COUNCIL AGENDA: 6-19-12
ITEM: 5.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kim Walesh
Julie Edmonds-Mares
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: May 29, 2012

Approved

Date 6/5/12

COUNCIL DISTRICT: 3

SUBJECT: APPROVAL TO AMEND THE TWO OPTION AGREEMENTS WITH COLEMAN AIRPORT PARTNERS, LLC TO REDUCE THE PURCHASE PRICE UNDER ONE OPTION AS A RESULT OF A REDUCTION OF 7.529 ACRES AND INCREASE THE PURCHASE PRICE UNDER ANOTHER OPTION AS A RESULT OF SELLING AN ADDITIONAL 1.843 ACRES AND ADOPTION OF APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN VARIOUS FUNDS.

RECOMMENDATION

Adopt a Resolution:

1. Authorizing the City Manager to negotiate and execute amendments to the HUD documents to allow for the use of proceeds from the sale of the Airport West property for the payment of the 2008F Lease Revenue Bonds. If HUD does not approve the amendments, staff will seek Council and City of San Jose Financing Authority approval of issuance commercial paper notes to fund the shortfall in the amount required for the defeasance of the 2008F Lease Revenue Bonds.

2. Authorizing the City Manager to negotiate and execute amendments to Option Agreements with Coleman Airport Partners LLC to:

   a. Reduce the purchase price of the property at 1125 Coleman Avenue (Airport West) to be sold to Coleman Airport Partners LLC under the Development Site Option Agreement by $11.928 million in order for the City to retain approximately

7.529 acres for the construction of a four-field, artificial turf bond-funded, community soccer facility.

b. Increase the purchase price of the property located at 1125 Coleman Avenue to be sold to Coleman Airport Partners LLC under the HUD Commercial Site Option Agreement by $1.846 million as a result of the increase in the acreage to be sold from 8.956 acres to 10.799 acres.

3. Adopt the following 2012-2013 Appropriation Ordinance amendments in the Parks and Recreation Bond Projects Fund (Fund 471) in order to reallocate Construction and Property Conveyance Tax funds previously spent on Happy Hollow Park and Zoo:

    a. Decrease the Contingency Reserve by $1,339,000; and
    b. Establish a transfer to the Construction Tax and Property Conveyance Tax Fund: City-Wide Parks Purposes in the amount of $1,339,000.

4. Adopt the following 2012-2013 Appropriation Ordinance and Funding Sources Resolution amendments in the Construction Tax and Property Conveyance Tax Fund: City-Wide Parks Purposes (Fund 391):

    a. Establish a transfer from the Parks and Recreation Bond Projects Fund in the amount of $1,339,000;
    b. Establish transfers totaling $900,000 or $100,000 each from the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Council Districts #1, #2, #4, #5, #6, #7, #8, #9 and #10;
    c. Establish a transfer from the Subdivision Park Trust Fund in the amount of $100,000; and
    d. Establish an appropriation to the Parks, Recreation and Neighborhood Services Department for the Coleman Soccer Fields project in the amount of $2,339,000.

5. Adopt the following 2012-2013 Appropriation Ordinance amendments in the Subdivision Park Trust Fund (Fund 375):

    a. Decrease the Reserve: Ryland Pool by $100,000; and
    b. Establish a transfer to the Construction Tax and Property Conveyance Tax Fund: City-Wide Parks Purposes in the amount of $100,000.

6. Adopt the following 2012-2013 Appropriation Ordinance amendments in each of the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Council Districts #1, #2, #4, #5, #6, #7, #8, #9 and #10:

    a. Decrease the Ending Fund Balance by $100,000 in each fund, for a total of $900,000; and
    b. Establish a transfer to the Construction Tax and Property Conveyance Tax Fund: City-Wide Parks Purposes in the amount of $100,000 in each fund, for a total of $900,000.

OUTCOME

Adoption of this recommendation facilitates development of a distinctive job and amenity rich location directly adjacent to the Airport, Caltrain and the proposed Earthquakes stadium. Council approval would result in the development of a community soccer facility at Airport West using 2000 Measure P Park Bond funding. Including the community soccer fields would decrease the amount of acreage allocated to the jobs portion of the project and thereby decrease the amount of revenue generated through the land sales to the Developer. Although the developable acreage would be reduced at Airport West, the existing development entitlements would remain including 1.5 million square feet of Office/R&D, 75,000 square feet of Retail and 300 hotel rooms. The community soccer facility would be constructed on the City acreage adjacent to an existing City-owned practice soccer field which is leased by Earthquakes Soccer LLC. The community soccer facility would be a complementary use to the proposed major league soccer stadium to be developed by Earthquakes Soccer LLC. The combination of an Office/R&D development, Major League Soccer Stadium and a community soccer facility would create a unique destination development adjacent to the Airport, Caltrain and freeway.

EXECUTIVE SUMMARY

In 2005, the City purchased the 74.8 acre site at 1125 Coleman Avenue, referred to as the Airport West property (formerly known as FMC), to develop the site for airport and economic development purposes to support job and revenue generation. The City financed the purchase of the Airport West property with the proceeds of lease revenue bonds and a HUD Section 108 loan.

In 2008, the City entered into option agreements with two developers for the sale of the bulk of the Airport West property to be developed into a variety of office, retail, hotel uses and a major league soccer stadium. Approximately 9.3 acres of the Airport West property was reserved for a future Bay Area Rapid Transit ("BART") facility. Shortly after entering into the option agreements the economy entered into a prolonged economic downturn and the financial viability for developing the site under the terms of the original option agreements diminished. In addition, BART informed the City it would no longer need the 9.3 acre portion of the Airport West property that had been reserved for a proposed maintenance facility. In 2009, the City Council approved changes to the option agreements to provide more time for real estate and credit markets to recover. The approved changes to terms reduced the amount of net sale proceeds the City would receive from the sale of the Airport West property as well as extended the time for the developers to exercise their options. In 2010, the City Council approved a lease of a 2.6 acre portion of the former BART site with the Earthquakes for a practice field, leaving 6.7 acres remaining.

Concurrently Parks, Recreation and Neighborhood Services (PRNS) has been seeking a site over the past several years to build a community soccer facility with the funding provided through the Measure P bond measure. After multiple sites were evaluated and deemed not viable, staff identified the property at Airport West (formerly designated for the BART maintenance facility) as a potential site for a four-field community soccer facility adjacent to the Earthquakes practice field. In order to build the four community soccer fields to regulation size and maintain the land for the practice field, the amount of necessary acreage would need to be increased by 5.68 acres from 9.3 acres to 14.98 total City retained acres. Staff's proposal to develop the soccer facility will reduce the salable acres thus reducing the sale proceeds from the development site. Should the four soccer fields not be constructed at Airport West, the most likely use of the remaining City acreage would be mini-storage. Mini-storage is not as an attractive adjacent use for headquarter operations or corporate users in general. The choice before City Council represents a tradeoff between better functioning, complementary uses that can assist the long-term viability of the entire development project versus greater revenue generation from selling more acreage to the Developer. Through this action Council is determining if the City will be able to fulfill the construction of a community soccer facility funded through the voter approved 2000 Measure P Bond.

There are insufficient Measure P funds to fund the costs for land acquisition for the soccer facility, and moreover, Measure P funds cannot be used to pay for land the City already owns. Therefore, the proposed change in terms noted above results in a funding shortfall for the project. Staff has identified mitigations intended to offset the shortfall over an extended period of time (currently estimated at 16 years under a certain set of assumptions as described later in this document). The proposed terms result in the City owning a 14.98 acre regional soccer facility that will include four community serving fields and one city-owned practice field currently being leased to the Earthquakes.

It is important to note that the analysis focuses on all the property being sold at one time for the purpose of conveying in aggregate terms the funding impacts. The Developer has until 2015 to purchase the property and may do so at anytime.

BACKGROUND

In 2005, the City of San José purchased the 74.8 acre property located at 1125 Coleman Avenue from FMC. The property is now known as the Airport West property. The City's intent was to purchase only 51.6 acres of the property to support the Airport expansion program. FMC was unwilling to sell the City only a portion of the site. In order to assist the Airport, the City acquired the additional 23.2 acres. To finance the acquisition of the 23.2 acres, the City entered into a HUD Section 108 loan in the amount of $25,810,000. To finance the acquisition of the 51.6, acres the City of San Jose Financing Authority (the "Authority") issued $80,025,000 of lease revenue bonds (the "2005 Bonds"). As a result of the economic crisis in 2008, the Authority refunded the 2005 Bonds in 2008 with its Series 2008F Lease Revenue Bonds (the "2008F Bonds").

Table 1: Funding Sources for Airport West	Acquisition of Airport West-2005	Outstanding Debt (July 2012)	Estimated Annual Debt Service (2012-2013)
2008F Lease Revenue Bonds (51.6 acres)	$80,025,000	$65,590,000	$3,154,000
HUD Section 108 Loan (23.2 acres)	25,810,000	20,803,000	1,346,000
Total Financing	$105,835,000	$86,393,000	$4,500,000

The 51.6 acre portion of the Airport West property acquired with the 2005 Bonds was used by the Airport during the construction of the Terminal Area Improvement Projects (the "TAIP") for construction lay-down and other Airport uses through fiscal year 2010. With the substantial completion of the TAIP in fiscal year 2010, the Airport's use of the Airport West property terminated as of June 30, 2010.

Subsequent to the City's acquisition of the Airport West property, the City received a proposal from Coleman Airport Partners LLC and FWSH Partners LLC for the development of all of the property except 9.3 acres reserved by the City for a BART maintenance facility. In May 2008, the City Council approved a Memorandum of Understanding (MOU) between the City and FWSH Partners LLC and Coleman Airport Partners LLC (the "Developer") that outlined the price, option period and uses on the Airport West property. Approved uses included the development of a proposed San Jose Earthquakes major league soccer stadium on roughly 14 acres of the site, development of a 9.3 acre BART maintenance facility, and development of the remaining 51 acres for 1.5 million square feet of Office/R&D, 300 hotel rooms and 75,000 square feet of retail space.

Due to the different financing structures related to the HUD Loan and the 2008F Bonds and uses of the properties, on July 24, 2008, the City entered into three separate option agreements for the sale of the Airport West property. The City and Coleman Airport Partners LLC entered into two option agreements. The first option agreement is for the "Development Site" which includes approximately 42.1 acres and the second option agreement is for the "HUD Commercial Site" which includes approximately 8.9 acres, or roughly 51 acres. The third option agreement is between the City and FWSH Partners for the "HUD Stadium Site" which is approximately 14 acres (Refer to Exhibit A). On May 5, 2009, the City Council approved amendments to the Development Site and HUD Commercial Site option agreements. The amendments reduced the purchase price and the option payments to be paid by Coleman Airport Partners and extended the option period on the HUD Commercial and Development sites until 2015 in recognition of the economic downturn and its impact on the value of the property.

In 2009, the City was informed that BART no longer needed the 9.3 acre portion of the Airport West property located towards the back of the property adjacent to the railroad tracks. On June 23, 2009, Council approved a Memorandum of Understanding (MOU) with Earthquakes Soccer LLC to develop a roughly 2.6 acre practice field for the Earthquakes soccer team on a portion of the 9.3 acre site. On January 25, 2010 the City and Earthquakes Soccer LLC entered into a lease for the soccer practice field. The lease payment for the soccer practice field is $24,000 annually.

On February 23, 2010, the City and the Developers entered into Amended and Restated Options Agreements to further facilitate the development of the sites.

Staff began looking at alternatives for the best future use of the remaining 6.7 acres formerly reserved for BART and developed a proposal to locate a community soccer facility to be funded by Measure P general obligation bonds. The former BART parcel is ideal because Coleman Avenue provides good circulation and access to the proposed site. In addition, there is little impact to surrounding neighborhoods from the light and noise associated with a soccer facility of this size. The primary purpose of the community fields is to attract adult soccer play to the proposed facility and bring relief to City neighborhood fields for area youth play. PRNS has pursued multiple alternative sites in other areas of the City to place a community soccer facility and has been unable to secure a site. In addition Measure P funds did not include funds for land acquisition. Therefore, as discussed in the Analysis section that follows, a funding plan has been developed to mitigate the reduction in sales proceeds resulting from the City's proposed retention of acreage to locate the soccer fields.

Airport West provides the greatest opportunity and synergy for a successful venue given the proximity to a major league soccer stadium. The addition of the soccer fields adjacent to the Stadium and the office R&D makes the property a unique and desirable office, hotel and retail location.

ANALYSIS

Proposed Change in Use of the Airport West Property

In developing a site plan for the community soccer facility, it was determined that additional acreage would be necessary to accommodate the width of the fields. To provide enough acreage for the soccer facility and adjacent roadway, it is necessary to reduce the size of the Development Site by approximately 7.529 acres (see Exhibit A). The reduction in acreage to the Development Site will intensify the existing development entitlements, which is consistent with the General Plan 2040. The current development entitlements of 1.5 million square feet of Office/R&D, 300 hotel rooms and 75,000 square feet of Retail would remain on the site.

Partially offsetting the reduction in acreage for the Development Site discussed above, the Developer has agreed to purchase an additional 1.843 acres of the adjacent City property (see Exhibit A) for $23 a square foot. This acreage was originally part of the non-entitled acreage to be used by BART. The acquisition of the additional former BART acreage will allow the Developer to provide additional parking to serve the Development Site.
Should Council approve the recommendation in this memorandum and the Operations and Maintenance Agreement with Earthquakes Soccer LLC, the City Council will also consider

approval of the design-build contract for the development of a community soccer facility and adjacent roadway funded by Measure P funds.

Policy Alternatives

The development proposal as recommended by staff offers an opportunity to create a very distinctive and desirable location that combines office and commercial uses directly adjacent to significant recreational and transportation amenities. The soccer fields are a draw for potential corporate users. The addition of four community soccer fields enhances the functionality and appeal of the site, potentially increasing revenues from the commercial development that will occur. Additional property tax, sales tax, and transient occupancy tax generated by development of the office, retail, and hotel components of the project will accrue to the City. Retailers and hoteliers will be attracted by the daily and tournament activity that will bring customers and overnight guests to the area. As mentioned before, Measure P did not include dollars for land costs. If the fields are not constructed at this site, staff would have limited opportunities to identify additional sites that can accommodate soccer fields with lights that are not a significant concern to adjacent residents. The choice to include the community soccer fields at this location results in $13 million less revenue generated from the sale of City land at the site.

Alternative – Project does not include the community soccer fields on the Airport West site.

Pros: The City would generate higher net sale proceeds of $10.1 million under the current option agreement for the Airport West Sites to pay the debt service of the HUD Loan and the 2008F Bonds. This option would also generate an estimated $3.0 million in additional revenue from the sale of the 6.7 acres that had previously been set aside for a potential BART maintenance facility.

Con: The City has attempted to build adult soccer practice fields to expend Measure P bond funds for many years. The soccer field is one of two projects remaining in the 2000 Measure P Bond Fund program. By foregoing this opportunity Parks, Recreation and Neighborhood Services will need to identify a different parcel to develop additional adult practice soccer fields. There are insufficient Measure P dollars to pay for the cost of land acquisition for the soccer facility. In addition, the City would not retain ownership of 14.977 acres of the Airport West property and would not generate ongoing revenue currently estimated at $700,000 annually from the operation of the soccer fields. The opportunity for synergy between the Earthquakes professional stadium, community soccer fields and the office, hotel and retail uses would be lost. As a result, the tax revenue generated by the development to the City in the longer-term may be lessened.

Financial Implications Before Mitigations and Offsets

The analysis below reflects the initial financial implications that result from fewer acres being sold to the Developer. The mitigations and offsets identified will be discussed in further detail following the discussion of financial implications.

The proposed reduction in the size of the Developer's parcel for the Development Site by approximately 7.529 acres would reduce the purchase price by $11.928 million. This reduction would be partially mitigated by the sale of 1.843 acres under the HUD Commercial Site Option Agreement, generating revenue of $1.846 million. The net impact of these changes is a reduction in sale proceeds of $10.08 million under the option agreements and results in the net loss of 5.68 acres to be sold to the developer.

If the developer does not proceed with development as currently planned, the action will result in decreased revenues and fewer acres to sell to a future developer, but does not impact the amount of development capacity for the site. In addition, this proposal would use the acreage that had previously been set aside for BART for the community soccer fields. This parcel would no longer be available to sell, reducing potential sale proceeds by an estimated $3.0 million based on $10.50/sq ft. for the remaining 6.7 acres. The former BART site has no development entitlements, infrastructure, access or visibility; it is located along the back of the property. The most likely alternative use for the property would be mini storage.

The combined impact of the lower sale price and the loss of potential sale proceeds from the parcel previously set aside for BART totals $13.1 million.

City's Debt Issuance on Airport West

The decrease in acres sold by 5.686, acres from 51.089 acres to 45.4 acres will allow the City to continue to own 14.977 acres (2.6 acres for the Earthquakes Practice Facility and 12.3 acres for the community soccer facility). However, because debt related to the 2008F Bonds is secured by a lease of the Development Site, the City will be required to pay off 2008F Bonds concurrent with the Developer's purchase of the Development Site portion of the property. Tables 2 and 3 identify sale proceeds, outstanding debt and the projected shortfall. Mitigations that address the shortfall are presented below.

Table 2			
Current Agreement	**Sales Proceeds***	**Outstanding Debt**	**Remaining Debt**
2008F Lease Revenue Bonds	$61,750,351	($65,590,000)	($3,839,649)
Section 108 HUD Loan	19,188,787	(20,803,000)	(1,614,213)
Total	**$80,939,138**	**($86,393,000)**	**($5,453,862)**

*Option credit of $7 million applied against sales proceeds

Table 3			
Proposed Agreement	**Sales Proceeds***	**Outstanding Debt**	**Remaining Debt**
2008F Lease Revenue Bonds	$49,822,329	($65,590,000)	($15,767,671)
Section 108 HUD Loan	$21,035,251	($20,803,000)	$232,251
Total	**$70,857,580**	**($86,393,000)**	**($15,535,420)**

*Option credit of $7 million applied against sales proceeds

As shown in the tables above, in the current option there is a $5.45 million shortfall between the purchase price and the amount of outstanding debt if the all of the property is sold. Mitigations to be discussed below including the sale of the remaining 6.7 acres of land could address some of the shortfall in the current option. Staff is currently in discussions with HUD to allow the City to use a portion of the proceeds from the sale of the Airport West property financed with HUD loan for the repayment of the 2008F Bonds.

Under the proposed agreement, the City's shortfall for paying off the outstanding debt increases to $15.54 million as a result of the reduction in acreage sold to the Developer. Of the $15.54 million shortfall under the proposed agreement, the City will need to pay $15.77 million concurrently with the close of the Development Site option to defease the 2008F Bonds and release the associated lease. Once again, if approved by HUD, a portion of sale proceeds from the sale of the Airport West property financed with the HUD Section 108 loan could be used to repay the outstanding debt under the 2008F Bonds, thus leaving approximately $15.5 million of outstanding debt under the HUD Section 108 Loan. The City could then apply the mitigations and revenues proposed below to repay the HUD loan.

Summary Breakdown of Sale Proceeds Combined with Mitigations and Offsets

The table below summarizes by source and use the various funds and revenue proposed to offset the loss of sale proceeds over time. The table compares the anticipated sale proceeds and other mitigating payments and revenues with the outstanding debt on the Airport West property under the current agreement and the proposed agreement. The proposed mitigations include one-time payments from the 2008F Bond Reserve, potential option payments (depending on the timing of the sale of the property), and Parks capital project funding. On-going revenues are expected to be generated from soccer field operations ($8.0 million over a 16-year period) and from the rent associated with the practice fields ($360,000 over a 15-year period). These revenues are expected to be applied to cover debt service costs over these time periods. Staff is coordinating with HUD to allow the sale proceeds from the property financed with the HUD loan to repay the 2008F Bonds. The City then would continue to make payments of the HUD loan.

The analysis and tables below assume that the Developer exercises the Development Site, HUD Commercial Site and HUD Stadium site options all at the same time. If the Developer only exercises the HUD Stadium Site option before June 2012, the City is not obligated to repay the 2008F Bonds at that time as outlined below.

Source and Use of Funds for Airport West Property
(Assumes Sale of Property Under Option Agreements At the Same Time)

Table 4		
Sources	**Current Agreement**	**Proposed Agreement**
Sale of Stadium Site ($11.50 per square foot, 14.497 acres; $7,000,000 less $2,000,000 credits= $5,000,000)	$5,000,000	$5,000,000
Sale of Development and Commercial Sites ($36.37 per square foot, 51.089 acres (current)/43.56 acres (proposed)	80,939,138	69,011,115
Developer purchase additional property ($0 (current), $23 per square foot, 1.843 acres (proposed))		1,846,465
2008F Bond Reserve	1,860,000	1,860,000
Soccer Practice Field Revenue ($24,000 annually for 15 years)	360,000	360,000
Sell Land Previously Set-Aside for BART 6.7 acres at $10.50/sq. ft.	3,000,000	-
Construction Tax and Property Conveyance Tax Fund (City-Wide)		2,339,000
Option Payment Credit*	(5,000,000)	(5,000,000)
Option Payments ($1,000,000 due Dec. 2013 and $2,000,000 due Dec 2014 if the property sale is not completed).	3,000,000	3,000,000
Estimated Net Income from Soccer Operations (Over 16-Year Period)**		8,000,000
Sub-total sources	**$89,159,138**	**$86,416,580**
Uses (as of July 2012)		
2008F Lease Revenue Bonds	($65,590,000)	($65,590,000)
HUD Section 108 Loan	(20,803,000)	(20,803,000)
Sub-total uses	**($86,393,000)**	**($86,393,000)**
Potential Surplus	**$2,766,138**	**$23,580**

*The original terms of the agreement required a $5,000,000 option payment paid by the developer to be credited towards the purchase price of the Development Site and HUD Commercial Site. Revised option terms modified the

agreement with regard to the stadium, which states that if a sale occurs before June 2012 the developer will be able to apply a $2,000,000 option payment from December 2010 to the purchase price of the HUD Stadium Site for a total of $7 million in credits against the purchase price for all sites. The Developer has notified the City that he will exercise the option to purchase the Stadium Site by June 30th, 2012. The City will therefore receive $5M for purchase of the stadium site.
** 16 year period is the remaining term of the HUD loan. Excludes debt service costs associated with the remaining debt over this period of time.

Detailed Breakdown of Mitigations and Offsets

If the City proceeds with the proposed soccer facility and reduces the amount of the Development Site acreage, there are proposed offsets to mitigate the $15.54 million shortfall. The offsets are a combination of funding from capital funds for park development and acquisition projects, sale of additional land to the developer, and recognition of future revenues from the operations of the soccer fields. However, at the time that the Developer purchases the Development Site, the City must pay off the 2008F Bonds entirely concurrent with the sale of the Development Site.

Table 5

	Current Agreement	**Proposed Agreement**	**Comment**
2008F Bonds *	($3,839,649)	($15,767,671)	• Need to pay immediately upon sale when the Developer exercises the Development Site option
Section 108 HUD Loan Shortfall	(1,614,213)	232,251	• City could pay off debt or if approved by HUD continue to pay debt service as currently budgeted
Current Projected Debt Shortfall	**($5,453,862)**	**($15,535,420)**	
Proposed One-Time Offsets Available at Time of Sale			
2008F Bond Reserve	$1,860,000	$1,860,000	2008F Bond debt reserve This funding is specifically used for 2008F Bond Debt and would be applied at time of sale

Sell the 6.7 acre former BART parcel	3,000,000	Not in Proposed Agreement	In the event that the City does not move forward with reducing the Development Site acreage and allowing for the proposed soccer facility to be built, the City could sell the 6.7 acres of the former BART site. Current estimates of market rates suggest the sales of the 6.7 acres would generate approximately $3.0 million.
Construction Tax and Property Conveyance Tax Fund: Parks Purposes – Citywide	0	2,339,000	Funding to be transferred to the City-Wide Construction and Conveyance Tax Fund from the following: $100,000 from nine of the District Construction and Conveyance (C&C) Tax Funds ($900,000), offset by Ending Fund Balance in those funds), the Park Trust Fund ($100,000, offset by a reduction to the Ryland Park Pool Reserve), and the Park and Recreation Bond Projects Fund ($1,339,000 offset by the Contingency Reserve to reimburse the City-Wide C&C Fund for prior year bond-eligible expenditures). This funding would be put towards the 2008F Bond Debt at time of sale.
Option Payments to be paid in 2013 and 2014 (not a credit against the purchase price)	3,000,000	3,000,000	*Depending on timing of the sale these options may or may not be received

Sub-total one-time offsets available at time of sale	*$7,860,000*	*$7,199,000*	
Proposed Ongoing Offsets			
Estimated Net Income from Soccer Operations (16-Year Period)**	Not Applicable	$8,000,000	Once the community soccer facility is operational, it is anticipated that this facility will generate annual revenues of at least $700,000 of which at least $500,000 is anticipated to be applied to pay the debt service costs remaining after the sale of the properties over 16 years.
Practice Field Revenue. $24,000 annually for 15 years.	360,000	360,000	
Sub-total ongoing offsets	*$360,000*	*$8,360,000*	
Total Proposed Offsets	8,220,000	15,559,000	
Revised Projected Surplus	**$2,766,138**	**$23,580**	

*Depending upon the timing of when the Developer exercises the option, some or all of this money may not be paid to the City. The Current option payments for the Commercial and Development Sites are structured as follows: $1,000,000 option payment due December 22, 2013, and $2,000,000 option payment due December 22, 2014. If the Developer exercises the option earlier, the option payments would not be received. If the developer exercises the option earlier, debt service will be significantly decreased.
** 16 year period is the remaining term of the HUD loan. Excludes debt service costs associated with the remaining debt over this period of time.

With the exception of the potential revenue from option payments, the figures presented in this memorandum assume the full sale of the Airport West property. The Developer has told the City that it is proceeding with the purchase of the Stadium site before July 1, 2012. The sale proceeds from this purchase would reduce the amount of Section 108 HUD loan by $5 million and have no effect on the 2008F Bonds.

If this sale of the entire Airport West property does not occur by June 30, 2012, the City's General Fund will continue to pay the debt service for the 2008F Bonds and the Section 108 HUD Loan, which is estimated at $4.5 million in 2012-2013 and increases to $6.7 million annually by 2016-2017. These debt service amounts have been factored into the 2013-2017 Five-Year Forecast that was released in March 2012.

Request for HUD Approval or use of Commercial Paper

Staff has requested that HUD amend the HUD Loan agreement to allow the City to use a portion of the proceeds of the sale of the Airport West Property finance with the HUD loan for the repayment of the 2008F Bonds. If approved, the debt under the HUD loan would remain outstanding. The City would pay debt service on the outstanding debt using the revenue generated from soccer field operations. The remaining debt would be substantially lower than the debt service amounts currently factored into the Five-Year General Fund Forecast.

If HUD does not approve the request, staff could request the City Council and the Authority to approve issuance of commercial paper as a source of funds to finance the shortfall. Approximately $40 million in unallocated commercial paper capacity is currently available. The City Council is scheduled to consider a request for issuance of $10 million in commercial paper for the additional projects related to the Convention Center Expansion and Renovation project. The proposed soccer fields would require an allocation of $11.1 million leaving a balance of $18.9 million in commercial paper capacity.

Risks Associated with Commercial Paper

Commercial paper is a useful short-term financing tool; however there is a level of risk in assuming its longer term availability. The issuance of commercial paper requires a letter of credit (LOC) to be in place. Should State Street Bank and CalSTRS, the current providers of the letter of credit for the commercial paper program, decide not to renew their LOC in January 2013 and no replacement banks are identified, the commercial paper notes outstanding will need to be repaid in full. The General Fund is ultimately responsible for the repayment of outstanding notes. LOC fees are subject to change at future renewal dates based on market conditions. It should also be noted that commercial paper is variable rate and subject to interest rate risk, which may increase significantly depending on the overall financial market conditions.

Contribution of Community Soccer Facility
In summary, by retaining the 14.977 acres which will consist of the City-owned community soccer facility and the City-owned Earthquakes practice field, the City is forgoing the potential of $14,928,000 in revenue from the sale of the property as follows:

(1) $11,928,000 in the sale of 7.529 acres to developer at $36.37 per square foot and
(2) $3,000,000 in the sale of a portion of the former BART acreage.

However, this impact is being mitigated by the following actions, which allow the Community Soccer Facility to defray the cost of land upon which it (and the practice facility) will reside:

(1) $1,846,465 sale of additional portion of the Airport West property to the Developer
(2) $2,339,000 contribution from Parks capital funds
(3) Annual contributions of up to $500,000 per year from projected net revenue generated from the Community Soccer Facility ($8.0 million over an 16-years); The annual contribution of $500,000 does not include debt service costs associated with the remaining debt over this period of time.

City staff will also work on a funding strategy for replacement of the artificial turf at the end of its useful life (estimated at 13 to 15 years) in order to provide for a sustainable service delivery model and a sustainable revenue source for the City.

EVALUATION AND FOLLOW UP

Staff will return to Council if required based on the results of ongoing negotiations with the Developer and HUD and the timing of when the Developer elects to exercise the option to purchase the various components of Airport West. Staff will return to City Council and the Authority if HUD does not approve the use of a portion of the sale proceeds from the Airport West properties financed with the HUD loan for the repayment of the 2008F Bonds and seek to proceed with issuance of commercial paper to address the project shortfall.

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 and discussed at the June 19, 2012 City Council meeting.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the Public Works Department, and the Finance Department.

FISCAL/POLICY ALIGNMENT

The project aligns with the City's Economic Development Strategy #11 "Revise Key Land Use and Transportation Policies to Reflect the new Realities for the San Jose Economy" and Strategy #12 "Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur."

COST SUMMARY/IMPLICATIONS

As discussed above, the proposed reduction in the size of the Developer's parcel for the Development Site by approximately 7.529 acres would reduce the purchase price by $11.9 million. This reduction would be partially mitigated by the sale of 1.843 acres under the HUD Commercial Site Option Agreement, generating revenue $1.846 million. The net impact of these changes is a reduction in sale proceeds of $10.08 million under the option agreements. In addition, this proposal would use the acreage that had previously been set aside for BART for the community soccer fields. This parcel would no longer be available to sell, reducing sale proceeds by an estimated $3.0 million.

To partially offset this impact, it is recommended that $2.339 million in Parks capital funding be allocated to the project in order to defray the shortfall on the repayment of the outstanding debt associated with the purchase of the Airport West Property designated to be used for the community soccer field project. The source of this funding is as follows:

(1) $1,339,000 in costs for the Happy Hollow bridge project which were previously paid for by the Citywide Construction and Conveyance Tax (C&C) Fund are being reallocated to the Parks and Recreation bond fund, freeing up $1,339,000 from the Citywide C&C fund for use on the Coleman project;
(2) $1,000,000 in funds from District specific park capital funds. This consists of $100,000 from nine of the ten Council District's C&C funds. The only exception is council district 3 as $100,000 is being recommended from the Ryland Pool reserve in the Parks Trust Fund as opposed to the District 3 C&C fund balance. It is appropriate for each council district to contribute from their respective C&C funds as this project will have a citywide benefit and accordingly provide a benefit to each council district. Additionally, the contribution from the Parks Trust Fund from the Ryland Pool reserve is appropriate as the Coleman soccer project is within the nexus area for the use of these funds and the proposed soccer facility is a community service facility.

In addition, once the community soccer facility is operational, it is anticipated that this facility will generate annual revenues of at least $700,000, of which at least $500,000 ($8.0 million over a 16-year period) is proposed to be applied to pay the debt service costs associated with (a) either the repayment of the HUD loan if HUD approves the use of the sale proceeds for the repayment of the 2008F Bonds or (b) the issuance of commercial paper to fund the shortfall between the purchase price for the property and the amount required to pay off the 2008F Bond. The proposed community soccer facility would also provide an ongoing revenue stream and would generate Sales Tax and potentially Transient Occupancy Tax for the City.

BUDGET REFERENCE

Fund #/ Name	Appn #	Appn. Name	Total Appn	2012-2013 Proposed Budget Page	Last Budget Action (Date, Ord. No.)
377 – District 1 C&C Fund	8999	Ending Fund Balance	$2,230,409	V-309	Budget adoption 6/19/12
378 – District 2 C&C Fund	8999	Ending Fund Balance	$698,170	V-317	Budget adoption 6/19/12
381 – District 4 C&C Fund	8999	Ending Fund Balance	$1,518,493	V-328	Budget adoption 6/19/12
382 – District 5 C&C Fund	8999	Ending Fund Balance	$1,064,879	V-338	Budget adoption 6/19/12
384 – District 6 C&C Fund	8999	Ending Fund Balance	$864,261	V-345	Budget adoption 6/19/12
385 – District 7 C&C Fund	8999	Ending Fund Balance	$446,761	V-353	Budget adoption 6/19/12
386 – District 8 C&C Fund	8999	Ending Fund Balance	$1,875,790	V-359	Budget adoption 6/19/12
388 – District 9 C&C Fund	8999	Ending Fund Balance	$986,712	V-367	Budget adoption 6/19/12
389 – District 10 C&C Fund	8999	Ending Fund Balance	$1,373,519	V-375	Budget adoption 6/19/12
375 – Park Trust Fund	8147	Reserve: Ryland Pool	$379,000	V-443	Budget adoption 6/19/12
471 – Parks and Recreation Bond Projects Fund	8190	Contingency Reserve: Parks and Recreation Bond Projects	$8,721,765	V-473	Budget adoption 6/19/12

CEQA

CEQA: EIR Resolution No. 71716, File No: PP08-093 and File No: PDC09-004

/s/
JULIE EDMONDS-MARES
Acting Director, Parks, Recreation & Neighborhood Services

/s/
KIM WALESH
Director of Economic Development
Chief Strategist

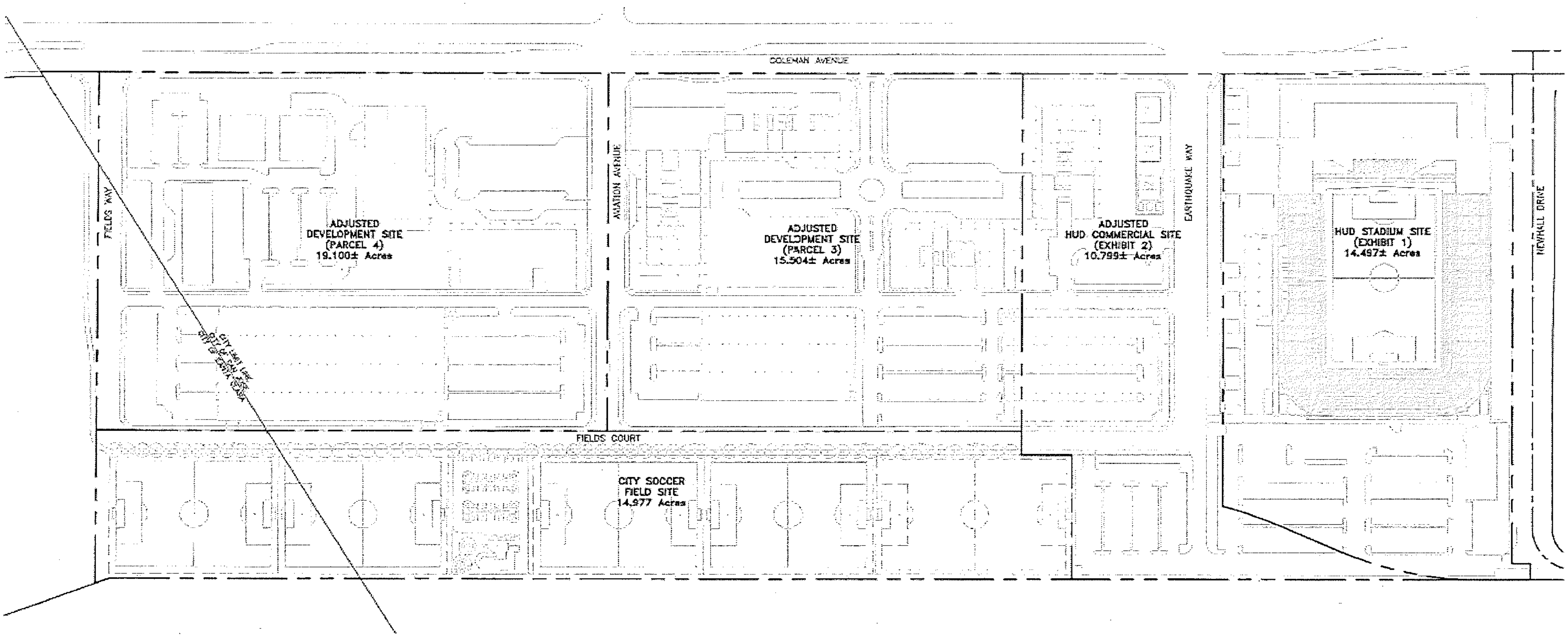
Jennifer A. Maguire
JENNIFER A. MAGUIRE
Budget Director

I hereby certify that there will be available for appropriation in the Construction and Conveyance Tax Fund (City-Wide Parks Purposes) in the Fiscal Year 2012-2013 moneys in excess of those heretofore appropriated therefrom; said excess being at least $2,339,000.

Jennifer A Maguire
JENNIFER A. MAGUIRE
Budget Director

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

Exhibit A


COLEMAN AVENUE
FIELDS WAY
AVIATION AVENUE
EARTHQUAKE WAY
NEWHALL DRIVE
FIELDS COURT
ADJUSTED
DEVELOPMENT SITE
(PARCEL 4)
19.100± Acres
ADJUSTED
DEVELOPMENT SITE
(PARCEL 3)
15.504± Acres
ADJUSTED
HUD COMMERCIAL SITE
(EXHIBIT 2)
10.799± Acres
HUD STADIUM SITE
(EXHIBIT 1)
14.497± Acres
CITY SOCCER
FIELD SITE
14.977 Acres
CITY LIMIT LINE