



AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING
Meeting Date: May 16, 2017

Agenda Item 60
Approvals:
City Manager [Signature]
Dept. Head [Signature]
Attorney _____
Finance [Signature]

Department: Finance & Administrative Services
Prepared By: Erik Sund, Assistant City Manager

Subject: *APPROVAL OF LEASE AGREEMENT TO OPERATE THE NORTH BEACH CONCESSION.*

Fiscal Impact: Yes. A estimated \$2,000 increase in annual General Fund revenue.

Summary: Following a comprehensive Request For Proposal (RFP) process, staff is recommending the selection of Sand and Sea Restaurant Group as the North Beach Concession operator.

Background: The City maintains a small concession area in the North Beach Restroom Building that has provided beach concession food and beverages to the public for many years. The concession building has been operated by a three separate concessionaires since 2007.

In 2012, City Council approved the transfer of the concession agreement to Marty Foxman for the remaining 15 ½ year term of the existing lease.

In early 2014, Mr. Foxman indicated his desire to cease operations. A new buyer was identified and a transfer of the lease and equipment was presented and approved by Council action.

The concession was purchased by Sunny Mehta, who operated the concession under the name of Hearties during the summer of 2014. Mr. Mehta attempted to sell the concession the following year and failed to open for the summer of 2015, until presented with a Notice of Default of Lease, on July 6, 2015. Mr. Mehta subsequently opened the concession in August and operated for approximately 6 weeks before closing the concession for the winter.

Winter storms in early 2016 caused significant sand erosion around the North Beach building, destroying the guardrails on the decking adjacent to the concession site. With the extent of the damage undetermined and no identifiable funding for repairs, the City terminated Mr. Mehta's lease. The concession has remained closed since August, 2015.

Discussion: Staff prepared a Request For Proposal (RFP) to identify a concessionaire for the North Beach concession concurrently with the Bait & Tackle shop on the City's Pier. The RFP was posted on the City's website via Planetbid, and notification of the RFP was

published twice in the Sun Post News (December 30th, 2016 and January 6, 2017) to solicit local interest. Staff also hosted an open house at the facility on January 12th for inspection prior to the due date of the proposals.

Four qualified bids were received and the bidders were invited to present their proposals to a selection committee comprised of City staff. Following those presentations, two finalists were recommended for a final interview with the Assistant City Manager. Final selection was based on the responses to the RFP, presentation and interviews, supplemental questions, and qualifications of the bidder.

The new concession agreement will require 6% of annual gross receipts with a minimum monthly rent of \$300. An initial term of 3 years is recommended with one three-year extension, subject to review and approval by the City Manager.

Recommended

Action: STAFF RECOMMENDS THAT the City Council approve and authorize the City Manager to execute the Lease Agreement between Sand and Sea Restaurant Group and the City of San Clemente to operate the North Beach concession.

Attachments: Proposal dated February 15, 2017

Notification: All qualified bidders to RFP

Sand and Sea Restaurant Group



North Beach Concession

Business Services Officer
City of San Clemente
100 Avenida Presidio
San Clemente, CA 92672

RE: North Beach Concession

Please find our submission for the concession opportunity located at North Beach. Our group comprised of Doug Cavanaugh, founder of Ruby's Diner, Ruby's Shake Shack, The Beachcomber, and Lighthouse Cafe and Tad Belshe, who serves as Executive Vice President of Ruby's Diner, The Beachcomber at Crystal Cove, and Shake Shack Crystal Cove have joined together to form a new and separate entity focused on local opportunities within our favorite hometowns.

Our mission of "only the best for our guest" is to provide a creative and fun spin to unique and smaller opportunities that provide for more personal interaction with our customers or guests. We will create a local buzz by providing the perfect place to find great coffee beverages, snacks, or meals with the entire family when visiting the beach for a day of "fun in the sun", or a destination for a meal with a view.

Please contact Tad Belshe directly at 949-302-5288 if you have any questions. We look forward to discussing this exciting opportunity further.

Regards and thank you for your consideration,

A handwritten signature in black ink, appearing to be "Doug Cavanaugh".

Doug Cavanaugh

A handwritten signature in black ink, appearing to be "Tad Belshe".

Tad Belshe

North Beach Concession



Business Plan

Doug Cavanaugh and Tad Belshe will create the "Burger Shack on the Tracks" at North Beach as the latest generation snack bar established from successful models of fast casual concepts that take the very best of the popular Shake Shack Crystal Cove and food court concessions. Burger Shack on the Tracks at North Beach will shine and represent the City of San Clemente like no other beach concession establishment. The concept is designed to meet the needs of the various user groups, which we identified as beachgoers, local San Clemente residents, families, walkers of Beach Trail, and out of area visitors.

We pride ourselves at operating local eating establishments that maintain the beach town pride while simultaneously delivering great service, financial returns, and public praise. By offering quick and high quality concession dining opportunities during the summer and spring break session in April each year we plan on over delivering and creating an improved, yet familiar place for visitors to enjoy. The food, beverages, rentals, and service provided by our well-trained and hospitable team members will be tailored to entice local San Clemente residents, as well as out of area visitors and families.

The Burger Shack on the Tracks will provide food and beverage offerings for breakfast, lunch, and potentially early dinners. Maintaining regular hours as well as offering menu items craved at breakfast, lunch, and dinner is one of the key factors to building sales and growing sales year-after-year. We understand the local community, and seek to provide very reasonable pricing with most items priced between \$3.00 and \$8.00. Our reasonable prices won't limit the offerings as we will provide great flavors and a good variety to meet the vast guests' desires.

Guests may start the day off with "freshly made" donuts and pastries in addition to fantastic coffee along with several hand held breakfast items. Lunch and dinner will feature many of the favorites such as hamburgers, sandwiches, salads, soups, fruit plates, and of course the crowd favorite shakes and ice cream. The menu is designed to create a buzz, yet fitting of a beach concession. The intent is to surprise diners with a variety of items unexpected at a concession stand. We have found success in featuring health and dietary items such as gluten free buns, veggie burgers, egg whites as a breakfast modification, and vegetarian sausage to appeal to as many people as possible. Items will be available as a-la-carte or combos that include beverages and a side. We also offer alternatives to the fries or chips as a side, and feature such items as apple slices, tomato slices, or cottage cheese. We will provide offerings for family picnics or groups that may include sandwich platters, salad bowls, and much more packaged in trays for 10-15 people making it easy to feed those desiring to enjoy a bigger gathering of friends and family. School groups, scouting troops, and birthday parties have enjoyed these tray or party platter concepts.

Visitors will enjoy quick, yet high quality items in addition to snack opportunities throughout the day. The setting and ambiance will be colorful, fun, friendly, and provide not only a place to enjoy food and beverage options while enjoying the beach, but an opportunity for visitors to sit and casually dine with limited server engagement. It will be the perfect balance of engagement for a beach stand with just enough service to delight the senses while enjoying the crashing surf.

We plan to provide some portable seating directly around the concession stand, as we believe it is desired and will aid in building loyalty as a place to visit and enjoy the coastline. These include tables and umbrellas for those desiring to elevate off the sand for a quick bite or beverage. As noted, Burger Shack on the Tracks has the potential to implement not only walk-up service, but limited table service. Again, this will enhance but limited table service, again, enhancing the overall experience to meet the community preferences in dining if desired by having a team member bring out an order to the adjacent tables marked with a pre-determined number that the guest is provided for ease in knowing what table they have chosen.

Rentals may also be a part of the offerings with traditional beach items such as beach chairs and umbrellas offered at an estimated \$10-12.

Retail items that will be available feature sun protection, hats, and sweatshirts appropriate for the ever-changing weather conditions as well as sand toys and water toys.

The success of our operations, especially beach locations, is built on delivering excellence and process driven initiatives. These are supported and driven through our marketing and advertising strategies, hiring and employment practices, matching service needs with proven training methodology, casual design elements, solid culinary execution, and community involvement.

Hiring, Training and Management Plan

The Burger Shack on the Tracks selects the best team members to join our service team. We seek out individuals with natural smiles, the desire to make people smile, and who possess a true hospitality mentality. Our desire is to hire summer and seasonal employees from the local community providing an instant and positive connection to the community. Team member uniforms will be part of the concession and will enhance the image of the brand and North Beach. While uniforms will be a part of the concession, they will be fun and will fit the beach location. Training of team members involves a careful recruiting and selection process, an in-depth orientation, and on-the-job shadowing prior to ever engaging in the operational tasks. New team members will complete a full training program, and are required to pass certification tests prior to taking full command of their role.

Staffing levels are estimate at two team members per each shift, with an additional support person added during peak hours. The team will be comprised of one cook, one cashier, and one support person.

Oversight or supervision of each shift will be provided by the person in charge (PIC) that will delegate duties, ensure safety and sanitation, customer service, and all supervisory needs.

Each and every team member is held to strict standards, and there is no tolerance of harassment or discrimination of any kind. Adherence to policies and standards is a requirement. A complete outline of standards is provided to each team member in the form of an employee manual.

Customer Service Philosophy

At Burger Shack on the Tracks, our philosophy is "Only the best for our guest"! Through service training we aim to provide each and every team member with excellent guest service skills. We hire outgoing, friendly, and positive individuals that have a natural hospitality spirit. By conducting spot checks, monitoring social feedback channels, and by working side-by-side with our team members, our philosophy is ensured to the best possible ability.

Marketing and Advertising

Marketing efforts include the highlighting of the opening of the Burger Shack on the Tracks at North Beach through strong local engagement from our public relations firm. Strategic advertising in local publications, along with participation in the local Chamber of Commerce and Visitor Bureaus will provide awareness and interest in the Burger Shack on the Tracks project. Burger Shack on the Tracks will maintain a professional website as part of the marketing efforts and will build a strong following via our database that our guests may join. Facebook, Instagram, and Twitter will be used to create an instant strong base of fans. Continuous measurement of satisfaction and guest impressions are provided through a "contact us" hyperlink on our website. We further monitor guests' experiences through sites such as Yelp and Trip Advisor. These provide direct feedback from visitors. Marketing and advertising results will be analyzed frequently and adjusted to meet the necessary needs of the business, to drive interest and desired business results.

Cleanliness and Maintenance

Burger Shack on the Tracks team members will maintain the concession, as well as adjacent areas that visitors would perceive as related to the concession stand. There will be daily, weekly, and monthly duties that include:

1. Daily maintenance: Tasks sheets will be used to define needs, along with a checklist to ensure duties are completed and accountability is upheld. These tasks include but are not limited to, cleaning of all equipment, sweeping and mopping floors, dusting or wiping clean all fixtures, and removal of graffiti if needed to maintain and represent the beauty of a professional establishment within San Clemente. A line check will be utilized three times per day measuring and recording temperatures, monitoring sanitation levels of required chemicals, and general cleanliness.
2. Weekly maintenance: Deep cleaning of equipment, inspection of building and surrounding area, graffiti removal. As with daily duties, a weekly-posted list will be used with sign-off requirements for verification of completion.
3. Monthly maintenance: Paint touch-up, pressure washing of floor, hood cleaning, grease interceptor pumping (determined on need) are some of the expected needs.

Our budgets are planned to account for capital expenses annually to ensure items are replaced as needed due to the proximity of the beach and the impact of salt air to those items. A full assessment of needed maintenance will be determined upon operating of concession.

Contingency Plan for equipment failure

As a result of a diversified menu, an equipment failure will not prevent the servicing of guests. While equipment may fail from time-to-time and the repair service may take several hours to bring the equipment back to operation, our use of non-cooked items, alternative equipment, and multiple refrigerators provides for a strong level of redundancy and back up. We have experience in power failures with connections to ice companies to maintain proper temperatures and food safety, and have a full network of repair companies that range from plumbers, electricians, and even utilize The Gas Company for some equipment repair needs.

Community Involvement

The involvement of Burger Shack on the Tracks within the community will exist on multiple levels. It will include networking with local schools, businesses, hotels and resorts as well as not for profit organizations. Our leadership team has been actively involved in the Chamber of Commerce where we do business and California Restaurant Association, and has involvement in many other community efforts providing a proven track record of building community support.

Alternative Initiatives to Differentiate our Offerings

Burger Shack on the Tracks foresees food and beverage options to complement the fire pits (if continued use is permitted on the beach) such as S'mores packages, hot dogs, and hot cocoa. We further envision creating an early dinner opportunity expanding on our daily menu. These items may include fried chicken dinners, barbeque rib dinners, or even pasta offerings casually presented providing a feeling of beach camping without the camping. Through our culinary team, we have designed these dinners to be quick, easy to execute, and very affordable to the visiting public.

Rent

Our proposed rent structure is six percent (6%) of Gross Sales under \$230,000, which increases incrementally to seven percent (7%) of Gross Sale of \$230,001 or above.

Tenant Improvement Request

Tenant Improvements that we will perform for real property improvements include the following:

Improvement Items	Estimated investment
1. New paint for building	\$2,000 - \$3,000
2. New Paint for deck and rails	\$600 - \$1,000
3. Exterior plaster repair	<u>\$800 - \$1,200</u>
Total Exterior improvements	\$3,400 - \$5,200

Qualifications and Operational Experience

Doug Cavanaugh is founder and owner of Ruby's Diner, a 1940's diner concept that originated in Newport Beach at the end of the Balboa Pier in 1982. Ruby's Diner has grown to over 34 restaurants in over five states. In 2017 new restaurants will be opening in California and Nevada. Ruby's remains a California icon with three pier locations (Balboa, Huntington Beach, and Oceanside), seven mall locations, and multiple airports (including John Wayne) and neighborhood locations throughout the United States.

Mr. Cavanaugh is also the founder of The Beachcomber at Crystal Cove and the Shake Shack, located in Newport Coast, and the Lighthouse Café located at Marina Park on the Balboa Peninsula. The Beachcomber and Shake Shack quickly became local favorites, as well as a destination for visitors to Newport Beach and the surrounding communities.

Tad Belshe, a Southern California native, has over 30 years of experience in hotels and restaurants including fourteen years with The Ritz-Carlton Laguna Niguel and six with the St. Regis' Monarch Bay Club. Tad now leads, in an executive and oversight capacity, several brands including the Crystal Cove Shake Shack, Crystal Cove Beachcomber, and Ruby's Diner.

Tad would be the point person for the Burger Shack on the Tracks. He has worked closely with government officials within California State Parks and The City of Newport Beach on contracts, operations, and project proposals related to restaurant, beach services, and catering operations.

Tad's daily involvement in restaurant operations provides for a deep understanding of the necessary requirements to generate sales, control costs, and create relationships and synergies to drive success. Raised in Newport Beach, Tad spent countless days on the sand while visiting his father, a city lifeguard of 47 years. This environment taught him to understand duty, respect, and what it means to serve others. Tad's upbringing, along with a strong foundation in the service industry, provides for the perfect balance between high-end service and hometown hospitality.

Background and Qualifications of Key Personnel

The key personnel will include our person-in-charge (PIC) that has several years of supervisory experience in beach concessions. We currently operate a successful beach operation at Crystal Cove State Beach and have developed several individuals ready for growth opportunities. Our PIC's are fully trained on point-of-sale equipment, basic equipment troubleshooting, and undergo a great deal of customer service and human resource development. These individuals provide a fun and engaging work environment while maintaining structure and professionalism.

Entity Structure

Please note, the proposed entity will be created as a limited liability corporation and ran separately and independently from Ruby's Diner, The Beachcomber at Crystal Cove, The Shake Shack Crystal Cove, or any other related entity. While synergies and economies of scale will provide advantages to efficient operations, this entity model is the typical structure under which these companies have been formed and are operated.

North Beach Concession



Breakfast Menu

Coffee and Beverages

Freshly Brewed Coffee	2.50
Lattes	3.50
Cappuccino	4.00

Starters and Treats

Freshly Made Donuts ... a basket of tasty mini donuts	4.00
Fruit bowl	6.00

Starters, Smoothies and Fresh Juices

North Beach Blend ...Açaí, banana, vanilla almond milk, and agave blended with ice.	5.00
Lost Winds ...Strawberry, banana, blueberry, vanilla almond milk, and agave blended with ice.	5.00
Super Chief ...Carrot, orange, beetroot, kale, lemon, ginger	5.00

Eggs

Healthy Heart Egg Whites ...Egg whites, tomatoes, avocado, cottage cheese	7.50
Two Eggs ... Organic eggs, toast	6.50
... add breakfast meats	2.00

Hand-Held and Griddle

Breakfast Burrito ... Eggs, Cheddar cheese, potatoes, bacon, and chive	5.50
Breakfast Grilled Cheese ... Cheddar, Gruyere, tomato, scrambled egg on Parmesan garlic bread	6.50
...Add bacon	2.00
Sunrise Quesadilla ...Scrambled eggs, Cheddar cheese, chorizo sausage, onions, Serrano-Sriracha sauce	7.50
Cinnamon French Toast Sticks ...	6.50
Buoy in a blanket ... Chicken Sausage wrapped in a buttermilk pancake, salted caramel syrup.	6.50
North Beach Breakfast Burger ... Ground beef, baby lettuce, Fried Egg, Cheddar cheese, tomato, brioche bun	6.50
Oatmeal ... Brown Sugar, almonds	4.00

North Beach Concession



Lunch and Dinner Menu

Smoothies and Fresh Juices

North Beach Blend ...Açaí, banana, vanilla almond milk, and agave blended with ice.	5.00
Lost Winds ...Strawberry, banana, blueberry, vanilla almond milk, and agave blended with ice.	5.00
Perk-up ...Carrot, orange, beetroot, kale, lemon, ginger	5.00
Fresh Juices	3.50

Soups & Salads

Clam Chowder ... New England Style	4.50
Provencal Chicken Salad ... Roasted chicken, lettuce, tomatoes, cucumber, caramelized onion, goat cheese, raspberry vinaigrette	8.00
Field Greens Salad ... Lettuce, Bleu cheese, pear, walnuts, fig balsamic dressing.	6.00
... add chicken	3.00

Sandwiches and Burgers, and more...

Ole Hansen Burger ... Ground beef, Turkey or Veggie Burger, lettuce, Cheddar cheese, tomato, bun	6.50
Veggie Sandwich ... Avocado spread, lettuce, carrots, pickled onions, sunflower seeds, goat cheese	6.50
Tuna Salad ...Albacore tuna, whole grain mustard, celery, onion, mayo, lettuce, tomato, bacon bits	7.50
Chicken Salad ...Roasted chicken, celery, red onion, granulated garlic, low fat yogurt mayo, lettuce	7.50
California Grilled Cheese ... Cheddar and Gruyere cheeses, grilled heirloom tomato, Poblano spread on Parmesan garlic bread	5.50
...Add bacon	2.00
Hot Dog ... Beef hot dog wrapped in a lightly grilled bun	5.50
Surf Dog ...Beef hot dog, mustard, relish, tomato, onion	6.50

From the Sea

Street Fish Tacos ...Daily fresh catch, shredded slaw, cilantro, onion, tomato, Cotija cheese, Serrano-Sriracha sauce	4.00
Seared Ahi Burger ...Seared Ahi, ginger slaw, lettuce, tomato, siracha mayo	11.50
Fish Sandwich ...Locally caught fish, shredded slaw, tomato, tartar, grilled bun	10.50

North Beach Concession



REFERENCES

Dave Kiff

City Manager, City of Newport Beach

100 Civic Center Drive Newport Beach, CA 92660 949-844-3309 dkiff@newportbeachca.gov

Dave Dominguez

Facilities Development & Concessions Mgr., City of Huntington Beach 714-374-5309

ddominguez@surfcity-hb.org

Rush Hill

Mayor, City of Newport Beach

100 Civic Center Drive Newport Beach, CA 92660 949-644-3309 rhill@newportbeachca.gov

Anton Segerstrom

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Mayor, City of Anaheim

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North Beach Concession



Equipment and Furnishings

Start up cost may vary slightly from estimate depending on the final equipment needed, available space, and potential equipment offerings if allowed by the city. The below is estimated start up cost that will be provided by the owners from funds available in personal accounts, with the understanding that the equipment currently on property will remain:

Point of Sale (POS, Printer, CC Processor, Cash Drawer):	\$ 2,000
Food and Beverage Inventory:	\$ 3,500
Kitchen Equipment (1) (2)	\$25,000
Exterior Patio Tables, Chairs and Cushions	\$ 4,000
Umbrellas and Bases	\$ 2,500
Uniforms	\$ 600
Signage and Menu Board	\$ 5,000
Training (employee hours/sample food & beverages)	\$ 1,000
Cellular Phone	\$ 200
Leasehold Improvements	\$ 5,000
Total (3)	\$48,800

- (1) Proprietary shake machine, proofing cabinet, mix & chill, roller, shelving, reach in refrigeration
- (2) Potential for popcorn maker, ice cream dipping cabinet, shaved ice machine
- (3) Funding of capital will be provided by owners through available cash in personal accounts

**5-Year Financial Pro Forma
North Beach Concession**



	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Food Sales	126,000	163,800	204,750	245,700	294,840	1,035,090
Beach Rentals	15,000	18,000	19,800	21,780	23,958	98,538
Total Sales	141,000	181,800	224,550	267,480	318,798	1,133,628
	95.7%	93.5%	93.5%	99.5%	93.5%	93.5%
	4.3%	6.5%	6.5%	6.5%	6.5%	6.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	20,400	24,000	28,000	32,000	36,000	140,400
Gross Profit	120,600	157,800	196,550	235,480	282,798	993,228
	85.5%	86.8%	87.5%	87.5%	88.0%	88.7%
Operating Expenses						
Salaries & Wages	27,500	33,000	39,000	40,000	42,000	181,500
Controllable Unit Expense	2,400	2,800	3,300	3,500	3,700	15,700
Non-Controllable Expense	20,500	20,500	20,500	20,500	20,500	102,500
Occupancy (1)	8,460	10,908	13,473	16,284	19,596	68,720
Advertising	3,000	3,200	3,400	5,350	6,376	21,326
G&A	7,050	9,090	11,228	13,374	15,940	56,681
Legal	8,000	-	-	-	-	8,000
	5.7%	0.0%	0.0%	0.0%	0.0%	0.7%
	54.5%	43.7%	40.5%	37.0%	33.9%	40.1%
EBITDA	43,690	78,302	105,650	136,473	174,686	538,801
	31.0%	43.1%	47.0%	51.0%	54.8%	47.5%
Interest	-	-	-	-	-	-
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	9,600	9,600	9,600	9,600	9,600	48,000
	6.8%	5.3%	4.3%	3.6%	3.0%	4.2%
Net Profit	34,090	68,702	96,050	126,873	165,086	490,801
	24.2%	37.8%	42.8%	47.4%	51.8%	43.3%

Note: (1) Rent moves to 7% at \$230,000 (incrementally) or above as noted in year 4. Sales estimated arrived from real comparable units of quick serve models in operation scaled to North Beach Concession location, estimated daily transactions, and seasonality.