



Kosmont Companies

Real Estate and Economic Advisory

Renaissance Community Fund

Revitalization & Development Projects



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An aerial night photograph of a city, likely Kosmos, showing a dense grid of lights. In the foreground, a large, dark sign with white lettering is visible, though the letters are mostly obscured by shadows. The sky is a deep blue, and the city lights create a bright, glowing effect against the dark background.

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PRESENTING:
Corporate Recovery!
Consumer Caution!
Political Confusion!
Hold on to your seats! (and your money)

Premiering 1-13-11 and hosted by:

Larry J. Kosmont, CRE: Pres., Kosmont Companies

Research and Production: **Matt Goulet**

- The State of the State

The Critic's Review

- Business Takes the Heat

A Celebrity State with "Issues"

- Opportunities for Business

"Lights, Camera, Action!"

- Forecast 2011

Will this Sequel Be Better?

The State of the State

A Critic's Review



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**UNDER 17 REQUIRES ACCOMPANYING
PARENT OR ADULT GUARDIAN**

**WARNING: THE FOLLOWING
PRESENTATION INCLUDES GRAPHIC
DEPICTIONS OF TAXES, POLITICAL
DYSFUNCTION, AND GRATUITOUS
IMAGES OF FISCAL UNCERTAINTY.**

**VIEWER DISCRETION ADVISED FOR
ANYONE WITH A WALLET**

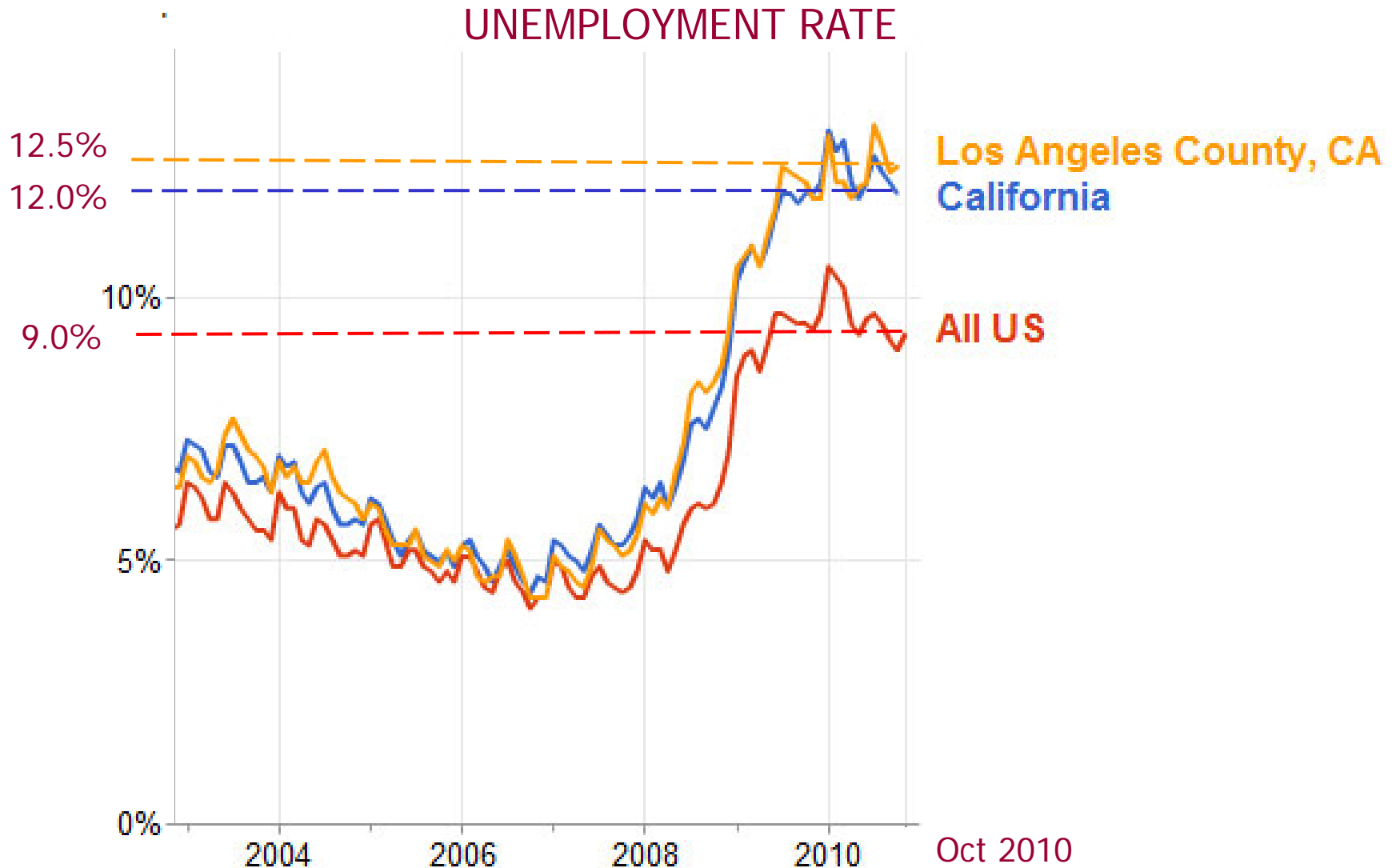
California Before...



...and After

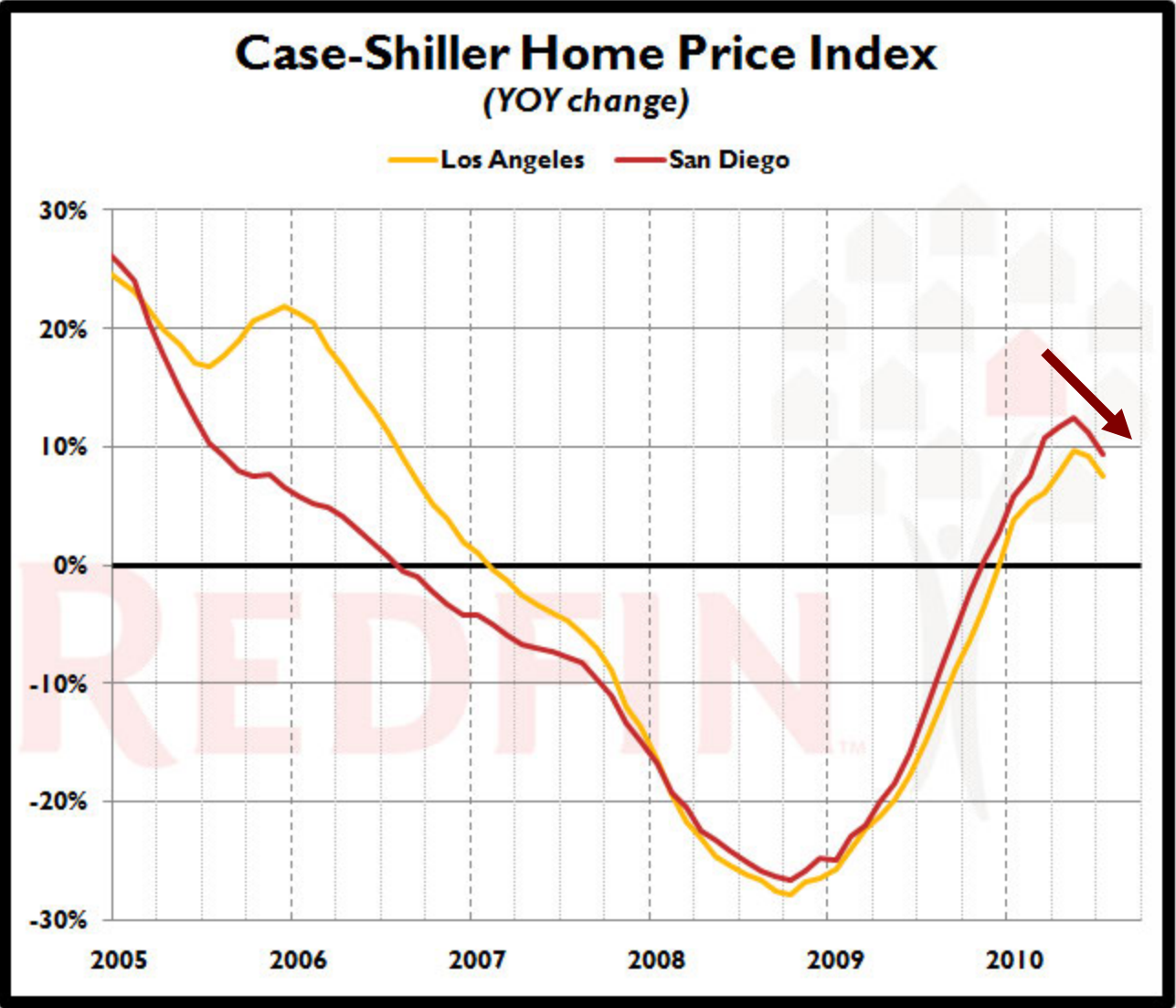


California Unemployment



California Housing

HOME PRICES – A “Double Dip” ?



PRICES DROPPED FROM SEPT-OCT 2010:

LA METRO:
-0.75%

NATIONWIDE:
-1.32%

Source: Redfin. Primary Source – Case-Shiller



Gov't Waking Up In Vegas...Broke

STATE DEBT

- California has a **\$25.4 billion** budget deficit and \$89 billion in long-term bond debt. Debt service ratio is approx. 7.71% this year (<6% considered healthy)
- Economic distress hitting all tax categories; compounding structural problem
- Local governments can expect to be a drag on economy for next couple of years due to lag in the cycle of revenues as related to recovery.
- A significant grab for additional taxes and fees in the short run impairs business investment.

DISTRUST AND CORRUPTION OF STATE & LOCAL GOVERNMENT

- Eight officials in Bell, CA were arrested on September 21, 2010 for misappropriation of city funds.
- Bell was just the first "shoe to drop".
- Vernon is fighting a legislative effort to remove its cityhood.

STIMULUS FUNDS HAD MIXED RESULTS

- **American Recovery and Reinvestment Act \$787 billion nationwide**
 - \$250 Bil. plus went to tax relief or individual benefits (unemployment insurance)
 - \$250 billion went to public safety jobs and programs. Balance went to “shovel-ready” infrastructure projects.
 - Only about 25% of the \$630 million in federal stimulus money for Los Angeles.
- **Build America Bonds (Taxable Muni’s) were a big hit.**
 - 2010 was the Year of the “BAB” - Tax-exempt bonds with high reimbursement rates issued to local government by the US Treasury.
 - \$132 billion were issued last 4Q of 2010. Not extended in new tax act.
 - Muni bond market is questionable due to borrow concern of municipal solvency and reduced demand due to renewed interest in the stock market.
- **Recovery Zone Bonds (RZBs) were a disappointment.**
 - Public sector infrastructure bonds (RZFBs) fared better than private sector bonds (RZEDBs) due to credit issues.

Governor Brown's Second Act

The Governor's budget promises:

- \$12 billion in cuts and about \$12.5 billion in revenue extensions
- To ask voters in June to decide on extending various taxes:
 - income tax rate increase by 0.25%
 - dependent credit reduction by 2/3
 - annual vehicle license fee doubling to 1.15% of car's value
 - state sales tax increase by 1%
- Realignment – Tinker with Prop 13 by modifying taxation powers and the distribution of services between state and local governments.
- Eliminate Redevelopment Agencies & Enterprise Zones

"A Tough Budget for Tough Times" – Governor Brown

Governor Brown's Second Act

Budget Proposal promises to eliminate all 397 Redevelopment Agencies by July 1 of this year:

1. Protecting only existing projects
2. Diverting \$1.7 billion to the State's General Fund in 2011-12.
3. Distributing the remaining \$210 mil. and tax increment to schools, cities, and counties.
4. The housing set-aside funds will be shifted to local housing authorities.
5. Requiring 55% voter approval for economic development projects similar to those currently funded through redevelopment.

HOW DID WE GET THIS FAR?



Business takes the Heat



*A Celebrity
State with
“Issues”*

30 Years of Ballot Box Budgeting

California Budget – The Movie!



Starring... Ballot Box Budgeting, Tax Revolts, and Pension Obligations!!

California's Triple Threat



CALIFORNIA REPUBLIC



UNEMPLOYMENT



HOUSING



GOVERNMENT

30 Years of “Tax Revolts”



- **1978 – PROP 13** Severely constrained prop tax valuations and escalations.
- **1986 – Prop 62:** Required all local general tax subject to 2/3 public vote.
- **1996 – Prop 218:** Special property assessments must go to a public vote.
- **2010 - Prop 22:** Protect local funds from the State
- **2010 – Prop 26:** Many local fees now subject to 2/3 public vote.

Pension Obligations are a Real Threat

- **California's public pension liabilities are underfunded** by nearly \$500 Bil. according to a Stanford University study
- **Pension costs have increased over 2000%** while tax revenues increased only 24% over the past ten years.
- **Pension obligations cost each California resident \$3000 per year** according to a recent Milken Institute study.
- **Threatens solvency of cities** more than debt
- **Vallejo's 2007 bankruptcy a direct consequence of pension liabilities**

California Positioned to do Better in Rehab

The voters have made some significant changes –

- **Redistricting Process** Has Been Overhauled (Prop 11 – 2008 for Legislature; Prop 27 – 2010 for Congress).
- **Open Primary** (Prop 14 – 2010) - Top two primary vote getters move to general election despite party affiliation.
- **Budget Threshold Reduced** (Prop 25 – 2010) – Budget now passed with 51% vote, no longer with a “super-majority” 2/3 vote, but...
- **Fees Now Subject to 2/3 Vote** (Prop 26 – 2010) – applying the 2/3 vote requirement to fees as well as taxes in both elections and legislation. which may protect business...but more difficult for local governments.

But Still Dysfunctional



- **Term Limits** – Back on the Ballot in Feb 2012.
- **Ballot-Box Budgeting (Propositions):**
 - There were 479 local ballot measures in 2010 alone.
 - 2010 also saw 90 proposed statewide ballot measures of which 14 went to a vote.

State Turning to Local Government for \$\$\$

The Hungry Legislature has dipped into various local revenues:

- **Took \$2.05 Bil. for school programs from Redevelopment Agencies:** "ABX4 – 26" (2009)
- **Sales Tax** : 6% of 8.25%* goes to State's General Fund

Prompting voter response:

- **Prop 1A (2004):** Protective measure passed
- **Prop 1A (2006):** Limits state's ability to retain gasoline sales taxes in General Fund
- **Prop 22: (2010):** Protects local government funds from appropriation by the State – Brown would seek to repeal this law in 2011.

Local Government Looking for Options

Ongoing march to tax business – over 85 sales tax increases in California in 2010 alone. 22 of 23 proposed increases in utility user taxes were approved.

New programs for recovery are flourishing - At least 50 cities in CA have adopted laws that seek reimbursement from insurance companies for the costs of sending public emergency crews to accident scenes.



Business Picks up the Tab

- **Businesses are more politically vulnerable than individuals.**
- **California continues to be a high cost state.**
 - Sales tax in California is 9.75% to 10% in most places and 10.5% in some cities such as South Gate and Pico Rivera.
 - As California raises its taxes, it continues to lose businesses to nearby Nevada, Arizona and Texas.
- **Sample of tax rates among California and a few of its competitors:**

	California	Nevada	Arizona	Texas
Income Tax	8.84%	0.00%	4.63%	0.00%
Sales Tax	8.25%	6.85%	5.60%	8.00%

Kosmont-Rose Institute *2010 Cost of Doing Business Survey*

- **First published by Kosmont Companies in 1994.**
- **2010 edition of the Survey compares the cost of doing business in 413 cities across all 50 states.**
- **20 lowest cost cities are located west of the Mississippi River, none of which are in California.**
- **California has 13 of the 40 most expensive cities but only 4 of the 40 least expensive cities.**

City of Los Angeles *“Siren of the Southland”*

- **Lure of the City is strong, but business costs remain a dangerous harbor.**
- **Consistently a highest cost city in California for business**
- **Gross Receipts tax is significantly higher than neighboring cities despite several cost reductions and exemptions.**
- **Despite high taxes, budget deficit looms at \$350 million**
- **Many City leaders support Project Labor Agreements**

Business Suffers



BUSINESS



The GRUMPY State

**So where's the "stimulus" for
Business in Los Angeles?**

Cities Are in the Real Estate Business

The primary tools for local government in California to generate revenue and gain jobs are “**THE FOUR R’s**”:

REAL ESTATE DEVELOPMENT – New Prop Tax Assessment or Tax Increment in Redevelopment Project Area

RETAIL – Sales Tax & Jobs (entry level)

RELOCATION -- Business Tax & Jobs (from Expansion)

ROOMS – Hotel transient occupancy tax (TOT)



Cities compete for Jobs, Taxes, Business, and Real Estate Projects



Opportunities for Business



Lights!

Camera!

Action!

Opportunities for Gateway Business

- **Enterprise Zone**
- **EB 5 Visa Program**
- **Tax Relief Act of 2010**
- **Rail Transit Expansion**
- **Downtown LA Still Booming**

Enterprise Zones?

Offers significant tax incentives:

- Hiring credit
- Sales or use tax credit for qualified machinery purchases
- Accelerated business expense deduction
- Net interest deduction
- 15-year net operating loss (NOL) carry-forward (suspended under the State's 2010-11 budget)

Century Blvd included in LA Enterprise Zone, May 2010

Governor Brown seeks to eliminate the EZ Program to recover losses from tax credits

EB5 Program

- **EB-5 Immigrant investor visa category created in 1990 to attract foreign capital and create jobs for American workers.**
 - Investments placed through Regional Centers \$1 million investment in a new or existing business
 - \$500,000 if in a Regional Center or Targeted Employment Area
 - Investment must create full-time employment for ≥ 10 US workers
 - 10,000 EB5 visas available every year
- **California houses 25% of U.S. Regional Centers. (31 of 123)**
 - Eligible Categories – Hotels, Retail/Restaurants, Food, Apparel, Transportation, Warehousing, Household Furnishings, Printing & Paper, Health Care, and many others.
 - Can be used for real estate projects (new and existing)

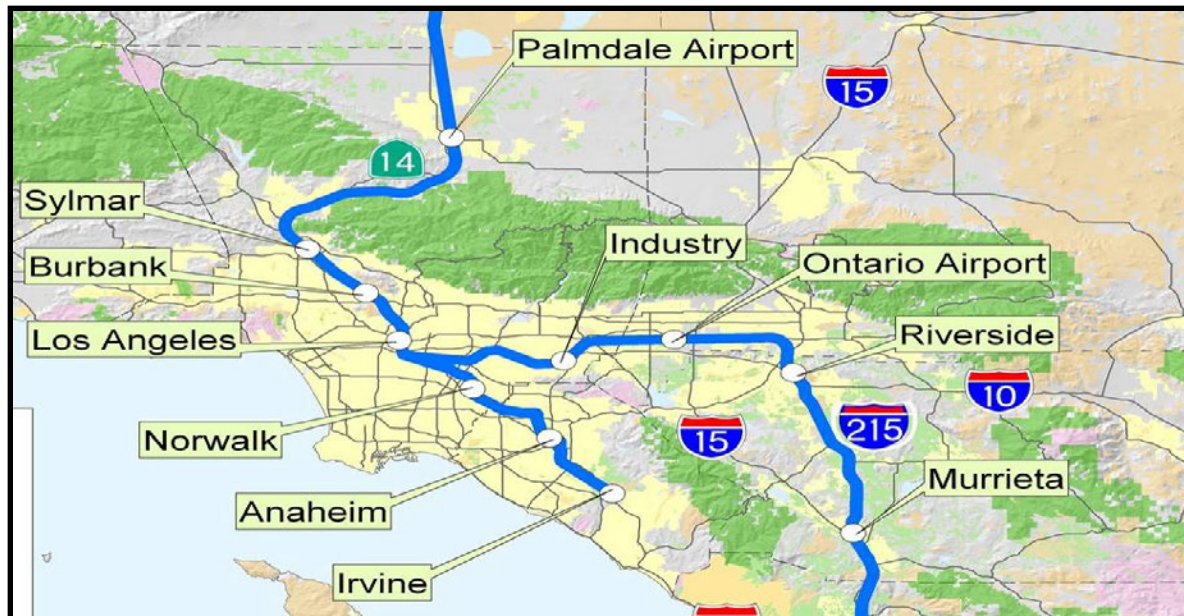
Tax Relief Act of 2010

- **Income tax** - Current rates will be retained for two years
- **Social Security Tax** - Employees and self-employed workers will receive a reduction of two percentage points in 2011
- **Write-Offs** - Businesses can now write off 100% of their investments in new equipment.
- **Tax Credits** - Credits for working families that were enacted or expanded in the 2009 ARRA will be retained.
- **Estate Tax** - Reinstated with a top rate of 35%.

Rail Transit – High Speed Rail

High-Speed Rail (HSR)

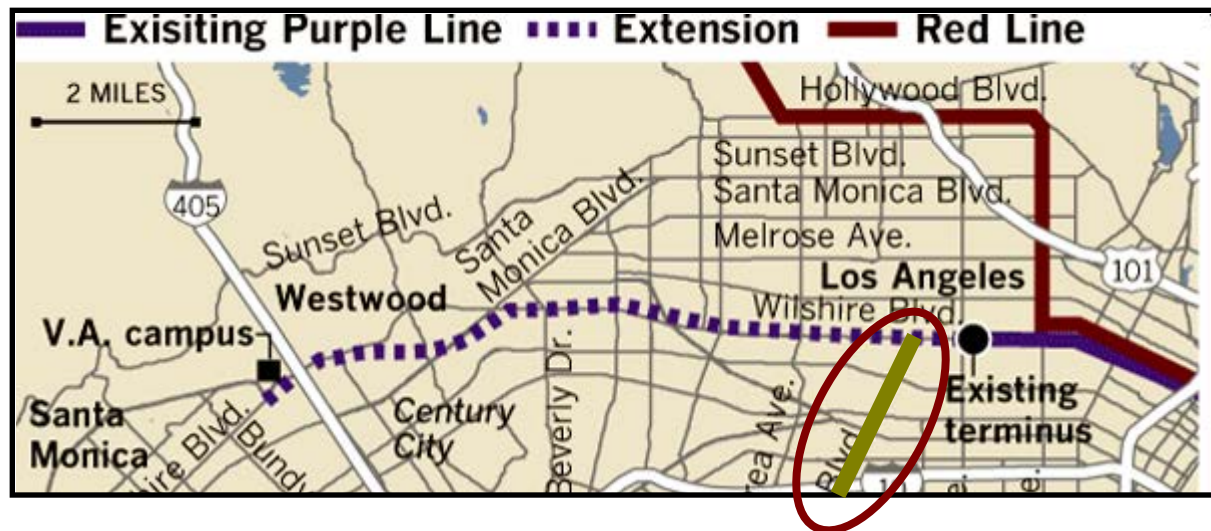
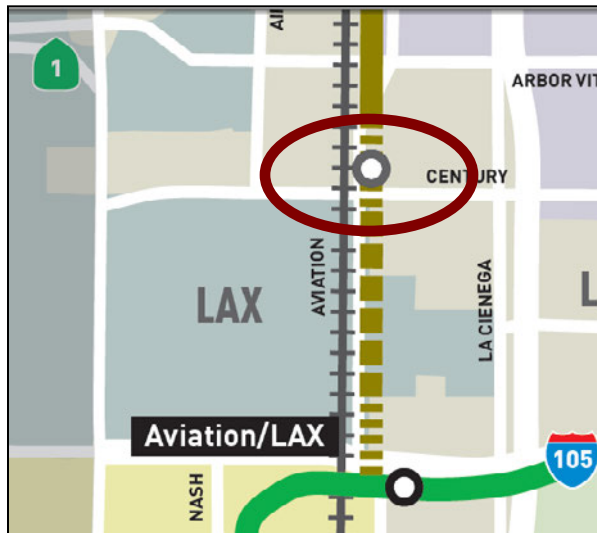
- Plan includes: 790 miles of track and 26 stations across California
- Funding: \$42 Bil approx = \$9 Bil (Prop 1A-2008) + \$5.5 Bil (Fed) + ???
- Projected completion 2020-2030, providing all funding is established
- Attractive alternative to regional jet service that may reduce airspace congestion and pressure for LAX expansion



Rail/Subway

Westside Subway extension (Purple Line) route approved by MTA Board on Oct 28, 2010 from Western Ave to VA Hospital. Construction could begin in 2013.

Crenshaw Light Rail approved by the MTA on October 15, 2010. Construction to begin 2012 and completion expected 2016.



Downtown LA Update

Transportation – Regional Connector will allow rail riders to cross the County without changing trains.

Neighborhoods

Spring Street becoming a cohesive stretch of residential, retail and nightlife from 4th to 7th Street. New Spring Street Park could arrive in 18 months.

Bringing Back Broadway – Now in 4th year of 10 yr plan to revive Broadway. New Street Car to break ground 2013 and open 2015.

Major Projects

New Football Stadium, Convention, & Hotel facility by AEG gaining steam

“The Broad” Art Museum to break ground this Summer, finish in 2013

Electric car mfr BYD Headquarters set to open next month

Wilshire Grand’s Grand Plans – including city’s new tallest building



Forecast 2011



Will this Sequel
be better?

Muni Bond Defaults Looming

Next crisis from the housing meltdown could be municipal bankruptcies:

- Since Prop 13, government bonds have been a primary source of funding to backfill budgets where taxes couldn't be raised or restored
- Pension liabilities and severely reduced tax income to local governments strain their ability to pay back debt on these muni bonds
- Reduced bond ratings mean the "credit card" may be taken away
- With no other vehicle to raise or retain revenue, some cities may file for Chapter 9 bankruptcy protection.
- Cities raising fees and other assessments to business and developers to pay for services.

December 2010 saw a jump in muni bond "redemptions" as bond holders opted for other investments

**Some experts predict 50+ cities may default on their debt in 2011.
TOWN OF CHOWCHILLA DEFAULTED LAST WEEK.**

Hospitality Struggled Locally

	<u>AVERAGE DAILY RATE</u>			<u>OCCUPANCY PERCENT</u>			<u>REVPAR</u>		
	2010	2009	VAR	2010	2009	VAR	2010	2009	VAR
JANUARY TO OCTOBER 2010									
DOWNTOWN	\$133.42	\$135.62	-1.6%	66.49%	61.63%	7.9%	\$88.71	\$83.58	6.1%
HOLLYWOOD	\$166.82	\$170.61	-2.2%	76.24%	72.77%	4.8%	\$127.18	\$124.15	2.4%
SAN FERNANDO VALLEY	\$120.47	\$121.23	-0.6%	69.12%	65.01%	6.3%	\$83.27	\$78.82	5.6%
PASADENA	\$144.59	\$146.53	-1.3%	73.43%	68.60%	7.0%	\$106.17	\$100.52	5.6%
SAN GABRIEL VALLEY	\$94.22	\$96.08	-1.9%	67.86%	63.38%	7.1%	\$63.94	\$60.90	5.0%
SANTA MONICA	\$255.55	\$245.41	4.1%	84.23%	78.15%	7.8%	\$215.25	\$191.79	12.2%
AIRPORT	\$93.05	\$95.54	-2.6%	81.48%	76.96%	5.9%	\$75.82	\$73.53	3.1%
MARINA DEL REY	\$156.05	\$152.73	2.2%	77.92%	69.66%	11.9%	\$121.59	\$106.39	14.3%
SOUTH BAY	\$122.36	\$122.87	-0.4%	70.70%	67.94%	4.1%	\$86.51	\$83.48	3.6%
LONG BEACH	\$126.90	\$131.47	-3.5%	65.89%	65.56%	0.5%	\$83.62	\$86.19	-3.0%
BEVERLY HILLS	\$360.47	\$361.73	-0.3%	71.21%	64.53%	10.4%	\$256.70	\$233.43	10.0%
WEST HOLLYWOOD	\$194.73	\$185.80	4.8%	75.63%	67.26%	12.5%	\$147.27	\$124.96	17.9%
OTHER WEST L.A.	\$210.05	\$214.12	-1.9%	74.56%	69.63%	7.1%	\$156.61	\$149.09	5.0%
I-5 CORRIDOR/WHITTIER	\$91.14	\$91.34	-0.2%	75.03%	72.19%	3.9%	\$68.38	\$65.94	3.7%
SANTA CLARITA	\$108.67	\$111.10	-2.2%	67.97%	64.79%	4.9%	\$73.87	\$71.99	2.6%
OVERALL AVERAGE	\$142.21	\$142.25	0.0%	73.12%	68.87%	6.2%	\$103.98	\$97.96	6.1%

But Passenger Traffic at LAX Improving

	November 2010			Calendar YTD November		
	2010	2009	<u>% Change</u>	2010	2009	<u>% Change</u>
<u>Passenger Traffic Totals</u>						
Domestic	3,483,901	3,245,576	7.34%	39,409,139	37,945,697	3.86%
International	1,195,845	1,174,133	1.85%	14,601,795	13,748,354	6.21%
Total	4,679,746	4,419,709	5.88%	54,010,934	51,694,051	4.48%
<u>Domestic Passengers</u>						
Scheduled Carriers	3,129,930	2,958,867	5.78%	35,591,902	34,875,924	2.1%
Commuter Carriers	350,956	284,563	23.33%	3,789,491	3,049,855	24.3%
Charter Carriers	3,015	2,146	40.49%	27,746	19,918	39.3%
Totals	3,483,901	3,245,576	7.34%	39,409,139	37,945,697	3.86%
<u>International Passengers</u>						
Tom Bradley Intl	602,087	666,704	-9.69%	7,962,691	7,896,197	0.84%
Terminal 2	345,949	272,051	27.16%	3,920,336	3,150,953	24.42%
Terminal 4	55,993	55,076	1.66%	599,982	745,143	-19.48%
Terminal 7	49,928	39,509	26.37%	533,769	535,496	-0.32%
Terminal 5	13,197	36,084	-63.43%	355,405	423,979	-16.17%
All Other Terminals	128,691	104,709	22.90%	1,229,612	996,586	23.38%
Totals	1,195,845	1,174,133	1.85%	14,601,795	13,748,354	6.21%

Bradley West Terminal

- Slated to open December 2012
- Funded entirely through LAWA proprietary revenues
- Facility will increase capacity for international travelers from 2800 per hour to 4000 per hour

- 1. CORPORATE SECTOR WILL STEP UP AS THE BEST CONSUMER OF THE YEAR. MAIN STREET WILL GRADUALLY FOLLOW.**
- 2. CITY AND REGIONAL AGENCIES ARE MAKING IT EASIER TO GET TO LAX.** The recent approval of the Crenshaw Line, Purple Line, Regional Connector, and others are increasing access for LAX while potentially reducing some parking demand over next decade.
- 3. CITY AND REGIONAL AGENCIES ARE MAKING IT EASIER TO GET TO LAX.** The recent approval of the Crenshaw Line, Purple Line, Regional Connector, and others are increasing access for LAX while potentially reducing some parking demand over next decade.
- 4. NEW LIGHT RAIL WILL ATTRACT HIGHER DENSITY DEVELOPMENT**
- 5. HIGH-SPEED RAIL MAY EVENTUALLY MODERATE REGIONAL JET DEMAND AT LAX, BUT AIRPORT WILL REMAIN KING OF LONG-HAUL, POINT OF ORIGIN, AND INTERNATIONAL FLIGHTS.**

6. **REDEVELOPMENT AND ENTERPRISE ZONES.** Stiff opposition to Brown's plan will likely prevent the decimation of both programs, but expect both to be changed or curtailed significantly.
7. **NO SACRED COWS.** Brown wants to tinker with Prop 13 and repeal Prop 22 (measure protecting local revenues). Tension between labor and govt. to stay high – leading to some changes in the pension systems.
8. **MODERATES MEAN BUSINESS.** The redraw of Legislative Districts by committee and 51% budget majority may result in moderating of the Legislative partisanship, enabling more pro-business legislation. Don't expect sweeping change until 2020.
9. **FOR WHOM THE "BELL" TOLLS.** Cracks will show in management of several small cities across California as long-term unrestricted misbehavior is exposed to light.

*"Fasten your seatbelt; it's going to be a rough ride."
– Governor Brown*

The End



An aerial night view of a city, likely Knoxville, Tennessee, showing a dense grid of lights and a large sign in the foreground. The sign is partially visible and appears to be the word 'KNOX'. The city lights are a mix of warm yellow and cool blue tones, set against a dark blue night sky.

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