

Oakland Oversight Board

Memorandum

TO: Oakland Oversight Board
SUBJECT: City Center DDA Assignment

FROM: Mark Sawicki
DATE: October 26, 2015
ITEM: #3

RECOMMENDATION

Staff recommends that the Oakland Oversight Board adopt a resolution approving the assignment, to the City of Oakland, of the Oakland Redevelopment Successor Agency's (ORSA) rights and obligations under the City Center Disposition and Development Agreement (as amended, the "City Center DDA" or "DDA") with Oakland T12 LLC for development of property located at 601 12th Street.

EXECUTIVE SUMMARY

In December of 2008, Oakland T12 LLC, a Delaware limited liability company ("Oakland T12"), an affiliate of Shorenstein Properties LLC ("Shorenstein"), suspended construction of a 26-story 596,000 square foot Class A office building (the "Project") on property located at 601 12th Street (the "Property"), previously owned by the former Oakland Redevelopment Agency ("Redevelopment Agency"). As a result, in February of 2011, the Redevelopment Agency, the City, and Oakland T12 executed a 13th Amendment to the City Center DDA, extending development completion deadlines for the Project from April 2012 to April 2015, with two additional extension options of 12 months each for a total potential extension of up to five years. Oakland T12 did not exercise its option to extend the completion date of the Project past the initial April 2015 deadline. Oakland T12 is now in default under the terms of the DDA. In April of this year, Oakland T12 informed the City that it was evaluating a restart of Project construction. Since development deadlines previously established in the 13th Amendment to the DDA have expired, they must be extended by a 14th Amendment to the DDA, which would require the approval of the Oversight Board and the California Department of Finance ("DOF"). DOF generally does not permit amendments to existing agreements, except under certain circumstances.

OUTCOME

By removing ORSA as a party to the DDA, the City will be able to amend the DDA without having to seek Oversight Board and DOF approval. Moreover, the City Center DDA would no longer be listed on ORSA's Recognized Payment Obligation Schedule ("ROPS"). This will effectively increase net revenues to the taxing entities by eliminating any staff charges related to the administration of the DDA that are currently listed on the ROPS. The proposed assignment will also reduce ORSA's liabilities since it will no longer have any rights or responsibilities under the DDA.

BACKGROUND/LEGISLATIVE HISTORY

The original DDA between the Redevelopment Agency and Grubb & Ellis Company was executed on November 4, 1970, and covered a twelve-block area of downtown Oakland known as City Center, which includes the Property. The DDA was amended 13 times and assigned to Shorenstein and its affiliated entities pursuant to the Eighth DDA Amendment in 1996.

On December 7, 2007, the Redevelopment Agency sold the Property to Oakland T12 for \$5.2 million. Oakland T12 started Project construction in October of 2008. In December of 2008, after completing the environmental clean-up of the Property, the developer suspended all construction activities at the site. At the time, Oakland T12 cited the widening Great Recession, rising vacancies in the regional office real estate market, and the loss of American President Lines, one of the anchor tenants in Shorenstein's former holdings in Oakland, as primary reasons for their action.

In February of 2011, pursuant to Redevelopment Agency Resolution No. 2010-0106 C.M.S. and City Ordinance No. 13037 C.M.S., the Redevelopment Agency, the City and Shorenstein executed a 13th Amendment to the DDA extending development completion deadlines for the Project from April 2012 to April 2015, with two additional extension options of 12 months each for up to five years. However, Oakland T12 did not exercise an option included in the 13th Amendment to extend the development completion deadline for the Project past April of 2015. Oakland T12 is now in default under the terms of the DDA.

After dissolution of the Redevelopment Agency in February of 2012, ORSA was established as the successor to the Redevelopment Agency and it assumed all rights and obligations of the Redevelopment Agency under the DDA.

In April of this year, Oakland T12 informed the City that it was evaluating resumption of Project construction given the current momentum in the regional office market. Since Oakland T12 must sign up an anchor tenant for the building before moving forward, the developer decided that the Project can only be marketed effectively if they can show prospective tenants a fully-approved and fully-permitted Project that can be delivered by a certain date. Oakland T12 is therefore diligently working with City staff to secure planning and building approvals required for the resumption of Project construction activities.

Oakland T12 has also requested a 14th Amendment to the DDA to allow for new Project start and completion dates that has yet to be fully negotiated. The developer plans to resume construction as soon as they have secured a tenant, and received all planning approvals and building permits.

ANALYSIS

The Assignment

Generally, a successor agency is required to wind down all affairs of the former redevelopment agency. Toward this goal, the proposed assignment of ORSA's rights and obligations under the

DDA to the City would remove ORSA as a party to the City Center DDA, and the agreement would no longer be listed on ORSA's ROPS. This will effectively increase net revenues to the taxing entities by eliminating any employee costs related to the administration of the City Center DDA which are listed on the ROPS. The proposed assignment will also reduce ORSA's liabilities since it will no longer have any rights or responsibilities under the DDA.

California Department of Finance (DOF) Approval

If approved by the Oversight Board, the proposed assignment of ORSA's rights and responsibilities to the City will be submitted to DOF for approval. Oakland T12 representatives reviewed the proposed action with DOF, and DOF staff appeared willing to approve the proposed assignment to the City once it has been authorized by ORSA, the City, and the Oversight Board.

COST SUMMARY/IMPLICATIONS

The proposed assignment of the City Center DDA would remove the agreement from ORSA's Recognized Payment Obligation Schedule ("ROPS"). This will effectively increase net revenues to the taxing entities by eliminating any staff charges related to the administration of the City Center DDA, which are currently listed on the ROPS. These on-going staff charges amount to approximately \$48,000 per year.

For questions regarding this report, please contact Jens Hillmer, Urban Economic Coordinator at 238-3317.

Respectfully submitted,



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OAKLAND OVERSIGHT BOARD

RESOLUTION No. 2015-_____

A RESOLUTION APPROVING THE ASSIGNMENT TO THE CITY OF OAKLAND OF THE OAKLAND REDEVELOPMENT SUCCESSOR AGENCY'S RIGHTS AND OBLIGATIONS UNDER THE CITY CENTER DISPOSITION AND DEVELOPMENT AGREEMENT WITH OAKLAND T12 LLC FOR DEVELOPMENT OF PROPERTY LOCATED AT 601 12TH STREET

WHEREAS, the Oakland Redevelopment Successor Agency ("ORSA"), the City of Oakland ("City") and Oakland T-12 LLC ("Oakland T12") are parties to a Disposition and Development Agreement ("DDA"), as amended, whereby Oakland T12 is the master developer of a twelve-block area in the Central District Redevelopment Project Area, which is commonly referred to as the City Center Project; and

WHEREAS, on December 7, 2007, pursuant to the terms of the Twelfth Amendment to the DDA, the former Redevelopment Agency ("Agency") sold Block T12 of the City Center Project ("Property") to Oakland T12 for development of an office tower ("T12 Project"); and

WHEREAS, Oakland T12 started T12 Project construction in October of 2008; and

WHEREAS, in December of 2008, Oakland T12 suspended construction on the T12 Project because of the national recession, and requested an extension of the date to complete the T12 Project; and

WHEREAS, in February 2011, pursuant to Agency Resolution No. 2010-0106 C.M.S. and City Ordinance No. 13037 C.M.S., the Agency, the City and Oakland T12 executed a Thirteenth Amendment to the DDA extending development completion deadlines for the T12 Project from April 2012 to April 2015, with two additional extension options of 12 months each; and

WHEREAS, Oakland T12 did not exercise its option to extend the development completion deadline for the T12 Project for another year past the initial deadline of April 2015; and

WHEREAS, after dissolution of the Agency in February of 2012, ORSA was established as the successor to the Agency and assumed all rights and responsibilities of the Agency under the DDA; and.

WHEREAS, in April 2015, Oakland T12 informed the City and ORSA that it was evaluating resuming construction of the T12 Project given the current momentum in the regional office market; and

WHEREAS, Oakland T12 has requested a 14th Amendment to the DDA to allow for new T12 Project start and completion dates; and

WHEREAS, the City desires to amend the DDA per the request of Oakland T12 to facilitate development of the T12 Project on the Property; and

WHEREAS, ORSA desires to assign its rights and obligations under the DDA to the City to facilitate the development of the T12 Project; and

WHEREAS, the proposed assignment of ORSA's rights and obligations under the DDA to the City will remove ORSA as a party to the agreement, remove the DDA from ORSA's Recognized Obligation Payment Schedule ("ROPS"), and allow the City to amend the DDA; and

WHEREAS, ORSA is a Responsible Agency for the project for purposes of environmental review under the California Environmental Quality Act of 1970 ("CEQA"); and

WHEREAS, ORSA has independently reviewed and considered the environmental effects of the proposed assignment of ORSA's rights and obligations under the DDA to the City; and

WHEREAS, ORSA has found and determined, after independent review and consideration, that the proposed assignment complies with CEQA because it is exempt from CEQA pursuant to Section 15061(b)(3) (general rule) of the CEQA Guidelines; now, therefore:

Based on the foregoing recitals and the documentation presented to the Oakland Oversight Board at a public meeting, the Oakland Oversight Board does resolve as follows:

SECTION 1. The Oakland Oversight Board finds and determines that the proposed assignment of ORSA's rights and obligations under the DDA to the City, as approved by ORSA, will benefit the taxing entities because the assignment will

- (1) remove the DDA from ORSA's Recognized Obligation Payment Schedule ("ROPS"), and therefore effectively increase net revenues to the taxing entities by eliminating any employee costs related to the administration of the City Center DDA which are listed on the ROPS; and
- (2) reduce ORSA's liabilities since it will no longer have any rights or responsibilities under the DDA.

SECTION 2. The Oakland Oversight Board hereby approves the action of the ORSA board authorizing the ORSA Administrator to assign ORSA's rights and obligations under the DDA to the City.

ADOPTED, OAKLAND, CALIFORNIA _____, 2015

PASSED BY THE FOLLOWING VOTE:

AYES- BYRD, CHAIR CARSON, MULVEY, ORTIZ, RINNE, TUCKER

NOES-

ABSENT-

ABSTENTATIONS-

ATTEST: _____
SECRETARY OAKLAND
OVERSIGHT BOARD