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BUDGET OFFICER	
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CITY MANAGER	

Report to City Council

TO: Mayor and City Council

FROM: Barry Foster, Community & Economic Development Director

AGENDA DATE: April 26, 2011

TITLE: ECONOMIC DEVELOPMENT ACTION PLAN

RECOMMENDED ACTION

Staff recommends the City Council:

1. Review and provide direction on an Economic Development Action Plan.
2. Consider the sequencing and funding of Capital Improvement Program projects.

BACKGROUND

The City of Moreno Valley is looking at ways to best assist the future development of the community. With the economy starting to improve, now is the right time to seize the opportunity to evaluate ways that Moreno Valley can best plan for advancing economic development. On March 22, staff introduced an Economic Development Plan with established Areas of Opportunity in the community aimed at producing major employment hubs, successful retail centers and redevelopment possibilities with a goal of making Moreno Valley a major business development area in Southern California.

The focus of the Economic Development Plan-Areas of Opportunity is toward creating a well-rounded community with a strong economic foundation. Creating new jobs in the community, along with providing a positive economic stimulus to existing businesses, must be major priority for the City. Furthermore, Moreno Valley should seek ways to enhance its commercial retail/restaurant make-up and move to improve the City's per capita sales tax revenue stream. Making Moreno Valley a great place to live, work, do business, shop, eat and visit is the ultimate economic development objective. The twelve recommended Areas of Opportunity include the following locations:

- Eastern Moreno Valley-Rancho Belago (including Highland Fairview Corporate Park-Skechers USA, WestRidge Commerce Center, Prologis, and Moreno Highlands)
- City Center (including a Nason, Moreno Beach and Lasselle loop--with Stoneridge Towne Centre, Moreno Beach Plaza, Moreno Valley Auto Mall, proposed Moreno Beach Marketplace-Lowes Center, Moreno Marketplace-Stater Bros. Center, Moreno Valley Ranch Golf Club, Riverside County Regional Medical Center, Aqua Bella, Kaiser-Moreno Valley Community Hospital, Lakeside Plaza & Terrace, Moreno Valley College, the proposed Winco Center and the City's 60-acre property at NWC of Alessandro/Nason)
- South Moreno Valley Industrial Specific Plan Area
- March LifeCare
- Centerpointe Business Park
- Alessandro Boulevard
- Sunnymead Boulevard
- Festival-Ironwood
- Sunnymead Ranch-Lakeshore Village Marketplace
- TownGate (including the Moreno Valley Mall and five surrounding commercial centers-TownGate Center, TownGate Plaza, TownGate Crossing, TownGate Promenade, and TownGate Square)
- Canyon Springs Plaza and proposed TownGate Highlands
- Edgemont Area

DISCUSSION

The formulation of the Economic Development Plan-Areas of Opportunity establishes a broad framework with a diverse number of economic development opportunities, including both short term and longer term possibilities. To fully capitalize on near-term opportunities, staff is recommending the implementation of an Economic Development Action Plan focusing on several key initiatives within five of the Areas of Opportunity--to be pursued within a short-term, 2-year time frame. The focus of this Action Plan would be to:

- Collaborate with the Fritz Duda Company and CW Capital towards enhancing retail and restaurant development in the TownGate area, including pursuing new users for vacant big-box retail space in TownGate Center and the Moreno Valley Mall.
- Advance the development on several projects in the Centerpointe Business Park area.
- Facilitate the development of a number of approved and entitled projects in the South Moreno Valley Industrial Specific Plan Area.
- Capitalize on the opening of Skechers USA and begin to re-evaluate land uses in eastern Moreno Valley, in conjunction with the expiration of the Moreno Highlands Specific Plan and supporting Development Agreement.

- Re-sequence and fast-track three Capital Improvement Projects in the City Center area—1) SR60 south ramps and extension of Eucalyptus to connect with Moreno Beach, 2) installation of ultimate improvements on Cactus Avenue, between Lasselle and Nason and 3) the extension of Nason Street southerly to connect Cactus Avenue with Iris Avenue, along with pursuing the idea of repositioning part of the Aqua Bella area to expand the City's established medical office overlay zone.

Moreno Valley has a strategic location in the Inland Region and is clearly in the path of growth. Since incorporation as a city, Moreno Valley has experienced strong residential development from many quality home builders. Now is an important time for the City to broaden its economic base by pursuing ways for new commercial retail, office and industrial development to happen in the community. The five specified areas of opportunity focused within the proposed Economic Development Action Plan were selected because of location and potential for realizing success in the near-term development marketplace, along with adherence with the following economic development objectives:

- Create jobs locally and address the City's high unemployment rate.
- Address the community's jobs to housing imbalance.
- Strengthen and broaden the local economic foundation by attracting quality businesses.
- Enhance City revenue generation from sources such as Sales Tax, Property Tax, Transient Occupancy Tax, and Utility Tax, with an overall goal of improving the quality of life in Moreno Valley.

TownGate

The master planned 590-acre TownGate area, including the Moreno Valley Mall along with five popular community shopping centers is a major component of Moreno Valley's retail environment. In 2010, the retail areas of TownGate produced more than \$2.84 million in sales tax revenue for the City of Moreno Valley, which represented 26% of all the sales tax revenue generated for the City. The ownership of the Moreno Valley Mall at TownGate, a 1.25 million square foot regional mall, was recently assumed by CW Capital. City staff is working closely with CW Capital and their development partners (Cushman & Wakefield and Spinoso Real Estate Group) on plans to upgrade, expand and reposition the Mall property, which anchors the TownGate area. Additionally, City staff is working in collaborative partnership with the Fritz Duda Company in pursuing national retailers and restaurants to occupy vacant spaces in TownGate properties. Recent success in attracting Burlington Coat Factory, Buffalo Wild Wings, Five Guys Burgers and Panera Bread have lead to furthering negotiations with several other major retailers and restaurants for TownGate locations. The use of the CDBG Business Incentive program and purchasing operating covenants will be important tools in finalizing these potential users. The relocation of the Robertson's Ready-Mix operation out of TownGate will also present additional development opportunities in TownGate Square.

Centerpointe Business Park

The Centerpointe Business Park area has attracted a number of quality businesses that have produced many employment opportunities in the community. Frazee Paint, Minka Group, ResMed, Serta Mattress, United Natural Foods Inc., and the U.S. Postal Service all have opened major facilities in the Centerpointe Business Park. By this August, Harbor Freight Tools will be fully operational in a new Distribution Center (DC) at the NW corner of Cactus Avenue and Graham Street that will eventually employ up to 400 people. Both Ridge Property Trust and Overton Moore Properties (OMP) are pursuing additional development opportunities in the short term for the Centerpointe Business Park. Recently OMP re-started the plan check process for a new 519,760 S.F. industrial building to be situated at the NW corner of Cactus Avenue and Frederick Street. All of these projects are aimed at attracting new logistic and distribution users that will create new jobs in the community.

South Moreno Valley Industrial Specific Plan Area

During the last development cycle, the South Moreno Valley Industrial Specific Plan Area was a catalyst for producing development opportunities for a number of major employers including Cardinal International Inc., El Dorado Stone Corporation, Harmon Kardon International Industries, iHerb Inc., Lowe's Company Inc., Masonite International Corporation, O'Reilly Automotive Inc., Philips Electronics Corporation, Ross Stores Inc. and Walgreens Company. Recently, a number of leading industrial developers have reinstated the processing of construction plans for approved and entitled projects in the South Industrial Area. Assisting in the development of new speculative industrial development projects in this area of Moreno Valley will be an important tool for the City in creating new employment opportunities in logistics/distribution. With a vacancy rate of just 3.4% for industrial buildings, Moreno Valley needs developers to initiate new construction projects. Presently five buildings with a total of 3.6 million square feet are in plan check with construction drawings. Four other projects with 3.5 million square feet are approved and entitled, but at this time do not have active development plans being processed. One of these large projects is in escrow to be purchased by a major-national developer who desires to move forward with development of the project. Another two sizeable projects with a total of 3.1 million square feet have Environmental Impact Reviews in progress.

Eastern Moreno Valley-Rancho Belago Area

The eastern area of Moreno Valley, including the Ranch Belago area, has a significant amount of undeveloped property. Much of this area is included in the Moreno Highlands Specific Plan, which is set to expire in 2012. Considering that the Specific Plan will soon expire, the idea of evaluating the highest and best land uses in the eastern area of the community makes great sense. With the opening of the Skechers USA facility coming soon many other potential users have expressed interest in development opportunities in the eastern Moreno Valley-Rancho Belago area. The existing Moreno Highlands Specific Plan actually includes established land uses that could support approximately 8 million square feet of new industrial and business park development—the question is proper location and product type, consistent with the ongoing development marketplace.

With the Moreno Highlands Specific Plan expiring all of this can and should be re-evaluated.

With a goal of producing more jobs in Moreno Valley, the City should consider the appropriate percentage of land area in the community to be zoned for industrial and business park development. Presently, Moreno Valley has a low percentage of land area zoned for industrial and business park uses, as compared to other nearby cities. The following represents a survey of other Inland Region cities and the percentage of property they have zoned for industrial and business park use:

Chino 17.1%
 Corona 11.4%
 Fontana 17.0%
 Ontario 25.3%
 Perris 21.7%
 Rancho Cucamonga 15.3%
 Riverside 15.2%
 San Bernardino 18.0%
 Moreno Valley 9.0%

The logistics and distribution industry is rapidly evolving to better react to the global marketplace. Large sale projects such as Skechers, are the future of logistics and distribution. The workforce to operate and maintain sophisticated and costly material handling systems demands a better trained and highly skilled worker. With significant undeveloped land holdings and easy access to SR60, the eastern Moreno Valley area is primed for more logistic and distribution development.

City Center

The City Center area is strategically situated at the geographic center of Moreno Valley. The City Center area includes major medical facilities, the community college, the Auto Mall, several shopping centers and a large amount of the newer housing developments in the community.

To improve traffic circulation in the area, and strengthen economic development efforts, City staff is recommending the re-sequencing of several projects from the Capital Improvement Program (CIP), including the following three projects:

- Installation of the new SR60 southerly ramps, along with the extension of Eucalyptus Avenue to connect with Moreno Beach Drive.
- Installation of the ultimate improvements on Cactus Avenue between Lasselle Street and Nason Street.
- Provide for the extension of Nason Street southerly to connect Cactus Avenue with Iris Avenue.

All of these improvements are part of the City's approved Circulation Plan and contained in the City's 2010/11 Capital Improvement Program. However, the projects

are presently either unfunded or only partially funded. The Economic Development Action Plan proposes to re-sequence the order of CIP projects to pursue the funding and construction of these projects in the short-term to assist economic development efforts and better leverage towards future revenue opportunities for the City by strengthening existing shopping centers (Stoneridge Towne Center, Moreno Beach Plaza, and the Auto Mall) and major employers (Riverside County Regional Medical Center, Kaiser's Community Hospital and Moreno Valley College). Additionally, the completion of these three CIP projects will significantly enhance the traffic flow in the central area of the community which will assist both the business community and residents with easier commutes.

Currently, major improvements are underway at SR60 and Nason to significantly improve this freeway interchange. The construction of the new ramps and bridge is targeted for completion by summer 2013. Pursuing the installation of the southerly ramps at SR60 and Moreno Beach and the connection of Eucalyptus to Moreno Beach, in conjunction with the Nason interchange project, will significantly enhance the future traffic circulation in this area. Additionally, it will assist with the convenient ingress and egress to Stoneridge Towne Centre, Moreno Beach Plaza and the Moreno Valley Auto Mall.

The other two CIP projects will install the ultimate street improvements to connect Nason Street, from Cactus to Iris and upgrade Cactus Avenue from Lasselle to Nason. These improvement projects will greatly improve access to Moreno Valley College and the two medical centers in the community, along with enhancing the traffic flow in the central area of the community. Traffic modeling by the City's transportation professionals illustrates that undertaking these improvements on Cactus and Nason will greatly reduce traffic loads on Iris, Moreno Beach, Lasselle and Alessandro—thereby better managing traffic flow in this area of the community. Additionally, providing the connection of Nason from Cactus to Iris creates much easier commutes from the residential areas in Moreno Valley Ranch and the southerly section of the community to shop and dine in Stoneridge Towne Centre, Moreno Beach Plaza and the Moreno Valley Auto Mall.

Sales have finally increased at the Moreno Valley Auto Mall. Work is underway for the installation of the new freeway sign, along with other improvements at the Auto Mall. Enhancing access to the Auto Mall with these three CIP projects will be a strategic investment in growing sales tax revenue at the Auto Mall.

Stoneridge Towne Centre and Moreno Beach Plaza are major retail centers. While being attractive and nicely designed retail areas, both of these centers have struggled somewhat since opening because of the economic downturn and the collapse of the new housing development market, along with inefficiencies in traffic flow in getting to and from these shopping centers. Together, both of these shopping centers produced \$1,428,000 in sales tax revenue in 2010 for the City of Moreno Valley. However, the sales performance of these two shopping centers was significantly below what they should have produced if one compares them with the California or Riverside County

averages of what these types of retail centers should produce with the tenant mix and user lineups they have assembled. Together the two shopping centers sales production was 17.9% less than the statewide average and 15.9% off the Riverside County average. This represented a \$582,000 loss in potential sales tax revenue for Moreno Valley in 2010 if sales performance of these two shopping centers had just achieved the State of California average. This loss in sales revenue is even greater considering that three of the anchor stores in Moreno Beach Plaza—Phase II are vacant after Circuit City went out of business two years ago and Staples and Petsmart chose not to open their new stores.

Clearly, these two shopping centers and their anchor tenants (Walmart, Super Target, Kohl's, Best Buy, and Office Max) are underperforming. Rumors have surfaced from time to time that some of these anchor stores may close because of depressed sales performance. On average, the five operating anchor stores in the two shopping centers range from 16.6% to 48.4% below the average of what these store types should produce in sales performance when compared to the statewide average. Collectively, the five anchor stores produced \$43 million in sales in 2010, but this was 29.3% below what the statewide average was for these same stores. This represented a \$430,000 loss in potential sales tax revenue for Moreno Valley as compared to the statewide average. Even more troubling would be the devastating effect it would be for one or more of these anchor stores to close and the subsequent negative impact it would have on the shopping centers. An objective of this Action Plan is not only keeping all the anchor stores open, but also move to enhance their sales performance.

Interest has recently materialized for the possible re-occupancy of the three closed anchor spaces in Moreno Beach Plaza II. However, any reuse of these spaces will be contingent on first connecting Eucalyptus to Moreno Beach, along with plans to enhance traffic circulation and expand daytime population—i.e. establish more businesses and create job production in the eastern area of the City.

Moreno Valley College is well underway with four construction projects totaling \$88 million that will greatly expand and upgrade the City's community college. Moreno Valley College's student population exceeds 10,000. Furthermore, both Kaiser Permanente's Community Hospital (Kaiser) and Riverside County Regional Medical Center (RCRMC) are working on plans to expand these major medical facilities. In fact, Kaiser Permanente expects to bring the development of a new 75,000 S.F. building before the Planning Commission in June, with a start of construction expected by late summer. Executive management from Moreno Valley College, Kaiser, and RCRMC all fully express support for the idea of pursuing the CIP projects and the goal of improving traffic flow in the City Center area.

In 2007, the City adopted a medical overlay zone that includes area on Iris Avenue— from the Kaiser Community Hospital area and down Nason Street to the RCRMC area. Presently, Highland Fairview is evaluating the possibility of other land uses for part of the Aqua Bella area—including the idea of developing a major health and medical related campus on approximately 200 acres of the undeveloped land on the eastern

side of a newly installed Nason Street. This proposed development concept, which would include a world-class master planned health care campus would provide a link between the existing two hospitals and further advance the City's planning concept of creating a medical corridor in this section of the community. As Americans live longer (it is expected that 20% of Americans will be over the age of 65 by 2050) and the population continues to grow in the Inland Region, the need will escalate for more medical and health related services in this area. The vision of creating a medical and health services corridor in this of the community makes great sense, particularly considering that major institutions such as RCRMC, Kaiser Permanente and Moreno Valley College are already situated in this area of the community.

There is a clear need for education, training and research/development in the health and medical fields. Allied Health is one of the most rapidly growing professions in the U.S. and especially in Southern California. According to the U.S. Bureau of Labor Statistics---17 of the top 30 fastest growing occupations in the U.S. are in the health related professions. The California Wellness Foundation, estimates that by 2030, almost 1 million health care workers will be needed in California. Having Moreno Valley College, with its Allied Health Sciences programs, along with the fact that RCRMC will be the major teaching hospital for the new UC-Riverside medical school, provides even more momentum to consider repositioning part of the undeveloped land at Aqua Bella for health and medical related uses. Constructing the Nason and Cactus improvements would clearly help advance the planning and marketing efforts for an expansion of the medical overlay corridor. Producing more health and medical related facilities will create more jobs and employment opportunities in Moreno Valley, along with helping improve retail and restaurant sales in the shopping centers in the City Center area.

Staff has discussed the idea of advancing the construction of the three CIP projects in the City Center area with many of the stakeholders in this area--including Moreno Valley College, RCRMC, Kaiser Permanente, Highland Fairview, Stoneridge Towne Centre-Weingarten Realty, Moreno Beach Plaza I-Pacific Retail Partners, Moreno Beach Plaza II-Merlone Greier Partners, and the Moreno Valley Auto Mall-Moss Bros. Auto Group. All are fully supportive and enthusiastic about the idea of pursuing these three CIP projects in the short-term. Ten of the Top 20 Sales Tax Producers in the City are contained in this area and 22% of the entire City's sales tax revenue in 2010 was produced in Stoneridge Towne Centre, Moreno Beach Plaza and the Moreno Valley Auto Mall. The City Center area also includes a number of the major employers in the community--including eight of the top 50 major employers in Moreno Valley. Presently these eight major employers provide nearly 5,000 employment opportunities in Moreno Valley. Strengthening all these businesses should be an objective of the City's economic development efforts.

ALTERNATIVES

Staff recommends that the City Council approve the Economic Development Action Plan including the following actions:

1. Adoption of the five initiatives as proposed in the Economic Development Action Plan.
2. Approve the re-sequencing as proposed for Capital Improvement Program projects.

Other alternatives the City Council may consider is rejecting the proposed Economic Development Action Plan and the re-sequencing of CIP projects or provide direction on other economic development efforts to be included in formulating a short-term Action Plan.

FISCAL IMPACT

The funding and construction of the three projects will be accomplished through the Capital Improvement Program.

SR60/Moreno Beach-South Ramps

The cost for this project is estimated at \$10.5 million and will be funded through a combination of sources including 1) \$2.5 million of proceeds from the 2007 RDA Bond Issuance that was recently shifted to the City, 2) estimated savings in the amount of \$7 million from the SR60/Nason ramps and bridge projects, and 3) a proposed Developer contribution of \$1 million from the owner of the Moreno Beach Plaza-Phase II, in conjunction with a reimbursement agreement to be tied to future tenants sales tax performance.

Cactus Avenue and Nason Street Improvements

The total cost for these two projects is estimated at \$23.3 million. To achieve an 'economies of scale' and reduce overall costs, it is suggested to construct the projects together as one large scale project or through a design build process—with a goal of saving at least 10% in construction costs. An estimated \$6 million of the costs for the projects involves installing storm water infrastructure that is part of Riverside County's Master Planned Flood Control System. Moreno Valley through its Redevelopment Agency (RDA) has accumulated \$5.42 million in tax increment pass through revenues that in accordance with a Cooperative Agreement (executed in 1988) between Riverside County and Moreno Valley's RDA must be used for County Flood Control master planned projects—such as the construction of Line I and Line J that should be constructed as part of the Cactus and Nason street improvement projects. By FY 2011/12 the amount of tax increment generated for this use is estimated to grow to \$5,997,000 and be sufficient to construct these storm water improvements. Another potential funding source for the Cactus Avenue project is a \$1 million California SLLP grant. To properly fund the remaining cost of the two projects, it is recommended that the City Council, through the CIP process, consider re-sequencing the timing of the funding of several other CIP projects, including the delaying and/or borrowing of existing funding from several sources, including borrowing \$4 million in DIF Library funds, along

with pushing back the timing of several projects—Reche Vista Alignment (\$3.1 million), Corporate Yard (\$2.5 million), Heacock Channel improvements (\$1.3 million), and Kitching Street (\$2.5 million). These four projects would remain in the CIP, but would be funded at a future time if the re-sequencing of CIP projects is supported by the City Council.

SUMMARY

Advancing economic development efforts should be a major goal for the City of Moreno Valley. Previously City staff had presented City Council with an Economic Development Plan-Areas of Opportunity. The formulation of an Economic Development Action Plan with five key initiatives is envisioned as a roadmap to guiding the City’s short term economic development efforts. Included with the Action Plan is the re-sequencing of Capital Improvement Projects to better assist in economic development efforts. Investing in CIP Projects that enhance economic development through job creation and revenue generation will improve the economic condition of the City, along with enhancing the quality of life in Moreno Valley.

ATTACHMENTS/EXHIBITS

- Attachment A—Economic Development Action Plan—Opportunity Areas
- Attachment B—PowerPoint – Economic Development Action Plan

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Council Action	
Approved as requested:	Referred to:
Approved as amended:	For:
Denied:	Continued until:
Other:	Hearing set for: