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# Reviving Economic Development in California



Presented by:

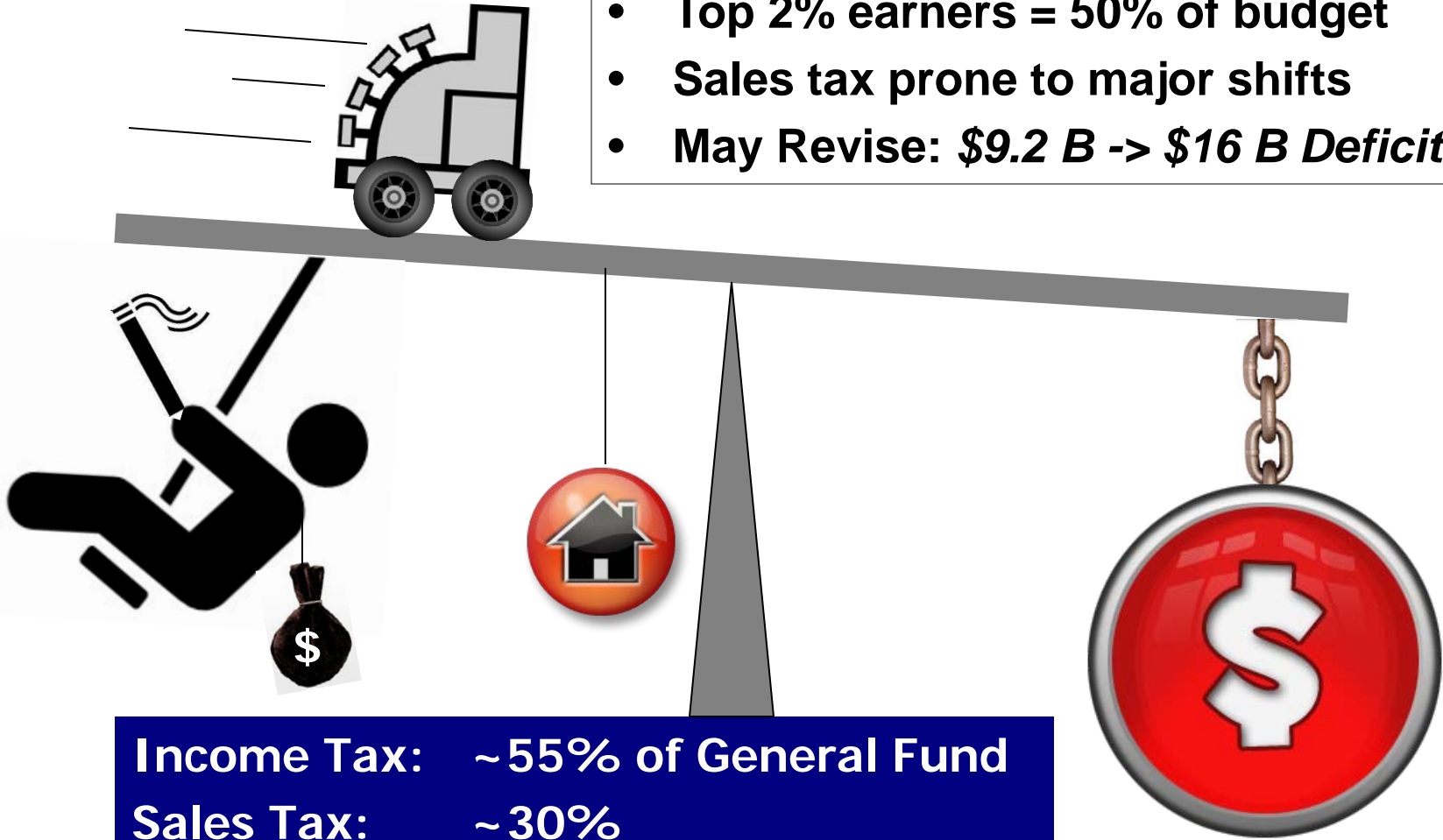
**Larry J. Kosmont, CRE**  
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# TODAY'S APPOINTMENTS

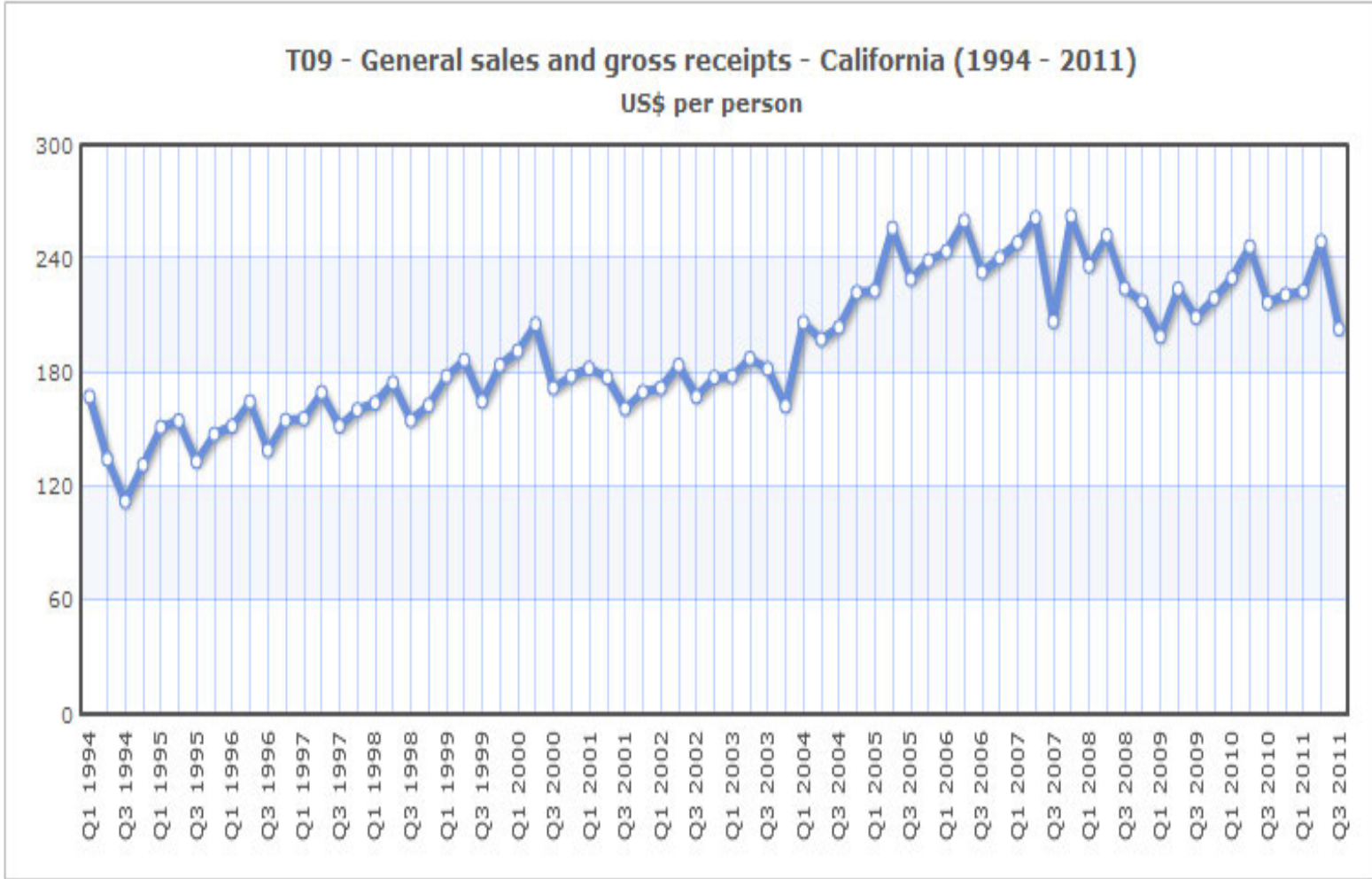
- **California in Critical Condition**
- Redevelopment Dissolution – Till Death Do Us Part
- Patient Success Stories
  - City of Redondo Beach – Marine Avenue Hotels (in process)
  - City of South Gate – “azalea” Retail Center (in process)
- Tax Increment Replacement – Will Infrastructure Financing Districts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

# California's Unbalanced Budget

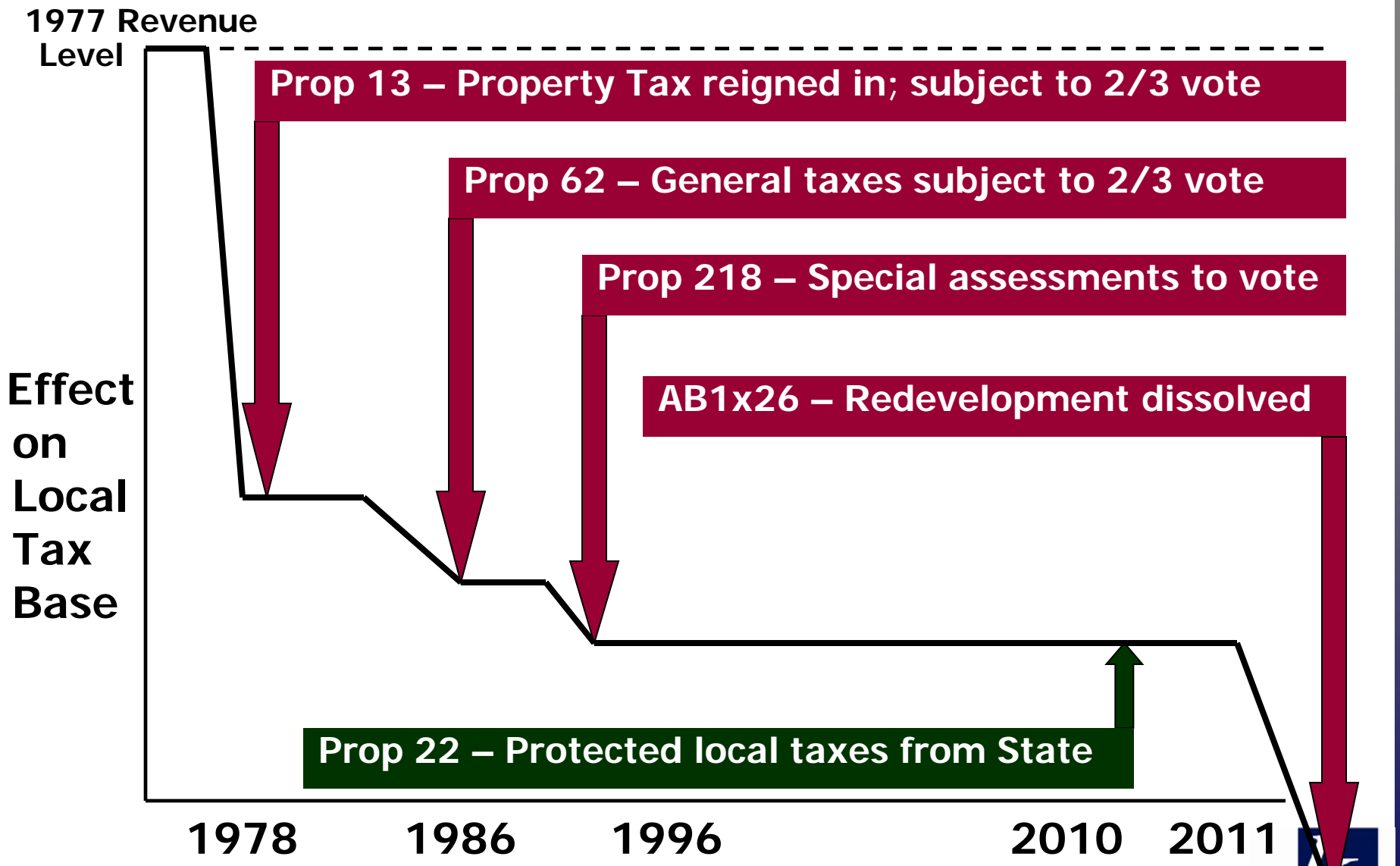
- Top 2% earners = 50% of budget
- Sales tax prone to major shifts
- May Revise: \$9.2 B -> \$16 B Deficit!



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



# 33 Years of Tax Diets



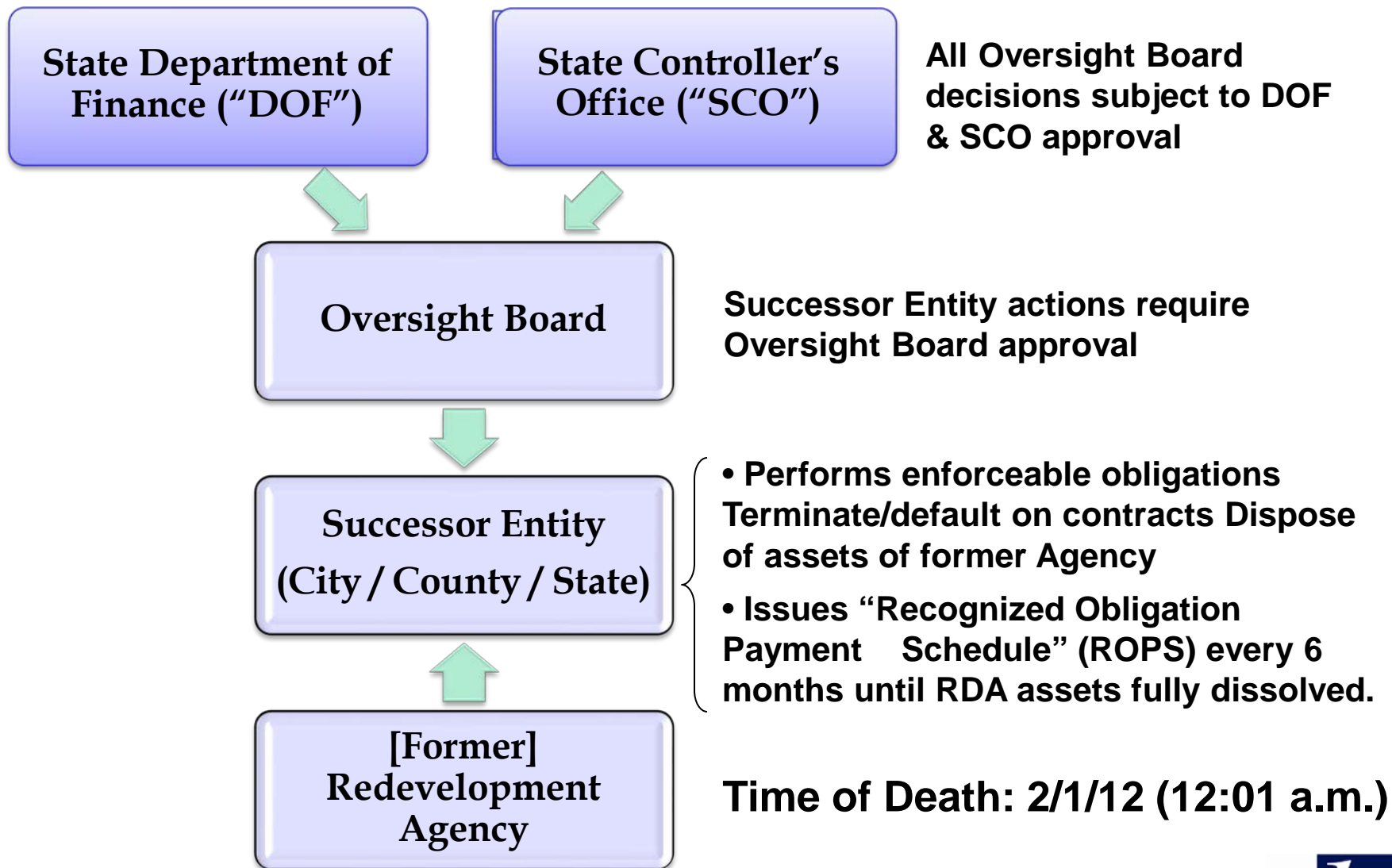
Note: Not to Scale

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# ABx1 26: The Murder Weapon



# AB1484: Robbing the Grave

## June 27, 2012: Redevelopment Dissolution/Unwind Trailer Bill

- **Signed into law by the Governor on June 27, 2012**
- **Effective Immediately**
- **AB 1484 updates ABx1 26:**
  1. **Accelerates the schedule and increases the pain for cities. It offers some benefits that you have to work very hard to earn.**
  2. **Increases Power of DOF & County Auditor-Controller**
  3. **Requires two (2) new “Due Diligence Reviews” by the end of 2012.**  
**(Housing, All other Assets)**
  4. **Then, Finding of Completion (FOC) may be issued by DOF which offers “Safe Harbor” to Successor Agencies**
  5. **“Finding of Completion” is The Goal for Successor Agencies**

# AB1484: Robbing the Grave

**Upon receipt of an FOC, Successor Agency must submit a “Long Range Property Management Plan” within 6 months**

- **Outlines Successor Agency’s plans to dispose of real property over the course of the wind down.**

**AB1484 has benefits for Successor Agencies that pass its muster:**

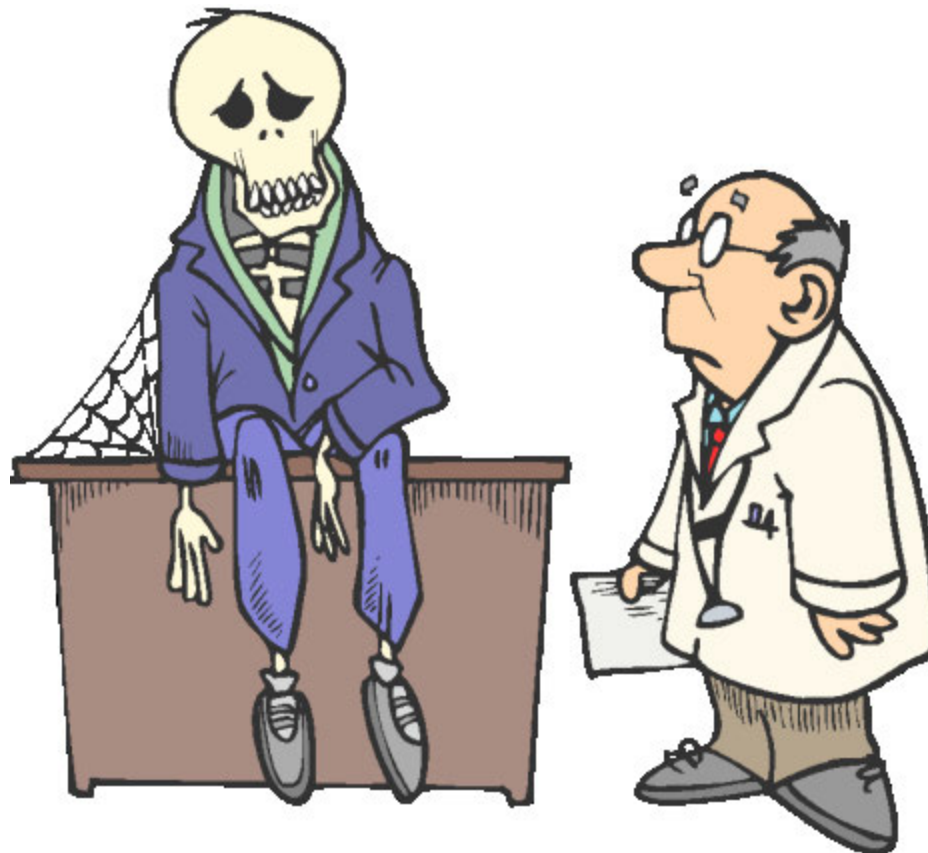
- **Loan agreements between City and former RDA may now be enforceable obligations**
- **Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (possible refunding opportunities)**
- **In lieu of AB26 requirement to dispose of all real property, some Econ. Dev. assets can be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

# AB1484: Robbing the Grave

But there are significant adverse side effects to AB 1484:

- Allows State to 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 3<sup>rd</sup> ROPS is Sept 1).

# 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

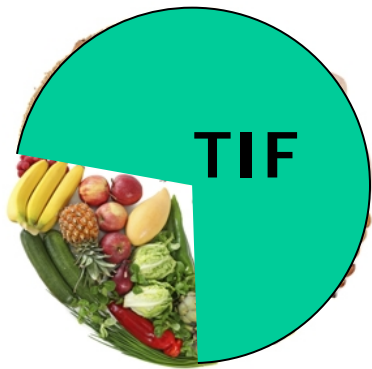
- 372,000 sf “azalea” retail project by Primestor to open in June, 2014 with major national credit retailers and modern architecture
- Project will generate \$2.6m per year in sales (2% sales tax rate)
- Public amenities- City Hall Annex, outdoor public plazas and event areas
- City of South Gate to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

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

# Two Approaches to Revive TIF

Legislature is proposing two alternatives:

## 1. Reform of Infrastructure Financing Districts (IFD):

- **SB214 (Wolk)**

*Do we fix an existing mechanism?*

## 2. Sustainable Communities Investment Authority:

- **SB1156 (Steinberg)**

*Or create new one?*

# Legislative Proposals to Amend IFD Law

## Two Legislative “Therapies” Intended to Revive IFD Law:

- **SB 214 (Wolk)** – Introduced 2/2011, amended 6/18/2012
  - Eliminates public vote
  - Allows traditional public works and adds transit-priority projects
- **AB 2144 (Reyes)** – 2/2012 Spot Bill, amended 7/3/2012
  - Reduces public vote threshold from 2/3 to 55%
  - Expands beyond public works to include commercial and industrial projects (public-private deals)

***Both bills need improvement to be useful.***

***Unless new IFD laws accelerate private sector investment & jobs, the State budget (which relies on income & sales tax) won't be fixed.***

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

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

# 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 revising IFDs based on job creation is best chance for California's economic stability***

# Comparison of Proposed TIF Legislation

		Fix, Partial fix or No fix?		
	Three Big Ailments of Existing IFD Law	SB 214 (Wolk)	AB2144 (Perez)	BizFed-led "Jobs"
1	<b>"THE USE"</b> : Limited to public works projects (expand to public-private deals)	Partial Fix (TOD)	Fix	Fix
2	<b>"THE VOTE"</b> : 2/3 (66%) public vote for IFD district	Fix	Partial Fix 55% vote	Fix
3	<b>"THE CLEAN-UP"</b> : No environmental remediation powers similar to Polanco Act	Fix	Fix	Fix



# SB1156 (Steinberg) – A New Approach

## Creates “Sustainable Communities Investment Authority”

- A Joint Powers Authority with the City and County
- Revives Redevelopment Law with some modifications
- Focused on Urban Infill
- Recently amended on 8/13/12

# SB1156 (Steinberg) – A New Approach

## 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.

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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 Tax Increment Financing to be competitive.**

# Prescription for Economic Development



- 5. Current Legislative proposals 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.**

An aerial night view of a city, likely New York City, with lights reflecting on the water. The image is dark with a blue tint, and the city lights are bright and numerous.

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