

Meeting Date: 6/9/2015

Report Type: Staff/Discussion

Report ID: 2015-00488

Title: Innovation and Growth Fund Policy, Guidelines, and Procedures

Location: Citywide

Recommendation: Pass a Resolution 1) approving the Innovation and Growth (IG) Fund Policy, Guidelines, and Procedures; and 2) authorizing the City Manager or the City Manager's designee to take such necessary administrative actions to implement the IG Fund Policy, Guidelines, and Procedures.

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Presenter: Melissa Anguiano, Economic Development Manager, (916) 808-5864, Economic Development Department; John Dangberg, Assistant City Manager, (916) 808-5704, Office of the City Manager

Department: Economic Development Dept

Division: Citywide Development

Dept ID: 18001031

Attachments:

1-Description/Analysis

2-Resolution

3-Exhibit A IG Fund 2031 Policy

City Attorney Review

Approved as to Form

Michael Sparks

6/3/2015 9:34:59 AM

Approvals/Acknowledgements

Department Director or Designee: John Dangberg - 5/26/2015 4:49:57 PM

Description/Analysis

Issue Detail: As part of the Fiscal Year (FY) 2013/14 budget, City Council authorized the establishment of the Economic Development Fund (Fund 2031) to be funded with net property tax revenues received as a result of the dissolution of California redevelopment agencies (Resolution 2013-0198); this was to be the Fund's primary funding source. In May 2014, Council adopted the Economic Development Fund policy, and directed staff to return with guidelines and process and procedures (Resolution 2014-0151). On February 10, 2015, the City Council directed future proceeds from General Fund and Redevelopment Agency Successor Agency surplus land sales, unless otherwise specified, to be deposited in the ED Fund (Resolution 2015-0038). At the request of Council, the ED Fund has been renamed the Innovation and Growth Fund (Fund) to reflect the aspirations of the program; this change will be effective with the FY2015/16 budget. The proposed Fund Policy, Guidelines, and Procedures are attached to this report as Exhibit A to the resolution. These new fund policy, guidelines, and procedures supersede the previously adopted Economic Development Fund policy (Resolution 2014-0151).

The Fund goals are to advance City economic development actions that foster innovation, economic growth, and job creation in Sacramento. The Economic Development Department will manage and administer the Fund, under the direction of the City Manager and the approval of the City Council.

The Fund will focus resources on the following distinct program areas (Fund Programs):

1. Development to Induce Growth, Innovation, and Technology (DIG-IT): Projects that provide a significant return to the city. Specifically, development and infrastructure projects that revitalize specific sites or surrounding areas, expand or retain Sacramento businesses, and/or promote the formation and growth of innovative businesses and emerging technology.
2. Innovation Accelerator Program: Programs and grant matches that support commercializing research, launching new start-ups, and accelerating private investment and industrial expansion efforts that result in sizeable capital investment.
3. Innovation Districts: Projects and programs that promote development, attract investment and foster the exchange of technical knowledge and expertise between students, faculty, entrepreneurs, and private sector businesses in Sacramento's three Innovation Districts: the MedZone, Sacramento Center for Innovation (SCI), and Railyards.

The Fund guidelines, under the Fund Programs, are to advance economic development projects and programs that result in achieving all of the following:

1. Retain or Create Jobs
2. Leverage Funds with other Private or Public Funds
3. Increase Revenue to the City
4. Stimulate Economic Development
5. Accelerate Growth
6. Result in a Completed Project or Program

The Fund could be utilized in the form of a grant and/or loan, depending on the needs of the project or program, and will be negotiated on an individual project/program basis. Funds may not be used for environmental assessments, housing projects (except as ancillary use in projects that otherwise meet the Fund eligibility criteria), stand-alone infrastructure projects, pre-application or pre development

costs, or ongoing (e.g., labor or operating) costs.

Policy Considerations: The Fund Policy, Guidelines, and Procedures are consistent with the adopted 2013 Economic Development Strategy goal to invest in building Sacramento and the objective to “Encourage strategic investments and initiatives that lead to economic development, job growth and enhance the quality of life in Sacramento.” It is also consistent with adopted 2035 General Plan, Goal 3.1 from the Economic Development Element, “Provide opportunities for expansion and development of businesses by ensuring availability of suitable sites, appropriate zoning, and access to infrastructure and amenities.”

Economic Impacts: None at this time. Economic impact will be measured with each approved project and/or program.

Environmental Considerations: The recommendations are administrative, organizational and fiscal matters that do not constitute a “project” under the California Environmental Quality Act (CEQA) Guidelines section 15061(b)(3). The activity is covered by the general rule that CEQA applies only to projects which have the potential to cause significant effect on the environment.

Sustainability: None.

Commission/Committee Action: The Fund Policy, Guidelines and Procedures were presented to the Budget and Audit Committee on June 2, 2015. The Committee approved a Motion to forward the policy to the City Council for adoption.

Rationale for Recommendation: The Fund is the City’s primary funding source for investing in public-private partnerships to boost the City’s economic base and job growth. The Fund is specifically targeted to projects and programs that provide a significant return on investment to the City. The City Manager will report annually to the City Council on the Fund activities. The Fund Policy, Guidelines, and Procedures, as presented, will allow the City to leverage resources and investments to achieve key development projects, accelerate innovative growth, and advance Sacramento’s dynamic innovation districts.

Financial Considerations: To date, the City has received four property tax payments from the County Assessor for former redevelopment areas totaling \$4.2 million. Council has also approved three land sales, resulting in an additional \$9.9 million to the Fund. Additionally, a loan repayment of \$303,070 from the sale of 1012-1022 K Street, and \$100,000 in interest earnings on the Sheraton Sale proceeds (also known as the Master Owner Participation Agreement (MOPA), Fund 2030) have been allocated to the Fund.

Current funding commitments include \$2.5 million for the Studio for Performing Arts (Resolution 2015-0074), \$1.6 million for the 700 Block of K Street (Resolution 2014-0337), and \$200,000 annually (over 20 years) for the Powerhouse Science Center (Resolution 2014-0371, future funding is contingent upon annual approval in the budget). Additionally, in January 2015, Council reserved \$2 million from the Fund for the Downtown Streetcar.

The current available fund balance is approximately \$8.2 million. At this time, it is difficult to estimate the amount of annual contribution the Fund will receive from the County Assessor, due to fluctuations in tax receipts and ongoing obligations of the former redevelopment areas.

Local Business Enterprise (LBE): No goods or services are being procured under this report.

RESOLUTION NO. 2015-__

Adopted by Sacramento City Council

June 9, 2015

**ADOPT INNOVATION AND GROWTH FUND POLICY,
GUIDELINES, AND PROCEDURES**

BACKGROUND:

- A. The dissolution of Redevelopment in 2011 resulted in the loss of an important source of funding for economic development projects within the city of Sacramento.
- B. In recognition of the critical nature of these projects to job creation and private investment, on June 11, 2013, the City Council established the Economic Development Fund (ED Fund, Fund 2031) to be funded with property tax revenues received as a result of the dissolution of Redevelopment (Resolution 2013-0198).
- C. On May 27, 2014, the City Council expanded the ED Fund to include unobligated revenues from sources such as land sales, lease revenues, loan repayments, and interest income and adopted Economic Development Fund policy with direction to return to City Council with Guidelines, and Process and Procedures, for approval (Resolution 2014-0151).
- D. As part of the Fiscal Year (FY) 2015/16 budget, the ED Fund was renamed to the Innovation and Growth Fund (Fund) to reflect the aspirations of the program.
- E. New Fund Policy, Guidelines, and Procedures were developed to reflect the aspirations of the program.
- F. These new Fund Policy, Guidelines, and Procedures supersede the previously adopted Economic Development Fund policy (Resolution 2014-0151).
- G. On June 2, 2015, the Budget and Audit Committee approved a motion to forward the proposed Fund Policy, Guidelines, and Procedures to City Council for adoption.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

Section 1. The Innovation and Growth Fund Policy, Guidelines, and Procedures attached as Exhibit A are hereby approved.

Section 2. The City Manager or the City Manager's designee is hereby authorized to take administrative actions and develop procedures to implement the Innovation and Growth Fund Policy, Guidelines, and Procedures.

Table of Contents:

Exhibit A - Innovation and Growth Fund Policy, Guidelines, and Procedures

Innovation and Growth Fund (Fund 2031) Policy**I. PURPOSE**

The purpose of the Innovation and Growth Fund (Fund) is to advance City economic development actions that foster innovation, economic growth, and job creation in Sacramento. The Fund will provide a long-term source of revenue for high priority economic development projects and programs. The Economic Development Department will manage and administer the Fund, under the direction of the City Manager and approval of the City Council.

2. BACKGROUND

In recognition of the need to create resources for projects focused on job creation and private investment, the City Council established the Economic Development Fund (ED Fund, Fund 2031) on June 11, 2013 (Resolution 2013-0198). The property tax revenues received as a result of the dissolution of Redevelopment were to be the primary source of funding.

On May 27, 2014, the City Council approved the ED Fund Policy and directed staff to return with guidelines, and process and procedures (Resolution 2014-0151). On February 10, 2015, the City Council directed future proceeds from General Fund and Redevelopment Agency Successor Agency surplus land sales, unless otherwise specified, to be deposited in the ED Fund (Resolution 2015-0038).

The ED Fund has been renamed the Innovation and Growth Fund (Fund) to reflect the aspirations of the program. This change will be effective with the Fiscal Year 2015/16 budget.

3. POLICY

The Fund will focus resources on the following distinct program areas:

1. **Development to Induce Growth, Innovation, and Technology (DIG-IT):** Projects that provide a significant return to the city. Specifically, development and infrastructure projects that revitalize specific sites or surrounding areas, expand or retain Sacramento businesses, and/or promote the formation and growth of innovative businesses and emerging technology.
2. **Innovation Accelerator Program:** Programs and grant matches that support commercializing research, launching new start-ups and accelerating private investment and industrial expansion efforts that result in sizeable capital investment.

3. **Innovation Districts:** Projects and programs that promote development, attract investment, and foster the exchange of technical knowledge and expertise between students, faculty, entrepreneurs, and private sector businesses in Sacramento's three Innovation Districts: the MedZone, Sacramento Center for Innovation (SCI), and Railyards.

4. GUIDELINES

- (a) Purpose of Funds: Funds allocated under the distinct program areas must advance economic development projects and programs that result in achieving all of the following:
 1. **Retain or Create Jobs:** Projects and programs must create and/or retain quantifiable permanent, private sector jobs.
 2. **Leverage Funds with other Private or Public Funds:** The Fund will be used to fill financial gaps or shortfalls in projects and programs. Funds will not be used as a primary financing source or as an ongoing operational funding source.
 3. **Increase Revenue to the City:** Projects and programs using Fund resources must directly increase city revenue and/or generate other significant public benefits that provide a return on investment to the city.
 4. **Stimulate Economic Development:** Projects and programs must result in development or redevelopment of a specific site or surrounding area and/or the expansion or retention of businesses in Sacramento.
 5. **Accelerate Growth:** Projects and programs must promote the formation and growth of businesses that engage in the transfer of technology and commercialization of innovative research and products, and/or promote emerging industries.
 6. **Result in a Completed Project or Program:** The Fund award, combined with other resources, must result in sufficient funding to construct a completed project or fully implement and deliver a program.
- (b) Eligible Use of Funds: Fund awards will be used for one or more of the following:
 1. **Grant Match:** Leverage grant opportunities for economic development projects and programs.
 2. **Public Infrastructure Improvements:** Fill a funding gap for public infrastructure projects directly related to an economic development project.

3. **City/Private Partnerships:** Fill a funding gap for construction projects in which the City is a partner or property owner as documented by a contractual agreement between the City and a private sector entity or through City property ownership.
4. **City Investment:** Investment in a project or program that identifies the City as a major stakeholder and supports the growth of innovation, businesses, and job creation.

(c) Ineligible Use of Funds: The following expenses are not eligible uses of the Fund:

1. Environmental assessments
2. Housing projects (except as ancillary use in projects that otherwise meet the above eligibility criteria)
3. Stand-alone infrastructure projects
4. Pre-application and pre-development costs
5. Ongoing program staffing or operating costs
 - Phasing a larger project is acceptable as long as the portion of work completed is operational as a stand-alone project.

5. PROCEDURES

(a) DIG-IT and Innovation District Project Evaluation

Funding requests will be evaluated based on the following:

1. How the project meets and/or exceeds the Fund goals and eligibility criteria.
2. How the project advances the 2013 Economic Development Strategy or any subsequent versions of it.
3. The financial strength and the feasibility of the project.
4. Confirmation that a funding gap exists and that the gap poses an impediment to project completion.

(b) Innovation Accelerator and Innovation District Program Evaluation

Funding requests will be evaluated based on the following:

1. How the program meets and/or exceeds the Fund goals and eligibility criteria.

2. How the program advances the 2013 Economic Development Strategy or any subsequent versions of it.
3. The financial feasibility of the program.
4. The City's role and participation in the program.
5. Program deliverables and metrics established to measure the success of the program.
6. The ongoing sustainability of the program.

(c) Approval

Grants or loans over \$100,000 will be presented to Council with detailed information on how the project or program meets the evaluation criteria identified above for approval. Grants or loans of \$100,000 or less may be approved by the City Manager.

(d) Reporting

The City Manager will report annually to the City Council on the Fund activities. The report will include:

1. Number and amount of investments approved during the year.
2. Status of projects and programs that were awarded funds.
3. How projects and programs are meeting Fund goals.
4. Revenues collected and balance of Fund.