

**Summary Minutes December 10, 2009
Alameda County Redevelopment Agency
Castro Valley Citizens Advisory Committee Meeting
Meeting held at: Supervisor Nate Miley's Conference Room
20993 Redwood Road, Castro Valley, CA**

Call to Order, Welcome and Introductions

The meeting was called to order by chairperson, Roberta Rivet at 3:00 p.m.

Committee members present:

Roberta Rivet, Ken Carbone, Dean Nielsen, Al Chamorro, Jeff Moore, John Ryzanych, and Maryann Francis

Committee members absent:

Keith Goddin and Linda Tangren

County staff present:

Eileen Dalton, Marita Hawryluk, Bill Lambert, and Jaimie Benson from the Alameda County Redevelopment Agency

General Announcements

None

Open Forum

None

Approval of Minutes

The October 14, 2009 and November 2, 2009 minutes were deferred for review and approval until the next committee meeting scheduled for March 10, 2010.

Daughtry Building Project Update

The Daughtry Building project, which provided a loan of \$1.8M to the property owner for façade and interior improvements, was approved by the committee in November 2009 and has returned at the request of the committee for further clarification of the project and the Agency's commitment. The Castro Valley Strategic Plan identifies the Daughtry building as a catalyst site that, if renovated and occupied, would promote and encourage additional redevelopment throughout the Castro Valley core commercial area. If the timing of this renovation occurs along with the other catalyst projects (Castro Valley Streetscape Project and Shared Parking Project) identified in the Strategic Plan, the key elements of the Strategic Plan would be implemented simultaneously. Eileen Dalton reported that the Agency considered several criteria in deciding whether or not to loan funds to rehabilitate the Daughtry's building owned by Randy Papierniak, that included valuation of the property, and various due diligence measures. The ultimate goal of the project is to enable the property to be successfully leased and generate cash flow for the property owner as well as sales tax for the County. In addition this project when completed would provide improvements to a property located in the core of downtown Castro Valley which would assist in helping to fulfill one of the major goals of the redevelopment strategic planning process – revitalizing the core commercial area of Castro Valley.

The Agency proposes to loan the owner, Randy Papierniak, \$1.8M to fund both exterior and interior improvements including ADA access and construction of ADA bathrooms, a new roof, elevator, HVAC system, fire sprinklers, demising walls, plumbing, electrical and lighting, demolition of existing and

installation of new windows and doors, stucco repair, exterior painting and lighting. Mr. Papierniak has already expended funds for seismic upgrades and will also be responsible for additional architectural and engineering costs and other costs in addition to those provided for by the loan.

The Agency is acting as a financial lender to this property owner due to the commercial lending market opportunities being reduced quite significantly over the last couple of years. At an estimated value of \$3.5M in its "As Is" condition, the Agency's loan of \$1.8M represents a 52% Loan-to-Value (LTV) ratio, slightly more conservative than today's bank lending standards. Mr. Papierniak's overall equity represents 48% of the pre-construction value. The post-construction value of the property, after the proposed improvements, is estimated to be \$5.35M which would provide for a loan to value ratio of 34%. Additionally, staff considered the Market Capitalization Rate ("cap rate") which gauges the current market value of retail properties. When the economy was faring better, the cap rate was at 5 ¼ % if the building is 90% occupied, which translates to a building valuation of \$5.6M. Now the cap rate is approximately 7 ¼ % if the building is 90% occupied, which reduces the building valuation to \$4.5M. Given that the Agency's loan to value ratio would be 40% based on only 52% occupancy, this is considered a very conservative loan. These ratios indicate that the loan to value ratio would be more than adequate.

In addition, to determine whether or not a loan of this size would be feasible, staff reviewed appraisals of other buildings in the general area, specifically recent appraisals on two other parcels within the same block of Castro Valley Boulevard as the Daughtry's Building that were completed in October 2008 and January 2009. Based on the information from these appraisals and the LTV analysis as just described, the Agency felt that it had sufficient information to make a sound decision that the loan being considered for this project would be reasonable and therefore did not go through the process of obtaining an appraisal of the Daughtry Building property.

To confirm the building would be leasable after improvements are made, allowable and prohibited uses were considered and include some types of discount retail originally prohibited, as nowadays much of retail is "discount" retail such as TJ Max, Ross, or Grocery Outlet. The Agency's role in this particular situation would be to assist in stimulating initial occupancy of the building which would allow the loan to be refinanced in the private sector as soon as possible.

The Agency follows a typical process for due diligence on all properties it engages with to loan money. While the construction estimate for the work, provided by the property owner, has been internally verified as reasonable, and is being used as a basis for the structure of the loan/grant, estimates for the construction costs will be obtained by three licensed and insured contractors to ensure we are paying for improvements at fair market value. Staff also analyzed the property owner's expenses related to eligible owner contribution which was demonstrated by supporting documentation, including cancelled checks, invoices, contracts, and building permit approval by Alameda County. The Agency has considered purchasing the building either directly from owner or through eminent domain, however given the constrained Castro Valley budget, the purchase of the property may not be possible. Prior to considering the purchase of any property, the Agency is obligated by law to allow the owner to first work with the Agency to redevelop the property, if this does not work, purchase of the property directly or through an eminent domain process if necessary, would then be considered.

The proposed terms for the loan include:

- \$320,000 RDA Forgivable Loan: Loan amortized over a five-year period, 4.5% interest; payments forgiven on an annual basis based on meeting the terms of the agreement;

- \$1,500,000 RDA Loan: 4.5% interest; first three years no interest accrues; beginning in year 4 interest accrues. Annually, 50% of Net Operating Income is due and payable until private, commercial, permanent financing can be secured; loan is due in ten years;
- RDA has approval rights for all retail tenants;
- RDA Standard Loan (\$1.5M) will be secured by a first deed of trust on the property. RDA Standard Loan is due and payable upon sale or refinance, i.e. no subordinate deed of trust is allowed behind the RDA Standard Loan;
- RDA Forgivable Loan (\$320,000) will be secured by a 2nd deed of trust, and may be subordinate to future construction, bridge, and take out loans; and
- RDA must review and approve the marketing plan and broker

Ken Carbone commented that the process that this project has taken appears acceptable and that without the FIP, the property continues to be unleaseable, in the middle of the downtown area, and needs to be improved along w/ streetscape and shared parking. A number of committee members commented that while making improvements to the Daughtry Building is significant to stimulate growth and synergy in the downtown Castro Valley area, an appraisal of the actual building rather than just adjacent property appraisal comparisons is necessary and should be completed prior to finalizing the loan agreement with the property owner. Al Chamorro expressed concern about the exterior improvements and that the public would see new paint and a few additional windows being the only visual improvement result from such a large financial investment, and preferred the original design that included more significant improvements.

A community member raised several concerns regarding the project including: while improvements at this location are needed to compliment the other improvements occurring adjacent to the property such as the shared parking project and the streetscape project, the large amount of money involved in the project does not result in a significant impact to the exterior of the building; that the Agency should complete an appraisal prior to offering any funds to the property owner because the value based on unassociated adjacent property appraisals may not be completely accurate; and that the Agency's process did not follow standard lending practices given that the committee was brought a project to approve prior to due diligence such as reviewing all owner contributions and confirmation that seismic work was permitted and approved. Another community member commented that the building is an eyesore and by lending money to the property owner, this only further encourages bad behavior. Additionally, a community member requested that the Agency look at the difference in cost between loaning money to the property owner and taking the property via the eminent domain process.

Staff responded to the comments expressed by the committee and community members. The process the Agency undertook for the Daughtry building was standard for working in good faith with a property owner to bring a potential project to the committee's attention for general approval of interest in the project. The focus of the Agency is to engage in a conceptual agreement and have the agreement and design brought before the committee for approval. All items in the agreement that are of concern are "subject to verification", which would include verification of owner expenditures and related work previously completed at the site.

Dean Nielsen moved and Maryann Francis seconded a request that staff return to the committee on March 10, 2010, or sooner, to review with the committee the Daughtry Building project documents including a property appraisal paid for by the property owner, a set of schematic building plans with final elevations, potential lease agreements, a financial evaluation of securing the building through eminent domain, a seismic scope and building department approval, a performance timetable for improvements, and an outline of proposed contract terms between the property owner and Agency prior to moving forward with the agreement for approval by the Agency Board. The motion passed

unanimously.

Revised FY 09/10 Budget

Staff presented a revised FY 09/10 budget for the Castro Valley Sub-Area. The Agency recently received revised tax increment projections for the current fiscal year. As tax increment is based on property tax and as property values continue to decrease, there is a direct impact on our tax increment funding. The analysis indicates that the tax increment for FY 09/10 in the Castro Valley Sub-Area has been reduced by \$581,000. As the budget was developed in January 2009, and the tax increment has been significantly reduced based on the August 2009 tax rolls, there will be a mid-year change to the budget. This tax increment reduction also reduces the bonding capacity of the Agency. The commercial programs will be reduced by \$463,500 in funding and the housing set-aside budget will be reduced by \$117,500. In addition, the Castro Valley Sub-Area's portion of the ERAF payment spread over the next two fiscal years will be \$1,800,000. The majority of the money will be due in May 2010. While funds are currently available to implement projects as Castro Valley's tax increment funds have accumulated during the last several years, the ERAF payment may cause some projects that are programmed to be delayed.

John Ryzanych moved to accept the revised FY 09/10 budget presented by staff for the Castro Valley Sub-Area. Ken Carbone seconded the motion. The motion was approved unanimously.

Old Castro Valley Library Site Vision & Process

In July 2009, the committee moved to request staff pursue analysis of financing options to purchase the old Castro Valley library site in an amount not to exceed \$1.5 million dollars as long as it does not impact the Agency's ability to proceed with other future Castro Valley redevelopment projects. Previous research by staff indicates the County owns the land at the library site, and the Alameda County Library owns the building. The site was appraised five years ago at \$1.5 million dollars. In November 2009, staff returned to the committee to discuss the revised FY 09/10 budget and expressed concern that the purchase of the old library site may not be feasible given all of the project area priorities and budgetary constraints due to the reduction in tax increment and the ERAF shift. The committee requested that staff return to the December 2009 meeting to discuss options for re-use of the site without exceeding the purchase price of \$1.5M.

At the last CAC meeting, the committee requested that staff work with GSA to determine the condition of the building. GSA has provided staff with a building assessment which confirms that while the building is old, it is still serviceable; the HVAC system is in good shape, the cooling fan system replaced about one year ago and the boiler, although original to when the building was built, has been maintained and is working; there is some ADA work that needs to be done in the bathrooms, regarding handicap access; and parking lot improvements are also recommended. While a budget is established for improvements, depending on the use of the building other interior improvements will need to be made as necessary. The current cost to maintain the 10,000 sq ft building is \$1.10 per sq ft per year for an approximate cost of \$11,000 per year. If purchased, the Agency would improve the building and would need to identify some other Agency to oversee the long term management and operations of the building. Staff will move forward with obtaining an appraisal of the property.

Committee members expressed concern that the cost of the corrective maintenance needed might exceed the budget available for the property. However, committee members would like staff to continue and pursue options for reuse such as making the building available to Castro Valley High School, the Chamber of Commerce, Hayward Area Historical Society, Hayward Area Recreation and Parks District, and Supervisor Nate Miley. Committee members suggested the building be reused to host community celebration events such as weddings and art shows or perhaps house a

building/planning department annex. Staff advised committee members that redevelopment funds cannot be used to build city halls or county government centers and that we have to be cognizant of this when developing options for the property.

The reuse of the Old Castro Valley Library Site will return to the committee for further discussion at the next meeting.

Housing Site Update

None

Staff Reports

Economic Development

No update provided.

Chamber Update

No update provided.

South-Side Castro Valley Blvd Shared Parking Project

Staff is reviewing insurance options currently and will be communicating this information to property owners shortly.

Castro Valley Blvd Streetscape Project

No update provided.

Topics for Future Meeting Dates

- Daughtry Building Project
- Old Castro Valley Library—potential walk thru of building/site
- Housing Element / Site Update
- Shared Parking Update

There being no further business, the meeting was adjourned at 4:54 p.m.

The Next Castro Valley Sub-Area CAC meeting will be held on:
Wednesday, March 10, 2010 from 12:30-2:30pm

New meeting location:

Castro Valley Library, 3600 Norbridge Avenue in Castro Valley – in the Chabot Room.

Note: A full version of the minutes is available by written request from the Redevelopment Agency.