

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
2005 JUN 15 AM 11:58

TO: Community and Economic Development Committee
FROM: Larry E. Reid
Council Member District #7
DATE: June 28, 2005

RE: RE: A RESOLUTION AUTHORIZING GRANT FUNDS IN AN AMOUNT NOT TO EXCEED \$1,400,000 TO MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC, TO COVER ADDITIONAL COSTS FOR THE DEVELOPMENT OF THE FINAL PHASE OF THE PALM VILLAS PROJECT ON MACARTHUR BOULEVARD BETWEEN 90TH AND 94TH AVENUES

SUMMARY

This report is to recommend that the Agency approve a resolution that authorizes a grant in an amount not to exceed \$1,400,000 from the Low and Moderate Income Housing Fund to MacArthur Park Development Associates, LLC to provide funding to enable the developer to complete the final punch list items, and to cover additional project related costs for the completion of the Palm Villas Project. The Palm Villas Project, comprised of 78 units of affordable housing, and provided housing opportunities to first time homebuyers, as well as creating a stable environment in an area that had been plagued with blight, crime, and desolation. Palm Villas has since made this corridor viable and stable with home ownership, but has also inspired developers MacArthur Park Development Associates, LLC (MPDA), a joint venture between Baines & Robertson, Inc., and EM Johnson Interest, Inc. must complete additional final items on the project and in keeping in compliance with construction costs, all contractors, project related costs, and additional punch list items must be accounted for complete closure on the Palm Villas Project. This 78 unit homeownership development, all of which are affordable to households making up to 120% of Area Median Income (AMI), are located on MacArthur Boulevard, between 90th and 94th Avenues in the Elmhurst District. The proposed grant would be used to finalize all costs related to project development, including punch list items, contractors indebtedness, IRS liens (employee withholdings), and material related costs.

Although the developer has made substantial progress toward completing the project, MPDA was plagued with substantial on-going internal cash flow problems and resultant delays and project cost overruns. MPDA is requesting the \$1,400,000 grant to cover those additional costs incurred and will receive no profit. Developer was to be paid a developer fee of \$540,000. To date the developer fees that have been paid total has been \$463,472. Developer has re-invested these funds back into the project to cover cost.

In 1999 when the Agency and MPDA entered into the initial development loan agreement for the Palm Villas project, Council policy allowed Low and Moderate Income Housing Funds (Low/Mod Fund) to be used for projects affordable to 120% of Area Median Income (AMI). The

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Palm Villas project was included under that policy and all units are still required to be affordable to households earning not more than 120% of AMI. Subsequently, Council policy has changed, limiting the affordability level to 100% of Area Median Income.

With this request for \$1,400,000, the total Agency funding for this project will be \$9,584,000. This includes a total of \$6,753,000 in grants to MPDA (\$1,000,000 from the Central District Land Sales Proceeds and the balance from the Low/Mod Fund) and \$2,831,000 in other Agency and City funding which covered land costs. The \$9,584,000 total above includes the land that the Agency provided to MPDA at no cost.

FISCAL IMPACT

To date, the Agency has already provided two loans totaling \$4,253,000 to MPDA for this project. That funding has already been converted to grants pursuant to Resolutions No. 02-33 C.M.S. and 2003-20 C.M.S. respectively. In addition, the Agency already provided a grant of \$1,100,000 to MPDA. The total funds directed currently to MPDA has been \$5,353,000, not counting land cost.

It is proposed that the \$1,400,000 come from available Redevelopment Agency Funds, to be identified by the Agency Administrator. Because there will be no sales proceeds left after repayment of the private loans, it is recommended that this new funding be provided as a grant. This will bring the total amount of Agency funds provided to the developer for this project to \$6,753,000, all of which will remain in the project. The total Agency investment in the project will be \$9,584,000, including \$2,831,000 the Agency paid for the land it provided to the developer at no cost.

BACKGROUND

For many years the area around the project site was seen as a troubled area, desperately in need of revitalization. In 1999, MPDA proposed the development of Palm Villas. 78 homeownership units that would be affordable to moderate income first time homebuyers. Over the ensuing years, the community has continued to be very active in supporting this project and has seen it as a cornerstone for the revitalization of MacArthur Boulevard in this area. Last year, the City and the developer completed major street improvements in front of the development along MacArthur Boulevard. Now, with 78 new homeowners already moved into this Palm Villas neighborhood, the positive community vision is clearly beginning to be realized. The undesirable activity along MacArthur Blvd. and 90th Avenue has been significantly reduced and the Palm Villas homeowners are becoming more involved in the surrounding neighborhood.

Over the last decade, the Agency has provided substantial subsidies towards the development of this project. Prior to MPDA taking over the project, the Agency expended \$2.8 million acquiring the land and funding other work performed by the previous developer. In 1999, when MPDA took over the project, the Agency provided the site to MPDA at no cost. The Agency and MPDA also entered into a development loan agreement for \$3,253,000. To complete the initial funding package, Bank of America Community Development Bank (Bank) provided loan of \$10,600,000. In 2002, the Agency provided a \$1 million loan and in 2004 the Agency provided a \$1.1 million grant.

KEY ISSUES AND IMPACTS

Proposed Completion Strategy

MPDA has been working with the Bank and Agency staff to come up with a plan to finalize and complete the project in its entirety. In the proposed plan, a grant of \$1,400,000 will satisfy ALL financial obligations for the Palm Villas Development, and satisfy any outstanding lien possibilities, IRS lien attachments (which are due in November of 2005), and to further release any future obligations on behalf of M PDA.

The Agency is being asked to provide the \$1,400,000 grant at the end of the project to satisfy financial obligations to complete the project. The take out the balance of the three smaller private construction loans (\$479,000 from Community Bank of the Bay and \$136,000 from two small construction loans) as well as to cover the remaining additional costs needed to complete the project. MPDA has now completed construction and closed escrow on 78 units (all of Phase I and Phase II and Phase III). The Agency's approval to fund the \$1,400,000 will provide the assurance that all indebtedness will be repaid, and the possibility of bankrupting the partner developer with the City of Oakland will be avoided.

As part of the request for an additional Grant of \$1,400,000.00, MPDA has been asked to submit an independent Cost Certification of Project Costs. (See attachment A). The Cost Certification, submitted by the Accountant Firm of White, Richardson, LLP, clearly identifies project related costs at well above the stated 1.4 million dollar shortfall. (Actual variance reflects 1.7 million dollar shortfall.) The final closeout items to be funded with the additional Grant Funds requested are as follows:

1. Construction Subcontractor & Vendor Retention and Closeout
2. Filing of Final Certificates of Completion
3. Street & Sidewalk punch list
4. Buyer punch list
5. Utility punch list
6. Payment of Outstanding School Fees
7. Completion of "As Built" drawings

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Line items and an explanation of Variance differential are also included in the Cost Certification (Attachment B)

SUSTAINABLE OPPORTUNITIES

There are no new sustainable opportunities as a result of these recommended actions. All environmental opportunities regarding this project were discussed in the agenda report for Resolution No. 99-36 C.M.S. which was approved in July 1999.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no new issues regarding disability and senior citizen access as a result of these recommended actions. The issues regarding disability and senior access were discussed in the agenda report for Resolution No. 99.36 C.M.S.

RECOMMENDATION(S) AND RATIONALE

This project has been seen as a key part of the neighborhood revitalization efforts for many years. With all of the homes completed and occupied, it is clearly having a tremendous positive impact on the neighborhood both in addressing blight and in providing low to moderate income homeownership units for homebuyers. However, as this project remains practically complete, the Developers have found themselves at a critical point in meeting all of the financial obligations to complete closing out this project. As partners in this development with the City of Oakland, MPDA has met all of the criteria necessary to deliver a successful project. This site has had a number of previous developers who were not able to deliver a completed project that has solidified and benefited an underserved community. Blight has been reduced significantly, homeownership has increased tremendously, and stability for the neighborhood has once again reaped benefits. The City of Oakland has been fortunate for such a project, along with the Real Estate Tax Revenue that it has generated. If the requested \$1,400,000 grant is approved, Developer can relieve additional indebtedness that is related to the Project, and no additional costs will arise. The additional grant funds would also raise the per unit subsidy to \$122,872 which is comparable to the average subsidy, per unit, for affordable housing development projects throughout the City of Oakland.

This report is to request a recommendation that the Agency approve the \$1,400,000 grant to complete this 78 unit homeownership project. The grant would be funded from Low/Mod funds.

With this additional \$1,400,000 in funding, the total Agency investment in this project will be \$9,584,000 including \$2,831,000 in land costs. The Agency's return on this substantial

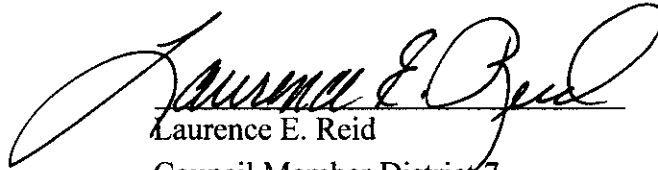
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investment is already being realized as each new homebuyer moves into their new home and becomes a member of the community.

ALTERNATIVE RECOMMENDATION(S)

ACTION REQUESTED OF THE CITY COUNCIL

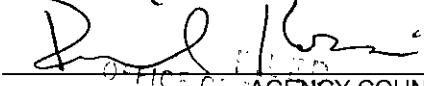
Respectfully submitted,



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


OFFICE OF AGENCY COUNSEL
CITY CLERK

2005 JUN 15 AM 11:58

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION NO. _____ C.M.S.

A RESOLUTION AUTHORIZING A GRANT IN AN AMOUNT NOT TO EXCEED \$1,400,000 TO MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC., TO COVER ADDITIONAL COSTS FOR THE DEVELOPMENT OF THE PALM VILLAS PROJECT ON MACARTHUR BOULEVARD BETWEEN 90TH AND 94TH AVENUES

WHEREAS, pursuant to Resolution No. 99-36 C.M.S., the Redevelopment Agency (“the Agency”) and MacArthur Park Development Associates, LLC., (the “Developer”) entered into a forgivable development loan in an amount not to exceed \$3,253,000 to assist the Developer in the development and sale of the Palm Villas project (the “project”), a 78-unit homeownership project on MacArthur Boulevard between 90th and 94th Avenues; and

WHEREAS, all units in this three-phase project have been or will be sold at prices affordable to households earning no more than 120% of area median income; and

WHEREAS, the project serves as the catalyst for additional housing and economic projects along the MacArthur Corridor; and

WHEREAS, in 2002, the Developer encountered substantial increases in construction costs and cash flow problems that were causing the private construction loan to be out of balance and were threatening to stop the project; and

WHEREAS, the Developer was unsuccessful in obtaining any of the needed funding from other public or private sources and that the Agency granted forgiveness of the original \$3.25 million loan and provided an additional loan of \$1,100,000 in February of 2004; and

WHEREAS, pursuant to Resolution No. 02-33 C.M.S., the full \$3,253,000 loan was converted to a grant and, pursuant to Resolution No. 02-34 C.M.S., the Agency and the Developer entered into a bridge loan, in an amount not to exceed \$1,000,000, to address the increases in construction costs and cash flow problems; and

WHEREAS, in 2003, with only 40 units completed, the Developer again was encountering substantial cash flow problems and increasing costs that could not be covered by net sales proceeds and requested that the Agency forgive the bridge loan; and

WHEREAS, pursuant to Resolution No. 2003-20 C.M.S., the bridge loan was converted to a grant; and

WHEREAS, the Developer has requested that the Agency fund \$1,400,000 in additional grant funds to cover the final punch list items, satisfy remaining contractors indebtedness, and completing landscaping obligations; and

WHEREAS, no other reasonable means of private or commercial financing of the project is reasonable available other than redevelopment funds; now, therefore, be it

RESOLVED: That the Redevelopment Agency hereby authorizes the Agency Administrator or his or her designee to provide a grant in an amount not to exceed \$1,400,000 to MacArthur Park Development Associates, LLC, to be used to cover remaining costs for the project; and be it further

RESOLVED: That the funding for the \$1,400,000 grant shall be provided from redevelopment funds to be identified by the Agency Administrator; and be it further

RESOLVED: That the making of the grant shall be contingent on the availability of the sufficient Agency funds to cover the grant; and be it further

RESOLVED: That as a condition of this grant, the Developer will receive no profit from this project; and be it further

RESOLVED: That all grant documents shall be reviewed and approved by Agency Counsel for form and legality prior to execution; and be it further

RESOLVED: That the Agency hereby appoints the Agency Administrator, or his or her designee, as agent of the Agency to conduct negotiations, execute documents, administer the grant, and take any other action with respect to the grant and the project consistent with this Resolution and its basic purpose.

IN AGENCY, 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: _____
LATONDA SIMMONS
Secretary of the Redevelopment Agency
of the City of Oakland, California

**REQUEST FOR CLOSEOUT SUBSIDY
PALM VILLAS HOUSING DEVELOPMENT**



MacArthur Park Development Associates, LLC

ATTACHMENT A.

MacArthur Park Development Associates, LLC

442 Grove Street

San Francisco, CA 94102

Tel: 510-238-4666 Fax: 510-238-5252 email: britpete@aol.com

A Joint Venture of Em Johnson Interest and Baines & Robertson Inc.

May 20, 2005

Mr. Dan Vanderpreen, Director,
Office of Housing & Community Development,
City of Oakland
One Frank Ogawa Plaza 5th Floor
Oakland, California 94612

Re: Request for Closeout Subsidy (Palm Villas Housing Development)

This letter is requesting \$1.4 million from the City of Oakland in order to closeout cost obligations associated with the 78 units of affordable single-family houses at the Palm Villa development located at 90th Avenue to 94th Avenue & Mac Arthur Boulevard, here in the City of Oakland.

Summary & Overview

In 2000 the City of Oakland selected the African American development team of Baines & Robertson Inc. and EM Johnson Interests (dba MacArthur Park Development Associates, LLC) to lead the development for the proposed single-family homeownership revitalization project in East Oakland. As you already know our development group, feeling a deeper understanding and confidence in the needs and aspirations of the people of this neighborhood, took on this project at the urging of the City, when other larger, better capitalized firms declined to do so. MPDA believed that there was a strong market in this community, which comprised a population that was 98% African American. Despite being subjected to abnormally harsh and restrictive development and building conditions the team decided to persevere anyway, knowing there was a strong political and community commitment towards revitalization and economic empowerment. To refresh your memory on this point you may recall that Baines and Robertson Inc., the contractor, had to work for no profit at all and MPDA would not receive any compensation until all houses were finished, a most unusual imposition. An even more punitive requirement, which was placed upon us just before the signing of construction contracts in late 2000, was the insistence by Bank of America that 10% retention still be held on all billings despite the fact that we had no profit margin on construction and only 6% on the development side overall. The effect of this was to totally drain Baines & Robertson's already limited capital; in fact we had to borrow \$500,000 from our regular bankers, Community Bank of the Bay, in order to be able to carry out the project under these terms.

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In order to assist in moving the project forward, the City agreed to fund their \$3.2 million first, which enabled us to build the infrastructure and proceed as fast as we could whilst at the same time reducing interest carrying costs on the BofA construction loan. Construction began in October 2000 and by June of 2001 we used up the City of Oakland funds. To put this in perspective, in eight months we completed 56% of the total infrastructure and 24% of the housing. In other words we were on track to complete in 21 months as planned. From this point forward we started to use Bank of America's funding and that is when they began to dictate our schedule and production by restricting our cash flow. This was great for them, as they made way more in interest, but created a major problem for us insofar as it began to excessively drag out the schedule, while also increasing the cost of the project. At this point the City agreed to step in and provide additional funding to offset the anticipated cost overruns caused by these delays and cost increases.

Bank of America continued to restrict progress with their micromanagement practices which continued to extend the schedule and also create increased interest charges and overhead costs. In late 2003 the City of Oakland agreed to provide an additional redevelopment grant in the amount of \$1.1 million to cover time and cost increases and to pay down some of the indebtedness we had to Community Bank of the Bay. Though it was anticipated that these funds would be immediately forthcoming, thereby enabling us to complete the project by July 2004, this funding was not available when needed and as a consequence the job was not substantially completed until February of 2005. This protracted completion has lead us, as before, to incur additional costs. The retention issue mentioned in the section titled Recent Project History further exacerbated the problem.

Without this final support being requested from the City of Oakland, MPDA will incur a significant project loss, this could result in bankruptcy for Baines & Robertson Inc. because of the contractual obligations and guarantees that remain largely with this company and its two principals.

As stated in our communication to Mr. Dan Vanderpreen, Director of Housing and Community Development for the City of Oakland this project has experienced numerous problems, delays and cost overruns, which have created financial stress for MPDA and most importantly solvency problems for Baines & Robertson (B&R). *(Please See Attached letters to Mr. Venderpreen dated January 10, 2005 and Council Member Larry Reid dated February 16, 2005). Also, attached you will find an independent Cost Certification, prepared by a City approved CPA, which justifies all of the expenditures for the Palm Villas Single Family Affordable Housing Development made by MPDA and Baines & Robertson which again justifies the supplemental need of \$1.4 million to close out the project.*

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As a justification for this additional funding request, MPDA would like to outline some of the many social and economic benefits created by the Palm Villas Single Family Development:

1. Direct Tax Revenues from the project to the City of Oakland totaling some \$6.5 million over 30 years at today's dollars. Added to this would be the increased taxes generated from higher sales prices from existing housing stock adjacent to this development.
2. The remediation of constant blight, which plagued this community for over 25 years creating a safer, cleaner and more beautiful Oakland.
3. Sustainable and improved neighborhood for East Oakland residents
4. Union wage job creation for local residents
5. A business friendly and economically vibrant area of Oakland.
6. 48% Local Business Utilization during construction.
7. Home ownership housing opportunity created at 40% to 50% below Market Rate
8. Public Safety (Police overtime prior to this development was at an all time high of \$3 million plus with a bulk share of the City Homicides coming from this community and surrounding areas. Stepped up Police presence resulted in a major reduction of a thriving drug and prostitution trade being conducted in this community)
9. New streetscape (narrower lanes along MacArthur Blvd created to slow traffic along the corridor and a bike lane created)
10. Under grounding Utilities (Electrical, Comcast Cable and SBC Telephone lines)
11. A culturally vibrant, inclusive Oakland.

Recent History of Project

In October of 2003 it became apparent that due to the lack of available funds from our primary lender (Bank of America) it was becoming impossible to maintain an efficient schedule or a reasonable working relationship with our subcontractors and suppliers. It was increasingly apparent that it was becoming highly probable that the project would not be completed under this impossible scenario. Consequently a request was made to the City for financial support. During the application period the job made minimal progress in construction due to B&R having run out of money and non-being forthcoming from the bank. Sales of completed houses continued during this time, which provided us with small but insufficient sums with which to effectively run the job.

The City agreed in January 2004 to infuse the project with \$1.1M in additional funding and BofA indicated that they would now allow cash to flow in a manner that would support the fast track to completion that we planned for. In this scenario it was anticipated that funds would be forthcoming upon approval by the Oakland City Council, BofA would cooperate and completion of construction would be effected by July 2004.

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Unfortunately a caveat was added to the final City Grant Document that stated that we had to complete twelve units before any City funds could be released. This was of no help to us whatsoever, as we needed cash on a weekly basis to pay workmen's wages, buy materials and pay sub-contractors. Despite this, and being under the impression that BofA would support us with the required cash flow knowing of the City's commitment, we put the job back into top speed. The production accomplished was reflected in our first three draw requests, which averaged over \$450K per month. However, we were paid only for the first one from sales proceeds accrued to us while we were negotiating for the City grant.

BofA continued not to advance any more funds under the terms of their loan. We were therefore unable to pay our vendors who had recommitted to us knowing of the City funds. This caused us a great loss of credibility with our vendors and subcontractors, who subsequently made our job a very low priority or refused to continue altogether for fear of never getting paid. Unfortunately loans at completion, be it from the Bank or the City, do not enable us, as builders, to actually build; a point seemingly lost on our financiers. A construction loan is supposed to facilitate construction and this was simply not occurring.

The second major shock occurred when we asked the bank to release over \$500,000 of retention being held on Phase 2 and part of Phase 1 and was past due in being released. This would have given us a reasonable amount of cash with which to piece together our operations, regardless of other funding, until twelve homes were completed and we could draw on the City Grant. We were told that this money had been dispensed already to the ongoing draws. This is totally against industry practice and was entirely without our knowledge or agreement. The greater implication was that this retention was reflected in our books as a receivable and was largely owed to our subcontractors. Without it the liability remained and we then had insufficient funds available to meet the debt.

In order not to grind to a halt again and thereby never finishing the job, we borrowed from business associates while we searched for and found a new bank (Silicon Valley Bank) to take out BofA. At the same time we again negotiated with our big subcontractors and suppliers and had some of them agree to wait for additional monies, in other words, finance the construction. Though this enabled us to continue, it caused us to slow down considerably during the process of renegotiating and resulted in some smaller subcontractors refusing to continue at all.

Ultimately the houses were completed but the resultant delays, cost increases and missing retention caused the project to substantially exceed the cost projections made 18 months earlier. Time in construction is a very expensive commodity.

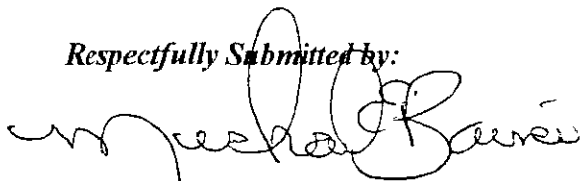
In closing, B&R is respectfully requesting a final infusion of subsidy funds in the amount of 1.4 million to closeout all job cost related liabilities and to prevent Baines & Robertson Inc from going out of business. Please note below the various categories of expenditures in which the additional City funding will be utilized. If you have any questions please do not hesitate to contact us.

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Palm Villa Project (Closeout Items Remaining to be funded)

1. Construction Subcontractor & Vendor Retention and Closeout
2. Filing of Final Certificates of Completion
3. Street & sidewalk punch list.
4. Buyer punch lists.
5. Utility punch list
6. Payment of Outstanding School Fees
7. Completion of "As Built" drawings

Respectfully Submitted by:



Michael E. Baines, President
Baines & Robertson, Inc



Michael E Johnson, President
Em Johnson Interest Inc.

CC:

Peter Robertson, B&R Inc
Deborah Edgerly, City Administrator
Hon. Larry Reid, Oakland City Council District Seven
Hon. Ignacio de la Fuente, President, Oakland City Council
Hon. Jane Brunner, Oakland City Council Member & Economic Development Chair
Hon. Nancy Nadel, Oakland City Council Member
Hon. Desley Brooks, Oakland City Council Member
Hon. Henry Chang, Oakland City Council Member at Large
Hon. Jean Quan, Oakland City Council Member
Hon. Pat Kernigan, Oakland City Council Member
Mr. Sean Rogan, Deputy Director CEDA_HCD
Ms. Marge Gladman, Acting Housing Manager
Ms. Janet Howley, Director HCD
Mr. Ray Leon, Asst. to Hon. Larry Reid

List of Supporter for
Baines & Robertson, Inc (B&R) Palm Villa Closeout Subsidy

The follow Oakland Clergy, Community and Business Leaders support Baines & Robertson Construction (B&R) in receiving Public Subsidy for the Closeout Cost of the Palm Villas Affordable Single Family Housing Development located 90th to 94th and Mac Arthur Blvd, here in the City of Oakland.

Clergy

1. Pastor Mark Clifton, East Oakland Church of God in Christ
2. Bishop Bob Jackson, Acts Full Gospel Church
3. Pastor E.N. Crawford, Praises of Zion Baptist Church
4. Pastor Zachary Carey, True Vine Baptist Church
5. Pastor J. Alfred Smith, Allen Temple Baptist Church
6. Fr. Jay Matthews, St. Benedicts Catholic Church
7. Bishop Ernestine Reems, Center of Hope Church
8. Pastor Gregory Payton, Saint John Baptist Church
9. Pastor Leon Mc Daniels, Paradise Baptist Church

Community & Business Leaders

10. Gladys Green, Elmhurst District Chairperson
11. Hon. Barbara Lee, Member of Congress District 9
12. Fred Franklin, Toler Height President
13. Gloria Jeffries, Los Palmas Homes Owners Association
14. Jean Blackshear, Toler Height Community Association
15. Hon. Alice Spearman, Oakland Unified School Board Dist.7
16. Clifford Gilmore, Oakland Coalition of Churches
17. Tom Chasm, East Bay Small Business Council
18. Robert Bobb, African American Chamber of Commerce
19. Eddie Dillard, Oakland Black Board and Trade
20. Geoffrey Pete, Oakland Black Caucus
21. Brian K. Garrett, Community Bank of the Bay
22. Dr. Phillip Saddler, 100 Black Men
23. David Glover, OCCUR
24. George Holland, NAACP
25. Hon. Elihu Harris, Chancellor of Peralta Community College
26. Monsa Nittoto, CWOR
27. Janet Patterson, Community Leader
28. Hugh Bassett, Community Leader
29. Oral Brown, Business Owner
30. George Mc Daniels, Former President of Community Bank of the Bay
31. Hon. Linda Handy, Peralta Community College Trustee
32. Donald White, Alameda County Treasurer
33. Dr. James Sweeny, DDS, Business Owner
34. Alan Dones, Business Owner
35. Jack Sumpski, Business Owner
36. Dr. Diane Howell, Black Business Listing
37. Paul Cobb, Oakland Post
38. Ray Carlisle, Bridge Housing Board of Directors
39. Earnest Clarke, Oakland Black Association of Realtors
40. Hon. Bill Riley, Peralta Community College Board President
41. Henry Mozell, Oakland East Bay Democratic Club
42. Paul Anthony Elizondo, Attorney At-Law



**NATIONAL ASSOCIATION OF REAL ESTATE BROKERS -
INVESTMENT DIVISION (NID)**

Mailing Address:
P.O. Box 5128
Oakland, CA 94605

Ray Carlisle, President

April 9, 2002

The Honorable Larry Reid
Council Member, District 7
City of Oakland
1 Frank H. Ogawa Plaza
Oakland, CA 94612

Re: NID-HCA Support of Palm Court Development Grant

Dear Council Member Reid:

The NID-Housing Counseling Agency is a HUD approved housing counseling agency and consultants on urban community social, economic and affordable housing development issues to government and private sector entities from the local to national levels. We have successfully provided these services for over twenty-five years and have local offices in twenty-four urban cities, with our home office located in Oakland.

We are very pleased about and fully support the recommendation of the City Manager's Office to convert the approximate \$3.3 million dollar city loan to the Palm Court Development team to a grant. I have had the opportunity to work with members of the Palm Court Development team in the past and find them all to be principled and committed professionals whom go the extra mile in honoring their commitments.

I have personally provided numerous narrative appraisals and feasibility study reports on proposed developments for different city of Oakland agencies and or their development partners. I am very familiar with the history of the development site and the social and economic conditions of the surrounding area. I was hopeful that the very difficult task of providing quality affordable homeownership housing without a land grant to a developer could be achieved for this site.

I am also a director of BRIDGE Housing Corporation and a member of the Projects and CalPers Investments Committees. I see numerous deals for Oakland and other Bay area communities and this one is a land grant deal to the developer in my opinion.

I am very proud that the city and the development team ventured to take the risk to make the Palm Court Development a "market rate" land sale deal, while providing income restricted affordable homeownership opportunities to Oakland families. The completed development will prove to be a great investment for the entire City of Oakland.

Sincerely,

Ray Carlisle
President, NID

CERTIFICATION AUDIT OF DEVELOPMENT COSTS

PALM VILLAS A PROJECT of
MACARTHUR PARK DEVELOPMENT
ASSOCIATES, LLC

OAKLAND, CALIFORNIA

From November 8, 1999 (Inception)
Through February 28, 2005

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To the Members
MacArthur Park Development Associates, LLC
Oakland, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying schedule of development costs relative to the acquisition and construction of 78 new affordable homes known as Palm Villas, for the period November 8, 1999 (inception) through February 28, 2005. This schedule is the responsibility of the management of MacArthur Park Development Associates LLC. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements and other financial reports. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of development costs referred to above presents fairly, in all material respects, the development costs relative to acquisition and construction of the 78 new affordable homes known as Palm Villas, in conformity with accounting principles generally accepted in the United States of America.

White Richardson, LLP

Richmond, California
April 21, 2005

	BUDGET								BUDGET - ACTUAL VARIANCE OVER (UNDER)	Costs Per Audit	SOURCE OF FUNDS						
	Original Budget Nov 1999	Approved Changes Orders Prior to May 2004	Budget May 2004	Approved Change Orders since May 2004 Budget	Current Approved Budget	Approved Allocations	Current Approved Budget	Agency Funding			Bank of America	Silicon Valley Bank	Sale Proceeds	Community Bank of the Bay	Related Party Loans & Owner's Equity	Accounts Payable	TOTAL
USES (Const. & Post Const.)																	
Land Acquisition																	
94th & MacArthur Corner City Land	214,624		214,624		214,624		214,624	-	214,624		214,624					214,624	
Closing Costs																	
LAND ACQUISITION TOTAL	214,624	-	214,624	-	214,624	-	214,624	-	214,624	0	214,624	0	0	0	0	214,624	
Hard Costs																	
Demolition	17,860	36,410	54,270	-	54,270		54,270	-	54,270	54,270						54,270	
SiteWork Contract																	
General Requirements	66,800	14,840	81,640		81,640		81,640	69,275	150,915		150,915					150,915	
Supervision	93,600	20,795	114,395		114,395		114,395	(39,108)	75,287		75,287					75,287	
Site Survey	50,000	29,310	79,310		79,310	18,750	98,060	68,310	166,370	166,370						166,370	
Soil Treatment	23,490	(2,742)	20,748		20,748		20,748	-	20,748	20,748						20,748	
Grading & Paving	346,898	289,460	636,358		636,358	501,113	1,137,471	(58,270)	1,079,201	289,807	789,394					1,079,201	
Site Utilities	349,293	272,117	621,410		621,410	146,617	768,027	(93,884)	674,343	246,578	369,533	58,232				674,343	
Fire Hydrants	100,000	(95,000)	5,000		5,000		5,000	(5,000)	-							0	
Site concrete	295,742	(158,660)	138,082		138,082		138,082	18,988	157,070		157,070					157,070	
Retaining Wall	236,787	947,005	1,183,792		1,183,792	652,847	1,836,639	211,445	2,048,084	931,996	321,383	731,310	63,395			2,048,084	
Subdrainage	241,260	16,900	258,160		258,160	41,746	299,906	(137,882)	162,024	75,537	65,744				20,743	162,024	
Joint Trench	300,000	(130)	299,870		299,870		299,870	209,001	508,871		508,871					508,871	
Security		35,000	35,000		35,000		35,000	22,665	57,665		57,665					57,665	
Demolition		40,866	40,866	(40,866)	-		-	-	-							0	
Sub Bonds	35,000	(35,000)	-		-		-	-	-							0	
B & R Overhead	109,230	27,216	136,446		136,446		136,446	243,409	379,855		330,439				49,416	379,855	
Subtotal Site Contract	2,249,100	1,401,977	3,651,077	(40,866)	3,610,211	1,361,073	4,971,284	509,149	6,480,433	1,785,306	2,780,557	855,286	63,395	0	70,159	5,534,703	
SuperStructure Contract																	
General Requirements	267,200	549,188	816,388	80,000	896,388		896,388	(89,374)	807,014	559,827	247,187					807,014	
Supervision	374,400	274,205	648,605	7,500	656,105		656,105	40,939	697,044		697,044					697,044	
Landscaping, Irrigation, Fencing	156,000	237,631	393,631	55,000	448,631		448,631	86,813	535,444	140,778	178,448	216,218				535,444	
Slabs and Footing	743,527	432,521	1,176,048	384,894	1,560,942		1,560,942	178,039	1,738,981	926,783	808,575		1,623			1,738,981	
Driveways and Paths	75,473	238,665	314,138	25,000	339,138	(263,665)	75,473	(12,733)	62,740		62,740					62,740	
Misc Metals	62,400	(6,400)	56,000		56,000		56,000	(5,000)	51,000		51,000					51,000	
Rough Carpentry	2,496,010	193,086	2,689,096	114,000	2,803,096		2,803,096	207,828	3,010,924	309,680	595,302	2,105,942				3,010,924	
Finish Carpentry	245,700	75,390	321,090	80,000	401,090		401,090	654,527	1,055,617		437,815			595,302		1,055,617	
Insulation	85,660	(6,041)	79,619	15,000	94,619		94,619	(19,976)	74,644		74,644					74,644	
Roofing	171,600	(1,600)	170,000		170,000		170,000	(10,801)	159,199		159,199					159,199	
Sheet Metal/Flashing	390,000	(36,755)	353,245		353,245		353,245	(206,211)	147,034		147,034					147,034	
Doors/Frames/Hardware (Materials)	233,064	71,060	304,124	10,000	314,124		314,124	(44,281)	269,843	269,843						269,843	
Overhead door	62,400	(14,742)	47,658	12,000	59,658		59,658	(8,959)	49,699		49,699					49,699	
Windows (Materials only)	252,408	(148,297)	104,111	(2,111)	102,000		102,000	114,285	113,285		113,285					113,285	
Drywall	541,571	(30,405)	511,166	11,853	523,019		523,019	23,516	546,535			546,535				546,535	
Mailboxes		20,901	20,901		20,901		20,901	(2,710)	18,191		18,191					18,191	
Flooring	228,384	(31,406)	196,978		196,978		196,978	14,809	211,787		211,787					211,787	
Painting (interior/exterior)	269,237	60,885	330,122		330,122		330,122	(5,806)	324,316	244,730		79,586				324,316	
Toilet Accessories	23,400	(342)	23,058	10,000	33,058		33,058	(30,943)	2,115		2,115					2,115	
Appliances	117,000	(3,729)	113,271		113,271		113,271	(9,762)	103,509		103,509					103,509	
Plumbing	780,000	39,610	819,610		819,610		819,610	28,472	946,082		946,082					946,082	
HVAC	390,000	10,868	400,868	12,000	412,868		412,868	(3,040)	409,828		409,828					409,828	
Electrical	312,000	(23,400)	288,600		288,600		288,600	(84,615)	203,985		23,360	180,625				203,985	
Fixtures	78,000	(49,200)	28,800		28,800		28,800	(1,055)	27,745		9,636		18,109			27,745	
Framing Bond Withhold		154,000	154,000		154,000		154,000	(154,000)	-							0	
Security		274,785	274,785	35,000	310,785		310,785	961	311,746			311,746				311,746	
Sub Bonds	84,282	(46,215)	38,067		38,067		38,067	(11,924)	26,143			26,143				26,143	
Glazing damage		5,000	5,000		5,000		5,000	(871)	5,671			5,671				5,671	
Concrete Sloops		11,700	11,700		11,700		11,700	(11,700)	-							0	
Surveying		18,750	18,750		18,750	(18,750)	-	-	-							0	
Concrete Retaining Walls		546,750	546,750	106,097	652,847	(652,847)	-	-	-							0	
Backfill & Grade Revisions		262,448	262,448		262,448	(262,448)	-	-	-							0	
Garage vents		9,750	9,750		9,750		9,750	(9,750)	-							0	
House Cleaning		39,000	39,000		39,000		39,000	456	39,456		39,456					39,456	
Water main Obstacles & Street Signs		146,617	146,617		146,617	(146,617)	-	-	-							0	
Subdrain (FHA)		16,746	16,746		16,746	(16,746)	-	-	-							0	

USES (Const. & Post Const.)	BUDGET							BUDGET - ACTUAL VARIANCE OVER (UNDER)	Costs Per Audit	SOURCE OF FUNDS							
	Original Budget Nov 1999	Approved Changes Orders Prior to May 2004	Budget May 2004	Approved Change Orders since May 2004 Budget	Current Approved Budget	Approved Allocations	Current Approved Budget			Agency Funding	Bank of America	Silicon Valley Bank	Sale Proceeds	Community Bank of the Bay	Related Party Loans & Owner's Equity	Accounts Payable	TOTAL
B & R Overhead	430,284	356,853	787,137	155,002	942,139		942,139	1,424,347	1,366,466		61,704			181,316	1,123,466		1,366,466
Contingency																	
Sub total Superstructure Contract	8,870,000	3,647,877	12,517,877	1,112,235	13,630,112	(1,361,073)	12,269,039	1,045,024	13,314,063	2,451,841	3,058,613	2,569,652	3,334,073	181,316	1,123,466	595,302	13,314,063
HARD COSTS TOTAL	11,351,584	5,086,264	16,437,848	1,071,369	17,509,217		17,509,217	1,554,173	19,063,390	4,236,947	6,033,794	3,424,938	3,397,468	181,316	1,123,466	665,461	19,063,390
SOFT COSTS																	
Permits (incl. Inspection/Testing)	1,014,000		1,474,897		1,439,444		1,439,444	36,071	1,475,516	485,946	893,376	7,237	45,564			43,393	1,475,516
Inspection/Testing																	0
Architecture/Engineering	348,000		504,312		509,382		509,382	31,190	540,572	306,696	169,571	6,136	28,979		31,190		540,572
Developer Fee (incl. overhead)	540,000		463,472		463,472		463,472	-	463,472	135,160	257,080		71,232				463,472
Excess Developer Overhead			38,000		38,000		38,000		38,000				38,000				38,000
Marketing/HOA Dues	160,000		135,066														0
Const. Loan Financing Costs																	0
Loan Fee/Closing	50,000		56,500		62,303		62,303		62,303		9,100		10,453			42,750	62,303
Loan Fee	29,273		50,085		50,085		50,085		50,085		39,295		10,790				50,085
Predevelopment Loan Interest	21,500		14,387		14,387		14,387		14,387	14,387							14,387
City Loan Fees/Closing	49,475		42,580		42,580		42,580		42,580	2,500	25,419	14,651					42,580
Legal	45,000		48,102		49,189		49,189		49,189	16,867	24,293	229	7,799				49,189
Accounting (incl. In Legal)																	0
Cost Certification																	0
Cost Analysis, Inspections & Doc Fee	18,200		63,573		63,573		63,573		63,573		31	7,122	56,420				63,573
Escrow Closings (incl. In Accounting)																	0
Appraisal	9,500		8,568		8,568		8,568	4,000	12,568	5,700	2,068	4,800					12,568
Taxes	40,000		105,364		104,621		104,621		104,621	58,812	22,897		22,912				104,621
Insurance	52,500		449,441		475,126		475,126		475,126	267,643	105,034	24,522	77,928				475,127
Survey/ Soils	43,852		23,034		23,034		23,034		23,034	19,334	3,700						23,034
DRE/Misc (detail)																	0
Construction Loan Inspections			60,151														0
Soft Cost Contingency	30,006		17,640		4,189		4,189		4,189	4,159		30					4,189
SOFT COSTS TOTAL	2,451,306	-	3,555,173	-	3,347,954	-	3,347,954	71,261	3,419,215	1,317,204	1,551,864	64,737	368,077	0	0	117,333	3,419,215
Interest during Construction	300,000		514,782		514,782		514,782	40,578	555,361	4,818	444,691	59,773	46,079				555,361
TOTAL CONSTRUCTION COSTS	14,102,890	5,086,264	20,507,803	1,071,369	21,371,953	-	21,371,953	1,666,013	23,037,966	5,558,969	8,030,348	3,549,448	3,811,624	181,316	1,123,466	782,784	23,037,965
POST CONSTRUCTION/SALES																	
Commissions/Closing costs	345,594		447,747		641,162		641,162	57,561	698,723				582,931	32,600	83,192		698,723
Marketing Costs																	
TOTAL DEVELOPMENT COSTS	14,448,484	5,086,264	20,955,550	1,071,369	22,013,115	-	22,013,115	1,723,574	23,736,688	5,558,969	8,030,348	3,549,448	4,394,555	213,916	1,206,658	782,784	23,736,688

Budget Line Item	Budget Over<Under> Variance	Explanation for Variance
General Requirements-SW	69,275	Budget set for completion in June of 2004, substantial completion did not occur until after February 2005. GR expended throughout this period and will continue until final completion is achieved, punch lists are done, and the Final Account is settled.
General Requirements-SS	<89,374>	
Supervision-SW	<39,108>	Hired a working foreman instead of a superintendent to run the job until substantial completion.
Site Survey-SW	68,310	Due to delays, resurveying of roads, paths and walkways and house layouts was necessary.
Site Utilities - SW	<93,684>	Installation of new public utilities in MacArthur Blvd helped save money on the requirements.
Fire Hydrants - SW	<5,000>	Costs are included in <i>Site Utilities</i> .
Site Concrete - SW	18,988	Increased material costs; delay charges; damage repair.
Retaining Wall - SW	211,445	Increased material costs; materials damaged on site (rebar and forms); additional subcontractor charges; some <i>subdrainage</i> costs are included here.
Subdrainage - SW	<137,882>	Some of the costs are included in <i>landscaping & Retaining walls</i> .
Joint Trench - SW	209,001	Replaced subcontractor at higher cost, trenches were redone & changed were made after work stoppage.
Security - SW	22,665	Additional eight months required.
B&R Overhead - SW	243,409	
Landscaping, Irrigation, Fencing - SS	86,813	Increased material costs; damage repair; some <i>subdrainage</i> costs are included here.
Slabs & Footing - SS	176,039	Increased materials costs; self-performed some of subcontractor's work.
Driveways & Paths - SS	<12,733>	
Finish Carpentry - SS	654,527	Some <i>Flashing, Doors & Bathroom accessories</i> costs are included here; increased materials cost; theft of stocked materials; vandalism; self-performed some insulation installation.
Insulation - SS	<19,975>	Cheaper labor; some self-performed work is included in <i>Finished Carpentry</i> .
Overhead Door - SS	<9,959>	
Sheet Metal/Flashing - SS	<206,211>	Buyout savings; some of the costs are included in <i>Finished Carpentry</i> .
Doors/Frames/Hardware - SS	<44,281>	Some of the costs are included in <i>Finished Carpentry</i> .
Toilet Accessories - SS	<30,943>	
Garage Vents - SS	<9,750>	
Windows - SS	11,285	Breakage; Theft.
Mailboxes - SS	<2,710>	Better buyout.
Plumbing - SS	126,472	Replacement of subcontractor; Some damage to completed installations; some <i>Flashing</i> costs are included in here.
Electrical - SS	<84,615>	Completed with direct labor; some of the costs included in <i>Joint Trench</i> .
Framing Bond Withhold - SS	<154,000>	This is a cash withhold account instead of a cost item.
Sub Bonds - SS	<11,924>	No bond required for self-performed work; no bond required for subcontracting job under \$100k.
Glazing Damage - SS	671	Additional breakage.
Concrete Stoops - SS	<11,700>	Some of the costs are included in <i>Slabs and Footings</i> .
B&R Overhead - SS	424,347	Additional 8 months to complete, self-performed work and carrying costs.
Appraisal - SC	4,000	Additional appraisal required by replacement lender.

NOTE

Legends used above:

SW- Site Work
SS- Super Structure
SC- Soft Cost

NOTES TO SCHEDULE OF DEVELOPMENT COSTS

PALM VILLAS MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC.

February 28, 2005

A - GENERAL AND ORGANIZATION

MacArthur Park Development Associates, LLC.(the "Organization"), was formed under the laws of the State of California for the purpose of constructing and providing affordable housing units for persons and families of moderate income through the Palm Villas project. This project started in 1999 and was substantially completed in February of 2005.

Palm Villas (the "Project") is a 78-unit residential construction project located between 90th and 94th Avenue, MacArthur Blvd. and Hillside Street, Oakland, California. Funding was provided by a combination of loans and grants from the City of Oakland, Community & Economic Development Agency (CEDA), and Bank of America, replaced by Silicon Valley Bank in 2004. City of Oakland also owned and provided the bulk of the land on which the houses were built.

City of Oakland CEDA is the grantor and sponsor of the development. MacArthur Park Development Associates, LLC (MPDA) is the developer; Em Johnson Interest and Baines & Robertson, LLC are co-owners of MPDA; and Baines & Robertson, Inc. is the general contractor. Members of Baines & Robertson, LLC and the shareholders of Baines and Robertson, Inc are the same individuals.

B - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Schedule of Development Costs has been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO SCHEDULE OF DEVELOPMENT COSTS (Continued)

PALM VILLAS
MACARTHUR PARK
DEVELOPMENT ASSOCIATES, LLC.

February 28, 2005

B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The Schedule of Development Costs has been prepared in conformity with reporting requirements prescribed by the City of Oakland CEDA.

C - LONG-TERM DEBT

Long-term debt consists of the following:

Demand note payable to a bank, with variable interest currently at 7.75%. The note matured on April 4, 2005 and was fully repayable at that time. The note is secured by a deed of trust and is in default.

\$213,916

D - CITY OF OAKLAND LOANS AND GRANTS

When the Project commenced, the City of Oakland executed certain loans with MPDA. As construction progressed various events occurred which caused MPDA to request revisions to the loan terms and covenants. As a result, pursuant to Resolution No. 02-33, the City of Oakland authorized conversion of the \$3,253,000 loan to a grant. Also pursuant to Resolution No. 2003-20, the City of Oakland CEDA authorized forgiveness of the \$1,000,000 loan and converted that loan to a grant.

E - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

The MPDA's two members, Em Johnson Interest and Baines & Robertson, LLC have received a reduced development fee in the amount of \$463,472, according to the revised development budget approved by the City of Oakland.