



January 24, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to enter into a 25-year Location Agreement with Sales Center Development Concepts, LLC, and approving the retailer Office Depot. (Citywide)

DISCUSSION

On September 16, 2008, the City Council agreed to adopt a 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, new businesses would be required to generate sales in excess of \$50 million annually. The sales performance of these businesses would be verified by a business evaluation, which would include at least a three-year sales performance analysis. A LAP agreement would remit to an eligible business a negotiated portion of the sales taxes generated by it for an agreed upon period of time. Consistent with this previously approved program, City Council approval is requested to enter into a similar 25-year non-exclusive Location Agreement (Agreement) with Sales Center Development Concepts, LLC (Sales Center). Sales Center represents major national retailers, who may want to locate e-commerce and other types of sales offices in California. While the Agreement is with Sales Center, the sales tax revenues will be generated by retailers, who will enter into a separate client agreement with Sales Center to manage the associated sales tax rebate process.

The Agreement with Sales Center will establish the contractual relationship between Sales Center and the City, as well as some specific requirements for Office Depot. Under the proposed Agreement, the following terms would apply:

- The Agreement would be for 25 years.
- Sales Center would receive 70 percent of the sales tax, and the City would retain 30 percent (of the 1 percent sales tax remitted to the City from the State). Sales Center would distribute their share of the sales tax under the terms of the associated client agreement with Office Depot.

HONORABLE MAYOR AND CITY COUNCIL

January 24, 2012

Page 2

- Office Depot will locate an e-commerce sales office\buying company in the City of Long Beach and transact business that would result in new sales tax revenue for the City of Long Beach.
- Office Depot will acquire a permit from the State Board of Equalization and operate their business according to the State Board of Equalization Rules and Regulations.
- Office Depot will acquire and maintain a City of Long Beach Business License for the new business.
- The determination of amount of the sales tax to be rebated will be based on State Board of Equalization reports of actual receipts.
- The City or Sales Center may, only with just cause, terminate the Agreement upon prior written notice.

Office Depot is intending to open an e-commerce sales office, which is expected to have more than \$400,000,000 in taxable California sales annually. Sales Center has stated that they will work with the City of Long Beach to locate this proposed e-commerce sales office, which would result in an estimated, full-year, additional annual sales tax revenue of \$1,200,000 or more for the City.

When the Agreement is executed, Sales Center is expected to enter into a client agreement with Office Depot, who is expected to locate their e-commerce sales office in Long Beach. Therefore, City Council approval is being requested to approve both the City Manager entering into an Agreement with Sales Center, and approval of the retailer, Office Depot, under the Agreement is also being requested.

The City already has a Location Agreement with Office Depot for a sales office location, which was initiated in 1997 and expires in 2012, and is likely not going to be renewed. This existing Location Agreement is based on office furniture sales activity and provided for 50 percent sales tax revenue split after a base of \$50,000 was kept by the City. Although the new relationship under the Agreement is based on a different sales tax related activity, e-commerce sales, it will assist in retaining a valued Long Beach business.

This matter was reviewed by Assistant City Attorney Heather A. Mahood on January 11, 2012 and Acting Budget and Performance Management Bureau Manager Shari Metcalfe on December 19, 2011.

TIMING CONSIDERATIONS

There is some urgency for the City Council to conclude these matters on January 24, 2012. Office Depot's current long-term leases for the Long Beach sales office and the

HONORABLE MAYOR AND CITY COUNCIL

January 24, 2012

Page 3

Signal Hill distribution center will expire in 2012. Office Depot will receive an early signing discount, if leases are signed now, and they wish to sign them in the near future. The City Council action on January 24 will provide the necessary assurances to Office Depot that the long-term relationship as described in the two agreements will take place, subject to the agreement being signed by both parties with the terms described in this letter.

FISCAL IMPACT

Starting in Fiscal Year 2013 (FY 13), the proposed Agreement is expected to generate approximately \$1,200,000 annually in new sales tax revenue to the General Fund. The local job impact is approximately 20 new customer service-related jobs.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

JG: RB
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APPROVED:



PATRICK H. WEST
CITY MANAGER