



REPORT TO COUNCIL City of Sacramento

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Consent
February 17, 2009

Honorable Mayor and
Members of the City Council

Title: Raption Auto Dealership - Temporary Rent Reduction/Stoplight Payment Plan

Location/Council District: District 2 (Business 80 at Fulton Avenue)

Recommendation: Adopt a Resolution authorizing the City Manager to reduce the monthly rent to be paid to the City from Raption Auto Dealership from \$54,313.83 to \$44,313.83 for a duration of one year and allows Raption to pay its \$100,000 contribution toward the cost to construct a stoplight at the site, currently due in March 2009, in two equal payments of \$50,000, one in March 2009 and the other in March 2010

Contact: James R. Rinehart, Citywide Division Manager, 808-5054

Presenters: James R. Rinehart

Department: Economic Development

Division: Citywide

Organization No: 18001031

Description/Analysis

Issue: According to the Central Valley New Car Dealers Association Report, covering results through the third quarter of 2008, "house values have plummeted, the credit markets have been in turmoil, the stock market fell, financial institution failures are seemingly commonplace, governmental agencies have injected massive amounts of liquidity into the financial system, the unemployment rate has moved higher, and GDP growth is headed lower. As if that were not enough, the auto industry has been turned upside down on many fronts. Unsurprisingly, the new vehicle market has been battered by formidable threats."

The Report goes on to tabulate market declines of 21.9% for the Greater Sacramento market compared to 13.7% for the U.S. market. Additionally, “the area new retail light vehicle market is predicted to decline 3% from 2008 to 2009, the fifth consecutive annual decline.”

The trends cited above have translated into financial uncertainties for the master tenant at the Fulton Avenue Development Project, Rapton Investment Group, which through its subtenant, Rapton Honda, Inc, operates an automobile dealership at the site. That dealership, formerly located on Fulton Avenue, opened its doors February 3, 2009. Unfortunately, its income streams are currently stretched thin because of the decline in sales previously mentioned, as well as the \$14 million in additional costs it incurred when moving to the site. These financial uncertainties, as well as a several-year delay in starting the project, have also resulted in, or contributed to, the loss of the anticipated second automobile dealership that was to be located on the second parcel at the site (Asbury Mercedes Benz). That second subtenant was to have paid rent to Rapton Investment Group, and without that revenue stream Rapton is now requesting a rent reduction from the City in the amount of \$10,000 per month for one year. This one-year reduction (beginning in March 2009 and ending March 2010) is to allow Rapton time to stabilize its income.

The present lease payment for Rapton Investment Group is \$54,313.83 a month, and Rapton is requesting a one-year reduction to \$44,313.83 a month (i.e., a \$120,000 reduction for the 12-month term). The City’s debt service on the bonds issued to cover the site remediation and infrastructure costs associated with preparing the site for development amount to \$41,666.67 a month. Thus, the requested one-year reduction would still provide the City with funds sufficient to cover debt service and add \$31,765.92 to the general fund at the end of a year, at which time the original lease payment amount of \$54,313.83 would resume.

Rapton is also seeking to defer the payment of its portion of costs associated with the construction of a stoplight on the site. Rapton is currently obligated to remit \$100,000 to the City in March 2009. It is requesting a payment schedule of \$50,000 due March 2009 and \$50,000 due in March 2010.

Policy Considerations: Rapton’s \$14 million investment on the site, its 48-year history of doing business in the Sacramento area, its relatively strong sales over the last year (although sales were down from year-before results, Rapton Honda was the number two Honda Dealership in Northern California for the year ending December 31, 2008), and its continuing partnership with the City provide strong justification for supporting this one-time request for relief, which will benefit both Rapton and the City. The City’s interests are not served by ignoring a strong performer/partner’s request for help to get past short-term financial difficulties. Of course, the City does not want to forego revenues if it doesn’t have to. On balance, however, an explainable one-time forgiveness of \$120,000; and a one-year delay to remit the second half of a \$100,000 payment seem to best serve the City’s interests in keeping an otherwise financially healthy partner strong for years to come.

California Environmental Quality Act (CEQA): N/A

Sustainability Considerations: This report does not address any sustainability issues.

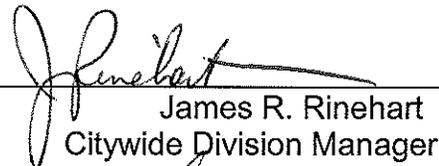
Commission/Committee Action: None

Rationale for Recommendation: The City has spent over \$9 million preparing this site for development. Due principally to the downturn in the economy but also because of the considerable costs Rapton incurred to construct the facility; Rapton is seeking short-term monetary relief. Approving Rapton’s request would strengthen its business structure and thus maintain its ability to continue creating goods and services, generating property and sales tax revenue, and employing residents of the City. This one-time request is in the City’s interest, as it helps keep the dealership workable over the long-term.

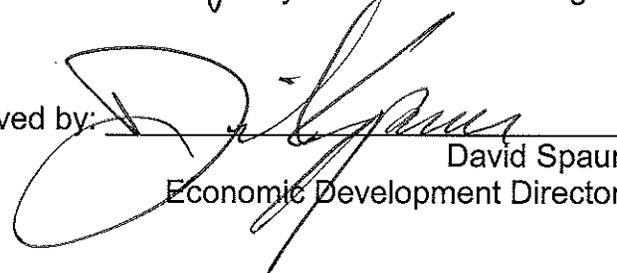
Financial Considerations: If the resolution is approved, the City would lose \$120,000 of revenue for one year. It would also realize only \$50,000 of revenue immediately rather than the total \$100,000 due on March 2009, with the remaining \$50,000 payable in one year.

Emerging Small Business Development (ESBD): There are no emerging small business development impacts from this report.

Respectfully Submitted by:


James R. Rinehart
Citywide Division Manager

Approved by:


David Spaur
Economic Development Director

Recommendation Approved:

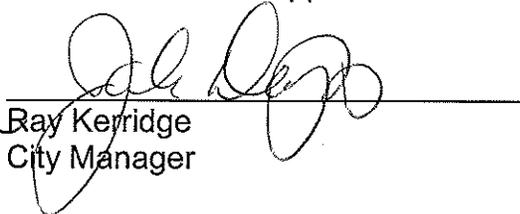

Ray Kerridge
City Manager

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Attachment 1

RESOLUTION NO.

Adopted by the Sacramento City Council

**RAPTON AUTO DEALERSHIP – TEMPORARY RENT REDUCTION/STOPLIGHT
PAYMENT PLAN**

BACKGROUND

- A. The City owns the property at 3701 Fulton Avenue, the site of the Fulton Avenue Development Project
- B. The City had leased the site, comprising of about 21 acres of Del Paso Park, to the Sacramento Trapshooting Club since approximately 1915. The lease expired on September 30, 2004, but the Trapshooting Club continued to operate on the site under a month-to-month agreement until the lease was terminated on June 30, 2006.
- C. In 2002, the City Council directed staff to examine potential alternatives for the “highest and best” uses for the site.
- D. In March 2004, Colliers International presented the City with an opportunity to lease the site to Mel Rapton, Inc., which does business as Mel Rapton Honda.
- E. An Exclusive Right to Negotiate (ERN) was executed on June 1, 2004, between the City and Mel Rapton, Inc. The ERN granted Mel Rapton, Inc. the exclusive right to negotiate with the City for the lease of the site. It was renewed twice by the City Council and expired on August 31, 2007.
- F. On April 18, 2006, the City Council approved the utilization of \$6.4 million of Community Reinvestment Capital Improvement Program (CRCIP) funding for remediation of the site.
- G. On June 5, 2007, the City Council approved the initial Ground Lease between the City of Sacramento and Rapton Investment Group, LLC. (Resolution 2007-341).
- H. The City Council certified an environmental impact report (EIR) for the Fulton Avenue Development Project on June 16, 2007 (Resolution 2007-029) and amended the zoning of the site to C-4 PUD (Ordinance 2007-004).
- I. The Greater Sacramento retail automobile market experienced a 21.9 percent decline in 2008.
- J. Rapton Honda has invested over \$14 million in the development of its new dealership at the site.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** The facts set forth in the Background are correct.
- Section 2.** Rapton Investment Group will pay a reduced monthly rent of \$44,313.83 for a period of one year beginning in March 2009. The original rent payment of \$54,313.83 per month, as identified in the original Ground Lease, will resume March 2010.
- Section 3.** Rapton Investment Group will pay its \$100,000 contribution toward the cost to construct a stoplight at the site, currently due in March 2009, in two equal payments of \$50,000, one in March 2009 and the other in March 2010.
- Section 4.** The City Manager is hereby authorized to find on the City's behalf, an amendment to Rapton Investment Group's ground lease, implementing this resolution.