



CITY OF  
**PALO  
ALTO**

**CITY OF PALO ALTO  
CITY COUNCIL  
Regular Meeting  
Monday, August 19, 2024  
Council Chambers & Hybrid  
5:30 PM**

<b>Agenda Item</b>
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7. Approval of a Lease Amendment Between Palo Alto Players and the City of Palo Alto for the Premises at the Lucie Stern Community Center Located at 1305 Middlefield Road for an Approximate 36-month Term, at a starting Base Rent of \$1,540.75 per Month and Increasing 3% Annually; CEQA Status – Not a Project *Consent Questions*



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## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Administrative Services**

**Meeting Date: August 19, 2024**

Report #:2407-3202

### **TITLE**

Approval of a Lease Amendment Between Palo Alto Players and the City of Palo Alto for the Premises at the Lucie Stern Community Center Located at 1305 Middlefield Road for an Approximate 36-month Term, at a starting Base Rent of \$1,540.75 per Month and Increasing 3% Annually; CEQA Status – Not a Project

### **RECOMMENDATION**

Staff recommends that Council authorize the City Manager or their designee to execute the Third Amendment to Lease contained in Attachment A, between City of Palo Alto and Palo Alto Players Peninsula Center Stage for the continued use of office space at the Lucie Stern Community Center located at 1305 Middlefield Road. The term will commence on September 1, 2024 through August 31, 2027. The initial base rent will be \$1,540.75 per month and increase 3% annually starting on September 1, 2025.

### **BACKGROUND**

Palo Alto Players is the longest running theatre company in Silicon Valley, producing diverse programming that highlights local talent and tells stories of resonance for the local community since 1931. Their mission is to be the home for creating exceptional theatre experiences that inspire, entertain, and enrich the lives of local artists & audiences. The Palo Alto Players present musicals and plays from reimagined classics to newly released Broadway titles and are embedded in the community through schools, volunteer opportunities, and partnerships with local nonprofits—engaging over 14,000 audience members, 200 local artists, and 250 volunteers each year.

Palo Alto Players' annual budget for staffing, general operations, and direct production costs for its season at the Lucie Stern Theater is approximately \$1.0 million. An estimated 60% of each annual budget is earned in ticket sales and other earned income, 35% is contributed from donations and grants, and the remaining 5% is derived from investment earnings. In addition, per the agreement between the City of Palo Alto and Palo Alto Players, all tickets sold are

assessed an additional “facility usage fee” of \$4 per ticket (\$2 is earmarked for capital improvements for the Stern Theater). These fees are collected and remitted to the City of Palo Alto following each production.

**ANALYSIS**

The Palo Alto Players currently occupy approximately 500 square feet of office space at the City-owned Lucie Stern Community Center, located at 1305 Middlefield Road, under the Second Amendment that was approved by the City Council on August 23, 2021.<sup>1</sup> The current lease term expires on August 31, 2024. City Staff recommends a third amendment to the lease to extend the agreement to August 31, 2027 at a starting base rent of \$1,540.75 per month with annual 3% increases starting on September 1, 2025. The rent increased 2.5% annually in the original lease and first amendment. It changed to 3% annually with the second amendment. The extension will provide Palo Alto Players with continued use of the office space to manage, administer, and support the theater programs at the Lucie Stern Theater.

The Third Amendment to Lease will extend the term of the agreement through August 31, 2027 and modify the rent as shown in the table below. All other terms will remain the same.

Table # 1: Rent	
PERIOD	MONTHLY RENT
9/1/2024 – 8/31/2025	\$1,541
9/1/2025 – 8/31/2026	\$1,587
9/1/2026 – 8/31/2027	\$1,635

This recommendation is consistent with the City Council 2024 Priority of Community Health, Safety, Wellness & Belonging by supporting the cultural program in the City of Palo Alto to enrich the lives of residents in the local communities.

**FISCAL/RESOURCE IMPACT**

The current base rent is \$1,495.87 per month. Upon commencement of the Third Amendment, the base monthly rent will be increased by 3% to \$1,540.75. The base rent of the Third Amendment will continue to increase 3% annually, with the first increase starting on September 1, 2025. This initial base rent is approximately \$3.08 per square foot per month. For reference, the overall average asking rent for all office space classes in Palo Alto as of Q2 2024 is \$8.36 according to Cushman & Wakefield, and current rent rates at the City’s space in Cubberley ranges from \$0.36 to \$4.45 per square foot per month.

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<sup>1</sup> City Council, August 23, 2021, Item # 5:  
<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=3343&compileOutputType=1>

If approved, annual rent receipts in this lease are in line with projected rental earnings included as part of the FY 2025 Adopted Budget. If not approved, and the space is not otherwise rented out to another service provider, the City would fall below FY 2025 revenue estimates by approximately \$19,000.

#### **STAKEHOLDER ENGAGEMENT**

The Community Services Department has been in discussions with the Palo Alto Players regarding their proposal to extend the lease. While higher revenue generating programs could be explored for the space, the Palo Alto Players continue to be an excellent tenant and providing them the stability of an office space is vital to their economic stability for the continued community programming they provide.

#### **ENVIRONMENTAL REVIEW**

Approval of the lease for City owned office space is exempt from the requirements of the California Environmental Quality Act.

#### **ATTACHMENTS**

Attachment A: Third Amendment to Lease Palo Alto Players

#### **APPROVED BY:**

Lauren Lai, Administrative Services Director

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE (this “Third Amendment”) is made and entered into as of \_\_\_\_\_, by and between City of Palo Alto, a California municipal corporation (“City”), and PALO ALTO PLAYERS-PENINSULA CENTER STAGE, a 501(c)(3) non-profit corporation (“Lessee”).

RECITALS

A. City and Lessee are parties to that certain Lease, dated July 1, 2015, as amended by that certain Amendment Number One to Lease Agreement, dated July 1, 2018, and that certain Second Amendment to Lease, dated August 25, 2021 (collectively, the “Lease”).

B. Pursuant to the Lease, City has leased to Lessee an office suite containing approximately 500 square feet (the “Premises”) at the Lucie Stern Community Center located at 1305 Middlefield Road, Palo Alto, California (the “Property”).

C. The Lease is scheduled to expire on August 31, 2024 (“Scheduled Termination Date”).

D. The parties desire to extend the Lease Term, all on the following terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, City and Lessee agree as follows:

1. Extension. The Lease Term is hereby extended to and shall expire on August 31, 2027 (“Extended Termination Date”), unless sooner terminated in accordance with the terms of the Lease. That portion of the Lease Term commencing on September 1, 2024 (“Extension Date”) and ending on the Extended Termination Date shall be referred to herein as the “Extended Term”. Lessee shall have no right to extend the Extended Term of the Third Amendment.

2. Base Monthly Rent. As of the Extension Date, the schedule of Base Monthly Rent payable with respect to the Premises during the Extended Term is the following:

Period	Base Monthly Rent
9/1/2024 – 8/31/2025	\$1,540.75
9/1/2025 – 8/31/2026	\$1,586.97
9/1/2026 – 8/31/2027	\$1,634.58

All such Base Monthly Rent shall be payable by Tenant in accordance with the terms of the Lease, as amended hereby.

3. Miscellaneous.

3.1 This Third Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written

representations or agreements.

3.2 Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect. In the case of any inconsistency between the provisions of the Lease and this Third Amendment, the provisions of this Third Amendment shall govern and control. The capitalized terms used in this Third Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Third Amendment.

3.3 Submission of this Third Amendment by City is not an offer to enter into this Third Amendment but rather is a solicitation for such an offer by Lessee. City shall not be bound by this Third Amendment until City has executed and delivered the same to Lessee.

3.4 Lessee hereby represents to City that Lessee has dealt with no broker in connection with this Third Amendment. Lessee agrees to indemnify and hold City harmless from all claims of any other brokers claiming to have represented Lessee in connection with this Third Amendment.

3.5 Each signatory of this Third Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

3.6 The Premises have undergone an inspection by a Certified Access Specialist (CASp), and it was determined that the Premises did not meet all applicable construction-related accessibility standards pursuant to California Civil Code §55.51 et seq. To the best of City's knowledge, there have been no modifications or alterations completed or commenced between the date of the inspection and date of this Third Amendment which have impacted the Premises' compliance with construction-related accessibility standards. City has provided a copy of such CASp report to Lessee.

Because a disability access inspection certificate, as described in subdivision (e) of Section 55.53 of the California Civil Code, was not issued for the Premises, Lessee is advised of the following (pursuant to Section 1938 of the California Civil Code):

“A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.”

The parties hereby agree that Lessee shall have the right, but not the obligation, to

have a CASp further inspect the Premises. If Lessee elects to obtain a CASp inspection, Lessee shall be responsible for the payment thereof. Additionally, if Lessee elects to make any repairs necessary to correct violations of construction-related accessibility standards, Lessee may do so, at its sole cost and expense.

*[Signature Page Follows]*

IN WITNESS WHEREOF, City and Lessee have entered into and executed this Third Amendment as of the date first written above.

CITY:  
CITY OF PALO ALTO,  
a California municipal corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_

Approved as to form:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_

LESSEE:  
PALO ALTO PLAYERS-PENINSULA CENTER STAGE,  
a 501(c)(3) non-profit corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Dated: \_\_\_\_\_



Dear Mayor and Council Members,

On behalf of City Manager Ed Shikada, please see staff responses below for questions from Mayor Stone, Vice Mayor Lauing, and Council Member Tanaka on the [Monday, August 19 Council Meeting](#).

**Item 6: Addition of Five Properties to the City’s Historic Resources Inventory Based on Owner Interest. CEQA Status: Pursuant to Public Resources Code Section 21065, the Historic Designation of Properties is not a Project Subject to Environmental Review – Mayor Stone**

1. Regarding item #6, I wanted to clarify a procedural issue. Is this item solely to approve 5 homes where the owners proactively requested the city to add them to the historic registry?

**Staff response:** Yes, the owners of the 5 listed properties responded to city outreach efforts and requested to be placed on the historic inventory.

2. Will a subsequent action item be scheduled to return to council for part 3 of the April 22 motion that requested staff to, "study the possibility of a process for removing the properties as shown as potentially eligible in the parcel reports and return to council with evaluations on any alternatives"? I just want to make sure that this consent item is not the full response to that previous council motion and that more will be returning to council.

**Staff response:** It is the intent of staff to return to the council at a subsequent date to address part 3 of the council motion. At the most recent August 8, 2024, Historic Resources Board (HRB) meeting staff presented alternatives to the “potentially eligible” status for review and consideration. The HRB’s consensus was to closely align the City’s historic status language with the statuses found in the [California Built Environment Resources Directory \(BERD\)](#) for consistent messaging.

**Item 7: Approval of a Lease Amendment Between Palo Alto Players and the City of Palo Alto for the Premises at the Lucie Stern Community Center Located at 1305 Middlefield Road for an Approximate 36-month Term, at a starting Base Rent of \$1,540.75 per Month and Increasing 3% Annually; CEQA Status – Council Member Tanaka**

1. Considering that this lease could set a precedent for future agreements, what specific policies or guidelines does the City intend to implement to manage similar requests in the future? Could you provide detailed scenarios or case studies from other cities that faced comparable situations, and explain how they balanced support for cultural institutions with maintaining fair market practices?

**Staff response:** This lease has been in place for many years, and the City's policy on leased facilities provides guidance on leased use of City land/facilities. In addition, following a City Auditor report on non-profit relationships, the City will have an upcoming study session on prospective approaches for nonprofit relationships and risk management.

- 2. What stakeholder analysis was conducted to assess potential concerns from other local businesses or non-profits who might feel disadvantaged by this lease extension? Can you outline the specific outreach efforts made to these groups and how their feedback was integrated into the decision-making process?**

**Staff response:** The Palo Alto Players have been leasing this office space since 2012. Staff is unaware of any local businesses or nonprofits that have felt disadvantaged by their occupancy of this space.

- 3. Given that the Palo Alto Players are benefiting from a below-market lease rate, what specific measures has the City taken to ensure that other non-profits are not disadvantaged by this arrangement? Could you provide concrete examples of how the City plans to apply consistent criteria for lease agreements across different organizations to prevent potential inequities or perceptions of favoritism?**

**Staff response:** Please see the responses above. The City will have an upcoming study session on prospective approaches for nonprofit relationships and risk management.

#### **Item 9: Approval of Contract Renewal for Baylands Golf Links Management and Restaurant Operations – Council Member Tanaka**

- 1. The staff report references the overall positive financial trajectory under OB Sports' management but omits a detailed analysis of specific areas where revenue has underperformed, such as merchandise sales falling 6% below projections. Considering the ongoing weekday traffic issues impacting utilization rates, what are the specific financial projections for these underperforming areas over the next two years, and how does the City plan to mitigate these ongoing risks to the revenue stream? Could you provide a risk assessment of these revenue shortfalls and their potential impact on the City's broader financial obligations?**

**Staff response:** Traffic hindering access to the golf course has not been observed and has not impacted utilization. Merchandise sales are a small component with minimal impact on the overall revenue for the golf course operations. The golf course operator has shifted their merchandise sales model to include high-quality Golf Course (Baylands Logo) name-branded items to help offset the competition with online sales.

- 2. The staff report highlights OB Sports' current strategies but does not address the ongoing challenges of low weekday utilization due to traffic congestion. What innovative strategies, such as partnerships with local businesses or targeted marketing initiatives, are being planned to increase weekday play and improve underperforming areas like merchandise sales? How will the success of these strategies be measured and reported to ensure they contribute to the course's long-term growth and sustainability?**

**Staff response:** Traffic hindering access to the golf course has not been observed and has not impacted utilization. The weekly play has not been affected.

**Item 10: Approval of Amendment No. 2 to the Lease Agreement Between the City of Palo Alto and the County of Santa Clara (Contract No. 1557819) at 2000 Geng Road for Safe Parking to Expand the Premises of the Lease and Increase by 10 the Number of Safe Parking Spaces Permitted; CEQA – Exempt pursuant to CEQA Guidelines Section 15061(b)(3) – Vice Mayor Lauing**

- 1. What is the official game plan for funding this operation, and how do community donations fit in?**

**Staff response:** Over the summer, staff worked quickly with community partners to find safe parking capacity to accommodate potential displaced vehicle dwellers from El Camino Real. With Geng Road expansion identified as the most feasible and timely solution, fundraising provides an opportunity for community members to start this operation quickly. In parallel, staff is working to identify a budget source to cover ongoing operational costs and will bring a funding proposal to Council at mid-year. Staff also applied for grant funding. Donated funds ensure the operations can begin quickly to serve displaced vehicle dwellers.

The proposed safe parking expansion operations will cost \$266,162 annually. For fundraising purposes, the amount being sought is approximately \$130,000 to cover the 1<sup>st</sup> six months of operation and will go directly to the operator, MOVE Mountain View. The current operations contract with the operator is held and paid for by Santa Clara County, and the County has indicated it does not have budget allocated to cover expanded operations.