

June 17, 2004

Honorable Mayor and Members of
The Hermosa Beach City Council

Regular meeting of
June 22, 2004

**PROPOSAL FROM SOUTH BAY MINI TO CONSTRUCT A NEW CAR DEALERSHIP
AND PRE-OWNED BMW FACILITY AT THE PRESENT SITE OF SOUTH BAY BMW
AND SHARE PROPERTY AND SALES TAX FOR A PERIOD OF 10 YEARS**

Recommendation:

That the City Council review the proposal and analysis of it and determine whether or not the City is interested in such an arrangement.

Background:

South Bay BMW is constructing a new car dealership center in Torrance. This facility will be completed this summer and they will move their operation there. As you are aware, staff has had discussions with BMW about keeping a pre-owned sales operation and a service function at the present site. These discussions have led to a proposal being developed by South Bay BMW/Mini to build a new car dealership, Mini, on the present site along with sales and service of pre-owned BMWs and other vehicles. The proposal includes demolition of all of the existing facilities and construction of new sales, service and storage buildings. The plan, as proposed, includes a request to vacate a portion of 30th Street to create a new entrance. The new buildings would be moved back from the highway in order to create a display area in front of the sales showroom.

South Bay BMW/Mini has proposed that the City share the City's portion of property tax and sales tax for a period of 10 years. A detailed analysis of this aspect of the proposal is attached for your review. I have discussed this with the City Attorney and it is possible for the City to consider and approve such a sharing arrangement if it is determined to be in the interest of the City to do so.

The City, in 1985, entered into an agreement with Vasek Polak for vacation of a portion of the alley that ran from 30th Street south to Gould Avenue. This area of land is now part of BMW holdings and the dealership fulfilled its requirements under that agreement.

If the City Council determines that the proposal, or a modified one, is acceptable, a similar agreement would be drafted and brought forward for City Council approval. South Bay BMW/Mini is looking for an answer so that it can decide how to proceed. They are considering purchasing the property from Vasek Polak Trust and leasing the most southerly lot for this new dealership. A parcel map is attached that shows the lots.

As you are aware, BMW has been one of the top sales tax producers for the City for many years. The loss of this revenue, both in the short term and long term, will have an impact on the City in providing services. Such an agreement must be viewed in the long term City interest or it would be best for the market forces operate without City subsidy to operate. It is important to note that the revenue from this property will be less in the future even without the tax sharing proposal. It is also difficult to determine other uses that might be interested in this site should this proposal not proceed. These thoughts should be kept in mind when reviewing the analysis and the assumptions on which it is based.

Other potential uses would include, retail, office or hotel in addition to the auto dealer use. The options that the City Council can consider include proceeding with an agreement as proposed or under other terms. If the City Council is interested in developing an agreement, staff would suggest that we start the vacation process for 30th Street as it has a long notice process, and direct staff work with South Bay Mini to develop an agreement for review and consideration by the City Council. If there is no interest in such a revenue or cost sharing agreement then South Bay Mini would like to know that so they can make their decisions regarding the purchase of the property.

Respectfully submitted,

Stephen R. Burrell
City Manager

PROPOSAL FOR SALES AND PROPERTY TAX

| SALES TAX | |
|-----------------------|--------------|
| Assumed Taxable Sales | \$25,000,000 |
| \$25,000,000 X 1% | \$250,000 |
| 50/50 split | \$125,000 |
| 10 year total | \$1,125,000 |

| PROPERTY TAX - EXISTING PROPERTY ASSESSMENT | |
|--|-------------|
| 4188-028-070 (Enterprise lot) | \$205,392 |
| 4169-034-017 | \$639,906 |
| 4169-034-018 | \$1,162,020 |
| Total Existing Assessed Value | \$2,007,318 |
| Property Tax: \$2,007,318 X 1% | \$20,073.18 |
| City's share: \$20,073.18 X 20% | \$4,014.64 |

| PROPERTY TAX – ESTIMATED PROPERTY TAX BASED ON PROPOSAL | |
|--|--------------|
| Land | \$6,072,000 |
| New Buildings | \$4,400,000 |
| New Assessed Value | \$10,472,000 |
| Property Tax: \$10,472,000 @ 1% | \$104,720 |
| City Share: \$104,720 X 20% | 20,944 |
| 50/50 Split | \$10,472 |
| 10 year total | \$104,720 |

| TOTALS | |
|---------------------|-------------|
| Annual Sales Tax | \$125,000 |
| Annual Property Tax | \$10,472 |
| Annual Total | \$135,472 |
| 10 Year Total | \$1,354,720 |

The above analysis assumes a level of cost over the 10 years. This is based on the sales volume that has been projected by South Bay BMW. I am sure that the sales will grow. The percentage split would remain the same and both the payment to South Bay BMW would grow as would the revenue to the City.

Property tax would also grow at 2% per year as provided under Proposition 13. The last parcel, the most southerly parking/display area, would not change much as it will be leased and improved only as a parking lot.

The 50/50 split of the property tax will actually result in an increase to the City. The existing revenue for those parcels is \$4,014.64 and this will increase by \$6,457.36.

No value has been calculated for the vacation of a portion of 30th Street. However, given the piece that South Bay BMW has included for all of property, a calculation can be made on a square foot basis which results in a value of \$446,670. There will be some costs associated with vacating 30th Street mainly in the possibility of relocated the utilities. This may also be an issue for the former alley where a sewer line exists.

Staff has also developed some other use potentials for the site that provide some idea of tax revenue that would be generated if the site is not used as an automobile dealership.

Retail Sales Tax = \$35,000 - \$50,000 per year
20,000 sq. ft. retail use

Hotel TOT Tax = \$177,937.50 per year
This is based on a 100 room hotel and a room rate consistent with other nearby highway type hotels.

There are probably other uses that might be interested in the property but those listed above seem to be the most likely. Staff is not aware of any hotel or retail operators that are presently interested in the site however once it was known to be available there may be some interest. The proposal for the present owners of the BMW operation to stay with a new Mini dealership and used BMW would be similar to the recent change that has occurred in Manhattan when a existing new car dealer left and has been replaced by a branch of a another dealership. The South Bay Mini proposal to completely rebuild the present facility is quite different in terms of investment in the community.