

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
CITY OF OAKLAND

2006 APR 12 AM 11:12

TO: Office of the City Administrator /
Executive Director of the Oakland Joint Powers Financing Authority

ATTN: Deborah A. Edgerly

FROM: Finance and Management Agency

DATE: April 4, 2006

RE: **An Ordinance Authorizing the Exercise of the Option to Purchase Real Property Located at 450 Lancaster Street for the Oakland Museum of California Pursuant to Resolution No. 76569, Authorizing a Lease of the Real Property to the Oakland Joint Powers Financing Authority, Authorizing a Sublease of the Real Property from the Oakland Joint Powers Financing Authority, and Authorizing of Tax-Exempt Lease Financing in an Amount Not to Exceed \$5,000,000**

SUMMARY

On July 10, 2001, the City of Oakland (the "City") approved Resolution No. 76569 C.M.S. authorizing a lease with an option to purchase the property at 450 Lancaster Street for the Oakland Museum of California. An ordinance has been prepared authorizing the City to execute the option to purchase the building at 450 Lancaster Street (Oakland, CA) for the Oakland Museum. This ordinance would also authorize the City, through the Oakland Joint Powers Financing Authority (the "JPFA"), to finance this building purchase through a tax-exempt lease financing in an amount not-to-exceed \$5,000,000.

FISCAL IMPACTS

The City currently leases the property at 450 Lancaster Street for \$34,148.14 per month (\$409,777.68 annually). Under the current lease, the rent is subject to annual increases at CPI, but not to exceed 5% in any one year.

Because the current lease agreement subjects the City to annual increases in lease payments, financing the building purchase through a tax-exempt lease transaction will result in no negative fiscal impact overall.

Based on current assumptions regarding interest rate and fees, the total monthly cost of financing the property purchase is estimated to be approximately \$40,000. This amount will continue to be paid out of the General Purpose Fund. While this may be higher than the current monthly lease payments of \$34,148.14, the monthly financing cost is fixed and not subject to annual increases, unlike the current lease payments. In effect, the building purchase would positively impact the City's fiscal position in that at the end of financing term, the City would own the building, which has undertaken significant tenant improvements to accommodate the museum's special use.

BACKGROUND

On July 10, 2001, the City approved a resolution authorizing a lease with an option to purchase the

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62,400 square feet property at 450 Lancaster Street for the Oakland Museum of California Collection Center. The museum presently houses its museum collections at the Oakland Army Base. This lease agreement was executed with the knowledge that in August of 2006, the museum would have to vacate its present storage location at the Oakland Army Base and relocate to the new facility. To relieve the City of the rental payments, the Real Estate Division secured a subtenant for 450 Lancaster for several years. However, the property has been vacant for the last twenty months. The City had the right to exercise the option to purchase effective June 1, 2004, and the option period runs until August 31, 2010. The purchase price of the option is based on the original price of \$4,400,000 plus the relative change in CPI from August 1, 2001 to the date of the exercise of option, less 10% of all rents paid during the lease period. The final price, including escrow and closing costs, has been determined to be approximately \$5,000,000. The Oakland Museum Foundation has been working with the museum to complete the necessary tenant improvements that are needed to house the museum artifacts; approximately \$6,000,000 have already been spent on tenant improvements. These tenant improvements have converted standard warehouse space into a state of the art special purpose artifact storage facility.

KEY ISSUES AND IMPACTS

In order to purchase the property at 450 Lancaster Street, the City and its JPFA would need to finance this purchase with a tax-exempt lease financing. In essence, the City would purchase the 450 Lancaster Street property from the current owners, George and Sara Sharpe, from monies borrowed from a financial institution.

It is in the best interest of the City to acquire the facility in lieu of renting, because of the equity investment made for the tenant improvement work. It should be noted that if the City terminates the lease, the City would have to remove all the special tenant improvements at an additional cost, *restore the building back into its pre-lease condition and pay to move and relocate the museum collections*. The improvements already made to the structure will successfully accommodate the long-term storage requirements of the museum.

In addition, the new location will facilitate the re-accreditation of the museum by the American Association of Museums. The last accreditation was granted conditioned upon and with expectations that the collections would be relocated to a new or remodeled facility.

The requirements of the California Environmental Quality Act of 1970 ("CEQA"), the CEQA Guidelines, and the provisions of the Environmental Review Regulations of the City of Oakland have been met, and the actions authorized by this action are exempt from CEQA under Sections 15061(b)(3) (general rule).

In order to accomplish the property purchase, the City and the Governing Board of the JPFA would need to adopt the ordinance(s) authorizing tax-exempt lease financing and any costs related to the financing.

SUSTAINABLE OPPORTUNITIES

There is no impact to economic, environmental, or social equity opportunities following actions under this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no impact to disability or senior citizen access following actions under this report.

RECOMMENDATIONS AND RATIONALE

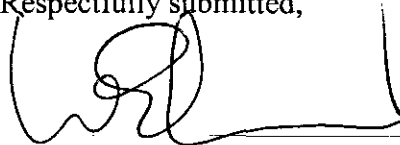
Staff recommends that the City Council and the Governing Board of the JPFA approve the respective ordinance authorizing the right to exercise the option to purchase the property at 450 Lancaster Street. This acquisition of the property will provide the museum a secure modern facility for the storage of its artwork, historical artifacts, photographs, and archival materials.

Staff also recommends that the City Council and Governing Board authorize financing the building purchase through a tax-exempt lease financing in a not-to-exceed amount of \$5,000,000.

ACTIONS REQUESTED OF THE CITY COUNCIL AND THE GOVERNING BOARD

Staff requests that the City Council and the Governing Board of the JPFA approve the ordinance authorizing the exercise of the option to purchase real property located at 450 Lancaster Street for the Oakland Museum pursuant to Resolution No. 76569. Staff also requests that the City Council and Governing Board authorize: the lease of the real property to the JPFA; the sublease of the real property from the JPFA; and the tax-exempt lease financing in the amount not to exceed \$5,000,000.

Respectfully submitted,



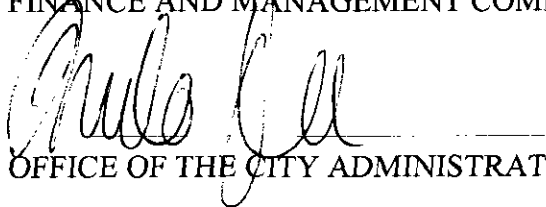
WILLIAM E. NOLAND

Director, Finance and Management Agency/ Treasurer

Prepared by:

Katano Kasaine
Treasury Manager

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE


OFFICE OF THE CITY ADMINISTRATOR

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2006 APR 12 AM 11:12

Approved as to Form and Legality
[Signature]
Oakland City Attorney's Office

OAKLAND CITY COUNCIL

Ordinance No. _____ C.M.S.

AN ORDINANCE AUTHORIZING THE EXERCISE OF THE OPTION TO PURCHASE REAL PROPERTY LOCATED AT 450 LANCASTER STREET FOR THE OAKLAND MUSEUM OF CALIFORNIA PURSUANT TO RESOLUTION NO. 76569, AUTHORIZING A LEASE OF THE REAL PROPERTY TO THE OAKLAND JOINT POWERS FINANCING AUTHORITY, AUTHORIZING A SUBLEASE OF THE REAL PROPERTY FROM THE OAKLAND JOINT POWERS FINANCING AUTHORITY, AND AUTHORIZING OF TAX-EXEMPT LEASE FINANCING IN AN AMOUNT NOT TO EXCEED \$5,000,000.

WHEREAS, the Oakland Museum of California (the "Museum") presently houses its museum collections in a storage facility at the Oakland Army Base, pursuant to a lease that will expire in August of 2006; and

WHEREAS, the City leases a currently vacant facility 62,400 square feet facility (the "Property") located at 450 Lancaster Street in the City of Oakland (the "City") from George and Sara Sharpe (the "Owners"), which is an appropriate facility for relocation of the museum collection by the Museum; and

WHEREAS, the Owners have previously given the City an option to purchase the Property from the Owners at a price equal to \$4,400,000, plus annual increases in the CPI not to exceed 5% in any one year, less certain credits for rent previously received; and

WHEREAS, because the current lease agreement subjects the City to annual increases in lease payments, financing the building purchase through a tax-exempt lease transaction will result in no negative fiscal impact overall; and

WHEREAS, the City anticipates that the current price for exercising the option including escrow, closing and financing costs will not exceed \$5,000,000; and

WHEREAS, City staff has determined that exercising the option to purchase the Property is in the best interest of the City as it will stabilize the cost to the City of storing the Museum's collection; and

WHEREAS, the requirements of the California Environmental Quality Act of 1970 ("CEQA"), the CEQA Guidelines as prescribed by the Secretary of Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been satisfied,

WHEREAS, the City desires to finance the purchase of the Property through a tax-exempt lease financing through the Oakland Joint Powers Financing Authority with the Bank of America, N.A. To accomplish the tax-exempt financing the City will lease the premises to the Oakland Joint Powers Financing Authority, and will sub-lease the premises back from the Oakland Joint Powers Financing Authority; NOW THEREFORE

THE COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS FOLLOWS:

SECTION 1. The City Council finds and determines that it is necessary and advisable, and in the best interest of the City, that the City purchase the Property from the Owners.

SECTION 2. The City Administrator or her designee is hereby authorized to negotiate and execute documents necessary to exercise the option described above and to purchase the Property.

SECTION 3. The financing of the acquisition of the Property through a tax-exempt lease financing with the Oakland Joint Powers Financing Authority and the Bank of America, N.A., is hereby approved.

SECTION 4. To accomplish tax-exempt lease financing, the City Administrator or her designee is hereby authorized to negotiate and execute such documents necessary to lease the Property to the Oakland Joint Powers Financing Authority, to sublease the Property back from the Oakland Joint Powers Financing Authority, and to secure tax-exempt lease financing from the Bank of America, N.A., through the Oakland Joint Powers Financing Authority in an amount not to exceed \$5,000,000, including closing, escrow and financing costs, and costs of issuance.

SECTION 5. The City Council finds and determines that the requirements of the California Environmental Quality Act of 1970 (CEQA), the CEQA Guidelines, and the provisions of the Environmental Review Regulations of the City of Oakland have been met, and the actions authorized by this Ordinance are statutorily exempt from CEQA under Section 15061(b)(3) (general rule).

SECTION 6. The City Administrator or her designee is hereby authorized to negotiate and execute documents and take any and all actions necessary, consistent with this ordinance, to complete the purchase and financing of the Property.

SECTION 7. All documents shall be approved as to form and legality by the City Attorney's Office and copies shall be filed with Office of the City Clerk.

SECTION 8. This ordinance shall become effective immediately on final adoption if it receives six or more affirmative votes; otherwise it shall become effective upon the seventh day after final adoption.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2006

PASSED BY THE FOLLOWING VOTE:

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

NOES –

ABSENT –

ABSTENTION –

ATTEST:

LATONDA SIMMONS
City Clerk and Clerk of the Council of
the City of Oakland, California

Richard D. Boyd

NOTICE AND DIGEST

AN ORDINANCE AUTHORIZING THE EXERCISE OF THE OPTION TO PURCHASE REAL PROPERTY LOCATED AT 450 LANCASTER STREET FOR THE OAKLAND MUSEUM OF CALIFORNIA PURSUANT TO RESOLUTION NO. 76569, AUTHORIZING A LEASE OF THE REAL PROPERTY TO THE OAKLAND JOINT POWERS FINANCING AUTHORITY, AUTHORIZING A SUBLEASE OF THE REAL PROPERTY FROM THE OAKLAND JOINT POWERS FINANCING AUTHORITY, AND AUTHORIZING OF TAX-EXEMPT LEASE FINANCING IN AN AMOUNT NOT TO EXCEED \$5,000,000.

The Ordinance authorizes the City Administrator or her designee to take all actions necessary to the exercise of the option to purchase real property located at 450 Lancaster Street (the Property) for the Oakland Museum pursuant to Resolution No. 76569. For purposes of tax-exempt financing of the Property, the Ordinance further authorizes the City Administrator or her designee to lease the Property to the JPFA, to sublease of the real property from the JPFA, and obtain the tax-exempt lease financing in the amount not to exceed \$5,000,000.

The Ordinance further approves and authorizes the negotiation and execution of documents necessary for purchasing and financing the property.