



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



7

December 5, 1989

Budget and Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Amendment of Grant Agreement with Lil People's
Childcare Facility Located in Riverview Plaza

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency and Housing Authority of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the amendment.

Respectfully submitted,

Bob Smith
ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack Crist

JACK R. CRIST
Deputy City Manager

Attachment



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



December 12, 1989

Housing Authority of the
City of Sacramento
And
Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

Subject: Amendment of Grant Agreement With Lil People's
Childcare Facility Located Within Riverview Plaza

SUMMARY

The attached report recommends amending the current Grant Agreement with Lil People's School to cover recent funding difficulties between Lil People, The State of California, Internal Revenue Service (I.R.S.) and the City Building Department required change orders.

BACKGROUND

In connection with the Agency's desire to provide childcare opportunities within Downtown Sacramento which would benefit City, County and Agency employees, the Agency staff, with the assistance of the City's childcare coordinator, developed a program to provide a facility within the Riverview Plaza building.

Subsequently, on June 28, 1988, Resolution HA 88-030 was adopted which provided an Agency Grant to Lil People in the amount of \$375,000. These funds were allocated to cover tenant improvement construction financing for the development of the facility.

Lil People's School, subsequently, negotiated a construction contract for the improvements with S.C.C. Ltd. in the amount of \$357,000. In the process of constructing the facility, change orders occurred which were not part of the original contract with S.C.C. They included several Building Department conditions related to the mechanical smoke purge system, a wind screen around the play area and upgraded playground equipment. The sum total of all these costs amount to \$85,759.84; bringing the total contract amount owed to S.C.C. Ltd. to \$442,759.84.

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The original method of financing these costs prior to problems with the I.R.S. included the use of the Grant from the Agency, and a Grant from the State Childcare Committee. On October 6, 1989, the State Controller's office informed Lil People's School that their tax exemption application to IRS was in doubt and was forwarded to Washington D.C. for appeal. (See Exhibit "A"). This action has placed the unfunded balance of the State Grant in jeopardy. Lil People's School has advised the Agency that such an appeal could take up to six months or more to be heard. In the meantime, construction has been completed by S.C.C. and final payment is due.

Therefore, in order to reimburse S.C.C for completed work, staff is recommending increasing Lil People's Grant amount by \$37,760.00 to cover the cost of the additional improvements.

FINANCIAL DATA

The original \$375,000 was funded to Lil People's School from various adjustments within the framework of the original Riverview Budget. The recommended Grant Amendment in the amount of \$37,760 is to be allocated from the 1989 Downtown Tax Increment Fund balance.

The amount is derived as follows:

| | |
|-----------------------------------|------------------|
| Revised amount to pay S.C.C. Ltd. | <u>\$442,760</u> |
| Less: Original Lil People Budget | (375,000) |
| Paid from State Grant Proceeds | <u>(30,000)</u> |
| AMOUNT REQUESTED | \$ 37,760 |

Due to the possibility that the I.R.S. could approve Lil People's School Tax Exempt status, the State could release the balance of the funds yet not received. If this occurs, the execution of this Grant Amendment provides that Lil People will reimburse the Agency, in the amount received from the State Grant, up to but not to exceed \$19,500.

ENVIRONMENTAL REVIEW

CEQA: Not a project per Section 15378(b)(3).

NEPA: Not applicable - No federal funding involved.

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MBE/WBE

There is no impact.

POLICY IMPLICATIONS

The Grant Amendment recommended in this report is in keeping with the previous direction to provide childcare opportunities within the central city.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of December 4, 1989 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES:


NOES:

ABSENT:

RECOMMENDATION

The staff recommends adoption of the attached resolution which transfers \$37,759.84 from the Redevelopment Agency to the Housing Authority of the City of Sacramento to settle the outstanding contract amount with S.C.C. Ltd. for the construction of Lil People School.

Respectfully submitted,


ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Ken Stroth, 440-1310

ID 213-r

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

TRANSFER OF FUNDS TO THE HOUSING AUTHORITY
OF THE CITY OF SACRAMENTO FOR
LIL PEOPLE'S SCHOOL GRANT

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO:

Section 1: The Executive Director is hereby authorized to transfer Redevelopment Agency of the City of Sacramento 1989 Downtown Tax Increment Funds in the amount of \$37,760 to the Housing Authority of the City of Sacramento for use to increase the grant to Lil People's School for Riverview Plaza tenant improvements.

Section 2: The budget is amend to reflect this resolution.

CHAIR

ATTEST:

SECRETARY

1100WPP2(500)

FOR CITY CLERK USE ONLY

(4)

RESOLUTION NO.: _____

DATE ADOPTED: _____

RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF _____

TRANSFER OF FUNDS TO THE HOUSING AUTHORITY
OF THE CITY OF SACRAMENTO FOR
LIL PEOPLE'S SCHOOL GRANT

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is hereby authorized to accept from the Redevelopment Agency of the City of Sacramento the amount of \$37,760.

Section 2: The Executive Director is hereby authorized to amend Grant with Lil People's School for Riverview Plaza tenant improvements to increase it by the amount of \$37,760 upon the terms stated in the attached staff report.

Section 3: The budget shall be amended in accordance with this resolution.

CHAIR

ATTEST:

SECRETARY

1100WPP2(500)

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

DATE: October 6, 1989

TO: Patricia McDonald, Chief
Benefits Division
Department of Personnel Administration

Christie Wise

FROM: Christie Wise, Labor Relations Officer
STATE CONTROLLER'S OFFICE
ADMINISTRATIVE SERVICES

RE: TAX EXEMPT STATUS OF RIVERVIEW CHILDCARE CORPORATION

The Riverview Childcare Consortium, Inc. (RCCI) was established to obtain State grant funds for the childcare center at Riverview Plaza, downtown Sacramento. This center was a joint effort between the City and County of Sacramento, the Sacramento Housing and Rehabilitation Agency, and the State of California. The provider, a private for-profit entity, was chosen by the City and County since they provided 95% of the funding for the project.

Incorporation is required by the Childcare Committee prior to any group submitting the grant applications for funding. The State Childcare Committee approved both Phase I and Phase II grant funding for RCCI, with the expectation that the corporation set up to control the funds would have the same tax-exempt status shared by all the prior corporations established for the same reason.

As the RCCI's agent, I applied for tax exempt status early this year. It was granted by Franchise Tax within four months. The IRS, however, has recently informed me that their district and regional offices are unable to make a decision on the RCCI exemption request. They are sending it to Washington. I am concerned about this development since it has not occurred with any of the other corporations established to receive grant funds. If the RCCI does not receive tax exempt status, the State Childcare Committee will have to decide how the taxes will be paid. I am aware of only two options: 1. the taxes will be paid out of the Phase III Grant funds; or 2. the State Childcare Committee will provide additional funding to RCCI to pay the taxes. These are the only two equitable solutions since the Committee was responsible for establishing the criteria, including incorporation, for obtaining the funds.

After we have our Auditor perform the required audit of the provider, the RCCI's Phase III application will be complete. Except for the audit, the application paperwork is at DPA. Once Phase III is completed, the package must be submitted to the Committee. Please assure that the Committee is aware of the possible tax problem for RCCI and considers a contingency plan should the IRS rule against us. Otherwise, I will not be able to release any funds to the provider until the IRS advises me of RCCI's tax status. This means that I might have to withhold funding for as much as six months or more, depending on the speed with which the central IRS responds. To a certain extent, it also means that the State and RCCI has reneged on its agreement with the local government entities and the provider; with the possible result that our agreement for a certain number of state employee slots will be void. Thank you for your cooperation. Should you need to contact me, my telephone number is 322-0157.

cc: Jean Hill, Little People's Schools

09746

FIRST AMENDMENT TO GRANT
FOR TENANT IMPROVEMENTS
LIL PEOPLE, INC. - RIVERVIEW PLAZA

This Agreement, entered into this _____ of _____ 1989, by and between the Redevelopment Agency of the City of Sacramento ("Agency") and Lil People, Inc. ("Grantee"). The Agency and Grantee agree as follows:

RECITALS

A. Agency and Grantee entered into a separate Agreement to provide tenant improvements funds for the purposes of developing a childcare facility within the Riverview Plaza Building.

B. In the process of constructing the tenant improvements Change Orders occurred which exceeded the original Grant between the Agency and Grantee. In addition Grant proceeds from the State of California's childcare committee have been held-up pending review by the Internal Revenue Service of Grantee's request for non-profit status.

C. The parties desire to amend said Grant by revising and adding the following paragraphs:

AGREEMENT

Now therefore, Agency and Grantee agree that the separate Agreement for tenant improvements dated June 28, 1988 shall be amended as follows:

1. Article 2. "Grant" shall be amended in pertinent part to state: "Agency shall Grant to Grantee the amount of construction costs of the project, and not to exceed Four Hundred Twelve Thousand Seven Hundred Sixty Dollars (\$412,760) on the terms and conditions specified in this Agreement."

2. The following new Article 4.3 shall be added: "Article 4.3 Reimbursement Of State Of California Grant Proceeds. If at anytime during the terms of the lease between the Agency and Grantee the balance of Grant Funds are released from the State of California to Grantee. Grantee shall reimburse the Agency the amount of such Grant Funds released, not to exceed Nineteen Thousand Five Hundred Dollars (\$19,500).

3. Except as modified above, all other conditions of this Grant for tenant improvements shall remain unchanged and in force.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above-written.

REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

By _____
ROBERT E. SMITH
Executive Director

APPROVED AS TO FORM:

GRANTEE: LIL PEOPLE, INC.

Agency Counsel

By _____
President

APPROVED:

ATTEST

Finance Department

By _____
Secretary

Org:
Acct:
Cost:

ORGANIZATIONAL APPROVAL:

KENNETH L. STROTH
Assistant Director, Community Development

ID 219-r