



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

FINAL DRAFT

CITY OF FOLSOM

ECONOMIC DEVELOPMENT ACTION PLAN

SEPTEMBER 10, 2024



2301 Rosecrans Ave., Suite 4140
El Segundo, CA 90245
TEL: 424-297-1070 | URL: www.kosmont.com

INTRODUCTION

Kosmont Companies ("Kosmont"), a real estate and economics advisory firm serving hundreds of local governments for over 38 years, has been retained by the City of Folsom ("City" or "Folsom") to develop a Phase 1 Economic Development Action Plan ("EDAP"). It is important to define Economic Development: according to CALED, it is generally what a community does to grow the economy and enhance quality of life for all residents, and notes that strategies vary for each community.

Kosmont's approach to preparing the EDAP included the following tasks:

- Review of relevant City documents (budget, planning), together with a tour of the City and its business districts
- Interviews / feedback from City staff, Council members, and community stakeholders
- Assessment of regional economic trends
- Assessment of local demographic and market conditions
- Assessment of major commercial districts
- Identification of key opportunities, strategies and economic development tools

To help the City achieve its economic aspirations, Phase 2 of the EDAP involves implementation where Kosmont would create marketing materials, represent City with brokerage community and ICSC, solicit developer proposals, and evaluate development projects / opportunities.



Disclaimer: The analyses, projections, assumptions, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Actual results are difficult to predict as a function of market conditions, natural disasters, pandemics, legislation and administrative actions.



EXECUTIVE SUMMARY – EXISTING CONDITIONS

CITY OF FOLSOM – EDAP



DEMOGRAPHIC / EMPLOYMENT OVERVIEW

- Per ESRI July 2024 data, Folsom has a **Population** of ~89,600 (31,400 households).
- **Average Household Size** is 2.8 persons, lower than County/State, and the **Median Age** is 39 years, older than County and State median of 37 years old.
- City **Average Household Income** is \$178,500, approx. ~56% higher than County and 36% higher than statewide levels. Folsom residents generate \$1.3 billion in annual retail spending potential across major retail categories.
- Per ESRI July 2024 data, Folsom businesses have ~42,500 **Employees** with a resident workforce of ~7,000 people.
- **Jobs in the City** are primarily in *Professional, Scientific, and Tech Services / Retail Trade / Health Care and Social Assistance / Public Administration / Accommodation and Food Services*. Of these five, four are part of the fastest growing industries in Sacramento County (shown in italics).
- **Residents of the City** are primarily employed in Healthcare and Social Assistance / Professional, Scientific, and Tech Services / Public Administration / Retail Trade / Educational Services.



See **Appendix A.2 and A.3**

Sources: ESRI Business Analyst Online; Zillow.com; U.S. Census Bureau Center for Economic Studies, California Employment Development Department, ESRI Business Analyst Online

ECONOMIC TRENDS

- Economic forces are reshaping local economies across the State:
 - Today's consumers are using online websites for purchasing a broad array of goods. As **e-commerce continues to take an increasing percentage of consumer spending**, cities must take new approaches to land use that explore concepts for public amenities and private attractions that help cities **capture trips** and thus “sales”.
 - Younger **consumers**, with increased use of media and digital communication, **seek gathering places with restaurants, entertainment venues and experiential retail**, rather than simply a collection of traditional store fronts.
 - **Telework dynamics have drastically changed work patterns** over the past few years and are poised to reshape office needs. Creative class professionals are attracted to communities with clustered centers, which provide a sense of vitality, diversity, convenience and a mix of work, entertainment, services, arts and culture.
- In light of these trends, Kosmont is assisting the City in achieving its economic objective by providing market analysis and recommendations with a goal to foster economic vitality in the City, improving business conditions and resident quality of life.



Sources: Kosmont Companies, CoStar, Coresight Research, Cowen & Company, Cushman & Wakefield, ICSC, St. Louis Federal Reserve, UBS, U.S. Census Bureau, St. Louis Federal Reserve,

ECONOMIC GROWTH COMPARISON

To help understand the City's ability to capture a fair share of regional growth, Kosmont has done research on how the economic development policies, tax rate/impact fees, incentive policies affect commercial/industrial growth for three main competitor cities and Folsom.

Folsom is the smallest of the cities in terms of land area (approx. 1/3rd less) and population (about 50% less) than Roseville and Elk Grove. Each of the other cities has dedicated economic development department and have passed sales tax initiatives from 0.5% to 1.0% to raise funds for public services and economic development.

Retail

Folsom has 6 million square feet ("SF") of retail - there has been over 600,000 SF of net absorption - resulting in vacancy dropping from 11% to just over 3%.

Folsom average asking rents of \$28.00 psf are the highest in the comparative set.

Elk Grove is most competitive city, with over 500,000 SF of new development and 800,000 SF of net absorption, 2% vacancy and \$27.50 psf average rents.



Source: Kosmont Companies

RETAIL MARKET OVERVIEW

	Q4 2023			
	City of Folsom	City of Elk Grove	City of Rancho Cordova	City of Roseville
Availability				
NNN Rent \$PSF/Yr.	\$21.12	\$24.32	\$17.75	\$22.93
Market Asking Rent \$PSF/Yr.	\$27.97	\$27.54	\$19.66	\$27.86
Vacancy Rate	3.3%	1.8%	9.6%	3.3%
Vacant SF	210,967	122,502	411,600	380,794
Net Absorption	(6,542)	(1,213)	16,286	14,012
Inventory				
Existing SF	3,435,823 6,346,000	6,779,000	4,288,000	11,654,000

Source: CoStar (Accessed February 2024); **Note:** CoStar defines Triple Net (NNN) as tenant is responsible for all expenses associated with their occupancy. Market asking rents would likely command in the open market.. Vacant space refers to all space that is not occupied by a tenant regardless of availability or lease obligation. Available space is the amount of space currently being marketed as available for lease or sale. Negative net absorption refers to the fact that more tenants vacated retail space as opposed to renewing or expanding.

OFFICE/INDUSTRIAL DEVELOPMENT TRENDS

Office

- Folsom has over 5.4 million SF of office space, but like most cities, it has seen higher vacancy due to Covid, increasing to over 8%. Minimal new Class A office development in past decade.
- Average asking rents are highest in comparative set at \$28.20 psf.
- Elk Grove is competitive city, with over 200,000 SF of new development and 400,000 SF of net absorption, 2% vacancy and \$27.90 psf average rents.
- Rancho Cordova has much larger base of office space at over 8 million SF, but it has had 300,000 SF of negative absorption in past decade and a recent 23% vacancy rate and \$23 psf average rents.

Industrial

- Folsom industrial inventory is 1.7 million SF – 1/10th of Rancho and Elk Grove combined inventory with zero growth in past decade.
- The other cities have more distribution space, which has much lower development value and employment opportunities.

OFFICE MARKET OVERVIEW

	Q4 2023			
	City of Folsom	City of Elk Grove	City of Rancho Cordova	City of Roseville
Availability				
Gross Rent \$PSF/Yr.	\$27.97	\$31.79	\$22.02	\$25.41
Market Asking Rent \$PSF/Yr.	\$28.20	\$27.86	\$23.27	\$26.37
Vacancy Rate	8.2%	2.3%	23.0%	12.6%
Vacant SF	445,426	59,446	1,895,372	1,271,558
Net Absorption	(65,768)	7,547	(64,932)	44,165
Inventory				
Existing SF	5,431,346	2,599,253	8,236,694	10,099,988

Source: CoStar (Accessed February 2024); **Note:** CoStar defines Full Service / Gross Rent as “a rental that includes normal building standard services paid by the landlord.” Market asking rents were also observed to show the rental income that a property would likely command in the open market. Vacant space refers to all space that is not occupied by a tenant. Available space is the amount of space currently being marketed as available for lease or sale in a given time period. Negative net absorption refers to the fact that more tenants vacated retail space as opposed to renewing or expanding.

INDUSTRIAL / FLEX MARKET OVERVIEW

	Q4 2023			
	City of Folsom	City of Elk Grove	City of Rancho Cordova	City of Roseville
Availability				
NNN Rent \$PSF/Yr.	\$19.56	\$13.33	\$11.02	\$14.66
Market Asking Rent \$PSF/Yr.	\$16.92	\$10.93	\$12.15	\$13.23
Vacancy Rate	3.5%	1.1%	10.4%	4.3%
Vacant SF	61,374	57,635	1,435,426	330,187
Net Absorption	(36,042)	600,777	(205,918)	(175,957)
Inventory				
Existing SF	1,735,817	5,343,048	13,868,516	7,746,252

Source: CoStar (Accessed February 2024); **Note:** CoStar defines Triple Net (NNN) as “a lease where the tenant is responsible for all expenses associated, except long-lived structural components and management charges.” Market asking rents would likely command in the open market. Vacant space refers to all space that is not occupied by a tenant regardless of availability or lease obligation. Available space is the amount of space currently being marketed as available for lease. Negative net absorption refers to the fact that more tenants vacated retail space.

RESIDENTIAL AND HOTEL MARKET DEMAND

Multifamily Residential

- The multifamily market in Folsom is relatively large (~6,700 units) and strong with sub 5% vacancy and asking rents 18% and 32% higher than the 10-mile radius and County, respectively.
- In the last decade, Folsom added 1,900 units. 1,350 units are currently under construction, with an additional nearly 600 units proposed.
- The COVID-19 pandemic accelerated demand for multifamily residential, as more people began working and shopping from home. Office type amenities being provided in new housing development.
- Folsom's 8-Year RHNA requirement is to add 6,363 total housing units, including more than 3,500 very-low and low-income units.

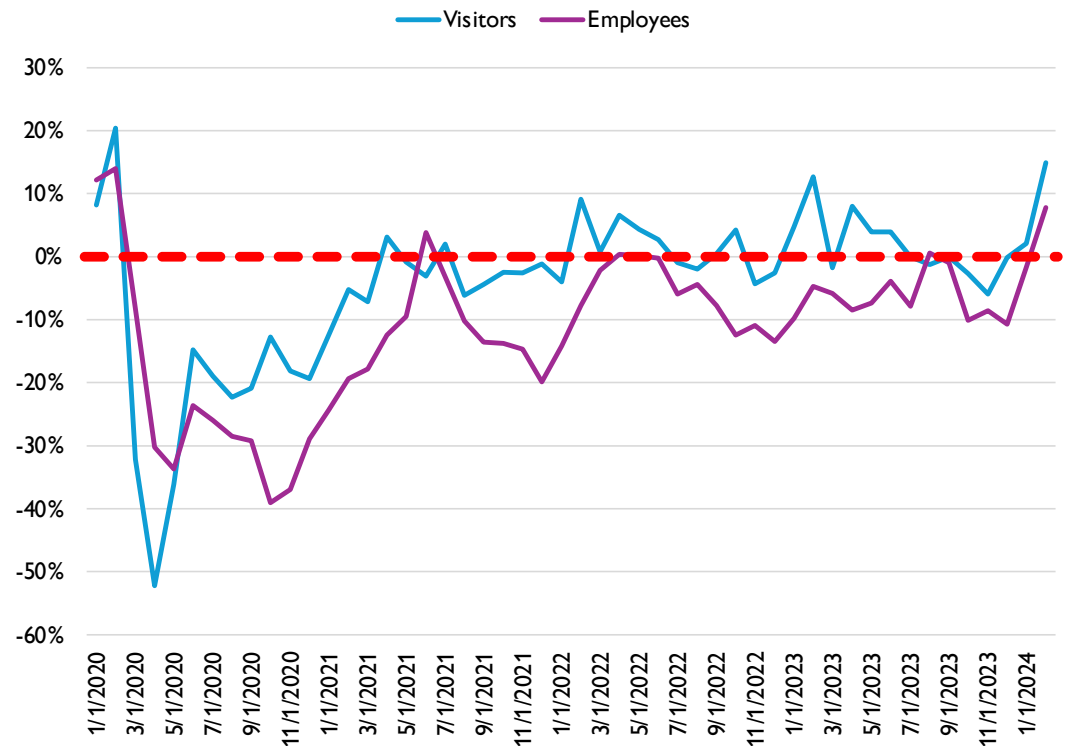
Hospitality (Hotel)

- The Folsom Hotel Market Area includes 45 operational hotels (4,900 rooms) located within a 10-mile radius of Bidwell St. and Blue Ravine Rd. Hotels vary in class between economy and upper upscale.
- Prior to the pandemic, hotel occupancy within the observed Market Area was ~75% and most hotels performed well most of the year, except for winter months (November to January).
- Although hotels in the area are performing better compared to the early years of the pandemic, average occupancy, ADR, and RevPAR still fall short of pre-pandemic years.
- High-level demand projections for hotel room nights show that there is support for ~500 rooms in the next 10 years. This demand for room nights will likely be met by hotels currently under construction, or in final planning.

PLACER.AI LOCATION ANALYSIS

Placer.ai is a mobility data provider that tracks daily movement of over 30 million people via mobile app data which reveals travel trends to/from major events, shopping centers, and other places of interest.

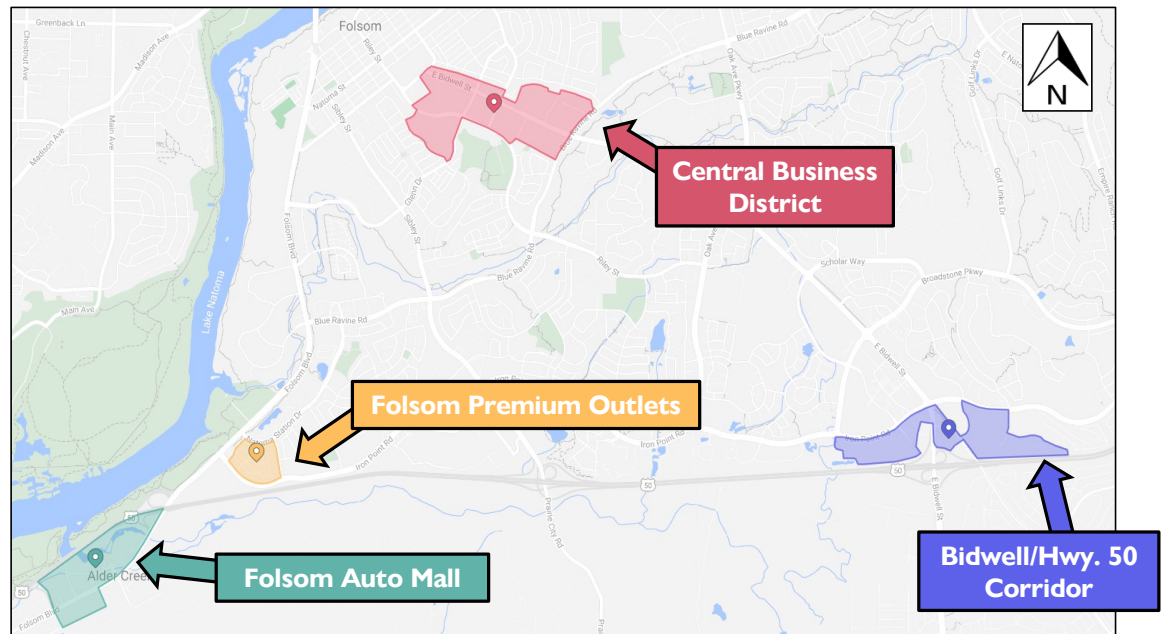
- Visits to the City dropped sharply at the start of the COVID-19 pandemic.
- Visits by visitors to the City returned to pre-pandemic levels beginning April 2021. Visitor traffic has averaged **1% greater** than pre-pandemic levels
- Visits by employees to the City returned to pre-pandemic levels beginning June 2021. Since then employee visits have averaged **7% less** compared to the 2019 baseline due to the increasing number of people working from home.



PLACER.AI LOCATION ANALYSIS (CONT'D)

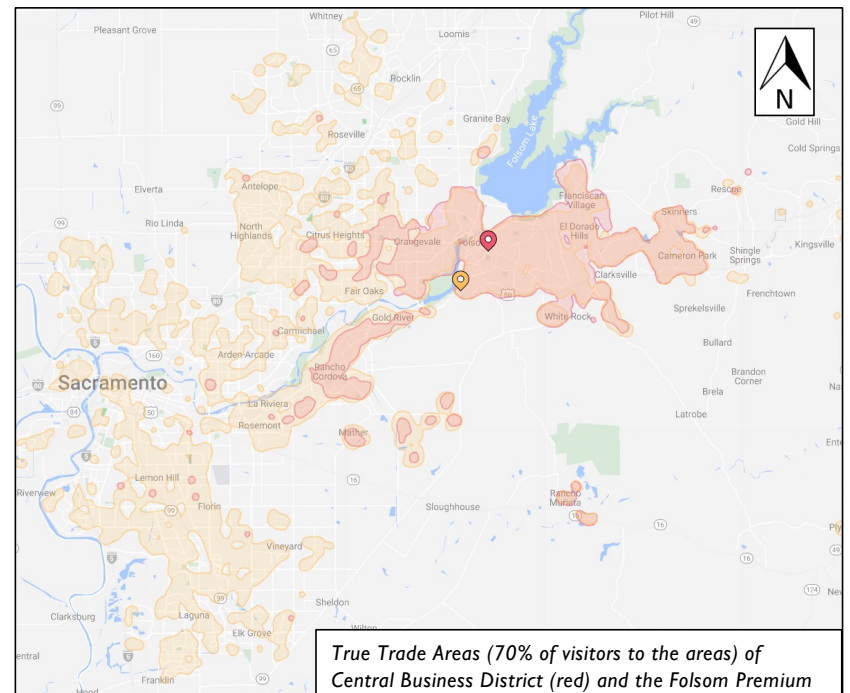
Using Placer.ai, Kosmont examined visitation trends for key City locations compared to 2019 baseline.

- Locations observed in this analysis include: Bidwell/Hwy. 50, Folsom Auto Mall, Folsom Premium Outlets, and Central Business District [defined as the retail centers along Bidwell St. with the Kohl's Shopping Center and Walmart Center on the west and the Target and Sprouts anchored centers on the east].
- The only observed area that has yet to fully recover from the effects of the pandemic is the Folsom Premium Outlets, with about 20% fewer visits on average compared to 2019.



PLACER.AI LOCATION ANALYSIS (CONT'D)

- The Bidwell/Hwy. 50 Corridor received ~155,500 median weekly visits, with 62% of visitors coming from within 7 miles.
- The Folsom Auto Mall received 68% of visitors coming from within 7 miles. Visits to the Auto Mall are evenly distributed throughout the week
- Central Business District experienced ~230,700 median weekly visits with 65% of visitors arriving from within 7 miles.
- Folsom Premium Outlets received ~36,600 median weekly visits with just 42% of visitors coming from 7 miles or less. The outlets have a significantly larger trade area compared to other observed locations, with a large minority (37% of visitors) coming from up to 30 miles away to shop.



True Trade Areas (70% of visitors to the areas) of Central Business District (red) and the Folsom Premium Outlets (yellow). The Outlets draw from a wider trade area, while Central Business District captures a much more local audience.

ROLE OF ECONOMIC DEVELOPMENT

The City has had to rely on reserve funds and cost cutting in recent years to balance budget, as growth in retail sales has not kept pace with cost inflation. Economic development is not a “silver bullet” that can instantly solve short term financial constraints, but if implemented as a priority, it can help with long term sustainability. It can:

- Assist City in achieving its strategic vision
- Identify development opportunities to help increase City tax base
- Facilitate growth of small businesses
- Focus on business expansion, attraction and retention

STAKEHOLDER OUTREACH

Kosmont met with numerous business leaders to understand their business operations and hear their observations on the opportunities and challenges facing the City.

Overview of comments:

- No major problems with City staff mentioned for large scale development.
- CBRE said City was easiest to work with for tenant improvement (TI) permits in Sacramento County.
- However custom home and small business permits / design review has at times been inconsistent in plan check processing and requirements.
- No large-scale community opposition to new development, except for Historic District.
- Council needs to adopt a Mission Statement and staff must be instructed to implement it.
- Need to educate everyone – what is Econ Dev? it is not “more development”.

One significant theme discussed was the turnover in the Council and retirement of key staff. Several business leaders stated that for the past 20 years there was a great working relationship with the Council and staff that identified the City objectives, provided staff with direction to allow development to proceed in a timely manner. Now staff tends to use “by the book” approach rather than “let’s figure out how to solve the problem”.

SWOT ANALYSIS SUMMARY

Kosmont has summarized City strengths, weaknesses, opportunities and threats (“SWOT”).

Strengths

- Folsom is a fast-growing community doubling in population in past 25 years, and adding hundreds of new homes each year.
- City is home to a major high-tech economy (semiconductor chip design) with thousands of employees.
- There is a skilled labor pool for Professional, Scientific, and Tech Services that can help attract more companies (50% of workforce has Bachelor’s degree).
- Entrepreneurial spirit with dozens of innovative start-up companies.
- Strong regional retailers (Costco, Target, Auto Mall).
- Significant outdoor amenities and recreational venues (Folsom Lake / Lake Natoma).

Weaknesses/Threats

- Prop 13 limits on property tax growth and low retail sales tax growth have created General Fund financial constraints.
- Limited number of City owned development sites.
- Poor signage / activity at Premium Outlets.
- Small business community indicated challenges with development permitting processes.

SWOT ANALYSIS SUMMARY

Opportunities

- Historic Folsom is a unique regional draw with boutique shops, fine dining, and entertainment.
- Central Business District has several large infill sites that can grow with mixed-use development (D.O.R.®).*
- Ability to leverage Intel and Micron Technology others to attract more high-tech uses.
- Light rail system with three City stations connecting Rancho Cordova & downtown Sacramento offer transit oriented development (TOD) housing opportunities
- Strong regional demand for single family housing increases the tax base.
- Use of public financing and value capture tools can facilitate development / redevelopment*.

*See Section 6 – Economic Development Tools

- Folsom Plan Area can provide unique housing, commercial and recreational opportunities.
- There are additional annexation opportunities south of Hwy 50 worth analyzing.
- Measure G sales tax could be major funding source for Economic Development, parks and recreation and public services.
- Folsom is well positioned to support high tech jobs and provide an outstanding quality of life for its residents.



EDAP STRATEGIES

CITY OF FOLSOM – EDAP



STRATEGIES / PROPOSED ACTION PLAN

Kosmont has identified Economic Development Strategies and an estimated investment range in order of priority for City's consideration. Here is a summary that is followed by supporting detail and action items:

1. Establish Business Incentive Program for targeted retail / commercial (Est. Cost \$\$\$ per year)*
2. Establish Economic Development Department / Manager (Est. Cost \$\$ per year)*
 - a) Business Enhancement, Attraction & Retention
 - b) Gather Performance Metrics to measure annual progress
3. Utilize Value Capture (Est. Cost \$\$ one time)*
 - a) Central Business District Reimagination
 - b) Private Sector Real Estate Assets
 - c) City Real Estate Assets
4. Analyze Annexation Opportunities (Est. Cost \$ one time)*

\$	\$ 50,000 to \$100,000
\$\$	\$100,000 to \$300,000
\$\$\$	\$300,000 to \$500,000



Source: Kosmont Companies

1. BUSINESS INCENTIVE PROGRAM

There are a wide range of business and economic development incentive programs utilized by communities across the State. The City can create such a program, but first it is important to set specific goals (e.g. assist small business, expand job creation, attract major tax generator, attract downtown development) and create a system to measure the success of each initiative. Cost of implementing can vary: job credits, façade improvement and infrastructure represent out of pocket costs, while tax sharing agreements and fee waivers are offset by new development tax revenues.

Examples of incentives include:

- Fast track permitting
- Tax sharing agreements / tax abatements
- Job tax credits / Workforce training
- Façade Improvement Program
- Infrastructure investment
- Fee waivers / deferrals in targeted areas

See Section 4 – Regional Econ Dev Comparison for specific examples of incentives used by key nearby cities



Source: Kosmont Companies

1. BUSINESS INCENTIVES (CONTINUED)

- Development Impact Fees can be an obstacle to redevelopment of older underperforming centers, as well as new construction in Folsom Plan Area. Site specific incentives may potentially create prevailing wages requirement. City should re-examine its new commercial development fee schedule and consider establishing a citywide policy of Impact Fee Credits to encourage redevelopment opportunities similar to the Sacramento County policy discussed below.
- A strategy used by Sacramento County allows developers to receive (harvest) a pro rata credit for impact fees from demolition of existing commercial centers against impact fees for new redevelopment. The Sacramento County Ordinance is credited for the redevelopment of How Bout Arden (HBA), Country Club Centre and Country Club Plaza to name a few.
- The Ordinance provides credits from demolition of commercial buildings on a square footage basis. The credit captures Road, Water and Drainage, and other fees and can be applied towards the impact fees required for construction of new square footage. The credit has a term of three years and can be extended for one additional year. The credit can also be used on different assessor parcels if the parcels are contiguous.

2. ECONOMIC DEVELOPMENT DEPT. / MGR.

A vibrant business sector is important to the fiscal health of the City. Business Expansion, Attraction and Retention (“BEAR”) is the keystone of most economic development departments.

Business-friendliness (“How to get to Yes”) is a vital component to support the needs of businesses, developers and to foster entrepreneurship, and bolster the local economy.

The City currently utilizes TEDCorp (Choose Folsom) to perform economic development activities. TEDCorp recommended that Folsom have internal Economic Development staff dedicated to BEAR and to be the point person for issues raised by and affecting businesses. TEDCorp can continue to provide its services, but this would allow them to increase activity in support of existing and new businesses, and be more proactive on economic strategies.

Kosmont suggests a phased-in approach for an Economic Development Dept., starting with hiring a City Economic Development Manager, who reports to the City Manager. Their first priority would be to coordinate implementation of the EDAP.

2. ECONOMIC DEVELOPMENT DEPT. (CONT.)

Recommended BEAR Action Items:

Action Item 1: Develop technical assistance programs to support emerging businesses/entrepreneurs in the City.

Action Item 2: Proactively work with business/property-owners to understand challenges and opportunities that may align with the City's economic development goals (e.g. Auto dealers are number one tax generators). Regularly contact the top 25 Sales Tax generators / employers / suppliers.

Action Item 3: Conduct outreach and collaborate with property owners to explore development opportunities and address challenges that can bring new uses to privately-owned sites.

Action Item 4: Standard plan check review process with a set number of days for initial submission and subsequent submittals.

Action Item 5: Utilize Economic Development resources to assist in implementation.

Action Item 6: Utilize grant writing firm to pursue Federal / State grants for revitalization projects.

Action Item 7: Attend ICSC and other conferences to meet with major retailers / restaurants / hotels / developers / brokers.



Source: Kosmont Companies

2. ECONOMIC DEVELOPMENT DEPT. (CONT.)

Performance Metrics

In order to track economic development progress, it is important for City to maintain annual business and development data analytics to keep on top of economic and market trends:

1. Commercial Building Permits in Key Areas – measure commercial developer interest
2. Assessed Value of Commercial and Industrial Property – show increased private sector investment
3. Number and Type of Business Licenses – measure new business formations
4. Employment by Industry – show success in commercial and industrial business attraction and employment growth
5. Sales Tax Revenues by Geographic District – measure success in attracting businesses and economic activity
6. Hotel Tax Revenues – measure success in attracting more visitors
7. Hotel Visitor Survey – identify types of visitors, short term vs longer term stays
8. Annual Survey of Business Owners – identify issues regarding City permitting / zoning process and other programs
9. Special Event Data attendance estimates – show success of community outreach efforts

3. UTILIZE VALUE CAPTURE REAL ESTATE STRATEGIES

Public and private sector real estate can be important assets to leverage for long-term economic development benefits. While Folsom has limited publicly owned land available for new development, there are many large private sector properties that can be leveraged, as discussed on following slides.

Capture Value from Private Real Estate

- From Value Capture Zoning™ - Development Opportunity Reserve (D.O.R.®) allows cities to create a “bank” of new density in zoning / specific plans, allowing them to give the density to projects that deliver community benefits & public amenities.*
- From Tax Increment and Special Districts - Enhanced Infrastructure Financing Districts (“EIFD”) use property tax increment and Community Facility Districts (“CFD”) are tools to fund important local and regional infrastructure.*
- From Public Private Partnerships - Enter into partnerships with property-owners to commit local government resources, help solicit development proposals that will advance both the property owner’s goals and the community’s goals.

Capture Value from Public Real Estate

- Cities can use a variety of sale or lease strategies to capture the value of their properties, while also increasing the General Fund tax base.

**See Section 6 - Economic Development Tools for more detailed discussion*



Source: Kosmont Companies

CENTRAL BUSINESS DISTRICT REIMAGINATION

The City has embarked on a Master Plan for the Central Business District. This area is the original commercial center with over a million square feet of retail uses. The area has large centers with vast parking fields. (See *Section 5 Opportunity Sites - for discussion of Kohl's and Wal-Mart centers.*)

Action Item 1: Consider changing zoning allowing residential uses on sites with large parking fields (See Section 6 discussion of D.O.R.[®] strategies).

Action Item 2: Consider programs that can help existing businesses thrive (such as façade improvement programs, streetery / outdoor retail) and help existing properties utilize their space (such as expanding allowable uses).

Action Item 3: Explore creation of Property Business Improvement District (PBID) to give area a unified image.

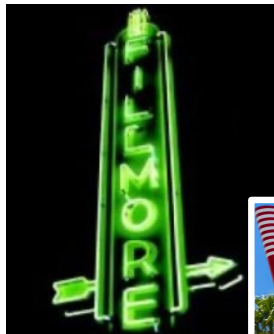
Action Item 4: Invest in enhancements such as gateway signage and wayfinding, public art, thematic street and sidewalk enhancements, and public open space.

Action Item 5: Explore feasibility of Enhanced Infrastructure Financing District to help fund infrastructure (See Section 6 discussion of EIFD financing strategies).



Source: Kosmont Companies

PLACEMAKING BY DESIGN, DISTRICTS & EVENTS



Distinctive signs – such as the neon signs in Fillmore and the Star Theatre in Oceanside – can give an area a distinctive sense of place.



Events like the CicLAvia bike / walk fairs in Los Angeles and the Mission Inn Festival of Lights in Riverside, CA are memorable and engaging activations of public spaces.

Murals in downtown Providence, RI add character and highlight local artists and themes.



The Medical Main Street district in Lancaster, CA aims to be a blended use area centered around major medical anchors that includes many complementary uses.

PRIVATE SECTOR REAL ESTATE ASSETS

There are private sector properties that can be major tax generators, including some that are suited for blended-use development including Auto Mall, Folsom Premium Outlets and Natoma Station Center.

The Auto Mall is underutilized and has significant tax generation opportunities

- 1) City can use sales tax incentives to help attract new dealers (e.g. EV dealers) to ~6.09 acres of vacant parcels.
- 2) Possible high-end card room – could generate +\$1 million in tax revenues without impacting residential areas.

Folsom Premium Outlets is underutilized – Excellent TOD opportunity

- 1) Outlets suffer from poor highway signage (possible Monument sign on Hwy 50).
- 2) Utilize suggested Fee Impact Credit Policy to incentivize Simon Properties to redevelop (possible D.O.R.® strategies).
- 3) Suggest incentives for new entertainment uses.

Natoma Station Center is in need of reimagination

- 1) SyWest Development (owner) could consider repositioning the theater.

CITY REAL ESTATE ASSETS

There are two major City properties that provide development opportunities and can generate long term lease revenues and expand the tax base.

Corporation Yard

Program new site south of Hwy 50 and suggest putting the Corporation Yard property through the Surplus Land Act (SLA) process. Pursue Public Private Partnership to sell/lease property to a private developer for transition of Corporation Yard to new site and development of a Convention Center.

Glenn Station Property

Consider putting the property through the SLA process to attract affordable developer in combination with market rate housing and commercial uses.

4. CONSIDER ADDITIONAL ANNEXATION

The City's Folsom Plan Area yielded significant growth to the City that has brought much needed residential, commercial, retail and recreation opportunities for residents. There may be other annexation opportunities that the City could analyze to determine potential fiscal and economic impacts.

The use of Development Agreements and Development Impact Fees, and Special District Financings can yield significant financial benefits to cover infrastructure and public facility costs and ongoing municipal service costs.

QUESTIONS?

CITY OF FOLSOM ECONOMIC DEVELOPMENT ACTION PLAN



2301 Rosecrans Ave., Suite 4140
El Segundo, CA 90245
TEL: 424-297-1070 | URL: www.kosmont.com





OPPORTUNITY SITE EVALUATION

CITY OF FOLSOM – EDAP



PRIVATE SECTOR OPPORTUNITY SITES

Kosmont has identified several major retail centers in the City well suited for redevelopment/new business attraction. Many of these sites are older centers with large parking fields in excess of current parking standards.

1. Wal-Mart Center – a ~28.6-acre center with over ~20 acres of surface parking
2. Kohl's Center – an ~11-acre center with ~6 acres of surface parking
3. Premium Outlets – ~34.6-acre center with over ~25 acres of surface parking

The Folsom Auto Mall has significant freeway frontage vacant land (~6 acres) that could accommodate new dealerships, as well as an empty 5.7-acre VW dealership building being used as an auto detailing facility.

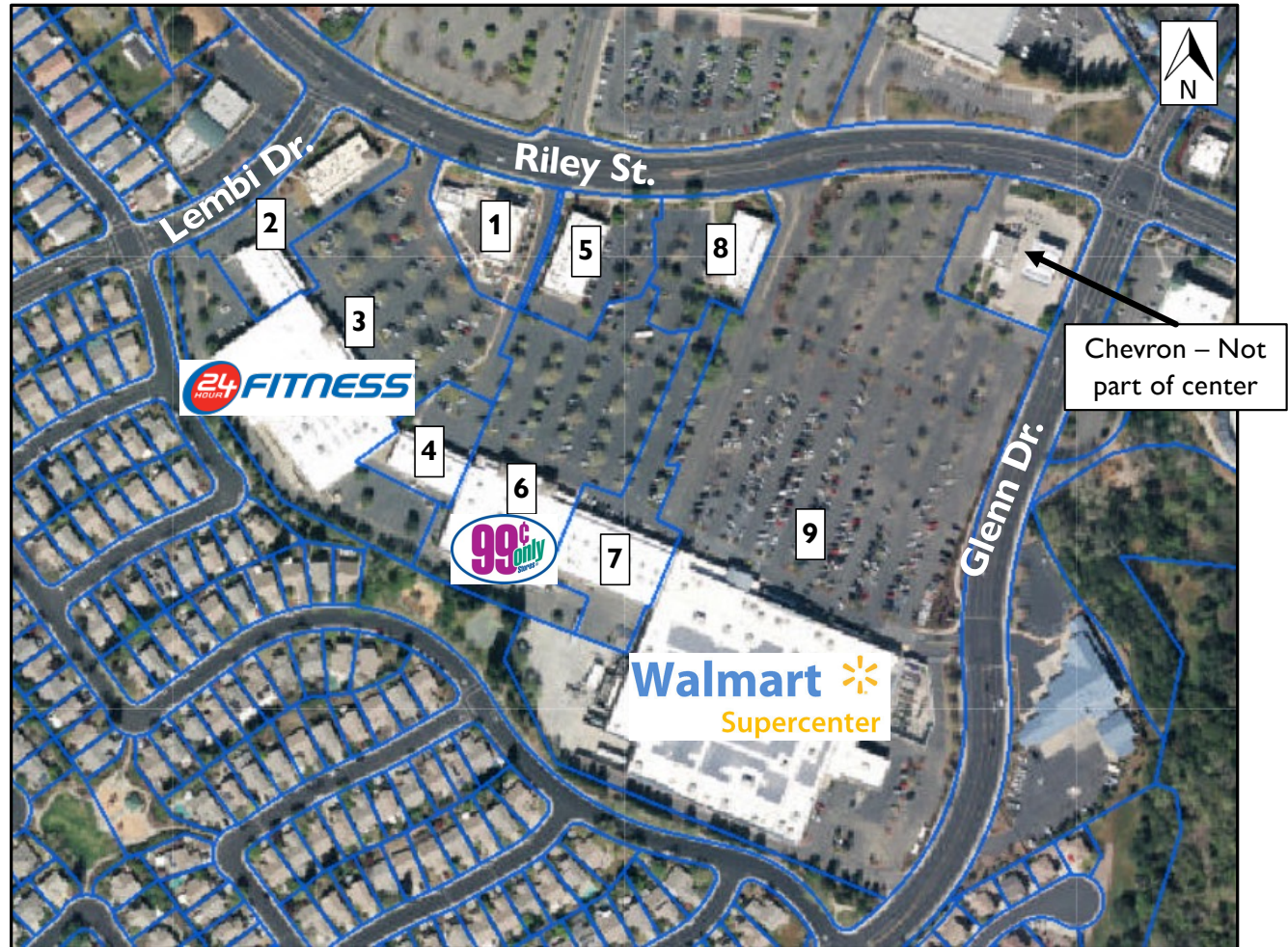
Natoma Station Crossing is a smaller center with a Century Theater that is performing poorly and could be a potential hospitality or multi-family development that would substantially increase tax revenues to the City.

Aerial maps of each center are provided with major tenants and parcel ownership info on the following pages.

OPPORTUNITY SITE #1: WALMART CENTER

SITE PROFILE

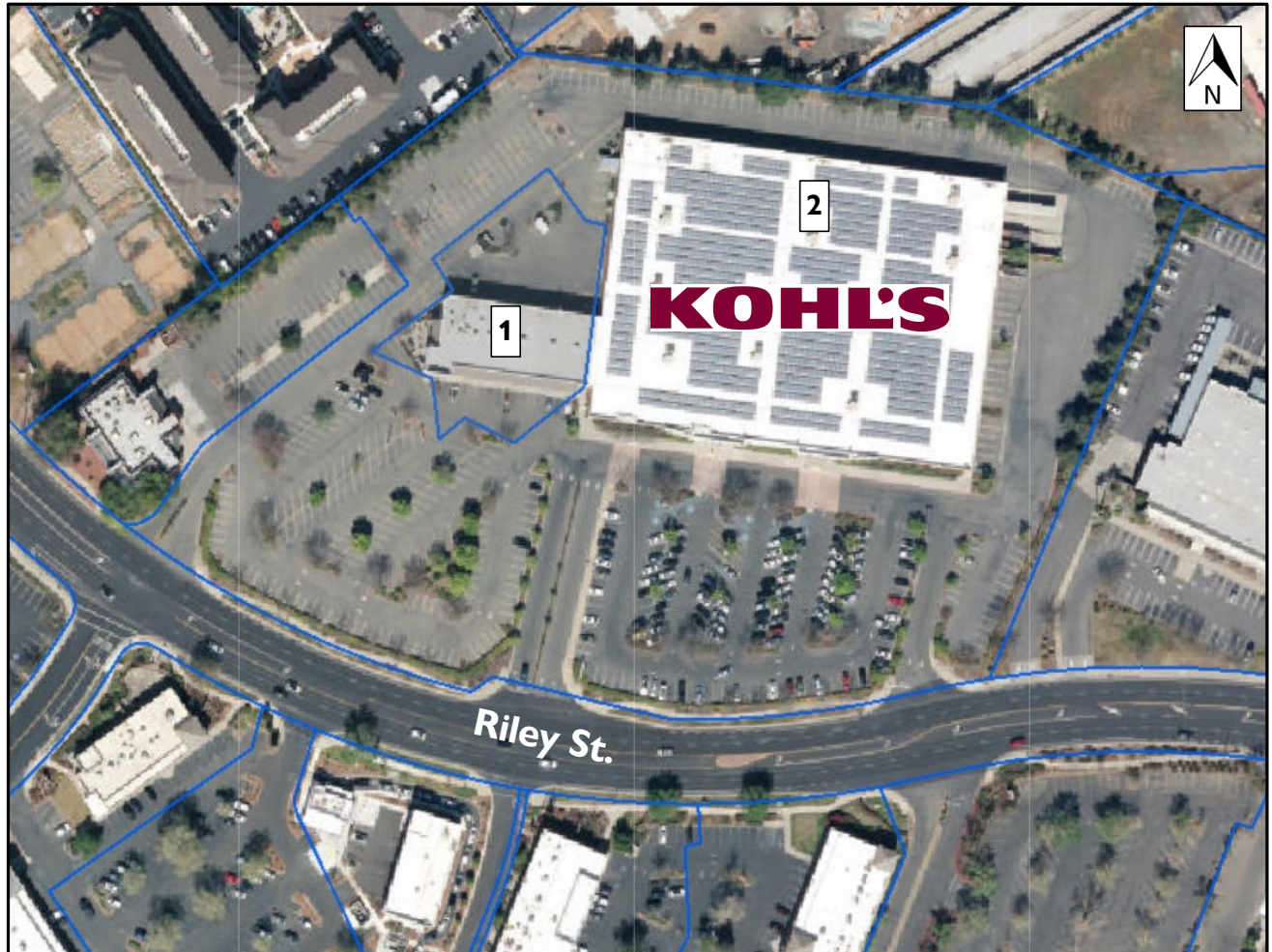
- Address: 1000-1018 Riley St.
- Total Lot Area: 28.56 acres
- Total Building Area: 313,066 SF GLA
- Owners: Nazareth Retail Holdings LLC; Wal Mart Real Estate Trust
- Assessed Value: \$63,414,000
- **Potential Opportunity: 200-300 unit multi-family development**



SITE #2: KOHL'S SHOPPING CENTER

SITE PROFILE

- Address: 1013 Riley St.
- Total Lot Area: 11.01 acres
- Total Building Area: 114,047 SF GLA
- Owners: DMFA Folsom, LLC; Robert Nerli and Laradean Hayes-Nerli
- Assessed Value: \$18,5387,000
- **Potential Opportunity: 100-200 unit multi-family development**



SITE #3: FOLSOM PREMIUM OUTLETS

SITE PROFILE

- Address: 170 and 400 Iron Point Rd.; 13000 Folsom Blvd.
- Total Lot Area: 34.60 acres
- Total Building Area (Retail GLA): 296,014 SF
- Owners: Golden Arch Ltd. Partnership, Iron Point Investments LLC, Chelsea Financing Partnership LP
- Assessed Value: \$75,576,000
- **Potential Opportunity: 200-400 unit multi-family TOD development near Iron Point Light Rail**



OPPORTUNITY SITE #4: FOLSOM AUTO MALL

SITE PROFILE

- Address: 069-0710-20, -21, -39;
12565 Auto Mall Cir. [069-0710-031]
- Lot Area: 6.09 acres (265,280 SF)
[Parcels 1-3]; 5.77 acres (251,341 SF)
[Parcel 4]
- Building Area (Retail GLA): 29,786 SF and
16,282 SF [Parcels 4]
- Owners: Abdi Mohanna Revocable Trust;
Sauer Family Ltd. Partnership with Barbara
McGowan
- Total Net Assessed Value: \$5,974,000
- Potential Opportunity sites: Vacant Parcels
1-3; Former VW dealer [Parcel 4] used as
car detailing



OPPORTUNITY SITE #5: NATOMA STATION CROSSING SITE PROFILE

- Address: 121-341 Iron Point Rd.
- Total Lot Area: 20.50 acres
- Total Building Area: 229,058 SF (105,258 SF of hospitality; 123,800 SF of retail space)
- Owners: 12 distinct owners
- Total Net Assessed Value: \$49,260,000
- Notable Tenants: Larkspur Landing Hotel; Chili's; Burger King [Parcel 4]; 76 Gasoline; Hilton Garden Inn Folsom; Cinemark Century Folsom 14; Reliance Supermart, Disciples Church
- **Potential Opportunity: Cinemark ~6-acre site suited for 100-room hotel and restaurant or 150-200-unit residential**





ECONOMIC DEVELOPMENT TOOLS

CITY OF FOLSOM – EDAP



ECONOMIC DEVELOPMENT TOOLS

Kosmont has prepared a high-level summary of various Economic Development tools that the City can consider for Value Capture and to facilitate future development:

Capture Value from Tax Increment and Special Districts

- Enhanced Infrastructure Financing District (“EIFD”) use property tax increment and Community Facility Districts (“CFD”) are tools to fund important **local and regional infrastructure**.

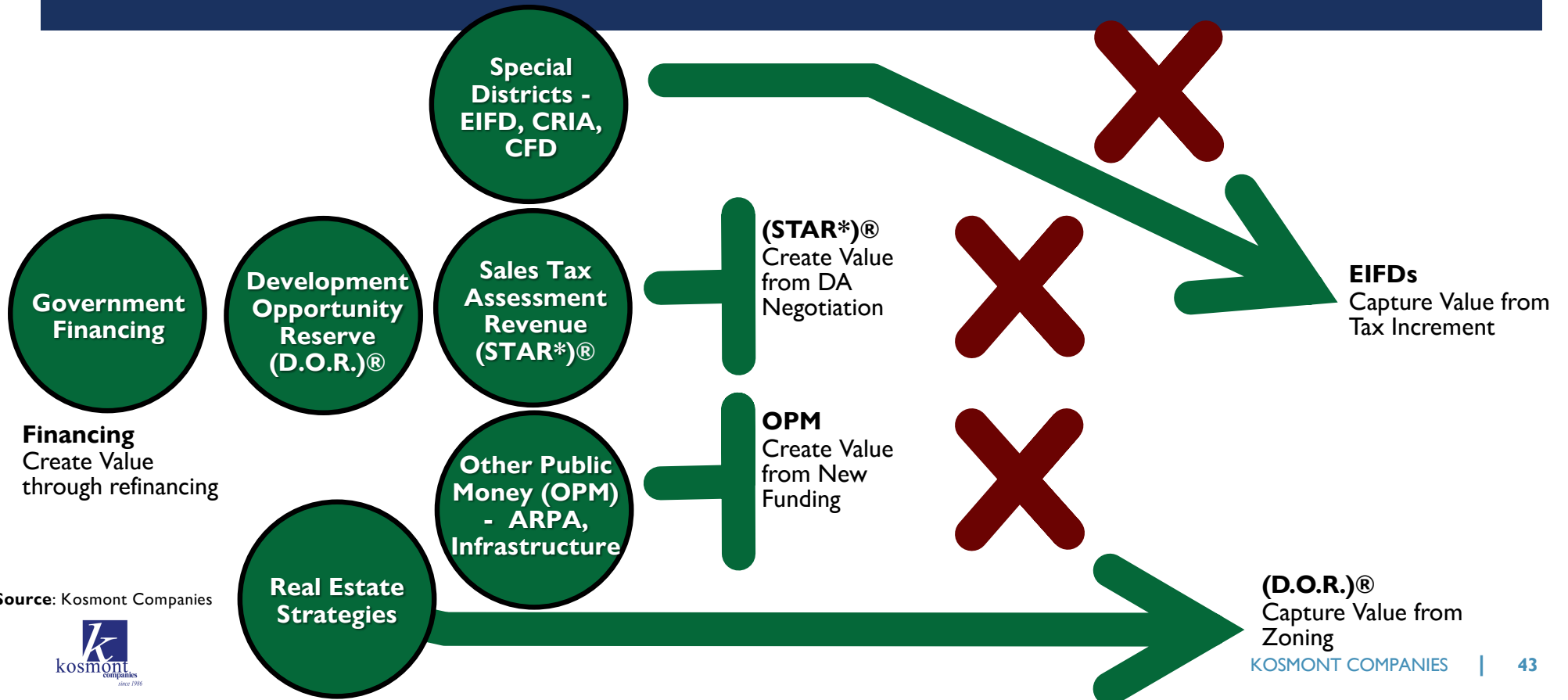
Capture Value from Zoning (Value Capture Zoning™)

- Development Opportunity Reserve (D.O.R.)® allows cities to create a “bank” of new density in zoning / specific plans, allowing them to give the density to projects that deliver **community benefits & public amenities**.

Capture Value from Real Estate

- Cities can use a variety of strategies to capture the value of their properties (sale or long-term lease).

THE ECONOMIC DEVELOPMENT PLAYBOOK



Source: Kosmont Companies



ZONING AND LAND USE STRATEGIES

DEVELOPMENT OPPORTUNITY RESERVE D.O.R.[®]

Zoning and entitlements create value. Cities can avoid simply giving that value away, and instead capture that value as currency to support community benefits and public amenities.

Old Playbook:
Rezone Areas for New Density
and Expect New Development

Rezoning gives the value of the new density to current property owners: inflated land values, limited possibility of development.

New Playbook:
Bank Density with Development
Opportunity Reserve D.O.R.[®]

D.O.R.[®] allows cities to create a “bank” of new density in zoning / specific plans, allowing them to give the density to projects that deliver **community benefits & public amenities.**

ZONING AND LAND USE STRATEGIES

DEVELOPMENT OPPORTUNITY RESERVE D.O.R.[®] - PROCESS

Create D.O.R.[®]

Step 1

Conduct market / economic density analysis to understand development potential. Identify sites and areas within community as areas targeted for new development.

Step 2

Use planning process to create a reserve bank of density to use in target areas and create an amenity list of desired community benefits and advance projects.

Implement D.O.R.[®]

Step 3

Development Projects apply for density from the DOR in exchange for amenities and community benefits delivered.

Step 4

City & Developer sign a Development Agreement, assigning D.O.R.[®] density to project with contractual commitment to deliver amenities or infrastructure.

D.O.R.® CASE STUDY ILLUSTRATIONS

City of Buellton: Avenue of Flags

- **Goal:** Induce housing development in downtown area
- **Benefits & Amenities:** public restrooms, off-site improvements, public parking, parking district, public art, parks, green buildings, other
- **Incentives:** Increase density up to 40 units / acre, increase heights, reduce on-site parking, reduced setbacks, reduced traffic and application fees



Implementation Steps

1. Conduct market housing / economic study to match RHNA needs
2. Discuss new density and public amenities with community
3. Create DOR mechanism as new Zoning / Specific Plan provision

City of El Monte: Downtown Main St.

- **Goal:** Increase downtown density along with community benefits and public improvements
- **Benefits & Amenities:** streets, bicycle facilities, parking, open space, beautification, transit, arts / cultural spaces, lot consolidation; developer can either install improvements or make payment into public improvement fund; value based on a portion of residual land value (~75%)
- **Incentives:** Increase density, heights, FAR, dwelling units per acre



SPECIAL DISTRICTS FOR INFRASTRUCTURE FINANCING

- Public agencies can utilize a variety of tax increment financing (TIF) and special district tools to fund infrastructure projects that can help to motivate private investment. This includes Enhanced Infrastructure Financing Districts (EIFDs), community facilities districts (CFDs), and business improvement districts (BIDs). These special districts are not mutually exclusive, and can work well together to advance goals of motivating private investment.
- Enhanced Infrastructure Financing Districts (EIFDs) may be well suited for some of the Region's opportunity areas that have significant infrastructure needs (roads / connectivity, water / sewer, electricity, telecom / broadband, etc.).
- EIFDs utilize property tax revenues from new development to finance public infrastructure projects without introducing new or increased taxes.
- EIFD project areas do not have to be contiguous, allowing them to target specific areas of high development and high infrastructure need.
- The district commitment of revenues toward infrastructure can induce private sector investment, accelerate growth, create jobs, and capture / grow fiscal revenues.

SPECIAL DISTRICTS FOR INFRASTRUCTURE FINANCING

FUNDAMENTALS OF EIFDS

Tax Increment Financing	Tax increment from new development / assessed value increase used to <u>fund infrastructure projects in approved project areas</u>
Long-term Districts	Up to 45-year districts from first bond issuance; Districts provide <u>long-term, committed revenues</u> in targeted investment areas; Districts can be created in 12-18 months
Non-Contiguous Areas	EIFD project areas <u>do not have to be contiguous</u> , allowing them to target specific sites / areas and making them compatible with other zoning / entitlement strategies
Eligible Projects	Any property with useful life of 15+ years and of communitywide significance; purchase, construction, expansion, improvement, seismic retrofit, rehabilitation, and <u>maintenance</u>
Return on Investment	Private sector investment induced by District commitment accelerates growth of <u>net fiscal revenues, job creation, housing production, essential infrastructure improvements</u>
Attract Additional Funds	Allows community to attract <u>tax increment from other entities</u> (cities, special districts), <u>federal / state grants & loans</u> (TOD, water, housing, parks), brownfield funding

EIFD WITH A POTENTIAL CITY/COUNTY PARTNERSHIP

- Ideal strategy includes a County contribution
 - Folsom receives approximately **19.6%** of every \$1 collected in property taxes on average (varies by Tax Rate Area)
 - City additionally receives equivalent of approximately **5.0%** of property tax in lieu of MVLF, also available to EIFD
 - County receives approximately **16.1%** of every \$1 collected in property taxes on average
 - School-related entities cannot participate
- TIF Districts which involve a City / County joint effort are more likely to win state grant funding sources

Federal & State Sources

- *Cap-and-Trade / HCD grant & loan programs (AHSC, IIG, TCC)*
- *Prop 1 bond funds / Prop 68*
- *SB 1 Road funds*
- *SB 2 Transfer Tax funds*
- *Federal DOT / EPA / EDA funding*



Other Potential Funding Sources

- *Property tax revenue including RPTTF*
- *Vehicle license fee (VLF) prop. tax backfill increment*
- *Development Agreement / impact fees*
- *Benefit assessments (e.g. contribution from CFD)*
- *Local transportation funding (e.g. Measure M/R)*
- *Private investment*

TAX INCREMENT DISTRICT CASE STUDY

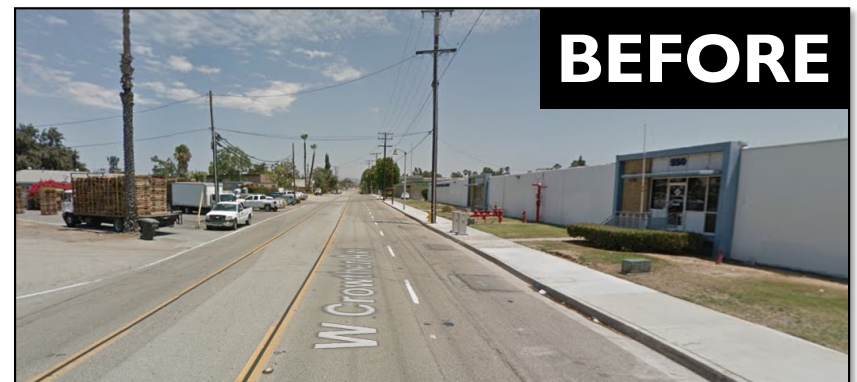
PLACENTIA CASE STUDY – FORMED IN 2019

Placentia / Orange County EIFD Partnership

- 300+ acres: Old Town Placentia Revitalization Plan, Metrolink Station, TOD Packing House Area
- Infrastructure Financing Plan (IFP) will fund \$13 million in public infrastructure improvements for those areas
- Water, sewer, streets, parking, transit connectivity
- \$460M+ expected in new AV from residential, retail, restaurant development
- Net Fiscal Benefit: \$22M to City, \$15M to County

Implementation

- EIFD feasibility analysis & formation process
- Led education/outreach meetings with County BOS
- Developed County EIFD Policy for City/County EIFD
- Completed first EIFD TIF Court Validation in the state
- **Working on TIF Bond—expected by fall of 2022**



Sources: Kosmont Companies, City of Placentia

SPECIAL DISTRICTS FOR INFRASTRUCTURE FINANCING

OTHER DISTRICT TOOLS

<p>Property Business Improvement Districts (PBID)</p>	<p>Property Business Improvement Districts are special assessments levied on real property to fund improvements and promote activities the benefit the properties located within the PBID area. This includes capital improvements, parking facilities, street / streetscape improvements, lighting and landscaping, marketing and promotion, and business attraction / retention. The special assessment amount that each property owner pays must be directly proportional to the benefit received.</p>
<p>Community Facilities District (CFD)</p>	<p>Community Facility Districts are a new property assessment or "special tax" that appears as a separate line item on a tax bill and can be used to fund infrastructure / services that benefit the property. This includes transportation, parking, street / utility improvements, hazardous waste remediation, street lighting / sidewalk, and public services. CFDs are useful because they provide early financing for a variety of critical services and infrastructure. CFDs also pair well with EIFDs as a value capture strategy – with CFDs providing early funding and EIFDs providing funds as projects are constructed, and tax increment grows.</p>
<p>Parking Authority District</p>	<p>Parking Authority Districts can utilize a variety of funding sources – including bonds, ad valorem taxes, user fees, parking meter charges, parking revenues, and City / County contributions – to fund improvements such as parking lots, structures, and alterations to circulatory infrastructure to facilitate ingress and egress.</p>
<p>Climate Resilience District (CRD)</p>	<p>Climate Resilience Districts are a new type of district can fund projects to mitigate climate change. These districts have broad financing powers, and can fund a wide range of eligible projects, including projects that address sea level rise / flooding, extreme weather, wildfire, and drought.</p>

CAPTURE VALUE WITH CITY PROPERTY

REAL ESTATE & LEASING STRATEGIES

Cities can use a variety of strategies to better utilize the value of their properties:

- Performance-based leases / ground leases
- Monetizing assets (such as parking garages)
- Selling property to private sector – includes lease-back strategies, continued operation of existing use, redevelopment into new uses

SELLER BEWARE –

Cities must follow Surplus Land Act (SLA) requirements / procedures



SURPLUS LAND ACT CONSIDERATIONS (FOR PUBLIC AGENCY OWNED PROPERTIES)

- The Surplus Land Act (SLA) was passed in response to the housing shortage in California. Public agency owned property cannot be sold or leased until it complies with the SLA, with certain exceptions.
- After navigating the SLA for a City-owned site, either an affordable housing project will be ready to come to the site, or the City will have the ability to market the land for a different use.
- SLA requires an up to 150-day (NOA for 60 days + good faith negotiations for 90 days) RFP process to either select or reject an affordable housing project/proposal. City does not have to sell the property for less than fair market value. If rejected, property can be sold to broader market.
- After completing the process, any development will be subject to a covenant requiring any residential development with 10 or more units to provide at least 15% of units available to low-income households.
- If local agency does not comply with SLA, HCD will impose fine of 30% of final sale price for first violation, 50% of final sale price for second violation.
- City should engage real estate and legal counsel to navigate SLA process and conduct appropriate property due diligence.
- Potential exemptions include leases existing prior to 1/1/2019, land dedicated for 75% or more affordable housing or public uses and land not suitable (too small).

SLA Required Disposition Process

1. Declaration of the property as either “surplus” or “exempt surplus.”
2. If declared “surplus,” disseminate a Notice of Availability (NOA) offering the property to other government agencies and affordable housing developers for a period of 60 days.
3. If the City receives letters of interest from government agencies and/or affordable housing developers, then it must negotiate in good faith with those interested parties for a period of 90 days.
4. After the 90-day good faith negotiation period, the City must notify the State Department of Housing and Community Development (HCD) and provide information that documents compliance with the process and request a letter of compliance.
5. HCD has 30 days to respond to City with questions/request for more information and, at the conclusion of the 30-day period, must provide a letter stating that the City has complied with the process or not.