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# Reviving Economic Development in Kern County

Economic Development *Without* Redevelopment

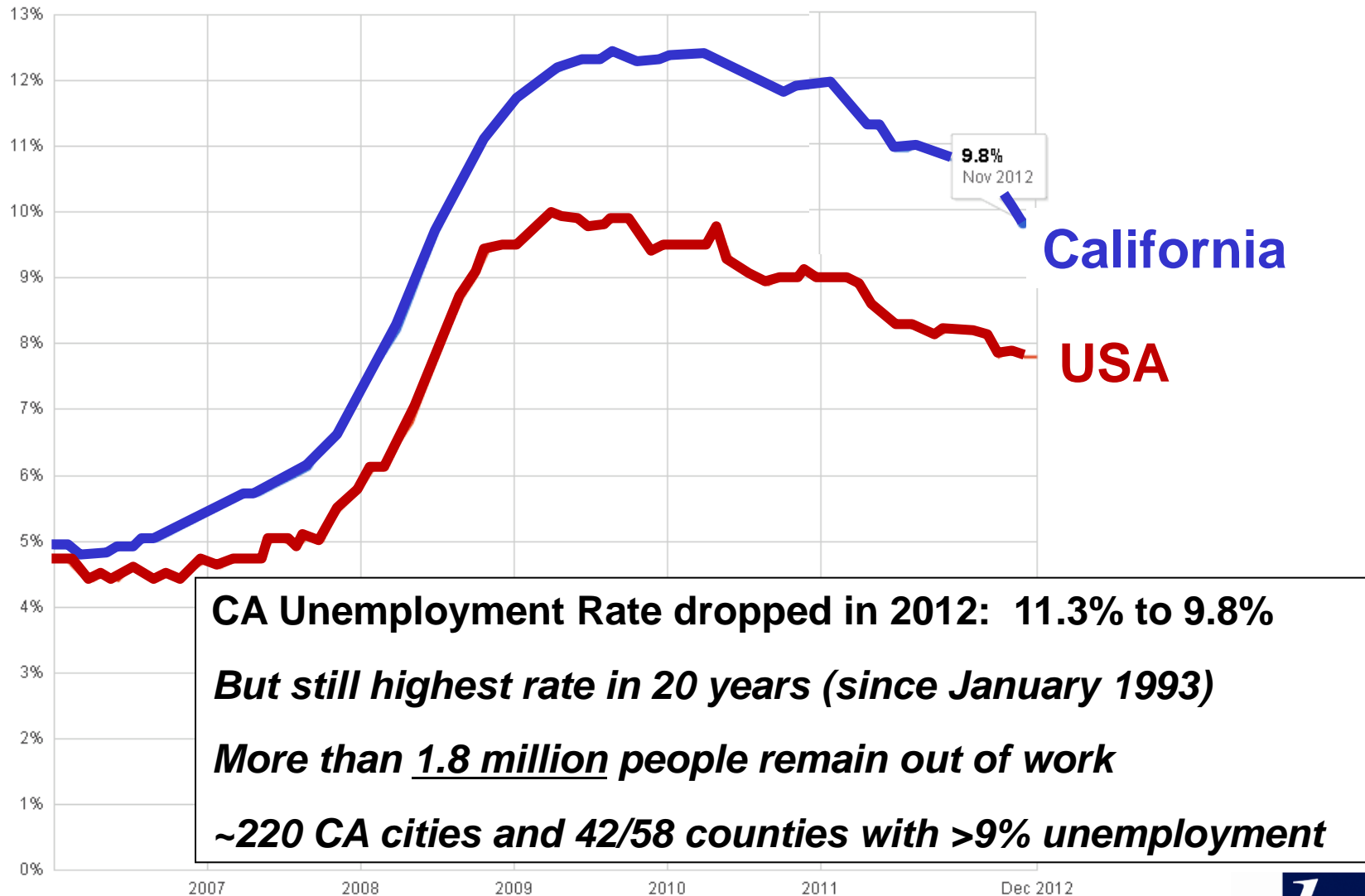
Presented by:

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

# Today's Appointments

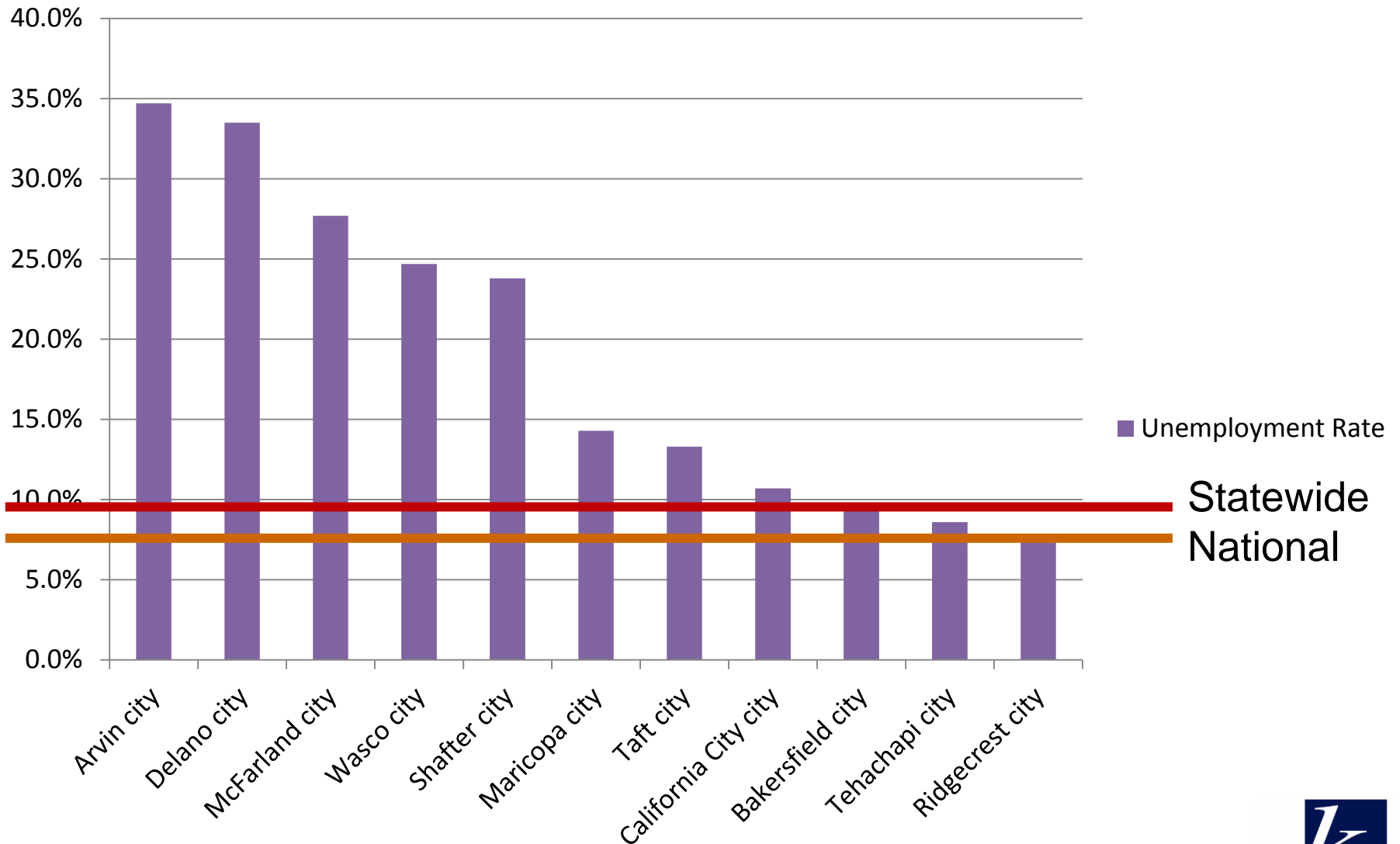
- **Your Lab Results Are In**
- California – What Makes Us Tick?...What Made Us Sick?
- Property Management Plans (“PMPs)– Battlefield Medicine in the “War of AB1484”
- Economic Development – Doctors are In but Power is Out
- Pipeline - Tax Increment Replacement Therapy
- Prescription for Economic Development

# Unemployment is The New Blight



# Kern County's Chronic Illness

## Unemployment Rates in Kern County by City



# State's Health Assessment

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

# Diagnosis – Lead Foot



*Off the Reservation with an Empty Gas Tank*

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# California's Unhealthy Habits

- **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-)***



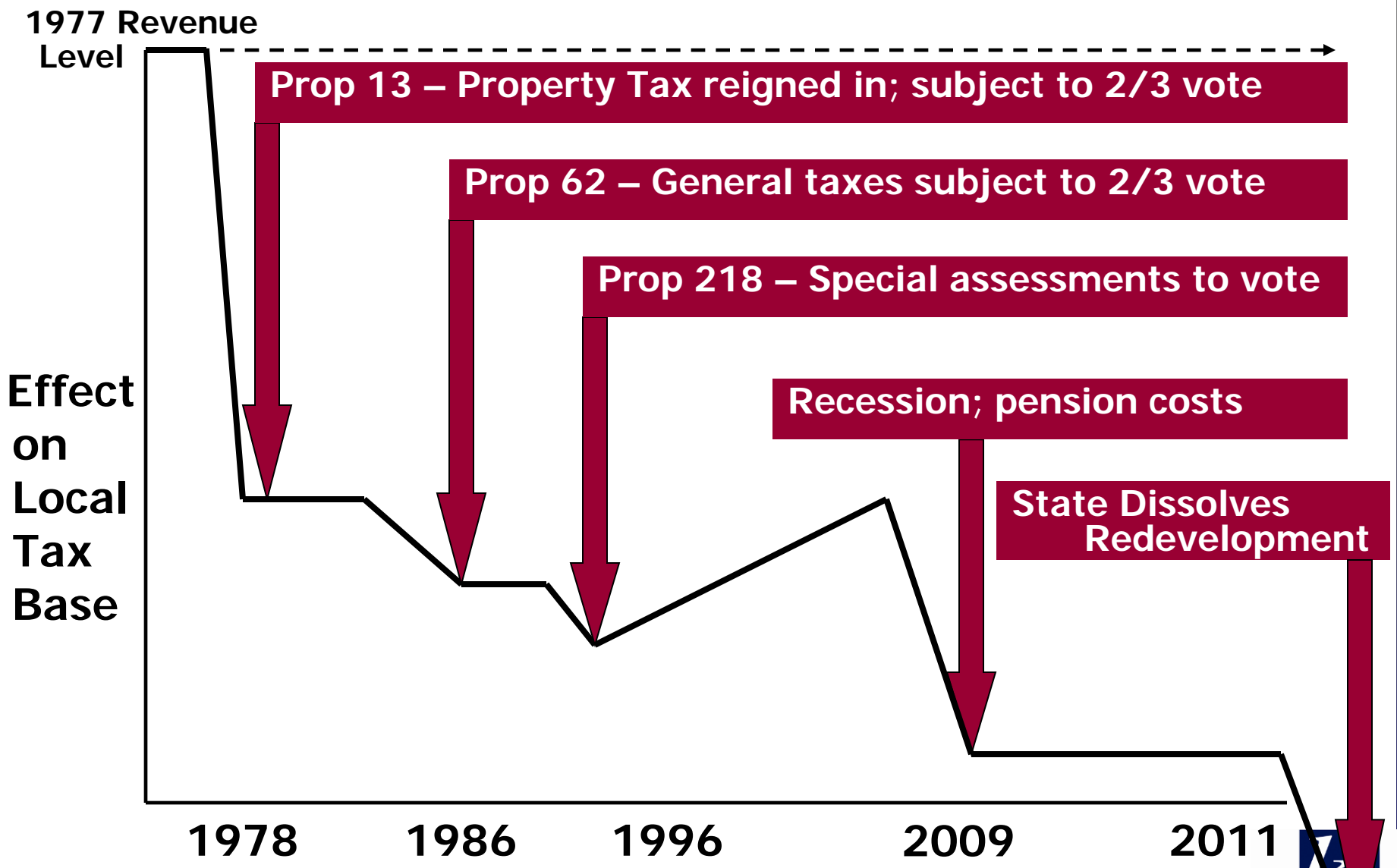
## **LAB RESULTS:**

**Income Tax: ~64% of General Fund**

**Sales Tax: ~21%**

**Other: ~15%**

# For Cities, 35 Years of Tax Diets limited \$\$ choices

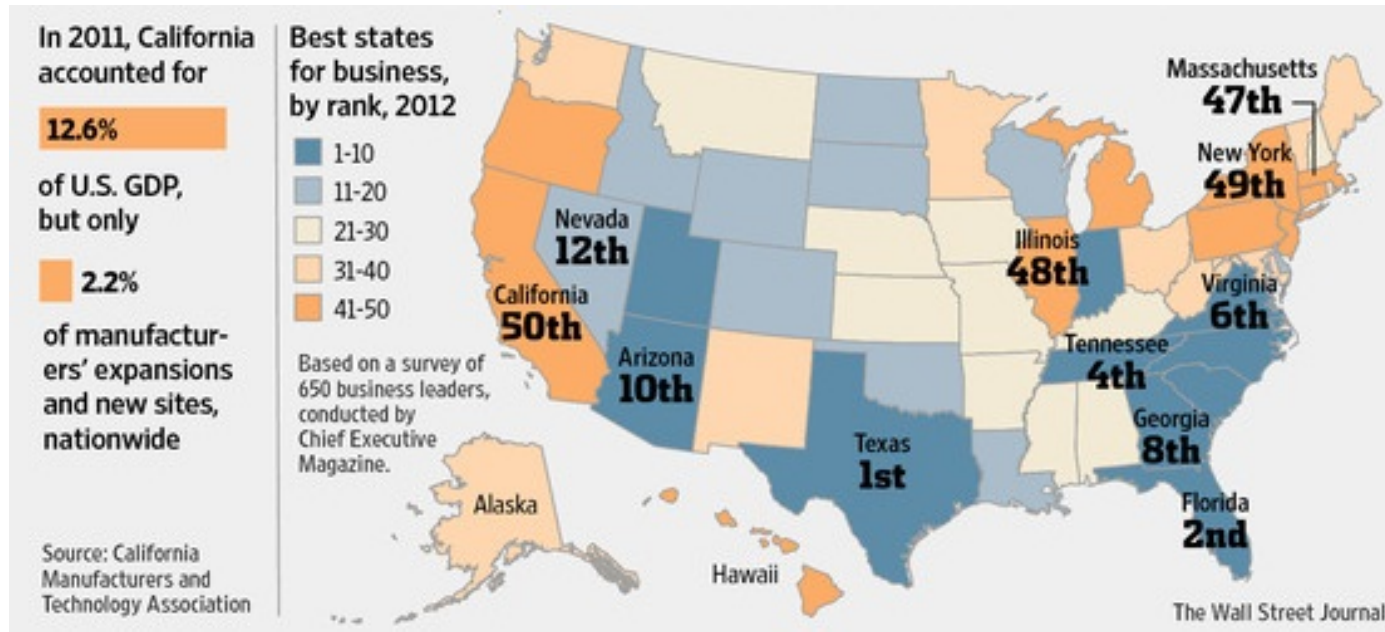


Note: Not to Scale

# For Years Business Has Paid the Bill

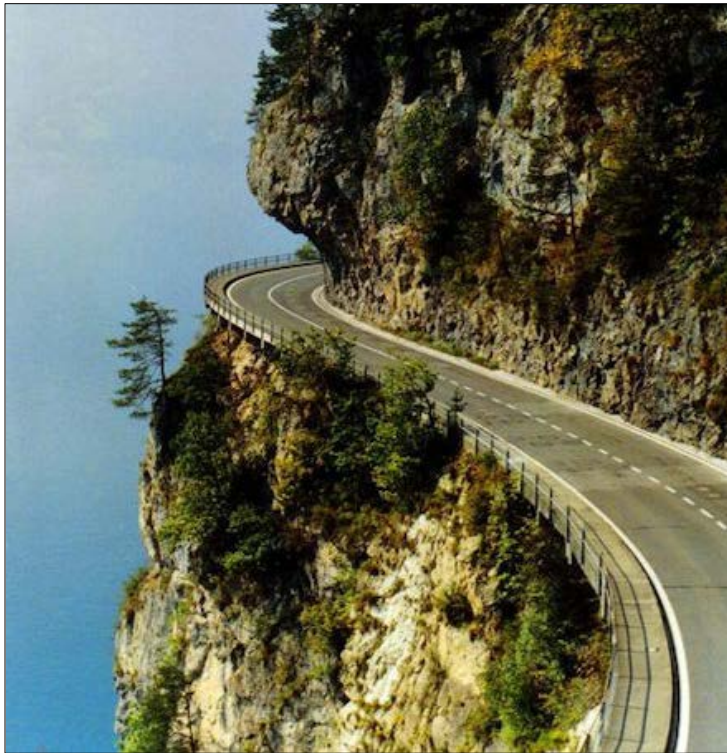
**Business Friendliness: Based on a Survey of 650 CEOs and other top execs conducted by Chief Executive Magazine:**

**California 50<sup>th</sup>. Texas 1<sup>st</sup>.**



# The Mayor & City Manager's Choice for Survival

## *Which Road to Take?*



**Recommend  
Tax Raises?**



**Find a Way to Economic  
Development**

# Tax Therapy is Not Helping

More State Taxes (mostly temporary source; expiring in 4-7 seven years)

PROP #	SYNOPSIS	PASS / FAIL
30	Gov. Brown's Tax Increase for Education & General Fund	PASS
39	Income Tax Increase for Multi-State Business	PASS

More Cities & County Taxes but Cal cities are already highest cost\*

Nov. (1 <sup>st</sup> Tues)	On the ballot	Passed	Failed	Pass Rate
2012	124	82	42	66%
2011	47	33	14	70%
2010	122	63	59	51%
2009	52	26	26	50%
2008	122	79	43	65%
<b>5-yr Total</b>	<b>467</b>	<b>283</b>	<b>184</b>	<b>65%</b>

\* Kosmont-Rose Institute Cost of Doing Business Survey 2012  
(Table includes local sales, business, utility user, parcel and hotel taxes)



# The Other Choice – Economic Development

- **Higher TAXES are part of the “fixed cost” equation that business must control to compete favorably**
- **Many growth companies will begin to look elsewhere unless cities can help them**
- **Over 220 cities & 42 counties have >9% unemployment, so job creation is key**
- **Economic Development is better solution than taxes:**
  - ***Cities help themselves & the State by helping companies to invest locally- creates jobs and taxes***
  - ***BUT – Is there a way back to Economic Development after RDA Dissolution?***

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# RDA Dissolution - 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 -- if identified in prior RDA plans*
  - c. *Rest of properties sold; proceeds returned to taxing authorities (net of obligations)*
2. **Bond proceeds from bonds issued before 1/1/2011 can be used for original purpose (refunding opportunities)**
3. **Loan agreements between City and former RDA may now be enforceable obligations (worth arguing for)**

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# Redevelopment took TIF to the Grave

## California now only one of 3 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?***

# The 10 Hand Tools of Economic Development

Redevelopment WAS the power tool; these are the “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

# 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, Marshalls)
- 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**
- **BREAKS GROUND APRIL 9, 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
- Construction activity beginning- OPEN mid 2014



## Hand Tools Used:

- Ground Lease
- Utility Bond Issuance
- P3 Project Delivery



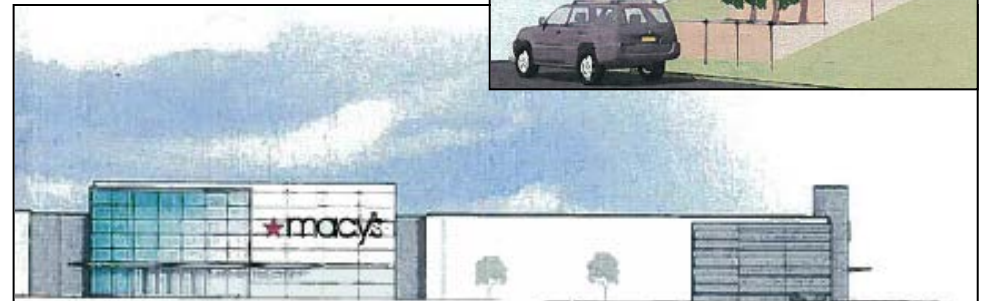
# Macerich – Mall of Victor Valley

## 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. 2012**
- **MACY'S BY Q2 2013**

## Hand Tools Used:

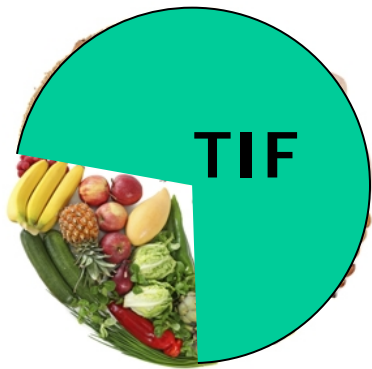
- **Site-Specific Tax Revenue (SSTR)**
- **Development Agreement**



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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, no consistent way to do economic development**

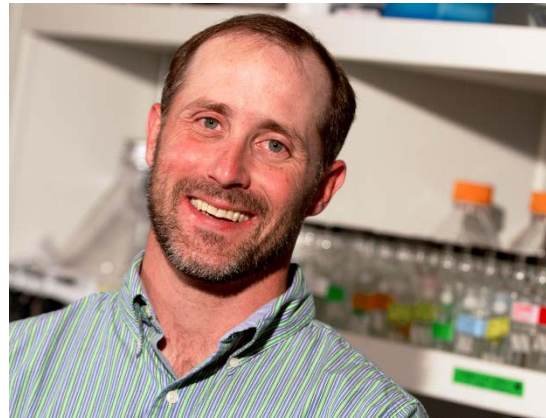
# The Case for the Return of TIF

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



# Seven TIF Bills Have Been Introduced

<b>AB 1080 (Alejo)</b>	New form of Redevelopment Designed to serve disadvantaged areas	R D
<b>SB 1 (Steinberg)</b>	Create Sustainable Communities Authority Reintroduction of last year's SB1156	A
<b>AB 243 (Dickinson)</b>	Infrastructure Financing District reform (IFD) Similar to AB2144	
<b>AB 229 (Perez)</b>	IFD Reform Military Base Reuse Authorities	I F
<b>AB 294 (Holden)</b>	IFD Reform using State Infrastructure Banks Also uses school share of property tax	D
<b>SB 33 (Wolk)</b>	IFD Reform-removes vote threshold/other fixes	
<b>AB 690 (Campos)</b>	California Jobs Act IFD Reform that uses TIF for <u>Job Creation</u> <i>"Unemployment is the New Blight"</i>	J O B



# AB 690

## The **JOBS** for California Act

A private sector jobs approach to legislation designed to get Californians back to work while balancing the State budget

# Tax Increment Financing is Key to Jobs

## Use Tax Increment Financing, geared to job creation:

- When the State tossed RDAs it also discarded TIF
- California is now one of only 3 states without this vital tool
- Without TIF no consistent funding stream for economic development.
- *California does not compete effectively for business and jobs.*
- Without new private sector jobs, State will rely on higher taxes & more service cuts to balance State budget in future

**Solution**—1) *Bring back TIF via CA Jobs Act to induce job creation*

2) *New jobs generate sales & personal income tax*

3) **~85% of State General Fund from income & sales tax**

# JOBs for California is a “new” Jobs Bill

- **Creates “Jobs & Infrastructure Districts” or “JIDs”**
  - **Unlike RDA Areas, the focus of JIDs is on job creation and unemployment reduction... not blight elimination**
- **JIDs create new jobs in cities with high unemployment**
  - Uses TIF to attract private sector investment
  - Funds public-private projects to yield jobs
  - Installs job-supporting public infrastructure
  - Allows TIF use for education and job training
- **State-authorized statute, locally administered; benefits go to Californians, State, cities and counties.**
  - Could restore over 1 million jobs lost to recession
  - May help replace temporary Prop 30 taxes (expires in 4-7 yrs.)
  - Could achieve balanced State budget over the long term

# JOB S for California: How It Works

**Cities/counties creates districts that must adopt a JOBS GENERATION PLAN in order to use Tax Increment Financing as a financing tool to create new jobs & provide training**

**Example:**

***Problem: Community has 16% unemployment***

***Solution:***

- **Jobs & Infrastructure District (JIDs) created to = National Average (7.8%) or less**
- **JIDs use TIF to create public-private transactions that yield 10 new jobs for every \$1 million invested**
- **Construction jobs count (must be prevailing wage)**
- **TIF to be used for targeted training and education as well**

**The focus of the Act is unemployment (not blight)**

# JID Investment formula → Job Creation

**JID projects required to produce direct & indirect job creation using objective formula (similar to Federal EB-5 program)\***

- **Jobs formula – 10 jobs created for \$1 million invested**
- **Formula can be adjusted based upon local needs**

**Focus on jobs means owners and tenants can benefit as well as labor and local communities**

- **Prevailing wage (construction) jobs required**
- **ALL communities with high unemployment benefit (no bias between urban and suburban)**
- **Install local infrastructure in collaboration with jobs**
- **Improve California's business reputation**
- **When employment threshold met TIF for jobs cut off**

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\* Source: US Citizenship & Immigration Service - Employment Based 5 (EB-5 Program)



**Q: Why should the State pass AB690?**

**A: Because JIDs can help fix State's general fund budget gap without new taxes**

# Creating Jobs Fixes Budget

~85% of the State's budget is comprised of Personal Income & Sales Tax: *remember our unhealthy budget?*

## **CALIFORNIA'S GENERAL FUND BUDGET SOURCES**

<b>Personal Income Tax:</b>	<b>~64%</b>
<b>Sales Tax:</b>	<b>~21%</b>
<b>Other Sources:</b>	<b>~15%</b>

- State makes the “highest return on tax revenues” from a new job
- Each job yields personal income and sales tax from new wage earners
- The State can restore TIF by enabling redirection of Property Tax to Jobs & Infrastructure Districts that induce new jobs in private sector
- Property tax increment \$\$ invested in job producing projects could pay the State back approx. **5 to 1** in sales & income taxes
- New jobs will help balance the State budget & revive local communities

# New Jobs = New State & Local Taxes

- **The average new private sector California job paying \$54,345 generates ~\$3,255 in income & sales tax to the State\***
- **Approx. 307,000 jobs = approx. \$1B in new State annual revenue\*,  
*thus...***
- **If State lets cities attract private sector investment by using property tax based TIF as inducements to create 1 million jobs, it could replace much of temporary money raised from Prop 30 with long term revenue**
- **CA would be on business friendly path...not current path of taxation**
- **Improving the general fund means more money for education so Kern County companies can find the skilled workers they need!**
- **Ultimately, more companies would invest without assistance**

# Putting CA To Work Shrinks State Budget Gap



\$1 in new Prop. Tax Increment Invested → ~\$5 Income & Sales Tax

# Putting Kern County Back to Work

- 1. Local Construction activity back up – leading the nation in construction gains**
- 2. Potential Job Growth from Oil Industry**
  - **80 percent of California's oil under Kern County soil**
  - **comprises two-thirds of the USA's total estimated shale oil reserves**
  - **new Technology is making it feasible to extract**
  - **could turn CA into the nation's top oil-producing state**

***AB 690 creates mechanism to leverage tax increment to attract job creating private investment to Kern County.***

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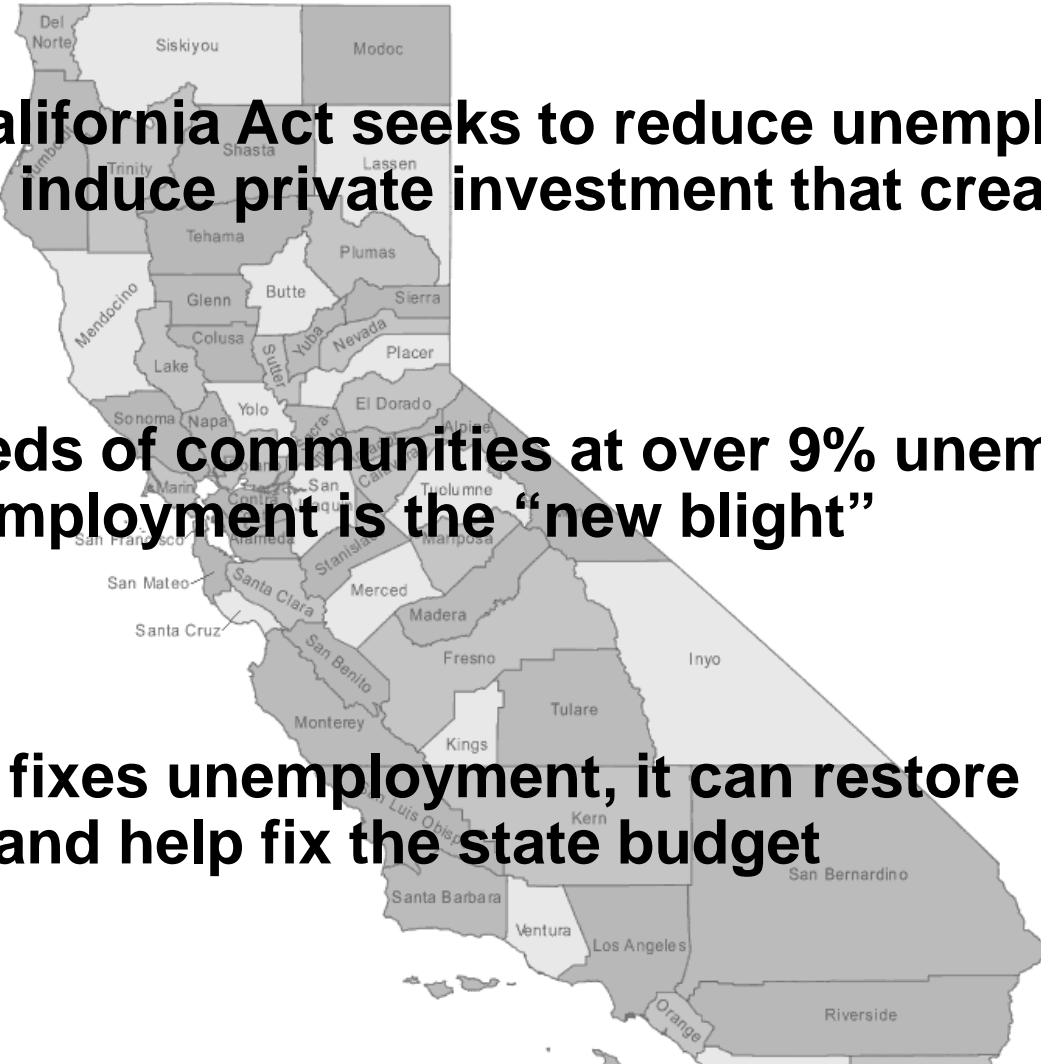
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- **California is expensive and bureaucratic**
- **Private Sector Job growth is core to local & State recovery**
- **Need to Incentivize public/private deals to induce jobs & taxes**
- **Tax-Increment Financing must be returned in usable form to CA induce job-rich public private partnerships (47 states have it!)**
- **Governor rejected TIF in 2012; 7 new TIF bills introduced in 2013**
- **TIF works best when public-private deals are allowed in addition infrastructure. Public infrastructure does not fix unemployment!**
- **CA has 3<sup>rd</sup> highest unemployment in nation; without RDA economic development left with “Hand tools” for job creation**
- **Can new 2/3<sup>rd</sup> Democratic majority in State Legislature find a bill that restores TIF, that the governor can support?**

# ***JOB**S for California Act - A Call to Action*

- **JOB**S for California Act seeks to reduce unemployment by using TIF to induce private investment that creates new jobs
- With hundreds of communities at over 9% unemployment... unemployment is the “new blight”
- If California fixes unemployment, it can restore local economies and help fix the state budget



We have a golden opportunity to restart the stalled engines of our local economic development.

A silhouette of an oil pumpjack is shown against a sunset sky. The sun is a bright orange circle near the horizon, partially obscured by the pumpjack's structure. The sky is filled with wispy clouds, transitioning from a deep orange near the horizon to a dark blue at the top. The pumpjack's long, angled arm extends from the left towards the upper right.

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