

By Larry Kosmont, CRE[®], President & CEO, Kosmont Companies

Research and Production by Matt Goulet, VP, Kosmont Companies

This presentation is available online

www.kosmont.com



Reviving Economic Development

Economic Development *Without* Redevelopment



by:

Kosmont Companies

865 S. Figueroa Street, Suite 3500, Los Angeles, CA 90017

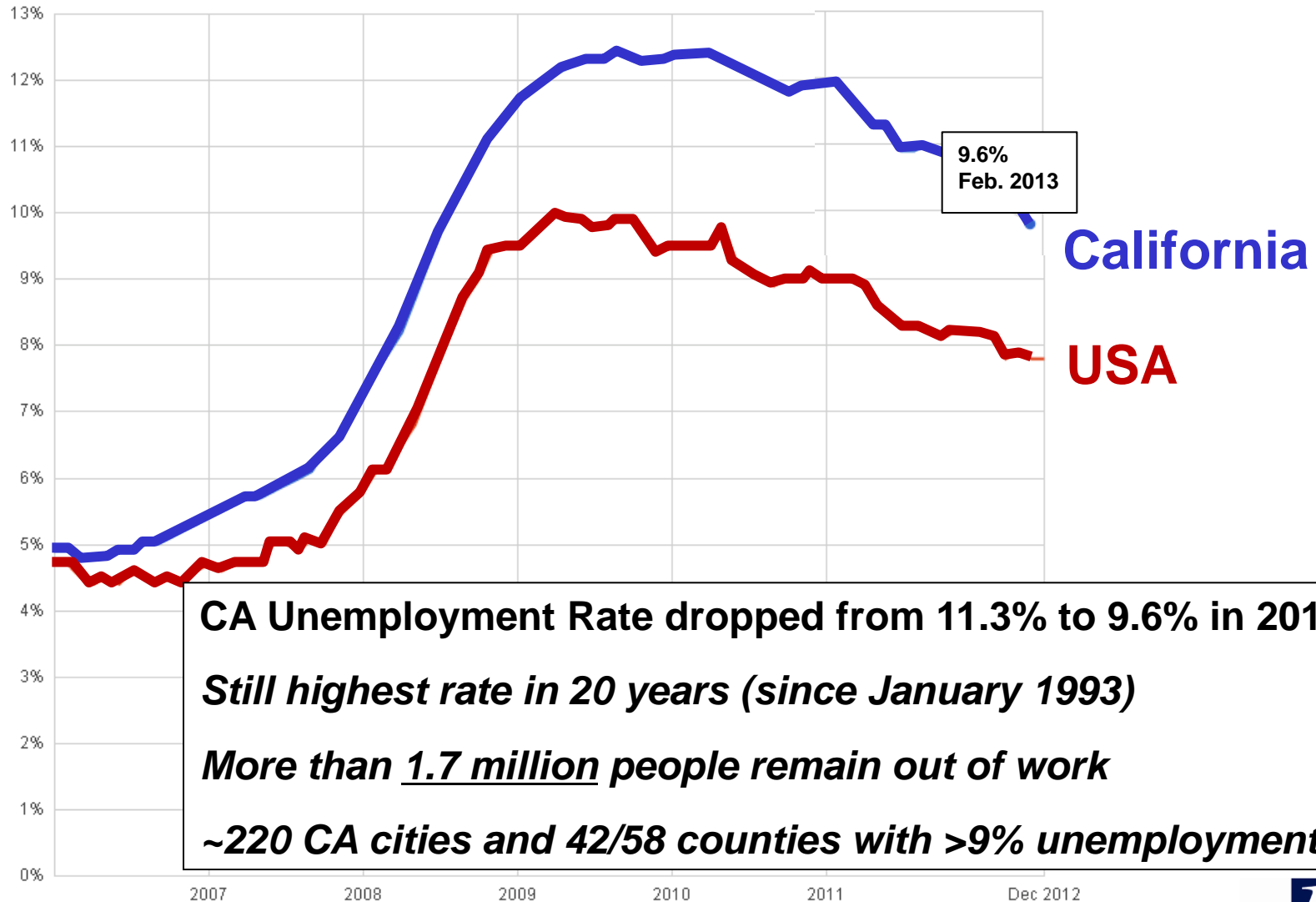
213-417-3300

www.kosmont.com

Today's Appointments

- **Your Lab Results Are In**
- What Makes Us Tick?...What Made Us Sick?
- Economic Development – Doctors are In; Power is Out
- Property Management Plans ("PMPs)– Economic Development Emerges from the "Battle of 1484"
- In Development - Tax Increment Replacement Therapy
- Economic Development– Take Home Prescription

UNEMPLOYMENT IS THE NEW BLIGHT



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 more challenging to borrow
4. State now coming out of ~\$20 B budget gap, saved by Prop 30, but still on borrowed time and can't help cities

Diagnosis – Lead Foot



Off the Reservation with an Empty Gas Tank

Today's Appointments

- Your Lab Results Are In
- **What Makes Us Tick?...What Made Us Sick?**
- Economic Development – Doctors are In; Power is Out
- Property Management Plans (“PMPs)– Economic Development Emerges from the “Battle of 1484”
- In Development - Tax Increment Replacement Therapy
- Economic Development– Take Home Prescription

California's Unhealthy Habits

- **Top 1% earners = 40.9% of income tax \$\$**
- **Sales tax prone to major shifts**
- **Deficit reduced in 2013 but GF is weak**
- **Prop 30 revenues are temporary**
- **Fitch GO bond rating lowest in USA (A-)**



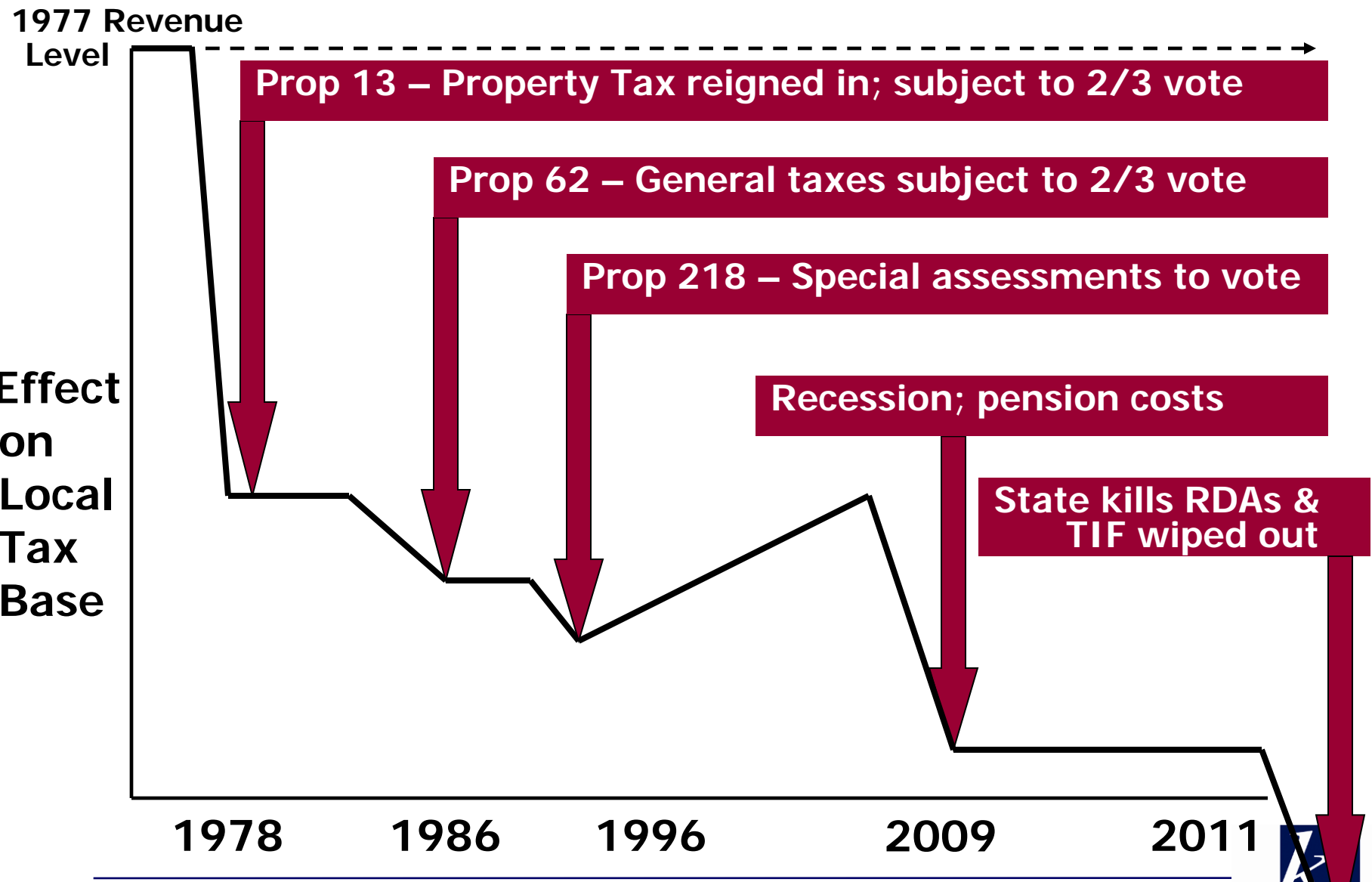
LAB RESULTS:

Income Tax: ~64% of General Fund

Sales Tax: ~21%

Other: ~15%

For Cities, 35 Years of Tax Diets now limit \$\$ choices



Note: Not to Scale



Today's Appointments

- Your Lab Results Are In
- What Makes Us Tick?...What Made Us Sick?
- **Economic Development – Doctors are In; Power is Out**
- Property Management Plans (“PMPs)– Economic Development Emerges from the “Battle of 1484”
- In Development - Tax Increment Replacement Therapy
- Economic Development– Take Home Prescription

Redevelopment took TIF to the Grave

TIF is the most powerful tool for economic development

- Tax-Increment Financing (TIF) model allowed local agencies access to significant & long-term source of funds
- based upon property tax which is a stable funding source
- Problem became that RDAs were 12% of state's property tax base and left state on the hook for schools
- but TIF as a tool does not require a redevelopment agency
- California now only one of 3 states w/o tax increment, 47 other states use it without a redevelopment agency

So what's left after Redevelopment is buried?

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

E.D. Deals are possible with hand tools; more complex & take longer

The following Kosmont deals will create \$500K to \$2.6M year in taxes

City of South Gate

"azalea" Retail Center

~600 jobs

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

City of Redondo Beach

Courtyard Marriott & Hilton Garden Inn

~225 jobs

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

City of Norco

Silverlakes Equestrian Sports Park

~100 jobs

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

City of Victorville

Major Rehab of Victor Valley Mall

~250 jobs

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

City of South Gate – “azalea” Retail Center

The Project:

- 372K sf regional retail center (Wal-Mart, Ross, Marshalls)
- Public Plaza & Events Center, City Services Annex
- **UNDER CONSTRUCTION; OPENING MID 2014**



Hand Tools Used:

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

City of Redondo Beach – Marine Ave. Hotels

The Project:

- 147 room Hilton Garden Inn & 172-room Marriott Residence Inn located adjacent to Metro station
- **UNDER CONSTRUCTION** as of **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
- Community Use Agreement for regional park facility
- Construction activity beginning- OPEN mid 2014



Hand Tools Used:

- Ground Lease
- Utility Bonds- on-sites
- P3 Project Delivery



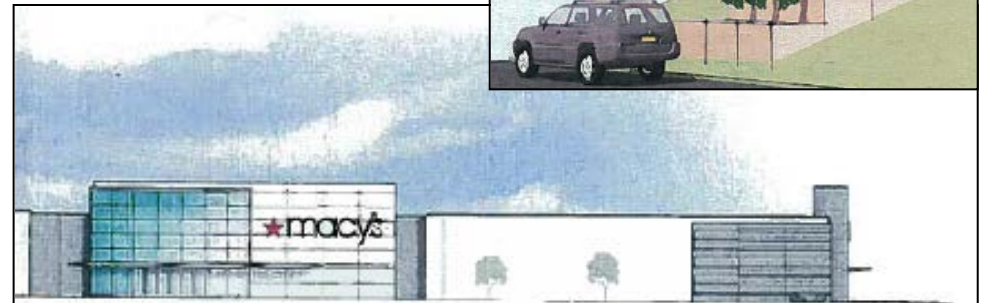
Macerich – Mall of Victor Valley

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 opened MAR. 2013

Hand Tools Used:

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



Today's Appointments

- Your Lab Results Are In
- What Makes Us Tick?...What Made Us Sick?
- Economic Development – Doctors are In; Power is Out
- **Property Management Plans (“PMPs)– Economic Development Emerges from the “Battle of 1484”**
- In Development - Tax Increment Replacement Therapy
- Economic Development– Take Home Prescription

Why PMPs Matter

THEY CAN BE A BACK DOOR TO ECONOMIC DEVELOPMENT

- 1. PMPs are required by AB1484 to dispose of real estate assets of former RDA (~5000 properties!)***
- 2. Some properties are ripe for tax and job creation***
 - properties retained for future development as stated in prior RDA plan (sect 34191.5) can retained by city***
 - 'A' properties (see chart) can be structured as installment sales or sale deferred until re-zoned/entitled***
 - These properties and others can be foundation for a City's next economic development projects***

Transactional Guide to Property Management Plans

- Step 1: Finding of Completion**
- Submit True-up Payments and DDRs
 - Achieve DOF approval
 - Receive Finding of Completion

- Step 2: Community Redevelopment Property Trust Fund**
- Establish repository for former RDA properties [§34191.5(a)]

- Step 3: Long Range Property Management Plan**
- PMP due within 6 months after receiving FOC
 - Must have PMP approved by DOF by January 1, 2015 or properties shall be disposed as directed by OB [§34191.3]

Step 4: Implement PMP Strategy

Properties that may be Transferred to the City/County
(requires OB and DOF approval [§34181(f)])



Government Purpose

- Roads, schools, police and fire stations, libraries, parks, Gov't offices [§34181 (a)]



Enforceable Obligation

- Property may be sold or retained for purposes of fulfilling an enforceable obligation [§34191.5(c)(2)]



Future Development

- Property is identified in approved redevelopment plan [§34191.5(c)(2)(A)]

Properties the Successor Agency Must Sell
(Pursuant to OB and DOF approved PMP)

“A” Properties:

- Strategic properties for economic development
- Entitlement conditions/status a factor
- Highest & Best Use vs. Price

“B” Properties:

- Properties with encumbrances, COAs, need zoning
- Market & zoning/COAs will impact value & terms of sale

“C” Properties:

- Less saleable properties: easements, remnant parcels, covenants, air space rights, transferable FARs
- Specialized campaign or approach to disposition e.g. adjacent owners, unique conditions

- Pre-2011 Bonds and Other Debt**
- Bond proceeds in excess of amounts needed to satisfy enforceable obligations shall be expended in a manner consistent with the original bond covenants [§34191.4(c)(2)(A)]
 - Use unspent proceeds for government use or “project” properties cities can keep or sell

- Transactional Tools for Economic Development without Redevelopment**
- Post-2011 bonds /debt to support econ dev.; pending legislation/DOF appeals
 - Lease/Leasebacks/Utility Bonds
 - Infrastructure Financing Districts (IFDs)
 - Lease Revenue Bonds/Parking Authorities
 - Special assessment districts (CFDs, BIDs)
 - Site Specific Tax Revenue (SSTR) projects
 - Loans between former RDA & City allowed on ROPS as Enf. Oblig. if OB finds loan is for legitimate RDA purposes [§34191.4 (b) (1)]

Economic Development / Infrastructure Opportunity

Sell for Reuse / Development

Finding of Completion (from DOF)

- July True Up Payment
- LMIHF DDR
- All Other Funds & Accounts DDR
- Final True Up



Today's Appointments

- Your Lab Results Are In
- What Makes Us Tick?...What Made Us Sick?
- Economic Development – Doctors are In; Power is Out
- Property Management Plans (“PMPs)– Economic Development Emerges from the “Battle of 1484”
- **In Development – TIF Replacement Therapy**
- Economic Development– Take Home Prescription

The Case for the Return of TIF

Tax Increment does NOT mean redevelopment

Tax increment = Economic Development

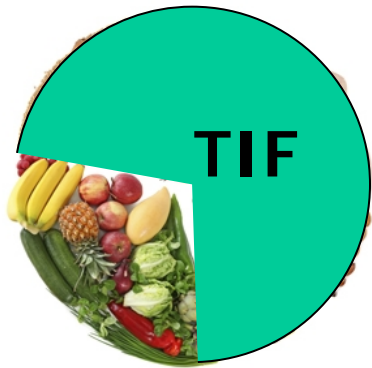
TIF is the most powerful E.D. tool but California now only 1 of 3 states without TIF

How do we get tax-increment financing (“TIF”) back to work for California?

Multiple TIF Bills Introduced In 2013

AB 1080 (Alejo)	New form of Redevelopment Designed to serve disadvantaged areas	R D A
SB 1 (Steinberg)	Create Sustainable Communities Authority Reintroduction of last year's SB1156	
AB 243 (Dickinson)	Infrastructure Financing District reform (IFD) Similar to AB2144	
AB 229 (Perez)	IFD Reform Military Base Reuse Authorities	I F D
AB 294 (Holden)	IFD Reform using State Infrastructure Banks Also uses school share of property tax	
SB 33 (Wolk)	IFD Reform-removes vote threshold/other fixes	
AB 662 (Atkins)	IFD Reform-includes former RDA project areas	
AB 690 (Campos)	California Jobs Act Uses TIF for Job Creation (Jobs & Educ. Districts) <i>"Unemployment is the New Blight"</i>	J O B S

TIF – Part of a Healthy Economic Diet



Without TIF, California cannot compete effectively; State already branded as expensive, with taxes going up.

- California voted by CEOs as least business friendly state
- Without Redevelopment California has...
 - has no tax increment tool
 - no authority to contract with private entities for real estate projects and/or business expansion
- Without TIF California has...
 - no consistent way to do economic development
 - no way to fuel private sector job growth to high unemployment

TIF mechanism is needed to incentivize public-private projects that generate new taxes and jobs

CREATING JOBS FIXES BUDGET

85% of State's budget from Personal Income & Sales Tax
and both sources are pumped by new jobs

CALIFORNIA'S GENERAL FUND BUDGET SOURCES

Personal Income Tax:	~64%
Sales Tax:	~21%
Other Sources:	~15%

- State makes the “highest return on tax revenues” from a new job
- Property tax increment \$\$ invested in job producing projects could pay the State back approx. 11 to 1 in sales & income taxes
- Approx. 320,000 jobs = approx. \$1B in new State annual revenue*
- The State can restore TIF by enabling redirection of Property Tax to induce new jobs in private sector
- New jobs can balance the State budget & revive local communities

PUTTING CA TO WORK SHRINKS STATE BUDGET GAP



\$1 in new Prop. Tax Increment Invested → ~\$11 Income & Sales Tax

California's "Tax More" Strategy is Unsustainable

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 st 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%
5-yr Total	467	283	184	65%

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

Today's Appointments

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

Is the Future Rosy for California?

- Unemployment is California's new blight—3rd highest in USA with 1.7M out of work
- Real Estate coming back – will help govt. revenues but job growth still stunted
- Budget balanced...for how long? Prop 30 is temporary fix, retirement costs loom
- Without TIF, econ. dev. in CA is too limited to induce private sector job growth
- 8 New TIF bills are proposed in 2013: *none are likely to be approved by Governor*
- Killing RDAs not enough: Gov. proposes to replace Enterprise Zones with “California Hiring Credits” (Sales Tax, Hiring Credit, Bus. Attraction Credit)
- California consistently voted as least friendly by the CEOs who make job decisions
- With no help from State, cities have passed 283 local tax measures in last 5 years impacting business costs further...and more to come
- Disposition of RDA properties is unprecedented event resulting in one-time liquidation of over 5000 properties, offers near term private sector opportunity
- Weather is very good and life at the coast goes on

This presentation is available online

www.kosmont.com