

# City Government 101

## Economic Development

February 4, 2016

### **The Art of Economic Development**

- ED is a complex process – will address some basic concepts especially relevant to Des Moines
- Many definitions of ED but primarily we will use the following definition:
  - ED is a series of actions taken to increase and enhance economic activity
  - These actions involve decisions made by the public sector and by the private sector
    - *One goal for tonight is to clarify the specific roles of the public and private sectors*

# DEVELOPMENT PROCESS

- Development is designed to change the status of specific land parcels
  - Can involve development on
    - Raw land
    - Redevelopment
    - Urban infill
  - It can be specific to a single parcel or involve multiple parcels
    - Requiring land assemblage
- Development can have minor impacts or significant impacts which must be assessed and mitigated

# Development Steps (Private Sector)

- A parcel and potential use are identified
  - This process is in response to a market opportunity
    - If consumption-based then the proposed development is either responding to
      - current market demand
      - anticipated future market demand
        - a change in a market dynamic, for example, a proposed light rail station location
        - A change in income factors (higher incomes, for example)
    - If production-based factors can include:
      - Logistics – access to seaport, rail, airport, market locations
      - Cost efficiencies – land is relatively less expensive
      - Cluster advantages – other businesses doing similar things (Silicon Valley)
        - Presence of research enhancements – could be a University (Stanford, UC Berkeley)
      - Work force – availability of skilled employees

# Development Steps (Private Sector) -2

- Other key factors that drive private investment
  - Finance
    - Availability of capital for investment
      - soft costs
      - hard costs
  - Consideration of risk
    - Uncertainty = market factors and public sector (which we will come to)
    - Undercapitalized
    - A macroeconomic exogenous shock/ such as the recent over leveraging of real estate debt
    - A change in interest rates – actions by the US Federal Reserve
    - THE ACTIONS, ATTITUDE, AND KNOWLEDGE OF THE PUBLIC SECTOR
    - *Important to remember – unless a development can realize specific value from a public policy – developers are unconcerned about local political goals – they are driven by the market*

# Development Steps (Private Sector) - 3

- In the beginning...is due diligence to evaluate the risk/reward proposition of proposed development project
  - land acquisition
    - Soft money (reserve exclusive opportunity)
    - Earnest money (established sincere interest if property is taken off the market for a period of time)
    - Hard money (commitment)
- A potential development scheme (large or small) has to acquire information about the parcel under consideration
  - For example, if a retrofit of an existing building then a seismic and structural evaluation by an engineer is required

# Development Steps – Public Sector

- Now, the developer comes to the City prior to closing on the land and asks CD the following
  - Land Use/Zoning –
  - Permitted Uses
  - Height limitations
  - If necessary are there options to rezone or change the permitted uses?
  - SEPA requirements
  - Costs
    - SEPA/Design Review/Permits
  - Timing
  - Mitigation requirements
    - Impact Fees
    - Transportation impacts and concurrency
    - SEPA mitigation

# Development Steps – Public Sector - 2

- Infrastructure
  - Is the City planning improvements
    - Roadway
    - Stormwater
    - Any potential public investment
      - For example, light rail extension or new bus service
- Any significant demographic or pipeline changes
  - Is Highline College anticipating growth
  - Are there any major employers coming into the city (FAA)
  - Anticipated growth of passengers at SeaTac Airport
  - Other projects

# Regulatory Function of the City and other Agencies

- What are those regulatory functions & Public Process
  - Land Use Application
    - Environmental impacts (SEPA)
      - Infrastructure requirements met
  - Design Review
    - Compliance with Zoning Code and Development Regulations
    - Emergency Services access
    - Utilities
    - Other public agencies and other jurisdictions
  - Building Permit Application
    - Safe and compliant design consistent with International Building Code and City Municipal Code
  - Building inspections
  - Issuance of Certificate of Occupancy

# Development Steps

- The adjacent parcels
  - Importance
  - Potential
  - Impacts
- Local/regional political dynamic depending on the magnitude and type of development
  - Almost every developer will ask
    - **“Is the City Council supportive of this potential development?”**
    - And Dan, Tony and I say we can’t speak for the Council, however...
    - In certain instances we will ask the Mayor and/or Councilmembers to meet a developer or participate in a meeting with interested investors/developers

# Capacity of City to respond to Development Opportunities

- Regulatory Duties of the City
- Expertise of City of Des Moines staff
  - Building Official
  - Inspectors
  - Plan Review (team approach including EMS, utilities and others)
- Reducing uncertainty (function of mitigating risk for the developer/investor) by frontloading the review process
  - Preapps
  - The FAA as an example of expediting review process and complex review requirements (\$78 million building)

# What can we (public sector) do to increase Economic Development

- Understanding of local/regional demographics
  - Market demand dynamic
- Incentives
- Infrastructure investment
- Regional approaches
- Regional partners – huge complex public sector layers
  - Seattle/King County EDC (Associate Development Organization)
    - Example preparing and releasing press on Greencore
  - Department of Commerce
  - Soundside Alliance
  - Challenge Seattle
- Designated role of Port Authorities in WA to create, support and enhance ED (RCW 53)

# How can public sector partners and coalitions work?

- Avoid zero sum game
- Look for complementary zoning between cities
- Look for shared infrastructure improvements
  - Business Park – 24<sup>th</sup>/28<sup>th</sup> connection to SeaTac Airport
- Shared investment opportunities
  - Port of Seattle/Business Park
    - Partnership between the Port/City/Panattoni

# Tools Available to the City to Achieve ED

- Incentives
  - Tax Increment Finance
    - New Jersey, Washington and California
    - LIFT in Washington
      - Sales Tax Based increment
  - Multi-Family Tax Credit
- Local options
  - Relaxation of Mixed-use standards (sunsetting)
  - Relaxation parking requirements in the downtown (sunsetting)
- Various other state options

# Tools available to the City to achieve ED

- Land Use decisions and zoning
  - Increase productivity of existing commercially designated land
  - Increase multi-family residential densities
  - Allow for increased building heights
    - Success of the Theater and Seascape when City Council allowed for 10' height increase both applications were received within 5 minutes of the effective date and time.
- Expedite the development process
  - SEPA Planned Actions (Pacific Ridge) how this creates value for investment
  - Design Review
  - Permit issuance

# Tools Available to the City to Achieve ED

- Looks for synergies and integrated development patterns
- Matching development opportunities and/or finance opportunities with parcels
- The City perspective allows us to be aware of other potential development interests/scenarios
- Work to maximize positive impacts
  - Employment
  - Consumption
  - Housing
  - Quality of life/Amenities

# Tools Available to the City to Achieve ED

- Branding and Marketing
  - Develop a Story
    - Emphasize “competitive advantage”
    - Spread the story
    - Create from and add to the story
  - Other Resources
    - Seattle Southside Regional Tourism Authority
      - Promote tourism in Des Moines, SeaTac and Tukwila based on entryway to SeaTac
        - SeaTac provides gateway to the Pacific Northwest
  - Communication – send a unified message
    - City Currents
    - Council interactions
    - Community understanding
  - Turning Dirt

# What the City Cannot Do

- Select tenants for private development
- Control the timing of private investment and development

# Use of Public Resources

- Marina – land and potential development pattern
  - Master Planning
  - Parking
  - Infrastructure development constrained by existing utility corridors
  - Maximizing access and use of Beach Park grounds and facilities

# Public Private Partnerships (PPP)

- Value
  - For Des Moines a potential example is achieving human scale development on the Marina
  - Requiring public participation to make the deal pencil out
- Seen nationally as the wave of the future

# Revenue generation

- One time revenue
  - Sales tax on construction projects over \$15 million
  - Business and Occupation (B&O) tax on construction greater than \$15 million
- Additional Short Term revenue = pays for review process
  - SEPA
  - Design Review
  - Permits
- Real Estate Excise Tax (REET) for land and building transactions (restricted – used for certain City capital projects)

# Revenue

- On-Going Revenue from completed project development
- Importance of time lag to achieve structural revenue increases
  - Property tax on land and buildings (assessed once a year based on percentage complete)
  - Leasehold tax on leased property
  - B&O tax for tenants/occupants
  - Lodging tax (hotels/motels) restricted for tourism
  - Sales tax for retail
  - Utility tax

# So, What is the Art of Economic Development?

- Vision

- Effectively connecting the City Council's Vision for the future of the City into an actionable economic development strategic process
  - (Subject to the degree that Vision is articulated)
- Convey to the Council in an accurate manner what is possible
- Provide a roadmap of how to get there

- Balance

- Seek development patterns that celebrate the city's assets and historical values with new development opportunities that enhance the City's ability to survive and thrive