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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Michele Byrd
Director

SUBJECT: Lease Disposition & Development
Agreement – 7th & Campbell (OAW)

DATE: April 18, 2016

City Administrator Approval

Date:

4/28/16

RECOMMENDATION

Staff recommends that the City Council adopt the following legislation:

- 1) **An Ordinance Authorizing A Lease Disposition And Development Agreement With Oakland And The World Enterprises, Inc. And/Or An Affiliated Entity, For The Long-Term Ground Lease Of Property At 7th Street And Campbell Street For Development As A Mixed Use Affordable Housing Development, And Making CEQA Findings For This Action**
- 2) **A Resolution Appropriating Up To \$16,008 In License Fees From A License Agreement Of Property Located At 7th And Campbell From The Low And Moderate Income Housing Asset Fund For Expenditures Related To The Property And The Project**

EXECUTIVE SUMMARY

Adopting the proposed legislation would authorize the City Administrator to enter into a Lease Disposition and Development Agreement (LDDA) and a long term ground lease of the property pursuant to the LDDA with Oakland and the World Enterprises, Inc. (OAW or the "Developer"), or an entity affiliated with OAW, to pursue development of significant affordable housing, an urban farm, and complementary retail and office uses at a City-owned, vacant, and underutilized property located at 7th and Campbell Streets in West Oakland.

In order to apply for State Affordable Housing and Sustainable Communities (cap and trade) funding, the LDDA must be executed prior to June 20, 2016 to demonstrate site control by the Developer for its funding application.

Allocating the projected \$16,008 in license revenue for the second year of the temporary farm use license will help provide property maintenance and/or assistance with work necessary to pursue the project (e.g. consultant costs, appraisal costs, etc.).

Item: _____

CED Committee
May 10, 2016

BACKGROUND / LEGISLATIVE HISTORY

Physical Description

The 7th and Campbell site consists of six parcels with a total of 31,115.50 sq. ft. of land (APNs: 006-0017-017, 006-0017-018, 006-0017-019, 006-0017-020, 006-0017-021, and 006-0017-022). One parcel, with the street address of 1666 7th Street (APN: 006-0017-020), was improved with a wood-constructed building of about 2,100 square feet. The building was constructed in 1887, and was in substandard condition and has since been demolished.

Past Legislative History

Between 2001 and 2003, the Redevelopment Agency made loans totaling \$689,598 (principal amount) to Oakland Community Housing, Inc. (OCHI) for the purchase of five of the six 7th and Campbell parcels under the Agency's Affordable Housing Site Acquisition Program. As described in a series of staff reports starting in 2007, OCHI is no longer a solvent organization, and was recently dissolved. As a result of its insolvency, OCHI could neither develop nor sell these parcels, nor repay the defaulted Agency loans. Staff focused their energy and funding for several years on stabilizing the ownership and management of OCHI's fourteen occupied Oakland rental properties, and overseeing much-needed property rehabilitation at most of the properties.

Staff had been taking appropriate measures to facilitate the transfer and development of the 7th and Campbell sites in collaboration with economic development staff. In 2003, the Local Initiatives Support Corporation (LISC) provided short-term gap acquisition financing in the amount of \$220,300 to OCHI for the five 7th and Campbell properties purchased with the Redevelopment Agency loan, in addition to the adjacent sixth parcel (1676 7th Street). Due to OCHI's insolvency, LISC's loan went into default. On March 16, 2010, the Agency passed Resolution No. 2010-0026 C.M.S. authorizing the purchase of the LISC loan for \$100,000. The purchase of the LISC loan gave the Agency a first lien position over the entire 7th and Campbell site. On July 5, 2011, the Agency passed Resolution No. 2011-0055 C.M.S., setting aside \$500,000 to maintain the property and to clear the property of tax and code enforcement liens.

Unfortunately, over the course of the next two years, the dissolution of redevelopment agencies statewide impeded the Agency's ability to clear the liens and seek development proposals for the property. The LISC loan rights and minimal remaining Site Acquisition funds transferred over to the City as housing successor to the Redevelopment Agency. However, the Agency funding to maintain the property and clear the liens was not deemed to be an enforceable third party obligation by the State Department of Finance under the Recognized Obligation Payment Schedules (ROPS) approved by the Department in accordance with the redevelopment dissolution process.

Recent City Actions

In June 2013, the City foreclosed on the LISC loan in order to secure ownership over the property and give staff additional time to seek development proposals that would both benefit the West Oakland community and the City. The City acquired the property at the foreclosure

sale, and subsequently in summer 2015 conducted another foreclosure sale to clear up a clouded title issue on one of the parcels.

In the Fall of 2014, OAW approached the City with a proposal for a development project on the site that would include: affordable housing, an urban farm, and supporting retail/commercial space uses, with a special focus on providing housing and employment/training opportunities for formerly incarcerated residents seeking to re-enter the community successfully. OAW currently operates the site with an urban farm. On January 20, 2015, pursuant to City Council Resolution 85373 C.M.S., City Council authorized entering into an Exclusive Negotiating Agreement (ENA) with OAW to refine the development program. The ENA was authorized for six months, with a six month extension (through January 20, 2016). The ENA extension was authorized by the City Administrator, and towards the end of the extended ENA period, OAW requested to move directly towards the LDDA, rather than seek an extension on the ENA. The project development program was honed significantly during the ENA period, and the ENA milestones not met through the course of the ENA period are being folded into the preconveyance conditions in the LDDA, with the exception of California Environmental Quality Act (CEQA) clearance, which is required before Council approval of the LDDA.

ANALYSIS AND POLICY ALTERNATIVES

Initial Discussions

In September and October 2014, City staff received outlines of a development proposal for long-term redevelopment of the parcels from OAW, a recently-formed nonprofit headed by Elaine Brown (**Attachment A**). The development proposal included long-term redevelopment of the property with a variety of uses, including affordable and market rate housing units, small scale manufacturing (athletic shoes and apparel), a fitness center, urban farm, juice bar and a technical support center. OAW members and partners include respected local officials, an attorney, real estate developers, urban farmers and organizations supporting former prisoners' successful re-entry into the community. A primary focus of the development is on training, employment and housing options for the formerly incarcerated.

In a meeting on October 6, 2014, City staff met with OAW representatives to discuss the proposals and options for proceeding. At that meeting, it was decided to pursue a short-term one-year license of the property for the urban farm component as an interim use on site, while working towards City Council consideration of an ENA between the City and OAW to investigate options and feasibility for the longer-term development proposal, perform environmental review, and negotiate the terms for the final disposition and development of the property.

The overall site is approximately 0.71 acres in size. The City and OAW entered into a one-year license agreement on November 1, 2014 for the vacant land portion of the site. This allowed OAW to commence with a temporary urban farm use, which has helped cut down the illegal dumping that has plagued this site. (Staff had to contract with Public Works to re-install perimeter fencing on-site after the previously installed fencing was stolen.) The License Agreement was amended in late 2015 in order to extend the agreement for an additional year, and to incorporate the additional square footage available after the demolition of the substandard building on site.

The area immediately surrounding the project site is a mixture of vacant lots and residential and commercial uses. Immediately to the west is Slim Jenkins Court, a multi-family rental property with ground floor retail space (including a Planned Parenthood clinic), and further west are retail establishments, including the historic Esther's Orbit Room. Behind the site towards 8th Street are primarily single family homes. Across 7th Street is the main Oakland U.S. Postal Service sorting facility. The West Oakland BART station is approximately 0.30 miles to the east.

ENA Period and Further Project/Development Team Refinement

The ENA between the City and OAW was intended for the purpose of studying and evaluating the feasibility of the development and negotiating the terms and conditions of the proposed project. The ENA period, including the six month administrative extension, expired effective January 20, 2016.

Over the course of the ENA period and afterwards, OAW worked with City staff and their team to enlist an experienced affordable housing developer, refine the development program and financing plan, and attain CEQA clearance. During the ENA period, OAW reduced the number of housing units (now a range of 59-79 units), and refined the commercial program in order to promote project feasibility. In March 2016, OAW entered into a Memorandum of Understanding (MOU) with Community Housing Development Corporation (CHDC), an experienced affordable housing developer based in Richmond, to include them as part of the development team.

OAW also submitted an initial application for funding under the State's Affordable Housing and Sustainable Communities (AHSC) program in February 2016. Should the Project be invited to continue with a full funding round in this year's application cycle, the LDDA must be executed prior to June 20, 2016 in order to demonstrate that the Developer has site control of the property. In their AHS application, OAW increased the number of projected affordable housing units to 79 to help maximize leveraged funding, but achieved this higher number by removing the three bedroom units from their development proposal. The City's 2015-2020 Consolidated Plan identifies large families as having disproportionate housing affordability and overcrowding problems. In order to meet the affordable housing needs of larger families, the City's Affordable Housing Development Program typically requires that a minimum of 15% of project units in family developments be three bedroom units as a minimum threshold for applying for City funding. City Staff will work with OAW and their team to try to include three bedroom units to the extent possible, but should AHSC funding be awarded, it is likely we will forego three bedroom units on site, since the total number of project units will be fixed by the number in the AHSC application.

LDDA Negotiations

Staff is requesting Council provide authorization to enter into a Lease Disposition and Development Agreement ("LDDA") with OAW, with the goal of entering into a long-term ground lease with OAW pursuant to the terms of the LDDA.

OAW has informed City staff that they would prefer an outright fee sale of the land to OAW. However, given the City Council's preference for ground leases rather than outright fee sales, adopted December 9, 2014, pursuant to City Council Resolution No. 85324 C.M.S., as well as

the fact that the proposed property transfer via ground lease will be for a nominal rent, Staff is recommending pursuing a ground lease with OAW.

Government Code Section 53083 Fair Re-Use Analysis

A summary report is required under California Government Code Section 53083, before a local agency approves any economic development subsidy exceeding \$100,000, including a land price subsidy. The report must provide information on the recipients (including addresses) of the economic development subsidy, the start and end dates of the subsidy, a description of the subsidy (including lost revenue opportunities), a statement of the public purpose for the subsidy, projected tax revenue to the City as a result of the subsidy, and the estimated number of jobs created due to the subsidy (by full-time, part-time and seasonal employment).

Economic and Planning Systems, Inc. (EPS) was retained to assist City staff in preparing a report to address the requirements of Government Code Section 53083. EPS' full report and analysis is included as **Attachment A** to this staff report.

(1) The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.

Oakland and the World
1111 Broadway, 24th Floor
Oakland, CA 94607

Note: It is anticipated the OAW will form a limited partnership or other entity along with CHDC, which will enter into the ground lease and build the development, in which case the subsidy will be provided to that affiliated organization.

(2) The start and end dates and schedule, if applicable, for the economic development subsidy.

Start Date: The effective start date of the economic development subsidy would be the date of signing the ground lease, subsequent to the Developer meeting the preconveyance conditions in the LDDA. The estimated date for this is sometime in the spring of 2017.

End Date: The end date of the subsidy would be the termination date of the ground lease, which will run until approximately 2083 (66 years after the projected ground lease start date).

(3) A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

Based on EPS review of the project's financial parameters (i.e., projected development and operating costs and revenues), a City investment in the range of \$4.1 million is likely needed to ensure development feasibility, based on three distinct sources of funds:

- Potential foregone revenue from a market-rate sale of the property is estimated at \$1.4 million. This estimate is based on review of recent land sales in West Oakland

and exceeds the appraised value of \$949,000 estimated in 2009 for a mixed-use site consistent with the intended use.

- A City loan of up to \$2.6 million for the affordable housing component. As referenced in the Fiscal Impact section below, OAW applied for City affordable housing funding last fall, but this funding request is still under review and will be reviewed during the LDDA period. No funding commitment has been made by the City, and any funding allocation to the project would require Council authorization at a later date.
- Accrued interest on the City loan estimated at \$142,000. The debt service is envisioned to be based on the performance of the project and its ability to pay down debt and is expected to be less than fully amortizing.

(4) A statement of the public purposes for the economic development subsidy.

The subsidy is intended to support the development by OAW of a mixed-use development that will respond to the City's affordable housing crisis, provide housing and employment opportunities for local residents, with a heavy emphasis on linking formerly incarcerated individuals with training, employment and housing opportunities, and effectuate neighborhood-serving economic development in the City. The rental housing will be affordable to households earning between 30 – 60 percent of Area Median Income, with long-term affordability restrictions. The commercial components of the project are intended to be operated as cooperatives, giving the workers ownership in the enterprises.

The project is in alignment with the goals of the recently completed West Oakland Specific Plan, which calls for affordable housing, transit-oriented development near the West Oakland BART station, job training and access to employment opportunities for local residents, further activation of the 7th Street corridor, and neighborhood-serving retail and commercial ventures.

(5) Projected tax revenue to the local agency as a result of the economic development subsidy.

The project is expected to generate net revenues of about \$4,700 annually to the City of Oakland General Fund. The project's fiscal impacts will be largely driven by sales generated by tenant activity and can vary substantially based on specific tenants. Given the early planning-level nature of the project, specific tenants have not been identified.

(6) Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

The project will support new ongoing jobs on site, as well as one-time construction jobs during development. Specifically, EPS estimates the project will support approximately 41 on-site jobs, including 30 full-time and 11 part-time/seasonal jobs. Additionally, development of the project is estimated to create 109 job years, including about 91 full-time positions and 19 part-time and/or seasonal positions. A "job year" indicates the total number of jobs times the projected job length (i.e. a construction job that employs one carpenter for two years would provide two job years of employment).

FISCAL IMPACT

The property was acquired with former Redevelopment Agency Low and Moderate Income Housing Bond funding (fund 1883/9783, nee 9583) for the most part (with the exception of the \$100,000 used to acquire LISC's loan).

In order to support the affordable housing development, urban farm and retail/commercial spaces, and develop this vacant and underutilized property into a neighborhood asset, staff is recommending entering into a long-term ground lease with the Developer in order to provide the Developer with leverage to seek other sources of funding to develop the site, including AHSC and tax credit funds.

In October 2015, OAW also submitted a funding application under the City's 2015-17 Notice of Funding Availability (NOFA) for affordable housing development, requesting \$2.6 million in local funding. The application could not be considered for funding due to CEQA review pending, and the development program remaining in flux until March of 2016 with OAW's submission of their AHSC application. During the LDDA period, we will refine the project's financials, and determine if further subsidy beyond the land is required to make the development of the project feasible, and if so, verify how much additional funding is required, and identify funding sources at that time.

In the upcoming months, staff will also need to clear property taxes and building/code enforcement liens from the property incurred during OCHI's ownership of the property. It is expected that these will total several hundred thousand dollars. HCD staff is working with Building/Planning staff to remove the estimated \$177,000 in code enforcement/building liens from the property tax roll, because Alameda County is charging 18 percent interest on that amount annually, which is inflating the amount of overdue taxes substantially. Once these liens are removed, the City will have a better estimate of the property taxes outstanding.

The \$16,008 in expected revenue to the City from the second year of the license agreement for the temporary urban farm use will support costs of maintenance and/or consultant work needed move the development project forward.

PUBLIC OUTREACH / INTEREST

OAW has met with and had extensive follow-up discussions with local elected officials and community organizations regarding its development plans for the site. During the West Oakland Specific Plan process over the last several years (the plan was adopted in 2014), advocates at nearly every community meeting and public hearing stressed the needs for significant provision of affordable housing and employment/training opportunities for West Oakland residents, to which OAW's proposed development would clearly respond. It is anticipated that the LDDA period will include general community meetings to discuss specific plans for the site prior to proceeding with the development.

COORDINATION

Item: _____
CED Committee
May 10, 2016

This staff report and legislation have been reviewed by the Office of the City Attorney and by the Controller's Bureau. Real Estate Division staff were involved in the license agreement for the interim urban farm use. Planning staff have assisted with ensuring that the proposed development is compliant with CEQA. Additional coordination during the LDDA period will be necessary with numerous other City departments, including Planning and Building and Oakland Public Works - Environmental Services Division.

SUSTAINABLE OPPORTUNITIES

Economic: The proposed development will complement and increase housing (including affordable housing units) in Oakland and in the West Oakland 7th Street neighborhood, as well as provide employment and training opportunities for former prisoners to ensure their successful re-entry into the community and neighborhood-serving retail.

Environmental: The proposed development is close to transit (including the West Oakland BART station) and will include components designed to increase neighborhood access to healthy food.

Social Equity: The proposed development would provide a positive stimulus to the neighborhood and include much-needed housing, retail and economic opportunities for vulnerable populations that were major priorities expressed by community members over the years.

CEQA

Under the California Environmental Quality Act (CEQA), the City is required to review possible environmental impacts of all projects prior to a definitive commitment of funding, unless the project is exempt from CEQA review. A Notice of Exemption (NOE) has been filed for the Project based on an infill exemption (Section 15332 on the California Environmental Quality Act).

ACTION REQUESTED OF THE CITY COUNCIL

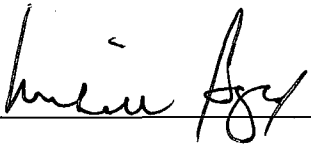
Staff recommends that the City Council adopt the following legislation:

An Ordinance Authorizing A Lease Disposition And Development Agreement With Oakland And The World Enterprises, Inc. And/Or Affiliated Entity, For The Long-Term Ground Lease Of Property At 7th Street And Campbell Street For Development As A Mixed Use Affordable Housing Development, And Making CEQA Findings For This Action

A Resolution Appropriating Up To \$16,008 In License Fees From A License Agreement Of Property Located At 7th And Campbell From The Low And Moderate Income Housing Asset Fund For Expenditures Related To The Property And The Project

For questions regarding this report, please contact Norma Thompson, Housing Development Manager, at (510) 238-7137.

Respectfully submitted,



Michele Byrd
Director, Housing and Community Development
Department

Reviewed by:
Norma Thompson,
Manager of Housing Development

Prepared by:
Christia Katz Mulvey, Housing Development
Coordinator, Housing Development Services

Attachments:

- Attachment A. Economic Planning Systems (EPS) Report
- Attachment B. Map of Six City-Owned Parcels

MEMORANDUM

To: Christia Mulvey, City of Oakland
From: James Musbach, Michael Nimon, and Sadie Wilson
Subject: 7th and Campbell Development Findings Pursuant to
Government Code Section 53083; EPS #161051
Date: April 14, 2016

The Economics of Land Use



This memorandum provides an economic and fiscal analysis of the 7th and Campbell project to support findings consistent with Government Code 53083. The less than an acre site consists of six parcels located in West Oakland and is owned by the City of Oakland. The current Project proposal envisions the site's disposition and development for between 59 and 79 mixed-income affordable rental units (depending on configuration), technology-based design and support space, a fitness center, a grocery store, an urban farm, a juice bar, and a restaurant (the Project). The Project is designed to support social missions, including the transition of a formerly incarcerated population, and is expected to be developed and operated by Oakland and the World Enterprises, Inc. (OAW), a local non-profit.

The City has retained Economic & Planning Systems (EPS) to provide an independent economic and fiscal analysis in conjunction with its consideration of a Disposition and Development Agreement for the site to OAW.

Scope and Methodology Overview

The City of Oakland is seeking to satisfy the requirements of Government Code 53083 to support policy and disposition considerations for its 7th and Campbell Project. Section 53083(b) of the California Government Code (AB 562) requires that public agencies (including cities) provide the following information about any economic development subsidy over \$100,000 before its approval:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy, if applicable.
2. The start and end dates and schedule for the economic development subsidy.

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3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.
4. A statement of the public purposes for the economic development subsidy.
5. The net tax revenue accruing to the local agency as a result of the economic development subsidy.
6. The net number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

This analysis focuses on requirements 3, 5, and 6 of those identified above. It is based on a review of key financial parameters associated with the Project. While the analysis is structured to address the specific GC Code 53083 findings above based on the planning-level development concept, actual outcomes may differ from those projected to the extent that tenant-specific information is identified or program elements continue to change. Future shifts in economic cycles, market, budgetary, and development conditions may also change the estimates in this analysis.

Summary of Findings

1. Based on a financial review conducted by EPS, development of the 7th and Campbell Project will require City economic development participation to ensure successful completion consistent with the policy objectives and social benefits for the site.

Based on EPS review of the Project's financial parameters (i.e., projected development and operating costs and revenues), a City investment in the range of \$4.1 million is likely needed to ensure development feasibility. However, the City should consider specific development agreement provisions that improve City investment terms to the extent the Project's economic performance exceeds expectations.

2. The investment from the City estimated at \$4.1 million is based on three distinct sources of funds. Based on the feasibility review of the Developer pro forma, public funding will ensure that private capital is leveraged to support development feasibility of the Project. Each component is described below.

- a.** Potential foregone revenue from sale of the property is estimated at \$1.4 million. This estimate is based on review of recent land sales in West Oakland and exceeds the appraised value of \$949,000 estimated in 2009 for a mixed-use site consistent with the intended use. It is worth noting that the assumed land value of the property does not affect the development feasibility analysis described in this memo because it is assumed that the land is transferred to OAW at no cost, contingent on project approval and implementation (i.e. the developer pro forma already assumes zero land cost).
- b.** A City loan of up to \$2.6 million.
- c.** Accrued interest on the City loan estimated at \$142,000. The debt service is envisioned to be based on the performance of the Project and its ability to pay down debt and is expected to be less than fully amortizing.

- 3. The City's goal for the 7th and Campbell Project is driven by a number of inter-related policy objectives focused on social missions.** When complete, the Project will provide a unique ecosystem that will combine residential, commercial, fitness, and urban farming uses that could be used as a pilot for other similar concepts elsewhere in the City. Specific Project objectives include:
- (1) promotion of higher density mixed-use infill development in proximity to BART,
 - (2) provision of affordable housing,
 - (3) transitional job opportunities for previously incarcerated City residents,
 - (4) activation of an underutilized site to enhance street activity and reduce crime, and
 - (5) create a positive impact on the City's General Fund through increased tax revenues (e.g., sales tax).
- 4. The Project is expected to generate net revenues of about \$4,700 annually to the City of Oakland General Fund.** The Project's fiscal impacts will be largely driven by sales generated by tenant activity and can vary substantially based on specific tenants. Given the early planning-level nature of the Project, specific tenants have not been identified.
- 5. The Project will support new ongoing jobs on site as well as one-time construction jobs during development.** Specifically, EPS estimates the Project supporting approximately 40 on-site jobs, including 30 full-time and 11 part-time/seasonal jobs. Additionally, development of the Project is estimated to create 109 job years, including about 91 full-time positions and 19 part-time and/or seasonal positions.

Project Description

The current Project proposal envisions the disposition of about a 31,000-square foot City-owned site at the corner of 7th and Campbell. The proposal includes development of between 59 and 79 mixed-income affordable rental units, tech design space, a fitness center, grocery store, an urban farm, and a restaurant with the development program shown in **Table 1**. The Project is also planned to include 12,000 square feet of parking space.¹ The Project is envisioned to support social missions associated with the transition of formerly incarcerated individuals and is expected to be developed and operated by OAW, a local non-profit. The City will negotiate a Lease Development Disposition Agreement (LDDA) with OAW. The development program is based on the plan to date and may change as the result of the LDDA; however, these changes are not likely to have substantial implications on the findings in this study.

¹ Parking is not expected to have any significant fiscal or economic impacts and is excluded from this analysis.

Table 1 Development Program and Employment

Item	Building Area (sq.ft.)			Employee Density (sq.ft. per employee) (2)	Employment (2)		
	Existing	New	Net New		Existing	New	Net New
Affordable Housing	0	68,896	68,896	NA	0	0	0
Urban Farm (1)	12,332	12,332	0	NA	0	0	0
Tech Design and Support	0	8,850	8,850	500	0	18	18
Physical Fitness Center	0	4,250	4,250	1,500	0	3	3
Grocery Store	0	3,500	3,500	500	0	7	7
Affordable Housing Support	0	2,000	2,000	500	0	4	4
Restaurant	0	2,800	2,800	300	0	9	9
Parking	0	12,200	12,200	NA	0	0	0
TOTAL	12,332	114,828	102,496		0	41	41

(1) Although existing urban farm occupies a larger area (about 31,114 sq.ft.), development is expected to result in consolidation and efficiency improving. This is assumed to have no net impact on the economic impacts of the project for simplification purposes.

(2) Developer assumption; reflect the total number of employees rather than full-time equivalents.

Sources: OAW, City of Oakland, Economic & Planning Systems, Inc.

Development Feasibility Review

This section describes EPS's review of the Project economics based on the OAW pro forma. The purpose of the review is to describe the need for City investment that would ensure successful completion of the Project consistent with the policy objectives.

The sources for development of the Project are summarized in **Table 2** and comprise total funding of \$28.9 million. The sources will require a number of public subsidies, including those by the City, Alameda County, and Department of Housing and Community Development, as well as the Low Income Housing Tax Credits. The City's subsidy will consist of a construction/permanent loan of up to \$2.6 million and \$145,000 in accrued interest, as well as land dedication. Public subsidies will be necessary to attract the private capital needed for the Project to materialize. The level of return needed to incentivize real estate development varies based on a range of factors such as risk and complexity, opportunity cost of capital, real estate market conditions, local or regional growth trends, allowable land uses and building types, and other considerations. At stabilization, the Project is expected to generate an annual net income of \$415,650 based on the Developer's pro forma.

Table 2 Project Funding Sources

Item	Construction	Permanent
Investor Capital	\$11,770,162	\$13,457,776
Construction Loan	\$5,500,000	NA
Permanent Loan	NA	\$5,783,912
City of Oakland	\$2,600,000	\$2,600,000
HCD	\$5,500,000	\$5,500,000
AHP	\$500,000	\$500,000
Accrued Interest- City Loan	\$145,072	\$145,072
Accrued Interest- Housing Trust Loan	\$284,392	\$284,392
Alameda County	\$500,000	\$500,000
Lease Up Income	\$104,724	\$104,724
Deferred Developer Fee	\$2,000,000	\$28,474
Total	\$28,904,350	\$28,904,350

Source: OAW Enterprises, Economic & Planning Systems, Inc.

Although the land value is not explicitly identified in the pro forma, it constitutes an additional subsidy from the City's perspective. Although the latest appraisal for the site, conducted in 2009, establishes a site value of \$949,000, the land value has likely increased since with the subsequent improvement in economic and real estate conditions. EPS had conducted a high level review of recent land sales in West Oakland, as shown in **Table 3**. Based on these comparable sales, land value of \$46 per square foot would likely be achieved, an equivalent of \$1.4 million for the Project. Despite this estimate, the site appears to have no or negative value based a private sector development return of the current development concept with no public subsidies.

Table 3 West Oakland Land Sales (2015-2016)

Sale Date	Property Address	Total Sale Price	Land Area (SF)	Price per SF	Land Use Category
3/18/2015	2120 Peralta St	\$750,000	24,001	\$31	Commercial
6/3/2015	1008 Wood St	\$140,000	2,613	\$54	Residential
8/6/2015	3419-3431 San Pablo Ave	\$925,000	15,002	\$62	Residential
8/7/2015	3223 Hannah St	\$425,000	9,975	\$43	Residential
10/9/2015	2338 Filbert St	\$6,100,000	160,300	\$38	Commercial
11/9/2015	331 Castro St	\$169,000	2,238	\$76	Industrial
2/5/2016	850 W Grand Ave	\$195,000	11,451	\$17	Commercial
Average		\$1,243,429	32,226	\$46	

Sources: CoStar Comp Analytics, Economic & Planning Systems, Inc.

To the extent the Project performs better than expected, the City may seek to structure specific LDDA terms that will ensure the City reduces the level of subsidy or participates in potential net operating income upside to the extent the Project's economic performance exceeds expectations.

These terms should be based on the Developer's audited financials to ensure the City's investment can be reduced below the level identified in this analysis.

Analysis of Public Benefits From the Project

This section provides an overview of the public benefits associated with the Project, focusing primarily on fiscal and economic impacts.

Projected Net General Fund Tax Revenue

The fiscal impact summary from the Project to the City's General Fund at buildout is shown in **Table 4**. EPS projected sales tax based on the planning-level development program; sales may vary by specific Project tenants and the general orientation of the commercial space, which is currently not known. For example, if a grocery store mostly sells food, the sales will be tax exempt, whereas non-food sales will generate sales tax to the City's General Fund.

Because the Project is expected to be operated by a non-profit, it will be exempted from the tax roll. Additionally, the impact on City services (police, fire, parks) is not assumed to be significantly affected by the Project. Infill projects, such as 7th and Campbell, often result in lower than average operating costs due to the existing operational infrastructure. Given these factors, sales tax is expected to be the primary driver of net General Fund tax impacts to the City.

Table 4 Fiscal Impact Summary

Item	Total Employees	Sales Per Employee (1)	Total Sales	Sales Tax to City General Fund (2)
Grocery Store	7	\$49,116	\$343,811	\$3,438
Restaurant	9	\$13,958	\$130,274	\$1,303
Total	16	\$63,074	\$474,084	\$4,741

(1) Sales based on IMPLAN totals for Alameda County 2014, assuming 9.5% sales tax.

(2) Sales Tax to Oakland General Fund estimated by assuming 1% of Total Sales

Sources: IMPLAN Alameda County 2014, Economic & Planning Systems, Inc.

It should be noted that fiscal results (annual surpluses or deficits) are simply indicators of fiscal performance; they do not mean that the City will accordingly have surplus revenues or deficits because the City must have a balanced budget each year. Persistent shortfalls shown in a fiscal impact analysis may indicate the need to reduce service levels or obtain additional revenues; persistent surpluses will provide the resources to improve overall service levels or reduce liabilities, or to address deferred maintenance.

Projected Employment

Upon completion of the Project, a total of approximately 40 jobs are projected on site. Assuming a range of full-time and part-time/seasonal positions, this yields a total of approximately 30 full-time and 11 part-time/seasonal jobs, as shown in **Table 5**. This distribution is based on various industry sources that suggest that part-time employment ratio is between 20 percent and 45 percent of total employment for the industries considered in this analysis.

Additionally, the Project's development will support various construction jobs while it is being built. EPS estimates that approximately 109 construction job-years will be supported by the Project's development based on the IMPLAN data, as shown in **Table 5**². Based on the labor market average, about 91 jobs are estimated as full-time with the remaining 19 jobs estimated as part-time or seasonal.

Table 5 Employment Estimate and Distribution

Item	Employee Allocation (1)		Employees	
	Full-Time	Part-Time/ Temporary	Full-Time	Part-Time/ Temporary
<u>Permanent Employees</u>				
Tech Design and Support	80%	20%	14	4
Physical Fitness Center	57%	43%	2	1
Grocery Store	70%	30%	5	2
Affordable Housing Support	70%	30%	3	1
Restaurant	70%	30%	7	3
Total			30	11
<u>One-Time Jobs</u>				
Construction	83%	17%	91	19

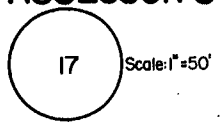
(1) Based on BLS data from the Current Population Survey (2015)

Sources: BLS 2015 Annual Average working hours by Industry and Class of Worker, Economic & Planning Systems, Inc.

² This analysis is based on the "Input/Output" (I/O) software developed by IMPLAN, which includes industry data collected by the U.S. Bureau of Economic Analysis (BEA). An I/O model traces the linkages between various sectors of the economy to determine the economic effect of a given change in the demand for goods and services.

ASSESSOR'S MAP 6

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CASSERLY TRACT AT THE POINT (Bk.6 Pg.2)
GIBBONS PROPERTY AT OAKLAND POINT (Bk.1 Pg.31)

8-10-89 CSL
11-30-89 JT
10-12-84 CSL
1-19-86 RC
4-27-04 EG
4-11-89 CSL

Drawn 9-68 W.L.M.

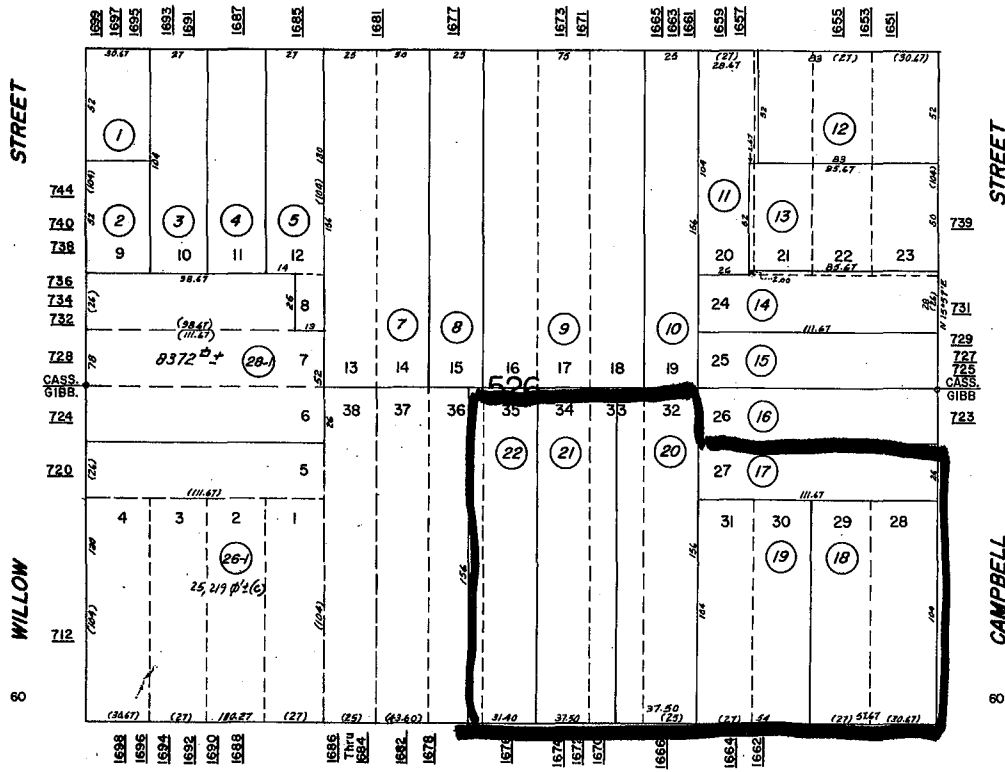
Scale: 1" = 50'

15

8TH STREET

STREET

80



7TH STREET

STREET

100

19

GOSS ST.

19

WILLOW STREET

WILLOW

80

STREET

CAMPBELL

80

3

Formerly-Bik 504

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2016 APR 28 PM 6:13

APPROVED AS TO FORM AND LEGALITY


DEPUTY CITY ATTORNEY

OAKLAND CITY COUNCIL

ORDINANCE NO. _____ C.M.S.

ORDINANCE AUTHORIZING A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT WITH OAKLAND AND THE WORLD ENTERPRISES, INC., OR AN AFFILIATED ENTITY, FOR THE LONG-TERM GROUND LEASE OF PROPERTY AT 7TH STREET AND CAMPBELL STREET FOR DEVELOPMENT AS A MIXED USE AFFORDABLE HOUSING DEVELOPMENT, AND MAKING CEQA FINDINGS FOR THIS ACTION

WHEREAS, the City owns six contiguous vacant parcels of land located at the northwest corner of 7th and Campbell Streets (the "Property"), consisting of 0.71 acres, as more particularly described in the staff report accompanying this Ordinance; and

WHEREAS, the City obtained ownership of the Property between 2013 and 2015 by foreclosing on several defaulted site acquisition loans provided by the Redevelopment Agency of the City of Oakland from the Agency's Low and Moderate Income Housing Fund for affordable housing development purposes; and

WHEREAS, during the Fall of 2014, Oakland and the World Enterprises, Inc. ("OAW"), a California nonprofit public benefit corporation, submitted a proposal for development of the site with affordable housing, an urban farm, and complimentary retail and light industrial uses; and

WHEREAS, on January 20, 2015, pursuant to City Council Resolution No. 85373 C.M.S. passed on January 20, 2015, the City and OAW entered into an Exclusive Negotiating Agreement ("ENA") to identify development partners, conduct feasibility analyses for the project and negotiate the terms of a Lease Disposition and Development Agreement ("LDDA") during the ENA period;

WHEREAS, OAW has proposed to develop between 60 to 79 units of housing affordable to households earning between 30% to 60% of Area Median Income, an urban farm, and approximately 34,000 square feet of new neighborhood-serving retail and commercial uses, which include a strong component of both housing and employment/job training for formerly incarcerated individuals (the "Project"); and

WHEREAS, Section 2.42.140, et seq., of the Oakland Municipal Code authorizes the City to sell or lease real property for development by ordinance; and

WHEREAS, the LDDA will set forth the terms and conditions under which the City will dispose of the Property to OAW and/or affiliated entities by means of a long-term ground lease, and by which OAW will construct the Project on the Property; and

WHEREAS, the sale of the Property to OAW for development and operation of affordable housing, an urban farm, and neighborhood serving retail, will further the health, safety, and general welfare of the residents of the City of Oakland by improving access to affordable housing, local goods and services, and employment opportunities for the formerly incarcerated in the West Oakland community; and

WHEREAS, the development of the Property will eliminate physical blight, bring a vacant property to productive economic use, and act as a catalyst for the 7th Street commercial district, and will generate financial benefits for the City from property taxes, business license taxes, sales taxes, and utility taxes; and

WHEREAS, Section 2.42.180 of the Oakland Municipal Code authorizes the City to dispose of property at its fair reuse value as assessed based on the property's proposed development and use, prevailing market conditions, development climate at the time of disposition, and other economic and noneconomic factors, and requires findings to justify any below-market disposition; and

WHEREAS, a reuse value analysis undertaken by Economic and Planning Systems on behalf of the City concludes that, based on a financial feasibility analysis of the proposed project, the fair reuse value of the Property is nominal; and

WHEREAS, given the financial feasibility of the proposed project and the need to make the Project work, the ground lease of the Property to OAW at a nominal cost is necessary; and

WHEREAS, California Government Code Section 53083 requires a city to provide certain information and hold a noticed public hearing before granting an "economic development subsidy," such as a land price subsidy, that is made for the purpose of stimulating economic development; and

WHEREAS, the staff report accompanying this Ordinance includes all of the information about this Project and the land price subsidy required under California Government Code Section 53083; and

WHEREAS, a noticed public hearing of the City Council was held to hear public comments on this transaction pursuant to California Government Code Section 53083; now, therefore

The Council of the City of Oakland does ordain as follows:

SECTION 1. The City Council hereby authorizes a long-term ground lease of the Property to OAW, or an affiliated entity approved by the City Administrator, for a nominal price, in

return for an agreement by the developer to develop and operate the Project as affordable housing, an urban farm and supporting retail uses.

SECTION 2. The City Council hereby authorizes the City Administrator or her designee to negotiate and execute a Lease Disposition and Development Agreement with OAW, or an affiliated entity approved by the City Administrator, for the long-term ground lease and development of the Property consistent with the terms of this Ordinance, as well as negotiate and execute the ground lease and any other agreements or documents as necessary to convey the Property to OAW upon the satisfaction of any preconveyance conditions imposed by the City Administrator or her designee.

SECTION 3. As a condition of the conveyance, the City will require that appropriate restrictions on occupancy, rents and operations for affordable units developed as part of the Project be recorded against Project improvements.

SECTION 4. The City Council, pursuant to Oakland Municipal Code Section 2.42.170.B., hereby waives a competitive Notice of Development Opportunity ("NODO") process for disposition of the Property, and finds and determines that disposition of the Property without a competitive NODO process is in the best interest of the City because of the urgency of getting the vacant, underutilized and prone to blight site under development, and the compelling development program proposed by OAW, and the disposition through a competitive NODO process would have been impractical because the OAW's proposal included a viable short-term use for the property as well as long-term development, which is beneficial to both the City and the surrounding neighborhood.

SECTION 5. Based on the reuse value analysis by Economic and Planning Systems concluding that the fair reuse value of the Property is nominal, and given the financial feasibility of the proposed Project and the need to make the Project work, Council hereby finds that the ground lease of the Property to OAW at a nominal cost is necessary and in the best interests of the City. Because the Property is being conveyed at less than fair market value, all City employment and contracting programs shall apply.

SECTION 6. All agreements associated with the Property and the Project shall be reviewed and approved as to form and legality by the Office of the City Attorney prior to execution by the City, and shall be placed on file with the City Clerk.

SECTION 7. The City Council finds and determines that the conveyance of the Property for the Project are exempt from the California Environmental Quality Act ("CEQA") pursuant to Section 15332 of the CEQA regulations (in-fill exemption). The City Administrator or her designee is hereby authorized to file a notice of determination with the Office of the Alameda County Recorder and the State Office of Planning and Research, and to take any other action necessary in furtherance of the Project consistent with this Ordinance and its basic purposes.

SECTION 8. The record before this Council relating to this Ordinance includes, without limitation, the following:

- A. All staff reports, decision letters and other documentation and information produced by or on behalf of the City, and all notices relating to this Ordinance and the LDDA;
- B. All oral and written evidence received by City staff and the City Council before and during the consideration of this Ordinance;
- C. All matters of common knowledge and all official enactments and acts of the City, such as (1) the General Plan; (2) the Oakland Municipal Code, including, without limitation, the Oakland real estate regulations; (3) the Oakland Planning Code; (4) other applicable City policies and regulations; and (5) all applicable state and federal laws, rules and regulations.

SECTION 9. The custodians and locations of the documents or other materials which constitute the record of proceedings upon which the City Council's decision is based are respectively: (a) the Office of Housing And Community Development, 250 Frank H. Ogawa Plaza, 5th floor, Oakland CA; (b) Planning and Neighborhood Preservation Department, Planning Division, 250 Frank H. Ogawa Plaza, 3rd floor, Oakland CA; and (c) the Office of the City Clerk, 1 Frank H. Ogawa Plaza, 1st floor, Oakland, CA.

SECTION 10. The recitals contained in this Ordinance are true and correct and are an integral part of the Council's decision.

SECTION 11. This Ordinance shall be in full force and effect immediately upon its passage as provided by Section 216 of the City Charter if adopted by at least six members of Council, or upon the seventh day after final adoption if adopted by fewer votes.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2016

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID
AND PRESIDENT GIBSON MCELHANEY,

NOES-

ABSENT-

ABSTENTION-

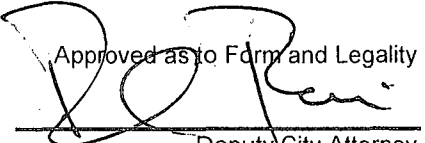
ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council
of the City of Oakland, California

ORDINANCE AUTHORIZING A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT WITH OAKLAND AND THE WORLD ENTERPRISES, INC., OR AN AFFILIATED ENTITY, FOR THE LONG-TERM GROUND LEASE OF PROPERTY AT 7TH STREET AND CAMPBELL STREET FOR DEVELOPMENT AS A MIXED USE AFFORDABLE HOUSING DEVELOPMENT, AND MAKING CEQA FINDINGS FOR THIS ACTION

NOTICE AND DIGEST

This Ordinance authorizes the long-term ground lease of City-owned real property located at 7th Street and Campbell Street to Oakland and the World Enterprises, Inc., at a nominal cost for development of affordable housing, an urban farm and supporting retail uses on the site. This Ordinance also authorizes the City Administrator to negotiate and enter into a Lease Disposition and Development Agreement with Oakland and the World Enterprises, Inc., for this transaction, and makes associated findings with respect to the California Environmental Quality Act (CEQA) and other matters.

2016 APR 28 PM 6:12

Approved as to Form and Legality

Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

RESOLUTION APPROPRIATING UP TO \$16,008 IN LICENSE FEES FROM A LICENSE AGREEMENT OF PROPERTY LOCATED AT 7TH AND CAMPBELL FROM THE LOW AND MODERATE INCOME HOUSING ASSET FUND FOR EXPENDITURES RELATED TO THE PROPERTY AND THE PROJECT

WHEREAS, the City of Oakland owns approximately 0.71 acres of property located at 7th and Campbell Streets in West Oakland (the "Property"); and

WHEREAS, Oakland and the World Enterprises, Inc. ("OAW") has proposed development of a mixed use development with housing and commercial/retail components (the "Project") on the Property, including a significant number of affordable housing units; and

WHEREAS, OAW is a nonprofit corporation recently formed to undertake this and other similar developments in the future; and

WHEREAS, OAW entered into a temporary license agreement with the City on October 31, 2014, which was amended effective October 31, 2015, to use the Property, with license fee payments that totaled \$13,500 during the course of the first year of the license agreement, and are projected to total \$16,008 in the second year of the amended agreement; and

WHEREAS, these license fees are income generated from a housing asset, and will therefore be deposited into the City's Low and Moderate Income Housing Asset Fund and must be used for eligible housing costs; and

WHEREAS, City Council Resolution 85373 C.M.S., approved on January 20, 2015, approved allocation of the first year's license revenue (totaling \$13,500) for City expenses related to the maintenance and pre-development work associated with the Property; and

WHEREAS, concurrently with this action, the City is seeking City Council approval to enter into a Lease Disposition and Development Agreement with OAW for OAW to pursue development of the Property as described above; and

WHEREAS, the City of Oakland desires to use the additional funds from the second year of the license agreement to cover the cost of maintaining the Property, as well as expenses associated with the proposed Project (e.g., appraisal and consultants needed to determine Project feasibility); now, therefore, be it

RESOLVED: That the City Council hereby appropriates the sum of \$16,008 in license fees from the Property deposited into the Low and Moderate Income Housing Asset Fund (2830) to the Housing Development Project (Project P151851), Housing Development Organization (89929) for costs of maintaining the Property, as well as City costs associated with the Project; and be it

FURTHER RESOLVED: That the City Council hereby authorizes the City Administrator or his/her designee to take all actions necessary with respect to this funding consistent with this Resolution and its basic purpose.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID, and PRESIDENT GIBSON MCELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California