



Agenda Item #:



# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Montgomery and Members of the City Council

**THROUGH:** Richard Thompson, Interim City Manager *[Signature]*

**FROM:** Bruce Moe, Finance Director *[Signature]*

**DATE:** October 5, 2010

**SUBJECT:** Approval of Sales Tax Sharing Agreement with J.E. DeWitt, Inc.

### RECOMMENDATION:

Staff recommends that the City Council approve the sales tax sharing agreement with J.E. DeWitt, Inc. and authorize the City Manager to execute the agreement with J.E. DeWitt, Inc.

### FISCAL IMPLICATION:

The agreement calls for a sliding scale sharing agreement whereby J.E. DeWitt, Inc. may receive between a 0% to 65% share of incremental layers of the sales tax generated for Manhattan Beach as a result of their locating their sales office within our boundaries. The scale is as follows:

Annual Taxable Sales		DeWitt Share	City Share
<u>From</u>	<u>To</u>		
\$ -	\$ 39,999,999	0%	100%
\$ 40,000,000	\$ 59,999,999	35%	65%
\$ 60,000,000	\$ 79,999,999	50%	50%
\$ 80,000,000+		65%	35%

According to J.E. DeWitt, Inc., we may expect sales volume of up to \$100 million per year. In that event, the City will receive \$700,000 in sales tax while J.E. DeWitt, Inc. will receive \$300,000.

### BACKGROUND:

The Finance Subcommittee reviewed and approved this arrangement at their September 21, 2010 meeting. While the full City Council reviewed the item on August 3<sup>rd</sup> and authorized the Finance Subcommittee and staff to negotiate and execute a final agreement with J.E. DeWitt, Inc., the Finance Subcommittee directed that the full City Council be apprised of the final outcome of the negotiations and be provided the opportunity to comment. As a result, staff is returning to the City Council for approval of the final contract.

The City's second largest General Fund revenue source is sales tax, which accounts for \$7.48 million in estimated revenue for FY 2010-2011. The vast majority of our sales tax is generated from retail sales that take place within the boundaries of Manhattan Beach. State law provides for the return of 1% of the value of the retail sale to the jurisdiction where the sale takes place (e.g., for every \$100 in retail sales in Manhattan Beach, we receive \$1). This law is generally referred to as the Bradley-Burns sales tax.

**DISCUSSION:**

Earlier this year, J.E. DeWitt, Inc. met with City staff to discuss the possibility of permanently locating a sales office in Manhattan Beach in exchange for receiving a rebate of a portion of the sales tax generated by their business (J.E. DeWitt, Inc. has temporarily located their sales offices in Manhattan Beach while they search for a permanent location).

J.E. DeWitt, Inc. operates what is commonly referred to as a card lock fuel dispensing system for fleet users. Under these arrangements, fleet users negotiate pricing for fuel with the operator (J.E. DeWitt, Inc.) in advance, and then are charged that pre-determined amount for the purchase of fuel which may occur at any number of locations and jurisdictions. State Board of Equalization rules state that the Bradley-Burns sales tax credit applies to the sales office (where the prices were negotiated), not the location in which the actual fuel is dispensed. Although they are considering other locations, they have expressed an interest in Manhattan Beach for that permanent location. However, permanently locating here depends upon the execution of this agreement.

Before temporarily locating in Manhattan Beach in April 2010, J.E. DeWitt, Inc.'s main sales office was located in South El Monte. While they did not have a sales tax arrangement with that city, as they look for a new headquarters, a sales tax sharing agreement is a key driver in their decision of where to locate.

The sharing agreement, which is effective October 1, 2010, is for a twenty year period, and may be extended with two five-year extensions by mutual agreement. J.E. DeWitt, Inc. may not terminate the agreement due to a better offer from another city.

While entering into this sharing agreement will be beneficial, and will generate needed revenues, there is a potential issue with other sales tax generating entities in town which may seek similar agreements. However, staff believes that this arrangement is unique in that typically sales offices are transient in nature. By sharing revenues we are able to lock in a long term commitment for J.E. DeWitt, Inc. to locate their offices in Manhattan Beach which will secure this new revenue source. Additionally, this business is distinctly different from other retailers; the impacts on city services associated with the business (a sales office with 8-20 people generating on the order of \$100,000,000 in sales) compared to the amount of revenue generated, are much less than we would experience from typical large volume retail sales tax generator.

The City Attorney has reviewed and approved the attached contract. Staff recommends that the City Council accept the Finance Subcommittee's recommendation to approve the contract and authorize the City Manager to execute the agreement with J.E. DeWitt, Inc.

Attachment A - Contract

**LOCATION AGREEMENT**

**between**

**City of Manhattan Beach  
a California municipal company**

**and**

**J.E. DeWitt, Inc.,  
a California corporation**

**[Dated as of September 23, 2010 for reference purposes only]**

## **LOCATION AGREEMENT**

### **ARTICLE 1. PARTIES AND EFFECTIVE DATE.**

**1.1 Parties.** This Location Agreement (“Location Agreement”) is entered into by and between (i) City of Manhattan Beach, a California municipal corporation and general law city (“City”) and (ii) J.E. DeWitt, Inc., a California corporation (“Company”).

**1.1.1** City and Company are sometimes individually referred to herein as “Party” and collectively as “Parties.”

**1.1.2** This Location Agreement shall be binding upon and shall inure to the benefit of the City and Company and their respective successors, heirs, and assigns.

**1.2 Effective Date.** This Location Agreement will become effective on the date on which signed by the appropriate authorities of both the City and Company (the “Effective Date”).

### **ARTICLE 2. RECITALS**

**2.1** Company operates a commercial fuel retail distribution business in many locations throughout the State of California.

**2.2** Company has proposed to establish a permanent business location in the City consisting of the office of the company president and a retail sales office to centralize and streamline its sales function and/or a Buying Company to centralize and streamline its purchasing functions.

**2.3** Company will initially employ 8 people at the permanent business location. Company may migrate its remaining office workforce to Manhattan Beach over the next five years, consisting of approximately 20 employees.

**2.4** Company also may engage in sales and leases to affiliated companies and others.

**2.5** The City desires to incentivize third party companies to locate a Retail Sales Office and/or a Buying Company in the City. City may pay inducements to third party companies based on a percentage of the Local Sales Tax Revenues (as defined herein) to be generated for the City by the third party companies in the City, as more fully described herein.

**2.6** The City, in consideration of the additional Local Sales Tax Revenues to be paid by the Company for the benefit of the City, which the City would not otherwise

realize, desires to provide City Payments (as defined herein) to Company as incentive for locating its Retail Sales Office and/or its Buying Company in the City.

**2.7** City Payments will be an amount paid from any legally available source of funds and shall be calculated by a percentage of the Local Sales Tax Revenues (as defined herein) generated in the City by Company and received by the City.

**2.8** The location of Company's Retail Sales Office and/or Buying Company in the City will provide significant public benefits to the City, in that the additional Local Sales Tax Revenues to be paid by Company represent a substantial and significant source of additional public revenue for the City, which may be used by the City for the funding of necessary public services and facilities, including, without implied limitation, public safety services and facilities.

**2.8.1** The City considers this agreement to be unique and non precedent setting due to the high sales volume achieved per sales person employed by Company, estimated to be as much as \$12.5 million per sales person, and the very low community impacts compared to the public revenue generated from this activity.

**2.9** The Company and City wish to enter into this Agreement for the purposes described above.

### **ARTICLE 3. DEFINITIONS.**

**3.1 Definitions.** Unless the context otherwise requires, the terms defined in this Article 3 shall for all purpose hereto, and of any amendment hereof, and of any opinion or report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

**3.1.1** "Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State or the City are closed.

**3.1.2** "Buying Company" means a separate legal entity, which purchases machinery, equipment and other consumables for resale or lease to affiliated companies and others.

**3.1.3** "City Payment" means, for each Fiscal Quarter in which Company has its Retail Sales Office located in the City, the following amount:

For all Fiscal Quarters commencing with the First Fiscal Quarter and throughout the Term of this Agreement, an amount equal to a percentage of the Local Sales Tax Revenues for the quarter, as follows:

(a) If the quarterly taxable sales attributable to City are less than \$10 million, then the percentage is equal to zero (0);

(b) If the quarterly taxable sales attributable to City are equal to or greater than \$10 million but less than \$15 million, then the percentage is equal to thirty-five percent (35%);

(c) If the quarterly taxable sales attributable to City are equal to or greater than \$15 million but less than \$20 million, then the percentage is equal to fifty percent (50%);

(d) If the quarterly taxable sales attributable to City are equal to or greater than \$20 million, then the percentage is equal to sixty-five (65%).

Example:

<b>Quarterly Sales</b>	<b>City's Position of Quarterly Sales</b>	<b>Percentage</b>	<b>Amount to be Rebated to the Company</b>
\$5,000,000	\$50,000	0%	\$0
\$12,000,000	\$120,000	35%	\$42,000
\$18,000,000	\$180,000	50%	\$90,000
\$22,000,000	\$220,000	65%	\$143,000

The Specified Amount due Company under this Agreement shall be paid by the City in arrears, within thirty (30) days after the issuance of the quarterly report by the SBE detailing and confirming that quarter's City receipt and allocation. Payment to Company shall be based on cash received by City. Amounts accrued under the State "Triple Flip" (Described elsewhere in this agreement) will be payable upon actual receipt by City.

**3.1.4** "Effective Date" shall have the meaning set forth in Section 1.2.

**3.1.5** "First Fiscal Quarter" means the Fiscal Quarter of the Effective Date of this Agreement or portion thereof.

**3.1.6** "Fiscal Quarter" means one calendar year quarter within the Term and commencing on January 1, April 1, July 1, or October 1, and ending on, as applicable, the immediately following March 31st, June 30th, September 30th, or December 31st. As an example, the Fiscal Quarter commencing January 1st shall end on the immediately following March 31st, the Fiscal Quarter commencing on April 1st shall end on the immediately following June 30th, and so on.

**3.1.7** “Fiscal Year” means October 1 through September 30.

**3.1.8** “Local Sales Tax Revenues” means that portion of the Sales and Use Tax, if any, paid by Company upon taxable sales and uses attributable to the operations of Company and allocated and paid to the City under the Bradley-Burns Uniform Local Sales and Use Tax Law (Part 1.5, Division 2 of the California Revenue and Taxation Code Section 7200). Local Sales Tax Revenues shall not include (i) Penalty Assessments, (ii) any Sales Tax levied by, collected for or allocated to the State of California, the County of Los Angeles, a district or any entity (including an allocation to a statewide or countywide pool) other than the City, (iii) any administrative fee charged by the SBE, (iv) any Sales or Use Tax subject to any sharing, rebate, offset or other charge imposed pursuant to any applicable provision of federal, state or local (except the City’s) law, rule, or regulation to the extent such Sales or Use Taxes are not received and retained by the City, (v) any Sales Tax attributable to any transaction not consummated within the Term, or (vi) any Sales Tax (or other funds measured by Sales Tax) required by the State of California to be paid over to another public entity (including the State) or set aside and/ or pledged to a specific use other than for deposit into or payment from the City’s general fund including retroactively.

Without limiting the generality of the foregoing, City and Company acknowledge that as of the Effective Date of this Agreement, the California legislature has adopted certain legislation commonly known as the triple-flip which would divert to the State of California up to one-quarter (1/4) of the Sales and Use Tax Revenue which would otherwise be payable to the City pursuant to the Sales Tax and Use Tax Law as it existed prior to enactment of the above-referenced legislation. City and Company acknowledge that such legislation will cause a reduction of up to approximately twenty-five percent (25%) of the Local Sales Tax Revenues which would otherwise be attributable to Sales and that such reduction will cause a corresponding effect. Furthermore, City acknowledges that it is possible that the legislation described above, or some alternative legislation (whether or not similar to the “triple flip”), may be enacted and effective during one or more subsequent years during the Term and may materially and negatively impact the amount of Local Sales and Use Tax Revenues and, accordingly, City Payments. City does not make any representation, warranty or commitment concerning the future actions of the California legislature with respect to the allocation of Sales Taxes to the City. Company agrees that it is undertaking its obligations under this Agreement after having considered, and is expressly assuming the risk of, the possibility of such legislation and its resultant impact on City Payments.

The foregoing paragraph notwithstanding, the City acknowledges that the California legislature may provide for the payment to the City of other revenues for the purpose of offsetting any losses in Local Sales and Use Tax Revenues resulting from the enactment of legislation of the type described in the immediately preceding paragraph. The City agrees that, should the California legislature provide for such offsetting revenues, then for purposes of this Agreement and the computation of any City Payments which may become due to Company hereunder, any such offsetting revenues which are

(i) intended to offset the loss of sales tax revenues to the City, (ii) actually received by the City, and (iii) not subject to any restrictions on use beyond those which are otherwise generally applicable to sales tax revenues received by California municipalities, will be deemed to be “Local Sales Tax Revenues” within the meaning of this Agreement.

If the Sales and Use Tax Law is further amended, terminated or rescinded, and Local Sales Tax Revenues are calculated in an alternate manner or are replaced or partially replaced by an alternate revenue stream (i) arising from the retail sale, storage, use or other consumption of tangible personal property by the Company from or on property located in the City, or (ii) designated as being a replacement for Local Sales Tax Revenues previously generated by the retail, sale, storage, use or other consumption of tangible personal property on or from locations in the City, and Local Sales Tax Revenues shall also mean those revenues actually paid or caused to be paid by the Company and ultimately collected for the city in the alternate manner of calculation or the alternate revenue stream as long as the City receives its portion of such revenues and has the legal right under state law to retain and control the disposition of substantially all of its portion thereof, provided that such revenues shall only be considered Local Sales Tax revenues to the extent that they actually offset the loss of Local Sales Tax Revenues (including both current Local Sales Tax Revenues and prior period Local Sales Tax Revenues).

**3.1.9** “Location Agreement” shall have the meaning set forth in Section 1.1.

**3.1.10** “Penalty Assessments” means penalties, assessments, collection costs and other costs, fees or charges resulting from late or delinquent payment of Sales or Use Tax and which are levied, assessed or otherwise collected from Company.

**3.1.11** “Retail Sales” means all sales of tangible personal property to any person or entity which is subject to the Sales and Use Tax Law and which generates Local Sales Tax Revenues.

**3.1.12** “Retail Sales Office” means any form of business entity of Company, or a subsidiary or affiliate of Company, which maintains a retail sales operation within the City at which Retail Sales transactions are consummated pursuant to the Sales and Use Tax Law.

**3.1.13** “SBE” means the California State Board of Equalization, and any successor agency.

**3.1.14** “Sales and Use Tax Law” means (i) Part 1 of Division 2 of the California Revenue and Taxation Code, commencing with Section 6001, and any successor law thereto, (ii) any legislation allowing the City or other public agency with jurisdiction in the City to levy any form of sales and use tax on the operations of Company, and (iii) regulations of the SBE and other binding rulings and interpretations relating to (i) and (ii) hereof.



**3.1.15** “Sales Tax” means all sales and use taxes levied under the authority of the California Sales and Use Tax Law, excluding any Sales Tax that is to be refunded to Company because of an overpayment of Sales Tax.

**3.1.16** “Term” shall mean that period commencing as of the First Fiscal Quarter and ending as of the last date of the eightieth (80<sup>th</sup>) Fiscal Quarter thereafter, unless earlier terminated or extended as provided by this Agreement. This Agreement will automatically renew for two five-year periods unless City or Company provide written notice to the other party within six (6) months of the expiration of the then existing term.

## **ARTICLE 4. GENERAL TERMS**

**4.1 Location and Operation of Company Within City.** Company has agreed to establish a permanent location to conduct its Southern California retail sales activities in the City and agrees to continue to operate in the City, until this Agreement is terminated by either Party as provided in Section 4.8 hereof or by Company as provided in Section 4.29. For the purposes of this Section, the term “Southern California” shall mean that portion of California other than the market served by Company’s existing Ventura, California business location.

**4.1.1** The Retail Sales Office and/or Buying Company of Company has obtained, and will maintain, a retail sales tax permit from the SBE. Except as otherwise provided in Section 4.1.2, Company agrees to conduct its business so that the place of sale for all Retail Sales made by Company in Southern California during the term of this Agreement will be the City pursuant to the Sales and Use Tax Law. In all sales reports filed by Company with the SBE, relating to Retail Sales, where such a designation is permitted or required under the Sales and Use Tax Law, Company shall specify the City as the place of sale for all of its Retail Sales, with the exception of Retail Sales from a location other than the City as permitted by Section 4.1.2.

**4.1.2** Notwithstanding Section 4.1.1 of this Agreement,

(i) the place of sale for Retail Sales made by the Company in Southern California during the term of this Agreement is not required to be the City if the Company makes a reasonable determination that certain sales activities cannot reasonably be relocated to the City, and as a result such sales activities continue to be conducted where they were conducted prior to the effective date of this Agreement; and

(ii) Company may make Retail Sales in Southern California from a location that is not within the City, and/or move and/or transfer sales operations from its business location in Ventura, California or an additional location in Southern California, to the extent that any one or more of the following circumstances applies in whole or in part:

- a. Company acquires another business with existing California operations, or acquires all or substantially all of the assets of such a business, or Company is acquired or involved in a merger, consolidation or sale of all or substantially all of its assets;
- b. Company changes its business model;
- c. The building in the city in which Company's retail sales offices are located is damaged, destroyed, or condemned, or access to the property is lost or materially interfered with, or Company is otherwise prevented from using and occupying the property for its retail sales offices and/or buying company for any reason beyond the reasonable control of Company;
- d. Company outgrows its space at the property in the City, or its lease terminates or expires by its terms or is terminated for any other reason, and Company is unable to obtain replacement space suitable for Company's needs (taking into account the quality and size of any such replacement space, and other commercially reasonable criteria) within the City on commercially reasonable terms;
- e. California changes its law as to how the Bradley-Burns Uniform Local Sales and Use Tax (or successor) is allocated;
- f. City is in default under this Agreement;
- g. City is no longer authorized or permitted to pay all or any portion of the the City Payment to Company;
- h. The City modifies its business license tax to impose a tax on gross receipts, whereby the tax for Company exceeds \$2,500 per quarter, adjusted annually by the percentage change in the consumer price index over the prior year.
- i. Company is required as a condition of sale required by the customer to make certain sales from a different location than Company's retail sales office within the City.

**4.2 Payment of the City Payment.** As consideration for Company's continued location and operation in the City, and the potential future establishment of a Buying Company in the City, as described in Section 4.1 above, City shall pay Company the City Payment. In addition, in the event any companies affiliated with Company locate or relocate their sales offices in or to the City during the term of this Agreement, the term "Local Sales Tax Revenues" will be deemed to include Local Sales Tax Revenues derived from taxable sales and uses attributable to the operations of such affiliated companies and City shall pay the City Payment attributable thereto to Company, or such affiliated companies, as directed by Company. Such payment will be made within thirty (30) days of receipt of the Local Sales Tax Revenues by the City.

**4.2.1 Conditions Precedent to City Payment.** City's obligations under Section 4.2 are contingent on a quarter-to-quarter basis and, for each Fiscal Quarter within the Term, upon the satisfaction of the following conditions precedent in each Fiscal Quarter:

- (i) Company having, for the entirety of such Fiscal Quarter, fulfilled its material obligations under Section 4.1.1 of this Agreement;
- (ii) City's receipt and reasonable approval of the Data and Documentation from Company; and
- (iii) The City's receipt of Local Sales Tax Revenues of no less than Fifty Thousand Dollars (\$50,000) during such Fiscal Quarter. The parties recognize that under the current system, 25% of local sales tax distributions to City are deferred as part of the "triple flip" as described in Section 3.1.8. Currently, the 25% deferred amount is distributed the following January and May. It is the intent of the parties that the City should have actual receipt of Local Sales Tax Revenues before a distribution is made to the Company but that all receipts shall relate back to the quarter in which the sales generating such receipts were made.

**4.2.2 Data and Documentation.** For the purposes of this Agreement, the term "Data and Documentation" means any and all sales and use tax returns, bills, invoices, schedules, vouchers, receipts, cancelled checks, statements and other documents reasonably required by City to evidence Local Sales Tax Revenues paid by Company to the City.

**4.2.3 Adequate Consideration.** Each City Payment due and payable shall constitute the total payment to Company for the Fiscal Quarter to which it relates, and shall be paid by City for and in consideration of the location and operation by Company of the Retail Sales Office in the City during such Fiscal Quarter. The Parties have determined and agreed that the City Payment due and payable during each Fiscal Quarter represents fair consideration to Company for its covenants and obligations hereunder.

Both City and Company expressly acknowledge and agree that Company will receive no compensation under this Agreement other than the City Payment. Company will not be entitled to any reimbursement or other compensation from the City for any costs incurred by Company in performing, preparing to perform or continuing its obligations under this Agreement for the term of the Agreement.

**4.2.4 City Business License and Permits.** Company acknowledges that it is solely responsible for any and all City Business License Fees and any applicable permits.

**4.2.5 No Carry Forward or Back.** City and Company acknowledges and agrees that the calculation and determination of all financial components of the Parties' rights and obligations under this Agreement shall be computed on a Fiscal Quarter-to-Fiscal Quarter basis. Revenues generated in one Fiscal Quarter may not be carried forward or back to any prior or future Fiscal Quarter, it being the express agreement and understanding of the Parties that for each Fiscal Quarter the financial obligations of the Parties and satisfaction of the conditions precedent to such obligations shall be determined and made independently of any other Fiscal Quarter.

**4.2.6 Recapture of City Payments.** If, at any time during or after the Term of this Agreement, the SBE determines that all or any portion of the Local Sales Tax Revenues received by the City were improperly allocated and/or paid to the City (an "improper allocation"), and if SBE requires repayment of, offsets against future Sales Tax payments, or otherwise recaptures from the City those improperly allocated and/or paid Local Sales Tax Revenues, then Company shall, within thirty (30) days after written demand from City, repay all City Payments (or applicable portions thereof) theretofore paid to Company which are attributable to such repaid, offset or recaptured Local Sales Tax Revenues. If Company fails to make such repayment within thirty (30) days after the City's written demand, then such obligation shall accrue interest from the date of City's original written demand at the then maximum legal rate imposed by the California Code of Civil Procedure on prejudgment monetary obligations, compounded monthly, until paid.

City and Company agree that, should the SBE question the correctness of the allocation or determine that there has been an improper allocation to the City, City shall defend such allocation in all SBE administrative proceedings, at no cost to Company. For purposes of this paragraph, administrative proceedings include all SBE meetings, conferences, and appeals before SBE Board Members. Company will cooperate fully with the City and its attorneys, and shall have the right to be present at and participate in all SBE administrative proceedings, at Company's cost and expense.

**4.3 Audit of Books and Records.** Either Party shall, upon no less than seventy-two (72) hours prior written request from the other Party, make the entirety of its books and records relating to the calculation and determination of that Party's rights and obligations under this Agreement available at no cost to the requesting Party and/or its designees (including its accountants and/or attorneys) and shall direct its accountants and other consultants and contractors in possession of its books and records to do likewise; provided, however, that nothing herein shall be deemed to abridge or constitute a waiver of any Party's evidentiary rights and privileges arising pursuant to any provision of law. Furthermore, all such non-privileged books and records may be made available and introduced as evidence in any arbitration proceeding brought pursuant to the provisions of Section 4.21 hereof or as otherwise ordered by any court of competent jurisdiction.

Each Party shall bear the costs of its own auditors, experts and other consultants it may engage to complete its investigation of the other Party's books and records; provided, however, that any audit and/or investigation undertaken in connection with any arbitration proceeding described in Section 4.21 hereof, or as otherwise ordered by the court, may be recovered as an item of litigation expense pursuant to Section 4.21.

**4.3.1 Annual Review of Company's Operations.** City may conduct an annual review of Company's operations in Manhattan Beach to verify that Company is conducting its sales operation in a way that requires the California local sales tax to be allocated to City.

**4.3.2 Company Review of City Records.** In order to further the goals of this Agreement, upon reasonable notice, City shall allow Company and its representatives to review records of the receipt of Local Sales Tax Revenues by the City, including information received from the SBE relating to Company. In the event of an underpayment of Local Sales Tax Revenue by the SBE, the City will promptly use its reasonable good faith efforts to pursue its available administrative remedies against the SBE, at no cost to Company. Company shall have the right to be present at and participate in all SBE administrative proceedings, at Company's cost and expense.

**4.4 Event of Default.** Each of the following shall constitute an "Event of Default":

**4.4.1** Failure by a Party to comply with and observe any of the conditions, terms, or covenants set forth in this Agreement, if such failure remains uncured within thirty (30) days after written notice of such failure from the non-defaulting Party to the defaulting Party in the manner provided herein or, with respect to a default that cannot be cured within thirty (30) days, if the defaulting Party fails to commence such cure within such thirty (30) day period or thereafter fails to diligently and continuously proceed with such cure to completion. However, if a different period, notice requirement, or remedy is specified under any other section of this Agreement, then the specific provision shall control.

**4.4.2** Any representation or warranty contained in this Agreement or in any application, financial statement invoice, certificate, or report submitted pursuant to this Agreement proves to have been incorrect in any material respect when made.

**4.5 Rights and Remedies; Rights and Remedies Not Exclusive .** Unless prohibited by law or otherwise provided by a specific term of this Agreement, the rights and remedies of Company and City under this Agreement are nonexclusive and all remedies hereunder may be exercised individually or cumulatively. Upon the other Party's Event of Default, in addition to those remedies expressly granted herein, the Parties shall also have the right to seek all other available legal and equitable remedies, including, without implied limitation, general and consequential damages.

**4.5.1 Rights not Granted under Agreement.** This Agreement is not, and shall not be construed to be, a statutory development agreement under Government Code Section 65864 et seq. or a disposition and development agreement under Health and Safety Code Section 33000 et seq. This Agreement is not, and shall not be construed to be, an approval of or an agreement to issue permits or a granting of any right or entitlement by the City concerning any project, development, or construction by Company in the City. This Agreement does not, and shall not be construed to, exempt Company in any way from the requirement to obtain permits and/or other discretionary or non-discretionary approvals as may be necessary for the development, maintenance and operation of any project, development of construction of Company within the City. This Agreement does not, and shall not be construed to, exempt Company from the application and/or exercise of the City's power of eminent domain or its police power, including, but not limited to, the regulation of land uses and the taking of any actions necessary to protect the health, safety and welfare of its citizenry.

**4.6 No Financial Assistance.** Except as provided in Section 4.8 below, Company covenants and agrees for the period beginning on the Effective Date and continuing until and including the termination of this Agreement, Company will not directly or indirectly solicit or accept any Financial Assistance (as defined below) from any other public or private person or entity, to the extent such Financial Assistance is given for the purpose of causing or would result in either Company's relocation from the City or termination of this Agreement. For purposes of this Section 4.6, the term "Financial Assistance" means any direct or indirect payment, subsidy, rebate, or other similar or dissimilar monetary or non-monetary benefit, including, without implied limitation, payment of land subsidies, relocation expenses, public financings, property or sales tax relief or rebates, relief from public improvement obligations, and payment for public improvements to or for the benefit of Company.

**4.7 Sole Compensation.** Both City and Company expressly acknowledge and agree that Company will receive no compensation under this Agreement other than the City Payments. Company shall not be entitled to any reimbursement from City for any costs pursuant to this Agreement. The City Payment shall not be reduced or offset for any costs or expenses incurred by City in performing or preparing to perform its duties under and pursuant to this Agreement.

**4.8 Termination.** City or Company may terminate this Agreement upon an Event of Default as described in Section 4.4 above. Company shall not terminate this Agreement in order to receive Financial Assistance from another locality in California; provided, however, in the event of termination by Company for cause following an uncured default by City or if an event described in Section 4.1.2 (ii) occurs, Company will have the right to solicit and/or receive Financial Assistance from another locality in California. Except as otherwise provided herein, upon such termination all executory obligations under this Agreement that accrue or arise subsequent to the date of termination shall also terminate, but obligations that have accrued or arisen prior to such termination shall remain in full force and effect. Without limiting the generality of the foregoing, no termination of this Agreement shall operate to release or discharge City

from any obligation to make the City Payment with respect to Sales occurring prior to the date of termination or discharge Company from any obligation to refund to City any overpaid City Payment(s) in accordance with Section 4.2.

**4.9 City and Company Representations and Warranties.** City is a California municipal corporation and general law city and has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated hereby and, thereby, and by proper action City has duly authorized the execution and delivery of this Agreement.

- (i) Company is a California corporation, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated hereby and, thereby, and by proper action Company has duly authorized the execution and delivery of this Agreement.
- (ii) The representatives of City executing this Agreement are fully authorized to execute the same pursuant to official action taken by City. The representatives of Company executing this Agreement are fully authorized to execute the same pursuant to official action taken by Company.
- (iii) This Agreement has been duly authorized, executed and delivered by City and, assuming due execution and delivery by Company, constitutes the legal, valid and binding agreement of City, enforceable against City in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws in effect from time to time relating to or affecting the enforcement of creditor's rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law). This Agreement has been duly authorized executed and delivered by Company and, assuming due execution and delivery by City, constitutes the legal, valid and binding agreement of Company, enforceable against Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws in effect from time to time relating to or affecting the enforcement of creditor's rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).
- (iv) The execution and delivery of this Agreement, the consummation of the transactions on the part of City contemplated and the fulfillment of or compliance by City with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract

or other agreement or instrument to which City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions on the part of City contemplated by this Agreement or the financial condition, assets, properties or operations of City.

- (v) The execution and delivery of this Agreement, the consummation of the transactions on the part of Company contemplated and the fulfillment or compliance by Company with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulations, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which Company is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Company, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions on the part of Company contemplated by this Agreement or the financial condition, assets, properties or operations of Company.
- (vi) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of City, threatened against or affecting City or the assets, properties or operations of which, if determined adversely to City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement, or upon the financial condition, assets, properties operations of City, and City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement or the financial conditions, assets, properties or operations of City.
- (vii) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of Company, threatened against or affecting Company or its interests, which, if determined adversely to Company or its interests, would have a material and adverse effect upon the



consummation of the transactions contemplated by or the validity of this Agreement, or upon the financial condition, assets, properties or operations of Company, and Company is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement or the financial conditions, assets, properties or operations of Company.

All of the foregoing representations and warranties are made according to City's and Company's actual current knowledge as of the Effective Date, without having undertaken any independent inquiry or investigation for the purpose of making such representation or warranty and without any duty of inquiry or investigation.

**4.10 Amendment of Agreement.** At any time City and Company may determine that this Agreement should be amended for the mutual benefit of the Parties, or for any other reason, including an amendment to induce Company to maintain its operations in the City when this Agreement could otherwise be terminated. Any such amendment to this Agreement shall only be by written agreement between City and Company. City and Company agree to consider reasonable requests for amendments to this Agreement which may be made by any of the Parties hereto, lending institutions, bond counsel or financial consultants. Any amendments to this Agreement must be in writing and signed by the appropriate authorities of both City and Company.

**4.11 California Law.** This Agreement shall be construed and governed in accordance with the laws of the State of California.

**4.12 Execution in Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

**4.13 Business Days.** Any act or thing required to be done or exist on any date set forth herein which does not constitute a Business Day in any year shall be deemed to be done or to exist on such date if such act or thing is done or exists on the next date, which constitutes a Business Day.

**4.14 Tax Consequences.** Company shall be responsible for federal, state and/or local income taxes resulting from its receipt of the City Payments.

**4.15 Consent.** Whenever consent or approval of any Party is required under this Agreement, that Party shall not unreasonably withhold, delay or condition such consent or approval unless a different standard is otherwise provided by a specific provision of this Agreement.

**4.16 Notices and Demands.** All notices or other communications required or permitted between City and Company under this Agreement shall be in writing, and may

be (i) personally delivered, (ii) sent by United States registered or certified mail, postage prepaid, return receipt requested, (iii) sent by telecopy, or (iv) sent by nationally recognized overnight courier service (e.g., Federal Express), and addressed to the Parties subject to the right of either Party to designate a different address for itself by notice similarly given. Any notice so given by registered or certified United States mail shall be deemed to have been received on the second business day after the same is deposited in the United States mail. Any notice not so given by registered or certified mail, such as notices delivered by telecopy or courier service (e.g., Federal Express), shall be deemed received upon actual receipt of the same by the Party to whom the notice is given.

If to the City:                   City of Manhattan Beach  
  1400 Highland Avenue  
  Manhattan Beach, CA 90266  
  Attention: Finance Director

With a copy to:                   City of Manhattan Beach  
  1400 Highland Avenue  
  Manhattan Beach, CA 90266  
  Attention: City Attorney

If to Company:                   J.E. DeWitt, Inc.  
  1903 Durfee Avenue  
  South El Monte, CA 91733Attn: Company President

With a copy to:                   James H. Kane  
  Managing Director  
  True Partners Consulting, LLC  
  225 W. Wacker Drive, Suite 1600  
  Chicago, IL 60606

**4.17 Nonliability of Officials and Employees.** No board member, official, contractor, consultant, attorney or employee of City shall be personally liable to Company, any voluntary or involuntary successors or assignees, or any lender or other party holding an interest in Company's property, in the event of any default or breach by City, or for any amount which may become due to Company or to its successors or assignees, or on any obligations arising under this Agreement.

**4.18 Nonliability of Company Officials and Employees.** No board member, official, contractor, consultant, shareholder, attorney or employee of Company shall be personally liable to City, any voluntary or involuntary successors or assignees in the event of any default or breach by Company, or for any amount that may become due to City or to its successors or assignees, or on any obligations arising under this Agreement.

**4.19 Entire Agreement.** This Agreement contains all of the terms and conditions agreed upon by the Parties. No other understanding, oral or otherwise, in direct conflict with this Agreement shall be deemed to exist or to bind any of the Parties hereto. All prior written or oral offers, counteroffers, memoranda of understanding, proposals and the like are superseded by this Agreement.

**4.20 Extensions and Delays; No Excuse Due to Economic Changes.** Time is of the essence in the performance of the obligations of City and Company under this Agreement. In addition to specific provisions of this Agreement, providing for extensions of time, times for performance hereunder shall be extended where delays in performance are due to war, insurrection; any form of labor dispute; lockouts; riots; floods; earthquakes; fires; acts of God or of third parties; third party litigation; acts of a public enemy; acts of governmental authorities; epidemics; quarantine restrictions; and freight embargoes (collectively, "Enforced Delays") provided, however, that the Party claiming the extension notify the other Party of the nature of the matter causing the default; and, provided further, that the extension of time shall be only for the period of the Enforced Delays. However, deadlines for performance may not be extended as provided above due to any inability of Company to obtain or maintain financing for its operations or due to City's inability to make City Payments due and payable to Company. In no event shall either Party be deemed in default of this Agreement because of an Enforced Delay event.

The Parties hereto expressly acknowledge and agree that changes in either general economic conditions or changes in the economic assumptions of any of them which may have provided a basis for entering into this Agreement, and which occur at any time after the execution of this Agreement, are not Enforced Delays and do not provide any Party with grounds for asserting the existence of a delay or excuse in the performance of any covenant or undertaking which may arise under this Agreement. Each Party expressly assumes the risk that changes in general economic conditions, or changes in such economic assumptions relating to the terms and covenants of this Agreement could impose an inconvenience or hardship on the continued performance of such Party under this Agreement, but that such inconvenience or hardship is not an Enforced Delay and does not excuse the performance by such Party of its obligations under this Agreement.

**4.21 Attorney's Fees.** In the event of the bringing of an arbitration, action or suit by a Party hereto against another Party hereunder by reason of any breach of any of the covenants or agreements or any intentional inaccuracies in any of the representations and warranties on the part of the other Party arising out of this Agreement or any other dispute between the Parties concerning this Agreement then, in that event, the prevailing Party in such action or dispute, whether by final judgment or arbitration award, shall be entitled to have and recover of and from the other Party all costs and expenses of suit or claim, including actual attorneys' fees and expert witness fees. Any judgment, order or award entered in any final judgment or award shall contain a specific provision providing for the recovery of all costs and expenses of suit or claim, including actual attorneys' fees and expert witness fees (collectively, the "Costs") incurred in enforcing, perfecting and executing such judgment or award. For the purposes of this Section 4.22, Costs shall

include, without implied limitation, attorneys' and experts' fees, costs and expenses incurred in the following: (i) post judgment motions and appeals, (ii) contempt proceedings, (iii) garnishment, levy and debtor and third party examination; (iv) discovery; and (v) bankruptcy litigation. This Section 4.22 shall survive any termination of this Agreement.

**4.22 Jurisdiction and Venue.** Any legal action or proceeding concerning this Agreement shall be filed and prosecuted in the appropriate California state court in Los Angeles County, California. Both Parties hereto irrevocably consent to the personal jurisdiction of that court. City and Company each hereby expressly waive the benefit of any provision of federal or state law or judicial decision providing for the filing, removal, or change of venue to any other court or jurisdiction.

**4.23 Interpretation.** City and Company acknowledge that this Agreement is the product of mutual arms-length negotiation and drafting and that both Parties have been represented by legal counsel in the negotiation and drafting of this Agreement. Accordingly, the rule of construction which provides that ambiguities in a document shall be construed against the drafter of that document shall have no application to the interpretation and enforcement of this Agreement. In any action or proceeding to interpret or enforce this Agreement, the finder of fact may refer to any extrinsic evidence not in direct conflict with any specific provision of this Agreement to determine and give effect to the intention of the Parties with respect to any ambiguities in this Agreement.

**4.24 No Waiver.** Failure to insist on any occasion upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver by any Party of such term, covenant or condition, nor shall any waiver or relinquishment of any rights or powers hereunder at any one time or more times be deemed a waiver or relinquishment by any Party of such other right or power at any other time or times.

**4.25 Successors and Assigns.** The terms, covenants and conditions of this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their voluntary and involuntary successors and assigns.

**4.26 No Third Party Beneficiaries.** The performance of the respective obligations of City and Company under this Agreement are not intended to benefit any party other than City or Company, except as expressly provided otherwise herein. No person or entity not a signatory to this Agreement shall have any rights or causes of action against any Party to this Agreement as a result of that Party's performance or non-performance under this Agreement, except as expressly provided otherwise herein.

**4.27 Warranty Against Payment of Consideration for Agreement.** Company warrants that it has not paid or given, and will not pay or give, any third party any money or other consideration for obtaining this Agreement. Third parties, for the purposes of this Section 4.28, shall not include persons to whom fees are paid for professional services if rendered by attorneys, financial consultants, accountants, engineers, architects and the like when such fees are considered necessary by Company.

**4.28 Severability.** City and Company declares that the provisions of this Agreement are severable. If it is determined by a court of competent jurisdiction that any term, condition or provision hereof is void, voidable, or unenforceable for any reason whatsoever, then such term, condition or provision shall be severed from this Agreement and the remainder of the Agreement enforced in accordance with its terms; provided, if at any time the City fails to have the legal right to retain and control the disposition of all or substantially all of its portion of the Local Sales Tax Revenues, or the obligation of City to pay the City Payment is held to be void or unenforceable, Company will have the right, upon written notice to City, to terminate this Agreement without any liability to City or Company.

**4.29 Further Acts and Releases.** City and Company each agrees to take such additional acts and execute such other documents as may be reasonable and necessary in the performance of their obligations hereunder.

**4.30 No Pledge or Hypothecation of This Agreement.** Company may not assign, transfer, encumber, or hypothecate its rights and/or obligations under this Agreement without the express written consent of City, which shall not be unreasonably withheld. Any unpermitted assignment, transfer, pledge, encumbrance, or hypothecation, or any attempt thereat, shall not confer any rights upon the purported assignee/transferee and shall constitute Company's immediate and incurable material default of this Agreement, and City may, without providing Company's notice or opportunity to cure, exercise those remedies available to City pursuant to Section 4.4. Notwithstanding the foregoing, Company may undertake any of the following without the consent of City: (i) issue or transfer stock or other voting or ownership interests in Company (and/or assign this Agreement in connection with any such issuance or transfer), (ii) merge or consolidate with any other entity, and/or sell or transfer all or substantially all of the assets of Company (and/or assign this Agreement in connection with any such merger, consolidation or sale), or (iii) assign its interest in this Agreement to any entity that controls, is controlled by or is under common control with Company; for purposes of the foregoing, "control" means the power, directly or indirectly, by voting rights, contract or otherwise, to direct or cause the direction of the management or policies of a person or entity.

**4.31 Limitation on Liability; Limitation on Remedies.** The liability of Company under this Agreement shall be limited solely to the amount of the City Payments actually received by Company under this Agreement, and in no event shall any recourse against any of the other assets of Company be available to the City, City or any other person or entity hereunder. Except for the rights and remedies of the City provided for in Section 4.8 above and Section 4.33 below, the sole right and remedy of the City under this Agreement in the event of a breach or default hereunder by Company shall be to terminate this Agreement and cease the payment to Company of the City Payments that would have accrued from and after the effective date of any such termination, if such breach or default by Company is not cured within thirty (30) days after written notice

thereof by City to Company (which thirty (30) day period shall be subject to extension as provided in Section 4.4.1 above).

**4.32 Relationship of Parties.** The Parties shall not be deemed in a relationship of partners or joint ventures by virtue of this Location Agreement, nor shall either Party be an agent, representative, trustee or fiduciary of the other. Neither Party shall have any authority to bind the other to any agreement.

**4.33 Indemnification.** Company shall defend (with counsel reasonably acceptable to the City) the City, its officials, agents and employees, and hold City harmless from and against any and all costs and expenses, including reasonable attorney's fees, of defending any claim that this Agreement and/or the payment of the City Payments under this Agreement, violate or are illegal or impermissible as a result of, Government Code §53084.5 or violates or is otherwise illegal under the Constitution of the State of California. The foregoing shall not apply to claims or actions caused by the negligence or willful misconduct of the City, its officers or employees. This indemnity provision shall apply to any claim or cause of action initiated in state or federal court. In the event this agreement is challenged in any administrative proceeding before the SBE, the defense in such action shall be governed by Sections 4.2.6 and 4.3.2.

Notwithstanding the foregoing, in the event that the Agreement, the City Payments or the Sales Tax Payment is overturned or invalidated pursuant to litigation in which Company has provided a defense and/or reimbursed City for costs of defense as provided hereinabove, City agrees that it will reimburse Company the cost and expenses, including reasonable attorney's fees and any costs or expenses reimbursed to City as provided hereinabove, incurred by Company in defending such claim, provided that, City will only be obligated to reimburse Company as and to the extent that it actually receives and retains Local Sales Tax Revenue. City may, at its discretion, pay such costs out of any available funds or revenue sources, including but not limited to waiver of development impact fees or administrative fees due to the City from Company, or waiver of business license fees charged to Company.

**4.34 Defense of Agreement.** In the event any person or entity, other than City or Company, attempts to enjoin or otherwise challenge the validity of any recital or provision of this Agreement, both the City and the Company agree that each will not take a position adverse to enforcement of this Agreement.

[Signatures on following page]

**SIGNATURE PAGE  
TO**

LOCATION AGREEMENT

**CITY:**

**CITY OF MANHATTAN BEACH**

a California municipal corporation

Dated: September , 2010

By: \_\_\_\_\_  
City Manager

COMPANY:

J.E. DeWitt, Inc. Corporation,  
a California corporation

Dated: September , 20010

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_  
City Clerk

This Agreement is approved as to form on \_\_\_\_\_, 2010.

By: \_\_\_\_\_  
City Attorney