

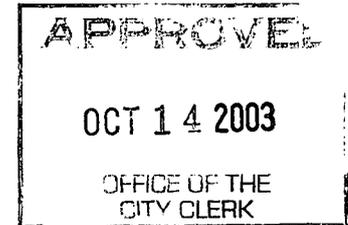
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ECONOMIC DEVELOPMENT DEPARTMENT

CITY OF SACRAMENTO

September 24, 2003

City Council
Sacramento, California



Honorable Members in Session:

SUBJECT: ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM REPORT
BACK; NEW HOME BUILDING SUPPLY LOAN APPLICATION;
ARNOLD BROS. BUILDING LOAN APPLICATION

LOCATION/COUNCIL DISTRICT: Citywide

RECOMMENDATION:

Staff recommends adoption of the attached resolutions that proposes as follows:

1) Authorizes the City Manager to take those actions necessary to execute documents for a loan from the Economic Development Assistance Program (EDAP) in the amount of \$60,000 to New Home Building Supply consistent with the terms specified in the resolution; 2) Authorizes the City Manager to take those actions necessary to execute documents for a loan from the EDAP in the amount of \$101,000 to Arnold Brothers Building, LLC consistent with the terms specified in the resolution; and 3) Reaffirms the guidelines and criteria of the EDAP funds and its intended purpose.

CONTACT PERSON: Kristan Otto, Manager, 264-7948
Citywide Economic Development Manager

FOR COUNCIL MEETING OF: October 14, 2003

SUMMARY:

This report is the first report back on the use of the Economic Development Assistance Program (EDAP) summarizing the history and use of the funds. During these difficult budget times, Citywide Economic Development (Citywide) is presenting the history of these funds, identifying the established purpose of these funds and asking the Council members to reaffirm the Program. Citywide also seeks authorization to originate two loans from the Program to New Home Building Supply and Arnold Brothers Building, LLC.

Building on Our History - Creating The Place to Be.

BACKGROUND

- Economic Development Assistance Program

On December 18, 2001, the Sacramento City Council, per Resolution 2001-845, adopted the guidelines and criteria for the Economic Development Assistance Program, which was originally funded in the amount of \$1,074,000. The intent of the Program is to serve as a tool in the implementation of the Economic Development Strategy adopted by Council in April 2000. The funds set aside for the program are to be used to enhance our fundamental purpose of creating net new jobs for the City of Sacramento's (City) employment base. The adopted guidelines and criteria for use of the funds are attached (Attachment 1). These include a requirement that recommendations for funding specific loans include a statement of estimated benefits expected from use of the funds, including: 1) number of jobs retained or created; 2) diversification of employment levels by salary range; 3) increase in taxes; and 4) leveraging of private and public capital investment.

Since the initial funding of the program in 2001, the fund balance increased to \$1,124,500 the following year due to a \$50,500 mid-year carryover.

In FY 01-02 and 02-03, the Del Paso Nuevo project was allocated a total of \$267,000 from the Program to fund shortfalls in the budgeted amounts of that project. Although this project did not meet the guidelines adopted by the Sacramento City Council, it was part of a joint City of Sacramento and Sacramento Housing and Redevelopment Agency effort to fund a very important project. As of June 30, 2003, the balance in the fund is \$857,500.

The original intent of the Economic Development Assistance Program was to establish a reserve of funds to be available to assist in attracting and/or retaining large employers within the City. Anticipated potential uses of the funds pursuant to this original intent included construction of infrastructure and other public improvements that may be required in connection with locations chosen by such large employers.

Since the Program was originally established, however, economic activity has slowed such that large employer relocation activity had diminished markedly. But Citywide Economic Development has recently seen increased activity and is actively working with several companies. Sensitive to current budget constraints, staff is requesting that the Council reaffirm its commitment to the intended use for these funds.

Concurrent with the economic slowdown, two applicants approached the City to assist them in financing their projects. New Home Building Supply, a longstanding business located on one of our targeted commercial corridors, suffered a major fire and significant damage to its premises and inventory. Citywide staff felt that although the loan did not conform to our guidelines and

purpose, the request fell within the Economic Development Department's adopted strategy. The proposed Arnold Brothers project does not fit the Program guidelines either, but it is an infill, mixed use, preservation project and meets the Council's general priorities to facilitate infill and historical preservation projects. Both projects are described in detail below.

While staff recommends the Council's approval of EDAP loans to New Home and the Arnold Brothers project, it concurrently recommends that the balance of the EDAP funds (as well as any additional funds that may be budgeted in the future) be retained for use pursuant to the original intent as described in the guidelines. As other projects present themselves, staff will report back to the Council for final approval of individual funding recommendations related to large employer attraction/retention.

- New Home Building Supply

New Home Building Supply (New Home) is a building supply center that has operated at 5310 Franklin Boulevard since the 1940s. In early 2002, the business was severely damaged by fire. The owners of New Home immediately set about the process of rebuilding. However, to conform to current codes in the new construction, New Home will lose a substantial portion of its indoor retail sales space that existed prior to the fire. To offset the resulting lost revenue, the owners intend to expand their bulk lumber sales onsite. Doing so will require utilization of two adjacent parcels of land, currently owned by New Home, but which had been zoned for residential use. New Home's reconstruction plan thus called for rezoning the residential parcels to general commercial for use in accommodating bulk lumber sales.

The casualty insurance coverage that this business had in place prior to the fire has defrayed all costs to replace the damaged buildings, contents and inventory. This coverage, however, does not extend to costs related to rezoning the residential parcels to general commercial designation, which included an application fee of \$26,150 to the City Planning and Building Department.

The entitlement application was processed by the Planning Division staff, which forwarded a recommendation to City Council for approval of the rezoning request. On September 9, 2003, the Council adopted staff's recommendation, which included a requirement for construction of a 300-foot masonry sound wall, separating the newly rezoned commercial parcels from adjacent residential lots. The \$30,200 cost to construct the wall is an additional cost that will not be reimbursed through New Home's insurance coverage.

The Citywide Economic Development staff began discussions with the ownership of New Home soon after the fire concerning the availability of City assistance related to these uninsured costs. Based on these discussions and extensive review of the rebuilding costs and financial situation, staff recommends a loan of

\$60,000 to assist the business with the costs associated with obtaining the entitlements and construction of the sound wall.

Recommended loan terms are as follows:

- Loan amount: \$60,000;
- Three percent (3%) simple interest rate;
- Payment deferral for 36 months;
- Loan amount and accrued interest will be amortized and paid over a 10-year (120 months) period.
- Secured by a first deed of trust on the subject property, at 5310 Franklin Blvd.
- Repayments will be re-deposited back in the Program fund.
- Applicant to pay all costs to originate the loan.
- The attached resolution authorizes the City Manager to execute documents necessary to disburse and secure the loan funds pursuant the recommended herein.

The City's loan to New Home will assist the business' recovery from the fire and its continued employment of 35 individuals at the Franklin Boulevard site. As these are positions to be retained no diversification by salary range is expected. The rebuilt structures will be subject to reassessment at a higher value, which will result in some (as yet undetermined amount of) additional property tax revenue to the City. Finally, the City funds will augment approximately \$1.785 million in insurance proceeds that have been paid to New Home to cover costs of rebuilding the business. The City's loan will be secured in first position.

• Arnold Bros. Building:

The Arnold Bros. Building (Arnold Bros) is a mixed-use project located at 1801 Capitol Avenue. The property, located in the heart of midtown, is a planned mixed-use development that will feature retail, restaurant, office, and loft residential units. The available space totals approx. 23,600 sq.ft. The property is a unique historical structure and has qualified for historic preservation tax credits. The project has also qualified for, and received, 19.02 sewer credits totaling \$43,746. It is estimated the project will require \$101,000 of off-site improvements (sidewalks, street lights, handicap ramps, alley). The property is not located within a redevelopment area. The applicant has requested a loan to close the gap between his conventional financing, owner equity and the established costs.

Recommended loan terms are:

- Loan Amount: \$100,000
- Three percent (3%) simple interest;
- Payment Deferral for 24 months;
- Loan amount and accrued interest will be amortized over a 25-year period, due in seven years.
- Loan will be secured by a third deed of trust.

- Repayments to this fund will be re-deposited back in the Program fund.
- Applicant to pay all costs to originate the loan.
- The attached resolution authorizes the City Manager to execute documents necessary to disburse and secure the loan funds pursuant the recommended herein.

The proposed City loan to Arnold Bros. will facilitate completion of a project that will increase the site's assessed value substantially, thereby boosting property tax revenues (est. \$30,000). The businesses that will be located onsite will generate sales tax revenue projected at \$533,750 annually and create approximately 155 new employment positions with average annual wages of \$25,000 - \$50,000. Total development costs for the project are approximately \$3.9 million, with the City funds providing gap financing between the project costs, conventional financing and owner equity. The City's loan will be secured in third position behind the applicant's conventional loans. Although the City prefers first or second position, it is not unexpected to be in third position since the EDAP program is intended to be gap financing.

FINANCIAL CONSIDERATIONS:

The funds to be disbursed pursuant to this report are currently contained within Fund 550. Funding is available and the balance of the fund after disbursement of both loans will be \$697,500.

ENVIRONMENTAL CONSIDERATIONS:

The recommended action does not require environmental review in accordance with Section 15301 of the California Environmental Quality Action (CEQA).

POLICY CONSIDERATIONS:

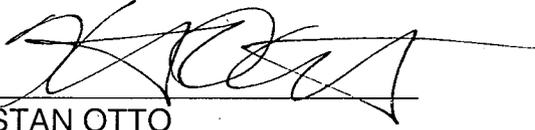
The recommendations contained in this report are consistent with the Economic Development Strategy Framework adopted by the City Council in April of 2000, and EDAP criteria and guidelines adopted by the City Council in December of 2001.

The recommendations are similarly consistent with goals of the City's 2001- 2004 Strategic Plan, including: 1) "Enhance and preserve the neighborhoods," 2) "Promote and support economic vitality," and 3) "Retain, attract and develop a highly qualified and diverse City workforce."

ESBD CONSIDERATIONS:

As no goods or services are being contemplated with this report, ESBD considerations do not apply.

Respectfully submitted:



KRISTAN OTTO
Economic Development Manager



BETTY MASUOKA
Assistant City Manager

RECOMMENDATION APPROVED:



 ROBERT P. THOMAS
City Manager

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ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM CRITERIA, PROCESS AND GUIDELINES

Program Purpose, Objectives and Eligibility

The primary purpose of the EDA Program is to promote and implement the adopted City Economic Development Department Strategy focusing on the targeted neighbor commercial corridors and key development sites included within the strategy. Projects that are able to demonstrate identifiable and estimable benefits within a projected time frame will be eligible for EDA Program. The objectives of the program are as follows:

- Retain and expand private sector jobs;
- Leverage private sector investment;
- Increase sales tax, property and other public tax revenue.

Prioritization

1. Projects located outside of current redevelopment project areas.
2. Projects located within redevelopment project areas that are generating no or minimal tax increment revenue.
3. Projects located in redevelopment project areas generating moderate to significant tax increment revenue.

Allowed Uses

- Pre-application and pre-development costs including regulatory and permitting costs, market feasibility studies, site and building characterization.
- Land Acquisition.
- Off-site infrastructure improvements, including but not limited to streets, sidewalks, and utilities
- On-site infrastructure improvements, including but not limited to grading, environmental remediation, and utilities.
- Building and tenant improvement construction costs. Tenant improvement costs must be permanent in nature and part of the building.
- Match or leverage other public funds.

Disallowed Uses

- EDA Program funds will not be used to supply capital for business operating expenses

- Furniture, Fixtures, and Equipment (FF&E) and all other removable improvements are ineligible for funds in this program.

Administration

- Origination of projects to be considered for EDA Program assistance will take place within the office of the City Director of Economic Development (Director).
- The EDA Program will be administered as a loan program. Loan agreements may contain clauses allowing deferment of loan payments or waiver of loan balances upon reaching agreed upon performance measures.
- The Director will prepare an analysis to substantiate the use of EDA Program funds.
- The analysis will include a description of the project, financial analysis demonstrating a funding gap or other financial obstacles posing an impediment to project development, EDA Program funding needed for project assistance, and, as referenced below, information needed for project validation.
- The Sacramento City Council will approve all negotiated loan agreements.
- Ten Percent (10%) of the original allocation may be used to fund studies and related predevelopment costs in determining the feasibility of proposed projects. In the event that additional funding is budgeted in future fiscal years, ten percent (10%) of the allocated amount will be available for the same uses. This ten percent amount will be allocated with the Director's approval.

Process

- If the Director determines the project warrants assistance, a contract will be created stipulating the terms and conditions, projected benefits, and penalties for non-performance.
- If approved by Council, the Director will conclude contract negotiations with the project developer specifying terms and conditions approved by Council.
- The Director may contract with third-party vendors, either governmental or non-governmental, for administrative assistance when doing so will reduce program administrative costs, (e.g. loan servicing required as part of EDA Program funding).
- The loans will be secured against the project and its property, preferably in first or second position.

Validation

- Staff reports and contracts will include a statement of estimated benefits expected from the use of these funds:

- Number of jobs retained and created.
- Diversification of employment levels by salary range.
- Increase in sales, property or other public taxes.
- Amount of leveraged private and public capital investment.
- As necessary, loans may incorporate forgiveness provisions that allow recipients to reduce the loan amount they needed to pay back upon reaching pre-specified performance benchmarks.

Reporting to Council

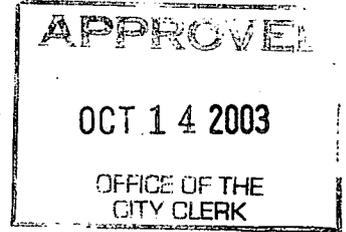
- The EDA Program will be reviewed six months after commencing operation and every six months thereafter. The Director will report back to Council at that time on the success of the process, criteria, and program activity.

RESOLUTION NO. 2003-726

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON THE DATE OF _____

**A RESOLUTION APPROVING AN
ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM
LOAN TO NEW HOME BUILDING SUPPLY
AND RELATED ACTIONS**



BE IT HEREBY RESOLVED BY THIS CITY COUNCIL THAT:

1. A loan of \$60,000("Loan"), to New Home Building Supply ("Borrower") is authorized to be made from Economic Development Assistance Program funds.
2. The Loan is to be made pursuant to the following terms:
 - A. Interest will accrue on the Loan principal at a simple rate of three (3) percent annually.
 - B. Loan payments are to be deferred for a period of 36 months following disbursement of the Loan proceeds to Borrower.
 - C. Repayment of Loan principal and accrued interest are to begin no later than 37 months following disbursement of the Loan proceeds.
 - D. Loan principal and accrued interest are to be fully repaid no later than 156 months following disbursement of the Loan proceeds.
 - E. The Loan is to be secured by real property owned by the Borrower or its affiliates and related entities at or around 5310 Franklin Boulevard, City of Sacramento, State of California through a first trust deed.
 - F. All payments of principal and interest on the Loan are to be deposited into the Economic Development Assistance Program fund.
 - G. The Borrower shall be responsible for all costs related to origination of the Loan.
3. The City Manager is authorized to negotiate terms and prepare and execute all documents approved by the City Attorney necessary to originate and secure the Loan.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

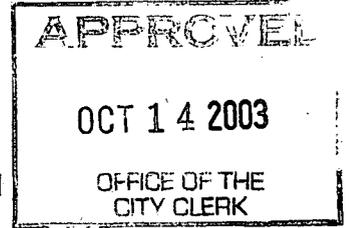
DATE ADOPTED: _____

RESOLUTION NO. 2003-727

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON THE DATE OF _____

**A RESOLUTION APPROVING AN
ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM
LOAN TO ARNOLD BROTHERS BUILDING, LLC
AND RELATED ACTIONS**



BE IT HEREBY RESOLVED BY THIS CITY COUNCIL THAT:

1. A loan of \$100,000 ("Loan"), to Arnold Brothers Building, LLC ("Borrower") is authorized to be made from Economic Development Assistance Program funds.
2. The Loan is to be made pursuant to the following terms:
 - A. Interest will accrue on the Loan principal at a simple rate of three (3) percent annually.
 - B. Loan payments are to be deferred for a period of 24 months following disbursement of the Loan proceeds to Borrower.
 - C. Repayment of Loan principal and accrued interest are to begin no later than 25 months following disbursement of the Loan proceeds and will be amortized over a 25-year period.
 - D. Loan principal and accrued interest are to be fully repaid no later than 108 months following disbursement of the Loan proceeds.
 - E. The Loan is to be secured by real property owned by the Borrower or its affiliates and related entities at or around 1801 Capital Avenue, City of Sacramento, State of California through a third trust deed.
 - F. All payments of principal and interest on the Loan are to be deposited into the Economic Development Assistance Program fund.
 - G. The Borrower shall be responsible for all costs related to origination of the Loan.
3. The City Manager is authorized to negotiate terms and prepare and execute all documents approved by the City Attorney necessary to originate and secure the Loan.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

RESOLUTION NO. 2003-728

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON THE DATE OF _____

A RESOLUTION RE-AFFIRMING THE GUIDELINES AND PURPOSE OF ECONOMIC DEVELOPMENT ASSISTANCE PROGRAM (EDAP)



BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

WHEREAS, three goals of the adopted City of Sacramento 2000-2004 Strategic Plan are to: 1) Promote and support economic vitality; 2) Retain, attract and develop a highly qualified and diverse City workforce; and 3) Enhance and preserve the neighborhoods;

WHEREAS, in April 2000 the City Council adopted the Economic Development Strategy which included the following individual strategies of: 1) Use public funds to facilitate private development and leverage new private sector investment; 2) Increase employment opportunities for a wide range of skill levels and compensation; and 3) Retain and expand existing industries and businesses;

WHEREAS, due to dynamic economic conditions on a national, state, and local level, the City of Sacramento needs to be ready to deploy or have available resources to compete for business opportunities as they arise;

WHEREAS, on December 18, 2001, the City Council, per Resolution 2001-845, adopted the Guidelines and Criteria for the City of Sacramento Economic Development Assistance Program (EDAP) with the intent of assisting qualifying projects that promote job creation, and business attraction, retention, and expansion.

WHEREAS, the funding for the EDAP is limited in nature and future funding is uncertain in the near term;

NOW THEREFORE, be it resolved by the City Council of the City of Sacramento, as follows:

- 1. City Council hereby re-affirms the guidelines and criteria for use of the funds in the Economic development Assistance Program (EDAP) and directs staff to only bring forth those projects or initiatives that closely meet the specified guidelines and criteria.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____