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California Golden Fund

Approved EB-5 Regional Center

Economic Development *Without* Redevelopment



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Reviving Economic Development in California

Economic Development *Without* Redevelopment

Presented by:

Larry J. Kosmont, CRE
President & CEO, Kosmont Companies

TODAY'S APPOINTMENTS

- **California's Fiscal Health Exam**
- RDA Loss – The Four Stages of Grief and Recovery
- Economic Development – Alive but Moving Slower
- Tax Increment Replacement Therapy?
- Prescription for Economic Development

California's Unhealthy Budget

- **Top 1% earners = 40.9% of income tax \$\$**
- **Sales tax prone to major shifts**
- ***Deficit improved but still ~\$1.9 B. in 2013***
- ***Fitch GO bond rating lowest in USA (A-)***



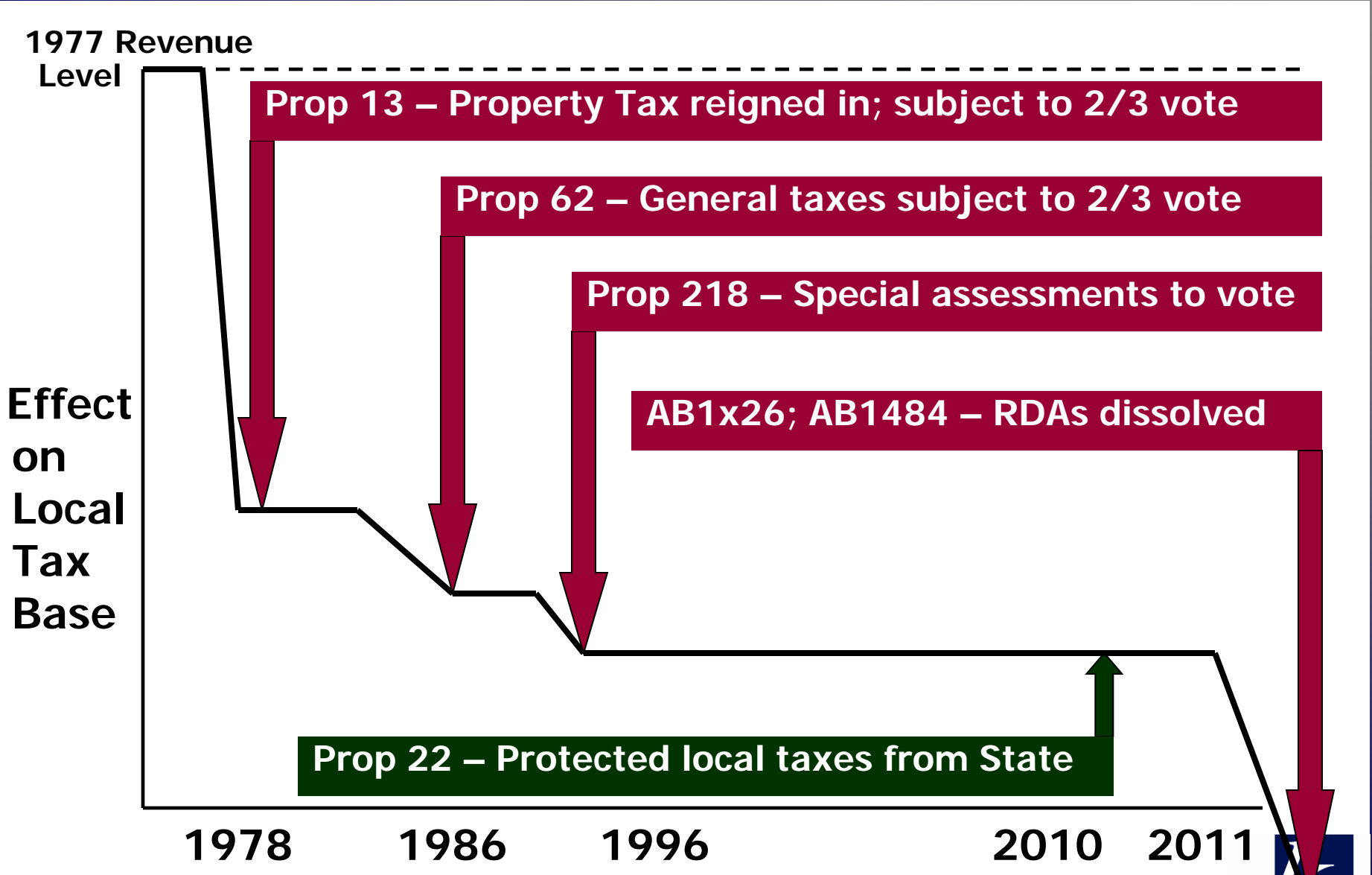
LAB RESULTS:

Income Tax: ~55% of General Fund

Sales Tax: ~30%

Property Tax: <13%

33 Years of State Tax Diets Left Us Famished



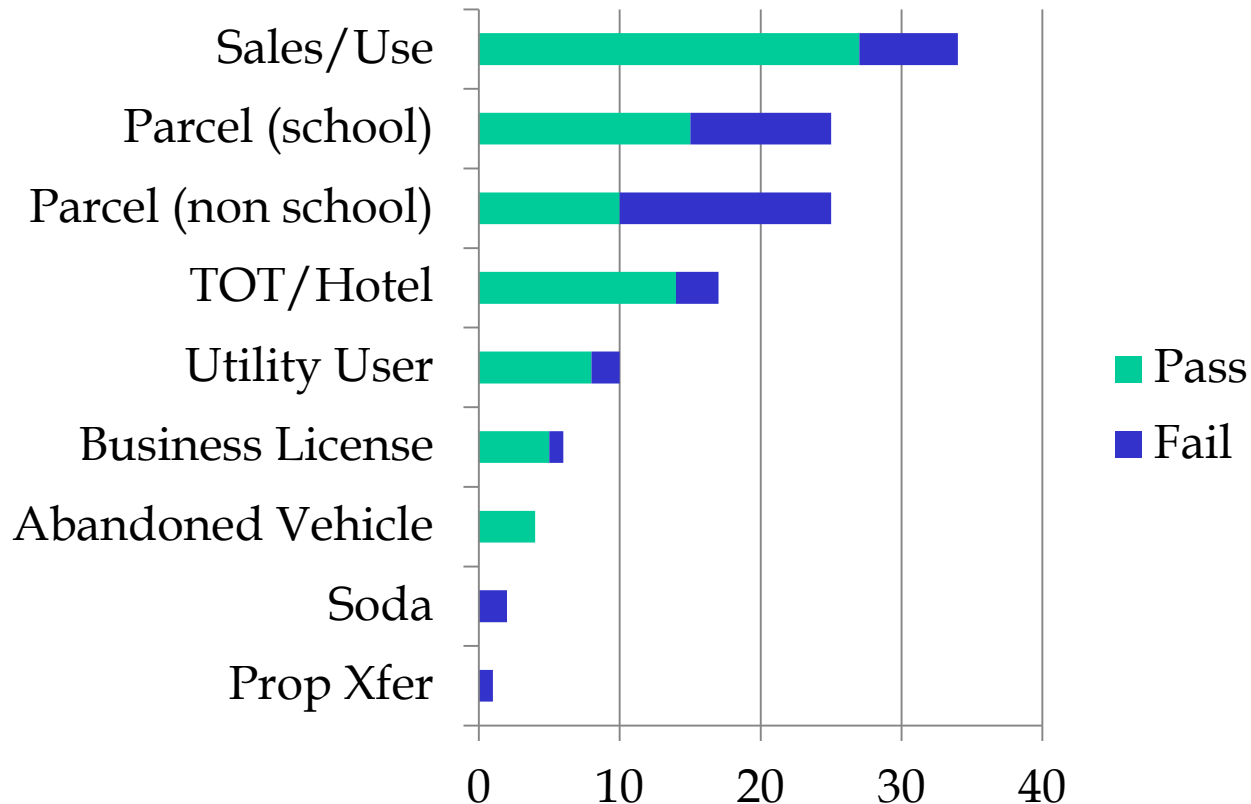
Note: Not to Scale

What have we done to stop the bleeding?



Local Gov't Solution - An Overdose of Taxes?

124 initiatives were on the Nov ballot to increase or expand local taxes



83 Passed. 41 Failed.

State Ballot Therapy – Tax the Rich & Business

State Ballot Measures:

PROP #	Description	PASS / FAIL
30	Gov. Brown's Tax Increase for education & General Fund	PASS
31	Two-Year Budget Cycle	FAIL
32	Ban on union contributions to fund candidates	FAIL
33	"Persistency discounts" for car insurance rates	FAIL
37	Mandatory labeling of genetically-engineered food	FAIL
38	State tax increase for education	FAIL
39	Income Tax Increase for Multi-State Business	PASS

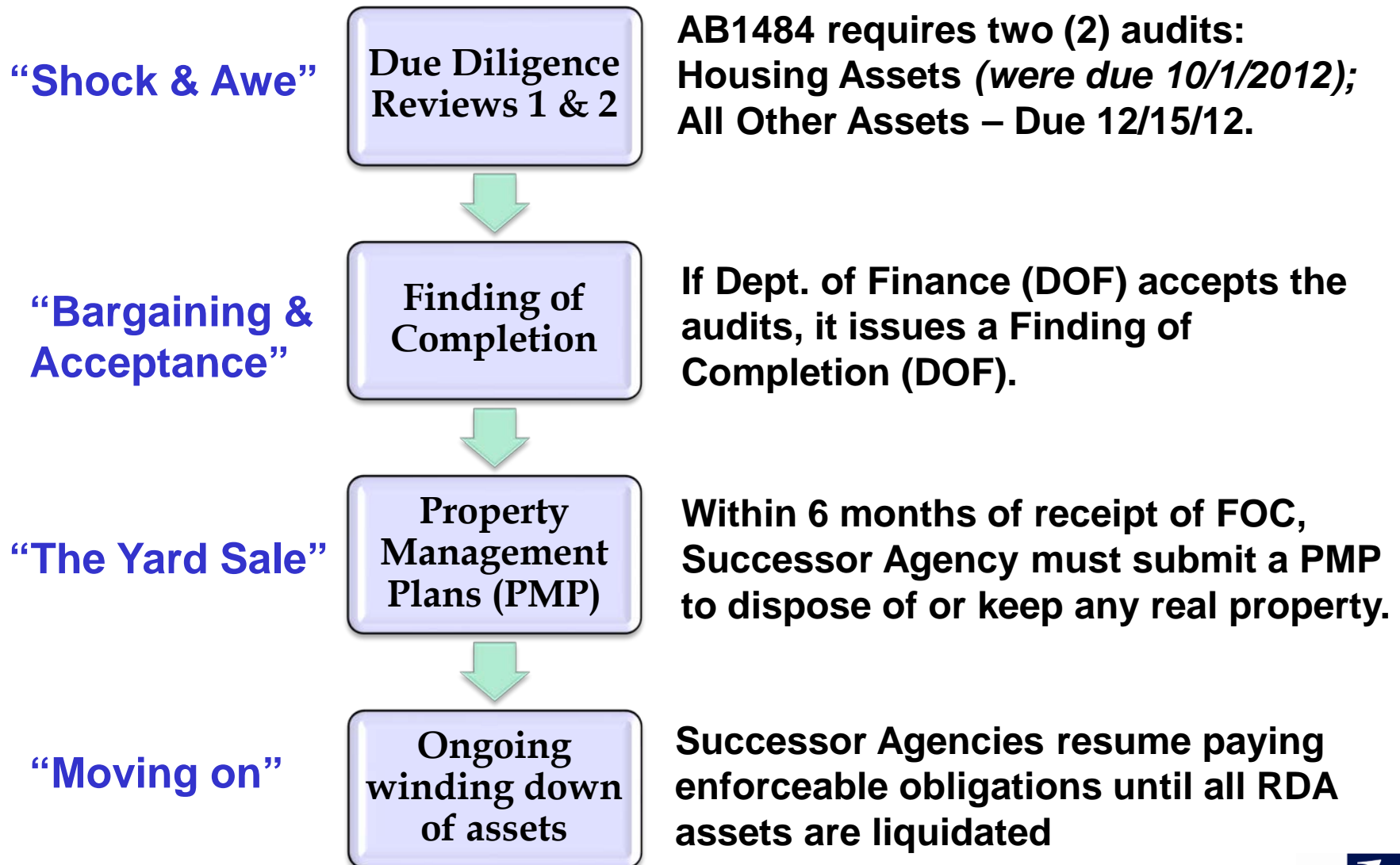
Is the new “Supermajority” a Solution?

- **Democrats now hold more than 2/3 seats in Legislature**
- **1st time since 1933 that one party controls both houses**
- **Sacramento’s legislative engine now has free reign to:**
 - ✓ **raise taxes**
 - ✓ **override a Governor veto**
- ***But - Supermajority not assured until Fall 2013 when vacant positions are filled via special election***
 - ***New Dems were mostly elected in swing districts, so they may vote more as moderates***

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Successor Agencies - The Four Stages of Grief



Benefits of PMPs: The Inheritance

- 1. Per AB1484, some assets may be kept and used:**
 - a. Real Estate transferred to Cities for governmental use*
 - b. RE transferred to Cities for future development*
 - c. Rest of properties sold; proceeds returned to taxing authorities (net of obligations)*
- 2. Loan agreements between City and former RDA may now be enforceable obligations**
- 3. Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (possible refunding opportunities)**

PMP Triage to Help Local Government

STEP 1 – “THE ASSET”:

Start your AB 1484 required Property Management Plans (PMP) now.

STEP 2 – “THE MONEY”:

Evaluate your City's credit and cash flow capacity to use non-RDA economic development financing tools.

STEP 3 – “THE PLAN”:

Jumpstart Economic Development Implementation.

There isn't time or need for a big study.

- **Need strategy for public-private investment into properties that can be retained by City for public use & future dev't per AB 1484.**
- **strategy must be in collaboration with your PMP so City's primary opportunities are saved from a redevelopment fire sale.**

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Redevelopment took TIF to the Grave

California now only one of 2 states w/o tax increment, THE most powerful tool for economic development

- based upon property tax which is a stable funding source
- RDA Tax-Increment Financing (TIF) model allowed local agencies access to significant & long-term source of funds
 - Tax increment grows for decades beyond a flat base year, capturing significant leverageable value over time
 - The economic multiplier effect of new projects meant that “pass-through” taxing entities also benefit from TIF

So what's left after Redevelopment?

Economic Life After Redevelopment

The primary tools we have left after Redevelopment:

- **Site-Specific Tax Revenue (“SSTR”) Pledge or Rebates**
- **Ground Lease**
- **Lease-Leaseback of City Assets**
- **Tax-Exempt Revenue & Utility Bonds**
- **Parking Authorities**
- **EB-5: Immigrant Investor Program (Green Cards for Jobs)**
- **Other Special Districts (CFDs, BIDs)**
- **Competitive Federal & State Grants (EDA/CDBG)**
- **New Market Tax Credits (NMTC)**
- **Infrastructure Financing Districts (IFDs)**

Case Study: City of South Gate “azalea” Retail Center



Tools Employed:

- Utility Bonds for related off-site improvements
- Site-Specific Tax Revenue (SSTR)
- EDA Grant
- New Market Tax Credits (NMTC)

“Non-Redevelopment Deal”

City of South Gate – “azalea” Retail Center

The Challenge

- Formerly a pipe mfg plant, the 32-ac. site lay fallow & blighted for years
- City purchased the land in 2006 to revitalize community with a quality regional retail & entertainment center
- Highest density in LA County yet residents are forced buy basic soft and durable goods and go to quality restaurants outside South Gate



City of South Gate – “azalea” Retail Center

The Process

- Kosmont worked closely with the City of South Gate and Primestor to fulfill City’s objectives while minimizing financial gap assistance
- Negotiated Infrastructure Financing & Fee Waiver Agreement to fund public off-site improvements, thereby reducing developer risk
- In deteriorating credit market, sold AA- rated Utility Bonds with sufficient new money (\$8.4M) for public improvements
- Implemented the city’s primary economic development priority

City of South Gate – “azalea” Retail Center



The Outcome

- 372,000 sf “azalea” retail project by Primestor to open in June, 2014 with modern architecture & major national credit retailers
- Wal-Mart, Marshall’s, Ross, Anna’s Linens, In & Out, restaurants
- Project will generate \$2.6m per year in sales (2% sales tax rate)
- Public amenities- City Hall Annex, public plazas and event areas
- South Gate to recapture sales tax leakage & create ~600 jobs

Case Study

City of Redondo Beach

Marine Avenue Hotel Project

Tools Employed:

- Ground Lease
- Lease-Leaseback
- Site-Specific Tax Revenue Pledge



“Non-Redevelopment Deal”

Redondo Beach Marine Avenue Hotel Project

The Challenge

- City wants to better utilize area near Metro station that has yet to attract transit-oriented development.
- Odd lot size & shape; multiple ownership; and vacant condition has deterred private development.
- Developer proposes 147 room Hilton Garden Inn and a 172-room Marriott Residence Inn located adjacent to the Metro station.

Metro
Station



Site Specific Tax Revenue Mezzanine Pledge

- **Project Overview**

- **Total Project:** ~\$56.5m
- **Developer Equity:** ~\$16.5m
- **Private Lender Financing:** ~\$40m

- **Proposed Terms**

- **City owned land; leased for 99 years**
- **Site Specific Tax Revenue (SSTR) Pledge of TOT & Property Tax from Hotels are used to fund a reserve of up to \$8.5 million.**
- **If needed, SSTR Reserve used to guarantee current year debt service.**
- ***No General Fund Guarantee***

Redondo Beach Marine Avenue Hotel Project

The Outcome

- **Site Specific Tax Revenue is key; without it the project would not receive commercial financing.**
- **Projected to add over \$2 million/year in TOT & create >100 jobs.**
- **Brings two quality hotel operations to the City's "front door"**
- **TOD project across street from Metro Green Line station**

Other non-RDA Success Stories



City of Redondo Beach – *Waterfront Revitalization*

- City's Waterfront struggles to compete with other South Bay cities
- Kosmont structured Lease-Leaseback financing for 15 acres of land acquisition to be paid back from property cash flow
- RFQ issued for 15+ Acres of Waterside Development
- Centercal Development (CalSTRS) selected - ENA negotiation started

Other non-RDA Success Stories

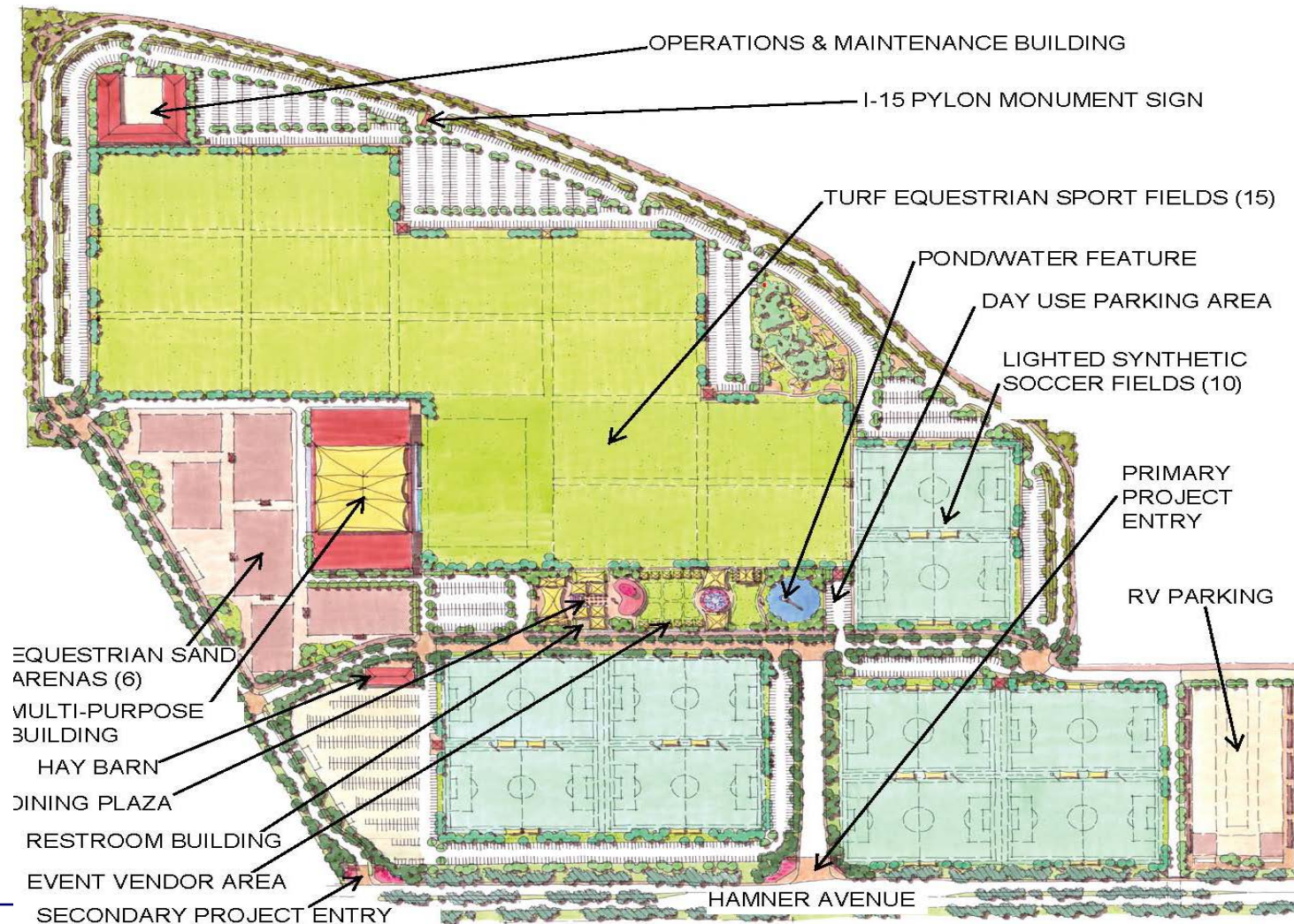
City of Norco - *Silverlakes Equestrian Sports Park*

- City purchased deed-restricted 122-acres (“Silverlakes” site) for ~5 mil could not capitalize investment into public park w/o private investment
- Kosmont initiated extensive nationwide RFP process on behalf of City
- The City selected an experienced operator of equestrian, soccer, and recreational facilities
- City & Operator entered into build-to-suit 99-year ground lease
- Operator responsible to finance ~\$30 mil of improvement costs, construct and operate the facility; and provide public programs
- Under construction- by 2014 Norco will have a world class sports and performance event facility that will attract millions of visitors
- Implemented City’s primary economic development priority



Other non-RDA Success Stories

City of Norco - *Silverlakes Equestrian Sports Park*



Other non-RDA Success Stories

Starwood Hotels - *W Hotel, Hollywood, California*

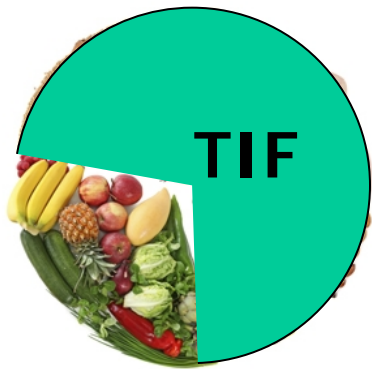
- Kosmont provided EB-5 financing through Regional Center
- Raised \$16.5 million from 33 Chinese investors to complete
- Funded build-out of restaurant (Delphine) & bar/nightclub (DRAI's), meeting job creation requirements of EB-5 program
- Over 400 jobs created



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TIF – Part of a Healthy Economic Diet



Without TIF, California cannot compete effectively. Already branded as expensive, with taxes going up.

- California was voted by CEOs as least business friendly state
- Redevelopment relied on tax-increment and gave cities
 - a ***legal public framework for economic development***
 - authority to contract with private entities for real estate projects ultimately owned and operated by private business
- A predictable TIF mechanism is needed to incentivize public-private projects that incentivize new taxes and jobs
- Without TIF there is no consistent way to do economic development

*How do we get tax-increment
financing back to work for
California?*

The Legislature Tried to Revive the Patient

In August, 2012, the Legislature passed 3 TIF alternatives:

- **SB1156 (Steinberg) - passed 8/29/12**
“Sustainable Community Investment Authorities”
- **SB214 (Wolk) - passed 8/30/12**
Infrastructure Financing District (IFD) Reform Bill
- **AB2144 (Perez) - passed 8/27/12**
Infrastructure Financing District (IFD) Reform Bill

Then Governor Brown Buried the Body...again

In the 11th Hour, the Governor vetoed each of them.

On SB 1156:

“I prefer to take a constructive look at implementing this type of program once the winding down of redevelopment is complete and General Fund savings are achieved.”

- Gov. Brown, 9/30/12

On SB 214 and AB 2144:

“Expanding the scope of infrastructure financing districts is premature. This measure would likely cause cities to focus their efforts on using the new tools provided by the measure instead of winding down redevelopment.”

- Gov. Brown, 9/30/12

Case for a Private Sector–led Approach to TIF

The Economic Case:

- Job creation is the key to economic recovery in California
- Jobs are best antidote to State budget structural deficiency (dependent on Income Tax and Sales Tax)
- Private sector is key driver of long-run job creation

The Political Case:

- Governor Brown is ideologically opposed to Redevelopment and aggravated by local government attempts to protect its funds
- BUT has made **job creation** a primary goal of his administration
 - *Governor appointed Mike Rossi, former BofA Exec., as Special Assistant for Jobs and Business Development.*

Ultimately, a Private Sector – led approach to focus IFDs based on job creation is best chance for California's economic stability

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Immediate Prescription for Econ. Development

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Long-Term Prescription for Econ. Development

- Jobs are central to any recovery
- Tax-Increment Financing must return in a usable form
- SB 1156 has elements of public private transactions – *but needs work*
- TIF works best when inducing private investment is balanced with incentivizing public infrastructure
- Incentivize more types of public private partnerships

Can 2/3rd majority help tax increment restoration efforts?

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