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Reviving Economic Development

Economic Development *Without* Redevelopment

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by:

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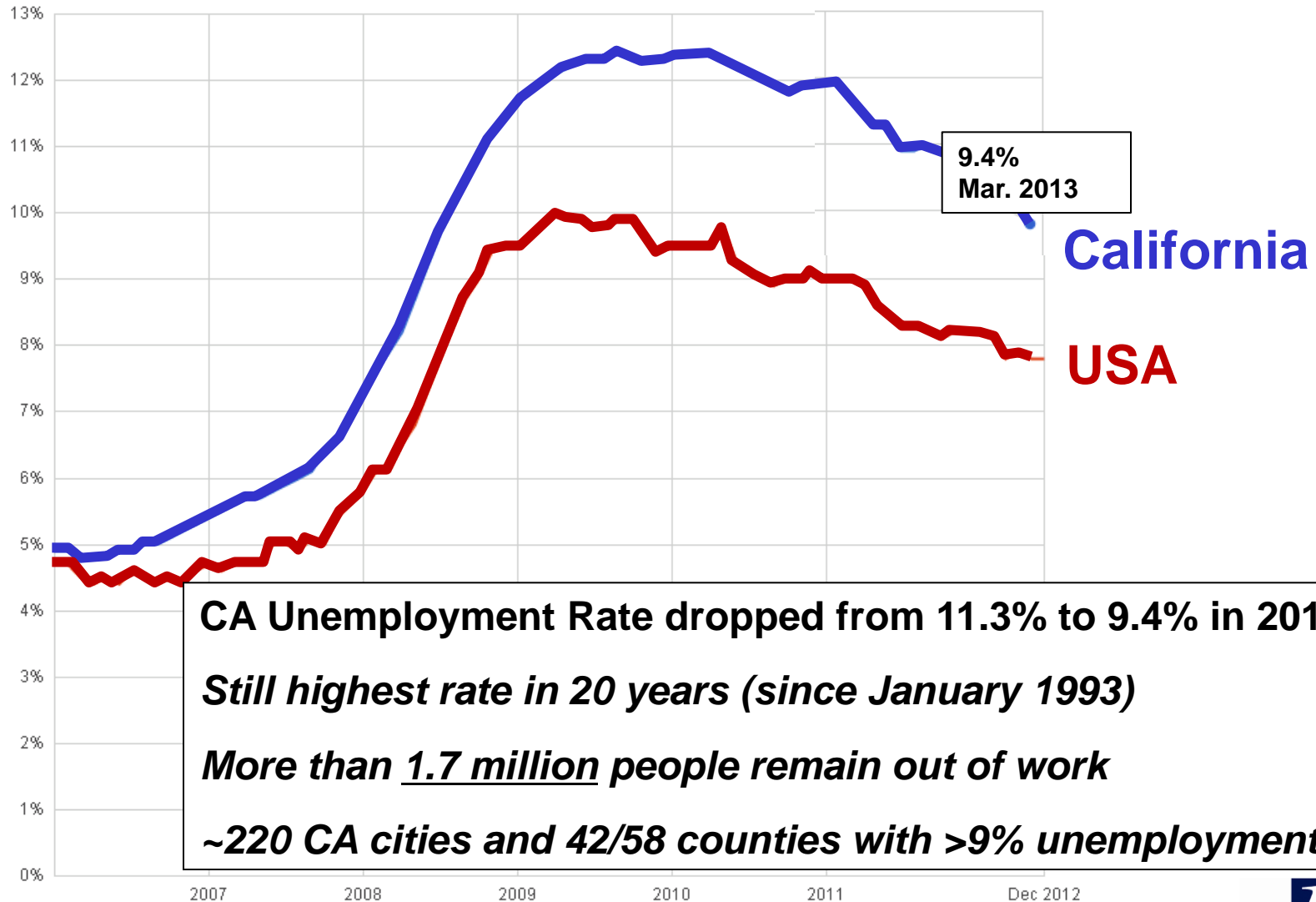
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State's Health Assessment

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

UNEMPLOYMENT IS THE NEW BLIGHT



CA Unemployment Rate dropped from 11.3% to 9.4% in 2013

Still highest rate in 20 years (since January 1993)

More than 1.7 million people remain out of work

~220 CA cities and 42/58 counties with >9% unemployment

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-)**



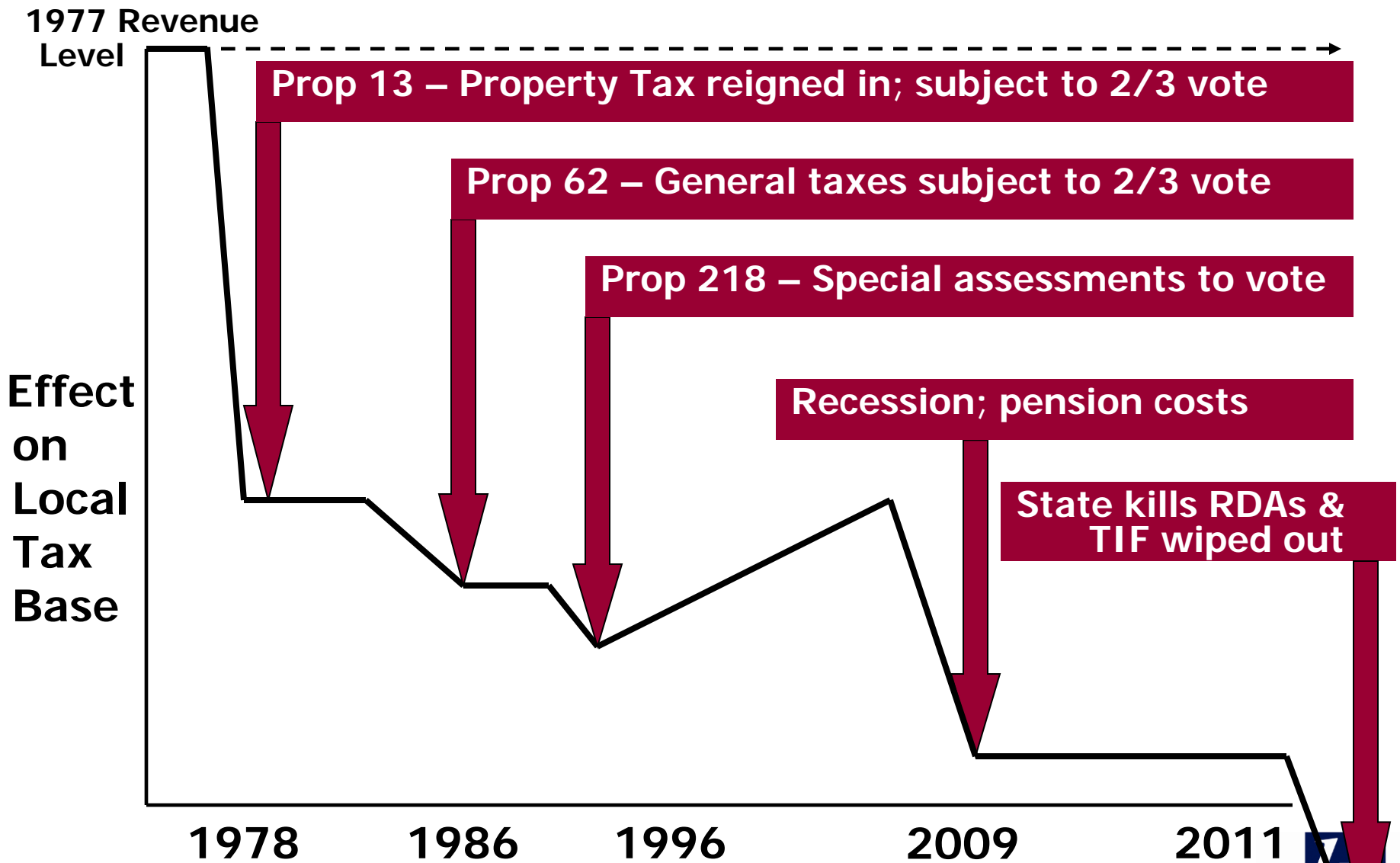
LAB RESULTS:

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

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

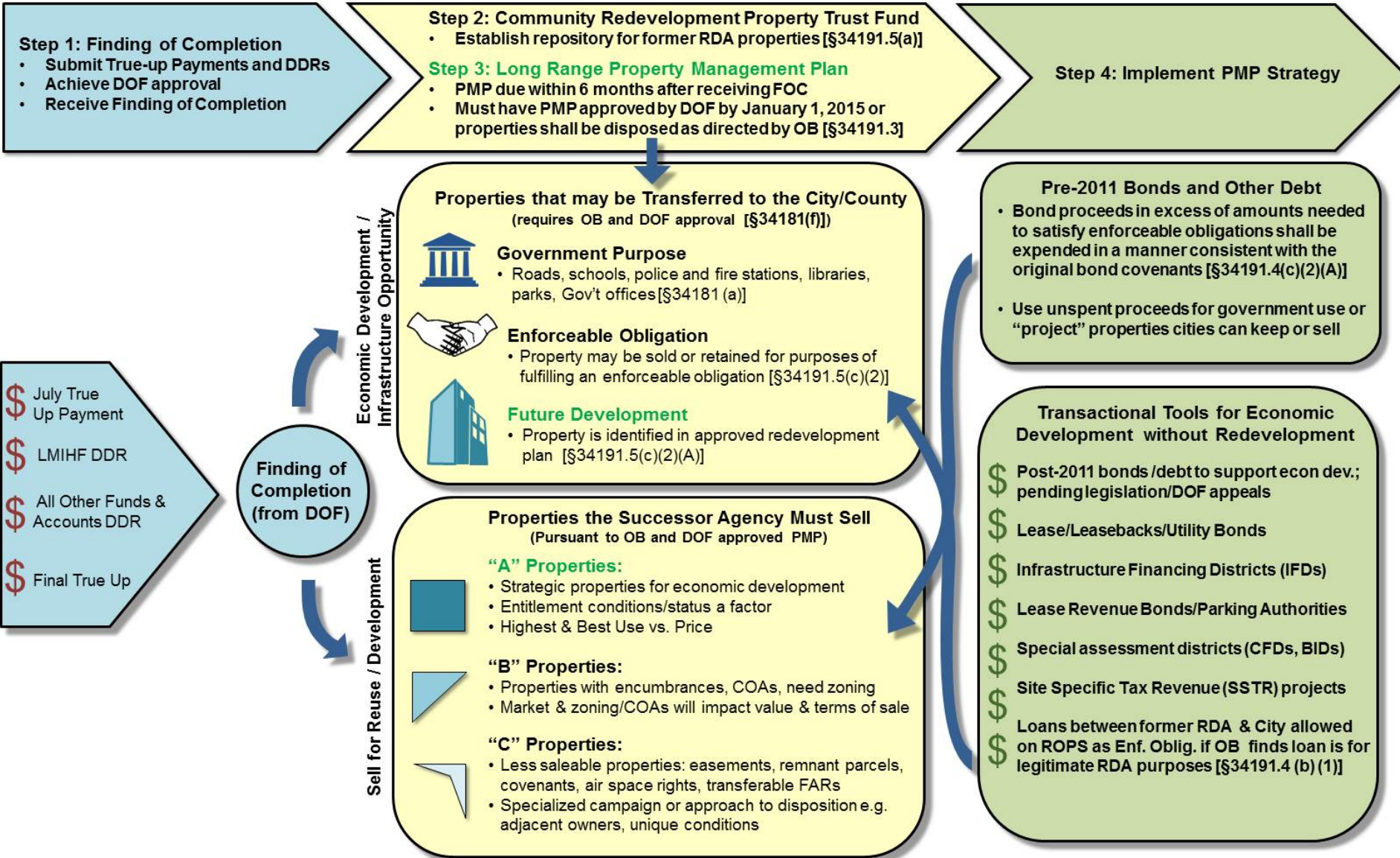
~250 jobs

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

Why PMPs Matter

1. **PMPs are required by AB1484 to dispose of real estate assets of former RDAs**
2. **Some properties may be retained via a transfer from SA to City – important to prepare PMP based on a property strategy**
3. **The retained properties and other key (“A”) properties can be foundation for City’s next economic development projects**

Transactional Guide to Property Management Plans



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

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
- The State can restore TIF by enabling redirection of Property Tax to induce new jobs in private sector
- Property tax increment \$\$ invested in job producing projects could pay the State back approx. 11 to 1 in sales & income taxes
- 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

Tax Increment Financing is Key to Jobs

Use Tax Increment Financing but gear it to job creation:

- **California 3rd worst state re: unemployment rate – 1.7M out of work**
- **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**
- **Approx. 320,000 jobs = approx. \$1B in new State annual revenue***
- **AB 690 (CAMPOS) would create local JOBS & EDUCATION DISTRICTS (JEDs) using TIF to create jobs through P3's — *worth watching***

Key is New Jobs NOT New Taxes

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)

Roses May Be Found in Some Thorny PMPs

- **Disposition of former RDA properties is an unprecedented event in CA, resulting in one-time liquidation of over 5000 properties!**
- **Per AB 1484, approved Property Management Plans (PMPs) will govern property sales of 400 successor agencies**
- **PMPs offer a near-term opportunity for Successor Agencies and their Cities**
- **Economic Development opportunities can materialize by strategically managing assets in the PMP**
- **California cities and former RDAs have decades of expertise in buying commercial properties, but little history selling properties**

BE STRATEGIC ABOUT PMPs—LOOK FOR “A” PROPERTIES AND CONVERT TO ECONOMIC DEVELOPMENT (JOBS & TAXES)

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