

**Meeting Date:** 10/1/2013

**Report Type:** Staff/Discussion

**Report ID:** 2013-00549

**Title:** Capitol Area Development Authority Transition Plan Framework

**Location:** District 4

**Issue:** At the request of the State, the Capitol Area Development Authority (CADA) has developed a framework for the disposition of the state-owned property leased to CADA in the Capitol area which involves a transition plan for the CADA organization.

**Recommendation:** Pass a Resolution supporting Implementation of the Capitol Area Development Authority (CADA) Transition Plan.

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**Presenter:** Wendy Saunders, Executive Director, (916) 322-2114, Capitol Area Development Authority; Leslie Fritzsche, Senior Project Manager, (916) 808-5450, Economic Development Department

**Department:** Economic Development Dept

**Division:**

**Dept ID:**

**Attachments:**

- 1-Description/Analysis
- 2-Background (The CADA Story)
- 3-CADA Transition Plan-September 2013
- 4-Map of CADA Area
- 5-CADA Board Resolution - August 23, 2013
- 6-Initial Properties for Sale
- 7-Resolution

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**City Attorney Review**

Approved as to Form  
Sheryl Patterson  
9/25/2013 1:52:47 PM

**City Treasurer Review**

Reviewed for Impact on Cash and Debt  
John Colville  
9/23/2013 12:37:30 PM

**Approvals/Acknowledgements**

Department Director or Designee: Jim Rinehart - 9/25/2013 9:28:50 AM

## DESCRIPTION/ANALYSIS

**Issue:** In May 2011, as a part of his budget revision message, Governor Brown declared that the State should sell nonessential State properties including State-owned properties managed by the Capitol Area Development Authority (“CADA”). Recently, CADA developed a transition plan known as the “Proposal for CADA Transition; Establishment of a Non-Profit Corporation” (Attachment 3, “Transition Plan”). Since CADA is a joint-powers agency between the State and the City, this report presents an overview of the Transition Plan and recommends support for its implementation.

### Background of CADA

In 1978, CADA was formed as a joint powers agency of the City and the State through its Department of General Services. CADA’s primary role is to implement the Capitol Area Plan by improving and managing various State-owned residential and retail properties in the Capitol area. CADA has assisted development of new residential mixed-use projects on State-owned sites that had been used for surface parking that were designated for residential use under the State’s Capitol Area Plan (Attachment 4, Map of CADA area). CADA’s funding is generated from the lease and sale of State owned properties and property tax increment revenues within CADA’s project area boundaries.

To date, CADA has produced 766 new downtown infill housing units and has an additional 368 units in project development on 16<sup>th</sup> Street and the R Street corridors. In addition to creating new housing units through successful public/private partnerships, CADA preserves, manages, and maintains apartments and neighborhood retail buildings, which, in addition to providing critically needed affordable housing, also provide the stability necessary to attract private investment in new development projects. CADA has also contributed funding to City streetscape projects (R Street corridor); new infrastructure (16<sup>th</sup> Street and R Street); the rehabilitation of the light rail stations in the area; added police protection; improvements to parks (Fremont Park and the Fremont Community Garden) and pioneered energy conservation and urban design. CADA currently has three major development agreements for 368 units in new downtown mixed use housing on five separate sites representing a total value of \$143 million dollars in downtown reinvestment (see [www.cadanet.org](http://www.cadanet.org)).

### Current Challenge

Since Governor Brown’s May 2011 directive to sell nonessential State properties, the CADA Board of Directors and State Department of General Services staff have been working on initiatives to address this directive. The Transition Plan outlines an approach that seeks to address the expressed goals of the State, while maintaining and building upon the significant strides made in developing the Capitol area into a thriving, attractive neighborhood. The Transition Plan has two main elements – one involving the sale of State-owned residential and residential mixed-use properties in the Capitol area which are currently leased to CADA and the second addressing the structure of the CADA organization.

The first component is the sale to CADA of the State-owned residential and residential mixed-use properties as a total portfolio. This portfolio would include a total of 783 apartments in 50 buildings, some with ancillary retail (e.g., Luna’s Café, Eliana’s, Capital Dry Clean, Bistro Michel). While some

of the buildings are historic, they are primarily 1960's-era apartments, ranging from four to 42 units per building. The portfolio also includes four buildings with original construction financed by State Housing and Community Development Department and the California Housing Finance Agency with units that are affordable to very-low income households.

By purchasing the total residential portfolio, the below market value of the affordable units are offset with the enhanced revenues from the market rate units. The costs to maintain and operate the four affordable housing buildings are not sustainable from the rental income. This portfolio approach is necessary to ensure that a minimum of 25% of the total units remain affordable, a standard set out in the Capitol Area Plan and one that supports the City's goal of maintaining affordable units in the Central City.

The proposed selling price for the residential properties is envisioned to be discounted by the State to reflect the continued requirement to maintain affordability, maintain standards of high quality property management, and the need to continue reinvestments in the area. Under the Transition Plan, the State would receive a reasonable financial return on its investment based on the value of the rental properties when they were entrusted to CADA's care.

The structure of the CADA organization is also proposed to change. The current joint powers agency (JPA) would continue to function to complete the development of the few remaining State properties designated for residential development in the Capitol Area Plan and to retire the organization's existing obligations (see Financial Section below). As part of this transition, the State could either choose to remain a partner with the City or instead decide to withdraw. In the case of the latter, another public entity would be needed to replace the State as a JPA member. The JPA cannot be dissolved due to the need to pay off existing bond debt and other liabilities. A new companion non-profit organization would be created to assume ownership and management of the residential properties purchased from the State. After this sale, the JPA's role would be to oversee development of the remaining properties and to pay off debt.

**Policy Considerations:** The Transition Plan attempts to balance the expressed goals of the State to sell the State-owned properties with the City's interest in ensuring the continued stability and development of a vibrant mixed-income central core. The City's recently adopted 2013-21 Housing Element includes specific policies that reinforce CADA's mission as a housing provider in the Central City. These policies are:

**H-1.3.5 Housing Type Distribution.** *The City shall promote an equitable distribution of housing types for all income groups throughout the City and promote mixed income neighborhoods ...*

**H-2.2.4 Funding for Affordable Housing.** *The City shall pursue and maximize the use of all appropriate state, federal, local and private funding for the development, preservation and rehabilitation of housing affordable for extremely low, very low -, low- and moderate-income households, while maintaining economic competitiveness in the region.*

In addition, the attention to smart growth, quality infill, and transit oriented development found in policies such as SACOG's Blueprint and the City's 2030 General Plan make organizations like CADA relevant now more than ever.

**Economic Considerations:** The Governor's directive to sell off non-essential State-owned properties has the potential to destabilize the economic condition of the Capitol area by placing so many properties on the market at one time. The longer term approach outlined in the Transition Plan serves to minimize that impact by creating a portfolio of residential properties for sale to a non-profit entity to maintain common ownership, help preserve and strengthen the Capitol area neighborhood.

**Environmental Considerations;** The Transition Plan is a planning and feasibility study which is exempt from environmental review under section 15262 of the California Environmental Quality Act (CEQA) Guidelines.

**Sustainability:** CADA is a model for creating sustainable developments and a vibrant, livable community around the Capitol. The organization exemplifies the principles of SACOG's Blueprint by applying smart growth principles to the creation of quality urban infill housing and a transit oriented neighborhood. The development of additional housing and maintenance of the existing housing stock in the Capitol area is critical to the sustainability and Smart Growth principles of the City and SACOG.

**Commission/Committee Action:** At its August 23, 2013 meeting, the CADA Board approved the Transition Plan and directed the Executive Director to take actions as required to initiate its implementation (Attachment 5).

**Rationale for Recommendation:** Currently CADA leases approximately 13.68 acres from the State. This acreage consists of:

3.62 acres	Future Development Sites (State Office or CADA Development)
7.86 acres	Properties managed by CADA to meet affordable housing mandates and Implement the State Capitol Area Plan
2.2 acres	Development Ground Lease Properties

While the long term framework is still in discussion, the first phase of the disposition process began in 2012 with legislative authority being granted authorizing the State's sale of properties developed by private parties on land leased from the State and a property that is a future CADA development site (see Attachment 6). The sales process is presently underway on these properties. To date, no properties have been sold. An additional set of five properties was just approved for sale in the 2013 State surplus properties bill. They are the Somerset Parkside commercial properties – located across the street from Roosevelt Park along 10<sup>th</sup> Street between P and Q streets.

There are many reasons to take a careful, longer view on any additional dispositions and to understand the ramifications of the proposed Transition Plan strategy. These reasons include: the destabilizing effect that individual sales may have on the Capitol area and adjacent neighborhoods; the impact of losing CADA's historically strong consolidated property management approach; the impact these dispositions would have on CADA's financial State and paying off its debts; the number

of properties in the portfolio with long-term affordability restrictions; and the potential repercussions that sale of these properties would have on the quantity and quality of affordable housing stock in the Capitol area. While CADA is not a redevelopment agency per se, it collects tax increment on its properties and uses those funds to subsidize affordable rents and carry out its development goals.

CADA has served as a tremendous asset in building a vibrant Capitol area neighborhood. Therefore it is vital to working cooperatively with CADA staff and the State to ensure the development of a transition plan that does not jeopardize the stability and future of the central core.

**Financial Considerations:** The course of action the State has followed in response to the Governor's directive is to sell five CADA-managed properties per year. This approach could ultimately undermine CADA's financial stability. As an alternative to that approach, the proposed Transition Proposal provides that the CADA JPA be wound-down over a reasonable period of time so that all of the outstanding financial obligations (currently estimated to be approximately \$47 million) can be met and disruptive impact to the Capitol area would be minimized.

As additional discussions on this Transition Plan continue, careful analysis of the obligations of the CADA organization and the restrictions on use of the properties per the Capitol Area Plan will need to occur before implementation commences. The pricing for the proposed bulk sale of the residential portfolio to CADA should consider: 1) the JPA's ongoing financial obligations; 2) the requirement to provide affordable housing; 3) continued superior property and neighborhood management practices; and 4) the ability to complete the remaining development sites and provide continued investment in the Capitol area neighborhood.

**Emerging Small Business Development (ESBD):** Not applicable



**CADA is committed to building a fiscally, socially and environmentally sustainable neighborhood for city dwellers and visitors to the State Capital.**

CADA is tasked with meeting challenging government mandates in a business model closely paralleling a private real estate management and development company. These mandates include rebuilding the area blighted by the 1960 State Capitol Office campus plan which proposed widespread demolition and construction of a large office mall and; rebuilding the key section of the R Street Corridor. Today, CADA is well on its way towards the realization of a pioneering model of smart growth by building mixed-use, mixed income sustainable development adjacent to light rail stations serving the Sacramento region.

CADA employees are not in civil service but are “at-will”, and serve at the discretion of an Executive Director hired by a publicly appointed Board. While it is a joint powers authority created by the State of California and the City of Sacramento, CADA does not receive operational support from either the State or the City. CADA’s capacity to pay its salaries and operating costs depends on its ability to manage its properties and create new development opportunities.

To maintain fiscal stability and achieve its objectives, CADA must operate effectively; keep its market rate apartments competitive; re-invest its funds into affordable housing and area infrastructure improvements; enter into public-private partnerships to pursue development opportunities and; seek project gap-financing when necessary.

In over 30 years of developing and managing urban infill housing, CADA has built and maintained hundreds of units through public private partnerships. CADA directly funds and, when available, utilizes government housing programs to ensure that at least 25% of the units it has developed or manages are affordable to low and very low income households. These actions have resulted in a community of neighbors with diverse lifestyles including retirees on fixed incomes, students, and people working in a variety of service and office capacities in the central business district, state offices and the Capitol.

In addition to building and maintaining mixed-income and mixed-use residential structures, CADA funds the construction of public infrastructure such as area-wide streetlights and sidewalks. Most recently, CADA is funding sewer line replacements and streetscape improvements on R Street. CADA also financed the construction of the State Office of Buildings and Grounds at 13th & O Streets and brought about the development of neighborhood commercial facilities such as the Capital Athletic Club at 8th & O Streets.

Resource conservation and smart growth, principles pioneered by CADA in partnership with the State of California and the City of Sacramento, are key components of CADA’s endeavors. CADA maintains and enhances existing structures unless building obsolescence or development plans dictate otherwise; remediates brownfield sites — including the first sites donated to the City to be operated in perpetuity as community gardens; actively supports alternate forms of transportation such as light rail and bicycles; champions green technologies in its building programs and; encourages the use of green building technologies in new developments.

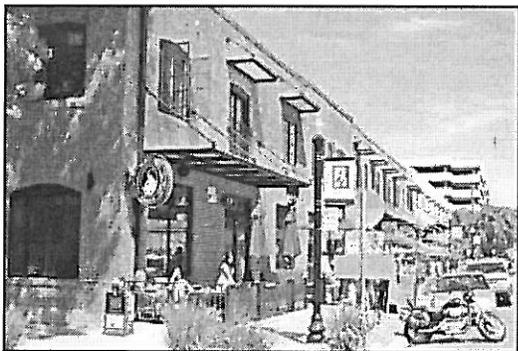
## The CADA Story



Fremont Mews & Community Garden



Greentree Commons



1409 R Street

# First things first

When CADA was founded in 1978, it was charged with the implementation of the residential and neighborhood commercial objectives of the State Capitol Area Plan. This plan, adopted in 1977 and updated in 1997, was a forerunner of the smart growth movement. The plan calls for the area south of the State Capitol to be transformed into an urban village of state offices, housing, retail and parking; a place where residents can walk and bicycle, and where they have transit options to travel to work and entertainment destinations, thus reducing dependence on automobiles and improving regional air quality. Rather than setting a prescribed blueprint of what should be built on these state-owned properties, the plan established broad goals and an implementation structure that has allowed it to be realized through changing political and economic conditions. The State Department of General Services (DGS) is responsible for implementing the state office component, CADA is responsible for implementing the residential and neighborhood commercial components and the Capitol Area Advisory Committee advises the Legislature as to the progress of the plan's implementation.

In 1978, the land south of Capitol Park had been decimated — blighted with burned-out and boarded-up buildings and blocks of parking lots. Because it was clear that the blight needed to be removed if new development was to be attracted, through the auspices of the Office of the State Architect, CADA secured a \$4.9 million federal Economic Development Administration grant for housing rehabilitation. About half of the grant funds were designated for the rehabilitation of Park Mansion, the flagship of the neighborhood, which had been boarded up since 1969. It was believed a revival of this distinguished building on Capitol Park would send a clear message about CADA's housing program. Accordingly, CADA modernized all units and increased the unit count from 36 to 42 apartments, provided two townhouse units within the structure, installed solar panels on the roof and incorporated a disabled-access ramp into the re-design of the front entrance.

When its rehabilitation was completed, CADA reopened Park Mansions as a mixed-income building providing both assisted units affordable to very low income households and market rate apartments. This was in keeping with the direction of the Section 8 (now Housing Choice Voucher) program that was being started by the federal government at the time. CADA has continued to maintain a Scattered Site Rent Assistance program to this day, providing affordable apartments for low and very low income households throughout the rental housing stock that it manages.



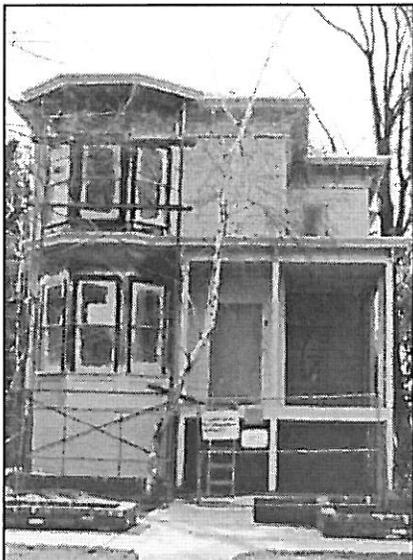
Park Mansion



Don Carlos



Palm Mansion



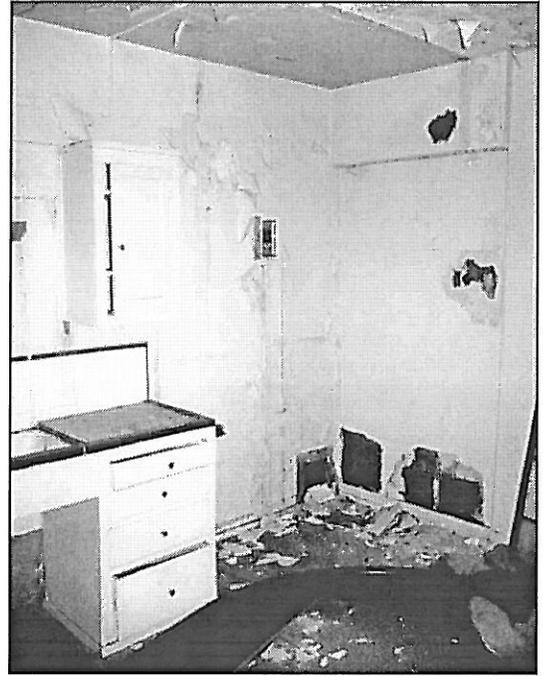
Johnston House Under Construction



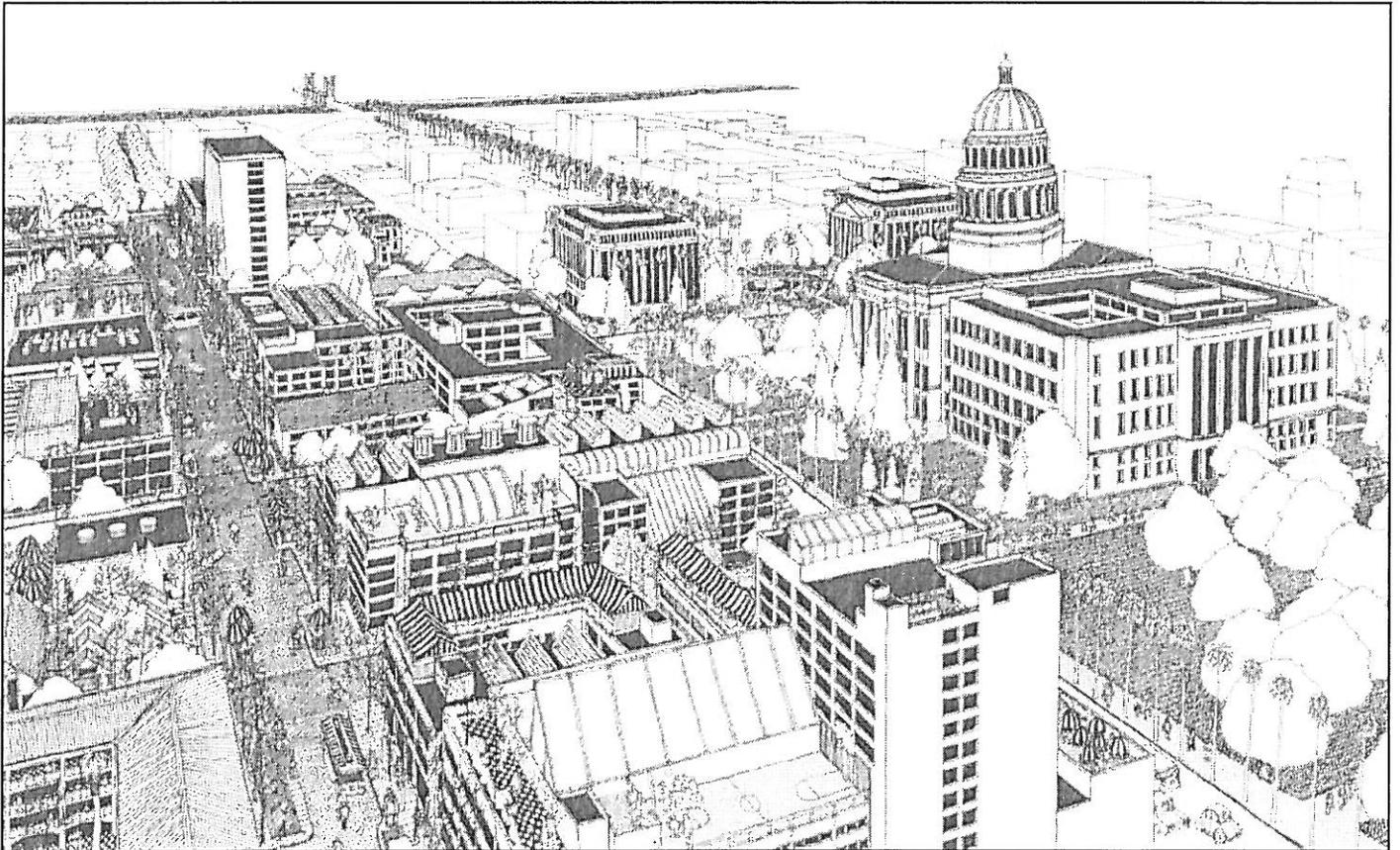
Johnston House Completed



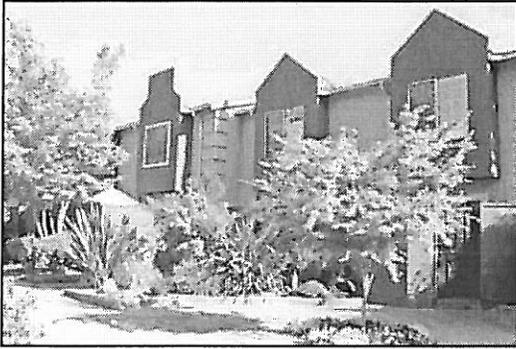
Above: Examples of building conditions in the Capitol Area in the late 70s prior to their transfer to CADA.



Below: Illustration taken from the 1977 Capitol Area Plan.



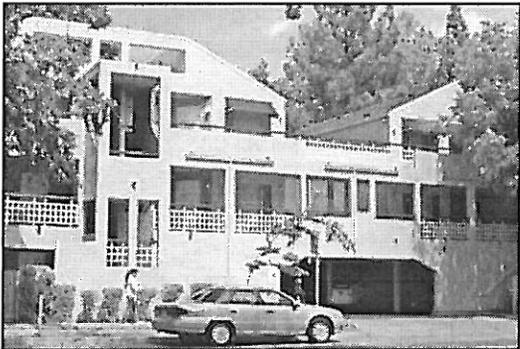
# Build it so they will come



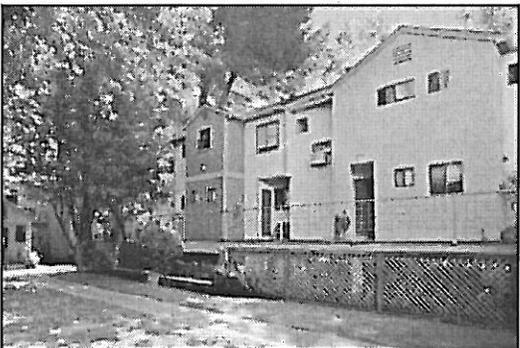
Saratoga Townhomes



Biele Place



Somerset Parkside Apartments



17th Street Commons

In 1978, when market conditions were not conducive to the quality development envisioned in the Capitol Area Plan, CADA's first Board of Directors made the painful decision not to proceed on developing its first site when the selected developer indicated market conditions required his downgrading the project from his original design submittal. Faced with this challenge, CADA focused on eradicating neighborhood blight until the 1980s when the market improved. CADA then went on to build hundreds of quality urban infill housing units through public-private partnerships with the objective of making the neighborhood, "A Neighborhood for All".

**Saratoga Townhomes:** Designed by David Baker of San Francisco and SolArc of Berkeley for the Hofmann Company in 1982, this project achieved remarkable construction economy through the use of pre-cast foundations and pre-cut roof supports. An active and passive solar system was also incorporated into the design. It received an Affordable Housing Award from the State Department of Housing and Community Development because its initial sales prices were set at just \$53,000 and because the active solar collectors and passive design would reduce energy costs to the homeowner by 50 percent.

**Johnston House and the Don Carlos Apartments:** Designed by Bob McCabe of Sacramento. CADA financed the rehabilitation of these two structures in 1982 utilizing SB 96 funding provided by the State Department of Housing and Community Development.

**1619 Q Street:** Designed by John Harvey Carter of Sacramento, California in 1982, this project provides the community with single person residential units in a congregate setting.

**Biele Place:** This senior apartments project was funded through the Rental Housing Construction Program of the State Department of Housing and Community Development. It was designed by Peters Clayberg and Caulfield of San Francisco, a 1982 AIA National Award recipient for their design of St. Mary's Garden, a similar senior housing project in Oakland.

**Somerset Parkside Apartments:** This complex which opened in 1983 houses low and very low income family apartments. Funded through the Rental Housing Construction Program of the State Department of Housing and Community Development, it was designed by Van der Ryn & Calthorpe of Sausalito.

**Somerset Parkside Condominiums:** This development, designed by Van der Ryn & Calthorpe for Barratt America, sited townhomes on an interior alley and 4 story flats above retail on the streets. An early example of Calthorpe's pedestrian pocket designs, it preceded his work as a founder of the Congress for New Urbanism and an international planning consultant.

**The Auslander:** 1500 15th Street: Rehabilitation designed by Paul Schmidt in 1984. The design is sensitive to the original 1920s character of the structure and Sacramento's charm in that era as an urbane destination halfway between Lake Tahoe and San Francisco.

**Admail Express Building:** 1514 14th Street: Designed by Nacht and Lewis of Sacramento for Phil Schott who wished to locate his Admail Express offices in the Capitol Area. Recipient of Building Industry Association Gold Nugget Awards as an infill project containing ground floor office and mixed-income apartments. Completed in 1984.

**Palm Mansion:** 1330 P Street: Designed by Bruce Whitelam of Sacramento, this rehabilitated structure was the recipient of a Sacramento Old City Association Award in 1984. Prior to its restoration, this Victorian was a detoxification center that had been vacated following a disastrous fire.

**17th Street Commons:** Designed by Mogavero and Unruh of Sacramento and completed in 1984 this development that consists of the rehabilitation of two structures and the construction of new townhomes was originally a limited cooperative project of the Sacramento Housing Development Corporation. It was the recipient of a first place award in the Affordable Housing Competition sponsored by the State of California and recognized for its passive solar design that assists in keeping costs to the occupants down over time. When the 17th Street Commons Cooperative ceased in 2001 CADA purchased and rehabilitated the project.

# Stay alive till '95

CADA faced some of its most challenging times when housing production dramatically slowed during a state and national recession. The real estate industry titled this period "Stay Alive Till '95". Keeping the dream alive during this period put CADA's values of creativity and commitment to the test.

**Delta Victorians:** In 1984, Nielsen Wiese Architects relocated four structures from other parts of downtown Sacramento to an infill site at 14th and Q Streets. In 1988, Nielsen Wiese also rehabilitated a historic single family residential structure at 17th and O Streets and constructed two additional residential units on the rear portion of the property.

**Capital Athletic Club:** To preserve a distinctive but deteriorated Spanish colonial revival structure dating from the 1930s, CADA solicited proposals for the rehabilitation and reuse of this structure and new construction on an adjacent cleared site. The winning proposal was submitted by the Hofmann Company of Concord, California who proposed the construction of a premiere athletic facility. Their proposal included a sensitive and accurate replication of the structure reutilizing original architectural elements and the construction of a "state of the art" athletic building. The Capital Athletic Club opened in 1985.

**Stanford Park Townhomes:** Designed by Backen Arrigoni and Ross of San Francisco originally to be built above the subterranean state office building on the block bound by 7th/8th N/O Streets. After CADA entered into a development agreement with Rubin Glickmann and Associates of San Francisco the decision was made by the State not to proceed on building it above the state office. With the assistance of the Capitol Area Advisory Committee CADA negotiated for its location to its current site. Received Building Industry Association Gold Nugget Award. Designed to be affordable with initial sales prices in 1986 of \$69,900.

**Brannan Court:** Designed originally by Michael Woldemarr Associates of San Pablo as a development project of Willard Trammel, CADA purchased the design, secured financing from the California Housing Finance Agency and constructed the project after Mr. Trammel withdrew for health reasons. Managed as mixed income apartments by CADA since 1988, the entry gate house includes public art – an abstract mural depicting events in the life of Sam Brannan – first promoter of the California Gold Rush.

**Greentree Commons:** Designed by Mark Mack and Peter Calthorpe. In 1988 it was a unique high density infill project that combined stacked flats on O Street, townhouses with addresses on the alley and the first restaurant in Sacramento to secure approved sidewalk seating. Originally developed as condominiums by a partnership of Penny Nyland and Bruce Gilliland, CADA purchased the project from the Bank when a change order dispute precluded the closing of sales and has managed it from that time as apartments.

**Victorian Townhomes:** Three new townhomes designed by Nielsen Wiese Architects to match the Victorian style of Palm Mansion which is immediately adjacent to these structures. Completed in 1993.

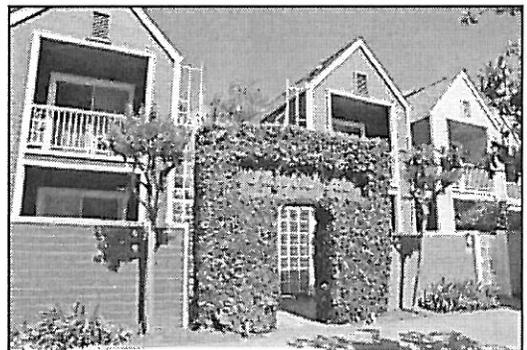
**Capital Terraces:** Designed by Herb Krumpe of Sacramento for Hank Fisher Properties. This complex provides efficiency studio apartments as an alternative to SRO facilities. Completed in 1994.

**Governors Terrace:** Designed by Herb Krumpe of Sacramento for Hank Fisher Properties. When this building was completed in 1994 it was the first new market rate apartment structure privately financed and completed in downtown Sacramento in ten years.

**State Office of Buildings and Grounds:** At the request of the State of California, CADA floated \$7 million in lease revenue bonds in 1994 to finance the construction of a quarter block midrise office structure. CADA selected Ravel Rasmussen to be the developer of the project. This sensitively scaled structure, designed by Niiya Calpo Hom and Dong was the recipient of an award from the Sacramento Old City Association. In addition to its outstanding architectural merit, the structure also contributes to the neighborhood's public art by housing two murals in its ground floor entrance lobby.



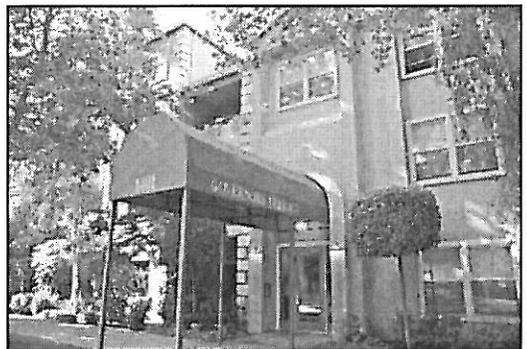
Delta Victorians



Stanford Park Townhomes



Capital Terraces



Governors Terrace

# 1997 Capitol Area Plan update



Brannan Court



Auslander



State Office of Buildings & Grounds

Responding to directives from Governor Wilson and the California State Senate, a Sacramento Regional Facilities Plan was published in 1993 that recommended the Capitol Area Plan be updated to accommodate more of the state's office needs. In 1995, the State and Consumer Services Agency sponsored a panel from the Urban Land Institute (ULI) to provide independent recommendations on the state's use of its real estate in the Capitol Area and its office procurement process. The ULI panel concluded that, while the quarter block module proposed in the 1977 Capitol Area Plan was unworkable for state office or parking use, the principle that a critical population mass be maintained during and after business hours provided by a rational mix of state office, residential and supporting commercial uses was sound.

In 1996, the Department of General Services and CADA conducted master planning studies to assess alternative development opportunities on key office, housing and commercial sites in the Capitol Area. The Legislature subsequently reaffirmed the 1977 Capitol Area Plan, endorsed the principal findings of the ULI study, and directed the preparation of an update to the Capitol Area Plan needed to respond to conditions that had changed in the twenty years since the Plan's adoption. The chief changes were the need to:

- Accommodate increased state offices downtown subsequently resulting in the construction of the State East End Project.
- Recognize the impact of the light rail system that had not been foreseen at the time the 1977 Plan was written.
- Include measures to encourage development of ownership housing.

The 1977 Capitol Area Plan had required all new housing to be developed on a long-term land lease basis to allow the State maximum flexibility by retaining ownership of the property. To facilitate efforts to attract a greater number of private sector investors, developers and homeowners in the difficult housing market of the 1990's, the Plan was changed in 1997 to provide the State the flexibility of either long-term leasing or selling the property to CADA for residential development.

At this time CADA commissioned the preparation of the Capitol Park Neighborhood Design Plan with the objectives of emphasizing neighborhood building and enhancing the Capitol Area's identity as a desirable address. The Capitol Park Neighborhood Design Plan was awarded the prestigious Ahwahnee Award by the National Center for Liveable Communities in 1997.



Artist Rendering from the Capitol Park Neighborhood Design Plan

# The State East End Project

CADA introduced the name “East End” during the ULI review of the Capitol Area Plan. As the project developed, CADA relocated multiple residential apartment structures and coordinated with the Department of General Services to ready the site. One of the buildings relocated to 17th & N Streets received the Sacramento Art Deco Society Preservation Award of 2001. Construction of the State East End Project brought 4,000 employees to 16th and Capitol Avenue energizing the area in midtown now becoming popular as the “Panhandle”.



State East End Office

## R Street

Responding to the wishes of the City of Sacramento and with the support of the State of California, CADA's project area was expanded in 2002 to include the key central section of the R Street Corridor. Development of this blighted area serves as an opportunity for transit-oriented development at the 13th and 16th Street Light Rail Stations and the forging of a connection between the Capitol Park Neighborhood and the neighborhoods to the south by carrying out the harmonious principles of the State's Capitol Area Plan and the City's 1996 R Street Corridor Master Plan.

CADA first brought together a broad constituency to develop the R Street Urban Design Plan. This plan provides a roadmap for future built and open space development supporting the common goal of creating a vital, mixed-use corridor with a strong underlying industrial character, recognizing its historical role as the first rail line connecting the Sacramento embarcadero to the Sierra Nevada gold fields. By action of the Sacramento City Council, this plan has been incorporated into City Ordinances.

CADA next prepared the R Street Implementation Plan to guide its development activities. The plan includes an analysis of existing conditions, specific legislative mandates that CADA must adhere to, goals for the area that build off past planning activities, affordable housing programs, strategies for attracting private investment and CADA's plan for structuring financing of public improvements.

CADA Projects completed since 2002 on R Street include:

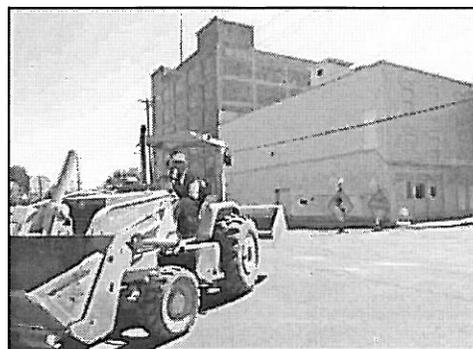
- Water and Sewer Line Replacement
- Hitomis Restaurant Patio Improvements at 12th and R Streets
- 14th and R Street Mixed-Use Building Public Infrastructure
- 13th and 16th Street Light Rail Transit Station (LRTS) Improvements
- Phase I of R Street Streetscape Improvements Phase I (in construction)
- Phase II of R Street Streetscape Improvements Phase II (in design).



Groundbreaking Ceremony for Phase I



LRTS Improvements Groundbreaking



R St Streetscape Phase I Construction

# Time for city life

CADA first advocated city life with the slogan, "Living Downtown is Great!" in 1980 at a time when only planners and sweat equity rehabbers in midtown agreed. In the 90's the slogan was changed to "Make your best move, move downtown". By 2000, it had become "Time for City Life" as the high costs of commuting both on individuals and on regional air quality became more apparent. Developer interest in building in downtown Sacramento and the availability of financing resulted in healthy responses to Request for Proposals issued by CADA for large projects. While pursuing larger developments, CADA continued working on smaller infill projects as well – working around and saving older structures that give the area its authenticity.

**17th and N Streets:** Designed by Herb Krumpel of Sacramento for Hank Fisher Properties, this project encompassed relocating an apartment from the footprint of the State's East End Project to the corner of 17th and N Streets and then constructing a new annex building on the alley.

**1500 Q Street:** Designed by Ron Vrilakas for Historic Properties, LLC., this project consisted of the rehabilitation of the historic Enos Grocery Store and the construction of new infill loft townhomes adjacent to the 16th Street Light Rail Station. The project has affordability requirements set by the Sacramento Housing and Redevelopment Agency that assisted in the financing of the project. Completed in 2001.

**Fremont Building:** Designed by EDI Architecture of San Francisco for Shasta Properties and Sotiris Kolokotronis of Sacramento. Completed in 2001, this is the first boulevard style high density housing in Sacramento. It incorporates three stories of apartments above ground floor retail. Eleven of the 69 apartments in this complex have affordability requirements as set by the Sacramento Housing and Redevelopment Agency that contributed financing to this project.

**Capitol Park Homes:** Designed by EDI Architecture of San Francisco for Shasta Development and Sotiris Kolokotronis of Sacramento. Completed in 2003, this project consisted of the construction of 64 single family homes with affordable requirements set by the Sacramento Housing and Redevelopment Agency that provided financing for the project. Half of the homes are sited facing the alley that has been designated a new city street named for Gregory Kondos, a nationally recognized artist and native Sacramentan. The two apartment structures relocated from the footprint of this project to sites on an adjacent block have been rehabilitated and continue to be in CADA's affordable rental housing inventory.

**Fremont Mews:** Designed by Ankrom Moison of Portland for Rembold Properties this 2005 project includes 119 loft apartments, 40% of which are affordable to low income households, and the first permanent community garden to be donated in perpetuity to the City Parks and Recreation Department. Designated by the Sacramento City Council as one of five major pivotal projects that together would attract 1000 residents to the urban core this project is at a highly visible location due west of Fremont Park at the intersection of major arterial streets and within one block of the 16th Street Light Rail Station. The structure was designed to integrate with the surrounding neighborhood. Its distinctive features include stoops – a welcoming short flight of stairs and landing leading to each ground floor unit.

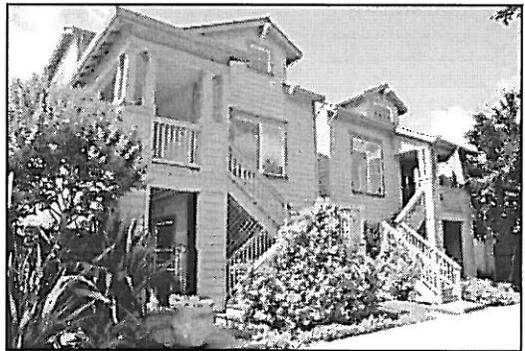
**Fremont – Wilshire Apartments:** In the difficult lending environment of 2009, CADA secured financing from Farmers and Merchants Bank, a local community bank, for the purchase and much-needed rehabilitation of the Fremont-Wilshire Apartments at 15th and P Streets. A program was established at this property whereby studio units are being made affordable to single persons earning between 50% and 80% of the area-wide median income whose needs have grown due to the combined effect of the recession and the increase in Central City living expenses.



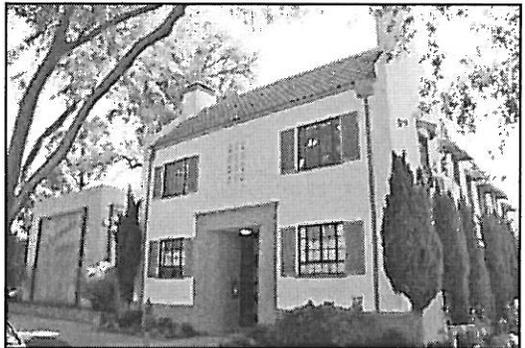
Building Relocation



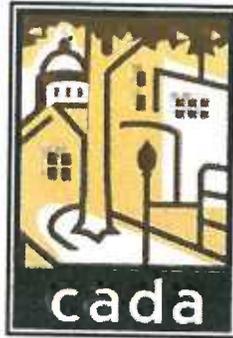
1500 Q Street



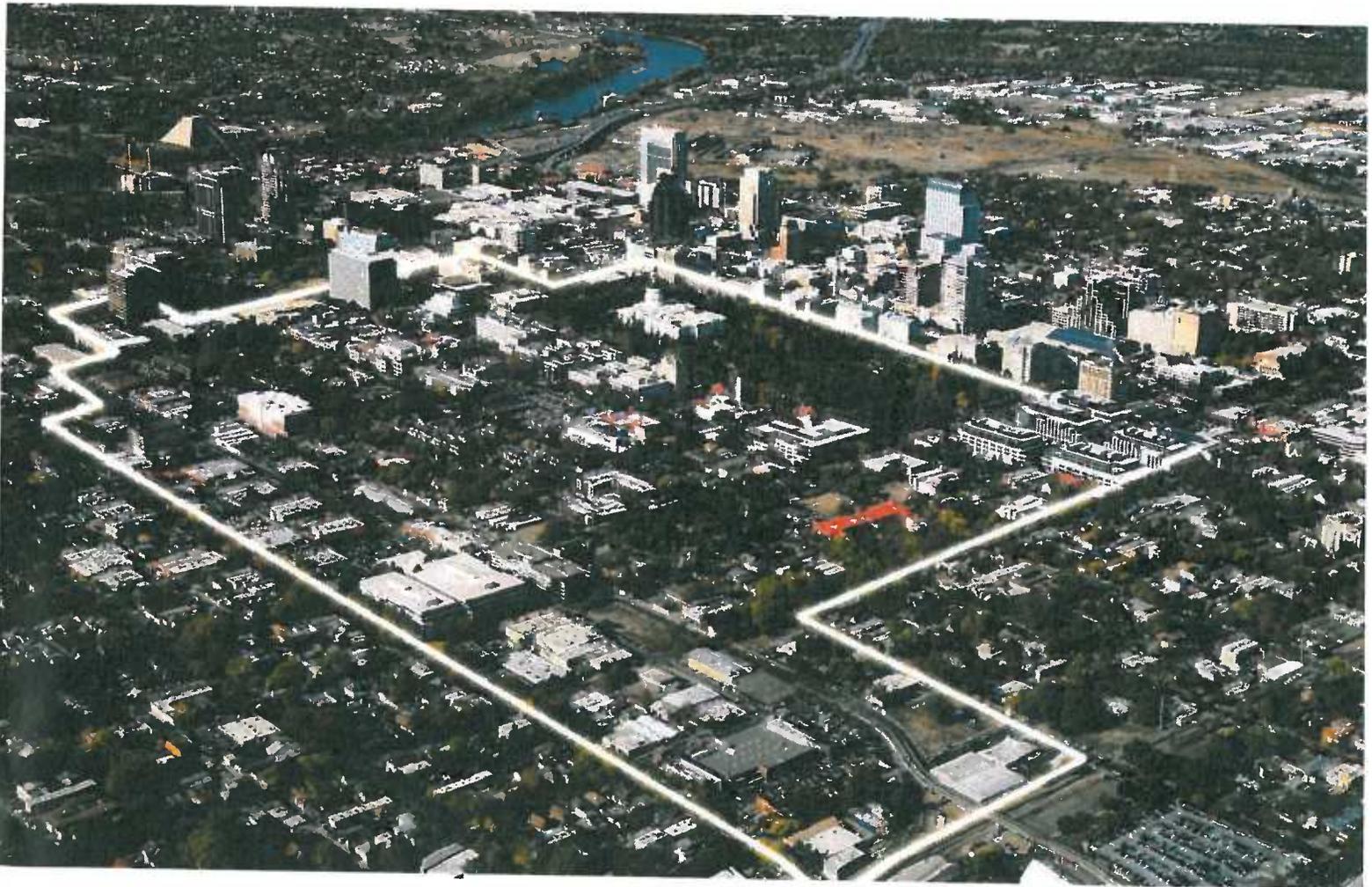
Capitol Park Homes



Fremont – Wilshire



# Capitol Area Development Authority Proposal for CADA Transition; Establishment of a Non- Profit Corporation



August 23, 2013

Revised September 4, 2013

## BACKGROUND

### CADA's Purpose and Mission

In the mid 1960's, the State of California acquired 42 blocks of property south of the Capitol for development of a state office campus. The properties acquired by the state consisted primarily of housing in a neighborhood that was, before the acquisition program began, one of the most populous in the central city. By 1969, only three state office buildings had been built when the building program was officially curtailed. Houses and apartment buildings acquired by the state had either been razed to make way for surface parking lots or allowed to decay. The most dramatic decline in downtown Sacramento population occurred at the heart of state property acquisition and demolition activities where the resident population of about 4,000 persons was reduced to little more than 1,000.<sup>1</sup> In fact, in the census tract bounded by Capitol Mall, R, 7<sup>th</sup> and 12<sup>th</sup> Streets, population declined from 2,388 in 1950 to 288 in the year 2000.<sup>2</sup>



The State of California and the City of Sacramento formed the Capitol Area Development Authority (CADA) in 1978 to bring the neighborhood back to life and create a suitable environment for the State Capitol. Two primary functions called out under CADA's enabling legislation were, (1) to initiate new housing on properties determined by the state to be unnecessary for state offices, and (2) to responsibly manage the remaining housing stock owned by the state. In order to ensure that the community be balanced by socio-economic status, CADA's enabling legislation requires that 25% of CADA units be affordable to households at low income levels. This affordability requirement applies in aggregate to the properties CADA manages and the new development that CADA initiates. Please see Exhibit 1, CADA Affordable Housing Program.



16 Powerhouse – Under construction

The guiding document for development in the Capitol Area is the Capitol Area Plan (CAP), adopted in 1977 and updated in 1997. The CAP was a progressive plan for its time, calling for walkable neighborhoods suitable for the state workforce; a variety of housing types; development supportive of transit; consideration of biking needs; and inclusion of neighborhood-serving retail. The type of development CADA was charged to pursue embraces the infill development principles the state now mandates by laws such as the Global

<sup>1</sup> 1977 State Capitol Area Plan, Page 3.

<sup>2</sup> Burg, William, Sacramento Press, January 2, 2013, *Where did the downtown population go?*

Warming Solutions Act of 2006 and the Sustainable Communities and Climate Protection Act of 2008, and state policies such as those contained in the California Strategic Growth Council 2012-2014 Strategic Plan. CADA's development activities also embody the Sacramento Area Council of Government Blueprint principles, including encouraging reinvestment in urban areas and development of housing in proximity to jobs. Since its inception, CADA has initiated private development of 1,134 new housing units.<sup>3</sup>

CADA manages 783 rental housing units that are owned by the state, of which about one quarter are affordable. CADA's affordability program is self-funded with subsidies for affordable units offset by income from market rate units. The affordability program costs CADA approximately \$750,000 per year. The affordable program mixes market rate and affordable units throughout the portfolio such that affordable and market rate units are indistinguishable.

Due to the dilapidated state of the rental properties when initially entrusted to CADA's care, CADA utilized third-party grants to make the housing units safe and habitable and has consistently invested revenue generated from rental receipts into property improvement. Due to its mission, and to ensure a quality environment around the Capitol, CADA property management standards are higher than those typical of private property owners. The fact that CADA manages a large number of properties in a tightly clustered area gives CADA operations certain efficiencies and economies of scale. This has



17<sup>th</sup> and P, 1978

resulted in a well-managed portfolio that dramatically reduces the incidence of problems in the Capitol Area common to inner-city neighborhoods and also provides security for people working and visiting the State Capitol. Please see Exhibit 2, CADA Property Management Practices.



17<sup>th</sup> and P, 2012

CADA was established as a self-supporting entity. As noted in the 1997 CAP Update, "Neither of the two entities that created CADA provide it with operational funding. The state's contribution consists of leasing land to CADA to manage and develop...In order to subsidize development of its land, the state does not require CADA to make any lease payments."<sup>4</sup> CADA uses its income to prepare property for private development by completion of hazardous materials remediation, installation of infrastructure, and bridging the infill housing and affordable housing financial feasibility gap. Over CADA's life, the State's investment has been the foregone rental receipts from

state properties managed by CADA. The City of Sacramento and its former Redevelopment Agency have made substantial financial contributions to both CADA development projects and

<sup>3</sup> A total of 766 units have completed to date and 368 are currently underway.

<sup>4</sup> 1997 Capitol Area Plan, an Update of the 1977 Capitol Area Plan, March 1997, p. 96.

to new infrastructure and public improvements in the Capitol Area. Please see Exhibit 3, Recent CADA Investment in the Capitol Area.

## **CURRENT SITUATION**

In May 2011, Governor Jerry Brown proposed that the state sell properties no longer needed for state programmatic purposes, including those managed by CADA. In response to the governor's directive, the State Department of General Services initiated a plan to sell five CADA-managed properties per year, with the entire portfolio to be sold in about 10 years. Under this approach, it is unclear whether and how individual property purchasers would meet legislative affordable housing requirements,<sup>5</sup> and how, during the 10-year sales period, CADA could continue to provide affordable housing under its self-funded, internally subsidized model as the number of properties in its control declines and its revenues diminish. Further, it is unclear what entity would assume CADA's outstanding debt and regulatory obligations.<sup>6</sup>



Residents of Biele Place

The City of Sacramento believes that CADA must continue to serve the state programmatic purpose set forth in the State Capitol Area Plan for which it was established. The state still owns surface parking lots slated for residential development under the Capitol Area Plan. The city wants to see this work completed. As important, however, is the city's concern that the stable neighborhood and mixed-income approach to housing achieved through considerable investment by the JPA partners will be lost if the CADA portfolio is dismantled. The city considers the work of the JPA to have more relevance than ever, and policy objectives at the state and local level reflect the need for smart growth development such as that accomplished by CADA.

## **PROPOSAL**

### **Summary**

The goal of this proposal is to achieve the objectives of both parties that comprise the JPA – the city and the state. For the state, the proposal would divest the state of real estate holdings now managed by CADA; allow completion of development on state-owned residential sites; continue the provision of affordable housing; and grant the state a return on its investment.

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<sup>5</sup> Like other housing authorities, CADA certifies the income of its residents who occupy income-restricted units both at initial rental application and annually thereafter. CADA reports the status of its compliance to its Board of Directors monthly. Private developers' compliance with affordable housing requirements is monitored by outside regulatory agencies associated with funding sources including, in the case of tax credits, the IRS. Under the plan proposed by DGS, no regulatory agency has been identified to carry out these functions.

<sup>6</sup> CADA has approximately \$47 million in debt and other outstanding financial obligations. It also manages certain properties subject to regulatory agreements with affordable housing finance agencies, as noted in Exhibit 1.

For the city, the proposal would preserve the city's substantial investment in the Capitol Area; preserve the stability of the neighborhood; continue the mixed-income approach to housing; and initiate additional housing in the urban core, consistent with the Blueprint principles. In summary, the JPA would remain in place to initiate development of the few remaining state residential development properties and to retire existing JPA obligations, but the state could, if it chooses to do so, withdraw from the JPA and be replaced by an alternate public entity. A new companion non-profit organization would be created to own and manage the residential real estate. The JPA would purchase in bulk the residential property managed by CADA from the state and convey it to the non-profit as soon as the non-profit is established and gains proper tax status. The price paid to the state would be discounted to reflect ongoing obligations and the long-standing mission of the organization. Under the proposal, the state would receive a reasonable financial return on its investment based on the value of the rental properties when they were entrusted to CADA's care.

## Process

### **Step 1: The JPA is re-structured to allow the state to withdraw and be replaced by an alternate public entity.**

Pursuant to the Joint Exercise of Powers Agreement between the State of California and the City of Sacramento, the Agreement must continue in full force and effect until July 1, 2042, or until such time as any outstanding bonds have been paid in full or otherwise provided for.<sup>7</sup> CADA issued Tax Allocation Bonds in 2004 that will not be paid in full until 2035, and CADA has other long-term secured and unsecured debt. The JPA also has



Legado de Ravel

significant post retirement and pension liabilities. Since the JPA cannot be quickly dismantled, allowing the state to withdraw from the JPA and be replaced by an alternate member would be the simplest first step in extricating the state from real estate management responsibilities. The JPA will continue to serve as the development arm for state-owned properties that are not needed for a state office purpose, and will continue to exist for the purpose of retiring debts.<sup>8</sup> If CADA is given authority to initiate new development, the Capitol Area could potentially gain over 600 new housing units in the Capitol Area (please see State-Owned Development Sites, Exhibit 4).

Authorization for the state to withdraw and be replaced by an alternative JPA member will require approval of legislation to modify California Government Code Sections 8169.4, 8182, and 8183.

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<sup>7</sup> Joint Exercise of Powers Agreement, between the State of California and the City of Sacramento, July 1978, Section 4.

<sup>8</sup> Properties identified in the CAP for residential development include Site 21 at 14<sup>th</sup> and N Streets; East End Gateway Sites 5 and 6 at 16<sup>th</sup> and N Streets, Block 222 at 12<sup>th</sup> and O Streets, and Block 224 at 13<sup>th</sup> and O Streets. Further, it appears there are no plans for state office development on Block 275 at 11<sup>th</sup> and P Streets, and the site is ideal for housing.

**Step 2: The state sells its residential portfolio to the JPA in bulk for a price that takes into consideration the following: (1) the JPA’s ongoing financial obligations; (2) the continued requirement to provide affordable housing; (3) continued superior property and neighborhood management practices; and (4) completion of development sites and continued investment in Capitol Area improvements.**

Sale of the residential state-owned properties to the JPA will satisfy the state’s desire to extricate itself from real estate obligations for the residential properties. The bulk sale will address a number of issues that would arise if the state assets are sold piecemeal. The self-funded housing affordability program currently managed by CADA will operate as it does now without disruption to existing tenants or the neighborhood. Discount of the price to reflect operational standards will address the city’s concern that the property not fall into disrepair. Allowing the organization to retain a portion of its income for Capitol Area investments will allow completion of projects on the remaining development sites and needed infrastructure improvements, continuing to enhance the Capitol environment.



Warehouse Artist Lofts (WAL) – Under construction

Authorization for the state to sell the properties on the terms outlined above will require approval of legislation to modify California Government Code Section 8169.

**Step 3: The JPA forms a non-profit corporation to own and manage the residential portfolio. The JPA transfers the residential portfolio to the non-profit.**

A new non-profit established by the JPA will be created for long-term ownership and management of the residential portfolio. The non-profit will contract with the JPA for staff services and JPA employees will be transitioned to the non-profit over time. The JPA board of directors will serve simultaneously as the non-profit board of directors. The mission of the non-profit will continue to be ensuring the safety, stability and improvement of the Capitol Area, and to support infill development. To the extent that revenues grow over time, returns will be invested consistent with the non-profit’s mission. Establishment of the non-profit while the JPA is in existence will allow for a well-planned transition to the new form of governance and management.

**The State Will Receive a Reasonable Return on Its Investment.**



Fremont Mews and the Fremont Community Garden

The state engaged the city in the establishment of CADA to implement the residential and neighborhood components of the Capitol Area Plan and to repair the damage the state’s acquisition and demolition activities had caused. As a result of CADA, the state’s residential properties in the Capitol Area have been rehabilitated and are home to many state workers. The pedestrian environment has been

beautified and enlivened. There are many new apartments, restaurants and businesses. The area is safe and stable for state workers, visitors and residents. There is a community garden and a newly renovated park. As measured against its original investment objective, the state has achieved a significant return. However, the state has indicated that it also wants to receive a financial return on investment. When the state entrusted its properties to CADA management in 1978, the properties were in significant disrepair. CADA records show that annual net operating income from the rental properties in 1978 was approximately \$250,000 and did not rise until substantial improvements to the properties were made with funds secured from a federal grant.<sup>9</sup> The initial operating income has been used in the table below to establish the value of the portfolio when placed in CADA's hands at \$2.6 million.

The table below identifies the financial returns the state has already received and what it stands to receive by implementation of this proposal. The state has received income from sale of properties to CADA for development of residential projects. The prices paid by CADA have been based on appraisals that established fair market value for the land given residential use. The state will sell commercial properties and ground lease properties that CADA now manages on the state's behalf. And the state will receive income when the JPA buys the residential properties from the state. While the amount the JPA will pay the state has not yet been determined, even without these proceeds, the state will earn an estimated \$12.1 million from its initial investment. This contrasts favorably with the \$14.9 million the state would have earned had it invested the value of the properties in the state's treasury. When payment by the JPA is added to the equation, it is projected the state will have made at least what it would have made by investing in the treasury.

<b>Evaluation of State Financial Return</b>		
<b>Value of State Initial Investment</b>		<b>\$2.6 million<sup>10</sup></b>
Already Earned by State:	\$5.6 million	
• Residential Sites Previously Sold to Private Developers		
To Be Earned by State through Sale to Private Sector		
• Ground Lease Properties Currently Managed by CADA	\$2.4 million <sup>11</sup>	
• Commercial Properties Currently Managed by CADA	\$0.8 million <sup>12</sup>	
To Be Earned by State when CADA Sells Residential Development Sites to Private Developers	\$3.3 million <sup>13</sup>	
Multifamily Residential and Mixed-Use Residential Sites that CADA to Purchase from State and Convey to Non-Profit	<b>+TBD</b>	
Total Estimated Earnings (not including receipt from sale of multi-family properties to CADA)		\$12.1 million
<b>Total Estimated Earnings</b> (including receipt from sale of multi-family properties to CADA)		<b>&gt;\$12.1 million</b>
Comparable Return		\$14.9 million <sup>14</sup>

<sup>9</sup> A \$4.9 million Public Works grant from the Federal Economic Development Administration was secured to rehabilitate dilapidated state-owned buildings.

<sup>10</sup> Initial annual income of \$250k capitalized at 8.5%.

<sup>11</sup> Value of ground lease properties based on current income capitalized at 8.5%.

<sup>12</sup> Value of commercial properties based on current income capitalized at 8.5%.

<sup>13</sup> Estimated value of Development Sites 21, 5, 6 and Block 222 based on last residential-use appraisal for similar property. If the Caltrans Block were included, the state would receive an additional \$2.7 million.

**Next Steps**

Adoption of legislation will be necessary to carry out the recommendations outlined herein. Required changes to CADA’s enabling statutes are shown on Exhibit 5. Activities necessary for transition to the new form of governance could follow immediately after adoption of the legislative changes.

Progress can begin now on sale of the residential sites for new development – no legislative actions are required and DGS has discretion to allow to begin the process immediately. The improving housing market and enhanced Capitol Area residential environment make this an auspicious time to begin. Pursuant to the schedule below, the state could be completely divested of its involvement in the CADA-managed property in 2016 if the recommended activities begin immediately.

<b>Time Frame for Divestiture of State from CADA-Managed Real Estate</b>			
	<b>State</b>	<b>JPA</b>	<b>Non-Profit</b>
<b>2013</b>	Exit JPA (if state elects to withdraw)	Restructure JPA (if state elects to withdraw)  Begin predevelopment work on state-owned residential sites	
<b>2014</b>	Sell multi-family properties to the JPA  Sell commercial properties and ground lease properties to private sector	Purchase multi-family  Continue pre-development work on new residential sites	Create Non-Profit
<b>2015</b>		Transfer multi-family properties to non-profit  Pre-development work on new residential sites ongoing	Acquire multi-family properties
<b>2016</b>	Sell residential sites to the JPA  Divestiture of state from CADA-managed real estate is complete	Sell residential sites to private developers  JPA continues for purpose of paying off debts and other limited functions	

<sup>14</sup> Comparable value if state had placed money in the Local Agency Investment Fund, managed by the California State Treasurer.

Exhibits

- Exhibit 1: CADA Affordable Housing Program
- Exhibit 2: CADA Property Management Practices
- Exhibit 3: Recent CADA Investment in the Capitol Area
- Exhibit 4: State-Owned Development Sites (map)
- Exhibit 5: Proposed Modifications to CADA Enabling Legislation

## CADA Affordable Housing Program

### Legislative Mandate

CADA's affordable housing mandates are contained in Government Code Section 8193, enacted in 1978, and modified by Government Code Section 8169, enacted in 1997.

When CADA was established, the state did not have authority to sell property either to CADA or to CADA's private development partners. All new development was constructed on land leased to CADA which in turn, was leased to private developers. This scheme was expected



Biele Place, a CADA Special Management Property

to be in place in perpetuity, and Government Code Section 8193 required that CADA maintain 25% of the properties it leases from the state at affordable rents, anticipating this requirement would flow to all private development. In 1997, Government Code Section 8169 was amended to enable CADA to purchase land from the state and sell it to private developers. Section 8169 as amended modifies the previously enacted statute by requiring that 25% of the units on land CADA leases from the state and dwelling units built on land previously owned by the state be included in the determination of the total dwelling unit count. Therefore, the total number of units to which the 25% affordable mandate applies has increased and changed over time as new privately-owned projects are completed with varying affordability parameters.<sup>1</sup>



CADA Bingo Night

The required level of affordability in CADA's units is nuanced. Government Code Section 8193 defines "low income households" as those at 80% or less of area median income (AMI), yet describes "affordable rents" as "not exceeding those allowed under the United States Housing and Urban Development Section 8 Assistance Payments Program or its successor." The federal Housing Choice Voucher Program, formerly Section 8, is for the benefit of households whose income does not exceed 50% of the

AMI ("very low income") and 75% of the vouchers must be granted to households whose income does not exceed 30% of the AMI ("extremely low income"). Further, Government Code Section 8193 instructs CADA to utilize federal and state programs established to subsidize development of affordable housing. These programs are aimed at housing affordability levels lower than 80% AMI. In accordance with this legislative

<sup>1</sup> For example, the recently completed Legado de Ravel includes 84 market rate units and no affordable units. Because the total number of units subject to the requirement has increased and no new affordable units were constructed in the project, CADA must increase the number of affordable units available in its portfolio by 21 (25% of 84). The requirement will decrease, however, when the Warehouse Artist Lofts project is complete because 86 of its 116 units will be affordable.

directive, CADA utilized state housing finance programs in development its Special Management Units. Housing in the units is set at less than or equal to 50%, 60% or 80% of the AMI based on financing program requirements.

Finally, because in the early years of CADA's existence, there was not significant demand in the downtown rental market, and because CADA's apartments are "Class B and C" structures as categorized by the real estate industry, in actual practice "market rate" for the units has historically been affordable to low income households. In order to meet the intent of the enabling statutes – that is, to meet affordable housing needs – CADA has historically used 50% of the AMI as the threshold for affordability where it has discretion.

### Special Management Units

CADA's Special Management Units were developed with financing by public agencies, as directed by the statutes, and are subject to regulatory agreements that stipulate their levels of affordability.

### **Special Management Units**

Name	Number of Regulated Units	Income Limits (as % of Area Median Income)		
		<= 50%	<= 60%	<= 80%
Somerset Parkside	25	18		7
Biele Place	34	23		11
17 <sup>th</sup> Street Commons	12	6	6	
Brannan Court	8	8		
Johnston House/Don Carlos	14			14
Fremont – Wilshire	12			12
<b>Total</b>	<b>105</b>	<b>55</b>	<b>6</b>	<b>44</b>

### CADA-Initiated/Privately Owned Units

A number of CADA initiated projects owned by private parties are subject to regulatory agreements with the public agencies that financed them. Since they were initiated by CADA, they factor into CADA's unit count.

### **CADA-Initiated/Privately-Owned Units**

Name	Number of Regulated Units	Income Limits (as % of Area Median Income)		
		<= 50%	<= 60%	<= 80%
1500 Q Street	2			2
The Terrace (17 <sup>th</sup> Street)	60	60		
Admail Express Building	3			3
Fremont Building	11			11
Capitol Park Homes	12			12
Fremont Mews	48	24		24
<b>Total</b>	<b>136</b>	<b>84</b>		<b>52</b>

CADA Scattered Site Program



Typical CADA building in "Scattered Sites" program

CADA manages a "scattered site" program whereby a portion of the rental units in the state portfolio are rented at below market rates. Given that the total number of required affordable units varies over time, CADA is able to adjust the number of affordable units in its scattered site program as the affordable unit requirement changes over time. As directed in Government Code Section 8193, CADA has patterned this program after the Housing Choice Voucher (formerly Section 8). Residents for the program must qualify by demonstrating that their income is at or below 50% of the AMI.

Once a household qualifies as meeting the target income threshold, actual rent is set at 30% of the household's income, less a utility allowance. Rental income from CADA's better-performing market-rate units subsidizes the Scattered Site Program.

Status of CADA Affordable Housing Program

As of June 28, 2013, CADA's provision of affordable housing units is as follows:

**Total Affordable Housing Units**

Program		Income Limits (as % of Area Median Income)		
		<=50%	<=60%	<=80%
Regulated Special Management Units	105	55	6	44
CADA Initiated/Privatey Owned	136	24		112
Scattered Site Program	105	105		
<b>Total Affordable Units</b>	<b>346</b>	<b>184</b>	<b>6</b>	<b>156</b>
Total CADA Units (Privately owned plus state owned/CADA managed)	1,383			
<b>Percent Affordable</b>	<b>25%</b>			

Monitoring

The CADA Board of Directors reviews the status of the affordable housing program monthly to ensure CADA is in compliance with affordability statutes. CADA residents in the affordable programs must demonstrate their incomes meet applicable affordability thresholds. After initially certified, resident incomes are recertified annually.

### Units At Risk

CADA's regulatory agreements for its six Special Management Properties expire over the next several years. The City of Sacramento's Housing Element states that the city's policy is to work with CADA and the State of California to support the production and preservation of affordable and workforce housing in and around downtown Sacramento. However, because the regulatory agreements will expire and there is no certainty about their future affordability given the potential sale of the properties by the state, they have been identified as "at risk" in the city's proposed 2014 Housing Element Update.

### Development of New Affordable Housing

As a part of the 2014 Housing Element Update, the City of Sacramento prepared a Residential Nexus Analysis to provide technical support for proposed modification to the City's Mixed Income Housing Ordinance.<sup>2</sup> The analysis calculates housing development affordability gaps, or the gap between what residents of certain area median incomes can afford to pay for housing versus what housing costs to build. The gaps identified are as follows:

- 30% - 50% of AMI: \$173,000 per unit
- 50% - 80% of AMI: \$105,000 per unit<sup>3</sup>

Due to higher costs associated with multi-story urban infill housing, affordable housing is even more costly in the downtown Sacramento urban core. Recent examples of downtown Sacramento affordable housing projects, including 7<sup>th</sup> and H (Mercy Housing), 700 K Street, and the Berry and Ridgeway Hotel renovations have required public assistance ranging from \$215,000 to \$315,000 per unit to meet the affordability gap.

Based on the Mixed Income Housing Ordinance analysis, it would cost approximately \$33 million in development subsidies to replace CADA's affordable housing units (Special Management and Scattered Site units). In reality, however, given the lack of developable land in downtown Sacramento, it would be difficult or impossible to replace the affordable units if they were lost.

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<sup>2</sup> Keyser Marston Associate, Inc., Residential Nexus Analysis, Mixed Income Housing Ordinance, Sacramento, California, July 2013.

<sup>3</sup> IBID, p. 52.

## CADA Property Management Practices

As a property management entity responsible for numerous small properties in an urban setting, CADA stands out for many reasons over private-sector property management companies with similar properties. These advantages result in a well-managed portfolio that dramatically reduces the incidence of problems in the Capitol Area that are common to other downtown neighborhoods. The following practices contribute to the stability of the neighborhood.



1. Oversight by board of directors: CADA is held accountable to high standards by a Board of Directors that conducts monthly public meetings and approves rental rates and rent increase percentages annually to ensure they are fair, accurate and in line with the rental market.
2. Properties clustered in one area: Managing so many units (783) in one area enables CADA to have sufficient resources (employees and vendors) to provide high-quality management of its properties in ways that owners and managers of individual properties cannot.
3. Management offices in the neighborhood: Having an administrative and maintenance office in the neighborhood allows CADA to provide extremely responsive assistance to its residents and care of its properties, as well as enables it to know its properties and residents in ways that most managers cannot.
4. Careful screening of new residents: CADA sets high standards for its residents, striving always to find good neighbors for existing residents when renting vacant apartments. Even in times of higher than usual vacancy rates, when the rental market and economy was tenuous, CADA still employed high standards regarding rental history and responsibility. CADA practices Fair Housing and does not discriminate.
5. On-call staff available after-hours: CADA offers quick emergency assistance to residents after hours with its on-call program. Experienced and skilled employees who live within minutes of every CADA property can quickly respond after hours to resolve a maintenance concern that can't wait until morning.
6. Capital Improvement Program: CADA invests \$500,000 to \$700,000 a year in the properties it manages. Since 1978, CADA has invested over \$18 million property improvements.
7. Energy Efficiency: In support of Executive Order S-14-08, which requires the state to reduce greenhouse gasses and increase reliance on renewable energy, CADA makes continual improvements to reduce dependence on the grid. This also improves both CADA's bottom line and benefits its tenants by reducing utility bills.



8. Funding for ADA improvements: CADA allocates money annually to respond to resident requests for ADA improvements.

9. Annual Health, Fire, Safety inspections: CADA inspects each apartment annually to determine if there are any deferred or unreported maintenance issues, including housekeeping issues that detract from the resident's comfort in their apartment home, compromise the integrity of the property, or affect a neighbors'

quality of living.

10. Pro-active bedbug procedures: When the bedbug issue hit Sacramento hard in 2011 CADA responded by contracting with a company with bedbug-finding dogs to inspect every vacant apartment for bedbugs prior to a new resident moving in, and every occupied apartment where the resident has requested to transfer. When bedbugs are located, CADA utilizes a safe and effective heat treatment method to rid the apartment of the pests, which minimizes problems due to chemicals and reduces the likelihood of re-infestation.

11. CADA raises the bar as a property management entity and neighborhood steward by not only being concerned about its own properties and residents, but also being concerned about the safety and "curb appeal" of the neighborhood as a whole. Accordingly, CADA:

- Contracts with a private security patrol to patrol its properties every night of the year for 12 hours per night, on foot and in a car. This is a valuable amenity not only to CADA's residents, but also to state office neighbors and private property owners in who reap the benefits of a private patrol in the area. Owners of small properties would be unlikely to be able to provide this level of security.
- Quickly cleans up graffiti on its properties and in the neighborhood, and often provides assistance to private homeowners in cleaning up their properties.
- Has purchased and renovated private properties on several occasions to rid the neighborhood of irresponsible landlords and poorly managed properties.
- Supports neighborhood associations and sponsors events such as Chalk it up and Earth Day.

12. Ombudsman services provided to residents: CADA offers its residents the services of an Ombudsman employed by the Human Rights/Fair Housing Commission. In the unlikely event a resident can't resolve a problem with CADA staff, he or she can request the assistance of the Ombudsman to resolve the concern.

13. Prompt response to lease violations: Because CADA promises good neighbors to all of its residents, lease violations are responded to swiftly and in a standardized fashion. A resident who is violating a lease term or community policy and causing a problem for a neighbor will receive three warnings before being asked to vacate.

14. Quarterly events for residents: CADA maintains close connections with its residents by holding quarterly events to foster positive relationships between CADA staff and residents. This contributes to residents trying harder to be good neighbors and good residents.



15. Sensitive to the needs of high-risk residents: Although CADA is strict when it comes to enforcing its lease terms, staff also goes the extra mile to assist residents whose errant behavior may be influenced by a medical or mental health problem. As deemed appropriate, staff has drafted a "Last Chance Agreement" or "Behavior Plan" for these residents, which typically involves the assistance of a social service agency or someone close to the resident who agrees to provide the resident the necessary support to abide by CADA's community policies and (hopefully) reduce the danger of the resident of becoming homeless.

16. Superior affordable housing provider: All CADA properties are well-cared for and no specific property can be identified as a "low-income" community.

17. Resident Services Representative program: CADA employs 9 fulltime and 2 part time Resident Services Representatives (RSR's) who reside at one of CADA's 50 properties (at least one per block managed). Each has an area that he or she is responsible for. The responsibilities include porter services to the properties (cleaning and minor maintenance) and customer service to the residents. The RSR's also touch up the apartments prior to a new resident moving in if the apartment has been vacant for some time, maintain the signage and listing boxes, conduct annual Health, Fire & Safety (HFS) Inspections and change A/C filters in each unit. The HFS program is CADA's long-standing inspection program that also fulfills the requirements of the City of Sacramento's Rental Inspection Program which was established in 2008 to ensure that rental units within the City are being properly maintained. As a government agency, CADA is allowed to self-inspect its properties.

**Recent CADA Investment in the Capitol Area**

Historically, CADA invests about 10.5% of its income per year in projects aimed at improving the Capitol Area. An illustrative summary of expenditures over the last 10 years is provided below.<sup>4</sup>

East End Gateway Sites 2 and 3 – Legado de Ravel - Between 2003 and 2012:

Site demolition and remediation:	\$925,000
Land purchase (loan from DGS):	\$820,000
Pre-development <sup>5</sup> :	\$623,000
Contribution to add one story/15 housing units (concrete podium)	\$1.2 million

Warehouse Artist Lofts – Between 2003 and 2012

Site remediation:	\$1.0 million
Land purchase:	\$300,000
Pre-development:	\$410,000

East End Gateway Site 4 – 16 Powerhouse - Between 2003 and 2013

Site remediation:	\$ 20,000
Land purchase (loan from DGS):	\$585,000
Pre-development:	\$464,000
Infrastructure improvements (I Bank loan)	\$600,000

East End Gateway Site 1 – The Warren – Between 2003 and 2013

Demolition and remediation (committed)	\$800,000
Land Purchase (loan from DGS):	\$1.0 million
Pre-development:	\$506,000

Fremont Community Garden – Between 2004 and 2007

Site remediation	\$455,000
Site improvements:	\$178,000

Fremont Wilshire Building – Between 2008 and 2013

Purchase and rehabilitation of building at 15 <sup>th</sup> and P to address absentee landlord issues	\$771,000
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R Street

Water main (leveraged \$1.1 million grant)	\$ 86,000
13 <sup>th</sup> and 16 <sup>th</sup> Street Light Rail Station Improvements (leveraged \$1.07 million in other funds):	\$ 90,000

<sup>4</sup> 3<sup>rd</sup> party and actual costs; does not include CADA staff time.

<sup>5</sup> Includes expenses such as community engagement, design review, environmental review (CEQA/NEPA), underwriting, legal, and planning.

1409 R Street offsite improvements (Magpie, Shady Lady, etc.)	\$300,000
Streetscape improvements (all phases- leveraging \$11.7 million in other funds)	\$1.2 million

#### 16<sup>th</sup> Street Streetscape – S Street to Capitol Mall

Design for Pedestrian safety, bikeways, lighting, signals:	\$239,000
Contribution toward signals on 15 <sup>th</sup> and 16 <sup>th</sup> Streets: (Leveraged Strategic Growth Council grant of \$800,000; other construction grants pending)	\$ 95,000

#### Priorities for Future Capital Improvements

##### O Street

- Complete repainting of RT platforms, power line support poles and other fixtures to create improve the appearance of RT infrastructure.
- Replant overgrown or under-planted planters
- Plant more trees and shrubs
- Replace trash barrels
- Repair broken irrigation lines
- Install new irrigation lines and convert gravel planters to landscaped planters
- Replace outdated benches
- Improve lighting, signage and other hardscape and introduce basic consistency throughout to create a greater identity for the street
- Install 14<sup>th</sup> & O Street roundabout
- Install gateways at 16<sup>th</sup> Street and 7<sup>th</sup> Street
- Install public art
- Reestablish vehicular traffic on portions of O Street

##### Streetlights

- Improve public safety by installing install street lighting on blocks where lighting is absent and/or insufficient

##### 16<sup>th</sup> Street

- Design and construct Phase II streetscape improvements including installing a pocket park at 16<sup>th</sup> and O Streets, replacing existing street lighting with modern, energy-efficient LED lighting, installing art work, and installing new crosswalks at key intersections.

##### Neighborhood Crosswalks

- Work with City to upgrade existing crosswalks in areas other than 16<sup>th</sup> Street to more current standards and install crosswalks in areas where they are missing and are needed.

##### Alley improvements

- Pave gravel alleys between the RT light rail right of way and P Streets





**RESOLUTION NO. 13 - 38**

Adopted by the Capitol Area Development Authority

August 23, 2013

**RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO TAKE SUCH ACTIONS AS REQUIRED TO INITIATE IMPLEMENTATION OF THE PROPOSED TRANSITION PLAN THAT WOULD MODIFY CADA'S GOVERNANCE STRUCTURE AND PROVIDE FOR PURCHASE OF STATE-OWNED RESIDENTIAL PROPERTIES MANAGED BY CADA**

**WHEREAS**, in May 2011, the Governor directed the Department of General Services (DGS) to consider the sale of state-owned property leased to CADA as part of a statewide directive to sell property that may no longer be needed for a state programmatic purpose; and

**WHEREAS**, in October 2011, CADA's Board of Directors adopted Resolution 11-43 directing the Executive Director to facilitate the sale of state-owned property that had been developed on development ground leases and recommending to the State of California and the City of Sacramento that the sale of any additional state-owned property be held in abeyance pending a CADA workshop to be held in February 2012; and

**WHEREAS**, in November 2011, in addressing concerns raised by the members of the Capitol Area Committee, the Director of DGS responded that the goal of DGS would be to present a strategic, long term plan allowing CADA to realize its programmatic mission under the Capitol Area Plan, including development of remaining sites and meeting its affordable housing requirements, while also meeting the directive of the Governor's May Revise Budget 2011-12 Initiatives; and

**WHEREAS**, in January 2012, the Sacramento City Council took action supporting CADA's adoption of Resolution 11-43; and

**WHEREAS**, in February 2012, in accordance with Resolution 11-43, CADA conducted a workshop which concluded a sequenced disposition strategy was needed that would transition state-owned properties not designated for future development from being leased by CADA to being owned by CADA; and

**WHEREAS**, in July 2012, CADA staff transmitted a draft 15 year sequenced disposition strategy to DGS, the Capitol Area Committee, the Technical Advisory Committee, 2012 CADA Board Workshop participants and the offices of Assemblyman Dickinson and Senator Steinberg for their review and comment; and

**WHEREAS**, in September 2012, in commenting on this strategy, DGS stated that its expectation and that of the Department of Finance (DOF) was that the entire disposition plan take no more than 12 years to fully implement; and

**WHEREAS**, in October 2012, CADA's Board of Directors adopted Resolution 12-53 directing the Interim Executive Director to prepare a 12 year sequenced disposition plan for presentation at its February 2013 meeting that addressed concerns and comments raised by the State, the City, 2012 CADA Board Workshop participants and legislative staff on the draft 15 year sequenced disposition strategy; and

**WHEREAS**, in March 2013, in accordance with Resolution 12-53, CADA conducted a workshop at which the proposal entitled "Framework for the Sale of State-Owned Properties in the Capitol Area" dated March 15, 2013 was presented; and

**WHEREAS**, in March 2013, DGS stated that DGS and DOF questioned the authority, feasibility and achievability of the proposed "Framework for the Sale of State-Owned Properties in the Capitol Area"; and

**WHEREAS**, CADA's Board of Directors has determined that modification to existing legal authorities is required to accomplish the Governor's Directive while allowing CADA to achieve its programmatic mission and continue to provide affordable housing.

**NOW THEREFORE, BE IT RESOLVED**, by the Capitol Area Development Authority that the Board:

1. Accepts the proposal entitled "Transition Plan August 23, 2013" (Proposal) as CADA's response to DGS's request that CADA present a strategic, long term plan to realize its programmatic mission under the Capitol Area Plan, including development of remaining sites and meeting affordable housing requirements, while selling state-owned property leased to CADA;
2. Directs the Executive Director to present the Proposal to the City of Sacramento's for consideration and approval;
3. Directs the Executive Director to work with the State of California, the City of Sacramento and the City of Sacramento's legislative representatives on refinement of the Proposal and development of legislation to enable its implementation.

  
Ann Bailey, Chair

ATTEST:

  
Sharon M. Bennett  
Secretary to the Board of Directors

**CADA Properties Currently Being Considered For Disposition**



## **Resolution No. 2013 -**

Adopted by the Sacramento City Council

### **SUPPORTING THE CADA TRANSITION PLAN**

#### **BACKGROUND**

- A. In the Governor's FY 11-12 May Budget Revision, the State Department of General Services was directed by the Governor to sale nonessential State-owned properties that "no longer serve a state programmatic purpose, including properties leased by the Capitol Area Development Authority (CADA) from the Department of General Services in the Capitol Area."
- B. The State Department of General Services has advised CADA that their evaluation of the disposal of properties leased to CADA by the State will be a thoughtful and collaborative process, undertaken with the intention of minimizing the negative impacts of any sales on the neighborhood south of Capitol Park and CADA's ability to implement the residential and neighborhood commercial components of the State's Capitol Area Plan.
- C. Since its formation in 1978, CADA has been a strong community partner and supplier of housing, retail, mixed-use projects and neighborhood amenities in the Capitol Area.

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

- Section 1: The City Council supports CADA's implementation of the "Proposal for CADA Transition; Establishment of a Non-Profit Corporation" (the "Transition Plan") as a framework for the transition of the CADA organization.
- Section 2: The City Council recommends the continued coordination between CADA, the City and the State Department of General Services on the refinement of the Transition Plan and its implementation to minimize impacts to the Capitol area neighborhood, support the continued enhancement and development of the Capitol area, provide affordable housing and insure that CADA can pay its financial obligations.