



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Angel Rios, Jr.

**SUBJECT: FUNDING PLAN FOR FLOOD
DAMAGE TO PARKS AND
COMMUNITY FACILITIES**

DATE: May 22, 2017

Approved

Date

5/22/17

BACKGROUND

This Manager's Budget Addendum (MBA) discusses the plan to fund major repairs in response to flood damage at the Kelley Park (Japanese Friendship Gardens and Happy Hollow Park and Zoo), Alum Rock Park, Watson Park, and Selma Olinder Park and Community Room.

The major flood event that occurred in San José during the winter of 2016-2017 caused damage to 65 parks citywide. The 2018-2022 Proposed Capital Improvement Program for Parks and Community Facilities Development provides a short overview of the type and estimated value of damage (see Page 407, "*Winter Storm Response*"). As noted in the document, Kelley Park (Japanese Friendship Gardens and Happy Hollow Park and Zoo) sustained the costliest damage, with major damage to Alum Rock Park, Watson Park, and Selma Olinder Park and Community Room. Additionally, 31 smaller parks sustained damage that require capital repairs, while the balance of smaller parks require debris removal and minor repairs only.

The 2017-2018 Proposed Capital Budget provides an appropriation in the Construction & Conveyance Tax (C&C) Central Fund in the amount of \$1.85 million for capital repairs at the 31 smaller parks in anticipation of partial reimbursement from the Federal Emergency Management Agency (FEMA) and the State of California's Office of Emergency Services (Cal OES). However, the Proposed Capital Budget does not provide a funding source to support repairs at the four parks with more costly and extensive damage: Kelley Park (Japanese Friendship Gardens and Happy Hollow Park and Zoo), Alum Rock Park, Watson Park, and Selma Olinder Park and Community Room. Repairs to these parks are expected to exceed the funding capacity of the near term Capital Improvement Program.

ANALYSIS

The approach to repairing the four park sites with major damage may be different because each has unique circumstances that affect the repairs. Because of that, the timing of each of the repair

projects, as well as eligibility for insurance and public assistance (FEMA and CalOES) may influence the timing of funding needed for each park. Below is a general description of the difference in approach to repairing each park. Final project scoping and a more complete analysis of what portion of the cost of repairs would be reimbursed by insurance or public assistance will be completed over the next several months.

Kelley Park (Japanese Friendship Gardens and Happy Hollow Park and Zoo)

Staff recommends repairing flood damage at this location as a top priority with construction documents proceeding as soon as the scoping process with FEMA is approved. The scope of work includes rebuilding the Japanese Tea House and replacing the pump system for the Koi Pond. Some of the Koi fish are currently living in the upper pond but require a generator to be running full time to support them. Replacement of the pump in a new location above flood levels has been recommended. Repairs are also needed to the lower portion of the zoo at Happy Hollow Park and Zoo. Reconstruction of damage to the Japanese Tea House is anticipated to be covered by the City's property and casualty insurance plan.

Alum Rock Park

The hillsides at Alum Rock Park have been substantially damaged, affecting the usability of the constructed features and roadways in the Park. Rather than repairing facilities still exposed to the same risk of loss, staff recommends a reevaluation of the current master plan and existing usage of Alum Rock Park based on geotechnical data to mitigate against future loss and damage resulting from the same or a similar event. Any flood damage repairs could then be undertaken with an eye toward a sustainable reconstruction strategy.

Reconfiguration of land forms, realignment of access roads, parking areas and elimination or relocation of buildings may be a better use of funding in the long term. This can be done while respecting the historic legacy and cultural remnants of a bygone era. Consideration should be given to Alum Rock Park to evolve into a premier nature park that provides stream protection and enhancement with potential to improve and increase wildlife habitat.

Watson Park

This park already has funding for capital improvements appropriated in the amount of \$1.3 million to support implementation of Phase II master planned improvements and enhancements to existing features such as providing shade in the existing play area and minor renovations to the dog park. Construction documents for those improvements are well underway. There is an opportunity to structure a bid that would also include repair of the flood-damaged artificial turf sports field which would mean a delay to the project delivery timeline. However, including the scope of work to repair the artificial turf sports field would be efficient and may reduce the overall cost of the two projects if they were bid as one project. For this park, staff recommends that community outreach be conducted to hear about priorities for the park prior to proceeding with the final bid and award of capital projects. Reconstruction of damage to Watson Park is anticipated to be covered by the City's property and casualty insurance.

Selma Olinder Park and Community Room

Staff recommends repairing flood damage at this location as a top priority with construction documents proceeding as soon as the scoping process with FEMA is approved. Work includes

both restoration of electrical service to the park, but also renovation of a community building that supports the Northside Theatre Company. The building was damaged by flooding of three feet of water. Reconstruction of damage to the Selma Olinder Park and Community Room is anticipated to be covered by the City's property and casualty insurance.

Funding Approach and Reimbursement

Staff has considered two alternatives to funding flood damage repairs. One approach is to use the City's lease revenue commercial paper program (CP Program) to fully fund the approximately \$11-14 million estimated cost of repairs and to structure a debt repayment plan that can be accommodated within projected funding for the 2018-2022 Proposed Capital Improvement Program. An alternative is to appropriate more funding from the C&C Central Fund up to the limit specified in the Municipal Code to support these major flood repairs. This would reduce the amount of funding available in C&C funding for the remaining Council District C&C funds as programmed by the 2018-2022 Proposed Capital Improvement Program.

The use of the CP Program to finance flood repairs for the major projects is beneficial because the flexible terms of the debt are suited to the funding need. In general, major capital projects take between one and three years to implement. Similarly, the use of commercial paper to fund the flood repairs would be rolled out over several budget years. Public assistance provided through FEMA and CalOES along with insurance proceeds are expected, to the extent permissible, to be used to pay down the debt as payments are received, lowering borrowing costs.

Property and casualty insurance proceeds, in addition to reimbursements from FEMA and CalOES, will cover some of the property damage and loss from the winter storms. Insurance proceeds will be provided on a total replacement value for covered loss perils but only after payment of any deductibles. Covered losses include debris clean up and removal, preparation for the flood event, loss to real property and contents, and business interruption. For properties located in documented flood zones, the deductible is 5% of the total insured value of the scheduled locations identified in the claim or \$1,000,000 per occurrence, whichever is more. For properties not in the flood zone, the deductible is a \$100,000 per occurrence loss. For the uninsured losses and the deductible payments, the City is seeking public assistance which may provide up to 92% for recoverable costs.

The CP Program allows for the issuance of commercial paper notes (CP Notes) to fund authorized projects. CP Notes are issued, and re-issued, for up to 270 days at a time, which provides for short-term interest rates and sufficient liquidity to allow for repayment at any time (with no prepayment penalty) and incurrence of the debt only after the incurrence of the project costs. Additionally, the authorization to issue commercial paper notes as approved by the City Council and /City of San José Financing Authority provides the ability to encumber contracts for a like amount along with other funding sources. The annual cost to pay interest and fees and repay the debt is preliminarily estimated to range from \$1.4 million to \$1.9 million based on a scenario of borrowing \$12 million with a repayment schedule of between 7-10 years. However,

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a large portion of this debt is anticipated to be paid off from insurance proceeds and/or public assistance through FEMA and CalOES.

As an alternative, funding the approximately \$11-14 million in repairs without the use of CP Notes would require full funding from the projected fund balance of the Central Fund for the approximately three-year period in which projects are designed and constructed, which provides for an approximately \$4 million average annual funding need based on \$12 million in repairs.

Under this scenario there would be less funding to allocate to the Council Districts for at least three years to allow for funding of flood repair projects. It is estimated that Council Districts would receive approximately \$250,000 less funding for each of three years resulting in less funding for other projects within that time-frame. Limiting available funding for capital projects in all Council Districts may cause delays in the delivery of future projects and result in community frustration. In some cases, efforts have been committed to the development of projects and momentum may be lost if projects are delayed to accommodate flood repairs.

In order to avoid impact to Council District C&C funds from pay-as-you-go funding, staff recommends the use of the CP Program to finance projects at the four parks listed. Staff plans to bring recommendations to the City Council in August 2017 requesting authorization to utilize the CP Program, with repayment to come from projected Central Fund (C&C tax-funded) fund balance, insurance proceeds and/or public assistance. The specific repayment period will be included in staff's recommendations and will not exceed the useful life of the improvements.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office, the Finance Department, and the Office of the City Attorney.

/s/

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For questions, please contact Marybeth Harasz, Deputy Director, Parks, Recreation and Neighborhood Services Department at 408-793-5514.