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Reviving Economic Development in California

by:

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Post-Redevelopment / Economic Development

- **Toolbox #1 – Property**
- **Toolbox #2 – Land Use & Zoning**
- **Toolbox #3 – Districts**
- **Toolbox #4 – Taxes & Revenues**

How are these tools being employed?

- **City of South Gate – “azalea” Retail Center**
- **City of Redondo Beach – Marine Hotel**

What is the future of Economic Development in CA?

State's Health Assessment

1. Cities busy with RDA dissolution activity and starting to deal with Property Management Plans and disposition of former RDA properties
2. Local budgets remain impaired due to pension costs, reduced revenues and lost tax-increment; yet property and sales tax coming back
3. Local government credit damaged; cities finding it more challenging to borrow
4. State Budget artificially balanced using Prop 30 revenues that expire in 3-6 years (income & sales tax)
5. Enterprise zones eliminated - replaced by AB 93
6. New Economic Development Legislation for 2014:
 - AB 562 (Williams): "Economic Development Subsidies"
 - SB 470 (Wright): "Community Development: Economic Opportunity"
 - SB 440 (Gatto): "Hazardous Materials: local cleanup - Polanco Act"

California's Budget Needs a Long Term Fix



BALANCED FOR NOW...*but still sick*

- **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:

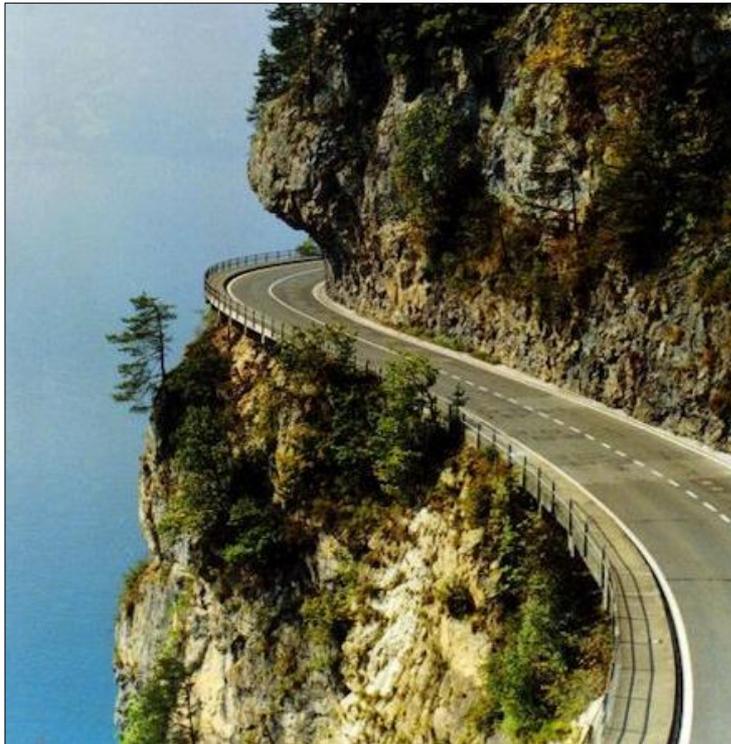
Income Tax: ~64% of General Fund

Sales Tax: ~21%

Other: ~15%

Mayor & City Manager's Choice for Survival

Which Road to Take?



**Put New Tax
Measures on Ballots?**



**Find Ways to install
Economic Development?**

Taxes vs. 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 may 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 & 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?

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

Typical Public Agency-Owned Property Types:

- **Former RDA Properties – Long Range Property Management Plans (PMP)**
- **Civic Use Properties (Civic Centers, Fire Stations, Recreation)**
- **Surplus Property (City, School District, Utility, other)**
- **Rights of Way / Streets / Alleys**
- **Parking Lots / Structures**

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**
- 2. Development Agreement (DA)**
- 3. Specific Plans**
- 4. Development Opportunity Reserve (DOR)**

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

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

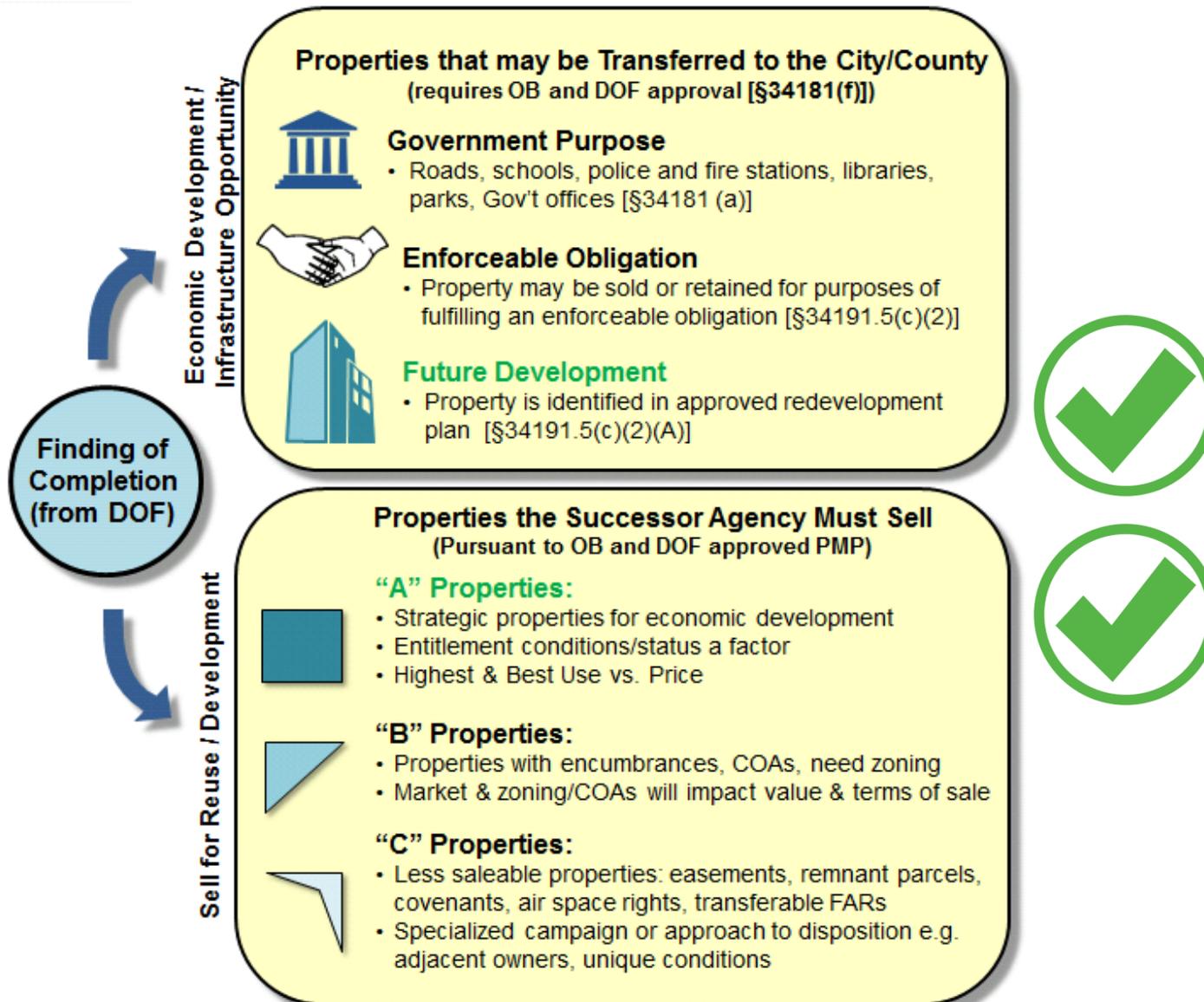
Here’s why:

Per AB1484, Successor Agencies must file Property Management Plans (PMPs) to dispose of former RDA property: **~3000 properties expected!**

AB1484 affords major opportunities for cities:

- Exception for future development (if included in prior RDA Plan) - City can rezone 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
 - Some properties are ripe for tax and job creation
 - These properties and others can be a foundation for a City’s next economic development projects
- Some properties need remediation which may be achievable because of SB 470 (Wright); provides Polanco powers to cities

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/advance community priorities per General Plan
- Establish additional density, but do not distribute per parcel
- Pool new density into a “Reserve Account” – eligibility based on priorities
- Approve increased density to new projects that comply with pre-set “community objectives”
- Economic benefit goes to targeted uses, not existing owners

Example:

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

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

- **California Law allows for creation of various types of specialized districts within a city that apply economic development programs on area-wide scale vs. 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**

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

Property Owner-based Districts

- **Property and Business Improvement Districts (PBIDs)**
- **Community Facilities Districts (Mello-Roos)**

Business-based Districts

- **Tourism Improvement Districts (TIDs) – “Hotel” Districts**
- **New Types of Districts in California**
 - **Wine Promotion Districts (*Larry’s Personal Favorite*)**
 - **Restaurant Improvement Districts**

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

How are These Tools Being Employed?

Economic Development Tools often work best together



And there are Success Stories ...!

Case Study: South Gate – “azalea” Retail Center

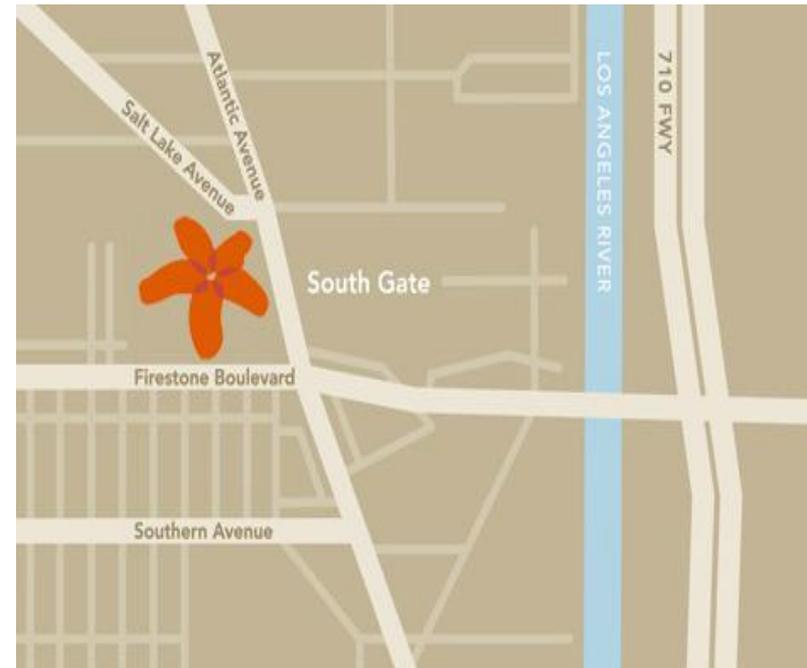
Challenge: 32-acre site, former pipe manufacturing plant, fallow & blighted for years– substantial clean-up before and during construction

The Solution:

- Utility Bonds for off-sites
- Site Specific Tax Revenue (SSTR)
- New Market Tax Credits (NMTC)
- EDA Grants
- ✓ *\$2M of sales tax & 600 new jobs*

The Outcome:

- 372K sf regional retail center (Walmart, Ross, Marshalls)
- Public Plaza & Events Center, City Services Annex
- Under CONSTRUCTION;
Opens MID - 2014



Case Study: South Gate – “azalea” Retail Center



City of Redondo Beach – Marine Ave. Hotels

The Challenge

- City desired to utilize area near Metro station
- Odd lot size & shape; multiple ownership; 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

The Solution:

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



The Outcome

- Site Specific Tax Revenue is key; without project does get financed
- Will add over \$3 million/year in TOT & create ~150 jobs
- Brings three quality hotel operations to the City's "front door"
- TOD project across street from Metro Green Line station

City of Redondo Beach – Marine Ave. Hotels



New Economic Development Legislation

Approved Legislation - effective 1/1/14

- **AB 440 (Gatto): “Hazardous Materials: Local cleanup”**
 - Authorize local agencies to take any action similar to those under Polanco Redevelopment Act for cleanup of brownfields within boundaries of local agency
- **SB 470 (Wright): “Community Development: Economic Opp.”**
 - Allows City or County to sell real property for ED purposes with “findings” – can sell at “fair reuse value”
 - Applies to PMP properties sold as part of RDA Dissolution
- **AB 562 (Williams): “Economic Development Subsidies”**
 - Requires City or County to provide report to public before approving any ED subsidy of \$100,000 +

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.

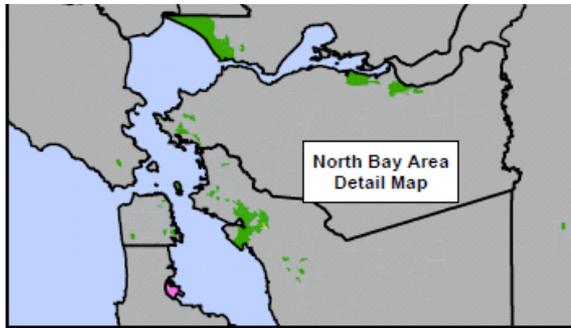
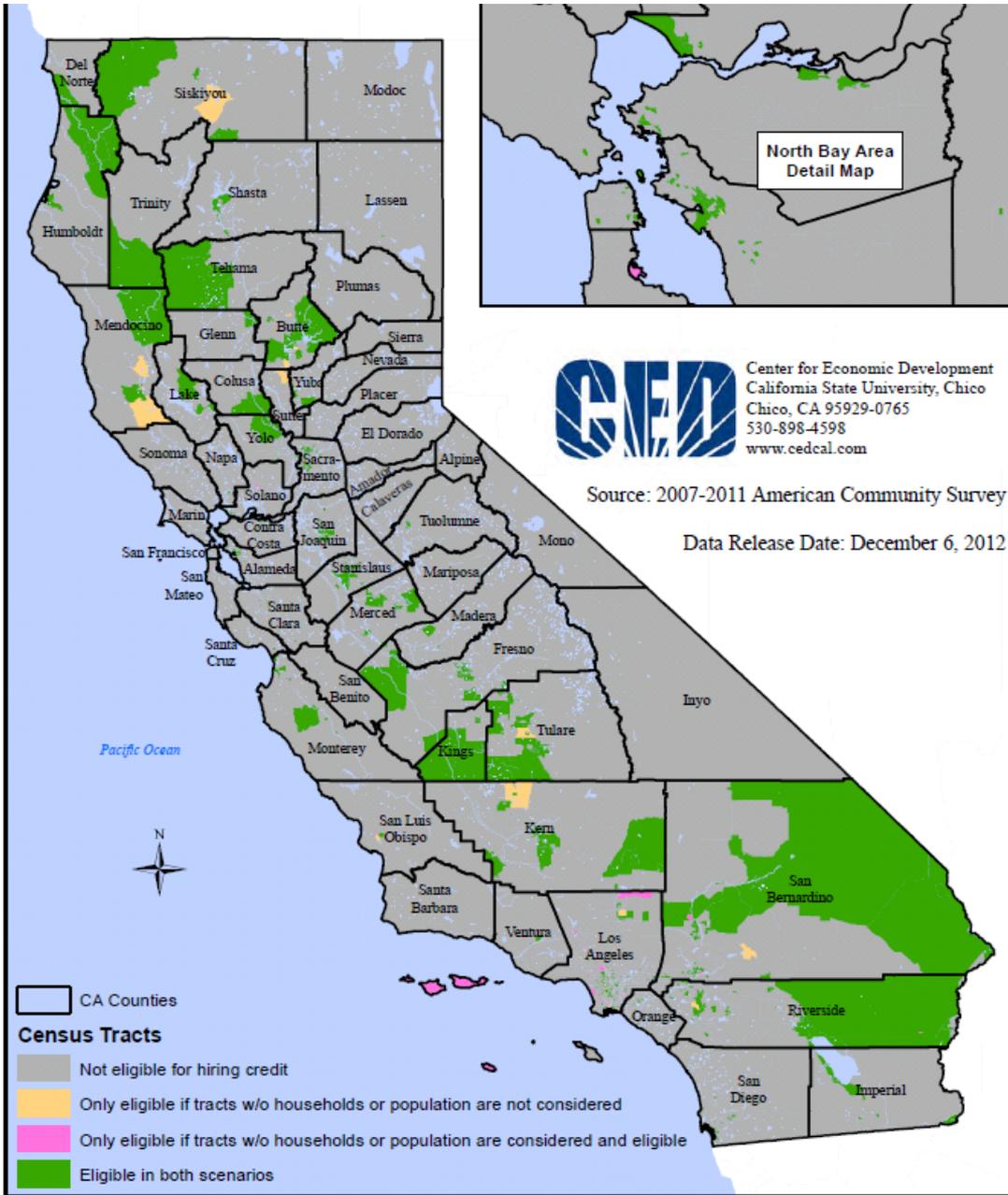
- **Investment Incentive (attraction/retention credit)**

- 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.

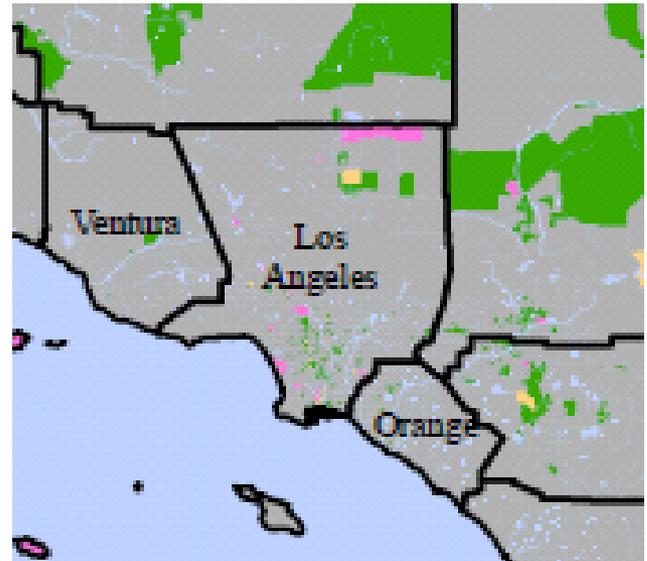
Census Tracts Where Businesses Would be Eligible for the Proposed Hiring Credit



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Source: 2007-2011 American Community Survey

Data Release Date: December 6, 2012



Top 5 Economic Development Take-Aways

1. Economic Development Projects w/o RDAs are more challenging

- More complex and will take longer
- Achievable BUT need well conceived strategy
- ED & Public Finance complexities demand a skilled team
- Key is to minimize public risk and maximize private investment

2. Basic Tool Kit = *Real Estate, Zoning, Districts & Revenue/Tax Streams*

- Can be mixed & matched
- Typically work best in combination

3. Step 1: Economic Development Inventory

- Identify Community Objectives
- Which of 4 tools can you use?
- Prioritize assets or projects or opportunities
 - *Seek highest value & return with least cost and risk*
 - *Expert Peer review can help select projects, strategies & tools*

Top 5 Economic Development Take-Aways

4. **RDA and Enterprise Zones are gone. Waiting for Tax Increment, like waiting for the Sandman!**

IN THE MEAN TIME...

- ***First opportunities: POST RDA properties***
- ***Next: create districts and/or identify projects & beef up using zoning & DORs***
- ***New Bills: SB 470 & AB 440 may help***

5. **Economic Development post RDA requires new and creative approaches to generating projects that yield revenues and jobs**

- ***Find other examples and populate your Team with transactional expertise***
- ***It can be done!!***

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