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Presented to City Council
City of Sunnyvale

Independent Evaluation of Article
6 Criteria:
**Sunnyvale Town
Center Project**

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Presentation Agenda

Overview

- **Background & Scope**
- **MGO and the Engagement Team**

Results in Brief

- **Article 6 Criteria**
- **Proposed Developer Structure**
- **MGO's General Conclusions**
- **Summary of Findings**
- **Developer Experience**
- **Developer Financial Capacity and Financial Condition**
- **Developer Reputation**
- **Conclusions**

Overview – Article 6 Evaluation

Background and Scope

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Background & Scope

- **MGO was contracted by the City to perform due diligence requirements and procedures in accordance with Article 6**
- **Review was conducted in accordance with the American Institute of Certified Public Accountants (AICPA)'s standards**



MGO and the Engagement Team

- **MGO**
 - **A statewide CPA firm founded in 1987,**
 - **Eight offices, over 250 professionals**
 - **Diverse services; Audit, Tax, Advisory, Business Management**
 - **One of the largest local government practices in the country**
 - **Performs the City's External Independent Audit – Past 3 years**

- **The Engagement Team:**
 - **Average 22 years of experience**
 - **Partner, Senior Manager, 2 Consulting Managers**
 - **Certified Public Accountants,**
 - **Charter Global Management Accountants,**
 - **Former FBI special Agent,**
 - **Certified in Financial Forensics**

F i n d i n g s & O b s e r v a t i o n s

Results in Brief

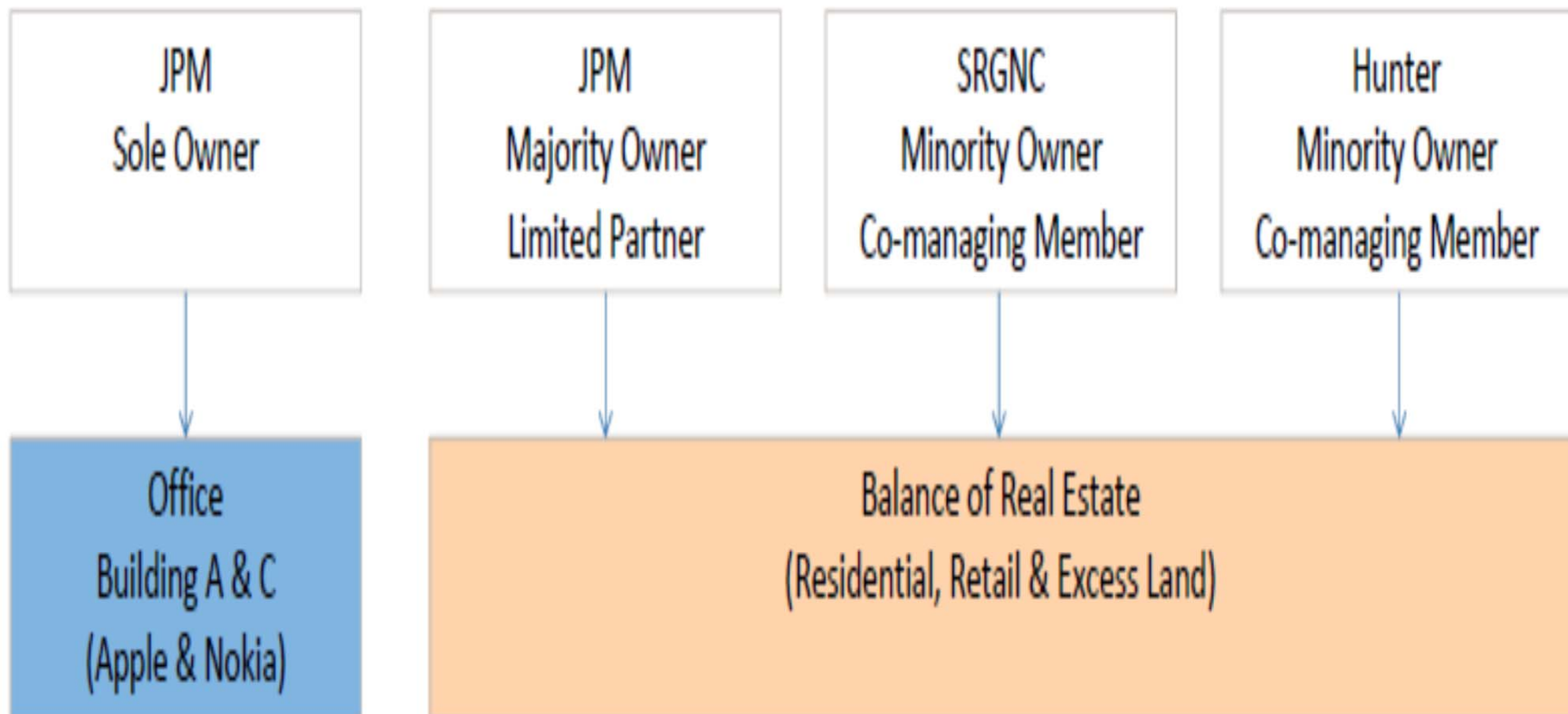
AN OVERVIEW OF THE WORK PERFORMED

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Article 6 Criteria for Proposed Transfers

- i. Has experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants;**
- ii. Has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof;**
- iii. Possesses a good business character and reputation; and**
- iv. Has prior development projects and an operating presence in California.**

Proposed Developer Structure



MGO's General Conclusions

Based on our professional judgement, the proposed developer satisfies the criteria of Article 6, as outlined in our Report.

Summary of Findings - Developer Experience

- **Collectively, SRGNC and Hunter have experience completing major mixed-use commercial, retail and residential projects**
- **The scope of the reference projects provided by developers demonstrate the various mix that comprise the Town Center Project development.**
- **The two co-partners' strengths complement each other well.**
- **The two co-partners have substantial experience operating in California, and both maintain strong reputational standing within the community and real estate industry.**

Summary of Findings – Financial Capacity Analysis

JP Morgan

- **More than sufficient assets to fund the project.**
- **As of June 30, 2015, the Fund's net assets contains 50 times the projected cost to acquire and complete the initial phases of the Project.**

Development Partners: Sares Regis-Hunter

- **Both SRGNC and Hunter have exhibited strong fiscal strength.**
- **Our review of financial indicators shows they have sufficient financial capacity to meet their obligations throughout the development.**

Article 6 Analysis - Developer Experience

Article 6 Criteria:

Any Transfer to a transferee that meets the following criteria as to the use(s) of the portion(s) of the Project proposed to be Transferred:

(i) has the experience in and has completed major mixed-use commercial, retail, residential projects of similar size, scope and nature involving a mix of national, regional and local tenants.

(iv) Developer has prior experience with projects and operating experience in California.

Developer Experience - Methodology

- **Reviewed the Developer's website and performed online research.**
- **Conducted interviews and reviews of planning/development documents at various cities in which projects are located.**
- **Checked references from at least three clients (projects), within the last five years, with a focus on mixed-use projects of equal scale/similar size to Town Center.**

Developer Experience

Results – Sares Regis Group of No. CA

- **Three projects reviewed involved a mix of national, regional and local tenants.**
- **Strong background in residential (both single family and multiple family housing) and office/R&D developments.**
- **References indicate they have the ability to bring together owners/their agents with differing interests and negotiate solutions for multiple-year issues.**

Developer Experience

Results – Hunter Properties

- **Proven experience and track record developing and managing major commercial and office projects, as well as residential projects of similar size, and scope involving a mix of national regional and local tenants.**
- **Our interviews with references indicate they are known for their ability to work well with the local community**

Article 6 Analysis – Financial Capacity

Article 6 Criteria:

(ii) Developer has adequate financial capacity, including the references of at least two lending institutions with substantial lending experience in California mixed use real estate, to timely commence and complete the construction thereof (developer entity and all individual principles of the entity).

Financial Capacity Analysis - Methodology

- **Reviewed the most recent quarterly statement from equity partner, JPMorgan.**
- **Reviewed three years of income statements, balance sheets and statement of cash flows for both Hunter and SRGNC.**
- **Reviewed the most recent financial statements to date, including financials for the most recent two years.**

Financial Capacity Analysis

Ratio Analysis

- **Uses data from the financial statements, to compute accounting and financial ratios to assess an organization's fiscal health and strength.**
- **Used in conjunction with other quantitative and qualitative measures, can provide valuable insights into the organization's operations.**
- **MGO performed ratio analysis to provide a snapshot of each developer's financial condition and to compare to benchmark targets.**

Financial Capacity Results: JP Morgan Fund

- **The Fund has been in existence since 1998**
- **Ratio analysis indicates strong liquidity and cash flows.**
- **The Fund has more than sufficient assets to fund the projected cost to acquire and complete the initial phases of the Project (50 times)**
- **Current Assets to Current Liabilities = 33 times**
- **Cash flows to total liabilities = 1,099 times**
- **Very high overall financial strength, 46% growth since 2011**

Financial Capacity Results: Hunter

- **We found Hunter Properties to have a favorable financial condition and strength.**
- **Ratio analysis indicates high levels of liquidity, and consistent high profitability.**
- **The bulk of their asset funding is coming from equity rather than debt and they have a high level of cash flow to cover its liabilities many times over.**
- **Two financial institutions provided letters of reference indicating favorable and long standing relationship.**

Financial Capacity Results: SRGNC

- **We found SRGNC to have a favorable financial condition and strength.**
- **Ratio analysis indicates high levels of liquidity, and consistent high levels of profits.**
- **The bulk of their asset funding is coming from equity rather than debt and has high level of cash flow to cover its liabilities.**
- **Letter of reference provided by financial institution indicates a favorable long standing relationship.**

Article 6 Analysis –Developer Reputation

Article 6 Criteria:

(iii) Developer possesses good business character and reputation.

Developer Reputation Review - Methodology

- **Obtained references from at least three clients.**
- **Collected information from the Secretary of State, Department of Consumer Affairs, and Contractor's Licensing Board (if applicable).**
- **Performed background checks, including any criminal and civil actions against the two Developers and their Principals.**

Developer Reputation Review – Methodology

- Continued

- **Identified potential CEQA issues.**
- **Performed a review of county court records in the Bay area and Silicon Valley region.**
- **Conducted an online search of publicly available resources.**

Developer Reputation Results

- **Our review and background investigation of SRGNC and Hunter, as well as their principles, indicated clean backgrounds for both companies as well as their Principals.**
- **Both companies met the good business character and reputation criteria.**

Conclusions based on MGO's Review



- i. Proposed Developers complement each other in demonstrating that they have the experience in completing major mixed-use commercial, retail, residential projects;**
- ii. Proposed Developers have demonstrated adequate financial capacity to timely commence and complete construction of the Project;**
- iii. Proposed Developers possess a good business character and reputation; and**
- iv. Proposed Developers have prior development projects and an operating presence in California.**

**Questions?
Let's Talk.**

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