

2012 CADA Board Workshop
February 29, 2012

Maintaining a Sustainable Neighborhood in an Era of Limits



To implement the residential and neighborhood commercial components of the State Capitol Area Plan, CADA works with the State of California, the City of Sacramento and the community in transforming under-utilized state-owned land south of Capitol Park into a fiscally, socially and environmentally sustainable neighborhood. CADA performs this neighborhood-building role as a self-supporting entity that does not receive operational support from either the State or the City.

At this year's Board workshop, CADA and its stakeholders strategized as to how this neighborhood-building work will continue given the Governor's May 2011 Budget Revise Directive that state-owned property that may no longer be needed for a state programmatic purpose be reviewed for possible sale. Included within the properties being reviewed are the state-owned properties leased to CADA in the Capitol Area.

STATE-OWNED PROPERTIES PLACED INTO CADA'S MANAGEMENT

from 1978 through 2011

December 1, 2011

- Properties returned to the State for state office/garage construction
- Properties sold to private sector or sold to CADA for residential/neighborhood commercial development
- Properties that are currently leased by CADA from the State



INTRODUCTION

CADA prepares a strategic plan every five years to assess changes in its context and devise strategies to enable CADA to make continued progress.

When the 2008-2013 CADA Strategic Plan document was prepared in Spring 2008, it was recognized that the country was sliding towards a recession. At that time however, the full extent of the collapse of the sub-prime market and the continuing State budget deficit was not known.

In May 2011, the Governor directed the review of state-owned properties throughout the state that may no longer be needed for a state programmatic purpose for possible sale. Included within the properties being reviewed are the state-owned properties leased to CADA.

The 2012 Board Workshop focused on these two significant changes to CADA's context. The issues raised and the conclusions reached at the workshop will be considered in the preparation of the 2008-2013 CADA Strategic Plan that will commence this fall.

Workshop Objective

The objective of the workshop was to initiate the formulation of a long-term strategic plan that will allow CADA to realize its programmatic mission under the Capitol Area Plan, including development of remaining sites and meeting its affordable housing mandates, while also meeting the directive of the Governor's May 2011 Revise Budget Directive.

To facilitate interaction, a briefing binder was made available to workshop participants. A summary of these materials was presented at the start of the workshop and is provided herein.

BACKGROUND

State Capitol Area Plan

CADA was created to implement the residential and neighborhood commercial components of the 1977 State Capitol Area Plan — a plan for state-owned property that had been blighted by demolition activities undertaken for the construction of a State Capitol office campus in the 1960s.

The 1977 State Capitol Area Plan, adopted under the first administration of Edmund G. Brown, Jr., was progressive in that it was a forerunner of the smart growth movement and in that it established an implementation structure allowing the Plan to be realized through changing political and economic conditions. This implementation structure consists of:

- The State Department of General Services (DGS), which bears overall responsibility for the plan and specific

responsibility for implementing the state office component.

- CADA, which is responsible for implementing the residential and neighborhood commercial components.
- The Capitol Area Committee (CAC), which advises the Director of General Services regarding the formulation and carrying out of the development plans for the Capitol Area, and which is responsible for independently reviewing DGS reports to the Legislature on matters pertaining to the Capitol Area Plan.

This implementation structure has worked well. Since the adoption of the State Capitol Area Plan and the creation of CADA in 1978, the State's footprint has been steadily reduced as DGS, CADA and the City have worked together to repair the gap in the urban fabric caused by the state's prior demolition activities. As recognized by the California Chapter of the American Planning Association in 2009, this formerly blighted and under-utilized state-owned land is being transformed into a pioneering model of smart growth by building a mixed-use, mixed-income sustainable neighborhood in the heart of California's Capital City.

CADA's Programmatic Mission

In 1978, DGS transferred to CADA the blighted properties that had survived the State's demolition activities. CADA was charged with the following responsibilities:

- Reversing the blight.
- Assuring properties were maintained until they were needed for state office or new mixed-use residential development.
- Meeting stringent affordable housing mandates that have required that 25% of the dwelling units be affordable to low-income households on a continuing basis.

Since 1978, CADA has preserved critically needed affordable rental housing and has built over 800 new mixed-income dwelling units through public private partnerships. To connect the State Capitol Campus to its host city, CADA also supports neighborhood retail development and undertakes other neighborhood-building projects, including contaminated site remediation; new streetlights; community gardens; the rebuilding of storm-sewer pipes, alleys and sidewalks; and the undergrounding of utility lines.

Capitol Area Inclusionary Housing Mandate

In accordance with Government Code Section 8193, 25% of the units located on property leased by CADA from the Department of General Services or on property sold by the Department of General Services in the Capitol Area must be maintained as affordable to low-income households on a continuing basis. CADA meets this mandate by providing rent assistance to qualified residents occupying apartments it manages and by facilitating the inclusion of units affordable to low-income residents on properties developed by others in the Capitol Area.

Households occupying rent-assisted CADA managed units are predominantly extremely low-income and very low-income senior citizens or disabled residents making between 30% and 50% of area-wide median income. These units are provided through a number of programs, the largest of which is the CADA multi-site rent-assistance program, which CADA has internally funded since 1981. In addition to this program, CADA has developed several properties with the assistance of funding provided by the State Department of Housing and Community Development, the California Housing Finance Agency and the Sacramento Housing and Redevelopment Agency. These properties are managed by CADA in accordance with regulatory agreements that set income requirements.

The CADA multi-site rent-assistance program was structured in 1981 to meet the needs of extremely low and very low-income households because, at that time, the needs of workforce low-income households were largely met by market rate apartments. As the desirability of living in the Central City has risen over the past 30 years, market rate rents have become considerably less affordable to workforce low-income households. In addition, since 2009, economic conditions have made it more difficult for this population to find affordable housing. Because of this, CADA augmented its rent assistance programs in 2009 to include assisted workforce low-income units for single person households earning between 50% and 80% of median income.



The mandated levels of affordability and the levels of affordability currently served by CADA are shown in the table below.

Households	Income Limit	Mandate	Current Allocation
Extremely Low-income	30% of median (1)		9%
Very Low-income	50% of median (2)		12%
Low-income	80% of median (3)	25%	4%
Market (not income restricted)	Above 80% of median	75%	75%

- (1) About \$1,300/month for a single person household.
- (2) About \$2,200/month for a single person household.
- (3) About \$3,500/month for a single person household.

CADA primarily meets the Capitol Area Inclusionary Housing Mandate by subsidizing the rents of qualified extremely low, very low and low-income residents with revenue generated from the properties that it manages. Because CADA has the ability to ensure this requirement is met on an area-wide basis, each new CADA development project does not have to provide the 25% on-site.

Dwelling Units	Affordable	Market	Total
CADA Managed	210	574	784
% Split	27%	73%	100%
CADA Developed	136	464	600
% Split	23%	77%	100%
Total	346	1,038	1,384
% Split	25%	75%	100%



CADA's self-supporting business model is fiscally and socially sustainable. Because CADA meets the 25% inclusionary mandate on an area-wide blanket basis, net revenue from properties that generate greater rental revenue supports properties that make less revenue and which may include more rent-assisted units.

The CADA Business Model

CADA has been tasked with meeting the challenging government mandates set forth in the State Capitol Area Plan using a business model closely paralleling a private real estate management and development company.

While CADA is a joint powers authority created by the State of California and the City of Sacramento, it is self-supporting and does not receive operational support from either the City or the State. CADA's primary revenue stream is the rental revenue it generates by improving, maintaining and managing the buildings that survived the 1960s state acquisition and demolition activities. In addition to preserving critically needed affordable housing and neighborhood retail, CADA's management of these properties provides the neighborhood stability necessary to attract private investment in new development projects.

CADA's secondary revenue stream is the tax increment generated by new projects. This revenue has been historically limited because new state office buildings that have been built do not generate taxes and because the major private land use of the Capitol Area is residential rather than commercial development.

CADA's capacity to meet its operating costs depends on its abilities to effectively manage its properties and create new development opportunities.



To assure CADA remains fiscally able to implement the residential and commercial components of the State's Capitol Area Plan, CADA maintains an ongoing ten-year financial forecast that is updated annually and reviewed whenever CADA makes a decision concerning a significant development project. In preparing this forecast, CADA analyzes the impact of all development projects and makes operational adjustments as necessary to assure that it remains fiscally viable.

CADA's Role as Disposition Agent in the Capitol Area

CADA developments were initially required to be built on leased land in order to preserve the State's future options for state office development. This changed in 1996, when legislation was passed allowing state land to be sold on a fee simple basis to CADA. Since that time CADA has facilitated the sale of state-owned property designated for new residential and commercial development in the Capitol Area. In addressing each site, CADA has reduced the State's risk profile, removed development impediments and, in the context of market conditions, has negotiated with private developers to construct new residential mixed-use developments and assure that the public objectives set forth in the Capitol Area Plan are met.

From 1978 through today, the State has leased approximately 33 acres to CADA. Of this land, 19 acres have been either returned to the State for state office development or have been sold by the State for CADA development of new mixed-use residential development. Disposition of the remaining acres that CADA currently manages is being reviewed by the State. This was the subject of the 2012 workshop.

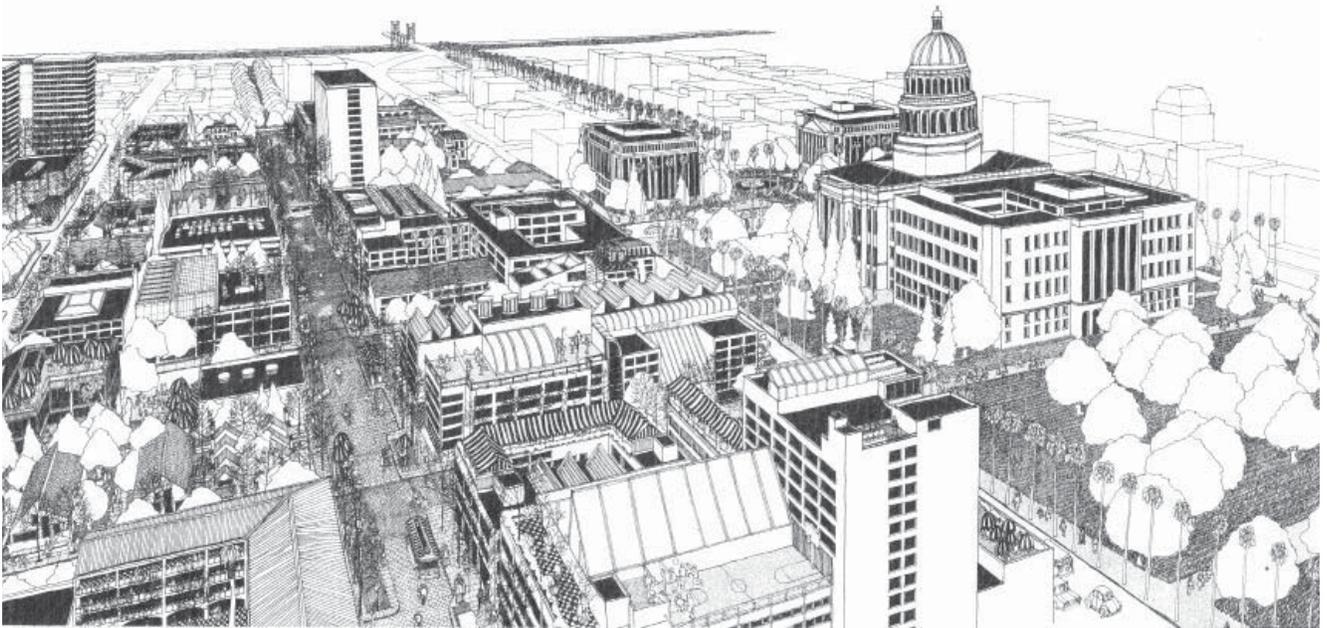
The following table shows CADA Development Ground Lease Properties that were developed by private parties on long-term ground leases generally preceding 1996, when amendments to Government Code Section 8169 provided the Department of General Services the ability to sell land to CADA for resale to private parties. CADA Portfolio Properties are properties that have not been designated for future residential mixed-use development. They serve as the primary resource that has allowed CADA to meet the State Capitol Area Plan objective to have housing for a wide range of income levels and the Capitol Area Inclusionary Housing Mandate. Since 1978, this has been accomplished without requiring on-going support from the

State General Fund, primarily by CADA subsidizing the rents of qualified extremely low, very low and low-income residents with revenue generated from these properties.

State-Owned Property Managed by CADA from 1978 to 2011 (in acres)	
Formerly Managed by CADA	
Returned to State for State Office Development	3.17
Sold by State for CADA Development	15.79
Sub-total	18.96
Currently Managed by CADA	
Future State Office Development Sites	1.14
Future CADA Development Sites	2.50
CADA Development Ground Lease Properties	2.69
CADA Portfolio Properties	7.61
Sub-total	13.94
Total	32.90



On January 12, 2012, Congresswoman Doris Matsui, Assemblymember Roger Dickinson, and Councilmember Robert King Fong joined CADA, the development team, and the Department of General Services in celebrating the groundbreaking of the first large market-rate mixed-use apartment development to be privately financed in five years.



CAPITOL AREA PLAN RESIDENTIAL AND NEIGHBORHOOD NEEDS ASSESSMENT

The following needs assessment provides a general idea of the scope and magnitude of the expenses CADA anticipates it will incur to realize its programmatic mission under the Capitol Area Plan.

- **Environmental Site Cleanup Allowance**

In past projects, CADA has utilized its funds for site testing and, to the extent possible, has secured brownfield remediation loans and grants for cleanup. The costs CADA incurs in this process typically have been credited against the land purchase price CADA pays to the State.

It is currently estimated that \$2 million will be needed for this allowance. Specific site cleanup costs are determined at the time predevelopment work commences on a development site.

- **Development Project Assistance**

CADA purchases land from the State, structures development agreements with private partners to build new residential mixed-use developments, and when required, provides public gap financing. Because CADA's funds are limited, some of the gap assistance it provides is in the form of donated land to the developer with CADA absorbing the costs of making continuing land loan payments to the State. Additionally, in many cases, CADA has committed to paying partial tax increment rebates to developers upon project completion.

It is currently estimated that \$14 million is needed to cover the projected cost for six of the nine current and future development project sites. The costs of the remaining three sites are either currently being negotiated or have yet to be determined. Of this total contribution, about \$700,000 per year will be contributed in the form of annual land lease payments by CADA to the State and tax rebates CADA will provide the developers.

- **Capital Infrastructure**

CADA pursues grants and provides matching funds as may be required for capital improvements to neighborhood infrastructure designed to better link the State Capitol Office Campus to the surrounding neighborhood. The capital improvement costs currently are estimated to be \$30,000 for city parks, \$1.8 million for 16th Street, \$2.4 million for O Street and \$1.6 million for area-wide streetlights.

Ongoing maintenance of non-standard items may be met by Property Based Improvement District (PBID) assessments to private owners, the State and CADA. The impact of the current budget crisis at both the state and local levels on the availability of funding for the continued maintenance of standard items is to be determined.

- **Affordable Housing**

In the Capitol Area, 25% of the units located on property leased by CADA or purchased by CADA from the Department of General Services must be maintained as affordable to low income households. CADA meets this requirement by providing rent assistance to qualified residents occupying apartments it manages or by facilitating the inclusion of units affordable to low income residents on properties developed by others in the Capitol Area.

The cost of the current program is approximately \$800,000 a year. Assuming the current structure remains in place, this is proposed to grow an additional \$200,000 a year to meet affordable housing requirements resulting from the construction of additional units on remaining development sites.

LONG TERM STRATEGIES FOR STATE-OWNED PROPERTIES MANAGED BY CADA IN THE CAPITOL AREA

Workshop attendees participated in a facilitated discussion with the objective of initiating development of a long-term strategy for state-owned properties managed by CADA in the Capitol Area that will address the Governor's Directive and allow CADA to meet its programmatic mission.

Three alternative strategies were discussed. In all three strategies, properties that have been developed on Development Ground Leases would be sold. CADA would also continue to manage properties that the State may need for future state office development and to act as the disposition agent for future CADA Development Sites.

Workshop participants set assessment criteria for the three strategies, assessed each strategy, and suggested next steps to be taken.

Assessment Criteria Set by Workshop Participants

- Consistency with CADA's mission
- Long-term enhancement of assets
- Generation of positive cashflow
- Affordable housing mandate
- Flexibility in implementation
- Effect on CADA's reserve
- Opportunities for future state office development addressing job/housing balance objectives of SB 375 (Sustainable Communities and Climate Protection Act of 2008)

Next Steps Suggested by Workshop Participants

- Come up with hybrid that moves from Strategy 1 to Strategy 3
- Consider potential benefits inherent in mixed-use development (such as office/housing on the west end)
- Prepare and present a cost/benefit analysis to the State
- Address all legal permits and policies
- Show results historically over time
- Prepare report/analysis that shows impact on all partners
- Sell ground lease properties to development ground lease holders at realistic prices
- Assess market conditions
- Establish "strike" price for the sale of properties
- Assess CADA financial capacity
- Look at possible tax increment flow to CADA from State Office property if developed privately
- Consider establishing a non-profit arm for grant-seeking purposes
- Look at low-income tax credits and historic preservation to help finance CADA projects

The following are the workshop participants findings and observations regarding the three alternate strategies presented for discussion at the workshop.

Strategy 1 CADA Portfolio Properties Leased to CADA

-  Retains land reserve for the State (so they don't go to suburbs)
-  CADA would maintain money to subsidize future projects
-  Supports jobs/housing balance
-  Greater total indirect benefits
-  Property is subject to political "winds"

While this would retain current leased arrangement, it is not 'staying the course' as it involves accelerated disposition of property.

Strategy 2 CADA Portfolio Properties Sold to Private Parties

-  Provides short term revenue/property tax
-  Managing affordable housing property deed restrictions will be difficult – could place added financial burden on City
-  Allows for fewer tools, may take longer to develop sites
-  May result in less favorable cost/benefit

Refinements to consider: selling to profit vs non-profit, or all at once to one party versus individual property sales.

Strategy 3 CADA Portfolio Properties Sold to CADA

-  Maintains and stabilizes State Capitol Area Plan policy focus
-  Possibly limits CADA's financial capacity (an analysis is needed; this could be a deal-breaker)

Important that this be phased in over time to allow for the completion of CADA development sites.

ISSUES RAISED IN PARTICIPANT DISCUSSION

State Programmatic Need

The premise of the sale is debatable. These properties are being used for a programmatic purpose – the creation and maintenance of the State Capital Campus. The property was purchased in the sixties for the development of state offices. The 1977 plan amended that to include a residential component and in 1997 it was updated to allow for additional state offices, acknowledge the benefits of light rail and respond to desire to have some land sold to allow fee simple ownership housing.

With the passage of SB 375, CADA's implementation of the residential and neighborhood commercial components has become increasingly relevant to the State because it is an example of the type of development the state is supporting as a matter of public policy throughout the state. While much has been accomplished, there is still much to do, in light of the jobs/housing imbalance that exists in the Central City (100,000 jobs versus 15,000 dwelling units).

Properties leased by CADA could also be reserved for state office use in the future. This could have beneficial impacts on the region, because it might keep the State from moving out of downtown into the suburbs. In response, DGS representatives at the workshop noted that properties already designated for future office development will be sufficient. Additionally, the CADA sites may not be of a sufficient floor plate size to make them viable sites for future state offices.

Impact on the City

Since the State asked the City of Sacramento to be a partner in creating CADA to implement the residential and neighborhood commercial component of the State Capitol Area Plan, the City should be involved in the decisions made about these properties. Otherwise it's changing the premise of the joint powers agreement.

The State has an obligation to be a good neighbor in the City and what CADA has accomplished to date is consistent with the City's General Plan. It's important that, whatever is done with the property, this continues to be the case. It is also crucial that CADA's neighborhood presence is maintained and; that the tool it provides for economic development not be lost.

With regard to the impact on the City, it's not only the development of the neighborhood at issue, the City Council has expressed a specific concern that affordable housing not be negatively impacted by action undertaken by the State to dispose of the state-owned property managed by CADA.

Disposition Strategy Considerations

- A disposition process has been in place since 1996 that has successfully disposed of the majority of the properties and, if allowed to continue, will result in the sale of all but 7.6 acres.

Sustainable Communities and Climate Protection Act of 2008 (Sustainable Communities, SB 375, Steinberg, Statutes of 2008)

This act enhances California's ability to reach its AB 32 air quality improvement goals by promoting good planning with the goal of more sustainable communities. It requires the California Air Resources Board (ARB) to develop regional greenhouse gas emission reduction targets for passenger vehicles by establishing targets for 2020 and 2035 for each region covered by one of the State's 18 metropolitan planning organizations (MPOs).

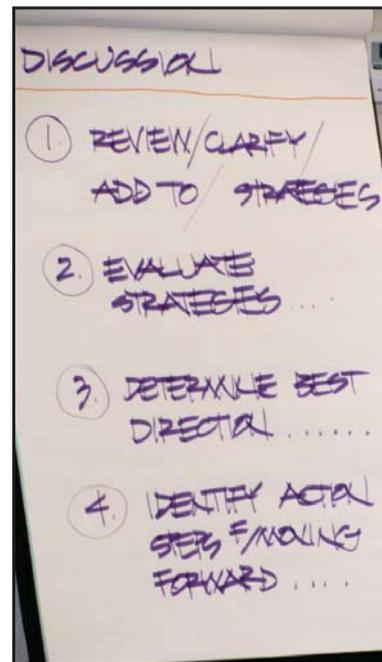
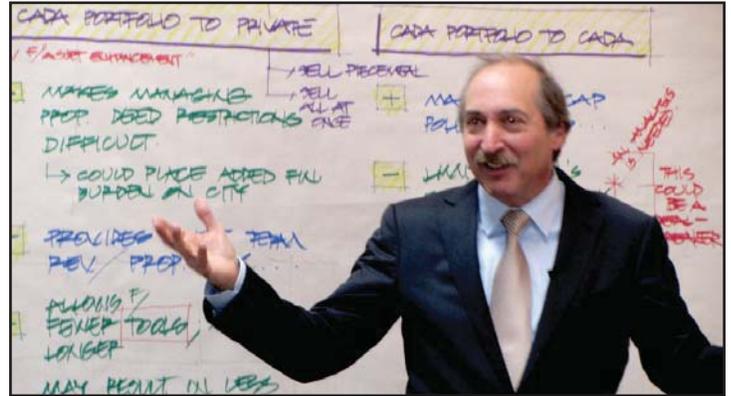
Each of California's MPOs must prepare a "sustainable communities strategy (SCS)" that demonstrates how the region will meet its greenhouse gas reduction target through integrated land use, housing and transportation planning. Once adopted by the MPO, the SCS will be incorporated into that region's federally enforceable regional transportation plan. The ARB is also required to review each final SCS to determine whether it would, if implemented, achieve the greenhouse gas emission reduction target for its region.

- Strategies should be tested as to how they will affect the generation of funds to complete CADA's state programmatic mission. Sale to private parties may garnish short-term revenue to the State and there would be some additional properties on the tax roll, but this needs to be balanced against the impact on fulfillment of the mission.
- In considering the short-term benefits the State may realize from sales, it is important the State not proceed with unrealistic expectations about what the land is worth. Additionally, the administrative expense that would be incurred in monitoring private landowners' compliance with the affordable housing mandate needs to be factored into the cost/benefits of any sale.
- Selling the property to CADA would provide stability in that changes of political administrations would result in fewer neighborhood impacts. However, dependent upon the terms of the sale, CADA's purchase of the properties might limit the funds it can make available to provide the gap financing needed for the remaining development sites.
- The effect of any of the proposed strategies on the CADA Business Model is a serious consideration. In addition to providing gap financing for development projects, CADA provides funds for neighborhood infrastructure and, most significantly, absorbs the primary fiscal impact of meeting the affordable housing mandate.
- CADA serves the needs of extremely low and very low income residents. It's not certain that a private sector owner would do that and it is unlikely that private sector owners would extend regulatory agreements on properties when they expire.

WORKSHOP CONCLUSION

There is a need for a strategy that incorporates the value of sequencing action. After CADA sells and completes development sites, it would have better fiscal capacity to purchase the portfolio properties. While CADA proceeds with disposing of development sites as market conditions allow, CADA should work with the State on the sale of development ground lease properties and resolve the future of the regulatory agreement properties.

An objective and comprehensive cost/benefit analysis of a strategy that recognizes the importance of sequencing action should be prepared by CADA with the advice of its JPA partners, the State and the City. The goal should be to maximize asset value and management of state resources and accomplish the community development goals of the City. In this analysis, actions to address these goals may be explored, such as the formation of a non-profit affordable housing corporation and the possible utilization of the private sector to develop state office sites.



NEXT STEPS

March Board Meeting

Workshop report out document presented

April Board Meeting

Ten-year financial forecast presented

May Board Meeting

Scope of sequenced strategy costs/benefits analysis determined

June Board Meeting

CADA fiscal year budget adopted funding CADA's share of the sequenced strategy costs/benefits analysis

October Board Meeting

Sequenced strategy costs/benefits analysis results presented

December Board Meeting

CADA 2013-2018 Strategic Plan process commences.



Workshop Participants

CADA Board

Ann Bailey, Chair, State Appointee
Bob Lagomarsino, Vice Chair, City Appointee
Ron Alvarado, State Appointee
Kristan Otto, City Appointee
Page Robbins, Board Appointee

CADA Staff

Jackie Whitelam, Interim Executive Director
Tom Kigar, Development Director
Noelle Mussen, Controller
Marc de la Vergne, Interim Operations Director
Todd Leon, R Street Development Manager
Diana Rutley, Property Manager
Donna Sanderson, Risk Manager
Sharon Bennett, Board Secretary
Sheli Varshawsky, Support Services
Rachel Mercurio, Support Services

Paul Schmidt, Executive Director (retired)
Nancy Katzberg, Controller (retired)

Jeff Mitchell, CADA Legal Counsel

CADA Consultants

Andy Plescia
Trish Davey
Anastasia Efstathiou

Workshop Facilitator

Daniel Iacofano, MIG, Berkeley, California

Elected Officials Representatives

Karen Ziebron, Senator Darrell Steinberg
David Gonsalves, Assemblyman Roger Dickinson
Lisa Nava, City Councilmember Rob Fong

State Department of General Services

Joe Mugartegui, Chief, Asset Management Branch
Anne Garbeff, Assistant Chief, Asset Management Branch
Cathy Buck, Asset Manager
Liz Ames, Regional Portfolio Manager
Jeff Peck, Regional Portfolio Manager

City of Sacramento

Leslie Fritzsche, Downtown Development Manager
Roberta Deering, Senior Planner for Historic Preservation
William Crouch, Urban Design Manager
Tom Pace, Long Range Planning Manager

Development Ground Lessee Holders

Charles Deloney, Coldwell Banker Real Estate
Herb Krumpe, 17th and N General Partnership
Rick Leonard, Capital Athletic Club
Phil Schott, Schott and Lite
Ken Patel, Capitol Park Inn, LLC

Public

William Burg, Sacramento Old City Association
Noah Lane, Nehemiah Corporation of America
Sarah Weaver, Joint Legislative Sunset Review Committee
Michael Olmstead, Coldwell Banker Residential Real Estate
Martha Damjanovic, Washington Park Neighborhood Association
Allyson Dalton, Fox and Goose
Kay Knepprath, Sacramento Old City Association
Linda Whitney, Sacramento Old City Association
Kevin Greene, Downtown Sacramento Partnership
Lynne Freeman, ACIS and Friends of Fremont Park
Lizz Barringer Lagomarsino, Friends of Fremont Park
Greg Chew, Sacramento Area Council of Governments
Judy Johnson, Friends of Fremont Park
Cyrus Youssefi, CFY Development
Jennifer Foxley, Foxley Studio
Dennis Bylo, resident
Kathleen Green, Sacramento Old City Association
Pat Sabelhaus, Law Office of Patrick Sabelhaus
Susan Wilfley, Schott and Lites
John Hodgson, Urban Land Institute





Building a fiscally, socially and environmentally sustainable neighborhood in the heart of California's Capital City.



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