

**City of Culver City, California
Agenda Item Report**

Meeting Date: 08/03/09		Item Number: <u> A-2 </u>	
REDEVELOPMENT AGENCY BOARD AGENDA ITEM: Approval of a Tenant Improvement Loan in the Amount of \$200,000 to Improve the Former Crest House Restaurant Located at 12517 Washington Boulevard.			
Contact Person/Dept.: Kriss Casanova, Economic Development Manager		Phone Number: (310) 253-5769	
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☐ No ☒	
Public Hearing: ☐		Action Item: ☒ Attachments: ☒	
Commission Action Required: Yes ☐ No ☒		Date: _____	
Public Notification: (USPS) All businesses, occupants and property owners within a 500 foot radius of the site (07/22/09); (E-Mail) Meetings and Agendas – Redevelopment Agency (07/29/09).			
Department Approval: Sol Blumenfeld (07/27/09)		Agency General Counsel Approval: Murray Kane (07/28/09)	
Chief Financial Officer Approval: Jeff Muir (07/29/09)		Executive Director Approval: Mark Scott (07/29/09)	
<u>RECOMMENDATION:</u> Staff recommends the Redevelopment Agency Board (the “Board”) approve a Tenant Improvement loan in the amount of \$200,000 with Gooseberry Partners LP to improve the former Crest House restaurant located at 12517 Washington Boulevard (the “Property”). <u>BACKGROUND:</u> The Redevelopment Agency has traditionally provided financial incentives in the form of low interest loans to preferred businesses within the Redevelopment Project Areas. Preferred businesses have included creative uses (architects and designers), restaurants, retail stores, commercial and professional businesses, and non-polluting industrial and manufacturing businesses. A new restaurant proposed for the former Crest House Family Restaurant site at 12517 Washington Boulevard, has requested similar assistance. The Crest House Family Restaurant was established in the 1970’s and provided continuous food service to the West Washington area until 2006 when the restaurant ceased operating. The Property has remained unoccupied since the Crest House’s closing. There have been a few restaurant operators interested in the site, but none were willing to successfully negotiate a lease with the property owner.			

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DISCUSSION:

The Property is located on west Washington Boulevard where the Agency has been implementing its Area Improvement Program (AIP) revitalization strategy (see attached map). The Property is located between the Agency's Baldwin office/retail project and the Washington/Centinela market hall. Those redevelopment projects have been delayed pending settlement of the financial markets.

To date, the AIP has assisted with the rehabilitation of multiple building facades and completion of plans for landscape street medians. In addition, the businesses in the area have formed a median maintenance assessment district to maintain the medians. Median construction is scheduled to commence by the end of the year. These efforts are intended to improve the area's appearance, spur private reinvestment, and attract new businesses to serve the community.

Restaurant Proposal

On June 22, 2009, Thierry Perez, Managing Partner of Gooseberry Partners LP (the "Tenant"), met with staff to discuss the proposed business and present a business plan. Mr. Perez and his partners have over 50 years of collective culinary experience in the restaurant and hospitality industry. The partners feel strongly that they have a successful concept that "offers a relaxed atmosphere with a feeling of home and comfort." Once improved, the building will include open wood beamed ceilings, simply painted walls and art from local artists.

The food will emphasize fresh, regional European cuisine from France and Italy in a pub-like atmosphere that will encourage meeting and socializing. The concept will also include a retail component where fine wines and cheeses are sold. Additional information related to the concept and the operators is attached.

The Tenant's architect/designer has estimated the total tenant improvement costs to be approximately \$680,000 (attached). The Tenant is requesting Agency financial assistance in the amount of \$200,000 to fund costs related to the installation of ADA compliant improvements, a fire suppression system, a grease interceptor, kitchen equipment, and exterior façade work. The Tenant has a signed Letter of Interest and is currently working with the property owner's broker to execute a ten year lease with two, five-year options.

It is important to note that the Agency loan will enable the Tenant to fully fund the project with enhanced improvements. Staff will require a plan submittal detailing the proposed restaurant design prior to releasing loan funds. Staff will also work with the property owner and the Tenant to ensure future participation in the proposed maintenance assessment district to construct new landscape medians as part of the Phase II AIP.

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To assist the Tenant, staff is recommending approval of a Tenant Participation Loan to fund the improvements listed above. The terms of the loan are as follows:

- Principal amount of \$200,000.
- Maximum term of eleven (11) years, less if certain revenue triggers are met within the first two years of the loan as described below.
- If gross receipts do not exceed \$4,000,000 during the first year after the issuance of the first Business Tax Certificate, no interest will accrue during the first two years of the loan. Interest will begin to accrue at the beginning of the third year from the issuance of the first Business Tax Certificate, at an annual rate of 6% compounded annually.
- If gross receipts do exceed \$4,000,000 during the first year after the issuance of the first Business Tax Certificate, interest will begin to accrue at the beginning of the second year at an annual rate of 6% compounded annually.
- Principal repayment will be made over an eight (8) year period, commencing as follows:
 - If gross receipts do not exceed \$4,000,000 during the first two years after the issuance of the first Business Tax Certificate, principal payments will commence in year three; or
- If gross receipts do exceed \$4,000,000 during one of the first two years after the issuance of the first Business Tax Certificate, principal payments will commence in the following year.
- The Agency's loan will be in a form acceptable to the Agency Executive Director and Agency General Counsel.
- The loan will be secured by the Tenant's personal or business property or a letter of credit from an approved bank, secured by Mr. Perez. The security is subject to the approval of the Agency General Counsel and the Executive Director with such approval being at the sole discretion of the Agency General Counsel and the Executive Director and is a condition precedent to disbursement of any funds under the Tenant Participation Loan.
- The loan balance (including interest) will be repaid within eleven years or sooner according to a monthly amortization schedule. The total principal and interest paid (if the loan were to go to full term of eleven years and 100% of the principal amount were advanced in one lump sum) is \$266,000. This amount would be less if the loan were repaid prior to the eighth year.

In addition, the Tenant has offered to sponsor one community event per year for the life of the loan. The community event would be at the discretion of the Tenant and would be agreed upon in cooperation with the Agency's Executive Director.

Conclusion

Staff believes that the proposed Tenant occupying the former Crest House space warrants Agency assistance for the following reasons:

- The Property is centrally located in the AIP area;

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- The Property is of considerable size (approximately half of an acre) and has over fifty parking spaces;
- The space has been vacant for almost three years and has not been rehabilitated since the 1970s;
- The proposed concept is an upscale, full service restaurant offering three meals a day and will serve as an amenity to the surrounding community;
- The restaurant team is established and experienced; and
- The proposed business format is expected to attract other quality businesses that generate increased pedestrian activity and sales for the area.

The Tenant has agreed to the terms listed above and therefore staff recommends that the Agency approve a "Gap Closer" loan agreement to help offset the costs associated with improving the former Crest House restaurant into a new, high-quality restaurant. The lease terms have been negotiated and the project is ready to start construction, pending the Agency's loan contribution. Without the Agency's subsidy, improvements to the space may be of lesser quality and the project may take longer to complete.

FISCAL ANALYSIS:

If the Agency were to participate in the form of a \$200,000 loan, unrestricted tax increment funds would need to be used. The loan would be funded from the Agency's Economic Development Program (55090200), Business Development Expenses. The account has \$100,000 budgeted for FY 2009-10, which would be entirely depleted. The remaining \$100,000 would be funded from other Economic Development programs such as the Rehabilitation Grant Fee Incentives (\$50,000) and/or Marketing Services (\$50,000). This will reduce the Agency's ability to fund other potential projects that may arise during the year. In the event that the Agency's marketing funds are utilized, staff recommends that the Tenant include promotion of the west Washington area as part of whatever marketing is done for the business over the first two years of operation.

The Tenant estimates that the restaurant and retail business will produce over \$3 million in gross annual sales revenues annually and can open by October 2009 (and ultimately projected to exceed \$4 million in gross annual sales revenues no later than the third year of operations). The proposed use would generate approximately \$35,000 annually in sales tax, business tax and utility tax for the City. Additionally, improvements to the site will generate approximately \$6,000 a year in additional tax increment.

ATTACHMENTS:

1. Business Plan Summary;
2. List of Costs and Improvements approved by the designer/architect; and
3. Aerial map.

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MOTION:

That the Redevelopment Agency Board:

1. Approve a Tenant Improvement Loan with Gooseberry Partners LP to improve the former Crest House restaurant located at 12517 Washington Boulevard; and.
2. Authorize the Agency General Counsel to review/prepare the necessary documents; and.
3. Authorize the Executive Director to execute such documents on behalf of the Agency.