



The Web Site of The Sacramento Bee

This story is taken from [Sacbee](#) / [Community News](#) / [Sacramento City News](#).

Sacramento City Council OKs sale of Sheraton-Grand

By Mary Lynne Vellinga - mlvellinga@sacbee.com

Published 12:00 am PDT Wednesday, March 26, 2008

The Sacramento City Council approved the \$130 million sale Tuesday of its Sheraton Grand Hotel and garage on J Street – along with an unusual agreement to return about \$23 million of the city's profits to the buyers as subsidies for additional downtown projects.

Council members voted 8-1 in favor of the sale despite a public admonition by interim city Treasurer Tom Berke that more review is needed, particularly given the depressed state of the real estate market. He suggested the city might hold on to the hotel longer and wait for prices to rise.

"By all means, if the price is fair and if the timing it right, let's do the sale," Berke said. "But why are we rushing into this?"

Councilman Kevin McCarty, who called Berke the city's "top fiscal watchdog," cast the only no vote.

"Our treasurer said he'd like to have more time to evaluate it; I don't think that's an unreasonable request," McCarty said.

Other council members called the price fair, and expressed fear that market conditions would deteriorate further and the deal would evaporate. And other high-level city staff advocated the sale, which is expected to close by April 15.

Councilman Steve Cohn, addressing Berke, said, "If you're correct about how severe this recession is, now is exactly the time to sell. None of us has a crystal ball, but what we've been presented with has great benefits for the city. Frankly, I want to get out of the hotel business and invest in other things."

After the vote, Mayor Heather Fargo said, "I think we made a good decision, and a big decision."

A team of two developers, David Taylor and the CIM Group, plan to pay \$130 million to buy the hotel and the city-owned garage used for guest parking.

After money is set aside to pay off the hotel's construction bonds, the city expects to receive proceeds of between \$40 million and \$45 million.

On Tuesday, the City Council agreed to the developers' request that half of the city's profits

be set aside to help underwrite future, as-yet-unspecified downtown projects by Taylor and CIM.

Of the remaining money, 25 percent will be put in the city's budget reserve account, potentially helping with its deficit crisis. The remaining 25 percent will be directed to the Sacramento Housing and Redevelopment Agency for additional projects that could come from any developer.

Tax revenue from new projects built using this money will offset the loss of about \$350,000 in annual city parking fees from the Sheraton garage, said Assistant City Manager John Dangberg.

The agreement to earmark city funds for two particular developers is unusual, Dangberg said. He could think of no similar arrangement elsewhere, and council members asked questions about the arrangement Tuesday.

They wondered whether the city should seek bids from other developers interested in buying the hotel, which was built by Taylor's company in partnership with the city and opened in 2001.

"If other developers had come to the table with offers, we would have been happy to evaluate them, but nothing else has," Dangberg said.

"Our concern is that every day and week that goes by, we get more bad news from the financial market," Dangberg said. "We've been pressed by David Taylor interests to move quickly, that this deal could go away."

Dangberg noted that any other developer seeking to buy the hotel would have had to buy out Taylor's management contract of about \$500,000 a year.

A windfall of \$40 million or more represents a healthy return on the city's initial subsidy of \$8 million, he said. The hotel was constructed with \$92.8 million in bonds issued by the Sacramento Hotel Corp., a nonprofit corporation set up by the city and Taylor, who contributed the historic public market building, which now forms the hotel lobby.

Money from hotel operations has been used to pay back the bonds.

The hotel produces tax revenue for the city totaling about \$3.4 million annually, a figure expected to grow by \$600,000 after the sale.

Dangberg praised Taylor, who spoke only briefly Tuesday, as one of the most successful contributors to downtown revitalization.

Taylor also built the new City Hall expansion, 1201 K St, Esquire Plaza and the U.S. Bank building now nearing completion on the Capitol Mall.

Taylor and CIM are both partners in the Cosmopolitan, a 200-seat live theater, restaurant and office complex under construction at 10th and K streets.

CIM Group, based in Los Angeles, built the new seven-story loft-style apartment building at Eighth and J streets. That project received a \$16 million city subsidy.

While other developers are scrambling to find financiers in a down real estate market, CIM is flush with a \$1.8 billion real estate investment trust fund at its disposal, a portion of which comes from the California Public Employees' Retirement System, and the rest from other institutional investors. This money is funding the Sheraton purchase, and more could go to Sacramento's downtown in the future, Dangberg said.

Although city money will be set aside specifically for CIM and Taylor, the developers will not have unfettered access to the pot, Dangberg said.

"Each one of their projects will be independently vetted by the City Council," he said. "They will be treated like any other project as they come forward."

At the urging of the Sacramento Downtown Partnership, the city also established timelines under which the CIM/Taylor partnership will have to come up with additional projects and draw on the money.

"We wanted to make sure there were some timelines, so we're not still sitting here three years from now wondering if they're still holding the (money)," said Michael Ault, the group's executive director.

Fargo said the agreement with Taylor and CIM "leaves us with a lot of control and keeps us focused on reinvesting in J,K and L streets."

Taylor has said potential development sites could include the old Montgomery Ward department store at Ninth and K streets, and the space at 601 Capitol Mall, once envisioned as the 39-story Aura condo tower. Taylor and his partners own the Capitol Mall site and the U.S. Bank Tower next door. In partnership with CalPERS, CIM controls the erstwhile twin towers Capitol Mall site once controlled by developer John Saca.

In a brief appearance at Tuesday's council meeting, Taylor said the Sheraton deal provides a way to keep downtown redevelopment alive during a bad economic cycle.

"We were frankly seeing so many projects die downtown over the past 18 months that we were concerned about our ability to perform on some of the downtown projects we've been working on," he said.

Go to: [Sacbee](#) / [Back to story](#)

This article is protected by copyright and should not be printed or distributed for anything except personal use.
The Sacramento Bee, 2100 Q St., P.O. Box 15779, Sacramento, CA 95852
Phone: (916) 321-1000

Copyright © [The Sacramento Bee](#)