LITTLE HOOVER COMMISSION

CADA: AN OPPORTUNITY TO ADVANCE AND PROTECT THE STATE'S INVESTMENT

January 1999

Little Hoover Commission

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To Promote Economy and Efficiency

The Little Hoover Commission, formally known as the Milton Marks "Little Hoover" Commission on California State Government Organization and Economy, is an independent state oversight agency.

By statute, the Commission is a bipartisan board composed of five citizen members appointed by the Governor, four citizen members appointed by the Legislature, two Senators and two Assemblymembers.

In creating the Commission in 1962, the Legislature declared its purpose:

...to secure assistance for the Governor and itself in promoting economy, efficiency and improved services in the transaction of the public business in the various departments, agencies and instrumentalities of the executive branch of the state government, and in making the operation of all state departments, agencies and instrumentalities, and all expenditures of public funds, more directly responsive to the wishes of the people as expressed by their elected representatives...

The Commission fulfills this charge by listening to the public, consulting with the experts and conferring with the wise. In the course of its investigations, the Commission typically empanels advisory committees, conducts public hearings and visits government operations in action.

Its conclusions are submitted to the Governor and the Legislature for their consideration. Recommendations often take the form of legislation, which the Commission supports through the legislative process.

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Additional Copies of this report may be purchased for $5 per copy. The report is available on the Commission's website.

State of California

LITTLE HOOVER COMMISSION

January 21, 1999

The Honorable Gray Davis
Governor of California

The Honorable John Burton
President Pro Tempore of the Senate
and members of the Senate

The Honorable Ross Johnson
Senate Minority Leader

The Honorable Antonio Villaraigosa
Speaker of the Assembly
and members of the Assembly

The Honorable Rod Pacheco
Assembly Minority Leader

Dear Governor and Members of the Legislature:

Twenty years ago, the Capitol Area Development Authority (CADA) was established to prevent the State from becoming a slumlord to the property it had purchased around the State Capitol in the early 1960s. By managing the dozens of aging apartments that the State had acquired, CADA has provided housing while protecting those assets until the property was needed for the expanding headquarters of California government.

By that measure alone – guarding against decline – CADA has done its job well.

In more recent years, local and state officials have looked to CADA to be a catalyst for downtown housing to complement the State's office construction program and to capitalize on the urban housing market that appears to be in the early stages of a renaissance. These trends diminish the rationale for a state-local partnership designed to temporarily manage state-owned apartments and build market-rate housing in neighborhoods the market had abandoned.

For CADA, whatever the future holds, significant changes are warranted.

Now that public and private development is occurring and it is becoming clear which state-owned parcels are no longer needed for public use, CADA's long-term purpose needs to be rigorously analyzed. If in the long-term there are remaining public interests that need to be advanced and protected, the State should consider all of the alternatives for accomplishing those objectives.

While this review is being conducted, and should it be decided to extend CADA's life, the authority needs to immediately reform its development process. By exploring a broader range of alternatives to its current process of soliciting proposals to build narrowly defined projects, including privatization of all its functions, CADA stands to generate more homes, more shops, and a greater return on the State's investment.

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Finally, CADA has long operated as if the property it managed did not belong to the State of California. And while it is appropriate for CADA to generate public benefits such as more downtown housing, there is no reason why CADA cannot pursue those goals while simultaneously striving to generate a return on the State's investment.

Such a return to the State has yet to be realized. The purchase price for all of the property originally purchased by the State has been anecdotally estimated to be $20 million. Of this Capitol Area property, CADA now manages almost one-third.

According to CADA's most recent budget and financial statement (Appendix A), CADA's earnings in 1997 were $1.3 million with retained earnings exceeding $3.4 million. As in past years, CADA has used these funds to support its operating expenses, with no interest or other cash returned to the State. This practice needs immediate reconsideration by the Legislature.

The Little Hoover Commission has a long-standing interest in the way the State manages its real property. Over the past eight years, we have undertaken two major studies on real property, and we have now completed this study on CADA. We feel that though this issue may be less publicly compelling than other studies undertaken by the Commission, it is no less publicly visible. The State has broken ground on the East End Office Complex project -- which will ultimately result in the consolidation of three state departments and save the State millions of dollars now spent on leased office space. We believe that the State and CADA representatives should also strive for responsible oversight of CADA properties, using fiscal measures as the basis to guide policy decisions that are made on behalf of the public.

The Commission acknowledges that CADA has made considerable progress in recent years to improve its business practices. The Commission's recommendations are intended to increase CADA's contribution to the State and the Capitol Area -- not as a criticism of those responsible for the progress that has been made.

Toward that end the Little Hoover Commission in six months intends to request that CADA report the progress it has made toward the goals described in this report. In the meantime, the Commission stands ready to assist the Governor and Legislature in implementing the recommendations contained here.

Sincerely,

Richard R. Terzian
Chairman

CADA:

An Opportunity to Advance and Protect the State's Investment

January 1999

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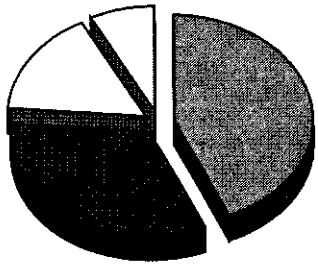
Background

California's State Capitol and the surrounding park are unique public assets enjoyed by Sacramentans and visitors alike. Originally the Capitol area was envisioned as an office campus containing the majority of the State's business functions. Today, the Capitol area is home to a mix of offices, retail businesses, and various types of housing.

To those acquainted with Sacramento's downtown neighborhoods, the Capitol Area Development Authority (CADA) may be known by its apartment buildings and parking lots around the State Capitol. The fact that CADA is a public agency and partnership between the City of Sacramento and the State of California is less well known. The primary responsibility of this unique partnership is to implement the housing and commercial components of the Capitol Area Plan (CAP). CADA accomplishes this by managing and developing the state-owned property around the State Capitol that is not needed for office buildings.

The Capitol Area Defined



- State-owned (81 acres)
- Private/City/Federal (61 acres)
- CADA Managed (30 acres)
- Parks (14 acres)

The Capitol Area contains about 186 total acres of land. Of this land, the State owns about 111 acres.[1] Of state-owned property, CADA manages about 27 percent -- or 30 acres -- through a lease agreement with the Department of General Services. About one-third of the Capitol area

land is either owned privately, by the City of Sacramento, or the federal government. Parks make up the balance of the land's use, including the State Capitol Park.[2]

The Little Hoover Commission has a long-standing interest in the way the State manages its real property and became interested in CADA during its 1995 study on this issue.[3] At that time, questions were raised about CADA's business practices and fiscal reporting procedures. Subsequently, broader policy questions were raised about CADA, such as whether the State should be in the business of managing and developing property through an entity such as CADA, and whether CADA was maximizing the State's investment in this property.

This report reviews CADA's functions, discusses CADA's role in implementing the Capitol Area Plan, and identifies specific findings and recommendations directed to better managing and developing the property entrusted to CADA by the State on behalf of the public.

Historical Perspective: The Capitol Area Plan

The Capitol Area Plan

The Capitol Area Plan (CAP) serves as the official master plan for development of state buildings and facilities in downtown Sacramento. The goals of the plan are to develop office space, parking and transportation facilities to support state needs, and to expand housing to accommodate 3,500 people by 2000.

The 1997 plan contains nine broad areas: land use, state offices, housing, transportation and parking, open space and public amenities, development of the community, energy conservation, the state's relation to local government, and administration and implementation.

The Department of General Services is responsible for implementing the plan and a nine-member advisory body, the Capitol Area Committee, provides guidance to DGS on implementing CAP goals. A technical advisory committee also exists to provide specific staff support upon request of the Capitol Area Committee.

In 1960, the State purchased 42 blocks of property south of L Street around the State Capitol to build high-rise office buildings for state workers. The first Capitol Area Plan was developed for the area around and including the State Capitol and Capitol Park. This initial plan only provided for the construction of state offices. After the construction of four buildings (Office Buildings 8 and 9, which house the departments of Health and Social Services, the Central Heating and Cooling Plant, and the Resources Building), the construction program was curtailed. Additional state office space needs were accommodated with leases of privately owned offices.

The State, however, held onto the balance of the property, anticipating a future need for land to build offices for an increasing state workforce. The State's indecisiveness about its plans, however, took a toll on the area. The downtown area already had its share of rundown housing occupied by an elderly and indigent population left behind by suburban growth. The State was considered by

some to be one more neglectful landlord, unmotivated to invest in property slated for demolition. Prior to the creation of CADA, a group of tenants staged a rent-withholding movement due to the poor conditions of many of the apartments.[4]

In 1977, a review of the original Capitol Area Plan by the Department of General Services (DGS) resulted in an updated plan, integrating broader, more flexible planning principles such as housing, transportation and energy conservation.[5] A major concern was preventing the "office ghetto" environment that had plagued other downtowns. To support downtown housing, the 1977 version of the Capitol Area Plan recommended delegating property management duties and housing development activities to a "qualified organization." Thus, CADA was created to manage state-owned land that was not being used for a state purpose, which at the time included various rental properties and undeveloped parcels that had been paved over for parking lots.

In the 1997 version of the Capitol Area Plan, CADA was formally identified as the organization that would implement the plan's housing objective, while DGS is responsible for implementing the state office objective. [6]

Legislation Impacting CADA

AB 666 (Ortiz) – A key piece of legislation impacting CADA was AB 666 (Ortiz) in 1997. This legislation authorized DGS to sell property not needed for office construction to CADA for development and resale at fair market value. This provided the State and CADA with flexibility in meeting CAP goals, and a mechanism for bolstering home ownership opportunities in the Capitol Area.

SB 1770 (Johnston) – In 1997, Senate Bill 1770 (Johnston) directed DGS to update the Capitol Area Plan, prepare the environmental impact plan due this fall and develop a comprehensive facilities plan for the East End office project, which is now underway. This legislation also reaffirmed the goals of the Capitol Area Plan of 1977, and endorsed recommendations of the Urban Land Institute, specifically to develop offices on property already owned by the State.

SB 1270 (Johnston) – Senate Bill 1270 (Johnston) passed in 1997 authorized DGS to issue bonds and proceed with the building of the East End Office Complex project which will consolidate the Departments of Health Services, Education and General Services.

Like its predecessor, the 1997 CAP reflected the most contemporary concerns about downtown. In 1994, at the urging of the Little Hoover Commission, the Legislature ordered the state Department of General Services to inventory state property and compile a list of properties that were underutilized or surplus. Among those included in the list were 59 parcels around the State Capitol managed by CADA.

The Department of General Services made plans to sell the land, but the Legislative Counsel found that such action required legislative approval.[7] At the same time, the State needed to build or lease some additional office space, and was under pressure from suburban and downtown developers to purchase or lease land not owned by the State. The Urban Land Institute (ULI) was brought in to assess and recommend how the

State should meet its space needs and manage its downtown assets. The ULI panel found that "immediate disposition of parcels as surplus assets is not an appropriate action."[8] Instead, ULI recommended that the State keep the land for its original intent: office construction. The ULI also recommended incorporating principles of mixed-use into planning efforts to support and enhance the Capitol Area and the Capitol building and park, described as a "treasure" at risk of blight if action was not taken.[9]

The ULI report also observed that despite all of the planning efforts, "the policies and practices of major stakeholders are at times working at cross-purposes." More recently, Sacramento's City Manager conceptualized this as "too many cooks in the kitchen."[10] ULI recommended that the roles and responsibilities of all involved with downtown development be coordinated in a five-year planning time-frame. Finally, it was suggested that an umbrella downtown development entity be created to direct the planning effort. It proposed that this entity be a natural successor to what currently exists, not just another layer of government. Though ULI did not recommend abandoning the concept of a joint powers authority, it indicated that CADA's organizational structure was too political to quickly resolve planning issues.

What is CADA?

A review of other capitol regions reveals that other states have created organizations to restore and manage state capitols, including Minnesota, New York, and Ohio. These efforts have centered around preservation issues and updating capitol buildings to meet current health and safety standards, to accommodate computer wiring and to house growing legislative staffs. These activities are often managed by a board, which in Ohio's case, evolved into a public relations and tourism

CADA's Controversies

CADA has been investigated by the Sacramento County Grand Jury on two occasions. In 1993-94, the investigation centered on the operation and maintenance of four single room occupancy hotels that had deteriorated. The Grand Jury recommended that CADA and the Sacramento Housing and Redevelopment Agency work more cooperatively in overlapping areas of responsibility.

The 1995-96 Sacramento County Grand Jury investigation reviewed CADA's administrative activities. Allegations centered on three major issues: misuse of public funds, violation of the Brown Open Meeting Act, and inappropriate and ineffective management of the board and agency.

The Grand Jury found a lack of written board procedures and that an investigation of the Executive Director by the Board was initiated at a closed session board meeting. Additionally, it was noted that CADA conducted several unusual meetings which were held at a private office and not properly noticed, and outcomes of the meetings were not reflected in minutes. Management practices under review included the Executive Director's complete authority over hiring and a lack of formal duty statements.

agency after restoration was completed. By comparison, CADA is a joint powers authority (JPA) responsible for managing and developing housing near California's state capitol. The Department of General Services oversees other JPAs in Oakland, San Francisco, Los Angeles, and the East Bay, but these were created specifically to develop and finance single state office buildings.[11]

CADA also fulfills an atypical niche as a liaison between the City of Sacramento and the State. The State has found value in being a "good neighbor" to Sacramento, where the majority of its offices are located. And the City's interests in increasing housing downtown have been well served by CADA. In this way, CADA has evolved into a facilitator of reciprocating interests: the City's interest in a mixed-use downtown, and the State's interest in preserving its assets.

CADA's authority is defined in three ways: the Government Code, the Joint Powers Agreement and the State-CADA lease:

- ***In Statute.*** The Government Code establishes a joint powers authority between the City of Sacramento and the State to accomplish the objectives contained in the Capitol Area Plan. The Capitol Area Plan, which also is codified, contains broad program goals for office development and housing in the Capitol Area, and nine specific objectives. The responsibility for implementing the CAP's housing objective lies with CADA.

- ***By Agreement.*** CADA's specific powers and authority are contained within a document entitled, "Joint Exercise of Powers Agreement." This agreement between the City of Sacramento and the State creates CADA as a separate public entity. This agreement establishes CADA's organizational and governance structure, and defines its powers. These include the ability to lease, construct, acquire, manage and operate land and buildings. CADA also has the ability to issue bonds and to exercise the power of eminent domain. The agreement was signed in 1978 and is effective until 2042, or until provisions for payment on outstanding bonds have been made.

- ***Through Lease.*** The mechanism for CADA's use of state property is a 60-year, no-cost lease between DGS and CADA. The lease also specifically requires CADA to maintain at least 485 fully furnished apartments, a requirement that has not been met. The entire lease, or any portions of it, may be terminated by the State with a 180-day written notice to CADA.

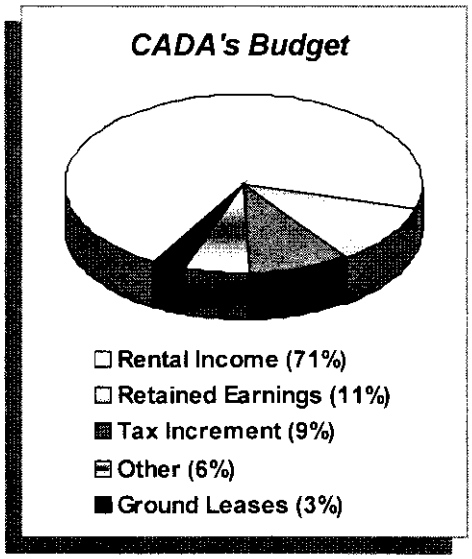
CADA's major policy decisions are made by its five-member Board of Directors. Two members are appointed by the State (by the director of DGS) and two are appointed by the City of Sacramento. The fifth board member is appointed by the other board members. Board members are volunteers who serve four-year terms. The Board is required to hold at

least one meeting per year, but actually meets bi-monthly. Additional meetings occur as needed for policy decisions on development projects. DGS staff assert that they are directly involved in all of CADA's development projects and attend all board meetings. CADA has an executive director and chief deputies for administration, development, asset management, and property management.

CADA's Revenue and Expenditures

CADA is financially independent. As a separate public agency, it is self-supporting and has discretion over how it spends its income. CADA's annual operating budget is approximately $4.7 million.[12] CADA's earnings in 1997 were $1.3 million with retained earnings exceeding $3.4 million.

A review of CADA's most recent budget and audit reports indicates that the majority of CADA's revenue, about 71 percent, is from rents collected from residential and commercial properties.[13] The next largest source of income is prior year net gain, best understood as "profits" or retained earnings from the previous year. As a public agency and the area's designated redevelopment agency, CADA also receives tax increment funds. CADA also receives a small amount of funds from its long-term ground leases with owners of several condominium and apartment buildings.



CADA's budget also includes federal, state and local redevelopment funds that support projects providing housing for low-income families, elderly and disabled persons. This source of funds equates to almost $350,000 per year.

CADA's major expenses -- about 40 percent of its budget -- are employee salaries and benefits. Repairs, maintenance and utilities make up about 22 percent of its budget. Outside services, such as security, accounting, and legal services, consume about 16 percent of its budget.

CADA also has issued bonds on two occasions. In 1992, CADA was asked by DGS to issue $7 million in lease revenue bonds to finance the construction of a building to house a DGS unit. These bond payments are made through the State's building rental account, which is funded by rents charged to other state agencies that occupy DGS-controlled buildings.[14] In 1994, CADA sold $3.3 million in tax allocation bonds to pay off higher interest debt and finance rehabilitation on several CADA properties. CADA does not anticipate future bond sales for state construction projects.

Because CADA subsists largely on the revenue it collects from state-owned property, as property is sold and developed, revenues will decline. CADA anticipates a budget decrease next year due to building demolition for the East End Office Complex project. CADA does not currently pay rent but occupies one of the buildings that will be torn down. The other buildings that will be removed generate rents of about $200,000. As reflected in its budget, CADA's primary function has been to manage existing housing. CADA leases the property at no cost, and uses the revenues from the rentals to maintain its properties, help subsidize low-income housing, and leverage new development.

CADA currently manages 774 apartments for the State, of which 544 are leased at market rate, and 230 are subsidized for low-income tenants.[15] CADA also manages 749 parking spaces and 40 commercial retail spaces. CADA also provides nine ground leases for 112 ownership units of condominiums, co-op housing, and apartments. In this case, the State owns the land but not the buildings. These projects were developed prior to the passage of AB 666 in 1997, which provided a mechanism for the State and CADA to sell land for new housing projects.

Current monthly rents for CADA apartments range from $290 for a rooming house unit of about 300 square feet, to $1,100 per month for a 1,200 square foot unit in the Dean Apartments at 14th and O Streets.[16] This equates to an average rent of $.97 per square foot. The smallest apartment building contains two units and the largest contains 42. According to CADA, determination of market rent rates is based on both internal assessments by CADA staff and annual independent appraisals. CADA's vacancy rate was 3 percent in June 1998.

CADA Rent Trends Over Time

Using the Dean Apartments as an example, the following illustrates CADA's rental rates over time.

1975 – Although pre-CADA, the Dean Apartments rented for $250 per month, or $.21 per square foot.

1983 – Under CADA management, rent was $400 per month, or $.33 per square foot.

1998 – Rent is $1,100 per month, or $.92 per square foot.

Source: CADA Correspondence, 9/1/98

On average, it costs CADA $238 per unit per month to maintain and manage its apartments. This figure includes overhead costs such as accounting and building management as well as average maintenance and repair costs. In the past year, CADA has implemented software systems that track costs for maintenance expenses and property revenues by building and unit. However, neither system appears to have the ability to proactively schedule maintenance. A 1995 study commissioned by CADA compared its maintenance costs to both private and non-profit companies managing comparable units and concluded that CADA's expenditures were comparable to other property management organizations.[17]

Capitol Area Office and Housing Developments

Over the next 10 to 15 years, the State and CADA expect to develop 32.2 acres downtown, including 2.8 million square feet of office space, 725 housing units, 90,000 square feet available for commercial space, and 4,211 parking spaces.[18] CADA is expected to develop about 14 acres of this space for housing.[19]

The State and CADA have incorporated some of the findings from the ULI report into their planning efforts. In addition, prior to the update of the CAP in 1997, two master planning studies were developed: one by DGS for state office and parking development, and a companion piece on residential and commercial development produced by CADA. The State has concluded that not all state offices are appropriate for downtown locations, and CADA's projects are planned for sites identified as no longer needed by the State for office purposes. The State's East End Office Complex project, which consolidates the headquarters of the departments of Health Services, Education, and General Services, will result in five new buildings by the year 2003.

CADA's Recent Development Projects

1997 The first market-rate rental unit in a decade (Governor's Terrace) is completed containing 44 units ranging in size from 550 to 1,000 square feet and 40 parking spaces. Hank Fisher Properties was the developer.

1998 In June, plans for development of 68 ownership units (Capitol Park Townhomes) and 60 units of market rate apartments (the Fremont Building) are finalized. SKK Enterprises, Inc., is the developer.

1998 A Request for Qualifications (RFQ) for redevelopment of the CADA Warehouse site at 1108 R Street was released in August.

In addition to its master planning study, CADA has long-term strategic and business plans and a neighborhood design plan for the Capitol Park neighborhood. CADA's target is to meet the CAP's housing goal of 3,500 residents by the year 2000. CADA's development plans would add 725 housing units on nearly 14 acres of state-owned land.

CADA is finalizing two residential projects with private developers: the Fremont Apartments and the Capitol Park Townhomes. These projects were awarded some funding from the Sacramento Housing and Redevelopment Agency as they fall within CADA's project area as the designated redevelopment agency for the Capitol Area. As a result, a portion of both projects will contain low-income housing.
Another project for ownership housing is slated for development in late 1998. Future projects for 1999 include constructing a mixed-use project containing housing, office, and commercial space at 14th and O streets, and an ownership housing project at 1630 N Street.

CADA has basically two options for developing its state-owned property: leasing the land or purchasing the land from the State and then selling it to private developers. Historically, CADA's development efforts were restricted to land-lease options. Residents of such projects would own the building but not the land, and this was considered a disincentive for developers to consider CADA projects. If the decision is made to lease the land, a lease agreement is prepared by DGS, allowing for final approval of the project by the State. Typically, these leases are for the maximum time allowable, 60 years, and also require legislative approval.

CADA now has the ability to provide fee title for its development projects, subject to DGS approval. If the land is to be sold rather than leased, an appraisal is obtained by DGS assessing the fair market value. The property is sold to CADA, which then sells it to a developer. The Fremont Building and Capitol Park Townhomes projects were lease transactions being negotiated with private developers before AB 666 was approved by the Legislature. Subsequently, DGS structured a term sale to CADA over a 20-year period. To make this viable for the developer, CADA has structured a 40-year term sale. Unlike rental or land lease revenue, proceeds from all such property sales go into the state General Fund.

Summary

CADA is a unique organization, with characteristics and functions that distinguish it from other capitol area organizations and even other JPAs. Through its authority and mandates, CADA is responsible for carrying out the objectives of the Capitol Area Plan. CADA achieves this by managing and developing approximately 30 acres of state property for housing and commercial use. CADA's major functions have been to serve as property manager for the State's existing residential and commercial property, and to facilitate development of new housing apartments, including low-income housing. CADA is proceeding with development plans for townhomes and an apartment building over the next year.

CADA's Future

Finding 1: While CADA's mission will change in the near future, there are no mechanisms to assess CADA's future role as trustee of the state-owned property assets.

CADA was originally created to help preserve the State's property assets around the Capitol until the State needed that land. This seemingly temporary mission has evolved over time. CADA has become a property manager for the State, and more recently, the State's development partner in implementing the Capitol Area Plan. Over the course of its existence, CADA has helped to stabilize the downtown area and, in general, met its statutory and legal obligations.

Presumably, when the CAP's goals for housing are met, CADA's development function will cease, and CADA will contain remnant property management and redevelopment functions. Despite this eventuality, the State has not reexamined the need to own this property over the long-term or considered alternatives for any property it should keep.

CADA's Original Terms

The Capitol Area has been witness to intense planning for over the last five years. While these efforts guide the build-out of the plan, provisions have not been made to modify CADA itself as the organization's functions evolve.

CADA's originating documents are silent or vague about CADA's long-term role. The CAP's mission for CADA is to fulfill the plan's housing objective. The mission is finite, as there are about 14 acres for CADA to

develop into housing. The JPA and the lease agreement contain time limits for CADA's existence, but no provision for its future. Specifically:

- ***The Capitol Area Plan***. The CAP is vague about a long-term role for CADA. The CAP's housing objective is "to foster housing within the Capitol Area meeting a wide range of income levels and restoring the area to a population consistent with its urban surroundings." The CAP provides general objectives and principles and a planning horizon of 10 to 15 years.

- ***The Joint Powers Authority Agreement***. The JPA is the only document that provides a clause calling for termination of CADA. The planning horizon originally established for CADA was 64 years -- the term of the Joint Powers Authority Agreement. In this document, CADA's purpose is defined as an organization that will "...have the power to accomplish the purposes and objectives set forth in the Capitol Area Plan." The JPA is in effect until the year 2048 although the State and the City have the mutual authority to rescind CADA's powers.

- ***Lease Agreement***. CADA has a 60-year lease with the Department of General Services, terminating in the year 2038. Like the CAP and the JPA, this document provides only general direction for CADA to meet its charge and specifies that the "leased premises be used for purposes consistent with the Capitol Area Plan."[20]

None of these documents adequately consider how long CADA should manage housing projects on property the State will not need for a public purpose. In 1995, DGS attempted to address this issue administratively when it identified 59 parcels controlled by CADA as "surplus" property that should be sold. CADA officials and tenants vehemently objected, and the Legislative Counsel concluded that the sale required legislative action.

In the ensuing debate, CADA proposed renegotiating the lease between DGS and CADA to allow for a share of the revenue generated by the properties -- which would have been the first time in decades that the State saw a return on its investment in downtown property.[21] The lease, however, was not renegotiated. DGS dropped its plans to sell off CADA-managed land and the issue remains unresolved.

The ULI Perspective on CADA

During its review in 1995, the Urban Land Institute recognized the role CADA played in local planning efforts, yet also labeled CADA as too political to quickly resolve development issues. Alternatively, ULI recommended that CADA's role should be revisited and suggested creating a broad umbrella entity to coordinate downtown development.

Absent direction from the State, CADA has established a strategic plan to guide its activities over the next five years, and it updates the strategic plan with biannual business plans.

The strategic and business plans, however, conflict with the nascent public discussions about CADA's future. While CADA's executive director frequently challenges the needs for CADA to even exist in 10 years, the plans focus on ways for CADA to expand its mission and maintain or expand its revenues.

For example, the business plans contemplate CADA playing a role in the "predevelopment activities" for state office buildings. They advocate that CADA take on responsibility for managing the State's parking and transit facilities. They suggest that CADA take on the rehabilitation and preservation of historical buildings including the Stanford Home, privately owned homes and the Heilbron House. And the plans recommend expanding CADA's role in developing Capitol Area amenities such as parks, landscaping, art and other amenities.[22]

At the heart of all of these potential ventures is the desire to maintain a stream of revenue as the State takes back property to construct office buildings or as new housing projects put state-owned lands into private ownership. In CADA's business plan, the role of CADA's property management services is "to maximize CADA's primary revenue streams through effective management, maintenance, marketing and customer relations."[23]

Importantly, the business plans do not consider ways to maximize the return on the State's investment, or in fact to provide any revenue to the State.

Alternative Futures

CADA representatives can foresee a future without CADA -- or at least a CADA with significantly reduced responsibilities. At the same time, neither the State nor CADA has rigorously assessed the contemporary public interests in the Capitol Area, the State's role in advancing or protecting those interests -- and in the long run, CADA's role as an agent of the State. Among the considerations:

- ***State's assets***. The reason the State purchased land downtown was to provide for its own office needs. The State -- and later CADA on the State's behalf -- got into the housing business as an interim strategy for protecting those state assets. At this juncture, the State should seriously reconsider ownership of property that is not needed for a state purpose.

- ***Downtown housing goals***. While the State did not buy the land to get into the housing management or development business, CADA's efforts have provided value to Sacramento during an era of economic transition. As the CAP's numerical housing goals are

met, there needs to be a significant reason why any of CADA's market-rate housing units should remain in public ownership. If there is such a reason, CADA, the City and the State should consider all of the alternatives for how that public ownership should be structured.

- ***Low-income housing.*** The most obvious need for public involvement in a flourishing housing market is to provide for below-market rental housing. But the State and the City of Sacramento have numerous ways to advance this public interest. Rigorous analysis of the private, non-profit and public ownership and management options would help determine how this function can be best performed in the long run.

A Non-Profit Alternative

CADA could bolster its role as a leader in neighborhood revitalization by exploring other models.

For example, the City of Folsom's Redevelopment Agency recently entered into a public/private partnership with the Mercy Charities Foundation. The original purpose of the partnership was to renovate several apartment buildings on a one-block area in Folsom. This area of the city received the highest number of police calls monthly. The ten buildings were owned by seven different owners, none of whom lived in the area.

The partnership eventually purchased all of the buildings, re-wrote all the leases and cleaned up the area. Police calls to the area have declined. The Mercy Charities Foundation has also begun implementing programs to assist residents move out of low-income housing and become employed. Folsom is exploring the possibility of undertaking another redevelopment project in another problem area of the city.

In the course of this review, CADA may be found to be the most competent agency for some or all of the public functions that will be needed over the long-term.

Necessarily, the size of the agency, its management structure, its sources of revenues, and the ownership of the land it manages will all need to be reviewed in light of the long-term public interests at stake.

Alternatively, the review may determine that as the State's ownership of housing is reduced, CADA's redevelopment-type functions might be better pursued by the City of Sacramento or the Sacramento Housing and Redevelopment Agency.

It is also possible that another organizational structure, such as a non-profit corporation, would be better suited to own and manage low-income housing units.

Summary

While the State and CADA have advanced their plans for developing office space, housing and neighborhood retail projects, little planning is underway to define the long-term role for CADA. CADA's efforts to reform its business practices have spawned internal planning, but those efforts have stressed preservation of the organization over maximizing the State's return on its investment. A rigorous assessment

of the long-term public interests would help to determine what if any role CADA should play in the future of the Capitol Area.

Recommendation 1: The Secretary of the State and Consumer Services Agency should immediately conduct a sunset review of CADA and report the conclusions of that review to the Governor and the Legislature.

- *The first step in this process should involve a review of CADA's lease agreement with the Department of General Services, the Joint Powers Authority Agreement between the State and the City of Sacramento, and Government Code for obsolete requirements and conflicting mandates.*

- *The second step should be to assess which, if any, of CADA's properties should be maintained in public ownership. Properties that are not needed for public use should be sold by CADA or placed on the Department of General Services' surplus property list, with proceeds returned to the state General Fund.*

- *The third step should be to explore alternatives for how to manage the remaining publicly owned property. One alternative should include selling the property to the City of Sacramento or other local government agencies. Another alternative should consider having a non-profit organization or a scaled-down version of CADA manage the property with revenues returned to the State.*

- *Finally, as part of the sunset review, the Secretary should assess the potential benefits and consequences of immediately transferring CADA's reserves to the State General Fund.*

Development Alternatives

Finding 2: Despite improved planning, the Capitol Area Development Authority does not adequately explore alternatives for implementing the goals of the Capitol Area Plan (CAP), reducing the State's opportunity to maximize its return on its investment.

CADA is charged with expanding housing and support retail property in the Capitol Area. As the implementing agency for the CAP's housing objective, CADA navigates rough waters. CADA is one of many agencies with an interest in the future of downtown Sacramento, and the planning environment is complex. The City of Sacramento's interest in a mixed-use downtown area often conflicts with the State's mandate to effectively consolidate state offices to house workers.

Local residents advocate for more housing and perceive CADA's efforts to balance competing interests to be more inclusive than the State's. But from a development perspective, CADA's process limits the scope and size of projects -- and potentially the developers who might compete and the revenue that might be generated.

How CADA Develops State Property

CADA has been responsible for stimulating housing development in the Capitol Area since its creation in 1978. To date, 470 new units of housing have been developed on CADA-managed property. In keeping with its requirement to provide low-income housing, 25 percent of CADA's total units are low income.

CADA plans to accelerate its role in developing more housing in the coming years. Plans call for 725 new units of housing to be developed in the next 10 years, bringing the area's total units to 1,610.[24]

CADA officials maintain that in the past broader economic forces have made it difficult to develop housing as envisioned by the Capitol Area Plan. A sluggish housing market plagued California through the early 1990s and has been felt more acutely in Sacramento where land is abundant and housing is relatively cheap. Within the city limits, residential housing grew only 4 percent or 6,500 units between 1990 and 1995, compared to suburban portions of the county, which saw nearly 40,000 units built during this time.[25]

Legal limitations have also complicated CADA's ability to develop new housing. Until 1997, CADA's only vehicle for new development was to offer land leases to potential developers and homeowners. This mechanism restricted CADA's development options and was considered to stifle interest by both individuals and developers in CADA properties. This barrier to development was removed with the passage of AB 666 (Ortiz), which provides more flexibility in carrying out the CAP's housing directives by allowing the State to sell property to CADA that is not needed for office construction.

Another complication was that the State was unsure of its needs for this land that it owned. Future plans were dependent on the State, which the DGS director characterized as "an 800 pound gorilla that hadn't made up its mind yet."[26] Once DGS' planning commenced and future office needs were established, the balance of the land in the Capitol area could be considered for other uses.

CADA has benefitted from this planning, and now has several documents that guide its development projects. A detailed master plan was prepared for housing and commercial use to complement a master plan developed by DGS for office and parking construction. In addition, CADA has published a Capitol Park Neighborhood Design Plan, which serves as a conceptual guide for density and architectural designs.[27]

The process used to identify and develop CADA properties follows a fairly set pattern. First, CADA staff identify an appropriate parcel to develop. Several factors contribute to development decisions, including current market conditions, the size and location of the parcel, and other development projects underway in the area.[28] For example, the East End Office Complex project is stimulating interest in ownership housing

opportunities due to the anticipated influx of 6,000 state workers into the area. Other recent housing developments in the midtown area have been successful, and CADA hopes to capitalize on this trend.[29] Input and guidance from the development community may also figure into this decision. For CADA's Fremont Apartment and Capitol Townhomes projects, a local ULI chapter assisted in the site selection process.[30]

Next, the CADA staff develops a proposal for the selected site. For example, the most recent Requests for Proposals (RFP) for two family-oriented housing projects required that prospective developers submit proposals that broadly describe the number of units within a specified range, how parking needs would be addressed, and the treatment of the public streetscape and other amenities needed for family housing.[31]

The proposal is then presented to the CADA Board of Directors for approval. Once approved, an RFP is prepared and released. Developers respond to the RFP and proposals are reviewed by a panel that includes staff from the City, State and CADA. A developer or the top two or three choices are selected and again must get board approval. The board gives final approval and awards an "exclusive right to negotiate" with a selected developer.

During this negotiation period, several events must occur. The developer and CADA negotiate either a lease agreement or sale of the land. CADA prepares any necessary environmental review documentation and obtains input from the Capitol Area Committee and Technical Advisory Committee. Additional approvals must be sought from the City of Sacramento's Planning Commission and Design Review and Preservation Board. CADA also proceeds with obtaining approval for the lease or sale of the property from the Department of General Services.

The Department of General Services has the ultimate authority to approve CADA's development projects, by signing a lease agreement or approving the sale of property. Additionally, any CADA property proposed for sale requires an appraisal of its fair economic value and a 30-day written notification from DGS to the legislative member whose district is impacted by the sale of the property.

The net revenue from the sale of CADA property is deposited into the state General Fund. Revenue from leasing CADA property is returned to CADA and used for operating expenses as well as to leverage development and renovation projects.

The CAP: Flexibility Provides Opportunity

There is ample opportunity for the Capitol Area to become the vital urban center that the City and State have long sought. But embracing this vision will require a shift in how the CAP's broad goals are interpreted, and a desire on the part of CADA and DGS to use the

Capitol Area Plan's flexibility to pursue a greater range of alternatives for development.

The CAP provides a general direction for developing office space, housing, transportation and parking. The plan contains a flexible framework to accommodate changing conditions and shifting priorities for all agencies involved in implementing its vision and goals.

However, the CAP provides no specific direction for how its objectives are to be carried out and does not specify that the State should seek to maximize its investment. Thus, implementing the housing objective of the CAP has been left to CADA's discretion.

Left with this responsibility, CADA has tried to balance the goals of the CAP, along with what it views as market realities and public sentiment. In doing so, CADA has adopted a very measured approach for developing housing. Specifically:

- ***Small projects.*** CADA develops projects on small parcels of property, typically quarter-block or half-block parcels. CADA identifies several projects that will be developed over the next five years, including the Fremont Apartments on 0.9 acres and the Capitol Park townhomes on 3.5 acres. Future projects will be a renovation of the CADA warehouse resulting in 100 units of loft housing, 10 units of housing on a site at 17th and N streets, and 25 units of housing at 14th and O streets.

- ***Restrictive Design Parameters.*** CADA's projects are based on fairly specific design plans, including the one CADA developed for the Capitol Park Neighborhood. CADA's recent RFP for family housing required that responding proposals contain provisions consistent with this plan.[32]

- ***Limited Evaluation Criteria.*** Proposal reviews do not include criteria that consider maximizing the State's return on investment.

A Few Development Alternatives

Events in recent years have increased CADA's options. The market for housing near downtown is increasing, the State's own plans are more definitive, the Legislature has given CADA more authority, and CADA itself has improved its management, as further detailed in Finding 2. CADA's RFP-based development process, however, remains narrowly defined.

Alternatively, CADA could use the CAP's flexibility to expand the way it approaches its development projects. Among the options:

- ***Grouping larger parcels.*** Instead of restricting proposals to small parcels, CADA could assess developer interest in grouping a

larger set of parcels. This option exists in the three contiguous blocks west of P Street.

- ***Broader portfolio of property.*** Another option that CADA could pursue would be to assemble a broader portfolio of property, such as putting all the undeveloped parcels out to bid. Doing so could potentially attract a more diverse group of developers, or stimulate new ideas for neighborhood character.

- ***Grouping existing property with undeveloped parcels.*** CADA could also try grouping existing residential property slated for renovation or demolition with undeveloped parcels.

- ***Developer input.*** CADA should consider soliciting input from the private development community in developing these properties. For example, the City of Sacramento has been in discussions with a Dallas-based real estate company that specializes in infill projects in cities.

- ***Housing into office development.*** DGS has not included housing within its current office construction projects. However, community input to the East End Office Complex Project has revealed that neighborhood representatives are in favor of the project in concept, but would prefer to see housing development integrated into large office construction projects rather than restricting them to a single use.

Summary

Although CADA's process is fairly standard, another process might yield more housing and a greater return on the State's investment. DGS staff claim a more open-minded approach failed in the past, yet housing markets change. It also may be that CADA's RFP process is too restrictive to fully test market readiness for these downtown properties, and perhaps provide a greater return on the State's investment.

Recommendation 2: The Governor and Legislature should enact legislation directing CADA to explore a broader array of alternatives for accomplishing the housing goals and objectives of the Capitol Area Plan while maximizing the State's return on its investment. Specifically:

- *The legislation should require that a development plan be prepared that defines a broader array of alternatives for developing CADA property as a whole, blocks of CADA property, and individual parcels. This plan should identify the policy and fiscal impact of alternatives on the State, CADA, the City of Sacramento and the Sacramento Housing and Redevelopment*

Authority (SHRA), and provide a timeline for implementation. The plan should incorporate data developed in Recommendation 2.

- *The development plan should be consistent with the land use plans and mixed-use principles outlined in the 1997 Capitol Area Plan.*

- *The plan should assess the feasibility of selling all or portions of the property directly to the private sector for development in accordance with the Capitol Area Plan and local zoning.*

- *The plan should assess the revenue generated from each proposed alternative and provide for the revenue to be returned to the State General Fund.*

- *Finally, the legislation should direct the Department of General Services to more aggressively pursue ways of integrating the CAP's mixed-use principles into proposed office development projects.*

Effective Management

Finding 3: The Capitol Area Development Authority (CADA) cannot effectively manage the property in its care, partially because it lacks the information necessary to maximize the State's investment in this property.

For much of its history, CADA has focussed on maintaining the state-owned housing in its care. Only recently has CADA implemented some information systems to collect the information it needs to effectively manage properties as a public investment. CADA reports the information it collects to the City and the State. But because the information is incomplete, neither CADA nor the State can determine if the State's investment is being maximized.

How CADA Manages State Property

The ultimate responsibility for how state property in the Capitol Area is used and developed lies with the Department of General Services (DGS). When the Capitol Area Plan was updated in 1977 to include housing development and other mixed uses, DGS recognized that it was not the best organization for the job. CADA took over this function and remains the entity responsible for implementing the housing and commercial components of the CAP.

The CAP's housing objective is "to foster housing within the Capitol Area meeting a wide range of income levels and restoring the area to a

population consistent with its urban surroundings."[33] CADA's primary function has been to manage the State's diverse portfolio of property in the Capitol Area that is not being used by a state agency. A secondary focus has been to develop new housing on state-owned property that is not needed for future office buildings, as outlined in Finding 1.

Understandably, CADA has given the highest priority to repairing and maintaining existing structures to encourage optimum occupancy levels. To CADA, effective management has meant collecting rents, responding to maintenance calls, and when necessary, renovating old buildings. The fact that the majority of CADA's resources come from its property management activities reflects how important this line of business is to the entire organization.

Organizationally, CADA consists of four major divisions that direct CADA's day-to-day business functions: administration, property management, asset management and development duties. CADA's annual budget is about $4.7 million and is derived primarily from property rents and some tax increment funds. CADA funds go to staffing and to maintain and renovate existing structures. Because of the age and diversity of CADA's buildings, CADA properties have unusual maintenance needs. CADA maintains a warehouse for parts and materials that are difficult to find. CADA staff and private contractors perform maintenance and repairs to the apartment buildings.

Within the past two years, CADA has developed more sophisticated ways of managing its property by implementing some data collection systems. A data system now collects rental information by tenant and building. Vacancy rates also are collected monthly and an annual appraisal comparing rates is conducted. Another information system tracks maintenance requests, also by building and tenant. Indirect costs related to property management expenses are grouped together.

CADA also has recently recognized the benefit that planning can bring to a property management organization. In 1997, CADA undertook its first strategic planning process, which resulted in three documents describing CADA's five-year plan: a two-part strategic plan and a business plan that is updated annually. The CADA board adopted the strategic plan in 1997.

The strategic plan is being used by CADA staff to identify future budget constraints and opportunities to expand into new areas of business. The business plan is used by CADA staff as a day-to-day management tool and to establish immediate priorities. The strategic plan also forms the basis of CADA's reporting system, a biannual report to the CADA board, the City of Sacramento, and the State.

CADA, through DGS, has several reporting requirements. Specifically, statute requires that DGS report annually to the Joint Legislative Budget Committee and to each Assembly member on the following:

- A list of residential and commercial leases granted by the state to other entities;
- Type of sales or building construction initiated or completed by the State in the Capitol Area;
- CADA's transactions and operations since the previous report, and DGS's appraisal as to the extent that CADA projects conform to the Capitol Area Plan.[34]

These reporting provisions, however, were suspended in 1996. AB 116 (Speier) was intended to provide "report relief" to state and local agencies that lacked resources to prepare the multitude of reports required by the Legislature. This bill provides for only certain specified reports be prepared by the State or local agencies until 1999.

Additionally, the JPA agreement requires that a written report of all of CADA's financial activities be provided to both the City and the State within 120 days after the end of each fiscal year.[35] A separate provision in the JPA calls for an annual audit. These requirements were not suspended by AB 116.

And finally, CADA voluntarily reports its activities twice a year to both DGS and the City. These reports include one page summaries of the activities of the CADA board, and CADA's key priorities and timelines, by division, that are tied to elements of CADA's strategic plan. This report also includes a one-page summary of CADA's budget.

CADA's fiscal picture is complicated by its role in providing low-income housing. CADA subsidizes these units with revenue from its market-rate rentals and with tax increment funding from downtown developments. CADA also has several projects that were developed using local and state redevelopment funds in order to provide below-market housing. The revenue and expenditures associated with these projects are managed separately from the rest of CADA's budget.

A Narrow View of Property Management

As the proxy property manager for the State, CADA has stabilized the area and done a better job collecting rents, making repairs, and creating new housing than DGS. While these were important short-term strategies, by themselves they constitute a narrow definition of "management."

As CADA moves beyond its traditional role as caretaker of the State's property, it needs to develop the data that will allow it to make fiscally disciplined decisions.

Until two years ago, data collection systems on rental income or maintenance expenses for CADA properties were non-existent. Regular financial audits were also not available. CADA has made some progress

in providing oversight to the State's property. Some information systems have been implemented where previously none existed. However, all the information integral to a property management and development business is not being collected. There are four missing elements:

- ***Original investment data.*** CADA does not calculate how much the public has invested in the property that it oversees. An original purchase price of $20 million has been anecdotally stated as the purchase price for the original portfolio of property. The investment in individual parcels, however, is not known and an on-going calculation of the public's investment is not kept.

- ***Comprehensive, by-parcel data.*** Although fiscal information is collected for rents and leases and maintenance costs are tracked, other contributing expenses such as specific accounting and legal fees associated with particular parcels are not calculated on a by-building or by-parcel basis. Given the newness of both systems, long-term maintenance costs and rental histories are not available.

- ***Life-cycle data.*** Rigorous analysis of life-cycle costs is important because many of CADA's buildings are old. CADA estimates that half of its property holdings are nearing the end of their economic life. CADA's 1998-99 budget includes $370,946 for repairs and renovations needed to keep some of these units habitable. Decisions about whether these buildings are renovated or torn down will need to be made in the near future. Current documents contain only cost estimates of needed repairs and the address of the property identified in need of work. A true picture of what it costs to manage and maintain these properties is not available, such as the age of the building, its anticipated life, and the possibilities for redevelopment.[36]

- ***Social costs.*** CADA provides low-income housing and a number of other social and public benefits. While some of those costs are identified, many of them are not openly accounted for, making it difficult to determine the true costs of those benefits.

Calculating a Rate of Return

Collecting the above data would allow CADA to develop an important management tool: a rate of return calculation. This rate of return could be calculated on an ongoing basis and by individual parcel.

A rate of return calculation provides asset managers with a basis for making short-term and long-term decisions. It is particularly useful in determining whether to renovate an old building, or to tear it down and build another in its place.

Furthermore, calculating a rate of return would allow CADA and DGS to determine if the State is maximizing its investment in this property or if the property could be put to better use.

This information is particularly important because CADA must balance the needs of a wide range of constituents and interests. CADA must be responsive to its mandates from the City and State as well as attempt to fulfill broader public needs through the CAP's housing goals. Being accountable to the public is essential. Weighing the public worth of the State Capitol and its surroundings may be difficult to ascertain. An attempt to define this value in the absence of historical data may involve extrapolation from current figures and some financial archaeology.

Historically, CADA has not been commissioned specifically with maximizing the State's return on investment. This is understandable because of the temporary nature of its original mission. In the long-term, however, the State should pursue social goods with fiscal discipline. Calculating a rate of return and striving to maximize the State's investment are not inconsistent with the goals already contained in the Capitol Area Plan.

Additionally, a comprehensive information base would inform CADA's day-to-day decision making. Effective property managers also understand that building maintenance is best managed proactively. To do this, information must also be collected on the age of the building, annual operating costs and maintenance expenses. Cost savings can often be achieved if maintenance needs are tracked and scheduled. If a building costs more to operate than it is worth, demolition and rebuilding should be considered.

Finally, CADA should provide the data it collects in an annual rather than biannual reporting document that is distributed to the City, Department of General Services, and most importantly, to the Legislature. Data focused on the return on the State's investment will allow all parties to better gauge CADA's performance.

The absence of these critical and fundamental pieces of information compromises the ability to make sound decisions about the property CADA manages. The presence of such information would assist the State in their oversight function, the City in local planning efforts,

Highest and Best Use

While CADA should be focused on maximizing the return on the State's investment, parcel-based assessments also could identify non-monetary public values.

For example, CADA plans residential development on the property that contains the Ron Mandella Community Gardens, a rare urban space where neighbors cultivate flowers and vegetables – neighbors who were extremely defensive of the public space when a parking lot was proposed for the property several years ago.

The best use of this state land may be the current use. But if that is the case, a by-parcel reporting process would identify the proper state or local parks agency that would be best equipped to manage the property in the long term.

and the public in gaining a deeper understanding of the value of these assets of which CADA is trustee.

Summary

In recent years, CADA has made efforts to meet its mandates in a more business-like manner. CADA has recognized that data drives good business and government operations, and has begun to implement some needed systems. CADA, however, lacks the comprehensive information needed to manage its business. The standard used in the private sector to measure success or failure in property management is rate of return. Included in this rate is several standard pieces of information: the property's original purchase price, improvements that have been made, and current value and revenues.

Recommendation 3: CADA should develop an assessment of the State's return on its investment on a parcel-by-parcel basis. The assessment should be reported annually to the Legislature, the Department of General Services, and the City of Sacramento. Specifically:

- *As a first step, CADA should develop baseline information about its properties. Minimally, this baseline should include a by-parcel assessment with original purchase price, a description of the current improvements, existing zoning requirements, current revenue stream, and projected lifecycle for each building that CADA manages.*

- *On an annual basis, CADA should update by-parcel assessments. Additionally, CADA should calculate a rate of return on each parcel, a summary of maintenance costs and projected expenses and proposals for intended use and a timeline for implementation. The information should be reported on an annual basis as part of a consolidated financial statement to the Legislature, the Department of General Services, and the City of Sacramento.*

- *Additionally, CADA should identify long-term preventive maintenance needs for each of its buildings and include provisions for making those capital improvements.*

Conclusion

When CADA recently celebrated its 20th anniversary, those present could remember a time when the neighborhood around the Capitol seemed destined for decline like many other cities. CADA was created to arrest the decline, and for that purpose, has achieved its mission. Now CADA has more opportunity and greater flexibility to implement its housing mandates than ever before.

In this area, CADA has not yet reached its potential. CADA's future development decisions can only be strengthened by first considering a broader range of options and secondly, by employing stricter fiscal measures -- including a return on the State's investment -- by which these decisions are made.

CADA also has recently been characterized by national experts as a "unique experiment," and one which CADA representatives claim to be successful. But unlike other experiments, CADA does not have credible information by which to support that claim.

Like all good experiments, CADA could more confidently claim triumph by collecting data that could be objectively evaluated. After conducting its review of CADA, the Little Hoover Commission believes that calculating a rate-or-return on each parcel of property and updating it annually could provide CADA and others with a measure by which to judge success.

Both CADA's 20th anniversary and the Commission's review of CADA provide an opportunity to look to the future. The Capitol Area will soon contain several more office buildings. Apartments and townhomes are also in the design phase. By creating CADA twenty years ago, the State sought a unique solution to a complex problem. In the coming years, the State should be just as innovative in seeking ways to meet public needs while still protecting the State's investment and interest in the Capitol Area.

Appendices

APPENDIX A

CADA Balance Sheet for 1997

The following information is excerpted from CADA's *Annual Financial Report FY 1996-97*, page 4. This report is an independent auditor's report conducted by Macias, Gini & Company of Sacramento CA and was submitted to CADA's Executive Director on November 7, 1997.

CAPITOL AREA DEVELOPMENT AUTHORITY
BALANCE SHEETS
JUNE 30, 1997 and 1996

Assets	1997	1996
Cash and cash equivalents	$2,362,629	$2,287,882
Restricted cash and cash equivalents	554,990	948,049
Total cash and cash equivalents	2,917,619	3,235,931
Accounts receivable	6,335	13,716
Interest receivable	42,000	46,000
Due from other governments	--	201,792
Prepaid expenses	18,130	20,469
Deferred charge-revenue bond issuance cost, less accumulated amortization of $41,285 in 1997 and $29,418 in 1996	201,291	213,158
Property, plant and equipment, net of accumulated depreciation of $4,177,682 in 1997 and $3,638,832 in 1996	7,498,700	7,387,899
Total assets	$10,684,075	$11,118,965
	=========	=========
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 123,692	$ 185,916
Due to state – HCD	44,778	68,680
Wages and benefits payable	120,437	106,579
Accrued interest payable	47,878	48,941
Security deposits	235,307	219,094
Developers deposits	23,611	16,950
Deferred revenue	4,953	201,792
Notes payable	2,585,849	2,648,354
Bonds payable	2,720,000	2,825,000
Total liabilities	5,906,505	6,321,306

	1997	1996
Equity:		
Contributed capital:		
Capital grants, less accumulated depreciation of $1,052,878 in 1997 and $917,873 in 1996	$1,321,280	$1,402,087
Retained earnings		
Reserved	--	309,576
Unreserved	3,456,290	3,085,996
	3,456,290	3,395,572
Total equity	4,777,570	4,797,659
Total liabilities and equity	$10,684,075	$11,118,965

APPENDIX B
Witnesses Appearing at Little Hoover Commission CADA Public Hearing

August 27, 1998
Sacramento

Ronald L. Alvarado
Executive Director
Capitol Area Development Authority

John H. Hodgson II
Chairperson
CADA

Peter G. Stamison
Director
Department of General Services

Gary L. Stonehouse
Planning Director
Department of Planning and Development
City of Sacramento

John W. Dangberg
Director of Community Development
Sacramento Housing and Redevelopment Agency

Debra E. "Red" Banes
President, Fremont Park Neighborhood Association

Kay Knepprath
Past CADA Board Member and Past President of Sacramento Old City Association

APPENDIX C

Persons Interviewed for CADA Study

Ronald Alvarado
CADA

John Hodgson II
CADA Board

Peter Stamison
Department of General Services

Eugene Spindler
Department of General Services

Don Harris
CADA Board

Paige Robbins
CADA Board

Andy Plescia
CADA

Bill Edgar
City of Sacramento

Tom Lee
City of Sacramento

Beverly Fretz-Brown
Sacramento Housing and Redevelopment Agency

Hank Fisher
Hank Fisher Properties

Dale Kooyman
Neighborhood Association of Advisory Groups, Area 1

Debra E. "Red" Banes
Fremont Park Neighborhood Association

Kay Knepprath
Past CADA Board Member and Past President of Sacramento Old City Association

Tom Higgins
Assemblymember Deborah Ortiz's Office

Will Gonzalez
Assemblymember Deborah Ortiz's Office

Laura Loyacano
National Conference on State Legislatures

John Brooks
Department of General Services

Jim Derby
Department of General Services

Brent Smith
City of Folsom Redevelopment Agency

Jennifer Alpert
Mercy Charities Foundation

Sheila Bahtt
Mercy Charities Foundation

Ron Vrilakas
Vrilakas Architect Builders

Endnotes

ENDNOTES

1. Information submitted by CADA, September 1, 1998.

2. The Capitol Area Development Authority, *Capitol Area Master Planning Study, Residential and Commercial Development,* May 1996, p. 10.

3. Little Hoover Commission, *California's Real Property Management: A Cornerstone for Structural Reform,* December 1995.

4. Telephone conversation with Kay Knepprath, July 23, 1998.

5. Department of General Services, *Capitol Area Plan,* 1977, p. 43.

6. Department of General Services, *Capitol Area Plan,* 1997, p. 93.

7. Legislative Counsel of California, *State Surplus Property: Sale -- #16899,* March 31, 1995.

8. Urban Land Institute, *California State Capitol Area, Sacramento, California. An Evaluation of the State of California's Plans, Policies, and Processes for Procuring and Managing Office Space,* April 1995, p. 31.

9. Ibid, p. 9.

10. Personal interview with Bill Edgar, City Manager, City of Sacramento, July 27, 1998.

11. Interview with John Brooks and Jim Derby, Department of General Real Estate Services Division, Services Asset Planning and Enhancement Branch, July 28, 1998.

12. CADA Budget, 1998-99.

13. Ibid.

14. Information submitted by CADA, July 31, 1998.

15. CADA Chart, New Housing Developed Since 1978, Submitted by CADA, July 24, 1998.

16. Information submitted by CADA, September 1, 1998.

17. Information submitted by CADA, September 20, 1995.

18. Department of General Services, *1997 Capitol Area Plan Implementation Program,* July 1997, p. 5.

19. The Capitol Area Development Authority, *Capitol Area Master Planning Study, Residential and Commercial Development*, May 1996, p. 21.

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21. *CADA, CADA Staff Report Regarding the Department of General Services Proposed Sale of CADA Managed Properties*, May 15, 1995, p. 4.

22. CADA, *CADA Strategic Plan, Part I, Issues, Goals and Strategies for 1997-2001*, p. 7.

23. CADA, *FY 1998-99 Business Plan and Addenda Thereto*, April 1998, p. 8.

24. The Capitol Area Development Authority, *Capitol Area Master Planning Study, Residential and Commercial Development*, May 1996. Capitol Area Master Planning Study, Residential and Commercial, p.26.

25. Ibid, p. 27.

26. Peter Stamison, Oral Testimony, CADA Public Hearing, August 27, 1998.

27. Interview with John Brooks and Jim Derby, Department of General Services, July 28, 1998.

28. Interview with John Brooks and Jim Derby, Department of General Services, July 28, 1998.

29. The Sacramento Bee, *Midtown Housing Boosted*, September 16, 1998.

30. Interview with Andy Plescia, CADA, July 7, 1998.

31. Capitol Area Development Authority, *Capitol Park Neighborhood Request for Proposals, Multiple Family Housing.*

32. Capitol Area Development Authority, *Capitol Park Neighborhood Design Plan*, December 1996, p.8.

33. Department of General Services, *Capitol Area Plan, 1997*, p. 47.

34. Government Code Section § 8164.

35. Joint Exercise of Powers Agreement, July 1, 1978, page 13.

36. CADA, *CADA Proposed Major Construction Budget, draft*, September 1, 1998.

LITTLE HOOVER COMMISSION MEMBERS

CHAIRMAN RICHARD R. TERZIAN *(R-Los Angeles)* Originally appointed to the Commission by Governor George Deukmejian in May 1986. Reappointed by Governor Pete Wilson in March 1994 and in March 1998. Partner in the law firm of LeBoeuf, Lamb, Greene & MacRae. Chairman of the Commission since March 1994. Served as Vice-Chairman from 1992 to 1994.

VICE CHAIR MICHAEL E. ALPERT *(D-Coronado)* Originally appointed to the Little Hoover Commission by Assembly Speaker Willie L. Brown, Jr. in May 1994. Reappointed by the Senate Rules Committee in August 1997. Retired partner in the law firm of Gibson, Dunn & Crutcher. Former Chief Deputy Commissioner of the California Department of Corporations.

CARL COVITZ *(R-Los Angeles)* Appointed to the Little Hoover Commission by Governor Pete Wilson in October 1993. Reappointed in March 1996. Owner and President of Landmark Capital, Inc. Served as Secretary of the Business, Transportation and Housing Agency from 1991 to 1993 and Undersecretary for the U.S. Department of Housing and Urban Development from 1987 to 1989.

DANIEL W. HANCOCK *(D-Milpitas)* Appointed to the Commission by Assembly Speaker Cruz Bustamante in July 1997. President of Shapell Industries of Northern California since 1985.

ASSEMBLYMEMBER SALLY HAVICE *(D-Cerritos)* Appointed to the Little Hoover Commission by Assembly Speaker Antonio Villaraigosa on April 2, 1998. Elected to the State Assembly for the 56th District in November 1996. Chair of the Assembly International Trade & Development Committee and the Assembly Select Committee on School Safety.

GARY H. HUNT *(R-Corona del Mar)* Appointed to the Commission by Governor Pete Wilson in March 1998. Executive vice president of corporate affairs and administration for The Irvine Company.

GWEN MOORE *(D-Los Angeles)* First appointed as a legislative member to the Little Hoover Commission by Assembly Speaker Willie L. Brown, Jr. in October 1984. Appointed as a public member by Brown in May 1995. Founder and Chief Executive Officer of GeM Communications Group. Member of the California State Assembly from 1978 to 1994.

ANGIE PAPADAKIS *(R-Rancho Palos Verdes)* Originally appointed to the Little Hoover Commission by Governor George Deukmejian in August 1990. Reappointed by Governor Pete Wilson in March 1996. Former President of Papadakis Advertising. Serves on the California-Nevada Super Speed Train Commission

SENATOR JOHN VASCONCELLOS *(D-Santa Clara)* Appointed to the Little Hoover Commission by the Senate Rules Committee in February 1997. Elected to the State Senate in 1996. Chairs the Senate Public Safety Committee and the Select Committee on Economic Development.

SEAN WALSH *(R-Sacramento)* Appointed to the Little Hoover Commission by Governor Pete Wilson in January 1999. Former Deputy Chief of Staff and Press Secretary for Governor Wilson, 1995 to 1999. Also served as Assistant Press Secretary and Director of Press Office Operations for President George Bush from 1989 to 1993.

STANLEY R. ZAX *(I-Beverly Hills)* Appointed to the Little Hoover Commission by the Senate Rules Committee in March 1994. Reappointed in January 1998. Chairman and President of Zenith Insurance Company.

"Democracy itself is a process of change, and satisfaction and complacency are enemies of good government."

Governor Edmund G. "Pat" Brown,
addressing the inaugural meeting of the Little Hoover Commission,
April 24, 1962, Sacramento, California

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