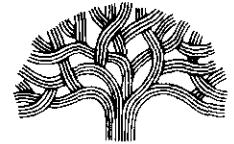


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JUNE 8, 2004

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IGNACIO DE LA FUENTE, PRESIDENT
CITY COUNCIL
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

SUBJECT: CITY AND AGENCY RESOLUTIONS AUTHORIZING A DISPOSITION AND DEVELOPMENT AGREEMENT WITH ROTUNDA GARAGE, LP FOR THE DEVELOPMENT OF A PARKING GARAGE STRUCTURE BETWEEN 16TH AND 17TH STREETS AND SAN PABLO AVENUE, OAKLAND; THAT INCLUDES SELLING THREE PARCELS OF LAND FOR \$99 EACH AND LEASING A FOURTH PARCEL FOR \$1.00 PER YEAR FOR 20 YEARS; AND ASSIGNING TO ROTUNDA GARAGE, LP, \$4 MILLION PLUS INTEREST OF A \$12 MILLION PROMISSORY NOTE PAYABLE TO THE REDEVELOPMENT AGENCY BY THE ROTUNDA BUILDING DEVELOPER, AND FURTHER REQUIRING AGENCY TO PAY THE NET PROPERTY TAX INCREMENT GENERATED BY THE NEW PARKING GARAGE FOR A PERIOD OF 10 YEARS TO ROTUNDA GARAGE, LP

SUMMARY

In accordance with the Measure H Charter Amendment, which was passed by the voters at the General election of November 5, 1996, we have made an impartial financial analysis of the accompanying Proposed Resolution, Agenda Report, and attachments.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Since the Measure H Charter Amendment specifies that our impartial financial analysis is for informational purposes only, we did not apply Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States. Moreover, the scope of our analysis was impaired by Administrative Instruction Number 137, effective May 21, 1997, which provides only one (1) week for us to plan, perform and report on our analysis. Due to these time constraints, in making our analysis we extracted data, without verifying it, from the Agenda Report, appraisals reports, and other documents supplied by the Agency. Moreover, we did not

have available information to assess whether there is a possible conflict of interest on the part of the Developer.

SUMMARY

The Redevelopment Agency proposes to subdivide the site into four parcels that will be sold or leased to the Developer -- Rotunda Garage, LP. The Developer will purchase three parcels for a price of \$99 each. Parcel 1 would be used for the 320+ space parking garage. Parcel 2 and Parcel 3 would be developed as retail or other commercial uses within 5 years or the Agency would have the right to take them back at the Developer's cost for site demolition and preparation.

The Developer will be granted a permanent vehicular and pedestrian easement and a lease for up to 15 years for \$1 per year on Parcel 4. The Agency will be allowed to sell Parcel 4 for a development in the future and the Developer will have the right to make a competing offer.

The proposed uses and sales or lease prices of the four parcels are summarized below:

<u>Parcel</u>	<u>Square Feet</u>	<u>Proposed Use</u>	<u>Price</u>
1	23,445	320+ space parking garage	\$99
2	3,723	Retail or other commercial	99
3	2,775	Retail or other commercial	99
4	<u>6,700</u>	Surface parking lot	<u>15</u>
Totals	<u>36,643</u>		<u>\$302</u>

BACKGROUND

Need for a garage

In June 1998 the Agency entered into a Disposition and Development Agreement (DDA) for the Rotunda Building with Rotunda Partners I, the limited partner of the Developer. The DDA provided that:

- the Agency make a loan of \$12 million to Rotunda Partners I;
- Rotunda Partners I share with the Agency 50% of all sales proceeds over \$38 million; and
- the City/Agency provide parking for the Rotunda Building tenants and customers.

Accordingly, the City provides 50 monthly parking spaces plus short-term visitor parking in the Dalziel Building for the Rotunda Building tenants and customers, and the Agency leases the proposed development site to the Rotunda Building developer for its tenants' parking. The Agency receives all net revenues from the surface parking lot.

According to the Agenda Report, It was anticipated that the Agency would build or have another entity build a garage on the current development site primarily for use by Rotunda Building tenants and visitors. The Agency pledged 220 spaces in any new garage to the Rotunda Building, and has pursued the development of this garage for several years.

Previous proposals

According to the Agenda Report, the Agency issued Requests for Proposals for the garage twice, in 1998 and 1999, and negotiated with two developers, Allright Parking and Aegis Realty Partners. Both times staff could not negotiate a deal that was supported by staff or the Agency Board. Instead the Agency Board authorized staff to pursue development of an Agency-owned garage. The Agency issued a Request for Proposals for a design project management team for the garage, hired a team made up of Aegis Realty Partners, Komorous-Towey Architects, and Watry Design Group and paid \$750,000 to complete the design.

The Agency concurrently pursued a \$10 million garage construction loan from the State Infrastructure Bank. In order for the garage revenue to cover debt service, the loan would have needed to be amortized over 30 years, 14 years longer than the life of the Central District Plan Area. As a result, a loan guarantee from the City General Fund or Parking Authority would have been necessary, thereby potentially putting the general fund at risk of covering any debt service shortfalls.

Current Proposal

According to the Agenda Report, at about the time that Aegis completed the construction documents, Phil Tagami and Leonard Epstein submitted an unsolicited proposal to develop the garage. Messrs. Tagami and Epstein propose to form Rotunda Garage, LP ("Developer") to construct a 320 space garage (the "Project"). Rather than bidding the project immediately and selecting a contractor, the Agency asked the Developer to refine its proposal to determine if it provided a viable alternative to a pledge of the General Fund. The Developer was always interested in owning the garage, which is tied to their office building and will enhance the building's value even more if it is under control of the same owner.

FISCAL IMPACT

The Proposed Agency Resolution will also authorize the transfer of Agency-owned assets valued at \$ 5,255,000, consisting of:

<u>Description</u>	<u>Amount</u>
Fair market value of Agency-owned land	\$ 2,785,000
Discounted value of \$4million note payable by Rotunda Building Developer to Agency	1,875,000
Discounted value of interest on \$4million note	325,000
Discounted value of rebated net tax increment	<u>270,000</u>
Total value of assets transferred to Developer	\$ <u>5,255,000</u>

In turn, the Agency will receive revenue totaling \$1,347,929, as summarized below:

Description	<u>Amount</u>
Sales price of land to Developer [3 parcels @ \$99]	\$ 297
Lease of Parcel 4 [\$15 years @ \$1]	15
Future sale of Parcel 4 @ fair market value	510,000
Estimated general property tax increment	555,477
Estimated housing set-aside	282,140
Potential earnings from increased sales by the Rotunda Building (undeterminable)	<u>0</u>
Total revenue that the Agency will receive	\$ <u>1,347,929</u>

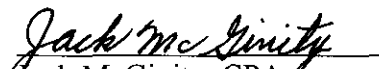
CONCLUSION

Based on our analysis of data that was made available to us, the Proposed Resolution appears to be reasonable, for the following reasons:

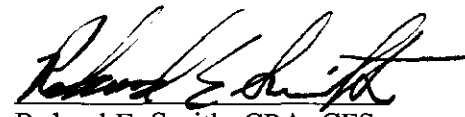
1. Additional parking space is necessary for continued use by the Rotunda, Oakland Ice Center, and other nearby buildings.
2. The City will avoid the risk that it would have as the developer of the garage.
3. The City will benefit from the development of an area that presently contains blight.

Prepared by:

Issued by:


Jack McGinity, CPA

Report completion date:
June 1, 2004


Roland E. Smith, CPA, CFS