



# Memorandum

**TO:** RULES COMMITTEE

**FROM:** Ed Shikada  
Sara L. Hensley

**SUBJECT:** SEE BELOW

**DATE:** January 26, 2006

Approved

Date

1/26/06

**SUBJECT: POTENTIAL LAND TRANSACTION WITH THE BOYS AND GIRLS CLUBS OF SILICON VALLEY**

## RECOMMENDATION

Follow-up discussion on the workplan regarding the Boys and Girls Club of Silicon Valley and approval to place the following recommendation on the February 14, 2006 City Council Agenda:

Approval to not proceed with a real estate exchange between the City of San Jose and the Boys & Girls Clubs of Silicon Valley (B&GC), and (ii) adopt a resolution authorizing the City Manager to negotiate and execute an option for the B&GC to reorganize operations including to temporarily vacate and reoccupy the City's Japantown property for a term through February 1, 2007, and provide direction to staff regarding further actions.

## BACKGROUND

On April 13, 2005, Councilmember Cortese requested the Rules Committee direct staff to prepare a workload assessment for the City to engage in a real estate transaction with the Boys and Girls Clubs of Silicon Valley (B&GC), in order to assist in mitigating the Club's deteriorating financial situation.

At the April 27, 2005 Rules Committee meeting, staff presented a workload assessment and work plan. Specifically, the Rules Committee requested an evaluation of the feasibility of a land trade involving the City-owned Japantown B&GC site and the Smythe Clubhouse owned by the B&GC. Upon completion of the land trade, B&GC would own the Japantown property. This land transaction would allow the B&GC to then sell the Japantown property and use proceeds from the land sale to eliminate longstanding debt and begin to deal with structural operating issues. The work plan was approved by Rules Committee with the direction to report back. Since that time, a team of City Manager's Office, the Redevelopment Agency, and Parks, Recreation and Neighborhoods Services staff has implemented the work plan and prepared this report for consideration by the City Council.

Concurrently, the City and Redevelopment Agency issued a Request for Qualifications (RFQ) for prospective developers of the City's Japantown Main (Corporation) Yard and 6<sup>th</sup> Street parking lot. The B&GC site was identified as an additional opportunity site in the RFQ. As the developer selection process is now concluding and a recommendation forwarded to the

Redevelopment Agency Board/City Council, the role of the B&GC site in future development of Japantown continues to be a topic of discussion.

## ANALYSIS

The Boys & Girls Clubs of Silicon Valley (B&GC), founded in 1944, serves young people throughout the region and operates three clubs and programs in two elementary schools in San Jose (listed below), as well as at Village of the Four Seasons Trailer Court:

- The Northside Club in Japantown (110 E. Jackson Street), owned by the City
- The Smythe Clubhouse in the K.O.N.A neighborhood (2293 Cunningham Avenue), owned by B&GC
- The Levin Clubhouse, owned by the Oak Grove School District
- Minor Elementary School, and
- Almaden Elementary School

Presently, the B&GC is in a dire financial situation with approximately \$400,000 in longstanding debt and ongoing issues. Without immediate significant changes to eliminate the debt, reduce expenses and/or increase income, the organization is at risk of closure. In 2002 the City Auditor conducted an audit that raised concerns regarding the financial condition and cash handling controls of the organization. The B&GC prepared a management plan to address the issues raised in the audit. In late 2005, United Way Silicon Valley initiated a review of B&GC's funding status and management strategy; that review is currently underway. At this time, B&GC reports having raised \$125,000 toward its longstanding debt.

The City and Redevelopment Agency have allocated significant funds to the B&GC. These include the following grants: CDBG - \$750,000 and District 8 C&C - \$125,000 for field improvements, and 2005-06 HNVF - \$37,118, Smart Moves - \$23,919, and San José After School - \$122,100. B&GC has also applied for roughly \$90,000 in HNVF funding for 2006-07. The Agency has also provided \$500,000 for exterior and interior improvements.

In response to the Rules Committee referral, staff evaluated the possible public policy interests that could be served by a land transaction involving the City's Japantown property and the B&GC's Smythe Clubhouse property. These interests and a summary evaluation of the ability of a land transaction to advance these interests are as follow:

1 Continuation of services to at-risk youth within the Japantown/Northside, K.O.N.A., and other areas of San Jose. The B&GC currently provides valuable youth services throughout San Jose and surrounding communities. Continued provision of such services is important to the City. However, it is unclear that the challenges faced by the organization can be eliminated with a one-time infusion of cash. On this basis, the United Way of Silicon Valley is currently working with B&GC to develop a plan for structural reforms. This effort is discussed further below.

2. Preservation of recreational land. If the B&GC is unable to resolve its financial difficulties, it could be forced to sell the Smythe Clubhouse for development. This would reduce available recreational space in the area.

The greater area surrounding the Smythe Clubhouse contains two large parks (Hillview and Welch Parks), seven elementary schools, one middle school and one high school. All of which contain open field spaces. In general, the area is not park deficient. Strong Neighborhood priorities established by the K.O.N.A. NAC have indicated a shortage of community center facilities in this area. The Smythe Clubhouse plays an important role in filling youth service needs, and these needs could grow depending on the results of the City's reuse strategy and ultimate decision with respect to the reuse of the Hank Lopez Community Center. However, there is no inherent advantage to the City in owning the Smythe Clubhouse outright, particularly given public access conditions established through a prior grant for the facility and the City's ongoing facilities reuse strategy.

3. Development of a transaction framework that is fiscally prudent for both parties, and available to other non-profit organizations. Under the direction of the Redevelopment Agency, appraisals of both sites have been prepared. It is the opinion of the appraisers that the value of the 1.3 acre Japantown Clubhouse site in "as is" condition is \$4,100,000 (and without restrictions on the development of the site, except for those within the City's regulatory authority), and the market value of the 3.95 acre Smythe Clubhouse site is \$5,490,000, with \$1,175,000 in recorded encumbrances from lenders in the form of deeds of trust recorded against the Property. The property is also subject to a restriction requiring public access through a Public Use Easement recorded in October 2005 held in favor of the City. The Easement was required as a condition of the City's grant for field and asphalt improvement at the Smythe Clubhouse. The easement runs for a 15 year term and requires B&GC to allow the public including the City to use the ball fields for at least 30 hours per week, among other things. In addition, the Smythe Property is also subject to public access requirements among other restrictions, as set forth in an Agreement with Redevelopment Agency under which the Agency provided over \$500,000 in 2004-2005 for exterior and interior improvements. These restrictions are required to be recorded against the Smythe Property.

### Risks Associated with this Transaction

In considering whether to proceed with this transaction, the following risks should be considered:

- The City would be releasing ownership interest in the Japantown property and lose direct control over the future development. While the City would retain land use regulatory powers, the City would have significantly less control over future uses of this site.
- Given its current financial condition, it is not clear how B&GC would cover market lease costs at the Smythe property.
- Other non-profits may view the real estate transaction as a grant to the B&GC.
- PRNS is implementing a facility reuse strategy for some 34 properties the City can no longer operate. This strategy includes a comprehensive Request for Qualifications process for non-profits to bid on sites they would like to own or operate. The real estate transaction outlined in this memo would take place outside of the reuse framework and without a competitive process.
- As a result of this transaction the City would be assuming ultimate responsibility for operating the Smythe Clubhouse facility, should the B&GC fail.

- Even with conditions on the use of funds and assistance of a third party, the City's ability to ensure the B&GC's future is limited. The regional climate for non-profits is one of competition and contraction with many organizations failing or being subsumed.

Weighing the City's ability to facilitate a successful transaction against these risks, staff does not recommend that the City undertake this real estate transaction at this time.

### **Alternatives to a Land Transaction**

Staff evaluated alternatives to the proposed land transaction, as described below:

- A) **Participation in Restructuring Effort:** This option would involve City staff continuing to work in collaboration with the United Way to support the restructuring of the Boys and Girls Clubs. This restructuring would be intended to move the organization into a position of long-term sustainability. This work would be performed separate from any real estate transaction.
- B) **Grant:** This option investigated the viability of a grant to Boys and Girls Clubs in some amount. Both competitive and direct grants have been examined.

Staff recommends proceeding with Alternative A only at this time, and requests City Council direction on other options.

### **Alternative A – Participation in Restructuring Effort**

The United Way of Silicon Valley has initiated an effort to support the Boys and Girls Clubs in assessing operational issues and provide guidance on building a sustainable operational model, and made their funding contingent on the Boys and Girls Clubs fulfilling the following reporting requirement recommendations including:

- Strategies for fund development outlining quarterly goals and objectives
- Alternative funding strategies for different case scenarios
- Task management and responsibilities i.e. board, staff or contract personnel
- Identify any needed staff/board training, or consulting contracts
- Identify potential community, corporate, or government partners
- Internal operations evaluation and corrections to support the financial plan
- Alternative scenarios for eliminating the \$400,000 line of credit debt with corresponding funding strategies and impact on organizational budget over the next 5 years

Staff recommends that the City continue participation in the United Way's work, and that any additional funding of the Boys and Girls Clubs be linked with the Clubs successfully fulfilling the United Way requirements.

It is possible that the restructuring effort will require closure of one or more sites currently operated by B&GC. In order to provide B&GC with the ability to temporarily cease operations without losing access to the Japantown property during the next year, staff in consultation with B&GC recommends that it be given one year (through February 1, 2007) if necessary to cease and restart operations at the Japantown property. This would allow the B&GC time to resolve issues without impacting the timeline for any anticipated development scenarios.

### **Alternative B - Grant**

Staff has attempted to identify the circumstances under which the City could provide the Boys & Girls Clubs of Silicon Valley with a grant to B&GC to eliminate its longstanding debt. Funding could come from current programs, or proceeds from the sale of the Japantown Clubhouse site if sold in the future. A grant approach could be administered as a part of another grant program to ensure consistency with the areas of greatest need.

The use of sale proceeds from the current Japantown Clubhouse site could be pursued upon City Council action. While identified as a potential development site, the Japantown Clubhouse has to date generated limited interest from developers. As a part of the City's Main (Corporation) Yard Exclusive Negotiation Agreement period, the selected developer will be asked to evaluate the feasibility of developing this site. The results of this evaluation must then be reconciled with the ongoing community involvement process, and results would not be expected for at least 120 days, and possibly up to the 240 days.

With respect to structuring a grant, a new grant should be in return for a public benefit, and not be funding for same services for which the City has already paid grant funding under a separate grant agreement. As background, most of the City's service-related grant agreements are issued through a competitive process, such as HNVF, BEST, and CDBG grants, and require the Grantee to provide additional services in exchange for the grant. The additional services would result in increased costs to the Grantee, which would not appear to help B&GC in addressing its operating deficits. The City has in some circumstances, given grants to assist public service organizations in developing greater operational capacity and also given assistance to support operating costs. To justify an assistance grant of this nature, the City should identify a reasonable public benefit that the City would receive by making a new grant to B&GC. However, in today's economic climate both the City and its community based agency partners are being forced to consolidate and in some cases, reduce or eliminate services and facilities. All can make some case for public benefit. Consequently, the City would still have to address the significant policy issue of consistency in treatment with other non profits and service organizations.

### **PUBLIC OUTREACH**

To date very limited public outreach has been conducted regarding this transaction. Upon City Council direction to pursue a specific approach, staff will provide outreach to community stakeholders.

### **COORDINATION**

This report has been coordinated with the Redevelopment Agency and City Attorney's Office.

### **OUTCOME**

City Council direction on this matter will allow staff to proceed with follow-up actions.

**COST IMPLICATIONS**

The potential real estate transaction would have no immediate budgetary impact; however, risks are noted that could result in significant costs in the future.

**CEQA**

Not a project.



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