

## CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

### MEMORANDUM

**Date:** October 19, 2017  
**To:** Harbor Commission  
**From:** Scott Riedman, Waterfront Director  
**Subject:** **Business Services Report**

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#### TENANT REVENUE EXAMINATIONS

The Waterfront Department has conducted revenue examinations since 1995. The revenue examination is not as detailed as a formal audit but provides ample detail for the Department and the tenants to ensure that the financial provisions of the lease are being met. Since many Waterfront tenants calculate their monthly rent based on a percentage of gross sales, the revenue examination program helps tenants and the Department ensure that sales are reported fully and rents are calculated accurately. The Department currently conducts revenue examinations for a total of 25 tenants, at a rate of 6-7 revenue examinations per year, in the harbor and on the Wharf.

The Department's policy is to audit each percentage rent tenant every three to four years, prior to a lease renewals, and lease assignments. Mitchell & Associates provides a detailed report at the conclusion of each audit that lists accounting recommendations, and indicates if any additional rent is due. Mitchell & Associates has worked with the Waterfront Department for the past three years and has established positive working relationships with all of the tenants who have undergone a revenue examination in that time period. In 2015, Mitchell & Associates purchased Pyne, Waltrip, Decker and McCoy, the previous CPA firm that had worked with the Department on revenue examinations since 1995.

Each revenue examination currently costs the Department \$4,500. Waterfront leases require a tenant to pay for the audit fees if gross sales have been understated by more than two percent (2%) in a calendar year and past due rents are owed as a result. When a tenant owes money, it is generally a simple misunderstanding as to how a certain part of the sales are calculated. Staff and Mitchell & Associates work very hard to make sure that each tenant who undergoes a revenue examination understands the lease language, and any questions or concerns they might have are addressed. Over the past two years, the Department spent \$62,650 on the revenue examination program and recovered \$94,050 in past due rents, late fees, and audit fees.

#### GROSS SALES OF WHARF TENANTS

At a recent meeting of the Harbor Commission, a number of Commissioners expressed an interest in whether or not the Cabrillo Bridge Replacement Project that was recently completed at the base of the Wharf had an impact on Wharf businesses. As a result,

staff went back and looked at the annual revenue data dating back to the end of calendar year 2013.

The charts below show the combined year-end sales revenue of the various restaurants on the Wharf from calendar year 2013 through 2016. The bottom row shows the percentage increase or decrease over the previous year.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Wharf Restaurants	\$ 13,345,804	\$ 14,386,499	\$ 14,388,298	\$ 13,907,850
<b>Change from Previous Year</b>		8%	0%	-3%

The Cabrillo Bridge Project began in November 2014 and there were temporary, alternating lane closures during the first stage of work. The long term, temporary lane changes down to two lanes happened in Stage 2 on February 19, 2015. It appears that the construction activity may have had some impact on restaurant sales revenue. However, the chart below shows the same information for Wharf commercial sales activity and indicates a steady increase in sales revenue over the same period.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Wharf Commercial	\$ 4,589,400	\$ 4,927,340	\$ 5,021,277	\$ 5,184,407
<b>Change from Previous Year</b>		7%	2%	3%

Automobile and pedestrian totals entering the Wharf for the calendar year can be found below. Both automobile totals and pedestrian totals dipped in 2015 which could be due to the Cabrillo Bridge project. However, 2016 showed a large increase in autos and a large decrease in pedestrians.

<b>Autos</b>	
2013 Total	249,718
2014 Total	263,883
2015 Total	250,610
2016 Total	268,291

<b>Pedestrians</b>	
2013 Total	n/a
2014 Total	1,093,499
2015 Total	1,091,772
2016 Total	1,021,061

The charts above show both increases and decreases on a variety of data. Other data would need to be analyzed to determine what type of impact the Cabrillo Bridge project construction had on Wharf sales. Weather, days that holidays fall on, and general economic conditions all play a significant role in sales revenue on the Wharf.

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