



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

915 I Street. Sacramento. CA 95814-2671

Staff Report
June 24, 2008

Honorable Chair and Members of the Board:

Subject: 1012 K Street - Extend Exclusive Right to Negotiate Agreement (ERN) with 1012 K Street, LLC

Location/Council District: 1012-1022 K Street, south side of K Street east of 10th Street, Central Business District (District 1)

Recommendation: Adopt a Redevelopment Agency Resolution 1) authorizing the City Manager, acting on behalf of the Agency, to extend the term of the Exclusive Right to Negotiate Agreement with 1012 K Street, LLC for the Redevelopment Agency-owned properties at 1012-1022 K Street to December 24, 2008.

Contact: Beth Tincher, Senior Project Manager, 808-7730
Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Not applicable

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Description Analysis:

Issue: In 2006, the Agency authorized the City Manager or his designee to enter into an ERN with K Street Central (a partnership between David Taylor Interests and the CIM Group) for two separate projects as follows:

1000 K Street: Renovation of the existing building (formerly Woolworths) to accommodate a 200+ seat live theater performance space, a signature ground-floor restaurant with second-level lounge and patio space, additional second-floor office space, and on-site parking in the basement of the building.

1012-1022 K Street: Demolition of the former Rite Aid and Hit-or-Miss buildings to accommodate a new mixed-use condominium project, on-site parking, and

ground-floor lobby entrance and retail.

In January, 2007, the Agency approved a Disposition and Development Agreement for 1000 K Street and the project is underway. The project is expected to be complete in the fall, 2008.

The ERN for 1012-1022 K Street expired on December 15, 2006 and the Agency approved a new ERN with 1012 K Street, LLC on February 27, 2007. The milestones established under the new ERN included returning to the Agency to certify the Environmental Impact Report and to approve a Disposition and Development Agreement by January 9, 2008. Although the EIR work was completed, the business terms were been finalized therefore on January 8, 2008, the Agency extended the ERN to July 8, 2008.

On March 25, 2008, the Agency approved a Master Owner Participation Agreement (master agreement) in conjunction with the sale of the Sheraton Hotel. The 1012-1022 K Street project is one of several projects identified under the master agreement as potential future projects to be undertaken by the David Taylor/CIM Group. The agreement outlined milestones for performance and allowed David Taylor Interests to present projects within 150 days from the master agreement approval, which would allow the developer to submit proposals for any one of the identified sites by early November 2008. Since this project is included in the mix of sites that will be considered for development under the master agreement, staff is requesting approval to extend the Exclusive Right to Negotiate for the 1012-1022 K Street project site for a period of six months to coincide with the timeline outlined in the master agreement and allow time for the preparation of a Disposition and Development Agreement for this site.

Policy Considerations: The continued negotiations are envisioned to result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and Five-Year Strategy. Additionally, the proposed project is consistent with the development objectives outlined in the JKL Community Workshop process.

Environmental Considerations: In accordance with the California Environmental Quality Act (CEQA) Guidelines, Section 15031, Gail Ervin Consulting prepared an Initial Study for the project.

A Draft EIR (DEIR) was circulated on August 16, 2007 for a 45-day public review period (ending on October 1, 2007) and a Notice of Completion was filed with the State Clearinghouse. A Notice of Availability (NOA) was published in the Daily Recorder newspaper on August 16, 2007 and distributed to property owners within 1000 feet of the project. Copies of the Draft (and Final) EIR were available for review at the City of Sacramento Development Services Department, City of Sacramento, New City Hall, 915 I Street, 3rd Floor, Sacramento, California 95814, and at the North Permit Center, 2101 Arena Boulevard, 2nd Floor, Sacramento, California 95834. The DEIR identified significant impacts for noise and freeway traffic. Mitigation measures were identified to

reduce many project impacts to a less than significant impact. The significant and unavoidable environmental impacts included short-term construction noise, increased traffic volume on the I-5 freeway mainline, and increased traffic on I-5 freeway ramp interchanges. A Mitigation Monitoring Plan (MMP) that lists all of the mitigation measures was prepared. On January 8, 2008, the Agency certified that the Final EIR was adequate and complete.

The City of Sacramento will adopt Findings of Fact and the MMP prior to Disposition and Development Agreement approval and adoption of any entitlements related to the project.

Rationale for Recommendation: On January 8, 2008, the Agency reaffirmed the consideration of a project at 1012-1022 K Street and authorized the City Manager on behalf of the Agency to execute an extension to the Exclusive Right to Negotiate with 1012 K Street, LLC. While the environmental review process and project consideration have progressed, business term negotiations between the Agency and the developer continue. Staff recommends that the Agency extend the Exclusive Right to Negotiate for an additional six months to allow the parties to complete business term negotiations and present a Disposition and Development Agreement to the Agency.

Milestones under the extended ERN include:

| Extending ERN: Mixed Use Condominium Project | |
|--|---|
| 90 Days | <ul style="list-style-type: none"> • Refine estimated construction costs, including all applicable fees and contingencies • Refine development and operating pro formas • Negotiate the terms of appropriate redevelopment agreements • Prepare Schedule of Performances for the construction period. |
| 180 Days | <ul style="list-style-type: none"> • Recertify the CEQA document and adopt Mitigation Monitoring Plan • Obtain project approval from the Agency and execute the redevelopment agreements |

Financial Considerations: Extension of the Exclusive Right to Negotiate time period for the developer and Agency to allow for completion of a Disposition and Development Agreement will have no financial impact to the Agency.

M/WBE Considerations:

There are no M/WBE considerations contemplated with the requested action.

Respectfully submitted by: Leslie Fritzsche
Leslie Fritzsche
Downtown Development Manager

Approved by: David L. Spaur for DCS
David L. Spaur, CECD, EDFP
Director, Economic Development

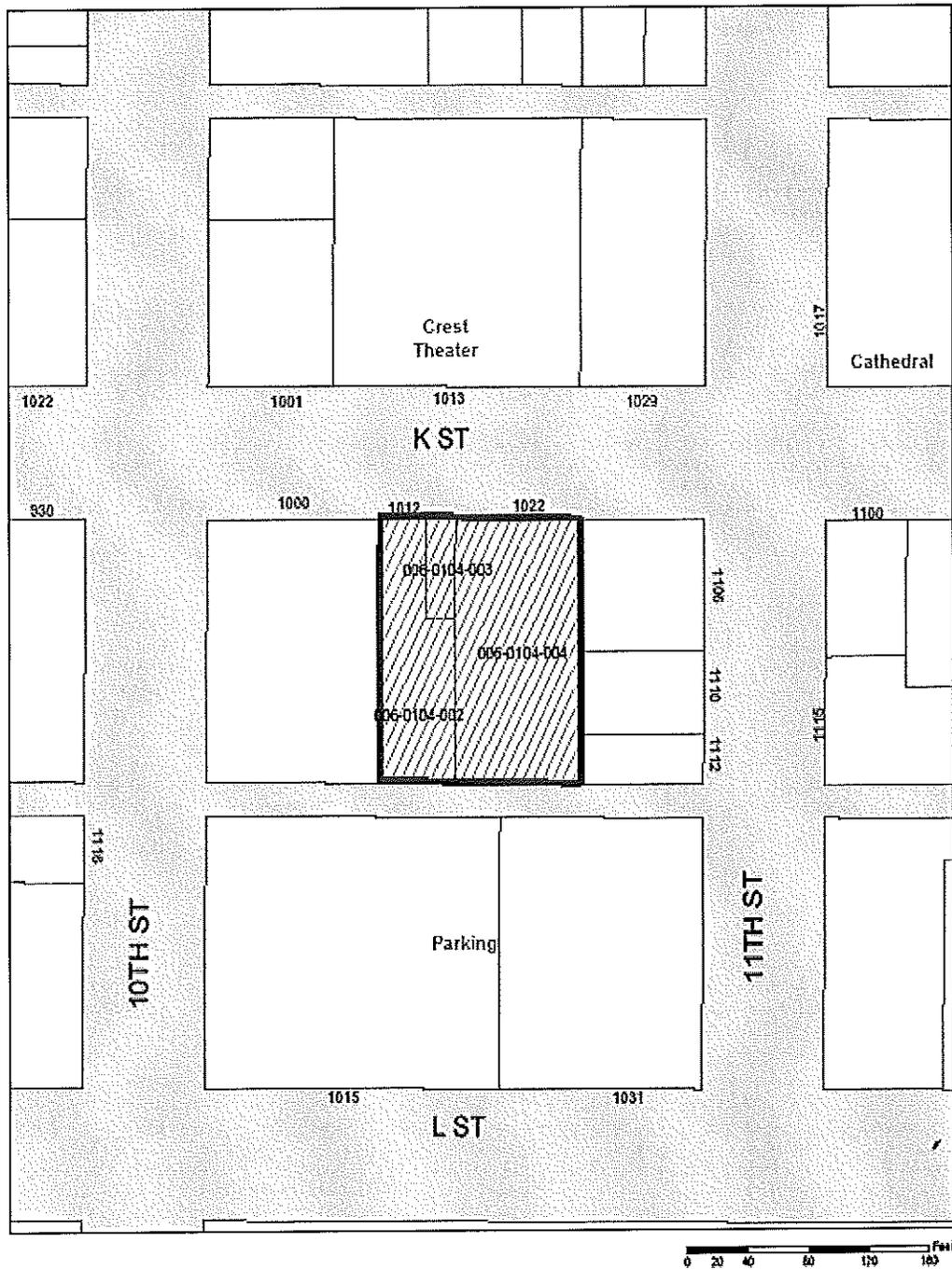
Recommendation Approved:

Cassandra H.B. Jerng
for Ray Kerridge
City Manager

Table of Contents:

| | | | |
|-------------|----|---|-------------------------------------|
| | Pg | 1 | Report |
| Attachments | | | |
| 1 | Pg | 5 | Location Map |
| 2 | Pg | 6 | Background |
| 3 | Pg | 7 | Current Project Concept Description |
| 4 | Pg | 8 | Redevelopment Agency Resolution |

Site Location Map 1012 - 1022 K Street



Attachment 2**Background**

In October 2004, the Economic Development Department, in conjunction with the Mayor's Office, hosted the "JKL Corridor Workshop" to receive community and stakeholder input on a new vision and strategic direction for the heart of downtown. The community recommended that strategic attention be given to the project, with a focus on destination-oriented uses that take advantage of being located in an emerging entertainment district. Desired uses included cultural, entertainment, commercial, and residential uses.

In February 2005, the Redevelopment Agency (Agency) issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for the Agency Site located at the southeast corner of 10th/K streets. On August 16, 2005, the City selected K Street Central development team and agreed to negotiate an Exclusive Right to Negotiate Agreement for all Agency owned sites from 1000-1022 K Street as well as other sites. On September 13, 2005, the Agency authorized an Exclusive Right to Negotiate (ERN) for a 240-day period with the K Street Central development team regarding the terms of an agreement for redevelopment of the Agency-owned properties (Agency Site) located at the southeast corner of 10th/K streets (1000-1022 K Street).

Since the site was vacated by its last tenants, the Agency reviewed a variety of development proposals for the site, including the completion of a performing arts analysis for the site.

In March, 2006, the performing art analysis was presented to the Agency and a determination was made that the 1000 K Street could support a 200± seat theatre.

In August, 2006, the Agency authorized the City Manager extend the ERN for 120 days for 1000 K Street for projects at 1000 K Street and a separate project for properties at 1012-1022 K Street. On October 31, staff brought the business terms for 1000 K Street the Agency for approval and the Development and Disposition Agreement followed on January 9, 2007. The staff report also requested that staff return with an Exclusive Right to Negotiate for 1012-1022 K Street since the previous ERN for these three properties expired on December 15, 2006.

A new ERN was adopted February 27, 2007. The ERN was extended on January 8, 2008 and is due to expire July 8, 2008.

Attachment 3

Current Project Concept Description: Mixed-Use Condominium Project

Assessors Parcel Numbers: 006-0104-002, 006, 006-0104-003, 006-0104-004

The proposed project is a 24-story high-rise residential tower, with mechanical penthouse and basement parking. The ground level along K Street includes space for retail that will serve the building occupants and the residential tower entry lobby. The building includes structure parking for the residential occupants including one level of subterranean parking and six levels of above-grade parking. There are 18 levels of residential units above the structure parking. The top of the tower is approximately 250 feet above grade. The mechanical penthouse is set back and takes the building to approximate 268 feet above grade. The podium of the building would be built to the property lines on the east and west sides.

The total project will be a maximum of 354,000 sq. ft., consisting of 158 residential unites, 3500 square feet of retail, approximately 232 parking spaces, and a 4200 square foot mechanical penthouse. Parking will not be provided for retail tenants or retail customers.

The buildings are mid-block on K Street, a pedestrian mall that extends from Downtown Plaza at 7th Street to the Convention Center at 13th Street. The proposed project includes the consideration of the demolition of these building to accommodate the new mixed-use condominium project.

RESOLUTION NO. 2008

Adopted by the Redevelopment Agency of the City of Sacramento

June 24, 2008

EXTEND THE EXCLUSIVE RIGHT TO NEGOTIATE WITH 1012 K STREET, LLC

BACKGROUND

- A. The Agency has assembled property located at the southeast corner of 10th and K streets (Agency Site) for redevelopment purposes.
- B. In February 2005, the Agency issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for the Agency Site.
- C. On April 30, 2005, one proposal was received from K Street Central, a development team consisting of David S. Taylor Interests, The CIM Group, St. Anton Partners, The Cordano Company and Paragary's Restaurant Group.
- D. A selection committee comprised of an Ad Hoc committee of the Agency Board reviewed the proposal and in August 2006, an Exclusive Right to Negotiate (ERN) was approved by the Agency. The ERN for 1012-1022 K Street expired on December 31, 2006.
- E. On February 27, 2007, the Agency approved an Exclusive Right to Negotiate with 1012 K Street, LLC, a partnership between David Taylor Interests and the CIM Group, for a proposed mixed-use condominium project on Agency-owned properties located at 1012-1022 K Street.
- F. On January 8, 2008, the term of the Agency Agreement for an Exclusive Right to Negotiate agreement was extended to July 8, 2008.
- G. Based on the initial study conducted for the 1012 K Street project, the Redevelopment Agency, based on substantial evidence that the project may have a significant effect on the environment, prepared an Environmental Impact Report (EIR) on the Project. The EIR was prepared, noticed, published, circulated, and reviewed and completed in full compliance with the California Environmental Quality Act (CEQA), (Public Resources Code Section 21000 *et seq.*), the CEQA Guidelines (14 California Code of Regulations Section 15000 *et seq.*), and the City of Sacramento environmental guidelines. On January 24, 2008, the Agency certified that the Final ER was adequate, accurate, objective and complete.

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

- Section 1. The City Manager or his designee, on behalf of the Agency, is authorized to extend the term of the Agency Agreement with 1012 K Street, LLC for the Exclusive Right to Negotiate for the development of properties on K Street from 1012-1022 K Street to December 24, 2008.

Section 2. Milestones for the extended ERN shall be completed in the following timeframe:

Within 90 days:

- Refine estimated construction costs, including all applicable fees and contingencies
- Refine development and operating pro formas
- Negotiate the terms of appropriate redevelopment agreements
- Prepare Schedule of Performances for the construction period.

Within 180 days:

- Recertify the CEQA document and adopt Mitigation Monitoring Plan
- Obtain project approval from the Agency and execute the redevelopment agreements