



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 06/28/2022

ITEM NO: 3

DATE: June 21, 2022
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Authorize the Town Manager to Negotiate and Execute a Lease Agreement with CineLux Theatres Co. LLC for the Operation and Program Management of the Los Gatos Theatre in Substantially the Form Presented

RECOMMENDATION:

Authorize the Town Manager to negotiate and execute a Lease Agreement with CineLux Theatres Co. LLC for the operation and program management of the Los Gatos Theatre in substantially the form presented.

BACKGROUND:

On November 16, 2021, the Town Council authorized the Town Manager to negotiate and execute a Donation Agreement for the Los Gatos Theatre Donation Property and issue a Request for Proposals (RFP) for the management and programming of the theatre. On December 30, 2021, the Town completed the transfer of the Los Gatos Theatre property to the Town's ownership.

On February 4, 2022, staff released a RFP for the Operation and Program Management of the Los Gatos Theatre (Attachment 1). The RFP sought qualified individuals or firms to operate and manage the Los Gatos Theatre (Theatre) on behalf of the Town. The RFP stressed that respondents should advance the theatre's long-term financial viability while advancing the following goals:

1. Preservation of the Theatre as one of the most significant historical, cultural and architectural resources in the Town of Los Gatos;
2. Enrichment of the community through the promotion and presentation of high-quality entertainment, cultural events, and community education programs of interest to all segments of the community;

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager, Town Attorney, Economic Vitality Manager, and Finance Director

BACKGROUND (continued):

3. Identification of the Theatre as a central destination point for cinematic and performing arts which drives economic activity in downtown Los Gatos and the broader region; and
4. Long-term financial sustainability.

By the March 4, 2022 RFP submission deadline, staff received proposals from the following three respondents:

- Guggenheim Entertainment
- Pruneyard Cinemas LLC
- CineLux Theatres Co. LLC

The RFP review panel consisted of the Assistant Town Manager, Economic Vitality Manager, and Director of Parks and Public Works. After careful consideration of the RFP responses, the review panel selected CineLux Theatres Co. LLC as the best option for the management and operation of the Theatre. CineLux has over 55 years of theatre experience and is the largest independent regional theatre operator in the South Bay. CineLux currently operates seven locations with 53 screens. In addition, CineLux has demonstrated the successful acquisition and operation of seven previously closed or failed motion picture theatres.

DISCUSSION:

Provided below are the salient elements of the draft Lease Agreement (Agreement) staff is utilizing as the basis of agreement between the Town of Los Gatos and CineLux Theatres Co. LLC (Attachment 2).

Agreement Elements	Comments
Term	Five (5) year initial agreement with two (2) five-year options.
Theatre Management	CineLux would operate and manage the Theatre independently of Town in compliance with agreed upon performance expectations and Town, state, and federal rules, regulations, and laws. The nature of this relationship is that of an independent contractor.
Theatre Programming	Professional film programming shall be a prioritized use in the Theatre.
Profit Sharing	Town shall receive 5% of the Theatre's gross revenue annually.

DISCUSSION (continued):

Agreement Elements	Comments
Monthly Rent	- For the first (1) year after the Delivery Date, Cinelux shall pay no Rent for the Premises. The Delivery Date is the date that CineLux assumes responsibility for the Theatre under the Agreement. - For the second (2) year after the Delivery Date, Cinelux will pay base rent of \$5,000 per month. - In year three (3) after the Delivery Date, Cinelux will pay monthly rent of \$10,000 per month.
Annual Reporting	- An annual financial report for Cinelux's previous fiscal year. - An annual narrative report on the operations of the Theatre for the previous fiscal year. - A report assessing the status of physical condition of the Theatre, preventive maintenance activities completed, and any needed Capital Replacements. - Cinelux's proposed budget for the Theatre operations and maintenance for the current fiscal year.
Town, Non-profit, and Community-Based Organization Theatre Use	- Not less than 6 times per year, Cinelux shall make the Theatre available for rental to Los Gatos community-based organizations and non-profit organizations at no cost. - Cinelux shall maintain a tiered fee structure that includes discounted rates with specified eligibility criteria for Los Gatos community-based organizations and non-profit organizations. - Not less than 2 times per year, Cinelux shall make the Theatre available to the Town at no cost.
Maintenance & Repairs	- Cinelux shall be responsible for all routine daily maintenance of the interior shell of Theatre Facility. - Cinelux shall be responsible for the routine and preventive maintenance services of all building systems. - As stated in Exhibit D, Maintenance Matrix, to the Draft Agreement (Attachment 2), Town shall be responsible for the structural foundation, bearing and exterior walls, and subflooring among other items

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SUBJECT: Los Gatos Theatre Lease Agreement

DATE: June 21, 2022

CONCLUSION:

Staff recommends that the Council authorize the Town Manager to negotiate and execute a Lease Agreement with CineLux Theatres Co. LLC for the operation and program management of the Los Gatos Theatre.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, Economic Vitality Manager, Director of Parks and Public Works, and Finance Director.

FISCAL IMPACT:

Income derived from this agreement will be deposited to a Special Revenue Fund and would be utilized for the ongoing capital needs of the Theatre.

ENVIRONMENTAL ASSESSMENT:

In accordance with CEQA Guidelines Section 15301, this lease is categorically exempt from CEQA because it is a lease of an existing structure and will involve negligible expansion of an existing structure.

Attachments:

1. Los Gatos Theatre RFP
2. Draft Lease Agreement