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OCTOBER 25, 2005

IGNACIO DE LA FUENTE, PRESIDENT  
CITY COUNCIL  
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

**SUBJECT: REDEVELOPMENT AGENCY RESOLUTION AUTHORIZING AN OWNER PARTICIPATION AGREEMENT WITH JACKSON CENTER TWO, LLC, FOR THE DEVELOPMENT OF A MIXED-USE PROJECT WITH A PUBLIC PARKING GARAGE AT 235 12<sup>TH</sup> STREET IN THE CENTRAL DISTRICT THAT INCLUDES AN AGENCY REBATE OF THE NET PROPERTY TAX INCREMENT GENERATED BY THE PROJECT**

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**PURPOSE AND SCOPE**

In accordance with the Measure H Charter Amendment, which was passed by the voters at the General election of November 5, 1996, we have made an impartial financial analysis of the accompanying Proposed Resolution and Agenda Report. In making our analysis, we also asked for additional information and clarification from Redevelopment Agency staff.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Since the Measure H Charter Amendment specifies that our impartial financial analysis is for informational purposes only, we did not apply Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States. Moreover, the scope of our analysis was impaired by Administrative Instruction Number 137, effective May 21, 1997, which provides only two (2) weeks for us to plan, perform and report on our analysis. Due to this time constraint, we did not verify data contained in the Proposed Resolution and Agenda Report.

**BACKGROUND**

The Proposed Resolution authorizes Oakland Redevelopment Agency staff to enter into an Owner Participation Agreement with Jackson Center Two, LLC (Developer) for construction of a mixed-use building. The Oakland Redevelopment Agency (ORA) started the 10K Housing Program in 1999. The goal of the 10K Housing Program is to develop new living units for 10,000 residents in the downtown area. Surface parking lots are primary targets for constructing the new units. Accordingly, public parking spaces are eliminated and the ORA is seeking to replace some of these lost spaces.

As part of the 10K Housing Program, the Developer has proposed to develop the project to include 104 residential living units. The site is located on a corner lot at 12th and Alice Streets. The structure will be named Jackson Center Two. Immediately adjacent to this proposed mixed-use project is a recently finished commercial building named Jackson Center One. Both sites are owned by the same company although the residential units will be sold as condominiums.

Jackson Center Two will also contain space for retail establishments. The proposal includes provisions for off-street parking as follows:

Type	Spaces
Reserved parking for on-site residents	104
Reserved parking for retail establishments	14
Parking available for the general public	163
Total	281

The Developer is requesting a rebate of the net property tax increment to offset some of the construction costs related to the 163 public parking spaces. As stated previously, the ORA is seeking to replace some of the public parking spaces lost to development. The Redevelopment Agency requests authorization to enter into an Owner Participation Agreement to rebate the net property tax increment to the Developer as a means to do so.

**FISCAL IMPACT**

The net property tax increment for the purpose of the rebate agreement is the assessed tax amount remaining after deducting portions reserved for other entities from the gross amount. The estimated assessed property value for Jackson Center Two is \$42,571,922.

Based on calculations provided in Exhibit B of the Agenda Report and discussion with staff, the calculation for the first year of the tax rebate is as follows:

Year 1

Gross property tax, \$42,571,922 x 1.15%		\$489,577
Less: Housing set-aside, \$489,577 x 25%	\$122,394	
City share of pass-thru, \$489,577 x 20% x 34%	33,291	
Pass-thru to other governmental entities	<u>64,624</u>	<u>220,309</u>
Net property tax increment to Developer		<u>\$269,268</u>

The housing set-aside revenues go to the Low and Moderate Income Housing Fund for the purposes of affordable housing. In addition to the City share of the pass-thru revenues, the City is expected to separately receive parking tax revenue of \$40,291 in the first year.

The net property tax increment amount to the Developer would have otherwise been claimed by the Redevelopment Agency for discretionary purposes. Our limited analysis of the tax rebate is presented in Attachment 1.

Jackson Center Two will be the first mixed-use development under the 10K Housing Program with an Owner Participation Agreement that includes a public parking subsidy. There is no similar model of comparison for the rebate terms on a mixed-use project with public parking. Future developers could use this project as a reference point. According to staff, consideration may be given to future public parking subsidy requests in mixed-use projects based on such factors as parking demand in the project's vicinity and funding availability.

### **CITY AUDITOR CONCERNS**

#### **Publicized parking**

1. The first page after Exhibit C of the Agenda Report illustrates an architectural rendering of the building. The availability of general-purpose public parking in a privately-owned building may not be readily conspicuous to a passing motorist unless there is visible signage to that effect. According to staff, the parking spaces are behind and underneath the retail and housing areas.

The Council should consider having assurances in place that the parking structure will be well-publicized such that the community will know they are welcome to park there even though they may not be doing any business in Jackson Center Two.

#### **Equal Access**

2. As stated in the Agenda Report, the Downtown Transportation and Parking Plan study conducted in 2003 concluded there would be a need for approximately 3,600 parking spaces in the greater downtown area over the following twenty years.

The project site is near public transit. However, the immediately adjacent Jackson Center One has fifty parking spaces, which is considered a limited amount by staff in relation to the occupancy of the building. As such, demand for public parking is expected from users of Jackson Center One.

Based upon the results of the downtown parking study and the close proximity of Jackson Center One, there is anticipated demand for public parking in the proposed development. To ensure transient parking patrons such as shoppers will utilize the spaces, no more than half of the public spaces can be devoted to monthly parking patrons.

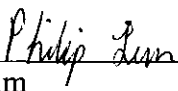
The Council should consider having assurances in place that merchants who are not tenants of Jackson Center One or Two will have the same opportunities at equal cost as tenants of these buildings to utilize public parking services such as acquiring monthly parking passes or purchasing validation stamps for their customers.

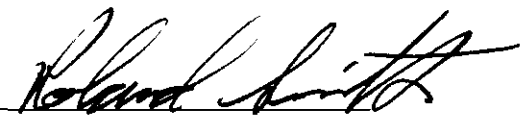
**CONCLUSION**

Before approving the Proposed Resolution, the Council should consider the City Auditor concerns.

Prepared by:

Issued by:

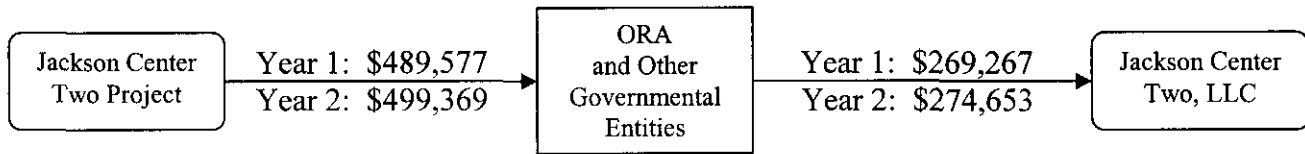
  
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Philip Lim  
Deputy City Auditor

  
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Roland E. Smith, CPA, CFS  
City Auditor

Report completion date:  
October 12, 2005

Attachment

The net property tax increment rebate process, based on projections for years 1 and 2 shown in Exhibit B of the Agenda Report, is summarized as follows:



1. In year 1, the completed mixed-use development generates \$489,577 in new assessed property tax revenue.
2. The Redevelopment Agency remits \$269,267 to the Developer. This amount represents 55% of the \$489,577 in new assessed property tax revenue for year 1.
3. Payments from the Redevelopment Agency to the Developer would continue in this fashion with varying property tax revenue projections in future years, until a net present value amount of \$2,006,000 is reached.
4. The equation for calculating when the net present value of \$2,006,000 is reached is as follows:

$$\frac{P_1}{(1.085)^1} + \frac{P_2}{(1.085)^2} + \frac{P_3}{(1.085)^3} + \dots + \frac{P_n}{(1.085)^n} = \$2,006,000$$

P = Annual property tax revenue payment amount from the Redevelopment Agency to the Developer

n = The last period of the property tax revenue payment

5. In year 2, the mixed-use building generates property tax revenues totaling \$499,369.
6. The Redevelopment Agency is projected to remit \$274,653 to the Developer, which also represents 55% of the new assessed property tax revenue for year 2.
7. The net present value of these first two years of payments is as follows:

$$\frac{\$269,267}{(1.085)^1} + \frac{\$274,653}{(1.085)^2} = \$481,478$$

8. Up to year 2, the net present value is \$481,478. Payments from the Redevelopment Agency would continue until the sum of the net present value of these payments eventually equals \$2,006,000 in future years using the equation in line 4.

9. By contrast, the nominal value of the first two years of sales tax payments is:

$$\$269,267 + \$274,653 = \$543,920$$

10. The following table shows the equal sum of all eleven annual payments at the nominal and discounted values beginning in 2009; the estimated first full year of property tax revenue generation. The eleven payments are based on projections provided in Exhibit B of the Agenda Report.

	Nominal amount	Amount at 8.5% discount rate
Property tax payments from Redevelopment Agency to Developer	\$3,187,403	\$2,006,558

11. The estimated cost of developing the 163 public parking spaces in current dollars is \$3,912,000.

12. The 8.5% discount rate ensures a certain real rate of payments to the Developer for the risks incurred in developing the public parking.

The last payment is scheduled to occur in 2019. If property tax revenues do not materialize according to projections, then payments will continue until the year 2022 and then stop whether the net present value of \$2,006,000 is realized or not.