COUNCIL AGENDA: 06-27-06
ITEM: 5.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Krutko
Larry D. Lisenbee

SUBJECT: **SEE BELOW**

DATE: 06-06-06

Approved

Date 6-09-06

COUNCIL DISTRICT: 2
SNI AREA: None

SUBJECT: **AUTHORIZATION TO PURCHASE PROPERTY FROM THE STATE OF CALIFORNIA, DEPARTMENT OF TRANSPORTATION FOR THE DEVELOPMENT OF AFFORDABLE HOUSING**

RECOMMENDATION

It is recommended that the City Council:

a) Adopt a resolution authorizing the Director of Housing to negotiate and execute agreements for the purchase of a 3.05-acre parcel located 235-linear feet east of the intersection of Ford Road and Monterey Road from the State of California for $7,000,000 plus closing costs not to exceed $140,000

b) Adoption of the following amendments to the Fiscal Year 2005-06 Appropriation Ordinance and the annual Funding Sources Resolution in the Low and Moderate Income Housing Fund (443): (1) Increase the appropriation for Loans, Grants and Site Acquisition by $7,140,000
   (2) Decrease the Fund Balance by $7,140,000

c) Find that the use of redevelopment funds for the purchase of the property is of benefit to the Redevelopment Project Areas in San Jose.

OUTCOME

The purchase of the subject State-owned property provides an opportunity for the development of housing affordable to lower income households in San Jose.

EXECUTIVE SUMMARY

The Housing Department responded to a State of California, Department of Transportation ("State") offer to sell or lease surplus public land located 235-linear feet east of the intersection of Ford Road and Monterey Road ("Ford Property"). Staff determined that the site was appropriate for the development of affordable housing and the purchase price of $7,000,000 was appropriate. Additional costs will include recording fees, escrow fees and title insurance, which are estimated to total approximately $140,000.

BACKGROUND

In September 2004, the City received the State's Offer to Sell or Lease Surplus Land issued for the Ford Property in accordance with the provisions of Sections 54220 through 54227 of the California Government Code. The Housing Department expressed interest in the site by responding to the offer prior to the deadline. Throughout 2005, the Department of Public Works, Real Estate worked with the State on behalf of the Housing Department to assist in obtaining information for the evaluation and negotiation of the site.

On February 9, 2006, the State provided to the Housing Department an "Option to Purchase - Cash Sale" for the Ford Property for $7,000,000 with an option period of 90 days. The offer was based on an appraisal completed by the State. The State provided a deadline of June 9, 2006 to execute the option and provide a 10% option deposit of $700,000, which has been extended to July 10, 2006.

ANALYSIS

Site Conditions and Property Appraisal

The subject parcel is situated 235-linear feet east of the intersection of Ford Road and Monterey Road (see attached map). The vacant site is approximately 3.05 acres, or 132,858 sq. ft. Half of the site is improved with a parking lot and the other half is rough graded. The Housing Department retained an independent appraiser and concluded that the purchase price of $7,000,000 for the 3.05-acre site was acceptable.

LOCATION	PARCEL NUMBER	SQUARE FEET	PRICE
Ford Rd. and Monterey Highway	658-53-004	132,858	$7,000,000

A Phase I environmental site assessment was completed by the City's Department of Environmental Services in January 2006, which recommended further investigation based on the site's historical proximity to surrounding orchards and a major highway intersection. Phase II site samples taken in April 2006 did not identify levels of toxics above residential environmental

screening limits; therefore, the site is determined to be suitable for housing development. No further studies are needed.

Potential Development of Site

Current zoning of the property is R-1-1, single-family residential. It is anticipated it will be rezoned to allow for the development of affordable housing. At a future date, the Housing Department will issue a Request for Proposals/Qualifications (RFP/Q) to the development community and will bring a recommendation to the City Council for approval to enter into exclusive negotiations with the proposed developer.

Process for Acquisition of Ford Property from the State

The State requires the execution of an Option to Purchase-Cash Sale along with a deposit of $700,000, or 10% of the purchase price. The deposit is non-refundable in the event the Housing Department fails to exercise the option within the option period or fails to comply with any and all terms of the option as provided in the agreement. Upon execution of the option agreement, a 90-day option period begins during which the State will take to the California Transportation Commission a recommendation to approve the sales transaction. The balance of the purchase price, $6,300,000, shall be paid on or before the expiration of the option period.

Affordability Restrictions

The recommended purchase will be from 20% Tax Increment funds. 55-year Affordability Restrictions will be recorded at the time of purchase.

PUBLIC OUTREACH

Public outreach will be completed through a Planned Development (PD) Zoning process that will be carried out by the housing developer that is chosen through a competitive RFP/RFQ process to develop the site. Neighborhood residents will be notified of all meetings required through the PD Zoning process.

COORDINATION

The preparation of this report was coordinated with the Department of Public Works, Real Estate; the City Attorney's Office; Planning, Building and Code Enforcement; and the City Manager's Budget Office. On several occasions over the past few years, Housing Department staff has had discussions with Councilmember Williams regarding the potential use of the site for affordable housing.

COST IMPLICATIONS

The cost of the acquisition will be paid from the Low and Moderate Income Fund (443) and will have no impact on the General Fund.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. For Contract	2005-2006 Adopted Operating Budget (Pages)	Last Budget Action (Date, Ord. No.)
443	0070	Loans, Grants and Acquisitions	$32,400,000	$7,140,000	XI-45 to XI-46	11-29-05 Ord.#27616

CEQA

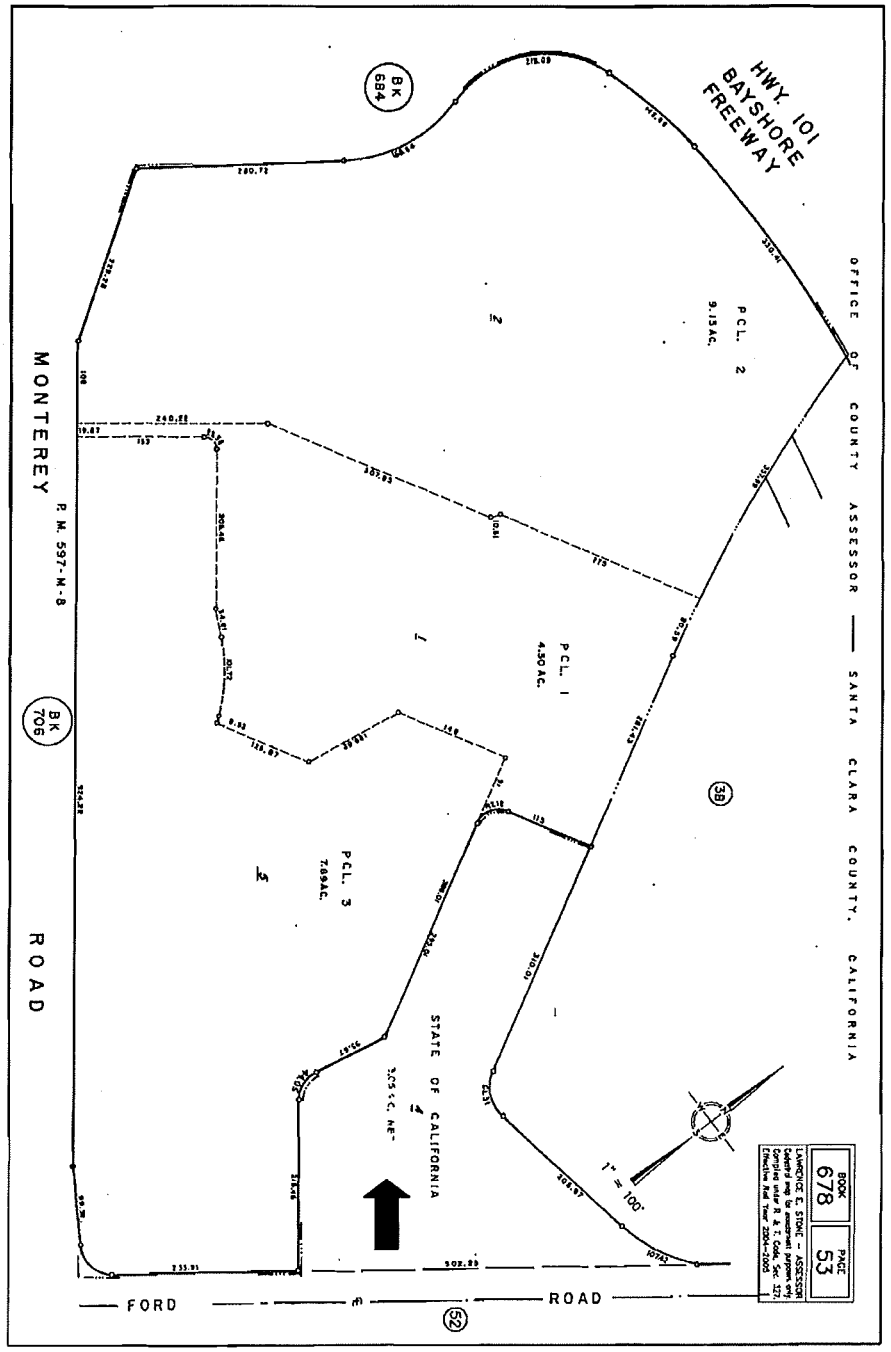
Exempt, File No. PP06-095

LESLYE KRUTKO
Director of Housing

LARRY D. LISENBEE
Budget Director

For questions please contact Leslye Krutko at 535-3851 or Larry Lisenbee at 535-8144.

Attachment

EXHIBIT A

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