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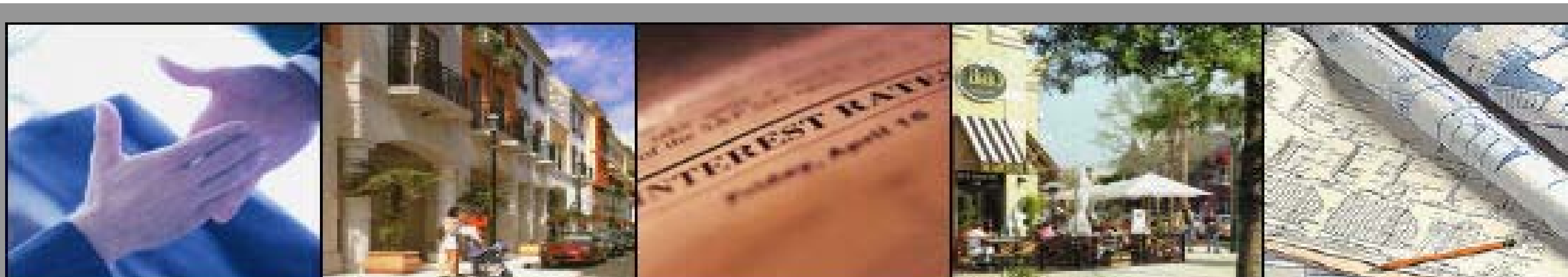
Real Estate and Economic Advisory

Renaissance Community Fund

Funding Solutions for Public-Private Investments



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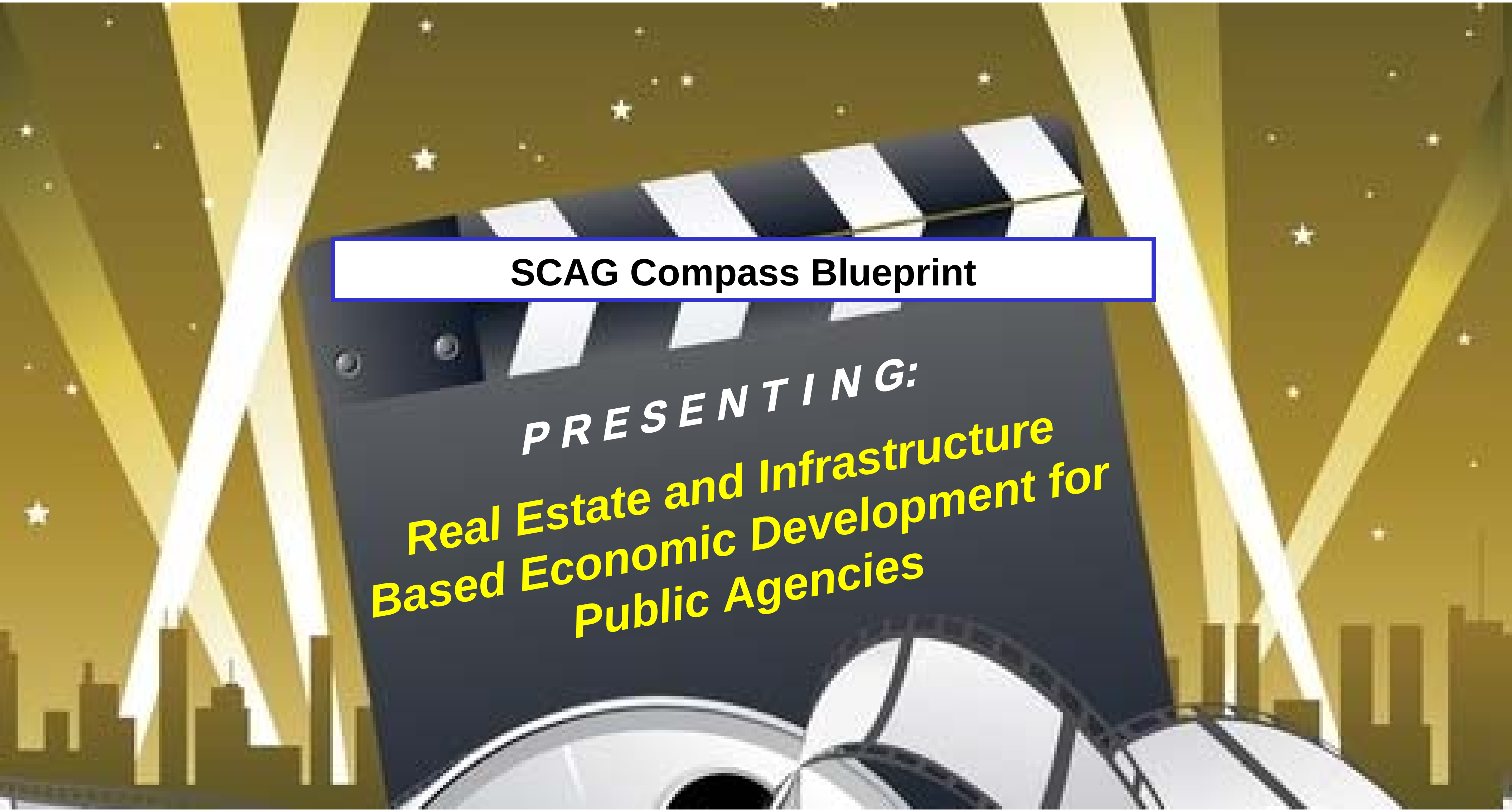

Premiering 3-22-11 and hosted by:

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- **Evaluate Public Assets**
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  - Grants
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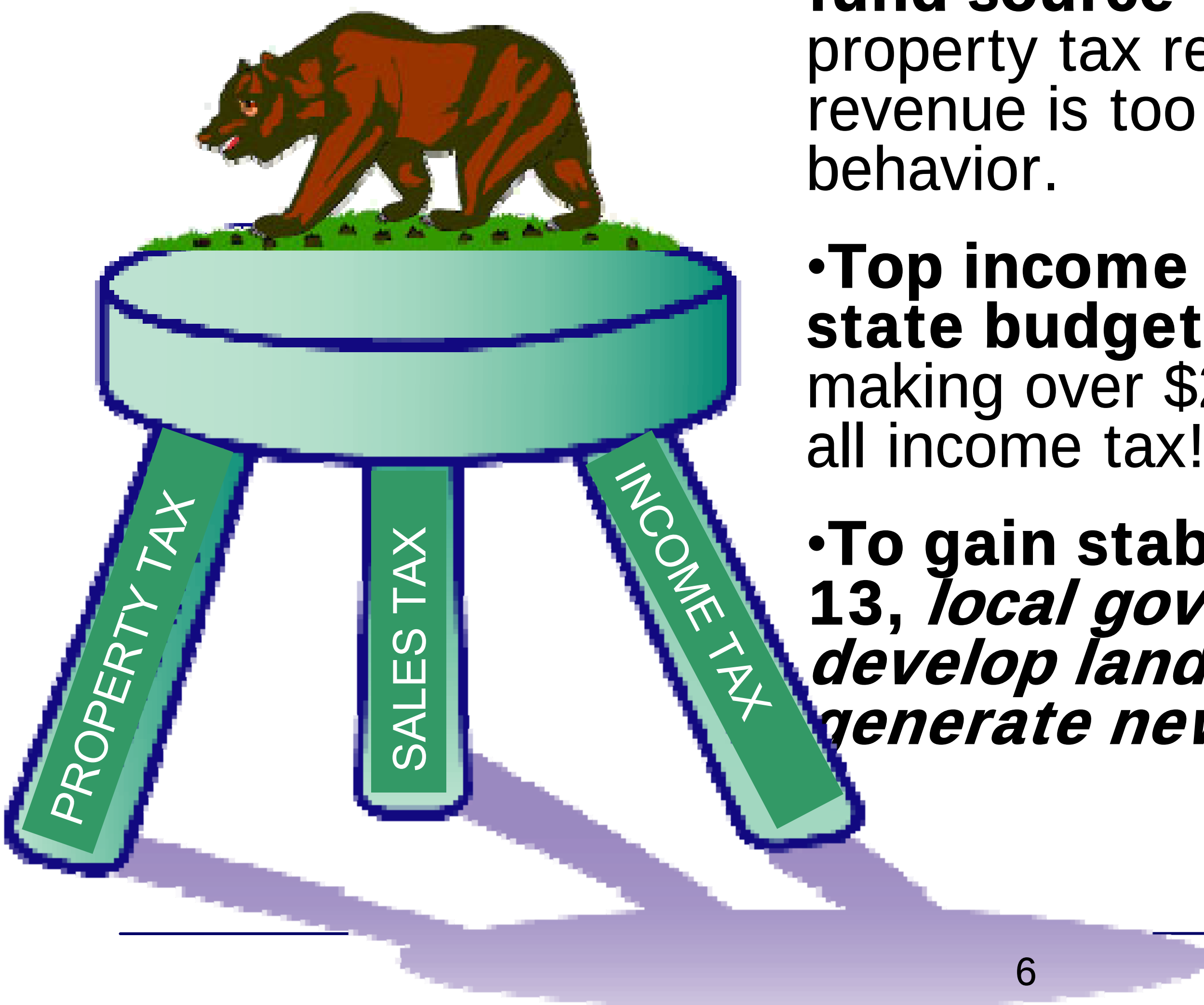
- **Cost of Doing Business**

Economic Development Overview

California Depends on Economic Development

California has three main sources of revenue:
***property*, *sales*, and *income* tax**



- **Income tax as biggest, stable fund source** - Prop 13 severely limits property tax revenue and sales tax revenue is too sensitive to consumer behavior.
- **Top income earners sway the state budget precariously** (those making over $200K comprise 50% of all income tax!).
- **To gain stable income under Prop 13, *local governments must develop land & recycle land to generate new taxes and jobs.***

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Cities Need Real Estate Deals

WHY?

Few options exist for cities to raise revenue:

- **A series of statewide tax-restraining ballot measures over the past 30 years (Props 13, 62, 218) have severely curtailed local government's ability to raise new taxes.**
- **Proposition 26 requires a 2/3 supermajority vote to pass many fees, levies, charges and tax revenue allocations that under the state's previous rules could be enacted by a simple majority vote.**

Cities Are in the Real Estate Business

*The primary tools for <u>local</u> government in California to generate revenue and gain jobs are **"THE FOUR R's"**:*

<u>**R**EAL ESTATE DEVELOPMENT</u> – New Prop Tax Assessment or Tax Increment in Redevelopment Project Area

<u>**R**ETAIL</u> – Sales Tax & Jobs (entry level)

<u>**R**ELOCATION</u> -- Business Tax & Jobs (from Expansion)

<u>**R**OOMS</u> – Hotel transient occupancy tax (TOT)

Cities <u>compete</u> for Jobs, Taxes, Business, and Real Estate Projects

Cities Are in the Real Estate Business

- **Real Estate Professionals Must Deal with Cities**
  - For entitlements and permits
  - To pay for their project’s impacts on the community (impact fees)
  - For public works/infrastructure projects
  - To comply with environmental conditions/mitigations (based on CEQA)

Cities Are in the Real Estate Business

FINANCIAL TROUBLE

- **Cities Are In Trouble**
  - **Bad Economy**
    - **Retail sales down:** ***sharp reductions in sales tax revenue***
    - **Foreclosures and falling RE values:** ***property tax revenue is about same with transfer taxes way down***
  - **Expenses Increasing**
    - **Big consumers of expensive energy**
    - **Salaries & pensions increasing due to aggressive pressure from public employee unions**

California's Triple Threat

UNEMPLOYMENT

California's jobless rate is well above the national average but also in absolute numbers – retarding nation's progress.

HOUSING

Housing in CA is typically a bellwether for national recovery. But State's skewed reliance on this industry will result in a slow, gradual recovery. Low interest rates are keeping prices from falling much further, but Gov't aid is merely prolongs the time to return to equilibrium.

GOVERNMENT

Local government recovery lags the private sector and for a longer time. Red ink mixes with red tape, forming a dangerous brew

Evaluate your Assets

What Assets

- **Concession properties –** Golf courses and parking lots – Are you maximizing your revenues?

- **Surplus buildings –** do you have an empty warehouse or office building?

- **Surplus Land –** Should it be a park or retail center?

- **Advertising and Billboards –** political, but digital and tall wall signs have increased revenue values

Determine Project Concept

- **Determine the highest and best use** for the asset such that it generates the **maximum value** for the public agency as well as the community. Your highest and best use may be different than that of the private sector.

- Initial project concept is further refined through:
  - **Market analyses**
  - **Economic feasibility studies**
  - **Status of entitlements**
  - **Environmental compliance**

- Highest and best use must be supported by an **optimal mix of product types and basic building parameters:** square footage, number of units, amount of open space, height of building, parking, amenities.

Preliminary Due Diligence

- **Conduct** land-use **due diligence from** zoning maps **and previous** planning actions
- **Obtain a** preliminary title report **with copies of recorded covenants and agreements**
- **Determine** conformance with underlying land-use conditions **("by right" vs. discretionary)**
- **Identify probable level of** environmental review **required for any action**
- **Determine what** planning actions or financial assistance **may be** necessary to implement **the action**
- **Internal Due Diligence -** with planning, econ. development, public works, council office, community and others
- **Existing Properties –** are revenue and public benefits being maximized?

Market Viability

- **Is the project responsive to market demand?**
- **How to test market responsiveness**
  - Look at tomorrow's market not just today's depressed market
  - Define the primary market area for the project
  - Determine current and future competition
  - Determine potential demand by researching demographic and market trends
- **Determine if project fulfills the current and future demand of potential users in the market area**
  - Absorption
  - Pricing
  - Quality/design/amenities

Economic Feasibility

- How can **public agency attract private equity/debt** to make assets productive?

- Can you give **Lenders/Investors what they want**?
  - Straightforward investment with reliable return
  - Manageable risk
    - o Recourse
    - o Coverage
    - o Existing/Ongoing Operations

- Be prepared to **make the right pitch**
  - Story Bonds
  - Sexy Bonds – Green, Jobs, TOD

Toolbox of Financing Solutions for Projects

Toolbox of Financing Solutions for Projects

May not be able to rely on redevelopment funds. Other alternatives available:

- **Public / Private Transactions (P3)**
- **Lease / Leaseback Financing**
- **EB-5 Investment**
- **Grants**
- **Tax-Exempt / Taxable Bond Financing**
- **New Market Tax Credits**
- **Transit Oriented Development**

Public-Private Transactions

Making it Work

Public-Private Transactions

States and local governments are looking for ways to introduce private capital into public transactions more efficiently.

Public Entity provides:

- Land acquisition assistance
- Financial inducements
- Land use incentives (density bonus)

Private Developer/Owner/Tenant provides:

- Development expertise
- Private financing
- Assumption of risk

Incentives That Cities & RDAs Can Offer

Four ways to make projects feasible:

- **Reduce Project Costs** with cash subsidies or cost effective standards
- **Increase Project Revenue** through a Pledge of sales tax or property tax increment
- **Increase Project Value** by adding density or allowing a more valuable mix of uses
- **Finance a portion of the project** using less expensive financing (e.g. Tax exempt financing for public improvements)

Public / Private Financing Options

- Site Specific Tax Revenues
- Broad Based Tax-Increment/Revenues Financing
- Infrastructure Financing
- Special Districts
- Taxable and Tax-Exempt Bonds

Know the Numbers

- Project assistance should be based in part on a **fiscal benefit analysis**
- Objectively **evaluate the project benefits** and use them as a platform of support
- Must be **credible/defensible**
- Part of the **project marketing program**
- May be done by a **third party consultant**

Realities of Offering Incentives

- Land Write-downs and tax reimbursements are generally the first request
- Tax & Revenue sharing may not provide enough residual benefit for the project or the municipality.
- Public financing requires certain investor security measures which can lower risk for the community

Minimizing Public Agency Contributions

- Project costs are typically capitalized (financed/paid for) using a combination of conventional mortgage debt and equity from the developer
  - ✓The conventional mortgage debt is inexpensive
  - ✓The developer's equity capital is very expensive
- If the expensive equity capital can be replaced with less expensive public debt, then the project revenues can support (pay for) more project cost
- The savings realized from using low cost financing can be converted toward a reduction of **non-repaid** Public Assistance and/or tax dedication

Site Specific Tax Revenues as a Credit Enhancement

- The city or agency enhances the security of the debt by pledging the project-specific incremental taxes
- These incremental taxes serve as additional collateral, which reduces the overall debt risk
- Lower cost debt can also be combined with enhanced zoning, direct subsidies and other non-cash project support mechanisms

Step 1:
Determine Economic Feasibility Gap

An ***economic feasibility gap*** exists when the project revenues do not support the cost. This gap is defined as return on cost. The financial gap can be expressed either as:

- ***Revenue deficiency*** to support the projects costs
- The amount of the ***project costs*** **not** supported by project revenues

Steps to Make a Project Economically Feasible

Step 2:
Evaluate Available Resources to Fill Gap

Reduce Project Costs: Typically include up-front subsidies to reduce project cost such as land write down, fee waivers, contributing infrastructure, and/or provide tax-exempt financing.

Increase Project Revenues: Typically includes pledging tax revenues to the project.

Step 3:
Evaluate various methods of assisting the project based on Margins of Safety and Developer's Return on Equity

- Make sure public agency investment generates preferred policy results.
- Evaluate a projects' entire fiscal and economic impact to the community
- Negotiate a transaction that returns public investment within a specific and acceptable time frame (10 years or less: less time is better)

Ways to Bridge the Gap

- Sales Tax Reimbursement Pledges
- Property Tax Reimbursement Agreements
- Affordable Housing Funds (State, Local)
- Development Fee Credits/Waivers/Deferrals
- City purchase/improvement of open/public space or other amenities (roadway, parking structure)
- Tax-Exempt or Taxable Bonds
- Mello-Roos & Other Assessment District Financing

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Lease-Leaseback

Lease – Leaseback Program

Overview of Lease-Leaseback Program

A viable alternative exists to conventional tax-exempt bond financing for capital projects, real estate assets, and economic development.

The Lease-Leaseback Program is a finance vehicle that uses private debt to:

- **Build and operate parking facilities**
- **Resuscitate stalled real estate projects**
- **Redevelop land and aging assets**
- **Utilize “trapped equity” in public real estate**

Lease – Leaseback Transaction

- **Public agency *owns* land (and/or building), *leases* to private entity**

- **Private entity *leases* back to public agency (after developing or rehab)**

- **Public agency owns building (and retains land) at the end of the lease**

- **Risk and financial responsibility during construction shifted to the private entity**

- **Transaction structure can finance capital projects and can generate new cash resources for public agencies**

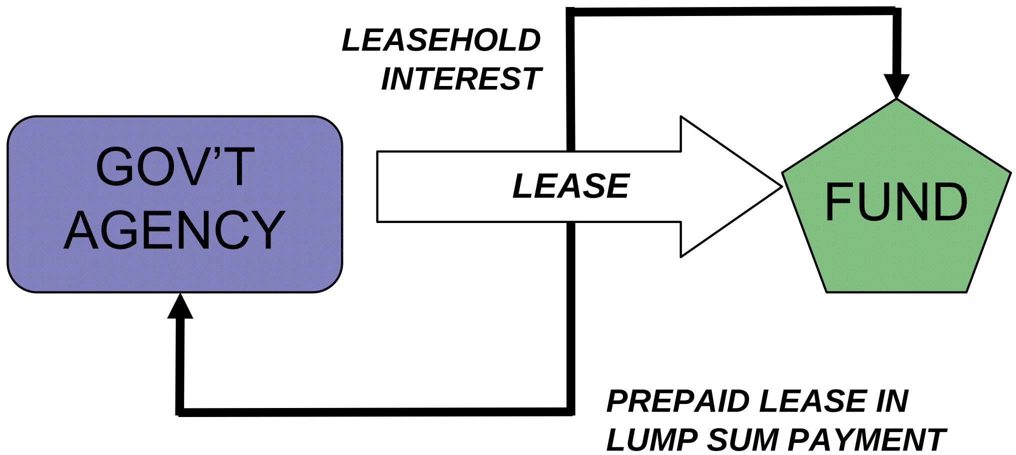
Lease – Leaseback Program

How the Program Works

Gov't Benefits

Step 1

"LEASE"

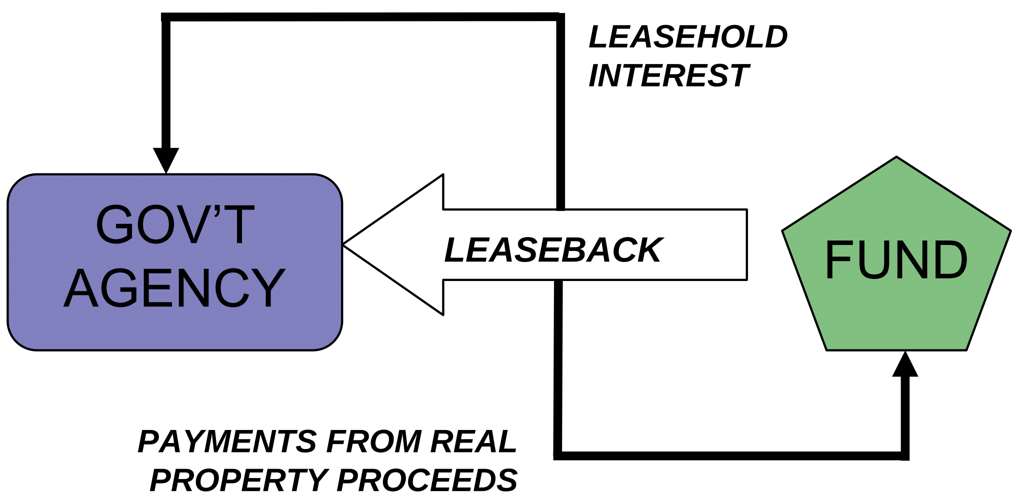


- ***UP-FRONT PAYMENT FOR VALUE OF ASSET***
- ***RETAINS OWNERSHIP AND OPERATIONAL CONTROL***
- ***MAY REINVEST FUNDS IN DEVELOPMENT AND/OR OTHER PRIORITIES***

TRANSACTIONS OCCUR SIMULTANEOUSLY

Step 2

"LEASEBACK"



- ***RETAINS OWNERSHIP AND CONTROL***
- ***PREDICTABLE DEBT PAYMENTS AT COMPETITIVE INTEREST RATES***
- ***RETAINS EXCESS PROCEEDS AFTER DEBT SERVICE***

AT END OF LEASE TERM, LEASE CAN BE RENEWED OR PROPERTY REVERTS BACK TO AGENCY

Lease – Leaseback Program

Sample Transactions Types

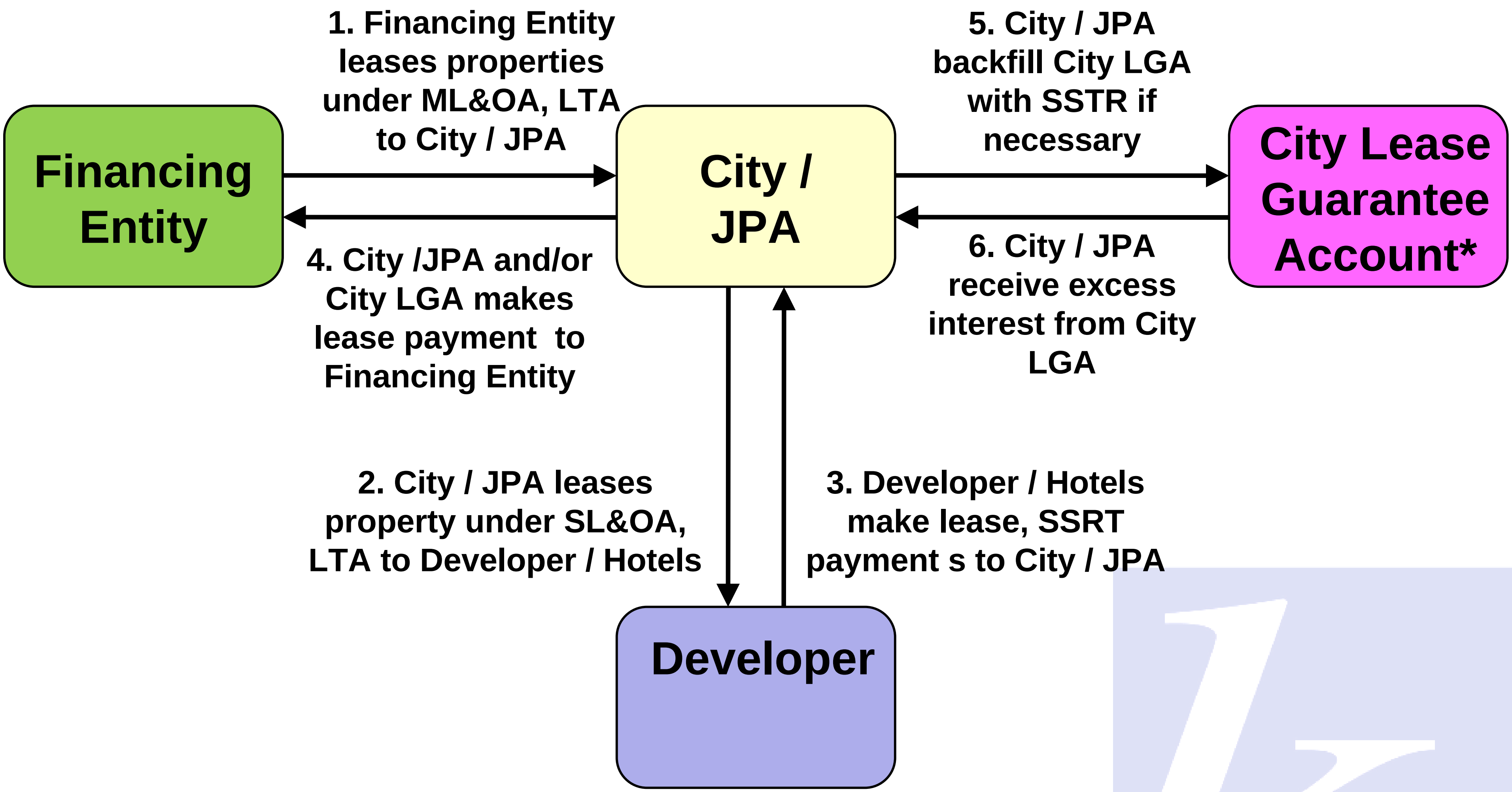
- Parking Facilities
- Courthouses
- Correctional Facilities
- Public Safety Buildings
- Education and Student Housing
- Multi-Modal Transportation Facilities
- Tourism and Convention Facilities
- Sporting venues and stadiums
- Health Care Facilities
- Energy Related Developments
- Airports and Seaports
- Utility Infrastructure

Advantages of Lease – Leaseback Program

Comparison with Tax Exempt Bond Financing

- Competitive cost of capital
- Little or no up-front cost to local governments
- Capital available faster - typically within 60 days
- Documentation simpler than Bonds
- Streamlined Disclosure and Public Hearings process
- Longer terms available (up to 99 years)
- LLB Program assumes financial risk for project cost
- Certain lease structures can be booked “off balance sheet”

Lease-Leaseback Structure



*City will retain a third party trustee to collect and distribute lease revenues, and lease payments, and to manage SSTR backfill requests and excess LGA interest distributions to City

EB-5

What is EB-5?

- Congress created the EB-5 employment-based foreign investment immigration program in 1990 with the purpose of encouraging foreign investment, creating jobs, and stimulating economic growth.
- EB-5 is an economic development tool that works well with public/private transactions at the local level.
- Oversight by U.S. Citizenship and Immigration Services (USCIS), a bureau of the Dept. of Homeland Security, to prevent misuse of funds and manage immigration standards.
- Regional Centers are an investment clearinghouse for investors to direct funds towards EB-5 investment opportunities.

EB-5: The Biggest Capital Source You've Never Heard Of

- ***Over $660 Million Invested in 2010***

- **1300+ Immigrant Investors invested through Regional Centers in 2010**

EB-5 Investment Criteria

EB-5 is implemented and controlled by the U.S. Citizenship and Immigration Service (USCIS)

•Allows immigrants to obtain a visa by making a qualifying investment in a commercial enterprise.

•Created and approved by Congress in 1990.

•Congress sets aside 10,000 immigrant visas annually for this program.

•$1,000,000 is the required investment from each Immigrant Investor.

•$500,000 is the required investment for projects located in Targeted Employment Areas (TEA) or deemed a “Troubled Business”.

•Each investment must create at least 10 full-time jobs.

•EB-5 funding can be used as an equity or debt investment in real estate or a business.

Immigrant Investor Profile

EB-5 Immigrant Investors come from all over the world.

•Largest concentration from Asia, United Kingdom, and Middle East

Typical EB-5 Immigrant Investor

•Looking to invest in U.S.

•Desires to educate children in the U.S.

•Seeks citizenship for immediate family

•Usually high net worth

•Must have a "clean" source of funds, because program is monitored by U.S. Dept. of Homeland Security

Key Players

1. **U.S. Congress**- bi-partisan support for investment and responsible immigration
2. **U.S. Citizenship and Immigration Services (USCIS)**, the primary Federal Agency administering the EB-5 program
3. **Regional Centers** - such as California Golden Fund Regional Center
4. **Immigrant Investors** seeking U.S. citizenship via investment in a U.S. Project
5. **Network of foreign investors**
6. **Developers and operators** seeking competitively priced capital for various projects
7. **Cities, Redevelopment Agencies, and other Public Agencies** desiring to promote local economic development and job growth through public/private projects without general fund exposure

Investment Through Regional Centers

- **Work with a reputable and established Regional Center.**
  - Should have experienced and qualified principals.
  - Must be approved by USCIS.
  - Business plan must include geographic area and project industry categories.
- **Regional Center prepares required project materials for USCIS**

Investment Through Regional Centers

Regional Centers aggregate Immigrant Investors

and disperse funding to qualified projects.

40 Investors with $500,000 each

$20 Million for Business, Infrastructure, or Real Estate Project located in TEA

Grants

Current Funding Opportunities:

Recreation Projects - Up to $5 Million per applicant

Proposition 84 State Parks Program

Deadline Spring 2011

Funding for recreational features: Athletic fields, community centers, open space, performing arts venues, restrooms and parking lots, recreational trails, and acquisition of property to create a new park

Eligible applicants: Cities, Counties, Districts Joint Powers Authorities, & Nonprofits

Economic Development - Over $255,000,000 available

U.S. Economic Development Administration Grants

Deadline Spring 2011

Funding for economic development projects: Such as water infrastructure, road infrastructure, job training facilities and information technology parks

Project requirements: Located in rural or urban economically distressed areas (i.e. high unemployment, low per capita income)

Transportation Planning - $50,000 to $300,000 per project

CALTRANS Transportation Planning Grants

Deadline Spring 2011

Community-Based Transportation Planning (CBTP): Funds transportation and land use planning that promotes public engagement, livable communities, and sustainable transportation system

Partnership Planning (Partner): Funds transportation planning studies of multi-regional & statewide significance in partnership with CALTRANS

Transit Planning (Urban): *"Statewide or Urban Transit Planning Studies"* funds studies on transit issues having statewide or multiregional significance to assist in reducing congestion

Transit Planning (Rural): *"Rural or Small Urban Transit Planning Studies"* funds public transportation planning studies in rural or small urban areas of California (transit service area with populations of 100,000 or less)

Retail Attraction

Retail Attraction

Market and Community Assessment

- ➢Retail Trade Area Definition
- ➢Void and Fiscal Impact Analyses
- ➢Demographics/Segmentation
- ➢Trend and Market Analyses
- ➢Project Evaluation

Vision and Strategy

- ➢Back to Basics
- ➢Retail Targeting
- ➢Branding/Marketing
- ➢Attraction and Approach
- ➢Community, Economic and Retail Development
- ➢Public Private Partnership Strategies

Plan Implementation

- ➢Strategic Alliances with Execution Experts
- ➢Local and Regional Marketing
- ➢Utilize Real Life Retail Relationships
- ➢Meeting and Making Deals with Retailers
- ➢Transaction Structures and Development Services

Cost of Doing Business

Kosmont-Rose Institute
2010 Cost of Doing Business Survey

- First published by Kosmont Companies in 1994. Primary role is "tie-breaker" for companies contemplating a move or expansion.

- 2010 edition of the Survey covers 413 cities across all 50 states.

- Provides ranking of cities in terms of relative cost of doing business & divides them into five groups called "Cost Ratings":

  ($) Very Low Cost

  ($$) Low Cost

  ($$$) Average Cost

  ($$$$) High Cost

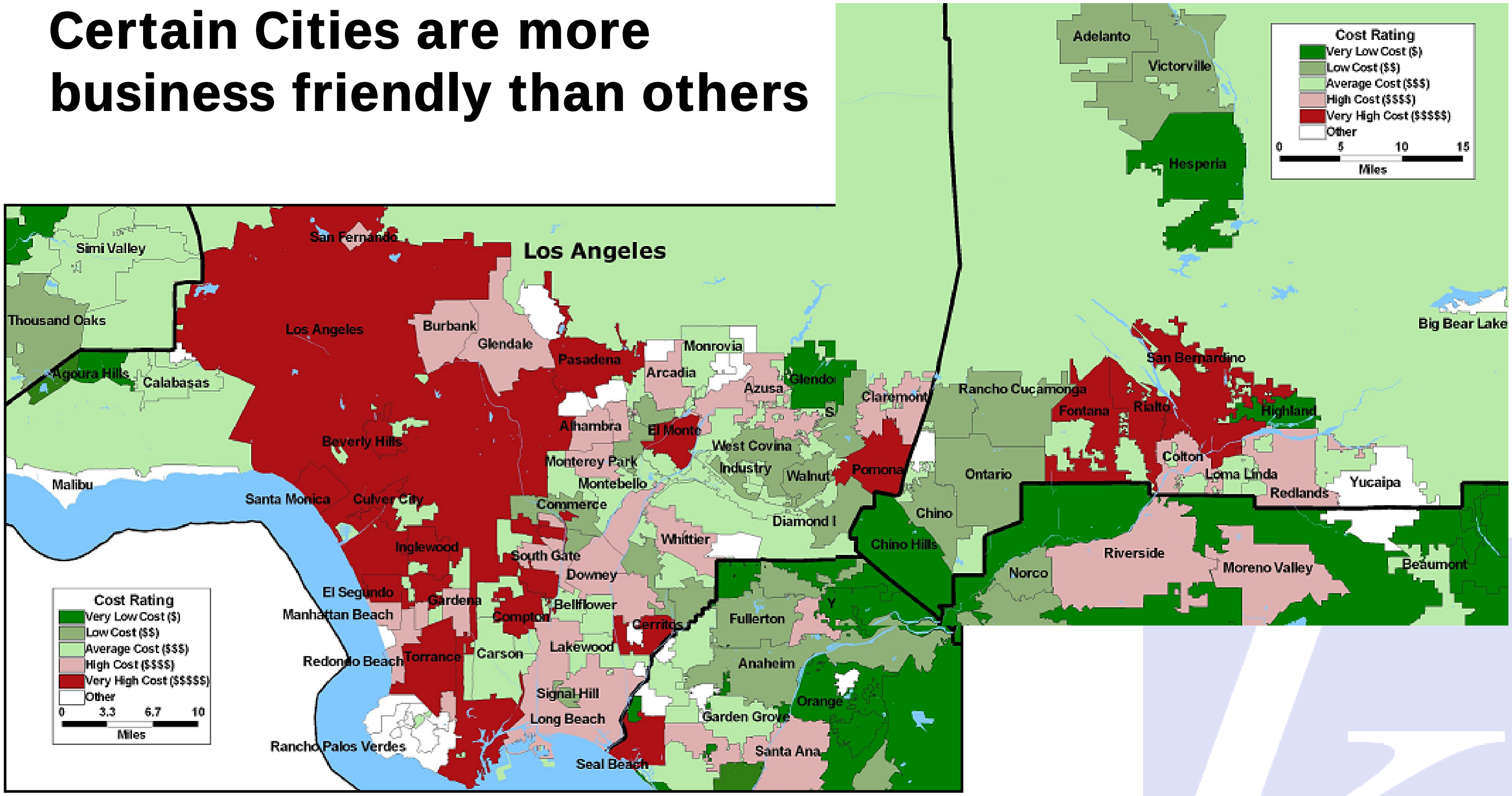
  ($$$$$) Very High Cost

- 20 lowest cost cities are located west of the Mississippi River, none of which are in California

- California has 13 of the 40 most expensive cities but only 4 of the 40 least expensive cities.

Business Climate

- **Certain Cities are more business friendly than others**



Source: Kosmont-Rose Institute Cost of Doing Business Survey (2010)

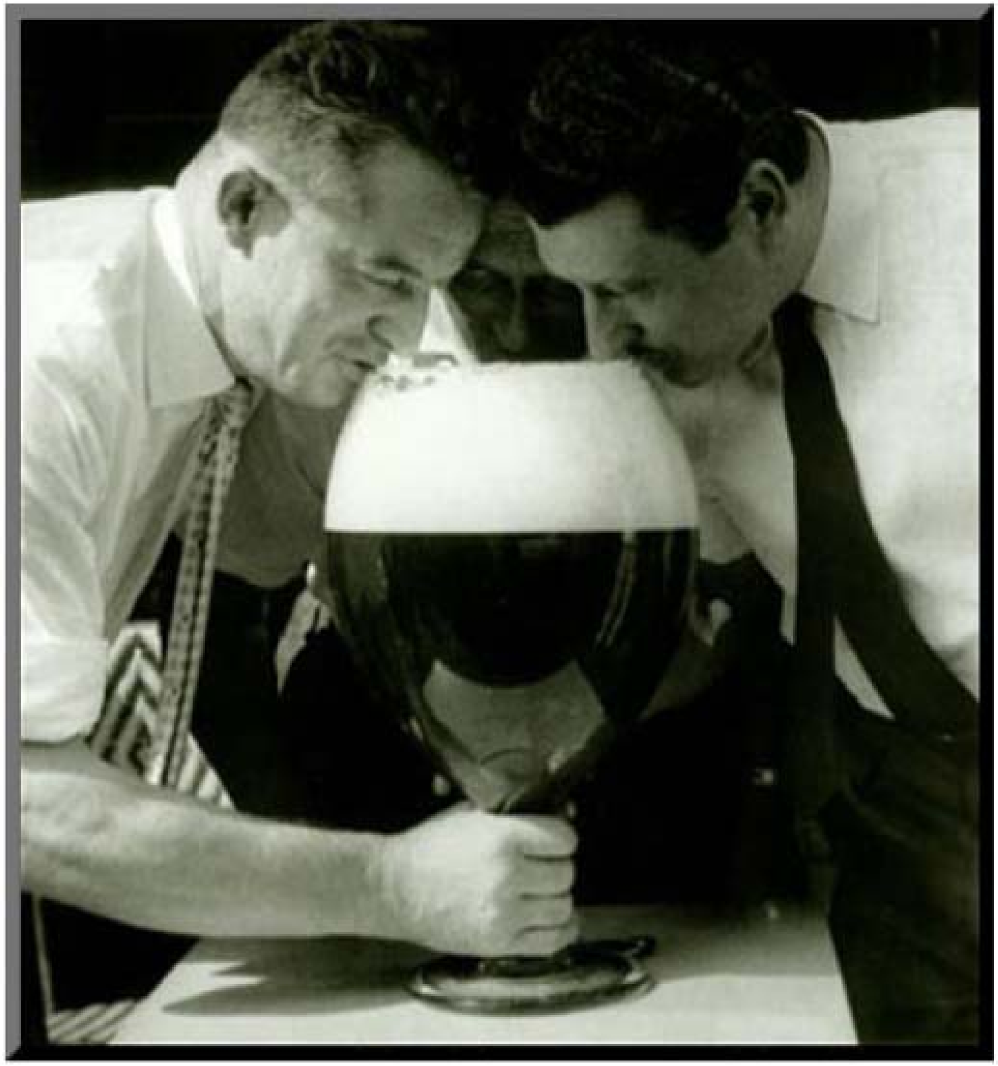
Business Picks Up the Tab

- **Businesses are more politically vulnerable than citizens.**
- **California continues to be a high cost state.**
  - Sales tax in California is 9.75% to 10% in most places and 10.5% in some cities such as South Gate and Pico Rivera.
  - As California raises its taxes, it continues to lose businesses to nearby Nevada, Arizona and Texas.
- **Sample of tax rates - California and a few competitors:**

	California	Nevada	Arizona	Texas
Income Tax	8.84%	0.00%	4.63%	0.00%
Sales Tax	8.25%	6.85%	5.60%	8.00%

Source: Kosmont-Rose Institute Cost of Doing Business Survey (2010)


The End



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