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**DEPARTMENT OF PARKS
AND COMMUNITY SERVICES**

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**CITY OF SACRAMENTO
CALIFORNIA**

May 2, 1989

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DIVISIONS:
CROCKER ART MUSEUM
GOLF
METROPOLITAN ARTS
MUSEUM AND HISTORY
PARKS
RECREATION
ZOO

**Budget and Finance Committee
Sacramento, California**

Honorable Members in Session:

SUBJECT: Old Sacramento Riverfront Office and Warehouse Buildings Lease

SUMMARY

This report recommends that the City Council:

1. Authorize the City Manager to award a lease for the California Steam Navigation Company (CSNC) Office and the Central Pacific Railroad (CPRR/CSNC) Warehouse buildings to H.E.G. Enterprises, Inc. in accordance with Section 12.39 of the Sacramento City Code;
2. Amend the 1988/89 CIP Budget by establishing a CIP project for construction of a riverfront deck and window modifications of the CPRR/CSNC Warehouse building;
3. Authorize the City Manager to execute an agreement between the City and the Sacramento Housing and Redevelopment Agency for reimbursement to the City of the actual construction costs of the riverfront deck and window modifications not to exceed \$229,750;
4. Authorize the City Manager to execute an agreement between the City and the State Lands Commission as a consent to lease by the Commission as part of the Master Lease for the Sacramento River waterfront; and
5. Approve the concept of an ongoing maintenance CIP by establishing a CIP account for ongoing maintenance and long term replacement costs for the Old Sacramento Waterfront with a portion of revenues from the H.E.G. lease being deposited to that account.

BACKGROUND INFORMATION

The Department of Parks and Community Services is responsible for obtaining viable tenants for the three waterfront buildings reconstructed by the Sacramento Housing and Redevelopment Agency on the Old Sacramento Waterfront. In February 1987, City Council awarded a lease for the California Steam Navigation Company (CSNC) Depot to the Pony Express Bakery, which has been open for business for nearly a year. In April 1988, the City Council gave notice of intent to negotiate a restaurant lease for the CSNC Office and the CPRR/CSNC Warehouse combined with H.E.G. Enterprises, Inc.

The CPRR/CSNC Warehouse is a 4,200 square foot, single story structure constructed on the wharf overlooking the river. The Specific Use Plan calls for a full service restaurant with exterior dining for this structure. In August 1987, in order to enhance the warehouse building's water orientation and marketability, approval was obtained from the Museum and History Advisory Commission and the Sacramento Housing and Redevelopment Agency Commission for modification of the Warehouse Building by adding an outside deck and modifying the windows on the riverside. Subsequently, the Sacramento Housing and Redevelopment Agency Commission recommended on May 15, 1989, the appropriation of \$229,750 for deck construction and modification of the windows and doorways on the river side of the warehouse building. The Agency will reimburse the City for the actual construction costs of the deck and other approved modifications after completion of the improvements in an amount not to exceed \$229,750. The cost of all other tenant improvements shall be borne by the lessee.

The adjacent two-story CSNC office building offers 1,200 square feet divided equally between the ground and second floor. The specific use plan calls for food service with exterior dining (first floor) and office uses (second floor) for this structure.

H.E.G. Enterprises, a California subsidiary of Hal Griffith and Associates, a Seattle-based partnership, currently operates waterfront restaurants in San Clemente, Oceanside, Newport Beach, and Seattle. Called Fisherman's Restaurants, all of these operations, as well as a Santa Monica Fisherman's which is in the planning stage, are on publicly leased land. The municipal lease management staff in these various cities have all praised the Fisherman's operations as first class developments and high quality operations. The negotiated lease for the Old Sacramento site is substantially similar to these other municipal leases. The lessee is projecting a Spring, 1990 opening if this report is approved.

Lease Negotiations

On April 26, 1988, the City Council authorized the Department of Parks and Community Services to negotiate an Old Sacramento Riverfront CSNC Office and CPRR/CSNC Warehouse buildings lease with H.E.G. Enterprises, Inc. A negotiating team comprised of Parks and Community Services Resource Development and Management staff, the Deputy City Attorney, and the then Assistant Director of SHRA commenced negotiations with H.E.G. Enterprises. The negotiating team was assisted by the expertise of Keyser Marston Associates, specialists in real estate pre-development and evaluation services, under a consultant services contract.

These parties have completed the negotiations process. Significant terms of the lease agreement are as follows:

- A Fisherman's restaurant shall be located in the Warehouse building and will include a full service family oriented restaurant with both interior and exterior dining. The adjacent office building will offer fish takeout service. Hal Griffith, owner, will be in control of all development and all operational aspects of the Fisherman's Restaurant and ancillary operation. A spring 1990 opening is anticipated.
- H.E.G. Enterprises will assume all costs of tenant improvements, estimated at \$1 million, with the exception of the deck and completion of the utility services.
 - If the cost of the deck should exceed the \$229,750 appropriated by SHRA, the difference shall be paid by H.E.G. Enterprises.
 - Although it is standard in the industry for the landlord to provide utilities to the service point, because SHRA was unable to anticipate individual tenant needs, the utilities were not completed to the Office and Warehouse buildings site at the time of construction. Accordingly, the City shall allow H.E.G. to install utilities to the service point in exchange for up to \$25,000 in pre-approved rent offsets.
- H.E.G. Enterprises will have full responsibility for all operating costs and for a \$2 million insurance policy.
- The City shall maintain the substructure, the foundation, roofing, and structural integrity of the walls. H.E.G. Enterprises shall assume full responsibility for all other maintenance. This division of responsibilities was reviewed and approved by Facility Management.
- The term of the lease is thirty years with lessee having the option to extend the term for an additional ten year period, provided all lease requirements have been successfully met during the original term.
- The lessee shall have the option to lease the retail space now occupied by the Pony Express Bakery, if and when such space is no longer occupied by the current tenant, for such use as authorized by this lease or by the Director of Parks and Community Services.
- Under the proposed lease, the City will limit the number of special events in which food is sold to the public by any one other than the lessee in Front Street Park to one event per month so as to minimize any negative impact on lessee's operation.

The proposed lease has been reviewed and approved by the State Lands Commission as required under the Master Lease for the waterfront area. The proposed lease is a sublease under the Master Lease and this report requests authorization for the City Manager to execute an agreement with the State Lands Commission for consent to sublease to H.E.G. Enterprises.

Reinvestment Program

The Old Sacramento Riverfront Master Plan project, which includes the reconstruction and revitalization of approximately 4.5 acres of historic riverfront area, is nearly complete, thereby increasing Old Sacramento's role as both a recreational amenity and as a center of tourism and commerce. The Department of Parks and Community Services is responsible for operating and maintaining this \$10 million redevelopment project. When the riverfront buildings lease proposal process was initiated following City Council authorization in October 1986, a major objective in securing lessees was to support operations of the Old Sacramento Waterfront area. Although General Fund appropriations have traditionally been one of the most frequently used methods of funding capital improvements, increasingly there are limitations on the City General Fund. Given this fact, together with the original objective that revenue from the riverfront leases would support Old Sacramento Waterfront operations, staff recommends the establishment of a CIP account for the ongoing maintenance and long-term replacement costs for the Old Sacramento dock area to be funded by a portion of the revenue from the building leases.

Due to the unique nature of the waterfront area, it is virtually impossible to project the actual maintenance requirements over the term of this lease. The unusual and historical nature of the materials and facilities that comprise this site create a maintenance need that is difficult to predict or anticipate. The increased use created by this agreement and the other successful waterfront activities will require increased maintenance not only to ensure the safety of visitors but to preserve and maintain the City's investment in the area.

Facility Management has recommended an initial allocation of 20% of projected revenues be deposited into a CIP account for maintenance and replacement costs. Based on the lessee's projected gross receipts for the first 25 years of the lease, revenues deposited to the special account would be approximately \$738,725 over 25 years. This account would offset maintenance costs for the total dock area falling under the City's responsibility.

FINANCIAL DATA

Terms of the negotiated lease include six percent of the gross receipts up to the first million in sales and five percent of gross receipts over \$1 million. In addition, the proposed lease also provides an annual guaranteed minimum fee of \$24,000 to be adjusted every fifth year in accordance with the Consumer Price Index. Estimated return to the City, based on projected gross receipts as prepared by H.E.G. Enterprises, is as follows:

	<u>Year</u>	<u>Estimated Gross Receipts</u>	<u>Annual Revenue to City</u>
H.E.G. Enterprises, Inc.	1	\$1,103,985	\$ 12,000*
	5	2,196,033	119,802
	10	2,545,804	137,290
	15	2,951,285	157,564
	20	3,421,348	181,067
	25	3,966,280	208,314

*Rental payments to the City commence six months after the restaurant opening and are based on the guaranteed minimum only as opposed to the percentage of gross receipts for the subsequent six months.

Total revenue to the City over the first 25 years of the lease as projected by H.E.G. Enterprises is \$3,693,626. (Estimates of gross receipts and revenue to the City for subsequent years were not required as part of the proposal process.)

If approved, a CIP Maintenance Account will be created for deposit of 20% of revenues received from activities under this lease agreement. This account will be used to offset the costs of ongoing maintenance and long term replacement of the Old Sacramento waterfront and docks area and would be managed by the Department of Parks and Community Services similar to the Sacramento Marina Maintenance Account. Based on projected revenues for the first 25 years of this agreement, approximately \$738,725 will be deposited into the CIP Maintenance Account for maintenance and the remaining \$2,961,725 will be deposited to the General Fund.

In the SHRA 1989 adopted budget, \$125,000 has been appropriated for the construction costs of the deck and window modifications to the warehouse building. The balance of the total potential \$229,750 reimbursement is expected to be derived from payment from the State Parks and Recreation Department to SHRA for the CPRR Freight Depot in Old Sacramento.

POLICY CONSIDERATIONS

The award of the proposed lease is in accordance with Section 12.39 of the Sacramento City Code.

The establishment of a CIP Maintenance Account for the ongoing maintenance and long-term replacement costs for the Old Sacramento dock area is consistent with the fact that a major objective in securing lessees for the riverfront buildings was to support operations of the Old Sacramento Waterfront area.

MBE/WBE

Lessee is aware of and supports the City's MBE/WBE goals. Efforts will be made during construction and in future operation to meet these goals.

RECOMMENDATION

It is recommended that the Budget and Finance Committee approve this report and refer it to the full City Council for action. Further, it is recommended that the City Council, by resolution:

1. Authorize the City Manager to award a lease for the California Steam Navigation Company (CSNC) Office and the Central Pacific Railroad (CPRR/CSNC) Warehouse buildings to H.E.G. Enterprises, Inc. in accordance with Section 12.39 of the Sacramento City Code;
2. Amend the 1988/89 CIP Budget by establishing a CIP project for construction of a riverfront deck and window modifications of the CPRR/CSNC Warehouse building;

May 2, 1989

3. Authorize the City Manager to execute an agreement between the City and the Sacramento Housing and Redevelopment Agency for reimbursement to the City of the actual construction costs of the riverfront deck and window modifications not to exceed \$229,750;
4. Authorize the City Manager to execute an agreement between the City and the State Lands Commission as a consent to lease by the Commission as part of the Master Lease for the Sacramento River waterfront; and
5. Approve the concept of an ongoing maintenance CIP by establishing a CIP account for ongoing maintenance and long term replacement costs for the Old Sacramento Waterfront with a portion of revenues from the H.E.G. lease being deposited to that account.

Respectfully submitted,



Robert P. Thomas, Director
Parks and Community Services



Andy Plescia, Acting Director
Sacramento Housing and Redevelopment Agency

Recommendation Approved:



Jack R. Crist
Deputy City Manager

RPT:ja

May 16, 1989
District 1

Staff Contact Person: Patti Gonzales, Administrative Services Officer - 449-5375

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION AUTHORIZING AWARD OF A LEASE FOR THE OLD SACRAMENTO RIVERFRONT OFFICE AND WAREHOUSE BUILDINGS, ESTABLISHING A CAPITAL IMPROVEMENT PROJECT FOR CONSTRUCTION OF A WATERFRONT DECK AND WINDOW MODIFICATIONS, EXECUTION OF AN AGREEMENT WITH SHRA FOR REIMBURSEMENT OF CONSTRUCTION COSTS, EXECUTION OF AN AGREEMENT WITH THE STATE LANDS COMMISSION, AND ESTABLISHMENT OF THE OLD SACRAMENTO WATERFRONT CIP MAINTENANCE ACCOUNT

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

1. That the award of a lease for the Old Sacramento riverfront office building and the Old Sacramento riverfront warehouse building to the H.E.G. Enterprises, Inc., in accordance with Section 12.36 of the Sacramento City Code, is hereby authorized.
2. That the 1988-89 CIP Budget is amended to include the establishment of a CIP Project in the amount of \$229,750 (101-500-XXXX-4802) for construction of a riverfront deck and window modifications on the CPRR/CSNC warehouse building.
3. That the City Manager is authorized to execute an agreement with the Sacramento Housing and Redevelopment Agency for reimbursement of actual costs for construction of a riverfront deck and window modifications on CPRR/CSNC warehouse building not to exceed \$229,750, and such reimbursement shall be deposited in the CIP budget for that project (101-500-XXXX-3709).
4. That the City Manager is authorized to execute an agreement with the State Lands Commission as a consent to lease as required by the master lease for the Old Sacramento Waterfront.
5. That a CIP maintenance account for the Old Sacramento Waterfront dock area for the purpose of maintenance and long term replacement costs for the Old Sacramento dock area should be established. Twenty percent (20%) of the revenue from the Old Sacramento riverfront office building and warehouse building lease will be deposited in this CIP account.

MAYOR

ATTEST:

CITY CLERK

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

AUTHORIZING THE ACTING EXECUTIVE DIRECTOR TO EXECUTE
AN AGREEMENT BETWEEN THE CITY OF SACRAMENTO AND
REDEVELOPMENT AGENCY FOR REIMBURSEMENT
TO THE CITY OF CERTAIN CONSTRUCTION COST RELATED
TO THE OLD SACRAMENTO RIVERFRONT WAREHOUSE BUILDING

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

Section 1: The Acting Executive Director is authorized to execute an agreement between the Redevelopment Agency and the City for reimbursement to the City of Sacramento of actual construction costs for the deck and window modifications to the Old Sacramento Riverfront Warehouse Building, The amount of reimbursement not to exceed \$229,750.

Section 2: The Acting Executive Director is authorized to amend the amount in the Agency's 1989 Budget item for a deck and other modifications to the Old Sacramento Riverfront Warehouse Building to \$229,750.

Section 3: The Acting Executive Director is authorized to appropriate not more than \$104,750 of the proceeds from the sale of the C.P.R.R. Freight Building towards the cost of the Riverfront deck addition and window modifications to the Old Sacramento Riverfront Warehouse Building.

CHAIR

ATTEST:

ASSISTANT SECRETARY

AGREEMENT

This agreement is made as of _____, 1989 by and between the CITY OF SACRAMENTO (hereafter "City") and the SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY (hereafter "Agency").

RECITALS

A. Agency undertook various redevelopment activities in the area of the Old Sacramento Riverfront, including reconstruction of the Central Pacific Railroad/California Steam Navigation Company (CPRR/CSNC) Warehouse and the California Steam Navigation Company (CSNC) Office buildings.

B. Agency subsequently transferred title to its riverfront properties to City.

C. City is now engaged in leasing the CPRR/CSNC Warehouse and CSNC Office buildings to a restaurant operator.

D. The prospective lessee has asked that the Agency contribute up to \$229,750 toward construction of riverfront decking area to be used for outdoor dining adjacent to the CPRR/CSNC Warehouse building and toward additional window treatments on the riverfront side of the CPRR/CSNC Warehouse building.

E. The Agency agrees to make a contribution in the amount of the actual cost of the improvements not to exceed \$229,750.

NOW, THEREFORE, IT IS AGREED,

- 1. City shall enter into a lease agreement with H.E.G.

Enterprises, which includes a provision that City shall pay H.E.G. Enterprises towards the cost of an outdoor dining deck (or other permanent improvements constructed by Lessee and approved in advance by City as reimbursable) up to \$229,750 upon final construction approval. H.E.G. Enterprises shall submit invoices attributable solely to construction of the reimbursable improvements evidencing actual expenditures prior to reimbursement by City.

2. Agency agrees to assume responsibility for payments to City pursuant to the aforescribed reimbursement provision, up to a maximum of \$229,750. Upon submission of invoices by City to Agency, Agency shall make such reimbursement payments to City within fifteen (15) days per the Agency memorandum dated April 7, 1989 made a part of this agreement as Exhibit 1.

CITY OF SACRAMENTO

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

By _____
Walter J. Slipe
City Manager

By _____
Andrew Plescia
Acting Executive Director

Approved As To Form:

Approved As To Form:

Deputy City Attorney

Agency Counsel



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



April 7, 1989

TO: Walt Ueda, Deputy Director
Parks and Community Services

FROM: Ted Leonard, Agency Architect *TL*
Old Sacramento Project Manager *TL*

SUBJECT: Agency Understandings and Assumptions - Old Sacramento
Riverfront Warehouse Deck Addition and Building
Alterations for the Fisherman's Restaurant

The purpose of this memorandum is to outline the Agency's staffs' understanding based upon our telephone conversation of March 31, 1989, regarding the cost related to the proposed deck addition and building alterations for the Fisherman's Restaurant and to state Agency staff assumptions related to the payment of the Agency's financial participation in the project.

It is understood that:

1. The City is in agreement with Fisherman's to pay costs related to the deck addition and the addition of windows and doors up to a maximum of \$229,000.
2. The improvements shall be similar to the design concept proposed by the Agency which were estimated 18 months ago to cost \$125,000.
3. The Agency presently has \$125,000 budgeted for the subject improvements. The availability of any amount exceeding the \$125,000 is predicated upon the Agency's timely receipt of payment from State Parks related to State Parks acquisition of the California Pacific Railroad Freight Depot Building.
4. Fisherman's is to take full responsibility for the design and construction of the improvements and is to acquire all necessary permits for the work through the normal permitting process including that of State and Federal Regulatory Agencies.
5. Fisherman's will pay any amount exceeding the \$229,000 maximum.

- 6. Fisherman's is to submit its design, construction documents and itemized cost estimate for the improvements to the City to be analyzed by the City and the Agency before commencement of the improvements.
- 7. The Agency may have the Fisherman's design, construction documents and cost estimate analyzed by an independent cost estimator.
- 8. The City and Agency analysis will serve as an indicator of probable cost and may or may not be shared with Fisherman's.
- 9. Construction of the subject improvements shall not commence before the City and Agency have concurred upon the probable cost of the work.
- 10. Upon City and Agency concurrence of probable cost, Fisherman's may proceed with the improvements and shall provide the City with invoices, billings and other statements of cost for materials and labor specific to the improvements to substantiate cost incurred.
- 11. The Agency shall pay only the amount applicable to and expended upon the specific improvements up to the maximum of \$229,000.
- 12. The Agency shall make payment to the City by way of a single transfer of funds to the City after all costs for the specific improvements have been identified.

It is assumed that:

- 1. In the case of a disagreement on applicable cost, where the incurred cost submitted by Fisherman's is substantially greater than that estimated, the City will substantiate and/or require Fisherman's to justify the incurred cost.
- 2. Upon completion of the improvements and acceptance or approval of the work by the City, and receipt of an itemized request for payment from the City, the Agency will not unreasonably delay transfer or withhold payment to the City.

3. In the event the Agency has not received payment from State Parks prior to commencement of the improvements by Fisherman's, the City and/or Fisherman's may decide whether or not or when to proceed with the work. Should the work proceed and the Agency still has not received payment from State Parks by the time the improvements are completed, the City will cover any cost exceeding the Agency's budgeted \$125,000 until payment from State Parks is received.

If the Agency Staff's understanding and assumptions as outlined above are not correct or complete, please notify me immediately.

cc: Andy Plescia