TOWN OF LOS GATOS

COUNCIL AGENDA REPORT

MEETING DATE: 10/04/2022

ITEM NO: 13

DATE: September 28, 2022

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager

SUBJECT: Adopt Final Lease Agreement with CineLux Theatres Co. LLC for the Operation and Program Management of the Los Gatos Theatre

RECOMMENDATION:

Adopt final Lease Agreement with CineLux Theatres Co. LLC for the operation and program management of the Los Gatos Theatre.

BACKGROUND:

On June 28, 2022, the Town Council authorized 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 (Attachment 1). Since then, the Town and CineLux ("Parties") have been finalizing the Lease Agreement and have reached consensus on a final draft agreement. Staff believes Council should be apprised of one element of the final draft which differs from the agreement presented to Council in June.

DISCUSSION:

Staff believes maintaining stable management of the Theatre will be an important element of the Theatre's long-term financial sustainability and success. As such, the Parties acknowledge that some form of minimum profitability needs to be achieved by CineLux. In order to address minimum profitability, Section 6.9 has been added to SECTION 6, "Rent and Monetary Obligations."

> *6.9 Minimum Profitability of Commercial Theatre Operations. Both CineLux and Town recognize that the long-term financial stability and profitability is required for the success of Theatre operations. CineLux requires minimum annual net income of One*

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Attorney and Interim Finance Director

DISCUSSION (continued):

> *Hundred Thousand Dollars ($100,000) ("Minimum Net Income") of Theatre for the contractual Rent and Monetary Obligations to be fully obligated and payable. Therefore, the parties may agree to modify the annual Rent and Monetary Obligations to ensure a Minimum Net Income of $100,000 annually. Failure of CineLux to achieve this dollar amount of Minimum Net Income shall constitute adequate grounds for Termination of this Lease under Section 15.*

The $100,000 Minimum Net Income was derived from a review of proforma financial statements utilizing historic attendance levels. In the event the Minimum Net Income isn't achieved the parties agree to review the established annual rent at the time and the Town's 5% Gross Revenue share.

CONCLUSION:

Adopt final Lease Agreement with CineLux Theatres Co. LLC for the operation and program management of the Los Gatos Theatre.

COORDINATION:

This staff report has been coordinated with the Town Manager and Town Attorney.

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. June 28 2022 Staff Report
2. Final Draft Theatre Lease Agreement