

## MINUTES

### SPECIAL MEETING OF THE DEVELOPMENT AND CONSTRUCTION COMMITTEE OF THE BOARD OF DIRECTORS CAPITOL AREA DEVELOPMENT AUTHORITY

SEPTEMBER 22, 2011

Page Robbins called the special meeting to order at 3:05 p.m. at the CADA Administrative Office, 1522 14<sup>th</sup> Street, Sacramento, CA 95814.

1. Roll Call

Ron Alvarado - Present

Page Robbins - Present

2. Approval of Minutes of August 23, 2011

The minutes of August 23, 2011 were approved as submitted.

3. Items scheduled for the September 23, 2011 Board Meeting

- A. East End Gateway Site 4 Revised Development Proposal and Business Terms from the Gateway on Fremont Park LP (Southeast Corner of 16<sup>th</sup> and P Streets):

Tom Kigar reported the following:

Staff is recommending the Board adopt a resolution which conditionally commits to provide a partial tax increment rebate set forth in the Disposition and Development Agreement (DDA Term Sheet) dated September 19, 2011.

Following the January 2011 Board meeting, CADA staff and the Developer presented the Design Program to various stakeholders for review and comment. At the May 20, 2011 Board meeting, the Board authorized the submission of an application to the U.S. Economic Development Administration for i6 Green Challenge program funding. If awarded, the program would cover approximately \$350,000 of the \$700,000 budgeted soft costs for design and consultant fees and would facilitate the advancement of the technologies being demonstrated at The Gateway through a Proof of Concept Center to be established at California State University, Sacramento. The award of i6 Funding is expected to be announced by September 30, 2011.

On June 13, 2011, the Developer submitted a letter to CADA which requested that they be allowed to offer The Gateway initially as "condominiums for lease" because worsening conditions had resulted in lenders and investors being unwilling to lend/invest in for-sale condominiums in Sacramento. CADA's conditional commitment of a partial tax increment rebate at this time is critical in order to be able to secure Evidence of Financing—a key element of the Development Proposal which, in accordance with the schedule of performance set forth in the ENA must be approved at the December 9, 2011 CADA Board Meeting.

The DDA Term Sheet as currently drafted also includes the conditions that the rebate terminates if the Developer's return on equity exceeds 10% of if The Gateway is sold prior to the end of the ten-year period. The Developer has indicated that it would be acceptable if the rebate continues as long as Katy Reynolds remains the General Partner of The Gateway on Fremont Park, LP even though limited partners may sell their interest in it. Additionally, the Developer has not agreed to a limit on the Developer's return on equity of 10% stating that it would make it difficult to attract equity investors. As a result, the Developer has not signed the DDA Term Sheet and intends to present their position at the Board meeting.

The Developer has been working closely with its general contractor A.P. Thomas to value engineer The Gateway and finalize the direct construction costs. The Developer has provided a Development and Operating Proforma so CADA may determine if the proposed assistance the Developer is requesting is acceptable to CADA given the projected rate of return on the Developer's equity. The projected return on equity of 8.0% appears to be within an acceptable range at this stage of the negotiations. CADA Staff has modified the Property Taxes and the CADA Rebate figures based upon our understanding of the County Assessor's practices and the proposed tax rebate formula which is included as Attachment 1 to the DDA Term Sheet.

Since being selected in December 2010 the Developer has paid a \$30,000 Option Fee and a total of \$24,500 in Negotiation Fees. The Developer's monthly fees of \$3,500 will continue to be paid until such time as the Project has been completed and CADA has issued a Certificate of Completion. Although payments have not been received for August and September, a check will be provided to CADA Staff tomorrow and will then be current.

The proposed tax increment rebate is the total of the estimated rebates over the ten year period based on tax increment increasing 2% per year and the CADA inclusionary impact being 21.2% of the gross annual tax estimated increment. In comparing the per unit assistance level CADA would be providing the Gateway, staff believes it is also pertinent to note that The Gateway will be built to condominium specifications and that the Developer continues to be committed to creating a development that will produce more energy that it consumes through the utilization of leading edge clean technology.

Based upon a current \$350 per unit per month cost, this is estimated to be \$33,600 per year. CADA will be able to pay for \$31,666 of this cost per year with the 20% Housing Set Aside funds generated by the project and the remaining \$1,934 amount per year that will be deducted from Gross Tax Increment during the ten year period the rebate has provided.

The purpose of the DDA Term Sheet is for CADA to have a commitment from the Developer as to the business terms under which they will proceed before CADA Legal Counsel initiates preparation of the DDA document. While CADA action is not required at this time, the Developer has requested the Board make a conditional commitment to the partial tax increment rebate set forth in the DDA Term Sheet to assist in their marketing The Gateway to investors and lenders.

In approving the ENA in January 2011, the Board provided the Executive Director with the authority to extend the performance deadlines in the schedule providing the overall end date of January 31, 2012 was met. Several factors have caused the intermediary steps to vary from the schedule set forth in the ENA. The accelerated schedule under which the Developer initially proceeded, the community review of the Design Program that the ENA specifies will occur after September 30, 2011 was completed by April.

The Developer has reported that CADA's conditional commitment of additional assistance in the form of a partial tax increment rebate is critical in their securing investors and lenders, the submittal of their Evidence of Financing and their Market Study is proposed to be moved back from September 30 to November 4. With these variances, the Developer remains on schedule to have their complete Development Proposal reviewed for approval by the Board on December 9, 2011 and the DDA approved on January 20, 2012. Once the DDA is approved, the Developer has advised staff that it is their intention to commence construction in mid-2012 and have the project completed by the end of 2013. With regards to CEQA, an additional analysis based on the current understanding of the proposed Project is underway and as a result staff believes it will be able to recommend that the CADA Board approved an Addendum to the 2005 EIR prior to approval of a DDA.

Committee member Ron Alvarado suggested tying in the minimum level of investment from the general partner into the DDA Term Sheet. Mr. Kigar stated that CADA staff can amend the DDA Term Sheet maintain level of investment in the project. The committee supports this approach.

Mr. Alvarado stated that although he is not opposed to Developers making a profit, there is concern in using public funds on a project that does not yet have financing so cannot make projections about profit. CADA staff will have a meeting with the Developer later this afternoon to discuss the business terms. The committee supports CADA's position but does not have enough information to support the recommendation.

*Committee's Recommendation:* The committee wants to hear from the Developer before supporting staff's recommendation.

B. Park Mansion Elevator Modernization (1325 15<sup>th</sup> Street):

Allison Cash reported the following:

Staff recommends the Board adopt a resolution authorizing the Executive Director to enter into a construction contract in the amount of \$127,100 with Elevator Technology for modernization of the elevator at 1325 15<sup>th</sup> Street, Sacramento, California 95814.

Park Mansion is a 42-unit, five-story building originally built in 1928. CADA rehabilitated Park Mansion over 30 years ago, at which time the existing elevator was installed. Replacement parts are becoming exceedingly limited in availability. Modernizing the elevator will eliminate the risk of extended down-time if the elevator were to break down. The objective of this project is to upgrade outdated equipment, improve efficiency, and to bring the elevator up to standards of current building codes.

The current Capital Investment Program Budget allocates \$95,000 for this project from Fiscal Year 10/11. Additional funds from the Fiscal Year Contingency and Energy Reduction budget line items are proposed to be used to provide the remaining \$32,100 needed for this project. Therefore, the project will not impact the overall FY 10/11 bottom line.

*Committee's Recommendation:* The committee supported staff's recommendation.

C. HVAC and Electrical Upgrade Project (1616 N Street):

Ms. Cash reported the following:

Staff recommends the Board adopt a resolution authorizing the Executive Director to enter into a construction contract in the amount of \$450,000 with Bangar Contractors for the Electrical and HVAC Upgrades to Grantwood Manor, located at 1616 N Street, Sacramento, California 95814.

Grantwood Manor is a 3-story 20 unit apartment building built in 1949. The existing heating/cooling system is original to the building. This is a house system that CADA maintenance staff switches from heating to cooling each summer/winter and CADA is responsible for the utility bill. The system is undersized for the building and poorly functioning which has generated resident complaints. CADA has been maintaining the system, with the sporadic leaks in the piping becoming increasingly difficult to repair. To prevent the loss of heat this upcoming winter, it is imperative that the system be replaced.

The objective of this project is to install a new split system heat-pump for each apartment so residents will have individual climate control of their own apartment and will also be responsible for their own heating/cooling-related energy usage and utility bill.

The \$446,000 needed to fund the project will exceed the budgeted funds available by \$168,811.45. This is the result of increases in material costs and prevailing wage rates;

portions of the project design having to be modified due to changes in the building code and; increases to the bidding contractors' overhead due to our participation in the SMUD Home Performance Program (Multi-Family). It is proposed that the additional funding needed for the project be provided through costs savings achieved in completed project and the delay of two projects budgeted to occur this year. It is estimated that CADA will incur \$40,000 in rent loss and other expenses related to vacating the structure. This will exceed the \$30,000 available in the Construction Mitigation Account. Staff proposes that this funding deficit be addressed in the Midyear Budget Revision that will be brought to the Board for approval at the December Board Meeting.

Mr. Alvarado stated he is curious to find out how much prevailing wage has gone up. Ms. Cash stated that CADA Staff will come back to the committee with that information.

*Committee's Recommendation:* The committee supported staff's recommendation.

D. Underground Utility Installation (1616 N Street):

Ms. Cash reported the following:

Staff recommends the Board adopt a resolution authorizing the Executive Director to enter into a construction contract in the amount of \$52,000, with Paul Kearney Inc., for the installation of underground utility service at Grantwood Manor located at 1616 N Street, Sacramento, California 95814.

Grantwood Manor is currently powered by a 400 amp electrical service and will be upgraded to a new 800 amp service because according to SMUD, the transformer is at capacity.

*Committee's Recommendation:* The committee supported staff's recommendation.

E. East End Gateway Site 5 Acquisition (1610-1614 N Street):

Mr. Kigar reported the following:

Staff recommends that the Board adopt a resolution which authorizes the Executive Director to take any and all steps necessary to close the sale of East End Gateway Site 5 from the Department of General Services (DGS) to CADA, pursuant to the terms and conditions of the Purchase Agreement between DGS and CADA.

At the March 2010 meeting, the Board:

- Approved a Development Plan for East End Gateway 5 (the Project) that includes approximately 52 affordable apartment units for seniors with rents affordable to households earning an average of 47% of median income (\$565/month),
- Authorized the Executive Director to negotiate a Purchase Agreement and Escrow Instructions (Agreement) with the DGS for acquisition of the Project site (Site), and
- Authorized the Executive Director to prepare and negotiate an Exclusive Negotiating Agreement (ENA) with BRIDGE Housing Corporation to develop and operate the Project.

At the May 20, 2011 the Board authorized the Executive Director to enter into a purchase agreement for purchase of the Site at an appraised value of \$400,000. Under the terms of the Purchase Agreement, the purchase price for the Site is \$400,000 less eligible site testing ("site characterization"), vacating (demolition of Hand-In-Hand facility), and remediation costs of \$114,000 resulting in a net purchase price of \$286,000. The effective date of the agreement was March 30, 2011. The term of the Purchase Agreement is three years from the effective date of March 30, 2014 or the close of escrow, whichever comes first. Additionally at the May 20 meeting the Board approved a Disposition and Development Agreement (DDA) with BRIDGE and approved a Loan to BRIDGE.

To assist with the effort to balance the State of California's budget, CADA has been asked to prepare a proposal outlining how it will facilitate the sale of some portion of the State-owned properties entrusted to CADA's stewardship.

East End Gateway Site 5 is one example of a CADA-managed DGS-owned site that can be sold. Staff is recommending that the Executive Director be authorized to take the necessary steps to close the sale of the Site earlier than was anticipated in the Purchase Agreement, and as soon as the sale can be affected.

Purchasing the Site from DGS is an action CADA set in motion in 2010 with the selection of BRIDGE Housing to develop the Site for senior housing. When it entered into the Purchase Agreement in May of 2011, CADA anticipated that it would purchase the Site from DGS after BRIDGE had secured construction financing. BRIDGE Housing applied for HUD 202 construction financing in May 2011 and will learn the results of its application by December 31, 2011. If the HUD application is not approved in 2011, BRIDGE intends to resubmit it until it is approved. If the financing is approved in 2011, BRIDGE could be ready to take title to the property from CADA and start construction as soon as December 2012. The recommendation is to purchase the Site from the State as soon as possible preferably within the next 30 days, in advance of BRIDGE securing financing.

The Site is located immediately across the alley and northeast of the Mercury Cleaners site, whose soil and groundwater are contaminated by dry-cleaning solvents. CADA's environmental consultant, Geocon, believes that no remediation of the Site will be necessary provided the proposed structure will cover the entirety of the Site and will be constructed in such a way as to trap and redirect any contaminated soil gases away from the building.

The proposed acquisition of the Site will facilitate and accelerate the sale of a State-owned property entrusted to CADA's stewardship to help the State's budget. It puts to productive use the \$400,000 currently on hand by transferring it to the State and completes a step in the development process by moving the Project closer to fruition.

Since CADA will not have any tax increment proceeds to pay off a possible land loan to DGS, CADA will use \$400,000 from its Affordable Housing Set Aside funds generated from the 2004 Tax Allocation Bond Issue to pay DGS for the Site and to cover any site characterization, vacating, and remediation costs.

At closing CADA will deposit the net sales price of \$286,000 plus closing costs. The remaining \$114,000 will be reserved for site characterization, vacating, and remediation costs as they are incurred by CADA.

Mr. Alvarado confirmed that CADA would buy the site and BRIDGE (the Developer) is supposed to hear from HUD in December. Mr. Kigar stated that HUD is the main source of financing, without this financing the project won't work. Once the main source of financing is secured, the Developer will apply for low income tax credits, which is not a competitive process (4% tax credits), unlike HUD 202.

Marc de la Vergne reported that the highest concentration of toxics was extreme south corner on Site 5 and they diminish toward Hand in Hand building. However, there is no immediate health hazard but when the site is built, a barrier must be created.

Ms. Robbins stated that she would feel more comfortable if we received a document in writing from an environmental consultant in regards to recent soil testing. Ms. Robbins asked how long the testing will take. Mr. de la Vergne said, that assuming the testing begins in October, soil testing would be completed in December, around the same time CADA staff will hear from HUD.

*Committee's Recommendation:* The committee supported staff's recommendation subject to review of next level of tests.

4. Staff Reports/Updates/Transmittals

- A. Jefferson School (1619 N Street): No report.
- B. Downtown Sacramento Revitalization Corporation: No report.
- C. O Street Streetscape; Artwork and Improvements; Regional Transit Stations: No report.
- D. Capitol Lofts (11<sup>th</sup>/R Streets) and HCD Infill Grant: No report.
- E. Mercury Cleaners (Northeast Corner of 16<sup>th</sup> and O Streets): No report.
- F. East End Gateway Site 1 (Northwest Corner of 16<sup>th</sup> and N Streets): No report.
- G. Streetscape Project; 16<sup>th</sup> Street: No report.
- H. Loan and Grant Research: No report.
- I. East End Gateway Sites 2 and 3 (Northwest and Southwest Corners of 16<sup>th</sup> and O Streets): No report.
- J. East End Gateway Site 4 (Southeast Corner of 16<sup>th</sup> and P Streets): This item was reported on in Agenda Item 3 (A).
- K. East End Gateway Site 5 (1614 N Street): This item was reported on in Agenda Item 3 (E).
- L. Site 9B (1610 17<sup>th</sup> Street): No report.
- M. Fremont Park Update and "Chalk It Up" Report: No report.
- N. R Street PBID: No report.
- O. Phase I – R Street Streetscape Implementation: 10<sup>th</sup> – 13<sup>th</sup> Street and 11<sup>th</sup> Street Sidewalk: No report.
- P. Phase II – Streetscape Implementation Market Plaza: No report.
- Q. R Street Affordable Housing: No report.
- R. Development Schedule: Received as transmitted.

5. Opportunity for the Public to Address the Committee Regarding Matters not on the Agenda  
None

6. Adjournment

The committee adjourned the meeting at 4:33 p.m.



Rachel Mercurio  
Development Assistant