



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814

www.CityofSacramento.org

4

Meeting Date: 4/26/2011

Report Type: Consent

Title: Joe's Crabshack Lease Administration and State Lands Compliance

Report ID: 2011-00383

Location: District 1

Recommendation: Adopt a Resolution: 1) authorizing that after payment of rent to the California State Lands Commission as required under the Master Lease Agreement (City Agreement 86013), the remainder of the rent proceeds received by the City of Sacramento under the Crab Addison, Inc. (Joe's Crabshack) sublease (City Agreement 2001-067) are authorized to be allocated annually as follows: a) payment of rent to the California State Lands Commission as required under the Master Lease Agreement (City Agreement 86013); b) \$60,000 annually for Old Sacramento maintenance; c) \$30,000 annually for lease administration; and, d) the remaining rent proceeds to be equally distributed to Joe's Crabshack repairs project (B18119000), Old Sacramento Garbage Service Courts (M17700000), and Old Sacramento District Improvements (M17700100); 2) authorizing allocation of additional rent proceeds, net of the required State Lands Commission payment, in the amount of \$102,140 received by the City under the sublease from FY 2008/09 and FY 2009/10 to Old Sacramento Garbage Service Courts (M17700000) to fulfill the City's requirement to construct the Service areas under the Maintenance Area District Plan; and 3) authorizing the City Manager or the City Manager's designee to adjust the revenue and expenditure budgets for the additional rent proceeds of \$102,140.

Contact: Sheri Smith, Project Manager, (916) 808-7204, Economic Development Department

Presenter: None

Department: Economic Development Dept

Division: Downtown Development

Dept ID: 18001021

Attachments:

1-Description/Analysis

2- Resolution

City Attorney Review

Approved as to Form
Michael T. Sparks
4/19/2011 8:45:48 AM

City Treasurer Review

Prior Council Financial Policy Approval or
Outside City Treasurer Scope
Russell Fehr
4/8/2011 1:46:32 PM

Approvals/Acknowledgements

Department Director or Designee: Jim Rinehart - 4/13/2011 10:35:59 AM

Assistant City Manager: John Dangberg - 4/13/2011 6:56:32 PM

Eileen Teichert, City Attorney

Shirley Concolino, City Clerk
William H. Edgar, Interim City Manager

Russell Fehr, City Treasurer

Description/Analysis

Issue: In 1986, the City of Sacramento entered into a master lease with State Lands Commission to govern the shared benefit of economic development of the waterfront areas in Old Sacramento. The master lease requires 20 percent of all rents collected by the City from businesses operating on the waterfront, such as the pier operations, Rio City Café, and Joes Crabshack to be paid to the State.

In 1998, the City of Sacramento drove 45 piles into the Sacramento River in anticipation of developing a river front restaurant. The City was successful in attracting Joe's Crabshack as a tenant and to construct and operate the restaurant.

The sublease between the City of Sacramento and Crab Addison, Inc., dba, Joe's Crabshack (City Agreement number 2001-067) provides that the City shall, at its sole expense, perform structural repairs and major City improvements in all public areas in and around Joe's Crabshack Restaurant. This includes maintaining, repairing, replacing, and constructing, the steel pilings in the riverbed, the wood decking on which the restaurant is located, the service courts, the pedestrian walkways, and the amenities required to ensure the riverfront area remains a safe, active, and vibrant public area.

The City is also obligated to construct and maintain the garbage service courts in Old Sacramento per the Maintenance Area District Plan. This is a long standing and ongoing obligation of the City to ensure the alleys, public areas, and business amenities in Old Sacramento are kept to a standard that supports the viability of the Historic District.

Historically the lease revenue from Joe's Crabshack sublease agreement has been divided in the following way:

- 20% of the rents received are paid to the State Lands Commission in conformance with the master lease.
- \$40,000 has been allocated to fund Old Sacramento maintenance and \$20,000 to pay for sublease administration costs.
- The remaining lease revenues, net of the State Lands Commission payment and costs related to the maintenance and administration, have been equally distributed to:
 - Joe's Crabshack repairs project (B18119000) to maintain and repair the piles and pier on which the restaurant sits,
 - Old Sacramento Service Courts (M17700000) to fulfill the City's requirement to construct and maintain the Service areas under the Maintenance Area District Plan, and
 - Old Sacramento District Improvements (M17700100) to fulfill the general sublease requirement to maintain public areas.

This report recommends that the revenue line for the Old Sacramento maintenance be increased to \$60,000 and the administration revenue line be increased to \$30,000 to reflect today's costs of the services provided by the City. In the past the budget authority to distribute the rent as outlined above has been renewed annually. Since the obligations of the City will continue for the long term, staff is recommending that the authority to allocate rent, as described above, be authorized for the term of the Joe's Crabshack sublease.

Policy Considerations: The action requested herein is consistent with the City's Strategic Plan goal to achieve sustainability and livability. It also supports the goals of the City's Riverfront Master Plan by:

- Maintaining the riverfront as an active, vibrant, urban district and public asset
- Emphasizing and maintaining pedestrian orientation, amenities and scale
- Providing for visitor and community –serving uses and amenities

Environmental Considerations: The proposed action is an administrative action related to an existing sublease; therefore, it does not constitute a project under the California Environmental Quality Act. (Cal. Code Regs., tit. 14, §15378(b)(2)).

Sustainability: The actions recommended in this report increase the viability and sustainability of Old Sacramento as a historic and commercial district, preserving Sacramento's history.

Commission/Committee Action: N/A

Rationale for Recommendation: Joe's Crabshack has been in operation since 2004, and it is anticipated that the public areas for which the City is responsible will require significant funding to accomplish major improvements and repairs required under the terms of the master lease. With over two million visitors per year to Old Sacramento, it requires constant maintenance and attention to provide safe and attractive amenities that will ensure that the number one tourist district remains an asset and benefit to the City as a whole.

Financial Considerations: The annual gross rent received under the Joe's Crabshack sublease is a combination of base rent and percentage rent and varies from year to year based on restaurant sales and performance. Rent collected in the past three years, net of the State Lands Commission payment, has ranged between \$195,000 and \$230,000 per year.

Article 3 of the sublease agreement provides terms for recalculating rent during years 6-10 of the sublease (FY2008/09-FY2012/13) and for each five year interval thereafter, based on CPI index from prior and current years. Due to the timing of the rent calculation, there was additional rent owed for FY 2008/09 and FY 2009/10 in the amount of \$127,676. Staff recommends devoting the portion of the payment, net of the State Lands Commission payment in the amount of \$102,140 to improve the garbage service court areas (M17700000) as called for in the Maintenance Area District Plan as well as the sublease agreement.

Emerging Small Business Development (ESBD): N/A



RESOLUTION NO. 2011-

Adopted by the Sacramento City Council

LEASE ADMINISTRATION FOR JOE'S CRABSHACK AUTHORIZING DISTRIBUTION OF RENTS TO COMPLY WITH STATE LANDS MASTER LEASE REQUIREMENTS AND AUTHORIZING PAYMENTS FOR CAPITAL IMPROVEMENT PROJECTS FOR JOES CRABSHACK REPAIRS PROJECT (B18119000), OLD SACRAMENTO SERVICE COURTS (M17700000), AND OLD SACRAMENTO DISTRICT IMPROVEMENTS (M17700100) TO FULFILL THE LEASE REQUIREMENTS

BACKGROUND

- A. On July 1, 1986, the City entered into a master lease with the State Lands Commission requiring payment of 20% of all income derived from subleases on the waterfront property in Old Sacramento, City Agreement #86013.
- B. On August 14, 2001, the City entered into a sublease (Sublease) with Crab Addison, Inc., dba, Joe's Crabshack, City Agreement #2001-067.
- C. Section 5.02 of the Sublease provides that the City, at its sole expense, shall perform structural repairs and major City improvements in all public areas in and around Joe's Crabshack Restaurant.
- D. Article 3 of the Sublease provides the terms for recalculating rent during years 6-10 of the sublease (FY2008/09-FY2012/13) and for each five year interval thereafter, based on CPI index from prior and current years.
- E. Due to the timing of the rent calculation, there was additional rent owed for FY 2008/09 and FY 2009/10 in the amount of \$127,676.
- F. To comply with the maintenance and structural improvement requirements of the Sublease, \$40,000 annual funding for Old Sacramento maintenance and \$20,000 annual funding for Sublease administration has been provided from Sublease revenues.
- G. The actual cost of the maintenance has increased to \$60,000 and the cost of Sublease administration has increased to \$30,000 since the City entered into the Sublease in 2001.
- H. The remaining Sublease revenues, net of State Lands Commission rental payment and costs related to the maintenance and administration, have historically been equally distributed to Joe's Crabshack repairs project (B18119000) to maintain and repair the piles and pier on which the restaurant sits, Old Sacramento Service Courts (M17700000) to fulfill the City's

requirement to construct and maintain the Service areas under the Maintenance Area District Plan, and Old Sacramento District Improvements (M17700100) to fulfill the general Sublease requirement to maintain public areas.

- I. The Sublease terminates June 30, 2035

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1 After payment of rent to the California State Lands Commission as required under the Master Lease Agreement (City Agreement 86013), the remainder of the rent proceeds received by the City of Sacramento under the Crab Addison, Inc. (Joe's Crabshack) sublease (City Agreement 2001-067) are authorized to be allocated annually as follows: a) \$60,000 for Old Sacramento maintenance; b) \$30,000 for Sublease administration; and, c) the remainder of the rent proceeds to be equally distributed to Joe's Crabshack repairs project (B18119000), Old Sacramento Garbage Service Courts (M17700000), and Old Sacramento District Improvements (M17700100).
- Section 2 Additional rent proceeds, net of the required State Lands Commission payment, in the amount of \$102,140 received by the City under the Sublease from FY 2008/09 and FY 2009/10 are authorized to be allocated to Old Sacramento Garbage Service Courts (M17700000) to fulfill the City's requirement to construct the Service areas under the Maintenance Area District Plan.
- Section 3 The City Manager or the City Manager's designee is authorized to adjust the revenue and expenditure budgets to reflect the additional rent proceeds of \$102,140 and the allocation of those proceeds to Old Sacramento Garbage Service Courts ((M17700000)).