

Los Angeles Times

Government coffers feel drop in auto sales

Purchases are a huge part of sales taxes collected by city, county and state governments.

By Ken Bensinger
December 1, 2008

When Heritage Lincoln Mercury closed in August, the city of Tustin felt the pain.

For decades, the dealership had operated out of the Tustin Auto Center -- which has 17 other franchises -- and it was once among the largest Lincoln Mercury dealers in California.

It was also a crucial source of revenue for the city, which relies heavily on taxes from automobile sales to keep afloat. Of the city's \$20-million annual budget, about \$5 million comes from the auto center, said the city's director of finance, Ronald Nault.



A Nissan dealer in Tustin displays its offer of no-interest financing to draw customers.

But with sales of Lincoln and Mercury cars and trucks down by nearly a quarter nationwide through October compared with last year, the dealership was forced to fold. Meanwhile, many of the other dealerships in the auto center, although still in business, are seeing severe sales declines, spelling further reductions in sales taxes.

be off 20% for the year. And with industrywide vehicle sales falling even more sharply in recent months, the revenue shortfall could be substantially greater, forcing Nault to consider capital-spending cuts, a freeze on salary increases, reductions in travel and, perhaps for the first time in the city's history, layoffs.

"It's pretty frightening," said Nault, who has managed the city's finances for 28 years. "This is a bridge we've never had to cross."

As the U.S. auto market marches toward its worst year in decades and dealers close in droves, state and local governments across the country are preparing for serious belt-tightening.

Sales of new and used cars, as well as parts and service, are the single largest source of sales tax revenue for almost every state, county and local government, ahead of gasoline sales, restaurants and department stores. (Alaska, Delaware, New Hampshire, Oregon and Montana do not collect sales tax.)

More motor vehicles are sold in California than in any other state; in the second quarter, nearly 15.5% of all sales taxes here, or \$193 million, came from the automotive and transportation sector, compared with about \$135 million from restaurants and hotels, according to Hdl Cos., which compiles sales-tax data for government agencies.

Yet because so few cars have been sold this year, the Golden State's second-quarter automotive sales-tax receipts were down substantially -- more than \$30 million short in the second quarter alone from a year earlier -- contributing to the huge budget shortfall that has led Gov. Arnold Schwarzenegger to propose a sales tax hike and spending cuts.

"This is very bad for states," said Donald Boyd, senior fellow at the Nelson A. Rockefeller Institute of Government, who pointed out that sales taxes are the first or second most-important revenue

"It has definitely affected us," said Nault, adding that collections from the auto center were on pace to

source in almost every state.

And because most budgeting was done at the outset of the year, when car sales appeared considerably more robust than they turned out to be, nobody forecast that auto sales tax revenue would plummet so far.

"You can expect bread-and-butter state funding to be targeted," Boyd said.

Through October, nearly 2 million fewer cars and trucks were sold this year compared with last, which works out to at least \$2 billion in lost sales taxes. (November sales results are due out on Tuesday.)

General Motors Corp., Ford Motor Co. and Chrysler are under extreme duress and are working to get financial aid from Congress, where debate on a rescue plan starts this week.

Part of their problem is that their cars are selling even more slowly than the industry as a whole, forcing them to dramatically reduce their lending to dealers and car buyers. That's pushing dealers out of business.

This year, 667 of the nation's 20,000 new-car dealers have closed, said Paul Taylor, chief economist for the National Automobile Dealers Assn. That's the highest rate since 1980, when 1,550 dealers shuttered.

"It's about as bad as I've seen it in my 20-year career," said Peter Welch, president of the California New Car Dealers Assn. This year, 96 of his 1,200 dealers have closed, compared with 20 in 2007.

New-car dealers range in size from small-town stores that sell fewer than 10 cars a month to giant multistate chains. The biggest, publicly traded AutoNation Inc., has 246 dealers in 15 states. But even an average dealer, selling about 100 cars a month, can account for as much as \$2 million in annual sales taxes.

Although the bulk of sales taxes go to state coffers, a significant portion stays local, divided between county and municipal governments. In Orange County, 12 dealers have closed since Jan. 1, compared with only one for all of last year, said John Sackrison, executive director of the Orange County Automobile Dealers Assn. As a result, automotive sales tax collections in the county declined \$3.5 million in the second quarter, triple the shortfall in any other category, according to HdI.

Orange County divides its sales taxes principally between public safety and healthcare spending, and each area -- which includes the Sheriff's Department and public health programs -- now faces a \$1.2-million budget shortfall, said Jan Grimes, director of central accounting operations for the county auditor-controller's office. "We've got to adjust what we're doing relative to the new reality of income," she said.

Dealers in more robust areas -- including the state's two biggest auto malls, Cerritos Auto Square and Roseville Automall outside Sacramento -- also are hurting but have managed to keep their doors open.

Tustin is a particularly dramatic example. According to California State Board of Equalization data, through the third quarter of last year 31% of all taxable sales in the city came from the automotive sector, almost double the rate in Irvine and three times the total in Los Angeles.

So when a dealership such as Heritage Lincoln Mercury closes, the effects can be felt immediately. Originally called Santa Ana Lincoln Mercury, it had been in business for decades, and had been at the Tustin Auto Center since it opened in the early 1970s.

Declining sales eventually got the better of the dealership, and it closed Aug. 18. Its owners, Paul James and Roger Alvarez, could not be reached for comment. Nault said the dealership generated about \$200,000 in sales taxes per year.

Bruce Hamlin, owner of Tustin Chevrolet around the corner from the defunct Lincoln Mercury lot, said his business was down 40% this year, compared with a 6% nationwide decline for the Chevrolet brand. As a result, he's cut his staff to 34 from 60 a year and a half ago, and also has

laid off 46 employees at his other dealership, Courtesy Chevrolet in Santa Ana, where sales are down 50%.

Nationwide, almost 1.2 million people worked in new- and used-car dealerships in October, down nearly 100,000 jobs from a year earlier, according to the Bureau of Labor Statistics.

"I keep thinking the worst must be over, but each month it gets worse and worse," Hamlin said.

According to Sageworks Inc., a provider of corporate financial information, cash as a percentage of total assets, an important measure of viability, was down nearly 20%, to 6.99%, for dealers for the 12 months through October, meaning they have less money on hand to get through tough periods.

Even Honda Motor Co. and Toyota Motor Corp. are seeing significant sales declines, but their dealers have been protected a bit by the fact that there are fewer of them, so their profit margins tend to be substantially higher.

Toyota spokesman Irv Miller said no Toyota dealer had closed this year. In contrast, Ford spokesman John Clinard said the company had lost 198 dealers since Jan. 1.

Part of that is to be expected, though, because Detroit's Big Three automakers believe they have far too many dealers and have been encouraging them to merge or close their doors. This year, Jon Gray merged his two dealerships in Costa Mesa, consolidating them in one location as Orange Coast Chrysler Jeep Dodge. Putting everything under one roof has helped him stay afloat because his expenses have been reduced, but he is still trying to negotiate financial help that Chrysler had dangled before dealers to encourage contraction.

"We're all just trying to make it through this," Gray said.

AutoNation owns two dealerships -- Infiniti and Ford -- in the Tustin Auto Center, and has absorbed many Lincoln Mercury dealers into existing Ford locations in the past, but elected against doing so with Heritage.

"It's very tough to value assets right now," said Mike Maroone, president and chief operating officer at the chain. As for Tustin, "I'm sure over time you'll see some other business come up there."