

Council Meeting of  
August 18, 2009

Honorable Mayor and Members  
of the City Council  
City Hall  
Torrance, California

**Members of the Council:**

**SUBJECT: Grant/Loan Agreement Between the City of Torrance and  
Torrance Auto Center**

**Expenditure: \$250,000.00**

**RECOMMENDATION**

Recommendation of the City Manager that City Council:

1. Appropriate and allocate \$250,000 of General Fund Reserve for Economic Development for a Grant/Loan Agreement with Torrance Auto Center 20410 Hawthorne Boulevard
2. Approve an expenditure not to exceed \$250,000 to provide economic assistance in order to retain the business within the city of Torrance

**FUNDING**

Funding is available from the General Reserve for Economic Development.

**BACKGROUND/ANALYSIS**

The Economic Investment Fund was established in 1994 as a mechanism to assist businesses in relocating to or expanding in the City of Torrance. Prospective clients are considered based on the jobs that will be created or retained; the types of jobs created, as well as other factors that contribute to economic viability of the Torrance community. Typically the business is monitored over a five year period and as a condition of the agreement is expected to remain in operation within the city for that five year period, otherwise the loan is required to be repaid in accordance with a sliding scale. The Agreement before you this evening differs from the typical Agreement as it presents both a grant for \$50,000 and a traditionally amortized loan for the balance of the transaction of \$200,000.

The Torrance Auto Center (Operator) is a family-owned business, at 20410 Hawthorne Boulevard that had served as a Saturn dealer from November 1990. The dealership was one of the first Saturn retailers in the United States. However, March 3, 2009 the decision was made to terminate the Saturn franchise due to restructuring efforts at General Motors. Currently the dealership is leveraging their existing customer base of 15,000 Saturn customers to operate as an independent sales and service center which has allowed them to preserve an employee base of 35 people.

The next transition that Torrance Auto Center hopes to make is by replacing the terminated Saturn franchise with one of the five franchises not currently represented in Torrance/South Bay. It is anticipated that, if successful, acquiring a new franchise will enable the employment base at this site to grow by 10 additional employees. The Operator has received a memorandum of understanding from Mazda North American Operations giving them eighty days to secure a line of credit to "floor" new Mazda vehicles. The business is in need of an infusion of funds for working capital, for the purchase of assets to include an accounting system, new shop equipment and ongoing training for technicians. The Operator is currently in process with the Community Development Commission of Los Angeles County to secure a loan for one million dollars, but would like additional funding to bridge the gap until that financing is secured. For this reason the City was approached for assistance. The Economic Development Team, in addition to coordinating with the local Workforce Investment Board on customized training, as well as shepherding the business through any City requirements, would like to request that \$250,000 be provided to the Torrance Auto Center as a combination grant/loan agreement.

The proposal for financing is as follows: fifty thousand dollars (\$50,000) to be provided as a *grant* to secure permits and to offset costs associated with the conversion of the existing site to a new dealership which will not have to be repaid unless the company relocates or fails within five years; this is a very traditional use of the Economic Investment Fund. The remaining two hundred thousand dollars (\$200,000) will be considered a *loan* to be drawn in amounts of \$50,000 per month until reaching a principal balance of \$200,000 which will be paid back plus interest, over a period of 48 months after the initial year. The loan will be at 0% interest for the first twelve (12) months and will then be amortized at an interest rate of 6.75%.

The City will benefit from this arrangement by retaining an established business in the City, being repaid with interest on the bulk of the money, retaining 35 jobs with the potential to increase, and realizing a portion of the sales tax revenue as well as utility users tax that will be generated from a successful new business being established at the site of a former successful business being operated by a family that has proven their success at this location.

Recently we have seen many businesses close or leave their operations on Hawthorne Boulevard due to the difficult economic times we are in. The Torrance Auto Center is another business that is at a crossroads. As the Operator works to bring a new

franchise to the City of Torrance they have reached out to the City for certain economic assistance. They have made unprecedented business decisions given the circumstances they faced, and they now have an opportunity to create something new in the city of Torrance. The City has experienced a transition along Hawthorne Boulevard; the former Lincoln Mercury and Volkswagen sites are vacant; the former Del Amo Dodge site has converted to a new type of automotive franchise and several furniture stores are vacant. The ability to work with a new automotive franchise will provide an additional economic component that will assist in our local recovery as well as provide employment opportunities within our local region.

For these reasons, and the ability to retain 35 jobs with the possibility of adding more, it is the recommendation of the City Manager and the Economic Development Team that City Council authorize the attached grant/loan agreement.

Respectfully submitted,

LeROY J. JACKSON

By: 

Fran Fulton  
Management Associate

CONCUR:

  
LeROY J. JACKSON  
City Manager

- Attachment:
- A. Torrance Auto Center Grant/Loan Agreement
  - B. Business Plan
  - C. Memorandum of Understanding Letter from Mazda
  - D. Map of Location of Torrance Auto Center
  - E. Photo of Location

**CITY OF TORRANCE  
GRANT/LOAN AGREEMENT**

This Grant/Loan Agreement (“AGREEMENT”) is made and entered into by and between the City of Torrance, a municipal corporation, “CITY”, and Saturn of Torrance, a California Corporation DBA Torrance Auto Center, “COMPANY”. The effective date of this AGREEMENT shall be the date of the last signature placed hereon.

**RECITALS:**

WHEREAS, COMPANY is bringing in a new automotive franchise to their current location at 20410 Hawthorne Blvd, Torrance, California 90503; and

WHEREAS, CITY has economic development money to provide jobs within the City.

NOW, THEREFORE, the parties hereto agree as follows:

**AGREEMENT:**

1. **Performance By CITY**

A) Subject to the provisions of paragraphs 1.a through 1.c below, CITY agrees that it will provide the COMPANY with two hundred fifty thousand dollars (\$250,000) to assist COMPANY in retaining their automotive parts and service business as well as bringing in a new Mazda dealership, or other franchise deemed acceptable by the CITY in its sole discretion. These funds will provide working capital for COMPANY to retain 35 full time jobs, proceed with tenant improvements, and purchase additional assets to prepare for the addition of the new vehicle franchise until such time that additional funding can be secured from other sources.

1. The \$250,000 will be provided as follows:

a. **Fifty Thousand Dollar Grant**

Fifty-thousand dollars (\$50,000) is a grant for the purpose of securing permits and/or to offset costs associated with the conversion of the site to a Mazda Dealership or other franchise deemed acceptable by the CITY, in its sole discretion, said grant

shall not have to be repaid to the CITY unless COMPANY relocates or its business fails within 5 years of the date of receipt by CITY of written authorization to operate as an automotive franchise (Franchise Agreement) for the sale of new vehicles from Mazda, or other vehicle franchise deemed acceptable by the City in its sole discretion. In the event that such repayment is required, such repayment shall be subject to the terms and conditions set forth in paragraph D.1 below.

b. Two-hundred Thousand Dollar Loan

Two-hundred thousand dollars (\$200,000) is a loan to be drawn by COMPANY in amounts up to fifty-thousand dollars (\$50,000) per month until reaching a principal balance of \$200,000.

c. Release of Funds By City

- i. CITY will provide the funds within thirty (30) days of receiving the Franchise Agreement from Mazda, or other vehicle franchise deemed acceptable by the CITY in its sole discretion.
- ii. Monthly draw requests must be made in writing by COMPANY to CITY by the 5<sup>th</sup> of each month. Funds will be dispersed within 15 days of COMPANY'S request. Any requests for draws must be made within 12 months from the date of receipt of the Franchise Agreement by CITY.

2. Performance By COMPANY

- A) COMPANY has operated in the City of Torrance for 19 years. It started as one of the first Saturn retailers in the United States and has recently been severely impacted by restructuring efforts at General Motors. These restructuring efforts have led COMPANY to the decision to terminate its Saturn franchise. COMPANY has since received a memorandum of understanding from Mazda North American Operations acknowledging its proposal to provide an exclusive dealership site for the sale and service of Mazda vehicles and products. If COMPANY is so allowed, it will leverage its existing customer base to launch a sales and service center as a Mazda franchise and create 10 new jobs.
- B) COMPANY agrees to utilize the initial \$50,000 as a grant to meet the needs of the new franchise.

- C) COMPANY agrees to make its best efforts to maintain its principal place of business in the CITY for five consecutive years. If COMPANY will maintain its principal place of business in the CITY for five consecutive years, the \$50,000 will remain a grant.
- D) In the event that COMPANY fails to maintain its principal place of business in Torrance for five consecutive years, the \$50,000 will be deemed an interest free loan. In the event the \$50,000 is deemed a loan, COMPANY agrees that the \$50,000 will be partially repaid pursuant to a sliding scale based upon the number of years COMPANY was actually in business in Torrance as follows:

1. Repayment Schedule of \$50,000

The repayment schedule will be as follows:

- a. If COMPANY relocates or fails the first year - repay 90% of the original loan amount.
- b. If COMPANY relocates or fails in the second year - repay 75% of the original loan amount.
- c. If COMPANY relocates or fails in the third year - repay 55% of the original loan amount.
- d. If COMPANY relocates or fails in the fourth year - repay 20% of the original loan amount.
- e. If COMPANY relocates or fails in the fifth year - repay 10% of the original loan amount.

Payment of the requisite portion of the \$50,000 will be made immediately on demand from City.

- E) In the event COMPANY remains in business but converts to a different enterprise than contemplated at the time of this AGREEMENT, described as an automobile franchise, CITY reserves the right to evaluate the new business to determine if the employment and business incentives are the same for the CITY as they were at the time of the AGREEMENT. In the event CITY, in its sole discretion, determines that the business incentives are of equal advantage to the CITY, the repayment schedule set forth above will continue, but in the event CITY, in its sole discretion, determines that the business incentives are not of equal advantage to the CITY, CITY may stop release of any and funds under this AGREEMENT, and demand repayment of those portions of the monies, if any, which were released after the cessation of the original AGREEMENT.

- F) COMPANY agrees that the loan of up to \$200,000, plus interest will be repaid over a period of 48 months after the initial grant year. The loan will be interest free for twelve months from the date of receipt of the Franchise Agreement by CITY. Commencing in the thirteenth (13<sup>th</sup>) month after receipt of the Franchise Agreement, the loan will become repayable and amortized over a forty-eight month period and will be paid monthly thereafter at an interest rate of 6.75% until debt is retired. Payments will be due on the 1<sup>st</sup> day of each month and late on the 15<sup>th</sup> of each month. A late charge of one hundred fifteen (\$115.00) dollars will apply. Upon repayment of the loan CITY will have received full consideration for the funds provided. If COMPANY has not paid the full amount of the loan when the final payment is due, CITY will charge COMPANY interest on the unpaid balance at twelve (12%) percent per year.
- G) COMPANY agrees that it will not assign any of the rights or entitlements of this AGREEMENT to any other person, firm or corporation without the express written consent of the CITY.

### 3. **Default**

If for any reason COMPANY fails to make any payment on time, COMPANY shall be in default. CITY can then demand immediate payment of the entire remaining unpaid balance.

### 4. **Collection Costs**

In the event COMPANY shall default on its obligation to repay any loans under this AGREEMENT, it is agreed that CITY may charge all costs of collection, including CITY's reasonable attorney's fees, against COMPANY.

### 5. **Amendment or Modification**

This AGREEMENT may not be amended or modified in any way except by written instrument, agreed to by the parties, and executed by the parties hereto.

### 6. **Conflict of Interest**

- a. No officer or employee of the CITY may have any financial interest, direct or indirect, in this AGREEMENT, nor may any officer or employee participate

in any decision relating to the AGREEMENT that affects the officer or employee's financial interest or the financial interest of any corporation, partnership or association in which the officer or employee is, directly or indirectly interested, in violation of any law, rule or regulation.

- b. No person may offer, give, or agree to give any officer or employee or former officer or employee, nor may any officer or employee solicit, demand, accept, or agree to accept from another person, a gratuity or an offer of employment in connection with any decision, approval, disapproval, recommendation, preparation or any part of a program requirement or purchase request, influencing the content of any specification or procurement standard, rendering of advice, investigation, auditing, or in any other advisory capacity in any way pertaining to any program requirement, contract or subcontract, or to any solicitation or proposal.

7. **Governing Law; Jurisdiction**

This AGREEMENT will be administered and interpreted under the laws of the State of California. Jurisdiction of any litigation arising from the AGREEMENT will be in Los Angeles County, California.

8. **Notice**

In the event either party wishes to give notice to the other, notice will be made by first class United States mail, postage prepaid, or by personal service to the other party at the address listed below, except that either party may change its address by giving notice to the other party of the new address:

CITY: City Clerk  
3031 Torrance Blvd.  
Torrance, CA 90503

COMPANY: Saturn of Torrance DBA Torrance Auto Center  
20410 Hawthorne Blvd  
Torrance, CA 90503

9. **COMPANY's Authority to Execute**

The person executing this AGREEMENT on behalf of COMPANY warrants that (i) COMPANY is duly organized and existing; (ii) they are duly authorized to execute this AGREEMENT on behalf of COMPANY; (iii) by so executing this

AGREEMENT, the COMPANY is formally bound to the provisions of this AGREEMENT; and (iv) the entering into of this AGREEMENT does not violate any provision of any other AGREEMENT to which COMPANY is bound.

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

CITY OF TORRANCE,  
Municipal Corporation

SATURN OF TORRANCE,  
A California Corporation DBA  
TORRANCE AUTO CENTER

\_\_\_\_\_  
Frank Scotto, Mayor

\_\_\_\_\_  
Russell Hand, President

ATTEST:

\_\_\_\_\_  
Sue Herbers, City Clerk

APPROVED AS TO FORM:

JOHN L. FELLOWS III

By: \_\_\_\_\_  
Tatia Y. Strader  
Deputy City Attorney

Saturn of Torrance, Inc.  
DBA Torrance Auto Center



**OVERVIEW OF BUSINESS PLAN FOR  
OPERATIONS**



# Company Background



- Saturn of Torrance, Inc., was established in November of 1990 as one of the first Saturn Retailers in the United States. Over the last 19 years, the company has earned numerous awards and accolades for sales, customer satisfaction, and community involvement. On March 3, 2009, we terminated our Saturn franchise for the following reasons:
  - The urgent restructuring effort at General Motors includes either shuttering or spinning off the Saturn brand. Both scenarios present significant uncertainty that dramatically reduced floor traffic, and ultimately sales and profits.
  - The threat of a GM bankruptcy presents a unacceptable and potentially devastating financial scenario that we felt would likely put Saturn of Torrance, Inc. out of business, eliminating over 35 full time jobs and over \$25,000,000 in annual taxable sales.

# Business Plan / Financial Needs – Phase I

- Phase 1: Leverage existing customer base of 15,000 Saturn customers to launch an independent sales and service center.
  - Financial Needs: Capital injection of \$750,000 to complete transition from new vehicle franchise to independent used car sales and service center. Funds will be used for working capital as well as asset purchases (accounting system, new shop equipment, ongoing training for technicians).
- Employment Impact: **10 jobs preserved**, allowing us to maintain current headcount of 35 instead of decreasing to 25.
- Projected Annual Net Profit: **\$313,000**
- Projected Annual Taxable Sales: **\$15 million**

## Business Plan / Financial Needs – Phase II

- Phase 2: Replace Saturn with one of the 5 franchises not currently represented in Torrance / South Bay.
- Financial Needs: Additional capital injection of \$500,000 upon receipt of Letter of Intent from manufacturer to meet working capital requirement as well as complete necessary facility upgrades per manufacturer requirements.
- Employment Impact: **10 jobs created**, allowing us to increase head count to 45 from the current head count of 35. Successfully replacing the Saturn franchise with another new vehicle franchise will not only save 10 jobs but it will also create 10 for a net difference of 20 jobs.
- Projected Annual Net Profit: \$670,000
- Projected Annual Taxable Sales: \$25 million

# Russ and Mat Hand



- A combined 40 years in the car business, representing Toyota, Honda, Ford, Saturn and Volkswagen , all in Los Angeles County
- Combined taxable sales for all stores while under Hand Family ownership: Approximately \$2.4 billion.
- Consistently recognized as one of the best operators in the country for Saturn .

## Mazda North American Operations



July 13, 2009

Mr. Russell Hand  
Mr. Matt Hand  
20410 Hawthorne Blvd.  
Torrance, CA 90503

Re: Mazda Memorandum of Understanding ("MOU")

Dear Messrs. Russell Hand and Matt Hand,

It was a pleasure meeting with you to discuss your interest in representing Mazda as an authorized Dealer in the Torrance, California market area. Based on your proposal and verbal representations to provide a Mazda with an exclusive dealership operation and facility at 20410 Hawthorne Blvd, Torrance, California 90503 (proposed "Dealership Site"), Mazda Motor of America, Inc. d/b/a. Mazda North American Operations' ("Mazda") Western Region agrees to provide you eighty (80) days from the date of this letter to provide a commitment for a wholesale line of credit from an established financial institution engaged in the business of providing "new vehicle floor-line" to you and your proposed dealership legal entity. Mazda will require at minimum a \$3,310,000 wholesale line of credit to floor and inventory new Mazda vehicles. During the 80 day period mentioned above, Mazda agrees not to enter into any agreements with any other candidate(s) interested in becoming an authorized Dealer in the Torrance Open Point to provide you sufficient time to determine whether you will be successful in securing a commitment for a new vehicle wholesale line of credit which meet Mazda's requirements.

You understand and acknowledge that this MOU is not to be construed or interpreted as Mazda's approval of you or your proposal as a Mazda dealer, but solely an understanding to provide you adequate time to apply for and secure a commitment for a wholesale floor-line from a financial institution, whereby Mazda shall then consider you as the candidate for the Torrance, California Open Point.

The Western Region and/or Mazda's corporate headquarters may later determine that based upon subsequent information provided by you (including, without limitation, customer service scores, financial information or facility square footage) that it may later not approve your application to represent Mazda as an authorized Dealer at the proposed Dealership Site. You understand and agree that Mazda's final approval is contingent upon your satisfaction of all conditions set forth in its New Dealer application process. You agree to waive any and all claims against Mazda should it later determine in accordance with Mazda's policies and procedures not to enter into a Mazda dealer agreement with you. Further, a dealer agreement will be contingent upon Mazda successfully clearing the market for the proposed Mazda Dealership Site pursuant to California's Vehicle Code 3062 (a), if required.

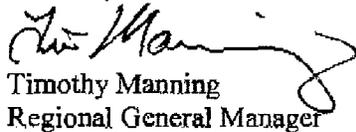
TDW  
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## Page 2 – Memorandum of Understanding

Please sign and return this letter to the attention of Alan Schapel, Manager, Dealer Development, by no later than July 27, 2009, indicating your agreement to expedite your efforts to secure a wholesale line of credit for the purpose of flooring new Mazda vehicles. You further acknowledge and agree to provide Mazda's Western Region with written confirmation, in Mazda's required format (form DL16 attached), within 80 days of the date of this letter that you have secured a commitment for a \$3,310,000 line of credit to floor new Mazda vehicles to meet Mazda's minimum inventory stocking requirement. In the event that you have not secured a commitment for a \$3,310,000 line of credit on or before October 1, 2009, this letter shall terminate without further notice from either party.

Should you have any questions, please contact Alan Schapel, Dealer Development Manager at 949-222-2531 or Russell Tokuoka, Market Representation Manager at 949-222-2515.

Sincerely,



Timothy Manning  
Regional General Manager

Acknowledgement and Agreement,

\_\_\_\_\_  
Russell Hand                      Date

\_\_\_\_\_  
Matt Hand                         Date

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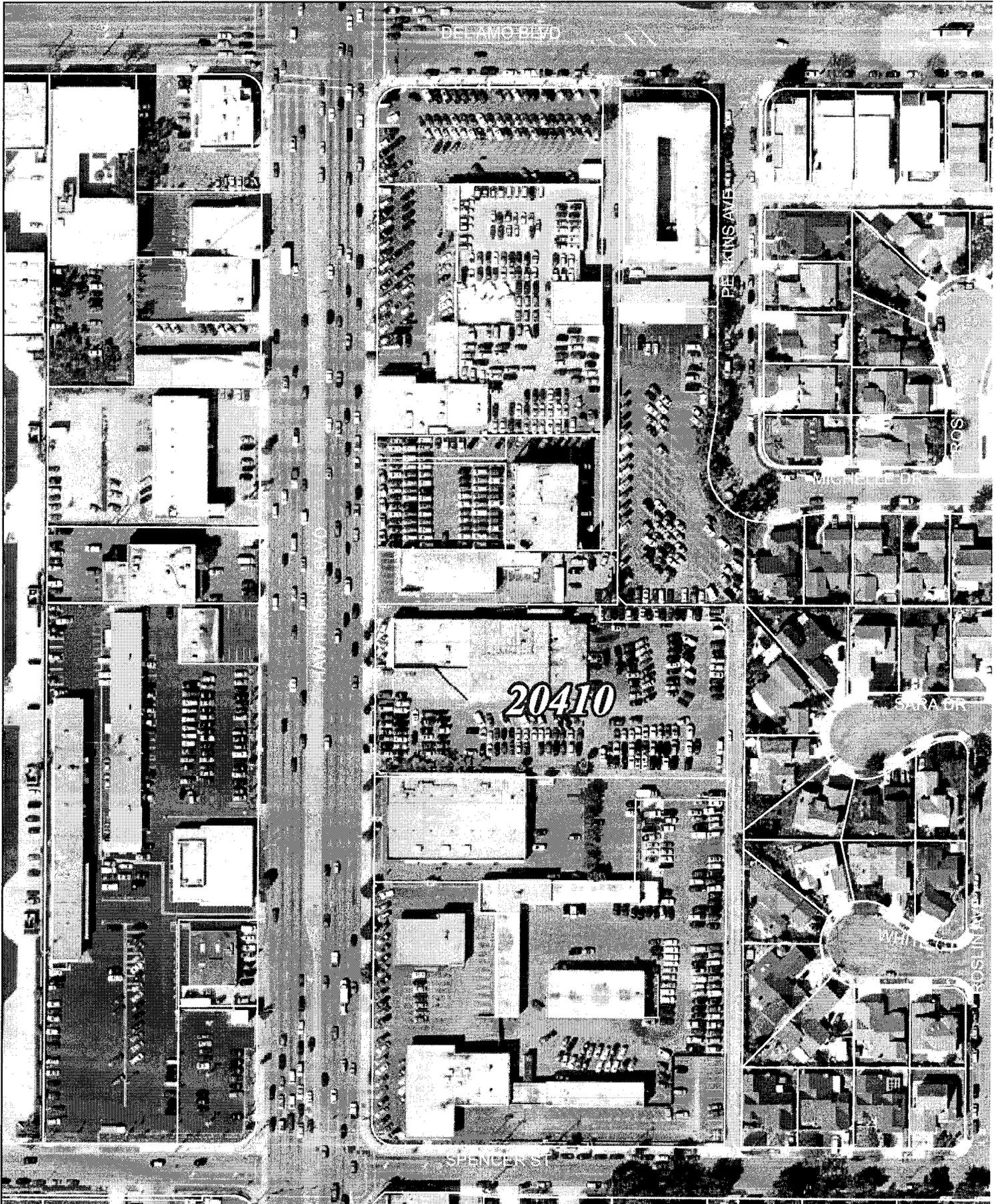
SATURN OF TORRANCE



**mazda**

Russell H. Tokuda  
Manager  
Market Representation





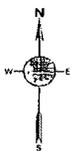
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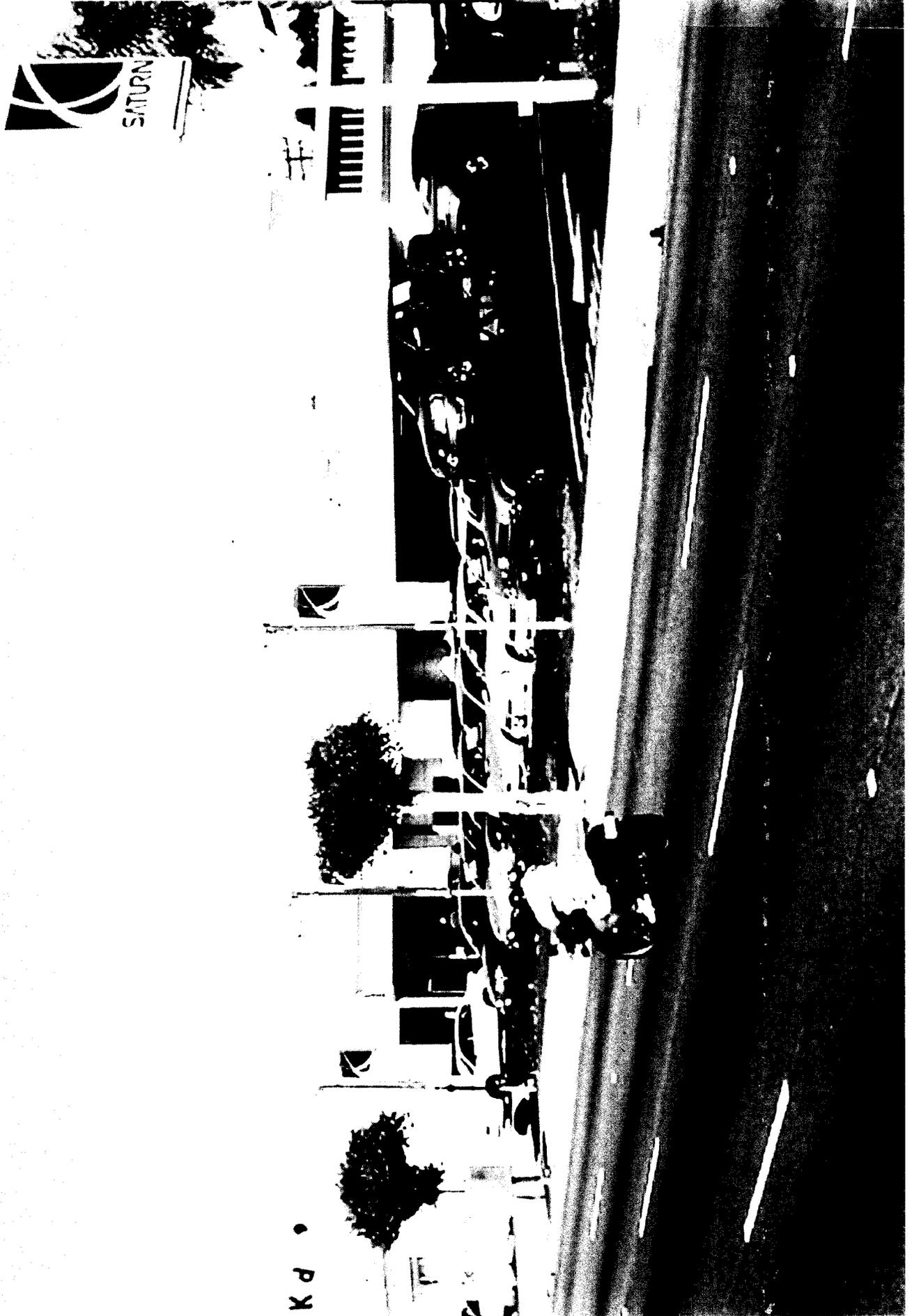


Jeffery W. Gibson  
 Community Development Department

## 20410 Hawthorne Blvd, Torrance

Lines and photos are approximate, not to be used for establishing absolute or relative positions





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