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# CITY OF OAKLAND

## AGENDA REPORT

TO: Office of the City Administrator  
ATTN: Deborah A. Edgerly  
FROM: Community and Economic Development Agency  
DATE: June 27, 2006

RE: **Request for City Council Direction Regarding Adaptive Reuse of the Henry J. Kaiser Convention Center with Regard to a Proposal by the Trade Center Development Corp. and the Bay Area World Trade Center to Execute a Long-Term Lease for the Henry J. Kaiser Convention Center, Located at 10 Tenth Street, Oakland, for the Purpose of Developing a World Trade Center at the Site**

### SUMMARY

On May 23, 2006, the City of Oakland was approached by representatives of the Trade Center Development Corp. and the Bay Area World Trade Center to discuss their proposal to renovate the Henry J. Kaiser Convention Center for the purpose of developing and operating a World Trade Center and World Trade Showcase Center in Oakland. These representatives had recently completed an inventory and tour of potential sites in downtown Oakland, including the future office space development at Jack London Square, and had identified the Kaiser Center site as their first choice for the proposed World Trade Center.

Staff is requesting direction from the City Council regarding an opportunity for adaptive reuse of the Henry J. Kaiser Convention Center, an historic building owned by the City of Oakland and currently not in use. There are several options available:

1. **Option #1:** That the City Council direct staff to develop a resolution authorizing a 120-day exclusive negotiating agreement (“ENA”) with Trade Center Development Corp. (“TCDC”), a State of Florida C-corporation, and the Bay Area World Trade Center (BAWTC) to develop and execute a long-term lease with the City of Oakland to renovate the Henry J. Kaiser Convention Center (“Center”), located at 10 Tenth Street, for the purpose of developing a World Trade Center. The resolution also authorizes the City Administrator to extend the ENA for an additional 120 days if the developer is diligently pursuing the project but is unable to complete the entitlements and negotiate a disposition and development agreement (“DDA”) within the first 120 days.

If staff is directed to pursue this option, a supplemental report and a resolution requesting authorization to negotiate, execute and enter into an Exclusive Negotiating Agreement

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would be completed prior to presentation to the full Council for approval on July 18, 2006.

In exchange for investing approximately \$65-70 million into renovation of the Center, TCDC requests the following from the City: (1) A market rate, long-term lease of not less than 50 years; and (2) staff assistance to fast-track the permitting process in order to meet the 18-month construction to notice-of-completion time frame required by the developer.

2. **Option #2:** That the City Council delay consideration of the TCDC proposal until after the final cost and feasibility analysis for the new Main Library is completed and presented to the City Council in July 2006, and the Council makes a determination whether or not to proceed with the Library Plan. Library staff is currently working on finalizing cost estimates for adapting the Kaiser Center as a new Main Library, and the July report will include reuse recommendations and a proposal regarding implementation of the full Master Plan for the Library system city-wide, including financial analysis, capital costs, operational costs, funding strategies and project phasing.
3. **Option #3:** Direct staff to obtain more information on the financial capacity of TCDC, project funding, and market assessment, resulting in the development of a comprehensive feasibility analysis. Additionally, staff would review other potential Oakland real estate sites, developed and undeveloped, to determine the feasibility of locating the WTC elsewhere, primarily in the downtown. This analysis would be conducted simultaneously with finalization of the Library Master Plan analysis, with recommendations and final report to Council in July 2006.
4. **Option #4:** Reject the TCDC/BAWTC proposal in favor of moving forward with the proposed plan for conversion of the Kaiser Center into the new Oakland Main Library.

## FISCAL IMPACT

Depending upon the option chosen by the Council, the fiscal impact will vary:

1. **Option #1:** The developer estimates it will invest approximately \$65-70 million into the Kaiser Center to adapt the use of the building and parking site to a World Trade Showcase Center. The revenue resulting from the proposed 50-year market rate lease would be directed to the City's General Fund. In return, TCDC would assume all operational and maintenance costs associated with the Kaiser Center for the duration of the lease term. Basic operational maintenance costs for the Center, while it is closed, are estimated at \$100,000 per year.

2. Option #2: Assuming that TCDC is willing to delay negotiations while the final Library Master Plan is presented to the City Council, this decision would not result in any fiscal impact for the City. It is possible that the developer could withdraw its proposal to focus on other cities that are ready to proceed.
3. Option #3: Assuming that TCDC is willing to delay negotiations given the uncertainty of the Council's final decision regarding adaptive reuse of the Kaiser Center for the new Main Library, this decision would not result in any fiscal impact for the City.
4. Option #4: Rejection of the subject proposal would forgo the opportunity for private investment in the Kaiser Center for adaptive reuse into a World Trade Showcase Center, the loss of potential lease payments to the City resulting from the execution of a long-term lease for the Center, and the City's continued responsibility for financing the maintenance and capital improvements costs for the Kaiser Center. It should be noted that because of the extent of the improvements proposed, it is not known at this time what payments would result from lease negotiations.

## BACKGROUND

TCDC has provided staff with a number of reasons for the subject proposal to execute a long-term lease with the City of Oakland for the Henry J. Kaiser Convention Center as the site of the West Coast World Trade Showcase Center:

- **Location:** Because of the Port of Oakland's dominance as one of the top 4 seaports in the country and 20<sup>th</sup> in the world in terms of annual container traffic, the location of Oakland and the Bay Area has potential to dominate the Asian and Pacific Markets on the West coast. Presently, The Port of Oakland loads and discharges more than 99 percent of the containerized goods moving through Northern California, the nation's fourth largest metropolitan area. Oakland's cargo volume makes it the fourth busiest container port in the United States, and ranks San Francisco Bay among the three principal Pacific Coast gateways for U.S. containerized cargoes, along with San Pedro Bay (Ports of Long Beach and Los Angeles) in southern California and Puget Sound (Port of Seattle) in the Pacific Northwest. About 58.9 percent of Oakland's trade is with Asia. Europe accounts for 10.3 percent, Australia/New Zealand and South Pacific Islands about 4.7 percent and other foreign economies about 8.8 percent.
- **Relationships with the BAWTC:** The relationship that the TCDC has developed with Mr. Jose Duenas, President and CEO of the Bay Area World Trade Center played a prominent role in their decision. TCDC representatives met the BAWTC Executive

Director in February at the North American World Trade Center meeting in Seattle. At that time the Trade Center Development Corporation had already made its decision regarding the location of the proposed first tier WTSC operations; at that time, Oakland was not included in TCDC's first tier of proposed World Trade Center. After meeting with the BAWTC Executive Director, TCDC was persuaded to take a closer look at Oakland.

- **The Kaiser Center Building:** After taking an inventory of potential Oakland locations, then touring these sites, the unique architecture, configuration and location offered by the Henry J. Kaiser Convention Center made the Center TCDC's first choice. After assessing the feasibility of renovating the Henry J. Kaiser Convention Center, Trade Center Development Corp. now views Oakland as the preferred choice for the location of the first tier World Trade Showcase Center of the West Coast.

1. The Henry J. Kaiser Convention Center

The Oakland Auditorium (its original name) opened April 30, 1915, a major element of the ambitious civic improvement program of Mayor Frank Mott (1905-1915), which also included the new City Hall, Lakeside and numerous other parks, and the early development of the Port of Oakland. Its opening coincided with the 1915 Panama-Pacific Exposition, to accommodate the many conventions attracted to the Bay Area by this major international event.

Until the 1960's, the auditorium served as Oakland's principal public facility for conventions and a wide-range of large-scale indoor events. Entertainment appearing at the Auditorium over the years included Buffalo Bill's Wild West Show, vaudeville shows, circuses, major sporting events, musical performers such as Sergei Rachmaninoff, Feodor Chaliapin, Pablo Casals, Al Jolson and the Grateful Dead. In the 1960's, the auditorium was supplemented by the Oakland Coliseum and Arena for sporting events and exhibitions. The reopening of the 1931 Paramount Theater in the 1970's and the opening of the George P. Scotlan Convention Center in 1983 expanded municipal performing arts venues to these other sites as well.

The Auditorium temporarily closed in 1982 to undergo a \$15 million renovation project. The Auditorium reopened in 1984 as the Henry J. Kaiser Center. It continued to operate as a performing arts, entertainment and community venue until its closure due to budget constraints in 2005. The Kaiser Center is currently being maintained by the Public Works Agency, at an annual estimated cost of \$100,000.

This building was identified as a A1+ Landmark building by the Landmarks Preservation Advisory Board, City of Oakland, in 1979.

2. Trade Center Development Corp.

TCDC is a corporation formed under the laws of the State of Florida as a Real Estate Investment Trust (REIT), formed for the purpose of developing World Trade Center buildings, World Trade Showcase Centers, global-trade related facilities, and World Trade Center exhibition centers around the world. All stock in this newly formed corporation is privately owned. From the Company website ([www.TCDCOnline.com](http://www.TCDCOnline.com)):

*“The initial investments of TCDC will be used to purchase viable WTC licenses in selected countries, develop the Company's WTC projects in those countries and provide funding for the purchase and management of quality income-producing real estate assets to be used for WTCs. They will also be used to expand the exhibition and showcase centers of current strategically located WTCs and other related WTC operations. Although TCDC is aggressively searching, researching and negotiating for development sites, TCDC is in the development stage and currently owns no real estate or projects.”*

Should the Council direct staff to proceed with this proposal under Options #1, #2 or #3, staff has requested that TCDC provide the following documentation for analysis:

- a. **Executive Summary:** Summarize the organization, market, and financial plans for the proposed World Trade Center. Include a brief summary of what is being requested of the City of Oakland here.
- b. **Organization Plan**
  - Describe business, including history, legal structure, services provided by Trade Center Development Corp.
  - Discuss the major initiatives of the Trade Center Development Corp., strengths and limitations, and its goals for the organization, world-wide and specifically for the proposed Oakland Trade Center.
- c. **Management and Organization**
  - Describe personal and management expertise of all principals and, if relevant, the percentage of interest or stock held by each principal.
  - Describe organizational structure (include an organization chart) and specifically identify the responsibilities for each position.

- Describe professional resources and partners available to the business (attorney, accountant, consultants, advisors, Board of Directors, etc.)
- d. **Industry**
  - Describe the size and competitive nature of the World Trade Center industry, any barriers to entry and growth, and the effect of economic fluctuations on the industry.
  - Discuss the role of government regulations regarding current and future trends.
  - Describe technologies being used in the world trade environment.
- e. **Location**
  - Describe the proposed location of the World Trade Center at the Henry J. Kaiser Convention Center site in terms of geography, customer access, proximity to competitors and to transportation and distribution of goods for your future tenants.
- f. **Product and Services**
  - Describe the products and services that the World Trade Center will offer.
  - Discuss patents, trademarks or any other proprietary features.
- g. **Market Analysis**
  - Describe your target market – who will want to locate in Oakland’s Trade Center and why – and trends in your target market.
  - Does Trade Center Development Corp. have any competition? If so, please describe.
- h. **Market Strategy**
  - If you believe there is any competition in your trade area (United States? West coast? State of California?) describe the difference between what Trade Center Development Corp. offers and that of your competitors, your pricing or fee structure compared to competition, and your product or service.
  - Describe the employee structure of your organization, how many, skill levels needed, etc., both company-wide and projections relative to the proposed Oakland Trade Center.
  - Describe Trade Center Development Corp.’s marketing and tenanting strategy for the World Trade Center.
- i. **Financial Plan**
  - Describe financing strategy and resources for development of the Oakland site, including projected construction budget, timelines and sources and uses of funds through opening of the center.
  - For the Oakland World Trade Center project, provide (1) monthly financial projections for the first two years of operations, and (2) annual projections for years 3 and 4, in the form of income statements, balance sheets and cash flow statements.

- For TCDC, provide: (1) Current Balance Sheet and Income Statement from October 2005 through the present, and (2) at minimum, quarterly financial projections for the first two years of operations, then annual projections for years 3 and 4, in the form of balance sheets, income statements and cash flow projections.
- Provide copies of Articles of Incorporation, partnership agreements or related contracts, copies of leases or letters of intent with future tenants, documentation related to negotiations or commitments with other World Trade Centers, etc.

3. Bay Area World Trade Center:

The BAWTC is currently located at the Port of Oakland, 530 Water Street. The BAWTC is the current franchise owner of the World Trade Center license issued by the World Trade Center Association and has exclusive rights under its license for the operation of a WTC within 75 miles of its office. The Bay Area World Trade Center (BAWTC) provides professional services and expertise to local and international businesses engaged in export and import of manufactured good and services. Founded in 1980, the BAWTC has supported member businesses and public sector organizations representing a wide spectrum of industries and interests.

If the project is completed, BAWTC's role would include relocation of its offices and services to the WTC from BAWTC's current Port of Oakland location and manage the Center for the TCDC.

Should the Council direct staff to proceed with this proposal under Options #1, #2 or #3, staff has requested that BAWTC provide documentation similar to that identified for TCDC (see **BACKGROUND**, #2, Trade Center Development Corp.).

## KEY ISSUES AND IMPACTS

1. The Opportunities and Risks

a. *Opportunity*

- The Henry J. Kaiser Convention Center: TCDC is proposing to self-fund a \$65-70 million renovation of the building, parking lot and grounds into a World Trade Center/World Trade Showcase Center, and to fully fund the maintenance and operation of this building for a minimum of 50 years. One aspect of the opportunity is to fully restore a City of Oakland Landmark building and transfer responsibility for maintaining and operating the building to a private entity through the lease period at no cost to the City or to its taxpayers.
- Ownership would be retained by the City in spite of considerable private investment in the building,

- Potential for significant increases in lease income and Business License Tax, Personal Property and Possessory Interest Tax revenues for the City's General Fund.
- Accelerated international visibility for Oakland in the area of global trade and commerce, and for the Bay Area World Trade Center, the San Francisco/Oakland franchise representative of the World Trade Center Association, currently located at 530 Water Street, Jack London Square.
- Business attraction and expansion opportunities for businesses related to the World Trade Center operations, such as customs brokers, Consular Corps (foreign embassies), government agencies, freight forwarders, exporters, importers, manufacturers, economic development offices, Ambassadors, and shipping companies.
- Job creation opportunities: 700-800 construction jobs during renovation of the Kaiser Center, and approximately 100 permanent, full-time jobs at the World Trade Center.
- The creation and maintenance of public spaces within this building at little or no expense to the City or its taxpayers, including access to the restored Symphony Hall and the Club Rooms.
- The introduction of a WTC that includes commercial or office development into an area can have important positive implications for its surrounding neighborhood. A WTC can serve as a catalyst for other real estate developments, improvement in neighborhood amenities, and the introduction of other economic activities in the area of the WTC facilities. Potential development that has been noted in case studies of other WTC's developed, specifically in New York and Boston, include expansions in office, retail, restaurant, residential, and tourism developments within the WTC neighboring areas<sup>1</sup>.

b. *Risk*

- Trade Center Development Corp. is a new, privately-owned corporation, which began operations on October 5, 2005. Staff is gathering information about the company, but does not yet have sufficient information regarding its management, financial resources or market plan to be able to assess the viability of this offer.

Staff has requested that the company provide a detailed business plan to provide us with the preliminary information we need to assess the viability of this proposal (as identified in the Background section).

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<sup>1</sup> World Trade Centers, An Analysis of the Role They Play in Their Markets, C.H. Johnson Consulting Inc., A. Ilan Consulting, November 2001, Section 3, pg. 10

- There are no financial risks in approving an ENA with TCDC. The primary risk lies in execution of a Disposition Development Agreement (DDA) with TCDC without an adequate understanding of the company's management and financial ability to follow through on the proposal. Staff intends to address these risks through the gathering of information and assessment of the company's ability to follow through on its commitments to the City of Oakland prior to any recommendation for approval of a DDA.
- The location of the WTC in Oakland may be more strategically located downtown where it would be near the Scotlan Convention Center, downtown hotels, restaurants and entertainment venues and be a catalyst for infill construction or reuse of other downtown buildings.
- It is unknown at this time if any private use of this landmark building would be perceived by Oakland citizens as a benefit.

2. 2001 Lease Revenue Refunding Bonds

The amount of potential lease revenues from the Kaiser Center is limited by the following:

- On June 14, 2001, the Oakland Joint Powers Financing Authority issued \$134,890,000 of its Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001. The proceeds of the Bonds were used primarily for the purpose of refinancing the acquisition and improvement of the Henry J. Kaiser Convention Center and the George P. Scotlan Memorial Convention Center. The interest revenue from these Bonds are exempt from income tax so long as the Bond issuer and the City is in compliance with certain covenants and representations made by the City and the Bond issuer in the Tax Certificate, dated as of June 14, 2001.

Leasing of a bond-financed project to an entity other than a state or local government unit, including a private business such as TCDC, would result in Private Use of the facility. One of the covenants included in the subject Tax Certificate, identified as the "Private Payment Test", stipulates that the tax-exempt status of these Bonds remains intact only if the present value of Net Annual Private Payments (Lease payments less the City's operations and management expenses) made to the City or Bond issuer by third party lessee does not exceed \$13,775,916 (based on a 4.429413% discount rate). The net present value period begins June 14, 2001 and extends through October 1, 2014, the maturity date of the Bonds.

To summarize: Once the specifics of the proposed Kaiser Center lease have been negotiated, an analysis of the Net Annual Private Payments resulting from both the Scotlan and Kaiser Convention Centers would have to be analyzed by bond counsel to determine whether these meet the Private Payment Test. This analysis cannot be completed until the lease payments are negotiated.

- In order to ensure that the City stays within the covenants governing the existing Bonds, any lease executed on the Kaiser Center would be subject to:
  - (1) the written opinion of bond counsel analyzing the specifics of the lease agreement relative to the bond covenants, particularly the Private Payment Test;
  - (2) written permission from the bond trustee and the insurer prior to concluding the lease agreement.

3. Rent

The total amount of square footage proposed for lease at the Kaiser Center has not yet been determined. TCDC's plans include construction of four floors of exhibition space within the existing arena floor, plus lease of the Symphony Hall, the Olympic and Club Rooms and the parking area. Rent negotiations could not begin until a final determination of rentable area for the Kaiser Center has been determined.

## **PROJECT DESCRIPTION**

The proposal is for conversion of the Henry J. Kaiser Convention Center into a World Trade Center and World Trade Showcase Center. Plans include reconstruction of the interior of the building while preserving the exterior beauty of the Center's historical structure. The conceptual plans include the construction of four floors of exhibition space, including a total of 119,000 s.f. of module space for vendor showrooms. Vendors would include trade exhibitors from countries around the world interested in selling in the U.S. market.

The new office space would be leased to world-trade related businesses and agencies, including the Bay Area World Trade Center (now located at 530 Water Street, in the Port of Oakland), customs brokers, Consular Corps. (Embassy representatives), government agencies, freight forwarders, exporters, importers, manufacturers, economic development offices, Ambassadors, shipping companies, etc.

The original skylight, now boarded up, will be restored to illuminate the planned atrium style entrance and glass elevators that will frame the exhibition space entrance.

In return, TCDC is requesting a long-term lease with a minimum 50-year term, at market rates (which will be governed by the covenants under the existing 2001 Lease Revenue Refunding Bond), and expedited handling of the permits required to develop and operate the proposed World Trade Center. The developer has also expressed a willingness to negotiate with the City regarding City use of the Center, specifically the Symphony Hall, and the Olympic and Club Rooms, for business and civic purposes.

## **SUSTAINABLE OPPORTUNITIES**

### Economic:

- *Job Creation:* The developer estimates 700-800 construction jobs will be created during the construction period. Approximately 100 full-time, permanent positions are projected to be created to staff the World Trade Center.
- *Elimination of Overhead and Management Expenses for Kaiser Center:* The developer would assume all O & M costs related to the Kaiser Center. Minimal maintenance of the Kaiser Center, while closed, is projected at \$100,000 per year. O & M funds for the Kaiser Center have been budgeted for the 2006-07 budget year only.
- *Elimination of Capital Expenses to Restore the Historical Integrity and Economic Vitality of this Landmark Building:* The developer has proposed reconstruction of the Kaiser Center with \$65-70 million of private capital with no cost to taxpayers or the City.
- *Business Attraction:* The new office space and vendor showrooms would generally attract businesses to the Center that want to participate in the international markets now accessible to them. This would result in increased Business License Taxes directly to the City's General Fund, and increased allotments of Personal Property and Possessory Interest Taxes through Alameda County.
- *Increased regional and international economic activity in Oakland's downtown:* Regional and international businesses will want to take advantage of the services and direct access to international trade professionals at Oakland's World Trade Center and Showcase. This will tend to increase market demand for office space in Oakland's Downtown. At present, Class A space is hovering at about 8% vacancy rate, with 215,000 s.f. of new space under construction at Center 21 (Brandywine Properties) and several other new office buildings in the entitlement process. Class B space has a 17% vacancy rate at present.
- *Visitors Spending:* The programs and services supported by WTC facilities tend to attract visitors from throughout the world. These visitors spend money in the local market area

during their stay on hotel rooms, restaurants, retail goods and various attractions and activities<sup>2</sup>.

Environmental:

- Reinvestment in and restoration of a historically rated A1 +, City-owned Landmark building, complimentary.
- The proposed adaptive reuse of the building will complement the 12<sup>th</sup> Street Reconstruction Project, funded by bond measure DD. The 12<sup>th</sup> Street redesign will
  - 1) Replace the existing high-speed expressway adjacent to the Kaiser center with a new, reduced-width road away from the shoreline to create a new, four-acre park at the south end of Lake Merritt.
  - 2) Contain an event plaza, arc pier, restroom, turf areas and multi-use paths, potentially drawing Trade Center exhibitions out into the public spaces.
  - 3) Retain and reconfigure the existing parking lot to accommodate a similar number of parking spaces as exists today in a smaller area.

Social Equity:

- The creation and maintenance of public spaces in a landmark building, including the Symphony Hall and the Olympic and Club rooms, would once again allow access to one of Oakland's dominant and beautiful historic sites.
- As with other World Trade Centers, such as Boston and the former New York Trade Center, the long corridors and open space areas would be available for local artists to display their art to the world.

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<sup>2</sup> World Trade Centers, An Analysis of the Role They Play in Their Markets, C.H. Johnson Consulting Inc., A. Ilan Consulting, November 2001, Section 3, pg. 14

## **DISABILITY AND SENIOR CITIZEN ACCESS**

Building restoration will be completed in compliance with all relevant ADA requirements, ensuring equal access.

## **RECOMMENDATION(S) AND RATIONALE**

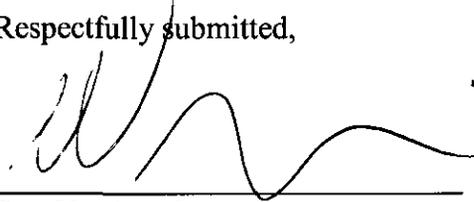
Staff requests that Council provide direction for the proposed project, choosing one of the following four options:

1. Option #1: That the City Council direct staff to develop a resolution authorizing a 120-day exclusive negotiating agreement (“ENA”) with Trade Center Development Corp. (“TCDC”), a State of Florida C-corporation, and the Bay Area World Trade Center (BAWTC) to develop and execute a long-term lease with the City of Oakland to renovate the Henry J. Kaiser Convention Center (“Center”), located at 10 Tenth Street, for the purpose of developing a World Trade Center. The resolution also authorizes the City Administrator to extend the ENA for an additional 120 days if the developer is diligently pursuing the project but is unable to complete the entitlements and negotiate a disposition and development agreement (“DDA”) within the first 120 days.

If staff is directed to pursue this option, a supplemental report and a resolution requesting authorization to negotiate, execute and enter into an Exclusive Negotiating Agreement would be completed prior to presentation to the full Council for approval on July 18, 2006.

2. Option #2: That the City Council delay consideration of the TCDC/BAWTC proposal until after the final cost and feasibility analysis for the new Main Library is completed and presented to the City Council in July 2006, and the Council makes a determination whether or not to proceed with the Library Plan.
3. Option #3: Direct staff to obtain more information on the financial capacity of TCDC, project funding, alternative site assessment, resulting in the development of a comprehensive feasibility analysis. This direction would be an alternative action and considered along with finalization of the Library Master Plan analysis, with recommendations and final report to Council in July 2006.
4. Option #4: Reject the TCDC/BAWTC proposal in favor of moving forward with the proposed plan for conversion of the Kaiser Center into the new Oakland Main Library.

Respectfully submitted,



Dan Vanderprien

Director of Redevelopment, Economic  
Development, Housing and Community  
Development

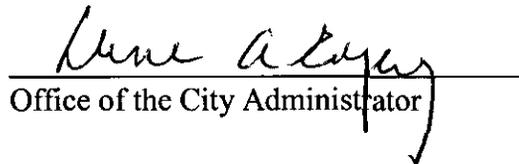
Reviewed by:

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Prepared by:

Deborah V. Acosta, UEA III  
Business Development

APPROVED AND FORWARDED TO THE  
COMMUNITY AND ECONOMIC DEVELOPMENT  
COMMITTEE:



Office of the City Administrator