

CITY OF BATAVIA

DATE: February 12, 2013
TO: Community Development Committee
FROM: Bill McGrath, City Administrator
SUBJECT: O'Sole Mio Economic Development Assistance Request

As you may recall, the Committee heard from the proprietors of the O'Sole Mio's gelato and restaurant about difficulties they were encountering with the project, and were seeking City assistance.

City staff had previously recommended against any assistance because the financial projections they had provided us with did not satisfy us as to the probable success of the business, plus the fact that staff had been told that the applicants would proceed ahead regardless. This occurred as the Council was discussing the desire for more accountability in the assistance programs.

Since that time, the applicants have found several additional items requiring expenditure of funds on the buildout. They met with the Mayor and myself, and at that time, we indicated that the Council was engaged in conversation which might actually lessen the assistance available for the programs, but indicated that it had expressed an interest in the difference between what would commonly be called "tenant build outs" and those expenditures that were related to code conformance and making the building better equipped for uses the City desired.

They indicated that they had expended significant amounts on the latter items, and we asked them to submit a breakdown of those items, as well as requesting them to review their projects.

They did so, and I have attached that material. It shows that approximately \$65,000 was related to code issues not discovered until the work began, while approximately \$85,000 was for "normal" build out items.

They also reworked their projections which still, to staff, seem unrealistic, and we have expressed that opinion to them. We did verify some sales projections for gelato sales and still think that the sale projections as lowered are high.

The applicant will be at the CDC meeting Wednesday evening with the attached power Point, as well as the building owner if you have any questions for him. He is already paying the City for an improvement loan to install sprinklers in the building, and has indicated to staff that he might be seeking a grant to assist with the required running of an additional 3-phase electric service to the building needed for this business, but also required by the City as part of a program to have separate service cutoffs for each business in the building.

The applicants are requesting a loan for \$65,000 payable at 2.5% interest, and staff cannot recommend same to the Committee or Council. We continue our opinion as to revenue projections.

The issue presented here is an applicant who has encountered large expenditures unknown at the time the business was created or the lease signed. They have done what they could to lessen the impact. Some equipment has been leased instead of purchased. Some training trips were cancelled. Staff has worked with them to make sure the building issues can be addressed as

economically as possible, and it is true that from under the surface of the building serious issues have emerged, even unknown to the building owner.

The amount of funds being requested at this time exceed any program we have at the moment other than development agreements, and thus, that mechanism would be the device to be used by the applicant, or the building owner, or both if there is a way to work this out. The applicants have indicated that they would be going on with the project regardless of the outcome of this request.

I would suggest that this matter be discussed *after* you have the discussion about the grant programs; there may be elements of that which help with this issue.

The applicants have worked very hard on their project and have the best of intentions. Staff wishes it shared the confidence they have as shown by their sales projections. The location is terrific and a successful business would be a welcome addition to River Street, and the business compliments the existing array of businesses there.

While staff cannot recommend City participation at this time, the applicant (and building owner) should have the opportunity to discuss this project with the Committee. Perhaps a different solution can be found.

This will be on the Community Development Committee agenda for Wednesday evening.

Please call with any questions. Thank you.

Attachments: Financials, Power Point, Applicant Analysis of expenditures

C: City Council
Department Heads

Projected sales

Area Population density	2600 Sq mile (data from Wikipedia)	
Year average kg per capita	18 Kg	Average american from Morning Broadcast, 20 Qrt = 18Kg
Estimate 25% eat gelato	4.5	
Est. Year production	11700 Kg	Kg x capita
Price sale per Kg	22 \$	
Projected gross income	257400 \$	
Serving size	100 gr	(90 gr small, 100 gr medium, 110 gr large)
Year production / serving	117000 EA	
Per month	9750 EA	
Per day	390 EA	
Per hour	43.33 EA	

O'Sole mio estimate sale per day

Serving size (gr)	100 gr
Projected year production	11700 Kg
Serving per year	117000 EA
Conservative %	60% (High months and low months)
Serving per year	70200 EA
Per month	5850 EA
Per day	234 EA
Per hour	26 EA

**O'Sole Mio
Gross Margins**

What are the direct costs for producing your products and services and what margins will you achieve?

Gelato		<u>Dollars</u>	<u>Percent</u>
-Type of Units	Each		
-Average Price per Unit	\$	3.50	100.00%
-Average Material Costs per Unit	0.40		
-Average Labor Costs per Unit	<u>0.22</u>		
-Total Product Costs per Unit	\$	<u>0.62</u>	17.71%
-Gross Margin per Unit	\$	<u><u>2.88</u></u>	82.29%
-Year Two Price per Unit	\$	3.50	
-Year Two Total Costs per Unit	\$	0.75	
-Year Three Price per Unit	\$	3.50	
-Year Three Total Costs per Unit	\$	0.75	

Antipasti		<u>Dollars</u>	<u>Percent</u>
-Type of Units	Each		
-Average Price per Unit	\$	7.50	100.00%
-Average Material Costs per Unit	0.78		
-Average Labor Costs per Unit	<u>0.42</u>		
-Total Product Costs per Unit	\$	<u>1.20</u>	16.00%
-Gross Margin per Unit	\$	<u><u>6.30</u></u>	84.00%
-Year Two Price per Unit	\$	7.50	
-Year Two Total Costs per Unit	\$	1.20	
-Year Three Price per Unit	\$	7.50	
-Year Three Total Costs per Unit	\$	1.20	

Bar		<u>Dollars</u>	<u>Percent</u>
-Type of Units	Each		
-Average Price per Unit	\$	7.50	100.00%
-Average Material Costs per Unit	0.90		
-Average Labor Costs per Unit	<u>0.18</u>		
-Total Product Costs per Unit	\$	<u>1.08</u>	14.40%
-Gross Margin per Unit	\$	<u><u>6.42</u></u>	85.60%
-Year Two Price per Unit	\$	7.50	
-Year Two Total Costs per Unit	\$	1.08	
-Year Three Price per Unit	\$	7.50	
-Year Three Total Costs per Unit	\$	1.08	



O'Sole Mio Project Update

Andrea and Tory Chiappelli

February 5th 2013



Project Overview

- O'Sole Mio is a Gelateria Café Bar
- Serving Gelato, Appetizers, Panini (Italian sandwiches)
- Fountain drinks, Italian aperitif's, coffee, tea, wine and beer.
- Hours of operation, Tuesday thru Thursday 11:00am to 8:00pm, Friday and Saturday 11:00am thru 10:00pm, Sunday 8:00am thru 6:00pm. Monday closed. (Making Gelato)





Current Status

- Project Budget.
 - Estimated business build out budget of \$65,000
 - Current investments in construction \$145,000
 - Capital invested for business build out \$75,800
 - Capital invested for upgrades (code and safety) \$65,200

- Estimated opening date 3-1-2013
 - Original opening date; 2-1-2013



Timeline





Issues and Resolutions

■ Building upgrades

- The existing furnace room along the back of the space was not fire rated. The following is a list of what needs to be done:
 - 5/8" fire rated drywall on both the inside and outside of the space
 - Additional sprinkler heads added to closet
 - Fire rated drop ceiling added to space
 - 1 hour fire rated doors (total of 5 needed)
- Gas pipe was used for 60% of the electrical conduit in the existing space- existing electrical outlets not done to code
 - All was removed in demolition of the space
 - New electrical conduit run throughout
- Electricity from the space next door was run to light the bathrooms
 - Existing electrical lines from space next door removed
 - New electrical lines run from the correct location
- Electricity from OSM run to power furnace in apartment upstairs



Issues and Resolutions

- Electricity was coming from out of date electrical box from far north end of building
 - Existing electrical lines removed and capped at electrical box
 - Resolution in progress
- Bathrooms were not ADA compliant
 - Toilets and sinks not ADA compliant
 - Bathrooms were not big enough for ADA compliance
 - Missing ramp to bathrooms for ADA compliance
 - All plumbing not compliant to code
 - Space completely gutted
 - New plans drawn for space
 - Completely reframed and fitted for ADA compliance
 - Ramp built to bathroom
 - Fire rated doors for both bathrooms added
 - ADA bars added for compliance
 - New plumbing run throughout



Issues and Resolutions

- Ceiling in bathrooms leaking
 - Currently investigating remedies for this problem
- Holes at top of bathroom walls currently covered with insulation only
 - Currently investigating remedies for this problem
- Code calls for second egress not currently existing
 - Second door planned for south end of space
 - Landing and ramp planned for south end of space
- Sprinkler system not adequate for space
 - Several sprinkler heads to be lowered
 - Plans for four additional sprinkler heads added to system
- Alarm system not adequate for space
 - Additional strobe alarms planned for space
 - Additional alarm equipment needed
- Existing space not insulated from apartment above
 - Insulation fitted in ceiling
 - Acoustic tiles fitted for space



Issues and Resolutions

- 3 foot by 7 foot hole at back of building currently supported by 2x4s and plywood (we're EXTREMELY lucky that somebody hasn't fallen through this floor yet)
 - 2x4s currently splitting and nails popping out
 - Current support system not anchored to wall
 - Completely remove current floor
 - Rebuilt support and flooring to code
- New plumbing throughout space
 - 25% old plumbing parts made of ABS (Illegal in Illinois)
 - New plumbing to be run throughout
 - Water supply to OSM bathroom supplying Pal Joey's bar
 - Fixed

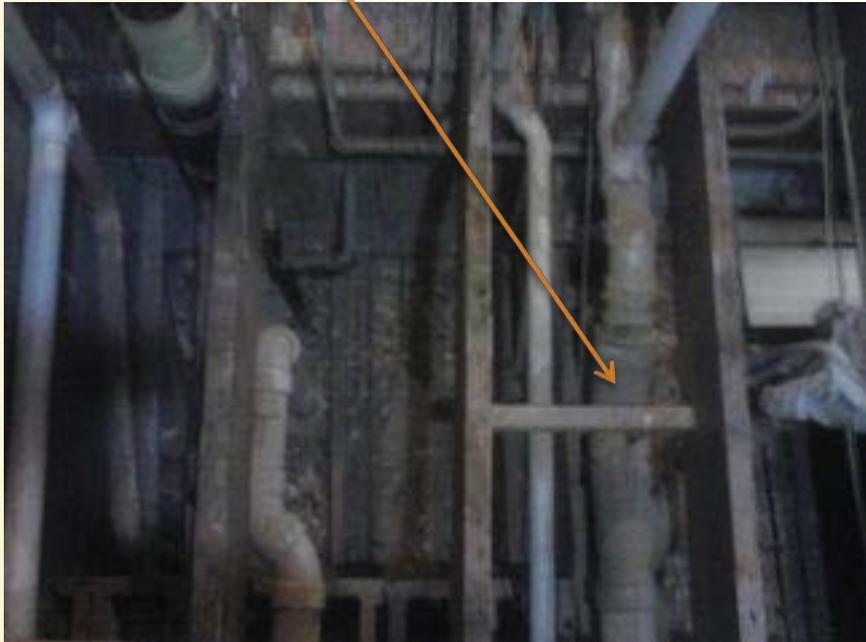


Mix Pipes PVC ABS





Mix Pipes PVC ABS





Gas pipe (used for electrical)



Roof leak





3 foot by 7 foot hole at back of building currently supported by 2x4s and plywood (we're EXTREMELY lucky that somebody hasn't fallen through)



Floor fixed from the basement





Looking Ahead

- O'Sole Mio is planning to start with a staff of 5 employees
 - We can teach the art to Gelato making to young generation
 - We will offer employment to Batavia residents
- O'Sole Mio will generate tax revenue for the city
- All of the improvements will raise the value of the building
- O'Sole Mio has the potential to bring more traffic to the new River Street in Batavia
- O'Sole Mio will be a complement to existing businesses