



# AGENDA REPORT

**TO:** Edward D. Reiskin  
City Administrator

**FROM:** Alexa Jeffress  
Director, EWDD

**SUBJECT:** Oak Knoll Community Facilities  
District (CFD)

**DATE:** September 10, 2021

City Administrator Approval

Date: Sep 21, 2021

## RECOMMENDATION

**Staff Recommends That The City Council Conduct A Public Hearing And Upon Conclusion Adopt The Following Pieces Of Legislation:**

- 1. A Resolution Of The City Council Of Intention To Establish A Community Facilities District, Three Improvement Areas, And A Future Annexation Area To Finance Public Improvements And Public Services For The Oak Knoll Project, And Making Findings Under The California Environmental Quality Act (CEQA); And**
- 2. A Resolution Of The City Council Of Intention To Incur Bonded And Other Indebtedness For The Oak Knoll Project Community Facilities District, And Making Findings Under The California Environmental Quality Act (CEQA).**

## EXECUTIVE SUMMARY

Staff recommend that the City Council adopt two proposed resolutions related to the Oak Knoll Mixed Use Community Plan (Oak Knoll Project) to 1) declare the City's intention to establish City of Oakland Community Facilities District (CFD) No. 2021-1 and levy special taxes to fund the operation and maintenance of parks and open space (Services) and 2) to declare the City's intention to incur bond indebtedness to finance the construction of public infrastructure such as parks and roads (Facilities) for the Oak Knoll Project. The Oak Knoll Project is a 183-acre mixed-use development project at the former Oak Knoll Naval Medical Center that was approved by the City Council on November 7, 2017. The proposed CFD for the Oak Knoll Project was requested by petition from Oak Knoll Venture Acquisitions LLC (Developer) and would be established in accordance with the adopted conditions of approval for the project.

The CFD will be organized into three improvement areas (Improvement Areas), corresponding to the three phases of development in the Oak Knoll Project. The CFD will also establish a Future Annexation Area, to allow for a more streamlined process for annexing properties into the CFD in the future.

## **BACKGROUND / LEGISLATIVE HISTORY**

### **History of the Oak Knoll Project**

Much of the Oak Knoll Project site was originally developed in 1924 as the Oak Knoll Country Club and Golf Course. The U.S. Navy commissioned the property in 1942, and initially constructed a temporary hospital for medical treatment of World War II battle wounded returning from the Pacific. Expansions of the hospital facilities were made during and after the War, and the hospital evolved into a modern regional hospital serving Navy personnel who had been wounded in the Korean and Vietnam Wars. A large main hospital building was opened in 1968 and continued to provide specialized care for military personnel into the 1990s. The Defense Base Closure and Realignment Act of 1990 directed the U.S. Navy to close the hospital, and the hospital was officially decommissioned and closed in 1996.

Planning for the reuse of the Oak Knoll Project site began in the 1990s. A Reuse Plan for the Oak Knoll Naval Medical Center Oakland was prepared in 1996, and the Navy and City of Oakland prepared a joint Environmental Impact Statement/Environmental Impact Report for the Disposal and Reuse of the Oak Knoll Naval Medical Center Oakland, which was certified in 1998.

The former Oak Knoll Naval Medical Center was acquired by the Developer in 2005, with the exception of two separate privately-owned areas (the Sea West Credit Union/Seneca School parcels and the City-owned Barcelona parcel).

The Developer proposed a master plan in 2006, but the plan was withdrawn due to the 2008 recession. In 2014, the Developer reinitiated planning efforts for the property, and staff conducted planning and environmental review of those plans. The City Council approved the project and certified the Environmental Impact Report (EIR) on November 7, 2017.

Upon completion, the proposed Oak Knoll Project would include 918 residential units, 72,000 square feet of neighborhood-serving commercial uses (including relocation and rehabilitation of the historic Club Knoll building), 67.6 acres of open space and recreation areas, and new streets.

### **Conditions of Approval related to the CFD**

On November 7, 2017, the City Council approved Resolution No. 86963 C.M.S., which adopted California Environmental Quality Act (CEQA) findings, certified the Environmental Impact Report (EIR), and approved Specific Conditions of Approval for the Oak Knoll Project (Conditions of Approval). Condition 53 of the Conditions of Approval requires, among other things, that:

- the City form the CFD pursuant to the Mello-Roos Community Facilities Act of 1982 (Mello-Roos Act),
- the CFD provide for two separate special taxes to be levied only against taxable properties in the Oak Knoll Project, together with other property taxes and assessments, up to a maximum of two percent (2.00%) of the appraised market value of the applicable residential unit at the time bonds are sold,
- one of the special taxes is a Special Services Tax that is levied in perpetuity to finance maintenance costs of certain public facilities and improvements such as parks, trails and

associated lighting in accordance with City-defined standards and cost parameters for maintenance, repair and/or replacement,

- the second special tax is a Facilities Special Tax to be levied to finance construction of the Oak Knoll Project's public facilities and improvements, such as roads, parks, trails, etc., and certain capital fees, and to pay debt service on bonds issued for the CFD,
- the Developer pay for all costs of forming and implementing the CFD, including all costs for consultants, elections and any legal challenges, subject to reimbursement from proceeds of bonds or Facilities Special Taxes,
- the Facilities Special Tax be levied on parcels of Developed Property (property for which a building permit has been pulled) at the maximum assigned rates both before and after bonds have been issued, and any Facilities Special Taxes collected that are not needed for debt service on the bonds, administrative expenses, or replenishment of reserve funds be available to finance the Facilities, and
- the CFD be formed prior to approval of the first final map.

Representatives from multiple City departments, including the City Attorney's Office, Economic and Workforce Development, Finance, Planning and Building, Public Works, and Transportation, have been working with the Developer since 2019 to develop the CFD and all associated documentation.

## **ANALYSIS AND POLICY ALTERNATIVES**

The Mello-Roos Act provides for two parallel processes: one for establishing a CFD and authorizing the levy of one or more special taxes, and one for approving the issuance of bonds and other debt. The formation processes related to the CFD involves four legislative steps.

### **1. First Legislative Step**

The first legislative step is the City Council's adoption of local goals and policies for community facilities districts, which the City Council completed by adopting Resolution No. 85664 C.M.S. on June 17, 2015 (Local Goals) (**Attachment A**).

### **2. Second Legislative Step**

The second legislative step, scheduled for October 5, 2021 involves the adoption by City Council of two resolutions of intention:

1. A Resolution of Intention To Establish The CFD, Including the Improvement Areas and the Future Annexation Area, and Levy Special Taxes (**Attachment B** - Resolution of Intention to Establish the CFD) With Appropriate California Environmental Quality Act (CEQA) Findings; and
2. A Resolution of Intention To Incur Bonded Indebtedness and Other Debt (**Attachment C** - Resolution of Intention to Incur Debt) With Appropriate California Environmental Quality Act (CEQA) Findings.

The **Resolution of Intention to Establish the CFD** describes the Facilities and Services to be financed, proposes a special tax formula and calls a public hearing on the questions of

establishing the CFD, the Improvement Areas and the Future Annexation Area and levying the special tax. The Resolution of Intention to Establish the CFD also directs the preparation of a report that must contain, among other things, a brief description of the Facilities and the Services to be financed by the CFD and the estimated cost of the Facilities and the Services. More detail about the proposed special taxes is set forth below.

The **Resolution of Intention to Incur Debt** sets forth the maximum amount of bonded debt to be incurred for the CFD. The bonded debt and other debt will be a special obligation of the City payable only from special taxes levied in the CFD. This resolution also calls for a public hearing on the proposed bonded and other debt, which will be held concurrently with the hearing on formation of the CFD.

### 3. Third Legislative Step

The third legislative step must occur between 30 and 60 days after the Resolutions of Intention are adopted by City Council and involves:

- A. A public hearing, where protests may be made orally or in writing by any interested persons or taxpayers against the establishment of the CFD, the Improvement Areas and the Future Annexation Area; the extent of the CFD; or the proposed Facilities and Services.
- B. After completion of the public hearings, the City Council will be asked to consider three resolutions:
  1. A resolution forming the CFD, the three Improvement Areas and the Future Annexation Area, defining the Facilities and Services, adopting the rate and method of apportionment of the special taxes for each Improvement Area, and preliminarily approving an appropriations limit for the CFD; and adopting appropriate California Environmental Quality Act (CEQA) findings,
  2. A resolution declaring the necessity for bonded debt and other debt for each Improvement Area and establishing the maximum amount of bonded debt for each Improvement Area; and adopting appropriate California Environmental Quality Act (CEQA) findings, and
  3. A resolution calling a separate election of the qualified electors in each Improvement Area on (i) the levy of the special taxes, (ii) issuance of bonded indebtedness and other debt and (iii) an appropriations limit for the CFD; and adopting appropriate California Environmental Quality Act (CEQA) findings. Under the Mello-Roos Act, because the County of Alameda has confirmed that there are no registered voters in the Improvement Areas, the qualified electors are the landowners of taxable property in the Improvement Areas, with each owner having one vote for each acre or portion of acre of taxable property owned. The Developer is expected to be the only owner of the taxable property in the Improvement Areas at the time of the election.

If the Developer votes in favor of the CFD in the landowner election, which is expected to be held immediately after the City Council's adoption of the resolution calling the election, the City Council will be asked to consider three matters:

1. A resolution declaring the results of the election and calling for recordation of a Notice of Special Tax Lien, which establishes a continuing lien on taxable property in the CFD securing the obligation to pay the Facilities Special Tax and the Services Special Tax; and adopting appropriate California Environmental Quality Act (CEQA) findings,
2. A resolution for each Improvement Area authorizing the issuance of bonds and other debt for the CFD with respect each Improvement Area and adopting appropriate California Environmental Quality Act (CEQA) findings, and
3. An ordinance levying the two special taxes within the CFD (including any territory that annexes into the CFD from the Future Annexation Area) with appropriate California Environmental Quality Act (CEQA) findings.

Staff anticipates returning to the City Council in November 2021 to complete this third step.

#### **4. Fourth Legislative Step**

The fourth legislative step consists of the second reading and adoption of the ordinance levying special taxes.

#### **5. Subsequent Legislative Steps**

At such time as the City and Developer are ready to issue bonds with respect to an Improvement Area, staff will return to City Council for approval of related documents.

#### *Purpose of the Resolutions of Intention*

The Resolution of Intention to Establish the CFD does the following:

- Declares the City Council's intention to establish the CFD, the three Improvement Areas and the Future Annexation Area,
- Preliminarily approves and directs recordation of a boundary map for the CFD, the Improvement Areas and the Future Annexation Area (**Attachment D**),
- Describes the process for annexing property into the CFD from the Future Annexation Area,
- Defines the proposed Facilities and Services,
- Defines the proposed rate and method of apportionment of the Facilities Special Tax in a separate "Rate, Method of Apportionment, and Manner of Collection of Special Tax (Facilities Special Tax)" for each Improvement Area (see Exhibits B-1 through B-3 of the Resolution of Intention to Establish the CFD),
- Defines the proposed rate and method of apportionment of the Services Special Tax in a single "Rate, Method of Apportionment, and Manner of Collection of Special Tax (Services Special Tax)" for the three Improvement Areas (see Exhibit B-4 of the Resolution of Intention to Establish the CFD),
- Approves a Deposit and Reimbursement Agreement under which the Developer will advance cash to the City in order to satisfy the Developer's obligation to pay the costs of forming and implementing the CFD and the Developer will be eligible for reimbursement of its advances with proceeds of CFD bonds (**Attachment E**),

- Authorizes one or more Joint Community Facilities Agreements with other public agencies that will own and operate any Facilities. Staff currently expects that the Developer will ask the City to enter into such an agreement with the East Bay Municipal Utility District (EBMUD),
- Directs the City Administrator to prepare the CFD Report, and
- Calls a public hearing.

The four Rate, Method of Apportionment and Manner of Collection of Special Taxes attached to the Resolution of Intention to Establish the CFD are referred to collectively herein as the "RMAs."

The Resolution of Intention to Incur Debt does the following:

- Declares the City Council's intention to incur bonded indebtedness for the CFD with respect to each Improvement Area, and the maximum amount of bonded indebtedness for each Improvement Area and
- Calls a public hearing.

### *Policy Alternatives*

The Oak Knoll CFD was required as a Condition of Approval for the Oak Knoll Project and is necessary to provide funding for the new infrastructure and maintenance of new parks, open space, trails, bridges, associated lighting and all items identified in the RMAs. As such, formation of the CFD advances the Citywide Priority of developing and maintaining **vibrant, sustainable infrastructure**. The CFD was crafted through a collaboration between the Developer, multiple City departments and several consulting firms to comply with the project's conditions of approval and comply with legal requirements as dictated by the Mello Roos Act. If the decision is made not to adopt the proposed CFD, there are two alternatives: 1) reject the proposed Resolutions of Intention with a direction to renegotiate the terms of the RMAs and other supporting documentation, which would delay project implementation; or 2) reject the proposed Resolutions of Intention with direction to no longer pursue the CFD process, which would violate Condition of Approval #53, and leave the project without funding for key services and needed infrastructure. Given these two options are unfavorable and would inhibit success of the project, staff recommends the City Council adopt the Resolutions of Intention.

### **FISCAL IMPACT**

The proposed CFD would provide funding for construction of public infrastructure required to serve new development within the Oak Knoll Project, and to fund the cost of operations and maintenance of certain public facilities, once constructed. The City will have the authority to levy a separate Facilities Special Tax for each Improvement Area and a Services Special Tax that is applicable to all taxable property in the CFD.

The Facilities Special Tax will provide funding for the construction of the Facilities (including the payment of debt service on the bonds issued for the CFD) and the City's costs associated with the annual administration of the CFD. The Services Special Tax will provide funding for the operation and maintenance of public infrastructure and facilities associated with the Oak Knoll development (referred to in this report as Services), including CFD administrative costs.

For the purposes of the Facilities Special Tax, the CFD will be segregated into three Improvement Areas that correspond to the three phases of development of the Oak Knoll Project. The Facilities Special Taxes levied and collected within each Improvement Area will support debt service for bonded indebtedness and other debt issued for each Improvement Area. The initial Maximum Annual Facilities Special Tax Revenue for each Improvement Area is as follows:

- Improvement Area No. 1 =	\$1,518,541.05
- Improvement Area No. 2 =	\$1,619,190.90
- Improvement Area No. 3 =	<u>\$1,545,336.00</u>
<b>CFD Total =</b>	<b>\$4,683,067.95</b>

The Facilities Special Taxes proposed for the three Improvement Areas are estimated by the Developer to support the issuance of approximately \$86.3 million in CFD bonds, with net construction proceeds from the CFD bonds of \$72.7 million. The bonds are expected to be issued in multiple series over time as development progresses. The actual amount of bonds issued will be dependent on the stage of development of the project and market conditions for California land-secured bonds at the time of each bond sale, among other factors.

The total public infrastructure improvement costs for the Oak Knoll Project (including eligible development impact fees identified in the conditions of approval, such as project capital improvements and EBMUD impact fees) are estimated to be \$132.6 million (\$72.7 million to be funded by CFD bond proceeds and the other \$59.9 million to be funded by Developer equity). Of this \$132.6 million in authorized Facilities costs, \$81.6 million relate to Facilities that will be owned and operated by the City (including \$3.6 million in impact fees), and \$51.0 million relate to Facilities that will be owned and operated by EBMUD (including \$22.1 million in impact fees). As most of the bond funding is for City owned and operated projects, the City will serve as the Issuer. If the greater amount of funding was for EBMUD owned and operated projects, then EBMUD would need to either serve as the Issuer or the CFD would have to be restructured.

The Facilities Special Tax will be authorized to increase 2 percent annually, following the initial fiscal year. City staff estimates that total administrative costs for each Improvement Area will range from \$25,000 to \$35,000 annually, with total administrative costs for the CFD ranging from \$75,000 to \$105,000 annually. These costs will be funded each fiscal year through the levy of the Facilities Special Tax.

The Services Special Tax rates will be the same in all three Improvement Areas. The Services Special Tax rates have been calculated to provide sufficient funds to pay estimated annual maintenance costs of \$618,645 (2021 dollars). The costs breakdown for the \$618,645 is as follows:

City Maintenance Areas	\$444,420
Contingency and Repair/Replacement (20%)	\$88,884
City Administration	\$75,000
County Administration (Direct Charge Collection)	<u>\$10,341</u>
<b>CFD Total</b>	<b>\$618,645</b>

The Services Special Tax per unit will increase each fiscal year based upon the greater of three indices: (i) Consumer Price Index (CPI) (prior calendar year annual average, San Francisco, All

Urban Consumers (CPI-U) Index), (ii) Consumer Price Index (CPI) (prior calendar year annual average, San Francisco, Urban Wage Earners, and (iii) the CPI (prior calendar year annual average, Pacific West Cities, All Urban Wage Earners and Clerical Workers).

The CFD will be administered by the Oakland Public Works Department, with assistance from other City service areas as necessary and appropriate, such as Finance and Budget. The City's administrative costs related to the CFD will be reimbursed from the special tax proceeds.

There will be no direct, negative impact on the City's finances, budget, or General Fund due to the Special Tax funding approach set forth above.

### **PUBLIC OUTREACH / INTEREST**

Under the Mello-Roos Act, consideration of the Resolution of Intention to Establish the CFD and the Resolution of Intention to Incur Debt does not require any additional public outreach beyond the standard City Council agenda noticing procedures. The Developer is the only owner of taxable property in the CFD and has petitioned the City Council to initiate this process (*Attachment F*).

### **COORDINATION**

This action has been coordinated with the City Attorney's Office, the Budget Bureau, the Finance Department, Planning and Building Department, Oakland Public Works Department, the Department of Transportation, and the City Administrator's Office.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** Establishment of the CFD and the Improvement Areas will provide a mechanism to finance the acquisition and the construction of the Facilities and the ongoing maintenance activities that constitute the Services, each of which will support additional jobs within the City. The CFD will also facilitate the long-term economic development of the Oak Knoll Project which includes the addition of 918 residential units of varying types and 72,000 square feet of neighborhood-serving commercial development in the project's Village Center.

***Environmental:*** The CFD will ensure adequate maintenance for the Oak Knoll Project. The City will use, to the greatest extent possible, best management practices for maintaining the public improvements funded through the CFD. High-level maintenance of public facilities will result in quality open space for Oakland residents.

***Race & Equity:*** The CFD special tax will be apportioned in conformance with the RMAs. The tax revenue generated will fund the maintenance of public improvements including public access areas, other infrastructure, and bike and pedestrian trails in the Oak Knoll Project that will serve all of Oakland. The Oak Knoll CFD is located in District 7 and will add additional open space and other public amenities into an ethnically diverse community in Oakland.



**CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)**

On November 7, 2017, the City Council adopted CEQA findings, certified the EIR, and approved the Conditions of Approval for the Oak Knoll Project. One of the Project Conditions of Approval, Condition of Approval #53, requires the Developer to work within the City process on the formation of the CFD.

None of the circumstances that require a supplemental or subsequent EIR pursuant to CEQA Guidelines Section 15162 and 15163 have occurred. Staff has determined that no new information about the site, changes to the Oak Knoll Project, or circumstances under which the Oak Knoll Project would be undertaken have occurred that would require subsequent or supplemental environmental review for the proposed project. In accordance with CEQA, the City reviewed and analyzed the proposed CFD formation and other relevant information to determine whether circumstances requiring the preparation of a subsequent or supplemental EIR exist. Based upon available information, the City has determined that none of those circumstances are present. Because the project specifically carries out the requirements for the Oak Knoll Project, no further environmental review is required.

The CFD also is exempt from compliance with CEQA under the following: CEQA Guidelines section 15183 (Project Consistent with a Community Plan, General Plan, or Zoning); CEQA Guidelines section 15301 (Existing Facilities); and CEQA Guidelines section 15308 (Actions by Regulatory Agencies for Protection of the Environment).

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Conduct A Public Hearing And Upon Conclusion Adopt The Following Pieces Of Legislation:

1. A Resolution Declaring The Intention To Establish A Community Facilities District And Three Improvement Areas To Finance Public Improvements And Public Services For The Oak Knoll Project With Appropriate California Environmental Quality Act (CEQA) Findings; And
2. A Resolution Declaring The Intention To Incur Bonded And Other Indebtedness For The Community Facilities District With Appropriate California Environmental Quality Act (CEQA) Findings.

For questions regarding this report, please contact Kimani Rogers, Urban Economic Analyst IV at 510-238-6204.

Respectfully submitted,



ALEXA JEFFRESS  
Director, Economic & Workforce Development

Reviewed by:

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Prepared by:

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Attachments (6):

- A Resolution Approving Local Goals and Policies for Community Facilities Districts
- B Resolution of Intention to Establish the CFD
- C Resolution of Intention to Incur Debt
- D Proposed Boundary Map
- E Deposit and Reimbursement Agreement
- F Petition to Initiate CFD