TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: CITY MANAGER AND PLANNING AND COMMUNITY ENVIRONMENT

DATE: DECEMBER 11, 2006

CMR: 427:06

SUBJECT: CITY COUNCIL DIRECTION TO IDENTIFY ONE OF TWO CITY-OWNED SITE OPTIONS FOR AUTO DEALER RETENTION AND EXPANSION AND DIRECT THE CITY MANAGER AND CITY ATTORNEY TO NEGOTIATE A LEASE THAT WILL RETAIN ANDERSON HONDA IN PALO ALTO

RECOMMENDATION

Staff requests that City Council identify one of two City-owned site options for auto dealer relocation and direct the City Manager and City Attorney to negotiate an appropriate lease that will retain Anderson Honda in Palo Alto.

BACKGROUND

The City of Palo Alto is home to seven auto dealers: Anderson Honda, Magnussen Toyota, Carlsen Volvo, Carlsen Audi, Stanford European Motors, Park Avenue Motors and Hengehold Motors. Since 2001, three additional dealers (Stanford Nissan, Peninsula Ford and Carlsen Volkswagen/Porsche) have either moved to other cities or closed their dealerships. The current auto dealers generate approximately $1.97 million annually in sales tax revenue.

An April 7, 2006 Colleague Memo (Attachment 1) from former Mayor Burch, Mayor Kleinberg and Council Member Beecham directed staff to pursue strategies to preserve and grow the revenue stream that auto dealers provide to support City services. The memorandum requested that the City Manager form a multi-department team to investigate any and all feasible options for alternate sites for relocation of Palo Alto’s auto dealers. The team was given the following strategies and parameters for retaining auto dealers in Palo Alto:

1. Investigate available sites adjacent to highway 101 which are currently underdeveloped or vacant.
2. Investigate existing City-owned land and facilities that could be relocated to accommodate auto sales sites.
3. No dedicated parkland should be considered.
4. Provide increased visibility for existing dealers through freeway-oriented signage.
5. Identify effective financial policies to overcome economic barriers preventing relocations.

Two primary strategies have been used to retain auto dealers: 1) adoption of an auto sales dealership overlay zone which includes auto dealer sites on El Camino Real, San Antonio Road, Embarcadero Road, and the General Manufacturing zoning districts to allow existing auto dealers to “grow in place”; and 2) identification of specific sites that meet dealership and corporate requirements for storage, visibility and access.

The first strategy has been successful for Magnussen Toyota and Carlsen Volvo which have decided to remain in Palo Alto and expand new and used car sales. Magnussen Toyota has acquired a second site on Middlefield Road and will be expanding its used car sales on the second site. It will also have a parts and service adjunct to the business on Middlefield Road in Mountain View.

Carlsen Volvo has also acquired the old Peninsula Ford site adjacent to its former location. This site is double the size of the building in which its operations were formerly located.

Carlsen Audi, Stanford European Motors, Park Avenue Motors and Hengehold Motors have done a variety of onsite improvements and will continue to operate at their existing locations.

In accordance with the second strategy, several possible sites for auto dealer expansion were presented to City Council. The pre-eminent site identified for further expansion was the Municipal Services Center (MSC) site on East Bayshore. Staff was directed to provide the City Council with a cost benefit analysis for the Municipal Services Center site. After analysis and discussion of the costs and benefits, Council determined that creating an auto row at the MSC was not financially feasible and directed staff to continue working with the existing auto dealers on strategies for retaining their dealerships in Palo Alto. Staff has since been working to identify other more feasible sites for Council consideration.

**DISCUSSION**

Attached to this staff report is a letter from John Anderson (Attachment 2), owner of Anderson Honda, outlining facilities requirements from Honda Corporation that Anderson Honda must meet by the year 2010. According to Anderson’s letter, the current site for Anderson Honda is inadequate—total land, total building size, showroom, service facility, and frontage. Two potential sites for the growth of Anderson Honda include: 1) 5.77 usable acres at the end of Embarcadero road at the Palo Alto airport and 2) 5.62 usable acres at the former the Los Altos Treatment Plant site. At the first site, Anderson estimates doubling his annual car sales; at the second site, he anticipates a 50% growth within the first two years following expansion. Anderson’s letter outlines the constraints and challenges that he faces at his current site and requirements if he is to continue his operations in Palo Alto. Staff has identified three issues at each site for further consideration:
At the Palo Alto Airport site: 1) Resolution of site control issues. This site has been leased to the County in a long term lease through 2017. Utilizing the 5.77 acres for auto storage would require renegotiation of the County lease. 2) Existing land use policy. The existing Baylands Master Plan (BLMP) does not support a commercial expansion on airport land. An amendment to the BLMP is required before the City can proceed with any change in this area. 3) Revenue impacts. Anderson anticipates that Honda sales would increase by 100% within two years of operation.

Former Los Altos Treatment Plant (LATP) site. 1) Resolution of site control issues. The City of Palo Alto is currently in dispute with Los Altos regarding site control. While Palo Alto has fulfilled its obligations under the lease/purchase agreement, Los Altos to date has not delivered a deed to the property. It is possible that litigation will have to be commenced to resolve these issues. 2) Existing land use policy. The site was previously developed as a treatment plant and a portion of the site has been set aside as undeveloped wetlands. 3) Revenue impacts. Revenue anticipated from operations at the LATP site is less than the airport site.

RESOURCE IMPACT

As previously stated, new and used auto sales generate approximately $1.97 million annually in sales tax revenues and retention and potential expansion of auto dealers is essential to maintaining the City’s diverse General Fund revenue base. While specific sales tax data is confidential, Anderson Honda generates a significant amount of all new and used auto sales tax revenues. Based on the proposal, sales tax revenues could potentially increased by approximately $300,000 to $700,000 per year.

In addition, the expansion would be located on city owned land and the site would be leased at current market rates for a period of 30 years. Typical lease rates for these potential sites based on current market rates will vary. However, based on a site of approximately 5.5 acres valued at $55.00 per square foot rented at an 8.0% annual rate of return would generate approximately $1.05 million in annual lease revenue.

<table>
<thead>
<tr>
<th>Acres</th>
<th>Sq Ft/Acre</th>
<th>Total Sq Ft</th>
<th>Market Value</th>
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</thead>
<tbody>
<tr>
<td>Approximate Site Size</td>
<td>5.50</td>
<td>43,560.00</td>
<td>239,580.00</td>
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<tr>
<td>Cost per square foot</td>
<td>55.00</td>
<td>8.00%</td>
<td>1,054,152.00</td>
</tr>
</tbody>
</table>
Based on these two factors, incremental General Fund revenues could be approximately $1.3 to $1.7 million annually. It should however be noted that a portion of the lease revenue may have to be split with the City of Los Altos depending on the outcome of the site control issues.

ENVIRONMENTAL REVIEW

This action by the City Council is not considered a project under the California Environmental Quality Act (CEQA). Prior to entering into a lease agreement, however, appropriate CEQA review will be required.

ATTACHMENTS

Attachment A: Colleagues’ Memo re: FORMATION OF AUTO DEALER RETENTION TASK FORCE

Attachment B: October 1, 2006 Letter from John Anderson

PREPARED BY:  
SUSAN ARPAN  
Economic Development and Redevelopment Manager

PLANNING AND COMMUNITY ENVIRONMENT APPROVAL:  
STEVE EMSLIE  
Director of Planning and Community Environment

CITY MANAGER APPROVAL:  
FRANK BENEST  
City Manager