



Presentation to the National Association of Latino Elected & Appointed Officials (NALEO)

Economic Development in a Post Redevelopment Era: Old Tools, New Rules

June 27, 2014

by:

Kosmont Companies

865 S. Figueroa Street, Suite 3500, Los Angeles, CA 90017

213-417-3300

www.kosmont.com

Today's Agenda

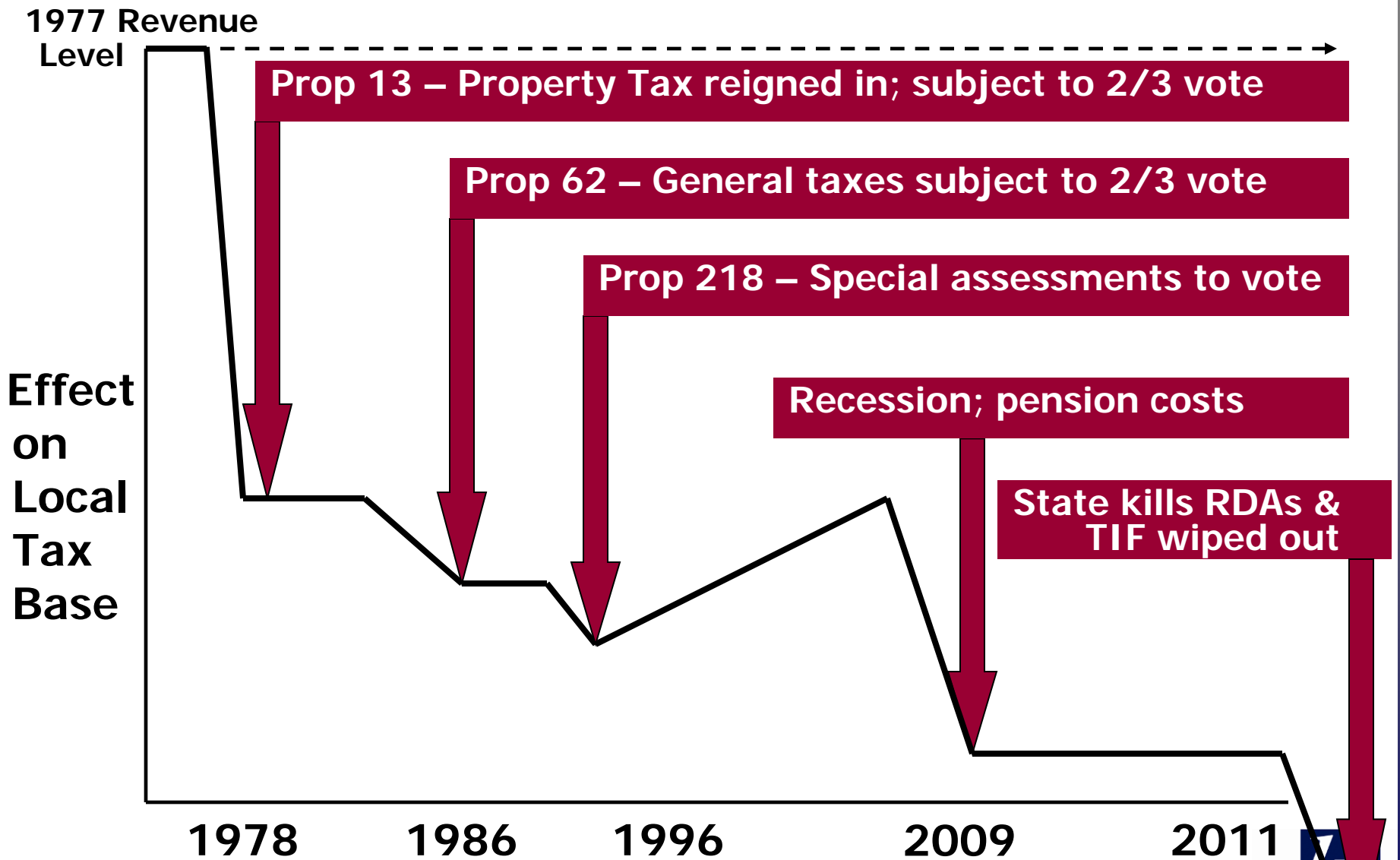
- **State of the State & Local Economic Development**
- **2014 Economic Development Basic Toolkit**
 - Real Estate & Property
 - Zoning/Land Use
 - Special Districts & Retail
 - Taxes & Revenues
 - P3 + Infrastructure
- **Steps to Implementing YOUR Economic Development Strategy**



Review of California in 2014 Q2

- Unemployment now 4th highest in U.S. with 1.5 mil out of work
- CA unemployment very uneven: 3.9% in Marin Co; 21.6% 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 underfunded but addressed in Governor's reform plan
- **Balanced Budget adopted based primarily on increases in revenues... *but State "not focused" on helping Local Government***
 - new economic development legislation expected to be passed by Legislature; but veto by the Governor likely
 - IFDs being considered for upgrade

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



Note: Not to Scale



TIF is Primary E.D. Tool - **Dead** in CA

- **Tax Increment Financing is “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
 - TIF is property tax increment; stable, grows & can be leveraged using TIF bonds
 - When State tossed Redevelopment it also discarded TIF
 - Without TIF, California **cannot** compete effectively for business and jobs
- **Infrastructure Financing Districts... not ready for primetime**
 - Gov’s ’14/15 Budget proposes limited TIF reform by lessening restrictions on IFDs
 - Reducing voting requirement to 55%
 - However, public agency “opt out” provision would remain
 - DOF and local impact fees may be included
- **Pending IFD changes are a start... but Economic Development in 2014 is mostly about using basic tools (“old tools with new rules”)**

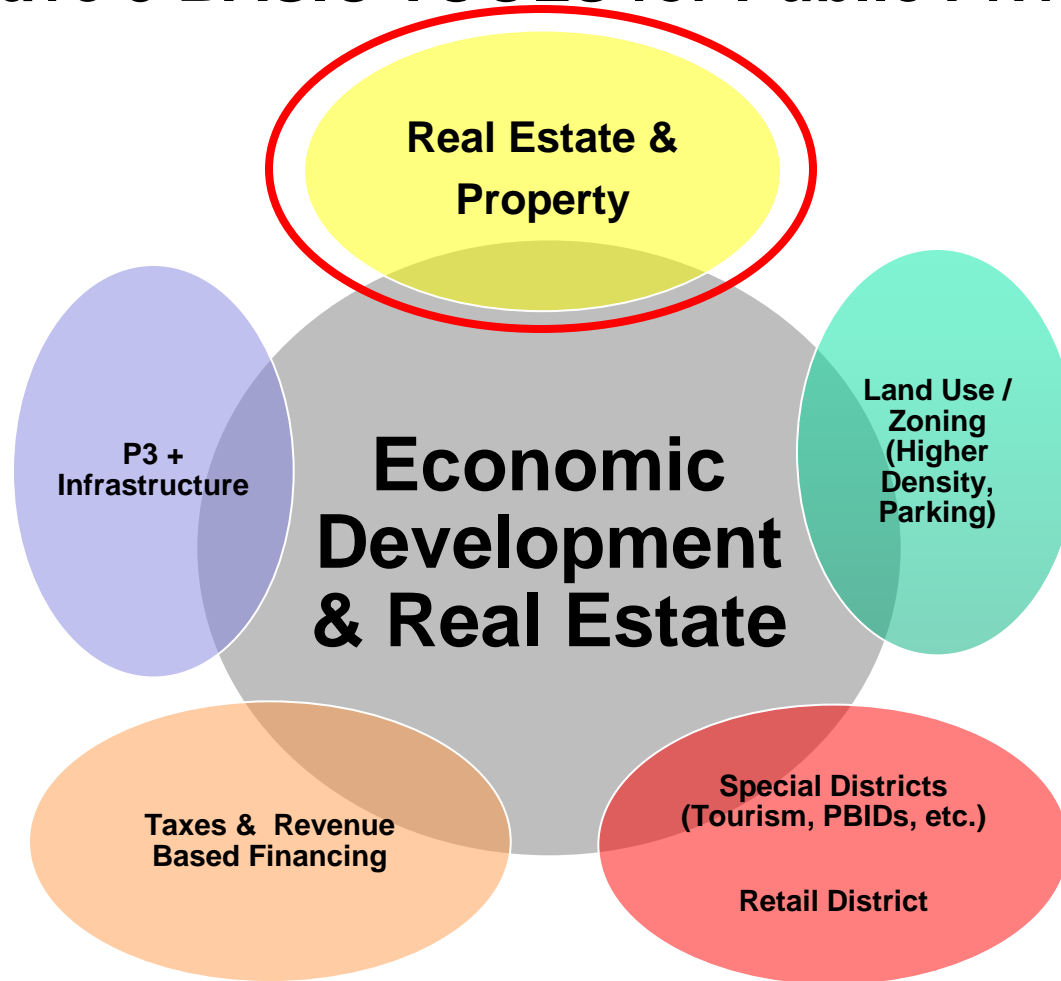
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Post-RDA Economic Development: “Old Tools”

Cities have 5 BASIC TOOLS for Public Private Projects



Theses tools often work best when used together

Real Estate as an E.D. Resource

Government-owned Real Estate can be turned into an Economic Development opportunity:

- **Redeploy former RDA real estate through Property Management Plan**
- **Surplus Property (City, School District, Utility, other)**
- **Property that is a public use (civic centers, fire stations, recreation)**
- **Conveyance of Rights of Way / Streets / Alleys**
- **Public Agency Parking Lots/Structures can induce private investment**

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
- Existing zoning may not support highest & best use; Often needs work (entitlements, assemblage, env. remediation)
- High commuting costs and transit lines have increased the “location value” of in-fill sites (e.g. parking lots, town centers, transit adjacent)

Public Agency land under-utilized;

- 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 Property: “New Rules” & Unique Opportunity

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

Economic development can materialize by strategically managing PMP tasks & disposition of former RDA properties

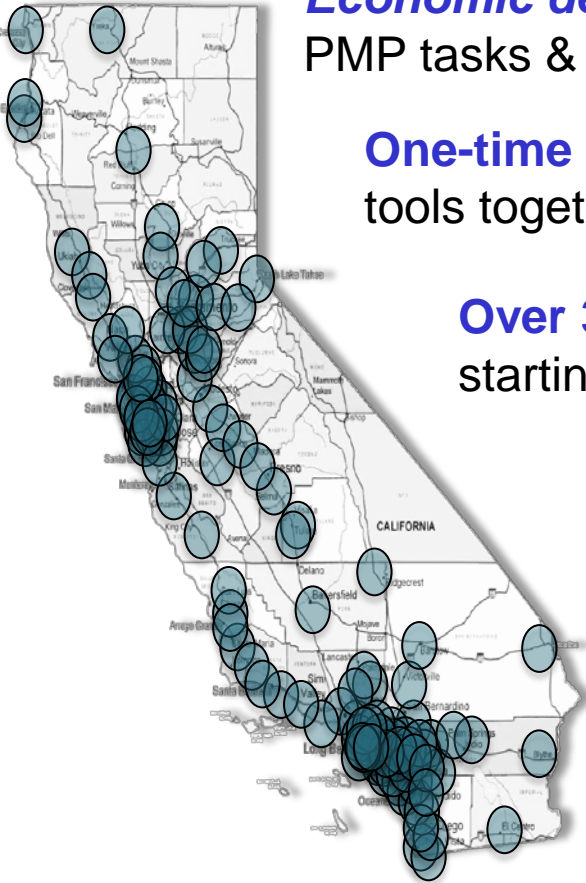
One-time opportunity to use PUBLIC PROPERTY and ZONING tools together: “PMP” can produce private investment for a City

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

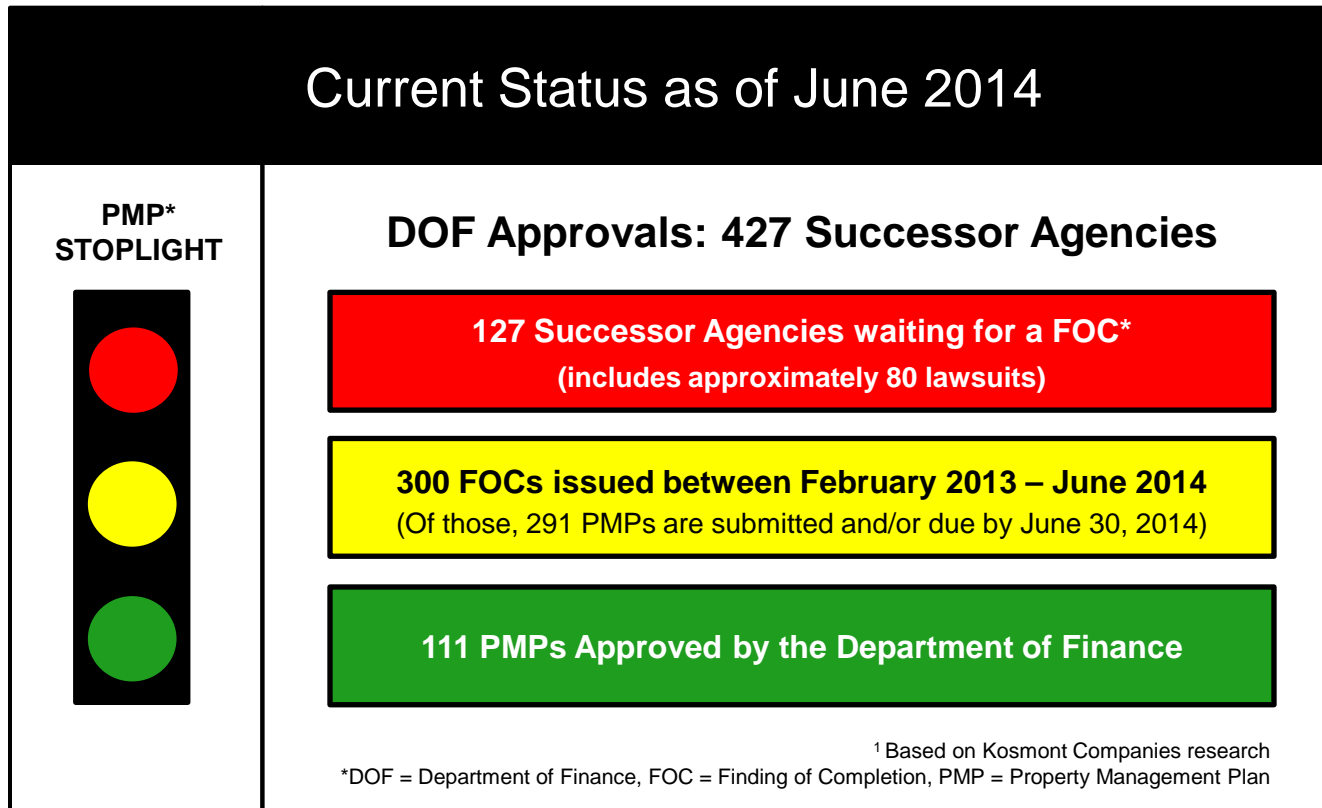
To sell property SAs need OB and DOF approval of a Purchase & Sale Agreement. **HOWEVER SAs can sell without OB/DOF Approval via AUCTION**

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

Economic Development can materialize by strategically managing PMP asset sales

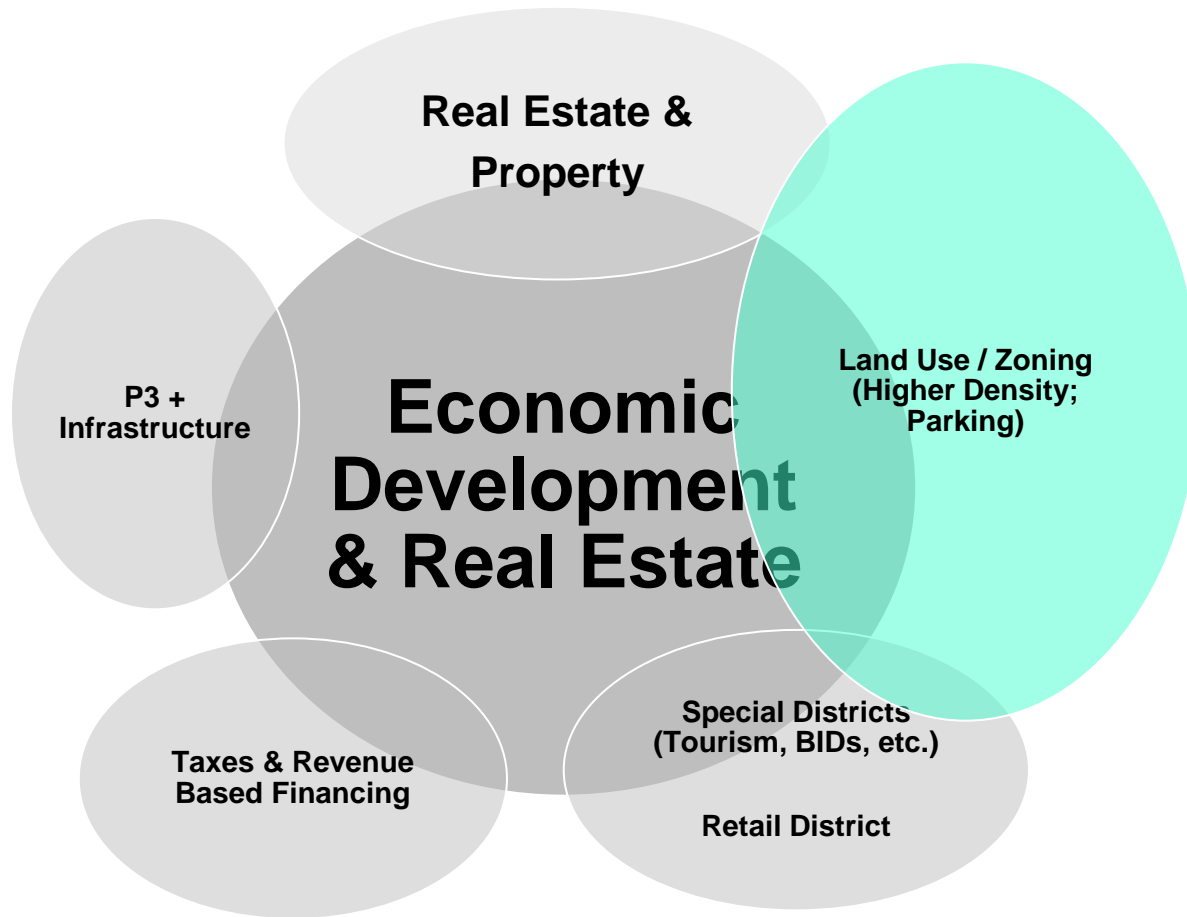


Property Management Plans (PMPs) Update



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 can be E.D. 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. infrastructure/public amenities

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 E.D. Tool

Development Opportunity Reserve (“DOR”):

- **Problem: Upzoning used to stimulate economic development often results in a windfall to existing landowners, not targeted end users or uses**
- **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

Successful Example of DOR: 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)

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:**
 - Parking Authority / Parking District
 - Business Improvement District (BID)
 - Property Improvement Business District (PBID)
 - Tourism Improvement District (TID)
- **Retail and Restaurant are typically a key component of “Districts”**

New Rules: Types of Districts Expanding



Restaurants



Golf



Attractions
&
Downtown
Districts



Wineries



Auto



RETAIL - THE MENU

- **Retail**
 - **The Changing Consumer**
 - **Technology & Social Media**
 - **Brick & Mortar Strikes Back**



Retail isn't just retail...anymore

Objective of a retail strategy has changed for new projects

- **Big Box is wrong as only primary target ... experience and entertainment component are primary today**
- **Back to the Village square – retail no longer isolated use ... “place” and “food” are today’s anchor**
- **“Winning” Tenant mix is elusive (who to invest in is a key decision)**
- **Cities should be engaged in retail leasing strategy & program**
- **Market metrics must include internet demographics & physical data**
- **Move from Products to Experience means consumption will be more a function of the number of “trips” to a center**

Retail isn't just retail ...anymore

Strategy for existing centers has also changed

- **Objective – “fill dark spaces and attract trips”**
 - **Creative adaptive re-use**
 - **Upgrade aesthetics – add public spaces and events**
 - **Parking and pedestrian upgrades**
 - **Expand transit features**
- **Think “out of the big box” ... Alternate uses such as education, medical, housing are all possibilities**
- **City zoning and approval processes should be in synch with tenants that attract trips**

Consumers – Changing Tastes

Ethnic Markets Continue to Expand

- National retailers beginning to respond to local ethnic demand
- Specialty grocers cater to ethnic purchasing by neighborhood
- Ground up & Value-Add Centers growing in Latino-majority areas

Millennials have different behaviors and value than predecessors

- Living in more compact, urban and shared spaces
- Socially connected online – Yelp, Facebook, Twitter
- “Sharing economy” growing – Airbnb, Lyft, Zipcar

Aging Population

- Seniors on fixed incomes tend to spend less
- Aging baby boomers demand medical uses - potential candidates for retail centers (helps occupancy but less direct sales tax)

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Internet Sales – Digesting the Data

Internet sales account for 6% of all retail sales, but...

- **Increasing 10-15% per year**
- **70% of all consumers make internet purchases**
- **Fastest Growing sectors:**
 - **Undifferentiated “commodity” products**
 - **Electronics**
 - **Media of all kinds**
 - **Items with high costs per unit weight (making shipping affordable vs. in-person pickup)**

The Future of Internet Dining



but...you can't eat over the Internet.

The Future of Internet Gyms

Introducing – “The iGym”



and... the Internet is not strong enough to lift your weights

RETAIL - THE MENU

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The Itches the Internet Doesn't Scratch

It's where people have to be and where they want to be:

1. Restaurants and Bars – you can't eat or drink on the web
2. Grocery Stores
3. "Place" is a new Anchor Tenant
4. Cars – sitting in and test driving the new vehicle ... *have you considered a TESLA! ...while shopping for a suit?*
5. Some apparel still needs a "try-on". Survivors sync their in-store "fitting room" with their online "fitting room"

The Itches the Internet Doesn't Scratch

It's where people have to be and where they want to be:

7. Retailers that incorporate services with products (e.g. Pet Stores, Auto Parts)
8. Goods with High Shipping Costs (e.g. dog food)
9. Customer service intensive (e.g. Home Improvement)
10. Strong Brands & Luxury retail
 - can control supply chain as imitators are not a threat
 - less vulnerable to lower-price competitors
11. Brick & Mortar locations with products incidental to the key attractors (e.g. complimentary & impulse buys; theater concessions, music at Target, special carts)

Retail: TOP 5 Take-Aways

1. **Placemaking, entertainment and consumption is the key**
2. **Keep track of where people NEED to and WANT to show up in person (grocery stores, restaurants and bars, outlet, learning centers, events) – these are source of your customer and sales tax**
3. **Cities need a retail strategy not a retail study, focus on longevity**
4. **Retail Projects get going with the four tools: Property, Taxes & Financing, Land Use Regulations, & Special Districts ... *this is not your father's toolbox ...***
5. **Bricks, Clicks, Discounts & Trips– the key to retail is in the balance**

And... FOOD is The Newest Anchor

Today's Specials

DONUTS & COFFEE

Krispy Kreme

Dunkin Donuts

Starbucks (+Tea @ Teavana)

BURGERS

In N Out, Sonic

The Habit, Five Guys

MADE-ON-DEMAND

Chipotle, Shop House

MOD Pizza, Pizza Rev

800 Degrees

HEALTH ORIENTED

Lyfe Kitchen, Nekter Juice Bar

GROCERY & SPECIALTY MARKETS

Northgate Gonzales Markets

Smart & Final

Sprouts

Trader Joes

BURGEONING CONCEPTS

Food Trucks! or "Meals on Wheels"

Microbreweries, "gastropubs"

Wine Bars

OTHER QUICK SERVICE

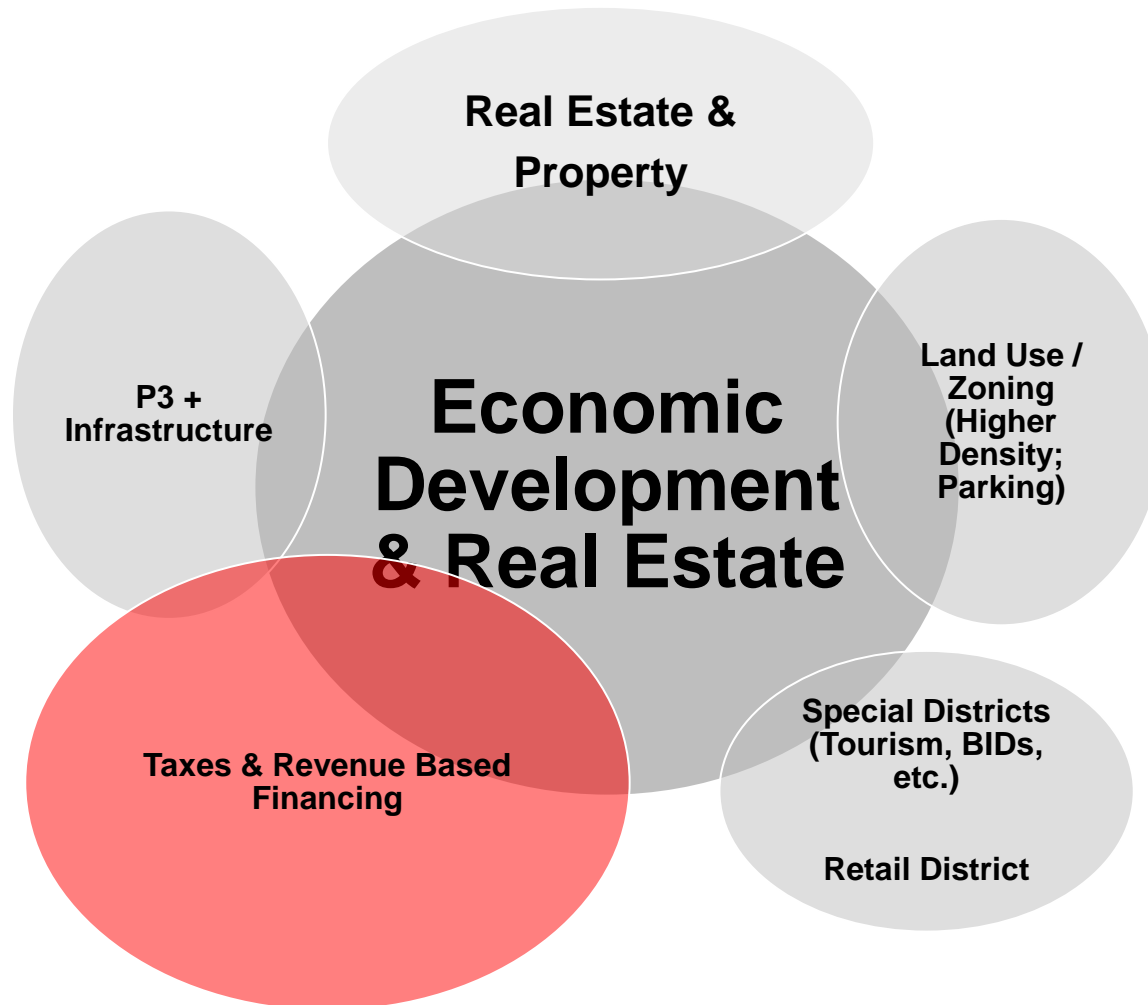
Fresh Brothers, Panera Bread

Panda Express

UPSCALE CASUAL

Tajoe Joe's Steakhouse & Wood Ranch

Post-RDA Tools – Taxes & Revenue Financing



Post RDA: Basic Tax & Financing Tools

FINANCING TOOL

THE BASICS

Site Specific Tax Revenue Pledge (SSTR)

- New Tax revenues (sales, property, TOT) generated by a specific project and applied to reduce gap. Contributes amount calculated each year based on actual increment of public revenues produced that year by project.
- Example: TOT Pledge for Hotel in Redondo Beach; Sales Tax Pledge for Retail Mall in Victorville

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

Lease Revenue Bonds

- Public agency income stream (utility, parking) set up in long-term lease obligation & leveraged
- Example: Lease of City Utility to Utility Authority; lease payments fund bond payments for public infrastructure improvements for major retail center in South Gate

Special Purpose Financing Authorities: Old Rules

- **Parking Authorities / Utility Authorities / JPAs**
 - Commission-led local government entity
 - Manages specific operations and revenue citywide (parking, utilities, other)
 - May be used to acquire property and fund new parking facilities
 - Used in JPA with the City to form a lease structure as an alternative to traditional general fund municipal financing
 - E.g., City may lease utility to JPA; lease payments are made to the City's General Fund; proceeds used for any public purpose
 - Landlord for parking leases and concession agreements
- **IFDs (new rules)...Still a long way to go to be a useful tool**

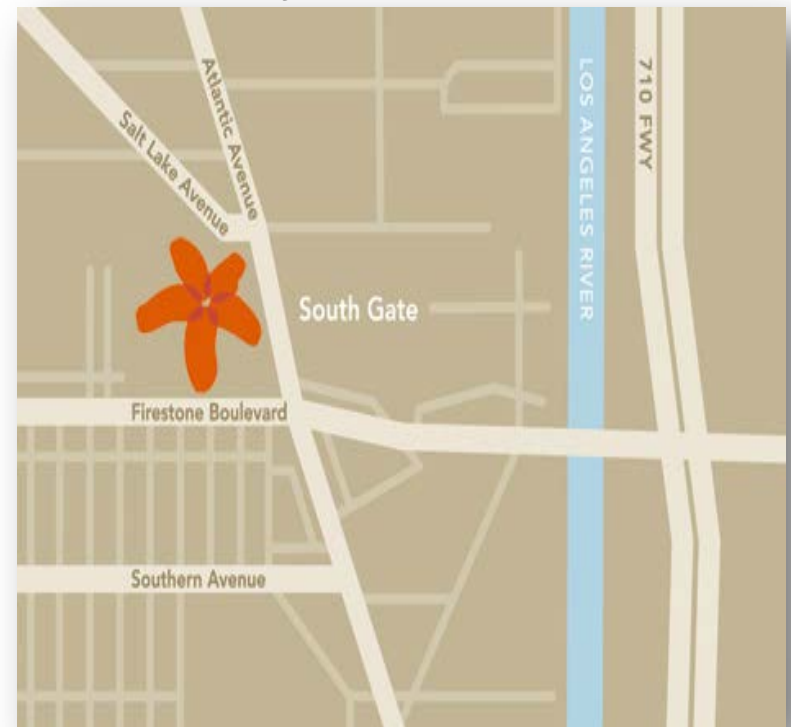
Case Study: South Gate – “azalea” Retail Center

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



Case Study: South Gate – “azalea” Retail Center

The Outcome

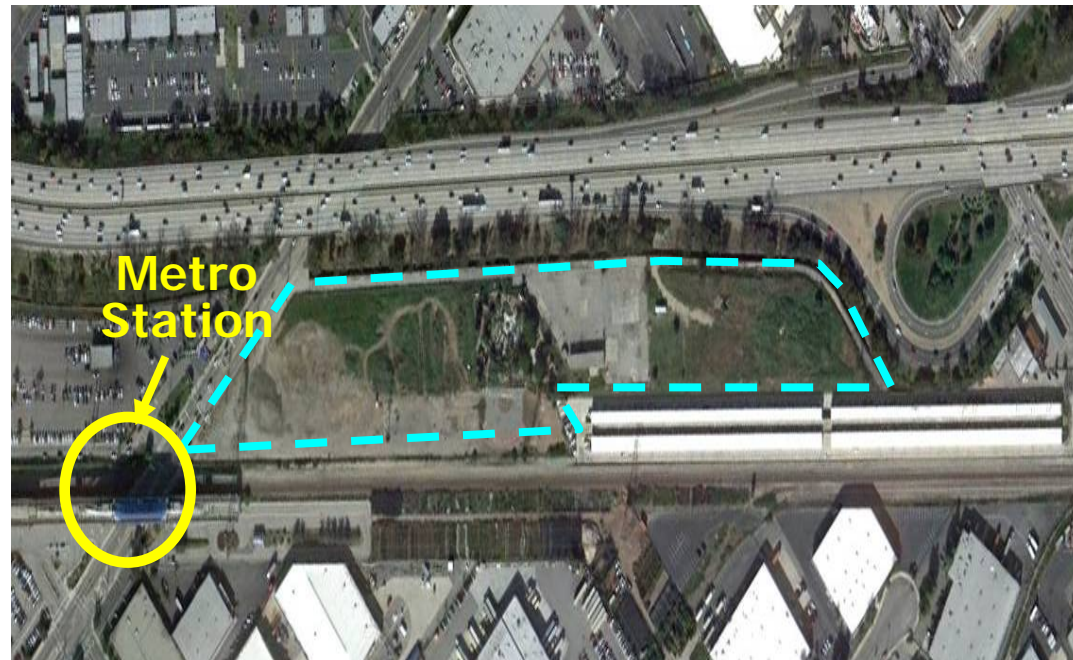
- **372K sf regional retail center (Walmart, Ross, Marshalls)**
- **Opens June 2014**
- **Public Plaza & Events Center, City Services Annex**
- **Project will generate \$2.6m per year in sales (2% sales tax rate)**
- **Enables City to recapture sales tax leakage & create ~600 jobs**
- **Opened: Walmart, CVS, In & Out, Ross, Michaels, Petco, Marshalls**
- **Coming Soon: Forever 21, Habit, Ulta Beauty, Skechers, G-Stage, Anna’s Linens, TGIF Fridays, Wing Stop, Blaze Pizza, Vitamin Shoppe**



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**



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

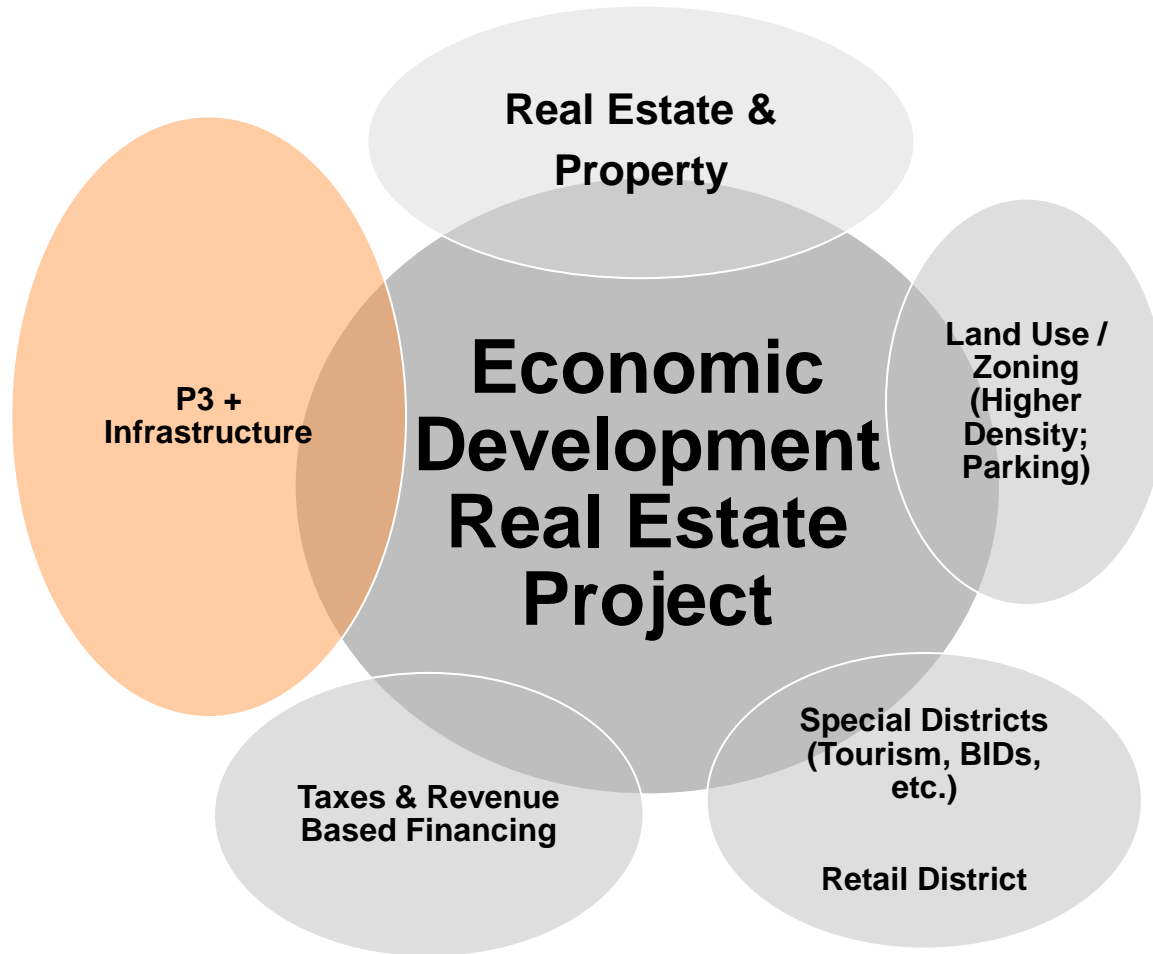
- *Development Agreement*
- *Operating Covenant (Macy's)*
- *Site-Specific Tax Revenue (SSTR)*

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 – 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**
- **Most Infrastructure P3 are State / Fed / Regional Projects**
 - **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 are possible and can assist the following:**
 - **Local-Serving Infrastructure**
 - **Water/Wastewater Projects, Parks, Municipal Buildings**
 - (i.e. Long Beach Courthouse, Oxnard Fire Station)
 - **City's owned Real Property Assets/LRPMP can lead to P3 opportunity**
- **Why Public Private Partnerships (P3's)?**
 - **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 impact on city financial statements**

City of Oxnard – P3 Infrastructure Delivery

The Challenge

- City looked 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*
- *Lease 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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Implementing YOUR Economic Development Strategy

- **Steps for E.D. Strategy & Implementation:**
 - **Review Basic Tool Kit: Real Estate, Zoning, Districts, Revenue/Tax, and P3**
 - **Determine which tools City is willing to use**
 - **Create “E.D. Inventory” of potential projects / review initial opportunities**
 - **Post RDA Properties**
 - **Potential to create districts and/or use zoning & DORs**
 - **P3 Projects**

Cities need well conceived strategy prior to implementation

- **Pick “priority” projects from E.D. Inventory, confirm feasibility, and implement**
- **E.D. Projects w/o RDAs are more challenging but achievable**
 - **Econ Dev & public finance complexities demand a highly skilled team; work with recognized professionals**
 - **Cities need well conceived strategy prior to implementation**

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