



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Paul Krutko
Jennifer Maguire

SUBJECT: Work plan for interim uses of
Airport West property and adoption of
Appropriation ordinance amendments

DATE: January 17, 2007

Approved

Date

1/23/07

COUNCIL DISTRICT: 3
SNI AREA:

RECOMMENDATION

- 1) Adoption of a resolution
 - a. Approving the work plan for securing interim uses for the 23.23 acre parcel of the Airport West (formerly FMC) property located at 1125 Coleman Avenue as described in this memo.
 - b. Authorizing the City Manager to release a Request for Proposals (RFP) for consultant services to assist City staff in developing an RFP for interim uses of 23.23 acres of the Airport West property, analyzing the responses to the RFP, and negotiating an agreement with the successful respondent.
 - c. Authorizing the City Manager to release an RFP seeking proposals from developers for interim uses of 23.23 acres of the Airport West property.
- 2) Adoption of the following appropriation ordinance amendments in the General Fund:
 - a. Establish a City-wide Airport West Property Development appropriation in the General Fund to the Office of Economic Development in the amount of \$116,000.
 - b. Decrease the Reserve: Future Economic Development by \$116,000.

OUTCOME

City staff seeks to implement an interim use strategy for the 23.23 acres of the Airport West property (formerly FMC) located at 1125 Coleman Avenue. First, the City will obtain the services of a well qualified land use consultant (\$85,000-\$95,000) through an RFP process (the "Consultant RFP"), who will assist the City in writing an effective RFP to identify and secure a highly qualified developer and tenants for interim uses of 23.23 acres of the Airport West property (the "Interim Use RFP"). Following release of the Interim Use RFP, the consultant will assist the City in reviewing proposals and negotiating with the selected respondent. After prospective interim user/uses are identified, Council will be asked to approve an Exclusive Right to Negotiate (ERN) Agreement

intended to accomplish an interim plan for the Airport West property. The consultant will work with City staff including OED, PBCE, Public Works, DOT, and Airport to evaluate RFP responses for interim uses and negotiate with the successful respondent.

Timetable (*tentative*)

- Release Consultant RFP – February 28
- Release Interim Use RFP – April 30
- Return to Council requesting ERN for successful respondent – August 7.

BACKGROUND

The City acquired 74.87 acres of the Airport West property, located at 1125 Coleman Avenue, with the expectation that ownership would allow the City to fulfill multiple critical goals in the short and long-term. In the short-term, control of the property will substantially facilitate the progress of the construction of the North Concourse Building and related projects at the Airport. In the long-term, ownership of the property will substantially enhance City revenues through the build out of 2.275 million square feet for office/research and development (R&D) uses on the 74.87 acres.

The City acquired 74.87 acres of the Airport West property from FMC Corporation in two phases at a total cost of \$81,539,960 (\$25/sq. ft.). In February 2005, the City acquired approximately 51.64 acres of the property (“Phase I Property”) through the issuance of lease revenue bonds by the City of San Jose Financing Authority (the “Authority”). The Phase I Property has been leased to the Airport pursuant to an Operating Sublease Agreement (the “Operating Sublease”) and will be used for interim Airport-related uses such as construction staging/lay down, rental car parking/servicing and other Airport parking-related needs, prior to long-term development for office/R&D use. The Airport is currently developing an interim use plan for the Phase I Property.

In May 2006, the City completed the acquisition of an additional 23.23 acres of Airport West property (“Phase II Property”) after FMC Corporation successfully completed required environmental remediation. Following various environmental studies, the Department of Toxic Substance Control granted the City environmental clearance through a letter stating that no further action was required on the soils and groundwater. The Phase II Property was purchased through a HUD Section 108 loan (the “HUD Loan”), and is currently available for short-term economic development purposes including retail, auto auction, and distribution facilities.

Although the long-term vision for the highest and best use of the Phase II Property is office/R&D space, an interim use solution is required to support the debt service payments on the \$25.4 million HUD Loan ending on August 1, 2024. To protect the General Fund while interim uses are identified and implemented, OED has secured a \$2 million Brownfields Economic Development Initiative (BEDI) Grant which may be used for payment of debt service on the HUD Loan. The BEDI Grant is currently anticipated to be sufficient to cover all of the quarterly variable-rate debt service payments due in FY 2006-07 and a portion of the payments due in FY 2007-08. The estimated full amount of debt service due on the HUD Loan in FY 2007-08 is \$2.4 million, of which approximately \$1.9 million would need to come from sources other than the BEDI Grant.

To protect the General Fund if the BEDI Grant and the interim uses prove insufficient to cover the HUD Loan debt service payments, in 2004 the City Council approved the terms of a loan of Airport funds not to exceed \$3,735,000, for a term from January 1, 2005 to June 30, 2018. If utilized, the City will repay any loan amounts from revenues generated by interim uses with interest payable quarterly by the City to Airport funds accruing on a monthly basis at the City's rate of return on its invested pool of funds.

ANALYSIS

As noted above, although the long-term vision for the highest and best use of the Phase II Property is office/R&D space, the market for the ultimate development is anticipated to be at minimum twenty to thirty years away. During the interim period, the City must secure tenants to pay rents sufficient to support the debt service payments on the HUD Loan. OED staff anticipates that establishing interim uses and generating the required revenue stream will take at least nine months.

In preparation for securing interim uses, OED has worked extensively with brokers, developers, and potential tenants to determine likely interim uses for the Phase II Property, which include retail, auto auction, and distribution facilities. Finding an appropriate interim use tenant for the Phase II Property presents unique challenges due to the financial pressures to be profitable while amortizing the cost of tenant improvements which will ultimately be relinquished to allow the City to develop highest and best uses, such as office/R&D.

In order to attract proposals that will generate sufficient revenues, staff proposes that Council approve the release of an RFP for services of a qualified land use consultant, ideally with private and public experience, to help the City develop the Interim Use RFP from a market based / developer point of view that will seek proposals for interim use of the Phase II Property. The selected consultant should have experience in pro forma analysis and land use development. Following the release of the Interim Use RFP, the consultant will assist City staff in reviewing submitted proposals, including an analysis of the respondents' financial capacity and the specifics of the specific financial proposals. In addition, the consultant will assist City staff in negotiating with the successful respondent. The consultant selected to assist the City in preparation of the Interim Use RFP will not be able to submit a response to the Interim Use RFP or assist any proposer who submits a response to the RFP.

The successful respondent will be required to prepare the Phase II Property for interim uses, construct buildings/operations, and then tear down and relinquish the site so that the City may pursue the build out of the office and R&D facilities ultimately envisioned for the site. Proposed development must conform to the Environmental Covenants which limit the use of the property to commercial and industrial uses and eliminate the potential for developing the site for residential purposes. The interim uses timeframe may need to extend as long as 30-35 years to provide sufficient time for the costs of infrastructure installation and construction of buildings to be economically amortized by the tenants. During this period, interim users will pay rents and generate sales tax revenue. In addition to dedicating rents from the Phase II Property to repayment of the HUD Loan, OED and Budget recommend that sales tax generated by the full 100 acres of the Airport West property (51.64 acres of Phase I Property, 23.23 acres of Phase II Property, and 25.13

acres of property not currently owned by the City) be allocated as needed to assist in the repayment of debt service on the HUD Loan.

POLICY ALTERNATIVES

Alternative #1: Hire a real estate broker to find interim user.

Pros: A real estate broker would have experience transacting commercial land deals and marketing properties to prospective tenants.

Cons: Brokers have limited experience negotiating between private and public entities; The process of selecting a tenant through a broker would be less public and less competitive than RFP process.

Reason for not recommending: Staff determined that the costs of utilizing a broker would greatly exceed the proposed \$85,000-95,000 anticipated cost of hiring a consultant. In addition, staff desires to maximize input into selection of appropriate tenant(s) and ensure that the process is open and competitive.

Alternative #2: Develop the RFP in-house with City Staff.

Pros: Reduces cost

Cons: The project would not benefit from the expertise of a land use consultant who has structured and negotiated deals between private and public entities; Limited staff time availability would increase time required to develop RFP.

Reason for not recommending: Staff determined potential savings was insignificant compared to the potential benefit from the increased expertise.

PUBLIC OUTREACH/INTEREST

OED will e-mail appropriate stakeholders and post the RFP to the City website in an effort to ensure that a wide range of recipients receive the request for proposals.

- 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, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum has been coordinated with the Finance Department, the Airport Department, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The project is aligned with the recommendations of Economic Development Strategy No. 2, "Build a World-Class Airport Facility and Air Services."

COST SUMMARY/IMPLICATIONS

A new Airport West Property Development appropriation in the amount of \$116,000 is recommended in this memorandum. The majority of these funds (\$85,000 - \$95,000) will be used for consulting services related to developing an RFP for interim development of the Phase II Property. The remaining funds will be used for other property development activities, including additional consulting services for securing a tenant for the property. Funding for this action will be provided from the Reserve for Future Economic Development that was established for this type of economic development activity. This reserve was created by allocating funds that had been received as repayment for the initial financing costs associated with the Airport West property acquisition.

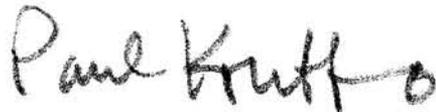
A plan for the Phase II property is necessary to secure interim uses that will generate tenant rents as well as sales tax revenue that will be used to offset the General Fund debt service payments on this property. The \$2 million BEDI grant is currently being used to cover these debt service payments. These funds, however, will be exhausted by mid-2007. The City also has an option of using a loan of up to \$3.735 million from the Airport to temporarily cover these debt service payments, if necessary.

BUDGET REFERENCE

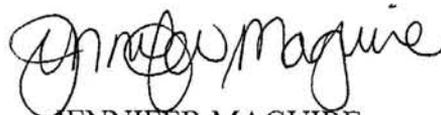
Fund #	Appn #	Appn. Name	Total Appn	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	7079	Reserve: Future Economic Development	\$116,000	IX-26	10/17/06 Ord. 27888

CEQA

Exempt



PAUL KRUTKO
Director, Office of Economic Development



JENNIFER MAGUIRE
Acting Budget Director

For questions, please contact Paul Krutko, Director, at 408-535-8182.