



# Memorandum

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

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

**SUBJECT: SEE BELOW**

**DATE: October 21, 2008**

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**COUNCIL DISTRICT: 7**

**SUBJECT: FUNDING COMMITMENT FOR THE ACQUISITION AND  
REHABILITATION OF A MULTI-SERVICE COMMUNITY  
SERVICE CENTER LOCATED AT 749 STORY ROAD**

## RECOMMENDATION

It is recommended that the City Council and Redevelopment Agency take the following actions:

(a) Adoption of a resolution by the City Council to authorize:

- (1) Adoption of the following Appropriation Ordinance and Funding Sources Resolution amendments in the Community Development Block Grant (CDBG) Funds
  - (a) Establish an appropriation to the Housing Department for the CTC Property Acquisition Project in the amount of \$600,000.
  - (b) Decrease Ending Fund Balance by \$600,000.
- (2) Changes to the 2008-09 Consolidated Annual Action Plan to award and appropriate \$600,000 in CDBG funds to CTC for the acquisition of the Property.
- (3) The assumption by CTC of a \$550,000 CDBG 15-year conditional loan previously awarded to Kelly Park Community Resource Center (Kelly Park) with St. Vincent de Paul acting as fiscal agent, for the 2003 rehabilitation of the Property.
- (4) The assumption by CTC of a \$1,000,000 Healthy Neighborhood Venture Fund (HNVF) 15-year conditional loan previously awarded to Kelly Park with St. Vincent de Paul acting as fiscal agent, for the 2003 acquisition and rehabilitation of the Property.
- (5) The Director of Housing to negotiate and execute a CDBG 15-year conditional loan agreement and promissory note secured by a deed of trust.
- (6) The Director of Parks, Recreation and Neighborhood Services to negotiate and execute a one-time \$300,000 service agreement with CTC for the continued operations of day laborer services.

- (7) The closing of the Consolidated Annual Action Plan Amendment public hearing process.

(b) Adoption of a resolution by the Redevelopment Agency Board:

- (1) Adjusting the Redevelopment Agency's FY 2008-09 Adopted Capital Budget to reallocate \$662,000 from the Japantown – Nishioka Site Acquisition project line to the new Story Road - Career Training Center project line in the Neighborhood Business Investment Program Redevelopment Area, and amending the FY 2008-2009 Agency appropriations resolution as detailed in Attachment A.
- (2) Authorizing the Executive Director of the Redevelopment Agency (Agency), to negotiate and execute an Owner Participation Agreement with CTC to provide Agency assistance to rehabilitate the Property.

### **OUTCOME**

Approval of the recommended actions will result in the preservation of a multi-service community center providing services to low- and moderate-income individuals, including medical, educational and day labor programs and services. Additionally it will provide a new home for a successful career training and employment opportunities program for low- and moderate-income individuals.

### **EXECUTIVE SUMMARY**

The proposed project will enable CTC to purchase property at 749 Story Road as a location for their training, education and employment center. It will also provide for the continued operation of other services to low- and moderate-income households currently being provided at the Story Road property. The continued operation of the Day Worker Center at that location is of special interest. Both CTC and the Day Worker Center provide critical services to low- and moderate-income individuals, and several City departments and the Redevelopment Agency have combined resources to support this project.

### **BACKGROUND**

#### **The 2003 Acquisition of 749 Story Road**

Kelly Park Community Resource Center ("Kelly Park") is a nonprofit organization that was created to acquire property that could serve as a location in which several nonprofits could offer services to the community. In 2003, Kelly Park was awarded a \$1,000,000 loan from the Healthy Neighborhoods Venture Fund and a \$550,000 loan from Community Development Block Grant to acquire and rehabilitate a warehouse at the Property that was converted to a multi-service facility to provide services to low- and moderate-income individuals and households. Since that time, Kelly Park has provided rental space to several nonprofit agencies providing public services at the Story Road location, including a Day Worker Center operated by

St. Vincent de Paul, St. Francis Career College, and a community health clinic, all serving low- and moderate-income individuals and families. St. Vincent de Paul entered into the acquisition contracts for the Property as the fiscal agent for Kelly Park.

Recently Kelly Park has faced financial difficulties arising from the loss of some tenants at the Property, and has made several attempts over the past two years to liquidate or transfer the property and its associated debt. Because of its role as fiscal agent in the purchase of this property, this liability has also created a hardship to St. Vincent de Paul, which is seeking to detach itself from this obligation.

### **Relocation of CTC**

The Center for Training and Careers, Inc. (CTC) is a community-based nonprofit that provides educational and vocational training along with employment services to hundreds of youths and adults each year. Since 1977, CTC has been an active partner in the community and has developed and enhanced employment opportunities for the educationally and economically disadvantaged. For a number of years, CTC has provided services in a space at 1600 Las Plumas that it rents from the San Jose Family Shelter. The San Jose Family Shelter anticipates relocating its facility and selling the Las Plumas property, including the portion that is rented to CTC. For this reason, CTC has operated under a month-to-month lease since April 2005 and has been actively searching for a new facility to accommodate its needs. CTC recently entered into negotiations to purchase the 32,000 square foot multi-service facility located at 749 Story Road.

### **Collaboration**

The coincidence of CTC's search for a new location and Kelly Park's need to sell the Story Road property presented an opportunity to address several challenges.

1. The City and Redevelopment Agency have been working to ensure that the services now provided at the Story Road property remain at that location for the area's residents. Sale of the property to a for-profit buyer would likely result in the need to move these services elsewhere.
2. The Story Road property provides adequate space for CTC now and in the future, and is closer to public transit than its current location on Las Plumas. Acquisition of the Story Road property also offers CTC the opportunity enhance its funding base by renting to the nonprofit tenants already located at the facility, and is anticipated to reduce CTC's net operating costs.
3. Kelly Park and St. Vincent de Paul will be divested of the debt associated with the property while ensuring that the services currently being offered at the site can continue without disruption.
4. St. Vincent de Paul has stated its intention to cease operating the Day Worker Center as of December 2008, and CTC has agreed to assume operation of that service as of January 2009.

Collaboration between the Departments of Housing and Parks, Recreation and Neighborhood Services, the Redevelopment Agency, the Office of Economic Development, and the City Manager's Office, will assist three nonprofit organizations (St. Vincent de Paul, Kelly Park and CTC) in accomplishing their goals. By purchasing the Story Road property, CTC will have sufficient space for its programs and administration, and will provide continued space for the Day Worker Center, the Career College and the community health clinic.

## **ANALYSIS**

### **Funding for Property Acquisition and Rehabilitation**

On August 11, 2008, Heritage Bank, the holder of the existing first mortgage on the property, approved a 90-day prequalification to CTC for a \$1,975,777 acquisition loan. On September 22, 2008, CTC entered into a purchase agreement with Kelly Park for a negotiated purchase price of \$4,050,756. As detailed below, the liens on the property will total \$4,125,777, resulting in a total loan to value of 93.8%, based on an appraised value of \$4,425,000.

#### **Acquisition Funding Strategy**

Purchase Price	\$4,050,756	
Closing Costs	\$75,021	
Heritage Bank Loan		\$1,975,777
CDBG Assumption		\$550,000
HNVF Assumption		\$1,000,000
CDBG Acquisition Loan		\$600,000
TOTAL	\$4,125,777	\$4,125,777

Staff is proposing to allow CTC to assume the existing City loans on the property. Both the CDBG and HNVF loans carry fifteen year restrictions requiring that the property be used for the same community-benefit purpose for which the loans were originally granted in 2003. Those same-use restrictions will be assumed by CTC.

Following the close of escrow, the Redevelopment Agency will enter into an Owner Participation Agreement with CTC for the rehabilitation and conversion of the commercial/warehouse space in the building into classroom and administrative office space required to accommodate the relocation. This project is within the Olinder Redevelopment Project Area and the Agency agrees to contribute funds in the amount of \$662,000 for the building improvements in consideration for certain covenants, conditions and restrictions regarding future operation and maintenance of the Property. In consideration for the Agency assistance, CTC agrees to maintain the Property and provide employment services to low- and moderate-income persons and families at the Property.

Before moving into the Story Road facility in January of 2009, CTC will provide the City with a financial plan that outlines their proposed budget for operations at the new site. The plan will address the operation and maintenance of the Story Road facility including CTC's role as

landlord to the nonprofit agencies renting space at the facility and an outline of CTC's fundraising strategy to continue current services as well as assuming operation of the Day Worker Center.

### **Funding for the Day Worker Center**

The Day Worker Center offers a critically needed service to the community. The program currently serves over 4,800 unduplicated persons annually with employment services, including ESL and computer training and job placement. The annual cost of operating the Day Worker Center is estimated at \$148,000. St. Vincent de Paul has operated the Day Worker Center at the Property since 2003, but due to financial difficulties, they will cease operating the program on December 31, 2008. In Fiscal Year 2008-09, St. Vincent de Paul received a General Fund award of \$47,372 to operate the Day Worker Center through the 2008 calendar year.

CTC has agreed to assume operation of the Day Worker Center beginning January 2009, and will enhance and complement existing Day Worker Center services including:

- 1) Classroom Services – English as a Second Language, computer training, and health classes;
- 2) Job Matching – Match qualified participants with employers; and,
- 3) Health Screenings – Conduct health screenings, and consultation and referral to qualified health care professionals.

In its Fiscal Year 2008-09 budget, the Office of Economic Development (OED) received an appropriation of \$300,000 in funding that was contributed by Home Depot for the support of services to day laborers. OED will allocate this funding to the Department of Parks, Recreation and Neighborhood Services, which will administer a grant to CTC in support of its operation of the Day Worker Center beginning in January 2009 and continuing until the earlier of a term not to exceed five years or until funding is exhausted.

### **EVALUATION AND FOLLOW-UP**

In August 2009, an informational memo will be prepared to update the City Council on the completion of the project, the transfer of the Day Worker Center to CTC, and the relocation of CTC program services. This progress will also be reported in the 2008-09 Consolidated Annual Performance Evaluation Report as required by the U.S. Department of Housing and Urban Development.

### **PUBLIC OUTREACH/INTEREST**



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

- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

This item meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This memorandum will be posted to the City's website for the October 28, 2008 City Council Agenda.

### COORDINATION

Preparation of this report has been coordinated with the Departments of Housing; Parks, Recreation and Neighborhood Services; and Planning, Building and Code Enforcement; the City Manager's Budget Office, the Office of Economic Development and the Office of the City Attorney.

### FISCAL/POLICY ALIGNMENT

This project, in its entirety, maintains alignment with long-term strategies and economic development goals and priorities in providing much-needed services to low- and moderate-income individuals and families, and supports guiding principles found in the City's Redevelopment Plan, Economic Development Strategy, and the public-private partnership Destination: Home.

### COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT:

Acquisition	\$600,000
Rehabilitation	\$662,000
Contingency	
Total Project Costs	\$1,262,000

2. COST ELEMENTS OF AGREEMENT/CONTRACT:

TOTAL ACQUISITION AGREEMENT/CONTRACT AMOUNT	\$600,000
TOTAL REHABILITATION AGREEMENT/CONTRACT AMOUNT	\$662,000

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3. COST OF DAY WORKER CENTER OPERATIONS  
 OED- Workforce Fund (transferred to PRNS) \$300,000

4. SOURCE OF FUNDING:

CDBG FUNDS \$600,000  
 REDEVELOPMENT AGENCY FUNDS \$662,000  
 GENERAL FUND \$300,000

5 FISCAL IMPACT:

The proposed adjustment to the FY 2008-09 Adopted Capital Budget reallocating \$662,000 from the Japantown – Nishioka Site Acquisition project line to the new Story Road - CTC project line in the Neighborhood Business Investment Program Redevelopment Area will have zero impact to the Capital Reserve, as detailed in Attachment A.

Increase CDBG expenditures for FY 2008-09 by \$600,000 to \$16,340,000.

**BUDGET REFERENCE**

The table below identifies the fund and appropriations proposed to fund the contract(s) recommended as part of this memo and remaining project costs, including project delivery, construction, and contingency costs.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
441	TBD	Story Road-Center for Training and Careers	\$600,000	\$600,000	NEW	
75	0750941	Story Road- Center for Training and Careers	\$662,000	\$662,000		
<b>Total New Funding For Story Road – Center for Training and Careers</b>			<b>\$1,262,000</b>	<b>\$1,262,000</b>		

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**CEQA**

Exempt, File No. PP08-236. NEPA: Identified as a Categorical Excluded Project on 9-8-09.  
NEPA: Identified as a Categorical Excluded Project on 9-8-09 (Planning, Building and Code Enforcement)



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DEBRA FIGONE  
City Manager



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HARRY S. MAVROGENES  
Executive Director

Attachment

For questions please contact LESLYE KRUTKO, Director of Housing at (408) 535-3851 or  
JOHN WEIS, Assistant Executive Director, Redevelopment Agency at (408) 795-1894

FY 2008-09 BUDGET ADJUSTMENT

Agency's Business Unit Number	Project	Adopted Budget FY 2008-09	Net Change	Revised Adopted Budget FY 2008-09
Neighborhood Business Investment Program (Fund: #075)				
0750941	Story Road - Career Training Center	FY 08-09	0	+662,000
0750926	Japantown - Nishioka Site Acquisition	FY 08-09	1,400,000	-662,000
CAPITAL RESERVE			+0	