



City of Arts & Innovation

Budget Engagement Commission

TO: HONORABLE COMMISSIONERS **DATE: SEPTEMBER 10, 2020**

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT **WARDS: ALL WARDS**

SUBJECT: REVIEW VARIOUS CITY-OWNED PROPERTIES AND DETERMINE WHICH PROPERTIES SHOULD BE RECOMMENDED TO CITY COUNCIL TO BE RETAINED, LEASED, OR DECLARED AS SURPLUS TO SELL TO PRIVATE ENTITIES OR COMMUNITY CORPORATIONS TO EITHER GENERATE SALE REVENUE OR REDUCE OPERATING COSTS TO ADDRESS THE CALPERS CHALLENGE AND FINANCIAL IMPACTS ASSOCIATED WITH COVID-19

ISSUE:

Review various City-owned properties and determine which properties should be recommended to City Council to be retained, leased or declared as surplus for staff to sell to private entities or community corporations as a possible solution to either generate sale revenue or reduce operating costs to address structural deficits like the CalPERS Challenge and financial impacts associated with COVID-19.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Review the attached list of City-owned properties to determine which properties should be recommended to City Council to be retained, leased or declared as surplus for staff to sell to private entities or community corporations as a possible solution to either generate sale revenue or reduce operating costs to address structural deficits like the CalPERS Challenge and financial impacts associated with COVID-19; and
2. Direct staff to prepare a revised list of properties with specific recommendations by the Budget Engagement Commission and return to the Financial Performance and Budget Committee for consideration prior to seeking City Council approval to take appropriate action on the recommendations to either retain, lease or declare as surplus for staff to sell to either private entities or community corporations and market them for sale in accordance with the City's Administrative Manual Section 8.003.00 – Disposition and Sale of City Owned Real Property.

BACKGROUND:

On July 10, 2019, staff provided information to the Finance Committee on three City-owned

properties with high liquidation value for possible consideration to sell to generate revenue that could be useful to help address the CalPERS Challenge. These three properties were as follows: 1) the Fox Entertainment Plaza (Fox Theater, Showcase, Box, Food Lab and Parking Garage 7); 2) the Riverside Municipal Auditorium; and 3) the Riverside Convention Center. The Finance Committee directed staff to return to the Finance Committee with a more comprehensive list of City-owned properties with sale potential that could generate revenue for the General Fund.

On July 8, 2020, staff provided information to the Financial Performance and Budget Committee on twenty (20) City-owned properties with potential economic benefit to either generate sale revenue or reduce operating costs to the General Fund. Out of those twenty (20) properties, staff recommended ten (10) properties shown on the table below to be considered for surplus declaration. The Financial Performance and Budget Committee directed staff to present the list of twenty (20) properties to the Budget Engagement Commission for their recommendation and then return to the Financial Performance and Budget Committee for further consideration.

DISCUSSION:

Prior to declaring a specific site as surplus property, the City should carefully review each property to determine its potential economic benefit/liability and whether the City has an existing need or a potential future need for each site before it makes a final determination to sell a specific property if it is no longer needed for City use. Further, the City should assess whether the public purpose/mission/potential of a specific site could be better realized by a community corporation (i.e. non-profit, cooperative, community benefit or tourism improvement district, community development corporation, regional partnership, etc.) or private entity. Definitions of these various options are provided below:

- Non-profit – (Wikipedia) a nonprofit organization (NPO), also known as a non-business entity,[1] not-for-profit organization,[2] or nonprofit institution,[3] is an organization traditionally dedicated to furthering a particular social cause or advocating a shared point of view. In economic terms, it is an organization using the surplus of its revenues to further its objective, rather than distributing its income to the organization's shareholders, leaders, or members. Being public extensions of a nation's revenue department, nonprofits are tax-exempt or charitable, meaning they do not pay income tax on the money that they receive for their organization.
- Cooperative – (Wikipedia) A cooperative (also known as co-operative, co-op, or coop) is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise".[1] Cooperatives may include:
 - businesses owned and managed by the people who use their services (a consumer cooperative)
 - organizations managed by the people who work there (worker cooperatives)
 - multi-stakeholder or hybrid cooperatives that share ownership between different stakeholder groups. For example, care cooperatives where ownership is shared between both caregivers and receivers. Stakeholders might also include non-profits or investors.
 - second- and third-tier cooperatives whose members are other cooperatives
 - platform cooperatives that use a cooperatively owned and governed website, mobile app or a protocol to facilitate the sale of goods and services.
- Community benefit district – (City of Downey) the Community Benefit District is a property assessment district that will provide the downtown property owners with independent,

property owner-controlled finances to better control and fund special events, marketing, promotional activities, public space development, security, maintenance and beautification, property enhancements, and the creation of a new property owner-controlled non-profit corporation to spend and manage these funds.

- Tourism improvement district (TID) - (Wikipedia) a business type aimed to increase the number of overnight visitors using businesses and services in that area; formed through a public-private partnership between the local government and businesses in a district. TIDs are a type of business improvement district in the USA. The aim of TIDs is increasing the number of overnight visitors using business and services in that area. TIDs are formed through a public-private partnership between the local government and the businesses in a district. TID funds are usually managed by a nonprofit corporation, generally a Convention and Visitors' Bureau, hotel association, or similar destination marketing organization. Typical TID services include marketing programs to raise awareness of the destination, sponsorship of special events that attract overnight visitors, and sales programs to bring in large-group business. Synonymous terms for TIDs include: tourism marketing district, hotel improvement district, and tourism business improvement district.
- Community development corporation - (Wikipedia) a not-for-profit organization incorporated to provide programs, offer services, and engage in other activities that promote and support community development; usually serve a geographic location, i.e. neighborhood or town.
- Regional partnership – (Wikipedia) a partnership is an arrangement where parties, known as business partners, agree to cooperate to advance their mutual interests. The partners in a partnership may be individuals, businesses, interest-based organizations, schools, governments or combinations. Organizations may partner to increase the likelihood of each achieving their mission and to amplify their reach. A partnership may result in issuing and holding equity or may be only governed by a contract.
- Private entity - (Wikipedia) a privately held company, private company, or close corporation is a business that is not owned by the government, non-governmental organizations or by a relatively small number of shareholders or company members which does not offer or trade its company stock (shares) to the general public on the stock market exchanges, but rather the company's stock is offered, owned and traded or exchanged privately or over-the-counter.

As requested by the Financial Performance and Budget Committee, the list of properties identified in Attachment 1 includes financial information and whether the property provides a community benefit. It should be noted that two properties controlled by Public Works/Parking Authority (Parking Lot 1 and 16) were separated from the Museum of Riverside and existing Main Library and are now shown as separate properties. As such, there are now twenty-two (22) properties for consideration instead of the original twenty (20) properties that were presented to the Financial Performance and Budget Review Committee.

The City has several ownership options to consider in conjunction with the list of twenty-two (22) properties included in Attachment 1 and depicted in Attachment 2. In some instances, it might make sense to retain the property for continued City use while in other situations it might make sense to lease the property instead of an outright sale to keep its residual value. Some of the properties should be considered for sale subject to future redevelopment while other properties should be considered to be leased or sold for continued existing use. The City should also consider whether an outright sale to a private entity or to a community corporation is possible for continued community benefit of the property. For example, the Riverside Convention Center and the Fox Theater are unquestionably important community assets; given the City's fiscal

state, could other types of ownership exist for each that would reduce the City's ongoing expenses related to operations and maintenance while continuing the public purpose and community value of each?

Riverside Convention Center

Almost two-thirds of the convention centers in North America are financed and owned by government agencies. The remaining one-third of private ownership is most likely lower because of subsidized public sector competition. The majority of publicly owned convention centers operate at a loss, and few contribute to debt service or to reserves for major repairs or replacements. A comparison of convention center agreements and arrangements prepared by staff is included as Attachment 3. A vast majority of convention centers in the United States are publicly owned; broken down as follows:

- o 60% of publicly owned convention centers are operated by a division of municipal government;
- o 27% of publicly owned convention centers are operated by a quasi-public agency or "authority"; and
- o 13% of publicly owned convention centers are privately operated.

Private investment in freestanding convention centers in the United States is typically focused on niche markets. For example; casino, resort, golf and entertainment venues that also offer significant exhibition space to attract conventions.

The Fox Theater

Staff prepared a list of 55 performing arts centers throughout California (Attachment 4). Out of this amount, 31 are publicly owned (56%) and 24 (44%) are privately owned. 22 of the public owned performing arts centers are owned by cities and 63% of those facilities are city operated.

List of Staff Recommended Properties for Sale

PROPERTY NAME	LOCATION	CURRENT USE	LOT SIZE
Parking Garage 1	3743 Orange (between Mission Inn & University)	Parking Facility (170 stalls)	19,765 sf
Parking Garage 2	3851 & 3865 Orange (across from Post Office)	Parking Facility (155 stalls)	18,923 sf
Brockton Arcade Parking	Near intersection of Magnolia Ave. & Nelson St.	Parking Lot (34 stalls)	25,127 sf
Lot adjacent to the Casa Blanca Library	2965 Madison Ave.	Vacant Land	63,597 sf
Magnolia & Van Buren Parking	Near intersection of Magnolia Ave. & Van Buren Blvd.	Parking Lot (89 stalls)	23,323 sf
8700 Cypress	Located at intersection of Cypress and Challen Ave.	Community Garden	40,946 sf
Parking Lot 16	3756 Orange (north of University and south of the Museum of Riverside)	Parking Facility (26 stalls)	11,761 sf
Fairmount Golf Course	2681 Dexter Dr.	Golf Course	45 acres
Riverside Golf Course	1077 N. Orange St.	Golf Course	119 acres
Fox Performing Arts Center & Garage 7	3801 Mission Inn Ave., 3605 & 3633 Market St.	Fox & Box Theaters, Food & Game Lab, Parking Garage 7 (400 stalls)	50,378 sf
Riverside Convention Center	3637 5 th Street	Convention Center	3.3 acres

Although staff has recommended that eleven (11) properties be retained by the City, staff is looking for feedback and direction from the Budget Engagement Commission on all twenty-two (22) properties listed in Attachment 1 with specific recommendations on each as to whether the properties should be retained, leased or sold to either a private entity or a community corporation or perhaps some other alternative method. The preceding list of eleven (11) properties shown above have been recommended by staff to be considered to be made available for some kind of new ownership vehicle such as a lease agreement or to be declared as surplus for staff to sell for either private entity or community corporation ownership or some other kind of alternative ownership method.

Staff does not have any current appraisals for these properties but believes that the sale of some of these properties could either generate substantial revenue or significantly reduce operating costs to positively impact the City's General Fund. Successor Agency and Housing Authority properties were intentionally omitted since the Successor Agency already has a list of properties identified to be sold pursuant to its Long-Range Property Management Plan and the Housing Authority typically decreases its land value to \$1 to facilitate development of affordable housing units on their sites.

The disposition process for the sale of surplus property has recently been changed with the passage of Assembly Bill 1486 (AB 1486) on October 9, 2019. After City Council declares a property as surplus and prior to disposing or participating in negotiations with prospective buyers, a written notice of availability must be sent to affordable housing developers who have registered with the State's Department of Housing and Community Development (HCD). Also, per California Government Code Section 54220, et seq., staff will notify other public agencies of the sale of the subject property for a 60-day period. However, the affordable housing developers will have the "first right of refusal" or priority consideration for all City-owned land that has been declared surplus. If there is no interest from a developer or public agency, staff will market the subject property to sell at fair market value in accordance with the City's Administrative Manual 08.003.00, Disposition and Sale of City-Owned Real Property. If the property is developed with ten or more residential units, then 15% of the total project's units must be restricted to "affordable rent to lower income households" as required by AB 1486.

Lastly, prior to agreeing to any terms for disposing of City-owned properties, the City must provide HCD with a description of the notices of availability sent and negotiations conducted with any responding entity. HCD shall have 30 days after receipt to submit written findings if it deems that the City is in violation of the surplus property statutes.

In an effort to respond to the unfunded pension obligations and the financial impacts associated with COVID-19, the Community & Economic Development Department has compiled a list of City-owned properties to be considered for retention, lease or to be declared as surplus for staff to sell to either private entities or community corporations to effectively secure the solvent future of the City, its employees, and its retirees while ensuring the delivery of public services and stewardship of public resources.

The Parks, Recreation and Community Services Director, Public Works Director, General Services Director, Museum Director, Library Director, Housing Authority Manager, and Riverside Public Utilities General Manager all concur with the recommendations in this report.

FISCAL IMPACT:

There could be a positive fiscal impact associated with the sale of any property identified in this report, depending upon the final sale price less outstanding debt, if any. Furthermore, the sale of some of these properties could eliminate management agreements that would reduce significant annual operating costs to the General Fund. If the property was originally purchased with tax exempt debt, even if no debt currently exists on the property, any sale proceeds generated must be treated like bond proceeds. The funds from any debt related property can go to purchase other facilities that do not have a private use or they can be used to call outstanding bonds. Any transactions falling in this category would need to be carefully tracked as they are subject to Internal Revenue Service (IRS) audit.

Proceeds from property that was not acquired with debt or acquired with taxable bond proceeds can have a positive impact to the General Fund. Due to the uncertainty of a successful sale of property, any revenues generated in this category are classified as unanticipated one-time revenues and are not included in the budget. Per the City's pension funding policy, unanticipated one-time revenues shall be prioritized at a rate of 50% of the revenue alongside other critical needs to make a one-time payment to CalPERS to pay-off a portion of the City's Unfunded Actuarial Liability to save on interest payments, reduce annual payments, and lower annual operating expenses. Conversely, the City can prioritize the revenue at 100% to the CalPERS

challenge issue.

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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Gary G. Guess, City Attorney

Attachments:

1. City-Owned Property List
2. Aerial Site Maps
3. Comparison of Convention Center Agreements Spreadsheet
4. Performing Arts Centers Spreadsheet
5. Public Comment
6. Presentation