City of Arts & Innovation

Finance Committee

TO: FINANCE COMMITTEE **DATE: JULY 10, 2019**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: INFORMATION RELATED TO THE POTENTIAL SALE OF THE CITY'S HIGH VALUE ASSETS TO ADDRESS THE CALPERS CHALLENGE - DIRECT SUBMITTAL

ISSUE:

Receive information and provide input related to the sale of the City's high value assets as a potential solution to address the City's CalPERS Challenge.

RECOMMENDATIONS:

That the Finance Committee:

1. Receive information and provide input on the sale of the City's high value assets as a potential solution to address the City's CalPERS Challenge ; and

2. Direct staff as to recommended strategies and next steps.

BACKGROUND:

The City of Riverside is owner of substantial real property that is used for various municipal purposes. As public service needs change, the requirements for these properties may be revised and, on occasion, certain parcels may be in excess of the City's current need. This requires that each individual site be reviewed in terms of its potential for future public use, as well as its potential economic benefit to the City.

Several properties in the City's portfolio have significant value. The City holds assets either through the Successor Agency to the former Redevelopment Agency or for the City's General Fund for use in current activities. The process of disposing of City owned property is governed by the Administrative Manual Policy No. 08.003.00 (Attachment 1).

This report and associated information is limited to properties in the General Fund.

DISCUSSION:

City policy is to manage real estate assets so that municipal needs, which rely on these assets, are properly implemented. The City has three large General Fund properties in the downtown core.

The Fox Entertainment Plaza (Plaza)

The Plaza includes the Fox Theater, the Showcase, the Box, the Food Lab and Garage 7. After major renovations, the Fox Theater Performing Arts Center re-opened in January 2010. This historic structure was reinvented as a state-of-the-art performing arts theater for Riverside and the Inland Empire. The Fox boasts a 1,600-seat state-of-the-art performing arts theater that captures the original grandeur of the 1929 building, with updated amenities for patron enjoyment and comfort.

Debt: Due to significant improvements made during the City's Riverside Renaissance the Plaza incurred debt in order to enhance and update the facilities. The current outstanding debt is approximately $28.4 million.

Additional Impact: The debt transaction for this property included an interest rate swap component. The swap agreement has a term equal to the final maturity of the debt. The swap agreement requires the City to pay a fixed rate of interest on an initial notional amount equal to the principal amount of the debt. In return, the swap provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate (LIBOR) on a like notional amount. Currently, the swap continues to operate as intended, which is an effective hedge against the debt obligation. Unwinding the current swap transaction would result in additional costs to the City.

Analysis: The sale of the Plaza likely would not generate revenue as it would result in the City having to pay off approximately $16.4 million or more in debt, which would be above the estimated value of the Plaza as well as the potential liability of unwinding the swap agreement. Additionally, if the Plaza was sold there are other on-going cost to consider that would potentially be eliminated such as capital maintenance, insurance and staffing just to name a few.

The Riverside Municipal Auditorium (RMA)

The RMA is a large City facility and a Riverside landmark. This reinforced concrete Mission Revival style building is also a World War I memorial to the 87 military members from Riverside County who died in service of our country and was commemorated by the National Register of Historic places in 1978. The RMA has been enhanced and upgraded through an $11million renovation by the City in 2011 and continues to serve the Community as a meeting, special event, and live performance venue

Debt: The RMA was acquired, constructed and improved from several sources of debt proceeds of tax-exempt financings for approximately $11 million. The funding was a mix of debt and tax increment bonds and tax increment fund balance. Currently, approximately $1.0 million of debt is still outstanding. As a result, an attempt to sell the RMA could possibly result in a one-time cash infusion to the City.

Additional Impact: In general, facilities financed by the proceeds of a tax-exempt bond issue are subject to certain post issuance tax restrictions relating to the amount of "private use" that can exist with respect to the facilities. The sale of bond financed facilities to an entity that is not a state or local government might result in "private use." The tax restrictions have exceptions, including allowing de minimis amounts (generally five percent for unrelated purposes to the governmental purpose of the issue) of private use with respect to the proceeds of a bond issue.

If the amount of bond proceeds subject to private use would exceed the permitted de minimis amount for a bond issue, a sale might nonetheless still satisfy post issuance tax restrictions if the issuer complies with certain change in use restrictions that are provided for in certain Treasury Regulations. In general, these provisions provide that the sale must be made in an arms' length transaction with fair market value consideration and the proceeds of the sale must be either (1) used to redeem bonds (or if bonds are not currently callable, be used to defease bonds), or (2) used within two years to pay for the capital costs of projects that would comply with tax restrictions.

If the City choses to move forward on a potential sale of the RMA the change in use procedures are complex and would require an in-depth tax analysis in order to determine if one or more is applicable.

Analysis: The sale of the RMA could potentially generate additional one-time revenue to the City; however, a thorough tax analysis would need to be completed to ensure that tax liability issues are not triggered related to any private use sale.

Riverside Convention Center

The Riverside Convention Center was completely transformed in 2014 and boasts over 50,000 square feet of convention space.

Debt: In order to transform the Convention Center in 2014, the City worked with a single lender to issue a direct placement debt obligation for approximately $40 million. The current debt obligation is approximately $36 million and includes an interest rate swap agreement embedded in the debt issuance.

Additional Impacts: Similar to the Plaza debt issuance the Convention Center also has an interest rate swap agreement equal to the final maturity of the debt. The swap agreement requires the City to pay a fixed rate of interest on an initial notional amount equal to the principal amount of the debt. In return, the swap provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate (LIBOR) on a like notional amount. Currently, the swap continues to operate as intended, which is an effective hedge against the variable rate debt obligation. Unwinding the current swap transaction would result in additional costs.

Analysis: Selling the Convention Center would not generate any additional revenue. Any sale would result in the City having to pay off approximately $36 million or more in debt, which would be significantly greater than the estimated value of the Convention Center as well as the potential liability of unwinding the swap agreement.

Staff Summary

These assets represent the largest of the General Fund assets with a potential for a greater onetime revenue stream that could potentially be used for the CalPERS challenge. However, given that all these assets are encumbered via various debt mechanisms the likelihood of availing ourselves of the property and garnering revenue to be used for the CalPERS challenge is not a likelihood with the potential exception of the RMA.

Optional Future Discussion:

If additional analysis is desired for the RMA or smaller properties, such as vacant land, parking lots, or other locations that are held in the General Fund, staff will return with that analysis for a future discussion including any policy drafts as directed by this Committee.

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

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Approved as to form:	Gary G. Geuss, City Attorney

Attachments:

1. Administrative Manual Policy No. 08.003.00
2. Presentation