



REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

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Staff Report
April 4, 2006

Honorable Chair and Members of the Board:

Subject: Elk's Building Owner Participation Agreements

Location/Council District: 921 11th Street, Council District 1

Recommendation:

Adopt Redevelopment Agency of the City of Sacramento (Agency) Resolution that: 1) authorizes the approval of an Owner Participation Agreement and related loan documents totaling \$850,000 with Utah Partners, LLC (Owner) for the structural upgrade of the Elk's Building; 2) authorizes the approval of an Owner Participation Agreement and related loan documents totaling \$850,000 with McCormick & Schmick's Restaurant Corporation (Tenant) for the tenant improvements of the ground-floor space of the Elk's Building; and 3) allocates \$1.7 million from the Merged Downtown 2005 Tax Allocation Bond Funds to the Elk's Building Renovation project.

Contact: Michelle Nelson, Senior Project Manager, 808-7064
Leslie Fritzsche, Downtown Development Manager, 808-5450

Presenters: Michelle Nelson, Senior Project Manager

Department: Economic Development

Division: Downtown Development

Organization No.: 4451

Summary:

The Owner of the historic Elk's Building at 921 11th Street (Attachment 1) is in the process of renovating the 14-story building including substantial structural, mechanical and electrical upgrades. As a component of the renovation, interior and exterior tenant improvements will be made to accommodate a restaurant use. In an effort to activate J Street and create new opportunities for evening and weekend activities, the Agency has partnered with the Owner and Tenant to assist in developing the new ground-floor restaurant. The proposed assistance would be in the form of a loan for the structural, mechanical and electrical upgrade and a forgivable loan for the exterior and interior tenant improvements for the restaurant.

Committee/Commission Action:

The Design Review and Preservation Board approved the plans for the new ground-floor restaurant at their meeting on March 1, 2006, subject to certain conditions.

Background Information:

One of the key focus areas of the 2005-2009 Implementation Plan is creating places and destinations along the JKL Corridor that would solidify the cultural and entertainment district, add to the appeal of downtown living, and complement the area's historic character.

In addition, the JKL Corridor Charrette, which brought together over 250 community members in October 2004 to identify a vision and funding priorities for the corridor, suggested that historic preservation and adaptive reuse of historic buildings were top priorities.

The Elk's Building (Attachment 2), originally completed in 1926, was designed by architect Leonard J. Starks of the firm Hemming and Stark, which also designed the Alhambra Theater. The original 14-story, steel-framed building included a ball room, dining room, a health club and swimming pool in the basement, as well as many significant Classical and Renaissance-style features throughout the interior and exterior of the building. Today, the building serves as a multi-tenant office building with approximately 83,000 square feet of space. Most of the ground-floor space is partitioned into small office spaces accessible only from the interior of the building, except for a small architectural office and a Federal Express center. The building is a City Landmark and was recently voted one of the most significant historic buildings in Downtown.

The Owner has signed a 20-year lease with the Tenant to operate one of its nationally renowned seafood restaurants on the ground floor of the Elk's Building. Exterior renovations (Attachment 3) proposed for the building include:

- Restoration of the original recessed and angled entrance to the building at the corner of 11th and J;
- Removal and reinstallation of an original storefront from J Street to the 11th Street façade;
- Installation of a new J Street entry with two centered, storefront doors that will serve as the entrance to the bar; and
- Removal of existing bubble awnings on the J Street and a portion of 11th Street facade to expose the historic transom windows. New historically appropriate awnings will be installed at the original location under the transom windows.

The proposed structural upgrades to the building would seismically stabilize the upper two floors, the ground floor and the basement level, making them ready for future active

uses. The combination of structural and system upgrades will assist in the preservation of the historic structure for enjoyment by future generations.

The new restaurant will occupy approximately 8,500 square feet of ground floor space. It will be uniquely designed to complement the historic character of the building while incorporating the relaxed, inviting dining style of a McCormick & Schmick's Seafood Restaurant. Many McCormick & Schmick's restaurants are located in buildings included on the National Register of Historic Place. They are known for their designs that reflect the culture and heritage of the city in which they are located.

The project pro forma for the improvements to the building indicates the need for a subsidy to make this a financially viable project for both the Owner and the Tenant. The proposed subsidy for the Elk's building will be in the form of two loans: one to the Owner for the structural upgrade of the building that will be fully repaid to the Agency; the second, a loan to the Tenant that is forgiven upon completion of the tenant improvements.

The loans (terms are outlined in the Financial Considerations Section of this report) and other developer responsibilities are documented in the two proposed Elk's Building Owner Participation Agreements with the Owner and Tenant that are on file with the Agency and City Clerks.

Public Benefits

The presence of this highly visible, destination restaurant will be a significant addition to J Street, the City's main downtown arterial. It will add a vibrant, active use to an underutilized ground-floor space in a two-block area of "dead" space between 10th and 12th streets. The restaurant will be uniquely located, close to the Capitol, the Convention Center, Community Center Theater and hotels, supporting tourism and increasing the pedestrian activity on the streets, especially during the evening and weekend hours. The high-quality design and nationwide reputation of the restaurant will be a great addition to Sacramento's cultural and entertainment district. The improvements and restaurant together will attract a high-quality tenant base for the remainder of the building. It will also serve as an attractive amenity for proposed housing projects on J Street and 10th and 11th streets.

Other public benefits of the project include:

- Generates \$40,000-50,000 per year in new sales taxes annually
- Generates approximately \$40,000 per year in tax increment
- Draws an estimated 80-100,000 customers per year
- Employs twelve (12) full-time and eighty-eight (88) part-time workers
- Leverages \$1.7 million public investment in return for a \$5.1 million infusion of private funds.
- Restores key historic elements of an important and prominent downtown building.

Financial Considerations:

It is proposed that a total of \$1.7 million in assistance from the 2005 Merged Downtown Tax Allocation Bond Fund be used to address the gap between construction costs and the financial viability of this project. The Owner's total cost to retrofit the building for the restaurant is \$3.0 million and includes the structural, mechanical and electrical upgrade to the building, including tenant interior and exterior improvements. Tenant will invest an additional \$2.1 million in tenant improvements and soft costs for the restaurant. The total project cost is \$6.8 million.

The Agency's participation shall be split into two loans.

The first Agency loan (taxable funds) with Owner includes the following terms:

- Loan amount of \$850,000 for structural improvements to the building;
- Payments begin when Owner reaches preferred return of 12% on equity; then Agency receives 70% of the net cash flow annually;
- Remaining balance of the loan is due in full after 25 years or if Owner sells or refinances the property before the maturity date; and
- Maintenance of key historic elements in perpetuity.

The second Agency loan with Tenant (financed through tax-exempt funds) includes the following terms:

- Loan Amount of \$850,000;
- Fully forgivable upon completion of tenant improvements as evidenced by an approved Occupancy Permit issued by the City's Building Official; and
- Tenant guarantees reimbursement of Agency funds if they leave within the first ten years.

Environmental Considerations:

The activities outlined in the Owner Participation Agreement have been analyzed in accordance with the California Environmental Quality Act (CEQA). The City's Historic Preservation Officer has found that the improvements are being done in compliance with the Secretary of the Interior Standards. As such, the improvements are exempt under the CEQA Guidelines Section 15331.

Policy Considerations:2005 Downtown Sacramento Redevelopment Strategy

The restoration of the Elk's Building is consistent with the goals mentioned in the 2005 Downtown Sacramento Redevelopment Strategy including;

- 1) The strengthening of retail and other commercial functions in the downtown area by the installation of needed site improvements either inside or outside the Merged Project Area to stimulate new commercial expansion, employment and economic growth;

- 2) The preservation and/or restoration of historically or architecturally significant structures;
- 3) The establishment and implementation of performance criteria to assure high-quality site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Downtown Project Area.

City of Sacramento Strategic Plan and Guiding Principles

Additionally, the Elk's Building Renovation Project is consistent with the following goals identified in the 2005-2008 City of Sacramento Strategic Plan:

- 1) Improve and expand public safety;
- 2) Achieve sustainability and livability; and
- 3) Expand economic development throughout the City

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

Recommendation Approved:

for Cassandra A.B. Jennings
 RAY KERRIDGE
 City Manager

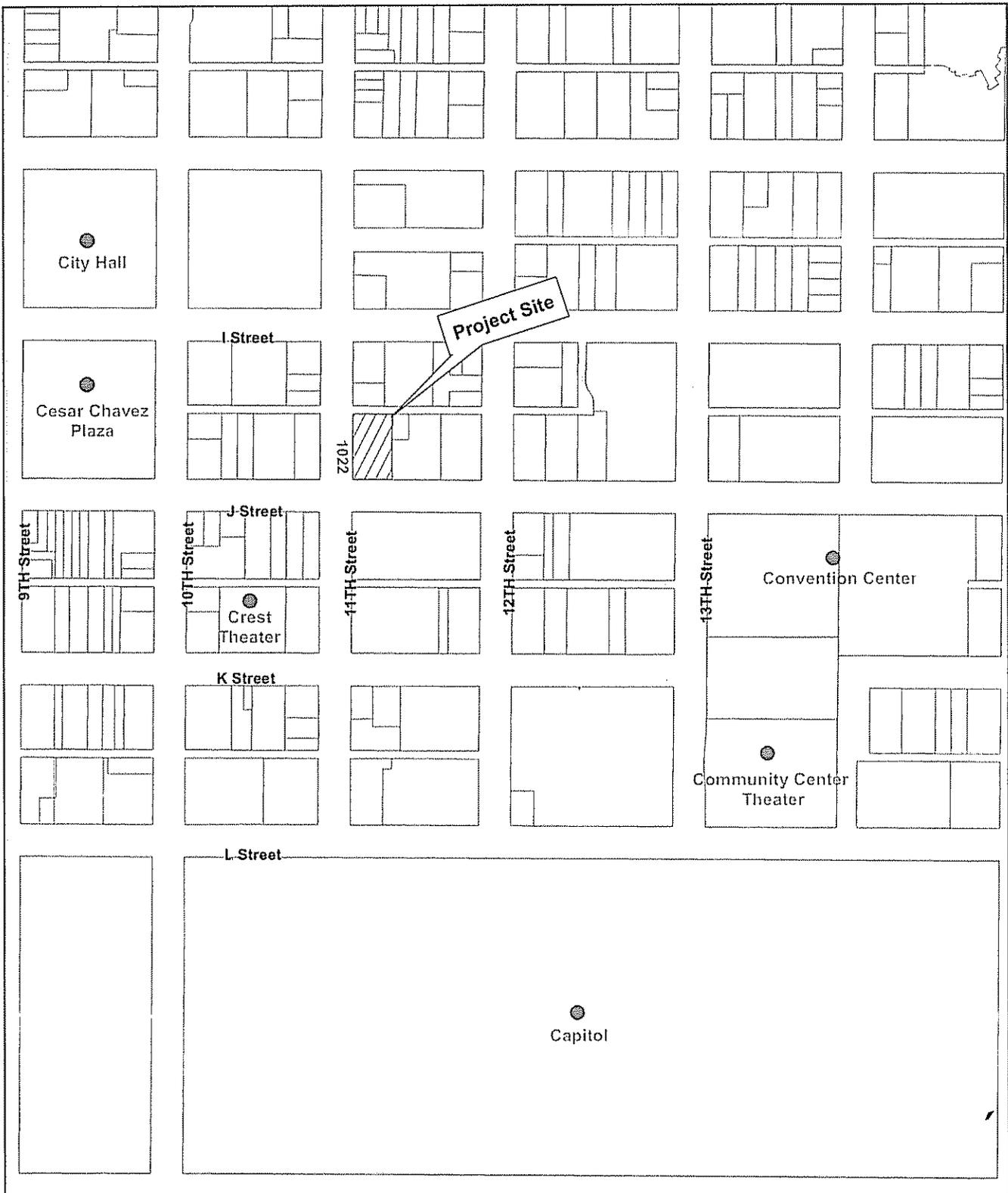
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Pg	8	Attachment 3: Rendering of Elk's Exterior Improvements

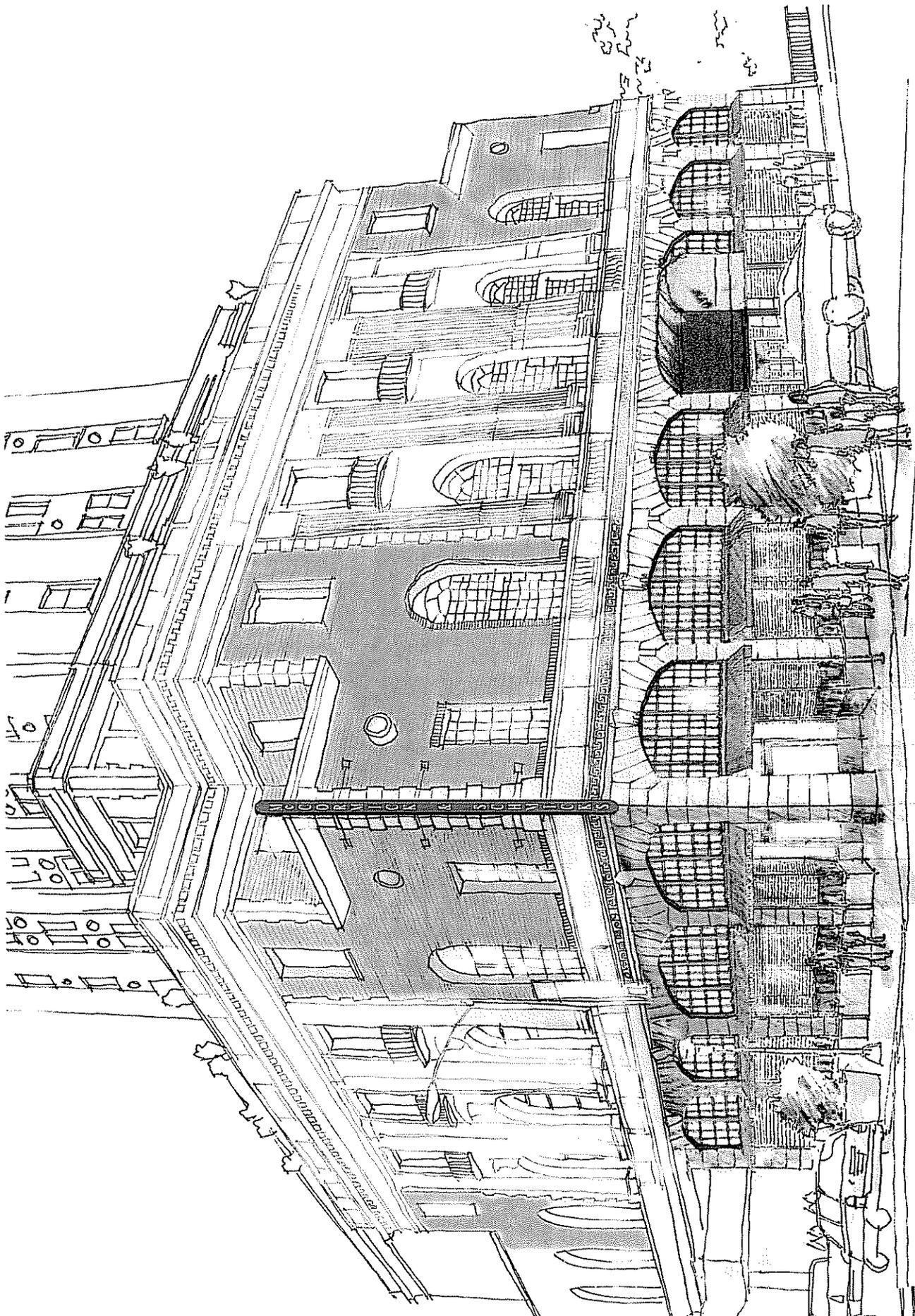
Pg 9 Attachment 4: Agency-City Returns

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921 11th Street Project Site Map







RETURNS TO THE AGENCY/CITY FROM ELKS BUILDING PROJECT

- Generates \$40,000-50,000 per year in new sales taxes annually
- Generates approximately \$40,000 per year in tax increment
- Generates approximately \$2,000 annually in utility user tax
- Generates additional City parking revenue for nighttime and week-end usage
- Draws an estimated 80-100,000 customers per year
- Employs twelve (12) full-time and eighty-eight (88) part-time workers
- Leverages \$1.7 million public investment in return for a \$5.1 million infusion of private funds.
- Initial investment of \$1.7 million recouped within 15 years of project opening
- Restores key historic elements of an important and prominent downtown building.

RESOLUTION NO.

Adopted by the Redevelopment Agency of the City of Sacramento

ELK'S BUILDING OWNER PARTICIPATION AGREEMENTS

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Sacramento Redevelopment Project Area Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Sacramento Redevelopment Project Area ("Project Area");
- B. The Agency and Utah Partners, LLC. ("Owner") desire to enter into an Owner Participation Agreement ("OPA"), which would provide Agency funds to assist in the construction of structural mechanical and electrical upgrades to the Elk's Building, as required by the City's Building Department, for rehabilitation of the ground-floor space into a new restaurant;
- C. The Agency and McCormick & Schmick Restaurant Group ("Tenant") also desire to enter into an OPA which would provide Agency funds to assist in the construction of interior and exterior improvements to the ground floor of the Elk's Building for a McCormick & Schmick's restaurant.

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

- Section 1. After due consideration of the facts presented, the findings, including but not limited to the environmental findings regarding this action, as stated in the staff report that accompanies this Resolution, are approved.
- Section 2. The Owner Participation Agreement with Owner, in substantially the same form as that which is on file with the City and Agency Clerks, is approved and the Executive Director or her designee is authorized to execute the OPA and to take such actions, execute such instruments, and amend the

budget as may be necessary to effectuate and implement this resolution and the OPA.

Section 3. The Owner Participation Agreement with Tenant, in substantially the same form as that which is on file with the City and Agency Clerks, is approved and the Executive Director or her designee is authorized to execute the OPA and to take such actions, execute such instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the OPA.

Section 4. The Executive Director is authorized and directed to transfer a total of \$1.7 million from the Merged Downtown 2005 Tax Allocation Bond Funds to the Elk's Building Renovation Project.