

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

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Kosmont Companies

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City Administrator
City of Placentia

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**Municipal Finance Institute
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Outline

Larry Kosmont
Chairman & CEO
Kosmont Companies

Introduction and Overview

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

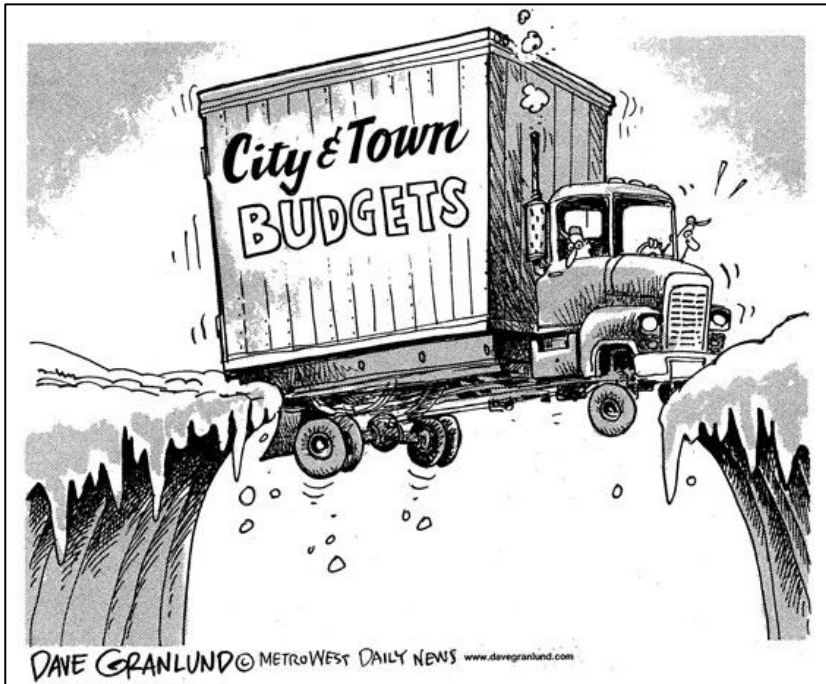
Questions and Discussion



HEADLINES!

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

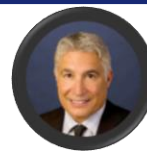
HOTELS SUFFERING

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

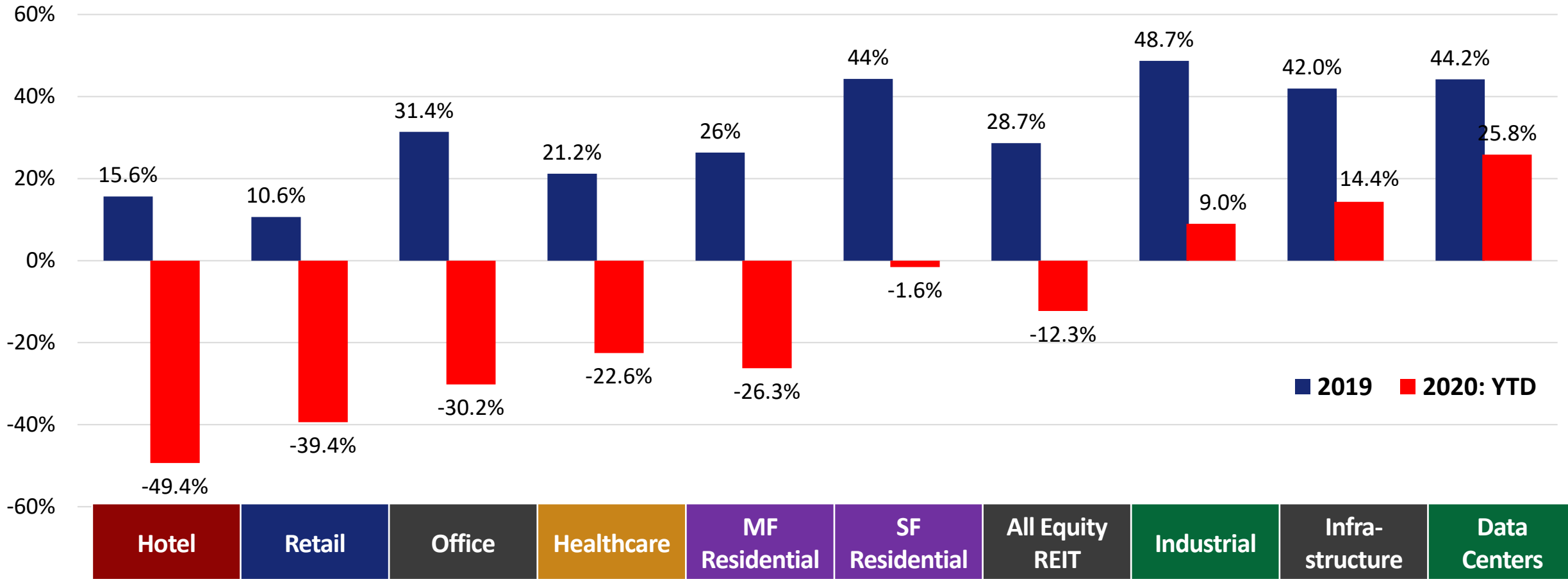
THE NEW NORMAL: indoors & outside... curbside pickup & doorstep delivery.
#KosmontRetailNOW!®



Winners & Losers

Market Performance Shows COVID-19 Resiliency

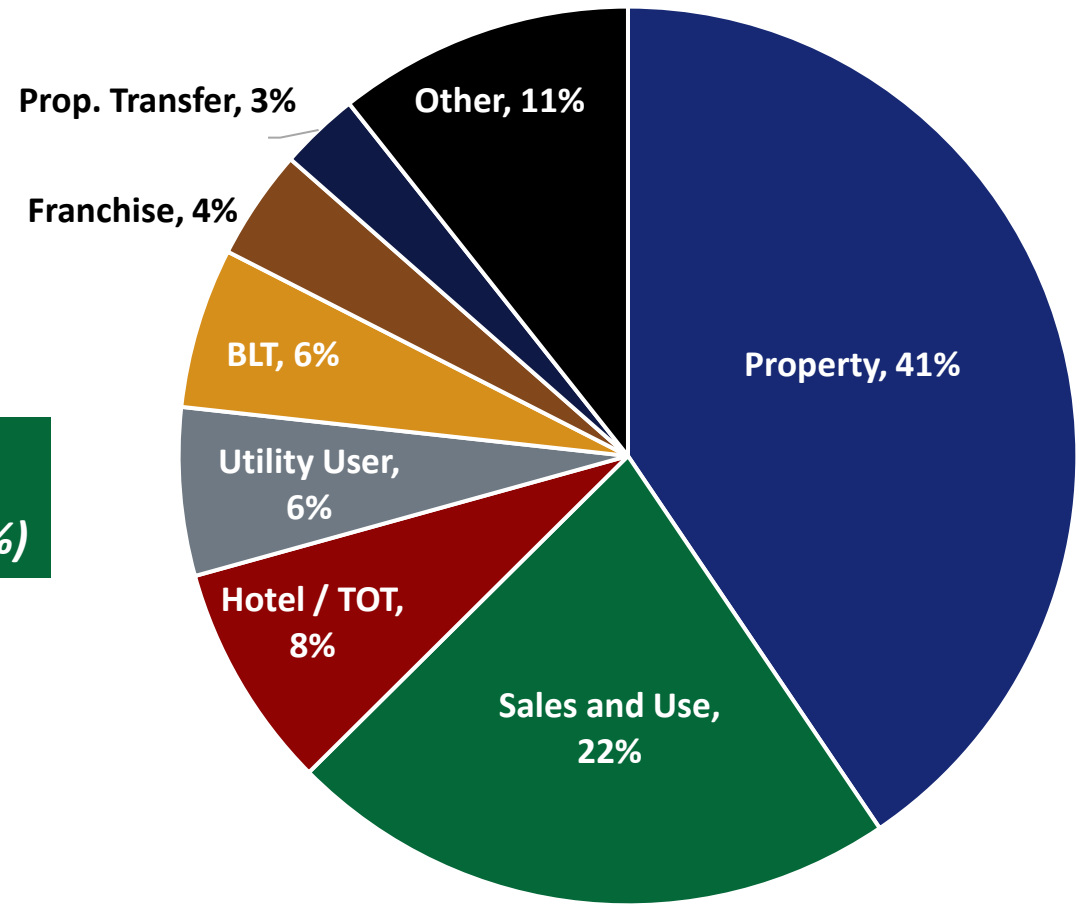
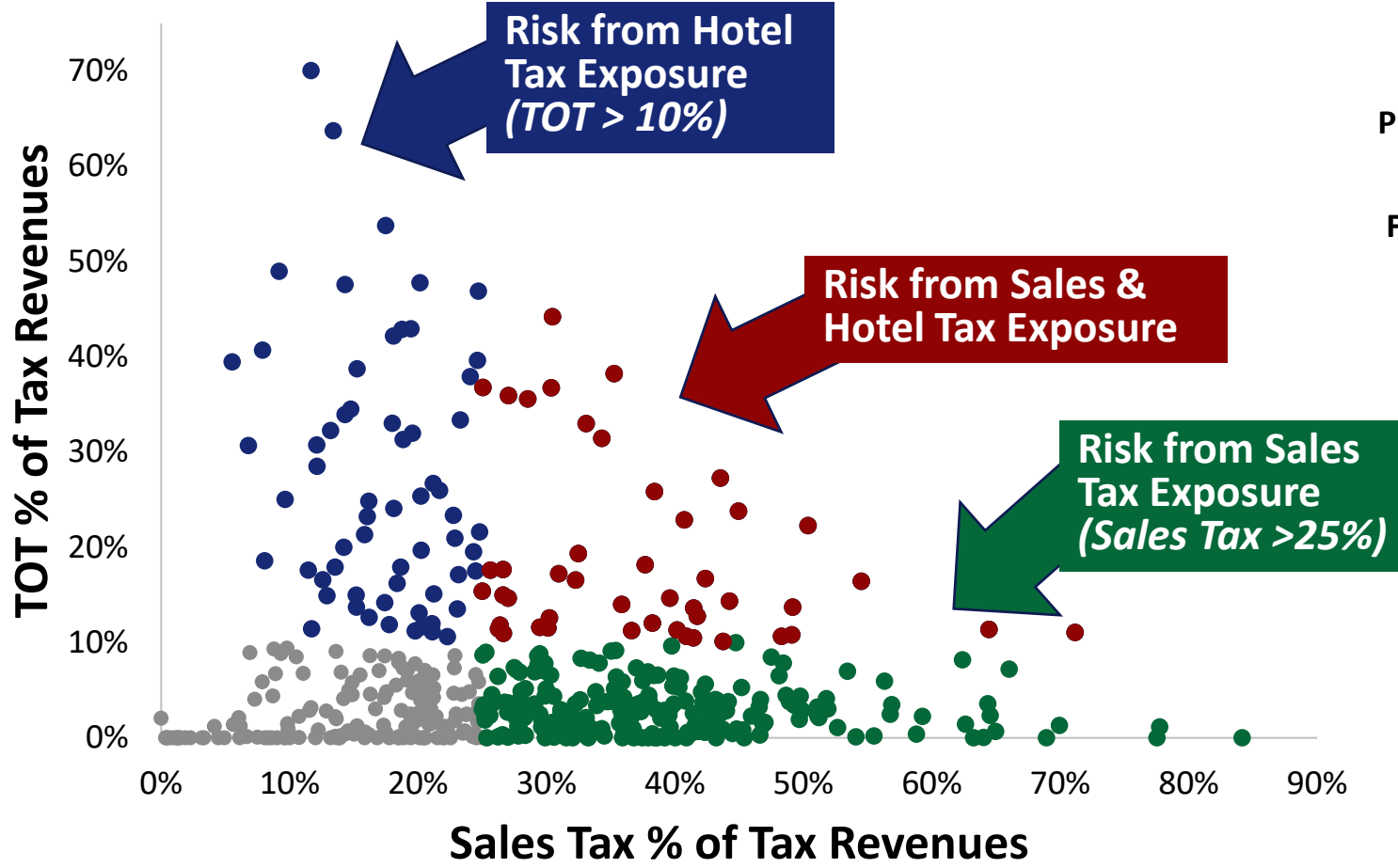
US Public REIT Performance by Sector, Total Return (%), 2019 & 2020 YTD (as of September 31)



Private Sector Loss = Public Sector Loss

The Median California City Collects >1/3 of Tax Revenue from Sales + TOT

California City Tax Revenues



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**
EIFDs &
Tax Districts



**Entitlements
Currency**



**Financing
Currency**



Land Use Revolution *Everything's Changing*

The COVID-19
Economy

Hotel



Resetting; Business vs. Leisure; Conversions to other uses

Retail



Online accelerates; Malls = blended uses, less retail;
Essentials & Experience drive trips; Outdoor anchors

Office



Work-from-Home factor; Six Foot Office; Co-working challenged

Residential



Demand Strong; Redesigning for workspace & amenities;
“Surban” / medium-density more appealing for now

Industrial






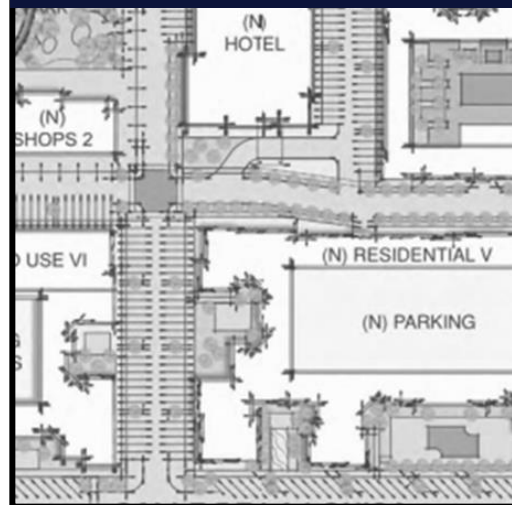






Leader of the pack: Warehouse & Logistics; Last-mile delivery;
Onshore manufacturing



Public Sector Currency in a Post-COVID World

New Tools & New Rules

				
<p>Land Use as Currency</p> <p><i>Retail Reimagination: Revenue & vitality from blending land uses</i></p>	<p>Zoning as Currency</p> <p><i>Development Opportunity Reserve (D.O.R.)[®]: Community benefits for new density</i></p>	<p>Entitlements as Currency</p> <p><i>Community benefits and equivalent tax revenues from PPPs and DA negotiation</i></p>	<p>Low Interest Rates as Currency</p> <p><i>Leverage low rates to reduce debt costs with POBs, refunding, and P3</i></p>	<p>Tax Increment as Currency</p> <p><i>EIFDs / CFDs: Fund infrastructure with value capture and district financing</i></p>
				



Land Use as Currency

Reimagining Retail Centers

New Tools &
New Rules

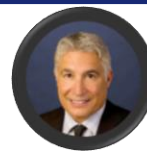
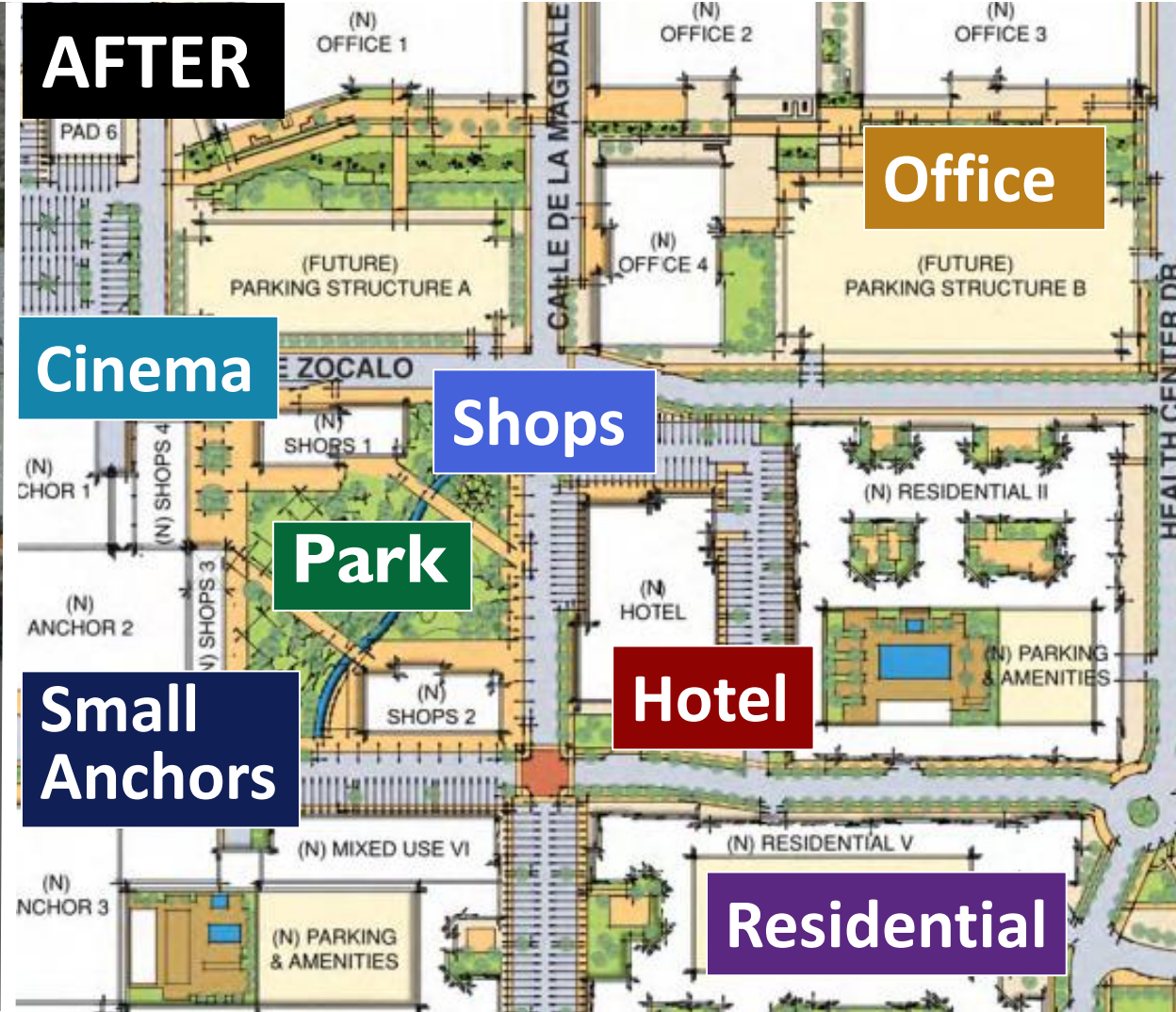
BEFORE



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

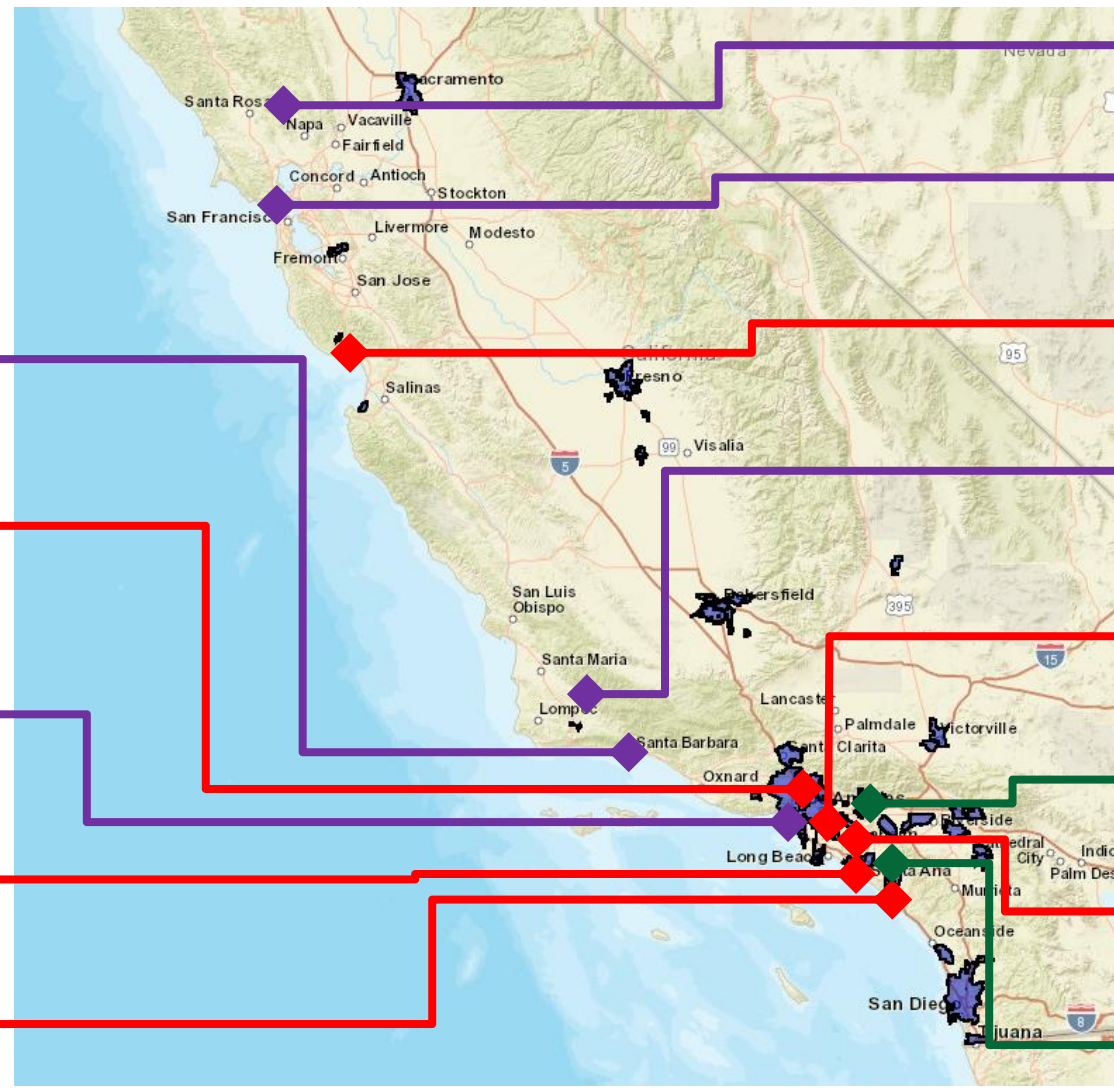
AFTER



Land Use as Currency

Reimagining Retail

The future of retail is **Mall Reimagination Projects**, **Downtown Retail Districts**, and **Financing Districts**.



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

St Helena
Retail District Strategies

Sausalito
Commercial District Analysis

Capitola
Mall Reimagination Advisory

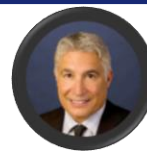
Solvang
Economic Development Strategy & Advisory

South Gate
Public-Private Transaction Advisory for Azalea Shopping Center

La Verne
EIFD Advisory

Buena Park
Mall & Retail District Advisory

Placentia
EIFD Advisory



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

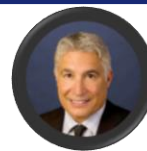
City “manufactures”
new Density via Specific
Plan / Zoning

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*

New Tools &
New Rules

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



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



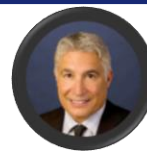
Pension Obligation Bonds & Other Financing Strategies

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



Placentia Case Study Funding Infrastructure with Enhanced Infrastructure Financing Districts

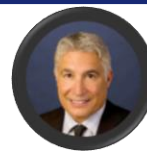


Tax Increment Financing Districts
Leverage assessed value growth to fund infrastructure improvements

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

Placentia / Orange County EIFD Partnership

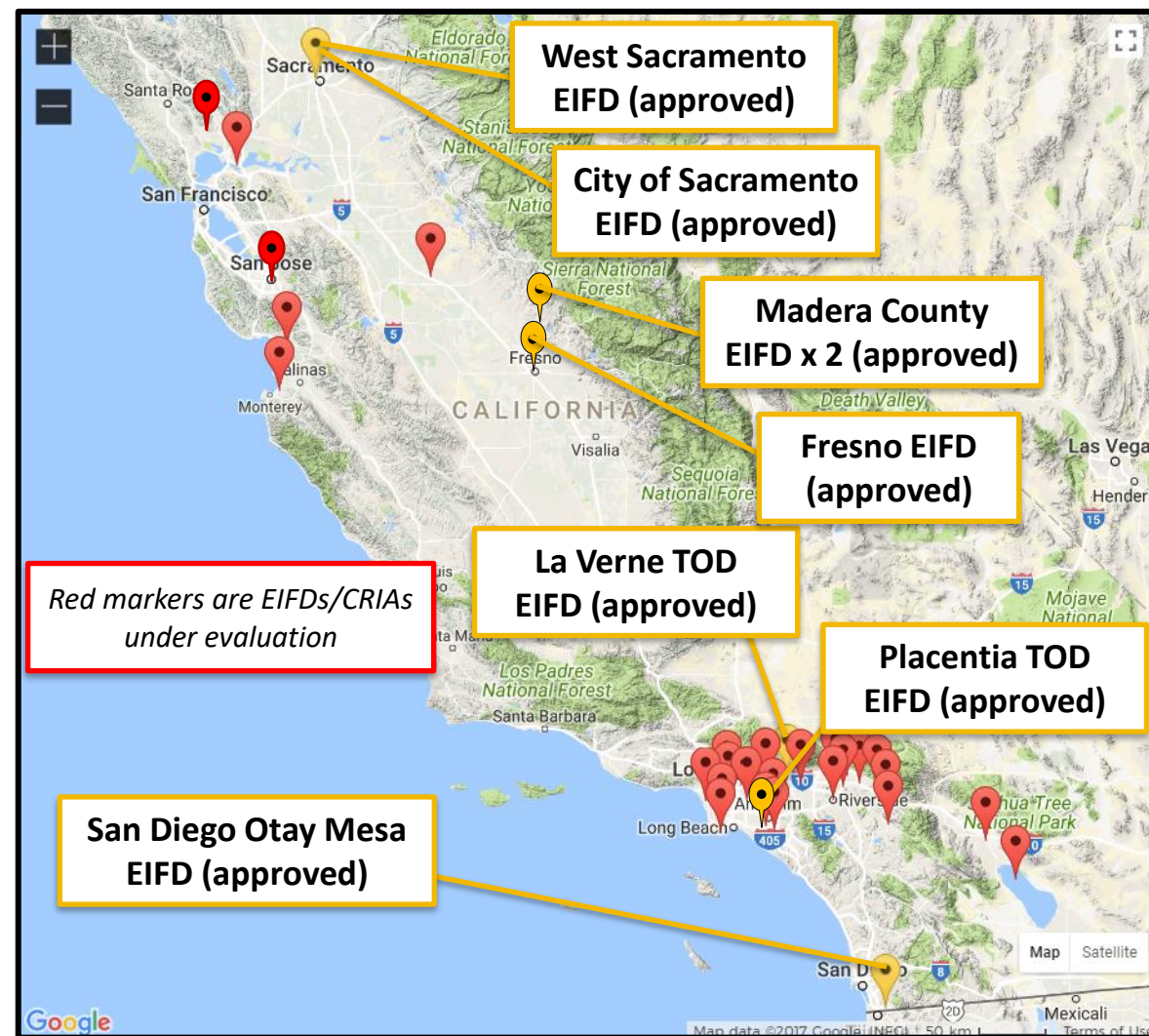
- 300+ acres
- >\$460M expected in new AV from residential, retail, restaurant development
- Net Fiscal Benefit: \$22M to City, \$15M to County
- Will fund streets, sewer, parking, transit connectivity



TIF Districts in Progress

EIFDs and CRIAs

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



Source: Kosmont EIFD/CRIA website (<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

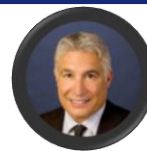
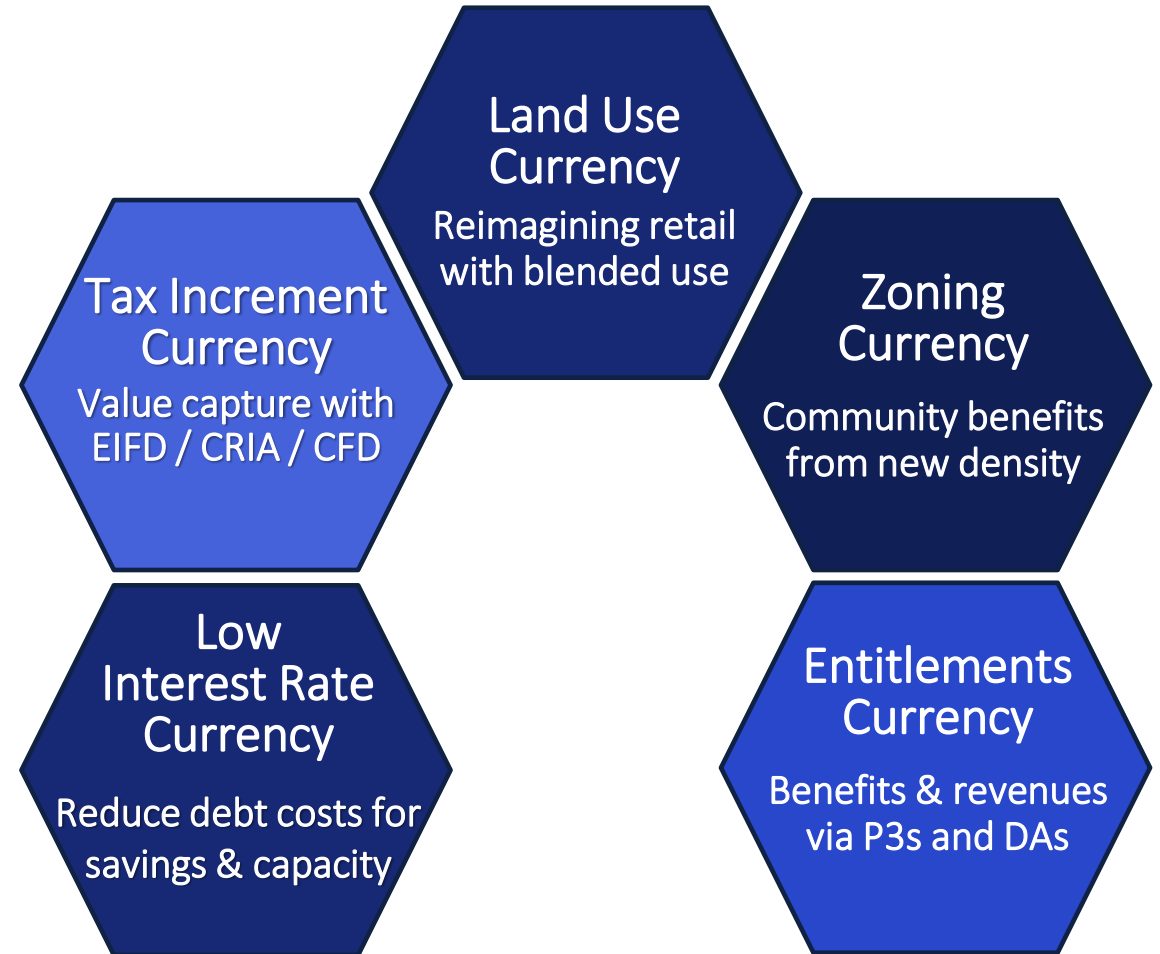
Look to the Future

Evaluate your post-COVID local economy & opportunities

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

Select economic development tools & priorities

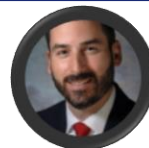
Build & implement a post-COVID econ. dev. strategy



Damien Arrula

City Administrator

City of Placentia



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Introduction

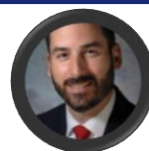
- City of Placentia 2015 Fiscal Condition
- Fiscal Sustainability, Master Planning, and Economic Development
 - Transit-Oriented Development (TOD)
 - Old Town Revitalization
 - City-Wide Economic Development
- Enhanced Infrastructure Financing District (EIFD)
- Financing Opportunities, S&P Credit Rating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



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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



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Fiscal Sustainability, Master Planning, and Economic Development

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

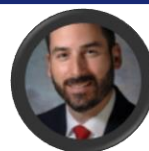


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Catalyst for Economic Development and Master Planning

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

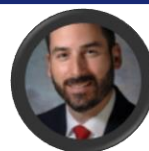
Metrolink Tentative Updated Schedule

- *Construction of underground utilities currently underway*
- *Begin construction June 2021*
- *Complete construction in January 2023*



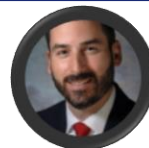
Transit-Oriented Development (TOD) – Packing House District Highlights

- 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



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TOD Streetscape Master Plan



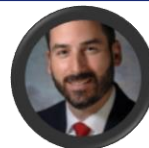
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TOD Streetscape Master Plan



Future



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Transit-Oriented Development (TOD)

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



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

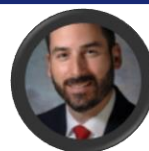
Demolition Underway

Construction to begin
December

Estimated Development

Impact Fees:

\$6.9 Million



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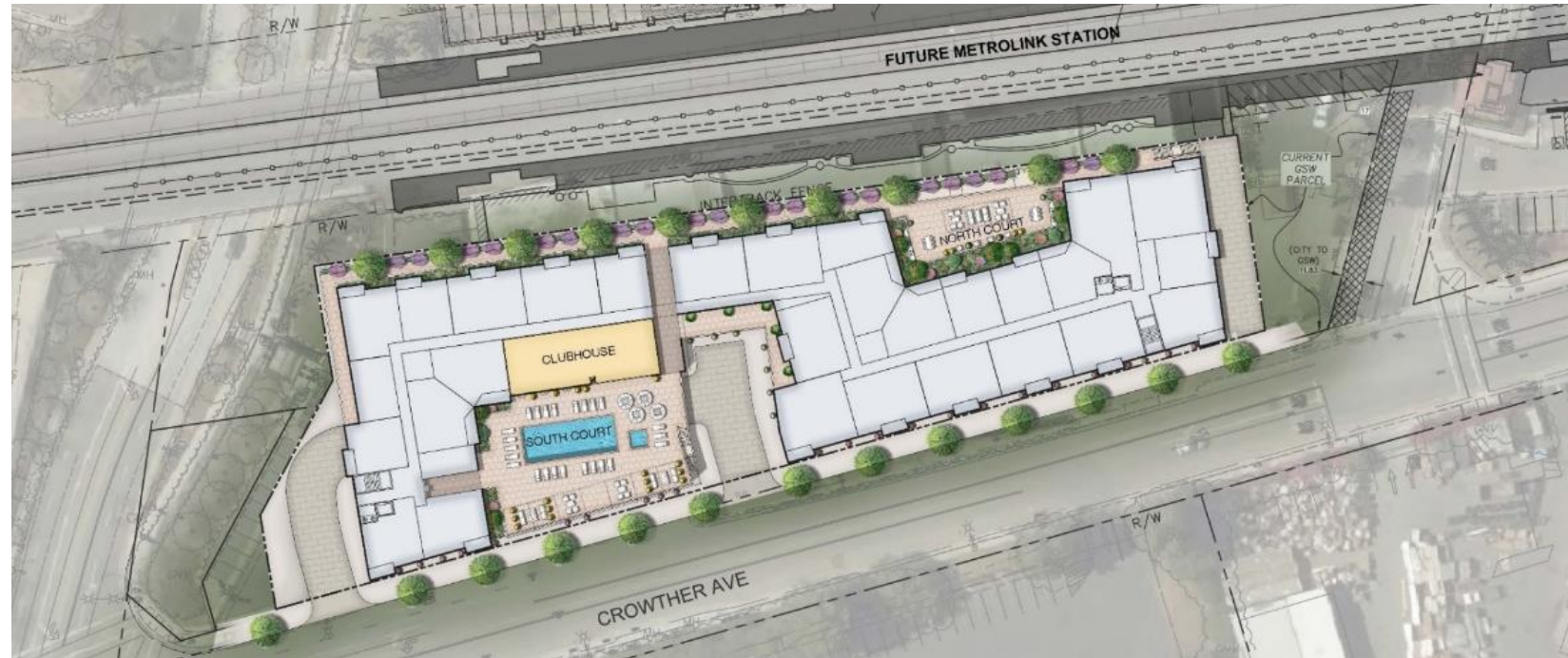
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USA Properties (Former Packing House Property)

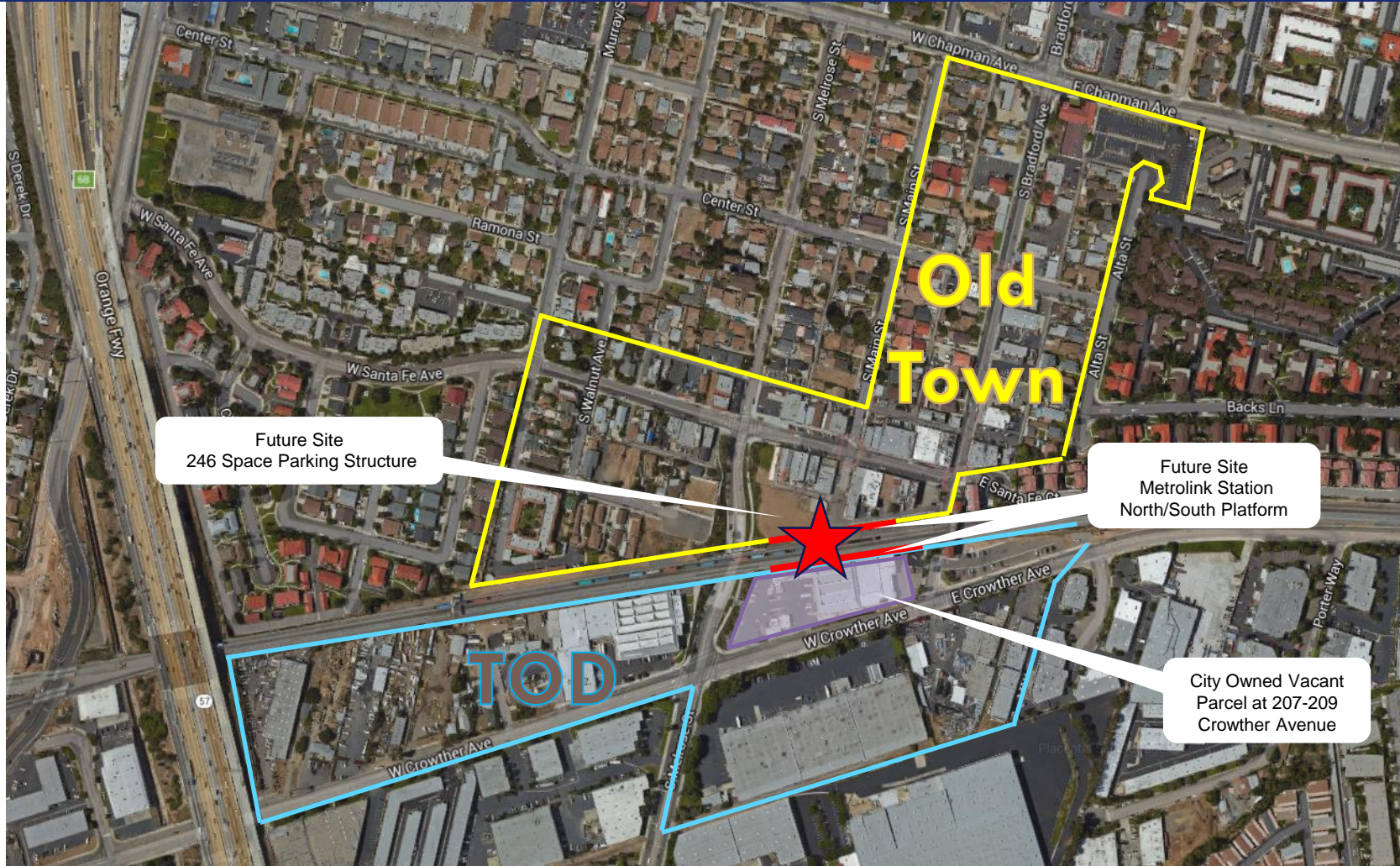
Approximately 189 units
Entitlement Application
submitted

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



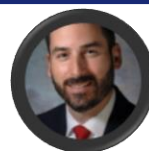
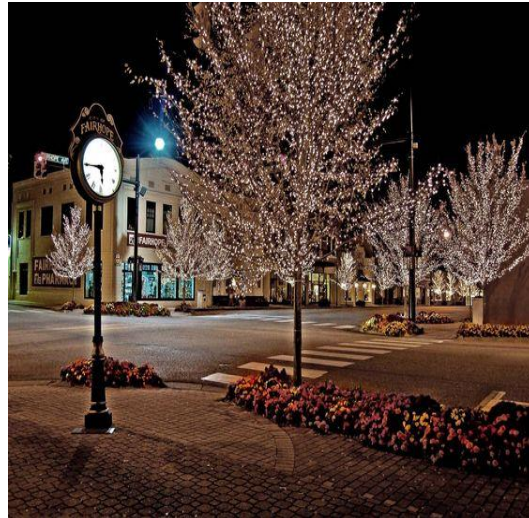
Old Town Placentia Revitalization Plan



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Pedestrian Friendly Active Environment



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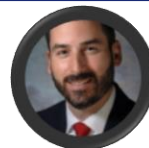
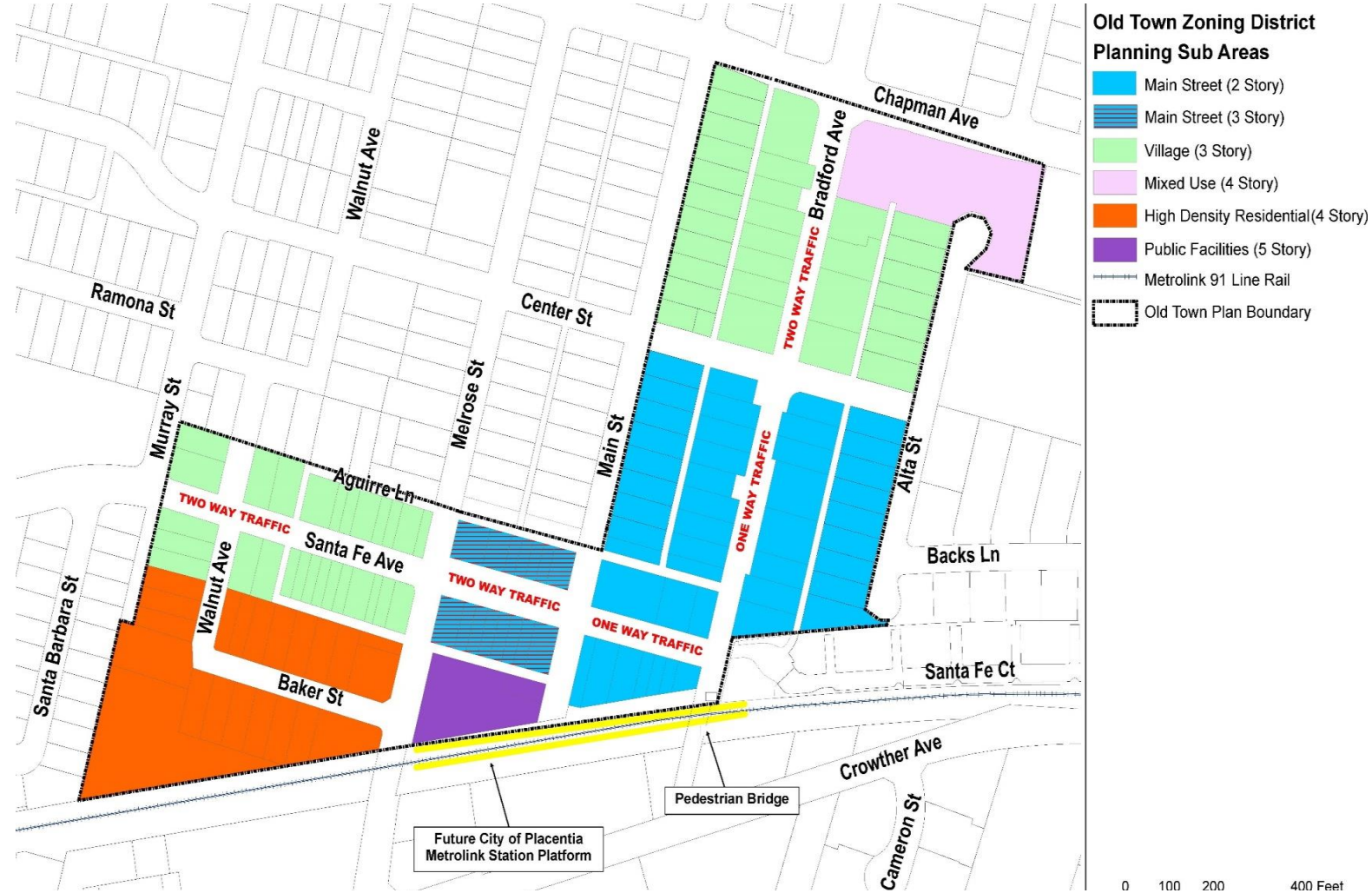
Previous Zoning



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New Zoning



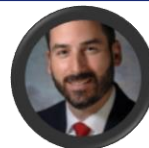
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Streetscape – Bradford Avenue



Current



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Streetscape – Bradford Avenue

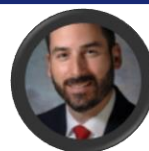


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Streetscape – Santa Fe Avenue

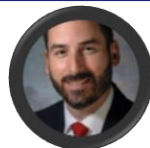
Current



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Streetscape – Santa Fe Avenue



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Enhanced Infrastructure Financing District (EIFD) Old Town Placentia

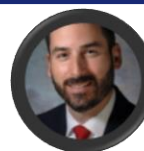
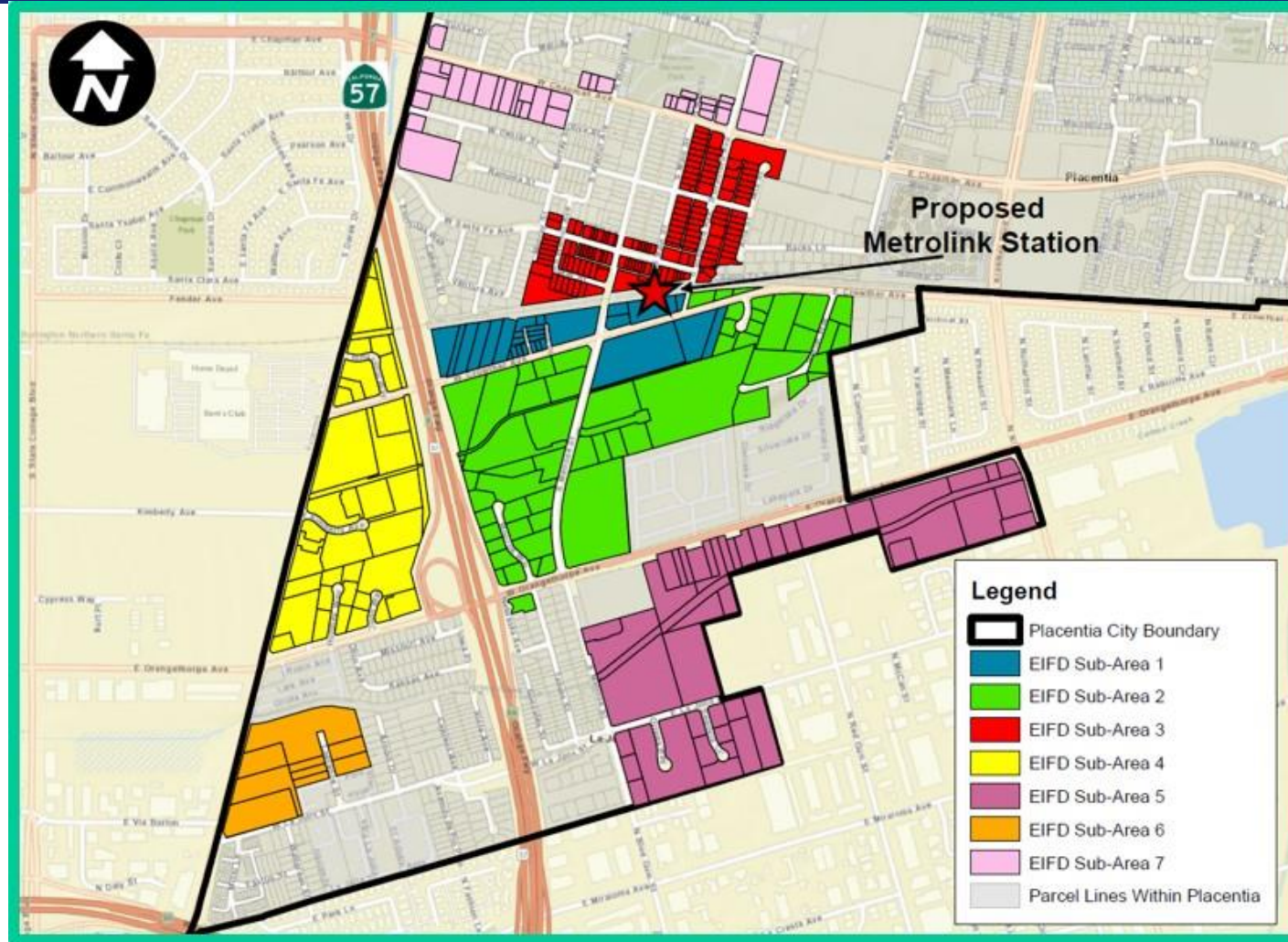
- Continue with remaining public hearing (January 2021)
- Underwriting of initial debt issuance with financing team (Currently in Progress)
- Bond Issuance (February 2021)
- Engineering Design for the Streetscape Improvements (November 2021)
- Go out to bid (January 2022)
- *Start Construction (March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

**Contingent upon available financing*



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EIFD - Old Town Placentia



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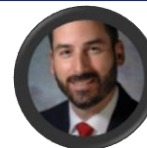
Citywide Economic Development



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City-Wide Economic Development



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Economic Benefit Analysis

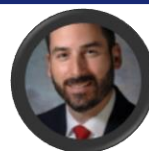
- 22M in net fiscal impact to the City (50-year present value)
- \$15M in net fiscal impact to County
- 1,600+ housing units
- 3,900+ construction jobs
- 1,150+ permanent jobs
- \$800+ million in economic output from construction
- \$164+ million in annual ongoing economic output, convenient transit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



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S&P Credit Increase

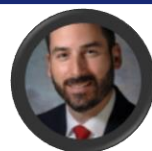
- 2019 Triple Credit Rating Increase to BBB
- Standard & Poor's (S&P) Global Ratings recently issued the City of Placentia an 'A-' credit rating with a 'positive outlook'
- Additionally, S&P also:
 - Upgraded the 2011 Gas Tax Bonds from A- to A
 - Upgraded the 2003 COPs from a BBB to a BBB+
 - Affirmed the 2020 Placentia Public Financing Authority Lease Revenue Bonds of BBB+



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Damien Arrula

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 conservatism (*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



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



NOW SPEAKING
David Bilby

**PROPRIETARY
DO NOT DUPLICATE**

Chula Vista Elite Athlete Training Center

Finance Director
Perspective

- 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

Look to the Future

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

