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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 101
915 I STREET
SACRAMENTO, CA
95814-2684

PH 916-264-5704
FAX 916-264-7618
TDD (ONLY) 916-264-7227

December 28, 1993

City Council
Sacramento, California

APPROVED
BY THE CITY COUNCIL

JAN 4 1994

OFFICE OF THE
CITY CLERK

AG94-007

Honorable Members in Session:

SUBJECT: Granite Pits Development - Request authorization to execute disposition agreement with Granite Partners

LOCATION & COUNCIL DISTRICT

Property bounded by Power Inn Road (west), Florin-Perkins Road (east), 14th Avenue (south) and the Regional Transit light rail line and Jackson Highway (north). Council District 6.

RECOMMENDATIONS

It is recommended that Council authorize staff to execute a disposition agreement to sell City property to Granite Partners. The disposition agreement allows Granite Partners to process the necessary entitlements for the property over the next two years before a final purchase price is established. The final purchase price will be based on the intensity of development that is permitted on site. All expenses associated with processing the entitlements will be paid for by the Granite Partners.

CONTACT PERSON: Bill Farley, Economic Development Manager, 264-7730

FOR COUNCIL MEETING OF: January 4, 1994

SUMMARY

The City has completed negotiations with Granite Partners on the disposition of City-owned property known as the Granite Pits. This report includes a recommendation to execute the disposition agreement. In addition, information is provided on the history of the development and the steps that will be taken in the future by Granite Partners to develop the site in accordance with the agreement.

The financial returns to the City for this land sale could range between \$5.0 and \$11.0 million depending on the intensity of development that is eventually permitted on the site. A majority of these proceeds are specifically designated for the development and maintenance of a 125 acre regional park.

Development of the Granite Pit property will provide a major employment center with direct linkage to the Regional Transit station. It is anticipated that complete build-out of the business center and regional park will take between ten and twenty years.

BACKGROUND

Development of the Granite Pit Property has been under active consideration by staff since 1988. A brief history of the project is provided in Exhibit 1.

On April 6, 1993 the City Council authorized staff to negotiate the sale of the subject site on a sole-source basis with Granite Partners (Granite Construction, Separovich/Domich Real Estate Development and Panattoni Development Company).

The two primary reasons for selecting Granite Partners on a sole source basis for development of the site were: 1) Granite Construction controls all of the property in the proposed project, and 2) development of the site in conjunction with the Granite properties on the rim of the site will add value to the City portion of the project - by ensuring compatible uses and through sharing infrastructure costs.

In addition to approving the sole-source negotiations, the Council also approved business terms to use in negotiations with the developers. These terms are included in Exhibit 2.

During the past six months, City staff has met with the Granite Partners to negotiate a disposition agreement consistent with the business terms. The objective of these terms were to:

- Provide minimum risk for the City.
- Avoid any City expenses in the cost of processing entitlements.
- Establish a reasonable financial return for the City-owned property.
- Receive compensation from the developer in case of default during the term of the agreement.
- Ensure that a regional park is built in conjunction with the project.

Staff believes that the disposition agreement negotiated with Granite Partners achieves all of these objectives. Below is a summary of the key features of the agreement:

Building Program

- Between 3.95 and 2.45 million square feet of low-rise offices on 131 acres.
- 50,000 square feet of retail uses
- 125 acre regional park
- Project developed in six phases over 10 to 20 years.

Financial Terms

- City reimbursed \$2.50 for each buildable foot of office space at regular installments over a seven year period (assuming maximum square footage is permitted).
 - Payment of \$1.0 million due 90 days after entitlements granted for the project
 - 50% of remaining balance due four years after entitlements are granted
 - 50% of remaining balance due 7 years after entitlements are granted
- City provided with \$1.50 for each buildable square foot at the time building permits are approved for basic park development (assuming maximum square footage is permitted).
- If less than 4.0 million square feet of development is approved on the site - lower financial returns will be received by the City. Below is a matrix identifying three different scenarios for development intensity on the site and the resulting impact on City land value:

Approved Development (Square Footage)	4,000,000	3,250,000	2,500,000
Projected Installment Payments	\$5,000,000	\$3,125,000	\$1,250,000
Park Development Contribution	\$6,000,000	\$4,875,000	\$3,750,000
Total Payments	\$11,000,000	\$8,000,000	\$5,000,000

These values were established based on an economic analysis conducted by an outside consultant retained by the City.

Performance Schedule

The agreement contains a two-year window for the developer to obtain the necessary entitlements for the site. During this two-year period, there are four milestones at six-month intervals. If the developer fails to meet these milestones, then a penalty payment would be made to the City (\$62,500 per milestone - on a cumulative basis). The penalty payment is secured by a personal guarantee from each individual in the partnership.

Once the entitlements are received by the developer (in approximately two years), there is a 90 day period in which the developer must make a \$1.0 million payment to the City in order to maintain an interest in the property. Additional land installment payments would be required four and seven years after the project entitlements are approved.

Termination Provisions for the Developer

The developer has the right to exit this agreement, without any payment to the City if the final entitlements for the property:

- Permit less than a minimum of 2.5 million square feet of office uses
- Require office building in excess of four stories in height
- Require more than 600 space of structured parking
- Infrastructure costs for the project exceed current projections by \$350,000
- Total costs to mitigate impacts identified through CEQA exceed \$1,350,000
- Litigation is filed by any third party challenging or seeking to set aside the project approvals
- Completion of Federal or State Permits that are beyond the control of the developer delays construction for more than two years after approval of entitlements

In addition, the developer has the right to exit the agreement after the first installment payment (\$1.0 million) for a penalty fee (2% to 14% of the outstanding balance of land payments depending on when the termination is requested).

Entire Agreement

A copy of the full agreement is on file with the City Clerk.

NEXT STEPS

Once this agreement is executed, the developer has six months to file a completed application for the project with the Planning Division. The application will be processed through normal channels, which will include reviews by the Planning Commission and the Parks Commission on the appropriate land-uses for the project. All costs associated with processing the application - including environmental reviews will be paid for by the developers.

POLICY CONSIDERATIONS

Several policy issues and development options were addressed by Council during deliberations on negotiating the sale of this property to Granite Partners. These issues are provided as information only in Exhibit 3. There are no additional policy issues associated with this agreement.

FINANCIAL DATA

No appropriations are required as part of this agreement.

MBE/WBE

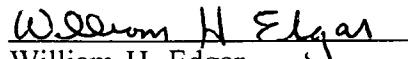
Not applicable.

Respectfully Submitted,

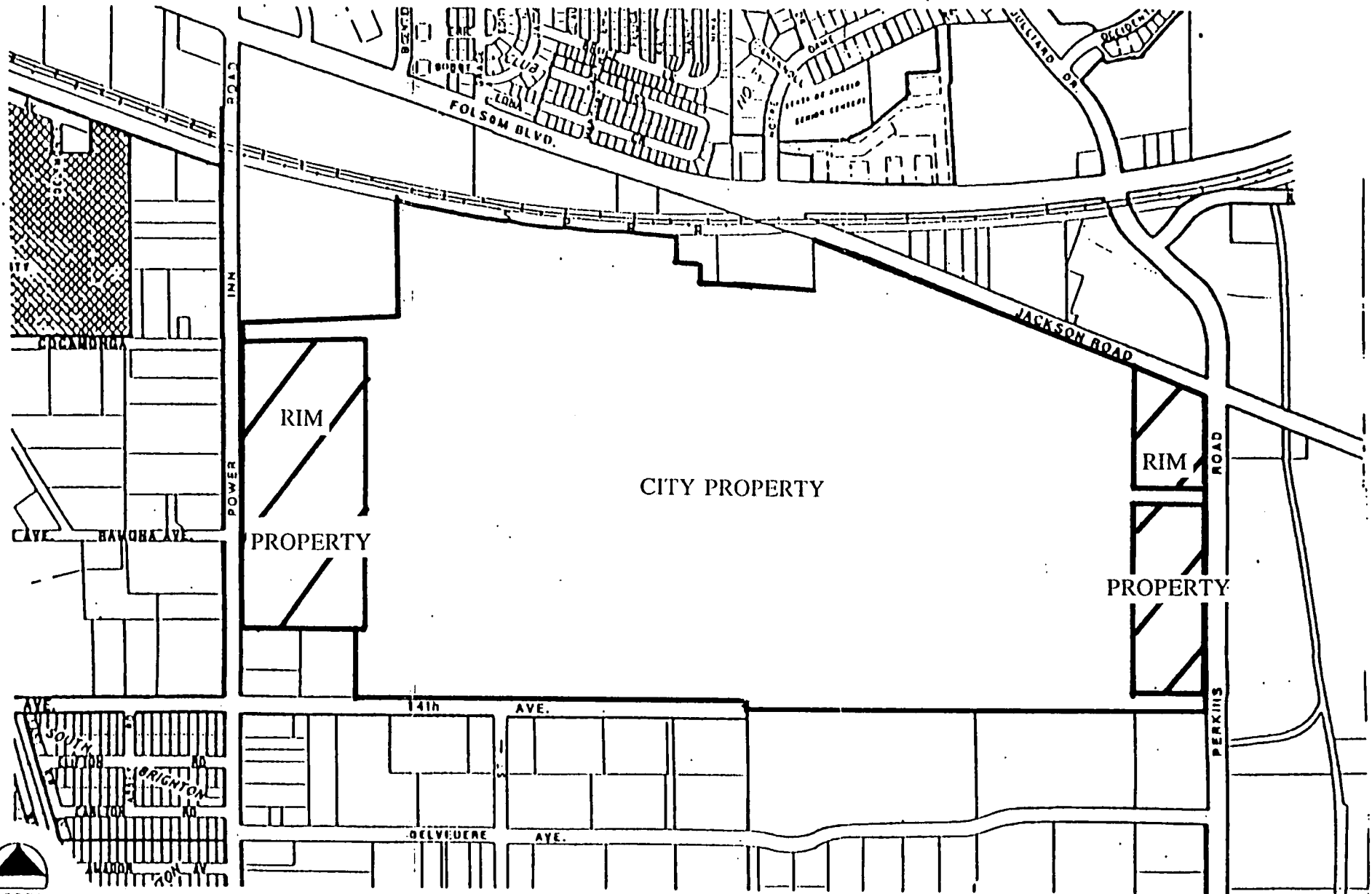


Bill Farley
Economic Development Manager

Recommendation approved:


William H. Edgar
City Manager

Item 9.4



PARCEL DESIGNATIONS

RESOLUTION NO. 94-020

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

APPROVED
BY THE CITY COUNCIL
JAN 4 1994
OFFICE OF THE
CITY CLERK

**RESOLUTION AUTHORIZING THE CITY MANAGER
TO EXECUTE AGREEMENT WITH GRANITE PARTNERS**

WHEREAS the Granite Construction Company owns or controls City-property totalling 256 acres between Power Inn Road to the west, Florin-Perkins to the east, 14th Avenue to the south, and Folsom Boulevard and Jackson Highway to the north, and

WHEREAS the Granite Construction Company controls this property until 1996, and

WHEREAS the City can achieve a higher value for its property if developed in conjunction with the adjacent private property that is owned by Granite Construction Company, and

WHEREAS Granite Construction has formed a development team known as the Granite Partners,

THEREFORE be it hereby resolved by the City Council that:

The City Manager is authorized to execute a disposition agreement with Granite Partners to purchase and develop City-owned property known as the Granite Pits.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

GRANITE PITS PROPERTY Background and Project History

Project Description - Granite Pits

The Granite Pit Site consists of 215 acres of property owned, or that will be owned, by the City. The property is located between Power Inn Road to the West, Florin-Perkins Road to the East, 14th Avenue to the South and the Regional Transit rail lines and Jackson Road to the north (Exhibit A). The property consists of two pits created as the result of gravel extraction operations. Not included as part of the site area are two at-grade frontage parcels comprised of 25 acres on Power Inn Road and 16 acres on Florin-Perkins Road owned by Granite Construction, and 13 acres owned by Regional Transit next the Power Inn Light Rail Station.

Project History

- 1971: Granite Construction Company sought a Special Permit from the City to expand gravel extraction operations from their old site in what is presently the south-west quadrant of the western pit. In exchange for the City granting the special permit, Granite agreed to deed the 215 acres to the City for a regional park or other public uses deemed appropriate by the City Council. Granite deeded the western pit to the City in 1971 (109 acres), and subsequently leased the property for gravel extraction operations through 1996. The balance of the property (106 acres) will be deeded to the City at the end of the lease period.
- 1988: City General Plan identifies Granite Pits as an Area of Opportunity for Development or Reuse. In addition, the

Plan emphasizes that site also provides a unique opportunity for recreational development.
- 1989: The Planning and Community Development Department, in conjunction with the Parks and Community Services Department, prepared a Preliminary Analysis for development of the site (July).
- 1990: Friends of Light Rail conduct a planning charette to provide ideas on how to plan development on property held by Regional Transit, Granite Construction, and the City (April).

City and Granite Construction amend the original lease agreement to clarify that the term "public use" includes commercial and industrial development (August).

Project History (continued)

1991: Granite Construction forms a development team with Panattoni and Separovich/Domich to develop the portion of the site owned by Granite Construction. This partnership is named Granite Partners.

The Parks and Community Services Department met with Granite Partners to develop a conceptual plan for the park element of the development. During these discussions, Granite Partners expressed an interest in developing the City land in conjunction with their development.

1992: City Council establishes a formal Asset Management Program to coordinate development of City property (May).

The City Asset Management Program commissions a market study (June) - in order to establish reasonable objectives for the project.

Granite Partners submits a formal request to develop City-owned property in the Granite Pits Site (October)

Asset Management Program staff meet with Granite Partners to clarify proposal - for presentation to the City Council (December - March 1993).

City Council approves sole source negotiations with Granite Partners (April 1993)

Relationship of Property to Current City Plans

The entire 276 acres between Power Inn and Florin-Perkins Road between 14th Avenue and the Light Rail tracks is designated in the General Plan as Parks, Recreation, and Open Space (Exhibit B).

The current zoning designation for this entire area is M-2-S. This zoning permits heavy manufacturing uses and allows limited office uses. The City of Sacramento (215 acres), Granite Construction (41 acres), Regional Transit (13 acres), and Lonestar Cement Company (7 acres) are the landowners within this area.

The area is also overlaid by a State Enterprise Zone. This zone provides various State tax credits - primarily for manufacturing activities. The Zone is coordinated by the Sacramento Housing and Redevelopment Agency.

Proposed Business Points Granite Pits Development

1. Developer to be known as Granite Partners (GP), a joint venture between Granite Construction Co., Pannattoni Development Co., and Separovich/Domich.
2. Project to include approximately 256 acres of property:
 - 147 acres owned by Granite Construction of which 106 acres in the eastern pit (PIT property) would be deeded to the City in 1996. The property that will remain under ownership by Granite Construction after 1996 is 41 acres of property on the east and west rims of the pit (RIM property).
 - 109 acres comprised of the western pit (PIT property) owned by the City which is currently leased by Granite Construction through 1996.
3. After execution of a Development Agreement, GP will prepare all plans and other materials necessary to fully entitle the property for development as offices and a regional park.
4. GP will pay the City for the PIT properties, upon receipt of entitlements, in three payments, over 7 years. Funds will be used to build a regional park in the PIT and for other purposes deemed appropriate by the City Council.
5. GP payments to the City will be tied to an amount of buildable square footage entitled, and to infrastructure, mitigation and off-site improvement budgets established at execution of a development agreement.
6. If GP elects to obtain entitlements for the RIM and PIT properties, the first installment payment will be personally secured by partners in GP.

Policy Considerations (From April 1993 Council Report)

Reduction of park land acreage from General Plan

The proposed project is consistent with the text of the 1988 General Plan which designated this area as an opportunity for reuse or development. Designation of acreage for a regional park will meet the recreation demand for the eastern portion of the City (as outlined in the 1988 Park Master Plan). Nevertheless, the proposed project will reduce the acreage designated in the General Plan for park land to approximately 125 acres.

Emphasis on site as employment center with linkage to regional transit

The North Natomas Planning Guidelines include a new zoning designation for Employment Centers (EC). The EC designation allows various intensities of office development - along with secondary uses through special permits. Secondary uses include retail services and multi-family housing. The EC designation is intended to provide flexibility for planning mixed-use developments that connect with transit service.

Staff will encourage Granite Partners to undertake development consistent with the EC designation contemplated for North Natomas. This type of development will provide direct linkage of office development with regional transit services.

Alternatives to recommended development program

Retain all acreage of Granite Pits as parks

Staff is recommending that a portion of the Granite Pits site be developed in order to fund the construction of a regional park.

The City Council can pursue development of the entire site without revenue derived from commercial development. Development of the park could be included in a bond issue which would require a City-wide election. Development of the park could also be accomplished through an increase in the annual City-wide Landscaping and Lighting District Assessment. The estimated assessment to build and maintain the regional park would be approximately \$15.00 - \$25.00 per household per year.

It is not recommended that an annual assessment be increased to fund the new regional park. Other programs (tree trimming, park maintenance, and playground rehabilitation) funded with the existing Landscape and Lighting District Assessment do not have any other source of funding - and may need to rely on increases in this assessment to preserve or enhance existing service

levels.

City assume role as developer

At this time, it is recommending that Granite Partners assume the role of land developer in managing development of the Granite Pits. The City will serve as the land "banker" - selling land to Granite Partners on a pre-determined schedule. Granite Partners will secure the appropriate general plan designation, zoning, design standards, and environmental clearances, and prepare an infrastructure financing plan to serve parcels identified for commercial development.

The City could serve as the land developer for this project. The City could secure the necessary general plan amendments, zoning, design standards, and environmental clearances to prepare the site for development. This would require the City to appropriate funds to pay for these pre-development expenses. It would also involve coordinating design and marketing of the site. This approach is not recommended since the City has an interested developer with the expertise and financial resources to accomplish these tasks.

City delay project until 1996

The City could delay development of the site until 1996. At that time, the City would be the owner of all 215 acres and the lease with Granite Construction would expire. If this approach were selected, staff would spend the next two years working exclusively with Granite Construction on the reclamation of the site.

Staff does not recommend delaying this project for two years. The opportunity to prepare this site for development and to collect revenue for the General Fund justifies moving forward with a disposition agreement at this time.