

**REPORT TO THE
REDEVELOPMENT AGENCY
AND CITY COUNCIL
of the City of Sacramento**

630 I Street, Sacramento, CA 95814-2671
www.SHRA.org



**Sacramento
Housing &
Redevelopment
Agency**

**Public Hearing
March 10, 2009**

**Honorable Mayor and Members of the City Council
Honorable Chair and Members of the Board**

Title: Agreement: 1012 -1022 K Street Rehabilitation Project

Location/Council District: 1012-1022 K Street, southeast corner of 10th and K Streets, Central Business District (District 1)

Recommendation: Conduct a public hearing and upon conclusion, adopt: 1) a Redevelopment Agency of the City of Sacramento (Agency) Resolution: a) approving the California Environmental Quality Act Exemption for the project; b); approving the project concept for the renovation of buildings at 1012 – 1022 K Street for three entertainment venues and a fourth entertainment use at 1012 K Street to be identified within the next nine months; c) authorizing the approval of a Disposition and Development Agreement (DDA) and related legal documents with 1012 K Street, LLC (Developer) to provide land and \$5,400,000 in assistance; d) determining that the Agency's obligations to abate hazardous materials and perform the soft demolition work are interrelated with the Developer's work and that such work cannot be practically done under a separate contract and therefore will be performed by the Developer; e) authorizing the approval of a Reimbursement Agreement to fund abatement and interior demolition expenses incurred by the Developer up to \$291,500; f) allocating \$5,691,500 from the Merged Downtown Funds (Sheraton Proceeds) to the 1012-1022 K Street Building Renovation Project; and g) establishing the financial participation arrangement for the project that allows the Agency to receive income once the Developer receives a cumulative 12% Return on Adjusted Costs; and 2) a City Council Resolution approving the Agency's sale of property at 1012-1022 K Street.

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

Presenters: Beth Tincher, Senior Project Manager

Department: Economic Development

Division: Downtown Development Group

Organization No: 18000

Description/Analysis

Issue: On December 9, 2008, the Agency approved an additional extension to the Exclusive Right to Negotiate with 1012 K Street LLC, a partnership between David Taylor Interests and the CIM Group, to allow the Agency to evaluate development proposals and negotiate a DDA for properties located at 1012 -1022 K Street (formally the Hit-or-Miss and Rite Aid buildings; see Attachment 1).

The development team proposes to rehabilitate the buildings at 1012-1022 K Street to create additional entertainment uses that bolster the activities underway in the 1000 block of K Street as well as the JKL corridor. The project will be 60 percent pre-leased and fully leased with an additional complimentary use at 1012 K Street within nine months.

The proposed tenant, George Karpaty, is a seasoned night club and restaurant owner who has been creating destination entertainment venues for the past 12 years. Through Mr. Karpaty's energy, vision, and quest for perfection, he creates cutting-edge entertainment spaces that provide a lasting impression and a unique entertainment experience. Mr. Karpaty has operated four award-winning entertainment venues in the Bay Area including Ruby Skye, a successful nightclub located in a historic San Francisco building.

The proposed uses at 1016-1022 K Street are designed specifically for Sacramento's emerging nightlife market and include two high-end nightclubs and one restaurant. A rendering is included as Attachment 2.

- **Frisky Rhythm:** Frisky Rhythm is a posh, elegant and comfortable 4,300 square foot nightclub that is designed for the 30 year old plus crowd playing music from the 70s, 80s, 90s, rock and Rhythm and Blues music.
- **Dive Bar:** This 3,050 square foot club offering a more tranquil lounge ambiance. The Dive Bar will include a huge aquarium behind the bar and will play music that includes vintage jazz and "rat pack" vocals.
- **Pizza Rock:** From creative gourmet pizzas to specialty cocktails, this 5,600 square foot restaurant will be unique and bold. A large indoor-outdoor patio will offer a double-sided pizza oven allowing patrons to enjoy the art form of championship pizza throwing. Chef and part-owner Tony Gemignani is an eight-time World Champion Pizza Acrobat.

Pending final design approval, the Developer intends to begin the shell and core improvements on all buildings in April 2009. Tenant Improvements for the three venues are anticipated to be completed within 9 months of the shell and core permits and all work is expected to be completed by the end of 2009.

The Developer intends to bring a combination of \$3,600,000 in equity and debt to the project and George Karpaty, the venue operating tenant, is providing an additional \$1.7

million for tenant improvements for the three venues proposed at 1016-1022 K Street. The Developer is requesting that the Agency approve the use of \$5,400,000 of proceeds from the sale of the Sheraton for the proposed projects. An additional \$291,500 of proceeds will be used for required abatement to the Agency-owned buildings.

Staff has developed proposed business terms for the 1012-1022 K Street project as follows:

Abatement and Interior Demolition

- Reimbursement of up to \$291,500 for hazardous material abatement and environmental remediation. Demolition work is an obligation of the Agency, but this work is so interwoven with the Developer's improvements that it would be difficult to complete under a separate contract. The environmental remediation is critical and time sensitive. The design team must perform predevelopment work such as surveying during the design phase to document existing conditions. There is currently a health risk exposure for team members until the abatement is complete.

Construction and Tenant Improvements

- A \$5,400,000 investment in the project (from the Sheraton proceeds that are contractually set aside for downtown development projects developed by David Taylor Interests and the CIM Group) to be used in the following manner:
 - \$2.03 million for shell and core permits for 1016-1022 K Street
 - \$1.36 million for shell and core permits for 1012 K Street
 - \$2.01 million for future tenant acquisition/improvements at 1012 K Street
- The \$2.01 million for future tenant acquisition/improvements at 1012 K Street will be withheld until a tenant has been identified, the Agency has approved the use, and a tenant lease has been signed.
- The Developer will pursue additional equity through a new market tax credit application with Bank of America. If the applicant is successful in obtaining new market tax credit funds, the award of funds would all go to lower the Agency's investment.
- The initial phase of development will include shell and core improvements for all the buildings at 1012-1022 K Street buildings. In order for the Developer to obtain a loan and to provide for economies of scale on the shell and core improvements, all properties must be included in the project and all shell and core improvements completed at the same time. Disbursements of Agency funding will be done on 50/50 basis with the Developer/tenant contributions.
- The Agency will convey the land to the Developer after they receive their building permits for the shell and core.
- The Agency will retain approval rights of all ground-floor tenants.
- The project design will be presented to the Design Review for review and comment prior to issuance building permits for exterior building improvements and the Developer/tenant will apply for special permits for the nightclub uses prior to issuance of building permits for tenant improvements.

These business terms are reflected in the DDA, the Participation Agreement, the Reimbursement Agreement and related documents, which are on file with the Agency and City Clerk. Staff recommends approval of the DDA, the abatement and soft demolition agreement, and budget authorization to fund \$5,400,000 toward tenant and public improvements and \$291,500 for abatement and interior demolition expenses.

This report recommends disposition of property acquired with tax increment funds to the Developer. As such, the hearing of this report by the Agency shall serve as the public hearing to meet Health and Safety Code Section 33433 requirements for disposition of the subject property.

Policy Considerations: The approval of the DDA and related documents will result in a proposed project consistent with long-standing City Council, Agency and community direction. It is in keeping with the Cultural and Entertainment District Master Plan, the Amended Merged Downtown Redevelopment Plan and Five-Year Strategy as well as the General Plan and Central City Community Plan. Additionally, the proposed project is consistent with the JKL Community Workshop objectives for the 10th and K Street site including:

- A pedestrian and destination-oriented use in an emerging entertainment district that will draw a large number of people;
- Commercial use such as restaurant, movie theater, nightclub, or mixed specialty retail; and
- Serves as a catalyst redevelopment project, assisting in attraction of additional quality development to the area and K Street.

Environmental Considerations: The proposed action to approve the DDA to allow for rehabilitation of buildings at 1012-1022 K Street for commercial uses is exempt from environmental review under CEQA Guidelines Section 15332 because the project will not have a significant impact on traffic, parking or air quality since the restaurant and nightclub operations are primarily during off-peak hours. The abatement/demolition work is exempt under CEQA Guidelines Section 15301 (I), abatement and demolition of existing structures if not historically significant. The Historic Preservation Officer has made a written determination that the building is not eligible for listing as a historic structure and the building rehabilitation will not have a significant impact on historic resources.

Commission/Committee: On January 8, 2009, the Downtown Partnership Strategic Task Force reviewed the proposal and forwarded a recommendation of project support to the Downtown Partnership Board of Directors. On February 4, 2009 the Downtown Partnership Executive Committee took the following actions: 1) the Downtown Sacramento Partnership has in the past and continues to strongly support the use of redevelopment funds for project featuring entertainment related uses with the District; and 2) with the understanding that the item will be more fully vetted at the Downtown Strategic Partnership's February Strategic Task Force, the executive committee recommends to the full Board support of the proposal for development at 10th and K streets. On February 12, 2009, the Downtown Partnership Strategic Task Force held a meeting to receive additional

input on the project and continued its status of support for the proposed project. After receiving public input on the proposed project, the Downtown Partnership Board of Directors at their February 18, 2009 meeting unanimously supported the project.

Staff and David Taylor Interests have conducted outreach to Midtown and Downtown businesses to outline the proposal and receive feedback. During these meetings, some concerns have been expressed. Agency staff and David Taylor Interests have included the following to address these concerns.

- Language will be included in the Agency's Regulatory Agreement that the three venues at 1016-1022 K Street will operate as separate businesses with separate alcohol licenses.
- Agency staff is working with the Downtown Sacramento Partnership, the Midtown Business Association, and the Sacramento and Visitor's Bureau on ways to support the Central City and Old Sacramento as the entertainment District; build stronger connections between establishments/uses; increases existing business with a particular focus on attracting people from a wider geographic area; and expand the area's sphere of influence and appeal beyond the Central City grid.

Rationale for Recommendation:

Project Benefits: The restaurant and nightclub could begin operating as early as the end of 2009. The proposed Project will generate a number of benefits to the Agency and to the City including:

- An estimated \$447,000 in revenue (annual sales tax and property tax increment);
- Approximately 100 jobs
- Approximately 4,000-5,000 patrons to the Downtown area a week.

In addition to the direct benefits, the building at 1012-1022 K Street is considered to be key to downtown redevelopment for the following reasons:

1. Entertainment Venues: 1000 block of K Street: Over the last couple of decades, the Redevelopment Agency has made multiple efforts to redevelop the properties at 10th and K Street, these efforts are outlined in detail in Attachment 3, Background of this report. In 2004, the Economic Development Department hosted the JKL Corridor Workshop in an effort to receive community and stakeholder input on a new vision/strategic direction for the area. The result of the workshop reinforced the concept that the City had been trying to create at the 1000 block of K Street – a focus on destination uses that take advantage of being located in an emerging entertainment district adjacent to the historic Crest Theatre, the IMAX Theater, the Convention Center, restaurants or nightclubs. It depicted K Street as an active, entertainment and retail corridor with J and L providing supportive uses such as office, housing and parking with ground floor retail.

In 2005, the Agency issued a RFP for entertainment venues on 10th and K and selected David Taylor Interests and the CIM Group to provide a series of projects at 10th and K that supported the vision. The first project, the Cosmopolitan, a 200 seat theatre, a Paragary restaurant and lounge, and office uses on the 2nd floor was completed in September 2008. This development team is currently proposing additional entertainment venues that build on and support the investment made at the Cosmopolitan as well as the City and private investment made at 800 J Street Lofts, the Citizen, the Crest Theatre, the IMAX Theatre, Parlare Euro Lounge and the Pyramid Brewery.

George Karpaty, the proposed tenant, spent time in Sacramento and conducted independent market research of the Sacramento Metropolitan area to determine target markets and provide niche projects that complement other venues offered in midtown and Downtown. The three intimate venues proposed appeal to a range of market demographics including the 30 plus crowd, which is the largest demographic in our region. Mr. Karpaty's research indicates that these venues will draw from a 40 minute radius on a weekly basis and from a 60 minute radius for special events. Mr. Karpaty is constantly reinventing his venues and refreshing his business model to remain current with market demand and trends. In addition to drawing patrons to K Street on nights and weekends, Mr. Karpaty plans to partner with conventioners and businesses to use the venues during the day for meetings and events to further enliven K Street during the day.

Staff analyzed sales data for eating and drinking establishments in both Midtown and the Downtown for 2000 – 2008. Data confirmed that both areas experienced healthy growth and a general upward turn during this period. With the economic downturn, it is critical now more than ever, to continue the investment on K Street to support previous Agency investment on K Street and to establish a critical mass of venues that will lead to a wider geographic draw for the burgeoning Entertainment District.

Staff also contacted communities that have created successful entertainment districts. A brief description of these entertainment districts is listed in Attachment 3, Background. While the mix of uses in these entertainment districts vary, each of these communities expressed general support from local businesses within and adjacent to these districts to continue to bring new venues to their districts. One of the goals of these districts is to create regional entertainment destinations that increase the quality of life, grow tourism and related industries and stimulate additional economic growth.

2. Sheraton Proceeds and Momentum on K Street

In March 2008, the Agency approved a Master Owner Participation Agreement (Master Agreement) in conjunction with the sale of the Sheraton Hotel which earmarked half of the proceeds from the Sheraton sale to David Taylor/CIM Group with project approval required by the Agency. Several projects including 1012 K Street were identified under the Master Agreement as potential future projects to be undertaken by the David Taylor/CIM Group. The agreement required that the first project be presented to Agency staff within 150 days. The 1012-1022 K Street was presented to staff within

that timeframe and is the first project presented by the Developer for the utilization of a portion of the Sheraton proceeds.

While there has been progress made to revitalize K Street, K Street Mall is still viewed as a high risk area for investors. The costs related to renovating these older buildings, limited vehicle/visual access to the buildings, and other undesirable aspects of the area are deterrents to investment. As the economy falters, it is even more critical to continue the momentum to redevelop K Street to provide enough critical mass to bolster the area's success. With the completion of these projects, revitalization of an entire block of K Street is nearing completion, strengthening the link between the Convention Center to Downtown and Old Sacramento; reinforcing the emphasis of K Street as a focal point in the Downtown, and providing an additional 4,000-5,000 patrons in the downtown area to support businesses and services. The implementation of these projects support the redevelopment strategy and staff recommends that construction of the proposed projects is an appropriate use of the Sheraton proceeds.

3. Land Use Compatibility

This project is part of a larger vision for the Downtown area and there are several different development proposals underway including the Cathedral Square residential project on 11th and J streets, a hotel at 10th and K Street, a hotel and restaurant at 8th and K and destination retail on the 700 block of K Street. While there are additional residential units envisioned in the Downtown area, the City intends to strategically place residential uses to avoid conflicts between the Entertainment District and residential uses. There are relatively few residential uses within the vicinity of 1012-1022 K Street. The lack of residential units and ample parking in the immediate vicinity makes K Street an attractive location for late night entertainment venues. The Developer will have to obtain Special Permits through the Development Services Department.

4. Proven Track Record

The members of 1012 K Street, LLC include David S. Taylor Interests, Inc. and the CIM Group. The members have proven track records and extensive experience in the acquisition, design, financing and management of landmark infill projects in urban settings. Local project examples include the Sheraton Grand Hotel, Sacramento City Hall, Plaza Lofts, the Wells Fargo Pavilion Sacramento Musical Theatre, the Esquire Building and IMAX Theatre, the US Bank Building, the Cosmopolitan and multiple restaurants.

Mr. Karpaty and Inner Circle Entertainment have provided award-winning Bay Area entertainment venues over the past 12 years that exemplify a successful and proven nightlife business model. Mr. Karpaty currently owns and operates five venues.

Public Hearing: This project is subject to Health and Safety Code Section 33433: "Sale of Lease of Property Acquired with Tax Increment funds; Approval by Legislative Body after Public Hearings." The Agency is required to make available a report (Attachment 5)

that references the proposed DDA and cites the cost of land to the Agency, including relocation and improvements, estimated value, purchase price to the Developer, explanation of why the sales prices is less than fair market value, and an explanation of why the sale will eliminate blight. The report has been prepared and is on file with the Agency and City Clerk.

Financial Considerations: The project is estimated to cost \$12.09 million of which the Developer will contribute \$3.6 million in private equity and debt with an additional \$1.7 million being contributed by Mr. Karpaty for tenant improvements. Staff recommends an allocation of \$ 5,691,500 million, \$291,500 of which will be used for soft demolition and remediation for the project, as well as an Agency land contribution. It is estimated that an additional \$1.1 million will come from a future tenant at 1012 K Street.

The total funds identified for David Taylor Interests for Downtown projects from the Sheraton proceeds are \$25,613,808. The amount remaining under the Master Agreement if this project is approved would be \$19,922,308.

Staff requests appropriation of these funds from the Merged Downtown Funds (Sheraton proceeds) that would be used in the following ways:

- Design and construction documents preparation;
- Abatement of asbestos, lead and other contaminants on the site and interior demolition;
- Structural, mechanical, electrical, plumbing and fire protection upgrades;
- Exterior improvements as well as shell and core improvements; and
- Tenant acquisition/improvements for 1012 K

The Agency would financially benefit through a participation agreement which includes the following provisions:

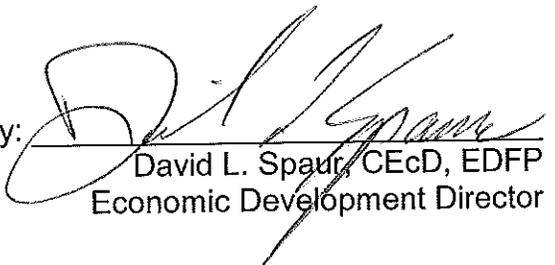
- Participation would begin once the Developer has received a cumulative 12% return on adjusted costs. Once the 12% threshold has been met, the Agency will receive 50% of the net operating income. Annual income statements will be provided to the Agency.
- Upon the sale of the project, the Agency will receive the greater of: 1) a lump sum payment equal to the capitalized value of the previous year's payment to the Agency by the Developer, or 2) after the payment of the third party debt and an internal rate of return on equity equal to 18%, 65% of the remaining proceeds.
- If cost saving are realized during construction, the Agency would receive the first \$400,000 of cost savings and the Developer would receive the next \$400,000 of cost savings. Additional cost savings will be evenly split between the Agency and the Developer.

Minority and Women-owned Business Enterprises (M/WBE): The Agency M/WBE

program is not applicable as no federal funding is involved in the actions recommended by this staff report.

Respectfully Submitted by: 

Leslie Fritzsche
Downtown Development Manager
on behalf of the Redevelopment Agency

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

Recommendation Approved:

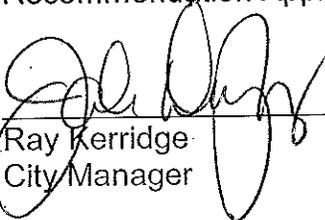
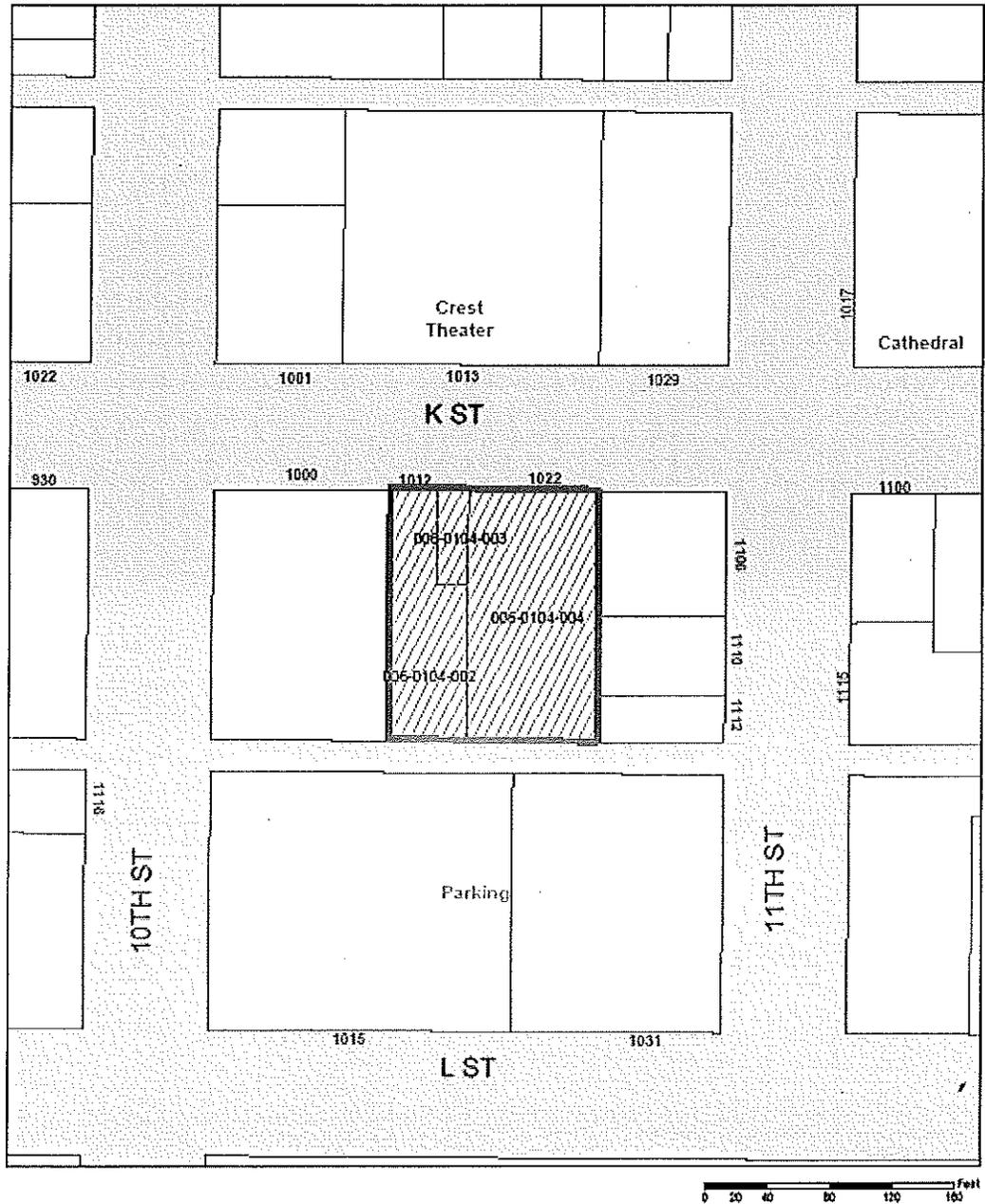

Ray Kerridge
City Manager

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Site Location Map 1012 - 1022 K Street



ATTACHMENT 2
Proposals for 1016-1022 K Street



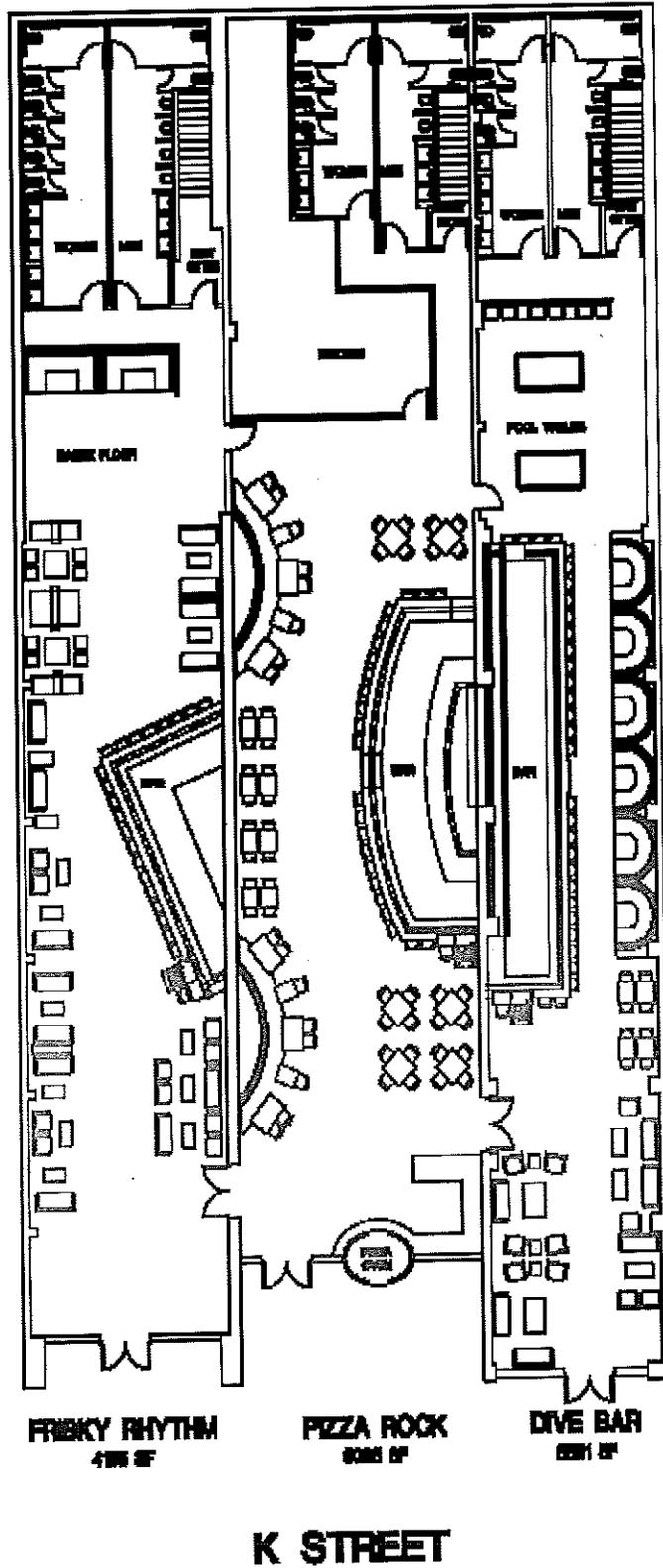
Playing music from 70's – 90's. rock, and R & B rhythms, this elegant 4,300 sq. ft. club is designed to attract 30+ crowd



Tranquil ambiance for the 30+ crowd, this 3050 sq. ft. venue will include a huge aquarium with a live mermaid and music from vintage jazz to ratpack vocals



From creative pizzas to specialty pizzas this 5600 sq. ft. restaurant will have a large indoor-outdoor patio and double-sided pizza oven and will feature award-winning championship pizza throwing



ATTACHMENT 3**Background***Site History:*

The Redevelopment Agency has made several efforts over a couple of decades to establish an entertainment district on K Street. In 1996, the City Council directed staff to prepare a Movie Theatre Study. This resulted in City Council direction to issue a Request for Proposals (RFP) process to attract an entertainment complex at 10th and K Street. In 1997, the City Council approved an Exclusive Right to Negotiate with Lankford/Taylor and Cordano to develop of an entertainment complex anchored by an AMC movie theatre complex. AMC eventually pulled out of this deal and the project did not move forward.

In August 2000, the City Council approved the purchase of the former Woolworth's site but was outbid by California News Service. The News Service could not get adequate financing for their project resulting in an offer from the Agency to purchase the property. The Agency purchased the property in May 2001.

In 2001, the Agency issued a Request for Qualifications, which drew interest from four responders including the CIM Group, California News Service, David Taylor Interests, and Ekistics (Saca/Cordano). In December, 2001, the CIM Group was selected to develop either a 40,000 square foot destination retail or an artistic theatre complex and 20 live/work lofts. The Agency decided to develop the site themselves and pursued discussions first with Old Navy in 2002 and then with CineArts. These discussions resulted in a proposal to provide a CineArts complex at the corner of 10th and K. This proposal met with opposition and the project did not come to fruition.

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 10th and K Street corner, with a focus on destination-oriented uses that take advantage of being located in an emerging entertainment district. Desired uses identified included cultural, entertainment, and commercial uses. J and L streets would provide supportive uses such as office, housing, and parking with ground floor retail.

In February 2005, the Agency issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for their site located at the southeast corner of 10th/K streets. Only one team submitted a proposal for a project, the K Street Central development team consisting of David Taylor Interests and the CIM Group. On August 16, 2005, the City selected the 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 adjacent sites controlled by the team. 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).

During this period, the Agency directed staff to research bringing a live theatre venue to the site. In March, 2006, a performing arts analysis was presented to the Agency and a determination was made that 1000 K Street could support a 200+ seat theatre. In August, 2006, the Agency authorized the City Manager to extend the ERN for 120 days splitting the site into two parts, 1000 K and 1012-1022 K Street. The 1000 K Street project included 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, and additional second-floor office space.

On October 31, staff brought the business terms for 1000 K Street to 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 had expired on December 15, 2006. The 1000 K Street project, the Cosmopolitan/Cabaret Theatre, was complete in September, 2008.

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 never finalized. Three ERN extensions were granted on January 8, 2008, June 24, 2008 and December 9, 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 by presenting the 1012-1022 K Street project for consideration.

Successful Entertainment Districts: Staff conducted outreach to a number of cities to discuss their development of successful entertainment districts. The results of these discussions are outlined below.

Denver has been particularly successful at creating an entertainment district in its downtown core. The centerpiece of Downtown Denver is the **16th Street Mall**, the 16-block long pedestrian and transit mall that serves as the retail core of Downtown Denver. The 16th Street Mall also includes housing, offices, hotels and two regional transportation stations. Seating areas along the Mall's tree-lined median and adjacent to cafes and restaurants attract pedestrian activity year-

round. In 2007, the 16th Street Mall ranked #2 in metro area tourist attractions.

San Diego also created a very successful entertainment district in the **Gaslamp Quarter**, a downtown area that was in a dramatic state of decline and disinvestment. The City focused on promoting development in the district to keep the city expanding and progressing in an economically positive direction. The 17 block district now has hundreds of boutiques and shops, and more than 150 restaurants, bars and nightclubs. Turning the area into a redevelopment district led to one of the most profound joint urban preservation efforts in San Diego history and capped a downtown revitalization effort which successfully transformed a once troubled area.

Austin's 6th Street and Warehouse District creates the backdrop for Austin's district for shopping and entertainment. Here, historic buildings mingle with restaurants, clubs, and music halls, giving rise to Austin's nickname the Live Music Capital of the world. Austin businesses are supportive of the entertainment venues as it supports tourism, supports the music industry and grows Austin's economy. In the last 5 years, Austin experienced growth related to the creative industry sector, which increased its national recognition as a creative hub bringing approximately \$1 billion in economic activity each year and 19,000 jobs. From microbreweries to tapas bars, the city's eateries now rival San Francisco's in volume, with one for every 300 residents in the metro area.

Long Beach is very similar to Sacramento in that it had a blighted commercial district at its core. **Pine Avenue** has now emerged as Long Beach's premier entertainment district after a 20-year redevelopment effort offering residents and visitors the best selection of fine dining and entertainment choices found in Southern California. The redevelopment efforts began along Ocean Boulevard with hotels and office buildings. By the late 1980's the Agency turned to Pine Street to specifically create an entertainment district. It began with the development of Pine Square a mixed use theatre, retail and residential. Less than 24 months later, an AMC theater, retail and restaurant uses followed.

Seattle's oldest neighborhood, **Pioneer Square** is an area that lived through boom, bust, renewal and renovation. Today, the area is home and neighborhood to many of Seattle's art galleries, eateries and web development companies. It is also the entertainment district of Seattle, and it comes alive when the sun sets and the district becomes an entertainment district, with one of the city's liveliest collections of nightspots, from sports bars to hard rock taverns to romantic eateries. The district is approximately 20 blocks and houses 30 art galleries, 50 restaurants and clubs, and hundreds of unique retail venues.

RESOLUTION NO. 2009-_____

Adopted by the City of Sacramento City Council

APPROVAL OF AGENCY'S SALE OF PROPERTY AT 1012-1022 K STREET FOR DEVELOPMENT OF ENTERTAINMENT VENUES

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Sacramento Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for Merged Downtown Sacramento Redevelopment Project Area ("Project Area").
- B. The Redevelopment Agency owns certain real property generally described as being located at 1012-1022 K Street, east of 10th Street and on the south side of K Street (006-0104-002, 006-0104-003 and 006-0104-004) ("Property") in the Project Area.
- C. 1012 K Street, LLC - Sacramento, LLC ("Developer") desires to enter Into Disposition and Development Agreement ("DDA") with the Agency to provide for the Property to be conveyed to Developer for construction of two nightclub venues at 1016 K Street and 1022 K Street (a total of 8,650 square feet), a 4,300 square foot restaurant at 1020 K Street, and a fourth entertainment use to be identified in the next nine months at 1012 K Street; as further described in the DDA (collectively, "Project"), a copy of which is on file With the Agency Clerk and City Clerk.
- D. In accordance with the California Environmental Quality Act ("CEQA") and its implementing regulations, the Agency has determined that the sale of the Property and approval of the Project are exempt under CEQA Guidelines Section 15332 and 15301(l) as an infill project as described in the accompanying staff report.
- E. A report under Health and Safety Code Section 33433 ("Section 33343 Report") has been prepared, filed with the City Clerk, and made available for public review pursuant to Section 33433.
- F. Proper notice of this action has been given and a public hearing has been held in accordance with Health and Safety Code Sections 33431 and 33433.

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

Section 1. The Agency's sale of the Property for construction of the Project is consistent with the goals and objectives of the Redevelopment Plan to strengthen retail and commercial functions and to stimulate new commercial expansion and economic growth is consistent with the Implementation Plan adopted for the Redevelopment Plan. The sale of the Property will assist in the elimination of blight as stated in the 33433 Report.

Section 2. The consideration for the Agency's conveyance of the Property to Developer is not less than the fair reuse value of the Property at the use and with the covenants, conditions, restrictions required by the DDA and the related Regulatory Agreement and Grant Deed.

Section 3. The City Council hereby approves the Agency's sale of the Property to the Developer for the Project pursuant to the terms of the DDA.

ATTACHMENT 5

RESOLUTION NO. 2009-_____

Adopted by the Redevelopment Agency of the City of Sacramento

**MERGED DOWNTOWN SACRAMENTO REDEVELOPMENT PROJECT AREA:
APPROVAL OF THE 1012-1022 K STREET REHABILITATION
PROJECT, AUTHORIZATION FOR EXECUTION OF A DISPOSITION AND DEVELOPMENT
AGREEMENT WITH 1012 K STREET, LLC. AND APPROPRIATION OF AGENCY FUNDS**

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Sacramento Redevelopment Plan ("Redevelopment Plan") and an "Implementation Plan" for the Merged Downtown Redevelopment Project Area ("Project Area").
- B. The 1012 K Street, LLC ("Developer") is requesting ownership of certain real property ("Property"), in the Project Area and which Property is generally described as 1012-1022 K Street and more particularly described in the legal description, attached as Exhibit A to the proposed Development and Disposition Agreement. The sale of the property and the construction of the Project are consistent with the goals and objectives of the Redevelopment Plan to strengthen retail and commercial functions and to stimulate new commercial expansion and economic growth is consistent with the Implementation Plan adopted for the Redevelopment Plan. The sale of the Property will assist in the elimination of blight as stated in the 33433 Report.
- C. The Agency and Developer desire to enter into an Development and Disposition Agreement ("DDA") a copy of which is on file with the City and Agency Clerk, which DDA would assist with the financing of the 1012-1022 K Street rehabilitation and would require improvements within the Property ("Project"), as further described in the DDA and associated Participation Agreement.
- D. The Agency and Developer desire to enter into a Reimbursement Agreement a copy of which is on file with the City and Agency Clerk, which Agreement would assist with the financing of hazardous abatement and interior demolition at the 1012-1022 K Street.
- E. The abatement and soft demolition work is an obligation of the Agency's, but is interwoven with the Developer's improvements such that they cannot be done practically by separate contract and competitive bidding would result in greater public costs in project delay.
- F. The Agency, as the lead agency pursuant to the California Environmental Quality Act has determined that the proposed project as described in the DDA is exempt from CEQA requirements.

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

Section 1. The Agency approves the project concept for the renovation of the former Hit-or-Miss Building and Rite Aid buildings at 1012 – 1022 K Street for three entertainment venues including two nightclub spaces (totaling 7,350 square feet), a 5600 square foot restaurant/lounge, and a fourth entertainment use at 1012 K Street to be identified within the next nine months.

Section 2. The Executive Director will prepare a Notice of Exemption for the sale of the Property and for the execution of the DDA, Reimbursement Agreement and related documents for the Project based on the finding in the accompanying staff report that the Project is in accordance with CEQA.

Section 3: After due considerations of the facts presented, the findings, including the environmental findings that the project not create significant impacts to traffic, air quality, parking or historic resources, as stated in the staff report that accompanies this Resolution, are approved.

Section 4. The consideration for the Agency's conveyance of the Property to Developer is the Developer obligations under the DDA, and the fair reuse value of the Property at the use and with covenants, conditions, restrictions required by the DDA and Grant Deed is <\$8,591,193.>

Section 4. The Development and Disposition Agreement, Participation Agreement, and related documents are approved and the Executive Director or her designee is authorized to execute the Development and Disposition Agreement, in substantially the same form as that which is on file with the City and Agency Clerks and to take all such actions, execute said instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the Development and Disposition Agreement to provide expenditures of \$5,400,000 from the Merged Downtown funds received as part of the Sheraton sale toward costs outlined in the Development and Disposition Agreement for the construction of a mixed use project.

Section 5. The Executive Director or her designee is authorized to enter into the Reimbursement Agreement for the abatement of hazardous building materials and soft demolition in an amount not to exceed two hundred ninety-one thousand five hundred dollars (\$291,500) of Merged Downtown funds received as part of the Sheraton sale allocated to the Project.

EXHIBIT A of the Agency Resolution

LEGAL DESCRIPTIONS

Parcel 1: 1012 K Street, APN 006-0104-002

Real property in the City of Sacramento, County of Sacramento, State of California, described as follows:

ALL THAT PORTION OF LOT 2 IN THE BLOCK BOUNDED BY 10TH, 11TH, K AND L STREETS IN THE CITY OF SACRAMENTO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHEAST CORNER OF SAID LOT 2 AND RUNNING THENCE, ALONG THE SOUTH LINE THEREOF, NORTH 70° 37' WEST 54.52 FEET TO A POINT LOCATED SOUTH 70° 37' EAST 106.04 FEET FROM THE SOUTHWEST CORNER OF LOT 1 OF SAID BLOCK, SAID POINT ALSO BEING THE SOUTHEAST CORNER OF THE LAND CONVEYED TO BANKERS LIFE COMPANY, BY DEED RECORDED JANUARY 6, 1966 IN BOOK 6601-06, PAGE 74; THENCE, PARALLEL WITH THE WEST LINE OF SAID LOT 1, AND ALONG THE EAST LINE OF SAID LAND CONVEYED TO BANKERS LIFE COMPANY, NORTH 19° 30' EAST 160.59 FEET TO THE NORTH LINE OF SAID LOT 2; THENCE, ALONG SAID LINE SOUTH 70° 40' EAST 54.29 FEET TO THE NORTHEAST CORNER OF SAID LOT 2; THENCE, ALONG THE EAST LINE OF SAID LOT 2, SOUTH 19° 25' WEST 160.64 FEET TO THE POINT OF BEGINNING.

Parcel 2: 1016 K Street, APN 006-0104-002 AND 006-0104-003

Real property in the City of Sacramento, County of Sacramento, State of California, described as follows:

ALL THAT PORTION OF LOT 2 IN THE BLOCK BOUNDED BY 10TH, 11TH, K AND L STREETS IN THE CITY OF SACRAMENTO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHEAST CORNER OF SAID LOT 2 AND RUNNING THENCE, ALONG THE SOUTH LINE THEREOF, NORTH 70° 37' WEST 54.52 FEET TO A POINT LOCATED SOUTH 70° 37' EAST 106.04 FEET FROM THE SOUTHWEST CORNER OF LOT 1 OF SAID BLOCK, SAID POINT ALSO BEING THE SOUTHEAST CORNER OF THE LAND CONVEYED TO BANKERS LIFE COMPANY, BY DEED RECORDED JANUARY 6, 1966 IN BOOK 6601-06, PAGE 74; THENCE PARALLEL WITH THE WEST LINE OF SAID LOT 1, AND ALONG THE EAST LINE OF SAID LAND CONVEYED TO BANKERS LIFE COMPANY, NORTH 19° 30' EAST 160.59 FEET TO THE NORTH LINE OF SAID LOT 2; THENCE, ALONG SAID LINE SOUTH 70° 40' EAST 54.29 FEET TO THE NORTHEAST CORNER OF SAID LOT 2; THENCE, ALONG THE EAST LINE OF SAID LOT 2, SOUTH 19° 25' WEST 160.64 FEET TO THE POINT OF BEGINNING.

Parcel 3: 1020-1022 K Street, APN 006-0104-004

Real Property in the City of Sacramento, County of Sacramento, State of California, described as follows:

LOT 3, IN THE BLOCK BOUNDED BY "K" AND "L" AND 10TH AND 11TH STREETS OF THE CITY OF SACRAMENTO ACCORDING TO THE OFFICIAL MAP OR PLAN THEREOF.

**1012-1022 K Street
Disposition and Development Agreement
Participation Agreement
Reimbursement Agreement**

On file at the City Clerk's Office

Report Regarding the Disposition of Property Acquired Directly or Indirectly with Tax Increment Funds (Health & Safety Code Section 33433)

I. Agreement

A copy of the Purchase and Sale or Lease Agreement ("Agreement") disposing of an interest in Agency real property is attached to this Report.

II. Summary of Terms of Disposition

AGENCY'S ESTIMATED COST OF ACQUIRING THE LAND*	
Purchase Price (or Lease Payments Payable During Agreement)	2,630,000
Commissions	
Closing Costs	10,000
Relocation Costs	
Land Clearance Costs	
Financing Costs	
Improvement Costs (e.g. utilities or foundations added)	
Other Costs: Asbestos and lead abatement	291,500
TOTAL	2,931,500

ESTIMATED VALUE OF INTEREST CONVEYED	
Value of the property determined at its highest and best use under the redevelopment plan	2,950,000

ESTIMATED REUSE VALUE OF INTEREST CONVEYED	
Value of property determined with consideration of the restrictions and development costs imposed by the Agreement	<8,591,193>

VALUE RECEIVED ON DISPOSITION	
The purchase price or the total of the lease payments due to the Agency under the Agreement	\$1 for purchase

III. Explanation of Disposition for Less than Full Value

Disposition of this property for less than full value is due to the restrictions on use and significant expenditures to accommodate building design enhancements required for this project. Without a significant public subsidy, the Project would not be financially feasible. The cost to develop the proposed project consistent with the requirements that are being imposed on the project exceeds the value of the project. Use of the property will be restricted by a recorded Regulatory Agreement including, but not limited to:

- Acceptable retail tenant types for the 12,800 square feet of retail space at 1012 K Street will be subject to the Agency’s approval. The space will be leased to retailers that enhance the K Street corridor and reestablish it as a destination entertainment district.
- Unacceptable types of retail tenants include: check cashing, bail bonds, pawnshop, sale of adult-oriented materials, video game arcade. The list of unacceptable uses is included in the Agency’s Regulatory Agreement for the property.
- Construction must commence by no later than April, 2009 and be completed by January 2010.

The cost to complete construction of the project is estimated to be approximately \$11,800,000. With abatement costs, total project costs are approximately \$12,090,000.

The resale value upon completion based on the capitalized income approach is estimated to at \$3,515,612 returns a negative resale value of \$8,591,193.

In establishing the reuse or resale value of the subject site, a pro-forma analysis was completed on the proposed project. Assuming the development specifications as contained in the Disposition and Development Agreement, and assuming development in the near-term, the re-use value at completion of construction is estimated at a negative (\$7,347,456). This amount includes 1) the cost of sale; 2) potential developer profit; and 3) and Agency costs, estimated at a total of \$681,873.

IV. Elimination of Blight

The site contains a vacant deteriorated building that has suffered from lack of significant maintenance since the vacation of the California Harvest Market, Capitol Clothing, Hit-or-Miss and the Rite Aid uses several years ago. Dilapidated systems and antiquated configuration add to its role as a major blighting influence in the area. Completion of the proposed project will eliminate physical blight by restoring the property to a productive use.

The proposed project described in the Agreement will result in the elimination of the following blighting influences: impairment of economically viable uses; incompatible uses; depreciated or stagnant property values; and low rents and underutilized property.

The project is listed in the adopted Implementation Plan for the Merged Downtown Sacramento Redevelopment Project Area. It furthers the redevelopment of the Project Area as well as the goals of the Implementation Plan in the following respects:

- improvement of visual and aesthetic appearance of downtown;
- attraction of new businesses;
- improvement and upgrading of appearance and safety of downtown area sidewalks and alleys;
- development of retail to support the need of tenants, shoppers, visitors, residents and cultural and civic events