

CITY OF DOWNEY, CA

SECTION 108 LOAN GUARANTEE FOR **DOWNEY IMPORT CARS, INC.**  
 PROPOSED TERMS

PROJECT:	Downey Nissan
LOCATION:	7321 Firestone Boulevard Downey, CA 90241
PROJECT DESCRIPTION:	Special Economic Development activity to assist the expansion/relocation of a new automobile dealership and the costs associated with Section 108 Loan financing. The assistance will be used towards the operating costs to make the development feasible for Downey Nissan. Site development is to be financed with other funds.
LOAN AMOUNT:	\$1,025,800
BORROWER:	City of Downey
AUTHORIZED CITY OFFICIAL:	Gilbert A, Livas, City Manager
THIRD PARTY BORROWER:	Downey Import Cars, Inc. Dba. Downey Nissan
PROPOSED LOAN TERMS (3 <sup>rd</sup> Party Loan):	<p>10 year term; interest only for one (1) year; 9 year amortization. The Initial Interest Rate shall be based on the 3-month LIBOR rate plus 40 basis points.</p> <p>Conversion Rate: blended rate due on each of the City's Principal Payments plus 50 basis points or 0.5% (HUD Public Offering Rate).</p> <p>*HUD loan to City will have floating interest rate at 3-month LIBOR plus 40 basis points; Conversion Rate to be determined at the time of HUD Public Offering.</p>
REPAYMENT:	From the City of Downey

COLLATERAL:	The City of Downey's General Fund will serve as collateral for loan amount requested.
TARGET CLOSING / REQUEST FOR RELEASE OF FUNDS:	October 31, 2016
PRIMARY CONTACT:	Aldo E. Schindler, Director of Community Development Community Development Department City of Downey 11111 Brookshire Avenue Downey, CA 90241 Ph: (562) 904-7152 E-mail: <a href="mailto:aschindler@downeyca.org">aschindler@downeyca.org</a>
CITY ATTORNEY:	Yvette Abich-Garcia City Attorney City of Downey 11111 Brookshire Avenue Downey, CA 90241

## SECTION 108 PROJECT-SPECIFIC REVIEW

PROJECT: DOWNEY NISSAN MOTORS RELOCATION / EXPANSION	
APPLICANT: DOWNEY IMPORT CARS, INC.	LOAN AMOUNT: \$1,025,800

### **PROJECT SUMMARY**

Section 108 Guaranteed Loan Funds are requested to finance a portion of the operating costs for the relocation and expansion of Downey Nissan, an eight (8) year old Nissan Motors dealership operated by Tim Hutcherson in Downey, CA. Mr. Hutcherson proposes to relocate his business to a larger site within the City due to the request made by Nissan's Corporation to meet current design and size standards. In addition, Mr. Hutcherson is proposing to develop the 6.5 acre parcel located at 7321 Firestone Boulevard into a new automobile dealership that will meet the requirements set by Nissan's Corporation; the development will include a showroom, office space, a repair shop, and a vehicle display area. As stated earlier, Section 108 Guarantee Loan Funds will assist with operating costs including machinery and equipment for the service and retail department. The service department shall provide space and facilities for scheduled and unscheduled maintenances. This includes, but is not limited to, inspection, general repair and replacement of major assemblies, lubrication, fluid changes, tune-ups, tire rotation, painting, welding, upholstery repair, testing, cleaning, storage and retrieval of parts, and fabrication of minor parts. As a result, the Section 108 Loan will assist with the financing of tire racks, tire replacement and balancing equipment, repair bays, jacks stands, lifts, hoists, paint booth, tooling equipment, computers, software, etc. In addition, the Section 108 Loan Funds shall assist with the financing of office and waiting area furniture the operation of the dealership. The subject site was formerly home to the All-American Hardware store, Downey Pontiac GMC Buick automobile dealership, and a used car dealership; all of which, no longer exist. The project will enable the consolidation of Downey Nissan's current operations, which are now located on two separate sites approximately 650 feet apart from each other. The consolidation will enable greater efficiency in operations and a significant expansion of the business with the larger location and improved visibility. Downey Nissan was established to serve the Los Angeles Southeast region. Mr. Hutcherson has more than 35 years of experience in the car sales industry and more than 25 years of experience as a car dealership owner.

For the past several years in its current locations, Downey Nissan has endured significant operating inefficiencies, due to the distance between its two (2) car lots and the limited display area capacity. The car lots are located at 7550 and 7440 Firestone Boulevard with a combined area of approximately 3.87 acres. As a result, the car lots are small and customers have limited parking which also affects the amount of customers Downey Nissan is able to assist. In addition, when searching for a specific vehicle, sales personnel must search in both lots and have the customer wait a longer period of time; this causes frustration on the customer and the sales representative

which negatively impacts the business from expanding. An important component to an automobile dealership is the parts and service department. Currently, the parts and service department at Downey Nissan is too small to handle volume; the department does not have the required cuing space for cars to wait to be serviced, it does not have enough bays to service multiple vehicles and provide a prompt turn-around, it does not have enough space to add equipment and hire additional technicians, and as mentioned earlier, it does not have enough parking. The elimination of these hurdles will increase the drive-by visibility and accessibility of the operation, providing a more sustainable climate in which to grow the business. The expansion of both its sales and service department is expected to generate thirty-five (35) new Full Time Equivalent (“FTE”) jobs to low- and moderate-income persons by the start of the third (3<sup>rd</sup>) operating year. In addition, the relocation of Downey Nissan will also retain approximately 79 FTE jobs; these jobs will include a range of vehicle technicians, auto detailing operators, administrative positions, maintenance positions, as well as sales representatives. In addition, the project will significantly improve the vacant commercial zoned lot off of Firestone Boulevard and restore its commercial vibrancy.

#### **Development Program:**

Development plans include the construction of a 45,670 square foot two (2) story office building on the western side of the development area. The new building will contain a vehicle showroom, customer lounge, business office, parts storage, service facilities, and vehicle wash area. Additionally, there is a 2,700 square foot covered service drive on the east side of the building and a 1,006 square foot covered vehicle delivery area on the west side of the building. The remainder of the development area will be used for vehicle display, customer and employee parking, vehicle storage, landscaping, and lighting per City code. Downey Nissan has hired a General Contractor to provide overall construction and project management. Design and construction plans have been approved by both the Planning Commission and the City; a copy of the approved drawings shall be included as an exhibit to the Section 108 Loan agreement. It is projected for the construction to finalize at the end of 2016 or early 2017. Once the construction has finalized, the business expects to relocate over a week long period from its current locations.

#### **PROJECT REVIEW**

*Criteria for review of project-specific Section 108 loan applications are detailed in the approved Section 108 Loan Fund Policies. These underwriting and review guidelines will be applied to all prospective Section 108 loan proposals under this Loan Fund, regardless of whether required under Section 570.203.*

#### **A. Community Development Objectives of the City**

The redevelopment of this parcel furthers the City’s Economic Development Goals as referenced in the City’s 2015 – 2020 Consolidated Plan by creating and retaining jobs through establishing, stabilizing, and expanding Downey’s business community.

In addition, the 5-Year Consolidated Plan addresses the City's community development objective of removing blighted and abandoned buildings and the use of several public and investment sources over the next five (5) years including the Section 108 Guaranteed loan Program.

B. Section 108 eligible Activity under 24 CFR 570.703

The operating costs to support Downey Nissan's expansion meets an eligible activity per Section 570.703(i) – Special Economic Development as eligible under Section 570-203(b) – the **provision of assistance to a private for-profit business**, including but not limited to grants loans, loan guarantees, interest supplements...**for any activity where the assistance is appropriate to carry out an economic development project.**

C. National Objective under 24 CFR 570.208

The project will meet a National Objective of job creation as required by Section 570.208(a)(4) – an activity designed to create or retain permanent jobs where at least 51 percent of the jobs, computed on a FTE basis, involve the employment of low- and moderate-income (“LMI”) persons. The proposed job creation will be documented by the business and monitored by the City of Downey's Community Development Department's staff as required in this section to confirm the jobs that are created meet the 51% LMI test.

D. Public Benefit Standard as required for projects qualifying under 570.703(i) and 570.203 or 570.204 activities.

As a Special Economic Development activity, the project will be required to meet the Public Benefit standard, which requires documentation of a certain number of new FTE jobs in relation to the amount of Section 108 assistance. Specifically, by receiving \$1,025,800 of proposed Section 108 assistance, the business must create a minimum of 30 new FTE jobs (at 1 job: \$35,000). Downey Nissan anticipates creating 35 new FTE jobs by the start of the third (3<sup>rd</sup>) operating year and has agreed to comply with the HUD reporting requirements.

E. Citizen Participation Requirements:

The City has fulfilled its Citizen Participation requirements to date by publishing the proposed actions and soliciting public comment on June 24, 2016. It held a Public Hearing on July 26, 2016 to receive input from the public on the proposed use of Section 108 funds for the Project. The 30-day comment period closed July 25<sup>th</sup>; the required documentation per the Citizen Participation Plan shall be included as an exhibit to the Section 108 Loan agreement. Council approval will be required to submit a proposed loan package to HUD.

F. Public Comment Received:  
Not Applicable.

G. Financial Underwriting Guidelines:

The project was analyzed using HUD’s recommended guidelines for evaluation and selecting economic development projects per 24 CFR 570.209.

1. Proposed Costs

The proposed Section 108 Loan will cover the costs associated with the Section 108 Loan application. In addition, the use of federal monies is proposed to leverage Downey Nissan’s operating costs. The City of Downey has obtained a financial analysis and construction cost estimates through a third party professional services firm based on the Construction Contract and Downey Nissan’s Proforma; the financial analysis, construction cost estimates, construction agreement, and pro-forma shall be included as an exhibit to the Section 108 Loan agreement. The cost equates to approximately \$232.85 /square foot for site demolition and proposed development of the two (2) story building and related site improvements. This figure is consistent with building construction of this type (light commercial retail/office construction with metallic aluminum composite material cladding and storefront glazing). In addition, the project has a construction contingency of \$798,000 (almost 7% of the total construction) budgeted for any additional or unforeseen costs. Soft costs are budgeted at \$2,530,000 for a total development cost of \$11,737,704.

2. Commitment of Funds

The proposed financing structure consists of a private loan from Nissan Motor Acceptance Credit and the proposed Section 108 Guaranteed loan from the City of Downey. A breakdown of proposed sources and uses is as follows:

<b>Project Uses</b>	<b>Nissan Motor Acceptance Credit</b>	<b>Section 108 Loan</b>	<b>Total</b>
Construction	\$7,352,704		\$7,352,704
Construction Contingency	\$798,000		\$798,000
Construction Soft Costs	\$2,530,000		\$2,530,000
Furniture, Fixtures, and Equipment	\$1,855,000		\$1,855,000
Operating Expenses	\$478,146	\$1,000,000	\$1,478,146
<b>Construction Cost</b>	<b>\$12,535,704</b>		

<b>Total Development Costs</b>	<b>\$13,013,850</b>	<b>\$1,000,000</b>	<b>\$14,013,850</b>
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3. Need for Section 108 Assistance / Non-substitution of Funds:

Mr. Hutcherson, in conjunction with Nissan Corporate, designed a Nissan Flagship Dealership that achieves Nissan Premier and Flagship ratings and status. The design is 40 percent larger than the standard design with increased customer amenities which results in \$11.7 million in construction costs; as a result, there is an increase of 40 percent in construction costs, approximately \$3.3 million.

In addition, Tierra West, third party conducting the financial analysis, noted that in order to afford a feasible dealership real estate related debt service for land and buildings should be approximately 1.6 percent of gross sales to allow for adequate reserve and developer profit. However, the proposed development will increase the ratio to 1.9 percent causing a need for additional assistance to mitigate the concerns over expansion as required by the corporation. With the \$1,025,800 infusion from HUD's Section 108 loan, the gross sales ratio would decrease to 1.8 percent; thereby, allowing Nissan to be within the standard gross sales range within 4 to 5 years.

4. Evidence of Site Control

On December 31, 2015, Tim Hutcherson, representing Downey Nissan, and Andrews Rancho Del Norte executed a 20-year Lease Agreement for 6.5 acres of the subject site. In addition, the Agreement has a term extension contingency where the developer is able to extend the lease agreement by five (5) or 10 years. On September 16, 2015, the Planning Commission approved the Site Plan Review for the development of Downey Nissan. As of February 22, 2016, the City approved the construction drawings and issued all Building permits for the development/construction of the new automobile dealership.

5. Loan Structure

The proposed loan will carry a 10-year term with interest-only payment during the first year of the loan. Amortization would be done for the balance of the term with semi-annual payments done every August and December. The interest rate is proposed to be fixed based on the 3-month LIBO rate plus 40 basis points and will be subject to conversation at such time when this loan is included in any HUD public offering. The Conversion Rate shall be based on the rate due on each of the City's Principal Payments plus 50 basis points or 0.5% (HUD Public Offering Rate). Repayment shall be from the City of Downey's annual CDBG allocation. All collateral will be shared proportionate to the respective loan size. In addition, the proposed loan shall include the Section 108 Loan fee. Borrower shall pay all other out of pocket costs borne by the City in the closing of the loan, including title, closing or legal expense,

as well as any expense associated with the public offering issuance or the HUD Trustee.

6. Financial Feasibility

- a. Ability to repay – The amount of funds the City of Downey is requesting is approximately 94% of the total funds available to the City under the Section 108 Program. Based on our in-house calculation, the City can borrow up to \$5,141,420. The figure is based on the City's current year CDBG allocation of \$1,028,284 multiple by a factor of 5 years. The City currently has two (2) existing Section 108 loan obligations in the amount of \$3,810,000; as a result, the City is eligible for an additional loan not to exceed \$1,331,420. The City is limiting this application to \$1,025,800; leaving a cushion of \$305,620.
- b. Collateral – Pledge of \$1,025,800 of current and future CDBG entitlement award funds or funds eligible to be received under Section 570.705(b)(2).

7. Business Owner Capacity & Experience

Tim Hutcherson has been an owner of independent new car dealership for over 25 years and has had more than 35 years of experience in car sales overall. Prior to Downey Nissan, Mr. Hutcherson owned other Nissan car dealerships in Corona and Redlands, CA.

8. Borrower Background and Character

Tim Hutcherson has had a successful track record of owning and operating automobile dealerships in Southern California for the past 25 years. He and his family have lived in the area for decades and have had a strong relationship with the local community throughout that timeframe. Mr. Hutcherson has been in the business for over 35 years and has built very strong relationships with many dealerships in the area. The company has two (2) outstanding loans, all of which are in good standing. Both loans are with Nissan Motor Acceptance Credit (NMAC) for the purpose of building a car dealership. NMAC has indicated that Mr. Hutcherson has a good payment history and good standing on his current loans; the NMAC letter shall be included as an exhibit to the Section 108 Loan agreement.

9. Distribution of Section 108 Funds and Other Funding Sources

Section 108 funds are to be disbursed specifically for the purpose of funding a portion of the operating expenses. The funds will be advanced to Downey Nissan or Tim Hutcherson in a lump sum payment after the final inspection of the automobile dealership by the Building Division. In addition, the loan distributed by NMAC, shall be disbursed on a Pro Rata basis throughout the construction for development costs.

10. Project Monitoring

The City of Downey's Economic Development and Housing Division will be responsible for monitoring the project on behalf of the City. As funds will be



used for operating expenses, however, there is minimal documentation that will be needed for the construction period. Use of funds will be documented via HUD settlement statement provided by escrow. The construction-period monitoring will be primarily the responsibility of NMAC, which will retain a third-party construction inspector to review monthly construction progress prior to disbursement of funds. The City will be able to receive copies of the monthly construction monitor reports if requested. Once the development is complete, the City of Downey's Housing Staff will monitor ongoing compliance and reporting requirements, including job creation verification to comply with the National Objective and Public Benefit standards. The business will be required to provide job creation documentation using City-approved job tracking forms developed for that purpose. Such forms will be included as an exhibit to the Section 108 loan agreement.

#### 11. Interim Benchmark Measurements

The job creation requirement (for number of jobs per dollar of assistance) shall be met by the beginning of the third (3<sup>rd</sup>) operating year. The business will be required to regularly report its progress towards the job requirement until such time as the targeted number of jobs has been created. In addition, the business will be required to provide supporting documentation to substantiate that at least 51% of the new FTE job creation has been provided for LMI persons. This can be done through a variety of means, including detailed position descriptions or other forms of income verification as provided by HUD. Once the job requirements have been met, no ongoing reporting of job creation is required.

#### 12. Project Readiness

NMAC has approved financing the development of a new automobile dealership. Downey Nissan has executed a 20 year term lease agreement with Andrew's Ranch Del Norte. The design of the development has been approved by the Planning Commission via a Site Plan Review and construction plans have been approved by the Planning, Building, and Engineering Divisions; all building permits have been issued as of February 22, 2016. Downey Nissan has selected a Contractor and the project is currently under construction.

#### **Conclusion and Recommendation:**

The project meets HUD's eligibility requirements and the financial feasibility guidelines of the approved City of Downey Section 108 Loan Fund. Based on this review and the proposed Loan structure, it is recommended that Downey Nissan's expansion be approved for up to \$1,025,800 in Section 108 Loan Guarantee funds subject to the following terms and conditions:

#### Loan Structure:

- 10 year term with interest-only payment during construction (up to 12 months) with full amortization for the balance of the term of 10 years;

- Fixed Interest Rate based on the 3-month LIBOR rate plus 40 basis points, subject to Conversion at time of HUD public offering at the blended rate due on each of the City's Principal Payments plus 50 basis point or 0.5% (HUD Public Offering Rate);

Repayment:

Repayment shall be from the City of Downey's CDBG Entitlement Funds.

Primary Collateral:

- Pledge of all current and future City CDBG entitlement funds or funds eligible to be received under Section 570.705(b)(2).

Recommended Conditions prior to Closing:

- Loan approval letter from NMAC securing construction costs;
- Satisfaction of insurance requirements including General Liability, Builder's Risk and Property;
- Completion of HUD Environmental clearance;
- Approval and execution of construction contract;
- Confirmation of lien and judgment-free status (search) prior to closing;
- Receipt of approval from HUD;
- Receipt and execution of Loan documents from HUD to City of Downey; and,
- Receipt of updated documents (budgets, contracts, other documents) as requested.

H. Pledge of CDBG Guarantee

The City of Downey understand that if it fails to make a required payment on its notes, HUD will deduct that payment from the City of Downey's CDBG Letter of Credit and in accepting this loan guarantee, the City of Downey will pledge its CDBG funds and all other applicable grants as security for the guarantee.

I. Schedule of City's Repayment of Loan

The City is requesting a 10 year loan term and a flexible nonconforming repayment plan. The City is proposing a payment plan consisting of interest only payments for the first year of the loan followed by interest and principal payment from year 2 through year 10. All payments on this product will be made from the City annual CDBG allocation. The preferred payment plan is reflected below:

Proposed Principal Repayment Schedule:

Principal:	\$1,025,800	
Interest:	TBD	
Repayment Term:	10 years	
Payment Plan:	Year 1	Interest only payment
	Year 2 – 10	Annual principal payment: \$113,977.77

Year	Principal	Interest	Total
2017	\$0.00	TBD	TBD
2018	\$113,977.87	TBD	\$113,977.87 + Interest
2019	\$113,977.77	TBD	\$113,977.77 + Interest
2020	\$113,977.77	TBD	\$113,977.77 + Interest
2021	\$113,977.77	TBD	\$113,977.77 + Interest
2022	\$113,977.77	TBD	\$113,977.77 + Interest
2023	\$113,977.77	TBD	\$113,977.77 + Interest
2024	\$113,977.77	TBD	\$113,977.77 + Interest
2025	\$113,977.77	TBD	\$113,977.77 + Interest
2026	\$113,977.77	TBD	\$113,977.77 + Interest
2027	\$113,977.77	TBD	\$113,977.77 + Interest
			<b>Total: \$1,025,800 + Interest</b>

J. City of Downey Contact:

Aldo E. Schindler, Director of Community Development  
City of Downey  
11111 Brookshire Avenue  
Downey, CA 90241  
Ph: (562) 904-7161  
E-mail: [aschindler@downeyca.org](mailto:aschindler@downeyca.org)

Jose G. Vazquez, Housing Administrative Aide  
City of Downey  
11111 Brookshire Avenue  
Downey, CA 90241  
Ph: (562) 904-7161  
E-mail: [jvazquez@downeyca.org](mailto:jvazquez@downeyca.org)