

STAFF REPORT
City of Lancaster

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04/23/13
MVB

DATE: April 23, 2013

TO: Mayor Parris and City Council Members

FROM: Mark V. Bozigian, City Manager
Vern Lawson, Economic Development Director

SUBJECT: **Authorize City Manager to Enter into an Agreement for Acquisition of Operating Covenant and Restrictive Covenant with H.W. Hunter, Inc.**

Recommendation:

(a) Authorize the City Manager to enter into an agreement for Acquisition of Operating Covenant and Restrictive Covenant with H.W. Hunter, Inc. and authorize the City Manager or his designee to execute all required documents.

(b) Appropriate \$200,000 from General Fund Balance to Account No. 101-4540-308. Funds shall be provided to Hunter Dodge Chrysler Jeep for the purpose of acquisition of an Operating Covenant and Restrictive Covenant.

Fiscal Impact:

H.W. Hunter, Inc. will repurchase the covenants over a three year period, with interest at the City's weighted average interest rate on its portfolio.

Background:

Hunter Dodge Chrysler Jeep is currently working to grow its business and increase brand availability in the Lancaster Auto Mall with the introduction of a Fiat dealership. Tim and Tom Fuller, owners of H.W. Hunter, Inc, will renovate and expand their existing dealership to accommodate this new brand, thus creating a new draw and building synergy at the Auto Mall. The proposed agreement will provide them with financial assistance needed for this growth in return for a covenant guaranteeing continued operation of the dealership for 20 years, contributing to the City's sales tax revenue base throughout this period.

Fiat, which is Italy's largest private-sector employer, holds a 61.8% stake in Chrysler and has continually expanded its presence in North America since re-entering the market in 2011 following a 27-year absence. The brand enjoys a nearly 30% market share in Italy and has seen steadily increasing sales in the US since reentry. With several highly fuel-efficient and affordable models on the market in the US today, and the anticipated introduction of the 500e and 500L in the coming months, Fiat is poised to capitalize on Americans' increasing desire and need for vehicles with excellent gas mileage, as well as the pent-up demand created by the Great Recession. Notably, the 500e boasts an industry-best 108 MPG highway rating – an ideal option for the Antelope Valley's large commuter population.

Clearly, this brand represents an excellent opportunity for Tim and Tom Fuller, owners of Hunter Dodge Chrysler Jeep, and the City of Lancaster. The new dealership will generate new permanent jobs for local residents in addition to construction jobs. Annual taxable sales are projected at \$7 to \$10 million. This would in turn create up to \$100,000 annually in new revenue to the City's General Fund, thus providing funds for essential City services.

In addition, this agreement offers a prime opportunity for the City to assist a local business concern which has been a fixture of the Antelope Valley community for nearly 70 years. H.W. "Hank" Hunter purchased the dealership now known as Hunter Dodge Chrysler Jeep in 1944, and the family has continued to own and operate the business ever since. Tim and Tom Fuller, grandsons of Mr. Hunter, are deeply involved in the local community. Both are excellent corporate citizens who have seized upon a number of opportunities to give back, acting as volunteers, supporters and donors to a number of local organizations. These include Lancaster West Rotary; the Antelope Valley Fair, where the Poppy Pavilion was recently re-named the H.W. Hunter Pavilion in their grandfather's honor; the American Cancer Society; community events such as the Fourth of July Fireworks Spectacular; and many more.

Summary:

The proposed agreement will bring a major new business to the City of Lancaster, thus creating new jobs for local workers and generating new revenue to stimulate the local economy and fund essential City services. Additionally, it will build synergy and increase offerings at the Lancaster Auto Mall, benefitting not only Hunter Dodge Chrysler Jeep, but the other dealerships as well. Finally, it allows the City to provide assistance to facilitate the growth of a longtime fixture of the Lancaster business community. In the long term, these myriad benefits are offered at no cost to the City, as the funds will be repaid with interest within three years.