

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083**

**FOR A LOCATION AGREEMENT
BY AND BETWEEN CITY OF LONG BEACH
AND CRC SERVICES, LLC**

Pursuant to Government Code Section 53083, the City Council of the City of Long Beach must hold a noticed public hearing and, prior to the public hearing, provide all of the following information in written form and available to the public and through the City's website, regarding a proposed economic development subsidy to be provided by the City pursuant to a Location Agreement by and between the City of Long Beach and CRC Services, LLC, ("Agreement"). Notice was published on City's website for a public hearing to be held on October 20, 2015.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy, as further described in number 2 below.

- 1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.**

The Agreement is with CRC Services, LLC, which operates an existing business that will benefit from the economic development subsidy.

CRC Services, LLC
111 W. Ocean Blvd, Suite 800
Long Beach, CA 90802

- 2. The start and end dates and schedule, if applicable, for the economic development subsidy.**

If the Agreement is approved by the City Council, the start date of the economic development subsidy will be on or around October 1, 2015 and the end date will be no later than 30 years after the start date, on or around September 30, 2045. The City or CRC Services, LLC, may, only with just cause, terminate the Agreement upon prior written notice.

The economic development subsidy will be paid quarterly, within 60 days of the end of each quarter.

- 3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.**

CRC Services, LLC, is a material and supply (purchasing) company, which will

purchase materials and supplies for resale to affiliates of CRC and some third party businesses. CRC spun-off from Occidental Petroleum Corporation on December 1, 2014. CRC is the parent company of a consolidated group of corporations that primarily explore, develop and produce crude oil, natural gas and natural gas liquids in the State of California. CRC holds investments in its subsidiaries and their obligations to third party lenders. CRC has a significant presence in Long Beach with approximately 475 employees and 175 contractors as of July 1, 2015. CRC Services, LLC, is a Delaware limited liability company that was formed by CRC, prior to the spin-off from Occidental Petroleum, to acquire and hold certain information technology, fractional interests in Net Jets, blanket purchase agreements and serve as the centralized cash management function for CRC.

As a condition of the location agreement CRC Services, LLC, would consolidate its purchasing function in Long Beach for the term of the agreement thereby stimulating economic growth and generating new sales and use tax revenue in the City. In return, the City would provide an economic development subsidy in the form of a rebate of the local sales tax received from CRC Services, LLC, purchases. Under the proposed Agreement, CRC Services, LLC, would receive 80 percent of the sales tax received by the City and the City would retain 20 percent for a 30-year term. 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 \$425,000. If in any year CRC Services, LLC, receives less than 80 percent of the total sales tax revenue received by the City, the shortfall will be rebated in the next year in which enough revenue is generated to both meet the \$425,000 City base and the shortfall. Shortfall corrections will not exceed a two-year catch up period. The City currently receives minimal sales tax revenue from CRC Services, LLC, or its affiliated companies, since it is not currently located in Long Beach. As such, there is only a nominal amount of revenue lost as a result of this agreement.

4. A statement of the public purposes for the economic development subsidy.

While the General Fund revenue picture has improved, long-term revenues are not expected to be sufficient to maintain current service levels. In coming years, expenses are projected to continue to outpace revenues, due primarily to CalPERS costs. The City has reported that over the next three years the General Fund is projected to experience a \$15.3 million deficit.

Having faced tough economic times in the past Long Beach has developed a holistic approach to economic development. Among the avenues adopted by the City Council to enhance revenue growth via economic development is the Retail Sales Tax Incentive Program. This program utilizes 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. Similar to the Retail Sales Tax Incentive Program, the Location Agreement Program (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 are required to generate sales in excess of \$50 million annually. LAP agreements remit to an eligible business a negotiated portion of the sales taxes generated by it for an agreed upon period of time. Implementation of a location agreement often results

in the establishment of a purchasing company.

The agreement with CRC Services, LLC, falls within the LAP. The proposed Agreement will stimulate growth in this key industry in the City, enhance additional business-to-business sales tax revenue and support the City's efforts to fund critical services to our residents. This agreement would result in estimated total annual sales tax revenue of \$1.5 million, in a low year, to \$4.0 million, which the City would share with CRC Services, LLC.

5. The projected tax revenue to the local agency as a result of the economic development subsidy.

CRC is an economic engine for California. To achieve administrative and cost efficiencies, CRC Services, LLC, will centralize the procurement function for CRC's larger material vendors in Long Beach. The centralization of procurement is expected to result in significant new sales tax revenue to the City. CRC's taxable expenditures vary in any given year due to the oil production market. CRC's total taxable expenditures in 2014 was \$830 million for materials and supplies. In 2015, total taxable expenditures are projected to be \$250 million for materials and supplies. Going forward, a substantial portion of these expenditures would be purchased through CRC Services, LLC.

Under the proposed Agreement, CRC Services, LLC, would receive 80 percent of the sales tax and the City would retain 20 percent. However, the split of sales tax would not occur in any year until the City receives a minimum base sales tax revenue equivalent to \$425,000. Given the recent difficult financial constraints California cities have experienced, if the City declines to act on this Agreement, new revenue to Long Beach from CRC will be lost. The City currently receives minimal sales tax revenue from CRC. The Agreement ensures that the City will receive sales tax revenue from CRC, a company doing millions of dollars of business in Long Beach, via the centralized procurement of CRC Services, LLC.

6. The estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

The City anticipates the relocation of CRC Services, LLC, to Long Beach will result in increased sales in the City and retain jobs. CRC Services, LLC, has 3 full time supply chain employees located in Long Beach. As result of this agreement, 6 key supply chain employees will be based on Long Beach part-time. In addition, CRC has a significant presence in Long Beach with approximately 475 employees and 175 contractors as of July 1, 2015.