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Reviving Economic Development

Economic Development Without Redevelopment

May 18, 2013

by:

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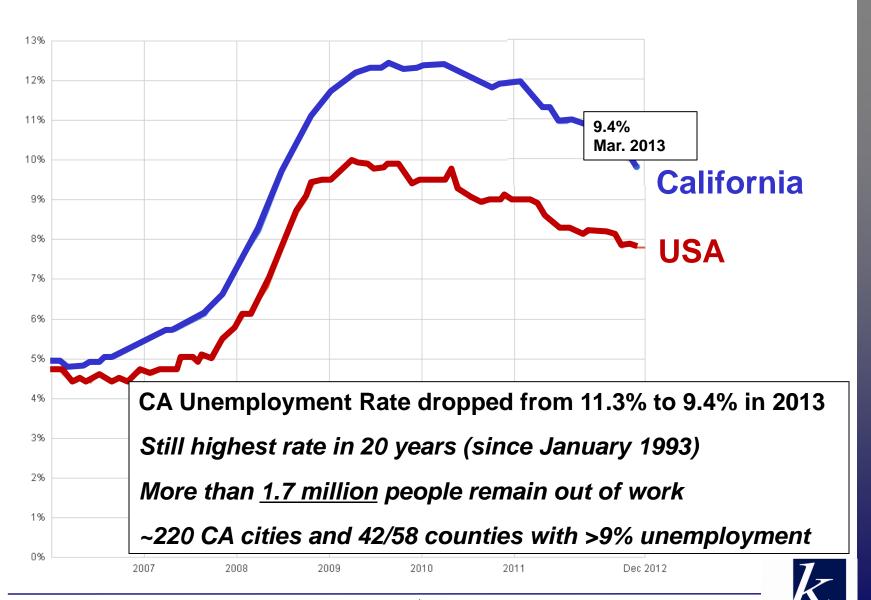
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State's Health Assessment

- 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



Source: US BLS, 2013; CA BOE, 2012

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-)

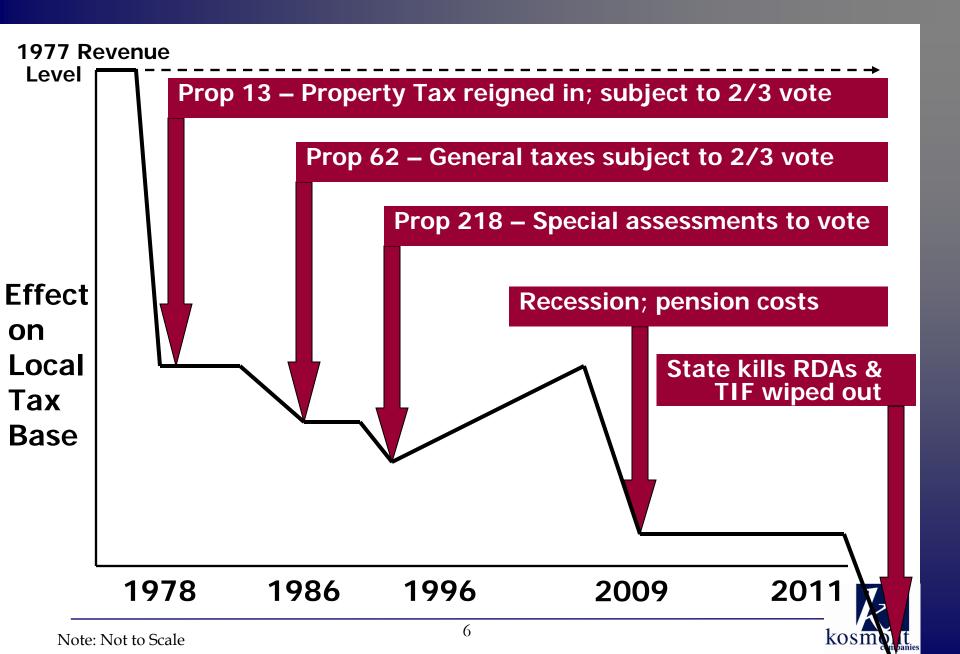
LAB RESULTS:

Income Tax: ~64% of General Fund

Sales Tax: ~21%

Other: ~15%

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



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)***





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 <u>"azalea" Retail Center</u>

~600 jobs \$2.6 million / year (sales & prop tax)

~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 <u>Major Rehab of Victor Valley Mall</u>

~250 jobs \$1 million / year (sales & prop tax)

Why PMPs Matter

- 1. <u>PMPs are required</u> by AB1484 to dispose of real estate assets of former RDAs
- 2. <u>Some properties may be retained via a</u> <u>transfer from SA to City</u> – 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



<u>Transactional Guide to Property Management Plans</u>

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)])



Opportunity

Economic Development

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)]

July True
Up Payment

LMIHF DDR

All Other Funds & Accounts DDR

Final True Up

Finding of Completion (from DOF)

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 /debtto 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)]





Multiple TIF Bills Introduced In 2013

AB 1080 (Alejo)	New form of Redevelopment Designed to serve disadvantaged areas	
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	
AB 229 (Perez)	IFD Reform Military Base Reuse Authorities	Ĺ
AB 294 (Holden)	IFD Reform using State Infrastructure Banks Also uses school share of property tax	F D
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) "Unemployment is the New Blight"	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%

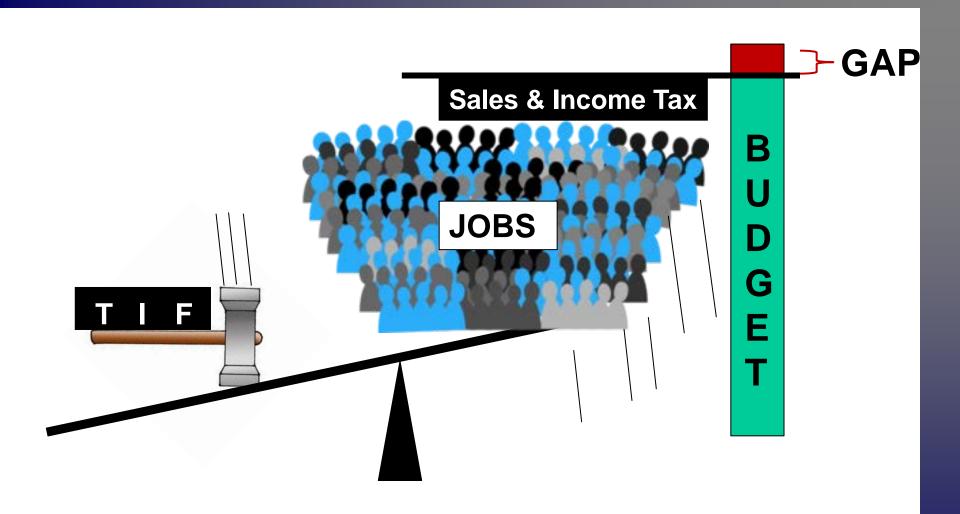
Sales Tax: ~21%

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. <u>11 to 1</u> 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 Tu	es) 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)

