SHRA

REPORT TO THE REDEVELOPMENT AGENCY AND CITY COUNCIL
City of Sacramento
915 I Street, Sacramento, Ca 95814-2671
www.CityofSacramento.org

Public Hearing
June 21, 2011

Honorable Mayor and Members of the City Council
Honorable Chair and Members of the Redevelopment Agency Board

Title: 700 Block of K Street Disposition and Development Agreement and Financing for the 700-730 K Street Project

Location/Council District: South side of the 700 block of K Street, 700-730 K Street (Council District 1)

Recommendation: Conduct a public hearing pursuant to Health and Safety Code Sections 33433 and 33431 and upon conclusion; **Adopt a Redevelopment Agency (Agency) Resolution:** 1) considering the environmental effects of the 700-730 K Street Project and adopting findings of fact and overriding considerations for significant impacts identified in the 700 Block of K Street Environmental Impact Report;2) authorizing the Executive Director or her designee to enter into a Disposition and Development Agreement (DDA) and seller carry back loan for $470,120 with 700 Block, LLC or related entity for the development of 700-730 K Street; 3) enter into a commitment letter with the Downtown Sacramento Revitalization Corporation (DSRC) to provide a $10.1 million grant from Merged Downtown Project Area low-moderate tax-exempt bond funds and a forgivable loan of $3.6 million from Merged Downtown Project Area tax-exempt bond funds and tax increment funds; 4) execute a grant and forgivable loan agreement with the DSRC consistent with the commitment letter; 5) authorize the transfer of $3.6 million from the following Merged Downtown Sacramento Project Area redevelopment funds to the 700 K Street Project fund (Fund 100): $196,357 from 700/800 K Street Development (Fund 100), $640,000 from Downtown Acquisition (Fund 100), $918,758 from Development Assistance (Fund 355), $525,000 from Pioneer Bridge (Fund 100), $44,500 from Predevelopment Services (Fund 100), $50,000 from Tower Bridge Landing (Fund 100), $48,900 from 10th Street Lighting (Fund 100), $150,000 from Downtown Infrastructure Assessment (Fund 100), and $1,026,485 from 700 Block K Street (Fund 400); 6) authorize the transfer of $10.1 million in Merged Downtown Project Area low-moderate redevelopment funds to the 700 K Street Project fund by defunding $3,000,000 of Downtown low-moderate flow (Fund 102) from Downtown Housing NOFA and transferring this amount to the Township 9 project, defunding $3,000,000 of 2002 Downtown low-moderate tax exempt bond funds (Fund 359) from the Township 9 project and transferring this amount to the 700 K Street

Project fund, transferring $3,159,738 of 2002 Downtown low-moderate tax exempt bond funds (Fund 359) comprised of $3,059,738 from the Downtown Housing NOFA and $100,000 from Housing Development Assistance to the 700 K Street Project fund, and transferring $3,940,262 of 2005 Downtown low-moderate tax exempt bond funds (Fund 402) from Downtown Housing NOFA to the 700 K Street Project fund. **Adopt a City Council Resolution:** finding that 1) the Redevelopment Agency's report pursuant to Health and Safety Code section 33433 is correct and that the 700-730 K Street Project will assist in the elimination of blight, provide housing for low and moderate income persons, and is consistent with the implementation plan, and 2) finding that the Redevelopment Agency's sale of the land pursuant to the DDA is not less than the fair reuse value.

Contact: Leslie Fritzsche, Downtown Development Manager, 808-5450; Christine Weichert, Assistant Director, SHRA, 440-1353

Presenter: Beth Tincher, Economic Development Department and Joel Riphagen, Sacramento Housing and Redevelopment Agency

Department: Economic Development Department and Sacramento Housing and Redevelopment Agency

Description/Analysis

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Issue: On July 13, 2010, the Agency selected 700 Block Investors, LP, a partnership between D&S Development and CFY Development (Developer), to redevelop the south side of the 700 block of K Street (see Attachment 1, Location Map). The Agency entered into an Exclusive Right to Negotiate agreement (ERN) with the 700 Block Investors, LP in August 2010 to allow the Agency to evaluate a development proposal and negotiate a DDA for properties located at 700-730 K Street.

The members of 700 Block Investors, LP, now doing business as 700 Block, LLC, have proven track records and extensive experience in the acquisition, design, financing and management of landmark infill projects in urban settings. The development team was selected for the following reasons:

- Proven track record with adaptive reuse, historic, infill, mixed-use, redevelopment and housing projects;
- Great vision for the 700 block of K Street, meeting the goals of providing a mixed-use development including both commercial and residential uses;
- Passion for creating unique, organic, destination-oriented commercial spaces that transform entire areas; and
- Affordable housing development experience.

The development plan proposes to transform a blighted half block of K Street into a vibrant mixed-use development providing both commercial and residential uses. The Developer intends to restore the historic storefronts along K Street, rehabilitate these commercial spaces, and bring in new retail tenants (see Attachment 2, Development Proposal). Demolition of the southern 60 feet (back portion) of some of the structures will provide for the construction of a new 6-story residential building over 2 levels of parking. Parking spaces will be available to residential tenants. A total of 63,000 sq. ft of commercial space will be provided.

To address the goal for additional housing units on K Street, the project includes 137 units: 15 over the commercial uses along K Street and 122 units in the new structure along the alley. The project is designed to attract a variety of tenants. Units will range in size from studios to two-bedrooms. Approximately 52% of the units will be restricted at 60% area median income (AMI), 8% of the units at restricted at 80% of AMI and the remainder at market rate. Pending final design and permit approval, the Developer intends to begin construction in January 2012. Construction will span an 18-24 month period and will be complete by the end of 2013.

The project is innovative in its use of a New Markets Tax Credit (NMTC) structure for the financing. For purposes of maximizing the NMTC proceeds and facilitating repayment, the funding for the project will be committed to the Downtown Sacramento Revitalization Corporation (DSRC). It is expected that the DSRC will then loan these funds via the NMTC structure to the Developer to fund the project. The land will be sold to the Developer and the purchase financed with seller carryback funding to the Agency. For additional project information, including the project's history and proposed NMTC structure, see Attachment 3 - Background.

The adoption of the DDA and related documents marks a milestone towards removing significant blight from the 700 block of K Street and creating a mixed-use development in the heart of Downtown on K Street. These agreements will allow the development team to construct a project that will create long awaited activity at the west end of K Street; will act as a catalyst toward revitalizing additional areas along K Street; will draw additional patrons to the Downtown area; and will work towards linking Downtown Plaza to the Convention Center. This report recommends disposition of property acquired with tax-exempt redevelopment bond funds to the Developer. As such, the hearing of this report by the Agency shall serve as the public hearing needed to meet Health and Safety Code Section 33433 requirements for disposition of the subject property.

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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 Amended Merged Downtown Redevelopment Plan and Five-Year Strategy as well as the 2030 General Plan and Central City Community Plan. Additionally, the proposed project is consistent with the JKL Community Workshop objectives for the 7th and K Street site and the Implementation Plan objectives including:

- Eliminates blight by providing for the reuse of obsolete aged and deteriorated buildings;
- Creates unique commercial uses such as restaurants, mixed specialty retail and entertainment uses;
- Develops a range of housing options within the downtown area including affordable housing, which will support commercial uses to create a vibrant 24-hour city;
- Serves as a catalyst redevelopment project, assisting in attraction of additional quality development to the area and K Street.

- Provides uses that will strengthen the downtown area and other retail uses in the immediate vicinity including Downtown Plaza through the attraction of new business and by providing housing units within the immediate vicinity of the retail uses;
- Attracts additional private sector funding and NMTC funding by providing public sector funding;
- Preserves the historic character of the 700 block buildings by restoring and rehabilitating the storefronts along K Street;
- Improves the visual and aesthetic appearance of downtown through quality design; and
- Stimulates economic growth by providing for commercial expansion and employment.

The low and moderate income housing funds will be used to finance the project's 72 units restricted to be affordable at 60% AMI. While the funding will be concentrated specifically on these units, both the 60% and 80% AMI units will be subject to affordability restrictions lasting 55 years. The commercial space will also be subject to regulatory agreement lasting 30 years.

Environmental Consideration: In accordance with the California Environmental Quality Act (CEQA) Guidelines, the City of Sacramento Environmental Planning Services staff prepared a focused Environmental Impact Report (EIR) for the 700 Block of K Street Project as a subsequent project identified in the 2030 General Plan Master EIR pursuant to CEQA Guidelines §15178.

The Initial Study identified potentially significant impacts to Cultural Resources, Hydrology and Water Quality, Noise, Transportation and Circulation, and Urban Design and Visual Resources. Mitigation measures from the Master EIR were applied to the project to reduce all of the potentially significant impacts with the exception of Cultural Resources. Therefore, a Draft EIR was prepared to address the significant and unavoidable impacts to Cultural Resources due to alteration of the historic buildings and circulated for public comment. Findings of Fact and Statement of Overriding Considerations, which include the mitigation measures for the project, were prepared and are included in Attachment 7A.

Six comment letters on the Draft EIR were submitted by: 1) Sacramento Metropolitan Air Quality Management District, 2) Sacramento Municipal Utility District, 3) Center for Biological Diversity, 4) Environmental Council of Sacramento, 5) Walk Sacramento, 6) Sacramento Area Bicycle Advocates.

The comment letters and responses are included in the Final EIR, which is on file with the City Clerk and Agency Clerk. The City Planning Commission approved certain permits for the Project and certified the Environmental Impact Report on May 12, 2011. After the City Preservation Commission approved the project on May 19, 2011, the City filed and posted a Notice of Determination on May 27, 2011. The actions pertaining to the agreements, loans and budget amendments in this report are in furtherance of the previously approved project and do not constitute a new project or substantive changes or modifications to the approved project. As required by CEQA Guidelines § 15096(f), the Redevelopment Agency has considered the environmental effects of the proposed project as shown in the EIR. Because there is neither any new information of substantial importance nor any substantial changes with respect to the circumstances under which the project will be undertaken that would require preparation of supplemental environmental documentation, the recommended actions do not require further environmental review per State CEQA Guidelines §§ 15162 or 15163.

Sustainability Considerations: The project is considered to be an infill development, which provides multiple benefits including providing mixed income housing options close to jobs, reducing the need to build new development on the urban fringe, increasing the viability of and dependency on alternative modes of transportation, preserving natural resources, and providing for efficient use of land, services and infrastructure. Sustainable measures that have been incorporated through conditions of approval for the project include: 1) The project shall include construction of at least one green roof to the satisfaction of the Planning Director, 2) High HTC-rated and energy efficient windows shall be installed in the residential and commercial areas and storefronts. For the four structures that are listed as historic per CEQA, the original windows will be repaired or replaced in accordance with the Secretary of the Interior's Rehabilitation Standards, and 3) All toilets shall be low-flow.

Commissions/Committees: The project has received approval from the following bodies: Planning Commission approved on May 12, 2011; Preservation Commission approved on May 19, 2011. In addition, the development team has presented the proposed development concept to a number of other bodies for their review and comment. These include the Preservation Roundtable, the Downtown Sacramento Partnership Strategic Task Force and Executive Committee, the Sacramento Old City Association, Neighborhood Area Group 1, and the Environmental Council of Sacramento (ECOS). All entities that took action recommended approval of the project, some with conditions. For the dates of presentations to and actions by these bodies, see Attachment 3, Background. On June 15, 2011, the Downtown Sacramento Partnership Board approved the project and the project was presented to the Sacramento Housing and Redevelopment Commission (SHRC) as an informational item.

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Rationale for Recommendation: The recommended actions in this report further the long standing City and Agency goals of revitalizing K Street. In the recent past, significant redevelopment projects have been completed including the Citizen Hotel, the Cosmopolitan, and the first phase of the K Street Streetscape and St. Rose of Lima Park. Currently 24 Hour Fitness is expanding their facility, three new entertainment venues have opened at 10th and K Street and cars will be reintroduced to K Street by the end of the year. With these successes, it is crucial that we capitalize on these investments and continue the momentum to provide catalyst projects that will continue to revitalize and solidify K Street as a destination by providing for a range of uses on the 700 and 800 blocks of K Street.

The commercial and residential uses are anticipated to be complete by the end of 2014. The Proposed Project will generate a number of benefits to the Agency and to the City including:

- Revitalizes and removes blight from an entire half block on K Street

- Preserves the historic character of the block
- Creates unique destination retail and housing in a transit-oriented, mixed-use pedestrian friendly development
- Attracts $12 million in New Markets Tax Credit equity and $21,262,500 ($18,250,000 bank loan and $3,031,500 in developer equity) of additional private investment for $14.47 million of public investment
- Requires partial repayment of public investment to reinvest in Downtown projects
- Creates rental housing units with a mix of affordability including 60% affordable units (at 60% and 80% of AMI) and 40% market rate units
- Creates 500 permanent jobs
- Generates approximately $1.6 million in annual sales tax
- Brings an estimated additional 5,000-6,000 patrons to K Street each week.

Public Hearing: This project is subject to Health and Safety Code Section 33433, which requires certain findings and approval for the sale or lease of Agency property acquired with tax increment funds. The Agency is required to make available a report (Attachment 7C, 33433 Report) that references the proposed DDA and cites the cost of land the Agency acquired, including relocation and improvements, estimated reuse value given the use restrictions, the purchase price to be paid by the Developer, explanation of why the sales price is less than fair market value, and an explanation of why the sale of the property will assist in eliminating blight. The report has been prepared and is attached as an exhibit to the City and Agency resolutions.

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Financial Considerations: The proposed project is estimated to cost $47,732,620, of which the Developer will contribute $33,262,500 in private equity, New Markets Tax Credit proceeds and debt. The Agency also provided a $300,000 predevelopment loan for the project on March 15, 2011. Staff is recommending an allocation of $10,100,000 of low and moderate income funds for the new construction of affordable housing units and $3,600,000 of commercial tax increment for the rehabilitation of the commercial spaces and development of market rate housing units in the existing structures. In addition Staff is recommending approval of seller carryback financing for the land acquisition. The existing low and moderate housing resources are tax-exempt funds that cannot be repaid to the Agency, and therefore are proposed to be granted to the DSRC. The commercial funds are proposed to be provided to the DSRC as a forgivable loan. Fifty percent of the commercial loan is to be forgiven at the closing of project financing and the balance forgiven at the start of project construction. Both the low-moderate and the commercial funds will then be loaned to the Developer for the project in accordance with the New Markets Tax Credit structure.

The land acquired with taxable bonds will be sold to the Developer for $470,120 as evidenced by a seller carry back note bearing 8.25% interest. The original ERN included a $100,000 deposit provided by the Developer that would be used for third party pre-development costs including, but not limited to, the required environmental documentation and supporting studies. For additional project financial details, see Attachment 4, Project Summary; Attachment 5, Maximum Rents and Incomes; and Attachment 6, Cash Flow Proforma.

M/WBE Considerations: Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by any federal funding for the project.

Approved by: _______________ for
LaShelle Dozier
Executive Director, SHRA

Respectfully Submitted by: _______________
LESLIE FRITZSCHE
Downtown Development Manager

Approved by: _______________
JAMES R. RINEHART
Economic Development Director

Recommendation Approved:

for WILLIAM EDGAR
Interim City Manager

Approved as to form:

Agency Counsel

APPROVED AS TO FORM:

CITY ATTORNEY

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See separate documents for Resolutions

SHRA

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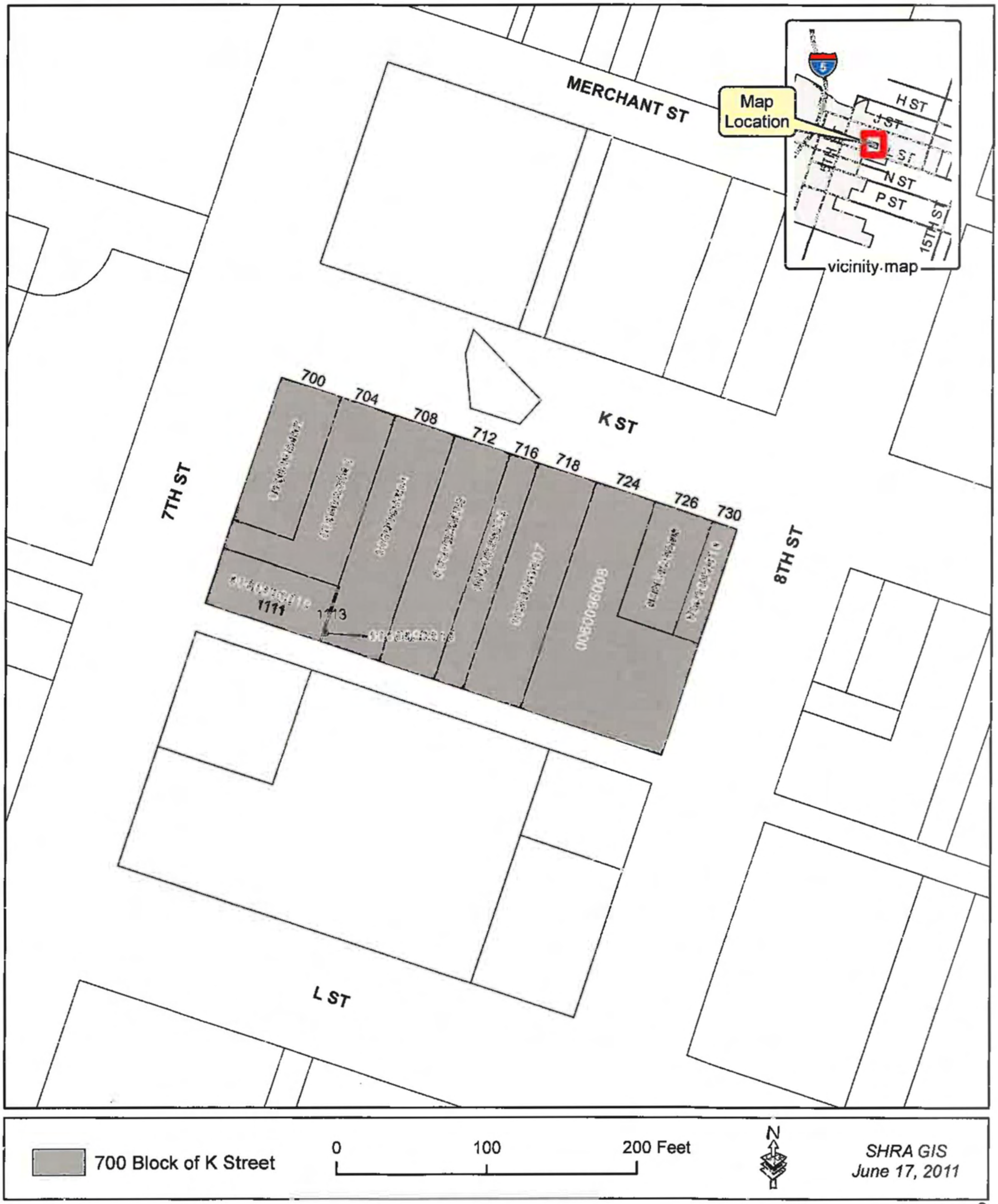
700 Block of K Street



SHRA GIS
June 17, 2011

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Attachment 2
Proposed Project

NORTH ELEVATION AT ROOF GARDEN

NORTH / K STREET ELEVATION

700 BLOCK INVESTORS LP | 700 BLOCK | 700 K STREET SACRAMENTO, CA | NORTH ELEVATIONS | kuchman | A3.2

WEST / 7TH STREET ELEVATION

EAST / 8TH STREET ELEVATION

SOUTH / ALLEY ELEVATION

700 BLOCK INVESTORS LP | 700 BLOCK | 700 K STREET SACRAMENTO, CA | SOUTH, EAST & WEST ELEVATIONS | kuchman | A3.1

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Attachment 3
Background

Project Description: The development plan proposes to transform a blighted half block of K Street into a vibrant mixed-use development providing both commercial and residential uses. The Developer intends to restore the historic storefronts along K Street, rehabilitate these commercial spaces, and bring in new retail tenants. Demolition of the southern 60 feet (back portion) of some of the structures will provide for the construction of a new 6-story residential building over two levels of parking. A total of 63,000 sq. ft of commercial space will be provided. Parking spaces will be available to residential tenants.

To address the goal for additional housing units on K Street, the project includes 137 units: 15 over the commercial uses along K Street and 122 units in the new structure along the alley. The project is designed to attract a variety of tenants. Units will range in size from studios to two-bedrooms. Approximately 52% of the units will be at 60% area median income (AMI), with 8% of units at 80% of AMI and the rest at market rate. Resident amenities will include a community room, fitness room, and laundry room, as well as a private rooftop garden.

History: In 2002, a series of City Council and Sacramento Housing and Redevelopment Agency workshops about funding priorities resulted in the K Street corridor being identified as one of the top priorities for the City with a focus on developing "destination retail" that would invigorate street life and attract shoppers. Resources were to be focused on projects that met multiple redevelopment goals such as blight removal, retail revitalization and residential development to support downtown activities.

In October 2004, City Council in conjunction with the Economic Development Department conducted the JKL Workshop with the goal of developing a common vision for these streets. In 2005, the City Council approved the JKL Workshop Action Plan. The action plan identified opportunity sites that would remove blight and create catalyst projects that would link Downtown Plaza to the Convention Center area. The 700/800 blocks of K Street were identified as a focal catalyst node with the direction to provide mixed-use projects that would include retail, commercial and residential uses for the following reasons:

- The site connects two regional destinations, the Downtown Plaza and the Convention Center. The 700/800 blocks of K and L Streets both continue to experience high vacancy rates and significant blight.
- The property's footprint is relatively large and could support significant housing, retail and commercial uses.
- Development of the site could provide uses that will assist in the elimination of blight and will bolster current and recently completed investments made in the Downtown area including Westfield Downtown Plaza, the Citizen Hotel, the Cosmopolitan, and three new entertainment venues on the 1000 block of K Street.

As part of the Action Plan approval, the City Council approved the issuance of Request for Proposals and Zeiden Properties was selected to develop the 700 block of K Street and the Evergreen Group/Mohanna for the 800 block. As a part of the ERN process, a real estate strategy was established to assemble properties on these blocks.

In June 2006, Zieden Properties signed a Disposition and Development Agreement to provide property and funding for the rehabilitation of properties on the south side of the 700 Block of K Street.

By 2006-2007, the Agency was able to acquire three lots including 700 K Street, 704 K Street, 730 K Street. In addition, Zeiden Properties also purchased 708 K Street.

In November 2006, a fire broke out at 810 K Street, which resulted in subsequent demolitions of 810, 812, 802 and 804 K Street properties once the City's Dangerous Buildings Department deemed these properties structurally unsafe. The City and development teams discussed potential alternative approaches and assistance packages to ensure the Land Exchange Agreement could be accomplished and that development projects could move forward. While solutions were discussed, negotiations were inconclusive and no agreements were reached. The 800 Block team was unwilling to undertake the property exchange. In February 2007, the Agency filed a suit against the 800 Block team for Non Performance under the Land Exchange Agreement and Breach of Contract.

In December 2008, the Agency pursued acquisition of nine parcels in the 700 and 800 blocks of K Street, five of which were in the 700 block, through eminent domain. A settlement was reached for 712, 716, 718,724 and 726 K Street. These properties transferred in October 2008. Due to the litigation and the fact that Zeiden experienced ongoing costs for over a two year period and that Zeiden had only secured short term financing, the Agency, in 2008, acquired 708 K Street and 1111 7th Street from Zeiden.

In December 2009, the Agency Board issued an new RFQ requesting mixed-use development proposals on Agency-owned properties in the 700/800 blocks. On July 13, 2010, the Agency Board selected two development teams as the preferred developers to redevelop the Agency-owned properties on the both 700 and 800 blocks of K and L Streets. D&S Development, Inc. and CFY Development, Inc. (700 Block Investors LP) were selected for the south half of the 700 block of K Street and the 800 Block LLC (David Taylor Interests, Inc., CIM Group and Domus Development) for portions of the 800 block between K and L Streets.

On August 24, 2011, the Agency entered into an Exclusive Right to Negotiate with the 700 Block Investors, LP, now doing business as 700 Block, LLC, to allow the Agency the opportunity to evaluate the development proposal, prepare environmental documents, and process entitlements for the project.

Commissions/Committees: On September 11, 2010, 700 Block, LLC presented the proposed development concept to the Preservation Roundtable. The project was presented to the Preservation Commission on January 5, 2011, the Planning Commission on January 13, 2011 and to the Downtown Strategic Task Force on January 27, 2011 for early review and comment. The project was also presented to the Sacramento Old City Association on April 4, 2011 and to the Neighborhood Area Group

1 on April 6, 2011 for review and comment. On May 5, 2011, the Downtown Sacramento Partnership Strategic Task Force forwarded a recommendation of project support to the Downtown Sacramento Partnership Board of Directors subject the provisions that 1) the DSRC participate in the sale proceeds, 2) clarification be provided that there would be no recourse to the City should the Developer default on their loan to the NMTC investment fund, and 3) the Developer Fee be distributed at specific milestones during construction, lease up, and project stabilization. On May 12, 2011, the Downtown Sacramento Partnership Executive Committee forwarded the same recommendation to the Downtown Sacramento Partnership Board.

Planning staff also routed the project for early review to the Downtown Sacramento Partnership, the Sacramento Old City Association, The Preservation Roundtable and the Environmental Council of Sacramento (ECOS). On May 12, 2011 the Planning Commission approved the special permits for the project subject to conditions of approval and on May 19, 2011 the Preservation Commission approved the project with conditions.

On June 15, 2011, the Downtown Sacramento Partnership Board took action to approve the project and the project was introduced to the Sacramento Housing and Redevelopment Commission (SHRC) as an informational item.

The DSRC, a 501c3 nonprofit, tax-exempt corporation, was established to alleviate the burdens of the City and Redevelopment Agency by assisting with the revitalization of the River District, the Railyards and the Merged Downtown redevelopment areas. Mayor Johnson appointed Councilmembers Ashby and Schenirer to serve as directors of the DSRC Board. Councilmember Ashby serves as the Board President. The DSRC Board has received information about the 700 Block project and at their June 21, 2011 board meeting, will be reviewing the Commitment Letter for approval. The results of that vote will be presented at the Agency's June 21st meeting. Because the Councilmembers serve as noncompensated officers of the DSRC, they are deemed to not have an interest in contracts involving the DSRC.

Developer: The Developer, 700 Block LLC, is led by CFY Development, Inc, and D&S Development Inc. CFY has more than 20 years experience in affordable housing and D&S Development, Inc. has been developing and providing management services to commercial and office properties in the Sacramento area for many years. The Agency has previously participated in financing four affordable housing projects initiated by CFY Development in the greater Sacramento area. The 184 unit Cordova Meadows project involved the rehabilitation of 32 boarded and vacant buildings for affordable family housing in Rancho Cordova, two projects were renovated in the Auburn Boulevard Redevelopment Area, County Square Senior Apartments (78 units) and Ladan Senior Apartments (147 units), and most recently, CFY completed Globe Mills, a 134 unit historic renovation in Alkali Flat. In addition, the Agency has been engaged with D&S Development Inc. on the renovation of the Maydestone and the Old Sac iLofts.

Property Management: Property management will be provided by CFY Development Inc. Prior to disbursement of project financing, the property manager will submit to the Agency, and the Agency will approve, a property management plan.

<u>Resident Services</u>: The Developer will be required to provide a minimum of 15 hours per week of resident services, including services such as computer training, employment workshops, and conflict management. The Resident Services Provider will be determined by the Developer and approved by the Agency before execution of the funding agreements. The selected resident service provider will have experience in the provision of Resident Services in affordable housing projects.

<u>Security</u>: Developer will be required to provide a security camera system approved by the Sacramento Housing and Redevelopment Agency and lighting adequate to properly illuminate all common spaces. In addition, Developer has included funding for security patrol.

<u>Project Financial Structure</u>: The Agency and the development team have been working to leverage as many private resources as possible for the projects, and the developer has succeeded in securing a pledge of approximately $12 million in New Markets Tax Credits (NMTC).

New Markets Tax Credits are an innovative financing mechanism that leverage private monies for projects in eligible census tracts. It is similar in some ways to Low Income Housing Tax Credits, a program used widely in Sacramento, but focuses on commercial or mixed-use projects. The program allows taxpayers to receive credits against federal income taxes for making qualified equity investments to eligible projects. NMTCs have not been used in Sacramento to date.

This equity along with Developer equity will bring the total amount of equity in the project to $15 million. A commitment for a private loan from U.S. Bank of $18.25 million has also been secured.

The proposed structure for this project is dictated in part by two factors. One is the requirements of NMTC and the corresponding need to maximize as much in tax credit equity as possible. The second is the fact that the majority of the proposed public funding for the project is tax-exempt redevelopment bond funds which can have no expectation of repayment. Therefore staff is proposing utilizing the Downtown Sacramento Revitalization Corporation (DSRC) for the project. The proposed public funding will be provided through a grant agreement and forgivable loan agreement to the DSRC. All of the public funding will, in turn, be loaned to the project pursuant to the requirements of the New Markets Tax Credit program. The investment fund will utilize it to leverage the New Markets Tax Credits for the project.

The land was purchased with tax exempt and taxable tax increment bond funds and is the subject of a direct disposition from the Agency to the Developer through the DDA (attached herein as Exhibit 7D) and a seller carry back loan of $470,120 (attached as Exhibit 7E) for the Agency's taxable funds used for the acquisition. The balance of the funds used were tax-exempt and cannot be recouped by the Agency. This direct disposition of the land will ensure that the Agency will have security in the land into the future.

The Agency will provide a $13,700,000 investment to the DSRC for use in the project. Transfer of these funds and of the land will not occur until all the required entities have been formed; there is evidence that all funding sources are present in an escrow account; entitlements are complete; and building permits have been pulled.

The DSRC will, in turn make an investment into the NMTC Investment Fund to generate the tax credits. The $3,031,500 of developer equity and the private loan of $18,250,000 will also be placed into the investment fund. The investment fund will in turn make a secondary investment known as a "Qualified Equity Investment" into a Community Development Entity (CDE) to acquire the tax credits. The proceeds generated will be utilized to make the equity investment loans into the Developer. The proposed terms of the DSRC's financing are:

1. DSRC provides $13,700,000 into the Investment Fund using a direct loan for the taxable funds and a recoverable grant/forgivable loan structure for the tax exempt funds, consistent with the New Markets Tax Credit regulations as well as the tax-exempt bond regulations.
2. DSRC receives 40% of the net cash flow from the project as repayment of debt less the payments included as part of the Agency seller carry back for the land (see Attachment 6, Cash Flow Pro-forma)
3. DSRC and the Agency will participate in any proceeds from a refinance or sale of the property.

These business terms are reflected in the attached commitment letter (Attachment 7E).

As a condition of the transfer of land to the Developer, regulatory provisions will be attached to the land (55 years for the affordable housing project and 30 years for the commercial provisions) through two regulatory agreements, which are shown as part of the attached DDA (Attachment 7D).

<u>Housing Units</u>: The project unit breakdown and affordability mix is as follows:

	Studio	1 Bedroom	2 Bedroom	Total	%
60% AMI	21	47	4	**72**	52%
80% AMI	4	6	1	**11**	8%
Unrestricted	17	29	8	**54**	40%
Total	**42**	**82**	**13**	**137**	
%	31%	60%	9%		

The 700 block project provides for housing options in an excellent location, only two blocks from the State Capitol and within an employment center that includes many office buildings. This transit-oriented development offers housing options adjacent to jobs and light rail.

<u>Retail/Commercial</u>: The Agency's goal for the 700 block of K Street is to redevelop Agency-owned properties into a vibrant mixed-use development including residential, retail, and commercial uses. The development team proposes to bring a unique mix of local and national tenants to the 700 block to create a unique destination.

The following tenants have been identified for the commercial spaces.

Address on K Street	**Building Reference**	**Proposed Use**

700 (Historic Landmark Building)	Pacific State's, Men's Warehouse	Live Music Venue with rooftop terrace, restaurant
704	Joe Sun	2nd floor retail
708	Flagstone	Clothing Store Restaurant with rooftop terrace
712	Buckley/Galleria	Women's Clothing Boutique Floral Shop Retail
716 (Historic Landmark Building)	Boyne/Morelia	Bakery, coffeehouse
718		Sake Lounge/Resturant
724	W.T. Grant	Restaurant/Brewery
726	Burt's Shoes/Tower Records	Reserve for National retailer
730		Restaurant
1114 8th Street	Tex Mex	Retail

Tenants have been identified for 75% of the ground floor retail space. Ground floor commercial uses will be comprised of 50% restaurant and entertainment uses and 50% retail. The basement spaces within the buildings create unique opportunities and are proposed to be developed as active spaces whenever possible.

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700 Block of K Street
Mixed-Use Project Financial Summary

Address	700, 704, 708, 712, 716, 718, 724, 726, and 730 K Street, 1111 and 1113 7th Street, and 1114 8th Street
Number of Residential Units	137
Year Built	Various for commercial space, new construction for residential
Acreage	1.175 acres
Residential Affordability	72 units (53%) at or below 60% of Area Median Income (AMI) 11 units (8%) at or below 80% of Area Median Income (AMI) 54 units (39%) unregulated market rate

Residential Unit Mix and Rents	60% AMI	80% AMI	Market Rate
Studio	21	4	17
1 BR / 1 BA	47	6	29
2 BR / 1 BA	4	1	8
Total	72	11	54

Square Footage	*Avg Per Unit*	*Total*	
Studio	545	22,886	square feet
1 BR / 1 BA	701	57,449	square feet
2 BR / 1 BA	1,020	13,260	square feet
Total Residential		**93,595**	square feet
Total Commercial		**65,200**	square feet
Total Parking		**28,973**	square feet
Total Other (common spaces, etc.)		48,689	square feet
TOTAL SQUARE FOOTAGE		236,457	square feet
Resident Facilities	The project will include a community area with kitchen, computer center, and activity area; a laundry room; a fitness room; and a private rooftop garden.		

Permanent Sources	*Residential**	*Per Unit*	*Per Square Foot*	*Commercial**	*Per Square Foot*	*Total*	*Per Square Foot*
Conventional Loan	$ 12,456,120	$ 90,921	$ 85.40	$ 5,793,880	$ 75.26	$ **18,250,000**	$ 77.18
New Market Tax Credit Equity	$ 8,177,386	$ 59,689	$ 56.07	$ 3,803,656	$ 49.41	$ **11,981,042**	$ 50.67
Agency Low/Mod Redevelopment Funds	$ 10,100,000	$ 73,723	$ **69.25**	$ -	$ -	$ **10,100,000**	$ 42.71
Agency Commercial Redevelopment Funds	$ -	$ -	$ -	$ 3,600,000	$ **46.76**	$ **3,600,000**	$ 15.22
Agency Predevelopment Loan	$ **204,758**	$ 1,495	$ **1.40**	$ 95,242	$ **1.24**	$ **300,000**	$ 1.27
Agency Acquisition Loan	$ 328,250	$ 2,396	$ **2.25**	$ 141,870	$ **1.84**	$ **470,120**	
Developer Equity	$ 2,069,050	$ 15,103	$ 14.19	$ 962,404	$ 12.50	$ **3,031,454**	$ 12.82
TOTAL SOURCES	$ 33,328,183	$ 243,271	$ 229	$ 14,404,433	$ 187	$ **47,732,616**	$ 202

Permanent Uses	*Residential**	*Per Unit*	*Per Square Foot*	*Commercial**	*Per Square Foot*	*Total*	*Per Square Foot*
Acquisition	$ 328,250	$ 2,396	$ 2.25	$ 141,870	$ 1.84	$ 470,120	$ 1.99
Construction	$ 25,578,693	$ 186,706	$ 175.38	$ 11,055,105	$ 143.61	$ **36,479,346**	$ **154.27**
Development Impact Fees/Permits	$ **2,275,521**	$ 16,610	$ 15.60	$ 983,479	$ 12.78	$ **3,259,000**	$ 13.78
Architecture, Engineering, Survey	$ 688,382	$ 5,025	$ 4.72	$ 297,518	$ 3.86	$ **985,900**	$ 4.17
Contingency	$ 1,057,813	$ 7,721	$ 7.25	$ 457,187	$ 5.94	$ **1,515,000**	$ 6.41
Financing Costs	$ 1,013,301	$ 7,396	$ 6.95	$ 437,949	$ 5.69	$ **1,451,250**	$ 6.14
Legal Fees	$ 436,392	$ 3,185	$ 2.99	$ 188,608	$ 2.45	$ **625,000**	$ 2.64
Developer Fee	$ 1,571,010	$ 11,467	$ 10.77	$ 678,990	$ 8.82	$ **2,250,000**	$ 9.52
Insurance, Third Party, Marketing, Other	$ 486,664	$ 3,552	$ 3.34	$ 210,336	$ 2.73	$ 697,000	$ 2.95
TOTAL USES	$ 33,328,183	$ 243,271	$ 229	$ 14,404,433	$ 187	$ **47,732,616**	$ 202

Management / Operations		
Proposed Developer:	D&S Development, Inc./CFY Development, Inc.	
Property Management Company:	CFY Development, Inc.	
	Total Annual	*Per Unit*
Operations Budget:	$ 515,540	$ 3,763
Replacement Reserves:	$ 41,100	$ 300

* NOTE: Cost split between residential and commercial costs is estimated based on the division of construction costs between the new construction and rehabilitation portions of the project. Soft costs are estimated to be split in the same proportions as construction costs.

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MAXIMUM RENT AND INCOME LEVELS AS OF MAY 2011

(Rents @ 60% and 80% of AMI where applicable)

Maximum Income Limits:		
Family Size	Max Income *60% AMI*	Max Income *80% AMI*
1 person	$30,720	$40,960
2 person	$35,100	$46,800
3 person	$39,480	$52,640

Maximum Rent Limits: **Tax Increment Funds**		
Unit Size	Gross Rent *60% AMI*	Gross Rent *80% AMI*
Studio	$768.00	$1,024.00
1 Bedroom	$877.50	$1,170.00
2 Bedroom	$987.00	$1,316.00

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700 Block of K Street

Unit Type	Number	Square Feet	Total Sq Feet	Gross Rent	Utility Allowance	Net Rent	Rent per Sq Foot	Total Mo. Rent	Annual Rent
Studio @ 60% AMI	21	465	9,765	$ 695.00	$ 60	$ 635	$ 1.37	$ 13,335	$ 160,020
Studio @ 80% AMI	4	574	2,296	$ 937.50	$ 60	$ 878	$ 1.53	$ 3,510	$ 42,120
Studio @ Market	17	637	10,829	$ 1,058.82	$ -	$ 1,059	$ 1.66	$ 18,000	$ 216,000
1 BR @ 60% AMI	47	637	29,939	$ 820.00	$ 68	$ 752	$ 1.18	$ 35,344	$ 424,128
1 BR @ 80% AMI	6	794	4,764	$ 1,083.33	$ 68	$ 1,015	$ 1.28	$ 6,092	$ 73,104
1 BR @ Market	29	784	22,736	$ 1,287.93	$ -	$ 1,288	$ 1.64	$ 37,350	$ 448,200
2 BR @ 60% AMI	4	871	3,484	$ 980.00	$ 85	$ 895	$ 1.03	$ 3,580	$ 42,960
2 BR @ 80% AMI	1	956	956	$ 1,300.00	$ 85	$ 1,215	$ 1.27	$ 1,215	$ 14,580
2 BR @ Market	8	1102	8,816	$ 1,812.50	$ -	$ 1,813	$ 1.64	$ 14,500	$ 174,000
Total / Average for Restricted Units	137	683	93,585				$ 1.42	$ 132,926	$1,595,112

	rate	annual increase	per unit	2014 Year 1	2015 Year 2	2016 Year 3	2017 Year 4	2018 Year 5	2023 Year 10	2028 Year 15	2033 Year 20	2038 Year 25	2039 Year 26	2043 Year 30	2048 Year 35	2049 Year 36
Residential Income																
Potential Gross Rental Income		2.50%		1,595,112	1,634,990	1,675,865	1,717,761	1,760,705	1,992,076	2,253,851	2,550,026	2,885,120	2,957,248	3,264,249	3,693,198	3,785,528
Other Tenant Income (laundry, vending)		2.50%		18,084	18,536	19,000	19,474	19,961	22,584	25,552	28,910	32,709	33,527	37,007	41,870	42,917
Parking		2.50%		90,720	92,988	95,313	97,696	100,138	113,297	128,185	145,030	164,088	168,190	185,650	210,046	215,297
Less Vacancy (Excludes parking)	7.00%			(112,924)	(115,747)	(118,640)	(121,606)	(124,647)	(141,026)	(159,558)	(180,526)	(204,248)	(209,354)	(231,088)	(261,455)	(267,991)
Effective Gross Income				$1,590,992	$1,630,767	$1,671,536	$1,713,325	$1,756,158	$1,986,931	$2,248,030	$2,543,440	$2,877,669	$2,949,611	$3,255,818	$3,683,660	$3,775,751
Residential Expenses																
Operating Expenses		3.50%	3,343	458,000	474,030	490,621	507,793	525,566	624,207	741,362	880,506	1,045,764	1,082,366	1,242,040	1,475,154	1,526,784
Property Management Fee		3.50%	420	57,540	59,554	61,638	63,796	66,028	78,421	93,140	110,621	131,383	135,981	156,041	185,328	191,815
Resident Services		3.50%	146	20,000	20,700	21,425	22,174	22,950	27,258	32,374	38,450	45,667	47,265	54,238	64,417	66,672
Taxes/Assessments/Mello Roos		2.00%	1,277	175,000	178,500	182,070	185,711	189,426	209,141	230,909	254,942	281,477	287,106	310,773	343,118	349,981
Replacement Reserves		0.00%	300	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100	41,100
Total Expenses			5,486	$751,640	$773,884	$796,854	$820,574	$845,070	$980,127	$1,138,884	$1,325,618	$1,545,390	$1,593,818	$1,804,192	$2,109,118	$2,176,352
Net Operating Income - Residential				$839,352	$856,883	$874,682	$892,751	$911,088	$1,006,804	$1,109,146	$1,217,822	$1,332,279	$1,355,792	$1,451,626	$1,574,542	$1,599,399
Commercial Income																
Retail Income		2.50%		1,260,564	1,292,078	1,324,380	1,357,490	1,391,427	1,574,272	1,781,144	2,015,201	2,280,015	2,337,015	2,579,627	2,918,612	2,991,577
Kiosk Income		2.50%		0	0	0	0	0	0	0	0	0	0	0	0	0
Less Vacancy	25.00%			(315,141)	(323,020)	(331,095)	(339,372)	(347,857)	(393,568)	(445,286)	(503,800)	(570,004)	(584,254)	(644,907)	(729,653)	(747,894)
Effective Gross Income				$945,423	$969,059	$993,285	$1,018,117	$1,043,570	$1,180,704	$1,335,858	$1,511,401	$1,710,011	$1,752,761	$1,934,721	$2,188,959	$2,243,683
Commercial Expenses																
Total Expenses		0.00%		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Net Operating Income - Commercial				$845,423	$869,059	$893,285	$918,117	$943,570	$1,080,704	$1,235,858	$1,411,401	$1,610,011	$1,652,761	$1,834,721	$2,088,959	$2,143,683
Total Net Operating Income				$1,684,775	$1,725,942	$1,767,967	$1,810,868	$1,854,658	$2,087,508	$2,345,004	$2,629,222	$2,942,290	$3,008,554	$3,286,347	$3,663,501	$3,743,082
Debt Service	amount	rate	term													
Senior Loan	$18,250,000	6.000%	30	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016	1,313,016		
SHRA Monitoring Fee	$10,100,000	0.150%		15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150	15,150
Total Debt Service				1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	1,328,166	15,150	15,150
DCR on Senior Loan				1.27	1.30	1.33	1.36	1.40	1.57	1.77	1.98	2.22	2.27	2.47	241.82	
Net Cash after Debt Service				$356,610	$397,776	$439,802	$482,702	$526,492	$759,342	$1,016,838	$1,301,057	$1,614,124	$1,680,388	$1,958,181	$3,648,351	$3,727,932
NMTC Repayment																
Principal Balance	$11,981,043	1.50%	7	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043	11,981,043
Interest for Period				179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716
Accumulated Interest				179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716
Payment		1.50%	23	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716	179,716
Balance				$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043	$11,981,043
Net Cash after NMTC Repayment				$176,894	$218,060	$260,086	$302,986	$346,776	$579,627	$837,123	$1,121,341	$1,434,409	$1,500,673	$1,778,466	$3,468,635	$3,548,217
Allocation of Net Cash																
City/SHRA		40%		$70,758	$87,224	$104,034	$121,195	$138,711	$231,851	$334,849	$448,536	$573,763	$600,269	$711,386	$1,387,454	$1,419,287
Developer		60%		$106,136	$130,836	$156,052	$181,792	$208,066	$347,776	$502,274	$672,805	$860,645	$900,404	$1,067,079	$2,081,181	$2,128,930
Commercial Loan																
Starting Balance	$2,573,515	8.25%		2,573,515	2,785,830	3,015,661	3,176,488	3,336,073	4,099,842	4,753,002	5,191,088	5,254,643	5,203,011	4,702,387	1,162,938	85,733
Interest for Period				212,315	229,831	248,792	262,060	275,226	338,237	392,123	428,265	433,508	429,248	387,947	95,942	7,073
Residual Receipts Payment				0	0	52,017	60,597	69,355	115,925	167,425	224,268	286,882	300,135	355,693	693,727	54,879
Hard Payment				0	0	35,948	41,878	47,930	80,114	115,704	154,987	198,258	207,417	245,812	479,421	37,926
Ending Balance				$2,785,830	$3,015,661	$3,176,488	$3,336,073	$3,494,014	$4,242,040	$4,861,996	$5,240,097	$5,203,011	$5,124,708	$4,488,828	$85,733	$0
Land Loan																
Starting Balance	$470,120	8.25%		470,120	508,905	550,890	580,269	609,421	748,944	868,260	948,288	959,898	950,466	859,014	212,441	15,661
Interest for Period				38,785	41,985	45,448	47,872	50,277	61,788	71,631	78,234	79,192	78,413	70,869	17,526	1,292
Payment				0	0	16,069	18,720	21,425	35,812	51,721	69,281	88,624	92,718	109,881	214,306	16,953
Ending Balance				$508,905	$550,890	$580,269	$609,421	$638,273	$774,920	$888,171	$957,241	$950,466	$936,162	$820,002	$15,661	$0
Manager Inc. Loan																
Starting Balance	$11,126,485	0%		11,126,485	11,126,485	11,126,485	11,126,485	11,126,485	10,020,472	7,976,759	5,132,996	1,400,472	539,827			
Interest for Period				0	0	0	0	0	0	0	0	0	0			
Payment				0	0	0	0	0	347,776	502,274	672,805	860,645	539,827			
Ending Balance				$11,126,485	$11,126,485	$11,126,485	$11,126,485	$11,126,485	$9,672,697	$7,476,485	$4,460,191	$539,827	$0			
Residual Receipts to Developer				$176,894	$218,060	$156,052	$181,792	$208,066	$0	$0	$0	$0	$360,576	$1,067,079	$2,081,181	$3,438,458

Attachment 6
Cash Flow Proforma