

ECONOMIC DEVELOPMENT DEPARTMENT

CITY OF SACRAMENTO

1.18

June 15, 2001

City Council  
Redevelopment Agency of the City of Sacramento  
Sacramento, California



Honorable Members in Session:

**SUBJECT: OWNER PARTICIPATION AGREEMENT AND LOAN AGREEMENT WITH RICHARDS BOULEVARD PARTNERS AND LOAN OF MARKS ROOS BOND PROCEEDS TO THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO, RICHARDS BOULEVARD PROJECT AREA, RELATED TO DISCOVERY CENTER DEVELOPMENT PROJECT**

**LOCATION AND COUNCIL DISTRICT:** 300 Richards Boulevard, District 1

**RECOMMENDATION:**

Staff recommends adoption of the attached resolutions which (1) authorize the Deputy City Manager to execute the Owner Participation Agreement (OPA) and Loan Agreement between the Redevelopment Agency of the City of Sacramento and Richards Boulevard Partners; and (2) Authorizes a Loan of Marks Roos Bond Proceeds from the City of Sacramento to the Redevelopment Agency of the City of Sacramento, Richards Boulevard Project Area, on the terms stated in this staff report.

**CONTACT PERSON:** Paul Blumberg, Sr. Management Analyst, 264-7204  
Janelle Gray, City Treasurer's Office, 264-5168

**FOR COUNCIL MEETING OF:** June 26, 2001

**SUMMARY:**

The approvals requested by this report would authorize a short-term loan in the amount of \$1,000,000 from the Redevelopment Agency to Richards Boulevard Partners (Developers) to provide for payment of City fees for the Discovery Center Development Project, so that construction is able to proceed in a timely manner. The Redevelopment Agency would borrow the funds from the City (Marks Roos Bond proceeds) and repay the loan upon Developer repayment to the Agency.

**BACKGROUND:**

Discovery Center is a mixed-use office and hotel project located in the Richards Boulevard Redevelopment Project Area. The project is planned to be constructed in phases, and includes the following components:

- Phase I: 150,000 square foot office (three stories)
- Phase II: 224-room hotel and restaurant
- Phase III: 240,000 square foot office (six stories)
- Phase IV: 400,000 square foot office (eight stories)

The Developer is ready to proceed with the first phase of the project, but requires financial assistance to pay additional project costs such as City impact fees, including Housing Trust Fund fee and Transportation Impact fee. The Developer's construction loan (\$ 14,250,000) is not sufficient to cover the estimated cost of construction (approximately \$21,460,000). It is the Developer's intent to repay the loan upon receipt of permanent financing for the project, which is anticipated to be 24 months from the date of the loan. Discovery Center is targeting State of California occupation. Assuming State lease of the property, its stabilized lease value is anticipated to be approximately \$27,000,000.

The City Treasurer's office and a financial consultant to the City have reviewed three years of tax returns for the various partners of Richards Boulevard Partners and believe the Developer has sufficient capacity to support the loan from the Agency. The Agency will take a security interest in the partnership's interests of each of the partners as collateral for its loan. The Redevelopment Agency will pledge future Richards Boulevard Tax Increment as security for City Loan to the Agency, as well as the assignment of any additional security interest conceded by the Developer to the Agency.

**FINANCIAL CONSIDERATIONS:**

Based on the financial review performed by The City Treasurer's office and the City's financial consultant, staff believes that the Developer has sufficient capacity to support the loan from the Agency. The Developer has secured a construction loan in the amount of \$14,250,000, or 67% loan to value at completion of construction, based on an appraisal and estimated project costs of \$21,240,000. The construction lender is requiring the developer to contribute more than \$6,000,000 in cash equity or approximately 29% loan to value at completion of construction. The Agency's financing represents approximately 4% loan to value at completion.

Approximately \$1.4 million is currently available in the 91 Marks-Roos fund (commonly referred to as the Packard Bell loan). An additional \$2.3 million, plus accrued interest is to be received from the Agency's repayment on or before October 31, 2001, of a prior loan (CNS) before the next payment on November 1, 2001.

The City anticipates loaning \$1,008,200 to the Agency, which in turn, will use these funds to loan to the Developer, under the terms and conditions outlined in the OPA and Loan Agreement. It is proposed that the loan from the City to the Agency carry the following material terms:

City Council  
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Grove Investments Owner Participation Agreement and Loan

1. The loan shall be for an amount of \$1,008,200;
2. The loan shall carry a 6.53% interest rate;
3. The loan shall have a term which shall expire by or before October 31, 2003, and all principal and unpaid accrued interest shall be paid at the end of such term;
4. The loan shall be secured by future Richard Boulevard Redevelopment Project Area Tax Increment funds, as well as any additional security interest concede by the Developer to the Agency;
5. The Agency shall pay accrued interest semi-annually each October 31 and April 31 beginning October 31, 2001.

Subject to final City Attorney review and City Manager approval, the final terms and conditions of the City's loan to the Agency may vary slightly in order to ensure adequate protection of the City's financial position.

The Agency anticipates loaning \$1,008,200 to the Developer under the terms and conditions outlined in the OPA and Loan Agreement. It is proposed that the loan from the Agency to the Developer carry the following material terms:

1. The loan shall be for an amount of \$1,008,200;
2. The loan shall carry a 6.75% interest rate for 24 months;
3. The loan shall have a term which shall expire 24 months from the execution date of the date Note, and all principal and unpaid accrued interest shall be paid at the end of such term;
4. The loan shall be secured by a perfected security interest in the partnership interests of each of the partners;
5. The Developer shall pay accrued interest semi-annually each October 1 and April 1 beginning October 1, 2001;
6. In the event the developer is unable to repay all principal and unpaid interest within 24 months of the date on the note as required, the following material terms will apply;
  - (a) The interest rate will increase to the prime rate plus two percent;
  - (b) The loan shall have a term of 36 months from the execution date of the note;
  - (c) The Developer shall pay principal and interest payments monthly, based on a 15 year amortization, with a balloon payment in month 60;
  - (d) The loan security shall remain in place until principal and accrued interest is paid in full.

Subject to final Agency Counsel review and Deputy City Manager's approval, the final terms and conditions of the Agency's loan to the Developer may vary slightly in order to ensure adequate protection of the Agency's financial position.

**POLICY CONSIDERATIONS:**

The actions proposed in this staff report are consistent with the economic development goals of the Richards Boulevard Redevelopment Plan and Five-Year Implementation Strategy. The Discovery Center Project will achieve the following goals of these policy documents:

- Development of a transit oriented employment center adjacent to a future light rail station;
- Elimination of blight;
- Transition of property to highest and best use in accordance with the community plan;

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Grove Investments Owner Participation Agreement and Loan

- Creation of new jobs;
- Construction of new street circulation; and
- Contribution to urban design objectives along Richards Boulevard.

The Agency, under the terms and conditions of the OPA, is not requiring construction period extension fees, liquidated damages, or a developer deposit, as the project is already under construction and the Agency will have a loan and adequate security.

**ENVIRONMENTAL CONSIDERATIONS:**

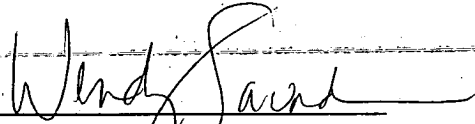
An Environmental Impact Report for Discovery Center was certified by the Sacramento City Planning Commission August 27, 1998. The proposed action is in furtherance of the Richards Boulevard Redevelopment Plan, as amended per CEQA Guidelines Sections 15180 and 15162. Actions to encourage redevelopment in a redevelopment area were deemed approved at the time of adoption of the Redevelopment Plan.

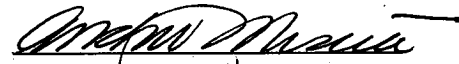
**ESBD CONSIDERATIONS:**

There are no ESBD considerations contemplated with the requested action.

Respectfully submitted,

APPROVED:

  
Wendy S. Saunders  
Downtown Development Manager

  
Andrew J. Plescia  
Economic Development Department Director

RECOMMENDATION APPROVED:

  
ROBERT P. THOMAS  
City Manager



**RESOLUTION NO. 2001-040**

**ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO**

ON DATE OF

**RICHARDS BOULEVARD REDEVELOPMENT PROJECT AREA:  
300 RICHARDS BOULEVARD: APPROVAL OF  
OWNER PARTICIPATION AGREEMENT AND LOAN TO GROVE INVESTMENTS**

WHEREAS, the Redevelopment Plan for the Richards Boulevard Redevelopment Project Area ("Project Area") was adopted by the City Council of the City of Sacramento on July 17, 1990, by City Ordinance No. 90-037 and was recorded on September 15, 1993, in the Official Records of the County of Sacramento, in Book 93-09-15, beginning at page 0128;

WHEREAS, the goals of the Redevelopment Plan for the Project Area included (a) the elimination of blight and blighting conditions, and (b) the increase and development of economic activity in the area by attracting new business, assisting existing business and enhancing property values;

WHEREAS, the Agency adopted the Richards Boulevard Five Year Strategy and Implementation Plan for the Project Area on February 29, 2000, which plan identifies 300 Richards Boulevard ("Property") as one of the key development catalyst sites, and as having the great potential for redevelopment for office use; and

WHEREAS, Grove Investments ("Developer") desires to enter into an Owner Participation Agreement ("OPA"), including a related loan agreement and other implementing documents, all substantially in the form on file with the Agency Clerk, which documents would require certain development of the Property, as further described in the OPA (collectively, "Project");

WHEREAS, the Project will assist in the elimination of blight in that it will develop an underutilized parcel of real property and will restore the Property to active economic use, serving as a catalyst to promote economic activity in the surrounding area; and

WHEREAS, the Project is subject to separate review and approval of the City of Sacramento, including without limitation, environmental, design, planning and building reviews.

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

**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

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Section 1: The above statements are true and correct and are adopted as findings of the Agency.

Section 2: The OPA is deemed to be implementing documents approved in furtherance of the Redevelopment Plan, the Implementation Plan for the Project Area and all applicable land use plans, studies and strategies.

Section 3: The Deputy City Manager is authorized, on behalf of the Agency, to execute the loan documents between the Agency and City of Sacramento, in a form as may be approved by Agency Counsel consistent with the staff report that accompanies this resolution, and to execute other documents and take other actions reasonably necessary to implement the OPA.

Section 4: The Deputy City Manager is authorized, on behalf of the Agency, to execute the OPA and implementing documents between Agency and Developer, substantially in the form on file with the Agency Clerk, subject to modification as may be approved by Agency Counsel and consistent with the staff report that accompanies this resolution, and to execute other documents and take other actions reasonably necessary to implement the OPA.

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CHAIR

ATTEST:

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SECRETARY

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**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

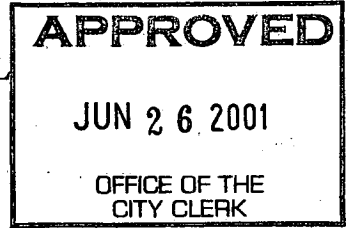
DATE ADOPTED: \_\_\_\_\_

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**RESOLUTION NO. 2001-434**

**ADOPTED BY THE SACRAMENTO CITY COUNCIL**

ON DATE OF



**APPROVAL OF LOAN MADE BY AND BETWEEN THE CITY OF SACRAMENTO AND THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO**

WHEREAS, the Redevelopment Agency of the City of Sacramento ("Agency") is entering into the Owner Participation Agreement ("Owner Participation Agreement") with Grove Investments ("Developer") regarding construction of an office building at 300 Richards Boulevard ("Project");

WHEREAS, the Agency is to loan certain funds in the amount of One Million, Eight Thousand Dollars (\$1,008,000) to Developer pursuant to the OPA;

WHEREAS, Agency desires to borrow funds from City ("City Loan") in order to provide such Loan; and

WHEREAS, City has determined that City funds from repayment of certain loans made previously to Packard Bell are an available and appropriate source for City Loan.

NOW, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. The City Loan is approved upon the following material terms: (1) the principal amount shall be \$1,008,200; (2) the interest rate shall be 6.53% per annum; (3) the unpaid balance, including principal and interest, of the City Loan shall be all due and payable on or before October 31, 2003; (4) the Agency shall make payments of accrued interest semi-annually on or before each October 31 and April 31 beginning on or before October 31, 2001; (5) the City Loan shall be secured by repayment from future Richards Boulevard Redevelopment Project Area Tax Increment funds not otherwise currently pledged, as well as the assignment of any additional security interest of Agency securing its repayment for the Agency's loan to Developer; and (6) the Agency shall use the proceeds of the City Loan only for the Project.

Section 2. The City Manager is authorized to execute loan documents, in a form consistent with this resolution and the staff report that accompanies this resolution and as approved by the City Attorney, and to take all other actions as necessary to implement the loan.

**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

Section 4. The City Treasurer is authorized to disburse funds and to take other actions in order to implement the City Loan.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

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**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

