



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Vice Mayor Cortese
Councilmember Campos
Councilmember Williams

SUBJECT: Proposed Major League
Soccer Stadium Development

DATE: June 12, 2007

Approved

Forest Williams Date *6/12/2007*
Noel Campos
Jeff Cort

RECOMMENDATION

It is recommended that the City Council approve staff's recommendations with the following conditions and amendments:

1. Direct staff to explore the full potential impacts of converting the iStar property, located at Hwy 85 and Cottle Road, from an industrial park General Plan land use designation to a residential land use designation. Analysis of this potential land conversion should include information about the following impacts:
 - a. The impact that the development of as many as 1500 residential units on the iStar property will have on local school capacity.
 - b. The traffic impacts in the surrounding area, especially impacts to Hwy 85, US-101 and freeway intersections serving the identified site.
 - c. The impacts the residential development will have on local police and fire services.
2. Direct staff to study the specific potential impacts associated with the addition of industrial development capacity to nearby parcels in the Edenvale area.
3. Direct the City Manager to negotiate an agreement with FWSH Partners, LLC such that all revenue generated through the conversion of the iStar property from industrial park to residential is used to either finance the construction of the proposed soccer stadium or to fund local infrastructure improvements designed to offset the impacts of both the proposed residential development and the additional industrial development capacity in the Edenvale area.
4. Direct staff to explore and negotiate mechanisms to bind the potential conversion of the iStar property from industrial park to residential to the development of the proposed soccer stadium.
5. Direct the City Attorney to determine if there is any nexus for a legal challenge under any section of the City Charter for actions related to this unique stadium financing proposal.
6. Direct staff to prepare an outreach plan to ensure that the community has an opportunity to provide its input on the proposal.
7. Assure that the iStar industrial square footage can be accommodated in Edenvale.

BACKGROUND

FWSH Partners, LLC and the City of San José have begun preliminary negotiations to develop a stadium for a Major League Soccer franchise in San José. These negotiations have resulted in a proposal to utilize an estimated \$80 million in revenue to be generated from the conversion of the 75-acre iStar property from industrial park to residential to finance the construction of the proposed soccer stadium.

Due to the significant economic and social benefits, the City of San José should pursue negotiations with FWSH Partners, LLC to bring a MLS franchise back to San José. A professional soccer franchise will enhance the national visibility of the City of San José while also providing a public benefit to a significant segment of the local population that would support the franchise. In addition, the development of transit-oriented office, R&D, hotel and retail space in conjunction with the proposed soccer stadium will generate significant revenues for the City's General Fund and encourage intensification of a highly underutilized area of the City.

Despite all of the potential benefits connected to the development of a soccer stadium, the City must be extremely cautious in converting valuable industrial property in a growing industrial area. The iStar property must be valued as a long-term asset for the City of San José as it has strong potential to be developed in the near future as an industrial site supporting the City's driving industries in the Edenvale area.

The City must be afforded the concrete commitment that the soccer stadium will be developed prior to approving the conversion of the iStar property to a residential designation. Neglecting to negotiate this guarantee will open the possibility to the City losing valuable industrial lands without receiving the necessary "extraordinary public benefit" used to justify the conversion in the first place. A donation of \$80 million should not be viewed as qualification for this requirement under the "Framework for Consideration of Industrial Conversion" approved by the City Council on May 15, 2007.

Staff argues that the iStar property qualifies under the "Framework for Consideration of Industrial Conversion" because there shall be "no net loss" of total employment capacity as a result of the proposed conversion. This argument is based on the proposal to shift the employment capacity from the iStar property to other parcels in the Edenvale area. This assertion does not appear to follow the intended spirit of that requirement in the framework which was to discourage the conversion of employment lands to strictly residential uses.

If the "no net job loss" argument is accepted as part of this proposal, it will open the door for future industrial conversion proposals to use this argument as a basis for qualification under the existing framework if the proposal is simply able to identify an underutilized industrial area of the City in which employment capacity could be added. This policy will threaten the limited employment lands in the City by adding pressure to convert them to residential uses.

HONORABLE MAYOR AND CITY COUNCIL

06-12-07

Subject: Proposed Major League Soccer Stadium Development

Page 3

Employment capacity can always be added throughout the Edenvale area, including the iStar parcel, by direction from the City Council and should not be viewed as a direct result of this proposal, nor should it be viewed as a benefit of this proposal. If the City Council is to ultimately approve the conversion of the iStar property to residential use, that approval should be based on the understanding that this project will result in an "extraordinary public benefit" and not on the basis that the City will not lose any employment capacity.

In conclusion, the City Council must not lose sight of what is being asked of the City. We are, in fact, providing an extraordinary benefit to a developer who is then returning that same benefit to the city. In the process, that developer is gaining an exclusive right to negotiate a significant city-owned property which has the ability to generate a sizeable financial return to that same developer, as well as securing a stadium for the developer's major league sports franchise.

The City Council must be presented with concrete commitments and tangible guarantees that the stadium project will move forward before approving any proposed agreement. In addition, the agreement must clearly address the potential impacts of the developments at both the iStar and Airport West properties. If more revenue is generated from the conversion of the iStar property to residential uses than the estimated \$80 million, those funds should be used to assist with offsetting any negative impacts that arise as a result of either development.