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CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

October 1, 2002

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

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SUBJECT: Applying the Sales Tax Incentive Program to Retain and Expand Circle Automotive Group, An Automobile Dealership Located in Long Beach (District 4)

DISCUSSION

On March 17, 1992, the City Council approved a Sales Tax Incentive 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 or are projected to generate more than \$5 million in annual sales, may be eligible for the program. To an expanding business, the City would return up to 50% of the sales tax generated in excess of the existing base.

The proposed application of this program to Circle Automotive Group (Circle) will serve to retain these auto dealerships in the City of Long Beach, protect the jobs in the community, and as a result of significant expansion, enhance the City's sales tax base.

Circle manages a Mitsubishi dealership at 4400 Los Coyotes Diagonal and Volkswagen, Audi, and Porsche dealerships at 1919 Lakewood Boulevard. On May 12, 1992, the City Council approved a Sales Tax Incentive Agreement with Circle to provide financial assistance for capital improvements required by the manufacturers to retain the franchises and for additional equipment and specialized tools. Under this agreement, the City is required to pay Circle 100% of the sales tax generated over a \$122,000 base for the first five years, 50% for the next five years (through the second quarter of 2002), and 0% for the remaining five years (through the second quarter of 2007). This averages 50% over the life of the agreement. The City also provided collateral for a \$240,000, five-year bank loan to Circle, which was subsequently paid off in 1997.

To retain these franchises, the manufacturers are again requiring substantial capital improvements and new equipment. Porsche and Audi are requiring separate facilities. To satisfy these requirements, Circle has acquired and intends to remodel its existing leased location on Lakewood Boulevard for the Volkswagen dealership and expand its operations by acquiring and remodeling the buildings on the 1.44-acre property across the street, for the separate Porsche and Audi dealerships. Circle acquired the existing

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facility for \$3.8 million and paid \$2.8 million for the 1.44-acre expansion property. The cost of remodeling the buildings for dealership use is estimated at \$2.75 million for a total of \$9.35 million. Circle has requested financial assistance using the Sales Tax Incentive Program to help defer the cost of expansion and development.

Keyser Marston Associates, Inc., the City's fiscal advisor, determined that Circle does not have the ability to finance the capital improvements without the assistance provided by the Sales Tax Incentive Program. Based on their analysis, the excess cost is \$3.35 million. Circle is requesting sales tax sharing, in the aggregate, up to \$3 million, over a 15-year period. Based on sales projections, the proposed assistance has a present value of \$1.52 million. The amount the City will receive over 15 years, including the base tax, is projected to be \$9.32 million, with a present value of \$4.24 million.

The proposed agreement will provide for terminating the existing agreement after paying the tax sharing due to Circle for the second quarter of 2002, the last quarter in which the City is required to make a payment. The City will pay Circle 50% of the sales tax revenue generated by sales and leases for the Volkswagen, Audi, and Porsche dealerships in excess of a new base, which is \$294,465. By setting a new, higher base, the proposed agreement will preserve the intent of the existing agreement. The new base is the amount of sales tax generated by the aforementioned dealerships during the four quarters ending June 30, 2002. Payments will start in the third quarter of 2002 and will terminate in 15 years or upon paying \$3 million, whichever comes first.

To implement this agreement, the City will lease Circle's property for the sales tax sharing amount and sub-lease it back to Circle for \$1 per year. Attached Tables 1 and 2 contain a sales projection and analysis of the financial assistance proposed.

This item was reviewed by James N. McCabe, Deputy City Attorney, on August 22, 2002; Annette Hough, Budget Manager, on September 24, 2002 and Jim Sadro, City Treasurer, on September 24, 2002.

TIMING CONSIDERATIONS

Circle has committed to the expansion by purchasing the 1.44-acre property. An agreement with the City will facilitate the dealership's ability to secure adequate financing for the improvements. Timely execution of the Agreement will accelerate the proposed construction and, commensurately, the increased revenue to the City.

FISCAL IMPACT

Annual sales tax revenue is expected to grow significantly from a total of \$294,465 for the four quarters ending June 2002 to a projected \$712,000 in 2006 as a result of the

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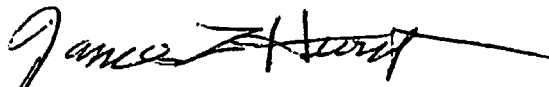
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proposed remodeling and expansion. The aggregate amount retained by the City over 15 years is projected to be \$9.32 million, which has a present value of \$4.24 million. This amount will accrue to the General Fund.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Authorize the City Manager to terminate the existing agreement with Alant Corporation (Circle Imports) and enter into a 15-year lease agreement with Circle Automotive Group for 50% of the sales tax generated above a base of \$294,465, not to exceed \$3 million.
2. Authorize the City Manager to enter into a sublease agreement with Circle Automotive Group for \$1 per year.

Respectfully submitted,

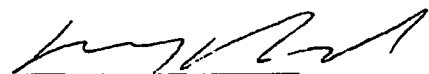


MS MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

MSF:CSY:aat
C:\Sales Tax\Alant (Circle Imports)\CCLetter3.doc

Attachments: Table 1
Table 2

APPROVED:



HENRY TABOADA
CITY MANAGER



ATTACHMENT B

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

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Utilization of Retail Sales Tax Incentive Program to Retain and Expand Salta Pacific L.L.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