

DOWNTOWN AND REGIONAL  
ENTERPRISE DEPARTMENT

November 1, 1999

117



City Council  
Sacramento, California

Honorable Members in Session:

**SUBJECT:** RECOMMENDATION TO AUTHORIZE THE CITY MANAGER TO ENTER EXCLUSIVE NEGOTIATIONS WITH PYRAMID BREWERIES INC. FOR THE OLD SACRAMENTO WATERFRONT RESTAURANT- SITE A.

**LOCATION/COUNCIL DISTRICT:** Council District 1

**RECOMMENDATION:**

This report recommends that Council approve the attached resolution authorizing the City Manager to enter into exclusive negotiations with Pyramid Breweries for Restaurant Site A.

**CONTACT PERSON:** Elizabeth Cook, Senior Management Analyst, 264-1931  
Wendy Saunders, Development Manager, 264-8196

**FOR COUNCIL MEETING OF:** November 16, 1999

**SUMMARY:**

This report provides information about the selection process for the Old Sacramento Waterfront Restaurant – Site A. This report recommends that the City Council approve the attached resolution authorizing the City Manager to exclusively negotiate lease terms and related legal documents with Pyramid Breweries Inc. for the Old Sacramento Waterfront Restaurant - Site A.

**BACKGROUND:**

In 1998, the City of Sacramento drove 45 piles into the Sacramento River between the Tower Bridge and L Street in Old Sacramento. The piles were driven in anticipation of attracting a restaurant to the site.

In May 1999, staff began the process of marketing the Old Sacramento Waterfront Restaurant – Site A (Exhibit A – Project History, Selection Criteria and Evaluation Process). In September 1999, staff received detailed development proposals with additional financial information and projections from two interested restaurant development teams (Exhibit B – Summary of Final

*Building on Our History - Creating The Place to Be.*

CITY OF SACRAMENTO

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Proposals). Staff then began the process of meeting members of each team, visiting their existing restaurants, and evaluating the narrative and financial information provided.

### **The Selection Process**

In October 1999, staff established an Evaluation Committee of experienced restaurant developers, lenders, and community stakeholders to review the submitted information, interview the restaurant development teams and recommend a proposal for the site (Exhibit C – Evaluation Committee Membership). Staff also completed a separate evaluation of the narrative and financial information that was submitted and had several opportunities to meet with the interested parties.

Both staff and the Evaluation Committee used the following list as a guide in evaluating the proposals. Each proposal was considered on how well each met the following criteria and goals for the development of the site.

- **Overall Restaurant Concept**
  - Ability to create a tourist destination
  - Ability to be a strong office worker destination
  - Ability to be a strong draw to Sacramento residents
  - Quality and type of restaurant proposed
  - Menu/Price
  
- **Qualifications and experience of the development team**
  - Experience developing restaurant concepts
  - Experience developing restaurant facilities
  - Experience managing the construction/development process
  - Understanding of the market
  - Experience in marketing restaurants
  - Experience developing and managing urban and/or waterfront restaurants
  
- **Demonstrated ability to participate in the surrounding community of Old Sacramento and Downtown.**
  
- **Overall preliminary architectural design that takes advantage of the unique physical location.**
  
- **Financial capacity to develop the site and enter a long-term sublease.**
  - Financial strength of the company and its principals
  - Ability to raise necessary capital

The Evaluation Committee process resulted in a unanimous recommendation that the City enter exclusive negotiations with Pyramid Breweries Inc. to develop a restaurant at the Old Sacramento Waterfront Restaurant - Site A. In fact, Pyramid Breweries was considered a superior choice on each of the evaluation criteria (Exhibit D – Pyramid Breweries Inc. Proposal – Evaluation Summary).

The staff evaluation also resulted in the selection of Pyramid Breweries Inc. The company has demonstrated operational success both as a brewer and restaurant developer and has the financial capacity to undertake the development of Site A.

## The Selected Company and Development Proposal

Pyramid Breweries Inc. was founded in 1985 and given the company's marketing strategy, George Hancock, Chairman and CEO, considers development of the company's third Alehouse in Sacramento to be an important goal (Exhibit E – Pyramid Breweries, Inc. History).

Pyramid Breweries Inc. went public in 1995 and appears to manage its growing business well. The company has internal cash resources to finance the development of Site A, but has reserved the option to obtain construction and permanent financing.

Pyramid Breweries' main revenue source is from sales of their Pyramid Ales, Thomas Kemper, and Monx labels (65%). Thomas Kemper soda sales account for about 12% of their sales. Their two Alehouses (Seattle and Berkeley) account for about 23% of their gross sales annually. The company wants to develop an Alehouse in Sacramento because of the established local customer base for their products. Sacramento is their 3<sup>rd</sup> strongest market on the West Coast, after Seattle and the Bay Area. This is a critical location for their next Alehouse in order to continue strong, growing sales of their other products in the region.

The company's experienced management team and approach to employee training and education provide tremendous professional support for the various stages of the proposed project including construction management, marketing, and opening another alehouse to the public.

The Pyramid Breweries Inc. proposal for Site A includes:

The development of a Pyramid Alehouse and Brewery with 8,500 square feet of interior restaurant seating and over 4,000 square feet of outdoor seating (400+ seats).

The Alehouse menu includes appetizers, soups, salads, and entrees including sandwiches, burgers, steak, seafood and wood-fired pizzas. In addition to the entire product line of brews and sodas from the Pyramid Breweries and Thomas Kemper labels, specialty recipes brewed on site will be available. The small on-site brewery will provide Pyramid Breweries Inc. with enough capacity to test new recipes and brew special "Sacramento" ales.

The Alehouse is designed to be a comfortable, fun, affordable waterfront dining experience for local residents, office workers and tourists.

Pyramid Breweries Inc. has extensive experience developing and sponsoring community events and it is a vital part of their business plan. Their interest in participating in and developing new events will add to the Old Sacramento and Downtown environment year-round. Currently, they host several events a year including a summer-long series of outdoor movies at the Berkeley Alehouse and the Annual King County Search and Rescue Fundraiser that draws over a thousand people. Their in-house Guest Services Manager is responsible for developing and managing such projects, as well as banquets and hotel/concierge communications.

Pyramid Breweries' architects met with members of the Old Sacramento Design Review Committee to begin the process of refining their design to be an asset to the Old



Sacramento Waterfront. The major themes of the design are visual access to the river from the boardwalk and the alehouse as well as an orientation to the Excursion Train that passes by the entrance of the restaurant. The overall design is modeled after a late 1800's train station.

Staff recommends that the City Council approve the attached resolution authorizing the City Manager to exclusively negotiate lease terms and related legal documents with Pyramid Breweries Inc. for the Old Sacramento Waterfront Restaurant - Site A.

Following is the schedule for the negotiation process.

Restaurant developer will complete the project description and financial documents	December 1999
Restaurant developer will complete preliminary architectural documents for review by appropriate City departments	January 2000
City of Sacramento will complete preliminary review of development proposal to identify issues	February 2000
Restaurant developer will obtain construction estimates and establish a schedule for construction/opening	February 2000
Restaurant developer and staff will proceed with negotiations of sub-lease terms and conditions and other related legal agreements	Feb.-April 2000
Staff will present negotiated terms and conditions of legal agreements to City Council	April 2000

#### **FINANCIAL CONSIDERATIONS:**

Financial terms and conditions that are the result of the negotiation process will be presented to City Council within 180 days for consideration.

#### **ENVIRONMENTAL CONSIDERATIONS:**

Approvals from the following agencies have been received for work completed to date and staff will continue to work with these agencies throughout the development of Site A: Army Corp of Engineers, Reclamation Board, State Lands Commission, Department of Fish and Game, and the Old Sacramento Design Review Committee. A Negative Declaration was approved by City Council in July 1998.

#### **POLICY CONSIDERATIONS:**

In April 1995, the Redevelopment Agency of the City of Sacramento adopted the Riverfront Master Plan as the overall vision for the development and enhancement of the Sacramento River. The proposed project will accomplish several of the established goals of the Riverfront Master Plan, including:



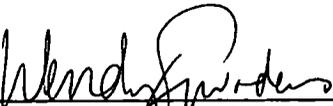
- Establish the riverfront area as an active, vibrant, urban district and public precinct
- Emphasize pedestrian orientation, amenities and scale
- Provide for visitor and community serving uses and amenities
- Provide for uses and amenities that complement uses and amenities in the area

Although not included specifically in the Riverfront Master Plan, the proposed project is seen as a catalyst project to increase local patronage of Old Sacramento and the Waterfront. The project would also be a complement to a number of improvements under construction or recently completed on the Waterfront including the Visitor Boat Docks, the Promenade, and the Embassy Suites Waterfront Hotel.

ESBD CONSIDERATIONS: Not applicable.

Respectfully submitted,

APPROVED:

  
 \_\_\_\_\_  
 WENDY S. SAUNDERS  
 Development Manager

  
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 ANDREW J. PLESCIA  
 Economic Development Department Director

RECOMMENDATION APPROVED:

APPROVED:

*for*   
 \_\_\_\_\_  
 ROBERT P. THOMAS  
 City Manager

  
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 THOMAS V. LEE  
 Deputy City Manager



## EXHIBIT A

### Project History, Evaluation Process and Selection Criteria

In 1998, the City of Sacramento drove 45 piles into the Sacramento River between the Tower Bridge and L Street in Old Sacramento. The piles were driven in anticipation of attracting a restaurant to the site. The piles can accommodate a 13,300+/- square-foot platform. The restaurant development is expected to cost approximately 4.5 million dollars including the construction of the platform, an extension of the promenade, the restaurant building, the restaurant furniture and equipment, and all necessary off-site improvements. In May 1999, staff began the process of marketing the Old Sacramento Waterfront Restaurant – Site A.

In June 1999, staff provided all interested parties a:

- Detailed description of Site A including development requirements and restrictions
- Outline for the selection process that would be followed in order to select one developer with whom the City of Sacramento would enter an Exclusive Negotiation Period.

By August 1999, staff received four letters of interest. The following information was requested:

- Balance Sheet and Profit and Loss Statement for the previous three years and a current statement (no older than 30 days).
- Complete Federal Income Tax Returns for the previous three years for the business/corporation.
- Organizational status, structure and documentation.
- Overview of the Business Plan and Management Plan for the site.
- Status of any other financial commitments.

In September 1999, staff received detailed development proposals with additional financial information and projections from each interested team. The completed proposals included the following information:

- Description of the concept for use of - Site A.
- Description of restaurant development team and relevant contact information.
- Resumes of restaurant owners, proposed management team and proposed development team.
- The proposed menu and price list.
- An explanation of the market sectors that will be targeted and what marketing approaches they plan.
- List of other restaurants and locations owned and operated by the interested restaurant.
- Projected income and expense statements for the first three years.
- Current personal financial statements, past three years tax returns and personal budget for each proprietor, partner and each stockholder with 20%+ ownership in the business.
- Schedule of fixed debt which contains the original date and amount, present

balance owed, interest rate, monthly payment, maturity and security for each loans or debt that the business has outstanding.

- Initial architectural plans.
- Pre-development, construction, and leasehold schedule.
- Preliminary cost estimates showing the proposed sources and uses of funds.

Staff then began the process of meeting members of each interested development team, visiting their existing restaurants, and eventually facilitating a separate, formal Evaluation Committee process, while completing the staff evaluation of the two remaining restaurant proposals.

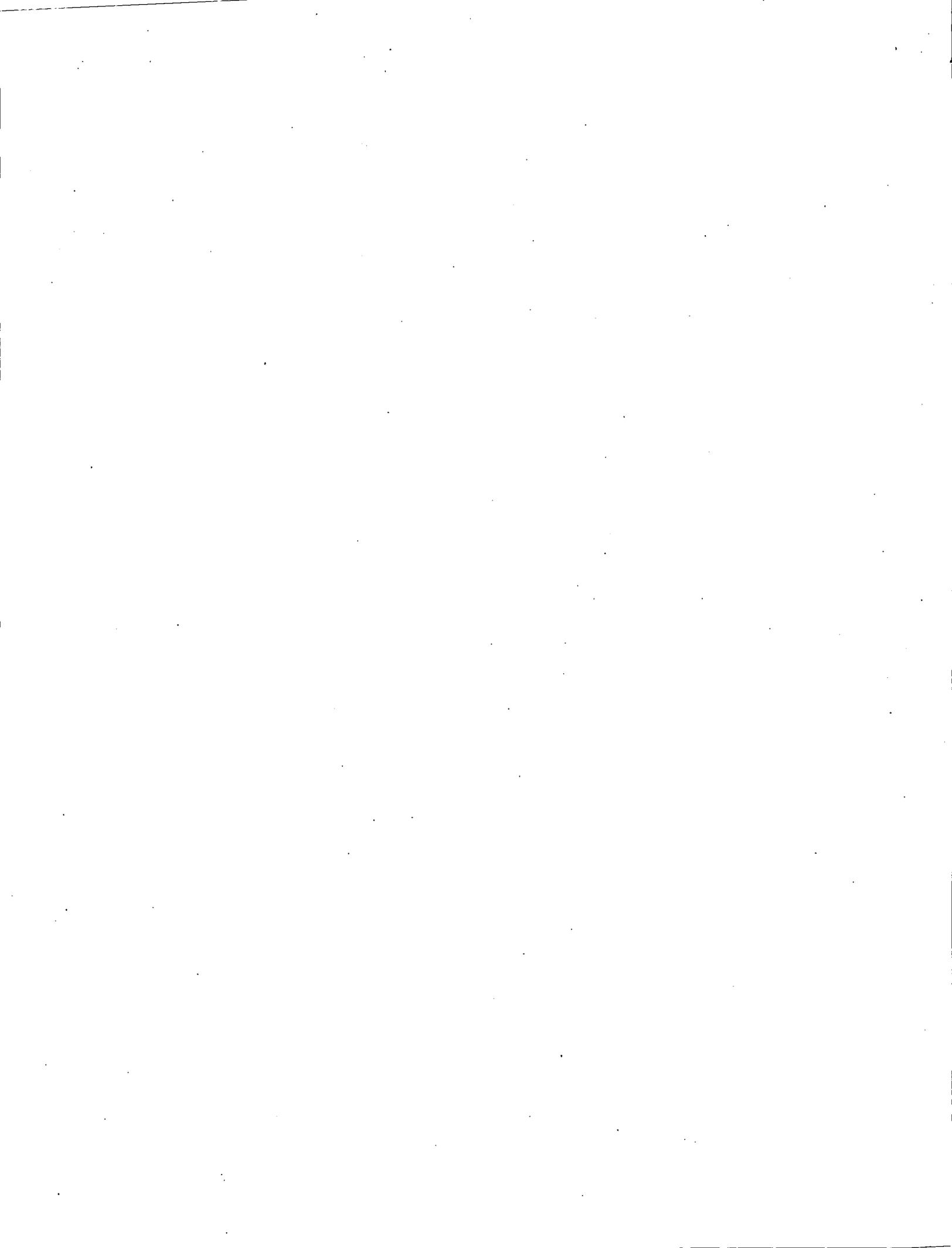
In October 1999, staff established an Evaluation Committee of experienced restaurant developers, lenders, and community stakeholders to review the submitted information, interview the restaurant development teams and select a proposal for the site. Staff also completed a separate evaluation of the narrative and financial information that was submitted and had several opportunities to meet with the interested parties. Both staff and the Evaluation Committee used the following list as a guide in evaluating the proposals. Each proposal was considered on how well each met the following criteria and goals for the development of the site.

- Quality and type of restaurant proposed, including the ability to create not only a tourist destination but also, a strong draw to Sacramento residents.
- Demonstrated ability to participate in the surrounding community of Old Sacramento and Downtown.
- Compatibility of the proposed development with surrounding existing uses.
- Qualifications and experience of the development team, including the restaurateur, project manager, contractor, architects, consultants and financiers.
- Experience developing and managing urban and/or waterfront restaurants.
- Financial capacity to develop a new restaurant including, the financial strength of the company and its principals' ability to raise necessary capital.
- Overall architectural design and ability to design a cost-effective project that takes advantage of the unique physical location.



**EXHIBIT B**  
Summary of Final Proposals

1. Great Northwest Restaurants Inc. is owned by Mehran Mike Alizadeh. The company was started in October 1997. Great Northwest Restaurants Inc. operates five franchised TGIFriday restaurants in Oregon and Washington. An additional TGIFriday is under construction in Washington. The Great Northwest Restaurants Inc. proposal for Site A was a new restaurant concept, "Sacramento Fish Company Grill and Market". The proposed menu includes many fresh seafood dishes to help create the owner's concept to develop a restaurant that is a "once in a lifetime seafood dining experience". The proposal includes 450+ seats in three distinct spaces: a lounge, dining room, and café. The development would also include a market featuring fresh fish and prepared foods to go.
  
2. Pyramid Breweries Inc. is a publicly traded company based in Seattle, WA. The company has existed since 1984 and went public in 1995. The company's main revenue source (65%) is brewery sales of their Pyramid Ales, Thomas Kemper, and Monx labels. Thomas Kemper soda sales accounts for about 12% of their sales. Their two Alehouses (Seattle and Berkeley) account for about 23% of their gross sales annually. The Alehouse menu includes appetizers, salads, pub sandwiches, burgers, steaks and seafood items, as well as wood-fired pizza. The development would include 400+ seats and a small brewery on the site.



**EXHIBIT C**  
Evaluation Committee Membership

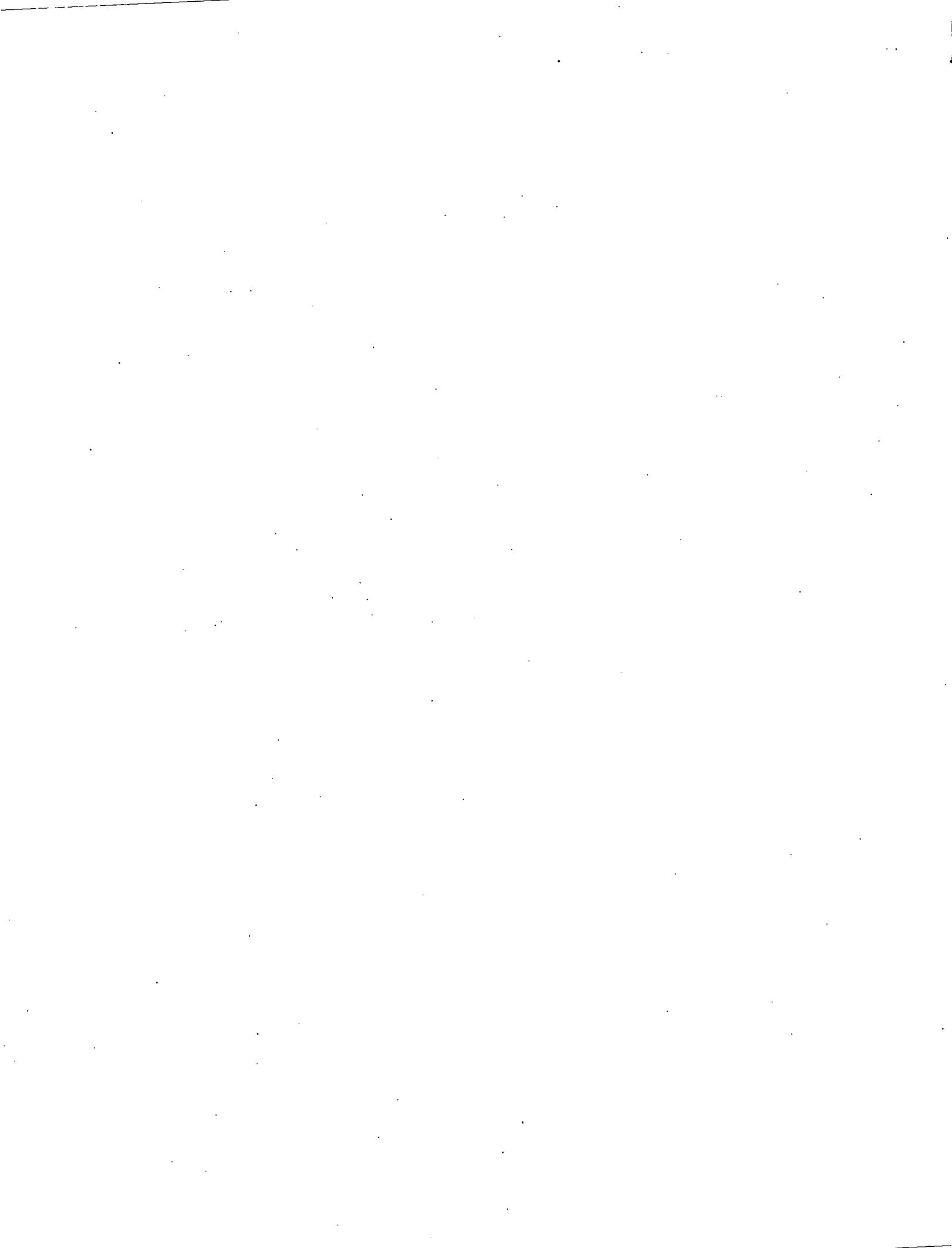
Michael Ault – Mr. Ault has been the Executive Director of the Downtown Sacramento Partnership since 1997. The non-profit organization is funded by and represents over 250 property owners in the downtown area. In this position, Mr. Ault is involved in improving the central city through “Clean and Safe” programs and promotional activities. Previously, Mr. Ault was the Downtown Coordinator for the City Manager.

Anthony Babcock – Mr. Babcock is a business operator and managing partner of two successful, start-up restaurants in Sacramento: Paesanos and Jack’s Urban Eats. Mr. Babcock is also a graduate of McGeorge School of Law and is a practicing attorney for many small businesses in the Sacramento area.

David Crespi - For the past 3 years Mr. Crespi has been the Director of Internal Audit for the Money Store. Previously, he worked for two years at the Sacramento Housing and Redevelopment Agency as the Finance Division Program Manager and prior to that was the Chief Financial Officer for Sacramento Savings Bank. Mr. Crespi is a Certified Public Accountant.

Wendy Saunders – Ms. Saunders is currently the Development Manager for the City of Sacramento's Downtown Development Group. Ms. Saunders has been working on commercial development projects for local government for over ten years.

David Scurfield – For many years Mr. Scurfield has been an Executive Board Member of the Old Sacramento Management Board. Mr. Scurfield is also a principal with the Scurfield Company that owns, leases and provides property management services to numerous properties throughout Sacramento, including Old Sacramento.



## EXHIBIT D

### Pyramid Breweries Inc. Proposal - Evaluation Summary

#### **Overall Restaurant Concept for Site A**

Pyramid Breweries Inc. proposes to develop a Pyramid Alehouse and Brewery with 8,500 square feet of interior restaurant seating and over 4,000 square feet of outdoor seating (400+ seats). The Alehouse menu includes appetizers, soups, salads, and entrees including sandwiches, burgers, steak, seafood and wood-fired pizzas. In addition to the entire product line of brews and sodas from Pyramid Breweries and Thomas Kemper labels, specialty recipes brewed on site will be available on a regular basis. The Alehouse will be designed to function as a comfortable, fun, affordable waterfront dining experience for local residents, office workers and tourists.

#### Committee Summary –

- The committee concluded that a Pyramid Alehouse establishes a strong niche for Old Sacramento that would be attractive on an on-going basis.
- With the surrounding existing and proposed development the committee felt it was a strong fit and would be a strong regular attraction for business lunches as well as providing a comfortable, active environment for Sacramento families and tourists.
- The restaurant appears to be a critical component to other aspects of their company and gets significant attention from their experienced management team.

#### Staff Summary –

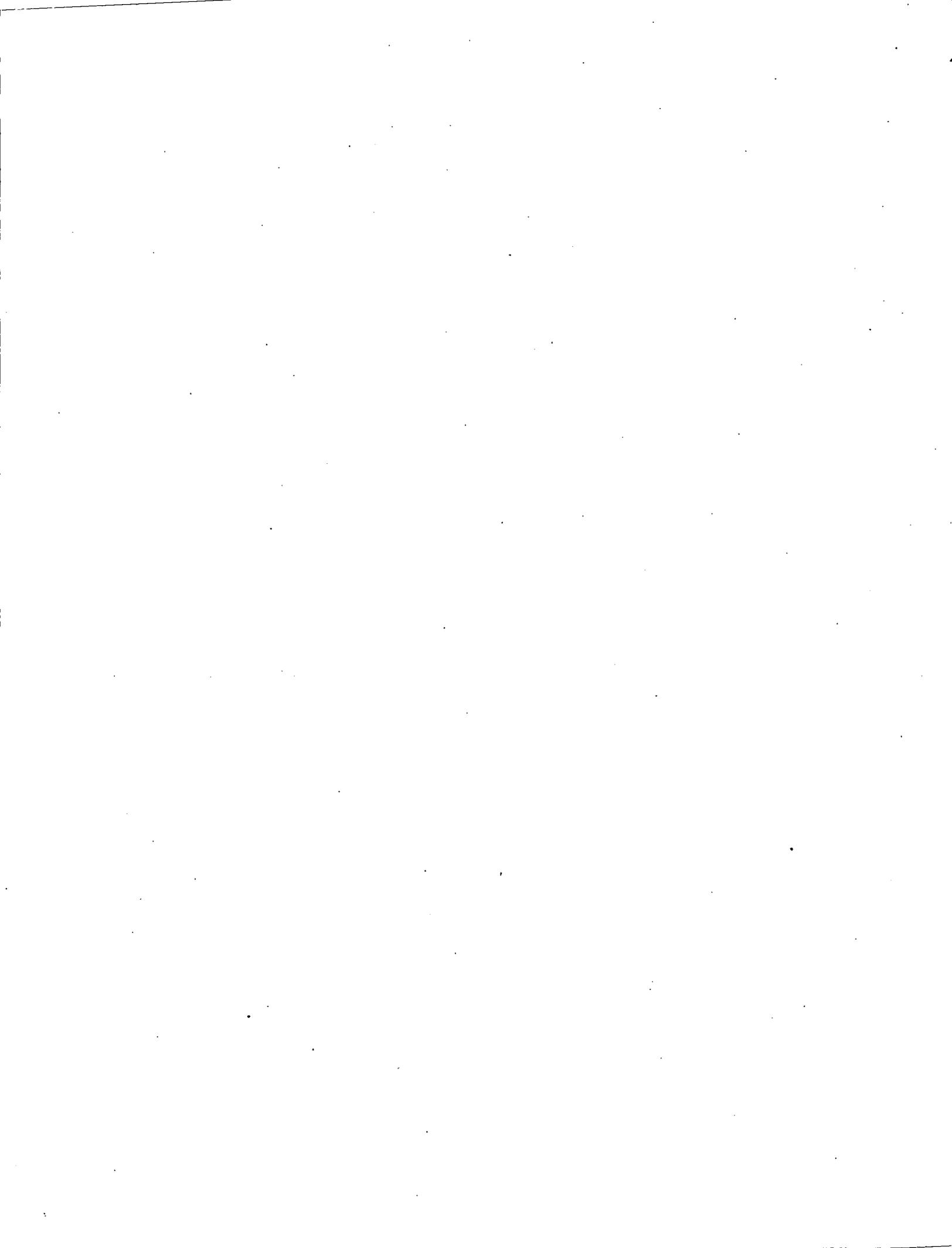
- The Pyramid Alehouse theme is attractive to downtown office workers and tourists alike, providing a quality destination for many.
- The Pyramid Alehouses in Seattle and Berkeley provide seasonal specials that take full advantage of the local agricultural and fishing seasons.
- The menu provides a good value for customers of all ages with a great waterfront view.

#### **Demonstrated Qualifications and Experience to Development Restaurant**

Pyramid Breweries developed their restaurant concept in 1995 and have since developed two Alehouses. They have twice managed the construction and development process for their two urban restaurants, in addition to the development of their two breweries and bottling facilities. Their restaurant management team has extensive experience both with Pyramid Alehouses and other restaurants.

#### Committee Summary –

- Their experience developing and marketing their Seattle and Berkeley Alehouses seem to be a good indication of their ability to market in a large, urban area like Sacramento.
- Have demonstrated their ability to market their restaurants with various techniques, including events. The Alehouse concept that they developed in 1995 has been successful.



#### Staff Summary –

- Their management team and board of directors create a strong, flexible team that has the experience to develop Site A, as proposed.

#### **Demonstrated Ability to Participate in the Old Sacramento and Downtown Community**

Pyramid Breweries' development and sponsorship of community events is a vital part of their business plan and will add to the Old Sacramento and Downtown environment year-round. Currently, they host several events a year including a summer-long series of outdoor movies at the Berkeley Alehouse and the Annual Kings County Search and Rescue Fundraiser that draws over one thousand people. Their in-house Guest Services Manager is responsible for developing and managing such projects, banquets and hotel/concierge communications.

#### Committee Summary

- Historically, they have good community participation.

#### Staff Summary

- Pyramid Breweries has a track record of developing and sponsoring events that are very attractive to their customers. George Hancock has expressed strong interest in working with the Old Sacramento Management Board (OSMB) and the Downtown Sacramento Partnership (DSP) to plan new events to complement the existing event schedule, as well as participating in some of the existing events. Pyramid Breweries is very interested in programming new events in October specifically, when many OSMB and DSP events have ended for the year.

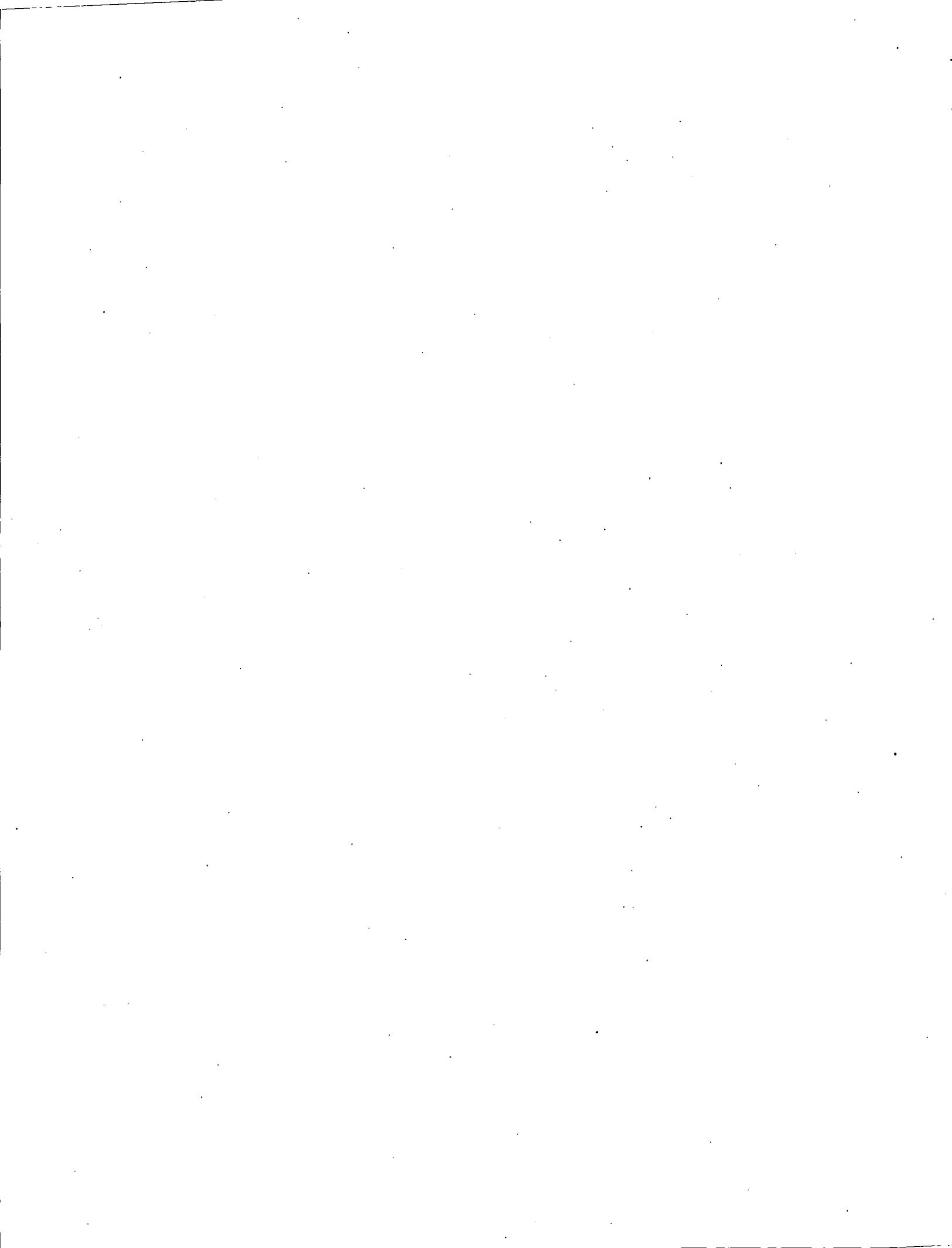
#### **Preliminary Restaurant Design for Site A –**

The architectural design for the restaurant was prepared for Pyramid Breweries Inc. by Kava Massih Architects, who designed the Berkeley Alehouse.

The design for the Sacramento Alehouse has been through two preliminary designs. The current design does reflect many changes recommended by Jim Henley and Ed Astone in September. George Hancock, Pyramid's Chairman and CEO, wants to develop a space that allows the activity inside the restaurant to be visible to passersby, but also for the restaurant patrons to be able to see Old Sacramento and the excursion train. The excursion train then becomes the other major influence on the design of the Alehouse. Design and construction methods of the late 1800's allow for the use of a combination of both wood and iron trusses and columns.

#### Committee Summary

- Historic references were thought to be beautiful and with more input from Old Sacramento the design will be better integrated.
- Design provides a good transition from Old Sacramento to the Tower Bridge and development to the south.
- Their other Alehouses are very comfortable gathering spaces.



### Staff Summary

- Based on conversations with Jim Henley and Ed Astone, Site - A can, and perhaps should, provide the transition from Old Sacramento on the North and One Capitol Mall and Parking Garage R. Therefore, the use of late 1800's construction methods is appropriate.
- The details and treatments still need refinement. Suggestions from Jim Henley include: using wood trusses with the iron columns, removing the inverted detail of the trusses, providing some wide, wood clapboard siding on the exterior of the building that the louver system will match when closed.
- Pyramid Breweries Inc. has demonstrated flexibility and ability to redesign their restaurant to be an asset to the waterfront.

### **Evidence of Financial Capacity to Develop Site A**

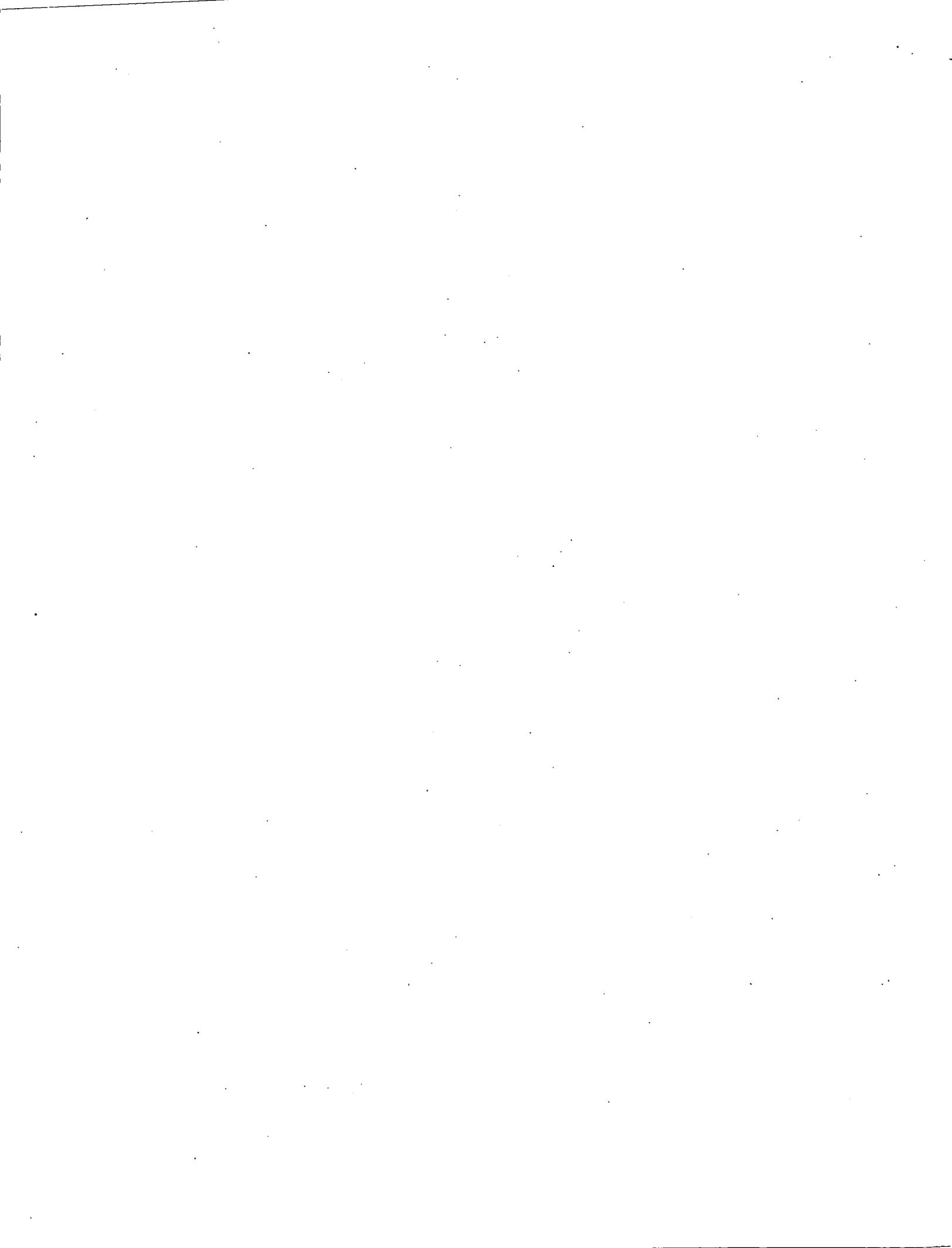
The company is managing its own growth well by maintaining cash reserves above \$5 million dollars and has no long-term debt. The company has internal cash resources to finance the development. Pyramid Breweries Inc. has access to a \$15,000,000 line of credit that currently has a zero balance and is available for the development of this project.

### Committee Summary

- The Alehouses are a critical piece of their company business plan.
- The in-house management staff and experience level of board members is very extensive.
- Projections appear conservative.

### Staff Summary

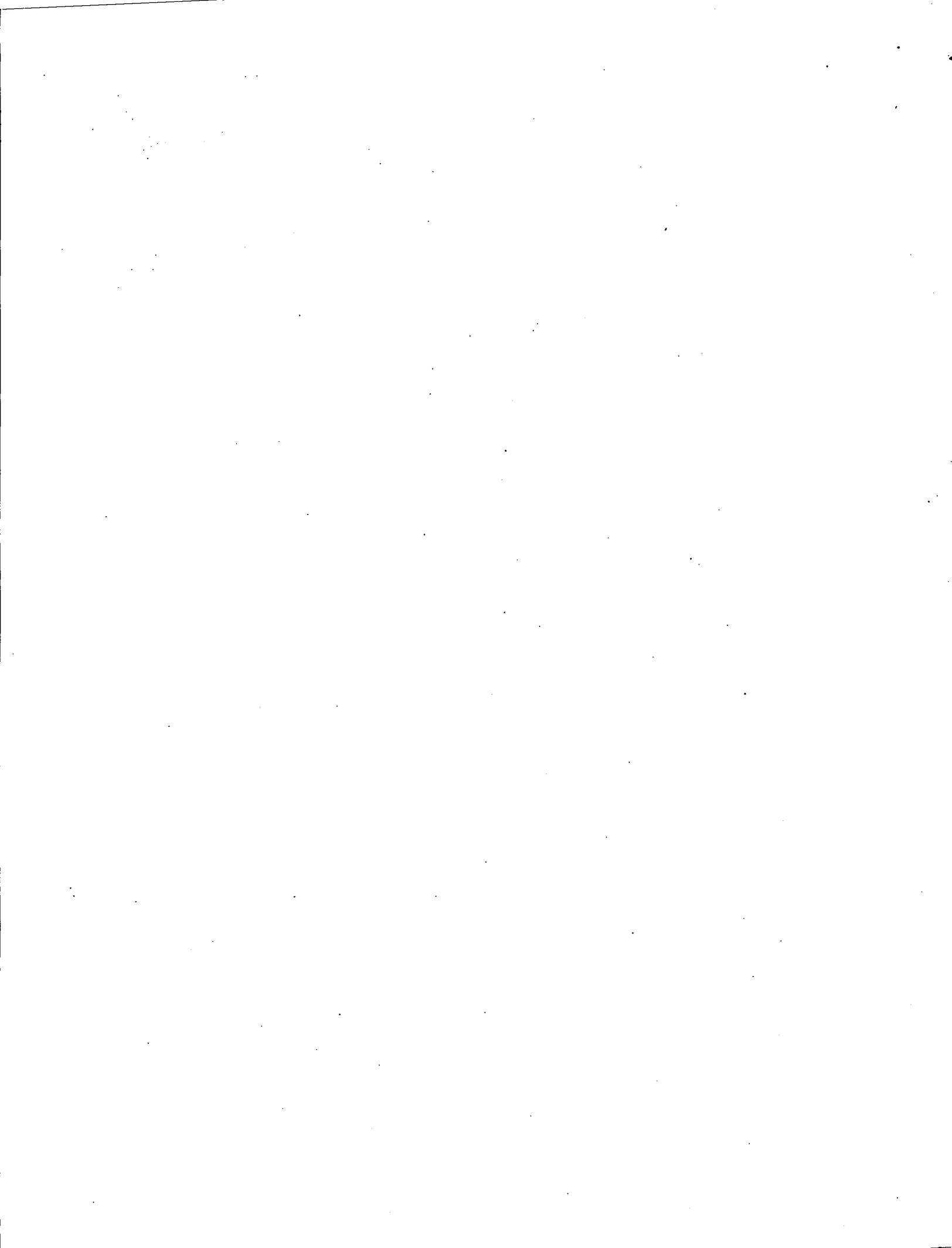
- Pyramid Breweries Inc. has demonstrated the ability to manage a growing brewing business and to successfully integrate the Alehouse concept into its overall business plan.
- Pyramid Breweries Inc. appears to have the financial capacity to develop the restaurant in Sacramento with existing assets.



## EXHIBIT E

### Pyramid Breweries, Inc. History

- 1984
- The Hart Brewing Inc. was incorporated in the state Washington
  - The Company sells its products primarily in Washington, Oregon, and California
- 1995
- The company operates 3 breweries
    - Seattle, WA 98,000 barrels / 250 seat restaurant
    - Kalama, WA 95,000 barrels /
    - Poulsbo, WA Brewery and Pub
  - The company sold 2,000,000 shares of common stock.
  - Net proceeds were approximately \$34,156,000
  - Executed a line-of-credit for \$15,000,000 (Annual revolving debt with interest only payments, annual outstanding debt converts to fully amortized loan with 4 year maturity)
- 1996
- The Company changed its name from Hart Brewing Company to Pyramid Breweries, Inc.
  - Closed Poulsbo, WA Brewery and Pub
  - Substantially completed a brewery and pub in Berkeley, CA
- 1997
- Opened Berkeley Brewery and Alehouse 80,000 Barrels / 260 seat restaurant
  - Purchased Thomas Kemper Soda Company for \$1,700,000 – the company sells premium soft drinks, including root beer and cream soda
  - Closed the Kalama, WA Brewery / Related expenses estimated at \$1,385,000
  - Company restructuring marketing and brewing operations cost estimated at \$215,000 of in marketing realignment costs
- 1998
- The company sells it's product through a network of selected independent distributors primarily in Washington, Oregon, and California under the Pyramid and Thomas Kemper Brands
  - The company operates the following beweries and restaurants
    - Seattle, WA 92,000 barrels / 340 seat restaurant
    - Berkeley, CA 80,000 barrels / 380 seat restaurant
- 1999
- Potential expansion to Sacramento's Waterfront



**RESOLUTION NO. 99-653**

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_



RESOLUTION APPROVING THE SELECTION  
OF PYRAMID BREWERIES INC.  
AND AUTHORIZING NEGOTIATION OF A LEASE  
FOR THE OLD SACRAMENTO WATERFRONT RESTAURANT -SITE A.

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

- 1) Pyramid Breweries is approved as the development team to construct a restaurant on the Old Sacramento Waterfront Restaurant - Site A.
- 2) City Manager is authorized to negotiate a lease with Pyramid Breweries Inc.
- 3) Staff will report back within 180 days with financial terms and conditions that are the result of the negotiation process.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_

**FOR CITY CLERK USE ONLY**

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_ 14

12/29/2000

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10/10/00