COUNCIL/JPA AGENDA: 11/8/11
ITEM: 2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR, CITY COUNCIL AND SAN JOSE DIRIDON DEVELOPMENT AUTHORITY BOARD

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: October 24, 2011

COUNCIL DISTRICT: 3

SUBJECT: OPTION AGREEMENT FOR SALE OF PROPERTY TO ATHLETICS INVESTMENT GROUP, LLC

RECOMMENDATION

It is recommended that the San José City Council and the San Jose Diridon Development Authority Board (Authority) conduct a public hearing and take the following actions:

(a) The City Council and the Authority Board adopt resolutions affirming prior resolutions adopted by the City Council and Redevelopment Agency Board in support of the efforts of the Oakland Athletics organization to move the team to San José, including Resolution No. 74908 adopted in May, 2009, Resolution No. 75513 adopted in August, 2010, and Resolution 75567 adopted in September, 2010; and Resolution No. 5985 adopted in September, 2010.

(b) The City Council adopt a resolution
   (1) Approving the potential sale of certain real property (Property) located along South Montgomery Street between West San Fernando Street and Park Avenue in San José (see attachment no. 1) to the Athletics Investment Group, LLC (AIG) pursuant to an Option Agreement for the Sale of Property between AIG and the Authority, and
   (2) Accepting the Summary Report and Re-Use valuation, and;
   (3) Finding that the sale of the property will assist in the elimination of blight, is consistent with the Implementation Plan for the Strong Neighborhoods Initiative Redevelopment Project Area, and that the consideration for the property is not less than the fair reuse value for the proposed use with the covenants and

conditions to be imposed under the Option Agreement and the potential costs of the proposed project.

(c) The Authority Board adopt a resolution approving the Option Agreement for the Sale of Property with AIG and authorizing the Executive Director to negotiate and execute the purchase agreement and other ancillary documents contemplated by the Option Agreement, with proceeds of the sale to be paid to the San Jose Redevelopment Agency as consideration for the original transfer of the Property to the Authority.

(d) The Authority Board adopt a resolution approving the establishment of a new fund for the San José Diridon Development Authority and consenting to the budget actions recommended to be taken by the City Council below; and

(e) The City Council approve the establishment of the new fund and adopt the following Appropriation Ordinance and Funding Source Resolution amendments in the San Jose Diridon Development Authority Fund:
   (1) Establish an estimate for Earned Revenue in the amount of $200,000;
   (2) Establish an estimate for Transfers from the Redevelopment Agency in the amount of $60,000;
   (3) Establish an appropriation to the Office of Economic Development for Non-Personal/Equipment expenses in the amount of $30,000;
   (4) Establish an appropriation to the Office of Economic Development for Administration expenses in the amount of $10,000; and
   (5) Establish an Ending Fund Balance in the amount of $220,000.

OUTCOME

Approval of the proposed Option Agreement with AIG will allow the Oakland Athletics organization to be in a position to develop a Major League Baseball stadium in San José upon the approval of Major League Baseball.

BACKGROUND

On April 7, 2009, and August 3, 2010, the City Council, by unanimous vote, affirmed its support of the efforts of the Oakland A's ownership to move the team to San José. Over the last several years, San José has worked methodically and enthusiastically to position itself to support a decision by Major League Baseball to move the A's to San José, including the following efforts:

- On May 12, 2009, the Council established Negotiating Principles for the development of a stadium.

- On May 19, 2009, the Council established a Good Neighbor Committee to provide a forum for neighbors to work collaboratively to determine mitigations that could arise from developments in the Diridon Station neighborhood.

- On September 15, 2009, an Economic Impact Analysis for the Proposed Major League Ballpark, with strong economic benefit findings, was accepted by City Council.

- In October 2009, City and Agency staff officially met with the MLB Committee to commence a several-month process of providing information and data for Committee consideration and to support recommendations to the Commissioner.

- On May 19 and June 15, 2010, the Planning Commission and City Council certified the Ballpark Final SEIR respectively.

- On August 3, 2010, the City Council and Redevelopment Agency Board, at the request of Major League Baseball, deferred a ballot measure to be held on November 2, 2010, which would have submitted to the electors of the City of San José, a measure authorizing the City and Redevelopment Agency to use Redevelopment funds to participate in a Downtown ballpark project.

- On September 10, 2010, through the efforts of the Silicon Valley Leadership Group, a letter from 75 of Silicon Valley's leading CEOs was sent to Major League Baseball urging Commissioner Selig to approve the Oakland Athletics move to San José.

The Negotiating Principles as previously approved by the City Council are as follows:

1. No new taxes are imposed to fund ballpark-related expenditures.

2. The City must determine that the ballpark development will generate a significant economic benefit to the City and have a positive impact on City General Fund revenues.

3. No public funds shall be spent to finance or reimburse any costs associated with construction of the ballpark or construction of any on-site infrastructure or improvements needed for the ballpark.

4. No public funds of any kind are spent to finance or reimburse any ballpark operational or maintenance costs related to activities conducted by or under the authority of the baseball team that uses the ballpark either at the ballpark or in the streets surrounding the ballpark.

5. No public funds shall be spent to finance or reimburse the cost of any traffic control, street cleanup, emergency or security services within the ballpark site or within the

streets surrounding the ballpark that are related to activities at the ballpark conducted by or under the authority of the baseball team.

6. If the property is leased for a ballpark, the baseball team must be willing, at the end of the term of the lease, either to purchase the property at fair market value or to do one of the following things at the City's option and at no cost to the City or the Redevelopment Agency:
    a. Transfer ownership of the improvements to the City or Redevelopment Agency; or
    b. Demolish the improvements and clear the site to make way for other development.

7. The entity that builds or operates the ballpark must be willing, if the City deems it appropriate, to make the ballpark available to the City during baseball's offseason for up to 10 days per year for community-related events, at no rental charge to the City.

8. The name of the baseball team must include San José.

In addition, on March 8, 2011, the City of San José and the Redevelopment Agency formed a joint powers authority under the Joint Exercise of Powers Act to facilitate the continued development and redevelopment of the Diridon Area. The Agency contributed certain real property owned by the Agency in the Diridon Area to the Authority. Some of the properties transferred to the Authority are part of a site that has been studied for a potential Major League Baseball Park.

On October 20, 2011, the Mayor issued a Memorandum to the Rules and Open Government Committee recommending that the City Council and Authority take certain actions to facilitate the efforts to bring Major League Baseball to San José. Consistent with the previous direction provided by the City Council and the Redevelopment Agency Board and in order to assist AIG in its efforts to develop a baseball stadium in San José, Authority staff has negotiated with AIG an Option Agreement for the Sale of Property. Consistent with the Mayor's recommendation Authority staff have prepared this report to allow the City Council and the Authority to approve the Option Agreement, together with the other actions described above.

ANALYSIS

The Option Agreement grants to AIG an option to purchase ("Option") the following real property located in the Diridon Area as more particularly shown on Attachment No. 1 (the "Property"):

105 South Montgomery;
150 South Montgomery;
510 West San Fernando;

102 South Montgomery;
115 South Autumn; and
645 Park Avenue.

The Option is for an initial period of two (2) years, commencing upon mutual execution of the Option Agreement. AIG will pay the Authority Fifty Thousand Dollars ($50,000) as consideration for the Option. With the consent of the Authority, AIG may extend the Option for one (1) additional year for an additional Twenty Five Thousand Dollars ($25,000). The Option payments will not be applied to the purchase price of the Property.

The Redevelopment Agency paid approximately $25,160,000 for acquisition and relocation costs for the entire ballpark site. Colliers International conducted an appraisal for the entire ballpark site in September, 2010. Colliers concluded that the entire ballpark site, vacant, assembled and available for development at its highest and best use would be valued at Thirty Eight Million Two Hundred Fifty Thousand Dollars ($38,250,000). Using the estimated value for the highest and best use of $65.75 per sq.ft, the highest and best use value for the Property is approximately $13,970,000. Colliers also concluded that the market value of the entire site, vacant assembled and restricted for development of a ballpark, would be valued at $19,100,000. The Property to be optioned to AIG, on a square foot basis, represents approximately 36.5% of the appraised value of the entire ballpark site. The Purchase Price of Six Million Nine Hundred Seventy Five Thousand and Two Hundred Twenty Seven Dollars ($6.975,227) represents approximately 36.5% of the appraised value of the entire ballpark site restricted for ballpark use. The Purchase Price does not include acquisition of the adjacent City streets. Staff is verifying the ownership of the streets. It is intended that the adjacent streets would be purchased by the developer for site development at a later time. A breakdown of the acquisition and relocation costs for each property is shown in Attachment No 2.

As a condition to AIG's exercise of the Option, the Option Agreement provides that the Authority may require a majority vote of the voters of San José to approve the participation of the City, Agency and Authority in the building of a ballpark in San José. The Option Agreement also provides that AIG and the Authority will negotiate a purchase and sale agreement for the Property consistent with the terms of the Option Agreement ("Purchase Agreement"). The Authority will provide a first draft of the Purchase Agreement within 90 days after the execution of the Option Agreement.

Pursuant to the terms of the Option Agreement, the Purchase Agreement will be consistent with the Negotiating Principles and contain normal and customary purchase agreement provisions, as well as the following provisions:

1. The Property will be restricted for use as a Major League Ballpark and uses incidental to the Major League Ballpark, including hosting other ticketed events, and City uses as provided in the Negotiating Principles.

2. A Transportation and Parking Management Plan (TPMP) and a Construction Management Plan (CMP) will be required to be developed and agreed to.

ECONOMIC IMPACT ANALYSIS

According to the Economic Impact Analysis prepared for the Redevelopment Agency and approved by the City Council on September 15, 2009, a privately built and operated Major League Ballpark will general substantial economic benefits. The Economic Impact Analysis is available online at http://www.sjredevelopment.org/ballpark/EI_Report_09022009.pdf.

The report, developed by Conventions, Sports & Leisure (CSL), estimated economic and fiscal impacts. The key findings are summarized below:

The estimated $461 million investment by an MLB team to construct a new MLB ballpark will result in:

- 350 new construction related jobs for each of the three years of the construction period.
- $145 million total net new economic output generated as a result of the direct spending on construction that then re-circulates through the local economy.

Once construction is complete and the ballpark begins operations, the primary economic impact will be generated by the spending associated with the estimated 81 home games a year. The estimated economic impacts are:

- $130 million in annual net new total output in San José as a result of direct spending on operations that is in turn partially re-spent in San José.
- $2.9 billion total economic output for the local economy over a 30-year period.
- A total of 2,100 annual jobs of which 980 would be new jobs in San José as a result of this economic activity.

In addition to the economic impacts to the local economy, the CSL report examined the fiscal impacts to the City of San José in terms of taxes collected and expenses to the General Fund. The estimated annual fiscal return to the City is:

- $1.5 million a year in net General Fund revenues and an additional $109,000 a year for City General Obligation bond payments.
- $30.2 million net present value in new General Fund revenues over a 30-year period.
- $842,000 annually in new revenues for public schools.
- $948,000 annually in new revenues for the County of Santa Clara.
- $706,000 annually in new revenues for affordable housing.
- $13.9 million net present value in new revenues for affording housing over a 30-year period.

SUMMARY REPORT AND RE-USE VALUATION ANALYSIS

Although this is not a redevelopment project, the Joint Powers Agreement for the San José Diridon Development Authority specifically provides that the Authority shall not sell or lease real property obtained with tax increment funds without compliance with the applicable requirements of California Redevelopment Law, Health and Safety Code Section 33000 *et. seq.* As such, in accordance with the provisions of Section 33433 of the California Redevelopment Law, Keyser Marston Associates was engaged to prepare the attached Summary Report.

The Summary Report, along with a copy of the Option Agreement, was made available for public inspection on October 25, 2011, and notice of the public hearing at which the Authority Board and the City Council will consider this matter will be published on the two (2) consecutive Tuesdays (Oct 25th and Nov 1st) preceding the date of the meeting. The Summary Report summarizes the key terms of the proposed Option Agreement, the cost of the agreement to the Authority, the fair reuse value of the Property and conformance with the Agency's Five Year Implementation Plan. Based on the analysis provided in the Summary Report, the consideration to be received by the Authority is at least equal to the fair reuse value of the Property at the use and with the covenants and conditions and development costs authorized under the Option Agreement.

RECOMMENDED BUDGET ACTIONS

Also included in this memorandum is a recommendation to establish a fund to account for revenues and expenditures associated with the San José Diridon Development Authority, recognize revenues generated by certain properties in the Area, and appropriate funds for various purposes consistent with the Joint Powers Agreement establishing the Authority. In March 2011, several parcels were transferred from the San José Redevelopment Agency (SJRA) to the newly created Diridon Area Joint Powers Authority for the purpose of developing the Diridon Area. This memorandum recommends that revenues from these properties ($60,000) received from the period of March 9, 2011 through June 30, 2011 and collected by the SJRA, be transferred to the San José Diridon Development Authority Fund. Further, revenues collected in 2011-2012 (estimated at $150,000) are recommended to be deposited into the Fund as well. Lastly, the option payments from AIG, totaling $50,000 are being recognized at this time.

A recommendation to appropriate funds for Non-Personal/Equipment expenses totaling $30,000 is included in this memorandum. These funds would be used to pay operating expenses such as landscaping, utilities, and graffiti removal at the seven properties. Additionally, these funds would be available for financial and legal analysis related to the project. A recommendation to appropriate a minimum of $10,000 for Administration expenses is also included. This funding would allow for consulting services as required. It should be noted that costs related to the full administration of the Joint Powers Agreement and the San José Diridon Development Authority Fund are currently under review. It is anticipated that a recommendation to fully account for

these costs will be brought forward for City Council consideration as part of the 2011-2012 Mid-Year Budget Review.

EVALUATION AND FOLLOW UP

Upon negotiation of a mutually acceptable Purchase Agreement with AIG, Authority staff will notify the Board and make a copy of the Purchase Agreement available for public display. Thereafter, Authority staff will update the Board as matters progress with Major League Baseball and will notify the Board if AIG exercises the Option.

PUBLIC OUTREACH/INTEREST

As mentioned above, the City Council established a Good Neighbor Committee to provide a forum for neighbors to work collaboratively to determine mitigations that could arise from developments in the Diridon Station area. The Committee met for over a year and developed the "Framework for Implementation" for the Diridon Station Areas. The City Council adopted this report on January 25, 2011 (http://www.sanjoseca.gov/clerk/Agenda/20110125/20110125_0902.pdf).

Prior to any development of the Property substantial neighborhood outreach would be conducted with this Good Neighbor Committee and other stakeholders and community groups to identify and resolve neighborhood concerns and other issues raised regarding a ballpark.

- ☐ **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, 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. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

COORDINATION

This matter has been coordinated with the Office of Economic Development, the City Attorney's Office, the City Manager's Office and Finance.

FISCAL IMPACT

The Authority will receive Fifty Thousand Dollars ($50,000) as consideration for the Option. Upon exercise of the Option by AIG, the Authority will receive the Purchase Price of $6,975,227 net of any escrow or other closing costs provided for under the Purchase Agreement As discussed elsewhere in this memorandum, a recommendation to establish a San José Diridon Development Authority Fund is recommended at this time. Going forward, this fund will account for all revenues and expenditures related to the Joint Powers Authority and San José Diridon Development Authority. As mentioned previously, expenses related to the administration of the San José Diridon Development Authority Fund and Joint Powers Authority are under review. It is anticipated that a recommendation to fully account for these costs will be brought forward for City Council consideration as part of the 2011-2012 Mid-Year Budget Review.

CEQA

Resolution to be adopted.

This resolution will be based upon the information contained in that certain Final Environmental Impact Report for the Baseball Stadium in the Diridon/Arena Area, certified by the Planning Commission on February 28, 2007 by Resolution No. PC07-009, as supplemented by the information contained in that certain Final Supplemental Environmental Impact Report for the Baseball Stadium in the Diridon/Arena Area, certified by the City Council on June 16, 2010 by Resolution No. 75432.

DEBRA FIGONE
Authority Executive Director
City Manager

I hereby certify that there will be available for appropriation in the San José Diridon Development Authority Fund in the Fiscal Year 2011-2012 moneys in excess of those heretofore appropriated therefrom; said excess being at least $260,000.

Jennifer A. Maguire

JENNIFER A. MAGUIRE
Budget Director

For questions, please contact Nanci Klein, Deputy Director of Economic Development at (408) 535-8184.

Attachments:
1. Property Information Table
2. Acquisition Map
3. Summary Report Pursuant to Section 33433

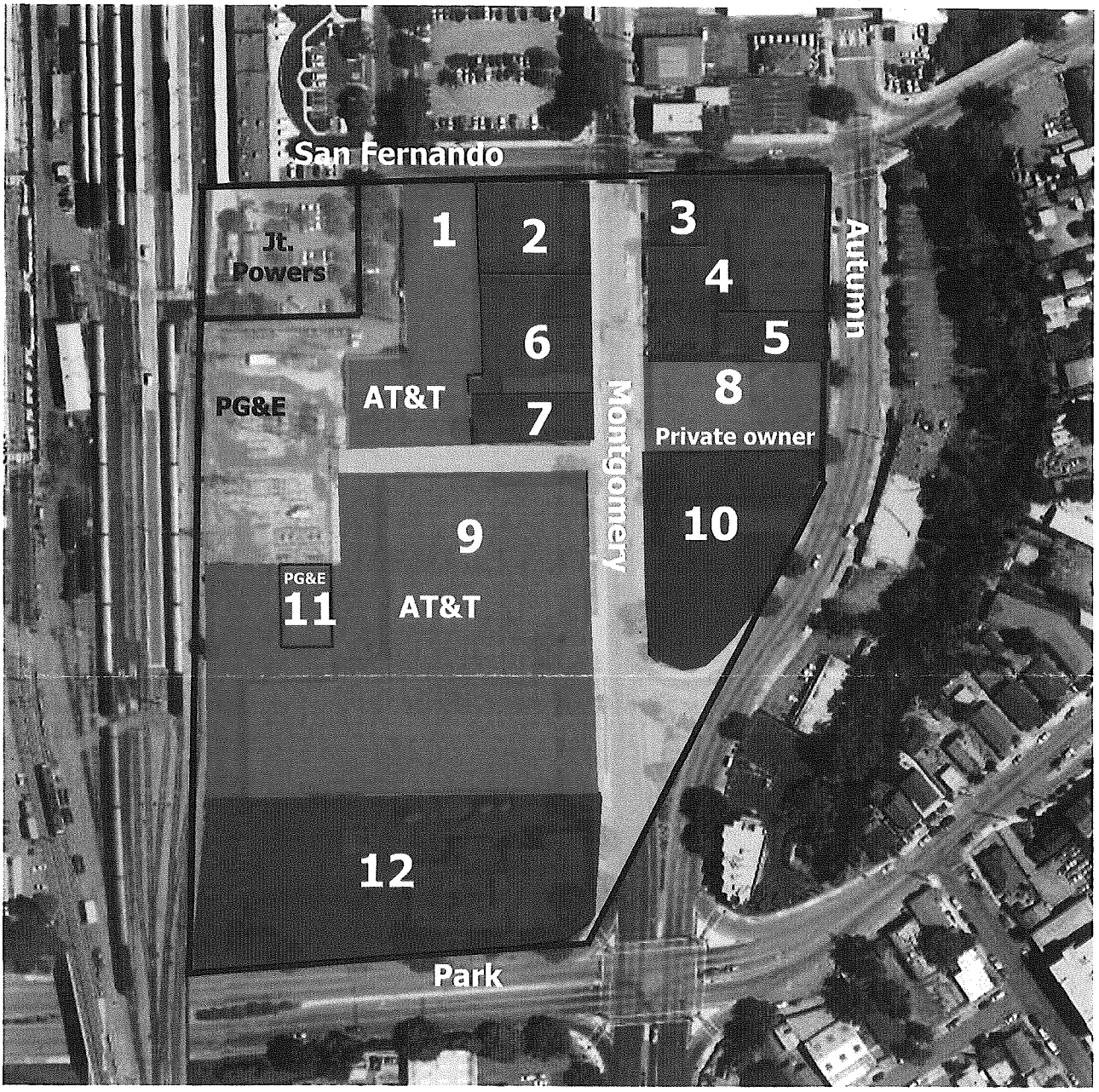
Attachment 1

Property Information Table

Parcel	Amount	Square Footage
*105 S. Montgomery Acquisition	$5,690,000	43,585
150 S. Montgomery Acquisition	$5,950,000	44,100
150 S. Montgomery Relocation	$224,975	
**510 W. San Fernando Acquisition	$5,940,000	43,800
102 S. Montgomery Acquisition	$855,486	10,731
102 S. Montgomery Relocation	$500,000	
645 Park Ave Acquisition	$6,000,000	70,260
TOTAL	$25,160,461	$212,476

* Combines 3 separate parcels with same address
** Combines 2 parcels, includes 115 S. Autumn St.

Acquisition update



Agency owned

2. 105 S. Montgomery
3. 102 S. Montgomery
4. 510 W. San Fernando
5. 115 S. Autumn
6. 105 S. Montgomery
7. 105 S. Montgomery
10. 150 S. Montgomery
12. 645 Park

Offer extended

1. 145 S. Montgomery
8. 140 S. Montgomery
9. 145 S. Montgomery
11. 630 W. San Fernando

Right of way to be vacated

Joint Powers/PG&E to remain

Updated: March 17, 2010

SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA COMMUNITY REDEVELOPMENT LAW
ON AN
OPTION AGREEMENT BY AND BETWEEN
THE SAN JOSE DIRIDON DEVELOPMENT AUTHORITY
AND
ATHLETIC INVESTMENT GROUP LLC

The California Health and Safety Code, Section 33433, requires that if a redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the agency y must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. A copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction will be available for public inspection prior to the public hearing. As contained in the Code, the following information will be included in the summary report:

1. The cost of the agreement to the redevelopment agency , including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency , plus the expected interest on any loans or bonds to finance the agreement;

2. The estimated value of the interest to be conveyed, determined at the highest and best use permitted under the redevelopment plan;

3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement , i.e., the reuse value of the site;

4. An explanation of why the sale of the property will assist in the elimination of blight; and

5. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use consistent with the redevelopment plan, then the agency will provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the Option Agreement for the Sale of Property from the San Jose Diridon Development Authority (the "Authority") to Athletics Investment Group, LLC (the "Optionee"). The Authority is a Joint Powers Authority created by the San Jose

Redevelopment Agency ("Agency") and the City of San Jose empowered to finance, develop, redevelop, implement, and operate future projects for the purposes of considering and facilitating future redevelopment in the Diridon area.

The properties under consideration for sale through the Option were purchased for redevelopment purposes by the Agency with tax increment revenues and subsequently transferred to the Authority. The Joint Powers Agreement creating the Authority provides that the Authority follow the procedures set forth in the Health and Safety Code for the disposition of any property acquired with tax increment. Therefore, this Summary Report has been prepared for the proposed sale of the properties by the Authority.

This report is based upon information in the proposed Agreement and is organized in six sections:

I. **Summary of the Proposed Agreement** – This section includes a description of the site, the proposed development and major responsibilities of the Authority and the Optionee.

II. **Cost of the Agreement** – This section outlines the cost of the Agreement to the Authority for costs associated with the Agreement between the Authority and the Optionee.

III. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the interest to be conveyed to the Optionee.

IV. **Consideration Received and Reasons Therefore** – This section describes the consideration to be paid by the Optionee to the Authority. It also contains a comparison of the consideration and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.

V. **Elimination of Blight** – This section includes an explanation of why the sale of the property will assist in the elimination of blight and the supporting facts and materials.

VI. **Conformance with Five-Year Implementation Plan** – This section describes how the Agreement is in conformance with the Agency's Five-Year Implementation Plan.

I. SUMMARY OF THE PROPOSED AGREEMENT

The San Jose Diridon Development Authority and the Athletics Investment Group, LLC (the "Optionee") plan to execute an Option Agreement for the sale of property currently owned by the Authority. Under the Agreement, the Authority grants the Optionee an irrevocable, exclusive option ("Option") to purchase six (6) sites in the Diridon area.

A. Description of the Property

Property

The Property ("Property") consists of six (6) individual sites as described below. These sites are located in the Diridon Area section of the Strong Neighborhoods Redevelopment Project Area and were acquired by the Agency over the past several years before being transferred to the Authority in March 2011. These sites are surrounded by urban uses, including a mix of retail, commercial businesses and residential uses.

105 S. Montgomery Street is approximately one (1) acre (43,585 sq. ft.) and is bounded by W. San Fernando Street, S. Montgomery Street, and Otterson Street. The property is the former Stephen's Meat site. Its current use consists of a surface parking lot serving the HP Pavilion during large events. This site consists of APN: 261-35-003, 006, and 010.

102 S. Montgomery Street is approximately 0.25 acres (10,731sq. ft.) and is bounded by W. San Fernando Street and S. Montgomery Street. This property is currently occupied by a one-story 1,530 sq. ft. retail space and supporting parking. This site consists of APN: 259-48-012.

510 W. San Fernando Street is approximately 0.84 acres (36,780 sq. ft.) and is bounded by W. San Fernando Street, S. Montgomery Street, and S. Autumn Street. The site is vacant and consists of APN 259-48-011.

115 S. Autumn Street is approximately 0.16 acres (7,020 sq. ft.) It is located directly adjacent to 510 W. San Fernando Street and is bounded by S. Autumn Street to the east. This site vacant and consists of APN: 259-48-013.

150 S. Montgomery Street is approximately 1.0124 acres (44,100 sq. ft.) It is located at the intersection of S. Autumn Street and S. Montgomery Street. The site is currently occupied by a 9,710 sq.ft. building. The site consists of APN: 259-48-053.

645 Park Avenue is approximately 1.6129 acres (70,260 sq. ft.). It is located on the northwest corner of Park Avenue and S. Montgomery Street. The site is currently improved with a 15,000 sq. ft. commercial building. This site consists of APN 261-35-014.

The cumulative land area for the six sites is approximately 212,476 sq.ft., or approximately 4.88 acres.

Potential Redevelopment

Under the proposed Agreement, the Authority grants the Optionee an irrevocable, exclusive option to purchase the Property. If the Optionee exercises this right, the reuse of the Property is restricted to a Major League Baseball park and to uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.

B. Authority Responsibilities

As a condition to the Optionee's exercise of the Option, the Authority may require a majority vote of the voters of San Jose approving the City, Agency, and Authority participation in the building of the ballpark.

Upon execution of the Option Agreement, the Authority will negotiate with the Optionee a purchase and sale agreement (Purchase Agreement) for the Property. The Authority will provide a first draft of the Purchase Agreement within 90 days after the execution of the Option Agreement. The Authority and the Optionee will thereafter negotiate to complete a definitive Agreement that is ready to be executed by the Authority and Optionee within 15 days after the exercise of the Option by Optionee. The Agreement will:

1. Restrict development of the Property for use as a Major League Baseball park and uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.

2. Include a Transportation and Parking Management Plan and Construction Management Plan.

3. Be consistent with the Negotiating Principles established by City Council Resolution No. 75567.

4. May also include additional sites if acquired by the Authority for a Major League Baseball Park and uses incidental to the Major League Baseball Park, including hosting other ticketed events and use by the City of San Jose.

The Authority will make available any and all reports and any other information it has in its possession or control regarding the hazardous materials which may have been identified on the Property.

C. Optionee Responsibilities

Upon execution of the Option Agreement, the Optionee will:

1. Pay the Authority $50,000 for the irrevocable, exclusive option to purchase the Property. This Option is effective for two years from the execution of the Option Agreement. With the consent of the Authority, the Optionee may extend the Option Period for one additional year with the payment of an additional $25,000

2. Negotiate with the Authority a Purchase And Sale Agreement for the Property. The Optionee will receive from the Authority a first draft of the Agreement within 90 days after the execution of the Option Agreement. The Authority and the Optionee will thereafter negotiate to complete a definitive Agreement that is ready to be executed by the Authority and Optionee within 15 days after the exercise of the Option by Optionee.

The Purchase Agreement negotiated between the Authority and the Optionee will include the provisions described in Section I B of this report.

Optionee is not allowed to assign this Agreement without the Authority's prior written approval, with the exception of an assignment that is preapproved for any entity controlled by the owners of the Oakland Athletics or any entity to whom the Oakland Athletics are transferred.

Optionee is accepting the Property "AS IS" without any warranties by the Authority as to the nature and condition of the title of the Property and the fitness for the Optionee's intended use.

If Optionee acquires the Property, the Optionee waives any rights which it might have to seek contribution from the Authority under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act 42 U.S.C paragraph 9601, or any other toxic waste or hazardous waste clean-up statute or regulation now or hereafter in existence.

Optionee understands and agrees that the Agreement does not and shall not be construed to include or imply that the City, Agency or Authority, acting as regulatory or permitting authority, has hereby granted or is obligated to grant any approval or permit required by law for the development of the Property as contemplated in the Agreement.

II. COST OF THE AGREEMENT

This section presents the total cost of the Agreement, as well as the "net cost" after consideration of revenues from the sale of the Property.

A. Estimated Cost

The sites that comprise the Property under consideration were originally acquired by the San Jose Redevelopment Agency ("Agency"). The sites were then transferred to the Authority at no cost. Nevertheless, for purposes of this analysis, the costs to the Agency for the acquisition of these six sites, as provided by City staff and including the cost of relocating former tenants, are summarized in the following table. The costs include the payment for land with improvements that had an economic value. Therefore, the payments are higher than the cost of purchasing land as if it were cleared and vacant.

	Acquisition Cost
105 S. Montgomery Acquisition	$5,690,000
150 S. Montgomery St. Acquisition[1]	$5,950,000
150 S. Montgomery St. Relocation	$224,975
510 W. San Fernando St. Acquisition	$5,940,000
102 S. Montgomery St. Acquisition	$855,486
102 S. Montgomery St. Relocation	$500,000
645 Park Ave. Acquisition	$6,000,000
Total	$25,160,461

The Agency's purchases of the six sites were funded using bond proceeds. Interest on $25.16 million is estimated to be approximately $23.94 million over 30 years at an assumed interest rate of 5%. Principal and interest will be repaid over a 30-year period.

B. Estimated Revenues

Upon execution of the Option Agreement, the Optionee will pay the Authority $50,000 for the irrevocable, exclusive option to purchase the Property. This Option is effective for two years from the execution of the Option Agreement. With the consent of the Authority, the Optionee may extend the Option Period for one additional year with the payment of an additional $25,000.

If the Option is exercised by the Optionee, the Auhtority will sell the Property to the Optionee for $6,975,227 provided the use of the Property is restricted as described above.

[1] Includes acquisition costs for 115 S. Autumn Street.

	Revenues
Option[2]	$50,000
Purchase Price	$6,975,227
Total	$7,025,227

C. Estimated Net Cost

As a result, the net cost is estimated to be $18,135,234 and is as follows:

	Net Cost
Estimated Cost	$25,160,461
Estimated Revenues	($7,025,227)
Estimated Net Cost	$18,135,234

III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED

Fair Reuse Value

The fair reuse value is directly a function of a very specific development program as specified in the terms and conditions of the Agreement. For the Property, the Agreement requires that the use of the Property be limited to a Major League Baseball Park and uses incidental to the Major League Baseball Park.

In September 2010, the San Jose Redevelopment Agency commissioned Colliers International ("Colliers") to conduct an appraisal of the collective parcels for the proposed major league baseball park, an approximately 13.36 acre assemblage. The subject site assemblage included sites that were owned by the San Jose Redevelopment Agency and also sites that are still in private ownership and are yet to be acquired. Colliers estimated a value with the use restriction for the overall site assemblage of $19,100,000. The estimated value per square foot of land area is $32.83. As noted on the appraisal, "use value focuses on the real estate's contribution to the business occupying the real property and does not take into consideration its highest and best use or its potential value in the market if it were sold."

The land area for the six sites being conveyed under this Agreement is approximately 212,476 sq.ft., or approximately 4.88 acres. Using the estimated value with the use restriction of $32.83 per sq.ft., the reuse value for the Property is $6,975,227.

[2] Excludes optional $25,000 payment for additional one-year extension.

Value at Highest and Best Use

In the same appraisal, Colliers estimated the value of the collective parcels for the proposed major league baseball park based on their highest and best use (i.e. legal use allowed by property zoning restrictions for vacant land and existing use for improved property). Colliers concludes that the highest and best use of the subject site is to hold for the future construction of a mixed-use office/retail development. The estimated market value of the subject site, assuming that a 13.36 acre site is vacant, assembled and available for development to its highest and best use, was $38,250,000. The estimated value per square foot of land area is $65.75. Using the estimated value for the highest and best use of $65.75 per sq.ft., the highest and best use value for the Property is approximately $13,970,000. If the Property were sold individually and not held for future construction of a mixed use office/retail development, the value would be less.

IV. CONSIDERATION RECEIVED AND REASON THEREFORE

The consideration being paid to the Authority for the Property is not less than the fair reuse value at the use and with the covenants and conditions imposed by the Authority. The consideration being paid to the Authority is less than the fair market values that the Authority could expect to receive for the Property at their highest and best use.

As a condition to the Optionee's exercise of the Option, the Authority may require a majority vote of the voters of San Jose approving the City, Agency, and Authority participation in the building of the ballpark. Furthermore, Optionee understands and agrees that the Agreement does not and shall not be construed to include or imply that the City, Agency or Authority, acting as regulatory or permitting authority, has hereby granted or is obligated to grant any approval or permit required by law for the development of the Property as contemplated in the Agreement.

In the event that the Property is sold for the development of a Major League Baseball Park, the Authority would have determined that such a use offers the best complementary uses for the Diridon Area and will best further the overall goals of the Authority's plan for the Area and to promote the long term vitality of the City.

V. ELIMINATION OF BLIGHT

The Property under consideration is located in the Diridon Area of the Strong Neighborhoods Redevelopment ("SNI") Project Area. Given its central location in Santa Clara County, its proximity to Downtown San Jose, and its integrated connectivity to regional inter-modal transportation systems, the Diridon Area is of regional significance to Silicon Valley and is one of the most critical components of the Agency's citywide redevelopment strategies. Given these physical and economic assets, the Diridon Area is underutilized today. The Diridon Area is burdened by many blighting conditions that hinder the redevelopment and economic viability of the area.

The primary objectives of the Diridon Station Area Plan are to:

- establish a land use plan and policy framework that will guide future development and redevelopment toward land uses that support transit ridership and economic development and create a world-class cultural destination;
- improve pedestrian, bicycle, motorized and transit connectivity between the station site and existing adjacent commercial and residential areas;
- develop and implement urban design standards that promote walkable, livable, and business supportive environments within the Diridon Station Area;
- provide a variety of commercial and mixed-use development opportunities, ranging from large-scale corporate or institutional sites to smaller infill development sites;
- create a highly active and lively pedestrian and bicycle friendly environment with excellent connectivity to downtown destinations and regional transit;

In order to address blight, the Agency has taken proactive measures to acquire sites in the area that can be positioned and marketed for development. In the event that it is decide by the Authority to sell the Property, it would be done with the expectation that the sale enables the City of San Jose to eliminate blight at the site by facilitating the development of a Major League Baseball park.

A report prepared by Conventions, Sports & Leisure in 2009 presents the economic benefits of a major league baseball park. Redevelopment and economic development of the Diridon Area will provide significantly enhanced public amenities and attractions for the region and benefit not just the SNI Redevelopment Project Area but all of the Agency's Downtown redevelopment areas, creating a major catalyst for increased private investment in neighboring project areas with the attraction of event goers; and increased ridership of public transit systems.

VI. CONFORMACE WITH FIVE-YEAR IMPLEMENTATION PLAN

The Diridon Area is located within the southwest portion of the SNI Redevelopment Project Area, which was established by the San Jose Redevelopment Agency in 2002 for the purpose of preserving and revitalizing older residential neighborhoods in the City.

The most recent (2007) Five-Year Implementation for the SNI Redevelopment Area ("Implementation Plan") describes specific programs, including potential projects, for the various neighborhoods within its jurisdiction. According to the Implementation Plan, one of the goals of the Agency is to create economic development opportunities for business and property owners to strengthen the economic viability of the neighborhoods. This is to be achieved by:

- Encouraging development of vacant buildings/lots.
- Working with property owners, developers and business owners to market underutilized or unattractive sites for revitalization, redevelopment and private investment.

- Initiating mixed-use development.
- Using public investment to attract and stimulate private investment.
- Promoting development opportunities in commercial areas of the neighborhoods with mixed-use, housing and/or residential serving retail.
- Developing economic development strategies for commercial areas.

The redevelopment of the Property as a Major League Baseball Park, as dictated by the Option Agreement, will eliminate the blighting conditions imposed by these vacant lots and underutilized buildings. It will also improve the economic capacity of the area, and attract new businesses and patronage to the area. Therefore, the proposed transfer of Property will conform to the Implementation Plan, and will achieve the goals specifically defined in the Implementation Plan.