



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** April 1, 2008

**TO:** Mayor and Councilmembers

**FROM:** Business Division, Waterfront Department

**SUBJECT:** Introduction Of Ordinance Approving The First Amended And Restated Lease With Santa Barbara Maritime Museum

### RECOMMENDATION:

That Council approve the First Amended and Restated Lease No. 19,075, and introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving the First Amended and Restated Lease No. 19,075, With an Initial Term of Five Years Plus Seven Five-Year Options, With the Santa Barbara Maritime Museum, Effective April 10, 2008, for a 7,725 Square-Foot Space Located at 113 Harbor Way.

### DISCUSSION:

#### Background

The Naval Reserve Center (NRC) was sold to the U.S. Navy for \$1 during World War II and for many years served as a Naval Reserve facility at the harbor. In 1993, the City regained control of the building. Ultimately, the City paid the Navy \$2.4 million for the property. Acquisition of the building had been the City's goal for many years and the Harbor Master Plan assumed the City would eventually take ownership. Today, the Waterfront Center Building, formerly known as the NRC, is currently managed by the Waterfront Department and is leased to the National Oceanic Atmospheric Administration (NOAA), Chuck's Waterfront Grill and Maritime Museum (MM).

#### Maritime Museum

In 1995, the Maritime Museum was in its formation stages, but was garnering significant community support and financial backing. The former NRC building seemed like an ideal location for the Museum and the non-profit organization was selected as a primary tenant. The Department notified the Maritime Museum that the City had incurred considerable long-term debt in acquiring and renovating the building. Therefore, it would be necessary to design and operate the building in such a fashion that the tenants provide revenues to retire this long-term debt and cover annual operating expenses.

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REVIEWED BY: \_\_\_\_\_ Finance \_\_\_\_\_ Attorney

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With that directive, the Department and Maritime Museum were able to reach an agreement on a long-term lease for the Museum's space in the Waterfront Center. The lease was originally executed and approved in 1998. It was a 5-year lease with seven, 5-year options for a total of 40 years. In August 2003, the Museum exercised its first five-year option. Currently, the rent is as follows and subject to annual cost of living increases.

|                |          |  |
|----------------|----------|--|
| Monthly Rent:  | \$10,277 | includes meeting room, museum and patio space        |
| Monthly CAM:   | \$ 3,955 | proportionate share of Common Area Maintenance costs |
| <hr/>          |          |  |
| Monthly Total: | \$14,232 |  |

The Museum now pays approximately \$1.82 per sq. ft. for 7,825 total sq. ft. or \$1.31 sq. ft. not including CAM. The Museum occupies slightly more square footage than the restaurant operator. They pay approximately \$176,203 total rent per year including slip rents.

**Maritime Museum Rent Abatement Request/Proposal**

For several years, the non-profit Maritime Museum has indicated a need to restructure their current rental obligations under their lease. In May 2007, representatives of the Museum made a presentation and a formal rent abatement request to the Council. Based on this request, Council directed staff to begin lease negotiations with Museum representatives working towards the objective outlined in their proposal.

Since that time, staff has had numerous lease negotiation meetings with Museum representatives. Staff has evaluated specific lease/market analysis pertaining to the Waterfront Center Building and terms of the Maritime Museum lease. This analysis included the following:

- Evaluate leasing potential of Maritime Museum square footage as a special events facility (highest and best use)
- Research included current market and rental rates for comparable buildings, i.e. Cabrillo Arts Pavilion, Veterans Memorial Building, Chase Palm Park Building
- Analysis included expectation of annual rental revenues and potential impacts of special events including parking and noise impacts on adjacent tenants
- Analysis also included Maritime Museum's former retail space return to City control for additional rental income

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Staff also reviewed and evaluated Maritime Museum's current operating budget and financial projections, together with revenue assumptions. The potential impacts of a renegotiated lease with the Museum will eventually have financial impacts on the City. Various funding options were evaluated and considered with these impacts in mind. Funding options or alternatives included considering the use of Waterfront, General Fund or Redevelopment Agency funds to assist with these lease restructuring negotiations.

#### **First Amended and Restated Lease Terms**

Staff has successfully reached agreement with the Maritime Museum, consistent with City Council direction, on amended and restated rental terms for the remaining years of their current lease. The critical component of the amended and restated lease is that Maritime Museum has the opportunity to "buyout" the monthly rental obligation at a reduced amount. The negotiated terms are as follows:

- Total buyout payment of \$1 million.
- Payments to be made over 5 years.
- Monthly rental obligations continue for 5 years – all rent payments credited to \$1 million buyout total. If buyout not made within 5 years, monthly rental at current rate continues for duration of lease.
- Maritime Museum reopens the retail shop/patio and agrees to pay \$1 per sq. ft. (interior space only, approximately \$10,000 annually), agrees to move Museum retail store back into meeting space along with added commercial venue, i.e. coffee, juice, ice cream, etc. Museum agrees to pay base rent and/or 10% of gross, whichever is greater.
- Continue payment of CAM charges/Slip rent.
- All other lease terms remain the same.

#### **Museum's Added Value to Harbor and Community**

Since the initial decision to include the Museum as a long-term tenant within the Waterfront Center Building, there has been a strong working relationship with the Waterfront Department, Harbor community and Santa Barbara community as a whole. This relationship goes beyond the financial obligations of the lease, and today the Museum's facility serves as both an attraction and venue for many different activities at the harbor. The Museum has been successful in previous fundraising campaigns and has developed strong educational programs with local schools participating.

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Since January 1, 1999, the Museum has paid approximately \$1,150,000 in rent and CAM charges to the Waterfront Department. The Museum has also invested approximately \$2,057,000 in infrastructure and tenant improvements to the building. Proposed amended lease terms will obligate the Museum to continue with monthly rental obligations unless the total \$1 million "buyout" payment is paid within five years of the Effective Date of the Amended and Restated Lease. The Museum will continue to pay CAM charges, slip fees and \$1 per sq. ft. (approximately \$10,000) annually, for the retail shop space. Staff believes re-establishing the Museum's retail store will return interest and activity to the front area of the Waterfront Center Building.

### **Financial Impacts of New Lease Terms**

As indicated above, the amended lease terms will obligate continued rental payments to the Waterfront Department unless the \$1 million lease buyout payment is made within five years. Therefore, no immediate financial impact is projected as part of this amended agreement. During the next two-year budget cycle and submittal process, the Waterfront Department will evaluate any potential long-term impact and loss of annual lease revenue from the Museum's lease. As necessary, the Department will present cash flow projections assessing the need to adjust or increase revenues or reduce expenses anticipating this specific loss of annual lease revenue. If the total buyout payment is made, the Museum will only be obligated to pay rent on their retail space, CAM charges and slip rentals.

### **Conclusion**

The lease negotiations between the City and representatives of the Museum have been amicable and productive. The agreement reached will serve the interests and needs of both the Museum and Waterfront Department. The viability and success of the Museum is important to the City. The Waterfront Department believes that this amended and restated lease will assist the Museum in fund raising campaigns, renewed interest from potential donors and will strengthen the Museum's ability to financially plan for the future.

**PREPARED BY:** John N. Bridley, Waterfront Director

**SUBMITTED BY:** John N. Bridley, Waterfront Director

**APPROVED BY:** City Administrator's Office