



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



7

October 22, 1986

Budget & Finance
Committee of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Conceptual Approval of the Pioneer Hall Project

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 concept of the Pioneer Hall Project.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist

JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



October 20, 1986

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Conceptual Approval of the Pioneer Hall Project

SUMMARY

This report provides information regarding the Pioneer Hall project, a downtown commercial rehab project which has been approved in concept by the Sacramento Housing and Redevelopment Commission, the Pioneer Association, and Sacramento Heritage. The project will be administered by Sacramento Heritage, and all profits will revolve back to the Commercial Loan Program fund.

Staff is requesting that the Redevelopment Agency of the City of Sacramento also approve the concept as outlined in this report.

BACKGROUND

On February 11, 1986, Sacramento Heritage (Heritage) set aside \$100,000 from the Commercial Loan Program (Cost Center 0812) to develop a project that would act as a revenue generator for Heritage. The concept was that Heritage would identify and enter into a development project that would return a profit within a short period of time. This profit would then be revolved into other such projects. Each time this fund revolved, it would increase (based on profit) and this would allow Heritage to fund a greater number of programs, two of which would continue to be the Facade Grant Program and the Commercial Rehabilitation Program. Heritage is presently responsible for administering these programs in the downtown area. And, while repayments on the Commercial Rehab loans will revolve back into the program, Heritage has determined that these repayments (15 year term) will not be adequate to replenish the fund. Therefore, an additional source of revenue was investigated.

After considering a number of projects, Heritage chose to pursue the possibility of renovating the Pioneer Hall Building at 1010 Seventh Street.

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The Pioneer Hall is an unusual project in that the owner, the Pioneer Association (Pioneer) does not wish to act as developer. This means that Pioneer will contribute their equity, which includes both the land and building, to the development costs of the project. The project would be structured to include Pioneer as a passive general partner, a developer-general partner who would bring cash investment into a project and assure the debt of a financing loan, and Heritage, who would provide necessary short-term gap financing. Pioneer is willing to offer all tax benefits from the building's renovation to the developer, and is further willing to forego cash flows generated by the building for a considerable length of time. These factors enhance the prospective return to the developer, and, therefore, increase the marketability of the project. However, even with these unusual conditions, the overall cost of the rehab would far exceed the ability to finance the project (initial loan to value ratio) with conventional loans. Therefore, the project requires some sort of "unconventional" financing to close the gap, which is where Heritage becomes involved in the project.

On August 21, 1986, Sacramento Heritage, Inc. entered into an agreement with the Ross Company for the performance of a feasibility study on the renovation of Pioneer Hall. The consultant recommended that Heritage invest \$400,000 in the project, and that the remaining costs be met by a conventional loan and outside investor cash. With a \$400,000 of investment, Heritage will receive a 5% cash flow return each year for seven years, then be repaid in year seven and receive an additional \$100,000 profit. Thus, the fund will revolve and allow Heritage to finance similar projects. The consultant investigated various financial scenarios which involved a Heritage investment of \$200,000 and \$300,000. The results of these lower levels of investment were fourfold: 1) Heritage would be required to leave its money in the project for 10-15+ years (instead of seven years, in order for appreciation on value and a lowering of debt on the project to reach a point where the developer could use project income to refinance and buy out Heritage), 2) the conventional loan required would be larger and it is unlikely that a bank would loan at this higher amount; 3) the investor would be required to put a larger amount of cash into the project, which, when compared with the investor's return on investment dollars, would make the project unmarketable to that investor; and 4) Heritage would receive \$10,000 a year cash flow instead of \$20,000.

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On October 6, 1986, the Sacramento Housing and Redevelopment Commission (the Commission) approved in concept the reserve of \$150,000 of Commercial Loan Program funds and \$250,000 of Developer Assistance Program funds for the redevelopment of the Pioneer Hall Building.

The Commission requested that an interim status report be presented in December, 1986. This status report is to address: 1) the feasibility of lowering overall project costs and thereby lowering the amount of gap financing; 2) proforma figures which break out construction costs, equity, fees, etc.; 3) after-rehab value of the project; 4) exploration of a range of building uses; 5) impact of the project on the surrounding area; and 6) an analysis of the building's structural condition.

Following the action of the Commission, on October 13, 1986, the Pioneer Hall Association approved in concept the Pioneer Hall project.

The Pioneer Hall project will now move forward into the final planning stage in which an Owner Participation Agreement between the Pioneer Hall and Heritage will be developed, a developer and a lender will be identified, and potential lessees will be sought. The project will come back to the Commission and Agency for final approval in February, 1987, before implementation begins.

FINANCIAL DATA

To achieve the \$400,000 funding level required by the Pioneer Hall project, funding will be required from the Downtown Developer Assistance program (DAP) and the Commercial Loan Program (CLP), which contain a combined total of \$507,000 in uncommitted funds. Of these funds \$150,000 remain in the Heritage account and \$357,000 in the Agency's DAP account. In order to fund the Pioneer Hall project, Heritage will commit the remaining \$150,000 of CLP funds, and request Agency approval of the commitment of \$250,000 in DAP funds. This will leave a balance of \$107,000 in the DAP account.

ENVIRONMENTAL REVIEW

Approval of this concept requires no environmental review. At the time of construction, the project will require CEQA review.

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POLICY IMPLICATION

The Developer Assistance Program and Commercial Loan Program were established to provide a flexible loan tool to make projects within Redevelopment Project Areas financially feasible. Use of these funds for the Pioneer Hall project is thus consistent with established Agency policy. Rehabilitation of the Pioneer Hall Building is also consistent with the priority recommendations which will be brought forward as a part of the Urban Design Task Force's urban design guidelines.

VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of October 6, 1986, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Glud, Moose, Pettit, Sheldon, Simon, Simpson,
Wiggins, Wooley, Yew, Amundson
NOES: None
ABSENT: Sanchez

VOTE AND RECOMMENDATION OF SACRAMENTO HERITAGE, INC.

On September 29, 1986, the board of directors of Sacramento Heritage, Inc. met and unanimously approved the Pioneer project for further development.

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RECOMMENDATION

The staff is recommending that the Redevelopment Agency of the City of Sacramento conceptually approve the Pioneer Hall project as indicated in this report. The final approval of the project will be requested when the formal Owner Participation Agreement (OPA) is presented in January, 1987.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

WHE/CB:cmc

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Carol Branan, 440-1355
William Ishmael, 446-5020

0602J

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

APPROVAL OF PIONEER HALL PROJECT CONCEPT AND ALLOCATION OF \$400,000 IN FUNDS

WHEREAS, on January 15, 1986, the Redevelopment Agency of the City of Sacramento entered into a contract with Sacramento Heritage Inc. to administer/market a commercial rehabilitation loan program; and

WHEREAS, Sacramento Heritage, Inc. proposes to develop and fund the Pioneer Hall rehabilitation, 1010 Seventh Street, now, therefore,

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

Section 1: The Agency hereby approves in concept the Pioneer Hall Project as presented in the staff report for this resolution and authorizes the Chairman of Sacramento Heritage, Inc. to proceed with the development of an Owner's Participation Agreement (OPA) with the owners of the proposed project. Such OPA shall be presented to the Agency by January 31, 1987.

Section 2: That the cost of the proposed project would be \$400,000, and would be funded from tax allocation bond funds under cost center 0882.

CHAIR

ATTEST:

SECRETARY

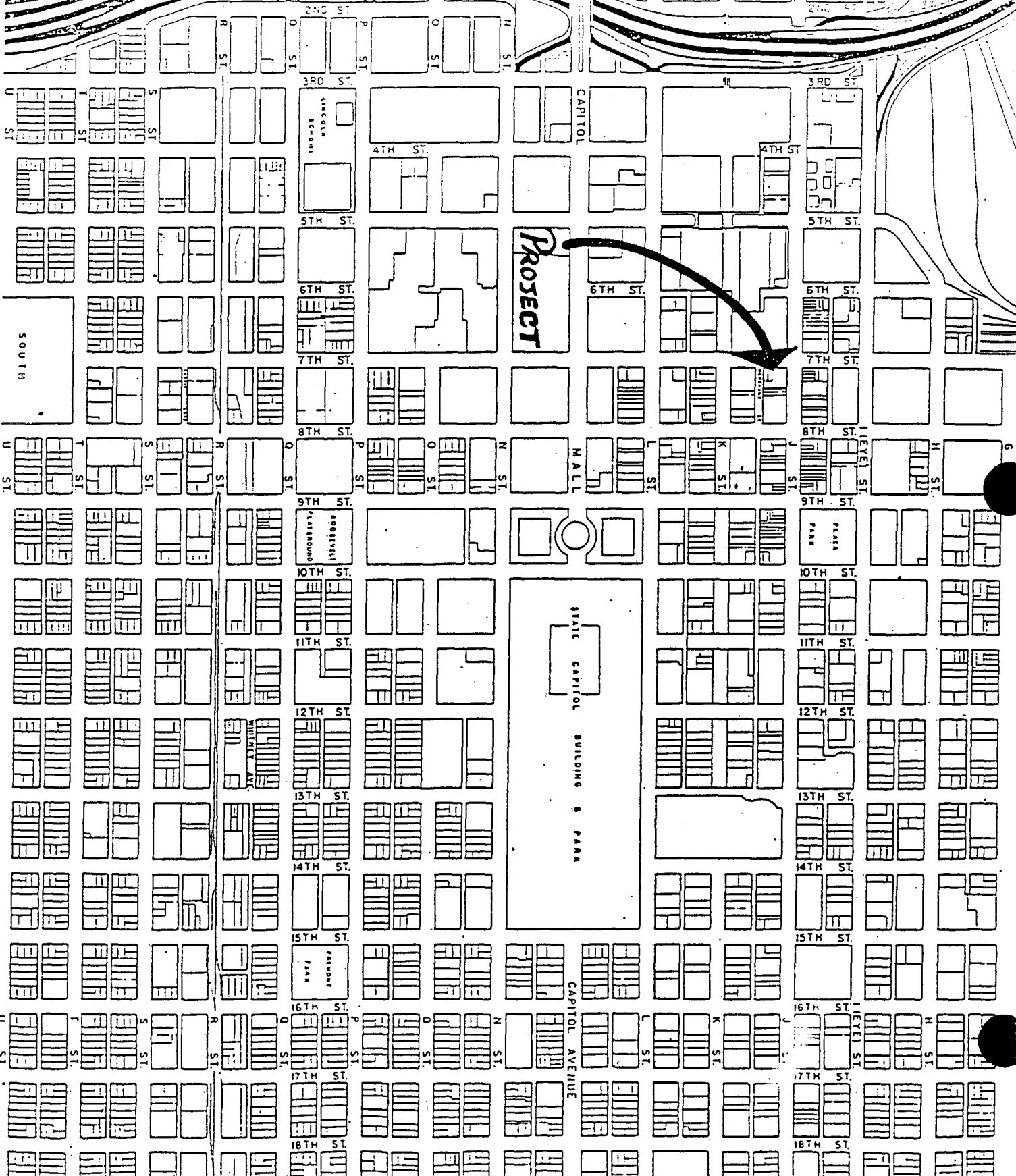
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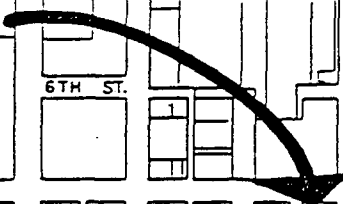
SACRAMENTO

RIVER

THE EMBARCADERO



PROJECT



STATE CAPITOL BUILDINGS & PARK

CAPITOL AVENUE

Lincoln School

ROOSEVELT Playground

MILITARY AVE

Parkland Park

Park

Park

Park

Park

SOUTH