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# Economic Development Options for Local Jurisdictions in the Post-Redevelopment (RDA) Era

by:

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# Today's Agenda

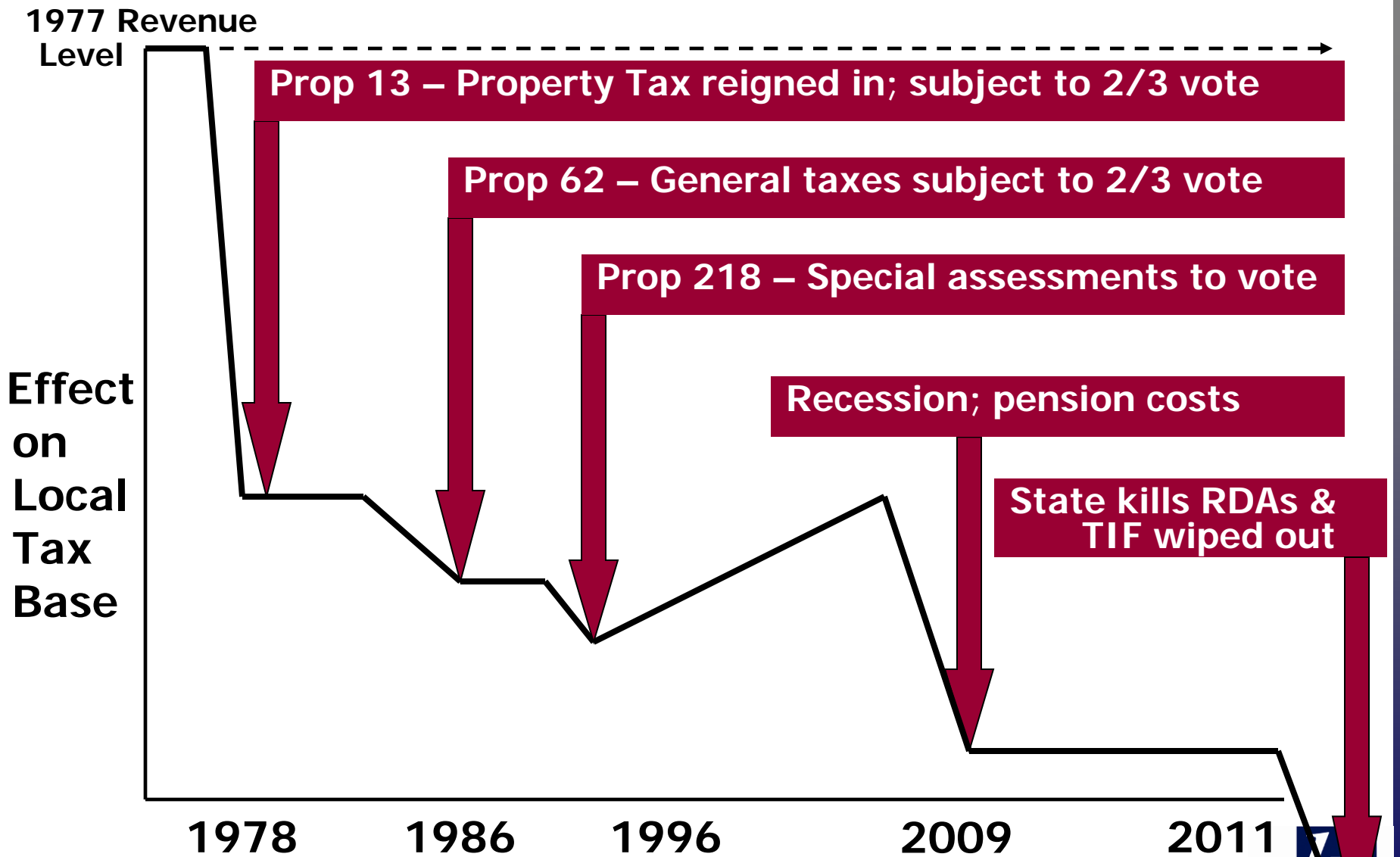
- **State of the State & Local Economic Development**
- **2014 Economic Development Toolkit “101”– Basic Tools**
- **The future of Economic Development in CA &**
- **Implementing an Economic Development Strategy**



# Review of California in 2014 Q1

- Unemployment still 5<sup>th</sup> highest in U.S. with 1.6 mil out of work
- State unemployment very uneven: 5% in Marin Co; 26% Imperial
- Close to 25% of Californians live below the poverty line
- Cities distracted by RDA dissolution activity
- Enterprise Zones terminated in 2013, replaced by AB93
- California remains high cost & unfriendly to business
- Pensions remain underfunded with no practical solution in sight
- State is “Not Focused” on Local Government
  - Majority of Economic Development Bills died or vetoed
  - CA attempting to replace tax increment loss with less potent tax credits

# Tax Diets, Pension Costs & RDA loss limit \$\$ choices



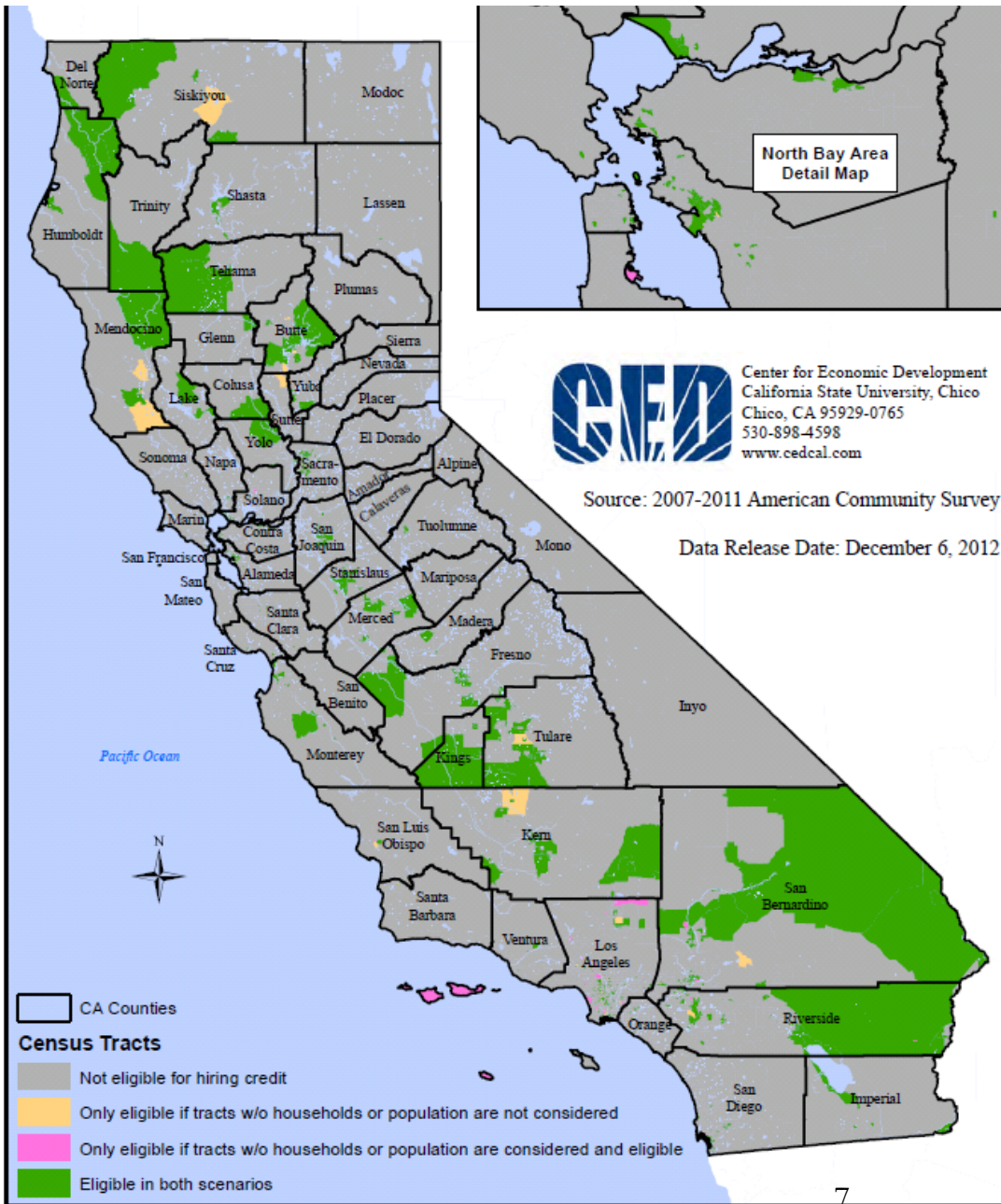
Note: Not to Scale

# RDA “lite”: New State Tools & Legislation (2014)

## State has added new ED Tax Credit programs – *limited in scope*:

- **Sales & Use Tax Exemption / Manufacturing Equipment**
  - Existing sales tax credit for businesses expanded to *statewide* sales tax exemption on purchase of manufacturing or R&D equipment
  - Businesses allowed to exclude the first \$200 million equipment purchases from state share of sales tax (4.19%) from 7/1/14 through 6/30/22
  
- **Investment Incentive (attraction/retention credit)**
  - Businesses compete for tax credits based on # of jobs to be created or retained
  - Approval of any incentive by a five member committee composed Treasurer’s office, Department of Finance, GO-Biz, the CA Senate and CA Assembly
  - Approved credits may be recaptured if a business fails to fulfill contract
  
- **Hiring Credit**
  - For businesses in census tracts with top 25% in unemployment & poverty
  - Credit available for those who show a net increase in jobs
  - Equals 35 percent of wages between 1.5 - 3.5 times minimum wage for five years

# Census Tracts Where Businesses Would be Eligible for the Proposed Hiring Credit



Center for Economic Development  
 California State University, Chico  
 Chico, CA 95929-0765  
 530-898-4598  
[www.cedcal.com](http://www.cedcal.com)

Source: 2007-2011 American Community Survey

Data Release Date: December 6, 2012



# New Economic Development Legislation: Jan 2014

- **SB 470 (Wright): “Community Development: Economic Opportunity”**
  - Intent of bill is to promote ED on local level; communities can enact local strategies to increase jobs and generate tax revenue for all levels of gov.
  - Creates definition of “Economic Opportunity”
  - City/County can sell RDA property for ED purposes at “fair reuse value”
  - Requires Public Hearing & Report Prior to Sale/Lease of Land under PMP
- **AB 440 (Gatto): “Hazardous Materials: Local Cleanup”**
  - RDAs used Polanco to remediate/redevelop sites with environmental issues
  - Grants cities & counties Polanco powers as Brownfield remediation tool
  - Encourages infill development and cleanup of Brownfields



# New Economic Development Legislation: Jan 2014

- **AB 562 (Williams): Report on “Economic Development Subsidies”**
  - City/County to provide report before any ED subsidy of \$100,000 +
    - Provide a description of the subsidy & public purpose of the subsidy
    - Estimated number of jobs created
    - Projected tax revenue
- **AB 483 (Ting): “Tourism & BID Districts”**
  - BIDs are voluntarily formed by businesses to impose an assessment on themselves to privately fund tourism promotion efforts (and other activities)
  - Helps TIDs/BIDs comply with Prop 26: specific benefits & government services assessments are NOT a tax
- **SB 743 (Steinberg): “CEQA Reform Bill”**
  - Reduced CEQA analysis for Urban Infill projects
  - Expands exemption to include commercial development/mixed-use projects proximate to transit and consistent with Sustainable Communities Strategy

# New Economic Development Legislation: Jan 2014

- **AB 471 (Atkins): Health & Safety Code 34171 Community Development- Economic Opportunity**

- AB 471 (Atkins), amending Authorizes an infrastructure financing district (IFD) to finance projects in areas within or overlapping with former RDA areas
- Provides for funding of housing authority administrative costs through recognized obligation payment schedule (ROPS) listing
- Other modifications to ROPS procedures include:
  - Permits payments beyond current 6-month ROPS period if required by lender
  - Permits bond proceeds issued during cycle to be on ROPS as fund source

- **SB 341 (DeSaulnier): Health & Safety Code 34176, 34176.1 Encouraging Housing Spending**

- Provides rules for successor housing agencies on spending former RDA housing assets
- Expands use outside former RDA project areas, including transit projects and other areas, allows agencies to combine funds in some circumstances
- In addition to new Low/Moderate income housing, encourages spending on maintaining long term affordability and addressing homelessness and restricts efforts for all-senior

# TIF is Primary ED Tool - still **Dead** in CA

- **Tax Increment Financing is the “Gold Standard” public financing tool for real estate projects & economic development nationwide**
  - Authorized and used in 47 states and Washington D.C.
  - In California TIF allowed RDAs access to significant long-term funding source
  - Typically used property tax; stable enough to be leveraged through TIF Bonds
  - TIF grows for decades over a base year, providing leverage for revenue projects
  - RDAs created millions of dollars & thousands of new jobs, but not well promoted
- **When the State tossed Redevelopment it also discarded TIF**
  - Without TIF, CA cannot compete effectively for business and jobs
  - Gov’s ‘14-’15 Budget proposes minimal TIF reform with less restrictions on Infrastructure Financing Districts by reducing voting requirement to 55%
    - However, public agency “opt out” provision would remain
    - Unlikely to induce economic development projects

# CA in 2014 = High Taxes & High Unemployment

## Higher CA taxes make it difficult for businesses to compete

- California consistently rated least biz friendly by the CEO Roundtable
- Without incentives, growth companies may look elsewhere
- **CA Over 175 cities & 36 counties at >9% unemployment; we need jobs**
- **Economic Development is the primary solution for CA Cities:**
  - Private investment = growth in real estate values and economic activity (local business spending, new wages, retail sales)
  - Cities help themselves & State by helping companies to invest
  - 320,000 new jobs yield \$1 billion dollars per year in State GF revenues
- **Cities need Real Estate projects for Economic Development to add jobs, raise jobs and improve quality of life**

**Economic development is tougher but possible without tax increment**

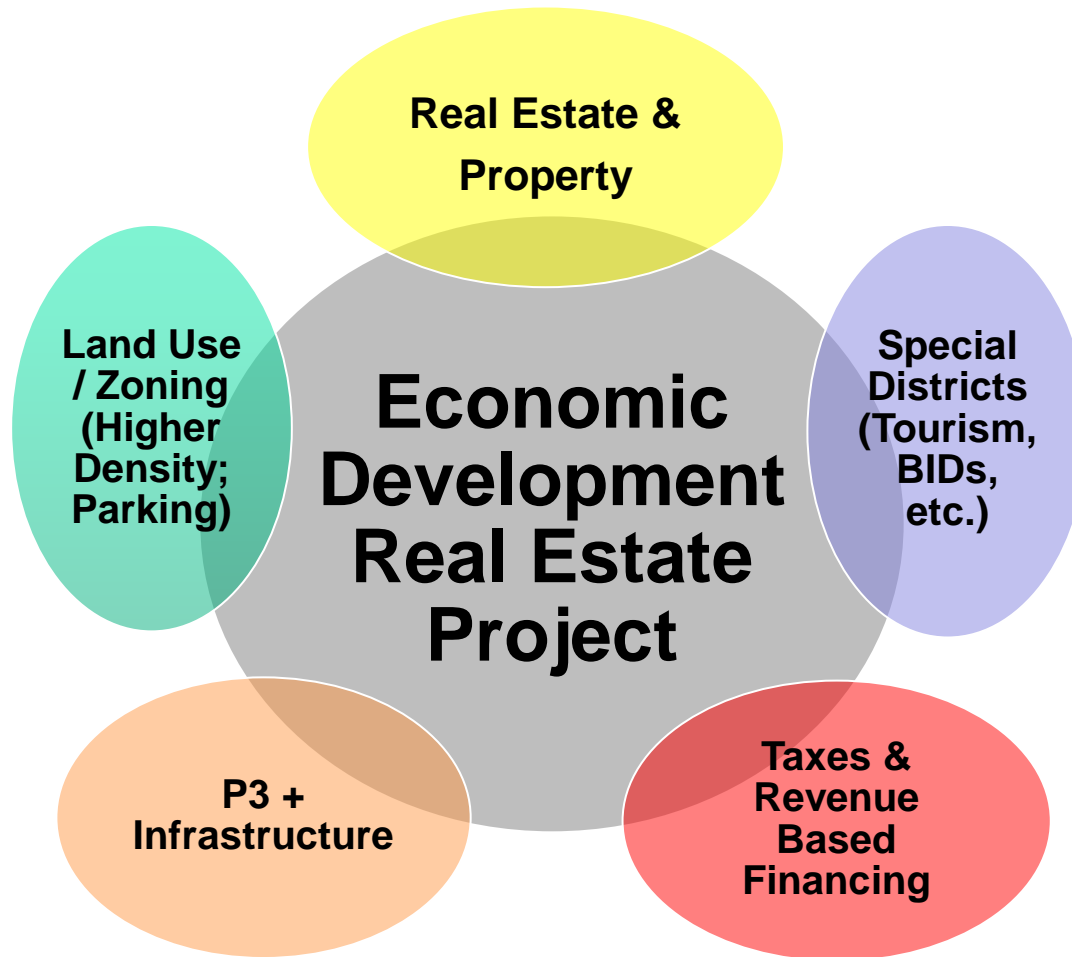
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# Post-RDA Economic Development Tools

**Cities have 5 BASIC TOOLS for Public Private Projects**



***Theses tools often work best when used together***

# Post-RDA Tools – Real Estate & Property



# Real Estate as an E.D. Resource

## Local Government-Owned Real Estate Types:

- Former RDA real estate – PMPs
- Real Estate with public use (civic centers, fire stations, recreation)
- Surplus Property (City, School District, Utility, other)
- Rights of Way / Streets / Alleys
- Parking Lots / Structures



# Real Estate as an E.D. Resource

## Land lends value to ED projects: can increase market/reuse value

- “Owned” land values can be propped up by zoning/use actions that add value
  - Density, reduced parking, hours of operation, height
- High commuting costs and transit lines have increased the “location value” of in-fill sites (e.g. parking lots, city / utility yards)

## Public Agency land under-utilized;

- Existing zoning may not support highest & best use
  - Often needs work (entitlements, assemblage, env. remediation)
- Potential to increase value & property taxes (stable revenue source)
- Added “value” and/or lease revenue can be borrowed against (leverage)
- New funds from leverage can be used for Economic Development projects

# RDA Dissolution: Unique Chance for Cities

**427** former Agencies must complete Property Management Plans by mid-2014

**Economic development can materialize** by strategically managing PMP tasks & assets

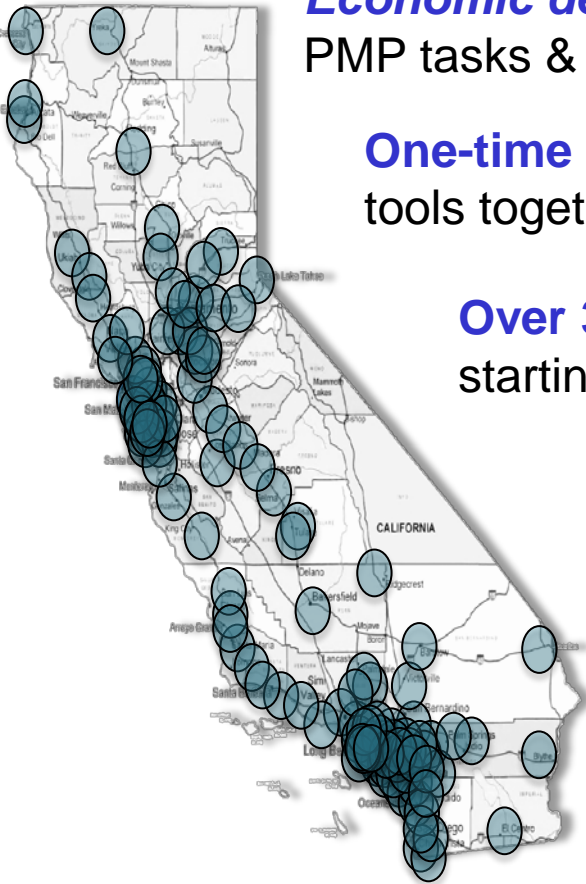
**One-time opportunity** to use PUBLIC PROPERTY and ZONING tools together: “PMP” can produce private investment for a City

**Over 3,000** former RDA properties must be disposed of starting in Q1 2

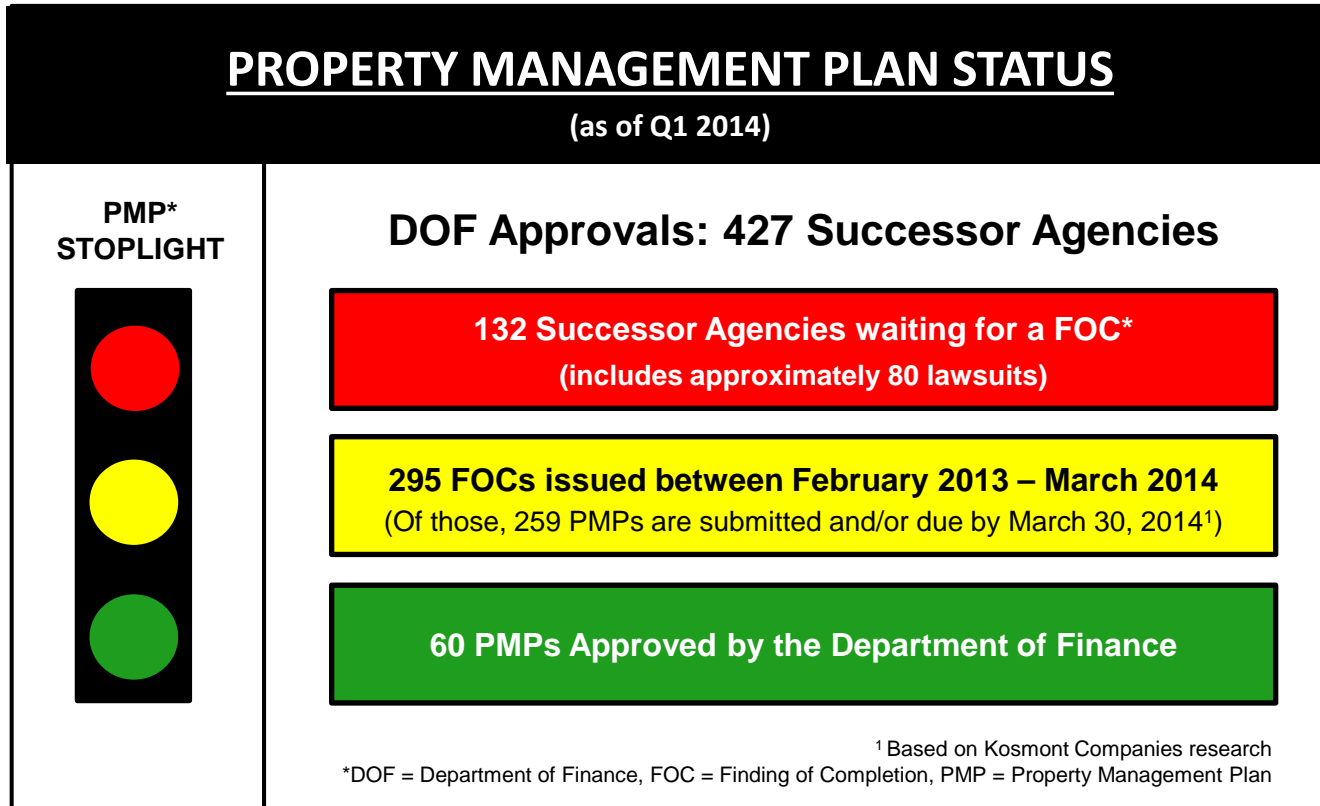
**To sell property SAs need OB and DOF approval** of a Purchase & Sale Agreement, **HOWEVER SAs can sell without OB/DOF Approval via AUCTION**

Some properties need remediation - achievable per SB 470 (Wright) which **extends “Polanco” to cities**

**Economic development can materialize by strategically managing PMP asset sales**

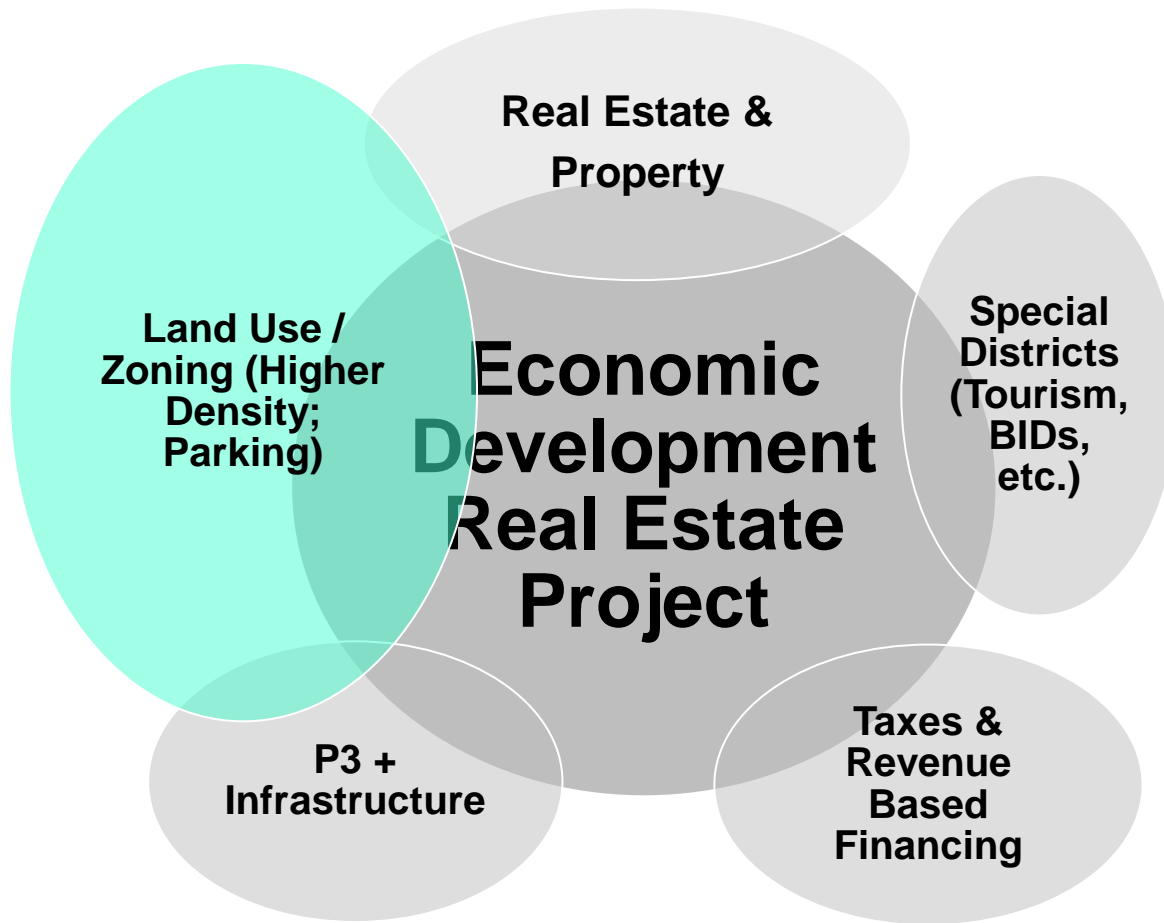


# Statewide Status of DOF PMP Approvals



DISCLAIMER: This information was compiled by Kosmont Companies based on best information available and is preliminary in nature. Kosmont Companies makes no representations regarding the accuracy or suitability for use of this information.

# Post-RDA Tools – Land Use / Zoning



# Land Use & Zoning Tools

## 1. Expedited Processing of Entitlements and Permits:

- For the private sector *time is money*. Reduced processing time is a win-win
- Shorter timeframes for CEQA and other local Permitting requirements

## 2. Development Agreement (DA):

- Think “prenuptial agreement”
- DAs lock in benefits for public & private sector: e.g. fee deferral vs infrastructure

## 3. Specific Plans:

- Incorporate “ED” priorities and convert them to zoning policy objectives

## 4. Development Opportunity Reserve (DOR):

- Assign density for preferred uses (mixed use, retail, tax and job generators);  
Reward the Buyer/investor not the owner

## 5. Transfer of Development Rights (TDR):

- Specific Plans with an Economic Development “kicker.”

## 6. Post Construction Operating Covenants:

- Valuable for financing improvements made by a developer and/or tenant

# Land Use/Zoning Options- Density as ED Tool

## Development Opportunity Reserve (“DOR”):

- **Problem: Upzoning used to stimulate economic development often results in a windfall to existing landowners, not targeted users**
- **Bright Idea: Combine Specific Plans (SP) with Econ. Development “Kicker”**
- Zoning/Density should protect/advance community desires as per the SP
- Place ‘Added’ density into a “Reserve Account” but do not distribute per parcel
- Higher density to new projects that comply with pre- set “community objectives”
- Economic value of “DOR” density goes to desired projects vs. existing owners

## Example: Burbank Media District Specific Plan

Burbank Media Overlay District Zone (1991- present) – allows more density through CUP process for projects that meet community goals (e.g. infrastructure)

# Case Study: Macerich – Mall of Victor Valley

## The Challenge

- Lost several major tenants from a significant regional shopping mall; decline in sales tax revenue

## The Post-RDA Tools Used

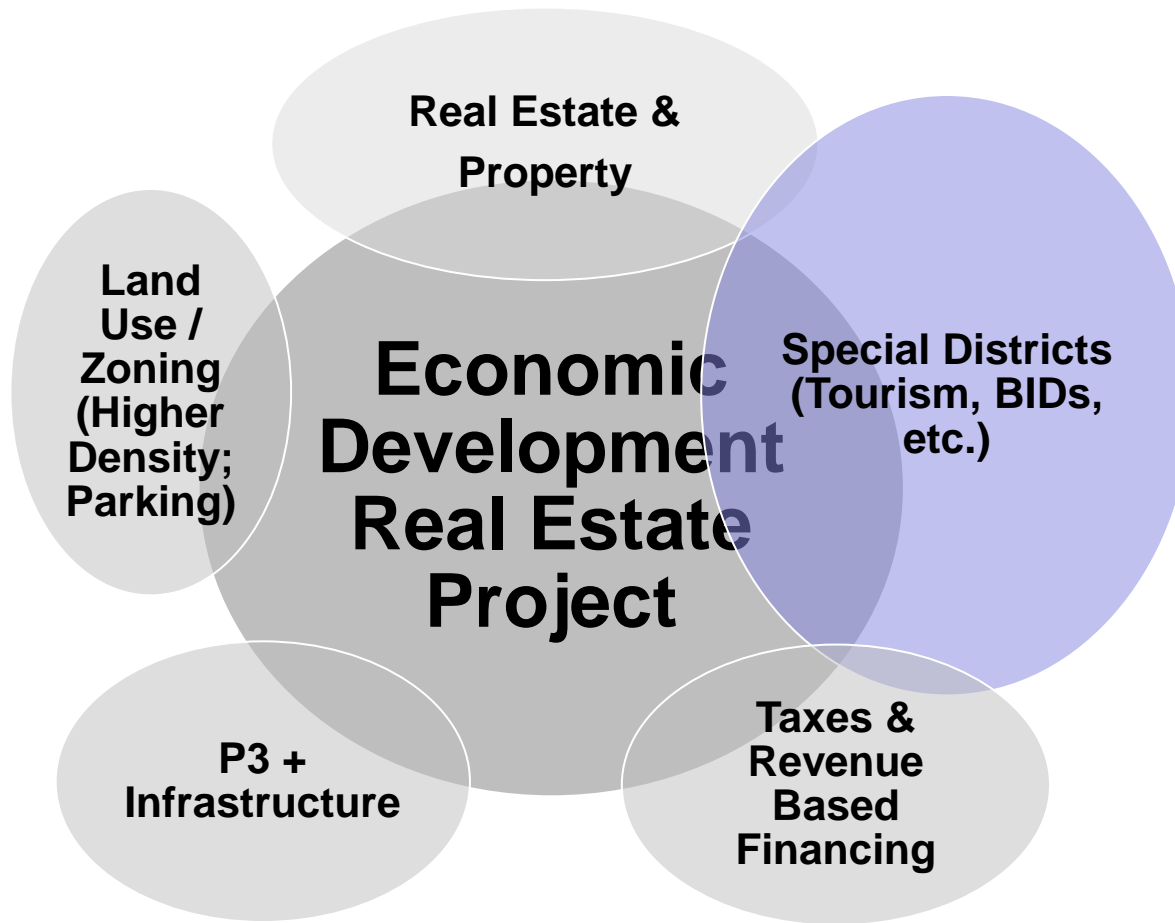
- Development Agreement
- Operating Covenant (Macy's)
- Site-Specific Tax Revenue (SSTR)

## The Outcome

- Extreme Mall Makeover: Net increase of 47,000 retail SF (531,000 total SF)
- New Macy's and JC Penney (replacing shuttered Gottschalks and Mervyns)
- JCP opened in OCT. 2012
- MACY's opened in Mar. 2013



# Post-RDA Tools – Special Districts





# Post RDA Tools - Districts Overview

- **California Law allows creation of various specialized districts**
  - Located within a city that apply economic development programs on an area-wide scale vs. site-specific level
  - Districts may use taxes, assessments, exactions, and other funding sources for projects in the district
- **Popular Types of Districts:**
  - Business Improvement District (BID)
  - Property Improvement Business District (PBID)
  - Tourism Improvement District (TID)
  - Community Facilities District (CFD)

# BID/PBID Characteristics

- **Business Improvement District (BID):**
  - Surcharge on business license taxes
  - Fund business marketing, promotions/events, parking improvements
  - Benefit assessment fee independent of business license taxes
- **Property Business Improvement District (PBID)**
  - Setup for 5 years at a time (renewable in 10 year increments)
  - Fund clean and safe programs, capital improvements, management
  - 100 plus PBIDs created around State
  - Requires 50.1% weighted owner ballot approval
  - Can assess vacant land, buildings, gov properties, public utility properties, churches, non-profits but not residentially zoned properties

# Types of Districts Expanding



Restaurants



Golf



Attractions



Wineries



Auto



# PBID: Gateway to L.A.

- **Established 15 years ago**
- **Serves as front door to LA for Airport patrons**
- **12.3 million square feet of hotel, office, retail, restaurants, car rental, parking facilities**
- **Gateway – working to identify opportunity sites in G2LA area for “Fashion Outlet Center”**
  - Attraction for 64 million travelers
  - Increased Sales Tax, Property Tax, TOT
  - Will create over 1,000 jobs
  - Increased METRO ridership
  - Regional attraction



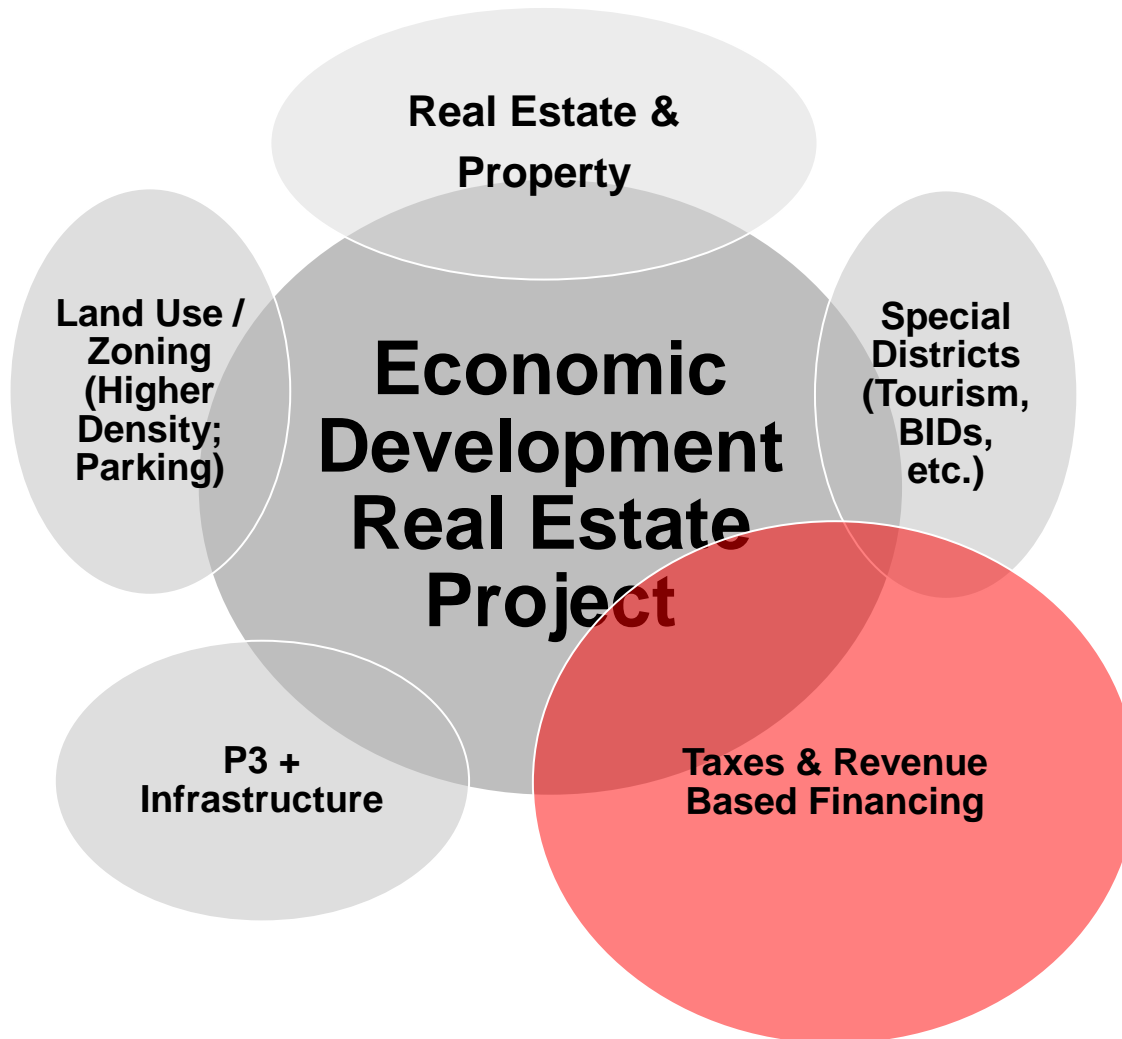
# TID Characteristics

- **Tourism Improvement Districts:**

- Funds raised through an assessment on lodging stays
- Provides services directly benefitting businesses within district
- As of 2013, there are over 50 local tourism improvement districts in CA
- Noticeable TID is San Diego; TID funds programs /events to attract overnight visitors to San Diego Convention Center (i.e. Comic Con)



# Post-RDA Tools – Taxes & Revenue Financing



# Post RDA: Basic Tax & Financing Tools

## FINANCING TOOL

## THE BASICS

### Lease Revenue Bonds

- Public agency income stream (utility, parking) set up in long-term lease obligation & borrowed against
- Example: leverage of utility lease revenues in South Gate for publicly owned infrastructure improvements to accommodate retail center

### Lease-Leaseback

- Lease/sublease of asset between two public agencies enables lease payments to be leveraged (borrowed)
- Example: Existing building facility, lease payments can start immediately without the need to fund capitalized interest

### Site Specific Tax Revenue Pledge (SSTR)

- Tax revenue (sales, hotel) generated by a specific project and applied to reduce gap by lowering project debt or equity
- Contributes amount calculated each year based on actual increment of public revenues produced that year by project

# Special Purpose Financing Authorities

- **Parking Authorities**
  - Commission-led local government entity (law enacted in 1949)
  - Manages parking operations and revenue citywide
  - May be used to acquire property and fund new parking facilities
  - Landlord for parking leases and concession agreements
- **Infrastructure Financing Districts – A “D.O.A.” District**
  - Established in 1990 to finance public works in suburban areas
  - Has been used 3 times (Lego-land, Rincon Hill in SF)
  - Uses Tax-Increment Financing
  - Requires 2/3<sup>rd</sup> public vote for district formation and bond issuance
  - Cannot be used in prior RDA areas
  - Governor proposed modification reduces vote to 55% - not enough for cities to use in most cases



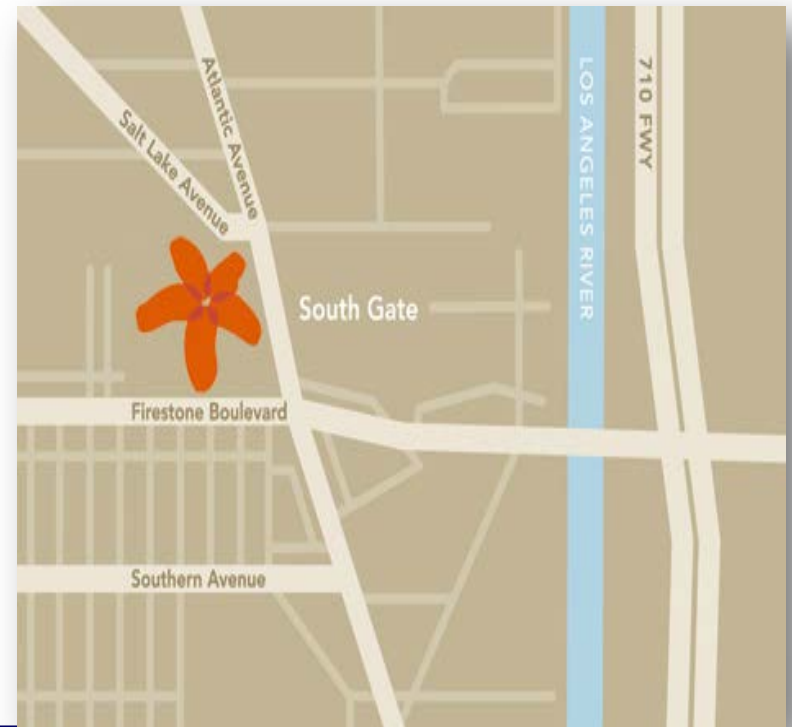
# Case Study: South Gate – “azalea” Retail Center

## The Challenge

- Formerly a pipe mfg plant, the 32-acre site lay fallow & blighted for years
- City purchased the land in 2006 to revitalize community with a quality regional retail & entertainment center
- South Gate has highest population density in LA County; residents must drive great distances for basic retail goods and quality restaurants

## The Post-RDA Tools Used

- Utility Bonds for off-sites
- Infrastructure & Fee Waiver Agreement
- New Market Tax Credits (NMTC)
- EDA Grant



# Case Study: South Gate – “azalea” Retail Center

## The Outcome

- **372K sf regional retail center (Walmart, Ross, Marshalls)**
- **Opens June 2014**
- **Public Plaza & Events Center, City Services Annex**
- **Project will generate \$2.6m per year in sales (2% sales tax rate)**
- **Enables City to recapture sales tax leakage & create ~600 jobs**



# Case Study: Redondo Beach Waterfront Revitalization

## The Challenge

- Redondo Beach's aging waterfront increasingly struggles to compete in SoCal, especially with neighboring South Bay cities
- City explored ways to revitalize pier, boardwalk & adjacent properties
- Cost of deferred maintenance best paid for by new private investment



# Case Study: Redondo Beach Waterfront Revitalization



## The Post-RDA Tools Used & The Outcome

- Kosmont structured Lease-leaseback financing for 15 acres of land acquisition to be paid back from tenant lease cash flow
- RFQ issued for 15+ Acres of Waterfront development
- CenterCal Development (w/ CalSTRS as JV) selected
- MOU executed & CEQA Process beginning

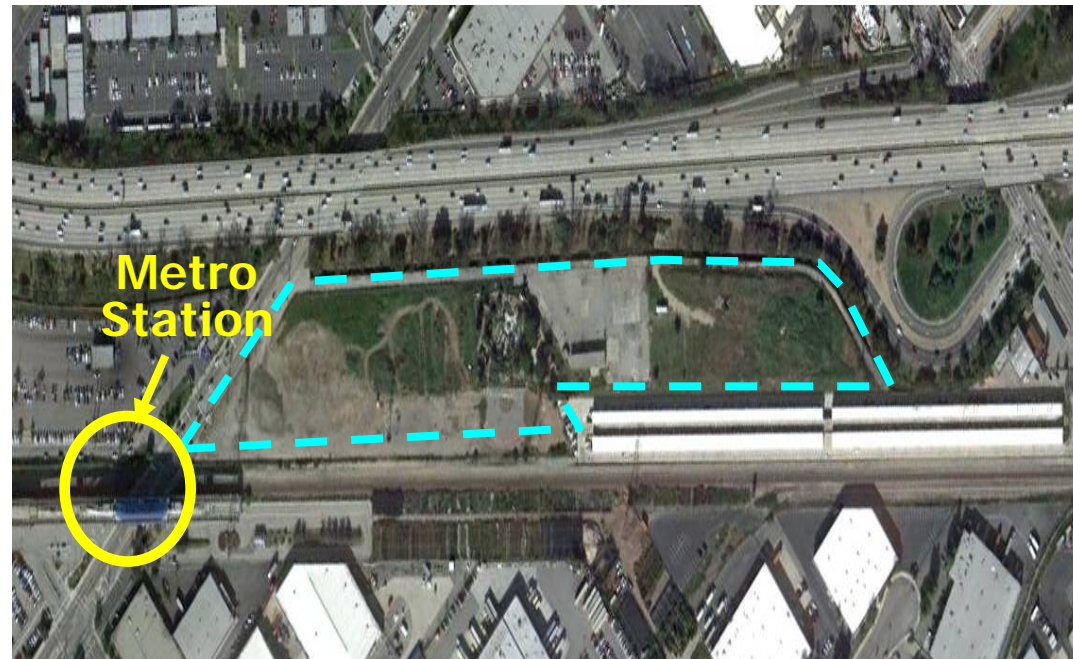
# Case Study: Redondo Beach Waterfront Revitalization



# Case Study: City of Redondo Beach – Marine Ave. Hotels

## The Challenge

- City desired to utilize area near Metro station
- Odd lot size & shape; multiple ownership; and vacant condition has deterred private development
- Developer proposes 147-room Hilton Garden Inn, 172-room Marriott Residence Inn and 180 Room Extended Stay Hotel located adjacent to the Metro station



## The Post-RDA Tools Used

- ✓ *Ground Lease / Lease-Leaseback*
- ✓ *Site-Specific Tax Revenue Pledge (Prop & TOT)*
- Mezzanine Reserve Fund

# Case Study City of Redondo Beach – Marine Ave. Hotels

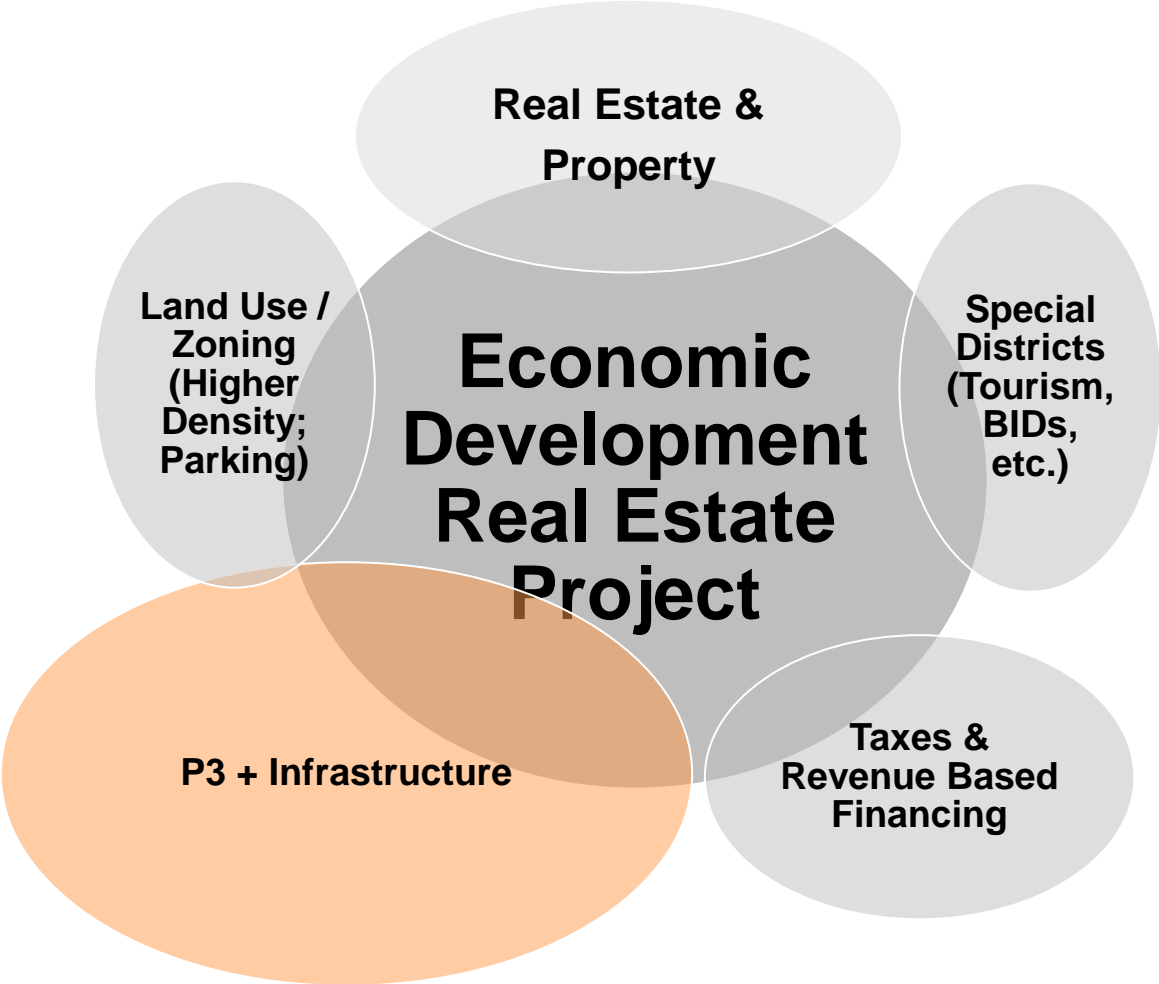


## The Outcome

- **Site Specific Tax Revenue is key; without project does get financed**
- **Will add over \$3.5 million/year in TOT & create ~150 jobs**
- **Brings three quality hotel operations to the City's "front door"**
- **TOD project across street from Metro Green Line station**



# Post-RDA Tools – P3 + Infrastructure





# P3 Infrastructure Overview

- **What is Infrastructure P3?**
  - **Contractual Agreement between a public agency and a private sector entity to deliver facility for the use of the general public**
  - **P3s offer government agencies in CA an alternative mechanism for financing vital infrastructure projects**
  - **AB 164 - Authorizes local government agencies to use P3s to design, finance, and maintain fee-producing infrastructure facilities**
- **Types of Infrastructure P3**
  - **Transportation: roads, bridges, tunnels, rail**
  - **Defense: Military housing, Utilities, Reuse of Military Base**
  - **Health: Hospitals, Schools, Prisons**
  - **Water: Collection, Desalinization and Distribution**
  - **Social: Civic Houses, Court Houses**

# Summary of Local P3 Opportunities

- **Local P3 Projects to assist in the following:**
  - **Local-Serving Infrastructure**
    - **Water/Wastewater Projects, Parks, Municipal Buildings**
      - (i.e. Long Beach Courthouse, Oxnard Fire Station)
  - **Economic Development Programs**
    - **City's owned Real Property Assets/LRPMP can lead to ED opportunity**
- **Why Public Private Partnerships?**
  - **Shortened Procurement Cycle**
  - **“Free up” public funds for other purposes**
  - **Transfer project risks to private partner**
  - **Quicker access to financing for projects**
  - **Minimize general fund debt and keep off city financial statements**

# City of Oxnard – P3 Infrastructure Delivery

## The Challenge

- City struggled to find a financing source and a project delivery method to build a much needed fire station on vacant 2.49 acre parcel

## The Post-RDA Tools Employed

- P3 Infrastructure Delivery
- Revenue Bonds

## The Outcome

- Established a California Municipal Finance Authority to issue two bonds to fund project
- Bonds financed design, acquisition, construction and equipping of a “turn-key” fire station to be transferred to the City of Oxnard after 24 months
- Revenue bonds earned an “A+” rating from S&P despite the bonds assuming construction risk



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# In 2014, ED is possible...just not easy

- **No support from Governor on Tax Increment Financing for Econ Development (jobs & tax revenue) or Infrastructure Financing (IFDs) if**
  - Uses any school increment
  - Opt-in provisions for other tax agencies eliminated
- **Econ Dev incentives needed to lure private sector investment**
  - Unemployment is California's blight; among highest in nation
  - Cities do have "hand tools" left to use after loss of RDA "power tool"
- **For now, State & Cities in CA are expensive and on a "new tax" binge**
  - CEOs already view California as costly and cumbersome
  - State Budget in better shape but largely due to expiring tax increases
- **Jobs & Education District Initiative (JEDI) would bring back TIF back**
  - Filed with State Controller, but needs \$\$ and signatures
- **If JEDI Initiative fails then ultimately new State Legislation may help**
  - Slow boat with short life line

# Implementing an Econ Dev Strategy is Key

- **Economic Development Projects w/o RDAs are more challenging but achievable, cities need well conceived strategy**
- **Steps for Economic Development Strategy Implementation:**
  - **Review Basic Tool Kit: Real Estate, Zoning, Districts, Revenue/Tax, and P3**
  - **Determine which tools City is willing to use**
  - **Create Economic Development Inventory of potential projects**
    - **Pick potential projects from ED Inventory – determine feasibility**
  - **Review initial opportunities**
    - **Post RDA Properties**
    - **Potential to create districts and/or use zoning & DORs**
    - **P3 Project**
  - **ED & Public Finance complexities demand a highly skilled team – review steps above and work with recognized professionals**

By Larry Kosmont, CRE® , President & CEO, Kosmont Companies

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