



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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865 South Figueroa Street. Suite 3500 Los Angeles, California 90017 ph213.417.3300
www.kosmont.com

By Ken K. Hira, Senior Vice President, Kosmont Companies

Research and Production by Matt Goulet, VP, Kosmont Companies

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UCLA Extension



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
- Retail Trends in 2013
- Prescription for Economic Development

Diagnosis for California

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. Local government credit has been damaged; Cities finding it difficult to borrow
5. State is just coming out of ~\$20 B budget gap, saved by Prop 30, but not in position to help cities

California's Unhealthy Budget

- **Top 1% earners = 40.9% of income tax \$\$**
- **Sales tax prone to major shifts**
- ***Deficit improved but still ~\$1.9 B. in 2013***
- ***Fitch GO bond rating lowest in USA (A-)***



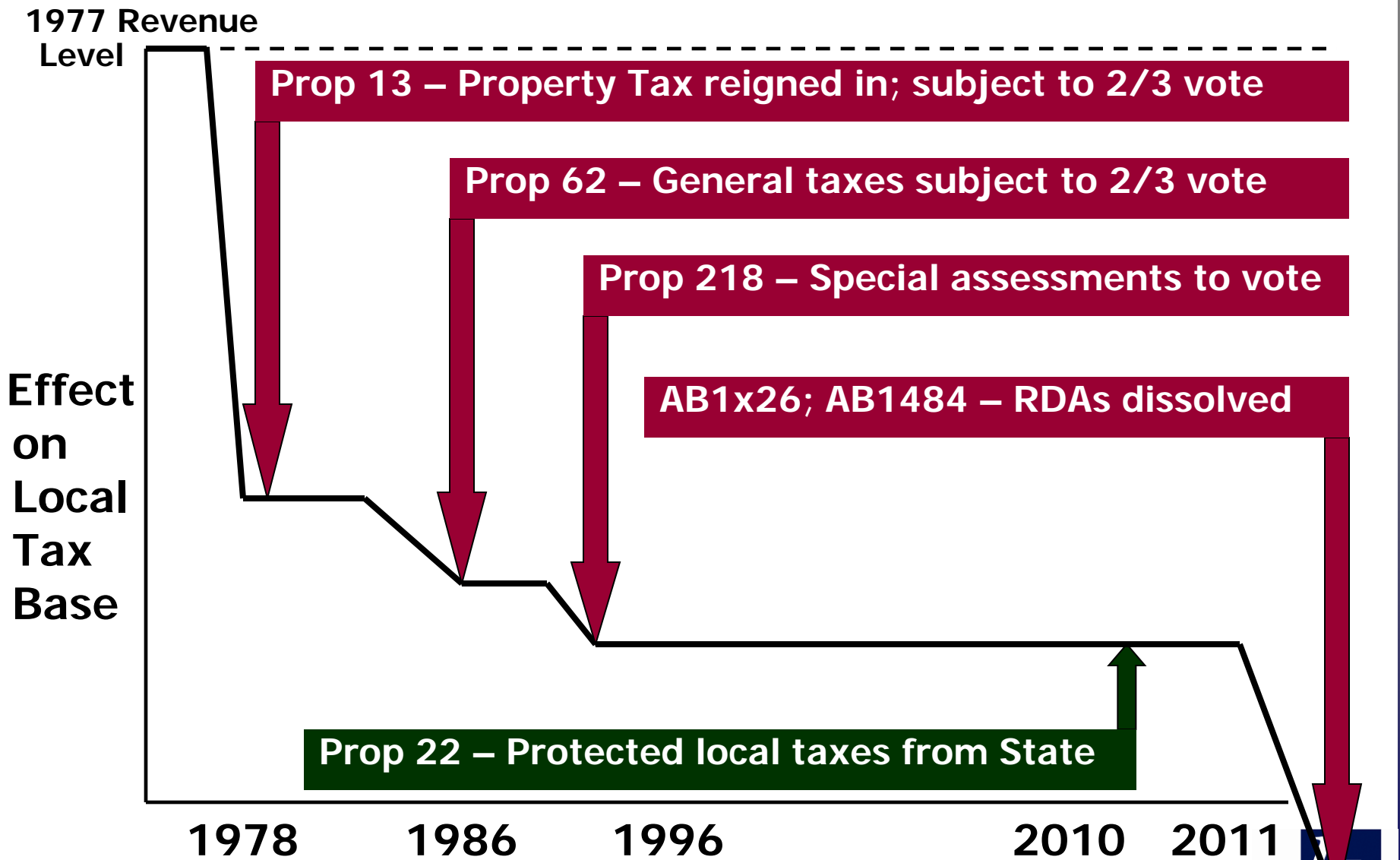
LAB RESULTS:

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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Successor Agencies - The Four Stages of Grief

“Shock & Awe”

Due Diligence
Reviews 1 & 2

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

**“Bargaining &
Acceptance”**

Finding of
Completion

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

“Moving On”

Ongoing
winding down
of assets

**Successor Agencies continue paying
enforceable obligations until all RDA
assets are liquidated**

“The Yard Sale”

Property
Management
Plans (PMP)

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

Benefits of PMPs: The Inheritance

- 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)*
- 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)**

PMP Triage to Help Local Government

Jumpstart Economic Development – CLEAR!

STEP 1 – “THE ASSET”:

Cities are starting the AB 1484 required Property Management Plans (PMP) now.

STEP 2 – “THE MONEY”:

Cities will be evaluating credit & cash flow capacity to use non-RDA economic development financing tools.

STEP 3 – “THE PLAN”:

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

Redevelopment took TIF to the Grave

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?

Life After Redevelopment – 10 “Hand Tools”

- #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**

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Non-RDA Project 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

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 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

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

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 SCHEDULED TO CLOSE AND BREAK GROUND Jan. 2013
- 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



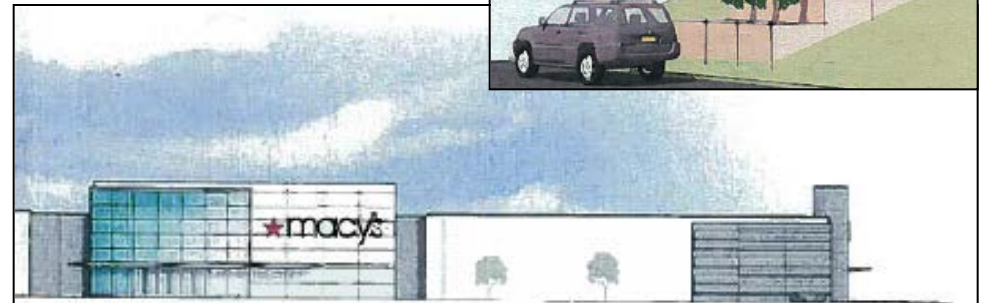
Macerich – Mall of Victor Valley

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



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)

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Retail Trends

1. **Large Scale Ground up Development less prolific**
2. **Brick and Mortar will continue to be in demand in underserved and urban markets and in more urban formats**
3. **300+ years of retailing at a fork in the road**
JC Penney, Sears, and Radio Shack suffering identity crisis
4. **Big Box Retailers with small formats to penetrate urban markets**
City Target; Wal-Mart Neighborhood Market; Best Buy Mobile
5. **“Discount” & Dollar stores are taking over** – 4 biggest dollar chains operate more locations than 3 biggest drugstore chains.
6. **Outlet Format (Nordstrom Rack)** - All major retailers will get one
7. **Non-Retail Reuse:** Gyms & medical offices in vacated big boxes
8. **Coffee Wars – Starbucks in expansion mode (1000 in 5 years).**
McDonalds & Dunkin’ Donuts remain chief national foes

9. **Brick and Mortar stores open on Thanksgiving!! What's next, Christmas?!**
10. **Virtual 365 day a year shopping opportunities**
11. **Online Retailing**
 - Brick & Mortar electronic retailers increasingly vulnerable
 - Fulfillment Centers expanding
12. **“Showrooming”**
13. **“Omnichannel” Shopping, both on and offline.**
14. **Anti Credit Card sentiment - Debit Cards are IN VOGUE and Layaway is BACK**
15. **Gift Cards and Self-Gifting**

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Chart Review & Doctors Orders

1. Fitch rating for State is lowest in USA; many cities worse
2. Former Redevelopment Agencies required to prepare Property Management Plans to sell or reuse real estate
3. There are a variety of financing tools in the wake of redevelopment; none were as effective as Tax Increment.
4. Internet retailing rising fast, but still market for “bricks”, especially in underserved and urban markets (South Gate)
5. Public-private deals need to be incentivized on a local level to maintain and pay for quality of life and services
6. Ultimately, the public sector and private sector need a heavy dose of each other to thrive.

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