City of Arts & Innovation

Financial Performance and Budget Committee

TO: FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS

DATE: OCTOBER 14, 2020

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT

WARDS: ALL

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 recommend 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 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 Financial Performance and Budget Review Committee:

1. Review the attached list of City-owned properties and provide recommendations on 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 generate sale revenue or reduce operating costs to address structural deficits including the CalPERS Challenge and financial impacts associated with COVID-19; and

2. Direct staff to prepare a revised list of properties with specific recommendations provided by the Financial Performance and Budget Committee and present the list to City Council for consideration to take appropriate action on the properties.

COMMISSION RECOMMENDATION:

On September 10, 2020, the Budget Engagement Commission met with 15 members present and received a report to review City-owned properties for declaration as surplus to generate sale revenue or reduce operating costs to address the CalPERS challenge and financial impacts associated with COVID-19. Following discussion, the Commission recommended that 15 properties be retained by the City and seven properties be considered for sale.

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) Fox Entertainment Plaza (Fox Theater, Showcase, Box, Food Lab and Parking Garage 7); 2) Riverside Municipal Auditorium; and 3) 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 20 City-owned properties with potential economic benefit to either generate sale revenue or reduce operating costs to the General Fund. Out of those 20 properties, staff recommended 10 properties be considered for surplus declaration. The Financial Performance and Budget Committee directed staff to present the list of 20 properties to the Budget Engagement Commission for their recommendation and then return to the Financial Performance and Budget Committee for further consideration.

On September 10, 2020, staff presented the Budget Engagement Commission with a list of 22 City-owned properties with potential economic benefit to generate sale revenue or reduce operating costs for consideration on which properties should be recommended to City Council to be retained, leased, or declared as surplus to sell to private entities or community corporations (Attachment 1). It should be noted that two properties controlled by Public Works/Parking Authority (Parking Lots 1 and 16) were separated from the Museum of Riverside and the existing Main Library and are now shown as separate properties. As such, there are were 22 properties for the BEC's consideration instead of the 20 properties that were originally presented to the Financial Performance and Budget Review Committee on July 8, 2020. The Budget Engagement Commission recommended that 15 properties be retained by the City and the seven properties discussed below be considered 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
Riverside Golf Course	1077 N. Orange	Golf Course	119 acres

The BEC recommended the revised list be presented to the Financial Performance and Budget Review Committee prior to seeking City Council approval to take action on the recommendations.

DISCUSSION:

Prior to declaring a site as surplus property, the City should carefully review the property to determine its potential economic benefit and whether the City has an existing need or a potential future need for the site before it makes a determination to sell the property. Further, the City should assess whether the public purpose/mission/potential of a 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 as Attachment 5.

The City has several options to consider in conjunction with the list of potential surplus properties included in Attachment 1 and depicted in Attachment 2. The options include retaining, selling or leasing. Continuation of existing uses on some of the properties should also be a factor. For example, the Riverside Convention Center and the Fox Theater are unquestionably important community assets. Given the City's fiscal state, consideration should be given on whether other types of ownership (i.e. lease, community corporation, etc.) exist for each property 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 are privately owned. Private ownership is less common because of competition from publicly owned and subsidized convention centers. 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. The operation of publicly owned convention centers in the United States is broken down as follows:

- 60% of publicly owned convention centers are operated by a division of municipal government;
- 27% of publicly owned convention centers are operated by a quasi-public agency or "authority"; and
- 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, such as 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). Of these centers, 31 (56%) are publicly owned and 24 (44%) are privately owned. Twenty-two of the publicly owned performing arts centers are owned by cities and 63% of those facilities are city operated.

Disposition of City-Owned Properties

Of the 22 City-owned properties that were identified, the Budget Engagement Commission recommended seven properties be considered for surplus declaration to be sold. Although the Budget Engagement Commission recommended surplusing seven properties to sell to either a private entity or community corporation ownership, staff is seeking feedback and direction from the Financial Performance and Budget Committee on all 22 properties listed in Attachment 1, with specific recommendations on whether each property should be retained, leased, or sold to either a private entity or a community corporation, or perhaps 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 $1.00 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 it at fair market value in accordance with the City's Administrative Manual 08.003.00, 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.

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. The City can also prioritize the revenue at 100% to the CalPERS challenge issue.

Prepared by:	David Welch, Community & Economic Development Director
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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. Definitions
6. BEC Draft Minutes
7. Presentation