



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 13, 2018

TO: Mayor and Councilmembers

FROM: Business and Property Division, Airport Department

SUBJECT: Introduction Of Ordinance For Amendment To Lease No. 25,105
With High Sierra Grill Santa Barbara, Inc.

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, an Ordinance of the Council of the City of Santa Barbara approving an Amendment to Lease Agreement No. 25,105 between the City and High Sierra Grill Santa Barbara, Inc. to extend temporary rent relief over a 12-month period.

DISCUSSION:

Background

The subject Premises are located at 521 Norman Firestone Road, south of Hollister Avenue in an Airport Industrial (AI-2) zone. The use conforms to existing zoning. The Premises were occupied by the Elephant Bar & Grill until September 2013. Several Elephant Bar locations, including Santa Barbara, were closed as part of a restructuring of the Santa Barbara Restaurant Company, Inc.

City Council approved an exclusive listing agreement with the Radius Group and subsequently received a proposal from High Sierra Grill Santa Barbara, Inc. Radius Group vetted the proposal, which was presented to the Airport.

The High Sierra Grill Santa Barbara, Inc. (HSG) partners have extensive restaurant experience, operating five restaurants in Fresno, one in Merced and Mulligan's Café in Santa Barbara. HSG's financial statements were reviewed by both the Radius Group and Airport Staff. A site visit to Fresno was conducted, and one High Sierra Grill House restaurant and three Yosemite Falls Café locations were inspected. The quality of the food, presentation, and service were good and the ambiance was very warm and pleasant. Each location was busy and had developed a regular clientele.

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Proposed Services

HSG proposed to serve breakfast, lunch, and dinner and provide live music on Friday and Saturday nights. In addition, they indicated they would pursue catering and event opportunities and actively pursue hosting local civic organizations' regular monthly meetings and functions. HSG also planned an aggressive marketing campaign, including giving discount coupons to local businesses during their "soft" opening.

Operations

The Airport and the tenant made extensive refurbishments to the property before opening. The High Sierra Grill opened in late 2015 and, as part of the negotiated agreement, paid no rent during its first six months of operation.

Restaurant sales seemed promising initially and High Sierra reported gross sales of \$2.2 million in 2016. However, sales declined to \$1.5 million (-31 percent) in 2017 after several management changes. The restaurant has faced numerous operational challenges, including perceived slow service and inconsistent food quality. In addition, the High Sierra Grill concept did not seem to resonate with local restaurant patrons.

Reorganization and Short-Term Rent Relief

The restaurant now has stable management and plans to re-concept the restaurant to an airport-theme. The restaurant is already in the process of changing décor and plans to officially change the name to the Flightline as a nod to an airfield restaurant that existed prior to 1960.

HSG has requested temporary rent relief during its restructuring period. The purpose of the temporary rent relief is to allow the restaurant to rebuild its sales and capital reserves while building customer loyalty under the new brand name.

In consideration for the City's temporary rent relief during the rebranding process, the three restaurant partners have acknowledged the City's desire to receive timely rental payments, and agreed to pay \$50 per day in additional rent if the rent is paid late, effectively reducing the benefit of rent relief. Rent is due on the 1st day of every month, and is considered late if not paid by the 5th day of every month.

Airport Commission

On Wednesday, February 21, 2018, the Airport Commission recommended approval of the Lease Amendment to provide temporary rent relief to High Sierra Grill Santa Barbara, Inc.

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BUDGET/FINANCIAL INFORMATION:

The proposed temporary rent relief to High Sierra Grill Santa Barbara, Inc. would result in a net reduction in rental revenue by \$3,175 a month (\$9,525 vs. \$12,700) and \$38,100 annually (\$114,300 vs. \$152,400). This lost revenue is preferable to the cost of potentially securing a new tenant for the Premises and the inability to recoup previously incurred renovation investments.

A copy of the contract/agreement is available for public review in the City Clerk's Office.

PREPARED BY: Deanna Zachrisson, Business Development Manager

SUBMITTED BY: Hazel Johns, Airport Director.

APPROVED BY: City Administrator's Office