



# Memorandum

**TO:** HONORABLE MAYOR, CITY  
COUNCIL, AND REDEVELOPMENT  
AGENCY

**FROM:** Les White  
Harry S. Mavrogenes

**SUBJECT:** SEE BELOW

**DATE:** 12-20-06

**COUNCIL DISTRICT:** District 10  
**SNI:** Hoffman/Via Monte

**SUBJECT TERMINATION OF A GROUND LEASE WITH THE ALMADEN HILLS  
UNITED METHODIST CHURCH AND APPROVAL OF A LEASE AT 1180  
BLOSSOM HILL ROAD FOR THE HOFFMAN/VIA MONTE  
NEIGHBORHOOD CENTER**

## **RECOMMENDATION**

It is recommended that:

- (a) The City Council adopt a resolution terminating a Ground Lease with the Almaden Hills United Methodist Church for the Hoffman/Via Monte Neighborhood Center, and,
- (b) The City Council approve a five-year lease agreement with the Harry Delizonna Family Trust for 900 square feet of commercial space on the ground floor of a building located at 1180 Blossom Hill Road at a rental rate of \$2,520 per month for the first year of the lease and with annual increases of 3% to \$2,836 per month for the final year for a total rent of \$160,548.24, plus annual operating expenses not to exceed a cumulative total \$42,000 over the five-year term of the lease.
- (c) The City Council and Redevelopment Agency Board approve the termination of the Cooperation Agreement between the City and the Redevelopment Agency for the Hoffman/Via Monte Neighborhood Center

## **OUTCOME**

Termination of the existing Ground Lease for the Hoffman/Via Monte Neighborhood Center will eliminate the Church property as a site for locating a modular community center. By approving the lease agreement, Council authorizes the monthly rent and operating expenses to secure a site for the Hoffman/Via Monte neighborhood action center for five years, with options to extend for an additional two, five-year terms.

**Subject: Termination of a Ground Lease with Almaden Hills  
United Methodist Church and Approval of a Lease at  
1180 Blossom Hill Road**

Page 2

Approval of the new lease will allow the much needed neighborhood center to open more than 18 months earlier and will be in a more visible and accessible location. The original concept to locate a modular building on the church property proved to be financially infeasible.

**BACKGROUND**

On October 5, 2004, the City Council and Redevelopment Agency Board took actions to approve a ground lease with Almaden Hills United Methodist Church (AHUMC). The lease secured a portion of the property owned by AHUMC at 1200 Blossom Hill Road as the site for the Hoffman/Via Monte Neighborhood Center. The Hoffman/Via Monte Neighborhood Action Coalition (NAC) identified the Neighborhood Center as its number one priority in the Strong Neighborhoods Initiative planning process.

The initial term of the ground lease was 20 years, with two five-year options. An initial payment of \$20,000 was made upon execution of the lease and a second payment of \$20,000 was made upon mutual approval of plans for the Center. At the time the lease was negotiated, the expected construction completion date of the Neighborhood Center was spring 2005. Upon completion of construction a final payment of \$281,353 was to be made to the church for a prepaid rent total of \$321,353.

The church site requires the construction of a new building for the Neighborhood Center. Changes in design and increasing costs of the proposed new modular Neighborhood Center significantly delayed the beginning of construction and, to date, construction has not begun. Agency staff received only one bid that was approximately double staff's construction estimates. The lease allows for either party to terminate the agreement if the Neighborhood Center has not been completed by December 31, 2006. Ultimately, escalating construction costs for the proposed modular on the Church property outpaced budget availability.

Staff worked with the community to identify alternative sites. The only properties convenient to the residents of both Hoffman Court and the Via Monte Drive area are situated at or near the corner of Blossom Hill Road and Almaden Expressway. A large shopping center on the corner is being planned for major remodeling and expansion. The subject site, a 900-square-foot space in a 5,650-square-foot commercial center is located immediately east of the church ground lease site and west of the shopping center.

**ANALYSIS**

As project delays have continued, Agency and SNI staffs have worked with the community to identify alternative sites and designs that could be developed in a timelier and cost effective manner. Agency staff has recommended that the City terminate the lease with Almaden Hills United Methodist Church because: (1) delays in construction of the Neighborhood Center are such that construction would not even begin before the December 31, 2006, completion date required in the lease; and, (2) the community, working with staff, has identified an alternative site for the Neighborhood Center. There was a total financial commitment of \$321,353. If the lease is terminated, the Church retains the \$40,000 of the Initial Term Rent that already has been paid. The remaining \$281,353 will not be required to be paid and will be available for

HONORABLE MAYOR, CITY COUNCIL, & AGENCY BOARD  
December 20, 2006

**Subject: Termination of a Ground Lease with Almaden Hills  
United Methodist Church and Approval of a Lease at  
1180 Blossom Hill Road**

Page 3

alternative projects in the Hoffman/Via Monte Strong Neighborhoods Initiative area. In addition, the approximately \$800,000 remaining in that Agency budget will be used to fund other neighborhood priorities.

Agency staff estimates the cost for construction of a modular center on the Church site is between \$1 million and \$1.25 million, not including the cost of the lease. The projected cost of the alternative site's lease is \$600,000 over 15-years, for a savings of up to \$650,000. The proposed initial term is for five years with two, five-year option periods.

**LEASE TERMS FOR 1180 BLOSSOM HILL ROAD:**

The subject property was listed as available for rent at an asking rate of \$2.95 per square foot per month, on a triple net basis. Staff reviewed comparable lease information and negotiated with the Landlord for a five-year lease starting at \$2.80 per square foot. Agency Real Estate staff determined that this rate was comparable to area leases. Details of the lease are outlined below:

Location:	1180 Blossom Hill Road, San Jose
Premises:	900 square feet of a 5,647 square-foot center
Term:	Five years, with two five-year options
Rent:	\$2.80/square foot/month, NNN (\$2,520.00) 3% annual increases in years 2-5
NNN Costs:	Estimated at \$0.50/square foot/month (\$450) with a limit of \$700 per month
Total 5-Year Lease Obligation:	Approximately \$190,000
Commencement:	January 1, 2007
Termination:	The lease contains a provision that will allow the City to terminate the agreement upon 60 days prior written notice.

**POLICY ALTERNATIVES**

Alternative #1: Modular building on ground lease with church

Pros: Larger facility (2400 square feet)

Cons: Escalating construction costs limit ability to complete project in a timely manner

Reason for not recommending: Site not as accessible and modular construction is less financially feasible

December 20, 2006

**Subject: Termination of a Ground Lease with Almaden Hills  
United Methodist Church and Approval of a Lease at  
1180 Blossom Hill Road**

Page 4

Alternative #2: Do not build a community center.

Pros: No cost to City

Cons: Top neighborhood priority unfulfilled

Reason for not recommending: Neighborhood priority for community center

### **PUBLIC OUTREACH/INTEREST**

This item meets Criteria 3 noted below for special outreach efforts. In addition to the report being posted on the City's web site for public access, Agency and City staffs have met with Church officials on a number of occasions. Key meetings took place with the representatives of the AHUMC Community Center Committee in May, July and September 2006. Agency staff and the project architect met with the AHUMC Community Center Committee on July 27, 2006. During the last week in November 2006 extensive staff outreach with the Hoffman/Via Monte NAC and Residents Association described the Neighborhood Center project alternatives and savings achieved by not leasing the Church property and constructing the modular unit. In addition, a letter signed by the City's Deputy City Manager, the Agency's Executive Director, and Councilmember Pyle was distributed to the NAC to explain the City's intention to lease the space on Blossom Hill Road for the Neighborhood Center.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### **COORDINATION**

This item has been coordinated with the Department of Planning, Building and Code Enforcement and the City Manager's SNI Office. The Office of the City Attorney has reviewed the agreement and approved it as to form.

### **FISCAL/POLICY ALIGNMENT**

This lease is consistent with the Council-approved Budget Strategy for Guiding Principals for Budget and Financial Management in that it respects neighborhood and community priorities while preserving our options for the future.

December 20, 2006

**Subject: Termination of a Ground Lease with Almaden Hills  
United Methodist Church and Approval of a Lease at  
1180 Blossom Hill Road**

Page 5

**COST IMPLICATION**

Rent for the first year of this agreement is \$30,240 plus pass through operating expenses increasing to \$31,104 plus expenses in the second year then \$32,076 plus expenses in the third year then to \$33,048 plus expenses for the fourth year and \$34,020 plus expenses in the fifth year for a total base rent of \$160,488 over the five-year term of the lease. Although the Cap for Pass through operating expenses is set at \$42,000 for the five year term of the lease the projected operating expenses are estimated at \$25,500 for a total lease cost of \$185,988.

**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	RC#	Total Appn.	Amt. For Contract	2006-2007 Adopted Operating Page	Last Budget Action (Date, Ord. No.)
001	2970	Hoffman/Via Monte Neighborhood Youth Center	N/A	\$650,000	\$190,000	IX-10	N/A

**CEQA**

Exempt, File No. PP06-218

  
LES WHITE  
City Manager

  
HARRY S. MAVROGENES  
Executive Director

For questions please contact PHILIP PRINCE, PUBLIC WORKS DEPUTY DIRECTOR, at (408) 535-8300.