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OAKLAND

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CITY OF OAKLAND

AGENDA REPORT

TO: DEANNA J SANTANA
CITY ADMINISTRATOR

FROM: Fred Blackwell

SUBJECT: Lease of 8200 International Blvd

DATE: January 3, 2014

City Administrator
Approval

Date

1/7/14

COUNCIL DISTRICT: 3

RECOMMENDATION

Staff recommends that the City Council adopt an Ordinance

First Amendment To Ordinance No. C.M.S. 13187, Which Authorized City Administrator To Enter Into A 66 Year Lease For \$1.00 Per Year With East Oakland Youth Development Center Qualified Active Low Income Community Business, Inc., A California Nonprofit Public Benefit Corporation (EOYDC QALICB), To Further Authorize: (1) An Increase Of Security In Such Leasehold Interest From \$7 Million To Up To \$10 Million, And (2) Inclusion In The New 66-Year Lease Of An Option To Purchase The Property

EXECUTIVE SUMMARY

East Oakland Youth Development Center (EOYDC) currently leases 8200 International Blvd from the City for one dollar (\$1 00) per year There are 31 years remaining on their existing lease 66 year lease

Ordinance No 13187 C M S approved a new sixty six (66) year lease with EOYDC QALICB as required by their lender The annual rental rate is one (\$1 00) dollar This Ordinance also authorized EOYDC QALICB to use its leasehold interest in 8200 International Blvd as security for a proposed seven (7) million dollar improvement project

EOYDC QALICB is now requesting authorization to use its leasehold interest in the property as security for financing up to \$10 million dollars to renovate and expand the Youth Center They are also requesting that their new lease include a purchase option as there is one existing in their current lease The purchase option grants EOYDC QALICB exclusive rights to purchase the Property from the City

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OUTCOME

Adoption of the proposed Ordinance would allow EOYDC QALICB to use its leasehold interest in the property as security for up to \$10 million dollars to finance the renovation, expansion and predevelopment cost for the Youth Center. The new lease with EOYDC QALICB will also include a purchase option, as is already included in the current lease agreement.

BACKGROUND/LEGISLATIVE HISTORY

Since July 7, 1978, the City has leased the East Oakland Youth Development Center ("Center") to East Oakland Youth Development Center, a California nonprofit corporation. Located at 8200 International Boulevard, the Center includes a building (+/- 19,910 square feet) with 25 existing parking spaces on a parcel of land (+/- 39,224 square feet). EOYDC operates an assortment of programs aimed at developing the social and leadership capacities of youth and young adults at the Center (collectively, the "Program").

Under the Lease, EOYDC operates at its own cost a community youth center that offers a variety of social, recreational, cultural, and educational activities for the primary benefit of the youth of East Oakland, ages 6 through 24. The Center may be further used for any legal purpose whatsoever deemed to be in the public interest and general welfare of the residents of East Oakland and the City of Oakland as approved by City Council.

Under the current lease, EOYDC pays the annual rent of one dollar (\$1.00). EOYDC is also responsible for the following:

- (i) all real property taxes and assessments for the Center required by the Lease
- (ii) insurance required by the Lease, with the City of Oakland as a named insured
- (iii) repairs and maintenance of the Center
- (iv) utilities and services for the Center
- (v) all fixtures, furniture, and equipment for the operation of the Program
- (vi) all Program costs and expenses
- (vii) custodial services
- (viii) refuse collection
- (ix) alteration to the building

Per Ordinance No. 13187 C.M.S., EOYDC was authorized to seek \$7 million dollars to renovate and expand the Center, to allow the Center to serve at least 1,000 more youth in East Oakland. EOYDC's master plan for site expansion will add 5,249 square feet of space to accommodate the growth of vital community programs in Art, Education, and Health and Wellness. In addition, construction will include needed upgrades and renovations to meet safety and health regulations and to increase energy efficiency throughout the building.

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The master plan features the creation of more multipurpose rooms for increased flexibility in programming and participant numbers. The new Health and Wellness Room will house martial arts and dance programs. The new Homework and Resource Center will also feature a two-level education and technology space that can be divided with a movable wall.

The facility also requires improved security and surveillance technology, such as newly-fenced entry points, motorized parking lot security gates, two computer-based sign-in kiosks, and upgrades to the closed circuit monitoring system.

There are two lenders funding the renovation and expansion of the Youth Center. US Bank Community Development Corporation through USBCDE Sub-CDE95, LLC will loan \$1,250,000 and NCCLF through Northern California Community Loan Fund NMTC Sub-CDE VII, LLC will loan \$8,245,000. Both loans total \$9,495,000 which will be secured by a Leasehold Construction Deed of Trust. Of the \$9,495,000, approximately \$3,500,000 of the New Money Tax Credit Financing is expected to be forgiven at the end of seven years.

EOYDC will also use a bridge loan in the amount of \$2,850,917. This loan will be secured against an EOYDC trust fund and not the leasehold interest in City property.

ANALYSIS

EOYDC currently leases 8200 International Blvd from the City. They have thirty-one (31) years (including option rights) remaining on their existing sixty-six year lease. EOYDC annual lease rate is one dollar (\$1.00). Their existing lease has a purchase option.

Leasing 8200 International Blvd to EOYDC QALICB may result in capital improvements to City owned property at no cost to the City. A new lease with EOYDC QALICB, Inc. will support their goal of servicing an additional 1,000 youth in East Oakland per year.

Based on EOYDC's ongoing payments of operating cost, tenant improvements to the City-owned facility and other community benefits, staff has determined that the value of the in-kind services provided to the residents of Oakland exceeds the value of the fair market rent.

EOYDC was founded in 1978 and the Youth Center was initially funded with \$350,000 from the City for the land. EOYDC also raised over \$900,000 from the Clorox Corporation for the construction of the improvements and \$650,000 from other Bay Area businesses and foundations, also for construction costs.

The original current lease with EOYDC includes a purchase option. The new lease will also include a purchase option. EOYDC has requested the option provision to be included in the proposed new lease to allow them to purchase the property and improvements from the City. The purchase option terms for the existing lease are:

Purchase Option Notice of the Tenant's intention to exercise said option shall be given to the Landlord in writing on or before the expiration of any Lease Year Landlord shall give Tenant the option to purchase the Premises at a price as hereinafter set forth The option price shall be the amount derived as follows \$350,000 times the amount of (FMV of the Premises at the option date divided by the FMV of the Premises at the lease date) For purposes of the foregoing calculations, the fair market value ("FMV") at lease date (the commencement date of the Original Lease, January 27, 1976) shall mean the aggregate cost, including land acquisition, fixtures and alterations contemplated in paragraph 12 of the Original Lease, of the Premises The FMV at option date shall be the value agreed upon by the Landlord's and Tenant's appraisers, or if the appraisers cannot agree upon the FMV, the value shall be one-half the difference between two reasonable appraisals added to the lower appraisal Notwithstanding the foregoing, in no event shall the option price be less than \$100,000

Under this methodology, if EOYDC were to exercise the purchase option, their estimated purchase and sales price would range between \$300,000 and \$400,000

Staff has recommended the following purchase option term for the proposed new lease

The Landlord hereby extends to Tenant, Purchase Option Rights which may be exercised during the term of the lease The purchase and sale price will be the Fair Market Value as determined by an independent California Licensed General Appraiser at the time the Tenant exercised the option, minus a partial credit for the Tenant's initial investment into the original construction cost for Youth Center This recommendation will enable the City to negotiate a higher purchase and sales price in the event EOYDC QALICB elects to exercise the purchase option

PUBLIC OUTREACH/INTEREST

EOYDC regularly reaches out to the community by using mainstream media, social websites, flyers and/or news letters to local schools, park and recreation districts and by utilizing existing information and referral services

COORDINATION

EOYDC works with a number of partners including but not limited to, health organizations, employment and training organizations, technology providers, schools districts and colleges EOYDC is working with East Bay Asian Local Development Corporation as its financial consultant to structure the New Market Tax Credits Financing for the renovation and expansion

of the Youth Center EOYDC is also working with the City's planning department to insure compliance with City regulations, policies and ordinances

This staff report and ordinance have been reviewed by the City Attorney's Office and by the Budget Office

COST SUMMARY/IMPLICATIONS

The City is not expected to incur any additional cost under the revised lease, and the City-owned facility will benefit from the improvements if the loan is secured

SUSTAINABLE OPPORTUNITIES

Economic The Center provides programs for youths and young adults of families residing and working in downtown Oakland. Services also promote good citizenship by developing young adults into tax paying residents of Oakland

Environmental The Center, located close to various public transportation nodes, encourages the use of public transportation and reduces traffic congestion in downtown Oakland. The expansion of the youth center will trigger environmental and ADA requirements that the developer must comply with

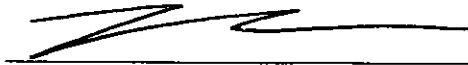
Social Equity The Center offers promotes the growth and development of children and young adults, and fulfills the needs of the residents of Oakland and the downtown work force, especially for low-income families qualified for subsidized child care

CEQA

This report is not a project under CEQA

For questions regarding this report, please contact Gregory Hunter, Interim Manager, Exempt Limited Duration Employee, at 510-238-2992

Respectfully submitted,

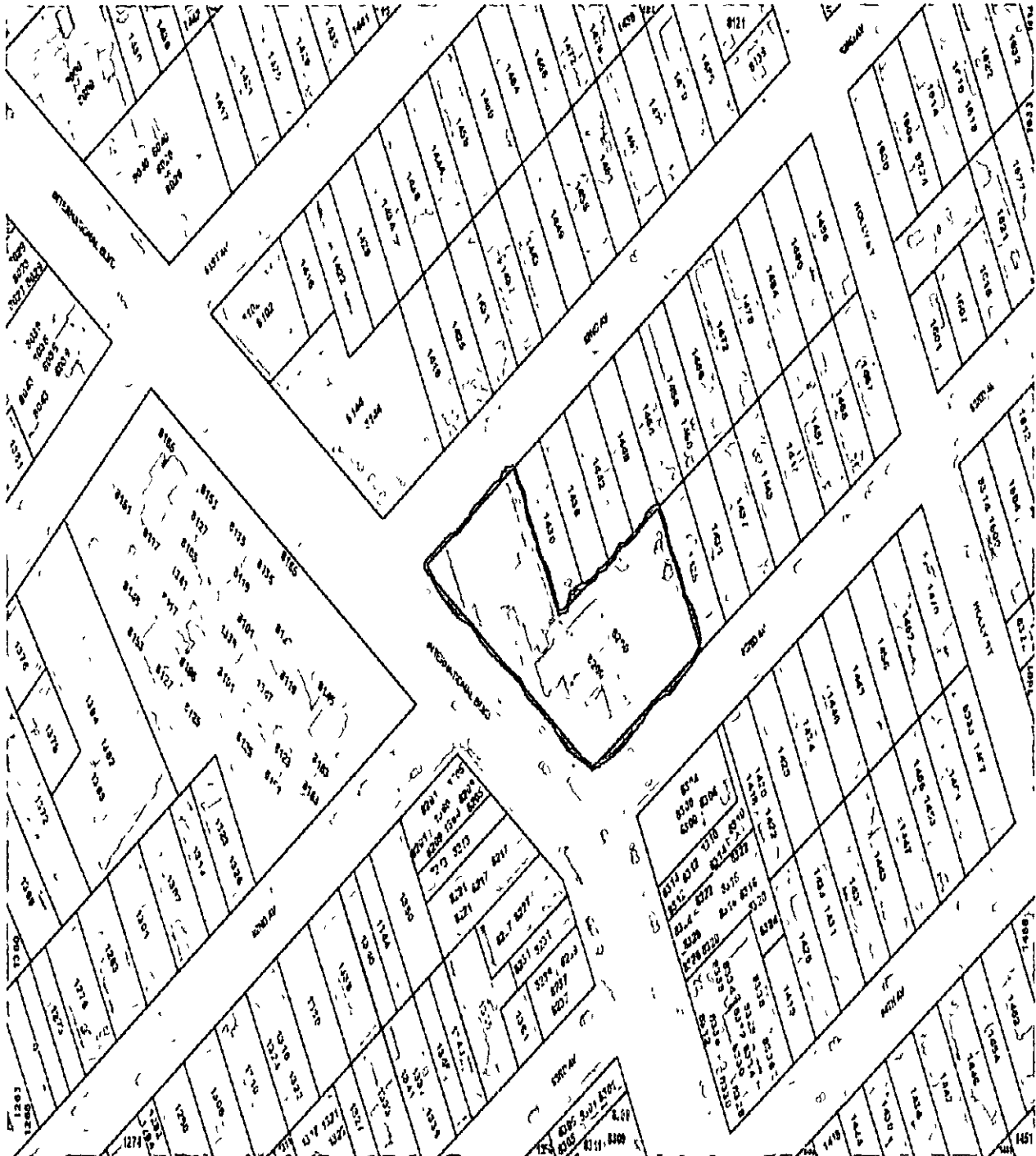


Fred Blackwell
Assistant City Administrator

Reviewed by
Gregory Hunter, Interim Manager, Exempt Limited
Duration Employee, Office of Neighborhood Investment

Prepared by
Anthony J Reese, Real Estate Agent
Real Estate Services Division, Office of Neighborhood
Investment

ATTACHMENT A



FILED
OFFICE OF THE CITY CLERK
OAKLAND

OAKLAND CITY COUNCIL

Kiran Jain
City Attorney

ORDINANCE NO. _____ C.M.S.
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FIRST AMENDMENT TO ORDINANCE NO. C.M.S. 13187, WHICH AUTHORIZED CITY ADMINISTRATOR TO ENTER INTO A 66 YEAR LEASE FOR \$1.00 PER YEAR WITH EAST OAKLAND YOUTH DEVELOPMENT CENTER QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS, INC., A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION (EOYDC QALICB), TO FURTHER AUTHORIZE: (1) AN INCREASE OF SECURITY IN SUCH LEASEHOLD INTEREST FROM \$7 MILLION TO UP TO \$10 MILLION, AND (2) INCLUSION IN THE NEW 66-YEAR LEASE OF AN OPTION TO PURCHASE THE PROPERTY.

WHEREAS, East Oakland Youth Development Center, Inc (EOYDC) has leased 8200 International Blvd from the City since 1978 for one dollar (\$1 00) per year (“the Property”), and

WHEREAS, EOYDC was founded in 1978 and was initially funded with \$350,000 from the City for the land, over \$900,000 from the Clorox Corporation for the construction of the improvements and \$650,000 from bay area businesses and foundations also for construction costs, and

WHEREAS, EOYDC (1) offers recreational, leadership, wellness, arts, science, educational, employment training, and employment placement programs five days a week (2) provides free, comprehensive, evidence-based youth development programs to meet the emotional, physical, intellectual, and economic needs of its participants, and (3) serves more than 2,000 youth each year, and

WHEREAS, EOYDC’s mission is to develop the social and leadership capacities of youth and young adults (ages 6 – 24) so that they achieve excellence in education, career, and service to their communities, and

WHEREAS, in 2012, EOYDC served 1,000 youth in its employment training program and had a job placement rate of 70 percent, and

WHEREAS, EOYDC has a successful track record of diverting young people from crime and violence and helping them attain outstanding personal, educational, and career success, and

WHEREAS, EOYDC desires to add an additional 5,249 square feet to the existing 19,910 square feet facility, and

WHEREAS, the renovation and additional space will enable EOYDC to house martial arts classes, a dance program, a homework center and vegetable garden for the nutrition program and a “Living Lab” environmental learning space for the science program, and

WHEREAS, after construction is complete, EOYDC will have the capacity to serve an additional one thousand (1,000) youth and young adults annually, and

WHEREAS, EOYDC is working with East Bay Asian Local Development Corporation as its financial consultant for the purpose of securing up to \$10 million dollars in financing to renovate and expand the improvements on the Property, and

WHEREAS, the City-owned facility will benefit if the financing is secured, and

WHEREAS, the lenders for the project require that EOYDC establish a special purpose entity named EOYDC QALICB, and that it acquire a lease with a minimum term of sixty-six (66) years, and

WHEREAS, the City Council approved entering into a sixty-six (66)-year lease with EOYDC QALICB under Ordinance No C M S 13187, and

WHEREAS, Ordinance No C M S 13187 contemplated a financing of \$7 million dollars, and

WHEREAS, the actual amount of the proposed financing is up to ten million dollars (\$10,000,000) rather than seven million dollars (\$7,000,000), and

WHEREAS, EOYDC QALICB will use its leasehold interest in the property as security for the financing up to \$10 million, and

WHEREAS, EOYDC's existing lease includes a purchase option, and

WHEREAS, EOYDC QALICB has requested that the new 66-year lease also include a purchase option, and

WHEREAS, staff has determined that the value of the in-kind services provided to the residents of Oakland exceeds the value of the fair market rent, and

WHEREAS, it is necessary to amend City Council Ordinance C M S 13187 to allow for the increased financing and the inclusion of an option to purchase in the new lease, now, therefore

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

Section 1. The City Council finds and determines the foregoing recitals to be true and correct and hereby makes them a part of this Ordinance

Section 2. City Council Ordinance No 13187 is hereby amended to provide that the City Administrator is authorized, without returning to Council, to (1) allow EOYDC QALICB to use its leasehold in the Property as security for up to \$10 million dollars to renovate and expand the improvements on the Property, and (2) include in the new sixty-six (66)-year lease to EOYDC QALICB a purchase option on terms to be negotiated by the City Administrator

Section 3. Other than as amended hereby, all other terms and conditions of C M S 13187 remain unchanged

Section 4. The City Attorney shall review and approve all documents related to this transaction as to form and legality, and a copy shall be placed on file with the City Clerk

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE

AYES- BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF, and PRESIDENT KERNIGHAN

NOES-

ABSENT-

ABSTENTION-

ATTEST _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

DATE OF ATTESTATION _____