



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

915 I Street. Sacramento. CA 95814-2671

**Consent
December 9, 2008**

Honorable Chair and Members of the Board:

Subject: Agreement: 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 authorizing the City Manager, acting on behalf of the Agency, to extend the term of the Exclusive Right to Negotiate ("ERN") with 1012 K Street, LLC for the Agency-owned properties at 1016-1022 K Street to April 30, 2009 and to June 30, 2009 for 1012 K Street.

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 (DDA) for 1000 K Street and the project is underway. The project was complete in September, 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 Agency granted two additional extensions on January 8, 2008 and June 24, 2008 to allow the Agency to Certify an Environmental Impact report (EIR) and approve a DDA. While the Agency certified that the EIR was adequate and complete on January 8, 2008, terms of the DDA are not yet complete. The Agency is currently reviewing several proposals for uses that provide additional entertainment opportunities and bolster the activities underway in the 1000 block of K Street as well as the JKL corridor. The current ERN is due to expire on December 24, 2008.

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, an Initial Study was completed for the 1012 K Street project. Based on the initial study, the Agency prepared an EIR on the Project. The EIR was prepared and completed in full compliance with the 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.

The City of Sacramento will adopt Findings of Fact and a Mitigation Monitoring Plan (MMP) prior to DDA approval for the project.

Sustainability Considerations: Not applicable.

Rationale for Recommendation: On June 24, 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 ERN with 1012 K Street, LLC. The development team has submitted a proposal to Agency staff for consideration, but business term negotiations between the Agency and the developer have not yet been completed. Staff recommends that the Agency extend the ERN for 1016-1022 K Street for an additional four months to allow the parties to complete business term negotiations for projects to be located at 1016-1022 K Street and present a DDA to the Agency. A tenant has not yet been identified for 1012 K Street. Staff is recommending extending the ERN for 1012 K Street for another 6 months to allow the developer an

opportunity to identify a use that will complement the uses in the entertainment district and uses proposed and existing on the 1000 block of K Street.

Milestones under the extended ERN include:

| 1016 – 1022 K Street | |
|-----------------------------|---|
| 60 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. |
| 120 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 |
| 1012 K Street | |
| 120 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 ERN 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
David L. Spaur, CECD, EDFP
Director, Economic Development

Recommendation Approved:

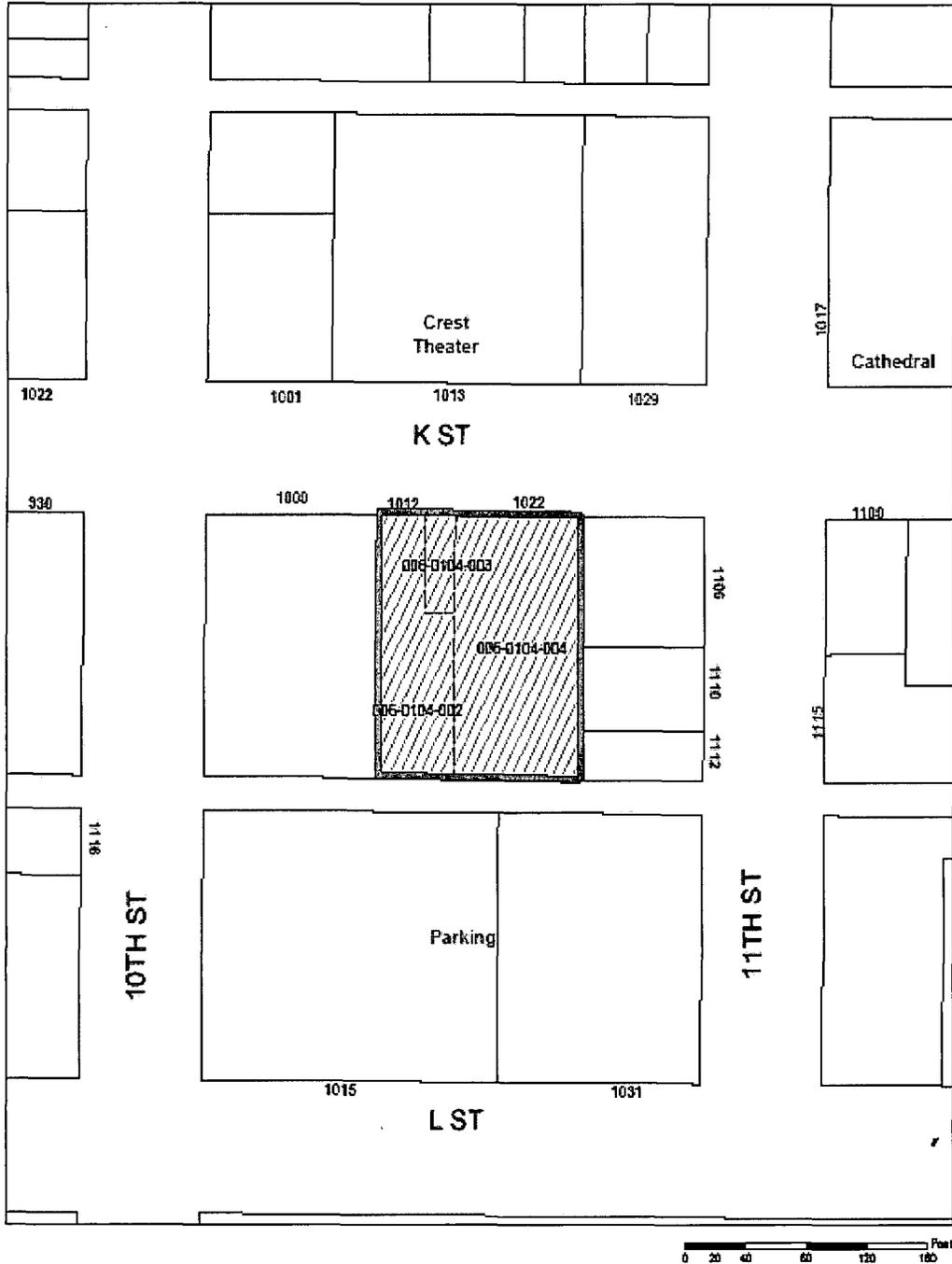
Ray Kerridge
Ray Kerridge
City Manager

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Attachment 1

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.

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. Two ERN extensions were granted on January 8, 2008 and June 24, 2008. The current ERN will expire on December 24, 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. They have complied with this agreement and staff is in the process of receiving their proposal and formulating a recommendation to the Agency for consideration.

RESOLUTION NO. 2008-

Adopted by the Redevelopment Agency of the City of Sacramento

**AGREEMENT EXTENDING THE EXCLUSIVE RIGHT
TO NEGOTIATE (ERN) 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 ERN 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 and on June 24, 2008, the term of the ERN was extended. The current extension is due to expire on December 24, 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 EIR 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 Agency Agreement with 1012 K Street, LLC, for the

ERN for the development of properties located at 1016-1022 K Street to April 30, 2009 and for 1012 K Street to June 30, 2009.

Section 2. Milestones for the extended ERN for 1016–1022 K Street 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 120 days:

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

Section 3. Milestones for the extended ERN for 1012 K Street shall be completed in the following timeframe:

Within 120 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 a Mitigation Monitoring Plan
- Obtain project approval from the Agency and execute the redevelopment agreements