



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Paul Krutko

SUBJECT: See Below

DATE: June 12, 2009

Approved

Christine J. Sheppin

Date

6/12/09

COUNCIL DISTRICT: 3
SNI AREA: NA

SUBJECT

Memorandum of Understanding Between the City of San Jose and the Earthquakes LLC for the Development of a Lease for an Approximately 2.4 Acre Soccer Practice Field as an Interim Use Adjacent to the Proposed Earthquakes Soccer Stadium on the 74.8 acre City owned Airport West Property.

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute a Memorandum of Understanding between the City of San Jose and the Earthquakes LLC for the lease of a 2.4 acre practice field as an interim use adjacent to the proposed soccer stadium site on the Airport West Property located at 1125 Coleman Avenue.

OUTCOME

Negotiate an agreement for the lease of 2.4 acres of the City's Airport West property to the Earthquakes LLC to be used as a practice field for the San Jose Earthquakes Major League Soccer team. The practice field adjacent to the proposed soccer stadium site as an interim use would serve to meet the team's daily training requirements. In addition, staff will report back to Council in the Fall in regards to the proposed use of the balance of the 9.3 acre Airport West property, including the potential construction of a regional soccer complex utilizing Measure P Park Bond funding.

BACKGROUND

On May 5, 2009 the City Council approved amended business terms with Coleman Airport Partners, FWSH LLC and the Earthquakes LLC for the development of the City's 74.8 acre Airport West Property. The amended business terms included the following uses:

- 50.5 acres to be developed with 1.5 million square feet of Office and R&D, approximately 95,000 square feet of retail development and 300 hotel rooms.
- 14 acres to be developed for a professional soccer stadium for the Major League Soccer Professional Earthquakes team.

The amended business terms provide that Coleman Airport Partners and FWSH Inc. are not obligated to purchase 9.3 acres of the Airport West property. The original agreement required the development team to purchase the site if VTA did not. The site had previously been considered for a BART train maintenance facility.

In early 2009, the VTA announced that due to the serious economic downturn and related anticipated decline of sales tax revenue forecasted, development of some elements of the complete BART line to San Jose could be delayed. It is hoped that the BART project could be completed by 2018. Meeting the schedule goal will be challenging due to current economic conditions.

City staff has had preliminary discussions with VTA staff regarding the 9.3 acre site. VTA cannot purchase the property due to the lack of funds and because the Federal environmental process that is needed to authorize the VTA to purchase the property is not complete. Moreover, VTA staff has indicated that if VTA were to offer to purchase the property in the near term, the price for the property would be significantly lower than the \$25 per square foot the City expended to obtain the property.

In light of the General Fund debt service obligation on the 74.8 acre Airport West property, staff is working to identify uses for the 9.3 acre site that complement the proposed economic development uses on the adjacent Airport West property, as well as raising needed revenue to support the General Fund. The 2010-2014 General Fund forecast includes the costs for debt service on the property over the forecast period.

ANALYSIS

Proposed San Jose Earthquakes Practice Field

Upon learning that the BART train maintenance facility may not be developed in the near-term on 9.3 acres of Airport West property, City staff was approached by representatives of the Earthquakes, LLC to consider development of a 2.4 acre practice field for the Earthquakes soccer team on a portion of the site. Currently the team uses Buckshaw Stadium in Santa Clara for its Major League Soccer games. The team does not have an adequate nearby practice field. Securing a practice field is difficult due to the lack of open land in the area. The Earthquakes

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have been seeking a practice field site as far away as Morgan Hill. A site close to the approved stadium site would maximize training opportunities for the team.

Proposed Memorandum of Understanding

Staff is requesting authorization to negotiate a Memorandum of Understanding for a proposed lease for an approximately two acre practice field for the Earthquakes soccer team. Staff anticipates that the lease will be brought forward for City Council review and approval in the Fall of 2009, with required environmental review. The practice field would be constructed on the 23.23 acre portion of the Airport West property the City purchased with proceeds of a U.S. Department of Housing and Urban Development (HUD) loan. City staff would coordinate with HUD regarding the proposed use of the site for a practice field. The Earthquakes would construct a natural turf field at the team's sole expense. Preliminary cost estimates indicate the Earthquakes would spend approximately \$1 million on the preparation and construction of the practice field.

As noted above, the practice field would be developed on 2.4 acres of the 9.3 acre site. The specified 9.3 acre site is at the rear of the 74.8 acre Airport West property, has been allocated no development rights and has no signage rights on either Coleman Avenue or Newhall Avenue. The development rights for 1.5 million square feet of office and R&D and 95,000 square feet of retail space and up to 300 hotel rooms have been allocated to the 50.5 acre development parcel of the Airport West property. The remaining 14 acres is designated for a 15,000 seat soccer stadium. The development allowed on the 50.5 acre site and the 14 acre site requires all of the traffic capacity cleared through environmental documents for the 74.8 acre Airport West property. The train maintenance facility was not deemed to require additional traffic capacity. Any more intensive proposed use on the 9.3 portion of the site would likely require additional environmental review. Development of a practice field would represent a low intensity interim use, not requiring additional traffic capacity, again allowing the possibility for the site to be redeveloped with more intensive uses at a later time.

9.3 Acre Site – Potential Regional Soccer Complex

City Staff has discussed the potential use of the 9.3 acres for a regional soccer complex. In November of 2000, City of San Jose voters approved a \$228 million general obligation bond measure (Measure P) for the purpose of constructing improvements to parks and recreation facilities in the City. The bond language authorizes the construction of recreational sports facilities, but the City has been finding it challenging to identify a suitable site for a regional soccer complex. The proximity to the Earthquakes stadium and proposed practice field make the 9.3 acre site an attractive location for a proposed regional soccer complex.

Initial conversations with the Earthquakes management indicate it may be possible to leverage the parking for the practice field and the eventual parking to be constructed for the stadium and economic development components of the project, to the benefit of a City regional soccer complex. The City may also be able to use the practice field for special events, expanding the capacity for a possible regional soccer complex. Staff will explore the potential soccer complex as it considers options for the balance of the 9.3 acre portion of the Airport West property. Possible benefits of collaboration with the Earthquakes include their extensive relationships

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with over 35 soccer leagues and participation from over 100,000 individuals and ample sponsorship opportunities. Staff will report on the development of a possible City soccer complex in addition to any other potential uses when a lease is presented to City Council for consideration of a practice field for the Earthquakes soccer team.

9.3 Acre Site – Additional Potential Uses

In addition to the Earthquakes practice field proposal and the possibility of a regional soccer complex, City staff is reviewing other potential uses for the 9.3 acre site. Staff understands the need to secure additional uses to minimize General Fund debt service obligations. Potential uses include industrial uses such as storage facilities and retail operations. The lack of visibility for the site from either Coleman Avenue or Newhall Avenue may make the site unfavorable for retail uses. Staff will report on the development of a possible City soccer complex in addition to other potential uses of the 9.3 acre portion of the Airport West property when an Earthquakes practice field lease is presented to City Council for consideration.

EVALUATION AND FOLLOW-UP

Staff will return to Council in the Fall of 2009 with a proposed lease, with appropriate environmental clearance, for a 2.4 acre practice field for the Major League Earthquakes Soccer Team. The potential practice field is to be located on the 9.3 acre portion of the Airport West property. In addition staff will identify alternative uses for the site including a possible regional soccer complex that would fulfill, in part, the voter approved 2000 Measure P General Obligation Bond, for the construction of recreational sports facilities in San Jose.

POLICY ALTERNATIVES

Alternative: The City Council could direct staff to bring forward alternatives for the full 9.3 acre portion of the Airport West property.

Pros: A larger property could potentially yield the City greater returns to defray General Fund debt service obligations.

Cons: The Earthquakes are proceeding with plans to develop a stadium for the Earthquakes on the Airport West property. A practice field adjacent to the stadium would be a significant benefit to the team's day-to-day training and may potentially be used by the City in conjunction with development of a regional soccer complex on the site. Due to the low intensity development required of a practice field, the field can be an interim use on the property allowing in the future more intense development on the site in the future.

Reason for not recommending: The 9.3 acre site has no associated development entitlement and has no visibility from Coleman Avenue or Newhall Avenue. Reuse of the site is limited and the ability to develop a practice field supports basic team operations and potential City

recreational requirements. Development of an interim use allows the possibility of a future user to develop the site more intensely over time.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- 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. **(Required: E-mail and Website Posting)**
- Criterion 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.

This memorandum will be posted on the City's web site for the June 23, 2009 agenda and the Office of Economic Development's website (www.sanjoseca.gov).

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the Department of Parks Recreation and Neighborhood Services, the Budget Office, the Department of Transportation, and the Finance Department.

FISCAL/POLICY ALIGNMENT

The project aligns with the City's Economic Development Strategy #12, "Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur".

COST SUMMARY/IMPLICATIONS

Staff will identify alternative potential uses for the 9.3 acre portion of the Airport West property to generate General Fund revenues and minimize associated General Fund debt service obligations associated with the property.

With respect to the proposed Earthquakes Major League Soccer team practice field, the Earthquakes LLC would be responsible for all one-time and ongoing costs associated with the construction and operation of the practice field. Lease payments would be made to the City for the proposed practice field. A lease for a proposed practice field will be brought forward for City Council review in the fall of 2009. The 2010-2014 General Fund Forecast includes the costs for the debt service payment on the property over the Forecast period.

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CEQA

Not a project.

A handwritten signature in black ink that reads "Paul Krutko". The signature is written in a cursive style with a long horizontal line extending to the right.

PAUL KRUTKO
Chief Development Officer

For questions please contact Paul Krutko, Chief Development Officer, at (408) 535-8181.