

**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
January 9, 2007**

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

Title: 1000 K Street Disposition and Development Agreement (DDA) and related documents; 1000 K Street Reimbursement Agreement; and Budget Authorization

Location/Council District: 1000 K Street, southeast corner of 10th and K Streets, Central Business District (District 1)

Recommendation: 1) Adopt a Redevelopment Agency of the City of Sacramento (Agency) Resolution a) authorizing the approval of a DDA and related legal documents with 1000 K Street, LLC (Developer) to provide land and \$5.75 million in assistance for the renovation of the former Woolworth's building at 1000 K Street for a cabaret theatre, restaurant, lounge, office and parking; b) determining that the Agency's obligations to abate hazardous materials and perform the soft demolition work are so interrelated with the Developer's work that such work cannot be practically done under a separate contract and therefore will be performed by the Developer; c) authorizing the approval of a Reimbursement Agreement to fund abatement and interior demolition expenses incurred by the Developer up to \$1 million; d) allocating \$6.75 million from the Merged Downtown 2005 Tax Allocation Bond Fund to the 1000 K Street Building Renovation Project; e) establishing the financial participation arrangement for the project that allows the Agency to receive income once the Developer receives a cumulative 10% Return on Adjusted Costs; and 2) adopt a City Council Resolution approving the Agency's sale of property at 1000 K Street.

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

Presenters: Beth Tincher, Senior Project Manager

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451**Description/Analysis**

Issue: On October 31, 2006, the Agency approved business terms for the renovation of the existing building located at 1000 K Street and directed staff to negotiate a DDA and present such DDA to the Agency for approval. The proposed development team, 1000 K Street, LLC is a partnership between David Taylor Interests, Inc. and the CIM Group. The project concept for 1000 K Street (formerly Woolworths) accommodates a 200+ seat live theatre, a signature ground floor restaurant (7500 sq. ft.) with a second-level lounge and patio space (4500 sq. ft.), additional second floor office space (12,200 sq. ft.), and 41 on-site parking spaces in the basement of the building. The adoption of the DDA and related documents marks a milestone towards creating a cultural and entertainment complex in the heart of Downtown on the K Street Mall. These agreements will allow the Developer to construct a project that will create activity in the center of K Street Mall thus linking the two activity nodes, Downtown Plaza and the Convention Center. The project will create vibrancy and act as a catalyst toward revitalizing additional areas along K Street.

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.

The 1000 K Street project business terms outlined in the agreements include:

Abatement and Demolition:

- Reimbursement of up to \$1 million for hazardous material abatement and environmental remediation. 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. Demolition work is an obligation of the Agency, but this work is so interwoven with the Developer's improvements that the work cannot be done practically by a separate contract.

Construction and Tenant Improvements:

- Provision of a \$5.75 million contribution 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 realized, 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 approximately eight performances a week for a minimum of 10 years. The theatre will be run by the California Musical Theatre.
- The theatre operator will provide the Agency with an initial business plan and will provide an annual programming schedule for Agency review within 30 days of completing the schedule for the upcoming year. Annual income statements will be provided to the Agency.
- The theatre will make the space available a minimum of 12 times a year for uses such as meeting or rehearsal space for community and local arts organizations, performance space for staged reading and workshops. Such uses will be secondary to the theatre primary functions. The annual business plan will outline any additional community meeting opportunities.
- Under any circumstance, the live theatre will remain in operation for at least 5 years.
- If the theatre operation ceases, the Developer will seek other live entertainment users for the space in the following manner:
 - Following agency notification that the theatre operator intends to cease operations, the developer will aggressively pursue for a period of 12 months, another live theatre first, a live entertainment use second, and an entertainment use as a third option.
 - If after 12 months, the developer is not successful in securing a new entertainment use for the site, the developer may lease the space to other types of uses including retail.
- The Agency will retain approval rights of ground-floor tenants for a period of 10 years.

These business terms are reflected in the DDA, the Reimbursement Agreement, and related documents, which are on file with the Agency and City clerks. Staff is recommending approval of the DDA, the abatement and soft demolition agreement, and budget authorization to fund \$5.75 million toward tenant and public improvements and up to \$1 million for abatement and interior demolition expenses.

The project design will be presented to the Design Review Board for consideration prior to issuance of tenant improvements and exterior structure improvements.

Policy Considerations: The approval of the DDA and related documents will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and Five-Year Strategy as well as the General Plan and zoning. Additionally, the proposed project is consistent with the JKL Community Workshop objectives for the 10th and K Street site including:

- A destination-oriented use in an emerging entertainment district that will draw a large number of people during the day and evening hours;
- Cultural uses such as live theatre, museum, artist loft or art gallery;
- 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 the existing Woolworths building 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, theater and lounge 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.

Rationale for Recommendation:

Project Costs

The total project costs are estimated at \$18.2 million. Of that amount, it is estimated that approximately \$6.75 million in public assistance is needed to make the project financially feasible. The public assistance would be used for shell and core improvements and theatre tenant improvements in the following ways:

- Design and Construction documents preparation;
- Streetscape improvements on both 10th and K streets;
- Abatement of asbestos, lead and other contaminants on the site and interior demolition;
- Structural, mechanical, electrical, plumbing and fire protection upgrades;
- Significant exterior improvements as well as shell and core improvements;
- Tenant improvement costs for the theatre; and
- Permit costs.

Project Benefits

The restaurant and theatre operators could begin operating as early as October 2008. The Proposed Project will generate a number of benefits to the Agency and to the City including:

- An estimated \$375,000 in annual sales tax;

- Approximately \$150,000 in additional property tax increment (the 30% set-aside for affordable housing);
- Over 130 new jobs for the restaurant and theatre operations; and
- Approximately the following number of patrons:
 - Restaurant: 56,000 patrons/year
 - Lounge/Patio Use: 39,500 patrons/year
 - Theatre: 140,600 patrons/year

In addition to the direct benefits, the building at 1000 K Street is considered to be key to downtown redevelopment for the following reasons:

- 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;
- Represents engaging and creative architectural renovation design;
- Develops a unique entertainment destination at this location would serve to not only turn around a blighted section of K Street that has long suffered from disinvestment, but creates a visual anchor between Downtown Plaza and the Convention Center;
- The project benefits the City as a whole in its efforts to become a visitor and tourist destination by drawing additional patrons to the center of K Street in the evenings and on weekends;
- Connects a critical corridor on 10th Street from City Hall with the State Capitol;
- Continues to emphasize K Street as a focal point in the Downtown area;
- Utilizes adjacent public parking facilities to support entertainment uses; and
- Supports additional infill development.

The members of 1000 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, and multiple restaurants (including Paragary's Bar and Grill, Esquire Grill and Centro).

The major tenants for the restaurant and theatre include:

- Paragary's Restaurant Group
- California Musical Theatre

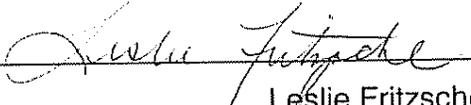
Public Hearing: This project is subject to Health and Safety Code Section 33433: "Sale of Lease of Property Acquired with Tax Increment funds; Approval by Legislative Body after Public Hearings." The Agency is required to make available a report (Attachment 5) that references the proposed DDA and cites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

Financial Considerations: The theatre/restaurant project is estimated to cost \$18.2 million of which the developer will contribute \$8.7 million in private equity and debt. Staff is recommending an allocation of \$ 6.75 million for the project as well as a land contribution valued at \$2.75 million. This includes \$1.0 million for soft demolition and abatement required for the former Woolworth's building. Staff requests appropriation of these funds from the Merged Downtown 2005 Tax Allocation Bond Fund.

The original ERN included 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.

Minority and Women-owned Business Enterprises (M/WBD): 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

Recommendation Approved:


Ray Kerridge
City Manager

Table of Contents:

	Pg	1	Report
Attachments			
1	Pg	7	Location Map
2	Pg	8	Background
3	Pg	10	City Council Resolution
4	Pg	12	Redevelopment Agency Resolution
	Pg	14	Exhibit A
5	Pg	15	33433 Report

ATTACHMENT 1

1000 K Street Location Map



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. Based 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.

In October, 2006, the Agency approved business terms for the renovation of the existing building located at 1000 K Street and directed staff to return with a Disposition and Development Agreement (DDA) for 1000 K Street.

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. Improvements to the alley will be deferred to Phase 2 of the 10th and K Street projects (Condominium Project).
- **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 up to 200 seats, 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 10th/K corner of the building that will be designed to complement the Crest Theatre marquee across K Street.
- **Second Level:** The majority of the 2nd 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.

ATTACHMENT 3

RESOLUTION NO. 2006-_____

Adopted by the City of Sacramento City Council

APPROVAL OF AGENCY'S SALE OF PROPERTY AT 1000 K STREET FOR DEVELOPMENT OF A MIXED USE PROJECT

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 1000 K Street at the southeast corner of 10th and K streets (006-0104-001) ("Property") in the Project Area.

C. 1000 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 a 200-seat theatre, a restaurant, a lounge/patio area that relates to the restaurant, offices and parking for the entire Project; as more specifically described in the DDA, and which would require the improvements within the Property, as further described in the DDA (collectively, "Project"), a copy of which is on file with the Agency and City Clerk.

D. In accordance with the California Environmental Quality Act ("CEQA") and its implementing regulations, the sale of the Property and the Project are exempt under CEQA Guidelines Section 15332 as an infill project as described in the accompanying staff report.

E. A report under Health and Safety Code Section 33433 ("Section 33433 Report") has been prepared, filed with the Agency 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 4

RESOLUTION NO. 2006-_____

Adopted by the Redevelopment Agency of the City of Sacramento

**MERGED DOWNTOWN SACRAMENTO REDEVELOPMENT PROJECT AREA:
APPROVAL OF THE 1000 K STREET REHABILITATION
PROJECT, AUTHORIZATION FOR EXECUTION OF A DISPOSITION AND DEVELOPMENT
AGREEMENT WITH 1000 K Street, LLC. AND APPROPRIATION OF TAX INCREMENT**

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 1000 K Street, LLC ("Developer") is requesting ownership of certain real property ("Property"), in the Project Area and which Property is generally described as 1000 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 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.
- 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 1000 K Street rehabilitation by entering into a Construction and Permanent Loan and Participation agreement with Developer, as more specifically described in the DDA, and which would require the improvements within the Property, as further described in the DDA (collectively, "Project"); and
- D. The Agency and Developer desire to enter into an Abatement and Demolition 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 1000 K Street, and
- E. The abatement and soft demolition work is an obligation of the City's, but is interwoven with the developer's improvements 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 a Responsible Agency pursuant to the California Environmental Quality Act has determined that the proposed project as described in the DDA is exempt from CEQA requirements.

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. 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 in accordance with CEQA.

Section 2: 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 3. 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 - \$1,010,000.

Section 4. The Development and Disposition Agreement is 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 \$5,750,000 from the Merged Downtown tax exempt bond funds 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 in to the Reimbursement Agreement for the abatement of hazardous building materials and soft demolition in an amount not to exceed one million dollars (\$1,000,000) from the Merged Downtown tax-exempt bond funds.

CHAIR

ATTEST:

SECRETARY

EXHIBIT A

Legal Description

All that real property in the block bounded by K and L, Tenth and Eleventh streets, in the City of Sacramento, County of Sacramento, State of California, according to the official map or plan of said City, described as follows: Beginning at the southwest corner of Lot 1 and running thence along the west line thereof North $18^{\circ} 42' 13''$ East 160.59 feet to the northwest corner thereof; thence along the north line of Lots 1 and 2 South $71^{\circ} 30' 17''$ East 106.04 feet; thence South $18^{\circ} 42' 13''$ West 160.65 feet to the south line of Lot 2, distant there on 106.04 feet from the southwest corner of said Lot 1, thence along the south line of Lots 2 and 1 North $71^{\circ} 28' 18''$ West 106.04 feet to the point of beginning, being all of Lot 1 and a portion of Lot 2 in said block.

