



February 16, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all necessary documents to reinstate a Sales Tax Incentive Program Agreement with HTL Automotive, Inc., dba Hooman Toyota of Long Beach. (District 4)

DISCUSSION

Approval is recommended to reinstate a Sales Tax Incentive Program agreement (Agreement) with HTL Automotive, Inc., dba Hooman Toyota of Long Beach (Hooman Toyota). The term of the Agreement with Hooman Toyota is from October 1, 2009 to September 30, 2013. The purpose of the Agreement is to retain a local business that was significantly affected during an extraordinary economic downturn by offsetting additional advertising and dealer rent expenses.

On March 17, 1992, the City Council approved a Sales Tax Incentive Program (Program) to encourage large-scale retail development, stimulate private investment in the retail sector and enhance sales tax revenue in the City. New retail businesses or existing businesses planning to expand, which generate more than \$5 million in annual sales, may be eligible for the Program. For an expanding business, the City may return up to 50 percent of the sales tax generated in excess of an agreed upon base.

The City has entered into sales tax agreements when a significant financing gap exists that would result in the failure to retain or attract a key business. A number of conditions can trigger the financing gap including the marketing or operational costs above national ratios. According to a report prepared by Keyser Marston Associates, Hooman Toyota is currently paying higher than the national average in lease payments, and advertising costs are significantly above average. The advertising gap will narrow as the business reaches its stabilization year.

On December 17, 1996, the City Council approved a Sales Tax Incentive Program Agreement to provide financial assistance to retain Salta, LLC dba Beach Toyota (Attachment A). The Agreement provided for a 50/50 sharing of sales tax over a base of \$135,413 to the City. The Agreement was originally capped at \$701,595 and amended in 2006 to extend the cap to \$801,000. The final payment under the Agreement was made in 2009. The proposed Agreement reinstates the former

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Agreement, using the same base number of \$135,415 and the same 50/50 division of the sales tax over the base.

Based on an estimated FY 10 sales tax revenue of \$360,800 and with a 5 percent sales increase per annum, total sales tax generated during the course of the Agreement is estimated at \$1,555,093. Of this amount, the total estimated sales tax rebated to Hooman Toyota is \$506,721. The total estimated sales tax to the City after the rebate to Hooman Toyota is \$1,048,373. The new Agreement proposes a rebate cap of \$506,721. A spreadsheet detailing the proposed financial Agreement can be found as Attachment B.

This matter was reviewed by Assistant City Attorney Heather A. Mahood, on January 21, 2010 and Budget and Performance Management Bureau Manager David Wodynski on January 14, 2010.

TIMING CONSIDERATIONS

City Council action is requested on February 16, 2010, to expedite implementation of the Agreement.

FISCAL IMPACT

Retaining this automobile dealership is expected to generate \$1,048,373 in net sales tax revenue for the City during the period of the Agreement. Under this Agreement, the City will rebate a maximum of \$506,721.

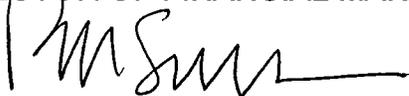
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO



ROBERT M. SWAYZE
MANAGER, ECONOMIC DEVELOPMENT AND CULTURAL AFFAIRS

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ATTACHMENTS

APPROVED:



PATRICK H. WEST
CITY MANAGER



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

BUSINESS DEVELOPMENT CENTER • 200 PINE AVENUE, FOURTH FLOOR • LONG BEACH, CALIFORNIA 90802 • (310) 570-385
(310) 570-380

December 17, 1996

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City of Long Beach
California

SUBJECT: Utilization of Retail Sales Tax Incentive Program to Retain and Expand Salta Pacific L.P.C. (d.b.a. Beach Toyota) An Automobile Dealer Located in Long Beach (4)

COST: NONE

BACKGROUND

On March 17, 1992, the City Council approved a Sales Tax Incentive Program to encourage large scale retail development, improve retail sales tax productivity, and stimulate private investment in the retail sector of the City's economy. The utilization of this program to benefit Beach Toyota will serve to retain the auto dealership in the City of Long Beach, which in turn will protect and eventually enhance the City's tax base and retain jobs in the community. In accordance with program guidelines, Beach Toyota must generate retail sales in excess of \$5 million. The dealership has consistently exceeded minimum program sales requirements over the past three years. The program returns 50% of the sales tax generated by the new business in excess of the first \$50,000 in sales and use tax for up to 15 years.

Beach Toyota is located at 4401 East Pacific Coast Highway. Beach Toyota (previously known as Long Beach Toyota) was recently acquired by Salta Pacific L.L.C. and has approached the City for assistance available through a sales tax agreement to provide for modernization and expansion of the existing dealership. Based upon Beach Toyota's needs to accomplish the necessary improvements to the dealership a program exception is requested in order to allow for an increased percentage of sales tax in the first five years. The overall percentage of the sales tax incentive shall remain at 50% for the total of 15 years.

The proposed assistance to Beach Toyota is conditioned upon the modernization at the existing facility located at 4401 East Pacific Coast Highway and expansion to a new service facility at the former Treasure Hunt Store located at 1775 Ximeno Avenue.

Based upon verification of quarterly sales taxes generated by auto sales and leases and the actual cost to improve and expand the facility, the proposed sales tax agreement will have the following participation schedule:

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- Dealership shall share in 75% of the sales and lease tax paid to the City in excess of "Base Amount"* for the first five years.
- Dealership shall share in 50% of the sales and lease tax paid to the City in excess of "Base Amount"* for the subsequent five years.
- Dealership shall share in 25% of the sales and lease tax paid to the City in excess of "Base Amount"* for the remaining five years.

* The Base Amount is the sales and use tax paid to the City from the previous twelve months (estimated at approximately \$140,000) prior to commencement of operations by Beach Toyota.

The total amount of the assistance will be limited to the actual cost of necessary improvements (currently estimated at \$701,595) and be based upon sales tax generation in excess of that received by the City for the previous twelve months prior to Salta Pacific L.L.C.'s purchase of Beach Toyota.

In order to provide the assistance, the City will ^{lease} sublease a portion of Beach Toyota's property for an amount equal to the proposed assistance based upon the actual generation of sales tax over the twelve-month base amount in accordance with the retail sales schedule. This sublease will terminate in the event that Beach Toyota ceases operations. The City will then sub-sublease the facility back to Beach Toyota for the operation of their business for a dollar a year.

The public purpose supporting this request is that this incentive allows the dealership to remain open and provides for expansion opportunities, increasing sales tax production and employment generation. The existing dealership does not meet current new car dealer facility lot size and lacks freeway visibility. Such impediments would highly limit future new auto retail sales uses and jeopardize current sales tax revenue to the City (in excess of \$130,000 annually). Without the Retail Sales Tax Incentive Program, Salta Pacific L.L.C. would not likely have acquired the dealership and committed to completion of the necessary improvements and expansion to ensure the competitiveness of the dealership. Specifically, the assistance provided will allow for substantial increases in auto sales projected at \$15 million annually. Under the proposed agreement the City could receive approximately \$1.5 million in additional sales tax over the term of the agreement. (See Exhibit A attached). Principal Deputy City Attorney Heather Mahood has reviewed this report.

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IT IS RECOMMENDED THAT THE CITY COUNCIL:

Request the City Attorney to prepare and authorize the City Manager to execute a Retail Sales Tax Incentive Program agreement for Beach Toyota as an inducement to retain and expand the auto dealership in the City of Long Beach.

Respectfully submitted,

Susan F. Shick
Director of Community Development

SFS:SOK:cmv

APPROVED:

JAMES C. HANKLA
CITY MANAGER

Hooman Toyota -- Proposed Sales Tax Agreement

50/50 split with base of \$135,413.

Fiscal Year	Estimated Sales Tax	Base to City	Residual	% to Dealer	Amount to Dealer	Amount to City
2010	\$ 360,800	\$ 135,413	\$ 225,387	50%	\$ 112,694	\$ 248,107
2011	378,840	135,413	243,427	50%	121,714	257,127
2012	397,782	135,413	262,369	50%	131,185	266,598
2013	417,671	135,413	282,258	50%	141,129	276,542
Total	\$ 1,555,093	\$ 541,652	\$ 1,013,441	50%	\$ 506,721	\$ 1,048,373