

**D.W. Reynolds Non-Profit
Center**

Feasibility Report

*Prepared for the IVGID
Board of Trustees*

April 18, 2017

D.W. Reynolds Non-Profit Center Feasibility Report

TABLE OF CONTENTS

Executive Summary.....	3
Background	3
Current Situation.....	3
PTCF Lease	5
D.W. Reynolds Grant.....	5
Restrictive Covenants.....	6
Business Plan.....	6
The Donald W. Reynolds Non-Profit Center	7
Annual Building Operational Costs.....	8
Resident Organizations	8
Programming	9
Proposed Lease Modification	9
IVGID Office Space Needs.....	10
893 Southwood Boulevard Operational Cost	11
IVGID Programming Needs.....	11
Available Funding	12
Ongoing Cost of Lease Modification	13
Moving Expense	14
Attachments.....	14

D.W. Reynolds Non-Profit Center Feasibility Report

EXECUTIVE SUMMARY

The outline below provides the IVGID Board of Trustees with a preliminary analysis of the issues related to the proposed lease modification. Staff is in the process of performing additional due diligence regarding all of the issues outlined above. Prior to making a final recommendation, Staff will be gathering more information regarding the existing building conditions, rental arrangements, financial terms, moving costs, and the value of the 893 Southwood Boulevard building.

BACKGROUND

On January 12, 2000, Incline Village General Improvement District (IVGID) executed a 30-year ground lease with the Parasol Tahoe Community Fund (PTCF) as it is now known for three (3) 23-year options for 1.5 acres of land (later amended to 2.36 acres) within the Incline Park property.

The ground lease was for \$1 per year and contingent upon PTCF operating a non-profit center on the site. Subsequently, PTCF raised approximately \$14 million to construct, furnish and sustain the Donald W. Reynolds Community Non-Profit Center. The 31,500 +/- square foot building was completed in 2002. Since that time, PTCF has operated the non-profit center consistent with the lease terms.

CURRENT SITUATION

Recently, PTCF sent a letter to the IVGID Board of Trustees indicating an interest in possibly modifying the existing Ground Lease.

The letter stated:

...the Parasol Board of Directors has spent the past year taking an in-depth look at our work in the community and brainstorming new opportunities to effectively meet the changing needs of the community in the future.

One of the opportunities identified by our board would require a modification of the Land Lease currently in place between Parasol and the Incline Village General Improvement District (IVGID). Our board

D.W. Reynolds Non-Profit Center Feasibility Report

believes that this option would not only broadly serve the whole community it would also address pressing issues currently facing the district.

As a follow up to this letter, IVGID approached PTCF and learned more about their interest in modifying the lease.

PTCF is interested in focusing more of their energies on their core mission which is functioning as a non-profit public charity dedicated to supporting service agencies in the Lake Tahoe region. They would like to shift both monetary and financial resources, which are dedicated to bricks and mortar functions, and dedicate those resources to their core mission. Freeing up these resources would increase the amount of financial support that PTCF could provide to the region.

Under this scenario, they would no longer serve as the landlord for the Donald W. Reynolds Community Non-Profit Center. They would financially support their grantees instead of granting them space. Consequently, they would no longer meet the land use requirements of the ground lease.

PTCF would like to engage IVGID in a dialogue wherein the use of the building improvements would be shifted to the property owner (IVGID) and the lease would be modified to reflect this new arrangement. PTCF would like to remain as a tenant in the building and has offered to assist IVGID in facilitating service agencies' access to the shared-use facilities in the building. While PTCF would also like a small portion of the building to continue as a non-profit center, the majority of the space in the building could be used by IVGID for their programming and office space needs.

As part of the lease modification, PTCF would like to receive adequate consideration for the remaining life of the building improvements. By tapping the value of the building improvements, PTCF would have additional resources to provide to community non-profits.

IVGID is in the process of assessing its programming and facility needs via the Community Services Master Plan. Both the current plan and the previous plan that was adopted in 2000 identified the need for more programming space and IVGID

D.W. Reynolds Non-Profit Center Feasibility Report

office space. The PTCF proposal could potentially be a very cost-effective means to address IVGID's current deficiencies for both programming and office space.

At the April 13, 2017 IVGID Board of Trustees Meeting, in response to the lease modification request, the IVGID Board of Trustees directed Staff to provide a summary report on the feasibility of the proposed modification.

PTCF LEASE

As noted above, on January 12, 2000, IVGID executed a 30-year ground lease with PTCF for three (3) 23-year options for 1.5 acres of land (later amended to 2.36 acres) within the Incline Park property.

The ground lease was for \$1 per year and contingent upon PTCF operating a non-profit center on the site. Subsequently, PTCF raised approximately \$14 million to construct, furnish and sustain the Donald W. Reynolds Community Non-Profit Center. The 31,500 +/- square foot building was completed in 2002. Since that time, PTCF has operated the non-profit center consistent with the lease terms.

The lease and the amendment to the lease are attached to the document.

D.W. REYNOLDS GRANT

The D.W. Reynolds Foundation (DWR) provided a \$6.6 million grant which provided the majority of the funding for the construction of the facility. The PTCF provided the balance of the funds necessary for furnishings, fixtures and equipment, site work, landscaping, parking and fees as well as funding for the Capital Replacement and Endowment Funds.

The grant was contingent upon the building functioning as a non-profit center defined as an economical and collaborative environment for non-profit organizations. PTCF Staff has been in contact with the grantor and they have provided guidance regarding the proposed lease modification.

DWR would require that Donald W. Reynolds Non-Profit Center retain the naming rights for the building. Also, DWR would require PTCF to remain in the building and that a portion of the office space continue to be dedicated to non-profits. In

D.W. Reynolds Non-Profit Center Feasibility Report

addition, the landlord would be required to charge rents at less than market rate for the non-profit tenants.

RESTRICTIVE COVENANT

Section XV of the lease references the existence of a restrictive covenant on the Incline Park parcel of which the lease encumbers 2.36 acres.

The restrictive covenant was placed on the property when Boise Cascade sold the property to IVGID in 1977. The Deed's Covenants, Conditions and Restrictions (CCR's) limit the use of the property to the following uses: *"...park and recreational and related purposes and for no other purposes."* As part of the lease transaction with PTCF, an amendment to the CCR's was executed by Boise Cascade's successor in interest and said amendment reiterates the foregoing mentioned restriction, excepting however, *"the construction of a building for the use of the Parasol Foundation, Parasol Foundation collaborators or the Parasol Foundation legal successors."*

BUSINESS PLAN

Section XIII, A.3 (b) requires the PTCF to operate the building consistent with the Business Plan attached to the Lease, originally dated March 2001 and updated in April, 2009. The updated Donald W. Reynolds Community Non-Profit Center Business Plan describes the Purpose and Goals of the Donald W. Reynolds Community Non-Profit Center and includes attachments such as five years of actual and budgeted operating costs, selection criteria for Resident Organizations (building tenants) and sample meeting room use agreements.

The updated 2009 Donald W. Reynolds Community Non-Profit Center Business Plan is attached.

In June 2012, the Tahoe-Collaborative Association of Non-Profits (T-CAN), the successor of the Parasol Community Collaboration (PCC), which was an association of local collaborating non-profits, independently determined that their mission had been achieved and subsequently ceased operations. Therefore, currently PTCF supports both resident and non-resident local non-profit

D.W. Reynolds Non-Profit Center Feasibility Report

organizations alike through in-kind grants for office space, storage space, and meeting room use.

THE DONALD W. REYNOLDS NON-PROFIT CENTER

The building was completed in 2002. It is a two-story building with approximately 31,500 square feet of gross building space. The total square footage is evenly allocated between the first and second floor. The building has one elevator and has pedestrian entrances on both the first and second floor. The building is of high quality construction, appears to be in excellent condition, and shows no apparent signs of deferred maintenance.

The first floor has a main lobby, a large meeting room, a large storage area portioned into twenty five (25) units, a commercial kitchen with a walk in refrigeration and freezer, two loading docks with access from the rear of the building, a craft room, open office areas, and both men's and women's restrooms.

The second level includes a large meeting room, two sets of men's and women's restrooms, open office space, a staff lounge, a formal board room, an Information Technology (IT) secure server room, central mail and processing area, a suite set up for secure entry, and an outdoor terrace area.

The building was designed for flexibility to maximize multi-user space and systems. While the building functions as office space for multiple users, the majority of the building is dedicated common areas and meeting spaces.

There is an on-site asphalt parking lot adjacent to the building with approximately seventy eight (78) parking spaces (five (5) which are Americans with Disabilities Act accessible). The parking area provides vehicular access to IVGID's parks maintenance facility and provides pedestrian access to IVGID sports fields.

A recent appraisal with more details about the building is attached to this report.

The appraiser estimated that the replacement cost new less depreciation for the building would be \$9,650,000.

D.W. Reynolds Non-Profit Center Feasibility Report

ANNUAL BUILDING OPERATIONAL COSTS

Currently, PTCF spends approximately \$164,000 per year on building, grounds, and maintenance staff. Approximately twenty seven percent (27%) of that cost is for utilities (electricity, gas, water, sewer and garbage).

In addition, PTCF has set aside \$1,324,300 in a Capital Replacement Fund as required by the DWR grant.

RESIDENT ORGANIZATIONS

The following eleven (11) resident non-profit organizations are currently occupying office space in the building.

1. American Red Cross of Northern Nevada
2. Classical Tahoe
3. Girls on the Run-Sierras
4. Lake Tahoe Shakespeare Festival
5. Rotary District 5190 Community Fund
6. Simmaron Research
7. SOS Outreach
8. Tahoe Fund
9. Tahoe Institute for Natural Science
10. Tahoe Prosperity Center
11. Tahoe SAFE Alliance

Annually, PTCF issues renewable Resident Grants to local non-profit organizations serving Incline Village/Crystal Bay/Kings Beach. These in-kind grants are valued based on office rents for comparable local office space. Resident organizations are required to pay a grant match of seventy cents (\$.070) per square foot per month and the PTCF in-kind grant covers the balance. PTCF resident grants include all utilities and custodial services. In addition, nineteen (19) organizations have storage units in the first-floor storage area provided by PTCF in-kind grants at no cost to the organizations.

D.W. Reynolds Non-Profit Center Feasibility Report

PROGRAMMING

Any organization recognized by the Internal Revenue Service as tax exempt and serving the Incline Village/Crystal Bay/Kings Beach area is allowed to use the meeting rooms and training facilities at no cost and must provide a deposit and proof of insurance naming PTCF as additionally insured.

Approximately forty five (45) community organizations take advantage of the community rooms in the building.

PROPOSED LEASE MODIFICATION

As noted in the introduction, PTCF would like to focus on its Community Foundation efforts and transfer responsibility for the building operation and maintenance to the Lessor (IVGID).

Via this transfer, IVGID would also have the ability to use a portion of the facility for its own operations and share a portion of the community portions of the facility with PTCF.

Due to the restrictions in the DWR grant, PTCF would be required to keep its operation in the building, keep a portion of the office space for Resident Organizations, and continue to provide non-exclusive use of the community meeting space to local community tax exempt organizations.

As the owner and operator of the facility, IVGID would be the recipient of the income received for space rentals. However, IVGID would be bound by the terms of the grant and be required to charge non-profits less than market rate for the facilities.

Given these restrictions, IVGID would not be receiving the beneficial use of the entire building and its improvements. The lease modification would spell out the portions of the facility restricted for the non-profit center and PTCF, the terms for the non-exclusive use of meeting space, and the length of time for which IVGID would be required to operate under these conditions.

D.W. Reynolds Non-Profit Center Feasibility Report

PTCF has also proposed that IVGID provide consideration for the improvements for which IVGID would receive beneficial use. The consideration proposed by PTCF is \$5.5 million which could be paid by IVGID in up to seven (7) installment payments.

IVGID OFFICE SPACE NEEDS

Since at least 1999, IVGID has been planning to replace its fully depreciated Administration Building (Anne Vorderbruggen Building) at 893 Southwood Boulevard. The facility has a number of serious deficiencies and a series of analyses have demonstrated the building is functionally and structurally obsolescent. Additionally, the building is not compliant with the Americans with Disabilities Act for both the public and employees, has sections with high levels of radon, and a portion of the building was constructed with asbestos containing materials. Building replacement would be necessary in order to address the problems with the building.

The 10,500 square foot building is also not adjacent to other IVGID facilities and the property is zoned commercial and not restricted to government use.

Previous studies have recommended disposing of the 2.35 acre parcel and using the sales proceeds towards the construction of a new building adjacent to the Recreation Center.

Staff has ordered an updated appraisal of the property. Given the condition of the building, the previous appraisal determined that the highest and best use was as a residential development site. Staff estimates that the current value of the property could be between \$2 million and \$3 million.

Previous studies assumed that a new, modern facility would require about 12,000 gross square feet. The PTCF appraisal estimated the cost for new office construction at approximately \$350 per square foot. Based on this estimate, a new IVGID Administration Building could cost approximately \$4.2 million.

893 SOUTHWOOD BOULEVARD OPERATIONAL COST

IVGID currently spends \$156,000 annually to operate and maintain the building. Given its current condition, IVGID has also allocated \$271,200 in Fiscal Year 2016/2017 five year Capital Improvement Plan (CIP) in order to keep the building in a habitable condition. Given the issues noted in the previous paragraph, the CIP doesn't contemplate any improvements to the building to address the structural and functional issues. Several of these projects need to be decided on very soon to maintain reasonable building condition (restroom improvements and roof and flooring replacements).

This building also serves as the backbone for IVGID's IT infrastructure. IT staff has been decentralizing our IT hardware for a number of years and virtualizing our servers to minimize our hardware needs. Nearly all of the IT system is portable and isn't committed, long term, to needing residence in the 893 Southwood Boulevard building.

IVGID PROGRAMMING NEEDS

As IVGID assesses its needs via the Community Services Master Plan, there have already been a number of existing needs identified which could be addressed with increased access to the D.W. Reynolds Community Non-Profit Center.

For example, the Recreation Center only has one fitness room. The staff space at the Recreation Center could be moved to the D.W. Reynolds Community Non-Profit Center and reconfigured for fitness use. It could also allow the public areas adjacent to the center to be repurposed into more functional space as well.

The commercial kitchen at the D.W. Reynolds Community Non-Profit Center could be used for cooking classes, wine pairing seminars, and as a part of the curriculum for children's camps.

Both youth and senior programs could take advantage of the meeting space. It could reduce the need to maintain meeting space at Aspen Grove and allow the building to be better configured for social functions.

D.W. Reynolds Non-Profit Center Feasibility Report

Currently, IVGID has no space available for arts and crafts and enrichment programs. The meeting facilities at the D.W. Reynolds Community Non-Profit Center could address this need as well as many other special programs which IVGID is not able to offer due to a shortage of multipurpose space.

Use of the expansive community meeting facilities along with the ability to access office space would greatly reduce the need to build new programming space at the Recreation Center and Aspen Grove.

The recent cost estimates for the Beach House at Incline Beach reinforced the significant cost potential for building new special purpose space. Staff estimates that the ability to access D.W. Reynolds Community Non-Profit Center facilities would reduce current space needs by approximately 6,000 square feet. At a conservative estimate of \$350 per square foot, the D.W. Reynolds Community Non-Profit Center could save over \$2 million in future facility needs.

AVAILABLE FUNDING

There are four sources of funding which could go towards the modification of the PTCF lease. Since this is located on park property it would be a transaction under the Community Services Special Revenue Fund.

IVGID's General Fund, Fund Balance. There is currently \$1.8 million dollars in the General Fund. The IVGID Board of Trustees Policy (Policy Number 7.1.0) and the Nevada Revised Statutes minimum for a General Fund reserve is under \$200,000. This leaves as much as \$1.6 million in reserves that could be made available through a transfer.

Excess Funds available in IVGID's Worker's Compensation Fund. IVGID has shifted from a self-insured Workers Compensation Fund to the Nevada Insurance Pool Fund. IVGID recently performed an actuarial to determine how much cash was needed to sustain any ongoing claims in the self-insured fund. The State has reviewed and approved the recommendations of the actuarial study and Staff will be making a recommendation to IVGID's Board of Trustees to return approximately \$800,000 to IVGID's fund balances and \$665,000 of those proceeds are intended for Community Services and could be used towards the lease modification.

D.W. Reynolds Non-Profit Center Feasibility Report

Sales Proceeds from the sale of the 893 Southwood Boulevard site. As noted above, sale of the property could net two to three million dollars. These funds would not be immediately available as the purchaser would need twelve to twenty four months to gain entitlements for development of the property. Requiring an up-front all cash purchase of the site would likely yield a much lower sale price.

Community Services Fund, Fund Balance. While IVGID's Five Year plan outlines a program which allocates the majority of the fund balance towards existing needs, projects could be re-prioritized in order to help fund the lease modification.

ONGOING COST OF LEASE MODIFICATION

As noted above, a rebuild or move from the 893 Southwood Boulevard building is inevitable. In addition, the Recreation Center is now twenty five years old and will likely be retrofitted over time to meet the changing needs of the community.

Assuming long term responsibility for the D.W. Reynolds Community Non-Profit Center could reduce the future costs of replacement, renovation or expansion of the above referenced facilities.

However, adding a building the size of the D.W. Reynolds Community Non-Profit Center to IVGID's assets will require an immediate increase in the amount of staffing and cost dedicated to building and facilities and not at some point in the future.

While the operational costs of the new building were enumerated above – and it is likely that some of the cost will be offset by rental and program revenue—IVGID will need to add support staff hours to maintain and operate the building. There will also be staff time dedicated to property management as well.

In addition, while the building is relatively young and appears to be in excellent condition, the mechanical and structural systems in the building will need to be eventually replaced.

For a building of this size, a good rule of thumb is to assume that over the next two decades, there will need to be a capital investment of about twenty percent (20%) of the value of the building – which would be approximately two million dollars.

D.W. Reynolds Non-Profit Center Feasibility Report

IVGID would likely incur a similar long term cost if a new Administration Building was built or the Recreation Center was expanded.

However, as an existing building, we will likely incur capital replacement costs sooner. While you can never predict the exact cost or timing, staff will further investigate this cost via a comprehensive condition assessment and maintenance evaluation if the IVGID Board of Trustees is interested in further pursuing the lease modification. Doing so would require the expenditure of IVGID funds on outside consultants to support the effort.

MOVING EXPENSE

Just as noted above, at some point, IVGID is likely going to bear the cost of moving functions out of 893 Southwood Boulevard and the Recreation Center. The lease modification would likely shift these costs into the next two fiscal years.

Unlike a new building, the D.W. Reynolds Community Non-Profit Center already has extensive tenant improvements in place and all the meeting facilities are already fully furnished. In addition, IVGID has existing office fixtures that could be moved into D.W. Reynolds Community Non-Profit Center. If the IVGID Board of Trustees is interested in further pursuing the lease modification, Staff will assess the space allocation and determine the need for any additional tenant improvements and furniture reconfigurations to meet IVGID's operational needs. Again, doing so would require the expenditure of IVGID funds on outside consultants to support the effort.

Also, as noted above, the IT system at 893 Southwood Boulevard is both modular and virtual and shouldn't be an extraordinary expense. The biggest issue for IT would be the timing of getting fiber into the D.W. Reynolds Community Non-Profit Center from Incline Way and keeping the IVGID network functional during the move. There would also be some expense associated with reconfiguring the server space and upgrading the electrical service within that space.

ATTACHMENTS

1. Letter from PTCF to IVGID Board of Trustees dated March 17, 2017
2. Original lease between PTCF and IVGID

D.W. Reynolds Non-Profit Center Feasibility Report

3. Amendment to lease between PTCF and IVGID
4. 2009 Business Plan for the Donald W. Reynolds Community Non-Profit Center
5. IVGID Board of Trustees Policy (Policy Number 7.1.0)
6. Appraisal dated January 16, 2017
7. PTCF Unaudited Preliminary Statement of Financial Position December 31, 2016
8. Draft first page of the agenda for May 10, 2017 – Item C. Special Public Comments Section