



Kosmont Companies
Real Estate and Economic Advisory

Kosmont Realty Corporation
Project Financing & Brokerage

California Golden Fund
Approved EB-5 Regional Center



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Reviving Economic Development in California

Post-RDA Tools for Economic Development

Presented by:

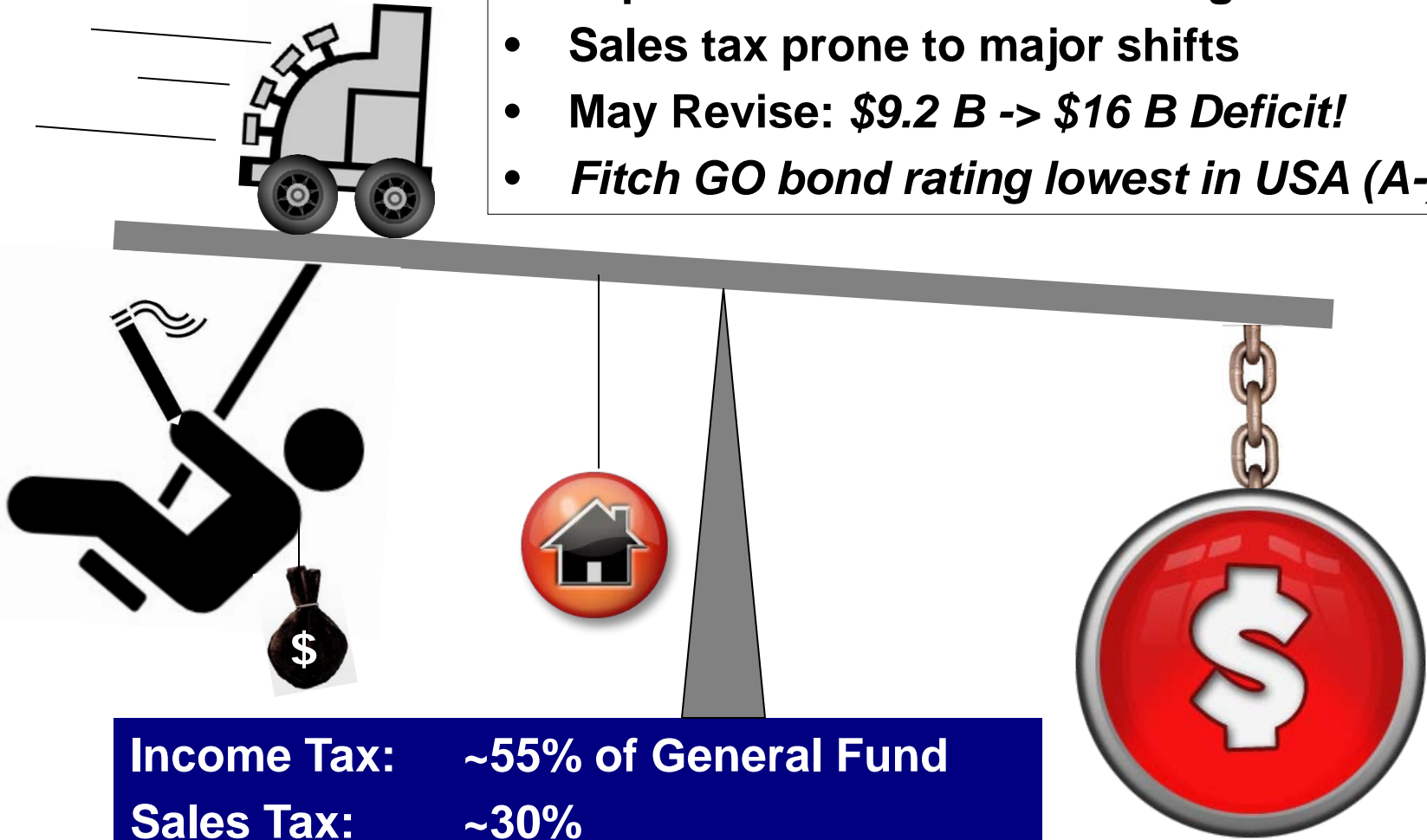
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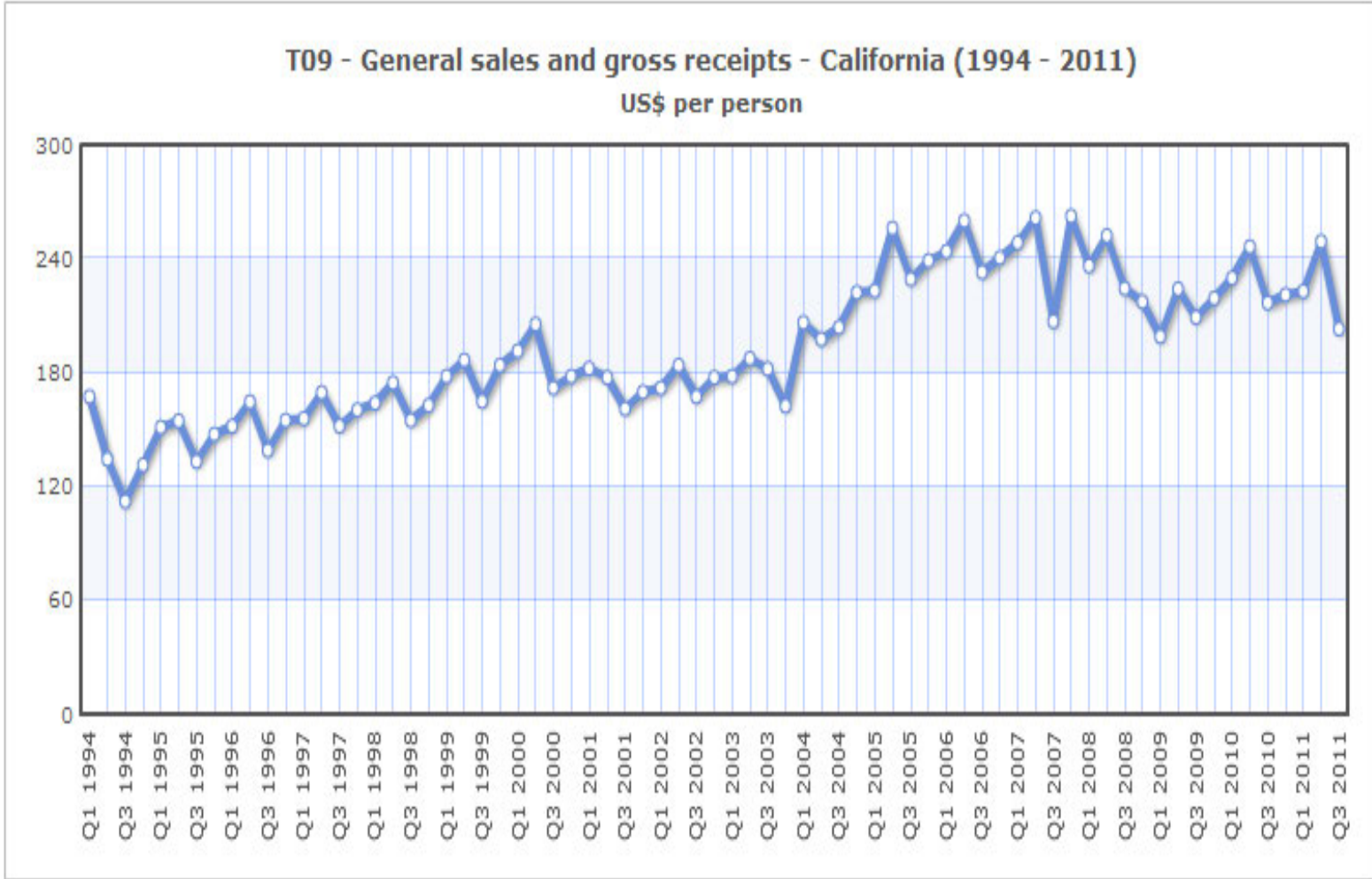
TODAY'S APPOINTMENTS

- **California in Critical Condition**
- Redevelopment Dissolution – Till Death Do Us Part
- Patient Success Stories – Case Studies
- Tax Increment Replacement – Can it Revive the Body?
- What's Next for California?
- Prescription for Economic Development

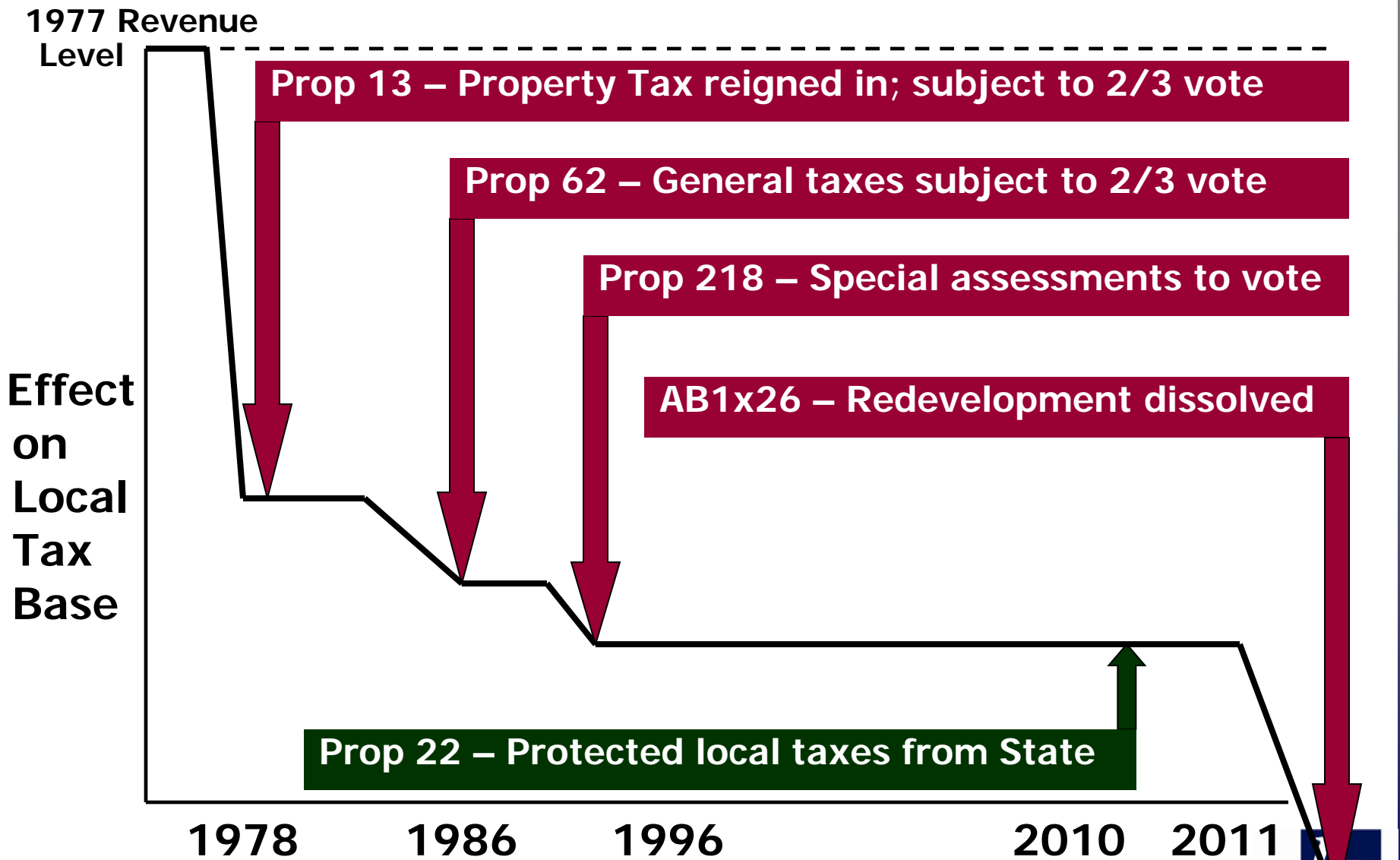
California's Unbalanced Budget

- Top 2% earners = 50% of budget
- Sales tax prone to major shifts
- May Revise: \$9.2 B -> \$16 B Deficit!
- *Fitch GO bond rating lowest in USA (A-)*





33 Years of Tax Diets

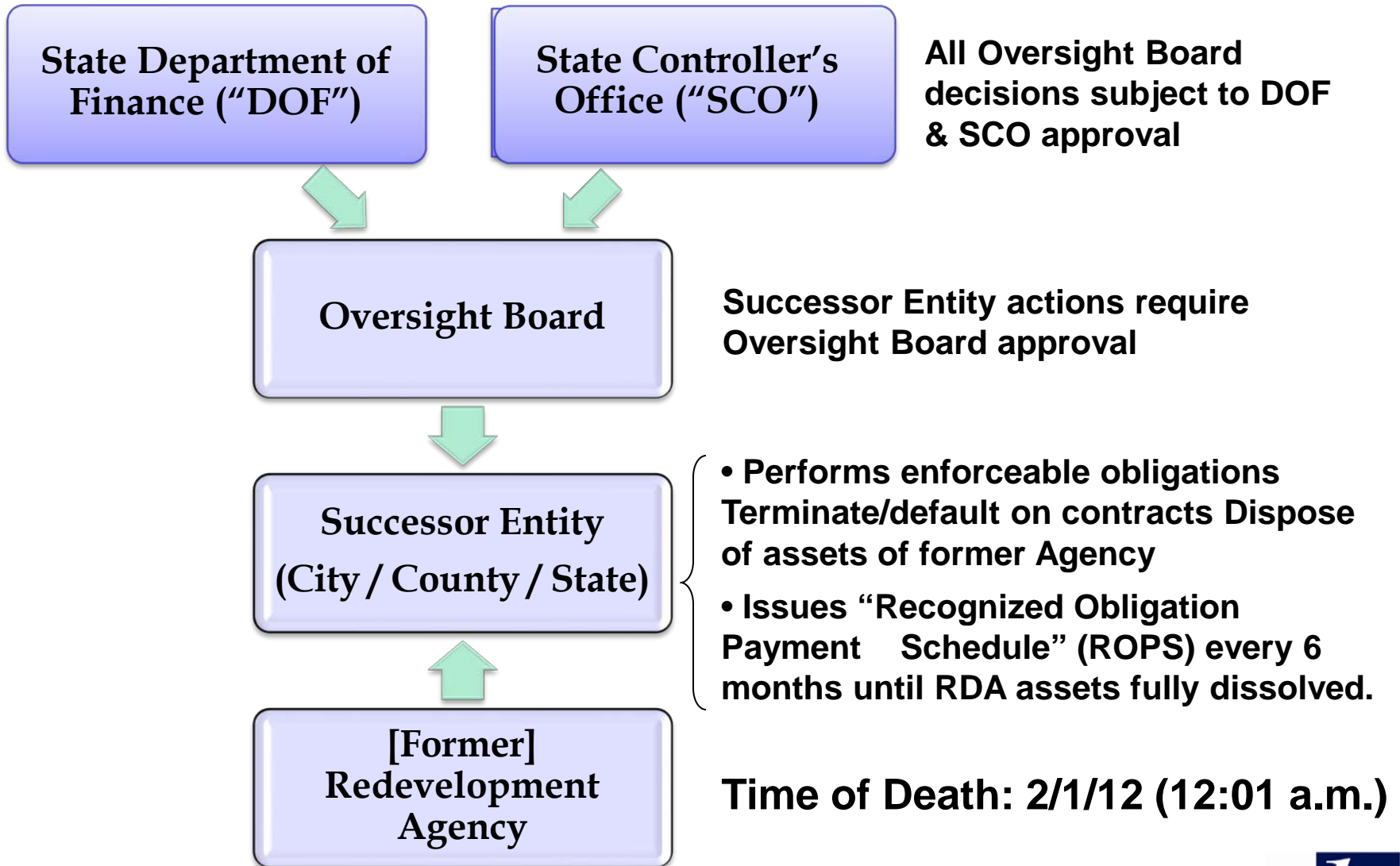


Note: Not to Scale

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ABx1 26: The Murder Weapon



AB1484: Robbing the Grave

Redevelopment Dissolution/Unwind Trailer Bill

(signed into law 6/27/12)

AB 1484 updates ABx1 26:

1. Increases Power of DOF & County Auditor-Controller
2. Accelerates the schedule for Successor Agencies
(e.g. 3rd ROPS were due to DOF on Sept 1, 2012 instead of Oct 1, 2012)
3. Increases the pain for cities:
 - State can take local sales and property tax if the Successor Agency:
 - Fails to recover cash sent to City w/o enforceable obligation
 - Does not transfer \$\$ from housing fund (“LMIHF”)
 - Fails to transfer unencumbered cash assets
 - Allows State to fine the Successor Agencies \$10,000 for each day the ROPS is late.

AB1484: The Autopsy

4. **AB 1484 Safe Harbor Process - A Successor Agency “opportunity”**
 - a. **Requires two (2) new CPA-conducted audits by the end of 2012 called “Due Diligence Reviews”:**
 - **Audit #1: Housing Assets are in (were due October 1, 2012)**
 - **Audit #2: All Other Assets – Due December 15, 2012**
 - b. **Then, a *Finding of Completion (FOC)* may be issued by DOF which offers “Safe Harbor” to Successor Agencies.**

DOF still going through staffing changes, so communication with the State may continue to be somewhat confusing and uneven

-- Mr. Steve Szalay currently manages the process for DOF.

Earning a “Finding of Completion” is The Goal for Successor Agencies

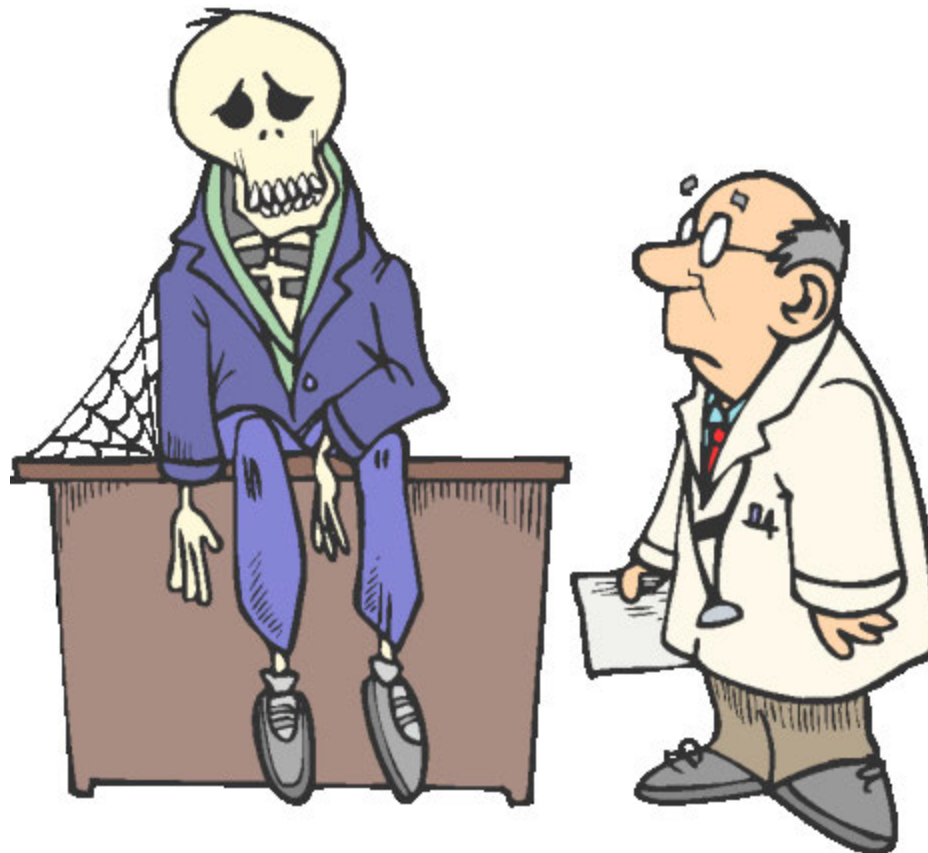
AB1484: The Inheritance

- c. **Within six months of an FOC, Successor Agency must complete a “*Long-Range Property Management Plan*” or “PMP” that outlines plan to dispose of all real property.**

Benefits include:

- **In lieu of AB26 requirement to dispose of all real property, some Econ. Dev. assets can be kept and used:**
 - **Property retained for government use**
 - **Property retained for future development**
 - **Transfer of some property back to the City**
- **Loan agreements between City and former RDA may now be enforceable obligations**
- **Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (possible refunding opportunities)**

What do we do now?



TIF Died With the Patient

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)**
- **Infrastructure Financing Districts (IFDs)**

***Basic Coverage DOWN
Deductible & Co-pay UP!!***

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Case Study: Macerich / City of Victorville Mall of Victor Valley

Tools Employed:

- Site-Specific Tax Revenue (SSTR)
- Development Agreement

“Non-Redevelopment Deal”



Victorville – Mall of Victor Valley

The Challenge

- Macerich lost several major tenants from a significant regional shopping mall (Gottschalks & Mervyns bankruptcies)
- Resulting decline in sales tax revenue for City of Victorville



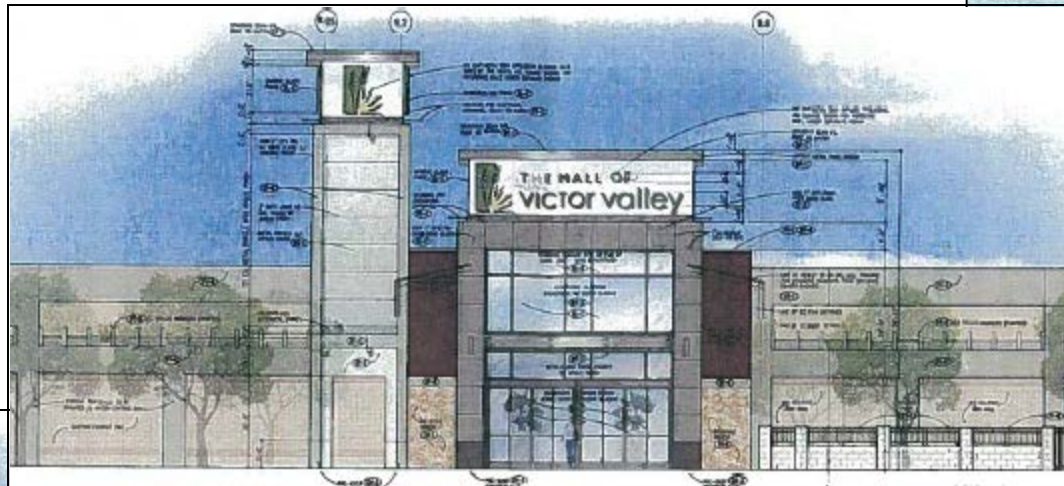
The Solution

- Kosmont evaluated & negotiated public-private options to retain & attract retailers as well as generate jobs and sales tax revenue for the community
- Site Specific Tax Revenue (SSTR) sharing arrangement as part of a Development Agreement between Macerich and City to pass through sale tax amounts greater than threshold value

Victorville – Mall of Victor Valley

The Outcome

- Attraction of major retail tenant (Macy's)
- Relocation of JC Penney into larger space
- Exterior Mall improvements
- Net increase of 47,000 retail SF (531,000 total SF)



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

“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
- South Gate has highest density in LA County, yet residents are forced to drive great distances for basic retail soft and durable goods and quality restaurants



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

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 future property cash flow
- RFQ issued for 15+ Acres of Waterside Development



Starwood Hotels - *W Hotel, Hollywood, California*

- Project required \$15 - 20 million in additional funding to complete
- Kosmont provided EB-5 financing through Regional Center
- Funded build-out of the restaurant (Delphine) and bar/nightclub (DRAI's), meeting the job creation requirements of the EB-5 program



Other non-RDA Success Stories

City of Norco - *Silverlakes Equestrian Sports Park*

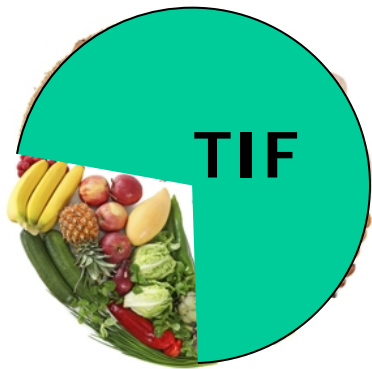
- City purchased deed-restricted 122-acres (“Silverlakes” site) for ~5 mil could not capitalize investment into public park w/o private investment
- Kosmont initiated extensive nationwide RFP process on behalf of City
- The City selected an experienced operator of equestrian, soccer, and recreational 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



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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 the TIF, no consistent way to do economic development

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

The Legislature Tried to Bring Back the Patient

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

- **SB1156 (Steinberg) - passed 8/29/12**
- **SB214 (Wolk) - passed 8/30/12**
- **AB2144 (Perez) - passed 8/27/12**

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

But Affordable Housing Showing Vital Signs

Governor Brown Supported Affordable Housing

AB 1585 allows Dept. of Housing and Community Development to award \$50 million in infill/transit-oriented projects

AB 1951 allocates \$30 million from unused Proposition 1C (2006) funds to Multifamily Housing Program

AB 1124 allows multifamily developments access utility energy-efficiency programs for heating/hot water repair or replacement

AB 1532 and SB 535 - 25 percent of Cap and Trade auction revenues used to sustainable transportation & housing in disadvantaged communities (6 funding categories)

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

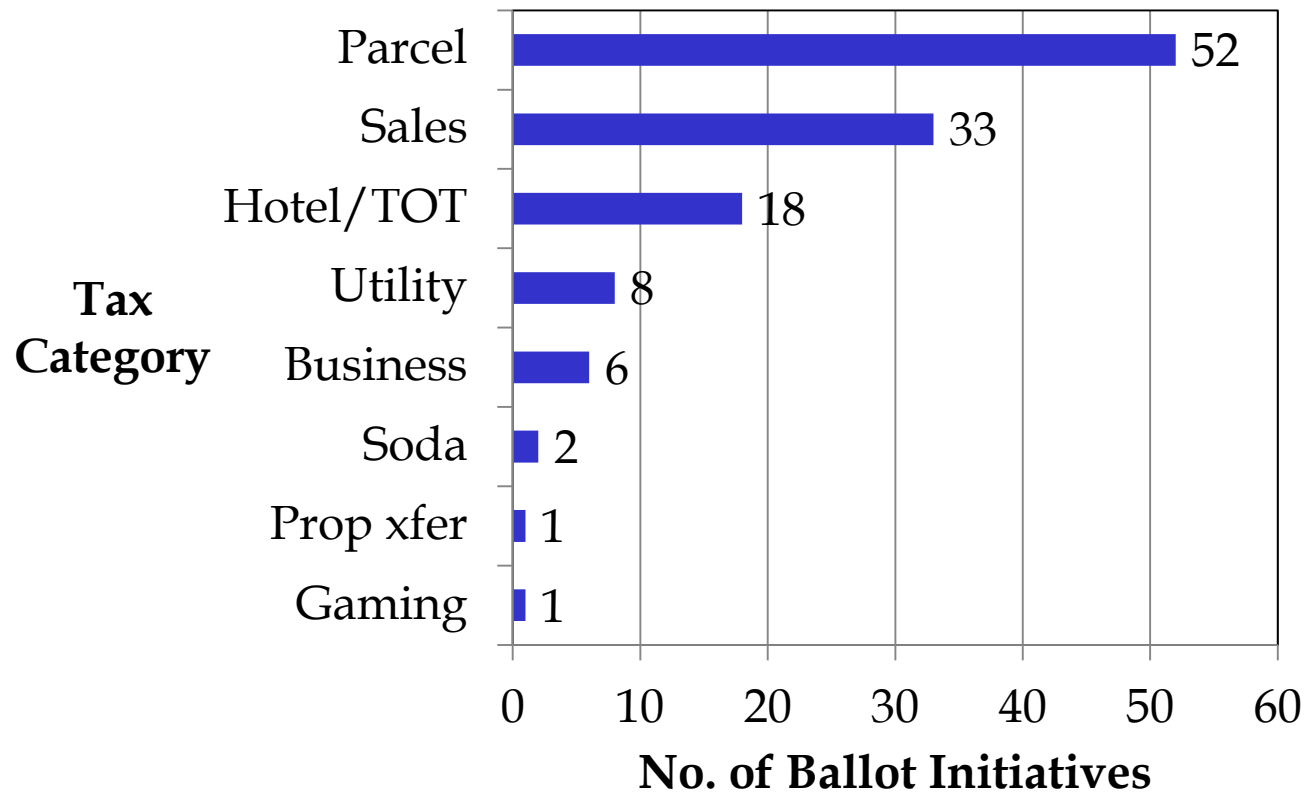
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November Election - An Epidemic of Taxes?

Local Tax Initiatives - As of October 1, 2012, there are:

121 initiatives on the ballot to increase or expand local taxes



...and just 1 initiative to lower or repeal a tax

November Election – State & Federal Ballot

State Ballot Measures:

Prop. 30. Governor Brown's (Sophie's) Choice: "soak the rich or starve the schools"

Prop. 38. Molly Munger's Schools Tax Hike on the Wealthy

Prop. 39. Income tax increase on businesses based out of State

Presidential Election – *Uncertainty is the Opponent*

Post election may enable decision making on Capitol Hill that expands Federal programs for local Economic Development

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Prescription for Economic Development



- 1. Cities need economic development & completed real estate to generate permanent jobs and taxes**
- 2. Public-private deals need to be incentivized on a local level to maintain and pay for quality of life and services**
- 3. There are a variety of financing tools to use in the wake of redevelopment, however, none are as effective as TIF**
 - Lease-Leaseback of City Assets**
 - Site Specific Tax Revenue (SSTR) Pledges**
 - EB-5 Immigrant Investor Program**
 - Special Tax Districts (CFD's, Parking Authority, other)**
- 4. California must restore broad based Tax Increment Financing to be competitive with 48 other states**

Prescription for Economic Development



5. **Per Governor's "love note": Tax-Increment Financing probably won't return to the Legislature until 2014/15**
6. **The Private Sector (with union buy-in) needs to be lead advocate in jobs legislation using tax-increment financing**
7. **State budget gap is structural; will not be fixed until the State experiences improved private sector job growth**
8. **Until the State budget is fixed, local governments will need to sleep with one eye open**
9. **Fitch rating for State is lowest in USA and many cities faring worse...more California cities to drop**
10. **Taxes are on the operating room table in November**

Will Prop 30 bust the budget or bust business?

Opportunities to Get Back to Health



- **Determine real estate assets that are in demand and begin disposition/reuse strategy**
 - Large industrial (job creation, property tax revenue)
 - Fulfillment Centers – Amazon.com (1,000+ jobs, \$1 million annual local sales tax revenue, property tax revenue)
 - Transportation Oriented Development (TOD) Projects:
\$105 Billion available for public-private projects near transit via Federal Transportation Act (MAP-21) signed into law 7/6/12
 - Retail Projects: most retailers downsizing, looking at infill. (works well with smaller lots near transit & freeways)
 - Target, Wal-Mart, others going to smaller urban formats
 - Hotels: in-fill boutiques, freeway sites for limited service
- **AB 1484 - Property Management Plan- opportunity for cities to keep properties for public use & economic development**

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