



Children's Corner Lease Proposal

APRIL 10, 2018

Background

- The Children's Corner, a private, non-profit preschool, has leased space from the City at Hillview Community Center for nearly 40 years
- Because the City is in the design phase for a new community center, the Children's Corner has been advised that it must vacate the premises by March 2019.
- At several public meetings, the Children's Corner expressed an interest in leasing space in the new community center and prepared a proposal that was reviewed by the Council in October 2017.
- At that meeting, the Council agreed to the idea of leasing space to the Children's Corner provided that the proposal was modified so that the Children's Corner would pay for half of the construction costs for additional space in the community center.

Revised Proposal

- The revised proposal from the Children's Corner:
 - The City builds and allocates 3,000 sq. ft. of indoor space and 3,000 sq. ft. of outdoor space for the Children's Corner.
 - Reduces the length of the lease from 20 years to 10 years to allow the City the option of utilizing the space for a different purpose sooner.
 - Increases the amount of the upfront deposit from \$600,000 to \$1,000,000.
 - The deposit will be amortized as a monthly rent credit over the 10-year period

Proposal (cont.)

- Rent for indoor space will start at \$5.00/month per sq. ft.; outdoor space will be \$1.00/mo. per sq. ft., multiplied by 5/7.
- Monthly rent will increase by CPI annually, no less than 2% and no more than 4%.
- Children's Corner will pay up to \$200,000 toward outdoor playground equipment.
- Enrollment in the pre-school will be based on the preferences outlined in the proposal

Analysis/Discussion

- In the Council report, staff estimates that the indoor and outdoor space will cost \$2.5 million-3 million to construct.
- This project will likely require the City to borrow the necessary funds
- Over the 10-year period of the lease, the City would recover approximately \$2.3-2.5 million of the debt through the payments from the Children's Corner. A balance of approximately \$1.2 million of the principal would remain to be paid at the end of the 10 year period.
- Under a lease of 20 years, the City would receive approximately \$4.9-5.8 million, and the City would be have recovered the full cost of the loan after 15-16 years.

Analysis/Discussion (cont.)

Advantages of agreeing to entering into a lease with the Children's Corner:

1. Children's Corner provides a service to the community that is not otherwise provided at a City facility.
2. Construction of the additional 3,000 sq. ft. would be used as a preschool for the length of the agreement and then could be re-purposed by the City.
3. Depending on the length of the lease, this facility would have been constructed whole, or in part, with non-tax funds.

Analysis/Discussion (cont.)

Disadvantages of agreeing to entering into a lease with the Children's Corner:

1. The City is utilizing public property that the community may want to be used for a different purpose
2. The City would need to pay up-front for the design of the facility
3. Since the staff report was prepared, staff is concerned that the original estimate could prove to be too low for the following reasons:
 - The Community Center project is already in the design development phase and part of the work that has already been undertaken may need to be altered driving up costs;
 - Because the design has advanced to this stage, it is likely that the Children's Corner can not be part of the main facility, but will need to be a stand alone building which will likely cost more; and
 - Based on discussions with architects, there is a very real concern that construction costs throughout the Bay Area are increasing dramatically.

Recommendation

- Staff believes the revised Children’s Corner proposal generally complies with the October direction from the Council.
- If the Council would like to direct staff to negotiate an agreement, to mitigate risk to the City, we would suggest the following additional conditions:
 1. Lease term be for 20 years, with an option for the City to terminate after 10 years.
 2. Children’s Corner provides \$250,000 (non-refundable) immediately toward the design of the project
 3. For transparency purposes, Children’s Corner facility will be bid as an “add alternate” to the project
 4. The City’s total contribution is capped at \$2 million (plus the \$1 million from Children’s Corner). Any costs over that amount will be paid by the Children’s Corner.
 5. Children’s Corner can terminate the agreement if the bids for its portion of the project are over budget.