



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: November 13, 2023

Report #:2309-1997

TITLE

Approval of Second Amendment to Tenant Work Letter for the Roth Building at 300 Homer Avenue between the City of Palo Alto and the Palo Alto History Museum; CEQA Status--Not a Project.

RECOMMENDATION

Staff recommends that the City Council approve and authorize the City Manager, or their designee, to execute the Second Amendment to Tenant Work Letter by and between the City of Palo Alto and Palo Alto History Museum to memorialize the current project schedule and funding information.

BACKGROUND

In December 2022, Council approved a 40-year lease with the Palo Alto History Museum for use of the Roth Building located at 300 Homer Avenue¹. The lease contemplated construction of various tenant improvements, with additional details and obligations to be documented in a “mutually agreeable Tenant Work Letter.” At the April 17, 2023 meeting, the Council approved the Tenant Work Letter². The Tenant Work Letter was fully executed on April 20, 2023, and the Palo Alto History Museum (the Museum) subsequently assumed responsibility for the property. The Tenant Work Letter was amended and approved by the Council on September 5, 2023 to revise certain insurance requirements for Palo Alto History Museum and its general contractor, Vance Brown, Inc.³ Now, updates are necessary to Attachments A and B of the Tenant Work Letter and require approval by the Council.

¹ CMR 15017 Approval of Lease for the Roth Building (300 Homer Ave.)

<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=8715&compileOutputType=1>

² CMR 2303-1108 Approval of Tenant Work Letter for Lease of 300 Homer Avenue Roth Building

<https://cityofpaloalto.primegov.com/meeting/document/1853.pdf?name=Item%2013%20Staff%20Report>

³ CMR 2308-1885 Approval of First Amendment to Tenant Work Letter for the Roth Building at 300 Homer Avenue

<https://cityofpaloalto.primegov.com/meeting/document/2863.pdf?name=Item%204%20Staff%20Report>

Attachment A of the Tenant Work Letter is being updated to reflect the final Guaranteed Maximum Price (GMP) for the Construction Contract and to adjust the amount of the Museum Contribution commensurate with any adjustment to the GMP.

Attachment B is being revised and updated to ensure the Project Schedule reflects the most current as-planned schedule available.

ANALYSIS

Attachment A details the Parties' respective funding commitments for construction on the Project. Prior to execution of the Tenant Work Letter, the Museum estimated the cost to construct the project based on the construction contract's GMP of \$11,513,075 and \$335,750 in soft costs (such as permit and utility fees) for a total of \$11,848,825. The Tenant Work Letter expressly acknowledged the need for a project funding update to reflect the final GMP, with revised funding commitments to be adopted by the City and Museum.

The contract sum within the construction contract, dated May 22, 2023, was updated to \$12,756,281 with \$372,011 in soft costs for a total of \$13,128,292. The increase amount is attributed to rising cost over that time and updated pricing provided by subcontractors. There have been a few change orders since the execution of the construction contract, including \$246,694 for window retrofit work and \$38,855 for delays, but those amounts will reportedly be absorbed by the contingency that was previously budgeted at \$1,159,662.

The Museum's funding commitment has increased from \$1,828,825 to \$3,108,292, based on information provided by the Museum on May 18, 2023. Funds to be used from the approved \$3 million HUD Grant will need to be increased from \$978,825 to \$2,258,292 to cover the \$1,279,467 increase in costs as stipulated in the current terms of the TWL (Section 4.4).

Similarly, the Tenant Work Letter requires the parties to revise and update the project schedule to reflect the planned schedule for construction. Attachment B constitutes the planned schedule for construction of the Project, dated September 9, 2023. Construction was originally expected to start in July 2023, but commenced on September 11, 2023 after Council's approval of the First Amendment which ensured the Museum had the required insurance coverage for construction, a pre-construction requirement, and substantial completion is currently expected by December 30, 2024.

FISCAL/RESOURCE IMPACT

Approval of the Second Amendment will not result in any fiscal/resource impact to the City. The City's contribution to the project remains at \$10,020,000 as shown in Table 1 below. As noted in the Tenant Work Letter, the Museum was approved for a \$3 million HUD Grant. The HUD Funds component of the Museum Contribution has increased by \$1,279,467, from \$978,825 to \$2,258,292 and these funds will flow through the Museum's financials, not the City's. The Museum intends to retain the remainder of the grant for the Museum buildout, but under the

terms of the Tenant Work Letter will commit those funds to the Rehabilitation Project should there be further cost increases.

Table 1: Roth Building Rehabilitation Project (PF-23001) Funding Sources

	Original TWL April 2023	Revised TWL Sept. 2023
Museum Contribution		
Donations	\$850,000	\$850,000
HUD Funds	\$978,825	\$2,258,292
Total Museum Contributions	\$1,828,825	\$3,108,292
City Contribution		
TDRs & General Fund Contributions	\$4,900,000	\$4,900,000
SUMC	\$2,000,000	\$2,000,000
County Grants	\$653,000	\$653,000
CC Impact Fees	\$1,650,000	\$1,650,000
Park Impact Fees	\$350,000	\$350,000
Library Impact Fees	\$300,000	\$300,000
Permit Reimbursement	\$100,000	\$100,000
Perf. Bond Offset	\$67,000	\$67,000
Total City Contributions	\$10,020,000	\$10,020,000
Total Project Funding	\$11,848,825	\$13,128,292

STAKEHOLDER ENGAGEMENT

Staff continues to work closely with Museum representatives to administer the terms of the Lease and Tenant Work Letter.

ENVIRONMENTAL REVIEW

Council action on this item is not a project as defined by the California Environmental Quality Act (CEQA) because amending the attachments of the Tenant Work Letter is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. CEQA Guidelines section 15378(b)(5).

ATTACHMENTS

Attachment A: Second Amendment to Tenant Work Letter

APPROVED BY:

Kiely Nose, Assistant City Manager

Lead Staff: David Ramberg, Assistant Director; Sunny Tong, Real Property Manager