



MEMORANDUM

To: Ursula Luna-Reynosa, Director of Community Development, Huntington Beach
Kriss Casanova, Economic Development Manager, Huntington Beach
From: Andria Martinez, Director, National Development Council
Re: Analysis of 21 Main Street RFQ (Pier Concession) Proposals
Date: August 9, 2021

The City of Huntington Beach ("City") has asked National Development Council ("NDC") to conduct a preliminary evaluation of the 21 Main Street RFQ responses. On 5/26/21, the City released a request for qualification statements, with due date of 6/25/21, from entities interested in operating a City-owned concession building located on the Huntington Beach Pier at 21 Main Street. The desired entity will have a proven track record of operating a business of similar nature and scale to the one proposed to be operated at 21 Main Street. The selected tenant will demonstrate the experience to operate a successful business, exhibit the financial capacity to support a viable business, and articulate a vision to enhance the pier experience by enticing visitors to the business by offering a quality and memorable experience.

Submittal requirements were as follows:

- Cover letter;
- 3 years of tax returns;
- 2021 year-to-date income statement and balance sheet;
- 3 years of audited financial statements (or reviews or compilations if audited financial statements are not available);
- Proposed use of the lease and the property; and
- Biographical information, together with information regarding the officers/directors/major owners/managers/members/partners, and credit report of the major owners

There were 4 entities who submitted proposals and NDC has conducted a preliminary review of the following respondents, with comments noted.

Ruby's Hospitality Group, LLC

Ruby's Hospitality Group, LLC and its affiliate, RD Franchise Systems, LLC, are the master franchisor for Ruby's Diner, a restaurant chain aesthetically designed after the American diner of the 1950's serving a menu that includes classic American hamburgers, French fries and milkshakes. The first Ruby's Diner opened on December 7, 1982, in a converted bait shop at the end of the Balboa Pier in Newport Beach, California. At its peak, the restaurant chain included 41 locations of company-owned and franchise units mostly focused in Southern California. Since its founding, Ruby's Diner has been a staple of locals and visitors alike synonymous with California surf city lifestyle with iconic pier locations throughout Southern California including the former location at the iconic Huntington Beach Pier. Today there are 19 Ruby's Diners located predominantly in Southern California. In 2018, the company-owned stores and franchise system of Ruby's Diner entered into a Chapter 11 bankruptcy process to reorganize its obligations and, ultimately, its ownership. Casbure Management, LLC successfully acquired the master franchise rights of Ruby's Diner in November of 2020 and formed Ruby's Hospitality Group, LLC to actively revitalize the iconic brand and relaunch the California hallmark across the nation with a fresh take on the timeless brand.

The principal owners of Ruby's Hospitality Group, LLC are listed below.

- Casbure Management, LLC
- Todd Spector, an individual
- Eric Kurtzman, an individual
- Joe Micatrotto, an individual

It is the intention of Ruby's Hospitality Group to construct a modified version of the classic Ruby's Diner at the City-owned concession building, utilizing a walk-up window for guest service and a modified menu to streamline operations and conform to the existing space requirements. A conceptual rendering of the proposed development and a sample menu for illustration and discussion purposes was included in the proposal. Their proposal would not require a modification to the existing footprint although enhancements to the current mechanical systems may be necessary. Additionally, the proposal was flexible in design & scope with either re-constructing the existing structure or beautifying and improving upon the existing structure without a full reconstruction. In addition to the projected budget for proposed improvements, Ruby's Hospitality Group remains interested in discussing and contributing further towards pier improvement plans that would enhance seating or beautification of the surrounding areas. Budget to be determined based on the City's needs and vision.

Projected Improvement Budget, Timeline and Proforma

- \$520,000 projected budget for improvements based on a review of the building, mechanical and architectural documents & knowledge of the modifications that would be necessary for the intended use. This includes \$275,000 in construction costs, \$200,000 for equipment and \$45,000 in soft costs.
- If approved by the City, the group is committed to move quickly to complete full architectural & mechanical drawings of the building in order to submit a tenant improvement permit.
- Construction will commence immediately upon receiving proper permits and construction is expected to be complete within 12–14 weeks, barring any unforeseen issues.
- \$1.1MM - \$1.4MM in sales projected for the first 3 years.
- 30% COGS expenses
- 28-29% Payroll related expenses
- 33-37% other SGA expenses
- 4-9% net profit margin
- Their analysis accounted for a base rent figure of \$90,000 annually with percentage rent to be determined and expressed a preference for a fair, long-term flat rent and a minimum lease term of a 15 - 20 years, with extensions.

Strengths

- Extensive hospitality & franchise experience of the principles
- Strong brand recognition of Ruby's Diner and community support for its reopening.
- Todd Spector, principle of Casbure & ASNY, has substantial personal assets to contribute to the project as evidenced by a letter from JPMorgan indicating balances well in excess of the total project costs of the proposal as of 6/24/21.
- Guarantee of lease agreement by West 5th Street Partners, an affiliate hospitality holding and investment company with revenue in excess of many millions in 2020 and liquid assets well in excess of the total project costs of the proposal as of 12/30/20.
- Sophistication, experience & transparency of the submittal indicates a high of level competency for a project of this type and the principles' ability to successfully execute.
- While each project is unique, Ruby's Hospitality Group principals have extensive experience in the design, build-out, and construction management of similar projects and commercial restaurant units having completed more than thirty full service and fast casual franchise units nationwide.

Weaknesses:

- Recent bankruptcy of franchise and new company ownership as a result of reorganization
- Start-up/re-start nature of business operations
- Ruby's Hospitality Group, LLC was formed in 2020 upon the acquisition of the master franchise rights of Ruby's Diner and therefore does not have three years of audited financial information, nor does it have filed tax returns as requested. However, in order to demonstrate the financial wherewithal of Ruby's Hospitality Group, they submitted proof of funds, audited financial statements and tax returns for West 5th Street Partners who will guarantee any lease agreement executed on behalf of Ruby's Hospitality Group, LLC.
- Lack of operations during the construction/redevelopment phase of the proposal due to the assumed entitlement requirements of a Coastal Development Permit from the Coastal Commission.

Let's Go Fishing and Surf City Snack Bar LLC

Let's Go Fishing and Surf City Snack Bar LLC is a sole member LLC owned by Marian Johnson. This entity is the existing & original operator of the site since 2009. With humble beginnings in 1992, this small business began selling bait and tackle out of a small portable trailer on the pier and operated out of many temporary structures for the first 17 years until working with the City to secure its current concession location on the pier. Let's Go Fishing currently offers pre-packages foods, ice cream, chips and other beach related merchandise in addition to bait & tackle.

The proposal submitted includes a desire to upgrade and remodel the inside and outside of the building. They would like to opportunity to sell hot foods like pizza, nachos, tacos and hot dogs. They would like to install soft serve ice cream and Icee dispensers as well as a coffee bar with pastries, bagels and muffins. The business also has plans to build upon its 30 years of pier fishing experience by expanding its pole rentals, develop & offer pier fishing classes and provide fishing-themed birthday parties and events as additional revenues streams.

Projected Improvement Budget, Timeline and Proforma

- \$28,500 total budget for improvements which includes \$20,000 for remodeling inside & outside of building, \$3,000 for ready-to-eat food station and \$5,500 for coffee & baked goods station.
- 12-17 week estimated timeline to complete the project including design & city approval, contractor/vendor selection & purchasing and remodeling & installation.
- \$435,000-\$635,000 in annual sales projected for the first 3 years based on 100-110 sales per day at an average of \$12-16/sale and assuming 15% growth per year.
- Proforma expenses/costs were not provided.
- The proposed project and improvements presented do not appear to substantially change the products & services currently offered by the business and its existing annual revenues.

Strengths

- 29 years of operating history & experience of the principle
- Profitable operating history with pre-pandemic gross sales of more than half a million dollars annually in 2018 & 2019 and net profit margins of 13-20%. During the pandemic, sales were down 29% but the business remained profitable with a 27% net profit margin. Net profit margins of the business adjusted for the owner's salary draw range from 4-7% based on 2018-2020 tax returns and an assumed annual salary ranging from \$50,000-\$80,000.
- Track record of on-time lease payments for the past 12 years. 2018 & 2019 tax returns reflect lease payments in excess of \$50,000 annually.

- Sales through June 24th, 2021, confirmed per sales reports submitted, demonstrate that the business has rebounded to pre-pandemic levels for April thru June.
- Bank statements submitted as of 6/25/21 indicate balances in the business checking & savings accounts well in excess of the total project costs in the proposal as well as zero balance due on the business credit cards indicating low existing leverage.
- A personal financial statement was not submitted but the owner indicates her personal net worth is above \$1 million.

Weaknesses:

- Lack of current financial information: 2021 year-to-date income statement and balance sheet were not submitted. Although sales reports for January to June 24, 2021 were submitted.
- Lack of sophistication in the financial reporting & accounting systems in the submittal indicate a lower level of competency for substantially scaling up the business beyond current levels and the principle's ability to successfully execute a project of a larger size.
- Lack of details around the extent of the upgrades & remodeling proposed make it unclear whether operations would remain continuous during the process or if the business would need to close for a period of time.

Armijo Enterprises

Armijo Enterprises operates specialty retail locations as a sole proprietorship owned by husband & wife Tony and Candy Armijo.

Surf City Henna, Toe Rings and Caricatures is a retail cart business on Main Street, Huntington Beach (near the Pier and PCH). The current location is near the recently closed Subway sandwich shop on PCH next to Main Street. They currently offer caricatures, temporary body art, toe rings and some tourist-oriented clothing. At various times in the past (during the off-season), they have also sold surf art, licensed Lifeguard apparel, candles, and cell phone cases.

Shade Shack Sunglasses located in Balboa Fun Zone in Newport Beach is a small retail store space at this local tourist destination next to the waters of Newport Harbor. Other than sunglasses, they also carry Beach/Resort Fashion Jewelry, hats, reader glasses, and offer temporary body art services.

"The concept for our proposal is very similar to the current use. The main difference is that we can do it in a way which will be very pleasing to the City as well as to the public. We would like to operate a convenience or "general" store, bait & tackle, as well as other miscellaneous. We can provide a copy of the proposal which includes the concept details from the RFP that we participated in 2019 for the same property."

Strengths

- More than 10 years of operating history & experience of the principles
- Existing operating history with pre-pandemic gross sales of less than \$100,000 annually in 2018 & 2019 and marginal net profits of 2%.
- Track record of on-time lease payments. 2018 & 2019 tax returns reflect lease payments in range of \$24,000-\$31,000 annually.
- Sales of less than \$30,000 for Jan to Dec 2020 per a credit card sales report submitted. This may not be inclusive of all sales generated in 2020.
- The owners submitted credit reports from Experian evidencing credit scores of 701-770 and personal debts at reasonable levels.

Weaknesses:

- Lack of historical financial information: 2020 tax return has not yet been filed and verification of extension was submitted. However, the owner was not able to produce the 2020 income statement or balance sheet. Although a credit card sales report for 2020 was submitted.
- Lack of current financial information: 2021 year-to-date income statement and balance sheet were not submitted.
- Breakeven/marginal profitability of existing business operations.
- The proposed project and improvements presented do not appear to substantially change the products & services currently offered by the existing tenant who has demonstrated a more successful operating history than this respondent.
- Lack of sophistication of financial reporting & accounting systems apparent in the submittal indicates a lower level of competency for a project of this type and questions the principal's capacity to successfully execute.

Surf City Partners LLC

Surf City Partners LLC consists of five members (bios submitted), all "OC/HB locals" that have lived and/or worked their entire adult lives in Orange County, mostly in Huntington Beach (133 years combined). Each partner brings a unique set of skills, who if selected, will collectively ensure this project receives the required approvals for permits and licensing, is reconstructed and opened in a timely manner and successfully operated for generations to come.

- Design/Construction/Maintenance – Jeff Bergsma
- Government Approvals – Keith Bohr
- Restaurant Food & Beverage/Operational Systems – Paul Motenko
- Restaurant Systems/Recruitment/Training - Sharon and Adam Go

Proposed New Use – Huntington's Restaurant

It is with the vision of reimagining this world-famous, historic-landmark pier location once again recapturing the feel of an instant classic "locals" venue (i.e. Neptune's Locker) to be enjoyed year-round by HB locals and visitors alike in mind that locally based Surf City Partners, LLC (SCP), developed a "visitor-serving commercial" restaurant proposal for the city's consideration. SCP's proposal outlines a comprehensive plan to process all of the required approvals to remodel, manage and operate Huntington's as a "locals" eatery that would provide high quality comfort food, tasty beverages (fine wines, locally craft beers and libations), outdoor dining, outstanding views and occasional live unplugged music. In addition to providing all of that in a great ambiance, the major focus of Huntington's will be to create the best, friendly and FUN customer service in So Cal Huntington's as envisioned will quickly become an "iconic" HB hotspot and the preferred place to celebrate special occasions. Huntington's "brand" will be both retro and authentically HB. Proposal also includes two mobile retail carts, one of which will open early to service fishing enthusiasts with fishing pole rentals and the sale of bait & tackle, coffee, hot chocolate and bottled water.

Project Funding

The budget to cover all expenses; permits/licenses, design/construction, furnishings/fixtures & equipment and one year of operational expenses is conservatively estimated at \$750,000. SCP has secured a \$1 million loan commitment from longtime HB property owner Gary Daichendt, as evidenced by a letter of financial commitment and term sheet from Theory R Properties LLC as the private lender. The term sheet outlines a preliminary approval of a line of credit up to \$1 million with a 10-year term at

5% interest rate with no pre-payment penalty and an estimated monthly repayment of \$8,4000. The proposed security for the line of credit is a first lien on business assets funded by the proceeds (FF&E) and a right to assume the leasehold position.

Projected Improvement Budget, Timeline and Proforma

- \$532,000 projected budget for improvements which includes \$387,000 in construction costs, \$100,000 for furniture, fixtures & equipment and \$45,000 in general conditions/contingency.
- Total project timeline is estimated at 7 months with a grand opening in month 8, this includes 4 months for the permit approval process and about 3 months for construction. Their biggest goal is to be open in time to catch most or all of summer 2022.
- Sales projection for year one is \$1.5 million, with an increase of 66% in year 2 to \$2.5MM and another increase of 10% in year 3 for a total of \$2.75 million.
- \$2.5MM in sales projected for year 2, with an average check of \$22.62, 90-minute table turns, open for breakfast, lunch and dinner, with a total occupancy of 130 patrons (49 inside seats & 81 patio seats) based on 340 days per year.
- 28% COGS expenses
- 32% Payroll related expenses
- 32% other SGA expenses
- 5-8% net profit margin
- Their analysis accounted for a base rent figure of \$180,000 annually which calculates to 7% of sales based on the \$2.5MM year 2 revenue assumption.

Strengths

- Extensive hospitality & franchise experience of the principles
- Company principal Paul Motenko, co-founder of both Stacked Restaurants LLC and BJ's Restaurants, Inc., has substantial personal assets to contribute to the project as evidenced by a personal financial statement as of 7/16/21 submitted indicating balances well in excess of the total project costs in the proposal.
- Business tax returns submitted for Team Design and Construction Inc. by company principal Jeff Bergsma indicate the financial capacity and experience needed to complete the proposed construction. Additionally, Mr. Bergsma and his team have designed & built more than 15 restaurants in downtown Huntington Beach alone.
- Formal written commitment & term sheet from Theory R Properties Inc. to finance up to a \$1 million line of credit to Surf City Partners LLC.
- Sophistication of the submittal indicates a high of level competency for a project of this type & size and the principals' ability to successfully execute.

Weaknesses:

- Start-up nature of business operations
- Lack of historical & current financial information due to the fact that Surf City Partners LLC was formed in 2019 specifically for this project and therefore does not have three years of audited financial information, nor does it have filed tax returns as requested.
- Lack of operations during the construction/redevelopment phase of the proposal due to the assumed entitlement requirements of a Coastal Development Permit from the Coastal Commission.
- Proposed debt service on project financing is relatively high. However, the terms are yet to be finalized & subject to further negotiation.

- Based on the proposal schematic submitted, entitlement eligibility for the designed use is unclear and may need to be significantly revised & scaled back in order to meet code requirements and attain permit approvals.
- Proforma sales revenues & growth assumptions submitted are aggressive and may not be attainable depending on final design and the allowable occupancy level.

References

- MM = millions
- FF&E = Furniture, fixtures & equipment
- COGS = Cost of Goods Sold
- SGA = Sales, General Operating and Administrative (expenses)

Topics for Consideration

NDC's review, while preliminary, has raised the following topics which the City may want to discuss with the Economic Development Committee to inform their decision-making.

1. Next steps and process: Presentation to EDC at August 11th meeting, interview applicants, City Council recommendation and presentation, lease negotiation, discussion of entitlement process including intensification of use code requirements, Coastal Commission approval and/or city permit process & timeline.
2. Lease Terms: Long term vs. short term, renewal/extension options, guarantee requirement, base or fixed lease rate and/or percentage rent, annual increases, assignment, etc.