Economic Development and Public Finance:
New Best Friends Forever (BFFs)?

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Ronda Perez, City of Palmdale
Jackie Melendez, City of Chino
Mrunal Shah, Best Best & Krieger

Moderator	Panelists		
			
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Chairman and CEO, Kosmont Companies	City Manager, City of Palmdale	Assistant City Manager, City of Chino	Partner, Best Best & Krieger

Economic Development in a Transitioning Real Estate Marketplace

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The World Changes...*Always*

The economic and political environment is constantly shifting; creating challenges and opportunities for economic development

Interest Rate Changes

Housing, Housing, Housing

The New Retail is Service and Food

Surplus Land Act Enforcement

CEQA Streamlining

Office Market on the Brink

The Real Estate & Land Use Revolution

An opportunity for new approaches to economic development

Residential	Industrial	Hotel	Retail	Office
Renaissance	Redistribution	Resetting	Reimagining	Reconfiguring

Investment Priorities and State Policy Shifting…

Consumers driven by quality of life, cost of living and housing, amenities, essentials, and experiences

The old world of retail not coming back

Want it all in a 15-Minute Community

Investors driven by new technology, shifting consumer demand, supply chain anomalies, and new live / work patterns

Office/commuter patterns forever changed

Seeking value from new demand drivers

City Hall impacted by state policies focus on housing, climate, energy, and sustainability

Objective: Induce private investment, comply with state priorities, and maximize Federal & State funding

Federal windfall- IIJA $1.2T & IRA$ 400B

The State's New Policy Prescription

California stands at a crossroads of a dynamic, innovation-driven economy hampered by affordability and red tape. Three themes driving policy change in the CA: **housing, sustainability, and regulatory environment,** which reflect our pioneering spirit to confront our problems and create a better tomorrow.

Housing	Sustainability/Climate Action	Regulatory
• More density in high-demand areas • Reducing parking requirements • Shifting control from local governments to property owners • State pushing for AFFORDABLE units	• Encouraging electric vehicles and charging infrastructure • Supporting renewable energy generation and cutting emissions • Improving climate resiliency	• Solving for high tax environment: challenging for businesses/residents • Fixing regulatory hurdles to be business- and consumer-friendly • Expanded Surplus Land Act compliance requirements for public agency properties

California's Challenge: Balance must be struck – between **<u>costs and benefits</u>**, between **<u>requirements and flexibility</u>**, between **<u>carrots and sticks</u>** – to build a Golden State that remains a beacon of opportunity for everyone.

…Private sector investment has shifted along with public policy

Housing is Not a Loss Leader, it's a <u>Growth Driver</u>	Retail is Not *<u>Just</u>* Retail Anymore	Telework is Reconfiguring Office	Industrial / Distribution is Critical for the Economy
Housing Creation as Economic Development	Retail Reimagination as Economic Development	Office Conversions as Economic Development	Industrial & Fulfillment as Economic Development
New housing can generate significant new tax revenues & support local jobs Housing is not necessarily a net negative fiscal impact, especially at current property values Housing is a driver of project value (high residual land value); residential zoning is valuable The State is a driver of density	U.S. retail over-built, needs "right sizing;" Covid accelerated trends; today its about essentials, experience & e-commerce Blended/mixed use projects integrate uses onto one site: *housing, retail, open space, creative office, hotel*	Telework and work from home options are reshaping the needs for office space and business districts Job redistribution tied to housing Vacancies and foreclosures expanding can lead to fiscal impact pressure	Modern industrial is not "your father's industrial" – not smokestacks Retail won't thrive without distribution Booming demand for distribution, e-commerce, and data centers, fulfillment/delivery, job creators

Another Challenge: Private Sector Project Financing Isn't as Bright as It Was

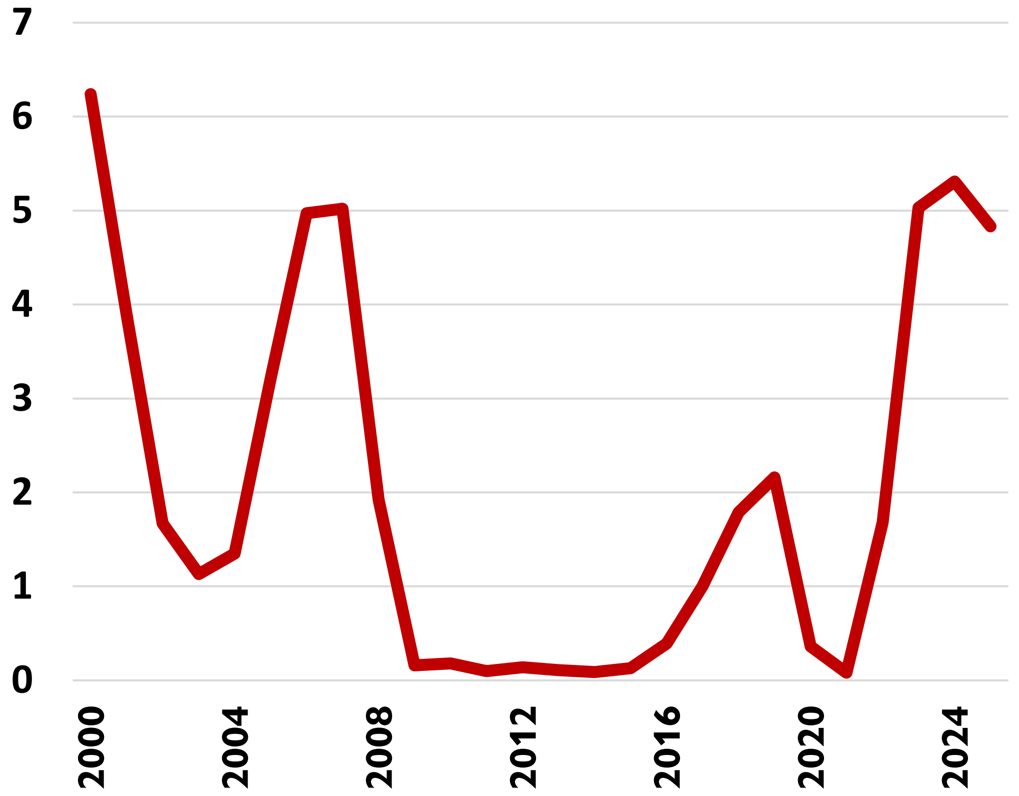
Shifts Occurring in the Private Capital Stack – recent federal interest rate cuts is slowly coming off high interest rates, rent growth "stuck", conservative underwriting (*less debt coverage, more equity required*)

Office and Retail Market Overhang – Expectation that properties will encounter problems extending loans based on higher interest rates; $1.2 Trillion in Commercial Loans coming due in next 18 months.

Three Kinds of Investors

- **Dry Powder**: Sitting on sidelines, waiting to buy at a discount
- **Stuck in the Middle of It**: Middle of deal / project, struggling to find acceptable financing to keep moving
- **Oh Sh%$!:** Shopping centers with lost anchors, empty office buildings – in workout mode

Federal Funds Rate, 2000 - Present



Source: Real Capital Analytics

PROPRIETARY
DO NOT DUPLICATE

Post-COVID Private Investment Fuels Economic Development Strategies

BEFORE

- Sales tax revenue from large box retail centers
- Zoning for large office parks catered to regional commuters
- Avoid industrial
- Residential development not prioritized

NOW

- "Right sizing, right zoning, and right next to residential"
- Increased industrial infill
- Prioritize local jobs and appeal to stay at home workers
- Focus on **value capture** of housing projects, taxes, & local spend

What Needs to Get Done in Your Community?

How do I add housing & address density?

How do I revitalize my downtown?

How do I fix my regional shopping centers and retail corridors ?

How do I meet these escalating state requirements?

How do I replace sales tax?

How do I meet the needs of today and prepare for the future?

What Econ Dev Tools do we have?…
and which Projects should we invest in ?

Today's Economic Development Playbook

1

Value Capture using Zoning/Specific Plan: Capture value by, when possible, charging for higher density zoning to pay for infrastructure and community amenities

2

Tax Increment Districts: Create Value Capture Districts (EIFDs, CRDs, CRIAs) to capture investment value (tax increment) of new private projects; use funds for infrastructure and community amenities

3

Grant Funding (federal and state sources): $1.6T+ in overall funding made available for infrastructure, energy, and climate focused investment and projects

1 Value Capture Zoning™ Using Zoning as a New Currency

Specific Plans Aren't as Valuable *Unless They Create Value*

With all these pressures and a changing toolkit, how can cities make land use lemonade out of lemons?

Cities were used to using Specific Plans to generate new growth, but cities no longer have redevelopment agencies to underwrite the values from zoning rights given in Specific Plans.

Many cities have a unique opportunity: trade additional density in exchange for community amenities and benefits.

Use zoning as currency – create it, capture it, and charge for it.

Value capture tools can be programs for local control and compliance with RHNA that:

- Utilize zoning density and Development Agreements (D.A.) to enable private funding and create taxable value
- Improve likelihood of projects coming to fruition
- Enables investment for community quality of life
- Pursue economic development strategies while achieving compliance with housing policy

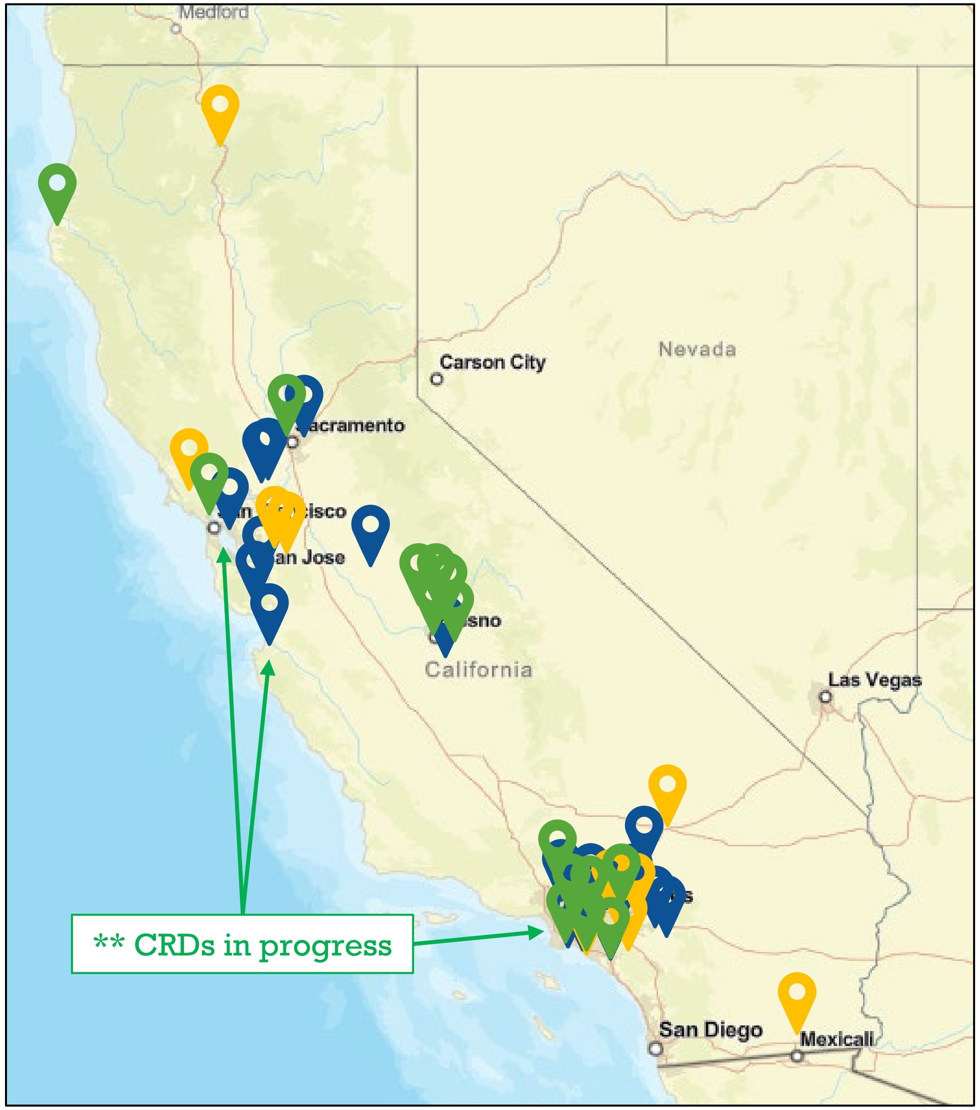
2 The New Tax Increment Financing Toolkit

TIF District formation creates opportunity to attract investment and pursue grant funding

Enhanced Infrastructure Financing District (EIFD)	Climate Resilience District (CRD)	Community Revitalization & Inv. Authority (CRIA)
Most flexible, most widely used	*NEW - focus on climate related mitigations & infrastructure*	*More emphasis on affordable housing (25% set-aside)*

TIF Districts can elevate eligibility for State funding, plus REAP funding can cover initial feasibility studies

2 TIF Progress Statewide
Partial List



Jurisdiction	Purpose
Apple Valley	Industrial and housing supportive infrastructure
Banning (CRIA)	Downtown revitalization, industrial infrastructure
Barstow	Industrial and housing supportive infrastructure
Brentwood	Housing, employment, and transit-supportive infrastructure
Buena Park	Mall reimagination, housing-supportive infrastructure
Carson + L.A. County	Remediation, affordable housing, recreation
Citrus Heights	Mall reimagination
Covina	Downtown housing and blended use supportive infrastructure
Fairfield	Downtown, housing, and transit-supportive infrastructure
Fresno	Downtown, housing and transit-supportive infrastructure
Fresno County	Industrial and commercial supportive infrastructure
Humboldt County	Coastal mixed-use and energy supportive infrastructure
Inglewood (CRD) **	Transit-related infrastructure
Imperial County	Industrial, renewable energy, and housing and infrastructure
La Verne + L.A. County	Housing and transit-supportive infrastructure
Long Beach	Economic empowerment and affordable housing
Los Angeles (Downtown, San Pedro, other)	Affordable housing and transit-supportive infrastructure
Los Angeles County Uninc. West Carson	Housing / bio-science / tech infrastructure
Madera County (3 Districts)	Water, sewer, roads and other housing infrastructure
Modesto + Stanislaus County	Downtown, housing, and recreation infrastructure
Mount Shasta	Rural brownfield mixed-use infrastructure
Napa	Downtown, housing, tourism supportive infrastructure
Oakland	Affordable housing and infrastructure
Ontario	Industrial and housing infrastructure
Palmdale + L.A. County	Housing and commercial infrastructure
Pittsburg	Housing, commercial, and tech park infrastructure
Placentia + Orange County	Housing and TOD infrastructure
Rancho Cucamonga	Blended use and connectivity infrastructure
Redlands	Education related and blended use infrastructure
Redondo Beach + L.A. County	Parks / open space, recreation infrastructure
Riverside	Affordable housing and infrastructure
Sacramento County (Unincorporated)	Industrial / commercial supportive infrastructure
San Rafael (EIFD + CRD) **	Blended-use and climate resilience infrastructure
Sanger	Housing and commercial supportive infrastructure
Santa Cruz (EIFD + CRD) **	Downtown, blended use, and climate resilience infrastructure
Santa Rosa + County of Sonoma	Downtown investment, affordable housing, hospitality
Selma	Water, sewer, and other housing supportive infrastructure
Vacaville	Housing and business park infrastructure
Yucaipa	Housing and commercial infrastructure

Fully Formed | **In Formation Process** | **Under Evaluation**

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3 Routes to Economic Development & Private Investment

Public Sector Funding & Value Capture

Using tax exempt rates, zoning, TIF Special Districts & public land

Other Public Money

State/Fed grants for infrastructure, sustainability, energy, climate transportation, & housing projects

Private Sector Funds

P3 deals, value-capture fees, and developer advance via D.A. for early project funding, possible TIF reimbursement

Blend of Public and Private Leverage: Multiple funding sources to achieve mutual goals

3 Funding Opportunities on State and Federal Level

Fill funding gaps, kickstart new projects, and achieve community goals

Federal Programs		State Programs		
Inflation Reduction Act (IRA)	**Bipartisan Infrastructure Law (Infrastructure Investment and Jobs Act)**	**Affordable Housing and Sustainability Communities Program (AHSC)**	**Infill Infrastructure Grants (IIG) + Catalyst Program (IIGC)**	**Multifamily Housing Program (MHP)**
Funds available through tax credits and rebates for individuals and tax-exempt financing for projects aimed at inducing private sector investment.	Funds for roads, bridges, railroads, broadband, water, public transportation, airports, cyber security, climate resiliency, brownfield cleanup, electric vehicles, and more	CA Program: ***EIFD Preference*** $1 - $30 million awards for affordable housing, housing infrastructure, transportation, related amenities, program costs	CA Program: ***EIFD Preference*** $1 - $7.5 million grants for infill projects / areas, gap funding for infrastructure for residential / mixed-use with some affordability requirements	CA Program: Funding for rental housing; includes land lease payments, construction / rehab, offsite infrastructure improvements

$400 Billion in IRA Funds, $550 Billion in Federal Infrastructure Funds, Millions More in State Programs

Econ Dev meets Finance: Who Do You Need in the Room?

TRUSTED ADVISORS

- Key Stake-holders
- Public Finance Execution Team
- Real Estate/Zoning Market Feasibility Advisor

CITY SPECIALISTS

- Public Works
- Community Facilities
- Police & Fire
- Community Development

BIG PICTURE

- Municipal Advisor
- City Attorney
- City Manager
- Economic Dev. Team

Communities at Crossroads: Post COVID Digital Economy
Unique Opportunity for a Vital Future

Key is to leverage private sector momentum to improve your community's services & quality of life

Timely opportunity to access new funding sources and econ. development tools that have emerged :

- **Economic Toolkit:** with new / expanded tools such as special districts (EIFDs, CRDs, CRIAs), zoning strategies, and tax-exempt financing
- **New Funding Sources:** from federal and state government and focused on investments in infrastructure and sustainability

To move communities forward sustainably, we must identify where private investment is going and if we see the value…***entice/leverage that investment with public agency funding and tools.***

Today's Case Studies

Use of public-private partnership strategies and EIFDs to encourage commercial and economic revitalization and promote new development in Palmdale

Encourage and invest in business retention/expansion and workforce development to bolster downtown revitalization efforts

Discussion on funding needs and legal considerations around economic development strategies in a Post RDA and Pandemic World

Unlocking Growth: Innovative P3 and EIFD Strategies to Bridge Redevelopment Gaps

Ronda Perez, City Manager, City of Palmdale

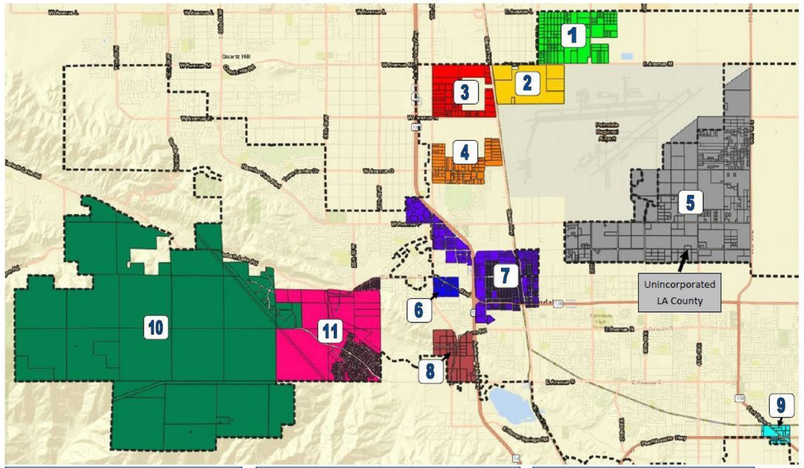
Potential Economic Development Approaches & Key Tools

- Collaboration with Property Owners and Developers
- P3s & Enhanced Infrastructure Financing District (EIFD)
- Case Study: Acquisition of Vacant Parcel along Major Freeway
- Impacts of AB 98 Industrial Bill

Collaboration with Property Owners and Developers

- **Example**: City is actively working with property owners & developers on vacant sites to understand economic constraints and identify ways to close the financial feasibility gap
- **Example**: City is utilizing public-private partnership (P3) strategies to support the redevelopment effort of the Antelope Valley Mall by its new owner/developer
- **Example**: Enhanced Infrastructure Financing District (EIFD) was recently created with the intent of funding critical infrastructure projects that could help close the financial gap on redevelopment / development projects throughout the City

Proposed Boundaries of City of Palmdale EIFD



Area A – Palmdale Aerospace Corridor		
1	The Hangar District	880
2	Palmdale Aerospace Village	646
3	Runway Industrial Center	550
4	Flight Path Industrial Park	512
5	Plant 42 Industrial Park	4,212
Total Acres		6,800

Area B – Palmdale Commercial Centers		
6	Palmdale Medical Campus	107
7	Golden Spike District (TOD/OZ)	1,618
8	Pelona Vista Parkway (Mixed Use)	373
9	Four Points Gateway (Mixed use)	108
Total Acres		2,206

Area C – Las Colinas		
10	Ritter Ranch (Residential)	10,819
11	Anaverde (Residential)	3,146
Total Acres		13,965

TOTAL ACRES (Area A, B & C): 22,971

Case Study: Acquisition of Vacant Parcel along 14 Freeway

- City secured a large vacant parcel to stimulate economic development in a growing part of the Palmdale
- Site will be used to promote commercial development opportunities and generate additional sales tax revenue for the City
- Prime location along the 14 Freeway will also enhance regional attractiveness while increasing job creation, promoting new development nearby, and supporting local businesses

Impacts of AB 98 Industrial Bill

- Overview of AB 98: Just signed by the Governor and will now require various statewide warehouse design and build standards for any expanded logistics projects or proposed new use developments.

- AB 98 has many uncertainties for the City of Palmdale and does not support the City's major industries which rely on the growth of the industrial sector.

- The City's efforts to promote strategic land use planning initiatives for sustainable growth in the City would also be impacted.

Economic Development in Chino

Jackie Melendez
Assistant City Manager

Boomtown Designation

Strong Demographics

Great Location

Diverse Business Mix

Strong Legacy Businesses

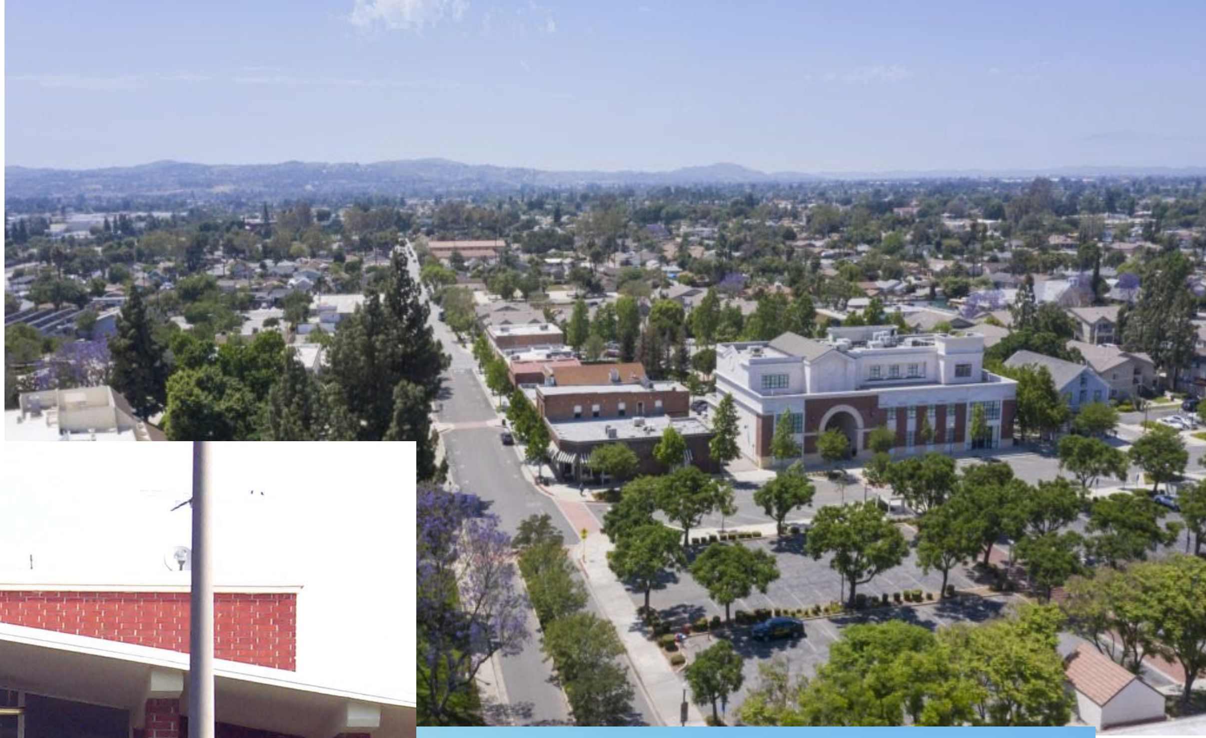
Creating New City Branding

A Tale of Two Cities

114+
95,111
27,000
53%
36

Opportunities: SB536 - Stark Downtown Revitalization

Governor Signs SB536



Challenges: Mixed-Use Housing HR Pipeline

Local Economic Development

Business Attraction

Marketing, Branding, Trade Shows, Brokers, Site Selection, Demos, Website, Sectors

Entitlements/ Business Concierge

Entitlements, Permits, CofO, Planning, Building, Jumpstart, Fast Track

Grand Openings

Open for Business! Ribbon Cuttings, Welcome

Business Retention & Expansison

Small Biz, Start-Ups, Growing the Ecosystem, Technical Assistance, Business Visits, Business Relationships

Workforce Development

OJT, AJCC, County, WARN, Upskill, Training, Apprenticeship, Colleges, Schools, Universities, Partnerships

Tourism & Experience

CHINO Where Everything Grows INCORPORATED 1910

AI Chino

Intersection of Economic Development and Public Finance

Mrunal Shah, Partner, BBK

Funding Needs and Legal Considerations for Economic Development in a Post RDA and Pandemic World

Public Infrastructure

Reuse of Vacant Space

Transportation

Affordable Housing

Workforce Training

Unfunded Mandates

Financing of Economic Development Activities in a Post RDA and Pandemic World

Existing Revenues

P3s

New Revenues

Existing Revenues

- Traditional Municipal Financing
- Tax Credits
- Loan Programs

Public-Private Partnerships

Delivery Methods

Social Impact Bonds

New Revenues

Sales Tax Measures

Land Secured Financings

Tax Increment Financings

Q & A

Value Capture: Today's Equation for Economic Development

Resi-mercial

The blending of residential and commercial uses

Retail-tainment

Incorporating engaging, entertaining experiences to drive trips and sales

Med-tail

Medical / health / wellness serving as key retail anchors

Omni-channeling

Retail strategy of engaging customers in multiple physical and digital touchpoints

Re-dustrial

The blending of retail and industrial / distribution uses

BOPIS

Buy Online, Pick Up In Store – a primary omnichannel retail strategy

Development Opportunity Reserve D.O.R.®

Capture value from new zoning to fund community benefits through a density reserve

Surplus Land Act

Navigating regulatory requirements for disposition of agency-owned property

Sales Tax Assessment Revenue (STAR*)®

Revenue replacement for non-retail properties through public-private negotiations

Today's Roadmap: Routes to Econ. Dev.