

Presented to:



The City of Montebello Road to Recovery

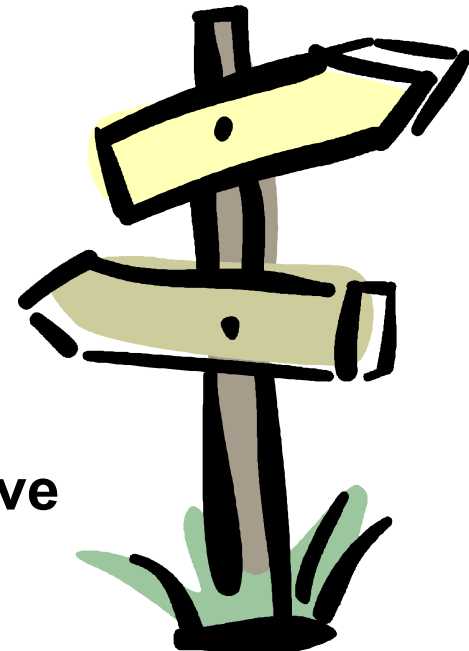
Presented on 8-10-11 by:

**Larry J. Kosmont CRE, Interim City Administrator
CEO & President, Kosmont Companies**

Today's Agenda



- **State of the State**
- **Montebello Road to Recovery**
 - **Financial Recovery Plan**
 - **Next Steps**
- **Montebello's Future**
 - **What Holds Montebello Back**
 - **What Keeps Montebello's Hopes Alive**





State of the State

California New Years Eve...2006



And In 2011....



How long does this Hangover last?



STATE FINANCIAL DISTRESS CONTINUES

- The “all-cuts” balanced budget passed by State Legislature, but at what expense?
 - Further cuts made to education and courts
 - RDAs ordered to wind down unless agencies make payments totally \$1.7B
 - Spending caps and pension reforms were not addressed
- In June, received \$350M less in expected revenues relied on by “balanced” budget

LOCAL GOVERNMENT DISTRESS

- Three straight years of tax-base reductions and still facing a *RELUCTANT* recovery
- Increased unfunded pension obligations pitting management vs. unions

ECONOMIC DEVELOPMENT? FED FIXES HAVE NOT WORKED & PRIVATE SECTOR STUCK

- 1.3M jobs lost in California, with minimal new job traction in 2011
- Unemployment Rate – 9.1% National; 11.8% Statewide; 12% in LA County
- Housing – values have dropped over 40% in areas that have narrow job base



Downward Spiral Continues



LABOR MARKETS CONTINUE TO LANGUISH

- In June, Los Angeles County lost 18,000 Jobs
 - Government had largest cutbacks YOY = 18,700 job losses
- In May, CA lost 29,200 Jobs
 - Professional & business services = 16,300 job losses
 - Government jobs fell by 87,300 statewide YOY



REAL ESTATE MARKETS SHOW LITTLE SIGN OF RECOVERY

- SFH sales down 5.6% in May from previous month; 15% from previous year
- Median home prices down 11% from previous year
- SFH building permits down 11% from previous year



California's Triple Threat



CALIFORNIA REPUBLIC



UNEMPLOYMENT



HOUSING



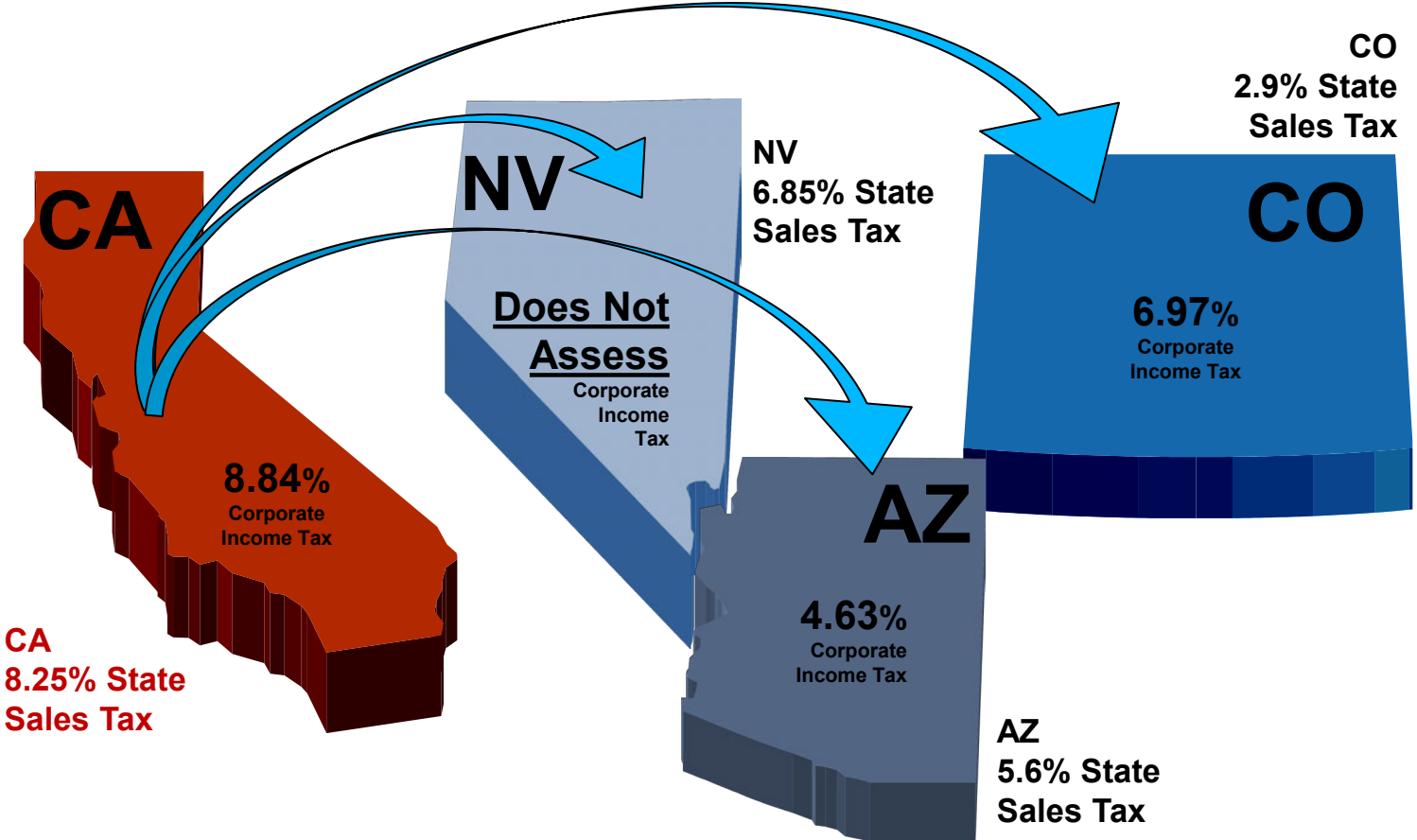
GOVERNMENT



Competitiveness is Key



As California raises its taxes, it continues to lose businesses to Arizona, Colorado & Nevada



The Future is Expensive



Pensions are placing heavy strains on state, county and city governments

- Today most public employees can retire in 50's with pensions at 90% of salary
- Over 15,000 retired public workers with pensions > \$100,000 annually
- Unfunded pensions estimated at \$65B in 2008
- 5 largest public pension systems only 61-74% funded, as of 2010
- Stanford Univ. estimates unfunded deficit *EXCEED* \$500B dollars over next 16 years



To Make Matters Worse: Redevelopment at Risk



PAY UP

OR

**CLOSE
DOWN!**



CEASE OPERATIONS

Under AB1x26 Redevelopment Agencies ordered to wind down activities by October 1, 2011

*Agencies are prohibited from taking any actions until adopt
PAY-TO PLAY*

PAY TO PLAY

Under AB1x27 Local RDAs have "voluntary option" to pay the State annual "Net Tax Increment"

Total Payments = \$1.7B in 2011-12
\$400M ongoing
MUST ENACT BY 11/1/11



Redevelopment...the end may be near

California Redevelopment Agencies are still alive but *severely impaired*

- Approximately 400 RDA's in CA; 71 in LA County
- Most cities will "Pay to Play" but may not be able to afford future annual payments
- CRA/League filed suit to overturn AB1x 26 & 27
- Passage of Prop 22 voted in Nov 2010 should have prevented tax increment taken by State
- Is there a replacement for CRA's????



**\$1.7 Billion
in 2011-12**

**Potentially \$400 million
each year thereafter**





City's Take the Hit

LA County's Redevelopment Agencies 2011 Required Transfers (Source: CA DOF)

Los Angeles County RDA	Dept of Finance 2011 Calculations
Agoura Hills RDA	1,176,985
Alhambra RDA	4,371,157
Arcadia RDA	1,471,053
Artesia RDA	556,439
Avalon CIA	1,026,348
Azusa RDA	860,944
Baldwin Park RDA	2,090,636
Bell CRA	1,100,812
Bell Gardens RDA	29,172
Bellflower RDA	129,294
Burbank RDA	18,425,093
Carson RDA	11,890,405
Cerritos RDA	9,339,030
Compton CRA	10,493,243
Covina RDA	2,817,817
Claremont RDA	1,345,743
Commerce CDC	4,663,412
Cudahy RDA	1,021,060
Culver City RDA	12,044,227
Downey CDC	1,281,573
Duarte RDA	2,205,376
El Monte RDA	775,472
Glendale RDA	11,823,360
Glendora CRA	2,562,396

Los Angeles County RDA	Dept of Finance 2011 Calculations
Hawaiian Gardens RDA	1,590,022
Hawthorne CRA	4,347,052
Huntington Park CDC	3,945,327
Industry UDA	12,806,086
Inglewood RDA	7,184,326
Irwindale CRA	4,314,510
La Mirada RDA	3,580,648
La Puente RDA	215,894
La Verne RDA	2,469,019
Lakewood RDA	2,309,859
Lancaster RDA	15,184,504
Lawndale RDA	2,117,567
Long Beach RDA	33,851,971
Lynwood RDA	2,582,685
Los Angeles County CDC	1,844,955
Los Angeles CRA	96,528,881
Maywood RDA	1,290,465
Monrovia RDA	1,085,311
Montebello CRA	6,163,098
Monterey Park CRA	2,673,546
Norwalk RDA	745,658
Palmdale RDA	11,492,226
Paramount RDA	4,111,090

Los Angeles County RDA	Dept of Finance 2011 Calculations
Pico Rivera RDA	754,830
Pomona RDA	7,858,648
Rancho Palos Verdes RDA	91,320
Redondo Beach RDA	940,818
Rosemead CDC	2,096,364
San Dimas RDA	1,753,485
San Fernando RDA	2,185,859
San Gabriel RDA	469,154
Santa Clarita RDA	714,756
Santa Fe Springs RDA	9,259,313
Santa Monica RDA	26,830,703
Sierra Madre CRA	670,972
Signal Hill RDA	3,847,811
South El Monte RDA	1,477,105
South Gate RDA	1,677,415
South Pasadena CRA	225,250
Temple City CRA	198,175
Torrance RDA	1,621,149
Vernon RDA	4,964,889
Walnut IA	4,099,671
West Covina RDA	5,857,993
West Hollywood RDA	2,802,253
Whittier RDA	2,876,546
Total	\$415,775,002



Montebello is Not Alone



- Local economies cannot sustain without new private investment which yield tax revenues and jobs
- Economic downturn have shattered tax revenues locally
- As Federal and State financial dilemma continues, credit market is turbulent and cities left to fend for themselves
- Hundreds of cities are in financial turmoil
 - Cities forced to cut personnel including fire & police
 - Retirement programs being modified to 2-tier systems
 - Furloughs being imposed to save money
 - Borrowing credit ratings impaired due to economic crisis and state credit issues

Media Coverage Has Impacted Montebello's Financing Strategy



sgvtribune.com
SAN GABRIEL VALLEY

Whittier Daily News
WHITTIER, CALIFORNIA

Los Angeles Times

Date	Headline
Feb 19:	Fiscal Mess Fuels Crisis in Montebello
Feb 22:	D.A.'s Office opens inquiry into off-the-books bank accounts in Montebello
Feb 24:	Montebello Seeks Missing Bank Accounts
Mar 10:	Solution nears in mystery of off-the-books \$1 million account in Montebello
Mar 31:	Montebello May Have Trouble Making Payroll, Paying Bills
Apr 22:	California Orders Audit of Montebello Finances
Apr 22:	Montebello officials consult bankruptcy attorneys
Apr 23:	Montebello May Face Insolvency if it Doesn't Close Budget Deficit
Apr 28:	Federal housing department freezes Montebello funds
Apr 28:	Montebello to subpoena suspect bank records; HUD suspends funding to city because of violations
Apr 29:	Public corruption prosecutors launch criminal investigation of Montebello bank accounts
May 5:	Troubled Montebello's Bonds Downgraded to Junk Status
May 14:	Special Report: Montebello uses financial maneuver to help repay \$17M loan from its redevelopment agency
Jun 19:	HUD auditing Montebello over use of federal dollars
Jun 30:	FBI is Investigating Montebello's Finances





A Tough Time to be in A Tough Spot

- **When the music stopped, Montebello was caught without a safe harbor:**
 - Most severe recession in modern history
 - Spent its reserves (no rainy day account)
 - Inadequate and outdated accounting systems and records
 - Council recalls and Administrator vacancies/turnover
 - Hostile credit environment due to financial markets dysfunction
 - Media attention negative due to “looking for the next Bell” mentality
- **These circumstances (among others) made Council action on the Financial Turnaround imperative...and they have acted swiftly and definitely**
- **Turnaround plan began May 12 when Kosmont Companies installed as City Administrator/Turnaround Specialist and FirstSouthwest as Fin. Advisor**

Montebello's Road to Recovery



Financial Recovery Plan

Short Term

- Adopt Balanced Budget w/ Reserve
- Adopt Financial Recovery Plan
- Complete Short Term Financing

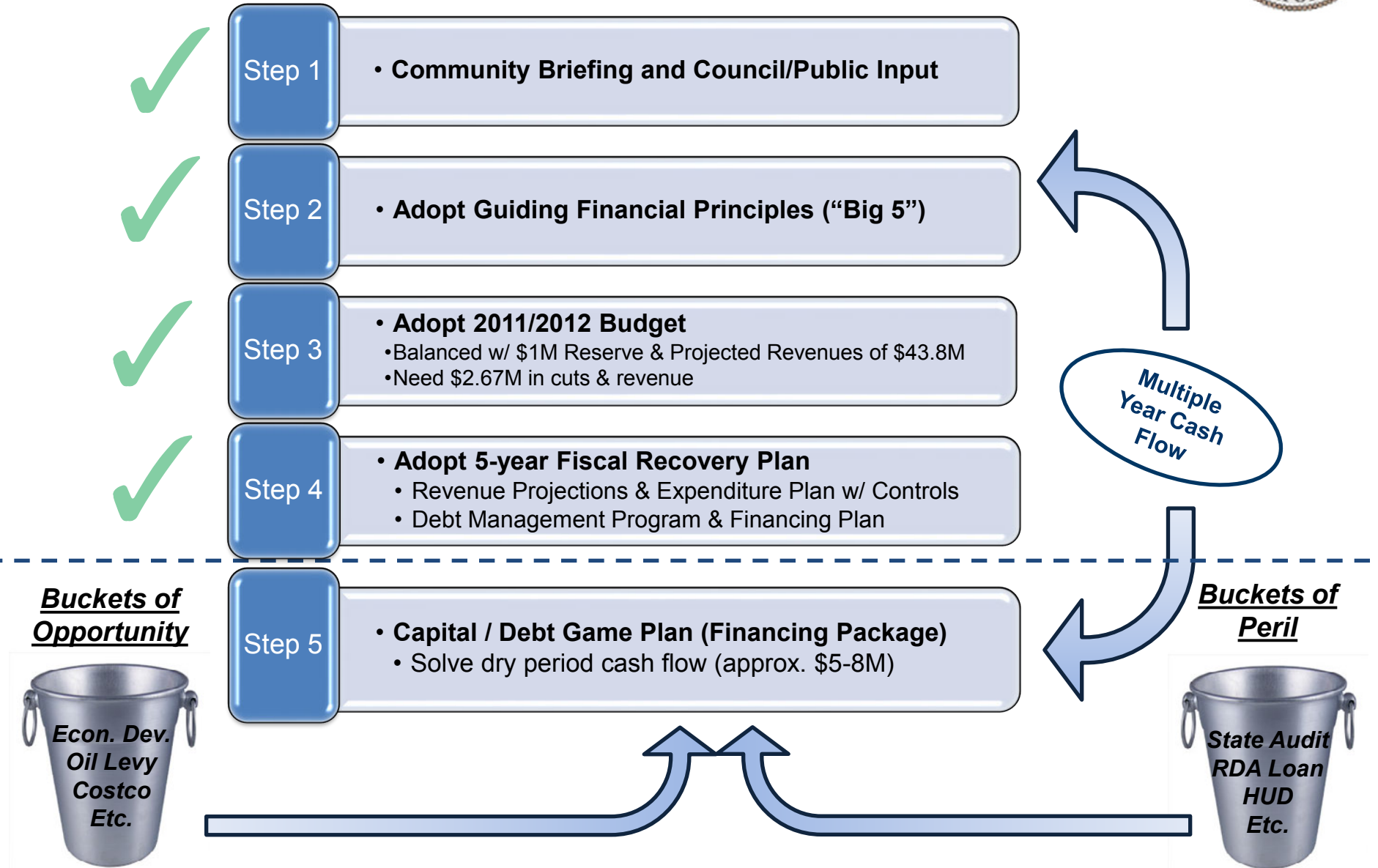
Long Term

- Upgrade Financial Processes
- Restore Financial Reserves
- Restore Level of Services



Financial Recovery Plan

("Financing Package"): Steps to Recovery





Guiding Financial Principles

“Big 5” Financial Principles

1. The City adopt a balanced operating budget by June 30th each year
 - *Without* using General Fund undesigned fund balances or reserves
2. Fees for services be updated annually in order to:
 - Recover cost of providing the services
 - Allow for the impacts of inflation
3. Revenues in excess of expenditures at end of a fiscal year be used first to satisfy:
 - General reserve requirements,
 - Capital project and equipment reserves,
 - Liability reserves
4. Current year operating expenditures be funded by current year operating revenues
5. Honor all debt and seek to maintain highest possible bond/financial ratings



Budget & Cash Flow Summary (2011-2012)¹

Estimated Revenues for FY 2011/12	43,800,000
Expenditure Limit for FY 2011/12	(42,800,000)
Net Positive Cash Flow	1,000,000
Estimated Beginning General Fund Cash Balance FY 2011/12	7,014,000
Financial Imbalance to be Addressed²	(2,671,902)
Balancing Requirements³	2,671,902
Estimated Ending General Fund Cash Balance FY 2011/12	7,014,000

¹ All figures approximate, subject to change

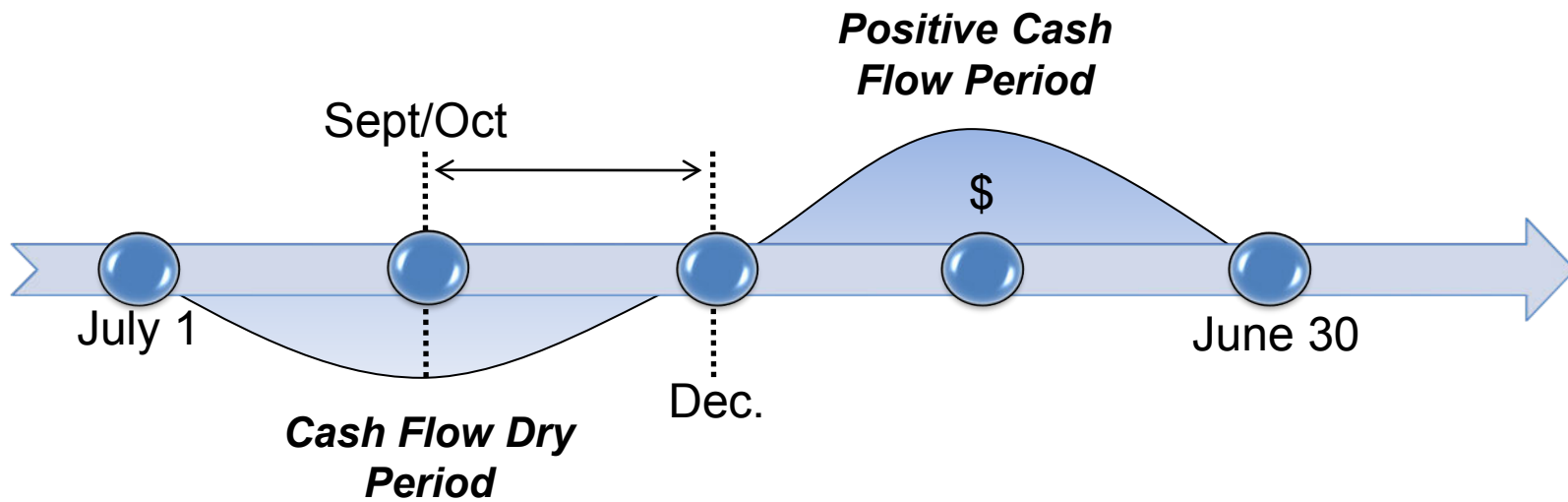
² Includes Projected Deficits in General Fund, Golf Course Fund and Detention Center Fund

³ Includes Continuation of Employee Concessions (CalPERS), Extension of Oil Extraction Levy, Est. Misc. Employee Furloughs, User Fee Update, Animal License Fee Update, Successful Cash Flow Borrowing





Timing of Cash Flow





Recovery Plan: Key Terms & Definitions

Credit Rating: Short Term Borrowing will be a Private Placement

- Public agencies rated by various credit rating agencies (Fitch, Moody's, S&P)
- Help determine borrowers' cost of funds & ability to access capital markets
- In general "A" ratings are first tier, "Baa" or "BBB" ratings second tier
 - Lower ratings are considered non-investment grade or in distress.
- City cannot effectively pursue short term credit rating as a result of recent articles and reported events (rumors of bankruptcy, HUD Audit/FBI, etc.)

"Buckets of Peril":

- Blemishes from the past that diminish City's financial viability
- Priority resolution programs identified in 5 Year Recovery Plan

"Buckets of Opportunity":

- Upside presented by economic development programs and/or assets
- Present opportunities to improve cash flow and restore depleted reserves







Buckets of Peril (partial)



State Audit Findings / Corrections	RDA Loan Balance Due	HUD/HOME Issues	Self Insurance Fund	Hilton Hotel Management Fee
State Controller On-going Audit May Require Some Adjustments / Repayments	General Fund to Repay Loan by June 30, 2011	Final Audit Findings Due Soon for HUD/HOME Funds	Need to Replenish Self Insurance Fund Reserve	Management Fees Possible Due to Hilton Operator
<u>Approx. Exposure:</u> TBD	<u>Approx. Exposure:</u> COMPLETED - \$0	<u>Approx. Exposure:</u> \$0 - \$4M	<u>Approx. Exposure:</u> \$1 - \$8M	<u>Approx. Exposure:</u> Up to \$4.5M
<u>Downside:</u> <ul style="list-style-type: none"> Impacts GF Cash Flow 	<u>Downside:</u> <ul style="list-style-type: none"> Severely Impacts Short-Term GF Cash Flow Litigation Threat 	<u>Downside:</u> <ul style="list-style-type: none"> Could Impact GF Cash Flow May Necessitate Litigation Against 3rd Parties 	<u>Downside:</u> <ul style="list-style-type: none"> Impacts GF Cash Flow Claims May Need to be Paid 	<u>Downside:</u> <ul style="list-style-type: none"> Impacts GF Cash Flow
<u>Upside:</u> <ul style="list-style-type: none"> Opportunity for Repayment Terms Identifies Needed Corrections Adopted Financial Principles Supports Corrections 	<u>Upside:</u> <ul style="list-style-type: none"> GF Cash Available for Repayment FY 2011/12 Borrowing May Be Possible 	<u>Upside:</u> <ul style="list-style-type: none"> Amounts Subject to Adjustments by Corrections Opportunity for Repayment Terms Opportunity for Recovery from 3rd Parties 	<u>Upside:</u> <ul style="list-style-type: none"> Lag in Timing for Payment of Possible Claims Ability to Replenish Reserves Over Time 	<u>Upside:</u> <ul style="list-style-type: none"> Fees May be Subject to Adjustment Trustee Funds May Be Available to Pay Portion of Amount Due Opportunity for Payment Terms



Buckets of Opportunity (partial)

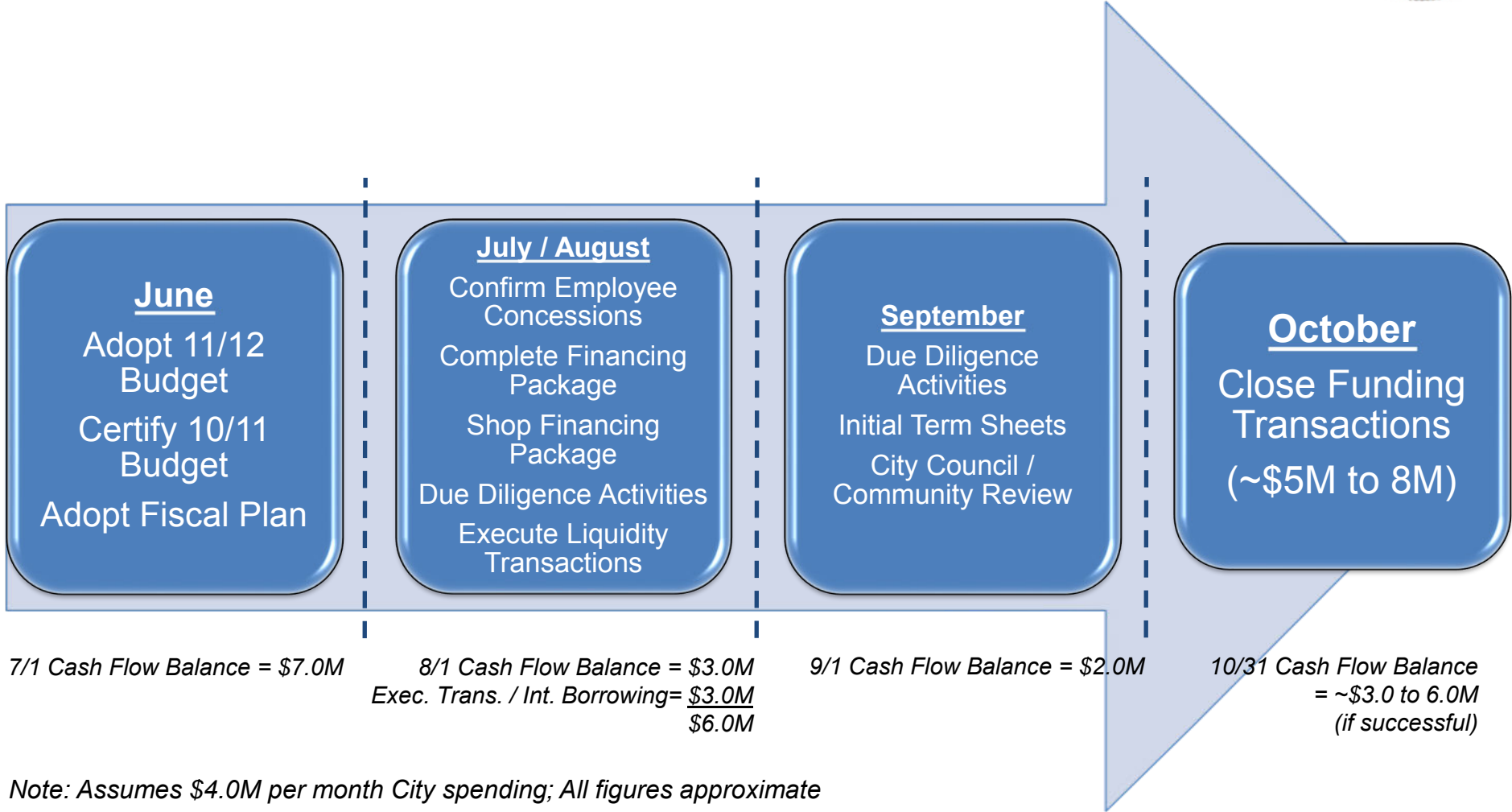
	Opportunity	Value	Timeframe
	Update of User Fees & Charges Adopt pending updated User Fees & Charges to ensure cost recovery	\$435,000-575,000 per year	Short Term
	Voluntary Extension of Oil Levy Continue Current Oil Production Levy Past 12/31/2011	\$1,000,000 per year	Short Term (by Dec 2011)
	Costco Fuel Center Facilitate development of Costco Fuel Center with lease purchase to retain Costco	\$110,000-250,000 per year plus lease value (over \$1,000,000)	Short Term
	Property Sale Sale of City owned sites	Approx. \$1,000,000	Short Term
	Reinvigorate Assets Review Options for Water System, Golf Course and other assets	\$1,500,000 +	Short to Mid Term
	Enhanced / Additional Retail Centers Work with property owners to expand & retain sales tax	TBD	Mid to Long Term (2 to 5 years)
	Montebello Hills Site Potential to add rooftops and/or retail to enhance retail demand and expand retail base	TBD	Mid to Long Term
	Infill Development Pursue development of infill sites	TBD	Mid to Long Term
	Sit-Down Restaurants Development of in-fill sites and in existing shopping centers	\$15,000 to \$40,000 per restaurant per year	Mid to Long Term

Short Term: Within 2011/2012 fiscal year – Mid Term: Up to 24 months – Long Term: 25 months or more





Capital Markets Schedule





TRAN Financing- Next Steps

August - October:

- a) Complete Financing Package and Shop Financing
- b) Brief Community and Gain City Council Approvals
- c) Secure Short Term Tax Revenue Anticipation Note Buyers
- d) Complete Documentation of Short-Term Financing

Montebello's Future





Tools for Economic Development

CITIES TARGET REAL ESTATE FOR ECONOMIC DEVELOPMENT

- **Real Estate Development** – new property taxes or tax increment from “RDA”
- **Retail** – sales tax & jobs (entry level)
- **Relocation/Expansion** – business tax & commercial jobs
- **Rooms** – hotel transient occupancy tax (TOT)



Montebello has used Redevelopment as primary tool to grow new jobs and taxes

Must now expand Economic Development programs



Montebello's Accomplishments since May

- **Adopted 5-Year Financial Recovery Plan (“FRP”), including balanced 2011/12 budget (w/ \$1 million in reserves) and Guiding Financial Principles**
- **Successfully dealing with numerous identified “Buckets of Peril”:**
 - Eliminated debt obligation between RDA and City (payment made prior to June 30)
 - HUD/CDBG Audit--timely response, Action Plan development, and initial execution of Action Plan
 - Proactive meeting and follow-up with Bond Insurer (NPMFG)
 - Positive meeting and continued follow-up with Union Bank on letters of credit
 - Updated and improved response to Federal Transportation Administration review
 - Resolved outstanding bank accounts and rumors/claims of mysterious activity
 - Working with City Attorney's office to actively track and resolve outstanding litigation



Montebello's Accomplishments since May

- **Continued execution on “Buckets of Opportunity”:**
 - Updates to user fees and charges approved by City Council in June
 - Opened discussions with Costco on lease renewal and/or purchase options
 - Negotiation of a two-year extension of oil extraction levy
 - Economic Development projects list created and consultant panel selected
- **Continued progress on short term cash flow financing (TRAN)**
 - Retained Kosmont as Interim CA and Financial Turn-around specialist
 - Retained First Southwest as Financial Advisor to support Finance Director's efforts on turnaround activity
 - Hired underwriter/placement agent De La Rosa & Co. to work with to market Tax and Revenue Anticipation Note (TRAN) financing (currently in due diligence and documentation preparation phase, and expected to close prior to Q4 2011)

***It is imperative for capital markets community
to acknowledge progress***



What Holds Montebello Back

- We are living in a post “Bell” world and suspicion is pervasive
- Montebello’s media coverage has been mostly negative, and financial community remains nervous
- Claims and stories re: bankruptcy, “off the books bank accounts with double payments” are not true/accurate, yet damage is done
- Council political shifts and City Administrator turnover have resulted in bad decisions and deficient administrative processes
- Financial markets do not comprehend lack of political unanimity on financial turnaround (efforts to secure cost effective credit impacted)
- Pending release of State Controller Audit will likely generate more negative stories while Montebello seeks its TRAN financing

What Keeps Montebello's Hopes Alive

- Montebello is not Bell (not a deliberate and consistent march to corruption)
 - Deficient processes and aging accounting/reporting systems – YES
 - Administrative mishaps and sloppy records - YES
 - **Can these be fixed? – YES** (in process but will take time)
- Fierce loyalty to City and proud heritage (by employees and constituents) – there is a sense that the “jewel” can restore its luster
- Good economic development “bones” based on superior in-fill location with strong retail and residential demand
- Comprehensive services and public amenities in a small town atmosphere can be restored to higher quality levels with Financial Recovery Plan
- City Council is determined to move the City in the right direction
- Turnaround to take years – **Key initial steps were adopted in June and *are in play***





Montebello's Road to Financial Recovery: City Council Action Plan

<u>Week of</u>	<u>Activities</u>
May 4	Moody's Credit Rating Assigned to Series 2000 COPs – Downgraded two notches to Ba1 (negative outlook)
May 4	City hires FirstSouthwest as financial advisors (Approved 3-1; Cortez – NO)
May 11	City hires Kosmont Companies as Interim City Administrator/ Financial Turnaround Specialist (Approved 4-1; Cortez – NO)
May/June	Kosmont Pursues Reconstruction of City budget and finances/initiates FRP
June 1	Introduction of Financial Recovery Plan Components & Preliminary Schedule
June 8	Community Primer – Detailed Introduction on the Budget Process & the FRP/Financial guidelines – Received and filed by City Council (Approved 4-1; Cortez – NO)
June 15	Council and Community briefing of 2011/12 Budget & FRP discussion; Adoption of final 2010/2011 City and RDA Budget (Approved 4-1; Cortez – NO)
June 22	Adoption of final 2011/2012 Budget, Financial Guidelines, Fee resolutions; FRP authorization (Approved 4-1; Cortez – NO)
July 13	City retains Investment Banking firm De La Rosa & Co. (Approved 4-1; Cortez – NO)
August 24	<i>City Council review of short term TRAN Financing Package (Approval is Anticipated)</i>



Life After Short Term Financing?



- Once short term financing is done, the real process to financial stability starts
- Focus on revenue generating programs, managing financial resources, and securing qualified permanent City Administrator
- Economic Development is the priority and key to Montebello's future budgets
- California State approved 2011/12 budget impairs redevelopment, the primary tool for economic development. If lawsuit filed by CRA/League prevails would likely benefit Montebello's recovery.
- Accounting systems need to be updated and revamped (technological and operational fixes are necessary).
- **Montebello's Financial Recovery is in motion. City Council has taken brave and prudent steps.**

THE END

