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June 5, 1989

Honorable Mayor & Councilmembers
39700 Civic Center Drive
Fremont, California 94538

RE: Fremont Auto Mall

Dear Mayor & Councilmembers:

The economic environment for automobile dealerships is changing not only in Fremont but generally across our nation. Dealerships in traditional business districts are not competitive with those that find high visibility locations along the freeways or form into automobile shopping centers where fixed costs and advertising can be shared, and there is greater customer convenience. This trend started in the highly competitive areas of Southern California and is rapidly moving to Northern California. Cities who have come to rely on the sales tax revenue to subsidize services to residential and industrial areas have taken the initiative to promote the creation of auto malls to preserve this sales tax base. In the East Bay Area, there is evidence of such efforts in Oakland, Hayward, Milpitas, Pleasanton, and there is also clear evidence of single dealerships moving to high visibility locations along the freeway. Therefore, it is reasonable to recognize that there will be change in the Fremont dealerships over time. The question is whether that change will be left to chance and the intervention of other communities who take the initiative or whether Fremont will exercise leadership in the process.

Over two and one half years ago, the Fremont dealers began consideration of the development of an Auto Mall. The three major problems associated with the enterprise were finding an available large site in Fremont, the cost of land, and the impact on the investments in Centerville if all the dealerships were to relocate over a short period of time. It became clear that only the site in Fremont which was of appropriate size and was feasible was adjacent to Durham Road. It was financially feasible because the landowner was willing to sell the land at a very competitive price. The reuse of land in Centerville was to be addressed by the use of Redevelopment to provide subsidies, aggregate land, and create an overall development plan which would maintain the value in the area and protect the the Auto Dealers' current investments.

Today, we find ourselves in a situation where the land costs have increased by \$5 million dollars; the improvement costs in the Auto Mall have increased by one million dollars; the City staff has indicated that redevelopment will provide little assistance because of minimal financial gain and the attitude of the School District and the County; and the slump in the sale of automobiles argues for reducing risk and in some cases making financing of private improvements difficult, if not impossible. The Fremont Auto Dealers now are requesting that the City Council of the City of Fremont step up and provide the real financial incentives members have promised time and time again during the long and difficult two and one-half years we have just completed.

Before we address the specifics of a possible incentive package, we would like to present to the Council some real data on the financial benefit of an Auto Mall. Some of this data is based upon estimates and assumptions arrived at through the use of common sense. Some of the data is taken from independent studies done by economists at the request of the City. In the latter case, the material used was obtained from the Staff.

The Study of sales tax impact of build, no build was conducted by Economic Planning Systems. The enclosed material shows that if the Auto Mall is not built, in the best case scenario, the City would lose \$1.40 Million in net new sales tax by 1994 and \$2.38 Million in new sales tax if dealers moved from Fremont. By the year 2004, the total loss, without inflation, could be \$23 million. It is significant that the Economists recognized that dealerships would leave Fremont.

Property taxes would also be positively impacted by the construction of the Auto Mall. The anticipated investment for an 88 acre mall would be in the area of \$70 Million. This would generate about \$700,000 in new property taxes to be divided among the taxing agencies and the Redevelopment Agency. These new dollars will not be realized in the next three years if the Auto Mall is not built, regardless of the split of the property tax dollars.

When development occurs, there will be numerous fees paid to the City and special districts. The significant fee of at least \$528,000 will be paid toward the construction of the interchanges at Durham Road and Fremont Boulevard. Other benefits are outlined in the enclosed summary.

Considering the history, the financial benefit to the City and the financial risk to the Auto Dealers of a development of this size we proposed to the staff some incentives which would expedite the project and reduce the risk investment of the Auto Dealers. Some of these incentives the staff felt they could support, but felt that others were of such a nature that Council direction was necessary. Therefore, it was agreed that we would submit this request to the Council for specific direction.

The incentives requested of staff were as follows:

1. Change the name of Durham Road to a name which provides immediate recognition for the Auto Mall.
2. City to fund the maintenance of perimeter landscape and common areas in the Auto Mall.
3. Restriction of new dealerships to the Auto Mall until all land is absorbed.
4. Agreement to zone property in Centerville to provide for recovery of investment by the auto dealers and/or provide subsidy from redevelopment.
5. A waiver or reduction in City fees and exemption from future fees or increases.
6. An agreement for expedited processing.
7. A mutually binding agreement with the City which will provide for the recovery of the \$5 Million in increased land costs.

We submitted a more precise proposal to the staff with regard to the final request concerning the \$5 Million recovery agreement. We proposed the use of a model which has been used successfully in another community. This model sets a legal framework for the City. Santa Fe Pacific will, at their

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expense, construct or cause to be constructed certain off-site improvements pursuant to the conditions of approval. An interest in these improvements will be transferred to the Auto Dealers. The Auto Dealers will lease this interest to the City for payments from the incremental increase in revenues which accrue to the City. The only source of revenue will be net sales tax increases over an existing base. We want to emphasize that the City would be obligated to make payments only if there is sales tax revenue above that which the City would expect from normal inflationary growth of the current base. Further, the Dealers would agree to limit the period of the commitment. Thus, the City would only be obligated from excess revenues. It is a win/win situation. We have enclosed a legal opinion used by the City of Roseville when they adopted this program.

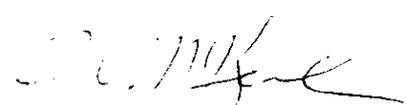
In our meetings with staff, there was considerable discussion of the difficulties of providing any incentive for this project. Though similar incentive programs, in some form, have been provided by numerous cities (approximately 16) who have developed Auto Malls, the City Staff was concerned about the precedent in Fremont. Also, the existing sales tax letter between the City of Fremont and the County was cited as an impediment. Unless the County wishes to prevent the Auto Mall this letter will have to be set aside, regardless of the Council's action.

The cost of the interchanges has increased dramatically; the Auto Mall will create the values to make the interchanges a reality, sooner. The County and the School District will want to get part of the increased revenue; there is no increased revenue without the Auto Mall.

The Fremont Auto Dealers have been contributing members of this community for many years. They desire to stay and grow in Fremont. However, the situation in Centerville will not stay the same. If an Auto Mall is not developed you can expect that dealers will be recruited to other malls or high visibility locations along the freeway or will eventually sell their land and close the franchise. The City has the ability to positively support the Auto Mall with a substantially "no risk" commitment by the City. All the City has to recognize is that by being a little entrepreneurial they can possibly reap major long-term benefits. Therefore, the Dealers respectfully request that the Councilmembers set political differences aside and take a firm leadership position which will make the Mall happen. Please direct staff to put together the necessary agreements to recover through contribution of the incremental sales taxes, the \$5 million and other incentives outlined above.

Sincerely,

McKEEHAN, BERNARD & WOOD



By
JAMES W. McKEEHAN

JWM/yml
cc: Auto Dealers