TO:       HONORABLE CITY COUNCIL

FROM:    CITY MANAGER    DEPARTMENT: ADMINISTRATIVE SERVICES

DATE:    JUNE 7, 2004   CMR: 277:04

SUBJECT:  R&T RESTAURANT CORPORATION, PALO ALTO MUNICIPAL GOLF COURSE RESTAURANT, 1875 EMBARCADERO ROAD – REIMBURSEMENT FOR IN-KIND IMPROVEMENTS

This is an informational report and no Council action is required.

BACKGROUND
On October 15, 1996, after a public bid process, Council awarded an option-to-lease for the golf course restaurant to R&T Restaurant Corporation (R&T). On June 2, 1997, Council approved a Budget Amendment Ordinance (BAO) in the amount of $54,000 to provide funds for maintenance and repair of the restaurant facility and repair and replacement of City-owned restaurant equipment. On May 1, 1998, the long-term lease between the City and R&T commenced. Terms of the lease included a minimum annual rent or a percentage of the gross receipts and a 10-to-20-year term, based on the value of tenant improvements. The initial 10-year term was extended to 15 years in late 1998, when R&T completed construction of a deck and patio extension to the restaurant at a cost of $80,000. On October 13, 1998, the Council approved the first amendment to reduce the minimum rent due to the loss of revenue caused by the City's extended work on refurbishing the golf course. The amendment to the lease also included a clarification as to how utilities were accounted for and paid by the tenant. R&T has recently remodeled the main serving area and relocated the bar at a cost of $120,000, which meets the qualifications for the 20-year lease term.

DISCUSSION
During the course of the remodel and relocation of the bar, R&T encountered a leak in the main drainage line and rotting sub-flooring in two areas of the restaurant. It was easier, less expensive, and less time-consuming to have R&T's contractor make the repairs during the remodel than for the City to make the repairs. Estimates for the cost of the repairs were received and verified by staff as reasonable prior to commencement of the repair work. This cost amounted to $38,191. R&T also purchased a replacement for the City-owned refrigerator that had failed in the amount of $6,272. R&T was able to replace the refrigerator more quickly than the City could have at a cost equal to what the
City would have paid. Once again, R&T requested, and staff agreed, that the City's reimbursement be in the form of a rent/utility credit.

The rent/utility credit totals $44,463, representing the cost of the work and equipment considered to be the City's responsibility.

**RESOURCE IMPACT**

R&T's rent and utility cost for fiscal year 2003-2004 is $87,146. The City expense account will offset in the amount of $44,463. R&T will pay the minimum rent and utility charges as per contract stipulations for April, May and June 2004, amounting to $18,816.

PREPARED BY: ________________________________

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cc: R&T Restaurant