



DISCUSSION ITEMS

Agenda Item # 4

AGENDA REPORT SUMMARY

Meeting Date: April 10, 2018

Subject: Proposal from Children's Corner to Continue Lease at new Community Center

Prepared by: Chris Jordan, City Manager

Attachment(s):

1. Letter of Intent from the Children's Corner (revised)
2. 2017 Letter of Intent from Children's Corner (reviewed at October 10, 2017 Council meeting)

Initiated by:

Direction of the City Council following a request from the Children's Corner

Fiscal Impact:

Estimated Expenditure: \$2.5 - 3 million

Estimated Revenues: \$2.36 – 2.47 million

Environmental Review:

If approved, additional square footage at new community center would be included in the CEQA review for the 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 the 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 10 years?
- Does the revised proposal from the Children's Corner comply with the direction provided by the City Council at the October 10, 2017 meeting?

Summary:

- The Children's Corner has leased space at the Hillview Community Center for nearly 4 decades, but was informed by staff that this relationship will expire in the next 12 months due to construction of the new community center, anticipated to begin in June 2019.
- Staff has discussed with the Children's Corner an extension of the lease until March 2019, based on the current schedule for the community center project
- In October 2017, the City Council reviewed a proposal from the Children's Corner for a 20-year lease at the new community center and provided direction
- The Children's Corner has provided a response to the Council's October request



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Staff Recommendation:

Staff believes the revised Children's Corner proposal is in accordance with the Council's October request. Therefore, staff would recommend the Council approve the request and direct the City Manager and City Attorney to prepare an agreement with the Children's Corner that reflects the terms of the attached letter of intent.



Subject: Proposal from Children's Corner to Continue Lease at new Community Center

Purpose

To evaluate a revised 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 and a facility for this purpose.

Background

Since 1981, the City of Los Altos has leased space at the Hillview Community Center to the private, non-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 the Children's Corner. In return for the use of this space, the Children's Corner is currently paying \$4,144/month. The current lease is set to expire September 2018. Staff and Children's Corner representatives have discussed extending the lease until March 31, 2019, as construction on the new community center is anticipated to begin until June 2019.

Based on a request and a Letter of Intent from the Children's Corner received in 2017, the City Council discussed the merits of the request October 10, 2017. As part of the staff report, staff did not recommend approving the request due to the City's financial situation. At that meeting, the City Council chose to take the following action:

Motion made by Vice Mayor Mordo, seconded by Mayor Prochnow, to direct staff to negotiate with Children's Corner a revised proposal in which Children's Corner would pay for half of the construction costs for additional space in the Community Center and include discussion of constructing space for Children's Corner along with the updated 10-year financial forecast.

Since October 10, the following steps have been taken:

- 1) The Children's Corner has made two significant modifications to the proposal:
 - a. Increased the financial commitment/deposit from \$600,000 to \$1 million; and
 - b. Reduced the lease term from 20 years to 10 years.
- 2) The City Council received/reviewed the City's financial forecast on January 9, 2018 which indicated that to complete the community center with a budget of \$35 million, the City will likely need to take out a loan of \$5-10 million.

Discussion/Analysis

The current proposal for Children's Corner includes the following:

1. The lease term will be 10 years



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2. Children’s Corner will make a nonrefundable \$1,000,000 deposit (60% at lease signing; 40% at the construction mid-point). This deposit will be amortized as a monthly rent credit over the life of the lease (\$8,333 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.
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 (up to \$200,000), and meet the specifications as commercial equipment. Outdoor space and equipment will be accessible to the public outside of Children’s Corner operating hours.
6. Enrollment will be established based on a set of preferences outlined in the proposal.

The cost of site preparation for both the indoor and outdoor space, and the cost to construct the building, has not been included in earlier estimates by the design team, however, staff anticipates a total expense of \$2-2.5 million for the building, and \$500,000 for preparation of the outdoor space. The total revenues from the agreement over the 10-year lease period would be \$2.36 million -- 2.47 million depending on the rate of inflation. If the City were to borrow the necessary funds to complete this part of the project, the total cost of the principle and debt over the 10-year period is estimated at \$3.0 million - \$3.6 million. (Based on principal of \$2.5 million -\$3 million with an interest rate of 4% and paid over a period of 10 years.)

Two items to note:

- 1) The cost of constructing this facility would be in addition to the current budget of \$35 million for the new community center.
- 2) The location of the Children’s Corner facility would likely be in the area marked as “Space for 10,00 SF Future Expansion” in the materials provided at the March 13 City Council meeting.

Options

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



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Advantages:

- The lease would allow the Children's Corner to continue to provide services from the community center.
- In 10 years, the City would have the option to terminate the lease agreement with Children's Corner and assume control over its portion of the facility that would have been paid for primarily by the non-profit organization.

Disadvantages: The City would have to dedicate over 6,000 sq. ft. of public property for this use. The additional debt likely to be incurred by the City would need to be paid back with interest.

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

Advantages: The City does not dedicate 6,000 sq. ft. for this purpose preserving that land as open space or for another purpose.

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

Recommendation

Staff believes the revised Children's Corner proposal is in accordance with the Council's October request. Therefore, staff would recommend the Council approve option 1 and direct the City Manager and City Attorney to prepare an agreement with the Children's Corner that reflects the terms of the attached letter of intent.



Letter of Intent to the City of Los Altos

Children's Corner is offering a net of up to **\$1,200,000** to the City of Los Altos for a **10 year lease** in the future Hillview Community Center with the following terms:

- **\$1,000,000** upfront deposit:
 - 60% at lease signing.
 - 40% at mid point construction completion.
 - Deposit will be amortized as monthly rent credit over life of the lease.
- Up to **\$200,000** in outdoor expenditure:
 - Children's Corner will select and pay for its outdoor space soft-landscaping, playground apparatus and functions.
 - 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.
- Rent will be **\$5.00 per sqft** per month for allocated Indoor space (minimum 3,000 sqft)
 - Supplied by city in move-in ready condition with mutually agreed design of bathrooms, sinks, countertops, cabinets, and fixtures.
- Rent will be **\$1 per sqft** per month for Outdoor space (between 3,000 - 3,500 sqft) paid at 5/7 of the dollar based on exclusive weekday usage Mon-Fri 8am-6pm.
- Rent will increase annually by the Bay Area SMSA CPI, but no less than 2% nor more than 4%. Only the non-prepaid portion of the rent is subject to increase.
- Children's Corner will offer enrollment preferences to the following:
 - Existing contracts and their siblings
 - Families who reside in Los Altos city boundaries
 - City employees and families who work in Los Altos city boundaries
 - Children's Corner reserves the right to continue offering its services to low-income, military, or those with special needs children regardless of city of residence or employment, on case-by-case basis.

It is the intent of Children's Corner to offer the stated 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.

The Children's Corner programs are aimed at the underserved needs of working families in Los Altos with part-time and full-time enrichment for all children, including those with special needs. Our unique drop-in programs will provide on-site hourly child care to those using the Hillview facilities, creating synergy throughout the community center programs.

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

Thank you,
Children's Corner - Board of Directors



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