



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

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Staff Report
August 12, 2008

Honorable Chair and Members of the Board

Title: Agreement: 708 K and 1111/1113 -7th Street Acquisition and Predevelopment

Location/Council District: 708 K and 1111/1113 -7th Street, Central Business District (District 1)

Recommendation:

Adopt an **Agency Resolution** authorizing 1) the purchase of 708 K and 1111/1113 -7th Streets; 2) the City Manager, as the designated authority for the Redevelopment Agency, to execute a Predevelopment Agreement with Zeiden Properties; and 3) the allocation of \$2.1 million in Merged Downtown tax increment funds from the Downtown Property Acquisition Fund for the acquisition and related property carrying costs.

Contact: Leslie Fritzsche, Downtown Redevelopment Manager, 808-5450; Rachel Hazlewood, Senior Project Manager, 808-8645

Presenters: Rachel Hazlewood

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Description/Analysis

Issues: Redevelopment Agency staff is seeking the authority to acquire the real property located at 708 K Street and 1111/1113 -7th Street and pay for carrying and property-related costs totaling \$2,100,000 and to execute a new Predevelopment Agreement with Zeiden Properties for \$300,000 to pay for the development of construction plans for the 700 K Street block project and a kiosk in St. Rose of Lima Park. Background on the project and the various approvals associated with it are detailed in Attachment 1.

In June 2006 the Agency executed a Disposition and Development Agreement ("DDA") with Zeiden Properties ("Zeiden") for the redevelopment of the southside of K Street between 7th and 8th streets (see map, Attachment 2). The DDA

remains in full force and effect and Zeiden has expressed his intention to fulfill the commitment he entered into in the DDA. However, due to ongoing litigation the redevelopment project has been significantly delayed, resulting in Zeiden incurring much higher costs than originally anticipated. The property financing was arranged as a short-term loan which has had to be restructured at significant cost. Additionally, the buildings have been left vacant in anticipation of the project commencement while Zeiden has been responsible for ongoing costs such as property management, maintenance, interest, refinancing, accounting, and marketing for more than two years.

The negotiated acquisition cost of \$2,100,000 for 708 K Street and 1111/1113 - 7th Street is based on an Option Agreement with Zeiden, executed in April 2006 as part of the Land Exchange Agreement, which set a purchase price for the three properties at their appraised value at that time, \$1,525,000, and included a monthly allowance of \$6,380 for property taxes or insurance costs, which equates to \$204,160 based on an August 2008 closing. The proposed transaction also includes an allowance, not to exceed \$370,840, for the expenses listed above incurred by Zeiden. The property sales price is supported by appraisals completed in May 2008 for other 700 K Street properties.

The existing DDA with Zeiden will need to be amended to add the 708 K and 1111/1113 -7th Streets properties, account for the disposition of these three properties, and assess the impact of changes in the retail marketplace and increased construction costs. However, until the transfer of the balance of the 700 K Street block properties is certain, the DDA will remain in its current form.

In October 2006, the Agency entered into a Predevelopment Agreement with Zeiden Properties. This agreement authorized an advance from the funds already allocated to Zeiden Properties under the DDA to expedite the design development and permit processing of the project. The not-to-exceed amount of \$300,000 was to be paid on a reimbursement basis to Zeiden as design work progressed. Some initial design work was completed but progress was hampered by the inability to access the privately owned parcels on the 700 block. Approximately \$120,000 was drawn down to pay for initial design work for the 700 K block and the kiosk in St. Rose of Lima Park, but the agreement expired before the balance of the work was completed.

Staff proposes to enter into a new Predevelopment Agreement for \$300,000 to complete the design and construction plans included in the original scope of work for the 700 block and the kiosk in St. Rose of Lima Park.

Policy Considerations:

The recommended actions are consistent with site assembly policies, as described in the Merged Downtown Redevelopment Plan, in furtherance of the goals established through the JKL community process and the Downtown Sacramento Partnership's Strategic Plan, and the property transfer is consistent

with the existing DDA with Zeiden Properties. The actions outlined herein further the policy direction of focusing activities and efforts in key redevelopment nodes such as the 7th and K Street intersection.

Environmental Considerations:

The Agency has complied with CEQA in connection with the Merged Downtown Sacramento Redevelopment Plan, as it has been amended from time to time. A program Environmental Impact Report ("EIR") was certified in connection with the Redevelopment Plan consistent with California Environmental Quality Act ("CEQA") Guideline Section 15180. On February 3, 2005, a Final Environmental Impact Report was certified for the implementation of the most recent amendment, the Merged Downtown Sacramento Redevelopment Plan Amendment, which included activities associated with the adoption and approval of any redevelopment project implementation activities including acquisition, relocation and/or demolition of property,. Acquisition of the parcels for consolidation and redevelopment, and actions to encourage redevelopment in the Project Area were deemed approved at the time of adoption of the Redevelopment Plan and no further environmental documents are required relative to the acquisition of said properties. Alternatively additional exemptions also apply CEQA Guidelines Section 15004(b)(2)(A) allows for land acquisition conditioned on future CEQA compliance. NEPA does not apply.

Rationale for Recommendation:

The recommended actions in this report are necessary to further the land assembly and redevelopment goals for the 700 K Street block and the revitalization of St. Rose of Lima Park. The acquisition of property on this block furthers the Agency's efforts to stimulate reinvestment and enhanced retail vibrancy and activity on this critical entry to the K Street Mall corridor. The development of refined plans and construction documents will place the developer and Agency in a strong position to move forward aggressively with the redevelopment as soon as full site control can be obtained.

Moving forward with the park structure will assist the overall transformation of the 7th and K intersection. 2009 will witness the completion of the St. Rose of Lima Park improvements with a new water feature, pavement and landscaping; a new streetscape on K Street, the relocation of the light rail station from K to 7th, and the initiation of the Downtown Plaza remodel which will introduce a new dining terrace overlooking K Street.

Financial Considerations:

The source of funds for the purchase of 708 K Street and 1111/1113 -7th Street, carrying costs and the predevelopment agreement is Merged Downtown tax increment funds previously allocated into a Downtown Property Acquisition fund. Currently the balance in this fund is \$10,500,000 leaving a balance after this transaction, if approved, of \$8,400,000. The Predevelopment Agreement allocation will be credited against the \$4 million financial assistance allowance approved in the DDA on June 13, 2006.

M/WBE Considerations:

Minority and Women’s Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully Submitted by: *Rachel Hazlewood*
Rachel Hazlewood
Senior Project Manager
on behalf of the Redevelopment Agency
of the City of Sacramento

Approved by: *Leslie Fritzsche*
Leslie Fritzsche
Downtown Development Manager

Recommendation Approved:

Ray *Ray Kerridge*
Ray Kerridge
City Manager

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Attachment 1**Background****History - 700 block of K Street**

The 700 and 800 blocks of K Street are identified in the Second Amendment to the Merged Downtown Sacramento Redevelopment Plan as having continuing blighting conditions characterized by vacant and deteriorating buildings, uneconomic land uses, and small and irregularly sized lots not suitable for modern use. The properties on the 700 and 800 blocks facing K Street are among the most blighted properties in the Downtown area, and were plagued by years of vacancies, lack of general maintenance and structural failures resulting from neglect.

In October 2004, the JKL Corridor Charrette brought together more than 250 community members to discuss the future of Downtown Sacramento, specifically, the area between J and L Street and 7th and 12th streets. Community members participated in crafting an overall vision for the area with specific development objectives for key catalyst sites, including the 700 and 800 blocks of K Street. The development objective for the 700 block was to focus on significant, regionally unique destination retail that takes advantage of the location adjacent to Downtown Plaza and maintains the historic scale and nature of the K Street storefronts. The development objective for the 800 block was to focus on significant ground-floor retail, housing, and civic or commercial uses.

In January 2005, the Redevelopment Agency (Agency) approved the issuance of a Request for Proposal (RFP) to property owners of the properties on the 700 block of K Street, as well as portions of the 800 block of K Street. Two proposals for each block were received from two development teams.

On August 16, 2005, the Agency adopted a Resolution concluding the RFP process and selecting Zeiden for the redevelopment of the 700 Block and Saca Development, LLC, M.H. Mohanna and Urban Innovation Partners, LLC ("Saca") on a portion of the 800 block.

On October 16, 2005, the Agency approved the execution of an Exclusive Right to Negotiate agreement (ERN) with Zeiden and Saca to further refine the development concepts for the 700 and 800 blocks of K Street. The purpose of the ERN was to serve as an interim agreement between the parties to lead to a refined "land swap" concept by which land currently owned by M.H. Mohanna and/or related parties on the 700 block would be exchanged for similar square footage on the 800 block to allow for the two development projects to proceed.

On January 17, 2006, the Agency authorized staff to begin negotiations to purchase eight parcels within the 700 and 800 blocks of K Street to further the implementation of both projects. On January 31, 2006, the Agency approved a budget of \$20 million for acquisition, relocation and other costs related to the acquisitions.

On April 18, 2006, the Agency approved the execution of five separate, but interrelated, agreements to complete the assembly and transfer of the properties within the two blocks as well as establishing the parameters for individual project negotiations.

The Exclusive Negotiation Agreement with Zeiden and Exclusive Negotiation Agreement with the Saca Team contained specific milestones for the development teams and the Agency to perform to further refine the development concepts and to be in a position to return to the Agency with two separate DDAs – one with the Zeiden Team and one with the Saca Team. The milestones were the same for each team but varied in time deadlines due to the varied complexity of the two proposals. The Zeiden proposal maintained the current structures, some of which are historic, with required structural alterations, improvements, modernization or rehabilitation, and/or site modifications as applicable. The Saca project was envisioned to be a project involving demolition resulting in a large mixed-use development, the latter requiring the completion of a full environmental impact report.

On June 13, 2006, the Agency approved a Disposition and Development Agreement with Zeiden to provide property and funding for the rehabilitation of properties located on the south side of the 700 block of K Street, 731 K Street and the kiosk in St. Rose of Lima Park into a retail district.

In July 2006, the Agency provided notice of its intent to exercise the option granted by the Land Exchange Agreement which was approved in April 2006. After receiving notice of the Agency's exercise of the option, Saca Team members initiated efforts to remove encumbrances from the 700 block properties, as agreed in the terms and conditions of the Land Exchange Agreement, in preparation of their transfer to the Agency. From about July 2006 to October 2006, the Saca Team and its members represented to the Agency that they were pursuing the transfers anticipated by the Land Exchange Agreement.

On August 1, 2006, the Agency approved the purchase of 4/9th interest in property located at 816 K Street. The Agency acquired a part interest (44%) in 816 K Street in October 2006. Mr. Mohanna retained 56% ownership in 816 K.

In October 2006, the Agency entered into a Predevelopment Agreement with Zeiden Properties to allow for refinement of the design and to prepare for permit processing for the redevelopment of the 700 Block of K Street.

On November 26, 2006, a fire occurred at 810 K Street (owned by M.H. Mohanna) and consumed the building at that location. After the fire, the City's Dangerous Building Unit conducted an investigation of 810 K and the adjacent building, 812 K. Because of shared walls and support systems among the 800 K block properties, the structural integrity of the 812 K building was compromised. Both buildings were determined to be hazardous and the Dangerous Building Unit initiated demolition action. Buildings located on adjacent parcels at 802 and 804 K Street had been demolished several years earlier as they were considered structurally unstable.

On February 13, 2007 the Agency filed a Specific Performance and Breach of Contract lawsuit to compel transfer of the properties which were the subject of the Land Exchange Agreement.

In December 2007, the Agency approved a Resolution of Necessity authorizing the filing of eminent domain proceedings for nine privately owned parcels on the 700 and 800 blocks of K Street under ownership of Mr. Mohanna or team members.

Acquisition of 708 K Street and 1111/1113 -7th Street

The Agency's existing Disposition and Development Agreement with Zeiden Properties for the redevelopment of the southside of K Street between 7th and 8th streets was executed in June 2006 in anticipation that the project would be underway by the end of 2006 when the land exchange was to be completed between the property owners on the 700 and 800 blocks of K Street and the Agency. This land exchange, formalized in a Land Exchange Agreement executed by all parties, was never completed and is now the subject of a lawsuit between the Agency and the M.H. Mohanna property owners.

The delays have resulted in Zeiden incurring significantly higher costs than originally anticipated. The property financing was arranged as a short-term loan which has had to be restructured at considerable cost. Additionally, the buildings have been left vacant in anticipation of the project commencement while Zeiden has been responsible for ongoing costs such as property management, maintenance, legal, refinancing, accounting, and marketing.

As part of the original series of agreements which formed the Land Exchange Agreement, the Agency had an Option Agreement with Zeiden to purchase the three properties which are the subject of this report at their appraised value, \$1,525,000, plus monthly carrying costs of \$6,380 for property taxes and insurance costs. It was anticipated that the land exchange would occur in less than a year and Zeiden could begin his approved redevelopment of the 700 K block. However, due to the ongoing litigation, the project has encountered significant delays.

The timeline in the original Option Agreement did not contemplate a prolonged process and it has now expired. Staff is seeking approval from the Agency to proceed with the acquisition of the parcels owned by Zeiden. This, when coupled with the properties adjacent on the west, 700 and 702 K, and the properties owned by Mr. Mohanna and/or affiliates which are currently subject of eminent domain proceedings, would place the entire half block in Agency ownership if the Agency is successful with the eminent domain proceedings. This block remains an essential lynchpin to the Agency's and City's redevelopment efforts of the K Street Mall area.

The subject properties consist of three separate parcels. The main parcel, 708 K Street is approximately 6,400 square feet in size and contains a three story-mixed use building with a complete basement. This property was formerly known as part of the Flagstone Hotel and the upper floors are residential in character with the ground floor retail. The building is vacant with the tenant leaving as part of the work done under the Land

Exchange Agreement. The second parcel is an approximately 3,000 square foot vacant undeveloped parcel facing 7th Street bordered by the east-west alley. The third parcel is a small sliver, approximately 208 square feet, sandwiched in between the two parcels and is not distinguishable to the viewer.

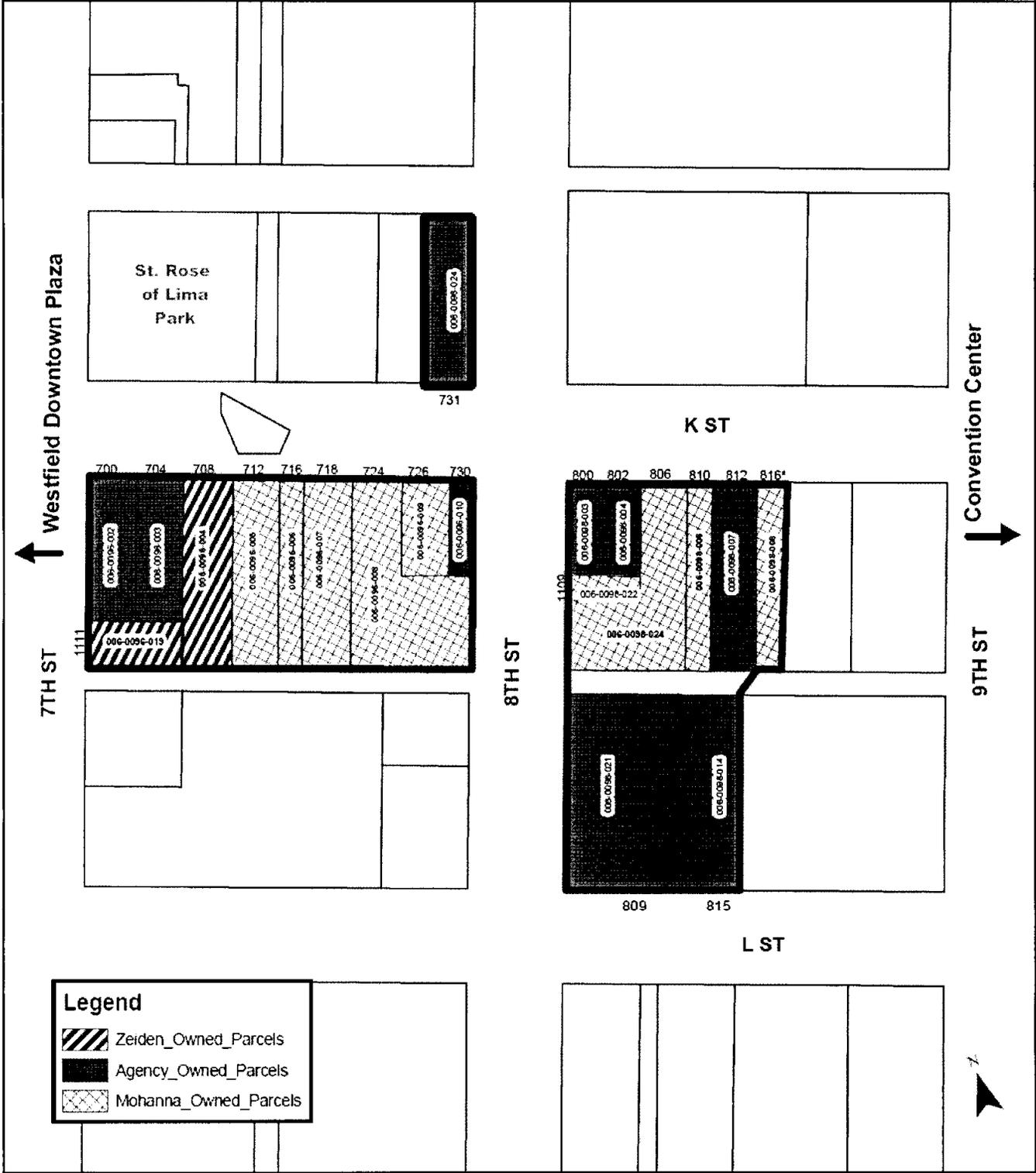
The purchase price for 708 K Street and 1111/1113 -7th Street is reflective of the earlier option price of \$1,525,000, based on a December 2005 appraisal, and included a monthly allowance of \$6,380 for property taxes and insurance costs or \$204,160 based on an August 2008 closing. The proposed transaction also includes an allowance, not to exceed \$370,840, for the ongoing costs such as property management, maintenance, interest, refinancing, accounting, and marketing Zeiden has carried for more than two years. The property sales price is supported by appraisals completed in May 2008 for other 700 K Street properties.

Predevelopment Agreement

In October 2006, in anticipation of the Agency's completion of the acquisition of the balance of the properties on the southside of the 700 block of K Street (see Attachment 2 for reference to the project site) and the initiation in 2007 of the redevelopment project, the Agency entered into a Predevelopment Agreement with Zeiden Properties. This agreement authorized an advance from the funds already allocated to Zeiden Properties under the Disposition and Development Agreement to expedite the design development and permit processing of the project. The not-to-exceed amount of \$300,000 was to be paid on a reimbursement basis to Zeiden as design work progressed. Some initial design work was completed but progress was hampered by the inability to access the privately owned parcels on the 700 block. Access was to be granted under the terms of the Land Assembly and Exchange Agreements executed by all parties.

Staff is recommending execution of a new Predevelopment Agreement for \$300,000 in order to complete design work and prepare for permit processing on the 700 K street block and also the design refinement and permit processing for a new structure in St. Rose of Lima Park. It is hoped that with concentrated effort the park structure could be designed and incorporated into the remodeling efforts of the Park already planned for 2009. The structure would include a retail operation such as a coffee kiosk and public restrooms, a feature needed as part of the park's remodeling project. The Predevelopment Agreement would be similar to the previously approved agreement and in similar form to that included herein as Exhibit A to the Resolution.

700/800 K Street Project
 Property Ownership – July 2008



*Note: Agency owns 44% interest in parcel 006-0098-008.

RESOLUTION NO.

Adopted by the Redevelopment Agency
of the City of Sacramento

708 K Street and 1111/1113 -7th Street Acquisition and Predevelopment Agreement for the 700 Block of K and Kiosk in St. Rose of Lima Park

BACKGROUND

- A. In April 2006, the Agency approved the execution of a Land Assembly Agreement and other related agreements between the Agency, Saca and Zeiden teams for the transfer and exchange of properties necessary for the 700 K Street and 800 K Street block projects. One of the related agreements was the Zeiden Option Agreement which provided the Agency an option to purchase Zeiden's 700 block properties.
- B. In October 2006, in order to keep the project moving forward on an aggressive timeline, the Agency approved entering into a Predevelopment Agreement with Zeiden Properties to expedite the completion of design development and permit processing for the 700 K Street revitalization project. Funding for this Predevelopment Agreement, which is now expired, was approved in June 2007 under a Disposition and Development Agreement with Zeiden Properties.
- C. Work under the Predevelopment Agreement was hampered by the inability to access the privately owned properties on the block.

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

- Section 1. After due consideration of the facts presented, the findings, including but not limited to the environmental findings regarding this action, as stated in the staff report that accompanies this Resolution, are approved.
- Section 2. The City Manager, acting as the designated authority for the Redevelopment Agency, is authorized to purchase 708 K Street and 1111/1113 -7th Street for \$1,525,000.
- Section 3. The City Manager, acting as the designated authority for the Redevelopment Agency, is authorized to reimburse Zeiden Properties for \$204,160 for taxes and/or insurance and \$370,840 for property related carrying costs for the three properties.
- Section 4. The City Manager, acting as the designated authority for the Redevelopment Agency, is authorized to enter into a Predevelopment Agreement with Zeiden Properties for an amount not to exceed \$300,000

to be paid on a reimbursement basis from Agency funding approved under the Disposition and Development Agreement with Zeiden.

Section 5. Improvements to qualified buildings will be done in compliance with the Secretary of Interior Standards for Rehabilitation. As such, the project is exempt under the CEQA Guidelines Section 15331. All other non-historic buildings will be rehabilitated according to established codes and ordinances and are exempt under CEQA Guidelines Section 15301.

Section 6. The Agency budget is amended to allocate \$2.1 million from Merged Downtown tax increment's Downtown Property Acquisition Fund for the purchase of 708 K and 1111/1113 -7th Street and carrying costs and \$300,000 from the \$4 million financial assistance allowance approved in the DDA on June 13, 2006 for development of construction plans for the kiosk/building structure in St. Rose of Lima Park and refinement of design development and permit processing for the redevelopment of the 700 K Street block.

Exhibit A to the Resolution

D R A F T

Form of Predevelopment Agreement

PREDEVELOPMENT AGREEMENT BY AND BETWEEN THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO AND ZEIDEN PROPERTIES, LLC, FOR CERTAIN PREDEVELOPMENT ACTIVITIES PRIOR TO THE CLOSE OF ESCROW PURSUANT THE DISPOSITION AND DEVELOPMENT AGREEMENT DATED JUNE 13, 2006.

RECITALS

WHEREAS On June 13, 2006, the Redevelopment Agency (Agency) approved the execution of a Disposition and Development Agreement (DDA) with Zeiden Properties, LLC, (Developer) to provide property and funding for the rehabilitation of the properties located on the south side of K Street, 731 K Street and the kiosk in St. Rose of Lima Park.

WHEREAS the Agency and Developer along with other property owners on the 700 and 800 blocks of K Street entered into the Land Assembly Agreement dated April 18, 2006 which upon certain terms and conditions implements an exchange of properties assembling parcels into workable sites for redevelopment projects on each of the 700 and 800 blocks of K Street;

WHEREAS, the land exchange contemplated by the Land Assembly Agreement has not occurred and the Agency is in the process of obtaining possession of the required properties and hopes to accomplish this by the end of 2008; and

WHEREAS, The Agency and Developer desire to expedite the design and redevelopment of the 700 Block properties into a new retail district as contemplated by the DDA.

AGREEMENT

NOW, THEREFORE, in consideration of their mutual promises, the parties agree as follows The Parties agree as follows:

The Agency agrees to fund an amount not to exceed Three hundred thousand dollars (\$300,000) to Developer as payment and/or reimbursement for certain predevelopment expenditures (“the Maximum Amount”).

1. Reimbursable Expenditures. The following are reimbursable expenditures (Reimbursable Expenditures) under this Agreement:

- (1) Architectural design, drawings and engineering work in furtherance of the project

contemplated by the DDA.

(2) Work for entitlements and building permits.

2. Reimbursement of Zeiden Properties. Should the Agency fail to convey the all Property described in Recital B of the DDA within the time specified in the DDA, as extended by mutual agreement of Agency and Developer, Agency shall reimburse Developer for Reimbursable Expenditures in an amount not to exceed Three hundred thousand dollars (\$300,000).

3. Agency/Zeiden Cooperation. Developer will coordinate its expenditures with the Agency in advance of their occurrence in order to assure consistency in direction and qualification of the expenditure for coverage under this Predevelopment Agreement. Work involving the development of the kiosk will require coordination with the plans under development for the balance of the park.

4. Agency Ownership of/rights to work produced. If Developer is reimbursed for its expenditures under the terms of this Agreement, then Agency shall own the right to and have the full use of the work produce including but not limited to drawings, renderings, elevations, and schematics.

4. Payment if Required. If payment is due under the terms of this Agreement, Agency make such payment upon receipt and approval of original invoices for completed work. Agency retains the right to approve or disapprove invoices for payment upon Agency's reasonable determination whether the invoiced work was performed in accordance with this Agreement. If Developer presents proper invoices together with evidence, satisfactory to Agency, that Developer has paid the invoices, Agency shall disburse funds directly to Developer. If Developer presents invoices not yet paid by Developer, any payment to be made by Agency shall be paid jointly to Developer and the service provider.

5. Third Parties. This PDA and the DDA shall not operate to make the Agency liable for payment of any sums to any parties other than Developer; the PDA and the DDA are not executed for the benefit of any third parties.

5. Term. The effective date of this Agreement shall be the date of the Agency resolution approving its execution, ("Effective Date"). The period covered by this Agreement shall commence on the Effective Date and shall terminate upon complete implementation of the DDA, or 360 days from the date of this Agreement, whichever first occurs. The term could be extended beyond the 360 days upon agreement in writing by both parties.

6. Developer Costs. Developer shall bear all costs relating to actions of Developer under this DDA, except as specifically provided for certain predevelopment expenditures in this Agreement.

7. **No Liens or Encumbrances.** Should Developer at its own volition decide to spend more than the reimbursable amount under this agreement and before the implementation of the DDA, Developer shall ensure that no liens or encumbrances are placed upon the Property as a result of Developer's activities.

8. **Applicable Law; Venue.** This PDA shall be construed in accordance with the laws of the State of California, and venue for any action under this PDA shall be in Sacramento County, California.

9. **Time of Essence.** Time is of the essence in the performance of the respective obligations of the parties under this Agreement.

10. **Attorneys' Fees.** In the event of any dispute between the Parties, whether or not such dispute results in litigation, the prevailing party shall be reimbursed by the other party for all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees.

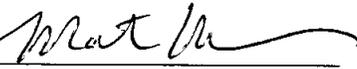
11. This is the entire Agreement between the Agency and Zeiden with regards to redevelopment of certain predevelopment expenditures. Nothing in this Agreement modifies or changes any terms or conditions of the Disposition and Development, the Forgivable Loan (and related documents), or the Regulatory Agreement.

Agreed hereto in Sacramento, California on August , 2008.

DEVELOPER : ZEIDEN PROPERTIES, LLC, a
California limited liability company

AGENCY: THE REDEVELOPMENT AGENCY
OF THE CITY OF SACRAMENTO, a body
corporate and politic

By: _____
Joseph Zeiden, Member
Authorized Signatory

By: 
John Dangberg, Assistant City Manager
As Designated Signatory

Approved as to form:

Approved as to form:

Developer Counsel

Agency Counsel