

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
REDEVELOPMENT AGENCY MEMBERS  
SUBJECT: AT&T SITE DISPOSITION AND DEVELOPMENT AGREEMENT,  
520 THIRD STREET  
STAFF PRESENTER: FRANK KASIMOV, REDEVELOPMENT PROGRAM SPECIALIST  
ECONOMIC DEVELOPMENT AND HOUSING  
AGENDA ACTION: PUBLIC HEARING AND RESOLUTIONS

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ISSUE(S)

Will the Council and the Redevelopment Agency approve the Disposition and Development Agreement (DDA) with Museum on the Square, LLC (Developer), for the sale and redevelopment of the former AT&T site (Site), located at 520 Third Street?

COUNCIL AND REDEVELOPMENT AGENCY GOALS

1. Per the Santa Rosa Center Redevelopment Plan, the Council and Redevelopment Agency are responsible to assist in removing physical and economic blighting influences. The public objectives for the AT&T site are: 24-hour downtown/living; employment/job center; out of town visitors; attract local shoppers; public use/non-profit/education.
2. Per the adopted Council Goals and Strategic Plan, the City desires to create and sustain a vital downtown, a strong economic base, a positive business model for a sustainable carbon neutral community that points out the advantages of living, working and doing business in Santa Rosa, as well as aggressive additions to the Economic Sustainability Work Plan that includes using redevelopment tools for the AT&T building.
3. Development of the AT&T Site as a mixed-use, infill project fulfills the Council and Agency goals listed above because it reduces physical and economic blighting influences; promotes additional cultural, employment, residential and economic activity downtown; helps reduce carbon generation as evidenced by the expectation that the building will achieve LEED Gold status; and provides new jobs and residential units with access to various modes of alternative transportation (Transit Mall, SMART rail station, various off-street bicycle/pedestrian routes).

BACKGROUND

1. The Agency purchased the site in 2007 to: (a) mitigate blighting influences; (b) prevent a speculative purchase and potentially incompatible uses; and (c) be able to control and plan for the long term use of the building to benefit the downtown area. The building, which was previously used by AT&T to house its switching equipment, was occupied by about 300 employees. It has been vacant and unused for over fifteen years.

2. The Agency analyzed the site's physical and economic opportunities and constraints, invited community participation, and then issued a Request for Qualifications (RFQ) to seek a development partner. In early 2010, following a recommendation by a selection committee comprised of Council members and Agency members, the Agency selected Museum on the Square, LLC, as the most qualified development team to proceed with the Agency to redevelop the property, and entered into an Exclusive Right to Negotiate Agreement.
3. Community Redevelopment Law requires the Agency and the Council approve the DDA.

## ANALYSIS

1. **Disposition and Development Agreement.** The DDA is the actual document under consideration for approval by the Council and Agency Board. The DDA provides the terms under which the Agency will sell the Site to the Developer for the development of the Project.

The DDA provides that the Agency will sell the Site to the Developer in its "as-is" condition for \$1,930,000. This price reflects the Developer's offer of \$2.1 million less the developer's anticipated cost of removing asbestos and lead-based paint from the building. The sales price is within the range of the site's fair market value at its highest and best use, as determined by a State certified appraiser retained by the Agency. The sale of the Site is conditioned on the requirement that the Developer actually develop the project that they have proposed to the Agency (Project), which is described in greater detail below. Before the Agency will convey the Site to the Developer, however, the Developer must satisfy a number of conditions intended to ensure that the Developer will be able to construct the Project.

Before the Agency will convey the Site to the Developer, the Developer must (a) demonstrate to the Agency's satisfaction that it has secured the financing required to develop the Project; (b) obtain all discretionary permits and land use approvals required for the development of the Site; (c) enter into an agreement with Sonoma County Museum (SCM) ensuring that the Developer will donate space to SCM for use as an art museum, and ensuring that SCM will in fact operate that space as an art museum; and (d) be in a position to close its construction loan for the Project simultaneously with the conveyance of the Site, and commence construction of the Project within ninety days of the close of escrow.

Once the Site is conveyed to the Developer, the Developer is required to complete the Project within 18 months.

2. **Project Description.** The proposed Project is located at 520 Third Street (location graphics are attached). Under the terms of the DDA, the Developer will rehabilitate and adapt the existing building as a mixed-use, infill development, utilizing the existing structure consisting of a basement level below ground, and five floors above ground level, and adding up to five floors on top of the existing structure. The ground floor will be adapted to include space that will be owned and operated as an art museum by the SCM; separate restaurant space, and a driveway providing access from Third Street to parking at the rear. The driveway space may be adapted for use as additional restaurant or commercial space in the event that the Developer is able to access the rear parking from a location other than Third Street in the future. Floors 2- 5 of the existing structure will be adapted for office or other commercial uses. The basement of the building will be used to provide some parking spaces for the residential tenants, mechanical and storage uses for the building and its tenants, and may

be used for additional commercial purposes. The additional floors, which would be constructed on top of the existing structure, will include between 38 and 45 residential apartments. The improvements will further include an outdoor art installation to be created by Ned Kahn and constructed on top of the additional floors. A more detailed description and conceptual project graphics are attached.

3. The proposed Project maximizes the leveraging of Agency funds and creates significant economic impacts. The Project will generate:
  - Net revenue to the Agency of approximately \$400,000. The Agency's cost of about \$1.1 million is offset by estimated redevelopment revenues of \$1.5 million. The Agency acquired the property for \$3,000,000 and conducted \$63,000 of due diligence studies. The proposed sales price is \$1,930,000.
  - Net revenue to the City over a 10-year period of approximately \$1.2 million;
  - Annual, local private-sector economic activity of about \$68.5 million; and
  - Job opportunities estimated at a total of 784 jobs, of which 523 are long term and 261 are construction related jobs.
4. Public involvement has consisted of eight public Agency and Council meetings, two public workshops, a pre-application community meeting, and access to City website and City staff. Additional public meetings will be held through the entitlement approval process.
5. The Agency prepared a summary report that describes the cost of the DDA to the Agency, the estimated property value, and other information Pursuant to CRL Section 33433.
6. The Project implements the Redevelopment Plan and Five-Year Implementation Plan, and is consistent with General Plan, Downtown Station Area Specific Plan, and Zoning Code.
7. The project meets the conditions for a Categorical Exemption, Class 32 (In-Fill Development Projects), CEQA Guidelines Section 15332.
8. Following approval of the DDA, the Developer will submit its application for design review approvals for the Project, and continue with its efforts to secure the financing required for the Site. Agency staff and the Developer will diligently work to satisfy the conditions of sale.

#### RECOMMENDATION

It is recommended by the Department of Economic Development and Housing that the Council and Agency, by resolutions, approve the Disposition and Development Agreement with Museum on the Square, LLC, for the sale and redevelopment of the Site, located at 520 Third Street.

Author: Frank Kasimov

Attachments:

- Redevelopment Agency Resolution
- Locational graphics
- Project description and conceptual Project graphics
- Disposition and Development Agreement
- Appraisal Valuation Letter
- Summary Report Pursuant to CRL Section 33433

RESOLUTION NO. 1627

RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA ROSA APPROVING AND AUTHORIZING THE EXECUTION OF A DISPOSITION AND DEVELOPMENT AGREEMENT BETWEEN THE AGENCY AND MUSEUM ON THE SQUARE, LLC

WHEREAS, the Redevelopment Agency of the City of Santa Rosa (Agency) is carrying out the Redevelopment Plan (Redevelopment Plan) for the Santa Rosa Center Redevelopment Project (Redevelopment Project), which is part of the Merged Santa Rosa Center and Grace Brothers Redevelopment Project Areas; and

WHEREAS, in conformance with Health and Safety Code Section 33490, the Agency adopted a five-year Implementation Plan (Implementation Plan) for the Redevelopment Project, which Implementation Plan describes the Agency's goal, objectives and proposed programs and expenditures for the elimination of blight; and

WHEREAS, the Agency has received from Museum on the Square, LLC, a California limited liability company (Developer), a proposed Disposition and Development Agreement (DDA) which provides for the disposition and development of certain real property (Site) located generally at 520 Third Street within the City of Santa Rosa, and also within the boundaries of the Redevelopment Project; and

WHEREAS, the Site is comprised of an approximately 25,230 square foot parcel, that is improved with a currently vacant commercial building of approximately 99,800 square feet, including a basement and five floors above ground; and

WHEREAS, the proposed DDA provides that the Developer will purchase the Site for the purpose of adapting and improving the building to be operated with a mix of uses, including an art museum, restaurant, office space and not less than 38 residential units; and

WHEREAS, the proposed adaptation and improvement of the Site as described in the DDA constitutes an in-fill development that (i) is consistent with applicable general plan and zoning designations for the Site; (ii) is located on a site of less than five acres; (iii) is located on a site that has no value as habitat for endangered, rare or threatened species; (iv) will not result in any significant effects related to traffic, noise, air quality or water quality; and (v) can be adequately served by all required utilities and public services; and is therefore categorically exempt from the requirements of the California Environmental Quality Act (Public Resources Code Section 21000 et seq.) pursuant to Section 15332 of Title 14 of the California Code of Regulations; and

WHEREAS, the Community Redevelopment Law of the State of California (Health and Safety Code Section 33000 et seq.) provides in Section 33431 that any sale or lease of Agency property may be made only after a public hearing of the Agency after publication of notice as provided by law; and

WHEREAS, the Community Redevelopment Law further provides in Section 33433 that before any property acquired, in whole or in part, with tax increment monies, is sold or leased for development pursuant to a redevelopment plan, such sale or lease shall first be approved by the legislative body after a public hearing, that notice of the time and place of the hearing shall be published in a newspaper of general circulation in the community for at least two (2) successive weeks prior to the hearing, and that the Agency shall make available for public inspection a copy of the proposed sale or lease and a report containing specified information and the financial aspects of the proposal; and

WHEREAS, notice of a joint public hearing of the Council of the City of Santa Rosa (Council) and the Agency was published in the Santa Rosa Press Democrat on June 15, 2010, and June 22, 2010, as required by law; and

WHEREAS, the Agency prepared a report pursuant to Section 33433 of the Health and Safety Code (Report), describing the cost of the DDA to the Agency, the value of the property interest to be conveyed, the purchase price and other information required by said Section 33433, and the Report, together with the DDA, was made available to the public for inspection; and

WHEREAS, the Council and the Agency held a joint public hearing on June 29, 2010, in the City Council Chambers to consider and act on the disposition and development of the Site pursuant to the DDA.

NOW, THEREFORE, BE IT RESOLVED by the Redevelopment Agency of the City of Santa Rosa as follows:

Section 1. The Agency hereby finds and determines that the sale of the Site to the Developer and the development and improvement of the building located on the Site pursuant to the DDA will assist in the elimination of blight through the development of a currently vacant and underutilized building, located at a prime location within the downtown area, with a mix of uses, including a museum, restaurant and office uses, and the remediation of existing hazardous materials contamination currently located on the Site, and is consistent with the Five-Year Implementation Plan adopted by the Agency pursuant to Health and Safety Code Section 33490. This finding is based upon the facts and information contained in the Report prepared by the Agency pursuant to Health and Safety Code Section 33433.

Section 2. The Agency hereby finds and determines that the consideration for the Site to be paid by the Developer is not less than the fair market value at its highest and best use in accordance with the Redevelopment Plan. This finding is based upon the facts and information contained in the Report prepared by the Agency pursuant to Health and Safety Code Sections 33433.

Section 3. The Agency hereby finds and determines that the proposed adaptation and improvement of the Site as described in the DDA constitutes an in-fill development that (i) is consistent with applicable general plan and zoning designations for the Site; (ii) is located on a site of less than five acres; (iii) is located on a site that has no value as habitat for endangered, rare or threatened species; (iv) will not result in any significant effects related to traffic, noise, air quality or water quality; and (v) can be adequately served by all required utilities and public services; and is therefore categorically exempt from the requirements of the California Environmental Quality Act (Public Resources Code Section 21000 et seq.) pursuant to Section 15332 of Title 14 of the California Code of Regulations; and

Section 4. The Executive Director and Secretary of the Agency are hereby authorized and directed to execute the DDA on behalf of the Agency, subject to any minor conforming, technical or clarifying changes approved by Agency Counsel. The Executive Director and Secretary are hereby further authorized and directed to undertake such further actions and execute such documents as are necessary to carry out and complete the obligations of Agency under the DDA on behalf of the Agency, including without limitation the execution of deeds and all other actions and documents necessary for the sale of the Site to the Developer in accordance with the DDA.

Section 5. The Agency hereby approves the DDA in substantially the form on file with the Secretary of the Agency with the addition of language submitted by developer on local hire commitments. The Agency further approves and authorizes the sale of the Site to the Developer as provided for under the DDA.

DULY AND REGULARLY ADOPTED by the Redevelopment Agency of the City of Santa Rosa this 29th day of June, 2010.

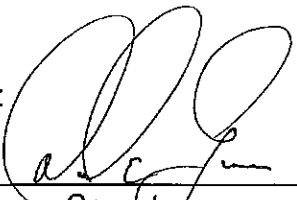
AYES: Arnone, Lemke, Olsen, and Chairman Ours

NOES:

ABSENT: Evans

ABSTAIN:

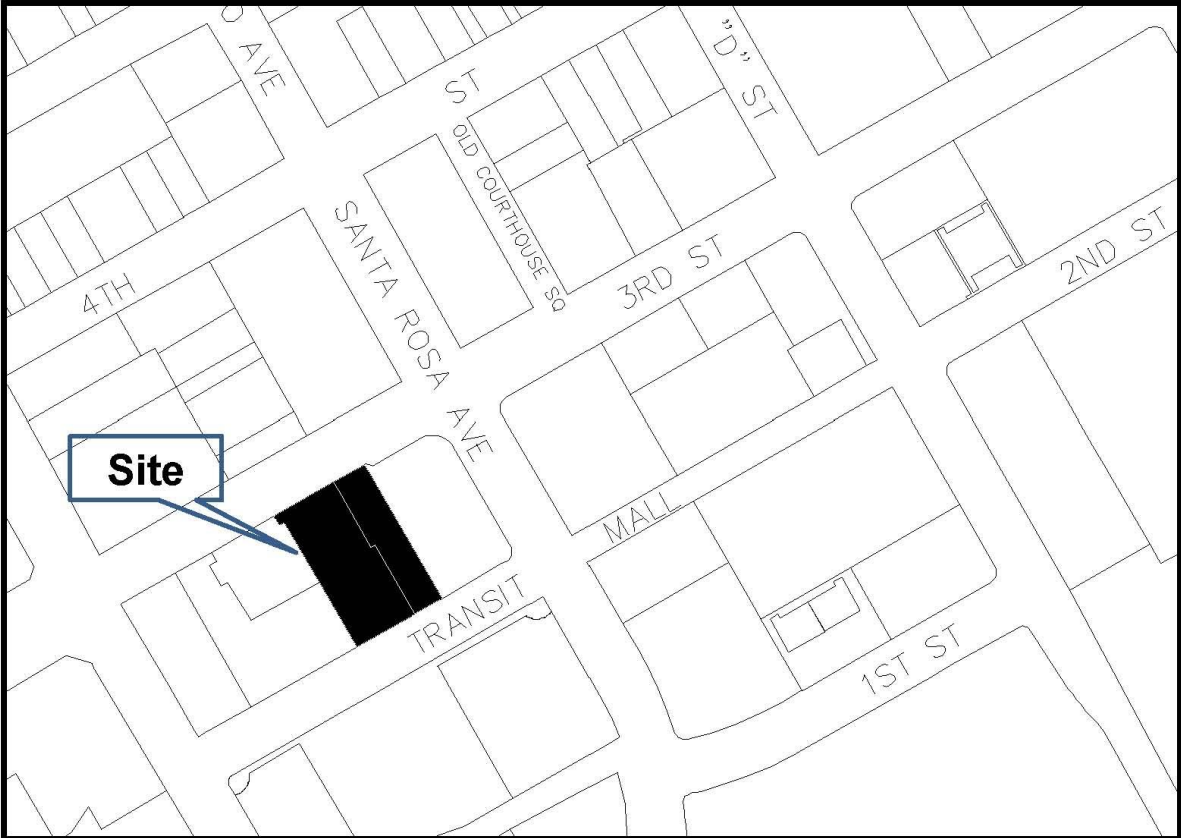
ATTEST:

  
\_\_\_\_\_  
Secretary

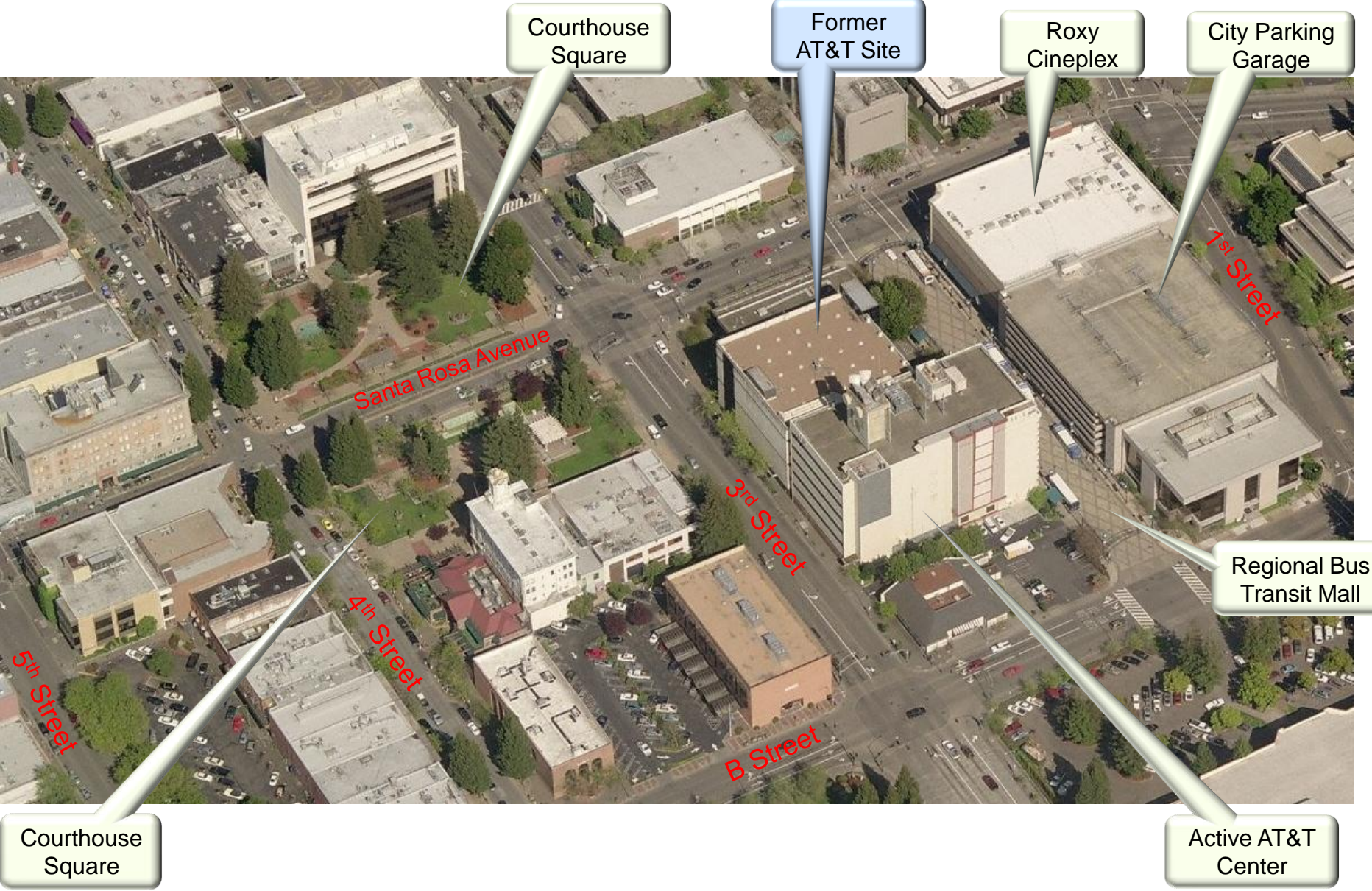
  
\_\_\_\_\_  
Chairman

AT&T DDA RDA RES 6.29.10

Former AT&T Site  
520 Third Street, Santa Rosa, California



# Former AT&T Site and Environs



Courthouse Square

Former AT&T Site

Roxy Cineplex

City Parking Garage

Regional Bus Transit Mall

Active AT&T Center

Courthouse Square



**PRELIMINARY REPORT OF  
FINAL VALUE CONCLUSION**

**Existing AT&T Building  
Redevelopment Site  
520 Third Street  
Santa Rosa, California**

**PREPARED FOR**

**Redevelopment Agency  
City of Santa Rosa**

**May 2010  
201003015**



May 21, 2010

Mr. David E. Gouin  
Director  
Economic Development & Housing  
City of Santa Rosa  
90 Santa Rosa Avenue  
Santa Rosa, CA 95402

RE: Preliminary Report Of Valuation Conclusion  
Former AT&T Property  
520 Third Street, Santa Rosa, California

Dear Mr. Gouin:

You requested that the appraiser analyze the property located at 520 Third Street in downtown Santa Rosa to derive an estimate of its "As Is" Fair Market Value under the property's Highest and Best Use. The purpose of the appraisal was to establish a basis for negotiating the sale of the property by the Redevelopment Agency to the selected team of developers identified as the Museum On the Square, who intend to retain portions of the existing structure and redevelop the property with a mix of uses. You have requested the appraiser issue a preliminary report of the valuation and its conclusion, in advance of the issuance of the final summary narrative report which will present the analysis in much greater detail. There are reportedly schedule deadlines that need to be met, in order to keep the negotiations moving, that did not allow for the full summary narrative report to be completed within the time available. Transmitting the valuation conclusions in this brief letter format report, will hopefully facilitate the schedule. The summary narrative report is expected to be completed within a week to ten days of the date of this letter.

### **The Subject Property**

The subject property is a 25,229 SF site with two parcel numbers, that is improved with a five story plus basement, steel frame and reinforced concrete industrial warehouse structure that was built in phases, the first of which was completed in 1973 with the basement and two floors above, and then expanded in 1979 with three new floors added on to the original structure. The building sizes, by floor, of the subject are summarized on *Table 1* which is included on the following page. Also included on that same table are the uses and square footages in the proposed redevelopment of the subject building under two different scenarios, to be discussed below.

The quality of the subject's construction would be described as superadequate for most industrial warehouse uses. The foundation and existing steel frame structure through the

TABLE 1

SUBJECT BUILDING SUMMARY  
 EXISTING & PROPOSED  
 520 THIRD STREET  
 SANTA ROSA, CALIFORNIA

	EXISTING GROSS AREA (SF)		PROPOSED GROSS AREA (SF)		PROPOSED RENTABLE AREA (SF)		USES				
			Incl. Residential	No Residential	Total Rentable		Parking & Mechanical	Residential	Restaurant	Common Area & Storage	Vert. Penetration Elevator/Ducts
BASEMENT LEVEL	17,106		21,000	17,106			17,106				
GROUND LEVEL	16,957		15,481	14,171			8,625		3,956	1,590	1,310
SECOND FLOOR	16,667	Incl. Rear Entry	16,338	15,409			15,108			301	929
THIRD FLOOR	16,667		16,012	15,081			14,783			298	931
FOURTH FLOOR	16,667		15,999	15,069			14,777			292	930
FIFTH FLOOR	16,667		16,323	15,394			15,094			300	929
ROOF LEVEL/SIXTH FLOOR	NA		11,011	NA				11,011			
SEVENTH FLOOR	NA		10,700	NA				10,700			
EIGHTH FLOOR	NA		10,700	NA				10,700			
NINTH FLOOR	NA		10,700	NA				10,700			
TENTH FLOOR	NA		9,829	NA				9,829			
<b>SUBTOTAL BUILDING AREAS (SF)</b>	<b>83,625</b>		<b>133,093</b>	<b>75,124</b>			<b>68,387</b>	<b>52,940</b>	<b>3,956</b>	<b>2,781</b>	<b>5,029</b>
<b>TOTALS (SF)</b>	<b>100,731</b>		<b>154,093</b>	<b>92,230</b>			<b>85,483</b>	<b>Incl. Hallways</b>			
							<b>Incl. Basement</b>				
							<b>Excl. Residential</b>				
							<b>80,153</b>				
							<b>Excl. Basement</b>				
							<b>97,259</b>				
							<b>Incl. Basement</b>				
							<b>No Expansion</b>				

SOURCES: Architectural Plans from Cox, Liske, Lionakis & Beaumont for existing and TLDC Architects for proposed dated 12/30/09.



fifth floor are reportedly able to accommodate the addition of five more floors without any additional structural reinforcement. The building has no windows, which was intentional, since it was built to withstand a nuclear blast within a 50 mile radius of its location. The few entry doors that actually penetrate the exterior of the structure are typically recessed and of extra heavy steel materials.

The industrial use of the existing structure (e.g. for storage and operation of telephone communications equipment) was abandon in the subject many years ago. The zoning and land use of the property are Downtown Commercial with a maximum of 10 stories and Retail and Business Services respectively. The industrial use is therefore a legal non-conforming use. Any reuse of the existing site and improvements would have to conform to the current zoning and land use.

### **Methodology**

Because of the unique qualities of the existing improvements, the perceived extraordinary if not prohibitive costs of a full demolition taking the property back to a vacant site and the intention of the potential buyers to retain and redevelop the existing improvements, the only valid and reliable method of deriving an "As Is" value estimate for the subject property is a *Residual Analysis*.

The residual analysis models the redevelopment of the property from its "as is" condition to completion and stabilized occupancy, followed by a reversionary sale. All of the estimated costs of taking the property to stabilized occupancy including construction and operating costs are reflected and spread over the approximate time the project is estimated to take. The cash flows for each period (in this case on a quarterly basis), whether they be negative or positive, are then discounted back to a "present value", which is the best estimate of the subject's "As Is" Fair Market Value. The residual technique is one of the methods within the Income Approach To Value, but it relies on elements of the Cost and the Sales Comparison Approaches as well.

The residual analysis requires the appraiser to make many assumptions about the allocation of the costs over time, the absorption of the space by tenants, their rental rates which not only determine the future income and the property's value in a reversionary sale, but also how potential buyers would determine the price they would pay for the property once it is completed and stabilized. The subject's prospective buyers have developed detailed cost estimates for the redevelopment of the property, based on their assumed uses for the building. Since the residual analysis is not feasible without these costs, and there are no other cost estimates from another source, the appraiser has relied upon the buyer's projected costs, as they have been refined a number of times, in part in response to questions raised by the appraiser over the course of his analysis. The cost estimates appear to be reasonable to the appraiser based on estimates from other similar projects that have been reviewed, though most of those were for structures built on a site that was vacant prior to construction.



The prospective buyers have two different development scenarios as noted earlier. While the appraiser could theoretically use a development scenario or multiple scenarios for the residual analysis other than the ones the prospective buyers have provided, the uses or mix of uses would certainly be similar to the mix of uses they have presented. The costs for each of their scenarios also have been estimated in some detail allowing the appraiser to develop separate residual analyses for each one.

The first of the prospective buyers' scenarios would simply redevelop the existing five story structure plus the basement, without any significant additions to the existing building. This is referred to as the "commercial only" scenario. The basement level would be allocated to storage space to be rented to building occupants and/or others, the ground floor is scheduled to be divided between a new restaurant and the Sonoma County Museum as their gallery display area and floors two through five would be converted to professional offices as leased space.

The alternative development scenario would include all of the "commercial only" redevelopment, but would also add five additional stories to the existing structure, all of which would be devoted to market rate rental housing units. That scenario is referred to at the "commercial and residential" scenario.

While the appraiser analyzed both scenarios, once it became clear that one of the scenarios produced a significantly higher "as is" value, only the one deemed to be the subject's Highest and Best Use was refined even further to final form, deriving the conclusion of value presented herein. The scenario that produced the highest "as is" value was the "commercial only" scenario, as will be discussed below.

#### **Assumptions Incorporated Into The Residual Analyses (DCF's)**

The appraiser reviewed the prospective buyers' proformas which included rental rate estimates for each of the components. Because the appraiser was able to find market evidence that indicated their projected rents were within the range indicated by the market, their projected rents were incorporated into the residual analyses. Some of the developer's rents were at the high end of the market range, but the subject when completed will be a landmark project in a prime location with newly completed exterior and interior improvements assumed to be of good quality. The occupancy in the building would not begin until at least the latter part of 2011 and possibly later than that depending on when the sale actually occurs and the redevelopment actually begins. The residual analyses assume the sale of the property to the developers as of May 1, 2010, which is now already past, but the start date can be pushed back to any date of value so long as the events related to the redevelopment of the property that follow fall within a similar time frame as the one assumed in the Discounted Cash Flow (DCF) analysis that is the residual analysis.



The first scenario which involves the redevelopment of only the existing five story plus basement structure would include: a display area / gallery for the Sonoma County Museum and a sit down restaurant, plus a lobby / common area access to the upper floors and the fire control room on the ground level. The museum space is allocated at 8,625 SF, the restaurant has 3,956 SF and there is 1,590 SF of common area and storage. The common area and storage on the ground level are allocated on a prorata basis to the four floors of office space above, since the lobby area is the access to the building, including the bank of elevators currently along the west wall of the building, for the occupants of the upper floors. The adjusted rentable area on the ground level is estimated at 12,581 SF.

The adjusted rentable areas on the upper office floors range from 15,462 SF to 15,811 SF with small variations by floor based on vertical penetrations and other differences that are minor. The basement level at 17,106 SF is assumed to be rented for storage and that use will require circulation within the space that will reduce the useable and therefore rentable area within that space. Storage space is assumed to be rented on a useable areas basis with no load factor for access and circulation. The 17,106 SF (gross) is therefore reduced to 14,540 SF that can actually be rented (15% of the space for circulation and access). It is assumed that this portion of the building will never be fully rented and that the maximum stabilized occupancy will not exceed 75% of the 14,540 SF net rentable area. The storage level income in the DCF works up to that stabilized occupancy over a number of quarters from the time the first occupancy in the building occurs on other floors. The rental rate is \$0.30/SF full service. Getting storage users to pay triple net or even gross expense charges in addition to a rent seems unlikely and would be an accounting/management nightmare. Utilization in these types of space tends to ebb and flow and be unpredictable if they are not actively marketed. Other than records storage, computer services or servers (if the temperature and humidity can be controlled) and possibly some merchandise storage, the demand is not perceived to be particularly strong. Thus a more conservative projection of potential income is utilized for this floor level. The projected rent from the basement storage will not be subject to the vacancy and collection loss deduction assessed against the other commercial users as its vacancy is already accounted for in the assumptions noted above.

The rent for the restaurant is the \$2.25/SF on a triple net basis in the proforma, and the space is assumed to be pre-leased during the construction period with the tenant moving in at completion. The tenant is also obligated to provide their own tenant improvements as is typical in the market. They will pay all of their own direct operating expenses and a prorata share of the building operating expenses.

The office rents in the proforma range from \$2.15/SF to \$2.45/SF full service based on the floor level, but averaging \$2.30/SF. There are two full floor tenants who are also partners in the MOS, LLC who have agreed to take the second and third floors at the time the renovations are completed and the other two floors of offices are assumed to lease up at the equivalent of one-half floor every six months or two quarters. Stabilized



occupancy is therefore estimated to take approximately two years from the time the building's first occupants move in.

A substantial portion of the ground floor space is being committed to the Sonoma County Museum, without the expectation they will pay rent, though they are projected to pay their prorata share of all operating expenses, and will also pay for their own parking as needed. The museum provides the concept for the building, and is expected to attract a high volume of visitors to the location which in turn creates an image and an identity of the place that could have a positive impact on the lease up and the rents attainable on the other floors. The restaurant in particular could benefit from the 45,000 to 65,000 visitors that are projected to come to the museum annually. Many museums have cafes or restaurants within their facilities so that visitors can have a meal or a snack as part of their visit. In the case of the subject the restaurant is conceptually a separate entity, but is likely to serve the same function as an "in-house" dining facility, but with an audience that goes beyond only the museum visitors.

The appraiser has had discussions with at least one commercial property owner and client who owns a large number of buildings around the Bay Area and who is also a patron of the arts and past chairman of the board of the San Francisco Museum of Modern Art [Note: He was also a competing bidder for the subject property.] He indicated that his own experience, and the experience of others he knows who have large commercial building holdings, is that the donation of space to a non-profit like a museum can have a positive impact on the occupancy and rental rates achieved within the balance of the building. He reinforced the notion of the MOS team that such a use draws attention to and creates a positive image of the property, though to be honest it has not worked in every case. There are other models of this strategy from the market, including how owners of shopping centers discount the rental rates for the supermarket or drug store anchor tenant(s) as a way of attracting other in-line tenants who pay a substantially higher rent than they would in a non-anchored center.

The alternatives to the museum use on the ground level would logically be another public use or a retail user, assuming those users could afford to pay rent on the space. Beyond the already proposed restaurant use, the demand for retail space in the downtown is weak with many retailers, particularly those that might utilize as much as 8,625 SF in a single space like furniture stores, struggling to survive. A number of the local furniture and related businesses have already or are currently going out of business. The likelihood of another restaurant taking that much space is low and the same would be true for a book store, which can use large spaces, but there is already one major chain book store in the downtown and another local book store closed its store several years ago. The space is too small for a grocery store (a use that many including the Agency's own consultants have noted is a need in the downtown commercial area) or a national chain drug store, and the delivery access is poor because of the abutting Transit Mall and restricted access from the Third Street frontage. Another floor of office uses, say for a stock brokerage, would only compound the difficulties of finding sufficient office users to fill the



building's upper floors. A bank or other lender use is possible, but could be prohibited by the City's recently revised zoning policy for this area, depending on the uses of 1 Santa Rosa Avenue and/or the former Traverso's sites, should one of those properties be occupied by a lender. Even lenders would prefer on-site or at least street parking in front of their retail outlets, which both those properties have, but the subject does not really have except in the rear, and then only a limited amount.

In many ways, the ground floor may be the hardest space to match with a tenant that can pay rent at any level.

The museum reportedly cannot currently afford to pay rent, but that does not mean they might not be able to in the future, particularly if they are successful in attracting visitors to exhibits made possible by the new space.

*The museum use appears to be the one use that makes the most sense because of the potential benefits to the other space in the building. In both scenarios the museum is assumed to pay no rent for a period of three years from completion of the reconstruction, though it will pay its prorata share of operating expenses during that period, and into the future. After the first three years of occupancy, the museum is assumed to pay a modest rent starting at \$0.50/SF, which is escalated annually by the same 3% CPI as assumed for the other tenants so that it is not a complete drag on the value. From an "as is" buyer's perspective, this means there is some type of "upside" to be derived in the future that would enhance the value today. Revenues from leasing out the space for private parties and other reception type uses could be one source of income to pay the rent, supplemented by endowment income, grants and other sources.*

The operating costs of the property are included in the analyses (property taxes, insurance, janitorial, maintenance, building and elevator maintenance, property management, parking space fees, etc.) as the building becomes occupied. The reconstruction costs are allocated over the quarterly periods in the analysis based on the developer's projected construction schedule and the operating costs are also "phased in" as the rental areas are leased on a phased or scheduled basis.

One of the critical assumptions in the analyses is that the subject's owners would be able to obtain daily parking permits for up to (100) spaces in the First Street Garage owned and operated by the City. The owners will control and pay for the permits which will then be allocated to the office only tenants in the subject without further charge. The parking is therefore included in the rents for the office tenants. The Museum and restaurant tenants will be responsible for obtaining their own parking as necessary. There are in excess of (200) daily permits available in the First Street Garage at this time, and the monthly costs are \$85/space.

Once the subject is conveyed by the Redevelopment Agency to private owners, the subject will be liable for the Central Parking District Assessments, which under public



ownership it does not have to pay. The bonds that built the existing parking structures are due to be paid off in July 2015, so the obligation once the sale occurs is a short-term one and as such should not be included in the expenses that yield the net income to be capitalized in the reversionary sale. Instead, the appraiser has estimated the annual liability for these assessment payments over the remaining five years they will occur and then has discounted those payments back to a present value that will be deducted from the "as is" values derived from the residual analyses. The calculation of the assessment liability is a two step formula with many variables that cannot easily or reliably be predicted. Since this is a preliminary report, the explanation of how the share of the payments attributable to the subject were calculated, will be omitted. Suffice it to say that in the case of the "commercial only" scenario they were estimated to have a present value of \$50,000 (rounded), which is then deducted from the value range shown in the DCF. Because the "commercial and residential" scenario results in a lower "as is" value, the deduction for the parking assessments is less than that figure because the starting point for the assessment calculation is the subject's "as is" value as compared to the total value of all the properties in the assessment district..

A reversionary "sale" of the subject property is assumed to occur at a point in the future, after the subject property has achieved stabilized occupancy. In this case the sale is assumed to occur within a fairly short period after stabilized occupancy rather than further out in time, say ten years out. The closer in time the reversionary sale occurs, the less discounting there is to the contribution of the sale proceeds to the "as is" value. That sale is based on the projected net operating income for the four quarters following the date of sale as projected, including an adjustment to the property taxes that automatically occurs following a sale under Proposition 13. That adjustment is achieved by leaving the projected property taxes out of the expenses for the four quarters following the theoretical sale, and adding the base tax rate to the overall or cap rate before capitalizing the net operating income. This is a typical technique utilized by California appraisers to account for the reassessment upon sale under Proposition 13.

The periodic cash flows in the DCF's, whether they be positive or negative in any given quarterly period, including the proceeds of the "reversionary sale" (less sales commissions at 3.5% of the gross sales price) are then "discounted back" to a present value, which is the estimate of the subject's "As Is" Market Value.

The second scenario includes all of the above except the income from the basement level storage is excluded, and the construction costs, income and expenses from a five story residential tower on top of the existing five story structure with approximately (45) rental apartment units averaging approximately 1,000± SF are incorporated into the analysis. The developer's proforma rents are relied upon, though the market rents in the newer, higher quality, high amenity projects in the downtown and in Fountaingrove are slightly lower at the present time on a \$/SF basis, but none of them are located on the sixth through 10<sup>th</sup> floor levels with view amenities that the subject units would have. The basement level is assumed to be expanded and converted to a parking garage with an



access ramp down from street level to meet the on-site parking requirement associated with the residential use. [Note: residential uses in the downtown central district are required to provide at least one space per unit on-site or reserved in a structure] The rental income and expenses are based on the proforma, as modified following discussions between the prospective buyers and the appraiser. The same reversionary sale occurs after stabilized occupancy has been achieved using the same basic assumptions, though the overall or "cap" rates vary between the two analyses.

These residual analyses are on a "cash basis" which excludes any financing being involved, even though the subject's developers intend to use not only conventional financing but also one form of tax credit financing. Loan fees, interest reserves and other costs of financing that are included in the prospective buyers' proforma are specifically omitted from the residual analyses.

The demolition and reconstruction costs for the project that the MOS team has developed are the only source of costs available. The appraiser has reviewed these estimates, and though he is not a construction cost estimator or expert, they seem reasonable and within the market from other construction costs for similar projects, though most recent costs are for new construction rather than reconstruction of an existing structure. The MOS team has reportedly relied heavily on their most recent office/retail project at 200 Fourth Street (at Wilson Street) in Railroad Square and the truly current bids for the Southwest Community Health Clinic remodel of the shell building in the Fountaingrove Executive Center that one of the MOS partners is the project manager for.

The developer's proforma assumes a 10% vacancy and collection loss factor and in appraisal we typically assume a lease up to a stabilized basis which is generally 100% occupancy and use a vacancy deduction of 5%± to reflect long term rent losses over the full period of ownership. That is what the DCF's reflect in the case of both subject scenarios, with the exception noted for the basement storage vacancy in the "commercial only" scenario, that was adjusted separately at a stabilized vacancy of 25%.

All the rents are assumed to be escalated on an annual CPI basis, projected at 3%. This may or may not be achievable over the longer term of a typical ownership period (e.g. 10 years plus or minus), but at least during the years following the initial lease-up in a new property they are assumed to be implemented. In general the assumption is that the overall economy will be slowly improving in the years to come allowing for tenants and building owners to meet their lease obligations including annual escalations in rents to cover any increases in operating expenses that have to be covered while maintaining the return to the owners on their investment.

Overall or "cap" rates to be applied to the subject's reversionary sales are another issue to be analyzed. Rates for central business district office projects and apartment complexes from national Korpacz Real Estate Investor Surveys by Price Waterhouse Coopers, LLC, were reviewed and charted from the first quarter 2005 through the fourth quarter 2009, to



examine how both “all cash” cap rates and the discount rates applied to these property types have varied over the period leading up to the current date of value. These are national averages not necessarily specific to the Sonoma County markets, but the trends they illustrate should be applicable to this market. This charting of the rates will be included in the summary narrative report and discussed in more detail there, but both the cap rates and the discount rates for both types of properties were declining from early 2005 through the first quarter in 2008, when they all reversed and began to rise. Higher cap rates and discount rates indicate that buyers perceive higher risks of owning these income properties into the future and they want a higher return (and a lower purchase price as a result) in exchange for accepting those risks. The analysts who write about changes in real estate values have indicated that rates have increased from 100 to 200 basis points since they started going up in early 2008, so over the last two years. The national average cap rates for central business district offices and apartments from early 2008 to the end of 2009 increased on average +161 and +163 basis points respectively. The discount rates in the survey over the same period increased +156 and +202 basis points with apartments showing the largest increases, which is somewhat surprising, since apartment building investments have traditionally been considered a safer haven than other types of real estate for investors.

In the “commercial only” scenario analysis an overall rate of 8.25% is applied to the reversionary sale which in the current market may be slightly generous, but the discount rate range applied is 9.75% to 10.0%, which does reflect the currently perceived risks of achieving the rents and absorption as projected in the DCF and is definitely toward the conservative (higher) end of the market range. There is always an interplay between the two rates in the admittedly subjective process of selecting them.

#### **Conclusion Of “As Is” Fair Market Value – “Commercial Only” Scenario**

Since it is the “commercial only” scenario that produces the highest value for the subject’s “As Is” Fair Market Value, only that scenario’s concluded value will be reported here. The range of values indicated in the analysis is from \$1,982,399 at the 10.0% discount rate to \$2,094,746 at the 9.75% discount rate, before deducting the \$50,000 present value of the parking district assessment liability. The concluded “As Is” Fair Market Value of the Fee Simple Interest in the subject, as of May 1, 2010, would therefore fall within a range from:

***ONE MILLION NINE HUNDRED THIRTY THOUSAND TO  
TWO MILLION FORTY THOUSAND DOLLARS***

***(\$1,930,000 TO \$2,040,000)***



TABLE 2

Estimated "As Is" Market Value By The Residual Technique  
Present Value Discounted At Discount Rates Of

8.50%	\$2,681,263
8.75%	\$2,560,579
9.00%	\$2,441,609
9.25%	\$2,324,328
9.50%	\$2,208,715
<b>9.75%</b>	<b>\$2,094,746</b>
<b>10.00%</b>	<b>\$1,982,399</b>
10.25%	\$1,871,653
10.50%	\$1,762,485

Value Conclusion Range  
Less PV of Parking Assessment Liability

<b>\$1,982,399</b>	to	<b>\$2,094,746</b>
(\$50,000)		(\$50,000)

**CONCLUDED "AS IS" MARKET VALUE RANGE**  
**"COMMERCIAL ONLY" SCENARIO**

<b>\$1,930,000</b>	to	<b>\$2,040,000</b>
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There is always a range of value for a property and in the attached value conclusion portion of the "commercial only" residual analysis, the reader can see how the values vary as the discount rates change. The lower the discount rate the higher the value.

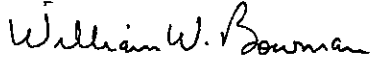
Discount rates represent three distinct components: the rates of return on a "safe" investment like treasury bills or AAA corporate bonds; the inflation rate over the investment period; and risks. Theoretically the real estate buyer wants a return from the investment that gives at least the same return as a "safe rate" investment, plus inflation and then an additional return on the investment to protect against the higher risk of real estate over other types of investments. Current "safe rate" investments like 5 year and 10 year treasury bonds which are in the mid-2% to upper-3% range respectively and inflation is minimal at under 2.0%, so the 9.75% to 10.0% discount rates utilized in the "commercial only" residual reflect a significant amount of perceived risk of achieving the income stream as projected.

As a point of information, the range of values under the "commercial and residential" scenario is substantially less than one million dollars. The costs of adding the five floors of rental apartments simply are not justified by what those units add in value to the project, at least from the "as is" value perspective. That scenario's reversionary sale value is greater than the same value for the "commercial only" scenario, but the net impact on the subject's value in its "as is" condition is a major net negative. Therefore the conclusion of the Highest and Best Use of the subject being the "commercial only" scenario is well supported.

This is a preliminary report of the analysis to be contained in the summary narrative report which is still in preparation. The valuation stated herein is subject to the conditions and assumptions stated in Chapter I of the summary narrative report to follow. That report and this preliminary letter have been made in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Ethics and the Standards of Professional Conduct of the Appraisal Institute.

Respectfully submitted,

*Bowman Associates*

  
William W. Bowman  
Certified General Real Estate Appraiser  
State of California - License No. AG007736



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May 21, 2010  
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ADDENDA



**CERTIFICATE OF APPRAISAL**

The undersigned does hereby certify as follows:

I have inspected the subject property.

I have no present or prospective future interest in the property that is the subject of this appraisal report, and no personal interest with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or the parties involved with this assignment.

To the best of my knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, unbiased professional analysis, opinions, and conclusions.

This appraisal report containing my analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.

I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

The undersigned hereby acknowledges that he has the appropriate education and experience to complete the assignment in a competent manner and has appraised this property type before. The reader is referred to the appraiser's Statement of Qualifications.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

No one other than the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this appraisal report.

*Bowman Associates*

William W. Bowman  
Certified General Real Estate Appraiser  
State of California - Lic. No. - AG007736



TABLE 3

OVERALL AND DISCOUNT RATES  
 NATIONAL AVERAGES BY  
 PROPERTY TYPE  
 520 THIRD STREET, SANTA ROSA

PROPERTY TYPE	CENTRAL BUSINESS DISTRICT OFFICES				APARTMENT BUILDINGS			
	Unencumbered All Cash OAR's	Dif. In Basis Pts.	Discount Rates (IRR)	Dif. In Basis Pts.	Unencumbered All Cash OAR's	Dif. In Basis Pts.	Discount Rates (IRR)	Dif. In Basis Pts.
QUARTER / YEAR	161	148		163				
4th Quarter 2009	Cumulative From 2/08	3	9.39%	15	Cumulative From 2/08	13	10.17%	202
3rd Quarter 2009	8.24%	27	9.24%	21	8.19%	19	10.06%	11
2nd Quarter 2009	8.21%	42	9.03%	40	8.06%	52	9.73%	33
1st Quarter 2009	7.94%	38	8.63%	11	7.87%	47	9.05%	68
4th Quarter 2008	7.52%	10	8.52%	29	7.35%	14	8.32%	73
3rd Quarter 2008	7.14%	36	8.23%	19	6.88%	5	8.23%	9
2nd Quarter 2008	7.04%	5	8.04%	13	6.74%	13	8.16%	7
1st Quarter 2008	6.68%	-1	7.91% <Lows>	7	6.69%	-2	8.15%	1
4th Quarter 2007	6.63%	-4	7.84% <<Low	-3	6.56%	2	8.17%	-2
3rd Quarter 2007	6.64%	-15	7.87%	-18	6.58%	-5	8.33%	-16
2nd Quarter 2007	6.68%	-4	8.05%	-12	6.56%	-30	8.36%	-3
1st Quarter 2007	6.83%	-7	8.17%	6	6.61%	-8	8.28%	8
4th Quarter 2006	6.87%	-13	8.11%	-23	6.91%	-5	8.30%	-2
3rd Quarter 2006	6.94%	-16	8.34%	-9	6.99%	-9	8.48%	-18
2nd Quarter 2006	7.07%	-6	8.43%	-5	7.04%	-13	8.60%	-12
1st Quarter 2006	7.23%	-6	8.48%	-18	7.13%	-5	8.89%	-29
4th Quarter 2005	7.29%	-36	8.65%	-34	7.26%	-4	8.97%	-8
3rd Quarter 2005	7.35%	-29	8.99%	-37	7.31%	-24	9.10%	-13
2nd Quarter 2005	7.71%	-26	9.36%	-20	7.35%	-12	9.34%	-24
1st Quarter 2005	8.00%		9.56%		7.59%		9.31%	3
	8.26%				7.71%			

SOURCE: Korpacz Real Estate Investor Surveys, by Price Waterhouse Coopers LLC, Published By Appraisal Institute in Valuation



**SUMMARY REPORT PURSUANT TO  
SECTION 33433  
OF THE  
CALIFORNIA COMMUNITY REDEVELOPMENT LAW  
ON A  
DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN  
THE REDEVELOPMENT AGENCY OF  
THE CITY OF SANTA ROSA  
AND  
MUSEUM ON THE SQUARE, LLC,  
A CALIFORNIA LIMITED LIABILITY COMPANY**

**I. INTRODUCTION**

The California Health and Safety Code, Section 33433, requires that if a redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the agency must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. A copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction will be available for public inspection prior to the public hearing. As contained in the Code, the following information will be included in the summary report:

1. The cost of the agreement to the redevelopment agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreement;
2. The estimated value of the interest to be conveyed, determined at the highest and best use permitted under the redevelopment plan;
3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement with the Agency, i.e., the reuse value of the site;
4. An explanation of why the sale of the property will assist in the elimination of blight; and
5. If the sale price is less than the fair market value of the interest to be conveyed, determined at the highest and best use consistent with the redevelopment plan, then the agency will provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the proposed Disposition and Development Agreement (Agreement) by and between the City of Santa Rosa Redevelopment Agency (Agency) and Museum on the Square, LLC, a California limited liability company (MOS). Under this agreement, Museum on the Square, LLC will rehabilitate and reuse the subject property in downtown Santa Rosa for the development, ownership, operation, and maintenance of commercial and residential space. The purpose of this analysis is to determine the costs of the Agreement to the Agency.

This report is based upon information in the proposed Agreement and is organized into the following six sections:

1. **Summary of the Proposed Agreement** – This section includes a description of the site, the proposed development and major responsibilities of the Agency and Museum on the Square, LLC.
2. **Cost of the Agreement to the Agency** – This section outlines the cost of the Agreement to the Agency for costs associated with the Agreement between Museum on the Square, LLC and the Agency.
3. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the interest to be conveyed to Museum on the Square, LLC.
4. **Consideration Received and Reasons Therefore** – This section describes the consideration to be paid by Museum on the Square, LLC to the Agency. It also contains a comparison of the consideration and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.
5. **Elimination of Blight** – This section includes an explanation of why the sale of the property will assist in the elimination of blight and the supporting facts and materials.
6. **Conformance with Five-Year Implementation Plan** – This section describes how the Agreement is in conformance with the Agency's Five-Year Implementation Plan.

## **II. SUMMARY OF THE PROPOSED AGREEMENT**

### **A. Description of the Property and Project**

#### ***Property***

The Property ("Property") is referred to as the AT&T Building and is located within the Santa Rosa Center Redevelopment Project Area Phase II at 520 Third Street. Prior to the purchase of the Property by the Santa Rosa Redevelopment Agency in 2007, the Property had been owned by AT&T since 1972 and was previously used by AT&T to house switching equipment as part of AT&T's telephone network. The Property has been vacant and underutilized for over fifteen years.

The site is approximately 25,230 square feet. An existing building with a footprint of approximately 16,500 square feet plus a asphalt parking area occupy the site, covering close to 100% of the site area. The existing building contains one floor below ground level and 5 floors at or above ground level, totaling approximately 99,800 square feet. Construction type is concrete and steel. Building height is 82-83 feet, including roof parapet, depending on which frontage grade is measured from. The building is served with sewer, water, and electricity.

The site is surrounded by urban uses. Adjacent uses include a telephone communications facility, approximately 90 feet tall with rooftop communications towers, a three-story vacant office building, a 14-screen cinema, a multi-story public parking structure with 720 spaces on seven levels, Third Street, Courthouse Square (the city's central plaza), and the bus transit mall with 525 buses serving approximately 12,000 average weekday passengers per 18 hour day. A regional shopping mall is located approximately 1 block west.

#### ***Developer – Museum on the Square, LLC (MOS)***

The buyer is Museum on the Square, LLC, a California limited liability company. Managing members of MOS are Hugh Futrell and Bill Carle. Hugh Futrell and Bill Carle, or entities wholly owned by Hugh Futrell and Bill Carle, own a controlling interest in the Developer either by ownership of shares, control rights or status as the managing member.

#### ***Project***

The proposed project ("Project") will adapt and re-use the existing building for cultural, commercial, and residential purposes. In particular, MOS proposed the following modifications to the existing building:

- **Basement:** The existing basement is approximately 16,000 square feet and may be expanded. The basement will be used for mechanical and storage purposes associated with the building and its tenants, for parking for the residential units contained in the building, and may be used for additional commercial purposes.

- Ground Floor: The ground floor will include the building lobby and vertical circulation for the building, between 7,000-9,000 square feet of Museum Space, and restaurant space of 1,100-2,500 square feet. There will also be flexible space to provide access for residential tenants to the parking at the rear of the Site from Third Street, or in the event that the Developer is able to secure access to the parking in the rear of the Site through other means, for additional restaurant or other commercial purposes.
- Floors 2-5: 15,780 to 16,050 square feet floor plate for a total of approximately 63,590 square feet of commercial office space. The proposed square footage is slightly less than current footage of these floors. This reduction is due to anticipated introduction of small insets into existing façade.
- Additional Floors. Up to five additional floors, bringing total height to no more than 148 feet, will be provided. The additional floors will provide not less than 38 multifamily residential units, and additional office or commercial space to the extent available. An outdoor art installation created by Ned Kahn will be constructed on top of the additional floors.

## **B. Agency Responsibilities**

The Agency's responsibilities include:

1. Review, subject to the terms of the Agreement, all architectural plans and drawings, including subsequent changes. The Agency agrees that the Developer needs to submit plans and submissions for architectural and planning review only to the Agency, and the Agency will be responsible to obtain any architectural and planning review required by any agency, department, board or commission of the City within the times required for review of such plans and submissions, provided, however, that nothing will relieve the Developer of any obligation to submit plans and submissions for special development permits or building permits to City departments or other public agencies.
2. Approve or disapprove the plans, drawings and related documents referred to in the Agreement, as well as any substantial changes to these documents, within the times established in the Schedule of Performance. Failure by the Agency to either approve or disapprove within the times established in the Schedule of Performance will be deemed an approval. Any disapproval will state in writing the reasons for disapproval and the changes that the Agency requests be made.
3. Approve or disapprove of any changes in the members of MOS, the Developer, that results in Hugh Futrell and Bill Carle, or entities wholly owned by Hugh Futrell and Bill Carle, owning less than a controlling interest in the Developer either by ownership of shares, control rights or status as the managing member.

4. In the event that the Developer acts to remove asbestos and lead-based paint from the Property prior to the Close of Escrow in accordance with and as permitted under the Agreement, the Agency will release Deposit funds from time to time in an amount equal to the actual costs of the remediation work, not to exceed the total Deposit amount, upon receipt of documentation satisfactory to the Agency demonstrating that the Deposit funds are being released for actual removal of asbestos, that the amount requested for release is equal to the amount actually spent by Developer on such removal work, and that such work is complete. Such documentation will include but is not limited to copies of the contract or contracts for such removal work, invoices for such work and receipts for payment of invoices and other documentation as may be reasonably requested by Agency.
5. Approve the agreement between the Developer and Sonoma County Museum (SCM) for conveyance of a condominium parcel ("the Museum Space") to SCM for the operation of an art museum that includes the terms and conditions as generally described in the Agreement. The Museum Space will be improved by the Developer as separate shell space, with HVAC, plumbing and electrical stubs to the Museum Space, suitable in design and performance to allow for the special humidity and temperature needs of a museum and allow for a separate security system. The Museum Space will be donated to Sonoma County Museum by the Developer at no cost. The Developer will retain a reversionary right in the Museum Space that will require, following commencement of operation of the museum by SCM, the Museum Space to revert to the Developer in the event that SCM fails to operate an art museum in the Museum Space for a period in excess of 90 days, subject to reasonable exceptions for remodeling or renovation of the Museum Space and similar temporary closures. The Agency will be included in the Developer/SCM Agreement as a third party beneficiary, with rights to enforce any rights of the Developer. The Developer/SCM Agreement will be subject to review and written approval by the Agency to ensure consistency with this subdivision prior to Close of Escrow, which approval will not be unreasonably withheld.
6. The Agency will convey to the Developer fee simple title to the Site free and clear of all recorded liens, encumbrances, assessments, leases and taxes except as are consistent with the Agreement.

Subject to the specific terms and conditions stated in the Agreement, the Agency will convey the Property to the Developer once the following conditions are satisfied:

1. Developer has submitted to Agency evidence reasonably satisfactory to Agency that Developer has obtained binding commitments for the equity capital and mortgage financing necessary to finance development of the Project.
2. Developer is not in default of any of its obligations under the terms of the Agreement.

3. There is no litigation pending with respect to the Agreement or any City approvals related to the Development, the outcome of which could materially interfere with the development of the Property as set forth in the Agreement.
4. Developer has obtained all discretionary permits and land use approvals required for the development of the Project pursuant to the Agreement and demolition and building permits required for the development of the Site are ready to be issued, subject only to payment of required permit fees by Developer. Any applicable appeal periods will have expired.
5. Developer and Sonoma County Museum (SCM) have entered into an Agency approved agreement.
6. Developer has demonstrated to the reasonable satisfaction of the Agency that Developer is in a position to commence construction of the Development within thirty (30) days following Close of Escrow.

The Agency will pay in escrow to the Escrow Agent the following fees, charges and costs promptly after the Escrow Agent has notified the Agency of the amount of such fees, charges and costs, but not earlier than ten (10) days prior to the scheduled date for the close of escrow:

1. Costs necessary to place the title to the Site in the condition for conveyance required by the provisions of this Agreement;
2. One-half (1/2) of the escrow fee, cost of drawing the deed, recording fees, and notary fees;
3. Ad valorem taxes, if any, upon the Site for any time prior to conveyance of title; and
4. Any state, county or city documentary transfer tax.

**C. Museum on the Square, LLC Responsibilities**

Subject to the specific terms and conditions stated in the Agreement, the responsibilities of Museum on the Square, LLC under the proposed Agreement are as follows:

1. Prior to or simultaneously with the execution of the Agreement by the Agency, deliver to the Agency a deposit (“Deposit”) in the amount of \$40,000 as security for the performance of the obligations of the Developer to be performed .
2. Within the time set forth in the Schedule of Performance in the Agreement, prepare and submit to the Agency for review and written approval Basic Concept Drawings and related documents containing the overall plan for development of the Site. The Basic

Concept Drawings will conform to the Agreement, including the Scope of Development in the Agreement and any presentation materials or plans approved by the Agency at the time of execution of the Agreement

3. Prepare and submit construction plans, drawings and related documents to the Agency for architectural and planning review and written approval as and at the times established in the Schedule of Performance. The construction plans, drawings and related documents will be submitted in sufficient detail to obtain a building permit. The Construction plans and drawings will be consistent with any design review approvals granted by the Agency.
4. Prepare and submit to the Agency for its approval preliminary and final landscaping and finish grading plans. Such preliminary and final plans will be prepared and submitted within the times established in the Schedule of Performance, subject to extensions as are authorized herein or as mutually agreed to by the parties.
5. Developer agrees it will rely solely on its own investigation of the Property and agrees to purchase the Property "as is," in its current physical condition, with no warranties, express or implied, as to the physical condition thereof, the presence or absence of any latent or patent condition thereon or therein, including, without limitation, any Hazardous Materials (as defined in the Agreement) thereon or therein and any other matters affecting the Site. Agency and Developer acknowledge that the Property contains asbestos and lead-based paint that must be removed in order for the Property to be developed as contemplated in the Agreement. The Developer is solely responsible for the removal of asbestos and lead-based paint from the Property.
6. Prior to the Close of Escrow, fulfill the conditions precedent for conveyance of the Property as described above, including entering into an agreement with Sonoma County Museum (SCM) that provides for conveyance of the Museum Space to SCM for the operation of an art museum that includes the terms and conditions as generally described in the Agreement.
  - a. Following conveyance of the Property, the Sonoma County Museum, a not for profit 501(c)(3) organization, will own, as a separate condominium space, approximately 9,000 sq. ft. on the ground level. The conveyance of the condominium space to the Museum is intended to occur after certificate of completion of the rehabilitation of the building.
  - b. In the event that Developer is unable to establish the Museum Space as a separate condominium parcel, then Developer may lease the Museum Space to SCM under the terms provided the Agreement, provided that prior to receiving a Certificate of Completion for the Site, the Developer will record a covenant against the Site that is enforceable by the Agency or its successor in interest and requires the Museum

Space to be maintained as a public or quasi-public facility promoting cultural or educational opportunities in downtown Santa Rosa, including but not limited to museum, exhibition, art gallery, or library uses for not less than 30 years.

7. Purchase the Property for development for the sum of \$1,930,000 (the "Purchase Price") in cash.
8. Pay in escrow to the Escrow Agent the following fees, charges and costs promptly after the Escrow Agent has notified the Developer of the amount of such fees, charges and costs, but not earlier than ten (10) days prior to the scheduled date for the close of escrow:
  - a. One-half (1/2) of the escrow fee, cost of drawing the deed, recording fees, and notary fees; and
  - b. The premium for the title insurance policy or special endorsements to be paid by the Developer as set in the Agreement.
9. Develop the Property as generally established in the Basic Concept Drawings and related documents except as changes may be mutually agreed upon between the Developer and the Agency. Any such changes will be within the limitations of the Scope of Development. The cost of developing the Property and constructing all improvements thereon will be borne by the Developer, except for work expressly set forth in the Agreement to be performed or paid for by the Agency or others.
10. Developer will comply with the Agency's Fine Arts Policy in the development of the Site outdoor public art installation to be created by Ned Kahn as set forth in the Agreement. Such outdoor public art installation will be submitted as part of the design review application submitted to the Agency in accordance with the Agreement and will include the location, type and cost of the outdoor public art.
11. Establish a condominium parcel (the "Museum Space") and convey the Museum Space to the Sonoma County Museum ("SCM") for operation of an art museum prior to the Certificate of Completion. In the event that Developer is unable to establish the Museum Space as a separate condominium parcel, then Developer may lease the Museum Space to SCM under the terms provided in the Agreement.

### III. COST OF THE AGREEMENT TO THE AGENCY

This section presents the total cost of the Agreement to the Agency, as well as the “net cost” of the project after consideration of the project revenues, including projected tax increment revenues generated by the Property. The net cost can either be an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by the implementation of the Agreement exceed expenditures.

#### A. Estimated Cost to the Agency

The AT&T Building was purchased by the Agency on March 6, 2007. The purchase price was \$3,000,000. Following purchase of the Property, the Agency spent \$63,000 on technical studies related to the existing conditions of the Property.

For this agreement, the cost to the Agency is estimated to be:

Acquisition Cost (2007)	\$3,000,000
Technical Studies	\$63,000
Total Cost	<u>\$3,063,000</u>

As shown above, the estimated cost to the Agency is \$3,063,000. The Agency’s purchase of the Property was funded several years ago using bonds. Interest on \$3 million is estimated to be approximately \$2,854,000 over 30 years at an assumed interest rate of 5%. Principal and interest will be repaid over a 30-year period. On a present value basis, the interest costs are nominal.

#### B. Revenues to the Agency

The Agency will sell the Property to the Developer for \$1,930,000. The \$1,930,000 price to be paid by the Developer reflects the purchase building in “as-is” condition, with the purchaser, rather than the seller, removing asbestos and lead-based paint from the building. The Developer has agreed to be responsible for removing asbestos and lead-based paint from the building. The cost of this environmental remediation is currently estimated at \$170,000. When the remediation costs are taken into account, the effective price paid by the developer for the property is \$2,100,000.

The Developer will pay a deposit of \$40,000 upon approval of DDA. These funds will be applied to Purchase Price and will be refunded if DDA terminates for reasons other than Developer default.

In addition to the revenue of the sale of the site, property tax increment revenues will be received by the Agency once the Project is completed. Approximately \$2,164,000 tax increment

revenues (including housing set aside) are projected to be collected through March 2023.<sup>1</sup> The net present value of the projected total tax increment (including housing set aside) is estimated at \$1,540,000 (rounded).<sup>2</sup> See attachment for details on the tax increment projection.

For purposes of this analysis, it is assumed that the total revenues to the Agency are as follows:

Sale of building	\$1,930,000
Projected Tax Increment (NPV)	\$1,540,000
Total Agency Revenue	<u>\$3,470,000</u>

**C. Net Cost to the Agency**

The Agency's cost is \$3,063,000. The sales price is \$1,930,000 and the project is projected to generate approximately \$1,540,000 in tax increment. As a result, the project is projected to generate approximately \$407,000 in revenues for the Agency, as summarized below:

Agency Cost	\$3,063,000
(Less) Agency Revenue:	
Sale of building	(\$1,930,000)
Projected tax increment (NPV)	(\$1,540,000)
Net Revenue (Cost)	<u>\$407,000</u>

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<sup>1</sup> 2023 is the year of the tax increment receipt limit. This time period includes extensions per SB1045 and SB1096. The \$2,164,000 figure includes approximately \$440,000 in housing set aside funds.

<sup>2</sup> NPV assumes a five percent (5%) discount rate. Approximately \$310,000 of the projected \$1,540,000 tax increment correspond to the housing set aside requirement.

#### **IV. VALUE OF THE INTEREST TO BE CONVEYED**

##### **Fair Reuse Value**

In accordance with and subject to all the terms, covenants and conditions in the Agreement, the Developer agrees to purchase the Property for the sum of \$1,930,000 (the "Purchase Price") in cash. The Purchase Price constitutes the fair market value of the Property as determined by a State certified general appraiser retained by the Agency.

The fair reuse value of the Property is directly a function of a very specific development program as specified in the terms and conditions of the Agreement and the development economics of the specific use. For this Agreement, the fair market value under the Highest and Best Use under the Redevelopment Plan and the fair reuse value are the same.

##### **Value at Highest and Best Use**

The value of the interest being conveyed to the Developer if sold by the Agency at its Highest and Best Use allowed under the Redevelopment Plan is \$1,930,000 (the "Purchase Price"), as determined by a State certified general appraiser retained by the Agency. The highest and best use must satisfy, collectively, zoning, building codes, market conditions, and the Agency requirement that the new investment must occur shortly after conveyance. These conditions have a significant impact on the value of the property under the highest and best use. Zoning is CD-10 Downtown Commercial. Finally, the Agency seeks a buyer who is prepared to make a new investment shortly after conveyance and not speculate by leaving the building empty.

The conclusion is that the Purchase Price offered by the Developer is the value at the Highest and Best Use. After a lengthy RFQ process intended to solicit qualifications to redevelop the Property, no other potential buyers indicated the ability to invest in and rehabilitate the entire building without additional Agency funds.

## **V. CONSIDERATION RECEIVED AND REASON THEREFORE**

The consideration being paid to the Agency is not less than the Fair Market Value at its highest and best use in accordance with the Plan.

## **VI. ELIMINATION OF BLIGHT**

The City of Santa Rosa and its Redevelopment Agency have made significant investments in the Downtown Area. Since 1960, in excess of \$30 million has been invested by the Redevelopment Agency resulting in over 2 million square feet of development in the downtown core, with development costs in excess of \$110 million. These efforts have added more than 5,000 new jobs to the Downtown.

The Property is located in the Santa Rosa Center Redevelopment Project Area Phase II. The Agency acquired the Property in 2007 as opportunity to mitigate the blighting influence of this large building in the core of downtown Santa Rosa, which had been vacant for over fifteen years; prevent a speculative purchase and potentially incompatible uses of the Property, and to be able to control and plan for the long term use of the building to benefit downtown Santa Rosa and the Courthouse Square Plans. The reuse of the Property pursuant to the Agreement will facilitate land use compatibility with the downtown business district; improve the economic capacity of the area; and attract new businesses and patronage to the area.

## **VII. CONFORMANCE WITH FIVE-YEAR IMPLEMENTATION PLAN**

A primary Five-Year Implementation program goal for the Santa Rosa Center & Grace Brothers Merged Redevelopment Project Areas is the elimination and prevention of the spread of blight and deterioration and the renewal, redevelopment, and restoration of the Project Area.

The implementation plan specifically identifies the redevelopment of the former AT&T site with land uses consistent with the public policy objectives set by the Agency. The Redevelopment Agency has been actively engaged in the redevelopment of this site since the Agency acquired it in 2007. This redevelopment of the site will eliminate the blighting conditions imposed by this large, vacant building, facilitate land use compatibility with the downtown business district, improve the economic capacity of the area, and attract new businesses and patronage to the area. To that end, the Agency is selling the Property for development of a high-quality mixed use project.

**Tax Increment Projection  
Museum on the Square  
Santa Rosa, CA  
(000's Omitted)**

Plan Year	Fiscal Year		Total AV on Roll	Increment Over Base \$0	Gross Increment Revenue	County Admin Fee 1.0%	Housing Set Aside -20.00%	Non Housing TI	Total Housing and Non-Housing TI
42	2011-12	bldg sale <sup>1</sup>	0	0	0	0	0	0	0
43	2012-13	Plan Limit <sup>2</sup> 50% complete	10,000	10,000	101	(1)	(20)	80	100
44	2013-14	100% complete	20,000	20,000	201	(2)	(40)	159	199
45	2014-15		20,400	20,400	205	(2)	(41)	162	203
46	2015-16		20,808	20,808	210	(2)	(42)	166	207
47	2016-17		21,224	21,224	214	(2)	(43)	169	212
48	2017-18		21,649	21,649	218	(2)	(44)	172	216
49	2018-19		22,082	22,082	222	(2)	(44)	176	220
50	2019-20		22,523	22,523	227	(2)	(45)	179	225
51	2020-21		22,974	22,974	231	(2)	(46)	183	229
52	2021-22		23,433	23,433	236	(2)	(47)	186	234
53	2022-23	TI Receipt <sup>1</sup>	23,902	23,902	120	(1)	(24)	95	119
TOTAL					2,186	(22)	(437)	1,727	2,164
Net Present Value at 5%							(\$311)	\$1,230	\$1,541
<b>Net Present Value at 5% (ROUNDED)</b>									<b>\$1,540</b>

partial year

**Notes:**

<sup>1</sup> In order to be included in the 2011-2012 roll, the building sale needs to be completed by end of 2010. For this reason, the AV associated with the bldg. sale is accounted for in 2012-2013.

<sup>2</sup> Incorporates extensions per SB 1045 and 1096. Plan limit = March 10, 2013; TI receipt limit = March 10, 2023.

Source: Plan Limits and information on project area pass through obligations based on 2005 Fraser Associates Fiscal Consultant Report.

**Note:**

The CRL permits the Agency to receive tax increment beyond the effective life of the Plan in order to repay indebtedness. The amounts shown in Years 44 to 53 are the annual revenue amounts available to be allocated, but only to the extent the Agency can demonstrate that such funds are needed to repay outstanding indebtedness in these years.

Actual taxable values, tax increment, and the timing of the tax increment may vary from the amounts contained in this projection.

Prepared by Keyser Marston Associates, Inc.

Filename: \\Sf-fs1\wp\19\19306\19306.004\TI projection 6-9-10\_EV.xls; 6/10/2010