



City of Palo Alto

COLLEAGUES MEMO

DATE: June 21, 2021

TO: City Council Members

FROM: Council Member Stone, Council Member Kou, Council Member Burt

SUBJECT: COLLEAGUES MEMO REGARDING THE PALO ALTO MUSEUM (ROTH BUILDING) FROM COUNCIL MEMBERS KOU AND STONE, AND VICE MAYOR BURT

Issue

The City purchased the historic Roth Building in 2000 and issued a Lease Option to the Palo Alto History Museum (now the Palo Alto Museum) in 2007. The Museum has invested \$1.8M in approved plans to rehabilitate the Roth Building, generated several million dollars to both rehabilitate the building and to then install a museum in the National Register building. The momentum to install a museum in the Roth Building has been inhibited by inconsistent action from the City.

As a City-owned asset, the hard shell of the building would normally be the responsibility of the landlord (the City) with the tenant being responsible for interior build-outs, other than “tenant improvements” funded or provided by the landlord. In addition, the City is scheduled to receive multiple significant community assets and benefits that are outside of museum-based functions or obligations including; publicly accessible park restrooms, a cafe accessible to the park, community meeting spaces, and resources for youth research and education.

Partnership Goals

The partnership goals include rehabilitation of an historically significant building which is listed on the National Register of Historic Places according to the Secretary of Interior’s Standards, and support for a significant community serving facility. The building is an especially important City-owned property that embodies our history of innovation, and the legacies of the community, all in one building,

https://en.wikipedia.org/wiki/Palo_Alto_Medical_Foundation:

- The entrepreneurs and founders, including Dr. Russell Lee and Dr. Edward Roth, of the innovative “community clinic” model of the Palo Alto Medical Clinic (later Foundation) at the Roth Building (constructed in 1932);
- Clinic co-founder, Dr. Esther Clark, was a trailblazing female pediatrician;
- Artist and Stanford Professor, Victor Arnautoff, whose world-renowned frescoes depicting medical history adorn the entrance and are perhaps the most important public art in the city; and

- Architecture by Palo Alto’s Birge Clark, whose renowned architectural legacy is embedded in our residential, commercial, and public properties.

Consequently, the Roth Building is the uniquely ideal building to house the Palo Alto Museum and related public facilities.

Background and Discussion

2000	City purchases Roth Building and approves historic designation
2004	Council accepts Palo Alto Historical Association (PAHA) RFP proposal
2005	Council approves 40-year lease option to Palo Alto Museum (PAM), formerly Palo Alto History Museum (PAHM)
2007	PAM lease option agreement approved
2010	Roth Building placed on National Register of Historic Places
2017	City challenges the Museum to raise \$1.75M by year end which was met and confirmed by an independent review in late 2019. The Lease Option was not extended as indicated.

From 2017 – 2020, the City has conveyed inconsistent messages to the Museum and the public with confusing directions. The City challenged the Museum to raise \$1.75M in exchange for a Lease Option, then pursued rezoning, investigated other uses, issued a new RFP, and discussed selling the building. These inconsistent messages and lack of a promised Lease Option have made fundraising extremely challenging for the Palo Alto Museum.

Completed by PAM:

- Design, Approval of Architectural Plans and City Permits acquired at \$1.8 million Museum expense.
- Plans conform to requirements as an historical building enabling the sale of Transfer of Development Rights (TDR) funds to pay for rehabilitation work.
- Partnered with Vance Brown for construction contract services.
- Procured grants from Santa Clara County for roof replacement. Grants are restricted to the PAM rehabilitation plans. Additional grant funding was also secured for Arnautoff frescoes restoration.
- Identified potentially applicable development impact fees as outlined in Finance Committee Staff report dated 11/17/2020¹

According to the approved plans, the establishment of the Museum in the Roth Building is expected to bring a number of contributions to the community. Those include:

- A public restroom at Heritage Park (as required by the initial RFP)
- Permanent home for the City-owned historic archives
- Community meeting spaces

¹ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=59923.76&BlobID=79089>

- Unique Palo Alto and Stanford social, cultural, and technological exhibits
- Resources for required studies by second - fourth grade students not currently available elsewhere
- Lab of evolving technologies for all students
- Park-side café
- Venue for speakers and authors

The Council in its 2020-2021 budget discussions directed that shovel-ready projects take priority.

The Museum has brought forward the rehabilitation of the City-owned Roth Building with approved plans and permits. By partnering with the Museum, the City can take advantage of the millions of dollars in project financing the Museum brings for the fastest and most cost-efficient means to rehabilitate the historic Roth Building.

Timing is critical. This project needs to move forward quickly to preserve this vulnerable historic building, take advantage of the existing permit, and move forward this construction season to avoid winter rains.

Recommendation

- 1) Issue a lease or lease-option between the City and PAM, which would allow for donor and restricted funds for the rehabilitation pursuant to the Secretary of the Interior's Standards and County grants to be released for construction of Phase 1 (Phase 1 is the rehabilitation and build out of the facility to make it suitable for occupancy also known as a "warm shell" estimated at \$10.5 million);
- 2) Direct City Staff to identify additional funding to help complete the rehabilitation funding gap ranging between \$4.0 - \$4.3 million (PAM estimate at \$3.71 million in 2020) from possible library, community center, and/or parks impact fees, Stanford Development Funds, cost savings from CIP projects and other identifiable sources;
- 3) Release the amended Lease Agreement to the Museum for timely review and finalization; and
- 4) Commit to a partnership with the Museum for the rehabilitation of the Roth Building and for mutual long-term success of the project.

Resource Impact

Staff and the Council have reviewed the partnership with the Palo Alto Museum at numerous points with varying points of direction. The direction outlined in the memo has two resource impacts; 1) Identification of funding sources for the rehabilitation of the facility, and 2) the issuance of a lease or lease option between the City and PAM.

1) Identification of funding sources for the rehabilitation of the facility

Staff is currently working with the City Council on identification of funding of \$4 million to \$4.3 million to complete the rehabilitation of the 300 Homer Ave. also known as the

Roth building. Funding as tentatively approved by the Council is focused on funding from the Federal Government, the Stanford University Medical Center Fund, and appropriate impact fee funds.

After a review by an outside third party, it was determined that the museum successfully raised funding, however, funding was not set aside for the capital improvement of the facility and much was spent on operating expenses. In partnership with PAM, PAM identified \$500,000 in funding available in cash contribution in addition to pledged funds (funds not yet in hand however pledged in a variety of forms). A summary table of funding for the rehabilitation project is below that outlines current available funds and the remaining gap in funding based on the results of the financial review and prior Council actions. This presumes a rehabilitation cost of \$10.5 million as quoted by the PAM construction contractor Vance Brown.

AVAILABLE FINANCIAL SUPPORT	Funds are either already set aside in city / PAM funds or awarded grants	FUNDING SOURCE	ESTIMATED FUNDING CONTRIBUTION	PROJECTED GAP TO PHASE 1 \$10.5M
		TDR proceeds and a \$1.0 million contribution from the General Fund	\$4.9 M	
Grants from the County of Santa Clara (roof replacement \$0.3 million)	\$0.3 M			
Library impact fees designated for the establishment of the City archives	\$0.3 M			
PAM cash on hand (MGO reports approximately \$0.8 million available with some needs for operating costs)	\$0.5 M			
	Readily Available Funds	\$6.0 M	(\$4.5 M)	
PLEDGES	Funds are not received verbal/ written donor support	PAM pledges; MGO Audit report estimated \$0.2 million are more likely to be collectable	\$0.2 - \$0.5 M	
		Additional Funds including pledges	\$6.2 - \$6.5 M	(\$4.0 – 4.3M)

As outlined in the various budget staff reports for FY 2022, staff have researched feasible funding sources to assist in fully funding the project in addition to the current federal funding request currently under review as submitted by Congresswoman Eshoo as part of the FY 2022 federal budget process.

2) The issuance of a lease or lease option between the City and PAM

In 2007, the City granted PAM a 24-month exclusive option to lease the Roth Building. The option provided that its purpose was to allow the Museum to develop specific

plans, obtain financing, and satisfy other conditions set forth in the option. The City extended the term of the option numerous times. It expired in November 2018, during the period that the third-party financial review occurred, which confirmed available funds and funding gaps.

Substantial work from an interdepartmental team will be required to update the lease document and, if needed, an option to enter into the lease, and to negotiate with the PAM to achieve final agreement on these documents. Note that a lease option is an agreement to refrain from contracting with others for a limited period, typically in order to provide time for one or both parties to complete tasks needed to determine whether to enter into a full lease. If the Council identifies sufficient funding for the Roth Building rehabilitation and is prepared to enter into a long-term lease to the PAM, an option may not be needed; rather, it may be appropriate to simply enter into a lease.

The lease will define the rights and obligations of the PAM and the City during the rehabilitation phase and the subsequent long-term operating phase for the Museum. In addition to the PAM program and legal support teams, this will require staff from the City Attorney's Office, Administrative Services, Community Services, and Public Works. A negotiation such as this has typically taken a focused four to six months or longer, based on the City's prior experience with other public-private partnerships, such as the Junior Museum and Zoo, the City's partnership with OB Sports, and Pets in Need. While we recognize that each of these projects is distinct, all required focused attention and multiple reviews by both the City and the City's non-profit partner and their team. For City staff, this will require prioritization of this within the context of other work current on these teams' plates, including but not limited to: continued tracking of FEMA reimbursements and American Rescue Plan Act (ARPA) reporting requirements, Business Registry and Downtown BID assessments, implementation of the City tenant rent relief program, and real estate agreements (easements, leases, etc.) for a number of capital projects and city facilities such as Mitchell Park (café), LATP, lease and procurement of property for the RWQCP rebuild, Newell Road Bridge, and review feasibility of partnership in development of both housing and parking using downtown public parking lots for sites.