

Agenda Report

October 7, 2013

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee

FROM: Office of City Manager

SUBJECT: SALES TAX REIMBURSEMENT AGREEMENT WITH AVON PRODUCTS, INC AT 2940 FOOTHILL BLVD

RECOMMENDATION:

It is recommended that the City Council:

1. Approve the terms and conditions of a Sales Tax Increment Reimbursement Agreement ("Agreement") between the City of Pasadena and Avon Products, Inc. ("Avon") in which the City will reimburse Avon up to 40% of the sales tax generated by Avon after July 1, 2014 as that is the date on which Avon's operation would have been shut down and the sales tax generated would have been \$0 if not for this Agreement. The reimbursement will not exceed \$600,000 in any one year and will not continue after \$1.8 million is reimbursed or three years has passed, whichever comes first.
2. Adopt the attached Resolution (Attachment A) and find that preserving the jobs and economic activity now provided by Avon in its current location, installing the necessary equipment and upgrades to continue operation at its current location, and extending Avon's operation in Pasadena for three additional years (the proposed project) as described in the application and agreement:
 - A. Promotes employment and will significantly contribute to the maintenance and expansion of the economic base of the City,
 - B. Constitutes a valid exercise of the police powers of the City, and serves a public purpose in which the City has a peculiar and unique interest,
 - C. Substantially relates to a municipal affair of the City;
3. Accept and approve Avon's application and the participation of the City in such project, subject to the provisions of Chapter 4.105 of Municipal Code, the rules and regulations, and the conclusion of all proceedings undertaken to consummate such participation to the satisfaction of the City.

4. Authorize the City Manager to execute and the City Clerk to attest the Agreement on behalf of the City.

BACKGROUND:

Avon is a manufacturer and distributor of beauty, household, and personal care products that sells through representatives in over 140 countries across the world. Avon's distribution center in Pasadena opened in 1946 and gradually expanded into a large 350,000 square foot facility. Today, it is the company's oldest distribution facility in the United States and serves the West Coast region. However, recent sales in the U. S. have continued a steady decline.

In January 2013, Avon announced plans to closedown its Pasadena operation in the second half of 2014, citing the need to implement new distribution efficiencies. As stated in the Company's press release, the decision to close this facility is necessary to "right-size their U. S. supply chain footprint, reduce complexities and restore the health of the U. S. business." Avon estimates that the closure of its Pasadena and Atlanta, GA facilities, which is part of a global initiative, will save the company \$400 million a year by the end of 2015.

Given the challenges the Company has faced in recent years, the closure announcement was not completely unexpected. Nevertheless, the closure would be a significant financial loss to the City, given that the Company employs more than 200 people and has consistently been a top ten sales tax revenue generator for the City.

Subsequent to the closure announcement, City staff met Avon representatives to discuss the Company's plans for the property as well as explore options that might avoid or delay the closure. As part of this, staff suggested that the Sales Tax Incentive program approved by the City Council in 1990 as a tool to retain/attract large sales tax producing businesses, might provide sufficient benefit for Avon to consider retaining its Pasadena distribution center beyond the anticipated closure date. Pursuant to the Program, which is established by ordinance, the City may rebate a portion of new sales tax generated by participating companies. There is a minimum of \$100,000 of net new revenues specified in the ordinance before a business can request consideration.

After working with a real estate team to manage the disposition of its property, Avon indicated a willingness to consider forestalling the closure of the facility beyond the 2014 date, if the City approved a sales tax reimbursement agreement. The Agreement would be essential to provide the necessary reimbursement for expenses the Company would incur to keep the facility operational for up to three additional years. Specifically, in order to stay beyond the originally anticipated closure date, Avon would need to invest approximately \$1.8 million in facility enhancements, including the upgrade of its packaging and delivery systems, replace outdated equipment and software with new upgrades.

The proposed Agreement would provide Avon a reimbursement of up to 40% of the sales tax generated beginning the third quarter of 2014, up to a maximum of \$600,000 annually for a term of three years. The Agreement would be further limited not to

exceed the actual value of reinvestment in the facility, which Avon would be required to evidence. Moreover, as a recipient of City financial assistance, should Avon undertake any new construction at the facility, it will be required to comply with the City's First Source Hiring Ordinance for any construction related labor.

The proposed Agreement is keeping with the City Council's strategic plan goal to support the local economy. While the proposed action will only forestall Avon's closure for up to three years, the action will preserve local jobs and critical General Fund revenues during a time when the City continues to recovery financially. Moreover, the delay will provide a greater opportunity for City staff to work with Avon on the disposition of the property and the planning for its future use.

FISCAL IMPACT:

Pasadena received a total of \$30,200,000 in sales tax citywide last year. To comply with state regulations related to confidentiality, specific sales tax information is not disclosed in this report. However, Avon has consistently ranked in the top ten percent of sales tax producers in Pasadena.

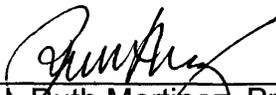
Under the terms of the proposed new agreement, the City will rebate up to 40% of sales tax generated by Avon locally, not to exceed \$600,000 per year, beginning the third quarter 2014. The term of the agreement shall be three years or until \$1.8 million has been received by Avon pursuant to the Agreement whichever comes first.

Respectfully submitted,



Steve Mermell
Assistant City Manager

Prepared by:



H. Ruth Martinez, Project Manager
Economic Development Division

Approved by:



Michael J. Beck
City Manager

RESOLUTION NO.

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA
APPROVING THE TERMS AND CONDITIONS OF A SALES TAX
INCREMENT REIMBURSEMENT AGREEMENT BETWEEN THE CITY OF
PASADENA AND AVON PRODUCTS, INC. PURSUANT TO CHAPTER 4.105
OF THE PASADENA MUNICIPAL CODE**

WHEREAS, the City of Pasadena ("the City") is a municipal corporation which exercises governmental functions and powers, and is a chartered city organized and existing under the laws of the State of California; and

WHEREAS, Ordinance No. 6374 was adopted by the then Board of Directors of the City of Pasadena on March 20, 1990 for the purpose of adding chapter 4.105 to the Pasadena Municipal Code establishing the Sales Tax Incentive Law ("Law") to make available financial assistance to certain qualified businesses generating over \$100,000 in sales tax revenue per year to the City; and

WHEREAS, pursuant to the Law, the City Council desires to enter into a Sales Tax Increment Reimbursement Agreement ("Agreement") with Avon Products, Inc. ("Avon"); and

WHEREAS, the activity undertaken by Avon, which is supported in part by the assistance more particularly described in the Agreement, can be seen with certainty not to have a significant effect on the environment and is exempt from the provisions of the California Environmental Quality Act ("CEQA") in accordance with Section 15061(b) (3) of the State CEQA Guidelines; and

WHEREAS, this City Council has duly considered all of the terms and conditions of the proposed Agreement and believes that the Agreement is in the best interests of the City and the health, safety, morals and welfare of its residents, and in accord with the public purposes and provisions of applicable State and local law and requirements;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena as follows:

1. The City Council hereby finds and determines that the activity undertaken by Avon, which is supported in part by the assistance more particularly described in the Agreement, can be seen with certainty not to have a significant effect on the environment and is exempt from the provisions of the California Environmental Quality Act ("CEQA") in accordance with Section 15061(b) (3) of the State CEQA Guidelines.

2. The terms and provisions of the Agreement between the City and Avon, in the form submitted and executed by Avon, are approved and the City Manager is hereby authorized and directed to execute the Agreement on behalf of the City and to sign all documents and take all other actions he deems necessary and appropriate to carry out and implement the Agreement and to administer the City's obligations thereunder.

3. The City Clerk is hereby authorized and directed on behalf of the City to complete and sign a "Notice of Exemption" and to file the original and a duplicate copy thereof with the Clerk of Los Angeles County in accordance with Section 15062 of the State CEQA Guidelines.

ADOPTED at the _____ meeting of the City Council of the City of Pasadena held on the _____ day of _____, 2013, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

MARK JOMSKY, City Clerk

APPROVED AS TO FORM:


for BRAD L. FULLER
Assistant City Attorney

Applicant hereby applies to the City of Pasadena for a Reimbursement Agreement under the Sales Tax Incentive Law, Chapter 4.105 of the Pasadena Municipal Code

Applicant Name: Avon Products, Inc.

Address: 2940 East Foothill Blvd.
Pasadena, CA 91121

Telephone: 1-626-578-8000

1. Experience/Background

Avon, the company for women, is a leading global beauty company, with nearly \$11 billion in annual revenue. As one of the world's largest direct sellers, Avon is sold through more than 6 million active independent Avon Sales Representatives. Avon products are available in over 100 countries, and the product line includes color cosmetics, skincare, fragrance, fashion and home products, featuring such well-recognized brand names as Avon Color, ANEW, Skin-So-Soft, Advance Techniques, and *mark*.

Avon's Pasadena distribution center opened in 1946 eventually expanding into it's 350,000 square foot facility. It is the company's oldest distribution facility in the U.S. and serves the West Coast region.

In January 2013, Avon announced that it would be closing down its Pasadena operation citing global cost savings. The plan was to shut down this facility by July 2014. As stated in our press release, the decision to close this facility is necessary to "right-size the US supply chain footprint, reduce complexities and restore the health of the U.S. business."

Proposed Sales Tax Agreement

In January, City staff met with Avon to discuss the closure. We confirmed our decision to close the facility, again citing declining revenue and rising business costs. We shared our plans to hire a real estate consultant to oversee the disposition of the property. At that time, City staff mentioned the possibility of a sales tax sharing agreement in an effort to entice Avon to stay operational.

Several months later Avon approached the City and indicated a willingness to consider forestalling the closure of the facility beyond the 2014 if the City would consider a sales tax reimbursement agreement. The agreement would be

essential to provide the necessary reimbursement for expenses needed to keep the facility operational for an additional three years.

To stay, Avon would need to invest approximately \$1,800,000 in facility enhancements, including the upgrade of the packaging and delivery systems, equipment repair and replacement, and software/hardware upgrades.

Under the proposed terms of a new sales tax sharing agreement, the City will rebate up to forty percent (40%) of Avon sales tax beginning the third quarter 2014 in an amount not to exceed \$600,000 per year. The maximum reimbursement over the term of the agreement of \$1.8 million or three years whichever occurs first.

The benefits to the City in approving this incentive are substantial, including maintaining 60% of the sales tax revenue from the Avon operation which would have been zero had the facility closed, preserving the 200 plus local jobs and the resulting direct and indirect economic benefits, and providing a longer horizon to work through an ultimate disposition plan with the City.

2. Basic Concept Plans for Facility Improvements

- a. More than \$2.0MM in assets will be relocated from our Suwanee, Georgia distribution facility to Pasadena. Assets will be used to expand the capacity of the Pasadena literature dispensing area, modernize critical outbound manifesting technology and expand our ability to dispense asymmetrical products from the Mechanical Assembly A-Frame.

Upgrades to the facility include:

- i. Installation of 12 PSI literature dispensing machines and corresponding metering conveyor. Upgrade of critical dock manifesting equipment with 4 state of the art SICK barcode scanners, and replacement of up to 750 mechanical assembly ejectors, waterfalls and lip balm dispensers.
- ii. Software upgrades and code contemporization is required for both literature dispensing and dock manifesting functions. Software development and modification will be a combined effort between Avon's Rye, New York IT Department and TechConveyor, Inc.- a fully integrated material handling company from Phillipsburg, New Jersey.
- iii. Repairs and preventative maintenance to the Pasadena facility and equipment will happen as needed throughout the life of sales contract period. Repair to include HVAC, electrical and MHE components. (\$125,000 will be appropriated for the balance of 2013. \$335,000 is planned for 2014)

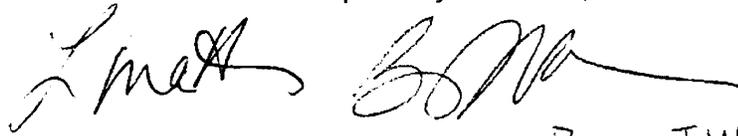
3. Upgrade Costs and Schedule (See Exhibit A Attached)

4. Qualified Business

Applicant operates a "Qualified Business", as defined in the Sales Tax Incentive Law. Applicant's business currently generates in excess of \$100,000 in sales tax revenue per year to the City of Pasadena. In addition, Applicant desires to expand it's facilities and/or buildings to the extent that such expansion would generate a minimum of at least \$100,000 per year in new sales tax revenues to the City of Pasadena.

Applicant hereby certifies that the foregoing information is true and correct.

Respectfully submitted,



Louise Matthews
Vice President
Global Real Estate

Bryan J. Wayda
Vice President
Supply Chain N.A.

Exhibit A

| Project | Investment | Date |
|---|--------------------|--------------|
| Asset Dismantling & Transfer | \$50,000 | Q'3-Q'4 2013 |
| Literature Dispensing Software | \$70,000 | Q'4 2013 |
| PSI Literature Dispenser Relocation | \$280,000 | Q'4 2013 |
| Repair & Maintenance | \$125,000 | Q'3-Q'4 2013 |
| SICK Manifesting Scanners | \$50,000 | Q'1 2014 |
| Sick Scanner Software | \$7500 | Q'1 2014 |
| Repair & Maintenance | \$335,000 | Q'1-Q'4 2014 |
| MAS Ejector Relocation | \$200,100 | Q'1 2014 |
| MAS Lip Balm Dispensers | \$72,000 | Q'2 2014 |
| Lipstick Waterfalls | \$37,000 | Q'2 2014 |
| Mascara Waterfalls | \$12,000 | Q'2 2014 |
| Dock Nestaflex and Extendable Conveyors | \$30,000 | Q'2 2014 |
| Wireless Network Expansion & DEC Servers | \$45,000 | Q'2 2014 |
| Repair & Maintenance 2015 | \$300,000 | Q'1-Q'4 2015 |
| Repair & Maintenance 2016 | \$250,000 | Q'1-Q'4 2016 |
| Total | \$1,813,600 | |
| Potential relocation of MAS machine under consideration | \$1,200,000 | TBD |