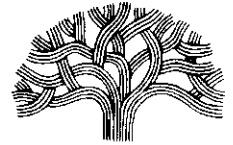


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IGNACIO DE LA FUENTE, PRESIDENT
CITY COUNCIL
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

SUBJECT: AN AGENCY RESOLUTION AUTHORIZING THE SALE OF PRESERVATION PARK TO THE EAST BAY ASIAN LOCAL DEVELOPMENT CORPORATION AND AUTHORIZING EXECUTION OF A PURCHASE AND SALES AGREEMENT FOR THE SALE OF THE PROPERTY

PURPOSE AND SCOPE

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 Council Agenda Report and Proposed Resolution. As part of our analysis we attended the Bidders' Conference that was held on July 30, 2003, reviewed the appraisal report dated May 22, 2001, and reviewed a copy of the draft Memorandum of Understanding between the East Bay Asian Local Development Corporation and the Tenants of Preservation Park.

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.

SUMMARY

Preservation Park is a collection of 16 small historic Victorian buildings located on a block bounded by Martin Luther King, Jr. Way, 12th, Castro and 14th Streets in the Central District Redevelopment Area. On March 10, 1995, the Redevelopment Agency acquired the property

through a foreclosure on an Agency deed of trust that had an outstanding balance of \$5,768,810. The Agency now proposes to sell the property to the East Bay Asian Local Development Corporation (EBALDC).

REQUEST FOR PROPOSALS

On July 16, 2003, Agency staff issued a Request for Proposal (RFP) to solicit purchase offers for Preservation Park. The RFP targeted mostly non-profit corporations for the reason that such organizations have a higher interest in preserving office space for other non-profit corporations.

In response to the RFP, the Agency received four proposals, as summarized below:

Entity	Amount	Financing Terms	Maintain Non-Profit Tenancy in Perpetuity?
Peter Sullivan Associates, Inc.	\$7,500,000	Upfront cash, plus installment payments	No. 5 years only
East Bay Asian Local Development Corporation (EBALDC)	\$7,000,000	Cash	Yes
Jubilee Restoration	\$6,800,000	Cash	Yes
Equity Community Builders, LLC and Tides Foundation	\$6,000,000	Cash	Yes

According to an appraisal report dated May 22, 2001, the property was valued at \$6.5 million.

Of the four respondents to the RFP, staff consider EBALDC’s proposal to be the most attractive overall. EBALDC is a private, non-profit community development corporation that has focused on neighborhood revitalization and affordable housing development efforts in the East Bay for 28 years. Moreover, the sale of Preservation Park to EBALDC will preserve office space for many Oakland nonprofits that serve the area. To this end, EBALDC has drafted a Memorandum of Understanding with the Tenants of Preservation Park (TOPP).

NEGOTIATED TERMS AND CONDITIONS

EBLADC and the Agency have executed a letter of intent that is subject to approval of the sale by the Agency’s governing body. EBALDC’s offer of \$7.0 million is conditioned on the following negotiated terms and conditions:

- (1) An appraisal is to be performed, and it must show that the property’s value is at least \$7 million.
- (2) EBALDC is purchasing the property on an “as-is, where-is” basis.
- (3) EBLADC has agreed that the property will be subject to covenants running with the land.

(4) EBALDC will have a certain period of time to review and investigate the economic, physical and environmental condition of the property to determine if the property is acceptable to the buyer.

(5) If EBALDC has not obtained financing for the acquisition within 90 to 150 days of execution of a Purchase and Sales Agreement EBALDC or the Agency have the option to terminate the Agreement.

Condition number three may be an obstacle to EBALDC's ability to obtain private financing. One of the covenants running with the land involves leasing restrictions that are intended to retain at least the current 80-percent occupancy rate by non-profit tenants. The Agency will not subordinate the leasing restriction to private financing.

FISCAL IMPACT

The following factors are relevant to the decision whether to sell Preservation Park:

(1) According to Redevelopment Agency records, \$11,083,775 was budgeted to acquire and rehabilitate the property. However, we do not know how much more the Agency may have spent since that time.

(2) The sale of Preservation Park will generate cash of up to \$7 million for the Agency, which will be available towards the financing gap of the proposed Forest City Uptown Project, or other capital projects in the Central District.

(3) The appraisal report dated May 22, 2001 does not support a recovery of cost beyond \$7 million.

(4) Preservation Park generated approximately \$607,000 in net operating income during Fiscal Year 2002-03. Net cash flow after deducting certain capital expenses was approximately \$464,000. The Agency will no longer receive this net cash flow if Preservation Park is sold. The Agency will cover any resulting shortfalls in the Fiscal Year 2003-05 budget from (a) the Agency's fund balance, (b) growth in tax increment, or (c) eliminating certain capital projects (such as \$300,000 for the Royal Hotel project) and obtaining the balance from the downtown capital support fund.

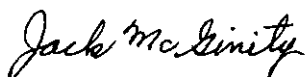
ALTERNATIVES TO THE PROPOSED SALE

The Agency has considered several as alternatives to selling Preservation Park, but does not consider any of these to be feasible.

CONCLUSION

Based on our analysis of available data, the Proposed Resolution appears to be reasonable.

Prepared by:



Jack McGinity, CPA

Report completion date:

January 20, 2004

Issued by:



Roland E. Smith, CPA, CFS
City Auditor