



43

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

April 18, 1980

CITY MANAGER'S OFFICE  
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Redevelopment Agency of the  
City of Sacramento  
915 I Street  
Sacramento, California 95814

Honorable Members in Session:

**SUBJECT:** Lease Payments on 12-13-K-L Block

COUNTY GOVERNING BOARD  
ILLA COLLIN  
C. TOBIAS, (TOBY) JOHNSON  
JOSEPH E. (TED) SHEEDY  
SANDRA R. SMOLEY  
FRED G. WADE

### SUMMARY

Land leases covering much of the 12-13-K-L Block were recently acquired by the Redevelopment Agency from Carter Hawley Hale. The leases call for rent increases and payment of property taxes. This report recommends that the Executive Director be authorized to make these payments.

EXECUTIVE DIRECTOR  
WILLIAM G. SELINE

### BACKGROUND

P.O. Box 1834  
SACRAMENTO, CA 95809  
630 I STREET  
SACRAMENTO, CA 95814  
(916) 444-9210

The attached memorandum from Richard Hyde sets forth the relationship between Carter Hawley Hale, Kimmel Construction, and the Agency in detail and provides a discussion of the interests involved.

The Agency holds the leases on the parking lots and must pay the designated rent in order to keep the leases in effect. Valid increases in the rent as specified in the leases will raise total rental to be paid by the Agency from the original \$6,682.06 per month to \$7,293.06 per month. The rent paid to the Agency by Systems Auto Parks is \$7,500.00 per month. The leases also call for payment of taxes and assessments.

**APPROVED**  
SACRAMENTO REDEVELOPMENT AGENCY

4-22-80

Date

4/22/80

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency of  
the City of Sacramento  
April 18, 1980  
Page -2-

Violation of either the rent or the tax payment provisions would result in the Agency losing the lease rights to the property. Kimmel Construction has refused to forego the rent increases set forth in the leases or to pay for taxes and assessments.

## FINANCIAL DATA

The Agency currently receives \$7,500.00 per month in rent. The rent increase will raise the payment to \$7,293.06 per month. Taxes and assessments currently amount to \$1,966.50 per month, which creates a total payment of \$9,534.09 per month. The deficit to the Agency is, therefore, \$2,034.09 per month. The source for funding the deficit is Central City Tax Increments.

## RECOMMENDATION

It is recommended that the Agency's Governing Board pass the attached resolution.

Respectfully submitted,



WILLIAM G. SELINE  
Executive Director

TRANSMITTAL TO COUNCIL:

 for:  
\_\_\_\_\_  
WALTER J. SLIPE  
City Manager

Contact Person: Mac Mailes  
Dick Hyde

## MEMORANDUM

TO: Mac Mailes  
FROM: Richard H. Hyde  
Re: Parking leases on Block bounded by 12th, 13th, K and L Streets

Dated: April 14, 1980

You requested a memo from me regarding the present status of the Redevelopment Agency's arrangement for the lease of the above-mentioned parking lot.

BACKGROUND:

1. By agreement dated December 1, 1979, Carter-Hawley-Hale assigned its lease hold interest in the parcels comprising the above-mentioned parking lot (with the exception of the Hart parcel) to the Agency. Kimmel, as the owners of these parcels, approved this assignment.
2. By resolution dated December 11, 1979, the Redevelopment Agency authorized the Executive Director to execute this agreement and to make rental payments under the leasehold agreement with the condition that such rental payments not exceed \$7,000.00 per month.
3. At the time of this assignment, the Agency believed it was liable for rental payments in the amount of \$6,682.06 per month. However, unbeknownst to the Agency, Carter-Hawley-Hale and Northwestern Mutual Life Insurance Company (Kimmel's predeceasor in interest as to three of these parcels) had entered into an agreement which increased the rent for the Northwestern parcels by \$611.00 per month. This increase creates a total rental liability on the part of the Agency of \$7293.06 per month.
4. Northwestern Mutual Life Insurance Company terminated the lease regarding the Northwestern parcels effective 4/30/80. This termination applies to Kimmel and absent a renewal of this lease, the Agency's rights regarding the Northwestern parcels will terminate as of 4/30/80.
5. In addition to the payment of rents, the Agency is obligated, under these leases, to pay taxes and assessments in the amount of approximately \$1966.50 per month.
6. The Hart parcel has not been acquired by Kimmel. Carter-Hawley-Hale's lease for this site has been assigned by Carter-Hawley-Hale to the Agency, effective December 1, 1979. That assignment has not yet been formerly executed by the Agency. The Agency's liability under this lease is \$255.00 per month for rent and approximately \$19.53 per month for taxes and assessments.
7. By agreement dated January 1, 1980, the Agency entered into a one-year operating agreement with System Auto Parts and Garages, Inc. Under this agreement, System operates the above-mentioned parking lot and pays the Agency \$7500.00 per month. As originally drafted, this agreement failed to include three (3) parcels included within the above-mentioned parking lot. (The Hart property and two of the three parcels comprising the Northwestern parcel).

8. By amendment dated April 1, 1980, the Hart property was added to this lease. No adjustment was made in the rental payment.

9. The Agency's total liability under this lease is \$9534.09 per month. This results in a net loss to the Agency of \$2034.09 per month.

ANALYSIS:

I feel the foregoing loss is warranted for the following reasons:

1. Based on Dave Lane's appraisal made during the Carter-Hawley-Hale negotiations, the fair market value of this parking lot is reduced by between 20 and 25% because of the existence of these leases. Accordingly, in the event the Agency found it desirable to acquire this parking lot so as to make it available for private redevelopment, it would anticipate a savings in acquisition cost of between 20 and 25%. Based on Dave Lane's appraisal, the savings will be approximately \$300,000.00.
2. Generally these rents are constant through the remaining portion of the lease term and the Agency can expect to obtain higher rents from the operators of the parking garage in future years. Accordingly, the amount of the deficit should decrease over time and eventually the property can be expected to produce a positive cash flow.
3. Most importantly, these leases are the only basis upon which the Agency obtains substantial leverage over the development of this property. Were Kimmel to acquire these leasehold interests, Kimmel would be in a position to develop the property encumbered only by applicable City land use controls. It is my opinion that these land use controls do not provide as sufficient leverage for the City to require a development of a hotel on this property. The demand for downtown office space, as witnessed by the recent proposals submitted for 5,6,I, J and other development occurring in the downtown area (e.g. 12th & I; 11th & J; Senator Theater; Senator Hotel) suggests that the property would be developed for office use absent substantial leverage on the part of the Agency.

The amount of this deficit may be subject to reduction at this time in the following ways:

1. Negotiations with Kimmel. Kimmel believed in good faith he would receive \$1111.00 per month for the Northwestern parcel, while the Agency believed in good faith it would only pay \$500.00 per month for the lease of these parcels. Were the Agency and Kimmel split this difference, the amount of the Agency's deficit would be reduced by \$305.50 per month (\$1111.00 minus \$500.00 equals \$611.00; \$611 divided by 2 equals \$305.50).
2. The Agency could renegotiate the operations agreement with System to extend the term to a date uncertain which would be based on the commencement of construction by Kimmel. Any re-negotiated agreement should have an absolute cutoff of somewhere between three and five years. It seems clear that Kimmel will not commence construction prior to the summer of 1981 and, accordingly, there would be a basis of extending the System operating agreement to that date. In addition, based on past experience it is unlikely that Kimmel will meet the summer of 1981 date and System should anticipate a longer operations period. In exchange for this, System

should be willing to increase the monthly rental payment.

3. As noted above, Northwestern has terminated the lease for the Northwestern parcels. In the event the Agency were to decline to lease this portion of the parking lot from Kimmel, the Agency would reduce its rental payments by \$1111.00 per month. In addition, the Agency's obligations for taxes and assessments would be reduced by \$282.48 per month. This reduces the above deficit to \$640.61 per month. While, under this alternative, the Agency loses control of the Northwestern parcels, it is unlikely that Kimmel will attempt to develop those parcels absent a breakdown in negotiations regarding the development of the entire site. At that point in time, the Agency would be in a position of precluding development by exercising its power of eminent domain to acquire a lease over the Northwestern parcels through 1992, or alternatively acquiring these parcels outright.

Notwithstanding my comments regarding the termination of the Agency's leasing of the Northwestern parcels, I feel that the leasing of these parcels is of substantial benefit to the Agency in that, in the event we acquire these parcels, our overall acquisition costs will be substantially reduced. In addition, this is a key parcel located adjacent to the community center and fronting on L Street.

Finally, there is something to be said for keeping negotiations rolling regarding this site as I believe that if these negotiations breakdown, we can expect Kimmel to attempt to utilize the State's power of eminent domain in order to acquire a leasehold interest, thus facilitating the construction of an office building for the Legislature on this site.

RHH

RESOLUTION NO. 2902

Adopted by the Redevelopment Agency of the City of Sacramento

April 22, 1980

AUTHORIZING THE EXECUTIVE DIRECTOR TO  
INCREASE RENT PAYMENTS ON LEASEHOLD  
INTEREST COVERING THE SOUTH ONE-HALF  
OF THE BLOCK BOUNDED BY 12-13-K-L STREETS

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF  
SACRAMENTO:

1. The Executive Director is hereby authorized to make payments on the leasehold interest held by the Redevelopment Agency of the City of Sacramento covering portions of the block bounded by 12-13-K-L Streets in the City of Sacramento in an amount not to exceed \$7,600 per month.

2. The Executive Director is further authorized to pay all properly levied taxes and assessments on these parcels as such payments may be required by the terms of the leasehold interest held by the Agency.

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CHAIRMAN

ATTEST:

Walter G. Sullivan  
SECRETARY