



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: May 9, 2006
TO: Finance Committee
FROM: Engineering Division, Public Works Department
SUBJECT: Outdoor Dining Program Rent Report

RECOMMENDATION:

That the Finance Committee consider the Market Valuation Methodology of rent assessment for the Outdoor Dining Program and provide direction to staff.

DISCUSSION:

Background

At the September 20, 2005 Council meeting, staff presented a status report on the Outdoor Dining Program and alternative rent methodologies. Council directed staff to work with the Finance Committee to produce a report of recommendations and related alternatives in order to evaluate the possibility of changing the outdoor dining rent assessment methodology to reflect market valuation. This report further analyzes the market valuation method. Currently, the cost-per-chair rent method is used.

Proposed Market Valuation Methodology and Appraiser Recommendations

Staff hired the services of a local appraiser to analyze the market valuation data and assist with assembling general market valuation data (see Attachment 1). Under staff direction, the appraiser provided general market values of indoor dining rents for areas in the City. The consultant evaluated the existing outdoor dining locations and grouped them into four regions of comparable indoor dining rental rates. These areas are shown below, along with the consultant's recommended corresponding general market valuation of their indoor dining rental rates.

REVIEWED BY: _____ Finance _____ Attorney

Agenda Item No. _____

Area 1. 500-900 Block of State Street and De La Guerra right-of-way: \$4.25/sq. ft.

Area 2. 000 Block to the 500 Block, and beyond the 900 Block of State Street:
\$3.00/sq. ft.

Area 3. Cabrillo Boulevard and the side streets adjacent to the 500-900 Block of
State Street: \$2.00/sq. ft; and

Area 4. Milpas Street: \$1.50/sq. ft.

The appraiser also recommended that for Santa Barbara, general rental space for outdoor dining be 50% of the general valuation of the indoor dining rental space. As such, the proposed outdoor dining rental rates per area would equate to half of that shown above. In determining the selected percentage, the appraiser considered use restrictions, such as hours of operation, parade restrictions, and weather.

The following issues become apparent if the 50% Market Valuation Methodology is incorporated:

- The larger outdoor dining operators would pay from 1/2 to 3 times more rent than they pay using the current rent method (see Attachment 2);
- The smaller operators generally would either pay less rent or remain comparable with the rent they currently pay; and
- Based on current operators, revenue to the General Fund is estimated to be increased approximately \$65,900 (\$135, 400 vs. \$69,500).

Recommendations for Consideration

Staff generally agrees with the appraiser's report. However, since the estimated rent ranges cover several blocks, staff recognizes that there may be variation to the typical rent ranges reported. Therefore, if the Finance Committee recommends the Market Valuation Method for ordinance dining rent, staff recommends the proposed rent be 40% of the estimated indoor rent reported. The General Fund increase in revenue is estimated to be approximately \$38,800 (\$108, 300 vs. \$69,500).

If the 40% rate is approved, the outdoor rental rates per month would equate to \$1.70/sq. ft. for Area 1; \$1.20/sq. ft. for Area 2 (including Coast Village Road); \$0.80/sq. ft. for Area 3; and \$0.60/sq. ft. for Area 4 (including streets not included in Areas 1-3).

Since rent is estimated to significantly increase for the larger and the downtown core operators, staff recommends that if the new methodology is approved, rent increases be phased in over time and not increase more than 50% in any year.

Since the proposed methodology is dependant upon general market rental rates, it is recommended to hire a local appraiser every two years to update the market valuation data. The two-year cycle will coincide with the City's two-year budget cycle.

The Market Value Method Percentage Alternatives table (Attachment 2) also reflects a 30% option for consideration. There is a color coded legend that indicates which rents would be less than currently paid, which rents would be increased up to 100%, and which rent increases would be greater than 100%.

Conclusion

The Finance Committee may choose to leave the outdoor dining rent assessment as is, or recommend to Council the Market Valuation Methodology of rent assessment for the Outdoor Dining Program. If the latter is recommended by the Finance Committee, a public meeting will be held with the outdoor dining operators, followed by staff forwarding recommendations for Council's approval.

ATTACHMENTS: 1. Appraisal Report: Rental Values, dated April 13, 2006
2. Outdoor Dining Market Value Method Percentage Alternatives

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SUBMITTED BY: Anthony J. Nisich, Public Works Director

APPROVED BY: City Administrator's Office