THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: SEE BELOW	DATE: FEBRUARY 24, 2009

INFORMATION

SUBJECT: MEASURE A FUNDING OF DOWNTOWN HEALTH CARE FACILITIES

Since the successful passage of Santa Clara County's Measure A in November 2008, Redevelopment Agency and City staffs have been working collaboratively with County staff to discuss the $50 million for downtown health facilities provided for by Measure A. In parallel, the Agency and City seek to facilitate the appropriate development of the former San Jose Medical Center site (HCA Property) as a mixed-use urban neighborhood with housing (including affordable units) and street-front retail.

BACKGROUND AND ANALYSIS:

In 2006, a Stakeholder Advisory Committee (SAC), including County staff as a member, was appointed by the City Council to make recommendations related to the former San Jose Medical Center site. After an 18 month public process, the SAC identified the expansion of Primary and Urgent Care Services as the immediate priority for downtown. The SAC also expressed its support for Gardner Family Health Network, Inc. (Gardner), as a preferred provider of health care services and recommended re-use of the 10-story Medical Office Building adjacent to the site (Chavez Building) if feasible.

Subsequent discussions and preliminary analysis suggest that, with Measure A funding, Gardner could be able to provide significantly expanded primary care, and new urgent care services, in a rehabilitated Chavez Building. Initial analysis and detailed cost estimates suggest that a rehabilitated Chavez Building would be more cost effective than an alternative new construction. The needed rehabilitation would include, among other items, replacement of almost all building systems, completely new windows and seismic retrofit work.

The major weakness of the Chavez Building is the availability of parking. This weakness can be addressed by a potential donation of adjacent and near-by surface parking lots by HCA. In addition to signaling their openness to providing land for parking, HCA has also conceptually indicated a willingness to fund some or all of the Furniture, Fixture, and Equipment costs, which cannot be paid for from Measure A bond funding. These terms will be documented in a memorandum of understanding between the City and HCA and will form the basis for an eventual development agreement covering the future development of the HCA Property.

In addition to Measure A and the potential contribution from HCA, Federal New Markets Tax Credits represent a potential source of funds. The use of these Tax Credits would require that Gardner (or another non-governmental entity) be the eventual owner of the Chavez Building and would require the County to invest its Measure A funds into the project through a Community Development Entity that served as an intermediary. The precise amount of savings generated will depend on the size and structure of the transaction, but it is possible that a well structured New Market Tax Credit transaction could save the County/Gardner several million dollars.

Both the HCA contribution and the use of New Markets Tax Credits are based upon Gardner expanding into a rehabilitated Chavez Building. If the County were to select another site, or some other way of providing the services, the potential HCA contribution and the use of New Markets Tax Credits would likely change.

NEXT STEPS:

Agency staff will continue to work collaboratively with the County in developing and implementing a plan for the immediate use of $50 million in Measure A funds designated for downtown health care facilities. Specifically:

> The preferred approach to expanding downtown health care facilities and facilitating the re-use of the HCA Property appears to be the acquisition and rehabilitation of the 10-story Chavez Brother's Medical Office Building ("Chavez Building") adjacent to the former San Jose Medical Center site with Gardner Family Health Network as the best candidate operator. The County will need to concur with the Agency's assessment.

The Agency and City will continue to support the County's analysis and due diligence of the Chavez Building acquisition and rehabilitation and Gardner expansion to determine if there is a "fatal flaw" in the rehabilitation of the Chavez Building for primary and urgent care.

- If this analysis shows the expansion into the building is feasible, the City and Agency should support the County in moving quickly to acquire the Chavez Building.
- In parallel, the Redevelopment Agency will assist County in their analysis of other existing Medical Office Buildings available for sale downtown and available sites for new construction to determine if there are any strong alternatives to the rehabilitation.

The Redevelopment Agency has offered to project manage the acquisition and rehabilitation work for the County and has $300,000 in funding in the FY 2008-09 Agency Capital Budget to begin due diligence work prior to the issuance of the bond. The County staff is currently implementing a work plan that includes analysis of the Chavez Building and other opportunities sites. The initial analysis, with a County staff recommendation related to the re-use of the Chavez Building for an expanded Gardner health clinic, is expected to be concluded by the Summer of 2009.

HARRY S. MAVROGENES
Executive Director