



CITY OF FORT BRAGG

416 N. FRANKLIN, FORT BRAGG, CA 95437
PHONE 707/961-2823 FAX 707/961-2802

MEMORANDUM

DATE: October 11, 2011
TO: City Council
FROM: Dave Turner, Mayor
Doug Hammerstrom, Councilmember
Linda Ruffing, City Manager
SUBJECT: C.V. Starr Community Center

BACKGROUND:

The Mendocino Coast Recreation and Parks District (District) is a special district that was formed in 1973 with boundaries encompassing about 20 square miles around Fort Bragg. In 1982, the district boundaries were expanded to encompass the area served by the Mendocino Unified School District. In 1989, the district boundaries were expanded to include the area served by the Point Arena School District. The district now extends from Westport to Gualala and serves a population of about 25,000.

Initially, the District operated the public swimming pool and gymnasium adjacent to City Hall in Fort Bragg. Over time, the District acquired the Mendocino Coast Botanical Gardens (which is leased and operated by a separate non-profit), leased the Mendocino Recreation Center for a variety of after school and community programs and acquired a 600-acre property on Highway 20 for development of a regional park and golf course. The District also is involved in the planned future development of a recreational center and pool in Gualala.

For decades, the District fundraised for a new community center and aquatic facility to replace the 1920's era pool and gymnasium that was leased from the City of Fort Bragg. With generous support from many donors and major support from the Starr Foundation, the District opened the C.V. Starr Community Center/Sigrid & Harry Spath Aquatic Facility in August 2009.

The District receives a share of the property taxes assessed to properties within its boundaries. In addition, the District collects user fees for its recreational facilities, programs and services. The District also receives a sizeable grant for operation of after school programs in Fort Bragg in cooperation with the Fort Bragg Unified School District. The District's facilities have been acquired primarily with grant funds, the regional park/golf course property being an exception.

CURRENT CONDITIONS:

The District is presently facing insolvency. It has debt obligations and operating expenses that far exceed its revenue sources. In the past five years, the District has spent all of its reserve funds, borrowed \$2.3 million to refinance the regional park/golf course property and project costs, and borrowed and spent future property tax revenues. As of October 3rd, the District had about

\$61,000 cash on hand with payroll and operating expenses continuing to accrue. Cash flow projections indicate that the District has reached a breaking point.

The District has entered into discussions with legal counsel regarding pursuit of bankruptcy as a means of reducing its debt load and preserving cash to maintain basic, bare bones operations. The District's largest debts that may be discharged or restructured through bankruptcy are for the regional park/golf course project: \$2.1 million owed to WestAmerica Bank through a complicated lease-leaseback agreement (with \$182,500 annual lease payments); and a \$200,000 private, unsecured loan at 10% interest that is due in April 2012.

The District has looked at various options for increasing revenues, including formation of a Community Facilities District (CFD) or implementation of a parcel tax. While bankruptcy and/or a voter-approved tax measure may help the District in the long run, the outcome of both processes is speculative. At its October 12, 2011 meeting, it is anticipated that the District Board will authorize closure of the C.V. Starr Center by the end of October as a means of immediately addressing its critical financial situation. Even mothballing the facility is estimated to cost \$8,000 to \$10,000 a month.

ISSUE:

In the long run, like community center and pool facilities in most other California cities, the C.V. Starr Center will require ongoing operating subsidies—it cannot be sustained by user fees, even if supplemented by a portion of the District's property tax revenues. The District's financial statements make it clear that, regardless of whether they succeed in eliminating the \$2.3 million regional park/golf course debt, its revenues are not sufficient to fund its operations.

The question has been asked: What can the City of Fort Bragg do to help "save" the C.V. Starr Center?

OBJECTIVES:

We have prepared a proposal for discussion by the City Council, District representatives and the public. The proposal was formulated with the following objectives:

- Keep the C.V. Starr Center operational in the long run.
- Secure a new revenue stream to make the C.V. Starr Center sustainable.
- Protect that revenue stream from the District's creditors and ensure that it is used solely to benefit the C.V. Starr Center.
- Establish an operational plan that would allow the District to operate the C.V. Starr Center.
- Ensure that, regardless of the long-term fate of the Rec District, the C.V. Starr Center will remain a crown jewel of our community's recreational facilities.

PROPOSAL:

The primary elements of the proposal are as follows:

1. The District would need to move with expediency and clear resolve to address, through the bankruptcy process, the fiscal crisis associated with the debt payments on the Regional Park/Golf Course project.
2. The City Council could call for a special election to place a sales tax measure for the C.V. Starr Center on the ballot. As a special purpose tax, a 2/3 vote is required for passage.

3. If the ballot measure is successful:
 - a. The District would transfer ownership of the C.V. Starr Center to the City of Fort Bragg.
 - b. The District would enter into a tax-sharing agreement with the City which would require it to contribute to the C.V. Starr Center a portion (80%?) of the property tax revenue that it collects from properties served by the Fort Bragg Unified School District.
 - c. The City would enter into an operating agreement whereby the District (or another non-profit entity) would be responsible for day-to-day operation of the C.V. Starr Center.
 - d. The operating agreement would provide for joint decision-making about key hiring, administrative, and operational decisions for the C.V. Starr Center.
 - e. The City would provide financial oversight, accountability, auditing and transparency to ensure that the sales tax revenues are used solely for the purposes stated in the tax measure.
 - f. Through the City's annual budgeting process, the sales tax revenues would be allocated to help fund operations and programs, to establish operating, maintenance and capital reserves for the C.V. Starr Center, and to leverage grants for construction of the gymnasium.
 - g. The City would endeavor to reopen the C.V. Starr Center as quickly as possible after successful passage of the ballot measure.
4. If the ballot measure is unsuccessful, the C.V. Starr Center would remain under District ownership and management.

DECISION POINTS:

- **Election Date.** A March 6, 2012 special election is the earliest possible date for an election and it is the latest date that would allow for a tax measure to be effective on July 1, 2012. To put a sales tax measure on a March 6th ballot, the Council would need to adopt a resolution at its November 14th meeting calling for an election and putting forth a proposed ordinance for the sales tax. Alternatively, the Council could call for a special election at a later date which would result in a later effective date for the tax measure and additional costs for the election. If a sales tax measure is combined with the special election for the Councilmember Melo's vacant seat, the additional costs would be about \$2,000. If a stand-alone special election is conducted, the costs would be approximately \$15,000 to \$20,000. The Council decision regarding a date for the special election to fill the vacant seat needs to be made at the October 11th Council meeting.
- **Amount of C.V. Starr Sales Tax.** The Council would need to decide whether to put forth a ¼ cent sales tax or a ½ cent sales tax for the C.V. Starr Center. The ¼ cent tax would generate approximately \$350,000 per year. The ½ cent sales tax would generate about \$700,000 per year. It does not appear that a ¼ cent tax would provide sufficient revenues to sustain operations of the C.V. Starr facility and provide for long-term maintenance and capital repairs. A ½ cent tax would cover the operating deficit and would likely provide additional funds to help offset costs associated with construction and operation of the gymnasium. It may also make it possible to offer reduced fees for City or FBUSD residents, and to offset costs associated with youth programs and activities.

The City's Finance Department staff would need to carefully examine the District's accounting records to prepare an independent analysis of revenues and operating expenses for the C.V. Starr Center and to develop a credible budget for its on-going operation as a self-sufficient enterprise.

- **Sunset Clause.** The Council would need to determine whether to include a "sunset clause" in the tax measure. While sunset clauses can make a tax measure more palatable to voters, the downside is that a steady, ongoing revenue stream is necessary for the C.V. Starr Center and a sunset clause would introduce a high degree of uncertainty regarding financial sustainability.
- **Renewal of Street Repair Tax.** The Council would need to decide whether to place renewal of the City's half-cent sales tax for street repairs on the ballot in conjunction with a C.V. Starr Center sales tax. While the street repair tax does not expire until 2014, it is very important that the extension of the street repair tax is not put in jeopardy by enactment of a new special purpose sales tax for the C.V. Starr Center. From a political perspective, achieving voter approval for two local tax measures on the same ballot is highly unlikely.

OTHER CONSIDERATIONS:

The Council should understand that this is a drastic proposal that is made in response to a dire situation. If a ballot measure for a sales tax is successful and the City assumes ownership of and responsibility for the C.V. Starr Center, there are numerous ramifications, including the following:

- The C.V. Starr Center is a \$24 million facility. It is a huge asset and it is a huge liability.
- Assuming responsibility for the C.V. Starr Center is a significant expansion of the City's operations into a service area that is not currently within the scope of our organization.
- Both short-term and long-term implementation of this proposal represents a substantial amount of work for the City Council and City staff. There are overarching policy decisions that would need to be made by the Council. Administrative oversight, fiscal responsibilities and long-term maintenance responsibilities would be shouldered by City staff. This proposal would impact our organization at a time when we have trimmed staff and created a very lean operation with little capacity to take on big new initiatives.
- There are considerable risk factors and liability issues associated with public swimming pools, even if the facilities are operated by a separate entity under contracts containing insurance, indemnification and hold harmless clauses. The City would need to plan carefully to minimize risks and liability.
- There is uncertainty about the future of the Rec District. If, for whatever reasons, the District cannot operate the facility, the City would need to find a substitute operator for the facility. Operation of the facility by City staff would not be a cost-effective alternative.

CONCLUSION:

The City's goal is to create an operational and funding framework that can provide for efficient, cost-effective, and sustainable operations of the C.V. Starr Center in collaboration with the District. This proposal is offered with hope that it might help the District continue to serve its mission of providing "opportunities on the Mendocino Coast that promote physical and mental well-being for everyone, through active play, community enrichment, programs and events."