REDEVELOPMENT AGENCY
OF THE CITY OF OAKLAND

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OFFICE OF THE CITY CLERK
OAKLAND

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AGENDA REPORT

TO: Office of the Agency Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: July 28, 2009

RE: **Supplemental Report Regarding the Resolution Authorizing the Agency Administrator to Negotiate and Enter into an Exclusive Negotiating Agreement for a Term of 360 Days from Agency Approval, Between the Oakland Redevelopment Agency and AMB Property Corporation / California Capital Group and/or Federal Oakland Associates Regarding a Proposed Development of a Mixed-Use Project Consisting of Logistics, Industrial, Office, Project-Serving Retail and Other Uses Mandated by the Agency on Up to 135 Acres of the Former Oakland Army Base**

SUMMARY

This Supplemental Report addresses questions posed to staff during the July 14, 2009 Community and Economic Development (CED) Committee meeting and provides additional information regarding entering into an Exclusive Negotiating Agreement (ENA) with a Master Developer for the former Oakland Army Base (OARB).

BACKGROUND

The report presented to the CED Committee on July 14, 2009 described the selection process and Interview Panel recommendations as a basis for entering into ENA negotiations. After thorough evaluation, the Panel determined that the development proposed by AMB Property Corporation/California Capital Group (AMB/CCG) would best meet the Agency's goals and the community's needs and expectations. Staff concurs with the Panel's recommendation to enter into an ENA with AMB/CCG.

The development proposed by AMB/CCG offers the City of Oakland a unique opportunity to capture economic benefits from the Port of Oakland's economic engine, including the chance to substantially expand green technology industries in Oakland. Several locations suitable for large format retail exist in Oakland, but only the OARB is adjacent to the Port and suitable for a centralized trade and logistics center. As detailed below, the expansion of Port-linked infrastructure, trade, logistics, and R&D activities will create multiplier effects in job creation and revenue generation for the City and its residents. No other foreseeable type of development at the OARB or anywhere else in the City has the same potential for sustainable economic benefits to Oakland.

The ENA negotiation period gives the City and the developer time to define the development program and to establish other development characteristics. An ENA will also provide the selected developer with the level of certainty regarding the project needed to justify the significant expenditures of time and money involved in negotiating a Lease Disposition and Development Agreement (LDDA) and completing the various analyses necessary to refine the development concept and produce meaningful cost and revenue projections. However, the current conceptual development proposals from both parties are speculative, and not meant to provide the specificity needed as a basis for detailed financial analysis. Detailed information would emerge during an ENA negotiation process, enabling a more accurate approach to the analysis of costs and benefits. As a result, staff and its on-call economic consultant are reluctant to use the rough conceptual models at hand as a basis for definitive financial analysis. Staff urge the Council to bear that caution in mind when considering the very preliminary profile of potential financial benefits provided in this report.

RESPONSES TO AGENCY BOARD QUESTIONS

1. *How will the City benefit financially and what is the rate of return for the City from either proposal?*

During the pre-ENA developer selection process, respondents to an RFP usually submit project information that is largely conceptual in content, including preliminary pro formas to demonstrate project financial feasibility. In this context, pro formas are merely intended to present a general overview of project financing assumptions and their relationship to the business deal to be negotiated, with the understanding that substantial additional information will be provided during the ENA phase, such as detailed income and cost projections as well as projected utility consumption data for each development scenario in order to prepare tax revenue estimates.

The numbers in Table 1 are aggregated from the developers' proposals with little independent review.

Table 1. Summary of Conceptual Financial Benefits

	AMB/CCG	Federal Oakland Associates (FOA)
General Fund Tax Revenues (1) (2)	+/- $4 Million/Year at full build-out. This consultant's estimate is highly conceptual and does not discount the monetary value over time. (3) (4)	
RDA Non-Housing Tax Increment (TI):	$20 Million Net Present Value (NPV) – identified as source to fund infrastructure	$20 Million Net Present Value (NPV) – identified as source to fund infrastructure

	AMB/CCG	Federal Oakland Associates (FOA)
RDA Housing TI	$13 Million NPV – available for affordable housing Citywide	$13 Million NPV – available for affordable housing Citywide
Infrastructure Cost	$70 Million	$128 Million
Non-Housing TI funding source	$20 Million	$20 Million
Unidentified funding sources	$50 Million	$108 Million
Ground Lease Term	66-year ground lease with the option to extend for an additional 33 years. Term commencement upon the receipt of building permits	Unspecified long-term ground lease or sale of land
Ground Lease Rent	• Rent payments start upon the earlier of "lease stabilization" of each building (e.g. 95 percent leased) or 12 month after receipt of a certificate of occupancy. • Base annual rent will be equal to 6.5 percent of fair market value of each parcel, not to exceed 15 percent of annual Net Operating Income for each building. • Rent will be fixed for the first 10 years for each parcel, and then adjusted every 10 years thereafter, with each individual adjustment capped at 20 percent.	• Rent payments starts after developer's return passes an Internal Rate of Return (IRR) of 20% based on a 75/25 split of available cash flow: FOA - 75%, ORA - 25% • Cash flow above this threshold would then be shared with the Agency according to several tiers of return to the developer. • Projecting a specific rent amount is not possible because the developer does not provide methods of specifying the IRR (5)

(1) The Film Center and Produce Market are excluded from the analysis since they are either existing uses or will be relocated from elsewhere in Oakland.
(2) It is assumed that the project will not generate any parking taxes because the proposed parking facilities will serve employees and/or patrons of each proposal at no cost.
(3) Significant revenue from the FOA proposal would derive from Transit Occupancy Taxes generated by a 250 room extended-stay hotel in the out years of the proposal.
(4) Business license tax for logistics is based on numbers of employees, while retail taxes are based on gross receipts.
(5) The IRR would vary substantially depending on a ground lease or sale scenario, and it is based on specific definitions of "return", and "equity" by the development team.

General Fund Tax Revenues

The estimated annual tax revenues to the City's General Fund are based upon build-out of the full conceptual development programs that were proposed. Revenues under the AMB/CCG proposal are comprised primarily of business taxes to be generated by office and R&D tenants. Revenues under the FOA proposal are comprised primary of transient occupancy tax (TOT) from the proposed hotel in Phase 3, business license tax, and sales tax from the proposed retail in Phase 1.

Redevelopment Agency Tax Increment

The projection of tax increment accruing to the Agency assumes full build-out of the conceptual programs according to the phasing schedule included in the proposals. Approximately the same amount of tax increment is generated under each proposal on a present value basis. The non-housing tax increment is identified in both proposals as a potential source of funding for infrastructure costs. The housing tax increment would be available to fund affordable housing development throughout the City.

Infrastructure Cost

The OARB requires substantial initial infrastructure improvements. Each development team relies on significant amounts of public funding to cover the costs of these improvements and identifies potential sources of financing the infrastructure through tax increment and other methods. During the Interview Panel's consideration, neither proposal specified the proportional share of potential infrastructure funding from local, state and federal sources, nor did the teams offer any detailed construction cost information to corroborate the amounts stated. This lack of specificity is a function of the conceptual nature of the developers' pro forma at this stage of the project.

Ground Lease Revenue

Both teams proposed a ground rent payment to the Agency in their original submittals; however, both teams also assume that infrastructure costs will generally be funded by public sources. Tax increment from the project is projected to be sufficient to fund only a portion of the infrastructure costs. If other public financing sources cannot be identified for the balance of the costs ($50 million and $108 million for AMB/CCG and FOA respectively), the alternative is for the costs to be borne by the private sector, which would impact the ground lease payment that can be supported. Since it is unknown whether third party public financing sources can be secured, any rent proposals should be viewed as particularly preliminary and subject to change during the ENA phase.

Rate of Return to the City and Agency

To compute an Internal Rate of Return (IRR) for the City and Agency, it is necessary to quantify the amount and timing of all revenues and costs associated with the project. Since a key input to the calculation, the portion of infrastructure costs to be funded with City/Agency resources, has not been determined, it is premature to compute an IRR at this time.

2. *How will R&D and logistics uses benefit the City?*

Benefits of Logistics to the City

In 2006, the Oakland Metropolitan Chamber of Commerce (OMCC) commissioned a report on Oakland's economic opportunities and challenges. The report identified possibilities for growth in both emerging and historical sectors, including trade and logistics, which in the City of Oakland is largely driven by the Port. The Port positions Oakland to capture some of the growth in the global logistics industry, offering particular advantages to companies whose manufacturing, warehousing and distribution operations are located in or near Oakland. From a competitive standpoint, the Port provides huge potential spillover benefits to Oakland, such as enhancing the City's image as an international gateway and offering an enriched slate of employment and training opportunities.

The Port is an engine for jobs, both locally and regionally. According to the "Economic Impact Study of Port of Oakland Maritime Operations" prepared by Martin Associates in 2006, Port activities directly generated 9,880 jobs. Another 14,821 jobs were induced by providing goods and services to the 9,880 individuals directly involved with Port activity. An additional 3,821 local jobs were created indirectly through business organizations that use Port services.

Alameda County residents held nearly 45 percent of the direct jobs, with residents of Oakland holding approximately 17 percent, or 1,679 jobs. The City has never put in place the capacity to capture more of the employment opportunities generated by the Port. Aligning OARB development with the Port and building an industrial base would enable Oakland to keep a much larger share of the dollars and jobs being generated in addition to creating capacity for value-added work.

Port expansion would result in significant multiplier effects for the City of Oakland. The study noted that in 2005, $502.6 million dollars were received by those 9,880 directly employed by activity at the Port of Oakland. Through the re-spending of this income for purchases in the Bay Area, an additional 14,821 induced jobs were generated at the retail and wholesale levels only. Even more jobs may have been induced if subsequent rounds of spending are considered. Martin Associates estimated that firms directly dependent on maritime activity at the Port of Oakland made $417.9 million of local purchases, which supported 3,821 indirect jobs in the local economy.

In addition to the local purchases made by firms and the attendant sales tax, in 2005, the City received from the Port $61.3 million in local taxes, such as possessory interest tax, utility consumption tax, sewer service charge tax, and business license tax.

Benefits of R&D to the City

OMCC's report noted that a number of industries are emerging with strong potential for growth, including green industry, arts, design, digital media, and specialty food manufacturing.

Green industry is the sector targeted for Research and Development (R&D) on the OARB. While the broader professional services sector of which green industry is a part grew at a 2.4 percent from 2001 to 2006, two of its subsectors grew at much higher rates: employment in management, scientific, and technical consulting in Oakland grew 8.4 percent, and employment in scientific, research, and development services grew by 7.7 percent. The growth in these two subsectors has been fueled by burgeoning green industries.

This growth offers Oakland an opportunity to diversify the City's employment base. Approximately 20 percent of employment in Oakland is in the government sector. This is a higher concentration than the U.S. as a whole. Government is a non-taxpaying sector and is not a wealth-generating enterprise. Green technology R&D and commercialization, however, promise to be robust, long term, and diversified job producers.

3. *What is the market for R&D right now?*

Funding for R&D in green technology is up dramatically in recent years, even in a depressed economy, and this trend is expected to continue indefinitely. Craft Consulting Group states that "Venture capital investment in clean technology companies surged from less than $600 million in 2000 to over $2.6 billion in 2007… California led the way in cleantech venture investments in 2006, bringing in a total of $1.13 billion… In the last several years, cleantech has moved from a specialty area to the third largest investment category for venture capital behind biotechnology and software…. Assuming a growth rate of 10-20 percent, venture capital investment in cleantech could double over the next 5-8 years."

The City of Oakland, seven other local governments, and five educational institutions have banded together as the East Bay Green Corridor Partnership specifically to capture more R&D, startups, expansions, and attractions in the green tech sector. Because Berkeley and Emeryville are fairly built out, Oakland has a unique opportunity at the OARB to build facilities for R&D in green technology, and for commercialization of these technologies.

4. *Why would retail not work in this area?*

Staff believe that retail uses would not work as well at the OARB as in other Oakland locations, for the following reasons:

- Access for retail at the OARB site is inferior to access to the other likely sites (Table 2)
- Truck, train and container traffic generated by Port operations will conflict with vehicle and pedestrian traffic generated at the retail sites.
- "Big-box" retail as proposed by FOA, and in every RFQ response received by the Agency, would be less desirable than Destination/Lifestyle retail.
- Infrastructure costs are higher for retail uses at this location.

City Council approved the Preferred Development Scenario in the RFP, which calls for mixed-use commercial and industrial development that can attract key industries to Oakland. Substantial development in the trade and logistics areas, for example, is only possible on land immediately proximate to the Port. Consequently, the evaluation process began with that land use decision. The Interview Panel recommended AMB/CCG in the belief that AMB/CCG's proposal better satisfies the land use criteria and development goals prescribed by City Council. The Panel's decision was amplified by the following reasons:

- Trade and logistics and light industry would be a better use for the OARB than retail, as it would be most advantageous for Oakland to develop the site as a sustainable generator of direct and indirect employment into the foreseeable future.

- FOA's proposal requires a larger subsidy than AMB/CCG's. The Panel believes that if the City and Agency are contemplating a subsidy for retail they should provide it in a manner that would bolster the city's existing and struggling regional shopping destinations rather than in creating a brand new destination.

- The jobs produced directly and indirectly through the proposed AMB/CCG development would be of higher quality in wage and benefit terms.

- Retail can go elsewhere in the City, but a logistics center must be in close proximity to the Port.

The 2008 Oakland Retail Enhancement Strategy, which identified two locations in Oakland other than the OARB for large format retail development: Upper Broadway and the 880 Loop. In response to the Strategy, City Council directed staff to pursue large format retail development in these two locations.

Table 2 compares the three sites and shows several advantages of the Upper Broadway and 880 Loop locations, which are more easily accessed and require fewer infrastructure improvements than the OARB.

Table 2. Comparison of Potential Large Format Retail Sites

	Former Oakland Army Base	880 Loop	Upper Broadway aka Broadway/ Valdez District
Location	Far west Oakland adjacent to 80, 580, 880 interstates, Port, Bay Bridge, EBMUD, West Oakland neighborhoods.	East Oakland adjacent to 80 interstate Hegenberger Gateway Shopping Center, Oakland Coliseum Area, Oakland International Airport and business park, and the hotel cluster.	Northern Oakland adjacent to 580 and 980 interstates, Alta Bates Summit and Kaiser Oakland Medical Centers, Downtown Oakland, Lake Merritt.
Acreage available to large format retail	+/- 53 acres (per FOA's proposal)	+/- 34 acres	10-20 acres
Freeway on/offs	2 on/offs at West Grand Ave., 7th St.	6 on/offs at High St., 66th Ave., Hegenberger Rd	5 on/offs at Northgate St., Oakland/Harrison Aves, Webster St. / Broadway
Freeway visibility	Good	Excellent	Good
	Former Oakland Army Base	**880 Loop**	**Upper Broadway aka Broadway/ Valdez District**
Ease of freeway access	Fair	Good	Fair
Street access	West Grand Ave., Maritime St.	Oakport Rd and Coliseum Way	Broadway, 27th St. Webster St., Valdez St., etc.
Infrastructure improvements (streets, sidewalks, sewers, hazmat mitigation, low water table, etc.)	None in place. Backbone infrastructure and streetscape improvements required.	Basic services in place. Utility extensions and relocations as well as streetscape improvements required at certain locations.	Basic services in place. Some utility upgrades required.

5. *How is the Port land being developed?*

Although the Port of Oakland is the fifth largest port by container traffic in the United States, it faces a rapidly changing business climate, financial constraints, and customer and industry demands for higher performance. The Port hopes to meet these challenges with the Outer Harbor Intermodal Terminal (OHIT), to enhance goods movement at the Port. Its construction is a vital component of the Port's long-term strategy to remain competitive. For its part, the City of Oakland proposes to capitalize on the OHIT strategy by adding a modern industrial district to capture new industry and jobs. The Port is now exploring public-private partnership financing alternatives to fund this construction.

In January 2009, the Port issued an RFQ (the "January RFQ") for a master lessee to assume all operation, maintenance and development obligations of the Port-owned portion of the OARB and other properties on January 1, 2010. In May 2009, the Port issued a new RFQ (the "New RFQ"), which clarified the Port's expectations of a public-private partnership. Specific deal points would be negotiated during a six-month ENA period. If negotiations are successful, the selected developer would enter into a three-year Option period, during which the developer would be required to meet certain milestones. At the end of the Option period and after all the milestones have been met, the developer would have the option of entering into a ground lease for a term of at least 30 years.

Three development teams responded to the New RFQ: AMB/CCG, CenterPoint Properties, and Ports America Outer Harbor Terminal, LLC. AMB/CCG received the highest score in the evaluation process, leading Port staff to recommend at the July 16, 2009 Maritime Committee meeting that the Port enter into an ENA with AMB/CCG. The recommendation was approved at the Port Board July 21, 2009 meeting.

6. *How much has the Agency invested in the OARB to date and what is the anticipated cost of infrastructure?*

Attachment A provides a breakdown of Agency expenditures to date for the OARB. ***Attachment B*** provides anticipated infrastructure costs for the Agency-owned portion of the Army Base, as estimated by Agency engineering consultants Kimley-Horn Associates.

What are the benchmarks within the ENA to allow the City to pull out of the agreement?

The ENA will contain a Schedule of Performance that articulates deliverables, due dates, benchmarks, and commitments. Failure to perform at any point during the ENA period allows the Agency, "at its sole and absolute discretion," to terminate the ENA.

7. *Develop a tracking system to make sure that jobs and community benefits are actually being generated.*

The best way to measure community benefits is the development and enforcement of specific performance measures, which will be included in the LDDA. As described in the July 14 staff report, all community benefits—multi-union labor peace agreements, local hiring requirements, funding for workforce training, and others—should be enshrined in language committing the developer to deliver. In addition, staff will work with the master developer to develop a verifiable tracking system, which the LDDA will require the master developer to implement.

8. *Page 9 of the report notes that CCG does not have extensive experience with ground up construction and questions were raised about the 85% majority role in the development of the Central and West Gateways. How are these issues being addressed?*

The role and amount of each partner's financial contribution to the project would be negotiated during the ENA period and would depend on a more thorough examination of financial statements. It is critical that the Agency has assurances that adequate equity to the scale of the project is incorporated into all agreements, and the Agency will require a financially strong partner to be the signatory.

9. *How much open space does each proposal have?*

FOA proposed 30 acres of open space. This includes the required 16.5 acres of waterfront access along the West Gateway shoreline plus various features in support of the commercial uses, such as an amphitheater, plazas, and a "Main Street" pedestrian and automobile spine.

AMB/CCG proposed 16.5 acres of open space, the amount required for waterfront access.

Both proposals mentioned linkages to the Bay Trail and the 15-acre Gateway Park that East Bay Regional Park District is planning for the spit of land west of the West Gateway. These elements are in addition in the amount of open space in the proposals.

10. *What is the relationship between the City and the Port development? If AMB/CCG gets the Port land, how will the timing of the City and Port projects work?*

At this point the relationship between the City and Port developments is unknown. Neither the City nor the Port has entered into a lease agreement with a master developer and any development plans that have been presented are conceptual. The timing of the City project is a critical issue and will be addressed during the ENA period.

RECOMMENDATION

Staff recommends that the Agency Board authorize the Agency Administrator to negotiate the terms and conditions of an ENA with AMB/CCG.

Respectfully submitted,

Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:
Gregory Hunter, Deputy Director

Prepared by:
Al Auletta, Redevelopment Area Manager

APPROVED AND FORWARDED TO THE CITY COUNCIL:

Office of the Agency Administrator

ATTACHMENT A

OBRA/REDEVELOPMENT AGENCY INVESTMENTS

Investment	Expenditures
Economic Development Conveyance application	$ 350,000
Redevelopment Area designation	$ 100,000
Environmental Impact Report	$ 653,696
Homeless Assistance accommodation (Agency share) - BRAC law requires that base closure reuse programs include an accommodation to recognized homeless services providers. In 1998, OBRA, ORA and the Alameda County Homeless Base Conversion Collaborative developed a multi-part homeless accommodation concept, which was formalized into a Legally Binding Agreement (LBA) in May 1999.	$ 4,400,000
Early Transfer from Army-related costs (est.)	$ 500,000
Utilities Systems Review, Environmental Review & Geotechnical Review	$ 500,000
Jurisdictional, Regulatory & Conveyance Support	
Conveyance negotiations	$ 400,000
Tidelands Trust exchange	$ 375,792
BCDC amendments	$ 25,000
Subaru Lot acquisition from Army Reserve	$ 8,200,000
Additional CEQA analysis	$ 643,000
Historic Preservation studies	$ 120,939
Infrastructure engineering analysis & design	$ 2,223,398
Other engineering	$ 102,800
Other planning, analysis, appraisal and design (est.)	$ 500,000
Title exceptions removal	$ 15,000
Environmental remediation insurance & cleanup	$ 8,000,000
Total:	**$ 27,109,625**
Additional environmental remediation needed	$ 9,500,000

ATTACHMENT B

Estimated Infrastructure Costs

Gateway Area	Acreage	Gross SF	%of Site	Direct Enviro Costs	Indirect Enviro Costs	Direct Infrastructure Costs	Indirect Infrastructure Costs	Fair Share Costs	Total Infrastructure Costs
Central	65.9	2,870,604	40.9%			$41,011,250	$ 12,113,340	3,969,060	$ 57,093,650
East	33.2	1,446,192	20.6%			$9,625,000	$ 6,102,623	$ 274,620	$ 16,002,243
West	34.15	1,487,574	21.2%			$16,523,750	$ 6,277,247	$ 2,274,800	$ 25,075,797
North	28	1,219,680	17.4%			$8,645,000	$ 5,146,791	$ 2,432,660	$ 16,224,451
Total	161.25	7,024,050	100.0%			$75,805,000	$ 29,640,000	$ 8,951,140	**$ 114,396,140**

Indirect Infrastructure

Sewer	$ 12,370,000
Water Main	$ 1,585,000
Maritime Street	$ 10,685,000
Outfalls	$ 5,000,000
Total	$ 29,640,000

Fair Share Allocations by Gateway Area

Fair Share Costs		Central	East	West	North
W.Grand / Maritime	$ 7,554,000	$ 3,097,140	$ 226,620	$ 2,039,580	$ 1,964,040
7th & Maritime	$ 1,600,000	$ 864,000	$ 48,000	$ 224,000	$ 464,000
7th & I-880	$ 33,000	$ 7,920	$ -	$ 11,220	$ 4,620
Total		$ 3,969,060	$ 274,620	$ 2,274,800	$ 2,432,660

Infrastructure costs estimated by Kimley-Horn Associates
Fair Share costs estimated by Lamphier-Gregory
Note: Fair Share costs include costs attributable to both the City and Port of Oakland development.
Fair Share allocations between the City and Port of Oakland are still be determined.