



**Sacramento
Housing &
Redevelopment
Agency**

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

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

Staff Report

January 30, 2007

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

Title: APPROVAL OF BUSINESS TERMS AND SEWER CREDITS FOR THE AURA PROJECT

Location/Council District: 601 Capitol Mall, Central Business District (District 1)

Recommendations:

Adopt a **Redevelopment Agency Resolution** approving, for purposes of negotiation, the maximum market rate loan amount of \$9,635,798 which may be incorporated into an Owner Participation Agreement with 601 CAPITOL MALL, LLC, for the Aura condominium project.

Adopt a **City Resolution** authorizing the use of up to 201 Sacramento Regional County Sanitation District (SRCSD) connection fee credits valued at \$364,202 for the Aura condominium project.

Contact: David Spaur, Director, Economic Development, 808-8916

Presenters: John Dangberg, Assistant City Manager
Craig Nassi, President, BCN Development

Department: Economic Development

Division: Downtown Development

Org. Number: 4451

Description/Analysis

Issue:

Craig J. Nassi, the managing partner of 601 Capitol Mall, LLC, (an affiliate of BCN Development) is proposing to construct a 39-story, single-tower high-rise condominium building at 601 Capitol Mall in downtown Sacramento (see Attachment 1). The project, the Aura, is to be an approximately 268-unit condominium tower of approximately 297,000 square feet of saleable space, approximately 14,196 square feet of retail space and approximately 328 parking spaces.

The Aura is being designed by world renowned architect Daniel Libeskind and the exterior elevations are already familiar to many as a soon-to-be-identifiable downtown Sacramento landmark (see Attachment 2).

As with many condo/housing developers, Capitol Mall, LLC (the Developer) has been subjected to a downward spiraling housing market resulting in reduced revenues to the project. Concurrently, construction costs (material and labor) have been steadily escalating. It is these two principal phenomena that have resulted in the request for \$10 million in gap financing.

Developer Background

The Developer's managing partner, Craig Nassi, President of Denver-based BCN Development LLC, established the firm in 1993 and has developed several impressive buildings in downtown Denver including the Belvedere Tower (1998), The Prado (1999), and the Beauvallon (2000).

Like many successful developers, Mr. Nassi has had some reversals in the condominium marketplace. In November of 2006, Mr. Nassi removed himself as one of the partners of the Palladio Condominiums Project on Reno's riverfront area following complaints from Merrill Lynch Capital that the project was over budget and behind schedule. The partnership filed a petition for a receiver that was granted by the Washoe District Court to complete the 13-story, 92-unit Reno tower.

Project Status

The Developer has been working on the development of the Aura project for over three years. The market response for the project has been quite healthy and the development team has secured deposits for approximately 65% of the units. In order to meet the delivery schedule for the units the foundations need to be poured by April 2007. The City has issued permits for excavation, grading, foundation work and utilities, but the developer has not yet picked them up. The overall schedule contemplates a 30-month development construction period.

At this time the Developer's option to acquire the land at 6th and Capitol Mall has expired. In trying to exercise their option to extend property control, they have been unable to receive unconditional approval from the seller. Any assistance provided by the Agency/City would be conditioned upon satisfactory evidence that the Developer has ownership of the underlying property. Additionally, the escrow instructions to release the funds would require evidence that the primary and mezzanine loans and equity contributions were received in the appropriate amounts. The Agency funds would be used for construction only and would be placed in the project along with the mezzanine financing and expended after all equity was in the project. The Agency's money could not be used to pay past debts relating to the project or costs not directly associated with the project.

If the business terms are approved, Agency staff will negotiate the specific terms of the loan and the elements of an Owner Participation Agreement (OPA) with the Developer. This OPA will be brought back for governing board review of California Environmental Quality Act (CEQA) issues and for consideration of project approval. If approved, the OPA would establish the funding and the

project concept as proposed in the preliminary plans and scope of development, restrict uses that are inconsistent with the Merged Downtown Project Area and approve a development schedule for the project. Staff will bring a negotiated OPA to the Agency for consideration in February.

Policy Considerations:

If the Agency and Developer enter into a subsequent OPA after appropriate review, consideration and approval, the resulting proposed project would be consistent with the Amended Merged Downtown Redevelopment Plan; the 2005-2009 Merged Downtown Implementation Plan; and the 2005 Downtown Sacramento Redevelopment Strategy, including:

- The increase in the supply of housing stock in the redevelopment area, and
- The establishment and implementation of performance criteria to assure high-quality site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Downtown Project Area.

Additionally, the proposed project is consistent with the development objectives outlined in the recent JKL Community Workshop process.

Rationale for Recommendation:

At the direction of the Redevelopment Agency Board and the City Council, policy priorities that promote the downtown as a livable city with quality amenities and the ability to act a catalyst for further development are to be encouraged. Along with the Saca Towers project at 301 Capitol Mall, the Aura is considered to be one of the keys to downtown redevelopment and revitalization activities. The construction of this new, architecturally significant building on a now vacant site, will continue the wave of new interest in developments along Capitol Mall. The new structures including the Towers, 500 Capitol Mall, and U.S. Bank Plaza will significantly change the face of Sacramento's most important entrance gateway and will replace sites long vacant and underutilized. Other public benefits include:

- The condominium tower will bring approximately 400 high-disposable-income residents to the core of the downtown business district.
- The significant architecture, scale and location of the building will make it a City signature landmark.
- Capitol Mall is one of the main arterials and visible streets traversing through downtown Sacramento, with the Aura's location and features serving to visually frame the Mall corridor .
- The retail component will add complementary goods and services for both condo residents and the downtown population.
- The Aura is a genuine catalyst project that will stimulate additional private sector capitalization to the area.

- Use of high-quality materials and design standards to ensure the integrity of the area;
- A restriction on uses that are inconsistent with the goals of the district.
- Strengthening the economic base of the Project Area by providing 100 new jobs; and
- Adding approximately \$1.3 million annually in new property tax.

Environmental Considerations:

The proposed action to authorize Business Terms for purposes of negotiations with the developer to further define the Proposed Project scope and to commence environmental review, if necessary, is authorized under CEQA Guidelines Section 15262, planning for possible future action.

Financial Considerations:

The total cost of the project (see detail in Attachment 3) is projected at \$174,500,000-\$177,000,000:

Land:	\$12,500,000-\$15,000,000
Construction Hard Costs:	125,900,000
Soft Costs:	<u>36,100,000</u>
	\$174,500,000-\$177,000,000

The land price is still under negotiation as is site control.

The construction firm of Plant Construction of San Francisco is acting as the prime contractor for the project. They have prepared a Guaranteed Maximum Price specification book that caps construction hard costs at \$125,900,000.

To date, the developer has expended over \$6 million toward architectural renderings, legal findings, civil engineering preparation and deposits for land options and other entitlements. Additionally, the developer has indicated that equity financing totaling approximately \$12 million has been raised, complementing a Corus Bank (Chicago headquartered one bank holding company operating retail bank branches throughout the Chicago metropolitan area and nationwide commercial real estate lender specializing in condominium, hotel, office, and apartment loans) primary construction loan amount of \$132 million and a mezzanine loan commitment from MeeCorp Capital Markets, LLC of \$14.5 million:

Developer expenditures:	\$ 6,000,000
Developer/investor equity:	\$12,000,000-\$ 14,500,000
Corus Bank N.A. loan:	132,000,000
Mezzanine financing:	<u>14,500,000</u>
	\$164,500,000-167,000,000
Requested Agency/City financing:	<u>10,000,000</u>

\$174,500,000-\$177,000,000

As Attachment 3 demonstrates, the Project Capital Structure includes a primary construction loan at \$132 million, a mezzanine loan at \$14.5 million, and equity financing of \$18 - \$20.5 million (depending on the final acquisition price) for a total source of funds of \$167 million. Although over 65% of hard-deposits have been collected for the 268 condos, a construction gap of \$10 million still exists.

The proposed Agency loan would be a market rate loan to provide construction period financing.

The actual source of the funds is still to be determined but would be tied to funding from downtown tax increment. The Agency/City financing could be derived from Tax Increment funds and sale of Lot A funds in the amount of \$9,635,798. The City is proposing allocation of 201 SRCSD connection fee credits valued at \$364,202. The combination of Agency/City financing will be \$10,000,000. The sale of Lot A funds have previously been identified for use in the Railyards/ Intermodal project but the funds are not needed until 2009. Staff is recommending using the \$5,000,000 in funding for the Aura project and repaying the "loan" using proceeds from a 2008 tax increment bond issuance.

The remaining \$4,635,798 is proposed to come from existing Downtown tax increment resources. Staff has been working on three projects that will require funding: 700/800 K Street acquisition/relocation (\$2,000,000); K Street streetscape (estimated to cost \$5,000,000) and Ella restaurant at 12th and K (\$750,000). The amount of proposed funding for the three projects above is \$7,750,000 and the \$4,635,798 proposed balance of funding for the Aura Projects brings the total proposed funding for all four projects to \$12,385,798. Currently there is approximately \$6,300,000 remaining in unallocated non-housing funds. In order to fund these projects and the balance of the funds requested for the Aura, staff would either not proceed with the projects listed above and/or reallocate funds previously approved.

Staff could utilize a portion of the \$7,260,000 in funds approved in August for acquisition of the parcels necessary for the Docks project. Because of additional due diligence required with the acquisition of the Docks parcels, it is likely that the Agency will not need all of the funds allocated prior to the Agency's next bond issuance. Thus the additional \$6,085,798 proposed for the Aura and the three other projects listed above (\$12,385,798 of proposed projects less \$6,300,000 available funds) could come from this source. Reallocating these funds would be at variance to the business terms with KSWM approved by the Agency in October 2006 that stipulated that the funds for the acquisition of the Phase I parcels would be identified by January 31, 2007. Staff would need to work with KSWM on this timing issue should the Agency conceptually approve the reallocation of funds outlined above.

A second option is obtaining a letter of credit secured by tax increment. Staff is evaluating this option and any inherent costs/risks. The specific funding allocations/reallocations will be brought forward for approval at the time staff brings forward the OPA for consideration.

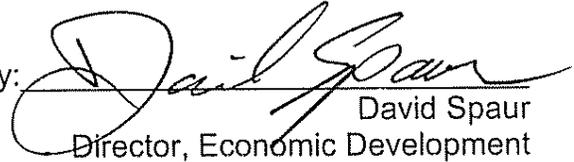
Downtown Sacramento Partnership (DSP):

As of the date of preparation of this report, the DSP had not yet expressed an opinion on the \$9,635,798 loan recommendation and \$364,202 Sanitation Connection Fee

Credits. The Partnership is expected to express their views at the public meeting January 30, 2007 before the City Council/Redevelopment Agency.

M/WBE Considerations: Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully Submitted by:


David Spaur
Director, Economic Development

Recommendation Approved:

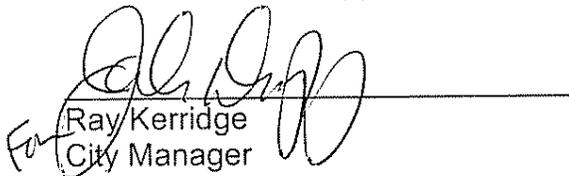
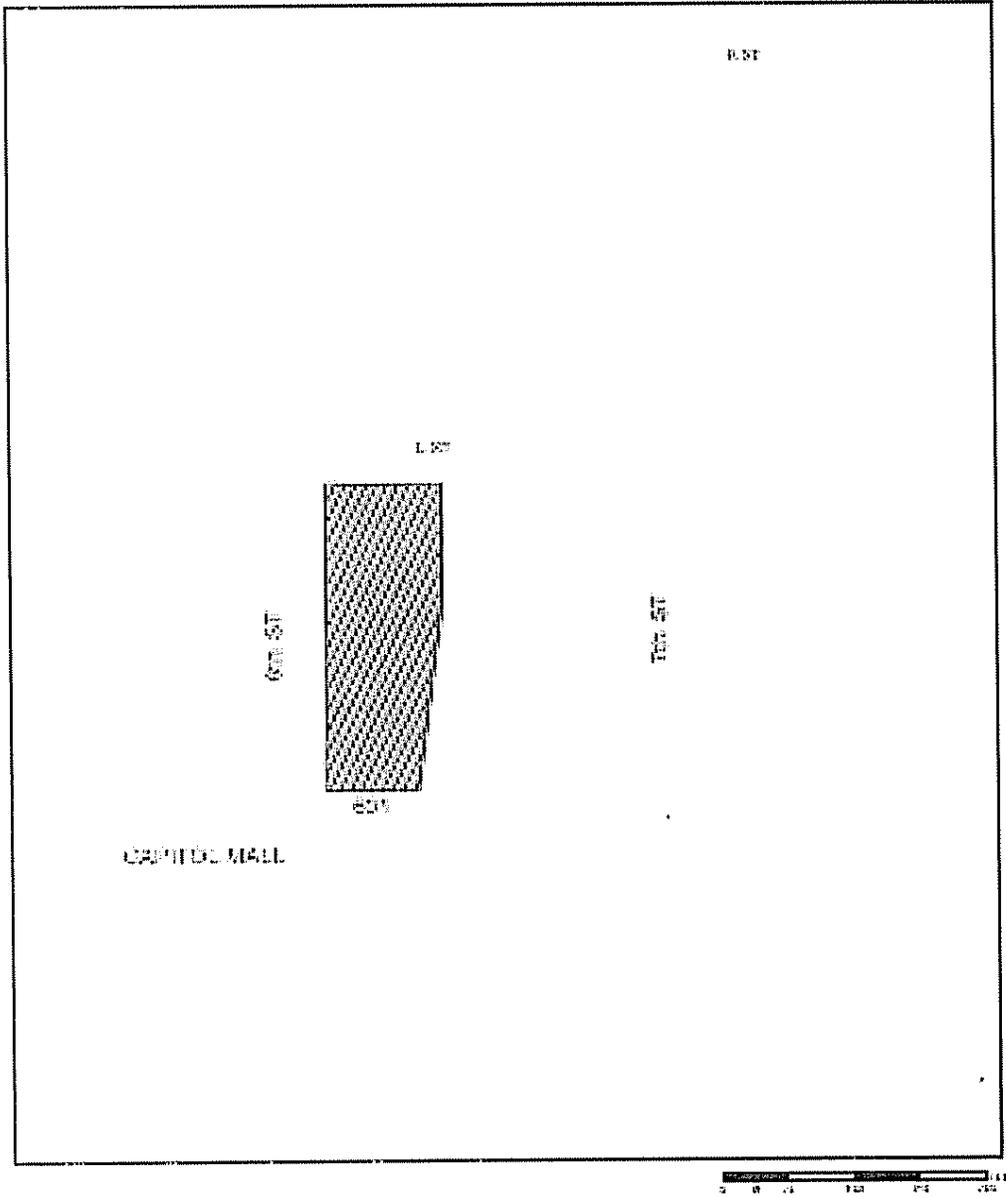

Ray Kerridge
City Manager

Table of Contents:

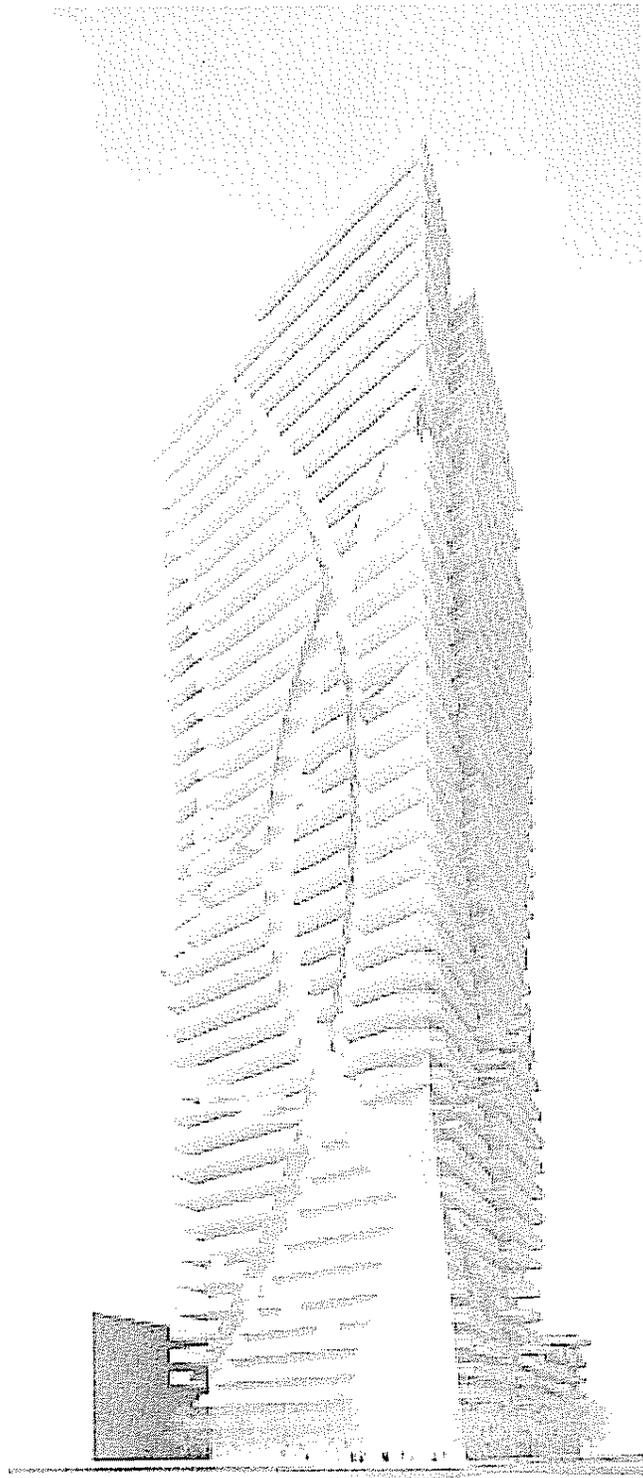
	Pg	1	Report
Attachments			
1	Pg	7	Attachment 1 – Site Map
2	Pg	8	Attachment 2 – Rendering of Aura
3	Pg/	9	Attachment 3 – Project Budget
4	Pg	10	City Council Resolution
5	Pg	11	Redevelopment Agency Resolution

Attachment 1 – Site Map

THE AURA SITE



Attachment 2 – Artist’s Rendering of Aura Project



Attachment 3 – Project Budget

Land	\$12,500,000-\$ 15,000,000
Site Development	\$ 1,800,000
Construction	\$124,126,627
Fees and Permits	\$ 3,824,700
Indirects	\$ 14,108,266
Leasing	\$ 500,409
Financing	\$ 6,139,547
Interest	\$ 7,500,451
Management/Overhead	\$ 3,000,000
Contingency	\$ 1,000,000
TOTAL	\$174,500,000-\$177,000,000

RESOLUTION NO. 2007-_____

Adopted by the Sacramento City Council

**AWARD TWO HUNDRED AND ONE SACRAMENTO REGIONAL COUNTY
SANITATION DISTRICT (SRCSD) CONNECTION FEE CREDITS FOR THE AURA
PROJECT AT 601 CAPITOL MALL**

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- B. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- C. One of the outcomes of that workshop was an interest in looking at stimulating redevelopment, particularly increasing residential opportunities to eliminate both the physical and economic conditions causing blight in the redevelopment area.
- D. Development of additional residential units is in keeping with the Agency's goals of enhancing housing opportunities in the downtown.
- E. City support in the form of the provision of regional sanitation sewer credits has been provided to other residential venues to support the feasibility of the projects.

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

- Section 1. The award of a maximum of 201 Sacramento Regional Sanitation Sewer Credits is approved for the Aura Project at 601 Capitol Mall.
- Section 2. Any and all credits awarded herein will expire if the recipients have not been issued a building permit for its respective above referenced development project within one year after the City Council has awarded the aforementioned sewer credits.

RESOLUTION NO. 2007-_____

Adopted by the Redevelopment Agency
of the City of Sacramento

**APPROVAL OF BUSINESS TERMS WITH 601 CAPITOL MALL, LLC
FOR DEVELOPMENT OF THE AURA PROJECT AT 601 CAPITOL MALL**

BACKGROUND

- C The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- D In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- C One of the outcomes of that workshop was an interest in looking at stimulating redevelopment, especially new housing, to eliminate both the physical and economic conditions causing blight.
- D Development of additional residential units is in keeping with the Agency's goals of enhancing housing opportunities in the downtown.

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

Section 1. After due consideration of the facts presented, it is found and determined that the proposed action is exempt from environmental review under the California Environmental Quality Act Guidelines Section 15262 as planning for possible future action.

Section 2. Agency approves the negotiations with 601 Capitol Mall LLC for a proposed Owner Participation Agreement including a market rate construction loan in the amount of \$9,635,798, with final terms of the loan to be negotiated.

Section 3. This commitment is valid for sixty days from January 6, 2007.