ONIZUKA AUTO CENTER REFINEMENT

SUMMARY REPORT

PREPARED FOR: CITY OF SUNNYVALE, CA

PREPARED BY: BBP & ASSOCIATES LLC

AUGUST 2010

This study was prepared under contract with the City of Sunnyvale, California, with financial support from the Office of Economic Adjustment, Department of Defense. The content reflects the views of the City of Sunnyvale and does not necessarily reflect the views of the Office of Economic Adjustment.

BBP ASSOCIATES, LLC

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COMPILED TECHNICAL MEMORANDUMS

I. EXECUTIVE SUMMARY

a. Background: In January of 2010 the City of Sunnyvale hired an advisory team lead by BBP and Associates LLC to refine a conceptual plan to develop a multi-dealership auto center at the Onizuka Air Force Base site. This report is the result of a six month effort that has culminated with the creation of a general development plan for the project.

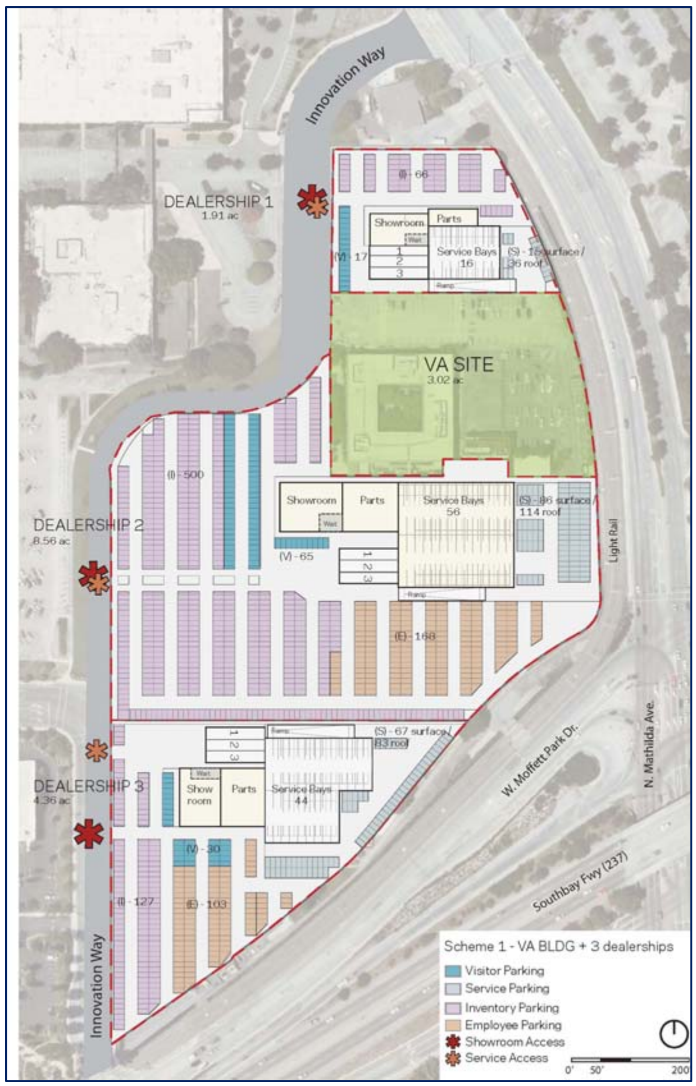
Based on an executed legally binding agreement between the Onizuka Local Reuse Authority (LRA) and the two homeless housing providers that had made claims for part of the site, this study assumes the providers **would release their claims** in return for $8.2 in capital provided by the City ($4.1M grant + $4.1M loan). This agreement leaves the Department of Veterans Affairs (VA) as the only entity other than the LRA with a potential claim on the site.

b. Decision Point/City Policy Question: Should the LRA proceed with its consideration of the multi-dealership auto center concept? Proceeding would mean authorizing the analysis team to complete a detailed development plan and formal application to the Department of Defense requesting transfer of the property via a no-cost Economic Development Conveyance to the Local Redevelopment Agency (LRA). Moving forward with this plan **would not**, however, commit the City of Sunnyvale to taking the site and implementing the auto center project.

c. Site Development Potential: With the VA intending to pursue its claim for a portion of Onizuka Air Force Base (shown in green), the remaining site could accommodate up to three automobile dealerships as shown in the site plan below.

- Dealership pad #1 is 1.9 acres
- Dealership pad #2 is 8.56 acres
- Dealership pad #3 is 4.36 acres

However, Pad #1 may be too small for most Sunnyvale dealerships so the site may accommodate two Sunnyvale dealerships realistically.



d. Market and Financial Analysis

Based on our analysis and detailed input from the seven dealership owners currently operating on El Camino Real, we have concluded the following:

Market:

- Of the **seven** dealers operating on El Camino Real, **three** initially evidenced significant interest in the project.

- **One** of the existing El Camino Real dealers **is willing** to move forward with the project, at the 8.56 acre pad, provided there are multiple auto dealers at the site.

- Due to the high costs, business risk and required investment of the project, **the other** interested dealer **will only consider the project if the City is willing to consider public assistance** to reduce project costs.

- The **1.9 acre** site is too small for any of the existing El Camino Real auto dealers, meaning a non-Sunnyvale brand would need to be identified and recruited to occupy that pad.

- Based on a review of Santa Clara County auto sales data, **there are five to seven auto brands** not currently operating in the City of Sunnyvale that might consider opening a dealership at Onizuka site and could be targeted by the City for one or more of the dealership pads? Market encroachment issues would need to be resolved for all of these brands however.

Financial

- The average monthly per acre rent factor at El Camino Real is **$17,400**. The average monthly debt service on the facilities investment at Onizuka is estimated to be **$20,000** per acre.

- On average, dealers relocating from El Camino Real to the Onizuka site may experience **a 14% increase in operational expense** related to their facilities

- The improved access, facilities, and visibility of the Onizuka site could **increase sales and service revenue by as much as 30%** over current operations at El Camino Real, which would likely more than off-set the negative financial impact of the increase in rent factor

- Project financial analysis confirms that the LRA will have defendable rationale for a no-cost Economic Development Conveyance application, meaning there is the potential to obtain the land for no cost

Economic Impact:

- If completed, activity solely from a three dealership project at the site could provide approximately **$540,000** in annual net new sales and property tax revenue to the City of Sunnyvale

- If the relocation of dealers to Onizuka results in the redevelopment of 10 acres of vacated El Camino Real parcels into retail, the projected City of Sunnyvale net new annual sales and property tax revenue from El Camino Real is estimated to be **$476,000** for an annual total of **$1,000,000 in net new tax revenues**

- If projected sales growth estimates are met, the LRA's $4.1M grant to homeless housing providers could be recouped in **10 years** from Onizuka site generated sales and property tax revenue, equal to **13%** annual yield on the $4.1M investment by Sunnyvale

- If projected sales growth estimates are met and the vacated El Camino Real sites are redeveloped, the LRA's $4.1M grant to homeless housing providers could be recouped in **7 years** from Onizuka and El Camino Real generated sales and property tax revenue, equal to **25%** annual yield on the $4.1M investment by Sunnyvale

e. Study Conclusion:

> The above analysis indicates that the auto center concept could be a financially feasible project and provide the basis for preparing a business plan for a no-cost Economic Development Conveyance application. The feasibility of a future project could be enhanced however if: **1)** the City is willing to consider reducing project costs to the dealers; and **2)** the City initiates an outreach effort to identify and recruit auto dealers to fill the one or two pads if there is insufficient interest among the Sunnyvale dealers.

Key Points Driving Study Conclusions:

- **Market Support**: Our expert review of the existing and future market for automobile sales has determined that **6 of 7** dealers currently operating in Sunnyvale are sustainable. In addition, the Santa Clara market is strong enough that **5-7** brands not currently operating in Sunnyvale might consider opening additional dealership locations (points) in the City. Any auto dealer relocating from El Camino Real or opening a new location at Onizuka will have to resolve potential territory encroachment issues. Encroachment issues occur when a dealer considers opening a dealership point that potentially infringes on an existing dealer of the same brand. The cost, time and ability to resolve these encroachment issues varies based on existing dealership agreements, the dealers involved, and influence of the brand manufacturer.

- **Operator Interest:** This project provides the dealership operators with the opportunity to move to new facilities in an optimal location at the intersection of two highly traveled transportation corridors (US 101 & RT 237). Compared to El Camino Real, the Onizuka site will provide better accessibility and visibility for the dealers, which are two key factors in site selection. **The average daily traffic count at the Onizuka site is 262,000 versus 81,000 at El Camino Real, a 224% increase**.

  The project also enables the participating dealers to obtain land ownership and facility control in Silicon Valley market area. To date, the City has **1 signed letter of interest (LOI) from an existing El Camino Real operator.** The LOI was received after the City presented the dealers the conceptual project details, which included dealership pad size, estimated project costs, and the assumption that the LRA will receive a no-cost EDC and 100% of the development costs would be privately financed.

- **Financial Feasibility:** The total project costs are approximately **$46,000,000.** Based on discussions with area lenders during which the auto dealer concept was presented, the analysis assumes that the participating dealers can finance the costs from area banks (80%), mezzanine financing from banks or private investors (10%), and owner equity (10%). The current average monthly rent factor (based in information provided by five of seven El Camino Real dealers) at El Camino Real is $17,400 per acre. Based on the financing assumptions stated above, the average monthly debt service for new facilities at Onizuka is $20,000 per acre. While operational difference among the dealers exist, the negative financial impact of the 14% increase in facilities expense is likely to be more than offset by the projected 30% increase in sales and service revenue at the Onizuka site.

- **Economic Impacts:** This project provides two potential sources of net new tax revenue to the City. The first source includes new property tax from development at the Onizuka site and net new sales tax from the expected increase in auto sales/service caused by the benefits of the new site.

  The second source assumes that approximately **10 acres** of land currently occupied by two dealers on El Camino Real will be redeveloped into approximately **125,000 square feet** of retail uses. While speculative, if this redevelopment occurs, the City will receive an incremental increase in both property tax and retail sales tax. The table below summarizes the potential positive economic impacts from both sources.

Table I-1: Direct Annual Impacts

Net New Tax Revenue	**Projected Amount**	
Property Tax - Onizuka (Beginning Year 2)	$60,751	
Auto Sales & Service Tax - Onizuka (Beginning Year 3)	$480,792	
Total Onizuka Site	$541,543	**A**
Property Tax - El Camino Real (Beginning Year 4)	$26,009	
Retail Sales Tax - El Camino Real (Beginning Year 5)	$450,882	
Total El Camino Real	$476,891	**B**
Net New Onizuka and El Camino Real	$1,018,434	**(A+B)**
Net New over Ten Year Period	*$10,184,342*	

In addition to net new tax revenues, we have estimated that the project will generate over **100** full time jobs for the construction period and approximately **60** net new permanent full time jobs once the auto center is operational.

- **Return on Future City Investment to Homeless Housing Providers:** Under the existing agreement between the City of Sunnyvale and the two homeless housing providers with existing claims on the site, the LRA has agreed to provide up to $8,200,000 ($4.1M grant and $4.1M long term loan) in capital to assist the housing providers in return for the release of their claims so that Onizuka Scheme 1 described above can proceed. The return on that $4.1M investment can be analyzed by evaluating the amount of tax revenue the City could receive as a direct result of this project. Looking at property and sales tax from the Onizuka site, the City will receive $540,000 in annual tax revenue, resulting in a potential **13.2% investment yield** ($540,000 / $4,100,000 = 13.2%). Please note the net new auto sales and service tax revenue assumes a 30% increase in sales revenue will be achieved by dealers relocating from El Camino Real to Onizuka. More information regarding the rationale behind the 30% growth project can be found in the economic impact section of this report.

If approximately 10 acres of vacated dealership sites on El Camino Real are redeveloped as retail projects, the City could receive net new sales and property tax of approximately $476,000 per year. Including the potential net new taxes from the redevelopment of the El Camino Real sites pushes the annual yield on the $4.1M investment from 13.2% to 24.8%. This analysis is summarized in the table below.

Table I-2: Return on Future City Investment - Homeless

City Investment	
Grant to Homeless Housing Providers	($4,100,000)
Loan to Homeless Housing Providers	($4,100,000)
Total	($8,200,000)

Sources of Net New Tax Revenue	**Amount**	**Year Cash Flow Begins**	**Investment Yield on $4.1M Grant[1]**	**Pay Back Horizon (Years)**	
Onizuka Sources					
Property Tax - Onizuka	$60,751	2	1.5%	69	
Sales Tax (Net New Auto)	$480,792	3	11.7%	12	
Total Onizuka	$541,543		13.2%	10	**A**
El Camino Real Sources[2]					
Property Tax - El Camino Real	$26,009	4	0.6%	162	
Sales Tax (New Retail Development ECR)	$450,882	5	11.0%	14	
Total El Camino Real	$476,891		11.6%		**B**
Total Coverage Sources	$1,018,434		24.8%	7	**(A+B)**

[1] *Annual investment yield on $4.1M grant= Net New Tax Revenue divided by Grant Investment*
[2] *Includes property and sales tax from potential new retail projects on vacated dealership sites*

- **Option Flexibility:** Moving forward with the consideration of this project **does not** commit the LRA to formally request the property from the Department of Defense. If the LRA decides to move forward with an EDC application for an auto center, a business plan would be prepared to secure auto dealer commitments, document the justification for a no-cost EDC, detail the terms for property transfer with the Air Force Real Property Agency, and explore possible financial assistance if directed by the LRA.

II. ANALYSIS TEAM

a. **BBP LLC** – BBP LLC is an economics and real estate development advisory firm which counsels an array of public and institutional clients, as well as both novice and sophisticated private investors, interested in bringing development projects to fruition. Formed in 1990, BBPC has unmatched experience and expertise providing predevelopment feasibility assessments and implementation strategies for a wide variety of product types and settings.

b. **DEALERSHIP EXPERTS** - Dealership Experts, LLC is an automotive consulting, staffing, and training firm based in Dallas, Texas. Dealership Experts CEO Nino Parco brings over 28 years of automotive industry experience and was responsible for evaluating both consumer support of auto dealerships in the Sunnyvale area and the likelihood of auto dealership operators participating in the project.

c. **HOK** - HOK is a global provider of planning, design and delivery solutions for the built environment. Since the firm's founding in 1955, HOK has developed into one of the world's largest, most diverse and respected design practices. The firm employs more than 2,000 professionals linked across a global network of 23 offices on four continents.

d. **BOYKEN/HILL** - Hill International offers extensive project management and construction consulting services worldwide. Having participated in over 5,000 project assignments with a total construction value of over $250 billion, Hill has managed all phases of the construction process. From pre-design through completion, Hill has experience in all facets of project management. Engineering News-Record magazine recently ranked Hill as the 8th largest construction management firm in the United States.

e. **LAMPHIER GREGORY** - Lamphier-Gregory is a professional services firm specializing in environmental analysis, urban planning and project management. Services include preparation of Environmental Impact Reports (EIRs) and other environmental review documents; project review and permit processing; and assistance to local agencies in managing large, complex and controversial development projects.

f. **TIM JOHNSON** - Tim Johnson is the principal of Johnson Associates of Sacramento, California. The focus of the consultancy is business, community, economic and workforce development along with redevelopment services. Tim has over 25 years of experience in working for or with local government in community building activities. This experience includes work in Arizona, California, Nevada, Oregon and Washington. His experience includes the start up and implementation of a multi-million dollar revolving loan fund ($48M) for business and industry in northern California.

III. PROJECT CONCEPT

a. **Description of Auto Center Concept**: The closure of the Onizuka Air Force Base (OAFB) has presented the City of Sunnyvale with an opportunity to evaluate reuse options for the 17.8 acre parcel (excluding required street right-of-way) shown in the map below. This development plan proposes the redevelopment of the site into a multiple dealership retail auto center. This site is an optimal location for an auto center because it is easily accessible from both US 101 and Highway 237 and, with the inclusion of a vertical sign; it would be visible from both highly travelled transportation routes.

MAP III-1: PROJECT AREA MAP

b. **Background**: There is a significant automobile dealership presence on the El Camino Real corridor. As shown in the table below, of the eleven dealership points recently operating in Sunnyvale, four have either moved or closed and seven remain.

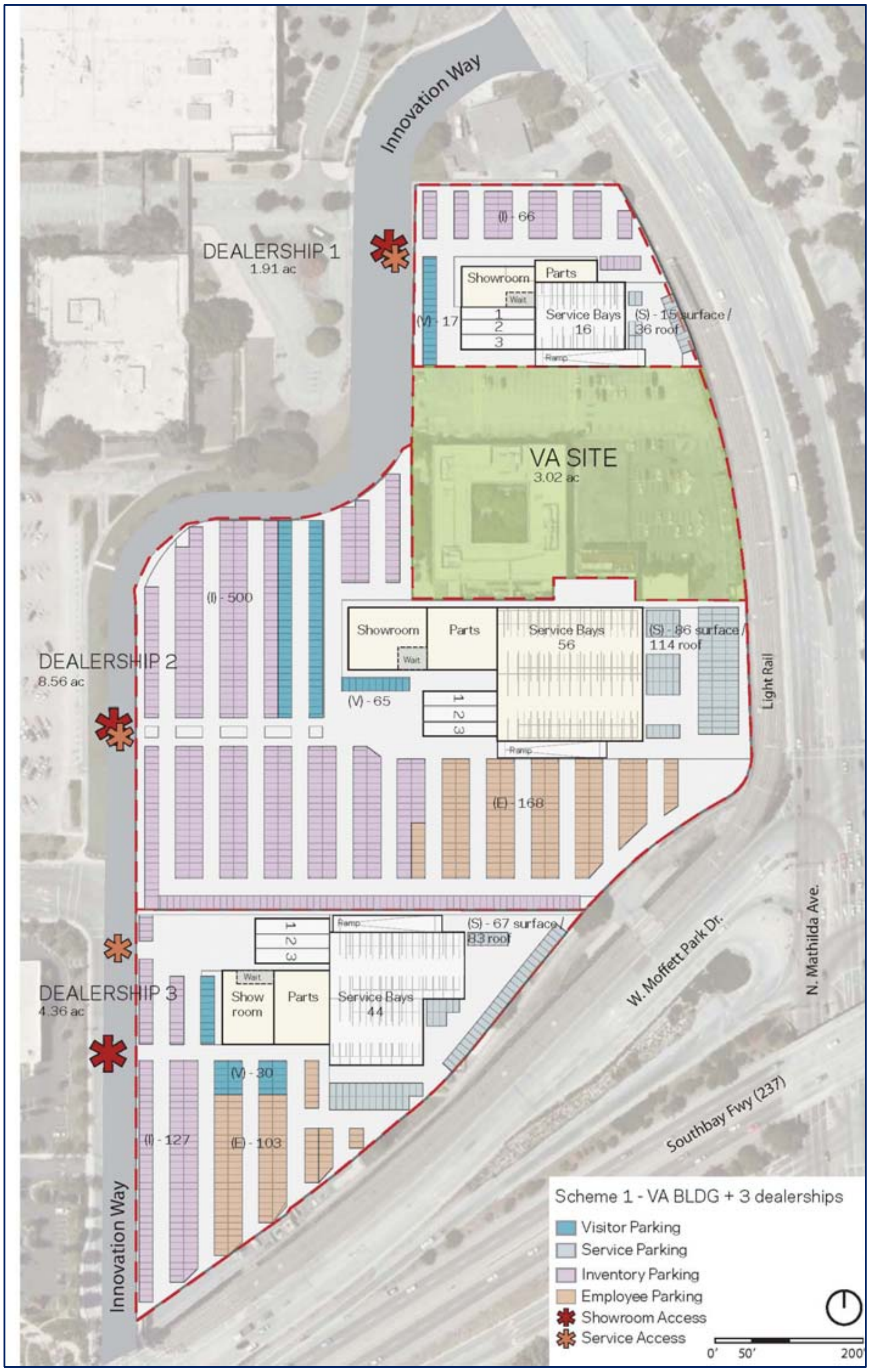
Table III-1: Existing and Recent Dealership Points

	Dealership Point	Location	Comment/Status
1	Pearson Buick/GMC/Pontiac	1124W. El Camino Real	-
2	Larry Hopkins Honda	1048 W. El Camino Real	-
3	Toyota Sunnyvale	898 W. El Camino Real	-
4	Sunnyvale Ford/Lincoln/Mercury	650 E. El Camino Real	-
5	Falore Nissan	680 E. El Camino Real	Recent Ownership Change
6	Sunnyvale Volkswagen	1025 E. El Camino Real	-
7	Sunnyvale Acura	750 E. El Camino Real	-
8	Hyundai	-	Moved to Stevens Creek
9	Kia	-	Acquired by Sunnyvale Ford
10	Chevrolet	-	Closed
11	Lincoln/Mercury	-	Acquired by Sunnyvale Ford

Since the retail automobile industry is an important component of the Sunnyvale business and economic community, the objective of this study was to evaluate the OAFB site to determine if it would function as a multiple dealership retail auto-center. While the relatively small size of site (17.8 acres) limits the number of dealers that could fit, the goal of this analysis was to determine the maximum number of auto dealerships that could be accommodated at the Onizuka site.

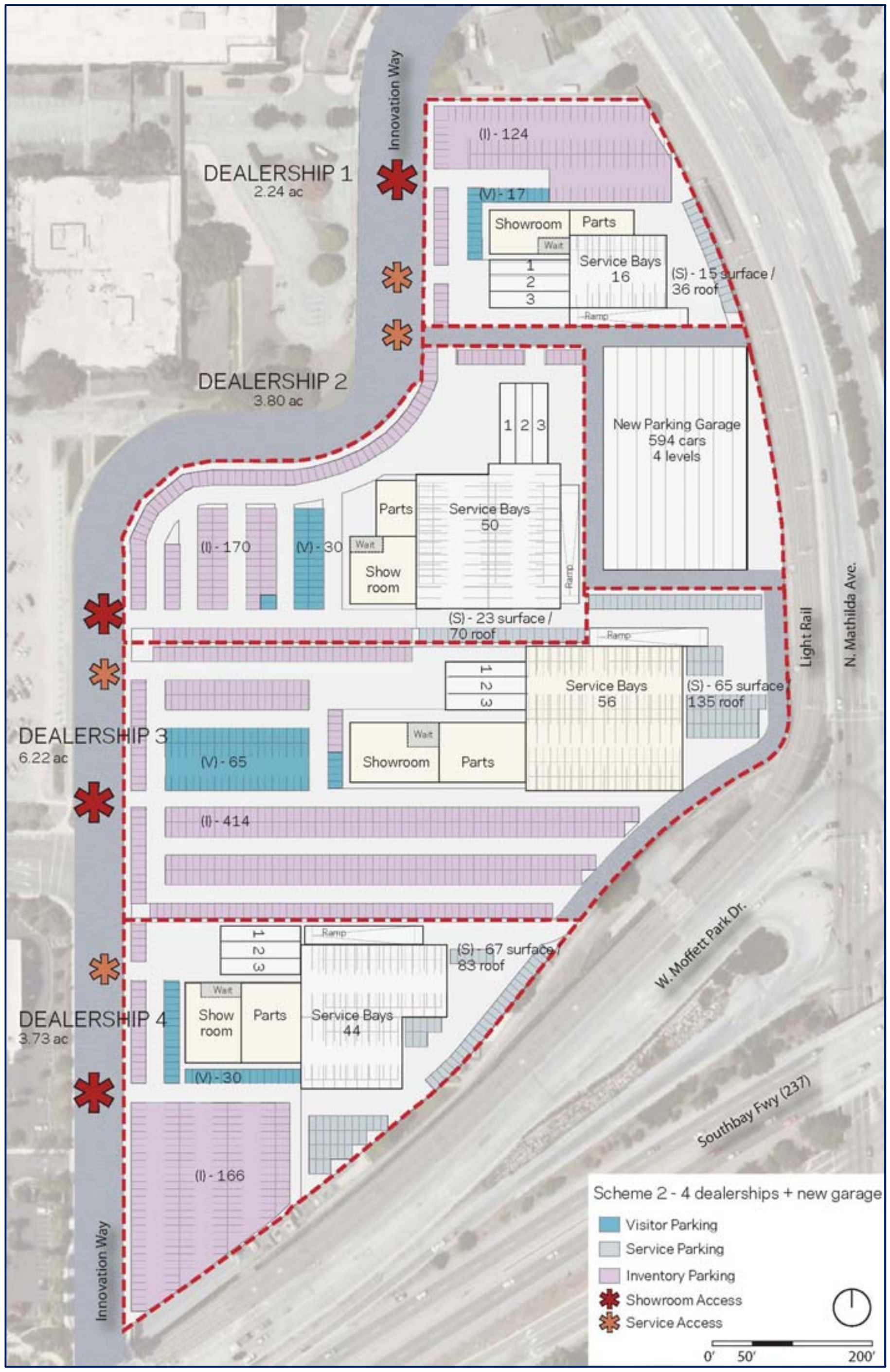
c. **Potential Auto-Center Configurations**: Two key drivers impacting the configuration of the site are the existence of a claim by the Veteran's Affairs (VA) for a portion of the site and parcel requirements of the various automobile dealerships interested in the site. Below is a summary of the three configurations that were analyzed in detail.

Scheme 1: Under this scheme it is assumed that the VA will not release its claim on the site, meaning that approximately 3 acres of the 17.8 site will be unavailable for the auto center. As shown in the table and site plan below, this leaves 1.91 acres north of the VA parcel and 12.92 acres south of the VA parcel. In Scheme 1 there are **three** dealership pads, with the assumption that a portion of auto inventory storage will be off-site.



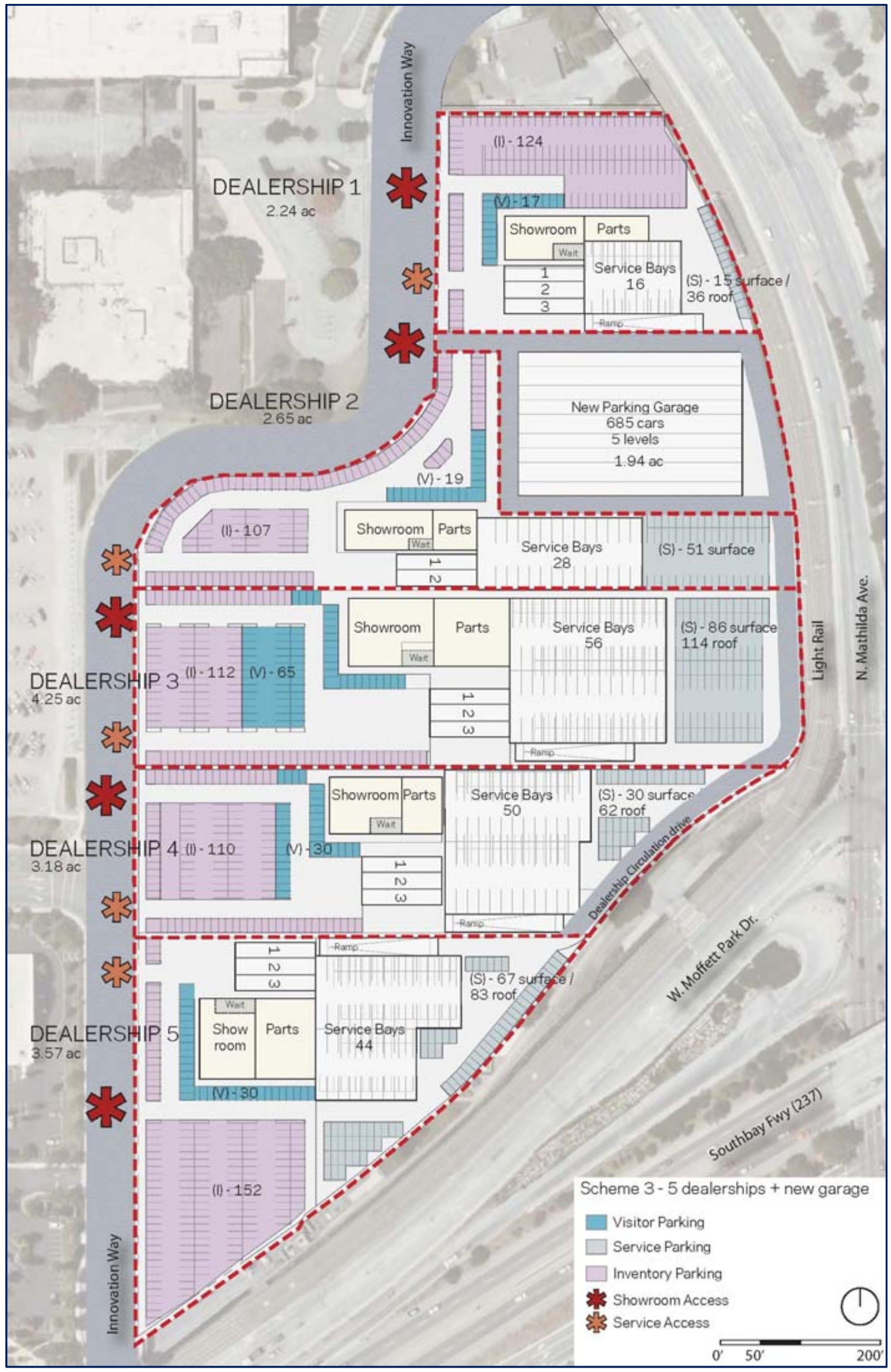
SCHEME 1 - VA ON-SITE, 3 DEALERS					
Dealership Pad	**Acres**	**Facilities (SF)**	**On-Site Parking**	**Off-Site Parking**	**Total Parking**
1	1.91	21,300	134	243	377
2	8.56	59,780	933	707	1,640
3	4.36	49,720	410	393	803
Totals	14.83	130,800	1,477	1,343	2,820

Scheme 2: In this scheme it is assumed that the VA will release its claim on the site, leaving the entire 17.8 acre site is available for the auto center. As shown in the table and site plan below, under this scheme there is adequate land to accommodate **four** dealership pads wit structured parking. This site plans assumes a portion of the auto inventory will be located off-site.



SCHEME 2 - NO VA, 4 DEALERS					
Dealership Pad	Acres	Facilities (SF)	On-Site Parking	Off-Site Parking	Total Parking
1	2.2	21,300	253	124	377
2	3.8	45,000	408	224	632
3	6.2	59,780	940	700	1,640
4	3.7	49,720	503	300	803
Parking Structure Foot print	1.8				
Totals	17.8	175,800	2,104	1,348	3,452

Scheme 3: This scheme also assumes the VA will release its claim on the site. In this scheme the size of several pads are reduced to accommodate five dealership pads with structured parking. This site plan assumes a portion of the auto inventory will be located off-site.



SCHEME 3 - NO VA, 5 DEALERS					
Dealership Pad	**Acres**	**Facilities (SF)**	**On-Site Parking**	**Off-Site Parking**	**Total Parking**
1	2.24	21,300	253	124	377
2	2.65	29,450	279	150	429
4	4.25	59,780	552	788	1,340
3	3.18	45,000	407	225	632
5	3.57	49,720	503	300	803
Parking Structure Foot print	1.9				
Totals	17.8	205,250	1,994	1,587	3,581

d. **Scheme 1 Focus**: Since the three schemes were developed, our due diligence has revealed additional information regarding the intentions of key project participants. First, through discussions with one of the larger Sunnyvale dealerships it has become apparent that the parcel size for its dealership under scheme 3 is too small and will not work operationally. Second, the assumption is that VA would be motivated to release its claim on the site given the required investment and availability of other facility options (see Technical Memo D for more information); it has become evident that VA will exercise its claim. For these reasons, Schemes 2 and 3 contain significant hurdles making them less viable than Scheme 1. The focus of this development plan will be on Scheme 1. Please see the appendix for detailed technical memorandums that address all three schemes. Below are two conceptual renderings of Scheme 1.


Rendering 1 – Scheme 1 Overhead
MATHILDA AVE
HWY 237

Rendering 2 – Scheme 1 Street View

IV. EVIDENCE OF MARKET SUPPORT

a. Methodology Explanation: To confirm that this project is feasible, the consultant team reviewed the level of market support of two components. First, the consultant looked at consumer demand to evaluate the viability of the dealers currently operating in Sunnyvale and to analyze the potential of adding new dealerships to the City. Second, the consultant team confirmed that the existing Sunnyvale dealers were interested in the project and determined their facility needs.

b. Consumer Demand for Automobiles: To evaluate if existing and future demand for automobiles is capable of supporting both dealerships currently operating within the City of Sunnyvale and/or other brands not currently operating within the City, the consultant examined market conditions within the Santa Clara County market area. This analysis, discussed below, focused on existing sales by brand, projected futures sales by brand, and current supply of automobile dealerships.

MAP IV-1: Santa Clara County

- Existing Automobile Dealerships – The following table lists the automobile brands currently operating in the City of Sunnyvale, along with county-wide sales for 2009, and **national** 2010 percentage growth rate forecast by brand. Due to the poor macro economic climate, 2009 was generally an off-year for automobile sales across all brands nationwide. The 2010 market forecast reflects the industry expectation that sales will rebound in 2010. For this study, the projection for 2010 auto sales was used as background information. In evaluating existing dealers currently operating on El Camino Real, more weight and relevance was given to actual sales data provided by the individual dealers.

Table IV-1: Existing Market Data*

Dealer	Annual Manufacture Sales in Santa Clara County (2009)	2010 Market Forecast % Growth
Buick/GMC	511	21.7%
Honda	7,942	14.3%
Toyota	11,044	12.7%
Ford/Lincoln/Mercury	3,153	15.5%
Nissan	2,156	11.5%
VW	1,539	23.4%
Acura	1,059	4.4%
Hyundai	619	28.4%
Kia	145	24.1%
Chevrolet	1,333	15.0%
Lincoln/Mercury	171	N/A

Source: Auto Outlook, Bay Area Automotive Dealers Association N.A.D.A.

This information, along with actual monthly sales data provided by each dealership, was used to calculate two key operational performance metrics for the existing dealers:

Monthly Sales Volume at Fair Share Rate: This is the number of automobiles that could be sold each month if consumer demand is distributed evenly among all dealership points in the market area. For example, if a certain market area has 50 sales of Audis per month and there are two Audi dealers within the area, the fair share monthly sales rate for each dealer is 25 (50 sales / 2 dealers = 25). This metric is used to determine if there is enough demand to support all of the dealers operating in the market area. Due to pricing levels, profit margins, and other operational differences, the minimum number of monthly sales is different among dealers. For example a Porsche dealership can sell ten to fifteen cars a month and be profitable while a Honda dealership needs to sell many more.

Efficiency Factor: This metric examines each dealer's actual monthly sales volume and compares it to the Monthly Sales Volume at the Fair Share Rate to evaluate performance. As actual sales performance data obtain by Dealership Experts is confidential, we have not presented actual data. Below is a table showing three example calculations.

Table IV-2: Efficiency Calculation							
	A	B	(A/B)	C		D	(D/C)
Dealer	Total Dealer Points in Sunnyvale	Total Dealer Points Santa Clara County	Fair Share % Capture Rate	Monthly Volume @ Fair Share Rate	Annual Auto Sales Santa Clara County (2009)	Existing Average Monthly Volume	% Efficiency
Example Dealer 1	1	3	33%	28	1000	33	119%
Example Dealer 2	1	3	33%	56	2000	33	59%
Example Dealer 3	1	4	25%	42	2000	70	168%

Example Dealer 1 in the table above shows that that the dealer is capturing over 100% of its fair share of the market, meaning the dealership is taking market share away from other dealers in the area. Example Dealer 2 is capturing less than 60% of its fair share, meaning it is ceding market share to other dealers.

Findings and Conclusions – Existing Dealers:

- **Six Sunnyvale dealers** are operating at supportable monthly sales levels.

- The monthly sales rate for **one dealer** is borderline; meaning long term viability is questionable.

- **Four Sunnyvale dealers** are all operating below 100% efficiency→ Meaning a move to better location provided by the Onizuka might allow each dealer to improve their sales efficiency

- New Dealerships – In addition to evaluating the performance and potential of the seven dealers currently operating in Sunnyvale, all other brands were also evaluated to determine the potential of new dealership points opening in the City. The table below shows the seventeen non-Sunnyvale brands. For these brands, the *Monthly Sales Volume at Fair Share Rate* was estimated assuming one additional dealership was opened in the Santa Clara County market area. Next it was determined if the fair share capture rate was supportable. Lexus for example shows a monthly sales rate of 88 cars when another hypothetical dealer is added to the market area. Because 88 cars per month is enough volume to operate a dealership, it is noted as supportable in the table. The finding of "Supportable" only means that, given the existing volume of a particular brand's auto sales, there is enough volume to support an additional dealership in the area. The feasibility of adding another dealer will be impacted by manufacturer input, individual dealership operations, and territory encroachment issues.

  The consultant also reviewed the number of potential encroachment issues by identifying how many existing dealers are located within 10 miles of the Onizuka. That information is included in the table and is also shown in the map below. If a new dealership were to open at the Onizuka site, time and money would likely have to be invested to resolve these encroachment issues. The table shows the results of that analysis.

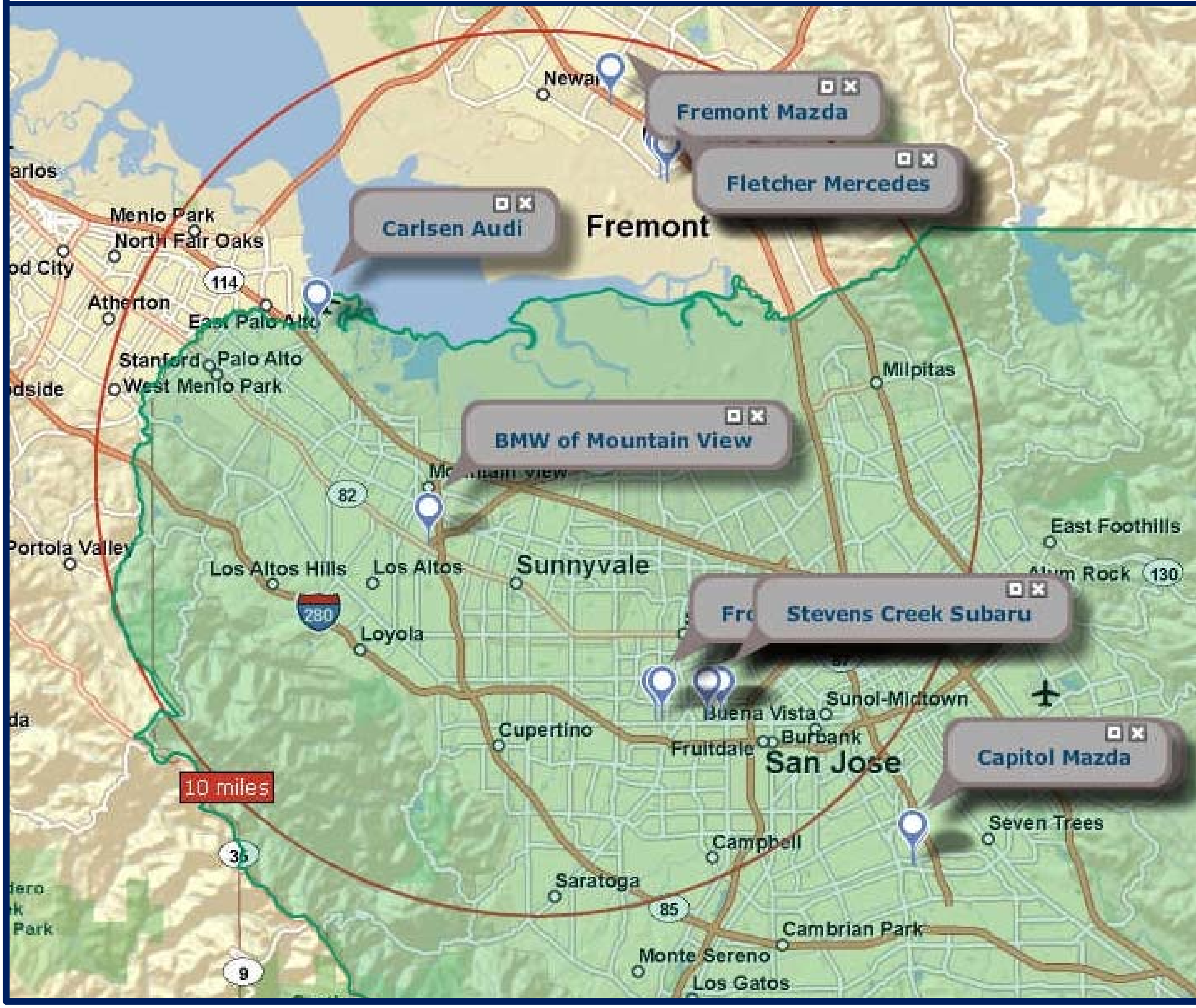
Table IV-3: Supportable Dealer Analysis

	Potential New Points	Monthly Volume at Fair Share Capture Rate	2010 Market Forecast % Growth*	Finding	Exisitng Dealers within 10 mile radius**
1	**BMW**	43	10%	Supportable	3
2	**Lexus**	88	10%	Supportable	2
3	**Mazda**	57	16%	Supportable	1
4	**Mercedes**	64	11%	Supportable	1
5	**Infiniti**	20	18%	Possible	1
6	**Subaru**	31	20%	Possible	1
7	**Audi**	24	21%	Possible	2
8	**Cadillac**	7	19%	Not Supportable	
9	**Chrysler**	5	-7%	Not Supportable	
10	**Dodge**	9	-4%	Not Supportable	
11	**Jaguar**	5	20%	Not Supportable	
12	**Jeep**	7	7%	Not Supportable	
13	**Land Rover**	5	10%	Not Supportable	
14	**Mini**	12	18%	Not Supportable	
15	**Mitsubishi**	3	-3%	Not Supportable	
16	**Porsche**	9	24%	Not Supportable	
17	**Volvo**	6	18%	Not Supportable	

**Source" Auto Outlook, NADA*

***Includes both dealers in Santa Clara County and Alameda County (Not reviewed for "Not Supportable" Dealers)*

MAP IV-2: EXISTING TARGET DEALERS WITHIN 10 MILE RADIUS



Note: Due to the clusters of dealers at Stevens Creek and in Fremont not all of the eleven 10-mile radius dealership points listed in the table are visible on the map above.

<u>Findings– New Dealers:</u>

- 5-7 additional automobile brands might consider adding a point in the Santa Clara market and could be potential recruitment targets for the Onizuka site

- All of the potential new target dealers have at least one existing dealer within 10 miles of the Onizuka site, meaning there is a territory encroachment issue that would need to be resolved. The cost, time and ability to resolve these encroachment issues varies based on existing dealership agreements, the dealers involved, and influence of the brand manufacturer.

c. Dealership Operator Participation

- Methodology Review – To gauge interest from the seven dealers currently operating on El Camino Real, we completed each of the tasks described below

  Dealership Interviews: The consultant completed extensive multi-day interviews with each of the seven dealerships currently operating in Sunnyvale. The purpose of the interviews was to discuss the potential of the project, review and collect data regarding existing facilities and operations, gauge interest, and determine key requirements of participation. These interviews revealed that five out of the seven dealers expressed strong interest in the project. Acura and Volkswagen were the two dealers not interested in the project. Acura is currently pursuing an alternative relocation and Volkswagen wishes to remain on El Camino Real.

  Set Development Program – After multiple meetings with each interested dealer, observation of existing operations, and projection of performance at the Onizuka site, Dealership Experts determined the operationally facility needs of each interested dealer and worked with HOK to develop an optimal site plan.

  Presentation of Conceptual Deal Terms – The consultant and City staff met with each dealership operator individually to present the conceptual site plan along with the costs estimates for the land and construction of new facilities. At this meeting each dealer was presented with a complete project package containing detailed site plan/development program, site preparation cost estimate, and facility construction cost estimate. At the end of the presentation City staff asked each dealer to consider signing a letter of intent confirming their continued interest in the project.

- Results: As of August 9, 2010, the City of Sunnyvale has received a signed **letter of intent** from the following operators:

  - Adam Simms, General Manager, Toyota Sunnyvale

  Steve Fuentes of Sunnyvale Ford originally signed the letter of intent, but conditioned his interest on receiving additional financial assistance due to the high costs of the project.

  Mark Balestra of GMC originally signed a letter of interest, but rescinded it when the number of potential dealerships was reduced.

V. CONCEPTUAL DEVELOPMENT PROCESS

a. **Development Process Explanation**: In complex multi-stage, multiparty real estate development projects such as this one, it is important to establish clarity regarding which entities are in control of which aspects of the project. The City of Sunnyvale is the entity who, through the LRA, could take control of the site from the United States Air Force. The automobile dealership operators would be the final end users. The LRA would need to establish what entity will be responsible for completing all of the demolition / site preparation and what entity will be responsible for construction of the new dealership facilities.

b. **Lending Institution Input:** As it is a logical expectation that this project will require financing from the investment community, the consultant contacted a group of area lenders. The purpose of these interviews was to present the conceptual development concept and inquire whether or not the lender would be interested in financing and under what terms.

Banks Contacted: U.S. Bank, Wells Fargo, Bank of America, Comerica Bank, First Bank, Bank of the West, Citibank, Chase Bank, Union Bank, Clearinghouse CDFI

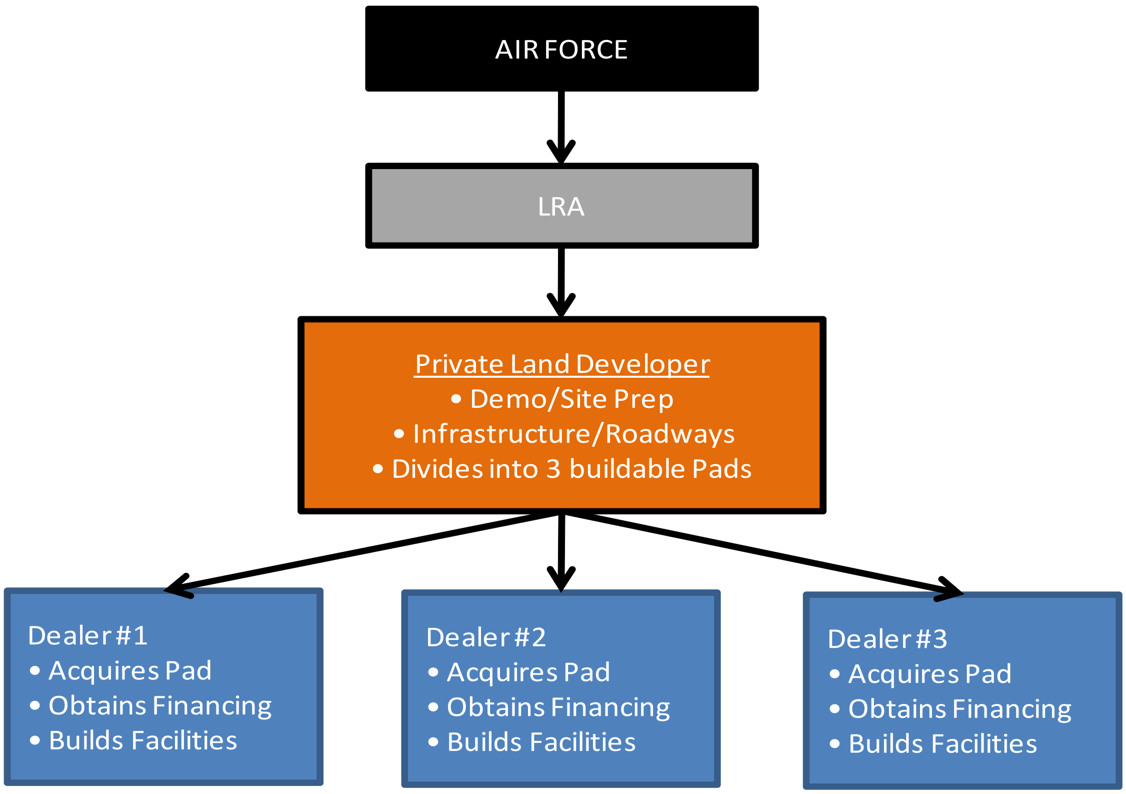
Results:

- Lenders are reluctant to extend credit for the total project costs ($40M-$70M depending on scheme) to one development entity (master developer) given specialized use and the fact that most of the risk lies with end-user dealers. If one or more dealer drops out after construction costs are incurred, there is a very limited number of alternative end-users that can step in as compared to a retail or office project.

- For the same limited user risk issues stated above, lenders were not interested in providing financing to Master Land Developer for site preparation costs. Therefore site preparation costs must be financed 100% with equity capital provided by the land developer.

- Lenders are willing to finance improvements for individual dealers to obtain/maintain/increase lucrative floor financing relationships (floor financing = credit for dealer's new car inventory). The floor financing relationships are large ($30-$50M annually) and usually last 5-10 years, meaning they are important income generators for the banks.

c. **Assumed development process**: Based on the input from the lending institutions a possible conceptual development process is depicted in the following flow chart:



The role of the Private Land Developer shown in the chart assumes that none of the end-user dealers would be willing to take on the risk and responsibility of preparing the site for development. If one or more of the dealers was willing to undertake the land development costs individually or collectively, the Private Land Developer role and associated costs (discussed below) could be eliminated.

VI. SITE/PAD DEVELOPMENT COSTS

a. Explanation of Site/Pad Development Costs: Given the conceptual development process explained in the previous section, it is assumed that the following site/pad development costs will be incurred by a private land development entity that will prepare the site for the dealerships. The following costs include everything required to transform the Onizuka Air Force Base into developable land ready for the final construction of auto dealership facilities. Details on all costs are available in the Background Tables attached to Technical Memo "TASK B.5 – FINANCIAL FEASIBILITY ANALYSIS".

b. Specific Costs:

- **Land Costs**: The current assumption is that the City of Sunnyvale will request a no-cost Economic Development Conveyance (EDC) from the air force, meaning the site acquisition costs are zero. A no-cost EDC is appropriate when the project will contribute to economic development of an area/region and cannot absorb acquisition costs while maintaining financial feasibility. The Onizuka Auto Center project meets both of these conditions. It should be noted that HUD and the Department of Defense must agree that an EDC is justified. See section IX "Risk Factors" for discussion of risk factors including the likelihood of the project receiving a no-cost EDC.

- **Site Clearing**: Costs to remove all fences, sidewalks, landscaping on innovation way, and to cap and leave in place utilities.

- **Demolition of Existing Structures**: As the intensity and bulk of development on the site is significant, this cost makes up a large portion of the site/pad development costs. These costs include a significant credit due to the assumption that several of the buildings, particularly the Blue Cube, contain large amounts of materials that can be sold for recycling.

- **Roadways**: Costs for new asphalt paving, concrete curbs, and intersection signalization.

- **Site Infrastructure**: These costs include all connections and required new lines/systems for water, storm water, sewer, power, and telephone.

- **Soft Costs**: Soft costs include all design/engineering, legal, construction administration, permits, and insurance costs related to the site work. They are calculated as a percentage of the hard costs described above (2-5).

- **Environmental Remediation**: Based on analysis completed by team member Lamphier-Gregory, the two environmental remediation costs the project is likely to incur are related to dealing with the asbestos and lead based paint present in the existing buildings. Details on this analysis can be found in technical memo "TASK B.3 ENVIRONMENTAL ANALYSIS".

- **Innovation Way Access**: The site plan set for this project places access from Innovation Way, the road that borders the site on the west. Due to fact that the road is partially privately owned, there is the possibility that, depending on timing of the Onizuka project and other projects in the area, access to the privately owned portion will need to be acquired. To be conservative, an Innovation Way access cost was included. Cost of acquisition was set based on an analysis of how much land is needed and a valuation of that land. See section IX “Risk Factors” for discussion of this analysis.

- **Land Developer Profit**: The land development entity responsible for preparing the site will have to be compensated for taking on the risk associated with incurring all of the costs listed above. We have assumed that land developer will require a 20% profit mark-up above the development costs. Please note, in the event the one or more of the dealers decide to act as land developer, all or a portion of the land developer profit could be removed. This would reduce the site preparation costs by approximately $1,700,000.

c. **Scheme 1 Cost Table**: Below is table listing the site/pad development costs for Scheme 1. Information on cost estimates for Schemes 2 and 3 is available in technical memo “TASK B.5 FINANCIAL FEASIBILITY ANALYSIS.”

Table VI-1: Pad Preparation Costs - Scheme 1

Horizontal Costs	**Amount**
SITE PREPARATION	
Site Clearing	$103,000
Demolition	$4,668,000
Credit for Recycled Materials	($1,458,000)
Total Site Preparation	**$3,313,000**
ROADWAYS	$1,024,000
SITE INFRASTRUCTURE	$1,767,000
Total Hard Costs	**$6,104,000**
Soft Costs (11% of HC)	$700,920
Hard + Soft Costs	$6,804,920
Environmental	$900,000
Innovation Way Access	$1,100,000
Total Pad Preparation Costs	**$8,804,920**
Land Developer Profit (20%)	$1,760,984
Total Cost with Land Developer Profit	$10,565,904
Total Acreage	*14.83*
Cost / Acre	*$712,000*

VII. AUTO DEALERSHIP FACILITY CONSTRUCTION COSTS

a. Explanation of Facility Construction Costs: These costs include everything required for each dealer to acquire a buildable pad and construct a new automobile dealership facility. Under the assumed development process, each dealership operator will be responsible for design and construction of their specific facilities.

b. Specific Costs:

- **Pad Acquisition:** This cost is based on the site preparation cost per acre estimated in Table VI-1 above and the parcel size of each dealership pad.

- **Facility Program**: Each dealership facility will have three components: showroom area, parts department, and service shop. The cost estimate for each component is a based on size (square footage), level of finishes, and necessary equipment. (e.g. hydraulic lifts in service area).

- **On-Site Parking**: There are three types of potential on-site parking. Surface parking is located around facilities and is least expensive. Roof parking is located on top of the service area and is approximately twice as expensive as surface parking. Lastly is structured parking, by far the most costly type of parking and included only in Schemes 2 and 3.

- **Contingency (Design Allowance):** Given the conceptual stage of the project design and the expectation that the auto center should exhibit a higher architectural quality since it will be located at the entrance of a class A office business park, a 23 percent contingency mark-up is included on all hard costs. This mark-up is in place to cover more complex architectural features and higher level of exterior finishes that could be used in the project.

- **Soft Costs**: Soft costs include all engineering, legal, construction administration, permits, and insurance costs related to the site work. They are calculated as a percentage of the hard costs described above.

- **Off-Site Parking**: The constrained size of the site requires each dealer to maintain a portion of their inventory at an off-site location. This cost was estimated based on: current assessment of various nearby parcels suitable for off-site parking, recent land sale transactions, and discussions with commercial real estate brokers. Details on this analysis are included in the background tables attached to technical memo “TASK B.5 FINANCIAL FEASIBILITY ANALYSIS.”

c. **Scheme 1 Facility Cost Table by Dealership pad**: Below is a table detailing all of the costs for the three dealership pads in the Scheme 1 program. The dealership pads were set based on the operational needs of the existing El Camino real dealers that were interviewed during the analysis of this project. Information on cost estimates for Schemes 2 and 3 can be found in the appendix within the "TASK B.5 FINANCIAL FEASIBILITY ANALYSIS.

Table VI-1: Development Costs by Dealer - Scheme 1

		Dealership Pad #1			Dealership Pad #2			Dealership Pad #3		
	Pad	**Pad Size (Acres)**	**Cost**	**Cost/Acre**	**Pad Size (Acres)**	**Cost**	**Cost/Acre**	**Pad Size (Acres)**	**Cost**	**Cost/Acre**
A	Pad Acquisition	1.91	$1,360,814	$712,468	8.56	$6,098,728	$712,468	4.36	$3,106,362	$712,468
	(% of Total Site)	13%			58%			29%		
	Facility Program	**SF**	**Cost**	**Cost/ SF**	**SF**	**Cost**	**Cost/ SF**	**SF**	**Cost**	**Cost/ SF**
	Showroom Area	5,500	$1,105,869	$201	8,500	$1,570,052	$185	6,500	$1,263,649	$194
	Parts Department	5,000	$793,831	$159	16,000	$2,093,121	$131	7,000	$1,034,952	$148
	Service Shop	10,800	$2,329,509	$216	35,280	$6,579,257	$186	31,500	$5,590,554	$177
	(# of Bays)	(16)			(56)			(48)		
	Total Facilities	**21,300**	**$4,229,208**	**$199**	**59,780**	**$10,242,430**	**$171**	**45,000**	**$7,889,155**	**$175**
	On-Site Parking	Spaces	Cost	Cost/Space	Spaces	Cost	Cost/Space	Spaces	Cost	Cost/Space
	Surface	98	$289,095	$2,950	819	$2,274,754	$2,777	327	$921,854	$2,819
	Roof	36	$223,146	$6,199	114	$829,642	$7,278	83	$514,476	$6,199
	Garage	0	$0	$21,165	0	$0	$21,165	0	$0	$21,165
	Total Parking	134	$512,241	$3,823	933	$3,104,396	$3,327	410	$1,436,330	$3,503
	Facility + On-Site Parking		$4,741,449			$13,346,826			$9,325,485	
	Soft Costs									
	Design		$379,316			$1,067,746			$746,039	
	Legal, Permits, Insuranc		$165,951			$467,139			$326,392	
	Total Soft Costs		$545,267			$1,534,885			$1,072,431	
B	Facility Hard + Soft Costs		$5,286,716			$14,881,711			$10,397,915	
	Off-Site Parking	Spaces	Cost	Cost/Space	Spaces	Cost	Cost/Space	Spaces	Cost	Cost/Space
C	Required Parking	243	$1,093,500	$4,500	707	$3,181,500	$4,500	224	$1,008,000	$4,500
(A+B+C)	**Total Cost**		**$7,741,000**			**$24,162,000**			**$14,512,000**	

VIII. RENT FACTOR COMPARISON ANALYSIS

a. **Explanation**: To evaluate if the three participating dealers in Scheme 1 would be willing to make the investment required to open new facilities at the Onizuka site, the consultant analyzed how the relocation would impact their rent factors. The current rent factor is the monthly amount each dealer pays for use of their existing facilities on El Camino Real. For the Onizuka site the rent factor is the amount each dealer will have to pay to finance the construction of new facilities expressed monthly for comparison purposes.

b. **Current Rent Factors**: Based on interviews with the dealership operators that originally expressed interest in the Onizuka site, we determined the average monthly rent factor at El Camino Real to be $17,437 per acre.

Table VIII-1: Existing Rent Factors @ El Camino Real

Dealership	Rent Factor (Monthly)	Rent Factor (Annual)	Current Acreage	Per Acre Rent Factor
Dealer 1	$40,000	$480,000	2.6	$15,385
Dealer 2	$178,000	$2,136,000	9	$19,778
Dealer 3	$69,000	$828,000	5.2	$13,269
Dealer 4	$79,000	$948,000	4.2	$18,810
Dealer 5	$49,000	$588,000	2.8	$17,500
Totals - Average	$415,000	$4,980,000	24	$17,437

Source: Dealership Experts, based on Dealer Interviews

c. **Financing Assumptions**

- **Capital Structure Rationale**: Based on discussions with various lending institutions, we have considered three types of capital for this project, private bank debt, gap financing, and owner provided equity.

- **Bank Debt**: This source will account for **80%** of project costs and will most likely be provided by lending institutions the dealerships already have existing operational financing relationships with. Based on recent discussions with area lenders, the assumed interest rate for this type of long term debt is **6.5%** with **30 year** payback period.

- **Gap Financing:** This type of financing fills the gap between the 80% of project costs provided by bank debt and the equity provided by the owner. As claims on the security or collateral will be subordinated to the bank debt, the default risk for this type of financing is higher. This causes a higher interest rate for this type of financing. The gap financing is typically provided by the bank that provided in the debt, a non-bank lending institution, or a private investor. It has been assumed that 10% of the project costs will be financed with gap capital, the annual interest rate is 10%, and the structure of the loan is interest only.

- **Owner Equity:** It has been assumed that the remaining 10% of the project costs will be provided by the auto dealership operators.

- **Financing Table**

Table VIII-2: Project Capital Structure

	Financing Assumptions			
Capital Source	Investment Type	Loan Interest Rate	Amortization (Years)	% of Capital Structure
Bank Financing (Construction & Permanent)	Loan	6.50%	30	80%
Private Investor/Bank Gap Financing	Interest Only Loan	10%	-	10%
Dealer Provided Equity	Equity	0%	-	10%
				100%

d. **Findings & Sensitivity**: Below is a table that summarizes the results of the rent factor analysis. We calculated the annual debt service given the estimated total required investment and assumed project capital structure. The Onizuka site rent factor ranges from $23,286 per acre to $17,023 per acre and the average across the three pads is $20,000 per acre. The table also shows, highlighted in orange, the percentage change in rent factor at the Onizuka site compared to the average per acre rent factor on El Camino Real. While the increase of 34% for Pad #1 is significant, Pads #2 and #3 are in-line with the existing per acre rent factors on El Camino Real.

Table VIII-3: Onizuka Rent Factor Calculation

	Required Investment & Rent Factor	Dealership Pad #1	Dealership Pad #2	Dealership Pad #3
	Pad Size (Acres)	**1.91**	**8.56**	**4.36**
	Pad Acquisition	$1,360,814	$6,098,728	$3,106,362
	Total Facilities	$5,286,716	$14,881,711	$10,397,915
	Off-Site Parking Acquisition	$1,093,500	$3,181,500	$1,008,000
	Total Unadjusted Investment	$7,741,000	$24,162,000	$14,512,000
	Manufacturer Participation Assumption*	30%	0%	30%
	Less Manufacturer Participation*	($369,913)	$0	($422,691)
	Total Required Investment	$7,371,117	$24,161,939	$14,089,586
	Financing Structure			
	Bank Financing (Construction & Permanent)	$5,896,894	$19,329,551	$11,271,669
	Private Investor/Bank Gap Financing	$737,112	$2,416,194	$1,408,959
	Dealer Provided Equity	$737,112	$2,416,194	$1,408,959
	Total Sources	$7,371,117	$24,161,939	$14,089,586
	Construction Period Interest	$165,113	$541,227	$315,607
	Permanent Loan Amount**	$6,062,007	$19,870,778	$11,587,276
	Annual Debt Service			
	Bank Financing (Construction & Permanent)	$460,000	$1,507,000	$879,000
	Private Investor/Bank Gap Financing	$73,711	$241,619	$140,896
	Dealer Provided Equity	$0	$0	$0
A	Total Debt Service	$533,711	$1,748,619	$1,019,896
	Rent Factor Comparison			
A/12	Onizuka Site Monthly Rent Factor	$44,476	$145,718	$84,991
	Per Acre	$23,286	$17,023	$19,493
	Average Monthly per Acre Rent Factor @ ECR	$17,437	$17,437	$17,437
	Change in Monthly Facility Expense	34%	(2%)	12%
	Sensitivity Analysis			
	Reduction in Cost Required to limit Rent Increase to 0%	*($1,800,000)*	-	*($1,500,000)*
	Reduction in Cost Required to limit Rent Increase to 15%	*($1,000,000)*	-	-

**Percentage of showroom costs*
***Equals construction loan + interest*

The bottom box in Table VII-3 shows the results of a sensitivity analysis completed for Pads #1 and #3. As shown in the table, if the required investment for Dealership Pad #1 was reduced by $1.8 of the original required investment estimate, there would be no difference between El Camino Real rent factor and the Onizuka facility expense. If required investment was reduced by $1,000,000, the rent factor of Pad #1 at Onizuka would be 15% higher than current rent factor at El Camino Real.

e. Key Takeaways:

- The project offers a compelling opportunity to move to new facilities in a better location for an average monthly rent factor of approximately $20,000. This is 14% higher than the existing average monthly rent factor of $17,537 per acre on El Camino Real.

- The 14% average increase is likely justified by the fact that the Onizuka site will provide new and improved facilities with better access and visibility that should increase sales and service revenue.

- At 1.9 acres, Dealership Pad #1 has a monthly rent factor expense of approximately $23,000 per acre. The size and cost of this pad is best suited for “high-line” luxury auto brands.

- The projected increase in rent factor expense for Pads #1 and #3 can be reduced by lowering the project costs. This could be achieved through the project design process (e.g. type of materials, architectural detail), reconfiguring the development process to eliminate the land developer role and associated profit, and/or public financing assistance to reduce infrastructure costs.

IX. FINANCING TOOLS

a. **Usage of Funding Tools:** At this time the City of Sunnyvale is **only** considering the usage of the No-Cost Economic Development Conveyance. This means that financial assistance to the auto dealers would potentially be through a significant write-down of land acquisition costs. The other funding tools noted below were evaluated regarding their appropriateness for this type of project but were not included in any of the financial analysis and **are not** currently under consideration by the City of Sunnyvale with respect to this development project.

b. **Table of Financing Sources:** After evaluating a wide range of public financing tools the team has identified four that are potentially appropriate for this project. These sources are all only available to finance public infrastructure and improvements, which are estimated to be about $3,000,000 for this project. The table below identifies each program along with the maximum amount of funding available and financial risks to the City.

TABLE IX-1: Public Financing Tools

Funding Tool/Program	Type of Program (Grant, Loan, Operational Incentive)	Impact on Project	Maximum Funding Available (Scheme 1)	Type of Funding	Source of Cash Flow to Service Debt	Financial Risks to City	Annual Cash Flow Required to Service Debt	Comment
BRAC - Economic Development	Grant reduce/eliminate acquisition costs	Reduces Project Cost	Land Value	Grant	NA	None	NA	Assume LRA will implement this tool.
Mello-Roos	Vehicle to finance public infrastructure costs via future cash flow generated from project	Lowers Cost of Capital	$3M	Loan	Special tax on Community Facilities District land owners	Property Owners Don't Pay Special Tax, Requiring City to cover debt service payments	$178,000	Potential fit, used for Auto-Mall in Thousand Oaks, CA (2008)
Tax Increment Financing (TIF)	Vehicle to finance Sitework cost via tax increment	Source of Capital	$1.8M	Loan	Incremental Property Tax	Property Owners Don't Pay Tax, Increment insufficient to cover debt service, State requests incremental tax revenue	$231,000	Requires creation of redevelopment district and agency approval. There is risk State could take tax revenue
HUD Section 108 Program	Loan for public infrastructure costs	Lowers Cost of Capital	$3M	Loan	CDBG Allocation	Low - loan is guaranteed and backed by future CDBG allocations	$221,000	Requires cost to comply with Federal Funding requirements (Davis Bacon) Reduces available CDBG funds for other programs by 16%

c. Comments on Funding Sources:

- **Mello-Roos**: The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a "CFD") which allows for financing of public improvements and services. This financing vehicle could be an effective tool to implement the public funding concept discussed in the previous section. All of the public infrastructure costs are eligible to be financed with this tool; this includes roadways, traffic improvements, and utilities. In Scheme 1 the amount these public infrastructure costs is approximately $3,000,000. Under this financing tool the CFD can issue a bond to cover the cost of the public infrastructure and create a special tax assessed to property owners in the district. The amount of the special tax would be set to cover debt service on a municipal bond. In this case the annual debt service on the $3,000,000 public infrastructure cost is approximately $178,000.

- **Tax Increment Financing (TIF):** Under California redevelopment law the tax increment financing tool is available for all projects located in designated redevelopment project areas. To qualify as a designated redevelopment project area there must be documented findings of both economic and physical blight justifying that the area would likely not be redeveloped in the absence of public assistance. The TIF mechanism allows a portion of the incremental or net new property tax that will be generated by a redevelopment project to support debt that is used to pay for public infrastructure associated with the project. One of the main benefits of the TIF mechanism is that capital needed to cover all or a portion of the public infrastructure is provided at the start of the project and is finance by future tax flows generated by the project.

  Due to the fact that the Onizuka site involves the reuse of a military base that has significant demolition ($3.2M) and environment remediation cost ($1M), it is likely that a strong case could be made to characterize the site as economically and physically blighted and therefore eligible for redevelopment area designation. If designated as redevelopment project area, the Onizuka project has approximately $3,000,000 in public infrastructure costs that qualify for TIF financing. Under the three dealership program evaluated in Scheme 1, the $41M in incremental property tax assessment would generate approximately $411,000 in incremental property tax. Assuming 50% of the incremental tax revenue would available after required deductions for housing and other pass-through reductions, that would leave $205,000 in annual tax revenue available to finance a portion of the infrastructure costs. With standard TIF financing assumptions, this amount of cash flow could support approximately $2,000,000 is public infrastructure costs. The table below shows the TIF financing assumptions.

TABLE IX-2 Calculation of TIF Financing

	Scheme 1
Annual Incremental Property Tax	$411,320
Less 50% to Housing And Pass Throughs	$205,660
Cash Available to Service Debt	$205,660
Interest Rate	7.00%
Term	40
Debt Service Coverage Ratio	1.2
Maximum Supportable Debt	$2,285,000
Annual Debt Service	($171,396)
Less 18 Months Capitalized Interest	($257,094)
Available Funds to Cover Public Infrastructure Costs	**$2,027,906**

It is also possible that redevelopment area could be expanded beyond solely the Onizuka site to include adjacent properties. To be included in the redevelopment area, the adjacent properties would also have to pass the economic and physical blight test. A larger site would result in additional incremental tax revenue allowing for more debt and additional costs to finance through the TIF mechanism. Expanding the redevelopment area would also enable the City to leverage the incremental tax revenue on the Onizuka site to spur redevelopment on the adjacent sites by financing potential infrastructure costs on those sites.

- **HUD Section 108 Loan:** Under this program the City of Sunnyvale could use a portion of its future CDBG allocations to fund upfront infrastructure costs. The maximum amount available would be equal to five times the current 2010 CDBG allocation or $6.7M ($1.3M X 5 = $6.7M). However as this financing tool is limited to public infrastructure, the maximize size of the loan would be about $3,000,000. Going forward the City would need to use a portion of its annual CDBG allocation to pay debt service on the $3M. After debt service is paid, the remaining CDBG funds could be used for other CDBG projects. Assuming the City's CDBG allocation remains constant, use of this mechanism to fund $3M in up-front infrastructure costs would reduce the remaining amount available for other CDBG programs by approximately 16%. The table below details this calculation.

TABLE X-3: HUD Section 108 Loan

2010 CDBG Allocation	$1,338,000	**A**
Annual Allocation Multiplied by Five	$6,690,000	
Public Infrastructure Costs Scheme 1	$3,000,000	
Maximum Loan*	$3,000,000	
US Treasury Rate	3.50%	
Spread over Treasury	0.5%	
Loan term	20	
Annual Debt Service	($221,000)	**B**
Available annual CDBG funds after debt service	$1,117,000	**(A-B)**
% Reduction from current funds available	16.5%	

**Minimum of allocation x 5 and cost of public infrastructure*

It should also be noted that the use of this program requires that the project generates new jobs. Another consideration is that use of this Federal funding program would require the project to comply with Davis-Bacon Act meaning project labor costs would have to be consistent prevailing wage, potentially increasing project costs.

X. BUSINESS INCENTIVES

The following is brief review of the various business incentives available to the City to encourage the redevelopment of the Onizuka Air Force Base site. A comprehensive analysis of the incentives is covered in Technical Memo C.2.

a. Local Agency Military Base Recovery Area (LAMBRA)

Businesses located in a fully-designated LAMBRA may be eligible for the following program incentives.

- Up to 100% Net Operating Loss (NOL) carry-forward; may be carried forward for 15 years.
- State tax credits for each qualified employee hired up to $2 million per year with a few provisions.
- Corporations can earn sales tax credits on purchases of $20 million per year of qualified machinery and machinery parts.
- Upfront expensing of certain depreciable property, up to $40,000 annually.
- Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment.

In concert with receiving and utilizing the state incentives of the LAMBRA, some communities have also offered local incentives bolstering the LAMBRA incentives for business and industry. Therefore, any business inside the LAMBRA zone is eligible for program benefits. For instance, Sacramento provides employment training reimbursements, expedited permit processing and low interest loans.

To receive a LAMBRA designation it will require the city of Sunnyvale to initiate state legislative action, probably through the assistance of their state legislators.

LAMBRA is similar to a state enterprise zone with the exceptions of a couple of items. First; an application for a LAMBRA has no precondition or pre-requisites for communities to meet or fulfill other than having a closed military base or installation in their community. Second, obtaining a LAMBRA is not a competitive activity. Thirdly, the designation is not predicated upon a targeted population to be served. A LAMBRA is primarily focused at covering all or some portion of the base. And unlike a state enterprise zone, a LAMBRA unfortunately, does not provide lenders to businesses a net interest deduction. However, the value to the auto dealers would be multifold. For example, similar to an enterprise zone they can earn over $36,000 or more in state tax credits over a 5 year period from hiring qualified employees. This however, cannot exceed $2 million in a year. But the value could be significant.

(LAMBRA UPDATE - Please Note: State Senate President Pro Tem Darrell Steinberg (D-Sacramento), has introduced SB 974, a bill which constrains and eliminates incentives from not only state enterprise zones but also as it pertains to LAMBRA's and Manufacturing Enhancement Areas, MEA's given that they all receive identical business

incentives. This bill also caps the amount of tax credits available to businesses in Enterprise Zone, LAMBRA and MEA's. This will launch an unprecedented scramble among businesses to compete against each other to get their voucher applications submitted as quickly as possible)

b. **Hiring Tax Credits**: A new federal law provides two tax credits for businesses that hire the unemployed, could also assist the auto dealerships. The program is entitled, Hiring Incentives to Restore Employment Act, HIRE.

c. **Workforce Training**: Yet another incentive for the auto dealers is the access to funding for training. The state's Employment Training Panel, ETP is a business and labor supported state agency that assists employers in strengthening their competitive edge by providing funds to off-set the costs of job skills training necessary to maintain high-performing workplaces. The program serves as the State's premier economic development tool, encouraging many companies to locate or expand in California with the understanding of assistance of ETP's job training funds.

d. **Cost Segregation**: Under federal tax laws and accounting rules, cost segregation is the process of identifying personal property assets that are grouped with real property assets and separating out personal assets for tax reporting purposes. Cost segregation identifies and reclassifies personal property assets to shorten the depreciation time for taxation purposes, which reduces current income tax obligations.

e. **Energy Incentives**: The energy utility that supports the surrounding area to Onizuka is Pacific Gas and Electric, PG&E. They offer a program entitled Savings by Design. The purpose of the program is to encourage high-performance new building design and construction for commercial buildings. The program offers building owners and their design teams a wide range of services, such as Design Assistance; Design Team Incentives; Owner Incentives; and an educational resource. Savings by Design offers these services for customized new construction projects that exceed California's Title 24 energy efficiency standards.

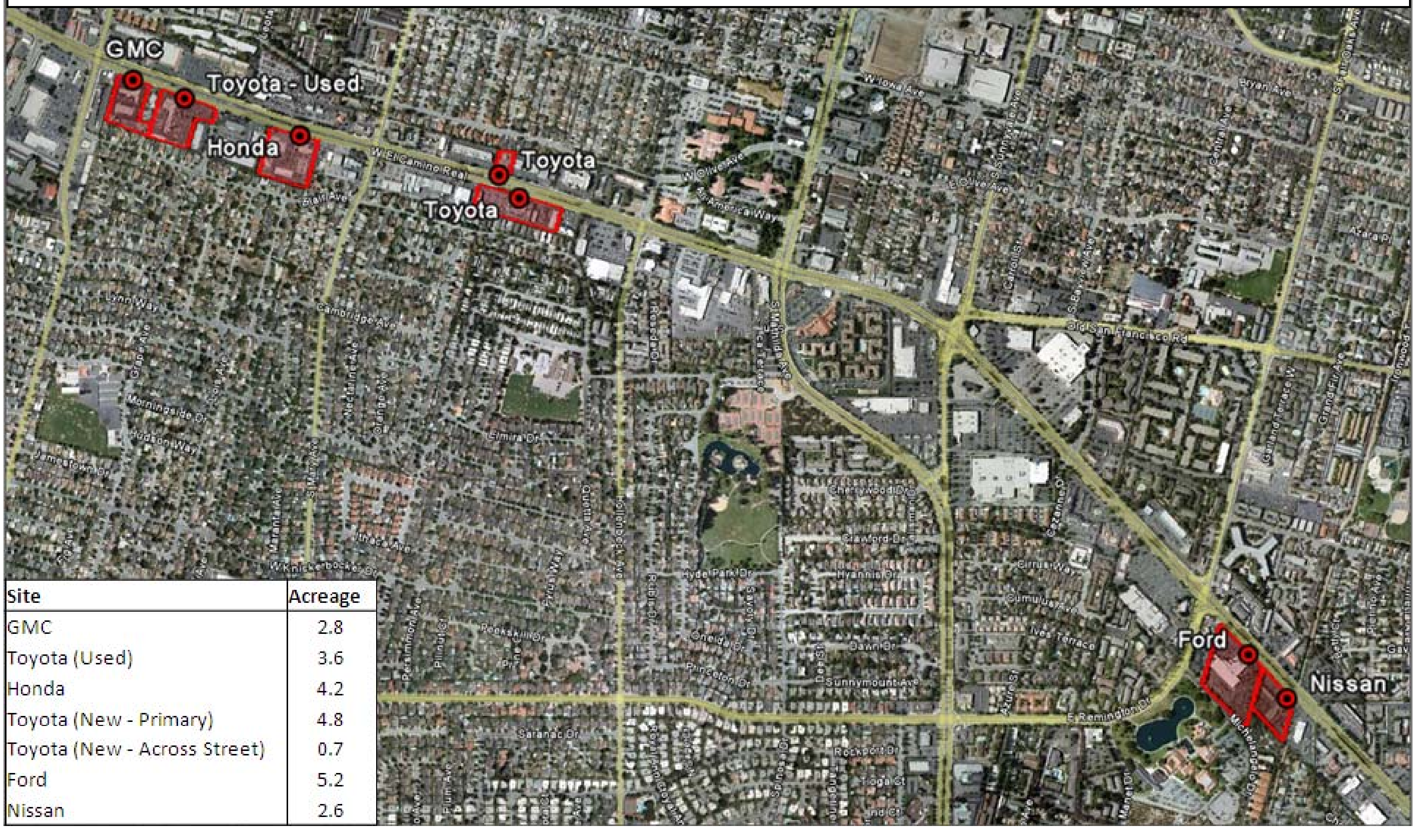
f. **Abatements** In the case of abatements, it is an action where a percent of a tax or a fee is reduced. Abatements can be used to reduce upfront costs of development, as with development impact or permit fee reductions. Tax abatements serve to reduce on-going operating expense, and typically structured to phase out over time. For instance if a project is receiving property tax abatements, the abatement might be 80% in year one, 60% in year two and so on until the abatement is completely phased out.

g. **Deferrals**: A deferral is a postponement of an action. In the case of construction projects, this can be the postponement of the payment of building fees until the issuance of an occupancy permit. Or it can be a phased payment of building permits such as for foundation and or structural review then followed by a subsequent and concluding payment at the time of the issuance of a certificate of occupancy.

XI. REDEVELOPMENT OF EL CAMINO REAL

a. **Available Parcels and Acreage:** The map below notes the location and acreage of five dealers that expressed preliminary interest in the project.

MAP XI-1: EXISTING AUTO DEALER PARCELS



Site	Acreage
GMC	2.8
Toyota (Used)	3.6
Honda	4.2
Toyota (New - Primary)	4.8
Toyota (New - Across Street)	0.7
Ford	5.2
Nissan	2.6

b. Redevelopment Potential: The following table shows the redevelopment potential of each of the existing El Camino Real dealership pads for three reuse scenarios. The box marked with an "A" shows the redevelopment potential if each site is programmed with retail. The box marked with a "B" shows the redevelopment potential if each site is programmed with office. Finally, the box marked with a "C" shows the redevelopment potential if the sites located in node areas are redeveloped with a mix of retail and residential. This analysis is based on existing zoning and was developed with input from the City of Sunnyvale Planning Division.

Table XI-1: Redevelopment Potential of El Camino Real Dealership Pads

		A	B	C			
				Mixed Use in Node Areas			
Site	Acreage	Retail SF	Office SF	Retail SF	Residential SF	Units	Units per Acre
Ford	5.2	66,860	90,458	60,661	181,982	121	23
Nissan	2.6	31,007	45,142	28,361	85,084	57	22
Toyota (New - Primary)	4.8	61,010	82,543	NP*	NP*	NP*	NP*
Toyota (New - Across Street	0.7	3,200	8,504	NP*	NP*	NP*	NP*
Toyota (Used)	3.6	46,090	62,358	39,269	117,808	79	22
GMC	2.8	33,264	48,428	32,438	97,315	65	23
Honda	4.2	54,013	73,077	NP*	NP*	NP*	NP*
Total	**23.9**	**295,445**	**410,510**	**160,730**	**482,190**	**321**	**23**

**NP = Mixed use not permitted*

The development potential of the various dealership parcels shown above is based on the allowable density under existing zoning. The timing and density of any redevelopment of vacated El Camino Real dealership parcels will be driven my many factors including the availability of the parcels and economic market conditions.

c. **Retail Impacts:** The consultant team also completed an analysis of potential sales and property tax if several of the existing parcels were redeveloped as retail projects. The table shows the potential increase in property tax and net new sales tax that could be generated if two dealerships were relocated to the Onizuka site and the approximately 10 acres of land where the dealerships were previously located on El Camino Real was redeveloped as retail uses.

Table XI-2: Calculation of Net New Annual Tax Revenue from El Camino Real Sites

Sales Tax

El Camino Real Dealership Parcel	Size (ac)	Assumed Lot Coverage	Max. 1st Floor Retail SF	Retail Type	Average Retail Sales $/SF	Potential Retail Sales
Parcel 1	5.23	28.0%	66,860	Neighborhood Shopping	$344	$23,000,000
Parcel 2	4.77	28.0%	61,010	Neighborhood Shopping	$344	$20,988,000
Parcel 3	0.67	11.0%	3,200	Limited-Service Restaurant(s)	$344	$1,101,000
Totals	10.67		131,070			$45,089,000

City of Sunnyvale Sales Tax	1%	
Net New Sales Tax Revenue if Vacated Parcels are Redeveloped as Retail	$450,890	A

Property Tax

El Camino Real Dealership Parcel	Retail Redevelopment (SF)	Construction Cost $/sf	Cost of New Retail Space	Existing Structure Assessment	Incremental Assessment
Parcel 1	66,860	136	$9,074,229	$681,764	$8,392,465
Parcel 2	61,010	136	$8,280,320	$1,180,909	$7,099,411
Parcel 3	3,200	136	$434,304	$42,605	$391,699
Totals	131,070		$17,788,853	$1,905,278	$15,883,575

City of Sunnyvale Property Tax	0.16%	
Net New Property Tax Revenue if Parcels are Redeveloped as Retail	$26,009	B
Total Net New Tax Revenue from Redevelopment of ECR	$476,899	(A+B)

XII. RETURN ON CITY INVESTMENT/ECONOMIC IMPACTS

a. **City Investment:** The City has entered into an agreement with the two homeless housing providers that have claims on the site. As part of that agreement, the City has committed to provide up to $8,200,000 in capital to the housing providers in return for the providers releasing their individual claims on the site. Assuming a no-cost EDC (i.e. no net revenue to the LRA), the capital will be provided via a $4,100,000 grant and a $4,100,000 long-term loan.

b. **Return on Investment:** In return for contributing $8.2M required to move forward with the project the City will receive the following:

- **Property Tax – Onizuka Site:** Since the project will create new investment on the site that was not previously on the city tax rolls, it could generate significant incremental property tax revenue. It is assumed these property taxes will commence in year 3 of the project and will amount to **$371,000** per year. Of the $371,000 in incremental tax revenue approximately $60,000, or 17%, will go to the City of Sunnyvale. The remaining revenue will go to the School Districts, Santa Clara County and other agencies. For more information on the projected economic impacts please see Technical Memo "E.2 – PROJECT ECONOMIC AND FISCAL IMPACTS".

- **Incremental Sales Tax – Onizuka Site:** While less certain than the incremental property tax, the consultant team has projected that the relocation to the Onizuka site will result in a **30% increase** in sales and service revenue for the dealers. If this occurs, the City of Sunnyvale will receive **$480,000** in additional sales tax revenue starting in year 3, assuming there are three dealerships operating at the site.

The projected 30% increase in sales was estimated by team member Dealership Experts and is based upon the improved access, visibility, and facilities that the dealers will enjoy at the Onizuka site as compare to their current facilities at El Camino Real. A review of the average daily traffic counts illustrates the advantage that Onizuka site provides. The average daily traffic count near the El Camino Real corridor is 80,000, at the Onizuka site the traffic count is 262,00. This represents a 224% increase.

Table XII-1: Traffic Count Comparison - 1 Mile Radius

Onizuka Site

Distance:	Street:	Closest Cross-street:	Year of count:	Count:
0.09	Mount View Alviso Rd (237)	N Mathilda Ave (0.24 miles E)	2005	88,000
0	United States Highway 101	Mount View Alviso Rd (0.18 miles W)	2005	136000
0.31	N Mathilda Ave	Ross Dr (0.06 miles N)	1996	38,000
				262,000

El Camino Real

Distance:	Street:	Closest Cross-street:	Year of count:	Count:
0.12	W el Camino Real	S Mathilda Ave (0.11 miles E)	2005	41,000
0.5	Saratoga Sunnyvale Rd	Dawn Dr (0.19 miles S)	1996	39,800
				80,800

esri

The Onizuka location will also allow the dealers to better access their target market demographic living in the 880 corridor towards Fremont and the 101 corridor toward San Mateo County. This projected increase in sales and service revenue was discussed with and confirmed by the existing El Camino Real dealerships during the preliminary dealer meetings.

- **Incremental Property Tax – El Camino Real:** The analysis team also analyzed the development potential of the vacated dealership parcels on El Camino Real. Hypothetically, if 10.7 acres currently occupied several dealerships on El Camino Real are redeveloped as retail projects they could accommodate approximately 131,000 square feet of development, under existing zoning. Those projects could generate additional incremental property tax of $152,000 starting in year five. The City of Sunnyvale's portion of the net new property tax would be $26,000. (Please see technical memo "TASK E.1 – REDEVELOPMENT OF EL CAMINO REAL & RETAIL MARKET ANALYSIS" for more information.)

- **Incremental Sales Tax – El Camino Real:** If built, the 131,000 square feet of new retail development could generate approximately $450,882 in incremental retail sales tax revenue starting in year 5. It should be noted that this projection is speculative and assumes, as was projected by the consultant team, that the Sunnyvale market can support the additional retail space. For an analysis of the retail market and projection of supportable retail square footage, see Technical Memo "E.1 REDEVELOPMENT OF EL CAMINO REAL AND RETAIL MARKET ANALYSIS".

c. **Return on Investment Table and Chart:** The following table summarizes the return on the City's $4.1M investment. Including only net new property and sales tax revenue to the City of Sunnyvale from the Onizuka site, the city would achieve a 13.2% annual return ($540,000 tax revenue / $4,100,000 grant investment) and would recoup its investment in 10 years. While the likelihood of new retail development at the vacated sites on El Camino Real is less certain, the potential of incremental tax revenue from that source is also considered. If the potential tax revenue from both the Onizuka and El Camino Real sites is considered, the annual investment yield is 24.8% and original $4,100,000 investment is returned in 7 years.

Table XII-1: Return on Future City Investment - Homeless

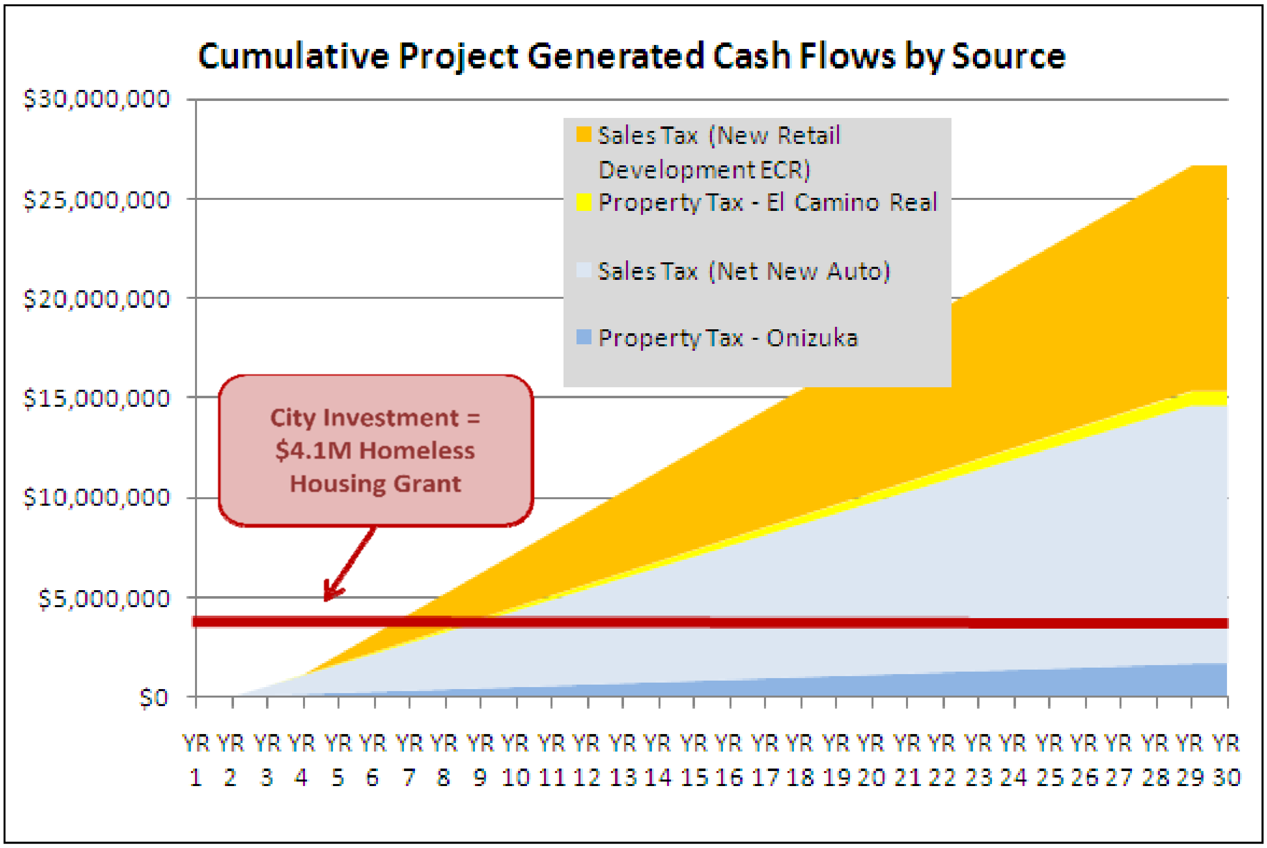
City Investment	
Grant to Homeless Housing Providers	($4,100,000)
Loan to Homeless Housing Providers	($4,100,000)
Total	($8,200,000)

Sources of Net New Tax Revenue	**Amount**	**Year Cash Flow Begins**	**Investment Yield on $4.1M Grant[1]**	**Pay Back Horizon (Years)**	
Onizuka Sources					
Property Tax - Onizuka	$60,751	2	1.5%	69	
Sales Tax (Net New Auto)	$480,792	3	11.7%	12	
Total Onizuka	$541,543		13.2%	10	**A**
El Camino Real Sources[2]					
Property Tax - El Camino Real	$26,009	4	0.6%	162	
Sales Tax (New Retail Development ECR)	$450,882	5	11.0%	14	
Total El Camino Real	$476,891		11.6%		**B**
Total Coverage Sources	$1,018,434		24.8%	7	**(A+B)**

[1] *Annual investment yield on $4.1M grant= Net New Tax Revenue divided by Grant Investment*

[2] *Includes property and sales tax from potential new retail projects on vacated dealership sites on El Camino Real*

The same financial data is also presented in chart form below. The chart does not assume any volatility in the tax revenue over the thirty year time horizon. Given the fact that retail sales will be impacted by the larger economic environment, the tax revenue will undoubtedly fluctuate above and below the cumulative projections shown the in chart below.



XIII. RISK FACTORS

The proposed development plan includes several factors that are outside the control of the City of Sunnyvale. Each is discussed below.

a. Dealership Participation

- Issue: Currently the City of Sunnyvale has received a signed letters of interest from one auto dealer. Three letters of interest were originally received, but one was rescinded and the second is contingent on receiving financial assistance. The letter of interest demonstrate the dealer's serious interest in the project but, is not binding and do not have any penalty for either side if the project is abandoned.

- Mitigating Factors: If insufficient Sunnyvale dealers are interested in relocating to Onizuka, the options of the LRA would be:

    1. Contact one of the seven brands deemed potentially supportable in the market analysis section to determine interest

    2. Consider offering financial assistance to attract additional Sunnyvale or other dealerships to the site

  The affluence and location Santa Clara market area is attractive for auto dealerships. Additionally this project offers auto dealers an opportunity to obtain land a facility control through ownership rather than renting.

b. Financial Assistance Requests from Dealerships

- Issue: One existing Sunnyvale dealer has state that their interest in the project is conditioned on the existence on public financial assistance. There is the potential that all dealers that evaluate the project will make a similar public assistance request.

- Mitigating Factors: The team's financial analysis has already included the use of public financing to cover site preparation and infrastructure costs. Transfer of the land at zero cost is already a significant public assistance unique to this opportunity. The financial analysis described in section VIII illustrates that it will difficult for the dealers to show the need for additional public assistance. They are moving to new facilities in a better location for either a small reduction in rent factor expense or an increase that could be financially justified based on the potential impact the new site will have on sales.

c. Dealership Participation – Manufacturer Approval & Resolution of Encroachment Issues

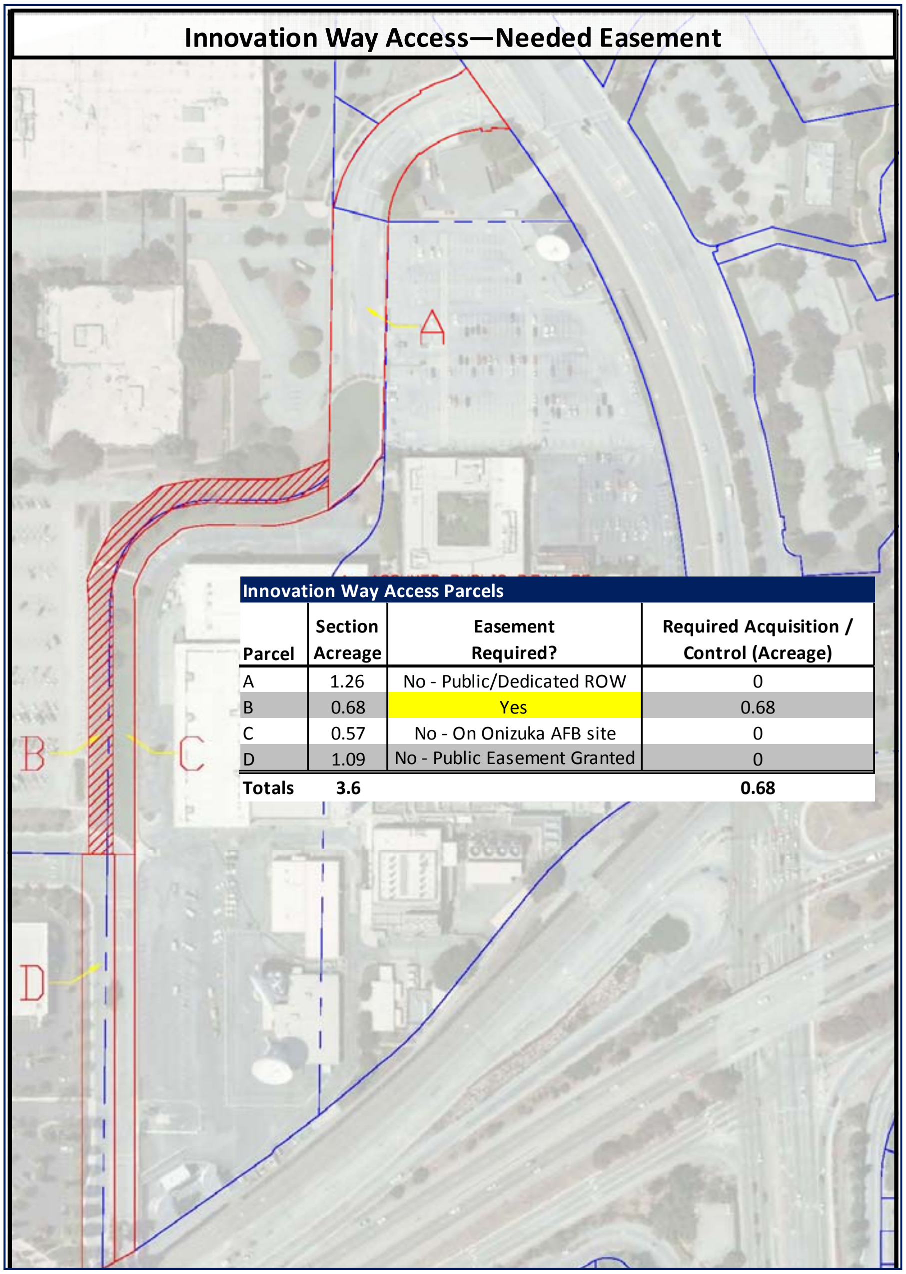
- Issue: All dealers considering relocating from El Camino Real to Onizuka will need approval from their manufacturers. If the new location encroaches on the territory of another existing dealer of the same brand, further consent will be required. Resolving encroachment issues could significantly delay the project and/or increase cost to the dealers.

- Mitigating Factors: Moving to new facilities at the Onizuka site will most likely be supported by the automobile manufacturers because it will enable each dealer to comply of the latest manufacturer issued design/signage standards. While the cost, time and ability to resolve these encroachment issues varies based on existing dealership agreements, the dealers involved, and influence of the brand manufacturer, during preliminary discussions between the consultant team and the interested dealers each was confident that any encroachment issues could be resolved.

d. Site Access from Innovation Way

- Issue: As shown in the site below, the proposed development plan requires access to Innovation Way for ingress and egress from the site. Based on our team's analysis of public records and tax maps, we believe all but the area noted by the red hash marks is publically accessible. The 0.68 acres needed is currently owned by Juniper Networks.

- Mitigating Factors: Juniper Networks has vested development rights for a 2,000,000+ square feet of office project located on the 70 acre parcel that borders Innovation Way (noted with "B" in image below). As a condition of the entitlements, Juniper must improve and grant public access to Innovation Way prior to commencing construction. Therefore eventually Juniper must open Innovation Way to the public. If Juniper will not grant access for the area, another option we have is to redesign the site plan so that the "B" area is not required. This could be accomplished by accommodating both north and south bound traffic on the area designated as "C" on the image. This area is wide enough to accommodate 2 lanes of traffic.



Innovation Way Access Parcels

Parcel	Section Acreage	Easement Required?	Required Acquisition / Control (Acreage)
A	1.26	No - Public/Dedicated ROW	0
B	0.68	Yes	0.68
C	0.57	No - On Onizuka AFB site	0
D	1.09	No - Public Easement Granted	0
Totals	**3.6**		**0.68**

e. Department Of Defense (DOD) Agreement on No-Cost Economic Development Conveyance (EDC)

- Issue: To obtain the Onizuka Air Force Base via a no-cost EDC, the DOD must approve the LRA's redevelopment plan including an agreement that the no-cost transfer is justified.

- Mitigating Factors: The LRA is in process of completing all of the background analysis and obtaining agreements needed to submit a thorough and complete redevelopment plan for a portion of the Onizuka Air Force Base. The plan must address the following issues:

  1. Homeless Notices of Interest (NOIs) – Provide evidence that all NOI claims have been evaluated and resolved.

     The City of Sunnyvale has formal agreement with the two NOI claims which ensure the homeless housing providers will release claims in return for monetary consideration from the City of Sunnyvale.

  2. Public Benefit Conveyances – Address any public benefit conveyance requests.

     There are no known public benefit conveyance requests for the property.

  3. Economic Development – Provide a feasible and implementable redevelopment plan that includes commitments from final end-users, evidence of economic development benefits of the project, and if applying for a no-cost conveyance, justification that the project cannot support acquisition costs.

     The City of Sunnyvale is the in the process of the developing a feasible redevelopment plan. If the decision is made to move forward with the auto-center concept, the City would likely be able to build upon the analysis completed in this phase of the project to complete a thorough business plan with end-user commitments and documentation of economic development benefits.

After the LRA submits the formal redevelopment plan to the DOD, comments and requests are typically received in 30-60 days. The LRA would then resubmit the formal redevelopment plan addressing those comments and requests. The deadline for this round of BRAC closures is April 2011.