REGULAR MEETING
MINUTES

OVERSIGHT BOARD FOR THE SUCCESSOR AGENCY TO THE CITY OF SOUTH SAN FRANCISCO REDEVELOPMENT AGENCY

P.O. Box 711 (City Hall, 400 Grand Avenue)
South San Francisco, California 94083

CITY HALL
LARGE CONFERENCE ROOM, TOP FLOOR
400 GRAND AVENUE

TUESDAY, AUGUST 19, 2014

CALL TO ORDER — Time: 2:07 p.m.

ROLL CALL — Present: Boardmembers Addiego, Christensen, Farrales, Gross, Scannell, Vice Chair Ernsberger and Chairperson Cullen.

PLEDGE OF ALLEGIANCE — Led by Boardmember Gross.

AGENDA REVIEW
None.

COMMUNICATIONS FROM STAFF
None.

PUBLIC COMMENTS
None.

MATTERS FOR CONSIDERATION

1. Motion to approve the Minutes of the Regular Meeting of April 15, 2014.

Motion- Boardmember Scannell/ Second- Boardmember Addiego- to approve the Minutes of April 15, 2014 as amended. Unanimously approved by voice vote.

2. Motion to cancel the Oversight Board Regular Meeting of September 16, 2014 and schedule a Special Meeting on September 23, 2014.

Motion- Boardmember Scannell/Second- Boardmember Christensen- to cancel the Oversight Board Regular Meeting of September 16, 2014 and schedule a Special Meeting on September 23, 2014. Unanimously approved by voice vote. Boardmember Scannell informed the Board that he would be absent on the Special Meeting of September 23, 2014.

3. Closed Session:
Conference with Real Property Negotiators:
(Pursuant to Government Code Section 54956.8)
Properties: 401 & 315 Airport Boulevard, 405 Cypress and 216 Miller Avenue
Agency Negotiators: Patrick O'Keeffe
Negotiating Parties: Miller Cypress SSF, LLC (Sares-Regis) and South San Francisco Successor Agency
Under Negotiations: Price and terms for disposition of the property.

Time entered Closed Session: 2:09 p.m.
Open Session resumed: 2:11 p.m.

Report out of Closed Session: no reportable action.

4. Resolution authorizing the City Manager to enter into an Exclusive Negotiating Rights Agreement (ENRA) between the City of South San Francisco and Miller Cypress SSF, LLC for potential development of the properties at 401 & 315 Airport Blvd, 405 Cypress, and 216 Miller Ave. ECD (Armando Sanchez, Housing Consultant)

City Attorney Mattas explained that the Exclusive Negotiating Rights Agreement (ENRA) between the City of South San Francisco and Miller Cypress SSF, LLC covered all former Ford properties. Sares-Regis created Miller Cypress SSF, LLC for this development. They were proposing to construct approximately 266 multi-family rental units on the property. The accompanying contracts would include the Purchase Agreement, which would be an agreement that the Successor Agency would sign upon approval of the Oversight Board and DOF. The Purchase Agreement would likely be entered into after the Long Range Property Management Plan (LRPMP) had been approved. The City was currently in the comment period with the DOF on the LRPMP. Once the Downtown Area Specific Plan was adopted pursuant to this ENRA, the Purchase Agreement for this property would be developed as well as all the land use and environmental entitlements for the development itself. The project would then return to both the City Council and Successor Agency. The City Council would deal with the land use entitlements and the Development Agreement. The Oversight Board would deal with the Purchase Agreement at the same time. As indicated previously by Boardmember Christensen, the Compensation Agreement would be entered into prior to that time. The ENRA provides an exclusive period of time for Miller Cypress SSF, LLC to negotiate with the Successor Agency to do further due diligence on the property. The ENRA further authorizes soil and site tests to confirm that the property is suitable for development. The City's preliminary analysis suggested that it was suitable for development even though there would be some contaminants remaining from the property's prior use as a car lot. The ENRA required an initial deposit of $50,000 to cover the Successor Agency's costs for the preparation of the Purchase Agreement. Any leftover funds from the deposit would be applied towards the purchase price. If the deal were to fall apart at some point during the discussions and there were leftover deposit funds, then the ENRA provides for reimbursement of any unexpended amount. There is also an extension period of 90 days beyond the 8 months which requires an additional, non-refundable payment of $25,000.

City Attorney Mattas directed the Board to Exhibit 1 on page 17 of the staff report, which laid out the tentative terms of the ENRA. When the property was initially being looked at, there was interest expressed by a hotel developer and two residential developers. After initially looking at all three, the Successor Agency directed staff to have further discussions with the two residential developers. The residential developers then came forward with offers and the Successor Agency ultimately picked Sares-Regis which is now operating as Miller Cypress SSF, LLC. The Agency paid $9 million for the property upon purchase and was now offered $11.5 million by Sares- Regis. Both Sares-Regis and Thompson-Dorfman stated that prevailing wage labor would be utilized for building. Sares-Regis happens to be a signatory Contractor with the Trades Council in the County. The development was proposed as all market rate rentals. If it was decided to seek condominium maps for the development, then the City's Below Market Rate Inclusionary Ordinance would apply.

In response to a query by Boardmember Christensen, City Attorney Mattas stated that the applicable case was Palmer out of Los Angeles which prohibits cities from imposing rent restrictions on rental properties unless the public agency has invested in the projects. He continued noting that the Successor Agency has had some conversations with Sares-Regis about having a limited number of affordable units in the development itself. Sares-Regis operates affordable housing in residential developments on a rotational basis rather than designating particular units. The number of units being discussed so far was 8, but Sares-Regis would want to negotiate the cost of subsidizing those vis-à-vis the purchase price. A tentative deal on this issue had not been reached. The buildings would include 266 units in a series of 5 or 6 stories, mostly residential over parking. There would be some live-work spaces along Cypress-Miller but no retail. The construction period would be 24 months and Sares-Regis understood it would not be able to secure the first Certificate of Occupancy until building permits had been pulled for all units. It was also in discussions on yet undefined public improvements that would be made as part of the development. This agreement does not obligate the Oversight Board to enter into a Purchase Agreement but rather sets forth expectations with regard to the negotiations. Ultimately the Oversight Board and DOF would have final approval authority over the Purchase Agreement portion of it while the City would have final approval over the Development Agreement and all of the land use entitlements.

Consultant Sanchez pointed out that very early on, the City stated it would only be interested in negotiating with Developers planning to improve all the properties. This was a successful strategy since both potential developers returned full proposals.

Boardmember Addiego asked if staff could provide additional details on related matters discussed by the City Council Subcommittee.

City Manager Futrell stated that many of the salient terms, such as the appraisal cost and underlying environmental cleanup would be dictated by the market. However, consistent with the overall goal to maximize financial return, affordable housing and the development's impact on the surrounding community were significant to the subcommittee. Accordingly, it discussed whether requirements could be imposed on Sares-Regis to mitigate those impacts. Its main concern was to have a development that was aesthetically pleasing and fitting for the envisioned character of the Downtown, that would also offset any negative impacts to the area, such as an increase in traffic.

City Attorney Mattas further explained that from a practical standpoint, the City cannot get its desired terms without having an impact on the purchase price. The reality is that the deal has to work economically for Sares-Regis as well.

Boardmember Christensen added that the College District feasibly built below market rate faculty housing. Accordingly, she found it disingenuous when developers assert it is not possible in consideration of profit margins.

In response to an inquiry by Chair Cullen, Attorney Mattas noted that the City would not have any control over what rents would be charged.

Boardmember Addiego commented that there were two (2) parties at the table interested in this property. It was a very spirited meeting since there was so much at stake. Initially, Sares-Regis proposed $9 million and Thompson-Dorfmann proposed $11.5 million. Before closed session, Sares-Regis took a moment to match the offer. When closed session ended, Thompson-Dorfman increased its offer to $13 million. The City walked away from the higher offer.

Boardmember Christensen shared that she ran into Bill Nack of the Building Trades Council and when she told him that she had heard that the City had taken a lower offer, he stated this was because Sares-Regis had an agreement with the Trade Unions supporting all union work.

In response to Boardmember Scannell's comment that this would not make the project less expensive, Boardmember Christensen agreed. She further stated that she had battled through this during the College District's negotiations, but her analysis of union pay versus prevailing wage suggested that hundreds of thousands of dollars were going to the company and not the employees. This analysis convinced the District to use only 85-89 percent union labor providing significant savings.

Boardmember Addiego stated that this question was asked by staff members of both developers but only Thompson-Dorfman responded by saying that it would pay $11.5 million with prevailing wage or $23 million with an open labor shop.

In response to an inquiry by Boardmember Farrales on the possibility of going back with a higher appraisal, City Attorney Mattas clarified that if the appraisal came in higher than $11.5 million, then staff would report that back to the Oversight Board and the Successor Agency. That alone would change the negotiations. If it came in less, then Sares-Regis has committed to $11.5 million if there are no additional expenses.

Consultant Sanchez pointed out that the appraisal was already underway.

Motion- Boardmember Addiego/Second- Boardmember Gross- to approve Resolution 3-2014. Approved by the following voice vote: AYES: Boardmembers Addiego, Farrales, Gross, Scannell, Vice Chair Ernsberger and Chair Cullen; NOES: Boardmember Christensen; ABSTAIN: None; ABSENT: None.

5. Resolution approving the proposed terms of a Revenue Sharing Agreement for Commercial Space at 636 El Camino Real and directing staff to prepare for Oversight Board consideration draft Revenue Sharing Agreement with said terms upon approval of the terms by the Oversight Board and the California Department of Finance. ECD (Armando Sanchez, Housing Consultant)

Consultant Sanchez presented the Board's options. The first option was to consider the project as one and relinquish all rights to it. The second option was to require title separation between the commercial and residential uses. The Board also had the option of entering into a compensation agreement that would compensate the taxing agencies.

Staff was proposing that the net revenue be shared. The pro forma had the actual rents for units one (1) and two (2) at $3,000 and $2,000 respectively. Unit three (3) would be rented for roughly $4,000 per month. At year three (3), once the third unit is developed, this would generate about $111,000 per year in gross revenue. Since the City is not well-equipped to manage properties, most of the expenses would be for third party service contracts. The City would be responsible for utilities and insurance, with a small amount going towards staff operations.

One of the largest items listed was the replacement reserve which staff strongly recommended since the City spent half a million dollars to improve two (2) tenant spaces. This cost had far exceeded what the City had expected to expend on the tenant spaces. The next unit would also require an expenditure of funds for tenant improvements to make the space rentable. Staff wanted to make sure that there was enough in reserves to provide tenant improvements for potential future tenants. After about 20 years of setting these reserve funds aside, there would be an accumulation of about $400,000 to do another set of improvements. Thus, net operating income would be roughly $57,000 per year from all three spaces.

When considering how to distribute the funds, staff considered two (2) different methods. The first which was the simplest looked at square footage. The property has 229,000 gross feet of buildable area with 5,000 square feet of commercial space. The City's share would go back to the housing fund to produce future affordable housing. The taxing agencies would receive a share based on the usual formula, which would amount to roughly $1,300 per year.

The other method used was based on total costs for producing each of the uses, which did not result in much of a difference. The total construction cost was $49 million with $1 million going into the commercial space to date.

Staff recommended use of the more straightforward method which was based on the square footage. If these terms were agreeable to the Board, then this would be sent to DOF and upon its approval, a

Compensation Agreement would be prepared and brought back to the Board.

The Board disagreed with the methodology used by staff and requested that an alternative calculation be made on the taxing agencies' share.

After some discussion by the Board, it was suggested that this item be continued to the next Oversight Board Meeting scheduled for September 23, 2014.

ADJOURNMENT

Chairperson Cullen adjourned the meeting at 3:08 p.m.

Submitted:

Kathryn Reodica, Deputy Clerk
Oversight Board for the Successor
Agency to the South San Francisco
Redevelopment Agency

Approved:

Neil Cullen, Chairperson
Oversight Board for the Successor
Agency to the South San Francisco
Redevelopment Agency