



MEETING DATE: 3/20/06

COUNCIL STUDY SESSION REPORT

DATE: March 16, 2006
TO: MAYOR AND TOWN COUNCIL
FROM: DEBRA J. FIGONE, TOWN MANAGER
SUBJECT: STUDY SESSION TO DISCUSS SUGGESTED PROCESS TO REVIEW REDEVELOPMENT PROPOSALS OF AUTOMOBILE DEALERSHIP SITES

RECOMMENDATION:

- 1. Receive public input
2. Provide direction to staff

PURPOSE OF STUDY SESSION

The purpose of the March 20, 2006 study session is to develop a common understanding among the Town Council, affected stakeholders, and the community about why the Town is concerned about the status of local automobile dealerships, what actions the Town could take to address this concern, and what the various actions mean.

BACKGROUND

At the March 6, 2006 Town Council meeting, the Council considered a resolution encouraging the retention of automobile dealerships and establishing requirements to change the use of existing automobile dealership sites. Affected stakeholders present at the meeting expressed concern about the impacts of the resolution. Given their comments, Council requested staff to hold a study session to provide clarification regarding the intent of the resolution and how it would be applied. This staff report builds upon and adds to the discussion and the staff report and resolution presented on March 6th (Attachment 1). This staff report provides information about the following:

- Reason for the Town's interest
Current process for a change of use on automobile dealer sites.
Alternatives to the draft resolution.

PREPARED BY: BUD N. LORTZ, DIRECTOR OF COMMUNITY DEVELOPMENT

Reviewed by: Assistant Town Manager Attorney Clerk Finance
Community Development Revised: 3/16/06 3:55 pm

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MAYOR AND TOWN COUNCIL

SUBJECT:

March 16, 2006

- Meaning of the polices set forth in the resolution.
- Potential changes to the draft resolution.
- Potential impacts of changes in use on automobile dealer sites.
- Overview of national, regional and local trends in the automobile industry.

DISCUSSION

Why is the Town concerned about the status of local automobile dealerships?

As the Council is aware, three Los Gatos automobile dealerships will be closing: Los Gatos Auto Mall, Swanson Ford, and Los Gatos Hummer. Developers have met with staff to discuss preliminarily the redevelopment of two of the dealership sites to other uses. The potential change in the use of these sites raises policy, service, and economic issues for the Town.

From a policy perspective, the General Plan specifically cites the importance of automobile dealerships to the Town. The Economic Vitality Program also addresses the importance of automobile dealerships in providing resident-serving retail (both for purchase and for servicing of vehicles), jobs and sales tax. The Commercial Design Guidelines adopted by Council last year provides specific design guidelines for dealerships in recognition of their importance to the Town. Given these policy statements, it is reasonable for the Town to monitor the viability of auto dealerships in Los Gatos and to consider steps to support their continued viability.

Regarding Town service issues resulting from potential changes in land use, the Town typically considers the impacts on traffic, public safety, public infrastructure, and schools associated with various land uses. In the case of auto dealerships, the impacts on these services are less than is typically the case with other retail, office, and/residential uses. The costs and capacity to provide greater services in each of these areas are issues that directly affect the Town, and thus, would be ones the Town would want to consider and, in fact, does consider through the normal environmental review process.

From an economic perspective, the Town's automobile dealerships contribute significantly to Town revenues that fund Town services such as library, public safety, parks, street maintenance, etc. Sales tax revenue generated from dealerships currently represent 23% of all sales tax revenue and 6% of all Town revenue. The loss of revenue from dealerships impacts the Town's General Fund, and ultimately the level of services the Town can provide. While some larger retail uses may generate similar sales tax revenue, most other development would not produce comparable revenues from either sales tax and/or property tax.

For these reasons, the Town regularly monitors the status of the automobile dealerships. With the announced closing of several dealerships, the Town Council at its retreat in January requested staff to explore measures to support the continued viability of Los Gatos dealership sites.

What is the current process for redevelopment of automobile dealer sites?

All the automobile dealerships in Town with the exception of the downtown Silicon Valley Auto Group (Bentley dealership) have a General Plan land use designation of Mixed Use Commercial and are zoned CH (Restricted Highway Commercial). To redevelop an existing automobile dealership site, a developer would need to file a development application with the Town. The type of application would depend on the proposed use of the property. Retail or office uses are allowed in the CH Zone as a matter of right. Consequently, only an Architecture and Site (A&S) application is required and the Planning Commission, not the Town Council, is the deciding body. The fundamental land use issue is not a consideration in an A&S application, only issues of design.

If a residential use is proposed, a Conditional Use Permit application is required and the Planning Commission is the deciding body. It is also possible to file a Planned Development application for a residential or mixed use project which is reviewed by the Planning Commission and its recommendation is forwarded to the Town Council for final action.

The prospective developer of the Swanson property, Sand Hill Property Company, has indicated that they intend to submit a Planned Development application for a mixed use development including residential, retail and office uses. The prospective developer of the former Los Gatos Auto Mall property, Westwood Company/Hamlin LLC, intends to redevelop the property with a retail development. It is unclear if they will file a Planned Development Application.

What are the alternatives to the Draft Resolution?

The Council has a range of alternatives as it considers the redevelopment of automobile dealerships. The following is a short list of alternatives.

1. No Action: Do not take any action concerning the automobile dealerships. The Town would review redevelopment of auto dealership sites utilizing existing codes, policies, and processes.
2. Resolution Expressing Support: The Council could adopt a resolution that would simply express support for the Town's auto dealerships and state that land use changes would be reviewed carefully by the Town. Such a resolution would not attempt to clarify issues of concern to the Council nor make any changes to existing requirements and processes.
3. Resolution Enhancing Review: This is the current Draft Resolution. The Draft Resolution expresses strong support for the Town's auto dealerships and clarifies the Council's expectations and potential issues of concern as the Town reviews redevelopment of automobile dealership sites.
4. Rezoning: As stated in the previous staff report, the Town could develop a new zoning

district or an overlay zone specifically for auto dealership sites. The new code would greatly reduce the range of allowed uses and/or would contain specific requirements and standards for dealership sites.

5. Moratorium: This alternative would be used in conjunction with any of the aforementioned alternatives. Council could adopt a moratorium on conversion of automobile dealership sites while analyzing this issue in further detail. State law establishes processes that allow a moratorium to be in effect for up to two years.

What does the Draft Resolution say?

The Draft Resolution is intended to clarify the Town's expectations and interests with redevelopment of an automobile dealership site prior to an application being filed. The Draft Resolution seeks to highlight key General Plan policies relating to the review of major development applications. The Resolution also summarizes Town codes and policies pertaining to automobile dealerships in the interest of supporting the dealerships and providing key information to potential developers. The intent is not to state that a dealership site cannot be converted to another use, but rather to outline the Town's approach and expectations.

The following contains a listing of the major policies in the Draft Resolution and the intent of each policy:

1. *It is preferred that any proposed change in the use of an automobile dealership be processed as a Planned Development application.*

The redevelopment of automobile dealer properties would be a significant land use change and a major development project for the Town. Staff believes that these projects should have the benefit of Town Council review. Unless a Planned Development application is filed, the Town Council does not have the ability to hold a public hearing, provide input, and decide such a project unless an appeal of the Planning Commission's action is filed.

Under the existing CH zoning code, retail uses are permitted by right and a retail project would only require Architectural and Site (A&S) approval. The fundamental land use issue is not a consideration in an A&S application, only issues of design. The Town Code requires a Conditional Use Permit for residential uses in a CH district and the Planning Commission, not the Council, is the deciding body. The intent of this section is to have conversion applications heard by the Town Council due to the significant potential impact of the land use change to the community.

2. *The applicant is required to submit a fiscal impact analysis to assist the Town in assessing the fiscal impact of the proposal. The analysis shall evaluate the impacts to both Town revenues and expenses potentially incurred due to Town service demands.*

Based upon the fiscal impact analysis, the applicant shall propose mitigation measures to offset Town service impacts associated with the project.

The General Plan contains policies requiring a review of fiscal impacts/benefits to the Town and local school districts and also states that the Town should only allow projects in which the public costs can be justified by overall community benefit. These two policy statements in the Draft Resolution are intended to highlight the General Plan requirements and provide clarification on how the requirements could be met. They do not require a dealer that is going out of business to provide personal financial data or "open their books" for review.

3. *The applicant must demonstrate that an automobile dealership use is no longer a feasible use on the site.*

The burden of proof rests with the applicant to demonstrate why the change of use is necessary, unavoidable and consistent with the Town General Plan.

The General Plan states that the Town should retain and enhance its auto dealerships and auto related uses shall be allowed to remain. The policy statement in the Draft Resolution outlines how an applicant can demonstrate compliance with the General Plan policies. As an example, the applicant could provide a market analysis demonstrating that an automobile dealership use is no longer feasible due to changes in the regional automobile retailing marketplace or due to a site's size and shape.

4. *The Town Council expresses its strong preference that the existing automobile dealer uses be retained on their current sites.*

The Town Council has streamlined the process to allow automobile dealerships to upgrade the architecture of their existing facilities through adoption of the Policy on Minor Alternations to Commercial Buildings and adoption of the Commercial Design Guidelines.

These statements recap existing Town policies contained in the General Plan and other policy documents previously adopted by the Town.

What are some changes to the Draft Resolution that Council could consider?

Assuming that Council supports the general approach of the Draft Resolution, the Council could consider the changes listed below. In addition, staff can suggest additional modifications based upon Council discussion during the study session and/or Council direction.

1. If a conversion of an automobile dealership site is proposed without a Planned Development application, the Draft Resolution currently reads that the Town will initiate a rezoning of all dealership sites. This statement could be changed to may initiate a rezoning of all dealership sites. The intent is to have conversion applications decided by the Town Council due to the potential impact of the land use change to the community.
2. The Council could eliminate the statement that a Planned Development application is the preferred process to change the land use of an auto dealer property.
3. The Council could exempt the former Los Gatos Auto Mall site (15200 Los Gatos Boulevard) from the provisions of the resolution due to the site's limited size and odd shape (staff understands that such a request will be made of Council). The Conceptual Development Advisory Committee reviewed a plan for a 11,500 square foot retail building on this site at their meeting of March 8, 2006. It should be noted that a dealer has recently expressed interest to staff in placing an automobile sales facility (no service or repair) on this property.
4. Council could amend Policy D to state that the applicant shall demonstrate that the replacement use(s) provide much needed uses, goods, or services and will provide equivalent community benefit to the Town.

What are the potential fiscal and traffic impacts in converting auto dealership sites?

Based upon preliminary information from developers, staff has prepared an initial assessment of the fiscal and traffic impacts of redevelopment of the Swanson Ford and Los Gatos Auto Mall sites. Staff used this information to estimate the impacts of redevelopment of the Los Gatos Hummer site.

For the purposes of this assessment, staff assumed a mixed use project on the Swanson Ford site consisting of residential condominiums, retail and office uses, and a retail project on the Auto Mall site. Staff estimates an increase of 685 average daily trips over the previous automobile dealerships and a loss of \$430,000 in revenue to the Town. The revenue estimate reflects an increase in property tax and a loss of sales tax revenues.

What are the current national, regional and local trends affecting the Los Gatos auto dealerships?

Staff conducted a series of outreach meetings with local dealers to gain insight as to how changes in the auto industry may be impacting the viability of their business. The purpose of this effort was

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to determine which, if any, of the existing auto dealers may be leaving the Town in the futures, and whether other auto franchise dealerships would be interested in locating in Los Gatos.

Attachment 2 provides a synopsis of the anecdotal information shared in this dialogue, an overview of trends affecting the industry. A clarification is provided on the California Department of Motor Vehicle New Vehicle Board's "10-mile rule" process, which all dealerships must follow in order to establish themselves in a given market place. This clarification is based on staff's research of this issue as well as follow-up discussions with some of the auto dealers.

Attachments:

1. Town Council Staff Report for March 3, 2006.
2. Los Gatos Auto Dealership Overview
3. Letter from South Bay Honda dated May 15, 2006

Distribution:

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Ron Battistella, Los Gatos Auto Mall, 620 Blossom Hill Rd, Los Gatos, CA 95032
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MEETING DATE: 3/6/06
OTHER BUSINESS

COUNCIL AGENDA REPORT

11

DATE: March 2, 2006
TO: MAYOR AND TOWN COUNCIL
FROM: DEBRA J. FIGONE, TOWN MANAGER *Debra Figone*
SUBJECT: CONSIDERATION OF A RESOLUTION ENCOURAGING THE RETENTION OF AUTOMOBILE DEALERSHIPS AND ESTABLISHING REQUIREMENTS TO CHANGE THE USE OF EXISTING AUTOMOBILE DEALERSHIP SITES

RECOMMENDATION:

- A. Discuss the need to set forth expectations and requirements to change the use of automobile dealership sites.
- B. If Council determines that it is desirable to adopt a document establishing the process to change the use of an automobile dealership site, it should adopt the Draft Resolution (Attachment 1). If amendments are needed to the Draft Resolution, staff will return to Council with a revised resolution reflecting the changes requested by Council.

BACKGROUND:

As the Council is aware, three Los Gatos automobile dealerships will be closing. The Los Gatos Auto Mall has closed and Swanson Ford will close in March. Los Gatos Hummer will be relocating to Milpitas and it is unclear at this time if there will be a replacement dealership on this site, although the current owner will attempt to secure a replacement. Developers have preliminarily met with staff to discuss redevelopment of two dealership sites with other uses and have sought input on how the Town Council and staff will view the changes in land use.

Redevelopment of the automobile dealership properties raises several substantive land use and economic issues:

(Continued to Page 2)

Bud N. Lortz
PREPARED BY: BUD N. LORTZ
 DIRECTOR OF COMMUNITY DEVELOPMENT

Reviewed by: PS Assistant Town Manager OK Attorney _____ Clerk _____ Finance
 _____ Community Development Revised: 3/2/06 2:55 pm

Reformatted: 5/30/02

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MAYOR AND TOWN COUNCIL

SUBJECT: RESOLUTION ON AUTO DEALERSHIPS

March 2, 2006

1. Current Town Policies:

The Town has a number of policy documents that cite the importance of automobile dealerships to the Town and contain language specifically addressing this land use. The Los Gatos General Plan encourages a full range of commercial uses to support economic vitality and provide citizens with a variety of commercial uses to support residents, minimize sales tax "leakage," and maintain an "economically stable community within environmental goals." The General Plan also contains policies addressing dealerships in which the Town will "retain and enhance auto dealerships" and "auto related uses currently existing shall be allowed to remain indefinitely."

The Town's Economic Vitality Program also discusses the importance of automobile dealerships to the Town to provide resident-serving retail opportunities, jobs, and sales tax. The Program further states that the Town will assist dealerships to make improvements to their facilities while maintaining sensitivity toward adjoining neighborhoods.

Last year, the Council adopted two policy documents applicable to automobile dealerships. First, the Commercial Design Guidelines (CDG) contains a section that specifically creates design guidelines for dealerships. In addition, Council adopted the Policy on Minor Alterations to Commercial Buildings which allows for architectural enhancements and minor additions to existing commercial buildings (including dealerships) to be approved through a public review process by the Development Review Committee provided the design changes are consistent with Town policies, including the CDG.

2. Impacts to Town's Economic Base:

The Town's automobile dealerships comprise a significant portion of the Town's economic base. The Town derives 23% of its sales tax revenues from dealerships totaling approximately 6% of the Town General Fund operating revenues which are used to provide core municipal services to the community. If the number of dealerships declines, staff and some of the remaining dealers are also concerned with the long-term viability of the Town as a location for automobile dealerships due to the reduction in the critical mass of dealerships.

Staff is in the process of conducting outreach meetings with each dealership in Town. The purposes of the meetings are as follows:

- Obtain information on the status of each dealership.
- Obtain input on the state of the overall automobile retailing industry.
- Discuss the ongoing viability of Los Gatos in the regional automobile retailing marketplace.

DISCUSSION:

Staff believes it is important to provide potential developers with guidance on the Town's viewpoint on the current automobile dealership uses before the Town receives any formal development applications. Furthermore, staff would like to provide information to developers on specific requirements that will need to be addressed in reviewing land use changes to dealership sites.

Staff has developed the attached Draft Resolution (Attachment 1) that, should Council adopt it, will express and document the Council's concerns and expectations. Specifically, the Draft Resolution contains the following:

- Recaps the Town's policies regarding automobile dealerships.
- States that Council strongly prefers to retain the existing automobile dealership uses.
- States it is preferred that a conversion of a dealership site be processed through a Planned Development application.
- Establishes that the Town will initiate a rezoning of automobile dealership sites should a conversion be proposed through a process other than a Planned Development (see Alternatives section below for discussion on rezonings).
- Requires that an applicant submit a fiscal impact analysis which may be peer reviewed.
- Requires an applicant to propose mitigation measures to offset Town service impacts.
- Requires a demonstration that an automobile dealership is no longer a feasible use on the site.
- States that the applicant must demonstrate why the change of use is necessary, unavoidable, and consistent with the General Plan.
- Encourages the automobile dealerships to update their existing facilities.

Like the Town's Alcohol Policy, this Draft Resolution would not become part of the Town Code, but will express the Council's expectations regarding applications to change the land use of an automobile dealership site.

ALTERNATIVES:

The Draft Resolution does not preclude the Council from taking additional actions to further protect automobile dealership uses. As an alternative or in addition to the resolution, Council could consider the following alternative approaches:

March 2, 2006

1. Auto Dealership Zoning District:

Staff could develop a new zoning district specifically for auto dealership sites and the sites could be rezoned from CH (Restricted Highway Commercial) to the new district. The new code would greatly reduce the range of allowed uses and would require a rezoning to change the use of an automobile dealership site.

2. Auto Dealership Overlay Zone:

Staff could develop a new overlay zone for automobile dealership sites. This approach would retain the existing CH zone and apply an overlying zoning code that contains specific requirements and standards for dealership sites. The Town currently uses overlay zones for Planned Developments (PD) as well as Landmark and Historic Preservation (LHP) sites.

Either alternative will require that staff develop new zoning code language containing requirements and standards for automobile dealership uses. The rezoning/overlay zone process will require several public hearings and may trigger California Environmental Quality Act review. Staff estimates either alternative will take nine to twelve months to implement and would require changes to the Community Development Department work program. It may be necessary to adopt a moratorium on dealership conversions until such time as the rezonings have been adopted.

CONCLUSION:

The Los Gatos automobile dealership uses are a significant component of the Town's resident serving businesses and the Town's economic base. Several developers have met with staff to discuss potential redevelopment of dealership sites. Staff recommends that Council adopt the Draft Resolution to provide guidance to staff, Planning Commission, developers, and local dealers on the importance of the Town's automobile dealership uses and to provide a policy statement on the Council's expectations should the Town receive applications to change the use of a dealership site.

ENVIRONMENTAL ASSESSMENT:

It has been determined that this item is not a project as defined under CEQA and no further action is required.

FISCAL IMPACT: None.

Attachments:

1. Draft Resolution.

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MAYOR AND TOWN COUNCIL

SUBJECT: RESOLUTION ON AUTO DEALERSHIPS

March 2, 2006

Distribution:

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RESOLUTION NO.

**RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS
ENCOURAGING THE RETENTION OF AUTOMOBILE DEALERSHIPS WITHIN
TOWN AND ESTABLISHING REQUIREMENTS TO CHANGE THE USE OF
EXISTING AUTOMOBILE DEALERSHIP SITES**

WHEREAS, the Town of Los Gatos contains a number of automobile dealerships which are important businesses to the Town and its residents and provide significant revenues to the Town through sales taxes; and

WHEREAS, the Town of Los Gatos General Plan contains Goals and Policies encouraging a full range of commercial uses that preserve the Town's economic vitality while maintaining the unique character of Los Gatos. For example, Goal L.G.5.2 is to maintain an "economically stable community within environmental goals"; and

WHEREAS, the General Plan contains specific policies addressing automobile dealerships in which the Town will "retain and enhance auto dealerships" and "auto related uses currently existing shall be allowed to remain indefinitely"; and

WHEREAS, the Town's Economic Vitality Program addresses the importance of automobile dealerships to the Town in terms of retail opportunities for residents, jobs, and sales tax. The Program states that the Town will assist dealerships to make improvements to their facilities while remaining sensitive to surrounding neighborhoods; and

WHEREAS, automobile dealerships represent roughly 23% of the Town's sales tax revenues which comprises approximately 6% of the Town's General Fund operating revenues; and

WHEREAS, a decline in revenue can potentially impact the Town's ability to provide municipal services to its citizens; and

WHEREAS, one Los Gatos auto dealer has closed and two other dealers have informed the Town that they will close their Los Gatos dealerships in the near future; and

WHEREAS, the Town Council is very concerned with the health of the Town's auto dealers and seeks to protect the long-term viability of the Town as a desirable location for auto dealerships; and

WHEREAS, in the absence of more detailed analysis under the California Environmental Quality Act, the redevelopment of one or more automobile dealership sites can cause significant long term physical changes to the appearance and function of Los Gatos Boulevard resulting from the construction of large structures, increased vehicle traffic, noise, light and other physical impacts.

THEREFORE, BE IT RESOLVED: The Town Council expresses its strong preference that the existing automobile dealer uses be retained on their current sites.

FURTHER RESOLVED: The Town Council establishes the following policies in reviewing applications to convert automobile dealership sites to another use:

- A. It is preferred that any proposed change in the use of an automobile dealership be processed as a Planned Development application. If a conversion of an automobile dealer site is proposed through an application other than a Planned Development, the Town will initiate a rezoning of all dealership sites and may adopt a moratorium on such conversions until such time as the rezonings have been adopted.
- B. The applicant is required to submit a fiscal impact analysis to assist the Town in assessing the fiscal impact of the proposal. The analysis shall evaluate the impacts to both Town revenues and expenses potentially incurred due to Town

service demands. The Town may require that the applicant's fiscal impact analysis to be peer reviewed at the applicant's expense.

- C. Based upon the fiscal impact analysis, the applicant shall propose mitigation measures to offset Town service impacts associated with the project.
- D. The applicant must demonstrate that an automobile dealership use is no longer a feasible use on the site.
- E. The burden of proof rests with the applicant to demonstrate why the change of use is necessary, unavoidable and consistent with the Town General Plan.

FURTHER RESOLVED: The Town Council has streamlined the process to allow automobile dealerships to upgrade the architecture of their existing facilities through adoption of the Policy on Minor Alternations to Commercial Buildings and adoption of the Commercial Design Guidelines. The Council encourages the dealerships to update their facilities consistent with the Policy and Guidelines.

PASSED AND ADOPTED at a regular meeting of the Town Council of the Town of Los Gatos, California, held on the ____ day of _____ 2006 by the following vote:

COUNCIL MEMBERS:

AYES:

NAYS:

ABSENT:

ABSTAIN:

SIGNED:

MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

ATTEST:

CLERK ADMINISTRATOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

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LOS GATOS AUTO DEALERSHIP OVERVIEW

Upon receiving news that long-time family dealership Swanson Ford would be closing their business on Los Gatos Boulevard, Town staff began conducting a series of "check-in" meetings with local auto dealers (Exhibit A is a matrix showing all of the Los Gatos Boulevard auto dealers). Staff met with the owners of all auto dealerships in Town. These meetings provided staff with a better understanding of trends affecting the auto industry, the viability of auto dealers on Los Gatos Boulevard, and what limitations if any, the Town has in recruiting new private or public auto dealership franchises. Although partially anecdotal, this information provides an overview of the auto industry and the national, regional, and local trends that are impacting Los Gatos Boulevard dealerships.

INDUSTRY OVERVIEW:

There are two types of auto industry business models: the private (sole entrepreneur) dealerships which are typically locally owned, and the public (corporate) dealerships such as *AutoNation* and *United Auto Group, Inc.* (only one Los Gatos Boulevard dealership falls under this corporate umbrella, the majority of dealerships are locally owned). Each dealership must apply for a permit from the California Department of Motor Vehicles New Motor Vehicle Board to operate their franchise of choice.

For a new auto dealership to open or relocate, the New Motor Vehicle Board requires a prospective dealer to properly notify the Board, and each franchisee of the same "line-make," as to their intentions to establish a dealership in a specified market location. If no protest is filed by any existing same "line-make" auto dealership, or disputes are resolved through mediation, the incoming auto applicant has "cleared the market," and may move forward in opening their dealership. This process is often referred to as the "10-mile" rule. Manufacturers looking to establish a "satellite" facility, also referred to as a "½ point/companion" dealership by one Los Gatos dealer, must also go through a "clearing of the market" within two miles of the proposed location.

Protest probability of an incoming dealership trying to enter a market where an existing same "line-make" proprietor is already established is likely; however a recent precedent-setting ruling was made locally when an exception to the "10-mile" rule was granted for a dealer trying to gain market entrance in Milpitas. In light of this recent ruling, incoming auto entrepreneurs trying to establish new dealerships in "market saturated" areas should become more feasible in theory.

Commercial Models

Location choices for the auto industry primarily fall into three categories:

- **Auto Mall:** numerous contiguous dealerships provide consumers with convenient shopping variety. Local examples: Steven's Creek Auto Mall, and Capital Expressway Auto Mall.
- **Freeway/Easy Access Auto Mall:** provides high visibility and lower land costs for the auto dealer, which is ideal for volume-based sales. Local examples: Milpitas and Dublin Auto Mall.
- **Neighborhood Dealership:** provides a "hometown" personable shopping environment, convenient location to consumer base for sales and ongoing maintenance needs. Local examples: Los Gatos Boulevard, Sunnyvale, and Menlo Park.

NATIONAL TRENDS

Internet's Effect in the Marketplace

Changes in consumer behavior and consumer preference are affecting the way manufacturers and auto dealerships conduct business. Consumers with a high aversion to bargaining are using the Internet to become better informed consumers. Nearly 72% of auto consumers use the Internet as a research tool before purchasing a specific vehicle. Of those consumers, 56% of them also use "Online Buying Services" for price comparisons, and dealer referrals.

"Online Buying Services" like *Autobytel.com* and *CarsDirect.com* differ from auto manufacturer websites. Consumers requesting quotes from manufacturers are referred to the closest dealerships, while Internet online buying services refer consumers to an affiliated subset of dealers. This distinction is an important aspect of the auto business model, as these independent referral sites drive incremental business to a given dealership, thus significantly adding to the dealership's vitality. Online buying services also provide auto dealers with an exclusive "virtual" territory, which increases their presence in the marketplace beyond the traditional 2-10 mile auto market radius. Due to the large volume of consumers using online buying services, affiliated dealers increase their customer base, which results in lower prices and ultimately changes the way price negotiations are conducted.

Domestic Auto Industry

Several Los Gatos auto dealers remarked on the outlook for domestic auto manufacturers, and the decreased market share that is occurring nationally. As imports continue to gain consumer preference, the domestic manufacturing industry is working to rebuild a consumer "brand preference" for domestic automobiles. Decreased market share and an "over-dealership" of the domestic marketplace have caused layoffs and closures for dealerships through the United States. Many of the auto dealers felt this was a cyclical occurrence and will not negatively impact all Los Gatos dealerships.

Auto Manufacturers

Manufacturers are encouraging auto dealers to explore facility upgrades to create a more "high-end" or "club-like" experience as part of the brand rebuilding process for the domestic auto industry. The goal of future upgrades is to cultivate a unique environment that is pleasurable and likely to encourage repeat business and future referrals. The Town's recently-adopted Commercial Design Guidelines addresses the needs of auto dealers to make these types of improvement.

REGIONAL/LOCAL TRENDS

A general consensus that Los Gatos Boulevard is a viable auto district, and can remain viable in future years, was expressed by a majority of the auto dealers. Concerns were raised, however, that if additional dealerships leave, the stability of the existing auto dealers could be affected. Many of the remaining auto dealers (including domestic dealerships) commented that their businesses were doing well, and that future remodel plans would be forthcoming.

REGIONAL/LOCAL TRENDS (CONT'D)

Several of the local dealers reflected on the advantages of doing business in Los Gatos, including the natural beauty of the physical environment, the close proximity to their customer base, and the relaxed atmosphere customers experience. Also noted, was the branding power and recognition their dealerships received by operating out of Los Gatos.

The majority of the auto dealers were fairly positive on the ability to attract other franchises in spite of the 10-mile rule, and several reported that some manufacturers were currently looking to establish a point within the South Bay region. Many of the local dealers felt that the "½ point/companion" franchise model seemed particular feasible for Los Gatos.

Limiting factors to additional franchise attraction include land values and the smaller size of Los Gatos auto sites. According to one of the dealers, the land values on Los Gatos Blvd. are higher than on Stevens Creek Blvd., and contributes to the reason why a dealership on Los Gatos Blvd. may not "pencil out."

Dealer	Address	Dealer Contact	Property Owner	Parcel Size
Bentley of Silicon Valley	66 E. Main Street Los Gatos, CA 95032 (408) 354-4000	Marc Chase	Marc Chase	10,600 s.f.
Bentley of Silicon Valley	47 E. Main Street Los Gatos, CA 95032	Marc Chase	Peter Hoffman	9,583 s.f.
Hummer of Los Gatos	620 Blossom Hill Road Los Gatos, CA 95032 (408) 358-7070	Ron Battistella	Nancy Bowen, Russell Roessler Trustees	118,483 s.f.
Los Gatos Acura	16151 Los Gatos Blvd Los Gatos, CA 95032 (408) 358-8000	Russ Hill Mark Maxwell	Nancy Bowen, Russell Roessler Trustees	153,331 s.f.
Los Gatos Auto Mall (Closed)	15200 Los Gatos Blvd. Los Gatos, CA 95032	N/A	Elias (Louis) & Dimitra Tsigaris Gus & Theodora Tsigaris	45,128 s.f.
Los Gatos Chevrolet	15600 Los Gatos Blvd Los Gatos, CA 95032 (408) 356-6161	David Spencer	Gayle Jones Trustee	122,404 s.f.
Moore GMC Truck, Pontiac, Buick	15500 Los Gatos Blvd Los Gatos, CA 95032 (408) 356-8111	John Moore	Tom Moore Trustee	194,278 s.f.
South Bay Honda	16213 Los Gatos Blvd Los Gatos, CA 95032 (408) 395-6100	David Moeller	Grant Bishop Trust	93,654 s.f.
South Bay Honda - used cars	16212 Los Gatos Blvd Los Gatos, CA 95032 (408) 395-6100	David Moeller	Elizabeth Dodson	41,817 s.f.
Swanson Ford (Closed)	16005 Los Gatos Blvd Los Gatos, CA 95032 (408) 356-2101	Bruce Swanson	Robert Swanson Family Partnership	184,259 s.f.
Swanson Ford - used cars (Closed)	15400 Los Gatos Blvd. Los Gatos, CA 95032	Bruce Swanson	James and Paula McHugh Trustees	88,427 s.f.



SOUTH BAY HONDA

16213 LOS GATOS BLVD
LOS GATOS, CA. 95032
(408) 395-6100

May 15, 2006
Town Of Los Gatos
Mayor and Town Council
110 E. Main Street
Los Gatos, CA 95031

RE: Consideration of a resolution establishing requirements to change the use of existing automobile dealership sites.

We are writing to show our support for the proposed measure to support the automobile dealerships in Los Gatos.

Los Gatos is a very viable place to sell automobiles. We currently sell approximately 150 new and used vehicles per month and continue to be profitable.

We are very concerned that the redevelopment of automobile dealerships properties on Los Gatos Blvd. will have a negative impact on the remaining dealers. Dealerships are substantially more successful when they are surrounded by other dealerships in the immediate vicinity.

Honda has asked us to consider upgrading our current facility to their new image standards and also to look for additional property to expand our operation. We are concerned that alternative uses of dealership properties will make it impossible to expand our operations in Los Gatos.

As outlined in your proposal, auto dealers comprise a significant part of the Town's economic base. We believe this proposal would have a positive impact on the ability of the dealers to remain viable in Los Gatos, and we would like to thank you for showing your support.

Sincerely,

Dave Moeller
Partner
South Bay Honda
Los Gatos, CA