

STAFF REPORT

Lancaster Redevelopment Agency

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2/23/10
MVB

Date: February 23, 2010

To: Chairman Parris and Agency Members

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

Subject: **Agreement Re Acquisition of Operating Covenant and Restrictive Covenants**

Recommendation:

Approve Acquisition Agreement with H.W. Hunter, Inc. and authorize the Executive Director or his designee to execute all required documents.

Fiscal Impact:

Appropriate \$500,000.00 from the Economic Development unreserved fund balance to Programmatic account number 910-9001942. Funds shall be placed in an interest bearing escrow account to be used to purchase a Use Covenant.

Background:

As the recession continues to take its toll on the economy, we are once again informed of the financial challenges of one of the City's auto mall dealerships. The owners of HW Hunter Dodge Chrysler Jeep have informed city staff that, like many other dealerships in the country, flooring financing of the new car inventory is in jeopardy. This is despite the strong financial position the dealership is in. The Agency has been asked to provide some assistance in this matter to ensure that this vital business partner continues to be successful through these difficult economic times.

Summary:

Inventory flooring financing is critical to auto dealerships and is the foundation for maintaining adequate new car inventory. Like most financing mechanisms in this tough economy, dealerships are experiencing additional requirements by the lending institutions to ensure adequate continuous flooring finance arrangements. At the direction of Agency counsel, we are proposing that the Agency purchase a covenant or promise from the dealership to continue to operate in Lancaster for an extended period of time. In exchange for this commitment to operate, the Agency would pledge a short-term \$500,000.00 credit towards the dealership's \$5,000,000.00 flooring line that funds their existing vehicle inventory.

The \$500,000.00 would be set aside as collateral to support the dealership flooring finance. To the extent it is drawn down it would be repaid with 5% interest. It is envisioned that the loan plus the interest would be paid back over a period of one to two years. The dealership's owners, Mr. Tim Fuller and Mr. Tom Fuller, are willing to give the Agency a subordinated deed of trust on the dealership as collateral to the note. This financing safeguard would allow a Lancaster business to continue to be successful and continue to support 77 at the dealership.

At Hunter Dodge Chrysler Jeep we are fortunate to have owners that are multi-generational entrepreneurs that have dedicated their lives to doing business in Lancaster. During their 66 years of selling cars in Lancaster, they have made countless contributions to the community. Many cities in the southland have already experienced the closing of their Chrysler dealerships. We are fortunate to have a strong dealership through the strength of character and the good business sense of the Fuller brothers. We believe that we need to now help them to continue to provide the community with a thriving automobile dealership which will in turn continue to produce sales tax revenues to support the services provided by the City of Lancaster.