



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



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September 13, 1988

Budget & Finance Committee
Transportation/Community
Development Committee
Sacramento, CA

Honorable Members in Session:

SUBJECT: Approval of the Request for Qualifications and
Authorization to Proceed with Developer Selection for
Capitol Mall Development Site (Lot A)

SUMMARY

The attached report is submitted to you for review and
recommendation prior to consideration by the Redevelopment
Agency of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution
approving the Request for Proposals and selection procedure.

Respectfully submitted,

William H. Edgar
WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Solon Wisham, Jr.

SOLON WISHAM, JR.
Assistant City Manager

Attachment



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



September 12, 1988

Redevelopment Agency of
the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Approval of the Request for Qualifications and
Authorization to Proceed with Developer Selection for
Capitol Mall Development Site (Lot A)

SUMMARY

This report addresses the development of the Capitol Mall Site - Lot A. Staff has outlined a course of action to implement development of the Capitol Mall Site. The proposed course of action and RFQ sets forth in detail the procedure, process, scope and description of the project elements, minimum development standards, disposition of the site, developer selection criteria, and time schedule for selection of a developer for the site. The RFQ process will include three phases: (1) Request for Qualifications; (2) Proposal Development and Selection; and (3) Option Period and Negotiation of Development and Disposition Agreement (DDA).

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BACKGROUND

In October of 1987, an Urban Land Institute (ULI) Advisory Panel conducted an evaluation of the development potential and strategies for the Capitol Mall Site - Lot A (Exhibit A). As a result of that study, the Advisory Panel recommended that the highest and best use of the 108,800 square foot block, located between 6th and 7th Streets on Capitol Mall, would be as a mixed-use project composed of the following elements: a 322,000 square-foot office building, a 230 room all-suites hotel, 16,800 square feet of retail space, and a 1,250-space parking facility. The Panel also recommended that the City pursue a long-term ground lease on the City/Parking Authority owned site. The Panel's final recommendations were that the City, through the Sacramento Housing and Redevelopment Agency, use a Request for Qualifications (RFQ) process to select the site developer, and that the evaluations of the RFQ should be based largely upon the qualifications of the two key members of the development team - the developer and the architect. Designated a signature development in the downtown area, a delicate public/private partnership in developing the site is critical, the Panel concluded. While not wanting to impede the development of the project financially, the Panel stressed that the RFQ should reflect provisions for quality control in the design and construction of the project.

In June, Agency staff prepared a discussion paper for presentation to the City Manager's office outlining the ULI recommendations, staff's review of said recommendations, and the Agency's recommendations vis-a-vis the proposed project and development scenario. Following meetings with City staff, including the City Treasurer, a consensus was reached regarding the project scope and elements, disposition of the site, developer selection criteria, and implementation of the RFQ process. The following summarizes each of these points.

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Project Scope and Elements:

Staff concurs with the overall uses of the site as outlined in the ULI Study, with certain adjustments. Specifically, staff recommends:

- . A minimum of 322,000 square feet of office space;
- . A minimum of a 300 room Class A Hotel;
- . 20,000 square feet of retail space;
- . A 1,250 space parking facility; and
- . The option of providing for high-end residential units.

The 322,000 square feet of office space is in line with the ULI Study, and while the development team ultimately selected can build at this figure, the selection process will encourage developers to intensify development if economically feasible. The ULI model envisioned a 230 room all-suite hotel. Staff recommends that a minimum 300 room Class A hotel be developed with any mix of suites verses traditional rooms allowed. Market conditions will be the determining factor controlling the mix and size of this element of the project. Emphasis is being placed on the development of a Class A hotel. Retail space would depend to a great degree on the design and configuration of the hotel and office elements, but should be set at a minimum of 20,000 square feet, rather than the ULI recommendation of 16,800 square feet. This would allow ample room for a quality restaurant, and other related food, special interest and commercial services to service the hotel and office complex. The square footage and mix should be complementary to the renovation of the Downtown Plaza Mall.

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Finally, the 1,250 spaces allocated to the parking requirements of the site by the ULI Study would require that the proposed parking structure replace the existing 562 public spaces, and meet the parking requirements of the proposed land use as envisioned in the ULI Study. Staff supports this recommendation, with the provision that in meeting parking space requirements above the 562 space level, the developer may apply for reduction in parking spaces due to the sites' proximity to Light Rail and other mitigation measures. The total parking figure would also relate to the type and number of hotel rooms, and the total office square footage proposed for the site. An additional element not included in the ULI Study is the option of providing high-end residential units complementary to the overall design and utilization of the site. No number of units or square footage figure is recommended, and this option is at the discretion of the developer. This element is being included to provide developers with the opportunity to add an additional incentive for making this project a signature development.

Disposition of Site:

The ULI Study recommended that the City retain control of the site through a long-term ground lease with the City's assistance to the project provided by owning and financing the parking improvements rather than through a writedown of land costs. Since the time of the ULI Study, additional information relating to site control and development has been revealed. Currently, the site is owned by the City's Parking Authority and is encumbered by the 1968 Parking Authority Bonds (Series A and B). The 1968 Parking Authority Bonds not only encumber Lot A, but also four other City parking facilities. The outstanding amount of the bonds as of July 1988, was \$8.5 million. The bonds are for 30 years and run until 1998. The garages provide not only the pledged revenue source for repayment of the bonds, but also serve as collateral.

Bond counsel has advised staff that based upon a review of the documents and covenants related to the 1968 Parking Authority Bonds (Series A and B), nothing exists in either the bond documents nor the lease agreement between the City and the

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Parking Authority which envisioned the ability to remove one or more of the parking lots from the Parking Authority by means of a sale or asset substitution. However, it is possible to transfer Lot A title by removing the Bond covenants through a call or defeasance of the outstanding bonds. The only alternative is to change the covenants in the original bond agreements which would require calling a meeting of all bond holders and then receiving a majority of votes to change the covenants. The likelihood of this occurring is very uncertain, and the odds in favor of the bond holders voluntarily agreeing to a reduction in the asset base standing behind the bonds are probably slim. Since any change in the bonds would affect their rating, etc., it is staff's recommendation that in order to develop Lot A, the 1968 Parking Authority Bonds (Series A and B) need to be defeased. (The bonds cannot be called until the mid-1990's.)

By defeasing the 1968 Parking Authority Bonds (Series A and B), the City will free up Lot A for development, and remove the City's current outstanding bond obligation on not only Lot A, but also on the other City garages at Lot B, Lot C, Lot E and Lot H. By freeing up the City's bond obligation, existing parking garage revenues can be returned to the City. In addition, this action will save interest payments on the bonds, and it provides the City with an opportunity, i.e., revenue, to finance additional needed parking facilities. Since it removes existing obligations, freed revenues generated from existing garages could go towards funding the new garages, and Lots B, C, E and H would have no restrictions on their use and/or development. Besides actually defeasing the bonds, the City/Parking Authority will need to approve a resolution authorizing disposition of the site at fair market value, through sale to a developer. If the City conveys the site, the City will need to obtain control of the site from the Parking Authority, and the existing lease agreement between the City and Parking Authority will need to be amended.

Agency Counsel and the City Attorney's Office are currently working on drafting said documents, and at a subsequent date will present said documentation for City Council approval. Under Section 12.109 of the City of Sacramento City Code, the City Council may, by resolution, provide for the sale of real property without first calling for bids when it finds that such action will be in the best interest of the City.

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The funds needed to defease the 1968 Parking Authority Bonds will come from the sale of the site to the selected development team. The property's fair market value as determined by an appraisal conducted in January 1988, and reviewed in July 1988, by the appraisal firm of David E. Lane Company, is \$12,550,000 or \$125 per square foot for 102,400 net square feet of land area, less an estimated cost of demolition. Demolition of the existing parking structure is estimated to be in the range of \$250,000 to \$350,000. A final price for the site will be determined at the time just prior to final negotiations of a Developer Disposition Agreement (DDA). (Following the schedule set forth in the RFQ, this would be sometime in mid-1989.) It is suggested that the City demolish the current structure on the site itself and provide the developer with a cleared site. The reasoning is two-fold. First, time is of the essence in developing the site, and it is felt that demolition of the structure will force the developer into a position of having to develop the site rather than utilizing the parking garage and holding the site. By providing a cleared site, it gives the City a value of \$12,550,000 to the site without negotiating demolition costs. With a cleared site and the time frame of selling the site to the developer in mid-1989, it is estimated that the site should bring an additional \$300,000 to \$500,000 to the City, or a total value of \$12,800,000 to \$13,000,000 based on current appreciation. It is recommended that at the successful completion of negotiations for the DDA, that the parking structure be demolished, and that the Parking Authority Bonds be defeased.

As of July 1988, to defease the 1968 Parking Authority Bonds would cost \$8,500,000. This amount will be reduced between now and the sale of the site. The terms of the sale of the site would require the developer to pay \$8,500,000 in cash. The difference between the cost to defease the bonds at the time of sale and the \$8,500,000 figure as of July 1988 would go to the City/Parking Authority in the form of 562 replacement parking spaces on site. The amount of funds allocated to defeasance of the bonds would be held in a special account to pay the interest and principle on the bonds until their maturity or call date, whichever position is best for the City. The payment of the difference between the market value of the site, \$12,550,000 to \$13,000,000, and the \$8,500,000 in cash, or \$4,050,000 to \$4,500,000, would be met via the deeding of the 562 parking

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spaces in the newly constructed garage to the City. Thus, the sale of the site will require the selected developer to pay the City \$8,500,000 at the time the DDA is signed, and deed 562 parking spaces to the City at the time the parking facility is constructed. It is estimated that the per space construction cost for constructing the 562 parking spaces would be approximately \$9,000. Thus, the cost of constructing the 562 spaces could be in excess of \$4,500,000. The \$8,500,000 in cash and the cost of constructing the 562 parking spaces is thus equal to (or greater than) the approximate market value of the site. To ensure that this is the case, however, we will have a third party estimator determine the value of the structure. In the event that the per space construction cost is greater than the \$9,000 figure, it is felt that the prime site and signature development justifies the additional cost of the site, i.e., additional value provided to the City in the 562 parking spaces. In the event that it is less, an additional cash contribution will be required.

Ownership of the 562 parking spaces would be transferred to the City/Parking Authority through the DDA. This will guarantee the City control of the spaces and a revenue stream from the spaces not encumbered by any indebtedness. Revenues from this garage could also be used in financing needed new parking facilities, since they would not be encumbered. The estimated bond revenues which could be raised from this stream of income (net of expenses) is \$10,000,000. One final advantage to this scenario is that by requiring \$8,500,000 in cash up-front, hopefully it will bring forth only those developers with the financial capability to undertake and complete a project of this importance and magnitude.

Developer Criteria:

The ULI Study recommended that the City, through the Agency, use a Request for Qualifications (RFQ) process to select the site developer. It is recommended that this recommendation be followed, and an RFQ is being developed. The RFQ will contain the following material:

- . A general overview of the Sacramento market and downtown/Capitol Mall area.

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- . A discussion of the development scenario, i.e., project scope and elements, minimum square footage attached to each element, disposition of the site, development time frame, etc. The RFQ will stress the minimum level of development for the various elements of the mixed-use project.
- . A discussion of design criteria, emphasizing the importance of the design element in the overall selection process because of the preeminence of the site, and the City's desire to see a signature development.
- . Specific requirements of the developer would be:
 - I. Developer Experience
 - A. Prior experience in projects of a similar scope, i.e., mixed-use, hotel development, parking facilities, etc.
 - B. Previous experience with comparable development as it relates to:
 - 1. Economic success;
 - 2. Overall architectural and design quality of previous developments;
 - 3. Project size in terms of order of magnitude of construction;
 - 4. Successful operation, with emphasis on quality maintenance; and
 - 5. Previous joint public-private projects.
 - C. Ability to attract a major Class A hotel.
 - D. Timeliness of performance.
 - E. Demonstrated ability to undertake and complete similar projects and respond to public objectives.
 - F. Delivery of product as initially represented.

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II. Management Experience

- A. Experience in operating mixed-use projects of a comparable nature, i.e., hotels, retail areas, parking facilities, etc.
- B. Success in achieving high-quality project maintenance standards.

III. Financial Capability

- A. Ability to raise adequate capital for the project.
- B. Strength of current relationships with financing services, eg., ability to obtain commitment letter from a financial institution.
- C. Resources and tenacity ("staying power"), eg., ability to obtain an "AA" rating from Moody's or Standard and Poor's.
- D. Ability to provide for operation and maintenance.
- E. Submission of a fee of approximately one percent of the property value, \$130,000, at the time of submission of response to RFQ. Ten thousand dollars will be retained for administrative costs and \$120,000 will be returned to the developer if he is not selected as a finalist.
- F. Submission of a non-refundable fee of ten percent of the property value, estimated fee of approximately \$1,250,000 to \$1,300,000, upon commencement of DDA negotiations.

IV. Organization and Management Approach

- A. Clear lines of responsibility within the developer's organization which the Agency can rely on to be effective and responsible.

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B. Previous construction management experience on a project of similar size and scope.

V. Qualifications of Key Personnel

A. Qualifications and experience of key persons and entities associated with the developer in previous projects, and in the team that will be developing the Capitol Mall project.

B. Ability to bring an architect or architectural firm of regional or national stature to the project.

VI. Other Factors as Appropriate for Specific Development

A. How does developer plan to meet such public objectives as the 2% for public art, childcare services, contributions to a housing nexus fund, etc.

B. What additional incentives, such as a share of the leasehold revenues, etc., will the developer offer in developing the site.

Emphasis on the experience and financial capacity of the developer, and the design experience of the architectural firm on similar signature developments will be the key issues in selecting a developer; along with the proposed projects' ability to not only meet the minimum requirements as established in the RFQ, but to deliver additional incentives to the project/City. Because this project is a signature development, a delicate public/private partnership in developing this site is crucial. While not wanting to impede the development of the project financially, the RFQ process will reflect provisions for quality control in the design and construction of the project.

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Developer Selection and Project Schedule:

The first phase will include an initial submittal of qualifications relating to developer experience, management experience in comparable undertakings, organization and management approach, qualifications of personnel, design experience of the architectural team, and financial capability of the developer. The result will be selection of a limited number of the most highly qualified developers by the Agency to participate in the second phase of the developer selection process.

The second phase will include a detailed submittal of development team qualifications, financial capability, obtaining a firm hotel operator commitment, project economics, architectural design, project scope and element size and mix, specifics of the incentive package to be offered by the developer, business offer/development schedule, etc. The result will be the selection of a single developer by the City Council.

The final phase will include a 120 day option period during which the developer and Agency would: (1) refine and finalize commitments regarding design, business terms and disposition of the site, schedule, etc.; and (2) negotiate a Development and Disposition Agreement (DDA) that details contractual responsibilities of the developer and Agency.

The general time frame for the process described is fourteen (14) months for both phases of the developer selection process and four (4) months for the option period. In addition, the commencement of construction would be approximately six (6) months after execution of the DDA; with the construction period to be approximately eighteen (18) to twenty-four (24) months.

The schedule for the developer selection process is anticipated to be as follows:

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Procedure	Timeline	Total Elapsed Time
I. Developer Selection: Phase I		
. Request for Qualifications (RFQ) issued.	-0- (Oct. 15, 1988)	-0-
. Responses to RFQ	90 days (Jan. 15, 1989)	3 months
. Agency Review of Qualifications. Preliminary interview & requests for additional & clarifying information, developer responses to Agency requests for additional info. Selection of most highly qualified developers by Agency (short list).	45-60 days (March 15, 1989)	5 months
II. Proposal Development and Selection: Phase II		
. Agency requests most highly qualified developers to prepare proposals that include schematic design of project, project element size finalized, financing commitment package, incentive package, letter of intent from hotel, etc.		
. Development Proposal Due	90 days (June 15, 1989)	8 months
. Agency review of Development Proposals. Interviews & requests for additional & clarifying information; developer responses to Agency requests for additional info.	60 days (Aug. 15, 1989)	10 months
Formal presentations to SHRC (Advisory) & to City Council/Agency.		
Selection of developer by City Council/Agency.		

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III. Option Period & Negotiation of Development & Disposition Agreement: Phase III

. Negotiation & execution of Disposition & Development Agreement (DDA) between Agency & Developer.	120 days (Dec. 15, 1989)	14 months
. Start of construction	180 days (June 15, 1990)	20 months
. Completion of project	730 days (June 15, 1992)	44 months

A flow chart is attached as Exhibit B.

FINANCIAL DATA

This report has no direct financial impact or funding changes, however, undertaking this project and proceeding with the RFQ and developer selection process implies and anticipates a long-term commitment on the part of the Agency to provide staff support to this project.

ENVIRONMENTAL REVIEW

An EIR will be prepared for this project. The attached resolution has no environmental implications and does not require an environmental report.

POLICY IMPLICATIONS

The actions proposed in this staff report are consistent with previously approved policy, and there are no policy changes being recommended.

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VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of September 12, 1988, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

RECOMMENDATION

The staff recommends adoption of the attached resolution approving the proposed Request for Qualifications (RFQ), and authorizing the Executive Director to initiate and proceed with the developer selection process for the Capitol Mall Site.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

DAVID MARTINEZ
Deputy City Manager

WHE/DM/DG:ljp

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager

Contact Person: Douglas J. Grandquis, 440-1318

0150C

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

APPROVING REQUESTS FOR QUALIFICATIONS AND FOR DEVELOPMENT OF THE CAPITOL MALL SITE, LOT A

WHEREAS, the Merged Downtown Sacramento Redevelopment Plan designates the Capitol Mall Site, Lot A, as a catalyst site in development of the downtown central business core; and

WHEREAS, the Urban Land Institute (ULI) conducted a feasibility study and evaluation of the development potential and strategies for the Capitol Mall Site in October, 1987; and

WHEREAS, the ULI Study recommended that the highest and best use of the site is as a mixed-use project composed of an office building, retail space, a hotel and parking facility; and

WHEREAS, the City finds said project to be in the public interest.

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The Redevelopment Agency approves the Request for Qualifications in accordance with the staff report filed with this resolution and authorizes the Executive Director to initiate and proceed with the developer selection process for the Capitol Mall Site, Lot A.

CHAIR

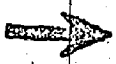
ATTEST:

SECRETARY

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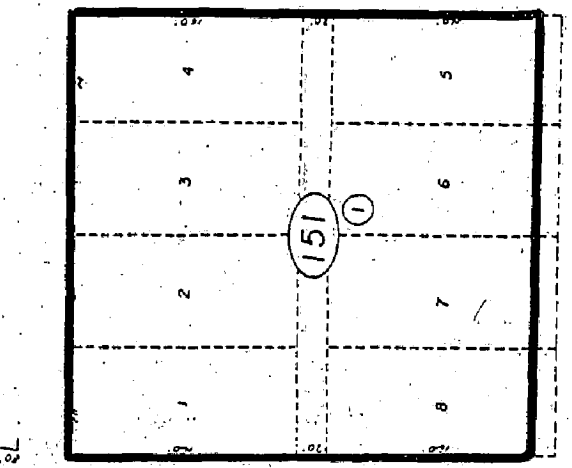
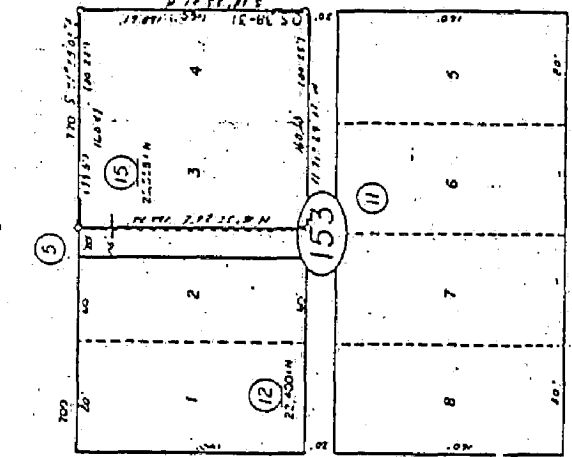
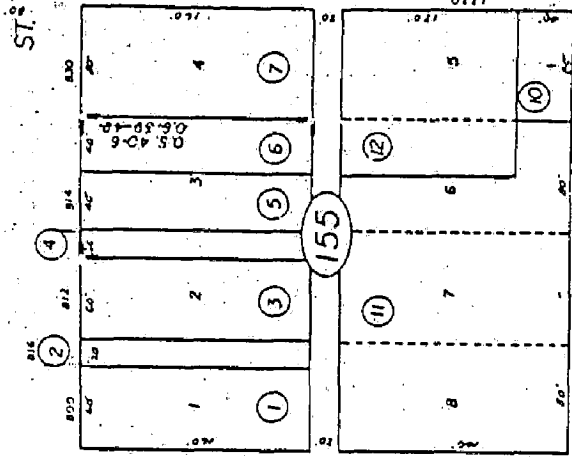
EXHIBIT "A"



Tax Area Code

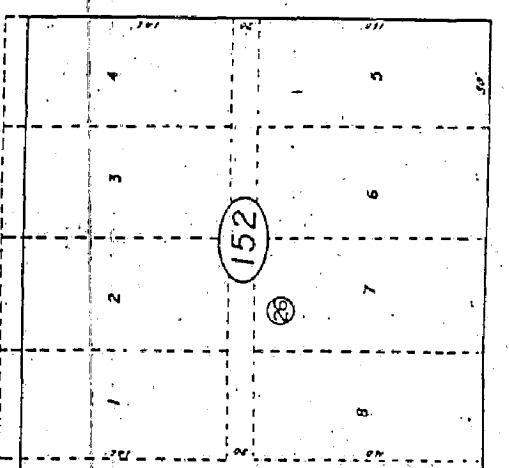
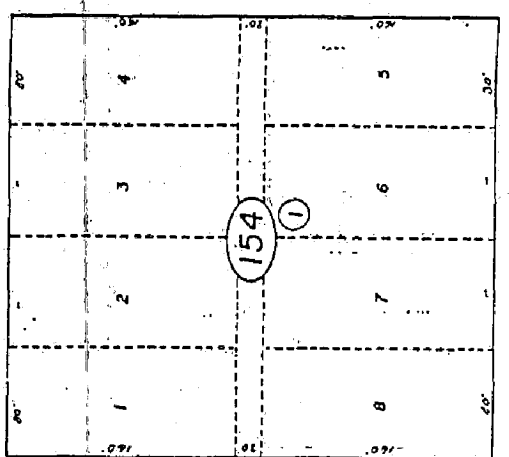
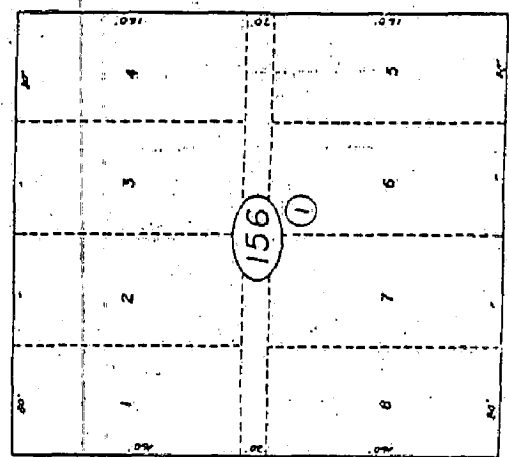
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