

**REPORT TO THE
REDEVELOPMENT AGENCY
of the City of Sacramento**

630 I Street, Sacramento, CA 95814-2671
www.SHRA.org



Consent
March 6, 2007

Honorable Chair and Members of the Board

Title: Owner Participation Agreement and Related Documents and Budget Authorization for the Ella Dining Room and Bar Project

Location/Council District: 1131 K Street, northwest corner of 12th and K Streets, Central Business District (District 1)

Recommendation: Adopt a Redevelopment Agency of the City of Sacramento (Agency) Resolution (1) authorizing the approval of an Owner Participation Agreement (OPA) and related legal documents with Ellajack, Inc. (Developer) to provide a \$700,000 loan and a \$50,000 exterior rebate grant for the creation of the Ella Dining Room and Bar at 1131 K Street and (2) allocating \$750,000 from the Merged Downtown 2005 Tax Allocation Bond Fund to the Ella Dining Room and Bar Project.

Contact: Leslie Fritzsche, Downtown Development Manager, 808-5450,

Presenters: Not applicable

Department: Economic Development

Division: Downtown Development Group

Organization No: 4451

Description/Analysis

Issue: The building located at 1131 K Street (see Attachment I) has recently undergone a major renovation. The building owner, Bob Clippinger, has transformed an underutilized building into a high-end project that contains office space, 24 residential units and ground floor retail. The project cost was \$18.3 million and was assisted with a \$ 2.3 million loan from the Agency. To compliment the residential units and to stimulate vibrancy at 12th and K, the ground floor space has been identified for a destination restaurant, Ella Dining Room and Bar. This exciting restaurant, to be owned and operated by the proprietors of the renowned restaurant, The Kitchen, is anticipated

to cost approximately \$4 million. The owners have secured \$3.25 million for the project, leaving a gap of \$750,000. On January 30, 2007 the Agency approved business terms for allocating these resources to the projects. The OPA and related documents that are the subject of this report finalize the business terms. These documents are on file with the Agency and City clerks.

Ellajack, Inc.

The project's development entity is a newly formed California corporation with Randall Selland and Nancy Zimmer as directors. Randall Selland and Nancy Zimmer, owners of The Kitchen Restaurant and Selland's Market Café, have 40 years of experience in the restaurant and catering business in Sacramento. They opened The Kitchen Restaurant in 1991 and Selland's Café in 2001. Since its opening, The Kitchen Restaurant has consistently been named as one of Sacramento's finest dining experiences with a wait of three to four months for a reservation.

Ella Dining Room and Bar (Ella)

Ella will be an elegant restaurant that will have an open kitchen with an inviting ambience. The fare will feature "New American Bistro Food" made from the freshest, highest quality ingredients. The owners will utilize as many local products as possible in their offerings developing a distinctive cuisine built on Sacramento's agricultural assets. Customers can enjoy lunch or dinner in the dining room, bar or outside dining area. The outside patio area will serve to enliven this important K Street corner.

Proposed Development Schedule

If the OPA is approved, the Developers will finalize their remaining financing documents and will actively begin the project. The project is expected to begin construction in February with an estimated completion date of June 2007. Plans have already been submitted to Development Services for approval. The owners are anxious to open Ella and to be part of the downtown community.

Public Benefits

The benefits of this project are numerous. In conjunction with the rehabilitation of the building, this project will continue the vibrant retail/dining offerings on the east end of K Street and strengthen the pedestrian experience. Other public benefits include:

- Use of high quality materials and design standards to ensure the integrity of the area;
- A restriction on uses that are inconsistent with the goals of the Redevelopment Plan and the shared vision for K Street as a vibrant shopping and entertainment district;
- Strengthening the economic base of the Project Area by providing 60 new jobs;
- Serving approximately 2300 patrons weekly;
- Adding \$362,000 in total sales tax with \$46,861 in sales taxes provided to the City of Sacramento.

Policy Considerations: The actions proposed in this report are consistent with the JKL Corridor development objectives for the K Street corridor as well as being consistent with the Merged Downtown Redevelopment Plan and Implementation plans. The project reinforces the goal of enhancing K Street as a dining and entertainment district.

Environmental Considerations: The restaurant project was included in the original project description for the Cathedral Building development. The determination was the project was exempt from environmental review per CEQA Guidelines Section 15332 as an infill project because:

1. The site is not more than five acres and is substantially surrounded by urban uses;
2. The project is consistent with the General Plan, community plan and zoning;
3. The project can be served by all required utilities and public services; and
4. Based on an initial study (i) the site has no value as habitat for threatened or endangered species, and (ii) the project would not result in any significant impacts to traffic, noise, air quality, or water quality.

Rationale for Recommendation: This proposed project will introduce a new dining venue to K Street, serving to further the goal of creating K Street into a unique dining and entertainment district. The project will complement other approved Agency investments on K Street and will draw people from the Convention Center and the Hyatt onto K Street. In addition, the project will eliminate blight by eliminating the vacancy found in the 1131 K Street building. The business terms for the loan and grant were approved by the Agency on January 30, 2007.

Financial Considerations: Staff has been negotiating with the members of Ellajack, Inc. (Randall Selland, Nancy Zimmer, and Josh Nelson) to refine project costs and the amount of public investment needed. Currently, the total project costs are estimated at \$4 million. Of that amount, approximately \$3.25 million has been identified and the Agency's \$700,000 loan and \$50,000 grant will complete the financing necessary for the project. The \$750,000 from the Agency will be allocated from the Merged Downtown 2005 Tax Allocation Bond Fund.

As is typical for restaurant financing, the costs for the project exceed the amount that can be financed using conventional methods. Because the majority of the budget will be used to tenant improvements, furniture, fixtures and equipment the project is difficult to fully finance. This is due in part to the collateral value of those items. The lenders involved in the project will be utilizing two Small Business Administration Loan programs and will be securing all of the project's fixtures and equipment as collateral for their loans. Thus the proposed Agency loan will be behind the other lenders leaving the loan unsecured. The strength of the project is based on the significant amount of "equity", representing 45% of the costs, reducing significantly the amount that needs to be debt serviced. The project's greatest asset is the success and track record of the local proprietors and their ability to receive national recognition for their culinary efforts. Their

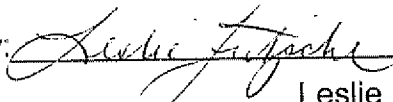
ability to successfully manage and operate a restaurant is critical to the project's success.

Ella will be a national draw for Sacramento. The international design of the project and the outstanding reputation of the owners, will bring both local and visitors to K Street, serving to anchor K Street's reputation for dining and entertainment.

The proposed \$700,000 loan will be a market rate loan. It will carry a five percent (5%) interest rate and will be amortized over twenty years. Staff is recommending a two year deferral of payments to provide the restaurant owners the opportunity to establish themselves in the downtown market. An exterior rebate grant of up to \$50,000 is envisioned to be used for exterior improvements such as patios, lighting and signage.

As part of the January 30, 2007 actions, the Council approved the use of up to 20 Sacramento County Regional Sanitation District connection fee credits for the project. At this time estimates reflect the use of only 9 credits

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 by: 
Leslie Fritzsche
Downtown Development Manager
on behalf of the Redevelopment Agency

Recommendation Approved:

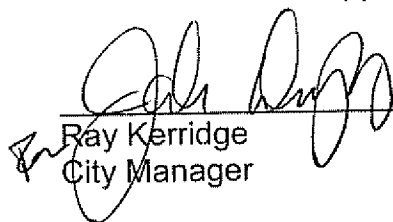
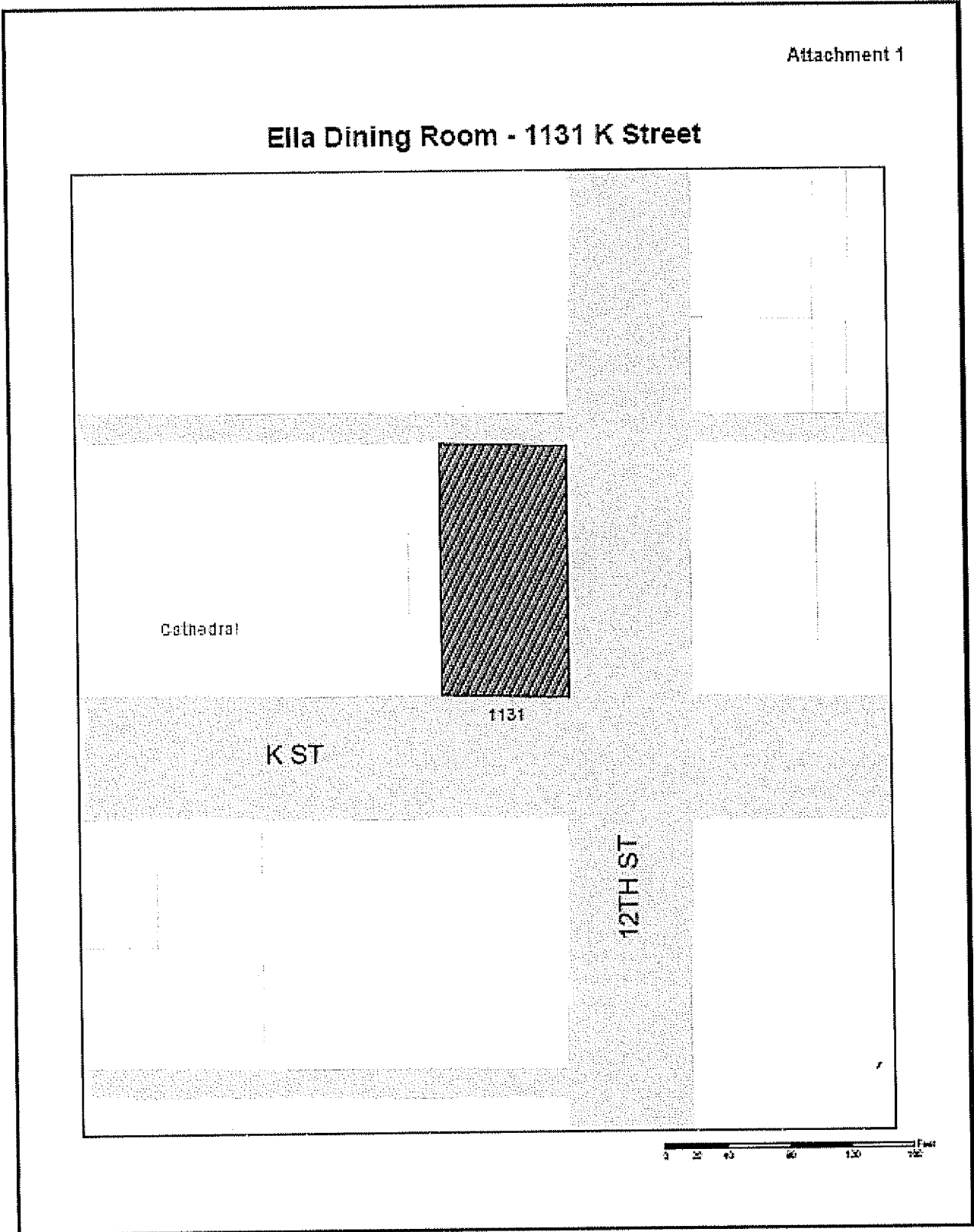

Ray Kerridge
City Manager

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ATTACHMENT 1



ATTACHMENT 2

RESOLUTION NO. 2007-_____

Adopted by the Redevelopment Agency of the City of Sacramento

**MERGED DOWNTOWN SACRAMENTO REDEVELOPMENT PROJECT AREA:
APPROVAL OF THE ELLA DINING ROOM AND BAR (1131 K STREET)
PROJECT, AUTHORIZATION FOR EXECUTION OF AN OWNER PARTICIPATION
AGREEMENT WITH ELLEJACK, INC. AND APPROPRIATION OF TAX INCREMENT**

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- B. In October 2004, the JKL Corridor Workshop brought together more than 250 community members to discuss the future of Downtown Sacramento, particularly their vision for the JKL corridors. One of the outcomes of that workshop was an interest in looking at stimulating redevelopment to eliminate both the physical and economic conditions causing blight along K Street.
- C. Development of additional restaurants is in keeping with the Agency's goals of creating K Street into a unique dining and entertainment district.
- D. The construction of the Project is consistent with the goals and objectives of the Redevelopment Plan to strengthen retail and commercial functions and to stimulate new commercial expansion and economic growth is consistent with the Implementation Plan adopted for the Redevelopment Plan.
- E. The Agency and Developer desire to enter into the Owner Participation Agreement ("OPA") a copy of which is on file with the City and Agency Clerk. The OPA would assist with the financing of the 1131 K Street rehabilitation by entering into a Construction and Permanent Loan and Participation agreement with Developer, as more specifically described in the OPA, and which would require the improvements within the Property, as further described in the OPA (collectively, "Project"); and
- G. The Agency, as a Responsible Agency pursuant to the California Environmental Quality Act (CEQA), has determined that the proposed project as described in the OPA is exempt from CEQA requirements.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. The Executive Director will prepare a Notice of Exemption for the execution of the OPA and related documents for the Project based on the CEQA exemption finding.

Section 2: After due considerations of the facts presented, the findings, including the environmental findings that the project not create significant impacts to traffic, air quality, parking or historic resources are approved.

Section 3. The Owner Participation Agreement is approved along with the related documents and the Executive Director, or her designee, is authorized to execute the OPA and related documents, in substantially the same form as that which is on file with the City and Agency Clerks and to take all such actions, execute said instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the Owner Participation Agreement to provide expenditures of \$750,000 from the Merged Downtown 2005 tax exempt bond funds toward costs outlined in the OPA for the construction of the restaurant project.

CHAIR

ATTEST:

SECRETARY