

Orange County Children's Therapeutic Arts Center

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Technical Assistance Panel Report - Fall 2010
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The **ULI** Mission:

“To provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.”

ULI Orange County/Inland Empire

Phyllis Alzamora, Executive Director
Kendra Chandler, Manager, Programs & Development
c/o Brandman University
16355 Laguna Canyon Road, 1st Floor, Room 35
Irvine, CA 92618
phone: (949) 585-2995
email: orangecounty@uli.org
web: <http://orangecounty.uli.org>

Report Design

Noah Christman, Associate, FUZE | Community Design
Yolanda Sepulveda, Director, FUZE | Community Design

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INTRODUCTION

*“The Orange County Children’s
Therapeutic Arts Center
(OCCTAC) is a...community-based
arts organization dedicated to
education and empowerment of at-
risk youth and children with special
needs of limited resources.”*

On September 17, 2010, the Urban Land Institute (ULI) Orange County/Inland Empire’s Young Leaders Group (YLG) conducted a pro bono Technical Advisory Panel (TAP) for the Orange County Children’s Therapeutic Arts Center (OCCTAC) based in Santa Ana, California. The pro bono TAP program provides non-profit organizations, like OCCTAC, with a tool to solve real estate and land use problems in a uniquely objective way. At the same time, the TAP provides ULI members a means to give back to their communities and helps promote ULI’s mission of providing responsible leadership in land use and creating and sustaining thriving communities worldwide.

The Orange County Children’s Therapeutic Arts Center (OCCTAC) is a 501(c)3 community-based arts organization dedicated to education and empowerment of at-risk youth and children with special needs of limited resources. The Center is seen by many as a focal point of therapeutic arts services for children and youth in Orange County. It is also the first and only arts organization in Orange County to offer unique programs that combine arts, academics, and creative therapies to help youth reach their highest potential. The center was founded in 2000 by Dr. Ana Jimenez-Hami, who set out to create a place that focused on the arts as a vehicle to empower youth in Orange County. OCCTAC first started with after-school music and arts classes to children with special needs. One year later, the Center expanded its’ mission to provide services to typical children and at-risk youth due to the high need in the community, and lack of artistic programs for underprivileged families. Over the last ten years, the organization has grown tremendously and has expanded its’ level of services offering educational, therapeutic, and other support programs for culturally diverse families with a wide range of socio-economic backgrounds.

In early 2010, the ULI Young Leader’s Group began looking for a local charitable organization with specific needs related to a complex land or real estate issue. While several applications were received, OCCTAC had specific land use and real estate related issues and questions that presented a unique and challenging project that would require the objective analysis of Panelists from a variety of real estate disciplines.

The Report that follows is a response to OCCTAC’s Scope of Work (defined later in this report) that both addresses OCCTAC’s key real estate and land use related questions and makes recommendations that are intended not only to help OCCTAC but any other organization who may face similar real estate related questions.

SUMMARY OF TAP



The ULI Orange County/Inland Empire Young Leader Group conducted a pro-bono TAP in order to provide solutions and make recommendations to OCCTAC. Several months prior to the TAP day, the Community Outreach Co-Chairs of the YLG—Ludmilla Schappert and Michelle Thrakulchavee—met with the sponsor, Orange County Children’s Therapeutic Arts Center to develop and define the Scope of Work. It was important that the Co-Chairs understood clearly OCCTAC’s issues, vision and objectives so that relevant solutions and recommendations could be made.

After the Scope of Work was defined and OCCTAC’s objectives were clearly articulated, a call for TAP Panelists with real estate expertise and an interest in giving back to the Orange County community was made. More specifically, volunteer Panelists were sought who had experience and expertise in the following areas:

- » *City Planning*
- » *Building and Safety (Engineering)*
- » *Architecture and Interior Design (preferably with LEED Certification)*
- » *Finance and Acquisitions*
- » *Market Trends and Demographics*
- » *Construction and Development*
- » *Project Management (ideally with permitting and entitlement expertise)*

Once the YLG TAP Panelist team was assembled, each Panelist received a packet of information on OCCTAC highlighting their vision and mission. Additionally, each Panelist was encouraged to visit OCCTAC’s webpage (www.occtag.org) in order to familiarize themselves with the organization, the services provided, and the abundant programs offered to “at-risk” children and their families.

With the help of the Executive Director and Chief Operating Office of OCCTAC and other ULI members, the Community Outreach Co-Chairs created and compiled a list of ‘Community Experts’ and key ‘Stakeholders’, organizations, and institutions who could offer advice, support, recommendations, knowledge, or ideas to the Panelists as it relates to OCCTAC’s Scope of Work.

A “Panelist Kick-Off Meeting” outlined what the following three months leading up to the TAP would entail, and each Panelist was encouraged to reach out to the experts provided on the compiled list during this due diligence period. Most Panelists found it

both beneficial and necessary to contact several more, pulling from their own rolodex of colleagues, friends, and in some cases, family. Many Panelists went above the call of duty and met with several Community Experts in person, in addition to phone and email conversations.

In the months leading up to the TAP, several site visits to both OCCTAC's current facility as well as the proposed "new" location were arranged. The first site visit was scheduled for all Panelists to attend as a group. The Panelists met at OCCTAC's current facility located in Santa Ana, California and were given a tour of their current space. The site visit was led by Dr. Ana Jimenez-Hami, Founder and Executive Director and Dr. Gail Arriola-Nickell, Chief Operating Officer. This site visit was the perfect opportunity for Panelists to understand the space and idea of the Center and more specifically, the needs of OCCTAC.

The other critical site visit for the Panelists included an existing structure OCCTAC envisioned purchasing: a historic building located in downtown Santa Ana. The Panelists met as a team at the site and toured both the inside of the historic building as well as the surrounding area. That visit alone, provided several key insights and was a critical component to the Panelist's due diligence.

The TAP was held on September 17, 2010. "Expert Interviews" were conducted during the first hour of the TAP which gave Panelists one final opportunity to ask questions and get clarification on any earlier conversations or due diligence conducted. The interview was conducted in a group setting and was formatted in a way that allowed loose conversation in a "round table" format. The Community Experts who participated during the interview hour included:

- » Michael Ruane, Executive Director – Children and Families Commission of OC
- » Jeff Stevens, LEED AP – Danielian Associates
- » Frank Dominguez, Strategic Consultant for local Non-Profits

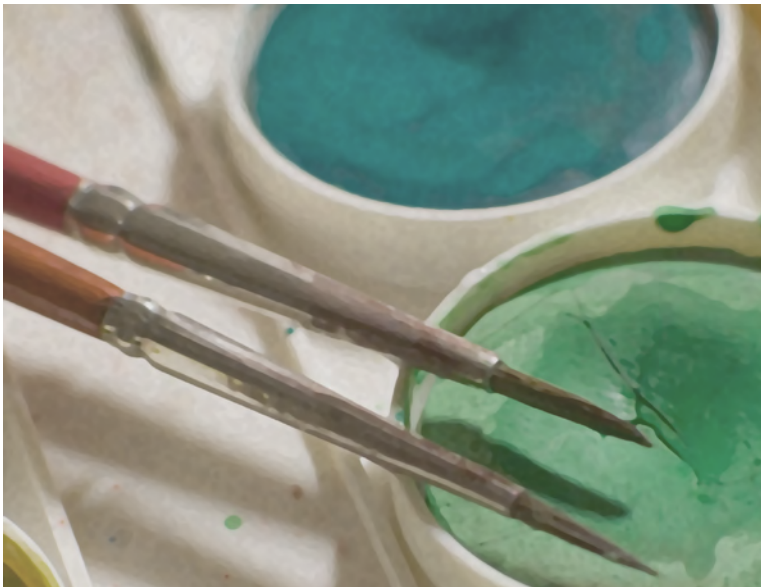
The balance of the day involved Panel Working Sessions where Panelists both recapped observations from the interview session as well as all due diligence and site visits conducted prior to the TAP. Following this reconnaissance, the Panel discussed the Scope of Work and formulated findings and recommendations. As each bullet point from the Scope of Work was discussed, copious notes were taken as a PowerPoint presentation was created. The notes would be used to create a detailed Written Report that would be delivered to OCCTAC following the TAP. The PowerPoint Presentation was used during the last hour of the TAP when the Panelists presented the findings and recommendations to OCCTAC and their invited guests.

The findings, recommendations, and answers to the Scope of Work are found within this Written Report. Each item is specifically addressed with exhibits, tables, maps, graphs, and often pictures. The last section of the report includes a Recommendations section that specifically outlines the key recommendations for OCCTAC. The intent of the YLG team was to address the Scope of Work created by OCCTAC, provide analysis to the feasibility of their vision, and make key recommendations to the organization.



"In the months leading up to the TAP, several site visits to both OCCTAC's current facility as well as the proposed "new" location were arranged. This site visit was the perfect opportunity for Panelists to understand the space and idea of the Center and more specifically, the needs of OCCTAC."

SCOPE OF WORK



Summary of the Problem

In its initial application OCCTAC stated it, “is continuing to grow rapidly and needs a new space. We have targeted a facility in foreclosure, but acquisition is still in progress. We either need (in order of priority) to:

01. Understand if the targeted facility is financially and physically feasible;
02. Locate an existing and available alternate facility;
03. Acquire land, design, and build a new facility at a targeted location; or
04. Redesign the current facility.”

The YLG decided to focus on the first item, listed above as it was OCCTAC’s favored solution to their growing pains.

At the start of the Panelist’s due diligence period, OCCTAC already identified and targeted a potential new facility for the Center. They hoped to relocate to in an old historical building located in the Artist’s Village of downtown Santa Ana, California. They considered this building the absolute “perfect” solution to OCCTAC’s growing pains. Adamant that the Artists Village building was the “perfect location and building” for OCCTAC to relocate to, the non-profit needed help analyzing not only the financial feasibility of purchasing the Artists Village building but also the physical feasibility. While OCCTAC was also open to both a ground-up development of a new facility as well as a redesign of their current facility, the TAP Panel decided to focus on analyzing the feasibility of an acquisition of OCCTAC’s “perfect” building: the Artists Village Building.

The building, located at 207 W. 2nd Street, was formally the Southern California Gas Company Building, built in 1923. It has significant challenges and issues for a variety of reasons, including its historical landmark designation in the downtown Santa Ana Historic District. Additionally, it was severely damaged, unkempt, and not to code. At the time of the pro bono TAP, the building was being offered for sale or lease by a bank that had foreclosed on the property. A broker was hired by the bank to manage the sale and disposition of the property and OCCTAC was considering submitting an offer to purchase. However, OCCTAC’s interest in the property started well before the bank’s ownership of the building. In fact, OCCTAC had submitted offers directly to the building owner prior to the foreclosure to which the owner declined.

As the Executive Director of OCCTAC admitted, it was pre-mature to submit offers to purchase this building when the organization had very little understanding of the

physical, financial, and political challenges. While they believed that relocating to this building may have some “minor” challenges, they weren’t certain of the extent and truly lacked the real estate expertise needed to evaluate such a purchase. While certainly not all of the questions OCCTAC had, some of the initial questions and concerns expressed by OCCTAC included the following:

- » *What are the parking requirements and is it possible to acquire the adjacent property?*
- » *What is the city’s Redevelopment Plan for this area?*
- » *What does the General Plan and Zoning allow and what does it mean for OCCTAC?*
- » *What are possible energy savings that we can utilize and can we improve the building to LEED standards?*
- » *What are the environmental issues and how do we deal with those?*
- » *How do building permits on historical buildings work?*
- » *How do we retrofit this building and what are the costs associated with it?*
- » *How do we negotiate with a bank and use the broker hired to purchase this property?*
- » *Will our facility complement the area and will we retain our current youth and families?*

From the initial list of questions and concerns, the Community Outreach Co-Chairs and the key decisions makers at OCCTAC sat down together and brainstormed a comprehensive list of issues, concerns, questions, etc. What came of that brainstorming session is the Scope of Work.

The ultimate goal of the TAP is to address each item in the Scope of Work and to offer recommendations to OCCTAC. Ultimately, the YLG TAP members sought to create and provide a viable strategic plan for OCCTAC to utilize as they make key decisions regarding their growth.

Issues Addressed by the Panel

At the onset of ULI’s involvement, the team identified the key topics and issues that would be addressed during day of the TAP. Ultimately, the following served as the Scope of Work and framework for the recommendations given to OCCTAC.

Goal: To assess the feasibility as well as the short- and long-term use of one possible Santa Ana location and to establish a blueprint in targeting the ideal for-lease property in Santa Ana for The Orange County Children’s Therapeutic Arts Center (OCCTAC).

Available Location: Artists Village Building (207 West Second Street, Santa Ana, CA 92701)

01. Building Constraints & Considerations

- a. Parking Requirements*
- b. Environmental Impact & Possible Hazards*
- c. Historical Building*
- d. Necessary permits (i.e. building permits, special use permits, etc.)*
- e. General Plan, zoning, and land use considerations*

02. Location Analysis & Social Benefit to Local Area

- a. Proximity to user base*
- b. Adjacent uses*
- c. Local area*
 - i. Artists Village vs. California Endowment area*
 - ii. Examine existing social problems*
- d. Impact on city’s overall plan/vision for the area (i.e. Redevelopment Plan)*

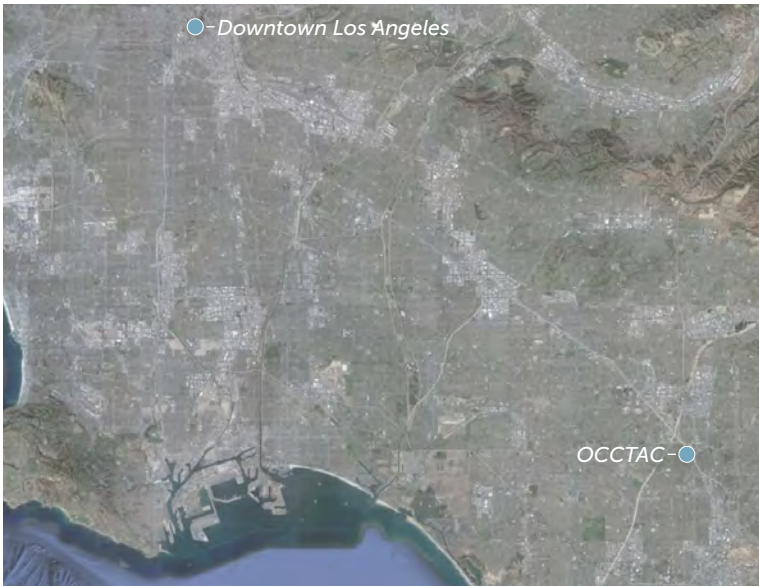
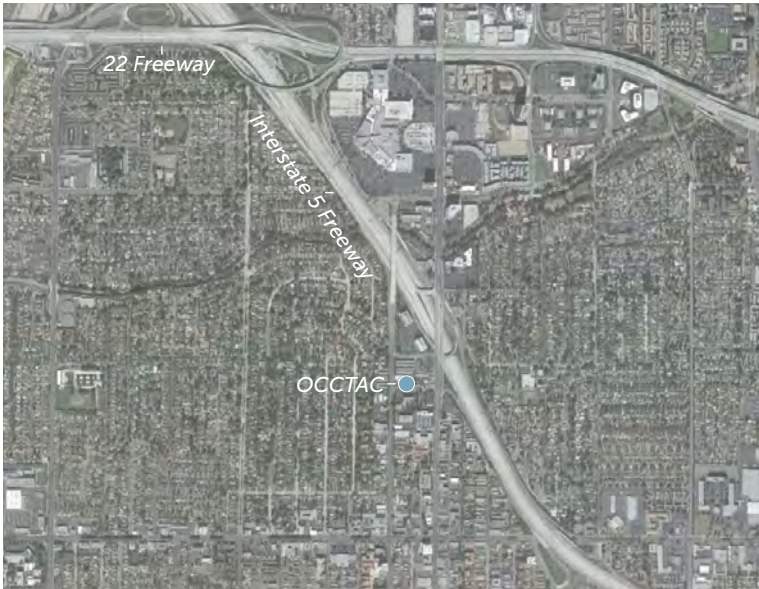
03. Site and Building Design

- a. Examine functionality of the Artists Village building and whether it supports future growth for OCCTAC. What type of building should OCCTAC pursue?*
- b. What energy savings applications can be utilized?*
- c. Efficient interior architecture and interior design*
- d. Building Renovations and Retrofitting*
- e. LEED and ‘sustainable’ and/or ‘green’ building considerations*

04. Financial Structuring/Cost Analysis

- a. Cost to Acquire Sites vs. Cost to Lease*
 - i. Short term and long term financial implications*
- b. Cost of Renovation & Improvements*
 - i. Compare/contrast impact on possible renovations on budget*
- c. Community Reinvestment Act*
- d. Financial impact to OCCTAC & City of Santa Ana*
- e. Examine additional sources of funding*

LOCATIONAL ANALYSIS



With about 340,000 residents, the Santa Ana is the 9th largest city in the state, and 55th largest city in the country. Its demographics tell a story of great diversity, and a short tour offers images of change. Most notably, the 150 year old downtown area, which has been a Latino retail destination for much of recent history, continues to evolve. Influenced by both the City's desire to revitalize the downtown through land use planning featuring live/work lofts, art studios, and an infusion of new restaurants and retail, "Downtown Orange County" has begun to take on a new image. Additionally, several neighborhoods surrounding downtown are experiencing a demographic shift from being areas of immigrants, to areas of second, third, and fourth generation Hispanic families. Aided by increased police presence, a strong non-profit network and City social service programs, and an influx of residents seeking a more urban lifestyle, Santa Ana's core has become a success story for community investment and redevelopment.

OCCTAC students reside throughout Orange County, and even in southern Los Angeles County. Offering a wide range of classes and activities at an affordable price point cannot always be found elsewhere, and OCCTAC draws people from more than 40 miles away. The following map illustrates concentrations of OCCTAC students by zip code, and though the attraction is indeed regional, the primary users are focused within a closer proximity.

OCCTAC Families

The following chart offers basic demographic information for Orange County, as well as three selected Santa Ana Zip Codes that contribute the greatest number of students to OCCTAC.

As shown in the table, despite the changing tides in downtown, the city also tells a story of continued distress. Some key deviations from the county average can be seen in the zip codes that contribute the largest number of students to OCCTAC.

- » Average household size is significantly larger – up to 77% higher than the county average, indicating the presence of children in most homes.
- » Overall, the percentage of renters vs. owners is higher, typical of lower income areas.
- » Median age is up to ten years less than the county average, again indicating a young population of families.
- » Household incomes - and as a result of larger family sizes per capita incomes - are significantly lower than the average Orange County household.

	Orange County	92703	92701	92706
Population	3,094,706	71,107	62,106	39,153
Households	990,716	12,457	12,609	9,594
Families	712,909	10,925	10,380	7,673
Average Household Size	3.08	5.47	4.87	4.02
Owner Occupied Housing Units	598,457	6,388	3,366	5,101
Renter Occupied Housing Units	392,259	6,069	9,243	4,493
Median Age	35.0	26.9	24.7	28.6
Median Household Income	79,718	53,860	43,439	62,402
Per Capita Income	33,189	12,343	11,939	19,623

^ *Demographics of OCCTAP User Zip Codes - 2010 Population Statistics*
source: ESRI

Certainly proximity plays a large role in predicting OCCTAC users. We can further speculate that these households lack the financial resources to put their children in other programs or classes that provide arts. Whatever the reasons, OCCTAC serves a clear base of users; and with nearly 1,700 students, it is fulfilling a community need.

Santa Ana residents as a whole face several challenges. Overall, the city has the highest percentage of low and moderate income residents of any city in the county – 69% of the residents. Roughly 17% of the residents are living at or below the national poverty level.¹

According to Federal Bureau of Investigation statistics, violent crime levels in Santa Ana are the highest in the county. Even compared to the similarly sized City of Anaheim, the sheer volume of violent crimes in Santa Ana is more than 45% higher. It's also the only city to have murder and non-negligent manslaughter in the double digits – 25 in 2009, while Anaheim had only 9.

Children in Santa Ana, and particularly those that are representative of OCCTAC's three key zip codes, are at particular risk. Education is commonly acknowledged as a way for people to improve their income levels, but the Santa Ana Unified School District consistently has the lowest Academic Performance Index (API) Scores in the county. Further, less than half of the childcare needs in the county are met.² Of the accredited³ pre-schools within ten miles of OCCTAC, only three are located in Santa Ana. According to one staff member who teaches the reading and homework lab Monday through Thursday at OCCTAC, the program has quadrupled in size over the last four years, and all participating children are from Santa Ana and are learning English as a second language.

The national Center for Education Statistics reports that lower-income Hispanic children are more likely to be put into kindergarten before they are ready in order for parents to obtain childcare. As parents struggle to pay rent, childcare can also mean relying on friends or family that may have several other children to supervise, or leaving older kids home alone after school. Without attention and direction, children in these circumstances are at higher risk for drug and alcohol use, crime-related activities, and gang involvement.

Arts programs have been cut from schools nationwide, and those serving lower-income students generally have fewer resources from which to raise outside funds and provide these programs. According to Patricia McMaster, Director of Community Programs at the Orange County High School for the Arts (OCHSA), most incoming students - who must audition to be accepted - have obtained training in the arts outside of school through such mechanisms as private lessons, community theaters, and church groups. OCHSA also offers several free programs for younger children. These programs have increased dramatically in size in a short period of time due to the great need for arts programs for kids. Currently, only about half of the 1,000 students that want to participate are able to due to several constraints.

1 OC Children & Families Annual Report, 2009.

2 Ibid.

3 Accredited preschools must achieve certain educational standards. Other, non-accredited preschools are located in Santa Ana.

	Population	Per Capita Violent Crime Rate	Per Capita Property Crime Rate	Violent Crime	Murder & Nonnegligent Manslaughter	Forcible Rape	Robbery	Aggravated Assault	Property Crime
					Violent Crime Detail				
Santa Ana	339,196	0.0051	0.0200	1,726	25	77	869	755	6,798
Fullerton	132,478	0.0040	0.0289	526	2	44	189	291	3,824
Stanton	37,583	0.0036	0.0164	135	3	5	56	71	617
Laguna Beach	24,019	0.0036	0.0218	86	1	11	9	65	524
Anaheim	335,970	0.0035	0.0238	1,184	9	72	504	599	7,993
La Habra	59,120	0.0034	0.0209	200	3	12	66	119	1,236
Garden Grove	165,837	0.0033	0.0199	541	6	34	167	334	3,306
Buena Park	79,525	0.0031	0.0249	247	2	12	127	106	1,982
Westminster	89,057	0.0030	0.0262	265	0	14	93	158	2,331
Costa Mesa	110,150	0.0028	0.0301	304	1	27	114	162	3,321

^ Crime Data by City - 2009 Statistics

source: Federal Bureau of Investigation Uniform Crime Reports

Importance of the Arts

It's a dire picture in many ways – low incomes, a large number of school-aged children, a high crime rate, and an underperforming school district; these conditions create a classic picture of a community in trouble. However, these statistics don't tell the whole story. They don't tell the story of decreasing crime rates or innovative gang-prevention units.⁴ While Santa Ana Unified School District's API scores are still low, they are on the rise.⁵ They certainly don't convey that a small, but critical, portion of this community is being exposed to guitars, Polynesian dances, group music therapy, and visual arts computer programs in a small office building off the freeway.

Why this is important:

- » *Children involved in Arts remain in school. This means better jobs, higher wages, and a more educated approach to problem solving.⁶ OCHSA students, for example, have a very high college acceptance rate.*
- » *High school dropouts face a 25% unemployment rate – significantly higher than the national average even in the current economic climate.*
- » *Structured arts programs provide attachment, meaning, and social connectivity for at-risk youth. A primary reason youths join a gang is the sense of belonging it provides. This can be replaced through the arts. Resulting lower crime rates mean more retained income, higher property values, and happier families.*

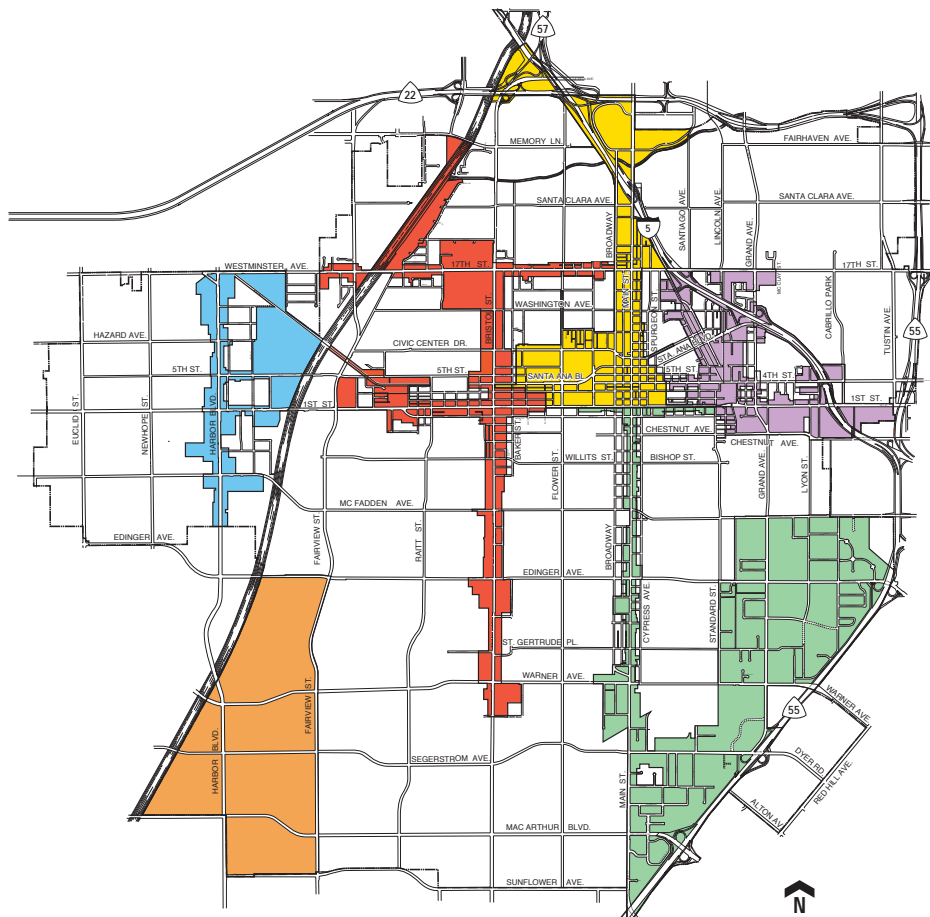
- » *Kids can satisfy need for risk and adventure through performance, which is also a substantial deterrent for gang involvement.*
- » *Children are most likely to commit crimes or be killed in accidents between the hours of 3 and 6pm. If they are occupied elsewhere, such as a homework lab or dance lesson at OCCTAC, they remain safe.*
- » *Youth not involved in non-school activities receive no practice in planning for the future.*

OCCTAC is already achieving success with its students. It provides an essential opportunity for students to participate in the arts, and as a result, these programs contribute to lower crime rates, increased educational achievement, and improved life skills.

* 4 Thomas Serafin, Santa Ana Police Department.

* 5 Michael Ruane, OC Children and Families.

* 6 The Power of Art, Prepared by Susan Anderson, Nancy Walch, and Kate Becker for the California Endowment.



^ Redevelopment project areas within the city of Santa Ana. The areas are color-coded as follows: Yellow - Central City, Blue - North Harbor, Violet - Intercity, Green - South Main, Orange - South Harbor, and Red - Bristol.

Redevelopment Project Area

A redevelopment project area is a specific area within a city or county that is established by a redevelopment agency. OCCTAC is currently located in a redevelopment project area. The redevelopment agency has certain powers and finance capabilities that a city or county may not have. Redevelopment in California is clearly defined in the Health and Safety code, but the important things to note about locating in a redevelopment project area are as follows.

- » Location in a redevelopment project area does not increase taxes.
- » A portion of property tax revenue within a redevelopment project area is diverted from the city's general fund to the redevelopment agency for use within the project area. This means that the diverted revenue (called "tax increment") that is produced by the project area must be spent in the project area.
- » Tax increment must be used to alleviate blighting conditions – both physical and economic. Therefore, redevelopment agencies must create a plan to eliminate blight through use of tax increment. This plan is updated every five years and is called an Implementation Plan.⁷
- » Redevelopment agencies undertake all kinds of projects and programs to alleviate blighting conditions. Capital improvements are one of the most traditional uses of funds – everything from new sewer lines to improved sidewalks and streetscapes. However, some agencies also offer building improvement programs from time to time – facades, signs, etc.
- » Redevelopment agencies are also the second largest funding mechanism for affordable housing in the state – only the federal government produces more. As OCCTAC serves many lower income families, location in a redevelopment project area could be an advantageous partnership where OCCTAC remains within close proximity of its primary users and provides an active, vibrant use in an area seeking revitalization.

⁷ Santa Ana's Implementation Plan can be reviewed at <http://www.ci.santa-ana.ca.us/cda/documents/SAImplePlanFINALFINAL.pdf>

BUILDING & LAND USE CONSIDERATIONS

“The site considerations should include: 1) Zoning; 2) General Plan; 3) Specific Plan; 4) Economic designations; 5) the surrounding uses; 6) accessibility; 7) historical designation of the property; and 7) the environmental history of a site.”

The previous section provides a snapshot of Santa Ana’s demographics, the need for OCCTAC’s services and the social benefits they provide. Regardless of whether OCCTAC remains in the City of Santa Ana or relocates to another jurisdiction, there are some basic building and land use considerations which must be assessed for any location that is considered. Although the specific requirements of each jurisdiction will vary the basic framework is the same.

The site considerations should include: 1) Zoning; 2) General Plan; 3) Specific Plan; 4) Economic designations; 5) the surrounding uses; 6) accessibility; 7) historical designation of the property; and 7) the environmental history of a site.

Zoning assigns land uses (commercial, residential and industrial) on a parcel by parcel basis based on the City’s General Plan. The purpose and importance of the General Plan will be discussed later. Zoning establishes the development standards which include: allowed uses, building height, minimum yard depths, minimum lot size, parking requirements, floor area, lot coverage, etc. All applicable development standards should be evaluated; however, the very first factors to consider are:

01. What is the Zoning designation of the site and is the proposed use allowed?; and
02. What is the city’s parking requirement and does the existing parking on-site comply?

The zoning designation identifies uses which are allowed by right and others which require discretionary approval such as conditional use permits (CUP). There are also those uses which are prohibited. Generally, zoning ordinances are written to be prohibitive. In other words if a use is not listed as being permitted it is prohibited. With that being said, a zoning ordinance is not comprehensive in enumerating every permitted use, which may leave room for interpretation by planning management or senior staff to allow uses which are deemed similar to those enumerated in the Code

Schools, childcare, and tutoring centers are uses commonly found in the zoning ordinance but don’t quite fit the services provided by OCCTAC. In the absence of the code providing a general use for a non-profit service provider it is critical for OCCTAC to work with planning staff to gain an understanding of how the organization would be classified and determine which zone(s) it would be allowed in (either by right or

subject to the approval of a discretionary approval). In practice this process would be aided by OCCTAC preparing a detailed written description of the organization's operating characteristics (types of services, hours of operation, number of students, pick-up and drop-off policy, etc.) and providing it to planning staff for consideration. When a specific site is identified a rudimentary site plan and floor plan should accompany the description.

Planning staff can be a valuable resource and fostering a working relationship can be helpful to navigating the entitlement process. It would be advisable to have a designated member of the organization or consultant who has a working knowledge of real estate development, planning, and/or architecture to act as the organizations liaison with the City.

Although many uses may be permitted by right, in practice a use that it otherwise allowed could trigger a discretionary review particularly when the new use is deemed an intensification to the prior use which occupied the site. For example, if the previous use was an insurance office and the new use is a fast food restaurant there would be an increase in the parking required and vehicle trips generated to and from the site. Therefore, even when it appears the use is allowed by right a consultation with the City's Planning Department is essential because other factors may trigger additional fees or render the site impractical.

Case Study Spotlight: Artists Village Building

The Artists Village is located in the Downtown Center Zone (Transit Zoning Code adopted in June 2010). The Downtown Center Zoning allows for schools and "community assembly uses" within the Downtown Center Zone but only on second and upper floors, or behind retail or service ground floor storefront uses.⁸ It is unclear whether OCCTAC could be classified as a community assembly use so the organization must consult with city staff.

As explained by Santa Ana Planning staff, the Downtown Center Zone in which the case study site is located is unlike others zones in that it is intended to allow for a change of use within existing buildings without the need for providing additional parking. This relieves the need for providing additional parking. However, from a practical point of view it is important that the site functions for OCCTAC's users. OCCTAC should consider the parking needs and the sites ability to facilitate the loading and unload children as this is critical to the safety and convenience to those families it serves. The Artists Village Building has pay parking lots and metered street parking with limited areas for street side loading. The additional parking cost could be burdensome to the families OCCTAC serves. Additional site consideration should be given to whether an area is walkable for families with young children, is easily accessed by transit and freeway as well as the compatibility with surrounding uses.

The uses adjacent to the case study primarily consist of galleries, restaurants, and bars.

Entitlement Process Overview

Whether leasing or buying the next location it is important that the OCCTAC understand the City approval process. When an entitlement approval is required these are often discretionary and no implied approval can be assumed. Therefore, OCCTAC should ensure that their area provisions to "opt out" of a lease or purchase particularly when a discretionary approval is involved.

Every city in California is required to have a General Plan. The General Plan serves as a "blueprint" for future development within a City. The General Plan must address a minimum of seven elements. One of the seven elements is land use. A General Plan land use element designates the general location and intensity of housing, commercial (retail), industrial, open space, public buildings, etc. within a city. In addition, the General Plan establishes goals, objectives, policies, and programs as it relates to a city's development and the seven elements. The goals, objectives and policies play a significant role in a City's land use decisions; if a proposed project or use is not consistent with the General Plan then it must not be approved.

A General Plan should be reviewed for goals, objectives, policies which may support an applicant proposed project. The General Plans can be obtained from the Planning Department and/or may be available online. The case study location on Second Street has a general plan land use designation of District Center.

Specific Plans are used to define a vision for a subarea within a City. It offers more detail than a General Plan and also articulate goals and objectives for the defined area. The goals and objectives may be used to support or oppose a proposed project. Therefore when a project is located within a Specific Plan it is particularly important to review these documents when a discretionary approval is required to ensure that the Specific Plan supports the proposed use. In the case of the Artists Village Building, it is located within the City's Renaissance Plan area. The objective of the Renaissance Plan is to intensify the uses within the area is illustrated by the goals to 1) expand retail and restaurants use hours and 2) maximize the active ground floor.

⁸ Transit Zoning Code is available online at http://www.ci.santa-ana.ca.us/pba/planning/documents/3.Zones_Established_and-Uses.pdf



Redevelopment Areas/Empowerment Zones

It is also important to determine whether a particular site is located within a Redevelopment Area or an Empowerment Zone. The incentives of locating with an Empowerment Zone for a for profit business are the tax benefits. However, for OCCTAC the benefit of locating within these areas may be realized from the fact that these areas often receive priority from lenders. There are other potential benefits to locating with a redevelopment area. A redevelopment agency must invest a portion of the property tax back into the project area. This reinvestment can take the form of city programs such as façade improvement programs or capital investment such as infrastructure projects. Over the life of the redevelopment project the result of this investment should be improved conditions and rising property values for the area.

Historic Designation & Significance

There are different levels of historic designation local, state and federal. Generally, a building with a historic designation will mean additional construction cost and processing time when compared to a property that is not deemed historically significant. The criteria and requirements for each is different so it is important to verify whether a building is listed on the National Register of Historic Places, with the California Office of Historic Preservation, or has a local designation of historic significance.

The Artists Village Building has a Federal, local and state designation of historical significance. The City has designated this property a “Landmark.” The historical significance of this building is largely attributed to the pristine condition of the building’s exterior which exemplifies Georgian Revival Styling (Georgian Period 18th Century in the United States and Great Britain). It is considered one of the best examples of this architectural style in Orange County. This historic designation will limit the modifications that can be made to the building’s exterior in an effort to maintain the historic architectural integrity of the structure. The defining features which should be preserved but may not be limited to the following: building massing and organization, roof configuration, materials and features; variegated brick exterior walls, and other finishes, architectural detailing, including frieze (which bears the name “Southern Counties Gas Company”, piers, keystones, window and door framing; arched opening; and original glazing.

Notably the building also has a façade easement held by Heritage Orange County. Any improvements or modifications to the building would have to be approved by the Historic Resources Commission.

Adaptive Reuse

OCCTAC's next location will likely entail the adaptive re-use of an existing building. Adaptive reuse is the repurposing of a building or site for a purpose than was originally intended. With the reuse of many existing buildings comes the potential to inherit unknown environmental hazards. It is important as an organization that it completes its due diligence in all areas including potential environmental hazards.

Environmental Reports

Commissioning a Phase One Environmental Report can offer a cursory review of potential environmental concerns related to a property. This report can be important for several reasons including that a buyer, lessor, or lender (including state and local governments) can be liable, by virtue of property ownership, for remediation of hazardous substances in the soil and/or groundwater underlying a site, even if the prior property owner caused and/or contributed to the contamination. Completion of a Phase I represents due diligence and provides an "Innocent Landowner Defense" for a prospective property purchaser or lenders. Additionally, since OCCTAC's primary function is providing services to young children who are sensitive receptors whose health and well-being may be more vulnerable to harmful effects of environmental toxins.

Case Study Spotlight: Artists Village Building

A preliminary investigation of The Artists Village revealed that 207 W. Second Street and the abutting parcel to the east (212 Sycamore Street) are subject to a voluntary site cleanup of soil contamination that is being overseen by the Department of Toxic Substance Control. The past use of the site as a manufactured gas plant and electrical substation were the root cause of the site contamination. Historically, town glass plants were the primary source of heating and lighting in the 1900s. The elevated levels of contaminants are byproducts that are consistent with the manufactured gas plant operations. The site was built and operated by Santa Ana Gas Works in 1887 and operated through 1906. The site was next operated by Edison Electric Company, predecessor today's Southern California Edison (SCE). SCE most recently utilized the vacant lot as an electrical substation which was decommissioned in 2005. The contaminants found on the site include but are not limited polycyclic aromatic hydrocarbons (PAHs), volatile organic compounds (VOCs), heavy metals (arsenic and lead), benzene and toluene.

According to the Department of Toxic Substance Control (DTSC) records cleanup of the case study site was completed in August of 2009. However, the soil remediation (cleanup) work on the vacant parcel is on-going.⁹ DTSC did clarify that a part of the remediation on the vacant parcel would be the construction of a cap or barrier making the use of this site as a garden unfeasible. The DTSC reports are available online and can be used to provide a preliminary assessment of potential environmental concerns on a property. However, in no way should the DTSC website information or the Panels discussion of the case study be considered a comprehensive analysis and be used in lieu of a Phase One Report.

⁹ Department of Substance Control Website is www.envirostor.dtsc.ca.gov/public/search.asp. Reports related to the Case Study site can be found by searching for Envirostor Id No. 30490110

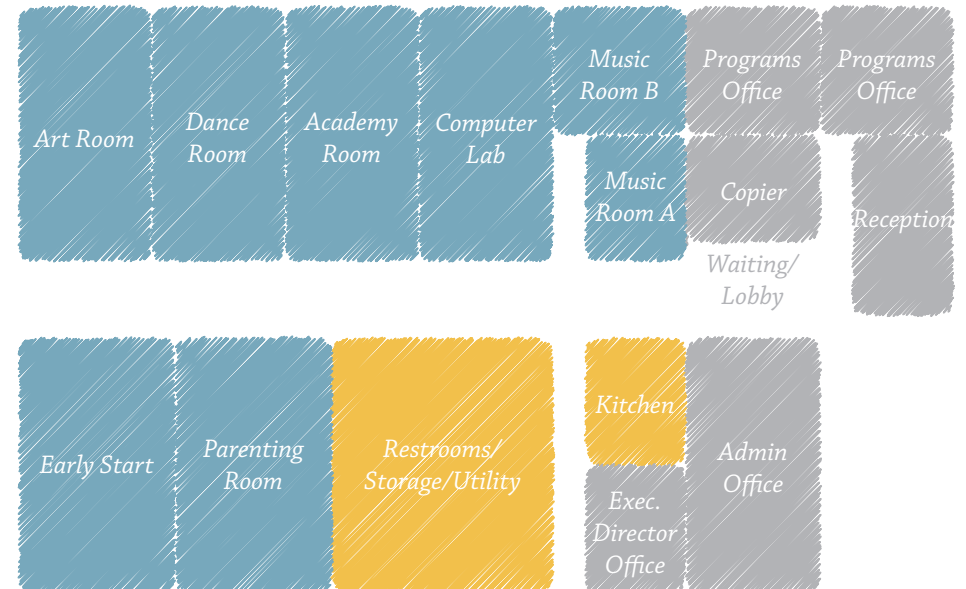
SITE & BUILDING DESIGN

“Ensure all parties understand their obligations before commencing work by having a well written and thorough contract.”

It is more important now than ever to perform the necessary due diligence prior to choosing your design and construction team. Ensure all parties understand their obligations before commencing work by having a well written and thorough contract. There are many standard contractual forms available, but it is always recommended to have an experienced attorney review the contractual language before finalizing the agreement. The cost for the attorney to review the contract is money well spent, considering that a minor design and/or construction issue could cost tens of thousands of dollars. Additionally, it is advisable to withhold 10% retention from the contractor until after the certificate of occupancy is granted by the City and all closeout related items have been resolved to the liking of OCCTAC. This will ensure that the contractor completes all contractual work in a timely manner.

Site Selection

We begin the design process for OCCTAC’s new facility by evaluating the existing program, including desired organizational and acoustic requirements. The layout and construction of the existing facility is extremely limited by the size of the space, the lack of natural light, and the inability to create acoustical separation between many rooms. A planning diagram of the existing facility is shown below:



>> A planning diagram of the existing facility. The linear nature is readily apparent, and the functionality of the space is a direct result of the limited size provided with the current layout.

Specific deficiencies in the existing plan can be summarized as follows:

- » *Few Private Office Spaces*
- » *Insufficient Storage*
- » *Acoustically Exposed Music and Meeting Rooms*
- » *Small Dance Room without Performance Space*
- » *Early Start Room not Sized Sufficiently for Licensed Childcare*

An assessment of relevant case studies was then undertaken to understand potential options for the future OCCTAC space. Specifically, the Oakland School for the Arts offers many of the same art programs and highlights the following interesting opportunities for OCCTAC:

- » *A premium dance space with floor can be expensive, but provides the opportunity to lease the space out to local dance companies.*
- » *All Music and Art rooms with moveable equipment can also be used as classrooms and meeting rooms. Creating a number of different sized rooms with shared storage provides the greatest amount of flexibility.*
- » *The following uses need to have dedicated spaces due to the size of the equipment and/or special finishes: Piano Room, Computer Room, and Dance/Theater Room.*

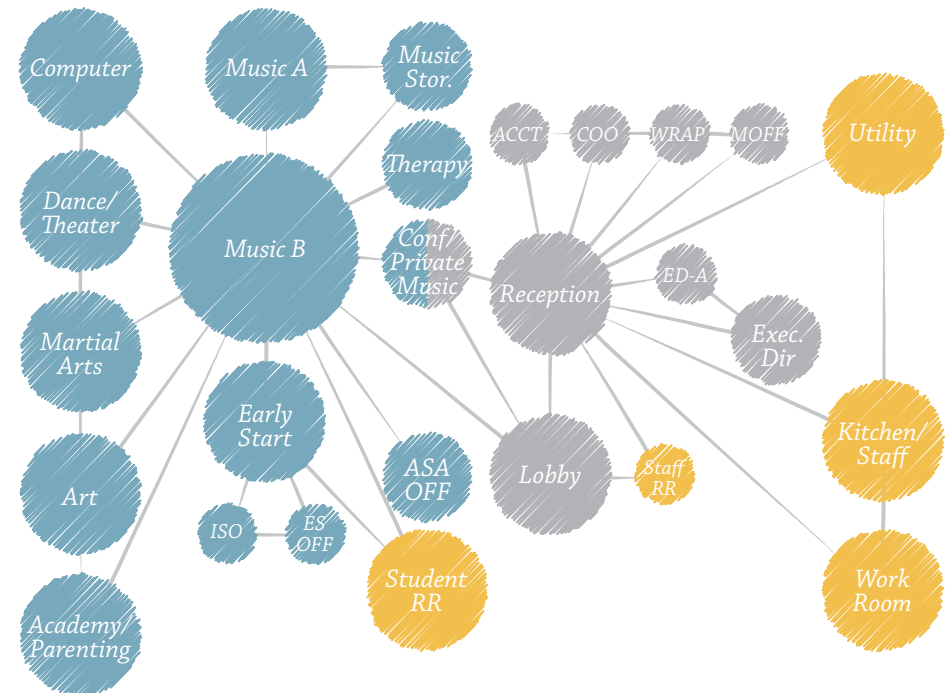
Successful design projects begin with a thorough understanding of the project's objectives. Therefore, the next step in designing OCCTAC's future home is to compile programming options for the space. Through a survey of the OCCTAC, we developed a program document that summarizes the spaces required, associated square footages, and room fit out requirements. This document allows us to assess the various spaces that OCCTAC envisions in their ideal program. We have used it to determine potential building square footages and cost, and also to look for opportunities for efficiencies. Some of the efficiencies that we would propose include:

- » *Limiting the number of private offices*
- » *Combining the Martial Arts and Dance/Theater Room*
- » *Creating a flexible Meeting Room that can be divided into Private Music Rooms*
- » *Combining the Academy and Parenting Rooms*
- » *Creating flexible spaces with moveable partitions where possible*

We recommend that OCCTAC revisit this programming document before selecting or designing a new space. The building program should reflect OCCTAC's vision for their future services and should reflect OCCTAC's image and brand. The programming document is attached at the end of this summary and provides OCCTAC with a starting point for their future planning.

After compiling all of OCCTAC's program requirements, we can then begin to organize spatial relationships. These Adjacency Diagrams (or Bubble Diagrams) can then be used as a tool when planning the future building space. The diagram below proposes one potential set of relationships:

The yellow tones indicate the after school arts program areas, the green tones indicate office and administrative uses, and the gray tones indicate utility and support spaces.



^ Spatial adjacencies, relative space sizes, and circulation for the proposed programming of the new facility.

The colors are consistent with the colors used in the existing planning diagram. In addition to spatial adjacencies, this diagram begins to address relative space sizes and circulation. The names relate to the names included in the programming document. Some of the efficiencies outlined above are highlighted here. This diagram is not meant to translate directly to a floor plan, but is meant to record design requirements for use in developing this plan.

The future OCCTAC's facility should provide an inspiring setting to accompany the organization's inspiring mission and activities. At a fundamental level, this means

providing an abundance of natural daylight in most spaces, especially art rooms, the early start program, meeting rooms, offices, and public waiting areas. The scale should be appropriate for small children, giving them opportunities to discover and engage with their surroundings. The site should include a significant outdoor area for Early Start play and also for outdoor art projects. Finishes and colors should be fun and lively, but also durable and easy to maintain. The music rooms should be treated acoustically for both sound transmission and noise reduction and should be acoustically isolated from each other. Generally, there is an art to creating a space that is both inspiring and affordable. OCCTAC's design and construction team should be able to develop inspiring ideas based on the location pursued.

Construction Material Selection

During both the construction and operations phases, buildings generate a lot of waste and use a lot of materials and resources. Careful construction material selection encourages the selection of sustainably grown, harvested, produced and transported products and materials. Material selection promotes the reduction of waste as well as reuse and recycling, and it takes into account the reduction of waste at a product's source. It is beneficial to have general guidelines of what construction materials OCCTAC would prefer to use before engaging the design architect and contractor. The architect and contractor can help choose specific manufacturers for products that are recommended. Having a list of construction materials that are specific to OCCTAC, will help minimize the design and construction durations. The two guiding principles for material selection in OCCTAC's case are durability and life-cycle cost. Below is a list of materials that are specifically recommended for OCCTAC as well as the reason the material has been suggested:

01. *Acoustical Treatment: OCCTAC is primarily involved in teaching music, special acoustic considerations must be made to all spaces throughout the building. A few options include:*
 - a. *Tectum Panels/Tackable Wall Panels – these types of materials absorb sound efficiently and are relatively inexpensive.*
 - b. *Sound-Rated Operable Partitions – in order to divide a larger room into smaller teaching spaces, an operable partition can be installed. Adding a sound-rating to the door will allow music classes to be taught in adjacent rooms simultaneously.*
 - c. *Acoustical T-bar Ceiling – just as sound absorbing material is recommended on the walls, the ceiling should also have similar acoustic properties. Acoustic t-bar ceiling is the most economical solution to providing necessary ratings.*
02. *Musical Instrument Storage: Music storage cabinets can be manufactured relatively inexpensive when made from plastic laminate. Since space will always be a concern, a few strategically located music storage lockers will make a difference.*

03. *Flooring: Vinyl Composite Tile (VCT) and Linoleum – it is advantageous to have hard flooring surfaces in musical spaces to provide the ideal sound. These are two types of flooring that are extremely durable and very cost effective.*
04. *Solid Core Doors: Although solid core doors are more expensive than hollow doors, they will prevent sound from transferring from one space to another.*
05. *Impact Resistant Drywall: It is advisable to install impact resistant drywall in all major thoroughfares (corridors, hallways, etc.). Although it costs more than standard drywall, it will prevent most damage from occurring should things be slammed into the walls accidentally.*

Sustainability Considerations

Sustainability is the capacity to endure. There is ample opportunity when designing and constructing a new space to both make environmentally conscious decisions and increase profits by reducing operating costs. As noted in the construction material consideration section, it is a good idea to have general expectations for sustainable considerations prior to the commencement of the design and construction process. There are many sustainable options that are easily attainable with minimal cost impact to the overall construction project ("low hanging fruit"). Below are the three main areas where sustainable decision can be integrated into the design and construction of the new OCCTAC space.

01. *Energy/Water Reduction: According to the U.S. Department of Energy, buildings use 39% of the energy and 74% of the electricity produced each year in the United States. Water reduction is typically achieved through more efficient appliances, fixtures and fittings inside and water-wise landscaping outside.*
 - a. *Benefits: Lower operating costs*
 - b. *Examples: efficient light fixtures/bulbs, solar tube/skylight, heating/cooling system replace/retrofit, building insulation in ceilings/walls, faucet aerators, duct sealing, programmable thermostats*
02. *Indoor Air Quality: The U.S. Environmental Protection Agency estimates that Americans spend about 90% of their day indoors, where the air quality can be significantly worse than outside. Indoor Air Quality promotes strategies that can improve indoor air as well as providing access to natural daylight and views and improving acoustics.*
 - a. *Benefits: Natural lighting, occupant health & wellness*
 - b. *Examples: specify all flooring, paint and adhesives to be low VOC's Products (volatile organic compounds), sound absorbing materials*
03. *Energy Generation:*
 - a. *Benefits: Significantly reduce operating costs, large tax incentives available*

- b. *Examples: Solar Panels, wind turbines. Refer to www.energytaxincentives.org for more information regarding available tax incentives.*

Rating systems for environmentally conscious construction projects are: Collaborative for High Performance Schools (CHPS) or Leadership in Environmental and Energy Design (LEED). While these rating systems (among others) provide a model by which to design and construct environmentally sustainable projects, the added expense related to administrative overhead and strict guidelines for compliance will most likely be cost prohibitive to OCCTAC's project.

Design & Construction Costs

When planning a construction project, an owner must be aware of all costs that will be incurred throughout the entire process. Below is a list of all major costs that will be incurred during a construction project (not including the cost of financing)

- » *Building Permits: \$5k – \$8k*
- » *Attorney Fees: \$5k – \$10k*
- » *Design/Engineering (Soft Costs): 8% of Construction Budget*
 - *Design Contingency: 10% of Design Costs*
- » *Construction (Hard Costs): See chart below for range of construction costs.*
 - *Construction Contingency: 10% of Construction Costs*

Organizations should always plan to include both design and construction contingencies in the overall project budget to ensure that ample funds are set aside for the project. While these contingency funds may not be used, it is inevitable that some “unknowns” will be discovered throughout the process and that they will result in additional money being spent. It is also advisable to approach potential landlords with a proposed plan of splitting the costs of the construction upgrades. In a down economy such as the current situation, building owners whose buildings have been vacant for some time may be more likely to agree to share the upfront costs of construction renovation with an appropriate long-term lease.

Spatial Options

Below are three spatial options with a range of construction costs (\$50/SF - \$90/SF) for consideration. Further investigation must be given to the actual square footage required by OCCTAC as well as the extent of tenant improvements that must be undertaken once a viable building is selected. However, these numbers are meant to act as a guide for the purpose of planning related to fund-raising, grant writing, etc.

01. *Option 1 (8,900 SF) – Similar to Current Program*
- *No custodian room, no music storage, small general storage*

02. *Option 2 (9,600 SF) – Efficient Program with additional areas*
- *Increased efficiency, added music storage/custodian, licensed childcare*
03. *Option 3 (13,200 SF) – Full Program that meets desired area requirements*
- *Separate martial arts, added therapy room, large storage area, separate conference room*

	Option 1 - 8,900sf	Option 2 - 9,600sf	Option 3 - 13,200sf
\$50/sf: Minimal Upgrades Required	\$445,000	\$480,000	\$660,00
\$70/sf: Most likely for OCCTAC	\$623,000	\$672,000	\$924,000
\$90/sf: Higher-end finishes	\$801,000	\$864,000	\$1,188,000

^ Comparison between costs per square feet, total school size, and overall costs.

Schedule

The final component of the design and construction process is to understand the overall schedule duration of the project. Often times an owner neglects to make the necessary time allowances for the entire schedule. This can lead to many negative impacts to the project such as increased financing costs, delayed funding, postponed grand openings, etc. Therefore, our aim is to provide conservative overall schedule durations for the major design and construction activities that will take place. These durations assume that an existing building will be renovated to meet OCCTAC's program requirements.

Estimated Timeline

- » *Consultant Selection: 2-3 months*
- » *Contracts Finalized: 1 month*
- » *Design: 4 months*
- » *Plan Check/Permitting: 3-4 months*
- » *Construction: 3-4 months*
- » *Construction Contingency: 2-3 weeks*
- » *Final Sign Off/Closeout/Occupancy: 1 month*
- » **Overall Project Time Frame: 14.5-17.5 Months**

FINANCIAL CONSIDERATIONS

“In the case of a non-profit, the key to the survival of the organization is to provide the most possible services for the lowest possible cost. Return on capital and investment concerns are secondary to the mission of providing services.”

Whether for profit or non-profit, the decision to expand a businesses’ facility is one of the more complicated decisions a business can make. There are several dimensions of complexity that must be carefully considered in the decision to expand. The most of fundamental question which must be answered is: “Are we ready to expand?” Although the question may seem simple, in reality it is not, bigger is not always better; just because an organization has more space does not necessarily mean there will be more demand.

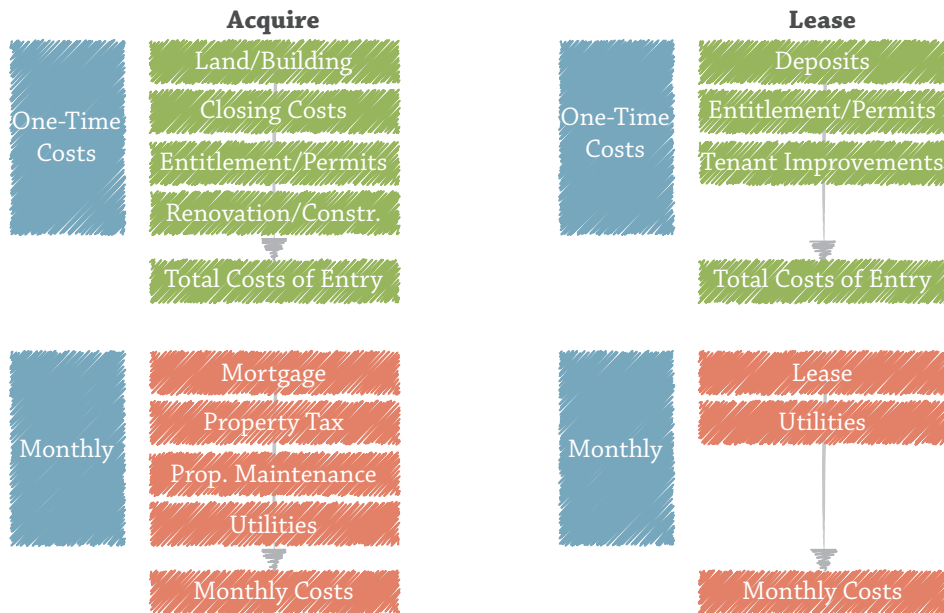
Assuming the decision to expand facilities is made, there are a litany of choices an owner must consider and face in order to maximize the benefits of the expansion and minimize the unwelcome and potentially costly distractions that can emerge.

Lease vs. Acquire

The lease versus own decision is probably the biggest question any organization will face in expansion. Intuitively, as in the case of homes, it would seem that ownership, if possible, will almost always be better than a lease. It is important to note that each ownership model has different benefits and costs associated with it.

In the case of a non-profit, the key to the survival of the organization is to provide the most possible services for the lowest possible cost. Return on capital and investment concerns are secondary to the mission of providing services. Additionally, special consideration must be given to the organizations’ ability to meet its payment obligations whether the facility is owned or leased. By their nature, the annual revenue for a non-profit is often unpredictable and can only be minimally influenced by the organization.

A careful consideration of all of the components of leasing or acquiring an expanded facility must be weighed before the decision is made.



^ One-time and monthly cost comparison between the acquisition and lease of land for the new OCCTAC facility.

Cost Components of Lease vs. Acquisition

The adjacent chart places side-by-side a listing of the cost components associated with each ownership model – acquire and lease. The costs for each form of ownership are broken into two categories vertically: the first are one-time costs and the second are monthly obligations.

One Time Costs: These generally consists of lump sum, up front, capital outlays that must be done to secure the new facility, fit out, and get the organization in place in the new facility.

Recurring Costs: This category contains all of the conventional costs of ownership which occur on a monthly basis including mortgage payments (if owned), lease payments (if leased), utilities, and maintenance.

Below we will cover each of the components and some of the special considerations for each:

Acquire: One-Time Costs

Land Cost

The purchase price for the land and, potentially, building for the expansion.

Closing Costs

These are costs associated with completing a property purchase transaction. They can include governmental fees associated with the transfer of title, taxes, broker commissions, and legal fees. Often these costs are not property accounted for in the beginning and catch new owners by surprise on the day of closing. Generally speaking these costs run between 2-5% of the purchase price of the property.

Entitlements/Permits

As the owner of the new property, it will be incumbent upon the organization to obtain all necessary entitlements and operating permits required for the new location. Entitlements costs can run the gamut from a very simple parking study to confirm conformance with applicable codes to highly complex technical studies where zone changes or other discretionary changes are being requested. These costs can vary from zero to several hundred thousand depending on the governmental action being requested. Because of the potentially high cost risk associated with pursuing use changes, it is imperative that any non-profit carefully screen new locations compatibility with surrounding uses and have detailed discussions with planning staff of the local municipality. Given the laws in California requiring noticing for discretionary planning actions, it also behooves the organization to be 100% sure that all neighbors in the proposed new facility support them.

Renovation/Construction

This is the cost required to make any physical improvements to the property to ready it for its intended use. In the case of an existing structure, this would be any required renovations. For detailed explanation of the costs, please see the construction cost section of the report.

Acquire: Monthly Costs

Mortgage

Presuming the facility was not purchased for all cash, there will be some form of secured debt on the property which will have a monthly obligation to be paid.

Property Taxes

As the owner of the property, the organization is responsible for 100% of the property tax due, unlike a typical lease situation where property taxes would typically be borne by the property owner and not lessee.

Property Maintenance

The organization will need to set aside some capital reserve each month to cover maintenance to the building. Additionally, the maintenance reserve will need to cover immediate needs as they arise – e.g. roof leak, burst pipe, etc. There is no property manager so the organization bears the entire responsibility for the facility. Depending on the age of the building being acquired the monthly capital reserve can vary substantially. If for example, a \$30,000 roof replacement is needed at the end of year 5, the organization would need to plan ahead for that event.

Utilities

Utility costs may change from location to location, even for like-sized buildings, depending on how the site receives its utility service. Any organization considering a move-expansion needs to investigate the local utility service providers and estimate the costs of providing service to the site.

Lease: One-Time Costs

Deposits

Leases typically require some form of lump sum deposit. The deposit amount is generally negotiable with the Landlord, for budgeting purposes, organizations should plan 2-4 times the monthly rent as a deposit.

Entitlements/Permits

Generally speaking, most spaces which are available for lease are already entitled for the use for which they are being leased. At a minimum, the appropriate zoning and other major approvals are in place and all a new lessee would need to do is pursue any ministerial permits required to operate. A throughout conversation with the land lord

and local municipality planning staff can go a long way towards minimizing this risk in a lease situation.

Tenant Improvements

With few exceptions, all commercial leases have some allowance for tenant improvements; physical changes to a leased space to suite it for a particular tenant. The upfront cost for some portion of the tenant improvement construction is borne by the lessor and the cost is recovered over the life of the lease. For a non-profit this can prove to be a very valuable financing mechanism as the lessor is taking the burden for the cost of work to suit the space for the organization's needs. Nonprofit organizations should not under estimate the value of this aspect of leasing as it goes a long way to minimizing the dollars and the complexity that the organization must manage to get into an expanded space.

Lease: Monthly Costs

Lease

The monthly cost of the lease for the facility plus any applicable common-area-maintenance (CAM) charges agreed upon in the original lease document.

Utilities

Not unlike an acquisition scenario, organizations need to understand the utility cost situation in the location to which they are moving. There is a lesser degree of complexity in a lease scenario versus an acquisition, presumably because there is not a utility capacity or service question. Again, with few exceptions, most leased properties come with adequate utility service to the site. The only aspect which needs clarification is the cost of utilities in the new location relative to other locations.

Given all of the components listed above it is critical for an organization to fully study the total costs of entry in either a lease or acquisition scenario. With relatively few exceptions, a lease is almost always going to require less up front capital than an acquisition. Furthermore, the peripheral concerns of entitlements and construction financing play less of a role in the lease transaction simply because the organization would ideally screen out locations which had significant risk in these categories.

Furthermore, it bears mention that in an acquisition scenario – absent an all cash transaction – the property will be encumbered by a mortgage of some type in-order to finance the purchase transaction and any construction. Given the nature of the non-profit cash flow there is less flexibility in a mortgage than there might be in a lease. A poor economy, leading to bad cash flow over a few months, could put the organization in jeopardy of losing the facility in a foreclosure. While the same is true of a lease, lessors have more flexibility than a lender would and are often more motivated to work with a tenant to right the situation. This is especially true if a significant investment in tenant improvements has been done.

On a monthly cost basis, more often than not, a lease is going to be marginally less costly than ownership for an identically sized space. Depending on market conditions and availability of debt financing, a lease potentially offers more bang for the buck than a purchase.

Maintenance for the building envelope is typically the responsibility of the landlord in a lease. Therefore, routine capital maintenance such as, roof replacement, painting, or landscaping replacement, would be the responsibility of the landlord. Any unforeseen failures associated with the building envelope (leaks, etc.) are typically the responsibility of the landlord. These maintenance items can end up being costly unforeseen expenses and, depending on the organization, could wipe out cash reserves or force the organization to go into more debt to fund repairs/replacements. Building maintenance is an unwelcome and potentially unpredictable burden for a non-profit.

Property taxes, which can be significant, are borne by the property owner but in most lease situations are passed through in some percentage to lessees in the lease rate.

The benefits of ownership are clear, although not equally relevant across all organizations. Clearly, if the facility is owned, the organization enjoys a great deal of freedom and security in their facility over the long term. In addition, at some point the facility is clear of debt and/or has appreciated in value to the point where it can be sold – both of which have a positive impact on the organization's cash flow.

There are also significant tax advantages to owning a facility versus leasing, however, in the case of a tax exempt non-profit the tax advantages are a moot point.

The question of leasing versus owning for a non-profit really comes down to one of priorities. The mission of the non-profit is to put as much of every dollar taken in to work for the needy they service. Committing significant upfront capital to purchase a facility seems to run counter to the mission. One could argue, that even if sufficient capital could be raised to purchase a building in all cash – should it? – or should that large sum be put into programs and services?

Given the nature of the non-profit, in contemplating an ownership model for a facility expansion, the following three goals should be kept in mind in this priority:

01. *Lowest Total Cost of Entry: The mission of the non-profit is not return on capital. Priority is the lowest/cost & risk ownership model to get up and running.*
02. *Lowest Ongoing Financial Risk: Debt is an encumbrance. A mortgage payment leaves much less maneuvering room in a sour economy. A foreclosure will cause the loss of the facility and potentially bankrupt the organization. Leases are much more flexible.*

03. *Flexibility: An acquired building is much more difficult to get out of than a leased one if future expansion or contraction is needed to keep the organization viable.*

Financial Viability

The financial viability of a new building for OCCTAC depends on a range of factors specific to OCCTAC but also a range of external factors. Examples include OCCTAC's revenue and expense streams and even the state of global credit markets. The process of making the determination will be very much an iterative one and will be dependent on feedback from a variety of sources which will change from week to week and month to month. Certainly the specifics of each specific building being considered will also affect the process. In an attempt to orient a reader to the process, we will try to describe what is certain to be an iterative process in a linear way.

The first step in determining financial viability should be an OCCTAC staff determination of what level of monthly resources can be dedicated towards the total costs of ownership. For example, can the organization afford \$8,000 per month or \$12,000 per month? Next, OCCTAC needs to make a determination as to what size of an equity down payment could be made. Is \$100,000 available or \$1 million? Staff and the board should have serious discussions about what it might mean for OCCTAC to make binding financial commitments. Each needs to make sure they are comfortable with these basic issues up front.

Current Debt Markets for Non-Profits

OCCTAC will need to consult with a mortgage advisor to make a determination as to what kind of mortgage they might be able to qualify given estimated monthly payments. Typical terms identified by this group suggest that typical mortgage terms could be as follows:

- » 7.25% - 8.5% interest rate
- » Amortization periods of up to 30 years
- » The length of the loan (or loan term) will likely range between 5 and 10 years.
- » 1.15 debt service coverage minimum
- » Maximum loan to value of 80%

Cash Flow Considerations

In the case of non-profits who rely on government grants and other assistance, cash-flow becomes an overriding concern in any facility expansion discussion and attempt to secure debt financing. OCCTAC, in particular, gets a substantial amount of its annual operating revenue from government grants which typically pay after the service is provided. In the traditional business world, this would be the equivalent of a NET 30 or 60 day payment after the goods or services are provided. Through

interviews, the team came to understand that in many cases the payment under the grants can come as much as 120 days after the services were provided.

From a fundamental business standpoint, the lag in cash flow between the outflow and corresponding inflow must be addressed. If services for several grants are provided in a short timeframe; payroll, overhead, and other operating costs are recognized immediately and can leave the organization with a substantial cash flow problem until the grants are paid out. This point is particularly relevant in a facility expansion discussion simply because the organization needs to be very confident and secure in its cash flow to make decisions about affordability. A revolving credit facility to stabilize cash flow is recommended – any lender or potential lessor is going to be intimately interested in how well the organization is managed.

As with any business expansion, a larger facility does not necessarily equate to larger demand. If there 100 users at an existing location a new location twice the size does not necessarily mean there will be 200 users. An accurate and realistic business expansion plan should be drafted to ensure that there is a plan to indeed utilize the larger space by providing more services to more people coupled with a strategy to get those people through the door.

The organization must also have a proper cost allocation structure to ensure that overhead expenses are property “pushed” down. This becomes even more necessary when considering a facility expansion. For example, the cost of teaching an art class is not simply the cost of the personnel in the classroom. The true cost of the art class is the people in the class room, plus a percentage the overhead payroll (receptionists, administrators), in addition to a percentage of the rent, utilities, and other expenses. If the organization is “bleeding” cash on each student it will bleed much more if there are marginally more students in a bigger facility with higher operating expenses. It is critical to recognize and properly account for overhead expenses.

Affordability Discussion

Our group reviewed OCCTAC’s financials and made a guesstimate that OCCTAC might be able to afford approximately \$8,000 per month. Based on this assumption, we also assumed that \$1 million of equity is available, \$500,000 of tenant improvement or rehab costs exist, and assuming property specific costs and loan terms discussed above, a financially viable building is likely in the \$1 million range. The calculation is shown in the adjacent table.

Please note that should any of the underlying assumptions change, the calculation to determine financial viability would need to be re-run.

Land / Building Costs	..... (\$1,000,000)
Security Deposit	..... \$0
Mortgage Size	..... \$500,000
Closing Costs	..... (\$20,000)
Entitlement / Permitting	..... (\$25,000)
Tenant Improvement Costs	..... \$0
Tenant Improvement Reimbursement	..... \$0
Rehab Costs	..... (\$500,000)
Total One Time Costs (Donations)	..... (\$1,045,000)
Lease Payment / Utilities	..... \$0
Mortgage Payment	..... (\$3,528)
Property Tax	..... (\$1,913)
Property Maintenance & Utilities	..... (\$2,672)
Total Periodic Costs	..... (\$8,112)

^ Chart illustrating acquisition assumptions for the proposed new facility.

“As with any business expansion, a larger facility does not necessarily equate to larger demand. An accurate and realistic business expansion plan should be drafted to ensure that there is a plan to indeed utilize the larger space by providing more services to more people coupled with a strategy to get those people through the door.”

Acquire		Costs	
One-Time Costs	Land/ Building	\$1,500,000	
	Closing Costs	\$30,000	
	Entitlement/Permits	\$200,000	
	Renovation/Constr.	\$1,200,000	
	Total Costs of Entry	\$2,930,000	Loans: \$300,000
			Donations: \$2,630,000
Monthly	Mortgage	\$2,115	
	Property Tax	\$3,440	
	Prop. Maintenance	\$1,575	
	Utilities	\$1,575	
	Monthly Costs	\$8,610	\$7,630

^ Artists Village cost buildup, comparing the one-time and monthly costs for the acquisition of land for the newly proposed facility.

Case Study on Artists Village Building

As discussed earlier in the case the Artists Village Building has significant risk on almost all dimensions of the development cycle: unrealistic purchase price, entitlement risk, potentially unsupportive neighborhood, and significant construction/rehab risk.

Even if the significant entitlement and construction could be easily solved, the Artists Village building presents significant financial problems. First, because the building is in such a poor state of disrepair, and because OCCTAC is not a suitable development partner (no experience, weak balance sheet, etc.), debt financing would likely not be available for construction phase work. Therefore, the building would likely need to be purchased and developed using 100% equity. However, for the purposes of this conversation, we can assume that debt would be available.

The Artist's building will likely require significant capital to acquire and develop into a usable building. We understand that OCCTAC had made an offer in the range around \$1.7 million but that this offer had been rejected. We also are aware of a number of other offers for this building from third parties for under \$1 million. For the purposes of this discussion, we are assuming that OCCTAC would be able to obtain it for less than the offer that had been rejected. Based on the historical nature of the building, and the complete loss of everything inside of the four existing walls, we are assuming the rehab and construction costs of the building will cost \$1.2 million. While this figure may be on the low end, we will assume it is accurate. We are also estimating roughly \$200,000 for entitlement costs, which again leans toward the low end of the spectrum.

As done in our earlier discussion of financial viability, we assumed that \$8,000 was available to cover monthly building costs. Based on that and the above assumptions, OCCTAC would need to raise at least \$2.6 million and acquire a \$300,000 loan in order to develop the artist's building. Please reference the calculation in the adjacent figure.

Assuming \$2.6M in donations could be raised in a capital campaign to tackle this challenging redevelopment project, the question again becomes "should it be done?" The redevelopment of the Artists Village building, in the team's assessment, is clearly a project for professional, for-profit developer endeavoring to create a new commercial use in this zone.

CONCLUSIONS

“OCCTAC clearly provides a positive impact to the Santa Ana community and the region as a whole, drawing families that are more than 40 miles away. The organization provides a safe haven for children to learn and gain exposure to the arts at an attainable price point for financial strapped families.”

Key Recommendations

Santa Ana is a diverse community that continues to evolve and revitalize its Downtown area, yet demographic data point to a continued socio-economic struggle within its city limits. The city is characterized by its Hispanic population, higher proportion of youth, low income and poor educational attainment compared to the county as a whole. OCCTAC clearly provides a positive impact to the Santa Ana community and the region as a whole, drawing families that are more than 40 miles away. The organization provides a safe haven for children to learn and gain exposure to the arts at an attainable price point for financial strapped families.

OCCTAC's primary goal was to gain an understanding of acquiring a new facility to expand its operations. Moving into a new building is a significant milestone for any nonprofit organization. Before embarking on a search for a new location, it is critical that any organization make an honest assessment of what their needs are in terms of space, function, flexibility. Equally important, identifying what you can afford and understanding the costs involved. Experts that spoke during the roundtable spoke candidly of other non-profit organizations that have bitten off more than they can chew when purchasing a new site.

Whether deciding to purchase or lease a space, there are six key features need to be addressed when narrowing a location.

Proximity to Student Population

The areas from which OCCTAC draws the highest percentage of students has been identified, and demographic data provided. As this has been done on the zip code level, the information shows there is a reasonable amount of flexibility in determining a specific location.

Ease of Access

OCCTAC is currently located with immediate access to Interstate 5 and along a route heavily traveled by buses. It is also near several retail areas, which may provide some convenience for parents who drop their children for a class and can then run errands. These are, for all intents and purposes, ideal characteristics for a future site.

Land Use Designations

Including the General Plan, Zoning, and any applicable Specific Plan or Redevelopment Plan. These documents are adopted policy and provide guidelines and standards that must be adhered to. As it seeks a new location, it is vital that OCCTAC understand and evaluate these land use policies before entering into a lease or purchase agreement.

Proximity to Complementary Uses

This is a more nuanced and strategic evaluation, wherein OCCTAC should review existing uses nearby. For example, OCCTAC is currently close to OCHSPA, the Bowers Museum, and the Discover Children's Museum. These are organizations with which OCCTAC could pursue a relationship with over time for mutually beneficial support of children's programs and activities.

After a review of OCCTAC's financials coupled with the current state of the economy, the consensus among the panelists was that an existing space available for lease may be the prudent alternative for OCCTAC. The most significant costs savings can be gained by minimizing some upfront cost due to tenant improvement allowances. The cost savings could be diverted toward better construction materials (such as operable partitions, impact resistant drywall, or solar tubes/skylights) that could provide more flexibility in a space or provide energy savings.

More importantly, it is our recommendation that OCCTAC clearly lays out their vision for their future program before deciding upon detailed space requirements. It's important that the future OCCTAC space meet the needs of their current and future program and reinforce their brand identity. Before jumping into a construction project, it's always important to be very clear about requirements. Financial and program considerations should be well developed before choosing a location or beginning detailed facility design. The team selection process is also crucial to a successful project. Hiring a design and construction team that understands and champions the same values as OCCTAC will lead to a home that is as inspirational as their mission.

Artists Village Building Verdict

Based on the panel's analysis, it is our recommendation that the Artists Village Building has significant barriers to entry with a high degree of risk. Below is a quick recap of the primary areas of focus.

Locational Analysis

- » *Doesn't fit into city's vision. Located within the Downtown Center Zone, "community assembly uses" is allowed only on the second and upper floors of the building. As such, OCCTAC would need to make sure it qualifies under this designation.*
- » *Lack of partnership support. OCCTAC has encountered resistance from the city when expressing its interest in the Artists Village building. Additionally, the site adjacent to galleries, restaurants, and bars, cater to a different target base compared to OCCTAC and may result in a potentially unsupportive neighborhood.*
- » *Existing contaminants. The adjacent site was previously operated by Southern California Edison as a manufactured gas plant and electrical substation. Consequently, there are elevated levels of contaminants that were recently cleaned up. As a group that serves children, acquisition of the site would pose unwarranted exposure to small children.*

Planning Constraints

- » *No parking available. Parking is a problem at OCCTAC's current facility, for both its staff and the families it serves. While there are pay parking lots and metered street parking available near the Artist Village building, we expect it would place an additional burden to OCCTAC's families. Additionally, there is only a limited area on the street that would allow for side loading.*
- » *Historical Designation. Designated a building of historical significance and a city landmark, the costs involved to maintain the architectural integrity of the site need to be considered.*

Site & Building Design

- » *State of disrepair. A cursory visual inspection during a field visit by the Panelists revealed the building was severely damaged and not to code. Significant construction would need to be made, estimated at \$1.2 million.*

Financial Structuring

- » *Significant capital will need to be raised to reach even a base case scenario. Assuming \$8,000 was a viable monthly payment, OCCTAC would need to raise at least \$2.6 million and acquire a \$300,000 loan in order to develop the artist's building.*



LIST OF INVOLVED TAP PANELISTS

Dominic Boitano, Vice President

LDC Advisors

19800 MacArthur Blvd., Suite 1150, Irvine, California 92612

p: 949-851-9230

e: dboitano@ldcadvisors.com

Alexis Oropeza, Associate Planner

City of Westminster

8200 Westminster Boulevard, Westminster CA 92683

p: 714-548-3485

e: AOropeza@Westminster-CA.gov

Alexa Smittle, Associate & Project Manager

RSG

309 W 4th Street, Santa Ana CA 92701

p: 714-541-4585

e: asmittle@webrsg.com

Nate Johnson, Project Manager

Bernards

23461 S. Pointe Drive, Suite 300, Laguna Hills, CA 92653

p: 949-461-3650

e: njohnson@bernards.com

Joe Haupt, Predevelopment Project Manager

Walt Disney Parks & Resorts, Real Estate Development

23 Conyers Lane, Ladera Ranch, CA 92694

p: 714-284-6290

e: joe.haupt@disney.com

Gray Dougherty, Associate

Dougherty & Dougherty Architects LLP

5427 C Telegraph Ave, Oakland, CA

p: 510-654-2544

e: GrayD@ddarchitecture.com

Michelle Thrakulchavee, Acquisitions Associate

City Ventures

2850 Redhill Avenue, Suite 200, Santa Ana, CA 92705

p: 805-657-4535

e: michellet@cityventures.com

Ludmilla Schappert, Engagement Manager

Meyers LLC

2712 E. Coast Highway, Ste. 101, Corona Del Mar, CA 92625

p: 949-640-0050

e: lschappert@meyersllc.com



ABOUT TECHNICAL ASSISTANCE PANELS

The Urban Land Institute (ULI) was founded in 1936 as a non-profit institute to conduct research and provide information on all aspects of real estate development and land use policy. ULI has over 34,000 public and private sector members comprised of professionals in all aspects of real estate development, policy, and regulation. ULI has 65 district councils in The Americas, Europe, the Middle East and Asia, a worldwide staff of 155, and a \$52 million annual operating budget in FY2010. The ULI has been a leader in smart growth, mixed use development, urban redevelopment, transportation, and affordable housing. ULI Orange County/Inland Empire is among the top 10 largest District Councils in the world with nearly 900 individual members.

Since 1947, ULI's Advisory Services Program has been assisting communities by bringing together panels of seasoned real estate, planning, financing, marketing, and development experts to provide unbiased pragmatic advice on complex land use and development issues. Often these panels meet with the sponsoring government or non-profit entity for five days at a fee of about \$110,000, and typically address issues of a broad and long-range scope.

The ULI District Councils provide panel services of one day. A fee is charged for the advisory service, but the panel members are not compensated for their time. To ensure objectivity, panel members cannot be involved in matters pending before or be working for the sponsor and cannot solicit work from the sponsor during the panel's assignment period.

Sponsors request technical assistance services on complex land use issues. The District Council assists the sponsor in refining the scope of the assignment and in organizing the panel efforts. Panels are then formed to provide the expertise to address those issues. At the conclusion of the work period, the panel issues a report with recommendations to the sponsor.

About the YLG Pro Bono TAP Program

The Young Leaders Group of the ULI Orange County/Inland Empire began conducting Technical Assistance Panels (TAPs) in 2007, on a pro bono basis for charitable organizations. This type of TAP was the first of its kind in Orange County and the Inland Empire and for a ULI District Council worldwide.

The selection of the panelists for the OCCTAC-TAP consisted of reaching out to ULI Orange County/Inland Empire members and confirmation with the Orange County Children's Therapeutic Arts Center (OCCTAC) that the panelists' background and experience would be beneficial in this particular project.

TAPs are a way for ULI members to give back to the community. The ULI acknowledges all the members who served on the OCCTAC TAP for giving their time and talent to support a local organization that benefit families and children in Santa Ana, Calif.



