



**DATE:** October 6, 2020

**TO:** Mayor and City Council

**FROM:** Deputy City Manager

**SUBJECT:** Adopt a Resolution Authorizing the City Manager to Negotiate and Execute a Letter Agreement with 1069 B Street, LLC to Defer Rent and Parking Maintenance Payments for Cinema Place

### **RECOMMENDATION**

That Council, in its capacity as governing board of the Hayward Successor Agency, adopts a resolution (Attachment II) authorizing the City Manager to negotiate and execute a Letter Agreement with 1069 B Street, LLC that defers rent and parking maintenance payments for the Cinema Place parcels.

### **SUMMARY**

The Hayward Successor Agency receives ground lease rent and parking maintenance fees from the tenant of Cinema Place, 1069 B Street. Due to the COVID-19 pandemic and shelter in place orders, the ten subtenants at Cinema Place, including the movie theater and several restaurants, have experienced a significant loss in revenue. 1069 B Street, LLC has requested rent deferral for the months of April through October 2020. They will pass along rent forgiveness or deferral benefits to their subtenants in an equal or greater amount than they are receiving from the Successor Agency. The rent will be paid back in 24 installments with no interest or late fees beginning January 2021. Staff is recommending that the Successor Agency accepts the proposal and adopts the attached resolution.

### **BACKGROUND**

In 2005, the Hayward Redevelopment Agency entered into a ground lease with the developer of the Cinema Place project. The developer then built improvements to the Cinema Place structure and adjacent parking facility, which is Municipal Lot 3. The ground lease expires in 2056.

In 2007, once the improvements to the parking structure were complete, the Redevelopment Agency and the developer entered into a Parking Lot Maintenance Agreement. Under the agreement, the tenant and Agency are required to equally share maintenance costs.

When the State of California dissolved Redevelopment Agencies, the ground lease and maintenance agreement were transferred to the Hayward Successor Agency. Around the same time, the agreements transferred from the original developer to the current lease tenant, 1069 B Street, LLC.

Per the lease agreement, 1069 B Street, LLC makes an annual base rent payment of \$50,000 to the Successor Agency. In addition, they pay approximately \$67,000 annually for parking garage maintenance, which goes to the City's General Fund. The City oversees the maintenance, including utilities, cleaning contracts, and facility updates.

## **DISCUSSION**

There are ten subtenants at the Cinema Place property, including the downtown Movie Theater and several restaurants. Due to the COVID-19 pandemic and shelter in place orders, these businesses have experienced a significant loss of revenue.

City staff who support the Successor Agency began conversations with 1069 B Street, LLC in early April 2020 about their inability to pay base rent and maintenance fees due to loss in rent revenue from their subtenants. The Successor Agency received a formal letter on May 18, 2020 with a request for rent deferral. In addition, 1069 B Street, LLC provided a summary of their collections for April, which showed receipts at approximately 12% of normal.

In the letter, 1069 B Street, LLC requested a deferral of rent and parking lot maintenance fees for the months of April through October 2020. They also requested repayment in 24 installments with no interest or late fees beginning January 2021. 1069 B Street, LLC has agreed to pass along rent forgiveness or deferral benefits to their subtenants in an equal or greater amount than they are receiving from the Successor Agency and must be offered in an equitable manner to all subtenants. The terms may differ by tenant depending on each tenant's situation and needs. Additional terms include no subtenant evictions in compliance with the City's eviction moratorium and noticing of subtenants of the executed Letter Agreement.

Staff recommends that the Successor Agency Board accepts the proposal and approves the attached resolution authorizing the City Manager to negotiate and execute a Letter Agreement consistent with the terms outlined in this staff report. .

## **ECONOMIC IMPACT**

The COVID-19 pandemic has created financial hardship for many Hayward businesses. The recommended action will provide these businesses relief in the form of rent deferral or forgiveness, which will increase their potential of remaining operational in the long term.

## **FISCAL IMPACT**

The agreement outlined above reduces revenue to the Successor Agency and City of Hayward General Fund in FY20 and FY21 compared to a normal year. The total amount deferred over

seven months is \$29,166 in ground lease payments and \$39,316 in parking garage maintenance fees. The revenue payments are shown in the table below and FY19 is provided for comparison as a normal year. In FY22 and FY23 revenue will be higher than normal.

Staff has reviewed the FY21 ROPS and feels that the reduced revenue can be absorbed into the existing budget. Staff will adjust in subsequent years to account for the changes.

**Ground Lease: Successor Agency Impact**

| Year  | FY19*    | FY20      | FY21     | FY22     | FY23     |
|---|----------|-----------|----------|----------|----------|
| Revenue payments                                    | \$50,000 | \$37,500  | \$40,625 | \$64,583 | \$57,292 |
| Revenue decrease/increase compared to a normal year |          | -\$12,500 | -\$9,375 | \$14,583 | \$7,292  |

**Maintenance Agreement: General Fund Impact**

| Year  | FY19*    | FY20      | FY21      | FY22     | FY23     |
|---|----------|-----------|-----------|----------|----------|
| Revenue payments                                    | \$67,399 | \$50,549  | \$54,762  | \$87,057 | \$77,228 |
| Revenue decrease/increase compared to a normal year |          | -\$16,850 | -\$12,637 | \$19,658 | \$9,829  |

**STRATEGIC ROADMAP**

This agenda item is an operational item. It does not directly relate to any of the six priorities outlined in the Council's Strategic Roadmap.

**NEXT STEPS**

If this item is approved, staff will negotiate and execute a Letter Agreement per the terms described above.

*Prepared by:* Mary Thomas, Management Analyst II

*Recommended by:* Jennifer Ott, Deputy City Manager

*Approved by:*



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Kelly McAadoo, City Manager