



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



5.7

June 4, 1992

City Council and
Redevelopment Agency
of the City of Sacramento
Sacramento, California

APPROVED
BY THE CITY COUNCIL

JUN 04 1992

OFFICE OF THE
CITY CLERK

Honorable Members in Session:

SUBJECT: Capitol Mall Development Site (Lot A)

LOCATION AND COUNCIL DISTRICT: District 1



SUMMARY

This report recommends that Capitol Mall Partners be granted an extension of time for close of escrow and commencement of construction of the Capitol Mall Development Site (Lot A) project.

COMMISSION ACTION

It is anticipated that at its meeting of June 3, 1992, the Sacramento Housing and Redevelopment Commission will approve the attached resolutions, authorizing the Executive Director to negotiate with Capitol Mall Partners to extend the construction start date for the development of the Capitol Mall Development Site (Lot A).

STAFF RECOMMENDATION

Staff recommends approval of the attached resolutions which:

- o approve in concept an extension for the close of escrow and construction start date for the Lot A project;

(1)

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- o direct Agency staff to negotiate with Capitol Mall Partners regarding the terms under which an extension shall be granted, to be discussed in executive session prior to being brought back for consideration in open session; and
- o provide that the terms of the existing Development Agreement and Disposition and Development Agreements shall otherwise remain unchanged.

BACKGROUND

In November 1989, the City Council approved selection of Capitol Mall Partners (CMP), a partnership between Rockefeller & Associates Realty, L.P. and McCuen Properties, to proceed with negotiations for an agreement to develop the Lot A site, bounded by Capitol Mall, 6th, 7th, and L streets. The development is proposed in two phases. Phase I is to be constructed on "Parcel 1" of the site, and includes 600,000 square feet of class "A" office and 15,000 square feet of retail in a 34 story office tower and a 32,000 square foot public plaza. Phase II is to be constructed on "Parcel 2" and "Parcel 3" of the site, and consists of a 300-room luxury hotel, 200,000 square feet of class "A" office, and 5,000 square feet of retail. In addition, the project will include parking sufficient to accommodate 800 on-site spaces and 900 off-site spaces to be served by a shuttle. A minimum of 300 of the on-site spaces and 262 of the off-site spaces will be available as public parking.

In July 1990, the City Council, the Agency, and the Parking Authority approved a Predevelopment Agreement (PDA) establishing the terms and conditions for a Disposition and Development Agreement (DDA) for Parcel 1, an Option Agreement for Parcels 2 and 3, and a lease agreement for Parcels 2 and 3 to be operative during the option period. The agreements establish a purchase price of \$9 million for Parcel 1, and specify that escrow for Parcel 1 will close within 17 months from the date the DDA is executed. The DDA for Parcel 1 was executed on January 18, 1991, and therefore, calls for escrow to close by mid-June 1992.

In accordance with the terms of the PDA, the following has occurred:

- o CMP has deposited a letter of credit in the amount of \$900,000 to secure performance through the close of escrow for Parcel 1.

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- o A Development Agreement which specifies zoning and land use agreements has been executed by the City and the Developer.
- o The property has been subdivided into three separate legal parcels.
- o A Transfer Agreement authorizing transfer of the site from the Parking Authority to the Agency has been executed to allow the Agency, acting as the City's agent, to enter into the DDA and option agreement with the developer.
- o An Environmental Impact Report for the project has been certified.

CMP has expressed a commitment to complete the project as approved by the Redevelopment Agency and the City Council; however, citing a slowdown in office absorption rates and difficulty in obtaining financing, the partners have requested a postponement of construction. The developers believe that under current market conditions, it is not possible to pre-lease and finance the project within the timeframe contemplated by the DDA. The developers believe that economic conditions necessitate a delay despite their substantial investment of time and money in efforts to comply with the project schedule as outlined in the DDA.

As evidence of their investment and continuing commitment to the project, the developers note that in addition to posting a \$900,000 letter of credit, to date CMP has expended approximately \$1.3 million on the project. These costs are in addition to those associated with the competitive selection process and include such expenses as marketing activity to pursue pre-leasing commitments that lenders generally require for commercial developments, efforts to secure financing for the project, preparation of a Transportation System Management Plan, and the cost of negotiating agreements with the City, the Agency, and the owners of potential off-site parking sites.

Staff believes that the developer has complied with the DDA to the extent practicable and has acted in good faith. Given current market conditions, staff believes that it is reasonable to grant an extension for the development schedule. Staff believes that the proposed project offers significant benefits to the City, and that it is advisable to negotiate the terms of an extension with the current development team.

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FINANCIAL CONSIDERATIONS

Under the existing agreements, the developer has agreed to pay \$9 million to purchase Parcel 1, a housing trust fund in lieu payment amounting to \$1.04 million, an additional \$1 million housing payment, and an option fee of \$2,788,000 which will be applied to the eventual purchase of Parcels 2 and 3. In addition, at close of escrow for Phase I, the developer will post a \$1 million letter of credit to secure performance for Phase II.

Prior to obtaining a certificate of completion for Phase I, the developer will contribute \$300,000 either to an on-site childcare facility or to the City to support childcare services elsewhere in the downtown area. An additional \$240,000 childcare payment is required for Phases II and III. The project's Art in Public Places contribution will be approximately \$4.8 million, representing two percent of the estimated construction cost.

Staff recommends that the Agency evaluate the financial terms under which an extension is granted in executive session.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a project under CEQA per Guidelines, Section 15378(b)(3), nor a federal undertaking under NEPA. The proposed action assumes ultimate development of the project as previously approved.

POLICY CONSIDERATIONS

The proposed action would revise the schedule of performance for the Lot A development project by allowing an extension for the start of construction.

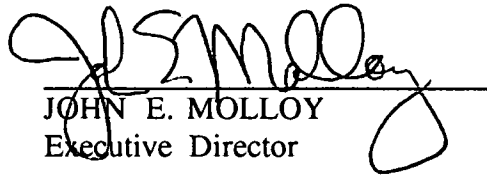
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MBE/WBE

MBE/WBE considerations are not required with this activity. MBE/WBE requirements as applied to the original project will remain in effect.

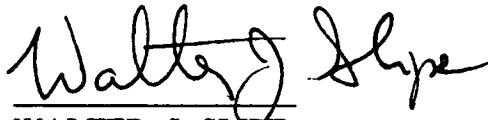
Respectfully submitted by,



JOHN E. MOLLOY
Executive Director

TRANSMITTAL APPROVED BY:

FOR COUNCIL MEETING OF:



WALTER J. SLUPE
City Manager

June 4, 1992

Contact Person:

Thomas V. Lee, Deputy Executive Director, 440-1333
Susan Bloch, Program Manager, 264-1512

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RESOLUTION NO. 92-042

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF _____

**NEGOTIATION OF EXTENSION OF TIME FOR DEVELOPMENT OF THE
CAPITOL MALL DEVELOPMENT SITE (LOT A)**

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

Section 1: The Redevelopment Agency approves in concept the proposed amendment of the schedule of performance for the development of the Capitol Mall Development Site (Lot A) to allow for a delayed close of escrow and construction start date.

Section 2: The Executive Director is directed to negotiate with Capitol Mall Partners regarding the terms under which an extension of the schedule of performance for the development of the Capitol Mall Development Site shall be granted and to report back to the City Council in executive session. After the report back to the Council, the proposed terms shall be considered and subject to approval in open session.

Section 3: The terms of the existing Development Agreement and Disposition and Development Agreements for development of the Lot A project shall remain unchanged except as they may be amended to extend the schedule of performance.

CHAIR

ATTEST:

SECRETARY



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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

RESOLUTION NO. 92-384

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**NEGOTIATION OF EXTENSION OF TIME FOR DEVELOPMENT OF THE
CAPITOL MALL DEVELOPMENT SITE (LOT A)**

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

Section 1: The City Council approves in concept the proposed amendment of the schedule of performance for the development of the Capitol Mall Development Site (Lot A) to allow for a delayed close of escrow and construction start date.

Section 2: The Redevelopment Agency of the City of Sacramento is directed to negotiate with Capitol Mall Partners regarding the terms under which an extension of the schedule of performance for the development of the Capitol Mall Development Site shall be granted and to report back to the Council in executive session. After the report back to the Council, the proposed terms shall be considered and subject to approval in open session.

Section 3: The terms of the existing Development Agreement and Disposition and Development Agreements for development of the Lot A project shall remain unchanged except as they may be amended to extend the schedule of performance.

MAYOR

ATTEST:

CITY CLERK

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APPROVED
BY THE CITY COUNCIL
JUN 04 1992
OFFICE OF THE
CITY CLERK

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RESOLUTION NO.: _____

DATE ADOPTED: _____