



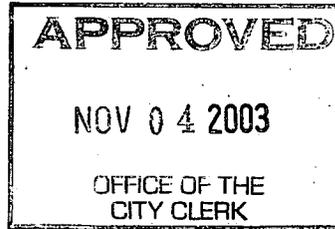
**Sacramento
Housing &
Redevelopment
Agency**



October 15, 2003

6.2

City of Sacramento and Redevelopment
Agency of the City of Sacramento
Sacramento, California



Honorable Members in Session:

SUBJECT: RE-OPENING THE COMMERCIAL REVITALIZATION PROGRAM

LOCATION & COUNCIL DISTRICT

Commercial corridors in Districts 1,2,3,4,5, 6 and 8

RECOMMENDATION

Staff recommends adoption of the attached resolutions on pages 10 - 15 which authorize the Executive Director or her designee to:

- re-open the Commercial Revitalization Program to new exterior improvement applications in those areas where the Program was previously closed;
- convert the Program from exterior rebates to zero-interest loans in all areas funded under the Community Development Block Grant Program;
- convert the Program from exterior rebates to zero-interest loans and establish a revolving loan fund in the Stockton Boulevard Redevelopment Area;
- adopt guidelines and underwriting criteria for the zero-interest exterior improvement loan; and
- increase the application fee for exterior rebates and loans from \$50 to \$100.

CONTACT PERSONS

Sarah Hansen, Acting Director of Community Development, 440-1399, ext. 1415
Jim Hare, Program Manager, 440-1313

FOR COUNCIL MEETING OF November 4, 2003

SUMMARY

Due to budgetary constraints, the Agency's Commercial Revitalization Program (Program) was closed in September 2002 to new exterior rebate applications in areas that rely on Community Development Block Grant (CDBG) funding. This report recommends re-opening the Program to

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new applicants. In order to create an ongoing source of revenue, staff recommends that where the funding source for the Program is CDBG or taxable redevelopment bond funds, the Program be re-opened as a no-interest loan program, a change from the previous rebate/grant program.

PAC/RAC/TAC ACTION

The recommendations in this staff report have been placed on the agendas of relevant community advisory groups and those groups will be informed of the recommended changes by the time City Council action is requested.

COMMISSION ACTION

At its meeting of October 15, 2003 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Burns, Burruss, Coriano, Farley, Gore, Harland, McCarty, Piatkowski,
Simon, Stivers

NOES: None

ABSENT: Hoag

BACKGROUND

The Agency's Commercial Revitalization Program offers loans and exterior improvement rebates to businesses on 13 commercial strips in the City of Sacramento. Since its inception in 1985, the Program has funded hundreds of commercial exterior improvement projects in the City, most of those as matching rebates. Between January 2000 and December 2002 the Program invested \$2 million in rebates and \$1 million in loans, leveraging \$5.5 million in private investment in the City's older commercial corridors. The Program has been credited with making a major contribution to the revitalization of older business districts, including Franklin, Stockton, Del Paso, and Marysville boulevards.

The Program has been modified numerous times over the years to enhance its effectiveness and extend its impact. The last modification came in January 2002, when four new areas were added to the nine corridors then eligible for the Program. These new areas were determined to meet the CDBG definition of blight and were therefore eligible for Program funding. Intense marketing quickly followed approval of the new areas, and applications began to come in at the rate of two to three a week. By September 2002, it became apparent that the Program budget could not sustain the continuing flow of applications. The Program was closed at that time, except in certain redevelopment areas (Oak Park, Alkali Flat, and Del Paso Heights) that had tax increment bond funds available to finance new applications.

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Since September 2002, Agency staff has been working through the significant backlog of projects, bringing them to the funding stage. There remain 15 applicants in the City whose projects have yet to be funded from existing CDBG Program funds. Staff has recently sent a second notice letter to these applicants advising them that they must initiate their projects by December 31, 2003 in order to receive funding under the existing Program rules.

Budget Status

While the exterior rebate has been popular and effective, it is not feasible to continue the existing Program from a budgetary standpoint in all areas. The Program completed 22 projects using \$685,000 in City CDBG funds in 2002, a year in which the CDBG budget for the Program was zero. This level of production was possible due to use of prior year balances and prior years' Program income. However, that surplus has now been exhausted and outstanding applications will expend nearly all CDBG funding allocated to the Program through the remainder of 2003.

The City CDBG budget proposed for the Program for 2004 is \$300,000. In order to match this budget with Program production, staff recommends converting the exterior rebate to a zero interest loan program. A zero interest loan program, while still an attractive method of financing commercial building improvements, will "revolve" the CDBG funds budgeted and help create a self-sustaining program over time.

New Program

The terms of the new zero interest loan program are summarized in Attachment I. Loans would be for purposes identical to the current program: to rebuild facades and make code corrections to commercial buildings in eligible areas. To this end, the Agency would provide an exterior improvement loan of up to \$50,000 per project. The Agency would lend up to 90 percent of the project's cost, so the applicant's "match" would be reduced from the current 50 percent to 10 percent. Underwriting for this program would be relaxed from adopted Agency guidelines: the maximum loan to value ratio would be raised to 100 percent and appraisals might be waived following review of a preliminary title report and comparable values.

Another notable deviation from the current program is that projects involving stand-alone commercial tenants would no longer be eligible. Staff has found that commercial tenants often do not stay in business long enough to justify public investment in signs, awnings and other building improvements. The one exception to this rule will occur when an owner initiates an overall building improvement project under the Program. In that case, the commercial tenants in that building may apply for a maximum \$5,000 grant to be matched, dollar for dollar, by non-Agency funds. These grants will pay for coordinated signage and code compliance to complement the owner-initiated project.

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The repayment term of the proposed exterior improvement loans will be tied to the loan amount. Loans of \$25,000 or less will be repaid over five years, loans of \$25,001 to \$35,000 will be paid over seven years, and loans of \$35,001 to \$50,000 will be paid over 10 years. Loan payments will be deferred for up to five years for borrowers who obtain first mortgage loans from one of the "partnership banks:" i.e. Farmers and Merchants Bank, River City Bank, or California Bank and Trust. The three banks have been offering special commercial rehabilitation loans to the Agency's clients since 2000. Since the term of the partnership banks' loans are five years, the Agency's deferral will allow the banks to underwrite their loans as if the Agency's loan was a grant.

Timing of the New Program

The new CDBG-funded program would open to applications immediately following approval of this report, with project funding beginning in 2004. No 2004 CDBG funds will be encumbered before January 1, 2004.

Exceptions in certain Redevelopment Areas

For many years it has been the Agency's practice to initially fund the Program in redevelopment areas with CDBG. When enough tax increment revenue becomes available (typically within three to seven years of plan adoption), a bond is sold to finance projects and programs. The following City or joint City/County redevelopment areas have bonded to fund the Program: Merged Downtown, Del Paso Heights, Oak Park, Alkali Flat, North Sacramento, and Stockton Boulevard.

Redevelopment bonds may be issued as either taxable or tax-exempt. Taxable bond proceeds must be loaned to developers or other entities that will repay the borrowed funds. Per Federal tax law, tax-exempt bond proceeds must be granted to other government agencies or private parties for public purposes. Because of the favorable tax treatment, the Agency receives more bond proceeds when it issues tax-exempt bonds. Typically, with each bond issuance, a larger portion is tax-exempt and a smaller portion is taxable.

Of the redevelopment areas participating in the Commercial Revitalization Program, Merged Downtown, Del Paso Heights, Oak Park, North Sacramento and Alkali Flat will continue to offer exterior rebates using tax-exempt bond proceeds. Due to the limited bond funds available on Stockton Boulevard, approximately \$200,000 in tax-exempt bonds will be used to offer exterior rebates. When those funds have been committed, taxable bond proceeds will be used to establish a revolving loan fund to continue commercial revitalization.

Due to very limited tax increment funds, staff recommends the continued use of CDBG funds in the Franklin Boulevard Redevelopment Area, offering exterior improvement loans as in other CDBG funded areas. A table listing all the Program areas, their source of funds, and whether they will offer loans or rebates is included as Attachment II.

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Other Program Guidelines

All Commercial Revitalization Program guidelines not revised in this staff report remain in effect.

Program Monitoring and Evaluation

A zero interest loan, while still providing a revitalization incentive, may not attract as many applicants as the previous exterior rebate program, which did not require repayment. Staff will monitor Program performance under the new rules and will report back as may be necessary to further modify the Program.

FINANCIAL CONSIDERATIONS

Staff is recommending the proposed zero interest exterior improvement loan to better match the Program budget with Program production. The proposed 2004 CDBG Action Plan budget of \$300,000 would allow six projects to be approved at the maximum loan of \$50,000.

In the Stockton Boulevard Redevelopment Area, \$300,000 in taxable bond funds is available to fund Commercial Revitalization Program loans. The Agency will establish a revolving loan fund in the Stockton Boulevard Redevelopment Area, thus establishing an income stream to fund future commercial loans there.

Increasing the application fee for exterior rebates and loans from \$50 to \$100 will partially offset the increasing costs of processing applications.

POLICY CONSIDERATIONS

The actions recommended in this report are consistent with the following City and Agency policies:

- City's Strategic Plan Goal to enhance and preserve the neighborhoods.
- Agency policy of providing resources for the redevelopment of commercial properties in redevelopment areas and on targeted commercial strips.

The actions are also consistent with the City's adopted 2003-2007 Consolidated Plan goals.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a project under the California Environmental Quality Act (CEQA) per Guidelines Section 15378(b)(4), which exempts government financing mechanisms that do not involve a commitment to any specific project from environmental review. In addition, the exterior rebate projects that could be funded under the Program would be exempt from environmental review as ministerial projects and as rehabilitation of existing structures under CEQA Guidelines Sections 15268 and 15301 (d) and (e). The proposed action

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is exempt from National Environmental Policy Act per 24 CFR Section 58.34(a)(3) related to administrative activities and Section 58.35(a)(3)(ii) which exempts rehabilitation of existing commercial structures.

M/WBE CONSIDERATIONS

The Agency's Minority and Women's Business Enterprise Program will be applied to all applicable projects, where required by the federal funding source.

SBE CONSIDERATIONS

The Agency will comply with current Small Business Enterprise policy, as applicable.

Respectfully submitted,


ANNE M. MOORE
Executive Director

Transmittal approved,

 Patty Masuoka
ROBERT P. THOMAS
City Manager

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ATTACHMENT I

Commercial Revitalization Program: Exterior Improvement Loan Guidelines

General

The Commercial Revitalization Program is a discretionary program, not an entitlement program. The Program is intended to complement the Agency's overall community development goals. Program funds may be reserved for rehabilitation of buildings that contribute to excessive blight or for buildings that, if rehabbed, would complement other Agency projects or revitalization initiatives. Loans and rebates are offered only to the extent that budget is allocated to the program

The Commercial Revitalization Program will offer exterior improvement loans in eligible areas funded with Community Development Block Grant (CDBG) or in some cases, with tax increment funds. Where loans are offered, they will be at zero interest for exterior and codes-related improvements only, as further described below.

Eligible Applicants

Commercial building owners within adopted Commercial Revitalization Program redevelopment and target areas are eligible for no-interest loans.

Matching requirement

The Agency will loan up to 90 percent of project costs up to \$50,000. Owners must provide equity or obtain another loan to complete project funding.

Loan Security

The Agency exterior loan will be secured by a Deed of Trust on the property to be rehabbed. The total loans to value ratio will not exceed 100 percent.

Maximum loan/grant

The maximum exterior loan is \$50,000 per project. The minimum exterior loan is \$10,000.

Use of exterior improvement loan funds

Exterior improvement loan funds are intended to make aesthetic and code improvements to the building. Aesthetic improvements including (but not limited to) paint, awnings, new storefront window and door systems, and parapet walls are approved at the discretion of staff. A maximum of ten percent (10%) of loan funds may be used for roofs. Parking lots, detached signs, and landscaping are not eligible uses of CDBG loan funds.

Loan Term

When applicant is also getting a Partnership bank loan: Loan repayment will be deferred for five years. After five years the loan will convert to one of the repayment schedules listed below.

When applicant is not getting a Partnership bank loan: The maximum loan term is tied to the amount of the loan:

\$25,000 or less: 5 years (Note: \$25,000 loan at term = \$416.67/month)

\$25,001 to \$35,000: 7 years (Note: \$35,000 loan at term = \$416.67/month)

\$35,001 to \$50,000: 10 years (Note \$50,000 loan at term = \$416.67/month)

Borrowers may elect a shorter term than the maximum if underwriting determines the borrower has the ability to repay within a shorter term. All loans will be deferred for the construction period or six months, whichever is shorter.

Underwriting

Documentation for exterior improvement loans will be relaxed from adopted Agency underwriting guidelines. Staff will review the following:

Business and/or personal credit report

Preliminary title report

Most recent tax return

Personal Financial Statement, include a schedule of fixed debt

Appraisal (may be waived after review of preliminary title report and comparable values)

Approval criteria (debt coverage ratio, loan to value ratio, collateral coverage ratio) will be pursuant to the Agency's Standard Underwriting Policy, with the exception of loan to value ratio, which will be a maximum 100%

Commercial Tenants

Commercial tenants who apply in conjunction with approved owner-initiated projects will be eligible to receive matching grants. Stand-alone commercial tenants are no longer eligible for the Program.

Maximum tenant grant

\$5,000

Matching requirement

50 percent match from non-Agency funds.

Use of tenant grant funds

Attached signs, other aesthetic improvements and code (including ADA) compliance.
Tenant security systems are no longer eligible for rebate.

Owner-occupied buildings

Owner-occupied buildings are eligible for one tenant grant of \$5,000. The owner's loan will count as the match.

Commercial Revitalization Program
Funding Source and Program Matrix

Eligible Area	Funding Source	Loan or Rebate
Alkali Flat Redevelopment Area	Tax increment or tax-exempt bond proceeds	Rebate
Del Paso Heights Redevelopment Area	Tax increment or tax-exempt bond proceeds	Rebate
Merged Downtown Redevelopment Area	Tax increment or tax-exempt bond proceeds	Rebate
Oak Park Redevelopment Area	Tax increment or tax-exempt bond proceeds	Rebate
N. Sacramento Redevelopment Area	Tax increment or tax-exempt bond proceeds	Rebate
Florin Road**	CDBG	Loan
Franklin Blvd. Redevelopment Area	CDBG	Loan
Fruitridge Road**	CDBG	Loan
Northgate Blvd./El Camino	CDBG	Loan
65 th Street/Folsom Boulevard/Broadway	CDBG	Loan
Stockton Blvd. Redevelopment Area*	Tax Increment Bond (taxable proceeds)	Loan

*Stockton Boulevard has a limited amount of tax-exempt funds that will be offered for rebates when the program re-opens. When those funds are exhausted the area will switch to taxable funds and loan program will be offered.

**Reopened for one year



RESOLUTION NO. 2003-064

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

COMMERCIAL REVITALIZATION PROGRAM

Whereas, the Commercial Revitalization Program was initiated in 1985 to improve the appearance and function of commercial buildings in designated slum and blighted commercial corridors and in redevelopment areas;

Whereas, Community Development Block Grant funds are used initially to fund the Commercial Revitalization Program in redevelopment areas, and continue to be used in the Franklin Boulevard Redevelopment Area;

Whereas, redevelopment bonds fund the Commercial Revitalization Program in the Del Paso Heights, North Sacramento, Alkali Flat, Merged Downtown, Oak Park, and Stockton Boulevard Redevelopment Areas; and

Whereas, the Commercial Revitalization Program was closed to new applications in the North Sacramento, Stockton Boulevard and Franklin Boulevard Redevelopment Areas in September 2002 due to lack of funding.

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The Commercial Revitalization Program shall re-open to new exterior improvement applications in the North Sacramento, Stockton Boulevard and Franklin Boulevard Redevelopment Areas.

Section 2. In redevelopment areas where the source of funds for exterior improvement projects is unencumbered tax increment or tax-exempt bond funds, the Commercial Revitalization Program will offer matching exterior improvement rebates. As of the date of this resolution, these areas are the Del Paso Heights, North Sacramento, Alkali Flat, Merged Downtown, Oak Park and Stockton Boulevard Redevelopment Areas.

Section 3. In redevelopment areas where the source of redevelopment funds for exterior improvement projects is taxable bond funds, the Commercial Revitalization Program will offer zero-interest exterior improvement loans. As of the date of this resolution, the Stockton Boulevard Redevelopment Area has taxable bond funds available for exterior improvement loans.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____ 10

Section 4. The Agency shall establish separate revolving loan funds for each Redevelopment Area offering exterior improvement loans.

Section 5. The application fee for exterior rebates and loans shall be increased from \$50 to \$100.

CHAIR

ATTEST:

SECRETARY

FOR CITY CLERK USE ONLY

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RESOLUTION NO.: _____

DATE ADOPTED: _____

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RESOLUTION NO. 2003-781

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF



COMMERCIAL REVITALIZATION PROGRAM

Whereas, the Commercial Revitalization Program was initiated in 1985 to improve the appearance and function of commercial buildings in designated slum and blighted commercial corridors and in redevelopment areas;

Whereas, sections of 16th Street, Del Paso Boulevard, Fruitridge Road, Franklin Boulevard, Stockton Boulevard, Florin Road, Folsom Boulevard, Northgate Boulevard, El Camino Avenue, Meadowview Road, 65th Street, and Broadway within the City of Sacramento were previously surveyed and found to meet the criteria for slum and blight as defined by the U.S. Department of Housing and Community Development, and are therefore eligible for Community Development Block Grant funding;

Whereas, the Commercial Revitalization Program was closed to new applications in these areas in September 2002 due to lack of funding.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. The Commercial Revitalization Program shall re-open to new exterior improvement applications within the boundaries of previously designated slum and blighted areas on Franklin Boulevard, Folsom Boulevard, 65th Street, Broadway, Northgate Boulevard, and El Camino Avenue. The Program shall remain open in these areas for an indefinite period of time, subject to available funding.

Section 2. The Commercial Revitalization Program shall re-open to new exterior improvement applications within the boundaries of previously designated slum and blighted areas on Florin Road and Fruitridge Road (65th Street to Power Inn) for a period of one year.

Section 3. In CDBG-eligible areas, the Commercial Revitalization Program will offer zero-interest loans for exterior improvements rather than rebates.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

Section 4. The application fee for exterior rebates and loans shall be increased from \$50 to \$100.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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