TO:    HONORABLE CITY COUNCIL
FROM: CITY MANAGER       DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: JUNE 2, 2008       CMR: 261:08

SUBJECT: APPROVAL OF A SUBLEASE AGREEMENT BETWEEN THE SANTA
CLAARA VALLEY TRANSPORTATION AUTHORITY AND CAFFE DEL
DOGE, VENEZIA, INC. FOR A PORTION OF THE UNIVERSITY
AVENUE DEPOT, 95 UNIVERSITY AVENUE FOR A FIVE YEAR TERM
WITH TWO FIVE YEAR OPTIONS TO EXTEND

RECOMMENDATION
Staff recommends that City Council approve the attached Sublease Agreement between the Santa Clara Valley Transportation Authority (VTA) and Caffe Del Doge (CDD), Venezia, Inc. for a portion of the University Avenue Depot and authorize the City Manager or designee to execute, the attached Sublease Agreement, which includes a specific provision in which the City agrees to guarantee Caffe del Doge two five year options to extend the lease in the event that the City decides to extend its own lease of the depot, which is due to expire in 2013.

BACKGROUND
The City signed a lease with Stanford for El Camino Park in 1915, which was amended in 1981 to include the Transit Center and the Depot. The lease for El Camino Park expires on June 30, 2033, but the City has the right to terminate the portion related to the Depot and Transit Center on February 26, 2013.

On March 31, 1981, Council also approved a 32-year sublease with the Santa Clara Valley Transportation Agency (VTA) for the Transit Center and the Depot, which is due to expire on June 30, 2013 unless the City exercises its right to terminate its lease with Stanford, in which case VTA sublease expiration date is February 26, 2013. On August 6, 2007, in response to ongoing comments and ideas about locating a coffee or similar vendor at the Depot, as well as opening the Depot restrooms for public use, Council approved a Request for Proposals (RFP) to sublease a portion of the Depot for a café service. The City took the lead in developing the RFP and working with VTA and Stanford to review the proposals. Although the RFP originally anticipated a lease with the City and VTA as co-lesseors, VTA as the sublessee preferred to negotiate the sub-sublease directly with the Caffe. As a result, the attached sub-sublease is between the VTA as sub-lessee and CDD as sub-sub lessee, with the City and Stanford University consenting. To finalize the agreement the City must execute the Sub-Sublease Agreement (Attachments A & B).
The Sub-Sublease agreement not only requires the City’s consent to VTA’s sub-sublease to CDD, but CDD has also requested including a provision that will require the City to agree to (1) continue allowing CDD to lease the Depot from the City following the expiration of the sublease between the City and VTA, and (2) give CDD two five-year options to extend its sublease of the Depot with the City, in the event that the City extends its lease of the depot beyond February 26, 2013.

**DISCUSSION**

**SUMMARY OF THE RFP PROCESS**

Following Council’s August 6, 2007 approval of the RFP, several articles appeared in the local newspapers announcing the opportunity of the lease. Staff sent RFP information flyers to 36 individuals and groups who expressed interest in leasing the property. The RFP was also added to the City’s website.

The intent of the RFP is to sublease approximately 300 square feet of the main Depot building for a 5-year term to a tenant that could improve, maintain and operate the premises for food and beverage service which: 1) attracts and serves the general public; 2) provides public access to the public restrooms during hours of operation; 3) benefits the City and community as a whole; 4) preserves and maintains the historic significance of the property; and 5) does not adversely impact the other uses and tenants of the facility. The RFP requires that the improvements, maintenance and operation of the subleased premises be at no cost to the City or the VTA. The minimum bid for the monthly rental was $100, and the Lessee would not be required to pay rent for the first 6 months of the lease.

Two proposals were received: 1) Caffe Del Doge, Venezia, Inc. (CDD); and 2) Passing Track Café, Co. (PTC). The proposals were reviewed by an evaluation committee comprised of representatives from Stanford, VTA, Joint Powers Board (JPB) and staff. Proposals were evaluated based on the 10 criteria required by Policy and Procedures 1-11, Lease of City property. (Attachment C).

CDD has developed and operated the café at 419 University Avenue for two years. Its parent company, Caffe Del Doge, Srl, has developed 8 cafes around the world, including Italy, Japan, Egypt and Hungary. CDD’s concept is to deliver a Venetian coffee-drinking experience which includes premium quality coffee and quick, natural Venetian-style foods. Proposed improvements, estimated to cost $103,000, include adding a fixed bar which will include coffee equipment, washing machines, display cases, refrigeration, an ice machine and sinks. Seating will be added to the inside and outside as permitted by the City. The Depot will not be changed; and the outside of the bar and kitchen will be designed to fit the current look of the structure, and the furniture will be selected accordingly. The café will be open for an average of 12 hours per day 7 days a week from 6 am to 6 pm. The schedule will be adjusted depending on demand. Minimal preparation will take place on site due to space constraints, therefore most preparation of sandwiches and salads will be done at 419 University Avenue. CDD will utilize the janitor that services 419 University to service the depot daily, primarily after closure. CDD’s bid for the monthly rental is $1,500.
PTC’s bid for rent (criteria #6) was higher than CDD however; the proposal was weak in meeting other proposal evaluation criteria, especially those relating to finances and the proposer’s experience. The financial information provided in the proposal was vague or incomplete (criteria #9 and #10). The proposal did not include the required 3-year proforma, and the source of financing was not made clear. Evidence of the proposer’s ability to carry out the proposed improvements and operate the facility and services as proposed (criteria #5) was also not included.

The CDD proposal clearly established the public benefit to be provided (criteria #1) by describing specifically the type of food, service and ambience to be provided. The proposal describes the Palo Alto/Stanford demographics that have been considered in its plan for a café that will attract and please the general public and commuters (criteria #1 and #7). The proposed improvements, which are described in some detail, would meet historical standards and other requirements of the City codes (criteria #2 and #3). The proposed use and improvements as described would have no apparent adverse negative impact on the other tenants of the Depot, the immediate neighborhood or the environment (criteria #4). The proposal offers sample menus and pricing of items which are reasonable considering the high quality of food, beverages and service (criteria #8). In addition, the proposal is very strong concerning finances and experience (criteria #5, #9 and #10). CDD’s 3-year proforma analysis and budget are detailed and realistic and based on its experience operating similar establishments.

Sublease Agreement
The attached Sublease Agreement provides for the CDD to operate its café service for the general public in a 1,289 square-foot portion of the 5,375 square-foot depot. Major terms of the agreement include: 1) the requirement that CDD provide janitorial service to the Depot and access to the public bathrooms during its hours of operation; 2) no rent requirement for the first six months of the retail operation and a monthly rent payment of $1,500 to the VTA thereafter; and 3) improvements must be in accordance with the Secretary of the Interior’s Standards of Rehabilitation for Historic Buildings and City permitting procedures.

Attachment D includes a summary of the terms of the attached Sublease. Its terms are consistent with the requirements of the RFP with the exception of two changes requested by the proposer: 1) the addition of an option to extend the five-year term for two additional terms of five years each; and 2) an increase in the area to be leased from approximately 300 square feet as offered in the RFP to approximately 1,289 square feet. Staff supports allowing the additional square footage, which provides for a larger café area and seating, an office, portions of the news stand and ticket storage areas on the mezzanine, and an employee locker area located in the women’s waiting room, all necessary for the successful operation of the café. The specifics of the seating and the development plan for the café are subject to the City’s permitting process, which includes approval of a conditional use permit.

Agreeing to the two five-year options to extend beyond 2013 is workable but eliminates any flexibility the City will have if it decides to continue its lease beyond 2013. The primary term of the Sublease is approximately 5 years, through the remainder of the VTA’s sublease with the City ending in 2013. The RFP offered only the original 5-year term and no options to extend beyond the period, in large part because of the uncertainty of the Depot leases after their
expirations in 2013. CDD later informed staff that it requires the two extension periods to ensure business continuity. These extensions would, of course, be contingent upon either the City or VTA continuing to lease the Depot beyond 2013, and would be subject to rent increases based on the consumer price index. However, because the City has not yet made a determination on whether it will continue its lease of the Depot beyond February 26, 2013, the long term implications of agreeing to CDD’s request for two extension options are unclear.

**RESOURCE IMPACT**
The Sublease requires the CDD to improve, maintain and operate the property at no cost to the VTA or the City. CDD responsibility for janitorial service and rent payments will reduce costs for the VTA. CDD responsibility for the public restrooms will reduce City staff time spent responding to complaints about lack of public access to the restrooms.

**POLICY IMPLICATIONS**
The proposed Sublease is consistent with Policy and Procedures 1-11, Leased Use of City Land/Facilities. However, in the event that the City decides to continue leasing the Depot from Stanford in 2013, it will automatically be bound to the agreement with CDD and will not have the flexibility to change the term or use.

**ENVIRONMENTAL REVIEW**
The project is exempt from the requirements of the California Environmental Quality Act under Section 15301, Existing Facilities, subject to the proposed improvements being consistent with the Secretary of the Interior’s Standards of Rehabilitation for Historic buildings.

**ATTACHMENTS**
Attachment A: Sublease Agreement
Attachment B: Consent Letter
Attachment C: Evaluation Criteria
Attachment D: Summary of Sublease Agreement

cc: Stanford
    VTA
    Caffe Del Doge Venezia, Inc.