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Vallejo: Opportunities for a Quality Future

Presented by:

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Outline

- I. Cities: Choices and Challenges**
- II. Cities Have to be Better than Ever**
- III. Economic Development**
- IV. The Secret of Economic Development**
- V. How does Vallejo Compare**
- VI. Solano County & City of Vallejo**
- VII. Fiscal Revenue Analysis of**
- VIII. Major Vallejo Developments**

I. Cities: Choices and Challenges

Municipalities Need Revenue to Provide Services

Municipalities are Service Companies Trying to Improve Quality of Life

- Municipalities focus on providing services and responding to quality of life issues
- Municipalities pay for current services with existing taxes and fee revenue
- Municipalities can improve services if they generate additional revenue

Municipalities Have Choice Constraints

- There are only Two Primary Options for Municipalities to Raise New Revenues:
 1. A Vote of the People to Increase Taxes
 2. Economic Development
- Economic Development = Corporate Expansion, Retail Development and Real Estate Projects, Which Create New Jobs and Generate Revenue

*II. Cities Have to be Better Than Ever
at Economic Development, Because the
State is No Help*

Businesses Are Leaving California

State policies are causing cities to lose their important tax generators:

- It is getting harder to do business in California, and companies are voting with their feet.
- Anti-growth sentiment is felt across the board by all types of businesses.
- This serious issue is sneaking up on the Legislature (they are too busy dealing with budget deficits).
- California offers little besides quality of life and an intelligent workforce. Housing stock, affordable quality education, and business friendliness are MIA.
- Governor Schwarzenegger is focusing on economic development and a healthy business climate. It is an uphill battle that will take time.

Kiplinger California Letter

Kiplinger California Letter

California rates very poorly as a business friendly state according to the Small Business Survival Committee in Washington, D.C.

California ranks 46th in business friendliness.

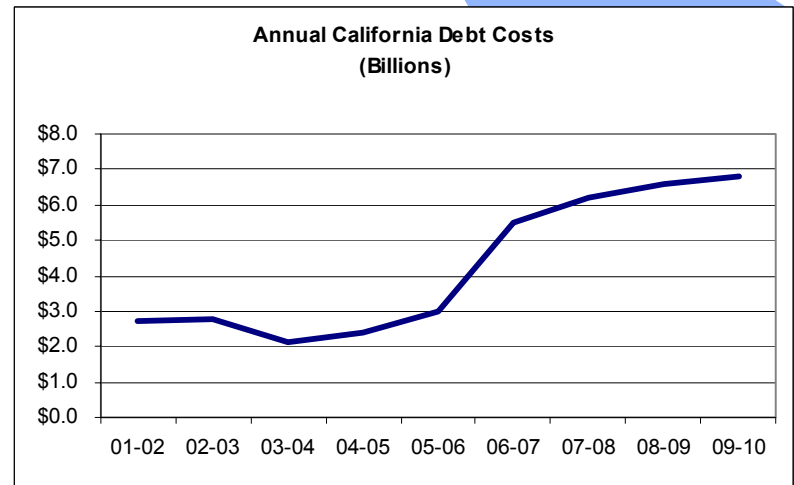
Taxes are the state's biggest problem. Personal income tax is the nation's fourth highest and corporate income tax weighs in at 12th. Also, California's property tax even with Prop. 13 are the 38th highest.

Other business costs are also high. The state ranks third in electricity rates and sixth in workers' comp insurance rates.

State Budget Deficit

- 2004-2005 budget
 - Unfunded gap of slightly over \$17 billion
- California's borrowing costs will increase over time
 - \$2.4 billion in 2004-05
 - \$5.5 billion in 2006-07
 - \$6.8 billion in 2009-10

California Legislative Analyst's Office



“Protection of Local Revenues”

Prop 1A

- Approved on November, 2004 ballot
- Prohibits the State from reducing local governments' property tax proceeds
 - Stabilizes city funds
 - No more ERAF
- Requires a 2/3 majority in State legislature to suspend funds
- If funds are suspended- must be repaid within three years.
- Requires the State to fund legislative mandates on local governments or suspend their operation

State Surplus Property

- Even State understands real estate means economic development
- Prop 60A – Passed on November, 2004 Ballot
 - Dedicates proceeds from the sale of State owned surplus property to payment of principal and interest of economic recovery bonds
- Sale of 49 state-owned properties could bring the State between \$1.6 billion and \$4.4 billion
- Properties include:
 - 33 university campuses
 - 50,000 lane miles of highways and 12,000 bridges
 - 33 adult prisons and 9 youth correctional facilities

“Safe Seats” in the Legislature Make it Tougher to Get Closure on Important Policy Decisions

- Bipartisan redistricting agreement in 2001 created districts with overwhelmingly partisan registrations.
- Many legislators have seats in “safe” districts where they are very unlikely to be unseated by the other party.
- These legislators tend towards the extremes rather than the center, because their main challenge comes from within their party rather than from the opposition party.
- Compromises on taxes and spending are less likely.

California is Getting More Expensive

State legislation has increased the cost of doing business in California:

- AB 749 - has doubled workers' compensation costs for some businesses, making California the most expensive system in the nation
- SB 1661 - expands disability compensation to include injury of a family member or birth of a child
- SB 975 - requires prevailing wages be paid on any private project receiving State assistance
- AB 60 - mandates overtime pay after eight hours, for more than 40 hours per week
 - California is the only state in the country with this requirement

California is Getting More Expensive

State legislation has increased the cost of doing business in California (*continued*):

- AB 76 - expands an employer's liability for harassment of a worker to include harassment by parties such as customers and clients, over whom the employer has no control.
- AB 1715 - limits the use of arbitration in employment contracts potentially increasing the amount and cost of settling employment disputes
- AB 1690 - allows cities and counties to impose their own local income taxes with 55% voter approval
- SB 2 - overturned by Prop. 72, required firms to pay for health insurance

*III. Economic Development:
“The Mother’s Milk Necessary to
Achieve Local Quality of Life”*

The Case for Economic Development

- Since the passage of Proposition 13, 62 and 218, the most consistent ways to create new jobs and tax revenues have been:

Corporate Expansion

Retail Development

Real Estate Projects

- Cities need economic development to maintain a tax base that supports constituent quality of life and services requirements.
- A comprehensive economic development strategy with political leadership and private sector support is essential to favorably compete with other cities.

Economic Development

Sound Public Policy Supported by Incentives

City Leaders Should Send a Pro-Business Message for Economic Development:

The objectives are to:

- Attract new business prospects
- Enable approval of real estate transactions
- Generate taxes and jobs
- Retain existing businesses and help expansion

Economic Development (cont.)

Sound Public Policy Supported by Incentives

In order to accomplish a comprehensive economic development program you need:

- Streamlined processes
- Business-friendly tax structure
- Targeted incentive programs
- Get involved in private sector location decisions
- Aggressively pursue businesses to locate in the region
- Monitor local business expansion and relocation plans

Cities Benefit from Private Sector Activities

- Cities need businesses to generate new jobs
- Cities like sales tax and “big box” retail is still king despite the adoption of “big box” regulations
- Cities get highest return on hotel taxes
- Cities recognize that housing is an essential component of economic development
- Cities need to invest in and expedite infrastructure projects to “prime the local pump”

*IV. The Secret to Economic
Development – Cities Must
Learn to Induce Private Sector
Investment, Not Tax It*

Balanced Approach to Revenue Creation

- Cities must balance their desire to raise money through increased or new taxes with their need to provide incentives for business development and job creation.
- Cities can find new resources by positioning themselves to compete aggressively for available state and federal funds.
- Cities with major projects that fulfill economic development strategies need to assure completion via a cooperative entitlement process.

How Does the Private Sector Rate Cities?

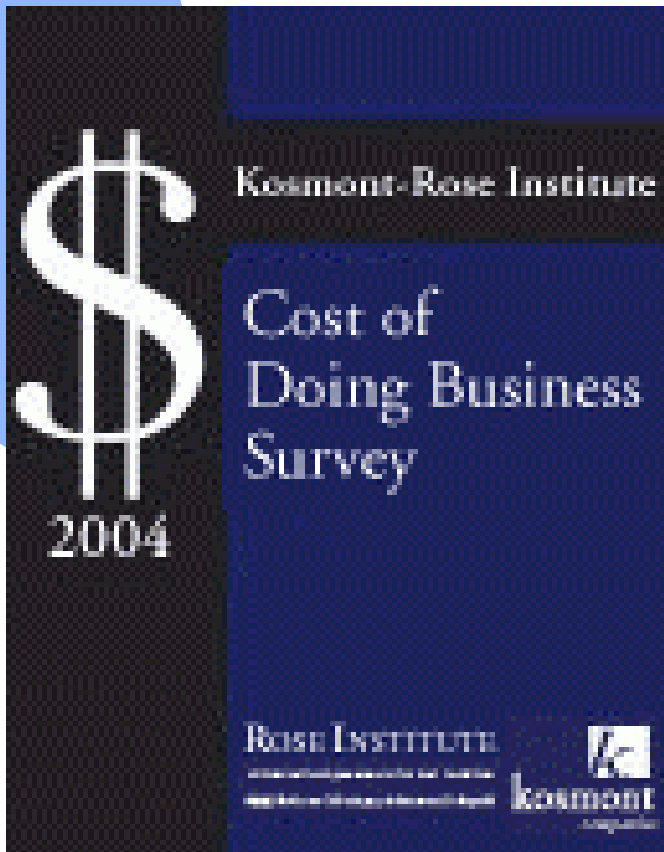
- Cost of Doing Business (taxes/fees/expediting)
- Business friendly government approval process – the private sector desires “certainty”
- Economic development strategies and availability of incentives
- Political leadership that is supportive of business
- City staff that are trained and skilled in economic development, redevelopment and project processing

What Concerns the Private Sector?

- Approval process too lengthy and poorly managed
- Changes in political leadership and unpredictable politics
- Unclear community objectives & economic development policies
- Lack of support from community for development projects or corporate users

*V. How Does Vallejo Compare
With Other Cities?*

2004 Kosmont – Rose Institute[®] Cost of Doing Business Survey



- Database of Fees, Taxes, & Incentives
- Business License Fees
- Kosmont Cost Ratings
- Utility User Taxes
- Special Development Fees
- Economic Incentives
- Special Zones
- Transportation Amenities
- 314 Cities Nationwide

Kosmont-Rose Cost Ratings

\$ Very Low Cost

\$\$ Low Cost

\$\$\$ Medium Cost

\$\$\$\$ High Cost

\$\$\$\$\$ Very High Cost

Kosmont-Rose Cost Ratings provide a consistent means to compare costs in communities based on several local tax rates

Ratings give equal weight, with parity adjustments, to four locally imposed costs:

1. Business Taxes
2. Telephone Taxes
3. Electric Taxes
4. Property Taxes
5. Sales Tax

**In 2004, the City of Vallejo earned a
\$\$\$\$ HIGH COST Kosmont-Rose
Cost Rating**



Utility User Taxes

- | | |
|---------------------|------|
| 1. <i>Electric</i> | 7.5% |
| 2. <i>Telephone</i> | 7.5% |
| 3. <i>Cellular</i> | 7.5% |
| 4. <i>Gas</i> | 7.5% |



Transient Occupancy Tax Rate (11.0%)



“Special Development Fees” including:

1. *County Facilities Fee*
2. *Fire Mitigation Fee*
3. *Transportation Fee*
4. *Excise Tax*
5. *Parks Fee (Residential)*

Kosmont - Rose Institute Cost Ratings: California Cities

\$\$\$\$\$

Alameda
Bell
Berkley
Los Angeles
Oakland
Pomona
San Bernardino
San Francisco
Santa Monica

\$\$\$\$

Vallejo
Alhambra
Burbank
Fontana
Long Beach
Palm Springs
Pasadena
Riverside

\$\$\$

Adelanto
Barstow
Carson
Hesperia
Irvine
Oxnard
Sunny Vale

\$\$

Anaheim
Bakersfield
Corona
El Cajon
Moorpark
Orange
San Diego
Tustin

\$

Roseville
Sutter Creek

Kosmont - Rose Institute

Cost Ratings: Select Northern Cal. Cities

\$\$\$\$\$

Alameda
Berkley
Oakland
San Francisco
Stockton

\$\$\$\$

Vallejo
Emeryville
San Leandro
Santa Rosa
Daly City
Redwood City
Sacramento

\$\$\$

Freemont
Pleasanton
Benicia
Napa
Novato
Eureka

\$\$

Dublin
Vacaville
Petaluma
San Rafael
Sebastopol
Redding

\$

Roseville
Sutter Creek

What Does This Mean for Vallejo?

Vallejo, as compared to similar cities in California, is a relatively high cost city in a constrained post-Prop 13 tax and revenue raising environment.

Vallejo must an effective current economic development strategy supported by an efficient project processing program.

*VI. Solano County &
City of Vallejo -
Well Positioned...*

*will the Execution Capture the
Potential?*

City of Vallejo Characteristics

- Population = 116,760
- Median Family Income \$57k -- \$3K higher than California median
- 63% of units owner occupied
- 55% travel 30 or more minutes one-way to work
- 54% of Vallejo residents over age 25 attended college
- Five Redevelopment Project Areas:
 - Waterfront, Vallejo Central, Florsden, Marina Vista, Southeast Vallejo

Solano, the Positives

- Solano is economically outpacing the Bay Area
 - 20% general growth between 2002 and 2003
 - Next highest was Napa at 5%
 - Other counties declined
 - Santa Clara declined 30%
- Diverse economic base
- Only Bay Area County with net overall increase in jobs

Vallejo, the Positives

- City has an estimated \$4.5 million surplus
- Economic growth of almost 20% in 2002-2003
- High employment growth rate compared to other California cities
- Public/Private Joint Venture friendly
- Unique and vast State Enterprise Zone opportunity on Mare Island
- Good location and well connected by highways, the ferry, and three international airports within 50 miles

Solano & Vallejo, the Challenges

- County still has region's lowest average annual income and highest unemployment rate
- Infrastructure
 - Major improvements to I-80 and I-37 required
 - Failure of county wide Prop A (sales tax) limits funding opportunities
- Attracting new businesses – results are mixed
 - Solano EDC has made contacts with businesses looking to expand or relocate, but have found it difficult to consistently persuade businesses to relocated

***VII. Fiscal Revenue Analysis of
Major Vallejo Developments
July 29th, 2004***

**Prepared for Vallejo Chamber of Commerce by
Lee-Kosmont Advisory Services**

Vallejo Chamber of Commerce Fiscal Impact Study

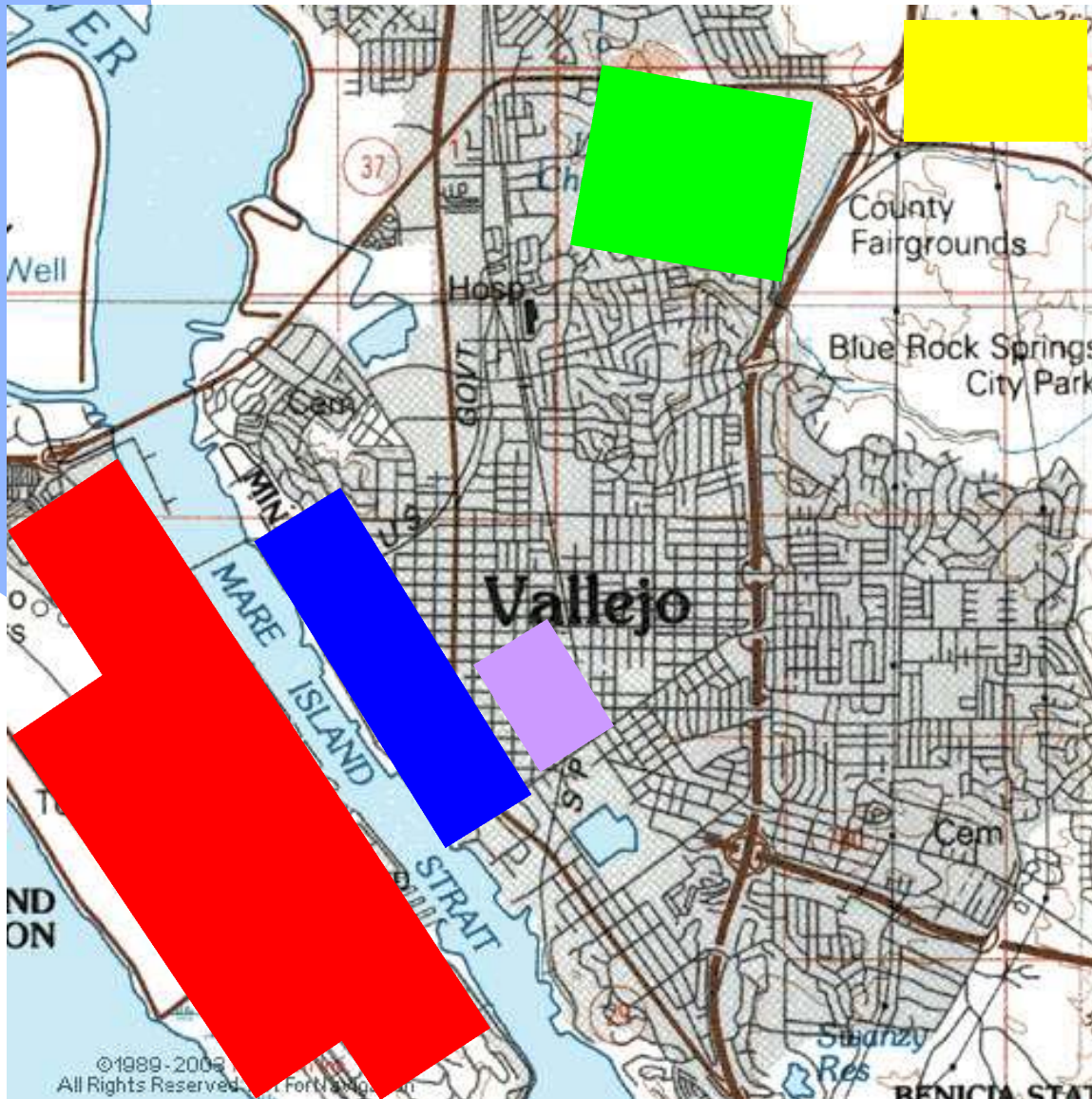
- **Projects Evaluated**
 - Lennar Mare Island
 - Waterfront
 - Fair at Solano
 - Northgate
 - Downtown
- **Screened for over \$15 million**
- **20-year Horizon**






Major Vallejo Economic Development Activity

- **Fiscal Impact***
 - Sales tax
 - Business license tax
 - Utility User Taxes
 - Property Tax
- **Economic Impact**
 - Jobs created directly, indirectly, and induced by Retail, Auto, Industrial, Office, and Residential

*Escalator index applied

Major Economic Development Activity



- Mare Island 
- State Enterprise Zone
- Waterfront 
Redevelopment Project Area
- Solano County 
Fairgrounds
- Northgate 
- Approx. 1700 residential units
- Downtown 

Lennar Mare Island

*650-Acre Mixed-Use Development on
Former Naval Shipyard*

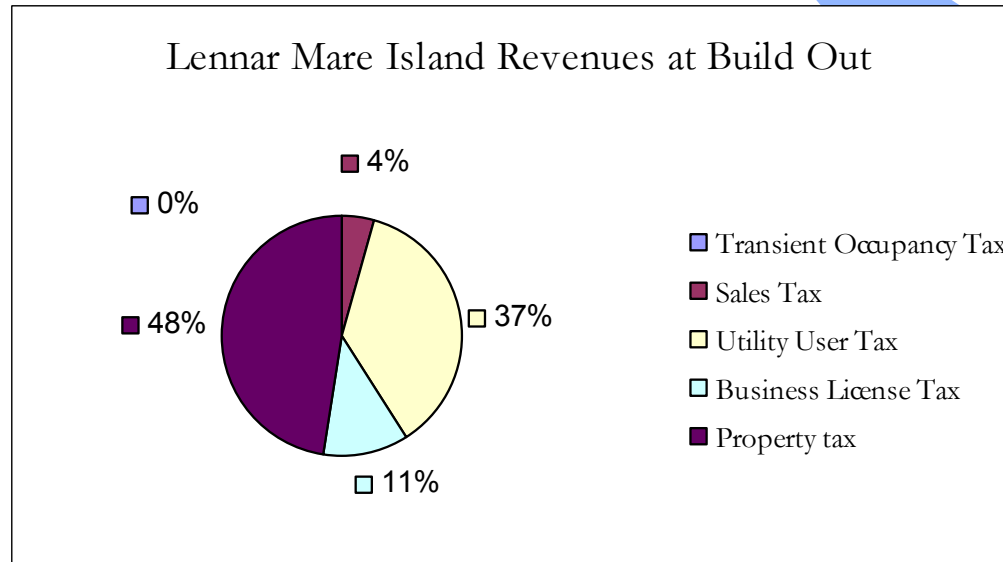
Construction Period 2004 - 2012

- Retail - 157,000 SF
- Office - 1,564,000 SF
- Residential - 1,400 Units

Fiscal Impacts (total value in 2004 dollars)

- At build out - \$6.9 million generated annually
- 2004-2013 - \$41.1 million generated over first 10 years
- 2004-2023 - \$125.6 million generated over 20 years

Lennar Mare Island



- Annual tax generation at build out:
 - \$ 6.9 million
- Total tax generation 2004 - 2023:
 - \$ 125.6 million

2004 Dollars

Waterfront

*110 Acres Along Waterfront between Mare
Island Causeway and Solano Avenue*

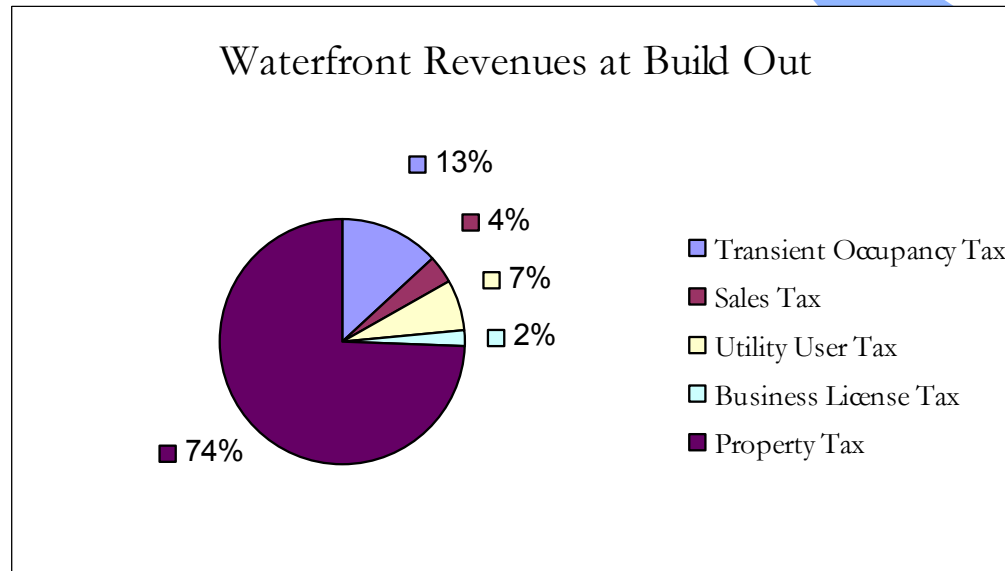
Constructed Period 2004 - 2015

- Retail – 39,000 SF
- Office – 213,000 SF
- Residential – 825 Units
- Hotel – 200 Rooms

Fiscal Impacts (total value in 2004 dollars)

- At build out – \$2.7 million generated annually
- 2004-2013 - \$12.8 million generated over first 10 years
- 2004-2023 - \$54.2 million generated over 20 years

Waterfront



- Annual tax generation at build out:
 - \$ 2.7 million
- Total tax generation 2004 - 2023:
 - \$ 54.2 million

2004 Dollars

The Fair at Solano

Destination Entertainment & Retail Integrated with New & Existing Fair Facilities & Activities “Preliminary Estimates”

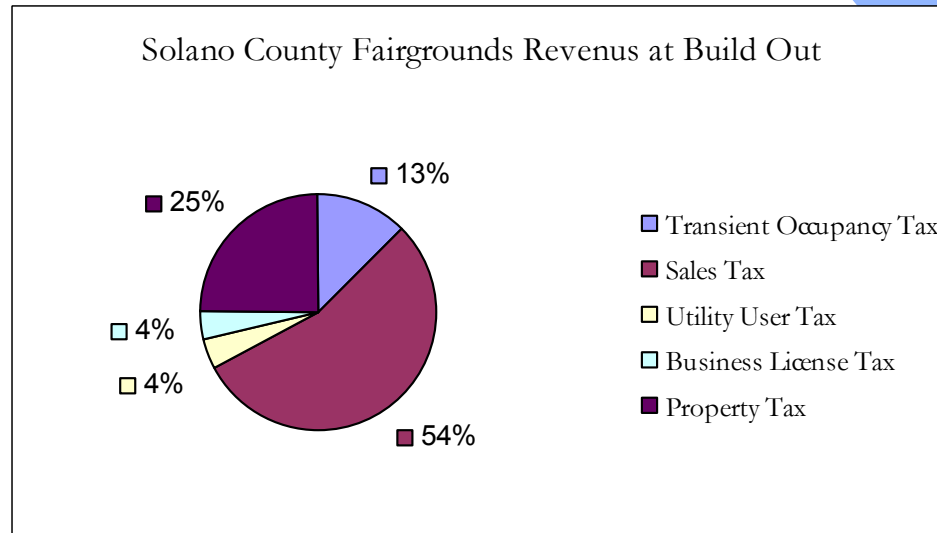
Construction Period 2006 - 2008

- Retail – 850,00 SF
- Facility – 385,000
- Hotel – 300 Rooms

Fiscal Impacts

- At build out – \$5.6 million generated annually
- 2004-2013 - \$38.9 million generated over first 10 years
- 2004-2023 - \$108.7 million generated over 20 years

The Fair at Solano



- Annual tax generation at build out:
 - \$ 5.6 million
- Total tax generation 2004 - 2023:
 - \$ 108.7 million

2004 Dollars

Mixed-Use Development & Auto Sales

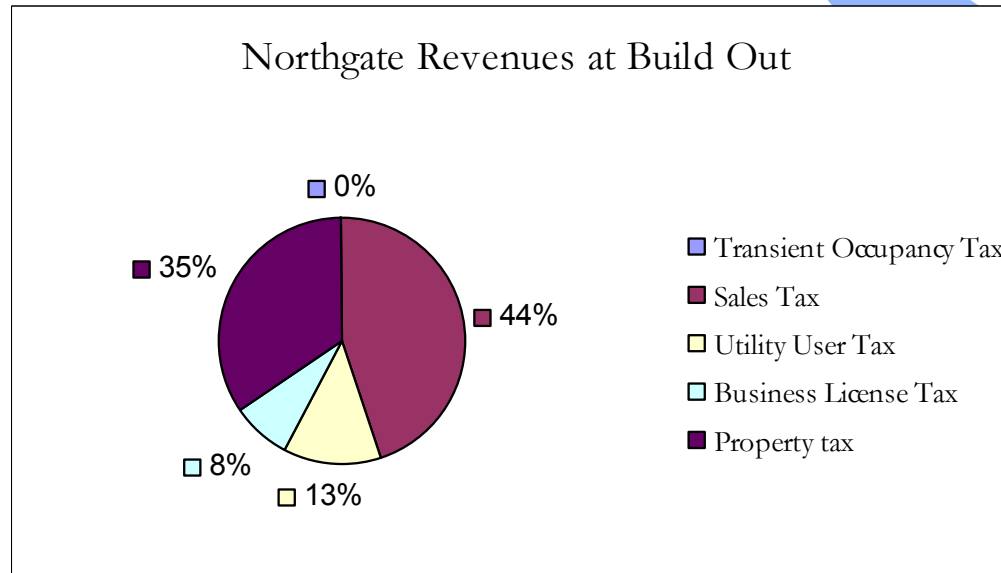
Construction Period 2004 - 2009

- Retail - 100,000 SF
- Office - 120,000 SF
- Residential - 333 Units

Fiscal Impacts

- At build out - \$880,000 generated annually
- 2004-2013 - \$7.1 million generated over first 10 years
- 2004-2023 - \$18.2 million generated over 20 years

Northgate



- Annual tax generation at build out:
 - \$ 880,000
- Total tax generation 2004 - 2023:
 - \$ 18.2 million

2004 Dollars

Downtown

12-Square Block Area in Downtown

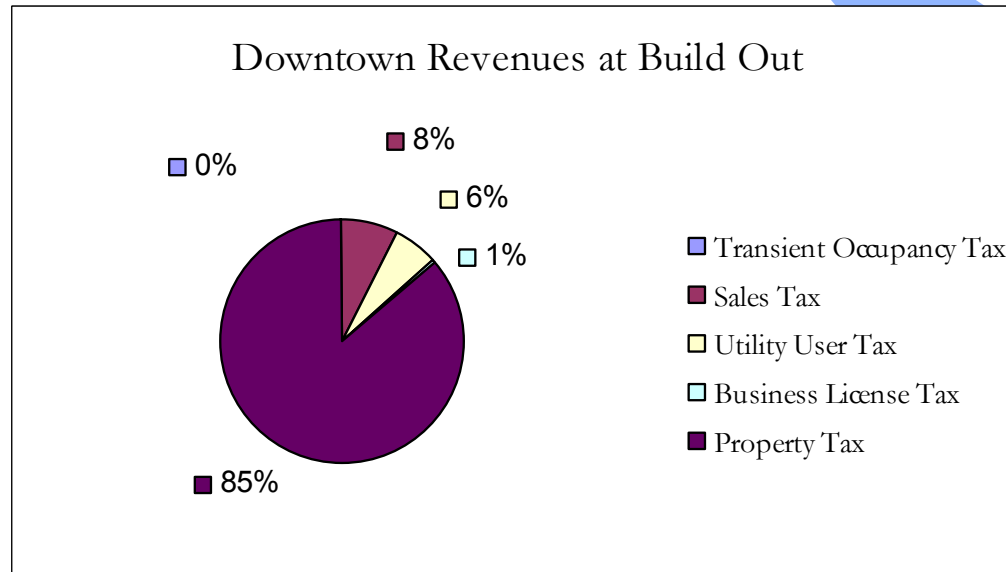
Construction Period 2006 - 2014

- Retail – 62,000 SF
- Office – 14,000 SF
- Residential – 816 Units

Fiscal Impacts

- At build out – \$2.1 million generated annually
- 2004-2013 - \$6.9 million generated over first 10 years
- 2004-2023 - \$33.1 million generated over 20 years

Downtown



- Annual tax generation at build out:
 - \$ 2.1 million
- Total tax generation 2004 - 2023:
 - \$ 33.1 million

2004 Dollars

The Future of Vallejo: Quality of Life funded by Economic Development

Estimated Annual Gross Fiscal Impact per Lee-Kosmont Study

Lennar Mare Island	\$6.9 million
Waterfront	\$2.7 million
Fair at Solano	\$5.6 million
Northgate	\$880,000
Downtown	<u>\$2.1 million</u>

Total = Approx. \$18.2 million per year (general fund and RDA monies)

*Up to a 20 year build out on an undiscounted basis

Total Fiscal Impact of Major Vallejo Projects

Total fiscal impact of new major projects:

- At build out - \$18.2 million generated annually
- 2004 – 2013 – \$106.9 million generated over first 10 years
- 2004 – 2023 - \$339.8 million generated over 20 years

City of Vallejo 2005 general fund:

- Approximately \$75 million

Economic Impact from Construction of Major Vallejo Projects

ECONOMIC IMPACTS FROM CONSTRUCTION ALL MAJOR VALLEJO DEVELOPMENT PROJECTS

	Direct	Indirect	Induced	Total
Jobs	10,300	3,800	5,000	19,100
Income	\$524,168,000	\$137,618,000	\$181,977,000	\$843,763,000
Output	\$1,115,459,000	\$354,930,000	\$415,388,000	\$1,885,777,000

Source: Kosmont-Pollack Model

Income and Output are estimated in 2004 dollars

- **Jobs**
 - 10,300 Direct
 - 19,100 Total
- **Income**
 - \$524 million Direct
 - \$844 million Total
- **Output**
 - \$1.1 billion Direct
 - \$1.9 billion Total

Vallejo: Economic Development Formula for Success

- Despite being a high cost city in a high cost state, Vallejo attracts significant economic development projects
 - Lennar Mare Island, Waterfront, Fair at Solano, Northgate, and Downtown
 - \$18.2 million annually at total build out
- Convert and approve projects consistently and efficiently
 - The contribution of projects will create the quality of life desired by the citizens of Vallejo
 - The sooner projects are constructed the sooner revenues can be captured
- Apply an Economic Development Strategy that:
 - Considers tax values and job creation
 - Utilizes a targeted incentives tool kit that includes public financing methods/resources
 - Capitalizes infrastructure to support key private investments
 - Processes projects efficiently

*This presentation is
available online at*
www.kosmont.com