

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK

TO: Community and Economic Development Committee
FROM: Larry E. Reid
Council Member District #7
DATE: July 11, 2006

2006 JUN 22 PM 4: 27

RE: A RESOLUTION AUTHORIZING A GRANT BY THE CITY OF OAKLAND OF UP TO \$240,000 PER YEAR FOR FOUR YEARS (A TOTAL OF \$960,000) TO SUPPORT A PORTION OF THE COMMUNICATIONS TECHNOLOGY CLUSTER RENT
&
A RESOLUTION AUTHORIZING THE CITY OF OAKLAND REDEVELOPMENT AGENCY ADMINISTRATOR TO NEGOTIATE THE REPAYMENT OF THE ROTUNDA PARTNERS II NO-INTEREST LOAN DUE 2019 AT NET PRESENT VALUE AND/OR THE BUY OUT OF THE CITY OF OAKLAND REDEVELOPMENT AGENCY'S INTEREST IN THE UPSIDE OF THE ROTUNDA BUILDING DEVELOPMENT IN ORDER TO RECEIVE \$960,000 PLUS UP TO AN ADDITIONAL \$1.5 MILLION

SUMMARY

This report is to recommend that the City Council approve a resolution that authorizes a grant by the City of Oakland in an amount not to exceed \$240,000 per year for four years (a total of \$960,000) to support a portion of the Communication Technology Cluster (CTC) rent to Rotunda Partners II (totaling approximately \$2.5 million over the four years).

It is also recommended that the City of Oakland Redevelopment Agency adopt a resolution that authorizes the Agency Administrator to negotiate the repayment of the Rotunda Partners II no-interest loan due 2019 at net present value and/or the buy out of the City of Oakland Redevelopment Agency's interest in the upside of the Rotunda Building development in order to receive \$960,000 plus up to an additional \$1.5 million.

Since its formation in 1995, CTC has always been in partnership with the City of Oakland, first with the City paying all of the rent on the CTC space and then paying a portion of the rent. The current agreement between CTC and the City of Oakland came to an end early in 2006 at the same time that CTC's lease expired. This resolution will establish a new relationship between CTC and the City of Oakland, whereby the City will pay a portion of CTC's rent on a new four-year lease. These funds are needed because, while CTC has maintained approximately a 90% occupancy rate, rents from resident businesses and other CTC programs are not sufficient to cover CTC rent to the Rotunda Partners II and other expenses. These funds will enable CTC to benefit Oakland businesses and the City of Oakland by continuing its current programs and expanding into new areas.

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The Rotunda Building was envisioned by the City of Oakland as a jobs and business development generator, with CTC as the anchor tenant. This has been accomplished. In this context, it is appropriate for Rotunda Partners II to repay the City of Oakland Redevelopment Agency no-interest loan due 2019 at net present value and/or to buy out the City of Oakland Redevelopment Agency interest in the upside potential of the Rotunda Building development in a way that assists CTC to continue in the Rotunda Building at a rent that it can afford.

FISCAL IMPACT

Since the Communications Technology Cluster (CTC) moved into the Rotunda Building in 2001 at the City of Oakland's request, the City of Oakland has paid a portion of CTC's rent. The current agreement between CTC and the City of Oakland came to an end early in 2006 at the same time that CTC's lease expired. It is proposed that a new agreement be established between the City of Oakland and CTC.

It is proposed that the City of Oakland Redevelopment Agency Administrator negotiate a payment of \$960,000 plus up to an additional \$1.5 million from Rotunda Partners II through the repayment, at net present value, of the no-interest loan from the Oakland Redevelopment Agency to Rotunda Partners II due in 2019 and/or through Rotunda Partners II buying out of the City of Oakland Redevelopment Agency's interest in the upside potential of the Rotunda Partners II development.

This will give the City of Oakland at least an additional \$960,000 plus up to another \$1.5 million.

It is proposed that \$240,000 per year for four years (a total of \$960,000) be identified by the City Administrator to be used as a grant to CTC to support a portion of CTC's rent on a new four year lease to Rotunda Partners II. The total rent would be approximately \$2.5 million over the four years.

BACKGROUND

CTC was forced by market conditions (the bursting of the telecommunications Internet bubble) to evolve from being a highly successful technology oriented business incubator in its first four years (21 graduates, \$250 million in private equity raised, hundreds of jobs created in downtown Oakland, 5 liquidity events) to being an innovative technology oriented *Business Acceleration Center*.

According to the CTC *Business Acceleration Center* model, *Business Acceleration* means assisting businesses, particularly technology businesses, to "grow faster and smarter." "Faster"

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means rapid increases in revenues. "Smarter" means producing positive economic, social, and environmental impacts in a way that also benefits revenues.

CTC has become a world class *Business Acceleration Center*, with a technology oriented business incubation program. CTC provides a home for 37 different businesses – many of which are themselves world class. All of the CTC resident businesses are small businesses, with 20 owned and/or managed by people of color and 9 owned and/or managed by women. CTC resident businesses are producing significant revenues and jobs, while also offering a wide variety of services and events for Oakland businesses.

CTC has established a record of significant success with its current operations. In 2005 CTC resident businesses:

- Supplied documented *Business Acceleration* services to over 500 Oakland businesses and presenting 54 *Business Acceleration* programs, with total attendance of more than 2,900 participants.
- Generated \$22.14 million in revenues.
- Supplied 114 living wage jobs housed at CTC out of a total of 293 living wage jobs. (Some companies have additional operations outside of Oakland.) Of the jobs located at CTC, 60 are held by Oakland residents.

Based on its success, CTC is adding new programs:

1. ***Pro-Bono Business Acceleration Consultations:*** CTC and its resident businesses will be undertaking an aggressive program to provide pro-bono *Business Acceleration Consultations* and referrals to growth oriented, particularly technology based, Oakland businesses. A large number of additional Oakland businesses will be assisted to "grow faster and smarter."
2. ***China Joint Venture:*** CTC is a participant in a joint venture that will bring Chinese businesses, particularly technology based businesses, to Oakland to participate in the CTC *Accelerating Business Performance* Training Program and to open offices in Oakland. The Chinese joint venture will also assist Oakland businesses to expand into the Chinese market. By bringing Chinese businesses to Oakland and by assisting Oakland businesses to grow their markets in China, the Oakland economy will be expanded.
3. ***"Oakland First" Provision in Agreements:*** CTC will include a new provision in its agreements with businesses requiring them to: receive a presentation by the City of Oakland on the benefits of location in Oakland and on the business programs Oakland offers; notify the City of Oakland when the business needs to expand; and use the City's assistance to look for space in Oakland first. Thereby, growing businesses will be kept in Oakland.
5. ***ComTech Business Acceleration Summits:*** CTC has a track record of presenting highly successful Business Summits (e.g. the original ComTech Summits I and II had attendance of

400+ businesses and investors with more than \$1 billion in assets). CTC proposes to present an annual *ComTech Business Acceleration Summit* featuring: world-class keynote presentations; theory and best practices for *Business Acceleration*; and opportunities to obtain financing. The *ComTech Business Acceleration Summits* will help position Oakland as the place for businesses, particularly tech businesses, to locate in order to "grow faster and smarter."

6. ***Clean Tech/Green Tech Summits:*** CTC will also partner with ecologically oriented business services providers and financial institutions to host an annual *Clean Tech/Green Tech Summit* focused on accelerating the growth of the rapidly emerging field of Clean Tech/Green Tech businesses in a way that encourages them to locate and expand in Oakland. The *Clean Tech/Green Tech Summit* will build on Oakland's Sustainability Program and translate it into business attraction and business acceleration.

However, while CTC has maintained approximately a 90% occupancy rate, rents from resident businesses and other CTC programs are not sufficient to cover CTC rent to the Rotunda Partners II and other expenses. Historically, the City of Oakland has provided the funding to close this gap. A new partnership with the City of Oakland, through which CTC receives \$240,000 per year for four years (for a total of \$960,000) to support a portion of its rent (a total of approximately \$2.5 million over the four years), will make CTC sustainable.

In association with this funding request, Rotunda Partners II has indicated a willingness to repay its loan from the City of Oakland Redevelopment Agency at net present value and/or the buy out of the City of Oakland Redevelopment Agency's interest in the upside of the Rotunda Building development in order to generate \$960,000 plus up to an additional \$1.5 million.

The Rotunda Building was envisioned as a jobs and business development generator. Therefore it made sense for CTC to serve as the anchor tenant for the Rotunda Building, which CTC did at the City of Oakland's request. CTC was the first tenant to move in as the restoration of the Rotunda Building was being completed.

Prior to the City of Oakland Redevelopment Agency deal with Rotunda Partners II to restore the Rotunda Building, the Rotunda Building had an asset value of a negative \$28 million. According to the original deal that the City of Oakland made with Rotunda Partners II, the City invested \$12 million in a no-interest loan and Rotunda Partners II arranged for \$22 million in financing. The City's \$12 million investment was leveraged to produce a \$38 million investment that transformed an asset with a negative value of \$28 million into an asset with a positive value of approximately \$38 million that is also generating substantial tax revenue. And, the City has a 50% interest in the upside potential of the Rotunda Building development. Rotunda Partners II has already restructured a portion of the original \$12 million no-interest loan, assigning \$4 million to a separate agreement with Rotunda Garage, LP, with the balance of \$8 million due in November of 2019.

The Rotunda Building, with CTC as an anchor tenant, has succeeded to accomplishing the objective of generating jobs and business development in downtown Oakland. In this context, it is appropriate for Rotunda Partners II to repay the City of Oakland Redevelopment Agency loan at net present value and/or buy out the City of Oakland Redevelopment Agency interest in the upside potential of the Rotunda Building development in a way that assists CTC to continue in the Rotunda Building at a rent that it can afford. In this way, the City of Oakland would receive an amount equivalent to the grant to CTC (\$960,000) plus up to an additional \$1.5 million.

KEY ISSUES AND IMPACTS

Through a partnership with the Communications Technology Cluster (CTC), Oakland can become a premier *Business Acceleration City*. *Business Acceleration* is becoming a best practice in economic development, but no city has established itself as the *Business Acceleration* leader.

An investment by the City of Oakland in CTC of \$240,000 per year for four years will enable CTC to:

- Continue as a successful *Business Acceleration Center*, with a rich mix of business resources serving Oakland businesses, particularly growth oriented tech businesses.
- Host 37 resident small businesses – 20 of which are owned/managed by people of color and 9 of which are owned/managed by women – that generate \$22 million in revenues and provide 114 living wage jobs in Oakland.
- Provide business acceleration services to an even wider range of Oakland businesses, helping them to "grow faster and smarter".
- Increase the number of businesses that decide to grow in Oakland rather than expanding elsewhere.
- Bring Chinese businesses to Oakland and assist Oakland businesses to expand their markets in China.
- Undertake the *ComTech Business Acceleration Summits* and *Clean Tech/Green Tech Summits* promoting Oakland as the place for high growth businesses to locate.

A partnership with CTC, will enable the City of Oakland and CTC to strengthen Oakland's Business Development Program, make Oakland a national leader in *Business Acceleration*, and join with CTC to co-market Oakland as a premier *Business Acceleration City*.

If Rotunda Partners II repays the City of Oakland Redevelopment Agency loan at net present value and/or buys out the City of Oakland Redevelopment Agency interest in the upside potential of the Rotunda Building development, it will not only assist CTC to continue in the Rotunda Building at a rent that it can afford but it will also provide additional funding for the Oakland Redevelopment Agency.

SUSTAINABLE OPPORTUNITIES

Economic Opportunities: The Communications Technology Cluster (CTC) hosts 37 resident small businesses that generate \$22 million in revenues and provide 114 living wage jobs in Oakland. CTC provides business acceleration services to an even wider range of Oakland businesses, helping them to "grow faster and smarter". A new partnership between CTC and the City of Oakland, whereby the City of Oakland grants CTC the funds to support a portion of CTC's rent will enable CTC to continue and expand these programs.

Social Equity Opportunities: Of the 37 small businesses hosted by CTC, 20 are owned/managed by people of color and 9 of which are owned/managed by women. Also, CTC 8 CTC resident businesses specifically focus on business development that benefits minority businesses and low- and moderate-income neighborhoods.

Environmental Opportunities: There are three CTC that focus on Double Bottom Line investments (i.e. investments to produce a market rate of financial return and significant economic, social, and environmental return). In large measure through the work of these businesses, over \$200 million of private equity investment capital is being made available in the Bay Area for Double Bottom Line businesses. In addition, once a new partnership has been established with the City of Oakland, CTC will organize a Clean Tech/Green Tech Summit in Oakland to highlight the rapidly emerging field of environmental technologies.

DISABILITY AND SENIOR CITIZEN ACCESS

The Rotunda Building is fully accessible for people with disabilities and for seniors.

RECOMMENDATION(S) AND RATIONALE

It is recommended that the City Council approve a resolution that authorizes a grant by the City of Oakland in an amount not to exceed \$240,000 per year for four years (up to a total of \$960,000) to support a portion of the Communication Technology Cluster (CTC) rent to Rotunda Partners II.

It is also recommended that the City of Oakland Redevelopment Agency adopt a resolution that authorizes the Agency Administrator to negotiate the repayment of the Rotunda Partners II loan at net present value and/or the buy out of the City of Oakland Redevelopment Agency's interest in the upside of the Rotunda Building development in order to receive \$960,000 plus up to an additional \$1.5 million.

The Communications Technology Cluster (CTC) played a significant role in Oakland coming to be seen as a "Tech Friendly" city. Adopting this resolution will establish a new partnership between CTC and the City of Oakland that will enable CTC to continue and expand its Business

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Acceleration programs and assist in strengthening Oakland's Business Development Program, making Oakland a national leader in *Business Acceleration*.


ACTION REQUESTED OF THE CITY COUNCIL

It is recommended that the City Council approve a resolution that authorizes a grant by the City of Oakland in an amount not to exceed \$960,000 (\$240,000 per year for four years) to support a portion of the Communication Technology Cluster (CTC) rent to Rotunda Partners II.

Respectfully submitted,



Laurence E. Reid
Council Member District 7
Oakland City Council

Prepared by: Ray Leon 
Policy Analyst
Council Member Laurence Reid

APPROVED AND FORWARDED TO THE:
Community and Economic Development Committee

Item: _____
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OFFICE OF THE CITY CLERK
OAKLAND

2006 JUN 28 PM 4: 28

APPROVED AS TO FORM AND LEGALITY:

DRAFT

CITY COUNSEL

CITY COUNCIL CITY OF OAKLAND

RESOLUTION No. _____ C.M.S.

A RESOLUTION AUTHORIZING A GRANT BY THE CITY OF OAKLAND OF UP TO \$240,000 PER YEAR FOR FOUR YEARS (A TOTAL OF \$960,000) TO SUPPORT A PORTION OF THE COMMUNICATIONS TECHNOLOGY CLUSTER'S RENT

WHEREAS, since its inception in 1995, the Communications Technology Cluster (CTC) has always been in partnership with the City of Oakland, first with the City paying all of the rent on the CTC space and then paying a portion of the rent; and

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WHEREAS, the current agreement between CTC and the City of Oakland came to an end early in 2006 at the same time that CTC's lease expired; and

WHEREAS, CTC has become a world class *Business Acceleration Center*, with a technology oriented business incubation program, providing a home for 37 different businesses, all of which are small businesses, with 20 owned and/or managed by people of color and 9 owned and/or managed by women; and

WHEREAS, in 2005, CTC resident businesses supplied *Business Acceleration* services to over 500 Oakland businesses and presenting 54 programs, with total attendance of more than 2,900 participants; and

WHEREAS, in 2005, CTC resident businesses generated \$22.14 million in revenues and produced 114 living wage jobs housed at CTC; and

WHEREAS, CTC proposes to add new programs, including: pro-bono *Business Acceleration Consultations*; a China Joint Venture; an "Oakland First" provision in CTC agreements with resident businesses; annual *ComTech Business Acceleration Summits*; *Clean Tech/Green Tech Summits*; and a partnership with the City of Oakland to Market Oakland as a Premier Business Acceleration City; and

WHEREAS, the Oakland City Council desires for the City of Oakland to enter into a new partnership between CTC and the City of Oakland that will enable CTC to continue and expand its Business Acceleration programs and assist in strengthening Oakland's Business Development Program, and in making Oakland a national leader in *Business Acceleration*; and

WHEREAS, while CTC has maintained approximately a 90% occupancy rate, rents from resident businesses and other CTC programs are not sufficient to cover CTC rent to the Rotunda Partners II and other expenses; and

WHEREAS, historically, the City of Oakland has provided the funding to close the gap between CTC income and expenses; and

WHEREAS, a new partnership with the City of Oakland, through which CTC will receive \$240,000 per year for four years (a total of \$960,000) to support a portion of its rent (a total of approximately \$2.5 million over the four years), will make CTC sustainable; now, therefore, be it

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RESOLVED: That the Oakland City Council hereby authorizes the City Administrator or her designee to provide a grant in an amount not to exceed \$240,000 per year (a total of \$960,000 to the Communications Technology Cluster (CTC) to be used to cover a portion of the CTC rent at the Rotunda Building; and be it further

RESOLVED: That the funding for the grant of \$240,000 per year (a total of \$960,000) to CTC shall be provided from City funds to be identified by the City Administrator.

CITY COUNCIL, OAKLAND, CALIFORNIA, _____, 2005

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND CHAIRPERSON DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____

OFFICE OF THE CITY CLERK
OAKLAND

2006 JUN 28 PM 4: 28

APPROVED AS TO FORM AND LEGALITY:

DRAFT

AGENCY COUNSEL

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION No. _____ C.M.S.

A RESOLUTION AUTHORIZING THE CITY OF OAKLAND REDEVELOPMENT AGENCY TO NEGOTIATE THE REPAYMENT OF THE ROTUNDA PARTNERS II LOAN AT NET PRESENT VALUE AND/OR THE BUY OUT OF THE CITY OF OAKLAND REDEVELOPMENT AGENCY'S INTEREST IN THE UPSIDE OF THE ROTUNDA BUILDING DEVELOPMENT IN ORDER TO RECEIVE \$960,000 PLUS UP TO AN ADDITIONAL \$1.5 MILLION

WHEREAS, the Oakland City Council desires for the City of Oakland to enter into a new partnership between CTC and the City of Oakland that will enable CTC to continue and expand its Business Acceleration programs and assist in strengthening Oakland's Business Development Program, and in making Oakland a national leader in *Business Acceleration*; and

WHEREAS, Rotunda Partners II has indicated a willingness to repay its loan from the City of Oakland Redevelopment Agency at net present value and/or the buy out of the City of Oakland Redevelopment Agency's interest in the upside of the Rotunda Building development in order to generate \$960,000 plus up to an additional \$1.5 million; and

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WHEREAS, the Rotunda Building was envisioned as a jobs and business development generator and so it made sense for CTC to serve as the anchor tenant for the Rotunda Building, at the City of Oakland's request and CTC was the first tenant to move in as the restoration of the Rotunda Building was being completed; and

WHEREAS, prior to the City of Oakland Redevelopment Agency deal with Rotunda Partners II to restore the Rotunda Building, the Rotunda Building had an asset value of a negative \$28 million; and

WHEREAS, the City invested \$12 million in a no-interest loan and Rotunda Partners II arranged for \$22 million in financing, leveraging the City of Oakland's \$12 million investment to produce a \$38 million investment that transformed an asset with a negative value of \$28 million into an asset with a positive value of approximately \$38 million that is also generating substantial tax revenue, with the City of Oakland holding a 50% interest in the upside potential of the Rotunda Building development; and

WHEREAS, Rotunda Partners II has already restructured a portion of the original \$12 million no-interest loan, assigning \$4 million to a separate agreement with Rotunda Garage, LP, with the balance of \$8 million due in November of 2019; and

WHEREAS, the Rotunda Building, with CTC as an anchor tenant, has succeeded to accomplishing the object of generating jobs and business development in downtown Oakland so that it is appropriate for Rotunda Partners II to assist CTC to continue in the Rotunda Building at a rent that it can afford; now, therefore, be it

RESOLVED: That the City of Oakland Redevelopment Agency hereby authorizes the Agency Administrator or her designee to negotiate the repayment of the Rotunda Partners II loan at net present value and/or the buy out of the City of Oakland Redevelopment Agency's interest in the upside of the Rotunda Building development in order to receive \$960,000 plus up to an additional \$1.5 million.

CITY COUNCIL, OAKLAND, CALIFORNIA, _____, 2005

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND CHAIRPERSON DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____