

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COUNCIL AGENDA REPORT

2006 NOV -1 PM 4: 02

TO: Office of the Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: November 14, 2006

RE: **Resolution Authorizing An Owner Participation Agreements With EastSide Arts And Housing LLC To Provide A Residual Receipts Loan In An Amount Not To Exceed \$249,000 For Financing Of The EastSide Arts And Housing Project, A Mixed-Use Development At 2277-2289 International Boulevard**

SUMMARY

Staff has prepared a resolution authorizing the Redevelopment Agency to enter into an Owner Participation Agreement (OPA) with EastSide Arts and Housing, LLC (ESAH) to provide ESAH with a \$249,000 residual receipts loan for permanent financing of a mixed-use project at 2277-2289 International Boulevard (the "Project"). ESAH is a limited liability company set up for development of the Project, which consists of a cultural center, two live/work spaces, and 16 units of affordable housing. ESAH asks for the Agency's assistance in retiring the Project's short-term loans of approximately \$1.3 million. The residual receipts loan from the Agency is a significant component of ESAH's capital fundraising campaign, enabling ESAH to leverage up to \$900,000 from philanthropic sources.

FISCAL IMPACTS

The approval of the ESAH Owner Participation Agreement costs the Agency \$249,000 and repayment depends on the operating success of the mixed-use arts center. There are sufficient funds in the Oakland Redevelopment Agency's Coliseum Operations Fund (9450), Coliseum Redevelopment Organization (88659), and Coliseum-Staff Project (S82600) to make the loan.

The term of the loan is for 15 years at a simple interest rate of three percent. Annual payments will be made if the Project generates excess cash flow after paying other approved expenses such as fees, reserves, and debt service. Excess cash flow, which shall include ESAA's revenues from cultural center activities, will be determined by an independent auditor. The OPA will set the conditions for the Project's operations. If ESAH is not in default of any provision of the OPA at the end of the 15-year term, the Agency shall relieve ESAH of the obligation to repay any balance of the loan and accrued interest.

Even if the Project does not repay the residual receipt loan via excess cash flow, the capital improvements investment typically will generate higher property taxes. Staff estimates that the net tax increment added to the Agency Projects Fund will average about \$15,000 per year. In addition, an average of \$11,000 per year will be set aside for housing and \$2,000 per year for schools. The project tax increment revenue is significant and though not directly pledged for repayment generates benefit to the redevelopment area.

BACKGROUND

In 2005, the EastSide Arts Alliance (ESAA), a collective of artists and community organizers from the Lower San Antonio/Fruitvale neighborhood of East Oakland, formed a limited liability company with

Affordable Housing Associates (AHA), an affordable housing developer, to develop a mixed-use project at 2277-2289 International Boulevard. Ownership of the Project is apportioned 40/60 respectively between ESAA and AHA. The two organizations jointly fundraise, carry debt, and manage the project, which includes the EastSide Cultural Center (ESCC), two storefront live/work units, and 16 units of affordable housing.

The live/work and housing units are completed and occupied. The construction of the cultural center space is nearing completion, and ESAA, which operates ESCC, is in the process of moving in. ESAA pays a below market rent for the cultural center space to the partnership.

ESCC houses a 150-seat multi-use space for music, dance, theater, and spoken word events; a community art gallery; and space for free after school youth arts workshops in mural design, dance, music recording, and videography. ESCC also serves as a workspace for community artists who will have access to the multi-use space, a recording studio, darkroom, video editing suite, and screenprinting studio. This new space allows ESAA to expand its programming and schedule events throughout the week, including two nights of public rentals dedicated to serving the community's needs. ESAA anticipates increasing from 10,000 to 25,000 the number of people it annually serves.

Most of ESAA's audience base is families and individuals working in low wage jobs. Located in the heart of the San Antonio district, which has one of the highest concentrations of low-income residents in Oakland, the new building is the focus of a major community revitalization effort. The presence of a permanent cultural center will be a critical element in building an economically viable, safe and healthy environment for raising families and establishing small businesses. By offering alternative activities to the area's prevalent drug trade, gang violence, and prostitution, the center supports opportunities for social change.

KEY ISSUES AND IMPACTS

Capital costs of site acquisition and project construction are approximately \$4.5 million. This amount is currently covered by a combination of private and public funds, which includes long- and short-term loans and grant support. ESAH is engaged in a three-year capital campaign to raise approximately \$1.3 million to retire the short-term debt. If ESAH fails to raise the full amount, the partnership has the flexibility to renegotiate the short-term loans, particularly with the Northern California Community Loan Fund (NCCLF) which holds two notes due in three years. While renegotiating these loans is an option for ESAH, the stability of long-term financing is preferable and would help ensure the permanence and sustainability of Project, including the cultural center.

The Agency loan will enable ESAH to leverage funds from several philanthropic sources. Among them are the Haas Fund, the Ford Foundation, the Y and H Soda Foundation, and the San Francisco Foundation. These organizations gave ESAH a year to obtain Agency funding. If ESAH is successful, they agree to contribute funding in fiscal year 2007-08. The amount of leverage depends on the amount of the loan. Another pending contributor is the Kresge Foundation, which will provide a challenge/match grant of up to \$400,000 after ESAH is half way through its capital campaign. Without the Agency loan, ESAH could lose up to \$900,000 in grants.

**Eastside Arts and Housing Project, LLC
 Sources and Uses**

Construction Sources		Uses	
<u>Equity</u>		Site Acquisition	2,790,000
Eastside Arts and Housing, LLC	347,000	Constructions Costs	848,000
Foundations	628,000	Soft Costs	207,299
Total Equity	975,000	Furnishings	41,030
		Financing Costs	
<u>Debt</u>		Capitalization of Reserves	243,671
-Permanent Loans	2,250,000	Developer Fee	370,000
-Bridge Loans	1,275,000		
Total Debt	3,525,000	Total Costs	4,500,000
Total Funds	4,500,000		

Permanent Sources

<u>Equity</u>	
Eastside Arts and Housing, LLC	347,000
Foundations	
-Secured Grants	628,000
-Pending Grants	900,000*
-Pending Donations and Events	126,000
Total Equity	2,001,000
<u>Debt</u>	
-ORA Residual Receipts Loan	249,000**
-Permanent	2,250,000
Total Debt	2,499,000
Total Funds	4,500,000

* Pool of supporters from whom ESAH will be applying for grants:
 Akonadi Foundation, Annie Casey Foundation, Evelyn and Walter Haas, Jr Fund, East Bay Community Foundation, Ford Foundation, The James Irvine Foundation, The Kresge Foundation, San Francisco Foundation, Surdna Foundation, Vanguard Public Foundation, The William and Flora Hewlett Foundation, The Y and H Soda Foundation

** Pending

SUSTAINABLE OPPORTUNITIES

Economic: The Project turns a blighted site into an economically productive mixed-use development that includes commercial, residential, and cultural uses. Moreover, the Project will produce \$224,000 in additional tax increment for the Agency between 2007 and 2022, and serve to create a supportive environment for other development in the area.

Environmental: The Project's adaptive reuse of an existing structure conserves resources and retains the community's architectural heritage.

Social Equity: The Project provides low-income residents with attractive affordable housing options and brings a much-needed venue for social interaction and cultural development to a disadvantaged community. It will be a positive force in the revitalization of the Lower San Antonio neighborhood.

DISABILITY AND SENIOR ACCESS

The Project is new construction and complies with state and federal accessibility requirements, including the Americans with Disabilities Act Accessibility Guidelines and the State of California's Title 24 Accessibility regulations.

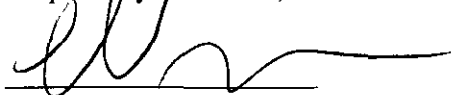
RECOMMENDATION AND RATIONALE

Staff recommends that the Agency approve the attached resolution that authorizes the Agency Administrator to negotiate an Owner Participation agreement with EastSide Arts and Housing, LLC, to provide a residual receipts loan in an amount not to exceed \$249,000 for the permanent financing of a mixed-use development at 2277-2289 International Boulevard Without the Agency's support, ESAH will lose vital grant funding, which will jeopardize the sustainability of the Project. Since the new facilities contribute to bottom-up development in a troubled urban area, their continued presence will meet City Council goals of eliminating economic blight and promoting a safe environment for Oakland's residents.

ACTION REQUESTED OF THE COUNCIL

Staff recommends that the Agency approve the attached resolution authorizing Owner Participation Agreements with EastSide Arts and Housing, LLC, and Eastside Arts Alliance to provide a residual receipts loans.

Respectfully Submitted,

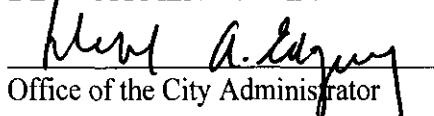


Daniel Vanderprie, Director
Redevelopment, Economic Development,
Housing & Community Development

Reviewed by
Gregory Hunter, Redevelopment Area Manager

Prepared by
Hui Wang, Urban Economic Analyst I
CEDA Redevelopment Division

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:


Office of the City Administrator

Item _____
CED Committee
November 14, 2006

OFFICE OF THE CITY CLERK
CITY OF OAKLAND

2006 NOV -1 PM 4: 02

Approved as to Form And Legality:

Agency Counsel

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Resolution No. _____ C.M.S.

RESOLUTION AUTHORIZING AN OWNER PARTICIPATION AGREEMENT WITH EASTSIDE ARTS AND HOUSING LLC TO PROVIDE A RESIDUAL RECEIPTS LOAN IN AN AMOUNT NOT TO EXCEED \$249,000 FOR PERMANENT FINANCING OF THE EASTSIDE ARTS AND HOUSING PROJECT, A MIXED-USE DEVELOPMENT AT 2277-2289 INTERNATIONAL BOULEVARD

WHEREAS, the EastSide Arts Alliance (ESAA) and Affordable Housing Associates (AHA) have formed a limited liability company, EastSide Arts and Housing, LLC (ESAH), to develop the EastSide Arts and Housing Project (the "Project"), a mixed-use project at 2277-2289 International Boulevard consisting of 16 units of affordable housing, two storefront live/work units, and the EastSide Cultural Center; and

WHEREAS, the Project is located within the boundaries of the Coliseum Project Area, conforms to the Redevelopment Plan for the Coliseum Redevelopment Project adopted on July 25, 1995, and subsequently amended on July 29, 1997, as well as the Five Year Implementation Strategy adopted on October 28, 1004; and its development help meet the goals and objectives of the Coliseum Area Redevelopment Plan; and

WHEREAS, ESAH has diligently pursued and secured sources of funds for the design and construction of the Project; and

WHEREAS, ESAH must replace \$1,275,000 in short-term construction loans with permanent financing; and

WHEREAS, ESAH can leverage up to \$900,000 in grants from philanthropic sources, if matching funds are available; and

WHEREAS, ESAH has requested from the Redevelopment Agency a residual receipts loan of \$249,000 to be used as matching funds for the grants; and

WHEREAS, no other reasonable means of private or commercial financing at the same level of affordability and quantity is available to ESAH other than the residual receipts loan; and

WHEREAS, funds are available in the Agency's Coliseum Redevelopment Project Area; now therefore be it

RESOLVED: That the Redevelopment Agency hereby authorizes the Agency Administrator or his designee to provide a loan in an amount not to exceed \$249,000 to EastSide Arts and Housing, LLC, or to an affiliated entity approved by the Agency Administrator or his or her designee, to be used for the permanent financing of the Project; and be it

FURTHER RESOLVED: That a total of \$249,000 will be allocated from the Oakland Redevelopment Agency's Coliseum Operations Fund (9450), Coliseum Redevelopment Organization (88659), and Coliseum-Staff Project (S82600); and be it

FURTHER RESOLVED: That the loan shall be for a maximum term of 15 years, with an interest rate of three percent per year, with repayment to the Agency from surplus cash flow from the Project and other available funds during the term of the loan with the balance due at the end of the term, or on such other repayment terms and schedule as the Agency Administrator or his or her designee determines are in the best interests of the Agency and the Project; and be it

FURTHER RESOLVED: That as a condition of the loan, the Agency will require that covenants be recorded on the Cultural Center property restricting the use of the property to cultural center uses for the term of the loan; and be it

FURTHER RESOLVED: That the loan shall be secured by a deed of trust on the Project land and improvements; and be it

FURTHER RESOLVED: That the making of the loan shall be contingent on and subject to such other appropriate terms and conditions as the Agency Administrator or his or her designee may establish; and be it

FURTHER RESOLVED: That the Agency hereby authorizes the Agency Administrator or his or her designee in his or her discretion to subordinate the priority of the Agency's deed of trust and/or recorded restrictions to a lien or encumbrance of another private or governmental entity providing financial assistance to the Project, if the Agency Administrator or his or her designee determines that (1) an economically feasible alternative method of financing the Project on substantially comparable terms and conditions but without subordination is not reasonably available, (2) the Agency's investment in the Project in the event of default is reasonably protected, and (3) subordination is in the best interests of the Agency; and be it further

FURTHER RESOLVED: That all loan documents shall be reviewed and approved by Agency Counsel for form and legality prior to execution, and copies will be placed on file with the Agency Secretary; and be it

FURTHER RESOLVED: That the Agency hereby authorizes the Agency Administrator or his or her designee to conduct negotiations, execute documents, administer the loan, extend or modify the repayment terms, and take any other action with respect to the loan and the Project consistent with this Resolution and its basic purpose.

IN AGENCY, OAKLAND, CALIFORNIA, _____, 2006

PASSED BY THE FOLLOWING VOTES:

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