



Agenda Report

18-468

Agenda Date: 6/12/2018

REPORT TO COUNCIL

SUBJECT

4:30 PM Special Council Meeting: Consideration of the Key Terms of an Option Agreement with Park Central Apartments L.P. for the Franklin and Washington Street Right-of-Way Easement Acquisition

BACKGROUND

Over the last year, the City and Community have actively explored the opportunity of revitalizing Downtown Santa Clara. One of the key elements of both the community's vision and preliminary land use work completed by staff (presented to the Downtown Revitalization Committee), was to restore the street grid system (Attachment 1.)

The City does not have a Council approved plan for downtown, but the Council will consider a project to develop a Precise Plan for downtown as part of the 2018/19 Proposed Capital Budget. Similarly, the City has not set aside funds in the past to draw down from in order to advance the implementation of this effort. This proposed Downtown Precise Plan would include elements such as financial analysis, development potential, and a transportation network. Although a plan still needs to be developed, it is anticipated that part of the vision would include restoring the street grid system, including constructing Franklin and Washington streets to two-lane roads (one-lane in each direction) with parking and sidewalks.

The reconstruction of Franklin Street could be the most difficult street to restoring the street grid. It is over 1500 feet long, and the envisioned street alignment contains land owned by multiple property owners (Attachment 2). Some portions of the future Franklin Street are on property owned by the City (Attachment 3), however, they are currently leased to private operators, and the leases don't expire until 2021 and 2022. Ultimately, rebuilding the grid would be a multi-year effort, with interim/phased construction, and would require the redevelopment and participation of private property owners that do not necessarily need to agree to participate.

A significant portion of future Franklin (and a smaller portion of future Washington) is owned by Park Central Apartments L.P. (Prometheus). Prometheus is aware of the City and community interest to restore the grid, and voluntarily approached the City to discuss the option of selling a portion of their property for future construction of these roadways. This section of their property is primarily used for access, utilities, parking, and carports (Attachment 4). Over the last six months, the City and Prometheus negotiated an Option Agreement for purchase of a Right-of-Way Easement over the property.

DISCUSSION

Street Section

There has been a lot of discussion regarding the ultimate width of future Franklin Street, but a plan has not been approved. Staff is aware of different interests regarding the ultimate vision, and as part of a Downtown Precise Plan, the Council will have an opportunity to finalize the street network. However, it is expected that generally Franklin Street will have two-travel lanes, on-street parking, and sidewalks. Based on the complexity of rebuilding Franklin Street including existing uses, construction constraints, financial feasibility, and property ownership, certain sections of Franklin Street will need to be constructed in phases and will have interim levels of completion. Staff acknowledges that the roadway section contemplated in the Option Agreement is unlikely to be the final vision, but will be part of a phased or interim implementation.

Prometheus Property and Street Cross Section

The Option Agreement allows for a maximum 58+/- foot street cross section (Attachment 5) that narrows down to approximately 48+/- feet due to a property line change and 34+/- to avoid an existing apartment building (Attachment 6). Any additional width would require the purchase of buildings and building demolition, and would also increase acquisition costs to account for items such as permanent loss of lease revenue, building code upgrades, utility relocation, and loss of higher land value.

While an analysis was not completed, it would be expected that the property acquisition costs to accommodate the 58+/- foot cross section across the entire site would be above \$20 Million. There has also been discussion from the community to restore the cross-section to the historical 75+/- feet. A 75+/- foot property acquisition would require demolition of multiple buildings and could require acquiring most of the site. The Prometheus property is 5.3 acres and has 173 units. Although an appraisal has not been completed, the value is expected to exceed \$100 million. The City has not set aside funds for property acquisition and drawing down from eligible reserves would significantly deplete them or reduce them to an undesirable level. The effort to date has been focused on what is financially realistic for the City and within the context of existing property owners, and their property rights, and what can be successfully negotiated.

Staff developed a plan that could be implemented now and would create a public street network connection prior to any redevelopment of the Prometheus property. If and when Prometheus and other adjacent properties redevelop, the City would work with the property owners to implement the final design. As the property owner, Prometheus does not have a timeline or any plans for redeveloping their site.

Land Value

Both Prometheus and the City completed appraisals for the property (Attachment 7 and 8) and the highlights are summarized below:

	City	Prometheus
Property Value	\$3.66M in fee or \$1.83M in Easement	\$5.5M (same in fee or easement)
Parking*	Negotiable	Replace 78 spaces
Permanent Rent Loss	\$1.0M	\$1.2M
Temporary Loss of Rent	none	\$208,000
Loss of Improvements	\$339,000	\$425,000
Value	\$1.83 to \$3.66 for Land \$1.339 other Items	\$5.5M for land \$1.825M other items Replace 78 spaces
Total	\$3.2M to \$5.0M	\$7.3 Million

*Parking is typically valued at \$30,000 (surface space) to \$60,000 (structure) per space. The value of 78 parking spaces would range between \$2.35M to \$4.7M.

The City and Prometheus negotiated for three months and ultimately agreed on the following:

	Agreement
Property Value	\$1.8 million
Parking	Replace 50% of spaces (until Prometheus redevelops) One-time \$600,000 payment
Permanent Rent Loss	None
Temporary Loss of Rent	\$200,000
Loss of Improvements	None
Total	\$2.6M and replace 39 parking spaces (until Prometheus site redevelops)

Option Agreement Key Terms

Once the negotiations on the value of the property were completed, the City and Prometheus moved forward with the development of an Option. Below are the key elements of the Option Agreement for Council consideration and acknowledgement:

- The option is for acquisition of a Right-of-Way (ROW) Easement in perpetuity
- The City has a 10 year-option and requires a \$90,000 non-refundable deposit
- If the City exercises the option in the first 4 years, the City is required to pay:
 - \$1.8 million for the easement
 - \$800,000 for parking and rent loss (prior to construction)
- If the City exercises the option between years 5 and 10
 - A new appraisal will be required for the easement
 - The value of the Consumer Price Index (CPI) will be added to the parking and rent
- The City can purchase the easement before they are ready to proceed with construction of the roadway. Prometheus can continue to use the property until roadway construction begins.
- The City does not have to pay for rent and parking loss until construction begins
- The City will provide 39 replacement parking spaces adjacent to the Prometheus site until the Prometheus site redevelops

- The City is responsible for all construction costs, including any Prometheus facilities

Conclusion

As previously discussed, reinstating the street grid, and specifically the construction of Franklin Street, will be a complex, multi-year effort that will require a partnership between private property owners, the City, and community. The City does own three parcels in the Downtown area, but those also have their own challenges (Attachment 9) for near-term development. Significant sections of the grid will need to wait until private property owners choose to redevelop, and at that time the City will have the opportunity to work with the property owners to reinstate the grid. There is no timeline for redevelopment as this will be each property owner's choice.

Based on the current limitations, the voluntary sale of the ROW easement by Prometheus presents an opportunity to restore public access and the grid system in the downtown that may otherwise not be possible. While the ultimate vision (once it is approved by Council) will likely require additional ROW, an interim or phased roadway will start the multi-year process of restoring a grid system. Any additional ROW would require acquiring and demolishing buildings and would make purchasing the easement unaffordable.

The Option Agreement 10-year timeline (an initial four-year term) aligns itself with the possible completion of a Downtown Precise Plan, and redevelopment of City properties. The redevelopment of City properties and construction of a first phase Franklin Street could serve as a catalyst to the future reconstruction of Downtown Santa Clara.

FISCAL IMPACT

As already stated, in past years, the City had not assembled funds for implementing this effort and there is no established budget. As such, if the agreement moves forward, staff will request funding of \$2.6 million (\$1.8 million for the easement and \$800,000 for parking and rent loss (prior to construction)) from the Land Sale Reserve for purchase of the ROW easement by Prometheus if the City exercises the option in the first four years. The amount to be requested will be considered a loan that will be documented by the Finance Department and repaid by future lease/sale of the Downtown properties owned by the City. The FY 2018/19 Proposed Operating Budget does include an appropriation for \$400,000 to fund the development of a Precise Plan.

ENVIRONMENTAL REVIEW

Entering into the Option Agreement does not require CEQA. However, prior to executing the Option the City will be required to obtain CEQA for acquisition of the easement.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

ALTERNATIVES

1. 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.
2. Do not authorize staff to finalize negotiations

RECOMMENDATION**Alternative**

1. 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.

Reviewed by: Manuel Pineda, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Downtown Vision
2. Franklin Street Extension
3. City Properties
4. Pictures of Prometheus Property
5. Draft Street Cross Section
6. Building Constraints
7. City Appraisal
8. Prometheus Appraisal
9. Downtown City Properties