

Supplemental Material

For

City of Sacramento

City Council
Financing Authority
Housing Authority
Redevelopment Agency

Agenda Packet

Submitted: May 13, 2008

For the Meeting of: May 13, 2008

- Additional Material
- Revised Material

**Title: (City Council/ Redevelopment Agency) Agreements:
Sacramento Railyards Project**

Pages 2- 14 was inadvertently omitted from the Staff Report.

Contact Information: Dave Harzoff, Economic Development Manager, (916) 808-5385,
Economic Development Department

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**REPORT TO THE
REDEVELOPMENT AGENCY
AND CITY COUNCIL
of the City of Sacramento**

915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org

**Staff Report
May 13, 2008**

**Honorable Chair and Members of the Board
Honorable Mayor and Members of the City Council**

Title: Railyards Owner Participation Agreements

Location/Council District: Sacramento Railyards, Council District 1

Recommendation:

Adopt the following **City Council Resolution** approving findings related to the use of redevelopment tax increment to finance Railyards infrastructure and public facilities as incorporated in the Owner Participation Agreement business terms for the Sacramento Railyards Project

Adopt the following **Redevelopment Agency Resolution** that: 1) determines that the action has been adequately considered by the Railyards Redevelopment Plan EIR and no further environmental review is required; 2) approves findings related to the use of redevelopment tax increment to finance Railyards infrastructure and public facilities; 3) approves the Railyards Master Owner Participation Agreement and the Railyards Initial Phase Infrastructure Owner Participation Agreement and authorizes the City Manager as the Agency's authorized designee to execute the two agreements; and 4) authorizes the Agency Interim Executive Director to amend the Agency budget as necessary to carry out the provisions of the two agreements.

Contact: Dave Harzoff, Economic Development Manager, 808-5385

Presenters: Dave Harzoff

Department: Economic Development

Division: Downtown

Organization No: 4451

Description/Analysis

Summary: On December 11, 2007 the City Council granted entitlements for the Railyards Specific Plan, approved a Development Agreement, and approved a set of City business terms with S. Thomas Enterprises of Sacramento, LLC (Thomas). The City Council sitting as the Agency Board also conceptually approved a set of Agency business terms with Thomas and directed that the business terms be incorporated into Owner Participation Agreements (OPA). The Master OPA establishes parameters for Agency redevelopment assistance throughout the Railyards property, including funding for affordable housing. The Initial Phase Infrastructure OPA commits up to \$50 million in tax increment (TI) as a reimbursement to Thomas for development of a specific set of infrastructure improvements and other important public facilities and Central Shops rehabilitation in the Initial Phase of the project.

Policy Considerations:

The recommended actions are consistent with the Railyards Specific Plan, the newly adopted Railyards Redevelopment Plan, the formerly applicable Amended Richards Boulevard Redevelopment Plan (amended to be renamed the River District Redevelopment Plan), and the newly adopted 2009-2013 Railyards Implementation Plan. Redevelopment of the Railyards Specific Plan area will eliminate blight within the Railyards Redevelopment Project Area by 1) eliminating environmental deficiencies in the Project Area; rehabilitating obsolete, aged and deteriorated buildings; replacing inadequate and non-public improvements and utilities and removing barriers to private investment and economic re-use of the site; and by 2) assisting with the redevelopment of an abandoned industrial site with a mix of uses including retail, office, historic, cultural and entertainment uses, and supporting substantial infill and transit-oriented housing development, including affordable housing; and by 3) the installation of needed backbone infrastructure and public facility improvements. The recommended actions also specifically support affordable housing as well as broadened provisions that establish all types of infill housing projects in the Railyards as priorities for the use of redevelopment funds. The list of qualified projects eligible for reimbursement has been expanded slightly from what the Agency Board conceptually approved last fall to include two additional buildings: the Car Machine Shop and the Planing Mill, as shown on Attachment 2. Car Shop No. 3 and the Paint Shop were already on the list the Board approved last fall.

Environmental Considerations: The proposed actions are consistent with the Railyards Specific Plan and the impacts of implementing the Specific Plan were evaluated in the Railyards Specific Plan Final Environmental Impact Report (RSP FEIR) which was certified and its Mitigation Monitoring Program approved by the City Council on December 11, 2007. The environmental impact analysis of the Railyards Redevelopment Plan and the Seventh Amendment to the Richards Boulevard Redevelopment Plan as set out in the Final Environmental Impact Report (Plan FEIR) and the corresponding Mitigation Monitoring Program (Plan MMP) was certified by the Agency on May 6, 2008. The Agency has reviewed,

considered and adopted the Plan FEIR and the Plan MMP documents prior to the adoption of the Railyards Redevelopment Plan and it provides adequate environmental analysis necessary to approve the recommended actions and no additional environmental review is necessary.

Rationale for Recommendation: The recommended actions in this report are necessary to advance the redevelopment of the Railyards by forming a public-private partnership with the developer that will produce substantial public benefits.

Financial Considerations:

The recommended actions will commit the Agency to working with Thomas, or any successors in interest, on redeveloping the Railyards property. Approval of the OPAs commits up to \$50 million in net present value (2008\$'s) redevelopment tax increment funds to assist in funding the backbone infrastructure and important public and private facilities necessary to support the Initial Phase of development as identified in the Railyards Specific Plan and related entitlements. The estimated Phase 1 backbone infrastructure and facilities costs are \$290 million of which the funding in the OPAs will cover only a portion of the costs on a reimbursement basis. The remainder of the funding will come from the Developer, earmarked City and local funds or outside sources, such as private investors or other State and Federal funds. The financial feasibility (pro forma) analysis prepared by the City for the Railyards project indicated that the Developer can only profitably fund approximately \$49 million of the Phase 1 infrastructure costs. Despite the City's commitment of all of its funds that are reasonably available to the project, the project could not proceed without the Agency's and other financial assistance.

M/WBE Considerations/ Emerging Small Business Development (ESBD):

The recommended actions do not involve the purchase of goods or services.

Respectfully Submitted by: DAVE HARZOFF
Dave Harzoff
Economic Development Division Manager

Marty Hanneman
Marty Hanneman
Assistant City Manager

Recommendation Approved:

Ray Kerridge
Ray Kerridge
City Manager

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OPA Business Terms Summary**Master OPA**

1. Entire Railyards Development Project subject to Master OPA
2. Provides for subsequent OPAs including Initial Phase Infrastructure OPA that commits up to \$50 million in tax increment towards infrastructure cost reimbursement for the Initial Phase of development.
3. Remaining tax increment net of housing set aside, senior pass-through, and other funding obligations (Net TI) is available for qualified projects with the intent of expenditure within 3 years of receipt as follows:
 - First priority for Net TI is Agency affordable housing or other legal obligations
 - Next priorities for Net TI are public facilities financing, Developer-proposed housing projects, Central Shops rehabilitation, public parking facilities, and parks and open space, to the extent qualified for redevelopment funding, at Agency's discretion
4. Low and moderate affordable housing set aside funds generated by the Railyards project will first be used to assist the Developer in meeting its inclusionary housing ordinance obligations.
5. Rights to receive tax increment generated from the development of a particular parcel pass to the purchaser of the parcel unless they waive that right.
6. Requires accounting of availability of Net TI funds for projects. After 3 years of receipt if not spent for a designated project Agency regains full discretion as to use of funds.
7. All future projects subject to financial feasibility and necessary environmental analysis.
8. Default of other City and Agency agreements is a default of the Master OPA.

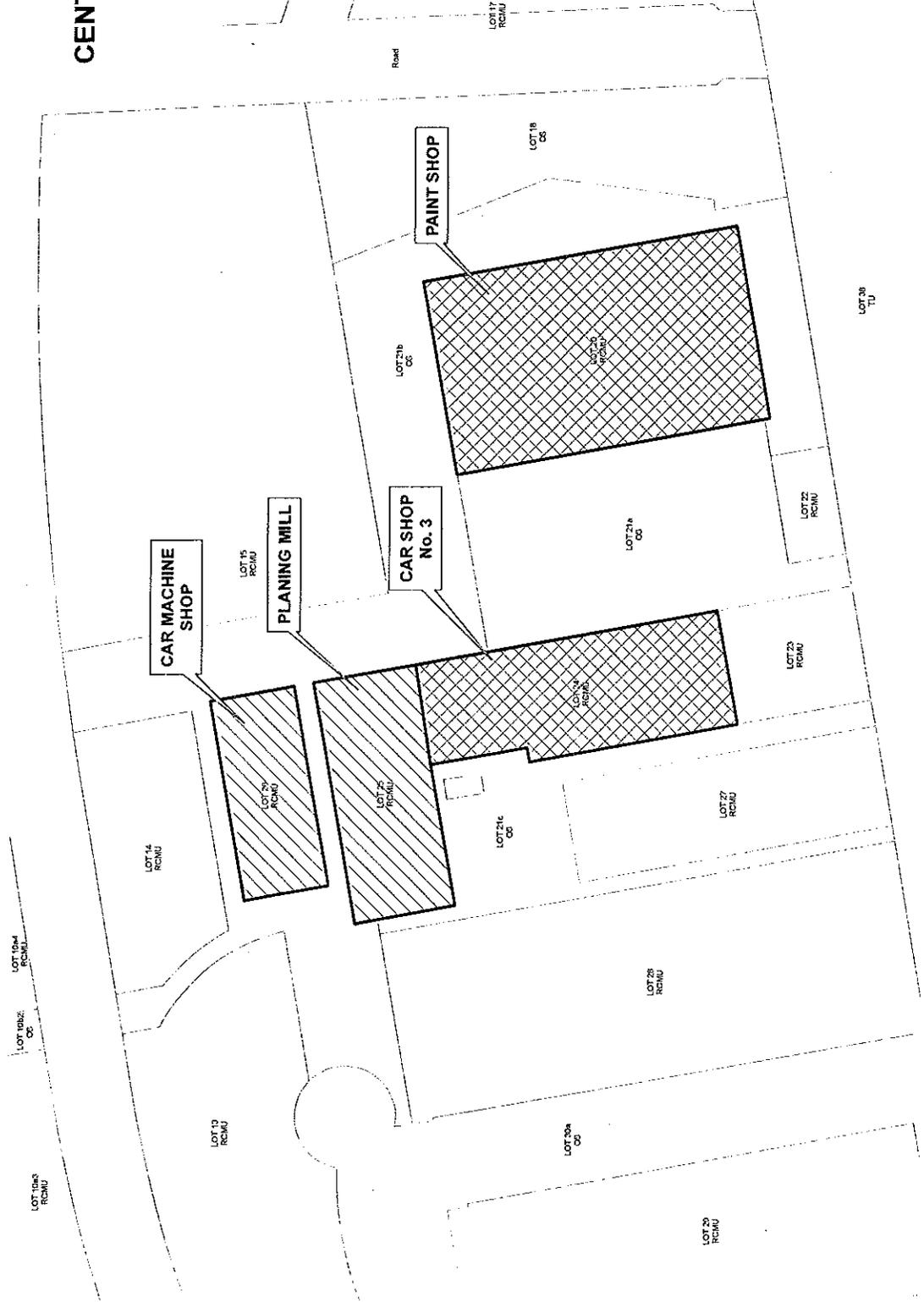
Initial Phase Infrastructure OPA

9. Up to \$50 million in Net TI available for reimbursement for infrastructure, public facilities, and building rehabilitation on the qualified list in the Initial Phase of the project.
10. Reimbursement obligation balance increases at a 6% compounded annual rate
11. Agency reimbursement obligation limited to actual Net TI received from development within Initial Phase boundaries.
12. Developer has 10 years from track relocation (similar to Development Agreement) to vest rights to receive the reimbursement and all rights to reimbursement under this OPA terminate after 15 years from the effective date of the OPA.

Location of Car Machine Shop and Planing Mill
Being Added to Qualified List of Reimbursable Improvements

CENTRAL SHOPS AREA

April 29 2008



NOTE



RESOLUTION NO. 2008- ____

Adopted by the Sacramento City Council

**APPROVING FINDINGS RELATED TO THE
AGENCY'S OWNER PARTICIPATION AGREEMENTS FOR
THE SACRAMENTO RAILYARDS PROJECT**

BACKGROUND

- A. On December 11, 2007, the City of Sacramento ("City") entered into a Development Agreement, with S. Thomas Enterprises of Sacramento, LLC ("Developer") in furtherance of the Railyards Specific Plan, which Specific Plan and related entitlements specifies the required public facility and infrastructure improvements necessary for implementation of the Specific Plan and the Railyards Specific Plan Public Facilities Financing Plan. The Financing Plan sets forth the estimated costs of those public facility and infrastructure improvements and identifies potential funding sources for those improvements.
- B. As part of the evaluation of the Sacramento Railyards Project, a Pro Forma Analysis was prepared to assess the capacity of the Developer and the Sacramento Railyards Project to incur the costs for the required public facility and infrastructure improvements. This Analysis demonstrated that the Developer can only pay up to \$49 million towards the \$290 million estimated costs for the public facilities and infrastructure necessary to develop Phase 1. There is a projected cumulative financial feasibility gap for the private development in all phases of the Project of approximately \$860 million under current market conditions, exclusive of infrastructure costs. The City has made commitments to the Project of public funding for certain Railyards public facility and infrastructure improvements in an approximate amount of \$150 million.
- C. The Redevelopment Agency of the City of Sacramento ("Agency") is considering approval of a Master Owner Participation Agreement and Initial Phase Infrastructure Owner Participation Agreement ("OPA") with the Developer. The Initial Phase OPA would make available for such unfunded public facilities and infrastructure improvements, up to approximately \$50 million in tax increment revenues, increased annually at the rate of six percent on the undisbursed balance.
- D. On December 11, 2007, the City adopted the Final Environmental Impact Report for the Railyards Specific Plan and the Mitigation Monitoring Program, which analyzed

the impacts of the development of the Railyards Specific Plan project, including the public facility and infrastructure improvements that would be funded by the actions contemplated by the Agency.

- E. On May 6, 2008, the Agency approved the Railyards Redevelopment Plan and the Seventh Amendment to the Richards Boulevard Redevelopment Plan (renamed as the River District Redevelopment Plan and Project Area). On this date by separate action the the City passed for publication and held the first reading of the ordinance to approve the Railyards Redevelopment Plan, amend the Richards Boulevard Redevelopment Plan and establish the Railyards Project Area. On May 13, 2008 the City Council held the second reading and approved the ordinance. The Agency and City took these actions after certification and consideration of the Final Environmental Impact Report for the Railyards Redevelopment Plan and the Seventh Amendment to the Richards Boulevard Redevelopment Plan and approving the corresponding Mitigation Monitoring Program.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The foregoing findings are true and correct and hereby approved.

Section 2. Pursuant to Section 33445 of the Health and Safety Code of the State of California, the City Council finds that:

a. The implementation of the public facility and infrastructure improvements specified in the Railyards Specific Plan will benefit the Railyards Redevelopment Project Area, which encompasses a former portion of the Richards Boulevard Redevelopment Project Area, by improving inadequate infrastructure and by constructing and installing public facilities and infrastructure required for redevelopment within the Railyards. Some of the backbone infrastructure improvements within the Railyards Project Area and required for the implementation of the Railyards Specific Plan will also benefit the River District Redevelopment Project Area;

b. Based on the Railyards Specific Plan Public Facilities Financing Plan, the cost of the public facilities and infrastructure improvements required for redevelopment of the Railyards by implementation of the Railyards Specific Plan will exceed the available public and private funding sources, and there is no other reasonable means of financing the public facilities and infrastructure improvements available to the community except for redevelopment area tax increment proceeds; and

c. The use of redevelopment tax increment proceeds for the Railyards public facilities and infrastructure improvements will result in the elimination of blighting influences resulting from inadequate, under capacity, and dilapidated infrastructure within the Railyards Redevelopment Project Area. The public facilities and infrastructure improvements set out in the Railyards Specific Plan are consistent with the Implementation Plan for the Railyards Redevelopment Plan as well as for the former Richards Boulevard Redevelopment Plan, now renamed the River District Redevelopment Plan, both adopted pursuant to Health and Safety Code Section 33490.

Section 3. The preceding statements are findings of the City Council on behalf of the City, and do not predispose the action of the Redevelopment Agency of the City of Sacramento, acting in its independent discretion as a separate and public entity, in considering the use of tax increment funds for the Railyards project.

RESOLUTION NO. 2008 -

Adopted by the Redevelopment Agency of the City of Sacramento

on date of

SACRAMENTO RAILYARDS PROJECT: APPROVAL OF MASTER OWNER PARTICIPATION AGREEMENT AND INITIAL PHASE INFRASTRUCTURE OWNER PARTICIPATION AGREEMENT ALLOCATING FUTURE TAX INCREMENT FUNDS, AND RELATED DOCUMENTS, WITH S. THOMAS ENTERPRISES OF SACRAMENTO, LLC; RELATED BUDGET ACTION

BACKGROUND

- A. S. Thomas Enterprises of Sacramento, LLC ("Developer") and the City of Sacramento ("City") have entered into a Development Agreement, dated December 11, 2007, in furtherance of the Railyards Specific Plan and related entitlements, including an amendment to the Richards Boulevard Area Plan. The Railyards Specific Plan area encompasses approximately 240 acres of which the Developer owns the majority (the "Property"). The Railyards Specific Plan and related entitlements specifies how the Property may be developed and establishes the Sacramento Railyards Project.
- B. As part of the City's evaluation of the Sacramento Railyards Project, a Pro Forma Analysis was prepared to assess the capacity of the Developer and the Sacramento Railyards Project to incur the costs for the required public facility and infrastructure improvements. This Analysis demonstrated that the Developer can only pay up to \$49 million towards the \$290 million estimated costs for the public facilities and infrastructure necessary to develop Phase 1, and there is a projected cumulative financial feasibility gap under current market conditions for the private development in all phases of the Project of approximately \$860 million, exclusive of infrastructure costs. The City has made commitments of public funding for certain Railyards public facility and infrastructure improvements in an approximate amount of \$150 million.
- C. The Sacramento Railyards Project which is the subject of this resolution is located within the newly created Railyards Redevelopment Project Area ("Railyards Project Area"), which encompasses a former portion of the Richards Boulevard Redevelopment Project Area, which, as amended is now renamed the River District Redevelopment Project Area.
- D. Developer and Agency desire to enter into the Master Owner Participation

Agreement ("Master OPA") and the Initial Phase Infrastructure Owner Participation Agreement ("Initial Phase OPA") to establish the framework for the allocation of a portion of the available tax increment revenues from the Property within the Railyards Project Area for redevelopment and for allocation of a portion of such tax increment revenues for development of some of the unfunded public facilities and infrastructure.

- E. This Master OPA and the Initial Phase OPA are made in accordance with the Railyards Redevelopment Plan, and the owner participation and preference rules adopted pursuant to the Railyards Redevelopment Plan, which provisions provide for participation by property owners and businesses in the redevelopment of real property in the Railyards Project Area in accordance with California Health & Safety Code Section 33339.
- F. The Agency is participating in the Master OPA and Initial Phase OPA because they are consistent with, and further, the goals and objectives of the Railyards Redevelopment Plan. Specifically and without limitation, the Agency has determined that the Sacramento Railyards Project will eliminate the following blighting influences: buildings which are unsafe or unhealthy due to age, deterioration and dilapidation; inadequate and faulty utilities including without limitation inadequate traffic circulation and access, inadequate storm drains and sewers, inadequate water and power service, lack of parking and other public and neighborhood facilities; unremediated hazardous substances and similar factors that prevent or substantially hinder the economically viable use or capacity of buildings or lots; incompatible adjacent uses; depreciated or stagnant property values; and further, the Property serves as a barrier for access between the Merged Downtown Redevelopment Project Area and the River District Redevelopment Project Area with consequent negative impacts on all of the project areas. The Agency has also determined that the Sacramento Railyards Project will meet the following goals of the current "Implementation Plan" adopted for the Railyards Project Area: (1) prevention and elimination of the spread of blight and deterioration and correcting environmental deficiencies, (2) redesign and redevelopment of stagnant and underutilized buildings and sites, (3) encouragement of high-quality architectural, landscape, urban design and land use principles to achieve the Railyards Redevelopment Plan objectives, (4) stimulation of economic growth and job creation by attracting new and continued private sector investment and assisting new and existing employers, (5) promotion of new office uses and mixed-use residential and retail development, (6) support for community facilities consistent with the General Plan to support the planned development, and (7) elimination of infrastructure deficiencies.
- G. The Agency has duly circulated, considered, certified, and adopted an Environmental Impact Report ("EIR") and a Mitigation Plan and Monitoring Program on May 6, 2008 for the Seventh Amendment of the Richards Boulevard Redevelopment Plan and adoption of the Railyards Redevelopment Plan, prior to adoption of the Railyards Redevelopment Plan and amendment of the Richards

Boulevard Redevelopment Plan.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. It is determined that the action proposed by this resolution is consistent with and duly considered by the above mentioned EIR, and after review of the actions and the EIR, the EIR is certified as adequate for review of the actions contemplated by this resolution, and no further environmental review is required.

Section 2. Pursuant to Section 33445 of the Health and Safety Code of the State of California, the Agency finds that:

a. The implementation of the public facility and infrastructure improvements specified in the Railyards Specific Plan and in the Master OPA and the Initial Infrastructure OPA will benefit the Railyards Redevelopment Project Area, by improving inadequate infrastructure and by constructing and installing public facilities and infrastructure and renovating buildings required for redevelopment within both the Railyards and the River District Redevelopment Project Areas;

b. Based on the Railyards Specific Plan Public Facilities Financing Plan, the cost of the Railyards public facilities and infrastructure improvements required for redevelopment of the Railyards by implementation of the Railyards Specific Plan will exceed the available public and private funding sources, and there is no other reasonable means of financing the public facilities and infrastructure improvements available to the community except for redevelopment area tax increment proceeds; and

c. The use of redevelopment tax increment proceeds for the Railyards public facilities and infrastructure improvements will result in the elimination of blighting influences resulting from inadequate, under capacity, and dilapidated infrastructure within the Richards Boulevard Project Area. The public facilities and infrastructure improvements set out in the Railyards Specific Plan and related entitlements are consistent with the Implementation Plan for the Railyards Redevelopment Plan as well as for the Implementation Plan for the River District Redevelopment Plan, both adopted pursuant to Health and Safety Code Section 33490.

Section 3. The Master OPA and the Initial Phase OPA, both of which are attached to the staff report and incorporated in this resolution by this reference are approved and the Interim Executive Director or the City Manager acting on behalf of the Agency, or their respective designee, are authorized as the authorized designee of the Agency, to execute each of them, and the documents required thereunder, and to take all actions reasonably contemplated thereby.

Section 4. The Interim Executive Director is authorized to amend the Agency budget as necessary to carry out the provisions of the Master OPA and the Initial Phase OPA.

ATTACHMENT 5

**Sacramento Railyards
Master Owner Participation Agreement**

SACRAMENTO RAILYARDS PROJECT

MASTER OWNER PARTICIPATION AGREEMENT
Using Funds from Project Area Tax Increment

Redevelopment Agency of the City of Sacramento ¶
and
S. Thomas Enterprises of Sacramento, LLC

Richards Boulevard Redevelopment Project Area/Proposed Railyards Project Area

May 13, 2008