

DEPARTMENT OF INDUSTRIAL RELATIONS

Jennifer Osborn, Director

Office of the Director

1515 Clay Street, Suite 2208

Oakland, CA 94612

Tel: (510) 286-7087 Fax: (510) 622-3265



April 24, 2026

Dennis Cook
Cook Brown LLP
2407 J Street, Second Floor
Sacramento, California 95816

Re: Public Works Case No. 2024-019
Paseo Downtown Redding Hotel
City of Redding

Dear Mr. Cook:

This constitutes the determination of the Director of Industrial Relations regarding coverage of the above-referenced project under California's prevailing wage laws and is made pursuant to Labor Code section 1773.5¹ and California Code of Regulations, title 8, section 16001, subdivision (a). Based on my review of the facts of this case and an analysis of applicable law, it is my determination that the Paseo Downtown Redding Hotel project (Area III Hotel Project) is not a public work and therefore not subject to prevailing wage requirements.

Facts

A. The Paseo Downtown Redding Hotel and Surrounding Parcels.

According to the developer Paseo California, LLC, the Paseo Downtown Redding Hotel (Area III Hotel or Area III Hotel Project) is a 120-room hotel located at 40 Placer Street in Redding. The Project will be five stories comprised of a reception area, meeting rooms, and restaurant on the ground floor. The 120 hotel rooms will be located on floors two through four. Floor five will house the penthouse patio and a bar. There will be approximately fifty parking spaces on the ground floor.

The land on which the Hotel Project will be built is referred to as Area III. Area III, along with Areas I and II, were previously owned by the City of Redding (the City). In 2019, the City entered into a Purchase and Sale Agreement (PSA) to sell this land to Block 7 Land Acquisition Company, LLC, for \$120,000, which was presented as the fair market price after an appraisal by Edwards Hahn Valuation and Advisory, Inc.

¹ Unless otherwise indicated, all further statutory references are to the California Labor Code and all subdivision references are to the subdivisions of section 1720.

The parcels were later repartitioned and referred to as Areas I, II, and III. Under the Purchase Agreement, it was contemplated that: “Area I of the Property will be developed into a four story, mixed-use development that includes affordable housing, commercial and/or retail space and potentially on-site parking. Area II will be a mixed-use development that includes market-rate housing units, commercial and retail space and a parking facility available to the public that will include approximately 200 spaces.” The developments on Areas I and II were subject to separate Development Agreements. Under both Development Agreements, The McConnell Foundation and K2 Land and Investment, LLC (K2) were partners in the development of Areas I and II. As for Area III, Block 7 Land Acquisition Company “shall construct a surface parking area in Area III to City standards, which parking area shall be available for use by the public for a period of up to five years in accordance with the terms and conditions of a Demolition Permit to be issued by the City Permit Center.”

An affordable housing project was built on Area I, and a commercial and parking project was built on Area II. These two projects on Areas I and II were collectively known as the Block 7 Projects. Modern Building Company was hired by the developers to be the general contractor for the Block 7 Projects, which were completed in Spring 2023. According to Paseo California, prevailing wages were paid for the construction of the Block 7 Projects, due to public funding in the form of grants from the Department of Housing and Community Development (HCD) and the Strategic Growth Council (SGC).

Block 7 Land Acquisition Company will sell Area III to Paseo California to develop the Project. The two companies have overlapping ownership interests.

B. Funding from the Department of Housing and Community Development.

In 2018, HCD awarded two grants to the City, The McConnell Foundation, and K2 to fund developments in Area I and Area II. The first grant, in the amount of \$12,451,120, was provided under the Affordable Housing and Sustainable Communities (AHSC) program. The second grant, in the amount of \$4,000,000, was provided under the Infill Infrastructure Grant (IIG) program.

The AHSC program was established by Senate Bill (S.B.) 862 (2014). Its purpose is to “reduce greenhouse gas emissions through projects that implement land use, housing, transportation, and agricultural land preservation practices to support infill and compact development, and that support related and coordinated public policy objectives.” (Pub. Resources Code, § 75210.) Funding for the AHSC program comes from the Greenhouse Gas Reduction Fund.² (Health & Saf. Code, § 34719, subd. (b)(1)(C).) The SGC administers the AHSC program (Pub. Resources Code, § 75210), but may “designate a state agency or department to administer the program for the disbursement of grants and loans to support the planning and development of sustainable communities.” (Pub. Resources Code, § 75200.2.)

² The State’s share of proceeds from cap-and-trade auctions is deposited in the Greenhouse Gas Reduction Fund. (Gov. Code, § 16428.8, subd. (b).)

The AHSC grant agreement describes HCD funding for the Area I and Area II developments as follows: "\$19,959,536, which includes \$12,451,120.00 in grant funding and a \$7,508,416.00 AHD [Affordable Housing Developments] loan, along with an \$4,000,000 IIG grant." The grant agreement also expressly states that "a Grant under the Program shall be considered public funding for the construction, rehabilitation, demolition, relocation, preservation, or other physical improvement of the Work subject to the provisions of the State Prevailing Wage Law." (AHSC grant agreement, Exhibit D.) Further detail as to the specific funding for these developments is listed as:

AHD [Affordable Housing Developments]

Block 7 Net Zero Housing and Downtown Activation Project is a 79 unit new construction project with 13 one-bedroom and 46 two-bedroom units serving households with incomes ranging from 30-60 percent of Area Median Income (AMI), 19 market rate units and 1 manager's unit. Each unit will have air conditioning, refrigerator, range, microwave, dishwasher, and storage area. On-site amenities include laundry rooms, community room, high-speed internet, electric vehicle charging station, and secure bicycle storage. Off-site amenities, located within two miles of the project include schools, community college, child care, 4 health/medical centers, and 3 grocery stores.

HRI [Housing Related Infrastructure]

HRI includes installation of a water main, wastewater pipe, urban greening, shade structures, pedestrian facilities, and community plaza/public spaces. Total program grant funds requested is \$3,650,000.00.

IIG [Infill Infrastructure Grant]

IIG will be a 100 stall multi-story parking structure to support the QIP [Qualifying Infill Project] in two ways: 1) to comply with the requirements of the Parking Action Plan component of the Downtown Redding Community Based Transportation Plan including 1 stall per residential unit in the QIP for a total of 79 stalls and 2) to replace 21 stalls utilized by the Downtown Redding Transit Center. Total program grant funds requested is \$4,000,000.

PGM [Program Costs]

PGM include pedestrian and bike safety & education programs, events, marketing campaigns, unlimited Redding Area Bus Authority (RABA) passes for each unit for 3 years, an additional 34 unlimited passes for 3 years to low income resident/workers, Bike Share program for project area, and membership vouchers for residents for 3 years. Total program grant funds requested is \$500,000.00.

STI [Sustainable Transportation Infrastructure]

STI includes restoration of the street grid with bike lanes, sidewalks, access to transit center and a Class IV cycle track. A Class IV facility with bike and pedestrian connections, a bicycle/pedestrian bridge, and a bike

share program will also be developed. Total STI grant funds requested is \$7,291,120.00.

TRA [Transportation-Related Amenities]

TRA Includes development of sheltered waiting areas, bike storage, bicycle parking equipment, 3 years of Wi-Fi services at the Transit Station, bike repair kiosks, signage, drinking fountains, landscaping, benches, and tables. Total TRA grant funds requested is \$1,010,000.00.

The IIG program was initially funded by the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). (Health & Saf. Code, § 53545, subd. (b).) The statutory provisions to implement the program were enacted in 2007 by Senate Bill (S.B.) 96 (2007) and Assembly Bill (A.B.) 192 (2007) and have since gone through a number of amendments.³ The primary objective of the IIG program is to promote infill housing development “by providing financial assistance for infrastructure improvements necessary to facilitate new infill housing development.” (Round 5 IIG Guidelines, § 301.) HCD is required to issue guidelines for the IIG program. (Health & Saf. Code, § 53545.13, subd. (h).) In the version of the program (Round 5) in effect at the time the application was made and the grant was awarded, the improvement eligible for funding, known as a “capital improvement project” (CIP), must be “an integral part of, or necessary to facilitate the development of, a qualifying infill project or a qualifying infill area.” (Health & Saf. Code, §§ 53545.13, subd. (b), 53545.12, subd. (a).)

A qualifying infill project or QIP is “a residential or mixed-use residential project located within an urbanized area on a site that has been previously developed, or on a vacant site where at least 75 percent of the perimeter of the site adjoins parcels that are developed with urban uses.” (Health & Saf. Code, § 53545.12, subd. (e)(1).) The CIP “will be a 100 stall multi-story parking structure” to support the QIP, which is described as including 79 units. The grant recipients are “responsible for and shall ensure the completion of the Infrastructure Project [CIP] and the completion and occupancy of the Housing Development [QIP].” These provisions are repeated in the IIG grant agreement, which expressly states: “The Infrastructure Project is an integral part of, or is necessary for the development of the Housing Development.” In short, the residential project and the infrastructure needed to support the project are part of a single, integrated project, because both must be completed by the grant recipient, and the infrastructure must be an “integral part of, or necessary to facilitate the development of” the residential project.

The IIG grant agreement designates the IIG funding as grant funding in the amount of \$4,000,000 to construct the parking structure. As with the AHSC grant agreement, the IIG grant agreement states that “a grant under the Program shall be considered public funding for the construction, rehabilitation, demolition, relocation, preservation, or other physical improvement of the Infrastructure Project subject to the provisions of the State Prevailing Wage Law.” (IIG grant agreement, Exhibit D.)

³ See Stats. 2010, ch. 390 (A.B. 2508), § 1; Stats. 2019, c. 159 (A.B. 101), § 19; Stats. 2019, ch. 660 (A.B. 1010), § 13; Stats. 2020, ch. 192 (A.B. 434), § 7.

Discussion

All workers employed on public works projects must be paid at least the applicable prevailing wage rates. (§ 1771.) Section 1720, subdivision (a)(1) (hereafter section 1720(a)(1)) defines “public works” to mean: “Construction, alteration, demolition, installation, or repair work done under contract and paid for in whole or in part out of public funds” “There are three basic elements to a ‘public work’ under section 1720(a)(1): (1) ‘construction, alteration, demolition, installation, or repair work’; (2) that is done under contract; and (3) is paid for in whole or in part out of public funds.” (*Busker v. Wabtec Corporation* (2021) 11 Cal.5th 1147, 1157 (*Busker*).)

There is no dispute that the Project involves construction work. The work will also be “done under contract.” The Court of Appeal has stated that the “done under contract” element in section 1720(a)(1) means that the work is not done “by the public entity’s own employees.” (*Azusa Land Partners v. Department of Industrial Relations* (2010) 191 Cal.App.4th 1, 20.) This is consistent with one of the objectives of the prevailing wage law “to compensate nonpublic employees with higher wages for the absence of job security and employment benefits enjoyed by public employees.” (*Lusardi Construction Co. v. Aubry* (1992) 1 Cal.4th 976, 987.) There is no assertion here that public employees will do any work on the Project. Thus, the first two elements to a public work under section 1720(a)(1) are met here.

As for the third element, the Department must then determine whether the Project is “paid for in whole or in part out of public funds” within the meaning of section 1720. Paseo California insists that no public subsidies fund the Area III Hotel Project, while conceding that the Area I affordable housing development (Area I development) and the Area II commercial and parking development (Area II development) are paid for out of public funds. If the Area III Hotel Project were considered part of a single project with the Area I development, the Area II development, or both Areas I and II, then the Area III Hotel Project would be deemed to be paid for “*in part* of out of public funds,” because the public funding flowing to the Area I and Area II developments would fund the Area III Hotel Project “*in part*.” (§ 1720, subd. (a)(1), italics added.) Even if the Area III Hotel Project were deemed a separate project, the Area III Hotel Project could still be paid out of public funds if the transfer of the underlying land from the City to Block 7 Land Acquisition Company was for less than fair market value. (§ 1720, subd. (b)(3).)

A. Area III Hotel Project is Separate from Areas I and II Developments.

Appellate decisions have set forth the framework for analyzing whether constructed components form a “complete integrated object.” (*Oxbow Carbon & Minerals, LLC v. Department of Industrial Relations* (2011) 194 Cal.App.4th 538, 549 (*Oxbow*).) The determination of what constitutes a single, integrated project requires an examination of the “totality of the facts.” (*Cinema West, LLC v. Baker* (2017) 13 Cal.App.5th 194, 212 (*Cinema West*).) This determination is always fact-specific.

In *Oxbow*, an amended air quality rule required open-air petroleum coke facilities to be enclosed. To comply with the rule, the lessee of the coke facility planned to build a roof over it. However, the roof would render the existing conveyor system obsolete, so a

new system had to be built. The City of Long Beach agreed to reimburse the lessee for the cost of constructing the new conveyor system, but the roof was built by a different contractor through a separate construction contract and was paid for with private funds. Taking into account the totality of the underlying facts, the *Oxbow* court declined to rely solely on the fact that there were separate construction contracts and held that the roof and conveyor system were part of a “complete integrated object” and prevailing wage requirements applied to the entire project. (*Oxbow, supra*, 194 Cal.App.4th at p. 549.)

At issue in *Cinema West* was whether a “theater, parking lot and related amenities were part of a ‘complete integrated object’ and thus constituted the ‘construction’ done under contract, which, if ‘paid for in whole or in part out of public funds,’ constitutes a public work subject to the [prevailing wage law].” (*Cinema West, supra*, 13 Cal.App.5th at p. 215.) The evidence included numerous public records that referred to the parking lot as being “necessary” to the theater. The disposition and development agreement, which governed the construction and operation of the theater, specifically called for the parking lot to be built with funding from the City of Hesperia. There was further evidence that the theater and parking lot were constructed together at the same time and on the same vacant parcel of land. (*Id.* at pp. 212-213.) Considering the totality of the facts, *Cinema West* found that the theater and parking lot were both components of a single, integrated project. (*Id.* at p. 215.)

The developments in Areas I, II, and III share some similarities with the projects in *Cinema West* and *Oxbow*. The Area I and Area II developments were built by the same general contractor, Modern Building Company. As with the *Cinema West* and *Oxbow* projects, the land on which the developments sit in Areas I, II, and III were all likely part of a single site. Area III, along with Area I and Area II, were all previously City-owned⁴ and largely contiguous.⁵ The City transferred the land to Block 7 Land Acquisition Company pursuant to a 2019 Purchase and Sale Agreement (PSA).

Under the PSA, “Area I of the Property will be developed into a four story, mixed-use development that includes affordable housing, commercial and/or retail space and potentially on-site parking. Area II will be a mixed-use development that includes market-rate housing units, commercial and retail space and a parking facility available to the public that will include approximately 200 spaces.” Although the Area I and Area II developments were developed under separate Development Agreements, they were contemplated in the PSA to be complementary to each other. The two developments were built and completed at around the same time by the same general contractor. Block 7 Downtown Investors, LP, which developed the Area I development and Block 7 Retail Investors, LLC, which developed the Area II development, share the same business

⁴ The City-owned property is comprised of APN 101-790-034, 101-790-033 and a portion of APN 101-790-032, Lots 7 through 11, Block 29 of Original Town of Redding.

⁵ The 2019 Purchase and Sale Agreement’s description of the land refers to the three areas as both “Areas” and “Parcels” but each Area actually is comprised of one or more APNs (Assessor’s Parcel Numbers). Area I is part of APN 101-790-034. Area II is part of APN 101-790-033 and 034. Area III is part of APN 101-790-032 and 033.

address: 1011 Parkview Avenue, Suite A, Redding, CA 96001. The Block 7 Land Acquisition Company is wholly owned by the McConnell Foundation and ADK Properties, LLC. Coincidentally, ADK Properties, LLC also has the same business address as Block 7 Downtown Investors, LP and Block 7 Retail Investors, LLC. The same business address is listed for K2, which applied for HCD funding with the City and the McConnell Foundation, and according to the PSA, appears to be part of an entity that is developing the Area I and Area II developments. (See 2019 PSA, ¶ E.)⁶ To sum it up, all of these various business entities appear to be related to each other.

The AHSC and IIG grant agreements further confirm that Area I and Area II developments are part of the same project. The parking structure in Area II funded by the \$4 million IIG grant is “an integral part of, or is necessary for the development” of the affordable housing project in Area I funded by AHSC funding. All these facts demonstrate that the Area I and Area II developments are part of a single, integrated project.

The Area III development, however, is not described in the AHSC or IIG grant agreements. Neither the development agreement for Area I nor for Area II contain any mention of hotel construction or Area III, even though both agreements mention Area I and Area II. According to Paseo California, “no plan was devised in either Development Agreement and no public funds were earmarked for the Paseo Downtown Redding Hotel,” nor did the development agreements require coordination in the design or construction in Area III with the developments in Areas I and II. Also, according to Paseo California, the “hotel does not serve residents of the affordable housing project or commercial customers, and there is no entrance or exit to specially accommodate residents and customers. There is no physical connection between them other than being located near each other. The Paseo Downtown Redding Hotel will have separate ingress and egress and its own onsite parking.” The owners of Areas I, II, and III all appear to be interrelated, again according to Paseo California, which is expected to be the ultimate owner after the Block 7 Land Acquisition Company transfers the parcel over. There is no information on whether the same general contractor that built the Areas I and II developments will also be building Area III. Finally, the hotel construction in Area III will take place several years after the Area I and Area II developments have been completed.

The land was subdivided into the three Areas without any mention of the possibility of a hotel project on Area III. The supporting documentation all describe interrelationship between Areas I and II, and Area III is excluded, likely because the development to take place in Area III had either not been fully conceptualized, or because Area III simply was too distinct to be included with the Area I and II developments. While no information has been provided as to whether Area III will be built by different contractors, the construction

⁶ “On December 19, 2017, the City and TMF [The McConnell Foundation] and K2 Land & Investment, LLC (K2) executed a Non-Binding Letter of Intent which outlined the intention of the City to negotiate a purchase agreement for the acquisition by TMF and K2 of APN 101-790-034, the intention of TMF and K2 to form a limited partnership with low-income housing tax credit investors for the development of the Block 7 Project, as envisioned at that time, and the intention of the parties to negotiate the financial terms and conditions, environmental review, processing and clearance requirements, project responsibilities and risk mitigation measures.”

on Area III will begin more than three years after Area I and II were completed. The hotel development in Area III also does not complement the affordable housing, commercial, or parking structures, and will not share any amenities. Under the specific facts provided to the Department, it is not clear that Area III is part of a single, integrated project with Areas I and II. The only facts that weigh in favor of finding a single, integrated project are the similar ownership of the lots and the contiguous nature of Areas I, II, and III. On balance, it appears that the overall purpose was to develop Area III separately from Areas I and II, which clearly were contemplated to complement each other. Indeed, the AHSC and IIG grant agreements unambiguously state that the parking structure in Area II was an integral part, or necessary for the development of the affordable housing project in Area I. No such integration is found for Area III. In this specific case, the Area III Hotel Project is a separate project.

B. Transfer of Land from City Appears to Be for Fair Market Value.

As discussed, Areas I, II, and III were previously owned by the City and were transferred to Block 7 Land Acquisition Company, LLC, ostensibly for fair market value at \$120,000. Under the PSA, the City retained Edwards Hahn Valuation and Advisory, Inc. (Edwards Hahn), which issued an appraisal on May 9, 2019 determining the fair market value of the City-owned land at \$120,000. The appraisal determined the highest and best use of the property as vacant is for development of a mixed-use project consistent with land use controls. Because the property is currently improved with an existing two-story parking structure, the appraisal determined the highest and best use as improved to be for *redevelopment* into a mixed-use project consistent with land use controls. In either case, the highest and best use was determined to ultimately be a mixed-use project. If the property were delivered vacant, the value was calculated to be \$2,270,000. Costs to demolish the existing improvements was estimated by a third party to be \$2,150,000. Deducting the demolition costs from the value of the land delivered vacant, the appraisal determined the fair market value of the land as currently improved to be \$120,000.

Fair market value has been previously defined in prior coverage determinations as "the value of the land at its highest and best use as determined by a bona fide appraisal." (PW 2004-035, *Santa Ana Transit Village/City of Santa Ana* (Dec. 5, 2005) (*Santa Ana Transit*)). More recent coverage determinations have found bona fide appraisals to provide factual support that transfers of property were for fair market value. (See, e.g., PW 2020-009, *University Glen 32-Acre Development – California State University Channel Islands* (May 26, 2021); PW 2018-04, *Multi-Family Residential Development – Glendale Unified School District* (Dec. 17, 2018).)

In other situations, the Department determined that the purchase price of publicly-owned property was "not derived from competitive market forces" where (1) inaccuracies were identified in the appraisal report; and (2) no requests for proposals were issued, despite two unsolicited offers and recommendations from city staff and public comments that requests for proposals be issued. (PW 2020-017, *Fort Ord Medical Officer's Barracks, Parker Flats Cutoff Road – City of Seaside* (Dec. 30, 2021).) In this case, no requests for proposals to purchase the land were issued, which could suggest that competitive market forces did not contribute to the purchase price. However, absent credible evidence to the contrary, the Department will generally accept a bona fide

appraisal performed by an independent and certified appraiser as determinative of fair-market value. (See PW 2003- 042, *East Campus Student Apartments – University of California-Irvine* (Jul. 28, 2006) (*East Campus*), at p. 5, citing PW 2004-035, *supra*, *Santa Ana Transit*; PW 2003-040, *Sierra Business Park, City of Fontana* (Jan. 23, 2004).) In *East Campus* specifically, “the appraisals were performed using accepted methodologies by state certified appraisers with an MAI [Member of the Appraisal Institute] and therefore are considered bona fide appraisals,” and no contrary evidence was presented. (*East Campus* at p. 5.) No contrary evidence has been presented to show that the appraisal was flawed in any way. Accordingly, the transfer of the City-owned land—consisting of Areas I, II, and III was not for less than fair market value. As no other public funding is subsidizing the Area III development, the Area III Hotel Project is not paid for out of public funds within the meaning of section 1720(a)(1).

Conclusion

Based on the facts presented, the Area III Hotel Project is a separate project from the publicly-funded Area I development and Area II development, and the public funding from HCD therefore does not pay in part for the Area III Hotel Project. Separately, the City appears to have received fair market value for the transfer of the land to Block 7 Land Acquisition Company. Given that no other forms of potential public subsidy are being provided to the Area III Hotel Project, the construction is not “paid in whole or in part out of public funds.” (§ 1720, subd. (a)(1).)

This determination is based on the facts presented. “If the assumed facts concerning this project change, a different result may obtain.” (PW 2003-014, *Phase II Residential Development Victoria Gardens – City of Rancho Cucamonga* (July 20, 2005).)

For the foregoing reasons, the Paseo Downtown Redding Hotel project is not a public work and therefore not subject to prevailing wage requirements.

I hope this determination satisfactorily answers your inquiry.

Sincerely,



Jennifer Osborn
Director of Industrial Relations