



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

915 I Street, Sacramento, CA 95814-2671

**Consent
February 27, 2007**

Honorable Chair and Members of the Board:

Subject: Exclusive Right to Negotiate Agreement with 1012 K Street LLC

Location/Council District: 1012-1022 K Street, south side of K Street east of 10th Street, Central Business District (District 1)

Recommendation: Adopt a Redevelopment Agency Resolution authorizing the City Manager, acting on behalf of the Agency, to execute an Exclusive Right to Negotiate Agreement with 1012 K Street Central LLC for the Redevelopment Agency-owned properties at 1012-1022 K Street.

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

Presenters: Not applicable

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Description Analysis:

Issue: On August 15, 2006, the City approved project concepts for the Redevelopment Agency-owned properties located at the southeast corner of 10th and K streets and authorized the City Manager or his designee to extend the Exclusive Right to Negotiate Agreement (ERN) with K Street Central until December 15, 2006 for two separate projects as follows:

Project 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.

Project 2: Consideration of the demolition of the 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.

Since the concept approvals, the Agency approved a Disposition and Development Agreement for 1000 K Street and the project is underway. The ERN for 1012-1022 K Street expired on December 15, 2006.

Separate limited liability companies have been set up for each project, each consisting of the same members. The members of both the 1000 K Street LLC and the 1012 K Street LLC include David S. Taylor Interests, Inc. and the CIM Group. The members have proven track records and extensive experience in the acquisition, design, financing and management of landmark infill projects in urban settings.

Milestones to be accomplished in the new ERN for 1012-1022 K Street will be completed within a 300-day period as follows:

	Project #2 Condominium/Mixed-Use
Within 60 days	<ul style="list-style-type: none"> • Refine schematic designs
Within 90 days	<ul style="list-style-type: none"> • Refine estimated construction costs, including all applicable fees and contingencies • Refine development and operating pro formas • Finalize project descriptions for Agency Site, sufficient for environmental review under the California Environmental Quality Act ("CEQA")
Within 120 days	<ul style="list-style-type: none"> • Solicit and incorporate comments from the Design Review Preservation Board for use in CEQA analysis • Begin CEQA analysis
Within 240 days	<ul style="list-style-type: none"> • Negotiate the terms of appropriate redevelopment agreements • Prepare Schedule of Performances for the construction period
Within 300 days	<ul style="list-style-type: none"> • Certify the CEQA document and adopt Mitigation Monitoring Plan • Obtain project approval from the Agency and execute the redevelopment agreements

Staff expects to return to the Agency with business terms and consideration for project approval by December 26, 2007.

Policy Considerations: The 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. One of the main policies that came out of this workshop is the introduction of residential development on K Street. More residential redevelopment on K Street will support retail and services in the Downtown area.

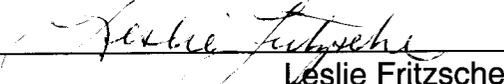
Environmental Considerations: The proposed action to authorize continued negotiations with the developer to further define the proposed project scope and to complete environmental review is authorized under CEQA Guidelines Section 15262, planning for possible future action.

Rationale for Recommendation: On October 31, 2006, the Agency reaffirmed the consideration of two specific project concepts and approved business terms for 1000 K Street. The Agency also authorized staff to return with an Agreement for Exclusive Right to Negotiate (ERN) with 1012 K Street LLC (the Developer) for redevelopment of 1012-1022 K Street, the remainder of the Agency Site. Because the proposed Project 2 requires more extensive environmental review for the consideration to demolish structures and environmental impacts for the development of a mixed-use condominium development as well as further business term negotiations, authorization to execute a new ERN for a 300-day period is necessary.

Financial Considerations: In consideration of the right to negotiate exclusively with the Agency, 1012 K Street LLC will deliver to Agency, at the time the ERN is executed, a deposit fee of \$75,000 as payment towards third-party costs associated with environmental documents. The Developer will deliver another \$75,000 when a project description, as defined under CEQA, has been determined for additional third-party environmental document costs for a total deposit of \$150,000.

M/WBE Considerations:

There are no M/WBE considerations contemplated with the requested action.

Respectfully submitted by: 
Leslie Fritzsche
Downtown Development Manager

Recommendation Approved:

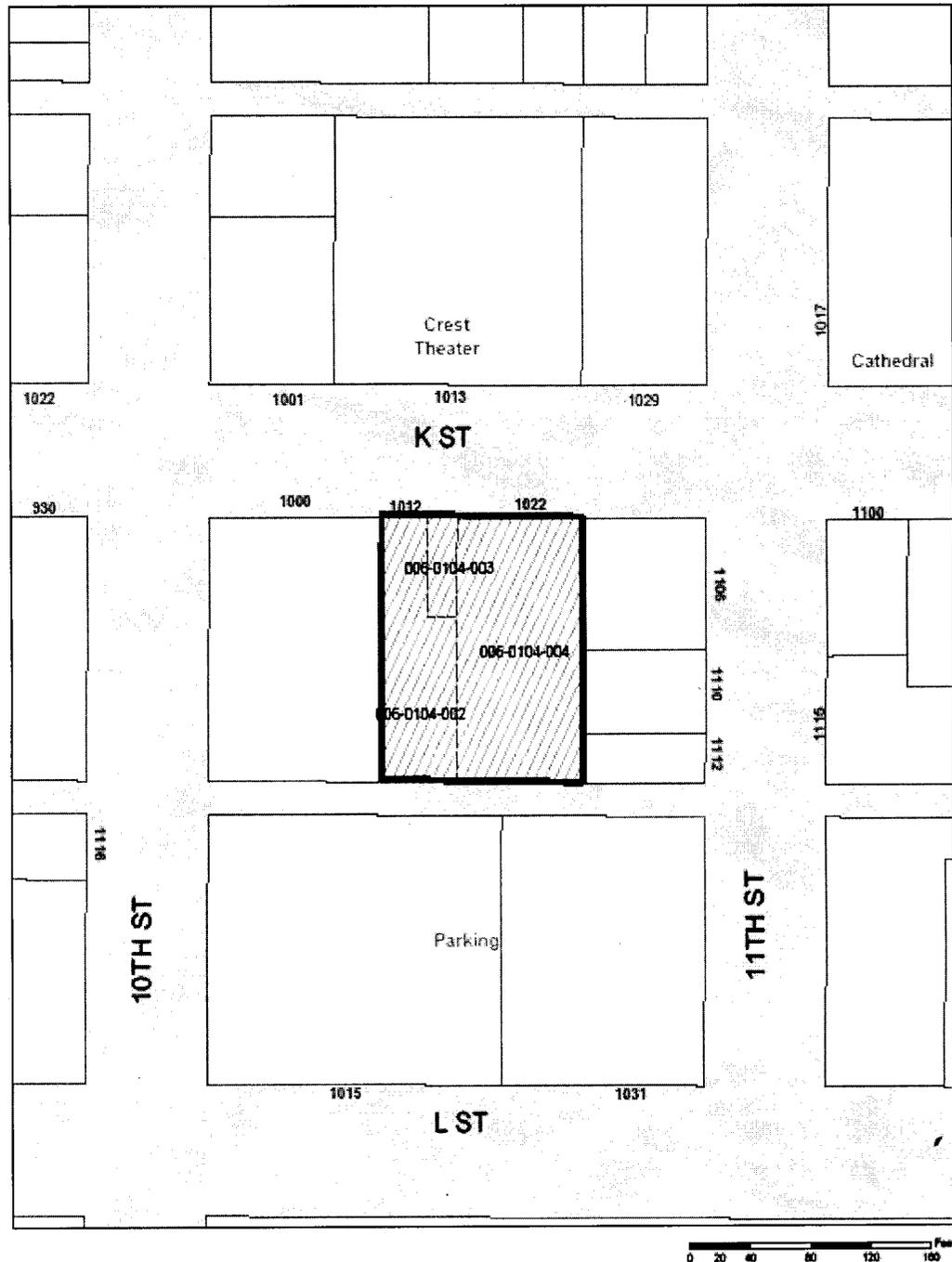


Ray Kerridge
City Manager

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Site Location Map 1012 - 1022 K Street



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 downtown area. The community recommended that strategic attention be given to the project, with a focus on destination oriented uses that take advantage of being located in an emerging entertainment district. Desired uses included cultural, entertainment, commercial, and residential uses.

In February 2005, the Redevelopment Agency (Agency) issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for the Agency Site located at the southeast corner of 10th/K streets. On August 16, 2005, the City selected K Street Central and agreed to negotiate an Exclusive Right to Negotiate Agreement for all Agency owned sites from 1000-1022 K Street as well as other sites. On September 13, 2005, the Agency authorized an Exclusive Right to Negotiate (ERN) for a 240-day period with the K Street Central Development Team (K Street Central) regarding the terms of an agreement for redevelopment of the Agency-owned properties (Agency Site) located at the southeast corner of 10th/K streets.

Since the site was vacated by its last tenants, the Agency reviewed a variety of development proposals for the site, including the completion of a performing arts analysis for the site.

In March, 2006, the performing art analysis was presented to the Agency and a determination was made that the 1000 K Street could support a 200± seat theatre.

In August, 2006, the Agency conceptually approved two proposed project concepts and the City Manager was authorized to extend the Exclusive Right to Negotiate for 120 days for 1000 K Street. On October 31, staff brought the business terms for 1000 K Street the Agency for approval and the Development and Disposition Agreement followed on January 9, 2007. The staff report also requested that staff return with an Exclusive Right to Negotiate for 1012-1022 K Street since the previous ERN for these three properties expired on December 15, 2006.

Project Descriptions:

Project 2: Condominium Project

The proposed project includes the consideration of the demolition of the mid-block buildings (formerly Rite Aid and Hit-or-Miss/Capital Clothing) to accommodate a new mixed-use condominium project. The project 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 square feet. 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.

RESOLUTION NO.

Adopted by the Redevelopment Agency of the City of Sacramento

AUTHORIZATION TO EXECUTE AN EXCLUSIVE RIGHT TO NEGOTIATE FOR 300 DAYS REGARDING THE TERMS OF AN AGREEMENT FOR REDEVELOPMENT OF THE AGENCY-OWNED PROPERTIES LOCATED AT 1012 - 1022 K STREET

BACKGROUND

- A. Over the past five years, the Agency has assembled property located at the southeast corner of 10th and K streets (Agency Site) for redevelopment purposes.
- B. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, and specifically the Agency Site. Participants helped craft an overall vision with specific development objectives for the Agency Site, including:
 - Cultural uses such as live theatre, museums, artist lofts and art galleries;
 - Commercial uses such as restaurants, movie theaters, nightclubs, and mixed specialty retail; and
 - Residential.
- C. In February 2005, the Agency issued a Request for Proposals (RFP) for a Downtown Cultural, Entertainment and Retail Complex for the Agency Site. The RFP also indicated that the Agency would consider proposals for a project that incorporated other parcels in addition to the Agency Site.
- D. 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.
- E. 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 with K Street Central and further negotiations to develop the project proposals.
- F. On October 31, 2006, staff was directed to return with an Exclusive Right to Negotiate with K Street Central for the Agency-owned properties at 1012-1022 K Street.
- G. The Developer has established limited liability companies for each of the proposed projects; 1000 K Street LLC for the Project 1 and 1012 K Street LLC for Project 2.
- H. The proposed Project 2 at 1012-1022 K Street is to construct a mixed-use project which will require additional environmental review.

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

Section 1. K Street Central (now 1000 K Street LLC and 1012 K Street LLC) is selected as the preferred developer for the redevelopment of the Agency Site.

Section 2. The following project concepts were approved for the Agency-owned property located at the southeast corner of 10th and K streets:

- a. Renovation of the existing building at 1000 K Street (formerly Woolworth's) to accommodate a live theatre performance space, a signature ground-floor restaurant with second-level lounge and patio space, additional second-floor office space, and 41 on-site parking spaces in the basement.
- b. Consider demolition of the 1012-1022 K Street buildings (formerly Rite Aid and Hit-or-Miss buildings) to develop a new mixed-use condominium project including approximately 130 residential units, on-site parking, and ground-floor lobby entrance and retail.

Section 3. The City Manager or his designee is authorized to negotiate and execute, on behalf of the Agency, an Exclusive Right to Negotiate Agreement with 1012 K Street LLC providing a 300-day period to negotiate the terms of an agreement for redevelopment of the Agency Site. The parties shall endeavor to accomplish the following milestones in accordance with the following targeted periods. Should the Project timeline exceed milestones due to the CEQA review process, the Agency may, by written notice of Ray Kerridge, the City Manager, acting on behalf of the Agency, extend the agreement by Sixty (60) days. Said milestones are:

Within 60 days:

- Refine schematic designs

Within 90 days:

- Refine estimated construction costs, including all applicable fees and contingencies
- Refine development and operating pro formas
- Finalize project descriptions for Agency Site, sufficient for environmental review under the California Environmental Quality Act ("CEQA")

Within 120 days:

- Solicit and incorporate comments from the Design Review Preservation Board for use in CEQA analysis
- Begin CEQA analysis

Within 240 days:

- Negotiate the terms of appropriate redevelopment agreements
- Prepare Schedule of Performances for the construction period.

Within 300 days:

- Certify the CEQA document and adopt Mitigation Monitoring Plan
- Obtain project approval from the Agency and execute the redevelopment agreements