

**MINUTES
OF
REGULAR BOARD MEETING**

**BOARD OF DIRECTORS
CAPITOL AREA DEVELOPMENT AUTHORITY**

September 23, 2011

ITEM 1 – ROLL CALL

Chair Bailey called the regular meeting of the CADA Board of Directors to order at 9:02 a.m. at 1522 14th Street, Sacramento, CA 95814.

Present: Alvarado, Lagomarsino, Otto, Bailey

Absent: Robbins

ITEM 2 – APPROVAL OF MINUTES: August 26, 2011

Chair Bailey noted one correction on the first sentence on the second to the last Paragraph on Page 2; should say "Pioneer Bridge." Member Lagomarsino moved approval of the August 26, 2011, minutes as amended. Member Alvarado seconded the motion.

AYES: Alvarado, Lagomarsino, Bailey

NOES: None

ABSENT: Robbins

ABSTAINED: Otto

Arrived at 9:04 a.m.

ITEM 3 – CHAIR'S REPORT

Chair Bailey presented a resolution honoring Charles Howard, CADA Vacancy Preparation Coordinator for his past 12 years of service on the occasion of his retirement.

ITEM 4 – EXECUTIVE DIRECTOR'S REPORT

Paul Schmidt reported the following:

- Transmittal from the National Association of Home Builders regarding their concern on the elimination of the mortgage interest deduction that is taking place this coming year. The association is asking for letters of support in maintaining the mortgage interest deductions. Eliminating the mortgage interest deductions would be devastating for the home building industry and will greatly affect home ownership in the United States.
- Governor's May Revise Language Update: Staff is working with the State of California staff on preparing a report. Staff will be looking at the cost of operation for each building as part of this study. Staff will be presenting an update to the Technical Advisory Committee and the Capitol Area Committee this month.
- After 36 years of service with the State and CADA, Mr. Schmidt announced that he will be retiring effective December 30, 2011. Chair Bailey will be coming back in October to discuss the transition.

ITEM 5 – DOWNTOWN PARTNERSHIP UPDATE: PRESENTED BY MICHAEL AULT OF DOWNTOWN PARTNERSHIP

Michael Ault provided an overview on the evolution of the Downtown Partnership and presented a Powerpoint presentation on the following:

- Marketing and facilitating special events
- Retail recruitment and retention; the importance of developing relationships with small businesses
- The focus on clean and safe efforts by providing proper lighting and trash receptacles and working with law enforcement in areas that need attention.
- Homeless Outreach Program; Return to Residency
- Relocation of the Greyhound Bus Station and future development of the site.
- Opening K Street to traffic from 8th Street to 12th Street by November, but may be open as soon as October 31st.
- Proposed development activity downtown
- The future of Westfield Mall

The Board and Mr. Schmidt commended Mr. Ault on his leadership.

ITEM 6 – EAST END GATEWAY SITE 4 REVISED DEVELOPMENT ROPOSAL AND BUSINESS TERMS FROM THE GATEWAY ON FREMONT PARK LP (SOUTHEAST CORNER OF 16TH AND P STREETS)

Tom Kigar presented staff's recommendation that 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.

Tom Kigar then provided an overview on the following:

- Developer's request to CADA that they be allowed to offer The Gateway initially as "Condominiums for Lease" because of worsening economic conditions resulting in lenders and investors not willing to lend/invest in "for-sale" condominiums in Sacramento.
- The Sukna Development Team is being re-formed into a new entity entitled "The Vivelan Group." The Gateway on Fremont Park, LP is the entity that will own and operate The Gateway.
- The Developer's report that CADA's conditional commitment of a partial tax increment rebate is critical in order to secure evidence of financing which is a key element of the Development proposal in accordance with the schedule of performance that must be approved at the December 9, 2011, CADA Board Meeting.
- The Tax Increment Rebate Analysis, DDA Term Sheet and the proposed change in the DDA Term Sheet language on Page 3, under 8.3 Tax Increment, and project fees paid by the developer.
- Project's financial assistance being provided by CADA and its comparison to other CADA financial assisted projects.
- The Developer will be presenting a Development Proposal for Board approval at the December 9th Board Meeting and the Disposition and Development will be presented for Board approval at the January 2012 Board Meeting. Once the DDA is approved, the Developer has advised staff that its intent is to commence construction in mid-2012 and have the project completed by the end of 2013.
- CADA has completed a portion of the CEQA analysis and based on the current understanding of the proposed project, staff believes it will be able to recommend that the CADA Board approve an Addendum to the 2005 EIR prior to approval of the DDA.

Member Robbins reported that the Development and Construction Committee did not make a recommendation. The committee had questions regarding the 10% cap on the developer's return of equity and about the general partner role in the level of investment that would be maintained which staff addressed.

Developer Katy Reynolds reassured the Board that the design of the building has not changed and expressed her disappointment that The Gateway project will not have condominiums for sale. Ms. Reynolds reported that after last spring, going out to potential investors and conferring with Jeff Glenn, their mortgage broker, they were unsuccessful in securing financing for, "for sale" condominiums. She continued that they will be filing a condo map every two years and will be paying the additional fee to continue until the developer has the option to convert to condominiums for sale.

CADA staff, the Board and Ms. Reynolds discussed her involvement and long time commitment as a General Partner during the 10 year tax rebate that CADA would be committing to the proposed project and what role investors would play in the project.

Because Ms. Reynold's partner Kahaled Mahjoub is no longer an investor in the project, Member Robbins stated that if there was investment funding coming from Syria, CADA would need to look at what the legal restrictions are, whether it would affect pure investments, and whether there would be restrictions to what involvement CADA could have to maintain compliance with the law.

Katy Reynolds emphasized that The Gateway will be the most sustainable, green mixed-use residential building in the country, if not the world. This project will have leading edge technology and design, and will be a showcase and landmark project for Sacramento drawing national or international attention.

Member Alvarado asked that the following additional language be included in the Draft Business Terms for the Disposition and Development Agreement under the revised 8.3 Tax Increment clarifying that second to the last sentence in the paragraph "This rebate is being provided The Gateway on Fremont Park L.P. and the initial and ongoing annual rebates are contingent upon Kathryn L. Reynolds remaining General Partner."

Jeff Mitchell, CADA legal counsel further stated that clarification was needed under 8.3 Tax Increment starting with the last sentence in the paragraph "In addition, the initial and annual rebate be contingent on the determination in CADA's sole discretion that the return the Developer will receive is reasonable."

No further Board comments.

No further public comments.

Chair Bailey moved to Agenda Item 12-B.

ITEM 12 – CLOSED SESSION

B. CONFERENCE WITH REAL ESTATE NEGOTIATOR (Government Code 54956.8)

Negotiators: Tom Kigar, Paul Schmidt

Other Parties: The Gateway on Fremont Park LP

Properties: East End Gateway Site 4 (Southeast Corner of 16th and P Streets)

Under Negotiation: Price and terms of payment

Chair Bailey reported that the Board had discussions with the real estate negotiators regarding East End Gateway Site 4. No action was taken.

Chair Bailey return to Agenda Item 6.

ITEM 6 – EAST END GATEWAY SITE 4 REVISED DEVELOPMENT ROPOSAL AND BUSINESS TERMS FROM THE GATEWAY ON FREMONT PARK LP (SOUTHEAST CORNER OF 16TH AND P STREETS)

Chair Bailey reconfirmed the action that the Board adopt a resolution approving the development proposal, accepting the submission of the Business Terms and conditionally committing an annual tax rebate to the project based on the amended language to the Disposition and Development Term Sheet dated September 19, 2011. Chair Bailey stated that today's date will be inserted into the approved resolution for the Term Sheet.

Member Alvarado moved approval of Resolution 11-33, as amended, attached hereto and incorporated herein. Member Robbins seconded the motion.

AYES: Alvarado, Lagomarsino, Otto, Robbins, Bailey

NOES: None

Chair Bailey moved to Agenda Item 11.

ITEM 11 - PRESENTATION ON THE EAST END GATEWAY SITE 1 "THE WARREN" FINANCING BY MICHAEL JOHNSON AND RON MELLON (NORTHWEST AND SOUTHWEST CORNERS OF 16TH AND O STREETS)

Marc de la Vergne provided a brief overview on the proposed project. Mr. de la Vergne reported that given the impossibility of securing financing for a "for sale" project, the developer would like to submit a proposal for a rental project or a hybrid rental/for sale project in time for the December Board Meeting. The developer would like staff to consider action on a proposed recommendation to adopt an amendment to the Disposition and Development Agreement Term Sheet reflecting the proposed changes. Staff has requested that the developer submit a proposal to CADA no later than October 31st.

Mr. de la Vergne acknowledged Nehemiah partner, Ron Mellon and introduced developer, Michael Johnson who presented an update on his efforts to secure financing for the proposed project, The Warren.

Michael Johnson reported the following:

- Since June, the developer has continued to pursue discussions with potential debt and equity sources and have come to the conclusion that in the near term that this project is going to be very challenging to finance as a condominium project.
- The developer has found that the market has swung from the development of condominiums in 2002-2004 all the way back over to the current desire to build multi-family apartments.
- The developer continues to refine the financial models, understand the comp for rentals, evaluate the costs of the building and has settled in on two approaches to the project. 1) Hybrid approach; mapping the entire building, designating the third and fourth floors as "units for sale" utilizing the BEGIN Program. Designate floors five through eight as rental units. This would result in 38 "for sale units" and 74 rental units on the upper floors with the potential to convert those units to for sale units in the future. 2) Second approach is to have all rental units.
- The developer is currently evaluating the whole structural system that will be used to build a Type 1 building. The developer has been working with non-union prevailing wage contractors and subcontractors in looking at more efficiency in the overall design, detailing and structure of how the building will be constructed with the goal of having the same look as proposed in the project drawings.
- In the next 30 days, the developer will be refining the details of the construction costs, the market comps that have been identified to support the project, continue to refine the financial models, finalize an investment memorandum that will be going out to a large number of sources both with the Mission Bay Project and The Warren Project. The developer would like to get the same financial commitment in terms of sources for both projects at the same time.
- The developer would like to come back to CADA the end of October with a proposal of what they would like to do in great detail. The developer would then like to come back to the Board in early December with a specific project whether it is in the form of a Term Sheet that outlines all the deal points or whether it is an amendment to the Disposition and Development Agreement. The developer's goal is to get the project in the ground by the third quarter of 2012.
- The developer reaffirmed the commitment to the project and their continued working relationship that they have with CADA.

There was general discussion between Michael Johnson and Member Lagomarsino regarding what type of unit reservations were made, the challenge of getting financing sources to commit to a hybrid project and that investors and lenders want project financing to be as simple as possible. Michael Johnson stated that with proposing a 112 unit apartment building in an excellent location with market rents and an attractive return with all the other activity that exists around that neighborhood and that site, there is a greater likelihood that the development team will be back within 60 days with term sheets from lenders and equity partners. Mr. Johnson said that the development team believed that, that is where they are ultimately headed, but did not want to give up on the approach of the hybrid combination (condos/apartments) particularly since they had the valuable resource of the BEGIN funding that was already available.

Member Lagomarsino stated that the Board continues to be interested in ownership housing in the neighborhood and that they have acknowledged in previous discussions with Mr. Johnson that East End Gateway Site 1 is a premium site for those buyers who can afford even in the current economy to be able to purchase a nicer unit on the higher floors. Member Lagomarsino hoped that the project can still reintroduce some ownership supply for those people who do have the capacity to be able to purchase those units. Member Lagomarsino expressed that it would be a lost opportunity to not be able to introduce that kind of product that is less sensitive to the economic cycle than others might be.

Michael Johnson responded that he believes that this situation is short term. The potential to convert this particular building to a "for sale" product within a three to five year period from completion is probable.

Member Lagomarsino asked Mr. Johnson whether the value engineering process resulting in the same look of the building will be affected by lower labor costs and would it alter the finishes or materials.

Michael Johnson responded that there would certainly be a reduction in costs going from what was originally priced as an all-union building to a prevailing wage building. This building gets its identity by its exterior skin with the high percentage of glass as part of its facade, the use of the panels as opposed to the traditional plaster and the stone at the base of the first two levels. Mr. Johnson stated that it is their intention not to sacrifice that quality at all. He believes that the same level of interior finishes are going to be necessary to achieve the kind of rent levels that have been discussed.

Chair Bailey moved to Agenda Item 7.

ITEM 7 – PARK MANSION ELEVATOR MODERNIZATION (1325 15TH STREET)

Allison Cash provided a brief overview of the work that is needed to bring the elevators up to date. Ms. Cash then presented staff's recommendation that 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 15th Street, Sacramento.

Member Robbins reported that the Development and Construction Committee supported staff's recommendation.

No further Board comments.

No public comments.

Member Robbins moved approval of Resolution 11-34, attached hereto and incorporated herein. Member Alvarado seconded the motion.

AYES: Alvarado, Lagomarsino, Otto, Robbins, Bailey
NOES: None

ITEM 8 – HVAC AND ELECTRICAL UPGRADE PROJECT (1616 N STREET)

Allison Cash presented staff's recommendation that 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.

Member Robbins reported that the Development and Construction Committee supported staff's recommendation.

No further Board comments.

No public comments.

Member Robbins moved approval of Resolution 11-35, attached hereto and incorporated herein. Member Otto seconded the motion.

AYES: Alvarado, Lagomarsino, Otto, Robbins, Bailey
NOES: None

ITEM 9 – UNDERGROUND UTILITY INSTALLATION (1616 N STREET)

Allison Cash presented staff's recommendation that 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 the underground utility service at Grantwood Manor location at 1616 N Street, Sacramento.

Member Robbins reported that the Development and Construction Committee supported staff's recommendation.

No further Board comments.

No public comments.

Member Robbins moved approval of Resolution 11-36, attached hereto and incorporated herein. Member Lagomarsino seconded the motion.

AYES: Alvarado, Lagomarsino, Otto, Robbins, Bailey
NOES: None

ITEM 10 – ENERGY EFFICIENCY AND SMUD HOME PERFORMANCE3 PROGRAM (HPP) UPDATE

Allison Cash provided an update to the Governor’s Executive Order S-20-04 and CADA’s efforts to meet and exceed the associated requirements and the incentive program, the SMUD Home Performance Program that CADA is participating in.

Chair Bailey moved to Agenda Item 12.

ITEM 12 – CLOSED SESSION

A. CONFERENCE WITH REAL ESTATE NEGOTIATOR (Government Code 54956.8)

Negotiators: Marc de la Vergne, Paul Schmidt
Other Parties: Capitol Lofts – Sacramento, a Delaware Limited Liability Company

Properties: Capitol Lofts (R Street between 11th and 12th Streets)

C. CONFERENCE WITH REAL ESTATE NEGOTIATOR (Government Code 54956.8)

Negotiators: Paul Schmidt
Other Parties: Department of General Services, State of California

Properties: CADA Managed and Leased Properties in the Area Bound by 7th to 17th, L to R Streets, in Sacramento, California

Chair Bailey reported that there was Board discussion on Items 12-A and 12-C. No action was taken.

Member Alvarado left the meeting at 12:33 p.m.

ITEM 13 – EAST END GATEWAY SITE 5 ACQUISITION

Tom Kigar reported that because the Development and Construction Committee expressed concern about the information received regarding the contamination that was caused by Mercury Cleaners an additional testing needs to be performed before CADA closes on East End Gateway Site 5. As a result of these findings, the following revisions have been made to the resolution:

- 1) Adding paragraph: Whereas, Department of General Services (DGS) has requested that the Purchase Agreement be amended to create an escrow set-aside fund of \$114,000 from the purchase price which can be used by CADA for site testing, vacating and remediation costs; and
- 2) Adding paragraph: Whereas, there is additional soil testing that should be completed prior to closing on the site; and
- 3) Last paragraph delete wording: “subject to conducting additional soil testing and determining that any costs for Site testing, vacating and remediation do not exceed \$114,000.”

Tom Kigar then presented staff’s revised recommendation that the Board adopt a resolution which authorizes the Executive Director to take such steps as necessary to close the purchase of the site from DGS as soon as practical subject to additional review of the soil testing by the Development and Construction Committee and their consent.

Member Robbins reported that the Development and Construction Committee was concerned that without having determined what the toxic costs were going to be, CADA would be committing to taking on a property not knowing where it will end. Member Robbins continued that CADA has had some preliminary work done and an estimated opinion was given, but the committee did not feel comfortable with an opinion because toxic remediation can escalate quickly, so the committee is trying to build in a quantification regarding the toxics.

There was discussion between CADA staff and the Board regarding the toxics issue. Paul Schmidt recommended to act on the East End Gateway Site 5 acquisition and that CADA will not close escrow until it goes back to the Development and Construction Committee for review. If the remediation costs are more than what is anticipated, the acquisition will not take place.

Chair Bailey reconfirmed the action authorizing the Executive Director to take all necessary steps to close the purchase of East End Gateway Site 5, approving the second amended resolution as per the Board and staff's discussion.

No further Board comments.

No public comments.

Member Otto moved approval of a second amendment to Resolution 11-37, attached hereto and incorporated herein. Member Lagomarsino seconded the motion.

AYES: Alvarado, Lagomarsino, Otto, Robbins, Bailey

NOES: None

ITEM 14 – STAFF REPORTS/UPDATES

- A. Jefferson School (1619 N Street): Paul Schmidt reported that the Sacramento Unified School District action about its surplus status will be coming before the School Board in October.
- B. Downtown Sacramento Revitalization Corporation: Paul Schmidt reported that its regular meeting will be held in October.
- C. O Street Streetscape; Artwork and Improvements; Regional Transit Stations: Marc de la Vergne reported that CADA submitted a draft bid package to Regional Transit (RT) for painting fixtures on the 1100 Blocks O Street. Staff submitted the draft bid package to RT on August 26th and are awaiting their review and indication on how long it will take to review it.
- D. Capitol Lofts (11th/R Streets) and HCD Infill Grant: This item was discussed in Agenda Item 12-A.
- E. Mercury Cleaners (Northeast Corner of 16th and O Streets): Marc de la Vergne reported the following:
 - Staff prepared a transmittal cover memo that included the EEG Site 5 Phase I Draft Memorandum of Understanding, an Option Agreement, a proposed Testing Program Budget and Schedule, and a legal memorandum from CADA's legal council which was transmitted to DGS on September 21st.
 - Staff is hoping to set up a meeting in the near future with DGS to discuss the totality of the Mercury Cleaners related issues.
 - From the testing that was completed in the alley, the consultants found that there was no short term health related risk issues, but have recommended that further testing be conducted to rule out any long term health related risks. The proposed costs of further testing is \$18,000.
- F. East End Gateway Site 1 (Northwest Corner of 16th and N Streets): This item was reported on in Agenda Item 11.
- G. Streetscape Projects; 16th Street and O Street: : Marc de la Vergne reported that there will be a community workshop at the CADA Administrative Office on October 5th from 5:30 p.m. to 7:30 p.m. to present the City's draft 30% drawings for the proposed 16th Street Streetscape Improvements for public review and comments. Based on the Concept Proposal that CADA submitted to the State of California in June, the State has invited CADA to submit a proposal to fund the green elements of 16th Street Streetscape Plan with a proposal due in November.
- H. Loan and Grant Research: Received as transmitted.

- I. East End Gateway Sites 2 and 3 (Northwest and Southwest Corners of 16th and O Streets): Tom Kigar reported that everything is proceeding well with approval of the construction loan and that Union Bank has increased the loan to \$17.5 Million. The loan is on schedule to close by the end of the year.
- J. East End Gateway Site 4 (Southeast Corner of 16th and P Streets): This item was reported on in Agenda Item 6.
- K. East End Gateway Site 5 (1610 - 1614 N Street): This item was reported on in Agenda Item 13.
- L. Site 9B (1610 17th Street): Tom Kigar reported that CADA is expecting to receive a proposal for a single family house with a granny flat on the first floor.
- M. CADA Police Services Contract: Todd Leon reported the following:
- That additional police coverage has started.
 - At the request of Member Lagomarsino, Todd Leon provided a memo in response to his questions.
 - The first night the additional police coverage was provided, officers removed people from Fremont Park. They were not supposed to be in the park after-hours; camping out, etc.
 - Officers responded to a vehicle break-in at the corner of 15th and R Streets.
 - CADA staff has received positive feedback from business owners in the area that the additional coverage is going to be very successful.
- N. Fremont Park Update: Todd Leon reported the following:
- CADA participated in the Chalk-it-Up event that was held over the Labor Day weekend. CADA helped provide Chalk-it-Up T-Shirts which included CADA's logo on the back. This was the first year in five years that Chalk-it-up has made a profit as opposed to losing money in the past. It was a very successful event.
 - As part of the Fremont Park improvements created a water station for future events which will be given over to the Friends of Fremont Park to manage for future events.
 - Tonight is the Move-in-the-Park featuring Toy Story Three which the management of this event is now being taken over by Friends of Fremont Park. The audience will be able to purchase food from the mobile food vendors that have been invited to participate in this event.
 - The Italian Modern Movie Festival will be held October 1st and 2nd.
- O. R Street PBID: Todd Leon reported that staff is right in the middle petition drive. He and Paul Schmidt will be meeting later today with one of the last key supporters needed for a signature on the petition. Staff will be coming back in December to discuss the legislation that is currently in the Governor's office, as far as the clean-up language allowing the City, State and JPA's to actually approve PBIDs as opposed to just the City and what, if any, impact it will have on establishing this PBID including if CADA's Board wanted to be the approving entity for the PBID. If everything goes as scheduled, hearings will be held in January for the approval of the PBID.
- P. Phase I – R Street Streetscape Implementation: 10th – 13th Street: Todd Leon reported the following:
- Construction is almost completed at the intersection of 11th Street and will be moving on to 10th Street next week.
 - Most of the ground work is completed.
 - The bike racks were in the application process to get the encroachment permit.
 - The archway foundations are currently being installed.
 - The artwork is moving forward and hopefully will have more updates close to the pouring of the artwork at the Fox and Goose. With regard to the artwork, the dock extension is currently in the permit process at the City. In relation to the loan that CADA is working on with Allyson Dalton, she is currently having bidding issues; prices are going up instead of going down. Ms. Dalton is working with different construction companies to obtain more competitive bidding.
 - A grand opening celebration has been moved back to December 1st because the archways will not be installed until the week of Thanksgiving.
- Q. Phase II – Streetscape Implementation, Market Plaza: Todd Leon reported that the project is at a standstill with 60% drawings. The City along with CADA are reluctant to omit the R Street Plaza concept barring community outreach. Fulcrum has requested the changes, but has not offered to pay any

money towards the redesign. Fulcrum Properties owns Crystal Ice. Going backwards to 30% drawings will be an issue that staff will have to bring back to the Board. Currently, staff has asked the City and their consultant, Mark Thomas & Company to provide a cost proposal to see how much it will cost in relation to what is remaining of the \$400,000 that has been put towards finishing the previous preliminary design concept. The City should have had the cost proposal to CADA by now, but have been busy with other priorities on R Street. The City said that CADA should have the proposal by next month.

R. R Street Affordable Housing: No report.

ITEM 15 – TRANSMITTALS

Received as transmitted.

ITEM 16 – OPPORTUNITY FOR THE PUBLIC TO ADDRESS THE BOARD REGARDING MATTERS NOT ON THE AGENDA

None

ITEM 17 – ADJOURNMENT

The meeting adjourned at 1:00 p.m.



Sharon M. Bennett
Secretary to the Board of Directors