



**Onizuka LRA Meeting: August 31, 2010**

**SUBJECT: Study Session on Onizuka Auto Center Refinement Study and Economic Development Conveyance Process**

**REPORT IN BRIEF**

The purpose of the Onizuka Local Redevelopment Authority (LRA) study session is to provide the results of the consultant team's study for refinement of the auto center concept, which is the preferred land use for the Onizuka Air Force Station (OAFS) site per the LRA adopted Redevelopment Plan (December 2008). The study session will also discuss next steps. The LRA has two basic options: 1) proceed to prepare a business plan and submit an economic development conveyance (EDC) application for a reduced auto center concept; or 2) do not proceed with the auto center concept and amend the Redevelopment Plan to identify a different preferred land use with or without an EDC application. A public hearing is scheduled for September 28 for the LRA to provide formal direction to staff on the preferred option.

Attached is the Onizuka Auto Center Refinement Summary Report as prepared by BBP & Associates, LLC with staff direction. The report also includes appendices consisting of background technical memorandums to support the conclusions reached in the study.

**BACKGROUND**

**Onizuka Redevelopment Plan**

The LRA adopted the Onizuka Redevelopment Plan on December 9, 2008, with a preferred land use plan for an auto center concept. Staff was directed to submit this plan to the Department of the Air Force (AF) and the Department of Housing and Urban Development (HUD). Staff also submitted an accompanying Homeless Assistance Submission to HUD in response to the Notices of Interest (NOI) received from two homeless housing providers. The LRA also recommended in the Redevelopment Plan pursuing an EDC for disposition of the property to the LRA. To accomplish this task, staff was authorized to submit a grant request to the Office of Economic Adjustment (OEA) to fund the development of a business plan and related studies to support an EDC application.

Action on the Homeless Assistance Submission by HUD is pending a determination on the auto center concept and further discussions between the LRA and AF on the terms of the EDC. Additionally, approval of the Onizuka Redevelopment Plan by the AF is dependent on HUD approval of the Homeless Assistance Submission. The AF is seeking full closure and transfer of the property by September 2011.

### **Auto Center Refinement Study**

On June 15, 2009, the LRA accepted a grant from OEA for \$652,578 to cover staff and consultant costs to prepare an auto center refinement study, business plan and EDC application. A consultant services agreement was executed in February 2010 with BBP & Associates, LLC, to assist staff in completing the scope of work under the grant. Work began in March 2010. The report provided to the LRA for the study session represents Phase 1 of the work, which is to refine the auto center concept and conduct additional site development, market, economic and financial analyses. If the LRA directs staff to proceed with an EDC, staff would work with the consultant to complete Phase 2, which is to prepare the business plan and EDC application.

The Phase 1 work consists of the following items:

- Assess the facility and operational needs for Sunnyvale auto dealers and develop alternative site plans to accommodate three to five auto dealers; the site plans would consider the Department of Veteran Affairs (VA) remaining of the Onizuka AFS site as well as relinquishing its claim on the site;
- Refine and update the regional market analysis on the feasibility of an auto center at the OAFS site;
- Review the environmental and infrastructure analyses completed during preparation of the Redevelopment Plan for the purpose of estimating site development costs;
- Conduct additional historic review as needed (work has been deferred for the time-being with the AF taking the lead on this assessment);
- Refine the financial feasibility analysis based on the assessment of current market conditions, site development costs and financing requirements;
- Determine the financial capability of Sunnyvale auto dealers to participate in the project, including developing preliminary business terms and suggesting a development model;
- Identify alternative sites in Sunnyvale and adjoining cities that could accommodate the VA instead of the OAFS site; and

- Assess the economic impacts on existing auto dealers that remain on El Camino Real and the potential economic development opportunities on vacated auto dealer sites.

The Summary Report covers the above items except historic review as noted above. The technical memorandums that are attached as appendices provide considerably more details on the above analyses.

## **DISCUSSION**

After reviewing the Onizuka Auto Center Refinement Summary Report, the LRA is requested to provide comments on two basic options:

### **Option A: Continue with Reduced Auto Center Concept**

This option continues with the auto center concept as the preferred land use, but consists of pursuing the Scheme 1 site development plan with the VA remaining on the property. After considerable discussions with VA staff, including evaluation of alternative sites, the conclusion is that VA will continue to exercise a fed-to-fed transfer on approximately 57,000 square feet of building space and 2 to 3 acres at OAFS. This significantly impacts the available development area for an auto center because the VA claim bisects the OAFS site. The remaining land area, approximately fifteen acres, can realistically accommodate only two dealers with a limited possibility for a third small dealership. The consultant study shows that the reduced project is still potentially feasible, but the auto center would be diminished from the preferred concept of multiple dealerships as depicted in Schemes 2 and 3.

Originally, the City received signed letters of intent (non-binding) from three Sunnyvale auto dealers. These signed letters were based on the ability to proceed with Scheme 2 for development of the entire site with four dealerships. (Scheme 3 with five dealerships was not considered feasible by Sunnyvale's largest auto dealer due to his need for a larger site.) Once it was determined that VA would not be relocating and Scheme 1 was the only available option, interest weakened among the Sunnyvale dealers for an auto center at OAFS. The dealers expressed concerns about creating two auto shopping areas in the city if one or two dealers move to OAFS, which might reduce sales on El Camino Real. One of the dealers subsequently rescinded its letter of intent. A second dealer indicated that he could only participate if the city provided financial assistance for development costs. Effectively, the City only has one signed letter of intent, but this dealer also has expressed reservations about proceeding forward alone.

If the LRA authorizes proceeding with the reduced auto center concept, the next steps would include the following suggested actions:

1. Determine whether the LRA should explore possible financing assistance for interested Sunnyvale auto dealers and determine the level of assistance needed;
2. Explore the possibility of attracting another auto brand to the OAFS site that is not represented in Sunnyvale;
3. Explore the feasibility of reconfiguring the parking area for the VA site to create one contiguous EDC site;
4. Adopt an amended Redevelopment Plan if needed and work with the consultant to prepare the business plan and application for a no-cost EDC for submission to the AF;
5. Submit an application to create an Implementing LRA to accept conveyance of the property;
6. Discuss with the two homeless housing providers the terms of the Legal Binding Agreement based on VA remaining on the site; and
7. Revise the Homeless Assistance Submission if needed and resubmit to HUD for approval.

Staff expects that the above items could be completed within six months depending on the progress of discussions with the AF on the EDC application.

### **Option B: Identify a Different Preferred Land Use**

If the LRA chooses not to proceed with the reduced auto center concept, the Redevelopment Plan would have to be amended to identify a different preferred land use. Alternatives would assume the VA on the site and could consider land uses previously studied when preparing the Redevelopment Plan, such as Class A office, research and development space or a hotel/meeting facility. The LRA could also suggest that staff evaluate other options such as: a civic center (which was recently excluded by City Council decision); ancillary retail space; or a data center, which has been mentioned by members of the Moffett Park Business and Transportation Association. All of the above uses are potentially allowed under the existing Sunnyvale General Plan and Moffett Park Specific Plan. Because of uncertain economic conditions, some flexibility in the preferred land uses should be considered.

Once an alternative preferred land use is selected, the LRA should consider the costs and benefits of submitting an EDC application for the new preferred land use. If the LRA were successful in obtaining an EDC at no-cost or considerably below fair market value, the City could exercise greater land use control over this key site, provide an economic development opportunity to attract a preferred developer or tenant, or allow for a public/private partnership venture. City costs would pertain to the LRA being the property owner and assuming liability and maintenance responsibility for the site until an agreement is reached with a private entity to lease or purchase the property. Ideally, the

transfer of the property to the LRA could be coordinated with the lease or sale of the property to a private entity.

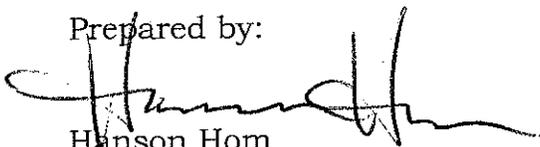
If time elapses before the property is leased or purchased, however, staff suggests that it might be beneficial to pursue site clearance as an immediate action, but this would likely require an upfront allocation of funds. These funds could possibly be reimbursed with proceeds from the future sale or lease of the property to a private entity. This investment could also serve as an economic development incentive to attract/retain a business to Sunnyvale and reduce site development costs if the potential employment, fiscal and economic benefits to the city are favorable. Staff would also evaluate the consequences of not pursuing an EDC.

If the LRA authorizes proceeding with a different preferred land use, the next steps would include the following suggested actions:

1. Amend the grant agreement with OEA to revise the scope of work and reallocate the unspent funds; assess the possible need for additional funds to complete the revised scope of work;
2. Conduct supplemental site development, market, economic and fiscal analyses for alternative land use scenarios as deemed necessary;
3. Amend the Redevelopment Plan for LRA adoption to change the preferred land use, which includes determining the feasibility of continuing with an EDC application;
4. If direction is given to proceed with an EDC, submit an application to create an Implementing LRA to accept conveyance of the property and prepare a business plan and EDC application for submission to the AF;
5. Discuss with the two homeless housing providers the terms of the Legal Binding Agreement based on VA remaining on the site and a new preferred land use; and
6. Revise the Homeless Assistance Submission if needed and resubmit to HUD for approval.

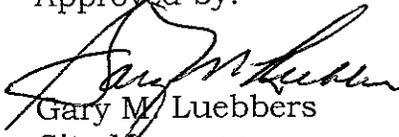
The time required to complete the process for Option B is very much contingent on the selection of the preferred land use, the extent of supplemental studies required, and a decision on whether to proceed with an EDC application. Preliminarily, staff would expect up to four months to define the preferred land use and an additional four months to prepare the optional EDC application depending on the progress of discussions with the AF.

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Approved by:



Gary M. Luebbers  
City Manager

**Attachments**

Onizuka Auto Center Refinement Summary Report w/ attached Technical Memorandums