

Agenda Report

TO: CITY COUNCIL **DATE: JULY 11, 2005**
FROM: CITY MANAGER
**SUBJECT: RECOMMENDING APPROVAL OF SALES TAX INCREMENT
REIMBURSEMENT AGREEMENT WITH SYMES TOYOTA
LOCATED AT 3600 Foothill Boulevard**

RECOMMENDATION

It is recommended that the City Council:

1. Acknowledge that on July 6, 2005 the Zoning Hearing Officer approved an Initial Study and adopted a Mitigated Negative Declaration for this project.
2. Approve the application of Symes Toyota for a Sales Tax Increment reimbursement Agreement ("Agreement") pursuant to the City's Sales Tax Incentives Law and approve the terms and provisions of the Agreement in which the City will reimburse Symes Toyota up to 50% of net new sales tax not to exceed \$300,000 per year until the cumulative rebate reaches \$1.5 million or ten years, whichever comes first (Attachment A).
3. Authorize the City Manager to execute and the City Clerk to attest the Agreement on behalf of the City.

BACKGROUND

Sales Tax Incentive Ordinance:

The Sales Tax Incentive Ordinance was originally adopted in 1990 in an effort to retain certain qualifying businesses that would otherwise relocate outside of the City. This ordinance can provide qualified businesses a rebate of up to 50% of new sales tax that is generated to the City as a result of the businesses new investment.

"Qualified business" means a business that will generate a minimum of \$100,000 in net new sales tax revenue per year to the city as a result of a move or expansion.

Existing Symes Sales Tax Agreement:

The Pasadena Community Development Commission first approved a Sales Tax Increment Reimbursement Agreement with Symes Cadillac, Inc. in 1993. Per the agreement, the PCDC rebates fifty percent (50%) of the sales tax increment generated by the project. The PCDC is the lead agency in this case because the dealerships are currently located in a redevelopment project area.

The term of the agreement expires on the earliest of the following dates: 1) October 1, 2007; or 2) full reimbursement of the costs incurred by Symes for the project, up to a maximum of \$5.3 million or; 3) the cessation of business within the Redevelopment Project Area by Symes Cadillac, Inc. Symes Toyota, Inc. and/or Symes Range Rover, Inc.

Proposed Sales Tax Agreement:

City staff has been in discussions with Mr. John Symes, owner of Symes Motors, Inc. regarding the relocation of the Toyota store to the former Air Logistics property at 3600 Foothill Boulevard and the expansion of the Land Rover and Saab stores along the current Colorado Boulevard sites. Mr. Symes is receiving pressure from Toyota Motor Corporation to expand his dealership and is requesting the city to consider a "Sales Tax Increment Reimbursement Agreement" to assist him in his expansion efforts.

Due to the lack of space for sales and service at his current location, Mr. Symes has stated that Toyota Motor Corporation will continue to limit the number of additional cars, thus limiting his sales. Mr. Symes feels that a successful move of Toyota to the Foothill location would create tremendous growth opportunity for all his franchises.

Symes Motors is one of the City's top twenty-five sales tax producers and Mr. Symes has provided anticipated sales figures for future years assuming the move. Based on his projections, Mr. Symes expects to triple the Toyota sales and double the Land Rover, Cadillac and Saab sales over the next few years.

New Site:

Mr. Symes has purchased the Air Logistics property. The property is located at 3600 Foothill Boulevard just west of Rosemead Boulevard in the East Pasadena Specific Plan area.

Mr. Symes has plans to construct a 71,000 square foot two-level environmentally friendly facility generally consistent with the LEED (Leadership in Energy and Environmental Design) Green Building Rating System™. As proposed, the project will meet all of the design and zoning requirements of the East Pasadena Specific Plan. The project has been through Pre-plan Development Review and will require a Conditional Use Permit in which the appropriate environmental

requirements will be addressed, Design Review and Master Sign Program approval.

A Phase I and II environmental analysis has been conducted and appears to be without any significant levels of contamination. Mr. Symes paid \$8,600,000 for the land and is estimating to spend \$11,100,000 on new construction, furniture/equipment, public improvements and fees. In addition, Mr. Symes will spend \$1,200,000 on rehabilitation costs to the existing Toyota store for relocation of the Land Rover dealership. This \$20.9 million investment will help increase City sales tax revenue in the foreseeable future.

Preserving the City's sales tax base is important. In the last two years both the Acura and Mercedes dealerships have left Pasadena. These two dealers were also two of the top twenty-five sales tax producers. The departure of these two dealerships has had a significant impact on sales tax revenue. The objective of the assistance is the keep all Symes franchises in Pasadena and to provide assistance necessary to preserve the City's current sales tax base.

Financial Analysis by Keyser Marston:

Mr. Symes' projected growth and requested assistance was evaluated by Keyser Marston and Associates (see attachment B). KMA reviewed both sales tax receipts and Mr. Symes projected growth numbers to determine whether financial assistance was warranted. As stated in the attached report, KMA concluded that "the City might consider a limited period of assistance to allow the dealership the opportunity to reach its stabilized potential." The limited assistance would be necessary should Toyota not reach its more aggressive sales projections. The current deal points, outlined in Attachment A, remain consistent with closed session which occurred in June 2004.

Benefits:

The Symes Toyota expansion would create an opportunity for the Saab, Land Rover and Cadillac dealerships to expand. The total expansion would create 100 new jobs and create additional sales tax.

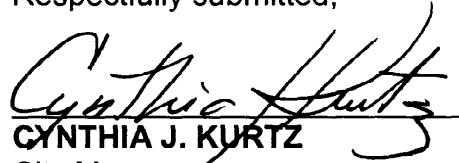
In addition, Mr. Symes is required to participate in the City's First Source Hiring Program. Mr. Symes currently participates in the Enterprise Zone program.

FISCAL IMPACT

Under the terms of the proposed new agreement, the City will rebate up to fifty percent (50%) of **net new** Toyota sales tax revenue using a 2003 base year in an amount not to exceed \$300,000 per year. There is a maximum reimbursement over the term of the agreement of \$1.5 million or ten years whichever occurs first.

Execution of the new agreement will result in the termination of the existing sales tax rebate agreement. The remaining rebate obligation under the current agreement would be eliminated, saving the City hundreds of thousands of dollars. This effectively reduces the City's \$1.5 million commitment.

Respectfully submitted,


CYNTHIA J. KURTZ
City Manager

Prepared by:



H. RUTH MARTINEZ
Project Manager
Planning & Development Department

Approved by:



RICHARD J. BRUCKNER
Director of Planning & Development Department

Attachment A - Sales Tax Agreement Deal Points
Attachment B - Keyser Marston Analysis dated April 25, 2005

Attachment A
Toyota of Pasadena Relocation
Deal Points

1. Symes responsible for all acquisition and improvement costs.
2. The Project shall be an environmentally friendly building, generally consistent with the LEED (Leadership in Energy and Environmental Design) Green Building Rating System™.
3. Symes to construct a 71,000 square foot state of the art facility for relocation of the Toyota franchise. Cost estimated at \$11 million.
4. As proposed, the project will meet all of the design and zoning requirements of the East Pasadena Specific Plan. Project will require a Conditional Use Permit, Design Review and Master Sign Program approval.
5. Any Sales Tax Agreement is subject to change or termination with any modification in state sales tax laws.
6. Symes agrees to comply with the City of Pasadena's first source hiring program. Mr. Symes currently participates in the Enterprise Zone program.
7. Execution of new agreement will result in the termination of existing sales tax rebate agreement. Current sales tax agreement runs through 2007 (potential benefit estimated at \$875,000 over the next three years).
8. Symes agrees to offer the City "first right of refusal" for property if not sold as an "auto dealer."
9. The City will rebate up to 50% of **net new** Toyota sales tax:
 - Not to exceed \$300,000 per year until the cumulative rebated reaches \$1.5 million; or ten (10) years, whichever comes first.
 - Base year to be 2003.
11. Benefits from this project will include: the creation of 100 new jobs, creation of new sales tax, the elimination of a blighted building and the expansion of Land Rover store.

Attachment B
Keyser Marson Analysis

Attachment B

KEYSER MARSTON ASSOCIATES INC.

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MEMORANDUM

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To: Ms. Ruth Martinez, Project Manager
Economic Development Division
City of Pasadena

From: Cal Hollis

Date: April 25, 2005

Subject: Symes Toyota Relocation

As you requested, Keyser Marston Associates, Inc. (KMA) has reviewed our memo of April 5, 2004, in light of the most recent construction cost estimates for the Toyota dealership. We understand Symes Toyota has purchased the subject site and is in the predevelopment process. Their current estimate for the cost of the facility has increased from \$6 million to \$11 million. We have not seen a site plan for the proposed project nor have we received information as to the planning volume such a facility is designed to support. For purposes of this analysis, we have assumed the stabilized volume will be \$80 million as assumed in our previous analysis.

In our previous analysis, we advised that we have negotiated dealership transactions whereby the annual occupancy cost to the dealer has been in the range of 1.5% to 3% of sales volume. We have re-run the analysis, using a range of first year sales volumes of \$52.4 to \$78.2 million. The analysis indicated that, given the reported cost of the building improvements, the first year occupancy costs ranges from 3.5% of sales volumes to 2.4% under the more aggressive sales volume assumption. If the less aggressive first year sales volume number is used, City assistance equal to 50% of incremental taxable sales volume reduces the occupancy cost to 3.3%. By the stabilized year (Year 3) the occupancy cost without assistance drops to 2.3%, within the range described above.

CELEBRATING 30 YEARS OF SERVICE TO OUR CLIENTS

To: Ms. Ruth Martinez, City of Pasadena
Subject: Symes Toyota Relocation

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CONCLUSION

It is the KMA opinion that if the Toyota dealership achieves sales volumes of \$80 million, there is no need to provide assistance for the dealership relocation. The City may desire to provide some limited level of assistance to ease the strain of relocation, and to reflect the ramp up period required to achieve the stabilized sales volumes. The City may wish to seek clarification from Symes Toyota as to the sales volumes the facility is being designed to accommodate. If the facility is being designed to support a volume in excess of that the dealership believes is achievable, it may be prudent to reduce the size of the facility.

We hope this is helpful and are available to answer any questions you may have.

Attachment