



February 16, 1994

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Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: PREDEVELOPMENT AND OWNER PARTICIPATION
AGREEMENTS FOR REHABILITATION OF THE WOODRUFF
HOTEL AND GUILD THEATER; THIRTY YEAR PROPERTY
LEASE AND PARKING LOT CONSTRUCTION

LOCATION AND COUNCIL DISTRICT: 2814 35th Street, 3424 3rd Avenue, 3425
Broadway Oak Park Project Area;
District 5

STAFF RECOMMENDATION

Staff recommends adoption of the attached resolution which:

- ◆ authorizes the Executive Director or his designee to execute predevelopment and owner participation agreements with Downtown Mini-Storage, a legal partnership;
- ◆ authorizes a loan of \$600,000 for redevelopment of the Woodruff Hotel/Guild Theater buildings;
- ◆ authorizes expenditure of up to \$291,731 for predevelopment expenses, facade, and parking lot improvements; and
- ◆ contingent on hazardous materials investigation and remediation, authorizes the Executive Director or his designee to execute a 30-year lease for the property at 3425 Broadway and to execute contracts for re-construction of the parking lot on that property.

CONTACT PERSONS:

Anne Moore, Acting Director of Community Development, 440-1357
Jim Hare, Associate Planner, Neighborhood Development, 440-1322

FOR COUNCIL MEETING OF: March 1, 1994

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SUMMARY

This report recommends authorization to enter into predevelopment and owner participation agreements with Downtown Mini-Storage, a limited partnership. The predevelopment agreement (PDA) would authorize the Agency to pay the costs of architectural services and appraisal, pest, and hazardous materials reports. The owner participation agreement (OPA) would authorize a developer assistance loan and facade grants to rehabilitate the Woodruff Hotel and Guild Theater buildings. Both the PDA and the OPA are on file for review with the Agency Clerk. The rehabilitation project would encompass the facade, roof, and six commercial storefronts in the Woodruff Hotel building. The project would also provide safety improvements to the Woodruff Hotel, and would restore the facade of the Guild Theater. In exchange for predevelopment services and a special facade grant for the Guild Theater, the Agency would enter into a 30-year lease on a property owned by the partnership, subject to toxic evaluation and cleanup (if any) of that property. The property would be leased to the Agency in order to upgrade the existing informal parking lot to serve the needs and improve the appearance of the surrounding business district. The Agency will request adjacent property owners to maintain the parking lot.

LOAN COMMITTEE ACTION

At its regular meeting of January 27, 1994, the Loan Committee voted to adopt a motion supporting the recommendations of this staff report, subject to the following conditions:

- o Not more than \$21,000 of loan funds must be applied to extinguish the County property tax liens on the subject property.
- o Prior to loan closing, the partnership must pre-lease one commercial space for a one year (minimum) duration.
- o Any further loan requests by the partners will require a second deed of trust on their home as security.
- o A determination must be made by Agency Counsel that outstanding personal judgements against Art Ballard, a partner, present no risk to Agency funds loaned to the partnership. (Staff has researched this issue and no liens currently appear which present a risk to the Agency).

The votes were as follows:

AYES: Kaiser, Holloway, Toby, Harlan
NOES: None
ABSENT: Yew

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PROJECT AREA COMMITTEE (PAC) ACTION

At its regular meeting of February 2, 1994, the Oak Park Project Area Committee (PAC) voted to adopt a motion supporting the recommendations of this staff report.

The votes were as follows:

AYES: Baxter, Castro, Crump, Dansby, Gibbs, Jennings, Kline,
Raya, Torres, White

NOES: None

ABSTAIN: Hernandez

ABSENT: Cavese, Jenkins, Mitchell

COMMISSION ACTION

At its regular meeting of February 16, 1994, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Diepenbrock, Dobbins, Harland, Moose, Rotz, Simon
Williams, Yew

NOES: None

NOT PRESENT TO VOTE: Holloway

ABSENT: Cespedes

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BACKGROUND

The commercial property which is the subject of this report is located at the corner of 35th Street, 3rd Avenue, and Broadway in the Oak Park Project Area (parcel map, Attachment I). Improvements on the property include two brick buildings providing three distinct uses on a single legal parcel. The larger of the two buildings, known as the Woodruff Hotel Building, has a "footprint" of slightly more than 10,000 square feet. Its ground floor is subdivided into six leasable commercial units of varying size. The second floor of the building houses the Woodruff Hotel, a 43-room single room occupancy hotel. The adjacent and separate Guild Theater building, at approximately 3,650 square feet, is a unique and historic Vaudeville-era theater, currently in use as a multi-purpose theater. The Guild Theater is identified in the city's historic register as potentially eligible for listing in the national Register of Historic Places. Both buildings were completed in 1915, and are part of a group of buildings on 35th Street that appear to meet city criteria as preservation areas.

Staff has made numerous attempts over the years to work with the property owners to improve the Woodruff Hotel and Guild Theater buildings. Of particular concern has been the poorly maintained and mostly vacant commercial space on the ground floor of the Woodruff building, which contributes to the impression of neighborhood blight and lack of commercial vitality.

In April 1991, the City Council approved a staff report and resolution establishing just compensation for the subject property and authorizing purchase negotiations with the property owner, Downtown Mini-Storage, a limited partnership. At the owner's option, negotiations were to focus either on Agency purchase of the property, or on an OPA for rehabilitation of the hotel, theater and commercial space.

In June 1991, the partnership filed for Chapter 11 bankruptcy protection. A trustee was assigned to administer the partnership assets, including the Woodruff Hotel and Guild Theater.

In October 1991, the owner delivered two copies of a development proposal to the Agency. Staff was unable to negotiate an OPA while the partnership was in bankruptcy. Through the remainder of 1991 and all of 1992, staff monitored the partnership bankruptcy proceedings and obtained additional financial and project information necessary to establish the terms for an OPA.

In February 1993, the United States Bankruptcy Court approved a reorganization plan for Downtown-Mini Storage. The partnership assets, including the subject property, were revested with the partners. In March 1993, Mr. Ballard submitted additional financial

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and project information, and staff deemed his proposal complete. The submitted information included operating and financial statements, and a before-rehabilitation appraisal valuing the property at \$970,000. Additionally, the appraisal valued the property at \$1,130,000 after rehabilitation.

Despite the bankruptcy, the partnership has demonstrated effective property and financial management capacities over the five years it has owned and operated the property. As managers of the Woodruff Hotel, the partnership currently maintains a 90 percent occupancy rate, and has increased the gross income an average of 25 percent per year for the last four years. During the bankruptcy, the partnership was retained by the trustee to continue day-to-day property management. In less than one year since becoming revested in the property, the partnership has fully paid arrears on the first mortgage totaling \$31,000. During and since the bankruptcy, the partnership has demonstrated a capacity to retain and work with professional consultants such as attorneys, accountants, real estate leasing agents, and business development consultants.

Based on property management performance and the submitted development proposal, staff believes the partnership can sustain debt service on a \$600,000 loan, if given an 18-month repayment deferral period to complete the rehabilitation project and to locate commercial tenants (Five-Year Operating Proforma, Attachment II). However, at present the partnership has few cash reserves to initiate the project. For this reason, staff recommends that the Agency pay for certain predevelopment tasks, including architectural, appraisal, termite inspection, and environmental hazard inspection services. The partnership has agreed that if a rehabilitation loan is ultimately approved, the \$30,000 spent on predevelopment services will serve as consideration for a 30-year Agency lease of the partnership's property at 3425 Broadway (APN 010-0375-008). Subject to hazardous material investigation and remediation, the Agency intends to reconstruct a parking lot on that property, which will fulfill a goal of the Oak Park Five-Year Revitalization Strategy and which will replace an unsightly informal parking lot with a landscaped and lighted formal parking lot.

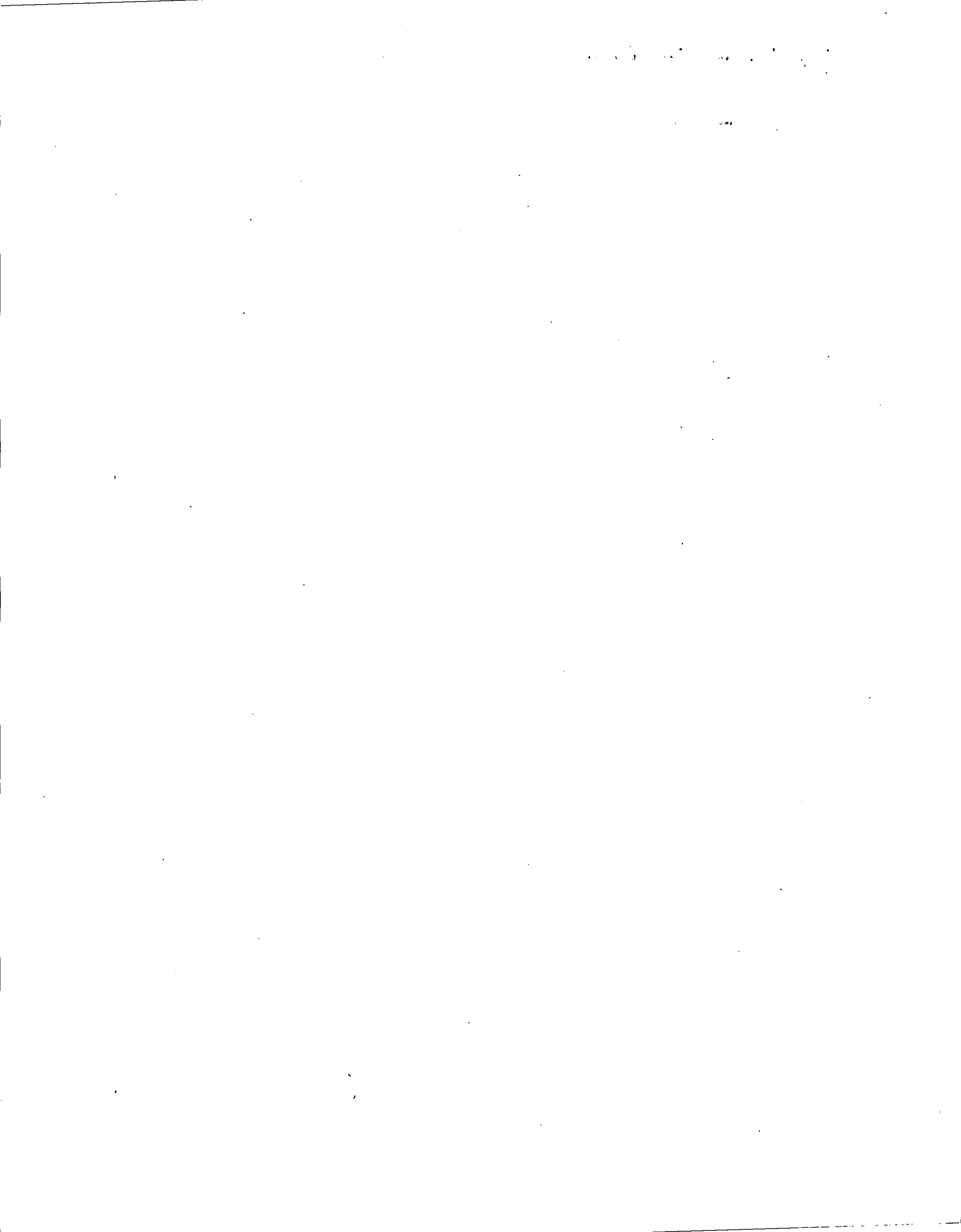
In addition to spending \$30,000 on predevelopment services, this report recommends extending a special \$25,000 grant to restore the facade and marquee of the Guild Theater. The theater, with its inverted "U" of lights surrounding the marquee, is the city's only remaining example a Vaudeville-era playhouse. The Agency has previously extended similar grants to historic downtown theaters such as the Crest and the Esquire. The partnership has agreed that this grant, plus the grant for predevelopment services, will serve as full consideration for the 30-year lease on the property at 3425 Broadway. Staff estimates the value of the lease on the 10,965- square-foot parcel at approximately \$2,200 per year or \$66,000 over 30 years.

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The complete terms of the Agency's agreement with the partnership regarding the project are contained in a PDA and OPA which is on file with the Agency Clerk. The following is a summary of the main points of the agreements:

1. **OWNER:** Downtown Mini-Storage, a California Limited partnership.
2. **PREDEVELOPMENT EXPENSES:** The Agency will pay fees for architectural services, appraisal, pest control report, and asbestos assessment for the project, at a total cost not to exceed \$30,000, in partial consideration for the lease described in item 12 below. The work products resulting from the Agency's contributions to the project will remain the property of the Agency until the project is completed.
3. **LOAN AMOUNT:** Not to exceed \$600,000. Of this amount, not more than \$21,000 must be applied to extinguish the County tax liens which appear on the preliminary title reports issued in June 1993 and covering the three properties subject to the first deed of trust.
4. **EXISTING LIENS:** Prior to or at loan closing, the partnership must extinguish all monetary liens, excepting the first deed of trust, on the properties subject to the first deed of trust. Agency loan funds may only be applied to extinguish the County tax liens identified in number 3 above.
5. **FACADE GRANTS:** Six conventional facade grants of up to \$7,500 each (\$45,000 maximum) for the Woodruff Building, plus a special facade grant of not more than \$25,000 to restore the facade and marquee of the Guild Theater.
6. **SCOPE OF WORK:** The project must address safety concerns in the Hotel and must restore the first-floor commercial spaces to leasable condition. The facade and marquee of the Guild Theater must be restored. A detailed scope of work and necessary drawings will be developed by Chinn-Rusconi Architects, in consultation with the partnership and the Agency staff. The final scope of work will be subject to approval by Agency staff and the partnership.
7. **CONTRACTOR REQUIREMENTS AND LOAN DISBURSEMENTS:** The owner must receive construction bids from no fewer than three licensed general contractors. The selected licensed general contractor shall be bonded for the entire amount of the construction contract and shall be capable of carrying 30 days' payroll. Loan funds shall be disbursed not more often than once each month, and only after Agency inspection and approval of the work for which payment has been requested.



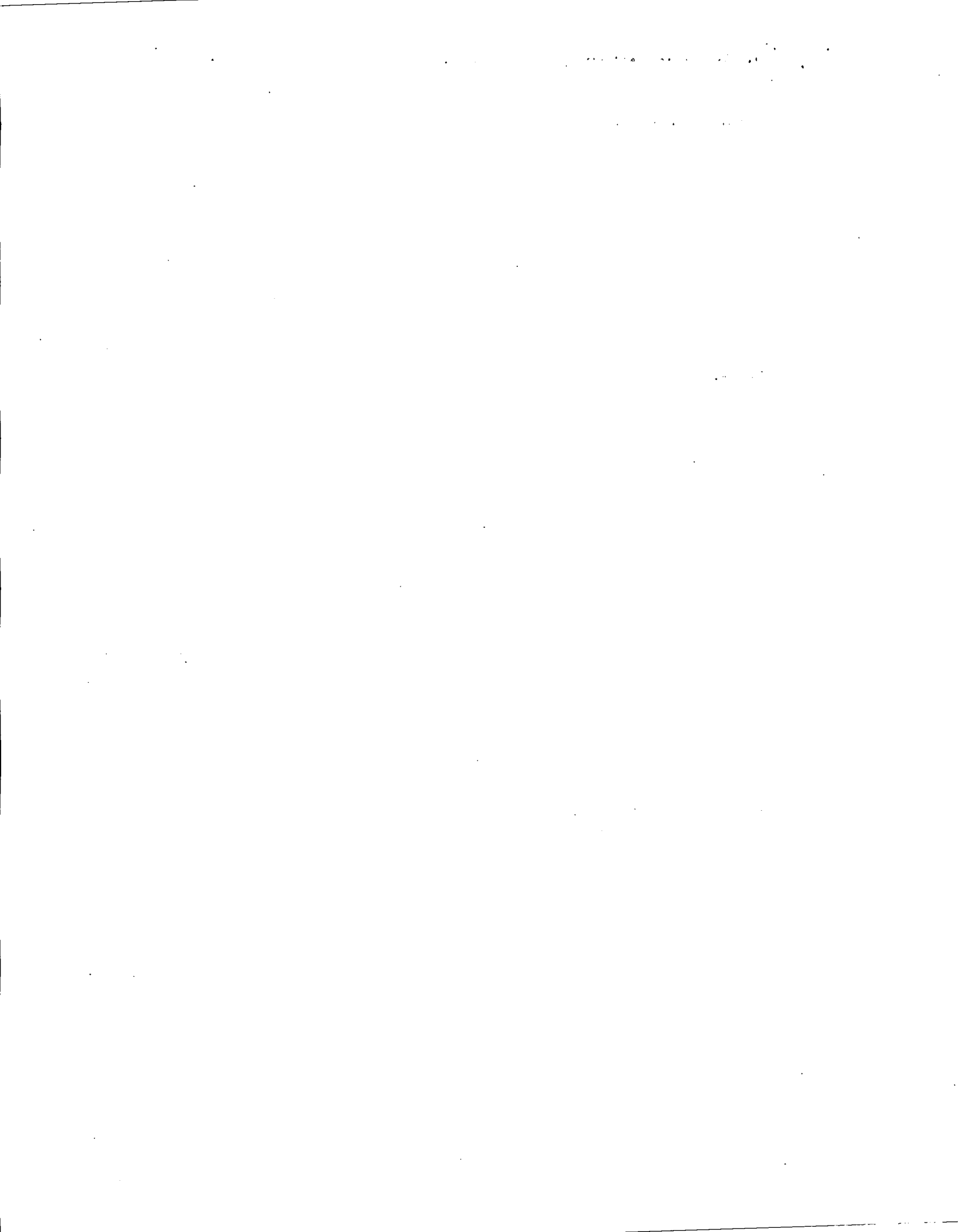
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8. **LOAN TERM:** 20 years
9. **AMORTIZATION:** Loan repayment will be deferred for 18 months from closing. At 19 months, the loan payment will be calculated based on an 18.5 year amortization. At 25 months, the loan payment will be re-calculated based on an 18 year amortization of the remaining loan balance.
10. **INTEREST RATE:**

Months 1 - 18	0.00 percent
Months 19 - 24	0.25 "
Months 25 - 240	5.0 "
11. **MONTHLY PAYMENT:**

Months 1 - 18	\$ 0.0
Months 19 - 24	\$ 2,765.97 (P & I)
Months 25 - 240	\$ 4,106.97 (P & I)
12. **COLLATERAL:** The loan would be secured by a second deed of trust on the subject real property and improvements, an assignment of rents and leases, and a security agreement/ Uniform Commercial Code (UCC) filing on furnishings, fixtures, receivables, inventory and equipment now owned or purchased in the future. In addition, the loan would be secured by a second deed of trust on a property owned by the partnership adjacent to the Woodruff/Guild property. That property, at 3425 3rd Avenue, Assessors Parcel Number 010-0377-005, is improved with two duplexes. An appraisal of this additional collateral will be obtained by the owner during the predevelopment phase, in order to demonstrate an improved loan-to-value ratio for the project.
13. **PARTNERSHIP EQUITY CONTRIBUTION:** To date, the partnership has invested \$18,500 in predevelopment expenses, including architectural services, an appraisal report, and the preparation of personal and business financial statements. Under the OPA, the partnership will also contribute the value of a 30-year ground lease, estimated at \$66,000, on the partnership property identified as 3425 Broadway, Assessors Parcel Number 010-0375-008.
14. **COMMERCIAL PRE-LEASING REQUIREMENT:** Prior to loan closing, the partnership must enter into a written lease for one or more of the commercial units to be rehabilitated, for a lease term of not less than three years.
15. **REPAYMENT GUARANTEE:** Personal repayment guarantees by both Arthur H. Ballard III and Sylvia Ballard.



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Parking Lot Lease Subject to Environmental Assessment and Cleanup

Preliminary evaluation of the lot at 3425 Broadway indicates that the site was formerly an auto repair garage or gas station. The site is currently being used as tenant parking for the Woodruff Hotel. A contractor who surveyed the site has indicated that one or two underground storage tanks, formerly containing hydraulic fluid or oil, may be present. Additionally, the preliminary title report shows the Phillips Petroleum and Tidewater Oil Companies were lessees of the property in the 1960s.

Given the evidence pointing to the possible presence of hazardous substances on the lot, this report recommends that the Agency lease not be executed until the property receives the appropriate environmental clearances. The Agency may, at its election, require the use of loan proceeds, in an amount not exceeding \$10,000, for characterization and remediation of the site. Staff will work with the partnership and the Agency's toxic site consultant to identify the parties responsible for any contamination of soil and/or groundwater.

Assuming successful completion of any required hazardous substances remediation and subsequent Agency-construction of a public parking lot, the Agency will approach adjacent property owners benefitting from use of the lot to assume maintenance costs.

FINANCIAL CONSIDERATIONS

When the 1991 Oak Park Five Year Revitalization Strategy was adopted, a budget of \$726,000 was approved to support possible Agency acquisition of the property and transfer to a private developer. However, as stated in the 1991 Strategy, negotiation of an OPA was an alternative to acquisition. Because the cost of the rehabilitation project is expected to reach almost \$700,000, this report recommends allocating the previously approved budget toward the rehabilitation project.

Funds totaling \$191,731 are available in the Oak Park commercial strip parking project fund. This balance will provide sufficient funding for the parking lot reconstruction recommended in this report.

Loan repayments will be reallocated to the Oak Park developer assistance project fund.

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POLICY CONSIDERATIONS

Redevelopment of the Woodruff Hotel and Guild Theater buildings has been an Agency goal since 1985, when it was included in Oak Park Redevelopment Implementation Strategy (adopted March 1985). Redevelopment of the property was also included in the Broadway Commercial Revitalization Plan (adopted December 1987) and in the most recent Five Year Implementation Strategy (adopted April 1991). The action proposed in this staff report is consistent with the staff report approved April 16, 1991, which recommended negotiation with the property owner as an alternative to Agency acquisition of the property.

ENVIRONMENTAL REVIEW

The proposed rehabilitation activities are in furtherance of the Oak Park Redevelopment Plan and were deemed approved at the time of plan adoption. Per CEQA Guidelines Sections 15180, 15162 and 15163, no further environmental documentation is required. The parking lot reconstruction is exempt from CEQA review per Guidelines Section 15301. NEPA does not apply.

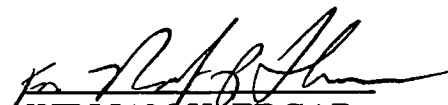
M/WBE REVIEW

The Agency's M/WBE policy requirements will be incorporated in the OPA discussed in this report. The Agency's M/WBE policy requirements will also apply to the parking lot reconstruction contract proposed in this report.

Respectfully submitted by,


JOHN E. MOLLOY
Executive Director

TRANSMITTAL APPROVED BY:


WILLIAM H. EDGAR
City Manager

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RESOLUTION NO. 94-014



ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

OAK PARK REDEVELOPMENT PROJECT, WOODRUFF HOTEL AND GUILD THEATER; PREDEVELOPMENT AGREEMENT; OWNER PARTICIPATION AGREEMENT FOR 3425 BROADWAY; FACADE GRANTS; THIRTY YEAR PROPERTY LEASE; PARKING LOT CONSTRUCTION; AND RELATED BUDGET AMENDMENT

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

Section 1: The Executive Director or his designee is authorized to execute a predevelopment agreement ("PDA") with Downtown Mini-Storage regarding the Woodruff Hotel and Guild Theater sites ("Site") located at 2814 35th Street and 3424 3rd Avenue in the Oak Park Redevelopment Project Area ("Project Area") and providing for a grant of not more than \$30,000, on behalf of Downtown Mini-Storage, from the Woodruff Hotel fund of the Project Area budget to pay for predevelopment costs as described in the PDA.

Section 2: Upon successful completion the work called for in the PDA, the Executive Director or his designee is authorized to enter an owner participation agreement ("OPA") with Downtown Mini-Storage and related loan documents evidencing a \$600,000 loan for rehabilitation as described in the agreements and secured by the Site.

Section 3: In addition to the PDA and OPA funds, the Executive Director is authorized to expend not more than \$45,000 from the Woodruff Hotel fund for the rehabilitation of six commercial facades on the Site under the guidelines of the Agency's facade grant program.

Section 4: The Executive Director is authorized to expend not more than \$25,000 as a facade grant from the Woodruff Hotel fund for rehabilitation of the Guild Theater facade under the guidelines of the Agency facade grant program.

Section 5: The Executive Director is authorized to execute a 30-year lease for the property at 3425 Broadway (010-0375-008), subject to investigation and remediation of any environmentally hazardous or toxic substances or conditions on such property or to indemnification of the Agency and provision of appropriate security to protect the Agency from claims related to hazardous or toxic substances on such property.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

Section 6: The Executive Director is authorized to expend \$191,731 (not to exceed the remaining balance of the Oak Park commercial strip parking fund) for reconstruction of the public parking lot at 3425 Broadway.

Section 7: The Executive Director is authorized to execute contracts for reconstruction of the public parking lot at 3425 Broadway.

Section 8: The Executive Director is authorized to amend the Agency budget to accept the loan repayments and allocate them to the Oak Park Developer Assistance fund.

CHAIR

ATTEST:

SECRETARY

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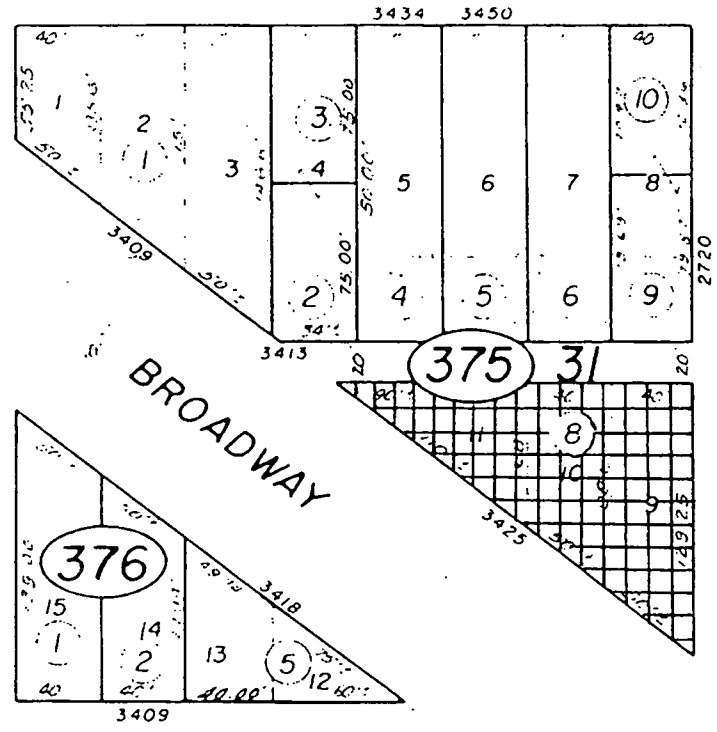
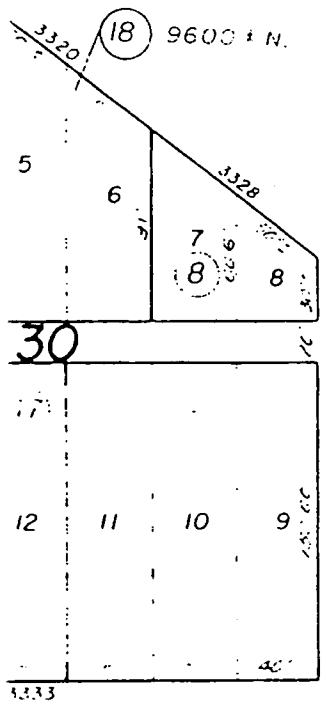
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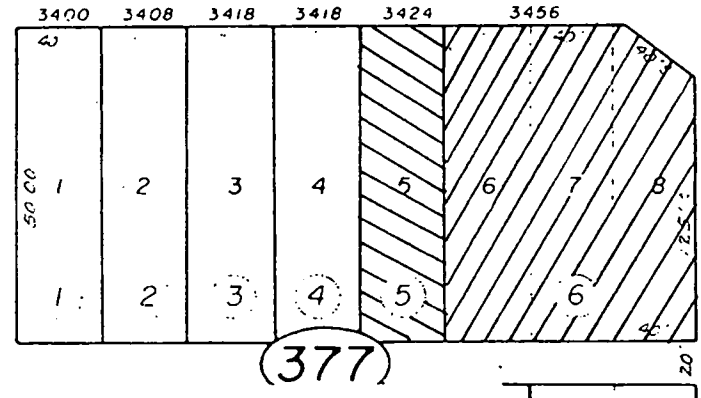
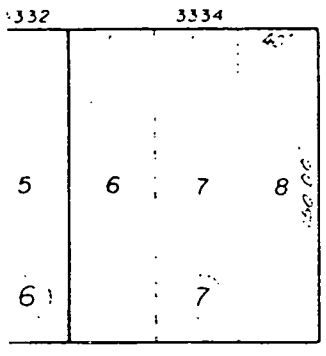
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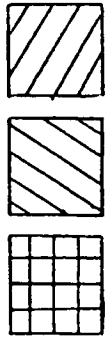
2ND AVE.



3RD AVE.



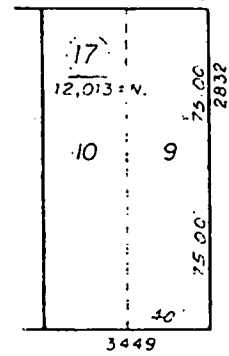
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Woodruff Hotel / Guild Theater

Duplexes (Additional Collateral)

Vacant parcel (to be leased)



35TH

4TH AVE.

PROJECTED INCOME AND EXPENSES
WOODRUFF HOTEL AND COMMERCIAL BUILDING / GUILD THEATER

OPERATING INCOME	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Rental Income	261,840	261,840	261,840	261,840	261,840
Less Vacancy	146,640	79,872	51,504	37,536	37,536
Gross Income	115,200	181,968	210,336	224,304	224,304
OPERATING EXPENSES					
Residential, 25% of GI	28,800	32,400	32,400	32,400	32,400
Theater	0	2,184	4,368	13,150	13,150
Retail					
Mgmt., 25% of GI	0	12,000	18,000	20,400	20,400
Insurance	2,753	2,753	2,753	2,753	2,753
Repairs/Maint.	6,882	6,882	6,882	6,882	6,882
Replacement Reserve	4,608	7,279	8,413	8,972	8,972
Property Tax	4,938	6,000	6,000	6,000	6,000
Debt Service Reserve		16,169			
OPERATING EXPENSES	47,981	85,667	78,816	90,557	90,557
NET OPERATING INCOME	67,219	96,301	131,520	133,747	133,747
LESS DEBT SERVICE					
Bartalini, 1st DOT	53,250	53,250	53,250	53,250	53,250
SHRA, 2nd DOT	0	16,596	49,281	49,281	49,281
TOTAL DEBT SERVICE	53,250	69,846	102,531	102,531	102,531
ANNUAL CASH FLOW	13,969	26,455	28,989	31,216	31,216
CAP RATE	7.23%	10.35%	14.14%	11.43%	11.43%
DEBT COV. RATIO	1.26	1.38	1.28	1.30	1.30
Property Value	930,000	930,000	930,000	1,170,000	1,170,000
Bartalini Balance	532,500	532,500	532,500	532,500	532,500
SHRA Balance	600,000	569,126	549,114	528,079	505,967
Property Equity	(202,500)	(171,626)	(151,614)	109,421	131,533
SHRA Amortization/Term	20/20	19/20	18/20	18/20	18/20
SHRA Interest Rate	0.00%	0.25%	5.00%	5.00%	5.00%

PROJECTED INCOME AND EXPENSE
 WOODRUFF HOTEL AND COMMERCIAL BUILDING / GUILD THEATER

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
REVENUE					
Hotel	144,000	144,000	144,000	144,000	144,000
Theater	21,840	21,840	21,840	21,840	21,840
Retail	96,000	96,000	96,000	96,000	96,000
TOTAL REVENUE	261,840	261,840	261,840	261,840	261,840
VACANCY %					
Hotel	20%	10%	10%	10%	10%
Theater	100%	80%	60%	40%	40%
Retail	100%	50%	25%	15%	15%
VACANCY \$					
Hotel	28,800	14,400	14,400	14,400	14,400
Theater	21,840	17,472	13,104	8,736	8,736
Retail	96,000	48,000	24,000	14,400	14,400
TOTAL VACANCY	146,640	79,872	51,504	37,536	37,536
GROSS INCOME					
Hotel	115,200	129,600	129,600	129,600	129,600
Theater	0	4,368	8,736	13,104	13,104
Retail	0	48,000	72,000	81,600	81,600
TOTAL GI	115,200	181,968	210,336	224,304	224,304