



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



6

August 15, 1989

Budget and Finance Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Execution of Owner Participation Agreement with GFS
Development Partners for Construction of a Commercial
Building and Authorization to Allocate Funds

SUMMARY

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

RECOMMENDATION

The staff recommends approval of the attached resolution
approving the execution of the agreement and permanent funding
for the above development.

Respectfully submitted,

ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COMMITTEE:

JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



August 7, 1989

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Execution of Owner Participation Agreement (OPA) with
GFS Development Partners for Construction of a
Commercial Building and Authorization to Allocate Funds

SUMMARY

This report requests authorization to enter into an Owner Participation Agreement (OPA) with GFS Development Partners (Developer) for construction of a new 5,400 s.f. commercial/retail building. As part of the OPA, the Agency will award a permanent financing loan of \$350,000 to the developer.

BACKGROUND

GFS Development Partners, consisting of Bert Giannelli, Wendel R. Flint and Richard E. Stover, have submitted a proposal to the Agency to demolish the existing structures located at 501-509 10th Street and to construct a new building for commercial/retail use. A map of the parcel is attached as Exhibit A.

By way of qualification, the developer has already completed and leased a 10,500 square foot two story office building located at 1801 I Street. Additionally, two of the development partners are commercial real estate appraisers who have been involved in the development of numerous office, commercial, industrial and residential projects throughout the Sacramento Metropolitan Area. A list of these projects is available upon request.

8-22-89

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SUMMARY OF PROPOSAL

The developer proposes to construct a one-story, wood-frame stucco building to be located at 501-509 12th Street. The new building will be located in an C-2 zone within the boundaries of the Alkali Flat 12th Street Commercial Revitalization Area which was established on May 31, 1983, by Agency Resolution No. 83-046. The primary purpose of the Alkali Flat/12th Street Commercial Revitalization Plan is to encourage retail in the 12th Street Commercial Area. Since the adoption of the Commercial Revitalization Strategy only one commercial use has located on 12th Street. The plan was undertaken as a coordinated effort between the public and private sector to arrest disinvestment and stimulate reinvestment in this area.

The subject site is presently the location of the 505 Club, an operating bar/nightclub, and two adjoining vacant structures on the north and south side of the 505 Club. The developer originally considered the rehabilitation of the existing structures, however a structural engineer's report indicated problems with the foundation of one building and extensive work required for earthquake resistant construction on another. The only feasible alternative is to demolish the subject structures and construct a new building.

The proposed new building will be a 5,400 square foot structure with nine parking spaces, including a handicapped parking space. Cost estimates for new construction have been obtained from Mr. Johan Otto of Trans Sierra Construction. The total cost estimate is \$359,606, inclusive of demolition and site preparation, contingency, appraisal fee and architectural fees.

The new building will be leased to an existing 12th Street business, Lee Shapiro Enterprises, Inc., dba Classic Trophy at 517 12th Street. A five year lease beginning at completion of construction with option to extend for five years has been signed by the developer and Lee Shapiro. Terms of the lease are \$0.65 per square foot per month for the first two years, increasing to \$0.68, \$0.70 and \$0.73 in years 3, 4 and 5.

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A private \$123,000 land and improvement acquisition loan has been assumed by the developer and the developer will contribute 25% equity (\$158,106) to the project. An Agency loan of \$350,000 from the Alkali Flat Developer Assistance Program is requested to complete the project. Interest will range from 0.5% in year one to 3% in years ten thru twenty. The developer proposes to complete construction within 180 days after receipt of construction loan funds.

Staff has prepared the following estimate of cost for the project based on the developer's proposal.

<u>PROPOSAL COST</u>		<u>SOURCE OF FUNDS</u>	
Land and Improvement Acquisition	\$271,500	Land and Improvement Acquisition (Private Loan)	\$123,000
Construction	\$359,606	Developer Equity	\$158,106
		AF Developer Assistance Loan	<u>\$350,000</u>
TOTAL COST	\$631,106	TOTAL COST	\$631,106

The Agency's twenty year cash flow projection is based on the lease rate negotiated between developer and tenant. A modified internal rate of return (IRR) on the project which excludes the effect of property appreciation is -1.6%. This internal rate of return is negative because the lease income is limited during the projected lifetime of the project and there will be no lease income during construction to offset the debt service on the loan being assumed.

Although a negative cash on cash IRR would normally discourage investment in a project of this type, the Agency and the developer are of the opinion that the 12th Street Commercial corridor will revitalize and this location will eventually be marketable as a mixed use retail/office space. The Agency will be in a position to benefit from any increase in property value over time by requiring that if the property is sold within 10 years of signing the note the appreciation will be shared on a 50-50 basis between the Agency and the developer. The terms of this arrangement are stated in the Owner Participation Agreement.

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To measure the developers potential profit from income and appreciation, staff has calculated the return which might be realized if the developers were to sell the property in year 9 or year 11 assuming an 8% annual appreciation rate. The results are a return of 9.9% in year 9 and 17.7% in year 11. The calculation for year 9 includes 50% equity participation for the Agency. Worksheets are attached as Exhibit D.

The estimated after construction value of the project based on comparable sales data and a fee simple value appraisal is \$535,000, which is \$96,106 below the \$631,106 cost of the total project. However, staff and developer are confident that property value will escalate considerably in the area due to proposed construction and rehabilitation activity anticipated in the Alkali Flat and Downtown Redevelopment Areas over the next 5 years. (Please see developer proposal and Agency proforma attached as Exhibits B and C).

As indicated in Exhibit C, staff analysis indicates that an Alkali Flat tax increment variable interest (0.5% to 3.0%), twenty year loan of \$350,000 is required to make the project feasible.

Approval of this project has the following advantages:

1. Eliminates blight by the demolition of vacant and substandard buildings;
2. Abates a neighborhood nuisance by the demolition and elimination of 505 Club;
3. Significantly improves the physical appearance of the 12th Street Commercial area;
4. Retains a small business which has been located on the 12th Street commercial corridor for 30 years; and
5. Provides a opportunity for business operators and property owners to contribute to the planning and development of the area.

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An Owner Participation Agreement (OPA) has been prepared by the Agency and executed by the Developer. The OPA restricts the project to commercial/retail use for the term of the loan (20 years).

FINANCIAL DATA

The Agency proposes to provide a 20 year, variable interest (0.5% to 3.0%) loan of \$350,000. The Alkali Flat Developers Assistance Program fund currently has a balance of \$159,861. The additional \$190,139 needed to fund this project is available from 1989 Alkali Flat tax increment unallocated fund balance. Exhibit E indicates the transfer requested in order to fund this project.

POLICY IMPLICATIONS

This recommendation is consistent with the Alkali Flat Redevelopment Plan, Implementation Strategy and the goals of the Agency's Alkali Flat Developer Assistance Program guidelines.

ENVIRONMENTAL REVIEW

CEQA: The demolition of three (3) existing structures in an urban area designed for occupancy loads of less than 30 persons is exempt per Section 15301(e)(3). The construction of a new commercial structure for one tenant with 6-8 employees is exempt per Section 15303(c)

Construction plans will be reviewed by the City's Design Review/Preservation Board and the City's Planning Commission for conformance with all applicable zoning regulations and design guidelines.

NEPA: Not applicable; no federal funding involved.

MBE/WBE Efforts

The developers, who are acting as prime contractors will be advised of the Agency's MBE/WBE goals of 20% and 5% respectively and will be required to demonstrate efforts to meet those goals.

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VOTE AND RECOMMENDATION OF THE ALKALI FLAT PROJECT AREA COMMITTEE (PAC)

At its special meeting of July 12, 1989, the Alkali Flat PAC voted unanimously to recommend approval of this project and authorization for the Acting Executive Director to execute the Owner Participation Agreement with GFS Development Partners.

AYES: Booher, Fanner, Masters, Gonzales, Glauz, Giannini, Barajas, Williams T., Castillo, Roberts, Flores

NOES: None

ABSTAIN: None

ABSENT: Bustamante, Camacho, Murguia, Williams C.,

VOTE AND RECOMMENDATION OF THE COMMISSION'S LOAN COMMITTEE

At its regular meeting of July 27, 1989, the Sacramento Housing and Redevelopment Commission's Loan committee voted unanimously to recommend approval of this project and authorization for the Acting Executive Director to execute the Owner Participation Agreement with GFS Development Partners.

AYES: Kaiser, Strong, Tobe, Wooley

NOES: None

ABSTAIN: None

ABSENT: Simpson-Fontaine

VOTE AND RECOMMENDATION OF THE COMMISSION

At its regular meeting of August 7, 1989, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Amundson, Moose, Sheldon, Simon, Strong, Wiggins, Wooley, Yew

NOES: None

ABSTAIN: None

ABSENT: Pernell, Simpson

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency of the
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RECOMMENDATION

The staff recommends adoption of the attached resolution, which authorizes the Acting Executive Director to: (1) execute an Owner Participation Agreement and all documents related thereto, with GFS Development Partners for construction of a new 5,400 s.f. Commercial/Retail Building; (2) approve permanent financing of \$350,000 to GSF; and (3) transfer unallocated Alkali Tax Increment Funds to the Alkali Flat Developer Assistance Program to finance this project.

Sincerely



ROBERT E. SMITH
Executive Director

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

Contact Person: Anne Moore
440-1315

1204Q

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

OWNER PARTICIPATION AGREEMENT WITH GFS DEVELOPMENT PARTNERS AND AUTHORIZATION TO ALLOCATE ALKALI FLAT TAX INCREMENT FUNDS

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

Section 1: The Acting Executive Director is hereby authorized to execute an Owner Participation Agreement (OPA), in accordance with the attach staff report and as approved by Agency Counsel with GFS Development Partners (Developers), for construction of a new 5,400 s.f. commercial/retail building. The Acting Executive Director is further authorized to take all necessary action to prepare and execute all other agreements and documents related to, an in connection with, such OPA.

Section 2: The Acting Executive Director is also authorized to lend \$350,000 to GFS for construction of the subject project and under the terms described in the Owner Participation Agreement.

Section 3: The Acting Executive Director is authorized to transfer \$190,139 from unallocated Alkali Flat Tax Increment to the Alkali Flat Developer Assistance Program funds (Cost Center A00688) and fund balance for the purpose of the OPA.

CHAIR

ATTEST:

SECRETARY

1100WPP2-406

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

COMMERCIAL LOAN/PACADE

This report reflects the actual work completed on the structure located at 501-509 12TH STREET, SACRAMENTO CA
 Owner: CLASSIC DEVELOPMENT
 Contractor: JOHAN OTTO, TRANS SIERRA State Lic # 397816

Date of Original Submittal: _____ Progress Payment # _____ Date: _____

TRADE ITEM	Estimated Cost	Prev Report Amount	This Period Amount	To Date Amount
1. Concrete	\$ 20 000			
2. Masonry	-0-			
3. Metals	4 000			
4. Rough Carpentry	35 000			
5. Finish Carpentry	14 000			
6. Waterproofing	-0-			
7. Insulation	5 000			
8. Roofing	8 000			
9. Gutters	-0-			
10. Doors	5 100			
11. Windows	6 000			
12. Glass	-0-			
13. Lath & Plaster	13 000			
14. Drywall	7 000			
15. Tile Work	-0-			
16. Acoustical	5 400			
17. Wood Flooring	-0-			
18. Resilient Flooring	1 000			
19. Painting & Decorating	4 000			
20. Specialties	3 000			
21. Special Equipment	-0-			
22. Cabinets	-0-			
23. Appliances	-0-			
24. Carpets	-0-			
25. Special Const	-0-			
26. Elevators	-0-			
27. Plumbing & Hot Water	10 000			
28. Heat & Ventilation	21 000			
29. Air Conditioning	-0-			
30. Electrical	19 000			
31. Earth Work	5 000			
32. Site Utilities	5 800			
33. Roads & Walks	2 000			
34. Site Improvements	7 000			
35. Lawns & Planting	1 000			
36. Demo & Site Prep	6 000			
37. Exterior Repair	-0-			
38. Sheet Metal	2 500			
39. Hardware	3 000			
40. Fences & Retainer	4 000			
41. Sewer & Water Fees	-0-			
42. Bidr O/H & Profit	25 000			
43. Contingency	30 000			
44. Bond Premium	-0-			
45. Permits & Fees	14 000			
46. Arch. Eng Fees	20 000			
47. Supervision	20 000			
48. Developer's O/H	10 000			
49. Trash Enclosure	1 200			
50. Appraisal Fee*	5 000*			
51. Architectural, Struct. and carry costs*	17 606*			
	359 606			

* - Development and carry costs paid through June 1 1989

NOTE: Complete one (1) form for each structure under contract. Column (1) to be filled out by the Contractor and Owner

Johan Otto June 5, 1989
 Contractor's Signature Date

ATTACHMENT 2
 VACANCY AND EXPENSES BREAKDOWN

1. VACANCY

1. 80% of space to be leased or sold within N/A m of construction completion.
2. The estimated operating vacancy rate is 0 %.
3. Estimated average annual income loss due to vacancy for the first year of stabilized occupancy:
 \$ None

2. ANNUAL OPERATING EXPENSES

1. Taxes	\$ 5,500
2. Insurance	<u>3,240</u>
3. Utilities	<u>-0- *</u>
4. Landscape Maintenance	<u>-0- **</u>
5. Building Maintenance	<u>2,700</u>
6. Advertising/Marketing	<u>-0-</u>
7. Legal, accounting and other professional services	<u>2,106</u>
8. Property Management Agent	<u>-0-</u>
9. Replacement Reserves	<u>-0- **</u>
10. Other (Specify) _____	
<hr/>	
11. Existing Debt Service Obligations (See Section III A) None. Will be paid off with SHRA loan.	<u>-0-</u>
12. New Debt Service Estimates	See Cash Flow at
ESTIMATED TOTAL EXPENSES	\$ <u>13,546</u>

1988K

- * - Paid by tenant.
- ** - Included in building maintenance.

Project Name
Classic Trop
501 12th Str

**ATTACHMENT 1
DEVELOPMENT COST BREAKDOWN**

3. Fees and Other Costs (Soft Costs)

a.	Architectural and Engineering Fees	\$ 20,000
b.	Legal Fees	<u>-0-</u>
c.	Insurance and Bonding	<u>-0-</u>
d.	Loan fees and Points	<u>-0-</u>
	Interim Loan _____	
	Permanent Loan _____	
e.	Contractor fees (incl in line items)	<u>-0-</u>
f.	Developer Overhead	<u>10,000</u>
g.	Governmental Fees	<u>14,000</u>
	(List: _____ Permits and fees _____)	

h.	2% art in Public Spaces	<u>22,606*</u>
i.	Other Costs (Please Specify)*	
	Appraisal fee \$5,000	
	Archit. & Struct. costs \$2,490	
	Insurance, \$4,431	
	Taxes & other carry costs, \$10,685	
	TOTAL SOFT COSTS	<u>66,606</u>
	 Total construction cost (hard and soft costs)	 359,606
	 Total project cost	 \$631,106

*- Development and carry costs paid through June 1 1989.

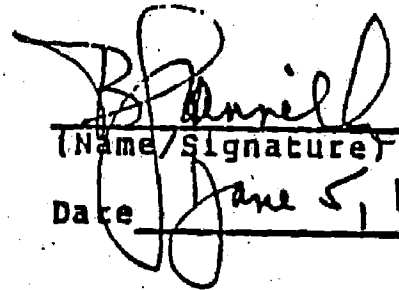
Project Name:
Classic Troph
501 12th Stre

ATTACHMENT 1
DEVELOPMENT COST BREAKDOWN

1.	<u>Land Costs</u>	
a.	Acquisition Costs	\$ 265,000
b.	Closing Costs	6,500
c.	Other (Specify)	
	TOTAL	\$ 271,500
2.	<u>Construction Costs (Hard Costs)</u>	
a.	Demolition and Site Preparation	\$ 6,000
b.	Off Site Improvements	-0-
c.	Building Shell Construction Costs	192,000
	Commercial sq.ft. x \$ 35.56 sq.ft.	
	Residential sq.ft. x \$ _____ sq. ft.	
d.	Tenant Improvements \$10.00/Sq ft	\$ 54,000
e.	Parking	\$ 7,000
	Surface/Lot # of spaces <u>Nine</u>	
	Structure Parking # of floors _____	
	and # of spaces _____	
f.	Landscaping/sidewalks/fences/trash encls	\$ 8,200
g.	Other Costs (Specify)	\$ -0-
	Site utilities	5,800
	Supervision	20,000
	TOTAL CONSTRUCTION Hard cost	\$ 293,000

C. Please discuss your marketing plans for this project
Lee Shapiro, President of Lee Shapiro Enterprises, I
has signed a five-year lease with an option to exten
additional five years. The lease is contingent upon
obtaining financing as requested from the Redevelopm
Agency.

Prepared and Submitted B



(Name/Signature)
Date June 5, 1989

1988K

VII. PROPOSED FINANCING:

A. Private Financing:

Amount: None
Terms (Permanent Loan): _____
Proposed Lenders: _____

B. Equity Contributions:

Amount: \$281,106 (45% of project cost)
Source (cash on hand, investor capital): _____
Developer's cash and equity in project

C. Developer Assistance Request:

Amount: \$350,000 (55% of project cost)
Uses: To finance the construction of the
proposed improvements.

VIII. MARKETING INFORMATION

A. Do you have a marketing study for this project?

YES _____ NO None required

B. Please list your proposed marketing or lease-up agent.

None. Lee Shapiro Enterprises, Inc., Classic Trophy
will occupy entire building.

FINANCING COSTS

Interim Financing of \$ N/A amount assumed at % interest through construction period of months and lease-up/sale period of months.
Proposed Lender(s) N/A

IV. INCOME ESTIMATES: (Please use annual information)

	Type of Units	No. of Units	x	Monthly Rent	x 12 =	Annual Income
Residential	EP	_____		_____		\$ _____
	1 BR	_____		_____		_____
	2 BR	_____		_____		_____
	3 BR	_____		_____		_____
	4 BR	_____		_____		_____
						Sub-TOTAL \$ _____
						<u>Sq.Ft. x \$ Per Sq.Ft./month</u>
Commercial/						
Retail		<u>5,400</u>	x	<u>\$ 0.65</u>	x 12 =	<u>\$ 42,120</u>
Office		_____	x	_____	x 12 =	\$ _____
Parking Spaces		_____	x	_____	x 12 =	\$ _____
						TOTAL ANNUAL PROJECT INCOME <u>\$ 42,120</u>

V. EXPENSES: (Please use annual data and use Attachment 2 to develop and support your estimates):

ANNUAL VACANCY LOSS	\$ _____
ANNUAL EXPENSES	\$ <u>13,546</u>
TOTAL	\$ <u>13,546</u>

VI. PROJECT VALUE ESTIMATES:

Please estimate the after rehabilitation or after construction value of the project based on: The firm of Corcoran & SeEVERS has been retained to provide an appraisal of the property.

Comparable data of \$ _____ per sq.ft. or
Capitalization rate of _____ % or
Gross Rent Multiplier of _____.
Other (describe) _____

TOTAL AFTER VALUE: \$ _____

Lender References: Please list the name and phone number of lenders you have worked with before:

Sacramento First National Bank, Sacramento, 920-4111

Mother Lode Savings Bank, Sacramento, 447-8800

Guarantee Savings, Fresno, (209) 226-9400 (Sentinel Investm

III. PROJECT DEVELOPMENT COST SUMMARY:

A. Existing Indebtedness: (If the proposed site or project has existing financing please describe):

	<u>LOAN #1</u>	<u>LOAN #2</u>
AMOUNT:	\$123,000*	
USED FOR:	To assist in the acquisition of the property	
TERM:	30 years	
BALLOON PAYMENT:	N/A	
INTEREST RATE:	12%	
SECURED BY:	1st deed of trust	
LENDER:	Merle Coziah	
ANNUAL PAYMENT:	\$15,244	

- Loan will be paid in full when SHRA funds the requested loan.

B. Proposed Development Costs: (Use attachment 1 to develop and support your estimates):

DEVELOPMENT

Total Acquisition Costs	\$	<u>271,500</u>
Total Construction Costs	\$	<u>359,606</u>
Hard Costs	\$	<u>293,000</u>
Soft Costs	\$	<u>66,606</u>
Other (Specify)	\$	<u>-0-</u>
TOTAL PROJECT COST	\$	<u>631,106</u>

II. PROJECT DEVELOPER

Name: Classic Development, a general partnership

c/o Bert Giannelli
Address: 1721 Second St #201, Sacramento CA 95814

Phone Numbers (916) 442-9111

Legal Status of Developer (corporation, partnership,
individual):

General partnership, consisting of

Wendel R. Flint, Richard E. Stover and Bert Giannelli

Proposed Team Participants: Please name and give the
phone number of your development team members:

Architect/Engineer: To be determined

Contractor: Johan Otto, Trans Sierra Constr. 443-3797

Accountant: Jack L Cornelius Jr., CPA, Pfanner & Tate 929-36

Other: Construction costs, Johan Otto, Trans Sierra : 443

Development Experience: Please list or attach a summary
of your past development experience including a description
of the development, the development team members, and your
role in the project:

Developed and leased 1801 I Street Building, a 10,500 Sq.Ft.

two-story good quality office building at the northeast corner

of 18th & I streets in Sacramento. Development team consisted

of Dean Unger, AIA, architect; Morton & Pitalo, civil engineer;

Larry Kelley; LJK Inc., general contractor; Georgia Demetre,

ASID, Miles Treaster & Assoc., interior design/space planning;

and John Frisch and Skip Jahn, Coldwell Banker, leasing agents

Additionally, two of the partners are commercial real estate

appraisers who have been involved in the development of

numerous office, commercial, industrial and residential

projects throughout the Sacramento Metropolitan Area.

EXHIBIT C
SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY
APPLICATION FOR DEVELOPER ASSISTANCE

I. PROJECT DESCRIPTION

- A. Project Name: Classic Trophy Building
- B. Project Location: 501-509 12th Street, Sacramento
- C. Project Description (describe type of use, number of units, or square footage uses):
This is a new, one-story commercial
building with a total size of 5,400 square feet on the
southeast corner of 12th and E streets.

<u>Floor Area</u>	<u>Use</u>	<u>Units</u>	<u>New Construction</u>	<u>Rehab</u>
<u>5,400</u>	<u>Sales</u>	<u> </u>	<u>Yes</u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Current zoning: C-2 Size of Site: 9,079 Sq.

Proposed Building Coverage (sq. ft.): 5,400 (59.5%)

Proposed Parking: Nine spaces on the east side of the
building

Type of Site Control: Owner

Anticipated Construction Start Date: As soon as financing
approval is obtained from the Redevelopment Agency.

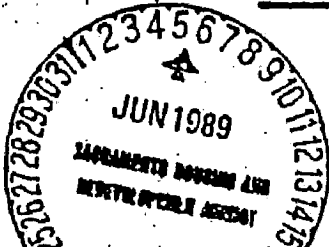
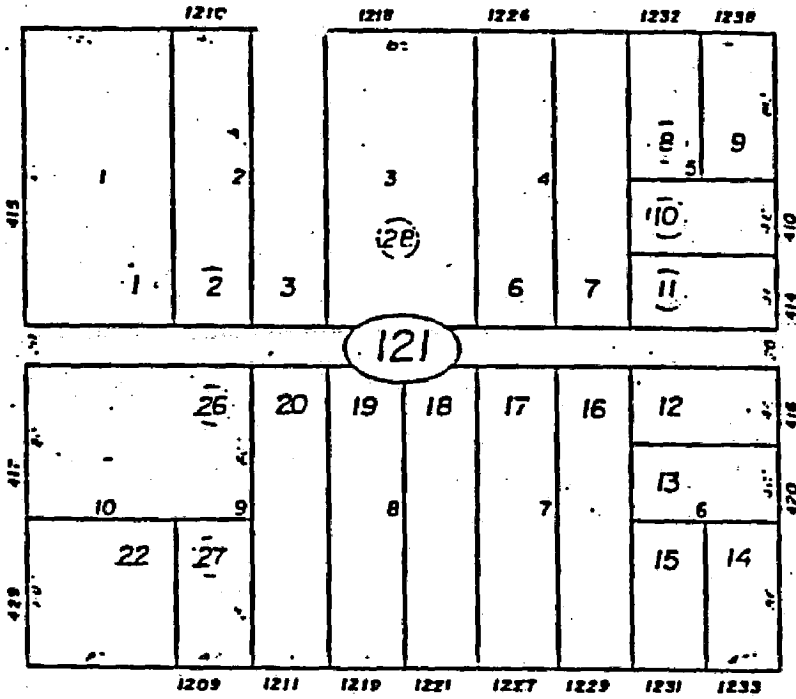


EXHIBIT A

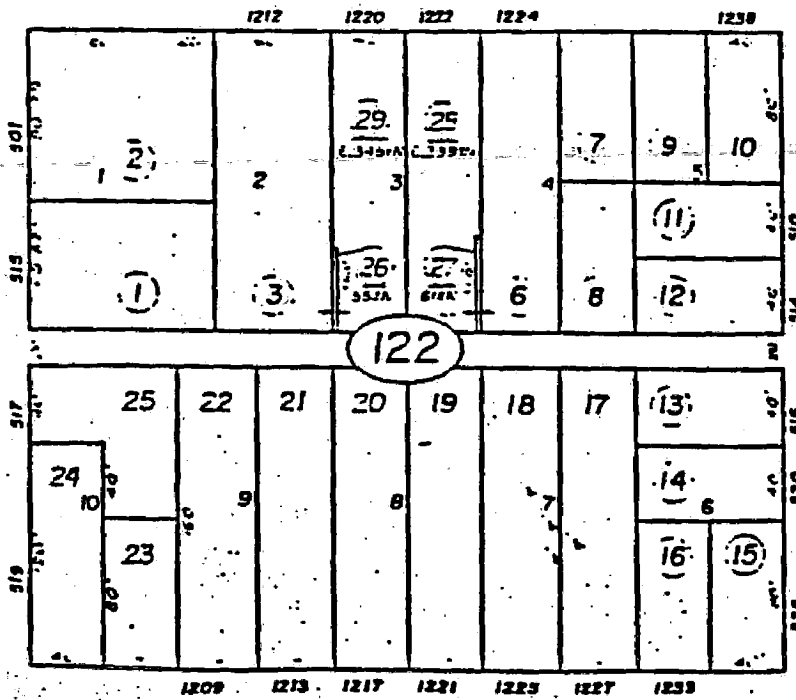
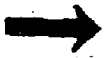


ST. P.



ST. A.

E



ST. 12th

ST. 13th

CHART OF RECOMMENDED REPROGRAMMING ACTIONS

<u>YEAR/COST CENTER</u>	<u>PROJECT</u>	<u>CURRENT ALLOCATION</u>	<u>RECOMMENDED ALLOCATION</u>	<u>NET CHANGE</u>	<u>COMMENT</u>
A. <u>PROJECTS COMPLETE - SURPLUS FUNDS</u>					
1989	Unallocated Fund Balance	\$597,791.00	\$407,652.00	-\$ 190,139.00	Funds necessary to implement 12th Street Commercial Revitalization Strategy
B. <u>PROJECTS TO RECEIVE SURPLUS FUNDS</u>					
89/A00688	Developer Assistance Program	\$159,861.00	\$350,000.00	+\$190,139.00	Funds necessary to implement 12th Street Commercial Revitalization Strategy.