



DATE: February 23, 2021

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Silicon Shores Rent Modification
Due to COVID-19**

RECOMMENDATION

Authorize the City Manager to grant a temporary reduction in the percentage rent by 2 percent for the lease agreement with Silicon Shores due to the economic impacts of COVID-19, effective June 2020 and until the declared local emergency is terminated.

BACKGROUND

The City leases the Shoreline Boathouse and Café to Silicon Shores Corporation, a small business whose operations are limited to this one facility (Figure 1). Under the lease, Silicon Shores operates the Shoreline Sailing Lake and boating facility, which includes collection of launch fees; teaching sailing and boating-related classes; rental of boats and equipment; sales of boating equipment, supplies, and clothing; and operation of a food service café. The current lease expires in 2028 with two five-year renewal options with City approval.



Figure 1: Lease Area of Silicon Shores

The tenant pays rent based on a percentage of revenue: 8 percent of gross receipts collected on food/beverage service revenue and 10 percent of gross receipts on all other revenue collected without offsets of any kind. The City pays for half the utility costs, which is subtracted from rent. The tenant is required to submit to the City a monthly summary of all gross receipts for food service and any other revenues. The net annual rent paid to the City in calendar year 2018 was \$294,000 and \$293,000 in 2019.

The tenant has recently requested rent relief due to the pandemic reducing their business income and increasing their operating costs (Attachment 1).

ANALYSIS

With a percentage-based lease, the tenant is already receiving an automatic reduction in the net annual rent when their gross revenue declines. For calendar year 2020, the net rent received was \$167,000, which was a 43 percent decrease from 2019. For this reason, staff does not recommend a rent reduction due to a decrease in gross revenue.

However, basing the percentage rent on gross revenue does not account for an increase in operating costs beyond the tenant's control. A significant increase in operating costs to meet COVID-19 requirements has impacted the business's net income and created an operating deficit. In addition to labor and material costs to meet requirements for sanitizing, the ratio of students per employee had to be reduced for the summer recreational programs, keeping operating costs up while reducing revenue.

Staff has reviewed the request and recommends reducing the percentage rent to 6 percent (from 8 percent) of gross receipts collected on food/beverage and 8 percent (from 10 percent) on all other revenue, retroactive to June 2020 and until the state of emergency is lifted and regular operations at the Sailing Lake and Café can resume. Staff's recommendation factors the tenant's increased operating costs due to COVID-19 requirements into the rent relief.

The City has provided similar rent relief to other small businesses who have leases with the City, including the Bean Scene, Savvy Cellars, and Olympus Caffé.

FISCAL IMPACT

The recommended 2 percent reduction of the percentage lease will result in an estimated range of \$40,000 to \$50,000 less in net rental revenue in Fiscal Year 2020-21. This is in addition to the reduced rent to be paid from the decline in gross revenue, which is estimated to be in the range of \$100,000 to \$120,000 for Fiscal Year 2020-21 compared to Fiscal Year 2018-19 (pre-COVID-19).

ALTERNATIVES

Provide other direction to staff.

PUBLIC NOTICING

Agenda posting and a copy of this report to Christina Ferrari, doing business as Silicon Shores, Inc.

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ALM/DWG/6/CAM
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Attachment: 1. Silicon Shores Rent Relief Request