



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 16, 2010
TO: Mayor and Councilmembers
FROM: Business Division, Waterfront Department
SUBJECT: Introduction Of Ordinance For Lease With Chuck's Waterfront Grill

RECOMMENDATION:

That Council approve a lease with Richones, Inc., doing business as Chuck's Waterfront Grill, and introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Approving a Lease with Richones, Inc., Doing Business as Chuck's Waterfront Grill, located at 113 Harbor Way, Effective April 22, 2010.

BACKGROUND:

The City and Chuck's Waterfront Grill (Chuck's) originally executed a lease on February 28, 1997. The lease had a term of five-years with seven five-year options. Chuck's did not exercise the second five-year option and the lease terminated in March 1, 2009. Since that time, Chuck's has been on "hold-over" status while a new lease was under negotiation. The City and Chuck's agreed that except for the tenant reimbursement provision (discussed below) and the addition of standard City lease language, most lease terms would remain the same. Chuck's lease encompasses 7,505 square feet on the first and second floors of the Waterfront Center Building at 113 Harbor Way. The second floor space operates under the name Endless Summer Bar-Café. The base rent is \$206,360 per year (average of \$17,197 per month), or 10% of gross sales, whichever is greater. The tenant also reimburses the City for its proportional share of Common Area Maintenance (CAM) expenses for the Waterfront Center Building, currently \$4,466 per month. Chuck's has a 30-year term on the lease.

DISCUSSION:

For several years, Chuck's owners Larry Stone and Steve Hyslop have expressed interest in changing the color of the exterior of the Waterfront Center Building to something they believe would be more inviting than the current white color. Additionally, the ground floor patio is exposed to wind and the elements and does not have glass wind screening common to other ocean-front restaurants such as Breakwater Restaurant, Shoreline Beach Café, the Boathouse at Arroyo Burro Beach, and Beachside Bar-Café at Goleta Beach.

The Waterfront Center Building is designated as a historical landmark and any changes to the exterior of the building are subject to review and approval of the City's Historic

Landmarks Committee (HLC). Since 2007, Chuck's has been engaged in the HLC review process to restore the exterior building to its original ochre color, add a glass windscreen around the ground floor patio, add heating to the patio, and construct a canvas sail-like awning over the patio area (Attachment 1). Chuck's architect, David Van Hoy, presented the tenant improvement plan to the Harbor Commission on November 16, 2006. Chuck's now has approved plans and permits and is ready to proceed with the patio improvement. The cost of the project is estimated to be approximately \$300,000. The Waterfront Department has budgeted an additional \$75,000 for painting the building and trim, which will be reimbursed from the CAM charges paid by the Maritime Museum and Chuck's.

Chuck's owners believe they can increase lunch and dinner service on the ground floor patio significantly with the proposed improvements. Certified Public Accountant Michael Schmitchen submitted a proforma indicating that Chuck's sales are expected to increase by 18% in the year following the completion of the improvements and 3% per year thereafter. The increase in sales would result in a corresponding increase in percentage rent payments to the Department of approximately \$50,000 annually.

Reimbursement for Tenant Improvements

In December 1997, the Harbor Commission reviewed and approved what is referred to as a "Reimbursement for Improvements" lease provision (Attachment 2). The Reimbursement for Improvements provision allows eligible tenants to apply for an offset to their percentage rent for certain infrastructure improvements that are approved in advance by the Department (the tenant is still responsible for paying its full base rent obligation). Tenants that have the Reimbursement for Improvements clause in their leases include Brophy Brothers, Char West, Harbor Restaurant, Minnow Café, Shoreline Beach Café, SB Shellfish Company, Sea Landing and SB Sailing Center. The clause is intended to encourage tenants to re-invest in their leased property in a manner that benefits the tenant and the City (the property ultimately reverts to City ownership at lease expiration). For example, Brophy Brothers and the Harbor Restaurant completed major kitchen and plumbing upgrades to their leased properties under the rent credit incentive program. Shoreline Beach Café added its awning and forced-air heating to its outdoor patio and received rent credits under the program; the tenant's sales and percentage rent payments increased following the improvement.

Chuck's intends to use the Reimbursement for Improvements incentive program to make the patio improvements to the Waterfront Center building; however, the current formula (10% of annual rent paid) amounts to a total possible rent credit of \$27,000-\$30,000 annually. Due to the high cost of the patio improvements, estimated at \$300,000, Chuck's requested a one-time increase to the Reimbursement for Improvements clause to \$150,000 for the patio project. The tenant will continue to make base rent payments (currently \$206,000/year) and the \$150,000 rent credit will be offset against Chuck's monthly percentage rent obligation until the \$150,000 is absorbed (approximately 1½ to 2 years). After calendar year 2011, the Reimbursement for Improvements clause will revert to the regular formula of 10% of actual rent paid.

A similar temporarily enhanced Reimbursement for Improvements provision was negotiated with the Harbor Restaurant when it expanded its patio and patio enclosure in 2002.

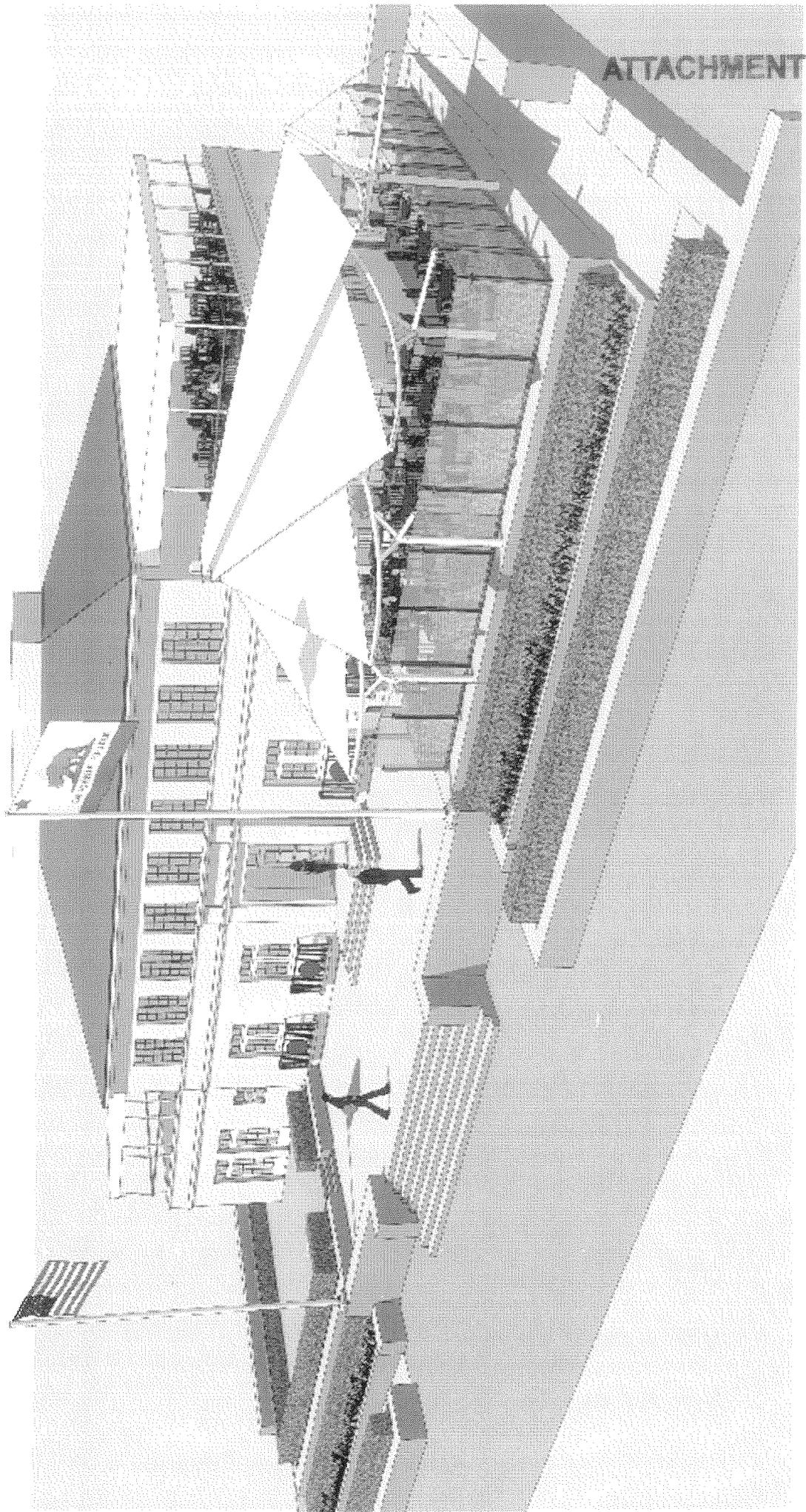
The basic business terms of the lease remain unchanged. The Harbor Commission recommended approval of the lease at the February 18, 2010, meeting.

ATTACHMENTS: 1. Site Plan
2. Harbor Commission Minutes

PREPARED BY: Scott Riedman, Waterfront Business Manager

SUBMITTED BY John N. Bridley, Waterfront Director

APPROVED BY: City Administrator's Office



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7. **Capital Improvement Reimbursement to Tenants**

John Greer, Waterfront Business Manager, went over the staff report outlining the proposed Capital Improvement reimbursement Program for Waterfront tenants. He reported that there was a lot of positive feedback for this program from the tenants.

Moved to recommend that the City Council, upon request by individual tenants, approve appropriate Lease Amendments incorporating the Capital Improvement Reimbursement Program clause. Finger/Owen 5-0.

8. **Stearns Wharf Parking Fee/Validation Presentation**

John Bridley, Waterfront Director, introduced the staff report and noted that the validation policy outlined in the report was for discussion and public comment, only. John Greer, Waterfront Business Manager, gave a presentation regarding the proposed Stearns Wharf parking fee/validation system which was the second in a series of several parking and operational changes being considered by staff and the Parking Committee (Finger/Owen). Several Stearns Wharf tenants spoke to the Commission with the majority against the validation proposal. No action taken.

9. **Marinas 1 & 4 Expansion Project - Moffat & Nichol Engineers Design**

Dave Myerson, Waterfront Facilities Manager, gave a presentation showing the Moffatt & Nichol Engineers design proposal for the Marinas 1 & 4 expansion project along with the associated costs.

Moved to recommend that the City Council approve the contract proposal amount not to exceed \$425,000. Owen/Kronman 5-0.

10. **Selection of Committee Members**

The Harbor Commission reviewed the current list of active committees and made the following changes.

Budget: Commissioner Watson (eliminated second member)