



Office of the City Manager

CONSENT CALENDAR

March 17, 2015

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Michael J. Caplan, Economic Development Manager

Subject: Deferral of Building Permit Fees to Berkeley Honda

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to defer building permit fees for improvements required for Berkeley Honda to move to 2777 Shattuck Avenue/2747 Adeline; upon completion of the project replace lost Permit Service Center revenue from the General Fund Reserve.

FISCAL IMPACTS OF RECOMMENDATION

Preliminary discussions with the owners indicate that Berkeley Honda's move to 2777 Shattuck/2747 Adeline (currently occupied by Any Mountain) will require construction valued at approximately \$1.5-\$2 million. If this estimate for project valuation is correct, the fee deferral and waiver for Honda would cost the City \$84,000-\$112,000. The actual building permit fees, and therefore the value of the deferral and eventual waiver, will be calculated at the time the building permit applications are submitted.

It is important to note that April 1, 2014, the City Council already acted to waive fees to assist in retaining Berkeley Honda for an equivalent amount. Unfortunately, the site that Honda was considering at the time ceased to be available after the Council took action. This action will reaffirm the Council's intention to assist in waiving fees at a new location for which a lease has been secured.

The retention of Berkeley Honda at this new site conserves one of the City's top ten generators of sales tax revenue. Honda sales, and therefore City sales tax revenue, will be retained and possibly increase as the new location is established and marketed. It is important to note that Berkeley Honda provides about 50 jobs and has a unionized service department which employs approximately 25 well paid automotive technicians. Retaining these jobs in Berkeley will provide important support to our local employment base.

CURRENT SITUATION AND ITS EFFECTS

Berkeley Honda has lost its existing dealership at 2600 Shattuck due to construction of the Parker Place mixed-use project for a new mixed use residential project. Honda had offered the owners of Berkeley Honda the choice of either being awarded a completely

new Honda sales franchise in Brentwood, eastern Contra Costa County, or continuing to operate in Berkeley if they were able to locate a viable facility. The owners preferred to continue doing business in Berkeley but have had a hard time securing a space that they could afford and which had the appropriate Zoning. Last year they succeeded in negotiating lease terms for the old Cadillac dealership at 1500 San Pablo and on April 1, 2014 the Council agreed to their request waive permit fees to assist them in doing the project.

For Honda, their new site at 2777 Shattuck/2747 Adeline is well below their ideal size and configuration. Nevertheless, they expect to continue being successful in Berkeley, particularly because of their upcoming innovations in more efficient alternative energy vehicles.

Adapting the old Any Mountain space to be an attractive showroom and dealership is an expensive proposition. Because of the unique value of the auto sales sector as a revenue generator, and the precedent of prior Council actions on behalf of Weatherford BMW and the U.S. Auto Group, staff recommends that Council should reaffirm its prior commitment to waive fees for Berkeley Honda at their new South Shattuck location.

#### BACKGROUND

On October 13, 2009, the City Council took action to defer building permit fees for expansion and refurbishment of the Weatherford BMW's dealership at 735 Ashby and waive the fees upon completion of the project. Although this was a very unusual measure for Berkeley to take, cities throughout California and the nation commonly offer much greater assistance to attract and retain auto dealers. Auto sales are a highly-prized source of General Fund revenues, comprising 10.50% of total sales tax revenue for cities in California as a whole (2014, latest complete year available) and 7.8% in Berkeley<sup>1</sup>.

The rising value of land, driven in part by the boom in multi-family housing, has posed a serious challenge to Berkeley's auto dealers. While they operate on sites that are small and constrained by auto sales industry standards, they are large sites by Berkeley standards. Demand for mixed-use development has driven up rents, threatening to make them unaffordable for auto dealers at a time when comparison shopping over the Internet has driven down margins on the sale of new cars. Berkeley Honda's survival had been threatened since November, 2011, when the City Council upheld the Use Permit for the Parker Place mixed-use development. Since construction began on Parker Place over the last few months, Berkeley Honda has been conducting sales out of a trailer at their car lot at 2627 Shattuck.

Under these circumstances, it is very much in Berkeley's interests for the owners of Berkeley Honda to secure a long-term lease and reinvest in their dealership. In addition to sales tax, auto dealerships are an important source of living-wage blue-collar jobs.

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<sup>1</sup> California State Board of Equalization, *Taxable Sales in California for the Year 2011*.

The employees of the Berkeley Honda service department are represented by the International Association of Machinists, AFL CIO.

ENVIRONMENTAL SUSTAINABILITY

Berkeley consumers are early adopters of “clean car” technologies, as was shown first with Toyota Prius sales in the last decade and now with sales of Fiat’s plug-in electric vehicle and similar models sold by Honda. Therefore a Berkeley location plays a role in demonstrating and popularizing “clean” car models.

It is also worth noting that retention of local dealerships will reduce the length of trips by Berkeley consumers searching for a new car or seeking to service an existing vehicle.

RATIONALE FOR RECOMMENDATION

Based on the precedent of City assistance to Weatherford BMW and McKeivitt/U.S. Auto Group, it is reasonable for the City to respond favorably to the request for equivalent assistance for Berkeley Honda. Council already acted to provide similar support for a different site in 2014 and this would simply apply that same consideration for their new site. Assisting Berkeley Honda will assist in retaining them locally and will allow the City to benefit from good paying jobs and the likelihood of increasing sales tax revenues in the future.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

Michael J. Caplan, Economic Development Manager, 981-2490

Attachments:

1: Resolution

Exhibit A: Letter to Christine Daniel, City Manager, from Steve Beinke, co-owner Berkeley Honda, dated January 26, 2015

RESOLUTION NO. ##,###-N.S.

DEFERRAL OF BUILDING PERMIT FEES FOR THE RELOCATION OF BERKELEY HONDA TO 2777 SHATTUCK AND 2747 ADELINE

WHEREAS, Berkeley Honda is being displaced from its site at 2600 Shattuck and needs to relocate if it is to continue to service its customer base, maintain well-paying union-represented jobs; and produce revenue for both its owners and the City of Berkeley; and

WHEREAS, Berkeley Honda has negotiated a lease for the building at 2777 Shattuck and 2747 Adeline but faces major expenses to bring it up to Honda's corporate standards; and

WHEREAS, in a letter to the City Manager dated January 26, 2015, attached as Exhibit A, the owner of Berkeley Honda requested financial assistance from the City of Berkeley for their project based on the precedent of City assistance to Weatherford BMW and the U.C. Auto Group; and

WHEREAS, on April 1, 2014 the Council agreed to Berkeley Honda's prior request waive permit fees to assist them in relocating to the old Cadillac dealership at 1500 San Pablo; and

WHEREAS, that property ended up being sold to another owner before the lease with Berkeley Honda was officially executed so that Berkeley Honda lost the opportunity to move there; and

WHEREAS, Berkeley Honda has now signed a new lease for the property at 2777 Shattuck and 2747 Adeline to relocate their dealership; and

WHEREAS, successful relocation of the dealership to this new site will maintain significant sales tax revenues to the City and preserve approximately ninety automotive technician jobs.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to defer building permit fees for Berkeley Honda at 2777 Shattuck and 2747 Adeline and the City Manager is authorized to replace lost Permit Services Center revenues from General Fund Reserves.

Exhibit

A: Letter to Christine Daniel, City Manager, from Steve Beinke, co-owner Berkeley Honda, and Fred Lavery, owner U.S. Auto Group dated December 23



January 26, 2015

Christine Daniel  
City Manager  
City of Berkeley  
2180 Milvia Street  
Berkeley, CA 94704

RE: Berkeley Honda Building Permit Fee Deferral/Waiver; 2777 Shattuck/2747 Adeline Street (Any Mountain)

Dear Ms. Daniel:

I am writing to update you on our progress to keep Berkeley Honda in Berkeley and to request that the fee deferral/waiver approved by the City Council for 1500 San Pablo on April 1, 2014, be transferred to our new permanent location at 2777 Shattuck Ave/2747 Adeline Street.

After nearly an eight-year search and entering into, and out of contracts for lease/purchase of a permanent location for Berkeley Honda, we have now executed a long-term lease with Mr. Glen Yasuda for the above location. As you are aware, in spring 2014, we were absolutely confident that our executed Letter of Intent with the former owners of 1500 San Pablo would be consummated in the form of a long term lease. We, erred in giving assurances to you and your staff that we had in fact executed a lease. For that, please accept our sincere apologies.

Unfortunately, the former owners of the site received an offer financially far superior to ours from Shoreinstein and pulled the plug on our deal. Subsequently, we lost control of the site and reluctantly agreed not to pursue legal means.

As a result, we have endured significant hardship in securing a temporary site at Shattuck/Carleton, with Mr. Reza Valiyee, and securing Honda's approval for the temporary location. In the meantime, we were fortunate that Any Mountain had informed their landlord, Mr. Yasuda that they were pursuing terminating their lease. We then pursued the site and simultaneously, made every effort to convince Honda to approve the site as our permanent location. All the while, Honda insisting that we move and open a brand new dealership in Brentwood.

In November 2014, we concluded our negotiations and executed a long-term lease with Mr. Yasuda. Honda has reviewed and approved our proposed new location in Berkeley. We secured a Zoning Research Letter from Ms. Carol Johnson on January 9, 2015, and are gearing up to submit applications to the Planning and Development Department for entitlements for the site. Any Mountain expects to

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vacate the site within a few months and we hope to be able to start remodeling/construction of our new dealership as soon as possible.

We trust you appreciate the challenges we have faced in maintaining our dealership in Berkeley, and now, we rely on your continued assistance and support to make that a reality. We hope you will do all that is necessary to affect the transfer of the Council's approval for our fee deferral/waiver to the new location, as soon as possible.

Please do not hesitate to call upon us if we can assist you in this process.

Respectfully,

A handwritten signature in black ink, appearing to read "T. Beinke".

Tim Beinke  
Dealer Principal

Cc: Michael Caplan

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