



## MEMORANDUM

DATE: June 23, 2021

TO: Clare Hartman, City of Santa Rosa

FROM: Michelle Whitman, Renewal Enterprise District, Executive Director

SUBJECT: Renewal Enterprise District, Justification for Assessments on Members

### Background

The Renewal Enterprise District's (RED) startup costs have so far been funded through a \$1,000,000 grant from the William and Flora Hewlett Foundation. In addition to the Hewlett Foundation funds, the RED has been awarded grants and donations totaling \$301,000 from the Community Foundation Sonoma County, Kaiser Permanente, Burbank Housing, Comcast, MidPen Housing, Metropolitan Transportation Commission, and Rebuild North Bay Foundation to support the RED's commitment to increase the housing stock in Sonoma County, most significantly through an initiative to design and implement a new Housing Fund for affordable and market rate housing production. A small portion of these funds was designated to support participation in the Map One Sonoma Housing Strategy. Any unused balance of the Hewlett Foundation funds, other grants and awards will carry over to the FY2021-2022 budget as a fund balance.

As with other governmental agencies, the RED's budget is dynamic. Given that the RED is still a young agency, there are variables that warrant consideration now, and that may tap reserves in the future. For instance, should the RED Housing Fund (Fund) be deployed as proposed, it will have operational costs to cover until it generates enough revenue to be self-sustaining, which is preliminarily projected to occur in year two. A robust fundraising effort is currently underway to offset first year overhead costs for the Fund, however, assumptions on what deployment will look like over years one and two, and the terms of its loan products, its capitalization, operations, and administrative expenses will determine the level of revenue the Fund will generate. While current assumptions on overhead are reasonable, precise costs can only be estimated until such time as loan terms are finalized with Fund investors, and professional service proposals are received, reviewed, and executed. Therefore, identifying revenue for startup is important so that the Fund is positioned to break even in the first year and start building retained earnings in the second.

Further, the possible formation of an Enhanced Infrastructure Financing District (EIFD) in the City of Santa Rosa (City) may have an administrative or governance role that includes the RED. City and County of Sonoma (County) staff and advisors are in a process of evaluating the costs and benefits of creating an EIFD, with no final decision expected until the matter is presented to elected officials well into the next fiscal year.

There are other initiatives and structures under development that could utilize the RED for administration and/or financing to facilitate housing production that addresses RED members' public

policy goals for increased density, access to transit, protection of open space, and catalyzing new housing that contributes to energy efficiency, climate resilience, and affordability. For example, the Bay Area Housing Finance Authority, a regional housing finance structure, could provide funding by formula to each of the nine bay area counties, including Sonoma County, once a revenue source has been established. The County is analyzing its affordable housing organization model, which may transition some programs to the RED to manage funding and deliver affordable housing units cross-jurisdictionally. Both the City and the County are exploring coordination regarding collaboratively meeting Regional Housing Needs Assessment (RHNA) obligations through RHNA sharing approaches that might involve the RED. And finally, the RED may one day play a role in the production of housing on public properties within its jurisdiction that are deemed surplus. All these opportunities are being tracked, however, none is a certainty at this point in time.

Identifying a sustainable source of revenue is necessary for the ongoing general operation of the RED and accomplishment of its members' housing objectives.

### Agency Funding Options

The RED's Joint Powers Agreement (JPA) states "All fees, costs and expenses incurred by the Agency may be funded from: (i) voluntary contributions from third parties, such as grants; (ii) advances or loans from the Members or other sources; (iii) bond revenue; (iv) taxes, assessments, fees and/or charges levied by the Agency under the provisions of the Act or otherwise provided by law; (v) contributions from an infrastructure Financing District or other tax increment generating mechanism; and, (vi) subject to the unanimous vote of the Board, assessments on the Members to carry out the activities of the Agency generally applicable to all Members" (Section 8.06 – Agency Funding).

Previously, there had been no request made to the RED's Founding Members to contribute financially to the RED's operating budget. During a budget study session at its February 24, 2021 meeting, RED Board members suggested that assessments on Members should be considered to ensure that the RED is fully funded through the end of Fiscal Year 2021/2022.

RED Board members have also recommended establishing a general fund reserve, with the Executive Director suggesting \$100,000 as a target reserve. Best practices from the Government Finance Officers Association of the United States and Canada recommend a total unassigned General Fund Reserve balance equal to 1/6 or 2 months of annual General Fund operating revenues, or \$71,313 for the RED based on the FY 2021/2022 preliminary budget. However, given the RED's relatively dynamic budget forecast for FY2021/2022, a reserve of \$100,000 would buffer economic uncertainty and provide for special one-time needs.

### Preliminary Budget

The Preliminary Budget for Fiscal Year 2021/2022 was approved by the RED Board on April 19, 2021, and Member assessment was approved on May 28, 2021. This Preliminary Budget featured below incorporates Board direction by including Member contributions of \$50,000 per Founding Member, for a total of \$100,000, to establish the general fund reserve. As New Members join the RED JPA, each will be required to contribute financially to the RED's budget. The Fiscal Year 2021-2022 Preliminary Budget below achieves full agency funding and a balanced budget through the end of the next fiscal year. Fiscal Year 2021-22 spending would be \$427,878, including costs related to creating the RED Housing Fund.

Dept ID: 66150100	Fiscal Year 2020 - 2021		Fiscal Year 2020 - 2021		Fiscal Year 2020 - 2021	Fiscal Year 2021 - 2022
	Final Budget	Change From Prior Year Actual	Adjusted Budget	Change from Final Budget	Estimated	Preliminary Budget
<b>Description</b>						
Revenues						
Other Grants - Hewlett Foundation	563,418	328,824	563,418	-	234,564	-
Community Foundation Sonoma County	7,101	(25,798)	7,101	-	2,101	-
Kaiser Permanente (East Bay Community Foundation)	-	-	90,000	90,000	90,000	-
Burbank Housing	-	-	10,000	10,000	10,000	-
Rebuild North Bay Foundation	-	-	5,000	5,000	5,000	-
Expected Grant Revenues	-	-	45,000	45,000		150,000
Member Assessments						100,000
Interest on Pooled Cash	3,000	(1,933)	3,000	-	3,000	3,000
Miscellaneous	-	(3,000)	-	-		-
<b>Total Revenues</b>	<b>573,519</b>	<b>298,093</b>	<b>723,519</b>	<b>150,000</b>	<b>344,665</b>	<b>253,000</b>
Expenditures						
Administration Services and Supplies	10,100	(10,963)	10,100	-	10,021	14,378
Client Accounting Services	13,200	1,276	13,200	-	8,882	15,000
Consulting Services	294,000	59,494	294,000	-	217,762	266,500
Financial Services			150,000	150,000	150,000	132,000
Contribution to Other Governments for Services	20,000	20,000	20,000	-	-	-
RED grant to housing project	250,000	250,000	250,000	-		-
<b>Total Expenditures</b>	<b>587,300</b>	<b>319,807</b>	<b>737,300</b>	<b>150,000</b>	<b>386,665</b>	<b>427,878</b>
Starting Fund Balance	86,323	78,452	86,323	-	86,323	176,786
Revenues	573,519	298,093	723,519	150,000	344,665	253,000
Expenditures	(587,300)	(319,807)	(737,300)	(150,000)	(386,665)	(427,878)
Unearned Revenue Adjustment - Hewlett Foundation	(63,418)	(126,836)	(63,418)	-	234,564	
Unearned Revenue Adjustment - Community Foundation	(7,101)	(14,202)	(7,101)	-	(2,101)	
Fund Balance Reserve					(100,000)	
<b>Net Increase/(Decrease) in Fund Balance</b>	<b>(84,300)</b>	<b>(162,752)</b>	<b>(84,300)</b>	<b>-</b>	<b>90,463</b>	<b>(174,878)</b>
<b>Ending Fund Balance</b>	<b>2,023</b>	<b>(84,300)</b>	<b>2,023</b>	<b>-</b>	<b>176,786</b>	<b>1,908</b>