



Memorandum

TO: HONORABLE MAYOR,
CITY COUNCIL AND
SUCCESSOR AGENCY BOARD

FROM: Kim Welsh
Richard A. Keit

SUBJECT: SEE BELOW

DATE: January 30, 2018

Approved

D. P. Syl

Date

1/31/18

SUBJECT: APPROVAL OF COMPENSATION AGREEMENT FOR DIRIDON PROPERTIES

RECOMMENDATION

(a) The City Council approve a Compensation Agreement by and among the Successor Agency to the Redevelopment Agency of the City of San José, the City of San José, the County of Santa Clara and other affected taxing entities under Health and Safety Code Section 34180 for real property including 8 South Montgomery Street, 105 South Montgomery Street, 510 West San Fernando Street/102 South Montgomery Street, 150 South Montgomery Street and 645 Park Avenue (collectively, "Properties"), for the purpose of transit oriented development consistent with the Diridon Station Area Plan, the Downtown Strategy and the City's General Plan.

(b) The Successor Agency Board approve a Compensation Agreement by and among the Successor Agency to the Redevelopment Agency of the City of San José, the City of San José, the County of Santa Clara and other affected taxing entities under Health and Safety Code Section 34180 for real property including 8 South Montgomery Street, 105 South Montgomery Street, 150 South Montgomery Street, 510 West San Fernando Street/102 South Montgomery Street, and 645 Park Avenue for the purpose of transit oriented development consistent with the Diridon Station Area Plan, the Downtown Strategy and the City's General Plan.

OUTCOME

Approval of the Compensation Agreement will allow the transfer of the properties from the Successor Agency to the City to facilitate transit oriented development in the Diridon Station Area.

BACKGROUND

On or about June 28, 2011, the Governor signed into law AB XI 26, as subsequently amended by AB 1484 and SB 107 ("Dissolution Legislation"), which provided for the dissolution and winding down of redevelopment agencies throughout the State. On January 24, 2012, the City of San José elected to be the Successor Agency to the San José Redevelopment Agency and, effective February 1, 2012, the Redevelopment Agency of the City of San José was dissolved.

Pursuant to the Dissolution Legislation, a successor agency must prepare and file with the California Department of Finance (DOF) a Long Range Property Management Plan (Plan) that addresses the disposition and use of the real properties owned by the successor agency. In the Plan, a successor agency's real property must be categorized under four permissible uses:

1. Retention for a Government Purpose;
2. Retention for Future Development;
3. Sale; and
4. To Fulfill an Enforceable Obligation.

The DOF approved the Successor Agency's Plan on September 8, 2014. The Dissolution Legislation allows a city to retain properties for future development subject to entering into a compensation agreement with the affected taxing entities. The listed Properties were identified in the Plan to be retained for future development. The Properties will be developed consistent with the Diridon Station Area Plan, the Downtown Strategy, and the General Plan. The Properties are located adjacent to the Diridon Station and the development of the Properties will help the City and community achieve multiple goals including: increase transit ridership, generate jobs, and add vitality to the Downtown. Additional information about each parcel is provided below:

Address	APN#	Lot Size
8 S. Montgomery St. (Lot D)	259-38-130	70,451 s.f. / 1.62 ac.
105 S. Montgomery St.	261-35-003, -006, -010	43,803 s.f. / 1 ac.
510 W. San Fernando St./102 S. Montgomery St.	259-48-011, -012, -013	50,15s.f. / 1.15 ac.
645 Park Ave	261-35-014	76,862 s.f. / 1.76 ac.
150 S. Montgomery St.	259-48-053	42,171 s.f. / 0.97 ac.

The purchase price identified for the combined properties is \$67 million dollar. The Lot D price was determined to be \$17 million dollars. The remaining SARA properties were determined to have a value of \$50 million dollars. The County conducted an appraisal on Lot D. The City and County worked with two appraisers on the remaining SARA properties who came to agreement on price for the property.

ANALYSIS

As mentioned above, the Dissolution Legislation allows a City to retain properties for future development provided that it enters into a compensation agreement with the other taxing entities. County and City staff have reached a mutual agreement as to the terms of a compensation agreement. Upon approval of the agreed upon compensation agreement by the City and County, the compensation agreement will be circulated for execution by the other affected taxing entities. A list of the other taxing entities is provided below. The key terms and provisions of the Compensation Agreement are described below:

Key Compensation Agreement Terms

Conveyance – Within 30 days after the Compensation Agreement has been signed by all the taxing entities (the “Effective Date”), the Successor Agency shall convey the Properties to the City by grant deed.

As Is Condition – The Properties will be transferred to the City in their current As-Is condition and the Successor Agency will not be liable for any claims related to the physical condition of the Properties.

Release – City waives and releases the Successor Agency and the other Taxing Entities from any and all claims arising from the physical condition of the Properties.

Disposition for Development – Commencing on January 1, 2018, and ending thirty days after the Effective Date or December 31, 2018, whichever is later (“Developer Disposition Period”), the City shall use good faith efforts to select a developer, negotiate a sale of the property, and sell the property to the Developer. In addition, at the City’s request, the Developer Disposition Period may be extended up to March 1, 2019, with the approval of the Oversight Board.

Purchase Price – The Purchase Price for the Properties shall not be less than Sixty-Seven Million Dollars (\$67,000,000) (“Market Value”).

Purchase by the City – If the Properties are not sold within the Developer Disposition Period, the City, within thirty (30) days after the expiration of the Developer Disposition Period, may elect to retain the Property for its own use by paying the \$67,000,000.

Expiration of Developer Disposition Period – If the Properties are not sold within the Developer Disposition Period or it is not retained by the City, the City shall sell the Properties within nine (9) months of the end of the Developer Disposition Period or City Acquisition Period, whichever is applicable, with a minimum marketing period of six (6) months, through a solicitation process previously approved by the Oversight Board. The Properties shall be sold to the highest bidder and the net sales proceeds shall be distributed to the taxing agencies as specified in the Compensation Agreement.

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Calculation of Net Sales Proceeds – “Net Sales Proceeds” means the gross purchase price and other compensation actually received by the City (but in no event less than the Market Value), less the sum of the City’s actual and reasonable costs for completing the sale.

Term – The Compensation Agreement shall expire on the date the Properties are sold or retained by the City and the Net Sales Proceeds have been distributed to the taxing entities.

County and City staff worked cooperatively on the Compensation Agreements and the County Board of Supervisors are scheduled to approve the Compensation Agreement on February 6, 2018. The Compensation Agreement will also be considered for approval by the Oversight Board at its February 22, 2018 Board meeting. In addition to the County and City, there are twelve (12) other taxing entities that are required to execute the Compensation Agreement. They are as follows:

1. Franklin-Mckinley Elementary School District
2. Oak Grove Elementary School District
3. Orchard Elementary School District
4. San José Unified School District
5. Santa Clara Unified School District
6. Eastside High School District
7. West Valley Community College
8. San José City Community College
9. Santa Clara Office of Education
10. Bay Area Air Quality
11. Guadalupe-Coyote Resource Conservation District
12. Santa Clara Valley Water District

Upon approval by the Oversight Board, Successor Agency staff, working with County staff, will commence the process of getting the Compensation Agreements signed by the other affected taxing entities.

EVALUATION AND FOLLOW-UP

The Successor Agency Board and City Council will be informed through an information memo, when all taxing entities have executed the Compensation Agreement and the Properties have been transferred from the Successor Agency to the City.

PUBLIC OUTREACH

This memorandum will be posted on the City's website and will be made available for public review on January 31, 2018 for a public hearing scheduled on the February 13, 2018 Council Agenda.

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COORDINATION

This item was coordinated with the City Attorney's Office.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
KIM WALESH
Deputy City Manager

/s/
RICHARD A. KEIT
Managing Director

For more information, contact Richard Keit, Managing Director, Successor Agency, at 408-795-1849.

Attachment

January 30, 2018

Ms. Nanci Klein
Assistant Director of Economic Development
Director of Real Estate
City of San Jose
200 E. Santa Clara Street, 17th Floor
San Jose, CA 95113

Mr. James Williams, Esq.
Office of the County Counsel
Santa Clara County
70 W. Hedding Street, 9th floor
San Jose, CA 95110

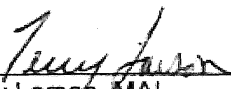
Re: Reconciled Market Value
Diridon Properties
APN's 259-48-011, 012, 013; 261-35-003, 006, 010; 259-48-053; 261-35-014
San Jose, California


Dear. Ms. Klein & Mr. Williams:

Mr. Terry Larson, MAI, and Ms. Yvonne Broszus, MAI, both independently appraised the "as is" market value of the property identified above. Market value is defined by the Uniform Standards of Professional Appraisal Practice (USPAP). The interest appraised is the fee simple estate. The client and intended user of Mr. Larson's appraisal is the City of San Jose; the client and intended user of Ms. Broszus' appraisal is the County of Santa Clara. The intended use for both appraisals is to establish a sale price for the property.

Subsequent to the completion of the appraisals, both clients instructed their respective appraisers to meet and conclude to a single reconciled "as is" market value as of August 14, 2017. The two appraisers met on January 16, 2018 and were able to reach an agreement. The reconciled market value arrived at by the appraisers, as of August 14, 2017, is \$50,000,000. By signing below, the appraisers are attesting to the agreed upon reconciled market value.

Respectfully submitted,


Terry Larson, MAI
Smith & Associates, Inc.


Yvonne Broszus, MAI
Valbridge Property Advisors