

Timothy Barrett: Position Paper

Amending the City's Leasing Policies is in the best interest of the entire community

Wharf Subsidy Myth:

I'm not going to call the refrain that the Wharf business community is being subsidized by tax payers a manipulative misrepresentation, but it is certainly NOT true. At the recent New Monterey Neighborhood Forum, Dr. Alan Haffa said, "It's wrong that the wharf is subsidized out of the general fund." If that were true, I might agree, but it is categorically not the case.

Here is an incontrovertible fact: City of Monterey financial documents clearly show that during the 7 year period from 2007 through 2014 Wharf 1 alone generated \$7,551,079 in revenue to the City. By State law, this revenue is required to be kept in a fund that is restricted for use within the Tidelands. These funds cannot be used anywhere else in the City and they should never touch the General Fund.

Incontrovertible Fact: During the same 7 year period, though Wharf 1 generated \$7,551,074 to the City in Tidelands restricted funds, the City reinvested a mere \$166,439 of those funds augmented by only \$1,000,115 of CIP funds into Wharf 1 related expenditures. That means that Wharf 1 generated \$6,384,525 more in revenue to the City than the City reinvested into Wharf 1.

Incontrovertible Fact: The \$6,384,525 in Tidelands Funds that were generated by Wharf 1 over and above that which the City reinvested in the Wharf offset other Waterfront related City services. Examples include funding Harbor personnel and offsetting the \$1,000,000 needed to dredge the Harbor, expenses that otherwise would have come out of the General Fund. Based on this, an argument can be made that rather than being subsidized by the General Fund, Wharf 1 is subsidizing other City services that otherwise would be expended out of the General Fund.

Incontrovertible Fact: Wharf 1 generates approximately 25% of the City of Monterey sales tax revenues. Sales tax revenues accrue to the General Fund where they support City services such as fire and police, services which benefit the entire community.

The Issue of Fairness:

The Wharf 1 Business District is built on land leases. During the October 20th Monterey City Council Meeting, the entire Monterey City Council seemed to agree that the land leases were fair. As background, Land leases are leases of undeveloped land, in this case the sand underneath the ocean. Land leases are typically for very long terms which afford tenants

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sufficient time to make improvements on the property and then capitalize on their investments. This benefits the property owner, in this case the City and therefore the people of Monterey, because the tenant makes improvements to the land (submerged sand) at no cost to the owner of the property. And as has been shown, Wharf 1 is self-sustaining with no cost to the City's General Fund; it returns sufficient revenues to offset other City Waterfront related costs, and it contributes about 25% of the City's overall sales tax to the General Fund in support of City services for everyone's benefit. So where does the idea that this is a bad deal for the citizens of Monterey derive?

First, some believe the Wharf 1 leases have been a bad deal for the community because a few people have been saying so, and the notion gets repeated over and over until it seems true. In a negative public relations campaign, language designed to engender a negative emotional reaction such as "sweetheart deal" has been employed, and proponents of the bad deal notion have sought to demonize those with whom they disagree. For example, It's been implied that people who disagree with the Sweetheart Deal notion must be "on the take" or sinisterly seeking unfair advantage of the community. I assert that rather than driving sound policy, such demonizing tactics have engendered a divisive political dialogue which has been damaging to our community's psyche and tended to obscure rational thought behind a veil of incendiary rhetoric.

Second, as mentioned above the Wharf 1 business district is built on land leases. These are leases that the City Council has acknowledged as fair because they have served their purpose to encourage development that benefits the City under terms that allowed the leaseholders to capitalize their investments. A number of the land leases have now expired and those lease holders have transitioned to month to month tenants at the original land lease rates. Some point to the difference between the revenue that the City receives from month to month tenants at the land lease rates and that which the City might receive from newly negotiated "market rate" leases and say this is not fair to the taxpayer. But one can hardly blame the month to month tenants on Wharf 1 as it has been the City which until recently has declined to negotiate new leases. This has been an unfair situation to all. As a result, the City has been left with unrealized revenue and the tenants have been left with insecurity and an inability to make long term business plans.

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Policy Overreach:

I believe that the inclusion of a piling maintenance fee and a common area maintenance fee, part of which may be used in support of the infrastructure that provides access to the Wharf Business District is a policy overreach.

Since time immemorial government has recognized a public benefit in supporting infrastructure that promotes commerce. We see this throughout our City in every business district through the maintenance of our roads, sidewalks and other infrastructure. Throughout the City, costs for such maintenance are met through a variety of funding sources including the City's General Fund. But that is not the case with Wharf 1. As shown above, Wharf 1 is self-sustaining in that the maintenance costs do not impact the City's General Fund. Conversely, the Wharf represents an extension of our City's ability to capture sales tax revenue by expanding Monterey's area of commerce by an entire business district which otherwise would be non-revenue producing sea floor. This business district provides approximately 25% of the City's total sales tax revenue. In other words, the Wharf has transformed barren sea bottom into a source of sales tax revenue to the benefit of the entire community.

Clearly there is a public interest in maintaining the infrastructure that provides access to the Wharf business district just as there is with any other business district, but unlike other business districts those infrastructure maintenance costs are sustained through the Tidelands Fund. Remember, the Wharf generated \$7,551,079 of revenue into the Tidelands Fund and the City reinvested only \$1,166,554 into Wharf maintenance. Additionally, Wharf 1 tenants are responsible to maintain their buildings from the rooftops down through the pilings all the way to the sandy ocean bottom. So why then, as Wharf 1 is self-sustaining through the Tidelands fund do the City's leasing policies include a piling maintenance fee and common area maintenance fee? These fees represent burdens to the Wharf business district that are not imposed on any other business district, and these conditions are bludgeoning locally owned and operated businesses out of existence.

The benefit of locally owned and headquartered businesses:

On multiple occasions during comments delivered to the Monterey City Council, proponents of the City's Leasing Policies / Guidelines have indicated a desire to see corporate chains on Wharf 1 where locally owned and headquartered businesses now exist. However, the City of Monterey is fortunate to have a business district that predominantly features locally owned and headquartered businesses because such businesses drive more local economic development

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than do their corporate counter parts. in her book Locavesting, Amy Cortese reminds us that “buy local” campaigns have demonstrated that even a tiny shift in purchasing from chains to locally owned merchants can generate many times the amount of the shift in economic benefits. Also, in the book “Local Dollars Local Sense”, Michael Shuman cites multiple studies that show every job in a locally owned and headquartered business delivers two to four times as much economic-development benefit in a given community as an equivalent job in a non-local business. Additionally, the California Economic Development Journal, (Summer 2016) indicates studies by Civic Economics found that overall, locally owned businesses generate more money for a community than do corporate chains, as the profits generated by the businesses stay within the local community instead of draining away up the chain.

In a world that is becoming increasingly standardized and in which there is a proliferation of architecturally similar strip malls filled with similar chain stores, we, the citizens of Monterey can celebrate our bastions of uniqueness, those elements of our community such as the Wharf Business District that allow us to stand out from every other community. By and large visitors to our region seek out that which is unique, that which makes them feel as though they've left where they were and gone somewhere different, and that which offers opportunities to make local discoveries. As has been shown, the uniqueness of the Wharf clearly translates into an economic benefit for our entire community. The Monterey City Council should amend the City's Leasing Policies / Guidelines, and our City's policy makers, myself included, should take care not to damage that which makes our community both special and successful.