



## STAFF REPORT

**DATE:** December 17, 2019

**TO:** Bryan Montgomery, City Manager

*Approved and Forwarded to the City Council*

**FROM:** Dwayne Dalman, Economic Development Manager

**SUBJECT:** Adopt a Resolution authorizing the approval of a Downtown Revitalization Loan Program Loan of \$50,000 to Gail & Christian Knight for a new restaurant building to be finished at 3685 Main Street in downtown Oakley

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### **Background and Analysis**

In 2014 the City Council approved funds to be allocated for the Downtown Revitalization Loan Program. The goal of the Loan Program is to leverage public funds and private investment to further enhance the physical appearance and economic vitality of the commercial buildings and businesses in the downtown corridor. The long-term objectives of the program include improving the physical appearance of the buildings and area, encouraging the retention and attraction of businesses to the corridor, increasing property values, increasing tenant stability, increasing pedestrian walkability and creating a stronger “sense of place”.

Loan funds under the program can be used in the following ways:

1. Façade Improvements
2. Landscaping and exterior lighting
3. Signage
4. ADA compliance
5. Building infrastructure upgrades needed for new tenant conversion
6. Demolition

### **Heinrich’s Tavern**

On May 6, 2019 the City Council approved a \$75,000 loan to Mr. Naim Zalmaiyyar to assist with the construction of Heinrich’s Tavern at 3685 Main Street in downtown Oakley. Mr. Zalmaiyyar had restaurant experience relating to the ownership and operation of a Mountain Mikes pizza restaurant and four Subway sandwich restaurants.

Mr. Zalmaiyyar purchased the property located on the southwest corner of Main Street and 4<sup>th</sup> Street in downtown Oakley in July, 2016. The property consisted of a vacant building located on the corner and two homes located to the rear of the property. Though he originally planned to renovate the vacant commercial building, Mr. Zalmaiyyar moved forward with demolition of the building and decided to construct a new restaurant.

Mr. Zalmaiyyar's intention was to open a full-service restaurant to be known as Heinrich's Tavern. He started construction on the building in April, 2019 and anticipated that the project would be completed in four to five months.

He received a \$75,000 Downtown Revitalization loan that was divided into two equal parts loan and grant. The loan funds were used for the following items, under the program guidelines:

- Storefront windows and doors - \$32,800
- Brick wainscoting - \$10,000
- Exterior lighting - \$14,970
- Demolition - \$3,500
- Exterior Paint - \$8,500
- Stucco - \$4,500
- Hardware - \$2,500

However, Mr. Zalmaiyyar was unable to complete the project and open the restaurant due to higher overall project costs that exceeded his initial estimates by approximately \$205,000. These included the following:

- Storm drain & water expenses - \$74,000
- Sewer fees - \$37,577
- Fire Sprinklers - \$27,667
- ADA compliance sidewalk & ramping - \$30,162
- ADA restrooms - \$2,800

### **Main Street Tavern**

In order to finish the project and open the restaurant, Mr. Zalmaiyyar has formed a partnership with Gail & Christopher Knight, called Main Street Tavern LLC. Gail and Christian Knight have 20 years of real estate experience working in the family business of Morning Star Properties in Oakley. Gail works as an Office Manager and Christian works as a Mortgage Advisor.

Under the new partnership, Mr. Zalmaiyyar will be primarily responsible for managing the kitchen, restaurant staff, inventory and supplies. Gail Knight will be primarily responsible for marketing, promotion and social media. Christian will be responsible for finances, budgeting, payroll and taxes.

The new partnership has also brought about a change in the proposed business. Instead of Heinrich's Tavern, the business will be known as Main Street Tavern. The menu will feature upscale, pub-style cuisine with fresh, locally-sourced ingredients to support local businesses, farmers and ranchers. It will include an assortment of both lighter and hearty fare, from fresh salads to specialties from the indoor brick oven with pizza, flatbreads, chicken and meatloaf. In addition to the food items, Main Street Tavern will have wine, champagne and a selection of over 10 local beers on tap.

The other change that the partnership would like to implement is to convert the four-stall parking lot to an outdoor dining and entertainment area. Outdoor dining and entertainment is a popular feature that will create an additional draw for Main Street Tavern. The parking lot was already constructed with attractive pavers. In addition, this area would be fenced in and improved with planting and outdoor lighting. The applicants anticipate coming before the Council in January, 2020 for Design Review approval for the outdoor dining area. Loan funds for the outdoor dining area will not be disbursed until the Design Review is approved.

The plan for the business is to grow steadily by increasing the hours of operation. At the start, the tavern will be open from 3pm – 7pm, Thursday, Friday Saturday, Sunday and Monday nights. By springtime, they anticipate expanding the hours and menu to include a weekend brunch. By summer they anticipate expanding the hours again to include lunch service and later in the evening to take advantage of the outdoor dining.

### **Catalyst Project**

When the loan program was first established, a provision was added that allowed the City Council to approve a loan of over \$75,000 for a project that exceeded the stated objectives of the program and served as a catalyst for future development. With the first loan of \$75,000 and a second loan of \$50,000, the combined loans for this project exceed the \$75,000 maximum.

However, staff feels that this project could be considered as a catalyst for the downtown. Brewpubs, taprooms and taverns are very popular in the retail landscape and are a desired amenity. There are numerous examples of these type of uses transforming downtowns and other neighborhoods. Cities have actively courted these type of uses and developed financial incentives to bring them to their downtowns. It is anticipated that this use would not only bring more people to the downtown, but also showcase the downtown to other prospective businesses. For these reasons, staff is identifying this project as a catalyst project that is qualified for an increased loan amount.

### **Loan Parameters**

The applicants have requested a loan in the amount of \$50,000 under the following loan program parameters:

**Eligible Applicants** – The owner of the building is in a partnership with the new loan applicants, making the applicants an eligible borrower.

**Maximum Loan Amount** –The requested loan amount of \$50,000 and the previous loan amount of \$75,000 are available under the catalyst parameters of the loan program.

**Project Equity** – The loan program requires the applicant to contribute minimum equity of 10% of the total project costs. The applicant has submitted a cost breakdown with additional project costs of \$205,206. The \$50,000 loan request represents 24% of the additional project costs, with the new partnership contributing the remaining 76%, which far exceeds the 10% requirements of the program.

**Collateral** – The new loan will be secured by a Promissory Note and a Personal Guarantee from the applicant.

The loan can be assumed and prepaid with no prepayment penalty, but will become due and payable if the business is sold.

**Fiscal Impact**

The \$50,000 in loan funds would need to be set aside from the City General Fund.

**Staff Recommendation**

Staff recommends that the Council adopt the resolution approving the Downtown Revitalization Loan Program loan in the amount of \$50,000 to Gail & Christian Knight.

**Attachments**

1. Resolution