

**RICHMOND FORD ASSEMBLY BUILDING**  
**SUMMARY REPORT PURSUANT TO**  
**SECTION 33433**  
**OF THE**  
**CALIFORNIA COMMUNITY REDEVELOPMENT ACT**  
**ON A**  
**DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN**  
**THE REDEVELOPMENT AGENCY OF**  
**THE CITY OF RICHMOND**  
**AND**  
**ORTON DEVELOPMENT, INC., A CALIFORNIA CORPORATION**

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**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 transactions shall be available for public inspection prior to the public hearing. As contained in the Code, the following information shall 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 or leased, 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 property;
4. An explanation of why the sale or lease of the property will assist in the elimination of blight, as required by Section 33433; and

5. The purchase price or sum of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the agency shall 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 draft version 5 dated October 31, 2003 ("Agreement" or "DDA") by and between the Redevelopment Agency of the City of Richmond ("Agency") and Orton Development, Inc., a California Corporation ("Developer"), which requires the Developer to redevelop the subject property ("Site") for a mixed use development including public assembly, industrial, research and development, office, and residential uses. The purpose of this analysis is to determine the cost of the Agreement to the Agency.

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

1. **Summary of the Proposed Agreement** - This section includes a description of the Property, the proposed project and the major responsibilities of the Agency and the Developer.
2. **Cost of the Agreement to the Agency** - This section outlines the cost of the Agreement to the Agency. It presents the terms of the land conveyance to the Developer by the Agency, and sets forth the net cost of the Agreement of the Agency.
3. **Estimated Value of the Interest to be Conveyed** - This section summarizes the value of the property to be conveyed to the Developer.
4. **Consideration Received and Reasons Therefore** - This section describes the purchase or lease price to be paid by the Developer to the Agency. It also contains a comparison of the price 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 or lease of the property will assist in the elimination of blight and the supporting facts and materials.
6. **Conformance with AB 1290 Implementation Plan** - This section describes how the Agreement is in conformance with the Agency's Implementation Plan.

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

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

#### ***Site***

The Site is located at 1414-1422 Harbour Way South, in the Harbour Redevelopment Project Area No. 11-A, adjacent to the Port of Richmond, the Richmond Marina, and the Marina Bay mixed-use development. It is bounded by Harbour Way South, Marina Way South, Hall Avenue, and San Francisco Bay.

The Agency acquired the approximately 560,000 square foot (SF) buildings (gross) on the 26.5 acre waterfront site in March, 1979. In the intervening time, two storage structures have been demolished and the Agency intends to convey the remaining approximately 517,000 SF structure, and the total property to the Developer for consideration as described below:

- Payment of \$5,400,000 at the close of escrow.
- Payment of a \$1 Million nonrefundable deposit. Under a Program Management Agreement (PMA) with the Agency, a portion of the deposit can be used by the developer for the hard costs of performing certain improvements to the building prior to conveyance, but only after expenditure of \$2 Million of Developer funds independent of the deposit. The deposit not expended by the developer will be a credit against the purchase price.
- Participation payments equivalent to 10% of the excess, if any, in annual gross revenues over a participation threshold rent equal to \$2/SF per month, or \$24/SF per year. The agreement also calls for participation payments of 10% of the excess, if any, of the sales revenue over a sales price threshold based on the threshold rent level. It is CCG's opinion that these participation payments are unlikely to occur unless the project is successful beyond that which can be reasonably projected from current market conditions.

The total purchase price is therefore \$5,400,000.

#### ***Developer***

The Developer is Orton Development, Inc., a California Corporation.

#### ***Project Description***

The proposed Ford Assembly Building Project ("Project") will consist of the rehabilitation and adaptive reuse of the historic former Ford Assembly Building and adjacent Oilhouse building totaling approximately 524,000 gross SF, as a mixed use project with approximately 517,000 rentable SF including 160,000 SF of residential uses, 40,000 SF of public-serving uses,

22,000 SF of office space (including a 7,000 SF building management office), and 295,000 SF of space to be developed for use by a blend of industrial, research and development businesses. The public-serving uses include a National Park Service Visitors' Center, exhibition space, assembly space, educational and cultural functions, retail and café uses, and public waterfront access.

## **B. Agency Responsibilities**

The Agency's responsibilities under the proposed Agreement are as follows:

- **Project Schedule:** The Agency shall complete its role in all tasks by the dates and times shown in the DDA.
- **Removal of Tidelands Trust Restrictions:** Prior to conveyance, the Agency shall execute a settlement agreement in accordance with state law or utilize such other means to quiet title which: (i) terminates the claim of the State Lands Commission to any fee ownership of the Site and (ii) removes the public trust easement over the Site, except for the Craneway.
- **Approvals:** The Agency shall review on an expeditious basis any matter submitted under the terms and conditions of the DDA and advise Developer of approval or of why approval is being withheld. The Agency's approval, where called for in the DDA, shall in all instances be evidenced in writing.

## **C. Developer Responsibilities**

The Developer's responsibilities under the proposed Agreement are as follows:

- **Construction of the project according to the DDA.**
- **Project Schedule:** Developer shall complete its required tasks by the dates and times shown in DDA.
- **Financing:** Developer shall obtain binding commitments for all construction and permanent financing needed for the Project as shown in the DDA, and shall prepare or negotiate appropriate documentation to close such financing or obtain such funding. All financing placed on the Site shall be subject to the review and approval of the Agency.
- **Lease to National Park Service:** Developer shall offer a long-term lease with the National Park Service ("NPS") on terms mutually acceptable to Developer and the NPS, and for a period under which NPS shall operate an approximately 10,000 square foot visitor's center honoring the historic activities on the Site in conjunction with NPS' "Rosie the Riveter" exhibit.
- **Approvals:** Developer shall, on an ongoing and timely basis, advise the Agency as to the status of the processing of all applications necessary to obtain all governmental approvals required in accordance with the DDA and all applicable federal, State and local laws, rules and regulations.

- Applications: Developer shall keep the Agency fully informed, and consult with the Agency concerning, the development of all applications for government assistance and public or private financing.
- Cooperation and Skill: Developer recognizes the relationship of trust and confidence established between it and the Agency by the DDA and agrees to (i) keep itself and the Agency fully informed as to the progress of the Project, (ii) consult and cooperate fully with the Agency in furthering the interest of the Agency in the Project, (iii) furnish its best skill and judgment in the accomplishment of the Project, and (iv) furnish sound business administration and superintendence.
- Developer will enter into a \$3 Million loan with the Agency, with repayment provisions parallel to the repayment provisions of the Section 108 loan between the Agency and HUD.

#### **D. City of Richmond Responsibilities**

In order for the Project to be developed, the City of Richmond has or will provide the following funds to complete the seismic improvements and hazardous materials mitigation.

- FEMA funds in the amount of \$14.2 million were expended prior to entering into an agreement with Orton Development;
- HUD funds in the total amount of \$4.5 million, consisting of a grant of \$1.5 million and a loan of \$3 million.

### 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. The net cost can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures.

#### A. Gross Costs to the Agency

The estimated Agency costs for this Agreement are as follows<sup>1</sup>:

	<u>Estimated Costs</u>
Property Acquisition Costs	\$7,726,000
Clean Up, Repair, and Seismic Strengthening <sup>2</sup>	\$6,027,000
Interest on Agency Bonds <sup>3</sup>	<u>\$171,000</u>
Total Agency Costs	\$13,924,000

As shown above, the estimated cost to the Agency is \$13,924,000.

#### B. Gross Revenues to the Agency

The Agency will sell the building for \$5,400,000. In addition, if the project is more successful than current market conditions suggest, the Agency will receive participation revenues. The Project is located within the Amended Harbour Redevelopment Area Redevelopment Project Area (11-A). As a result, the Agency will receive Property Tax Increment from the Project based on the increased valuation in the project area. The Project is estimated to generate the following revenues to the Agency:

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<sup>1</sup> All figures rounded.

<sup>2</sup> Net of the City's contribution of \$14,243,000 towards building remediation costs, funded by a grant from FEMA, and \$4,500,000, financed by HUD Section 108 funds, for additional building improvements.

<sup>3</sup> Agency used \$2,050,000 in bond proceeds to fund improvements prior to conveyance. Upon conveyance, land sales proceeds will be used to replace bond funds, which will be available for another tax exempt purpose.

Estimated Revenues

Purchase Price	\$5,400,000
Gross Tax Increment	\$12,979,000
<Less> Housing Set-Aside Funds (See Table 1)	(2,515,000)
<Less> Pass Thru Agreements	<u>(2,515,000)</u>
Net Tax Increment Revenue (See Table 1)	\$7,949,000
NPV of Net Tax increment Revenue	<u>\$3,946,000</u>
NPV, Total Agency Revenues	\$9,346,000

**C. Net Cost to the Agency**

As a result of Agency revenues exceeding Agency costs, the Agreement is estimated to generate a net LOSS to the Agency as summarized below:

Agency Cost	\$13,924,000
(Less) Agency Revenues	<u>(9,346,000)</u>
Net Cost / (Gain) to Agency	\$4,578,000

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

### **Reuse Value**

The reuse value of the Site is directly a function of the specific Project and economics as specified in the terms and conditions of the Agreement.

The reuse appraisal prepared by CCG on November 3, 2003, concluded that the fair reuse value of the property is \$5,109,078. The Agency will convey the Property to the Developer for the amount of \$5,400,000. Thus, the value of the transaction exceeds the fair reuse value of the property.

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

CCG has also estimated the value of the interests conveyed to the Developer if sold by the Redevelopment Agency at its highest and best use allowed under the redevelopment plan.

The proposed project is to rehab the existing building, which is on the national register of historic places. In previous proposals to rehabilitate the Ford Building by other developers, the costs of remediation and retrofit of the property in addition to the improvements required for the proposed use exceeded the value created by the redevelopment scheme, even after application of the available sources of subsidy. These proposals were therefore deemed infeasible.

Thus the proposed development program is the highest and best use of the property. The residual property value under the subject proposal is the highest and best value for the property.

## **V. CONSIDERATION RECEIVED AND REASONS THEREFOR**

Under the terms of the DDA the Agency will convey the site to the Developer. Consideration for the conveyance will be paid to the Agency by the Developer in the form of participation payments as follows:

- Payment of \$5,400,000 at the close of escrow.
- Participation payments equivalent to 10% of the excess, if any, in annual gross revenues over a participation threshold rent equal to \$2/SF per month, or \$24/SF per year, after an allowance to amortize tenant improvement expenses. Participation payments of 10% of the excess, if any, of the sales revenue over a sales price threshold based on the threshold rent level. It is CCG's opinion that these participation payments are unlikely to occur unless the project is successful beyond that which can be reasonably projected from current market conditions.

In addition, the Developer will use best efforts in an attempt to secure Historic Tax Credit investment for the project.

The reuse appraisal prepared by Conley Consulting Group indicates that the fair reuse value for the property is \$5,109,078. Therefore, the Agency is entering into this Agreement for a consideration that is above the fair reuse value.

## VI. ELIMINATION OF BLIGHT

In May 1999, the Richmond Redevelopment Agency prepared its Report to the City Council on the Proposed Amendments to the Redevelopment Plans Including the Merger of the Richmond Redevelopment Projects. In the Report, the Agency delineated the scope of blighting conditions in the Redevelopment Project Areas according to a field survey conducted in 1998.<sup>4</sup> The following sections summarize the blighting conditions described in the Report for the Harbour 11-A portion of the merged Project Area:

- Outdoor storage in several locations indicates inadequate internal space to properly store materials.
- Some structures are clearly in need of maintenance and show signs of dilapidation and deterioration such as peeling paint, broken windows and non-structural damage.
- Abandoned storage tanks.
- Six parcels contaminated by hazardous materials.
- Functionally obsolete dry docks.
- Infrastructure is functionally obsolete.

The proposed Project is a major step in implementing the objectives of the Amended Harbour Redevelopment Plan ("Plan"), which was adopted in July 1999. Rehabilitation of the Ford Assembly Building, including the costs of site improvements, design, and construction, is specifically identified in the Plan as a public improvement action to be undertaken in furtherance of the Plan's objectives.

Thus, the Agency is entering into this agreement in order to achieve its objectives of removing blight; rehabilitating those structures that are culturally, historically, physically and aesthetically worthy of rehabilitation; stimulating private investment; and providing the public improvements needed to support other objectives of the Redevelopment Plan, including recreational and community facilities.

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<sup>4</sup> Richmond Redevelopment Agency Five Year Implementation Plan.

## VII. CONFORMANCE WITH AB 1290 IMPLEMENTATION PLAN

The proposed Project is a major step in implementing the objectives of the Amended Harbour Redevelopment Plan ("Plan"), which was adopted in July 1999. Rehabilitation of the Ford Assembly Building, including the costs of site improvements, design, and construction, is specifically identified in the Plan as a public improvement action to be undertaken in furtherance of the Plan's objectives. The Ford Assembly Building project will eliminate physical and economic blight that negatively impact economic development of the community. Rehabilitation of The Ford Assembly Building addresses 4 of 7 of the Implementation Plan Goals for the merged project area. The Implementation Plan "aims to:

- Eliminate physical and economic blight in the Project Areas.
- Stimulate... commercial, and industrial... development in the Project Areas.
- Provide for a range of commercial and industrial uses to stimulate a strong growing local economy and job opportunities for residents.
- Remove impediments to land development, guide development toward a high level of design standards, and aid in the removal or rehabilitation of functionally or structurally substandard buildings."<sup>5</sup>

To this end, the Agency selected the Developer for the Site. The Agency plans to convey the Site to the Developer for a payment of \$5,400,000 at the close of escrow. The project will result in the rehabilitation and reuse of a vacant, deteriorating building which, when returned to active use, will complement the Agency's investment in removal of blight and upgrading the waterfront in the Harbor 11-A Project Area. Therefore, the proposed Project will conform to the Implementation Plan, and will achieve the goals specifically defined in the Implementation Plan.

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<sup>5</sup> Richmond Redevelopment Agency Five Year Implementation Plan 2000-2004

**Table 1**  
**Tax Increment Revenue Projections**  
**Ford Assembly Plant Building**  
**City of Richmond**

Year Fiscal (N) Year	Increase in Assessed Value		Tax Increment to Agency			Agency Obligations			Net Tax Increment Available for Housing Programs		Net Tax Increment Available to Agency		
	Added by Inflationary Adjustments During Year	Added by Land & New Development During Year	Assessed Value At End of Year	Total Increase Over Base Value	Basic Tax Revenues	2% Inflation Allocation	County Admin Fee	Tax Increment to Agency	Pass-Through Payments	Debt Service	Agency Admin Expenses	Annual	Cumulative
28 2002/03													
29 2003/04	0	47,544,667	47,544,667	47,544,667	475,447	9,509	5,230	460,708	92,142	0	0	92,142	276,425
30 2004/05	950,893	0	48,495,560	48,495,560	484,956	9,699	5,335	469,922	93,984	0	0	93,984	281,953
31 2005/06	969,911	0	49,465,472	49,465,472	494,655	9,893	5,441	479,320	95,864	0	0	95,864	287,592
32 2006/07	989,309	0	50,454,781	50,454,781	504,548	10,091	5,550	488,907	97,781	0	0	97,781	293,344
33 2007/08	1,009,096	0	51,463,877	51,463,877	514,639	10,293	5,661	498,685	99,737	0	0	99,737	299,211
34 2008/09	1,029,278	0	52,493,154	52,493,154	524,932	10,499	5,774	508,659	101,732	0	0	101,732	305,195
35 2009/10	1,049,863	0	53,543,017	53,543,017	535,430	10,709	5,890	518,832	103,766	0	0	103,766	311,299
36 2010/11	1,070,860	0	54,613,878	54,613,878	546,139	10,923	6,008	529,208	105,842	0	0	105,842	317,525
37 2011/12	1,092,278	0	55,706,155	55,706,155	557,062	11,141	6,128	539,793	107,959	0	0	107,959	323,876
38 2012/13	1,114,123	0	56,820,278	56,820,278	568,203	11,364	6,250	550,588	110,118	0	0	110,118	330,353
39 2013/14	1,136,406	0	57,956,684	57,956,684	579,567	11,591	6,375	561,600	112,320	0	0	112,320	336,960
40 2014/15	1,159,134	0	59,115,817	59,115,817	591,158	11,823	6,503	572,832	114,566	0	0	114,566	343,699
41 2015/16	1,182,316	0	60,298,134	60,298,134	602,981	12,060	6,633	584,289	116,858	0	0	116,858	350,573
42 2016/17	1,205,963	0	61,504,096	61,504,096	615,041	12,301	6,765	595,975	119,195	0	0	119,195	357,585
43 2017/18	1,230,082	0	62,734,178	62,734,178	627,342	12,547	6,901	607,894	121,579	0	0	121,579	364,737
44 2018/19	1,254,684	0	63,988,862	63,988,862	639,889	12,798	7,039	620,052	124,010	0	0	124,010	372,031
45 2019/20	1,279,777	0	65,268,639	65,268,639	652,686	13,054	7,180	632,453	126,491	0	0	126,491	379,472
46 2020/21	1,305,373	0	66,574,012	66,574,012	665,740	13,315	7,323	645,102	129,020	0	0	129,020	387,061
47 2021/22	1,331,480	0	67,905,492	67,905,492	679,055	13,581	7,470	658,004	131,601	0	0	131,601	394,803
48 2022/23	1,358,110	0	69,263,602	69,263,602	692,636	13,853	7,619	671,164	134,233	0	0	134,233	402,699
49 2023/24	1,385,272	0	70,648,874	70,648,874	706,489	14,130	7,771	684,588	136,918	0	0	136,918	410,753
50 2024/25	1,412,977	0	72,061,852	72,061,852	720,619	14,412	7,927	698,279	139,656	0	0	139,656	418,968
<b>TOTAL</b>	<b>24,517,185</b>	<b>47,544,667</b>			<b>12,979,211</b>	<b>259,584</b>	<b>142,771</b>	<b>12,576,855</b>	<b>2,515,371</b>	<b>0</b>	<b>0</b>	<b>2,515,371</b>	<b>7,546,113</b>

Cumulative Tax Increment Available to the Agency **\$7,546,113**  
Present Value of TI **\$3,945,843**

**Assumptions:**  
Ford Building AV based on Value of Improvements at Completion (see Reuse Appraisal)  
Annual AV Inflation Adjustment: 2.0%  
Present Value Discount Rate: 6.0%  
County Admin Fee as a % of "Basic Tax Revenues": 1.1%  
Property Tax Rate: 1.0%  
Pass-Through Proportion for New Development: 20%  
Low/Moderate Housing Distribution: 20%