



Discussion of Possible Financial Incentive Program(s) to Attract Entertainment Retail Businesses to Lathrop

**City Council Special Meeting
November 18, 2024
Item 5.1**



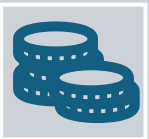
Summary



October 14, 2024 – Lathrop City Council Directed Staff to Explore Possible Financial Incentive Programs for the Purpose of Attracting Entertainment Uses to the City.



Identified Funding Source: Measure D, Economic Development Fee—Citywide Account.



Program Incentive Exploration Included

- 1) Partial Reimbursement or Grant Based on City Capital Facility Fees
- 2) City Lease Arrangement for Entertainment Use
- 3) Potential Loan Program to Entertainment Businesses



Measure D¹



Passed by a Vote of the Electorate on November 7, 2000



Created Economic Development Fund for the purpose of stimulating business activities in the local economy



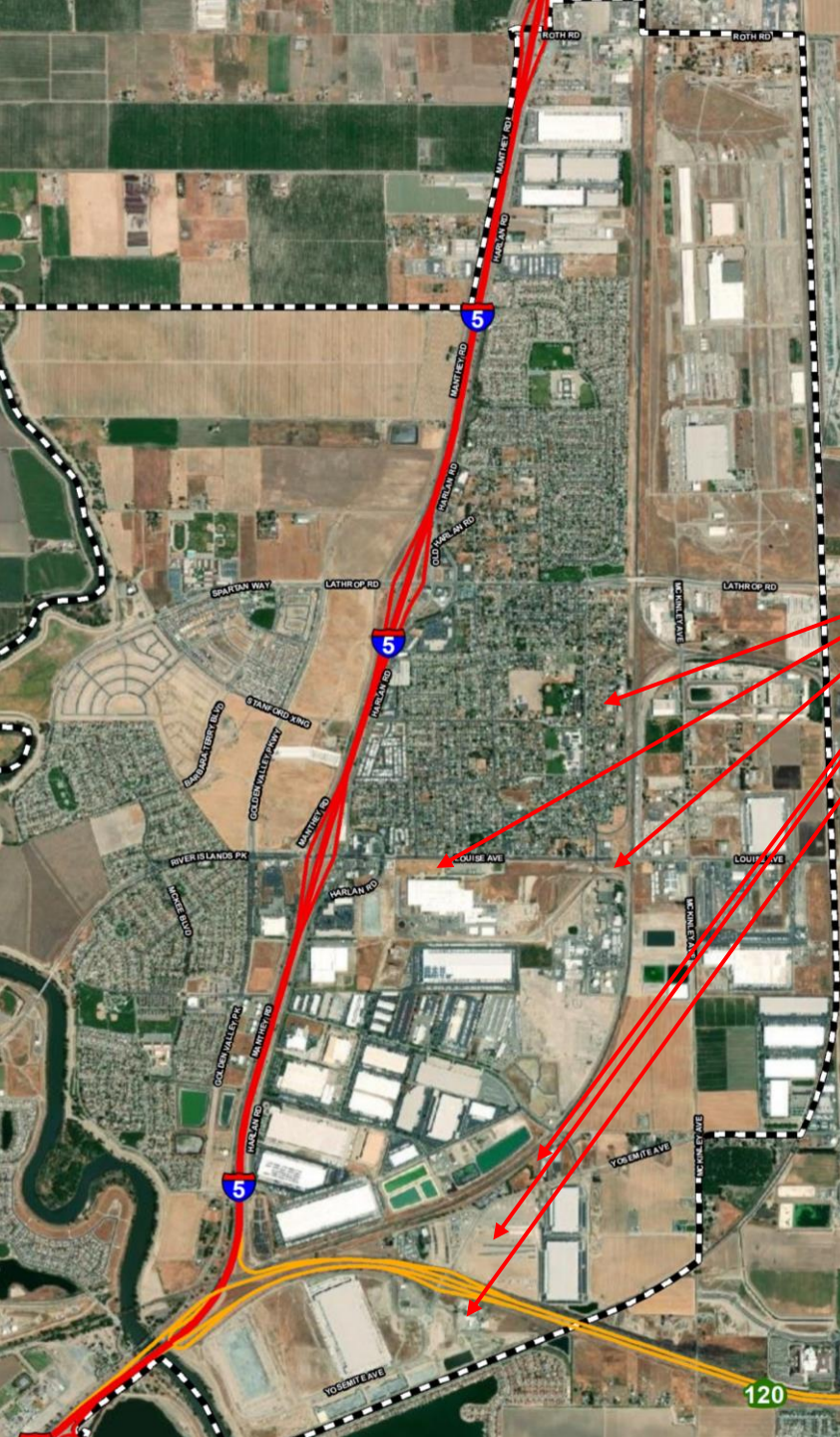
Solely funded by new homes built in River Islands

\$5,000 Fee Paid by Each New Home Sold

20% of Fee Deposited in City-Wide Account to Support Economic Activity

¹ Measure D limits allocation of money from the Citywide Economic Development Fund to the east side of Interstate 5. (Document #2003-069319, Official Records of County of San Joaquin Dated 3/31/2003, "2003 Amended and Restated Development Agreement By and Between Califia, LLC, a California limited liability company, The Cambay Group, Inc., a California Corporation, and the City of Lathrop, a municipal corporation, dated February 4, 2003, Section 7.05.01 Economic Development Fee)

East Side of Interstate 5 Potential Land Sites



- Various Land Sites for Potential Entertainment Use Development
 - Public & Private Ownerships
 - Size Range(s): 0.17 – 45 acres
- Retailers & Entertainment Uses Desire Locations Close to a Highway or Interstate



Background

- Residential Growth Outpacing Commercial Development
- Residents Desire More Retail and Entertainment Venues
- Limited Available Space in Existing Commercial Buildings
- New Construction Challenges
 - High Interest Rates
 - Increasing Costs of Construction
 - Return on Investment to Sustain New Business

Option 1 – Partial Reimbursement or Grant Based on City Capital Facility Fees

- Developers are required to pay permit and development impact fees before constructing a new building.
- Fees Vary by Parcel, Acreage, Use Type, Location
- Fees may include:

Building Permit & Plan Check Fees

Levee Impact Fees

Non-City Development Impact Fees

(i.e.: School Fees, Habitat Mitigation, County Capital Facilities, Regional Transportation Impact Fees, Air District)

City Capital Facility Fees

(i.e.: Water, Sewer, Storm, Transportation, Municipal Facilities)

Agricultural Mitigation Fees

FOR ILLUSTRATION PURPOSES ONLY

Estimated Development Fees – Hypothetical Development

5,000 sq. ft. on 1.5 acres

	Location 1	Location 2
Permit/PlnCk	\$ 13,990	\$ 13,990
City Cap Fac	\$197,076	\$273,142
Other Dev Fees	\$ 34,134	\$ 39,434
Non-City Fees	\$ 6,850	\$ 18,650
Total	\$252,050	\$345,216

40,000 sq. ft. on 4 acres

	Location 1	Location 2
Permit/PlnCk	\$ 73,857	\$ 73,857
City Cap Fac	\$510,775	\$1,015,499
Other Dev Fees	\$ 91,024	\$105,159
Non-City Fees	\$ 54,800	\$149,920
Total	\$730,456	\$1,344,435



In addition to the development fees for new construction, businesses also have start-up costs for land purchase, construction, inventory, employee recruitment/training, etc.



A financial incentive that provides a reduction to the business for start-up costs may be the most impactful to attracting entertainment users.

FOR ILLUSTRATION PURPOSES ONLY

Estimated Development Fees – w/City Financial Incentive

5,000 sq. ft. on 1.5 acres

	Location 1	Location 2
Permit/PlnCk	\$ 13,990	\$ 13,990
City Cap Fac	\$197,076	\$273,142
Other Dev Fees	\$ 34,134	\$ 39,434
Non-City Fees	\$ 6,850	\$ 18,650
Total	\$252,050	\$345,216
50% Incentive w/\$500k Max	(\$98,538)	(\$136,571)
Business Pays	\$153,512	\$208,645

40,000 sq. ft. on 4 acres

	Location 1	Location 2
Permit/PlnCk	\$ 73,857	\$ 73,857
City Cap Fac	\$510,775	\$1,015,499
Other Dev Fees	\$ 91,024	\$105,159
Non-City Fees	\$ 54,800	\$149,200
Total	\$730,456	\$1,344,435
50% Incentive w/\$500k Max	(\$255,388)	(\$500,000)
Business Pays	\$475,068	\$844,435

RECOMMENDATION: Council may consider a Financial Incentive for Entertainment Users Based on a Grant or Reimbursement of 50% of the City Capital Facility Fees up to a maximum of \$500k per project/user. **RECOMMENDED**

Option 2 – City Lease Arrangement

Real Estate Broker & Landlord Feedback on Entertainment Use Tenants

1. Commercial Lease Space

- a. Annual Lease Rates + CAM + Insurance + Taxes on 5,000 s.f. @ \$300k+
- b. Extremely Limited Availability of Commercial Lease Space in Lathrop

2. Industrial Lease Space

a. Little Interest in Leasing Industrial Space to Entertainment Use Tenants

- i. Poor Credit History Causing Above Market Lease Rates
- ii. Higher Liability and Cost of Insurance to Landlord
- iii. Devaluation of Building – “Industrial Tenants Tend to Take Better Care of Leased Space”
- iv. Costly Tenant Improvements to Convert Space to Entertainment Use
- v. Many Entertainment Uses Fail Before Lease Expires Leaving Large Expense for Landlord to Demolish and Recondition Space Back to Original Use

b. City Incentive of Financial Contribution Toward Lease Space

- i. Landlord Likely to Require Security Deposit
- ii. Guaranteed Lease Arrangement
- iii. City to Be Lessee While Allowing the Ability to Sublease Space to User

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b. City Incentive of Financial Contribution Toward Lease Space

- i. Landlord Likely to Require Security Deposit

RECOMMENDATION: Due to industry history as provided by creditable sources, a City Lease Arrangement is **NOT RECOMMENDED**.

Option 3 – City Funded Financial Loan Program

Commercial Businesses (Large & Small) Financial Needs

Real Estate	Equipment	Inventory	Construction Costs	Inventory
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Established Financial Lending Institutions / Programs

Banks & Credit Unions			San Joaquin County Economic Development Association
<ul style="list-style-type: none"> • Commercial Loans • SBA 7(a) Loans • SBA 504 Loans 	<ul style="list-style-type: none"> • SBA 7(a) Loans • SBA 504 Loans • Microloans 	<ul style="list-style-type: none"> • Small Business Loan Match • Jump Start Loans • Loan Guarantees 	<ul style="list-style-type: none"> • Revolving Loan Fund • Microloans

Financing is dependent on credit history of applicant.

Option 3 – City Funded Financial Loan Program

OTHER CITY FUNDED LOAN PROGRAMS

	City of Lodi	City of Tracy
Eligibility	Small Businesses	Small Businesses
Loan Types	MicroLoan Programs	SBA 504 & SBA 7(a) Loans
3rd Party Lending Agency	California Capital	National Development Council
City Investment	\$340,000	\$1,000,000, plus \$3,000,000 Grow America Match
Additional City Cost	\$130,000	Built into Loan Structure
Staff Involvement	Monitor, Market, Schedule Appts	Monitor, Market, Schedule Appts

RECOMMENDATION: Due to availability of existing lending programs, additional expense for program administration and staff time, and risk of default, a City Funded Financial Loan Program is **NOT RECOMMENDED**.

REVIEW & RECOMMENDATION

Council to Consider Incentive Options Presented, Discuss, and Provide Staff Direction to Establish an Entertainment Incentive Program Based on Use of Measure D Funding