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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



APPROVED
AUG 27 1985
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

August 12, 1985

CITY MANAGER'S OFFICE
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AUG 21 1985

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: An Agreement with the State of California to Fund
Operation of the William G. Stone Lock

SUMMARY

This staff report concerns a proposed agreement between the Agency and the California Department of Boating and Waterways to provide funding for the operation of the William G. Stone Lock from January 1, 1986 to December 31, 1986. The Agreement is written for a term of thirty (30) months to allow extension as funds are available.

BACKGROUND

The William G. Stone Lock, the only lock in California, was authorized in 1946 in conjunction with the Sacramento Deep Water Ship Channel (see Attachment I for location map). The canal is about 1.5 miles long and cost \$7.5 million to construct. The lock, which became operational in 1963, provides a commercial and recreation navigation link between the Deep Water Channel and the Sacramento River. Also, the lock provides a source of fresh water which reduces the salinity in the Deep Water Channel and provides a passageway for anadromous fish migrating up the Sacramento River.

Due to the cost of operation and decline in commercial usage the Corps of Engineers in 1981 decided to close the lock. At that

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time a coalition of boaters, tour boat operators and other interested groups under the leadership of the Sacramento Metropolitan Chamber of Commerce formed the William G. Stone Lock Task Force to investigate ways to keep the lock open. A number of options were explored. Because of the urgency and complexity of the problem, the Redevelopment Agency of the City of Sacramento, by Resolution No. 82-087, approved the funding of the lock for a one-year period from October 1982 to 1983. This Contract was extended over a five-year period by City Resolution No. 83-831 subject to annual appropriations.

With interim funding accomplished to keep the lock open on a limited basis, the Task Force pursued other funding sources. The result of this effort is the attached proposed agreement between the Agency and the California Department of Boating and Waterways (Attachment II). Under this agreement the State of California will give a grant of \$25,000 to the Agency for a limited operation of the lock from January 1, 1986 to December 31, 1986. It is the intent of the State and the Agency to contract for equal funding of the lock operation in 1987 if an appropriation is available from the U. S. Congress and with the approval of the California State Legislature.

The rationale for operation or funding by the State of California from the Agency's viewpoint is as follows:

- 1) The recreational boaters using the lock come from a number of Counties including the Delta and San Francisco Bay Area and therefore the lock is a Northern California rather than a local facility.
- 2) The opening of the lock assists in reduction of salinity of the Deep Water Channel which again is a regional problem occurring in Counties completely outside Sacramento City or County limits.
- 3) The opening of the locks provides a passageway for anadromous fish up a river which is controlled and managed by the State Resources Agency.
- 4) Part of the lock is a road bridge which is a State highway.

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Continued funding of the William G. Stone Lock will enable recreational use and at the same time encourage tourist trade in Old Sacramento by passengers off tour boats utilizing the lock. With possibilities of four tour boat operators under contract in Old Sacramento, staff believes the lock will be used on a regular and ongoing basis to reduce travel time between San Francisco and Sacramento.

FINANCIAL DATA

The current annual operating cost for a limited schedule is approximately \$25,000. The proposed agreement will provide sufficient funds to the Agency to continue operation of the lock for one to two years through an agreement with the City's Department of Parks and Community Services.

ENVIRONMENTAL REVIEW

This action does not require environmental review.

POLICY IMPLICATIONS

The action proposed in this staff report is consistent with previously approved policy and there are no policy changes being recommended.

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VOTE AND RECOMMENDATION OF COMMISSION


At its regular meeting of August 19, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Glud, Lopez, Luttrell, Pettit, Sanchez,
Teramoto, Wooley
NOES: None
ABSENT: Moose, Walton, Angelides

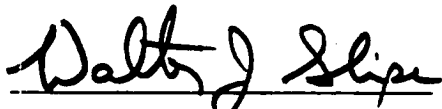
RECOMMENDATION

The staff recommends adoption of the attached resolution which authorizes the Executive Director to enter into the proposed agreement with the State of California.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:


WALTER J. SLIPE
City Manager

Contact Person: LEO GOTO, 440-1320

in local newspapers and the Yellow Pages; corporate memberships in the Hispanic, Black, and Metropolitan Chambers of Commerce; and participation in a steady flow of workshops, conferences, and seminars sponsored by business groups throughout Northern California.

Over two hundred clients per month are contacted in this fashion. The recruitment components of the Seed Capital Fund and the Cooperation Office are described in the Resources Element below.

B. THE RESOURCES ELEMENT

This element adds to Superior Valley's loan guarantee and management services programs with a Seed Capital Fund and a Cooperation Office. The loan guarantee program screens a client pool of 500 applicants from which an average of five full applications are processed monthly. The Business Services program conducts 100 interviews with clients monthly providing a range of counseling, marketing, and management services.

The Cooperation Office will expand this network by formal cooperative agreements with other business management, employment training and child care organizations throughout the Sacramento area. This

A. THE CLIENT ELEMENT

The business clients are ranked for marketing purposes as follows:

- 1. First priority, Business Center tenants;
- 2. Second priority, local businesses currently receiving financial assistance from the Business Center;
- 3. Third priority, any disadvantaged business that offers significant employment growth, especially within high employment communities. A disadvantaged firm is defined as one that by virtue of its size, brevity of history, or gender or ethnicity of ownership lacks the access to capital markets necessary to permit employment growth.

The firms will be recruited through Superior Valley's existing marketing programs, through the advent of the Seed Capital Fund and Cooperation Office Programs, and finally through the Center's advertising campaign described below in Paragraph C. Superior Valley's existing marketing program consists of regular monthly seminars throughout Sacramento County; ongoing announcements or ads

o provides assistance in obtaining existing community services such as employment training, child care, housing, and commercial rehabilitation.

A sample organization chart is presented as Appendix I. Only one new staff position, Incubator Administrator, is to be added to Superior Valley's existing organization.

III. THE MARKETING PLAN

The marketing plan is designed to take maximum advantage of the financial, management, and real estate assets of the Business Center for local small businesses. The plan is structured around three basic elements. The Client Element defines the characteristics of eligible firms, how those firms will be identified, and what priority they will receive in using the Center's services. The Resources Element identifies the various local sources of financial, management, and technical services, how those sources will be solicited and coordinated by the Center, and how they will be channeled to the Center's clients. Finally, the Incubator Element promotes the advantages of a firm locating in the Center, defines how these firms will be selected, and under what circumstances the firms will "graduate" from the incubator and make their way in the larger community.

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All staff managers report to the General Manager who in turn is accountable to the Board of Directors.

The Business Services Program will be augmented by the Cooperation Office. The Cooperation Office provides small business with management skills and expertise to overcome the obstacles faced by new enterprises in their critical start-up phase. Using a network of active volunteer executives, professionals, community based organizations, and academia, the Cooperation Office assists small businesses to develop a business plan and secure adequate financing. It is a professionally managed program which utilizes a volunteer network of experts to assist small businesses in the following ways:

- o evaluates new products or services for viability in an identified market;
- o guides the creation of the company's business plan which serves as the blueprint for the first years of operation;
- o helps assemble a management team with combined talents, experience and know-how to implement the plan;
- o provides assistance in locating start-up financing for the new businesses; and

property ever be sold. As general partner, Superior Valley will receive property management fees and profits from space rentals. All space rental profits derived by Superior Valley will go into the Center's Seed Capital Fund for tenants and clients of the incubator programs. Building Superintendent Services will be contracted out to a property management firm that will become a tenant in the Center.

The Center will be operated by Superior Valley Small Business Development Corporation. As a State-licensed small business development corporation, Superior Valley already provides most of the administrative and financial support services designed in the incubator concept. The existing services will have to be expanded in scale, in some cases (e.g., telephone answering and copying) and altered in type in some others (e.g., equity financing in addition to debt financing). Management services in loan packaging, marketing, accounting, and feasibility studies will be continued using present staffing made more productive through added use of computer terminals. Only one full-time position (secretary-receptionist) will be added to Superior Valley's existing organizational structure. An existing administrative position will be upgraded to Incubator Administrator to coordinate the administrative services component of the incubator program. Superior Valley's existing Businesses Services Manager and Vice President of Finance will continue in their roles of supervising the management and financial services of the corporation. The existing Public Information Officer will coordinate the marketing and public relations program for the Center.

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"The Components of a Successful Loan Package" to "Small Business Sales and Marketing Techniques" (see Appendix E: Seminar Flyer). In the first six months of 1984, Superior Valley reached 690 small and minority businesses with counseling and educational training. Forty-four percent of these businesses were start-up situations. Almost fifty percent of the seminar and workshop participants were minority business persons and approximately forty percent were women.

II. ORGANIZATIONAL PLAN

The organization plan for the Center consists of two entities. A for-profit limited partnership will own the deed restricted property. A non-profit corporation, Superior Valley SBDC, will operate the incubator program.

The limited partnership would offer a means through which private capital could be invested in the structure to capture the tax benefits of rehabilitating a property over 40 years old. Private ownership of the facility will put the 3.1 acre site back on the tax roles for the Oak Park Redevelopment area and generate an estimated \$11,000 per year in tax increments after Phase One and \$20,000 per year after Phase Two. Superior Valley will serve as the General Partner of the limited partnership. The limited partners will receive all tax credits, operating loss deductions, and a share of the capital gain should the

contract a declining amount for the operating expenses of the Corporation. The State currently contributes \$176,000 or fifty-nine percent of the annual budget of \$300,000. The contract calls for the corporation to be self-sufficient by the end of the five-years. Current projections indicate that Superior Valley will achieve self-sufficiency in three years or by July 1, 1986 (see Appendix D: Five Year Plan).

During 1983, Superior Valley guarantees generated \$3.5 million in loans for small businesses, using guarantees of \$1.1 million. The corporation leveraged over \$3 million in private funds for every \$1 million in the guarantee fund. One hundred nineteen (119) jobs were retained, one hundred sixty-eight (168) jobs were created, and approximately \$646,000 in federal taxes were generated. In addition, the corporation conducted twelve small business seminars on a variety of financial and management topics attended by over five hundred (500) persons. Three hundred thirty-four (334) clients received face-to-face counseling, management, and technical services.

In the past year, Superior Valley approved \$2,524,045 in loans carrying guarantees for small businesses. Of these guaranteed loans, \$1,321,000 went to ten minority-owned businesses. Two hundred fourteen (214) jobs were created and ninety-seven (97) jobs were retained. In addition, Superior Valley conducted an average of two small business seminars monthly, covering a variety of topics from

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I. BUSINESS HISTORY

Superior Valley Small Business Development Corporation was organized as a non-profit corporation in 1983. The firm was founded by Darryl O. Freeman (President) and Harold F. Brown (Vice President). Mr. Freeman has over fifteen years experience in managing small businesses and designing government programs to serve small-, minority-, and women-owned businesses. Mr. Brown has over fifteen years in financial analysis, planning, and banking for businesses and economic development programs and projects for State and local governments. These two senior operating officers have managed the corporation since its inception under the guidance of a fifteen-member Board of Directors (see Appendix A: Board Roster and Appendix B: Articles of Incorporation).

Superior Valley is one of seven corporations licensed (see Appendix C: State License) by the State to issue State-backed loan guarantees and to provide supportive management and technical assistance to small businesses. The State Department of Commerce, Office of Small Business regulates Superior Valley through a four-year contract that requires the State to contribute annually to a trust fund against which Superior Valley issues loan guarantees. While annual increments to the trust fund may vary, the Corporation projects a \$5 million trust fund at the end of the contract based on the current balance of \$2 million. The State also contributes each year of the

Superior Valley, a non-profit corporation, would operate the Center and a for-profit limited partnership would own the site. As general partner in the limited partnership, Superior Valley would supervise the development and manage the building. As managers of the Center, Superior Valley would provide the financial, administrative, and management services critical to the incubator concept using the existing resources of the corporation. Maintenance and security services for the property would be contracted out.

Superior Valley SBDC is licensed by the State of California Department of Commerce, Office of Small Business. An SBDC provides management, technical, and financial services to qualified small businesses. One unique service offered is the assignment of a State-backed guarantee of bank loans. Superior Valley opened for business on January 3, 1983 with headquarters in the City of Sacramento and a branch office in the City of Stockton. Since then, the Small Business Loan Guarantee Program has leveraged \$2 million in guarantees into \$15 million of small business loans.

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SUMMARY

Superior Valley Small Business Development Corporation proposes to rehabilitate and expand a vacant 30,000 square foot abandoned school site and operate a small business incubator in the enlarged structure. The incubator will contain a variety of space sizes for office and light industrial users. In addition, the incubator will provide a customized package of administrative, management, and financial services that each business on its own could not afford. By doing so, the incubator can improve the survival rate of small businesses, and the jobs they produce, from twenty percent to over eighty percent.

In a recent publication, the U.S. Small Business Administration documents small business' contribution to the economy in terms of job creation, innovation and productivity.

"All of the 980,000 net new jobs generated in the American economy during 1981 and 1982 came from independent small businesses. In addition, small firms and inventors are 2.4 times more productive per employee and 24 times more productive per dollar of research and development expenditure in the generation of innovation than large firms. Small businesses, especially those under five years old, are often vulnerable to a single serious mistake in purchasing, marketing, location, or personnel that may spell disaster. An estimated 2,000 businesses close their doors each year because of one serious error. Nine out of ten small businesses fail due to management deficiencies, and research shows that nine out of ten causes of failure could have been foreseen".

The purpose of most small business incubators is to reduce small business failures by making it easier for them to survive the critical early stages of business development. This is achieved by providing inexpensive, appropriately-sized space, access to commonly-required administrative support services, and access to management, financial, and technical assistance. All new businesses make mistakes, but incubators give new firms "breathing room" to learn from errors that otherwise could be fatal. Valuable working capital is preserved by reduced overhead in an incubator facility.

The proposed incubator, the Donner Small Business Center, would be developed in two phases. Phase One calls for the rehabilitation of an abandoned 40 year-old school building into 30,000 square feet of office space at a cost of \$1,043,000. Phase Two would add 40,000 square feet of light industrial and limited office space at a cost of \$1,112,000.

SACRAMENTO SMALL BUSINESS CENTER

BUSINESS PLAN

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ATTACHMENT 5

BOARD OF DIRECTORS

Joseph Yew, Chair
Goldie Hall, Vice Chair
Drue Brown, Secretary
Norm DeYoung, Treasurer

Larry Asera
Denise Browne
Lincoln Ellis
Delores Esparza
Darryl O. Freeman
Anna L. Joy
William Lee
Orville Luster
Starla McGrew
George Moton
Jerry Scribner
Oscar Wright, Ex-Officio

D O N N E R S I T E P R O P O S A L

OPERATION OFFICERS

Darryl O. Freeman
President/General Manager
Harold F. Brown
Vice President of Finance

SACRAMENTO SMALL BUSINESS CENTER

BUSINESS PLAN

In addition, the optional bailout would be seen as a signal of a lack of faith in the operation, which would not be conducive to investment, and would not be encouraging for lenders on Phase II. In fact, Phase II lenders would be expected to take the risk that the city could take over Phase I - and possibly even change its use - after the lender provided permanent financing for a Phase II building that it largely dependent upon the success of Phase I.

Unless the feasibility study shows the project's ability to provide both seed money capital and some assured return to the investors from cash flow, the option also would suggest that the prospect for capital gains is additionally suspect, raising additional IRS and investor eyebrows. If the purchase price under the option includes an increase in value, that could show prospect of gain, but also a greater likelihood that the investment would not be considered at risk, since public funds would be "guaranteeing" return, where market circumstances were otherwise unfavorable.

We suggest that this approach not be offered up front but be held back in case it becomes an acceptable risk for an investor to take as syndication efforts are pursued. The lease of land would seem wise and without any obvious drawbacks for investor purposes.

Summary

We believe that the present financing and market assumptions of this project will not encourage either investors in Phase I or lenders in Phase II unless Phase I can be worked to stand on its own as a viable project. Without that likelihood, projections of investment in Phase I are conjectures at best, and the financing of Phase II will require additional city funds. There is an immediate need for the feasibility analysis to help restructure the project.

Sincerely,

McMANIS ASSOCIATES, INC.



Warren H. Butler
Principal Associate

3. A more likely approach, which we have checked out with HUD UDAG staff experts on syndication, is the following:

- \$150,000 for the 40 year credit (minus placement costs)
 - Present value of the first five years of depreciation, or \$290,000, discounted over 5 years at 12%, which times today's "norm" of 42% for tax value = \$87,812
- TOTAL = \$237,812 (minus placement costs).

We are skeptical of the realism even of this figure. This project asks investors to agree to an equity contribution based upon a Phase I-Phase II revenue supported project which has questionable financial feasibility, in a difficult neighborhood, with no cash flow return and what we would estimate to be a 3-4% maximum cumulative annual return over the first five years if sold for capital gains. The investor runs the additional risk, without an assigned cash flow preferred return, of having the IRS find that this is not a legitimate economic deal, but was entered into only for tax purposes. Hopefully, friendly local investor(s) interest will be found, but even under those circumstances we believe the discounted value of the tax benefits will be greater than we indicate.

Land Lease with Option to Repurchase

We see two possible benefits from the option to repurchase within 3 years. First, it would be possible to remove a poor operator without loan foreclosure, or without having to wait until the business operation provided foreclosure opportunity. Second, it permits a floor, depending upon the circumstances and definition of purchase price, for the limited partners which may be of benefit in marketing the project.

On the other hand, it would be possible to remove a poor operator by foreclosure on the city's loans, or by structuring the land lease to permit the city to appoint the operator or remove the operator if certain goals are not met within the three year period. That would leave the limited partners in place without losing their equity contribution. That oversight would also be encouraging, we believe to the limited partners.

Second, if the option takeout is to be exercised regardless of the success or failure of the project, then the limited partners would be concerned that the city would exercise that right at the point where they might expect to receive some additional income from the property. If the intent is noted that the authority would only be used in the case of poor performance, then it raises a serious legal question as to whether or not the investment would be considered to be at risk for IRS purposes.

4. The only provision for any return to the limited investors is the possibility of future capital gains since there is no share in cash flow. A very preliminary estimate of Phase I by itself suggests that it could produce a minimal cash flow, with similar capital gains implications, in years 4 and 5, but not in later years if the \$50,000 repayment goes to \$100,000.
5. Short of a market feasibility study, we cannot judge how persuasive the business plan might be to individual and institutional investors, most of whom will have to be sought, we expect, from within the Sacramento area. We would note, however, that the Meadowview Road building, formerly used by a federal government agency for office space, seems suited to a number of the uses contemplated here, and is available for \$4.20 per square foot/year. Phase I runs at \$7.80 and Phase II at \$4.80.

Estimate of Syndication Proceeds - Equity Investment

At a maximum, we believe it may be possible to raise \$230 to \$250,000 through the sale of limited partnerships. We base this on the following analysis:

1. Since the building would be transferred at no cost to the developer, building rehabilitation costs would qualify for 40 year age tax treatment as credits to the full \$750,000. The 20% credit would provide, at best, \$150,000.
2. Using a \$1,050,000 transfer cost to the corporate entity composed of the general partner and the limited partners, and an 18 year depreciation schedule, there would be \$58,000 straight line depreciation per year (required if the tax credit is to be used).

Present valued with a 12% discount over 18 years, this amounts to \$420,000. Assuming tax changes in the future will be factored into any present decision for investment, the tax value at 35% would be \$147,000. Since most investments of this sort are now being made for economic, rather than only tax, reasons, and since this project has little or no apparent economic return to the limited partners we would discount the tax value to anywhere from 65 to 80%. Using 80% this provides \$117,600 less costs for structuring the sale, which could run as high as 18 to 20 percent of the tax value. Assuming local placement and some pro bono contributions, sale costs could run \$10,000 or more reducing the net proceeds for equity investment to under \$250,000.

June 6, 1985

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Mr. John Molloy
Director, Planning and
Policy Development
Sacramento Housing and
Redevelopment Agency
Post Office Box 1834
Sacramento, California 95809

Dear John:

This report is in response to your request for us to consider questions in relation to the proposed "incubator" development at the Donner site. You asked, first, for our judgment on the likely amount of equity to be raised by taking advantage of the tax and income consequences of renovating the 40 year old building; second, for the impact on syndication of leasing the land and selling the building to the developer with an option to repurchase within the first three years.

Background Analysis

We have utilized the information contained in the Sacramento Small Business Center Business Plan prepared by the Superior Valley Small Business Development Corporation. Page 15 provides a five year pro forma and page 16 the assumptions used therein.

We note the following:

1. The pro forma appears to assume a 15 year depreciation schedule for Phase I; present tax law requires an 18 year schedule. Depending upon startup and the enactment date of the new tax legislation, this may also be lengthened.
2. Although you have taken into account the \$50,000 repayment on the \$600,000 loans from the city in your 4th and 5th year figures for seed capital projections, the pro forma does not.
3. The information on page 16 suggests a \$900,000, 15% loan on Phase II; the pro forma assumes Phase II income starting in a limited fashion in year 2, and phasing in substantially in year 3, but does not show any debt service for the \$900,000. At almost any interest rate down to 8% and any term of years between 15 to 20 we find the project running either at a loss or substantially below anticipated figures.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY 51

MEMORANDUM

TO: John Molloy, PPDD (C-32) DATE: June 5, 1985

FROM: Gloria G. Shepherd, TSD (17-TS)

SUBJECT: Estimate of Value - Donner School Site on Stockton Boulevard

Based on your estimate of 3.6 acres for subject site size, a "ballpark" estimate of value for land only (you confirmed Larry Lancaster's opinion of no value placed on improvements) is as follows:

Land only 156,816 s.f. x \$3.20 s.f. = \$501,811.20

ROUNDED TO: \$500,000.00

(Square foot price was derived from Frank Blaesi's appraisal report of May 1, 1985, for two other pieces of commercial property, for prime corners i.e. \$3.50 and \$3.25 per sf.)


GLORIA G. SHEPHERD
Program Analyst

ggs

cc: Larry Lancaster

(NOTE: This figure not to be used for acquisition/disposition, only for use in estimating.)

ATTACHMENT 2 (c)

Fledgling firms find shelter in 'incubators'

By David Carpenter
 Staff Writer

Not often does California copy Rust Belt innovations in business and technology. But the small-business incubator is one Eastern-bred concept whose bandwagon the state appears eager to jump on.

The incubator — a building that nurtures new or growing businesses through the sharing of costs and services — is a hot nationwide trend that is beginning to catch on here.

The idea was launched as a way to revitalize abandoned industrial buildings and empty factories in the East and Midwest.

In California, state officials and business leaders are hatching slightly different plans, with the emphasis on new products and services. But the primary objectives are the same: Cut start-up firms' overhead, encourage innovation, create and conserve jobs.

"California doesn't have a lot of vacant smokestack buildings," says Oscar Wright, executive director of the state Commerce Department's Office of Small Business. "But whether it involves rehabilitating existing facilities or building new ones, the incubator will be an important tool here in combating the problems faced by new businesses and in creating jobs."

Wright's office has just received the results of a \$7,200 state-funded study by two consultants at the University of California, Davis. The 93-page report endorses incubators as "critical" elements in the state's efforts to remain on the leading edge of business development.

The Commerce official concurs. State and local bureaucracies into which to serve as the catalyst for private business growth and innovation.

"This state is the recognized leader across the nation in innovative concepts in industry," he says. "It's necessary to come up with small-

business support systems to keep it that way, and incubators will play an important role."

Only one incubator is functioning in California — a new 30,000-square-foot structure in Lancaster built with more than \$1 million in federal and local funds, and currently housing a machine shop, a newspaper, a firm that sells equipment for the physically handicapped and a computer software business.

UCD consultants Richard C. Dorf and Barbara Purdy have identified another dozen such projects the "nest-building" process.

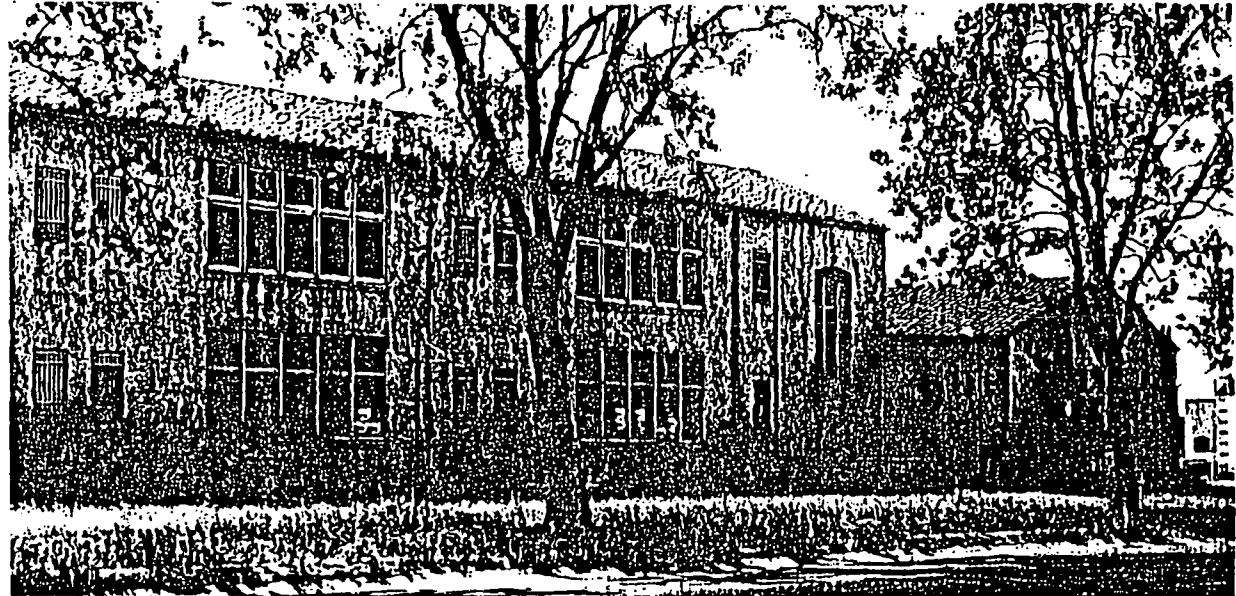
One could be established by next fall in Sacramento at the Donner School at Stockton Boulevard and Broadway, vacant for six years. The Superior Valley Small Business and Development Corp., which operates under the purview of Wright's office, is negotiating with the city to take over the property in hopes of fixing up the building for 10 to 12 small businesses and itself.

Superior Valley president Darryl Freeman says the future incubator — now "the biggest blight on the Stockton commercial strip" — could eventually get a 40,000-square-foot addition.

Firms sheltered by the local incubator — to be known as a business and technology center — will pay an estimated 60 cents per square foot — compared with the 90 cents-\$1.40 range for office space in midtown/downtown, according to Freeman.

Each will operate out of a classroom (900 square feet) or subdivided classroom, paying Superior Valley a single fee for leasing that includes utilities, centralized accounting and telephone systems, and management and technical assistance. Businesses would "graduate" out of the incubator after three to five years or whenever they could fly without assistance.

Potential funding sources are identified as the Sacramento Hous-



Bee photos/Dick Schmidt

Donner School on Stockton Boulevard may become an 'incubator' that would provide new businesses with low-overhead facilities.

ing Redevelopment Agency, the city, private capital, bank loans, Economic Development Assistance funds and the Office of Small Business. Wright says the state's financial role should be limited, with consultant Dorf suggesting a level of about \$1 million a year to support "each new crop of chicks."

Says Freeman: "The incubator is a more innovative way of helping small businesses than throwing money at them, giving them tax credits or discounted loans like those made through the SBA (U.S. Small Business Administration). And not only is it a good idea, it makes good business sense."

About 100 incubators are up and running nationwide, most having started up during this decade. The early verdict is positive, with firms taking advantage of the low overhead to free money they can use to expand. Studies peg the failure rate of start-ups in incubators at 50 percent, compared with an 80 percent rate in non-incubator companies.

Critics, however, claim that incubators offer services that new businesses could do without and at costs they can't afford.

An executive of one Minnesota-based corporation that has business and technology centers throughout the country cautions that those incubators are not a cure-all for small-business ills.

"It's a myth to say that a stand-alone building does any more for a start-up company than to reduce its

cash-flow requirements," said Wilbur French, a vice president with Control Data Corp., in a telephone interview from St. Paul.

"Cheap space by itself is not going to make or break a start-up. The services that are in that facility are much more important.

California's lone incubator, in Los Angeles County, offers its space at about what it would cost a company going it alone. But Verne Lawson, executive director of the Lancaster Economic Development Corp., says businesses can benefit from much more flexible leases — even month-to-month — and a support system that doesn't exist elsewhere there.

That approach may be adopted elsewhere around the state.

Fresno, for example, is paying \$70,000 for a feasibility study on new incubator possibilities. And Davis Mayor Ann Evans, looking to expand business in a city with few vacant buildings, has expressed a "very keen" interest in setting up small business cooperatives.

Wright says several California incubators may be situated near universities where small businesses can take advantage of technological ideas generated on campus.

Both the small-business director and Freeman say they're eager to see how well California-style incubators will work.

"It's a proven concept elsewhere," says Freeman. "But we've never seen anything quite like it in California."



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other venture capitalists.

Indeed, initial figures on the success of technology center-nurtured companies is promising. Of the 45 companies located in his first incubator, Schultz reports that just three failed. The successful ones generated an estimated 500 jobs.

A Great Idea Needs Work

Yet most people in the incubator field agree that there are still more questions than answers. What, for example, is the best mix of tenants for an incubator? Is there such a thing as a "best" size? Is it better to offer lots of services right off to attract tenants, or to add them only as needed and requested? And the biggest question of all: Do incubators make a difference in the success and survival of new businesses? And if so, how does this happen?

"The biggest question in any kind of economic development is, 'Would this have happened anyway?'" says Candace Campbell, who co-authored the Humphrey Institute study. "It's one of the things that ought to be thought about with incubators, and it's almost impossible to answer," she suggests. Campbell, executive director of the Minnesota Center for Community Economic Develop-

ment, an association of community development groups, offers some advice, based on what she's learned from people working in and developing incubators.

She says it's essential that the development of an incubator be carefully planned and thought out. "This isn't a solution you can just plop down anywhere and have it work," she notes.

Potential developers must assess both the people and financial resources of their local community. Are there successful business people to act as advisers? Are there funds for development and a pool of investors? Most important, is there a flock of potential entrepreneurs?

"You can't make an entrepreneur out of someone who isn't," she says. "You can't make a business out of air."

At the same time, she says, it's important to be flexible and let an incubator, like any other development program, have room to grow. "You don't want to be too rigid about getting people out of the incubator," she points out. "But you don't want to set them up for a lifetime of tender loving care, either. The whole idea is to get them to hatch and leave the nest." □

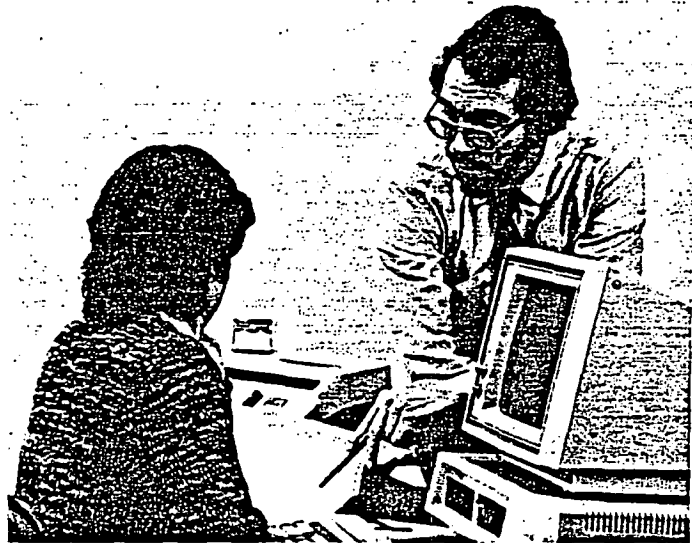
• "Each technology center has a board of local business people who act as advisors to tenants and run a venture capital fund of \$3 to 5 million to provide seed — and venture money for young companies."

Melen Foshee runs on-site secretarial services for small businesses in the Akron, Ohio, Summit Industrial Incubator.



Photo courtesy of Summit Industrial Incubator.

"These new small businesses play a big role in creating new jobs. A 1981 study by David Birch at MIT found that two-thirds of all new jobs in the U.S. are created by companies with 20 or fewer employees."



Robert F. Monaco helps Nancy Amaroso at Datacap Systems Inc, a computer company started in Lansdale Business Center, Lansdale, Pa.

Photo courtesy of Technology Center International.

at a modest rent for seven years.

Almost immediately the developers received applications from more than 200 individuals for what became 14 offices in the warehouse, opened in April 1985. Just 15 months after opening, the first 12 firms created 90 jobs.

"Our success has spurred a lot of interest among private companies in the area," says Dieter Wegner, economic development specialist for the OED. Wegner now works to match firms interested in renting excess space to members of Akron's entrepreneurial community.

One way the OED has kept the incubator successful is to carefully evaluate the businesses' success along the way. Twice a year tenants are reviewed on the basis of jobs provided and business plans; counseling and assistance are provided if performance is not in line with stated goals.

Investors Seek the Big Break

In contrast to the BTCs or Industrial Incubators, Loren Schultz, president of Technology Centers International, Inc. (TCI), Montgomeryville, Pa., seeks a direct profit from the success of his incubator business.

About 15 years ago, Schultz was a promising young entrepreneur himself. He cofounded Decision Data Computer Corporation (DDCC) out of his home and made a fortune developing a keypunch machine that was compatible with the IBM com-

puter. Revenues reached \$40 million within five years of its invention.

He left DDCC in 1976 to invest in other entrepreneurs. He opened the first Technology Center in a renovated building outside of Philadelphia, and today he operates five with plans for six more.

"I expect to make handsome rewards from these investments in new companies," Schultz says. "Of course, when people say, 'Loren, I wouldn't have made it without you,' it's a good feeling."

Schultz says he believes that entrepreneurs are the future of America. And he points out that in the beginning, there were no giant corporations, only small businesses. "What we're really doing," he says, "is building employers of tomorrow."

Space in the technology centers averages about \$5 per square foot. Offices are available for a minimum of \$125 per month, with utilities, receptionist and conference rooms thrown in. Other support services are offered at close to cost.

Each technology center has a board of local business people who act as advisers to tenants and run a venture capital fund of \$3 to 5 million to provide seed and venture money for young companies. Each incubator also has a "champion," an independent contractor who works with entrepreneurs to get them started and scouts out new investment opportunities for Schultz and

Photo by Kris Staabitz



don't. But I do think the corporate philosophy is reflected in the operation of the building."

Although Reid does not credit CDC entirely with the success of his business, he does admit the centrally located services have saved him money. What impresses him most is the corporate commitment behind the centers.

"It's important to me that it was not just anyone, but the chairman of the board, who said Control Data was going to provide these services to help small businesses," he says.

Communities Invest in Jobs

New businesses — particularly new small businesses — play a big role in creating new jobs. A 1981 study by David Birch at the Massachusetts

Institute of Technology (MIT) found that two-thirds of all new jobs in the U.S. are created by companies with 20 or fewer employees. About 80 percent of all jobs are created by firms with 100 or fewer employees, according to the same report.

Community leaders have noticed. The city of Akron, Ohio, for example, was depressed by changes in the automobile and rubber industries around 1980. To create jobs and stimulate economic growth in the area, the city leaders decided to try a business incubator.

Members of Akron's Office of Economic Development (OED) lobbied support from private industry, community groups, government and the University of Akron. Part of that support came as a warehouse, available

• "It's important to
• me that it was not
• just anyone, but the
• chairman of the
• board, who said
• Control Data was
• going to provide
• these services to
• help small busi-
• nesses."

• Bob Reid (above) started his St. Paul,
• Minn., consulting firm with the help of
• Control Data's Business Technology
• Center.

"When you're starting your own business, your brother-in-law is probably telling you you're going broke, and your wife is saying you won't have money for the kids' braces. Just having someone cheer you on can make a big difference."

• tunities; universities hoping to try
 • out new research; companies looking
 • for small business customers; and
 • community leaders searching for
 • ways to create new jobs — all to the
 • aid of fledgling entrepreneurs.

• Aid includes actual seed money,
 • facilities at below-market rents and
 • flexible leasing. It sometimes
 • includes business planning, manage-
 • ment and financial advice. In a very
 • practical way, these business incuba-
 • tors address the two biggest obsta-
 • cles facing a young company: short-
 • age of capital and lack of manage-
 • ment expertise.

• **An Incubator Works for People**

• An incubator provided the success
 • Steve Gummow, Rockford, Ill.,
 • needed. Gummow, in his mid '20s
 • and inexperienced, came up with an
 • idea for a tool handle that changes a
 • socket wrench into a speed wrench
 • (very handy for tight spaces). He
 • quickly patented the product but was
 • unable to interest any manufacturers
 • in his invention.

• About this time Gummow heard
 • about the Business Center for New
 • Technology, an incubator then
 • owned by the Barber-Colman com-
 • pany, a specialized tool and indus-
 • trial manufacturer. He convinced
 • John Dixon, manager of the incuba-
 • tor, that he could produce and mar-
 • ket the product himself.

• Dixon accompanied Gummow
 • when he went to the bank for a loan,
 • and Gummow moved into incubator
 • space. The Business Center for New
 • Technology offered Gummow access
 • to the company Apple computers and
 • WATS line and helped him write new
 • business plans.

• Just one year and 5,000 tools later,
 • Gummow sold the patent for his tool
 • to Sears and accepted a job with the
 • company, in what Dixon describes as
 • an extremely lucrative arrangement
 • with a very promising future.

• "What a lot of these people really
 • need is someone to believe in them,"
 • says Dixon, who now works for the
 • new incubator owners, Reed-Chat-
 • wood, Inc.

• "When you're starting your own
 • business, your brother-in-law is
 • probably telling you you're going
 • broke, and your wife is saying you

won't have money for the kids' braces. Just having someone cheer you on can make a big difference."

Companies Invest In Companies

Why would a private company want to nurture other private companies? Control Data Corporation (CDC), Minneapolis, Minn., a worldwide computer and financial services firm, has used incubators to develop a workable, proven program for helping small business. The company then sells this expertise to communities who want to do just that.

A recognized pioneer in the development of private incubators, William Norris, chairman of CDC, was inspired by his own experiences starting the company in 1957. He also was motivated by a corporate philosophy that looks upon the unmet needs of society as potential business opportunities, according to spokesperson Syl Jones, Manager of Communications for Urban and Rural Ventures.

Today, CDC has 16 Business and Technology Centers (BTCs) in 13 U.S. cities and two foreign countries. The company owns and operates 13 facilities; the others are franchises with local communities.

Day-to-day operations and services vary somewhat from center to center, according to Jones. But generally, the BTCs offer management education and small business courses; the services of Small Business Advisers (a CDC subsidiary) to help with problems; and group health and life insurance. Some facilities offer the Office Without an Office Program for entrepreneurs who need a business address, answering service and occasional conference room but who can't afford a full-time office.

Bob Reid, president of Pope-Reid Associates, an environmental engineering consulting firm, has rented space in CDC's St. Paul BTC for four years. Although his business is growing — from six to 25 employees — he has no plans to move.

"I invoke that idea — that Control Data is here to help me — a lot of times," says Reid, who also uses CDC's management services. "That doesn't mean I always get what I want from management, because I

WHAT SMALL BUSINESS NEEDS IS A LITTLE INCUBATION



Farmers use incubators to hatch chicks, giving them a warm headstart on a rough and tumble life. New businesses can be as fragile as newborn chicks; four out of five fail in their first five years, 91 percent in their first ten. They could use a little coddling — in a *business* incubator — before greeting the highly competitive world of business.

In fact, there are over 50 business incubators nationwide, according to a study by the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs. These incubators bring investors wanting big oppor-

BY VIRGINIA A. PERROT

.....
Freelancer Virginia A. Perrot writes most often on health and health care.

Business Incubators (continued from page 4)

within the incubator. Construction started in June 1984, and the incubator is scheduled to open February 1986.

Fresno's Valley Rural Development Corporation has entered into an agreement with City Venture Corporation, a private corporation largely held by Control Data Corporation in Minneapolis, to make recommendations for their business incubator. According to Richard Dorf, "Fresno is attempting to build on top of an already strong economic base."

As one of a handful of private incubator developers in the United States, City Venture Corporation is offering Fresno as well as the cities of Sacramento, Oakland, and San Jose something called a Job Creation Network. The network has three components: a locally-developed seed capital fund, a cooperation office and a business and technology center (BTC). The BTC is Control Data's registered and licensed business incubator. Public or private developers may purchase a license and development consulting from City Venture Corporation or Control Data Corporation. The franchise fee is \$50,000 the first year and \$15,000 for subsequent years.

As consultants to local governments, universities and private investors, most private incubator developers include space, business capital and business assistance in their business incubator developments. Loren Schultz, president of Technology Centers International, Inc., with five Technology Enterprise Centers in Pennsylvania and more in several other states, is another private sector developer of business incubators. Like other incubators, TCI's Technology Enterprise Centers offer below-market rents, centralized services and equipment rental.

An unusual feature is TCI's "champion" — a subcontractor with extensive business experience who helps incubator firms with business planning and financing. Initial consultation is free, but follow-up assistance is on a retainer or fee basis. Each of Schultz's centers has a locally developed venture capital fund of \$3 to \$5 million and the possibility of financing through TCI's larger national venture fund.

Other private incubator developers which offer consulting and development services nationally to local governments, universities or investors include Pryde, Roberts, Inc., located in Washington,

D.C.; Job-Creation Limited, a firm from the United Kingdom with an incubator in Flint, Michigan; and Rubicon Group, from Austin, Texas. As reliance on creativity as well as private sector financing in business incubators development increases, these firms are finding a large demand for their services.

By using business incubators as an alternative to "smokestack chasing," public officials are developing their economies from within — creating an environment for small business growth.

The University of Southern California (USC) is developing a business incubator for new firms which meet the SBA's Small Business Innovation Research grant (SBIR) guidelines. The incubator expects to house 13 firms which will have access to USC's expertise in grant writing and federal contract management as well as university laboratories, graduate students and researchers. USC's incubator program expects to assist tenants in obtaining private financing for their companies when they are ready to leave the incubator. When that happens, they expect the companies to relocate nearby, because of the early ties developed with the university and other businesses there.

Eight miles from USC in Compton, HUB City Development Corporation is developing another type of specialized business incubator. This one is directed towards the retail auto and accessory industry. Now in the early construction phase, the incubator will offer below market rents for commercial and industrial space to keep auto dealers in the Auto Plaza and to attract more dealers to unsold parcels of land in the Plaza. Paid for by a \$340,000 grant from the EDA and \$240,000 grant from the state department of Commerce, the 15,000-square foot building will be home to new firms related to the auto industry, like van conversion and auto upholstery companies.

The Mission Economic Development Association (MEDA), a community-based non-profit organization in the low-income areas of San Francisco, has joined with Printing Industries of North-

ern California (PINC), a trade association, to develop The Center for Printing and Graphic Arts. The Center will house local printing and graphic arts firms threatened by dislocation from San Francisco County, a museum showcasing the printing industries' contributions to the area's social, economic and artistic tradition, an existing employment training and apprenticeship school, sponsored by commercial printing companies and the printing workers union, and incubator space for new printing-related companies.

The Center came out of MEDA's efforts to assist small and minority businesses and to expand employment opportunities for low-income minorities and unemployed residents.

MEDA found employment opportunities in the printing industry, particularly for semi-skilled blue collar workers, were growing, but these companies were being dislocated from San Francisco because of retail and commercial real estate speculation. From 1970 to 1983, the city had lost almost 1700 jobs in the printing industry and \$25 million in annual payroll.

The purpose of the project is to retain blue collar jobs and the special services of the printing industry within San Francisco's local economy. Robert Switzer, Executive Director of MEDA, says "Not only will the center anchor and support the traditions of the printing industry, the incubator portion will house new high-growth firms at the cutting edge of printing technology."

The Governor's Office of Economic Opportunity and private foundations have provided MEDA with support for the organizational effort of the center. The Mayor's Office of Housing and Economic Development has agreed to submit a UDAG application for the project and MEDA is seeking other public and private funding for the development of the four-block \$3.2 million project.

Other examples of business incubator development are in the works in Salinas by the community-based non-profit organization, Community Housing Improvement Systems and Planning Association, in Hayward by the Alameda County Private Industry Council, by Imperial County and in other California communities. One thing is clear, business incubators are a popular tool for economic development, but they often require entrepreneurial developers who can creatively garner support and public and private resources for incubator development despite California's high real estate costs. ■

Business Incubators (continued)

state's leading edge in the development of new products and new businesses."

Dorf also has encountered a great deal of interest in business incubators by California's regional and local officials, but, he says, "there is no formal mechanism to bring these about." He predicts his and Purdy's recommendations will involve a model of public/private partnership for incubator development with minimal financial assistance from the state itself.

Today, California's public officials are including business incubators as part of their overall economic development strategy. Non-profit community organizations, universities, and private developers are joining this effort. But, in using the concept, they are creating new forms of incubator development. Many of the economic conditions present in the northeast and midwest are not found in California. There are few declining industries and fewer vacant buildings which could serve as low-cost space for new businesses. The high costs of real estate, dwindling sources of public subsidies for development and the desire in many cases to retain businesses and jobs in addition to nurturing new ones, all shape California's approach to incubator development.

There is presently one operating business incubator in California and a dozen more in some stage of development. The Lancaster Economic Development Corporation (LEDC) opened its business incubator in mid-February 1985. This

30,000-square-foot incubator, constructed at a cost of \$1.3 million, is a new building located within the city's industrial park on land owned by the LEDC. It was paid for by a \$650,000 grant from the federal Economic Development Administration and funds of the Lancaster Redevelopment Agency, which presently owns thirty percent of the facility.

The Lancaster business incubator rents office and light industrial space at forty cents per square foot, which according to its manager, Vern Lawson, is higher than other rents in the area. "We want to give conventional developers the first shot at business tenants. We're after start-up companies in the business incubator."

Their first tenant, a diamond tool cutting manufacturer, was started by the former manager of a similar company that recently closed its Lancaster operations. The new company now employs 15 people with potential for 25-30 in the next year.

The Lancaster business incubator offers the assistance a new company may need — use of a conference room, copying and clerical services, loan packaging, small business counselling and employee training. They have plans to provide a business library and organize a tenant association. With space for seven tenants, Lawson is now negotiating with four more new companies. Over time, Lawson expects the new companies will move into the industrial park or anywhere in Lancaster as they grow and need more space. LEDC will assist with their relocation when the time comes.

A non-profit development organization in Los Angeles, the United Community Housing Development Corporation (UCHDC), has received a grant from the Local Initiatives Support Corporation (LISC) to study the feasibility of setting up a business incubator in the Alameda Corridor industrial area near downtown. Ira Handleman, consulting on the project, says the project is intended to help small manufacturers survive and to help new businesses get off the ground. "Land values are so high, business retention of light manufacturing becomes a big factor in providing jobs to lower income, blue collar workers which UCHDC represents."

Because UCHDC has had a small business loan and technical assistance program for five years, the business incubator is the logical next step in its economic development strategy. UCHDC's incubator plans to provide management assistance, clerical services, accounting, marketing and loan packaging to new and existing industries. "We don't want all start-ups — we're looking at home-based businesses and women's businesses which may also need space and support to grow."

The biggest obstacle in this development is funding. Says Handleman, "We want to develop the best incubator with the resources available, (but) funding is very difficult for these projects, if there is no government money to subsidize them." As a result, UCHDC has identified several potential private partners including a regional financial institution, a private foundation and the University of Southern California. "We are approaching this as pragmatists and hoping to joint venture the incubator development with private developers."

Another public/private partnership for business incubator development is taking place in San Bernardino County between Chevron Land Corporation and the West Valley Community Development Corporation (WVCDC). Chevron plans to build a 50,000-square-foot, \$1.9 million business incubator in Ontario with the help of city CDBG funds and a county industrial development bond.

After construction, Chevron will then lease the incubator to the county for \$1 a year for seven years. WVCDC, an SBA 503 development corporation, will manage the incubator and offer its on-going loan packaging, grant writing and business assistance expertise to tenants
(continued on page 21)

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Business Incubators: Creating Hatcheries for New Business, Jobs

By Candace Campbell

Innovation in products, ideas and processes, whether by private industry or public officials, is part of the California style. As the locus of inventiveness, California holds a reputation for trend setting. Today, California is applying its entrepreneurial spirit in the adaptation of an increasingly popular tool for economic development: business incubators.

Business incubators act as hatcheries for small businesses. Housed in multi-tenant buildings, they offer small businesses an environment for growth and development. Tenants are often new start-up businesses nurtured by lower overhead costs, shared services and facilities, flexible space and lease agreements, business management assistance, and sometimes debt or equity financing.

Business incubators are designed to combat the two major problems of new business start-ups — undercapitalization and poor business management. Such facilities reduce the overhead costs of new businesses by providing small flexible spaces, support services (typing, phone answering, and copying) and facilities (conference rooms, loading docks and libraries), business management assistance (business planning; accounting, financial planning, marketing) and access to capital through loan packaging, brokering with venture capitalists or providing equity investments in the tenants.

Business assistance is accomplished in two ways — by providing a variety of business consulting services mentioned above and by creating an atmosphere of cooperation among the entrepreneurs themselves. For many new businesses, it is the synergism of the business incubator, created by the creativity and experience

of other new business tenants which contributes to their own company's success.

The concept was born in the research arms of major corporations and universities where new ideas were translated into new business opportunities. However, it expanded as a tool for economic development in the industrial northeast and midwest in response to declining industries and high unemployment.

Over the last ten years, research has pointed to small businesses as the source of most new replacement jobs, the origin of most innovations and the generator of economic growth. In addition, it showed that entrepreneurs and their successful companies generally stay in the community in which the business is first developed. By using business incubators as an alternative to "smokestack chasing," public officials are developing their economies from within — creating

(Candace Campbell is executive director of the Minnesota Center for Community Economic Development, a statewide association of community development corporations, and a graduate student at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis. She surveyed 50 business incubators as part of a study for the institute's Cooperative Community Development program. The study, Business Incubator Profiles: A National Survey is available from the Institute. Attn: Marlene Parkhurst, 267 19th Ave. So., Minneapolis, MN 55455 (612) 376-9996 [\$\$ for non-profit community-based organization, \$15 others.]

an environment for small business growth.

The Small Business Administration now reports over 100 existing business incubators and probably hundreds more in some stage of development in the United States.

They are being set up by city and county governments, non-profit community-based organizations, universities and private developers. However, most have been a collaboration between any or all of these institutions. Their intent is to focus in one site the support mechanisms necessary for new businesses.

Business incubators have been located, for the most part, in old vacant buildings including schools, warehouses, post offices, abandoned factories, storefronts and office buildings. The costs of development have been funded by the Economic Development Administration (EDA), Urban Development Action Grants (UDAGs), Community Development Block Grants (CDBG), industrial development bonds (IDBs), direct state appropriations, financial institutions and private investors.

Given the exploding interest in business incubators in both the public and private sectors, Richard Dorf, professor of public administration at the University of California, Davis, and his partner, Barbara Purdy, are developing an implementation plan for incubator development as consultants to the Office of Small Business in the State of California's Department of Commerce. Dorf says, "In California, we want to stay innovative by nurturing innovation businesses." Accordingly he reports, "the state sees incubator development as an integral part of small business development — it's an attempt to maintain our

(continued on next page)

¹ Estimate based upon payments of two outstanding City loans.

² These funds represent the Community Development Block Grant (CDBG) funded portion of the Agency's financial team consultant contract. A portion of these funds were obligated in 1984.

³ The SHRA Technical Services Division costs are those associated with the inspections for the rehabilitation program with First Interstate Bank.

⁴ The specific amount required has not been established. The City portion is estimated at \$50,000.

⁵ In addition to the \$327,500 from 12th Street, additional funds for the incubator project would have to come from this source.

⁶ There are several potential demands against this fund, including the Meadowview Coordinator, Meadowview/24th Street loan, and additional facade grants.

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CITY ECONOMIC DEVELOPMENT FUND SUMMARY

TOTAL BUDGET

Revenues - By Source or Purpose

1983 Loan Payments	\$ 6,825.87
1983 UDAG Revolving Fund Payment	2,445.83
1983 12th Street programs	327,500.00
1984 Enterprise Consultant	17,000.00
1984 Meadowview Market Study	10,000.00
1984 Del Paso Traffic Study	9,950.00
1984 UDAG Revolving	537.59
1984 Facade Programs	73,422.16
1984 Loan Payments	6,687.78
1984 Economic Development Fund Balance	471.40
1985 Economic Development Fund Balance	405,500.00
1985 Loan Payments ¹	4,686.00
1985 UDAG Revolving	98.40
1985 Del Paso Coordinator	17,568.00
1985 Franklin Coordinator	25,000.00
1985 Stockton Coordinator	12,500.00
1985 Design Services	7,000.00

\$927,193.03
Budget Total

EXPENDITURES

Funds Previously Committed/Under Contract

Enterprise Consultant	\$ 17,000
Meadowview Market Study	10,000
Franklin Coordinator	25,000
Stockton Coordinator	12,500
Del Paso Coordinator	17,568
Del Paso Boulevard Parking Study	9,950
Design Services	7,000
1984 Facade Program	73,422.16
12th Street Economic Development	327,500
Financial Consultants ²	8,000
Technical Services ³	15,000
CDC Administration ⁴	50,000
Total	\$572,940.00

Funds Tentatively Earmarked⁵

1985 Facade Program	\$ 50,000
Commerical Rehab.	154,252.87
Direct Loan Program	150,000
Total	\$354,252.87 ⁶

\$927,193.03
Allocation
Total

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LIST OF ATTACHMENTS

1. City Economic Development Fund Summary
2. Articles on Business Incubators
3. Estimate of Value - Donner School Site
4. Estimate of Syndication Proceeds - McManis & Associates
5. Superior Valley Small Business Development Corporation Proposal
6. Source of CDBG Funds

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development projects (Fund 247; Cost Code 0735) and \$256,000 previously set aside for developer assistance (Fund 247; Cost Code 0730) is hereby approved for use on actual renovation of the Donner School site, and if required, is transferred to a new project, cost center to be assigned for Donner School Revitalization.

Section 4: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, the Executive Director is authorized to execute a contract and/or loan agreement with Superior Valley Small Business Development Corporation, or with a specially formed project-specific partnership or corporation, or directly, with a rehabilitation contractor, in an amount not to exceed \$852,000 (\$246,000 from CDBG funds, Cost Codes 4318, 4291, 4292 and 4293; and \$426,000 from Oak Park Tax Increment funds Cost Codes 0736 and 0730), for renovation of the center subject to such terms and conditions as are deemed appropriate.

Section 5: The Agency budget is hereby amended to reflect the changes indicated herein.

CHAIR

ATTEST:

SECRETARY

z:racsdonner

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RESOLUTION NO. 85-072

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

August 27, 1985



FEASIBILITY ANALYSIS
OF A BUSINESS INCUBATOR PROJECT
AT THE DONNER SCHOOL SITE

WHEREAS the Redevelopment Agency of the City of Sacramento wishes to foster economic growth and job development in the Oak Park area; and

WHEREAS the concept of "Business Incubators" is one which the Redevelopment Agency would like to pursue as a means of obtaining those ends; and

WHEREAS the Redevelopment Agency views the use of surplus government property, such as the Donner School site on Stockton Boulevard, as appropriate in the pursuit of such public objectives; now, therefore

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

Section 1: The Executive Director is authorized to delay disposition of the Donner School site for no more than ninety (90) days pending the outcome of a feasibility analysis which will determine the viability of a "Business Incubator" facility at the site.

Section 2: The Executive Director is further authorized to execute an amendment to the Stockton Boulevard business coordinator contract (Fund 222; Cost Code 4320) with Superior Valley Small Business Development Corporation adding the amount of \$18,000 for funding of the business incubator feasibility analysis, including \$8,000 for preliminary architectural plans, and \$5,000 for preparation of an investment prospectus relating to the Donner School Business Incubator proposal; said funds to be transferred from the Economic Development Loan Pool (Fund 222; Cost Code 4318).

Section 3: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, a total of \$426,000 in Oak Park Tax Increment funds, including \$170,000 previously set aside for

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transferred from funds previously allocated for commercial renovation of 12th Street, totalling \$327,500 (Fund 220; Cost Codes 4291, 4292 and 4293), with the balance from funds previously allocated for economic development loans and grants, totalling \$98,500 (Fund 222; Cost Code 4318). Said funds, if required, will be transferred to a new project cost center.

Section 4: Subject to Agency governing board approval of results of the feasibility analysis and the ability of Superior Valley Small Business Development Corporation to raise the requisite investment capital, the Executive Director is authorized to execute a contract and/or loan agreement with Superior Valley Small Business Development Corporation, or with a specially formed project-specific partnership or corporation, or directly, with a rehabilitation contractor, in an amount not to exceed \$852,000 (\$246,000 from CDBG funds, Cost Codes 4318, 4291, 4292 and 4293; and \$426,000 from Oak Park Tax Increment funds Cost Codes 0736 and 0730), for renovation of the center subject to such terms and conditions as are deemed appropriate.

Section 5: The Community Development Block Grant program budget is hereby amended as follows:

FROM:

- \$ 29,500 Economic Development Fund 222, Cost Code 4318
- \$187,500 12th Street Loan Pool Fund 220 Cost Code 4291
- \$ 75,000 12th Street Rehabilitation Loans Fund 220 Cost Code 4292
- \$ 65,000 12th Street Facade Rebate Fund 220 Cost Code 4293

TO:

- \$ 31,000 Stockton Blvd Com Revit Coord Fund 222 Cost Code 4320
- \$426,000 Donner School Revitalization Fund 222 Cost Code 4222

MAYOR

ATTEST:

CITY CLERK

z:ccDonner

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RESOLUTION NO. 85-654

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

August 27, 1985

APPROVED
BY THE CITY COUNCIL

FEASIBILITY ANALYSIS
OF A BUSINESS INCUBATOR PROJECT
AT THE DONNER SCHOOL SITE

AUG 27 1985

OFFICE OF THE
CITY CLERK

WHEREAS the Council of the City of Sacramento wishes to foster economic growth and job development in the Oak Park area; and

WHEREAS the concept of "Business Incubators" is one which the Council would like to pursue as a means of obtaining those ends; and

WHEREAS the Council views the use of surplus government property, such as the Donner School site on Stockton Boulevard, as appropriate in the pursuit of such public objectives; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

Section 1: The Executive Director is authorized to delay disposition of the Donner School site for no more than ninety (90) days pending the outcome of a feasibility analysis which will determine the viability of a "Business Incubator" facility at the site.

Section 2: The use of \$18,000 in Community Development Block Grant funds from those funds previously allocated for economic development loans and grants (Fund 222; Cost Code 4318) is hereby authorized for funding of the feasibility analysis. Additionally, pending positive outcome of the analysis, \$8,000 for preliminary architectural plans and \$5,000 for preparation of an investment opportunity prospectus is authorized from the same funding source. All such funds will be used as an augmentation to the existing contract with Superior Valley Small Business Development Corporation for business assistance along Stockton Boulevard (Fund 222; Cost Code 4320).

Section 3: Subject to Redevelopment Agency governing board approval of results of the feasibility analysis, and the raising of the requisite investment capital, the use of \$426,000 in Community Development Block Grant funds is hereby authorized for actual renovation of the project. Such funds will be

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- c. The lending of \$426,000 in Oak Park Tax Increment funds set aside for developer assistance for rehabilitation of the structure, subject to the same loan agreement.
- d. Amendment of the Agency budget to reflect these changes.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

Walter J. Slipe
WALTER J. SLIPE
City Manager

Contact Person: John Molloy
440-1360

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

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Commercial insurance premiums for the past several years have been subsidized by investment income. In 1984, after investment income, insurance companies lost \$3.5 billion dollars. As a result of these losses, rates are skyrocketing.

Staff has surveyed other authorities and has learned that they too have experienced either large premium increases or cancellations. In addition, staff has taken action to reduce premium cost by increasing the property damage deduction from \$1,000 to \$10,000.

The increase in premiums were not included in the amended 1985 Agency Budget because the broker had not obtain complete umbrella liability coverage until recently.

Attached exhibit indicates premium cost by funding source.

FINANCIAL DATA

The 1985 Budget for the Agency is increased by \$222,000 for additional insurance premium cost. The attached exhibit I indicates the increase in appropriations by funding source.

ENVIRONMENTAL REVIEW

Environmental review is not required for action on this bond program.

POLICY IMPLICATIONS

The action proposed in staff report is consistent with previously approved policy and there are no policy changes being recommended.

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VOTE AND RECOMMENDATION OF COMMISSION

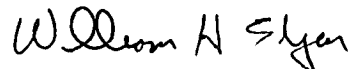
At its meeting of August 19, 1985, the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES: Amundson, Glud, Lopez, Luttrell, Pettit, Sanchez,
Teramoto, Wooley
NOES: None
ABSENT: Moose, Walton, Angelides

RECOMMENDATION

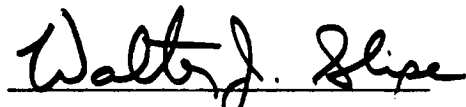
The staff recommends that the Housing Authority and the Redevelopment Agency adopt the attached resolution increasing the 1985 Appropriations for Insurance Premiums.

Respectfully submitted,



WILLIAM H. EDGAR
EXECUTIVE DIRECTOR

TRANSMITTAL TO COUNCIL:



WALTER J. SIPE
City Manager

Contact Person: TERRY L. WOLFORD

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RESOLUTION NO. 85-071

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

August 27, 1985

AMENDING THE BUDGET
FOR THE REDEVELOPMENT AGENCY
OF THE CITY OF SACRAMENTO

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

Section 1: The 1985 Agency budget appropriation for insurance premiums is increased from \$425,000 to \$647,000, a total of \$222,000. The funding source for the increased appropriations shall be in accordance with Exhibit I attached to the resolution.

CHAIR

ATTEST:

APPROVED
z:racsamendbud
attachment
SECRETARY

APPROVED
AUG 27 1985
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

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RESOLUTION NO. 85-036

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO
ON DATE OF

August 27, 1985

AMENDING THE BUDGET
FOR THE HOUSING AUTHORITY
OF THE CITY OF SACRAMENTO

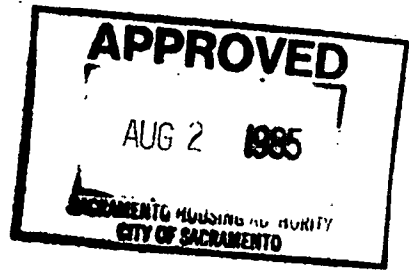
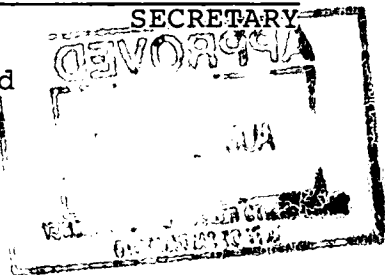
BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF
SACRAMENTO:

Section 1: The 1985 Agency budget appropriation for insurance premiums is increased from \$425,000 to \$647,000, a total of \$222,000. The funding source for the increased appropriations shall be in accordance with Exhibit I attached to the resolution.

CHAIR

ATTEST:

z:hacsamendbud
attachment



SOURCE OF FUNDING INSURANCE APPROPRIATION INCREASE

<u>Fund</u>	<u>Approved Budget</u>	<u>Expenses 1/85 Through 4/85</u>	<u>Projected 5/85 through 12/85</u>	<u>Total Expenses CY 1985</u>	<u>Insurance Appropriation <Increase></u>
Emergency Reserve Fund	3,381	37	236	273	3,108
Cal 5-4 City Leasing	230	36		36	194
Cal 7-3 County Leasing	231	80		80	151
Parking Facilities	63,251	13,294	79,211	92,505	(29,254)
City Conventional	232,645	48,887	294,261	343,148	(110,503)
County Conventional	56,301	11,888	92,107	103,995	(47,694)
Cal 5-20 Development Costs	133	38		38	95
Initial Opr Period Cal 5-20	5,411	1,671		1,671	3,740
Initial Opr Period Cal 5-21	3,950	1,219		1,219	2,731
Initial Opr Per4iod Cal 7-7	4,778	1,474		1,474	3,304
Ping Yuen Center	15,265	3,181	23,376	26,557	(11,292)
Ralph Kennedy Estates	15,601	3,243	17,212	20,455	(4,854)
San Jose Broadway	3,884	1,049	7,192	8,241	(4,357)
8 Scattered Sites	1,609	335	2,089	2,424	(815)
Wildflower	1,867	373	2,424	2,797	(930)
Las Victorianas	3,157	648	5,798	6,446	(3,289)
Oak Park Duplexes	3,907	807	4,381	5,188	(1,281)
Midtown Manor	1,554	356	2,141	2,497	(943)
4 Tax Increment	7,845	1,649	3,015	4,664	3,181
City CDBG 1985 Calendar Year	0	73	261	334	(334)
SHRA County Local Tax Fund	0	37		37	(37)
General Funds	0	548	2,972	3,520	(3,520)
Initial Operating per Cal 7-9	0	161		161	(161)
Initial Operating per Cal 5-23	0	65		65	(65)
	<u>425,000</u>	<u>91,149</u>	<u>536,676</u>	<u>627,825</u>	<u>(202,825)</u>
Community Services		<u>7,975</u>	<u>10,945</u>	<u>18,920</u>	
		<u>99,124</u>	<u>547,621</u>	<u>646,745</u>	

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R. Daniel Hood
1029 F Street
Sacramento, CA 95814

August 27, 1985

Environmental Coordinator
Sacramento Housing and Redevelopment Agency
601 I Street
Sacramento, CA 95814

The following comments pertain to the negative declaration for the Salvation Army Lodge, Homeless Shelter proposal. It is my observation that the initial study is deficient in its analysis of the overall programs related to the proposal. Further study is required before any expenditure of public funds should be committed.

1. The initial study is remiss in its treatment of accumulative effects. The lodge is a single aspect of an overall plan which includes future components as well as enlarging existing components. Taken as a whole, the overall program could cause significant impacts if implemented in a single localized area. The future anticipated programs include additional sleeping shelters for the the homeless, up to 300 beds may be needed during winter months; the convenient location of a detoxification center; and associated services for the disadvantaged. There are many private services already in the area providing for the disadvantaged. CEQA Guidelines specifically require that anticipated, present and past developments both in the public and private sector be addressed, which has not been done. This neglect has left us with a potentially discriminating program for both the host neighborhood and the program participants.
2. Social effects are not given adequate thought in the initial study. There can be shown to be a counterproductive over-concentration of a single sociological class of persons which is related to a cause and effect situation in nearby Alkali Flat Redevelopment Project No. 6. Specifically, in Alkali Flat, it is recognized that rehabilitation of buildings is not enough to redevelop the area. Social programs and social change are crucial to the other programs there; it is simply not adequate to state that there will be an insignificant increase in litter in the area.
3. Traffic and pedestrian flow is a problem on 12th Street. 12th Street is part of the Highway system being Highway 160, in addition to the recognized future route of the light rail. The railroad underpass is a dangerous and narrow avenue for the many people making their way to the proposed site as well as the meal centers in that direction. 12th Street is the only convenient route to the downtown core to where homeless persons must travel to find employment, housing or other services.

Environmental Coordinator
August 27, 1985

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There are many other items of importance which should be addressed, but for time and resources, I cannot undertake at this time. I urge the rejection of the negative declaration and appeal to the governing authority for further study.

Dan Hood

Dan Hood
Resident, Alkali Flat