

CITY OF OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Mark Sawicki
Director, EWDD

SUBJECT: Authorize an allocation of \$20 million
in New Market Tax Credits

DATE: June 19, 2017

City Administrator Approval

Date:

6/28/17

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution 1) Authorizing Oakland Renaissance NMTC, Inc. (ORNMTTC), An Affiliate Of The City, To Accept An Allocation Of Tax Credit Authority In An Amount Not To Exceed \$20 Million Pursuant To The New Markets Tax Credit Program, And To Enter Into An Allocation Agreement And Related Documents With The Community Development Financial Institutions Fund For This Tax Credit Authority; 2) Authorizing An Allocation Of \$14 Million In New Market Tax Credits By ORNMTTC To Neighborhood Assets LLC, Or Its Affiliates, For The Development Of A Grocery Store At 3103 Myrtle Street; 3) Authorizing An Allocation Of \$6 Million In New Market Tax Credits To A Commercial Loan Pool, To Be Administered By ORNMTTC And Other Partners, For The Purpose Of Providing Small Business Loans To Commercial Businesses In Eligible Sections Of Oakland; 4) Authorizing Reappropriation of \$2,630,059 In Cash Balances From Loan Repayments To The Revolving Commercial Loan Funds; And 5) Authorizing A Leveraged Loan For \$4,500,000 From Revolving Commercial Loan Funds To ORNMTTC Or A Related Entity For The Commercial Loan Pool Program.

EXECUTIVE SUMMARY

The New Markets Tax Credit Program ("NMTC Program") was established by Congress in 2000 to encourage investments into operating businesses and real estate projects in low-income communities. The NMTC Program is administered by the Community Development Financial Institutions ("CDFI") Fund. The NMTC Program attracts private financing by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities ("CDEs"). In turn, the CDEs invest these funds into qualified businesses that are in low-income communities.

Oakland Renaissance NMTC, Inc. ("ORNMTTC"), an affiliate of the City with CDE certification applied for and received in November, 2016, an allocation of tax credit authority in an amount of \$20 Million. Staff recommends that ORNMTTC leverage this allocation of NMTCs to provide loans with affordable terms for a development project and commercial lending program that would not be economically feasible otherwise. The development project, the Peoples' Community Market, is a proposed West Oakland grocery store located at 3103 Myrtle Street at

Item: _____
CED Committee
July 11, 2017

San Pablo Avenue that would be appropriated \$14 Million of NMTCs. The remaining \$6 Million of NMTC is proposed to be allocated to ORNMTC's Commercial Loan Pool Program. Based on current market values, the \$6 Million in tax credits are projected to generate approximately \$1.5 million or greater from investor equity, which can be used to augment the Commercial Loan Pool.

Staff further recommends that the City make a \$4.5 Million leveraged loan from four existing Redevelopment Commercial Loan Funds to an investment fund sub-CDE operated by ORNMTC, creating an opportunity to make \$6 Million of low interest loans to eligible businesses. The \$4.5 million from the Redevelopment Commercial Loan Funds would be restricted to the respective redevelopment areas for deployment. However, the \$1.5 million generated by the NMTC equity could be deployed in a wider eligibility area throughout Oakland.

BACKGROUND / LEGISLATIVE HISTORY

The New Markets Tax Credit Program

The U.S. Department of the Treasury's CDFI Fund administers the NMTC Program, which targets debt and equity capital to businesses or organizations situated in low-income, economically distressed communities. Intended to address the lack of available capital for business and economic development ventures in such places, the program provides federal tax credits to those who would invest in CDEs that, in turn, invest in qualified businesses. Each business or economic development initiative or project supported by the NMTC program, involves at least three key parties:

- A CDE, such as ORNMTC, that has been competitively awarded an allocation of tax credits by the CDFI Fund and sells them to investors;
- Individuals or corporate investor entities (that may or may not be affiliated with a CDE) that use the tax credits in return for making Qualifying Equity Investments (QEIs) in a CDE, which the CDE subsequently uses for making loans or equity investments in projects; and
- The recipient of the qualified low-income community investments (QLICI), termed a Qualified Active Low Income Business (QALICB).

The investor will be eligible to claim a tax credit equal to five percent of its equity investment in the CDE for each of the first three years and a six percent credit for each of the next four years (for a total of 39 percent) over a seven-year compliance period. The investment in the CDE cannot be redeemed before the end of the seven-year period. The NMTC Program is designed to rely on the CDE's local knowledge and expertise when deciding what business to invest in or lend to with the funds it raises.

Essentially, the NMTC Program allows NMTC investors to forego the usual direct return of all or a substantial portion of their investment because they will receive tax credits that more than offset the amount of return on investment given up. ORNMTC will have three years to use its NMTC allocation after entering into an allocation agreement with CDFI.

Oakland Renaissance NMTC, Inc.

ORNMTC is a California nonprofit public benefit corporation formed in August of 2004, and is an affiliate of the City of Oakland, located at 250 Frank H. Ogawa Plaza. ORNMTC's mission is to serve low-income communities and low-income persons in Oakland. In 2005, ORNMTC received CDE certification from the CDFI Fund.

ORNMTC is governed by a five-member Board of Directors made up of City of Oakland department heads and managers. The current ORNMTC board is comprised of the following individuals:

- Claudia Cappio, Assistant City Administrator
- Katano Kasaine, City Treasurer, Finance & Management Agency
- Mark Sawicki, Director, Economic & Workforce Development Department
- Patrick Lane, Manager, Project Implementation Division
- Jens Hillmer, Area Manager, Project Implementation Division

Each member serves on the board while performing his or her respective duties within the City. The Board of Directors is responsible for making investment decisions for projects. In addition to the Board of Directors, ORNMTC has enlisted a six-member Advisory Board comprised of residents, business owners and community leaders located in ORNMTC's service area.

Previous NMTC Allocation Applications and Awards

On October 5, 2004, the City and the former Redevelopment Agency, pursuant to Resolutions No. 78843 C.M.S. and 2004-0055 C.M.S., authorized ORNMTC to apply for an allocation of NMTCs. On September 20, 2005, the City and the former Redevelopment Agency, pursuant to Resolutions No. 79457 C.M.S. and 2005-0054 C.M.S., authorized ORNMTC to apply for another allocation of NMTCs. Neither of these two applications was successful. In September of 2012, ORNMTC applied for tax credit authority for a third time, seeking an amount of \$100 million under the NMTC Program to provide primarily real estate financing necessary to support retail business attraction and retention in the City of Oakland. On April 24, 2013, ORNMTC was notified by the CDFI Fund that it received an allocation of tax credit authority in an amount of \$20 million. ORNMTC applied again in September of 2013 for another allocation, but this application was not successful. ORNMTC submitted an application on December 17, 2015 for the most recent NMTC award cycle of 2015-16, seeking an amount of \$40 million. On November 17, 2016 ORNMTC was notified by the CDFI Fund that it received an allocation of tax credit authority in an amount of \$20 million.

The \$20 million award from 2013 has been distributed to two projects in Oakland. Pursuant to Resolution 84519 C.M.S., \$6 million in NMTCs was allocated to East Bay Asian Local Development Corporation (EBALDC) for a joint project comprised of Swan's Marketplace at 538 9th Street, and EBALDC's offices with ground floor retail at 1825 San Pablo. Swans Market Place improvements were completed in 2015 and included exterior improvements – doors, windows, landscaping and outdoor seating - and tenant improvements around the food uses at the 9th and Washington corner. The project helped to attract several new restaurants, including: 1) Miss Ollie's; 2) Rosamunde Sausage Grill; 3) B-Dama; 4) The Cook and Her Farmers; 5)

Super Juiced; and 6) Hen House. The Project at 1825 San Pablo Avenue included new offices for EBALDC on the second floor and retail uses on the ground floor. EBALDC's offices were completed in 2015, and one of the ground floor commercial spaces, Plenty Café and restaurant, opened in 2016. The other retail spaces on the ground floor are scheduled to open late 2017 or early 2018.

The remaining \$14 million of the 2013 NMTC award was ultimately allocated to Sunfield Development LLC's Seminary Point project located at Foothill and Seminary. Initially, pursuant to Resolution 84521 C.M.S., only \$6 million was allocated to the Seminary Point project, with \$8 million allocated to BRIDGE Housing Inc's MacArthur Station for the development of office space for the housing nonprofit, pursuant to Resolution 84520 C.M.S. However, both BRIDGE and ORNMTC ultimately decided that the MacArthur Station was not the best fit for that project. On April 20, 2015, pursuant to Resolution 85604 C.M.S., the City Council authorized the allocation of the additional \$8 million to the Seminary Point project, resulting in a total investment of \$14 million in NMTCs for that project. The Seminary Point project will develop a new neighborhood commercial retail center on 1.69 acres of vacant land in an underserved portion of East Oakland. The project includes two new buildings fronting on Foothill Boulevard with a surface parking lot in the rear along with one additional building pad in the middle of the parking lot and one fronting on Bancroft Avenue. The four buildings will include a total of 26,950 square feet of new commercial space and 73 off-street parking stalls. The anchor tenant's (Walgreens') building will face Foothill Boulevard and feature a pharmacy/drug store and offer a mix of retail, food, and a drive-thru pharmacy window. Construction on the Seminary Point project began in February of 2017, and it is expected to be completed by October, 2017.

Revolving Loan Fund

The Revolving Loan Funds were first created as part of the City-Redevelopment Agency Funding Agreement, pursuant to City Resolution Nos. 83256 C.M.S. and 83255 C.M.S. approved March 3, 2011, including appropriations of \$550,000 for Central City East (CCE) Commercial Revolving Loan Program; \$483,430 for the Broadway Corridor (Downtown) Revolving Loan Fund; and \$460,271 for the Coliseum Revolving Loan Fund. These projects were funded just as the Redevelopment Agency was being proposed for dissolution. Once the Redevelopment Agency was dissolved, the City and Oakland Redevelopment Successor Agency (ORSA) entered into a Bond Expenditure Agreement where ORSA transferred the unexpended balance of redevelopment bond funds to the City to reimburse expenditures for projects from the Funding Agreement and to fund additional projects, pursuant to City Resolution No. 84516 C.M.S., approved July 16, 2013. The Bond Spending Plan adopted by Council for the use of these funds included an additional appropriation of \$200,000 for the Broadway/MacArthur/San Pablo Small Business Loan Program and \$1,262,701 for the Broadway Corridor (Downtown) Revolving Loan Fund. An additional appropriation of \$500,000 in CCE funds has been proposed in the FY 2017-19 Budget, but the Budget was still in process for approval as this report was being prepared.

ANALYSIS AND POLICY ALTERNATIVES

The NMTC Program Allocation Agreement

ORNMTC will leverage NMTCs to provide loans with affordable terms for projects and devote 100 percent of its NMTC Program allocation to Low Income Communities (LICs) in Oakland. Nearly half of Oakland's census tracts are areas of severe economic distress and qualify as LICs. Under ORNMTC's by-laws, City Council approval is required prior to any allocation of tax credits to specific economic development projects.

Authorizing acceptance of the allocation of tax credit authority of \$20 million for ORNMTC and execution of an allocation agreement with the CDFI Fund is an essential step toward enabling ORNMTC to attract private investment dollars to low-income communities.

Projects and Financing Structure

Staff is recommending that the City Council adopt legislation authorizing and approving the allocations of NMTCs by ORNMTC to two ORNMTC-related NMTC Sub-CDEs for:

People's Community Market project	\$14,000,000
Commercial Loan Pool program	\$6,000,000

Project descriptions are below and attached to this report as ***Attachment A***.

People's Community Market

ORNMTC staff selected the People's Community Market project for multiple reasons. The development project will bring a much-needed full service grocery store to West Oakland, an area currently underserved in that type of service. Staff are currently familiar with multiple partners of the development team including EBALDC and Capital One, and have successfully worked with them to complete previous NMTC projects at 1825 San Pablo Avenue and 538 9th Street. Staff also wanted to focus on allocating funds towards a West Oakland project during this award process, as the previous allocations of NMTCs have been for projects located in the Downtown and East Oakland areas.

Neighborhood Assets, LLC will partner with EBALDC to develop People's Community Market at 3103 Myrtle Street, located near the corner of Myrtle Street and San Pablo Boulevard. The site consists of an underutilized 16,150 square foot parcel which is where a proposed 15,000 square foot full-service grocery store will be located. There is an adjacent 26,450 square foot site located at 3129 San Pablo which will be used as a parking lot, to be shared with the existing St. Matthew's Church.

Neighborhood Assets is seeking a total NMTC allocation of \$14 million for the project which would generate approximately \$4.64 million in potential investor equity. This amount is further reduced by transaction costs that would be charged by ORNMTC, such as placement fees, asset management fees and Sub-CDE expenses. After deducting these expenses, it is

estimated that the actual project equity would be \$4.2 million. Neighborhood Assets will need additional debt or equity financing of approximately \$10 Million to cover total project costs including \$1 million in acquisition costs, \$10.22 million in hard costs (construction and operating costs), and \$2.78 million in soft costs (architecture, engineering, permits, contingency, etc.). The project could close during fall of this year, with construction scheduled to begin shortly after.

Commercial Loan Pool

The Commercial Loan Pool program provides loan funds for commercial businesses in LICs throughout Oakland, providing additional resources to those in need and fostering economic growth and development. The commercial loan pool will use existing revolving loan funds as a leverage loan and enhance these funds with investor equity generated from the NMTCs. This process will generate over \$1.5 million in additional funds for commercial loans in Oakland. The source of most of the City loan funds are Central District bond funds, with smaller amounts from Broadway/MacArthur/San Pablo, Central City East and Coliseum and are restricted to fund loans in those areas. The supplemental funds from NMTC equity will allow loans to West Oakland and other areas outside of the four redevelopment areas that have bond funds, or provide more funds for the large areas of East Oakland where there are limited bond funds.

The City will provide a leveraged loan of \$4.5 million from its Revolving Loan Funds with a 3% interest rate. The additional approximate \$1.5 million of tax credit equity will be added to the City's \$4.5 million leveraged loan to create approximately \$6 million in the Commercial Loan Fund. The Commercial Loan Fund will repay the City for its leveraged loan, with the 3% interest, after a term of 10 years.

The new Commercial Loan Fund program would allow for more flexibility in the deployment of these loan funds. Each of the Redevelopment Revolving Loan Funds were restricted to the Redevelopment Area from which the funds originated. The Commercial Loan Fund would use the leveraged loan and the equity from the tax credits to provide loans that can be utilized by eligible recipients throughout Oakland. The Commercial Loan Fund will mirror the existing amounts and rates currently offered by the Revolving Loan Fund, offering loans in the amount of \$15,000 to \$249,000, and with interest rates of 3% to 11.15%. Initially, the \$1.5 million originating from the equity would provide the Oakland LIC-wide eligible funds, but as the interest associated with the loans from the restricted funds are repaid back into ORNMTC's investment funds, the additional funds would augment the Commercial Loan Fund and provide more capital for eligible uses Oakland-wide. When the City's leveraged loan is repaid after the 10-year term, the remaining funds in the Commercial Loan Fund may be deployed to all LICs Citywide.

For the past 15 years, the City has contracted with Main Street Launch - formerly Oakland Business Development Corporation ("OBDC") - to administer the City of Oakland's Commercial Loan Programs (Resolution 84344 C.M.S). OBDC/Main Street Launch has operated in Oakland since 1979 and is a qualified SBA Community Advantage program lender, certified Community Development Financial Institution (CDFI) lender, recognized micro-lender and SBA Technical Assistance provider. The current contract is almost over but an additional \$380,000 in the revolving loan funds is proposed to be included in a future contract to be brought to the City Council for approval later.

The loan of Revolving Loan funds to the Commercial Loan Pool would be identified as a City economic development subsidy and therefore does trigger requirements associated with GC Section 53083 of the State of California, requiring a list of some of the financial benefits of the Program to the community:

Entities Receiving the Subsidy:

ORNMTC is currently the only identifiable entity. Small business loans will be issued to eligible recipients within Low Income Communities in Oakland. Currently, no loan recipients have been identified. Eligible recipients will be informed of the loan funds through OBDC/Main Street Launch's existing outreach methods and efforts.

Description of the subsidy and resultant economic impact to the City of Oakland:

The total subsidy would be a loan of \$4.5 Million from the Revolving Loan Fund to the Commercial Loan Pool. The loan would be for a term of 10 years, with a 3% interest rate. The Commercial Loan Pool would then issue smaller loans (\$15,000 to \$249,000) for small business related purposes to eligible recipients in Low Income Communities. The City of Oakland would therefore grant an expenditure of public funds in the amount of \$4.5 Million for the 10-year period, but will receive a full return on its loan, plus interest.

There would be some potential economic risk to the City of Oakland, although the likely impacts would be minimal. The loan to ORNMTC itself carries a minor risk, as the City Revolving Loan Fund would be lending these funds to its own affiliate's Commercial Loan Pool to provide the same service as the Revolving Loan Fund, with a somewhat wider eligibility area. Therefore, the risk would be the same: the recipients of the small business loans may default on repayment of loans and ORNMTC may not have enough collective funds to repay the City. However, the interest generated from recipients who do pay off their loans is anticipated to offset any losses caused by any potential defaults.

Jobs Generated

There is no definite predictor of the number of jobs that will be generated from these funds. As the loans are targeted to recipients in LICs who will operate small businesses, it is highly likely that a multitude of new full-time, part-time, and temporary jobs are generated over the course of the program.

Taxes generated

The issuance of the small business loans to the eligible Oakland recipients will likely lead to a direct increase in both sales and business license taxes generated in Oakland. However, there is no way at this time to accurately project the exact tax revenue generated.

Risk and Mitigations

Recapture Event

The general risk for ORNMTC in the proposed transactions relate to the prevention of a "Recapture Event." There are three events that can result in the recapture of NMTCs at the investor level:

- The CDE ceases to qualify as a community development entity;
- The "Substantially-All Test" requirement is not satisfied (meaning that 85 percent of the QEI must be continuously invested in QLICs during the NMTC compliance period); or
- The investment is redeemed or otherwise cashed out by the CDE and the CDE distributes the funds to the equity holder. Both conditions must be met.

If there is a recapture event at any time during the seven-year compliance period, all holders of the qualified equity investment (both prior and current holders) are subject to recapture in the year of the recapture event. Generally, ORNMTC will take the following measures to prevent such an event:

- ORNMTC will ensure that all required reporting to the CDFI Fund is completed in a timely manner, which will prevent ORNMTC from losing its CDE certification from the CDFI fund.
- No principal amortization or prepayment will be allowed during the seven-year compliance period. This will prevent putting the projects in violation of the Substantively All Test, which says that 85 percent of the QEI must be continuously invested in QLICs during the NMTC compliance period.
- The transactions will be structured to ensure that up-streamed distributions of cash flow cannot be interpreted as redemption of capital, i.e. a return of equity. While return of equity to the investor is not permitted, return on equity is allowed. Therefore, all cash flow that is distributed up-stream to the NMTC investor would be structured as a return on equity and would be recognized as income.
- Transaction documentation will include legal opinions confirming that all aspects of the transaction comply with NMTC regulations.

Loan Security (applicable to development projects funded by NMTCs, not applicable to the Commercial Loan Program).

Generally, these Qualified Low Income Community Investment (QLICI) Loans will be secured with a first deed of trust on each property. Additional collateral may consist in the project's reserve accounts and developer/QALICB guarantees, but these have not been negotiated yet. There are risks for ORNMTC, the investors, developers and other financial partners in the proposed deal. The project could go bankrupt or fail to meet NMTC regulations and trigger a recapture event, which would likely result in the investor having to repay the tax credit.

In the past, the former Redevelopment Agency assumed certain liabilities in some deals. For example, in the Fox Theater deal, the Agency, as project sponsor, committed to making a buyout payment after the seven-year NMTC leverage loan term and made guarantees to the investors and other parties in the deal, including rehabilitation work completion guarantees, guarantees to ensure payment of project carrying costs through lease-up, a guarantee against recapture of the NMTCs in the event of project non-compliance with IRS regulations and certain environmental indemnifications.

In the case of the proposed project, however, neither the City nor ORSA are able to provide such guarantees. Thus, the investors, in close collaboration with ORNMTC staff, will perform a

Item: _____
CED Committee
July 11, 2017

thorough due diligence analysis of the deal to minimize any project risks. ORNMTC's exposure to risk would ultimately be limited to its resources, which would be the fees from the currently proposed and future deals. Nevertheless, failure of any one project could impact the way ORNMTC manages other projects if funding for staff is lost. ORNMTC will therefore also need to closely monitor risks in each of its projects.

ORMNMTTC will need to provide initial letters of intent to the People's Community Market project before the investment team hires attorneys, accountants and other financial consultants required to structure the deals and reduce the investor risks. The project will need ORNMTC to confirm its NMTC allocation before investors become comfortable with the project. Further review of the risks will continue until the close of project financing and projects will be monitored closely until the end of the seven-year compliance period.

FISCAL IMPACT

There are no direct fiscal impacts to approval of legislation that authorizes the awarding of the NMTCs to the identified project.

There are several indirect fiscal impacts related to the approval of this legislation. The proposed legislation will allow ORNMTC to execute an allocation agreement with the CDFI Fund to bring investment into low-income communities in Oakland. The People's Community Market project will allow ORNMTC to receive various fees that will be used to aid in funding the administration and management of ORNMTC.

There are direct fiscal impacts associated with the Commercial Loan Pool program's appropriation of funds and leveraged loan. The Commercial Loan Pool program will require a leveraged loan of \$4.5 million from the existing Redevelopment Commercial Loan Fund. There are funds previously appropriated for commercial loans, new funds being appropriated in the FY 2017-19 Budget and cash balances in the revolving loan funds from repayments from past loans that needs to be reappropriated. At the end of the tax credit period, the loan pool would revert to the City to pay off the original City loan.

The Redevelopment Commercial Loan Funds would come from:

1. Central District Project Area Loans Fund (1830), Commercial Lending Org (89979), BWAY COR REV LOAN Project (1001241);
2. Central City East Project Area Loans Fund (1831), Commercial Lending Org (89979), CCE CMMRCL REVLVG LOAN PRG Project (1000019);
3. Coliseum Project Area Loans Fund (1832), Commercial Lending Org (89979), COL REV LN FUND Project (1000160); and
4. BMSP Project Area Loans Fund (1833), Commercial Lending Org (89979), BMSP REV LOAN FND Project (1000138).

There are existing revolving loan fund appropriations in two of the areas, Central District (Fund 1830) and BMSP (Fund 1833), and there is a new appropriation proposed in FY 2017-19 Budget for CCE, including:

Fund	Organization	Account	Project	Program	Amount
1830	89979	54011	1001241	AD01	1,419,941.00
1833	89979	58312	1000138	SC04	330,000.00
FY 2017-19					
1831	89979	54011	1000019	SC18	500,000.00
Total					2,249,941.00

There are also cash balances in two of the revolving loan funds from repayments that are supposed to be re-appropriated for future loans. The proposed legislation would additionally appropriate the following amounts:

Fund	Organization	Account	Project	Program	Amount
1830	89979	11311	1001241	SC13	2,080,059.00
1832	89979	11311	1000160.	SC12	550,000.00
Total					\$2,630,059.00

Appropriating the requested \$2,630,059 will add to the existing revolving loan funds of \$2,249,941 for a total source of funds of \$4,880,000. Of this \$4,880,000 in funds, \$4,500,000 will be placed in Account 58312 Loan Expenditures: Non-Grant for the loan to ORNMTC and \$380,000 will be placed in Account 54912 Third Party: Grant Contracts Earned to fund future technical assistance and underwriting services through the City's Commercial Lending Division, as shown in the following table.

Fund	Organization	Account	Project	Program	Amount
1830	89979	58312	1001241	AD01	3,120,000.00
1833	89979	58312	1000138	SC04	330,000.00
1832	89979	58312	1000160.	SC12	550,000.00
1831	89979	58312	1000019	SC18	500,000.00
Subtotal for Loan					4,500,000.00
1830	89979	54912	1001241	AD01	380,000.00
Total Revolving Loan Funds					4,880,000.00

The requested appropriation of \$2,630,059 is therefore necessary to add to the existing appropriated amount of \$2,249,941 for the Revolving Loan Fund to issue a loan of \$4,500,000 and place \$380,000 for a technical assistance and underwriting services contract (a contract which will be brought to City Council at a later date).

PUBLIC OUTREACH / INTEREST

ORNMTTC has created a six-member Advisory Board comprised of residents, business owners and community leaders located throughout ORNMTC's service area in Downtown, East, North and West Oakland. ORNMTC staff presented the proposed tax credit allocations to the Advisory Board for review, and the Board approved the project and program that are being recommended for funding in this report. The Advisory Board originally approved three projects including \$3.5

Item: _____
 CED Committee
 July 11, 2017

million for Restore Oakland. But this project obtained a large enough NMTC allocation from other sources and declined the ORNMTC allocation.

COORDINATION

The Office of the City Attorney and the Budget Office assisted in the preparation of the staff report. The Office of the City Attorney and the Treasury Department will assist, when necessary, in the establishment of the CDE's legal and financial structure.

SUSTAINABLE OPPORTUNITIES

Economic: There is no direct economic impact connected to the allocation of the NMTCs to People's Community Market and the Commercial Loan Pool. However, the People's Community Market is expected to generate 30 temporary construction jobs and 60 permanent retail jobs for a full-service grocery store in West Oakland. The Commercial Loan Pool will supply loans to commercial businesses throughout Oakland that will also result in the generation of jobs. In addition, these various businesses are expected to generate sales tax, property taxes, utility taxes and business license taxes for the City.

Environmental: There is no direct environmental impact connected to the allocation of the NMTCs to People's Community Market and the Commercial Loan Pool. However, the People's Community Market project will replace an existing blighted parcel from a commercial node with a functioning business. The developer will use their good faith efforts to design, develop and construct an environmentally sustainable project in conformance with the "Build It Green" commercial checklist. The Commercial Loan Pool will be used in part to fund businesses that replace or improve formerly vacant or blighted properties.

Social Equity: There is no direct social impact connected to the allocation of the NMTCs to People's Community Market and the Commercial Loan Pool. However, the establishment of People's Community Market will result in the only full service grocery in West Oakland, allowing residents to buy nutritious and fresh foods without having to leave their neighborhood. The project will also contribute to the creation of 30 temporary construction jobs and 60 permanent retail jobs in the area, several which may be available to low and moderate income individuals. The Commercial Loan Pool may provide small loans for business ventures to individuals who may otherwise be unable to secure funds.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution 1) Authorizing Oakland Renaissance NMTC, Inc. (ORNMTC), An Affiliate Of The City, To Accept An Allocation Of Tax Credit Authority In An Amount Not To Exceed \$20 Million Pursuant To The New Markets Tax Credit Program, And To Enter Into An Allocation Agreement And Related Documents With The Community Development Financial Institutions Fund For This Tax Credit Authority; 2) Authorizing An Allocation Of \$14 Million In New Market Tax Credits By ORNMTC To Neighborhood Assets LLC, Or Its Affiliates, For The Development Of A Grocery Store At 3103 Myrtle Street; 3) Authorizing An Allocation Of \$6 Million In New Market Tax Credits To A Commercial Loan Pool, To Be Administered By ORNMTC And Other Partners, For The Purpose Of Providing Small Business Loans To Commercial Businesses In Eligible Sections Of Oakland; 4) Authorizing Reappropriation Of \$2,630,059 In Cash Balances From Loan Repayments To The Revolving Commercial Loan Funds; And 5) Authorizing A Leveraged Loan For \$4,500,000 From Revolving Commercial Loan Funds To ORNMTC Or A Related Entity For The Commercial Loan Pool Program.

For questions regarding this report, please contact Patrick Lane, Project Implementation Division Manager, at (510) 238-7362.

Respectfully submitted,



Mark Sawicki, Director
Workforce and Economic Development

Prepared by:
Kimani Rogers, Urban Economic Analyst IV
Project Implementation

Attachments:

Attachment A – Project and Program Technical Reports

**Oakland Renaissance New Market Tax Credit
People's Community Market Technical Report**

Address: 3103 Myrtle Street (near San Pablo & 30th); and shared parking on 3129 San Pablo (St. Matthew's Church)
Neighborhood Area: West Oakland
Project Description: Site consists of 1) an underutilized 16,150 square foot parcel which is where the proposed new 15,000 sqft full-service grocery store will be located and 2) an adjacent 26,457 sqft site, which will allow for shared parking with the existing church.

People's Community Market (PCM) will bring to the site the only full-service grocery store in West Oakland.

Team

Developer: Neighborhood Assets, LLC (aka People's Community Market)
Partners: EBALDC, City of Oakland, et al (maybe Capital One)
Contractor: Stevens Hemingway Stevens, Inc,

New Market Tax Credit Eligibility Criteria

Project Readiness	Projected Financing Closing: Summer/2017
Project Completion	Projected: Spring/2018
Sector Impacted	Food Retail
Community Impact	Job Creation, Commercial Goods/Services; Full-service grocery in "food dessert" to capture retail leakage
Number of Jobs Created	
Temporary	30 construction jobs
Permanent	60 retail jobs
Financing	
Total Development Cost	\$14M
Acquisition Costs	\$1M (estimated) – Developer team has site control
Hard Costs	\$10.22M
Soft Costs	\$2.78M
Development Cost per Unit/SF	\$933/sf
Amount of Tax Credit Allocation Requested	\$14M
Equity Funding Amount	\$2.25M
Debt Financing	\$9.36M
Current Funding Gap	\$4.22M
Project Specific	
Type of Construction	Ground up New Construction/ Cast in Place
Number of Units	1 Retail Unit
Square Footage (By type)	15,000

Experience of Developer

The East Bay Asian Local Development Corporation (EBALDC) is advisor to Mr. Brahm Ahmadi of Neighborhood Assets LLC, who will be the developer for the People's Community Market (PCM) project. EBALDC has been in existence for 40+ years developing properties in the East Bay. EBALDC has consulted on and/or developed nearly 500,000 sf of commercial property in Oakland.

Contractor is Stevens Hemingway Stevens, Inc. and they have been around since 1984.
<http://stevenshemingway.com/>

A quick blurb from their site:

We specialize in commercial construction. Our building expertise includes:

- *Retail Buildings & Neighborhood Shopping Centers*
- *Restaurants & Café's*
- *Drugstores*
- *Box Buildings*
- *Office & Specialty Buildings*
- *Tenant Improvements*
- *Shopping Center Rehabs*

Developer's Experience with New Market Tax Credit

EBALDC will also serve as the NMTC consultant for this project and has closed several of its own deals as well as consulted on 3 others over the past three years.

Description of Project:

PCM will make it convenient for West Oakland residents to buy nutritious and fresh foods, prepared foods and traditional groceries at great value in their own neighborhood, while also offering education, engagement and incentive programs that introduce customers to healthier food options and encourage them to adopt healthier eating habits over time. PCM will operate a full-service food market ranging between 10,000 - 15,000 square feet in size, with approximately 70% of the square footage as selling space. To provide for sufficient parking and other sites uses, a total land area between 30,000 – 45,000 square feet is needed. PCM is seeking a central location on a high traffic corridor within the trade area that has high population density, clear sight lines and accessibility by foot and public transportation.

Organizational Background and Information:

PCM is a food retail business in its pre-operating stage that will seize the market opportunity in West Oakland to implement and operate a financially sustainable business model. PCM is an outgrowth of People's Grocery, a nonprofit organization, founded in 2002, that has engaged thousands of West Oakland residents through pop up and mobile markets, produce delivery services and numerous education and outreach programs. People's Grocery's 13+ years of experience and engagement in West Oakland provide essential insight, knowledge and social capital in the formation of PCM's business model.

Current Status: Development team has site control; planning entitlements underway; building application/approval expected in Spring 2017; closing expected June 2017.

Oakland Renaissance New Market Tax Credit Commercial Loan Pool Technical Report

Address: Various
Neighborhood Area: Low Income Communities of Oakland
Project Description: Leverage former Redevelopment Agency bond funds to provide more funds and less restricted funds that can be used outside the 4 redevelopment areas with bond funds.

Team

Sponsor: Northern California Community Loan Fund and/or Main Street Launch
Partners: City of Oakland, et al.

New Market Tax Credit Eligibility Criteria

Project Readiness	Projected Financing Close Date – June 2017
Project Completion	Various – Multiple Projects
Sector Impacted	Retail, Light Manufacturing, Other (TBD)
Community Impact	Job Creation, Business Creation
Number of Jobs Created	100 (rough estimate)
Temporary	TBD construction jobs
Permanent	100 plus jobs

Financing

Total Cost	\$5 - \$6 million
Development Cost per Unit/SF	N/A
Amount of Tax Credits Requested	\$5 - \$6 million
Equity Funding Amount	\$4 - \$5 million
Current Funding Gap	N/A

Project Specific

Type of Construction	TBD
Number of Units	N/A
Square Footage (By type)	N/A

Experience of Developer

The City would be the leverage lender and would ultimately add the loan repayments to the existing commercial revolving loan funds. The City has a long history of making commercial loans. Main Street Launch is currently contracted with the City to provide underwriting and technical assistance for businesses receiving commercial loans from the City of Oakland. Main Street Launch has years of experience with the City's lending programs. Main Street Launch would partner in some new way with Northern California Community Loan Fund to borrow the funds and make small loans.

Developer's Experience with New Market Tax Credit

Both Main Street Launch and Northern California Community Loan Fund have extensive experience with NMTC lending. Both entities are certified under the NMTC Program as Community Development Entities (CDEs) and Community Development Financial Institutions (CDFIs). Main Street Launch is primarily a lender but Northern California Community Loan Fund also consults with non-profit entities to help structure their projects. Northern California Community Loan Fund worked with EBALDC and Oakland Renaissance NMTC on the Swan's/1825 San Pablo Projects.

Description of Project:

The proposed commercial loan pool would enhance the remaining redevelopment bond funds with NMTCs that would increase the funds available and create funds that could be used outside of the 4 redevelopment areas that generated the bond funds. This would allow lending in Low Income Communities that are outside of these redevelopment areas, such as West Oakland and parts of North and East Oakland.

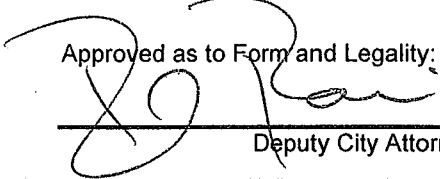
The City would make a \$4 to \$5 million leverage loan to an investment fund. The investment fund would add up to \$2 million in tax credit equity to this fund and loan this larger amount to Main Street Launch, Northern California Community Loan Fund and/or a new entity created by either or both of these entities. This entity would then make small (\$50,000 to \$250,000), loans to commercial businesses. The interest and principal that wasn't needed for program costs would revolve into new loans and the fund would slowly grow. At the end of the tax credit period, the loan pool would revert to the City to pay off the original City loan.

Organizational Background and Information: TBD

Current Status: In negotiations

2017 JUN 29 PM 1:03

Approved as to Form and Legality:



Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

RESOLUTION: (1) AUTHORIZING OAKLAND RENAISSANCE NMTC, INC. (ORNMTC), AN AFFILIATE OF THE CITY, TO ACCEPT AN ALLOCATION OF NEW MARKETS TAX CREDIT AUTHORITY IN AN AMOUNT NOT TO EXCEED \$20 MILLION, AND TO ENTER INTO AN ALLOCATION AGREEMENT AND RELATED DOCUMENTS WITH THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND FOR THIS TAX CREDIT AUTHORITY; (2) APPROVING AN ALLOCATION OF \$14 MILLION IN NEW MARKET TAX CREDITS BY ORNMTC TO NEIGHBORHOOD ASSETS LLC, OR ITS AFFILIATES, FOR THE DEVELOPMENT OF A GROCERY STORE AT 3103 MYRTLE STREET; (3) APPROVING AN ALLOCATION OF \$6 MILLION IN NEW MARKET TAX CREDITS TO A COMMERCIAL LOAN POOL, TO BE ADMINISTERED BY ORNMTC AND OTHER PARTNERS, FOR THE PURPOSE OF PROVIDING SMALL BUSINESS LOANS TO COMMERCIAL BUSINESSES IN ELIGIBLE SECTIONS OF OAKLAND; (4) AUTHORIZING REAPPROPRIATION OF \$2,630,059 IN CASH BALANCES FROM LOAN REPAYMENTS TO THE REVOLVING COMMERCIAL LOAN FUNDS; AND (5) AUTHORIZING A LEVERAGED LOAN FOR \$4,500,000 FROM REVOLVING COMMERCIAL LOAN FUNDS TO ORNMTC OR A RELATED ENTITY FOR THE COMMERCIAL LOAN POOL PROGRAM

WHEREAS, the New Markets Tax Credit program (“NMTC Program”) was created by Congress in 2000 to provide tax credits to stimulate investment in low-income communities to facilitate economic and community development; and

WHEREAS, under the NMTC Program, taxpayers receive tax credits by making equity investments in qualified community development entities (“CDEs”) whose primary mission is to serve or provide investment capital for low-income communities, and who maintain accountability to residents of low-income communities; and

WHEREAS, Oakland Renaissance NMTC, Inc., (“ORNMTC”), an affiliate of the City of Oakland, is a California nonprofit public benefit corporation established by the City in August of 2004, whose mission is to serve low-income communities and low-income persons in the City of Oakland; and

WHEREAS, ORNMTC received CDE certification from the Community Development Financial Institutions (“CDFI”) Fund of the U.S. Department of the Treasury in 2005; and

WHEREAS, on December 17, 2015, ORNMTC applied for tax credit authority under the NMTC Program; and

WHEREAS, on November 17, 2016, ORNMTC received an allocation of tax credit authority under the NMTC Program in an amount of \$20 million; and

WHEREAS, ORNMTC wants to make an allocation of up to \$14 million of New Market Tax Credits to a sub-CDE affiliated with ORNMTC for the allocation of said tax credits to Neighborhood Assets, LLC or its affiliates for the development of a grocery store at 3103 Myrtle Street (the “Project”); and

WHEREAS, ORNMTC selected the Project for a funding allocation due to the Project filling a glaring need as the only full service grocery store in West Oakland, and based on the general Project conformance with the objectives of ORNMTC’s NMTC application, Project readiness, public benefits and conformance to City planning documents; and

WHEREAS, ORNMTC will establish a sub-CDE for the allocation of said tax credits to Neighborhood Assets or its affiliates; and

WHEREAS, the requirements of CEQA, the CEQA Guidelines as prescribed by the Secretary for Resources, and the provisions of the Environmental Review Regulations of the City of Oakland have been met for the Project; and

WHEREAS, ORNMTC wants to make an allocation of up to \$6 million of New Market Tax Credits to a sub-CDE affiliated with ORNMTC for the allocation of said tax credits to a Commercial Loan Pool program to provide commercial loans to commercial businesses throughout NMTC-approved Low Income Communities in Oakland; and

WHEREAS, ORNMTC is requesting a leveraged loan of \$4,500,000 from the City of Oakland to the sub-CDE affiliated with ORNMTC for the Commercial Loan Pool program; and

WHEREAS, there are existing revolving loan fund appropriations in the amount of \$1,419,941 in Central District Project Area Loans Fund (1830), Commercial Lending Org (89979), BWAY COR REV LOAN Project (1001241), and funds in the amount of \$330,000 in BMSP Project Area Loans Fund (1833), Commercial Lending Org (89979), BMSP REV LOAN FND Project (1000138); and there is a new appropriation proposed in the FY 2017-19 Budget of \$500,000 in Central City East Project Area Loans Fund (1831), Commercial Lending Org (89979), CCE CMMRCL REVLVG LOAN PRG Project (1000019); and

WHEREAS, there are cash balances in two revolving loan funds from repayments that are supposed to be re-appropriated for future loans, with \$2,080,059 in Central District Project Area Loans Fund (1830), Commercial Lending Org (89979), BWAY COR REV LOAN Project (1001241); and

\$550,000 in Coliseum Project Area Loans Fund (1832), Commercial Lending Org (89979), COL REV LN FUND Project (1000160); and

WHEREAS, an appropriation of the \$2,080,059 and \$550,000 cash balances, for a total of \$2,630,059 will be necessary to add to the existing amounts of \$1,419,941, \$330,000 and projected amount of \$500,000 to equal an amount of \$4,880,000, of which \$4,500,000 will be applied towards the requested leveraged loan; and the remaining \$380,000 will be applied towards a services contract which will be brought to the City Council at a later date; and

WHEREAS, ORNMTC will repay the \$4.5 million leveraged loan from the City with funds in the Commercial Loan Fund accounts, at an interest rate of 3%, ten years after the Commercial Loan Pool fund has been established; and

WHEREAS, California Government Code Section 53083 requires a city to provide certain information and hold a noticed public hearing before granting an "economic development subsidy", i.e., an expenditure of public funds, such as a loan, exceeding \$100,000 that is made for the purpose of stimulating economic development; and

WHEREAS, the staff report accompanying this Resolution includes all of the information about the leveraged loan required under California Government Code Section 53083; and

WHEREAS, a noticed public hearing of the City Council was held to hear public comments on the leveraged loan pursuant to California Government Code Section 53083; now, therefore, be it

RESOLVED: That the City Council hereby authorizes ORNMTC to accept an allocation of tax credit authority in an amount not to exceed \$20 million pursuant to the NMTC Program, and to negotiate and enter into an agreement ("Allocation Agreement") and related documents with the CDFI Fund for this tax credit authority; and be it

FURTHER RESOLVED: That the City Council hereby authorizes ORNMTC to take whatever action is necessary with respect to the Allocation Agreement and the tax credit authority consistent with this Resolution and its basic purposes; and be it

FURTHER RESOLVED: That the City Council hereby approves the allocation of up to \$14 million of New Market Tax Credits by ORNMTC to a sub-CDE affiliated with ORNMTC, to allocate said tax credits to Neighborhood Assets, LLC or its affiliates for the development of the Project; and be it

FURTHER RESOLVED: That the City Council hereby approves the allocation of up to \$6 million of New Market Tax Credits by ORNMTC to a sub-CDE affiliated with ORNMTC, to allocate said tax credits to the Commercial Loan Pool program; and be it

FURTHER RESOLVED: That the City Council hereby authorizes a \$4,500,000 leveraged loan to ORNMTC with an interest rate of 3% and a loan term of ten years for the Commercial Loan Pool program; and be it

FURTHER RESOLVED: That the leveraged loan shall be contingent on and subject to such other terms and conditions as the City Administrator or her designee may establish; and be it

FURTHER RESOLVED: That the City Council hereby authorizes the City Administrator or her designee to negotiate and execute a loan agreement and other loan documents for the leveraged loan; and be it

FURTHER RESOLVED: That the above identified funds of \$2,080,059 and \$550,000 will be appropriated for the purpose of adding to the existing amounts of \$1,419,941 and \$330,000 and the amounts proposed in the FY 2017-19 Budget in the amount of \$500,000, with \$4,500,000 designated for the leveraged loan; with the remaining \$380,000 to be applied towards a services contract which will be brought back to the City Council for approval at a later date; and be it

FURTHER RESOLVED: That of the above identified appropriations and cash balances, \$4,500,000 will be placed in Account 58312 Loan Expenditures: Non-Grant for the loan to ORNMTC, as shown in the following table:

Fund	Organization	Account	Project	Program	Amount
1830	89979	58312	1001241	AD01	3,120,000.00
1833	89979	58312	1000138	SC04	330,000.00
1832	89979	58312	1000160	SC12	550,000.00
1831	89979	58312	1000019	SC18	500,000.00
Total Sources					4,500,000.00

and be it

FURTHER RESOLVED: That the City Council finds and determines, after independent review and consideration, that this action complies with CEQA because it is exempt from CEQA pursuant to Section 15262 (feasibility and planning studies), Section 15301 (Existing Facilities), Section 15306 (information collection) and Section 15061(b)(3) (general rule) of the CEQA Guidelines; and be it

FURTHER RESOLVED: That the City Administrator or their designee shall cause to be filed with the County of Alameda a Notice of Exemption for this action.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON McELHANEY, GUILLEN, KALB, KAPLAN,
and PRESIDENT REID

NOES -

ABSENT -

ABSTENTION -

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