



Legislation Text

File #: 18-1332, **Version:** 3

(A) MOTION TO APPROVE THE TERMINATION OF THE LEASE AGREEMENT WITH RESTAURANT CLASSIC KITCHENS EFFECTIVE DECEMBER 1, 2019

(B) MOTION TO APPROVE THE FIRST AMENDMENT OF THE CURRENT AGREEMENT WITH SMG TO INCORPORATE THE OPERATION OF THE CLUB 19 RESTAURANT AT THE PEMBROKE LAKES GOLF COURSE EFFECTIVE DECEMBER 1, 2019

SUMMARY EXPLANATION AND BACKGROUND:

1. On January 16, 2019, the Recreation and Cultural Arts Department presented the City Commission with an item requesting direction on two topics. First was the lease agreement between the City and Restaurant Classic Kitchens for the lease and management of the Club 19 Restaurant at the Pembroke Lakes Golf Club. Second was the tennis professional agreement and plans for capital improvements to the Pembroke Lakes Tennis Center.
2. At the meeting, Commission directed staff to renegotiate an agreement with Restaurant Classic Kitchens and to come back with a revised agreement. The Commission also directed staff to determine options for improvements to the restaurant, golf, pool, tennis and parking lot.
3. On October 16, 2019, this agenda item was deferred to the November 13 meeting to allow the City Manager time to continue to meet with all parties involved and review all options available for the continued operation of the Club 19 restaurant.

CLUB 19 RESTAURANT LEASE AGREEMENT

1. On April 1, 2015, the City Commission approved the recommendation of the evaluation committee for RE-14-04 "Management and Operation of Club 19 Restaurant at the Pembroke Lakes Golf Course" to Restaurant Classic Kitchen (RCK) and approved the agreement negotiation by Administration for a five year period beginning on June 1, 2015.
2. Prior to RCK entering into the agreement, the restaurant was leased and operated by Johnny Laponzina, Inc. (JLI). On August 11, 2014 JLI issued a notice of intent to terminate the agreement approximately twenty-three months before the original expiration date of November 15, 2016. JLI advised that the new termination date would be effective as of December 31, 2014. JLI later agreed to an extension of their agreement through March 31, 2015. On January 7, 2015, the City Commission on approved the Memorandum of Understanding (MOU) between the City of Pembroke Pines and Johnny Laponzina, Inc. to extend the agreement for the operation and management of the Club 19 Restaurant at the Pembroke Lakes Golf Course through March 31, 2015. After approval JLI extended the Memorandum of Understanding through May 31, 2015 until RCK could take over the operation.

3. The agreement with RCK requires the following:

City Responsibilities:

- All repairs, maintenance, and replacement of City owned kitchen equipment and assets.
- Cleaning and all paper products for all restrooms and locker rooms.
- Purchasing all small wares, pots, pans, and items necessary for the proper operation of the restaurant and banquet facility.
- Payment of all utility bills except for telephone charges for the restaurant.
- All general facility maintenance and repairs such as plumbing, electrical, air conditioning, refrigeration, pest control, hoods, ducts, filters, fire system, exhaust, and surface ductwork in the kitchen and on the roof.
- Provide garbage, grease, and refuse collection.
- Pressure clean patio twice a year, detailed window cleaning four times a year, and carpet cleaning twice a year.

RCK Responsibilities:

- Pay monthly rent amount of \$2,500 (\$30,000 annually)
- Pay 5% of gross revenues less the \$30,000 annual payment
- Reimburse the City for any taxes levied against the leased property.
- Operate the restaurant/banquet hall seven days a week
- Pay for all labor, consumables, taxes and other fees related to the operation of the restaurant.

4. At the January 16, 2019 Commission meeting, staff informed the Commission that when RCK took over the operation of the restaurant it was the beginning of the slow season for the restaurant (June 1, 2015). The owner, Rick Coelho, made the rent payment of \$2,500 for June, July, August, September, and October of 2015. Prior to the November payment, the Recreation and Cultural Arts Director also informed Mr. Coelho that the property tax reimbursement would also be due in December. Mr. Coelho informed the Recreation and Cultural Arts Director and Administration that he could no longer afford to make rent payments or pay for the property taxes and continue to operate the restaurant. Mr. Coelho asked for a reprieve until he could get the restaurant to turn a profit. The City Manager agreed and asked to have the financials reviewed again in a few months.

5. The January 16 agenda item went on to explain that since the City Manager agreed to a reprieve of the lease payments, the Recreation and Cultural Arts Director had reviewed the financials with RCK on a regular basis. RCK annual profit/loss statements are below:

	2015 (7 months)	2016	2017	2018	2019 (Projected)
Income	\$371,587	\$794,396	\$853,081	\$971,960	\$1,076,454
Expenditures	\$428,747	\$770,990	\$841,957	\$989,472	\$1,103,539
Profit(Loss)	(\$57,160)	\$23,406	\$11,124	(\$17,512)	(\$27,085)

The total projected loss for RCK since the inception of the agreement through December 31 is \$67,227.

After each review of the financials the information was discussed with Administration. To date the total amount that has not been paid to the City by RCK in rental payments and annual property tax reimbursement is approximately \$296,530.

6. The agenda item from the January 16, 2019 Commission meeting explained that Mr. Coelho was requesting the City amend his current agreement to remove the rent and property tax reimbursement requirement. Commission directed Administration to negotiate a new agreement with RCK.

7. On January 24, 2019 the Recreation and Cultural Arts Director met with Mr. Coelho to discuss his current agreement and the discussion and direction from the City Commission meeting on January 16, 2019.

8. On February 1, 2019, Mr. Coelho provided the Director a document with proposed changes to the existing agreement. The changes are summarized as follows:

Term of the Agreement - Section 2.1: Mr. Coelho requested a five year term extension once the current agreement expires on 4/31/2020

Responsibilities of the Contractor - Section 3.1: Mr. Coelho asked for flexibility in the required service hours throughout the year. This request has already been honored as the current hours of operation do not match the current language in the agreement. The Director has given flexibility to Mr. Coelho in this area to allow him to efficiently schedule his labor hours.

Responsibilities of the Contractor - Section 3.4: Mr. Coelho requested an upgrade to the current Point of Sale System. This is a budget item that does not require an amendment to the agreement.

Responsibilities of the Contractor - Section 3.8: The agreement requires RCK to operate an on-course beverage cart. RCK leases the beverage cart for an annual expense of approximately \$4,240. Mr. Coelho requested the City take over the expense to lease the beverage cart. This request would require a revision to the agreement and would have to be budgeted.

Responsibilities of the Contractor - Section 3.9: The agreement requires RCK to provide a dish washing machine in the kitchen. All other equipment is provided by the City. RCK leases the dish washing machine for an annual expense of \$2,400. The current machine being leased is not very efficient. On busy days and larger events RCK must hire additional labor to wash dishes. Mr. Coelho would like to purchase a machine that moves the racks through a conveyor system versus a single compartment. The company he leases the machine from does not offer a lease for a conveyor dish washer. Mr. Coelho requested that the City purchase a conveyor dish washer for the restaurant. The cost for this piece of equipment is estimated between \$10,000 and \$15,000. The agreement also requires RCK to provide tableware for the restaurant. Mr. Coelho requested that the City take over this expense. These requests would require a revision to the agreement and would have to be budgeted.

Responsibilities of the Contractor - Section 3.11: The agreement requires RCK to be solely responsible for advertising and promoting the business. Mr. Coelho has requested financial assistance with promoting Club 19. This year the City will be replacing the monument sign in front of the golf course and on the corner of Taft and Palm. The sign will provide better exposure for the restaurant, golf course, and tennis center.

Improvements to the Restaurant: Mr. Coelho recommended the following improvements:

- ☐ New banquet chairs, restaurant dining chairs and bar chairs.
- ☐ New lighting fixtures and chandeliers that are more modern
- ☐ Replacing the material / fabric on all banquet wall dividers
- ☐ Upgrading the internal phones with new Comcast agreement
- ☐ Upgrade the Point of Sale system as mentioned in 3.4 above
- ☐ New conveyor dish washing machine as mentioned in 3.9 above

Compensation - Section 5.0: As stated above the agreement requires RCK to pay the City a lease payment of \$30,000 per year or 5% of gross revenues, whichever is greater. In addition RCK must reimburse the city for the property taxes levied against the restaurant. Mr. Coelho is requesting that the City remove these compensation requirements from the agreement. As noted above the City has not enforced this requirement since November of 2015.

The financial impact of the above request is as follows:

Potential Savings for RCK from these changes:

Removal of beverage cart and dishwashing machine lease ~ \$6,640

City to pay for tableware ~ \$1,500

Potential impact to City financials from these changes:

Removal of budgeted annual revenue for lease payment and property tax reimbursement ~ \$70,000

Increased operating expenditures (beverage cart, advertising, and tableware) ~ \$9,000

Increased operating capital expenditures (dish washing machine, POS system, new furniture) ~ \$120,000

Capital Renovation Costs (New monument sign, banquet hall renovations) Cost TBD

9. On February 19, 2019, the City engaged Synalovski, Romanik, Saye, LLC to develop preliminary ideas for the proposed revisioning of the existing banquet hall, bar, locker rooms, pro shop and pool area. Over the next several months, staff worked with Manny Synalovski on this task. Options discussed included expanding the banquet hall over the pool area, expanding the banquet hall to the boundary of the pool, removing portions of the locker room and creating a separate bar area, or creating a separate permanent restaurant space within the banquet hall. All of these ideas and concepts are still being worked on by staff as part of the capital improvement plans for Club 19 and the Pembroke Lakes Tennis Center.

10. In April the Director of Recreation and Cultural Arts met with Mr. Coelho to discuss the ideas for the renovations to gain his feedback and continue the discussions on the renegotiation of his agreement.

11. In June the Director again met with Mr. Coelho where he provided feedback to the plans. Mr. Coelho also discussed his financials and the business coming into the slower months. The discussion revealed to the Director that even if the City approved a new agreement incorporating the changes requested above, it may not be enough to remedy the financial burden Mr. Coelho has expressed.

12. The current lease agreement the City has with RCK puts the City at risk of operating the golf course without a restaurant for some period of time in the event that RCK were to terminate the agreement because of financial losses. The Director discussed with Mr. Coelho the possibility of bringing the restaurant operation back in house where the City controlled the finances and Mr. Coelho and his staff would be employees that would operate and manage the restaurant. Mr. Coelho was open to this idea and agreed to start sending financial information to the Director to start working on options.

13. After discussions with the City Manager, two options were being considered. The first would be to convert the employees to FCS and bring the operation under the City budget. The second would be to pay RCK to operate the restaurant. There are pros and cons for both options. In both options the City would receive all revenues and control all expenditures. These options would also remove the City's property tax burden on the restaurant of approximately \$21,000 a year as the lease would no longer be applicable. The cons with the FCS option would be the huge purchasing, inventory, sales tax, and back of house management burden on the City. The RCK option would not have the same burden on City staff and resources, but still placed the financial burden of operating the business within the agreed upon rates on RCK and there is still the operating risk of RCK terminating the agreement to provide services.

14. In August the Director introduced to Mr. Coelho the idea of bringing the restaurant operation under the umbrella of SMG. SMG currently operates a similar structure here at City Center and there are several resources already established that can be shared such as management oversight, accounting, and part time service labor. The restaurant expenditures will also benefit through the use of SMG's national contracts for food purchases. The SMG option also provides a mutual benefit to City Center and the Restaurant/Golf Operations. City Center hosts several conferences during the year. SMG will be able to market both facilities as a package deal for some of the smaller conferences to offer golf and banquet services. The cross marketing will benefit the revenues for City Center, Club 19, and Golf Operations.

15. On September 26, Mr. Coelho's staff informed the Recreation and Cultural Arts Director that they had reviewed their current sales, banquet projections and weekly averages and that their cash flow is depleting and will affect their ability to operate through the end of October/Early November. Later discussions with Mr. Coelho explained that the issue was with one payroll period and that the cash flow would be okay after that payroll period.

16. Under the SMG proposal, all of Mr. Coelho's current employees would be hired by SMG to operate the restaurant. The fulltime staff will receive health benefits and a 401K option that they currently do not have. The transition will be seamless from a customer service point of view. The funding for the restaurant will be handled exactly the same as the funding for City Center. The City will receive all revenues and will fund an approved budget to operate the restaurant. The day to day restaurant business will be managed by Mr. Coelho with oversight and corporate support from SMG employee Steve Clark, General Manager of City Center.

17. The City Manager and the Director of Recreation and Cultural Arts considered all options to transition from Mr. Coelho's lease agreement to a management style arrangement. The recommendation from Administration is to move forward with SMG overseeing the operation of the Club 19 restaurant.

18. The SMG option has been discussed with Mr. Coelho and he is in agreement. Mr. Coelho has worked with City staff and SMG to develop a budget to cover the period from December 1, 2019 through September 30, 2020. The proposed budget is attached to this agenda item as Exhibit 2. Under the proposed budget the annual net income is a loss of \$16,179.50, However this amount will be offset by the removal of annual property taxes on this facility of approximately \$21,000 which will result in a positive cash flow of approximately \$4,820.

19. SMG's current agreement expires on September 30, 2021.

UPDATE ON TENNIS PROFESSIONAL AND CAPITAL IMPROVEMENTS FOR TENNIS CENTER

1. In addition to information about Mr. Coelho's agreement, the agenda item for the January 16, 2019 Commission meeting included an explanation of the current arrangement with the Tennis Professional, Pierre Arnold and stated that the Director of Recreation and Cultural Arts would not be seeking a renewal of his agreement once it expired on March 31, 2019.

2. Mr. Arnold's contract required him to pay the City \$29,000 a year for the right to oversee tennis lessons, league play, tournaments, activities and maintenance of the following tennis facilities in the city:

- Pembroke Lakes Tennis Center
- Maxwell Park
- Towngate Park
- Silver Lakes North
- Silver Lakes South
- Price Park

Mr. Arnold oversaw seven individual tennis instructors at the various tennis facilities.

3. When Mr. Arnold's contract expired on March 31, 2019, the Director of Recreation and Cultural Arts did not issue a new RFP but instead decided to execute facility use agreements with the individual tennis instructors. In addition a maintenance company was engaged to take care of the Pembroke Lakes Tennis Center clay courts and a separate individual was engaged to coordinate tennis tournaments at the facility. The changes have made a significant impact to the facility. The members and residents are happy with the maintenance and the revenue for tennis lessons for FY19 doubled, memberships increased by 12%, and tennis court fee revenues increased by 66%.

4. The Recreation and Cultural Arts Department will include renovation plans for the FY2021 proposed budget for the Pembroke Lakes Tennis Center. Plans will include upgrading the clay courts with a subsurface irrigation system, refinishing court surfaces, upgrading the main court seating area and upgrading the landscaping.

UPDATE ON CAPITAL IMPROVEMENT PLANS FOR CLUB 19

1. Administration is still working with Manny Synalovski on plans and ideas for renovating Club 19. Once the plans are finalized the project will be presented to Commission for consideration and funding.

SUMMARY

1. Request approval to terminate the lease agreement with Restaurant Classic Kitchens, Inc. effective November 30, 2019 and approve the first amendment to the current agreement with SMG to operate, manage and promote City Center to incorporate the operation and management of the Club 19 restaurant at the Pembroke Lakes Golf Course effective December 1, 2019 and to bring back to Commission the negotiated amendment and budget for final approval.

..Financial Impact

FINANCIAL IMPACT DETAIL:

- a) Initial Cost:** The budget for the proposed amendment is included on Exhibit 2 of this agenda item. The budget shows a projection for one year and then the projection for the 10 months remaining in the current fiscal year; December 1, 2019 - September 30, 2020.
- b) Amount budgeted for this item in Account No:** This item is not budgeted.
- c) Source of funding for difference, if not fully budgeted:** If approved a budget adjustment will be created increasing revenues and expenditures.
- d) 5 year projection of the operational cost of the project:** The projection shows a full year estimate and the estimate for the remainder of the fiscal year; 10 months. Details are provided in Exhibit 2.

	Full Year	FY20 12/1-9/30	Year 2	Year 4	Year 5
Revenues	\$658,945.30	\$549,121.08			
Expenditures	\$675,124.80	\$551,390.70			
Net Cost	(\$16,179.50)	(\$13,482.90)			

- e) Detail of additional staff requirements:** The only positions added will be four fulltime employees and part time labor to operate and manage the Club 19 Restaurant.