



# REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

915 I Street. Sacramento. CA 95814-2671

Staff Report  
October 31, 2006

Honorable Chair and Members of the Board:

**Title:** 10<sup>th</sup> and K Project Concept and Business Term Approval

**Location/Council District:** 1000 K Street, southeast corner of 10<sup>th</sup> and K streets, Central Business District (District 1)

**Recommendation:** Adopt a Redevelopment Agency Resolution: 1) Approving a concept for two projects for the Redevelopment Agency-owned property located at the southeast corner of 10<sup>th</sup>/K streets (Agency Site); 2) approving business terms for one of the projects, 1000 K Street, including Agency funding of \$5.75 million and an additional Agency expense of up to \$1 million for abatement and soft demolition; and 3) authorizing staff to return with an Agreement for Exclusive Right to Negotiate (ERN) with K Street Central (the Developer) for redevelopment of a1012-22 K Street, the remainder of the Agency Site.

**Contact:** Leslie Fritzsche, Downtown Development Director, 808-7223

**Presenters:** Leslie Fritzsche, Downtown Development Director  
Elle Warner, K Street Central

**Department:** Economic Development

**Division:** Downtown Development Group

**Organization No:** 4451

**Description Analysis:**

**Issue:** Staff is recommending approval of two redevelopment project concepts for the Agency Site located at the southeast corner of 10<sup>th</sup> and K streets (Attachment 1) and direction to staff to return with a Disposition and Development Agreement (DDA) for 1000 K Street and an Exclusive Right to Negotiate Agreement for the remainder of the Agency-owned site. The project concepts are detailed in Attachment 2 and generally include the following:

1. Renovation of the existing building located at 1000 K Street (formerly Woolworths) to accommodate a 200+ seat live theater performance space, a signature ground floor restaurant with second-level lounge and patio space, additional second floor office space, and on-site parking in the basement of the building. It is estimated that this project could be completed in 20 months and



open for business by early 2008.

2. Demolition of the former Rite Aid and Hit-or-Miss buildings (1012 and 1022 K Streets) to accommodate a new mixed-use project including approximately 130 residential units, on-site parking, and ground floor lobby entrance and retail. Pending final design, build-out is expected to commence in 2008 and will take approximately 2 years to complete.

Staff has developed proposed business terms for the 1000 K Street project as follows:

- Provision of a \$5.75 million in assistance to the project.
- Financial participation by the Agency would begin after the Developer has received a 10% cumulative Return on Adjusted Costs (total costs net the funds contributed by the Agency). Once this threshold level has been achieved, the Agency will receive 50% of the net operating income in excess of the 10% return threshold.
- 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 a Return on Equity equal to 18%, 60% of the remaining profit.
- The Agency will retain the right to approve the users of the space.
- The live theatre venue will operate approximately 50 weeks a year with eight performances a week.
- If the theatre operation ceases, the Developer will seek other live entertainment users for the space.

Because the second project requires more extensive environmental review and further business term negotiations, authorization to execute a new ERN for a 240 day period is needed. The previous ERN with the developer expired on August 15<sup>th</sup>. Milestones to be accomplished within the 240-day period for the new ERN are as follows:

<b>Project #2 Condominium/Mixed-Use</b>	
Within 60 days	<ul style="list-style-type: none"> <li>• Refine schematic designs</li> </ul>
Within 90 days	<ul style="list-style-type: none"> <li>• Refine estimated construction costs, including all applicable fees and contingencies</li> <li>• Refine development and operating proformas</li> <li>• Finalize project descriptions for Agency Site, sufficient for environmental review under the California Environmental Quality Act ("CEQA")</li> </ul>

	<ul style="list-style-type: none"> <li>• Solicit and incorporate comments from the Design Review Preservation Board for use in CEQA analysis</li> <li>• Begin CEQA analysis</li> </ul>
Within 180 days	<ul style="list-style-type: none"> <li>• Negotiate the terms of appropriate redevelopment agreements</li> <li>• Prepare Schedule of Performances for the construction period</li> </ul>
Within 240 days	<ul style="list-style-type: none"> <li>• Certify the CEQA document and adopt Mitigation Monitoring Plan</li> <li>• Obtain project approval from the Agency and execute the redevelopment agreements</li> </ul>

The ERN will return to the Agency for final approval.

**Policy Considerations:** The project concept approval and continued negotiations will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and Five-Year Strategy. Additionally, the proposed project is consistent with the development objectives outlined in the recent JKL Community Workshop process.

**Environmental Considerations:** The proposed action to approve project concepts and authorize continued negotiations with the developer to further define the proposed project scope and to complete environmental review is authorized under CEQA Guidelines Section 15262, planning for possible future action.

**Rationale for Recommendations:** In February 2005, the Redevelopment Agency published an open Request for Proposals for a Downtown Cultural, Entertainment, and Retail Complex for the project site, including the adjacent mid-block parcels to the east. One development team, K Street Central, consisting of 4 locally active developers, submitted a proposal. On September 13, 2005 the Agency authorized an Exclusive Right to Negotiate Agreement with K Street Central for redevelopment of the property.

Since the site was vacated by its last tenants, the Agency has reviewed a variety of development proposals for the site, as well as completed a performing arts analysis for the site. Base on that analysis, it was determined that a studio-theater (200-seat range) was the preferred type of theater to incorporate into a project, if feasible.

The 1000 K Street project will yield the following benefits:

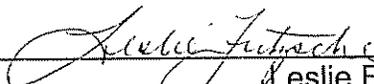
- Provides a combination of cultural and entertainment destination-oriented uses and responds to the community's expressed interest in having a live theatre option at this location;
- Provides a pedestrian and destination oriented project that will draw approximately 200,000 visitors annually;
- Represents first rate architectural design using high quality materials;
- Serves as a catalyst redevelopment project, assisting in attracting additional quality developments to the area and the continued implementation of the JKL Corridor Strategic Direction;
- Generates approximately \$150,000 annually in tax increment and \$400,000 annually in sales tax;
- Yields approximately 130 new employment opportunities.

**Financial Considerations:** The theatre/restaurant project is estimated to cost \$14.4 million (exclusive of land costs and abatement) of which the developer will contribute \$1.6 million in the form of private equity and approximately \$6.6 million in debt. Staff is recommending an allocation of \$ 5.75 million for the project as well as a land contribution. Additionally, the Agency would be responsible for soft demolition and abatement required for the former Woolworth's building. It is currently estimated that the cost for necessary abatement and soft demolition for the Woolworth site is approximately \$1 million. These funds would be allocated from Merged Downtown Tax Increment.

If the Agency approves the project concept and business terms, staff recommends returning to the Council with a DDA for the 1000 K Street property and an ERN for the remaining portion of the site to allow for further refinement of costs and to complete the environmental and design review process for that project. During this process, staff will evaluate the costs, the amount and type of public assistance required, and the disposition price for the remaining land.

The existing ERN includes a \$50,000 deposit (part of their equity contribution) 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.

**Emerging Small Business Development (ESBD):** There are no ESBD considerations contemplated with the requested action.

Respectfully submitted by:   
Leslie Fritzsche  
Downtown Development Manager  
On behalf of the Redevelopment Agency  
Of the City of Sacramento

Recommendation Approved:

  
RAY KERRIDGE  
City Manager

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**RESOLUTION NO.**

**Adopted by the Redevelopment Agency of the City of Sacramento**

**PROJECT CONCEPT APPROVAL FOR REDEVELOPMENT OF THE AGENCY-OWNED PROPERTY LOCATED AT 1000-1022 K STREET AND BUSINESS TERM APPROVAL FOR 1000 K STREET PROJECT**

**BACKGROUND**

- A. In February 2005, the Agency issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for the Agency Site.
- B. On April 30, 2005, one proposal was received from K Street Central, a development team consisting of David S. Taylor Interests, The CIM Group, St. Anton Partners, The Cordano Company and Paragary's Restaurant Group (Developer).
- C. A selection committee comprised of an Ad Hoc committee of the Agency board reviewed the proposal. Based on K Street Central's development experience, qualifications, and vision for the Agency Site, the Ad Hoc recommended execution of an Exclusive Right to Negotiate Agreement (ERN) with K Street Central and further negotiations to develop the project proposal.
- D. At that time, staff was also directed to work with the Developer to complete a performing arts analysis for the site. Base on that analysis, it was determined that a studio-theater (200-seat range) was the preferred type of theater to incorporate into a project, if feasible.

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

- Section 1. The following project concepts are approved for the Agency-owned property located at the southeast corner of 10<sup>th</sup>/K streets:
- a. Renovation of the existing building located at 1000 K Street (formerly Woolworths) to accommodate a live theater performance space, a signature ground floor restaurant with second-level lounge and patio space, additional second floor office space, and on-site parking in the basement of the building.
  - b. Demolition of the 1012-22 K Street (former Rite Aid and Hit-or-Miss buildings) to accommodate a new mixed-use condominium project including approximately 130 residential units, on-site parking, and ground floor lobby entrance and retail. Pending final design, build-out is expected to commence in 2008 and will take approximately 2 years to complete.

Section 2. The following business terms are approved for the 1000 K Street site:

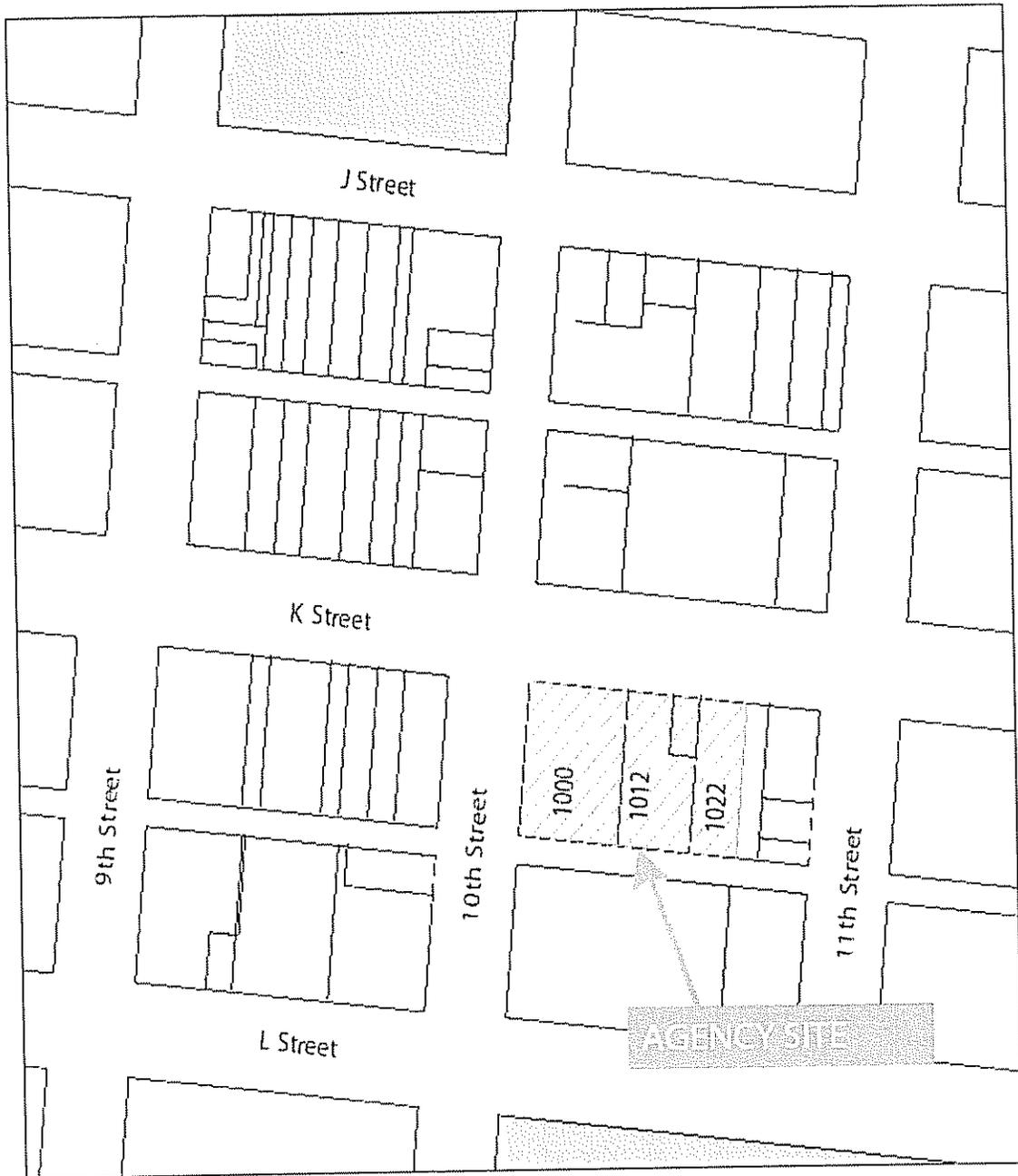
- a. Provision of a \$5.75 million contribution to the project.
- b. Financial participation by the Agency would begin after the Developer has received a 10% Cumulative Return on Adjusted Costs (total costs net the funds contributed by the Agency). Once this threshold level has been achieved, the Agency will receive 50% of the net operating income in excess of the 10% return threshold.
- c. 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 a return on Developer equity equal to 18%, 60% of the remaining profit.
- d. The Agency will retain the right to approve the users of the space.
- e. The live theatre venue will operate approximately 50 weeks a year with eight performances a week.
- f. If the theatre operation ceases, the Developer will seek other live entertainment users for the space.
- g. An additional amount of up to \$1 million will be utilized for soft demolition and environmental abatement of the site.

Section 3. Staff is directed to return to the Agency with a Disposition and Development Agreement for the 1000 K Street site and an Agreement for Exclusive Right to Negotiate (ERN) with K Street Central for a 240-day period regarding the terms of an agreements for redevelopment of 1012-22 K Street. The parties shall endeavor to accomplish the following ERN milestones in accordance with the following targeted periods. Should the milestones not be completed within the targeted periods, the Agency may terminate negotiations by written notice of Ray Kerridge, City Manager, acting on behalf of the Agency. Said milestones are:

<b>Project #2 Condominium/Mixed-Use</b>	
Within 60 days	<ul style="list-style-type: none"> <li>• Refine schematic designs</li> </ul>
Within 90-days	<ul style="list-style-type: none"> <li>• Refine estimated construction costs, including all applicable fees and contingencies</li> <li>• Refine development and operating proformas</li> <li>• Finalize project descriptions for Agency Site, sufficient for environmental review under the California Environmental Quality Act ("CEQA")</li> <li>• Solicit and incorporate comments from the Design Review Preservation Board for use in CEQA analysis</li> <li>• Begin CEQA analysis</li> </ul>

Within 180 days	<ul style="list-style-type: none"><li>• Negotiate the terms of appropriate redevelopment agreements</li><li>• Prepare Schedule of Performances for the construction period</li></ul>
Within 240-days	<ul style="list-style-type: none"><li>• Certify the CEQA document and adopt Mitigation Monitoring Plan</li><li>• Obtain project approval from the Agency and execute the redevelopment agreements</li></ul>

ATTACHMENT 1



**Attachment 2****Background**

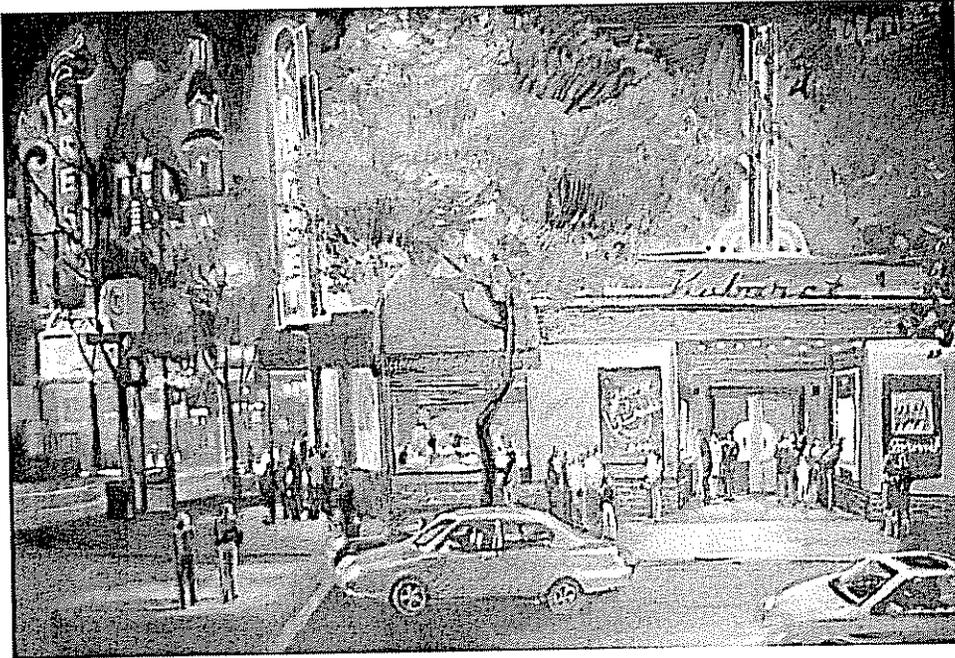
In October 2004, the Economic Development Department, in conjunction with the Mayor's Office, hosted the "JKL Corridor Workshop" to receive community and stakeholder input on a new vision and strategic direction for the heart of the downtown area. The community recommended that strategic attention be given to the project site, with a focus on destination-oriented uses that take advantage of being located in an emerging entertainment district. Desired uses include cultural, commercial, and residential.

In February 2005, the Redevelopment Agency published an open Request for Proposals for a Downtown Cultural, Entertainment, and Retail Complex for the project site, including the adjacent mid-block parcels to the east. One development team, K Street Central, consisting of 4 locally active developers, submitted a proposal. On September 13, 2005 the Agency was authorized by City Council to enter into an Exclusive Right to Negotiate Agreement with the development group K Street Central for redevelopment of the property.

Since the site was vacated by its last tenants, the Agency has reviewed a variety of development proposals for the site, including the completion of a performing arts analysis for the site. Base on that analysis, it was determined that a studio-theater (200-seat range) was the preferred type of theater to incorporate into a project, if feasible.

**Project Objectives**

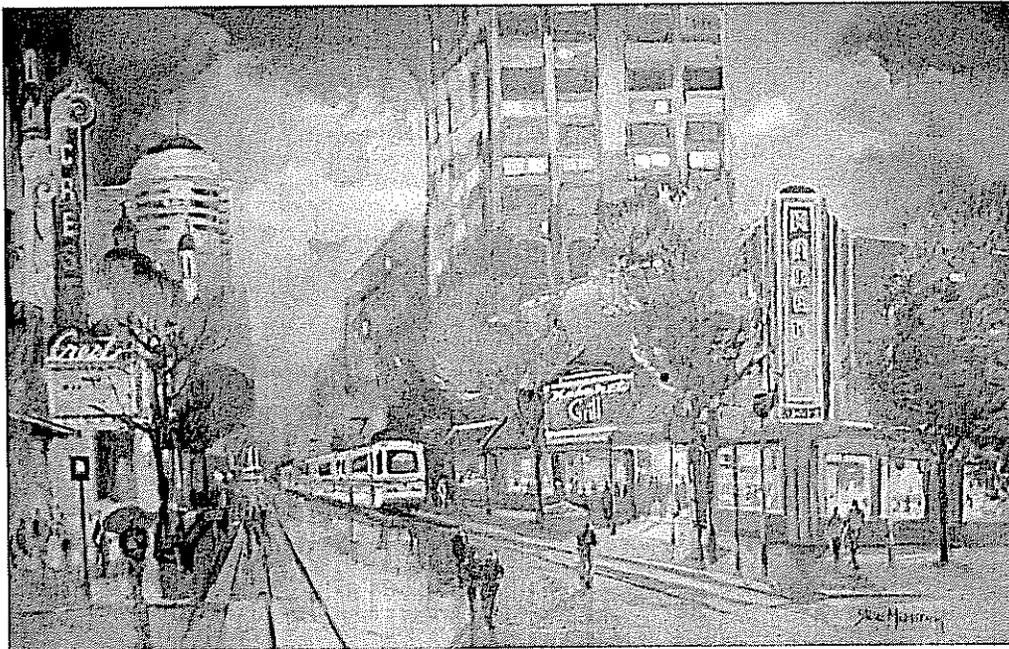
- Provide a combination of cultural, entertainment, and retail destination-oriented uses, such as restaurants, theaters, hotels, nightclubs, and mixed specialty retail.
- Provide a pedestrian and destination oriented project that will draw a large number of people during both day and evening hours.
- Represent first rate architectural design using high quality materials
- Serve as a catalyst redevelopment project, assisting in attracting additional quality developments to the area and the continued implementation of the JKL Corridor Strategic Direction.
- Provide high quality places to live within walking distance of the downtown urban entertainment venues
- Provide pedestrian and destination oriented projects that draw a large number of people during both day and evening hours



### Woolworth's Building

The proposed Project is the renovation of the existing building at 1000 K Street to accommodate a 200+ seat live theater performance space, a restaurant, private dining facility and second level lounge and patio. The project will include the following:

- Basement Level: A new vehicular ramp access down into basement will be constructed from the alley to accommodate approximately 41 tandem parking stalls and mechanical and electrical rooms. The developer currently envisions that the parking will be valet only, for use by tenants' patrons.
- Ground Level: Approximately one half of the ground level will accommodate a new signature Paragary's restaurant and approximately one half the ground floor will accommodate the live theater. Seating for the restaurant will be 160-200, plus 40-60 seats in the bar/lounge area. The theater portion of the project will provide seating for approximately 200+ patrons, a generous lobby, shared restrooms with the restaurant and production support space. A large marquee will be added at the 10<sup>th</sup>/K corner of the building that will be designed to complement the Crest Theatre marquee across K Street.
- Second Level: The majority of the 2<sup>nd</sup> level will be dedicated to office, with the balance used for a bar and outdoor patio overlooking K Street that will be open to the public, but support the theater customers as well.



### **Project #2: Condominium Project**

The proposed project includes the demolition of the mid-block buildings (formerly Rite Aid and Hit-or-Miss/Capital Clothing) to accommodate a new mixed-use condominium project. Pending final design, build-out is expected to commence in 2008 and take approximately 2 years to complete and will include:

- Basement Level: Storage, potentially 40 parking spaces and service for tenants.
- Ground Level: Lobby entrance for the condominium owners and retail space. Target tenants will be restaurants or other "entertainment" venues.
- Levels 2-4: Structured parking for condominium owners' use and will include approximately 163 parking spaces.
- Levels 5-14: Approximately 130 condominium units with an average unit size of 950 sf. There will also be a small mechanical penthouse enclosure on the roof of the building. The highest building element will be approximately 160' above grade.

