Kosmont Companies
Real Estate and Economic Advisory

Renaissance Community Fund
Revitalization & Development Projects

865 South Figueroa Street. Suite 3500 Los Angeles, California 90017  ph 213.417.3300
www.kosmont.com
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Public-Private Transactions for Transit-Oriented Development

Presented to

Orangeline Development Authority
Gateway Cities Council of Government, Paramount, CA

Larry J. Kosmont, CRE
President & CEO, Kosmont Companies
Overview

1. **The DNA of TOD**
   Advantages, Opportunities & Challenges

2. **Transactional Issues**
   Navigating a TOD transaction

3. **Funding TOD Projects**
   Sourcing public and private funds

4. **TOD Project Case Studies**
   Public-Private TOD Transactions at a glance

5. **Closing Thoughts on TOD Development**
   What to expect from your TOD project
Section 1

The DNA of TOD

TOD Advantages, Opportunities and Challenges
Advantages of TOD – Quality of Life

• Brings uses closer together, reduces commuting and walking distances
• Concentrates density in favorable areas
• Reduces dependence on cars
  • Leads to reduced pollution and traffic
  • Less parking demand
  • Tends toward a more walkable City

Residents in transit rich neighborhoods are three times more likely to use transit, walk, and bike to work.
- CTOD Typology Study
Advantages of TOD - Economic Benefits

• **Encourages economic growth**
  Creates a hub of economic activity, city revenues

• **A key component in revitalizing challenged communities**
  Brings foot traffic that may attract retailers
  Attracts private investment

• **Reduced household costs**
  “In 2009, households that used transit saved an average of $10,000 in Los Angeles.”
  - APTA, The Transit Savings Report

• **Reduced public infrastructure costs**
  Infill development keeps urban sprawl down and focus public resources on a smaller area
California legislation increasingly favors TOD projects

SB 375 (2008) – “Redesigning Communities to Reduce Greenhouse Gasses”

- Provides a mechanism to reach the GHG reduction goals required by AB32, The Global Warming Solutions Act of 2006.
- Ties transportation funding to projects that promote sustainable regional planning
- Offers CEQA incentives for projects that meet compliant regional planning objectives
- Amends Housing Element law to sync up with transportation planning objectives
- The Metropolitan Transportation Organizations (MPOs) are charged with most of the work.

AB 987 – “Transit Village Development Districts”

- Expands the maximum size of a transit village development district from the area within one-quarter mile to the area within one half mile of a transit station.
- Allows cities and counties to plan for more intense development around transit stations. Transit village plans identify areas where officials want to encourage transit-oriented development and grant density bonuses.

Source: State of California
Current economic downturn means less competition and increased vacancies, making acquisitions easier and less expensive.

Public Entity provides:
- Land acquisition assistance
- Financial inducements
- Land use incentives (density bonus)

Private Developer provides:
- Development expertise
- Private financing
- Assumption of risk
Land is scarce
- Usually located in high density areas with little vacant land
- Existing parking ratios can be too restrictive for TODs
- Acquisition costs are high

Implementation is Challenging!
- Environmental (reuse of infill land)
- Financial (mixed-use underwriting; costly Type V construction)
- Physical (stacking of different floor plans must meet needs of commercial and residential tenants)
- Social (neighbor opposition to height and density)

A lifestyle change from the California “car-culture”
Section 2

Transactional Issues
Navigating a TOD transaction
Do you have enough real estate?

**Minimum Size**
- Developers generally require at least 50-100 **residential units** per project
- Requires a minimum of 1-2 **acres of land** in high density conditions

**Acquisition**
- May require **assembly of land parcels**
- Time consuming, expensive process
- **Eminent Domain** may be necessary

**Relocation**
- Community serving businesses can be temporarily relocated with city assistance
- Can be expensive
- Requires **professional real estate and legal team**
Selecting a Joint Venture Partner

• RFQ Objectives
  • Maintain control of Agency land
  • Find a qualified and well-capitalized private-sector partner
  • Maximize public benefits over maximizing pure land value

• Important RFQ Selection Criteria
  • Past experience with TOD or mixed use
  • Ability to work with communities toward shared objectives
  • Ensure control over the architectural vision remains with the Agency

• Keep in mind
  • May benefit City to hire a 3rd party consultant to review financials
Section 3

Funding TOD Projects

Engineering the transaction
Financing Structures

• **Ground Leases**
  - Transfer of development risk to private sector
  - Sources for stable cash flow
  - Financing for capital projects
  - Ownership of property/development after lease term is over

• **Lease-Leaseback Arrangements**
  - Frees up equity from existing projects to fund new projects
  - Allows continued use of assets
  - Ownership of property/development after lease term is over

• **Tax Increment Financing**

• **Revenue Bonds**

• **CFD’s (Mello Roos and other Special Districts)**
Sources for Infrastructure Financing

State of California
  • State Infrastructure Banks (SIB)
  • Prop 1C

Federal Government
  • SAFETEA-LU
  • Transportation Infrastructure Finance and Innovation Act (TIFIA)
  • Capital Leasing (DOT)
  • Revenue Bonds
  • Private Activity Bonds
State Financing

State Infrastructure Bank (SIB)
- CalTRANS loans to local public entities and 3P’s
- Provides flexible, short-term financing at below market interest rates to public entities and public-private partnerships to accelerate delivery of transportation projects
- Any regional transportation agency or county transportation commission may apply

Proposition 1C
- $2.85 billion in grants for cities, counties, and transit agencies to create infrastructure for TOD
- Funds were largely consumed by 2008, but some projects are returning their allocations

Sources: CalTrans, CDLAC
“Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” (SAFETEA-LU)

US DOT program that provides guaranteed funding for highways, highway safety, and public transportation totaling $284B.

Program initially expired on Sept 30, 2009.

Extended to Dec 31, 2010. H.I.R.E. Act (signed 3/18/10) extended SAFETEA and also provides $8.4B for public transportation investments including $6.15 billion for urban and rural formula grants.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Federal credit program from USDOT with three forms of credit assistance:
- secured (direct) loans
- loan guarantees
- standby lines of credit

Eligibility Requirements
- Project must cost at least $50 million or 1/3 of the State's annual apportionment of Federal-aid highway funds, whichever is less.
- For intelligent transportation system (ITS) projects, the minimum cost is $15 million
- Funding may not exceed 33% of eligible costs

Source: USDOT
Capital Leasing for Transit Equipment

- Basics
  - Vendor or financial institution leases a capital asset to a transit agency in lieu of a sale
  - Grantee makes lease payment from federal (<= 80%) and local funds
- Use cost-benefit analysis to determine lease vs. buy
- Benefits
  - Improve cash flow – spread costs
  - Increased flexibility in managing assets
  - Risk is shifted to an external entity

Source: USDOT
Revenue Bonds

- Issued by State of local gov’t & secured by revenues from transit agency
- Revenue sources may include:
  - Sales Tax
  - Property Tax
  - Fare box revenues
  - Anticipated grant receipts
- Currently used by many major transit agencies including LA MTA and BART.
- Grant Anticipation Notes (GANs) are type that are eligible for repayment with FTA capital funds

Source: USDOT
Sources for Project Financing

Proposition 84 Grant Program
ARRA - American Recovery and Reinvestment Act
  – BAB - Build America Bonds
  – RZFB - Recovery Zone Facilities Bonds
  – RZEDB – Recovery Zone Economic Development Bonds
  – IDB - Industrial Development Bonds

EB 5 Visa Program
Proposition 84 Grant Program

• Reimburses local-level public agencies for the costs of developing sustainable community plans

• $67 million grant program with annual funding cycles over three years

• Individual grants may range from $100,000 to $1 million

• Primary focus of the program includes the improvement of public health, economic development, and natural resource protection

Source: Policy in Motion
ARRA: Build America Bonds (BABs)

Taxable bond program to assist state and local governments in financing capital projects at lower borrowing costs.

- Can be issued by state and local governments, school districts and other public agencies
- Proceeds can be used for any tax-exempt purpose, but program cannot be used for credit enhancement
- Can have interest rate advantage over tax-exempt bonds because of federal tax subsidy to state / local government issuer using a 35% interest rate refund
- More than $106 Billion in bonds have been issued nationwide since the program began in April 2009 (original estimate was only $3 Billion!)
- Current deadline is December 31, 2010

There is pressure from the Obama Administration to extend the program beyond its original 2 years

Sources: US Treasury Dept
Recovery Zone Economic Development Bonds (RZEDB): $10 Billion

- A taxable bond option available to public agencies to promote economic development in a defined recovery zone

- These are government bonds issued for governmental purposes of promoting development or other economic activity including public infrastructure and construction of public facilities or job training and educational facilities

- Interest rate reimbursement of 45 percent of interest costs (e.g. 6% yield drops to 3.3%)

- Proceeds must be used within designated Recovery Zones

- Must follow Davis-Bacon requirements

- California’s Allocation
  - Total - $806 million; Remainder available for further allocation – None
  - Issuance deadline – December 31, 2010 with possibility of extension to March 15, 2011

California’s RZED Bonds have been fully allocated, though funds may still be available through future reallocation efforts
Recovery Zone Facilities Bonds (RZFB): $15 Billion

- A new category of exempt facility bonds within a recovery zone for the use of “qualified businesses or projects”.
- Counties and large municipalities can issue these bonds for projects that would not historically qualify for tax-exempt financing (e.g. large manufacturing plants, distribution centers, hotels and retail projects).
- A qualified business is defined to include any trade or business except residential rental facilities or other specifically listed “bad projects,” such as golf courses, massage parlors, and gambling facilities.
- Interest rate reimbursement of 45 percent of interest costs (e.g. 6% yield drops to 3.3%).
- Must follow Davis-Bacon requirements

California’s Allocation
- Total - $1.209 billion; Remainder available for further allocation - $341 million
- Application deadline – November 5, 2010
- Issuance deadline – December 31, 2010 with possibility of extension to March 15, 2011

- RZFB’s can be difficult to obtain, as the credit requirements can be daunting in the current economic climate
Industrial Development Bonds (IDBs)

Recovery Act enhances the IDBs with following provisions:

- **Definition of manufacturing expanded** to include intangible products like copyrights, patents, formulas, processes and designs. This change particularly beneficial to software developers, bio-tech, and pharmaceutical and nanotechnology companies.

- **The small issuer bank qualified debt limit exception increased** from $10 million to $30 million for a single issue.

- **IDBs may now be used to finance assets** functionally related to a manufacturing, research or production facility (until 2011).

- **Exemption from individual and corporate alternative minimum tax (AMT)** for investors who purchase IDBs.
EB5 Program

- EB-5 Immigrant investor visa **category created in 1990 to** attract foreign capital and create jobs **for American workers. Investments placed through Regional Centers**

- Regional Center - any economic unit, involved with promotion of economic growth, regional productivity, job creation, and increased domestic capital investment
  
  - $1 million **investment** in a new business or existing business ($500,000 if in a USCIS designated regional center or targeted unemployment area)
  - Investment must create **full-time employment for at least 10 US workers**

- 10,000 EB5 visas available every year
Current Status of Program

- Dramatic increase in EB-5 visas issued in recent years - simultaneous to drying up of domestic sources of financing

- Increase in regional centers from 20 to 123 in past few years shows the enormous increase in popularity of program

- Increased outreach efforts and softening of program restrictions

- California houses 25% of U.S. Regional centers (Thirty One Regional Centers out of One Hundred and Twenty Three)

- Can be used for real estate projects (new and existing).

- Regional centers’ investment focus is on targeted industry economic clusters such as Food, Apparel Manufacturing, Transportation Warehousing, Household Furniture and Furnishings, Printing and Paper Manufacturing, and Health Care.

Source: USCIS
Proposed Federal Sources for Transit Funds

- **Livable Communities Act**
  - Authorizes $4 billion over four years
  - Directing funding towards affordable housing, transit-oriented development, transit service, economic development, bike-pedestrian projects, and brownfield and infill redevelopment

- **Omnibus Transportation Act Infrastructure Stimulus Plan**
  - $500 billion towards transportation over 6 years
  - Emphasis on Road, Rail, and Air improvements
  - Enhances National Infrastructure Bank Program

- **National Infrastructure Reinvestment Bank**
  - Intended to borrow $60 billion to leverage $500 billion in private investment nationwide
  - Includes funding for High Speed Rail
Section 4

TOD Project Case Studies

Public-Private TOD Transactions at a glance
North Hollywood Station – NoHo Commons

Overview
• Intersection of Lankershim and Chandler Blvds
• Served by the Red Line (Rail) and the Orange Line (Dedicated Busway)
• Completed by J.H. Snyder, Co. in 2006
• 278 lofts, 438 apartments, 14 live/work units
• 60,000 square feet of retail
• Urban high density environment
• Significant public financing required

Development
Kosmont assisted J.H. Snyder in acquiring over $43 million in funding and securing a multi-party agreement that included Metro, CRA/LA, the City of LA, and LAUSD.
Results
Through effective leveraging of transit, housing, economic development, and infrastructure related government funds, NoHo Commons closed the project’s financial gap through a combination of transit, housing, economic development, and infrastructure funds

- J.H. Snyder, Co. invested $174.1 million
- Public funding sources exceeded $43 million:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Source</th>
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<tr>
<td>$14 million</td>
<td>Loan from the U.S. Department of Housing and Urban Development</td>
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<td>$10.5 million</td>
<td>Project generated property tax revenue</td>
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<tr>
<td>1.8 million</td>
<td>Federal economic development grant</td>
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<tr>
<td>$3.4 million</td>
<td>Federal grant for street widening</td>
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<td>$5 million</td>
<td>Federal housing funds</td>
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<tr>
<td>$3 million</td>
<td>Federal block grants</td>
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<td>$6.2 million</td>
<td>CRA project area housing trust fund</td>
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Overview

- Intersection of Wilshire Blvd & Vermont Ave
- Served by Purple Line & Red Line Subways
- Developed by Urban Partners and MacFarlane Partners, completed in 2007
- 445 apartments (90 low-income), 36,500 square feet of retail, and a middle school
- Urban mid-density environment
- Built on land owned by the LA Metropolitan Transportation Authority, ground lease.

Development

- Kosmont evaluated the fiscal and economic impact of the station.
- Assisted Urban Partners in structuring and obtaining financing from the City of Los Angeles and CRA/LA.
Results
The Wilshire Vermont Station was developed over the course of six years, and received funding from state, federal, and private sources.

Project cost - $136.5 million

Sources
- CRA/LA Private Activity Tax Exempt Bonds
- CRA/LA Taxable Bonds
- Private Funding Sources (CalPERS and MacFarlane Partners)
- Metro Transit Grants

Timeline
- Metro Board Issues Public RFP – 2001
- Lease Up Completed – August 2009

Ground Lease Terms
- 55 year ground lease
- Four 11 year extension options
- LAUSD acquires remainder of property (for the school)
Placentia Station – Retail/Parking Structure

Overview

• Proposed Metro location at Crowther and Melrose Avenues
• Served by Metrolink with possible bus integration
• Part of City of Placentia’s Downtown Revitalization plan
• Multi-party project involving the City and OCTA
• 350 car parking structure with a retail component

Development

• Kosmont is assisting the City with developer selection and negotiations
• Kosmont is evaluating and structuring various sources of funding.
Placentia Station – Retail/Parking Structure

Current Status, *or if doesn’t work at first...keep trying!*

- Kosmont Companies secured over $7.5 million in RZB funds for the Retail/Parking Structure project. Unfortunately, due to credit restrictions, **these bonds were never issued**.

- Kosmont assisted the city in pursuing Private Facility Bond funding, as well as a lease-leaseback transaction, but both ran into the same problem – **lack of credit**.

- City is currently pursuing federal funding from the OCTA through **STIP – State Transportation Improvement Program**.

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Recovery Zone Bonds  Lease-Leaseback  Private Facility Bonds

STIP Program

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Closing Thoughts on TOD Development
TOD Takeaways

- TODs are challenging – require a public-private partnership to implement
- TODs need substantial public money from a variety of sources and take longer than other public-private projects
- Federal aid will increase over long-term for infrastructure and projects
- California funding programs will remain limited due to State budget constraints
- Worsening traffic conditions in So. Cal will increase demand for public transit
- State legislation will continue to favor “in-town” transit oriented projects
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