



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

915 I Street, Sacramento, CA 95814-2671
www. CityofSacramento.org



**Sacramento
Housing &
Redevelopment
Agency**

STAFF REPORT
February 14, 2006

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

Subject: Ebner-Empire Hotel Reconstruction and Disposition and Development Agreement

Location/Council District: 116 and 118 K Street, Old Sacramento Historic District, Council District 1

Recommendation:

- Redevelopment Agency of the City of Sacramento (Agency) adopt a Resolution that authorizes the approval of a Disposition and Development Agreement and related loans totaling \$3.35 million with the Ebner-Empire LLC (Developer) for the reconstruction of the Ebner-Empire Hotel in Old Sacramento, and allocate \$3.35 million from the 2005 Merged Downtown Tax Allocation Bond to the Ebner-Empire Hotel project
- City Council adopt a Resolution that authorizes the findings regarding the sale of Redevelopment Agency property.

Contact: Laura Sainz, Senior Project Manager, 808-2677
Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Laura Sainz, Senior Project Manager, 808-2677

Department: Economic Development

Division: Downtown Development

Organization No: 4451

Summary:

In an effort to address blighted and vacant sites, the Economic Development Department, acting as the agent of the Agency, issued a Request for Qualifications (RFQ) to reconstruct buildings in Old Sacramento. The Developer responded with a proposal to reconstruct the Ebner-Empire Hotel located at 116 and 118 K Street in Old Sacramento. In May 2005, the Agency approved an Exclusive Right to Negotiate (ERN)

the development of the Ebner-Empire Hotel with the Developer. During the ERN term, the Developer finalized the design, construction costs and a project pro forma. The project pro forma identifies the need for a subsidy to assist the Developer in realizing a market-rate return. The subsidy will be in the form of two loans, both of which will be fully repaid to the Agency.

Committee/Commission Action: Not Applicable.

Background Information:

Old Sacramento currently has a number of vacant sites that contribute to blighted conditions and below-market lease rates in the historic district. In an effort to address these blighted conditions, the Economic Development Department, acting as the agent of the Agency, issued an RFQ for four vacant properties in Old Sacramento. In response to the RFQ, an evaluation committee made up of Old Sacramento and downtown stakeholders was formed. The evaluation committee reviewed all of the qualifications and selected seven teams to interview. Each team was asked to bring project-specific information related to its proposal. The evaluation committee selected two teams, one to continue negotiations with for the development of the Magnolia Saloon/Lords Restaurant site (a vacant parcel) and the other for negotiations on the Ebner-Empire Hotel (also a vacant parcel). The Developer was selected reconstruct the Ebner-Empire Hotel.

The Developer is a partnership of Carson Development Company and The Scurfield Company. Carson Development was involved with the early redevelopment of the Pacific Stables Building in Old Sacramento. It was also involved with the redevelopment of other historical structures in the downtown area, including the rehabilitation of the Railway Express Agency (REA) building which is almost complete. The Scurfield Company was involved in the early redevelopment of three historical buildings in Old Sacramento and currently manages a number of properties in Old Sacramento. Dave Scurfield is an active board member of the Historic Old Sacramento Foundation and the Old Sacramento Business Association.

In May 2005, the Agency approved an ERN for the development of the Ebner-Empire Hotel with the Carson-Scurfield development team. During the ERN term, the development team finalized design issues, construction costs and a project pro forma. The project pro forma identified the need for a subsidy to assist the development team in realizing a market rate return. The subsidy will be in the form of two loans, both of which will be fully repaid to the Agency. The loans and other developer responsibilities are documented in the proposed Ebner-Empire Hotel Disposition and Development Agreement (DDA) on file with the City and Agency Clerks.

Financial Considerations:

Funding for the project shall come from the 2005 Merged Downtown Tax Allocation Bond. The proposed \$3.35 million assistance from the Agency is required to address the significant gap between construction costs and financial viability. The total project cost is estimated to be \$5.85 million. The Developer is providing approximately \$1

million in equity as well as securing a \$1.5 million private loan. The Agency participation is split into two loans. The first Agency loan includes the following terms:

- Loan amount is \$2.35 million;
- Loan funds shall be used for construction only;
- The term of the loan is 25 years. At the end of the 25 years, the remaining principal balance, with interest, is due to the Agency;
- The interest rate is 4%;
- Loan payments must begin once the project reaches a return on equity over 12%;
- Return on equity, and the elements used to define it, is included in Attachment 1. Once a 12% return on equity is realized, the Developer must share 50% of all profits as a payment toward the loan principal; and
- Once the project reaches an over 14% return on equity, interest payments must be made. If the project reaches an over 14% return on equity, the Developer must share 50% of all profits as a payment first toward interest and then to principal.

In addition to the loan payment requirements described above, two other events will also trigger loan repayments:

1. The Developer refinances. If refinancing results in proceeds in excess of those required to pay off the original private debt, proceeds above the private debt amount will be due to the Agency and applied toward the loan balance; and/or
2. The Developer sells the property, in which case the entire loan balance will need to be repaid.

The second Agency loan includes the following terms:

- Loan amount is \$1 million;
- Loan funds shall be used for construction only;
- The term of the loan is 10 years. At the end of the 10 years, the principal balance is due to the Agency;
- The interest rate is 0%; and
- A 1% loan fee is due in full upon repayment of the loan.

These loans will be subordinate to a private loan in an amount not to exceed \$1.5 million.

Environmental Considerations:

The activities outlined in the development agreement have been analyzed in accordance with the California Environmental Quality Act (CEQA). An Initial Study/Mitigated Negative Declaration (MND) was prepared and a Notice of Intent to Approve a Mitigated Negative Declaration was published and circulated for review and comments from June 16, 2004 to August 4, 2004. The MND determined that the proposed project will not result in significant adverse impacts on the environment that cannot be mitigated. Implementation of mitigation measures outlined in the Mitigation

Monitoring Plan and measures included in the project or imposed through adopted ordinances of the City reduce potential impacts to a less than significant level.

The MND and Mitigation Monitoring Plan were approved on November 30, 2004, and included the reconstruction of the Ebner-Empire Hotel using the Secretary of Interior Standards for reconstruction. The current proposal uses the Secretary of Interior Standards for reconstruction of the site. Pursuant to CEQA Guidelines Section 15162, when a negative declaration has been certified for a project, no subsequent environmental review is required as long as there are no substantial changes to the project and no new significant information or significant environmental effects related to the project that were not discussed in the prior negative declaration. The prior negative declaration remains valid for the project and no additional environmental review for the project is required.

33433 Report

When tax increment funds have been used to acquire a property, State law requires that the Agency make certain findings before approving the disposition of the property. The findings are documented in a 33433 Report. The Ebner-Empire 33433 Report and public hearing were noticed on January 31 and February 7, 2006. The 33433 Report has been on file with the Clerk's Office of both the City and Agency since January 25, 2006.

Policy Considerations:

2005 Downtown Sacramento Redevelopment Strategy

In 2000, a strategy was prepared to guide redevelopment activities for downtown Sacramento. Section Three of the *Framework for Strategic Investment* focuses on the Waterfront and Old Sacramento area. The reconstruction of the Ebner-Empire Hotel is consistent with the goals mentioned in the 2005 Downtown Sacramento Redevelopment Strategy including:

1. The elimination of environmental deficiencies in the Merged Project Area, including mixed and shifting uses, small and irregular lots, obsolete, aged and deteriorated building types, inadequate or deteriorated public improvements, and incompatible and uneconomic land uses;
2. The strengthening of retail and other commercial functions in the downtown area, the strengthening of the economic base of the Merged Project Area and the community by the installation of needed site improvements either inside or outside the Merged Project Area to stimulate new commercial/light industrial expansion, employment and economic growth;
3. The establishment and implementation of performance criteria to assure high site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Project; and
4. The preservation and/or restoration of historically or architecturally significant structures.

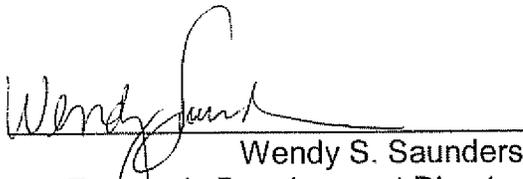
City of Sacramento Strategic Plan and Guiding Principles

Additionally, the Ebner-Empire reconstruction project is consistent with the following goals identified in the 2005-2008 City of Sacramento Strategic Plan:

1. Improve and expand public safety;
2. Achieve sustainability and livability; and
3. Expand economic development throughout the City.

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:

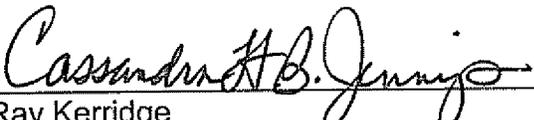

Ray Kerridge
Interim City Manager

Table of Contents

Pg	1	Report
Pg	6	Attachment 1: Return on Equity
Pg	7	City Resolution
Pg	8	Agency Resolution

Attachment 1

Return on Equity

Return on Equity, for purposes of loan repayment, will be calculated as follows:

$$\text{Annual Net Cash Flow/Developer Equity}$$

Annual Net Cash Flow is defined as the Project's Annual Net Operating Income less primary loan.

Annual Net Operating Income is defined as the Project's actual Gross Income less Operating Expenses less Reserve Expenses less Extraordinary Expenses.

Operating Expense is limited to the following:

- Management fee expense not to exceed 4% of gross effective income,
- Utility expenses paid by the Developer,
- Maintenance expenses no higher than would be paid to non-related third parties,
- Security costs,
- Leasing and marketing expenses,
- Property taxes and insurance paid by the Developer,
- Capital reserve account not to exceed 2% of gross effective revenue,
- Other customary recurring expenses identified as a part of an audit upon completion of the first operating year and approved by the Agency.

RESOLUTION NO.

ADOPTED BY THE CITY OF SACRAMENTO

February 14, 2006

**MERGED DOWNTOWN SACRAMENTO REDEVELOPMENT PROJECT AREA:
FINDINGS REGARDING SALE OF REDEVELOPMENT AGENCY PROPERTY**

BACKGROUND

- A.** The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Sacramento Redevelopment Project Area Redevelopment Plan ("Redevelopment Plan") and an "Implementation Plan" for Merged Downtown Sacramento Redevelopment Project Area ("Project Area");
- B.** The Agency owns certain real property ("Property"), in the Project Area. The property was acquired with Project Area tax increment funds and other sources. The Property is generally described as 116 & 118 K Street and more particularly described in the legal description, attached as Exhibit 1 to the proposed Disposition and Development Agreement, a copy of which is on file with the City and Agency Clerk;
- C.** The Agency and Ebner-Empire LLC ("Developer") desire to enter into a Disposition and Development Agreement ("DDA"), which DDA would convey fee interest in the Property, 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.** A report under Health and Safety Code 33433 ("33433 Report") has been prepared, filed with the City and Agency Clerk and duly made available for public review and, proper notice having been given, a hearing has been held in accordance with Health and Safety Code Sections 33431 and 33433.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. After a public hearing, the statements and findings of the 33433 Report are true and correct and are hereby adopted. The Project will assist in the elimination of blight as provided in the 33433 Report.

Section 2. The Project is consistent with the goals and objectives of the Redevelopment Plan and the Implementation Plan, as stated in the DDA.

Section 3. The consideration given for the interest conveyed under the DDA is not less than the fair reuse value at the use and with the covenants, conditions, restrictions, and necessary development costs authorized by the DDA and conveyance documents.

Section 4. The sale of the Property by the Agency is hereby approved and the Agency is authorized to execute the DDA with the Developer.

RESOLUTION NO.

*ADOPTED BY THE REDEVELOPMENT AGENCY
OF THE CITY OF SACRAMENTO*

February 14, 2006

**APPROVAL OF A DEVELOPMENT AGREEMENT TO
RECONSTRUCT THE EBNER-EMPIRE HOTEL IN OLD SACRAMETO**

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 Agency owns certain real property ("Property"), generally described as 116 and 118 K Street, in the Project Area and acquired the property with Project Area tax increment funds and other sources;
- C.** The Agency desire to enter into a Disposition and Development Agreement ("DDA"), a copy of which is on file with the City and Agency Clerk, which conveys fee interest in the Property and requires certain improvements on the Property, as further described in the DDA (collectively, "Project");
- D.** In accordance with the California Environmental Quality Act and its implementing regulations, an Initial Study has been prepared for the proposed project as described in the DDA and said Initial Study has disclosed no negative impacts of the proposed project upon the environment which cannot be mitigated to less than significant; and
- E.** A report under Health and Safety Code 33433 ("33433 Report") has been prepared, filed with the City and Agency Clerk and duly made available for public review, and, proper notice having been given, a 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
REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS
FOLLOWS:**

Section 1.

The statements and findings of the 33433 Report are true and correct and are hereby adopted. The Project will assist in the elimination of blight as stated in the 33433 Report. The Project is consistent with the goals and objectives of the Redevelopment Plan and the Implementation Plan. Goals of the Redevelopment Plan, as stated in the Implementation Plan, include, the elimination of environmental deficiencies in the Merged Project Area, including, among others, mixed and shifting uses, small and irregular lots,

obsolete, aged and deteriorated building types, inadequate or deteriorated public improvements, and incompatible and uneconomic land uses; the strengthening of retail and other commercial functions in the downtown area, the strengthening of the economic base of the Merged Project Area and the community by the installation of needed site improvements either inside or outside the Merged Project Area to stimulate new commercial/light industrial expansion, employment and economic growth; the establishment and implementation of performance criteria to assure high site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Project; and the preservation and/or restoration, where feasible, of historically or architecturally significant structures. The DDA shall be deemed an implementing document approved in furtherance of the Redevelopment Plan, the Implementation Plan for the Project Area and all applicable land use plan, studies, and strategies.

Section 2.

The consideration given for the interest conveyed under the DDA is not less than the fair reuse value at the use and with the covenants, conditions, restrictions, and necessary development costs authorized by the DDA and conveyance documents.

Section 3.

The DDA in the form that is on file with the Agency and City Clerk is approved and the Executive Director or her designee is authorized to execute the DDA with the Developer and to take such actions, execute such instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the DDA.

Section 4.

The Executive Director is authorized and directed to transfer \$3,350,000 from the 2005 Merged Downtown Tax Allocation Bond to the Ebner-Empire Hotel reconstruction project.

Section 5.

The Executive Director is authorized to perform such actions necessary to implement funding assistance as authorized herein to ensure proper repayment of Agency funds, including without limitation, subordination, extensions and restructuring of payment as approved by Agency counsel.

Table of Contents

Exhibit A – Disposition and Development Agreement on file with the Agency and City Clerk.