



## Legislation Text

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**File #:** 10-0439, **Version:** 1

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Recommendation to authorize City Manager to execute all related documents to implement a business and job retention loan using Community Development Block Grant (CDBG) funds amortized over five years in the amount of \$600,000, with interest at five percent per year to Worthington Ford, Inc., with \$200,000 being dispersed upon execution of the loan agreement, and \$400,000 being dispersed upon the U. S. Department of Housing and Urban Development (HUD) approval of the City's FY 2010 - FY 2011 Action Plan Amendment. (Citywide)

The past 18 months have been extremely difficult for auto dealerships. In 2009, almost 1,800 dealerships closed nationwide. According to the California New Car Dealers Association, over 200 dealers have closed in the state since 2008. New light sales have fallen dramatically. California new vehicle registrations fell from 1,447,460 in 2008 to 1,038,271 in 2009, a decline of 29.3 percent; and that followed a decline of 23 percent in new vehicle registrations in 2008 compared to 2007.

While Worthington Ford has been impacted by the downturn, they remain a significant contributor in terms of sales tax and job creation. Worthington Ford is one of the most recognized retailers in Long Beach and has been a top ten generator of sales tax revenue for Long Beach since 1976.

Long Beach has assisted auto dealerships in the past through loans and/or sales tax agreements. Worthington Ford submitted the attached letter requesting financial assistance from the City for their retention and expansion efforts. In this letter, Nick Worthington, Corporate Director, is requesting that the City partner with them to remain in Long Beach and to expand into the adjacent vacant Champion Chevrolet site. Assistance from the City will retain significant sales tax revenue for Long Beach, retain the 115 current employees of Worthington Ford, and reactivate a closed auto dealership.

It is proposed that the assistance to Worthington Ford be in the form of a \$600,000 multiple advance, key-tenant loan. Based on the analysis of the City's financial consultant, Keyser Marston Associates, the provision of the key-tenant loan results in more sales tax revenue to the City than amending an existing sales tax agreement. Staff agrees with that analysis.

### **Key-Tenant Loan**

Long Beach has made key-tenant loans to prominent retailers to promote additional retail opportunities and to generate additional sales tax revenue. A key-tenant loan provides that in lieu of making monthly principal and interest payments, the borrower will continue to operate the business at a specified location in Long Beach for the term of the loan. If the premises are vacated before the term expires, the borrower owes the amortized balance. If the borrower operates the business for the five-year term of the loan, the principal and interest shall be forgiven. The City recognizes that by having the premises occupied and maintaining a retailer in operation provides substantial public benefit, including job retention or creation, and prevents the loss of or creates more sales tax revenue for the General Fund.

Approval is recommended to provide a five-year key tenant loan to Worthington Ford in the amount of \$600,000 with interest at five percent per year. The term of the agreement is five years beginning approximately June 1, 2010. The purpose of the loan is to provide working capital to assist a local business that has been significantly affected by the recession. The public benefit is the retention of 115 jobs, the sales tax generated by Worthington Ford and the activation of a closed automobile dealership. Loans using CDBG funds require that one job be retained or created for each \$35,000 in borrowing, and that 51 percent of the retained or created jobs be low or moderate income.

Worthington Ford will utilize the services of the City's Career Transition Center as a first priority in the job recruitment.

Collateral will consist of a personal guarantee from Cal Worthington, owner of Worthington Ford.

The loan will be structured as a multiple advance note, with \$200,000 disbursed to the borrower upon the execution of the agreement and \$400,000 disbursed contingent upon HUD approval of the City's FY 2010 - FY 2011 Action Plan Amendment.

### **Sales Tax Agreement**

There currently exists a Retail Sales Tax Agreement involving the Los Altos Gateway shopping center where Worthington Ford is located. However, Worthington Ford does not receive a share of the sales taxes generated under the agreement. To include Worthington Ford in a sales tax agreement would require securing the approval of all parties to amend the existing agreement and extend the term.

On June 30, 1998, Council approved a Retail Sales Tax Incentive Program agreement with California Drive-In Theaters, Inc. (COIT) to support the development of 41 acres located at the southeast corner of Spring Street and Bellflower Boulevard. The purpose of the agreement was to reimburse the developer for construction costs related to the covering of Los Cerritos Channel, as well as to compensate the developer for the difference between fair market value of two parcels and the fair market reuse value. The development included an expanded Worthington Ford and a second new car dealership. That agreement provided for a 50/50 tax sharing over a base of \$568,575 capped at \$6,574,427 plus simple interest accruing at an annual rate of eight percent per annum accruing on the unpaid balance, and expiring on September 30, 2015.

From the inception of the agreement through Quarter 3 of 2009, the sales tax generated by the center totaled \$11,658,909. The amount paid to the City, including the base plus 50 percent above the base, totaled \$8,388,042, or 72 percent of the total. The amount paid to CDIT and its development partner, Ford Leasing Development Company, totaled \$3,270,867, or 28 percent of the total sales tax generated by the center.

This letter was reviewed by Chief Assistant City Attorney Heather Mahood on April 22, 2010 and by Budget Management Officer Victoria Bell on April 22, 2010.

City Council action is requested on May 4, 2010 to expedite implementation of the proposed loan.

Funding for this activity is from Community Development Block Grants (CDBG) budgeted in the Community Development Grants Fund (SR 150) in the Community Development Department. There will be no impact on the General Fund.

The recommended action will result in the retention of 115 jobs and the creation of additional jobs.

Approve recommendation.

REGINALD I. HARRISON  
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DENNIS J. THYS  
DIRECTOR OF DEPARTMENT OF COMMUNITY DEVELOPMENT

NAME  
TITLE

APPROVED:

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PATRICK H. WEST  
CITY MANAGER