



February 16, 2022

TO: CADA Board of Directors

**SUBJECT: February 23, 2022 Special Board Meeting
AGENDA ITEM 7
AUTHORIZATION TO CLOSE ESCROW ON THE PURCHASE OF PROPERTY
LOCATED AT 2000 16th STREET (009-0151-006, -007, and -008)**

CONTACTS: Todd Leon, Development Director
Wendy Saunders, Executive Director

RECOMMENDED ACTIONS:

Staff recommends that the CADA Board of Directors authorize staff to close escrow on the purchase of property located at 2000 16th Street (APN No.'s 009-0151-006, -007, and -008).

BACKGROUND

In July of 2021, CADA staff began searching for available land for purchase in the Sacramento Central City. Staff's intention was to identify sites that would be candidates for multifamily affordable housing projects. After reviewing a number of available properties, the property on the southwest corner of 16th and T Streets emerged as a superior candidate due to its large size, proximity to the R Street Corridor area and prominent location (see **Exhibit 1**, Property Parcels at 16th and T). In conformance with the acquisition policy adopted by the Board in August 2021, CADA staff submitted a Letter of Intent/Offer (LOI) to the owners of the property. After some negotiation, both parties agreed upon an acceptable price and general terms.

Once the LOI was signed, a Purchase and Sales Agreement (PSA) was prepared and presented to the Board in closed session. At that time, the Board approved the terms of the PSA and authorized the Executive Director to execute the PSA if approved by the Seller. CADA staff and the seller agreed on a final PSA with a purchase price of \$3,280,000. On November 16, 2021 the final PSA was signed by both parties and CADA deposited \$25,000 into escrow. A 60-day due diligence period began immediately and ended on January 17, 2022. After conducting a review of the property, staff decided to initiate the second 60-day due diligence period per the PSA, and deposited an additional \$25,000 into escrow. The second due diligence period allowed staff to complete its review, including evaluation of the existing building, which allowed CADA staff to prepare to absorb the site into CADA's property management systems. Staff has now concluded its review. In staff's opinion, there are no major issues that would cause CADA to terminate the PSA and not purchase the property.

Staff is requesting that the CADA Board of Directors authorize the Executive Director to close escrow and complete the purchase of the 2000 16th Street property.

ANALYSIS

The 2000 16th Street property comprises 3 lots and is approximately 200 feet x 160 feet or 32,000 square feet. The property is not quite a full half-block, but it is a larger size than many development

sites such as 16 Powerhouse or 1430 Q Street. Depending on the construction approach, this site could accommodate a housing development of approximately 80 to 140 units.

The property currently has two tenants located in the same L-shaped building. One tenant is an automobile smog testing center and the other is a brake and alignment service center. Additionally, the site has 14 parking spaces that are leased to the general public on a month to month basis. Once CADA purchases the property, it will retain the existing tenants, who are currently on a month to month lease status. Since predevelopment activities will take time, staff will likely look to retain the tenants with new one to two-year year lease agreements. CADA maintenance staff has inspected the existing buildings and has found no significant issues.

Since this site is not a State-owned property and CADA is purchasing it for a future housing development, staff has determined that development will require City of Sacramento land use and design approvals through the City's entitlement process.

General Plan and Zoning - The general plan designation for 2000 16th Street is "Urban Corridor Low." Under this designation, the site density is currently limited to 110 dwelling units per acre and has a maximum floor area ratio of 3.0.

The land use zoning for the three lots on the property is Commercial-2 (C-2) and Residential-1 (R-1). The larger corner lot is zoned commercial and the City of Sacramento allows multifamily development in this zone. The maximum height allowed in a C-2 zone is 85 feet. However, this lot's height is further limited by the proximity of low-density residentially zoned property.

The other two small lots are zoned R-1. Since R0-1 is a single-family zoned property, developing a dense multi-family project will require a rezoning of the property and a lot merger with the larger parcel.

Thus, both the General Plan and Zoning designations pose restrictions that limit the potential density of the site. However, the State and City provide for density bonuses if the development includes affordable housing. The density bonuses could loosen the limits on the site depending on the number of income-restricted units and the affordability levels of those units in the project. Once pre-development work begins, including development of a concept design with an architect, these issues will be fully explored in consultation with City Planning Department staff.

Environmental – A commercial building and two parking lots currently occupy the lots on the 2000 16th Street property. A Simas Brothers Service Station previously occupied this site. In 2003 a number of underground storage tanks (USTs) were removed from the site which revealed that a release of petroleum products had occurred previously. The petroleum contaminated both soil and groundwater. The shallow groundwater plume from the former Simas Brothers Services Station comingled with a former Shell Oil Service Station across the street at 1608 T Street. Although some remediation has occurred, including a purging of the contaminated groundwater, the comingled plume remains above acceptable regulatory levels. The sellers of the 2000 16th Street property have been working with the Shell Corporation and the owners of the 1608 T Street property to access State and local cleanup funds both to conduct testing and to remediate the groundwater contamination.

Shell Oil has worked with the County of Sacramento (the lead regulatory agency) and the Regional Water Board to remediate the groundwater. Over the last 5 years, progress has been slow as Shell Oil, the Regional Board and the County have worked to find a feasible treatment solution. In November 2021, Shell Oil's environmental consultant submitted a proposed Remedial Action Plan (RAP) to the County and Regional Water Board for review. In the RAP, Shell's consultant is proposing a relatively new remediation approach to address the groundwater contamination. The RAP approach was approved by the County and Regional Water Board in the fall of 2021.

Upon the close of escrow, the property owner will assign to CADA its claim with the Regional Water Board for UST remediation assistance. The transfer of the UST remediation fund claim will allow CADA to enter into a new agreement with Shell Oil and will provide for continued access to the State Water Board's co-mingled groundwater pollution remediation funds.

After discussing the current environmental conditions and ongoing remediation efforts with CADA's consultant, the County Environmental Management Department and Regional Water Board, staff determined that the financial risk and other potential liabilities CADA would assume by purchasing this site is low. It is likely that mitigation measures will be required in the new building to protect existing or lingering vapor issues related to the groundwater contamination. These mitigations would likely be the same as those implemented at both ARY Place and Sonrisa Studios, which consist of a subsurface soil vapor barrier and venting system.

Development Partner and Schedule - Once CADA purchases 2000 16th Street, staff will immediately begin predevelopment work for an affordable housing project. Staff assumes that the Board will want CADA's associated non-profit, the Capitol Area Community Development Corporation (CACDC), to lead development of the site. The CACDC will most likely need to bring on an experienced affordable housing development partner in order to qualify for available affordable housing funds. Identification of a suitable partner will be the first step. Once a partner is identified and approved by the CACDC Board of Directors, the partners will then begin the process to select an architect, begin entitlement discussions with the City, begin concept designs, and conduct community outreach around the design program. Staff anticipates these activities will take between 8 and 12 months. After securing City entitlements, the staff will work to secure project financing and complete construction drawings. The financing and final design phase of the development will take another 8 to 12 months.

FINANCIAL IMPACT

R Street Tax Increment funds for the property purchase in the amount of \$3,280,000 were allocated in the Fiscal-Year 2021-22 Mid-Year Budget Revisions. The budget also allocated funds for predevelopment activities. Both deposits into escrow, totaling \$50,000, will be credited against the purchase price.

POLICY CONSIDERATIONS

The 16th and T Street property is located approximately one block south of the R Street Corridor project area boundary. Please see **Exhibit 2, Site Location**. The R Street Corridor area is subject to an "inclusionary housing" obligation that requires that 30% of any housing units built by CADA and 15% of the housing units built by others to be affordable. The statutes specifically provide that CADA-assisted affordable housing developed outside of the project area may count toward the R Street inclusionary requirement on a two-for-one basis. Specifically:

GC 8193.1(b)(2)(A)(ii). (ii) To satisfy this paragraph, in whole or in part, the authority may cause, by regulation or agreement, to be available, at affordable housing costs, to persons and families of low or moderate income or to very low income households, as applicable, *two units outside the R Street Area for each unit that otherwise would have been required to be available inside the R Street Area*.

CADA staff track ongoing development within the R Street corridor area to make certain that CADA is moving toward compliance with this requirement over time. When the redevelopment project area terminates in 2032, our intent is that the obligation will have been met or exceeded. At this point, upon completion of ARY Place and its 158 units of affordable housing, CADA will have built or assisted in the development of 79 affordable housing units in excess of the inclusionary requirement.

ENVIRONMENTAL CONSIDERATIONS

No change in activity on the Property is currently planned. Accordingly, purchase of the property is categorically exempt under 2 CCR 15301.

Exhibits

Exhibit 1 - Property Parcels at 16th and T

Exhibit 2 – Site Location

Exhibit 1
16th and T Street Property Parcels



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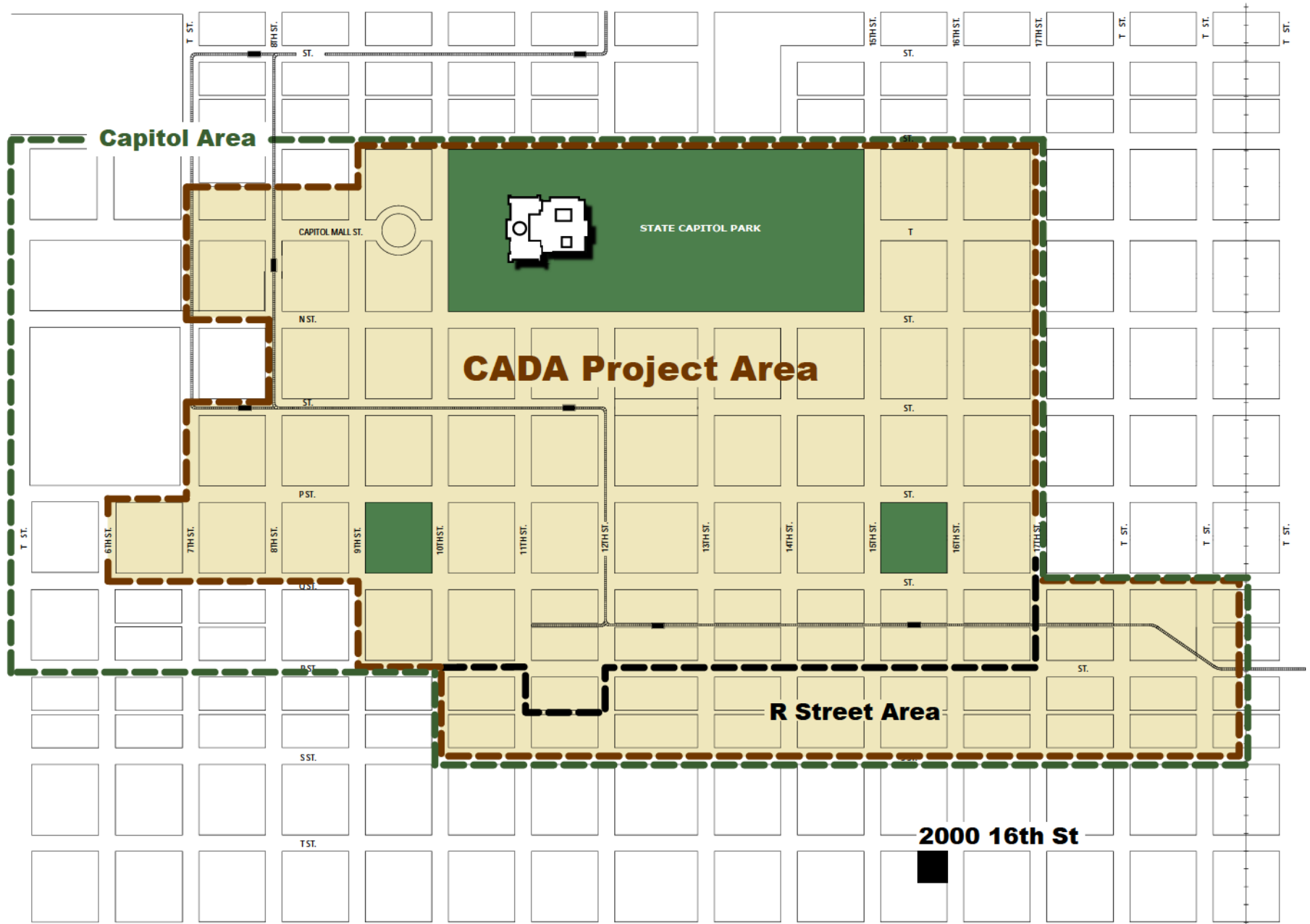
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Existing Project Areas in Relation to Future Site



Boundaries for the State's Capitol Area. The Capitol Area Plan (CAP) (GC 8160-8169.6) is the official state master plan for development within the Central City and is a guide for future state policy in the locating of state buildings and other facilities in the Metropolitan Area.



Boundaries of CADA's Project Area including R Street Area. CADA develops residential and retail projects in this area as governed by the CAP and Government Code 8180-8194.





RESOLUTION NO. 22 - 11

Adopted by the Capitol Area Development Authority

February 23, 2022

RESOLUTION AUTHORIZING CLOSE OF ESCROW ON PROPERTY LOCATED AT 2000 16TH STREET (009-0151-006, -007, AND -008).

WHEREAS, on August 20, 2021 the CADA Board approved adoption a policy regarding preliminary evaluation of properties for potential acquisition.

WHEREAS, on August 21, 2021, staff submitted a Letter of Intent/Offer (LOI) to the sellers of a property located at southwest of corner of 16th and T Streets (2000 16th Street, APNs 009-0151-006, -007, and -008) to purchase the property for \$3,280,000 and the LOI was accepted; and

WHEREAS, on August 27, 2021, the sellers of 2000 16th Street signed CADA's LOI and agreed to a purchase price of \$3,280,000 for the property; and

WHEREAS, on October 22, 2021, the CADA Board approved, in closed session, the terms of acquisition for the property; and

WHEREAS, on November 16, 2021, CADA entered into a Purchase and Sales Agreement with the sellers and made a deposit of \$25,000 into escrow to initiate a 60 due diligence period ending on January 17, 2022; and

WHEREAS, on January 17, 2022, CADA deposited another \$25,000 into escrow to extend the due diligence period another 60 days, ending on March 16th; and

WHEREAS, CADA completed its due diligence and desires to purchase the property.

NOW, THEREFORE, BE IT RESOLVED, by the Capitol Area Development Authority that the Board of Directors hereby:

1. Authorizes the Executive Director to take all actions necessary to close escrow and purchase the 2000 16th Street property for an amount of \$3,280,000.

ATTEST:

Tara Gandara
Secretary to the Board of Directors

Ann Bailey, Chair