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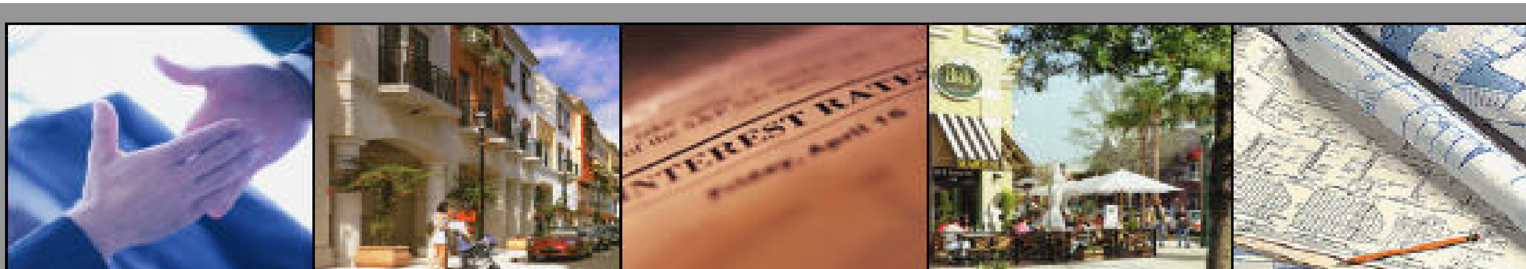
Real Estate and Economic Advisory

Kosmont Realty Corporation

Project Financing & Brokerage

California Golden Fund

Approved EB-5 Regional Center



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American Red Cross
High Desert Chapter

VICTOR VALLEY COLLEGE 1961

Economic Development in 2012

Base Hit, Ball or Strike?

Presented April 11, 2012 by:

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Roster

- Redevelopment Shut-Out
- Impact of RDA loss on Cities & the Private Sector
- Cleaning up the AB1x26 Mess
- Existing Tools for Economic Development
- Newer Tools for Economic Development with Case Studies
- Outlook 2012

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Redevelopment Shut-Out

Redevelopment – Shut Out

All RDA's officially closed on Feb 1st.

48 states have Tax-Increment Financing (TIF).
California does not.

Successor Roles & Responsibilities

- Cities that had Agencies may declare to become "Successor Agencies" responsible for administering enforceable obligations and liquidating Agency property beginning Feb 1, 2012

- "Oversight Boards" composed of mixed government officials have control over the process
  - In process of being selected and some are just getting started
  - Representatives have diverse agendas, have not historically operated cooperatively – achieving consensus will not be easy

- Department of Finance ("DOF") and State Controller's Office ("SCO") have 100% veto power over actions by Successor Agencies and Oversight Boards

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Successor Entity Hierarchy

State Department of Finance ("DOF")

State Controller's Office ("SCO")

All Oversight Board decisions subject to DOF & SCO approval

Oversight Board

All Successor Entity actions require Oversight Board approval

Successor Entity

(City / County / State)

Performs enforceable obligations
Terminate/default on contracts
Dispose assets of former Agency

[Former] Redevelopment Agency

Terminated as of February 1, 2012

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Impact of RDA loss on Cities & the Private Sector

What the Outcome Means for CA Cities

- **Many local governments will not recover from loss of RDA administration funds, which will impact operations and the General Fund**
- **Cities are imposing Loss of City jobs funded by Agency $$'s, including staffing and service cut-backs in over 400 agencies**
- **Unemployment of thousands from project-based layoffs**
- **Litigation expected due to poorly defined dissolution process. Challenges to prior property transfers & related title/lender issues are anticipated.**
- **Negative credit impacts (credit rating agencies have downgraded muni credit)**
- **Uncertainty related to existing Agency agreements and future obligations**
- **Cities will look to productive "asset strategies" & alternative financing tools**

It Has Already Hit the Fan – Moody's Downgrade and Fitch and S&P Negative Rating Watch

- **1/17/12:** Moody's downgrades $11.6 billion in tax allocation bonds ("TABs" rated Baa2 and above) by one notch

- **1/24/12:** Fitch places all California TABs on Rating Watch Negative

- **1/25/12:** S&P issues reports on AB 26 concerns and places 5 RDA TABs on Watch Negative*

***5 RDAs placed on Watch Negative by S&P: San Pablo, Pittsburg, Manteca, Morgan Hill, Menlo Park**
Source: Moody's Investor Service, Fitch Ratings, Standard & Poor's Financial Services

Property, Financing & Transactional Impacts

- **Bond and note issues:**
  - Tax-exempt bonds previously issued with unused bond proceeds
  - No express authority to issue new debt or validation actions permitted
  - Potential impairment of contract claims
- **Sale/transfer of Agency assets:**
  - Will surplus property disposition rules apply?
  - Can RDAs transfer public assets to cities if no agreement exists?
  - Other questions about title, packaging of parcels, Polanco Act availability, effect on market dynamics and property values
- **Agency leases (as tenant and landlord):**
  - No modifications, extensions unless approved by Oversight Committee
  - Successor Agencies may try to downsize (as tenant), default on under-market leases (as landlord), or sell underlying fee (as landlord)
- **Impact on ongoing Agency requirements:**
  - Agency conditions precedent (are they waivable?)
  - Agency non-monetary obligations, e.g., design review, financing plan approval
  - Agency rights, e.g., tenant mix approval, maintenance obligations, living wage obligations

Private Sector Impact – What to Expect

- Events still unfolding and site-specific analysis required on a deal-by-deal basis
- Available incentives severely limited & public private transactions diminished, particularly for non-sales tax generators
- Need to pay for project processing staff through reimbursement agreements & development fees will likely increase
- Redevelopment cutbacks will reduce City Staff available for entitlements and other project processing – Contract planners will become common
- Agency-owned property and notes “fire sale” unlikely – many properties are dogs needing additional work
- Successor Entities will need to produce asset strategies with disposition plans
- Litigation on performance, title, tax payment issues expected. Modifications to existing RDA project agreements will need approvals from Oversight Committee.
- For new projects, tools include lease/lease-back, EB-5 financing, and formation of economic development corporations
- AB 26 clean-up legislation under but no clarity of purpose (~9 clean up bills)

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Cleaning Up the AB1x 26 Mess

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Clean-Up Legislation in Process

- SB 654 (Steinberg) currently at Assembly Desk – would allow for L/M Income Housing Fund to transfer to Successor Housing Agency and would allow certain City/Agency loans as Enforceable Obligations
- **AB 1585 (Atkins, Dickinson, Hill, Perez, Mitchell, Perea, Torres) passed by Assembly; currently before the Senate**
  - **Some overlap with SB 654 re: Housing Fund Balance and City/Agency loans**
  - **Additionally addresses employee project and termination and other admin costs**
  - **Requires Oversight Board to direct Successor Agency to prepare inventory of assets and fair market values and adopt asset disposal/transfer strategies**
- SB 986 (Dutton) with Senate Committee on Governance & Finance
  - Provides that all bond proceeds generated by former Agency are encumbered and not remittable to County Auditor-Controller
  - Requires that proceeds are used by the Successor Agency for the purposes for which the bonds were sold
  - Obligates Oversight Board cooperation with respect to establishment of enforceable obligations related to bond proceeds

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Clean-Up Legislation in Process (Cont'd.)

- **SB 1151 (Steinberg) with Senate Committee on Governance & Finance – Hearing scheduled for April 18, 2012**
  - Requires Successor Agency to prepare long range asset management plan outlining a strategy for ongoing economic development and housing functions
  - Plan would require Oversight Board & DOF approval

- **SB 1156 (Steinberg) with Senate Committee on Transportation & Housing – Hearing scheduled for April 18, 2012**
  - Authorizes Cities/Counties to form "Community Development & Housing Joint Powers Authorities" to assume from Successor Agencies the responsibility for managing the assets and property of the former redevelopment agency
  - Authorizes JPAs to exercise specified powers included in former RDA law: e.g. assembling, purchasing, and selling property & remediating environmental damage to further housing, commercial, and industrial development
  - Provides JPA with special taxing authority and capacity to bond against such new tax proceeds

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What's Left after Redevelopment?

Existing Economic Development Tools

- **Ground Lease**
- **Lease-Leaseback Financing for Economic Development**
- **P3 Structures/Project Delivery Methods**
- **Tax-Exempt Revenue Bonds (Utility, Gas Tax)**
- **Special Districts – CFD, BIDs**
- **New Market Tax Credits**
- **Private Activity Bonds**

Newer Tools

- **Site-Specific Tax Revenue ("SSTR") Pledges**
- **EB-5: Immigrant Investor Program**

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Existing Tools for Economic Development

Existing Tools & P3 Deal Structures

Ground Leases

- Retain ownership of property/development after lease term is over
- Enables public agencies to achieve long-term cash flow
- Reduces developers financing cost

Lease-Leaseback Arrangements (financing public assets)

- Frees up equity from existing assets to fund new projects
- Ownership of property/development after lease term is over

Project Delivery Methods: CM At-Risk & Design-Build coupled with public financing

Tax-Exempt Revenue Bonds – gas tax, sales tax, utility tax & others; mostly for infrastructure & public facilities

Community Facilities District (Mello-Roos & other Special Districts) Private sector can leverage property tax payments for infrastructure

New Market Tax Credits - Increased allocation from Feds will provide additional equity funding for eligible urban projects.

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Private Activity Bonds

- Private Activity Bonds are issued by local or state gov't for purpose of financing a private user project.

- Projects apply to manufacturing processes & designs, priv. companies, hospitals, non-profit facilities, charter schools.

- State and local governments will be able to issue a total of $32 billion ($380 million more than in 2011).

- California's cap increases to $3.58 billion from 2011.

- PAB's won't heat up unless small firms can gain sales and production volume.

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Newer Tools for Economic Development

Two Case Studies

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Case Study #1 – Hotel Project Redondo Beach California

Tools used:

- **Lease-Leaseback**
- **Ground Lease**
- **Site-Specific Tax Reimbursements (“SSTR”)**

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Case Study - Project Profile (8.32 acre site)

HILTON GARDEN INN

- 147 Total Guestrooms
  - 69 King
  - 77 Queen/Queen
  - 1 King Suite
- 1,600 sf of Meeting Space
- Full Service Business Center
- Great American Grill, The Pavilion Lounge – Seating Capacity 82
- Swimming Pool/Whirlpool
- Fitness Facility

RESIDENCE INN

- 172 Total Guestrooms
  - 20 Queen/Queen
  - 116 Studio Suite
  - 32 One-Bedroom Suite
  - 4 Two bedroom Suite
- Includes In-Room Kitchens and Full Living Areas
- 2,000 sf of Meeting Space
- Swimming Pool/Whirlpool
- Fitness Facility/Sport Court
- Guest BBQ Areas

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California Golden Fund

Case Study – Hotel Development

- **Total Project - ~$56.5m**
- **Developer Equity - ~$16.5m**
- **Orix Financing - ~$40m**
- **Term – 7 Years**
- **Rate – 10%**
- **Amortization – First 3 years interest only, then 37 years on a 40-year amortization schedule**
- **Prepayment possible after 3 years**

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Site Specific Tax Revenue Pledge (Mezzanine)

- **Proposed Terms:**
  - **SSTR Pledge of TOT & Property Tax from Hotels are first used to fund City SSTR Reserve ("SSTR Reserve")**
  - **SSTR Reserve of up to $8.5m of TOT & property tax for 40 years, held in trust account**
  - **SSTR Reserve used to guarantee current year debt service**
  - ***No General Fund Guarantee***

- **Project Tax Revenues (12% TOT Rate) >$2 Million per year**

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Case Study #2 – W Hotel Hollywood, California

Tools used:

- **EB-5 Immigrant Investor Program**

$16.5 Million in EB-5 Funds Provided

EB5 Program

EB-5 Immigrant investor visa category created in 1990 to attract foreign capital and create jobs for American workers.

- **$1 million investment in a new or existing business**
- **$500,000 if project is in a Targeted Employment Area - TEA)**
- **Investment must create full-time employment for ≥10 US workers**
- **10,000 EB5 visas available every year (approx $5 Billion investment)**
- **Estimated 3,000 visas approved in FY 2011 (approx $1.5 Billion - $2 Billion raised)**
- **Can be used for real estate projects (new and existing)**
- **Eligible Categories – Hotels, Retail, Restaurants, Food, Apparel, Transportation, Warehousing, Household Furnishings, Printing & Paper, Health Care, and others.**

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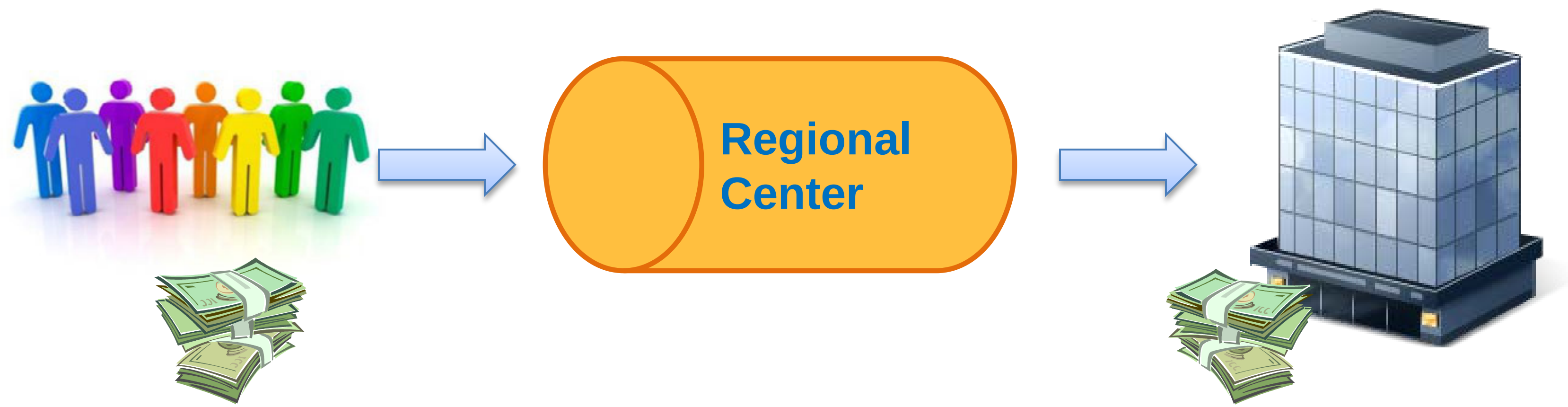
Investment Through Regional Centers

•Regional Centers are organizations that aggregate Immigrant Investors

•and disperse funding to qualified projects.



40 Investors with $500,000 each

$20 Million for Business, Infrastructure, or Real Estate Project located in TEA

Case Study – W Hotel Project

- **Mixed-use redevelopment TOD project, the result of a five year entitlement process**

- **Project Components:**
  - W Hotel tower: 305 keys
  - W Residences condominium tower: 143-units
  - Street-level retail: 15,960 SF
  - Three subterranean levels containing 600 parking spaces
  - Advertising signage rights: 19,500 SF
  - Above MTA Rail Station (TOD)

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W Hotel, a California Golden Fund Project

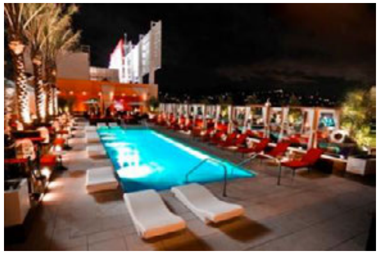
Funding Target: $200M total project capitalization
$16.5M funded by EB-5
(33 investors: I-526 visa applications approved)

Status: 33 investors with EB-5 I-526 visa application in process.
Restaurant loans funded in 3Q & 4Q 2011.
Permanent jobs created in Jan 2012.

Investment Level: $500,000 per Investor
plus processing costs

Investment Placement: Drai's Restaurant and Nightclub
Delphine Restaurant

Job Creation Required: Minimum 10 jobs per $500,000
(established and validated by
economic study)



Repayment Period: Five years

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California Golden Fund

California Golden Fund Regional Center

CGF Geographic Area (expansion in progress)

California Golden Fund

Across six counties in Southern California with statewide expansion in process. CGF was formed to fund a broad range of economic development, public/private, and private sector projects including:

- Hotel
- Retail
- Restaurant
- Medical/Hospital
- Manufacturing
- Office
- Infrastructure
- Port
- Transit-Oriented Development

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Benefits of EB-5 Financing

EB-5 Financing is a low cost source of financing for public and private projects which can easily be combined with other forms of project financing:

- **Funding ranges from $5 Million to $100 Million per project; can be phased and financed with no minimum LTV**
- **Flexible and can subordinate to other equity and debt**
- **Compatible with City and other governmental goals and objectives to promote economic development, job growth, and direct investment**
- **Short-term; typically structured as a 5-year repayment program**
- **Streamlined source of front-end money that is not burdened by the complexities of governmental “public purpose” regulations and costs**
- **If City is involved, no general fund guarantees; instead, pledge tax increment or site specific tax revenue to secure investor interest**

Outlook 2012

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Brown’s Grand Slam Budget

Cuts - $4.2 Billion:

- $2.04 Billion from Health & Human Services
- $1.32 Billion from Education
- $840 Million from other Sources

Taxes - $7.0 Billion in revenue increases, including:

- nearly $5.0 Billion in temporary tax increases for FY2012
  - Half cent sales tax hike
  - Income Tax hike to the wealthiest ($250K/yr and up)
  - OR suffer “trigger cuts” in education, firefighting, wildlife protection, lifeguards (Brown’s “No Gain Then Pain” Plan)
  - Ballot in Nov 2012-more support than 2011’s failed attempt

BUT **– Taxing the wealthy makes the State’s budget more unstable**

Sales tax already highest in the USA

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Source: Office of the Governor

2012 – “The Year of the Tax”

In addition to Gov. Brown’s proposed ballot measures:

- **Labor-led “Millionaires Tax” gathering signatures and a broad-based tax hike earmarked for K-12 schools**
- **Multiple and competing tax ballot measures may doom all measures.**

ANTI-Business Tax Measures that could go to CA voters:

- **“Split-Roll” property tax to eliminate Prop-13 protection for commercial real estate**
- **Extend sales tax to service firms (law firms, accounting, real estate)**
- **1% increase in personal income taxes - adverse effect on small business (sole proprietorships, LLC’s)**

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Source: Ballotpedia, 2012

Economic Development = Name of the Game

- Tax-Increment Financing should be reborn as an economic development tool rather than a blight-elimination tool.
- **Retire "redevelopment" as a term, focus should be to create jobs and help business.**
- New Tools Should Promote
  - Jobs
  - Sustainability
  - Transit oriented projects
  - Workforce Housing
  - Infrastructure
  - Brownfield remediation and reuse

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