

Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL AND REDEVELOPMENT
AGENCY BOARD

FROM: Debra J. Figone
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SUBJECT: FEASIBILITY OF SELLING
CITY'S 3rd STREET GARAGE

DATE: 4-14-08

INFORMATION

BACKGROUND

The 2007 Parking Management Plan (PMP) Update, approved by the City Council and Redevelopment Agency Board on June 12, 2007, included a series of 20 recommendations, such as the enhanced security and cleaning plan and a recommendation to evaluate the feasibility of selling the City's 3rd Street Garage and using the proceeds for future parking facility development. The recommendation on the potential sale outlined a series of issues to analyze with a completion date of December 2008.

In the Mayor's Redevelopment Agency Budget Message of September 25, 2007, the City Manager and Executive Director were directed to explore the possibility of selling the 3rd Street Garage and report back to the City Council in December 2007. Staff had an appraisal of the property completed and has developed a framework to evaluate the feasibility of selling the Garage. When developing the framework, it became clear that, to make the right decision on whether to sell the 3rd Street Garage or not, certain data, analysis and financial projections were needed. This memorandum serves as a status report and provides a framework of issues to be analyzed. Staff intends to provide the City Council/Redevelopment Agency Board with a full evaluation and recommendation by August 2008.

ANALYSIS

To determine whether, and under what circumstances, the sale of the 3rd Street Garage would be advantageous to the City over the long term, a thorough analysis of the following issues needs to be completed:

- Historical and Current Use of the 3rd Street Garage
- City Employee and City Facility Parking Needs
- City and Agency as Facilitator of Office Development, Events and Commercial Activity
- Specific Downtown Land and Facility Development Opportunities
- Potential Interest by the Private Sector in the 3rd Street and other City-owned Garages
- Legal and Process Requirements of Sale

- Estimated Costs of Replacement Parking
- Financial Projections of the Possible Sale and Replacement of Parking
- Opportunities for Parking Facility Development

Historical and Current Use of the 3rd Street Garage

To encourage the development of the two office towers at 2 and 4 North Second Street, the buildings were allowed to be constructed in 1971 without parking. At the same time, the City constructed the 837-space 3rd Street Garage to support this office development and general Downtown parking needs. The building owner and tenants of the office buildings have historically been the largest users of the garage and, although they are not given priority in renting spaces, the City Council has approved long-term lease agreements over the years with the tenants of the buildings, including Pacific Bell, Netcom and AboveNet, as a way to encourage business expansion and retention in Downtown. In 2001, spaces at the 3rd Street Garage were oversold and completely full with monthly parkers and visitors from office buildings and businesses in the vicinity of the Garage. The most recent lease agreement with AboveNet in 2007 includes terms that can be extended to any new tenant moving to a "Class B" office in Downtown San Jose. The Garage serves visitors in the surrounding area during the day, in the evenings and on weekends.

City Employee and City Facility Parking Needs

The City has parking needs in Downtown as a large employer and owner of facilities. Data needs to be updated regarding the City's employee base in all Downtown locations including City Hall, the new and former Martin Luther King, Jr. Library buildings and the Convention Center to determine if a long-term need exists to meet the City's projected employee parking needs Downtown at any of the City's parking garages including the 3rd Street Garage.

The future expansion of the Convention Center is currently contemplated without the addition of on-site parking. The expansion will require relocation of the employees in the former Martin Luther King, Jr. Library office building and, potentially, the need to find replacement parking Downtown. In addition, 100 City vehicles used by employees working in the former Martin Luther King, Jr. Library building are parked at the Almaden/Woz Way Lot across the street from the Convention Center. The City's Parking Program currently leases the 365-space Lot from Boston Properties and in turn leases 100 parking spaces to the City to park 100 pool vehicles at an annual cost of \$60,000. Boston Properties, the owner of the lot, is expected to develop the site at a future date, removing this parking resource temporarily during construction. However, it is anticipated that the future development will augment the parking supply in the evenings and weekends. Therefore, replacement parking for the 100 City vehicles needs to be evaluated in the context of the possible sale of the 3rd Street Garage.

City and Agency as Facilitator of Office Development, Events and Commercial Activity

The City and Agency have had a role for many decades in supporting and supplying the parking needs of Downtown businesses and stakeholders. Downtown San Jose development patterns in the 1970s led to numerous office buildings being constructed with little or no parking, including the two office buildings at 2 and 4 North Second Street adjacent to the 3rd Street Garage. These buildings typically make up the older Class "B" office market and are reliant upon the public parking supply to meet their parking needs. Although the 2007 Parking Management Plan Update evaluated parking needs at a high level, including ranking the Greyhound site as the top priority development site, more detailed supply analyses will be performed to ensure that future demands are met.

The City and Agency are major sponsors of Downtown special events and controlling sizeable amounts (i.e., approximately 40% of the Downtown parking supply) of conveniently located public parking enhances our ability to make special arrangements with event promoters, managers and possibly attendees when a facility is controlled publicly. The City and Agency also have been supportive of retail and restaurant activity in Downtown. Public parking that is well situated throughout Downtown provides support to that sector of our economy. The sale of the 3rd Street Garage to a private entity needs to be evaluated in terms of its potential impact on these sectors of the economy. Placement of reasonable covenants and restrictions on a private owner to manage the supply may be needed to address this concern.

Specific Downtown Land and Facility Development Opportunities

With the approval of the 2007 PMP Update and identification of the Greyhound site as the top priority for parking development, staff is negotiating the purchase of the Greyhound site to ensure that public parking will be a significant component of any potential future mixed use development on that site. Generating capital to offset design and construction costs for parking development at the Greyhound site is a primary reason for considering this sale.

The Valley Transportation Authority (VTA) recently acquired the site commonly referred to as the Mitchell Block (Victory Parking Lot on Market Street north of Santa Clara) as a future construction staging site for the BART project. Given that this block is centrally located in the same district of Downtown as the 3rd Street and Market Street Garages, evaluating the probable uses of this block within the context of the potential sale of the 3rd Street Garage is relevant. Long term, the Federal Government is interested in developing part of the site as a Federal Courthouse. Past discussions with VTA staff and the U.S. General Services Administration (GSA) staff indicate that the prospective use timeframes may match both organizations' needs in terms of interim use by VTA for BART construction staging and possible development of part of the site as a Federal Courthouse. GSA has indicated they will provide only a very limited amount of on-site parking at new courthouses. The City currently makes parking available at the 2nd and San Carlos Garage at the market rate for Federal Court employees and visitors on South First Street.

The Superior Court of Santa Clara County has informed the City/Agency of its desire to consolidate its Court facilities in Downtown San Jose and is looking to partner with the City/Agency on the parking element of their plan. The Superior Court development would also include only a small amount of on-site parking, yet they did indicate a willingness to partner with the City/Agency on parking alternatives, including renting spaces from the City and or co-development of a parking garage on a Court-owned parcel. The Superior Court facility project would likely consolidate its parking demand, which is currently met in multiple locations Downtown, at only two locations. Additional parking demand for each facility will be factored into the final analysis.

Potential Interest by the Private Sector in the 3rd Street Garage

Legacy Partners, Inc., owners of the office towers at 2 and 4 North 2nd Street, have expressed interest in acquiring the City's 3rd Street Garage. Other commercial real estate investment firms have expressed interest in the acquisition or lease of the City's parking portfolio and potential joint development opportunities.

Legal and Process Requirements of Sale

The City Attorney's Office and Public Works Real Estate have been involved in determining what legal and policy steps would need to be performed to sell the 3rd Street Garage in a manner that would achieve the best possible result, if the decision to sell is made. Typical sales of City property involve surplus land and buildings. This case is unique in that the 3rd Street Garage is not a surplus property and is reasonably utilized. However, it still may be in the best interest of the City to sell the facility as a means to efficiently generate capital for future parking development purposes. In this instance, Municipal Code section 4.20.080 allows the City Council, for purposes of economic development or redevelopment, to convey any City-owned property at private sale, without notice. However, any sale would need to be evaluated within the context of the covenants contained in the bond documents related to the 4th and San Fernando Garage. One such covenant requires that the City either receive fair market value or substitute a new asset into the parking system within 24 months after the sale.

The terms and conditions of the sale, subject to the aforementioned bond documents, are at the discretion of the City Council. The City Council may obligate that the purchaser of the property use the property for purposes designated by the City Council or comply with any other terms and conditions deemed necessary to carry out the purposes of economic development or redevelopment, including if and when the ultimate redevelopment of the property can occur.

Staff will explore various options within the framework of this Municipal Code section, including whether an open competitive process through a Request for Proposal or high bid process is most advantageous or whether a modified competitive process with an exclusive negotiations element would generate the most advantageous result to the City over the long term. Any recommended process would be presented with the final evaluation in August 2008.

Estimated Costs of Replacement Parking

The purpose for considering the sale of the 3rd Street Garage is to generate capital to develop additional public parking supply while ensuring that the 3rd Street Garage would remain open to the public, presumably at market rate prices. To make the right decision on whether to sell, an accurate estimate of what it would cost to replace 837 spaces (or an appropriate replacement facility) needs to be determined. In all likelihood a cost estimate range of alternatives is the most realistic approach, using actual costs from the recently constructed City Hall Employee Garage, the 4th and San Fernando Garage and the Tower 88 Public Parking Plus development, adjusted to reflect the additional costs associated with the extra amenities provided at the 4th/San Fernando Garage, whether the parking is constructed above or below grade and inflation adjustments to reflect the year of construction. With the Greyhound site being the likely replacement site, some conceptual cost estimating for design and construction should occur.

Financial Projections of the Possible Sale and Replacement of Parking

Staff has received a preliminary appraisal on the 3rd Street Garage that will be considered in crafting a staff recommendation to the City Council on the disposition of the Garage. A series of policy decisions on the future use of the 3rd Street Garage will likely affect any potential sale price. Before a decision to proceed to sell is made, a determination must be made on what conditions, if any, should be placed on the facility. The fewer conditions placed on the sale, the higher the projected sale price, and the better long term financial impact to the parking system.

The sale of the 3rd Street Garage is one method of generating capital to fund and finance new parking development. To determine if this is the most efficient method, some level of preliminary financial analysis needs to be conducted in regards to the 3rd Street Garage's current and future financial performance, projections related to the financial condition and performance of the City's Parking Fund and potential availability of Redevelopment Agency funds in light of challenges associated with the Redevelopment Agency's Tax Increment Cap. The 4th and San Fernando Garage bond documents require any proceeds from the sale of City's parking assets to be used for parking replacement or development. The key question is what would be the most efficient financial approach to expand the future parking supply among the various alternatives of existing fund balances, debt issuance, if feasible, sale of assets or a combination thereof.

Opportunities for Parking Facility Development

In November 2001, in connection with the "Strategy 2000: San Jose Greater Downtown Strategy for Development," the Redevelopment Agency Board and the City Council approved the 2001 Downtown Parking Management Plan. The 2001 PMP included a major capital development program of up to three parking garages. The Greyhound Bus Terminal site was identified as the second priority site for parking development. Although some elements of the 2001 PMP were implemented, due to the significant economic impact following the recession of 2001, implementation of the major capital development program, including construction of new parking facilities, was deferred.


With the approval of the 2007 PMP Update, the acquisition of the Greyhound site and subsequent development of a parking garage became the top priority capital development. The Greyhound site is centrally located and would support both monthly parking for employees of Class "B" office buildings, and for visitors to the Tech Museum, San Jose Museum of Art, Plaza de Cesar Chavez, convention and cultural facilities, hotels and special events.

COORDINATION

This report has been coordinated with the Departments of Transportation, Public Works, Finance, the Office of Economic Development, the City Attorney's Office and the Agency's General Counsel.

CONCLUSION

Evaluating the feasibility of sale of the 3rd Street Garage was approved as part of the 2007 Parking Management Plan Update for completion by December 2008. The Mayor's Redevelopment Agency Budget Message directed the evaluation be accelerated. The evaluation is underway with a significant amount of analysis still to be completed. An appraisal has been completed. Staff expects to complete the remainder of the analysis by August 2008 and return to the City Council/Redevelopment Agency Board with the results and a recommendation.



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