



**Sacramento
Housing &
Redevelopment
Agency**

May 5, 2004

13.1

Redevelopment Agency of the
City of Sacramento
Sacramento, California

SUBJECT: 1885 VICTORIAN BUDGET AUGMENTATION

LOCATION - 3418 3rd Avenue, District 5

RECOMMENDATION

This report recommends that the Agency provide an additional \$175,000 in financing for the renovation of the 1885 Victorian located at 3418 3rd Avenue. Staff recommends approval of this report, which gives the Agency the authority to:

- increase the project loan amount by \$100,000;
- provide a \$75,000 exterior rebate for the property;
- transfer \$100,000 from the Oak Park Commercial Loan program and \$75,000 from the Oak Park Exterior Rebate program fund to the 1885 Victorian Project; and
- amend and execute all necessary documents to reflect the additional funding.

CONTACT PERSONS

Leslie Fritzsche, Management Analyst, 440-1301
Chris Pahule, Redevelopment Planner, 440-1322

FOR COUNCIL MEETING OF– June 8, 2004

SUMMARY

This report recommends approval of an additional \$100,000 loan and \$75,000 exterior rebate grant for the 1885 Victorian at 3418 3rd Avenue in Oak Park.

PAC ACTION

At its meeting on April 7, 2004, the Oak Park Project Area Committee adopted a motion recommending approval of the attached resolution. The votes were as follows:

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency

May 5, 2004

Page 2

AYES: Davis, Hearne, Johnson, Moore, Parker, Sumpter, White and Williams

NOES: None

ABSENT: Azar, Binion, and Marion

ABSENTION: Liggons

COMMISSION ACTION

At its meeting on May 5, 2004, the Sacramento Housing and Redevelopment Commission adopted a motion recommending the additional funding for the project as well as Agency funding of the \$40,000 private loan. Their action was based on concerns regarding the private lender's requirement to be positioned ahead of the Agency on this property. Their votes were as follows:

AYES: Burns, Burrus, Farley, Gore, Hoag, Piatkowski

NOES: Coriano, Harland, Stivers, Simon

ABSENT: McCarty

BACKGROUND

In May 1998, the Agency received title to property located at 3456 Third Avenue (Woodruff/Guild Theatre complex) and 3426 Third Avenue (the 1885 Victorian) through a foreclosure action (map included as Attachment I). The property consisted of four buildings on two parcels including the former Woodruff Hotel, Guild Theatre, a four-plex residential structure and a residential Victorian. Located in the heart of Oak Park's historic commercial district and at the gateway to McClatchy Park, these landmark buildings comprise one of three major catalyst areas included in the Broadway/Stockton Design Plan.

In June 2002, the Agency received approval to enter into a Disposition and Development Agreement with the St. Hope Development Company (SHDC) for the renovation of three of these structures (the fourplex was demolished). SHDC is a real estate development non-profit corporation, which manages a portfolio of commercial and residential properties, which have significantly contributed to the revitalization of Oak Park. SHDC has developed a number of its properties, including the Broadway Victorian, US Bank Building and St. Hope Academy. In addition, SHDC provides professional management, maintenance and tenant recruitment for all of its properties. An example of SHDC's quality development is the US Bank Building on 3rd Avenue and Broadway. Originally built in 1914 as the Sacramento Bank Building, this Nationally Registered Historic Building was restored by SHDC in 1994 and leased to US Bank. SHDC's principals are Kevin Johnson and Tracy Stigler.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency
 May 5, 2004
 Page 3

The project entailed the redevelopment of the Woodruff/Guild complex into a mixed-use property including retail on the ground floor and 12 residential units above. The Guild Theatre was to receive a total renovation for use as a local theatre and venue for community events. The Victorian structure located immediately west of the Woodruff was to be moved and renovated for two commercial offices for the Sacramento Philharmonic Orchestra. The renovation and reuse of these architectural landmarks compliments the earlier renovation of the nationally listed U.S. Bank Building just across the street.

Work on the Woodruff/Guild portion of the project, named 40 Acres, began in the spring of 2002 and progressed steadily during 2002 and 2003. The initial work involved demolition of the second floor residential spaces to allow for converting the previous forty-two single-room occupancy units into twelve one and two bedroom units. A new roofing structure, elevator, lobby, and staircase were added to provide an upscale living environment. In keeping with the original development concept, retail tenants including Starbucks Coffee, Uncle Jed's Cut Hut and Underground Books were added to the newly renovated first floor spaces. In addition, the interior of the Guild was gutted and brought back to life with all new systems, flooring, chairs, and new stage and projection/lighting equipment. These improvements have stimulated new economic activity, revitalizing this key corner of Oak Park. The project has recently received the 2004 "Award of Excellence" by the California Redevelopment Association for the best example of a mixed-use redevelopment project in the State.

The vacant Victorian structure (pictured in Attachment II) located just to the west of the Woodruff was moved two parcels over to 3418 Third Avenue. The 1885 Victorian was originally a residential structure but it has not been occupied for many years. The building is a historic structure and is recognized as one of the oldest Victorians in Oak Park. As such, the designs called for a complete historic renovation of the exterior and a sensitive remodeling of the interior to accommodate office tenants. The Sacramento Philharmonic Orchestra staff is proposed to be the building's first tenants.

The estimated project costs included in the June 2001 staff report were:

USES		SOURCES	
	Original Budget		
Site Acquisition	\$85,000	St. Hope Development	\$ 37,195
Construction	\$196,000	Nehemiah Loan	\$ 47,181
Indirect (Architectural/Eng): General Conditions	\$49,520	SHRA Loan	\$275,573
Other	\$41,429	SHRA Construction Loan	\$ 12,000
TOTAL	\$371,949	TOTAL	\$371,949

The terms of the approved Agency loans are detailed in the Financial Considerations section.

Following the approval, architectural drawings and plans were prepared and approved by City Design Review. After several bids, a \$ 280,982 construction contract was signed in June 2002 with Frazier Construction. This original bid exceeded the estimated construction budget, which was approved in 2001. A new foundation was placed under the structure and the interior renovations began with

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency
May 5, 2004
Page 4

demolition of some of the interior walls. Unfortunately during this time, the owner of the construction company, Don Frazier, died while on a construction job. After a few weeks, the construction company resumed work but after a period, the decision was reached to hire a different construction company. Unger Construction, the general contractor for the 40 Acres project was asked to do some initial work on the project and to prepare a cost estimate for completion of the job.

The current construction estimate for the project is \$422,000 an increase of approximately \$141,000 over the previous contract amount and \$226,000 over the original estimate. The higher costs result from the need to do additional work in the alley behind the structure as well as redesign and reconstruct some of the initial work to comply with City building department standards. In addition, material costs increased as did subcontracting bids for electrical and plumbing. The original bid included just refinishing the wood floors but upon closer inspection, the entire wood floor needs to be replaced. These increases are significant, but they are not atypical for a historic renovation of a building that has been vacant for so long. In addition, much of the exterior work will require skilled craftsman for much of the detailing.

In order to keep this project moving forward toward completion, staff is recommending providing an additional \$175,000 in financing, bringing the Agency's total participation in the project to \$462,573. The requested \$175,000 would be in the form of a \$75,000 exterior rebate grant and a \$100,000 loan. The \$100,000 will be secured with a deed of trust on the property and will be repaid upon sale of building.

This proposed funding will be the last step in the completion of St. Hope's 40 Acres \$4.6 million dollar project, a project that has stimulated new investment and provided a true catalyst as envisioned in the Broadway/Stockton Urban Design Plan. These funds will result in the preservation of this important historical structure and bring it into service as an active component of this Oak Park commercial center.

FINANCIAL CONSIDERATIONS

In June 2001, the Redevelopment Agency approved \$287,573 in funding for the Victorian construction loans. This funding included a \$12,000 2 percent interest rate loan with a 30-year repayment term. The remaining funds were in the form of a second loan, which will be repaid over 30 years with the proceeds from the annual purchase of an operational covenant. One-thirtieth of the total loan amount will be purchased per year. The operational covenant stipulated that the property be maintained as a historic structure. If the terms of the operational covenant are not completed for the year, and a good faith effort to meet the terms is not made, the developer would be in default.

The proposed additional financing will be structured as a \$75,000 exterior rebate grant and a \$100,000 loan. The loan will be secured by a deed of trust on the property and will result in an extension of the operational covenant on the property for ten additional years. The loan will be due if the property is sold.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency
May 5, 2004
Page 5

The proposed financing structure places in the Agency loans in second position behind the \$40,000 private loan which was also part of the original financing strategy approved in 2001. Agency staff believes the risk to the Agency's position by being behind the small first is low. The proposed \$40,000 private loan will be a ten-year loan with a 25 year amortization at approximately 6.5 percent. The monthly payments will be approximately \$270. The net income for the property is approximately \$550 per month leaving a debt coverage ratio of 2:1. Based upon the low monthly payment on the first and the high debt coverage ratio, staff believes the Developer can manage the monthly payments on the proposed Calnet loan. If a default situation occurs, the Agency can either make the payments current or pay off the first deed and assume a first position on the property.

USES		SOURCES	
	Revised Budget		
Site Acquisition	\$85,000	St. Hope Development	\$ 94,576
Construction	\$422,000	Private Loan	\$ 40,000
Indirect (Architectural/Eng): General Conditions	\$49,520	SHRA Loan	\$450,573
Other	\$40,629	SHRA Construction Loan	\$ 12,000
TOTAL	\$597,149	TOTAL	\$597,149

POLICY CONSIDERATIONS

The recommended actions are consistent with previously approved policy described in the Oak Park Redevelopment Plan, Oak Park Revitalization Strategy, Broadway/Stockton Urban Design Plan and the Oak Park 2000-2004 Implementation Plan. Specifically, the actions will eliminate blight and cause the rehabilitation of a historic property in Oak Park.

The rehabilitation of the 1885 Victorian and the rest of the 40 Acres project have long been high priorities for the Oak Park PAC as evidenced by previous funding commitments.

ENVIRONMENTAL REVIEW

The proposed action is exempt from further environmental review, because the project was previously determined to be exempt pursuant to CEQA Guidelines Section 15331 (rehabilitation of a historic building), and the scope of the project for CEQA purposes has not changed. All of the rehabilitation work will be conducted consistent with the requirements of the City's adopted historic resources requirements, which includes rehabilitation consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties. NEPA does not apply.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency
May 5, 2004
Page 6

M/WBE CONSIDERATIONS

The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully submitted,



ANNE M. MOORE
Executive Director

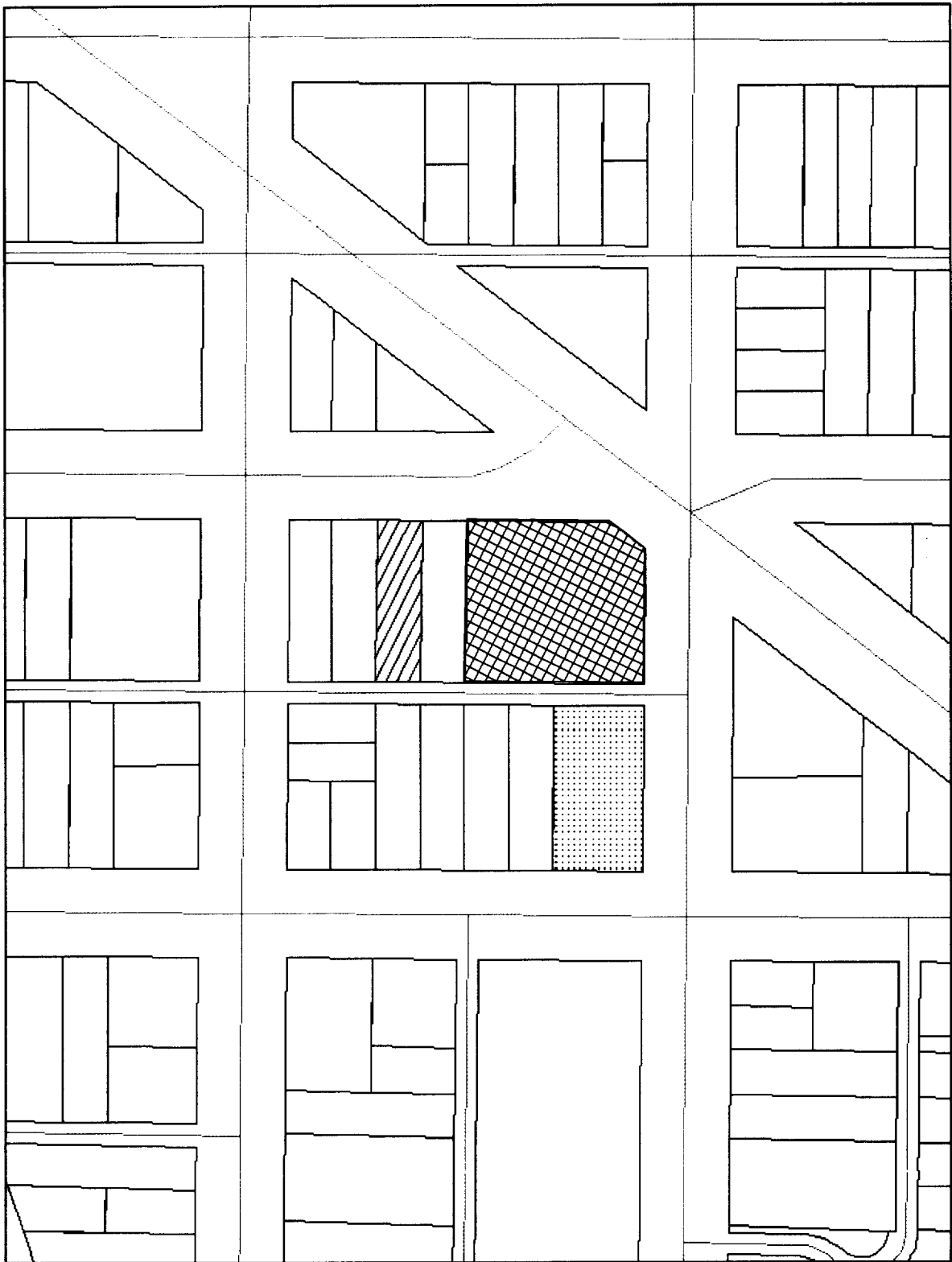
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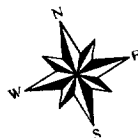
ROBERT P. THOMAS
City Manager

Table of Contents:




- 1) Attachment I – Map: Page 7
- 2) Attachment II – Picture of 1885 Victorian: Page 8
- 3) Resolution approving augmentation: Page 9

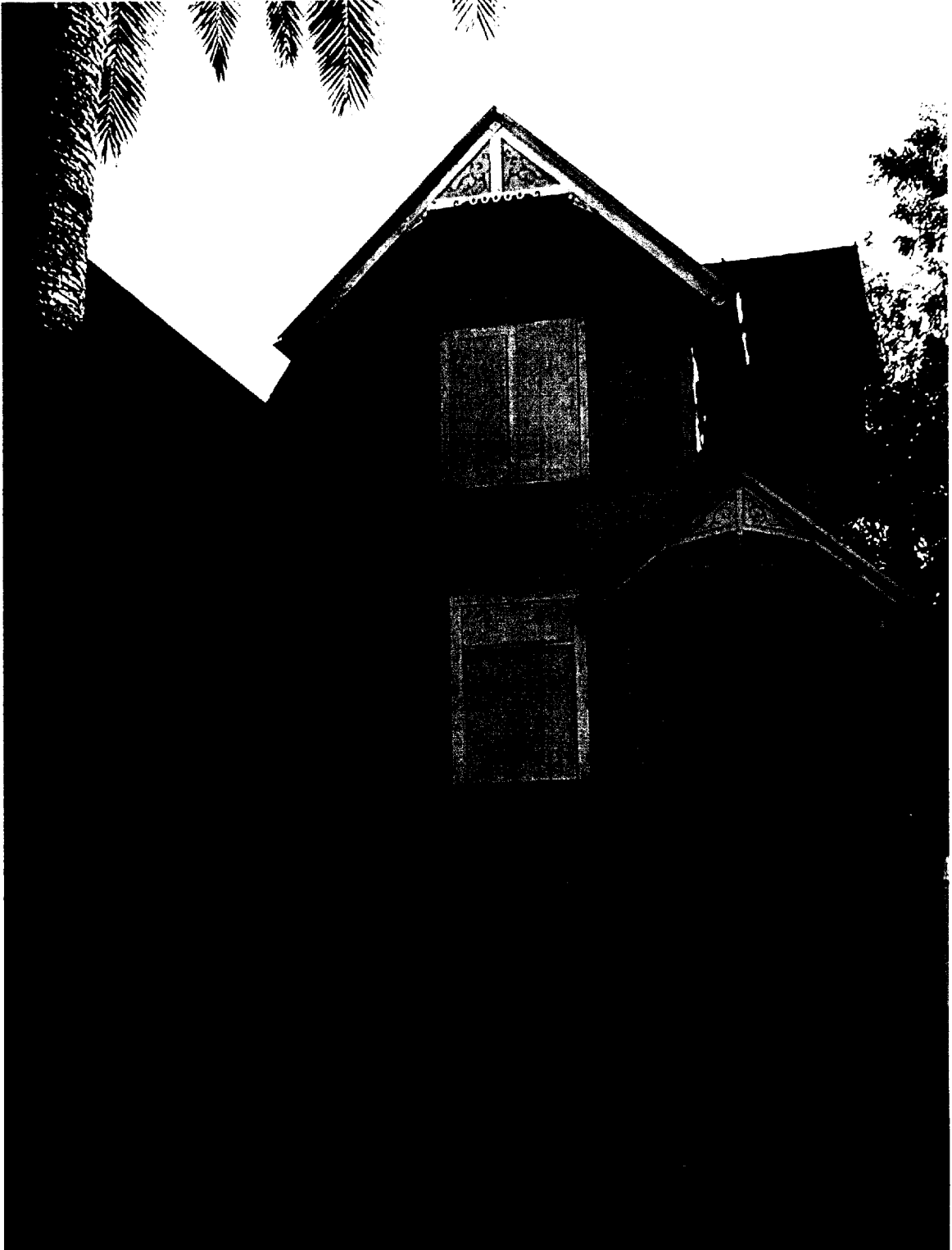


**40 Acres
Project**



Legend

-  Woodruff/Guild Theater
-  Parking Lot
-  1885 Victorian



RESOLUTION NO. _____

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

1885 VICTORIAN: APPROVAL OF ADDITIONAL \$100,000 LOAN AND \$75,000 EXTERIOR REBATE GRANT WITH ST. HOPE DEVELOPMENT COMPANY

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

Section 1: The findings and environmental determination set out in the attached staff report are approved.

Section 2: The Executive Director is authorized to transfer \$100,000 from the Oak Park Commercial Loan fund and \$75,000 from the Oak Park Exterior Rebate fund to the 1885 Victorian Project.

Section 2: The Executive Director is authorized to provide an additional \$100,000 in loan funds ("Loan") and a \$75,000 exterior rebate grant ("Grant") to the St. Hope Development Company ("Developer") for the 1885 Victorian Project, and to execute other documents and perform other actions as necessary to make and reasonably administer the Loan and the Grant; provided, however that:

- (a) The Loan and Grant shall be made in accordance with all applicable laws, regulations and policies regarding the making of the Loan and the Grant, and the use of such allocated funds;
- (b) Agency Counsel shall prepare the Loan and Grant documents in accordance with this resolution and with good legal practices for the making of such a Loan and Grant; and
- (c) All changes to the Loan and the Grant must be reasonably necessary to assure appropriate administration of the Loan and Grant, including without limitation, making subordination agreements in favor of lenders providing acquisition and rehabilitation loans or providing refinancing for such loans, extensions and restructuring of payments, all as approved by Agency Counsel consistent with the intent of this resolution.

Section 3: The Executive Director is authorized to execute amendments to the existing Disposition and Development Agreement, Regulatory Agreement, Construction and Permanent Loan Agreement, Deed of Trust between the Agency and the Developer as may be necessary to conform these existing agreements to include the terms of the Loan and Grant.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

Section 4: The Executive Director is authorized to make technical amendments said agreements and documents with the approval of Agency Counsel, which amendments are in full compliance with the staff report that accompanies this resolution.

CHAIR

ATTEST:

SECRETARY

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____