



April 1, 1999

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

**SUBJECT: OAK PARK SUPERMARKET DISPOSITION AND DEVELOPMENT
AGREEMENT AMENDMENT**

LOCATION & COUNCIL DISTRICT Oak Park Redevelopment Project Area
District 5

RECOMMENDATION

Staff recommends adoption of the attached resolution that authorizes the Executive Director or her designee to:

Amend the Disposition and Development Agreement (DDA), with Stockton/Broadway Partners L.P. (Developer). The amended DDA would provide a commitment of future tax increment generated from the project up to \$250,000 plus 6.5 percent simple annual interest; expand the project site to include an additional parcel; and, redefine the Developer as combination of three individual parcel ownerships.

CONTACT PERSONS John Dangberg, Director, City Community Development,
440-1357
Jim Hare, Program Manager, 440-1322

FOR COUNCIL MEETING OF April 13, 1999

SUMMARY

Construction bids for the Food Source Supermarket significantly exceeded funds budgeted by Raleys/Food Source for the project. Negotiations between the Developer and the low-bid contractor, combined with modest modifications to materials and design features, resulted in significant cost savings, but still left the project over-budget. The recommended additional subsidy would reimburse Raleys/ Food Source \$250,000, which is one-half the cost of the

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remaining \$500,000 budget overrun. The subsidy would be provided from future tax increment generated from the site, which has been expanded to include a property at the southwest corner of Stockton Boulevard and 4th Avenue. Two additional retail users are identified and the three parcel ownerships are detailed.

COMMISSION ACTION

At its meeting of November 4, 1998, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Amundson, Castello, Cespedes, Dobbins, Harland, Holloway, Simon

NOES: None

ABSENT: Hoag, Newsome, Rotz, Taylor

BACKGROUND

In October 1997, the Redevelopment Agency approved a DDA with the Stockton/Broadway Partners L.P. (Developer) in order to transfer Agency-owned land and provide a subsidy to finance site development and supermarket construction at the corner of Broadway and Stockton Boulevard. As of the date of this staff report, entitlements and building permits have been obtained, the site has been cleared, Agency-owned land has been transferred to the Developer, on- and off-site work has commenced, construction of the supermarket building is almost complete, and the store is scheduled to open on in mid-April. However due to higher than anticipated costs of construction, additional tax increment funding is necessary to reimburse Raleys and the Developer for a portion of the additional costs.

When Food Source entered into a lease with the Developer, they did so on the assumption that a warehouse-style market would cost approximately \$34 per square foot to construct. This cost estimate was based on a Food Source store built in 1994 in Rocklin by a different contractor and developer. In spring 1998, the Developer bid out the plans for site work and store construction. The low bid for store construction came in at \$52 per square foot. Based on negotiations between the Developer and the low bid contractor (McCarthy Construction) several cost-saving modifications in design and materials were agreed upon with the City's design review staff.

The project cost was thus reduced to \$44.15 per square foot, a substantial saving, but still more than \$10 per square foot over budget. At 50,000 square feet, this translated to a budget overrun of \$500,000. Under the Developer's original lease agreement this cost overrun would have been borne entirely by Food Source, with no means to recoup any portion of the overage. Food Source indicated that these circumstances threatened their ability to proceed with the project.

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During extended negotiations the Developer proposed additional Agency participation in the project, with the idea that Food Source or the Developer advance the burden of the cost overrun, but ultimately shared between the Agency, Food Source, and the Developer. Staff agreed to recommend additional Agency participation on the terms described below.

Staff proposes that the Agency provide an additional subsidy to the project out of the future net tax increment derived from the project site. Under the current DDA, the Developer guarantees that the project will generate tax increment of \$30,000 per year based on an assumed after-construction property valuation of \$3,000,000. Any payment towards the proposed additional subsidy would come from the "excess" tax increment generated from the site above the \$30,000 guarantee. Since the Food Source building and site work cost now totals \$3,117,661, any such excess tax increment would be generated after the "pad site" (known as Parcel Two for the purposes of the DDA and this report) at the corner of Broadway and Stockton is developed (See Attachment I). In addition, the Developer has negotiated privately with the owner of Warner's Rendezvous, which is located at the southwest corner of 4th Avenue and Stockton Boulevard (Parcel Three). The Developer has an option on this property, which expires in late-April 1999. This report also seeks approval to include this parcel, if acquired, into the project "site". Currently this parcel yields \$4,361 annually in tax increment; this value will be added to the guaranteed \$30,000 for a total TI generation of \$34,361. Any development of this parcel would increase the excess tax increment available to provide the additional subsidy.

Food Source or the Developer will advance all \$500,000 of the cost overrun. Staff proposes that the Agency repay up to half this amount, \$250,000, through anticipated tax increment above \$34,361 per year. Staff also proposes the following conditions (a copy of the proposed Amended and Restated Disposition and Development Agreement is on file with the Agency Clerk):

1. The subsidy is to be paid in December of each year, beginning in 1999, for a period not to exceed 20 years, and only from the "excess" net tax increment (less housing set aside, pass-throughs, and County Administrative costs) available from the site;
2. The sum of annual subsidy amounts is not guaranteed to fully amortize the \$250,000 over the 20 year term;
3. The subsidy will be suspended in the event of cessation of grocery operations, and paid on a pro-rata basis for partial year operation. Subsidy to resume if grocery operations resume;
4. The annual subsidy will be reduced in proportion to any reduction in grocery operations square footage;
5. The subsidy prepayment is allowed at the Agency's option;

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6. Food Sources \$250,000 contribution will accrue annual simple interest at 6.5 percent.
7. The subsidy will not begin to accrue interest until the Food Source opens for business.

Accordingly the DDA is further amended to reflect an expanded project site with three distinct parcels and their ownership, as follows:

Parcel One	Stockton/Broadway Partners LP
Parcel Two	Taylor Stockton Parcel Two GP
Parcel Three	4 th Street/Stockton Boulevard Partners LP

Two additional retail users, Walgreen's Drug Store on Parcel Three, and Hollywood Video on Parcel Two are proposed to be included in the retail center. The Developer is currently submitting his plans and entitlements request to City Planning and Design Review Board.

FINANCIAL CONSIDERATIONS

The tax increment subsidy will not exceed \$250,000 plus the 6.5% simple annual interest, payable annually from future tax increments generated by the project above the amount guaranteed by the Developer. Simple interest will begin to accrue when Food Source opens for business. If at the conclusion of 20 years the full amount of the subsidy has not been reimbursed, no additional funds will be required. Prepayment of principal and accrued interest is permitted at the Agency's discretion. See attached amortization calculations (Attachment II).

POLICY CONSIDERATIONS

The recommended actions in this report are consistent with Agency policy. No policy changes are recommended. It is the Agency's practice to subsidize private development projects only to the extent required to ensure their success. The additional subsidy is justified in this case because it reduces Food Source annual operating costs, helping ensure the project's long term success.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a project under CEQA per Guidelines Section 15378 (b) (3), nor a federal undertaking under NEPA. This action has no effect on the adequacy of the prior environmental documentation adopted for this project.

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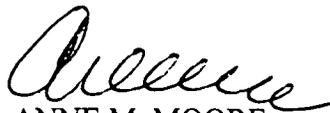
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M/WBE CONSIDERATIONS

The items discussed in this report have no M/WBE impact; therefore M/WBE considerations do not apply. The Agency's M/WBE policy was followed in the construction of the supermarket, and will be followed in the construction of the additional retail buildings where eligible.

Respectfully submitted,



ANNE M. MOORE

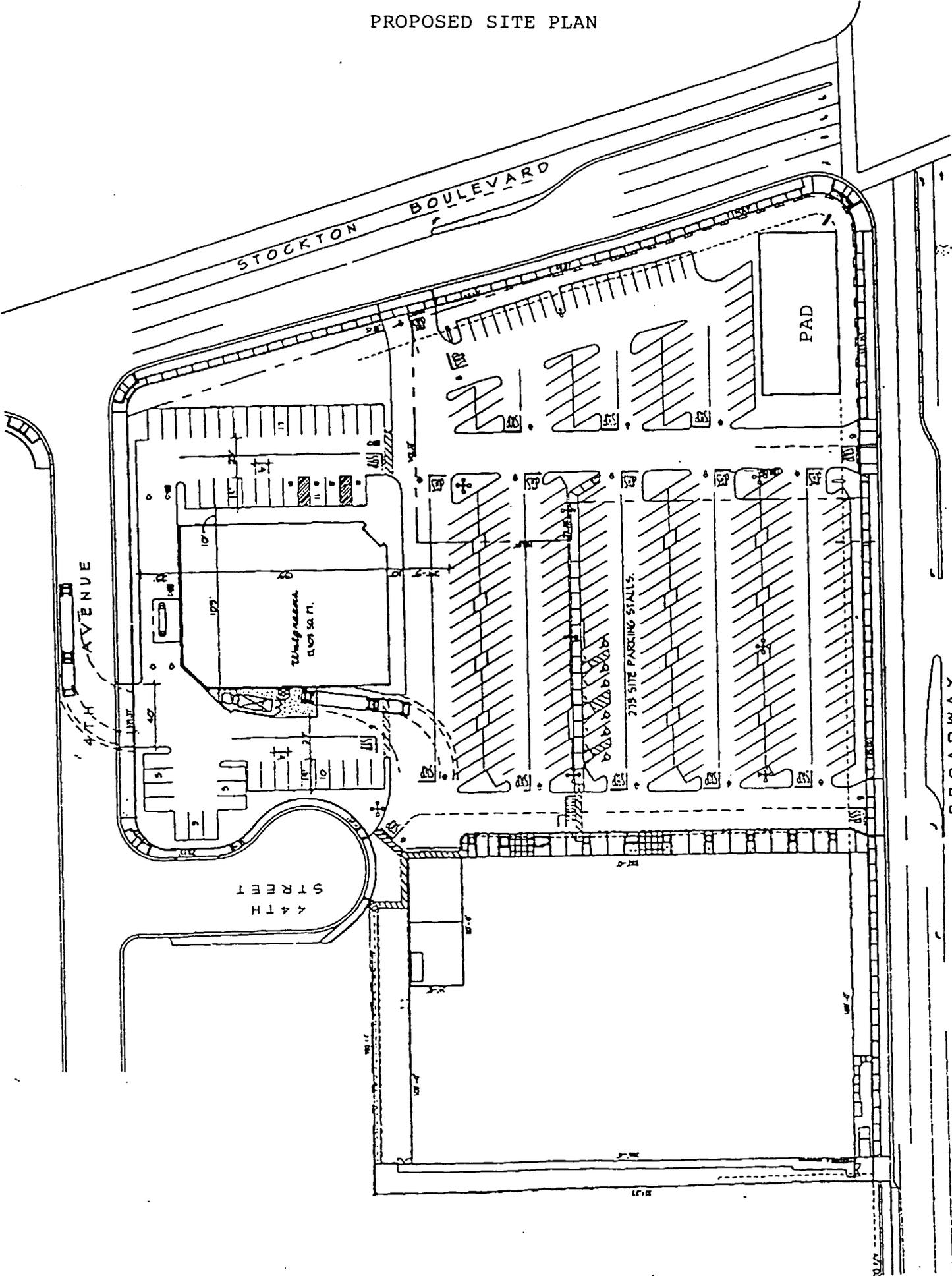
Executive Director

Transmittal approved,

ROBERT P. THOMAS

City Manager

PROPOSED SITE PLAN



ATTACHMENT II

Tax increment rebate payout schedule

Year	Balance	Simple Interest Due End of Year	Principal + Interest	Assumed payment	Balance
1	250,000	10,000	260,000	10,000	250,000
2	250,000	16,250	266,250	26,000	240,250
3	240,250	15,616	255,866	26,000	229,866
4	229,866	14,941	244,808	26,000	218,808
5	218,808	14,222	233,030	26,000	207,030
6	207,030	13,457	220,487	26,000	194,487
7	194,487	12,642	207,129	26,000	181,129
8	181,129	11,773	192,902	26,000	166,902
9	166,902	10,849	177,751	26,000	151,751
10	151,751	9,864	161,614	26,000	135,614
11	135,614	8,815	144,429	26,000	118,429
12	118,429	7,698	126,127	26,000	100,127
13	100,127	6,508	106,636	26,000	80,636
14	80,636	5,241	85,877	26,000	59,877
15	59,877	3,892	63,769	26,000	37,769
16	37,769	2,455	40,224	26,000	14,224
17	14,224	925	15,148	26,000	(10,852) PAYOFF
18	(10,852)	(705)	(11,557)	26,000	(37,557)
19	(37,557)	(2,441)	(39,998)	26,000	(65,998)
20	(65,998)		(65,998)	26,000	(91,998)

Assumptions:

1. Partial year payment and tax increment receipt in Year 1.
2. \$3,000,000 "excess tax increment" yielding \$26,000 per year net tax increment after deductions for Housing Setaside, County administration, and pass throughs.

RESOLUTION NO. _____

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF _____

**AMENDMENT OF DISPOSITION AND DEVELOPMENT
AGREEMENT WITH STOCKTON/BROADWAY PARTNERS L.P.**

WHEREAS, the Redevelopment Agency of the City of Sacramento and Stockton/Broadway Partners L.P. entered into a Disposition and Development Agreement ("DDA") in October, 1997, a copy of which is on file with the Agency Clerk;

WHEREAS, the DDA transferred Agency-owned land and provided a subsidy to finance site development and supermarket construction at the corner of Broadway and Stockton Boulevards; and

WHEREAS, due to higher than anticipated construction costs, an additional subsidy is necessary to ensure successful redevelopment of the supermarket in accordance with the DDA;

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

Section 1: The Executive Director is authorized to execute the Amended and Restated Disposition and Development (a copy of which is on file with the Agency Clerk) concurrently with Developer and to take such actions, execute such instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the DDA.

CHAIR

SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____