

Webinar - New Tools for Economic Development

Stitching Together Strategies in a Post-Redevelopment World

by:

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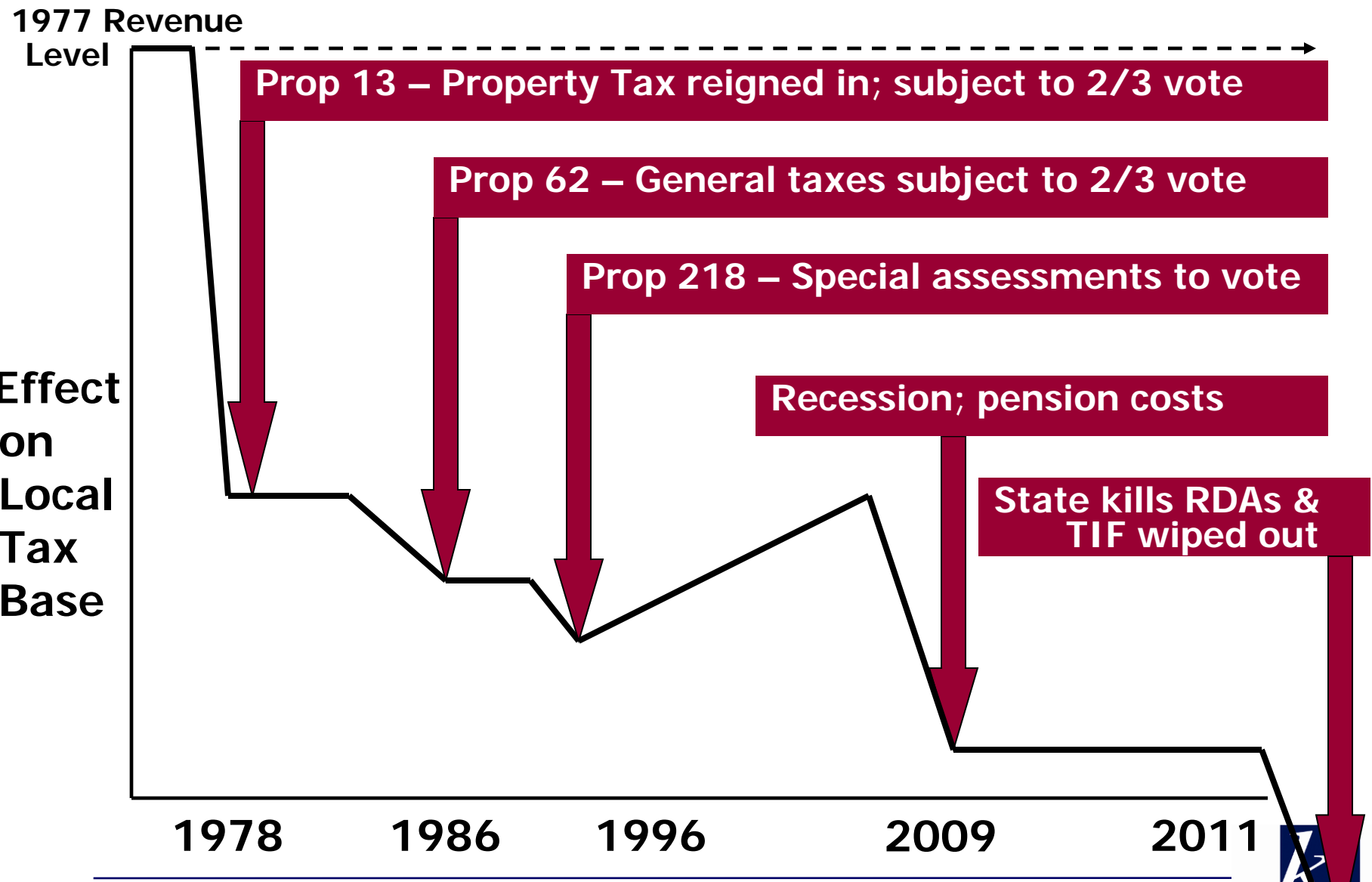
Tuesday, July 30, 2013; 10:00 – 11:30am

- **Introduction**
- Toolbox #1 – Real Estate & Property (Larry Kosmont, CRE®)
- Toolbox #2 – Districts (John Lambeth, Esq.)
- Toolbox #3 – Taxes & Revenues (Don Hunt, Esq.)
- Toolbox #4 – Land Use & Zoning (Seth Merewitz, Esq.)
- Proposed Legislation & Closing Remarks
- Q & A

State's Health Assessment

1. Local budgets are out of balance due to pension costs, reduced revenues and lost tax-increment
2. 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 and 7 years (sales & income tax)
5. Cities busy with RDA dissolution; 213 have achieved FOC. Property disposition (per approved PMPs) to start by end of 2013
6. Enterprise zones to be eliminated by 1/1/14 & replaced by AB 93

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)

Local Economic Development in California

- **State and local taxes highest in the nation**
 - Part of “fixed cost” equation that business seeks to reduce to compete
 - High taxes & few incentives force growth companies to look elsewhere
 - California consistently rated least biz friendly by the CEO Roundtable
 - Over 175 cities & 32 counties at >9% unemployment, so we need jobs
- **Economic Development is better solution for California than taxes**
 - When cities help companies to invest, local jobs & taxes are created
 - Private investment & new jobs = growth in real estate values and economic activity (business & worker spending, retail sales)
 - ~320,000 new jobs yields \$1 billion dollars per year in State GF revenues

Substantial economic development is unlikely without tax increment

Economic Development Tools often work best together



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Real Estate as an E.D. Resource

Typical Public Agency-Owned Real Estate Types:

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

Real Estate as an E.D. 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, city / utility yards)**
- **“Owned” land values can be propped up by zoning/use actions that add value (density, reduced parking, hours of operation, height, other)**
- **Utility hook-up and location valued by the private sector & end users**
- **Potential to increase value & property taxes (stable revenue source)**
- **Equity and/or lease revenue can be borrowed against**

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

- **Existing zoning may not support highest & best use**
- **Often needs work (entitlements, assemblage, env. remediation)**

CASE A - Redondo Beach Waterfront Revitalization

The Challenge

- Redondo Beach's aging waterfront increasingly struggles to compete in SoCal, especially with neighboring South Bay cities
- City explored ways to revitalize pier, boardwalk & adjacent properties
- Cost of deferred maintenance best paid for by new private investment



CASE A - Redondo Beach Waterfront Revitalization



The Solution

- **TOOLS USED:** Kosmont structured Lease-leaseback financing for 15 acres of land acquisition to be paid back from tenant lease cash flow
- RFQ issued for 15+ Acres of Waterfront development
- Centercal Development (w/ CalSTRS as JV) selected – CEQA review & DDA next

CASE B - Redondo Beach Marine Ave. Hotel Project

The Challenge

- **City wanted to better utilize area near Metro station that has yet to attract transit-oriented development.**
- **Odd lot size & shape; multiple ownership; indirect access and vacant condition has deterred private development**
- **Developer proposes 147 room Hilton Garden Inn and a 172-room Marriott Residence Inn located adjacent to the Metro station**

Metro
Station



CASE B - Redondo Beach Marine Ave. Hotel Project



The Solution

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

Site Specific Tax Revenue Mezzanine Pledge

The Solution (cont.)

- **Project Cost & Private Funding**

Total Project Cost:	~\$56.5m
Developer Equity:	~\$16.5m
Private Lender Financing:	~\$40m

- **Proposed Terms**

- City owned land; leased for 99 years
- Site Specific Tax Revenue (SSTR) Pledge of TOT & Property Tax from Hotels are used to fund a reserve of up to \$8.5 million
- If needed, SSTR Reserve used to guarantee current year debt service
- *No General Fund Guarantee*

Redondo Beach Marine Avenue Hotel Project

The Solution (cont.)

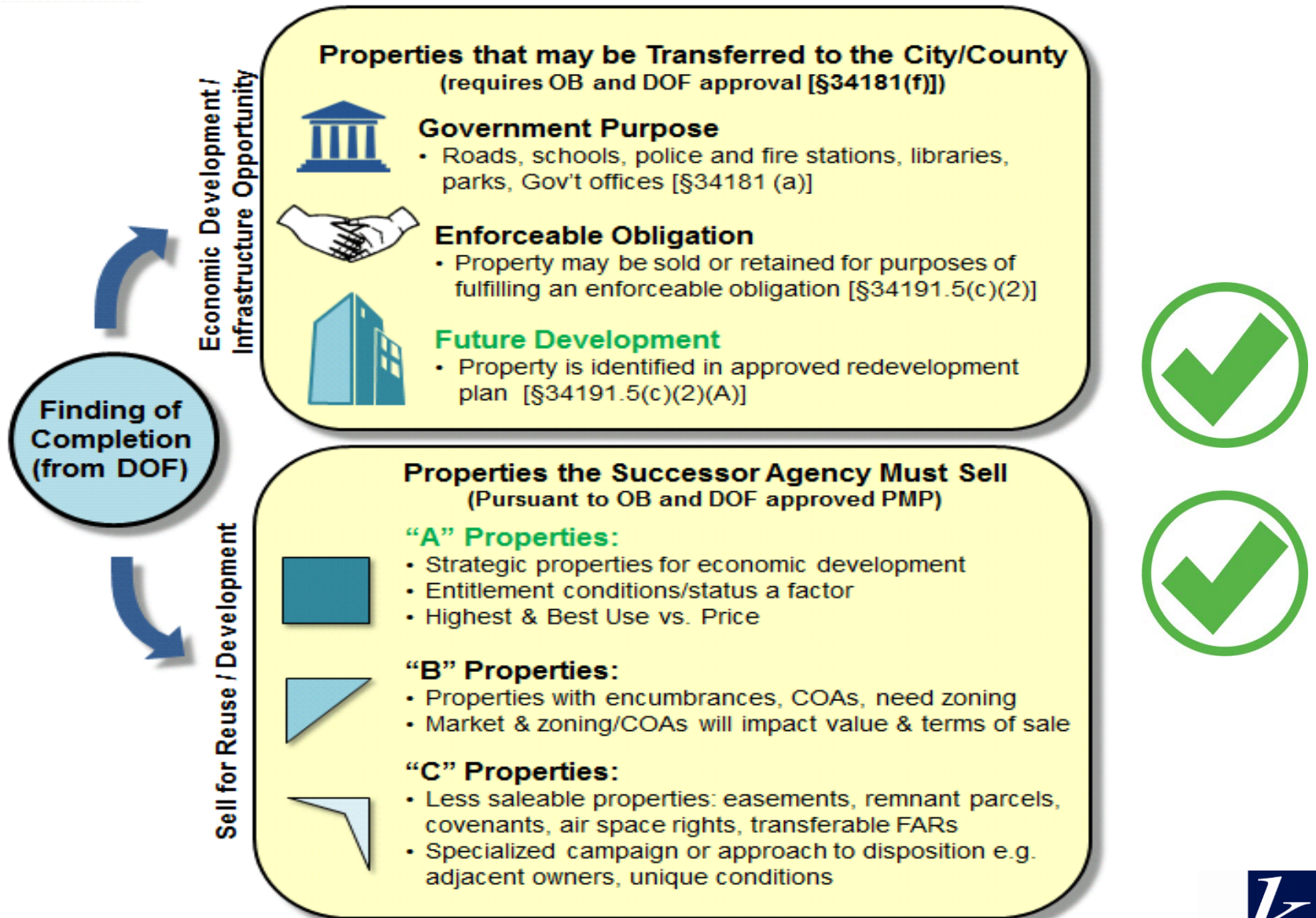
- **Site Specific Tax Revenue is key; without it the project would not receive commercial financing.**
- **Projected to add over \$2 million/year in TOT & create >100 jobs.**
- **Brings two quality hotel operations to the City's "front door"**
- **TOD project across street from Metro Green Line station**
- **Community use of meeting rooms; Freeway billboard use for City**
- **UNDER CONSTRUCTION AS OF APRIL 9, 2013**

AB1484: Property Management Plans (“PMPs”)

PMPs CAN BE A BACK DOOR TO ECONOMIC DEVELOPMENT

- PMPs are required by AB1484 to dispose of real estate properties of former RDAs (~5000 properties statewide)
- Some real estate properties are ripe for tax and job creation
 - properties intended for future development as stated in prior RDA plan (sect. 34191.5) may be transferred to the city
 - properties that must be sold can be structured as installment sales or sale deferred until re-zoned/entitled to achieve FMV
- Former RDA real estate can be foundation for a City’s next economic development projects

PMP's: Short-Term Opportunity



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Overview

BIDs & PBIDs



TIDs



Mello Roos

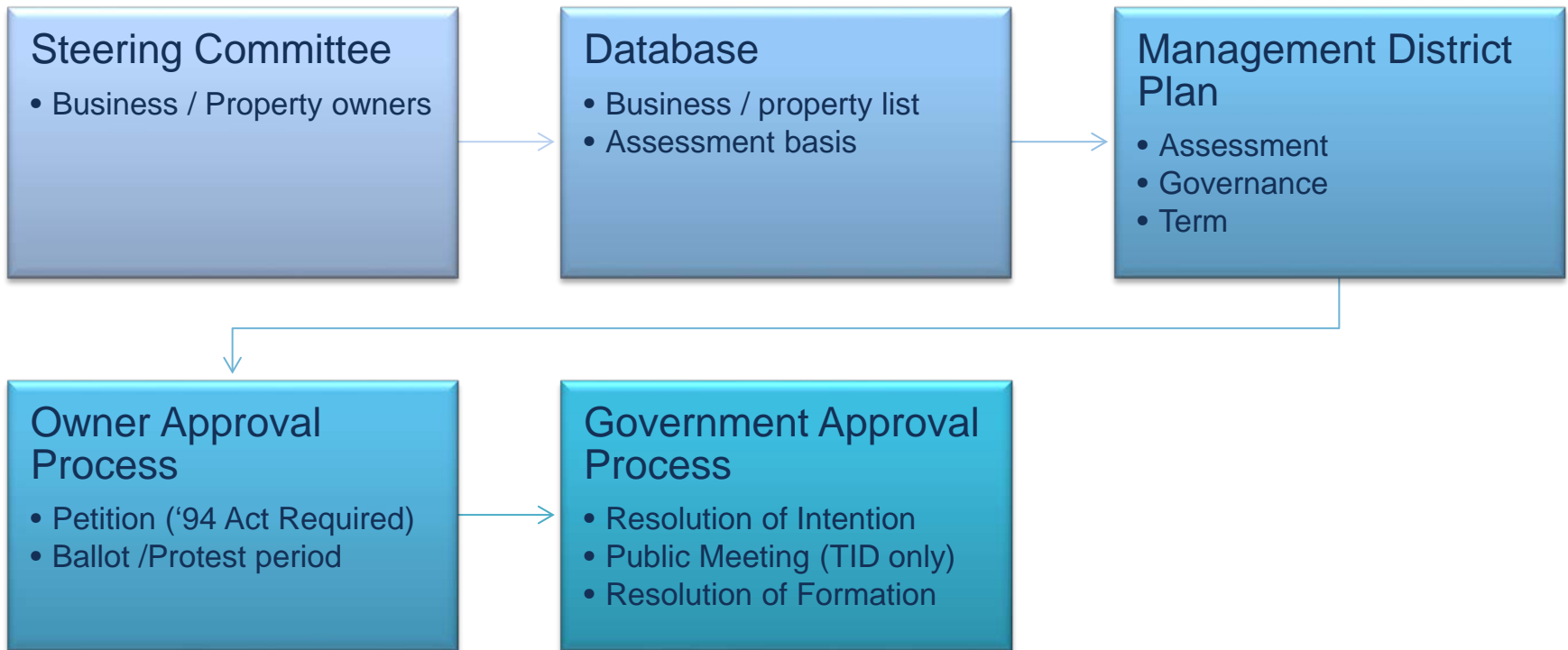


Future Districts

BID/PBID Characteristics

- Special benefit assessment districts
- Assessment on parcels/businesses
- Managed by payors- usually a private non-profit corporation
- Term with sunset date
- Defined activities only provide special benefit to payors
- Oversight by local government
- Formed under two state laws- 1989 Act and 1994 Act

BID/PBID & TID Formation Process



Formation time: Approximately 10-12 months

Downtown Sacramento PBID

- Formed in 1995
- Renewed in 2000 for a 5 year term
- Renewed in 2005 for a 10 year term
- Annual budget \$1.9M
- Assessment based on zone and calculation of lot square footage and building square footage combined.
- Rates range from \$ 0.1379 - \$ 0.0429 per SF of lot and \$ 0.0690 - \$ 0.0214 per SF of building.
- Funds support maintenance, safety and revitalization programs



Characteristics of TIDs

Assessment Mechanism

- % of room rental revenue or
- Fixed \$ per occupied room per night

Stability

- Cannot be diverted
- Varying terms – 1-40 years

Governance

- New or existing nonprofit
- DMO or hotel organization
- Local Government oversight

Yosemite Mariposa TID



WINTER IS YOSEMITE'S BEST KEPT SECRET

During the winter months, Yosemite National Park and Mariposa County are transformed into a wonderland full of diverse adventures. Take in the spectacle of Yosemite Valley draped in snowy finery, hit the slopes of Badger Pass, carve a fine figure on the ice of the Curry Village skating rink or simply snuggle in and enjoy the warmth of a roaring fire. You'll even find antiques, wine tasting and fascinating museums within a stones throw, to enhance your Yosemite experience.

With nearly 200 lodging choices, Mariposa County offers everything from vacation rentals and quaint bed and breakfasts inns to world-class resorts, all in a setting rich in history, natural beauty, and friendly people.

So, join us soon, to discover the winter wonders of Yosemite and Mariposa County: visit www.YosemiteExperience.com for information on special lodging offers and to obtain a complete vacation planner.

Order your **FREE** vacation planner at www.HomeOfYosemite.com

YosemiteExperience.com

Yosemite/Mariposa Co. TOURISM BUREAU

Join Yosemite Nation at facebook.com/yosemitenation

- Includes the unincorporated areas of Mariposa County
- Formed in 2008, renewed 2013
- Assessment is 1% of gross revenue
- Raises approximately \$1,200,000 per year
- Results: In 2011, revenue grew by 9.6%
- \$10 million in new lodging business revenue

Community Facilities Districts

- AKA Mello-Roos districts
- Special tax on real property
- Imposed for lifetime of bonds
- Limited purpose
- Formed by City with voter approval
- Charter cities may specialize

CFD Services

- **Improvements**
 - Public improvements w/ 5+ year useful life
 - Libraries, recreational facilities, museums, schools
 - Parks, daycare, utilities
- **Services**
 - Police, fire protection
 - Improvement maintenance
 - Park, light, and open space maintenance
 - Flood protection
 - Hazardous material removal

San Diego Convention Center CFD

- Charter city authority to modify CFD law
- Weighted property owner vote
- Vote based on hotel revenue
- Funds dedicated to convention center expansion

More District Innovations



Restaurants



Golf



Attractions



Wineries



Auto



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Special Purpose Financing Authorities

Parking Authorities - (Parking Law of 1949)

- **Can be created by a City, County or City and County**
- **Exist in each city & county; activated by resolution declaring need for the Authority to function and for city to declare by resolution that there is need for the city to exercise powers of Authority**
- **Incidental uses of property may include commercial uses (not to exceed 25% of surface area)**
- **Authority shall lease surplus space to private operators**
- **Authority has borrowing power**
- **No voter approval required where project is to be leased to the City and paid from rentals paid by City**

Special Purpose Financing Authorities

Infrastructure Financing Districts (IFDs)

- **Established in 1990 to finance public works in suburban areas**
- **Uses Tax Increment Financing**
- **Requires public vote for district formation and bond issuance**
- **Can't be used in prior RDA areas**
- **Has been used infrequently (Legoland and Rincon Hill in San Francisco)**
- **Requires approval of taxing agencies to divert property taxes**

Special Purpose Financing Authorities

Proposed Modifications for Infrastructure Financing Districts prepared by Bizfed in 2012:

- **Expand from public works to include public-private transactions**
- **Apply to new construction and rehab of private facilities**
- **Allow high density development**
- **Include adaptive reuse**
- **Combine with existing P3 laws**
- **Provide for remediation of hazardous materials**
- **Include seismic and life safety improvements**
- **Include benefits in exchange for job creation**
- **Eliminate voter approval requirements**
- **Allow districts to include former redevelopment project areas**
- **Allow districts to include former military bases**
- **Eliminate affordable house requirements**

Lease Revenue Bonds

- **Government income stream (utility, parking) set up in a long term lease obligation and then borrowed against**
- **Creation of Utility Authority, lease of enterprise assets, apply lease revenues to infrastructure projects**
- **Example – leverage of utility lease revenues in City of South Gate for publicly owned infrastructure improvements to accommodate regional retail center**
- **Other cities have leveraged lease revenues for public infrastructure improvements**

Site-Specific Tax Revenue Pledge (SSTR)

- **Tax revenues (e.g.: sales, TOT) generated by a specific project used to reduce gap by lowering project debt or equity**
- **City agrees to contribute an amount calculated each year based on actual incremental of public revenues produced that year by project to reimburse designated infrastructure costs**
- **Risk remains on Developer to generate verifiable annual public revenues from project**
- **Contribution may be made directly as a reimbursement or as a contribution to offset financing costs of infrastructure initially financed through a special purpose financing entity such as a community facilities district.**

Lease Leaseback

- **Lease/sublease of existing asset between two public agencies enables lease payments to be leveraged (borrowed).**
- **With a Lease/sublease existing building/facility, lease payments can start immediately without the need to fund capitalized interest.**

Sale of Delinquent Ad Valorem Property Tax Receivables

- **In non Teeter Plan counties, cities and school districts may sell delinquent ad valorem, assessment, CFD, and LLMD on the property tax roll**
 - **go back 5 years with up-front cash payout in excess of 100% of delinquencies**

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Land Use, Zoning and Other Local Policies to Promote Economic Development

League of California Cities - Post RDA Tools Webinar
July 30, 2013

PRESENTED BY

Seth Merewitz

Partner

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Overview

- Public Agency Approach
- Existing Local Authority
- Public Private Partnerships
 - Redevelopment/Economic Development
 - Public Infrastructure

Public Agency Approach

- Need to be Entrepreneurial:
 - Assess What You Have (... and don't have)
 - Prioritize Development Needs and Opportunities
 - Think strategically
 - Focus on Goals- Long Term and Short Term
 - "Act like a Facilitator, Not a Regulator!"
 - Assist the Process (avoid adversarial approach)
 - Work to Solutions

Public Agency Approach

- Clearly Stated Vision for Community:
 - Political and Staff Consistency
 - Adopted Policies and Goals
 - Positive Community Engagement
 - Identification of Local Incentives
 - Awareness of Regional and State Incentives

Public Agency Approach

- Transparent Review and Approval Process:
 - Clear “beginning, middle and end of process”
Understood and Communicated by Staff
 - Expectation of Time to Process Entitlements
 - Efficient Process:
 - “One-Stop”
 - Dedicated Project Contact

Existing Authority

- State Constitutional Authority:
 - Local “Police Power” (Art. XI, Section 7)
 - “Health, Safety and Welfare”
 - “Economic Welfare”
 - Authority for Economic Development Programs
 - Need to Identify Public Benefits
 - Display Real Consideration
 - Based on Findings

Existing Authority

- State Requirements (Planning and Zoning):
 - Flexibility in Zoning
 - Form-Based Codes
 - Planned Unit Development
 - Pre-Zone/ Pre-Entitle Land
 - Specific Plans
 - Transfer of Development Rights
 - Incentivize Projects that Meet Public Goals
 - Long Range Property Management Plans
 - Potential Catalyst

Existing Authority

- Project Processing (CEQA and Permitting):
 - Expedited Review
 - Joint Planning Efforts
 - “Area of Benefit” Districts
 - Integrated Finance Districts (the other IFD!)
- Direct Project Assistance
 - Assemble Land/ Planning Grants
 - Environmental Remediation
 - Eminent Domain (only for public purposes)

Existing Authority

- Potential Incentives:
 - Infrastructure
 - Public Amenities
 - Utilities
 - Vested Rights
 - Development Agreements and Vesting Maps
 - Exactions/ Development Impact Fee
 - Citywide Waiver and Delayed Time for Collection
 - Joint Use Projects

Public Private Partnerships

- Two Types:
 - Redevelopment/ Economic Development
 - Infrastructure
- Answer the Four P's Before the P3:
 - What is the Project?
 - What is the Problem?
 - Who are the Parties?
 - What are the Politics?

Public Private Partnerships

- Keys to Success:
 - Understand the Needs of the Parties
 - Understand the Negotiation “Life Cycle”
 - Components of Successful P3’s:
 - Statutory or Constitutional Authority
 - Shared Risks and Rewards
 - Stakeholder Support
 - Clarity on Local and Other Regulatory Processes
 - Contract with Escalating Remedies
 - Business Plan

Summary

- Evaluate Local Agency
 - Mindset and Vision
 - Resources (Land and Incentives)
- Explore Existing Local Authority
 - Don't Count on State Law Changes
 - Use Constitutional Police Power
- Consider Public Private Partnerships
 - Redevelopment/ Economic Development
 - Infrastructure Investments

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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

SB 1 (Steinberg)	Creates Sustainable Communities Authority Reintroduction of last year's SB1156	R D A
AB 1080 (Alejo)	RDAs designed to serve disadvantaged areas	
SB 33 (Wolk)	Removes public vote requirement / other fixes	I F
AB 243 (Dickinson)	Lowers vote to 55%; extends districts to 40 yrs	D
AB 229 (Perez)	Expand IFDs to former RDA areas & military bases	R
AB 294 (Holden)	Uses State Infrastructure Bank for Public Works Also uses school share of property tax (ERAF)	E F
AB 662 (Atkins)	Expand IFDs to former RDA project areas Also an RDA dissolution cleanup bill	O R M

Return of TIF this year is 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.

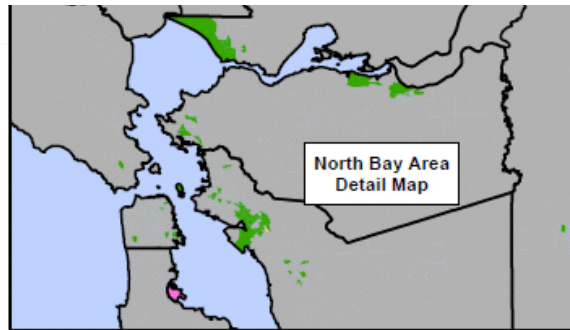
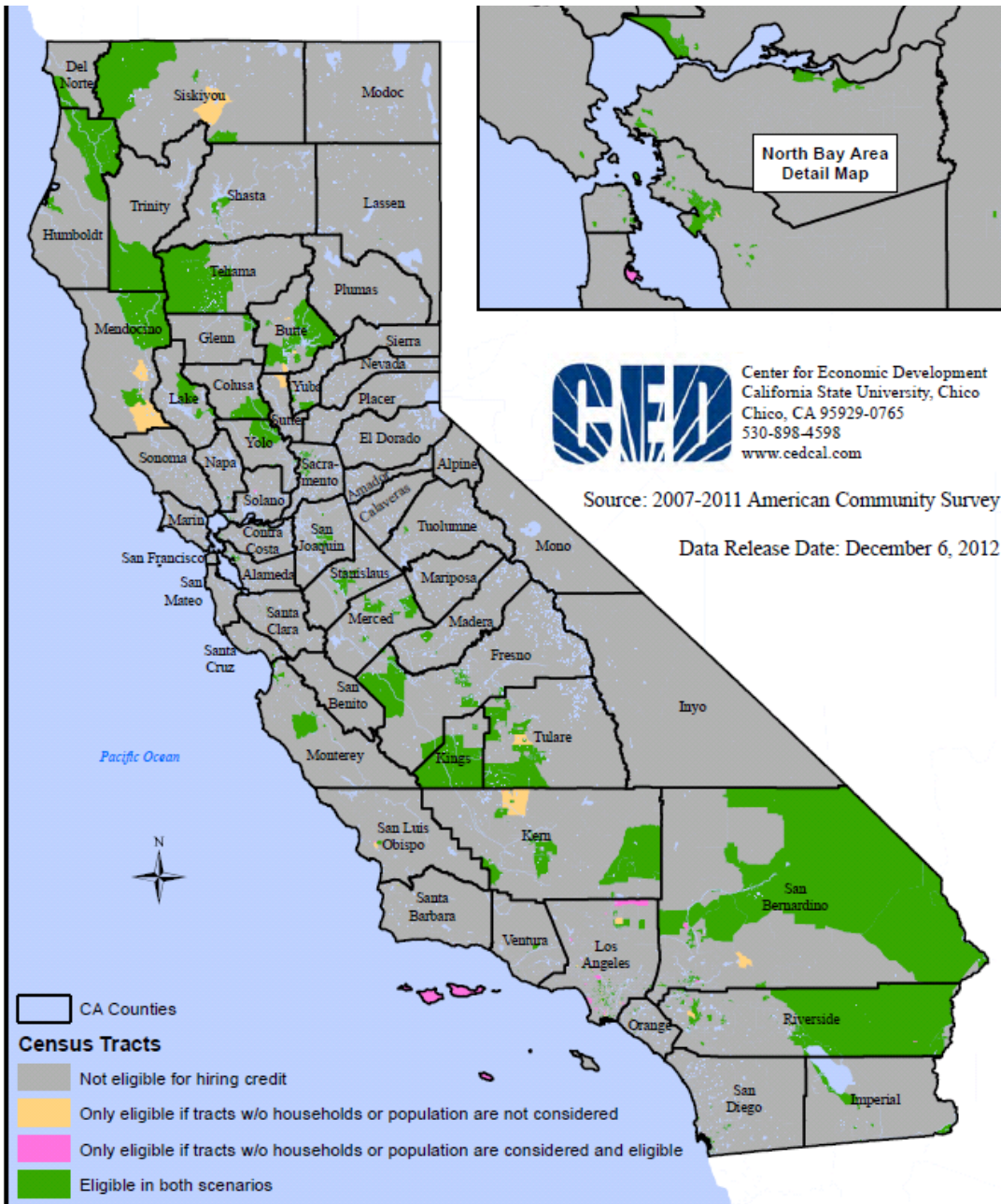
- **Investment Incentive (attraction/retention credit)**

- 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 yrs
- Five pilot areas picked by GO-Biz, credit calculated on wages \geq \$10/hour.

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



Center for Economic Development
California State University, Chico
Chico, CA 95929-0765
530-898-4598
www.cedcal.com

Source: 2007-2011 American Community Survey

Data Release Date: December 6, 2012



Top 5 Economic Development 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**

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

3. **Take an ED Inventory - Which of the 4 tools can you use?**

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

Top 5 Economic Development Take-Aways

4. **RDAs & Enterprise Zones are gone. State legislation or Statewide Initiative needed for tax increment based economic development tools that induce private investment & job creation**

Until then...most immediate opportunities:

- *Post RDA Property Management Plans*
- *Next major strategy for cities is to create districts/projects and beef them up using zoning & entitlements*

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

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

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