



# Memorandum

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

**FROM:** Harry S. Mavrogenes  
Debra Figone

**SUBJECT:** COMMUNITY CENTER JOINT  
USE AGREEMENT WITH  
OAK GROVE SCHOOL DISTRICT

**DATE:** September 8, 2008

**COUNCIL DISTRICT:** 2  
**SNI AREA:** Edenvale/Great Oaks

## **RECOMMENDATIONS**

- (a) Approval of a joint use agreement among the City of San José, San Jose Redevelopment Agency and the Oak Grove School District for the design, construction and joint use of a Community Center and parking lot on the Caroline Davis Intermediate School campus.
- (b) City Council certification that (1) funding strategies will be pursued so that the projected funding for operation and maintenance of the Community Center will be made available in fiscal year 2010-2011, the first year of operation and (2) appropriate efforts will be undertaken so that those funding strategies cover the entire cost of the Community Center project, including operation and maintenance costs, as to not require a decrease in existing basic neighborhood services.

## **OUTCOME**

Through this agreement the San Jose Redevelopment Agency (SJRA) will fund, design, and construct, and the City will fund, operate, and maintain, an approximately 20,204 square foot Community Center (Center) on the campus of Caroline Davis Intermediate School (Davis School) located at 5035 Edenview Drive in south San Jose. With some exceptions included in the agreement, the City will have exclusive rights to the Center except that Oak Grove School District (District) will have exclusive use during school hours of the gymnasium located within the Center. In addition, the City will be responsible for all operations and maintenance costs for the Center. The District will provide the land needed for the Center and associated parking at no cost to the City or Agency.

## **BACKGROUND**

In December 2001, the City Council approved the Updated Neighborhood Revitalization Plan for the Edenvale/Great Oaks Neighborhood, which listed a feasibility/master plan study for a new Community Center as the number three priority. In 2002, through negotiations with the District, Davis School was chosen as the location of the proposed facility. Three general community-

wide meetings, one focus group with seniors, and three focus groups with youth were held between May and October 2004 to determine the activities, programs, and amenities for the new facility. In June 2006, the District approved a resolution authorizing staff to enter into negotiations with the City and SJRA for the design and construction of a new facility.

In October 2006, the firm of Carrier Johnson was retained by SJRA for architectural development of the Center. The Edenvale/Great Oaks Plan Implementation Coalition (Strong Neighborhoods Initiative group) and the community reviewed and commented on the final conceptual design on April 4 and August 16, 2007. The plans were approved by the Division of the State Architect on June 18, 2008, and the advertisement for bids was released by SJRA the first week of July, with a projected award date of late September 2008 and a completion date of spring 2010. In addition, the District discussed this proposed agreement at a public hearing on June 26, 2008, and unanimously approved the agreement at the subsequent meeting on July 3, 2008.

The following parameters for the Center have been identified:

- Davis School will provide the land for a youth and community facility.
- This facility will enhance the school's ability to provide sports and physical education activities during school hours and provide a central location for consolidating both existing and new youth programs and services.
- The facility will support after school, evening and weekend use by: a) providing a place for sports, arts, learning, cultural and enrichment activities for the community; b) providing a place for the community to gather and socialize; and c) providing services that support and assist in the advancement and improvement of life skills.
- The design of the building is a Leadership in Energy and Environmental Design, Gold-rated Building as defined by the United States Green Building Council.

In addition to the project chronology discussed above, this Community Center project has been identified as a City Council/Agency Board priority through various actions over the past several years. Some of those actions are listed below:

- December 4, 2001, City Council meeting, Item 4.4: Edenvale Great Oaks Strong Neighborhood Revitalization Plan priority project.
- December 12, 2006, SJRA Board meeting, Item 6.2: Approval of architectural and construction management services for the project.
- June 12, 2007, City Council meeting, Item 9.3: Mayor's Budget Message, Item 3k.
- Various City Council and Agency Board actions over the past several years to allocate funding to the project.

## **ANALYSIS**

The Center is planned for approximately 20,204 square feet and will be located on the northwest corner of the Davis School property. Davis School is located at 5035 Edenvue Drive and the proposed Center's address will be 330 Branham Lane East. Key components of the use facility include:

- 9,000 square foot gymnasium.
- 1,000 square foot computer lab.
- 1,000 square foot multipurpose room.
- Two early childhood recreation classrooms and outdoor play area.
- Combined dance/fitness room that can open up to the gym and serve as a stage.
- 250 square foot warming kitchen.

Following are key project parameters:

- The gymnasium located within the Center will be a joint use facility that is exclusively accessible to the District during school hours as well as four additional days per year.
- The District will be allowed to extend the school hours from the standard 3 p.m. time to 6 p.m. up to 12 times per year to accommodate uses such as basketball games and wrestling matches.
- The District's contribution to the project will be the value of the leased land and the SJRA and City contributions to the project will be to fund the design and construction of the Community Center, which is anticipated to be approximately \$18,500,000, as well as the City's ongoing operations and maintenance.
- The term of the land lease will be 50 years from the date the Center is completed, with an optional renewal term of 20 additional years for a total possible term of 70 years.
- During the lease, title to the Center will remain with the City and title to the real property (land) will remain with the District. Title of the Center will automatically transfer to the District upon earlier termination or expiration of the agreement.
- The agreement may terminate without additional cost or penalty to any party if (1) the City and SJRA fail to secure adequate funding to award the construction contract before January 1, 2009, or (2) SJRA fails to commence construction of the Community Center before January 1, 2011.
- The City or SJRA may also terminate the agreement at any time for convenience without additional cost or penalty (other than site restoration obligations if construction has commenced but the Center has not yet been completed) with 30 calendar days advance notice to the District.
- Commencing five years after the Center is completed, the District may terminate the agreement for convenience with 18 months advance notice to the City and SJRA. Upon such termination, the District shall repay the City and/or the SJRA by an amount reflective of the remaining useful life of the Center. The repayment amount is to be calculated on a straight line basis of the \$18.5 million amortized over 50 years, minus the number of months since project construction completion, as reflected in Exhibit D of the proposed agreement with Oak Grove School District.
- The Center will be managed by the City with a Center Director responsible for overall management and operational and programming issues for the Community Center. City will be responsible for the facility except that during the school year, the District will be responsible for the operations of the gymnasium during school hours.
- Except for the times during school hours when the District has exclusive use of the gymnasium, the City will be responsible for providing staff support and scheduling use for the gymnasium and will collect all fees and use those fees to support on-going operational and maintenance costs for the Center.

The Center Director will endeavor to secure a high degree of participation in the Center by partnering with various public and private agencies to meet the diverse needs of the community. Such participation may include programming relating to special education, special counseling, cultural and linguistic needs, unique programming for at-risk youth and other social services based on community needs.

Currently, the following funding sources have been appropriated to the project by the Redevelopment Agency Board and City Council through prior budgeting actions:

- \$2,117,000 Council District 2 Construction and Conveyance Tax Fund (currently budgeted as a reserve)
- \$1,290,000 Park Trust Fund (currently budgeted as a reserve)
- \$1,065,000 Calpine/Bechtel funds in the Parks City-Wide Construction and Conveyance Tax Fund (\$500,000 currently budgeted as a reserve for this project and \$565,000 is budgeted as a "Calpine Open Space" reserve)
- \$8,271,847 Total Agency appropriated funding/expenditures as of July 1, 2008

The above sources provide a total of \$12,743,847 towards the project budget. On August 15, 2008, the Agency received bids for construction of the Center. The bid recommended for award, including the construction contingency, is \$13.5 million. The final project budget, including design, construction, and fixtures, furniture and equipment (FF&E) is \$18.5 million. Specific recommendations on the funding to complete the project will be considered by the City Council/Agency Board in a separate action on today's agenda. In the accompanying project award memo, City staff recommends an additional \$ 1,435,000 to be "fronted" from the General Fund Neighborhood Capital Improvements Fund Earmarked Reserve to be paid back through future receipts of funds payable to the City pursuant to the cooperation agreement between the City and Calpine/Bechtel related to the Metcalf Energy Center.

Neither the City Council nor the Agency Board is being requested, in taking the action which is the subject of this memorandum, to approve payment by the Redevelopment Agency for any portion of the project construction costs. Pursuant to California Community Redevelopment Law, SJRA may pay construction costs for publicly-owned buildings only with the prior consent of the City Council, following appropriate determinations. Staff is bringing forward the matter of the Agency's funding of project construction costs for Council and Board consideration in connection with the Board's consideration of the award of the construction contract for the project, which actions are the subject of another memorandum.

The additional \$1,435,000 in future Calpine/Bechtel payments recommended to be provided as an advance from the General fund Neighborhood Capital Improvements Fund Earmarked Reserve to be paid back through future receipts of funds payable to the City pursuant to the cooperation agreement between the City and Calpine/Bechtel related to the Metcalf Energy Center. This funding is not needed during the payback period due to the timing on the Neighborhood Capital Improvement projects and it is not anticipated that this transfer will delay any of the current project schedules. Anticipated future receipts from Calpine are expected to occur in December 2009 (\$500,000) and December 2010 (\$1.0 million) from which the \$1,435,000 from the General Fund Earmarked Reserve would be reimbursed. No repayment of

interest is required as the funds advanced are from the General Fund. The plan for this and separate appropriation adjustments will be presented in the award memo being considered separately.

The City and Redevelopment Agency have a strong tradition of partnering with local school districts to improve facilities so as to enhance service delivery. As proposed, this agreement will enable the City and Agency to move forward with the joint-use Community Center development as envisioned in Edenvale's SNI priorities. Moreover, this agreement continues a new approach to service delivery that leverages mutual assets between the City and school districts to achieve a common goal.

### **POLICY ALTERNATIVES**

**Alternative:** City declines to invest in the project.

**Pros:** Funds could be used for other projects in Council District 2 and the City would not need to invest the annual operations and maintenance funding required of a community center.

**Cons:** Should the Council not wish to invest; the Edenvale Strong Neighborhoods Initiative Area will not be served by a large multi-serve community center, which is a high priority item in its SNI plan.

**Reason for Not Recommending:** There is a shortage of community center space in this area of the City. The proposed investment will enable the City to quickly expand its inventory and expedite program and service delivery to the community.

### **PUBLIC OUTREACH/INTEREST**

- ✓ **Criterion 1:** Requires Council or Board action on the use of public funds equal to \$1 million or greater.
- Criterion 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.
- Criterion 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.

Community meetings have been held since 2004 to discuss the programming and design of the facility. This memorandum seeks approval to execute the joint use agreement with the District in which the San Jose Redevelopment Agency will fund, design and construct and in which the City of San Jose will fund, operate and maintain the Community Center. Therefore, this action meets Criterion 1 above pertaining to the use of public funds equal to \$1 million or greater. This staff report will be posted on the City's website and distributed 14 days prior to the action being heard.

## **COORDINATION**

This memorandum was coordinated with the City Manager's Budget Office; Parks, Recreation & Neighborhood Services; Planning, Building and Code Enforcement and the City Attorney's Office.

## **FISCAL/POLICY ALIGNMENT**

This project is consistent with the Council-approved 2006-2007 Budget Balancing Strategy Principles in that it protects vital core City services and considers alternative service delivery mechanisms (e.g. appropriate partnerships) to reduce costs of delivering needed services to the community.

### *Budget Principle Certification*

It should be noted that earlier this year, the City Council established a budget principle that highlights the dilemma of developing major new facilities that require significant operations and maintenance funding at a time that the City is wrestling with a General Fund structural budget deficit. Specifically, as a part of the March Mayor's Budget Message for fiscal Year 2008-2009 the City Council adopted the following Budget Principle:

*Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$100,000 in the General Fund without City Council certification that funding will be made available in the applicable year of the cost impact. Certification shall demonstrate that funding for the entire cost of the project, including operations and maintenance costs, will not require a decrease in existing basic neighborhood services.*

Projections for General Fund revenues and expenditures, including future operations and maintenance funding needs of new facilities, are detailed in the City Manager's Budget Request and Five-Year Forecast. These projections are critical for the development of the City's annual Operating and Capital Budgets and the Five-Year Capital Improvement Program. As these projections are based on the best information available at the time and due to the potential for unanticipated changes in the local economic environment, it may be difficult to predict the fiscal environment at the time of a project's first full year of operations.

As such, staff recommends that the Capital Improvement Budget Principle be interpreted so that the City Council makes a certification that (1) funding strategies will be pursued so that the projected funding for operation and maintenance of the Community Center will be made available in fiscal year 2010-2011, the first year of operation and (2) appropriate efforts will be undertaken so that those funding strategies cover the entire cost of the Community Center project, including operations and maintenance costs, so as to not require a decrease in existing basic neighborhood services. These strategies and possible future efforts are described in this memorandum. It should be noted, however, that changes to the fiscal environment or future City Council action may impact the ability to fund the operations and maintenance costs of the Community Center which could have an impact on existing basic neighborhood services.

Ongoing efforts are continuing to identify future projects with annual operations and maintenance costs in the General Fund above \$100,000 and determine the most efficient implementation of this budget principle. City staff may make additional recommendations regarding this budget principle for City Council discussion and consideration at a later date, if necessary.

Current projections indicate that, beginning in 2010-2011, this project will require annual operations and maintenance expenses of approximately \$1,061,000. Under this proposed joint use agreement with the District, the Center's operation and maintenance costs will be the sole responsibility of the City, based on the District providing the land at no cost. These costs were not included in the 2009-2013 General Fund Forecast. Accordingly, approval of the joint use agreement and the award of the construction contract for the Center will increase the deficit in the General Fund by an additional \$1,061,000 in 2010-2011. Options for addressing the operations and maintenance costs, discussed further below, include alternative service delivery, cost recovery fees, and reduced service levels.

In addition, this agreement will require the investment of approximately \$18,500,000 in City and Redevelopment Agency Capital funding. Separate recommendations to fully fund this project is also scheduled for the September 23, 2008, City Council/Redevelopment Agency Board Agenda as part of the construction contract award. The funding recommendations, in the memorandum for award of the construction contract for the Community Center, have been fully identified by the Redevelopment Agency and City (partially through the receipt of future Calpine funds) and would not result in a decrease in existing basic neighborhood services.

The primary strategy currently being pursued to fund the operations and maintenance costs is alternative service delivery agreements with non-profit organizations, one of which is the Boys and Girls Club, which currently operates on the existing school site. The intent of these discussions is to formalize an agreement with an organization(s) so that programming and service capacity can be augmented and simultaneous reduction of operational expenses can be realized. This will not only allow the City to meet the service needs of the community, it will also potentially reduce the City's operational expenses related to utilities, maintenance, staffing, custodial, furniture, fixtures, equipment and supplies.

In the future, it is possible that the initial strategies to provide for operations and maintenance costs of the Center may fall short or that future City Council actions or the changing fiscal environment may require additional appropriate actions to be taken to avoid decreasing existing basic neighborhood services based on a changing fiscal environment or future City Council action. One or more of the following actions could be taken: restructuring user fees or a reduction of service levels. In such case, actions would most likely be pursued in conjunction with multiple facilities, and not limited to this facility alone.

### **COST IMPLICATIONS**

This agreement will require the investment of approximately \$18.5 million in City and Redevelopment Agency Capital funding. Beginning in 2010-2011, this project will result in an annual operating and maintenance impact of approximately \$1,061,000. Options for mitigating this impact include alternative service delivery, cost recovery, and reduced service levels are discussed in the Fiscal/Policy Alignment section above.

HONORABLE MAYOR, CITY COUNCIL AND AGENCY BOARD

9-8-08

Community Center Joint Use Agreement with Oak Grove School District

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**CEQA**

Mitigated Negative Declaration, File No. PP08-003.



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City Manager



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For questions on this memorandum, please contact MATT CANO, DIVISION MANAGER,  
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