FILED
OFFICE OF THE CI
OAKLAN

2014 FEB -6 PI

CITY OF OAKLAND

SUPPLEMENTAL AGENDA REPORT

TO: DEANNA J SANTANA
CITY ADMINISTRATOR

FROM: Fred Blackwell

SUBJECT: Rotunda Garage

DATE: February 4, 2014

City Administrator Approval

Date 2/4/14

COUNCIL DISTRICT: 3

RECOMMENDATION

Staff recommends that the City Council accept

An Informational Report On The Business Terms Of The Agreement Between The Oakland Redevelopment Agency And Rotunda Garage LP For The Sale And Lease Of Four Parcels Adjacent To The Rotunda Building In The Central District To Develop A 320-Space Public Parking Garage, Approximately 3,000 Square Feet Of Adjacent Retail, And A Temporary Surface Parking Lot

REASON FOR SUPPLEMENTAL REPORT

After issuing an informational report about the business terms of the disposition and development agreement for the Rotunda Garage project, staff has been asked to respond to a number of additional questions that have been raised by the public

1 What are the repayment terms for the $12 million loan to Rotunda Partner II, LLC, the developer of the Rotunda Building located at 300 Frank H Ogawa Plaza?

2 Is Rotunda Partners II, LLC making interest-only payments on the loan?

3 How does the Disposition and Development Agreement for the Rotunda Building (Rotunda DDA) relate to the disposition and development agreement for the Rotunda Garage (Garage DDA)?

ANALYSIS

A. DDA for Rotunda Building

As stated in the informational report, on June 29, 1998, the former Redevelopment Agency (Agency) entered into the Rotunda DDA with Rotunda Partners I, a general partnership, for the sale and rehabilitation of the Rotunda Building Subsequently, Rotunda Partners I assigned the Rotunda DDA to Rotunda Partners II, LLC, a related special purpose entity established by Rotunda Partners I for the purpose of syndicating historic rehabilitation tax credits for the renovation of the Rotunda The Rotunda DDA included the following key terms

The Agency made a loan of $12 million to Rotunda Partners II, LLC for the seismic retrofit of the Rotunda Building The loan closed on October 20, 1999 The loan has a term of 20 years, with interest-only payments of 3 percent per year commencing in the 15th year of the loan, which is 2013 Upon sale of the building, but no later than 2019, Rotunda Partners II, LLC must repay the loan principal In the event of a sale of the Rotunda Building, Rotunda Partners II, LLC must share with the Oakland Redevelopment Successor Agency (ORSA) 50 percent of all proceeds over $38 million The Rotunda Building was appraised at $49 million in March of 2012

The developer started to make the required interest-only payments in November of 2013

The Rotunda DDA also called for the Agency to make best efforts to provide at least 220 parking spaces for the tenants and patrons of the Rotunda Building in a new parking garage that was to be constructed within 2 blocks of the Rotunda Building Upon completing such a garage, Rotunda Partners II, LLC could lease up to 220 spaces at prevailing market rates Since it was not certain at the time whether and when a new garage would be built, the Agency and Rotunda Partners II, LLC entered into a parking lease for the vacant Agency-owned lot that was later going to be used for the constructing the Rotunda Garage and into a parking license for 50 spaces at prevailing market rates that were located in the Dalziel Garage

In the ensuing years, the Agency made various efforts to build a parking facility next to the Rotunda Building, none of which came to fruition because of high project costs and a lack of available funding In 2004, Rotunda Partners II, LLC approached the Agency and proposed to build the new garage with 320 parking spaces Rotunda Partners II, LLC and its contractor preliminarily estimated that developing the new garage would cost approximately $6 million This estimate did not include any land costs However, the net operating income that would be generated by the completed garage only supported private debt and equity investments of approximately $3 9 million As a result, developing the Rotunda Garage required a public subsidy of approximately $2 1 million to cover the total development costs of the project

B. DDA for Rotunda Garage and Relationship to Rotunda DDA

The Agency accepted Rotunda Partner II, LLC's proposal, and on August 26, 2004, the Agency entered into the Garage DDA with Rotunda Garage LP Rotunda Partners II, LLC became the limited partner in Rotunda Garage LP The following outlines the subsidy that was provided and illustrates how the Garage DDA was linked to the Rotunda DDA

- Land Write-down Pursuant to the terms of the agreement, the Agency divided the Property into four parcels Rotunda Garage LP could purchase Parcels 1, 2 and 3 for $99 each This reduction in the cost of the land largely eliminated any site acquisition costs for the developer Moreover, it gave Rotunda Garage LP the opportunity to acquire Parcels 2 and 3, which were appraised at $335,300 and $250,000, respectively, at no cost, and build one-story retail on sites that would generate additional financial benefit and private investment that was necessary to develop the garage

- Partial Assignment of a Rotunda Building Promissory Note The Agency assigned to Rotunda Garage LP a note for $4 million in principal plus interest from the $12 million loan made by the Agency to Rotunda Partners II on the Rotunda Building The present value of the assigned $4 million and associated interest payments of $120,000 (3% of $ 4 million) per year was estimated to be approximately $1 3 million

- Property Tax Rebates The Agency rebates to Rotunda Garage LP the net property tax increment generated by the Rotunda garage for 10 years These reimbursements were originally estimated at approximately $35,000 per year and yielded a total net present value of $213,000

Table 1 summarizes the Agency's subsidy for the Rotunda Garage as it was calculated by Keyser Marston Associates in May of 2004

Table 1

1 Valuation of the Garage	
Parking Net Operating Income @ $318,400/Yr	
Post Completion Value of Garage and Private Investment Supported @ 8.25%	$3,860,000
2 Value of Parcel 2 and 3 (as estimated by City Appraiser)	
Parcel 2	$335,300
Parcel 3	$250,000
Total Value of Parcel 2 and 3	**$585,300**
3 Value of Agency Financial Assistance (Net Present Value estimated at 8 25% Discount Rate in 2004)	
Tax Increment Rebate (10 years)	$213,000
Rotunda Building Note Assignment ($4 0 M plus interest of $120,000)	$1,300,000
Total Value of Agency Assistance	**$2,098,300**
4. Total Private Investment Supported ($3,860,000+$2,098,300)	**$5,958,300**
5 Total Garage Development Costs (estimated in 2004)	**$6,000,000**
6. Difference between Development Costs and Investment Supported	**($41,700)**

The combination of the these three project subsidies--the land write-down, the partial assignment of $4 million of the promissory note from the Agency loan to Rotunda Partners II, LLC, and the property tax rebates for 10 years were necessary to support the additional private investment of approximately $2 1 million needed to cover the full cost of $6 million to construct the Rotunda Garage as proposed by the developer In fact, the value of the garage after completion plus the value of the Agency's subsidies were slightly less than the funding required to build the garage at its initial construction cost estimate

C. Conclusion

Staff is not requesting any specific action from the Council under this informational item Regarding future actions which may be taken for the sites in question, staff recommends that the Successor Agency not exercise its rights under the Property DDA at this time to declare San Pablo Commercial Center, LLC (SPCC) and Rotunda Garage LP in default for non-performance and repurchase Parcel 2 and 3 In general, the Successor Agency should only declare each developer in default and repurchase the properties if there is a reasonable likelihood that such action will facilitate a development on each site and is therefore in the best interest of the City In the past, the Agency has provided development schedule extensions to several developers, including SKS Investment and Shorenstein

A repurchase of Parcel 2 by ORSA will delay current development efforts at the site because of the time required to (1) identify acquisition funds, (2) verify reimbursable site preparation costs with Rotunda Garage LP, (3) exercise ORSA's remedies, (4) seek State approval for a revised Long Range Property Management Plan that includes these properties, and (5) subsequent remarketing of the site Therefore, with regard to Parcel 2, staff recommends that it be directed to continue to monitor SPCC to implement the developer's proposed project and achieve compliance with the terms of the Garage DDA

Furthermore, staff recommends that Rotunda Garage LP and SPCC be given additional time to develop Parcel 2 and 3 However, in the meantime, the developer of Parcel 3 should be required to put in scored concrete and landscaping at the site until the start of project construction as called for in the Garage DDA

Respectfully submitted,

FRED BLACKWELL
Assistant City Administrator

Reviewed by
Gregory Hunter, Manager
Office of Neighborhood Investment

Reviewed by
Patrick Lane, Redevelopment Manager
Office of Neighborhood Investment

Prepared by
Jens Hillmer, Urban Economic Coordinator
Office of Neighborhood Investment