

BEFORE THE FAIR POLITICAL PRACTICES COMMISSION

In the Matter of:

Opinion requested by
Gary Winuk & Molly Stump
Office of the City Attorney
City of Palo Alto,
On Behalf of Palo Alto City Manager
Edward Shikada

No. O-25-001

August 21, 2025

BY THE COMMISSION: Gary Winuk and Molly Stump, representing the Office of the City Attorney for the City of Palo Alto (“City”), on behalf of City Manager Edward Shikada, have requested an opinion of the Fair Political Practices Commission (“Commission”) on the following:

QUESTION

For purposes of the Political Reform Act’s (“Act”)¹ conflict of interest provisions, does City Manager Shikada have an economic interest in Stanford University as a source of income, given his spouse’s employment by Stanford Health Care (“SHC”), a nonprofit affiliated with Stanford University?

CONCLUSION

Yes. Based on the degree of control Stanford University has over SHC—in particular, the total authority to appoint and remove SHC Board members—the two organizations should be considered one and the same for purposes of the Act’s conflict provisions. Consequently, City Manager Shikada is generally prohibited from taking part in governmental decisions that will have a reasonably foreseeable, material financial effect on either SHC *or* Stanford University.

BACKGROUND

In *Lee* Advice Letter, No. A-83-257, the Commission received a request for advice from a Palo Alto city council member regarding a potential financial interest in governmental decisions involving Stanford University based on that council member’s spouse’s employment with Stanford University Hospital (now SHC). In the advice letter, we noted that the Hospital was a nonprofit corporation legally separate from Stanford University, and the Hospital functioned independently from Stanford University with respect to personnel matters, including

¹ The Political Reform Act is contained in Government Code Sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in Sections 18104 through 18998 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

hiring and salary decisions. However, after analyzing the Hospital's bylaws, we concluded that they established that "Stanford University and the Hospital are really one and the same." We explained:

The same group of persons holds ultimate voting control over both entities. That group is The Board of Trustees of The Leland Stanford Junior University. The Hospital's President is a Stanford University Vice President, who has ultimate authority to hire and fire all Hospital staff. The purpose of the Hospital is to serve the needs of Stanford University's educational mission.

If the two entities were business entities, rather than nonprofits, we would clearly hold that the Hospital is a wholly-owned subsidiary of Stanford University. We see no reason within the purposes of the Act for achieving a different result here.

Consequently, we analogized the scenario to "piercing the corporate veil" and cited prior Commission opinions for the position that "a parent corporation will be deemed to have control of its subsidiary and the Commission will 'pierce through' the corporate veil whenever the purposes of the Act are best served by doing so." (Citing *Kahn* Opinion, No. O-75-185; *Nord* Opinion, No. O-83-004.)

After having concluded that the Hospital and Stanford University were "one and the same," we consequently concluded that if the council member's spouse was employed by the Hospital, both the Hospital and Stanford University would be considered sources of income to the council member for purposes of the Act. Therefore, we advised that the council member "would be required to disqualify himself as to any decision which would reasonably and foreseeably have a material financial effect on either the Hospital or Stanford University where the effect on either of these two entities would be distinguishable from the decision's effect on the public generally."

Vanni Advice Letter, No. I-24-102

In 2024, the Palo Alto City Attorney sought advice regarding Mr. Shikada and whether his spouse's employment at SHC established a source of income interest in Stanford University. Though similar to the facts of the *Lee* Advice Letter, the City Attorney argued that subsequent changes to SHC's bylaws led to an updated conclusion that Stanford University did *not* constitute a source of income to Mr. Shikada. We advised:

For conflict of interest purposes, the Commission has advised that in some instances the law "pierces" through entities, such as for profit and nonprofit corporations, based on the nature of the relationship between the entity and those who control the entity. Under these circumstances, multiple persons/entities may be treated as sources of income. (*Atigh* Advice Letter, No. I-93-383, *Hogin* Advice Letter, No. A-05-070.)

In addition, in certain circumstances when the relationship between the public official and his or her employer is controlled by persons (including nonprofit entities), who also effectively control decisions of the employer, we have advised

that these persons are considered to be sources of income and economic interests to the official. (*Deadrick* Advice Letter, I-03-143; *Hentschke* Advice Letter, No. A-80-069.)

Thereafter, we discussed the *Lee* Advice Letter and cited two other letters that reached similar conclusions. (*Yang* Advice Letter, No. I-05-113; *Atigh* Advice Letter, No. I-93-383.)

We continued our analysis by considering the changes made to SHC's bylaws since the *Lee* Advice Letter was published in 1983, writing:

Here, you state that while SHC and Stanford University have an association with one another, including collaborating on medical matters, Stanford University no longer exercises the same level of control over SHC and its Board as it did when the *Lee* Advice Letter was issued in 1983. For example, you state the President of SHC is no longer required to be the Vice President for Medical Affairs at Stanford University, and SHC Board members are no longer required to be members of the Stanford University Board. However, we find it significant that the Stanford University Board has the authority to appoint and remove members (and fill vacancies) of the SHC Board, and that the SHC Board appoints the President of the Hospital only after "consultation with and upon nomination from the President of Stanford University," who also has the authority to recommend that the Hospital President be removed. Additionally, the Dean of the University School of Medicine and the University Liaison for Stanford Medicine serve as ex officio members of the SHC Board with voting rights. Lastly, a primary purpose of SHC is to "support, benefit, and further the charitable, scientific and educational purposes" of Stanford University. In our view, while SHC's bylaws have changed since the *Lee* letter was issued in 1983, Stanford University still controls the SHC Board – primarily through its power to appoint and remove SHC Board members – such that the two entities should continue to be treated as one and the same for purposes of the Act's conflict-of-interest provisions. Accordingly, Mr. Shikada will have a source of income interest in both SHC and Stanford University as a result of his future spouse's employment with SHC.

Based on the above considerations, we concluded that City Manager Shikada would be disqualified from any governmental decision that would have a reasonably foreseeable, material financial effect on either SHC or Stanford University, including where either entity is explicitly involved in the decision.

The Palo Alto City Attorney subsequently submitted a request for a Commission Opinion, asserting that the Commission should reach the opposite conclusion of the *Vanni* Advice Letter. Legal Division staff prepared a memorandum on the issue and presented it to the Commission at the June 2025 Commission meeting, with Mr. Winuk and City Manager Shikada also providing comments.

ANALYSIS

Under Section 83111, "[t]he Commission has primary responsibility for the impartial, effective administration and implementation" of the Act. The Act specifies that it "should be

liberally construed to accomplish its purposes.” (Section 81003.) One of the Act’s purposes is that “officials should be disqualified from acting in order that conflicts of interest may be avoided” where “income of public officials . . . may be materially affected by their official actions.” (Section 81002(c).)

Under Section 87100 of the Act, “[a] public official at any level of state or local government shall not make, participate in making or in any way attempt to use the official’s position to influence a governmental decision in which the official knows or has reason to know the official has a financial interest.” “A public official has a financial interest in a decision within the meaning of Section 87100 if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of the official’s immediate family,” or on certain specified economic interests. (Section 87103.) Among those economic interests is “[a]ny source of income . . . aggregating five hundred dollars (\$500) or more in value provided or promised to, received by, the public official within 12 months prior to the time when the decision is made.” (Section 87103(c).)

In contrast to business entities, neither the Act nor FPPC Regulations address when an official’s financial interest in a nonprofit entity is extended to a parent, subsidiary, or otherwise related nonprofit organization. (See Section 82005 [defining “business entity,” which does not include nonprofit organizations]; Regulation 18700.2 [defining “parent,” “subsidiary” and “otherwise related” entities exclusively in the context of business entities and not with respect to nonprofit organizations].)

In the absence of a statute or regulation directly addressing the concept of parent and subsidiary organizations in the specific context of nonprofit organizations, we have historically analyzed relationships between nonprofit organizations on a case-by-case basis, considering the unique details of each case in order to render advice on whether an official should be considered to have a “source of income” interest in a nonprofit based on its relationship to another entity. For example, in *Yang* Advice Letter, No. I-05-113, we advised that a city councilmember had a source of income interest in his spouse’s nonprofit employer (the “Foundation”) and its affiliated organization (the “Healthgroup”), which were separate legal entities. The Foundation served as the fundraising arm of the Healthgroup. We advised:

Based on your facts, it appears that the relationship between Councilmember Ramirez’s wife and her employer, the Foundation, is substantially controlled by the Healthgroup, as it sets the amount of salary paid to her, as well as any additional compensation under the incentive program. Thus, consistent with the rationale set forth in previous advice letters cited above, we would also consider the Healthgroup as a source of income to the council member's wife, and both would be economic interests of hers. Further, the Healthgroup is also a source of income to the councilmember through his community property interest in his wife’s salary and benefits, if his share of his spouse’s income is at least \$500. (Sections 82030 and Section 87103(c); regulation 18703.3(a)(1).).

(See also *Guina* Advice Letter, No. A-17-137; *Hogin* Advice Letter, No. A-05-070; *Deadrick* Advice Letter, No. I-03-143; *Lucas* Advice Letter, No. A-99-059; *Atigh* Advice Letter, No. I-93-383 [each analyzing nonprofit relationships in different contexts and on a case-by-case basis].)

Having considered the Palo Alto City Attorney's request and the arguments therein, we agree with the conclusion reached in the *Vanni* Advice Letter. That Stanford University should be considered a source of income to City Manager Shikada is made most evident by the fact that the Stanford University Board has the authority to appoint and remove members (and fill vacancies) of the SHC Board. Although Stanford University Board Members no longer sit directly on the SHC Board, the University still essentially has ultimate control over the makeup of the SHC Board. By maintaining complete control over the SHC Board, Stanford University continues to have sufficient control over SHC, such that a source of income interest in SHC also equates to a source of income interest in Stanford University for purposes of the Act. Other aspects of SHC's bylaws support this conclusion, including the Stanford University Board's authority to amend SHC bylaws at any time.

The most persuasive factor in the Commission's view is, as discussed above, Stanford University's total authority to remove SHC Board Members. Were it the case that Stanford University exercised no authority to remove SHC Board Members, it is possible we would reach a different conclusion. Having no occasion to analyze this hypothetical set of facts, however, we reach no conclusion in that regard. (See *Cal. Healthcare & Rehab. Ctr. v. Baass* (2025) 109 Cal. App. 5th 553, 560 [an agency policy is a regulation subject to the Administrative Procedure Act if it is intended to apply generally and implements, interprets, or makes specific the law enforced or administered by the agency or governs the agency's procedure].) To the extent that the SHC bylaws are amended in the future, City Manager Shikada or a similarly affected public official may reach out for additional advice.

In light of the above conclusion, the Act generally prohibits City Manager Shikada from taking part in governmental decisions that would have a reasonably foreseeable, material financial effect on either SHC or Stanford University.

CONCLUSION

Under the SHC's current bylaws, the Stanford University Board exercises sufficient control over SHC such that a source of income interest in SHC should also constitute a source of income interest in Stanford University. Most notably, the Stanford University Board has complete control over the appointment and removal of SHC Board Members. Were it the case that the Stanford University Board did not exercise such complete control over removal of SHC Board Members, we might have occasion to reach a different conclusion. In the absence of such an occasion, however, we conclude that based on his spouse's employment with SHC, City Manager Shikada has a source of income interest in both SHC *and* Stanford University for purposes of the Act's conflict of interest provisions.

Approved by the Commission on August 21, 2025. Concurring: Chair Silver,
Commissioners Brandt, Ortiz, Wilson, and Zettel.



Adam E. Silver
Chair