

Arlington Ridge Community Development District
Restaurant Operation Model Report
Prepared for the Board of Supervisors
January 9, 2019

Arlington Ridge Community Development District (the District) is part of a planned unit development that lies within the city limits of Leesburg, Florida. The community broke ground in 2005-2006 and includes residential lots, other private property, a golf course, as well as amenities and common areas that are owned by the District. At build out, the community will house about 2,100 senior adults on about 1,046 lots. In January 2019, there are about 715 lots closed and about 1,430 residents residing in the District. Some residents are seasonal (about 27% according to recent surveys) and about 73% of the population lives at Arlington Ridge year-round. Arlington Ridge Community Development district owns and is responsible for the maintenance of certain infrastructure and amenities throughout the community including but not limited to a full-service restaurant and bar operating under the name Chesapeake Bay Grille and Village Tavern (seating capacity 166). Other food service related operations at Arlington Ridge Community Development District include a catering kitchen (at Fairfax Hall) and an ice cream and coffee shop (seating capacity of eight) that has been closed for several years.

The community boasts an 18-hole golf course which draws guests to the community and restaurant. In 2019, Arlington Ridge Community Development District, governed by the Board of Supervisors will be purchasing the golf course, contingent on financing. Thus, the Board will be considering options for golf course operations as well as restaurant operations.

The restaurant and tavern have been in continuous operation and open to the public since opening in 2006. According to qualitative feedback, the restaurant and tavern are thought to have potential not only as an accessory for golfers, but as a stand-alone restaurant appealing to diners both within the District and in the nearby vicinity. The restaurant offers an indoor dining room, an screened outdoor dining area, and two smaller rooms the Oak Room, and Arlington Room. The tavern has a bar and full-service dining area for patrons. The restaurant has served as an amenity for residents as well as serving golf guests and public diners.

The District is governed by a Board of Supervisors who have several options for the operation of the restaurant and other food services at Arlington Ridge. The three most common options of operating a restaurant within a Community Development District are to lease the restaurant, to hire a management company to operate the restaurant, or to direct employ personnel to operate the restaurant. A fourth option the Board of Supervisors can consider is to close the restaurant.

Each different management option has costs and benefits. There is more than one important criterion to consider when choosing the best model for operating the restaurant at Arlington Ridge Community Development District. The Board may consider all of the below as well as other criteria when considering the best plan to move forward:

- Resident Satisfaction
- Cost to the District/Ability to Operate Within A Budget
- Feasibility
- Impact on Other Arlington Ridge Stakeholders

Resident Satisfaction is a driving force for the Board of Supervisors and other Arlington Ridge stakeholders such as vendor partners and employees. Resident satisfaction speaks to both the importance of the amenity as well as the satisfaction with actual restaurant services.

Cost to the District speaks to the expense of providing a restaurant amenity at Arlington Ridge. All amenities have a maintenance cost associated with the upkeep and operation of the space. Certain models of restaurant operation will inherently have more or less financial exposure to restaurant operating losses. The ability to operate within the budget is an important factor for the Board's consideration. In twelve years of operating, the restaurant has consistently operated at a financial loss.

Feasibility will be determined by taking further exploratory steps. For example, the Board would need additional information to determine if there are willing restaurant tenants or if there are golf management companies that would also operate one or more food establishment at Arlington Ridge.

Impact on Other Arlington Ridge Stakeholders is a consideration of the developer, current restaurant employees, and other stakeholders.

Considerations for Leasing the Restaurant Premise

Other Community Development Districts have had some success attracting a tenant (usually a restaurant owner/operator) to lease a restaurant premise. This option would require a comprehensive lease agreement/legal agreement. The District would market the premise using a "Request for Restaurant Lease Proposals" to Central Florida restauranteurs who are interested in leasing a turn-key restaurant. The Board would require potential tenants to provide potential hours of operation, proposed restaurant menu and pricing, and other important data demonstrating the tenant's ability to successfully operate a restaurant at Arlington Ridge.

Probably the most significant advantages of leasing the premise would be less financial exposure to restaurant operating losses. The vendor assumes the financial risks and the rewards of operating the restaurant. Another advantage is less management time and potentially fewer legal fees associated with a restaurant lease structure. The lease agreement would be structured to allow for termination of the lease in order to protect the Board's ability to make a change should the lease arrangement not meet the Board's expectations.

A disadvantage of a lease structure is that it could be difficult to retain a steady operator because of the financial risk and the unique challenges of operating a restaurant in a gated 55 and older community. Another consideration is that the District would have less control over operational details.

The Board would need to determine a lease payment structure that bodes well for a tenant to potentially operate a viable business and for the payment to cover as much overhead as is

reasonable. The Board would also need to consider other lease terms such as length of lease, utility expenses, equipment repair and replacement, etc.

Considerations for a Restaurant Management Agreement

As the Board is considering a golf course management agreement, there may be an opportunity to dovetail restaurant services into a management agreement. Or, the Board could consider a management contract for food and beverage services independent of golf operations. The restaurant management agreement could potentially include the coffee and ice cream shop.

A restaurant management agreement with an independent contractor gives the District input and control over restaurant operational issues. A management agreement could also be structured so that the District benefits from any potential profitability in restaurant operations. There is a management fee associated with an independent contractor managing the restaurant.

Management agreements are generally structured in a way that protects the contractor from operating losses. The Board would need to be prepared to fund operating losses if a loss should occur. Additionally, it could be difficult to disentangle a commingled restaurant and golf management agreement if the vendor is not successful in all areas of service.

Should the Board determine the best restaurant operation model is the management model, the first step is to approve a Request for Proposal for management services. The Board would need to approve terms and scope of work for an independent contractor.

Considerations for CDD Operating the Restaurant

Since the spring of 2017, ARCDD has been direct operating the restaurant using an organizational structure and employee policies approved by the Board of Supervisors. Currently, the Board has appointed a Supervisor as a restaurant liaison who is involved with restaurant personnel issues, menu, food and beverage costs and other restaurant operations.

The downside of this structure is that the CDD continues to have responsibility for financial losses as well as increased liability, increased legal fees, and increased management costs.

The benefit of this structure is that the CDD has the highest level of input in to restaurant operations such as food and beverage costs, operating hours, staffing, and other day to day restaurant management.

In May 2018, Arlington Ridge residents were surveyed regarding their opinion on various CDD amenities including restaurant services. A majority of the residents agreed that having the restaurant was important and improved property values. As a matter of fact, the restaurant is the second most popular amenity at Arlington Ridge. However, there was concern regarding pricing, the menu, and the quality of the food according to quantitative feedback. Residents also made unfavorable comments about staff turnover.

Should the Board consider continuing to directly operate the restaurant, steps (or even a comprehensive plan) to continue to improve resident satisfaction with dining options including menu, costs, food quality, and service/staffing will need to be implemented in order to address resident satisfaction.

It is worth noting that the restaurant industry is known to have 80% plus turnover for hospitality employees. Currently, the District offers industry average wages with no health insurance or other benefits for restaurant employees. Should the Board determine the best model for restaurant operations is to continue to direct manage, then employee recruitment, screening, hiring, training, and retaining is another top priority. Recently, in an effort to attract stable employees, Arlington Ridge residents have been hired to work at Chesapeake Bay Grille. In certain cases, residents can apply for kitchen worker jobs. However, residents are not considered for service positions such as server or bartender due to the importance of employees being beyond reproach in regards to the appearance of favoritism for friends and neighbors.

Should the Board continue with the current operating model, a restaurant marketing plan should be considered. The plan should be designed to appeal to the general public in the nearby geographical area in order to expand the customer base and maximize food and beverage sales.

Controlling labor costs and food costs has been a top priority for the new 2019 fiscal year. However, the restaurant has failed to operate within a budget for the first two months of the fiscal year. Additional work needs to be done controlling labor and food costs.

Another consideration for the Board is the potential catering revenue when renting Fairfax Hall. Currently, Fairfax Hall is available only to residents and not available for the public to rent. The restaurant has a "first right of refusal" for catering food and beverages at resident events. There are also golf tournaments held at Fairfax Hall which are an additional source of catering revenue for the restaurant. Catering revenue should be considered as part of any plan to operate the restaurant within a budget.

Considerations for Closing the Restaurant

Lastly, the Board of Supervisors can choose to close the premise. Should the restaurant and tavern close, there would be less cost to maintain the amenity. The cost to maintain the closed restaurant premise would be minimal such as utilities, pest control and other vital services to maintain the integrity of the building. The restrooms would need to remain open for golf course user access.

Should the Board decide to close the restaurant, there would be an adverse impact on overall resident satisfaction and to other stakeholders.