

6-12-18
Special Meeting

18-468

City of Santa Clara Option Agreement With Prometheus

June 12, 2018



Downtown



2

POST MEETING MATERIAL

Revitalizing Downtown

- City and Community Have Recently Explored Downtown Opportunities
- No Council Approved Plan for Downtown
 - \$400,000 Proposed as part of 2018/19 Budget for a Precise Plan
- Restoring Grid Streets is Part of City and Community Vision
 - No Council approved street plan but likely to include two lanes, parking, sidewalks

City Downtown Vision



City Current Vision

- Presented to Downtown Revitalization Committee
- Not Council approved
- Includes extension of Franklin Street
- Includes extension of Washington Street

Community Downtown Vision



Neighborhood Current Vision

- Includes extension of Franklin Street
- Includes extension of Washington Street

5



Grid Streets

- Long Term Plan - Not Possible to Acquire all Needed Property at Once
- Multi-year effort with Interim Phased/Construction
- Will Require **Willing** Participation from Private Property Owners
- **Success = Partnership** Between Property Owners, Community, City, Developers
- Franklin Street Will be Very Difficult to Implement
 - Over 1500 feet long
 - Affects multiple property owners (some City owned properties)
- Two Near-Term Opportunities (3-10 year time frame) – Franklin and Washington
 - City owned property (limitations)
 - Prometheus Property – Prometheus voluntarily approached the City

6



Street Extensions



City Property Challenges

City Property Constraints

- **Property 1 – 1.3 Acres**
 - Lease expires on October 2021
- **Property 2 – 3.8 Acres**
 - Lease expires April 2022
- **Property 3 – 1.1 Acres**
 - City required to provide 112 parking spaces contiguous to courthouse property – no expiration
 - New parking typical cost \$30,000-\$60,000 a space
- **Develop Development RFP as part of Precise Plan**



Prometheus Opportunity

- Prometheus Voluntarily Approached the City
 - Prometheus communicated to staff that they would like to get neighborhood goodwill for other development proposals
 - Staff will process development projects separately on their own merits
- Prometheus Discussed Option to Sell Property to Accommodate section Franklin Street and Washington Street Extensions
- Control of Street Property Would Support Downtown Redevelopment
- Continue to Operate Their Apartment Complex
- Staff Needed to Develop a Roadway Option that Could Work
 - Otherwise streets will wait until and if site redevelops

9



Prometheus - Discussions



Concerns with Property Acquisitions

- 2 travel lanes, parking, and wide sidewalks
- Street width (a lot of property)
- Complex construction - Building Demolition
- It Could be Unaffordable
 - Land value
 - Loss of lease revenue
 - Utility Issues
 - Code upgrades
- No Funding – Financial Feasibility
- Required Creative Approach

10

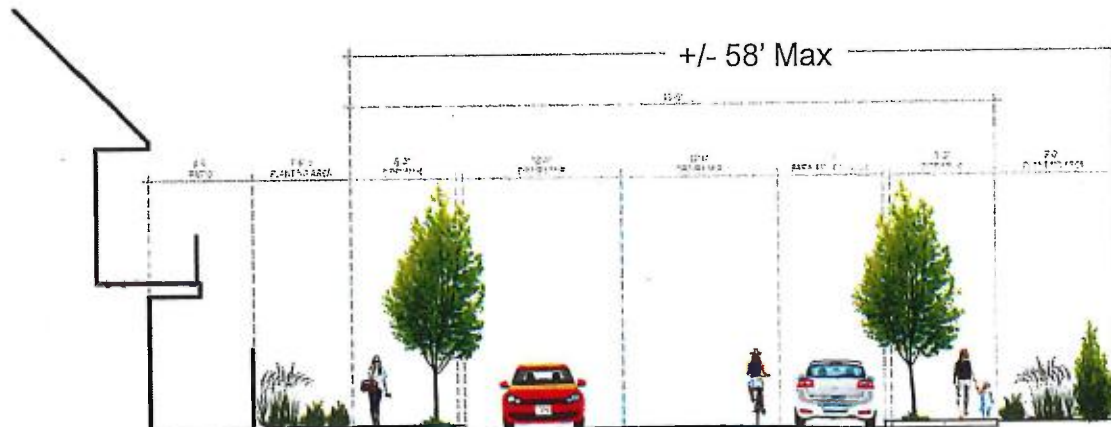


Street Section

Interim Phased Implementation

- Flexible phased street sections

11

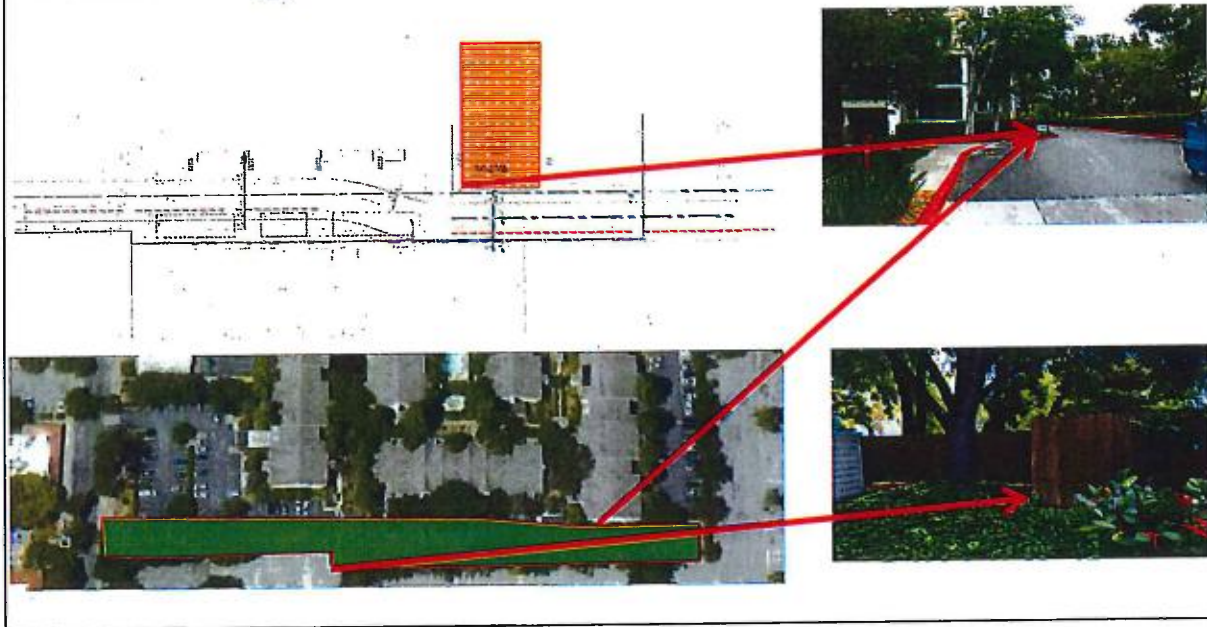


DRAFT Maximum Section – Final Section TBD
Decreases to 48+/- due to shift in property line
Decreases to 34+/- to avoid existing building

12



Building Constraints



Street Section

Interim/Phased Implementation

- Narrower Street Section
- Interim Alignments to Accommodate Property Line Changes and Avoid Buildings
- Perpetual Right-of-Way Easement
 - Same access rights for public access – pedestrians, bicycles, and vehicles
 - Allows private utilities to stay in place
 - Should reduce cost (acquisition and construction)
- Acknowledge That There is no Funding for Construction –Prometheus Continue to use the Property
- Franklin Street Acquisition – 32,000 SF (estimated)
- Washington Street – 4,200 SF (estimated)

Staff Acknowledges Community has Discussed a 75' Street

75' Street Section



- Affects Three Buildings

15



Property Required for 75'



Building 1



Building 2



Demolition

16



Property Required for 75'



Building 3



Demolition



Building 1 and 3

Underground Parking and Utilities

17



Adjacent Property

- Different Property Owner
- Parking Structure



18



75' Street Section



- Affects Three Buildings
- Requires Total/Partial Demolition
- Underground Parking
- Structural Issues
- Building Codes
- Utilities
- Rent Loss
- Property Value
- Cost Unknown

19



Negotiations

- Option Agreement
 - Option Length
- Interim Alignment that Avoids Existing Buildings
- Parking Loss
- Cost for Acquisition and Construction



20



Appraisals

	City	Prometheus
Property Value	\$3.66M in fee or \$1.83M in easement	\$5.5M (same in fee or easement)
Parking	Does not affect value (over parked)	Replace all 78 spaces
Permanent loss of rent	\$1.0M	\$1.17M
Temporary loss of rent		\$208,000
Loss of improvements	\$339,000	\$425,000
Value	\$1.83M - \$3.66 for land \$1.34M negotiable	\$5.5M for land \$1.8M negotiable
Total	\$3.2M - \$5.3M	Up to \$7.3M

Parking Spaces are Typically Valued at \$30,000-\$60,000 a Space (\$2.3M-\$4.7M)

21



Cost

	City	Prometheus
Property Value	\$3.66M in fee or \$1.83M in easement	\$5.5M (same in fee or easement)
Permanent loss of rent	\$1.0M (No permanent rent loss)	\$1.17M
Temporary loss of rent		\$208,000 (\$200,000)
Loss of improvements	\$339,000 (No Loss of Improvements)	\$425,000
Parking	Replace 50% of Spaces and \$600,000 one time payment (\$15,000 per space)	Replace all 78 spaces
Value	\$1.83M for land and \$1.34M negotiable	\$5.5M for land and \$1.8M negotiable
Total Exposure	Up to \$2.6M	Up to \$7.3M

Proposal \$2.6 million and 39 Parking Spaces (Until the Site Redevelops)

22



Key Terms

- Acquire ROW Easement in Perpetuity
- 10 Year Option - \$90,000 Non-Refundable Deposit
- If Option Exercised in First Four Years
 - \$1.8 million for easement
 - \$800,000 for parking and rent loss
- If Exercised Between Years 5 and 10
 - New Appraisal for Easement
 - Consumer Price Index Added to Parking and Rent
- City Can Purchase Easement – Proceed with Road at a Later Date
- Prometheus Can Continue to Use Property as They Currently Do
- Provide 39 Replacement Parking Spaces Until Prometheus Site Redevelops
- City is Responsible for All Construction Costs

23



Council Discussion

Considerations

- No Funding Set Aside for Property Acquisition or Any Other Current Work
 - Funding for this agreement proposed as a loan - Paid back by the future sale/lease of City Downtown properties
- Rebuilding Grid Street Will Require a Multi-Year Phased Approach
 - Will require agreement from private property owners
 - New development could create opportunities – no timeline
- Staff Developed Creative and Flexible Approach with Minimal Risk to Start the Process
- However Option Agreement not Feasible Without Voluntary Approach from Prometheus
- Timing Works Well with Precise Plan Development – Availability of City Properties

Recommendation

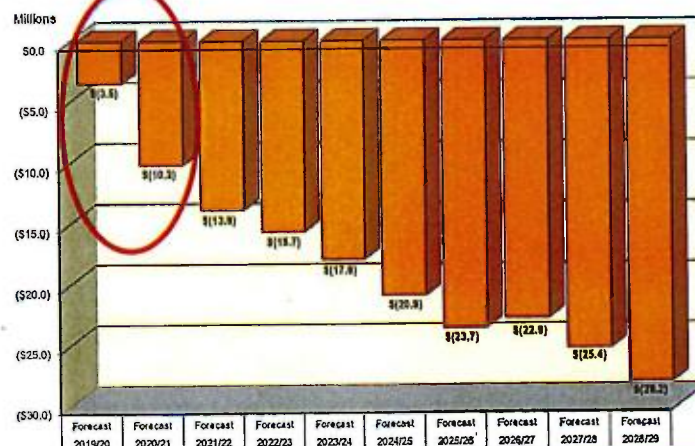
Acknowledge the key elements of the option agreement and authorize staff to finalize negotiations and bring forward a final agreement for Council consideration at a future date.

24

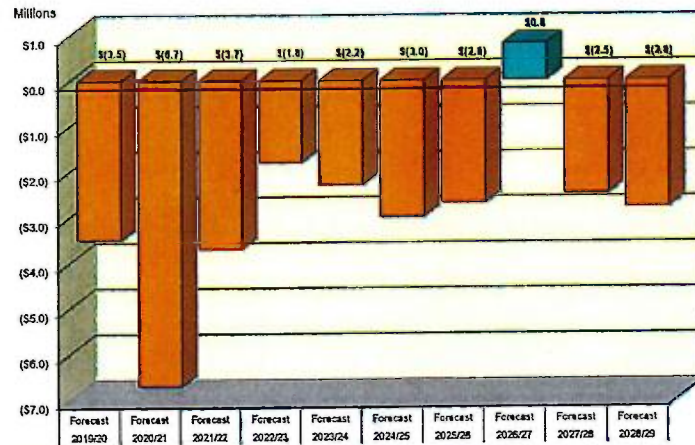




Ten-Year Forecast Reflecting Cumulative Deficits



Ten-Year Forecast Reflecting Ongoing Deficits



City of
Santa Clara

Options for Purchase

- Negotiate and Purchase
 - Prometheus has to be willing to sell more property
 - 75 feet requires building demolition
 - Next Step - Appraisal of property and negotiation
- Trade for Other City Assets
 - What would the City trade in exchange for the road?
- Eminent Domain
 - Difficult and unlikely process
 - Cost would increase – no funding available



City of
Santa Clara

Summary of Reserve Funds

(\$ millions)

Reserve Type	June 2017 Balance	October 2017 Contribution	Increase/ (Decrease)	Proposed Budget Contribution	Total Reserve Balance
General Fund Budget					
Stabilization	\$50.0	\$6.0	(\$0.9)	\$4.2	\$59.3
General Fund Capital Projects	\$32.8	\$7.0	(\$8.9)	-	\$30.9
Land Sale Reserve	\$39.3	-	(\$10.2) *	-	\$29.1
Building Inspection	\$8.4	\$0.4	\$0.9	-	\$9.7
Special Liability	\$0.5	\$5.4	(\$3.5)	\$3.5	\$5.9
Pension Trust	\$5.0	\$10.5	-	-	\$15.5
Electric Rate Stabilization	\$87.0	\$34.0	-	\$6.2	\$127.2
Total	\$223.0	\$63.3	(\$22.6)	\$13.9	\$277.6

*loan receivable of \$10.2M from Park Fees

2
9



City of
Santa Clara
The Official City Website

Considerations

- \$277.6 Million in Reserves - \$119.3 Million is Flexible
 - General Fund Budget Stabilization \$59.3 – Future Deficits and Other City Priorities
 - Land Sale Reserve \$29.1
 - TENTATIVE: Capital Projects \$30.9 – Committed to Projects (would need to de-fund projects with no other source of anticipated funds for those priorities)
- Overall Financial Feasibility with 10 Year Outlook
- Credit Rating Would Be Significantly Affected by “Draining” Reserves
- Current \$2.6 Million Proposal is a Loan – Paid Back By Sale/Lease of City Downtown Properties
 - Value of City Downtown Property Unknown (\$30-\$36 million) – Affected/Lowered by development potential, infrastructure needs, courthouse parking replacement, etc.
- Budget Action Will Require Five Votes

30



City of
Santa Clara
The Official City Website



Typical Process

- Land Use Consultant Selection
 - Identify Funding
 - RFP Development – 1 month
 - What will the study include – land use plan, financial analysis, CEQA, transportation, city property analysis, others...
 - RFP Advertisement – 1 month
 - Selection process (review of proposals and interviews) – 1 Month
 - Contract negotiations – 2-4 weeks
 - Contract Approval – 6 Weeks
- Plan Development
 - One – Two Years (Outreach/task force)
 - Environmental (Assuming EIR) – 12-18 months
 - Committee and Council Review and Approval 3-6 months
- Developer Proposals – RFP process
 - 6-12 month process





06/12/18

RECEIVED

4:30pm Study Session

JUN 06 2018

June 6, 2018

To Mayor Gillmor and Councilmembers of Santa Clara: MAYOR & COUNCIL OFFICES
CITY OF SANTA CLARA

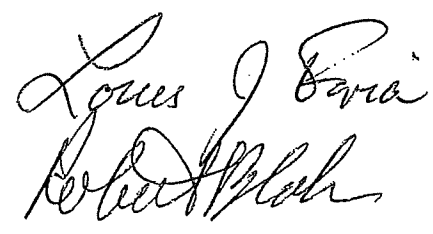
Previous obligations prevent us from attending next Tuesday's meeting in person, so we are writing to express our support for the proposed agreement between the city and Prometheus Real Estate Group regarding Franklin and Washington Streets. As long-time residents and community advocates in Santa Clara and the Old Quad, we recognize that this exceptional opportunity is only possible in the present circumstances and stands to be a critical catalyst for development of our long-absent downtown.

It is our understanding that the terms of the deal repurpose a large fraction of the original Franklin Street footprint, currently part of the parking lot for Park Central apartments, to once again being the main artery of downtown Santa Clara. The cost to the city is reasonable and, while the new street is not the exact original footprint, it is a reasonable compromise considering the location of one of the development's buildings. Additionally, Prometheus is bringing much-needed housing to the greater area at 575 Benton. It is also notable how cooperative they have been with the community regarding the design of this development.

Right-of-way for these streets is the important first step of many to rebuilding our downtown. It is not new to observe that the leveling of downtown in Santa Clara was one of the worst decisions in the history of Silicon Valley. For over 50 years, we have talked about the 'return of the downtown' but have made little physical progress, in part because the absence of our two most central blocks has long been an obstacle toward serious planning and action. We encourage more collaboration between the community, the city and developers to find solutions such as the Franklin and Washington Street proposal. It is only with this type of creative approach to our unique situation that we can bring a real Downtown Santa Clara to fruition.

Sincerely,

LOU FARIA ROBERT BLAKE



POST MEETING MATERIAL

06/12/18

4:30pm Study
Session

Lynn Garcia

From: Mayor and Council
Subject: FW: Support for the Franklin/Washington Street Deal

From: Rick Rafey [[mailto:](#)]
Sent: Sunday, June 10, 2018 8:04 PM
To: Mayor and Council
Subject: Support for the Franklin/Washington Street Deal

We wrote you last July encouraging you to engage in the discussions with Prometheus to put the pieces in place for the development of a corridor on Franklin Street. We're pleased to see that the city has gone beyond discussions and has a clear deal on the table to fulfill the first requirement of this project.

We heard about the meeting on Tuesday, 6/12, but unfortunately it's scheduled earlier than we could make it, so we're writing now to voice our support for this deal and the subsequent follow through to turn this into a viable project.

We've spoken with Adam Thompson, and as residents of the Old Quad for over 25 years, we see this as exactly the sort of forward-thinking revitalization that Santa Clara deserves. Leveraging the city's ownership of key properties that are somewhat languishing as we look toward the future, this establishes a zone where the city and residents can work together to make Santa Clara a first-class destination in keeping with its central location and special historical significance to the valley.

Please move forward with this, and we hope you'll continue to work closely with Adam and Rob Mayer both in developing the vision and in negotiating with key stakeholders to capitalize on what could be one of the most special places in our special city.

Thanks,
Rick & Laura Rafey.