



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Katy Allen

**SUBJECT: APPROVAL OF A LEASE
WITH YU-AI KAI JAPANESE
AMERICAN SENIOR SERVICES**

DATE: 06-04-07

Approved

Date

6/11/07

COUNCIL DISTRICT: Citywide

RECOMMENDATION

- a. Authorization for the termination of the existing agreement with Boys and Girls Clubs of Silicon Valley for their use of the City-owned property located at 110 E. Jackson Street.
- b. Approval of a lease agreement with Yu-Ai-Kai Japanese American Community Senior Services for the use of City-owned property located at 110 E. Jackson Street for an initial term of 5 years with an automatic extension for an additional ten-year term.

OUTCOME

By approving this agreement, Council authorizes the transfer of the control of this property from Boys and Girls Clubs of Silicon Valley to Yu-Ai Kai under a non-profit below market lease under City Council Policy 7-1 and the rehabilitation of the existing facility located on the site.

BACKGROUND

The City of San José has been leasing the property located at 110 E. Jackson Street to the Boys and Girls Clubs of Silicon Valley since 1948 under a number of successive lease agreements the last of which being a month to month rental agreement entered into on November 4, 2002.

As part of its strategy to manage operating costs and leverage partnerships, Boys and Girls Clubs entered into a memorandum of understanding with Yu-Ai Kai Japanese American Community Service that would allow Yu-Ai Kai to provide services to seniors at the facility through their wellness programs while leaving the facility open for Boys and Girls Clubs after school programs.

The agreement also calls for Yu-Ai Kai to coordinate the renovation of the existing building on the site and to enter into a sublease with Boys and Girls Clubs for the continued operation of after school programs from 2:00 p.m. to 6:00 p.m. Monday through Friday except holidays.

ANALYSIS

Public Works Real Estate staff has negotiated a lease agreement with Yu-Ai Kai Japanese American Senior Services in compliance with City Council Policy 7-1 as adopted by the City Council on June 20, 2006. After allowing for the value of the community services provided by Yu-Ai Kai and its subtenant Boys and Girls Clubs of Silicon Valley, the lease calls for rent in the amount of \$1.00 per month payable annually in advance.

The lease agreement further references the memorandum of agreement between Yu-Ai Kai and Boys and Girls Clubs which is attached to the lease as an exhibit. Although the building itself is included on the inventory of buildings covered by the City's blanket fire insurance policy, the lease calls for Yu-Ai Kai to provide insurance for its property and betterments to the premises to assure that there will at least be money to reimburse CDBG in the event the building were destroyed by fire.

The lease contains language allowing for cancellation of this lease with 180 days written notice.

POLICY ALTERNATIVES

Alternative #1: Provide a direct grant to Yu-Ai Kai and Boys and Girls Clubs of Silicon Valley rather than providing them a 15 year below market rent subsidy.

Pros: This alternative allows the Council to grant funds to Yu-Ai Kai and Boys and Girls Clubs of Silicon Valley directly related to their provision of community service. It allows the Council to grant funds annually rather than contractually committing to a 15 year subsidy of a below market lease. The lease subsidy is valued at more than \$5.9 million [the site is approximately 56,628 square feet within MLS area 9 @ \$70 per square foot land value = \$3,963,960 @ a 10% land lease return = \$396,396 per annum for 15 years (without calculation of inflation) = \$5,945,940]. By committing to a 15 year below market lease (\$12 per year) the City significantly reduces the value of its real estate asset.

Cons: This Alternative is not in keeping with the intent of City Council Policy 7-1 which allows the Council to lease to non-profit entities at below market rent.

Reason for not recommending: The City Council has previously approved grant of Community Development Block Grant funding to Yu-Ai Kai for renovation/modernization of this site.

PUBLIC OUTREACH/INTEREST

- 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)**

The approval of this agreement does not meet any of the criteria identified by the Sunshine Reforms Work Plan. This memorandum will be posted on the City's website for the June 19, 2007 Council agenda.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office and the Housing and Planning, Building and Code Enforcement Departments. The City Attorney's Office 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.

COST IMPLICATIONS

The total rental income for the first five-year extended term of this lease is \$60 which would be applied to the general fund over the five-year term of the lease. There is a potential for savings for building maintenance and restoration to be performed by the Lessee under the lease.

CEQA

CEQA: Categorically Exempt, File #PP07-108.



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