



**Kosmont Companies**  
Real Estate and Economic Advisory

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# Reviving Economic Development in California

**Economic Development *Without* Redevelopment**

Presented by:

**Ken K. Hira**

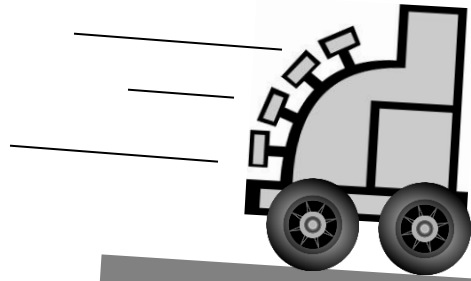
**Senior Vice President, Kosmont Companies**



# TODAY'S APPOINTMENTS

- **California in Critical Condition**
- Redevelopment Dissolution – Till Death Do Us Part
- Patient Success Stories – Case Studies
- Tax Increment Replacement – Can it Revive the Body?
- What's Next for California?
- Prescription for Economic Development

# California's Unbalanced Budget



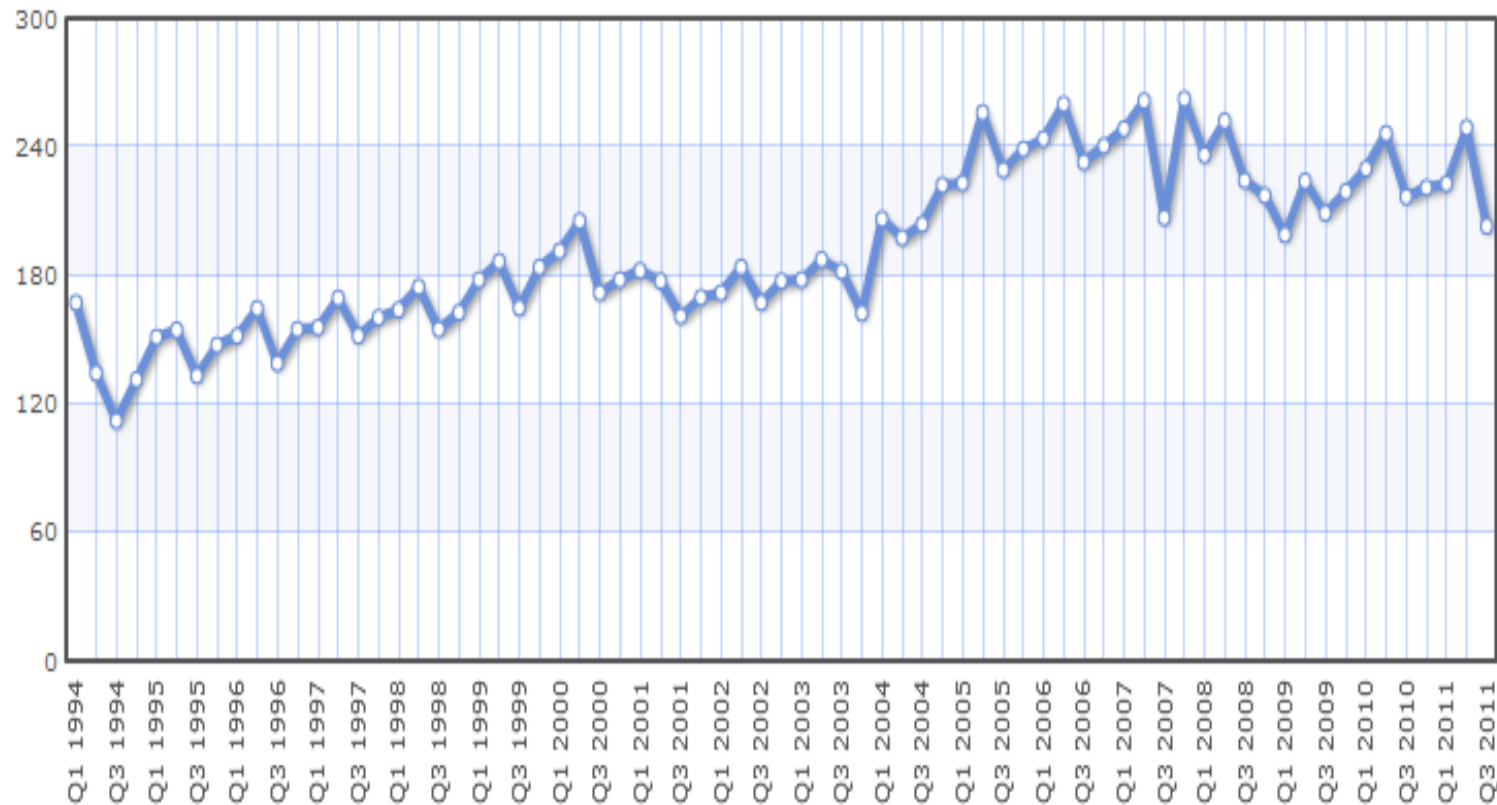
- **Top 2% earners = 50% of income tax \$\$**
- **Sales tax prone to major shifts**
- **May Revise: \$9.2 B -> \$16 B Deficit!**
- ***Fitch GO bond rating lowest in USA (A-)***



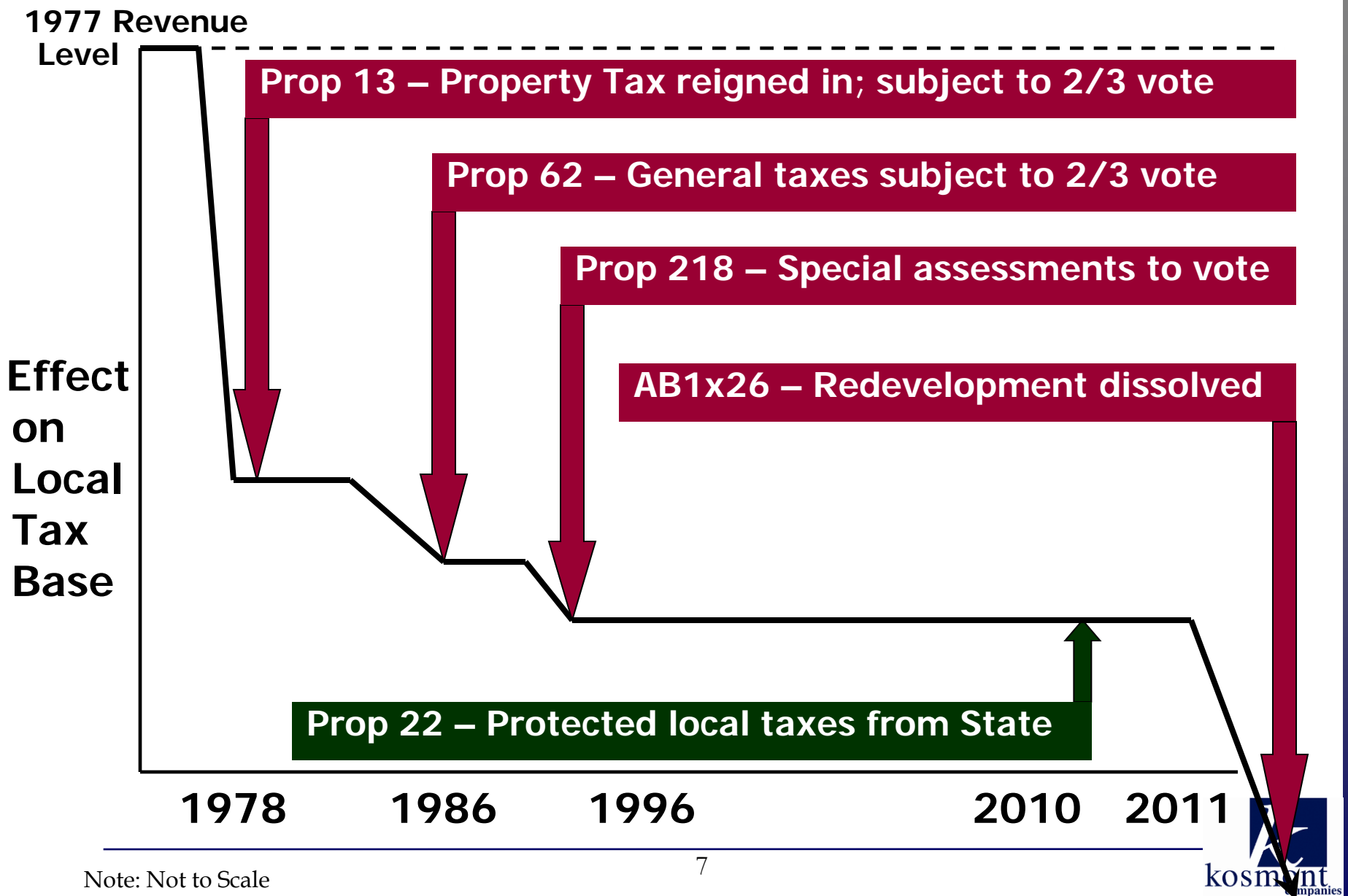
**Income Tax: ~55% of General Fund**  
**Sales Tax: ~30%**  
**Property Tax: <13%**

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

US\$ per person



# 33 Years of Tax Diets

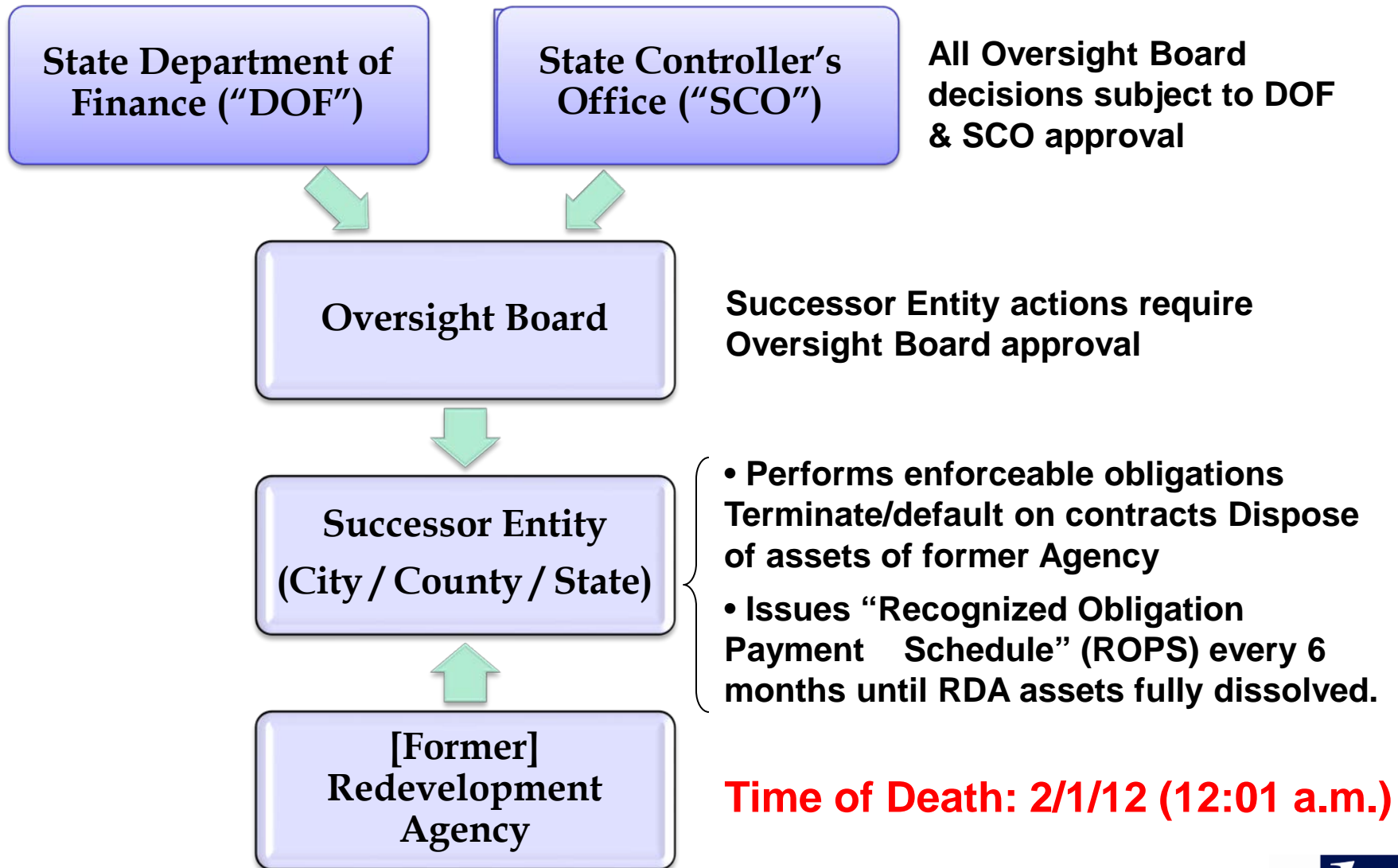


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# ABx1 26: The Murder Weapon



# 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. Accelerated the ROPS schedule for Successor Agencies
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.

# AB1484: The Autopsy

4. **AB 1484 Safe Harbor Process - A Successor Agency “opportunity”**
  - a. **Requires two (2) new CPA-conducted audits by the end of 2012 called “Due Diligence Reviews”:**
    - **Audit #1: Housing Assets are in (were 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.**

**DOF still going through staffing changes, so communication with the State may continue to be somewhat confusing and uneven**

**-- Mr. Steve Szalay currently manages the process for DOF.**

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

# AB1484: The Inheritance

## Long-Range Property Management Plan (“PMP”)

Within six months of an FOC, Successor Agency must complete a “PMP” that outlines plan to dispose of all real property.

Benefits include:

1. In lieu of AB26 requirement to dispose of all real property, some Econ. Dev. assets can be kept and used:
  - a. *Property transferred to Cities for government use*
  - b. *Property transferred to Cities for economic development*
  - c. *Rest of properties sold; proceeds returned to taxing authorities (net of obligations)*
2. Loan agreements between City and former RDA may now be enforceable obligations
3. Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (possible refunding opportunities)

# Economic Life After Redevelopment

## A variety of tools remain 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)**
- **New Market Tax Credits (NMTC)**
- **Infrastructure Financing Districts (IFDs)**

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# Case Study: Macerich / City of Victorville Mall of Victor Valley

## Tools Employed:

- Site-Specific Tax Revenue (SSTR)
- Development Agreement

*“Non-Redevelopment Deal”*



# Victorville – Mall of Victor Valley

## The Challenge

- Macerich lost several major tenants from a significant regional shopping mall (Gottschalks & Mervyns bankruptcies)
- Resulting decline in sales tax revenue for City of Victorville



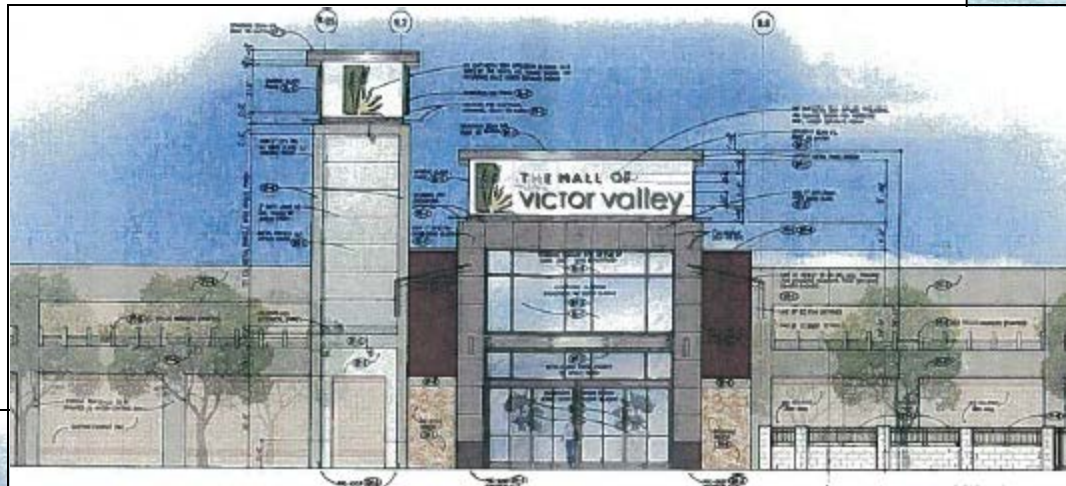
## The Solution

- Kosmont evaluated & negotiated public-private options to retain & attract retailers as well as generate jobs and sales tax revenue for the community
- Site Specific Tax Revenue (SSTR) sharing arrangement via Development Agreement to return sale tax amounts greater than threshold value

# Victorville – Mall of Victor Valley

## The Outcome

- Attraction of major retail tenant (Macy's)
- Relocation of JC Penney into larger space
- Exterior Mall improvements
- Net increase of 47,000 retail SF (531,000 total SF)



# **Case Study:** **City of South Gate** **“azalea” Retail Center**



## **Tools Employed:**

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

***“Non-Redevelopment Deal”***



# City of South Gate – “azalea” Retail Center

## The Challenge

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



# City of South Gate – “azalea” Retail Center

## The Process

- Kosmont worked closely with the City of South Gate and Primestor to fulfill City’s objectives while minimizing financial gap assistance
- Negotiated Infrastructure Financing & Fee Waiver Agreement to fund public off-site improvements, thereby reducing developer risk
- In deteriorating credit market, sold AA- rated Utility Bonds with sufficient new money (\$8.4M) for public improvements
- Implemented the city’s primary economic development priority



# City of South Gate – “azalea” Retail Center



## The Outcome

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

# Case Study

## 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**

# Other non-RDA Success Stories

## City of Norco - *Silverlakes Equestrian Sports Park*

- City purchased deed-restricted 122-acres (“Silverlakes” site) for ~5 mil could not capitalize investment into public park w/o private investment
- Kosmont initiated extensive nationwide RFP process on behalf of City
- The City selected an experienced operator of equestrian, soccer, and recreational facilities
- City & Operator entered into build-to-suit 99-year ground lease
- Operator responsible to finance ~\$30 mil of improvement costs, construct and operate the facility; and provide public programs
- Under construction- by 2014 Norco will have a world class sports and performance event facility that will attract millions of visitors
- Implemented City’s primary economic development priority





# Other non-RDA Success Stories

## City of Redondo Beach - *Waterfront Revitalization*

- City's Waterfront struggles to compete with other South Bay cities
- Kosmont structured Lease-Leaseback financing for 15 acres of land acquisition to be paid back from future property cash flow
- RFQ issued for 15+ Acres of Waterside Development



## Starwood Hotels - *W Hotel, Hollywood, California*

- Kosmont provided EB-5 financing through Regional Center
- Raised \$16.5 million from 33 Chinese investors to complete
- Funded build-out of the restaurant (Delphine) and bar/nightclub (DRAI's), meeting the job creation requirements of the EB-5 program



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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 TIF there is no consistent way to do economic development

# The Legislature Tried to Revive the Patient

***In August, 2012, the Legislature passed 3 TIF alternatives:***

- **SB1156 (Steinberg) - passed 8/29/12**
- **SB214 (Wolk) - passed 8/30/12**
- **AB2144 (Perez) - passed 8/27/12**

# Then Governor Brown Buried the Body...again

***In the 11<sup>th</sup> Hour, the Governor vetoed each of them.***

**On SB 1156:**

***“I prefer to take a constructive look at implementing this type of program once the winding down of redevelopment is complete and General Fund savings are achieved.”***

*- Gov. Brown, 9/30/12*

**On SB 214 and AB 2144:**

***“Expanding the scope of infrastructure financing districts is premature. This measure would likely cause cities to focus their efforts on using the new tools provided by the measure instead of winding down redevelopment.”***

*- Gov. Brown, 9/30/12*

# *But Affordable Housing Showing Vital Signs*

## ***Governor Brown Supported Affordable Housing***

**AB 1585** allows Dept. of Housing and Community Development to award \$50 million in infill/transit-oriented projects

**AB 1951** allocates \$30 million from unused Proposition 1C (2006) funds to Multifamily Housing Program

**AB 1124** allows multifamily developments access utility energy-efficiency programs for heating/hot water repair or replacement

**AB 1532 and SB 535** - 25 percent of Cap and Trade auction revenues used to sustainable transportation & housing in disadvantaged communities (6 funding categories)



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# A Call to Action for Economic Development

## Economics:

- 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

## Politics:

- 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 effort for economic development based on job creation is best chance for California's economic stability*

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1. **Cities need economic development & completed real estate to generate permanent 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 in the wake of redevelopment, however, none are as effective as Tax Increment**
4. **California must restore broad based TIF to be competitive**
5. **Per Governor's "love note": TIF probably won't return to the Legislature until 2014/15**
6. **The Private Sector (with union buy-in) needs to be lead advocate in jobs legislation using tax-increment financing**
7. **Fitch rating for State is lowest in USA; many cities worse**
8. **Determine R.E. assets in demand; begin disposition/reuse strategy**

# Prescription for Economic Development

## STEP 1 – “THE ASSET”:

### ***Start your AB 1484 required Property Management Plans (PMP) NOW***

- The State has included a small going away gift for cities forced to dissolve redevelopment.
- There are two applications of the PMP that potentially let local communities keep properties:
  1. public use
  2. economic development.
- Cities should move expeditiously to start their PMPs by identifying the best properties for public use and economic development BEFORE the next Due Diligence Asset review is due (December 15<sup>th</sup>).
- If you wait for the DDR to conclude on property values based on an accountant's conclusion, reuse of these assets may be adversely affected.

# Prescription for Economic Development

## STEP 2 – “THE MONEY”:

***Evaluate your City's credit and cash flow capacity to use economic development financing tools such as:***

- *Site Specific Tax Revenue Pledges* for retail and hotel deals, both essential and can be hard to finance for new construction.
- *Special Districts, Parking Authorities, and Utility Bonds* to fund public improvements for high yielding tax and job projects.
- *Lease Leasebacks, Ground Leases, New Market Tax Credits, CFDs, BIDs, EB-5* (foreign investor pools) may also be available.





# Prescription for Economic Development

## STEP 3 – “THE PLAN”:

### *Jumpstart Economic Development Implementation*

There isn't time or need for a big study.

- Need strategy for public-private investment into properties that can be retained by City for public use & economic development based on AB 1484.
- strategy must be done in collaboration with your PMP so City's primary opportunities are saved from a redevelopment fire sale.
- A fire sale is an unacceptable result in this era of limited opportunity



# Doctor's Orders

- Cities need economic development & real estate to generate jobs and taxes.
- The Private Sector needs to partner with the public sector to get projects completed.
- Until the State budget is fixed, local governments will need a healthy dose of the private sector to get communities back in good health.



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