

# REVENUE WORK SESSION-2-ECONOMIC DEVELOPMENT

## **Fiscal & Organizational Sustainability - Phase 2** **February 5, 2013**



# TODAY'S SESSION – REVENUE PART 2

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## Economic Development

### Part 1: General Tax Revenue Work Session

- Reviewed detailed information about City revenue sources – both tax and non-tax
- Saw how Novato compares to other cities in some key categories
- Reviewed fiscal sustainability revenue ideas over which the City has some control
- Provided a few choices to add to the Fiscal Sustainability Options Tool

### Part 2: Economic Development Strategy

- Learn Novato economic position in the market and its opportunities
- Present the Economic development strategy and possible revenue sources
- Provide a few choices to add to the Fiscal Sustainability Options Tool



# CURRENT COUNCIL STRATEGIC PLAN GOALS

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## Economic Development Program

- Business Retention and Recruitment
  - Focus on high-paying jobs and industry
  - Create marketing materials and website to promote Novato as a viable business community
  - Develop a develop a business visitation and retention program with a focus on key business sectors
  - Explore and utilize appropriate tools to catalyze economic development
  - Explore opportunities to improve image of the City and pride in the community
- Enhance the vibrancy of public Spaces, retail centers and downtown
  - Expand retail services for residents and employees
  - Promote Downtown as a destination with boutique shops, great restaurants & entertainment
- Generate on-going revenue and return where appropriate from City-owned assets
  - Seek to remove land use constraints where appropriate and optimize ability to fully utilize and generate revenue and Hamilton from City properties
  - Evaluate and engage a process to more fully utilize City-owned properties while respecting the historical nature of some of these assets in Hamilton.



# BACKGROUND

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## Economic Development

**Economic Development staffing:** Economic Development Director and newly hired Hamilton Base Reuse Director will work toward making Novato a *thriving business environment*

### Work In Progress

- Development of an Economic Development strategy is underway
  - Retail Market Strategy with a retail leakage study
  - Hamilton property reuse analysis
- Assessing marketing materials and web site to promote Novato as viable business community
- Relationship building with business and development community
- Using economic development as a revenue generator is a long-term game

### Context

- With the loss of redevelopment, the City has limited funding for purchase of property, business recruitment, etc
- The City has little to no control over market forces but can influence economic development
  - Marketing, relationship building
  - Facilitating public/private partnerships and strategic alliances
  - Changing zoning and granting entitlements



# ECONOMIC DEVELOPMENT & FISCAL SUSTAINABILITY

## How Economic Development is Related to the City's Fiscal Condition

### Economic Development

*(as a fiscal sustainability tool)*

Business Retention  
and Recruitment  
Growing Tax Base

Tourism

Use of City Assets



**To increase revenues  
from:**

- Property Tax
- Sales Tax
- Transient Occupancy  
Tax

# SALES AND PROPERTY TAXES

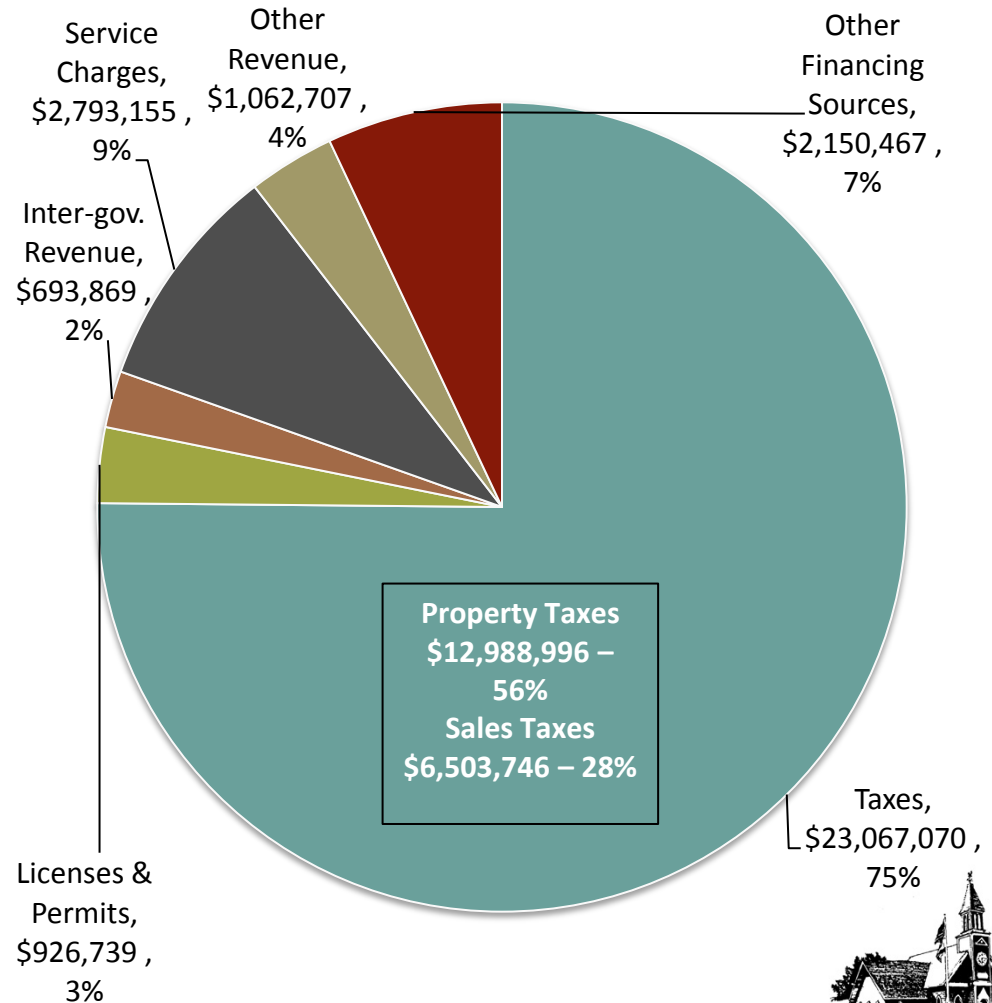
## Brief overview of Sales and Property Tax revenue in Novato

### Sales Tax – 8.75%

- Including Measure F, Novato receives a total of 1.5% sales tax
- General Fund receives a total of \$6.5 million in basic sales tax (not including triple flip)
- Measure F adds \$4.1 million – segregated in special fund (but can be used for any lawful purpose) sunsets March 2016

### Property tax - \$12 million

- Includes – secured and unsecured property tax, MVLF, triple flip sales tax, supplemental property tax, other



# MEASURE F – DIRECT FUNDING

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## **FY12/13 Economic Development program**

### **Staffing level of ED Program**

- 1.0 FTE-Economic Development Manager (four-year limited-term)
- 0.5 FTE Hamilton Base Reuse Director (two-year limited term)
- Operating program budget-\$65,000

# GLOBAL CONSTRAINTS AND OPPORTUNITIES

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## Constraints

### Measure D (1987)

- Majority vote required for the City to enter into any significant acquisition of property

### Loss of Redevelopment Funding

- City no longer has non-General Fund monies to invest in the development of property or business recruitment

### High Wealth Community

- The City doesn't qualify for most State and Federal economic development grants

### Control

- The City has no control over market forces

## Opportunities

### Economic Development program

- The City can proactively seek out economic development opportunities

### Control over land use

- The City has the ability to zone and entitle areas for potential development opportunity

### Market situation on the upswing

- Although slow, the market is growing

### Areas for potential development

- The City has a number of areas for potential development and revenue generation





# ECONOMIC DEVELOPMENT WORK PLAN



THE CITY OF  
NOVATO  
CALIFORNIA

# PROPOSED ECONOMIC DEVELOPMENT PRIORITIES

“The quality of life and level of City services are directly proportionate to the continued economic growth and vitality of its residents, businesses and workforce”

Robert Eyler, Ph.D.  
Marin Economic Forum



# ECONOMIC MARKET TRENDS

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## Regional and local economic market

Novato's unemployment rate of 5.5% is lowest in California, 6.5% San Francisco & 6% San Mateo

### Median housing price increased

- Bay Area: 32% - \$442,759
- Marin: 28% - \$660,750
- SF: 21% - \$720,000

### Retail sales increased

*(Over the last four quarters)*

- State: 8%
- Bay Area: 8%
- Marin: 6.4%
- Novato: 1.5%

### Commercial vacancy rates

CoStar reported all commercial property vacancy rates in Novato **decreased** in 2012.

- Office: 21% to 20%
- Industrial: 5.9% to 5.1%
- Retail: 5.2% to 4.5%

*(Less than 8-10% vacancy means developers will start looking to build)*

### Employment

- Novato's average job growth rate is higher than overall Marin County but still behind the County by 4% in actual jobs filled



# 2012 BUSINESS / JOB REPORT CARD

## General job growth trends based on media reports

Businesses that expanded	
Business	Number of jobs
2K Video Game	30% more space - 300 jobs
Birkenstock	100% more space – 65 jobs
Toys for Bob	74% more space – 75 Jobs
CTUIT	triple size in next 3 years -19 jobs
Buck Institute	Expanded 60k sf. new laboratory
Navitas Natural	\$20M 2012 sales 50 jobs

Businesses that moved jobs out	
Business	Number of jobs
BioMarin Headquarters	300
SPG Solar	65
Biosearch	120

**Estimated net gain: 150 jobs**



# IMPLEMENTATION OF CITY COUNCIL'S STRATEGIC PLAN 2010 - 2014

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## Business Retention & Recruitment

- Promote Novato as a premier business, retail and tourist destination
- Focus on high paying industries and jobs
- Strengthen and expand the City's economy and tax base

## Enhance the Vibrancy of Public Spaces, Retail Centers, & Downtown

- Expand retail Services for residents, visitors & employees
- Promote downtown as a destination with boutique shops, great restaurants and new entertainment
- Expand parking in Downtown



# THREE LEGS OF ECONOMIC DEVELOPMENT

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- I. **Economic Sustainability and Delivery of City Services**
- II. **Business Retention and Recruitment**
- III. **Image and Quality of Life**



# ECONOMIC SUSTAINABILITY OF CITY SERVICES

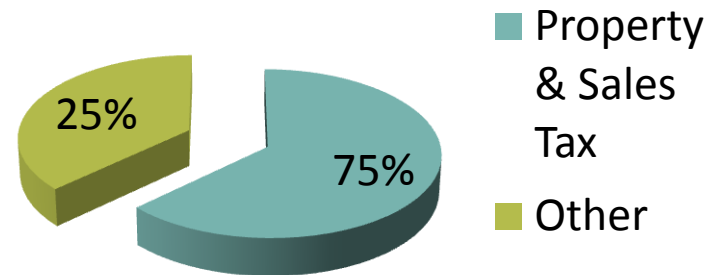
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**Annual retail sales and property tax revenue:**

- Property Tax - \$12 million or 56%
- Sales Tax - \$6.5 million or 28%

**Annual property and sales tax revenue account for 75 % of the total revenue**

## City Revenues



# RETAIL SALES AND TAX LEAKAGE

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## Prior studies

- 2008 public opinion survey by EMC found that 75% of Novato residents wanted new retail development and sales tax dollars to pay for City services
- 2010 study by Ultra Research found that Novato residents were purchasing \$161 million in neighboring communities- (\$200 million in 2012 dollars)
- In 2012 Novato residents are funding City services in San Rafael and Petaluma to the tune of \$3 million annually or the equivalent of 23 Novato police officers

## Extrapolated Impacts

Non-Commuting Novato residents are annually:

1. Spending \$100 million shopping outside of Novato
2. Making 869K trips a year to San Rafael, Corte Madera and Petaluma to shop
3. Traveling 26 million miles
4. Spending \$5.6 million on gas
5. Expending 10 years (24/365) of time shopping outside of Novato
6. Emitting 8,451 metric tons of CO2

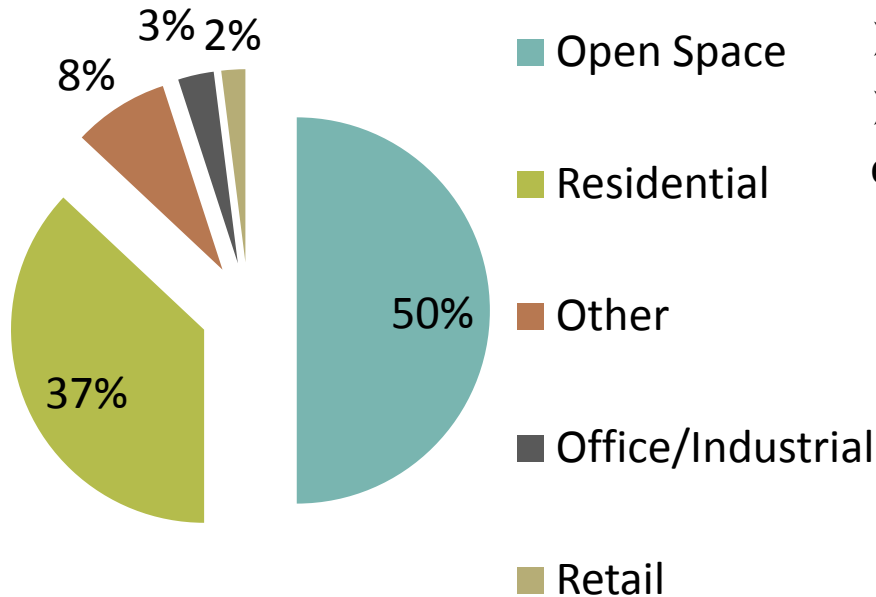




# RETAIL SALES AND TAX LEAKAGE

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**Land use by %**



**Retail Uses:**

- Occupying 2% of City land area
- Generating 21% of City revenue and
- Accounts for 18% of the City's total economy

# RETAIL SALES AND TAX LEAKAGE

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## Action Items

- Updating the Retail Leakage Study
- Identify retail
  - I. High demand retailers
  - II. High sales tax generators
- Work with property owners, developers and brokers to recruit desired retailers that fit within community character
- Complete the General Plan update specifically for retail land uses

## Action items

- Develop and distribute retail marketing info.
- Network and attend retail trade shows (ICSC)
- Meet with desired retailers and explore their options in Novato
- Assist individual retailers and developers and facilitate the City approval process

# BUSINESS RETENTION & RECRUITMENT

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*Investing, Uncompromised*

# BUSINESS RETENTION & RECRUITMENT

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## Retention

- Network and help growing businesses expand
- Meet with struggling businesses and, potentially, assist them

## Recruitment

Industry Cluster Targets:

- Bio-Tech / R & D
- App & Game/Entertainment technologies
- Entrepreneurs



# BUSINESS RETENTION & RECRUITMENT

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## Retention Action Items

- Meet with expanding companies
- Meet with companies whose leases are expiring
- Expand website to include all federal, State, County, private sector and small business assistance programs
- Sponsor or co-sponsor small business assistance programs

## Recruitment Action Items

- Attend industry cluster meetings & conferences
- Prepare and send direct marketing materials to targeted companies
- Meet with targeted companies looking to expand or re-locate
- Assist companies in site selection and re-location
- Participate in County and regional marketing

# IMAGE & QUALITY OF LIFE

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## Image

- Small town atmosphere with many urban amenities in Novato or nearby
  - Highly educated workforce
- Center for entrepreneurs and start-up businesses in growth industries

## Quality of Life

- Recruit high paying businesses and jobs
  - Promote corporate giving to community causes and organizations
  - Support a vibrant and active downtown
- Promote Novato as a destination



# IMAGE & QUALITY OF LIFE

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## Image Action Items

- Develop and market a “Business” brand image
- Develop and implement a proactive media campaign on successful entrepreneurial and targeted industry companies in Novato

## Quality of Life Action Items

- Work with angel investors to support entrepreneurial start-up companies
- Promote Novato as a location for targeted industry conferences and meetings



# FUNDING OPTIONS FOR ECONOMIC DEVELOPMENT





# OTHER ECONOMIC DEVELOPMENT OPTIONS

## Financing Districts






Staff  
Recommended



Minimal ED revenue  
generation



Not recommended  
by staff

Other ED Options	What is it?	Requirements
 <p>Infrastructure Financing Districts</p>	<p>Diverts property tax increment revenues from the General Fund for 30 years to finance capital infrastructure projects in a specific non-blighted areas. Exists currently and rarely used in California.</p>	<p>Two, 2/3-majority votes of Leg Body and property owners to form district and agreement from other taxing agencies to use tax increment</p>
 <p>Infrastructure Financing Districts Proposed Legislation – (Wolk)</p>	<p>Diverts property-based tax increment revenues from the General Fund for 40 years to finance capital infrastructure projects in a specific area (excluding auto-oriented or big-box retail developments); Creates a Public Financing Authority Identical legislation vetoed last year</p>	<p>Majority-vote by Public Financing Authority (two public members and three members of Legislative body that formed the district) to issue bonds, agreement from other taxing agencies to use</p>
 <p>Community Facilities Districts (CFDs)</p>	<p>Special property tax on real estate value to pay for City services, infrastructure and to issue bonds</p>	<p>2/3-majority vote by property owners within the proposed CFD</p>
 <p>Benefit Districts</p>	<p>Property owners pay for public improvements or services that provide a special benefit to their property</p>	<p>Weighted-majority vote by property owners</p>



# OTHER ECONOMIC DEVELOPMENT OPTIONS

## Bonds






Staff  
Recommended



Minimal ED revenue  
generation



Not recommended  
by staff

Other ED Options	What is it?	Requirements
 <p>General Obligation</p>	<p>Backed by the City and paid for by increasing local property taxes to fund improvements to public facilities, roads etc.</p>	<p>2/3 majority-vote (City-wide)</p>
 <p>Revenue</p>	<p>Backed by the City and paid for by a specific revenue source. Increasing taxes to pay debt service is NOT allowed</p>	<p>Must have specific revenue source defined</p>
 <p>Conduit</p>	<p>The City issues bonds on behalf of companies or non-profits to finance projects</p>	<p>Specific project to be funded</p>

# OTHER ECONOMIC DEVELOPMENT OPTIONS

## Grants, Development Incentives and Other







Staff Recommended



Minimal ED revenue generation



Not recommended by staff

Other ED Options	What is it?	Requirements
 <p>CDGB grants</p>	<p>Federal community development block grants fund local development activities such as affordable housing, anti-poverty programs and infrastructure development. Marin County administers the CDBG program for all eleven cities.</p>	<p>51% of beneficiaries of a CDBG-funded project must be defined as low-income. Limited funding available.</p>
 <p>Tax rebates</p>	<p>The City offers particular industries or developments tax breaks to encourage them to locate within the community.</p>	<p>City Council approval</p>
 <p>Discount or fee waivers</p>	<p>The City offers fee waivers to businesses to encourage them to locate within the community.</p>	<p>City Council approval</p>
 <p>Community Development Corporations (CDCs)</p>	<p>Community-formed non-profit organizations that have the ability to promote and support development within the community.</p>	<p>Community desire to form CDCs</p>

# FISCAL SUSTAINABILITY/MEASURE F IDEAS



# ED OPTIONS FOR FISCAL SUSTAINABILITY

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## Overview

**Goal:** Provide potential economic development revenue options for fiscal sustainability tool

### Development sites for potential revenue generation

- Hanna Ranch
- North Redwood Corridor
- Hamilton
- Various vacant and underused sites

Revenue estimates from each development are rolled-up into tiered options for consideration in Fiscal Sustainability Options Tool

Tiered options provide choices around the types of economic development available

# HANNA RANCH – HOTEL AND COMMERCIAL

## Entitled development approved by Council

### Location:

- Southern end of Rowland Boulevard, east of Highway 101 and north of State Route 37, in central Novato

### Mixed-use Development:

- 34,700-sqft of retail
- 21,200- sqft office space
- 116-room business class hotel
- 10,000-sqft restaurants
- Estimates full build-out

### Challenges

- Estimates don't include cannibalization of other businesses

Development Type	Minor build-out w/out Hotel	Build-out w/out hotel	Full build-out
Transient Occupancy Tax	\$0	\$0	\$370,000
Sales Tax	\$59,000	\$118,000	\$235,000
Property Tax	\$13,000	\$ 27,000	\$ 54,000
<b>Total:</b>	<b>\$72,000</b>	<b>\$145,000</b>	<b>\$660,000</b>



# DEVELOPMENT PLAN AND PROPOSED MODEL



# NORTH REDWOOD CORRIDOR

## Estimate of potential development for Redwood Blvd

- Public engagement process initiated to gauge the community's development preferences
- The area with the highest potential is the north-west side of Redwood Blvd-north of Olive Dr.
- The area consists of mostly vacant and underdeveloped parcels

Development	City Retail-Oriented	Regional Retail-Oriented	Mixed-use Regional Retail with Housing
Square feet	144,000	144,000	192,000
Average price per sqft sales	\$340	\$460	\$460
Housing	-	-	280 units
Sales Tax	\$490,000	\$655,000	\$800,000
Property tax	\$ 60,000	\$ 75,000	\$200,000
<b>Total:</b>	<b>\$ 550,000</b>	<b>\$730,000</b>	<b>\$1,000,000</b>





# EXAMPLES OF DEVELOPMENT

## Visual examples of potential developments on Redwood Blvd

### City-oriented retail



### Regional-oriented retail



### Regional-oriented retail with housing



# HAMILTON

## Available land

The new Hamilton Base Reuse Director is conducting analysis on these properties for potential new uses.

### Lands to Parks Parcels

- Parcels must be used for recreational purposes or open space and can't be sold
- Possible swap or kind-value exchange for other properties

Type of Property	Sites	Acres	Vacant Buildings
Land to Parks Parcels Vacant Property	Commissary	5.5	-
	Town Center	4	Theater
	Officers Club and BOQ	4	
Unencumbered Vacant Property	Hamilton Hospital	3	Hospital
	Transit and Senior Housing Site	3	-
	HUD parcel	5.5	-



# HAMILTON LANDS TO PARKS PARCELS



**CITY OF NOVATO  
EXISTING LANDS TO PARKS PARCELS**



# REVITALIZATION-INFILL-RENOVATION-UPGRADE

## Opportunity sites-0-10 years

Potential revitalization and infill of vacant and underused entitled and un-entitled properties

- Hangars
- Office buildings-various locations
- Former Birkenstock building
- Fireman’s fund parcel
- Vacant parcels North of San Marin Dr. on Redwood Blvd
- Neighborhood retail centers

Development	Low	Med	High	FS Timeline
Vacant/Infill				
Phase 1: Entitled	\$250k	\$500k	\$750k	Years 0-5
Phase 2:Un-entitled	\$250k	\$500k	\$750K	Years 5-10
<b>Total:</b>	<b>\$500k</b>	<b>\$1M</b>	<b>\$1.5M</b>	

# NEXT STEPS

## Options for Revenue

### Potential development scenarios

Development	Low	Med	High
Hanna Ranch	\$ 72,000	\$145,000	\$660,000
Redwood Corridor	\$ 550,000	\$730,000	\$1,000,000
Hamilton	Tbd	Tbd	Tbd
Vacant/Infill			
Phase 1: Entitled	\$250,000	\$500,000	\$750,000
Phase 2:Un-entitled			
<b>Total estimated revenue</b>	<b>\$870,000</b>	<b>\$1.5M</b>	<b>\$2.4M</b>

# OPTIONS FOR FISCAL SUSTAINABILITY TOOL

## Options for Revenue

Choose the level of revenue from economic development you believe is reasonable/expected/probable (using potential development estimates) for the fiscal sustainability tool:

Economic Development Tiers	Revenue
ED Tier 1	\$0
ED Tier 2	\$500,000
ED Tier 3	\$1M
ED Tier 4	\$1.5M
ED Tier 5	\$2.0M

# CONCLUSION

## Economic Development

