



# REPORT TO COUNCIL

## City of Sacramento

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Public Hearing  
**June 13, 2006**

Honorable Mayor and  
 Members of the City Council

**Subject:** FY2006/07 Budget Special Presentation: Revitalization Corporation

**Location/Council District:** Citywide (All)

**Recommendation:**

This report provides information on a Revitalization Corporation initiative that has been introduced to City Council in past sessions. Authorization for Economic Development Department to proceed with the development of a non-profit corporation and report back to City Council as part of the Economic Development planning sessions.

**Contact:** Thomas P. Friery, City Treasurer, 808-5168;  
 John Dangberg, Assistant City Manager, 808-1222

**Presenters:** Thomas P. Friery; City Treasurer  
 John Dangberg, Assistant City Manager

**Department:** City Treasurer; City Manager

**Division:** City Treasurer; Economic Development

**Organization No:** 0900, 0310

**Summary:**

The City Treasurer recommends that City Council provide direction on the concept of a non-profit corporation to assist in accomplishing several City Council Strategic Goals. The program would primarily complement the efforts of Parking, Economic Development, Planning, and Sacramento Housing and Redevelopment Authority (SHRA), but may ultimately be used for a wide variety of projects. The related projects are envisioned as projects permissible for a municipality, but not able to be structured under standard City policies and practices.

**Next Steps:** Upon approval of staff proceeding with development of the concept of a non-profit corporation, staff will:

- Prepare Articles of Incorporation and By Laws, to include proposed structure of corporation;

- Determine and draft any operating agreements that would be needed to include any administrative staffing and other matters;
- Identify any codes or other local regulatory instruments that may need amended;
- Formulate the best financial investment structure to meet the City Council's overall goals and priorities; and
- Report back to City Council on each of the above steps as formation and development of the corporation progresses.

In establishing the non-profit corporation, it will be necessary to identify a public purpose for the non-profit; reducing the burden of government would be deemed as an appropriate public purpose. While the non-profit status of the corporation could take several months to achieve, all other aspects of the corporation could proceed and be presented to City Council for approval prior to implementation.

A more detailed conceptual operating plan will be reported back to City Council during the Economic Development planning session anticipated in September 2006. Additionally, staff will at that time return with the proposed Articles of Incorporation and By Laws setting forth the conceptualized scope of the corporation.

**Committee/Commission Action:** None.

**Background Information:**

Development Issues: In recent months, the City Manager approached the City Treasurer with several challenges related to parking issues. An assessment of the challenges revealed the critical nature of parking to the City's economic development and other related goals. The challenges also have an impact on development and the policy of the use of tax-exempt bonds for City projects.

- **New Development:** Essentially, it was posed that without an immediate delivery of a new parking garage with several hundred spaces, the issuance of building permits for the central city area would need to be halted. An interim solution with the State of California has been reached to alleviate the immediate need and permit continued development. However, development of the Union Pacific Railyard and several residential developments in the downtown area will also increase the City's requirement to provide parking.
- **Historic Building Parking Limitations:** The question posed was that historic buildings in the central city needed additional long-term parking commitments from the City. However, due to the City's traditional finance method of using tax-exempt bonds, the City was hindered from providing the desired spaces due to tax-exempt limitations. Through further analysis, it was determined that the commitment of City parking spaces to the buildings would result in an increase in assessed value and subsequent property tax receipts to the City from the historic buildings. Hence, this

type of arrangement would bolster City revenue of which a portion might be returned to assist Parking or other City development programs.

- 2006 Capital Improvement Revenue Bond (2006 CIRB): In December 2005 the City Council adopted a reimbursement resolution to reimburse the City for expenditures that occurred prior to any bond sale. At that same time the City Treasurer discussed the federal limitations on the use off tax-exempt bonds for private activity and recommended consideration of the issuance of taxable bonds. In seeking City Council approval for the 2006 CIRBs, a number of projects did not take into consideration the possibility of involving a private sector element in the development of the project, which would have the affect of reducing City investment in the project. The City Treasurer also informed City Council that such a program could be part of a non-profit corporation concept that would come before City Council at a later date.

Non-Profit Corporation: What was discovered from the City Manager's challenges was that during the course of normal business operation of the City that City Council Strategic Goals are being met by the performance of activity in individual City business units. Further, there is no common review of projects to optimize private sector involvement. Finally, under the City's organization structure we are precluded from doing certain activities unless performed by separate corporation thereby reducing City investment and liability. The formation of a non-profit corporation with the ability to structure separate business units that may enhance the economic return of the City and meet City Council Strategic Goals. A non-profit corporation would offer several benefits to the City.

- The ability to enter into limited liability partnerships or limited liability corporations, which cannot be done under the City umbrella.
- Properly structured, the non-profit corporation could finance on its own revenue (it would require assets for financing purposes), thereby reducing City liability.
- Provide the option of fund raising and other private sector income tax incentives associated with non-profits corporations.
- The Parking Division would have broader authority as a participant in a non-profit corporation than as a Parking Authority,
- Provide broader investment opportunities.
- City employees will remain City employees.

It is proposed that Economic Development Department and other City staff would continue the development of the non-profit corporation as an additional tool or mechanism for providing innovative and creative solutions to meet City Council Strategic Goals.

It is noted that following the City Treasurer's research it was discovered that a non-profit was formed by Economic Development and SHRA last year. However the express

purpose of that non-profit corporation is to accept tax-exempt grant funds from the City or SHRA to assist with development efforts specifically limited to the Merged Downtown and Richards Boulevard Redevelopment Areas. For that non-profit corporation to operate as intended, City Council cannot control the operation of that corporation. To date, no grants have been awarded.

**Financial Considerations:**

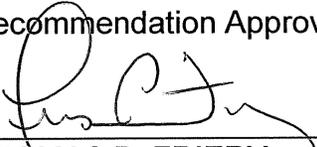
For the non-profit corporation to perform as intended and limit City liability, the non-profit corporation will need both assets (to securitize financings) and a revenue source to support any financing. It is envisioned that the ability to optimize private sector participation and activities will generate not only an increase in public project revenues (e.g. parking revenue), but will generate overall economic benefit (i.e. sales and property tax revenue), all of which inure to the General Fund. Any excess revenues generated by activities of the non-profit corporation could be returned to the City to reduce the burden of government or could be reinvested in the non-profit corporation.

**Environmental Considerations:** This report concerns administrative activities that will not have any significant effect on the environment, and that do not constitute a “project” as defined by the California Environmental quality Act (CEQA) [CEQA Guidelines Sections 15061(b)(3); 15378(b)(2)].

**Policy Considerations:** This information is consistent with the City Council’s adopted Strategic Goals.

**Emerging Small Business Development (ESBD):** None.

Recommendation Approved:



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THOMAS P. FRIERY  
City Treasurer

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## **Approached with Development Challenges**

- ◆ **New Development**
  - ▶ **Parking Requirements**
  - ▶ **Economics**
- ◆ **Historic Buildings & Neighborhoods**
  - ▶ **Parking Availability**
  - ▶ **Tax-exempt limitations**

## **Parking – Common Element**

- ◆ **24/7 operations**
- ◆ **Required for most development**
- ◆ **Critical path in various City sectors**
- ◆ **Catalyst for development**
- ◆ **Ability to leverage revenues**

## **Existing Municipal Challenges**

- ◆ **Tax-exempt financing limitations**
- ◆ **Inability to enter into LLP/LLC as means of development**
- ◆ **Limited economic development funding**
- ◆ **Public-Private Leveraging**

## **Non profit corporation concept envisioned**

- ◆ **Under direction of City Council**
- ◆ **Can manage any number of business units based on objectives and needed expertise**
  - ▶ **Parking**
  - ▶ **Economic Development**
  - ▶ **Investment Operations**
- ◆ **Flexibility in use of revenues**

## Benefits

- ◆ Optimize revenue generating
  - ▶ New – Downtown/Neighborhood
  - ▶ Existing – retrofit
- ◆ Public/Private Partnerships
  - ▶ Real Estate Investment – LLP/LLC
  - ▶ Venture Capital – Equity Ownership
  - ▶ Development Loans
- ◆ Reduce Liability to City
- ◆ City staff status unaffected by Corp.

## Next Steps

- ◆ Direct Economic Development and other City Staff to report back:
  - ▶ Capital and Operating
  - ▶ Corporate Structure
- Articles of Incorporation
- By Laws
- ◆ Develop Business Plan
- ◆ Develop reimbursement/operating agreements