



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

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www. CityofSacramento.org

Staff Report
November 25, 2008

**Honorable Chair and
Members of the Redevelopment Agency Board**

Title: Disposition and Development Agreement Amendment : Orleans Hotel
Restaurant Project

Location/Council District: 1022 Second Street, Old Sacramento Historic District,
Council District 1

Recommendation:

Adopt a **Redevelopment Agency Resolution** a) authorizing the Acting Executive Director or her designee to execute an Amendment to the Disposition and Development Agreement Dated October 17, 2006 and related legal documents with Old Sac Properties, LLC (Developer) to provide \$650,000 in assistance for restaurant tenant improvements in the newly constructed Orleans Hotel; 2) allocating \$650,000 of Merged Downtown Redevelopment tax increment funds to the project; and 3) pledging project generated tax increment back to the project for a period of five years.

Contact: Sheri Smith, Economic Development Project Manager, 808-7204; Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Sheri Smith

Department: Economic Development Department

Division: Downtown Development

Organization No: 18000

Description/Analysis

Issue: The original Orleans Hotel operated in Old Sacramento for more than 120 years, housing people and providing a variety of retail opportunities. After a long and dynamic history, the Orleans Hotel Building was demolished in 1970 and the site sat vacant for 37 years, creating an unappealing section on Second Street in the historic district.

On October 17, 2006 the Redevelopment Agency of the City of Sacramento (Agency) entered into a Disposition and Development Agreement (DDA) with Old Sac Properties, LLC (Developer) to reconstruct the Orleans Hotel. The Developer constructed the building and replicated the 1853 façade of the historic hotel and in September of this year opened 24 luxury residential units over what will be a ground floor restaurant and a retail space. The total development cost of the building was \$13.9 million. The Agency participated with two loans totaling \$6 million (see Attachment 1, Background for more loan details) which was the minimum amount required to address the gap between project costs and market feasibility. The remaining development costs were financed with a \$5 million bank loan and \$2.9 million in Developer financing and equity. Developers Lloyd and Terry Harvego, of Old Sac Properties LLC, have replaced a 37-year old hole in the fabric of Old Sacramento with a beautiful building that is a shining example of an infill project, flanked on either side by three-story historic buildings.

The residential units are currently being leased but the Developer has had difficulty attracting a restaurant tenant in the current economic climate. The Harvegos own the Firehouse Restaurant in Old Sacramento which is an extremely successful dining venue in the historic district. They have decided to utilize their successful restaurant experience and knowledge of Old Sacramento to open a restaurant in the Orleans building themselves. The total project cost is estimated to be \$2.4 million with the restaurant tenant improvements, furniture, fixtures, and equipment estimated to be \$1.9 million. Staff is recommending the Agency provide a loan of \$650,000 and that the tax increment generated by the Orleans Hotel project be pledged back to the project for a period of 5 years. The Developer will fund the \$1.75 million in estimated remaining costs to start up the restaurant.

If the amendment to the DDA is approved, the developer anticipates opening the restaurant by August of 2009. Opening the restaurant on the ground floor will create a seamless retail experience on this block of Second Street which is important to enhancing the overall visitor experience in Sacramento's primary tourist destination. The project is anticipated to provide an estimated 50 new jobs as well as bring additional private investment into Old Sacramento.

Policy Considerations: The recommended actions are consistent with the Amended Merged Downtown Redevelopment Plan, and the 2005-2009 Merged Downtown Implementation Plan in multiple ways. The restaurant is a critical component to the success of the Orleans Hotel project and will strengthen the area's retail and be a commercial draw. The construction of the Orleans Hotel has eliminated uneconomic land uses. The Orleans Hotel, with an active ground floor restaurant, improves and upgrades the appearance and safety of area streets, sidewalks and alleys. The project will eliminate the blighting influences of low or stagnant property values, impaired investment, high number of property vacancies, and low rents in the Redevelopment Project Area.

Developer compliance with regulatory agreements and the property's physical condition will be monitored by the Agency on a regular basis.

Environmental Considerations:

California Environmental Quality Act (CEQA): The activities outlined in the DDA Amendment have been analyzed with the Orleans Hotel project in accordance with the California Environmental Quality Act (CEQA). A Mitigated Negative Declaration (MND) was approved on October 17, 2006 for the Orleans Hotel project.

Sustainability Considerations: The actions considered in this report are consistent with the Sustainability Master Plan by maximizing the use potential of a newly re-constructed, mixed-use, infill project in the City's historic district.

Other: N/A

Commission/Committee Action: The Orleans Restaurant project will be presented to the Downtown Sacramento Partnership (DSP) Development Task force on November 13, 2008. The DSP Board will review the project on November 19, 2008.

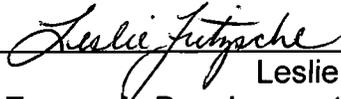
Rationale for Recommendation: The Developer has owned a very successful restaurant in Old Sacramento for the past nine years and has intimate knowledge and understanding of what works in the historic district. A successful ground floor restaurant increases the overall viability of the Orleans Hotel project. The project also brings significant benefits to Old Sacramento including:

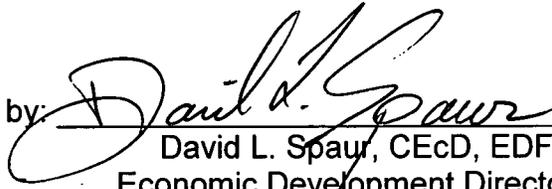
- Eliminates vacant retail space enhancing the visitor experience in Sacramento's primary tourist destination;
- Creates an additional restaurant venue reinforcing Old Sacramento's position as a dining destination;
- Creates an estimated 50 new jobs; and
- Brings new private investment into Old Sacramento.

Financial Considerations: Staff is requesting allocation of \$650,000 from the Merged Downtown Redevelopment Tax Increment Fund to the Orleans Hotel Restaurant project. Additionally staff is requesting pledging project-generated tax increment back to the project (net of housing set-aside and pass-through required amount) for a period of 5 years. The Agency loan detail follows:

- Loan amount of \$650,000;
- Loan funds shall be used for tenant improvements, furniture, fixtures, and infrastructure for the restaurant only;
- Loan repayments of \$65,000 per year begin in year nine of the loan term and will continue for 10 years until the loan is fully repaid.

Emerging Small Business Development (ESBD): ESBD requirements will be applied to all activities to the extent required by funding sources.

Respectfully Submitted by: 
Leslie Fritzsche
Downtown Economic Development Manager

Approved by: 
David L. Spaur, CEcD, EDFP
Economic Development Director

Recommendation Approved:

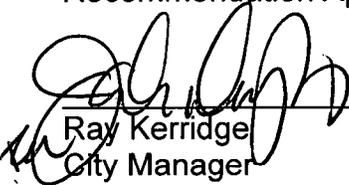
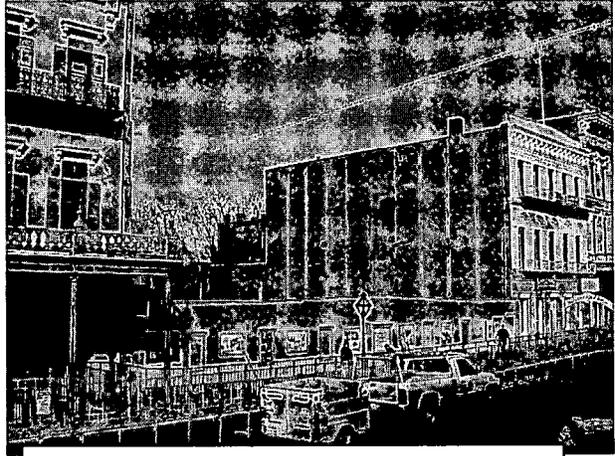

Ray Kerridge
City Manager

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Attachment 1**Background**

Old Sacramento currently has a number of vacant sites that contribute to blighted conditions and below-market lease rates in the historic district. In an effort to address these blighted conditions, the Agency issued a Request for Qualifications (RFQ) for four vacant properties in Old Sacramento, three of which the Agency owns, one of which is the Orleans Hotel site consisting of an 11,400 square foot parcel at 1022 Second Street.



Orleans Site Before Construction

The Developer, Old Sac Properties, LLC, approached the Agency for an Exclusive Right to Negotiate (ERN) on the Orleans Hotel site in late 2004. In February 2005, the Agency approved the ERN for the development of the Orleans Hotel. During the ERN term, the Developer finalized design issues, construction costs and a project pro forma.

In October 2006 the Agency entered into a Disposition and Development Agreement with the Developer to construct a 44,000 square foot, mixed-use, infill construction project, which reconstructed the Orleans Hotel's 1853 Second Street façade. The project was to include 24 luxury rental residential units, a ground floor restaurant with patio and, approximately 30 secured off-street parking spaces.



Orleans Hotel After Construction

Construction of the units was completed in September 2008 and they are currently being leased. The restaurant shell is complete and ready for an operator to complete the tenant improvements.

Restaurant Loan Details:

The total project cost is estimated at approximately \$2.4 million with the restaurant tenant improvements, furniture, fixtures, and equipment estimated to be \$1.9 million. The Developer is providing approximately \$1.75 million in equity for the successful

completion of the restaurant. Additionally, pledging tax increment generated by the Orleans Hotel Project back to the project for a period of five years is needed to make the project financially feasible. The amount of the tax increment rebate will depend on the tax assessor's valuation but it is estimated to be approximately \$30,000 per year for the five years. Loan details are as follows:

- Loan amount of \$650,000 funded from Merged Downtown Redevelopment tax increment funds;
- Loan funds shall be used for tenant improvements, furniture, fixtures, and infrastructure for the restaurant only;
- The interest rate is 0%;
- Loan repayments of \$65,000 per year begin in year nine of the loan term and will continue for 10 years until the loan is fully repaid.

Orleans Hotel Mixed Use Project Loan Information:

The total project cost was originally estimated to be \$11.7 million. The Developer has provided a minimum of \$1.35 million in equity as well as securing a \$5 million private loan. The \$6 million in funding from the Agency came from the 2005 Merged Downtown Tax Allocation Bond and was required to address the gap between project costs and market feasibility. The actual cost for the Orleans was \$13.9 million and the Developer funded all cost overruns.

The Agency participation was split into two loans. The first Agency loan terms include:

- Loan amount of \$4 million was funded from taxable bond funds;
- The term of the loan is 30 years.
- The interest rate is 0%;
- Loan repayments begin once the project reaches a Return on Equity (ROE) over 12%.

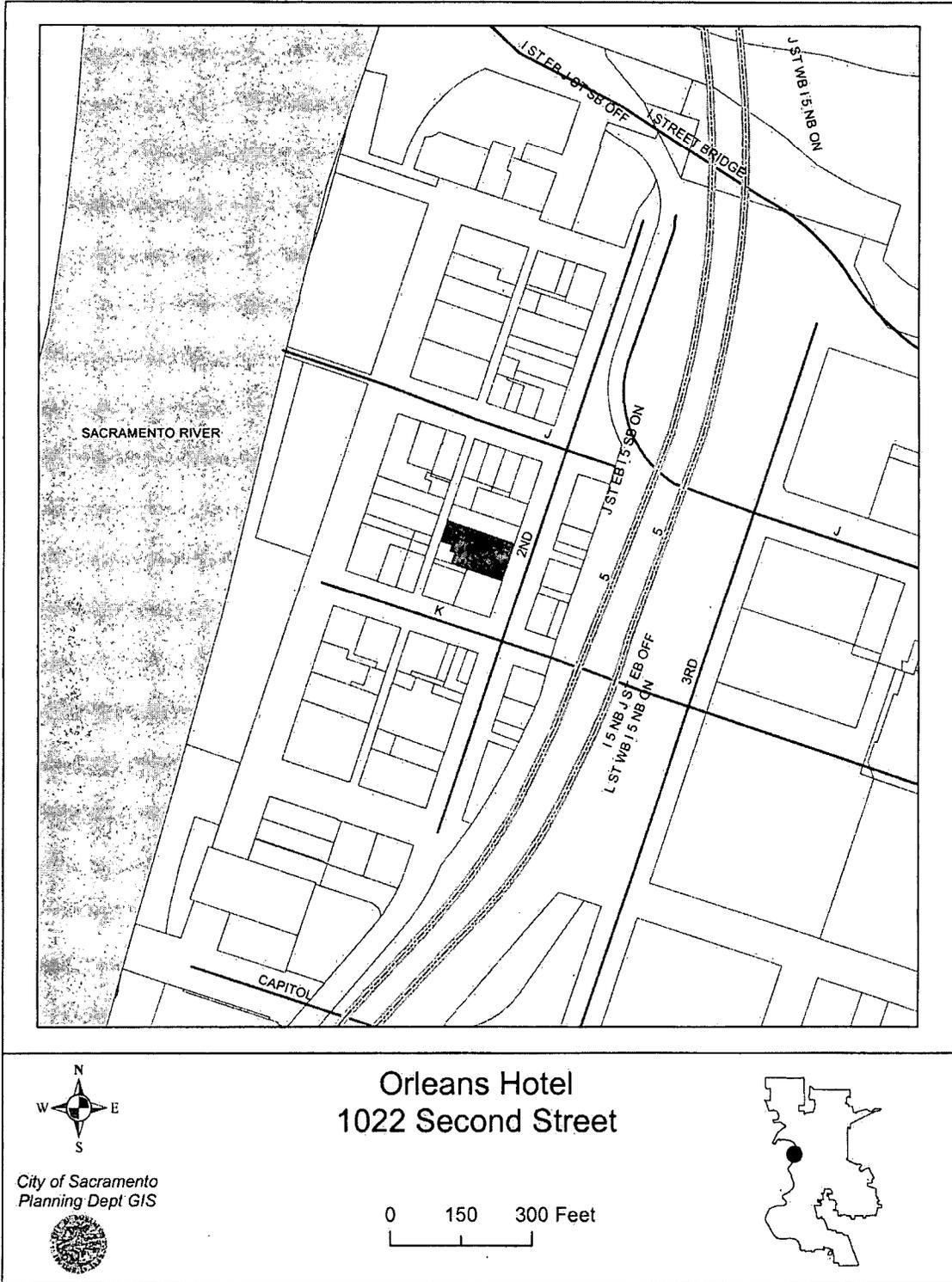
The second Agency loan terms include:

- Loan amount of \$2 million was funded from tax-exempt bond funds;
- Loan funds were used for construction only;
- The interest rate is 0%; and
- The loan is forgiven upon project completion and issuance of a Certificate of Occupancy.

Attachment 2**Orleans Hotel Restaurant Development Budget**

Tenant Improvements	
Architect & Concept Development	\$150,000
Designer	\$50,000
Construction Costs	\$953,400
Permits and Fees	\$25,000
Contingency	\$95,340
Total Tenant Improvements	\$1,273,740
Furniture, Fixtures, Equipment, Soft Costs	
Kitchen Equipment	\$200,000
Furniture	\$200,000
Marketing and branding	\$75,000
Licenses	\$50,000
Miscellaneous	\$100,000
Total FF&E and Soft Costs	\$625,000
Total Development Costs	\$1,898,740
Restaurant Start Up Cost	
Food and Beverage Inventory	\$100,000
Pre Opening Management Payroll	\$75,000
Pre Opening Staff Payroll	\$50,000
Working Capital to cover losses and misc costs	\$250,000
Total Start up Costs	\$475,000
Total Restaurant Project Costs	\$2,373,740

**Attachment 3
Location map**



Attachment 4

RESOLUTION NO.

Adopted by the Redevelopment Agency of the City of Sacramento

ORLEANS HOTEL RESTAURANT DISPOSITION AND DEVELOPMENT AGREEMENT AMENDMENT AND RELATED LOAN DOCUMENTS

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- B. Old Sacramento, which is in the Merged Downtown Redevelopment Area, is undergoing significant redevelopment and investment.
- C. The Agency approved the Disposition and Development Agreement dated October 17, 2006 with Old Sac Properties, LLC to construct the Orleans Hotel.
- D. The Agency and Old Sac Properties, LLC ("Owner") desire to Amend the Disposition and Development Agreement (DDA), a copy of which is on file with the City and Agency Clerk, which would provide Agency funds to assist in the construction of interior improvements including, furniture, fixtures, and equipment necessary to open a significant ground floor restaurant in the Orleans Hotel building.
- E. The Project will eliminate the following blighting influences: low or stagnant property values and impaired investment in the Project Area and high number of property vacancies, low rents, and a high number of vacant lots
- F. This project is consistent with the Amended Merged Downtown Redevelopment Plan and 2005 Merged Downtown Redevelopment Implementation Plan.

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 Amended Disposition and Development Agreement is approved and the Acting Executive Director, or her designee, is authorized to execute

the Amendment to the DDA and related loan documents, in substantially the same form which is on file with the Agency Clerk, with Old Sac Properties, LLC for development of a restaurant in the Orleans Hotel building.

Section 3. The Acting Executive Director or her designee is authorized to allocate \$650,000 of Merged Downtown Redevelopment tax increment funds to the Orleans Hotel Restaurant project to be used for the construction of interior improvements including, furniture, fixtures, and equipment necessary to open a significant ground floor restaurant in the Orleans Hotel.

Section 4. The Acting Executive Director or her designee is authorized to pledge tax increment generated by the Orleans Hotel project back to the project for a period of 5 years.