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OFFICE OF THE  
CITY MANAGER

CITY OF SACRAMENTO  
CALIFORNIA

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SACRAMENTO, CA  
95814-2684

February 9, 1988

916-449-5704

Budget & Finance Committee  
Sacramento, California

Honorable Members In Session:

Subject: **Acquisition of Land and Improvements Located at 2200 Front Street**

**SUMMARY:**

This report recommends that the Budget & Finance Committee review and approve for City Council action the purchase of real property and improvements located at 2200 Front Street to promote the development of community, cultural and tourist attractions along the Sacramento River Waterfront by providing publicly owned space for a museum.

**BACKGROUND:**

For a number of years, the City through its Redevelopment Agency, has been actively promoting the redevelopment and reuse of lands adjacent to the Sacramento River Waterfront stretching from Capitol Avenue southerly to Broadway between Interstate 5 and the Sacramento River (commonly referred to as the Docks Area). The development of a Docks Area Plan has been a high priority of the City Council since mid-1983. The City Council approved a Request For Proposal (RFP) for the Docks Area Plan in November of 1983.

In late 1984, the Sacramento Housing & Redevelopment Agency authorized a real estate appraisal of five ownerships along Front Street from Q Street south to Broadway. The appraisal was performed by David E. Lane, Inc. and was submitted to SHRA on December 28, 1984, effective November 1, 1984. Using that appraisal, the Agency subsequently acquired three of the five ownerships, excluding the property owned by Cecil and Ray Finegold located at 2200 Front Street and one other property.

At the time of the appraisal, the Finegold property and warehouse improvements were leased by the S. E. Rykoff & Company as storage for a wholesale restaurant supply business. The lease to Rykoff was later terminated and Finegold subsequently executed more than one lease agreement with the California Vehicle Foundation (CVF), an organization expressly formed for the preservation and exhibition of antique motor vehicles. The California Vehicle Foundation first occupied the Finegold property on July 1, 1986.

After two years of negotiations, CVF successfully signed a long term lease with the Towe Antique Ford Foundation to effectively gain control of the largest vehicle collection of Ford automobiles dating from 1903 through 1953. On September 27, 1986, CVF received the first installment of the automobile collection. The initial delivery consisted of ninety-five (95) vehicles that were transported from Deer Lodge, Montana to Sacramento. The total Towe collection consists of more than two hundred twenty (220) vehicles. The museum opened to the public on May 2, 1987 and reported an attendance of 7,061 visitors in January, 1988.

On December 15, 1987, the City Council approved a conceptual plan for the Docks Area which included a major hotel, riverfront improvement, a new addition to the California State Railroad Museum designated as the Museum Of Railroad Technology (MORT), and the Towe Ford Museum operated by the California Vehicle Foundation. The City Council approved an Environmental Impact Report covering the total Docks Area by adopting Resolution #87-1034.

The California Vehicle Foundation has actively pursued the creation of a motor vehicle museum since 1982. City Councilmembers, current and former, have been made aware of the efforts of this organization over a period of years. In mid-1986, the organization successfully negotiated a favorable rental agreement for the Finegold warehouse at 2200 Front Street. CVF subsequently signed a lease/purchase agreement with the Finegolds for the warehouse property. CVF approached numerous private and public organizations in an effort to secure the financial capability to meet the terms of the lease. Their efforts fell short and appeals were made to the City Council for assistance. Several Councilmembers were very familiar with the CVF efforts to provide adequate housing for the museum in the Docks Area and requested the City administration to identify alternatives for funding which might include public ownership of the 2200 Front Street parcel. Acting on a formal request of the Chair of the Budget & Finance Committee and the informal request of several Councilmembers, the City administration and SHRA surveyed all potential funding opportunities over a period of several months.

The staff of SHRA ordered an update on the 1984 appraisal for the Finegold property. The updated appraisal was submitted by David E. Lane Inc. on November 16, 1987, effective October 22, 1987. The Finegold property located at 2200 Front Street consists of a land area of 2.159 acres or 94,041 square feet. The improvements consist of a concrete warehouse with internal offices. The warehouse was erected in 1954 and contains 71,320 square feet which includes 2,678 square feet of offices and restrooms. The building is loading dock high, having been designed with a curve in the northwest corner for rail access. The building is considered to be in good serviceable shape and has been inspected by the Department of General Services. It is fully sprinklered and well lighted for the purposes intended. The property is zoned M-2 with the designated highest, best use as warehousing and distribution. The appraisal by David E. Lane, Inc. dated October 22, 1987 sets the value of the property at two million dollars (\$2,000,000.00) and suggests that the highest and best use would be to convert the structure to office/commercial usage or demolish the structure and construct a mid-rise office building. The Lane appraisal also concludes "from a community, or public, viewpoint, the highest and best use is as the property is presently being used - the Towe Ford Museum, which is reportedly the largest collection of Ford vehicles in the world".

Based on the interest by the City Council, City administration entered into negotiations with Cecil and Ray Finegold to determine a price acceptable to the owners for the purchase of the subject property. The Finegolds agreed to sell the subject property to the City for the sum of one million seven hundred seventy-five

thousand dollars (\$1,775,000.00) as a cash sale price. The negotiated price of \$1,775,000.00 is \$225,000.00 less than the appraised value of two million dollars (\$2,000,000.00). The reduced price for the cash sale was agreed to by the Finegolds because they strongly feel that the proposed use of the property will be of great benefit to the public and the City of Sacramento. The Finegolds and the California Vehicle Foundation have jointly and separately agreed to cancel the current lease on the subject property and waive all rights to possess and/or purchase the subject property subject to the successful closure of escrow on the sale of the property to the City of Sacramento on or before February 29, 1988.

The City and CVF will need to execute a lease in the near future which provides specific terms for the use of the City acquired property and for the marketing and capital plans for the museum.

#### **FINANCIAL DATA:**

The purchase price of the property is set at the negotiated price of one million seven hundred seventy-five thousand dollars (\$1,775,000.00) which is two hundred twenty-five thousand dollars (\$225,000.00) less than the SHRA appraisal of two million dollars (\$2,000,000.00). Terms of the real estate purchase are contained in the attached agreement which includes a description of the property. Funding for the purchase is available from the 1987 Public Facilities Projects Certificates of Participation.

The 1987 COP of the \$41.65 million 1987 COP provided \$9.9 million to defease the outstanding 1971 Community Center Bonds and also provided \$27.245 million (including interest earnings on unexpended proceeds) to be used to construct and acquire various City projects and equipment. The \$27.245 million construction proceeds were further divided into two Categories. The first category, referred to as Category I projects, includes the construction of a Police Substation, the acquisition of equipment for the Public Safety Communication System and the purchase of 60,000 solid waste 90 gallon containers. Category I projects total \$11.7 million.

The concept of Category II projects was developed by the City Treasurer and placed \$15.5 million of COP proceeds (including interest earnings) into this category to provide maximum financing flexibility for the City. The intent of Category II is to make money available for capital projects of the City with useful lives of at least 25 years. At the time that the COP was issued, it was envisioned that approximately \$14.455 million of Category II would be required to purchase land for the expansion of the Community Center. In the event that either the expansion does not take place or another use of Category II money is identified, the money in Category II may be used for any other government purpose project of the City. Subsequently, expenditures from Category II have been the payoff of the mortgage on the Scofield Building (\$1.047 million) and the purchase of 4 parcels on the north side of K Street (\$1.790 million). After the purchase of the property at 2200 Front Street is completed, the balance of the Category II will be \$10.882 million (including future interest earnings). Should additional money be required to either purchase land or construct the Community Center expansion, it is possible to do a second financing of the Community Center using the Exhibit Hall and the Activity Building as collateral for the financing. The value of these buildings has been appraised at \$32.2 million.

Tax Reform legislation imposed strict regulations regarding the use of tax-exempt bond proceeds by private (non-public) individuals. Since the 2200 Front Street property will be occupied by a non-public organization (California Vehicle Foundation), but under the control of the Community Center, it was determined that the expenditure of COP proceeds for the purchase of 2200 Front Street is a related use of proceeds.

Although the California Vehicle Foundation is a nonprofit corporation, their use of a facility that is purchased with tax-exempt money is considered, for federal tax purposes, as a use of tax-exempt bond proceeds for private purposes.

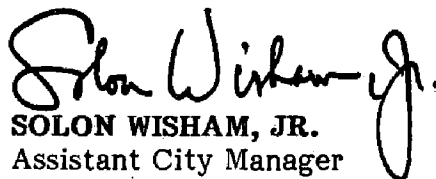
Therefore, it is necessary to calculate two tests imposed by the 1986 Tax Reform Act relative to the use of tax-exempt proceeds for private purposes. These two tests are the trade or business test and the private payment test. Very briefly, for a bond to maintain its tax-exempt status, if more than 10% of new money proceeds is used by private individuals in their trade or business, then not more than 10% of the payment of principal of, or interest on the bonds may be secured by any interest in property used in a trade or business. Expenditure of bond proceeds for use by private individuals is aggregated in determining the 10% private use and private payment tests.

Discussions revealed that the purchase of the 2200 Front Street property and the payoff of the Scofield building mortgage is an expenditure of bond proceeds for use by private individuals and exceeds 10% of the new money proceeds of the 1987 COP. Therefore, for the 1987 COP to maintain its tax-exempt status, rent payments received from 2200 Front Street property must be monitored to assure that total payments received from the private use of this property and any other property purchased with COP proceeds and used by private individuals does not exceed 10% of the annual debt service on the new money proceeds. However, in the event that property purchased with COP proceeds ceases to be used by private individuals, the payments received from the property also cease to be used in the calculation of the 10% private payment test. Ten percent of the debt service on new money proceeds of the 1987 COP have been calculated to be \$288 thousand annually. It is not anticipated that annual rent received from the private use of COP proceeds will exceed this amount.

**RECOMMENDATION:**

It is recommended that the Budget & Finance Committee review and approve for City Council action the purchase of the real property located at 2200 Front Street, Assessor's Parcel #009-012-05, and appropriate the necessary funds required to complete the transaction from funding available from the 1987 Public Facilities Projects Certificates of Participation.

Respectfully submitted,

  
**SOLON WISHAM, JR.**  
Assistant City Manager

All Districts  
February 16, 1988

## **RESOLUTION No.**

**Adopted by The Sacramento City Council on date of**

**A RESOLUTION RECOMMENDING THE PURCHASE OF  
REAL PROPERTY AND IMPROVEMENTS LOCATED AT  
2200 FRONT STREET TO PROVIDE FOR THE PUBLICLY  
OWNED MUSEUM SPACE ON THE SACRAMENTO  
RIVERFRONT**

**WHEREAS**, the City desires to provide for publicly owned space to be used for museum purposes to benefit Sacramento citizens and visitors, and;

**WHEREAS**, property owners, Cecil and Ray Finegold have voluntarily entered into an agreement to sell the subject property and improvements to the City at a price of one million seven hundred seventy-five thousand dollars (\$1,775,000.00), a price which is based on a negotiated reduction of the actual MAI appraisal of two million dollars (\$2,000,000.00).

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

1. The City Manager is hereby authorized to execute the purchase agreement and other necessary documents to conclude the purchase of the real property and improvements from Cecil and Ray Finegold as described in the attached purchase agreement and the property description designated at Exhibit A.
2. The City Treasurer is authorized to appropriate the purchase price of one million seven hundred seventy-five thousand dollars (\$1,775,000.00) and an additional five thousand dollars (\$5,000.00) to cover the closing costs from the proceeds of the 1987 Public Facilities Project Certificates of Participation (Category II) to cover the full cost of land acquisition.
3. The Trust Agreement for the 1987 Public Facilities Project is hereby amended to include in the Description of Buildings the property and improvements located at 2200 Front Street.

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MAYOR

ATTEST:

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CITY CLERK