



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** January 22, 2018

FROM: Matthew Bronson, City Manager

PREPARED BY: Matthew Bronson, City Manager

SUBJECT: Economic Development Assistance Policy Framework

RECOMMENDATION

Approve policy framework for providing financial or other assistance to economic development projects that generate significant tax revenues or other benefits to the City.

BACKGROUND

Economic Development is one of the Council's Major City Goals for 2017-18 with a focus in the following areas:

Strengthen the City's economic base by implementing an economic development strategy that includes retention and expansion of existing businesses, and constructing the Grover Beach Lodge & Conference Center and other hotels; permitting and regulating commercial cannabis activities; and installing and implementing broadband fiber in industrial and commercial areas.

This goal also supports the City's Economic Development Strategy approved by the Council in April 2017. For many years, the City has made economic development a key priority for City government in creating a thriving economic environment and a strong tax base. The City has undertaken numerous projects to support its economic growth including creating a broadband fiber partnership with the County and Digital West, promoting the development of the Grover Beach Lodge and other hotels to create more visitor-serving businesses, and enabling the commercial cannabis industry to become established in the City. Economic development has also been a driver behind infrastructure improvements such as street repairs as such improvements are important to help business activity.

On November 6, 2017, staff presented an item to the Council to receive policy guidance on potential incentives and City support for economic development projects. This topic is pertinent given the timing of the Grover Beach Lodge and Conference Center project along with two other catalyst hotel development projects on El Camino Real that in total would add over 400 new hotel rooms generating an estimated \$1.6 million annually in tax revenues to the City. The Council does not have an adopted policy on when to provide financial assistance to private developers, how to determine the appropriate amount of City assistance, or whether to hire a financial consultant to review a project proforma to inform City decisions on financial assistance. It is common for cities to provide some degree of assistance to support catalyst development projects that support economic development and generate tax revenues for City services and projects. Such assistance can include infrastructure improvements, revenue repayment or deferral, fee payment or deferral, direct funding support, and other forms of assistance.

The Council conveyed the importance of providing City assistance to catalyze economic development projects and provided direction to staff to develop a policy framework to guide City discussions and negotiations between the City and respective developers and property owners. Such a framework can be used in working with the respective developers on the three catalyst hotel projects currently pending to help bring these projects to fruition and begin generating tax revenues for the City.

Below is a summary of this policy framework recommended to the Council as shown in Attachment 1:

Policy Considerations: These considerations are important in articulating the overall goals and approach in providing economic development assistance. Of particular importance is providing backbone infrastructure in areas targeted for growth and investment to help facilitate private investment. Seeking a third-party assessment of project financials and economic impacts is also important given the degree of potential public investment.

Project Types: City assistance is not proposed to be provided to every development project but rather reserved for certain projects that have a significant benefit to the City. Specifically, this framework recommends such assistance be considered for hotels or other visitor-serving uses or large-scale commercial developments that will generate significant tax revenues or demonstrate other benefits to the City. The degree of private investment (defined as project funding by a developer or property owner) is also a potential factor in determining whether economic development assistance is warranted. As a reference, each of the three hotel projects currently pending has a range of \$25-40 million in private investment. Other development projects such as housing can be desirable to meet other policy goals but would not generate the degree of revenues to the City that would merit the assistance envisioned in this framework.

Tools: Several different tools are identified in this policy framework to offer various forms of assistance. These tools include ones presented previously to the Council such as infrastructure investment and direct funding support but also include development and reimbursement agreements and permit streamlining. A combination of these tools may be provided to projects based on specific needs and estimated revenue generation.

The Council is asked to review this proposed policy framework to determine if this is consistent with the Council's previous direction and identify potential revisions. Pending this deliberation, the Council is further asked to approve this policy framework to guide discussions and negotiations with developers and property owners for current and prospective projects.

FISCAL IMPACT

The fiscal impact from this item is undetermined at this time as the degree of public investment would be determined on an individual project basis.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Approve the proposed policy framework for providing financial or other assistance to economic development projects that have a significant benefit to the City; or
2. Provide revisions to the proposed policy framework and approve the amended version; or
3. Provide alternative direction to staff.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act. The developer of the Grover Beach Lodge (Pacifica Companies) and developers of 950 El Camino Real (Urban Commons) and 1598 El Camino Real (Ram Krupa Real Estate LLC) were sent a copy of the meeting agenda and this staff report.

ATTACHMENTS

1. Proposed Policy Framework

City Assistance for Economic Development Projects Policy Framework

Policy Considerations

- Provide backbone infrastructure in key commercial/industrial areas targeted for growth and investment
- Provide economic incentives to facilitate private investment that generates economic activity and tax revenue
- Consider public investments that are feasible, fiscally responsible, appropriately timed, and able to be implemented
- Incorporate impact on public safety and other City services
- Seek third-party assessment of project financials and economic impacts

Project Types

- Hotels or other visitor-serving uses or large-scale commercial developments
- Ability to generate significant tax revenues or demonstrate other benefits to the City
- Significant degree of private investment involved

Tools

- Infrastructure investment
 - Utility undergrounding, including water, sewer, and electrical
 - Street and sidewalk improvements
- Revenue deferral
 - Defer project-related revenues over time (typically up to five years)
 - Examples include property taxes, sales taxes, TOT, or other applicable revenues
- Fee deferral
 - Deferral of project fees (e.g. Development Impact Fees) to project completion or occupancy
- Direct funding support
 - Direct funding from General Fund revenues up to a Department of Industrial Relations de minimus threshold for the project (approximately 1.75% of project costs)
- Development and reimbursement agreements
 - Development agreement that documents project expectations, public investment and benefits
 - Reimbursement agreement that documents direct funding support from the City if indexed to TOT revenues
- Permit streamlining
 - Expedites permitting process to reduce application time