



Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL, AND SUCCESSOR
AGENCY BOARD

FROM: Richard A. Keit

SUBJECT: SEE BELOW

DATE: December 18, 2015

Approved

D. OSYL

Date

12/18/15

**SUBJECT: SALE OF SUCCESSOR AGENCY OWNED PROPERTY AT 226
BALBACH AVENUE AND 96 SOUTH ALMADEN AVENUE (PLAZA
HOTEL)**

RECOMMENDATION

Adopt a resolution of the Successor Agency Board authorizing the Managing Director to negotiate and execute (i) a Purchase and Sale Agreement between the Successor Agency to the Redevelopment Agency of the City of San Jose ("Successor Agency") and the City of San Jose ("City") to sell the Successor Agency owned real property located at 226 Balbach Avenue to the City for the appraised value of \$2,400,000, and (ii) a Purchase and Sale Agreement between the Successor Agency and the City to sell the Successor Agency owned real property located at 96 South Almaden Avenue to the City for the appraised value of \$740,000.

OUTCOME

Adoption of the resolution will allow the Successor Agency to sell the properties located at 226 Balbach Avenue ("Balbach Property") and 96 S. Almaden Avenue ("Plaza Hotel") to the City of San Jose for a purchase price of \$2,400,000 and \$740,000, respectively. The net proceeds from the sale will be used to reduce Successor Agency variable rate bond debt pursuant to the terms of the Reimbursement Agreement with JP Morgan. The Balbach Property is a 16,014 square foot parcel currently used as a public parking lot with revenues going to the Successor Agency. The Plaza Hotel is a three story, 11,700 square foot vacant structure situated on a 4,365 square foot site.

BACKGROUND

Pursuant to the Redevelopment Dissolution Legislation (AB X1 26 and AB1484), a successor agency must prepare and file with the California State Department of Finance (DOF) a Long Range Property Management Plan (Plan) that addresses the disposition and use of the real

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properties owned by the successor agency. In the Plan, the Successor Agency's real property must be categorized under four permissible uses:

1. Retention for a Government Purpose;
2. Retention for Future Development;
3. Sale; and
4. To Fulfill an Enforceable Obligation.

On September 8, 2014, DOF approved the Successor Agency's Plan. In the Plan, both the Balbach and Plaza Hotel properties were included in the Sale category. In connection with approval of the Plan, the Oversight Board also approved a Disposition Process for Sale of Properties ("Disposition Process"). The Disposition Process provided for two methods of selling the Successor Agency's real property: an open solicitation process and a direct sale process. Under the open solicitation process, the property is solicited for sale to a wide group of potentially interested buyers. After the highest bidder is identified and Successor Agency staff determines that the purchase price is within a range of fair market value, the proposed sale will be brought forward for consideration by the Oversight Board and for approval from the Successor Agency Board. Under the direct sale process, taxing entities and certain non-profit organizations were allowed to acquire property directly from the Successor Agency at the appraised value of the property as established by an Oversight Board approved appraiser.

The City notified the Successor Agency of its desire to purchase both properties pursuant to the Direct Sale Process. The Housing Department hired J Kaeuper & Company to prepare appraisals for both properties. An appraisal for the Balbach Property was completed and submitted to the Housing Department on March 13, 2015, and an appraisal for the Plaza Hotel was completed and submitted to the Housing Department on July 28, 2015. The Balbach property was valued at \$2,400,000 and the Plaza Hotel was valued at \$740,000.

ANALYSIS

The City Housing Department staff evaluated the appraisals and agreed to purchase the properties for the appraised values identified in the Appraisal Reports. The Balbach Property was unanimously approved for sale by the Oversight Board for the appraised value of \$2,400,000 on October 22, 2015, and the City Council on September 22, 2015. The Plaza Hotel was also unanimously approved for sale by the Oversight Board for the appraised value of \$740,000, on December 10, 2015, and the City Council on December 15, 2015.

Both properties are encumbered by a first Deed of Trust to JP Morgan and a second Deed of Trust to the County of Santa Clara ("County"). The first Deed of Trust is security for a Letter of Credit (LOC) issued by JP Morgan as a credit enhancement for certain bonds which are enforceable obligations of the Successor Agency. The sales proceeds (net of closing costs and a small outstanding amount owed to the San Jose Downtown Property Owners Association (a Property Based Improvement District) will be distributed to US Bank as trustee who will in turn redeem bonds and reduce the amount of the LOC provided by JP Morgan. In exchange for a

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reduction in the LOC, JP Morgan will release their Deed of Trust. The County has agreed to release their Deed of Trust on the Plaza Hotel based on an Amendment to the Assignment Agreement between the Successor Agency and the County, which was approved by the Successor Agency Board on December 1, 2015. The Amendment to the Assignment Agreement was approved by the Oversight Board on November 19, 2015, and assigns a portion of the proceeds from the sale of the Successor Agency's North San Pedro properties to the County. The Amendment to the Assignment Agreement also provided for the release of the County Deed of Trust from old Fire Station No. 1 located at 201 North First Street, which will allow the Successor Agency to close escrow for the sale of that property to the Fire Museum.

Upon Successor Agency Board approval of this item, the close of escrow for the City's acquisition of the Plaza Hotel will occur in mid - January after DOF approves the Amendment to the Assignment Agreement, which is expected in early January. The close of escrow for the City's acquisition of the Balbach Property will not occur until the Successor Agency has resolved with the County the release of the County's Deed of Trust from the Balbach Property.

EVALUATION AND FOLLOW-UP

No additional follow-up regarding the sale of the properties is expected at this time. The Housing Department will keep the City Council apprised of any actions regarding the development of the properties for affordable housing.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for January 12, 2016.

FISCAL IMPACT

The net proceeds from the sale of the properties will be used to redeem a portion of the outstanding bonds supported by JP Morgan Letter of Credit (LOC). Redemption of the bonds will reduce the Successor Agency's outstanding indebtedness thereby reducing the interest payments and LOC fees supporting the remaining bonds.

COORDINATION

This item was coordinated with the City Attorney's Office and the Department of Housing.

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CEQA

Exempt, File No. PP 14-001.

/s/

RICHARD A. KEIT

Managing Director

For more information, contact Richard Keit, Managing Director, Successor Agency, at 408-795-1849.