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OAKLAND

CITY OF OAKLAND

AGENDA REPORT

2009 APR 16 PM 5:52

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: April 28, 2009

RE: **Report and Possible Council Action on the Status of Car Dealerships in Oakland, Current Revenue Taxes (Dollar Amount) Generated by Auto Dealers in Oakland, Lost Revenue and Anticipated Lost Revenue due to the Closure of Dealerships from Broadway Auto Row and other Dealerships, and Future Plans for Retention of Auto Dealers in Oakland**

SUMMARY

The Rules Committee requested that staff prepare a report on the status of Oakland's auto dealerships in terms of closures, reductions in sales tax contributions and the impact to the City of Oakland's budget. Staff was also asked to present specific business retention strategies for Oakland's existing auto dealerships.

Like many cities throughout the nation, Oakland is experiencing a sizeable reduction in sales tax income generated from auto sales. The unprecedented drop in consumer confidence, credit market chaos and a steep drop in lending have created an unsustainable business climate for thousands of the nation's new vehicle dealers. In 2008, 128 new-car dealerships closed in California, compared with only 20 closures in 2007, according to the California New Car Dealers Association.

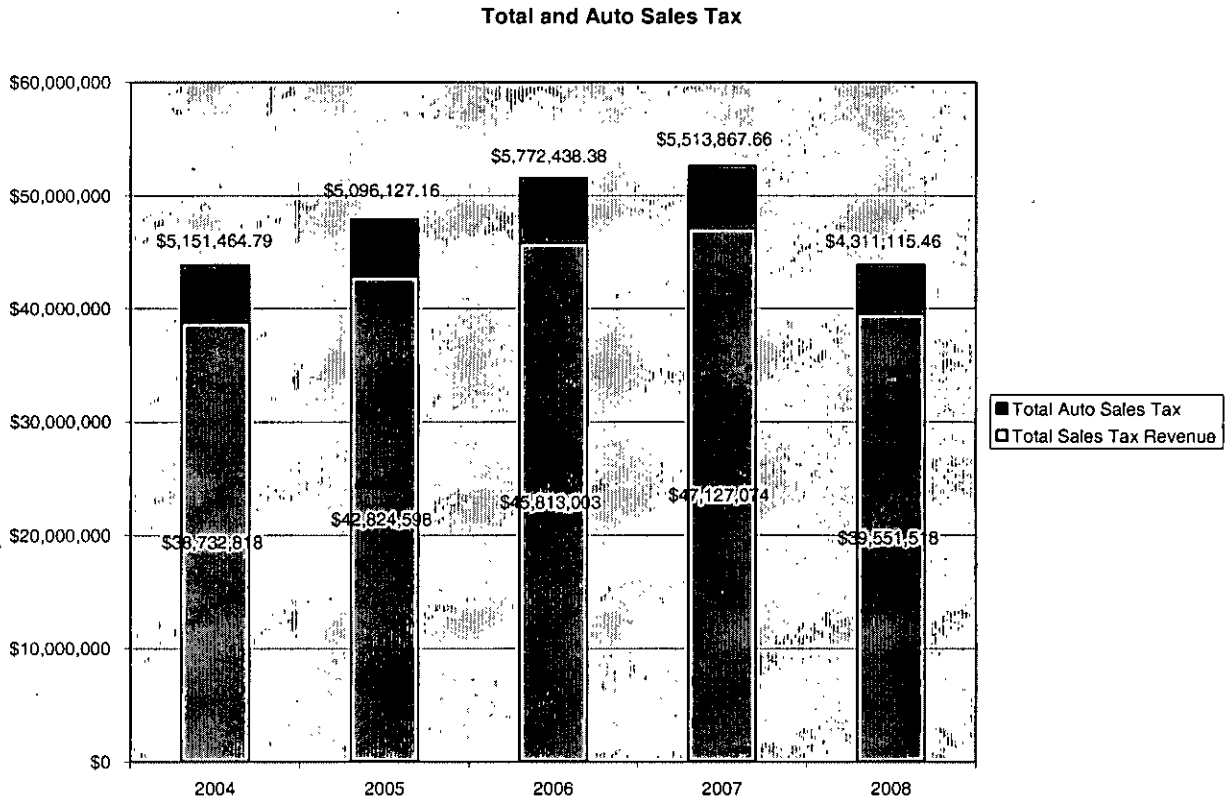
Oakland automobile sales tax comes from new vehicle dealerships, used car dealerships and auto leases. Oakland has experienced a decline in auto sales tax over the past 5 years. In 2008, total auto related sales tax income was \$4,316,384 which was \$1,161,656 lower than 2007 sales of \$5,478,020 – a drop of approximately 8% in sales tax revenue to Oakland from this business group.

Staff has researched the various ways other cities are supporting auto dealerships, given their importance to a city's budget. Staff also interviewed Oakland auto dealers to learn more about their needs and requests for assistance. Dealers asked for City assistance with: Sponsorship of a marketing campaign, identification of a staff liaison, customer parking, assistance with car inventory parking facilities, and facilitation of public and private financing options.

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FISCAL IMPACT

The overall percentage of Oakland's taxable sales, new, used and lease accounts have been declining:



Oakland's auto related businesses are a major sales tax producer for the City of Oakland. According to HdL Companies, the City's Sales Tax consultant, for the period from 2004 to 2008, auto related businesses generated approximately \$30,861,231 in total sales tax activity for the City. The greatest decline in total sales tax activity of auto related businesses occurred between 2007 and 2008, when the City experienced a loss of approximately \$1.1 million in sales tax.

Oakland's auto related businesses contribute to Oakland's Business Tax income. According to the City's Revenue Division, for the period of 2004-2008 total auto-related businesses generated \$3.30 billion in gross sales. This translates to \$3.95 million in total business taxes paid to the City during that period of time.

Attachment A provides an overview of Oakland's auto and truck sales and lease activity over the past six years. *Attachment B* provides a comparative analysis of Oakland's auto sale activity relative to other East Bay cities with a significant number of new car dealerships.

While this report contains various retention program possibilities, there is no specific request, and thus no fiscal impact.

BACKGROUND

National Outlook

The number of American car dealership closings is expected to increase in 2009 with as many as 3,800 dealerships at risk of closure because of dwindling sales and tighter credit, according to a study by Grant Thornton LLP. United States vehicle sales are expected to be flat next year, with any recovery demand not expected until 2010, as consumers struggle with tight credit, high gasoline prices and a housing market slump. The drop in demand has been particularly hard for Detroit-based automakers GM, Ford Motor Co. and Chrysler LLC. GM's sales were down 18.5 percent in the first eight months of 2008, while Ford's sales declined 16 percent and sales at Chrysler, controlled by Cerberus Capital Management, dropped 24 percent. All three U.S. automakers are in the midst of shrinking their U.S. dealer network as they look to cut labor costs and slower-selling models in the face of slack sales and declining market share. Both GM and Chrysler accepted a federal government bailout loan late this past year. One of the conditions of accepting that money was that they must trim their businesses. Other manufacturers are closing dealerships too; Japan's leading automakers - Toyota Motor Corp., Honda Motor Co. and Nissan Motor Corporation - reported 2008 sales declines of around 30 percent each.

California lost 137 dealerships last year and 26 more during the first two months of 2009. The California New Car Dealers Association is predicting that they may lose up to one-third of their remaining members by the end of 2009.

Oakland Auto Dealerships

Oakland's auto dealership industry includes new car sales, used car sales and car lease activities. Oakland currently has 10 new motor vehicle dealerships and three 3 truck dealerships, both vehicle and truck sales historically have been one of the city's largest single sources of sales tax revenue.

In 1998, the Oakland Redevelopment Agency invested \$3 million in public streetscape improvements to assist dealers in creating Broadway Auto Row. Beginning in 2005, the City Council recognized that the conveyance of the former Oakland Army Base offered an opportunity to further assist Oakland auto dealers through the development of an Auto Mall. The Auto Mall Project has stalled due to major development costs associated with infrastructure and construction. In mid 2001 development sites became available in East Oakland, and Lexus and

Infiniti are now located in new facilities along I-880. The I-880 corridor contains three development opportunity sites suitable for another auto dealership.

Over the past few years, Oakland has lost Saturn of Oakland, Broadway Ford, Melrose Ford, Porsche, Bay Area Kenworth Truck Sales, Continental Volvo and Lloyd Wise dealerships. Recently Superior Toyota/Scion of Oakland dealership, a new 200,000-square-foot dealership located at 8181 Oakport Street at Hegenberger Road, was closed after one month of operation due to financing issues. The auto dealership facilities will remain closed until financing issues are resolved between Nissan Corporation, the lender, and Superior Auto Group, property owner and Toyota and Scion franchisee.

Several dealers have made recent investments in downtown Oakland. Honda of Oakland entered into a 30-year lease and made a \$3million investment in tenant improvements. Audi of Oakland moved to the former Broadway Ford location and also made tenant improvements.

Major Oakland Auto & Truck Dealers

Name of Dealer	Web Site	Types of Cars
Broadway Volkswagen 2740 Broadway Oakland, CA 94612 (510) 834-7711	www.broadwayvw.com	New and pre-owned Volkswagen
Honda of Oakland 3330 Broadway Oakland, CA 94611 (510) 420-9200	www.hondaokland.com	New and pre-owned Honda
Oakland Acura 277 27th St Oakland, CA 94612 (510) 444-8383	www.oaklandacura.com	New and pre-owned Acura
Mercedes Benz of Oakland 2915 Broadway Oakland, CA 94611 (510) 832-6030	www.oaklandbenz.com	New and pre-owned Mercedes Benz
Audi of Oakland 2345 Broadway Oakland, CA 94612 (800)716-5403	www.audioakland.net	New and pre-owned Audi and Mazda
Bay Bridge Auto Center 3093 Broadway Oakland, CA 94611 (888) 887-2516	www.baybridgegm.com	New and pre-owned GM, Kia, Cadillac, Nissan, Chevrolet vehicles

Name of Dealer	Web Site	Types of Cars
Downtown Auto Center 4145 Broadway Oakland, CA 94611 (510) 547-4436	downtownautocenter.com	New and pre-owned Subaru, Saab, Toyota
Infiniti of Oakland 7201 Oakport St Oakland, CA 94621 (510) 639-2000	www.infinitiofoakland.com	New and pre-owned Infiniti
Coliseum Lexus Of Oakland 7273 Oakport St Oakland, CA 94621 (510) 895-3987	www.coliseumlexusofOakland.com	New and pre-owned Lexus
East Bay Truck Center 333 Filbert Street Oakland, CA 94607 (510) 272-4400 East	www.eastbaytruck.com	New and pre-owned Ford and Sterling Trucks
TEC Trucks 8099 S Coliseum Way Oakland, CA 94621 (510) 577-5528	tectrucks.com	New and pre-owned Mack, GMC and Volvo Trucks
Western Truck Center 739 Kevin Ct Oakland, CA 94621 (510) 636-1773		New and pre-owned truck sales

Auto Dealership Retention Strategies

Several cities in California have developed auto dealership retention strategies. One strategy used by Palmdale and Lancaster is to provide gift cards to customers who purchase cars and trucks. The City of Palmdale's program, launched in February, gives a \$300 gift card to each purchaser of a new automobile from the Palmdale Auto Mall. The gift cards can be used to make purchases at local businesses participating in the program. The City of Lancaster created a partnership between the city and businesses to provide \$200,000 in gift cards for amounts that equal the cost of registering newly purchased vehicles. Like the Palmdale program, these gift cards can be redeemed at local shops and restaurants. Both programs were designed to simultaneously induce the purchase of "big-ticket" items such as new automobiles and stimulate sales for local small business retailers. The City of Fairfield, for example, used gasoline tax revenue to partially finance the realignment and repaving of its Auto Mall Parkway. Some cities

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with multiple auto dealerships on the verge of closing are stepping in to facilitate rent reductions between property owners and dealerships.

However, cities and redevelopment agencies are limited in their ability to assist auto dealerships due to lack of funding and increased risk, since many decisions are driven by consumer sales and auto maker corporate decisions that are unavoidable. Staff is checking with the cities of San Francisco, San Jose and other Eastbay cities with a significant number of auto dealers to learn about their auto retention strategies.

Oakland Auto Dealership Retention Strategy

Oakland Auto Dealer Interviews

The closure and operational issues of Oakland's auto dealerships is a major business retention concern. The auto industry employs over 500 individuals and over the past nine years, auto dealerships have contributed approximately \$5 million in sales tax to the City. In 2009, the City expects sales tax activity to decline significantly.

Staff is interviewing each of Oakland's new auto and truck dealerships about sales activity, business issues, and employee and supplier impacts. Overall, Oakland's auto dealers are facing financial issues on the cost of facility leases or mortgage payments, limited working capital to purchase inventory from auto makers, and an inability to cover auto payments back to auto makers when a car is sold. Several of the auto dealers have eliminated advertising and marketing to reduce operating costs. All have had to reduce the number of employees. Staff is providing information to local auto dealerships about the following City programs:

- Oakland Enterprise Zone Program
- Public and private financing options
- Oakland Private Industry Council (PIC) Rapid Response Program
- Oakland's Tenant Improvement and Façade Improvement Programs
- Alameda County – Small Business Development Center (SBDC) technical assistance and training services

Oakland Auto Dealership Retention Program

The auto dealers have requested the following assistance from the City of Oakland:

- Marketing
- Appointment of a staff liaison to track issues
- Reducing operating costs by facilitating car inventory parking facilities (under freeway, former Sears parking garage)
- Expand free parking for customers and employees
- Facilitate public and private financing options with lending institutions (working capital, bridge loans, inventory purchases, facilities expansion)

Staff recommend the following actions:

- Aggressively pursue replacement of new auto dealer for former Superior Toyota dealership with automakers and auto financing entities. When new dealership is identified, prioritize permits and approvals to assist in expedited opening
- City, along with Private Industry Council (PIC) Rapid Response Team, work with each dealership when and if employee reductions are necessary, to assist employees with unemployment options, re-training opportunities and owners to meet all state requirements
- Work with each dealership to maximize Oakland Enterprise Zone benefits by special referral to Program consultant
- Continue working with two existing auto dealers interested in expanding their dealership facilities
- Designate a CEDA staff person as a primary point of contact for auto dealership issues

SUSTAINABLE OPPORTUNITIES

The implementation of a retention program targeted at existing Oakland auto dealerships supports the City's 3 Es: economy, environment and equity.

Economic: The overall goal of a dealer retention strategy is to identify mechanisms to support Oakland auto dealerships in order to prevent additional closures of dealerships and help stabilize existing dealerships in order to maintain or enhance sales tax. This will retain sales tax revenue for the City of Oakland, making it available to provide additional services and programs.

Environmental: No particular environmental opportunities have been identified in the context of the Retention Strategy, but any future environmental review as part of this process will inform future City actions concerning clean up of contaminated areas, green building, and green business locations.

Social Equity: Stabilizing Oakland's auto industry will assist in maintaining employment opportunities for Oakland residents and business opportunities for Oakland auto dealership suppliers and vendors.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no ADA or senior citizen access issues contained in this report.

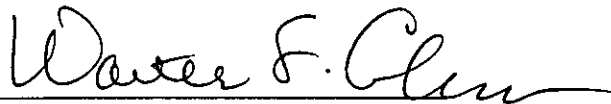
RECOMMENDATION AND RATIONALE

Staff recommends that the City identify a staff liaison, assist dealerships considering expansion, and focus efforts to re-tenant the former Superior Toyota auto dealership. These actions would be incorporated into current staffing responsibilities.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends Council accept this report on the status of the Oakland's auto dealerships and direct the City Administrator to continue with the implementation of business retention activities specifically for the retention of existing auto dealerships.

Respectfully submitted,

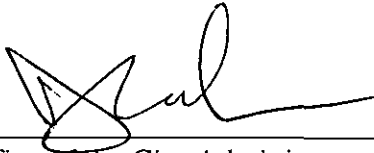


Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:
Gregory Hunter, Deputy Director
Economic Development & Redevelopment

Prepared by:
Aliza Gallo, Business Development Services Coordinator

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:



Office of the City Administrator

Attachment A: Oakland Auto & Truck Sales Summary
Attachment B: Comparative Analysis of Oakland Auto Sales to other Eastbay Cities

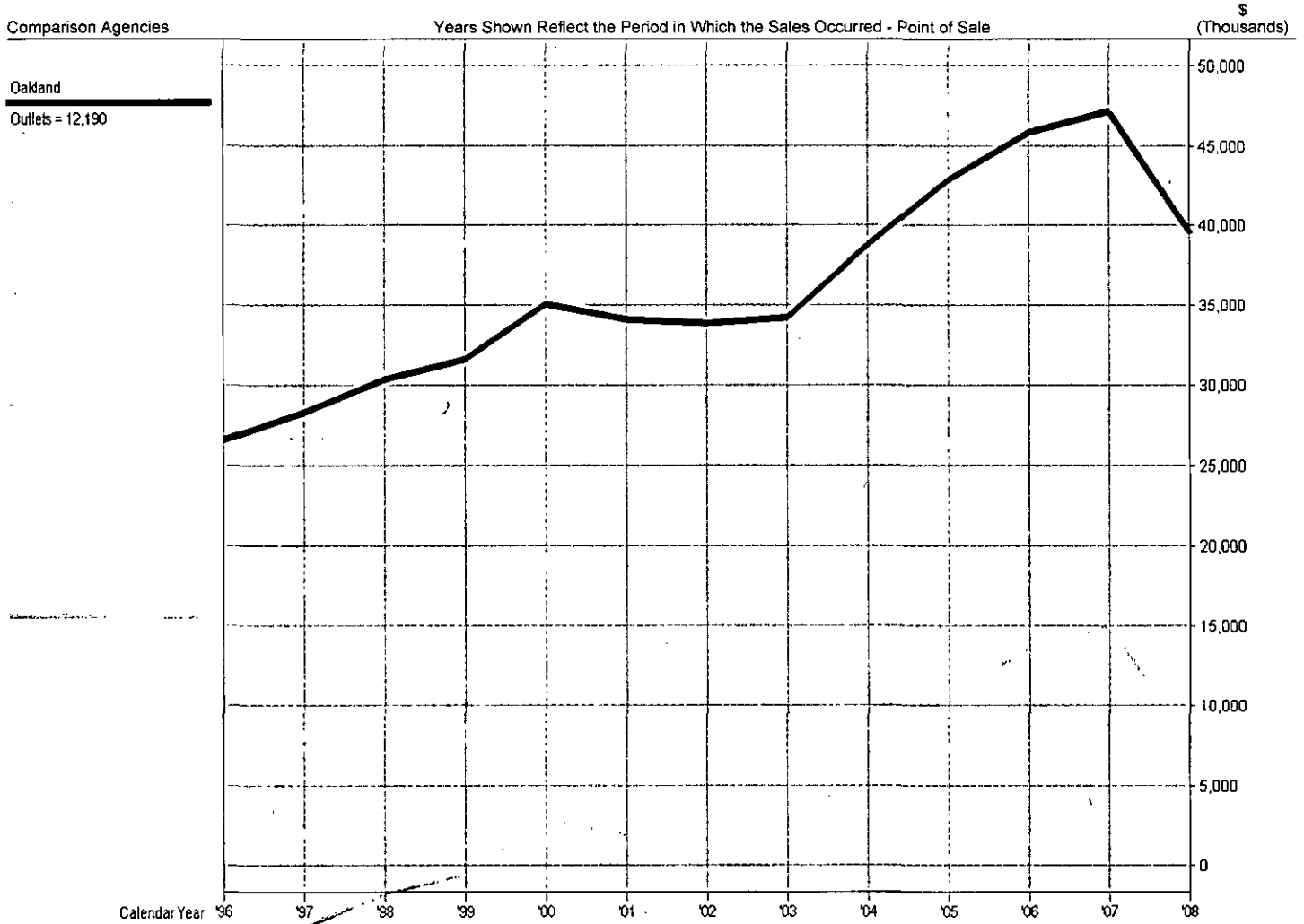
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CITY OF OAKLAND AUTO/TRUCK SALES & LEASES

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description: This chart compares sales tax to that of 6 other jurisdictions. The prior 12 calendar years are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**



ATTACHMENT A

<u>Agency</u>	<u>Period</u>	<u>Amount</u>
Oakland	1996	\$26,542,154
Oakland	1997	28,245,679
Oakland	1998	30,325,780
Oakland	1999	31,574,036
Oakland	2000	35,022,407
Oakland	2001	34,061,037
Oakland	2002	33,814,633
Oakland	2003	34,171,734
Oakland	2004	38,732,818
Oakland	2005	42,824,598
Oakland	2006	45,813,003
Oakland	2007	47,127,074
Oakland	2008	39,551,518

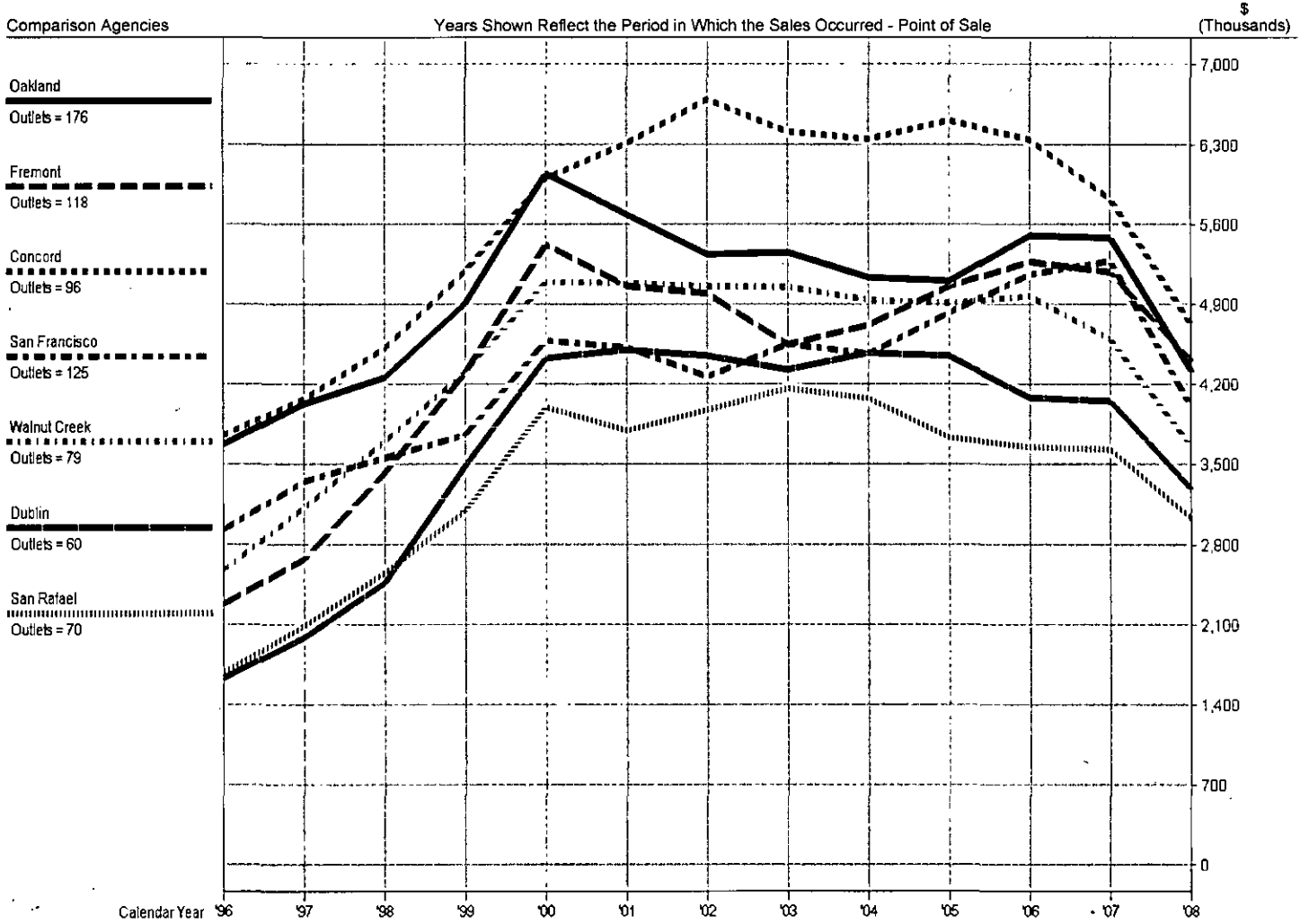


CITY OF OAKLAND AUTO SALES & LEASES - 13 YEAR HISTORY

ADJUSTED FOR
ECONOMIC DATA

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description: This chart compares sales tax to that of 6 other jurisdictions. The prior 12 calendar years are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**



ATTACHMENT B

<u>Agency</u>	<u>Period</u>	<u>Amount</u>
Oakland	1996	\$3,666,162
Oakland	1997	4,020,749
Oakland	1998	4,252,594
Oakland	1999	4,902,471
Oakland	2000	6,042,353
Oakland	2001	5,680,516
Oakland	2002	5,329,583
Oakland	2003	5,346,301
Oakland	2004	5,127,949
Oakland	2005	5,097,261
Oakland	2006	5,495,336
Oakland	2007	5,478,020
Oakland	2008	4,316,364
Fremont	1996	2,274,351
Fremont	1997	2,667,707
Fremont	1998	3,416,185
Fremont	1999	4,295,384
Fremont	2000	5,414,413
Fremont	2001	5,052,626
Fremont	2002	4,986,812
Fremont	2003	4,538,102
Fremont	2004	4,712,054
Fremont	2005	5,049,072
Fremont	2006	5,265,772
Fremont	2007	5,174,264
Fremont	2008	4,402,067
Concord	1996	3,741,466
Concord	1997	4,063,481
Concord	1998	4,505,290
Concord	1999	5,184,612
Concord	2000	6,000,375
Concord	2001	6,307,553
Concord	2002	6,686,809
Concord	2003	6,408,740
Concord	2004	6,344,602
Concord	2005	6,505,441
Concord	2006	6,343,819
Concord	2007	5,819,895
Concord	2008	4,724,601
San Francisco	1996	2,923,101
San Francisco	1997	3,344,221
San Francisco	1998	3,548,078
San Francisco	1999	3,750,657
San Francisco	2000	4,573,390
San Francisco	2001	4,513,398
San Francisco	2002	4,259,886
San Francisco	2003	4,542,683
San Francisco	2004	4,457,819
San Francisco	2005	4,818,165
San Francisco	2006	5,154,191
San Francisco	2007	5,271,306
San Francisco	2008	4,001,819

<u>Agency</u>	<u>Period</u>	<u>Amount</u>
Walnut Creek	1996	\$2,568,249
Walnut Creek	1997	3,114,279
Walnut Creek	1998	3,690,213
Walnut Creek	1999	4,300,693
Walnut Creek	2000	5,086,412
Walnut Creek	2001	5,081,536
Walnut Creek	2002	5,049,377
Walnut Creek	2003	5,044,827
Walnut Creek	2004	4,931,603
Walnut Creek	2005	4,903,619
Walnut Creek	2006	4,966,829
Walnut Creek	2007	4,586,904
Walnut Creek	2008	3,652,794
Dublin	1996	1,628,122
Dublin	1997	1,983,761
Dublin	1998	2,458,031
Dublin	1999	3,476,532
Dublin	2000	4,419,830
Dublin	2001	4,491,578
Dublin	2002	4,440,258
Dublin	2003	4,319,503
Dublin	2004	4,464,624
Dublin	2005	4,438,772
Dublin	2006	4,074,276
Dublin	2007	4,046,827
Dublin	2008	3,281,463
San Rafael	1996	1,676,479
San Rafael	1997	2,087,009
San Rafael	1998	2,549,493
San Rafael	1999	3,090,198
San Rafael	2000	3,991,875
San Rafael	2001	3,786,089
San Rafael	2002	3,967,664
San Rafael	2003	4,156,352
San Rafael	2004	4,068,217
San Rafael	2005	3,725,092
San Rafael	2006	3,644,137
San Rafael	2007	3,620,911
San Rafael	2008	3,026,314