CITY OF ROSEVILLE CALIFORNIA

AGENDA

February 7, 2018

RCDC BOARD & CITY COUNCIL WORKSHOP
2:00 p.m.
Martha Riley Community Library
Meeting Rooms #1 & #2
1501 Pleasant Grove Boulevard
Roseville, California

1. SILENT ROLL CALL

Vice Mayor:	**Bonnie Gore**
Councilmember:	**Scott Alvord**
Councilmember:	**Tim Herman**
Councilmember:	**John Allard**
Mayor:	**Susan Rohan**

NOTICE TO THE PUBLIC

All Items on the agenda will be open for the public comment before final action is taken. Speakers are requested to restrict comments to the item as it appears on the agenda and stay within a five (5) - minute time limit. The Mayor has the discretion of limiting the total discussion time for an item.

2. NON-AGENDA PUBLIC COMMENTS

NOTICE TO THE PUBLIC

Persons may address the City Council on items not on this agenda. Please complete a "Speaker Information Card" and present it to the City Clerk prior to the start of the meeting. Speakers shall restrict their comments to issues that are within the subject jurisdiction of the City Council and limit their comments to three (3) minutes per person. The total time allocated for Public Comment is 25 minutes. The Brown Act, with certain exceptions, does not permit the City Council to discuss or take action on issues that are not listed on the agenda.

3. DISCUSSION ITEMS

3.1. Provide Direction on the Future Operations of the RCDC

The RCDC Board requests City Council direction on the Board's recent action that the Council consider a strategic closure of the Corporation.

CC #: 001

File #: 0103-15-02

CONTACT: Chris Robles 916 774-5421

4. BOARD / COUNCIL / STAFF COMMENTS

5. ADJOURNMENT

COUNCIL COMMUNICATION

CC #: 001
File #: 0103-15-02

Title:	Provide Direction on the Future Operations of the RCDC
Contact:	Chris Robles 916 774-5421

Meeting Date: 2/7/2018
Item #: 3.1.

ATTACHMENTS:

Description

Staff Report

Chris Robles, RCDC CEO
(916) 774-5421

Item III-A: Provide Direction on the Future Operations of the RCDC

RECOMMENDATION

The Roseville Community Development Corporation (RCDC) requests City Council direction on the Board's Action of November 30, 2017 to consider a strategic closure of the corporation focused on the early repayment of City loans.

BACKGROUND

The RCDC is a California 501(c) (3) nonprofit public benefit corporation formed in November 2010 by the City of Roseville under the California Nonprofit Corporation Laws of the State of California. The RCDC was formed for the purpose of implementing the revitalization and economic goals of the City by securing private and public capital through development of both residential and commercial properties. The RCDC is governed by a volunteer five member board appointed by the City Council, all Board members have relevant business experience in the areas of development, financing and business operations. The Board has operations, management, budget approval and strategy implementation authority that are separate from the City Council.

The RCDC has had many successes and it is appropriate to consider the RCDC's history and accomplishments in any discussion on future operations. A summary of business lines and results are noted below:

Commercial Real Estate – Commercial real estate has been focused in downtown Roseville with the most visible accomplishments being Ninja Sushi (238 Vernon) and Monk's Cellar (240 Vernon). These properties were initially acquired to preempt warehouse uses and other uses that do not contribute to the revitalization of the downtown. In the case of 238 Vernon Street the RCDC first engaged this property as an improvement loan and later acquired the property in a foreclosure. As the property owner, the RCDC tenanted the property on two occasions with success being reached with Ninja Sushi. Monk's Cellar was a complete renovation and tenant effort from initiation and it too is a success. Ninja and Monk's have demonstrated that complete seismic, structural, accessibility and safety upgrades make a profitable business case. These properties were the first on Vernon Street to complete comprehensive renovations of existing buildings.

The RCDC has been a significant influence in the raising of rents in the downtown resulting in some cases more than a threefold increase in rents. The increase of rents is essential in justifying the expense of building renovations. The space at 242-246 Vernon Street continues to be a space in transition with exterior remodel complete. The RCDC acquired 110 Pacific Street in 2016 at a Placer County tax default sale, this property has been secured, cleaned, stabilized and weatherproofed to prepare it for development. The effort at 110 Pacific Street has stabilized a historically important structure as it is the oldest commercial building in the City.

Residential Real Estate – The RCDC residential rehabilitation program rehabilitated three homes in three different Roseville neighborhoods. The rehabilitation of the three distressed homes had positive impacts in each of the neighborhoods encouraging investment in neighboring properties. Each of the three homes were marketed and sold to buyers meeting affordable purchase criteria.

Advantage Roseville – The RCDC, with strategic oversight by the Board, has administered the Advantage Roseville business attraction and retention effort. Advantage Roseville has been recognized by the State Senate, Legislature and Assembly for its success in business attraction and job recruitment. This program has provided over a $1,000 return on investment for each $1.00 invested in the program. The return on investment includes capital investment commitments for new construction and payroll which total over $1,000,000,000 for the six years of operation. The program has assisted in the recruitment of over 6,325 jobs to Roseville. Advantage Roseville has also sponsored several business training opportunities each year providing important training for small and growing businesses. Since inception the RCDC through Advantage Roseville has sponsored 2,460 hours of training at no cost to the participants.

Earned Media – The RCDC has generated many earned media spots attracting attention and bringing recognition to the revitalization of the downtown. The RCDC was responsible for producing the most heavily attended event in the Vernon Street Town Square with the Sammy Hagar concert which was attended by an estimated 4,000 concert goers. The Hagar concert also generated $15,000 for charity with a donation to the Placer County Food Bank.

Reimbursement to City – Since inception the RCDC has reimbursed the City in excess of $750,000 for staff and operational costs. This reimbursement offers the City significant value in reducing the operational and staff costs of the Economic Development Department.

Downtown Partnership – The RCDC was instrumental in the funding of start up efforts to create the Downtown's first Business Improvement District (PBID). Prior to the RCDC's, staff and financial support of the PBID, there were two failed attempts at creating such a district. With RCDC support and funding the PBID was successful in reaching the required votes to create the district and levy property assessments. The PBID known as the Downtown Partnership has been successful in providing enhanced maintenance, day porters and events such as Downtown Tuesday Nights and the Holiday Parade.

In summary the RCDC has demonstrated success in commercial and residential real estate, business and job recruitment, supported small businesses with training opportunities, media promotion of the City's and RCDC's economic development platform and active participant in the revitalization of the Downtown.

FUNDING

The initial start-up capital for the RCDC's operations and capital investment objectives was provided to the RCDC with a City loan passed through the Redevelopment Agency (RDA) in the form of an agreement for a $5 million deferred loan. The RDA received those funds from a deferred loan from the City of Roseville's Strategic Improvement Fund with the intention of making the initial startup loan to the RCDC. Since the RDA was dissolved by the State of California beginning in the fall of 2011, and all activities of the RDAs were ordered by the State to cease operations, the RDA had only disbursed $3,469,049 to the RCDC. The remaining cash intended to be loaned to the RCDC was $1,530,951, however, the State of California through their efforts to dissolve redevelopment demanded payment to the State claiming the loan as an asset of the State. As a result of this, the City of Roseville intervened and negotiated with the RCDC to disburse the balance through an additional loan in May of 2012. The initial loan proceeds of $3,469,049 passed through to the RCDC is seen as an asset by the State and as such RCDC loan payments to the City are to pass through the State and on to the City. Staff is not confident that the payments made to the State will make it through to the City as the State may determine the loan is not an authorized loan and sweep up these proceeds similar to the States action on the balance of the initial loan. While this is not a risk for the RCDC it is a significant consideration for the City.

The initial City funding was run through the RDA as it was seen as an opportunity for the RDA and RCDC to partner and leverage financial resources. This was a model that followed Community Development Corporations (CDC) in San Diego's Centre City, El Cajon and in Portland. San Diego and El Cajon models relied on Redevelopment Agency revenue and Portland's model relied on State Reinvestment revenues both of which are derived from property tax increment. With the demise of Redevelopment in California, the Centre City CDC was shuttered and recreated as Civic San Diego. In 2012 the Centre City budget was $9.9 million with 58 employees and the recreated Civic San Diego operated under a $5.9 million contract with the City and 32 employees. The transformation of the San Diego CDC demonstrates the dramatic impact that the loss of tax increment has had on CDC's in California. The State's action to dissolve redevelopment has effectively eliminated the primary funding for CDC's in California resulting in not only the dissolution of RDA's but also the demise of CDC's. Ironically, the relationship between the City of Roseville and the RCDC is opposite that of San Diego's contract model where the CDC is payed to perform services by the City, the RCDC reimburses the City for performing similar services.

In March of 2015, the RCDC was awarded a grant in the amount of $928,077. The grant funding was from the City of Roseville as the taxing entity of the former Redevelopment Area. The source of the funding was distributions from the Recognized Obligation Payments and Due Diligence Reviews. The purpose of the grant was to acquire and rehabilitate properties and buildings in the prior redevelopment area.

With the creation of the RCDC, several funding strategies were identified and each has been explored. The following is a list of funding strategies considered at creation of the RCDC along with a response on efforts and results of sourcing each revenue.

1. Tax Increment – One time monies after dissolution of the RDA were disbursed to the RCDC as a grant. Remaining tax increment is scheduled for reimbursement of City loans from the Successor Agency to the RDA leaving no further funding opportunities for the RCDC.
2. Community Development Block Grant Funding (CDBG) – Funding is provided to community service providers typically in the $15,000 range or less. Priority has been given to service providers addressing homelessness. This is a small funding source with low competitiveness for the RCDC given CDBG funding priorities.
3. New Market Tax Credits (NMTC) – NMTC are seldom used on the West Coast and therefore there is limited expertise in the region on their use. Funding is project specific and competitive, additionally qualifying projects are typically in excess of $10,000,000. Up front processing costs can be very expensive. The RCDC projects do not meet the funding threshold.

4. Gifts – The RCDC has not received any significant gifts or bequests. Current fund raising efforts are focused on Advantage Roseville. Gifts are not seen as a consistent or reliable funding strategy.
5. Income on Assets – The RCDC does receive rent revenues to augment operations; however, given the startup debt burden these revenues are not sufficient to sustain the corporation operations long term.
6. Private Sector Loans – The RCDC has an excellent banking relationship with River City Bank which has been supportive of the RCDC efforts and has offered the corporation a line of credit. To date the RCDC has chosen not to take on debt without a clear and expanding revenue stream for repayment.
7. General Fund Monies (City) – Initial startup funding was sourced as a Strategic Improvement Fund loan from the City. Given that City revenues are increasing at a slower rate and business costs continue to inflate a general fund contribution is highly unlikely.

In addition, to the funding sources considered at inception, staff has pursued funding of Community Reinvestment Act monies from local banks, institutional funding from Cal Pers and other CDC business activities that could produce revenue. Alternative funding sources have not materialized in significant revenues. To date reoccurring revenues have been limited to rent proceeds.

OPERATIONAL ALTERNTIVES

The current landscape in which the RCDC operates has changed dramatically since 2010 when the RCDC was created. The Downtown is an active area with events and patrons recognizing Vernon Street and the Downtown as a destination. Significant public investment has been made by the City that includes utility upgrades, 316 office building, town square, round-about, new fire station, second parking garage and planned bridges to Royer Park. Institutional investment has occurred with Sierra College conducting continuing education classes at 316 Vernon and the University Development Foundation is actively pursuing a school of higher education at 401 Oak Street. Randy Peter's Catering represents the first fully comprehensive renovation of an existing building by private investment. Private investment is also represented by new construction with the Mercy Housing project at 623 Vernon Street. With the significant public and private investment that has occurred in the downtown, the RCDC properties are poised to increase in value with completion of public and private investment.

Rents in the downtown have increased and stabilized proving the business case for reinvestment. The downtown has an operational PBID providing enhanced maintenance, marketing and events all promoting the downtown. As stated earlier in this report, the RCDC has had many successes including maintaining a favorable asset to value ratio. Considering the RCDC was founded on debt and its business plan focuses on challenged properties having cash and assets of greater value than its obligation is a notable accomplishment. Given the changed environment, RCDC successes, and asset value, staff believes it is a good time to evaluate the scope, purpose and tenure of the RCDC. The Board considered three alternatives that included the following:

1. Continued operations unchanged
2. Reduced operations
3. Strategic Closure

Continued operation with no change in structure or scope of operations. The RCDC has limited cash reserves for deployment in property improvement or business loans. There is sufficient funding to proceed with the development plans considered for 242-246 Vernon and 110 Pacific Street; however, further real estate investment would be subject to sourcing new capital. Advantage Roseville has funding due to member support and could continue in its current structure without funding concerns. Unless additional capital is sourced staff does not believe continued status quo operation is a sustainable business model.

Reduced operation with a focus on liquidating and managing current properties. The RCDC could continue in a reduced operations mode focused on property management. Under this scenario the operational structure could be simplified to reduce overhead costs. This scenario would need to define the business goals of such a strategy. For example what is the property purpose and duration of property holds and when is the property appropriate for sale. To justify a reduced operation plan staff believes there should be a strategic goal or objective to be met to warrant implementing this approach.

Strategic closure of the RCDC. Dissolution of the corporation was not contemplated at inception of the corporation. Dissolution was given significant consideration in the Operating Agreement between the City and RCDC as it specifically addresses this occurrence. The RCDC's Bylaws state that upon dissolution of the corporation that all assets are to go to the sole member which in this case is the City. What the operating agreement does not address is when dissolution should occur. The operating agreement does not define success as a threshold for dissolution nor does it suggest that failure of the corporation is an appropriate time for dissolution. Given the lack of direction on the timing or circumstances that warrant dissolution, staff believes that it is appropriate for the Board to identify the appropriate time and make a recommendation to the City as the sole member.

Given the activities and impacts noted earlier in this report, the RCDC by any measure has been successful. If success is the measure upon which dissolution should occur staff believes that this measure has been met. As of June 30, 2017, the RCDCs assets exceed its liabilities, therefore, the corporation could provide to the sole member cash and assets to meets its loan obligation prior to the first loan payment being due in June of 2022. The RCDC's assets consisting of properties and cash as well as its liabilities could be assumed by the City as the Sole Member until which time the City decides to liquidate the properties. Alternatively, the RCDC could move to liquidate all real estate assets and resolve all liabilities providing the sole member with a cash payout upon dissolution. The RCDC requests that the City Council as the Sole Member identify their preference on the disposition of assets.

Given the RCDC's significant successes, limited opportunity for new funding and the RCDC's ability to repay the City loans early, the RCDC recommends the strategic closure option.