



DATE: September 25, 2018

CATEGORY: New Business

DEPT.: Public Works

TITLE: **Approve Terms and Conditions for, and Authorize the City Manager to Execute, Shoreline Sailing Lake/ Boathouse Lease**

RECOMMENDATION

1. Authorize the City Manager to execute a new 10-year lease, with two five-year renewal options with City approval, with Ms. Christina Ferrari, d.b.a. Silicon Shores, Inc., under the terms and conditions set forth in this Council Report.
2. Authorize the City Manager to execute any future minor amendments to the lease other than any assignments of the lease or any material change that has a financial impact exceeding \$100,000 per year.

BACKGROUND

On March 25, 1993, the City entered into a lease with Silicon Shores Corporation (assignment from Spinnaker Enterprises, Inc.) for the lease and operation of the Shoreline Sailing Lake and boating facility that included collection of launch fees, teaching sailing and boating-related classes, rental of boats and equipment, sales of boating equipment, supplies and clothing, and operation of a food service café. The lease area is shown on Figure 1. Staff is recommending a slight expansion of the lease area, shown as the dashed area on Figure 1, to “square off” the lease area. The initial term of the lease expired December 31, 1997. There were three renewal periods of seven years each at the discretion of the City. The current lease, including all renewal periods, expires on December 31, 2018.



Figure 1

The current lease is a percentage lease (as opposed to a fixed monthly rental), with the tenant paying 7 percent of gross receipts collected on all food service and 10 percent on all other gross revenues. The tenant is required to submit a monthly summary of all gross receipts for food service, rentals, lessons, launch fees, and any other revenues to the City. The City pays 50 percent of the water and sewer charges (because of the significant public usage of the restroom facilities by park visitors) as a credit against the gross rent. The net annual rent paid to the City in Calendar Year 2016 was \$242,800; total annual rent paid for Calendar Year 2017 was \$260,000.

Under the terms of the lease, the City is responsible for the maintenance and repair of the structural elements of the buildings and facilities, and the tenant is responsible for the maintenance, repair, and replacement of interior improvements and all fixtures and equipment.

The current operator has been a responsive and responsible tenant and has developed the enterprise into an attractive and successful feature of the very popular Shoreline Regional Park. Over the past 10 years, the tenant has increased lease revenues to the City from \$134,600 in 2008 to \$260,000 in 2017. The business is the tenant's sole livelihood and she has expressed a strong interest in continuing to lease the facility. At a Study Session on January 23, 2018, Council expressed their support for negotiating a new lease with Silicon Shores, Inc. Further direction was given at a Closed Session on June 12, 2018.

ANALYSIS

The primary business elements in the new lease will be rent, lease term, and improvements/upgrades. Each of these is addressed below, with recommendations. Staff has discussed these items with the tenant, and she is agreeable to them.

Future Improvements/Upgrades

The facility is now over 25 years old and requires some upgrades to remain a thriving recreational attraction to the community. The most immediate need is the expansion and upgrade of the kitchen. The existing kitchen is only 540 gross square feet. During peak hours, particularly during the summer months, a staff of 15 to 18 people will be working in the kitchen at the same time. The kitchen is not air conditioned and temperatures can exceed 100 degrees Fahrenheit during the summer. Expanding and upgrading the kitchen will allow for a higher food service output and provide for a more comfortable work environment.

The two restrooms do not meet current ADA standards because the handicap stalls are too narrow. According to the Building Division, any expansion of the kitchen would require the two restrooms be brought to current ADA standards. Bringing the restrooms to current ADA standards would require moving the stall walls and result in the loss of one stall in both the men's and women's restrooms. Another alternative would be to add unisex restrooms that are ADA-compliant, which would be staff's recommendation. This would not only bring the facility into ADA compliance, but increase restroom capacity for the general public.

Staff will be making recommendations for improvements, and funding strategies for those improvements, during the upcoming Five-Year Capital Improvement Program (CIP). Cost estimates for the improvements are not yet available and would not be available until design is near completion, but staff estimates the costs to be in the range of \$750,000 to \$1,000,000. The lease would not commit the City to making

improvements, and all improvements would be subject to City Council approvals and appropriations.

Rent

As stated previously, the current lease is a percentage lease (as opposed to a fixed monthly rental), with the tenant paying 7 percent of gross receipts collected on all food service and 10 percent on all other gross revenue. Staff recommends increasing the percentage rent for food service from 7 percent to 8 percent and maintaining the current 10 percent for all other sales. Based on Calendar Year 2017 sales volume, this would increase the net annual rent to approximately \$281,800. Staff further recommends increasing the food service percentage to 10 percent when, and if, the City completes a Council-approved expansion of the existing kitchen, which should enhance business volume and profits. Adjusting the percentage to 10 percent for food service and 10 percent for all other sales revenues would increase net annual lease revenues to approximately \$325,000, based on 2017 sales volume.

Lease Term

With a longer-term lease, a tenant will have a vested interest in aggressively marketing the enterprise and in maintaining the property, and is more likely to invest capital to improve the facilities. The current tenant (including other family in the early years of the lease) has built the boathouse and sailing lake into a popular and successful business and has plans to improve the facilities and further expand the business. She has expressed a willingness to invest her own capital for some improvements with a long enough lease to amortize that investment, though the tenant and staff have not had detailed discussions on the nature of the improvements, or the amount of capital, the tenant is willing to invest. Staff recommends a lease of 10 years, with two five-year renewal options at the City's discretion. The 10-year base term would be sufficient to amortize any capital investments by the tenant and the two option terms would give her the opportunity to realize the benefits of that investment in higher sales (which equates to higher rents to the City) in the later years of the lease. An additional reason for the 10-year base term is the fact that the needed improvements and upgrades to the facility likely will not be accomplished until the second or third year of the lease, if then.

Maintenance

Under the terms of the current lease, the City is responsible for the maintenance and repair of the structural elements of the buildings and facilities, and the tenant is responsible for the maintenance, repair, and replacement of interior improvements and

all fixtures and equipment. Staff recommends the new lease continue with this division of responsibilities.

FISCAL IMPACT

The net annual rent paid for 2017 was \$260,000. Staff recommends increasing the percentage rent for food service from 7 percent to 8 percent and maintaining the current 10 percent for all other sales. Based on 2017 sales volume, this would increase the net annual rent to approximately \$281,800.

Staff will be submitting a project as part of the Five-Year CIP to Council, recommending approval to expand the current kitchen and adding ADA-compliant unisex restrooms.

ALTERNATIVES

1. Council could approve different terms and conditions.
2. Council could decide to not renew the lease.
3. Provide other direction.

PUBLIC NOTICING

Agenda posting and a copy of the report to Ms. Christina Ferrari, d.b.a. Silicon Shores, Inc.

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