



Office of the City Manager

CONSENT CALENDAR

April 1, 2014

To: Honorable Mayor and Members of the City Council
 From:  Christine Daniel, City Manager
 Submitted by: Michael J. Caplan, Economic Development Manager
 Subject: Deferral and Eventual Waiver of Building Permit Fees to Assist Two Auto Dealerships to Remain in Berkeley

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to defer building permit fees for improvements required for Berkeley Honda to move to 1500 San Pablo and for U.S. Auto Group to convert the former Volvo dealership at 2700 Shattuck to a Chrysler-Dodge-Jeep-Ram dealership; waive these fees upon completion of the projects; and replace lost Permit Service Center revenue from the General Fund Reserve.

FISCAL IMPACTS OF RECOMMENDATION

Preliminary discussions with the owners indicate that Berkeley Honda's move to 1500 San Pablo will require construction valued at approximately \$1.5-\$2 million and the conversion of the former Volvo dealership at 2700 Shattuck into a Chrysler dealership will cost approximately \$1 million. If these estimates for the valuation of construction are correct, the fee deferral and waiver for Honda would cost the City \$84,000-\$112,000 and the fee deferral and waiver for the Chrysler dealership would cost \$56,000. The actual building permit fees, and therefore the value of the deferral and eventual waiver, will be calculated at the time the building permit applications are submitted.

The retention of Berkeley Honda by relocating it to a new site conserves one of the City's top ten generators of sales tax revenue. Honda sales, and therefore sales tax revenue, should increase because the new site is more visible and at a more regional location. For reasons explained below, the conversion of McKeivitt Volvo to a Chrysler-Dodge-Jeep-Ram dealership will also likely increase City sales tax revenue. Both dealerships have unionized service departments and together employ about ninety automotive technicians.

CURRENT SITUATION AND ITS EFFECTS

Berkeley Honda will lose its existing dealership at 2600 Shattuck due to construction of the Parker Place mixed-use project that is expected to begin in the summer of 2014. Honda has offered the owners of Berkeley Honda the choice of either being awarded a completely new Honda sales franchise in Brentwood, eastern Contra Costa County, or continuing to operate in Berkeley if they were able to lease the vacant Cadillac-

Volkswagen facility at 1500 San Pablo, the only location available with the appropriate zoning. The owners prefer to continue here and succeeded in negotiating lease terms for 1500 San Pablo. Before signing, however, they asked the City to share in the cost for the improvements needed to bring a facility that had been largely vacant for ten years up to Honda's dealership standards. Construction at 1500 San Pablo must be completed by the start of construction on Parker Place in order for Berkeley Honda to be able to relocate without an interruption in service to its customers. In the very competitive East Bay market, any interruption of service would cause customers to switch to other dealerships.

The owners of Berkeley Honda have now signed a lease for 1500 San Pablo and the owners of McKeivitt Volvo have agreed to renovate the dealership building at 2700 Shattuck to Chrysler's standards.

Although McKeivitt/U.S. Auto Group has a long-term lease for 2700 Shattuck, it faces declining Volvo sales that it attributes to the manufacturer's failure to invest in the new technology needed to manufacture the kind of innovative new cars it was once known for producing. Three years ago McKeivitt/U.S. Auto Group introduced a Fiat dealership in one of the two showroom and service buildings at 2700 Shattuck. McKeivitt's success in selling Fiat, a brand that had just been reintroduced to the U.S. market, led Fiat, now the primary owner of Chrysler, to offer McKeivitt a Chrysler-Dodge-Jeep-Ram dealership to replace Volvo in the other building at 2700 Shattuck. Since there is no Chrysler dealership in Oakland, the 2700 Shattuck location will serve this market as well as Berkeley.

For Honda and Fiat/Chrysler, the proposed new dealerships at 1500 San Pablo and 2700 Shattuck are well below ideal size and configuration. Nevertheless, both Berkeley dealerships have been successful in selling new cars, particularly cutting-edge technology vehicles (e.g., plug-in electric or small, very fuel-efficient conventional models) that are important to the manufacturers for strategic reasons. For this reason, the manufacturers support the continuation of dealerships that many in the auto sales industry expected were fated to disappear.

However, the manufacturers are requiring their franchisees to rebuild and upgrade 1500 San Pablo and 2700 Shattuck to the visual and service standards they feel are needed to adequately "represent" their car brands. This means repainting and refinishing the exterior of dealership buildings to create a standard "look" for the brand and display its logo and signage. They must also repave all car lots, re-equip the service facilities, and purchase new interior furnishings.

BACKGROUND

On October 13, 2009, the City Council agreed to defer building permit fees for the expansion of Weatherford BMW's dealership at 735 Ashby and waive the fees upon completion of the project. Although this was a very unusual measure for Berkeley to take, cities throughout California and the nation commonly offer much greater assistance to attract and retain auto dealers. Auto sales are a highly-prized source of

General Fund revenues, comprising 10.25% of total sales tax revenue for cities in California as a whole (2011, latest complete year available) and 8.5% in Berkeley¹.

The rising value of land threatens Berkeley's auto dealers. While they operate on sites that are small and constrained by auto sales industry standards, they are large sites by Berkeley standards. Demand for mixed-use development has driven up rents, threatening to make them unaffordable for auto dealers at a time when comparison shopping over the Internet has driven down margins on the sale of new cars. Under these circumstances, it is very much in Berkeley's interests for the owners of Berkeley Honda and McKeivitt Fiat-Chrysler to secure long-term leases and reinvest in their dealerships. In addition to sales tax, the dealerships are a source of living-wage blue-collar jobs. The employees in both service departments are represented by the International Association of Machinists, AFL-CIO.

ENVIRONMENTAL SUSTAINABILITY

The State of California recently passed regulations designed to reduce new car emissions. On January 27, 2012, the California Air Resources Board adopted sweeping new "clean car" rules requiring that 15 percent of all new cars sold in California by 2025 emit little or no pollution and that the state reduce emissions of smog-forming pollutants by 75 percent. In order to fulfill this mandate, car manufacturers are expected to deliver 1.4 million zero- and low-emission—electric, plug-in hybrid, and hydrogen fuel cell—vehicles to showrooms around California over the next eleven years. According to the owners of Berkeley Honda and McKeivitt Fiat-Chrysler, the new mandate largely explains the manufacturers' desire to retain dealerships in Berkeley. Even a few years ago, manufacturers had indicated a preference for phasing out the Berkeley dealerships in favor of larger regional facilities in other East Bay cities. But the manufacturers know that Berkeley consumers are early adopters of "clean car" technologies, as was shown first with Toyota Prius sales in the last decade and now with sales of Fiat's plug-in electric vehicle and similar models sold by Honda.

In other words, the manufacturers expect Berkeley to play a role in demonstrating and popularizing "clean" car models that will help them spread to the rest of the state and nation.

RATIONALE FOR RECOMMENDATION

Somewhat greater sales tax revenue can be expected from Honda at a new, more visible location and the presence of a Chrysler-Dodge-Jeep-Ram dealership with a wider franchise area will also bring increased sales tax revenue.

ALTERNATIVE ACTIONS CONSIDERED

The owners proposed various other formulae for City economic assistance that the City Manager found unacceptable. The waiver of fees was based on the Weatherford BMW precedent mentioned above.

¹ California State Board of Equalization, *Taxable Sales in California for the Year 2011*.

CONTACT PERSON

Michael J. Caplan, Economic Development Manager, 981-2490

Attachments:

1: Resolution

Exhibit A: Letter to Christine Daniel, City Manager, from Steve Beinke, co-owner Berkeley Honda, and Fred Lavery, owner U.S. Auto Group dated December 23

RESOLUTION NO. ##,###-N.S.

DEFERRAL AND EVENTUAL WAIVER OF BUILDING PERMIT FEES FOR THE RELOCATION OF BERKELEY HONDA TO 1500 SAN PABLO AND THE CONSTRUCTION OF A CHRYSLER DEALERSHIP AT 2700 SHATTUCK

WHEREAS, Berkeley Honda is being displaced from its site at 2600 Shattuck and needs to relocate if it is to continue to service its customer base, maintain well-paying union-represented jobs; and produce revenue for both its owners and the City of Berkeley; and

WHEREAS, Berkeley Honda has negotiated a lease for the vacant Cadillac-Volkswagen facility at 1500 San Pablo but faces major expenses to bring it up to Honda's standards; and

WHEREAS, the U.S. Auto Group has entered into a contract with Fiat/Chrysler to open a Chrysler-Dodge-Jeep-Ram dealership at 2700 Shattuck to replace the declining Volvo brand; and

WHEREAS, this project also entails major expenditures to rebuild the exterior and interior of the dealership building to Chrysler standards; and

WHEREAS, in a letter to the City Manager dated December 23, attached as Exhibit A, the owners of both dealerships requested financial assistance from the City of Berkeley for their projects based on the precedent of City assistance to Weatherford BMW; and

WHEREAS, the rehabilitation and reoccupation of the long-vacant former Cadillac-Volkswagen dealership will revitalize and improve San Pablo Avenue; and

WHEREAS, the completion of the projects at 1500 San Pablo and 2700 Shattuck will provide the City with increased sales tax revenue and preserve approximately ninety automotive technician jobs.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to defer building permit fees not to exceed \$112,000 for Berkeley Honda at 1500 San Pablo and \$56,000 for McKevitt Chrysler at 2700 Shattuck and waive them upon completion of the projects.

BE IT FURTHER RESOLVED that the City Manager is authorized to replace lost Permit Services Center revenues from General Fund Reserves.

Exhibits

A: Letter to Christine Daniel, City Manager, from Steve Beinke, co-owner Berkeley Honda, and Fred Lavery, owner U.S. Auto Group dated December 23



December 23, 2013

Christine Daniel
City Manager
City of Berkeley
2180 Milvia
Berkeley, CA 94704

Dear Ms. Daniel,

We write to you as owners of Berkeley Honda at 2600 Shattuck and McKeivitt Volvo-Fiat at 2700 Shattuck to seek some assistance from the City to help pay for construction projects that will allow us to remain in and expand in Berkeley. We base our request on the precedent set by the city when it waived \$435,000 in building permit fees for Weatherford BMW when this auto dealer was faced with the choice of either moving to Oakland or making expensive improvements to its existing Berkeley facility.

After discussion with William Rogers, Deputy City Manager, and Michael J. Caplan, Economic Development Manager, they advised us that you would be willing to recommend to the City Council deferral of building permit fees and waiver upon completion of our respective construction projects, as the City did for Weatherford. They noted that our dealerships are important to Berkeley not only as a source of sales tax revenue, but because they provide ninety living-wage, unionized automotive technician jobs.

Berkeley Honda needs to move because the City has issued permits that allow a developer to demolish our dealership buildings and build a housing project starting this summer. Although Honda has offered the owners of Berkeley Honda a new franchise in Brentwood, Berkeley Honda would prefer to remain in Berkeley to serve its existing customer base if it can find a site that it can both afford and Honda is willing to approve. Berkeley Honda has now negotiated a 15-year lease for the former Volkswagen-Cadillac dealership at Cedar and San Pablo and, more importantly, Honda has given preliminary approval for the move if Berkeley Honda repairs and reequips the buildings and redesigns the exterior with Honda's standard logo, signage and finishes. We expect this to cost between \$1,500,000 and \$2 million.

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be unique. be driven. just be.



Because, over the last three years, McKeivitt has made a success of its new Fiat dealership at 2700 Shattuck, the multi-national management of Fiat-Chrysler is willing to grant McKeivitt a Chrysler dealership as well. Chrysler would replace Volvo at 2700 Shattuck because Volvo has produced few new models in recent years and, accordingly, has not sold many cars. McKeivitt would continue to service Volvos at 2700 Shattuck, although sales would only be through its dealership in San Leandro.

A Chrysler dealership at 2700 Shattuck would serve the Oakland market as well as Berkeley and we expect healthy sales of this reviving American line of cars. But the owner of McKeivitt, U.S. Auto Group, must spend more than a million dollars to remodel the dealership building and give its exterior the look required by Chrysler's brand managers.

The Internet has lowered the margin on the sale of new cars. When we make profits at all, we make them less on the sale of new cars than on quality service and the sale of used cars. But sale of new cars remains essential to our overall business model, and we know it also makes us one of the largest generators of sales tax revenue for the City of Berkeley. Given the high costs we face to lease relatively large sites and remodel them in Berkeley, like Weatherford, we need some financial assistance in order to remain here.

We know this is a request that could be entertained favorably only from auto dealers, given the circumstances mentioned above. We hope you will make a favorable recommendation to the City Council on our request for deferral and eventual waiver of building permit fees. Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Beinke', written in a cursive style.

Tim Beinke
Co-owner, Berkeley Honda

A handwritten signature in black ink, appearing to read 'Fred Lavery', written in a cursive style with a long, sweeping tail that extends to the right.

Fred Lavery
Owner, McKeivitt Fiat-Chrysler

