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JUNE 22, 2004

IGNACIO DE LA FUENTE, PRESIDENT
CITY COUNCIL
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

SUBJECT: A TOTAL OF FIVE CITY AND AGENCY RESOLUTIONS REGARDING REDEVELOPMENT ACTIVITIES IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA:

AGENCY RESOLUTIONS: (1) AUTHORIZING THE AGENCY ADMINISTRATOR TO EXECUTE A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT, A GROUND LEASE, AND RELATED DOCUMENTS WITH UPTOWN PARTNERS, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, FOR THE DEVELOPMENT OF A MIXED-USE RESIDENTIAL RENTAL AND RETAIL DEVELOPMENT PROJECT IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA; (2) ADOPTING A REPLACEMENT HOUSING PLAN FOR HOUSING UNITS TO BE DEMOLISHED AT THE WESTERNER HOTEL, 1918 - 1954 SAN PABLO AVENUE, FOR THE UPTOWN PROJECT; AND (3) AUTHORIZING THE AGENCY ADMINISTRATOR TO EXECUTE A COOPERATION AGREEMENT WITH THE COALITION FOR WORKFORCE HOUSING RELATING TO THE DEVELOPMENT OF A ONE HUNDRED PERCENT (100%) AFFORDABLE HOUSING PROJECT ON A PARCEL LOCATED IMMEDIATELY BEHIND THE FOX THEATER BETWEEN 18TH AND 19TH STREET IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA

CITY RESOLUTIONS: (1) AUTHORIZING APPROVAL OF A LEASE DISPOSITION AND DEVELOPMENT AGREEMENT, GROUND LEASE, AND RELATED DOCUMENTS BETWEEN THE REDEVELOPMENT AGENCY AND UPTOWN PARTNERS, LLC., A CALIFORNIA LIMITED LIABILITY COMPANY, FOR THE DEVELOPMENT OF A MIXED USE RESIDENTIAL

RENTAL AND RETAIL DEVELOPMENT PROJECT IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA; AND (2) AUTHORIZING THE CITY ADMINISTRATOR TO EXECUTE A COOPERATION AGREEMENT WITH THE COALITION FOR WORKFORCE HOUSING RELATING TO THE DEVELOPMENT OF A ONE HUNDRED PERCENT (100%) AFFORDABLE HOUSING PROJECT ON A PARCEL LOCATED IMMEDIATELY BEHIND THE FOX THEATER BETWEEN 18TH AND 19TH STREET IN THE UPTOWN ACTIVITY AREA OF THE CENTRAL DISTRICT REDEVELOPMENT PROJECT AREA

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 Resolutions, Agenda Report, and attachments. We also obtained a copy of Resolution 2004-17 C.M.S., which authorized a third extension to the Exclusive Negotiation Agreement.

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 one (1) week for us to plan, perform and report on our analysis. Due to these time constraints, in making our analysis we extracted data, without verifying it, from the Agenda Report and other documents supplied by the Agency. Moreover, we did not have available information to assess whether there is a possible conflict of interest on the part of the proposed Developer.

SUMMARY

Uptown Partners, LLC, is a single-purpose corporate entity established by Forest City Residential West (Forest City) specifically to develop the project. Plans for the project include approximately 1,039 housing/retail units on 6 parcels of land, as summarized below:

<u>Parcel</u>	<u>Description</u>	<u>Units</u>
1	Multi-family rental housing	190
2	Multi-family rental housing	230
3	Multi-family rental housing/retail	110
4	Multi-family rental housing/retail	170
5	Multi-family for-sale housing (Condominium tower)	269
6	Multi-family affordable rental housing	<u>70</u>
	Total units	<u>1,039</u>

The plans also include 815 residential parking spaces and a City-owned 25,000 square-foot park.

To facilitate the development of the project, the Proposed Resolutions would authorize the Agency and City to:

1. enter into a Lease Disposition and Development Agreement, a ground lease, and related documents with Uptown Partners, LLC, for the development of a mixed-use rental housing and retail development project;
2. adopt a replacement housing plan for the 33 rental housing units that will be lost through the demolition of the Westerner Hotel; and
3. execute a Cooperation Agreement with the Coalition for Workforce Housing for the development of a one hundred percent (100%) affordable rental housing project, which will include replacements for the 33 units that will be lost through the demolition of the Westerner Hotel.

**LEASE DISPOSITION AND DEVELOPMENT
AGREEMENT AND GROUND LEASE**

The Agency and Forest City have negotiated Lease Disposition and Development Agreement and Ground Lease for the development of a mixed-use rental housing and retail development project that incorporate the following business terms:

1. The Agency will lease certain Agency-owned properties in the Project Area to Uptown Partners.
2. The Agency will seek to acquire, at its sole expense, additional parcels in the Project Area and lease them to Uptown Partners under the Ground lease.
3. The Ground Lease will have an initial term of 66 years, and an option to extend the lease term by an additional 33 years.
4. Uptown Partners will develop at least 700 residential units, including 25 percent affordable units, on parcels 1, 2, 3, and 4.
5. Uptown Partners will also develop at least 14,500 square feet of neighborhood-serving commercial space and parking facilities in the Project Area.
6. The Agency and the City will provide financial assistance to Uptown Partners, as summarized on page 5 of our report.
7. Over time, Uptown Partners, will pay to the Agency: (a) participation rent; percentage share of net proceeds from sale of the Uptown Project; and net proceeds from refinancing the first mortgage for the Uptown Project.

REPLACEMENT HOUSING PLAN FOR RESIDENTS OF THE WESTERNER HOTEL

The development of the Uptown Project will require the acquisition and demolition of 33 very-low income housing units located in the Westerner Hotel at 1918-1954 San Pablo Avenue. State law requires that such lost units be replaced within four years of their removal, and that these units be available for rental at affordable housing costs to persons in the same or a lower income category as the persons displaced from those removed units. The units have to be replaced within the territorial jurisdiction of the Agency. Accordingly, State law requires the Agency to adopt a housing replacement plan at least 30 days prior to the execution of the LDDA for the Uptown Project that will result in the elimination of dwelling units for very low income households. According to the replacement plan, all 33 units that will be lost at the Westerner Hotel will be replaced as part of the 70 100 percent affordable housing units to be built on Parcel 6, which is located immediately behind the behind the Fox Theater, between 18th and 19th Streets.

COOPERATION AGREEMENT WITH THE COALITION FOR WORKFORCE HOUSING

In response to direction from the City Council, the Agency, Forest City, and the Coalition have reached preliminary agreement on the development of the above-mentioned 100 percent affordable housing project, which will include replacements for the 33 units that will be lost through the demolition of the Westerner Hotel.

If the Coalition and its members agree not to commence any litigation to impede development of the Uptown Project, the Agency will:

1. transfer Parcel 6, consisting of approximately 0.85 acres of land, to the selected developer at no cost;
2. provide long-term gap financing in an amount not to exceed \$2,050,000; and
3. issue a Request for Proposals (RFP) for the development of the Affordable Housing Project with approximately 70 units.

The selected developer may also apply for additional Agency funds under CEDA's Notice of Funding Availability in 2005. The gap financing of \$2,050,000 will be subject to separate Council approval as part of authorization to enter into a sale or ground lease *with the developer for the Affordable Housing Project.*

FISCAL IMPACT

According to the Agenda Report, the Agency retained Conley Consulting Group (CCG) to test Forest City's economic projections and Project pro forma financial statements. CCG found that Forest City's financial assumptions and revenue projections were generally within the industry standards for comparable projects. CCG concluded that the financial assistance provided by the Agency and the City is necessary to ensure project feasibility.

The total costs of the project to the Agency and the City are estimated to be \$60,895,457, consisting of:

<u>Description</u>	<u>Amount</u>
Funds already spent to acquire properties	\$ 9,200,000
Agency Gap Financing	8,335,749
City Gap Financing	5,300,000
Tax increment 2007-2020	12,114,708
Hazardous Materials Reimbursement to Uptown Partners	2,585,600
Off-Site Improvements	5,700,000
Public Park	1,000,000
Agency Gap financing for Affordable Housing	2,050,000
Hazardous Materials Reimbursement to Affordable Housing Project	414,400
Site Acquisition	<u>14,195,000</u>
Total	<u>\$ 60,895,457</u>

BENEFITS TO THE CITY

According to the Agenda Report, the City will receive the following financial and social benefits from the Project:


1. Over time, Uptown Partners, will pay to the Agency: participation rent; a percentage share of net proceeds from sale of the Uptown Project, and net proceeds from refinancing the first mortgage for the Uptown Project.
2. After expiration of the Central District Redevelopment Project, the City will collect gross receipts taxes and property taxes.
3. The retail businesses will generate sales taxes.
4. An area that presently contains blight will be developed.
5. The development of approximately 1,000 housing units in the Project Area should attract over 2,000 new residents to downtown Oakland.
6. The Project will expand the supply of affordable housing in Oakland.
7. The Project should draw other commercial and residential projects to the area.

CONCLUSION

Based on our analysis of data that was made available to us, the Proposed Resolutions appear to be reasonable.

Prepared by:

Issued by:



Jack McGinity, CPA
Report completion date:
June 15, 2004



Roland E. Smith, CPA, CFS