



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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Reviving Economic Development in California

Post-RDA Tools for Economic Development

Presented by:

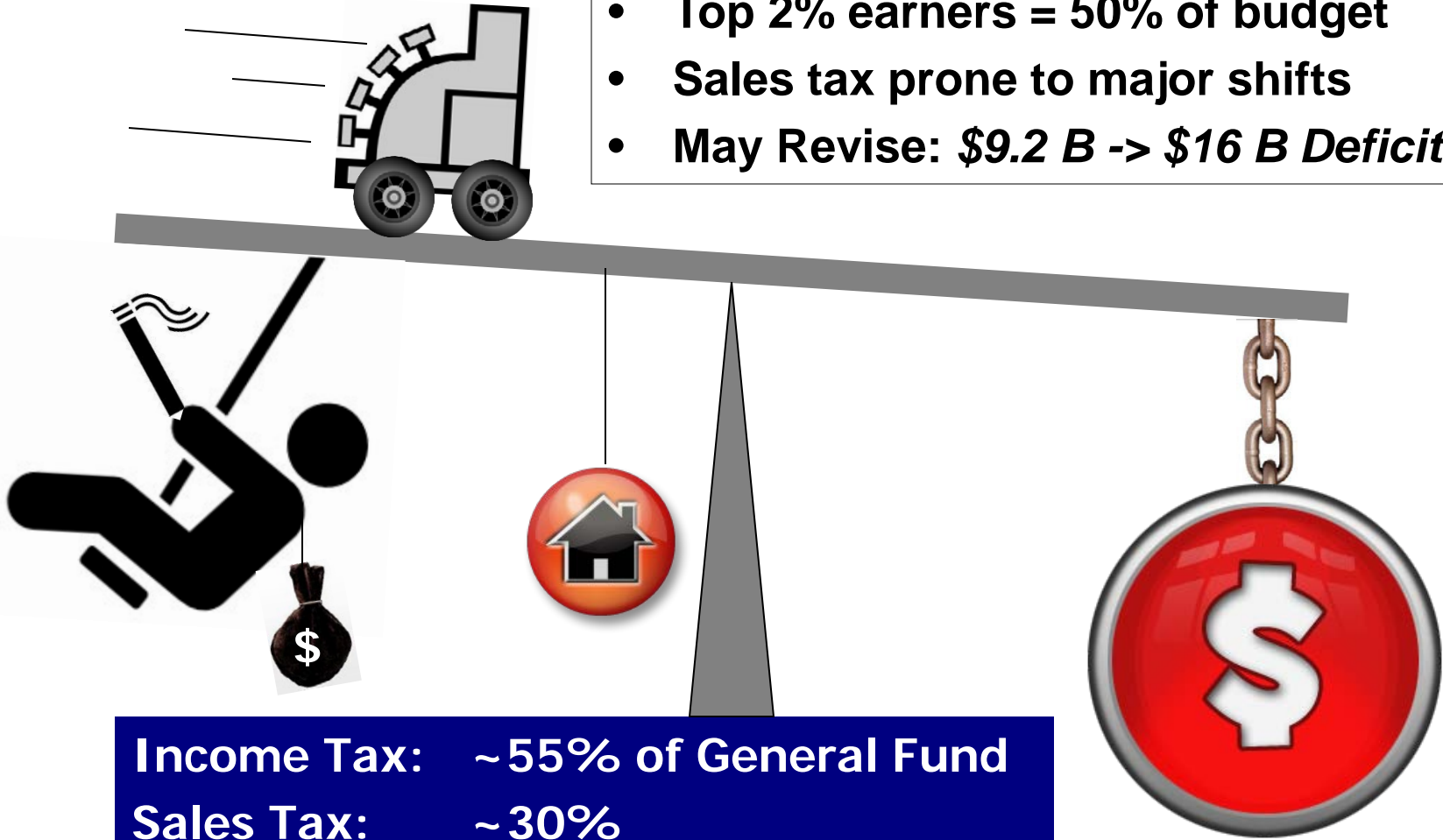
Larry J. Kosmont, CRE
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TODAY'S APPOINTMENTS

- **California in Critical Condition**
- Redevelopment Dissolution – Till Death Do Us Part
- Patient Success Stories
 - City of Redondo Beach – Marine Avenue Hotels (in process)
 - City of South Gate – “azalea” Retail Center (in process)
- Tax Increment Replacement – Will Infrastructure Financing Districts (IFD) Revive the Body?
- Prescription for Economic Development

California's Unbalanced Budget

- Top 2% earners = 50% of budget
- Sales tax prone to major shifts
- May Revise: \$9.2 B -> \$16 B Deficit!



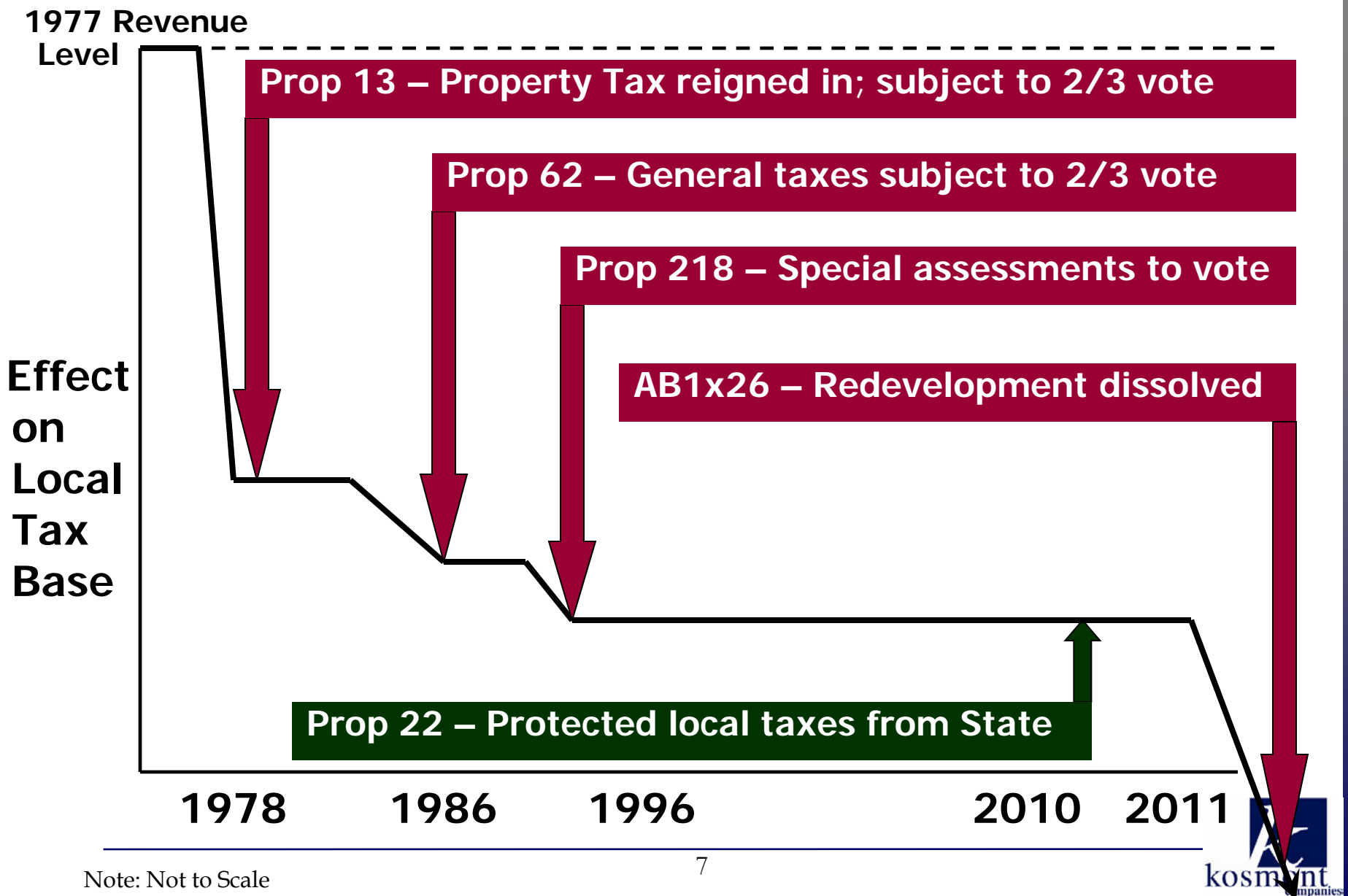
Income Tax: ~55% of General Fund
Sales Tax: ~30%
Property Tax: <13%

T09 - General sales and gross receipts - California (1994 - 2011)

US\$ per person



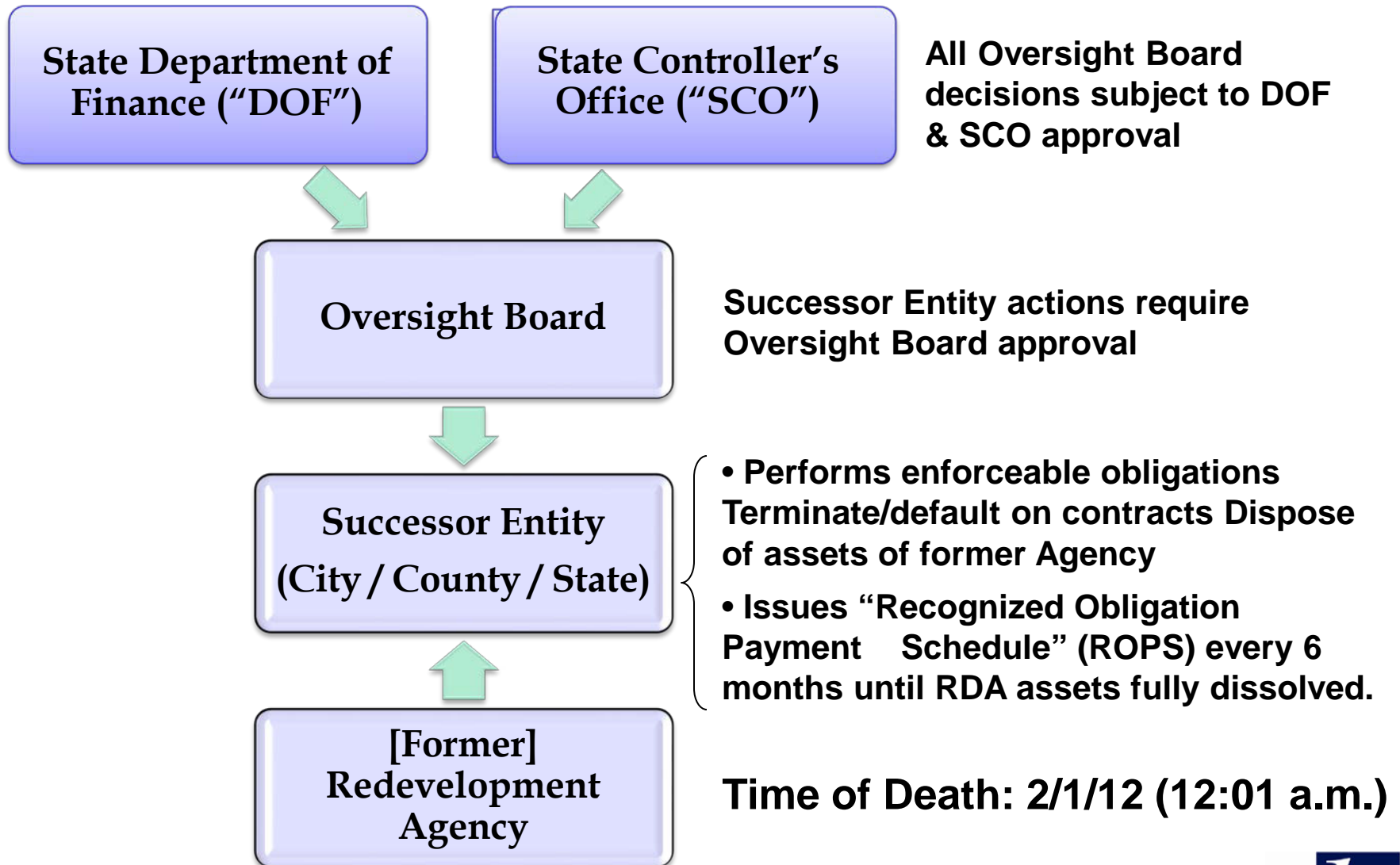
33 Years of Tax Diets



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ABx1 26: The Murder Weapon



AB1484: Robbing the Grave

Redevelopment Dissolution/Unwind Trailer Bill (signed into law 6/27/12)

AB 1484 updates ABx1 26:

1. Increases Power of DOF & County Auditor-Controller
2. Accelerates the schedule for Successor Agencies
(e.g. 3rd ROPS due to DOF on Sept 1, 2012 instead of Oct 1, 2012)
3. Increases the pain for cities:
 - State can take local sales and property tax if the Successor Agency:
 - Fails to recover cash sent to City w/o enforceable obligation
 - Does not transfer \$\$ from housing fund (“LMIHF”)
 - Fails to transfer unencumbered cash assets
 - Allows State to fine the Successor Agencies \$10,000 for each day the ROPS is late (due date for 3rd ROPS is Sept 1).

AB1484: The Autopsy

4. **AB 1484 Safe Harbor Process - An “opportunity” for Successor Agencies**
 - a. **Requires two (2) new CPA-conducted audits by the end of 2012 called “*Due Diligence Reviews*”.**
 - **Audit #1: Housing Assets – Due October 1, 2012**
 - **Audit #2: All Other Assets – Due December 15, 2012**
 - b. **Then, a *Finding of Completion (FOC)* may be issued by DOF which offers “Safe Harbor” to Successor Agencies.**

Earning a “Finding of Completion” is The Goal for Successor Agencies

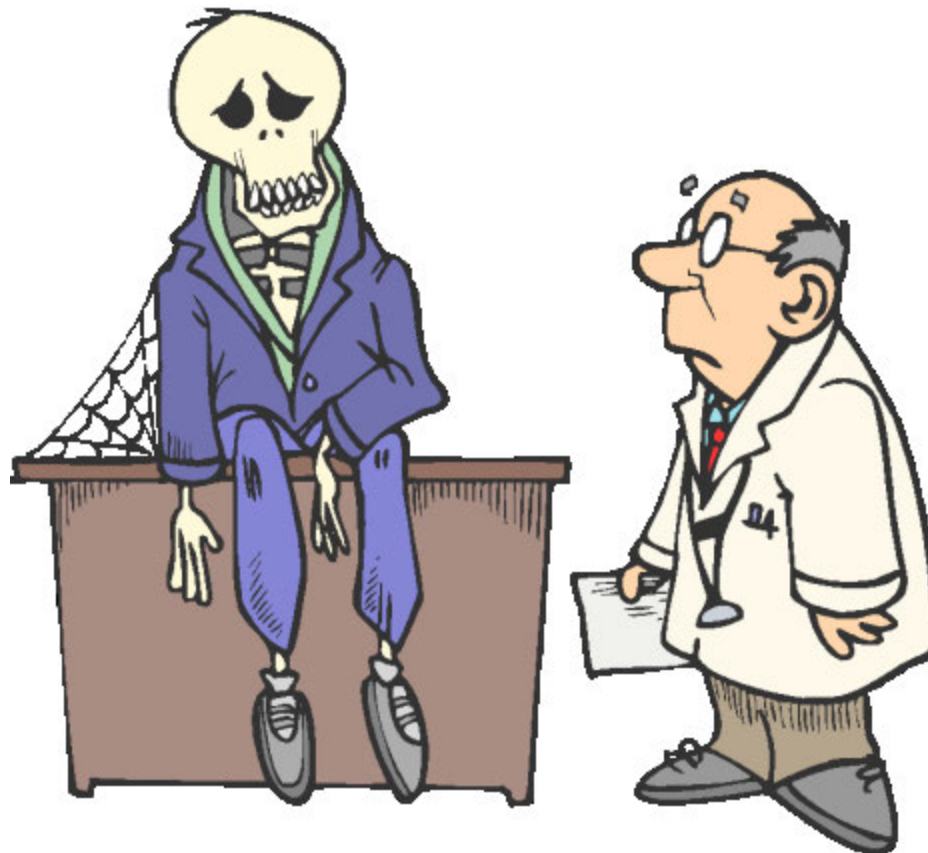
AB1484: The Inheritance

- c. **Within six months of an FOC, Successor Agency must complete a “*Long-Range Property Management Plan*” or “PMP” that outlines plan to dispose of all real property.**

Benefits include:

- **In lieu of AB26 requirement to dispose of all real property, some Econ. Dev. assets can be kept and used:**
 - **Property retained for government use**
 - **Property retained for future development**
 - **Transfer of some property back to the City**
- **Loan agreements between City and former RDA may now be enforceable obligations**
- **Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (possible refunding opportunities)**

What do we do now?



TIF Died With the Patient

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

Economic Life After Redevelopment

The primary tools we have left after Redevelopment:

- Site-Specific Tax Revenue (“SSTR”) Pledge or Rebates
- Ground Lease
- Lease-Leaseback of City Assets
- Tax-Exempt Revenue & Utility Bonds
- Parking Authorities
- EB-5: Immigrant Investor Program (Green Cards for Jobs)
- Other Special Districts (CFDs, BIDs)
- Competitive Federal & State Grants (EDA/CDBG)
- Infrastructure Financing Districts (IFDs)

Basic Coverage DOWN
Deductible & Co-pay UP!!

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Case Study #1

City of Redondo Beach

Marine Avenue Hotel Project

Tools Employed:

- Ground Lease
- Lease-Leaseback
- Site-Specific Tax Revenue Pledge



“Non-Redevelopment Deal”

Redondo Beach Marine Avenue Hotel Project

The Challenge

- City wants to better utilize area near Metro station that has yet to attract transit-oriented development.
- Odd lot size & shape; multiple ownership; and vacant condition has deterred private development.
- Developer proposes 147 room Hilton Garden Inn and a 172-room Marriott Residence Inn located adjacent to the Metro station.

Metro
Station



Site Specific Tax Revenue Mezzanine Pledge

- **Project Overview**

- **Total Project:** ~\$56.5m
- **Developer Equity:** ~\$16.5m
- **Private Lender Financing:** ~\$40m

- **Proposed Terms**

- **City owned land; leased for 99 years**
- **Site Specific Tax Revenue (SSTR) Pledge of TOT & Property Tax from Hotels are used to fund a reserve of up to \$8.5 million.**
- **If needed, SSTR Reserve used to guarantee current year debt service.**
- ***No General Fund Guarantee***

Redondo Beach Marine Avenue Hotel Project

The Outcome

- **Site Specific Tax Revenue is key; without it the project would not receive commercial financing.**
- **Projected to add over \$2 million/year in TOT & create >100 jobs.**
- **Brings two quality hotel operations to the City's "front door"**
- **TOD project across street from Metro Green Line station**

Case Study #2

City of South Gate

“azalea” Retail Center



Tools Employed:

- Utility Bonds for related off-site improvements
- Site-Specific Tax Revenue (SSTR)
- EDA Grant

“Non-Redevelopment Deal”

City of South Gate – “azalea” Retail Center

The Challenge

- Formerly a pipe mfg plant, the 32-acre site lay fallow & blighted for years.
- City purchased the land in 2006 to revitalize community with a quality regional retail & entertainment center.
- South Gate has highest density in LA County, yet residents are forced to drive great distances for basic retail soft and durable goods and quality restaurants.



City of South Gate – “azalea” Retail Center

The Process

- Kosmont worked closely with the City of South Gate and Primestor (developer) to fulfill the City’s objectives while minimizing financial project gap assistance.
- Negotiated an Infrastructure Financing Agreement to fund public off-site improvements, thereby reducing developer risk
- In the midst of deteriorating credit market, sold AA- rated Utility Bonds with sufficient new money (\$8.4M) to pay the public improvements & implementing the city’s econ development priorities

City of South Gate – “azalea” Retail Center

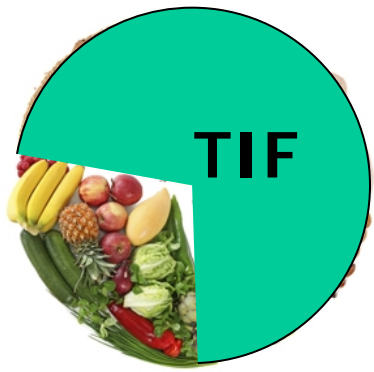


The Outcome

- 372,000 sf “azalea” retail project by Primestor to open in June, 2014 with major national credit retailers and modern architecture
- Project will generate \$2.6m per year in sales (2% sales tax rate)
- Public amenities- City Hall Annex, outdoor public plazas and event areas
- City of South Gate to recapture sales tax leakage & create ~600 jobs

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TIF – Part of a Healthy Economic Diet

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

- California was voted by CEOs as least business friendly state.
- Redevelopment relied on tax-increment and gave cities
 - a *legal public framework for economic development*
 - authority to contract with private entities for real estate projects ultimately owned and operated by private business.
- A predictable TIF mechanism is needed to incentivize public-private projects that incentivize new taxes and jobs.
- Without the TIF, no consistent way to do economic development.

The Case for the Return of TIF

*How do we get tax-increment
financing back to work for
California?*

Two Approaches to Revive TIF

In August, 2012, the Legislature recently passed three TIF alternatives which will be sent to the Governor for his signature:

Do we fix an existing mechanism?

Reform of Infrastructure Financing Districts (IFD):

- **SB214 (Wolk) - passed 8/30/12**
- **AB2144 (Perez) - passed 8/27/12**

Or create new one?

Sustainable Communities Investment Authority:

- **SB1156 (Steinberg) - passed 8/29/12**

- Limits use of tax-increment to fund:
 - public works
 - transportation
 - libraries
 - parks
 - child care centers
- **Requires 2/3rd vote** of constituents
- Requires approval of affected tax entities
- Enacted in 1990

Only 2 projects have used the statute in its 22 year life !

Comparison of IFD Legislative Fixes

		Fix, Partial fix or No fix?	
	Four Big Ailments of Existing IFD Law	SB 214 (Wolk)	AB2144 (Perez)
1	“THE USE” : Limited to public works projects	Partial Fix (adds TOD)	Fix (expands to include public-private deals)
2	“THE VOTE” : 2/3 (66%) public vote for IFD district	Fix	Partial- 55% vote
3	“THE LOCATION” : Not allowed in former Military Base sites	Fix	Fix
4	“THE CLEAN-UP” : No environmental remediation powers (e.g. Polanco Act)	Fix	Fix

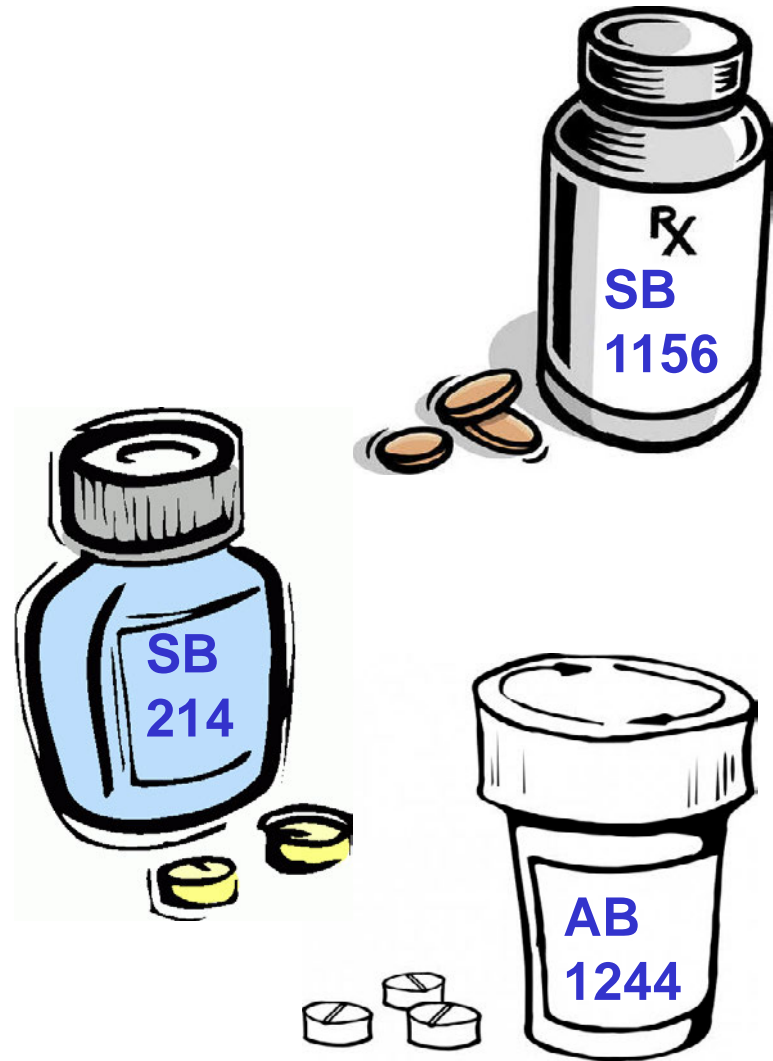
Creates “Sustainable Communities Investment Authority”

- **A Joint Powers Authority of a City and County**
- **Revives Redevelopment Law with modifications**
- **Focuses on Urban Infill**
- **Passed by Legislature on August 30, 2012**

Regional approach that requires County approval:

- Uses RDA plan and project area approach calling them “Sustainable Community Investment Area/Plan”
- Jobs Plan is required to create living wage and prevailing wage jobs
- Addressing Blight is an objective; less stringent test than with RDAs
- Tax increment is limited to city and county shares (special districts are excluded from contribution)
- City bears full cost of implementation
- Application limited to transit-priority projects defined by SB375, High Speed Rail, walkable districts and clean energy mfg.

Which Prescription will the Governor Sign?



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 structural 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 protect its 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.*

Ultimately, a Private Sector – led approach to focus IFDs based on job creation is best chance for California's economic stability

Comparison of IFD Legislative Fixes

		Fix, Partial fix or No fix?		
	Four Big Ailments of Existing IFD Law	SB 214 (Wolk)	AB2144 (Perez)	BizFed-led "Jobs"
1	"THE USE" : Limited to public works projects	Partial Fix (adds TOD)	Fix (expands to include public-private deals)	Fix
2	"THE VOTE" : 2/3 (66%) public vote for IFD district	Fix	Partial Fix 55% vote	Fix
3	"THE LOCATION" : Not allowed in former Military Base sites	Fix	Fix	Fix
4	"THE CLEAN-UP" : No environmental remediation powers (e.g. Polanco Act)	Fix	Fix	Fix

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Prescription for Economic Development

- 1. Cities need economic development & real estate to generate jobs and taxes.**
- 2. Public-private deals need to be incentivized on a local level to maintain and pay for quality of life and services.**
- 3. There are a variety of financing tools to use in the wake of redevelopment, however, none are as effective as TIF:**
 - Lease-Leaseback of City Assets**
 - Site Specific Tax Revenue (SSTR) Pledges**
 - EB-5 Immigrant Investor Program**
- 4. California must restore broad based Tax Increment Financing to be competitive.**



Prescription for Economic Development

- 5. Current Legislative bills are a start, but insufficient to attract private sector investment which creates jobs and taxes.**
- 6. Need an IFD Statute that goes beyond tax-increment financing for infrastructure and expands it to public-private transactions.**
- 7. The Private Sector needs to be a lead advocate in pursuit of legislation for tax-increment financing & jobs.**
- 8. State budget gap is structural and will not be fixed until the State experiences improved private sector job growth.**
- 9. Until the State budget is fixed, local governments will need to sleep with one eye open.**

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