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DEPARTMENT OF PARKS  
AND COMMUNITY SERVICES

ROBERT P. THOMAS  
DIRECTOR

G. ERLING LINGGI  
ASSISTANT DIRECTOR

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: Old Sacramento Riverfront Office and Warehouse Buildings Leases

SUMMARY

This report provides the status of lease negotiations for the California Steam Navigation Company (CSNC) office and the Central Pacific Railroad (CPRR)/CSNC warehouse. The proposal for a restaurant has been withdrawn. This report is for information only.

BACKGROUND INFORMATION

Reconstruction of the Old Sacramento riverfront buildings by SHRA and subsequent operations by the Waterfront Management Section of the Department of Parks and Community Services was designed to provide private entrepreneurs with an opportunity to lease a part of living history and to join one of the most distinctive retail/office/residential areas on the Pacific coast.

The Old Sacramento Riverfront Master Plan project includes the reconstruction and revitalization of approximately 4.5 acres of riverfront area. Designed to interpret the 1849-1870 period, principal elements of the plan include historic riverfront buildings, floating hulks, and historic ships. Proposed uses for the riverfront area are commercial, tour boats, public open space, and riverfront access. The Specific Use and Leasing Plan approved January 1985 includes reconstruction of the shells of the three historic riverfront buildings in the area located west of Front Street between L and K Streets on a site leased to the City under a master lease with the State Lands Commission.

In an effort both to secure tenants of high quality who are sensitive to the unique historical setting afforded by Old Sacramento as well as to maximize the revenue to the City, the riverfront buildings lease proposal process was initiated following City Council authorization on October 28, 1986, to select tenants for these leasing opportunities.

CITY OF SACRAMENTO  
CALIFORNIA

May 20, 1987

CITY MANAGER'S OFFICE  
**RECEIVED**  
MAY 20 1987

1231 I STREET  
SUITE 400  
SACRAMENTO, CA  
95814-2977

916-449-5200

DIVISIONS:

CROCKER ART MUSEUM  
GOLF  
METROPOLITAN ARTS  
MUSEUM & HISTORY  
PARKS  
RECREATION  
ZOO

Assistance in both the development of the Request for Proposal to lease the Old Sacramento Riverfront buildings and the subsequent marketing of this leasing opportunity was provided by Ralph Anderson and Associates under a consultant services contract. Utilizing the consultant's suggested lists of potential lessees as well as the advertising and marketing techniques suggested as a means to target distribution of the RFP, the City sent more than four hundred individualized invitations to submit proposals to potential lessees. In addition, advertisements were placed in appropriate local publications.

Proposals for the leasing of these riverfront buildings were opened on December 16, 1986. The City received two proposals to lease the CSNC office and no proposals to lease the CPRR/CSNC Warehouse. In order to ensure the selection of the best responsible proposer, a selection panel was established with representatives from the Department's Resource Development and Management Section, Waterfront Management Section, SHRA, and the Executive Director of the Museum and History Division. The selection panel was assisted by the expertise of Ralph Anderson in reviewing the proposals. All proposers were interviewed by the selection panel and were evaluated on their experience in operating similar enterprises, quality and design of proposed improvements, quality of proposed services including compatibility with and sensitivity to the unique historical setting of Old Sacramento, and proposed rent to the City.

CSNC Office

This site 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 (second floor) uses for this structure. Based on the selection criteria as contained in the request for lease proposals, the selection did not recommend negotiation of a lease with either of the two proposers. Instead, the panel recommended, and the Director's office concurred, that it was in the best interests of the City to consider this building in conjunction with the Warehouse building.

CPRR/CSNC Warehouse

This 4,200 square foot, single story structure is constructed on the wharf overlooking the river. The Specific Use Plan calls for a full service restaurant with exterior dining for this structure.

The City received no proposals on this building during the proposal period. As a result of a newspaper article on the leasing of all three buildings, which mentioned this lack of proposer interest, the City received several inquiries. A serious proposal was received from Jackson Oldham, current owner of the Davis Graduate Restaurant, Inc. and former partner in the chain of Graduate restaurants. This proposal is for both the warehouse and the office building to house restaurant operations. Specifically, their proposed use of the warehouse building is for a restaurant, thematically designed to reflect the riverfront's heyday, called the Stevedore. The proposed restaurant will offer breakfast, lunch, dinner and a bar service, dancing, and will be the site of special

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programming complimentary to the various special events in Old Sacramento. In the nearby office, limited food services of a snack/desserts/espresso type will be featured via a counter service with exterior seating arrangement. The second story shall house the mechanisms for the food service as well as serve as office for the restaurant operations, thereby permitting uniform management of adjacent outdoor eating areas and common maintenance areas.

The proposed combination lease for the warehouse and office is for ten years with two ten-year options at 6% of the annual gross sales or a minimum of \$68,400 per year, whichever is greater. Even assuming minimum guarantee rent, revenue to the City from leasing the office in conjunction with the warehouse is substantially higher than any proposed rent from the office building from either of the other proposals received by the City. The level of investment in proposed tenant improvements exceed three quarters of a million dollars.

As a result of several interviews with Mr. Oldham and a review of his Davis Graduate Restaurant operation, the selection panel unanimously recommended that authorization be given to negotiate a combination lease for the warehouse and office with Jackson Oldham. The success of the Davis Graduate Restaurant, Inc. and the completeness of the Stevedore proposal clearly indicate that Mr. Oldham has the proven experience, operational plans and ability to perform in a family venture which will enhance the historical ambiance and family recreational opportunities of the Old Sacramento riverfront.

The Budget and Finance Committee, at their meeting of March 10, 1987, recommended that all proposals relating to the leasing of the CSNC office building be rejected and a combined lease for the CSNC office building and the CPRR/CSNC warehouse be negotiated with Jackson Oldham. On March 17, 1987, the City Council authorized the Department of Parks and Community Services to negotiate an Old Sacramento riverfront combined office and warehouse building lease with Jackson Oldham.

In an effort to promote a cooperative working relationship between the potential Old Sacramento riverfront buildings lessees and the Old Sacramento Management Board (OSMB) in the mutual interest of recreating a thriving, active and historically representative riverfront area, Department of Parks and Community Services management staff presented the leasing recommendations to OSMB prior to the related Budget and Finance Committee and City Council meetings. In a letter to City Council, the Old Sacramento Management Board supported the authorization of negotiations with Jackson Oldham contingent on: (1) the subsequent contract specifically addressing the entertainment element of the proposal in regards to noise, visual impact and security, and (2) OSMB's having the opportunity to review this element of the proposed contract prior to Council approval.

In testimony before the Budget and Finance Committee, the Old Sacramento Management Board reiterated their conditional support of this proposal as stated in their letter to Council, which included the request to review that portion of the proposed contract which addressed the entertainment services. The Department responded by inviting OSMB to appoint a representative to participate in the entire lease negotiation process with Jackson Oldham. Testimony was also

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received at the Budget and Finance and City Council meetings from individual Old Sacramento merchants who voiced concerns over the entertainment element of the proposal. The merchants testifying wanted stricter dance permit conditions placed on the Stevedore or any other Old Sacramento business despite the fact that such restrictions are not placed on any other merchants elsewhere in the City. In addition, individual merchants stated a belief that the Stevedore would attract undesirable patrons.

Following Council authorization to negotiate a lease with Jackson Oldham, a draft action plan for the lease negotiations process was developed which insured the merchants an opportunity for input through the Old Sacramento Management Board. Staff was confident that a reasonable lease could be negotiated, provided: (1) the applicant remained sensitive to both the past problems in Old Sacramento and the merchants' concerns; and (2) the Old Sacramento merchants remained sensitive to both the applicant's potential investment of nearly a million dollars in tenant improvements and his reliance on a reasonable entertainment proposal.

Following extensive communications between the Old Sacramento merchants and Jackson Oldham, Mr. Oldham requested that his proposal to lease the CSNC office and CPRR/CSNC warehouse be withdrawn (Attachment A). The reason given for this action was Mr. Oldham's conclusion that to mitigate the merchants' concerns, as well as work within the design restrictions of the buildings, will eliminate the flexibility necessary to operate a business successfully. Further, the alternate concepts proposed by the various concerns do not provide the rate of return required to justify Oldham's proposed investment.

The Department of Parks and Community Services is presently evaluating the options available for the leasing of these two buildings which are critical components of the Old Sacramento Riverfront, as well as potential sources of requisite revenue. Staff will return to City Council within sixty days with a proposed plan of action.

FINANCIAL DATA

Revenue from an Old Sacramento office and warehouse buildings lease would have been deposited in the General Fund to be used to offset the costs of providing management, programming, and maintenance for the Old Sacramento Waterfront area. Had a lease been negotiated with Jackson Oldham, revenue to the City, based on his sales projections, would have been as follows:

	<u>Year</u>	<u>Estimated Gross Receipts</u>	<u>Percentage Rent</u>	<u>Revenue to City*</u>
Jackson Oldham	1987-88	\$1,127,500	6%	\$75,677
	1988-89	\$1,206,500	6%	\$80,413
	1989-90	\$1,290,900	6%	\$85,480
	1990-91	\$1,381,300	6%	\$90,902
	1991-92	\$1,408,900	6%	\$96,703

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\*Mr. Oldham's rent is presented as proposed. The actual rent would have been negotiated along with the remaining terms and conditions of the lease.

In addition to this revenue, the City would have received three quarters of a million dollars in tenant improvements to the CSNC office and CPRR warehouse, had said lease been negotiated.

RECOMMENDATION

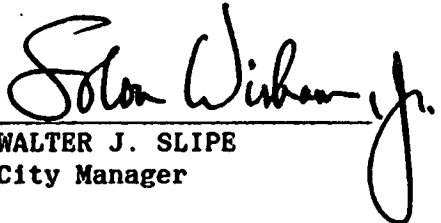
This report is for information only. Staff will report back within 60 days with a recommended plan of action for leasing the Old Sacramento riverfront office and warehouse buildings.

Respectfully submitted,



ROBERT P. THOMAS, Director  
Parks and Community Services

Approved for Information:

for:   
WALTER J. SLIPE  
City Manager

RPT:ja

May 26, 1987  
District No. 1



April 28, 1987

Barbara Bonebrake  
Selection Panel  
Old Sacramento Riverfront Buildings  
Department of Parks and Community Services  
City of Sacramento  
1231 I Street, Suite I  
Sacramento, CA 95814

Dear Barbara,

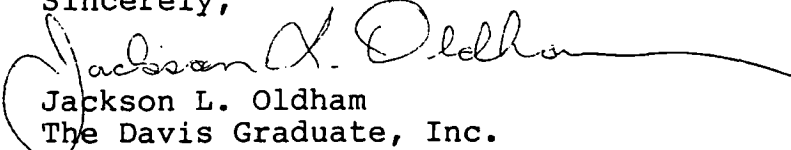
During the several weeks since we met following the City Council meeting, we have worked on numerous business concepts with their respective sales projections. As promised, our goal was to put together a plan that addressed the various concerns of the Old Sacramento merchants and the Delta King group in particular.

We have arrived at the conclusion that to mitigate these concerns, as well as work within the design restrictions of the buildings, will not offer us the flexibility to operate a business successfully. Secondly, the various business concepts do not provide the rate of return required to justify our proposed investment of time and capital. We therefore respectfully request that our proposal submitted January 29, 1987 be withdrawn. We would be interested to review the merchants' proposed use of your buildings, for we might find interest in submitting a new business proposal accordingly.

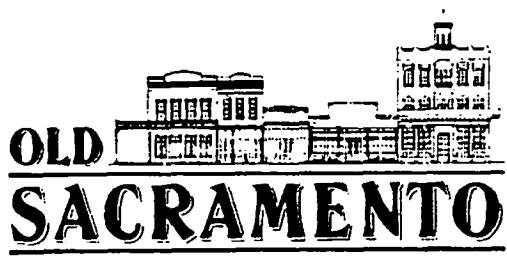
We are grateful for the interest and support you and your staff have offered over the past months. We would like to add that it has been a pleasure to meet and work with all of you.

If in the future you come across or handle a site that you feel might be of interest to us, please do not hesitate to contact us.

Sincerely,

  
Jackson L. Oldham  
The Davis Graduate, Inc.

**THE DAVIS GRADUATE, INC.**



CITY OF SACRAMENTO

APR 24 1987

DEPARTMENT OF  
PARKS and COMMUNITY SERVICES

OLD SACRAMENTO MANAGEMENT BOARD

April 24, 1987

Mr. Bob Thomas, Director  
Department of Parks & Community Services  
1231 I Street  
Sacramento, Cal. 95814

Dear Bob:

Thank you for your recent letter regarding lease negotiations with Mr. Oldham for use of the California Steam Navigation Company office and warehouse in Old Sacramento. The Board appreciates the opportunity to provide input during the negotiation period and to review the final agreement prior to presentation to City Council. The Board has appointed Lina Fat (446-6768) and Bruce Kleinschmidt (447-9665) to assist you during the negotiation period. Please feel free to contact them directly.

I have attached a letter stating the concerns developed by the Old Sacramento Citizens & Merchants Association. Following are the comments from the Management Board:

**Noise:** Noise should not emanate beyond the immediate boundaries of the restaurant. Noise should not alienate other Old Sacramento visitors nor have a negative effect on the atmosphere along the Waterfront.

**Loitering:** Specific and enforceable requirements should be included in the lease to insure adequate crowd control should groups of non-patrons, who are attracted by the music and other activity congregate in the area adjacent to the Stevedore.

**Seasonality:** It is important to the continued success of the Waterfront area that businesses be operated year-round with consistent schedules and hours of operation.

**Dancing:** As the Board has discussed in the past, we support the creation of a revised dance permit system for all establishments in Old Sacramento which would require re-application by the permittee every twelve months.

We look forward to working with you to ensure a successful Waterfront.

Sincerely,

Dick Troy, Chairperson

cc: Board Members  
Walter Slipe  
Ken Harris