PRESENTS:

California 2017
Politics, Economics, Environment...
What Trumps?

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Synopsis

1. **The State of the State**

   The Box Office Numbers are In

2. **Economic Development 2.0**

   Hope for a Profitable Sequel

3. **What's Hot! What's Not!**

   Oscars and Razzies

4. **Kosmont Looks Forward**

   The Future Is Here

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The State of the State

California's Mixed Bag : Short Term Gains vs. Structural Weakness

JOB GAIN STILL LEADS THE NATION

- **Certain job markets on fire (SF, Bay Area)**
- **Technology capital**
- **LA County job gains mostly minimum wage**

BUT NOT WITHOUT COSTS AND STRUGGLE

- **Poverty rate rising (as high as 1 in 5 living in poverty)***
- **Pensions, Retiree Health & Welfare costs mounting (~$191 billion)**
- **Education levels lapsing with skills gap increasing**
- **High Taxes going higher**
- **Aging Infrastructure is breaking down**
- **Housing prices escalate but affordability gap impact workers**

***Source: Forbes / ebudgetCA.gov**

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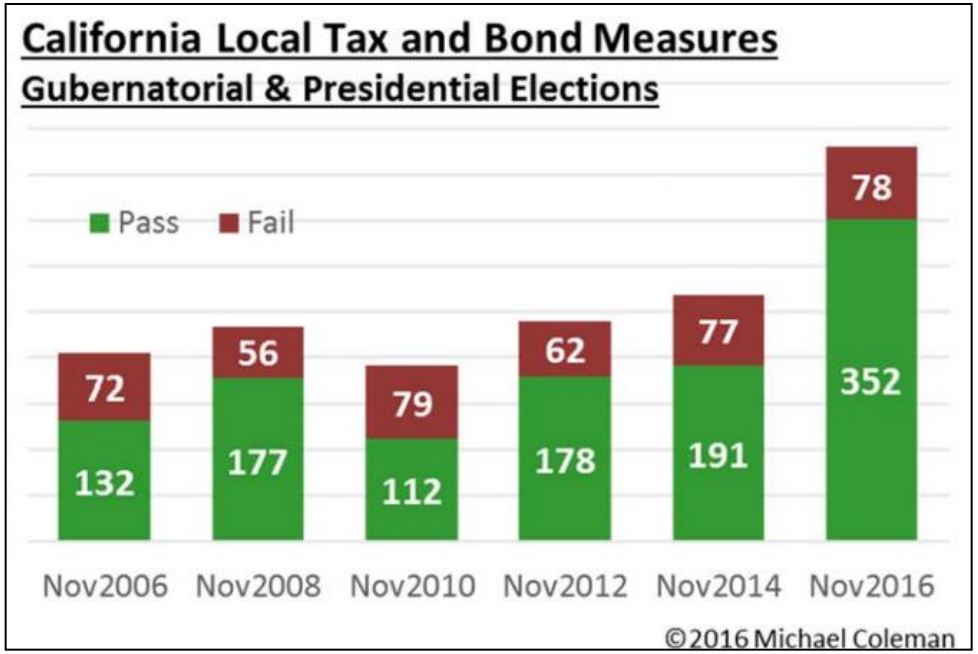
California High On Taxes & Taxes on High

427 Tax & Bond Measures Statewide - November 2016

- Most local revenue measures in last 5 elections in CA
- More passed than ever before
- 88 increased/extend tax rates
- 39 for streets, parks, fire/emergency and hospitals
- 39 to tax cannabis



High Number of Local Measures Due to:

- Local gov. regulatory response to statewide initiatives (marijuana)
- Online sales & tech activity requires new legislation (retail transactions)
- Expiring local sales tax & parcel tax measures

Statewide PROP 55 Passed – Extends for 12 more years, the Income tax *but not the Sales Tax* increases from 2012's Prop 30

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Severe Housing Shortage Statewide Limits California's Potential for Economic Growth

Two Problems: Housing Affordability and Affordable Housing:

- **Unaffordable Housing becomes biggest threat to jobs – companies challenged to attract workers that can't afford homes**
- **Population growing yet residential construction slowing -- not enough units to meet demand.**
- **Affordable housing development suffering: Low Income Housing Tax Credits being priced lower due to expected business tax cuts**
- **RED TAPE: front-end approval times getting longer**
- **NIMBYs Armed to the Teeth – slow and no growth initiatives headed to the ballot box in March (Measure S)**

***Source: NewGeography / ebudgetCA.gov**

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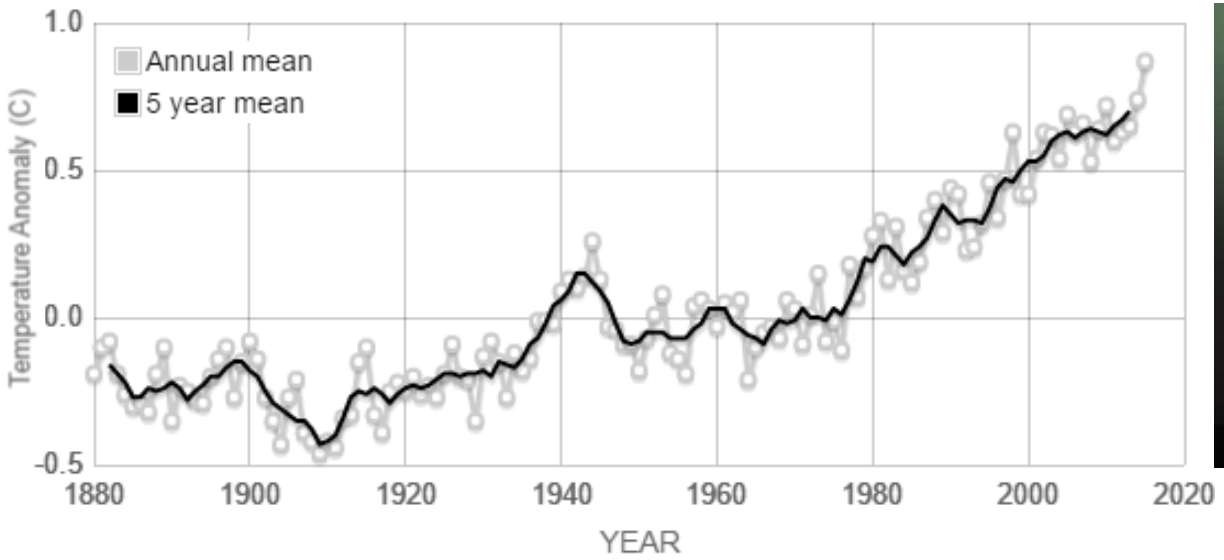
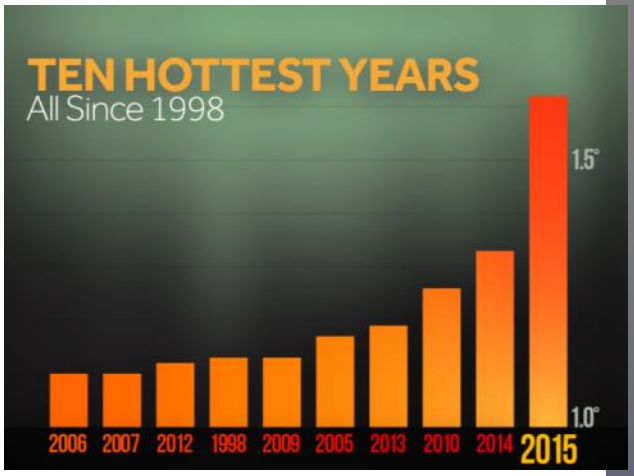
ARRIVAL: *Climate Change*





- **2016 is the warmest year on record**
- **Commercial buildings contribute 1/5th of U.S. greenhouse gas emissions**
- **Drought and GHG emissions forcing change politically and economically**
- **California pioneering on climate action and is challenged on water**

Sources: NASA (2016); Climate Central (2016)

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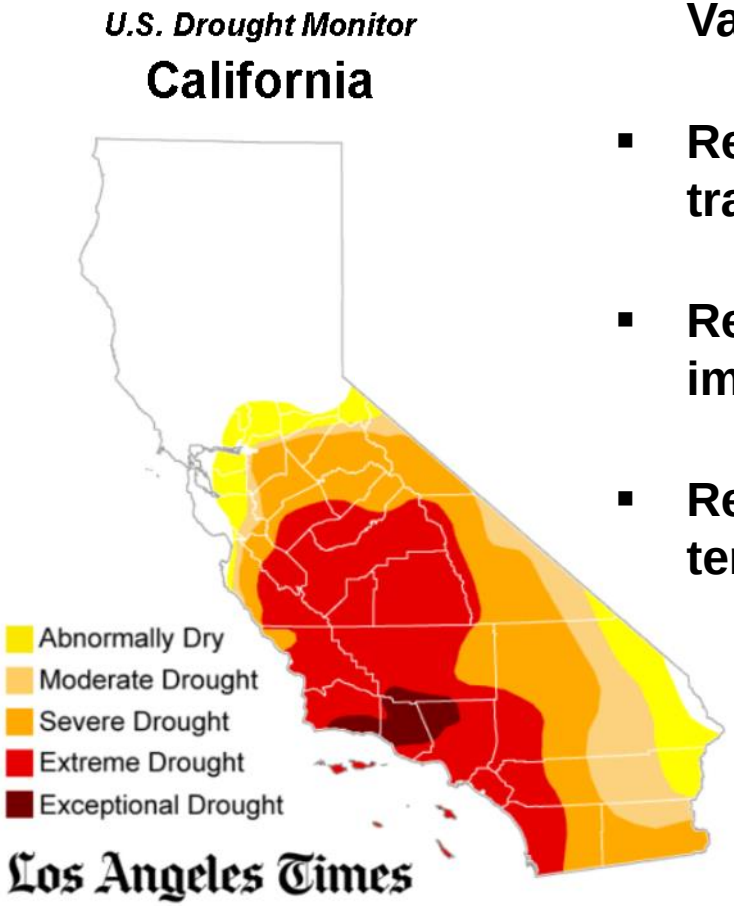
Rain Returns!

…But SoCal Takes Brunt of Drought



- El Niño bringing relief to NorCal, but Central Valley & SoCal still below average
- Recent Federal law change makes it easier to transfer water out of delta for SoCal
- Recycling water less costly than desalination or importing water. ***"Yuck Factor" is the hurdle.***
- Regardless, reducing carbon footprint = long term economic development CA

Will CA's "green" agenda crash into Donald Trumps' climate agenda?

Sources: LA Times; California EPA – Air Resources Board

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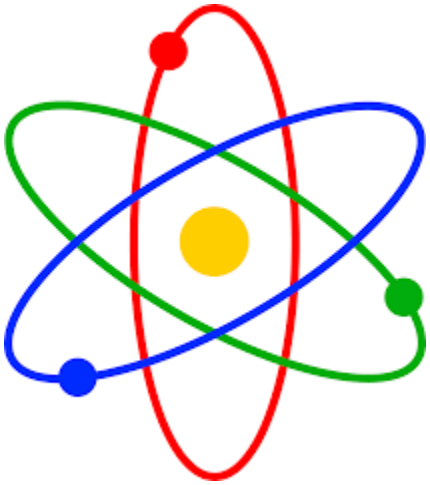
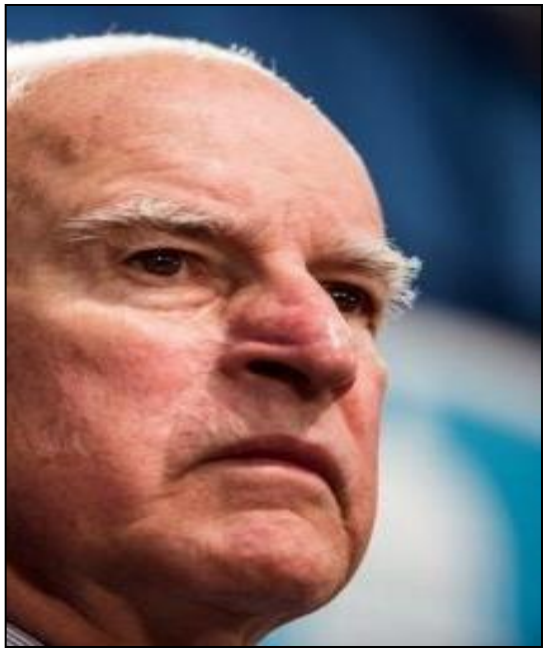
Governor Green

California prepared to go it alone





"We've got scientists, we've got lawyers…" – Gov. Brown

But how will California fund its Green Initiatives?

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Budget 2017-2018

- State's credit rating improved over '15. (Moody's: Aa3, S&P: AA-, Fitch: AA-)
- $179.5 B. Proposed Budget Unveiled January 10
  - $1.6 B. Deficit expected (first in 5 years) despite flat spending
  - Increased rainy day fund to $7.9 B.
  - Cap & Trade to be extended to 2020, anticipating $2.2 B. annually
  - Primary culprit: Reduced expected revenues
  - AND - Doesn't account for possible reductions in Federal funding

"There are a lot of uncertainties that could put a massive hole in the budget."
- Gov. Brown

Sources: State Legislative Analyst; Sacramento Bee

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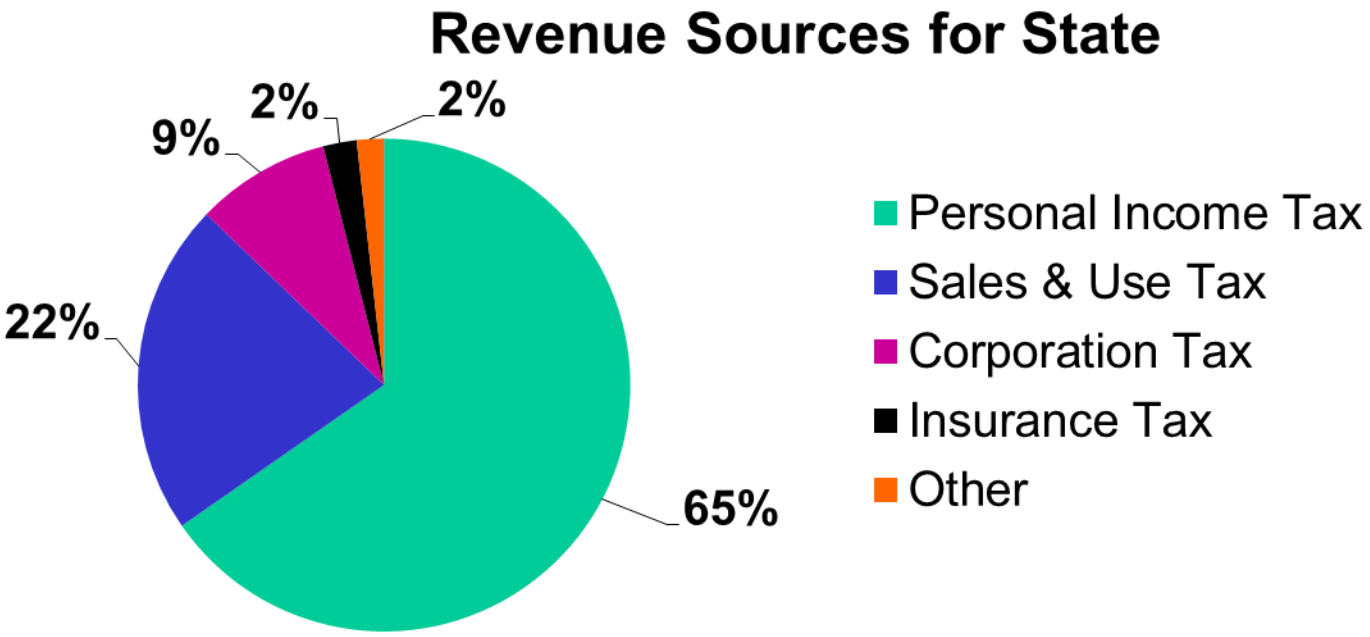
50 Shades of Ways to Lose Green in California

State Budget too dependent on unstable $$ sources



- **Top 1% earners provide ~50% of total income tax receipts**
- **Sales tax prone to dramatic shifts in customer spending**
- **Property Tax, the most stable source, is distant third**

Cities MUST decide: Raise More Taxes or Economic Development?

Sources: California Legislative Analyst; CA Department of Finance

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Higher Wage Hikes

SB3 –Mandates $15 statewide minimum wage by 2022

Source: CA Department of Industrial Relations, 2016

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California Businesses Squeezed

- **Since consumer spending is majority of GDP, modest increase in min. wage can help boost business revenues & regional economy**
- **Business wrangle with paying living wages & CA's high tax costs**
- **Per Kosmont Rose Institute 2016 Cost of Doing Business Survey, California cities led by LA & SF have highest business taxes in US**
- **How to induce private investment in an expensive State and City?**

1. ***Tone down taxes***
2. ***Expand use of P3 tools & programs***
3. ***Beef up economic development***

Economic Development is a Viable Path

Private Sector Opportunity: Cities Need Investment to Create Jobs & Taxes

- **Retail** (sales tax)
- **Relocation/ Expansion** (business tax & jobs)
- **Rooms** (hotel tax & jobs)
- **Real Estate Development** (property tax reassessment)
- **Residential** – Both workforce and affordable

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Economic Development 2.0: *Going Green*

State Policy Direction:
Economic Shift From an Oil-Based Economy

How California Has Pursued GHG Reductions so Far:

Sustainable Infrastructure Investments

Energy-Saving Industrial Processes

Renewable Energy Investments

Cap and Trade Program

Building Efficiency Design and Upgrades

CEQA Analysis Changes from LOS to VMT

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SB 32: Acceleration of GHG Reduction

CALIFORNIA: LEADING THE FIGHT AGAINST CLIMATE CHANGE

SB32:

Requires State to reduce greenhouse gas emissions 40% below 1990 levels by 2030.

EXPECTED TO SHARPLY AFFECT REAL ESTATE AND AGRICULTURE

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Legislation Pushes Investment: Mandates Sustainability

Economic Development

New Revenues and Jobs

SB 628 (Beall) & AB 313 (Atkins)

Enhanced Infrastructure Financing Districts

SB 614 (Wolk) & AB 229 (Perez)

Special Districts Annex Area & Former Military Bases for Infrastructure Financing & Revitalization

AB 2 (Alejo)

Community Revitalization Authority

SB 743 (Steinberg)

CEQA: Environmental Quality

Streamlining for TOD / Infill Dev.

AB 850 (Nazarian)

Financing Public Capital Facilities: Water Quality

AB 1471 (Proposition 1; Rendon)

Financing Water Quality, Supply & Infrastructure Improvement: Bond Issuance

AB 2660 (Aguiar)

Infrastructure Financing Act: User Fees and P3s

Sustainable Policy

Compliance

AB 32 (Perez)

Cap and Trade: Com Dev. Investor Tax Credits

SB 375 (Steinberg)

GHG Reductions: Sustainable Comm. Strategy

SB 1168 (Pavley)

Groundwater Sustainability Agency Plans

AB 1739 (Dickinson)

Groundwater Mgmt: Sustainability Plan

SB 535 (De Leon)

Greenhouse Gas Reduction Fund: Benefits to Disadvantaged Communities

SB 350 (De Leon & Leno)

Accelerated emissions standards including required energy reduction for buildings

AB 197 (Garcia)

CARB powers expanded (local funding pending)

Econ Dev 2.0 Delivers New Financing Tools

- **New specialized districts which fund projects using property tax increment:**
  - **Enhanced Infrastructure Financing Districts ("EIFDs"):**
    - **Focus on infrastructure and public/private transactions**
  - **Community Revitalization & Investment Authorities ("CRIAs"):**
    - **Eligibility standards w/ focus on infrastructure & afford. housing**
- **Fosters regional cooperation to pool tax increment among cities, counties & special districts**
- **New Districts are given priority for state financing programs**
  - **Cap & Trade, PACE, Greenhouse Gas Reduction Funds**

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Types of Projects EIFDs & CRIAs Can Fund

Industrial Structures

Aff. Housing / Mixed Use

Transit Priority / RTP / SCS Projects

Wastewater/Groundwater

Light / High Speed Rail

Civic Infrastructure

Parks & Open Space

Childcare Facilities

Brownfield Remediation

Source: SB 628 – Bill Text

Investment Opportunities for the Private Sector

EIFDs & CRIAs designed to incentivize real estate projects and new development

What Cities will look for:

- **Large R.E. Projects ready to go** *(generate new tax increment)*
- **Public Improvements** *that induce private investment*
- **Political support** - *will other taxing agencies participate??*
- **Governance support** – *will form JPAs to install public improvements and apply for state and federal $$$*

What's in it for Counties:

- **Increased property tax increment**
- **Fulfillment of county/statewide E.D. & environmental policies** *re: job creation, sustainable infrastructure, greenhouse gas reduction (LA County)*
- **Installed regional infrastructure** *that improves economy & complies w/ state regs*

Kosmont creating EIFDs / CRIAs in over 25 cities/counties

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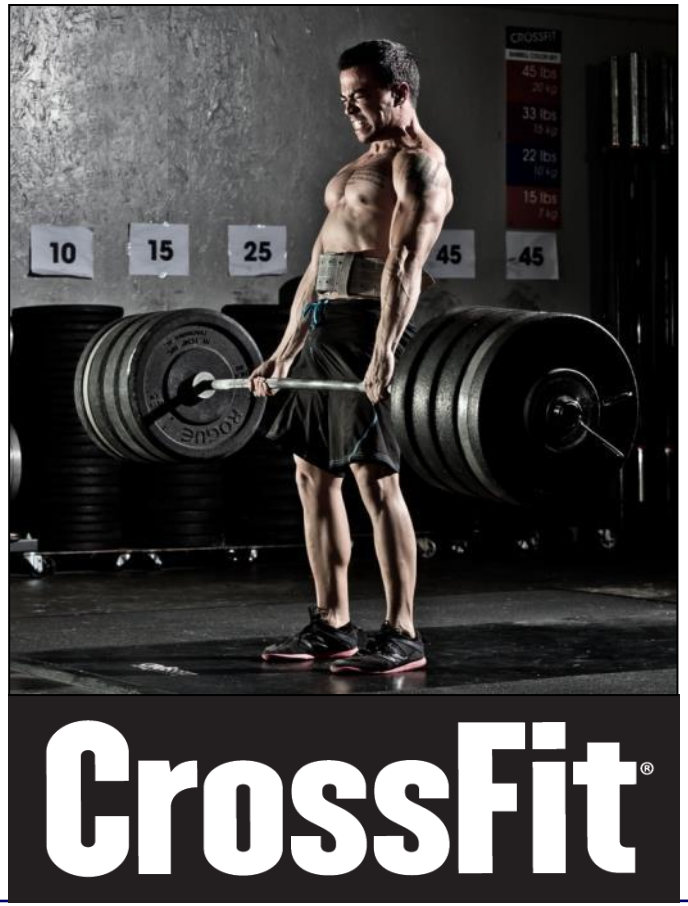
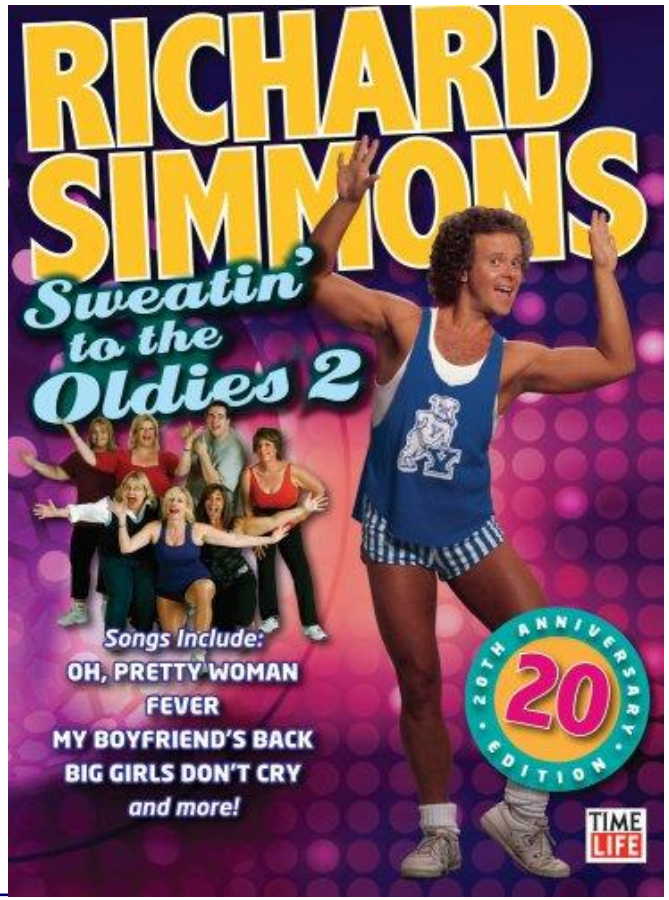
What's *Hot*? What's *Not*?





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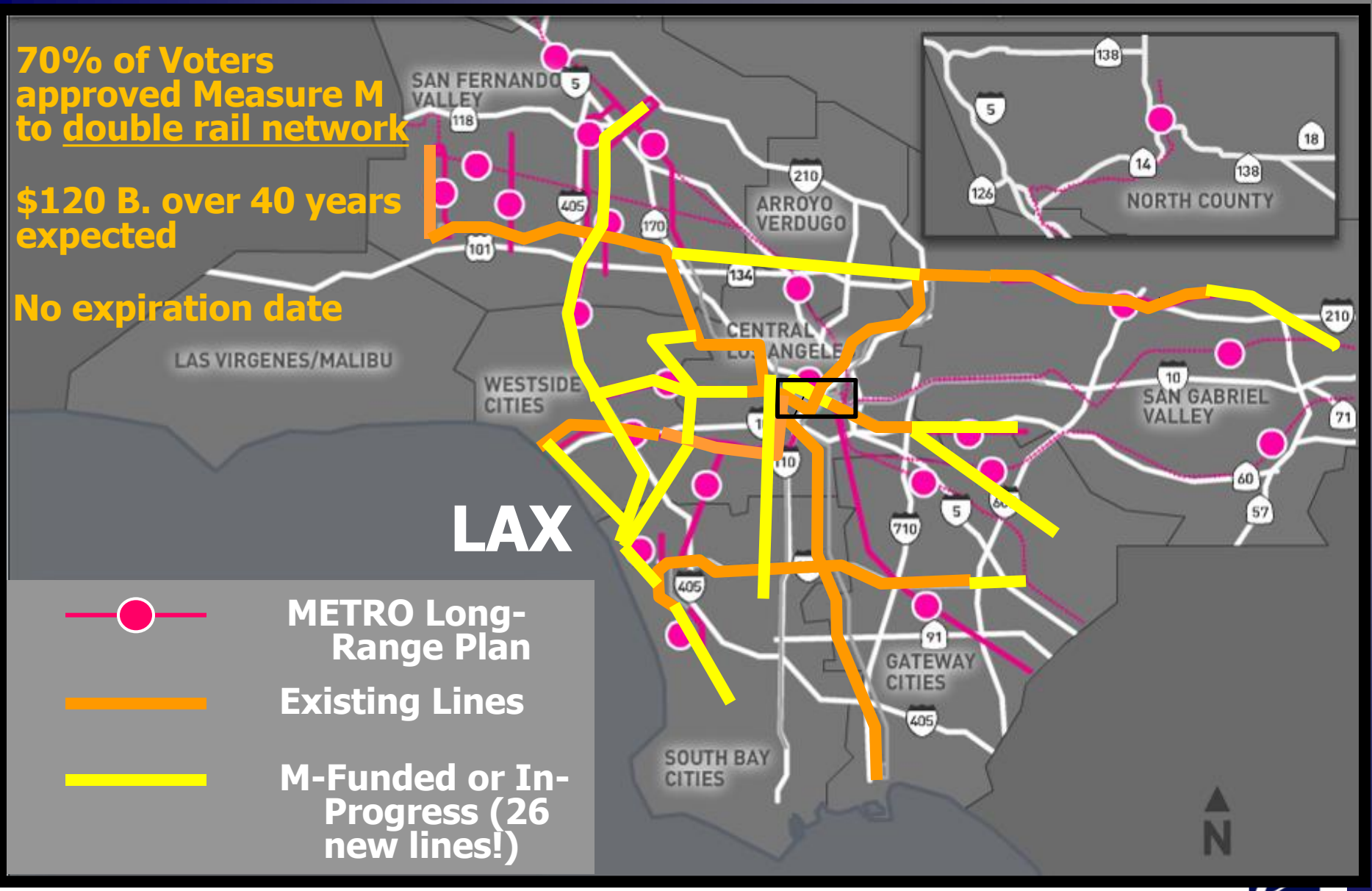
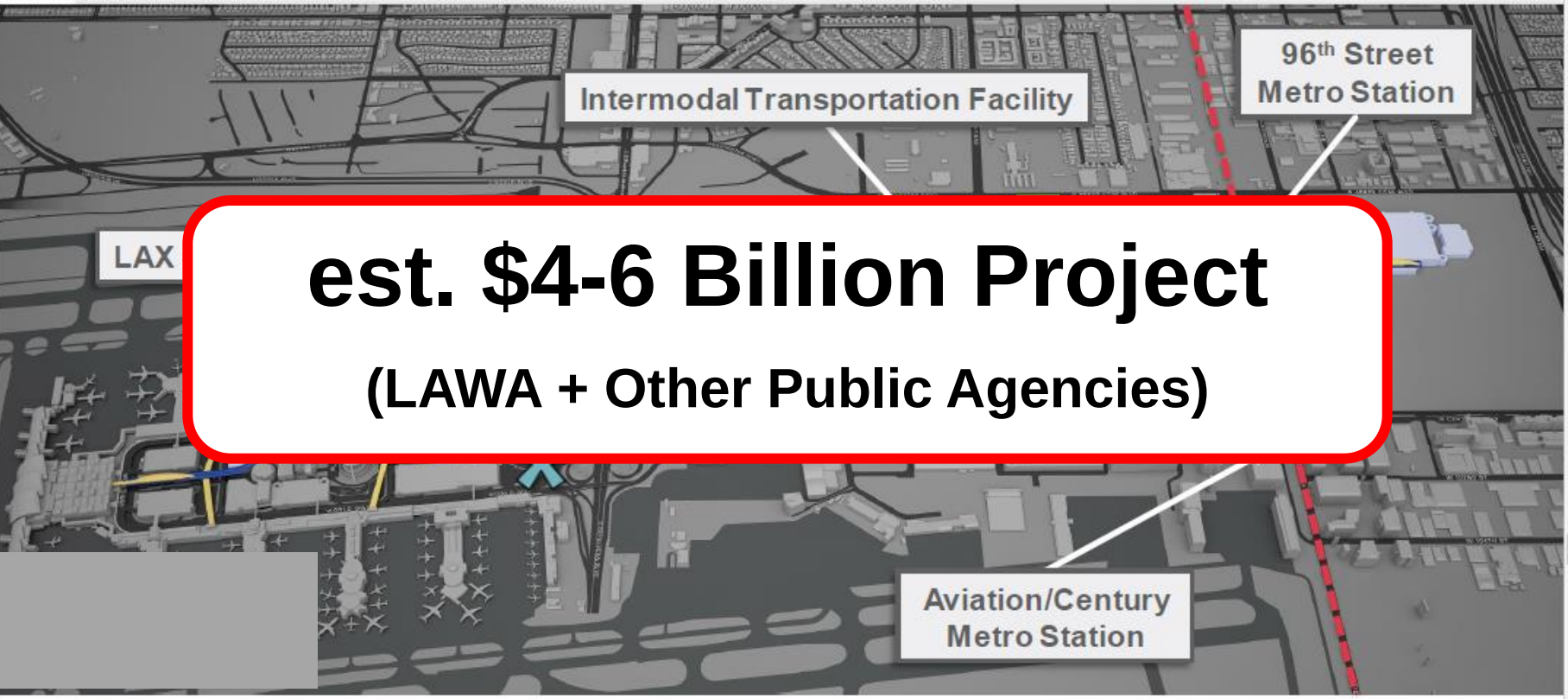
HOT – Urban Rail & Mass Transit



Source: LA County MTA

HOT – Connecting LAX…*Finally*



est. $4-6 Billion Project

(LAWA + Other Public Agencies)

Timeline

- **2020 – Metro train station platforms will open (estimated)**
- **2022 – Consolidated Rental Car Facility opens**
- **2023 – Intermodal Transportation Facility & People Mover opening**

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HOT – The "Purple Medal" Line

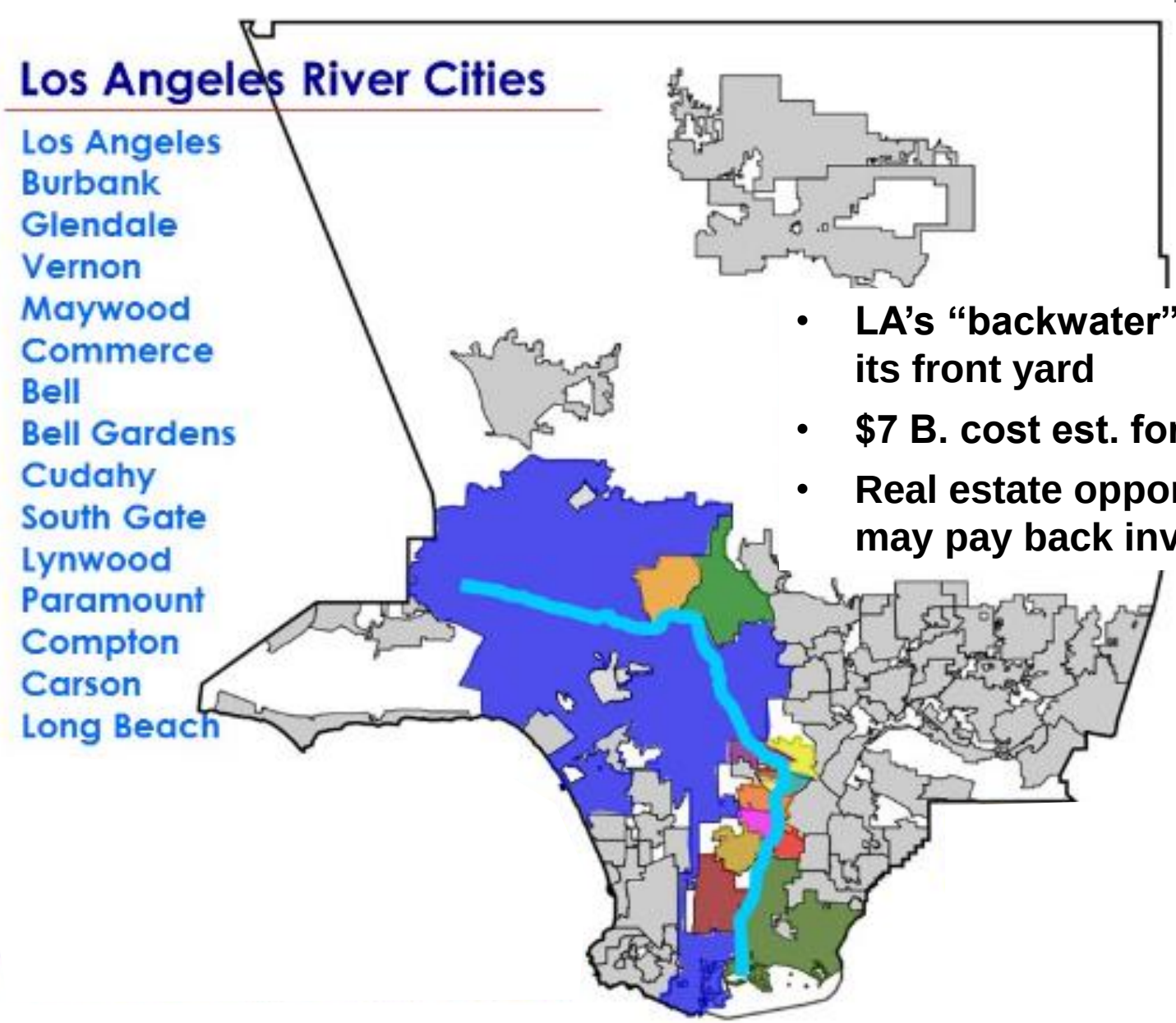
- **The International Olympic Committee is expected to choose among L.A., Paris and Budapest in September 2017**

- **Metro vows to finish Purple by 2024: if LA selected for summer Olympics, visitors could ride train between UCLA and DTLA.**

Source: LA Times

HOT – LA's Throne of Games

HOT – LA River Transformation



- **LA's "backwater" becoming its front yard**
- **$7 B. cost est. for LA's 11 mi.**
- **Real estate opportunities may pay back investment**

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Blazin' Up – "Joint" Ventures

Serving a Higher Purpose – Dude, it's like, taxable, man

- **Prop 64 passed – allows adults 21+ to use, possess or transport up to 1 oz of marijuana for non-medical purposes and grow up to 6 plants at home**
- **Expected $1B in annual revenue per State Legislative Analyst's Office**
- ***BUT*–You can't buy recreational yet! CA yet to legalize non-Rx dispensaries**
- **Cautionary advice from Colorado:**
  - **California's 15% pot tax + state cultivation taxes mean effective tax rates would be north of 25%.**
  - **Add in local taxes up to 15% in 37 counties and cities**
  - **Could shift some business back to black market.**

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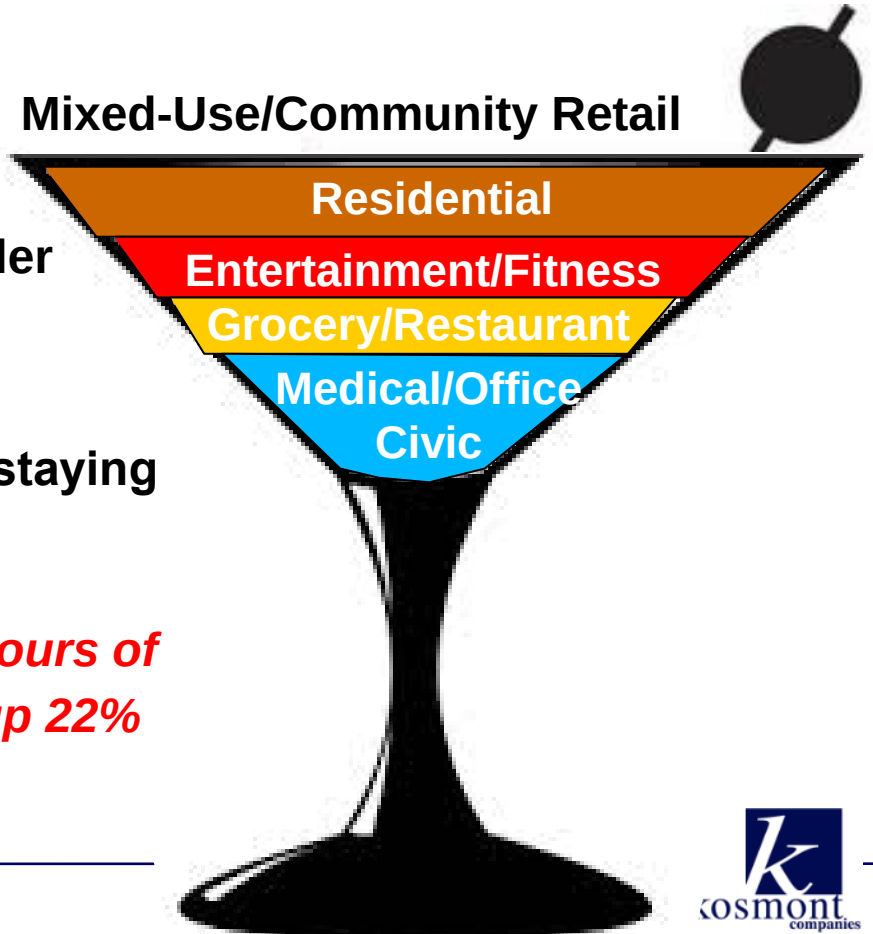
HOT Retail Transforming: Finding the Right Mix

Creative Retail Reuse is Key Opportunity

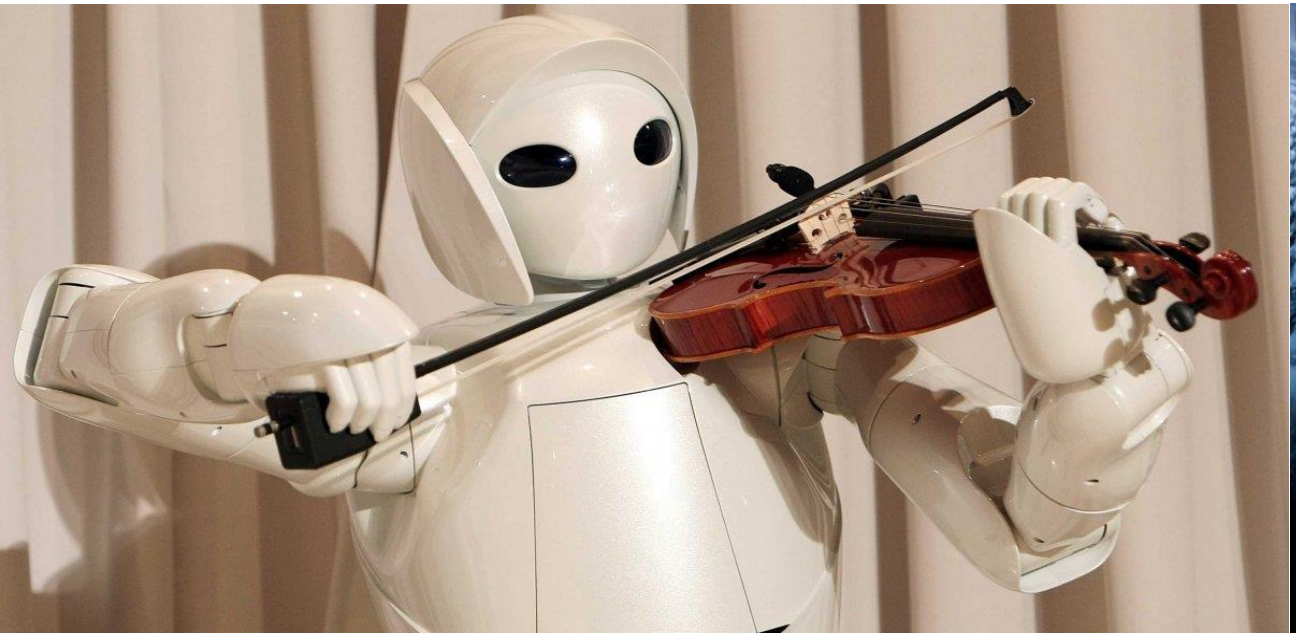
- Internet is primary driver of changes in shopping patterns
- Trip generating uses can revive centers: entertainment, education, medical, events, & specialty retailers; these are the new anchors
- Despite increases in digital market, Brick & Mortar in demand
- Resized "Urban" formats –going smaller
- Pop-Ups popping up everywhere
- Internet + Brick & Mortar blending… "staying together for the kids"

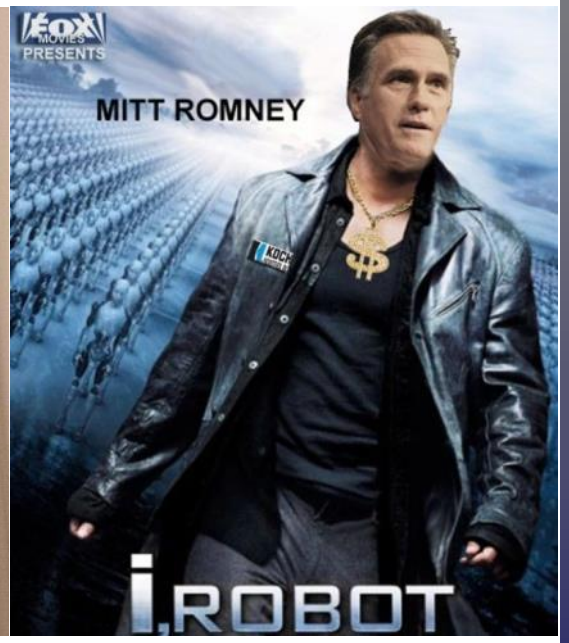


# of shoppers nationwide lower in early hours of Black Friday while online shopping was up 22%

SCALDING – The 47% of the Future

The 47% - Mitt Romney had the right number, but it really represents something different – and more life-changing…





A Coming Swan Song?

Technology expected to replace 47% of existing jobs.

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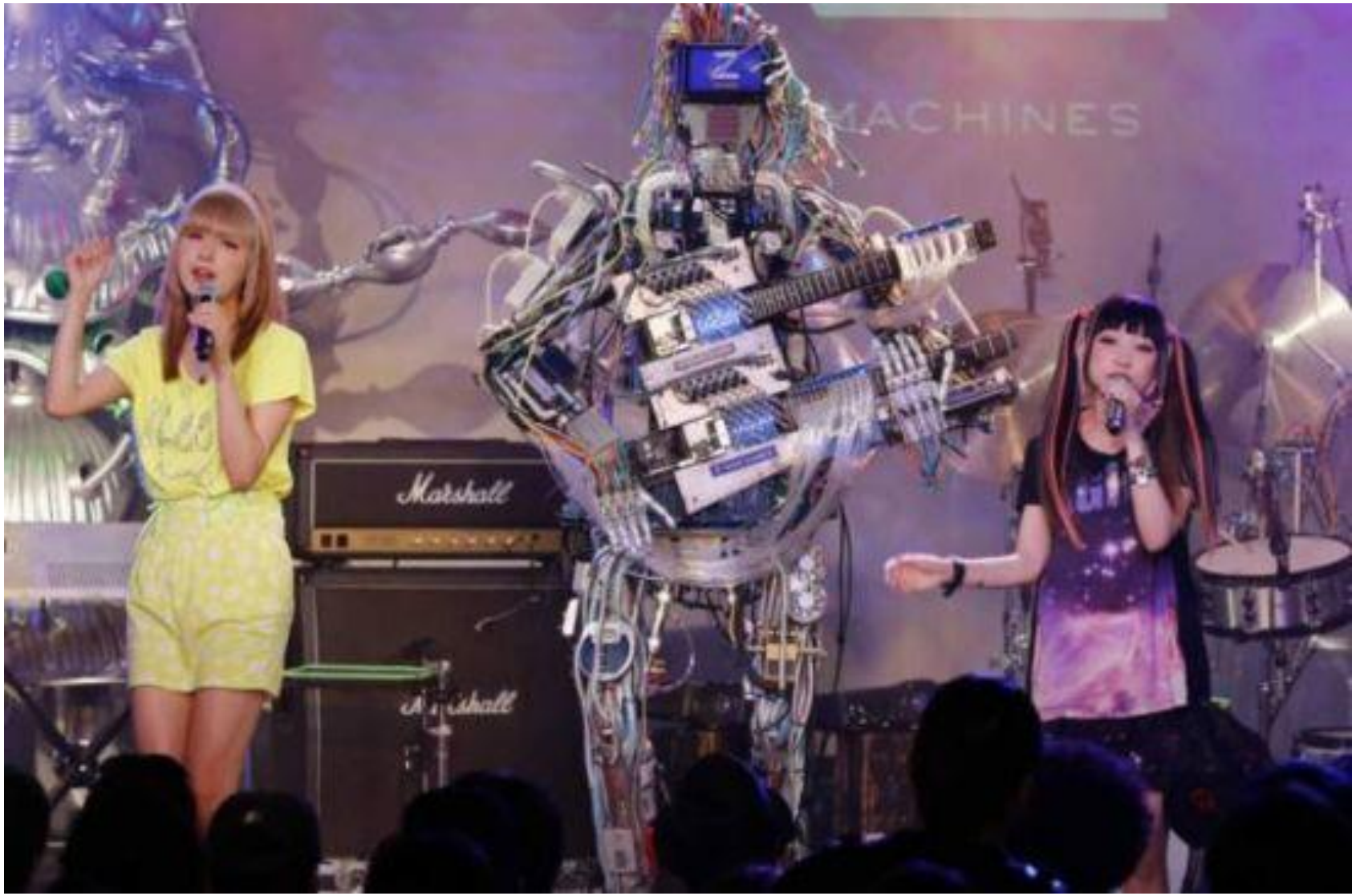
Some are already rocking the world



Kosmont Looks Forward

THE FUTURE IS HERE

A Technology Revolution

- **Internet: More dumb devices getting "smart" via connectivity**
- **Drones: GoPro Drone; drones for delivery – expect more variety**
- **3-D Printing: Facilitating construction management & architecture**
- **Big Data: Changing way we plan/understand cities/population trends**
- **Fewer cars? (Uber, Lyft, transit) Investment in mass transit**
- **Fewer drivers? – automated vehicles on the way**
- **What about parking? – automated cars & parking may recycle land assets**
- **Roads doing double duty as Power Plants? – "Charge back" your road trip**

Food *first* – TECH IS CHANGING JOBS

Robots Revolutionizing Retail and Limiting Labor

- **Dining at "Eatsa" – No visible workers**
- **Momentum Machines – Burgers made by robots**
- **Amazon Go: grocery stores with no checkout (coming in 2017)**
- **Drone shipments**
- **47% of jobs at risk of being replaced by automation/robots**

Wheels *next* – AUTOBOTS EXPECTED TO ROLL-OUT

Self-driving cars are no longer a futuristic idea

- Mercedes, BMW, and Tesla already released, or are soon to release, self driving features
- Tech companies also attempting to pioneer self-driving cars; Google currently testing driverless cars on CA roads
- Estimates are 10 million self-driving cars on road by 2020
- Self-driving cars are estimated to save over 2,500 lives/yr.
- Hurdles to driverless cars are regulations, cost and fear

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Downtown Development
Ongoing
~$6-8 Billion in progress

Banc of CA Stadium
2018
~$350 Million

Rams/Chargers Stadium
2019
~$2.6 Billion

George Lucas Museum
2021
~$1 Billion

Redondo Beach Waterfront
2023
~$400 Million

LOS ANGELES
Olympics in LA?
2024
Investment = TBD

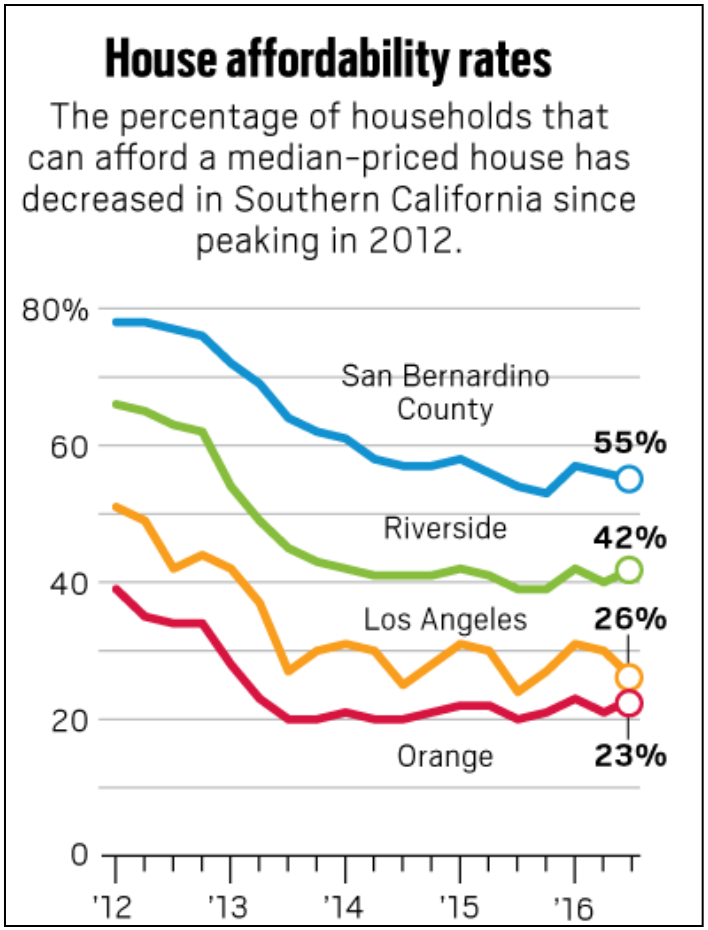
Or will the weight of issues take its toll?

Prices Climbing & Affordability Worsening

- **Only 26% can afford median home**
- **“Starter homes” drying up**
- **Rents in Los Angeles up 14.3% from 2005 – 2015, renter income up by 3.1%.**
- **Homeless issues abound**

Anti-Development Forces Gaining Ground at the Ballot Box

- **Measure JJJ (LA City) – passed Nov 8**
  - **Requires affordable units in projects of 10+ units in LA seeking legislative entitlements**
- **Fear of density mobilizing policy**



Source: California Association of Realtors

LA's Version of the Future to be decided soon

"Neighborhood Integrity Initiative" on the March 2017 ballot, aka Measure S, would impose moratorium on large scale projects:

- **Sponsors: Coalition to Preserve LA & AIDS Healthcare Foundation**
- **Establishes 2-year moratorium for *<u>any</u>* project requiring City Council vote**
- **Backlash from community: new projects are too big, poorly planned**
- **Claim that projects stray from City's planning rules & regulations**
- ***Poses problems for City's "housing crunch"; Garcetti vowed to add 100,000 housing units by 2021***
- ***Attempts to solve Planning system defects by stifling growth***

FEAR & LOATHING IN LOS ANGELES

Politics, Economics or Environment – What Trumps?

- **California Governor and Legislature shifting economy to a reduced carbon footprint "green" economy**
- **Cities need the private sector $$ to create jobs & tax revenue**
- **Green Mandates & Green Public/Private Projects with incentives will flourish**
- **Housing shortage hurts State's competitiveness**
- **Retail adapting to changing social habits, brick/clicks blending**
- **Tech changing the way we live: shifting retail, impacting tenant mix, interaction and connectivity (driverless cars, big data)**
- **Replacement of jobs with automation requires unprecedented commitment to "continuous" education**

Our State will embrace the Technological, Economical & Ecological

Our State of Mind must embrace the Local, Social, Crowd & Cloud

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Just when you think you have it figured out.

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Bright Future. Big Challenges.
Questions?