

CITY OF SACRAMENTO

CITY MANAGER'S OFFICE

RECEIVED

JUN 30 1981

MARTY VAN DUYN
PLANNING DIRECTOR

CITY PLANNING DEPARTMENT

725 "J" STREET

SACRAMENTO, CALIF. 95814
TELEPHONE (916) 449-5604

June 24, 1981

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Proposed Business Rehabilitation Loan Program Guidelines

SUMMARY

This report discusses the proposed Business Rehabilitation Loan Program Guidelines attached as Exhibit I.

The staff recommends that guidelines be adopted, and that Alkali Flat - 12th Street, and City Farms - Franklin Boulevard be given priority for such loans for the first year.

BACKGROUND INFORMATION

The City's 1981-82 Community Development Block Grant Program, as adopted by the City Council, allocated \$50,000 for a Business Rehabilitation Loan Program. It is proposed that the City sponsored business rehabilitation/revitalization loans be interest subsidy type loans as described below. Interest subsidy rehabilitation loans are a commonly used form of publically funded business rehabilitation program. The City would pay a portion of the interest on the loan, reducing the total monthly cost to the business. The interest subsidies, effective in reducing costs, also provide encouragement to lenders to make loans in certain areas. The proposal for interest subsidies assumes that interest rates will be reduced by six percent. At current interest rates (18%) total loans of approximately four times the total dollar amount of subsidy would be generated. Interest subsidy dollars are paid to banks and will not be recycled to make other loans. Sacramento County currently operates a similar program funded through CDBG.

The proposed guidelines set a target of a 1:4 ratio. That is \$4 loaned for every dollar the City puts up. The maximum reduction of loan cost per month was desirable since this is the major incentive for these type rehabilitation loans, and finally the administrative complexity of the business loan program was important because of the high administrative costs possible in another type of program. Administrative costs will be substantially less for loans which are completely administered by a bank or savings and loan.

APPROVED
BY THE CITY COUNCIL

JUL - 7 1981

OFFICE OF THE
CITY CLERK

Selection of Priority Areas:

One of the objectives of the commercial rehabilitation loan program is "... to target a sufficient number of loans into a single area to make a noticeable improvement in overall appearance and economic vitality." Because of this objective, two specific areas of the City were selected for targeting of these commercial rehabilitation loans: Alkali Flat - 12th Street and City Farms - Franklin Boulevard. These areas have both been the subject of recent studies relating to physical improvements and rehabilitation. The Urban Design Manual for Alkali Flat has recently been completed and preliminary contacts indicate that there is sufficient interest for several loans along the 12th Street Corridor. Franklin Boulevard was recently surveyed and business owners and 85% of responding business owners indicated an interest in rehabilitation loans. Other areas could be recommended for inclusion in the future as plans and studies are completed.

FINANCIAL DATA

The 1981-82 CDBG Application allocated \$50,000 for a business rehabilitation loan program. It is expected that this public investment will generate approximately \$200,000 in private loans by the participating lender, a 1:4 leverage ratio. No additional funding is requested at this time.

RECOMMENDATION

Staff recommends that the City Council approve:

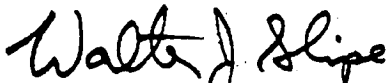
- 1) The attached guidelines for a business rehabilitation loan program for the City's CDBG target areas with primary focus of first year loans to be 12th Street in Alkali Flat and Franklin Boulevard in the City Farms target area; and
- 2) Authorize staff to prepare the RFP for distribution to local lending institutions to enter into an agreement for a loan program similar to Sacramento County's.

Respectfully submitted,



Thomas V. Lee
Associate Planner

Recommendation Approved:



Walter J. Slupe
City Manager

VT:TL:10
Attachments

July 7, 1981
All Districts

CITY OF SACRAMENTO
COMMERCIAL REHABILITATION LOAN PROGRAM

Program Objectives

1. Encourage rehabilitation and business improvements within the City's CDBG target and redevelopment areas.
2. Obtain the maximum private investment and economic activity from the public funds made available, at least 4:1 leverage.
3. Target a sufficient number of loans into a single area to make a noticeable improvement in overall appearance and economic vitality.
4. Support the overall goals of Community Development Block Grant Program through removal of conditions of blight and blighting influences from the target areas.

Program Mechanism

The City's business rehabilitation loans will be made by a participating lending institution. The interest paid on loans to eligible businesses will be reduced by subsidy payments from the CDBG business rehabilitation loan fund.

The block grant funds allocated to this program will be deposited in an interest bearing account with the lender. As businesses borrow money from the lender under the program, a dollar amount (usually discounted to present value over the term of the loan) is withdrawn from the interest bearing account. These "payments" serve as an "up-front" loan subsidy and reduce the interest rate paid by the borrower. If the loan is repaid early, a prorated amount is re-deposited in the Block Grant interest bearing account.

The interest rate to be charged will be determined at the time the loan is made and will vary depending on the market interest rates at that time, and would be approximately six percent below market. The term of the loan may be variable depending on the needs and requirements of the borrower and the lender.

1. Normal qualifying requirements will apply to all loans made under this program and normal security requirements will apply to the total amount of the loan. Loan guarantees are not a part of the program.
2. The project must be ready to go and not be speculative in nature. Owner-tenant cooperation shall be furnished in the form of signed letters of intent or leases.

Outreach and Advertising

Advertising and promotion will be targeted within a specific commercial neighborhood to support the objectives of this program.

1. Brochures and other program information will be distributed through the selected area's Redevelopment Project Area Committee (PAC), and other neighborhood based organizations.
2. Business and property owners within the targeted area will be notified through advertising or direct mail.
3. City/Agency representatives will meet with merchants, property owners and community organizations for the purpose of explaining the program.
4. Newspaper articles will be placed in local newspapers including those of general circulation as well as minority newspapers. These articles may be either news releases or advertisements.

Loan Application/Review

1. Agency staff insures that the applicant meets the requirements of the program as far as location within the targeted area and the intent of the program.
2. Lender assists applicants as needed in completion of application form.
3. Applicants prepare (or have prepared) estimates of rehabilitation costs and itemize work to be done. The participating lender will judge the reasonableness of the estimate and insure that the work proposed is within the guidelines for eligible activities.
4. Financial qualifications of the prospective borrower will be determined solely by the lender which will assume all risk, duties and responsibilities with respect to the bank loan. No loan guarantee is provided by the City.
5. The participating lending institution will be expected to insure that work proposed is, in fact, accomplished and may control disbursements in any way appropriate to insure this end. The City/Agency reserve the right to check periodically on work progress.
6. In addition, the following may be considered in the evaluation of loan applications:
 - a. Degree to which the project meets or exceeds the required (1:4) leverage ratio.

- b. Past history, experience and record of applicant.
- c. Applicant's equity investment committed to the project.
- d. Degree of readiness to proceed, merit of project and economic viability.
- e. Owner-tenant cooperation as evidenced by signed letters of intent or leases.

Eligible Activities/Locations:

1. Eligible areas include the City's CDBG target areas. First priority for fiscal year 1981-82 will be given to the 12th Street area of Alkali Flat and the Franklin Boulevard area of City Farms.
2. The applicant must be a "Small Business" as currently defined by the U. S. Department of Commerce - Small Business Administration or must be a licensed child day-care facility.
3. Emphasis will be placed on items which will serve to bring the property into compliance, or more nearly into compliance, with zoning, health, safety or building codes. (minimum of 35% of loan proceeds to be used for these purposes).
4. Emphasis will also be placed on rehabilitation of the exterior of structures with a minimum of 10% of each loan amount to be used for this purpose. Renovation/replacement of signs, landscaping, fencing and parking areas shall be considered eligible costs when undertaken to eliminate potentially hazardous conditions, to remove blighting influences, or to comply with codes.
5. Other eligible costs include:
 - Replacement of principal fixtures and components of existing structures where directly related to code compliance.
 - Renovation through alternatives to enhancement of the interior of existing structures where directly related to code compliance.
 - Energy saving devices, material or equipment.
 - Expansion of existing structures not to exceed 20% of floor space.
6. All work will be accomplished in accordance with applicable zoning and building codes.
7. Relocation costs are not eligible expenses. Borrowers, therefore, must agree to waive their right to relocation benefits should a temporary dislocation of the business be necessary as a result of the work being done.

Evaluation/Performance

1. Public sector funds will leverage private sector funds (lenders and business) on a ratio of approximately 1:4 (CDBG dollars to private dollars). (NOTE: Future interest paid on loans is not counted.)
2. Although not a primary goal of the program, the creation of new, permanent jobs in the private sector is desirable. A general guideline is that one job should be created for each \$7,000 of public money invested..
- 3.. Quarterly evaluation reports of this program will be made by the City CDBG staff. Evaluation reports will include analysis of success of the rehabilitation activities as well as consideration of employment and hiring activities.

VT:lo
6-16-81