION

In 1992, the City Council adopted the Retail Sales Tax Incentive Program outlining the policy for sales tax sharing to encourage the expansion of our retail base, improve retail sales tax productivity and stimulate private investment in the retail sector of the City's economy. After launching this program, several successful agreements were entered into, resulting in a significant increase in retail sales activity. Successful projects include the retention of key Long Beach auto dealerships including Hooman Toyota and Worthington Ford.

Based on the success of the Retail Sales Tax Program, the City later instituted another similar program intended to address retail sales. The new program was the Location Agreement Program (LAP). LAP is designed to attract new businesses, create jobs and enhance business-to-business sales tax revenue to the City. To qualify for assistance under the LAP, new businesses would be required to generate sales in Long Beach in excess of \$50 million annually. A LAP agreement would remit to an eligible business a negotiated portion of the sales taxes generated by the business for an agreed upon period of time. The Administration is proposing to modify the LAP to add, as a goal, the retaining of existing Long Beach businesses that meet the following criteria:

- The business must be in an industry in which the City already has in place a location agreement and that location agreement has created a competitive disadvantage to the business being considered for the new location agreement.
- The business has existing sales revenues of at least \$50 million annually that is either generated in Long Beach or can be consolidated to Long Beach.
- The business has a sales office in Long Beach, and pursuant to its business plan, it would consolidate other sales into its Long Beach location, thereby increasing local sales tax revenues above current levels.
- The consolidation would not occur but for the establishment of a location agreement.

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These criteria are consistent with recent changes to State law limiting local governments from entering into agreements with retailers that reduce the amount of sales or use tax received by another jurisdiction in which the retailer maintains a physical presence.

Consistent with this proposed revision to the LAP, City Council approval is requested to enter into a 20-year Location Agreement (Agreement) with M.O. Dion and Sons, Inc., and Amber Resources, LLC, dba Sawyer Petroleum (collectively "Dion and Sons"). Dion and Sons is a distributor of petroleum products and related services to customers throughout Southern California. The company serves as the master distributor for Shell Oil Products U.S. in Southern California and is a leading provider of fuel and lubricants to the Ports of Long Beach and Los Angeles, as well as local refineries. Products and services include delivery, fuel management programs, industrial services and lubrication analysis, site assessments, remote tank monitoring, equipment programs, and real-time fleet fueling information.

Dion & Sons has been headquartered in Long Beach since 1930. Dion and Sons meets all the requirements of the proposed LAP expansion. It currently operates four additional distribution facilities in Southern California. To achieve administrative and cost efficiencies, Dion and Sons is seeking to consolidate its sales and order management operations to its expanded headquarters in Long Beach and acquire and merge companies. If the Agreement is approved, Dion and Sons will consolidate these services into its Long Beach headquarters. The relocation is expected to result in significant new sales tax revenue to the City.

This Agreement would allow Dion and Sons to grow in the City, enhance additional business-to-business sales tax revenue, and retain a long-term business in Long Beach. Under the proposed Agreement, Dion and Sons would receive 65 percent of the sales tax and the City would retain 35 percent. However, the split of sales tax would not occur in any year until the City receives a minimum base of sales tax revenue equivalent to the amount received in FY 13 (\$490,000). A 65/35 split is the current standard for business-to-business municipal/private entity location agreements of this nature. The allocation of sales tax is based on State Board of Equalization reports. The City or Dion and Sons may, only with just cause, terminate the Agreement upon prior written notice. Given the recent difficult financial constraints California cities have experienced, if the City of Long Beach declines to act on this agreement, both the historical and new revenue from Dion and Sons could potentially be lost to another city. After consolidation of Dion and Sons sales, the City is expected to receive significantly more revenue from Dion and Sons than if no Agreement was in place. The Agreement is proposed to be effective as of Fiscal Year 2015 (FY 15), starting on October 1, 2014.

This matter was reviewed by Deputy City Attorney Amy R. Webber and Budget Management Officer Victoria Bell on June 2, 2014.

TIMING CONSIDERATIONS

City Council action is requested on June 17, 2014 to allow Dion and Sons to begin the planned consolidation and reorganization of their operations.

FISCAL IMPACT

The proposed consolidation of services is expected to take several months to complete. After the consolidation of sales has occurred, along with the expected growth of the company, there will be additional net revenue received by the City. Projections indicate that within ten years, the City's net revenue from Dion and Sons may double over the FY 13 amount of \$490,000. Should the City decline to act on this agreement, both the historical and new revenue from Dion and Sons could potentially be lost to another city. Approval of the recommendation will result in a positive local job impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

for 

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

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APPROVED:



PATRICK H. WEST
CITY MANAGER