



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

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CITY HALL
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City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Status Report - Downtown Projects

SUMMARY

This report briefly updates the status of downtown properties in which the Sacramento City Housing and Redevelopment Agency has a direct interest and suggests financing and parking as subjects for serious future consideration.

BACKGROUND

Current projects and their status is as follows:

- Capitol Plaza Holiday Inn, 3-4-J-K block: completed, open, and operating.
- Capitol Plaza parking garage, 3-4-K-L block: open and operating. The entire project is approximately 99% finished with art work, landscaping and leasing of commercial space to be completed.
- K Street Mall construction, 3rd to 4th Streets: under construction, 30% complete. This segment should be completed in early Spring 1980.
- Office Building north half of 11-12-J-K (Cathedral) block: under construction with excavation completed and foundations started. Estimated completion Spring 1981.
- Weinstocks Store and sub-surface garage, 6-7-K-L block: open and operating with finish and detail work to be completed.
- Liberty House store and office building with sub-surface parking, 6-7-J-K block: under construction with excavation complete and foundation work in progress. Completion is scheduled for Spring of 1981.

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- Reconstruction of the K Street Mall from 6th to 7th Streets: essentially complete. The south 3/4 of the Mall is finished. The north 1/4 can be done as the Liberty House store is completed.
- Old Sacramento Historic Dock: consultants master plan is completed and will be brought before Federal, State, and local review bodies.
- The 5-6-I-J block: a developer has been selected and work is in progress to complete the necessary and appropriate transfer documents. These documents and plans will be brought to the City Council as they are completed.
- Northwest 1/4 block, 6-7-I-J: this project is proceeding with the 5-6-I-J block and will follow the same processing pattern.
- Hotel on the 12-13-K-L block: all but two of the necessary parcels have been bought and assembled by Kimmel Construction Company. Two parcels on the southwest corner of the block have been identified by potential hotel operators and Kimmel Construction as highly desirable to the overall project. One of these parcels is vacant. The other is an apartment house and small shops. Negotiations are currently in progress between Kimmel Construction and the owners for acquisition of the properties. The Housing and Redevelopment Agency has subleased the parking lot portion to Systems Auto Parks which is operating the lot and paying rent to the Agency.
- The 6-7-L-Capitol Mall block: this continues to be a desirable development property. It may be marketed advantageously if the Council so desires. However, parking and traffic problems in the area should be carefully evaluated before a request for proposals is formulated and issued.
- The Travelers Hotel block, 4-5-J-K: this block is on the north side of the K Street Mall across from Macy's Dept. Store. It is covered by existing development contracts between the Housing and Redevelopment Agency and Downtown Plaza Properties. The portion of the block on which the hotel building rests is excluded from the contract and is in private ownership. This property is the last one on the K Street Mall requiring rebuilding following acquisition and clearance by the Redevelopment Agency. City and Agency staff and Downtown Plaza Properties are now discussing uses and development of the parcel.
- 5-6-J-K block, "B-2" office building: completed and operating. Some detail work left to be completed.
- 3-4-Capitol Mall-N: since the Public Employees Retirement System has refused the Council's plan for development, this block is available for development. However, Gateway Associates may well have a role in development of the block.

FUTURE CONSIDERATIONS

The fast pace of recent development in the Central Business District has provided major progress toward the elimination of blight and the revitalization of the downtown core area. It constitutes attainment of very long standing goals. It also produces its own set of questions that will require responses from the City and the private sector at both administrative and policy levels.

- FINANCING

Historically, tax increments have provided the fiscal power for downtown redevelopment.

That source alone can no longer support the activity at previous levels. Proposition 13 reduced tax increment revenues by 43% overall. Fortunately the largest downtown public projects have been completed on a pay-as-you-go basis. The absence of significant amounts of bonded debt does allow tax increments to be spent for new bonded debt service so that the revitalization of the Central Business District may still be completed according to the Council's policies and priorities.

Proposition 13 has severely reduced the tax increment that may be generated by any individual project.

The Council's long-standing policy has been that each project pay its own way so that any public funds invested to stimulate the development would be recouped over a reasonable period of time. Prior to Proposition 13, an investment ratio of 3 private dollars to one public dollar would return the public contribution in 10 or 11 years.

With the Proposition 13 reduction in revenues, the equation changes radically. The public investment must fall, the recovery period must lengthen, or the ratio of private to public investment must increase.

Some Examples:

- To retain a ten year recovery period for a project regardless of gross project size, the ratio of private to public investment must increase from 3:1 to 10:1. If a 3:1 ratio is maintained, the recovery period lengthens from 10 years to 25 years.
- Given a \$25,000,000 project at a ratio of \$3 private to \$1 public pre-Prop. 13:

<u>Private</u>	<u>Public</u>
\$18,750,000	\$6,250,000

Tax Increment = \$562,500/yr.

Amortization in 11 years

- Given the same \$25,000,000 project at a ratio of \$3 private to \$1 public post-Prop. 13:

<u>Private</u>	<u>Public</u>
\$18,750,000	\$6,250,000

Tax Increment = \$187,500

Amortization in 33 years

- Given a maximum private investment of \$18,750,000 and a ten year amortization of public investment, the public portion reduces to \$1,875,000 with the gross project reduced to \$20,625,000 if the public amortization period is held to 10 years.

Clearly, in the absence of new revenues, the Agency is faced with one of several potentially damaging alternatives.

- The pace of revitalization can be slowed in hopes that tax increments will catch up with financing needs.
- Public participation in projects and public improvements can be curtailed.
- Cash financing of large improvements will, regardless of new revenue sources, probably no longer be possible. Fund balances will not increase rapidly enough to allow large, closely timed payments such as have been made for the Holiday Inn parking structure, the Weinstocks parking structure, and the two blocks of K Street Mall reconstruction.

New financing mechanisms are needed if we are to escape the above closed formula and continue the current policy of encouraging rapid downtown redevelopment and revitalization in ways the Council has found desirable. These techniques must include an increase in the revenues returned to the Agency and recycling of the funding. Some techniques that appear to have promise are:

1. The Agency as lender. This would allow the Agency to loan money to a specific project rather than make an outright grant. The result would be that the public funds would be repaid to the Agency along with the tax increments generated by the project.
2. The Agency as equity partner. In this structure, the tax increment would be augmented by a share of the project profits because the Agency would "buy into" the project. The risk would be higher than those encountered as lender because profits might not materialize. Conversely, the returns could be higher because the equity position would remain in existence beyond a fixed term or loan payoff.

- PARKING

This is where the issues raised by successful downtown development have the most immediate impact. Any consideration of downtown parking must include recognition that:

1. Land uses in the core area have continuously increased in density. Redevelopment has not replaced the downtown; it has expanded it vertically.
2. The west end of K Street is comparable to a suburban shopping center with at least as great a need for customer parking.
3. Office building development in the core area has not provided for its parking demands. Although some individual projects have included parking, the overall supply falls short of demand. This is particularly true in the case of State-owned and State-leased buildings which typically make little, if any, provision for employee parking.
4. Employee parking and customer parking are generally incompatible and extremely difficult to integrate. Employee cars tend to "freeze out" customer cars because they arrive at a parking facility before shopping hours and remain in place all day.
5. New projects will be developed that will tax the capacity of the whole parking system. There is no indication that downtown development will slow appreciably until the job is complete. When downtown redevelopment is complete, the demand will continue to be high even with significantly expanded transit service. Growth in overall downtown activity will tend to offset any decreased parking demand resulting from petroleum shortages or price increases, etc.

CONCLUSION

Redevelopment and revitalization of the Central Business District is progressing rapidly and well. As the entire job comes nearer to completion and land becomes more scarce with each developmental increment, parking and public financial participation will become increasingly crucial and knotty issues.

However, it should be noted that these problems present themselves as a result of the successful efforts of the City/Agency in creating an active and dynamic downtown.

While the problems may be unpleasant, their existence proves the vitality and viability of the City's actions on behalf of the Central Business District.

RECOMMENDATION

This is an informational report and as such requires no action by the Council.

Respectfully submitted,



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For City Council Information:



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