



## **PUBLIC WORKS DEPARTMENT**

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### **CITY COUNCIL STAFF REPORT**

Meeting: September 15, 2020

#### **Subject**

Temporary rent reductions for Coffee Society lease of library storefront space and for Blue Pheasant lease of restaurant space adjacent to the Blackberry Farm Golf Course to address hardships from COVID-19 impacts.

#### **Recommended Actions**

Authorize the City Manager to execute all documentation necessary to temporarily reduce rental payments by 50-percent (50%) for the Coffee Society and Blue Pheasant lessees during State and County mandated Shelter-in-Place orders and restrictions on indoor dining.

#### **Background**

The Coffee Society and Blue Pheasant businesses lease City facilities for their operations. The Coffee Society leases a 500 square foot (SF) store front located at the northwest corner of the Library, and the Blue Pheasant leases a 6,800 SF restaurant space on Stevens Creek Boulevard, near Phar Lap Drive, adjacent to the Blackberry Farm Golf Course. The County's Shelter-in-Place orders and restrictions on indoor dining have affected the ability of these businesses to operate at a profitable level. The Coffee Society currently pays rent in an amount of \$1,907/month and the Blue Pheasant pays \$6,875/month. These tenants have been good stewards of the City's property and have paid their respective leasing obligations on time over the course of their tenancies.

The Coffee Society depends heavily on Civic Center and Library foot traffic to stay profitable. However, the Civic Center has been effectively closed to visitors since the Shelter-in-Place order, limiting the number of patrons to the business. Additionally, the Coffee Society space does not contain restroom facilities for customers, which are mandatory in order to operate the business. Historically, the facility has used the restrooms in the Library for its customers, but the Library has been closed since the Shelter-in-Place order. The closure of these facilities restricted the owner's ability to open the business. On August 3<sup>rd</sup>, the Coffee Society reopened their business, at which time the City opened Community Hall

restrooms for public use, including Coffee Society patrons, thereby enabling the business to operate. Nevertheless, the Civic Center and Library remain closed, and the number of patrons to the Coffee Society has been limited.

The Blue Pheasant depends heavily on revenues from banquets and from patrons in the lounge during evening hours. Due to indoor dining operations being restricted, the Blue Pheasant has not been able to operate at profitable levels. To date, the Blue Pheasant restaurant remains closed.

### **Discussion**

On March 18, 2020, the Governor and the County issued shelter-in-place orders to help slow the spread of COVID-19. The orders have affected most businesses in the state, including the Coffee Society and the Blue Pheasant. Further, restrictions regarding indoor dining continue to adversely affect restaurants and lounges.

The City allowed for a deferral of rent payments for these two facilities for 3 months after the initial Shelter-in-Place orders were extended, in order to ease economic strains on the businesses. After the initial 3-month deferral period, the City allowed for rent deferrals for an additional 2 months. The second deferral period ends on September 30, 2020, at which time all rent during the deferral period is due. In order to further ease economic strains on the businesses, the City is proposing to reduce rent payments by 50% during the deferral period, beginning May 2020 through September 2020, and to extend the reductions until indoor dining operations are permitted to resume to 50% capacity, or to a level deemed appropriate as determined by the City Manager, or in the case of the Coffee Society, when the Library also reopens to the public. A 50% reduction in rent from May 2020 through September 2020 would result in a rent adjustment of \$4,767.50 for the Coffee Society (\$953.50/month), and \$17,187.50 for the Blue Pheasant (\$3,437.50/month) during the time period. By reducing rent, the City is helping ease some economic strain on its two food service tenants, ensuring a portion of lease revenues for these facilities continues to be received during these difficult times, and maintaining a good leasing partnership with its tenants.

It is currently unknown when the State and the County will permit indoor dining to resume, or when the Library will reopen to the public. The proposed reductions in rent would see City revenues reduced by \$4,391/month, and subsequently by \$52,692/year.

Santa Clara County has adopted a commercial eviction moratorium, which was recently extended through August 31, 2020. The moratorium provides tenants up to 6 months after the moratorium expires or terminates to repay at least 50% of

past-due rent, and up to 12 months after the moratorium expires or terminates to repay in full past-due rent. This moratorium does not reduce rent payments, and tenants are still responsible for paying unpaid amounts to landlords, but those unpaid amounts cannot be the basis for an eviction. The proposed temporary reductions in rent being considered by Council here go one step further, by reducing rent payments owed by 50% for a limited period. If Council does not choose to adopt this proposal, the eviction moratorium and extended repayment options in the County orders would still apply.

**Sustainability Impact**

No sustainability impact

**Fiscal Impact**

Reduction of rent by 50% for these two facilities would result in a loss of leasing revenue of approximately \$4,391/month during the reduction period (\$953.50/month for Coffee Society and \$3,437.50/month for Blue Pheasant). As of September 30, 2020, a 5-month reduction period would have elapsed (from May 1, 2020 through September 30, 2020), which would result in a net loss of revenue of \$21,955 for these facilities to date. If indoor dining continues to be restricted and/or the Library remains closed through April 2021, a one-year net loss in revenue would equate to approximately \$52,692.

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Prepared by: Chad Mosley, Assistant Director of Public Works

Reviewed by: Roger Lee, Director of Public Works

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Coffee Society Lease Agreement (2019)

B – Blue Pheasant Lease Agreement (2013)