



**Sacramento
Housing &
Redevelopment
Agency**

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

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**Staff Report
April 4, 2006**

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

Subject: 926 J Street Owner Participation Agreement Business Terms

Location/Council District: Southwest corner of 10th and J streets, Central Business District (District 1)

Recommendation:

Adopt Redevelopment Agency (Agency) Resolution approving Owner Participation Agreement (OPA) business terms for the boutique hotel project located at 926 J Street, including:

- A loan of \$8.4 million for the boutique hotel component, a portion of which would be forgivable upon project completion;
- A loan of \$850,000 for a signature, ground-floor restaurant;
- A grant of up to \$600,000 for off-site improvements related to the restaurant; and
- Pledging project-generated tax increment back to the project for a period of 15 years.

Adopt City Council (City) Resolution supporting the following:

- Access to 175 parking spaces in City Parking Garages for the project, with terms and conditions to be defined at a later date; and
- The use of Sacramento Regional County Sanitation District connection fee credits for the project, which will be defined and formally approved at a later date.

Contact: Traci Michel, AICP, Senior Project Manager, 808-8645
Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Leslie Fritzsche, Downtown Development Manager
Kipp Blewett, Rubicon Partners

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Summary:

The building located at 926 J Street was completed in 1925 and is currently one of the most architecturally significant and visible buildings in downtown Sacramento (Attachment 1). The property owner's representative, Rubicon Partners, originally planned to renovate and re-tenant the building, but had a unique opportunity to consider a boutique hotel use. This change in use would stimulate additional redevelopment activities in downtown Sacramento and would provide significant long-term returns to the City, but requires financial assistance to implement.

On February 14th, 2006, the Agency authorized staff to negotiate an OPA with Rubicon Partners for the boutique hotel project (Proposed Project), with the amount of public investment limited to no more than \$15 million. This report is a follow-up to the Agency's previous action and recommends business terms to be incorporated into the OPA, as well as City support of items related to parking and the use of sewer connection fee credits. A request for specific budget allocations will accompany the approval of the OPA and any parking/sewer fee credit agreements at a later date.

Committee/Commission Action:

The Downtown Sacramento Partnership Board and Development Task Force reviewed the Proposed Project and voted to support it with the following provisions:

- The total hotel cash subsidy is \$9.8 million or less and tied to the hard costs of development. Subsidy would be reduced if hard costs are less than projected.
- Public investment is structured as loan with a forgivable portion amount to be determined by City staff, but consistent with other recent redevelopment projects;
- Public support of the restaurant is contingent upon the City's approval of the actual operator – with the expectation that it be equivalent to the caliber of tenants in other Joie de Vivre properties.

Additionally, Rubicon Partners held a community meeting on March 14th to provide information on the project and to answer questions. Approximately 50 community members were present.

Background Information:

The building located at 926 J Street was completed in 1925 for California Western Life Insurance Company and was the first high-rise office building, at 14 stories, in downtown Sacramento. Today, it is still one of the most significant and visible buildings in the downtown. The building's architect was George Sellon, California's first State Architect and the father of many historic structures, including San Quentin Prison. The building and its location are considered key to downtown redevelopment for several reasons:

- The historic character and significant architecture of the building make it a Sacramento landmark;

- The building presents a visual anchor to Caesar Chavez Park across J Street and complements other high-rise structures surrounding the park;
- The block between 9th and 10th streets contains a number of blighted and underutilized buildings;
- J Street is one of the main arterials in downtown Sacramento;
- The 10th/J intersection offers significant visibility and has high vehicular and pedestrian volumes;
- 10th Street is a critical corridor, connecting City Hall with the State Capitol and intersecting with the Agency's 10th/K redevelopment project; and
- Public parking facilities to support the site are available nearby.

Project Proposal

The Proposed Project consists of renovating the existing 14-story office building to accommodate the following:

- A 197-room boutique hotel to be operated by Joie de Vivre Hospitality (JDV) or other high-end boutique hotel operator;
- Approximately 11,000 square feet of meeting space, 3,500 of which would be located on the outdoor patio on the 7th floor;
- A unique hotel restaurant; and
- A significant third-party ground-floor restaurant.

Based in San Francisco, JDV is the largest boutique hotel company in Northern California with a total portfolio of 28 hotels, including 18 in San Francisco. JDV has proposed creating a new hotel with a sense of history and place in Sacramento. The Proposed Project is to be of high-quality interior décor, designed along the lines of other new JDV hotels such as the Hotel Adagio and the Hotel Vitale in San Francisco, and the Hotel Montgomery in San Jose. The Hotel Rex, also located in San Francisco, and another JDV property have been indicated as a design model for the Proposed Project.

Market Conditions

Staff hired PKF Consulting to study the Proposed Project and current hospitality market conditions. PKF is a preeminent international firm specializing in analyzing the hotel and hospitality industry. The firm is utilized extensively by investors, government agencies, hotel owners, operators and developers for market research, feasibility studies, market positioning and financial analysis. PKF's work on this project included:

- Review of recent occupancy and average daily rate (ADR) performance for the overall Sacramento lodging market and the Downtown lodging market specifically;
- Forecast of expected future performance of the Downtown Sacramento lodging market over the next several years;
- Estimation of the likely occupancy and ADR for the Proposed Project;
- Estimation of the impact the Proposed Project would have on existing hotels in the competitive market; and
- Forecast of the Transient Occupancy Tax (TOT) to be produced by the proposed project.

Based on an analysis from PKF consulting, the Proposed Project should be able to obtain a comparably high ADR due to its uniqueness in the market and high-quality, new hotel product. Additionally, the Proposed Project offers the competitive advantages of a downtown location and an essentially new product, but wrapped in a historic shell. PKF's study indicated the following:

- There is strong demand for more hotel rooms in downtown Sacramento;
- The Proposed Project will attain a stabilized occupancy of approximately 73 percent with a concurrent ADR of \$150;
- The Proposed Project will have no long-term, measurable impact on the occupancy or ADR performance of existing hotels in the competitive market;
- A significant portion of the TOT generated from the project would be new TOT revenue; and
- The Proposed Project is estimated to produce over \$1 million annually in TOT on a stabilized basis after 2009, with a 3 percent increase annually after 2012.

Project Costs and Business Term Recommendations

Based on previous Agency direction, staff has been negotiating with Rubicon Partners to refine project costs and public investment needed. Currently, the total project costs are estimated at \$55.5 million. Of that amount, approximately \$9.85 million of up-front public investment is needed to make the project financially feasible. This public investment would be used in the following ways:

- A loan of **\$8.4 million** for the hotel component, with the following components:
 - **\$3.3 million** of which is forgivable upon project completion for extraordinary improvements related to historic preservation and structural improvements needed for the building, including:
 - Seismic retrofit of the historic shell and preservation of adjacent historic structure
 - Historic sash window and tile façade replacement/restoration
 - Lighting to enhance historic features of building
 - Historic lobby/staircase preservation/restoration
 - **\$5.1 million** of which will be repaid with zero percent interest, utilizing one-half percent of the gross hotel revenues once the hotel generates \$17 million of gross revenues, and the project achieves a net operating income of 26 percent;
- A loan of **\$850,000** for a signature restaurant, at zero percent interest for a ten-year period, repaid by the Agency receiving 55 percent of the percentage rents generated from the project.; and
- An additional **\$600,000** reserved for public improvements on 10th Street to accommodate outdoor seating opportunities, if needed.

Additionally, the following assistance is also needed to make the project financially feasible:

- Access to 175 City public parking spaces, paid by Rubicon Partners at a premium rate (rates and locations to be determined);

- Pledging project-generated tax increment back to the project (net of housing set-aside required amounts) for a period of 15 years at a total estimated value of \$1.68 million; and
- Providing Sacramento County Regional Sanitation District connection fee credits to the project.

Project Benefits

The Proposed Project will generate a number of benefits to the Agency and to the City, which due to the readiness of the building condition and hotel operator could begin as early as December 2007 and include:

- Up to \$20 million in revenues to the Agency/City over a 15-year period generated from the following:
 - Approximately \$1 million in additional TOT tax annually;
 - An estimated \$330,000 in annual sales tax;
 - Approximately \$125,000 in additional property tax increment (the 30% set-aside for affordable housing); and
- Over 100 new jobs for the hotel operation and an estimated 30 new jobs for the ground-floor restaurant.

In addition to the direct benefits, the project is anticipated to stimulate additional redevelopment along the J Street corridor as well as support the Agency's efforts to bring new retailers and restaurants along K Street. It is envisioned that the development of a boutique hotel at this location would serve to not only turn around a section of J Street that has long suffered from disinvestment, but benefit the City as a whole in its efforts to become a visitor and tourist destination. The project will revitalize and preserve a deteriorating historic building on a blighted corner.

Next Steps

If the Agency and City support the business terms outlined in this report, staff and Rubicon Partners will complete all necessary agreements including the OPA, parking agreement, and SRCSD connection fee credit application and return to the Agency and City for the appropriate approvals in late April/early May 2006.

Financial Considerations:

Staff considered various forms of financial assistance as possible funding sources for the Proposed Project, including Downtown redevelopment bond funds, TOT, historic tax credits, building permit and/or fee credits and sewer credits. Because of the project timing, Downtown redevelopment bond funds are the most feasible source for the requested subsidy of \$9.85 million.

As part of the negotiation process, staff and Rubicon Partners have agreed to a participation component in the project. The final details of the project and specific funding allocations will be included in the OPA and presented to the Agency in late April for approval. Utilization of the Downtown Sacramento Revitalization Corporation will be considered as part of the process.

Environmental Considerations:

The proposed action to authorize Business Terms for negotiations with the developer to further redefine the Proposed Project scope and to commence environmental review, if necessary, is authorized under CEQA Guidelines Section 15262, planning for possible future action.

Policy Considerations:

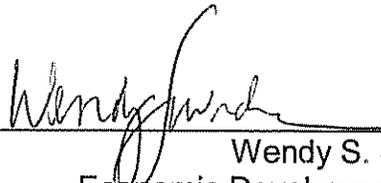
Approval of the business terms and subsequent OPA will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and 2005-2009 Merged Downtown Implementation Plan, and the 2005 Downtown Sacramento Redevelopment Strategy, including:

- The preservation and/or restoration of historically or architecturally significant structures; and
- The establishment and implementation of performance criteria to assure high quality site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Downtown Project Area.

Additionally, the proposed project is consistent with the development objectives outlined in the recent JKL Community Workshop process.

M/WBE Considerations:

Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully submitted: 
 Wendy S. Saunders
 Economic Development Director
 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

AUTHORIZATION OF BUSINESS TERMS FOR AN OWNER PARTICIPATION AGREEMENT REGARDING THE TERMS OF AN AGREEMENT FOR REDEVELOPMENT OF THE PROPERTY LOCATED AT 926 J STREET

BACKGROUND

- A. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- B. One of the outcomes of that Workshop was an interest in looking at stimulating redevelopment not only along K Street, but also on the adjacent corridors of J and L streets because of their high visibility and significance as the main transportation corridors in the Central City.
- C. The Redevelopment Agency (Agency) has invested in the 9th and J Lofts project to stimulate additional redevelopment and elimination of blight along the J Street corridor.
- D. The property located at 926 J Street (Proposed Project) lies within one block of that significant Agency investment.
- E. The Proposed Project is an historic structure in deteriorating condition.
- F. On February 14, 2006, the Agency authorized staff to negotiate an Owner Participation Agreement (OPA) with Rubicon Partners regarding the terms of an agreement for redevelopment of the Proposed Project with a public investment of not more than \$15 million.

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

Section 1. After due consideration of the facts presented, the findings, including the environmental findings regarding this action, as stated in the staff report, are approved.

Section 2. Agency approves the following business terms to be incorporated into the OPA, currently being negotiated:

- A loan of \$8.4 million for hard construction costs for the hotel component, with the following components:
 - \$3.3 million of which is forgivable upon project completion for improvements related to the extraordinary costs associated with the historic preservation and structural improvements needed for the building
 - \$5.1 million of which will be repaid with zero percent interest, utilizing one-half percent of the gross hotel revenues once the hotel generates \$17 million of gross revenues, and the project achieves a net operating income of 26 percent
- A loan of \$850,000 for a signature restaurant , at zero percent interest for a ten-year period, repaid by the Agency receiving 55 percent of the percentage rents generated from the project;
- An additional \$600,000 reserved for public improvements on 10th Street to accommodate outdoor seating opportunities, if needed; and
- Pledging project-generated tax increment back to the project for a period of 15 years at a total estimated value of \$1.68 million.

Additionally, the following City assistance (adopted by separate resolution) is also needed to make the project financially feasible:

- Access to 175 City public parking spaces, paid by Rubicon Partners at a premium rate (rates and locations to be determined); and
- Providing Sacramento County Regional Sanitation District connection fee credits to the project (application for fee credits to be handled separately).

RESOLUTION NO.

Adopted by the City Council of the City of Sacramento

SUPPORT OF CITY-RELATED BUSINESS TERMS FOR THE REDEVELOPMENT OF THE PROPERTY LOCATED AT 926 J STREET

BACKGROUND

- A. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors.
- B. One of the outcomes of that workshop was an interest in looking at stimulating redevelopment not only along K Street, but also on the adjacent corridors of J and L streets because of their high visibility and significance as the main transportation corridors in the Central City.
- C. On February 14, 2006, the Redevelopment Agency (Agency) authorized staff to negotiate an Owner Participation Agreement (OPA) with Rubicon Partners regarding the terms of an agreement for redevelopment of the property located at 926 J Street with a public investment of not more than \$15 million.
- D. As part of the Agency OPA negotiation process, a need for City support was identified for parking access and application of the Sacramento County Regional Sanitation District (SCRSD) connection fee credit program.

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

Section 1. After due consideration of the facts presented, the findings, including the environmental findings regarding this action, as stated in the staff report, are approved.

Section 2. City approves supporting the following business terms to be incorporated into appropriate agreements to be executed contingent upon the approval of an Agency OPA, currently being negotiated:

- Providing SCRSD connection fee credits to the project (application for fee credits to be handled separately); and
- Access to 175 City public parking spaces, paid by Rubicon Partners at a premium rate (rates and locations to be determined).

ATTACHMENT 1

926 J Street - Project Site Location Map



Site Profile



926 J Street

AGENCY/CITY RETURNS FROM 926 J STREET PROJECT

- Up to \$20 million in revenues to the Agency/City over a 15-year period generated from the following:
 - Approximately \$1 million in additional TOT tax annually;
 - An estimated \$330,000 in annual sales tax;
 - Approximately \$125,000 in additional property tax increment (the 30% set-aside for affordable housing);
 - Approximately \$20,000 annually in utility user tax; and
- Over 100 new jobs for the hotel operation and an estimated 30 new jobs for the ground floor restaurant.
- Initial investment of \$9.85 million recouped within 8 years of project opening (Project "Break-even point")