

STAFF REPORT
Lancaster Redevelopment Agency

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MVB

DATE: May 12, 2009

TO: Chairman Parris and Agency Members

FROM: Vern Lawson, Jr. Economic Development/Redevelopment Director

SUBJECT: **Approve an Operating Covenant with Clutter Motors, Inc., DBA Lancaster Honda located at 43226 Drivers Way, Lancaster, Ca. 93534(APN# 3125-024-037)**

Recommendation:

Authorize the Executive Director or his designee to execute an agreement re Acquisition of Operating and Use Covenant and Restriction Covenant re Clutter Motors, Inc. DBA Lancaster Honda, located at 43226 Drivers Way, Lancaster, California 93534 (APN # 3125-024-037.)

Fiscal Impact:

The Agreement provides for the acquisition of a Covenant between the City of Lancaster and the owner of Lancaster Honda, Inc. whereby the Owner will promise to operate and update Lancaster Honda in the Lancaster Auto Mall. Utilizing undesignated redevelopment agency fund reserves, the City of Lancaster will purchase a promise from Lancaster Honda to operate for no less than thirty years in an updated Honda Dealership. The Agency will pay the Dealer an amount not to exceed \$2,000,000 as compensation for committing to the covenant which will provide to the City sales tax revenue from the revitalized dealership. The transaction also includes a component that secures an option to build a new Honda Superstore. If the dealer exercises the expansion option, the dealer will be eligible to receive an additional \$500,000 to be paid back with sales tax under the same terms and conditions as the original assistance.

Background:

A revitalized Honda dealership will allow the City of Lancaster to continue to collect sales tax on sales of one of the stronger automobile manufactures operating in America today. The transaction will also create a potential opportunity to capture a new Honda Superstore to allow the franchise to be in a position to maximize sales when the economy turns around, adding to a successful business relationship.

Mr. Rick Clutter and Ed Kwalic are returning from retirement to operate the dealership which was in danger of closing. If the car store had closed the entire Auto Mall would have been adversely impacted. Mr. Clutter and Kwalic have a long history selling automobiles in Lancaster. In past deals with the City they have performed and extinguished their obligations earlier than the contract stipulated. They have also continually supported our community's charitable causes and were respected as good businessmen. Revitalization of the dealership and experienced leadership

will be a benefit to the City in additional revenue generation for the general fund and to the consumers in Lancaster who will continue to enjoy a larger selection in products and services. The Parties acknowledge that the Agency has negotiated the terms of this agreement in contemplation of the sales tax revenues to be generated by this revitalization. The Agreement stipulates that the Dealer's commitment to produce \$2,000,000 in sales tax revenue shall be offset dollar for dollar, including 6% interest by Sales Tax revenue. The agreement requires the Dealer to improve facilities throughout the property initially to the specifications of Honda and ultimately to accommodate another franchise when the new Honda Superstore is constructed.

The agreement also includes an option to purchase an expansion site of 5.9 acres of City owned property on the NE corner of 10th Street West and Avenue K-8. The dealer will have a three year option to purchase this site and build a Honda Super Store or an additional dealership. If the Dealer does not exercise this purchase option, the Dealer will also have the option to expand on the existing site or the dealership site immediately to the north with Agency approval.

As an extra support to the community, the Dealer has agreed to a provision of this covenant that will benefit the community. In the event of the occurrence of a national disaster or a state emergency, the Dealer will use his best efforts to make available for the duration of the disaster or emergency Dealer's inventory of trucks for use by the Agency or City in dealing with the disaster or emergency. The dealer will also use his best efforts to have his employees participate in City sponsored neighborhood watch programs and Municipal sports programs.

Summary:

Approval of this transaction will allow the General Fund to receive new revenue at a time when our nation and economic region is experiencing a recession. This agreement will also allow us to protect and support our auto mall continuing the synergy that has been its trademark since inception.

VL:SG:ad

Attachment:

Site Map