



Kosmont Companies
Real Estate and Economic Advisory

Kosmont Realty Corporation
Funding Solutions for Public-Private Deals



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Presented to:



ORANGE COUNTY
BUSINESS COUNCIL

The Leading Voice of Business



Kosmont-Rose Institute Cost of Doing Business Survey

Presented on 7-18-11 and hosted by:

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

WARNING

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



Today's Forecast

- **State of the State**
- **2010 Kosmont-Rose *Survey* Findings**
 - **National Findings**
 - **California Findings**
 - **Orange County Findings**
- **Riding the Economic Waves**



State of the State



California New Years Eve...2006



and in 2011....



LEGISLATURE

*REDEVELOPMENT
AGENCIES*

BUDGET BANKS

US

JOBS

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?

- 1.3M jobs lost with minimal new job traction in 2011
- Unemployment Rate – 11.7% Statewide, 11.8% in LA County and 8.6% in OC
- Housing – values have dropped over 40% in areas that have narrow job base

Downward Spiral Continues

Labor Markets continue to languish

- In May, CA lost 29,200 Jobs
 - More than half coming from Professional & Business Services sector - totaling 16,300 job losses
 - Only 2 major sectors gained jobs: Finance +3,200 & Information +2,000
 - Unemployment rate improvement largely due to weakening labor force participation rather than job growth

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

The Future is Expensive

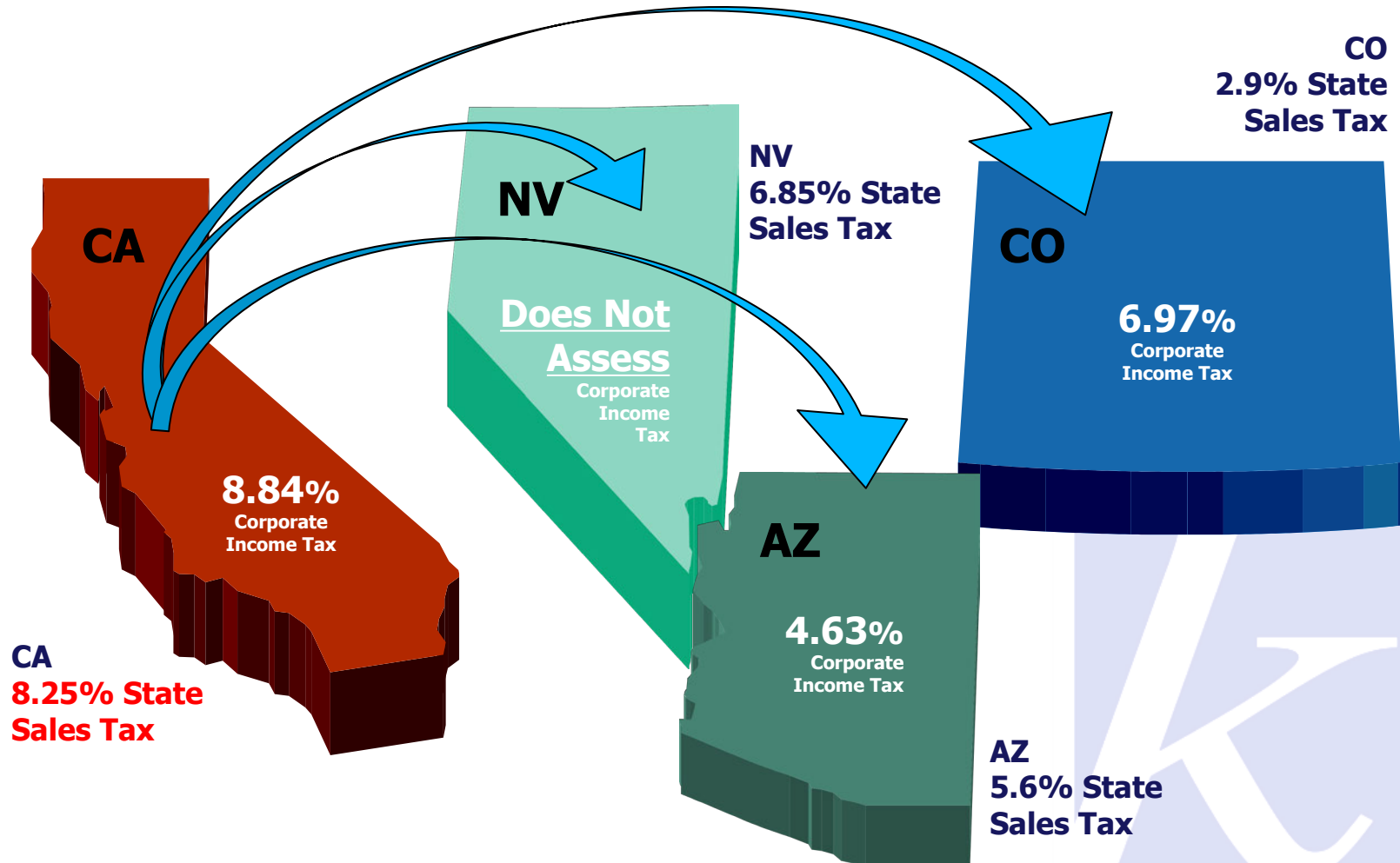
Pensions are placing heavy strains on state, county and city governments

- 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
- In 2008 unfunded pensions estimated at \$65 billion
- As of 2010, the 5 largest public pension systems only 61% - 74% funded
- Stanford Univ estimates unfunded deficit *EXCEED* \$500B dollars over next 16 yrs



Competitiveness is Key

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



To Make Matters Worse



**CLOSE
DOWN**

OR



**PAY
OUT!**

"ELIMINATOR"

- **ABx1 26** Eradicates CA's Redevelopment Agencies
- Wind down of RDA's activities including payment of existing debt by October 1, 2011.
- Until then, *agencies prohibited from taking any actions*

"PAY TO PLAY"

- **ABx1 26** creates a "voluntary alternative"
- Agencies must to commit to annual "Net Tax Increments" by Nov 1, 2011
- RDAs pay \$1.7B in 2011-12 and \$400M ongoing

City's Take the Hit

2011 Estimated Net Tax Increment on Orange County's Redevelopment Agencies

Orange County Redevelopment Agency	CRA's Estimated 2011 NIT	Orange County Redevelopment Agency	CRA's Estimated 2011 NIT
Anaheim Redevelopment Agency	\$ 17,450,583	Mission Viejo Redevelopment Agency	\$ 1,842,808
Brea Redevelopment Agency	\$ 5,630,892	Orange County Development Agency	\$ 13,100,023
Buena Park	\$ 11,285,852	Orange Redevelopment Agency	\$ 13,636,746
Costa Mesa Redevelopment Agency	\$ 1,487,160	Placentia Redevelopment Agency	\$ 752,162
Cypress Redevelopment Agency	\$ 457,942	San Clemente Redevelopment Agency	\$ 960,940
Fountain Valley Agency For Community Development	\$ 3,007,232	San Juan Capistrano Community Redevelopment Agency	\$ 1,920,828
Fullerton Redevelopment Agency	\$ 6,259,348	Santa Ana Community Redevelopment Agency	\$ 20,655,056
Garden Grove Agency for Community Development	\$ 8,298,432	Seal Beach Redevelopment Agency	\$ 945,564
Huntington Beach Redevelopment Agency	\$ 6,851,687	Stanton Redevelopment Agency	\$ 4,465,271
Irvine Redevelopment Agency	\$ (1,030,679)	Tustin Community Redevelopment Agency	\$ 7,163,745
La Habra Redevelopment Agency	\$ 1,009,356	Westminster Redevelopment Agency	\$ 15,590,005
La Palma Community Development Commission	\$ 1,142,957	Yorba Linda Redevelopment Agency	\$ 4,926,204
Lake Forest Redevelopment Agency	\$ 2,001,564		

Moral of the Story

- Economic Development is *essential* for the growth and sustainability of our communities
- Businesses are more politically vulnerable than citizens – easier to tax
- *We live in a competitive world*
 - Local taxes are key to corporate location/expansion decisions
 - Cities get no help from the state – local incentives key
 - Local economies cannot sustain without new private investments, tax revenues and jobs



A glass bottle with a white paper message inside, lying on a sandy beach near the water's edge. The bottle is lying on its side, and the paper is partially visible. The background shows a beach with waves washing onto the shore.

2010 Kosmont-Rose Survey Findings

- **1994: The Kosmont Companies first published the *Survey***
 - Covered major California communities
- **2003: Kosmont contributes Survey to Claremont Mckenna- first Kosmont Rose Institute published**
 - Expanded city profiles to all 50 states
- **2010: Known as the “tie breaker” analysis for companies contemplating a move or expansion**
 - Survey has expanded to 413 selected cities and 50 States

Composed of individual City Profiles include:

- **Tax Information**

- Business Taxes
- Utility User Taxes
- Sales and Property Taxes
- Development Impact Fees
- Other Fees

- **Economic Development Information**

- Economic Incentives
- Waivers, Reductions and Reimbursements
- Special Zones
- Incentive Programs and Services
- Notable Public/Private Transactions



Cost Rating System

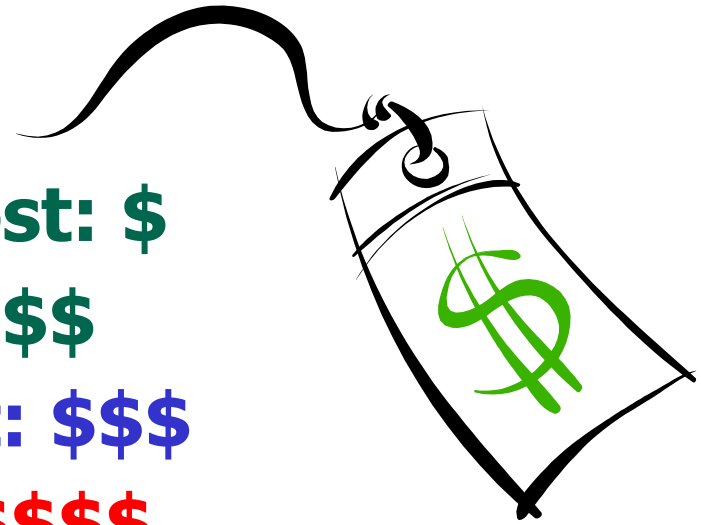
Very Low Cost: \$

Low Cost: \$\$

Medium Cost: \$\$\$

High Cost: \$\$\$\$

Very High Cost: \$\$\$\$\$



Cost Ratings derived from various local tax rates:

- Business Taxes: average rates of six categories
- Property Taxes: highest Ad Valorem rate within the city
- Utility User Taxes
- Sales Taxes



Survey Highlights

- 20 most expensive cities have the highest property and business taxes
 - 15 of the 20 cities assess business taxes on gross receipts or general profit
 - All the most expensive cities have high property taxes and/or utility user taxes
 - In 8 of the cities, a medium-sized retail business could pay over *\$100,000* a year in licensing fees!
- 20 least expensive cities are all west of the Mississippi River
 - 16 of 20 cities are in states that do not impose personal or corporate income tax
 - 9 of 20 cities do not charge business license taxes; only a flat rate of less than \$150

National Analysis

Top 20 \$\$\$\$ Most Expensive Cities

City	Sales Tax	Retail Business License Fee	Property Tax
Akron , OH	6.75%	\$112,500	2.65%
Chicago, IL	10.25%	\$129,320	4.82%
Cincinnati, OH	6.99%	\$21,000	2.35%
Clarksburg, WV	8.25%	\$500	1.81%
Columbus, GA	6.78%	\$60,050	1.66%
Culver City , CA	9.75%	\$10,060	1.06%
Gilbert, AZ	7.80%	\$150,000	2.43%
Jersey City, NJ	7.00%	\$40,000	6.00%
Los Angeles, CA	9.25%	\$13,700	1.19%
Mesa AZ	8.05%	\$175,000	2.29%
Naperville, IL	6.75%	\$100,000	2.54%
New York, NY	8.38%	\$88,500	1.53%
Newark, NJ	9.75%	\$2,311	1.13%
Philadelphia, PA	8.00%	\$106,272	2.64%
Phoenix, AZ	8.30%	\$200,000	1.82%
Portland, OR	0%	\$20	2.65%
Richmond, VA	9.75%	\$4,412	1.36%
San Francisco, CA	9.50%	\$60,500	1.16%
Santa Monica, CA	9.25%	\$12,794	1.11%
Tucson, AZ	8.10%	\$200,000	2.25%

Top 20 \$ Least Expensive Cities

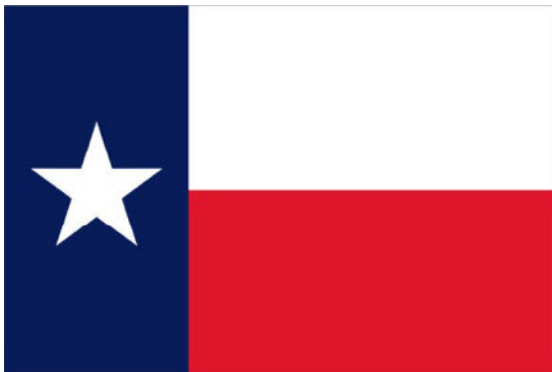
City	Sales Tax	Retail Business License Fee	Property Tax
Abilene, TX	8.25%	\$0	0.69%
Austin, TX	8.25%	\$0	1.81%
Billings, MT	0%	\$625	1.98%
Cheyenne, WY	6.00%	\$0	0.67%
Corpus Christi, TX	8.25%	\$0	2.03%
Dallas, TX	8.25%	\$0	2.62%
Eugene, OR	0%	\$0	0.72%
Everett, WA	8.60%	\$1,000	1.33%
Federal Way, WA	9.00%	\$50	1.19%
Fort Worth, TX	8.25%	\$0	1.16%
Gresham, OR	0%	\$369	1.75%
Henderson, NV	7.75%	\$5,600	1.02%
Houston, TX	8.25%	\$0	2.44%
Kent, WA	9.00%	\$50	1.29%
Las Vegas, NV	7.75%	\$5,650	1.15%
Overland Park, KS	7.65%	\$0	0.15%
Reno, NV	7.73%	\$7,545	1.28%
Spokane, WA	8.49%	\$4,412	1.36%
Vancouver, WA	8.10%	\$125	1.29%
Yakima, WA	8.20%	\$1,285	1.15%



Trends found in survey correlate to job growth

- **25% of the most expensive cities are in California**
- **6 of the least expensive cities are in Texas**
 - Texas led the nation in job growth in 2010

230,800 Jobs
Created in 2010



vs.

Only **87,500** Jobs
Created in 2010

*Almost 3x
more!*



Survey Highlights

- California remains an expensive state in which to do business
- A third of the 40 most expensive cities nationwide are in California
 - Only *four* of the 40 least expensive cities are in California
- Los Angeles County and the Bay Area remain some of the most expensive areas in the state
 - San Diego is one of the most affordable for business
- California's unemployment rate remains the second-highest in the country at 11.7% in May 2011
- Pensions are placing a heavy strain on county and city governments

California Analysis

Can California be more competitive?

CALIFORNIA vs. TEXAS

	Sales Tax	Retail Business License Fee	Annual Business Tax	Property Tax	Telephone Taxes	Electric & Utility Taxes	State Corporate Income Taxes	CODB Cost Rating
Los Angeles	9.25%	\$13,700	0.55%	1.19%	5.00%	5-10%	8.84%	\$\$\$\$\$
Santa Monica	9.25%	\$12,794	0.13%	1.11%	10.00%	10.00%	8.84%	\$\$\$\$\$
Culver City	9.75%	\$10,060	0.30%	1.06%	11.00%	11.00%	8.84%	\$\$\$\$\$
Austin	8.25%	\$0	0.00%	1.81%	0.00%	0-1%	0.00%	\$
Dallas	8.25%	\$0	0.00%	2.62%	0.00%	0.26-5%	0.00%	\$
Fort Worth	8.25%	\$0	0.00%	0.86%	1.00%	0-1%	0.00%	\$
Houston	8.25%	\$0	0.00%	2.44%	0.00%	0.00%	0.00%	\$
San Antonio	8.13%	\$0	0.00%	2.54%	0.00%	0-7.88%	0.00%	\$

*Source: Arduin, Laffer & Moore Econometrics; Business First



California Analysis

Competitiveness in CA lies at the local level

- Los Angeles County cities account for >50% of CA's Most Expensive
- One Orange County city makes its to the Least Expensive list

CA's Most Expensive Cities

City	County	Sales Tax	Avg Utility User Tax *
Berkeley	Alameda	9.75%	6.25%
Beverly Hills	Los Angeles	9.75%	0%
Culver City	Los Angeles	9.75%	11%
Inglewood	Los Angeles	10.25%	9%
Los Angeles	Los Angeles	9.25%	5.83%
Oakland	Alameda	9.75%	6.25%
San Bernardino	San Bernardino	9%	5.17%
San Francisco	San Francisco	9.5%	6.25%
Santa Monica	Los Angeles	9.25%	10%

CA's Least Expensive Cities

City	County	Sales Tax	Avg Utility User Tax *
Apple Valley	San Bernardino	8.75%	0%
Costa Mesa	Orange	8.75%	0%
Hesperia	San Bernardino	8.75%	0%
Moorpark	Ventura	8.25%	0%
Roseville	Placer	8.25%	0%
Sutter Creek	Amador	8.75%	0%
Unincorporated El Dorado County	El Dorado	8.25%	0%
Unincorporated Lake County	Lake County	8.25%	0%
Unincorporated Merced County	Merced	8.25%	0%

* Based on combined average of electric, telephone, cellular, gas, water and cable taxes



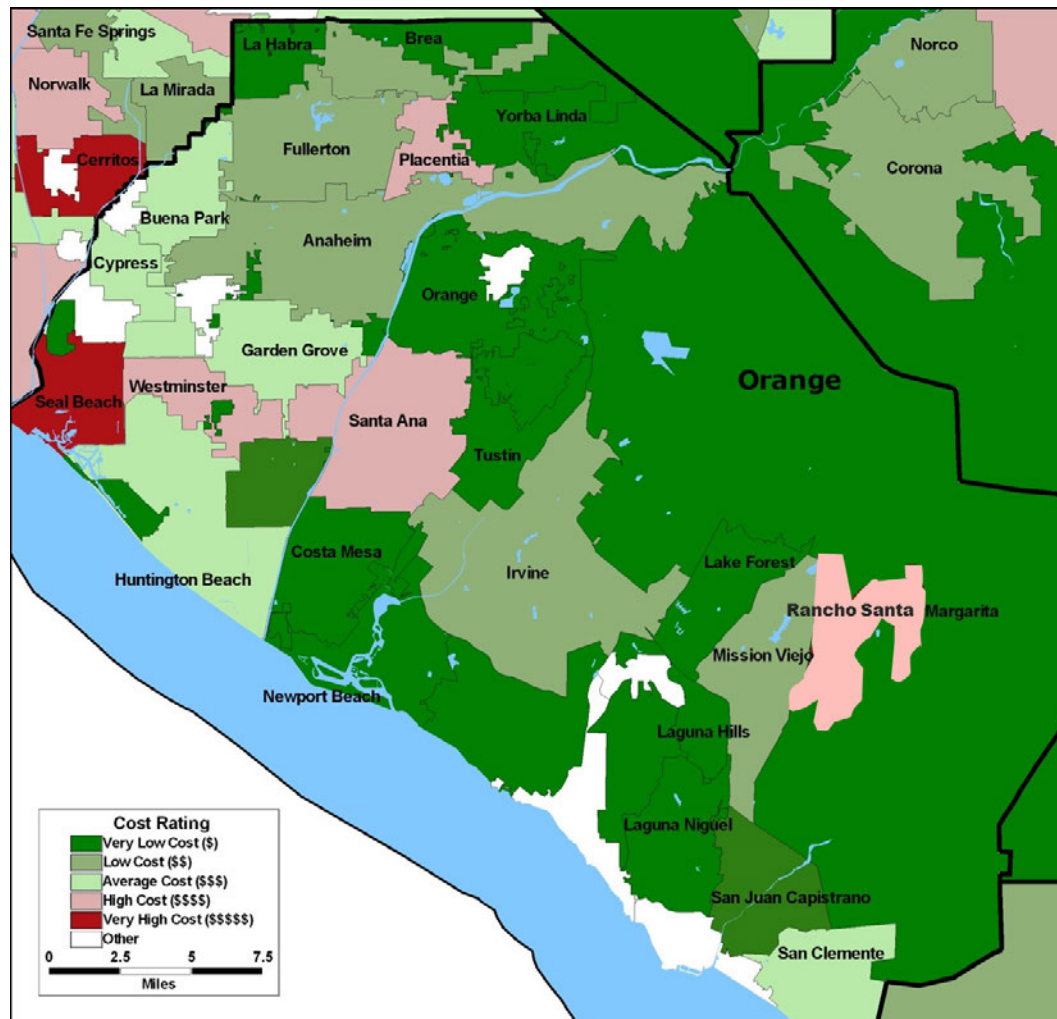
Orange County Analysis

Survey Highlights

- 28 Orange County Cities and unincorporated areas
- Orange County remains *extremely low-cost and "business friendly"*
 - Twenty-three rated between Average Cost to Very Low Cost cities
 - Majority have low business license fees and zero utility taxes
- Irvine, Aliso Viejo and Newport Beach all reduced cost ratings from previous year
- Seal Beach remains an expensive city due to high utility taxes
 - Electricity and gas taxes highest among the 413 cities surveyed

Orange County Analysis

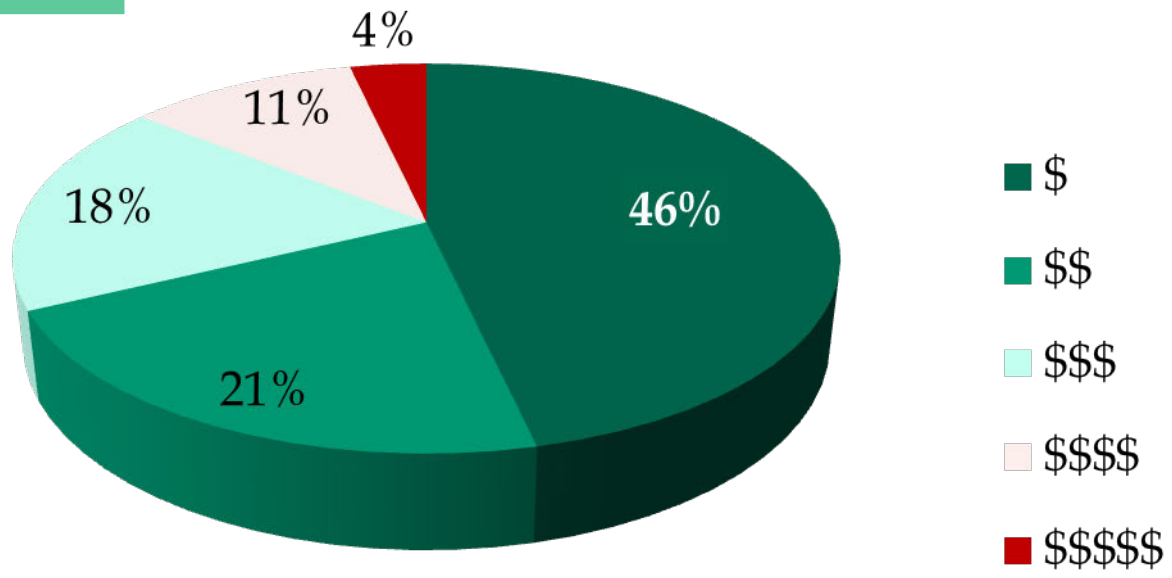
- All of the Average Cost, High Cost and Very High Cost cities are located in the *northwestern portion*



Orange County Analysis

\$	\$\$	\$\$\$	\$\$\$\$	\$\$\$\$\$
Aliso Viejo	Anaheim	Buena Park	Placentia	Seal Beach
Costa Mesa	Brea	Cypress	Santa Ana	
Fountain Valley	Fullerton	Garden Grove	Westminster	
La Habra	Irvine	Huntington Beach		
Laguna Hills	Mission Viejo	San Clemente		
Laguna Niguel	Rancho Santa Margarita			
Lake Forest				
Newport Beach				
Orange				
San Juan Capistrano				
Tustin				
Yorba Linda				
Unincorporated Area				

Orange County Cost Ratings

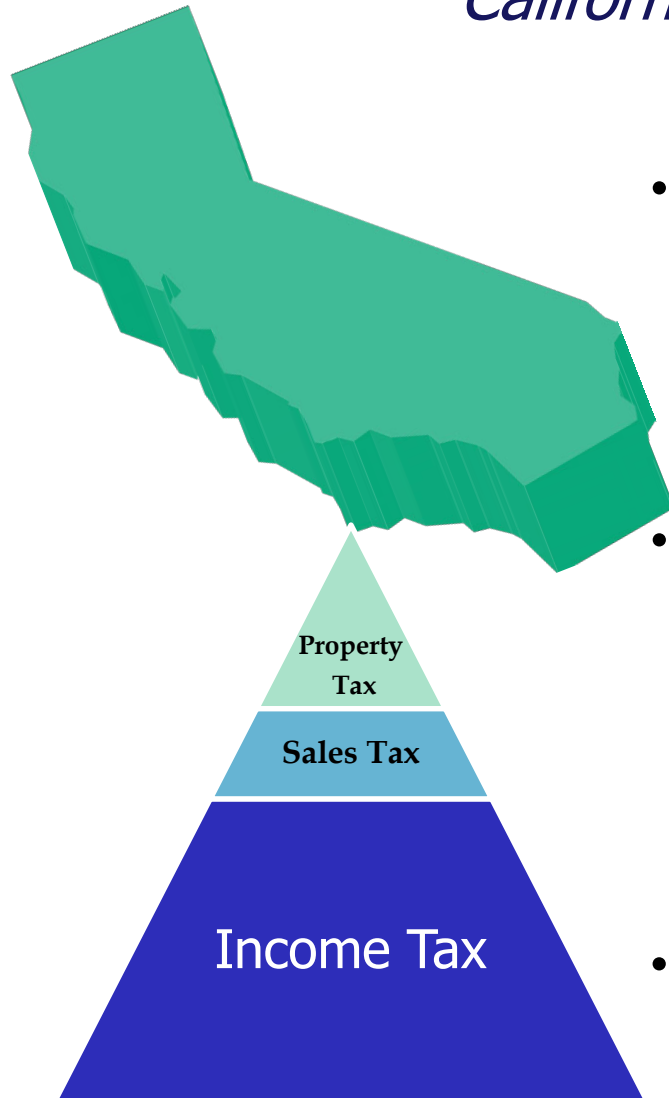


Riding the Economic Waves



California Depends on Economic Development

California has three main sources of revenue: property, sales, and income tax



- Income tax is CA's largest revenue source
 - Prop 13 limits property tax revenue
 - Sales tax revenue is sensitive to consumer behavior
- Top income earners sway the state budget
 - Personal Income Tax = 51% CA's total revenue in 2010
 - Those making over \$200K comprise 50% of all income tax
- Local governments must develop & recycle land to generate new taxes and jobs

Cities Are in the Real Estate Business

Cities Need Real Estate Deals

WHY?

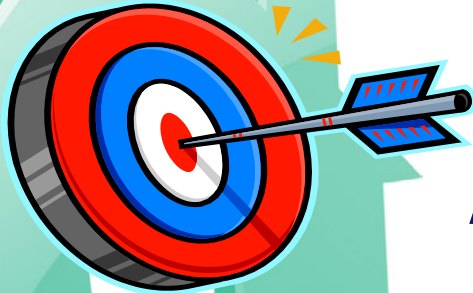
Few options exist for cities to raise revenue:

- **Various statewide ballot measures over the past 30 years (Props 13, 62, 218) have curtailed local government's ability to raise new taxes**
- **Prop 26 requires certain state fees be approved by 2/3 legislature and certain local fees by 2/3 voters. Also, increases legislative vote to 2/3 for certain tax measures**
- **Prop 25 allows the budget bill to be passed with a majority vote – does this help?**

Tools for Economic Development

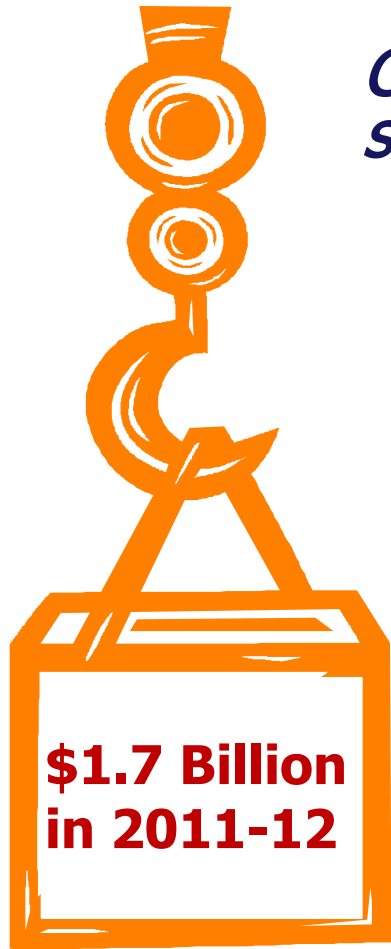
Cities target real estate for economic development

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



Redevelopment has been the primary tool used to generate new jobs and taxes

Redevelopment...the end may be near



California Redevelopment Agencies are still alive but severely impaired

- Approximately 400 RDA's in CA; 25 in OC
- Most cities will "Pay to Play" but may not be able to afford future annual payments
- CRA/League filed suit to overturn AB 26 & 27
- Passage of Prop 22 voted in Nov 2010 should have prevented tax increment taken by State
- Cities must make affirmative decision to continue RDA's by Nov 1
- Is there a replacement for CRA's????

Potentially \$400 million each year thereafter

Opportunities Lurking

HIGH-SPEED RAIL

- **Plan includes:** 790 miles of track and 26 stations connecting San Francisco to Orange County via 220 mph trains
- **Financing:** Expected cost totaling \$45B. Potential sources include a \$9 Billion GO Bond, Federal Funding and Private-Public Partnerships
- **Potential Revenue:** Forecasted to not require operating subsidies and to generate over \$1B in annual profits

FUNDING SOURCES

- **EB-5:** Immigrant investor visa category created in 1990 to attract foreign capital and create jobs for American workers. Allows for \$1M investment in a new or existing business or \$500K 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

Final Forecast

- State approved “balanced” 2012/2012 budget takes away the primary tool for economic development
- League/CRA will file suit however, CRA’s that do not agree to remit payments by Nov must cease operations
- Private/Public partnerships are still an important tool. Without RDAs it will be more challenging
- The challenge for California continues – lack of competitiveness will drive some businesses elsewhere
- Moving forward, local government incentives & “business friendliness” will continue to be a competitive factor

THE END



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