Can Finance and Economic Development Work Together After COVID-19?

Municipal Finance Institute
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| **Larry Kosmont**  
Chairman & CEO  
Kosmont Companies | Introduction and Overview |
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| **Damien Arrula**  
City Administrator  
City of Placentia | City Manager Perspective: economic development & finance strategies in Placentia |
| **David Bilby**  
Director of Finance  
City of Chula Vista | Finance Director Perspective: Using economic development for financial balance in Chula Vista |

**Questions and Discussion**
**CORONA VIRUS CRIPPLES CITIES!**
Cities across the nation are grappling with the fallout from COVID-19... revenues need resolution.

**MALLS MAY BE OPENING...**
How will reopening work? Outside and open space are key amenities.

**BUT STORES CLOSING / SHRINKING**
Some survive, some won’t ... anchors in turmoil, store closures expected to reach 25,000 in 2020; 25% of malls expected to close/re-set in next 5 years.

Retail downsizing driving reuse: fulfillment, office, parks, and residential. #RetailReimagination

**HOTELS SUFFERING**
2-3 year recovery; safety and cleanliness issues concern consumers.

**DOORSTEP / DRIVEUP ECONOMY**
Walmart intros Express Delivery... Amazon hiring 175,000 workers & Prime Now quick delivery... Instacart and Doordash expand food delivery... Ralph’s introducing one-hour delivery

**THE NEW NORMAL:** indoors & outside... curbside pickup & doorstep delivery. #KosmontRetailNOW!®
Winners & Losers
Market Performance Shows COVID-19 Resiliency

US Public REIT Performance by Sector, Total Return (%), 2019 & 2020 YTD (as of September 31)

Source: NAREIT, Accessed October 2020

The COVID-19 Economy
Private Sector Loss = Public Sector Loss
The Median California City Collects >1/3 of Tax Revenue from Sales + TOT

California City Tax Revenues

- Property, 41%
- Sales and Use, 22%
- BLT, 6%
- Hotel / TOT, 8%
- Utility User, 6%
- Franchise, 4%
- Prop. Transfer, 3%
- Other, 11%


NOW SPEAKING
Larry Kosmont
Public Sector Innovation

Finding and Using New “Currency” for Economic Development

Cities spent decades building local economies on brick-and-mortar retail and sales tax revenue, but future leaders need to consider new sources of “currency” to reposition their communities for a sustainable & resilient future.

Land Use Currency

Zoning Currency

Economic Development Currency

Entitlements Currency

Financing Currency
## Land Use Revolution  

**Everything’s Changing**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hotel</strong></td>
<td>Resetting; Business vs. Leisure; Conversions to other uses</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td>Online accelerates; Malls = blended uses, less retail; Essentials &amp; Experience drive trips; Outdoor anchors</td>
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<tr>
<td><strong>Office</strong></td>
<td>Work-from-Home factor; Six Foot Office; Co-working challenged</td>
</tr>
<tr>
<td><strong>Residential</strong></td>
<td>Demand Strong; Redesigning for workspace &amp; amenities; “Surban”/ medium-density more appealing for now</td>
</tr>
<tr>
<td><strong>Industrial</strong></td>
<td>Leader of the pack: Warehouse &amp; Logistics; Last-mile delivery; Onshore manufacturing</td>
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**Public Sector Currency in a Post-COVID World**

<table>
<thead>
<tr>
<th>Land Use as Currency</th>
<th>Zoning as Currency</th>
<th>Entitlements as Currency</th>
<th>Low Interest Rates as Currency</th>
<th>Tax Increment as Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Reimagination: Revenue &amp; vitality from blending land uses</td>
<td>Development Opportunity Reserve (D.O.R.)®: Community benefits for new density</td>
<td>Community benefits and equivalent tax revenues from PPPs and DA negotiation</td>
<td>Leverage low rates to reduce debt costs with POBs, refunding, and P3</td>
<td>EIFDs / CFDs: Fund infrastructure with value capture and district financing</td>
</tr>
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Laguna Hills Mall Case Study

- Struggling regional mall – 60 Acres, Opened in 1973, anchored by Sears / JC Penney / Macy’s
- A Vision Unfolding: what started as a rezone developed into a blended use project featuring 1,500 apartments, office, hotel, movie theater, fitness, retail, restaurant, and park; plans evolved and shaped by market changes
The future of retail is **Mall Reimagination Projects**, **Downtown Retail Districts**, and **Financing Districts**.

**Land Use as Currency**

**Reimagining Retail**

**New Tools & New Rules**

* St Helena
  - Retail District Strategies
* Sausalito
  - Commercial District Analysis
* Capitola
  - Mall Reimagination Advisory
* Solvang
  - Economic Development Strategy & Advisory
* South Gate
  - Public-Private Transaction Advisory for Azalea Shopping Center
* La Verne
  - EIFD Advisory
* Buena Park
  - Mall & Retail District Advisory
* Placentia
  - EIFD Advisory

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**Santa Barbara**
- State Street Retail Study & Econ. Dev. Strategy

**Baldwin Hills (Capri Capital)**
- Mall Reimagination Advisory

**Santa Monica**
- DTSM Third Street Promenade Community Workshops

**Santa Ana**
- MainPlace Mall Advisory

**Laguna Hills**
- Mall Reimagination Advisory

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**NOW SPEAKING**

Larry Kosmont
Buellton Case Study – Avenue of the Flags Development Opportunity Reserve (D.O.R.)®

City “manufactures” new Density via Specific Plan / Zoning

City reserves new Density in D.O.R. & adopts amenity list

City selectively distributes D.O.R. Density for Projects that deliver Amenities & Infrastructure (Zoning as currency)

Avenue of the Flags DOR

• Benefits / Objectives: public restrooms, off-site improvements, public parking, parking district, public art, parks, green buildings, payments of trail fees / water & wastewater fees / library fees

• Incentives: Increase density up to 40 units / acre, increase building heights, reduce on-site parking reqs, reduced rear setbacks, allow land uses not allowed in CR zone, reduced traffic fees, reduced application fees
Entitlements as Currency Benefits & Revenues via DAs / P3s

Jurupa Valley Case Study
Replace Revenue with Sales Tax Assessment Revenue (STAR*)®

- Loss in retail sales resulting from online / non sales tax generating uses
- Analyze sales tax potential of opportunity sites & zoning designations
- Create equivalent General Fund revenue through entitlement document / development agreement (entitlements as currency)

Agua Mansa Commerce Park Site
- ~280 acre site
- Proposed 3.6 million SF industrial development project
- STAR analysis estimated annual sales tax in-lieu payment of ~$362,500

NOW SPEAKING
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Carson Case Study - Pension Obligation Bond Refinancing
Lowering Debt Costs for Savings and New Capacity

Pension Obligation Bonds & Other Financing Strategies
Leverage low rates to reduce debt costs

POBs: Refinance CalPERS Unfunded Accrued Liability (UAL) to lower payments, find savings, and create capacity for new projects

Carson POB
• Pension Obligation Bonds validated
• Rating: AA-
• Sold 108.2M in POBs @ ~3.4% (TIC)
• Savings: ~$40 million budget relief

Low Interest Rates as Currency  Reduce Debt Costs
Placentia Case Study
Funding Infrastructure with Enhanced Infrastructure Financing Districts

Tax Increment Financing Districts
Leverage assessed value growth to fund infrastructure improvements

- No new taxes
- No public vote required
- Attract EDA, SCAG & other funds for startup

Placentia / Orange County EIFD Partnership
- 300+ acres
- >$460M expected in new AV from residential, retail, restaurant development
- Net Fiscal Benefit: $22M to City, $15M to County
- Will fund streets, sewer, parking, transit connectivity
TIF Districts in Progress

**EIFDs and CRIAs**

1. Atwater
2. Azusa
3. Brentwood
4. Buena Park
5. **Carson + L.A. County**
6. Duarte
7. El Cajon
8. El Segundo
9. **Fresno**
10. Grand Terrace
11. High Desert Corridor (Palmdale, Lancaster, Adelanto, Victorville, Apple Valley)
12. I-5 Corridor (Commerce, Downey, La Mirada, Norwalk, Santa Fe Springs)
13. Indian Wells
14. Imperial County
15. Inglewood
16. **La Verne + L.A. County**
17. Long Beach
18. Los Angeles (Downtown, San Pedro, Vermont Corridor, Wilmington)
19. West Carson (Unincorporated LA County)
20. East LA / LACUSC Hospital (Unincorporated LA County)
21. Madera County (3 EIFD Areas)
22. Ontario
23. Palmdale
24. Pittsburg
25. **Placentia + Orange County**
26. Redlands / San Bernardino
27. **Redondo Beach + L.A. County**
28. Rialto
29. Richmond
30. Riverside
31. Riverside County
32. Sacramento County
33. San Jose
34. San Luis Obispo
35. Santa Ana
36. Santa Fe Springs
37. Seaside
38. South Gate
39. St. Helena
40. West Santa Ana Branch Transit Corridor of L.A. County

**New Tools & New Rules**

- West Sacramento EIFD (approved)
- **City of Sacramento EIFD (approved)**
- Madera County EIFD x 2 (approved)
- Fresno EIFD
- **La Verne TOD EIFD (approved)**
- Placentia TOD EIFD (approved)
- San Diego Otay Mesa EIFD (approved)

**Red markers are EIFDs/CRIAs under evaluation**

Source: Kosmont EIFD/CRIA website [https://www.kosmont.com/services/eifd-cria/](https://www.kosmont.com/services/eifd-cria/)
Polling Question #1

In a post-COVID economic situation where financial resources are strained, would you consider an EIFD or similar financing district? (can select more than one answer)

- Yes, if fiscal model shows benefit to the General Fund
- Yes, if the County puts in a property tax share
- Yes, if the district funds housing
- Yes, if district funds critical infrastructure needed for private investment
- No, not over my dead body – you are depleting the general fund
- No, because you are creating yet another authority to keep track of
- No, because I am retiring and too busy
Next Steps for COVID Recovery

Evaluate your post-COVID local economy & opportunities

Engage community on key projects & strategies (virtual & in-person)

Select economic development tools & priorities

Build & implement a post-COVID econ. dev. strategy

- Land Use Currency
  - Reimagining retail with blended use

- Zoning Currency
  - Community benefits from new density

- Tax Increment Currency
  - Value capture with EIFD / CRIA / CFD

- Low Interest Rate Currency
  - Reduce debt costs for savings & capacity

- Entitlements Currency
  - Benefits & revenues via P3s and DAs

Look to the Future

Larry Kosmont

NOW SPEAKING

Real Estate Finance/Economics Development Entitlements
Damien Arrula
City Administrator
City of Placentia
Introduction

- City of Placentia 2015 Fiscal Condition
- Fiscal Sustainability, Master Planning, and Economic Development
  - Transit-Oriented Development (TOD)
  - Old Town Revitalization
  - City-Wide Economic Development
- Enhanced Infrastructure Financing District (EIFD)
- Financing Opportunities, S&P Credit Rating Upgrade
- City of Placentia Current Fiscal Condition
2015 City Fiscal Condition

- In 2015, the City had a $47 General Fund Balance
- Credit Rating Below Investment Grade, Going Concern Finding
- State Audit
- $2.8 Million Structural Budget Deficit
- Frequent Employee Turnover; Retention Issues
- No Economic Development Plan
Fiscal Sustainability, Master Planning, and Economic Development

- Master Planning
- Transit Oriented Development (TOD)
- Old Town Revitalization
- Enhanced Infrastructure Financing District (EIFD)
Catalyst for Economic Development and Master Planning

Metrolink Station

- 13th station serving 91 Line, runs from LA Union Station to DT Riverside
- Alternative to Fullerton Station on 91 Line
- Closest station to California State University, Fullerton
- Integral part of City’s revitalization efforts for Old Town Placentia and TOD
- Estimated 10 trips and 530 passengers daily
Catalyst for Economic Development and Master Planning

Metrolink Tentative Updated Schedule

- Construction of underground utilities currently underway
- Begin construction June 2021
- Complete construction in January 2023
Transit-Oriented Development (TOD) – Packing House District Highlights

- Mixed-Use Development
- Higher Density Residential Development
- Focus on Walking, Biking, and Transit Use
- Greater Height for Buildings
- 360° Design Concept
- Refined List of Land Uses: Active Commercial and Multi-Family
- Fewer Parking Spaces Required, Including a “Maximum Number”

- Promote a High-Level of Public Amenities, Public Art, Creative Public Spaces
- Improved Signage
- Developer to Finance Capital Street Improvements
- Developer to Finance Ongoing Maintenance (CFD) Costs
- Re-Assessment of Properties Owned in 1940s-1950s
- Grow our Local Economy
TOD Streetscape Master Plan
Transit-Oriented Development (TOD)

- Packing House District
  - Approved Unanimously by City Council on April 18, 2017
  - 28 Community Meetings

246 public parking structure

USA Properties

JPI

Integral/ Lyon Living

NOW SPEAKING
Damien Arrula
Integral Communities/Lyon Living

Land area: 2.95 acres
Total Units: 215
Density: 72.9 DU/Acre
Under Construction
Completion: Summer 2021
Estimated Development Impact Fees: $2.4 million
JPI Development

Land Area: 4.4 acres
Total Units: 418 units
Commercial: 10,553 sq ft
Demolition Underway
Construction to begin December
Estimated Development Impact Fees: $6.9 Million
USA Properties (Former Packing House Property)

Approximately 189 units
Entitlement Application submitted
Development Agreement and Lease Agreement
Will Provide an Estimated $2.6 million in One-Time Development Impact Fees
Change Assessed Value from 1950s Property Tax
Old Town Placentia Revitalization Plan
Pedestrian Friendly Active Environment
Previous Zoning

Zoning Legend
- C-1
- R-2
- C-1 (O)
- R-2 (MHP)
- C-1 (O-1)
- R-3
- C-2
- R-3 (O-1)
- C-M
- R-A
- C-O
- R-G
- M
- R-G (O)
- M (O)
- R-G(O) & C-1 (O)
- M (PMD)
- RA
- PUD-1
- RFC (O)
- PUD-2
- SF-C
- PUD-2 (O)
- SP-2
- PUD-3
- SP-3
- PUD-3 (O)
- SP-4
- PUD-4
- SP-5
- R-1
- SP-6 (O)
- R-1 (MHP)
- SP-7
- R-1 (O)
- T-C
- Old Town Plan Boundary
- Station Platform
- Metrolink Rail

Future City of Placentia
Metrolink Station Platform

Santa Fe Commercial District ("SF-C")

Damien Arrula
New Zoning

Old Town Zoning District Planning Sub Areas
- Main Street (2 Story)
- Main Street (3 Story)
- Village (3 Story)
- Mixed Use (4 Story)
- High Density Residential (4 Story)
- Public Facilities (5 Story)
- Metrolink 91 Line Rail
- Old Town Plan Boundary

Future City of Placentia Metrolink Station Platform

NOW SPEAKING
Damien Arrula

PROPRIETARY
do not duplicate
Streetscape – Bradford Avenue
Streetscape – Bradford Avenue
Streetscape – Santa Fe Avenue
Streetscape – Santa Fe Avenue

Future

Damien Arrula

NOW SPEAKING

Proprietary
Do Not Duplicate
Enhanced Infrastructure Financing District (EIFD) Old Town Placentia

- Continue with remaining public hearing (January 2021)
- Underwriting of initial debt issuance with financing team (Currently in Progress)
- Bond Issuance (February 2021)
- Engineering Design for the Streetscape Improvements (November 2021)
- Go out to bid (January 2022)
- *Start Construction (March 2022)
- *End Construction (December 2022)

*Contingent upon available financing
EIFD - Old Town Placentia

Proposed Metrolink Station

Legend
- Placentia City Boundary
- EIFD Sub-Area 1
- EIFD Sub-Area 2
- EIFD Sub-Area 3
- EIFD Sub-Area 4
- EIFD Sub-Area 5
- EIFD Sub-Area 6
- EIFD Sub-Area 7
- Parcel Lines Within Placentia

NOW SPEAKING
Damien Arrula
Citywide Economic Development
City-Wide Economic Development
Economic Benefit Analysis

- 22M in net fiscal impact to the City (50-year present value)
- $15M in net fiscal impact to County
- 1,600+ housing units
- 3,900+ construction jobs
- 1,150+ permanent jobs
- $800+ million in economic output from construction
- $164+ million in annual ongoing economic output, convenient transit to local universities, GHG/VMT reduction
S&P Credit Increase

- 2019 Triple Credit Rating Increase to BBB

- Standard & Poor’s (S&P) Global Ratings recently issued the City of Placentia an ‘A-’ credit rating with a ‘positive outlook’

- Additionally, S&P also:
  - Upgraded the 2011 Gas Tax Bonds from A- to A
  - Upgraded the 2003 COPs from a BBB to a BBB+
  - Affirmed the 2020 Placentia Public Financing Authority Lease Revenue Bonds of BBB+
Present Fiscal Condition

- $5.5 Million by the end of Fiscal Year 2020-21, Projected
- Projected 159% of Reserve Goal
- Two Double-Notch Credit Rating Increases by S&P in Back-to-Back Years
- Removal from State Auditing Process
- ‘Positive Outlook’ from S&P on Potential Additional Multi-Notch Increase for Next Rating Based Upon Upward Trajectory
- Continued Economic Development Occurring Throughout the City
- Considering changing Reserve Policy to 25% of General Fund Operating Expenses
David Bilby
Director of Finance
City of Chula Vista
Finance Director Perspective

- Economic Development/Finance Relationship
- New & Repurposed Development
- Fiscal Impact Analysis
- Service Delivery Models
- Financial Assets/Resources
Polling Question #2

What types of initiatives is your City likely to support?

- Economic development initiatives that require out-of-pocket City investment
- Fiscal conservativism (*low risk programs*)
- Higher development fees as revenue source
- Public–private real estate projects that need public investment to generate new tax revenues
- Increased density through new zoning measures to create higher property values
- Refinancing existing debt at lower interest rates to create new liquidity
- Authorizing new debt for new infrastructure to induce private investment
- Pursue budget cuts and layoffs *without* investment in economic development projects
- Pursue budget cuts *with* investment economic development projects
Economic Development / Finance Relationship

- Has evolved from giving financial incentives to fill vacant space with new businesses to using fiscal tools available to partner and innovate

- Remove fiscal constraints by leveraging available resources

- Focus on solutions, not problems

- Utilize data and relationships to create new revenue streams and expand on existing ones

- Don’t just focus on the short term
New & Repurposed Development

- Bayfront Project
- Chula Vista Elite Athlete Training Center
- University & Innovation District
Bayfront Project

- **Western DIF CFD** – Created to leverage current investment in area with future Bayfront Development. Defers development impact fees 10 years.

- **Bayfront CFD** – Adds a 5% TOT to hotels and RV parks in western Chula Vista zone to fund Bayfront public infrastructure.

- **Bayfront PPP** – Dynamic partnership between the City of Chula Vista, The Port Authority of San Diego, and RIDA Development.
Chula Vista Elite Athlete Training Center
Chula Vista Elite Athlete Training Center

- Formerly known as Chula Vista Olympic Training Center
- Built in mid 1990’s
- City purchased the property in 2016
- City created PPP with operator and leveraged an agreement with USOC and local developers to create a financially sustainable asset
- No cost to City to operate
- Brings significant sales tax, gas tax, and TOT revenue to the City
- Consideration of future University partnership
University & Innovation District
University & Innovation District

- 375 Acres
- 10 million square feet
- Sized for 20,000 student population
- Looking at Multi-national universities with an emphasis in STEAM
- Multi-institutional approach
Fiscal Impact Analysis

- Typically done on all new development projects
- Added new criteria based upon service level standards
- Ensures sustainable current development
- Especially important for residential development
Service Delivery Models

- Increase utilization of smartphone-based apps and websites
- Migration to paperless office environment
- Remote work flexibility
- Incorporating AI where possible
- Strategic outsourcing
- Rethink traditional population-based staffing levels
Financial Assets / Resources

- Underutilized Agency Land & Buildings
- Credit Rating
- Reserves
- Partnerships
- Knowledge Base
Other Economic Development Projects

- Small Cell Sites
- Fiber
- Cannabis
- Redevelopment
- Billboards
- Autonomous Vehicle Testing
- Public Safety Drone Program
Key Takeaways

- Be open to new ideas/projects
- Change is happening quickly, adapt and thrive
- Don’t focus solely on home runs, singles score runs too
- Look for strategic partners that have a vested interest in your agency’s success
Next Steps for COVID Recovery

- Evaluate your post-COVID local economy & opportunities
- Engage community on key projects & strategies *(virtual & in-person)*
- Select economic development tools & priorities
- Build & implement a post-COVID econ. dev. strategy

**Land Use**
- Currency Reimagining retail with blended use

**Tax Increment**
- Currency Value capture with EIFD / CRIA / CFD

**Low Interest Rate**
- Currency Reduce debt costs for savings & capacity

**Zoning**
- Currency Community benefits from new density

**Entitlements**
- Currency Benefits & revenues via P3s and DAs

**Now Peaking**
- Larry Kosmont