

STAFF REPORT
City of Lancaster

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MVB

DATE: October 9, 2012

TO: Mayor Parris and City Council Members

FROM: Vern Lawson, Economic Development Director

SUBJECT: **Acquisition of Operating Covenant and Restrictive Covenant with Clutter Motors**

Recommendation:

Approve Acquisition of Operating Covenant and Restrictive Covenant with Clutter Motors and authorize the City Manager or his designee to execute all required documents.

Appropriate \$300,000.00 from General Fund Balance to Account No. 101-4540-308. Funds shall be provided to Clutter Motors for the purpose of acquisition of an Operating Covenant and Restrictive Covenant.

Fiscal Impact:

Clutter Motors will repurchase the covenants over a three year period, with interest at the City's weighted average interest rate on its portfolio.

Background:

Clutter Motors is in the process of redeveloping both the Subaru and Honda dealerships in the Lancaster Auto Mall. Both renovations will be done to factory specifications and, when completed, will substantially enhance the view of the Auto Mall from 10th Street West. The cumulative cost of these much-needed improvements will exceed \$2,000,000.00. These renovations, which are mandated by the dealerships' respective auto manufacturers, will create structures which will be more inviting to the car-buying public and are expected to increase sales for both dealerships.

The lingering difficult economic times have taken a toll on small business. Clutter Motors has had to deal with more than its fair share of problems because, through no fault of its own, its former Honda dealership site is going through a bankruptcy filed by the former owner. This hardship has created the need for Clutter Motors to undertake extensive renovations, as well as a prime opportunity for the City to assist this major sales tax generator by making these funds available for the necessary improvements. The full amount will be paid back in cash with interest.

In the past, the City has assisted other Auto Mall occupants with customized incentive programs designed to remedy various financial issues. These agreements were accomplished with tax increment financing under the now-defunct Lancaster Redevelopment Agency. As the Council is aware, this tool is no longer available and we must be more creative to develop business-friendly solutions under the powers granted to us by the California Constitution as a charter city.

This accommodation will guarantee that Clutter Motors will be in a position to invest \$2,000,000 and sign a covenant to continue to operate in this location in the City of Lancaster, thus continuing to provide local jobs and generating sales tax for essential City services, for the next 20 years. The City will also receive a personal guarantee from Mr. Rick Clutter, owner of Clutter Motors, for collateral. This covenant is a creative solution to allow the dealerships to renovate and be in a position to generate sales tax well into the future.

In addition, Subaru and Honda are two automotive brands that are well-positioned to take advantage of the pent-up demand for new car sales which has been created throughout the recession. Both companies are focused on sustainability, with Honda offering a CNG vehicle and a brand-new Accord model, while Subaru mandates that all of their automobile manufacturing facilities recycle all waste. Rick Clutter continues to be a good corporate citizen and excellent community supporter by helping sponsor numerous community and charitable events.

Our City Attorney has prepared an agreement that has now been signed by Rick Clutter on behalf of Clutter Motors Inc. If the Council concurs with the staff recommendation, it would be appropriate to authorize the City Manager or his designee to execute the appropriate documents to make this transaction occur.

VL:cd

Attachment:

Site Plan

Agreement – on file in the City Clerk Department