



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



10

February 17, 1987

CITY MANAGER'S OFFICE
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Budget and Finance Committee
of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Final Estimated Costs for the Pioneer Hall Project

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution authorizing execution of the Owner's Participation Agreement between Pioneer Hall and a developer to be selected.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist

JACK R. CRIST
Deputy City Manager

Attachment

00960



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



February 6, 1987

Redevelopment Agency of the
City of Sacramento
Sacramento, California 95814

Honorable Members in Session:

SUBJECT: Report Back on Final Estimated Costs for the Pioneer
Hall

SUMMARY

This report is a follow-up status report requesting a \$300,000 commercial rehabilitation loan from the Downtown Developer Assistance Program for the renovation of the Pioneer Hall Building located at 1010 - 7th Street. In a previous report which was presented to the Council, Sacramento Heritage, Inc. had requested a set-aside of \$400,000 from the Developer Assistance funds. However, final cost estimates show a \$300,000 loan is sufficient to complete the project. Staff recommends adoption of the attached resolution which authorizes the Executive Director to negotiate and enter into a \$300,000 Owner Participation Agreement (OPA) including a Schedule of Performance with the Redevelopment Agency of the City of Sacramento for renovation of the Pioneer Hall building.

BACKGROUND

On October 20, 1986, the Redevelopment Agency approved in concept the \$400,000 set-aside from the Developer Assistance Program for the renovation of the Pioneer Hall Building at 1010 - 7th Street. As outlined in the October 20, 1986 report, the project would be administered by Sacramento Heritage, Inc., with all profits revolving back to the Developer Assistance Program.

Since the original request (see staff report dated October 20, 1986, Exhibit I), Heritage has determined that costs can be reduced by \$100,000. This report, therefore, presents final estimated project costs and requests approval of a \$300,000 loan.

2-24-87

D-1

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency of the
City of Sacramento
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The reduction in costs represents an attempt to reduce original cost estimates as requested by the Commission. Please be advised that in a rehabilitation project such as this, construction costs may rise with the discovery of unknown conditions during construction. In the event of such discoveries, it is likely that the budget will require additional funds in order for the project to be complete. Staff will keep the Commission apprised of the status of the project, and if cost escalation occurs, will bring the matter back for action. Increased costs, above a \$300,000 Agency loan, will require a revision in debt service payments based on the already thin profit margin.

At its October 1, 1986 review of the Pioneer Hall Project, the Sacramento Housing and Redevelopment Commission requested that staff report back with a description of the types of building uses that are planned as a part of the rehabilitation. These uses (and associated costs) are presented in Exhibit IV.

The Commission also requested that staff address the impact of the project on the surrounding area. The Pioneer Hall Building is located just outside the boundary of the Downtown Plaza Mall, directly across from I. Magnin's, at 1010 - 7th Street. The Downtown Plaza Mall represents a cohesive revitalization effort with a concentration of new retail/commercial buildings. However, the K Street Mall area to the east of the Downtown Plaza Mall, where the Pioneer Building is located, has undergone limited revitalization and older, smaller buildings exist in various states of repair. The completion of Light Rail and a handful of facade remodelings funded by the Agency's Facade Grant Program are improving the image of this area, but a more concerted injection of rehab money needs to be targeted to this area. With this in mind, both the proposed Downtown Urban Design Study and the Agency's Economic Development Program, in coordination with Heritage, have targeted this first block east of the Downtown Plaza Mall for a focused marketing effort to promote both the Facade Grant Program and the Developer Assistance Program during 1987. The Pioneer Hall Building renovation further promotes this effort and would serve to focus attention on revitalization within this block.

The original schedule, which Heritage presented to both the Commission and Council, proposed to have financing in place by the end of January, 1987. Although tentative commitments have been made, the final financing package was delayed by the longer than planned architectural design and construction cost estimating period. It now appears that the financing package can be delivered by the end of February, 1987. Agency funds would not be disbursed until evidence of complete project financing is in place and approved by the Agency in accordance with this OPA.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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FINANCIAL DATA

Based on schematic development plans prepared by Russell/Sullivan Architects, John F. Otto, Inc., general contractor, submitted cost estimates detailed in Exhibit II. The construction costs, which include the land and the existing building, total \$874,208. Soft costs, which include various fees, interest payments, and a holding period (See Exhibit II), are \$218,913. Adding these two figures, total project costs are \$1,103,121.

An income/cash flow analysis is provided in Exhibit III, and shows that the project will generate \$67,561 in net operating income, which will be further reduced to \$8,641 after debt service on a first and second deed of trust. This analysis shows that the Agency will hold the second deed of trust (\$300,000) for which it will receive interest only payment of \$15,000 per year for six years. At year six, Heritage will be bought out and the original \$300,000 will be returned to the Developer Assistance Program.

The original estimate that Heritage would require \$400,000, instead of the now recommended \$300,000, was based upon higher construction costs. Now that construction estimates are available based upon schematic plans, overall costs can be lowered by approximately \$100,000. This, in turn, lowers the loan amount by \$100,000.

The before rehab value of the building is estimated to be \$231,000 and the after rehab value \$750,000, according to the Ross Company. Lending institutions (Bank of Woodland and Capital Federal Savings and Loan) have been approached and submitted Letters of Interest to lend \$400,000 towards the project financing, based on after rehab value of the building and Heritage's commitment. See Exhibit V for a breakdown of project financing. Note that the estimated after rehab value will cover both the first (commercial loan) and second (Heritage loan) deeds of trust, but not the developer's equity.

ENVIRONMENTAL REVIEW

The recommendation of this report to approve a commercial loan does not require environmental review. At the time that design plans are complete, the developer will present those to the City for environmental review.

POLICY IMPLICATION

The recommendation of this report is consistent with previously approved policy.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency of the
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VOTE AND RECOMMENDATION OF COMMISSION

At its special meeting of February 9, 1987, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution, setting aside funding in the amount of \$300,000, with an additional \$100,000 (maximum limit \$400,000), on the amount of funds to be spent on the project and a 180-day (6 month) time frame during which Heritage is to obtain investor financing. The votes were as follows:

AYES: Moose, Pettit, Sheldon, Simon, Simpson, Wiggins,
Wooley, Yew, Amundson

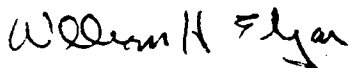
NOES: Glud

ABSENT: Sanchez

RECOMMENDATION

The staff recommends adoption of the attached resolution which authorizes the Chairman of Sacramento Heritage, Inc. to execute an Owner's Participation Agreement between the Pioneer Hall Association, and a developer (to be selected), and to set aside \$300,000 from the Downtown Developer Assistance Program to fund the Pioneer Hall Project.

Respectfully submitted,



WILLIAM H. EDGAR
Executive Director

WHE/CB:cmc

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Thomas V. Lee, 440-1355

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

February 24, 1987

APPROVAL OF PIONEER HALL PROJECT AND OF \$300,000 IN LOAN FUNDS FOR SUCH PROJECT

WHEREAS, on January 15, 1986, the Redevelopment Agency of the City of Sacramento entered into a contract with Sacramento Heritage, Inc. to administer/market a commercial rehabilitation loan program; and

WHEREAS, Sacramento Heritage, Inc. proposes to arrange for the development and funding for the Pioneer Hall renovation, 1010 Seventh Street, now, therefore,

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

Section 1: The Agency hereby approves the Pioneer Hall Project as presented in the staff report for this resolution and authorizes the Chairman of Sacramento Heritage, Inc. to proceed with the drafting of an Owner's Participation Agreement (OPA) with the owners of the proposed project. Such OPA shall be presented to the Agency for its approval by March 30, 1987.

Section 2: That the loan from the Agency for the proposed project should not exceed \$300,000 and shall be funded from tax allocation bond funds under cost center 0882.

CHAIR

ATTEST:

SECRETARY

1042J

EXHIBIT I

Sacramento Heritage Commercial Loan Fund:

Commitments

Facade Loans	\$115,000	(includes applications not yet approved but expected to be approved)
Commercial Loan	200,000	(application received but not yet approved - expected to be approved)
Contracts	<u>35,000</u>	
Total	\$350,000	

Agency Developer Assistance Program:

Commitments

Commercial Loans	\$200,000	
Paint The Town	<u>80,000</u>	
Total	\$280,000	
Total Commitments	<u>\$630,000</u>	
Fund Total (DAP and CLP)	\$1,137,000	
Minus Commitments	<u>630,000</u>	
Balance	\$507,000	

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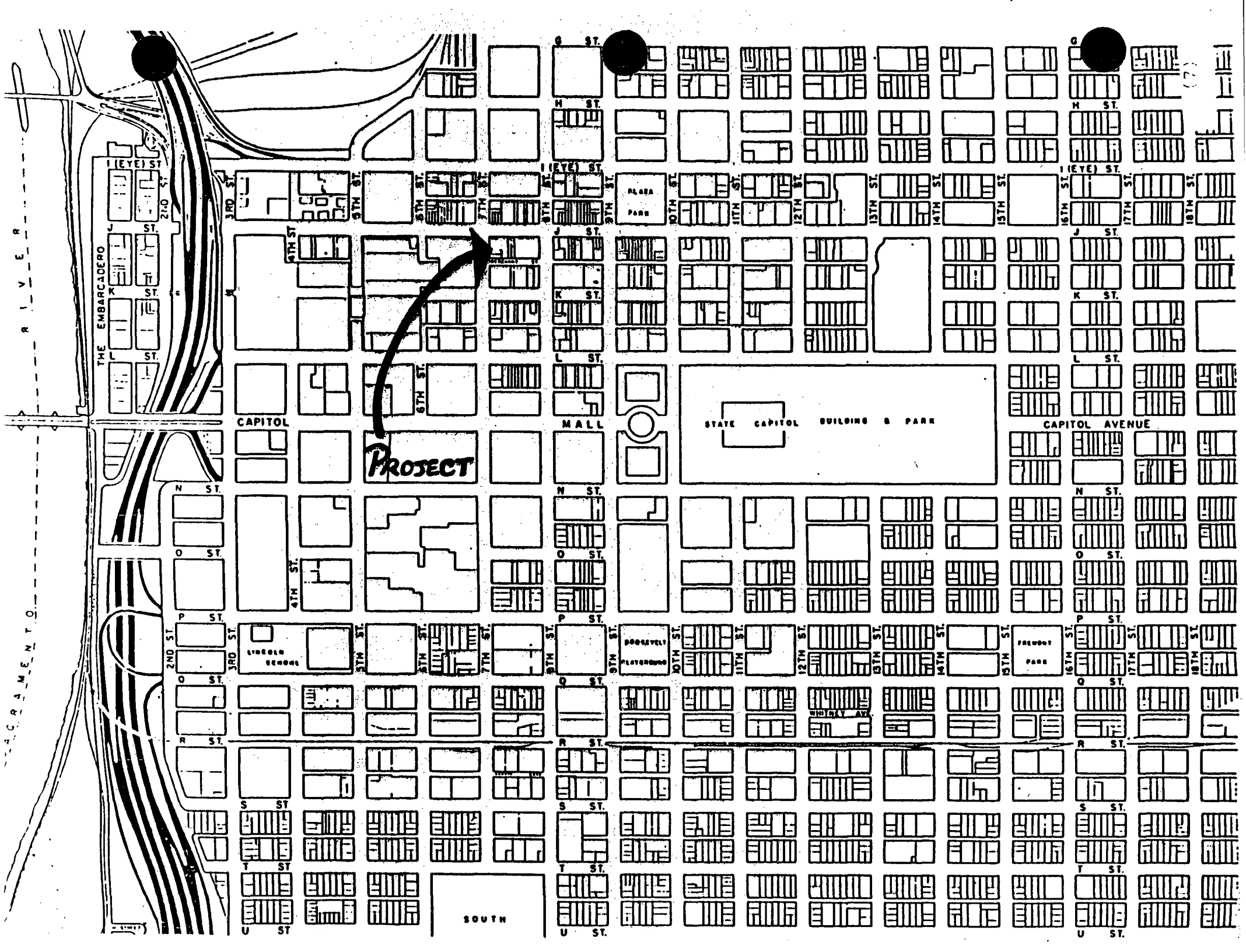
STATE CAPITOL BUILDING & PARK

CAPITOL AVENUE

LINCOLN SCHOOL

DOUGLASS PLAYGROUND

SOUTH



PIONEER HALL
1-16-87
CONSTRUCTION COSTS

LAND/CONSTRUCTION COSTS

Land Value			
3369 sq. ft. x \$30	=	\$100,000	
Building Shell			
3267 sq. ft. x \$40/ft.	=	131,000	
Rehabilitation Costs			
1st, 2nd, basement floors	=	476,059	
Tenant Improvements			
1st Floor - 2244 sq. ft. \$20/ft.	=	44,880	
2nd Floor - 2293 sq. ft. \$20/ft.	=	45,860	
Basement Storage separations	=	5,000	
Contingency 15% of Rehabilitation Costs	=	<u>71,409</u>	
Total			\$ 874,208

SOFT COSTS

Architect	\$	42,000	
Taxes		3,000	
Course of Construction Insurance		10,000	
Building Permit/Plan Check		5,000	
Legal/Accounting		10,000	
Title, Recording		2,000	
Construction Bond		6,813	
Construction Loan Interest 6 mos. const.		17,100	
Construction Loan Points - 2 points		14,000	
Permanent Loan - 1 point		4,000	
Holding Period - one year rent up (1/2)		40,000	
Development Overhead/Fee		50,000	
Leasing Commissions		<u>25,000</u>	
Total			\$ <u>218,913</u>

TOTAL CONSTRUCTION COSTS

\$1,103,121

EXHIBIT III

PIONEER HALL
1-16-87
INCOME/CASH FLOW

Income	
Basement - 2383 sq. ft. x \$.30/sq. ft./mo. x 12 =	\$ 8,579
1st Floor - 2244 sq. ft. x \$1.50/sq. ft./mo. x 12 =	40,392
2nd Floor - 2293 sq. ft. x \$1.50/sq. ft./mo. x 12 =	41,274
Gross Annual Income	<u>\$90,245</u>

Expenses	
5% Vacancy	- \$ 4,512
Maintenance Management	
Basement 2383 sq. ft. taxes, ins	- \$ 4,500
1st Floor - 2244 sq. ft. taxes, ins	- 4,500
2nd Floor - 2293 sq. ft. x 4.00-sq. ft. †	- 9,172
Net Operating Income	<u>\$67,561</u>

\$400,000 First Trust Deed	
10.50%, 30 year, 10 year call	43,920
\$300,000 Second Trust Deed	
5% int. only	<u>15,000</u>
	<u>8,641</u>

ROSS COMPANY



PIONEER HALL
1-16-87

Submission to Carol Branam
Sacramento Housing and Redevelopment Agency

Assumptions

BUILDING SIZE

Gross square footage	
Basement	2653 sq. ft.
Ground and Second floors	6534 sq. ft.
Total Gross	9187 sq. ft.
Net Useable Square Footage	
Basement	2382 sq. ft.
Ground Floor	2244 sq. ft.
Second Floor	2293 sq. ft.
Total Net Leasable	6919 sq. ft.

LEASE PRICE

Basement	- Storage \$.30/sq. ft./mo. Lease price could be increased by segregating basement into cages and charging per "secured cage". Pro forma is based on the \$.30 a foot.
Ground Floor	- \$1.50/sq. ft./mo. - Triple net landlord pays taxes and property casualty insurance and tenant pays all utilities, janitorial, etc. Restaurant user is the highest and best use.
Second Floor	- \$1.50/sq. ft./mo. - Fully serviced. Space is delivered to tenant fully serviced. After the first year, tenant will assume increased costs of utilities, taxes, insurance, janitorial, etc., over base year. User will probably be attorneys, architects, engineers, etc.

TENANT IMPROVEMENTS

First and Second Floor - \$12 to \$20 per square foot is the general allowance given to office users to finish out their space with interior walls and partitions, ceilings, floor coverings and so on. I have used the higher figure as a sales tool for when the project is competing in the lease market. Generally no dollar tenant allowance is given to retail users - in this case, the proposed first floor use is to be a restaurant and, once again, I have included a \$20 allowance to have a competitive edge in the lease market.

Commercial Brokerage • Development

1851 Heritage Lane, Suite 128 • Sacramento, CA 95815 • (916) 921-2752



PIONEER HALL
1-16-87
FINANCING

Total Construction Costs	\$1,103,121
First Trust Deed-Conventional Lender	400,000
Second Trust Deed-Sacramento Heritage	300,000
	<u>403,121</u>
Sacramento Pioneer Association Equity	231,000
Equity Required From Investors	<u>172,121</u>

Several lenders were contracted and two have expressed a willingness to finance the project - Capital Federal Savings and Loan and Bank of Woodland. Both are quoting in the 10 1/2% range for the permanent loan based on today's market. Both are discussing 30 year amortization with 5 or 10 year call dates. One is offering fixed and one variable. The concern of both is the economic value of the building versus the cost.

BUDGET AND FINANCE COMMITTEE AGENDA

Tuesday, February 17, 1987

4:00 p.m.

City Council Chambers
915 I Street
Location: Sacramento, California

1. Res. amending Sports and Aquatics Fees for Parks and Community Services - Recreation Division. (All Districts)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

2. Res. amending the FY 1986-87 City Capital Improvement Budget by an increase of \$132,777 from the Transportation Development (Bikeway) and Bikeway Fund Contingency for the Sacramento Northern Railway Biketrail, Phase I. (District 2)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

3. Res. approving Elvas-Richard EIR Budget, increasing revenue estimates for capital grants-private, transferring Major Street Tax Fund, appropriating Capital Grants-Private, and consultant selection.

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

4. Resolution amending the 1986-87 Capital Improvement Budget for the North Natomas Drainage Study by reducing the transfer from the defunded American River Levee Reconstruction Project to the Storm Drainage Contingency from \$329,000 to \$209,000. (D-All)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

5. Resolution transferring funds for the J Street Reconstruction and Drainage Improvement Project (\$75,000 from the Storm Drainage Contingency Fund) to the Capital Improvement Program. (D-3)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

6. Res. authorizing the transfer of \$72,000 from the Water Fund Contingency Reserve to the Street Frontage Improvements for Power Inn Road at Florin Reservoir Park. (D-6)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

AGENDA CONTINUED TO NEXT PAGE

BUDGET & FINANCE COMMITTEE AGENDA

February 17, 1987

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7. Res. approving budget adjustments for various Capital Improvement Projects (Vallejo Way Reconstruction, Sun River Drive Reconstruction, and Lampasas Avenue Reconstruction. (D-All)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

8. Res. appropriating \$76,000 for repairs of bridge embankments at various locations. (D-1&5)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

9. Res. amending 1986-87 Operating Budgets for Off-Street Parking, Street Maintenance, and On-Street Parking to install parking regulation signs and parking meters in City lots at 12th and E Streets and Del Paso Boulevard and Baxter Avenue. (D-1&2)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

REDEVELOPMENT AGENCY

10. Res. authorizing execution of owner participation agreement for the Pioneer Hall Association Building and also authorizing a set-aside of \$300,000 from Downtown Development Assistance Program. (D-1)

RECOMMENDATION OF STAFF: RECOMMEND APPROVAL AND FORWARD TO COUNCIL

MEMBERS ON COMMITTEE: Serna (Chair), Smallman, Chinn, Pope