Value Capture: Zoning and Entitlements as "Currency" Generators for Cities

California Planning Commissioner Academy
March 2021
Kosmont Companies

KOSMONT SERVICES OVERVIEW

**KOSMONT COMPANIES**
Real Estate and Economic Development

**KOSMONT REALTY**
Brokerage

**KOSMONT TRANSACTIONS SERVICES**
Public Finance

**ECONOMIC DEVELOPMENT, REAL ESTATE, PROJECT FINANCE, AND IMPLEMENTATION STRATEGIES**
- Public / Private Transactions & Projects
- Developer Selection RFQ/P & ENA/DDA
- Project Funding / Financing Strategies
- TIF, EIFDs, CRias, Housing Sustainability & Housing Districts
- Kosmont Retail NOW! Trends / Analytics / Recruitment
- Retail Predictive Intelligence (A.I.)
- Economic Development Strategies / Plans
- Market & Feasibility Analysis /Reports
- Fiscal Impact / Economic Benefit Studies

**REAL PROPERTY SALES, LEASING, AND ASSET BASED SERVICES**
- Brokerage (CA DRE # 02058445)
- Real Estate Market Analysis
- Developer / Buyer Selection
- RFQ/P & ENA/DDA
- Ground Leases
- Zoning & Implementation Strategies
- Property Valuation / Broker Opinion of Value (BOV)
- Asset Management Plans
- www.OppSites.com (online economic development marketplace)

**PUBLIC FINANCE ADVISORY AND TRANSACTIONS SERVICES**
- SEC / MSRB Registered Municipal Advisor
- General Fund Financings
  - G.O.s / COPs / Lease/Leaseback
- Tax Increment Financing (TIF)
  - EIFD / CRIA / Housing Districts
- Public/Private Partnerships (P3)
- Pension Obligation Bonds
- Lease Revenue Bonds
  - JFAs / Pooled
- Utility / Enterprise Lease Financings
- Assessment / Special Tax / CFD
- Private Placements
Larry J. Kosmont, CRE® is Chairman & CEO of Kosmont Companies, which he founded in 1986. Kosmont Companies is an industry leader in public/private real estate transactions and economic development. In 1990, he founded Kosmont Realty, a real estate brokerage firm to transact property and ground leases for public private deals. In 2015, in compliance with licensing regulations, he launched Kosmont Transactions Services, Inc. (KTS) as an SEC/MSRB registered Municipal Financial Advisory firm. KTS sources financing for public agencies, public/private projects, P3 initiatives, and infrastructure funding. He is a co-principal of California Golden Fund, a USCIS approved EB-5 Regional Center.
A Return To Normalcy?
Vaccine rollout picks up speed, path to normality and herd immunity becomes clearer; new normal by Q4 2021?

Pandemic leads to major shifts in how we work, live, and play – which changes will remain after 2021?

Federal Help on the Way
Use Recovery Act funds to invest in Economic Development Initiatives.

Retail Centers Reimagining
Store closures and e-commerce driving changes at malls/retail centers. Outdoors & open space key amenities. Curbside pick-up here to stay.

Retail downsizing replaced by new blended use: fulfillment, office, parks, and residential. #RetailReimagination

Suburbs See Boom...
Inland Empire and other suburban areas see increase in home sales activity; boosted demand for suburban demand and “secondary cities.”

...Urban Rebound Soon?
Urban areas saw outflow and softened market during early pandemic; as businesses, amenities, and activities reopen, expect to see urban market recovery (fueled by Gen Z)

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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. **Leadership Team needs to consider new sources of “currency” to reposition their communities for a sustainable & resilient future.**
## Land Use Revolution

### Hotel
**Resetting:** Local leisure rebounding; convention / business delayed; Conversions to other uses; Project financing challenging

### Retail
**Reimagining:** Online accelerates; Essentials & Experience drive trips; Regional centers shifting from retail to blended uses

### Office
**Reconfiguring:** Downsizing / rearranging space requirements; Suburban markets resilient; Work-from-home & local co-working story unfolding

### Residential
**Renaissance:** Demand strong; SF moving to more s.f. / suburban; MF and SF redesigning for workspace & amenities; MF favors medium density

### Industrial
**Redistribution:** Demand for industrial / cold storage driven by online sales / last-mile delivery; warehouse & logistics; Onshore manufacturing

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**NOW SPEAKING**

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**PROPRIETARY DO NOT DUPLICATE**
The New Vocabulary of Innovation
Resuscitate | Elevate | Reimagine with Blending Uses

Surban
Six-Foot-Office
Mall Reimagining
BOPIS & Pickup

Frictionless Retail
Driverless Delivery
Omnichannel
Re-dustrial
### The New Language of Land Use

**Viable land uses & fiscal models shifting due to buying patterns in digital post-COVID world**

<table>
<thead>
<tr>
<th>Consumer Preferences</th>
<th>e-commerce, next-day delivery, BOPIS, last mile delivery, and autonomous vehicles are changing and re-arranging land use applications</th>
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</thead>
<tbody>
<tr>
<td>Rooftops</td>
<td>Rooftops will drive demand for commercial land uses; residential is key part of econ dev. strategies: “link” between digital buying &amp; commercial visits</td>
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<tr>
<td>Teleworking</td>
<td>Commuting patterns altered; downtowns become hubs of creative office, transit, service retail; reshaped regional retail centers become blended use hubs</td>
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<tr>
<td>Amenities</td>
<td>Residents desire <strong>15-Minute Community</strong> – nearby integrated amenities, services, open space, education, entertainment. Tradeoff for not staying “urban”</td>
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<tr>
<td>RHNA</td>
<td>The state needs housing; waning demand for many large regional centers bring opportunity for revitalization = blended development that includes residential</td>
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Land Use Currency in a Post-COVID World

Zoning as Currency

Development Opportunity Reserve (D.O.R.)®: Community benefits for new density

Entitlements as Currency

Community benefits and equivalent tax revenues from PPPs and DA negotiation

Tax Increment as Currency

EIFDs / CFDs: Fund infrastructure with value capture and district financing

Low Interest Rates as Currency

Leverage low rates to reduce debt costs with POBs, refunding, and P3
Reimagining Retail: Zoning & Value Capture Toolkit

Key Pieces to Solve the Retail Reimagination Puzzle

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<th>Development Opportunity Reserve (D.O.R)</th>
<th>Tax Increment Districts</th>
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<td>Add Density tied to Community Benefits</td>
<td>&quot;Value Capture&quot;: tax revenue for infrastructure</td>
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<th>Lock in Developer Contributions</th>
<th>Reciprocal Easement Agreements</th>
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<td>via DA or Sales Tax Assessment Revenue (STAR.)</td>
<td>Pass SB696 to vacate REAs &amp; accelerate projects</td>
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How do we turn a struggling mall...

- Closing Large Anchors
- Struggling Enclosed Retail
- Oversized Parking Lots

...to a vibrant blended-use destination?

- Office
- Cinema
- Shops
- Residential
- Park
- Hotel

Development Opportunity Reserve (D.O.R)
Add Density tied to Community Benefits

Lock in Developer Contributions
via DA or Sales Tax Assessment Revenue (STAR.)

Tax Increment Districts
"Value Capture": tax revenue for infrastructure

Reciprocal Easement Agreements
Pass SB696 to vacate REAs & accelerate projects
"Value-Capture" Districts to Complement Zoning

**TIF is Tool to Induce Private Investment**

State created tax increment financing (TIF) district tools to accomplish:

- Sustainability
- Resiliency
- Mobility
- Housing
- Public infrastructure
- Public amenities

Cities can use these districts to fund infrastructure, attract grant funds, motivate private investment.

**CREATES PUBLIC / PRIVATE ROI**
Use EIFDs for Targeted Infrastructure Investment

- Affordable Housing
- Transit Projects
- Civic Infrastructure
- Vision Plan Area
- Regional Mall Area
- Civic Center Area
- University Area
- Industrial Area
- Wastewater / Groundwater
- Parks / Open Space
- Brownfield Remediation

Civic Center Area
Industrial Area
Vision Plan Area
University Area
Regional Mall Area
Industrial Area

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## EIFD Progress Statewide

### Partial List

**Jurisdiction** | **Purpose**
--- | ---
Azusa - Metro Grant | Housing and transit-supportive infrastructure
Brentwood | Housing and transit-supportive infrastructure
Carson + L.A. County | Remediation, housing-based infrastructure, recreation
El Cajon | Housing and transit-supportive infrastructure
El Segundo + L.A. County | Various infrastructure, regional connectivity
Fresno | Housing and transit-supportive infrastructure
I-5 Corridor - (Multiple Cities / Counties) - SCAG | Housing and transit-supportive infrastructure
Indian Wells | Housing and tourism-supportive infrastructure
Imperial County - SCAG | Housing and greenfield infrastructure
La Verne + L.A. County | Housing and transit-supportive infrastructure
Long Beach | Housing and transit-supportive infrastructure
Los Angeles (Downtown) - Metro Grant | Housing and transit-supportive infrastructure
Los Angeles (San Pedro) - SCAG | Housing and transit-supportive infrastructure
Los Angeles (Vermont Corridor) - Metro / SCAG | Housing and transit-supportive infrastructure
Los Angeles County - Uninc. West Carson - SCAG | Housing / bio-science / tech supportive infrastructure
Los Angeles County - Uninc. East L.A. - SCAG | Housing supportive infrastructure, community amenities
Madera County | Greenfield infrastructure (water / sewer)
Napa | Flood control, affordable housing, remediation
Ontario | Housing and transit-supportive infrastructure
Pittsburg | Housing and transit-supportive infrastructure
Placentia + Orange County | Housing and transit-supportive infrastructure
Redondo Beach + L.A. County | Parks / open space, recreation infrastructure
Riverside | Housing and transit-supportive infrastructure
Riverside County - Uninc. Salton Sea - SCAG | Water and housing-infrastructure
Sacramento County | Industrial / commercial supportive infrastructure
San Jose | Housing and transit-supportive infrastructure
Santa Ana - SCAG | Housing and transit-supportive infrastructure
Santa Fe Springs | Housing and transit-supportive infrastructure
South Gate | Housing and transit-supportive infrastructure
West Santa Ana Branch Transit Corridor (Multiple Jurisdictions) - Metro / SCAG | Housing and transit-supportive infrastructure

**Event Horizon**

- **West Sacramento EIFD (approved)**
- **City of Sacramento EIFD (approved)**
- **Madera County EIFD x 2 (approved)**
- **Fresno EIFD (approved)**
- **La Verne TOD EIFD (approved)**
- **Placentia TOD EIFD (approved)**
- **LA County West Carson 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/]
Kosmont’s TIF District Snapshot

La Verne TOD EIFD (approved)

LA County West Carson EIFD (approved)

Placentia TOD EIFD (approved)

San Diego Otay Mesa EIFD (approved)

West Sacramento EIFD (approved)

City of Sacramento EIFD (approved)

Madera County EIFD x 2 (approved)

Fresno EIFD (approved)

Zoning, Entitlement, Value Capture Tools

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PROPRIETARY DO NOT DUPLICATE
Funding Infrastructure with Enhanced Infrastructure Financing Districts
Case Study: Placentia & Orange County EIFD Partnership

- Upgraded zoning, aligned with OZs and TOD
- Will fund streets, sewer, parking, transit connectivity
- >$460M expected in new AV from residential, retail, restaurant development
- Net Fiscal Benefit: $22M to City, $15M to County

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
Decisions Today...for a Resilient Economy

Private and Public sectors moving in new directions:

**Private Sector**

*Value Redefined*
- New mix of projects
- Residential strength
- Service-oriented retail
- Infill industrial
- Workspace changes
- New site conversions
- New site needs

**Public Sector**

*Econ. Dev. Redefined*
- New private sector requests
- Reset zoning / land use
- Reduced parking
- Flexibility needed
- More pick-up, fulfillment
- Update site infrastructure
- Value capture

Rules of private investment have changed – Rules of zoning / land use need to change too.

*Economic Development = Installing a resilient value capture plan for your community.*
Key COVID Recovery Strategies

**Unstick Stuck Deals**
Be flexible, understand changes to the market, keep the conversations going, and keep projects moving.

- Identify best opportunities to pursue
- Ongoing community / stakeholder outreach
- Set up zoning currency tools, value capture districts, use COVID Recovery $$ strategically
- Work with owners / developers on specific project implementation

**Focus on Projects**
Identify actionable projects and key sites vital to your community. Set up zoning currency and value capture tools.

**Pursue Opportunity**
Seek out cooperative investors / developers & facilitate projects accretive to your community.

Look to the Future

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Proprietary
Do Not Duplicate
Economic Development, Finance and Real Estate Advisory since 1986

OUR MISSION

We are founded on the pursuit of four pillars of strength ...

Innovation, Integration, Intelligence, and Integrity

We are on the cutting edge of products and services.

We achieve financial success for our public and private sector clients.

We are committed to community prosperity and quality of life.

Our professional standards are of the highest excellence.