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New Tools for Economic Development

Stitching Together Strategies in a Post-Redevelopment World

by:

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- **How is California Doing?**
- What tools do we have post-Redevelopment?
 - **Toolbox #1 – Property**
 - **Toolbox #2 – Land Use & Zoning**
 - **Toolbox #3 – Districts**
 - **Toolbox #4 – Taxes & Revenues**
- How are these tools being employed?
- What is the future of Economic Development in CA?

State's Health Assessment

1. Cities busy with property disposition from former RDAs
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 Budget artificially balanced using Prop 30 revenues that expire in 4-7 years (income & sales tax)
5. Enterprise zones to be eliminated by 1/1/14 & replaced by AB 93

California's Unhealthy Budget Diet

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



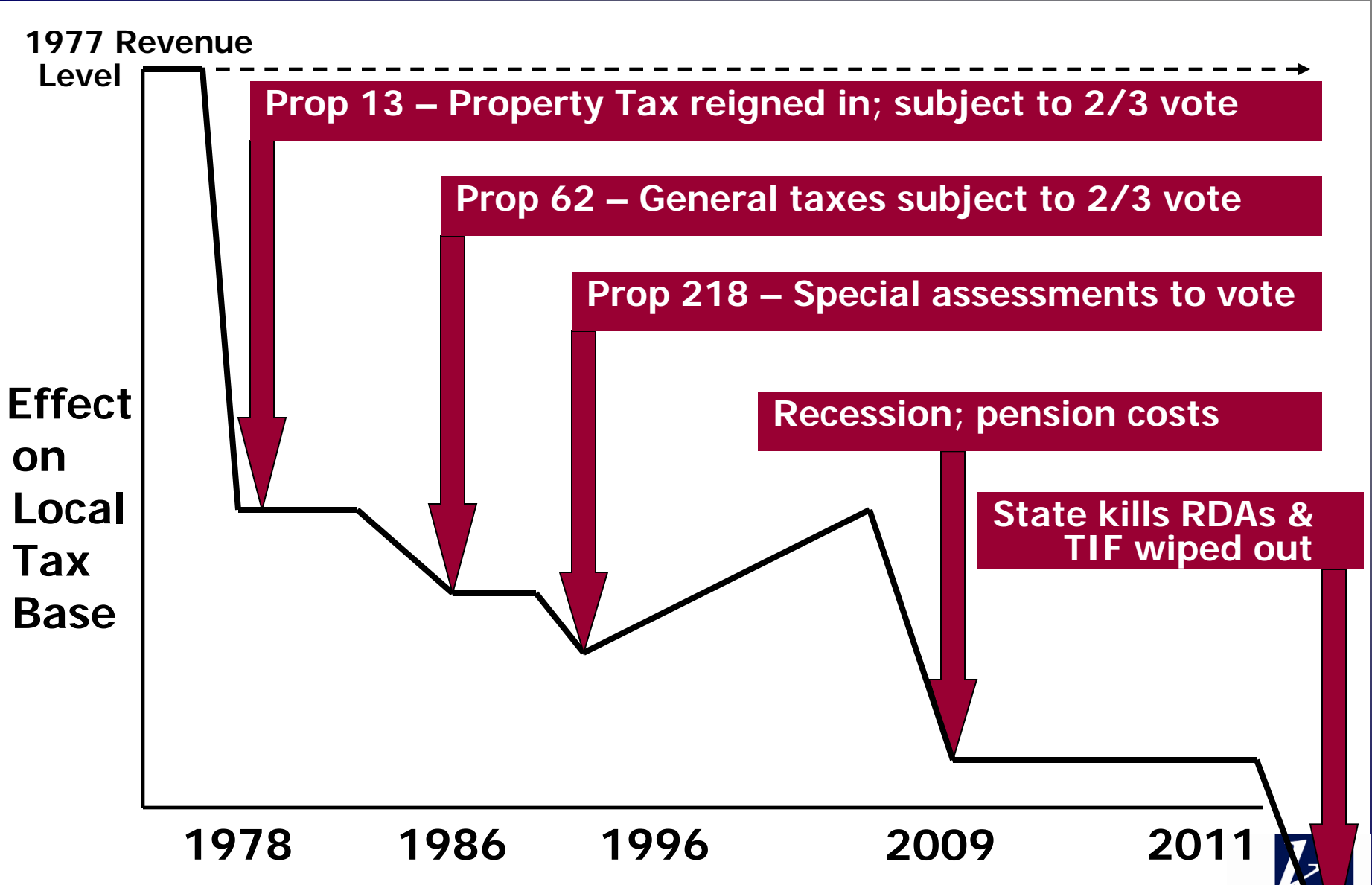
LAB RESULTS:

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

Fiscal Diets Lead to Tax Binge

More....State Taxes (mostly temporary, 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

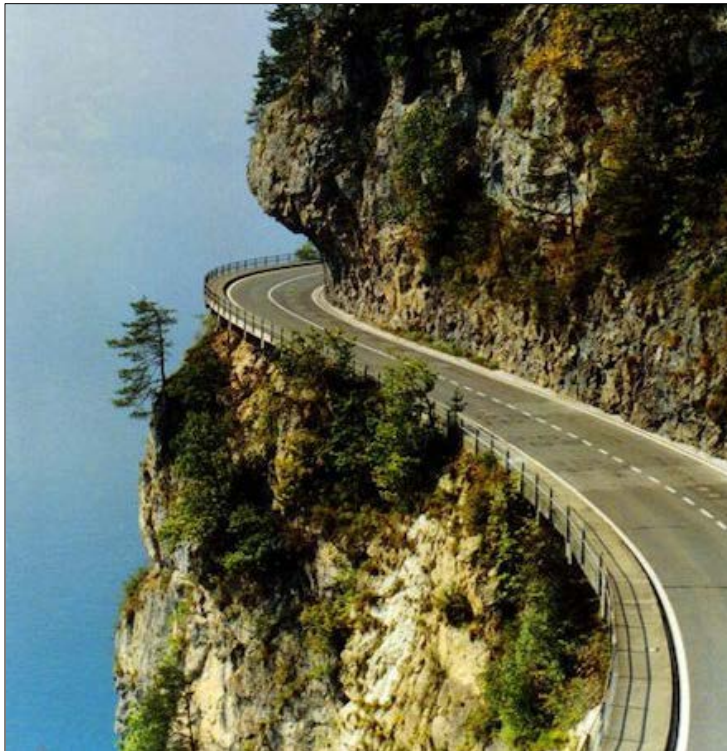
More....Cities & County Taxes (Cal cities are already highest cost*)

Year	On 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 taxes)

Mayor & City Manager's Choice for Survival

Which Road to Take?



**Recommend
Tax Ballots?**



**Find a Way to Economic
Development**

The Other Choice – Economic Development

- **Higher taxes are part of the “fixed cost” equation that business must control to compete favorably**
 - **California consistently rated least biz friendly by the CEO Roundtable**
 - **Without incentives, growth companies will begin to look elsewhere**
 - **Over 175 cities & 32 counties at >9% unemployment, so we need jobs**
- **Economic Development is better solution for California than taxes:**
 - **Cities help themselves & the State by helping companies to invest**
 - **Private investment = growth in real estate values and economic activity (local business spending, new wages, retail sales)**
 - **ED funding sources are very limited in California**

Can ED projects be funded without new tax increment legislation?

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Toolbox #1 – Property as an E.D. Resource

Typical Public Agency-Owned Property Types:

- **Former RDA Properties**
- **Civic Use Properties (civic centers, fire stations, recreation)**
- **Surplus Property (City, School District, Utility, other)**
- **Rights of Way / Streets / Alleys**
- **Parking Lots / Structures**

Toolbox #1 – Real Property as a Resource

Government owned real estate can be a valuable Econ. Dev. resource:

1. Land lends value to ED projects:

- High commuting costs and transit lines have increased the “location value” of in-fill sites (e.g. parking lots, utility yards)
- Utility hook-up and location valued by the private sector & end users
- Equity and/or lease revenue can be borrowed against
- Potential to raise/capture property taxes (most stable revenue source)
- “Owned” land values can be propped up by zoning/use actions that add value (density, reduced parking, hours of operation, height, other)

2. Many public agency owned properties are under-utilized but need work to facilitate marketability or reuse

- Existing zoning might not support highest & best use
- Often needs work (entitlements, assemblage, environmental remediation)

Toolbox #2 – Land Use & Zoning for E.D.

Land Use Zoning Laws provide powerful non-monetary assistance that may increase land value and attract private investment

1. **Expedited Processing of Entitlements and Permits** – For the private sector *time is money*. Reduced processing time can be a win-win.
2. **Development Agreement (DA)** - Like a prenuptial agreement, DAs can lock in benefits for the public and private sector. Lock in fees in exchange for infrastructure investment.
3. **Specific Plans** incorporate economic development priorities and convert them to zoning policy objectives such as increased density for preferred uses (mixed use, retail, tax and job generators)
4. **Development Opportunity Reserve (DOR)** – Specific Plans with an Economic Development “kicker”. Reward the Buyer/investor not the owner!

Toolbox #2 – Land Use & Zoning for E.D.

Primary opportunity is to use PUBLIC PROPERTY and ZONING tools together and the “PMP” is the best current opportunity of this type.

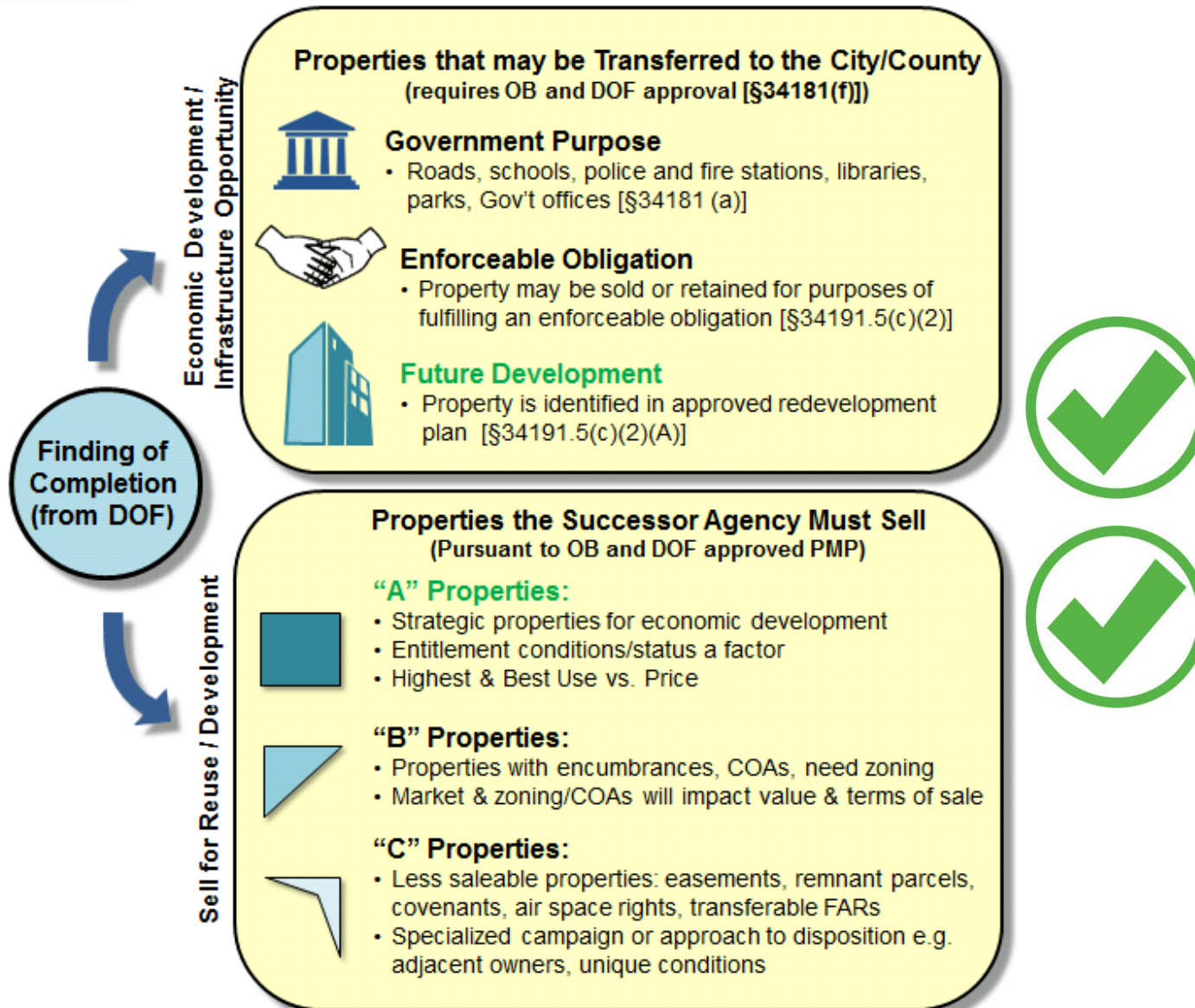
Here’s why:

Under RDA dissolution law (AB1484), Property Management Plans (PMPs) are required to dispose of former RDA property.

AB1484 affords two major opportunities for cities:

- Properties that may be transferred to the city for future development can be rezoned PRIOR to sale to realize highest and best use
- Properties that must be sold sale can be structured and directed to an end user/use in city’s best interest

PMP's: An Opportunity to Combine Tools



Development Opportunity Reserve (DOR)

Problem: Upzoning used to stimulate economic development often results in a windfall to existing landowners, not targeted users



The Bright Idea – Combine Specific Plans with an Economic Development “Kicker”

- Zoning should protect and advance community desires as identified in the General Plan
- Pool new density into a “Reserve Account”
- Approve increased density to new projects that comply with pre- set “community objectives”
- Establish additional density, but do not distribute per parcel
- Economic benefit goes to targeted uses, not existing owners

Example:

Burbank Media Overlay District Zone (1991- present) – allows more density through CUP process for projects that meet community goals

Toolbox #3 – “Districts” for Econ. Dev.

- **California Law allows for the creation of various types of specialized districts within a city that apply economic development programs on a area-wide scale rather than a site-specific level**
- **Districts may use taxes, exactions, assessments, and other funding sources for certain projects within the district**
- **Depending on the District used, a jurisdiction-wide vote or property owner vote may be required**

Property Owner Based Districts

- **Business Improvement Districts (PBIDs)**
 - Special purpose non-profit that performs variety of services to improve image of an area & promote a business district often to supplement city services
 - Voted by property owners by adopted by resolution of City or County
 - Examples Downtown Center BID, Gateway to LA BID
- **Community Facilities Districts (Mello Roos)**
 - Special district legislation established in 1982 to help local gov't finance needed community facilities and services through the levy of voter approved special taxes

Business-based Districts

- **Tourism Improvement Districts (TIDs) – “Hotel Districts”**
 - Funds raised through an increase in the TOT which is used to provide tourism related services and programs in the district.
 - Approved by hotel operators
- **New Types of Districts in California**
 - **Restaurant Improvement Districts**
 - Assessment often based on number of employees
 - City of Newport Beach
 - **Wine Promotion Districts**
 - Currently being investigated by several communities
 - Assessment based on tasting room sales
 - Funding for promotional activities to increase number of visitors and to attract new wineries to the area
 - Napa and Temecula currently in process

Special Purpose Financing Authorities

- **Parking Authorities**
 - Commission-led local government entity (law enacted in 1949)
 - Manages parking operations and revenue citywide
 - May be used to acquire property and fund new parking facilities
 - Landlord for parking leases and concession agreements.
- **Infrastructure Financing Districts – A “D.O.A.” District**
 - Established in 1990 to finance public works in suburban areas
 - Uses Tax-Increment Financing
 - Requires public vote for district formation and bond issuance
 - Cannot be used in prior RDA areas
 - Has only been used twice (Legoland and Rincon Hill in SF)

Toolbox #4 – Taxes & Revenues

FINANCING TOOL	THE BASICS
Lease Revenue Bonds	Government income stream (utility, parking) set up in a long term lease obligation and then borrowed against
Lease-Leaseback	Lease/sublease of asset between two public agencies enables lease payments to be leveraged (borrowed)
Site Specific Tax Revenue Pledge (SSTR)	Tax revenue (sales, hotel) generated by a specific project used to reduce gap by lowering project debt or equity

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How are These Tools Being Employed?

Economic Development Tools often work best together



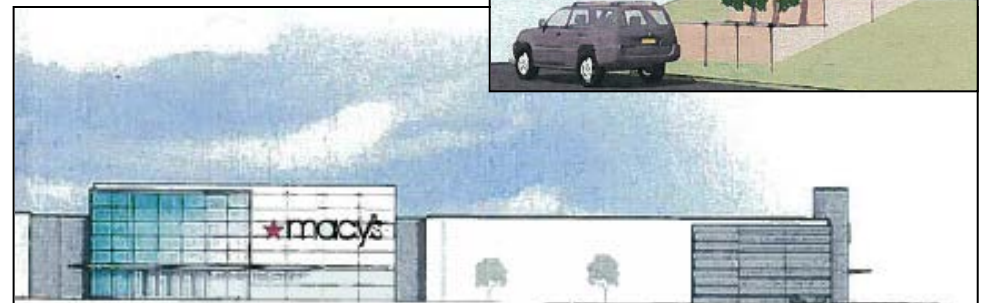
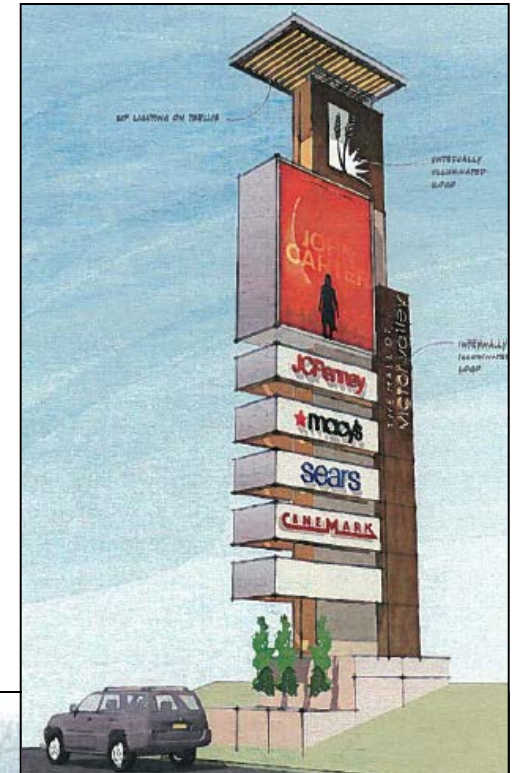
Macerich – Mall of Victor Valley

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

Tools Used:

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



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

Tools Used:

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



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**



Tools Used:

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

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Multiple TIF Bills Introduced in 2013

Tax-Increment Financing is the most powerful tool for Econ. Dev.

Governor vetoed proposals in 2012; Seven bills propose TIF in 2013

AB 1080 (Alejo)	RDA designed to serve disadvantaged areas	R
SB 1 (Steinberg)	Create Sustainable Communities Authority Reintroduction of last year's SB1156	D A
AB 243 (Dickinson)	Infrastructure Financing District reform (IFD) Similar to AB2144	I F D
AB 229 (Perez)	IFD (Military Base Reuse Authorities)	
AB 294 (Holden)	IFD using State Infrastructure Banks Also uses school share of property tax	R E F
SB 33 (Wolk)	IFD -removes vote threshold/other fixes	O
AB 662 (Atkins)	IFD -includes former RDA project areas	R M

Return of TIF this year is still possible but unlikely

What's New? - Governor's E.D. Program

- **Sales Tax Exemption**

- Existing sales tax credit for businesses in Enterprise Zones expanded to *statewide* sales tax exemption on purchase of manufacturing or R&D equipment
- Business allowed to exclude the first \$200 million equipment purchases from state share of sales tax (4.19%) from 7/1/14 through 6/30/22.

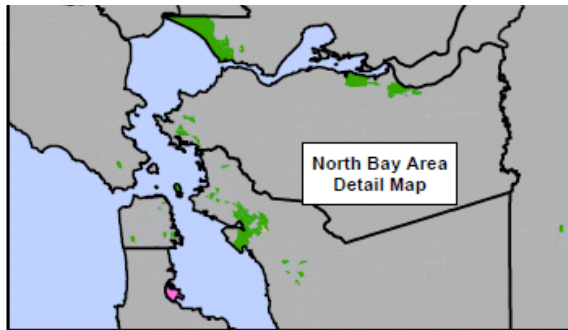
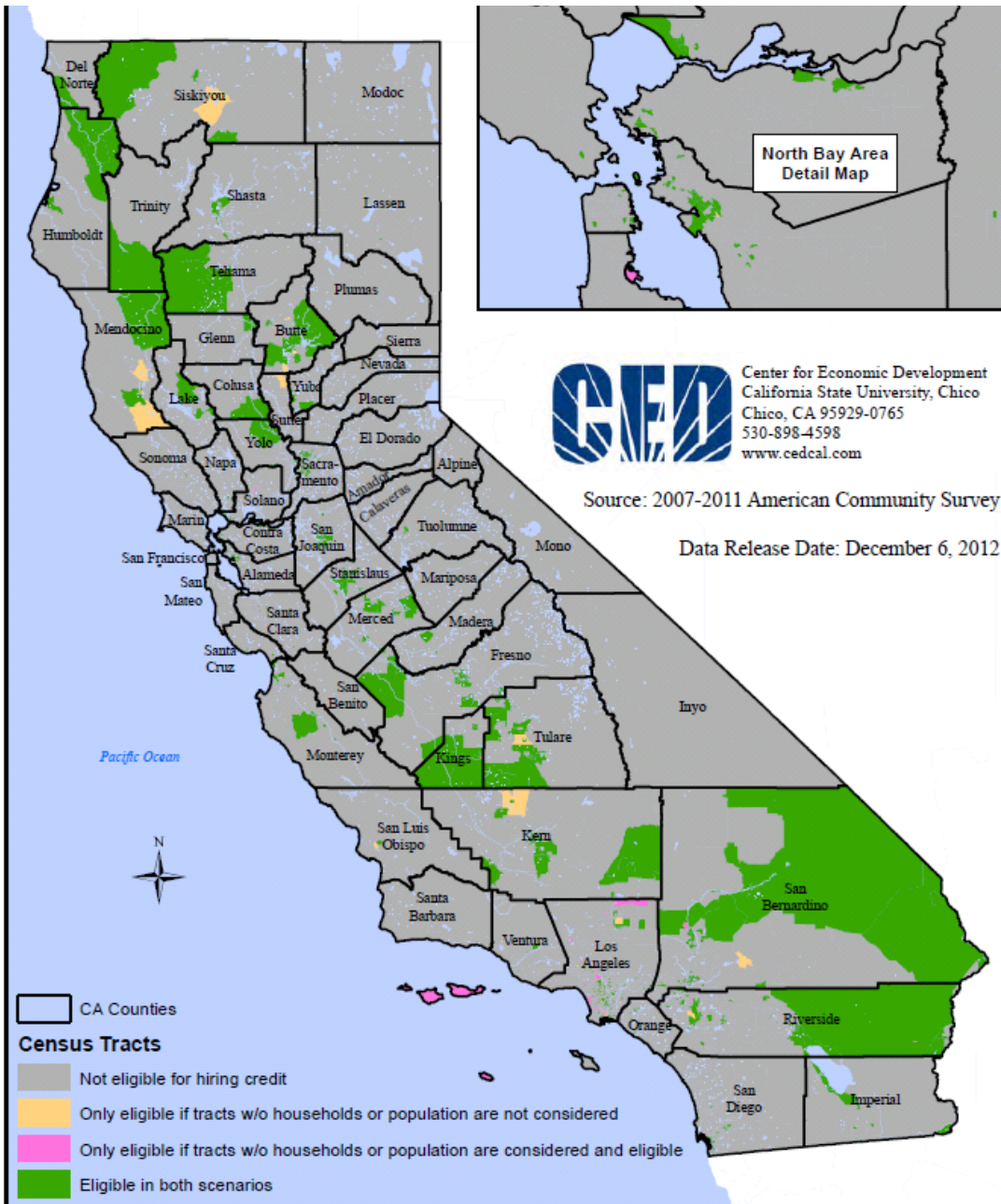
- **Investment Incentive (attraction/retention credit)**

- Businesses compete for tax credits based on # of jobs to be created or retained
- Approval of any incentive by a five member committee composed Treasurer's office, Department of Finance, GO-Biz, the CA Senate and CA Assembly.
- Approved credits may be recaptured if a business fails to fulfill contract

- **Hiring Credit**

- For businesses in census tracts with top 25 percent in unemployment & poverty
- Credit available for those who show a net increase in jobs
- Equals 35 percent of wages between 1.5 & 3.5 times minimum wage for five years
- Five pilot areas picked by GO-Biz, credit calculated on wages starting \$10 per hour.

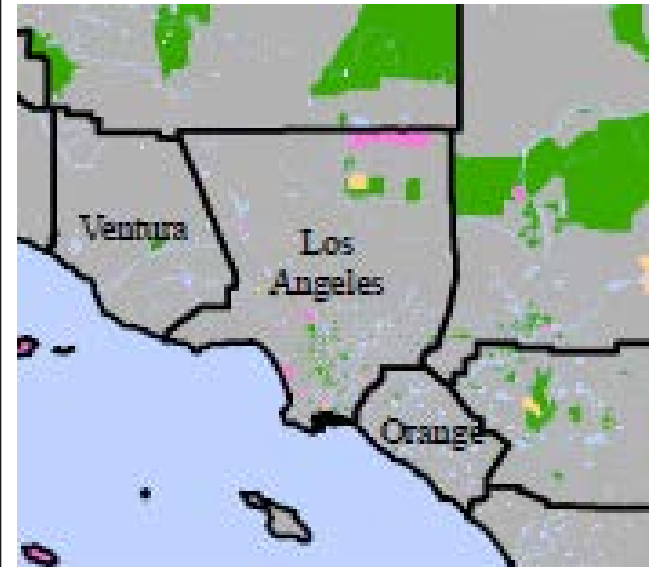
Census Tracts Where Businesses Would be Eligible for the Proposed Hiring Credit



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Source: 2007-2011 American Community Survey

Data Release Date: December 6, 2012



Your Top 5 Econ Dev Take-Aways

1. **Economic Development projects and programs without RDAs are more complex. Will take longer and are more difficult.**

Can be done with a well conceived strategy and right advisory team

2. **Basic tools- REAL ESTATE, ZONING, DISTRICTS REVENUE STREAMS**

They can be mixed & matched and typically work best in combination

3. **Take an ED Inventory - Which of the 4 tools do you already have?**

Prioritize assets or projects or opportunities that will yield highest value return from the least cost and risk. (Peer review can help selection)

Your Top 5 Take-Aways

- 4. RDAs and Enterprise Zones are gone. At some point in the near future, we will need State legislation for improved economic development tools that induce private investment & job creation**

IN THE MEAN TIME...

- most immediate opportunity- POST RDA Property Management Plans***
- next major strategy for cities is to create districts/projects and beef them up using zoning and DORs.***

- 5. Don't despair. Economic Development post RDA takes new and creative approaches to growing jobs and shoring up revenues.**

It can be done! Don't go it alone—it pays to get help

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