



DISCUSSION ITEMS

Agenda Item # 9

AGENDA REPORT SUMMARY

Meeting Date: October 10, 2017

Subject: Proposal from Children's Corner to continue lease at new Community Center

Prepared by: Chris Jordan, City Manager

Attachment(s): ~~None~~

1. [Letter of Intent from Children's Corner](#)

Initiated by:
City Manager

Fiscal Impact:

- Estimated Expenditure: \$2.5 million
- Estimated Revenues: \$4.9 – 5.8 million over 20 years

Environmental Review:

If approved, additional square footage at new community center would be included in the CEQA review for the new Community Center.

Policy Question(s) for Council Consideration:

- Does the City Council believe the Los Altos community benefits from a continuing landlord/tenant relationship between the City and Children's Corner?
- If so, does the benefit of that relationship, combined with the revenues generated for the City through a lease agreement, offset the cost of dedicating public land for this use for the next 20 years?

Summary:

- Children's Corner has leased space at the Hillview Community Center for nearly four decades, but was informed by staff that this relationship will end when the current lease expires in September 2018.
- In July, representatives of Children's Corner approached the City with a proposal to extend this relationship by dedicating space in the new Community Center for Children's Corner use.
- A team of three individuals (two staff members and one citizen), met with Children's Corner representatives and have evaluated the proposed terms.
- The Financial Commission has also reviewed the proposed terms.

Staff Recommendation:

Although the proposal from Children's Corner is reasonable and offers a good return on investment for the City, given the Council's recent direction to allocate additional funds for the new Community Center, staff recommends option 2.



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Purpose

To evaluate a proposal from the Children’s Corner to continue its relationship with the City in the new Community Center and determine if the benefits of that relationship outweigh the expense of dedicating public land for this purpose.

Background

Since 1981, the City of Los Altos has leased space at the Hillview Community Center to the private, no-profit preschool, Children’s Corner. Currently, the preschool leases 3,375 square feet of indoor space, and 5,639 sq. ft. of outdoor space. This space is used exclusively by Children’s Corner. In return for the use of this space, Children’s Corner is currently paying \$4,144/month. Staff has informed Children’s Corner that there will not be a renewal of the lease when it expires in September 2018.

Following the appointment of the Community Center Task Force, the Task Force’s first few meetings were well attended by individuals advocating for space in the new Community Center to be allocated for Children’s Corner. This was followed by an email from Board of Children’s Corner “to express our interest into entering a partnership with the City of Los Altos and ask you to pass on our desire to stay in the Hillview Community Center to the City Council. Staff indicated to the Task Force that its role was to determine space allocation; not to determine who or how services/programs would be provided. Staff offered to meet with Children’s Corner representatives. Staff also had brief discussions with both the Mayor and Vice Mayor who the City Council had appointed the task for reviewing the possibility of fundraising efforts for the new Community Center or other City projects.

Based on an initial conversation with Children’s Corner representatives, the City Manager asked two staff members – Administrative Services Director Sharif Etman and Recreation and Community Services Director Manny Hernandez – and a citizen (private accountant Dennis Young) to meet with Children’s Corner and review any proposal we may receive. Following a meeting between these two groups, the City received the attached written proposal from the Children’s Corner on August 18, 2017. Following a brief series of written communications between the City’s team and Children’s Corner, the proposal was refined to include:

1. The lease term will be 20 years
2. Children’s Corner will make a nonrefundable \$600,000 deposit upon execution of the lease. This deposit will be amortized as a monthly rent credit over the life of the lease (\$2,500 per month).
3. Rent will be \$5.00 per month per square foot for the indoor space (minimum 3,000 square feet) and \$1.00 per month per square foot for the outdoor space (between 3,000-3,500 square feet) and be paid at 5/7 of the dollar based on exclusive outdoor usage Monday-Friday, 8am-6pm.



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4. Monthly rent will increase annually by the Bay Area SMSA CPI, but no less than 2% nor more 4%.
5. Outdoor space does NOT include playground equipment. Playground equipment will be mutually agreed upon between Children's Corner and the City, be purchased and installed at Children's Corners expense, and meet the specifications as commercial equipment. Outdoor space and equipment will be accessible to the public outside of Children's Corner operating hours.

Discussion/Analysis

The indoor space that the Children's Corner is requesting is estimated to cost \$2 million to construct. The site preparation costs for the outdoor area is estimated to cost \$500,000. The total revenues over the 20-year period the City would receive would fall in the range of \$4.9 million-5.8 million depending on the rate of inflation.

Staff presented the proposal to the Financial Commission on September 18, 2017 and the Financial Commission approved the following motion:

From the initial review of the proposal, it justifies moving the question to council, but would like council to consider:

1. *The exclusive use of public space for a preschool vs maximization of public land*
2. *Risk of long term contract with a private entity*
3. *Open and transparent process for selection of any tenants*

When staff received the proposal from the Children's Corner, staff viewed it as an investment both in the community and the new Community Center. However, at its study session with the Community Center Task Force on September 26, 2017, the City Council gave direction that would increase the budget for the new Community Center from \$25 million to \$35 million. Although the City has the resources to cover this additional allocation, staff would encourage the City Council to exercise caution before investing additional City resources on this project, even with a positive rate of return.

Options

- 1) Direct staff to prepare a lease agreement with Children's Corner reflecting the terms outlined in the proposal received from Children's Corner

Advantages: The lease would allow the Children's Corner to continue to provide services from the new Community Center and would provide the City with positive rate of return on an investment of \$2 million.



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Disadvantages: The City would have to dedicate over 6,000 sq. ft. of public property for this use. An additional commitment of \$2 million for the City would make it even more difficult for the City to invest its resources in needed improvements to other City facilities.

2) Do not approve terms proposed by Children's Corner

Advantages: The City does not dedicate 6,000 sq. ft. for this purpose and the City can use the \$2 million and invest it in other City facilities.

Disadvantages: The community would not continue to have the services of Children's Corner at the new Community Center.

Recommendation

Although the proposal from Children's Corner is reasonable and offers a good return on investment for the City, given the Council's recent direction to allocate additional funds for the new Community Center, staff recommends option 2.



Los Altos - Mountain View

Children's Corner™

Letter of Intent to the City of Los Altos

Children's Corner, a non-profit NAEYC-accredited preschool, would like to partner with the City of Los Altos to continue to provide its unique services to the community in the future Hillview Community Center. The Children's Corner programs are aimed at the underserved needs of working families in Los Altos with flexible part-time and full-time enrichment for all children, including those with special needs. We view the Hillview Community Center as the most desirable location consistent with our mission to provide the parents and children of Los Altos with touch points into the community.

It is the intent of Children's Corner to offer the below key terms and negotiate in good faith with the City of Los Altos to secure a space in the future Hillview Community Center for the mutual benefit of our community, contingent on creating a mutually agreeable contract:

- Comparable market-rate rent per square footage for a long term lease: i.e.
 - 20 year lease in the future Hillview Community Center
 - \$180,000 to \$200,000 annually for
 - 3,000 to 4,000 sqft Indoor space and
 - 2,500 to 5,000 sqft Outdoor space (shared)
- A portion of annual rent for the duration of lease, will be paid upfront as a lump sum:

Scenario A: Upfront rent payment of \$400,000 to \$600,000 to the City of Los Altos

Children's Corner will relocate to a temporary location leased independently from the city of Los Altos during the construction phase of the Hillview Community Center. The viability of this scenario is contingent on the additional costs incurred by Children's Corner to operate at a new location. Additional risks include a decrease in enrollment due to location, inadequate space, less desirable space, and other unknown factors at a new temporary location. The possibility exists that Children's Corner may be unable to secure an acceptable temporary space and thus would not pursue a binding agreement with the city.

Scenario B: Upfront rent payment of up to \$1,000,000 to the City of Los Altos

Children's Corner will relocate to a temporary building or lot leased from the city of Los Altos during the construction phase of the Hillview Community Center. Children's Corner will pay the cost of relocation and improvements to continue operations. This could include leasing portables, interior repairs, and/or maintenance needed to provide a suitable environment for our programs. The city would facilitate permitting, utility hookups, and any other city infrastructure requirements.

This letter is a statement of intent only and does not constitute a binding legal commitment.

Sincerely,

Children's Corner Board of Directors