



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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An aerial night view of a city, likely Vancouver, with a large illuminated sign in the foreground. The city lights are visible in the background, and the sky is dark blue. The sign in the foreground is partially obscured by the text.

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Research and Production by **Matt Goulet, VP, Kosmont Companies**



Los Angeles County
Economic Development Corporation



Real Estate
Development
Entitlements
Finance/Economics

PRESENT:

New Economic Development Tools for California

Presented by:

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- The Case for New Economic Development Tools
- Toolbox for Today's Economic Developer
- Tax Increment Replacement – Proposals to Modify Infrastructure Financing Districts (IFDs)
- A Call to Action

THE CASE FOR ECONOMIC DEVELOPMENT

- **The Case for New Economic Development Tools**
- Toolbox for Today's Economic Developer
- Tax Increment Replacement – Proposals to Modify Infrastructure Financing Districts (IFDs)
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California's Primary Tax Sources

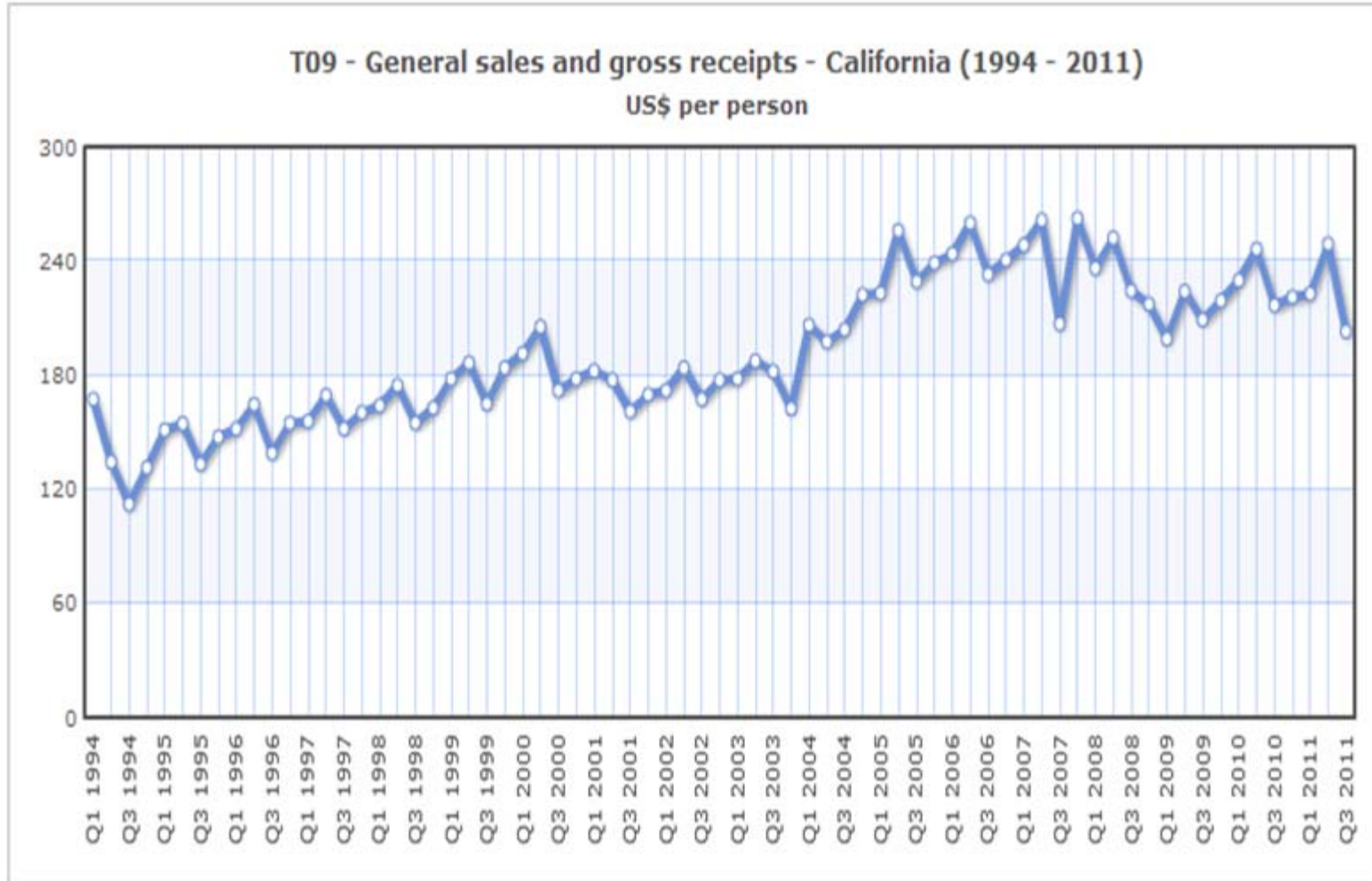
Income, sales, and property tax:

- **Income tax is CA's *largest* revenue source**
Top income earners sway the state budget
 - Personal Income Tax was 51% of CA's total revenue in 2010
 - Earners over \$200K equal 50% of all income tax
- **Sales Tax is prone to dramatic shifts in customer spending.**

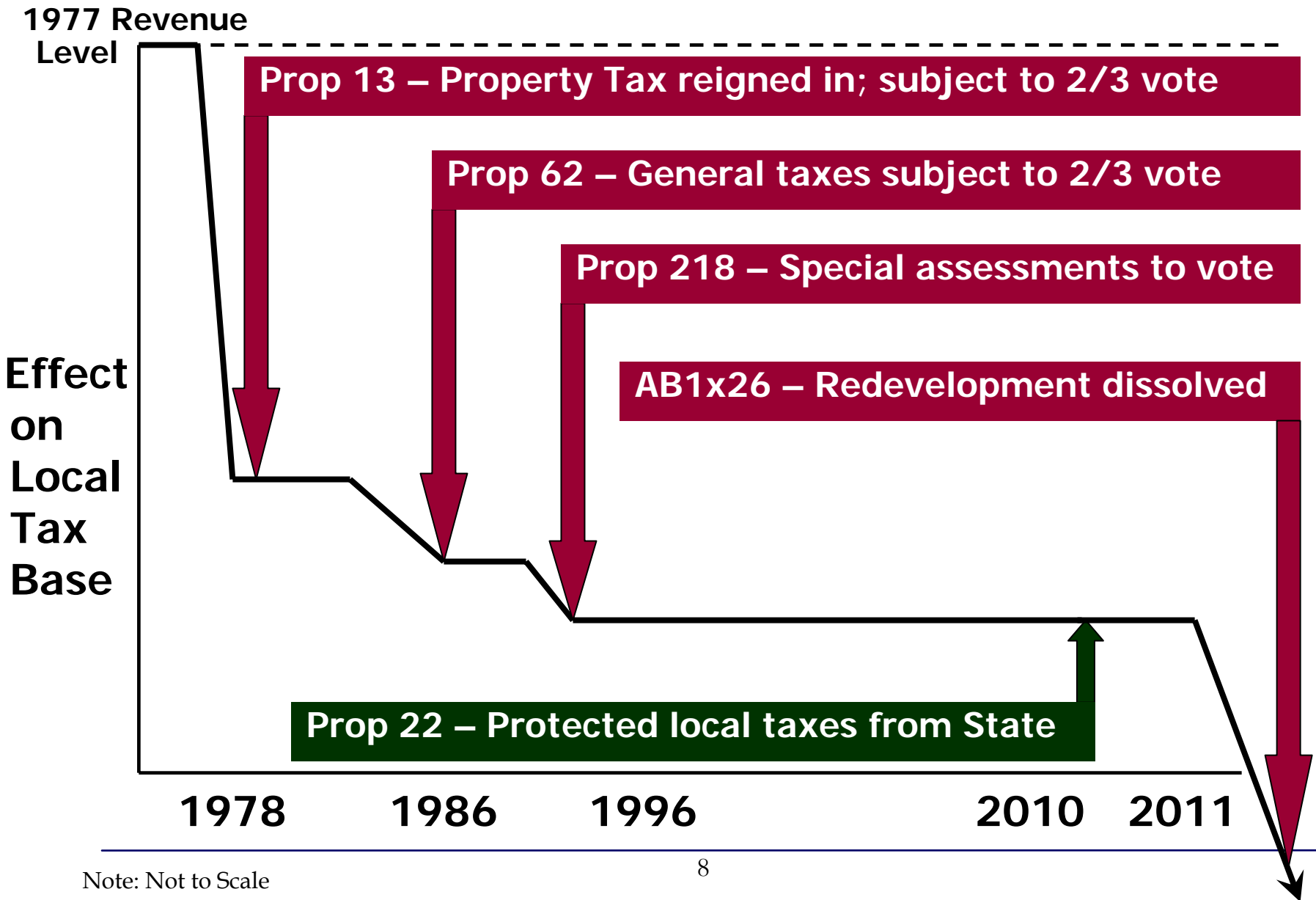
May 2012 Budget Revise:
Deficit ballooned to nearly \$16 B. from \$9.2 B.



Sales Tax per Capita



33 Years of "Tax Revolts"



Note: Not to Scale



RDA Cleanup Bills Proposed



SB654 (Steinberg)

Enables more flexible use of housing funds

AB1585 (Atkins/Perez)

Similar to SB654 plus expands enforceable obligations and roles of Successor Agencies / Oversight Boards

SB986 (Dutton)

Eases restrictions on unencumbered tax-exempt bond proceeds

SB1151 (Steinberg)

Creates a "Sustainable Economic Development and Housing Trust Fund" to receive unencumbered funds from former RDAs

SB1156 (Steinberg)

Creates a "Sustainable Communities Investment Authority" to operate like a Redevelopment Agency but solely for affordable housing

Department of Finance drafted Trailer Bill

Intent to streamline and expedite wind down - further restricts authority of Successor Agencies and Oversight Boards

None of these contain viable long term solutions for California

TIF Went Down With the Redevelopment Ship

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 a significant and long-term source of funds.
 - Tax increment grows for decades beyond a flat base year, capturing significant 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?

TOOLBOX FOR TODAY'S ECONOMIC DEVELOPER

- The Case for New Economic Development Tools
- **Toolbox for Today's Economic Developer**
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Economic Life After Redevelopment

Newer Tools

- Site-Specific Tax Revenue (“SSTR”) Pledges
- EB-5: Immigrant Investor Program

Existing Tools / P3 Structures

- Ground Lease
- Lease-Leaseback
- Tax-Exempt Revenue Bonds
- Project Delivery Methods (P3’s)
- Special Districts – CFD, BIDs
- New Market Tax Credits
- Certificates of Participation (COP)
- Parking Authorities
- Infrastructure Financing Districts (IFDs)

***No more Power Tools,
just hand tools!***

Newer Tools for Economic Development

Site-Specific Tax Revenue (SSTR) pledges

- Pledges taxes to enables public agencies to induce private investment
- Reduces developer's project cost subject to public benefit findings
- Works well in tandem with ground lease

EB-5 Immigrant Investor Program

- Federal program that offers citizenship to immigrants whose investments in real estate and/or businesses in US meet minimum level of job creation
- Created in 1990 by the United States Citizenship and Immigration Service (USCIS), an agency of the Department of Homeland Security
- An EB-5 Regional Center is a legal entity, authorized and approved by the USCIS to deploy funds from foreign investors to stateside projects
- Regulatory Investment requirements:
 - minimum investment of \$1M or \$500,000 for projects located in high unemployment area (Targeted Employment Area / TEA)
 - Creation of 10 permanent jobs in the economy per investment
 - Funds typically invested for five years with low interest rate costs

Existing Economic Development Tools

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

- Infrastructure Financing Act (IFA) – (CA Gov't Code Sec. 5956)
The IFA is a procurement statute that allows local governments to obtain private capital to finance "fee-producing" infrastructure.

Ground Leases

- Retain ownership of property/project after lease term is over
- Enables public agencies to achieve long-term cash flow
- Reduces developers up front financing costs

Lease-Leaseback of public assets (Gov. Code Sect 25371)

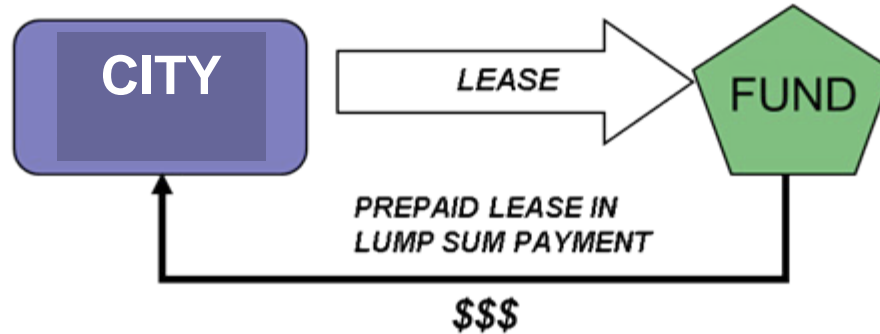
- Used to monetize public real estate
- Investors lend against equity in existing assets to fund new projects
- Municipality leases facilities to non-profit corporation
- Then sub-leases facilities and sells Certificates of Participation
- Local government owns property after lease term is over

Lease-Leaseback

TRANSACTIONS

GOV'T BENEFITS

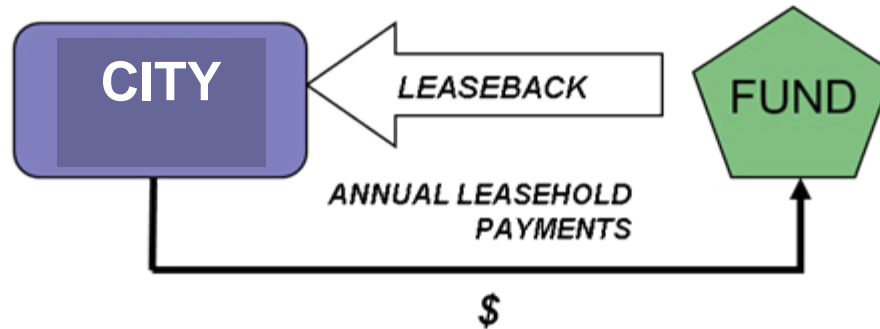
Step ①
"LEASE"



- UP-FRONT LEASE PAYMENT FOR VALUE OF ASSET
- PUBLIC AGENCY RETAINS OWNERSHIP AND OPERATIONAL CONTROL
- MAY REINVEST FUNDS IN ECONOMIC DEVELOPMENT AND/OR OTHER PRIORITIES

TRANSACTIONS OCCUR SIMULTANEOUSLY

Step ②
"LEASEBACK"



- RETAINS EXCESS PROCEEDS AFTER REPAYMENT
- RELATIVELY LEVEL PAYMENTS AT COMPETITIVE INTEREST RATES
- FUNDS USED W/O TAX EXEMPT CONSTRAINTS
- 30 PLUS YEAR TERM

AT END OF LEASE TERM, LEASE CAN BE EXTENDED/RENEWED OR PROPERTY REVERTS BACK TO AGENCY

Existing Economic Development Tools

New Market Tax Credits – 39% investor Federal tax credit to provide additional equity and debt funding for eligible urban projects.

Parking Authorities

- Local cities can create for parking and circulation improvement districts
- Can issue debt (bonds/lease-leasebacks) and enter into project agreements
- Authority can manage parking operations and collects parking fees
- Landlord for parking leases and concession agreement

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

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

- Community Facilities Act of 1982 (Gov. Code Sect. 53311 et. seq.)
- Business Improvement District Law of 1994:(Gov Code Sect. 36600 et. seq.)

Infrastructure Financing Districts (IFDs)

- Existing law which allows tax increment financing for public works
- Relatively useless
- If revised properly, could deliver broad-based tax-increment financing



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

A predictable TIF mechanism gives investors confidence in this low-risk, long-term financing vehicle. Public agencies can borrow against a promise of future revenue streams.

Redevelopment gave local governments

- a ***legal public framework for economic development***
- permission to contract with private entities for real estate projects ultimately owned and operated by private business.

The Case for the Return of TIF



*How do we get it back to work
for California?*

- Enacted in 1990; codified under Gov't Code 53395 - 53396.5
- Intended to reduce the cost of new development (mainly housing) by helping with financing of public works
- Requires 2/3rd vote of constituents
- Requires approval of all affected tax entities that don't opt out
- Involves a limited use of **tax-increment financing** to fund:
 - public works
 - transportation
 - libraries
 - parks
 - child care centers
- Roughly 2/3 of the Code provision refer to special applications for San Francisco and associated waterfront development.

History of IFD Implementation

IFDs have only been used twice in 22 years to any significant degree:



Carlsbad, CA

- 1998
- Public works for hotel and Legoland Theme Park
- *Only finished IFD project to date*



San Francisco, CA

- 2011
- Public works for Rincon Hill Project
- *In Process*

Legislative Proposals to Amend IFD Law

- **SB 214 (Wolk)** – Introduced 2011, amended twice, *inactive*
 - Designed to eliminate the requirement of voter approval for the formation of IFDs.
- **AB 2144 (Reyes)** – 2012 Spot Bill, amended once
 - to revise portions of the IFD law and change the name of infrastructure financing districts to “infrastructure and revitalization financing districts”.
 - proposes to expand eligible IFD activities to include allowing the establishment of districts within or overlapping with the territory of redevelopment project areas and former military bases
 - retains limitations on IFDs including the taxing agency opt-in as well as a voter requirement.

IFD Legislation Scoreboard

		Fix, Partial fix or No fix?		
	The Big Five Weaknesses	SB 214 (Wolk)	AB 2144 (Perez)	
1	2/3 (66%) public vote to establish an IFD district	Fix	Partial fix (55% vote)	
2	Voluntary Opt-out by Affected Taxing Entities	No Fix	No Fix	
3	May only be used for public works projects (expand to private sector jobs)	No Fix	Fix	
4	May not be used in former RDA project areas	No Fix	Fix	
5	No remediation powers similar to Polanco Act	No Fix	Fix	

Case for a Private Sector–led Approach

The Economic Case:

- Job creation is the key to economic recovery in California
- Jobs are best antidote to State budget 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 control 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.*

Therefore, a Private Sector – led approach to revising IFDs based on job creation is best chance to bring TIF back to California

An informal technical committee formed in May 2012 (led by BizFed):

- Los Angeles County Business Federation (BizFed)
- California Business Properties Association (CBPA)
- California Association of Local Economic Development (CALED)
- Kosmont Companies
- McKenna Long & Aldridge, LLP
- Fulbright & Jaworski, LLP
- Latham & Watkins, LLP
- Kane Balmer & Berkman

The BizFed Committee has developed a 14-Point recommendation to the Governor's Office designed to salvage the TIF mechanism

Private Sector (BizFed) Proposal to Amend IFD Law

Proposal Fixes the “Big 5” Weaknesses of Existing IFD Statute:

		Fix, Partial fix or No fix?		
	The Big Five Weaknesses	SB 214 (Wolk)	AB 2144 (Perez)	PrivSec BizFed
1	2/3 (66%) public vote to establish an IFD district	Fix	Partial fix (55% vote)	Fix
2	Voluntary Opt-out by Affected Taxing Entities	No Fix	No Fix	Fix
3	May only be used for public works projects (expand to private sector jobs)	No Fix	Fix	Fix
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Private Sector (BizFed) Proposal to Amend IFD Law

Recommends further improvements, including:

- 1. Add new construction or rehabilitation of private facilities based on job generation**
- 2. Include adaptive re-use.**
- 3. Allow higher density development within an IFD.**
- 4. Enable public-private partnerships (P3s) and/or combine with Infrastructure Financing Act (IFA)**
- 5. Set jobs creation thresholds similar to EB-5 Program or EDA grant job creation formula.**

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Key Takeaways:

- 1. Cities are in the economic development & real estate business.**
- 2. Public-private deals are needed to maintain local quality of life.**
- 3. It is essential to use a variety of financing tools in the wake of redevelopment. Some of the more effective tools include:**
 - Lease-Leaseback**
 - Site Specific Tax Reimbursements (SSTR)**
 - EB-5 Immigrant Investor Program**
- 4. California must bring back TIF to be competitive.**
- 5. IFD Statute is an existing path to restoring tax-increment financing for job creation & private investment.**
- 6. The Private Sector is California's best advocate for TIF & jobs.**

The Objective:

- **California needs a TIF vehicle.**
- **IFD Statute offers an existing path to restoring TIF.**
- **Solution based on job creation & private investment.**

Private Sector Approach means: Business Must Lead Effort

- **BizFed Coalition forming (CALED, CBTA) submitted its IFD recommendations to Mike Rossi, Senior Advisor to the Governor for Jobs and Development.**
- **More private sector voices need to be heard.**
- **LAEDC, Contract Cities, ICA, the League and others should also weigh in.**

Legislature Mobilizing: The Key is the Governor

- **A Legislative task force has been convened by Senator Wolk.**
- **Business groups and LAEDC should provide input to the legislative task force.**
- **Ultimately, Governor should collaborate with legislature and resolve changes by leading effort to modify AB2144 or by finding a suitable alternative.**

With momentum building to re-tool Infrastructure Financing Districts and recapture Tax Increment Financing...



We have a golden opportunity to restart the stalled engines of local economic development.



An aerial night view of a city, likely Las Vegas, with a large illuminated sign in the foreground. The city lights are visible in the background, and the sign is partially obscured by the text overlay.

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