

By **Larry J. Kosmont, President & CEO, Kosmont Companies**

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

This presentation is available online

www.kosmont.com



Reviving Economic Development in California

Economic Development *Without* Redevelopment

Presented by:

Larry J. Kosmont, CRE
President & CEO, Kosmont Companies

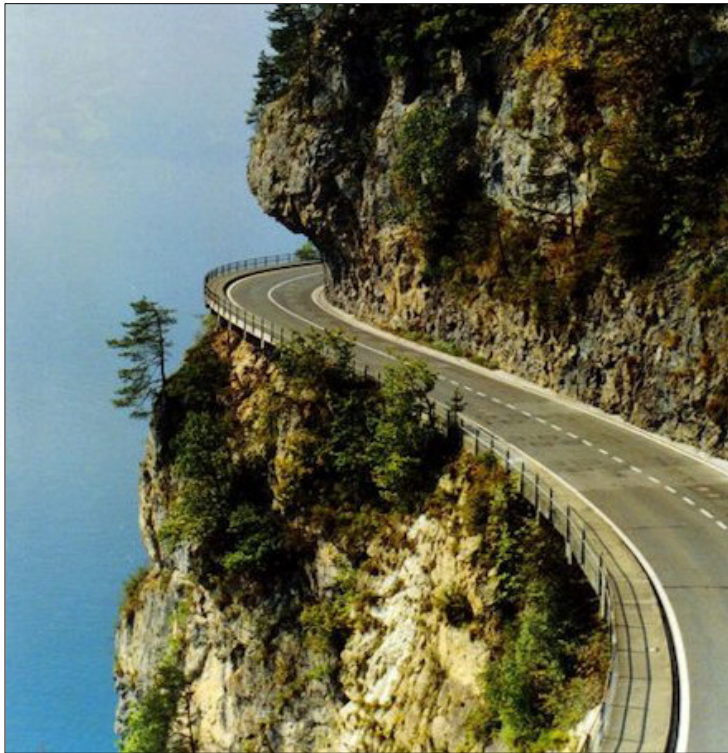
- **What's gone wrong?**
- What is the best short term Opportunity?
- Economic Development *Without* Redevelopment:
It can be done! (Case Studies)
- Summary – How to Survive and Succeed

What's Gone Wrong for Cities?

- 1. Recession lingered; recovery has been slow**
- 2. Cities lost RDAs; now busy unwinding**
- 3. Local budgets are out of balance due to pension costs, reduced revenues and lost tax-increment**
- 4. State is just coming out of ~\$20 B budget gap, saved by Prop 30, but not in position to help cities**
- 5. Local government credit has been damaged; Cities finding it difficult to borrow**

The City Manager's Choice for Survival

Which Road to Take?



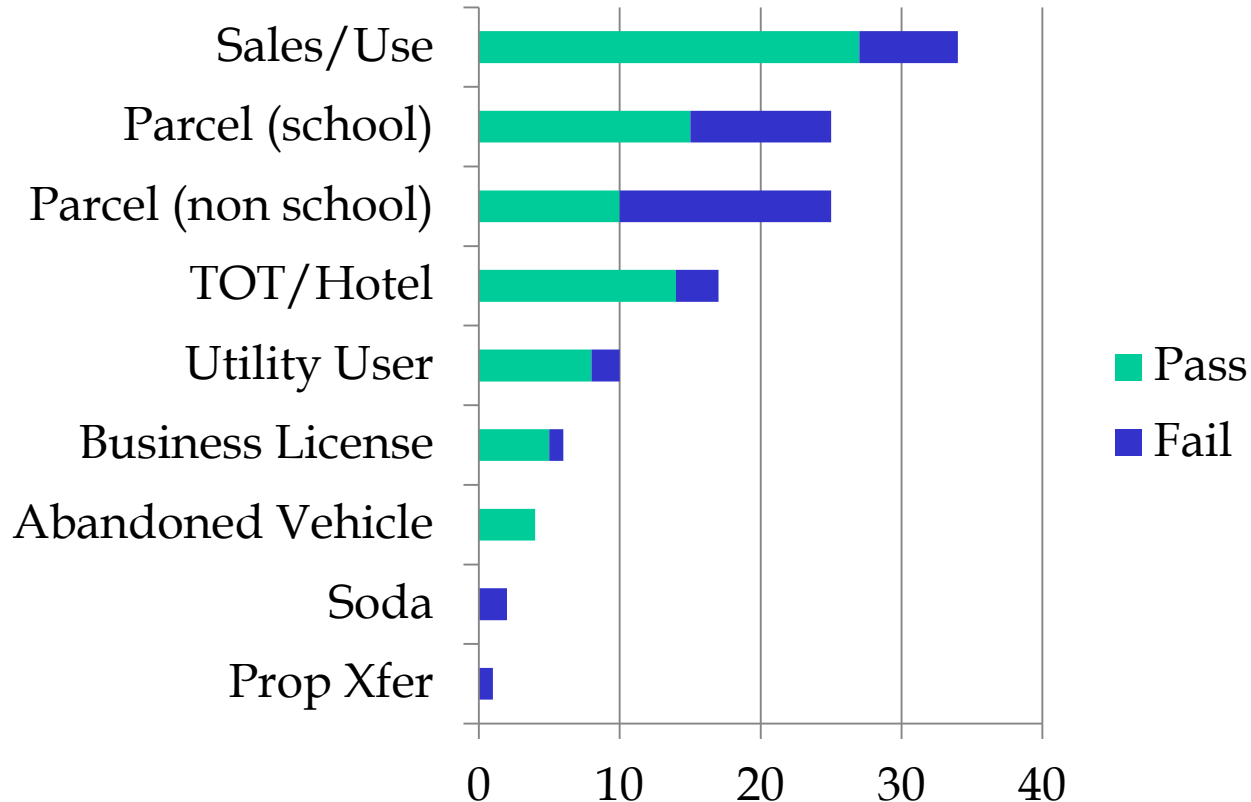
**Recommend
Tax Raises?**



**Find a Way to Economic
Development**

The Tide is Turning To Taxing...*Business & Jobs*

124 initiatives were on the Nov ballot to increase or expand local taxes



83 Passed. 41 Failed.

State Adds more Taxes – Business Foots the Bill

PROP #	Description	PASS / FAIL
30	Gov. Brown's Tax Increase for education & General Fund	PASS
31	Two-Year Budget Cycle	FAIL
32	Ban on union contributions to fund candidates	FAIL
33	"Persistency discounts" for car insurance rates	FAIL
37	Mandatory labeling of genetically-engineered food	FAIL
38	State tax increase for education	FAIL
39	Income Tax Increase for Multi-State Business	PASS

Prop 30 helps reduce state budget gap, but impacts small business by raising income tax rates.

The Other Choice – Economic Development

- **Increased Taxes are part of the fixed cost equation that all business must control to compete favorably**
- **Many growth companies will begin to look elsewhere unless cities can help them**
- **Economic Development is better solution than taxes:**
 - ***Cities help themselves by helping the private sector invest locally to create jobs and taxes***
 - ***BUT – Is there a way back to Economic Development after RDA Dissolution?***

RDA Wind down: The Next Steps of AB1484

Due Diligence
Reviews 1 & 2

AB1484 requires two (2) audits: Housing Assets (were due 10/1/2012); All Other Assets – Due 12/15/12.

Finding of
Completion

If Dept. of Finance (DOF) accepts the audits, it issues a Finding of Completion (DOF).

Ongoing Winding
Down of Assets

Successor Agencies continue paying enforceable obligations and all property assets are liquidated

Property Mgmt. Plans
(PMPs)

Within 6 months of receipt of FOC, Successor Agency must submit a PMP to dispose of or keep any real property

- What's gone wrong?
- **What is the best short term Opportunity?**
- Economic Development *Without* Redevelopment:
It can be done! (Case Studies)
- Summary – How to Survive and Succeed

PMPs & The Hidden Opportunities for Cities

1. Per AB1484, some assets may be kept and used:

- a. *Real Estate transferred to Cities for governmental use*
- b. *RE transferred to Cities for future development*
- c. *Rest of properties sold; proceeds returned to taxing authorities (net of obligations)*

Use December 15 DDR to set PROPER values for Real Estate you may keep for ED and Public Use

- 2. **Bond proceeds from bonds issued before 12/31/10 can be used for original purpose (refunding opportunities)**
- 3. **Loan agreements between City and former RDA may now be enforceable obligations (worth arguing for)**

- What's gone wrong?
- What is the best short term Opportunity?
- **Econ Development *Without* Redevelopment:
It can be done! (Case Studies)**
- Summary – How to Survive and Succeed

Replacing Power Tools with Hand Tools

- **ED was easier with Redevelopment Agencies**
- **TIF allowed cities to induce investment by leveraging property tax**
- **Long Term objective is to restore TIF – with emphasis on ED targets such as jobs....not blight reduction**
- **Governor has told us he is not ready for RDA 2.0**
- **In the meantime, Cities are left with Hand Tools to do the task formerly done by Power Tools.**

More skill, time, energy and patience required!

The 10 Hand Tools of Economic Development

- #1 Site-Specific Tax Revenue (“SSTR”) Pledge or Rebates**
- #2 Ground Lease**
- #3 Lease-Leaseback of City Assets**
- #4 Tax-Exempt Revenue & Utility Bonds**
- #5 Parking Authorities**
- #6 Other Special Districts (CFDs, BIDs)**
- #7 EB-5: Immigrant Investor Program (Green Cards for Jobs)**
- #8 Competitive Federal & State Grants (EDA/CDBG)**
- #9 New Market Tax Credits (NMTC)**
- #10 Infrastructure Financing Districts (IFDs)***

***not ready for prime time without legislative fix**

Recent Non-RDA Deals by Kosmont

These deals are under construction and will generate \$500K to \$2.6M annually (projected) in local tax revenues:

City of South Gate

“azalea” Retail Center

\$2.6 million / year (sales & prop tax)

City of Redondo Beach

Courtyard Marriott & Hilton Garden Inn

\$2.0 million / year (TOT & prop tax)

City of Norco

Silverlakes Equestrian Sports Park

\$500K / year (lease rent & sales)

City of Victorville

Major Rehab of Victor Valley Mall

\$1 million / year (sales & prop tax)

City of South Gate – “azalea” Retail Center

The Project:

- 372,000 sf regional retail destination (Wal-Mart, Ross, Marshals)
- Public Plaza & Events Center, City Hall/Police Annex
- UNDER CONSTRUCTION; OPENING MID 2014



Hand Tools Used:

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

City of Redondo Beach – Marine Ave. Hotels

The Project:

- 147 room Hilton Garden Inn & a 172-room Marriott Residence Inn located adjacent to a Metro station
- ESCROW CLOSES DEC. 6, BREAKS GROUND DEC. 20, 2012
- Community use of meeting rooms, Fwy. Billboard use for City

Hand Tools Used:

- Ground Lease
- Lease-Leaseback
- Site-Specific Tax Revenue Pledge (prop & TOT)
- Mezzanine Reserve Fund



City of Norco – Silverlakes Sports Complex

The Project

- 122-acre Equestrian, Events & Sports center
- Public park leased & operated by private sector
- Over \$500K per year in ground lease & tax revenues plus community use agreement for park facility
- UNDER CONSTRUCTION; OPENS Q1 2014



Hand Tools Used:

- Ground Lease
- Utility Bond Issuance
- P3 Project Delivery



Macerich – Mall of Victor Valley

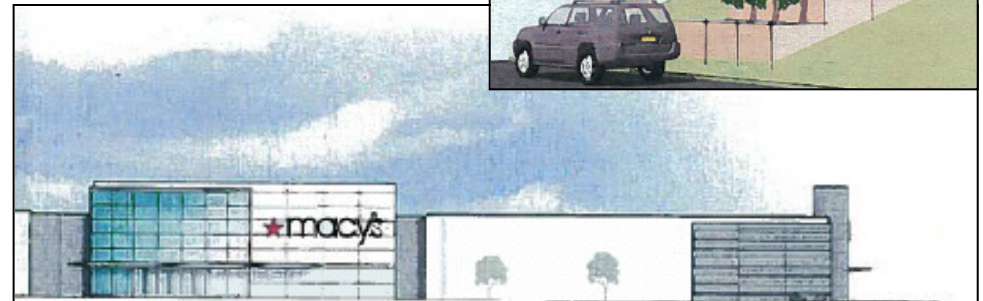
The Project

- Extreme Mall Makeover: Net increase of 47,000 retail sf (531,000 total sf)
- New Macy's and JC Penney (replacing shuttered Gottschalks and Mervyns)
- JCP OPENED IN OCT. MACY'S BY Q2 2013



Hand Tools Used:

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



Starwood Hotels – W-Hotel

Starwood Hotels – *W Hotel, Hollywood, California*

- **HAND TOOL USED:** Kosmont provided EB-5 financing through its Regional Center, California Golden Fund (CGF)
- Raised \$16.5 million from 33 Chinese investors
- Funded build-out of Delphine restaurant & DRAI's Nightclub/bar; met job creation targets of EB-5 program
- **OPEN & OPERATING; OVER 400 JOBS CREATED**



More non-RDA Projects In Process



City of Redondo Beach – *Waterfront Revitalization*

- City's Waterfront struggles to compete with other South Bay cities
- **HAND TOOLS USED:** Kosmont structured Lease-leaseback financing for 15 acres of land acquisition to be paid back from property cash flow
- RFQ issued for 15+ Acres of Waterside Development
- Centercal Development (CalSTRS) selected – ENA negotiation started

TODAY'S APPOINTMENTS

- What's gone wrong?
- What are the Immediate Opportunities?
- Economic Development *Without* Redevelopment (Case Studies)
- **Summary – How to Survive and Succeed**

Immediate Prescription for Survival

Jumpstart Economic Development Implementation!

STEP 1 – “THE ASSET”:

Start your AB 1484 required Property Management Plans (PMP) now.

STEP 2 – “THE MONEY”:

Evaluate your City's credit & cash flow capacity to use non-RDA economic development financing tools. Pick your Team of experts.

STEP 3 – “THE PLAN”:

Need funding and zoning strategy for investment into properties that can be retained by City for public use & development

Strategy must be in collaboration with your PMP so City's primary opportunities are saved from a redevelopment fire sale.

YOU NEED TO TAKE ACTION, NOT ORDER A BIG STUDY!!

Long-Term Plan for Success

- California is expensive and bureaucratic
- Private Sector Job growth is core to local & State recovery
- Need to Incentivize public/private deals to induce jobs & taxes
- Tax-Increment Financing must be returned in usable form to induce job-rich public private partnerships (48 other states have it!)
 - TIF works best when private investment is balanced with public infrastructure
 - Governor rejected all Legislature Approved TIF measures including two Infrastructure Financing District (IFD) reform bills
 - Steinberg will reintroduce TIF legislation in the new year (SB 1156 – Sustainable Community Investment Authorities)

Can 2/3rd majority help tax increment restoration efforts?

This presentation is available online

www.kosmont.com